

South - South Integration and the SDGs:
Enhancing Structural Transformation in Key Partner
Countries of the Belt and Road Initiative

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Neva Makgetla

Senior Economist

Trade & Industrial Policy
Strategies

<https://www.tips.org.za/>

Industrial Policy and The COVID-19 Pandemic: The South African Experience

Abstract

The economic response to COVID-19 in South Africa underscored shortcomings in the national industrial policy. Despite government commitments to reconstruction as well as recovery, it did not adopt strong new initiatives to rebuild the economy. Instead, South Africa has ended up more reliant on mineral exports as commodity markets boomed. The state used the resulting rents primarily to increase income transfers to households rather than to build a new industrial base.

The contradictions in the policy response reflected a long-standing inability to coordinate government actions and resources consistently to support industrialization. That in turn reflected the lack of a vision for industrial policy that responded to South Africa's peculiar economic and social challenges, making it impossible to build a broad coalition to support it. These realities point to the need to reconceptualize industrial policy for mining-dependent economies.

Key words: South Africa, industrial policy, economic recovery, mining dependency, development policy



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Introduction

1. Problem statement

Notoriously, the COVID-19 pandemic laid bare weaknesses in economic and social systems. In South Africa, the outcomes underscored shortcomings in industrial policy. As a consequence, the downturn did not lead to strong initiatives to rebuild the economy. Instead, it resulted in greater reliance on mineral exports as commodity markets boomed. The state used the resulting rents primarily to increase income transfers to households rather than to build a new industrial base.

To understand this outcome, we here first outline the impact of the pandemic on South Africa in health and economic terms. The following section describes the economic-policy response. It then explores how the contradictions in the policy response reflected the deeper weaknesses in industrial policy in South Africa. These shortcomings emerged as an inability to coordinate government actions and resources consistently to support industrialization. That in turn reflected the lack of a vision for industrial policy that responded to South Africa's peculiar economic and social challenges, making it impossible to build a broad coalition to support it. Based on this analysis, the final section discusses some implications for conceptualizing and implementing industrial policy in mining-dependent economies.

2. The impact of the pandemic on South Africa

The impact of the COVID-19 pandemic on the South African economy reflected the relatively heavy burden of illness and death as well as the public-health restrictions in response to it. The results were an unusually steep decline in the GDP in the second quarter of 2020, followed by a relatively sharp recovery outside of hospitality and entertainment activities and booming exports as international metals prices took off from the third quarter of 2020. Employment rebounded far more slowly, however, especially for lower-level formal workers. The result was to reinforce South Africa's already pronounced economic and social inequalities even as many economic indicators recovered. Profound inequalities in turn fueled both the persistence of the pandemic. Violent unrest in July caused a sharp fall in economic activity, and a fourth wave of COVID-19 seemed likely to further undermine the recovery.

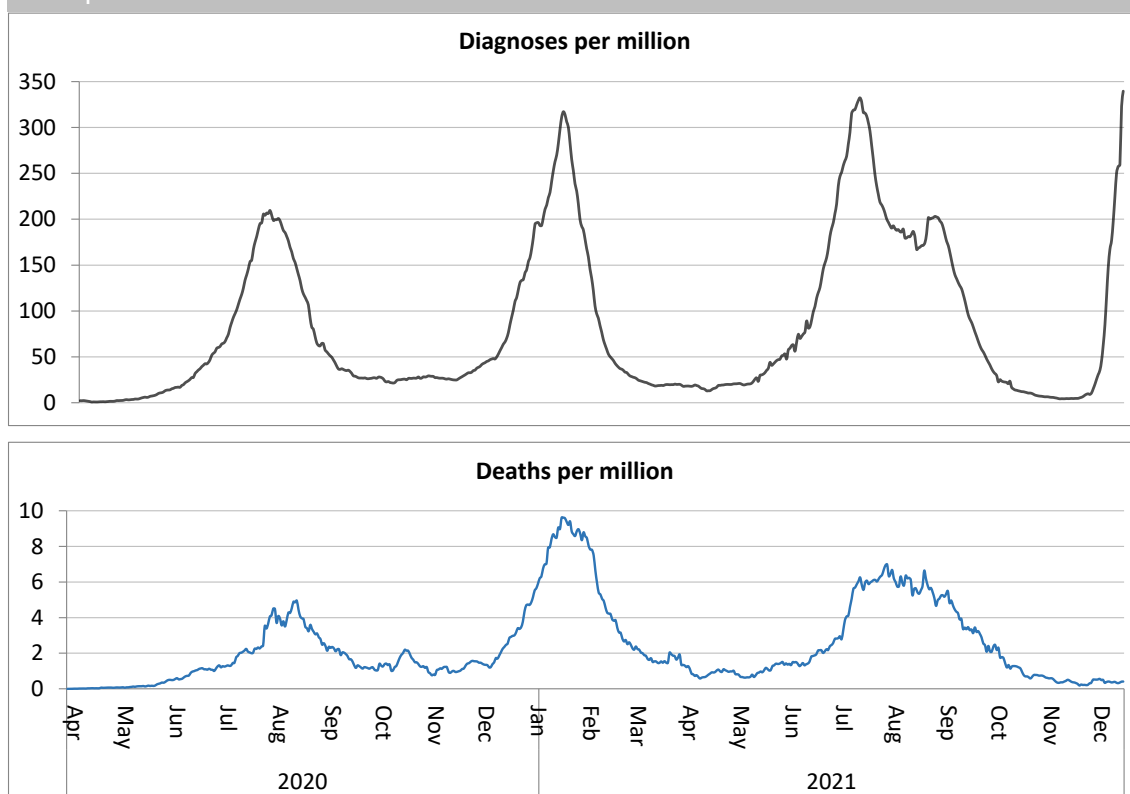
2.1 Trends in the pandemic and public-health responses

Overall, as of September 2021 South Africa ranked in the top 25 per cent of countries in terms of total reported cases per million, but around average for reported deaths. (Calculated from OWID 2021) Comparison of death rates during the pandemic to previous years, however showed excess deaths running three times as high as normal. These findings indicated that official reports covered only around a third of deaths related to COVID-19. (Bradshaw et al. 2021:6) Since relatively few countries report excess deaths, it is difficult to benchmark South Africa's actual figures. The high levels of excess death reflected, at least in part, the persistent deep

inequalities in access to healthcare, which meant people with COVID-19 in informal settlements and the historic labour-sending rural areas were less likely to make it to hospital.

As Graph 1 shows, through December 2021 South Africa suffered four waves of the COVID-19 pandemic. The death rate dropped substantially in the third wave, and, at least in the first three weeks, even more in the fourth wave. The decline in deaths in the third wave likely reflected its location, centred in Gauteng, the Western Cape and KwaZulu Natal. These provinces had comparatively strong health care systems, including large private networks as well as advanced public hospitals. In contrast, the first two waves were severe in the Eastern Cape and other provinces with almost no private capacity. Although only a fifth of South Africans belongs to medical schemes, the private sector accounts for over half of all healthcare workers in the country. The low death rate in the fourth wave, at least in its early phases, probably had more to do with the nature of the new omicron variant combined with higher levels of immunity from increased vaccinations and earlier cases.

Graph 1. Reported cases and deaths per million (seven-day rolling average), May 2020 to September 2021



Source: Our World in Data. COVID-19 Data. Oxford University. Accessed at <https://github.com/owid/covid-19-data/tree/master/public/data> in December 2021.

The pandemic affected the economy directly in two ways: through changes in consumer behavior to avoid the risk of infection, and through public-health restrictions on business activities. International studies found that in the longer run, behavioral changes to avoid risk had a bigger impact on the economic recovery than regulations (see Goolsbee and Syverson 2020; Demirguc-Kunt, A. *et al.* 2020). Individuals adapted on a mass scale, especially before they had access to vaccinations. Where workers could, they shifted to working from home. Similarly,

consumers were less likely to go out for entertainment, dining, non-essential shopping and travel. The widespread reluctance of travellers from the global North to take long flights to destinations with high levels of contagion hit South Africa's international tourism industry particularly hard.

Like most countries, in March 2020 South Africa responded to the new pandemic with a lockdown on "non-essential" economic and social activities, including most of manufacturing, much of mining, and non-food retail as well as restaurants, bars, and international air travel. Over time, however, improved information on the way COVID-19 spreads permitted more targeted measures. Restrictions on activities in subsequent waves gradually narrowed to limits on social gatherings in business and other settings, combined with limits or bans on alcohol sales. They also strengthened requirements for mask wearing in public areas. In the fourth wave, at least through the time of writing in mid-December, the authorities effectively relied on campaigns to increase vaccination rates in an effort to avoid further restrictions on business operations and family gatherings.

Measures adopted for two weeks from late June, in an effort to control the third wave of infections, exemplified the increasingly targeted approach in public-health measures. Economic activities outside of hospitality and alcohol were not restricted at all, except for pre-existing occupational health and safety measures (centred on masking, social distancing, ventilation and cleaning). The new regulations banned alcohol sales; closed down restaurants, gyms, bars and clubs; required masks in public spaces; stopped most travel from the hardest hit province, Gauteng; and set a curfew from 21h00 to 0400. They also barred social gatherings except funerals with up to 50 people. After two weeks, as the number of cases dropped rapidly, the public-health authorities allowed all businesses to open with limits on customer numbers, permitted alcohol sales, and ended restrictions on travel for Gauteng. The curfew and the mask mandate remained in place.

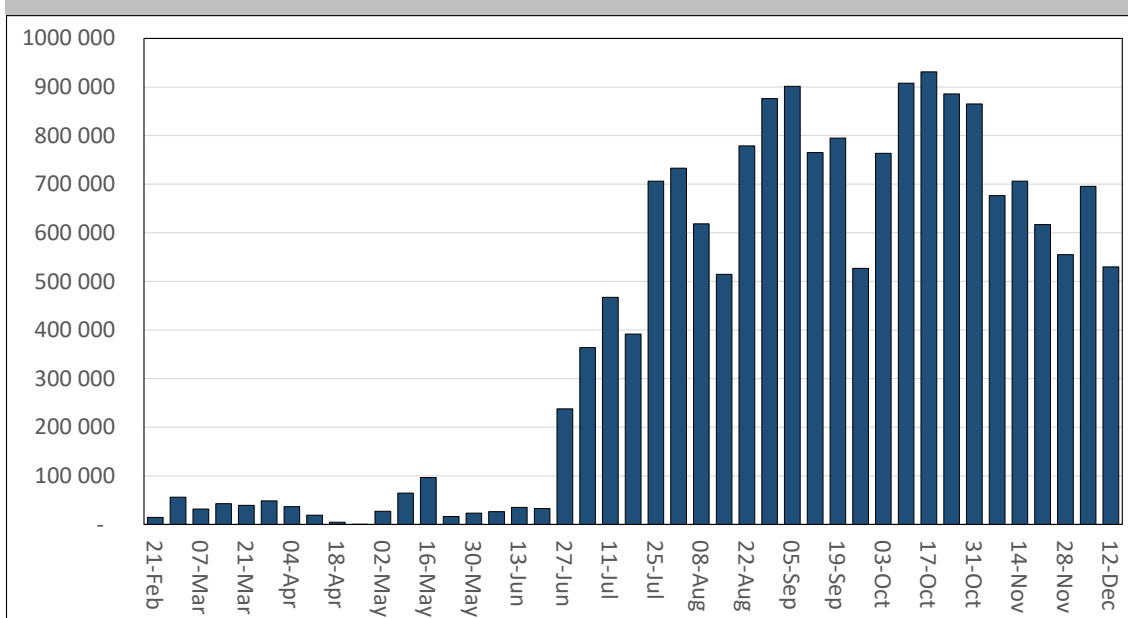
South Africa did not begin large-scale vaccinations until mid-May. As of December, over 15 million people, or more than a third of adults, were fully vaccinated. (Department of Health 2021) In part, the delay in mass vaccinations resulted because South Africa depended exclusively on Pfizer and Johnson and Johnson, both of which only began large-scale deliveries in mid-year. In contrast, Zimbabwe and many countries in Latin America started earlier with more easily available Chinese products. These vaccines however turned out to be relatively weak against the Delta variant.

The vaccination campaign exemplified how profound inequalities undermined the public-health effort in South Africa. The health authorities designed a system that required households to have the internet and easy access to transport. They relied on digital registration and smartphones to notify people as they became eligible, and established vaccination sites at healthcare centres and in malls that were mostly fairly distant from working-class communities. In the real world, in 2019, only 2 per cent of households in the poorest 60 per cent had broadband, and 45 per cent had internet through smartphones. In contrast, in the richest 10 per cent, 75 per cent had broadband through their phones and 35 per cent through smartphones. Similarly, just a seventh

of households in the poorest 60 per cent had a car. (Calculated from StatsSA 2019a) Public transport, whether private minibuses or public buses, was inefficient, often expensive, and at high risk for contagion. The authorities only began to set up mobile clinics in townships and informal settlements toward the end of 2021. Despite the rapid rise in cases in the fourth wave, the government delayed weeks in imposing universal vaccine mandates, even as huge clusters emerged in universities and social gatherings. (See Makgetla 2021b).

In these circumstances, the take up of the vaccine was far slower than hoped, even after they became available on a large scale from late June 2021. As Graph 2 shows, the number of vaccinations peaked in September and again in October at around 900 000, but by mid-December had fallen back to 530 000. At that rate, it would be mid-2022 before 75 per cent of the population was fully vaccinated.

Graph 2. Weekly vaccinations from 21 February to 12 December 2021



Source: SACoronavirus. Latest vaccine statistics. Online database. Accessed at <https://sacoronavirus.co.za/latest-vaccine-statistics/> in December 2021.

Without a booster, none of the vaccines proved effective in preventing infection with the Omicron variant that took over in South Africa in late November 2021, although they did limit severe cases. Because mass vaccinations only started late in May, boosters for most people outside of the healthcare system were only eligible from end December 2021. That would be too late to help with the fourth wave. Nonetheless, the public health authorities planned to provide boosters on a mass scale only from early January 2022.

2.2 Economic impacts

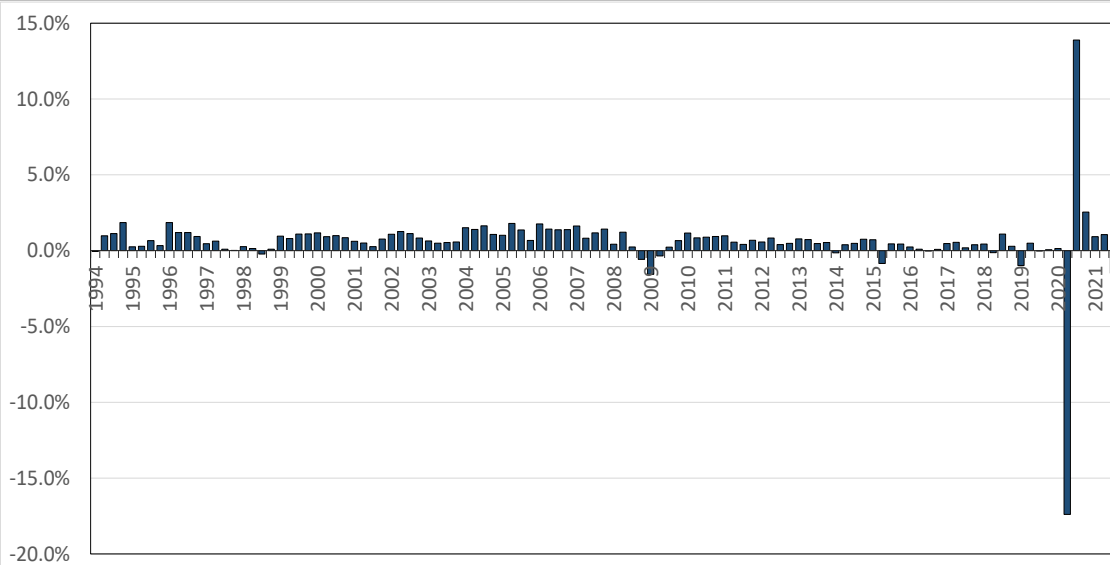
The pandemic led to a sharp decline in the South Africa GDP in the second quarter of 2020, and it had not fully recovered a year later. A rebound in international markets for South Africa's main exports – mostly mining products plus assembled autos – fuelled the recovery. But it brought

deeper inequalities to South Africa's already profoundly divided economy. Lower-level workers continued to see heavily depressed employment through October 2021. Moreover, the global and national asset boom aggravated stark disparities in wealth. These burdens contributed to widespread, often violent public protests in July 2021, although statistics on the income and wealth effects were not available at the time of writing.

2.2.1 The GDP, exports and investment

Graph 3 shows the extraordinary decline in the GDP in the second quarter of 2020, mostly due to the hard lockdown in April 2020. By late 2021, production largely recovered outside of high-risk businesses in hospitality and entertainment. Quarterly growth rates from the third quarter of 2020 to the second quarter of 2021 were higher than at any point since the global commodity boom ended in 2011. Nonetheless, for 2020 as a whole the GDP was 6 per cent lower than in 2019, and as of the second quarter 2020 it was still 1,4 per cent below the pre-pandemic level. In the third quarter of 2021, the unrest in July combined with growing volatility in mining prices reversed even these modest gains, as the GDP shrank by 1,1 per cent.

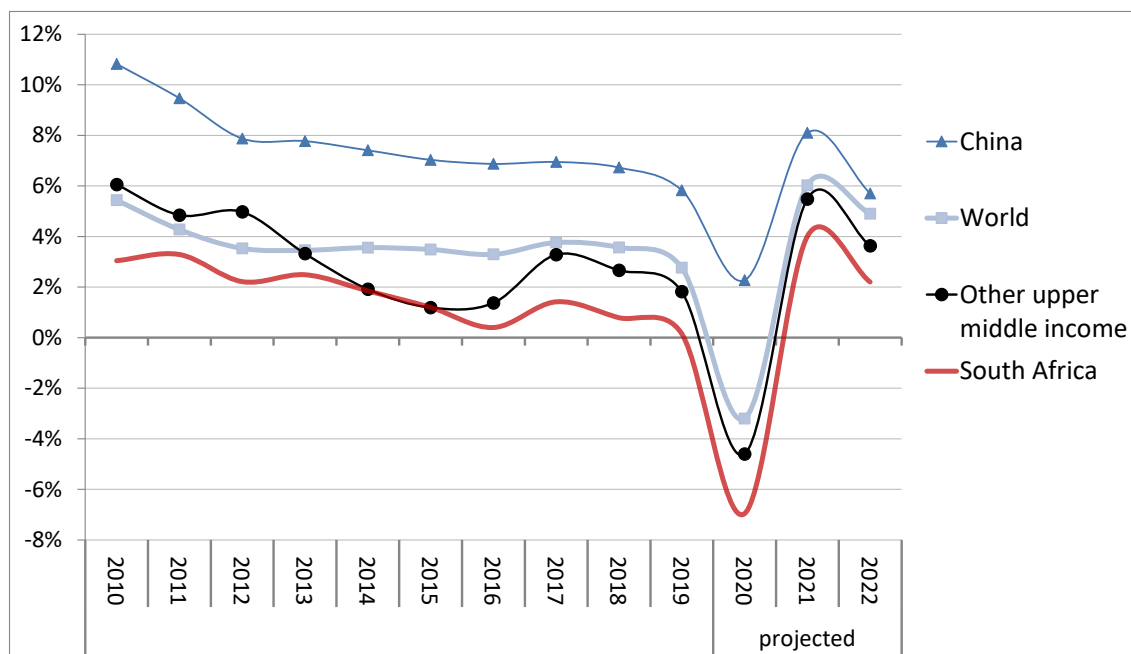
Graph 3. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2021



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet downloaded from <http://www.statssa.gov.za> in September 2021. Reprinted from TIPS. *Real Economy Bulletin*. Third Quarter 2021. Accessed at <https://www.tips.org.za/manufacturing-data/the-real-economy-bulletin/quarterly-bulletin/item/4204-the-real-economy-bulletin-third-quarter-2021>.

In the pandemic, the South African economy fell more sharply and recovered slower than the norm for peer economies. This extended a trend: from the end of the world commodity boom in 2011 through 2019, the South African GDP lagged other upper-middle-income countries, even excluding China. (Graph 4) Even before the downturn in the third quarter of 2021, the IMF expected a complete recovery only in 2023.

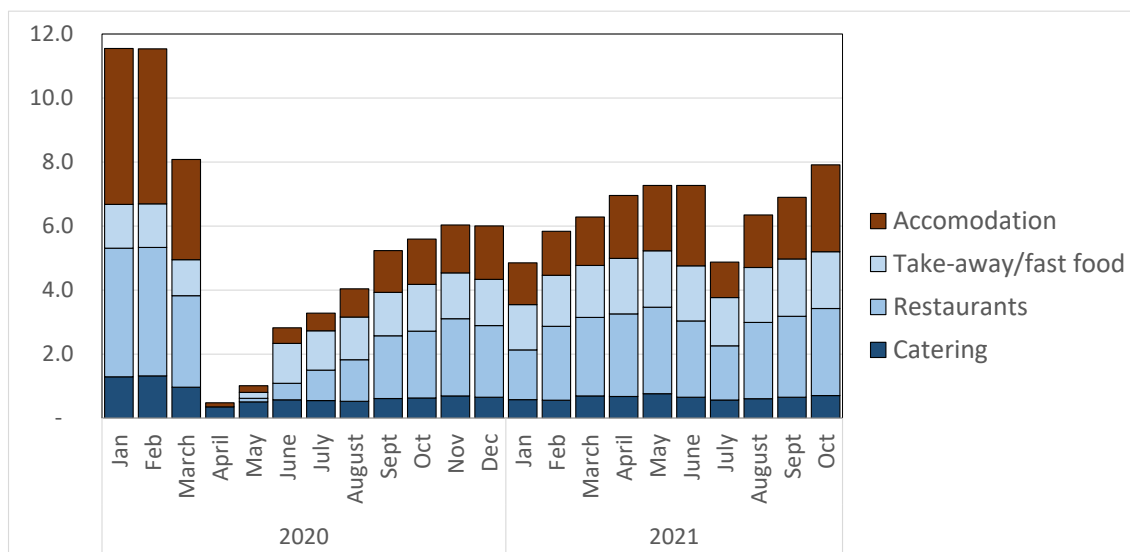
Graph 4. Growth in GDP for South Africa, China, other upper-middle-income countries and the world, 2010 to 2022 (projected from 2020)



Source: Calculated from IMF. World Economic Outlook. Interactive database. Series on GDP growth and on GDP as percentage of world economy in PPP US dollars. From 2010 to 2020, April 2021, accessed <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021> in September 2021; for South Africa, China, Brazil, Russia, Mexico and the world, updated for 2021 and 2022 from July 2021 edition, accessed at <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021> in September 2021.

The recovery was much more halting for businesses that present a high-risk of COVID-19, mostly restaurants and bars, entertainment venues, accommodation and travel. These enterprises bore the brunt of both consumer fears and public-health restrictions. In constant rand, the revenues for accommodation and catering fell to near zero in April 2020. The subsequent recovery was set back during the second wave and third waves. As of October 2021, total revenues remained 30 per cent below pre-pandemic levels, even as manufacturing, mining and agricultural sales had almost rebounded. (Graph 5) The emergence of the omicron variant, at the height of the normally booming December holiday season, was likely to have an even more severe impact. It brought both a steep increase in infections locally and travel bans from major tourism markets in Europe, the US and parts of Asia.

Graph 5. Monthly revenue from food services and accommodation in billions of constant (2021) rand (a), seasonally adjusted, January 2020 to October 2021

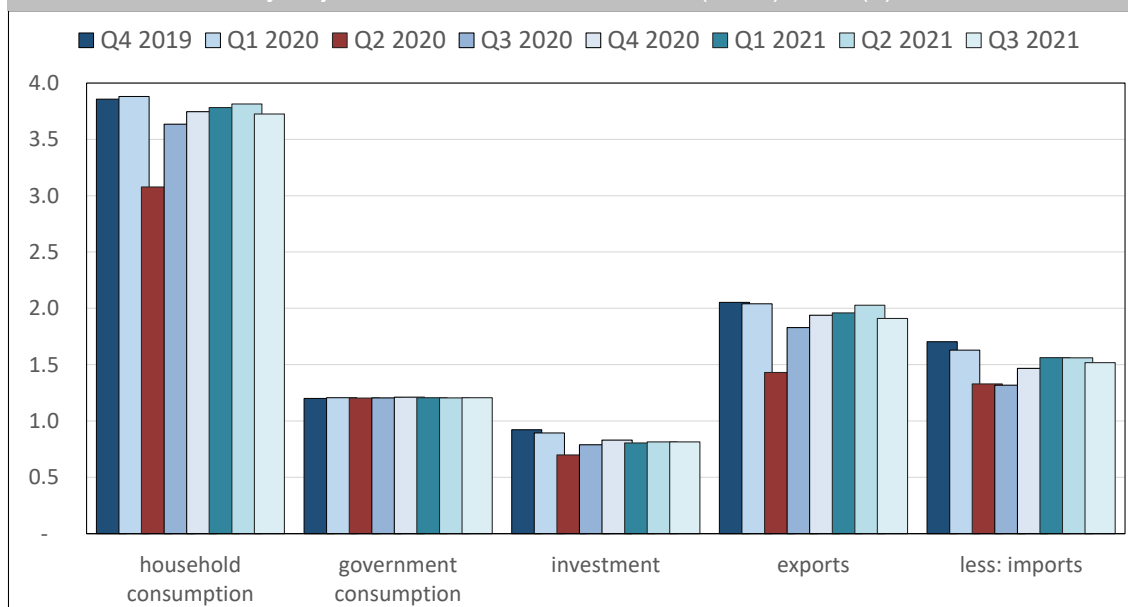


Source: Statistics South Africa. Food and Beverages from 2005 and Tourist Accommodation from 2007. Excel spreadsheets. Accessed at www.statssa.gov.za in December 2021.

Note: For accommodation, figures are reflatd with CPI rebased to June 2021. Food service figures are reflatd using the implicit deflator rebased to October 2021.

Net goods exports and household consumption drove the recovery from the pandemic downturn, but also the downturn in the third quarter of 2021. Government consumption remained virtually unchanged through the pandemic, and both public and private investment remained depressed. Before the pandemic, South Africa ran a R4 billion balance of trade deficit for goods; in the third quarter of 2021, it ran a surplus of almost R40 billion. Over the same period, household and government consumption returned to near pre-pandemic levels, although household investment dropped by 2,5 per cent again in the third quarter of 2021. Investment remained 10 per cent lower in October than in the first quarter of 2020. (Graph 6)

Graph 6. Quarterly expenditure on GDP, fourth quarter 2019 to third quarter 2021, seasonally adjusted, in trillions of constant (2021) rand (a)2021

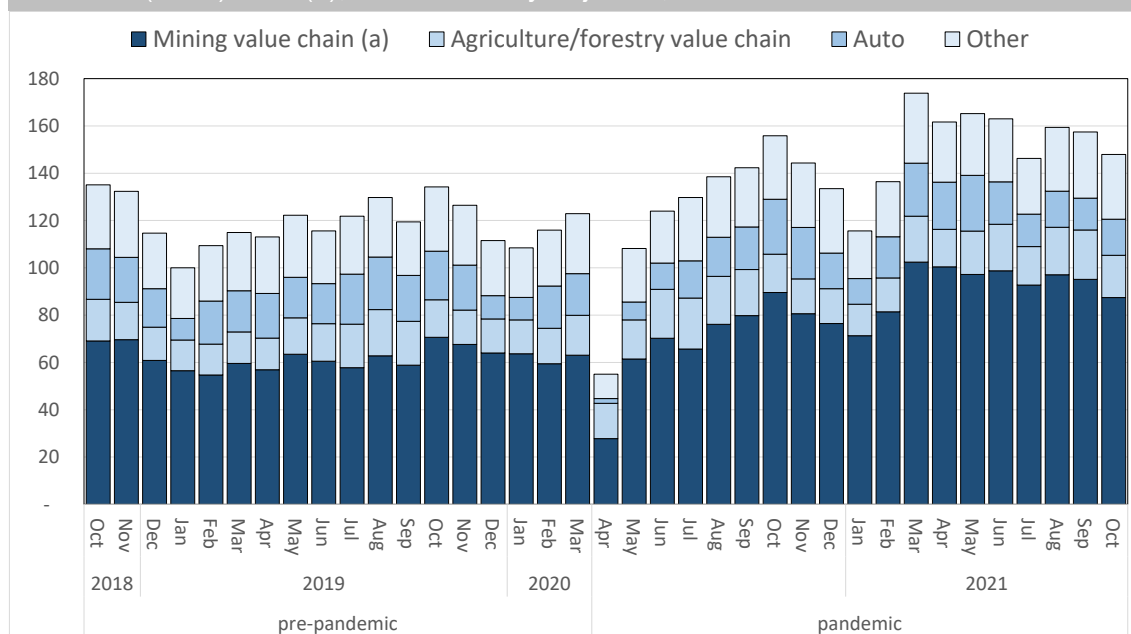


Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in December 2021

Note: (a) Reflated using implicit deflator rebased to third quarter 2021.

High mining prices were a key driver in the economic recovery, although they declined somewhat in the third quarter of 2021. In constant rand terms per month, mining-based exports were a third higher during the recovery, measured from May 2020 to October 2021, than in the 18 months before the pandemic (from October 2018 to March 2020). As a result, their share in South Africa's foreign goods sales rose from 52 per cent before the pandemic to 59 per cent during the recovery. Products from the agricultural and forestry value chains climbed by 15 per cent during the recovery. In contrast, assembled cars – South Africa's largest non-commodity export by far - saw substantial month-on-month fluctuations, and overall shrank 4 per cent compared to the pre-pandemic period. Other exports grew 5 per cent. (See Graph 7.)

Graph 7. Monthly South African exports by major category in billions of constant (2021) rand (a), not seasonally adjusted, October 2018 to October 2021

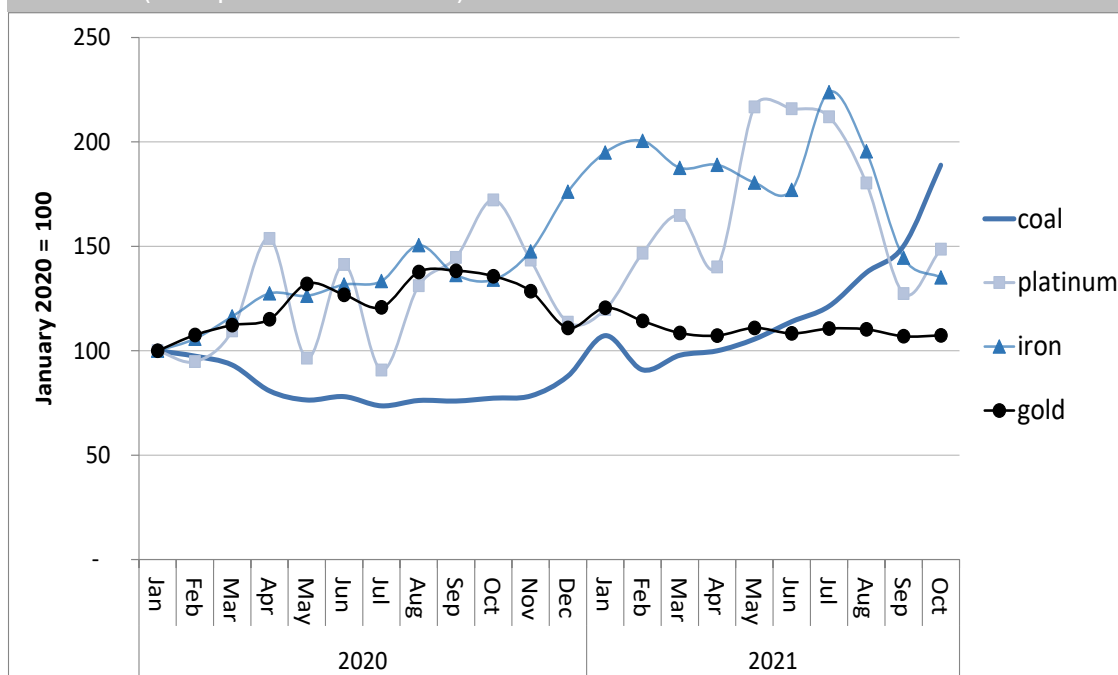


Source: Calculated from Quantec. International Trade Service. Interactive dataset. Accessed at www.quantec.co.za in December 2021

Notes: (a) Rebased with CPI rebased to October 2021. (b) Includes metals and metal products, electricity, and machinery other than appliances and transport equipment.

The prospects for South African mining exports were highly uncertain. Three more or less unpredictable mechanisms underpinned the boom: anticipated growth in China; the recovery in the global North; and the monetary stimulus in the US and Europe, where very low interest rates fostered speculation on metals and energy markets. As Graph 8 shows, in mid-2021, prices for all of South Africa's main export commodities except coal exceeded their last peak in 2011, which in turn had been a 30-year high. The subsequent crash in iron ore and platinum prices undoubtedly contributed to the downturn in the economy in the third quarter of 2021.

Graph 8. Indices of unit prices for South African mining exports in constant (2021) rand (a), monthly from the first quarter of 2020 to the third quarter of 2021 (first quarter 2020 = 100)

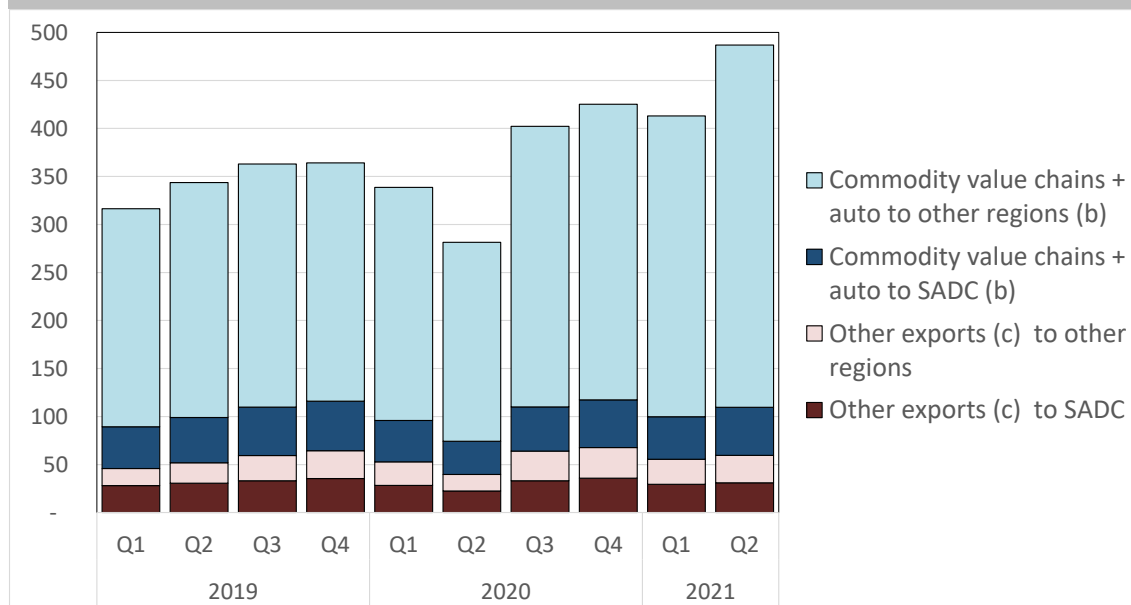


Source: Calculated from Quantec. National trade data. Interactive data set. Accessed at www.quantec.co.za in December 2021. Reprinted from TIPS. Real Economy Bulletin. Third Quarter 2021. Accessed at <https://www.tips.org.za/manufacturing-data/the-real-economy-bulletin/quarterly-bulletin/item/4204-the-real-economy-bulletin-third-quarter-2021>

Note: (a) Rebased with CPI rebased to July 2021.

Revenues from South Africa's exports outside of the mining value chain and auto grew 13 per cent from the first quarter of 2020, before the pandemic, to the second quarter of 2021. That was less than a third as fast as export sales from the mining and agricultural value chains and the auto industry. These products comprise capital goods and a range of consumer manufactures outside of food, including clothing, appliances, plastics and furniture. Some 60 per cent of South African exports of these goods go to countries in the Southern African Development Community (SADC), compared to 20 per cent from the mining, agriculture and auto. After a strong recovery following the lockdown in early 2021, however, manufactured exports outside of commodities and auto stagnated, largely reflecting the difficulties facing the region during the pandemic. (Graph 9).

Graph 9. Exports to SADC and the rest of the world by type in constant rand (a), quarterly from 2019 to mid-2021

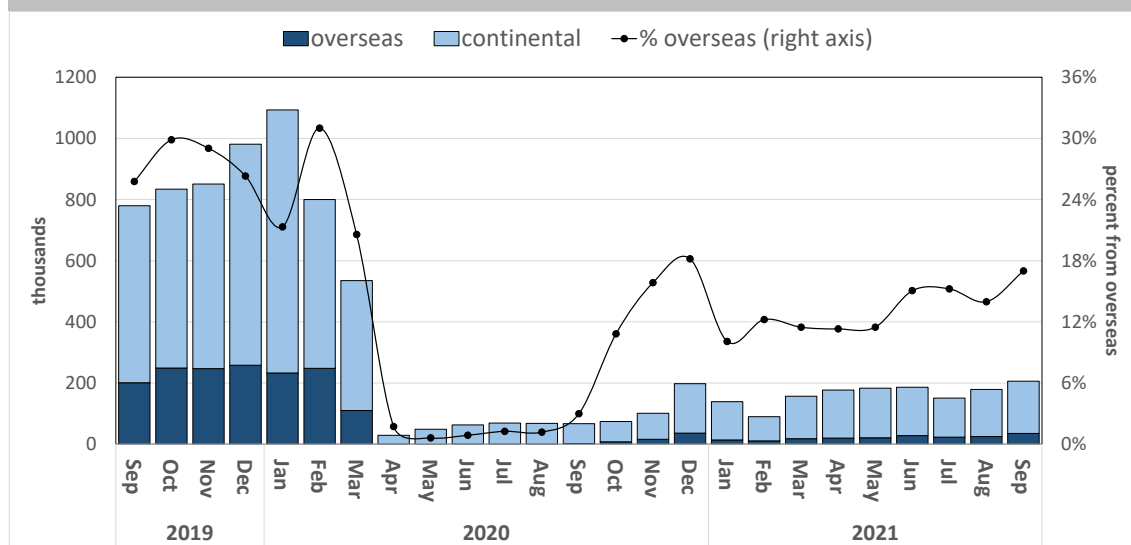


Source: Calculated from Quantec. EasyData. National trade series. Interactive dataset. Accessed at www.quantec.co.za in September 2021.

Notes: (a) Deflated with CPI rebased to June 2021. (b) Agriculture and mining products, both processed and unprocessed, and auto exports. (c) Capital goods and other intermediate products plus processed food, clothing and textiles, plastics and other downstream chemicals, appliances and electronics, furniture, etc.

Tourism was South Africa's only large labour-intensive export, and it suffered disastrously during the pandemic. The World Bank estimated that tourism accounted for 9 per cent of South Africa's foreign earnings in 2018. That compared to a global average of 7 per cent. (World Bank 2021) The pandemic nearly ended both regional and international travel, which in turn affected a range of hospitality and entertainment businesses that catered largely to foreigners. The number of foreign visitors to South Africa dropped from a high of over a million in January 2020 to 30 000 three months later, and remained below 200 000 from December 2020 to September 2021. The share of overseas visitors, who provided a disproportionately high share of tourism income, fell from around 25 per cent before the pandemic to under 15 per cent from October 2020 to May 2021. (Graph 10) In the fourth wave, at the end of 2021, most countries in the global North imposed tight limits on travel to and from South Africa. As a consequence, it seemed unlikely that overseas travel would recover much in December and January, normally the peak season.

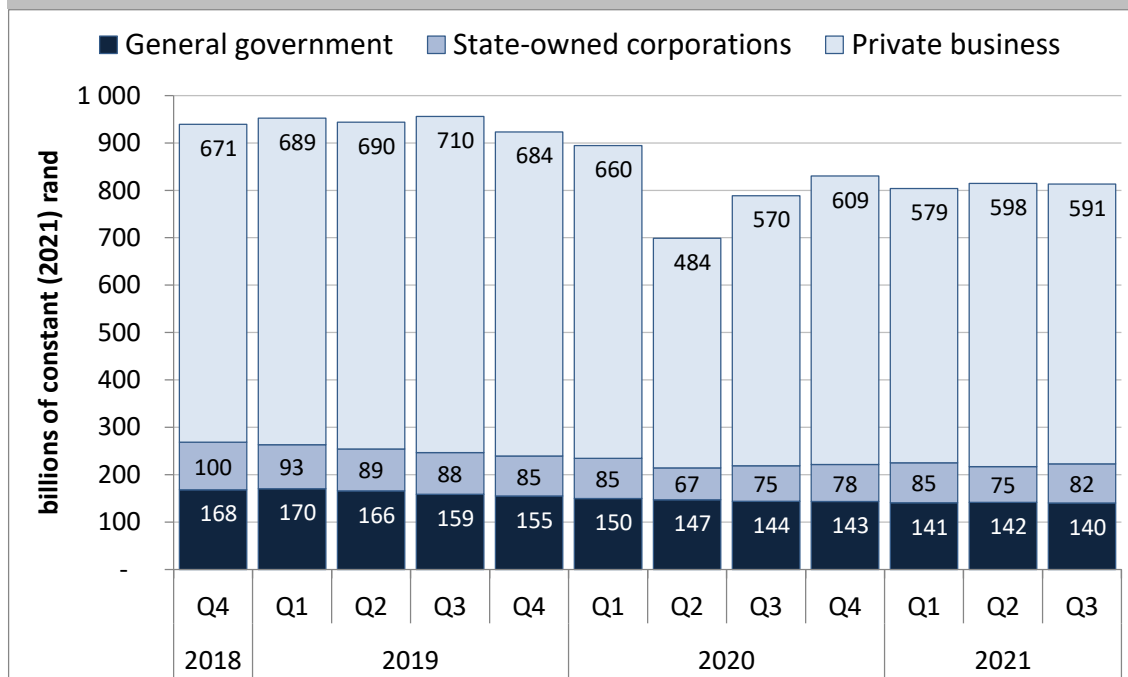
Graph 10. Overseas and continental visitors to South Africa, May 2019 to May 2021



Source: Calculated from Statistics South Africa. Tourism and migration. P0351. Pretoria. Relevant months. Tables 3 and 4. Accessed at www.statssa.gov.za in September 2021.

Investment remained a weak point in the recovery. It lagged 10 per cent behind pre-pandemic levels in mid-2021 although it had rebounded 20 per cent from the depths of the lockdown. It had stagnated from 2015, largely due to shrinking investment by both government and the state-owned utilities as the end of the global commodity boom affected both demand for infrastructure and funding. Private-sector investment was more volatile, with a sharper dip in the pandemic and a somewhat stronger recovery. As a whole, investment was less than 13 per cent of the GDP in the third quarter of 2021, down from 18 per cent in the first half of the 2010s. (Graph 11).

Graph 11. Quarterly seasonally adjusted investment by type of organization, fourth quarter 2018 to second quarter 2021, in billions of constant (2021) rand (a)



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za. Reprinted from TIPS. Real Economy Bulletin. Third Quarter 2021. Accessed at <https://www.tips.org.za/manufacturing-data/the-real-economy-bulletin/quarterly-bulletin/item/4204-the-real-economy-bulletin-third-quarter-2021>

Note: Reflated with implicit deflator rebased to third quarter 2021.

2.2.2 Impacts on inequality

Almost three decades after apartheid ended, South Africa remained one of the most unequal countries in the world. The pandemic aggravated inequalities through the impacts on employment, small businesses, assets and access to education.

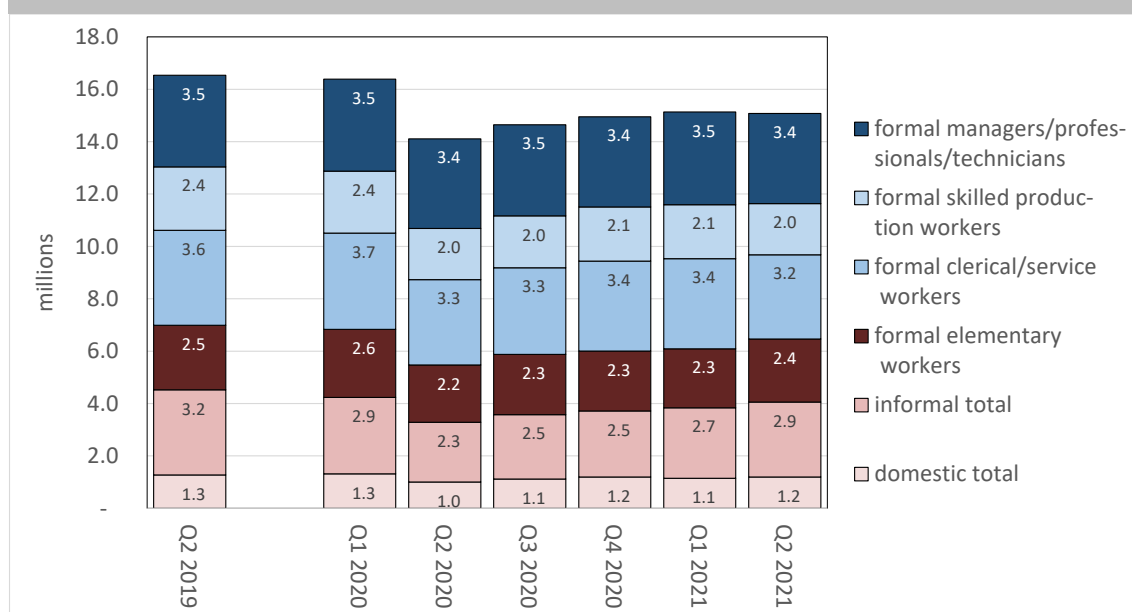
The pandemic brought huge job losses to South Africa, but the effects were extraordinarily unequal. Net employment remained almost unchanged for formal-sector managers and professionals. As of mid-2021, however, it was 10 per cent lower than before the pandemic for lower-level workers.

In the second quarter of 2020, in the depths of the lockdown, employment plummeted by 2,2 million, or 14 per cent. The number of employed people shrank from 16,4 million in the first quarter to 14,1 million in the second quarter. The share of adults with employment dropped from 42 per cent to 36 per cent, the lowest level since the transition to democracy in 1994 (when it was around 39 per cent). A year later, the economy had recovered only 800 000 jobs, but employment creation had stalled despite the continued recovery in the GDP. Employment was still 9 per cent lower than in the first quarter of 2020. (Graph 12).

The working poor bore the brunt of job losses. Formal managers and professionals saw almost no net decline in employment during the pandemic. In contrast, the initial downturn saw the

loss of around one in seven lower-level formal jobs. Moreover, one in four domestic and informal workers lost their livelihoods. In South Africa, these sectors contributed around a quarter of total employment. By mid-2021, informal employment had almost returned to pre-pandemic levels, but employment for other lower-level workers remained around a tenth below pre-pandemic levels. (Graph 12) The unrest in July brought further job losses, but they are difficult to quantify because they also made the survey data less reliable. (See TIPS 2021:7)

Graph 12. Employment by skills level and sector, Q2 2019 and Q1 2020 to Q2 2021.



Source: Calculated from Stats SA. QLFS 2008-2021 Q2. Electronic database. Downloaded from www.statssa.gov.za. Reprinted from TIPS. Real Economy Bulletin. Second Quarter 2021. Page 7. Accessed at <https://www.tips.org.za/manufacturing-data/the-real-economy-bulletin/quarterly-bulletin/item/4204-the-real-economy-bulletin-second-quarter-2021>.

The differences in job losses by class translated into disparities by race, gender and age. Thanks to apartheid, economic inequality in South Africa already aligned strongly with race, despite improvements since 1994. The disproportionate impact of the pandemic on black communities aggravated pre-existing social and political stresses.

Whites saw just 5 per cent net employment losses during the pandemic, around half the proportion for black workers. The disparities in job losses by race reflected persistent inequalities in employment, which in turn largely reflected historic inequalities in inherited wealth and access to quality education. In mid-2021, whites made up 7,3 per cent of the working-aged population in mid-2021, but they constituted 34 per cent of formal managers and professionals. In contrast, they accounted for only 7 per cent of other formal workers. Virtually no informal or domestic workers were white.

The disparity in employment losses was particularly devastating because whites already had far higher employment levels. Before the pandemic, some 69 per cent of white adults were

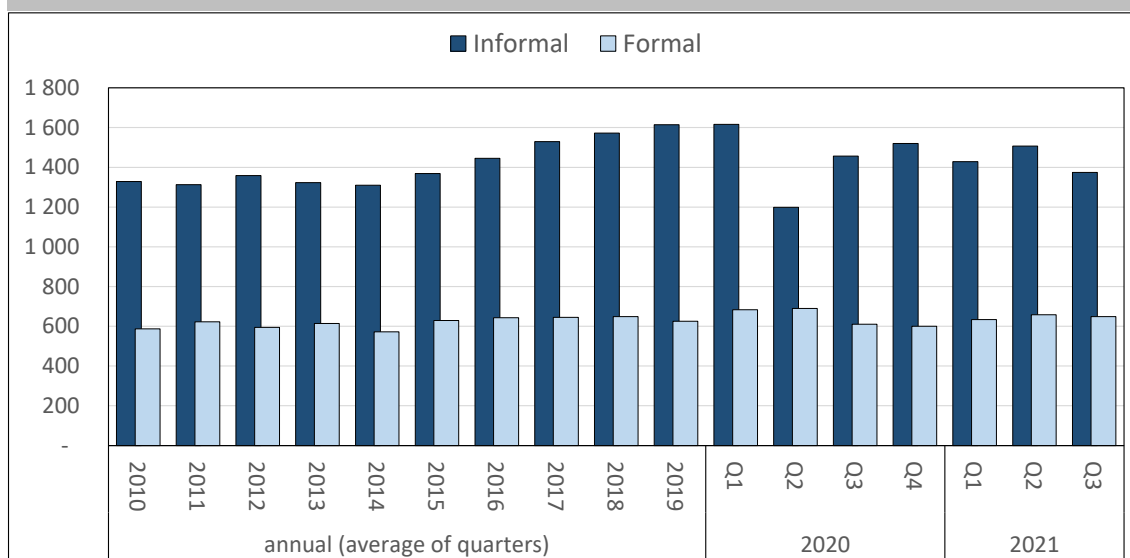
employed; the ratio fell to 67 per cent in mid-2021. That compared to an employment rate of 40 per cent for black adults in the first quarter of 2020, plummeting to 36 per cent in mid-2021. Women lost 10 per cent of their total employment from the first quarter of 2020 to mid-2021, compared to 8 per cent for men. They only held around 40 per cent of all jobs before the pandemic, although 75 per cent of domestic work. They experienced a particularly slow recovery in informal work, with 16 per cent lower employment in mid-2021 than in the first quarter of 2020. For men, informal employment was only 3 per cent lower than before the pandemic. Formal employment losses as of mid-2021 were at the same level for both women and men.

Younger workers also suffered disproportionate job losses. Workers under 35 years old saw 14 per cent of their jobs disappear, compared to 6 per cent for older workers, from the first quarter of 2020 to mid-2021. They constituted 36 per cent of total employment before the pandemic; by mid-2021, their share had dropped to 34 per cent. The impact was particularly sharp in formal employment, where lay-offs often followed the principle of last in, first out. As a result, young workers suffered two thirds of formal job losses from the first quarter of 2020 to the second quarter of 2021, although they held only around a third of formal employment.

The pandemic also aggravated inequality through the closure of small businesses; increased asset values; and the disruption of formal education.

The pandemic hit small businesses harder because they typically have less liquidity and access to credit. Moreover, they were disproportionately involved in services that face a higher risk of contagion. These factors meant that informal businesses tended to close down faster than formal small businesses, but also recovered more rapidly. (Graph 13) Formal business numbers gradually shrank by 12 per cent through December 2020, but rebounded slowly in the first half of 2021. By the third quarter of 2021, they were only 5 per cent below pre-pandemic levels. Informal businesses saw a steeper fall, plummeting 26 per cent during the lockdown, recovered steeply in the third quarter of 2020 only to plateau at 7 per cent below their numbers before the pandemic.

Graph 13. Number of small formal and informal businesses (a), annual from 2010 to 2019 and quarterly from first quarter 2020 to third quarter 2021

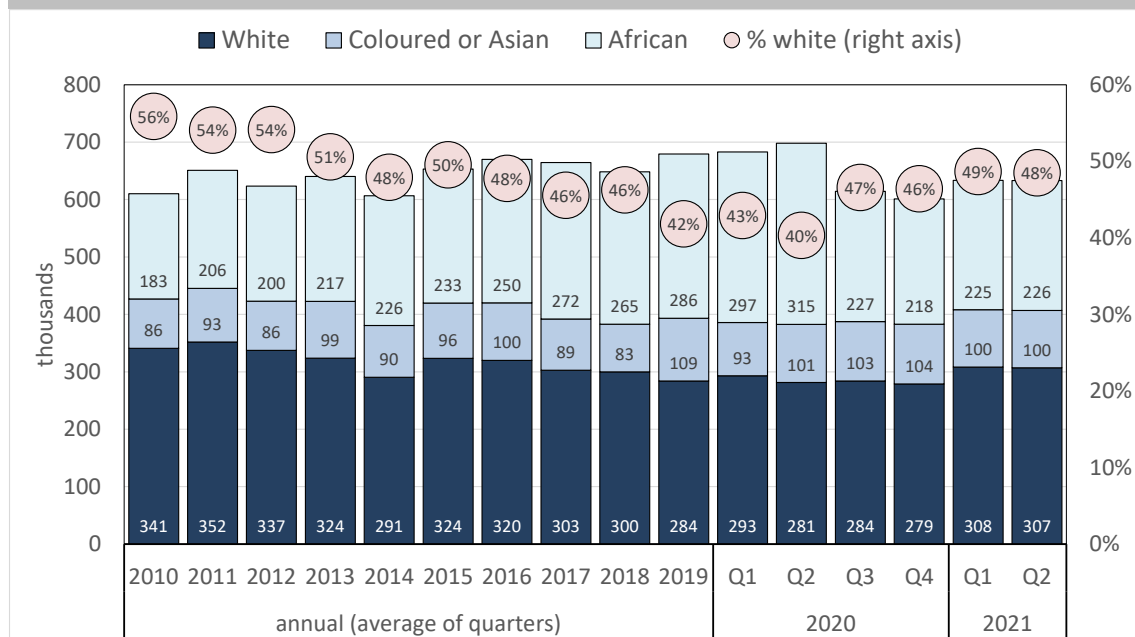


Source: Annual figures calculated from Statistics South Africa. Labour Market Dynamics. Electronic datasets for relevant years. Quarterly data from Statistics South Africa. Quarterly Labour Force Surveys. Electronic datasets for relevant quarters. Accessed at Nesstar facility at www.statssa.gov.za.

Note: (a) Equals the number of employers and self-employed with fewer than 50 employees.

The pandemic hit black-owned formal businesses disproportionately, as Graph 14 shows. As a result, the share of black ownership in all formal small enterprise dropped from almost 60 per cent before the pandemic to under 50 per cent in mid-2021, reversing the gains in representivity from before 2010. Black owners were vulnerable primarily because most did not have inherited or family wealth, and often their businesses were comparatively new.

Graph 14. Ownership of small formal business (a) by race, annual from 2010 to 2019 and quarterly from first quarter 2020 to second quarter 2021



Source: Annual figures calculated from Statistics South Africa. Labour Market Dynamics. Electronic datasets for relevant years. Quarterly data from Statistics South Africa. Quarterly Labour Force Surveys. Electronic datasets for relevant quarters. Accessed at Nesstar facility at www.statssa.gov.za.

Note: (a) Calculated as the number of employers and self-employed with fewer than 50 employees.

In contrast to business ownership, financial assets and property tended to increase in value during the pandemic both in South Africa and internationally as interest rates declined. In South Africa, the richest households owned an even higher share of these assets than income. The poorest 60 per cent of households owned an estimated 7 per cent of business assets and 5 per cent of financial assets, although they got 7 per cent of wage income and 14 per cent of social grants. (Makgetla 2020:19) As of the third week of September 2021, the Johannesburg Stock Exchange was a third higher in real terms than it was in early March 2020. In contrast, it had remained essentially flat from 2015 to 2020. The increase in share prices mirrored trends on most stock exchanges worldwide. (Tradingeconomics 2021).

Deep inequalities in household income and wealth meant that the disruption of education during the pandemic also had an inequitable impact. Schools had to move to distance learning for most of the 2020 school year. But low-income households rarely had computers or internet at home, as noted above. Moreover, parents in lower-income households generally had less schooling, making it harder for them to assist their children when schools were closed. Almost 70 per cent of parents in the poorest 60 per cent of households had not graduated from secondary school, compared to under 25 per cent in the richest decile. In the poorest 60 per cent, one in 20 parents had a university degree; in the richest 10 per cent, it was almost one in three. (Calculated from Statistics South Africa 2019).

Even before the pandemic, extreme inequality constrained growth in South Africa. Above all, it contributed to continual contestation over economic and social policies in general, and property

rights in particular. That in turn tended to deter investors. The rioting in July 2021 underscored the growing pressure on basic social trust. An initial call for political protest, with some attempts to disrupt freight transport and cellphone networks, morphed into much less organized and fairly widespread looting of malls near working-class townships in KwaZulu Natal and Gauteng. Besides the direct cost to businesses, the rioting aggravated investor uncertainty, adding to the burdens on the recovery.

3. Policy responses

The South African government contended that recovery from the pandemic had to go hand in hand with reconstruction, in the sense of strategies to bring about a more diversified and inclusive economy. In practice, however, the economic-policy response relied primarily on stepping up poverty relief and maintaining expenditure despite falling revenues. Interventions around industrial policy and infrastructure investment remained comparatively weak. They did not pursue any systematic or large-scale initiatives to promote a substantially more equitable economy or to diversify away from mining. Strong structural reforms were limited to initiatives to address long-standing regulatory blockages to growth and increase protection for existing domestic producers. A planned turn to fiscal austerity in 2022 seemed likely to end the relief measures linked to COVID-19 and further reduce funding for industrial policy.

This lop-sided approach essentially reflected a broader failure of South Africa's long-standing industrial policy, which can be understood on various levels. Conceptually, it reflected the tendency to copy measures that succeeded in East Asia, despite the profoundly different context in South Africa. At a political economic level, it resulted from the ability of the dominant party to improve living standards by redistributing mining rents, rather than taking on the riskier task of restructuring the economy.

This section first reviews South Africa's overall response to the economic impacts of the pandemic. It then explores the evolution in industrial policy as part of that response through an analysis of the seven sector strategies published from 2019 to 2021. A final section explores the mechanisms that reproduced a weak industrial policy that almost entirely failed to address the fallout from the COVID-19 crisis.

3.1 Responses to the pandemic

In April 2020, the South African government adopted an initial package of social and economic measures to address the anticipated impacts of the lockdown against the first wave of the pandemic. In October 2020, it supplemented this package with an Economic Recovery and Reconstruction Plan. The Plan centred on commitments to improve bulk infrastructure but included some sectoral measures and a commitment to localization, understood as deepening local supply chains. In the 2021/22 budget, and even more in plans for 2022/23, however, the government terminated the fiscal stimulus in an effort to reduce its debt-service burden without raising taxes. Annexure 1 lists the main elements of the economic response to the COVID-19 downturn, with a broad evaluation of their resourcing and progress as of November 2021.

3.1.1 The initial stimulus package

Table 1 shows the main components in the initial stimulus package. It centred on extensive relief for low-income households and a wage subsidy for workers who would otherwise face retrenchment; efforts to maintain credit flows; and a commitment to sustaining government spending despite forecasts of a sharp decline in tax revenues. Sectoral and infrastructure programmes were comparatively small. They mostly entailed modest support for small businesses in hard-hit industries; measures to promote local production of healthcare inputs; and the release of more spectrum to improve access to digital services.

Table 1. Initial programmes (initiated in April 2020)(a)

Sectors and small business	Infra-structure	Fiscal and monetary	Poverty and unemployment relief
SMME support especially in tourism, creative industries and agriculture – R1,2 bn (mostly for agriculture), but entirely from reallocation within departments	Temporary allocation of spectrum to existing digital companies (paid for in licence fees by companies	Commitment to maintaining spending despite falling revenues; deficit increased around R300 bn (from 6 per cent of GDP in 2019/20 to 10 per cent in 2020/21) while government spending remained flat	Social grants for elderly, children and disabled increased, with new grant added for other destitute adults – R50 bn in 2020/21
Credit guarantees for small business (actual outlay of R18 bn, against an initial budget of R200 bn)	and ultimately by users)	Interest rates reduced by 3 per cent to 3,75 per cent (below inflation); SARB bond purchases worth R11 bn; reduced liquidity requirements for private banks	Support for employers to avoid retrenchment using Unemployment Insurance Fund surplus (the Temporary Employer/Employee Relief Scheme, or TERS) – R63 bn as of October 2021
Support for local production of PPE and respirators – R0,7 bn		R125 bn in tax relief for business plus R45 bn in tax deferrals	New public employment scheme with 450 000 jobs – R13 bn (but funding for all employment schemes down 15 per cent to R19 bn)

Source: See Annexure 1.

Note: (a) Real change in fiscal indicators calculated using CPI.

The commitment to maintaining government spending despite falling revenues effectively avoided deep cuts to the budget. In the 2020/21 fiscal year, government revenues dropped by R150 billion in 2021 rand, or 10 per cent. At the start of the year, when the stimulus was released, Treasury had forecast a 20 per cent decline. In contrast, spending climbed 2,4 per cent. As a result, the deficit climbed from 6 per cent of the GDP in 2019/20 to 10 per cent in 2020/21.

The overall spending figures understate the impact on programmes, however, since debt service payments rose from R205 billion to R225 billion in constant rand, or from 12 per cent of total state expenditure in 2019/20 to 13 per cent a year later. Spending on programmes rose only 1,4 per cent in real terms, or around as fast as population growth, in this period. (Calculated from Treasury 2021b and 2021c).

The 2020/21 budget aimed to achieve fiscal reallocation largely by freezing pay for public servants, resulting in a decline in the average salary on the order of 3 per cent. This approach enabled government to avoid contestation between departments over which programmes to downsize. In the end it proved impossible to implement, however, because public servants are central to both social services and the electorate. In South Africa, the national government directly employs educators, healthcare and most of the police. As a result, the national public service has 1,3 million members, and the majority directly serve the public as health, teaching and security professionals. Their unions – the largest of which are formally allied to the dominant governing party - negotiate at a central bargaining council.

In the circumstances, rather predictably, the government did not enforce the wage freeze as proposed in the original 2020/21 budget. Instead, it agreed to a complex combination of a once-off bonus and a 1,5 per cent increase, bringing the total to just under CPI for most workers. As a result, the average income for public servants remained virtually unchanged in constant rand, although salaries dropped over 2 per cent. Because the public service grew by 8000 compared to 2019/20, the total wage bill rose by just under 1 per cent.

To pay for the bonus, the government deferred R4 billion originally budgeted for infrastructure in 2021/22. In effect, the planned cut in spending shifted from wages to infrastructure investment. This is a fairly common outcome of contentious austerity programmes. Public investment is usually project based, making it easier to reduce than long-term service programmes that are linked to contractual employment agreements and community expectations.

In terms of monetary policy, the initial stimulus package included a significant relaxation. From May to July 2020, the Reserve Bank reduced its base rate by 3 per cent to 3,75 per cent, which was around the level of inflation. It also undertook to increase liquidity in the financial system. To that end, it increased low-cost funds to the major banks; reduced capital requirements for private banks; and bought R11 billion in government securities.

On paper, the largest programme in the stimulus package was a R200-billion credit guarantee scheme for medium and small businesses. Under the scheme, the Treasury guaranteed the funds to the Reserve Bank, which lent them at 0,5 per cent above the repo rate (and inflation) to private banks to on-lend at a further 3 per cent premium. By the time the scheme ended in June 2021, however, it had utilized only around a tenth of the committed sum. That was less than the banks provided separately for emergency credit and repayment relief for their customers. Some 50 000 companies, or around 7 per cent of all formal businesses, applied for loans, but only a quarter of the applicants were approved. The average credit came to R1,2 million, going mostly to small and medium-sized businesses (with turnover below R20 million). (BASA 2021).

South Africa's experience with credit guarantees during the COVID-19 crisis mirrored that of most other countries. Ultimately, the programme responded, not to the realities of the pandemic economy, but rather to experiences from the global financial panic in 2008/9. The

scheme addressed the fear that financial intermediaries would stop lending to creditworthy borrowers. It therefore required the state to take on losses for bank loans that met normal credit requirements, which in some cases included personal liability for small business owners. In the pandemic, however, enterprises faced a liquidity crisis due to plummeting demand and public health restrictions on production. As a result, they were reluctant or unable to take on new debt. Yet the guarantee scheme did not provide any kind of bail out or equity investment for enterprises that faced liquidation.

The limited success of the credit guarantee scheme meant that it ultimately spent far less than programmes that provided cash relief to households. These measures provide over R100 billion through 2020. They secured a measure of social stability despite the huge loss of earnings from the pandemic. They were not, however, sufficient to lift most recipients out of poverty. Moreover, they did little to promote either economic reconstruction or to provide a platform for collective action to deal with the social and economic outcomes of the pandemic.

The pandemic relief measures built on a social protection system that was already unusually extensive for a developing economy. The apartheid state provided generous cash transfers to non-African people before 1994. After the transition to democracy, the government gradually extended support to all impoverished people who were unable to work due to age or disability. At the same time, it allowed inflation to erode the value of individual grants. Even before the pandemic, around a third of the population got some kind of social grant. The democratic government also extended the long-standing statutory unemployment insurance scheme, the Unemployment Insurance Fund (UIF), to all formal and domestic workers.

In April 2020, at the start of the lockdown, the government expanded the relief system in two ways. First, it agreed with organized business and labour that the UIF would provide a wage subsidy to formal businesses in return for avoiding retrenchments. Second, it increased existing social grants and added a new benefit for jobless working-aged adults outside the formal sector.

From April 2020, the UIF's COVID-19 Temporary Employee/Employer Relief Scheme (TERS) paid an average of R3500 a month. That approximated the median pay for formal workers. South Africa's unusually deep wage inequality, however, meant that it represented only a fraction of remuneration for highly skilled workers. At its peak, in the final quarter of 2020, the TERS reached almost seven million workers, or close to half of all formal employees. The UIF did not, however, cover the self-employed, most informal employees or jobless people, who therefore did not benefit from the scheme.

As the economy opened up from late 2020, the number of TERS beneficiaries dropped rapidly. From October, the scheme supported only employees who had co-morbidities or worked in industries legally restricted by public-health measures – essentially almost exclusively in hospitality. The downsizing of the TERS from early 2021 contributed to renewed net job losses in the formal sector in the second quarter of the year.

Rather than drawing on the fiscus, the UIF financed the TERS entirely from its surplus, which exceeded R150 billion in 2019. The surplus arose because the contribution rate set in the 2001 UIF Act, at 1 per cent each for employers and employees, meant the Fund's annual income far exceeded claims. It did not face market pressure to reduce contributions to match its costs, however, because membership was mandatory for formal workers. Instead, it invested its annual surplus in financial markets, snowballing its income, although under the Act it could have used the funds for job-creation projects.

Payments for the TERS cut the UIF surplus to under R100 billion by early 2021. As a result, the scheme faced bitter opposition from the financial companies that the UIF contracted to manage its investments. They insisted that it would bankrupt the fund, and repeatedly overstated the monetary costs in an effort to bolster their arguments.

Social grants were the main *Source* of income for 20 per cent of households, and a third of those in the poorest 60 per cent, even before the pandemic. In 2020, the figure for all households rose to 25 per cent as grants increased while earned income shrank for many households. (Calculated from StatsSA 2019a and 2020).

The government increased grants substantially for six months from April 2020. It raised benefits for 4,7 million elderly and disabled beneficiaries by R250 a month, or around 25 per cent. These grants amounted to three times the food poverty line for an individual as estimated by Statistics South Africa. The government also provided an additional R500 for every parent with at least one child that qualified for a child-support grant. The increase was slightly more than the value of the grant, which was equalled only 70 per cent of the food poverty line. The child-support grant reached 13 million recipients, two thirds of all children under 18 years old.

The government also introduced a COVID-19 special grant at R350 a month (around half the poverty line for an individual). By March 2021, the COVID-19 grant reached almost six million people, or a fifth of South African adults. The cost came to R2 billion a month, or 1,5 per cent of the national budget. The government terminated the grant in March 2021, at the start of the 2021/22 budget year, but re-instated it following the July unrest.

In addition to expanding social grants, the government set up a new public employment scheme, budgeted at around R10 billion a year from 2020 to 2022. The programme provided close to 450 000 employment opportunities in 2020/21. Most of the positions were for secondary school graduates to act as teacher assistants in poor communities. The new employment programme accounted for around half of all spending on public employment in 2020/21. Still, the total reported budget for public employment schemes declined 10 per cent in real terms in 2020/21 compared to pre-pandemic levels. It was expected to return to 2019/20 levels in 2021/22. (Calculated from Treasury 2021c:38).

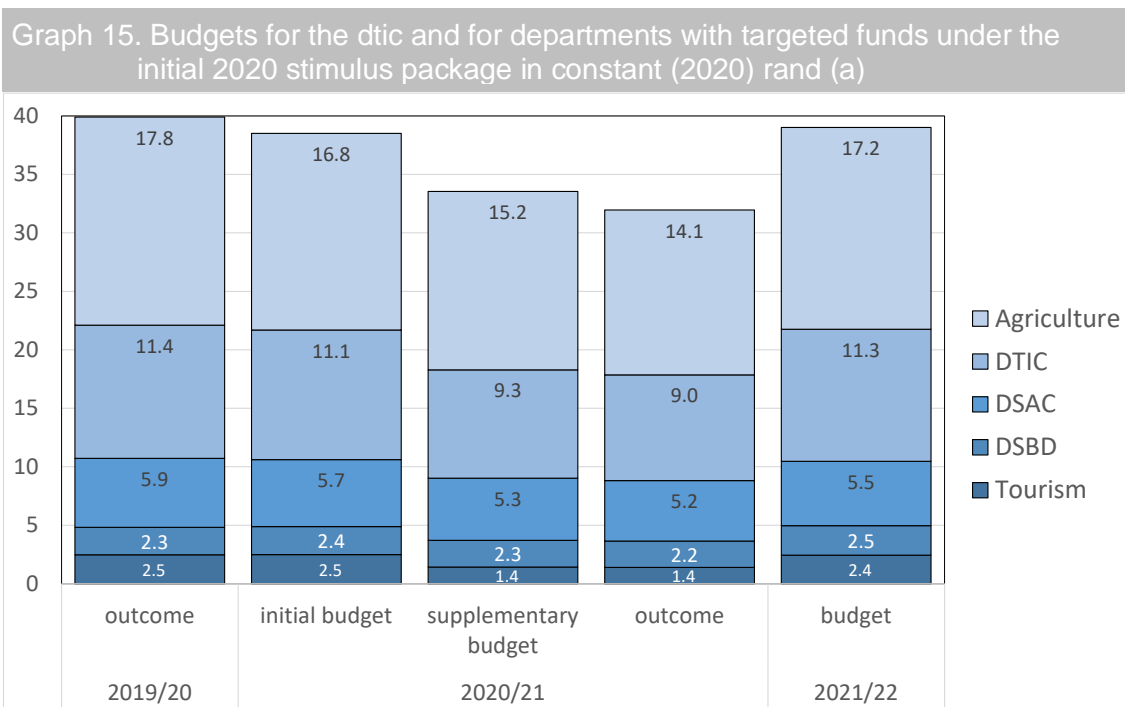
Spending on social relief measures dwarfed support for vulnerable industries, small business and infrastructure.

The April stimulus package announced dedicated funds for enterprises in tourism, culture and sports, on the argument that they suffered most from the pandemic. For the same reason, it expanded access to concessionary finance for small business. It also established a fund for small farmers, although public health restrictions did not directly affect the agricultural value chain.

The sectoral funds were administered, not by the Department of Trade, Industry and Competition (the dtic), the custodian of industrial policy, but by separate departments responsible for the affected areas of the economy – that is, the Departments of Tourism; Sports, Arts and Culture; Small Business Development; and Agriculture, Land Reform and Rural Development. This situation reflected a broader fragmentation of responsibility for structural economic policies.

The small business support funds were modest in light of the needs they addressed. The funds for tourism and for culture and sports provided around R200 million each, while agriculture had R1,2 billion. The small business department increased its lending scheme by R600 million. For comparison, in 2019 turnover in the hospitality industry exceeded R100 billion, and the dtic spent R7 billion on industrial-policy incentives of various kinds, excluding tax subsidies.

Even more fundamentally, the funds listed in the COVID-19 stimulus package did not actually supplement the resources available for the affected sectors. Instead, they required the relevant departments to reallocate spending away from other programmes. Meanwhile, the total budgets of all of the departments involved, as well as the dtic, shrank by around a sixth in constant rand in 2020/21, as Graph 15 shows. In the 2021/22 budget, the departments' budgets were still slightly lower than in 2019 in real terms, even though the economy remained far from full recovery.



Source: Calculated from National Treasury. Budget Review for 2020/21 and MTBPS. Data in excel format.

Note: Deflated with CPI.

From early 2020, the dtic embarked on an intensive effort to promote localization of personal protective equipment (PPE), ventilators and other medical equipment. It encouraged government departments to procure locally manufactured products while providing around R700 million in support for 43 local producers. In the process, it collaborated formally with 62 local manufacturers through a Local Manufacturing Partnership. As Table 2 shows, the project led to a substantial increase in locally produced healthcare inputs, with some exports to the region as well.

Table 2. Growth in production of healthcare inputs in 2020/21 as a result of dtic interventions

Product	Baseline		As of March 2021	
	companies	units	companies	units
Isolation gowns	1	0,14 mn	17	4 mn
Masks	2	3 mn	11	21 mn
FFP respirator masks	2	6 mn	9	17 mn
Sanitiser	3	2 mn	7 (a)	81 mn
Gloves	1	7 mn	2	36 mn
Ventilators	0	0	1	20 000

Source: dtic. Annual Report 2020/21. Pretoria. Pp. 54-56.

Note: (a) There were more producers who did not register with the scheme.

The initial COVID-19 economic response package included two programmes related to infrastructure: upgrading informal settlements to reduce the risk of contagion, and the temporary release of additional broadband to enhance digital communications. The informal-settlement programmes centred on providing water tanks, mostly to facilitate cleaning, plus additional housing to reduce density. They had very limited success, however, as the relevant departments and local governments struggled to develop effective delivery systems. In contrast, the state implemented the release of spectrum as planned. It was possible because of a decade-long delay in opening up the spectrum to expand 4G services, due to a combination of policy contestation and legal action by companies. The initial proposal was to provide additional spectrum for only six months, but the government ultimately extended the measure through March 2022.

In sum, the initial stimulus package relied primarily on social relief with modest relaxation in fiscal and monetary policy. The decision to maintain government spending despite plummeting revenues avoided a contractionary impact, but did not in itself compensate for the fall in demand as a result of the pandemic. Industrial policy elements remained comparatively small, centred on maintaining capacity in the worst hit industries and small business and on expanding production of healthcare inputs.

3.1.2 Plans for recovery and reconstruction

In October 2020, the government published an Economic Reconstruction and Recovery Plan that committed to “aggressive infrastructure investment” and improving the reliability of the electricity supply; industrialization through “localization”, understood not simply as import substitution for consumer goods but as deepening local supply chains for both domestic and export markets; and support for tourism and the green economy. (Presidency 2020:3; dtic 2019:15) The government also set up a task team of high-level officials, named Operation Vulindlela (that is, Operation Unblocking), to drive regulatory reforms. Table 3 summarizes the main measures in these two initiatives.

In response to the radical changes wrought by the pandemic in the economy, these initiatives effectively replicated long-standing policy commitments. They neither substantially re-conceptualized nor scaled up any existing programmes. The emphasis on infrastructure investment aimed to generate a demand-side stimulus without increasing on-budget spending. Operation Vulindlela focused on pushing through disruptive regulatory changes that the government had agreed in principle but delayed, often for many years. The delays resulted from on-going contestation between various state agencies associated with vigorous lobbying, and periodic court challenges, by some affected businesses.

Table 3. Key economic initiatives from October 2020

Cross-cutting systems (mostly Operation Vulindlela)	Sectors and small business (mostly ERRP)
Infrastructure investment, with emphasis on crowding in private sector and improving governance systems	Promoting localisation, leveraged by public and private procurement decisions, tariffs, commitments from retail and downstream users and targeted financial support for producers (but dtic budget cut from 2020 to 2022)
Promoting energy security, primarily by licencing new suppliers	Tourism recovery strategy centred on support for businesses and improved marketing initially for domestic and regional visitors
Expanding available spectrum and accelerating digital migration for broadcasting	Green economy interventions apparently around recycling, small-scale forestry and aquaculture, and waste management
Improve efficiency of visa systems for tourists and skilled immigrants	Expand workplace training, especially artisans, to 20 000 p.a.

Source: See Annexure 1.

Operation Vulindlela aimed to resolve long-standing debates within the state around network infrastructure, especially electricity, telecommunications, rail and water. For most of the past century, and especially before the transition to democracy, South Africa offset its obvious shortcomings as an investment destination – mostly distance from major markets and conflicts arising out of profound inequalities – by using state-owned companies to supply world-class infrastructure and by guaranteeing property rights. The transition to democracy, however, expanded competition for government services. As in many post-colonial countries, the result

was a deterioration in bulk infrastructure combined with rising prices to business. The problem was particularly acute in electricity, where the national grid was monopolized by a state-owned utility, Eskom that relied almost exclusively on coal; doubled the price of electricity in real terms from 2008 to 2021; and imposed repeated interruptions (“loadshedding”) as its plants increasingly broke down through the late 2010s.

In response to these structural challenges, Operation Vulindlela proposed to upgrade infrastructure primarily by:

- reducing barriers to private suppliers, especially in electricity and telecommunications;
- establishing new agencies to manage state-owned infrastructure systems, notably for the ports, electricity grid and investment in bulk water infrastructure;
- upgrading decision-making systems, mostly for water use licences, private electricity generation, and visas for tourists, skilled people and investors; and
- improving municipal capacity to provide local services, especially water.

As of November 2021, Operation Vulindlela’s most visible achievement was a change in regulations to make it easier for small private power plants to supply the national grid. The government also installed new leadership at Eskom that vastly improved its management and technical capacity. (See Makgetla and Patel 2021) In addition, the ports division of the state-owned rail company, Transnet, was corporatized as a relatively autonomous subsidiary; a national agency to manage bulk water infrastructure was nearing establishment, some two decades after it was originally agreed; modest reforms had been effected to facilitate visas for tourists and skilled immigrants; and the government had set deadlines in early 2022 for auctioning off 4G spectrum, around ten years later than originally planned.

In 2020, in order to package infrastructure projects for financing, the government established a new agency, Infrastructure South Africa, in the Department of Public Works and Infrastructure. Infrastructure South Africa gazetted opportunities in energy, housing and water, amongst others, costed at hundreds of billions of rand. Its main emphasis as of September 2021 was on bulk systems rather than upgrading services in under-served communities. It focused on large, long-term investments rather than smaller projects that could generate an immediate fiscal or jobs stimulus.

Given the depressed economic environment, it was difficult to evaluate Infrastructure South Africa’s short-term impacts. Overall, as of mid-2021, both public and private investment remained depressed, as shown in Graph 11 above.

Experience with earlier build programmes suggested some risks around relying on off-budget, private funding for infrastructure. As a rule, it proved relatively easy to finance large-scale projects or to improve services for formal businesses and well-off municipalities. It was much harder to mobilize private investment for impoverished towns and regions, where neither residents nor business could afford to meet the full cost of water, electricity, transport and communications systems. The largest backlogs in services, however, were in the historic labour-

sending regions (the so-called “homeland” areas) and black townships, which most infrastructure schemes excluded before 1994. For instance, the share of African households with water on site rose from 50 per cent in 1996 to 70 per cent in 2018; for other groups, it remained stable at over 90 per cent.

On the industrial-policy front, the Recovery and Reconstruction Plan promised “a massive programme of industrialization through localization.” (Presidency 2020:11) This commitment represented a significant shift in South Africa’s articulation of industrial policy, which had long centred on promoting exports. It did not, however, equate to narrow import substitution industrialization, which classically focused on consumer goods. Rather, it aimed to build up local supply chains for domestic, regional and overseas markets in both capital and consumer products. The Recovery and Reconstruction Plan asserted,

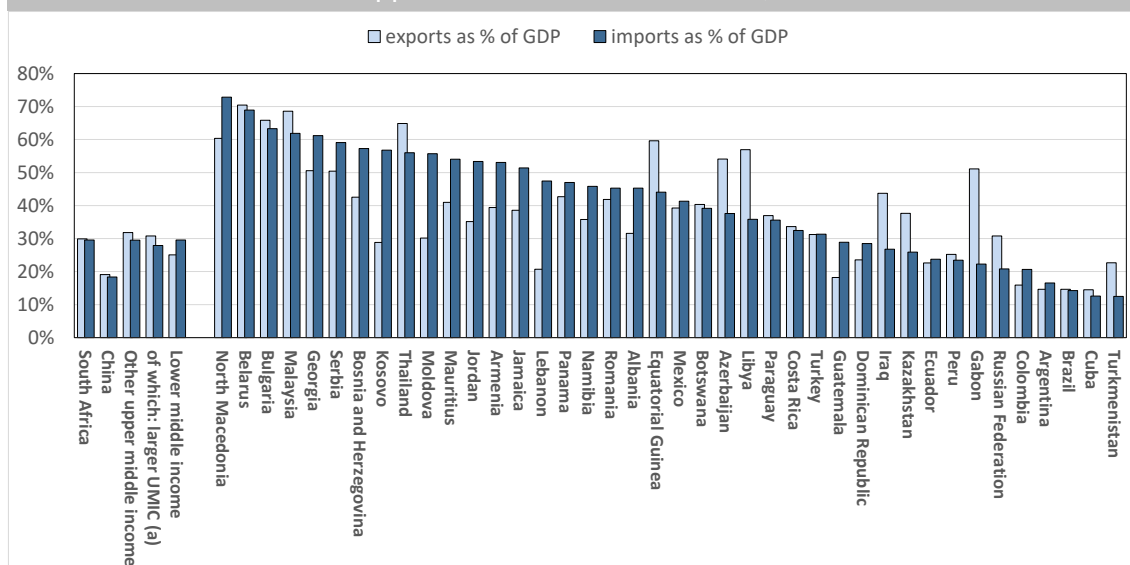
“Overall, the programme to drive industrialization through localization will seek to achieve the following strategic objectives:

- Reduce the proportion of imported intermediate and finished goods;
- Improve the efficiency of local producers; and
- Develop export competitive sectors that can expand the sales of South African made products on the continent and beyond.” (Presidency 2020:13).

In a policy paper from May 2021, the dtic described any effort to promote industrial deepening as localization. In this definition, localization included greater beneficiation and fabrication of metals. It also encompassed protection for infant industries – that is, industries that could become competitive over time but needed competitive pressure in order to survive long enough to develop the requisite technologies and experience. (dtic 2021a).

Despite this broad definition, the dtic justified the strategy by arguing that South Africa had an unusually high propensity to import compared to similar economies. (dtic 2021a:2) In fact, as Graph 16 shows, amongst upper-middle-income economies with a GDP of over US\$5 billion in 2019, excluding China, South Africa was close to the average for imports as a percentage of the GDP. Amongst ten largest economies – larger than US\$100 billion – outside of China it was also at the norm for import penetration.

Graph 16. Imports and exports as percentage of GDP for South Africa compared to China and other upper-middle-income countries, 2018



Source: Calculated from World Bank. World Development Indicators. Interactive dataset. Downloaded in November 2021.

Note: (a) 14 upper-middle-income economies with GDP worth over R100 million in 2018, excluding China and South Africa.

The Reconstruction and Recovery Plan expected localization efforts to prioritize strategic industries, including “construction; agro-processing; health-care; basic consumer goods; capital goods including equipment and industrial inputs used in infrastructure projects; and transport rolling stock...” (Presidency 2020:12) The list effectively encompassed virtually all of manufacturing, leaving out mostly services other than healthcare, logistics, agriculture and retail.

The Reconstruction and Recovery Plan outlined a range of mechanisms to promote local production, from financial support for producers to prioritization of local procurement by the state, especially for infrastructure, to increased and more stringently enforced tariffs and quality standards on imports. (Presidency 2020:12 ff) In practice, from 2020 the dtic added two additional measures. It pushed large-scale businesses, both producers and retail chains, to commit to supporting local suppliers. It also relied on its industrial finance agency, the Industrial Development Corporation, and new industry levies to help local producers upgrade. The dtic’s own understanding of its toolbox, summarized in Figure 1, highlights these efforts. The use of these measures is described in more detail in Section 3.2.

Figure 1. The dtic's measures for achieving its apex priorities

Growing domestic market	<ul style="list-style-type: none"> • Implement localisation actions with private sector in identified value chains (e.g. consumer goods, mineral beneficiation, infrastructure components, green economy, capital goods and transport equipment) • Expand localisation in Government's procurement including infrastructure build programme • Support social partners localisation commitments
Cultivating export markets	<ul style="list-style-type: none"> • Unlock African export market potential with the AfCFTA (a) and develop a deep industrialisation strategy focused on the AfCFTA • Better utilise preferential access to the EU/US markets • Address the challenge of the composition of SA's trade patterns, especially with China
Implement supply-side reforms	<ul style="list-style-type: none"> • Partner with relevant spheres of government to strengthen firms' ability to access and use technology and innovation • Partner with relevant spheres of government to improve the competitiveness of SA's logistics, ports, freight systems and infrastructure • Identify and action opportunities to improve firms' competitiveness • Continue to assist firms to roll out investments
Provide demand-side support	<ul style="list-style-type: none"> • Localisation partnerships • Develop targeted, responsive trade policies • Address illegal imports • Strengthen State procurement policies, including reporting on localisation by State organs • Boost the infrastructure spend associated with infrastructure build programme
Adjusting to lessons from COVID-19	<ul style="list-style-type: none"> • Build economic resilience to assist domestic industry weather future global or domestic challenges • Develop 'strategic autonomy' in critical products such as pharmaceuticals, medical devices, machinery and digital technologies

Source: The dtic. Annual Performance Plan 2021/22. Figure 3 on page 32. Accessed at www.thedtic.gov.za in November 2021.

Note: (a) African Continental Free Trade Agreement.

The Recovery and Reconstruction Plan proposed support for tourism largely through short-run subsidies, overseas marketing and easier access to visas. It did not specifically address the collapse in demand that resulted from recurrent waves of contagion. In response, the Department of Tourism published a recovery plan in March 2021 that centred on maintaining capacity during the downturn while improving marketing to domestic tourists until overseas sales could recover. It apparently expected accelerated vaccinations combined with natural population immunity from earlier surges to ensure control of COVID-19 by the end of 2021. (Department of Tourism 2021:22) In both 2020 and 2021, however, waves of COVID-19 emerged at the end of the year, as the Southern Hemisphere's summer holidays encouraged travel and socialization. Nonetheless, spokespeople for the tourism and entertainment sector generally opposed any public-health restrictions, even though higher levels of contagion continually delayed the industry's recovery.

The commitment to the green economy in the Recovery and Reconstruction Plan did not appear to have led to substantive programmes to promote new industries. The Department of Forestry, Fisheries and the Environment (DFFE) committed to accelerating environmental impact assessments for projects linked to the Recovery and Reconstruction Plan. It also participated in the new public employment scheme with (pre-existing) projects centred on cleaning up and protecting natural areas. (DFFE 2021).

The Recovery and Reconstruction Plan had notable gaps around economic development. Above all, it did not build on existing commitments to develop functional economies in working-class areas known as townships. Since apartheid, these areas were largely designed as dormitory communities far from economic and recreational opportunities. Typically, they lacked formal retail, commercial or industrial sites. The promise to developing township economies aimed to promote small businesses of all kinds in these areas through a combination of financing, improved basic infrastructure with new industrial and commercial sites, and various forms of mentoring and incubation. The Recovery and Reconstruction Plan referred to township enterprises only once, however, as potential parts of manufacturing supply chains. Even more strikingly, the Plan did not refer to land reform at all. Yet lack of suitable land for housing and agriculture was a central factor behind persistent inequality and joblessness in South Africa. Finally, the Recovery and Reconstruction Plan did not lay out plans to address the infrastructure backlogs in historically African communities.

Engagements at the National Economic Development and Labour Council (NEDLAC) largely shaped the Recovery and Reconstruction Plan. Legislation established NEDLAC soon after the transition to democracy as a forum for government, organized business and labour, and representatives of civil society to engage on policy issues. It played a critical role in giving voice to stakeholders in policy development, which vastly improved the quality of many measures over the years. A focus on achieving consensus, however, meant that it rarely generated transformative proposals.

Operation Vulindlela and the Recovery and Reconstruction Plan had starkly different governance structures. Operation Vulindlela ran as a collaboration between the Presidency and the Treasury, where officials engaged to drive specific regulatory changes. In contrast, responsibility for the Recovery and Reconstruction Plan was diffused across a host of departments and agencies, with limited oversight of implementation. It was managed by a coordinating forum for national economic departments, the Economic Sectors, Investment, Employment and Infrastructure Development Cluster. In the South African system, clusters essentially provide platforms for national departments to discuss areas of common interest. They were not, however, designed to resolve disputes between departments over policies or to monitor implementation. The Plan also foresaw a Presidential Advisory Technical Team to review progress. Both the cluster and the technical team were expected to report to the National Command Council, an inter-Ministerial team that focused on the public-health aspects of the disaster. (Presidency 2020:36).

Ultimately, the Recovery and Reconstruction Plan was notably as much for what it left out as for what it proposed. It did not develop a consistent analysis of how the COVID-19 pandemic would likely constrain long-term economic development and needs. These factors included, for instance, the impacts on global and domestic logistics; massive job losses; the deterioration in education especially in townships and informal communities; and the likely persistent decline in global tourism. It was strong on regulatory and institutional changes to address shortcomings in bulk infrastructure, but included very little in the way of strategies to restructure the economy either to diversify production or to deal with deep inequalities and large-scale job losses. In this

context, it relied heavily on promoting local procurement as well as private financing for infrastructure. Both of these strategies have potential to accelerate growth and industrialization. But neither will promote innovation to meet the needs of the poor majority, who cannot afford to pay for basic services or consumer goods. In South Africa, the richest 10 per cent of South African households account for 49 per cent of consumption. (StatsSA 2021:5) The proposed localization strategy used industrial policy tools, but as shown in greater detail in section 3.2 focused more on rescuing existing producers than transforming the economy. Meanwhile, the Recovery and Reconstruction Plan did not build at all on long-standing commitments to secure a more equitable and inclusive economy, particularly through support for township economies, land reform, and the extension of affordable, quality infrastructure to historically black communities.

3.1.3 Toward fiscal austerity

The decision to maintain spending despite falling revenues at the start of the pandemic in 2020/21 began to erode in 2021/22. It was fully reversed in budget plans announced for 2022/3. Despite the renewed economic downturn in the third quarter of 2021, South Africa aimed for a 7 per cent cut in spending on programmes in 2022/23, while debt-service payments rose 8 per cent. This approach mirrored that of governments across southern Africa. It ultimately reflected the comparatively weak position of middle-income economies on global financial markets compared to the nations of the global North. They faced much stronger push back – and higher financing costs – as they grappled with the pandemic outcomes.

These realities left South Africa with stereotypical tough choices. It could cut back on relief and investment programmes, which could lead to unrest and would block economic recovery, especially if its export prices fell. Alternatively, it could maintain spending in the face of soaring interest payments and growing pressure from multilateral institutions, ratings agencies and global experts. Both paths involved substantial risks without promising easy solutions. In the event, as of late 2021 the government seemed likely to go with pro-cyclical cuts in spending, despite the human and economic costs.

At the end of 2021, the Treasury announced its plans for the 2022/23 budget through the Medium-Term Budget Policy Statement (MTBPS). It noted that the actual budget, due in February 2022, could diverge from these plans if revenue again came in higher than forecast. In addition, in November 2021 the Reserve Bank raised interest rates for the first time since the pandemic began. Table 4 shows the main measures involved in the new fiscal strategy.

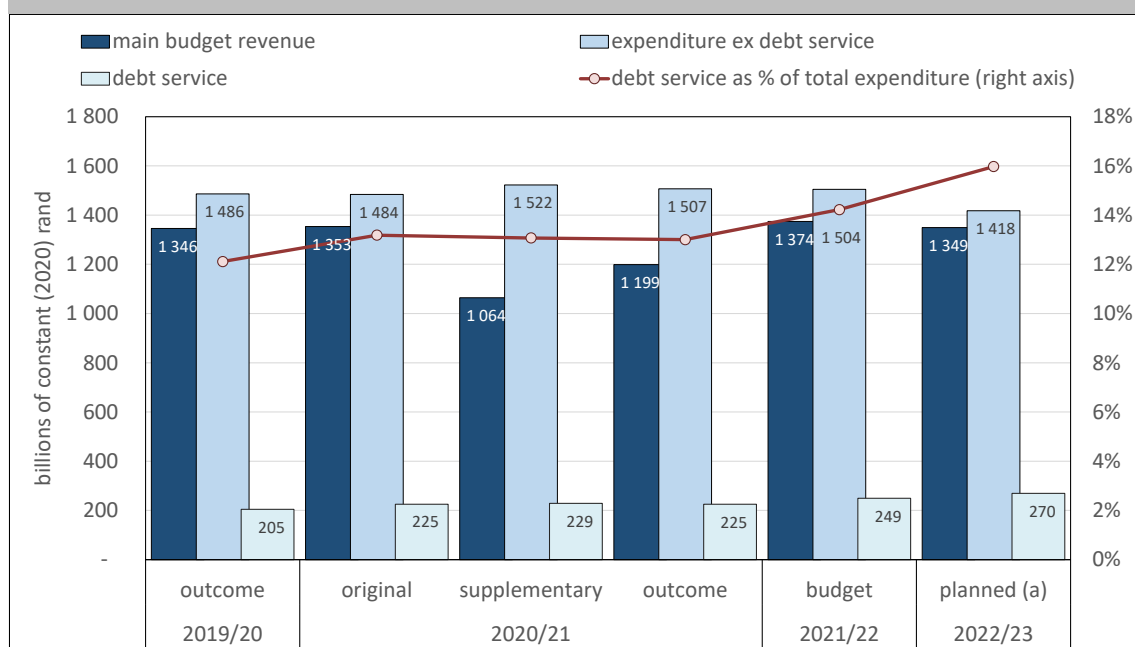
Table 4. Fiscal plans for 2022/23 (announced November 2021)

Fiscal and monetary	Relief and economic recovery
Reduce total state expenditure by 4 per cent in real terms (R140 bn) in 2022/23, almost entirely through cuts to remuneration and social grants and ending UIF TERS, although final decisions would depend on revenue	Termination of COVID-19 special grants, reducing spending on social grants by 23 per cent, unless revenues improved unexpectedly
	Maintain new public employment scheme while cutting the real budget for all public employment programmes by R1 bn in real terms
SARB guideline interest rate (the repo rate) increased 0,25 per cent in November 2021	Increase government capital expenditure by 12 per cent over pre-pandemic levels
	Cut spending on trade and industry and agricultural and rural development by over 10 per cent compared to pre-pandemic levels

Source: See Annexure 1.

Graph 17 shows the downward trend in spending in constant rand resulting from the plans announced in 2021. The South African population is growing at almost 1,5 per cent annually, so spending would fall even more sharply in per-capita terms.

Graph 17. Planned main budget revenue, expenditure and debt service in constant (2020) rand (a), and debt service as a percentage of total expenditure, 2019/20 to 2022/23

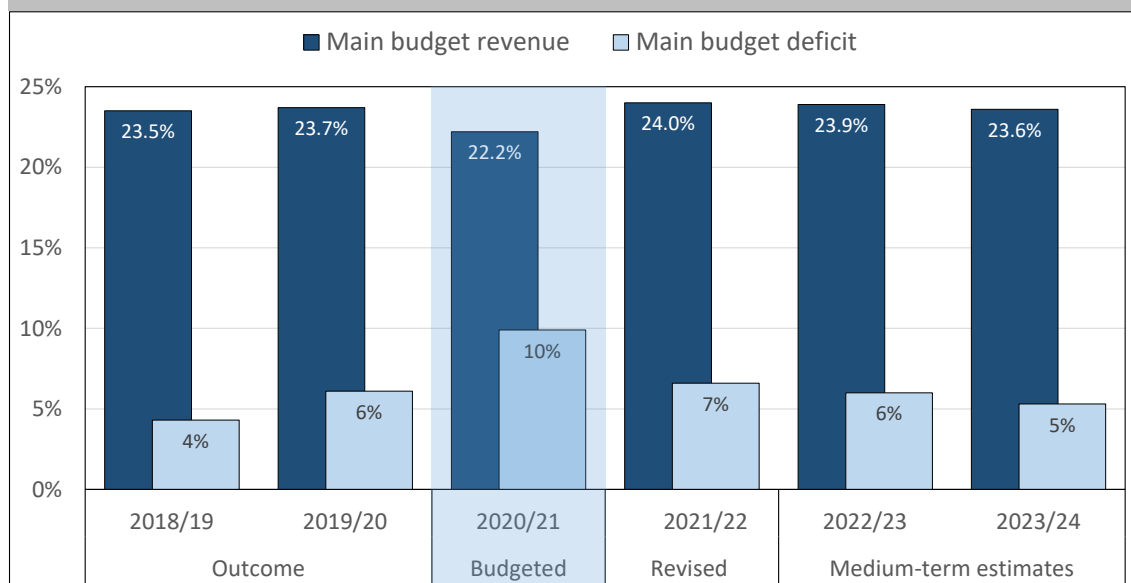


Source: Calculated from Treasury. Budget Review 2021 and Medium Term Budget Policy Statement 2021. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2021.

Note: (a) Deflated with CPI as estimated in budget documentation

The cuts to spending aimed to reduce debt-service payments over time by cutting the budget deficit without raising taxes. Plans for 2022/23 aimed to keep taxes at around 24 per cent of the GDP. (See Graph 18.) In the absence of strong measures to promote a more equitable economy, however, social and economic stability and security depended on extensive redistribution. That in turn was premised on adequate and progressive taxation.

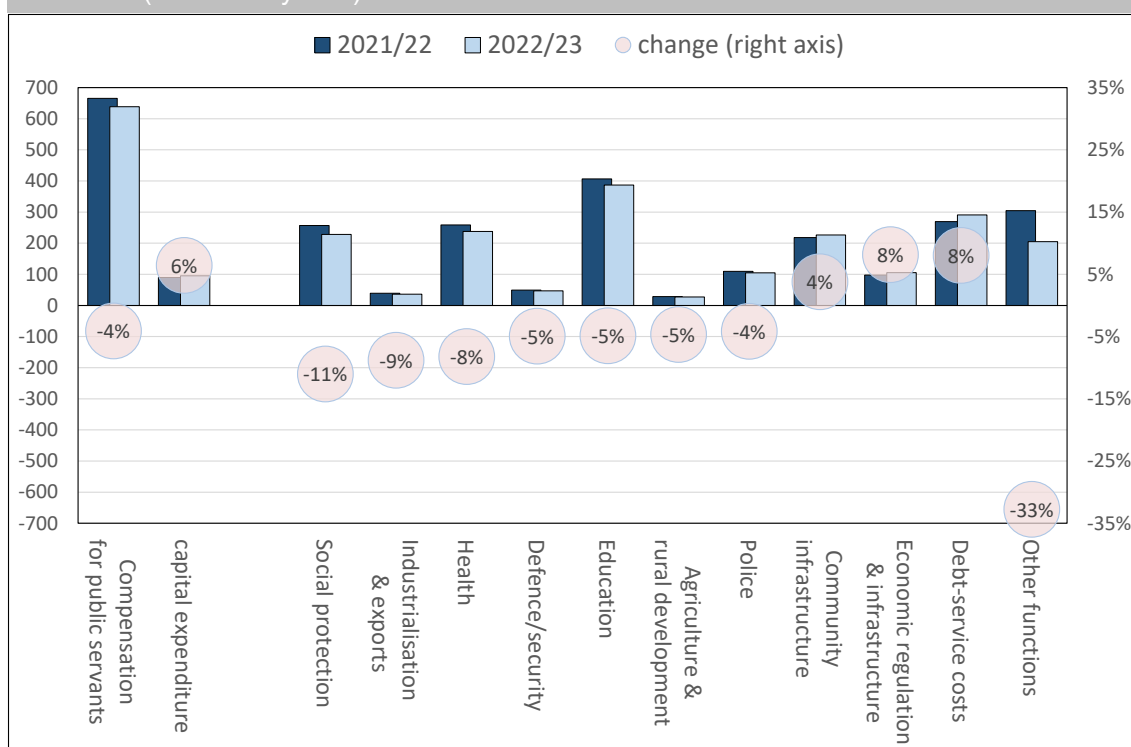
Graph 18. Tax revenue and budget deficit as percentage of the GDP



Source: Calculated from Treasury. Medium Term Budget Statement 2021. Table 3.7. Data in excel spreadsheet for Chapter 3. Accessed at www.treasury.gov.za in November 2021.

As in 2021/22, the tight spending envelop for 2022/23 depended on cuts to social grants plus a wage freeze for public servants. It entailed elimination of the COVID-19 Special Grant, leading to a 23 per cent reduction in social grants in constant terms. This measure contributed two thirds of the anticipated reduction in government expenditure. The proposed wage freeze would reduce public servants' pay by 4 per cent on average. In theory, that would permit a 5 per cent cut in the budget for basic education, 8 per cent for health and 7 per cent for police without a similarly draconian cut in services. (See Graph 19.) In practice, as in 2021/22, it remained unclear if the state could actually enforce the proposed cuts given the realities of South Africa's democratic order.

Graph 19. Spending plans by function in the 2021 MTBPS in constant rand terms (deflated by CPI)



Source: Source: Calculated from Treasury. Budget Review 2021 and Medium Term Budget Statement 2021. Data in excel spreadsheets. Accessed at www.treasury.gov.za in November 2021.

The 2022/23 budget plan foresaw more targeted cuts for trade and industrial policy as well as for agriculture and land reform, as Graph 19 shows. The Medium Term Budget Policy Statement does not publish estimates for departmental votes, but the projections by function foresaw a 9 per cent cut in real terms to expenditure on industrialization and exports, and 5 per cent for agriculture and rural development. The decline in spending on industrial policy would obviously limit its ability to promote economic reconstruction as the country recovered from the pandemic.

3.2 Re-imagining industrial policy

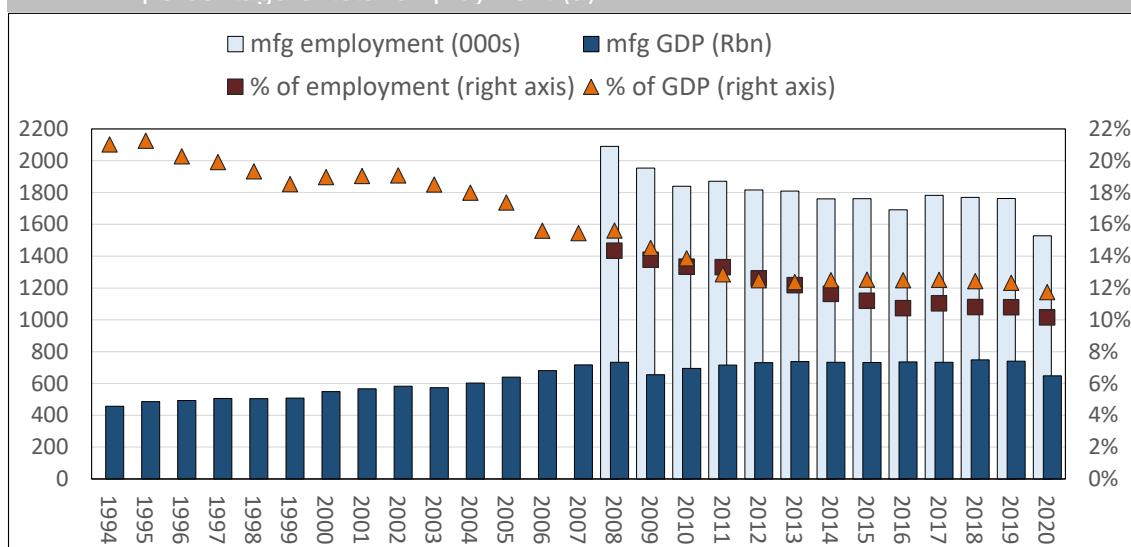
In 2019, before the pandemic, the South African government committed to a re-imagined industrial policy. This approach, which centred on the development of new industry-level “master plans,” shaped the formal industrial-policy response to the COVID-19 crisis. As a result, the government agreed on master plans for auto and poultry production before 2020, and for the clothing and forestry value chains, sugar and furniture in 2020 and 2021. The plans adopted during the pandemic differed little from their predecessors, mostly through a stronger emphasis on local procurement. They seemed unlikely to bring about a substantial acceleration in either industrialization or job creation.

This section first reviews the background to the master plans initiative. It then outlines their main components in more detail.

3.2.1 Background to the master plans

The 2019 commitment to re-imagining industrial policy resulted from growing dissatisfaction with the modest impact of the existing industrial policy combined with a change in the administration (although not the ruling party, which remained the ANC). The dtic argued that the existing industrial policy initiatives had not halted a long-standing decline in the share of manufacturing in the GDP and employment, while exports remained dominated by mining. Graph 20 shows trends in manufacturing value added and employment. The sector saw a sharp drop in the 2008/9 global crisis, which mostly affected the metals industry, and very little growth thereafter. From the early 1990s to 2020, its share in the GDP fell from a fifth to just over a ninth.

Graph 20. Manufacturing GDP in billions of constant (2020) rand and as percentage of total GDP, and manufacturing employment in thousands and as percentage of total employment (a)



Source: Calculated from Statistics South Africa. GDP. Excel spreadsheet. P0441. And Statistics South Africa. QLFS Trends 2008-2021Q3. Excel spreadsheet. Downloaded in December 2021.

Note: (a) Comparable data for employment are not available before 2008.

The new approach promised to “re-imagine” industrial policy. It explicitly sought to replicate the perceived success of support for the auto industry, which adopted a master plan in 2019. The auto industry enjoyed unique preconditions, however, which had evolved over decades. From the 1950s, it had enjoyed substantial government support geared largely to promoting local suppliers for foreign brands that assembled cars in South Africa. Support took the form of rebates on imports in exchange for the use of domestic inputs, combined with heavy investments in port facilities tailored to the industry’s specialized carriers. On that basis, auto

producers adapted successfully to the opening of the economy that accompanied the transition to democracy by becoming a small but world-class export-oriented assembly industry.

The introduction of master plans aimed to address three shortcomings in earlier industrial-policy initiatives. To start with, structural obstacles to economic growth often persisted for long periods because state agencies did not coordinate to change them. In addition, industrial policies did not secure support or insights from stakeholders – “investors, managers and unions.” (dtic 2019:16) Finally, industrial policy proposals were diffused across a multiplicity of industries, with only small-scale practical back up outside of auto.

The master plans were initially supposed to improve on earlier industry policies by scaling up support for high-priority industries; ensuring predictable, responsive and evidence-based strategies; and promoting closer engagement especially with business, while setting clear targets in return for state support. Critically, they were expected to focus on structural obstacles to growth, such as inadequate infrastructure or high input prices, through more coordinated action across the state. (dtic 2019:18 ff) In South Africa, many of these issues fall under government departments, regulators or state-owned companies that do not prioritize industrialization or even economic growth.

Despite the initial emphasis on prioritization, the initial proposal for Master Plans included most economic activities outside of services, as shown in Table 5. (Dtic 2019:23) The government allocated the development and implementation of non-manufacturing Master Plans to a variety of departments with little experience or knowledge of industrial policy; no clear guidelines on outcomes, outputs or methodology; and no consistent quality controls.

Table 5. Sectors prioritised for Master Plans in 2019

Sector 1: Industrial Sector – automotive; clothing, textile, footwear and leather (CTFL); gas, chemicals and plastics; renewables/green economy; steel and metal fabrication
Sector 2: Agriculture and agro-processing
Sector 3: Mining: minerals and beneficiation
Sector 4: Tourism
Sector 5: High tech/knowledge based - digital economy; ICT and software production; digital economy; health economy; defence economy
Sector 6: Creative sector
Sector 7: Oceans economy

Source: The dtic. Re-Imagining our Industrial Strategy to Boost Inclusion & Private Investment. Presentation to Cabinet Lekgotla. 12-14 June 2019. Page 23. Accessed at <http://www.thedtic.gov.za/wp-content/uploads/Re-imagining-Industrial-Strategy-FINAL-13-June-2019.pdf> in November 2021.

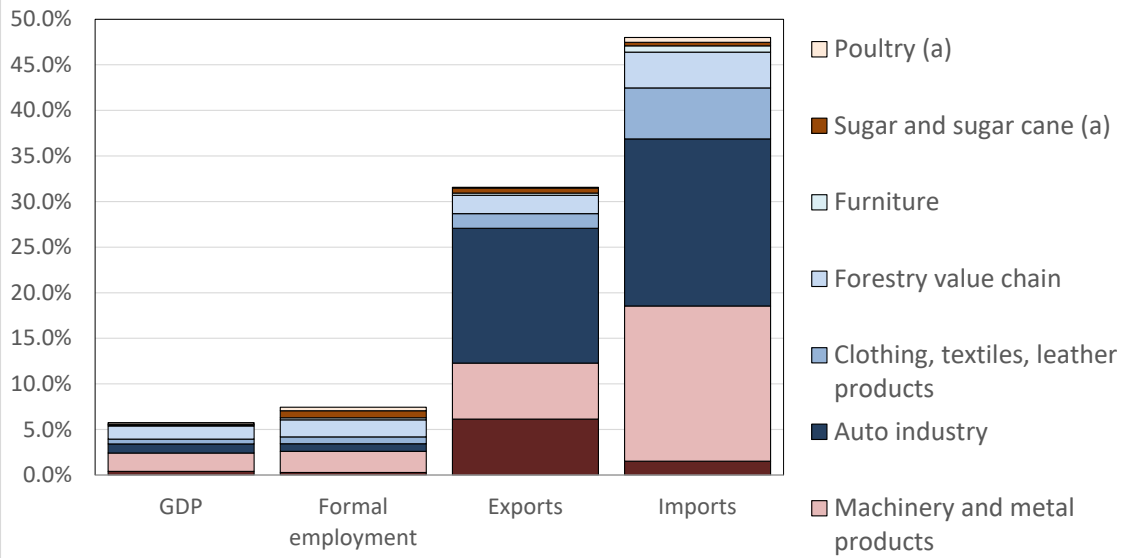
The COVID-19 economic crisis provided a stress test for the Master Plan concept. The plans were expected to generate effective state systems that responded to the needs of businesses while ensuring they met national objectives. Those aims prioritized diversity in employment and ownership, job creation, and industrial deepening. In the event, analysis of the master plans published both before and after the start of the pandemic suggests that they did not meet these expectations. Instead, they ended up supporting dominant companies in difficulties, without addressing either the immediate impacts of the COVID-19 crisis or the broader structural changes required to bring about inclusive industrialization in South Africa.

3.2.2 Master plans in practice, 2018 to 2021

Only the dtic had published any master plans by late 2021, with none from the other departments that had assumed responsibility for industries. These departments ranged from Science and Innovation to Mineral Resources and Agriculture to Arts and Culture. Except for the initial auto master plan, the dtic documents took the form of a formal signed agreement between the main stakeholders, typically the Minister of Trade and Industry plus leading industry-level business and labour organizations.

The industries covered by the dtic's seven master plans accounted for 6 per cent of the GDP and 7,5 per cent of employment in 2019. Because trade data systematically undercount services, their share in imports and exports was substantially higher, at 48 per cent of imports and 32 per cent of exports. As Graph 21 shows, the auto, steel, clothing and forestry value chains were far larger than poultry, sugar or furniture. Taken together, sugar, poultry and furniture contributed just 1,5 per cent of the GDP and 1,4 per cent of formal employment.

Graph 21. Share of industries with published Master Plans (as of 2021) in national GDP, formal employment and trade, 2019 (a)



Source: Except for sugar and poultry, calculated from Quantec. EasyData. Interactive dataset. Accessed at www.quantec.co.za in November 2021. Sugar and poultry figures estimated from reports on employment and sales by business associations and from DALRRD. Abstract of Agricultural Statistics. 2019. Accessed through Quantec. EasyData. Interactive dataset. Accessed at www.quantec.co.za in November 2021.

Note: (a) GDP data for sugar and poultry are estimates based on reported revenue and production structure.

While the sectors covered by Master Plans were small relative to the economy as a whole, they accounted for almost a third of manufacturing GDP and over half of formal employment, exports and imports in manufacturing. (See Graph 22.) Again, sugar refining and furniture contributed relatively little. Poultry falls under agriculture, so it is not included in the graph below.

Graph 22. Share of industries with published Master Plans (as of 2021) in GDP, formal employment and trade in manufacturing, 2019



Source: Except for sugar, calculated from Quantec. EasyData. Interactive dataset. Accessed at www.quantec.co.za in November 2021. Sugar figures estimated from reports on employment and sales by business associations and from DALRRD. Abstract of Agricultural Statistics. 2019. Accessed through Quantec. EasyData. Interactive dataset. Accessed at www.quantec.co.za in November 2021.

Note: (a) GDP data for sugar is an estimate based on reported revenue and production structure.

Of the four master plans released after the pandemic started, none explicitly identified the challenges to the industry arising out of the pandemic, or discussed in any detail how policy choices changed to address the resulting profound shifts in the national and global economies. Table 6 shows the main success indicators in the published master plans with the exception of forestry (essentially the wood and paper value chain), which only targeted timeframes for the development of policies in specified areas. The rest of this section summarizes the logic and the main initiatives in each of the published master plans.

Table 6. Success indicators in master plans published by the dtic

	Production/ exports	Employment	Localisation	Other
Auto – targets for 2035 from 2015 baseline	1 per cent of global production (from 0,68 per cent in 2015)	Double jobs in value chain to 224 000	60 per cent local content from 39 per cent in 2015	Globally competitive and deepened value addition 25 per cent black ownership in Tier 2 suppliers; improved employment equity
Poultry	Increase production by 9 per cent over three years 7-10 per cent exported by 2028; more cooked products SAPA members to invest R1,5 bn, with 80 per cent in first year	3600 new jobs in dominant producers, plus 1000 in new contract farms and 300 in feed production	Reduce share of imports	Negotiate prices of feed while increasing consumption by 300 000 tonnes Increase chicken consumption (no target) Increase black ownership and ESOPs (no target); set up 50 new contract farmers (from 70 existing) and ensure adequately compensated
Steel and metal fabrication (no quantified targets)	Accelerate diversification into products required for auto, mining and yellow equipment production	Reduce unit labour costs	NEDLAC localisation agreement includes steel products Designation of steel products for local procurement by state	Green steel by 2050 Increase black ownership based on return to growth along VC
Clothing value chain – targets for 2030	GVA up from R16 billion to R32 billion; sales from R165 billion to R250 billion 18 per cent increase in output per employee	330 000 in industry (increase of 120 000) 160 000 in supplier industries (increase of 70 000)	Local retail sales at R250 bn (66 per cent up from 44 per cent in 2016) Local procurement by state at R69 bn (R31 bn in 2016) Imports fall 4 per cent Eliminate import fraud	Increasing black and women participation as owners, including SMMEs and worker ownership, and managers Improve financial returns across the value chain Eliminate illegal production activities
Sugar – targets for 2030	Industry to meet local demand without undue price hikes Sugar industry to finance support programmes for smallholders; government to explore additional funding	Protect jobs as far as possible and assist workers to transition out where necessary (including re-skilling; government to provide access to land)	Local production to comprise at least 80 per cent of sugar sold by retailers or used in processing, rising to 95 per cent in 2023 (increase by 150 000 to 300 000 tonnes) Explore designation for local procurement Review tariffs on deep-sea imports	Sugar prices to rise in line with inflation for next three years, and thereafter to be delinked from import price Develop a roadmap for transformation including support for small growers

	Production/ exports	Employment	Localisation	Other
Forestry (essentially wood value chain) – targets for 2025	R25 bn invest- ments (of which R8 bn already invested during engagement); could increase to R39 bn if inhib- itors addressed	100 000 new jobs, of which 60 000 due afforestation Up to 20 000 jobs through public employ-ment schemes	Afforestation of 200 000 ha if financing of R2 bn made available	50 per cent of forests to be black owned (in line with existing Charter)

Source: The dtic. Geared for Growth: South Africa’s Automotive Industry Master Plan to 2035. 2018; The South African Poultry Sector Master Plan. 2019; South African Sugar Value Chain Master Plan 2030. 2020; South African R-CTFL Value Chain Master Plan to 2030. 2020; Masterplan for the South African Furniture Industry. 2021; The South African Steel and Metal Fabrication Master Plan 1.0. 2021.

3.2.2.1 Auto (2018)

The dtic and industry partners, mostly international auto companies and their larger local suppliers, developed the auto industry master plan two years before the pandemic. The process set core indicators for progress in terms of overarching economic goals and identified areas for reform in the existing support system. It explicitly excluded practical implementation measures. The targets essentially aimed to double production, employment and the share of local inputs by 2035, while increasing representivity in both ownership of suppliers and skilled work. Achieving these aims required expanding the share of South African producers in domestic and regional car sales, support for local input manufacturers, and keeping up with global standards, notably the introduction of electric vehicles and cleaner fuel.

The auto master plan’s analysis suggested that the core problem with the industry was its relatively small size, producing around half a million vehicles a year, and its dependence on imports for virtually all technologically advanced inputs. These shortcomings made it vulnerable to international competition despite substantial growth and investment since the 1990s. The master plan pointed to the dominance of imports on the local market as a key factor stunting production. It did not, however, suggest a change in the main form of support for auto producers, which effectively reduced taxes on imports in exchange for exports that met local content requirements.

Industry stakeholders drew up the auto master plan before the COVID-19 crisis, and they explicitly avoided specifying policy reforms. The plan grew out of a system of long-standing, detailed engagements and agreements between government and business in the sector. These factors make it difficult to analyze its likely effectiveness as a separate document. That said, the failure to propose a solution to the inherent contradictions around the rebate system meant that it seemed unlikely to bring about a qualitative shift in the industry.

3.2.2.2 Poultry (2019)

In contrast to the auto industry, the poultry master plan arose because a dominant company was in distress, largely due to a leveraged takeover that burdened its balance sheet. The company lobbied the state for higher tariffs on imported poultry, obtaining support from the other two large industrial producers and the main union in the industry. It contended that absent state support, it would shut down several farms, shedding 3000 jobs.

By volume, imports of poultry increased from a tenth of local consumption in the early 2000s to almost a third between 2016 and 2018, while local production remained essentially flat. In the process, South Africa became the sixth largest importer of poultry in the world, up from 16th in the early 2000s.

In response to these trends, the government rapidly increased tariffs on chicken. By 2020, the tariff on imported individually quick-frozen (IQF) pieces – a staple for low-income households - had climbed to 62 per cent, although lower rates prevailed under trade agreements with the E.U. and the U.S. In the master plan, the government effectively agreed to further stiffen tariffs if the dominant producers would accelerate investment, production and exports and increase opportunities for black entrepreneurs – mostly in large, modern contract farms to supply the dominant firms – and for worker ownership. The master plan also targeted a review of feed prices, the main cost driver for poultry.

In contrast to auto, the poultry master plan, like the others that followed it through 2021, included policy commitments. For poultry, the most important were the following.

- Measures to restrict imports, including the use of tariffs, enforcement of quality standards, work with retailers to include more local producers in their supply chains, and government designation of poultry for local procurement by all state agencies, while producers promised to restrain price increases.
 - Research into cost drivers, although in contrast to the targets (see Table 6 above) the proposal did not highlight feed (effectively soya and maize).
 - A 40 per cent increase in the number of farms contracted to the dominant firms, combined with stronger company efforts to improve their scores on the state's black economic empowerment scorecard and to promote employee share-ownership programmes.
 - A rather vague promise by the government that provincial agricultural departments would do more to support independent smallholders.
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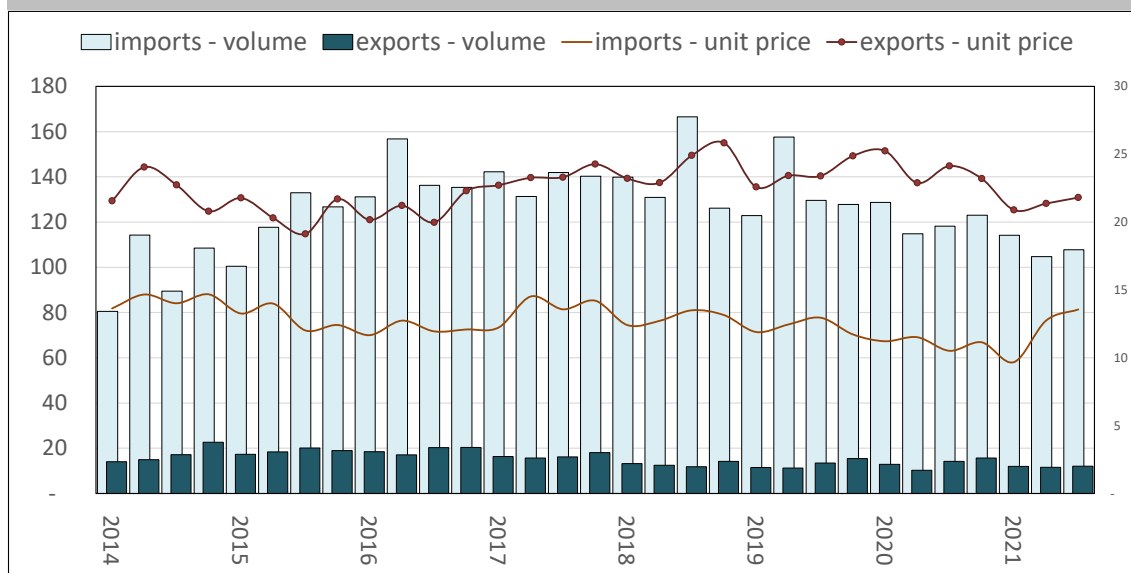
- Improvements in phytosanitary systems in order to access export markets, especially in the E.U., as well as the development of facilities to produce export-quality cooked and halaal products.

As published, the poultry master plan did not include specific proposals on upgrading production technologies, although it did support a move toward higher-value prepared chicken products for export.

The master plan set up a system of stakeholder governance that the plans for other industries largely replicated. The apex was a new Poultry Sector Master Plan Council, with the Ministers of Trade and Industry and of Agriculture, high-level representatives from business and labour, and relevant government agencies, such as the Revenue Services (which is responsible for customs). The dtic provided the secretariat for the council.

As of late 2021, the industry said it had met its targets for production and investment. The disruption of supply chains and the depreciation of the rand during the pandemic, which effectively constrained imports, facilitated this task. In constant rand, the unit price of poultry imports climbed almost 20 per cent during the pandemic, while the volume of imports dropped 6 per cent. In contrast, poultry exports rose over 15 per cent, and the unit price fell 5 per cent. That said, South Africa generally imported very cheap poultry pieces and by-products and exported higher-quality products, albeit on a much smaller scale than imports. (Graph 23).

Graph 23. Poultry imports and exports in thousands of tons and unit prices in constant (2020) rand (a)



Source: Calculated from Quantec. EasyData. Interactive dataset. National trade series at HS 8 level. Accessed at www.quantec.co.za in November 2021.

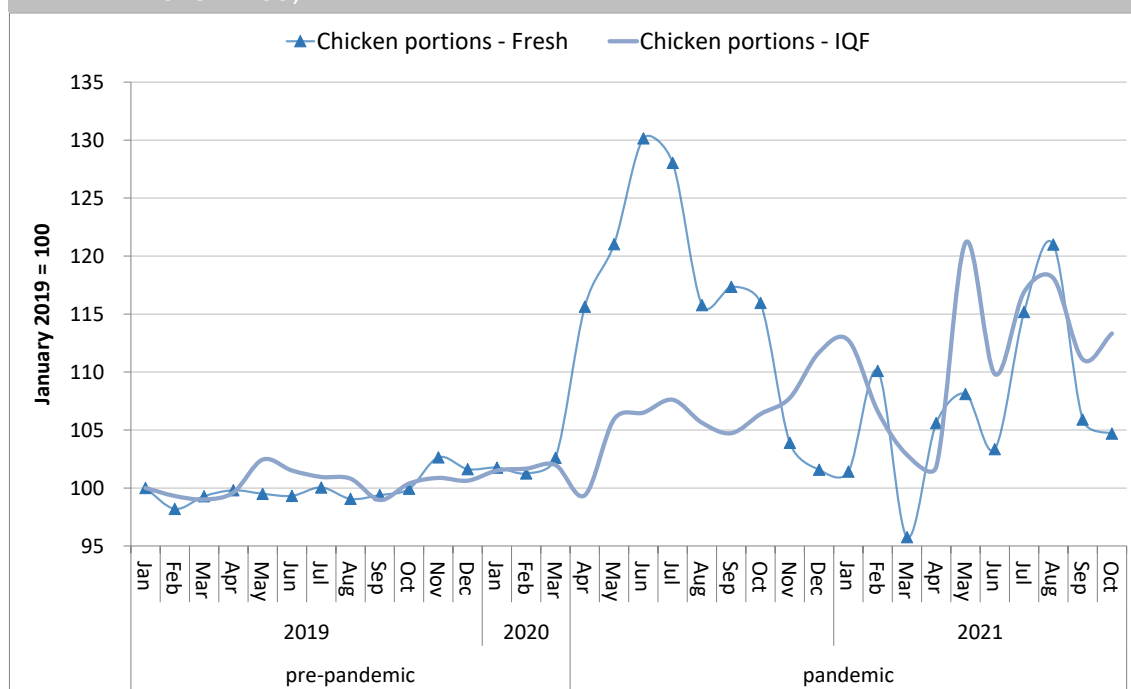
Note: (a) Deflated with CPI rebased to third quarter 2021.

In contrast to imports, poultry exports flattened out in 2021 after an initial recovery from the downturn in the second quarter of 2020. The decline was presumably due in part to disrupted

global supply chains in the pandemic. It also reflected the failure of the agricultural authorities and dominant businesses to meet the E.U.'s requirements around phytosanitary systems for exports. Companies had, however, already made substantial investments in processing chicken for export to the E.U. This situation underscored the continued difficulty of ensuring support for industrial-policy initiatives from government agencies outside of the dtic.

From the standpoint of reconstruction, an even bigger problem emerged around chicken prices. The emphasis on price moderation in the master plan aimed to manage the risk of imposing high tariffs on a staple food. Chicken was the most important source of protein for lower-income households. As Graph 24 shows, however, despite the commitments in the master plan its retail price climbed sharply during the COVID-19 pandemic. From April 2020 through October 2021, the price of chicken in constant rand was, on average, 10 per cent higher than before the pandemic. The price of fresh chicken parts, which were virtually entirely produced locally, rose somewhat more than the price of individually quick frozen parts, which were much more likely to be imported. It is not clear whether the benefits of the higher prices went to retailers or to producers.

Graph 24. Price indices for the real price of fresh and individually quick frozen (IQF) chicken parts in constant rand (a), January 2019 to October 2021 (January 2019 = 100)



Source: Calculated from Statistics South Africa. Food prices. Accessed via SAGIS at https://www.sagis.org.za/food_stats_per_cent_20sa.html in November 2021.

Note: (a) Deflated by CPI.

The improvement in production and investment in the poultry industry after 2019 likely resulted more from the pandemic disruption of imports than from the specifics of the master plan. The failure to improve phytosanitary systems for exports proved a point of contention. More fundamentally, as reflected in the plan's modest targets for employment creation and new

farms, the sector was simply too small to leverage a substantial shift toward industrialization. Ultimately, the master plan functioned mostly to justify continued protection from foreign competition for the dominant local producers, without adequate mechanisms in place to avoid surging local prices during the pandemic. Yet chicken was critical for low-income households, who faced particularly harsh economic challenges in the pandemic.

3.2.2.3 Steel and metal fabrication (2020)

As in poultry, the steel and metal fabrication plan arose largely in response to a crisis at a dominant firm. South Africa's largest steel producer, Arcelor Mittal South Africa (AMSA), threatened to close down in the face of higher local iron ore prices and soaring imports of steel from China. In this context, the master plan promised to deliver policy certainty as the basis for enhanced investment in the longer run. Although it was finalized after the pandemic started, it did not specify either the impacts of the downturn on the industry or ways to deal with changed national and international circumstances. Major developments included disruptions to both imports and exports and the escalation in international iron ore prices until the third quarter of 2021.

The steel master plan proposed governance structures funded by a Steel Competitiveness Fund with a 0,1 per cent levy on primary steel. The new body would have the capacity to propose and monitor import restrictions. It would also promote exports especially in Africa, support R&D and skills development, and improve data on the value chain.

The plan emphasized the use of locally produced steel and steel products. It argued that if local producers replaced 200 000 tons of steel with local goods, their turnover would increase by R7 billion, although that would create only 800 jobs. The master plan aimed to promote the local use of steel through a combination of tariffs; the designation of steel products for local procurement by state agencies, especially for infrastructure; agreements with the national rail company, Transnet; and an agreement at NEDLAC for both the public and private sector to buy local that included for range of steel consumer goods such as roof sheets and exercise weights. In addition, the state would do more to limit substandard imports, consider a border adjustment tax to offset the impact of South Africa's carbon tax on the steel industry, and ensure that the implementation of black economic empowerment requirements did not lead to the displacement of local manufacturers by importing agencies.

For its part, the steel industry agreed to diversify its product line to meet the needs of the auto plants, mining and infrastructure. The master plan did not specify measures to achieve this commitment, however, or provide measurable targets.

The parties to the master plan also agreed on the need to address upstream prices. This element arose because of the sharp increase in iron ore prices for AMSA from the early 2000s as a result of a change in arrangements with South Africa's main iron ore producer. The master plan did not, however, single out iron ore prices. Its only practical measures to cut production costs were a higher tax on scrap exports, aimed at reducing the price for local users, and agreement that energy-intensive producers in the value chain should apply to Eskom for a reduction in electricity

prices. Given South Africa's shortage of electricity and need to move away from coal, it seemed counter-intuitive to subsidize electricity consumption in order to save the steel industry.

The master plan also agreed on the need for strategic bargaining to control labour costs. The incentive for workers appeared to lie in avoiding retrenchments and growing worker ownership. In 2019, the median wage for formal workers in heavy industry was around R6000 a month, about a third higher than other formal workers. (Calculated from StatsSA 2019b) Remuneration accounted for 59 per cent of value added in metals production and fabrication, compared to 55 per cent for the economy as a whole and 59 per cent for manufacturing. (Calculated from Quantec 2021).

Generally, the master plan for the steel value chain focused on bolstering local demand rather than upgrading technologies or reducing costs. It blamed low demand primarily on slow growth in the economy as a whole, combined with an international steel glut in the early 2020s and rising electricity costs. The master plan's main practical strategy reflected this logic, with an emphasis on limiting imports and getting concessions from Eskom rather than industrial upgrading.

This approach incorporated two significant contradictions.

First, the master plan did not interrogate the very different impacts of limiting imports of basic steel products instead of final consumer and capital goods. Imposing tariffs on basic steel inevitably came at the cost of downstream manufacturers. Yet steel products and machinery accounted for 90 per cent of employment in the value chain, or 270 000 jobs, in 2019. (Calculated from Quantec 2021) They produced some fairly sophisticated products, including capital goods for mining and construction that competed successfully nationally and regionally, and in some cases overseas. The contradictions in the value chain came to a head during final negotiations on the master plan. Several downstream manufacturers argued against the tariff on hot rolled coil, which topped out at 18 per cent. Faced with these concerns, the government finally removed the tariff in August 2021. This situation underscored the risks of basing industrial policy decisions on engagements with dominant companies unless the state starts with a well-defined position that enables it to evaluate proposals against national objectives.

Second, the master plan did not address the shift in iron ore rents from AMSA to the mines in the early 2000s. That was when the main iron ore supplier (Kumba, a subsidiary of the mining conglomerate Anglo American) began to benchmark its charges to AMSA against international prices rather than the cost of production. In the process, it effectively captured the rents from South Africa's small but high quality iron ore mines that had historically supported local steel production. Since Kumba exported around 90 per cent of its output, the increase in the domestic price did not seem necessary for its survival. It squeezed AMSA, however, which in turn tried to squeeze the metals manufacturing industry.

3.2.2.4 Retail, clothing, textiles, footwear and leather (2020)

The master plan for the clothing industry argued that reducing imports was a prerequisite for increased investment in the value chain. That in turn would lay the basis for a more competitive and sustainable, albeit still small, industry. The central mechanisms to achieve this aim were to get retailers to agree to support local suppliers and a customs crack down on illegal imports. Both of these measures were long-standing demands from local producers and unions. The master plan included retail in its name (shortened as R-CTFL) explicitly because of the importance of local sales for the clothing industry.

The master plan included the following core strategies.

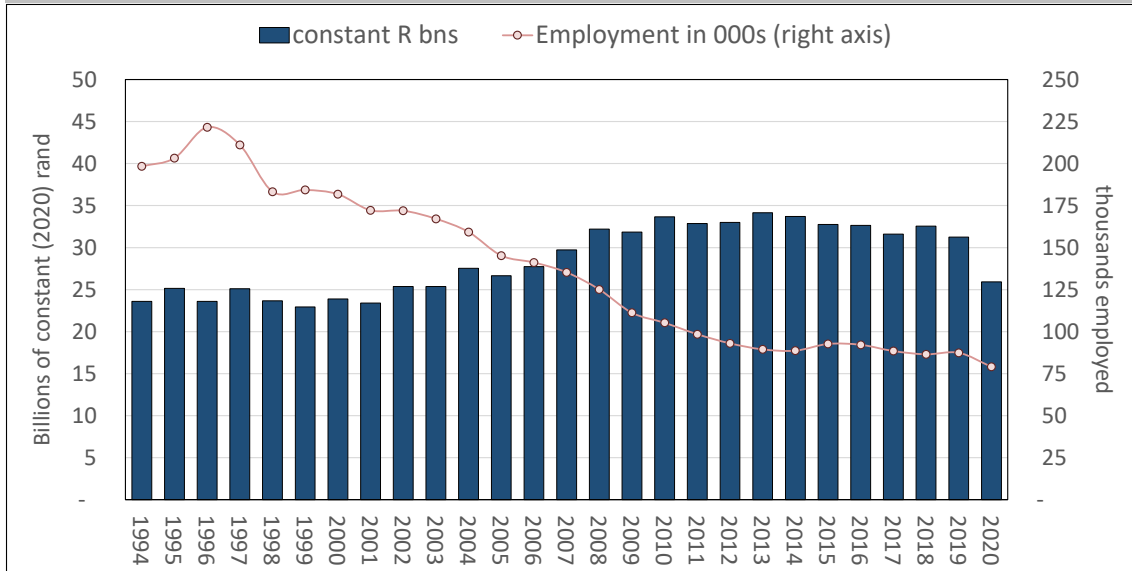
- First and foremost, retailers committed to targets for higher local procurement based on stronger relationships with suppliers, backed by marketing for local products, a clear definition of what constituted a local manufacture, and research into opportunities for local production. In return, suppliers would upgrade their design capabilities to meet retail requirements, and workers agreed to greater flexibility.
- Government would contribute to reducing imports by designating relevant products for local procurement by state agencies, providing incentives and finance for suppliers to upgrade (around R1,3 billion over two years), imposing import tariffs where appropriate, and supporting skills development for the industry.
- Both the public and private stakeholders in the industry would support customs enforcement measures, including expanding the authorities' resources and expertise. At the same time, the state would consider broadening rebate opportunities where it would promote downstream production, presumably mostly on textiles.
- The parties also committed to setting targets for black economic empowerment across the value chain.

As in the poultry task team, the master plan established a high-level council to oversee implementation. Again, the secretariat was located in the dtic. The council supervised seven new task teams to develop and implement specific measures. Of these, three worked on ways to restrict imports; three on supply-side measures (incentives, skills and identification of potential niche products); and one on export promotion. The master plan did not specify what would happen if retailers did not meet their targets for local procurement, or if suppliers could not satisfy retailer needs. Experience suggests seven taskteams would overstretch the capacity of all the parties to participate meaningfully.

The master plan was the latest in a series of government efforts to reverse a long-run decline in clothing employment (Graph 25). The downturn started with the opening of the economy from the transition to democracy. According to Quantec estimates, although production climbed

during the broader growth spurt during the metal's price boom from the early 2000s to 2011, the industry shed jobs steadily. As the economy slowed from the mid-2010s, the industry also stagnated, with an estimated 17 per cent decline in value added.

Graph 25. Formal employment and value added in billions of constant (2020) rand in clothing, textiles, footwear and leather, 1994 to 2020 (a)



Source: Calculated from Quantec. EasyData. Standard industry series. Accessed at www.quantec.co.za in November 2021.

Note: (a) Quantec estimates extrapolate industry-level data from the available official statistics. Figures for value added are reflatd using the implicit deflator rebased to 2020.

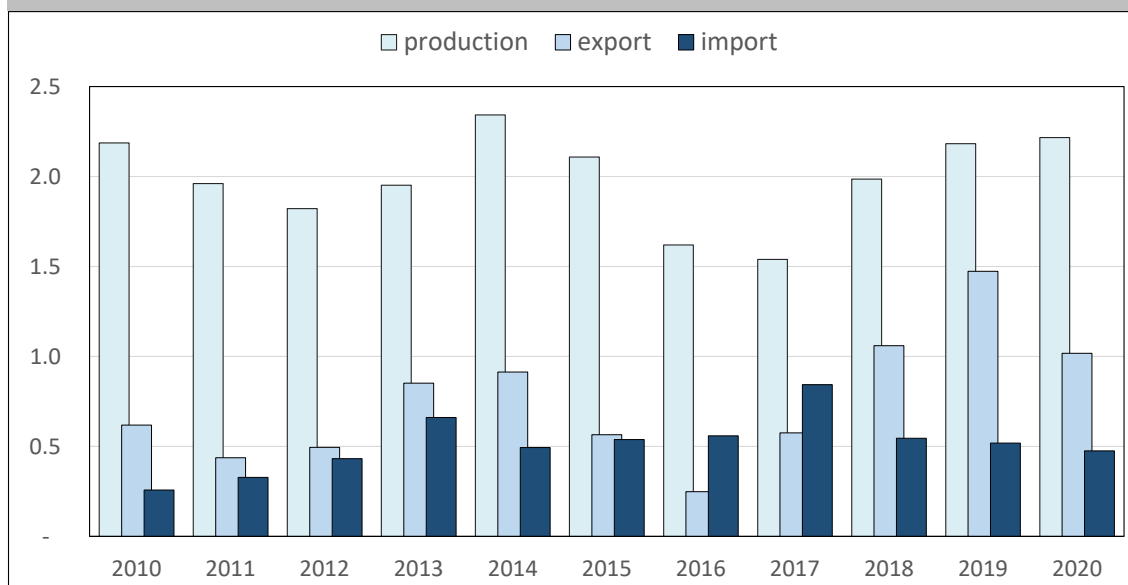
The master plan suggested that the core challenge was that the large retailers who dominated South African markets found it easier to import than to help upgrade local suppliers. Meanwhile, local producers – almost all relatively small manufacturing companies – often found it difficult to meet retailer requirements in terms of design, quality and fast delivery. Still, the industry retained considerable capacity, with some highly competitive sectors, particularly around protective clothing for mining and construction, local fashions, and soft furnishings. Several companies already had arrangements to supply specific local retail chains. The master plan effectively aimed to extend this kind of arrangement.

The proposals in the R-CTFL essentially aimed to sustain the existing industry, without expecting it to become a globally competitor. This raised fundamental questions about the ability of industrialization in South Africa to generate employment on a large scale.

3.2.2.5 Sugar (2020)

The sugar master plan argued that the South African industry faced a gradual decline through the 2010s. As Graph 26 shows, however, it actually saw rising production in the 2010s, with soaring exports in the second half of the decade and comparatively small and volatile imports.

Graph 26. Sugar production, exports and imports from 2010 to 2020



Source: Exports and imports from Quantec Easy Data. National trade series. Accessed at www.quantec.co.za in November 2021. Production from DALRRD. Abstract of Agricultural Statistics. 2020. Accessed via Quantec Easy Data at www.quantec.co.za in November 2021.

The master plan centred on increasing demand for local sugar. This strategy faced three obstacles. First, in the past decade, eSwatini supplied 60 per cent of sugar imports. Like South Africa, it belonged to the Southern African Customs Union, which prevented trade restrictions. Second, sugar producers already enjoyed a substantial tariff on overseas imports whenever world prices sank below a benchmark level. In the 2010s, the effective rate varied between 30 per cent and 90 per cent. Finally, the public health authorities explicitly sought to reduce sugar consumption because of its health impacts. In 2018, the government imposed a tax on beverages with more than four grams of sugar per 100 ml (that is, slightly less than two teaspoons a cup). The sugar and soft-drink industries vehemently opposed the tax, which ultimately led to a decline in sales of sugary drinks. (See Hofman 2021).

The main measures in the master plan were:

- Reducing imports through increased tariffs on overseas products, plus an agreement with eSwatini to build a partnership and prevent “destructive competitive dynamics” (dtic 2020a:20); retailers and downstream manufacturers to expand their use of South African sugar by around 7 per cent in the first year, and support a buy-local campaign; and government to designate sugar for local procurement by state agencies (finalized in mid-2020);
- Producers to hold price increases to inflation, rather than linking the price to international trends;

-
- The stakeholders to come up with proposals to mitigate the effects of a health tax on sugary beverages and support diversification away from sugar, amongst others into biofuels and petrochemicals; and
 - Stakeholders to increase support for small growers and black economic empowerment.

The master plan did not discuss the overall competitiveness of the South African sugar industry or ways to improve it. A critical challenge was that South Africa does not get a lot of rain compared to eSwatini and Malawi, or for that matter Brazil, and the climate emergency has already aggravated. Moreover, although the introduction to the master plan frames its core strategy as developing new, non-food processing opportunities, it did not propose any specific measures to achieve that objective.

The master plan expected producers to keep price increases at inflation. In the event, as COVID-19 disrupted imports and other food prices increased, the sugar price rose well above inflation. Between April 2020 and September 2021, it climbed some 6 per cent above the headline CPI.

As with poultry, the sugar master plan set up a complex governance structure headed by an oversight committee with executives from the dominant businesses and labour representatives, chaired by the Minister of Trade and Industry. The dtic provided the secretariat. Seven taskteams with stakeholder and government representative reported to the oversight committee, focusing on the Southern African Customs Union, jobs, small growers, black economic empowerment, crop diversification, processing diversification, and the sugar tax. It was not clear if the parties had capacity to contribute meaningfully to so many processes.

Overall, the sugar industry seemed an outlier as a target for state support for a variety of reasons. While it had considerable well-established capacity, it was tiny relative to the national economy, and did not feed into any particularly advanced industries or have the potential to generate large-scale exports. It had 19 000 licenced smallholders, but they contributed only 11 per cent of production. The rest was produced on commercial estates, which were around half white-owned. (dtic 2021a:4) Furthermore, expanding sugar production at the cost of eSwatini would inevitably set back regional development, which was critical for industrialization in the longer run. Sugar products comprised two thirds of eSwatini's total exports in the late 2010s. Finally, the public health authorities in South Africa were trying to reduce sugar consumption even as the dtic aimed to sustain local sugar production.

Given these factors, the sugar industry was not able to do much for structural transformation of the economy in terms of either industrialization or inclusion. Instead, it leveraged its modest support for smallholder farmers to bring political pressure to bear on the state for support – a strategy adopted with considerable success by sugar producers across southern Africa. (See Dubb *et al.* 2017).

3.2.2.6 Forestry (2020)

The forestry master plan aimed primarily to enlarge the supply of wood for downstream producers, especially paper and wood products (mostly for construction). The two dominant paper producers, in particular, had sought to expand local forestry for over a decade. (See Peter 2021:12).

This drive has long faced a number of obstacles. First, South Africa has substantial potential for fast-growing soft wood, but the regulatory framework discourages the transfer of rural land out of agriculture for any purpose. Second, eucalyptus and pine, the favoured trees for forestry, originated outside Africa and need a lot of scarce water. Third, the main areas where forestry can expand are in historic labour-sending regions in the Eastern Cape and KwaZulu Natal. The paper companies need to contract smallholders in these areas, which requires capacity to engage constructively with communities. Finally, 18 per cent of commercial forests are state owned, and many require substantial investment to regain their productivity.

In response to these conditions, the master plan built on long-standing proposals from the paper companies. They centred on expanding forestry outputs by recapitalizing the state forests and removing obstacles to smallholders. The master plan estimated it could unlock production on 200 000 hectares of land, with just over a third in existing state forests. The process would require R2 billion for community forestry in historic labour-sending regions, partially funded by the state through the Industrial Development Corporation. The main obstacles identified were long-drawn-out contestation over land ownership as a result of evictions before the democratic era; delays in environmental impact assessments and water licences for forestry; and regulations that limited eucalyptus planting. The master plan also included some comparatively minor proposals to improve productivity in saw milling.

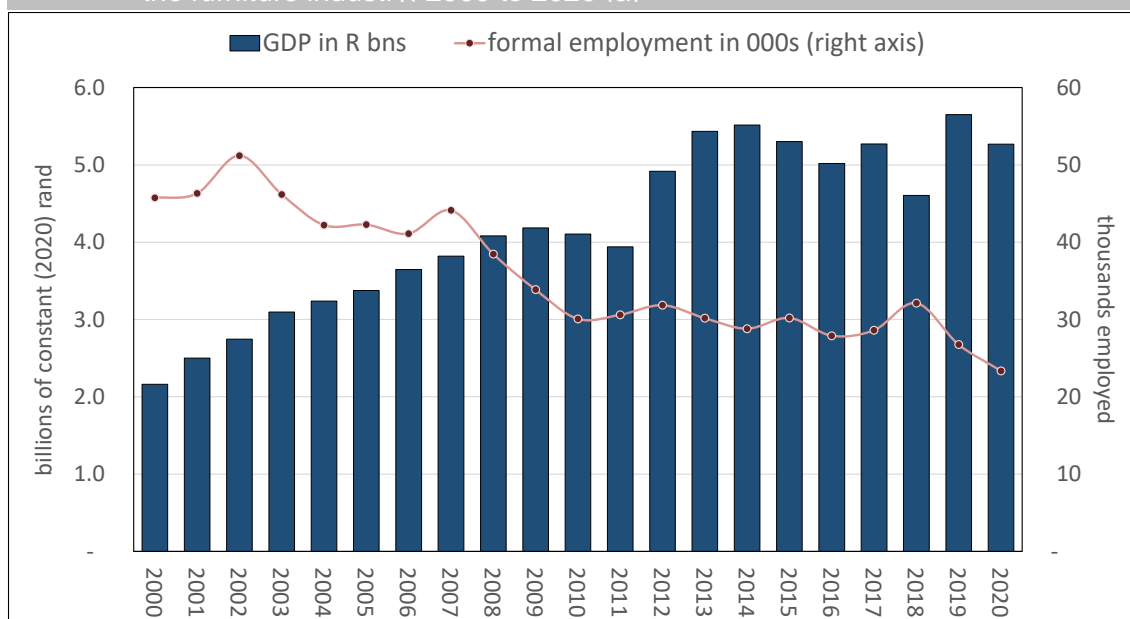
The master plan did not suggest any need to upgrade the downstream industries, which were dominated by paper, wood and chipboard producers. Although South Africa has a large paper industry, it mostly exports comparatively low value-added products, dominated by cardboard. The master plan also does not suggest any link to the furniture master plan.

The dtic published the master plan for the forestry value chain, but it lists the Department of Forestry, Fisheries and Environmental Affairs as the lead department.

3.2.2.7 Furniture (2021)

Like virtually all the industries with master plans except auto, furniture was facing hard times at the end of the 2010s. As Graph 27 shows, Quantec estimates found that production had essentially flattened out while employment faced a long-run decline. The industry was sufficiently small, however, that the data were somewhat unreliable.

Graph 27. Formal employment and value added in billions of constant (2020) rand in the furniture industry, 2000 to 2020 (a)



Source: Calculated from Quantec. EasyData. Standard industry series. Accessed at www.quantec.co.za in November 2021.

Note: (a) Quantec estimates extrapolate industry-level data from the available official statistics. Figures for value added are reflatd using the implicit deflator rebased to 2020.

In response, the main commitment in the master plan was that retailers and government would do more to buy local. The plan argued that stabilizing demand would be the first step toward industry recovery. Rather than specifying targets or measures, however, it established deadlines for the parties to develop various action plans, mostly by mid-2021. On the demand side, the proposed work covered local procurement by retailers; a review of government tender processes to support designation, with targeted measures to ensure local procurement of school and office furniture; an export drive into other African countries; and tighter restrictions on furniture imports, mostly by enforcing quality standards and stopping illegal imports. On the supply side, the parties were expected to finalize establishment of an industry-funded Furniture Industry Growth Fund to support smaller producers and designers by June 2021, seek a tariff rebate on upholstery fabric, engage around shortages of chipboard, timber and steel, and undertake an audit to identify skills needs.

The furniture master plan set up an Oversight Committee chaired by the Minister of Trade and Industry with chief executives of businesses and representatives of labour in the industry. The dtic was to act as secretariat. The workstreams for the action plans were reportedly not constituted as of late 2021, however.

In contrast to the other master plans published by the dtic, the furniture plan does little more than identify the main constraints on growth, with neither impact targets nor specific proposals (other than a rebate on upholstery imports and designation of furniture for local procurement

by state agencies). The agreement essentially commits industry stakeholders to developing specific proposals, but it is not clear if they would have the capacity for extensive engagements. Unlike the other industries, furniture production mostly involved relatively small companies, with no large champions. Most of the deadlines for producing action plans were not met. Reportedly, government was unable to finalize a designation for state agencies to prioritize local furniture for procurement.

3.2.3 Conclusions

The master plans published during the COVID-19 pandemic aimed principally to assist companies with longer-standing problems, rather than to address the challenges of the immediate downturn or reconstruction. This problem largely reflected the lack of clear objectives on the part of officials engaged in finalizing the master plans. That made it easy to agree to a master plan for any industry that was in distress, without exploring its role in economic reconstruction. Moreover, in every case, dominant businesses mostly blamed competition from imports for their difficulties, rather than identifying structural factors such as upstream prices and lagging technologies. In consequence, all of the master plans started by seeking to increase local procurement by local firms and state agencies, and most also aimed to raise tariffs and crack down on smuggling. For the medium term, they looked to higher exports, especially to Africa, and in some cases industrial upgrading and efforts to reduce electricity and the cost of intermediary inputs.

Over time, this approach could help maintain capacity and ultimately build a stronger manufacturing industry. But the focus on existing companies, many of them already dominant in their industries, meant the master plans were inherently not transformative. They did not have ambitions to qualitatively shift trends in the national production structure, inequality or growth. None of them included rigorous measures to reduce pricing systems in value chains that enabled upstream commodity producers rather than manufacturers to capture rents on the domestic market. The only nod to a more inclusive economy was the aim of expanding black management and ownership, including for employees, based on modest growth in existing businesses. None of the plans saw job creation on the scale required to address South Africa's unusually high levels of joblessness, which the pandemic vastly aggravated.

When it came to implementation, the master plans relied on a multiplicity of task teams combined with high-level oversight. This approach sought to mobilize stakeholder capacity, but unless carefully managed it risked overburdening them with process meetings. In some master plans, the proposed use of levies to support sector institutions could help mitigate this challenge.

A further risk arose out of the emphasis on explicit trade-offs, where business in particular promised some combination of increased production, investment, exports, black ownership and job creation in return for state support through import protection, regulatory reform and other measures. This strategy can lead to a blame game, where each side points to the others' failure to deliver, rather than collaboration to identify and address blockages or deal with new conditions as they arise. Moreover, if a party cannot deliver, the others may be unable to meet

their side of the bargain. This becomes an obstacle where the parties diverge in their urgency around specific measures or the representatives of the state or business cannot ensure cohesion amongst their members. In the past year, for instance, contestation arose round the development of phytosanitary issues to support exports; the designation of products for local procurement by state agencies; and fixing the national electricity supply.

Overall, the master plans fell far short of re-imagining South Africa's industrial policy to take on the economic crisis brought on by COVID-19. Instead, they functioned largely as rescue plans for dominant firms that were falling behind and lobbied successfully for government assistance. The reasons for this shortfall compared to their initial ambitions lie in the structure of the economy and how it shaped the demands on industrial policy.

3.3 Behind the policy imbalance

From the first democratic elections, the South African government explicitly committed to restructuring the economy to reduce inequality and mining dependency. Yet its recovery and reconstruction efforts centred on poverty relief and support for existing dominant firms, especially where they were in difficulties. While government programmes undoubtedly alleviated some of the worst impacts of the COVID-19 downturn, they were not designed to inaugurate any far-reaching developmental shifts in the economy.

Despite its name, the Recovery and Reconstruction Plan did not provide a consistent analysis of the mechanisms that perpetuated inequality and mining dependency or suggest ways to address them. Instead, it effectively adopted a trickle-down approach, suggesting that growth in the existing formal sector could generate sufficient opportunities for historically excluded businesses and groups. Moreover, like the master plans, it contained remarkably little in the way of a considered response to new conditions arising from the pandemic.

The limited ambitions of South Africa's recovery plans can be explained on different levels. The country faced unusually deep inequality combined with dependency on mining exports. Its distance from major markets and location in a comparatively low-income region added to the obstacles to export-oriented industrialization. In this context, standard approaches to industrial policy, which centre on upgrading manufacturing to access global markets, neither promoted a more equitable economy on a sufficient scale nor managed to step up industrialization. As a result, the industrial policy project failed to win broad support, which in turn made it harder to scale up and implement consistently. As the COVID-19 response showed, especially when commodity prices were high it proved easier and less risky for elected leaders to meet voters' needs through cash transfers and improved services instead of disrupting the economy.

This section first benchmarks inequality and mining dependency in South Africa against other upper middle-income economies. It then reviews the implications for industrial policy, which centre on the trade-offs between intensive and extensive growth, on the one hand, and between economic reconstruction and cash transfers to households, on the other.

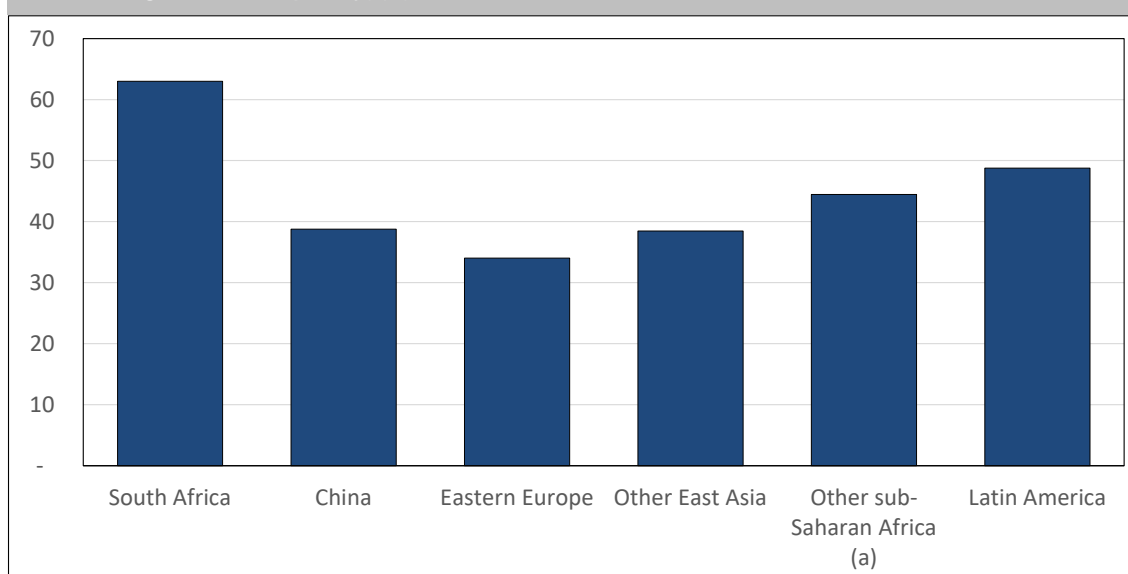
3.3.1 The structure and location of the South African economy

The South African economy was notable for high inequalities, dependence on exports from the mining value chain, and a location that was distant from major markets. All of these factors affected its prospects for industrialization.

Long before the transition to democracy, South Africa ranked as one of the most unequal countries in the world as measured by the Gini coefficient. After apartheid ended, that inequality remained virtually unchanged, although the richest decile became more representative by race.

Of the 75 upper-middle-income economies for which the World Bank reported a Gini coefficient in the mid-2010s, South Africa was by far the most unequal (Graph 28). That said, only around two thirds of upper-middle-income countries were included in the World Bank's sample, and the figures provided for some were improbable at best. The World Bank reported South Africa's Gini coefficient at .63, compared to .53 for Brazil and around .40 for other countries in the dataset.

Graph 28. Gini coefficients for South Africa, China and other reporting upper-middle-income countries, latest available from 2014 to 2018 (higher figure indicates greater inequality)(a)



Source: Calculated from World Bank. World Development Indicators. Interactive dataset. Downloaded from www.worldbank.org in February 2020.

Note: (a) Averages weighted by population. Nigeria is excluded because it reported a Gini coefficient of .35, which seemed implausible for a petroleum-based economy.

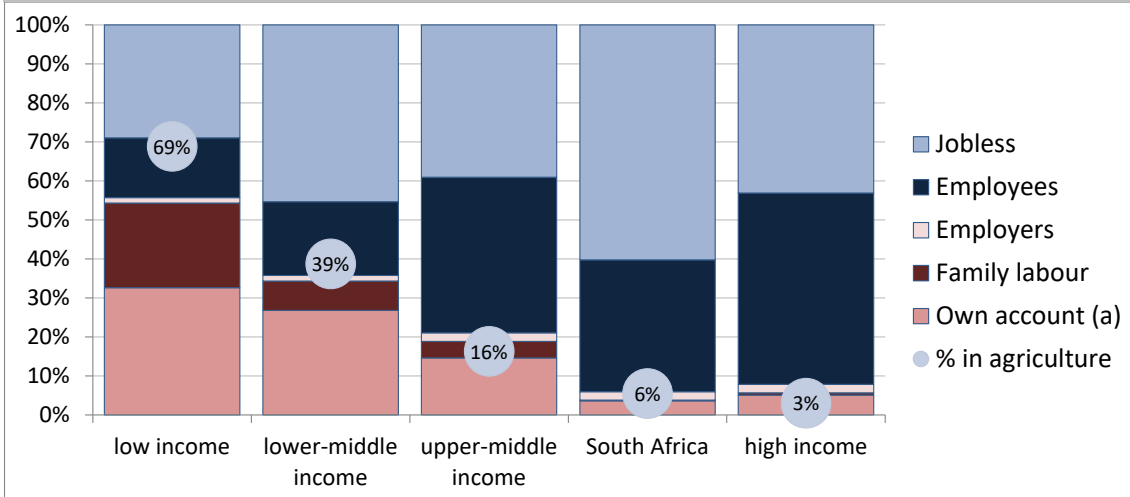
Deep inequalities pose unusually great challenges for industrialization. Arguably they lie at the root of the so-called middle-income trap that saw much slower industrialization and growth in Latin America as well as South Africa over the past forty years.

In economic terms, deep inequality limits the domestic market for mass production goods. That makes it harder to move into large-scale manufacturing of consumer products, which are comparatively labour intensive. In South Africa, the richest 10 per cent of households accounted for 48 per cent of all consumer spending. High-income households dedicate a larger share of their expenditure to services, imports and artisanal products. This pattern of demand limits the domestic base for light manufacturing.

Inequality also underpins continual contestation over property rights, wages and economic policies. In South Africa, government policies had hugely differentiated impacts on different economic classes, making it difficult to build a national consensus and often delaying implementation. Conflicts were particularly bitter because race continued to align largely with class, although less so than before democracy. In 2020, Africans made up 55 per cent of the richest decile of households, compared to 90 per cent of the poorest six deciles. Whites constituted only 9 per cent of all households, but 30 per cent of those in the top decile. Coloured and Asian households comprise the rest. (Calculated from Statistics South Africa 2019; see also Makgetla 2020) These profound differences in the economy and society spilled over into conflicts within the state, fostering paralysis around reforms and blocking disruptive policies aimed at structural change.

Colonial and apartheid practices and laws entrenched mechanisms that reproduced inequality long after the transition to democracy and the elimination of overtly racial rules. To start with, asset ownership of all kinds, from businesses to financial holdings to housing, remained highly unequal by race and class. A particular problem was that, because apartheid laws smashed African small businesses, including in farming, very few African adults were self-employed compared to other middle-income countries. That in itself boosted joblessness, which remained consistently far higher than in peer economies, as Graph 29 shows.

Graph 29. Employment status in South Africa compared to other lower income economies, 2018



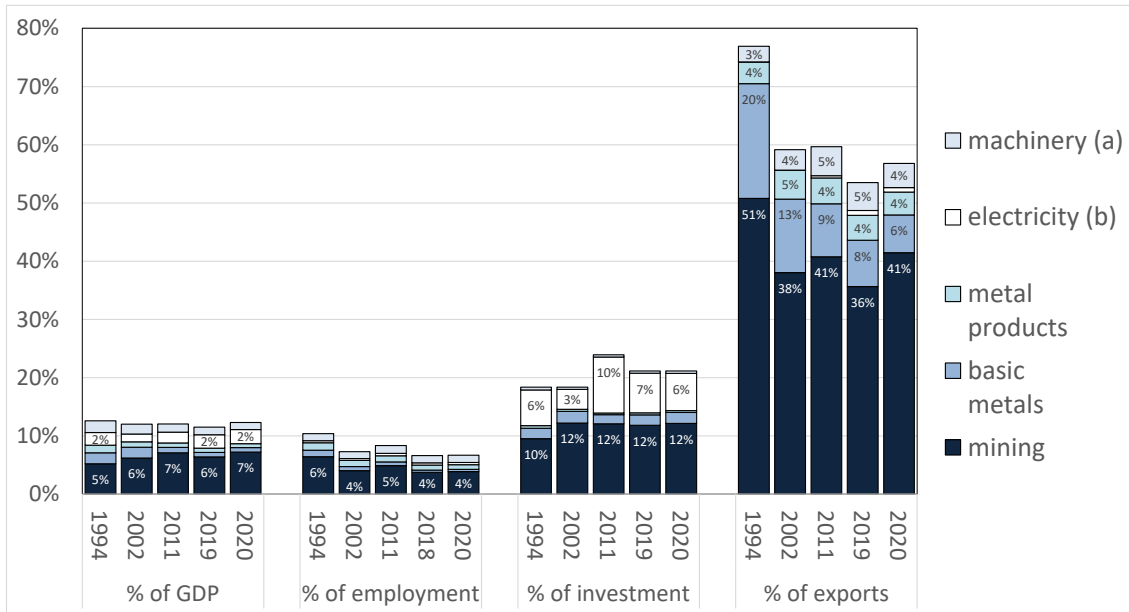
Source: Calculated from ILO. ILOSTAT. Interactive database. Accessed at www.ilo.org in January 2019.

Note: (a) That is, self-employed with almost exclusively family labour.

In addition, a variety of systems continued to limit the pool of recognized skills, which – as under apartheid – contributed to a very high premium to education. Although educational institutions were formally integrated from 1994, schools in historically black communities remained under-resourced. As a result, South Africa’s overall educational outcomes were poor by international standards even though the country boasted globally recognized centres of excellence. In addition, close-knit professional bodies and immigration systems denied recognition for informally acquired knowledge and foreign degrees, further constraining the skills pool.

South Africa’s dependence on the mining value chain also contributed to economic inequality, as well as exposing the economy to the vagaries of international commodity markets. While the value chain accounted for less than 12 per cent of the GDP and employment, it contributed over half of exports and around a fifth of investment, attracting a particularly disproportionate share of foreign direct and portfolio inflows. (Graph 30) The jump in metals prices during the pandemic saw the share of mining climb relative to GDP and exports, although not employment or investment, in 2020.

Graph 30. Mining value chain as percentage of GDP, formal employment, investment and exports, 1994, 2002, 2011, 2019 and 2020

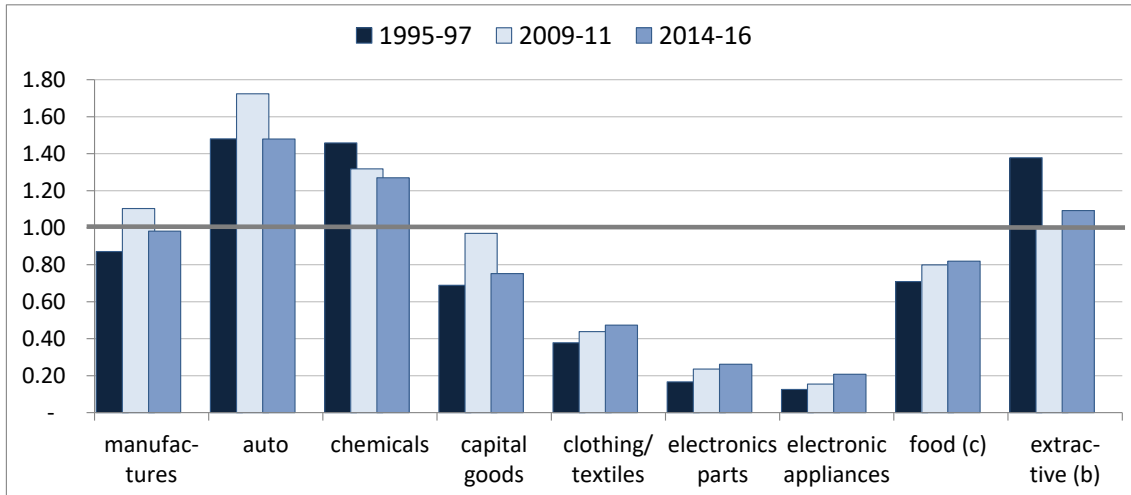


Source: Calculated from Quantec. EasyData. Interactive dataset. Accessed at www.quantec.co.za in December 2021.
Note: (a) Around 80 per cent of electricity derives from coal, so it effectively represents downstream beneficiation for the mines. (b) Includes special, general and electrical machinery; excludes appliances and transport equipment.

The dominance of the mining value chain shaped the structure of manufacturing exports. Outside of auto, only the mining value chain and petrochemicals (based mostly on coal) exceeded the norm relative to total exports for upper-middle-income economies. Capital goods, largely for mining and construction, and food approached the norm. (Graph 31) Except for food, even when they grew fairly rapidly these industries created relatively limited employment. Outside of food, consumer goods exports remained comparatively small, with sales centred on neighbouring countries. Clothing and electronics contributed under 5 per cent of total South African exports, compared to a third for Asia. (Makgetla and Levin 2020:18) As long as this structure of production persisted, industrialization seemed unlikely to support either job creation or small businesses on a mass scale. That in turn made it difficult to mobilize broad support for industrial policy both inside and outside of the government.

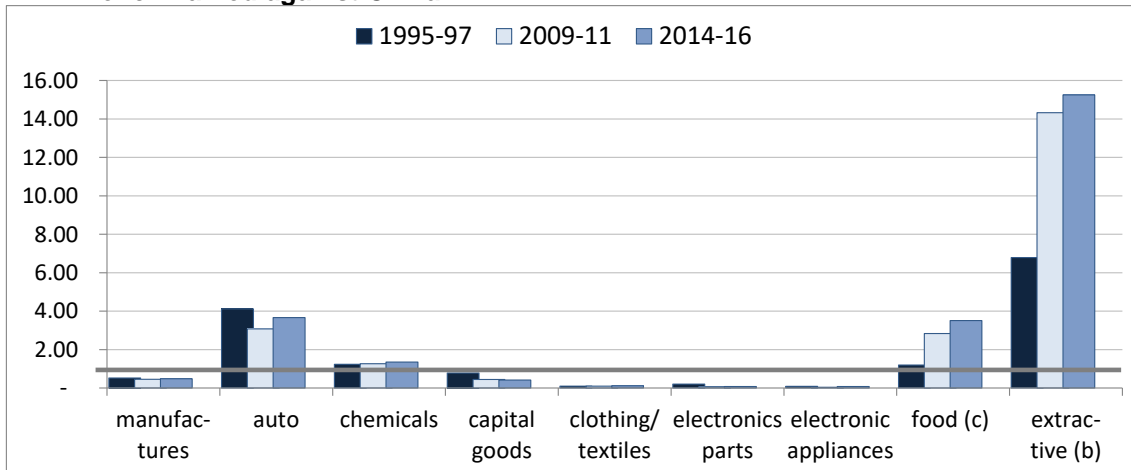
Graph 31. Revealed comparative advantage (a) for South Africa compared to upper-middle-income economies excluding China, China, high-income economies and the world, averages for 1995 to 1997, 2009 to 2011, and 2014 to 2016

A. Benchmarked against upper-middle-income economies excluding China



Note: Where a ratio in the graphs below is above one, the share of the product in South Africa’s exports is higher than in the benchmark economies. Where the ratio is below one, the share of the product in South Africa’s exports is lower than in the benchmark economies.

B. Benchmarked against China



Source: Calculated from UNCTAD. Merchandise trade matrix - product groups, exports in thousands of dollars, annual, 1995-2016. Electronic database. Series on relevant export groups and groups of country by World Bank income level. Downloaded from www.unctad.org in April 2018.

Notes: (a) Defined as the share in South African exports of a product as a ratio to the share of the same product in total exports by the benchmark economies. The charts here rely on UNCTAD data, which do not fully report South Africa’s gold exports before 2010. As a result, they somewhat overstate South Africa’s revealed comparative advantage for manufactures compared to raw materials. (b) Ores, metals, precious stones and fuels. (c) Excluding coffee, tea and spices.

On the one hand, it was distant from major trading partners in the global North and Asia. On the other, its neighbours were relatively impoverished and unable to provide either a strong regional market or support in developing infrastructure. South Africa's GDP per person was four times its neighbours'; in the other regional centres that formed the BRICS grouping, the ratio was under two. (See Makgetla and Levin 2020:15) Normally, regional markets form an important stepping-stone to global trade for new industries, particularly labour-intensive consumer goods that can generate employment on a large scale.

3.3.2 Implications for industrial policy

The structure of the South African economy had two critical implications for industrial policy. First, mining rents made it possible to mitigate inequality and poverty through government services and transfers, rather than by making formal production more inclusive and equitable. Second, the predominance of heavy industry undermined the presumption that upgrading manufacturing would generate decent work on a large scale.

From the standpoint of political leaders, reducing long-standing support for mining in order to incentivize investment in other industries required considerable disruption and consequently risk. It necessarily entailed restructuring long-standing decision-making systems, infrastructure, incentives and regulations to redirect resources away from hitherto highly successful sectors in order to support emerging, unproven producers. (For a detailed case study of the coal industry, see Makgetla 2021b) As an alternative, elected governments could levy taxes on the rich and the formal economy and use the revenue to upgrade living conditions for their core constituencies. For most political leaders, at least as long as tax revenues remained high, that seemed a safer and easier choice. (See Amundsen 2014; Gonzalez 2018; Kaznacheev 2017).

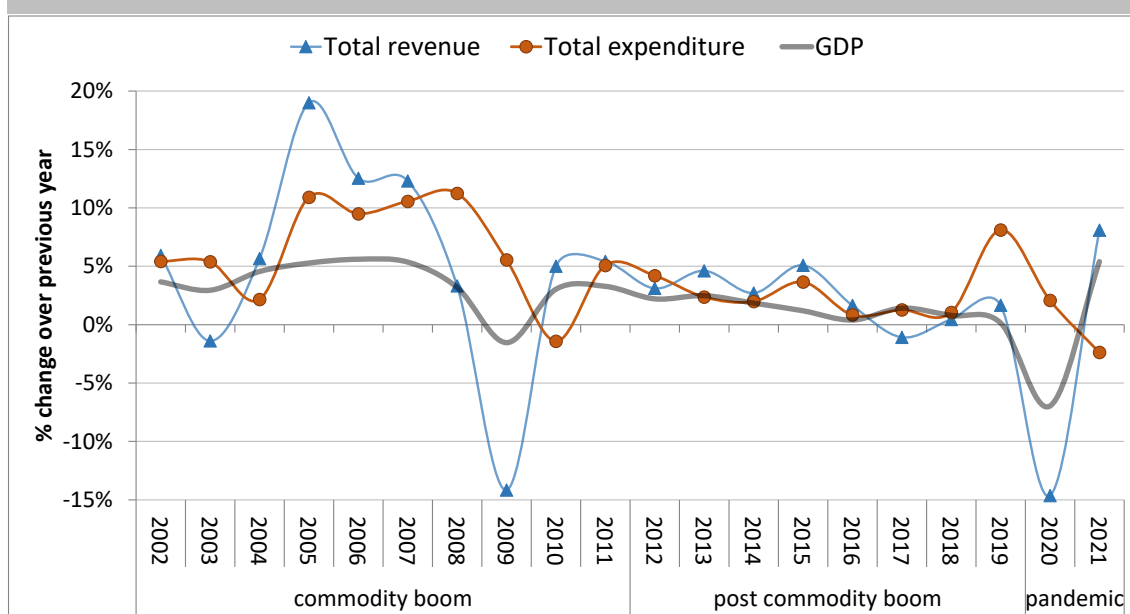
As the COVID-19 response showed, relying on redistribution through the fiscus worked only as long as the economy was growing, mineral rents robust, and democracy effective. For South Africa, those conditions emerged during international commodity booms – notably from the early 2000s to 2011, and again in 2020. Still, in between booms it often proved easier for government to cut back on services while hoping that higher export prices would emerge, rather than putting resources and effort behind economic reconstruction.

Redistribution through the fiscus was obviously an important component of any strategy to bring about a more equitable society. Absent measures to address inequality in production, however, it did not transform living standards or the economy as much as hoped. Its limitations resulted on the one hand from the narrow tax base that resulted from deep inequalities, and on the other from implicit limits on government borrowing set by the domestic and foreign financial institutions. In South Africa in the late 2010s, 1300 companies with taxable income of over R25 million each paid two thirds of company tax, and the richest 6 per cent of households were liable for a similar share of personal income tax. (Calculated from SARS 2018a and 2018b) High-end taxpayers were able to mobilize effectively against higher taxes, including by regular efforts to corrupt or even systemically weaken the revenue services. Meanwhile, low-income

communities could not afford basic infrastructure, leading to chronic underfunding of maintenance and repairs as well as slow roll out of new infrastructure. In these circumstances, programmes to redistribute income through the budget only moderated destitution and inequality, and faced continual pressure to cut back on payments.

These realities emerged in South Africa's fiscal strategy, including during the pandemic. The South African Treasury consistently pursued a moderately pro-cyclical strategy. Government spending increased relatively rapidly when export price surges boosted economic growth and revenues, but slowed during slowdowns. Stimulus efforts in 2008/9 and again in 2020/21 relied, not on significant increases in spending, but on maintaining spending at pre-crisis levels as revenues dived.

Graph 31. Growth in GDP and government revenues and expenditure in South Africa, 2002 to 2021 (a)



Source: Calculated from National Treasury. Budget Review data in excel format. Table 1. Downloaded from www.treasury.gov.za in April 2021; and South African Reserve Bank. Interactive dataset. Series on GDP in constant rand. Accessed at www.resbank.co.za in April 2021.

Note: (a) Calendar year for GDP; year from March for revenues and expenditure. Revenues and expenditure deflated with March CPI.

In contrast, the industrializing economies of East Asia did not have the option of drawing on mineral rents to alleviate poverty rather than restructuring the economy. They started as relatively equitable but low productivity economies. Moreover, at the start of the industrialization process, East Asian countries lacked a large, functional formal sector that would have to be disrupted for industrialization to succeed. For governments there, the problem was low productivity and living standards across the board, rather than a combination of globally competitive heavy industry side by side with mass joblessness and impoverishment.

Despite these fundamental differences, the East Asian experience shaped the hegemonic paradigm of industrial policy in South Africa, which effectively made it a version of

modernization theory. In this view, industrial policy consisted of upgrading technologies to become globally competitive. In other words, it centred on intensive growth. Higher productivity was expected to open up access to markets in the global North and more recently in Asia. The argument was that the consequent increase in production would generate well-paid manufacturing jobs on a mass scale, overcoming joblessness without sacrificing living standards.

This paradigm proved a mismatch with South Africa's economic and social realities. On the one hand, upgrading existing industries did little to generate employment opportunities because they were dominated by capital-intensive activities. On the other, South Africa was poorly placed to access global markets for consumer goods. It had to compete with regions that were closer to rich countries in Latin America and Eastern Europe, or strongly established on international markets, as in the case of China and other East Asian economies. Moreover, in key markets in the global North, resistance had grown to the movement of manufacturing to lower-wage economies. Many South African industries faced higher tariffs than earlier industrialisers, while international agreements limited its access to a range of policy instruments utilized historically to promote industrialization.

In these circumstances, as the experience with all of the master plans during the pandemic showed, standard industrial policy measures might succeed in maintaining industries, but would not generate a qualitative step up in size or ambition. Limited benefits for the majority made industrial policy hard for either politicians or civil society to support vigorously. Increasingly, it meant industrial policy ran a poor second to social grants in support and funding. That in turn further reduced the chances of success.

4. Prospects and learnings

South Africa's experience with the COVID-19 pandemic underscores the need to develop industrial policy responses that fit national circumstances, rather than trying to copy "best practice" from other countries. To use a South African concept, we need to decolonize industrial policy. That means developing a version that targets the specific socio-economic problems faced in South Africa; provides useful and relevant insights into the mechanisms that reproduce them; and generates viable, effective and practical solutions on that basis.

For South Africa, prerequisites for a more effective industrial policy include the following.

1. In a deeply unequal and divided democracy, a successful industrial policy must provide a reasonable prospect of well-defined and tangible benefits for the majority. Policymakers need to be clear about the allocation of costs, benefits and risks amongst different socio-economic groups. It doesn't help simply to assume that, despite South Africa's persistently exclusionary economic and social systems, helping existing formal business will necessarily promote broader wellbeing. Not every policy or project has to be redistributive, but if the majority of voters see the strategy as a whole as irrelevant or, worse, biased toward big business, it is unlikely to survive.
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2. The industrial policy has to start, not with a commitment to expanding manufacturing, but with a consistent understanding of the factors that lead to the reproduction of commodity dependency and economic inequality in South Africa. The presumption that South Africa can simply copy countries where manufacturing took off 50 years ago in very different national and international circumstances still shapes too much of its industrial policy.

3. The pandemic laid bare the fragility of global markets, especially in terms of long-distance logistics, the growing volatility of commodity prices, and rising protectionism in some large countries. Industrial policy will have to find new responses to these challenges going forward, rather than assuming that competitive industries will be able simply to lock into global supply chains. From this standpoint, the increased emphasis on localization and regional trade in the master plans is a step forward, although in practice it has largely translated into protectionism at the cost of downstream producers and low-income consumers.

4. Finally, industrial policy requires a supportive macro-economic context. The fiscal crisis that has accompanied COVID-19 underscores the need for a more nuanced understanding of how fiscal policy in the global South can contribute to growth without ignoring the constraints imposed by limited power on global credit markets.

Fundamentally, for economic reconstruction to succeed in South Africa, it would have to address the mechanisms that reproduce both mining dependency and inequality. In terms of mining dependency, critical factors include continued state supports, ranging from the provision of electricity, freight transport and water to licencing and land allocation to labour relations. Inequality is sustained by continued inequalities in access to productive and other assets; education and skills, and the associated workplace organization; and infrastructure.

Addressing these mechanisms requires policy instruments that are not typically seen as integral to industrial policy. They include land reform, worker ownership, radical improvements in education in historically black communities, building township economies and densifying cities, and extending basic infrastructure. All of these strategies form part of the South African discourse, but remain almost entirely absent from industrial policy initiatives, as the master plans demonstrate.

In short, the structure of the South African economy requires a profound reconceptualization of industrial policy. Moreover, it necessitates disruption of existing production systems, which is inherently risky and costly. But the alternatives are also risky. As the pandemic response showed, the failure to restructure the economy leaves social programmes vulnerable to falling export prices and the associated cuts in state spending. Given South Africa's persistent inequalities, that is likely to bring deepening social conflict and mobilization around empty populist promises, which ultimately pose a risk to democracy itself.

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Annexure 1. Main elements in South Africa's recovery and reconstruction strategies

Main elements of South Africa's recovery and reconstruction effort, 2020 and 2021

Disappointing	No visible progress	Substantive regulatory reform but no impact so far	Limited implementation or success	Substantial implementation
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Policy area	Main initiatives	New funds (a)	Actual spending	Dates	New, enhanced, or pre-existing
Initial stimulus package	Credit guarantee scheme	R200 bn (SARB)	R18 bn	April 2020 – June 2021	New
	Tax incentives for business	R125 bn (plus R45 bn tax deferrals)	n.a.	April 2020 – April 2021	New
	Loans and grants for smaller businesses in tourism, creative industries/sports and agriculture	0 (funded by reallocation within departments)	R0,3 bn for tourism and creative industries/sports; R1,2 bn for agriculture; R0,6 bn SMME loans (b)	April 2020 – March 2021	New programmes funded by re-allocation within departments
	Support for employers to avoid retrenchment using Unemployment Insurance Fund surplus (Temporary Employee/Employer Relief Scheme, or TERS)	R40 bn	R63 bn as of Oct 2021	April 2020 – present (c)	New
	Support for local production of healthcare inputs (mostly PPE and respirators)	n.a.	R0,7 bn to March 2021	On-going	New
	Temporary allocation of additional spectrum to main digital companies		(earns fees for licences)	April 2020 – June 2022	New

Policy area	Main initiatives	New funds (a)	Actual spending	Dates	New, enhanced, or pre-existing
	Poverty relief: increase in existing grants to children, elderly and disabled; new grant for jobless with no other income; food parcels	R50 bn for 2020/21; R26,7 bn for 2021/22	R32 bn for 2020/21	April 2020 – March 2021; jobless grant reintroduced in August 2021	Pre-existing except new grant for able-bodied adults
	Public employment schemes	Budget fell R3,1 bn in 2020/21 (around 15 per cent), then grew R2,7 billion in 2021/2	R19 billion in 2020/21	April 2020 - present	Mostly pre-existing with some additional programmes
	Maintain government spending despite falling revenues (measured by increase in budget in response to pandemic); support for COVID-19 programmes primarily through reallocation based on wage restraint for public servants (d)	Deficit increased around R300 bn while spending remained flat	Much higher revenues than anticipated meant actual budget increase: R100 bn; increase in deficit: R160 bn	April 2020 – March 2021 (spending cut in 2021/22)	New
	Reduce interest rates by 3 per cent to 3,5 per cent (below inflation)			April 2020 – November 2021	New
	Other measures to maintain credit flows (SARB bond purchases, reduced liquidity requirements for private banks)	n.a.	R11 bn in bond purchases	April 2020 – present	New
Other measures	Support for international agreements to facilitate access to intellectual property for vaccines			Late 2020 to present	Pre-existing position

Policy area	Main initiatives	New funds (a)	Actual spending	Dates	New, enhanced, or pre-existing
Reconstruction and Recovery Plan	Infrastructure investment, with emphasis on crowding in private sector and improving transport networks	R100 bn commitment to Infrastructure Fund for decade from 2020; R4 bn in 2021/22; Government capex increased R1 bn in 2021/2	n.a.	October 2020 to present	Pre-existing; new structure to drive programme
	Promoting localisation, leveraged by public and private procurement decisions, tariffs, commitments from retail and downstream users and targeted financial support for producers	dtic budget cut by R1,8 bn in 2020/21, by R0,8 bn in 2021/22	n.a.		Pre-existing, but new stakeholder commitments and Master Plans
	Promoting energy security, primarily by licencing new suppliers	paid by users	paid by users		New
	Tourism recovery strategy centred on support for businesses and improved marketing initially for domestic and regional visitors	Tourism budget around R150 mn less in 2021/2 than in 2019/20	n.a.	October 2020 to present	Mostly pre-existing strategy
	Green economy interventions apparently around recycling, small-scale forestry and aquaculture, and waste management	Environmental Affairs budget around R650 mn less in 2021/2 than in 2019/20	n.a.		Mostly pre-existing strategy

Policy area	Main initiatives	New funds (a)	Actual spending	Dates	New, enhanced, or pre-existing
	Continuation of public employment schemes and agricultural support programmes	n.a.	n.a.		Mostly pre-existing strategy and programmes
	Expanding available spectrum and accelerating digital migration for broadcasting	n.a.	n.a.		Pre-existing strategy
	Expand workplace training, especially artisans to 20 000 p.a.	n.a.	n.a.		New
Operation Vulindlela	Stabilise electricity supply mostly by facilitating new generation capacity	n.a.	n.a.	October 2020 to present	Pre-existing strategy
	Reducing cost and expanding access to digital communications	n.a.	n.a.		Pre-existing strategy
	Sustainable water supply to meet demand	n.a.	n.a.		Pre-existing strategy
	Competitive and efficient freight transport	n.a.	n.a.		Pre-existing strategy
	Visa regime that attracts skills and facilitates tourism	n.a.	n.a.		Pre-existing strategy
Fiscal and monetary	Budget plan (e) to reduce non-interest expenditure by 5 per cent in real terms in 2021/22, mostly through cuts to social grants, special UIF TERS, and public service pay, with growth above inflation projected only in 2024/25; may review depending on revenue forecasts	Spending reduced in real terms by R140 bn in 2022/23	n.a.	Announced November 2021; actual budget only in February 2022	Pre-existing strategy
	SARB guideline interest rate (the repo rate) increased 0,25 per cent in November 2021	n.a.	n.a.		November 2021

Notes: (a) That is, identified additional resources for existing programmes as well as budgets for new programmes. Budget figures are deflated with CPI. (b) Lending by the responsible agency, sefa, was R600 million higher than in the previous

year. The headline amount provided was R1,15 billion, but it resulted from the redirection of resources within sefa and its oversight department away from other programmes to support small businesses. (c) Only available to employers and workers directly affected by public-health restrictions, which by November 2021 related almost exclusively to some entertainment industries. (d) In South Africa, the national government employs educators, healthcare workers and police directly, rather than through local or provincial governments as in most other countries. (e) Medium Term Budget Policy Statement, which projects the budget for 2022/23 through 2024/25. Source Treasury. 2020. *Economic Measures for COVID-19*. Pretoria. Accessed at

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