TWENTY YEAR REVIEW

SOUTH AFRICA

1994 - 2014

BACKGROUND PAPER:

ECONOMY AND EMPLOYMENT

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The background papers are written by officials in the Presidency and other government departments using inputs from literature reviews, commissioned research, government reviews and reports and roundtable discussions with a range of stakeholders. The views reflected in the background papers do not represent those of the Presidency, but rather reflect authors' views on sector developments.

Contents

Acronyms and Abbreviations **......... 4**

Review **......... 6**

1. The journey since 1994 **......... 6**

2. Reflections on achievements and challenges **......... 9**

2.1 Employment 9

2.2 Growth and wealth creation 12

2.3 Major economic thrusts 14

2.4 Industrial and trade policy 21

3. Summary and recommendations 34

References **......... 36**

Acronyms and Abbreviations

ABET	Adult basic education and training
AsgiSA	Accelerated and Shared Growth Initiative of South Africa
APDP	Automotive Production Development Plan
B-BBEE	Broad-based black economic empowerment
BBSDP	Black Business Supplier Development Programme
BEE	Black economic empowerment
CLP	Corporate Leniency Policy
DCCS	Duty Credit Certificate Scheme
DEAT	Department of Environmental Affairs and Tourism
EDD	Economic Development Department
EIP	Enterprise Investment Programme
EU	European Union
FDI	Foreign direct investment
GCIS	Government Communication and Information System
GDP	Gross domestic product
GERD	Gross domestic expenditure on R&D
GFC	Global Financial Crisis
GFCF	Gross Fixed Capital Formation
GNI	Gross national income
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
MCEP	Manufacturing Competitiveness Enhancement Programme
MIDP	Motor Industry Development Plan
MPC	Monetary Policy Committee
NDP	National Development Plan
NDT	National Department of Tourism

Nedlac	National Economic Development and Labour Council
NEF	National Empowerment Fund
NGP	New Growth Path
NIPF	National Industrial Policy Framework
NPC	National Planning Commission
NRDS	National Research and Development Strategy
NSI	National System of Innovation
PGM	Platinum group metals
PPPFA	Preferential Procurement Policy Framework Act
R&D	Research and development
RDP	Reconstruction and Development Programme
SADC	Southern African Development Community
SAMAF	South African Micro-finance Apex Fund
SARB	South African Reserve Bank
SARS	South African Revenue Service
SAT	South African Tourism
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMEDP	Small and Medium Enterprise Development Programme
SMME	Small, medium and micro-enterprise
SOE	State-owned enterprise
S&T	Science and technology
Stats SA	Statistics South Africa
TBCSA	Tourism Business Council of South Africa
The dti	Department of Trade and Industry
TYIP	Ten-year Innovation Plan for South Africa
VAT	Value-added tax

Review

1. The journey since 1994

The main economic objectives of government since the inception of democracy in 1994 has been job creation, the elimination of poverty, the reduction of inequality and the overall sustainable growth of the wealth of the country.

The economic policy tools used to achieve these objectives were macro-economic stability, steady trade reform, improved trade access in the context of a strong multilateral system, industrial policies to add domestic value and to increase competitiveness, improved productivity to encourage exports and foreign direct investment (FDI), strong competition policies to improve competitiveness, a roll-back on white minority control of the economy, the development of small, medium and micro-enterprises (SMMEs), the promotion of skills development, including occupational skills and Adult Basic Education and Training (ABET), affirmative action and employment, a further reduction of inequalities through black economic empowerment (BEE) and land reform, and support for innovation, research and development (R&D) for competitiveness and social benefit.

In government's review of the first 15 years of democracy, it was concluded that South Africa was successful in maintaining macro-economic stability, taking advantage of the natural resource base of the country, establishing a sound trade regime, maintaining and broadening the financial and physical infrastructure of the country, strengthening property rights and the legal system, and establishing and maintaining strong institutions. These institutions include the South African Revenue Service (SARS), the South African Reserve Bank (SARB), the Competition Authorities, the JSE Securities Exchange Limited and the National Economic Development and Labour Council (Nedlac).

The Presidency's 15-year review identified a number of key weaknesses that needed to be addressed. These included the following:

- Systems and structures for promoting integration and coordination in the development and implementation of economic policy (such as the future of the cluster system and structure of ministries), and the need for more mandated coordination.
- Macro- and industrial policies to support labour-absorbing diversification of the economy.

- The need to find second-economy interventions with mass impact rather than many small-scale interventions.
- A serious focus on the poor performance of primary sectors, especially agriculture, and their role in addressing poverty.
- Ensuring that the economy responds more effectively to strong aggregate demand.
- Critically assessing whether government's action with regard to skills is sufficiently effective.
- Focusing on the developmental aspects of BEE.
- Further reform and strengthening of regulators.
- Challenges of energy security and food security.

In its diagnostic report, the National Planning Commission (NPC) concluded that, in the period 1994 to 2001, South Africa was successful in stabilising the economy, rebuilding its reputation among lenders, bringing down inflation, reducing public debt and increasing the country's attractiveness to foreign investors (National Planning Commission, 2011). The NPC argued that this was critical because by 1994, South Africa had a critically low savings rate. To meet the objectives of the Reconstruction and Development Programme (RDP), South Africa would have to invest at a higher rate than it could afford to save. Raising savings quickly would plunge the economy into a recession and so South Africa had to attract foreign savings.

The NPC argued that the stabilisation process was largely successful because by the early 2000s, South Africa was able to raise investment levels with some ease by attracting foreign capital and that the most binding constraint of the apartheid economy (access to capital) had been broken.

The NPC further showed that the period 2003 to 2008 saw the longest economic boom in South Africa's history. Employment increased, unemployment fell, investment rose and inflation and real interest rates declined rapidly. However, the global economic recession that followed reversed many of the gains in employment creation, and investment levels decreased.

In its diagnostic report, the NPC concludes as follows:

> "In summary, while South Africa successfully navigated the transition period, rescued the economy from the crisis which apartheid left it in and broke the binding constraint on growth, it still faces the task of transforming the economy to one that uses more people and enables the potential of its entire people to flourish. This transformation is not likely to be smooth or rapid. The path dependency syndrome is deeply established. South Africa has to transform the

> economy, opening up new industries and firms, while at the same time growing the existing economy. Both tasks are equally important and interdependent."

A key initiative introduced to achieve the objective of eliminating poverty and reducing unemployment after 2009 was the New Growth Path (NGP). The NGP responded to emerging opportunities and risks, while it built on policies advanced since the achievement of democracy. Some of these include the RDP, which advocated greater equity as the basis for long-term development and growth, and the Accelerated and Shared Growth Initiative of South Africa (AsgiSA), in the mid-2000s, which renewed government's commitment to addressing joblessness and poverty and identified infrastructure needs, skills shortages and unnecessary regulatory burdens as core constraints on growth.

It further built on the National Industrial Policy Framework (NIPF), published in 2007, and its implementation plan, the Industrial Policy Action Plan (IPAP), which elevated industrial policy to a key strategic economic policy intervention of government.

The NGP identified five fundamental policies (so-called job drivers) to achieve its objective of creating half a million jobs per annum to half unemployment by 2020.

These are as follows:

- Substantial public investment in infrastructure both to create employment directly, in construction, operation and maintenance, as well as the production of inputs, and indirectly by improving efficiency across the economy.
- Targeting more labour-absorbing activities across the main economic sectors – the agricultural and mining value chains, manufacturing and services.
- Taking advantage of new opportunities in the knowledge and green economies.
- Leveraging social capital in the social economy and the public sector.
- Fostering rural development and regional integration.

The National Development Plan (NDP) was adopted by Cabinet in September 2012, and sets out the broad vision and development agenda for the country. The broad goals of the NDP are that, by 2030, South Africa should be a more prosperous and equal society. To achieve this, South Africa needs to grow its economy by 5.4 percent per annum over the next 20 years and create about 11 million new jobs. The unemployment rate should fall from 27 percent in 2011 to 14 percent by 2020 and to 6 percent by 2030. To achieve this, total employment needs to rise from 13 million to 24 million. To achieve these objectives, the plan states that the country needs better education, a healthier population, better located and well-maintained infrastructure, a social safety net, a capable and developmental state, and much lower levels of corruption.

With regard to economic policy, the plan builds on the NGP, which emphasises the macro-economic policies that support growth and development. These include lowering the costs of doing business and of living, increasing infrastructure investment, achieving a degree of wage moderation in the middle and top of the income spectrum, and increasing the skills of the workforce.

The NDP is supportive of these priorities and further emphasises the need for better coordination and implementation of economic policies, as well as for higher exports and greater competitiveness. Solid partnerships with business are needed to facilitate, direct and promote investment in labour-intensive areas and for slight labour market reforms to ease the entry of young, unskilled workers.

2. Reflections on achievements and challenges

2.1 Employment

A total of 3.8 million new jobs were created from 1995 to March 2013. In the first decade of freedom, 1.6 million jobs were created. Since then, the rate of job creation per annum has increased, with 2.2 million new jobs created from September 2003 to March 2013 (see Table 1).

Table 1: A snapshot of key labour market trends

In thousands		**1995** (re-weighted by Stats SA after 2001 Census)	**Sept 2007**	**March 2013**	**Difference** (1995–March 2013)
Employment		9 852	13 234	13 621	3 769
Expanded definition	Unemployment	4 253	7 370	7 902	3 649
	Labour force	14 105	20 604	21 523	7 418
Official definition	Unemployment	2 038	3 945	4 601	2 563
	Labour force	11 890	17 178	18 222	6 332

Source: Statistics South Africa 1995a; 2007.

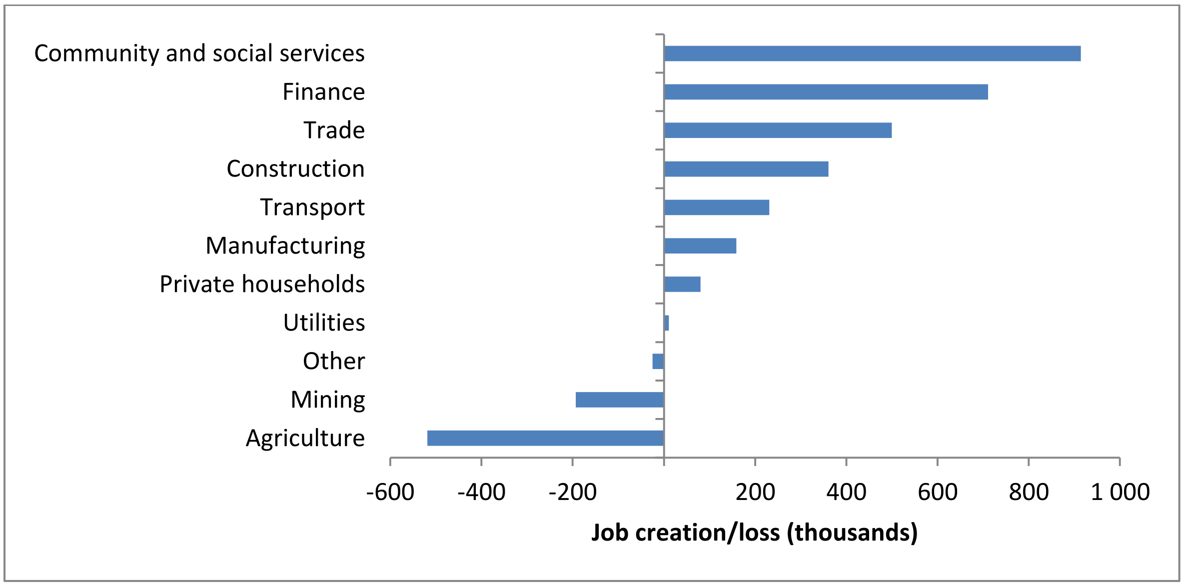
Notes:

1. The official definition estimates are based on the strict definition of unemployment, therefore a labour market that excludes the discouraged workseeker.
2. The expanded definition includes discouraged workers and unemployed workers who have not recently sought employment.
3. The 1995 data was re-weighted with the 2001 Census weights to ensure comparability across the two periods.

4. March 2013 labour statistics were the most recently published data prior to the release of this document.

Unemployment in the strict sense of the term increased from 2 million in 1995 to 4.6 million in March 2013. The official unemployment rate, 25.2 percent in March 2013, is still high, but has dropped from a peak of 31.2 percent in March 2003. A concern is that the official labour force participation rate for South Africa, at 54.8 percent, is well below that of comparable countries with an average of 65 percent. The labour force participation rate is the proportion of people of working age either in employment or seeking employment.

Figure 1: Job creation by sector, March 2004 to March 2013



Source: Statistics South Africa, 2012a

Note: Employment statistics by sector were not published by Statistics South Africa until the late 1990s.

The creation of 2.2 million net new jobs since March 2004 (and 4.2 million net new jobs since 1998) is a result of the fact that economic growth over this period (measured at current 2005 prices) has averaged 3.6 percent. Job creation in this period has been led by four key sectors that contributed over 200 000 net new jobs to the economy. Since March 2004, the community and social services sector has added 914 000 jobs (31 percent of total job creation over the period), finance 711 000 (24 percent), trade 500 000 (17 percent), construction 361 000 (12 percent) and transport 231 000 (8 percent). Significant growth in these sectors has been supplemented by the more modest growth in manufacturing (159 000 new jobs), private households (80 000 new jobs) and utilities (11 000 new jobs).

Despite the creation of so many new jobs in this period, not all sectors experienced positive growth or job creation. Two sectors drive the lion's share of the losses, with agriculture having lost 519 000 jobs (70 percent of total job losses over the period) and mining a further 193 000 jobs (26 percent of the total).

Table 2 reveals persistent racial inequity in the official unemployment rates, and with overall rates unchanged since 1998, it also signals that progress for some racial groups has been offset by deterioration in others. In terms of progress, while the distribution of unemployment remains highly racially skewed – with black unemployment more than double that for Indians and more than four times that of white unemployment, and coloured unemployment just 5.5 percent lower than black unemployment – black unemployment has declined by 3.2 percent and Indian unemployment has declined by 2.4 percent. Of concern, however, is the over 50 percent increase in coloured and white unemployment over the same time period (15.8 to 23.3 percent for coloured people and 4.4 to 7.2 percent for whites).

Table 2: Official unemployment rate by population group, 1998, September 2004 and March 2013

Population group	**1998**	**Sept 2004**	**March 2013**
Black	32	31.8	28.8
Coloured	15.8	21.9	23.3
Indian	14.7	13.9	12.3
White	4.4	5.5	7.2
Overall	**25.2**	**26.7**	**25.2**

Source: Statistics South Africa, 1998.

Notes:

1. Official measure of unemployment used that excludes discouraged jobseekers.
2. 1998 October Household Survey data is the most accurate post-apartheid racial labour statistics produced by Statistics South Africa.

Table 3: Official unemployment rate by gender, 1998, September 2004 and March 2013

	1998	**Sept 2004**	**March 2013**
Male	21.5	23.1	23.4
Female	30.1	30.2	27.4
Overall	**25.2**	**26.7**	**25.2**

Source: Statistics South Africa, 1998.

Notes:

1. Official measure of unemployment used that excludes discouraged jobseekers.
2. 1998 October Household Survey data is the most accurate post-apartheid racial labour statistics produced by Stats SA.

Table 3 highlights that gender differences in the South African labour market are still pronounced, despite some improvement in the female unemployment rate. While it is promising that the gap between male and female unemployment rates has narrowed (from 8.6 percent in 1998, to 6.9 percent in September 2004 and 4 percent in March 2013), absolute unemployment levels across male and female categories are still alarmingly high. Moreover, the overall official unemployment rate remains unchanged from its 1998 level of 25.2 percent, despite a slight improvement in the expanded unemployment rate over the same period (37.5 percent in 1998 to 36.7 percent in March 2013). Male absorption and labour-force participation rates remain over 25 percent higher than those of females (47.3 percent vs. 35 percent for absorption and 61.7 percent vs. 48.3 percent for labour force participation in March 2013).

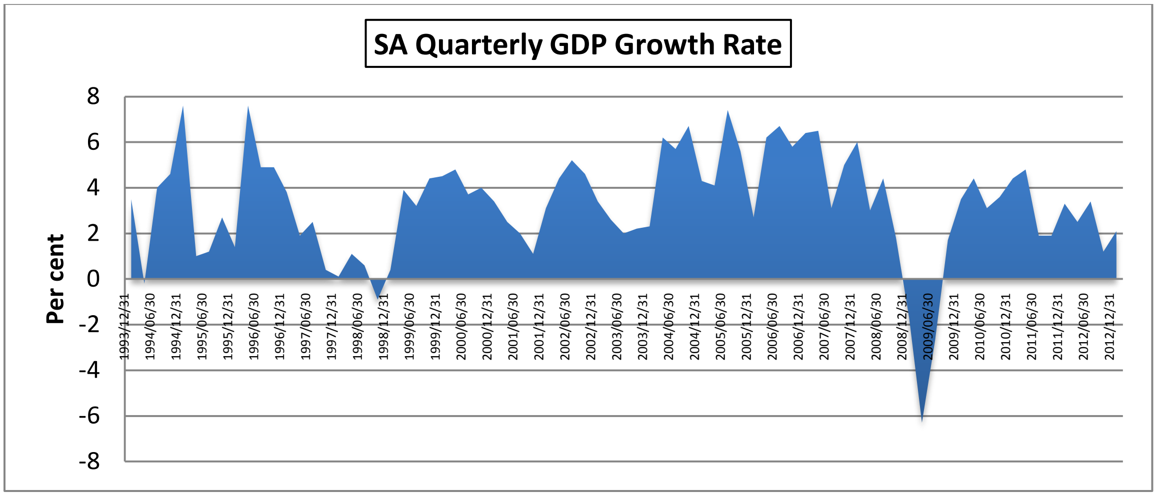
In terms of age, youth unemployment has become a particularly concerning phenomenon in recent years. While overall official unemployment largely remains largely unchanged, the youth's (15–34) share of total unemployment has more than doubled in less than six years (33 percent in September 2007 to 70.7 percent in March 2013). Moreover, 15- to 24-year-olds have the highest unemployment rate (52.9 percent) among all age groups.

2.2 Growth and wealth creation

Between the dawn of democracy in 1994 to the fourth quarter of 2012, the South African economy experienced positive growth in every quarter, except for three of the 74 quarters (see Figure 2). In both instances where the local economy experienced negative economic growth, international crises precipitated the contraction of the South African economy. In 1998, the East Asian financial crisis led to a significant slowdown in the world economy, while the 2008 Global Financial Crisis (GFC) led to a global recession from which South Africa was not fully isolated.

The extended period of positive economic growth also represented the longest continuous expansion of the South African economy since records were first kept by SARB.

Figure 2: South African quarterly gross domestic product (GDP) growth rate, 1994 to 2012



Source: South African Reserve Bank.

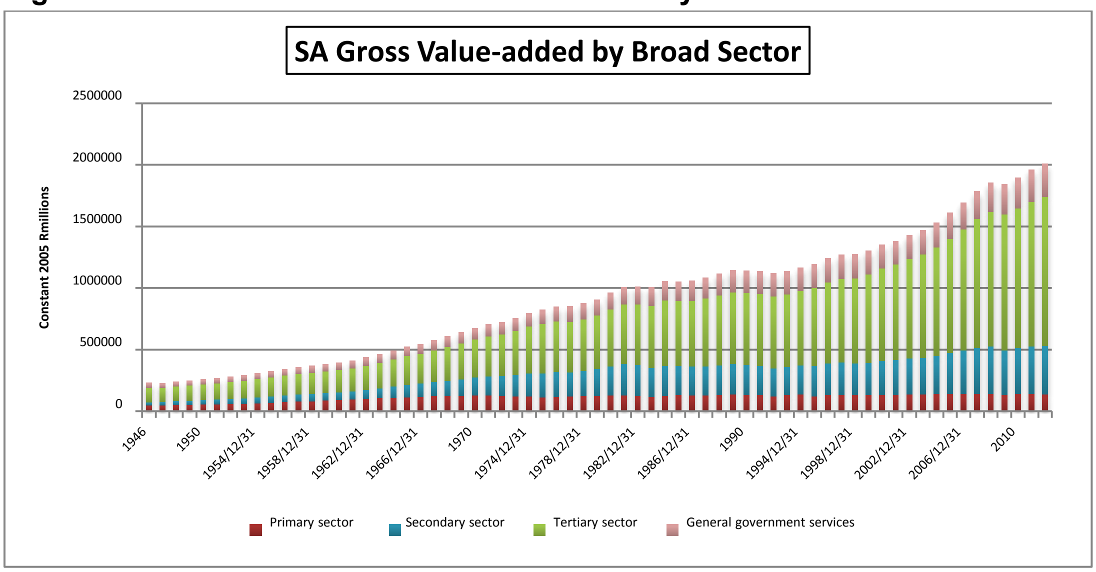
The South African economy has registered an average annual rate of economic growth of 3.3 percent since 1994. This compares with an average of 3.6 percent for the world economy at large. For the period 1994 to 2000, the economy grew on average by 2.9 percent; for the period 2001 to 2007, the economy grew on average by 4.3 percent and, since the GFC, it has grown by 2.2 percent.
Figure 3 shows the gross value added by sector over the period 1994 to 2012. A number of important trends are immediately apparent. Firstly, the services sector has grown substantially faster than any other sector. Secondly, the primary sector, which includes agriculture and mining, has been in long-term decline. Thirdly, the contribution of the manufacturing sector has declined. Fourthly, the contribution of government has remained largely static.

Despite the recent deceleration in growth, growth in gross domestic product (GDP) per capita (which averaged less than 1 percent per annum in the first decade of democracy) has averaged 2 percent since 2003, with gross national income (GNI) per capita rising even faster at an average of 2.6 percent since 2003. It increased from R12 504 in 1994 to R60 505 in 2012 – an increase of R48 000. In absolute terms, these increases equate to a GDP-per-capita increase of R8 940 (R28 536 in 1994 to R37 476 in 2012) and a GNI-per-capita increase of R10 671 (R27 886 in 1994 to R38 537 in 2012). These rising income levels, together with the progress of transformation (including the growth of a black middle class and a widened base of social grant beneficiaries), explains a large part of the growth explosion of the mid-2000s.

The forecast of future growth is hampered by a number of uncertainties on the global and domestic front. Globally, there is robust expansion in developing countries, versus underperformance in advanced economies. Emerging economies are expected to grow, but not at the rate experienced over the past few years. Advanced economies, faced with the headwinds of deleveraging and fiscal consolidation, are forecast to expand, but this is not uniform and is a cause for concern. While the USA is expected to grow at 1.9 percent in 2013, output in the Euro area is forecast to fall by 0.3 percent, the second consecutive year of contraction for the world's largest economic bloc. Prospects for low-income developing countries (many in sub-Saharan Africa) continue to improve. The International Monetary Fund (IMF) forecasts that sub-Saharan Africa will grow by 5.6 percent in 2013. It is unclear what implication the slower, but differentiated growth environment might have on mineral-based economies such as South Africa.

A domestic aspect of concern is how infrastructure constraints, in particular electricity generation and rail and port capacity, will hamper growth.

Figure 3: Evolution of the South African economy's value addition structure



Source: Statistics South Africa.

2.3 Major economic thrusts

2.3.1 Macro-economic stability

As shown in The Presidency's 10-year and 15-year reviews, one of the key achievements of government has been the stabilisation of the economy. This was severely tested by the GFC of 2007 and 2008, and the global recession that followed. However, the resilience of the South African economy in the presence of these adverse external shocks was impressive.

As indicated in the 15-year review, “the South African economy was in crisis in 1994 (The Presidency, 2005). The short-term issues faced by the democratic government were the after-effects of a severe drought in 1992, a global economic recession, political strife and economic policy uncertainty at home, a large budget deficit, almost no foreign exchange reserves (less than a week of import cover), a private sector creaking under high interest rates, inflation of about 15 percent and massive outflows of currency. The country was also in the longest downward phase in the business cycle since 1945, which lasted from March 1989 to May 1993. Furthermore, globalisation created pressures to reform fiscal policy institutions and budgetary systems, and also for policy convergence, including deficit reduction, tax reform to broaden the tax base, and the restructuring of public enterprises”.

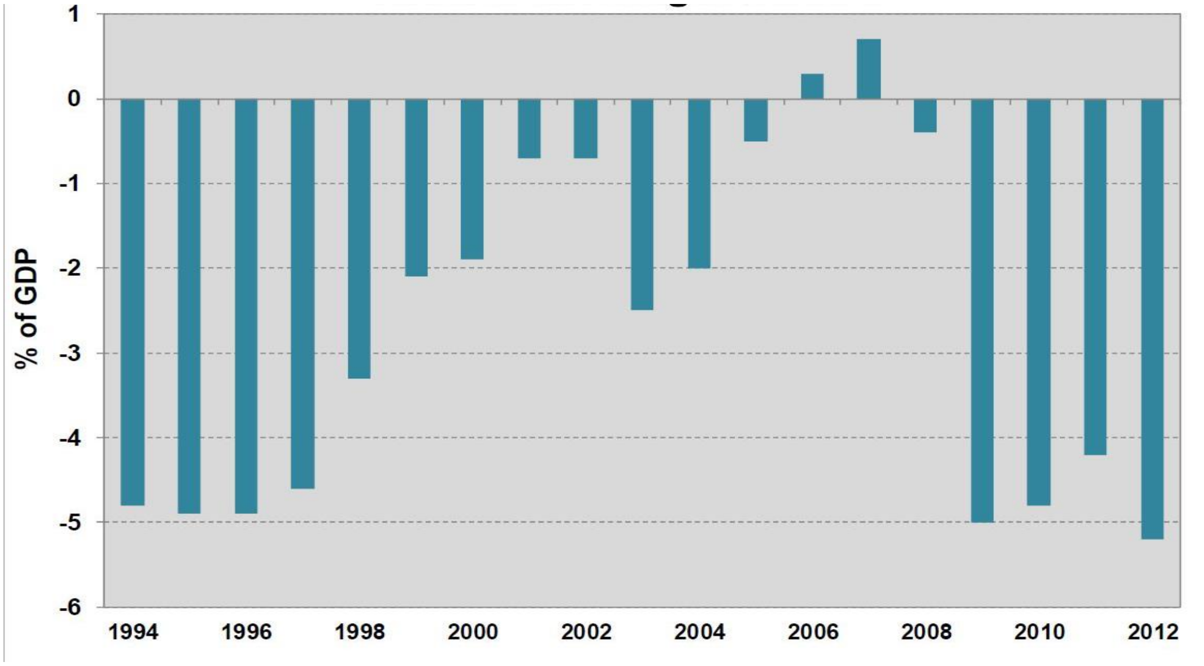
The 10-year and 15-year reviews also highlighted the long-term structural weaknesses inherited from apartheid, which included declining employment and investment levels, a poorly educated workforce, large monopolies, a declining mining sector, high cost structures and the erosion of the country’s manufacturing base.

Prudent fiscal management resulted in a complete turnaround in governmental balances from the precarious state of affairs inherited from the apartheid regime, leading to lower debt servicing cost for the public sector and cheaper credit for the private sector. This created the necessary fiscal space to weather the economic storm that followed the global financial crisis and allowed for counter-cyclical fiscal policy.

2.3.1.1 Fiscal policy

The management of South Africa’s fiscal policy is considered to be world class. Figure 4 shows the trend in the budget balance since the advent of democracy. The budget balance improved dramatically from a deficit of 4.8 percent of GDP to 0.5 percent by 2005, and turned into surplus territory over the subsequent two years. The impact of the economic downturn and subdued recovery, coupled with a counter-cyclical fiscal stance, is reflected in a visible deterioration in public finances. Revenue collection came under pressure as corporate profits dwindled, substantial job losses affected personal income tax payments and weaker household consumption expenditure had an adverse impact on VAT receipts. Considering that government utilised fiscal stimuli to soften the negative effects of the economic recession in the early stages of the recent downturn and to support a swift recovery in its aftermath, it is not surprising that the fiscal balance deteriorated substantially over the past four years. Despite the substantial widening of the budget deficit, South Africa’s performance compares relatively well from a global perspective, although its fiscal space has become more limited.

Figure 4: Trend in the budget balance



Source: Maia, 2013

Although individual taxpayers continue to account for the largest share of tax receipts by government, the proportion declined from almost 40 percent in 1994/95 to about 34 percent in 2012/13. In this regard, government introduced various tax reforms that have resulted in income tax relief, particularly for individuals in the lower income brackets. The relative contribution made to government revenue by corporate taxation rose from approximately 11 percent in 1994/95 to 19 percent by 2012/13, while that of value-added tax (VAT) expanded from 26 percent to 27 percent over the same period. The proportions claimed by direct versus indirect forms of taxation have remained largely unchanged.

In the early years of the new democracy, there was limited exposure to foreign debt, largely due to limited access to international capital markets under the sanctions era. Nonetheless, this exposure rose over time, especially during the period 2002 to 2009, while the level of domestic debt increased at a much more moderate pace. This reduces the crowding-out effect of government's debt financing, freeing up a greater portion of domestic savings for use by the private sector.

As the economic crisis intensified in 2009, government's net loan debt increased substantially, from R525.6 billion in the 2008/09 financial year to R1 165.1 billion by 2012/13. In addition, borrowing requirements also increased, largely to accommodate a widening fiscal deficit as government revenue came under pressure, while the need for stimulatory action to revive economic activity became essential. Relative to the size of the economy, government's net loan debt declined sharply from the peak of 48 percent of GDP reached in 1996/97 to 22.8 percent in 2008/09. Although the debt-to-GDP ratio subsequently rose to approximately 36.3 percent by 2012/13, it remains significantly below the 20-year high reached in 1996. However, it compares fairly favourably from a global perspective.

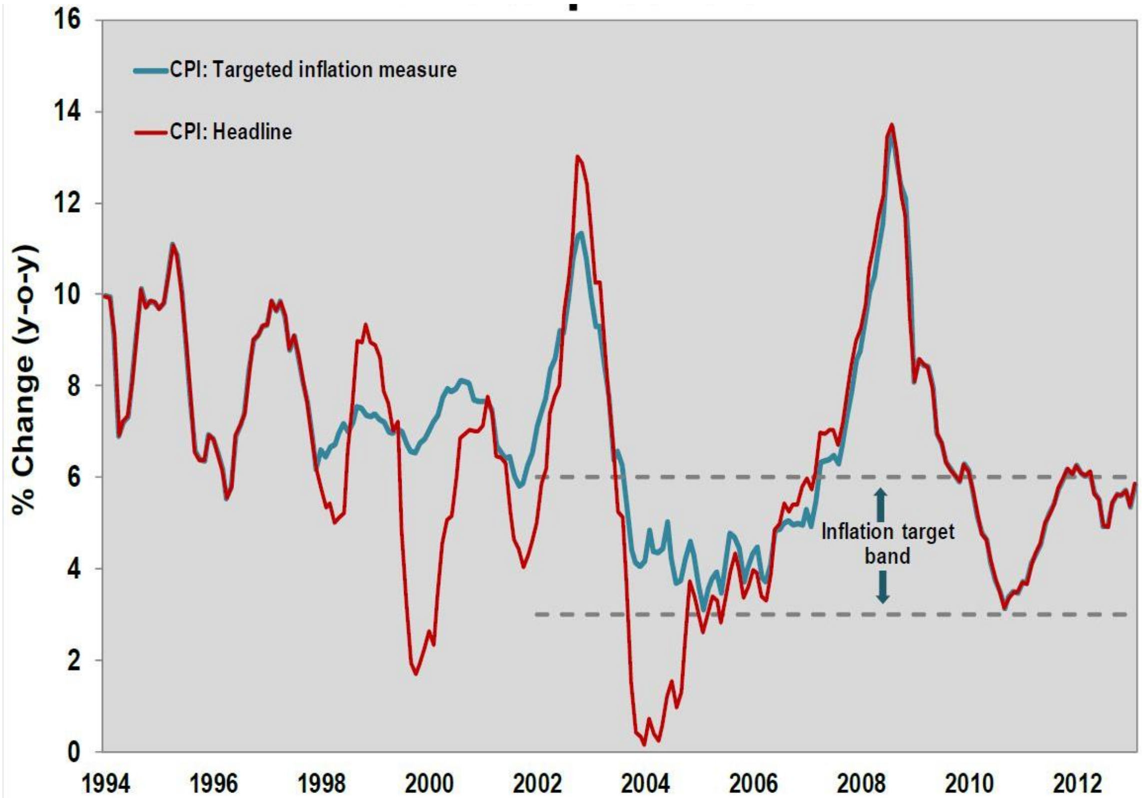
2.3.1.2 Monetary policy

Consumer price inflation embarked on a generally declining trend over the period 1994 to 2001. It averaged 9 percent in 1994, falling gradually to 5.7 percent by 2001. Since 2002, SARB embarked on inflation targeting to ensure that the level of inflation remains between 3 and 6 percent. The rate of inflation initially exceeded the upper band of 6 percent, as the rand weakened significantly in 2001 and 2002, in the aftermath of the 9/11 events in the USA. Headline consumer prices shot up sharply to an average rate of 9.2 percent in 2002. However, a substantial recovery in the rand exchange rate and continued currency strength over the period 2003 to 2006 resulted in overall consumer inflation, moderating to an average of 2.5 percent per annum over this period.

As the financial crisis set in during 2007/08 and resulted in a worldwide recession in 2009, commodity prices skyrocketed, with the oil price reaching a record high of almost US$150 per barrel by mid-2008. The higher oil price, along with a substantial depreciation of the rand and higher food and administered prices, put immense upward pressure on domestic inflation. Having reached a 20-year peak of 9.9 percent in 2008, consumer inflation declined in the subsequent years, but still averaged around 5.5 percent per annum over the period 2009 to 2012 (see Figure 5).

Interest rates remain a key tool of monetary authorities to influence market behaviour in pursuit of price stability. In line with the long-term declining trend in consumer price inflation, the Monetary Policy Committee (MPC) has been prepared to progressively lower the repo rate, particularly from 1998 onwards. The repo rate has been at its lowest level in almost 40 years since July 2012 (i.e. at a nominal level of 5 percent).

Figure 5: Consumer price inflation



Source: Maia, 2013

In real terms, the repo rate actually entered negative territory on a number of occasions over the past five years. Despite consumer price inflation having recently been extremely close to the upper band and being expected to temporarily exceed it in the near term, the MPC has kept rates stable in an attempt to support the economic recovery. Other factors supporting such a stance include the fact that demand-pull inflationary pressures do not appear to be present.

2.3.1.3 Balance of payments

As stated in The Presidency's 15-year review, the current account deficit was considered a binding constraint on growth prior to 1994 and up to about 2004 (The Presidency, 2005). A three-pronged strategy was adopted to address this constraint, namely the reduction of tariff barriers in order to increase the competitiveness of the domestic economy, the liberalisation of exchange controls in order to deepen capital markets, and efforts to increase and diversify exports. However, by 2004 the prevailing view among economists was that the opening up of the economy, both on the trade and financial side, as well as the strong macro-economic fundamentals, reduced the impact of this constraint, and that foreign investment both in the long and short term would be forthcoming.

After having recorded a positive balance and expanding surplus over the first decade of democracy, South Africa's merchandise trade performance came under increased pressure from 2003 onward. Domestic demand, driven by a significant increase in household consumption expenditure, saw the demand for imported consumer goods rise sharply over the period 2003 to 2007, as domestic production could not fully meet demand requirements. In addition, the public sector's massive infrastructure investment programme resulted in a steep rise in imported capital goods. A higher international crude oil price, in turn, resulted in the import bill for mineral products rising at a fast pace.

On the other side of the ledger, exports declined as South African businesses faced an increasingly challenging operating environment, including factors such as rising operating costs (including higher costs of electricity, fuel and harbour charges), infrastructure backlogs (for example, electricity, rail transport and ports), safety and industrial action related to production stoppages in the mining sector, a relatively strong currency over a large part of this period, and, over the years 2008 to 2012, the global economic recession and a subsequent fragile recovery, particularly in the advanced economies, which have been South Africa's traditional trading partners and the principal markets for manufactured exports.

South Africa's trade balance thus deteriorated over the second decade of freedom. However, the deficit on the current account of the payments balance was comfortably financed as foreign investors were attracted to South Africa – with a substantial increase of foreign capital entering South Africa. Most of the foreign investment has, however, been in the form of portfolio investments, mainly on the JSE Securities Exchange Limited and in South African government bonds. Therefore the deficit on the services balance, in turn, has widened over the years because of increasing interest and dividend payments to non-residents. Consequently, the overall deficit on the current account of the balance of payments deteriorated to 7.2 percent of GDP by 2008. Following a relatively brief improvement in 2009 and 2010 due to a lower average rate of increase in imports relative to that of exports, the deficit worsened to 6.3 percent of GDP in 2012 as import requirements expanded.

Net purchases of local shares by non-residents moved into negative territory for most of 2011 and 2012 because foreign investment into South Africa is dominated by portfolio investments and some FDI. This creates the possibility that a shift in expectations of foreigners about South Africa could lead to a withdrawal or withholding of funds and that the current account deficit re-emerges as a major constraint to growth.

2.3.2 Investment and savings

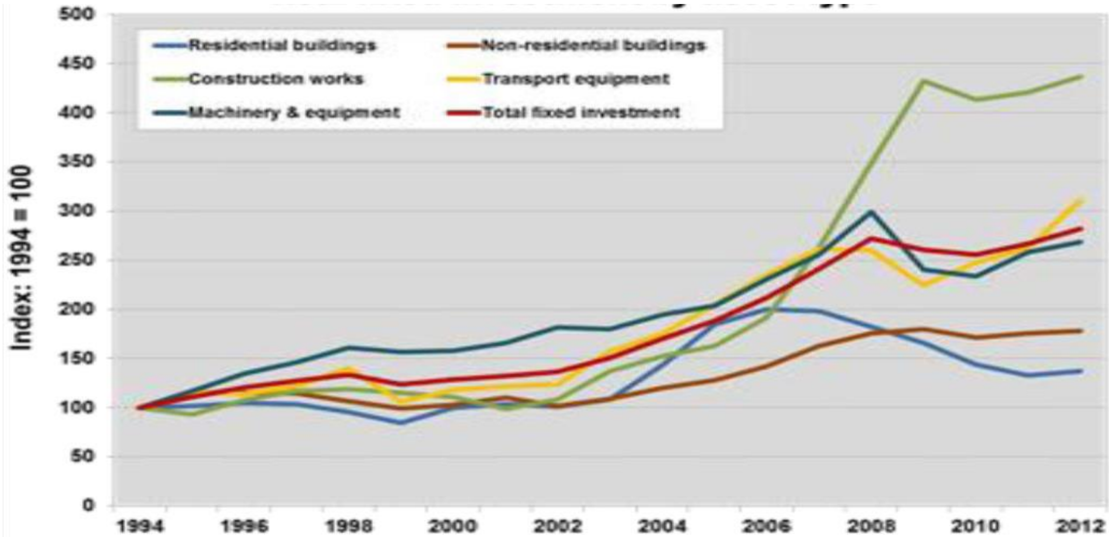
High rates of saving and investment are critical ingredients for sustaining the accelerated rate of growth that is necessary for reducing the country's high levels of unemployment and poverty. As indicated in the NDP's Gross Fixed Capital Formation (GFCF), physical investment spending will need to grow by 10 percent per annum, with investment as a percentage of GDP rising to 25 percent if South Africa is to meet its development goals. The ratio of gross fixed capital formation to GDP rose from 15.2 percent in 1994 to a peak of 23.1 percent in 2008, but had declined to19.2 percent by 2012.

On average, fixed-investment activity has been strong over the past 20 years, having recorded an average annual growth of 6.2 percent per annum. The period between 2003 and 2008 witnessed a substantial acceleration in fixed-investment spending towards an average of 12.2 percent per annum. Taking the past decade into account, real capital outlays by the electricity sector topped the rankings, with an average growth rate of 20.7 percent per annum, followed by the transport, storage and communication sector (10.9 percent).

The growth in fixed investment was underpinned by the multibillion rand public sector infrastructure rollout. State-owned enterprises (SOEs), particularly, Eskom and Transnet, have made a substantially higher contribution to overall fixed investment, as reflected by the rising share of public corporations to overall fixed investment, from 10 percent in 2001 to almost 22 percent by 2012, in real terms. Public corporations recorded a strong average fixed-investment growth of 16 percent per annum over the period 2003 to 2012, as substantial infrastructure investments were made to expand the capacity and efficiencies of the energy and transport sectors. The private sector has also experienced brisk growth in fixed-investment activity, albeit at a more moderate pace than that of the public sector at large. However, it has accounted for about 68 percent of overall real fixed investment over the past decade, although its share declined from an all-time high of 74.4 percent in 2005 to 63 percent by 2012 (see Figure 6).

As indicated in The Presidency's 15-year review, the savings propensity in South Africa has been declining steadily since the 1980s and is worryingly low at present (The Presidency, 2005). The ratio of gross saving to GDP stood at 13.2 percent in 2012, compared to 19.1 percent in 1990 and 16.9 percent in 1994. This is well below the 30 percent average for middle-income countries. It is largely a result of individuals' share of total savings declining over time and reaching levels of dissaving for the period 2006 to 2011 and zero for 2012.

Figure 6: Real fixed investment by asset type



Source: Maia, 2013

As indicated above, investment rates equal to 25 percent of GDP or higher are needed to achieve and sustain high growth. Such high rates of investment require financing, either through domestic or foreign savings. The relatively low level of domestic savings in the South African economy is a structural constraint to future growth. Low domestic savings therefore inhibit investment and make the economy's growth dependent on foreign savings.

2.4 Industrial and trade policy

2.4.1 Economic structure

As stated in The Presidency's 10-year and 15-year reviews, the structure of the South African economy has been undergoing an extensive transformation as a result of economic reforms and global trends over the past two decades (The Presidency, 2005). Table 4 shows the steady decline, followed by a stabilisation of the importance of the primary sector – from 15 percent in the 1980s to about 11 percent in 2012. There has been a decline of the secondary sector, from contributing around 27 percent of GDP in the 1980s to 19 percent in 2012, and steady and substantial growth in the tertiary sector to overall GDP from 56 percent in the 1980s to about 70 percent in 2012.

Table 4: Structure of South Africa's economy

	1980	1985	1990	1995	2000	2005	2012
Primary sector	15.5	14.3	13.1	11.7	10.8	9.7	11.8%
Secondary sector	27.6	26.1	26.0	25.0	24.2	23.5	19.0%
Tertiary sector	56.9	59.6	61.0	63.3	64.9	66.9	69.2

Source: The Presidency, 2005 – updated for 2012

The tertiary sector is dominated by the financial services sector, which is largely driven by a strong banking system, and accounted for close to 22 percent of overall GDP in 2012 (from a 12 percent share in 1994). Trade (comprising retail, wholesale and motor trade, as well as catering and accommodation) and transport (consisting of transport, storage and communication) are further key services-related sectors.

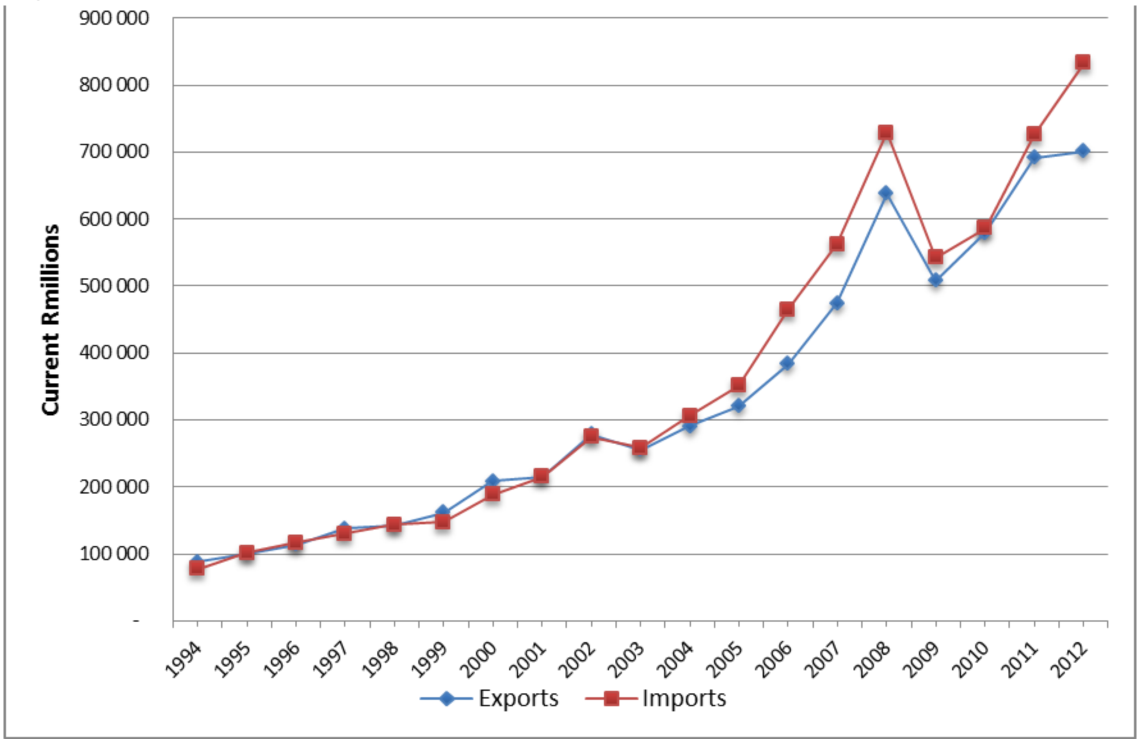
The manufacturing sector dominates the secondary sector and is the fourth largest in the economy. The construction sector, although relatively small, played an important role in boosting economic activity as demand for residential buildings and non-residential construction escalated between 2003 and 2007. However, for a developing economy, the share of the secondary sectors, particularly manufacturing, is not only small, but has been declining over the years. Such a trend reflects numerous challenges facing domestic manufacturing in a highly competitive global environment and underscores government's efforts to reindustrialise the economy, particularly due to the labour intensity of this type of economic activity.

In contrast, the primary sectors, which comprise the agriculture, forestry and fishing, as well as the mining sectors, have collectively maintained their relative share of GDP over time, amounting to 11.8 percent by 2012. However, their individual structure has changed significantly over time. Moreover, the highly labour-intensive agricultural sector has lost 1.1 million jobs since 1994 for a variety of reasons, but particularly through the mechanisation of farming activities. The real output of the mining sector has declined over the past 20 years, despite the enormous wealth and diversity of South Africa's rich mineral endowment. This sector did not fare as well as its peers during the commodities boom period (2003 to 2008) due to multiple factors, including a changing minerals regulatory regime, insufficient supporting infrastructure for mining development and an eroding skills base. More recently, this sector has faced serious production disruptions and upward cost pressures due to technical and safety-related matters, as well as industrial action.

2.4.2 Trade

As stated in The Presidency's 15-year review, South Africa's economy has opened up substantially since 1994, with both the levels of exports and imports growing at a rapid rate (see Figure 6) (The Presidency, 2005). The country's exports in real terms have been on a long-term growth path since 1994. In addition, South Africa's export-output ratio has almost doubled from just 16 percent in 1994 to above 30 percent in 2008 before the onset of the global financial crisis. On average, imports have grown by 24 percent annually since 1992.

Figure 7: Total South African imports and exports



Manufactured goods claimed a larger share of the merchandise export basket at 51.6 percent of the total in 2012, compared to 42 percent recorded in 1994. The share of the merchandise export basket claimed by mining sector exports fell from 53 percent in 1994 to a low of 34 percent in 2004, largely as a result of the successively smaller contribution made by gold mining exports. The rise of platinum group metals (PGM) exports, iron ore, coal and other mineral exports, complemented by higher commodity prices at least until the onset of the global economic crisis, propelled the share of mining exports in the overall basket to 46.8 percent by 2011. The ratio declined to 44 percent in 2012, largely due to the sharp fall in the value of PGM exports, as the domestic industry faced a very difficult year. The share of the export basket claimed by the agriculture, forestry and fishing sector has remained relatively stable throughout the period under review, amounting to 4.2 percent by 2012.

South Africa's main destination for its exports has changed considerably over the past 20 years. New markets have emerged, while the dominance of some of the traditional markets have been reduced. This was the case with respect to the United Kingdom, Japan and Switzerland in particular, while the relative shares for the USA and Germany also declined, but to a lesser degree. However, China emerged as South Africa's most important export trading partner since 2009, with its share of non-gold merchandise exports measuring 12.9 percent in 2012, compared to a mere 0.8 percent in 1994. India now claims fourth position as an export destination, having overtaken both the United Kingdom and Switzerland, while a number of African countries, such as Zambia, Mozambique and the Democratic Republic of the Congo, have also become increasingly important export markets, especially for South Africa's manufactured goods.

Commodity exports dominated the export basket destined for China in 2012, with iron ore topping the list at 47 percent of the total. Manufactured goods represented only 20 percent of this basket and consisted largely of basic iron and steel products, industrial chemicals, non-ferrous metal products, and motor vehicles, parts and accessories. The European Union (EU) claimed a 20.5 percent share of South Africa's overall merchandise exports in 2012. The basket destined for the EU was dominated by manufactured goods (almost 60 percent of the total), led by motor vehicles, parts and accessories, as well as basic iron and steel products. Mining exports to the EU represented approximately 33 percent of the basket, with platinum and coal exports taking top position. Agricultural exports to the EU represented a significant 7.4 percent share of the basket.

The rest of Africa, and more specifically the Southern African Development Community (SADC), has emerged as an increasingly important market for South Africa's exports. SADC's share of overall exports increased from 8.3 percent in 1994 to 12.9 percent by 2012, while its share of the entire African continent increased from 10 percent to 17.6 percent over the same period. The export basket destined for the rest of the African continent is substantially more diversified and overwhelmingly dominated by manufactured goods.

Although intermediate goods continue to dominate South Africa's import basket (albeit with a declining share), imported consumer goods have registered notable gains since 1994 and have overtaken capital goods as the second-largest import category. This is despite the large capital equipment import requirements associated with the ongoing infrastructure investment programme. Over time, the penetration of foreign consumer products into the local market has been underpinned by a number of factors, including a relatively stronger rand, a number of other factors that have also undermined the price competitiveness of domestically produced consumer goods, rising income levels and access to credit, which have boosted consumption demand.

2.4.3 Industrial policy

It appears that a fundamental integrity existed in the core thrusts of industrial policy over the entire 19-year period. These thrusts include the following:

- Targeting relatively labour-intensive sectors of industry
- Enhancing the competitiveness of capital-intensive sectors
- Promoting the linkages between capital-intensive and labour-intensive sectors, particularly the market power held by the former
- Promoting competition – attacking abuse of dominant market power
- Industrial finance
- Trade policy aimed at strengthening relationships with fast-growing developing economies, with a particular focus on the economic integration of the southern African region
- Small and medium enterprise support
- Broad-based black economic empowerment
- Technology and innovation enhancement
- Skills development
- Broadening industrial policy support to emerging economic sectors, such as tourism and creative art industries

The elevation of industrial policy to the key strategic economic policy intervention of government was cemented by the publication of the NIPF and subsequently its implementation plan, IPAP, in 2007. The first implementation plan of NIPF – IPAP 1 – was approved in the same year and underwent a number of revisions, which culminated in IPAP 2 and the subsequent annual iterations. Movement towards the implementation of sector strategies has been uneven, with the sectors of business process outsourcing, the automotive, clothing and textiles, film and television, and metals and engineering industries registering progress.

In line with the rollout of IPAP, government's sectoral incentives were reviewed and replaced with interventions that were better designed and contained stronger conditions. These included the replacement of the Duty Credit Certificate Scheme (DCCS) with the sector-specific Textile and Clothing Production Incentive, the Motor Industry

Development Plan (MIDP) with the Automotive Production Development Programme (APDP), and the Small and Medium Enterprise Development Programme (SMEDP) with the Enterprise Investment Programme (EIP).

In 2011, the Manufacturing Competitiveness Enhancement Programme (MCEP) was developed. Also, to support manufacturing and local production, the regulations of the Preferential Procurement Policy Framework Act (PPPFA) were revised to support the designation of sectors for local procurement by government. As a result of this, several sectors, including rail rolling stock, locomotives, wagons and carriages, power pylons, buses, clothing, textiles, leather and footwear, canned vegetables, set-top boxes and furniture, have been designated and local content commitments on public procurement have increased.

The quantum of financial support potentially available to firms has increased in the past five years, with new tax-based incentives and revised grant-based incentives. This was proposed as a conscious counter-cyclical thrust to the downturn experienced in 2008.

Significant structural changes in industrial policy implementation have emerged recently. Firstly, a consolidation of state-owned industrial financial institutions has taken place around the Industrial Development Corporation (IDC). Separate financing institutions for small businesses and large firms no longer exist. Time will tell whether this, together with other components of policy that have been adjusted, will accelerate the pace of economic development. Secondly, the Economic Development Department (EDD) was established and is gradually shaping the mandate it has been given. The industrial financing implementing agency, the IDC, and other institutions responsible for small business, have recently shifted from the Department of Trade and Industry (the dti) to the EDD. The Competition Commission now also reports through the EDD. Thirdly, another new institution was created, the National Planning Commission (NPC). The current industrial policy approach appears to be in sync with the recently published NDP. However, these new institutions have created a new dynamic requiring increased cross-institutional coordination. This is likely to be the greatest challenge for the future.

The past five years have revealed the fact that a very significant part of industrial policy and policy implementation is actually carried out by departments other than the dti. For economic infrastructure, such as electricity and logistics, the need for alignment with industrial policy is quite obvious. It is not clear that the coordination and synchronisation of these is optimal. The linkages firstly relate to procurement for the infrastructure expenditure programme, and secondly, to the type of infrastructure and the way in which the infrastructure is utilised. The main overlap between industrial policy and energy policy since 2008 relates to electricity generation and distribution. In early 2008, arising from a range of generation capacity and operating constraints, Eskom declared that it had serious problems with electricity supply, indicating that it could only guarantee 80 percent of the requirements of large energy-intensive customers that spanned the mining and electricity-intensive subsectors of manufacturing. The ensuing rolling blackouts had a serious adverse impact on mining and industrial production.

2.4.4 Small business support

In 1994, the new government was well aware of the challenges experienced by small enterprises. Even the policy shifts after 1995 was informed by robust engagements that identified the needs, goals, options and implementation challenges of this sector. This culminated in the publication of the Integrated Small Business Development Strategy. The strategy proposed the establishment of a number of new organisations – the National Small Business Council, a small business development agency called Ntsika, a finance agency called Khula Enterprise Finance, and several local service centres known as local business service centres.

The first two years after the release of the white paper were overshadowed by a focus on institution building, including the transformation of existing agencies. Naturally, this meant a delay in the commencement of the implementation phase. In addition, the new institutions proved to be less effective than anticipated, due to, in some part, the policy approach of the entity (such as Khula's "wholesale" approach to financing), transformation challenges and the generally difficult business environment that prevailed for much of the 1990s.

Regular reviews of the environment for small enterprise development and direct feedback from SMMEs highlighted a number of challenges in government's small enterprise development approach. This resulted in the consolidation of small business support agencies into a single small and medium firm (non-financial) support agency – the Small Enterprise Development Agency (SEDA) – to operate alongside Khula, and the establishment of the South African Micro-finance Apex Fund (SAMAF) to provide micro-enterprises with finance.

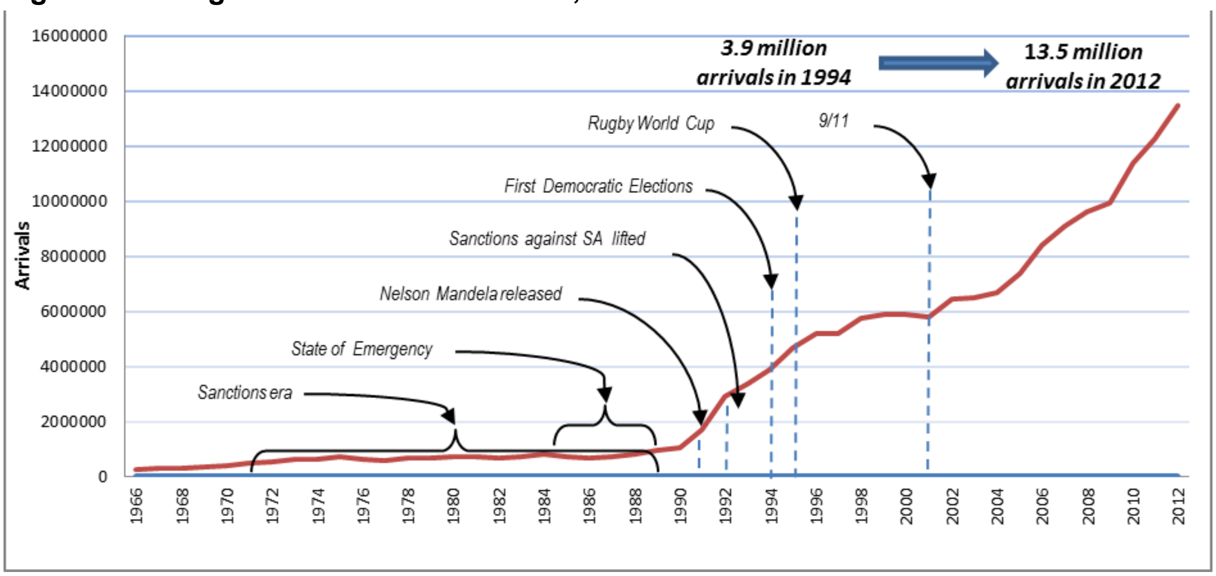
A further review of small enterprise finance agencies, including Khula, SAMAF and the IDC's small enterprise finance desk, was conducted in 2011. The three entities' capacity was further consolidated to create a single entity responsible for all SMME finance needs – the Small Enterprise Finance Agency (SEFA). Substantial legislative amendments have also been made to strengthen and modernise South Africa's policy environment for cooperative enterprises.

2.4.5 Tourism

In recent years, tourism has emerged as one of the fastest-growing service sectors in the global economy. This is evident from the growth in international tourist arrivals from 277 million in 1980 to one billion in 2012. International tourist spending reached US$1.1 billion in 2012, while the sector directly employed approximately 101.1 million people around the world in the same year.

Since the country's political transition to a democracy, the dramatic growth of tourism has also been a feature of the South African economy. The crumbling of the apartheid system signalled the end of stagnant foreign arrival growth during the sanctions era, and marked the start of a continuing period of consistent strong growth. Overall foreign arrivals (including tourists) in South Africa grew from less than one million per annum in the late 1980s to 13.5 million in 2012.

Figure 8: Foreign arrivals in South Africa, 1966–2012



Source: South African Tourism, 2013.

The country's tourism sector has evolved from a relatively small and exclusive safari holiday destination for an elite international and domestic market, to a dynamic and modern destination with a competitive and diverse tourism offering for a broader global and domestic market. In addition to being a valuable earner of foreign exchange for the country, tourism directly employed around 600 000 people and contributed more than R84 billion to the country's GDP in 2011 (representing 2.9 percent of total GDP).

The success story of tourism in South Africa is not just a factor of demand and supply in the sense of a growing market and an increasingly competitive private sector, but is rather a reflection of the collaborative efforts between government, the private sector and destination marketing organisations over the past two decades to develop and grow the sector and to promote the country as a destination to carefully targeted market segments around the world.

The structure and prominence of tourism in government has developed dramatically over the past two decades. From a small directorate that set the direction for policy reviews, the tourism function grew into a full branch of the former Department of Environmental Affairs and Tourism (DEAT) that led tourism development by creating the enabling environment that allowed the private sector to grow. Recognising its increasing significance, government established the National Department of Tourism (NDT) as a stand-alone national department in 2009.

During the same period, the former Satour became South African Tourism (SAT), which, through closer relationships with the international tourism trade, successfully positioned the country's brand to move South Africa to a sought-after destination.

The private sector also saw significant change when existing groupings in a fragmented industry established the Tourism Business Council of South Africa (TBCSA) in 1996 as an overarching private-sector body. With a more coordinated structure and approach, the private sector's efforts in selling the country complemented the destination marketing initiatives of SAT to culminate in the consistent growth achieved over the last two decades.

It is through these developments and closer collaboration between the public and private sector that the tourism sector was able to overcome challenges, withstand external shock and build South Africa into a more mature and competitive tourism destination.

2.4.6 Competition and regulatory policy

In recognition of the apartheid legacy of high levels of corporate and industrial monopolies in the economy, a far more robust Competition Act that informed the establishment of the Competition Commission and the Competition Tribunal was introduced in 1998. The rationale for the new legislation was that competition policy should form a fundamental part of industrial policy, by dealing with anti-competitive behaviour flowing from over-concentration and facilitating the entry and growth of small and black-owned firms, as well as FDI.

South Africa's competition policy framework is robust by international standards, and includes innovative elements such as the inclusion of a public interest clause to protect vulnerable workers. Its institutions have won global acclaim for the technical quality and nuance of their decisions. The new Competition Act also set new standards in transparency by opening large parts of its processes to the public and the media, thereby allowing for much greater public awareness of the decisions of the Competition Tribunal and the Competition Commission, as well as the dubious conduct of many well-known firms summoned to appear before it.

The work of the Competition Commission since 2007 has revealed the far-reaching extent of collusive conduct. The Commission's success is largely due to the introduction of a Corporate Leniency Policy (CLP) in 2004, coupled with a proactive stance on investigation, which established the credible threat of detection and hence provided an incentive to be the first to reveal questionable conduct in exchange for no penalty being imposed. As firms were shaken up, many decided to apply for leniency, and cartels have been uncovered across the economy. The CLP enables the Commission to incentivise settlement by the remaining members in exchange for further and corroborating information, which means that the Commission has been able to resolve cases more effectively.

Mergers have been evaluated relatively effectively. This is partly due to the fact that, as the merging parties generally wish that a proposed acquisition goes ahead speedily, they have an incentive to provide information to both the Commission and the Tribunal, as requested. Providing incomplete or misleading information can lead to matters being delayed for long periods and cast doubt on the parties' intentions. The Tribunal hearing process ensures transparency and raises public awareness.

There can be little doubt that government's competition policy has been one of its most far-reaching interventions. Although it is difficult to calculate the impact of the Competition Commission, there is similarly little doubt that its institutions have fundamentally altered the nature of competition in South Africa.

However, the overall picture of competition and the nature of South Africa's growth since 1994 is a picture of the continued strength of incumbent firms and their ability to earn large profits from their positions. Liberalisation does not generally change this, as the incumbent firms have advantages from the investments already made, along with a pattern of infrastructure provision and access to key inputs.

Going forward, government can take a more proactive approach to opening up markets and enabling the entry and growth of rivals. This implies extending the role of regulation where it is necessary to restrict incumbents' pricing power, and making increased rivalry a critical part of the mandate of development finance institutions. It also implies taking a regional approach to competition where, due to economies of scale, competitive discipline is more likely in a bigger regional market.

2.4.7 Research and development

The pre-1994 R&D environment was characterised by a fairly developed system for a middle-income country, huge racial and gender disparities in the composition of R&D human capital, and major isolation from global science and technology (S&T) systems.

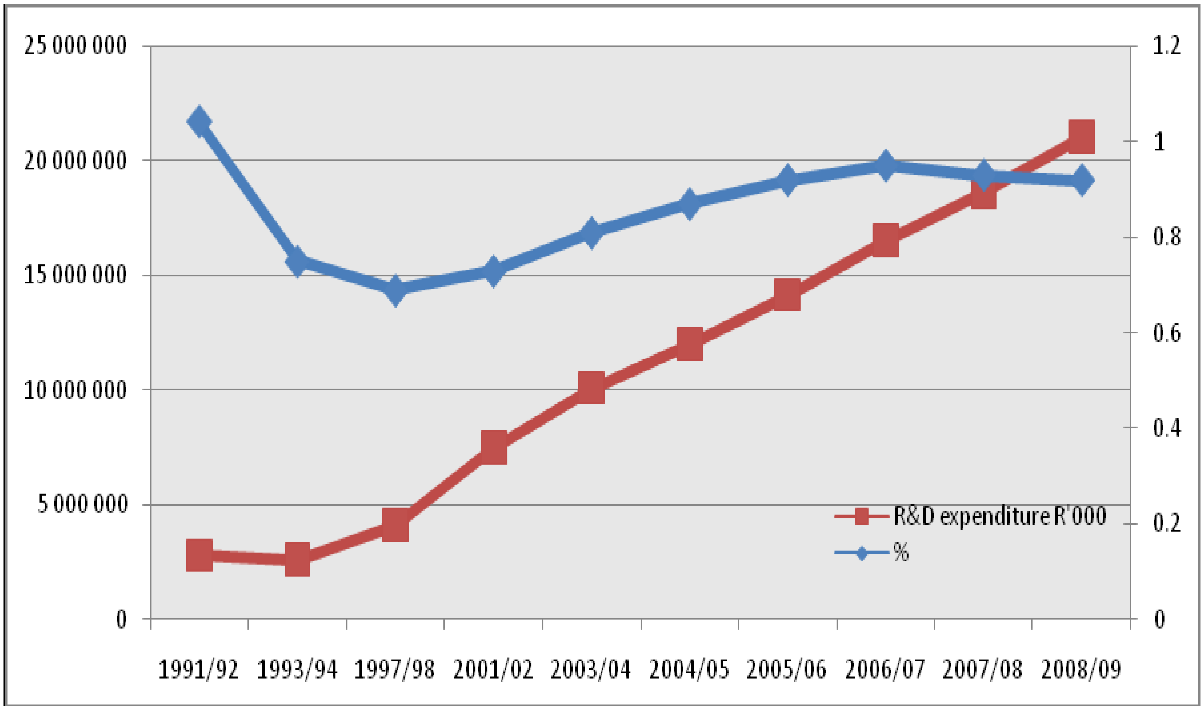
The key policy documents that have shaped the policy domain are the 1996 *White Paper on Science and Technology*, the 2002 National Research and Development Strategy (NRDS) and the 2008 Ten-year Innovation Plan for South Africa (TYIP). The white paper introduced the concept of a national system of innovation (NSI) as South Africa's approach to its S&T sector. The NRDS identified several strategic S&T focus areas, emphasising human capital development and infrastructure investment for the realisation of a fully-fledged NSI. The TYIP identified strategic priorities (bio-economy, space, energy security, global change, and human and social dynamics) needed to transform the South African economy from a resource-based to a knowledge-based economy. The key implementation themes that have characterised the 20-year period are public governance reform (the transformation of existing institutions and the establishment of new ones) to address fragmentation, duplication and unclear mandates, increased investment in the R&D system, the rollout of S&T in strategic focus areas, human capital development and infrastructure investment.

In nearly 20 years, there have been several positive developments, including phenomenal growth in R&D investments, impressive growth in high-level human capital (including an increase in black people and women), and an increase in R&D outputs (publications) and innovation outputs (innovation activities at firm level, patents and royalties).

The period between 1990 and 1994 saw a sharp decline in the R&D budget, due to the scaling down of defence-related R&D.

Figure 9 shows a steady increase in R&D expenditure from 1991 until 2009. Although it started steadily between 1991 and 1993, this was followed by a rapid increase up to 2009. The period 1993–2004 saw the doubling of gross domestic expenditure on R&D (GERD) as a percentage of GDP, from below 0.2 percent to 0.6 percent, at an average annual increase of 5 percent.

Figure 9: Gross domestic expenditure on R&D as a percentage of GDP (1991/92–2009/10)



Source: Mai, 2013

However, R&D growth in South Africa has been slower than in comparable middle-income countries, such as Brazil, China and India, and South Africa's share of global R&D outputs, citations and patents has declined. A full comparison of South Africa's NSI with those of other middle-income countries shows that it is relatively small, but exceedingly efficient and productive. However, South Africa still has a comparatively low higher education participation rate, and additional focus is needed in areas such as engineering. Moreover, the country needs to increase its exports of high-technology manufactured goods.

2.4.8 Empowerment

Very few black entrepreneurs survived apartheid's onslaught of the Land Act, the colour bar, the Group Areas Act, and massive under-investment in education and skills development without any meaningful capital accumulation. Given the far-reaching nature of apartheid and the manner in which black people were deprived of their capital and assets, it is not surprising that empowerment has progressed slowly in South Africa.

Nonetheless, government developed and implemented a variety of policies and programmes to facilitate BEE, including the National Empowerment Fund and the BEE Act, followed by the phased release of the Broad-based Black Economic Empowerment

(B-BBEE) Codes of Good Practice. The codes have a number of elements to ensure that empowerment is broad-based. These elements are ownership, management control, employment equity, skills development, procurement, enterprise development and socio-economic development. The Black Business Supplier Development Programme (BBSDP) was introduced to finance services to help black-owned firms improve their core competencies.

The National Empowerment Fund (NEF) was established by the National Empowerment Fund Act of 1998, with the specific mandate of supporting and facilitating the increased participation of black South Africans in the economy through the provision of financial and non-financial support. The NEF provides funding to black entrepreneurs for starting new and expanding existing businesses, as well as acquiring equity in existing white-owned businesses.

From its inception in 2003 to 2012, the NEF has funded more than 480 deals and businesses to the value of R4.8 billion. The NEF's funding has supported a total of 36 000 jobs, of which about 13 000 were new jobs. About 22 percent of the businesses funded are owned and managed by black women. Deals approved per annum increased from R5 million in 2003 to R1 044 million in 2012.

The 2012 study on the black ownership of the 100 top listed JSE companies revealed that ownership by black South Africans increased from about 8 percent in 2010 to approximately 21 percent in 2012, and is expected to continue to increase in future.

Affirmative action in the workplace was launched relatively early, through the Employment Equity Act of 1998. Steady progress is being made with employment equity in the private sector, while the public sector is becoming representative of the population. Table 3 shows the percentage of top and senior managers who are black and the percentage of top and senior managers who are female. Black people represent 32 percent of all top management positions and 39 percent of all senior management positions in 2012, up from 12 percent and 18 percent respectively in 2000, showing steady progress.
In terms of gender, female representation in top management has increased from 12 percent to 19 percent and in senior management from 21 percent to 27 percent in the same period.

Table 5: Black and female representation in top and senior management posts in South Africa

Percentage of top and senior managers who are black													
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Top managers	12.7	25.1	18.4	23.8	21.1	27.2	22.2	28.8	24.2	32.2	33.5	24.7	32.0
Senior managers	18.5	19.1	22.2	27.3	25.7	27.5	26.9	32.4	32.5	35.5	36.4	34.4	39.4

Percentage of top and senior managers who are female													
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Top managers	12.4	11.9	13.8	14.1	15.1	16.5	21.6	17.8	17.8	18.0	18.0	19.1	19.5
Senior managers	21.0	17.7	21.6	22.3	23.	23.6	27.4	24.9	27.8	26.7	27.4	29.5	27.0

Source: The Presidency, 2012

3. Summary and recommendations

As indicated in The Presidency's 15-year review and in the recently published NDP, coordination failures within government structures have emerged as a major theme. As economic policy becomes complex, the difficulty in ensuring policy coordination and coherence between the spheres of government increases. Increased cross-institutional coordination is likely to be the greatest challenge in the future. The state not only has a role to play in setting the appropriate macro-economic framework. It must also provide the right micro-economic conditions to ensure that the day-to-day decisions and actions of people and companies help deliver the best social and economic outcomes. These frameworks and interventions determine the social and economic climate in which South Africans live, and therefore also determine the level of economic growth and employment. To deliver on this role, government must establish a clear hierarchy and decision-making process across line departments and spheres of government, as called for in the NDP. (The Presidency. 2005)

The democratic government inherited a country that had no foreign exchange reserves, public debt had rocketed, inflation was in the upper teens and investment levels had plummeted. The first task of the new government was to stop the decline. In the period between 1994 and 2001, South Africa was successful in stabilising the economy, improving the confidence of domestic and foreign investors, rebuilding its reputation among lenders, bringing down inflation and restoring the health of public finance.

By the early 2000s, South Africa was able to raise investment levels with some ease by attracting foreign capital. The most binding constraint of the apartheid economy – access to capital – had been broken.

Between 2003 and 2008, South Africa experienced the longest economic boom in its history. Employment increased faster, unemployment fell, investment rose, and inflation and real interest rates declined rapidly. The global economic downturn brought a halt to that progress, with the consequent domestic recession reversing many of the country's gains in employment creation and investment levels.

While the global economic environment had not been conducive to South African economic growth between 2009 and 2013, the economy kept growing despite a short recession, and is increasingly well-positioned for another period of sustained growth. The key challenge will be to ensure that the progress made is accelerated and translates into an economy in which more jobs are created and more people are included. The NDP identifies a number of steps that are required to move towards this new path. These include prioritising actions that lift key constraints to economic expansion, even though the government's responsibility is necessarily broader. In the first five years, government has to commit to the following:

- Doubling the annual expansion in high-level skills supply and improving education throughput at primary and secondary levels
- Improving the labour relations environment
- Establishing interventions to improve labour market matching
- Ensuring that the supply of energy and water is reliable and sufficient for a growing economy, and that the responsibilities of municipal maintenance of distribution systems are appropriately allocated and funded
- Intensifying R&D spending, emphasising opportunities linked to existing industries
- Implementing its commitment to promote industrial diversification through its procurement programme
- Changing the approach to land tenure systems in ways that stimulate production and economic opportunity, thereby reducing uncertainty
- Rapidly expanding public employment programmes

As indicated in the NDP, it is only through effective partnerships across society that a virtuous cycle of rising confidence, rising investment, higher employment, rising productivity and incomes can be generated. This requires greater trust between the state, labour and business. It requires a commitment by all sectors of society to contribute to the efforts that will meet our common objectives, and difficult choices will have to be made.

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