



LABOUR MARKET
INTELLIGENCE PARTNERSHIP

A Low Growth Trap Amidst the Skills Challenge in South Africa

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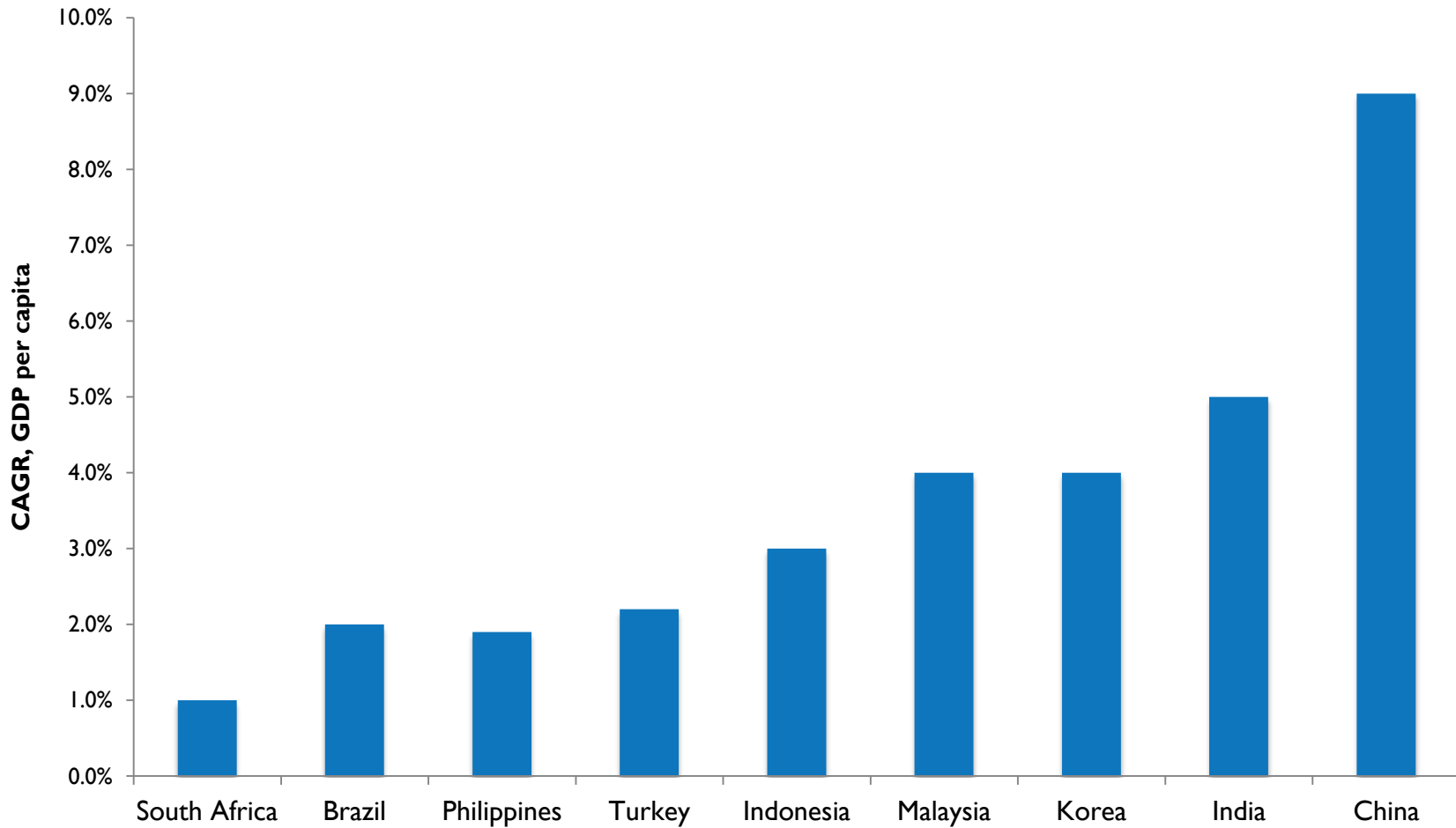
DPRU, UCT

29 September 2016

- The South African Economy: The Genesis of An Emerging Market Growth Trap
 - Economic Growth Trends In Global Comparison
 - Savings and Investment Trends
 - Export Composition and Global Competitiveness: Perpetuating a Growth Trap
- The Socio-Economic Outcomes of our Growth Trap
- Policy Challenges for Growth Convergence: Some Concerns
 - Unintended Consequences: A Economic Growth Path Dependency?
 - Schooling, Skills and Higher Education: Building Linkages
 - Industrial Policy: From Capital Intensity to Relative Prices and the Informal Sector
- Conclusions

The Genesis of A Growth Trap:

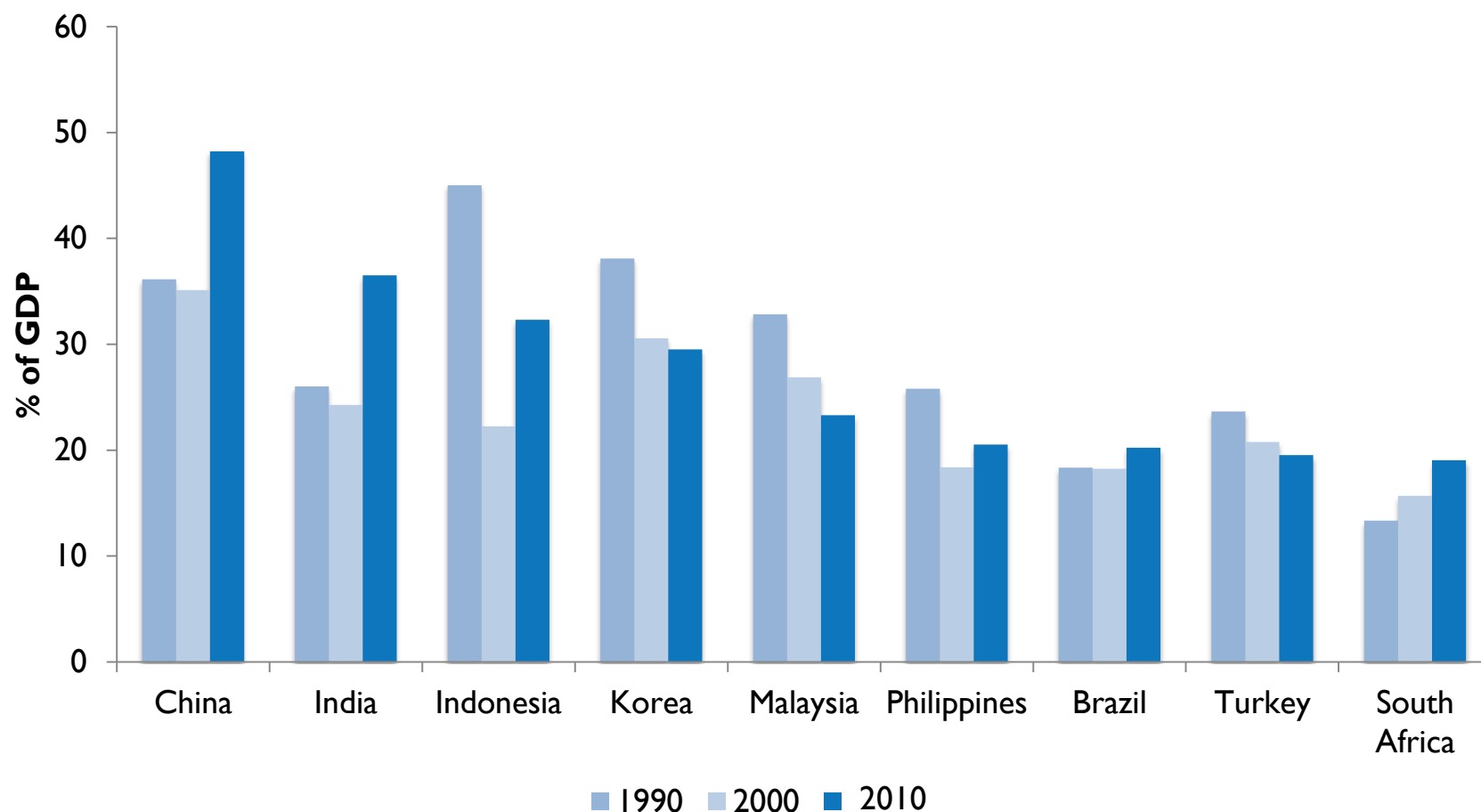
Average Annual growth of GDP p.c.: 1990-2013



Source: IMF World Economic Outlook, 2014

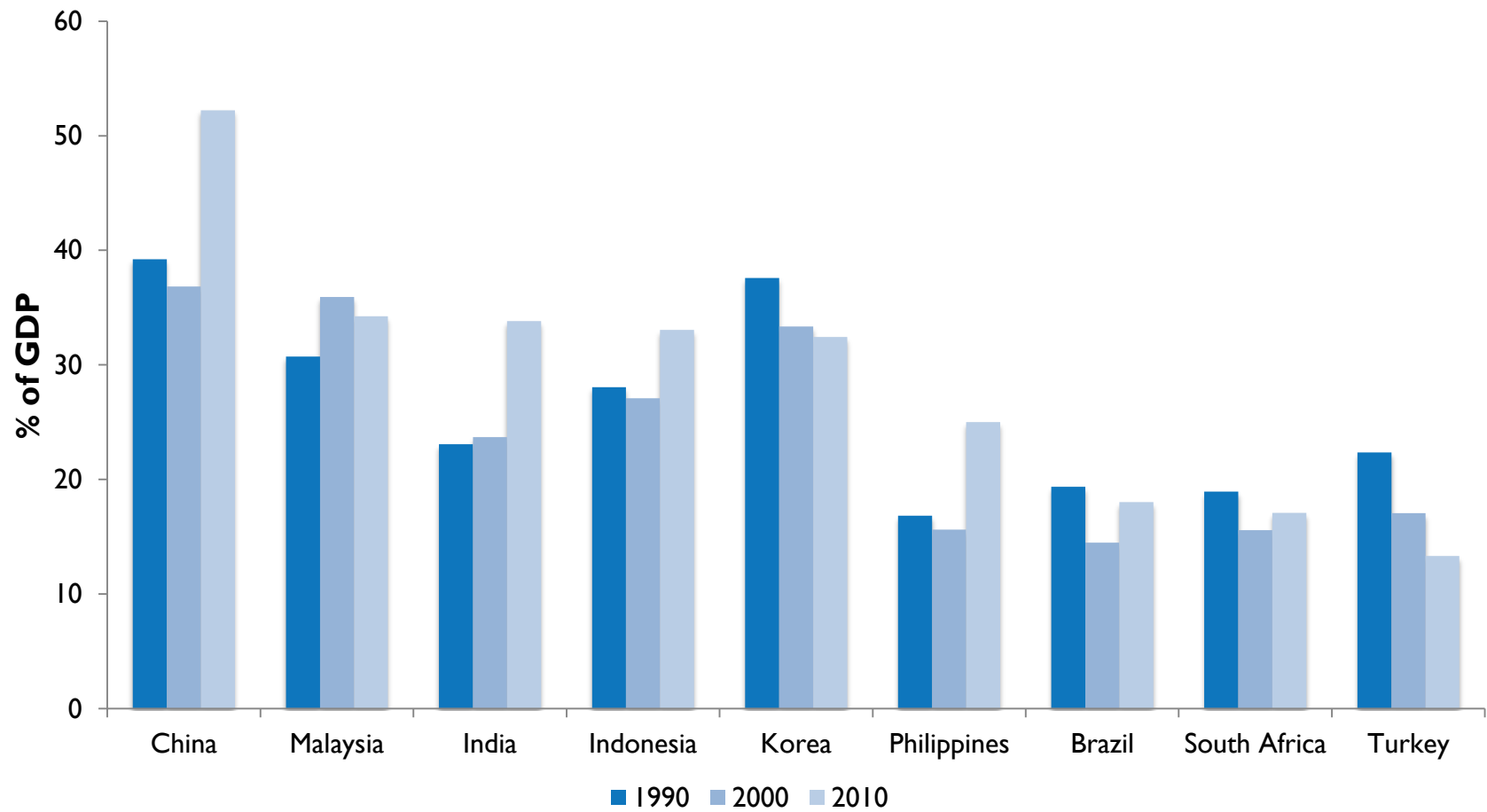
The Genesis of A Growth Trap:

Gross Domestic Fixed Investment (Percentage of GDP)



Source: IMF World Economic Outlook, 2014

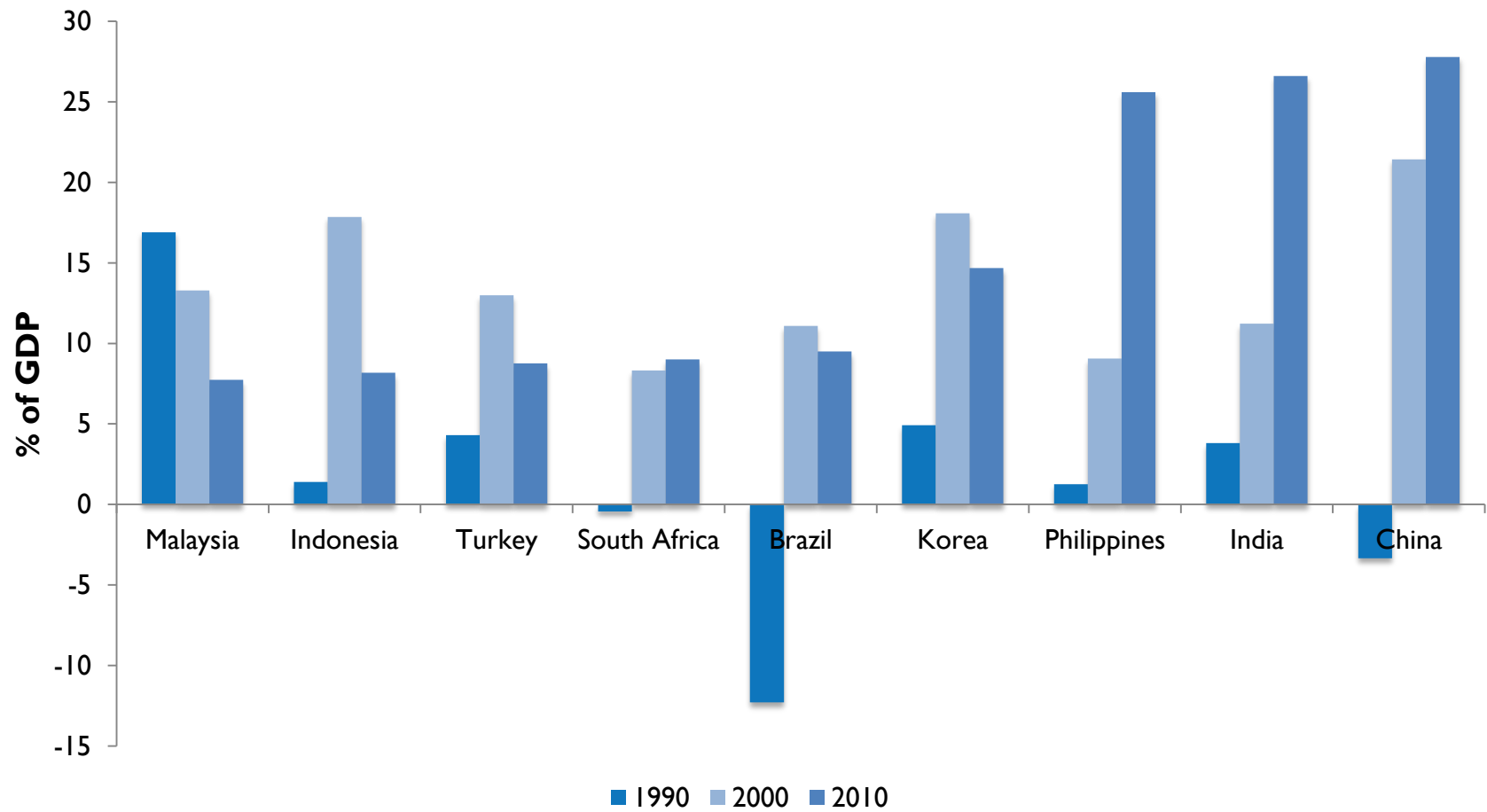
The Genesis of A Growth Trap: Gross Domestic Savings (Percentage of GDP)



Source: IMF World Economic Outlook, 2014

The Genesis of A Growth Trap:

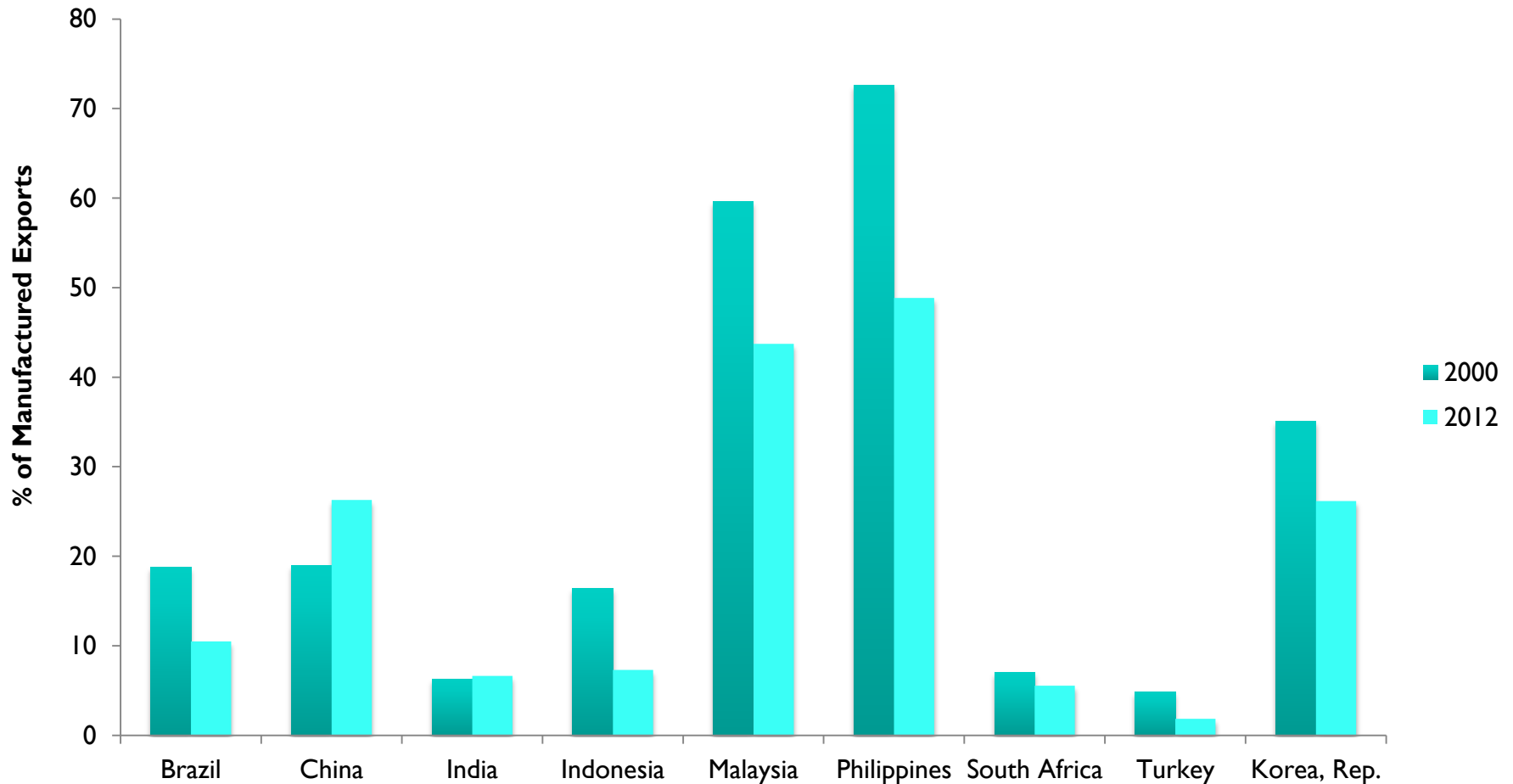
Exports as % of GDP



Source: IMF World Economic Outlook, 2014

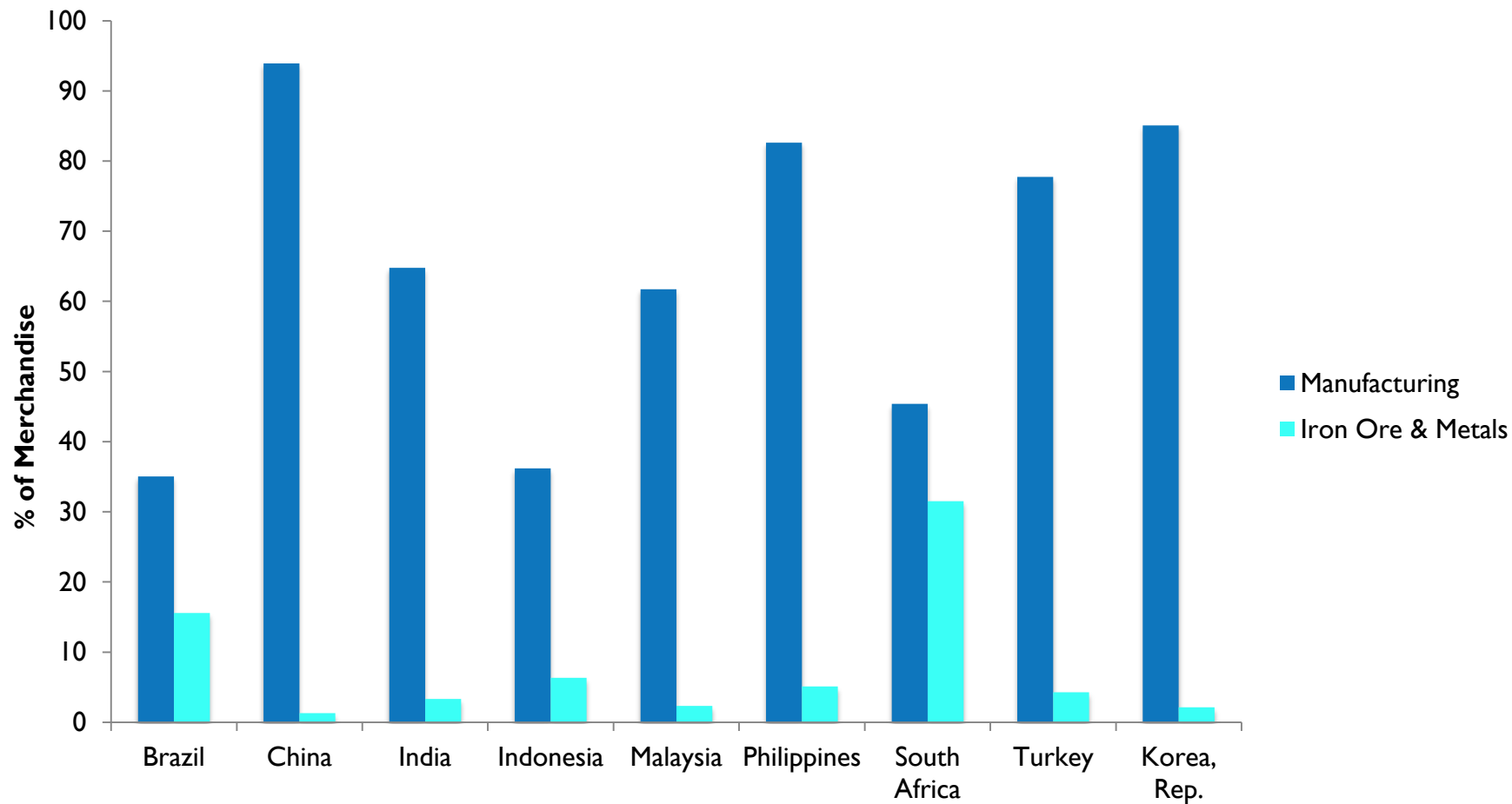
The Genesis of A Growth Trap:

High-Technology Exports (Percentage of Manufactured Exports)



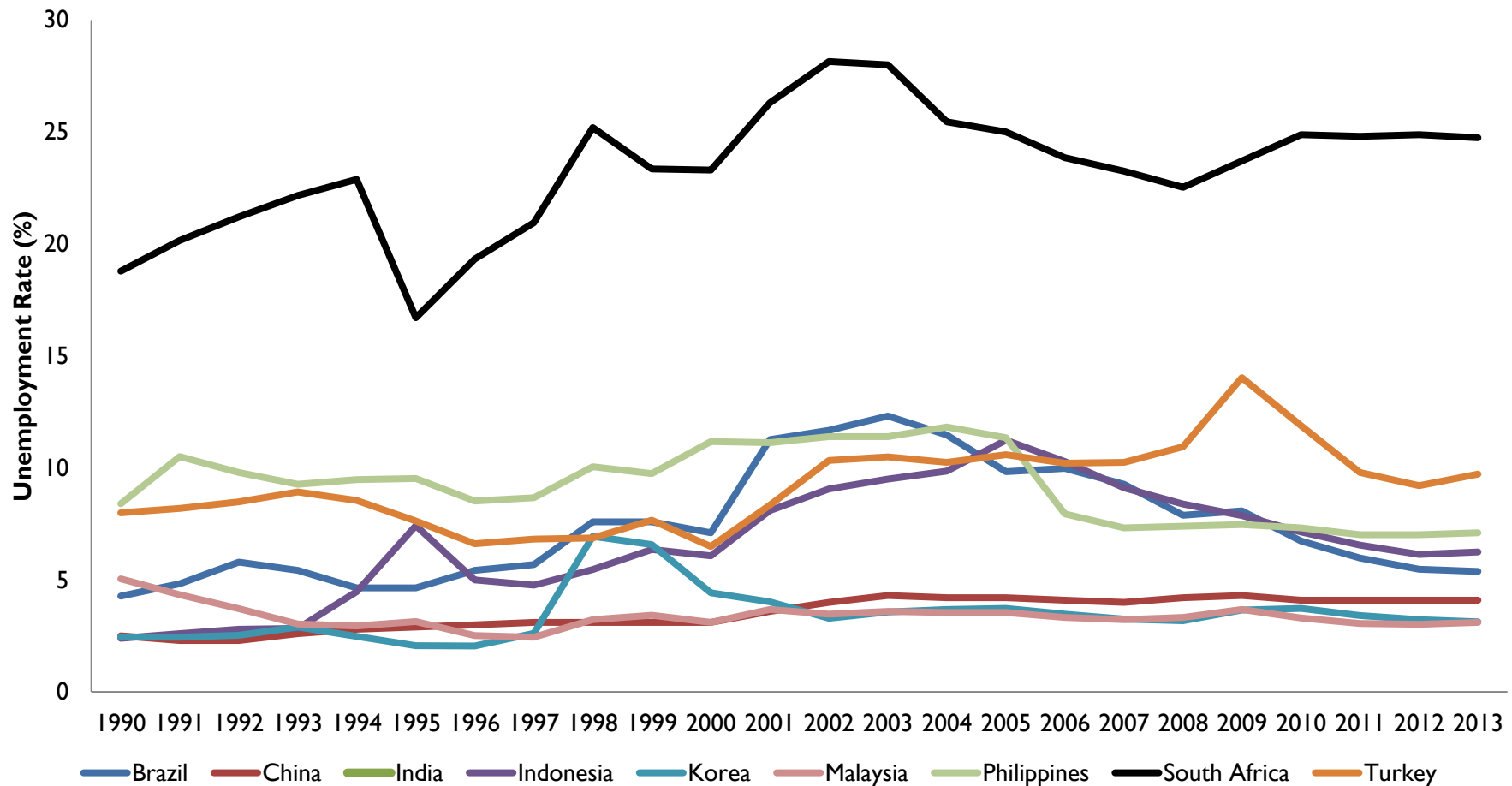
Source: World Bank Databank

The Genesis of A Growth Trap: Manufacturing vs. Metals?



Source: World Bank Databank

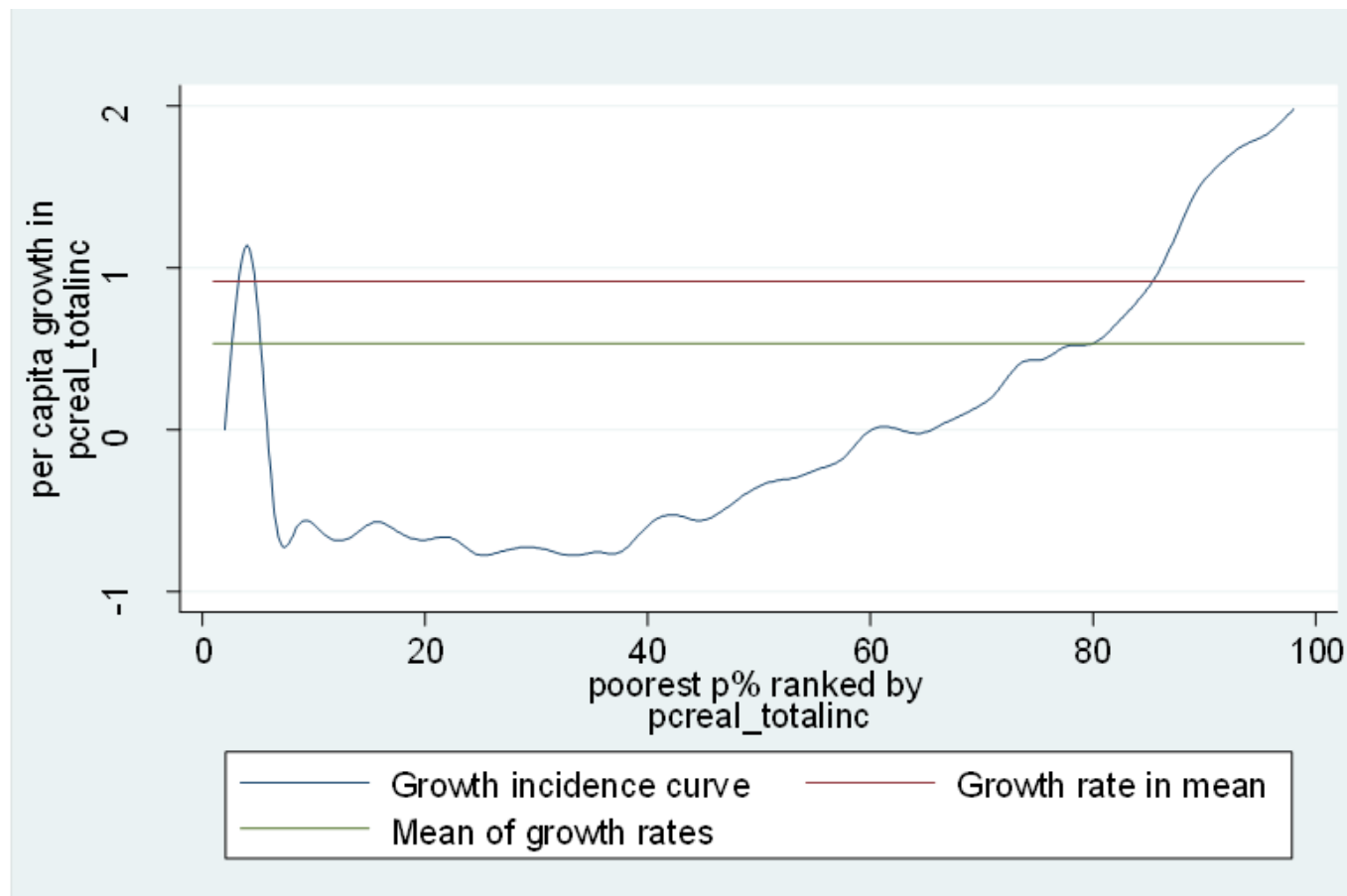
The Genesis of A Growth Trap: Unemployment Rates in the Emerging World



Source: IMF World Economic Outlook, 2014

The Socio-Economic Outcomes of our Growth Trap

Real Growth Incidence Curve for South Africa, 1995-2010



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

Notes:

1. The 1995 population weights are based on the cross-entropy methodology calibrated using ASSA's 2003 population model.
2. The 2010 population weights are based on the 2001 Population Census.

The Socio-Economic Outcomes of our Growth Trap



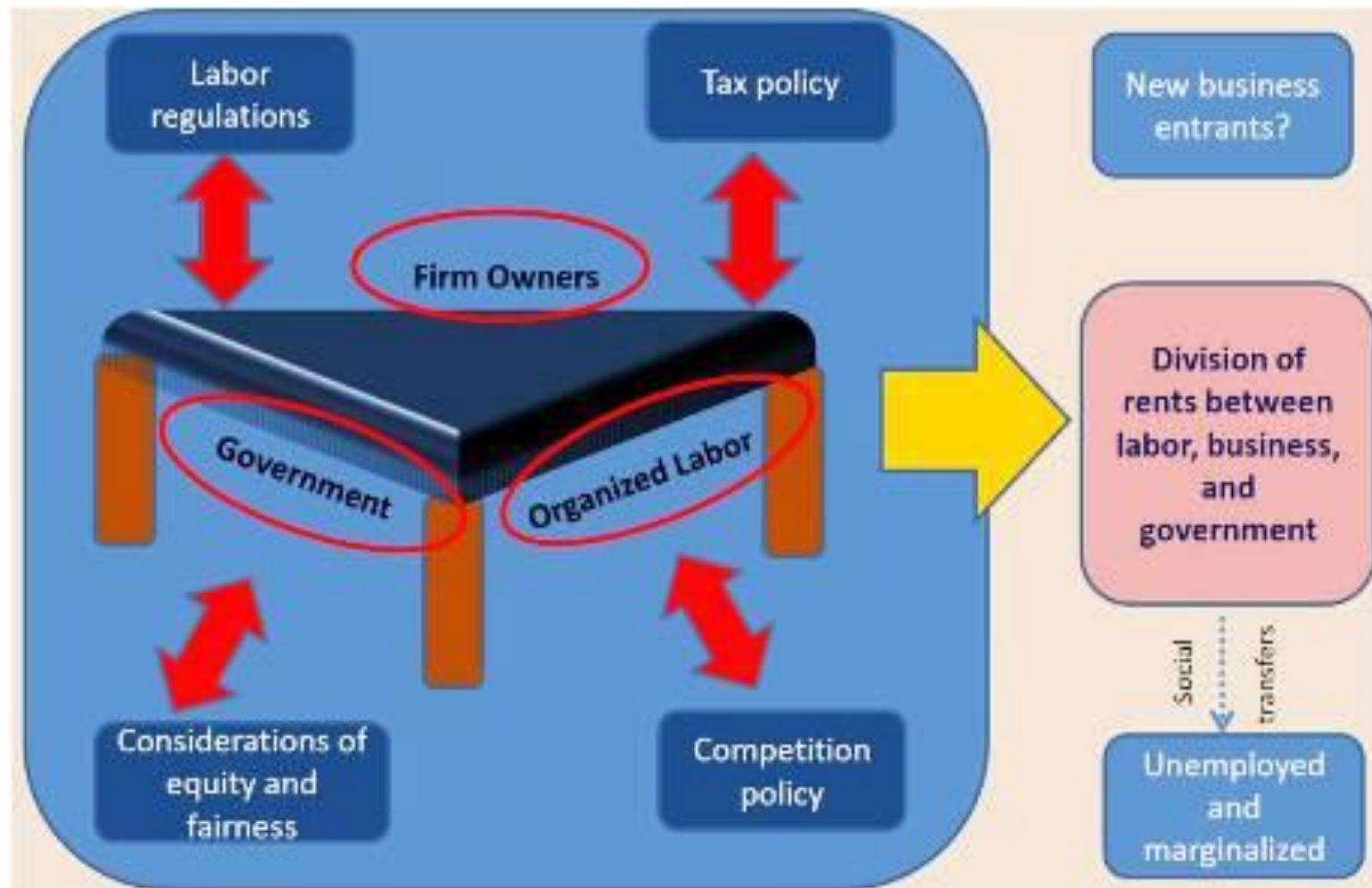
Income and Expenditure Inequality: Gini Coefficients, 1995 and 2010

	Income		Expenditure	
	1995	2010	1995	2010
Total*	0.663	0.696	0.618	0.660
	By Race of Household Head			
African*	0.587	0.645	0.548	0.581
Coloured*	0.489	0.588	0.474	0.542
Asian	0.462	0.522	0.445	0.489
White	0.446	0.469	0.397	0.450
	By Gender of Household Head			
Male*	0.641	0.667	0.606	0.647
Female*	0.647	0.679	0.575	0.619

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

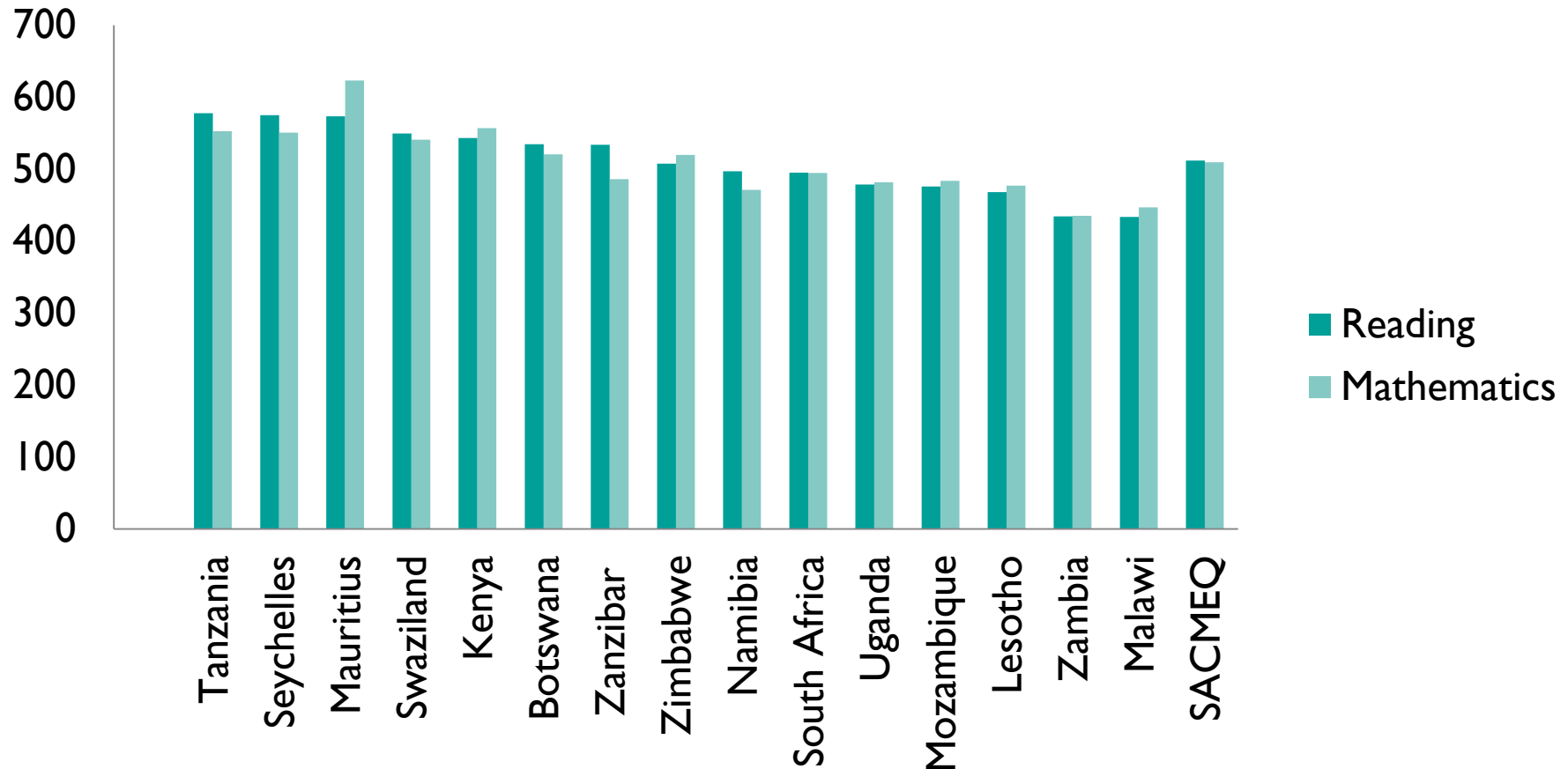
Notes: The asterisk (*) sign suggests statistically significant at the five percent level

Policy Challenges for Growth Convergence: An Unintended Political Economy Path Dependency?



Policy Challenges for Growth Convergence:

Education: Standardised Test Scores: A Southern Africa Comparison



Source:

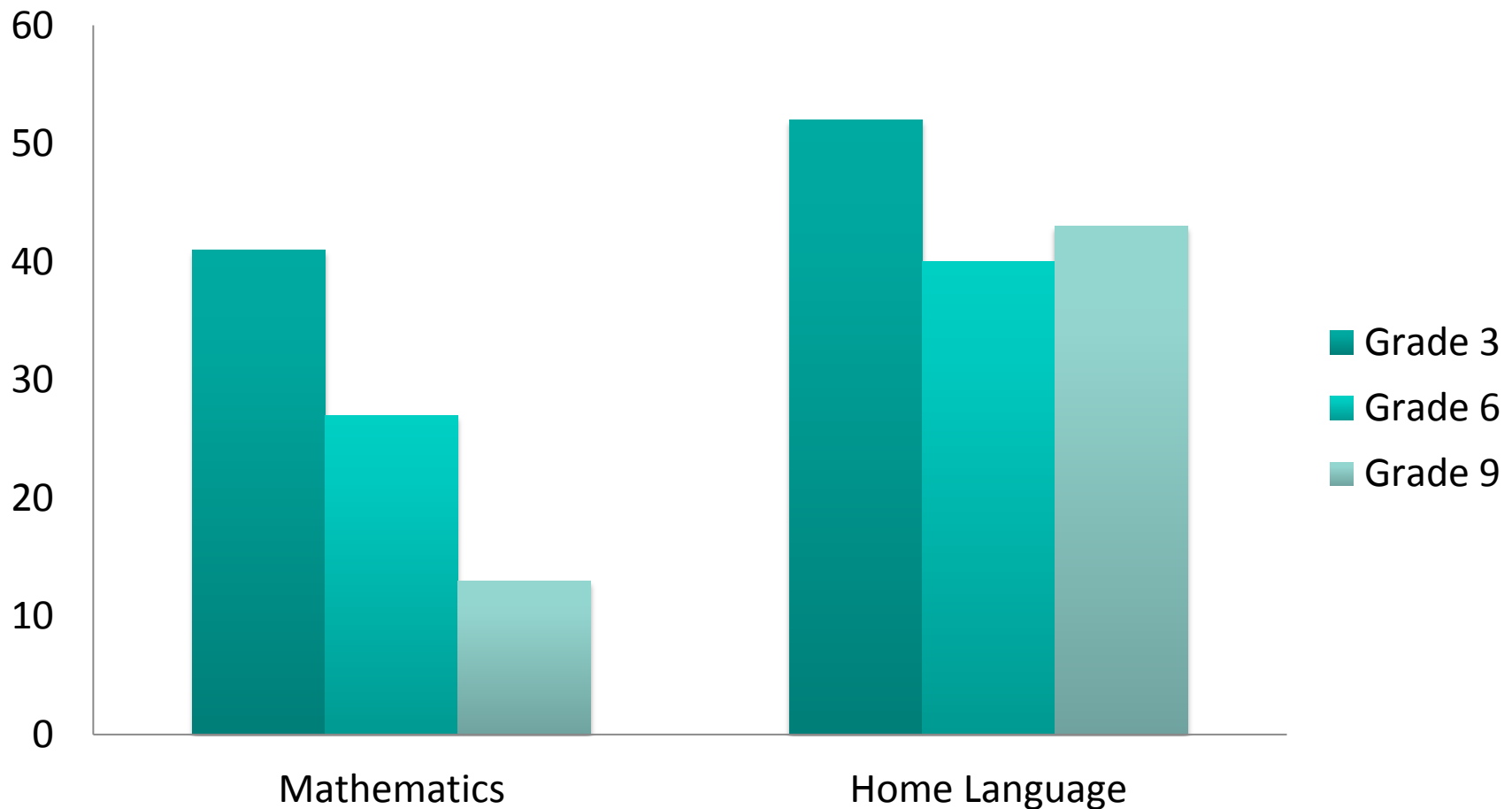
SACMEQ (III)

Notes:

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

Policy Challenges for Growth Convergence:

Education: Average Grade Test Scores



Source: *Development Indicators 2012, The Presidency, based on SACMEQ III project results*

Policy Challenges for Growth

Convergence:



Education: Production Function Estimates of Schooling

Variables	Coefficient
None	-0.024
Primary	-0.023
Secondary	0.145
Matric	0.159
Certificate	-0.05
Degree	0.104**

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

Notes: Standard errors in parentheses, ** $p < 0.05$

Policy Challenges for Growth

Convergence:



Education: Production Function Estimates of Schooling

- These Learning Deficits are located in the Arts and Sciences.
- Tend to Increase Over Time.
- Shapes the Economic Growth Opportunities and Outcomes for the Country.
- Creates the Market to Reduce Such Deficits.
- Shows clear failure of the entire schooling pipeline and FET system to contribute significantly to long-run economic growth.
- TVET System:
 - ‘Grade-Hiring Inflation’
- The quality of both the schooling as well as the FET college system is hampering labour market absorption of those qualified with less than a university degree.
- Fiscal investment into FET institutions has not paid off given the poor growth and welfare results found for certificate holders.

Policy Challenges for Growth Convergence

Labour and Capital: Annual growth in Capital Investment by Sub-Sector, 1990-2012

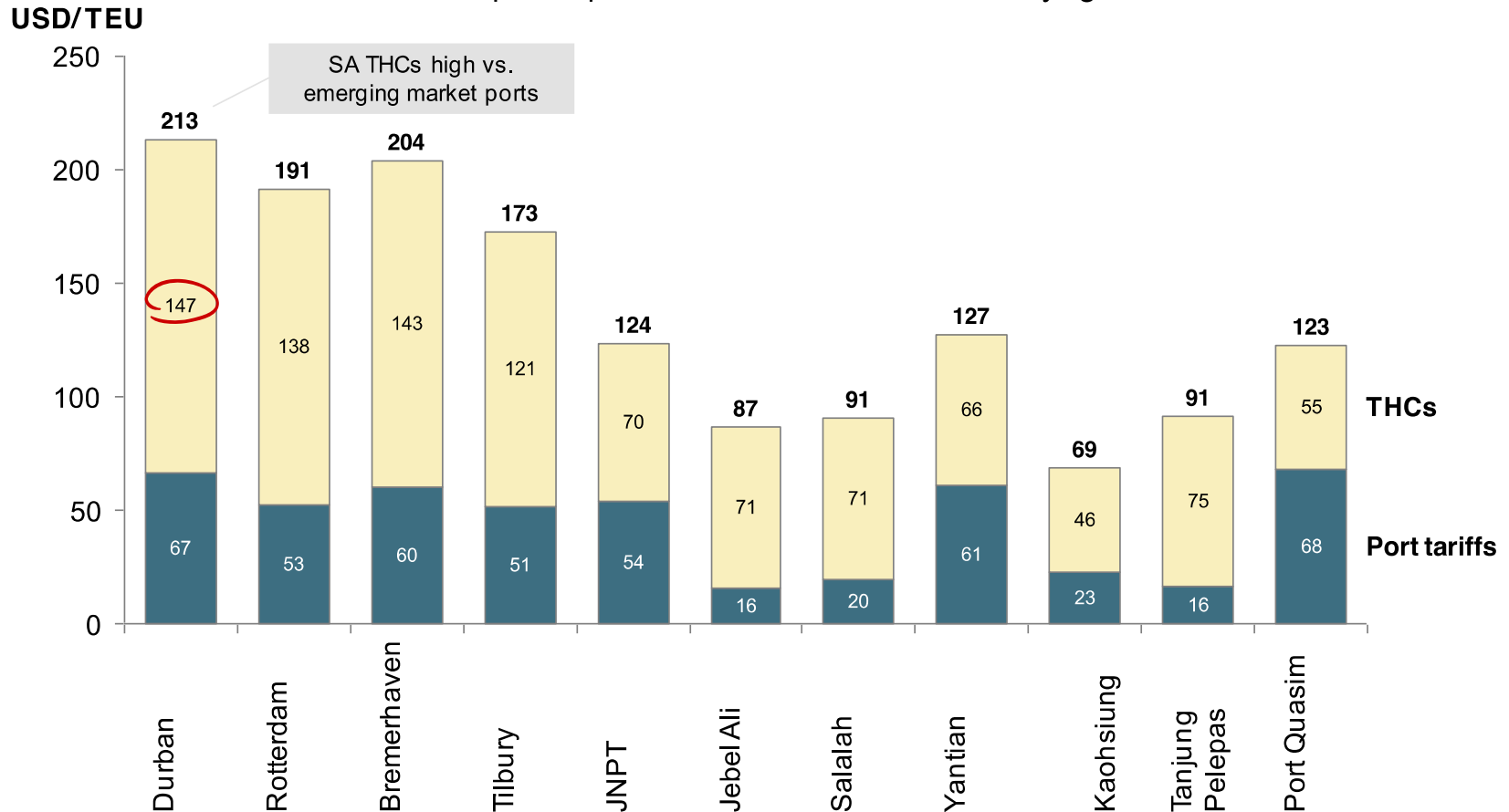


Policy Challenges for Growth Convergence:

Transport: A Case of the Policy Trap and Growth Path Dependency

Comparison of port costs to shipping lines

Example of ports visited on Maersk Lars voyage

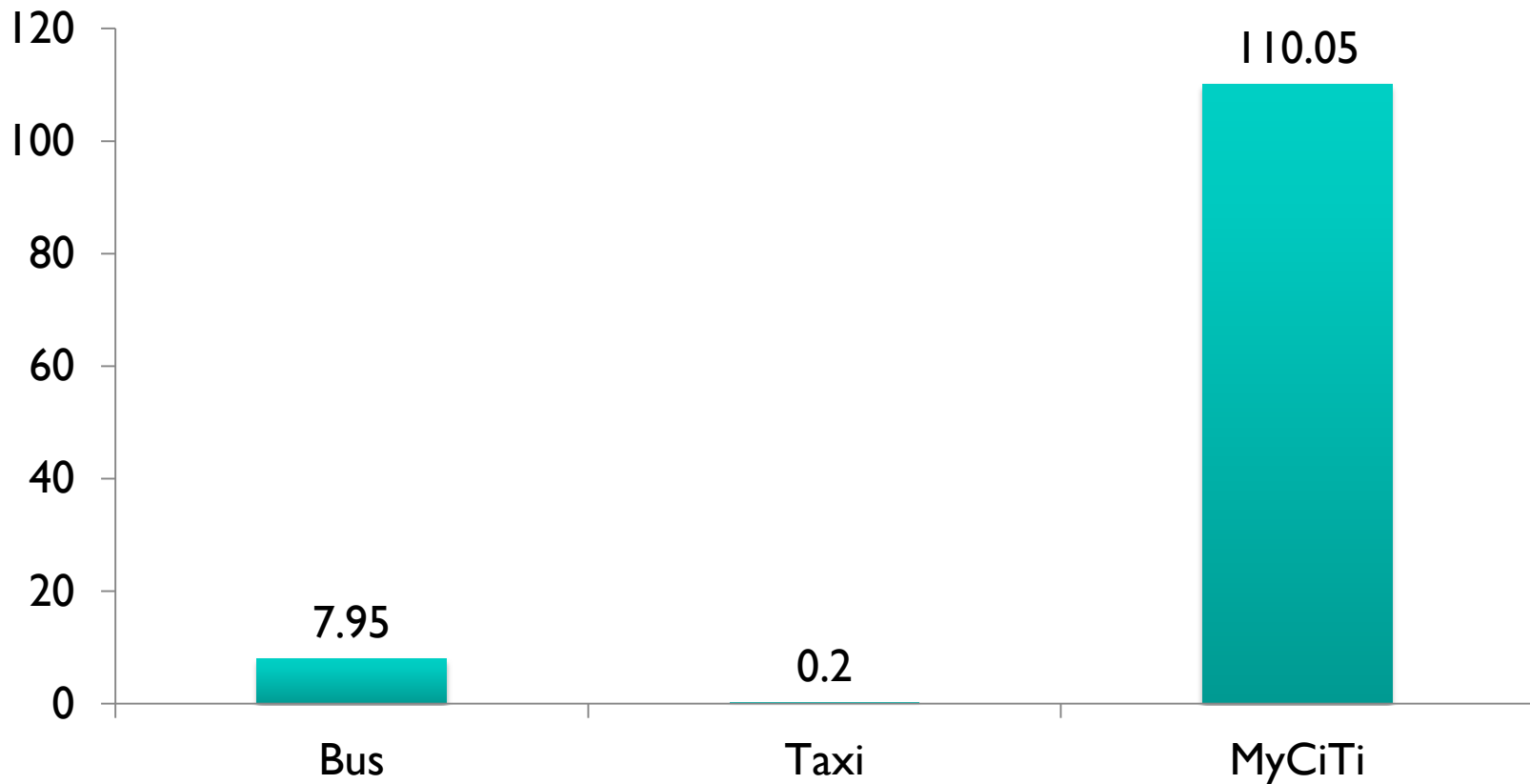


Policy Challenges for Growth Convergence:



Transport: A Case of the Policy Trap and Growth Path Dependency

City of Cape Town: Subsidy per passenger



Source: M. Eichhorn (2014) "Building a pro-poor public transport subsidy for urban Cape Town", Unpublished Masters Thesis. University of Cape Town, Cape Town.

Policy Challenges for Growth Convergence:

A Study in Sectoral Contrasts I



Automotive Sector

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

Industrial Policy Revisited



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

Conclusions



- South Africa is the poster child for the middle income country growth trap analogy
- Can we:
 - Increase savings and investment?
 - Diversify exports?
 - Generate light-manufacturing jobs?
- Some of our Growth Path Dependency Constraints Reinforced by:
 - Political Economy Issues which lead and shape wage and investment decisions
 - Sub-optimal Human Capital Investment with negative returns for economic growth
 - Wrong decisions in numerous areas related microeconomic policy which reinforce our growth trap

THANK YOU