THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA SECOND QUARTER 2023

*The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.**

GDP growth

The GDP grew 0.6% in the second quarter of 2023, a slight improvement over the previous quarter and maintaining the return to pre-pandemic levels after the extraordinary drop in the second quarter of 2020. Growth was driven by a 5% increase in investment by private business and state-owned companies, likely reflecting the rapid expansion in off-grid, largely renewable generation. (Graph 1)

As Graph 2 shows, growth in the second quarter of 2023 improved slightly on the previous quarter. The slight acceleration occurred despite continued loadshedding, albeit at a lower level than in the previous quarter, suggesting that at least larger companies have adapted to the new realities.

It appears that investment in off-grid electricity, largely renewable, was a significant driver of growth. Private investment climbed by 5.7% in the past quarter. As a result, it almost equalled private investment in the first quarter of 2020, just before the pandemic lockdown brought a sharp decline. Still, it remained well below 2019 levels. The section on investment and profitability discusses investment in more detail.

The relatively sharp increase in investment likely results largely from the move to off-grid electricity in response to loadshedding. To the extent that these investments are in renewable technologies, they will ultimately lead to lower-cost as well as more reliable and cleaner energy.

*Available at www.tips.org.za/the-real-economy-bulletin

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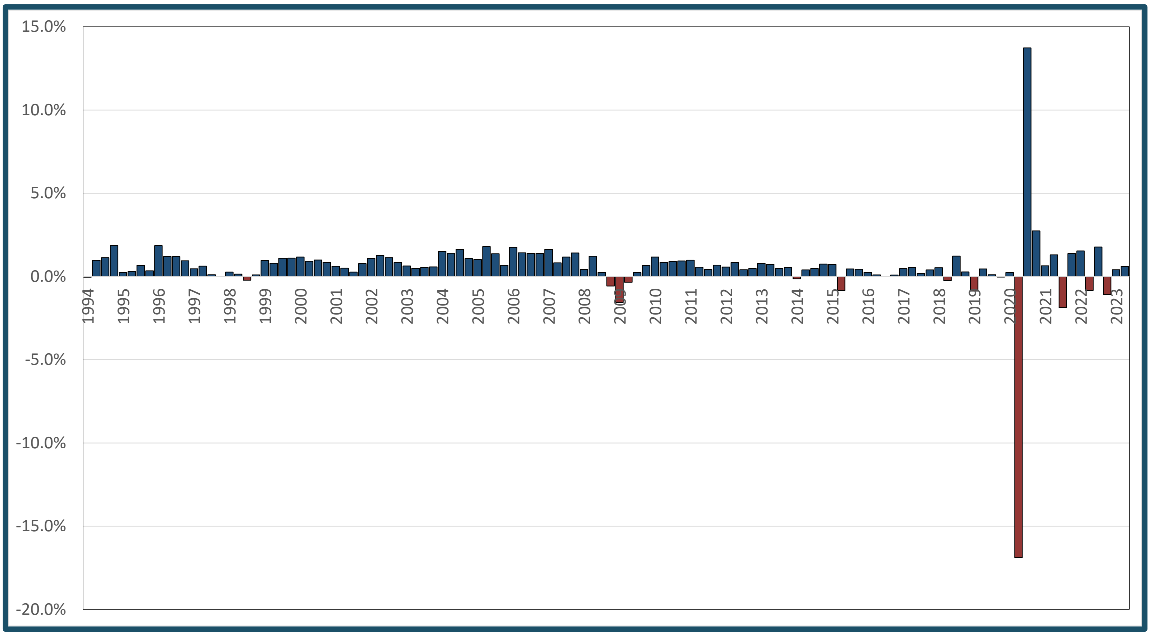
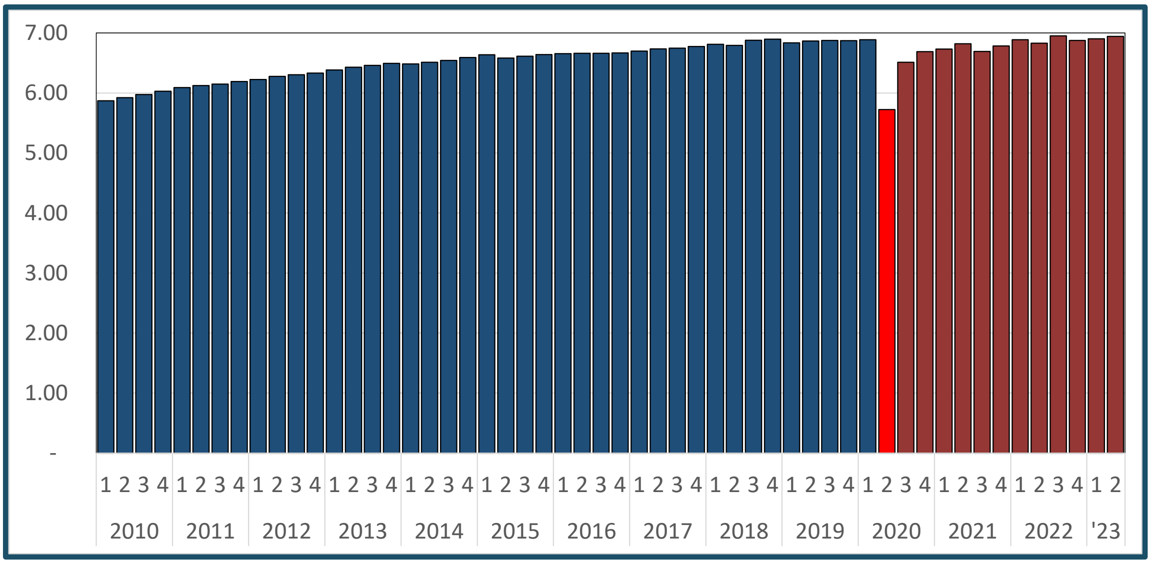
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to second quarter 2023



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q2. Excel spreadsheet.

Graph 2. Quarterly GDP in trillions of constant (2023) rand (a) from 2010

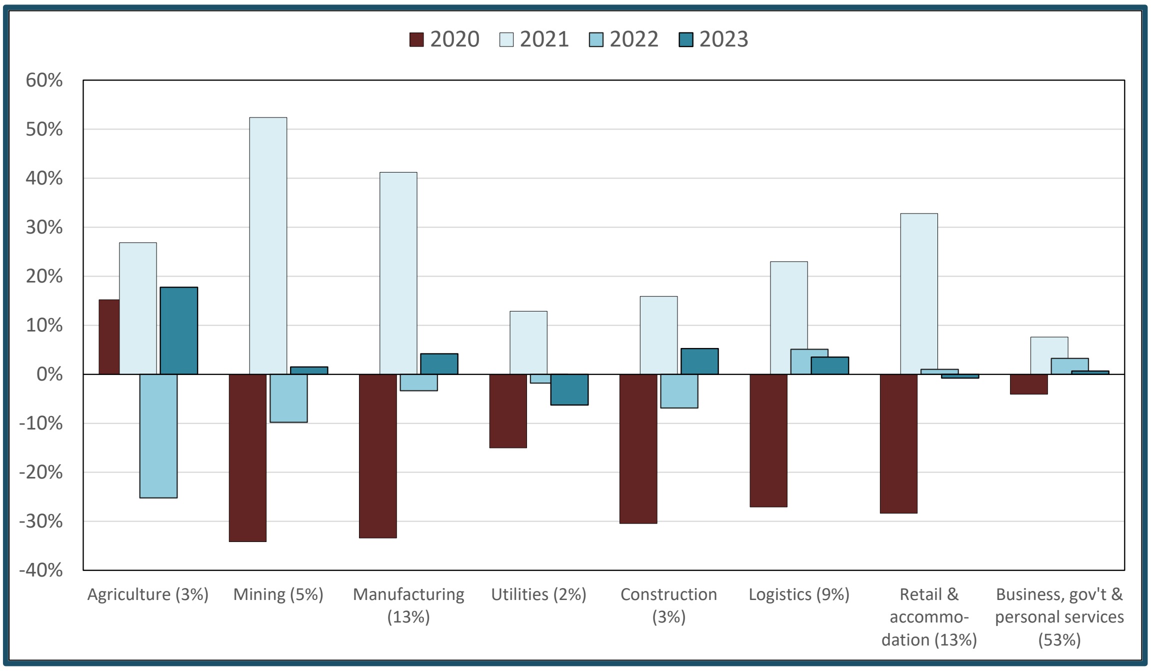


Note: (a) Reflated using implicit GDP deflator rebased to first quarter 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q2. Excel spreadsheet.

In contrast to investment, household consumption fell by 0.3%, likely because the richest 20% of households, which account for over half of the total, are affected by higher interest rates. In contrast, government consumption rose 1.7%, the fastest increase since 2015.

Growth by sector underscored the importance of investment in the year to the second quarter 2023. Construction experienced a rapid recovery, following years of stagnation, while manufacturing showed the second fastest growth. Mining also recovered after a decline in the year to the second quarter 2022. In contrast, value added by utilities – mostly Eskom – fell in real terms. Retail value added also shrank, in line with the fall in household consumption.

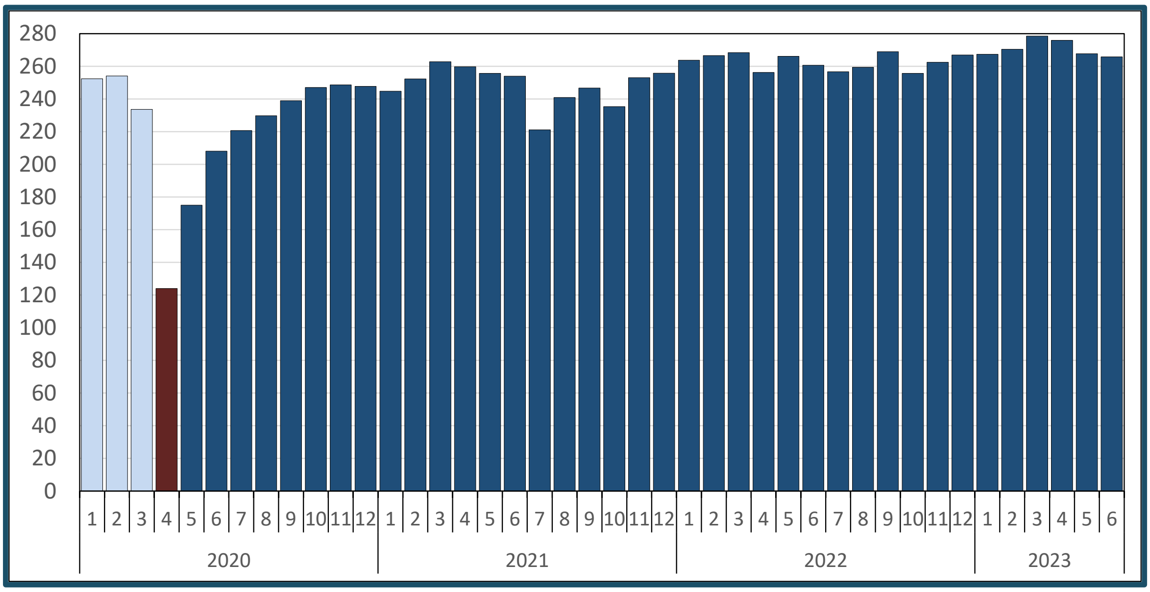
Graph 3. Growth in value added by sector, year to second quarter, 2020 to 2023



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2023Q2. Excel spreadsheet.

For the past 18 months, manufacturing sales have levelled out in constant rand terms, averaging just above pre-pandemic levels. They declined through the second quarter of 2023, however.

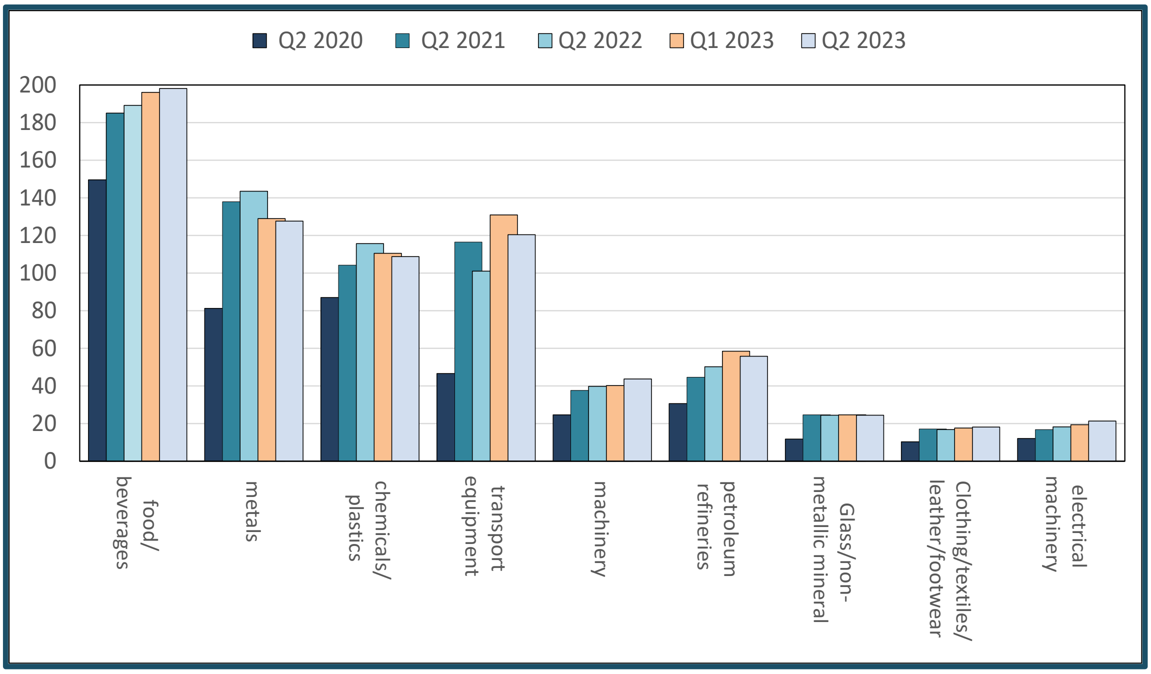
Graph 4. Monthly manufacturing sales in billions of constant (2023) rand (a), seasonally adjusted, January 2020 to June 2023



Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, June 2023

In the year to the second quarter of 2023, sales increased markedly for food, auto and machinery. They fell marginally, however, for metals and the chemicals value chain.

Graph 5. Second quarter sales by manufacturing industry from 2020 to 2023, and first quarter 2023, in billions of constant (2023) rand (a), seasonally adjusted



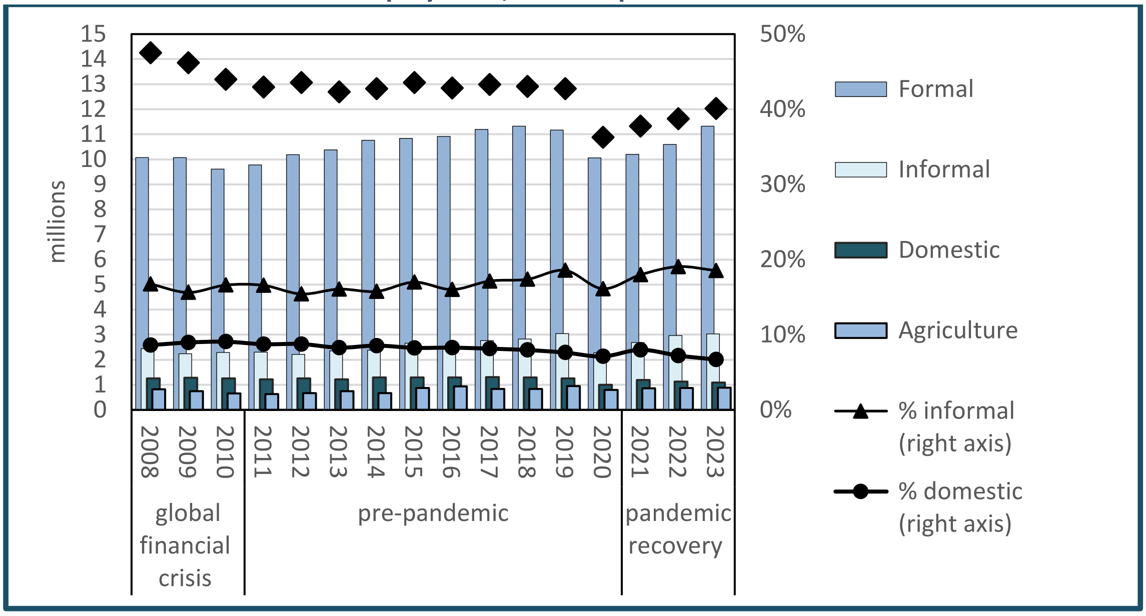
Note: (a) Reflated with CPI. Source: Calculated from Statistics South Africa. Manufacturing: Production and Sales, June 2023

Employment

Employment climbed rapidly from the second quarter of 2022 to the second quarter 2023, adding 780 000 positions. Almost all of the net job gains were in the formal sector, with the strongest showing for retail, sales and elementary positions. Manufacturing kept pace with overall jobs growth, but the picture was mixed at industry level. Metals, clothing and auto saw gains while net job losses emerged in chemicals and machinery and food processing remained flat.

In the year to the second quarter of 2023, total employment climbed by 780 000 positions to reach 16.3 million. Almost all of the gain in net jobs was in the formal sector. As a result, the employment ratio – the share of all working-aged people with employment – rose to 40%. That represents a strong recovery from the pandemic low of 36% in the second quarter of 2020, although still far under the pre-pandemic figure of 43%. (Graph 6.)

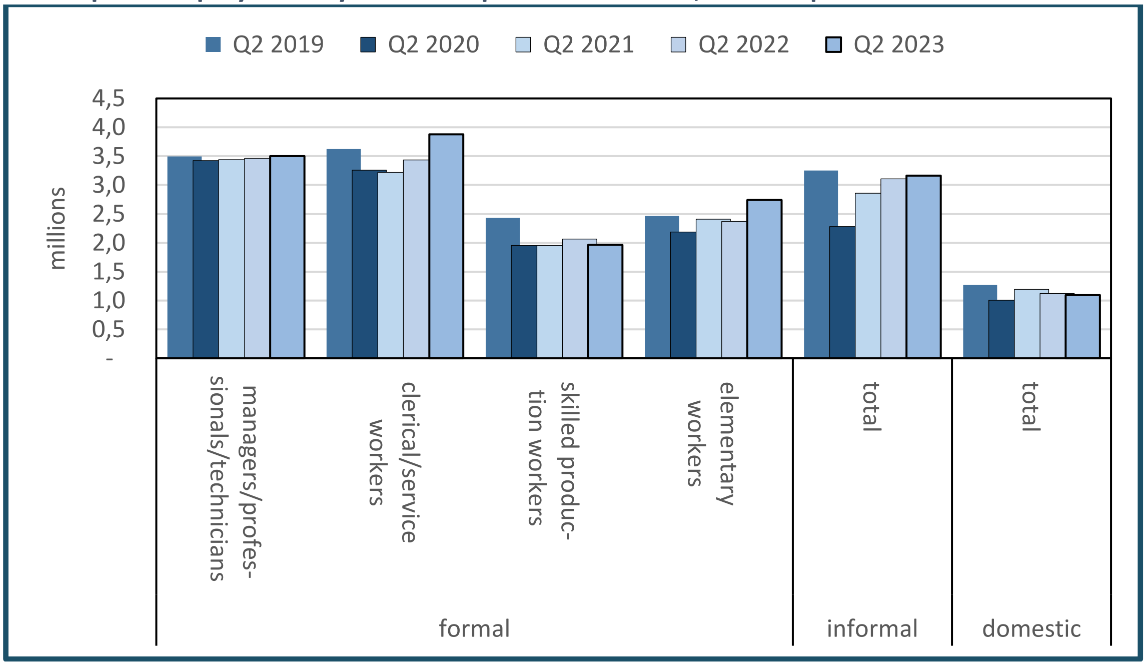
Graph 6. Formal, informal, domestic and agricultural employment in millions, with the employment ratio (a) and share of informal and domestic work in total employment, second quarter 2008 to 2023



Note: (a) *Employed as percentage of total working age. Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q2. Excel spreadsheet*

Within formal employment, retail and services plus elementary jobs grew rapidly in the year to the second quarter of 2023, surpassing their pre-pandemic levels (Graph 7). Professional jobs only edged up, and skilled and semi-skilled jobs, mostly in manufacturing, mining and construction, declined. Domestic and informal work have flattened out as the formal sector has begun to generate more jobs.

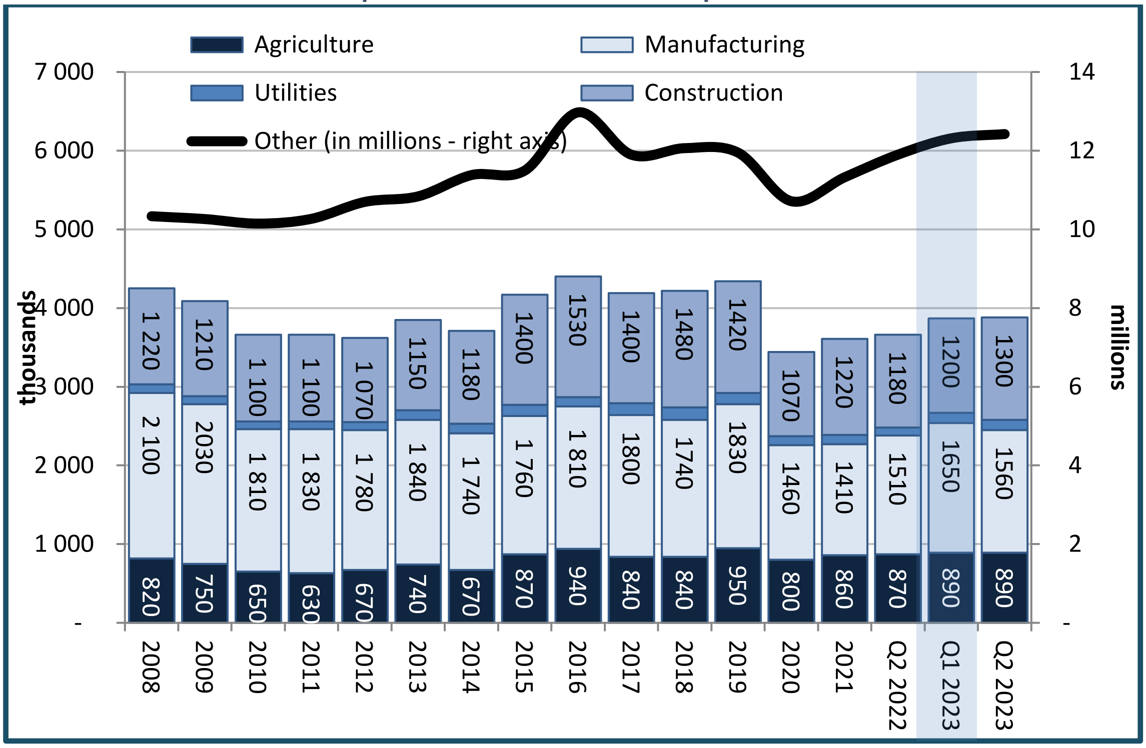
Graph 7. Employment by main occupation and sector, second quarters of 2019 to 2023



Source: Calculated from Statistics South Africa. QLFS Trends 2019Q2-2023Q2. Excel spreadsheet.

Manufacturing employment climbed slightly in the year to second quarter 2023, by around 50 000 jobs, while agriculture remained flat. In contrast, construction showed significant growth, generating 120 000 net new positions. The bulk of new jobs growth occurred in the services and retail, however (Graph 8), quarter-on-quarter manufacturing declined, but the data are not seasonally adjusted and the sector has generally seen net job losses from the first to the second quarter of each year.

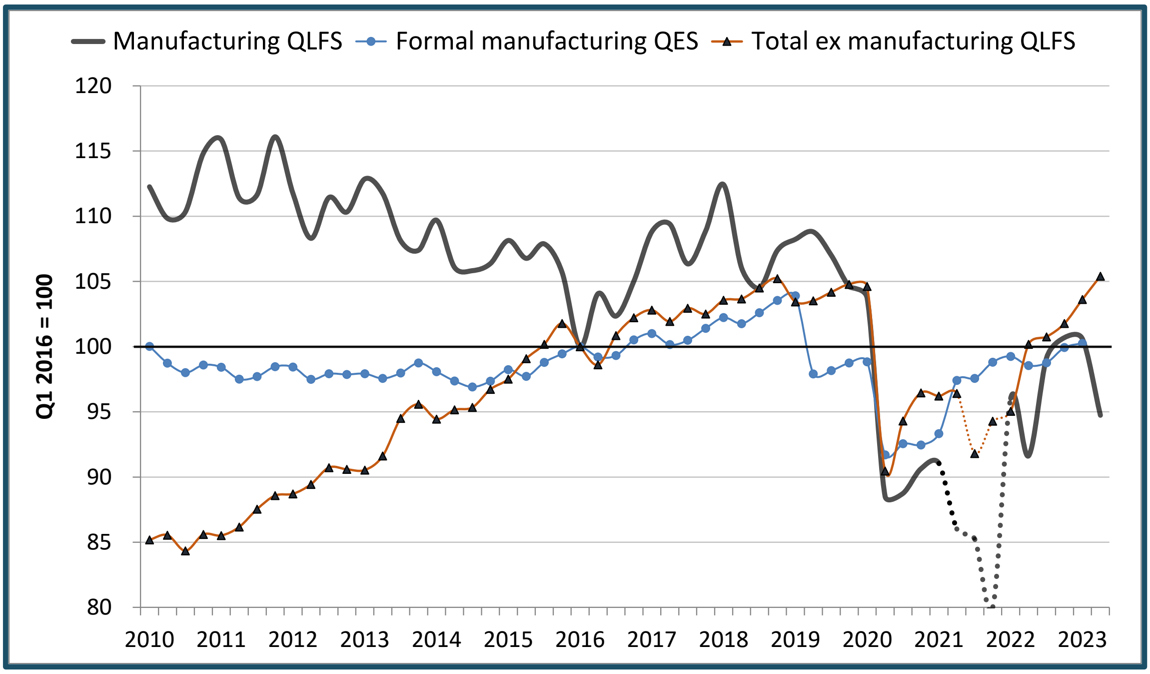
Graph 8. Employment in agriculture, manufacturing, utilities and construction compared to the rest of the economy, 2008 to 2021, second quarter of 2022 first quarter of 2023 and second quarter 2023



Source: Calculated from Statistics South Africa. QLFS Trends 2008-2023Q2. Excel spreadsheet.

Manufacturing employment recovered in line with the rest of the economy until second quarter of 2023. The data from the Quarterly Labour Force Survey (QLFS), derived from a household survey, fluctuates significantly more than the Quarterly Employment Statistics (QES), which covers only VAT registered formal firms and appears a quarter later. Still, the trends in both sets are similar from 2016. (See Graph 9). The QLFS data suggest that while manufacturing job creation lagged far behind the rest of the economy in the first half of the 2010s, it has since largely kept pace.

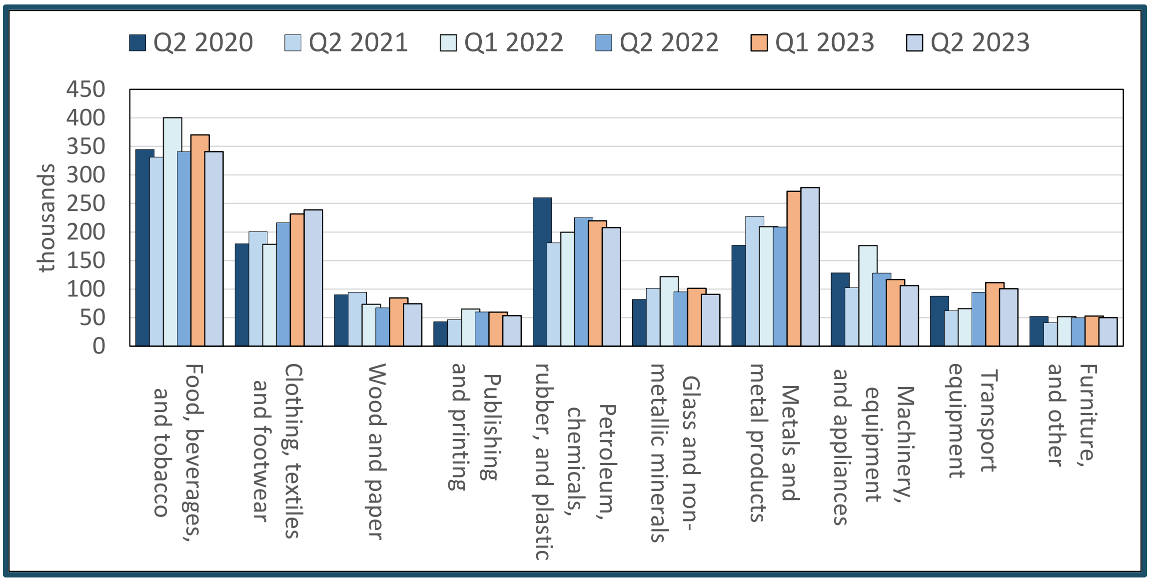
Graph 9. Indices of employment in manufacturing and the rest of the economy from the QLFS and in formal manufacturing from the QES (Q1 2016 = 100)(a)



Note: (a) QLFS data for the second half of 2021 were severely affected by low response rates. Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases. QES. QES Details Breakdown. Excel spreadsheet.

Graph 10 shows that within the manufacturing sector, in year-on-year terms employment expanded significantly in clothing, metal products and auto. It was, however, flat in the largest employer, food processing, and declined in the chemicals value chain and machinery equipment as well as most smaller industries.

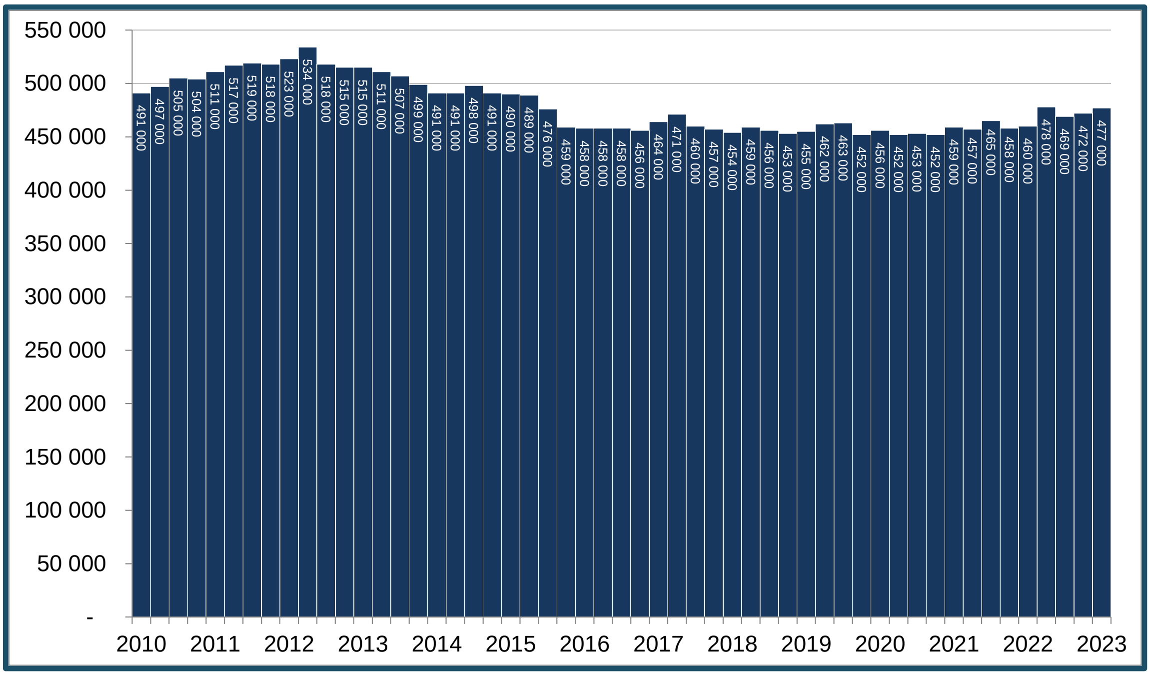
Graph 10. Employment in manufacturing industries, second quarter 2020, 2021, 2022 and 2023 and first quarter 2022 and 2023



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

Statistics South Africa recommends using the QES to track employment in mining, so data are only available to the first quarter of 2023, when the total came to 477 000. Growth in mining employment has been fairly steady since 2020, bolstered by higher although very volatile metals prices since the pandemic and then the Russian invasion of Ukraine. Still, it remains more than 10% below its peak in 2012, at the end of the long 2010s commodity price boom.

Graph 11. Mining employment, second quarter 2010 to second quarter 2023



Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. Second quarter 2023 Excel spreadsheet.

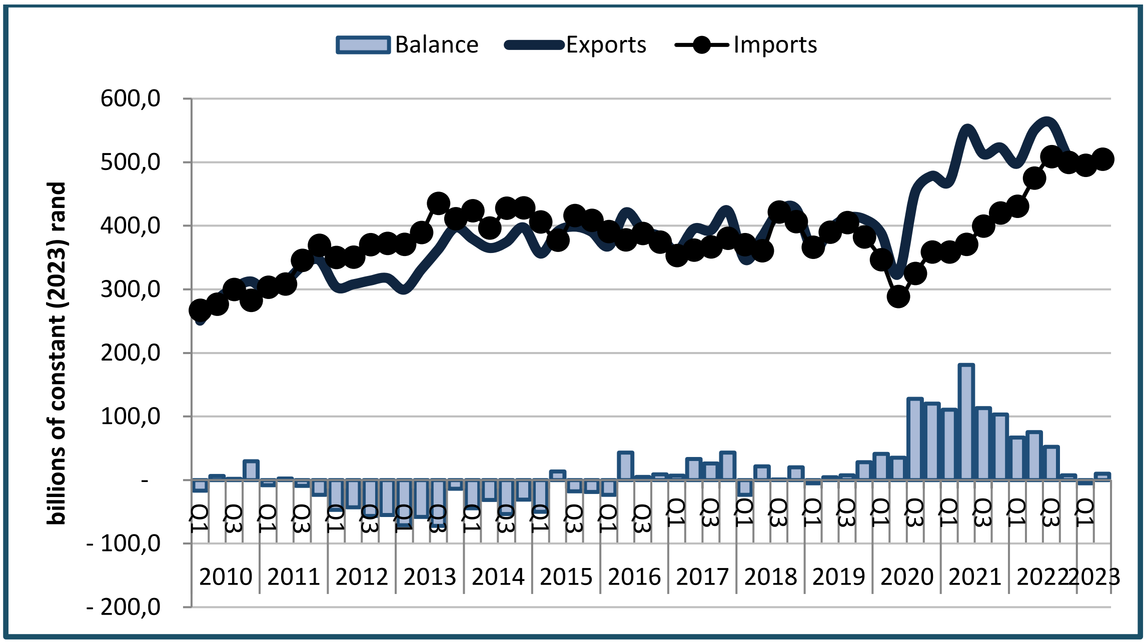
International trade

A trade surplus of R10 billion was recorded in the second quarter of 2023, up from a deficit of R5.1 billion in the first quarter. Mining exports fell by 20% in the year to the second quarter of 2023, driven by a drop in coal prices at the end of 2022. In contrast, agriculture and manufacturing exports continued to climb, increasing by 11% and 7% respectively.

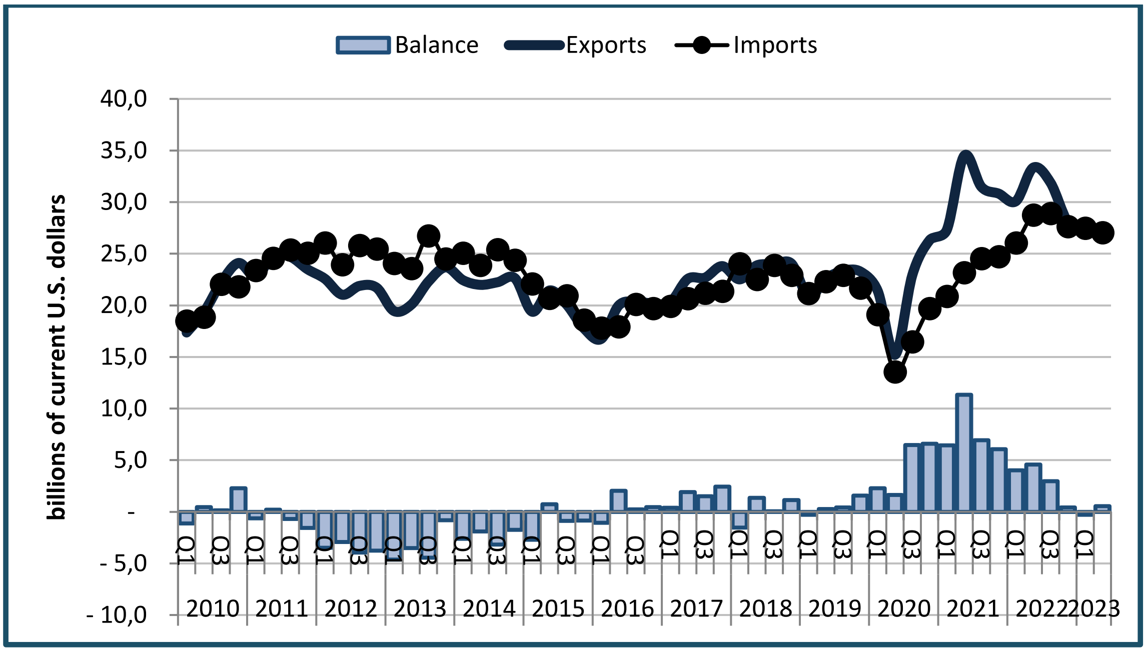
After two years of extraordinarily high trade surpluses from the third quarter of 2020 to the third quarter of 2023, the balance of trade has returned to more normal trends. In constant 2023 rand, the second quarter of 2023 recorded a surplus of R10 billion, up from a deficit of R5.1 billion in the first quarter. Still, it was far below the levels from the average of R105 billion across the eight quarters following the third quarter of 2020. (Graph 12)

Graph 12. Exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2023) rand (a)



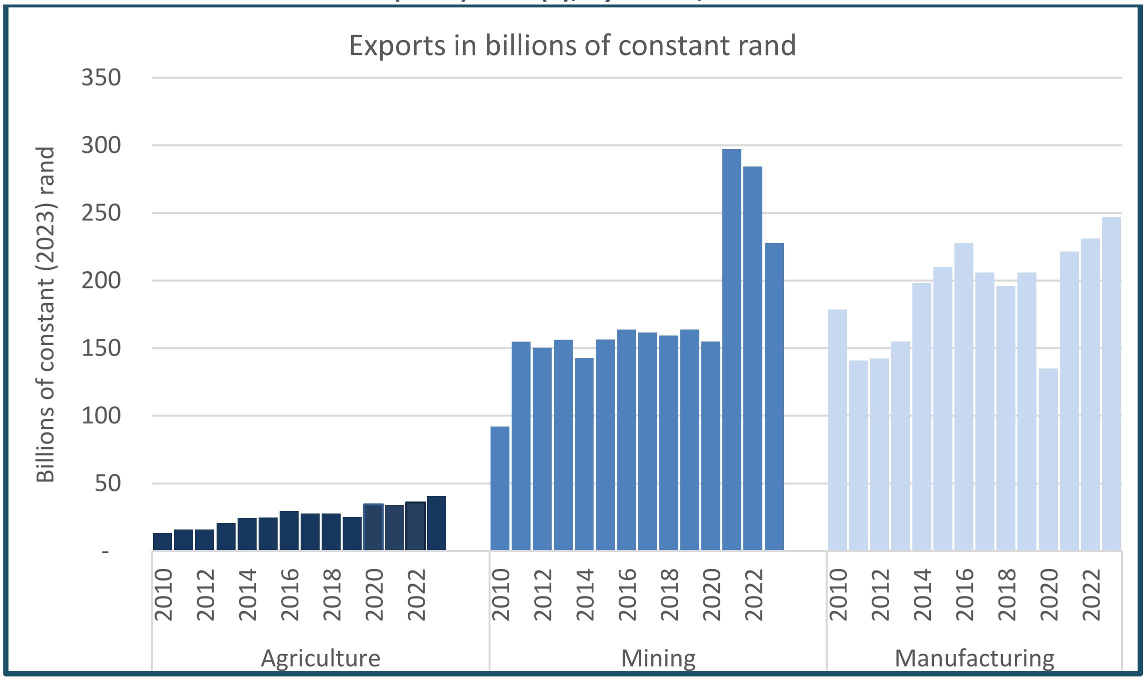
B. Billions of current US dollars



Note: (a) Constant rand values reflated using CPI rebased to January 2023; US dollar values calculated with trade-weighted exchange rate from the Reserve Bank. Source: Calculated from South African Revenue Service data.

In constant rand, mining exports fell 20% in the year to the second quarter of 2023, dropping from R284 billion to R228 billion. The main reason was the extraordinary drop in coal prices at the end of 2022. Mining exports remained far above pre-pandemic levels, however. In contrast, agriculture and manufacturing exports continued to climb gradually, increasing respectively by 11% and 7%.

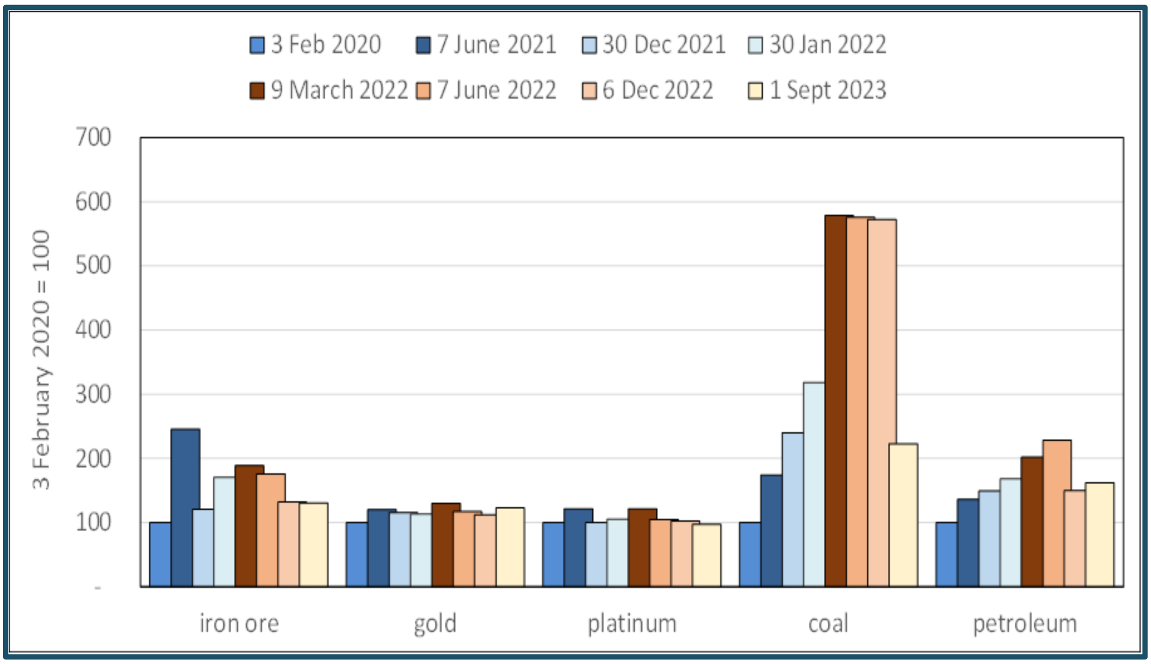
Graph 13. Second quarter goods exports in billions of constant (2023) rand (a), by sector, 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

As the metals and coal value chains consistently contributed over half of South African exports, international commodity prices disproportionately affected revenues. As the following graph shows, in the second quarter of 2023 the prices continued to fall from their mid-2022 heights, although they remained well above pre-pandemic levels. Coal saw a particularly precipitous drop.

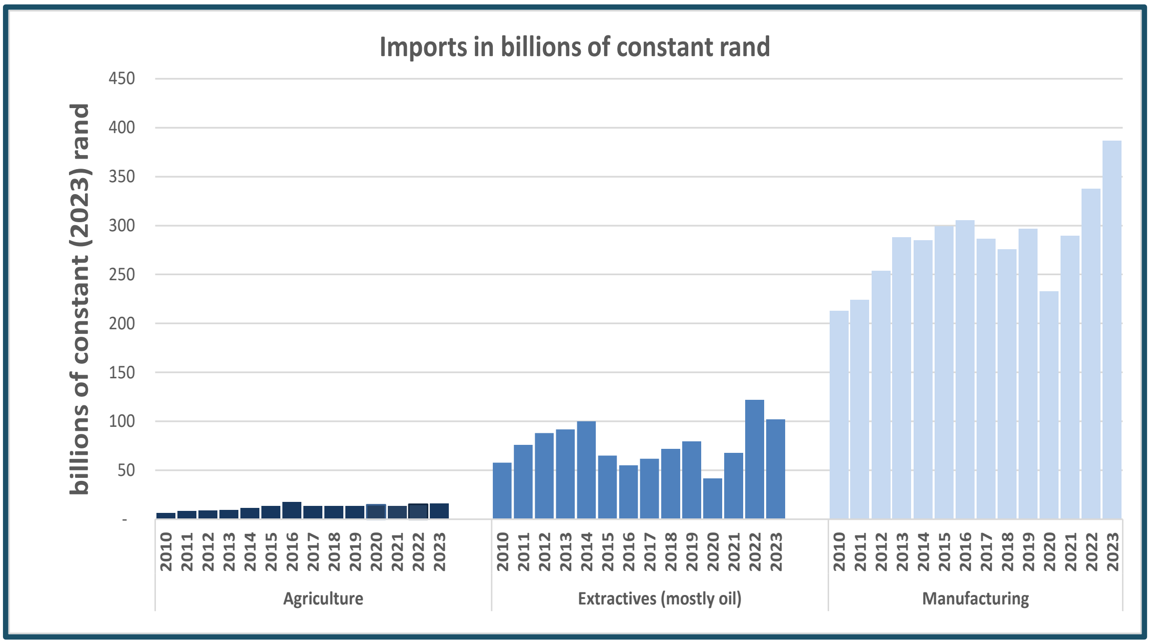
Graph 14. Index of prices for South Africa's major export commodities and for petroleum (3 February 2020 = 100)



Source: Calculated from commodity prices from Tradingeconomics.com.

Manufacturing imports grew rapidly after a sharp decline during the pandemic. They reached a high point at R387 billion in constant rand terms in 2023, an increase of R49 billion from the second quarter of 2022. Imports of extractive products, mostly petroleum, dropped by R20 billion in the year to the second quarter of 2023, thanks to falling global prices. Still, higher diesel imports as a result of loadshedding meant South Africa did not reap the full benefit of the fall in oil costs from early 2023.

Graph 15. Second quarter goods imports in billions of constant (2023) rand (a),by sector, 2010 to 2023



Note: (a) Deflated with CPI. Source: Calculated from South African Revenue Service data.

South Africa generally only runs a surplus on commodity-based manufacturing – food processing, wood products, metals and metal products. Imports of machinery and appliances grew by 44% in the year to the second quarter of 2023, while imports of transport equipment grew by 18% in the same period. They experienced deficits of R105 billion and R27 billion respectively in the second quarter of 2023.

Table 1. Trade by manufacturing subsector

INDUSTRY	Value (billions)		% change from Q2 2022		Change in Billions	
	USD	Rand	USD	Rand	USD	Rand
EXPORTS						
Food and beverages	1.22	22.8	-1.9%	11.0%	-0.02	2.26
Clothing and footwear	0.44	8.2	2.5%	15.8%	0.01	1.11
Wood products	0.14	2.7	-5.9%	6.1%	-0.01	0.15
Paper and publishing	0.43	8.1	5.0%	18.8%	0.02	1.27
Chemicals, rubber, plastic	2.15	40.1	-20.2%	-10.0%	-0.54	-4.46
Glass and non-metallic mineral products	0.11	2.1	-3.9%	8.5%	-0.00	0.16

INDUSTRY	Value (billions)		% change from Q2 2022		Change in Billions	
	USD	Rand	USD	Rand	USD	Rand
Metals and metal products	3.21	60.0	-6.0%	6.0%	-0.21	3.38
Machinery and appliances	2.24	42.0	-0.8%	12.4%	-0.02	4.62
Transport equipment	3.06	57.1	1.3%	14.6%	0.04	7.29
IMPORTS						
Food and beverages	0.94	17.6	-7.3%	4.8%	-0.07	0.80
Clothing and footwear	1.01	18.9	-13.1%	-1.8%	-0.15	-0.35
Wood products	0.09	1.7	-19.9%	-9.5%	-0.02	-0.18
Paper and publishing	0.75	14.0	-13.4%	-2.2%	-0.12	-0.31
Chemicals. rubber. plastic	3.52	65.8	-23.1%	-13.1%	-1.06	-9.94
Glass and non-metallic mineral products	0.24	4.5	-11.2%	0.5%	-0.03	0.02
Metals and metal products	1.45	27.0	-9.5%	2.2%	-0.15	0.59
Machinery and appliances	7.89	147.2	27.5%	44.1%	1.70	45.05
Transport equipment	4.50	84.1	4.8%	18.4%	0.21	13.06

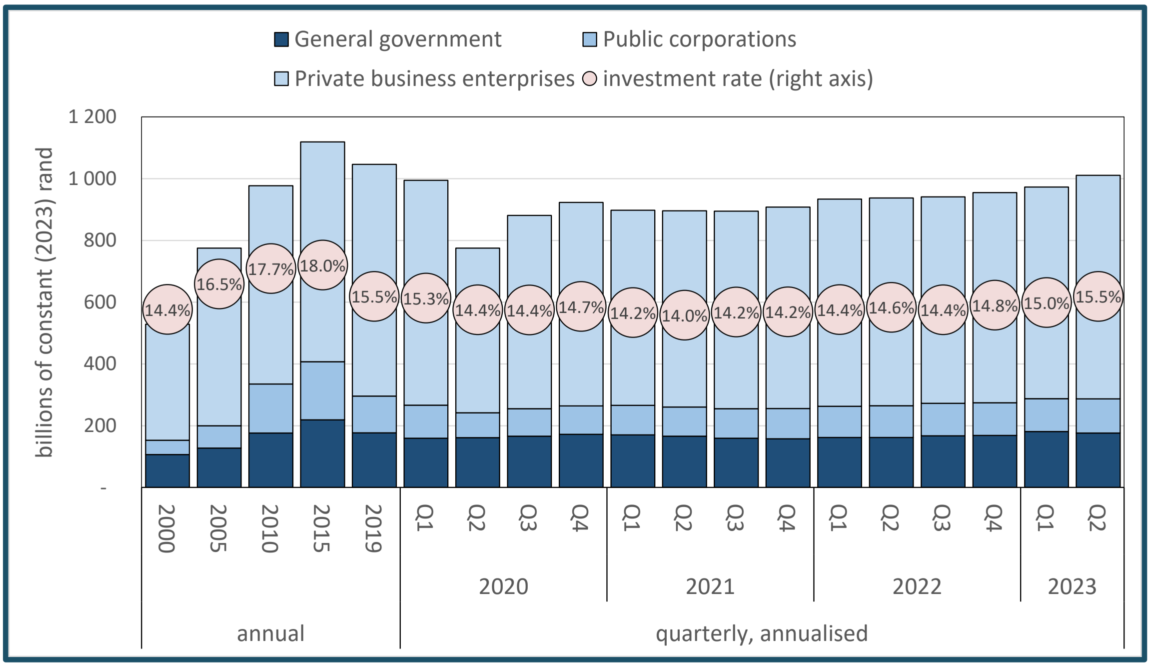
Source: SARS monthly data.

Investment and profitability

Investment rose to 15.5% of GDP from a low of 14% in mid-2021. Although this equalled the pre-pandemic investment rate, it remained below the level of 20% to 25% most economists consider necessary for rapid industrialisation. Profitability continues to fluctuate sharply. In construction, returns on capital shot up compared to the previous three years. In contrast, mining and manufacturing dropped off their peaks in the second quarter of 2021 and 2022.

The sharp increase in private investment was complemented by a 4.2% rise in capital spending by state-owned companies. Although general government spending declined 2.7%, it came off a spike in the previous quarter. As a result of these trends, total investment exceeded pre-pandemic levels. It rose to 15.5% of the GDP, from a low of 14% in mid-2021. That equalled the pre-pandemic investment rate, although it remained well below the level of 20% to 25% most economists consider necessary for rapid industrialisation.

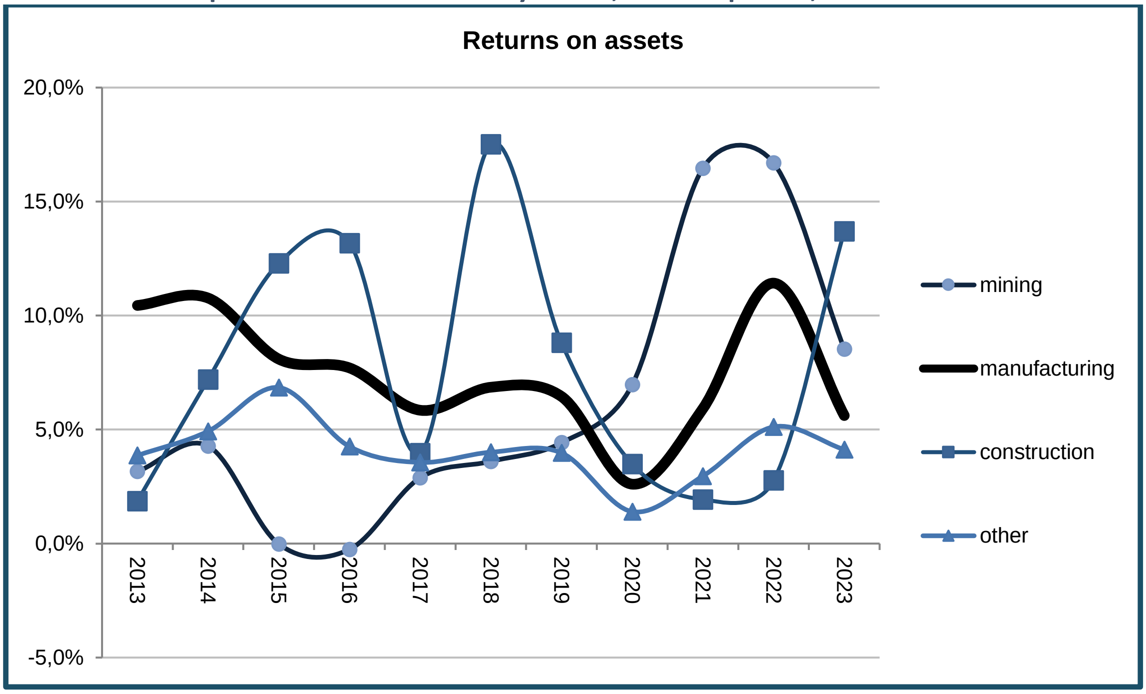
Graph 16. Investment by type of investor and the investment rate (gross fixed capital formation as percent of GDP), annual from 2000 to 2019 and quarterly from 2020 to the second quarter of 2023 (a)



Note: (a) Reflated with implicit deflator rebased to March 2023. Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2022Q4. Excel spreadsheet.

Profitability continues to fluctuate sharply, as Graph 17 shows. In construction, returns on capital shot up compared to the previous three years. In contrast, mining and manufacturing dropped off their peaks in the second quarter of 2021 and 2022.

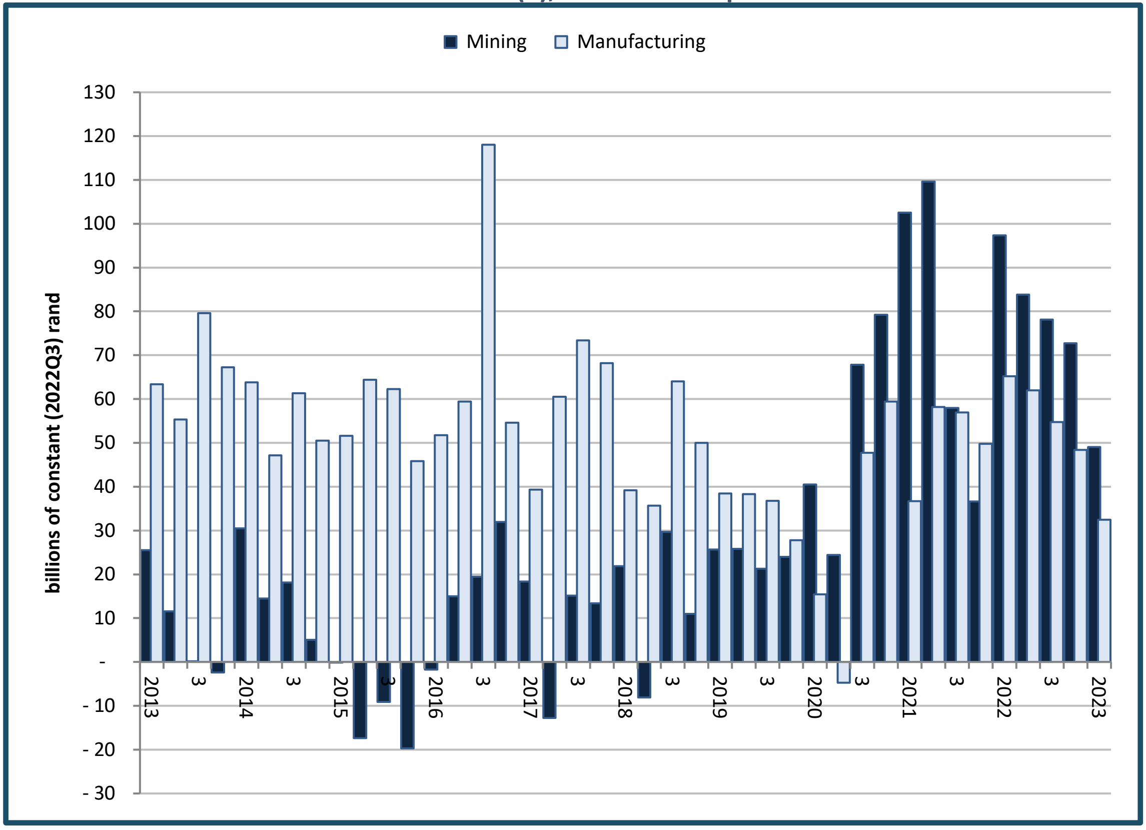
Graph 17. Return on assets by sector, second quarter, 2013 to 2023



Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

In constant rand, mining and manufacturing profits have declined steadily since early 2022. (Graph 18) The fall presumably reflects the combination of lower export prices and soaring loadshedding.

Graph 18. Quarterly profits in manufacturing and mining in billions of constant 2022 rand (a), 2013 to first quarter of 2023



Note: (a) Deflated with CPI. Source: Calculated from Stats SA, Quarterly Financial Statistics. Excel spreadsheet.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects on a quarterly basis, using published information. It captured a total of 30 projects in the second quarter of 2023, with an investment value of R259.71 billion recorded from 27 projects. Most of the projects added to the Tracker in the second quarter of 2023 were announced at the South African Investment Conference (SAIC) held in April of 2023. In addition to the conference, a further seven projects were announced during the quarter. (Table 2) Overall, at least half of the projects recorded are in the manufacturing industry, with others in mining services and utilities. Seven projects previously captured in the Tracker were updated this quarter.

Table 2: FDI projects captured in the second quarter of 2023

	Announced	Project preparation	Construction/ Implementation	Complete
Number of projects	3	1	1	2
Value (R billions)	190.29	1.38	0.048	Not reported
Industries	1 Manufacturing 1 Multiple 1 Wholesale and retail trade	Construction	Mining	1 Services 1 Wholesale and retail trade
Type	1 Greenfield 1 Expansion 1 Not reported	Greenfield	Brownfield	2 Greenfield
Company	UAE (government) Bata South Africa HySHiFT Consortium	Citi Bank South Africa	URA Holdings PLC	De Beers Liquid Intelligent Technologies

Source: TIPS FDI Tracker database.

New and existing projects

Multiple sectors

The President of the United Arab Emirates (UAE) pledged over US$10 billion (~R190 billion) to invest in industries including energy, oil, tourism, and agriculture, among others. The investment will be directed to Eastern Cape province.

Construction

Citibank South Africa plans to develop a new mixed-use infrastructure project, the Vaal River City Project in the Vaal area of Gauteng, with a R1.38 billion pledge. The company is planning to build an aerotropolis, featuring an international airport. The development would also include infrastructure for industrial usage, social housing and student accommodation and other services.

Manufacturing

HyShiFT is a consortium comprising of chemicals company Linde (Ireland), renewable energy firm Enertrag (Germany) and South African companies Sasol and HydRegen Energy. HyShiFT aims to use green hydrogen to develop sustainable aviation fuel at Sasol's Secunda plant in Mpumalanga. The facility will also include a 200MW electrolyser powered by renewable energy. The German government is funding the project's first phase – the construction of a 40MW electrolysis plant through a €15 million (~R275 million) grant.

Mining

URA Holdings is a mineral exploration company based in the United Kingdom (UK). URA is rehabilitating the Gravelotte Emerald Mine in Limpopo, with plans to restart operations. Significant portions of the mine site have already been refurbished and upgraded ahead of the resuming operations. Gravelotte was first operated between 1929 to 2002. The current estimate of the total inferred emerald carats amounts to 29 million carats and a 29-year life-of-mine. The estimated investment value for the project is £2 million (~R47.5 million)

Services

Liquid Intelligent Technologies, a subsidiary of UK-based Cassava Technologies, has installed and deployed the Mauritius Telecom T3 subsea cable connecting Mauritius to South Africa. The project aims to boost stability and redundancy around the connectivity between the two countries. The company completed the project for an undisclosed amount.

Wholesale retail and trade

De Beers has relocated its sightholders sales activities in South Africa to a newly built facility in the Gauteng Industrial Development Zone, for an undisclosed sum. The move aims to position non-mining operations in proximity. De Beers Sightholder Sales South Africa (DBSSSA) sorts, conducts valuations and sales of rough diamonds. DBSSSA is part of the Global Sightholder Sales network that sells rough diamonds for beneficiation purposes in South Africa, Botswana, Namibia and Canada.

Bata South Africa is expanding its business in the local market and exports across Africa. Bata manufactures brands including Toughees school shoes and Bata Industrials safety footwear, among others. Bata is investing in various aspects of its business including logistics, marketing and human capital as well as launching an African warehouse management system and an e-commerce platform. The company is further introducing some of Bata's global brands to the local market. Bata is a Swiss company.

Investment conference projects

Since the inaugural SAIC in 2018, when the President set a target to raise R1.2 trillion in investment over five years, the total pledge value over this period is reported to amount to about R1.51 trillion from 317 projects announced during this time. This quarter, the 5th SAIC garnered 86 pledges by local and foreign companies that amount to R366.78 billion worth of investment. An analysis of the companies identified 23 (Table 3) new and existing foreign investments announced at this year's SAIC. The pledged value from these companies totals about R67.99 billion. Notably with pledges from this kind of investment conference, some pledges represent projects already in the pipeline, while others are updates of existing projects, or they combine new and ongoing commitments. The full FDI Tracker quarterly report will provide more detail.

Table 3: New FDI projects announced at the 2023 SAIC

Investor company	Commitment (R bns)	Industry	Country of origin	Project summary
South African Breweries	5.8	Manufacturing	Belgium	Production capacity expansion and infrastructure
BMW	4.2	Manufacturing	Germany	Electrification of Rosslyn plant
Alpla	2.02	Manufacturing	Austria	Recycled PET packaging manufacturing facilities
SGB-Smith Power Matla	0.500	Manufacturing	Germany	Reconstructing transformer manufacturing factory
Defy/ Arcelik	0.288	Manufacturing	Turkey	White goods manufacturing plants
Yoa Holdings	0.155	Manufacturing	China	Additional plant and machinery
Procter & Gamble	0.130	Manufacturing	US	Manufacturing facilities expansion
Ener-G-Africa	0.135	Manufacturing	UK	Small solar PV panels and solar cooking appliances production

Investor company	Commitment (R bns)	Industry	Country of origin	Project summary
Prism Group	0.093	Manufacturing	Multiple	Automotive components manufacturing
Schnellecke Logistics	0.089	Manufacturing	Germany	Manufacturing Ford exhaust system
Futurelife Health Products	0.075	Manufacturing	Multiple	Food manufacturing
M-Tec	0.070	Manufacturing	Multiple	Production of electric cables and wires
Cipla	0.055	Manufacturing	India	Facilities expansion
Anglo American	29	Mining	UK	Investing in local mining operations
Nkwe Platinum/ Zijin Mining Group	13	Mining	Multiple	New platinum mine
Access bank	1.42	Services	Nigeria	Funding projects in local financial sector
PMG Mining	1.25	Mining	Multiple	Manganese mining
Gold One Group	0.520	Mining	China	Gold mining
Cassava Technologies	4.5	Services	UK	Investment in business units
Ascensos South Africa	0.08	Services	UK	Operations expansion
ArcelorMittal	3	Utilities	Luxembourg	Solar power infrastructure
Unigreen Energy	1.35	Utilities	Russia	Solar PV projects
Rheinmetall Denel Munition	0.251	Utilities	Multiple	Solar farm and a green hydrogen production unit

Source: Adapted from South African Investment Conference announcements.

Updates

Hive Hydrogen has revised the value of the investment for the company's green ammonia project to R105 billion. This was announced at this year's SAIC. The revision of the original estimated project value – about R73 billion – was attributed to the anticipated high demand for green ammonia. The R105 billion will only fund Phase 1 of the project. About 60% of this funding will be dedicated towards wind and solar installations.

Heineken announced a R15.5 billion investment at the SAIC held in April. In addition to the R10 billion capital expenditure requirement for the acquisition of Distell, the company is further required to invest R3.8 billion in a new brewery and R1.7 billion for a maltery. This forms part of the conditions set by The Competition Tribunal for the final approval of the acquisition, it was previously conditionally approved by the Competition Commission which referred the merger to the Tribunal.

Ivanplats has commenced with the construction of the Platreef Mine Phase 1 concentrator. The company further announced that it would invest an additional R6 billion for the development of Platreef project, at the 2023 SAIC.

Since the last update on the project in Q1 2023, Rainbow Rare Earths announced that the company has started operations at the pilot plant for the Phalaborwa rare earths project. The plant produces rare earth sulphate solids from historic gypsum stacks at the Phalaborwa site. The front-end process is situated at the Council for Mineral Technology (Mintek) in Johannesburg.

The pilot plant has already produced a pliable product with 60% permeability. The project has a value of about US$295,5 million (R5,3 billion).

Daimler Trucks & Buses Southern Africa has opened the company's new headquarters in Gauteng. The property also includes a training facility and a new and used vehicle retail space. It also includes sustainable features such as parking bays and roof areas that are used to generate electricity. It was completed for R200 million. The project was announced at the 2022 SAIC.

Wesizwe Platinum will be commissioning the process plant for the Bakubung Platinum Mine. Production at the platinum mine is expected to begin soon after the commissioning process of the processing plant is complete. Wesizwe Platinum is constructing a platinum group metals (PGMs) mine in the North West province. The company is developing the project for approximately R10.69 billion.

Theta Gold Mines has announced that the Department of Water and Sanitation has issued a water-use licence for the Theta gold project authorising all planned water use activities within the mining right area. The company is also in discussions with the Department of Mineral Resources and Energy regarding the environmental guarantee for the final life-of-mine rehabilitation. The estimated investment value for the project is US$35 million (R529 million).

Briefing Note 1: Internal migration and industrial policy

Neva Makgetla

The deadly fire in Marshalltown underscored the abject failure to accommodate the massive influx of new migrants into South Africa's main urban hubs in ways that can promote both economic and social development. Everywhere, industrialisation builds up economic hubs while leaving much of the country behind. In South Africa, however, discriminatory citizenship policies under apartheid prevented the normal flow of people to the main urban areas. That has fuelled a much larger and enduring migratory wave since 1994. In response, industrial policy has tended to try to build up new industrial centres in remote rural areas, rather than focusing on integrating newcomers into more efficient and dynamic urban agglomerations.

Estimates in the early 1990s suggested that half the population, around 20 million people, lived in the impoverished, underserved and overpopulated so-called "homelands." Almost 30 years later, Statistics South Africa estimates that the population in these areas has remained virtually unchanged. In contrast, the rest of the country had seen a doubling in numbers. This situation reflects a massive population transfer, especially of working aged people.

Virtually all urban areas, especially in the centre of the country, grew in size. The metros in Gauteng saw by far the fastest growth. According to Quantec, Johannesburg's population has grown 145% from 1994; Tshwane, 120%; Cape Town, 90%; and eThekwini, 50%. Statistics South Africa data suggest that from 1995 to 2022, the Eastern Cape, Free State and Limpopo grew just over 5%. In contrast, the population of Gauteng grew over 125%; the Western Cape, 95%; and other provinces, 30%. If Gauteng's population had grown only as fast as the rest of the country, it would today have nine million residents. In fact, it has 16 million.

People's decisions on where to live largely reflect economic realities. Since 1994, Quantec estimates that the Gauteng economy expanded over 105% while Western Cape and KwaZulu-Natal grew 95%. The rest of the country grew only 60%. Gauteng generated over a million net new formal jobs in the same period, or over 40% of the total. Gauteng's share in manufacturing production is 40%, the same as in 1994; its share in financial and business services is 45%, up from 35% in 1994. Only government services and retail are spread across the country more or less in line with population.

These figures translate into opportunities for individuals, which is why they are voting with their feet. Today, only one in four residents in the historic labour-sending regions is employed, and 60% of households depend primarily on social grants. In the rest of the country, almost half of residents say they have some kind of job, while 30% depend on social grants.

In effect, apartheid laws were trying to hold back an inevitable tide. More realistic solutions require facing up to the inevitability of inequalities between rural and urban areas. Some historic labour-sending regions have economic potential, but many were set up fail – to act solely as impoverished reservoirs for migrant workers. We need a strategy to determine the economic potential of different regions, rather than committing to somehow plant industrial centres even in the most hostile environments.

The refusal to make tough decisions about the spatial economy has obvious political economic underpinnings. On the one hand, elected provincial and municipal governments feel bound to fight to develop their areas, however bleak the prospects for long-term growth. On the other hand, the 1994 pact entrenched traditional authorities, many precisely in the poorest regions.

These political realities make it difficult for the national industrial policy to make the hard choices around where to locate new projects and initiatives. Instead, they promise every province a special economic zone or two, and every district its own development plan. Without a pragmatic spatial policy, however, much of the associated investment will be wasted. Moreover, it makes it harder to justify the huge sums required to accommodate new migrants in the economic centres, or to figure out how they can help build more dynamic urban economies.

Briefing Note 2: TIPS report on localisation

Neva Makgetla

The localisation strategy has become a leading strand in the industrial policy approach adopted by the Department of Trade, Industry and Competition (the dtic). TIPS has recently published a report that explores the conceptual underpinnings of the strategy as well as its practical implementation. The report aims both to assist practitioners in determining when localisation makes sense, and to indicate changes in procurement systems to promote better outcomes. (See *Localisation and industrial policy: Scopes, debates and instruments*).

Localisation uses demand for imports as an indicator of where domestic production may be justified. In contrast to classic import-substitution industrialisation measures, it relies not on tariffs alone, but also on reforms to public and private procurement systems, and measures to address supply-side constraints. Tariffs should be used strategically, and not as standard practice. Moreover, unlike standard import-substitution strategies, localisation does not focus on final consumer goods almost exclusively. It also targets capital and intermediate products, including in export-oriented value chains, as well as services.

Localisation strategies essentially derive from two arguments. First, they suggest that both public and private procurement policies are effectively biased against local suppliers. Second, they draw on the infant industry approach. In this view, local producers often need public support for years, even decades, before they can compete with long-established foreign suppliers. That support may include protection of local markets or payment of a price premium for domestic products, as well as supply-side assistance such as targeted infrastructure and training.

In this framework, the core question become when the cost of state support is justified by the benefits of diversifying the economy, increasing local production, and creating employment. Localisation can also benefit consumers by producing goods that are designed for local needs and tastes and by shortening supply chains.

The first step is to understand and address the core blockages to local procurement, and then to identify when the costs of overcoming them outweigh the potential benefits. These costs may take the form of:

- Higher prices or worse quality for consumers, which is more problematic if they affect basic goods and services such as staple foods or medicines;
- Supply-side measures aimed at assisting local producers to become more competitive; and/or
- Reforms to long-standing procurement systems.

A core challenge in the public sector is that government agencies are expected to meet the cost of localisation from their own budgets, even if their mandates do not include industrialisation. This can become a quandary for departments like health and education, which have limited funds to meet pressing human and social needs.

Possible reforms to public procurement systems include establishing platforms for major procuring departments to engage with the dtic on potential areas for local suppliers and ways to support them; requiring that specifications do not unnecessarily exclude local suppliers, for instance by specifying brand names; requiring government officials to prioritise localisation compared to other objectives (for instance by including it in departmental KPIs); establishing a standardised cost-benefit system; and funding price premiums, if any arise, from industrialisation funding rather than departmental budgets.

Briefing Note 3: The APORDE programme on development economics and industrial policy

Saul Levin

The annual African Programme on Rethinking Development Economics (APORDE) opened in the first week of September 2023. APORDE is a high-level training programme in development economics funded by the Department of Trade, Industry and Competition to build capacity in Africa. It focuses on improving how we as Africans think about and implement industrial development. The programme is supported by the South African Research Chair in Industrial

Development (SARChI) based at the University of Johannesburg, and administered and co-facilitated by TIPS.

APORDE 2023 is the 17th annual edition of this important intervention to improve the understanding of economic development and industrial policy in developing countries. The programme has had more than 600 participants since it started in 2007 with the aim of building capacity in industrial development across Africa. While in session, it hosts public lectures by high-level economists from across the world.

APORDE helps participants to reflect on relevant themes and country experiences with academics and practitioners from across the continent and the globe. The programme highlights that while there is complexity in implementing industrial policy and industrial development in the current era, it is achievable. Key messages include the importance of building industrial capacity, its viability, and how countries need to build an evidence base on the political and economic context. It stresses the importance of adapting, not copying, support measures to build industrial capacity.

Over the two weeks the programme includes discussions on structural change, deindustrialisation, industrialisation of freshness, trade, gender, global value chains and local production systems, inequality, taxation, anti-corruption and labour markets. The programme also looks at the experiences of economic development in the Global North and contrasts that with Africa and Latin America.

Through this training, APORDE provides insights to participants into critically evaluate the policy options facing governments using evidence-based research, and give a heterodox perspective on different approaches to industrialisation and economic development. APORDE is able to share an alternative perspective that draws on the real world experiences of development and the pitfalls of using a simplistic textbook analysis or unworkable models.

APORDE also provides an opportunity for South African officials, researchers, and academics to engage and interact with their colleagues from across the continent. An alumni network has been established to support these engagements even after the course itself is completed.

More information on APORDE, including the public lectures, is available at www.aporde.co.za.