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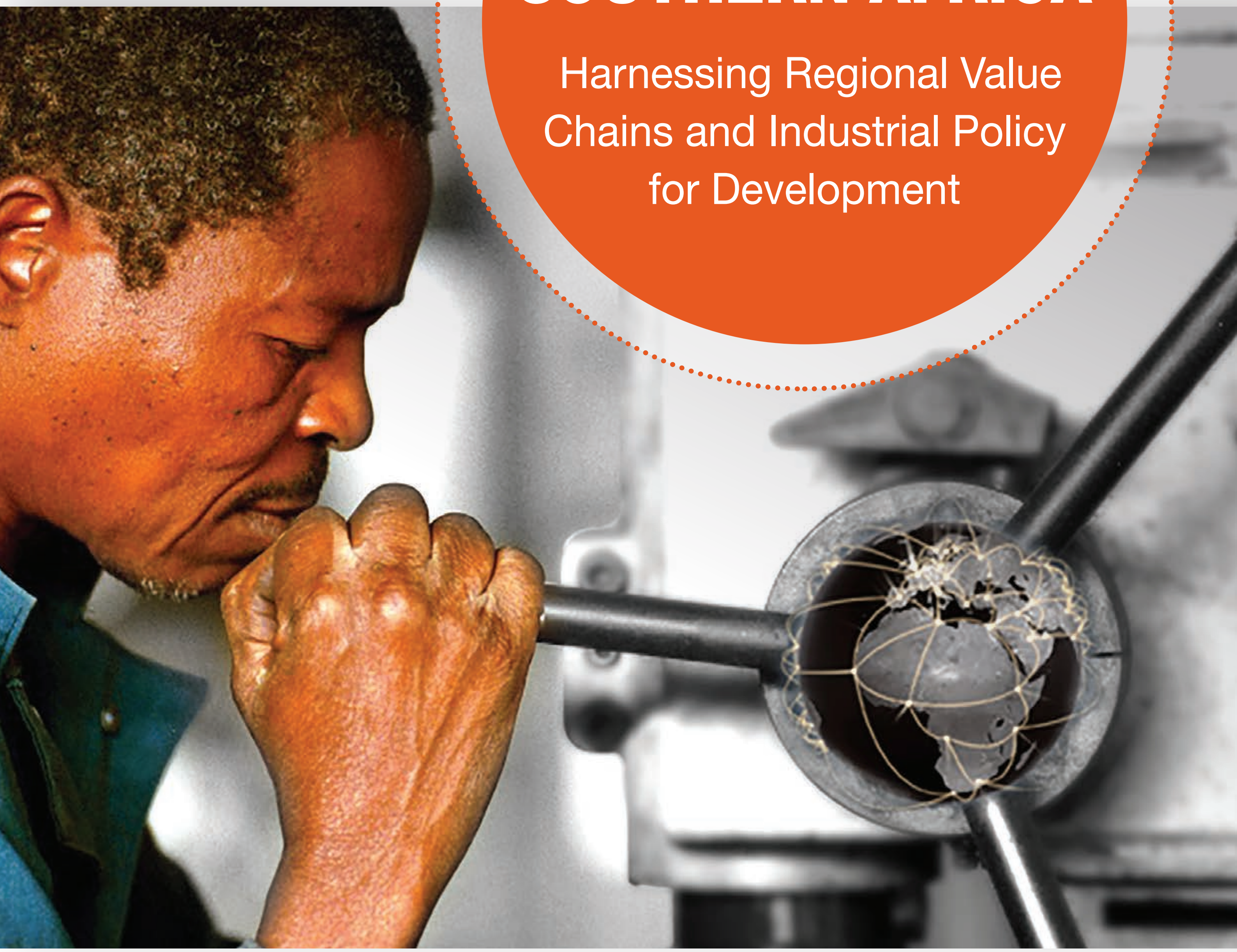
TRANSFORMING SOUTHERN AFRICA

Harnessing Regional Value Chains and Industrial Policy for Development



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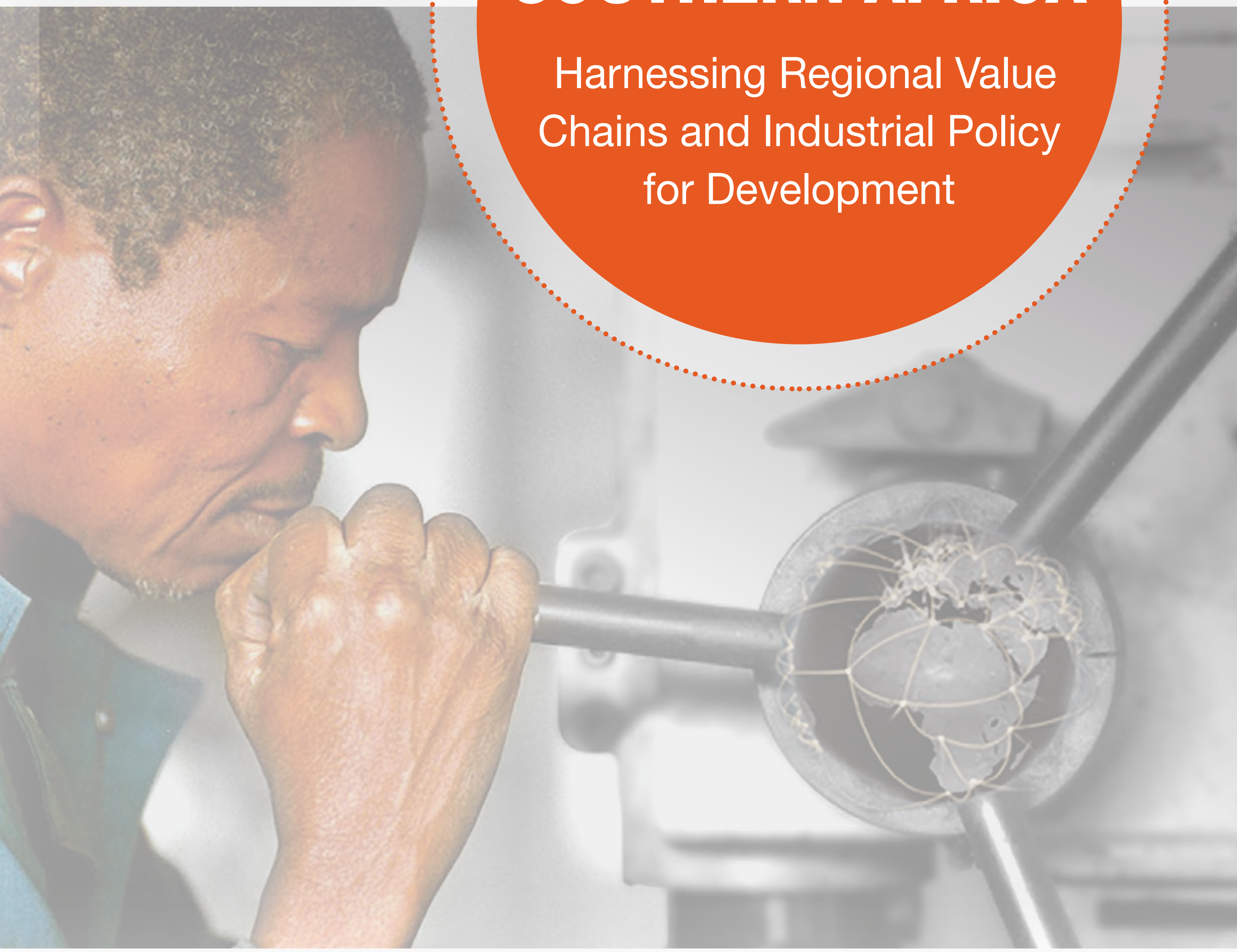

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PREFACE

This technical report brings together a series of contributions from leading economists and experts on the challenges and the opportunities faced by Southern African economies in their attempt to strengthen trade and productive integration. The project has been carried out by the Division of Globalization and Development Strategies of UNCTAD in the framework of its activities aimed at fostering regional integration and at sustaining the SADC industrialization strategy, among other things through the strengthening of industrial policy capacity and coordination.

The studies have benefited from the discussion that took place in two regional workshops held in Pretoria and Dar-es-Salaam in 2017, with the participation of key regional actors from the academia, public institutions, and the private sector and organized in close cooperation with several partner organizations (SADC, OECD Development Center, UNECA and UNIDO).

The book has been prepared under the guidance and supervision of Piergiuseppe Fortunato with the support of Francesca Guadagno. The feedback and advices from Richard Kozul-Wright, Rashmi Banga, Giovanni Valensisi, Rohit Ticku, Annalisa Primi, Simon Roberts, Antonio Andreoni, Neema Manongi, Rishi Domun, Muyumbwa Kamenda, Olga Oficio Munguambe and Nigel Gwynne-Evans, as well as the editorial assistance of Carter Dougherty, are gratefully acknowledged.

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Neva Makgetla has undertaken extensive research into South African economic issues, published widely, and contributed to a number of national economic policy processes and debates from 1994. Until 2015, she was Deputy Director General for economic policy in the Economic Development Department. Before that, she was Lead Economist for the Development Planning and Implementation Division at the Development Bank of Southern Africa. She has worked at a senior level in the Presidency and other government departments, and for seven years was head of the COSATU Policy Unit. She has a PhD in economics and before 1994 worked for over 10 years as an economics lecturer.

Thando Vilakazi is Executive Director of the Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg. He currently also serves as a part-time member of the Competition Tribunal of South Africa. Thando previously worked as an economist at the Competition Commission of South Africa, and has led research and provided teaching and advisory services across various economic sectors for competition authorities, regulators, government departments, international universities and NGOs, and private enterprises in South Africa and various African countries. His research interests include barriers to entry and economic participation, regional integration, competition policy and inclusive growth, and industrial development. He holds a PhD (Economics) from the University of Johannesburg, and has published widely, including in Development Southern Africa and Review of African Political Economy, and HSRC Press and Wits University Press book publications.

CONTENTS

INTRODUCTION

Advanced economies are experiencing one of the slowest recoveries in history, and this loss of momentum is generating knock-on effects for emerging and developing countries that will force policymakers to draw up new strategies for sustainable development. After the 2008 financial crisis and global slowdown, growth rates in African economies fell by half. With insufficient global demand, trade remains sluggish. But the problem runs deeper. Even when demand is buoyant, and exports growing, the role of trade in spurring industrialization and development is no longer what it used to be. International commerce aided unprecedented growth in East Asian economies. Now, put simply, it does not generate the wealth it once did. UNCTAD studies (2016) show that most developing economies experienced in the last 25 years an increase in the total value of their exports of manufactures relative to GDP, but a decline in the contribution of manufacturing's value added to GDP.

This phenomenon has many causes. Today's global economy is a much more open and contested space than when the East Asian late industrializers began their ultimately successful effort to catch up in the 1960s, but not only because of their success. Subsequent liberalization across the world, and the emergence of former centrally planned economies with their supply of low-skilled labour, radically transformed conditions for exporters. With a multitude of countries simultaneously trying to realize the promise of export-led industrialization, competition has intensified enormously.

At another level, new information and communication technologies have triggered what has been called a "digital revolution." Stronger intellectual property rights and weakened labour laws have shifted the balance of power towards larger firms, whose dominant market positions allow them to generate "super" profits (UNCTAD, 2017). In the face of fewer restrictions on how these firms can move capital across borders, it become easier and cheaper to organise far-flung production networks and to govern those networks in ways that fortify the advantages of leading firms. This new geography of production, despite facilitating access to international markets, has confounded developing economies with limited productive capacities. These economies have remained trapped in the lowest value-adding activities at the bottom of value chains, which can ultimately result in superficial industrialization and slow economic growth. This situation has contributed to increasing anxiety over economic strategies at precisely the time when the international community has set ambitious and transformative objectives in the Sustainable Development Goals (SDGs).

In light of these difficulties, many developing economies have sought new opportunities. They have strengthened their emphasis on regional and South-South markets that can help generate economies of scale, with the goal of creating employment, fostering diversification, and upgrading productive capacity. East Asian economies, for example, and particularly the Republic of Korea, Taiwan Province of China, Singapore, and China (despite its global reach) have long recognized the importance of the East Asian regional production network. The African continent is facing up to this challenge. One year

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