

Identifying industrial post-lockdown economic response and recovery measures

Presidency Workshop Session on
Economic Measures in SA

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Rapid response analysis project

- Initiated by Department of Trade, Industry and Competition (DTIC)
- Industrial Development Think Tank (IDTT) at University of Johannesburg, Industrial Development Corporation (IDC), Trade and Industrial Policy Strategies (TIPS), other academics / experts
- Focus on manufacturing and linked sectors
- Identification of baseline requirements for easing lockdown and resumption of economic activity ...
- ... particular focus on post-lockdown reconstruction and stimulus

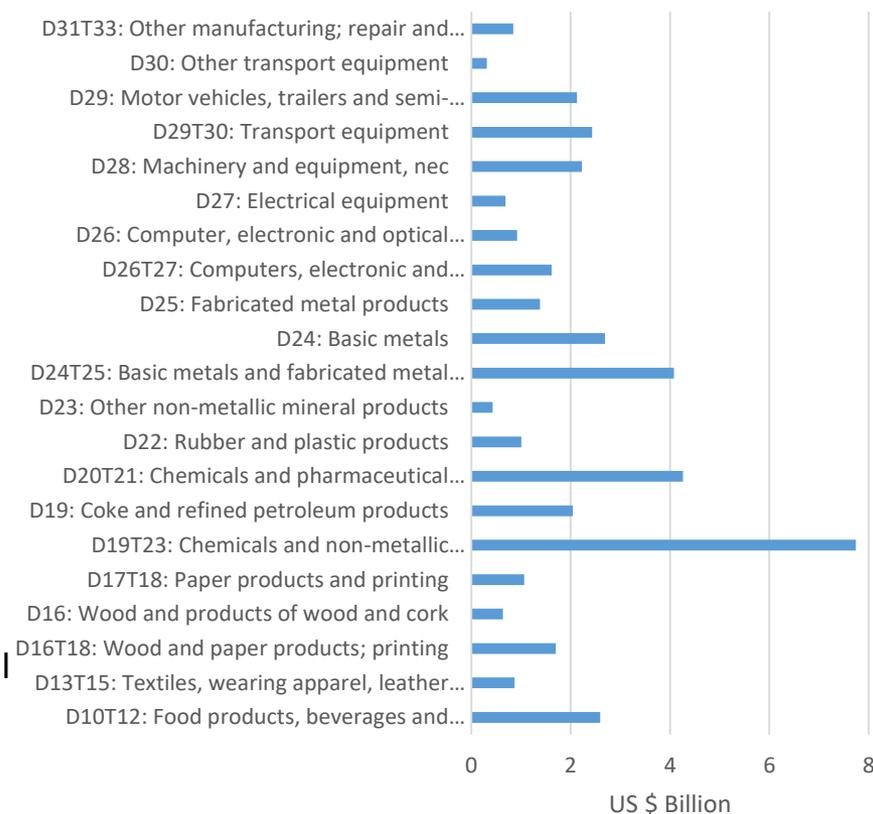
Base requirements for easing lockdown and post-lockdown recovery

- Workplace and industry specific health and safety (H&S) protocols
- Ability to supply population and workplaces with basic PPE (masks, thermometers etc.), sanitisers, disinfectants
- Public transport H&S protocols and products (> risk than production, distribution, retail)

Global demand and BOP shocks and supply chain disruptions

- Concurrent demand and BOP shocks and supply disruptions
 - Commodity demand collapse
 - Inbound tourism collapse
 - Capital outflows
- C19 badly effecting four of world's five largest manufacturing economies (China, US, Germany, South Korea)
- China, US, Germany amongst our top 10 trading partners -> demand shocks and potential supply disruptions
- Triple short term BOP shock
- Potential supply disruptions in sectors with high intermediate imports from major trading partners
 - Chemicals, Pharmaceuticals, PPE and medical devices
 - Machinery, Electrical machinery, ICT and electronics
 - Automotives and Transport equipment

Foreign value added in South Africa's gross exports (2015)



Post-lockdown: building a more resilient economy

- Building a more resilient economy
 - Health shocks such as pandemics
 - Climate resilience and just transition
 - Socio-economic
 - Economic resilience and competitiveness
- SA needs a response that is *sectorally differentiated* but *economy-wide coordinated* and *resourced*
- Emulation of NCCC-type high level political oversight and coordination mechanism for the economy?
- Sectoral stimulus and opportunities, two initial focus areas:
 - Infrastructure-led recovery
 - High value agriculture, Food and Beverages
- Measures to for other manufacturing sectors

Opportunities

An infrastructure-led recovery

- SA entered the recession severely demand constrained
- Decline in commodity prices and demand and possible shipping disruptions curtail short term demand for our largest export category: primary and semi-processed minerals
- A large-scale infrastructure programme offers the best prospect of stimulating the real economy and rendering it more resilient to shocks
- It can begin to place SA on a path to a just transition
- Infrastructure build is not demand constrained
- It is constrained by a combination of i) institutional inertia, ii) lack of technical capacity, iii) contestation over who benefits from contracts and iv) financing (need to establish by how much)

Opportunities

An infrastructure-led recovery

- Infrastructure investment has linkages to multiple sectors
 - Construction
 - Cement
 - Iron and Steel
 - Structural and fabricated metal products
 - Mining
 - Chemicals
 - Various service sectors

Opportunities

An infrastructure-led recovery

- Expediting renewable energy investments: IPPs, commercial rooftop solar, mini-grids etc.
- Addressing water reticulation and irrigation backlogs
- Addressing housing backlogs
- Addressing various municipal backlogs and taking advantage of the ability of a number of Metros to borrow to fund this
- Targeted investment to raise social resilience in poor areas, could provide a stimulus to various manufacturing subsectors including housing (cement, steel, fabricated metal products), water (cement, steel, plastics), the rollout of water storage tanks (plastics).
- Supporting large scale gas expansion projects in Mozambique with associated direct and indirect linkages with the SA economy.

Opportunities

High value agriculture and food and beverages

- Horticultural products (especially fruit) have been amongst the fastest growing export sector over recent years
- Extremely labour intensive: 80 -160 times more than most field crops and livestock
- Estimated 200,000 direct and 100,000 indirect jobs could be created
- Supply constrained, not demand constrained
 - Virtually unlimited medium to long term demand due to demographic and wealth shifts to the East.
 - Labour shortages in Europe likely to open export opportunities
 - Short term demand high (curtailed by logistics disruptions)
- Short-medium term constraints are institutional rather than financial: e.g. logistics and need for expedited negotiation of SPS protocols
- Medium-long term financing required for scaling up black producers, water infrastructure, technology to raise efficiencies and meet SPS requirements

Opportunities

High value agriculture and food and beverages

- SA has high degree of self-sufficiency in Food and Beverage inputs (less so on machinery)
- High levels of local content → strong linkages
- Domestic market will be constrained by low income
 - But opportunities to restructure distribution channels
 - Greater competition and participation
 - Support black and small suppliers → online and delivery presence
- Significant demand likely to arise on rest of the continent depending on supply disruptions
- Integrated value chain back to domestic agriculture likely to open opportunities in Europe flowing from primary supply constraints
- Massive export effort required to realise production, employment and empowerment opportunities and alleviate balance of payments constraint

Measures needed for other sectors

- Pharmaceuticals, PPE, medical devices
 - Immediate opportunities: masks, gowns, sanitisers, detergents etc.
 - Opportunities to ensure greater resilience and security of supply for SA and the continent
 - Selected pharmaceuticals, APIs, medical devices
- Retail and wholesale and related manufacturing sectors
 - Food and Beverage manufacturing
 - Clothing, Textiles, Footwear
 - Consumer durables and semi-durables
 - Support widespread shift to e-commerce and delivery based model

Measures needed for other sectors

- Capital equipment and Electrical machinery
 - Mining capital equipment and link to mining domestically and rest of the continent
 - Import replacement of tooling subject to disruption
 - Opportunities to relocate production to SA?
- Metal fabrication
 - Link to infrastructure
 - Opportunities to relocate production to SA?
- Automotives
 - Short-medium terms survival of component suppliers
 - Opportunities to relocate assembly and component supply to SA?
- Chemicals and plastics
 - Fertiliser importance for agri, food security
 - Infrastructure links
 - Opportunities to relocate production to SA?

Formulating SA's role in Africa's response to COVID-19

- SA has a moral duty and economic imperative to support other African countries
 - Provision of medicine, PPEs, other essential products and technical support
 - Utilise full flexibilities under TRIPS to ensure access to essential medicines
- Where can SA shift import supply from outside the continent to other African countries to alleviate balance of payment constraints
- Important role for a such as G20 to motivate large scale multilateral support package for Africa
- Reconfiguration of global supply chains can provide impetus to regional developmental project