Executive summary

This policy brief and its recommendations emanate from MISTRA’s book *The Evolving Structure of South Africa’s Economy: Faultlines and Futures* published in September 2023. A research-based, edited volume, the book assembles a group of local and international experts from a variety of disciplines to review contemporary developments in the South African economy. Taking into account complex dynamics in the global political economy, the book delves into the key driving forces of structural transformation of South Africa’s economy over time. Critically, it surfaces several core themes that explain the enduring faultlines as well as opportunities in the country’s economic structure. It offers a wealth of knowledge for a cross-section of spheres: from policymakers at all levels of government to civil society organisations, business and thought leaders to students of politics, economics, sociology and public policy.

Based on the book’s multiple theoretical and empirical perspectives, this policy brief details a set of policy recommendations on how South Africa can pursue a more sustainable development path in the years ahead.
Key findings

An enduring poly-crisis context

In the wake of the global financial crisis of 2008/09, and now the Covid-19 pandemic, South Africa confronts low economic growth and high unemployment, rendering poverty and inequality persistent societal challenges. The country confronts the increased financialisation of the economy accompanied by declining levels of fixed investment in dynamic, competitive and job-creating productive activities. Natural disasters such as extreme weather events and pandemics, exacerbated by governance and corruption vulnerabilities, and the theft and vandalism of rail and electricity infrastructure combine to dampen economic growth. Similarly, strained labour relations and geopolitical tensions have also inhibited economic growth.

South Africa’s changing economic structure

South Africa’s post-1994 economic structure has shifted from a minerals-energy complex (MEC) to a minerals-energy-finance complex (MEFC). Economic diversification beyond the MEC core and linked sectors has not taken place, and extraction and commodities trading continue to play a significant role in the overall economic structure. Hence, on the one hand, minerals and resource-based industries contribute high levels to the Gross Domestic Product (GDP) and exports. On the other hand, the contribution of high-value-adding sectors such as manufacturing outside of MEC-linked activities has declined.

Overall, South Africa’s economy is characterised by deindustrialisation in which domestic manufacturing firms have not been able to develop the requisite capabilities to drive structural transformation. Manufacturing firms remain present in significant total numbers and value but exist at the periphery of the economy. The manufacturing sector has yet to become inclusive, as the same lead firms that were at the core of productive activities in the apartheid era remain current leaders in the sector.

The MEFC has produced two powerful forms of concentration: the concentration of specific sectors (mining, manufacturing and finance), and the concentration of ownership (big conglomerate groups). Across the value chains, new players - and in particular black people, women and youth - have not emerged substantively empowered. Unequal power relations characterise many of the value chains. Poor transformation outcomes have also resulted in a crisis of social reproduction, the costs of which are borne by households and the financially constrained public sector.

Deagrarianisation has been worsened by firm concentration and uneven power relations in agricultural value chains. Contributing factors have been extreme weather events induced by climate change, the casualisation of labour, and poorly implemented policies and programmes in the land and commercial farming spheres.

Structural faultlines

Several interrelated constraints and rigidities are explored to explain the evolution and workings of the South African economy. The volume pays special attention to longstanding weaknesses in the country’s economic infrastructure; structural changes within the sectoral and spatial contexts; the disruptive nature of technology, and the changing nature of work. Features that inhibit structural transformation and socially inclusive industrialisation are analysed including the role of the state; power relations between the state and the non-state actors; dynamics in the labour market, and investment trends.
The intersection between macroeconomic policy and financialisation

Authors argue that in terms of post-1994 macroeconomic policy, the country’s neoliberal policy orientation has limited the possibilities for transformation in industrial policy and practice. This has had the unintended consequence of reinforcing deindustrialisation and facilitating capital flight and poor real investment in the economy.

POLICY RECOMMENDATIONS

The book is anchored on the premise that the South African economy can achieve a structurally resilient, socially inclusive and ecologically sustainable growth path. It advances the argument that South Africa’s economy has the capability to foster and accelerate structural transformation from the vantage of several sectors. The policy recommendations in the book can be summarised into four overlapping core themes which cut across the policymaking, finance and development domains.

1. Reorient power relations and agency in MEFC value chains

The pace of structural transformation is affected by the power relations and interactions between significant economic actors such as large corporations, state-owned enterprises, the state generally, and organised labour and civil society. There is a need for a strategic reorientation of power relations and agency in the minerals-energy-finance complex (MEFC) core and non-core sectors. Developmental compacts across South African society should be robustly pursued; these can anchor structural transformation, regional integration and socially inclusive, green industrialisation. Such developmental compacts must focus on the promotion of optimal state-society, state-business, and business-labour relations.

2. Centre renewable energy and the hydrogen economy in structural transformation

In the context of global transitions to low-carbon economies, the renewable energy sector, and in particular the hydrogen economy, offer unique opportunities to reorient linkages in the MEFC towards socially inclusive, green industrialisation and agrarianisation. South African policymakers should centre renewable energy and the hydrogen economy as a platform for structural transformation. This new sectoral avenue holds opportunities for rival new entrants and firms; new and upgraded economic activities; new forms of machinery and equipment and wide-ranging skills development, including learning on the job. Policy action in this area must involve, inter alia, pragmatic support for new entrants, new investments, and the reduction of barriers to entry. Fixed and patient expansionary investment, rather than short-term and speculative lending, is an indispensable catalyst for this process.

“South African policymakers should centre renewable energy and the hydrogen economy as a platform for structural transformation.”
3. **Greater integration between policies in the monetary, fiscal and industrial domains**

Bold, altered policy postures and outlooks are required, with particular focus on greater integration between policies in the monetary, fiscal and industrial domains. A macroeconomic model which encompasses economic growth, socioeconomic development, employment creation, and reduced poverty and inequality is recommended. Such a model would need to be anchored on credible fiscal balancing. Regulations to reduce the high penetration of imports and increase investments and productivity are needed to upgrade the performance of domestic manufacturing firms and to realise higher levels of local content production.

Improvements in the institutional capacity of the state are urgently needed, particularly in the energy, rail and logistics spheres. Finance and modernisation of South Africa’s rail capacity is an urgent priority in supporting green industrialisation. Collaboration between policymakers, logistics service providers, financiers and Transnet is required.

Fundamentally, a long-term-oriented policy posture that is tactically balanced must drive economic development. Failed or ineffective policy elements must be eliminated.

4. **Economic inclusion, social reproduction and labour**

Declining investments in the productive sector, combined with outsourcing and automation, have contributed to increased levels of unemployment. Reindustrialisation can be boosted through low-end manufacturing and agro-processing: conduits to this would be Special Economic Zones, the expansion of agricultural activity and the support and development of opportunities for small businesses. Evidence-based interventions are needed, especially those that support workers and small business owners with technology, infrastructure and finance for growth. Similarly, opportunities for the semi and unskilled workforce in renewable-energy value chains must be explored and crafted. This sector holds enormous promise for this cohort and for the realisation of socially inclusive, green industrialisation.