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Global Economic Crisis and South Africa's Manufacturing Industry: The Case of the Automotive, Textile and Clothing, and Mining Industries

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Introduction: The Global Financial and Economic Crisis

The most recent global financial and economic crisis (hereafter referred to as 'the crisis') which started around September 2008 has raised many questions about globalization and its effects on countries of the South. In an era where the ideology of free markets, trade liberalization and integration of the economies of developing countries to the global system is being promoted through trade, foreign direct investment and capital flows, among other mechanism, the crisis has renewed debates around the role of markets versus state intervention in the economy. The impact of the crisis on South Africa presents important lessons for many countries in the South for a number of reasons. Although it is classified as a middle-income country and is now part of the BRICS group (the others being Brazil, Russia, India and China), South Africa was adversely affected by the crisis. A study of the automobile, textile, clothing and mining industries provides some evidence to support this. This chapter explains why and how these sectors were affected and what the response of the government was. It also recommends strategies which could reduce the country's vulnerability to similar shocks in future.

The origins and causes of the global financial and economic crisis have been well documented. Evidence from several sources shows that the crisis started around September 2008 when the United States housing market bubble burst and sparked off one of the most severe global recessions since the Great

Depression of the 1930s. Bad loans in the mortgage market led to a credit squeeze and loss of consumer confidence. Values of stocks and domestic currencies plunged. Global growth was predicted to fall as a result. Zemsky (1998), Chari and Kehoe (2004), Alan (1999) and the African Development Bank (2009b) present this explanation. Aggregate demand by both consumers and firms declined and this affected developing countries through slumping exports and commodity prices.

The vulnerability of South Africa to the crisis has to be understood within a historical and political context. During the apartheid era, multinational companies, mainly from the United States, Britain, Germany and Japan, among others, invested in the country particularly in sectors such as mining, manufacturing and agriculture. Foreign direct investment was the cornerstone of the country's growth. Apartheid policies of racial discrimination against blacks created one of the most unequal societies in the world where the economy was largely owned and controlled by whites. The Native Land Act of 1913 dispossessed millions of blacks of their land. Discriminatory legislation on access to land, education, health services, housing and labour markets excluded the majority black population from the economy. Democratic transition was achieved in 1994. The government embarked on many programmes which aimed to rectify historical injustices and inequity, for example, the Reconstruction and Development Programme (RDP) of 1994, the Growth, Employment and Redistribution (GEAR) Programme, the Accelerated and Shared Growth Initiative of South Africa (AsgiSA), and more recently, the National Development Plan. Under GEAR, the government adopted market-friendly policies as a strategy to stimulate economic growth. It promoted export-oriented strategies and adopted trade liberalization. The country's ratio of trade in goods and services to GDP is more than 60 per cent. The country is also a major commodity exporter, particularly of minerals such as diamonds, platinum, iron ore and gold, to name but a few.

South Africa has one of Africa's largest automobile assembly and manufacturing industries, a sector which is dominated by MNCs which are based in the United States, Europe, Japan and Germany. As evidence shows, the automobile industry in Europe and the United States was one of the hardest hit by the global crisis as consumer demand for some durable goods declined. Since South Africa's automotive industry mainly exports to these same markets, it was bound to be affected. The country is also a major exporter of cotton and clothing and textile products. South Africa became a member of the World Trade Organisation (WTO) in 1994 and, since then, has liberalized its trade by reducing tariffs and removing other barriers to trade. Whereas this has contributed to a larger role for trade, it has also increased the vulnerability of the country to the dynamic changes and fluctuations in global trade, investment and economic activity in general. Because South Africa is also closely integrated with the Southern African Development Community (SADC), as well as other African countries, the negative impact of the crisis on South Africa also affected most of those countries.

The pace of change and transformation has been slow and the present government has acknowledged that. Although the government has legislation for land redistribution, land restitution and land tenure reforms, statistics show that only 30 per cent of the target for land redistribution had been achieved by 2010 (Department of Land Affairs and Rural Development 2010). The government has also tried to implement the Broad-Black Based Economic Empowerment (BBBEE) policy which aimed to increase economic ownership and participation by blacks. Progress on this has been slow as well. What does all this mean in relation to the global crisis? When the crisis hit, companies responded to the falling external demand by retrenching workers. As a result, thousands of workers in the three sectors under discussion, who had no access to land or the required skills to access labour markets and other opportunities for survival, found themselves with no alternatives. Thus the vulnerability of the economy arose not just because of its integration with global markets, but also because of patterns of racially-based inequality and social exclusion.

The choice of the three sectors here is informed by a number of considerations. These sectors are all significant contributors to GDP, job creation and poverty reduction, exports and earnings. The automotive sector is a major employer. Half of the automotive industry is located in one of South Africa's poorer provinces, the Eastern Cape and it is a major employer of the population there. The automotive components' manufacturing sector also has potential for participation of small and medium-sized enterprises (SMEs) in the manufacturing sector since their capital outlays and technological capabilities are much lower than thiose of vehicle manufacturers and assemblers. It also provides an opportunity for blacks to enter into the automotive industry which historically has been dominated by foreign capital and white businesses. The clothing and textile sector is labour-intensive (particularly in terms of low-skilled labour), is situated close to rural areas and so it is significant for rural development. It is also a major employer of women and, in that way, contributes to women's empowerment. The industry was once heavily protected through a tariff wall but since the liberalization of the economy, it has been severely affected. The textile and clothing industry is also known to be uncompetitive due to high wage costs, low skills and a lack of new technology. Productivity is lower than that of competitors in advanced and emerging economies and therefore the liberalization of the sector came at a time when it was least prepared for external competition. Since 2007, it has been struggling to compete against cheap imports from China, Malaysia and Singapore. The sector has suffered from widespread job losses and factory closures. Wooley (2009) refers to it as an industry which is 'in terminal decline'.

Mining companies are a major employer of unskilled labour from rural communities. The automotive and mining industries are also highly integrated into the global trading and financial system through the role of foreign investment, participation of multinational companies, their exports into advanced and emerging markets, imports of inputs and finished products, technology and skills transfer. In addition, the dominance of commodity production and exports in the case of the mining, textile and clothing industries makes these sectors particularly vulnerable to external crises. So it is relevant to examine the impact of the global financial and economic crises by studying how these sectors performed during the period 2008 to 2011.

The main objectives of the chapter are:

a. To review the impact of the global financial and economic crisis on the automotive, mining, and textile and clothing industries in South Africa;
b. To review and assess critically, the response of the public sector to the crisis.

The chapter postulates the hypothesis that the global financial and economic crisis had an adverse impact on South Africa's automotive, textile and clothing and mining sectors. It also argues that although the government's response was timely, it was not adequate to deal with the nature of the problem, which was deeply rooted in structural factors facing the industry.

Theoretical Framework

In order to understand the impact of the global economic and financial crisis on a country, one has to examine the economic policy in post-apartheid South Africa because this has determined the nature and extent of the country's integration into the world economy.

Greenberg (2004) aptly considers the South African economy in terms of what he refers to as the 'the post-apartheid developmental model' :

> The post-apartheid developmental model is situated in a context of a decades-long global restructuring of economic and political systems, driven by state managers, multilateral global institutions and profit-based economic elites. From an ideological point of view, the Project of restructuring is committed to opening up commodity and financial markets to increased competition (liberalisation and deregulation); the ceding to profit making organisations of potentially profitable economic activities formerly carried out by the state (deregulation and privatisation); and the use of the state to facilitate these goals. Given the integrated nature of the world economy, peripheral countries are compelled to follow the lead of core countries. Restructuring initiated by capital in the core capitalist economies

> in response to overaccumulation and recession found fertile ground in South Africa too, where the apartheid growth path was also reaching structural limits. The economy was skewed towards the production and consumption of luxury goods for a narrow White domestic market. It relied on artificially cheap wages for the majority, thus preventing Fordist mass consumption that drove the expansions of the capitalist core economies from the Second World War. The result was overaccumulation and 'trapped capital', with limited potential growth in domestic effective demand for commodities.

Due to its integration into the global economy, South Africa was affected by the crisis in terms of its exports, imports, financial flows, production volumes and employment. The degree of openness as reflected in the tariff structure also gives an indication of vulnerability (Avery and Zemsky 1998; Chari and Kehoe 2004). This is reflected by, among other things, the country's ratio of trade in goods and services to Gross Domestic Product (GDP) being more than 60 per cent (Department of Trade and Industry 2009). Held et al (1999) speak of the dynamic nature of markets in the context of liberalization. When market conditions change, the actors and players in the system make some real adjustments and reposition, and restructure their operations in order to adapt and adjust to those changing market conditions. The crisis led to a fall in demand in the US and Europe. Because of the integration of emerging economies into the world system through their exports, imports and foreign direct investment flows, they were also negatively affected by the crisis as their exports into the US and Europe collapsed. Part of their re-adjustment or adaptation included diversion of their exports to developing country destinations like South Africa. Because South Africa had already started to remove tariff barriers, the flood of cheap imports could not be halted.

UNCTAD (2011) observes that:

> The global environment for African industrialization is also changing in several significant respects and efforts to promote industrialization in the twenty-first century must also take account of this new environment. First, multilateral trade rules as well as bilateral and regional trade agreements are shrinking the policy space available for promoting industrial development in African countries that are not classified as Least Developed Countries (LDCs).

South Africa was constrained in terms of using trade policy as a result of the situation which UNCTAD is describing. UNCTAD also gives as examples, first, the rules of the World Trade Organization (WTO) which prohibit the use of industrial policy instruments such as quotas and local content requirements. It also cites the use of export subsidies which has also been banned, except for the LDCs. The policy space has also been limited because South Africa, like a number of other African countries, has signed Economic Partnership Agreements (EPAs) with the European Union. African countries are under increasing pressure to abandon the use of tariffs as a measure of protection. As indicated in subsequent sections of this chapter, these issues also were constraints with regard to South Africa's public responses to the crisis.

Consequently, as UNCTAD emphasizes,

> African industrialization is taking place in an environment in which the use of some industrial policy instruments applied by the developed and emerging economies are either banned or regulated.

UNCTAD also notes that the global environment in which manufacturing production takes place has also changed in the sense that firms are increasingly facing stiff competition in global export markets due to the reduction in tariff and non-tariff barriers to trade in industrial products coupled with the significant decrease in transport costs and improvements in information and communication technology. For African countries, the new environment is challenging because of the rise and growing role of large developing countries such as China, India and Brazil in labour-intensive manufactures (Kaplinsky 2007).

Part of the challenge that South Africa has faced in some sectors, especially textiles and clothing, is the stiff competition from cheaper producers who found easy entry into the economy as the country liberalized prior to the crisis.

In short, the impact of the crisis on the three sectors is analysed within the context of an economy which has liberalized under the WTO rules and has become integrated into the world economy. As a higher-cost producer compared to external competitors, it was bound to be affected by global changes.

Methodological Approach

A desk study was conducted using secondary data from sources such as the National Association of Automobile Manufacturers of South Africa (NAAMSA), the National Association of Automobile Component Manufacturers (NAACAM), the Chamber of Mines-South Africa, the Textile Federation of South Africa (TFSA) and Statistics South Africa (STATSSA). Although. I would have liked to carry out a survey of the industries under study, this was not feasible within the short space of time available for preparation of the chapter. The findings presented in the chapter may not be comprehensive but, nonetheless, do present some evidence of how the crisis affected the three sectors, and also a critical review of the response of the public sector.

Overview of the Automotive, Mining, and Textile and Clothing Industries

The Automotive Industry

The automotive industry is regarded as a strategic sector for the South African economy and is the largest and leading manufacturing sector. Consequently, the government has identified the industry as a key growth sector, with the aim of increasing vehicle production to 1.2 million units by 2020, while significantly increasing local content at the same time. The country is the leading producer of automobiles in Africa, producing over 75 per cent of the total vehicles on the continent. (NAAMSA 2010). All of the major vehicle makers are represented in South Africa, as well as eight of the world's top ten auto component manufacturers and three of the four largest tyre manufacturers. Many of the major multinational companies use South Africa to source components and assemble vehicles for both the local and overseas markets.

The South African automotive industry consists of the manufacture, distribution, servicing and maintenance of motor vehicles and contributes significantly to the economy. The industry is largely located in two provinces, the Eastern Cape and Gauteng. Because these are coastal areas, the industry is able to take advantage of the low production costs, coupled with access to new markets as a result of trade agreements with the European Union and the Southern African Development Community free trade area.

The sector accounts for about 10 per cent of South Africa's manufacturing exports. According to data by the National Association of Automobile Manufacturers (NAAMSA 2011), annual production in 2007 was 535,000 vehicles. The sector contributes about 7.5 per cent of the country's gross domestic product (GDP) and employs around 36,000 people.

The country exports vehicles to more than seventy countries, mainly Japan (around 29 per cent of the value of total exports), Australia (20 per cent), the UK (12 per cent) and the US (11 per cent). African export destinations include Algeria, Zimbabwe and Nigeria.

Despite the government's BBBEE policy, transformation of the sector in terms of broadening participation to historically disadvantaged individuals (HDIs) (mainly black) has been so slow that ownership and control has largely remained unchanged. Thus the sector is still dominated by subsidiaries of MNCs. German companies such as Mercedes-Benz South Africa and Volkswagen South Africa, General Motors (GM), Ford from the United States and the Japanese Toyota South Africa are among the top car manufacturers or assemblers (NAAMSA 2011). The sector has been growing rapidly since 2003 but experienced some decline at the onset of the global crisis in 2008. The automotive industry is located in economically depressed industrial towns (Botshabelo, Phuthaditjhaba, Isithebe, Newcastle, Ladysmith, Atlantis, Worcester, Mogwase, Babalegi, Dimbaza) and major cities (Cape Town, Durban, Johannesburg, East London, Port Elizabeth, Pietermaritzburg) ((Department of Trade and Industry 2009a)

According to NAAMSA (2011), the auto industry was established in the 1920s and over time grew largely under protectionist policies of successive governments. Since South Africa became a member of the WTO in 1994, there has been a policy shift from import substitution to export promotion. State support to the sector has been extensive under the Motor Industry Development Programme (MIDP) which was started in 1994. The MIDP aimed to make the sector more competitive and also to assist it in increasing exports. The sector has been gradually liberalized through massive reduction of tariffs. For example, tariffs have been reduced from high protection levels of 65 to 36 per cent and duty-free allowances have been introduced. When the global crisis struck, South Africa was already in the process of liberalizing the sector. This is what contributed to its vulnerability because it has even been acknowledged by the government that the country's industry was not competitive globally largely due to high labour costs, low productivity and lack or shortage of skilled labour used in the industries.

Textile and Clothing Industry

The textile and clothing industry in South Africa includes sub-sectors such as fibre production, spinning, weaving, knitting, non-wovens, carpet production, fabric coating. The industry consists of around 300 manufacturers, based mainly in Kwa-Zulu-Natal, the Western Cape, the Eastern Cape and Gauteng. A few companies also operate in the Free State and Mpumalanga.

The liberalization of the economy which accelerated in 1994 when South Africa became a member of the WTO has had some negative impacts on the sector. Through the government's seven-year tariff phase down for textiles and clothing, introduced in 1995 by September 1999 duties had been substantially reduced so that the country was ahead of its WTO commitments. Removal or reduction of tariffs has led to a flood of cheap imports and the competition has led to the closure of a number of companies and some cutting down of production. Exports have also been adversely affected through the discontinuation of export incentives.

As a result of the changing market environment both domestically as well as globally, there have been major changes in ownership in a sector which was once dominated by multinational companies as the industry has braced itself for the challenges and opportunities of globalization.

Mining Industry

South Africa is one of the world's and Africa's most important mining countries in terms of the variety and quantity of minerals produced. According to Leon (2012), the centrality of mining to South Africa's economy is illustrated by the fact that nearly 60 per cent of the country's export revenue is attributable to mining, mineral and secondary beneficiated products. In 2010, Leon also indicates its mineral resources were approximately R 17.5 trillion –some of the largest in the world. Further, South Africa is also estimated to possess 89 per cent of the world's platinum group metal reserves and 13 per cent of its gold. The country also possesses significant quantities of chrome, vanadium and manganese.

Mining is also a major contributor to GDP, employment and export earnings. It is a major employer of both domestic and foreign labour. Migrant labour still plays an integral role in the mining industry, with labour being sourced from Lesotho, Mozambique, Botswana and Zimbabwe. The gold industry remains the largest employer, responsible for more than 50 per cent of total employment. The industry is predominantly foreign-owned and also white-controlled although there are efforts to transform under the Broad - Black Based Economic Empowerment (BBBEE) initiative of the government.

The Chamber of Mines of South Africa is the largest industry body which represents the mining sector. The country's mineral industry can be broken down into five broad categories – gold, PGM, diamonds, coal and vanadium. In 2010, there were forty-one mining companies in the country. South Africa is among the top ten global mining countries in the world, as measured by GDP. It has the largest mining companies, in terms of market capitalization. Some of the major mining companies operating in the country include the following:

1. Platinum Mining (Anglo Platinum Limited, Impala Platinum Limited, Lonmin Platinum Limited, Northam Platinum Limited, Royal Bafokeng Platinum, Xstrata Alloys of South Africa).
2. Gold mining (Anglo Gold Ashanti Limited, Harmony Gold Mining Company Limited, Goldfields)
3. Diamond mining (De Beers Consolidated Mining, Namakawa Diamonds)
4. Coal mining (BHP Billiton)
5. Chrome mining (Anglo American Corporation, Rio Tinto)
6. Others include base metal/minerals exploration companies (for example, Mvelaphanda Resources, Richards Bay Minerals, and African Rainbow Minerals Limited).

Most of the companies are subsidiaries of multinational companies. This again reflects the country's historical legacy where ownership and control of mining assets was and is still predominantly in the hands of export-oriented private foreign capital.

Literature Review

A number of studies have been conducted on the impact of the global and financial crisis on South Africa.

The United Nations Economic Commission for Africa (UNECA 2009a) argues that the global financial and economic crisis presents significant challenges for African countries. It has also exposed weaknesses in the functioning of the global economy and has led to calls for the reform of the international financial architecture. The crisis represents a serious setback for Africa because it is taking place at a time when the region is making progress in economic performance and management. Since 2000, the African region has had an average growth rate of real output of above 5 per cent and inflation has declined to single digits. The Commission argues that the global financial and economic crisis threatens to reverse these gains in economic performance and management. (UNECA 2008).

Studies by the African Development Bank (2009a, 2009b), the United Nations Economic Commission for Africa (UNECA 2009) and the International Monetary Fund (2009) all concur that the global financial and economic crisis had an adverse impact on most African economies and also that South Africa was among those worst affected because of its relatively larger share of exports to Northern countries as compared to the rest of Africa.

Using a Computable General Equilibrium (CGE) Model, Chitiga et al argue that the crisis affected South Africa, albeit with a lag. It was affected through a sharp decline in demand for its export products, the fall in the prices of some key export commodities and also through a fall in foreign investment. They also note that this was the first time in 17 years that the country was experiencing a recession of such a magnitude. Their study also indicates that economic growth also fell to its lowest level in five years, and the GDP dropped 1.5 per cent in six months to March 2009.

The study also predicted that declining export prices and export volumes would lead to a fall in government revenue. In the mining sector, the study observed that there was a decline in several commodity prices from 2008. Platinum Group Metals (PGM) were particularly hard hit, with prices falling by 60 per cent. Coal prices were reported to have fallen by 30 per cent and those for copper by 50 per cent. Gold prices, however, increased from US$

895/ounce in 2008 to US$ 916/ounce in 2009. A report by the Business Monitor International (2010) indicated that gold production declined over the period 2008 to 2009 not because of the crisis but rather, due to power shortages and also due to labour unrest. Wad (2010) writes that generally, the crisis did not impact automotive markets in developing countries severely, except for automotive exporting countries like Mexico, Thailand and South Africa. The impact was felt through declining production and export sales.

Chitiga et al (2010) predicted that the crisis would lead to unemployment, increasing it by as much as 10 per cent. Their study also highlighted the difficulty for most African countries, to finance rescue packages for industry. They also cited the limited fiscal space and international reserves of most African countries and explained that these were likely to constrain their capacity to respond both in a timely manner as well as adequately.

The literature also abounds with information on possible future strategies to respond to similar crises. They recommend a more flexible approach to macroeconomic policy such as adoption of countercyclical policies in times of crisis.

Kasekende et al (2010) emphasize the importance of a long-term approach. In that context, policies should focus on key structural reforms such as enhancing competition in the financial sector, vulnerable segments of the population. They also advocate the streamlining of labour market regulations, developing financial markets and strengthening governance, in order to improve domestic fundamentals, promoting private sector development and enhancing economic diversification. Equally important, they emphasize that reforms must accompanied by measures to protect vulnerable groups in the population. Essentially this means that governments have to allocate adequate resources into safety nets and, of course, create opportunities for new employment. In relation to South Africa, the authors welcomed the stance of the government of South African in adopting a countercyclical fiscal stimulus of R 787 billion for public investment during 2010-12. They also supported the decision of the South African Reserve Bank to ease monetary policy between December 2008 and October 2009, by cutting the policy rate by up to 500 basis points.

Wad's study (2010) reviews how the companies responded and indicates that most of them did what any company in crisis typically would do, for example, temporary downsizing, cost reductions, retraining, consolidation, innovation. Governments responded also by launching traditional stimuli packages (cash-for-clunkers, tax reductions on smaller and/or cleaner cars and so on). Strategic initiatives were taken to improve the competitiveness of the domestic industry. Strategies consisted of consolidation and liberalization, on the one hand, and those aimed to transform it from a brown industry to a 'greener' industry on the other hand. They included tightening environmental regulations, fuel efficiency and emission standards.

He recommends that in addition to traditional countercyclical measures, there is a need to mobilize key stakeholders so as to develop and implement strategies to increase productivity and innovation.

According to the UNECA (2009), many African countries have taken several steps to mitigate the impact of the financial crisis on their economies, including interest rate reductions, recapitalization of financial institutions, increasing liquidity to banks and firms, fiscal stimulus packages, trade policy changes, and regulatory reforms. The measures adopted differ from country to country, depending on available fiscal space as well as the degree of vulnerability to the crisis.

However, the author was not able to find a comprehensive study which focused particularly on the three sectors.

Presentation and Interpretation of Findings: Impact of the Crisis on the Three Sectors

Automotive Industry

Table 6.1 presents data on vehicle sales and exports from the automotive industry over the period 2006-10. Data for 2011-12 were not available.

As Table 6.1 shows, the global crisis contributed to the decline of the automotive industry in terms of vehicle production, sales, exports and imports. Total domestic production declined by 30 per cent over the 2008 to 2009 period but improved in 2010. Localsales of domestically produced vehicles also declined by 25 per cent over the same period. Exports fell from 195,670 units in 2008 to 128,602 in 2009, a 34 per cent decline. Total car imports also declined by 23 per cent in the same period. A similar pattern is observed in respect of light commercial vehicle production, sales and exports, which all declined in 2008 to 2009, but improved in 2010. While from a technical point of view, it may not be correct to infer that the decline in performance over the 2008-09 period was solely due to the global crisis, based on what industry players themselves said (notably NAAMSA, Chamber of Mines, NAACAM and others), there is a basis for concluding that, indeed, the crisis contributed to the poor performance over that period.

Table 6.2 shows that the global production of vehicles declined over 2008 and 2009. South Africa's share of global production also fell during that period, from 0.79 in 2008 to 0.6 in 2009.

Table 6.1: Automotive Industry Vehicl Sales 2006 10 and exports 2000-10

	2007	Per cent change 2006/2007	2008	Per cent change 2007/2008	2009	Per cent change 2008/2009	2010	Per cent change 2009/2010
Domestically produced								
Local sales	169558	-21.2	125454	-26.0	194379	-24.8	113740	20.5
Exports (CBU)	106460	-10.7	195670	83.8	128602	-34.3	181654	41.3
Total domestic production	276018	-17.5	321124	16.3	222981	-30.6	295394	32.5
CBU Imports								
NAAMSA	214873	899.4	169610	-21.1	130326	-23.2	165341	26.9
Non-NAAMSA	50222	-8.3	134198	-31.9	33424	-2.3	58049	73.7
Total car imports	265095	27.5	265095	-0.4	203808	-23	223390	
Total local car market	434653	-9.7	329262	-24.2	258129	-21.6	337130	30.6
Light Commercials								
Domestically produced								
local sales	156626	-1.8	118641	-24.3	85663	-27.8	96823	13
Exports	64127	6.6	87314	36.2	45514	-47.9	56950	25.1
Total domestic production	220753	0.5	205955	-6.7	131177	-36.3	153773	17.2
CBU imports	34592	27.2	40647	17.5	24459	-39.8	27796	13.6
NAAMSA	13168	1.2	10178	-22.7	8037	-21.0	9121	13.5
Non-NAAMSA members								

Source: NAAMSA Statistics 2011 (NAAMSA is an industry body for automobile manufacturers)

Table 6.2: Global South African Vehicle Production 2005-10

	2005	**2006**	**Per cent change 2005/2006**	**2007**	**Per cent change 2006/2007**	**2008**	**Per cent change 2007/2008**	**2009**	**Per cent change 2008/2009**	**2010**	**Per cent change 2009/2010**
Global vehicle production (millions)	66.49	69.33	4.27	73.1	5.44	70.53	-3.52	61.79	-12.39	77.86	-26.01
SA vehicle production	0.53	0.59		0.54		0.56	0.37		0.47		
SA share of global production	0.79	0.85		0.73		0.79		0.6		0.6	

Source: NAAMSA Statistics 2010

Table 6.3 shows more details on the performance of the automotive industry over the period of the crisis. A number of observations can be made:

- Capital expenditure by Original Equipment Manufacturers (OEMs) declined by 25 per cent between 2008 and 2009 but increased significantly in 2010.
- The total number of units of vehicles produced fell from 562,965 in 2008 to 373,923 in 2009.
- There was a decline in total vehicle sales from 533,387 (2008) to 395,222 in 2009.
- The total number of vehicles exported fell from 284,211 in 2008 to 174,947 units in 2009 but increased to 239,465 in 2010.
- Productivity per employee fell from 18 to 13.2 over the 2008 to 2009 period as production falls.
- The contribution of the auto sector to GDP declined from 7.3 in 2008 to 5.9 in 2009 but picked up in 2010 when it rose to 6.5 per cent.
- The number of export destinations fell from 135 in 2008 to 125 in 2009, again a reflection of the fall in exports.

As Table 6.4 shows, South Africa's intra-regional trade is mostly with countries in Asia (share of total trade is on average 65 per cent), followed by a few countries in Latin America (for example, Brazil, Argentina and Mexico). Trade with the rest of Africa has the least share, averaging 16.5 per cent between 2008 and 2010. Some of the factors which explain this smaller share are the poor trade infrastructure in Africa, the high cost of doing business and lower incomes on average for most African countries since they fall in the low-income group. This means that demand could be much less than from the other trading partners in Asia and Latin America, most of which fall in the middle-income group of countries.

Table 6.5 also shows a decline of 10.5 per cent over 2008-09 in terms of total motor trade sales.

Table 6.6 presents performance in terms of capacity utilization in the motor manufacturing industry over the period 2007 to 2010. It is evident that, across all types of vehicles, there is a decrease in capacity utilization in 2009 but that this improved in 2010. Light commercial, medium and heavy commercial vehicles declined by over 20 per cent in 2009.

Table 6.3: Performance of South Africa's Automotive Industry 1995-10

Activity	1995	2008	**2009**	**2010**
Capital expenditure by OEMs (in Rand)	841 m	3,289.9 b	2,467b	4b
Export value (vehicles and components)	4.2b	94.2b	61b	75b
Total vehicles exported (units)	15,764	284211	174947	239465
Productivity (average no of vehicles produced per employee)	10	18	13.2	16.6
Automotive industry contribution to GDP(percent)	6.5	7.3	5.9	6.5
No of passenger car derivatives	356	1914	1842	1914
Export destinations for vehicles and components above R 1 m per annum	62	135	125	125
Total vehicles produced (units)	389392	562965	373923	472049
Total new vehicle sales (units)	399967	533387	395222	492907
No of model platforms	42	18	17	15
Models with production volumes 40 000 units or more	0	3	4	4

Source: National Association of Automobile Manufacturers of South Africa Statistics 2010

Average Rand/US$ exchange rates were as follows: 1995: R 3/US$; 2008 R 6.5/US$; 2010: R7/US$.

Table 6.4: South Africa's Intra-regional Trade 2005-10

Region	2005	2006	2007	2008	2009
Brazil (Latin America)	46.4	46.1	43.3	44	43.1
Russia-Commonent States	13.3	13.9	16.4	14.7	15.5
India (Asia)	30.3	31.3	31.7	33.1	29.6
China (Asia)	55.9	54	53	49.5	49.2
Argentina					
America	52.5	49.1	47.1	46.7	47.8
Mexico-America	93	92.5	95	93.2	94.6
Indonesia					
Asia	68.3	68.4	64.4	64.9	65.5
Thailand (Asia)	58.3	55.7	60.1	60.2	61.3
South Africa					
Africa	15.3	14.6	14.8	17	16

Source: Department of Trade and Industry Statistics. South Africa

Table 6.5: Total Motor Trade Sales (R million)

	2007	2008	2009	2010	2011
Total sales (Rm)		358,777	321,034	369,815	421,214
Per cent change in sales	9.4	4	-10.5	15.2	13.9

Source: Statistics South Africa (2012). Motor Trade Sales Average Exchange rates: 2006: R 5/US$; 2007 R6/US$; 2008: R6.5/USD.

Note: Sales include new vehicle sales, used vehicle sales, workshop income and income from exports.

Table 6.6: Motor Vehicle Manufacturing Capacity Utilization Levels 2007-10

	2007	**Per cent**	**2008**	**Per cent change**	**2009**	**Per cent change**	**2010**	**% per cent change**
Cars	67.7	-15.5	68.3	0.89	59.4	-13.03	77.1	29.8
Light commercials	82.7	-5.81	73.9	-10.64	56.5	-23.55	68.4	21.06
Medium commercial	91.7	-6.33	89.9	-1.96	64.6	-28.14	77.2	19.56
Heavy commercial	95.3	0.21	87.6	-8.08	66.1	-24.56	77.5	17.25

Source: NAAMSA Statistics 2011

Clearly, the overall picture in terms of performance of the automotive industry over 2008 and 2009 is that there was a decline in terms of production volumes, export and sales in general, capacity utilization and employment. Most, if not all, of this decline was attributed to the crisis, at least as confirmed by NAAMSA, the government and trade unions.

The Textile and Clothing Industry

Like the other two industries, the textile and clothing sector suffered from retrenchments due to falling global demand. Due to a decrease in demand in the largest markets including the US, Europe and Japan, there was a fall in demand for textile and clothing products. As companies cut down production, overcapacity resulted and led to downward pressures on prices around the world.

Large producers including China have turned to other export markets such as South Africa with products being sold to local retailers at unrealistic price. Preliminary January 2009 trade statistics from the South African Revenue Service showed a 44 per cent increase in the value of clothing and textile imports into South Africa, compared with January 2008.

According to the Department of Trade and Industry, clothing and textile exports decreased by 9 per cent from January 2008 to January 2009, compared with a 15 per cent increase from January 2007 to January 2008.The result is that South Africa's clothing and textile trade deficit increased by 65 per cent to R 16 billion. Local demand also declined. A number of textile and clothing companies are reported to have closed down. Some retrenched workers and this increased unemployment.Evidence from the South Africa Labour Research Institute indicates that the past six years have already seen industry employment falling by 69,000 or 39 per cent. The main cause of these job losses has been the continued high levels of cheap imports, both legal and illegal. Since 2007, the economy saw a decrease in the level of job losses. This was mainly as a result of the protection offered to a large part of the industry by the introduction of quotas on 31 products from China. However, with the end of the quotas and the arrival of the economic crisis, tens of thousands more jobs may be lost. The Institute also reported that the period January and February 2009 had already seen 2,200 people losing their jobs in the industry. Many clothing and textile companies were reported to be facing serious problems. Already, March 2009 had seen the final closure of SANS Fibres, one of the most technologically advanced plants in Africa with the loss of 1,500 jobs in only one year. It also reported that the three largest and most prominent clothing groups had all reported that they were experiencing severe difficulties. Retrenchments had started in some of the firms and more retrenchments were expected.

From the available evidence, it appears that the textile and clothing industry was also adversely affected by the crisis largely through retrenchments as companies had to deal with falling demand levels both domestically as well as internationally.

Mining Industry

From the available evidence, the mining sector was adversely affected by the crisis largely in the form of declining commodity prices, mineral sales and employment. Reports by the Chamber Mines in South Africa (2010) indicated that most commodity prices fell in 2009 and were clearly attributed to the crisis. Mineral sales fell by 10.6 per cent. These were driven by the fall in sales of manganese (down by 67.8 per cent), platinum group metals (down 36.7 per cent), and coal (down 9.8 per cent). The Chamber also reported that while total primary mineral export sales fell by 19.7 per cent to R 176 billion in 2009, they still accounted for 31.7 per cent of South Africa's total merchandise exports.Mining companies responded to the crisis by reducing supply and closing uneconomic production. According to a report by the Business Monitor International (2010), the combined effects of the global economic crisis, plummeting commodity prices and an earlier power crisis continue to impact on the South African mining sector. The downturn has prompted many mining companies to scale back operations, cut proposed exploration and development projects, and lay off workers.

The report also provided evidence of major closures which took place in the chromium and manganese sectors. There were reports of falling gold production by 14 per cent in 2008, largely caused by labour unrest and power shortages. It reported a crash in platinum prices from 2008 into 2009, resulting in falling production levels. The effects were not the same across all minerals. Iron ore producers were among the few in the sector who benefited from an upsurge in demand from China.

Table 6.7 shows that whereas gold prices increased over 2007-09, the prices of PGMs, namely, platinum, palladium and rhodium, all declined. This was due to a fall in external demand for the metals.

Table 6.7: Commodity Prices per Ounce ($)

	2007	**2008**	**2009**
Gold	697	895	916
Platinum	1304	1772	998
Palladium	353	393	196
Rhodium	6113	7550	3250
Oil	72.7	111.2	78.3

Source: Chitiga et al (2010)

Thus, evidence shows that the mining sector was also adversely affected by the crisis. As explained in the description of the sector earlier, since PGMs are a major mineral export for South Africa, the fall in prices was also bound to have a negative impact on exports and employment.

Table 6.8 shows declining mineral sales. These were largely attributed to falling prices and external demand.

Table 6.8: Total Sales 2006-12

2008	2009	2010	2011
300,714,5	241,364,6	300,685,6	370,841,6
34	-19.7	24.6	23.3

Source: StatsSA (2012). Mining Production and Sales

Note: R/USD Exchange rates were on average R6.7/US$ in 2011 and US$ 8/US$ in 2012 and R9.4/US$ in 2013.

In terms of mineral sales, it is noted that there was a decline of 19.7 per cent from 2008 to 2009. This improved in 2010. Employment in the mining and quarrying industry experienced a decline of 5.8 per cent over the period 2008 to 2011. In terms of the actual number of employees, 30,000 lost their jobs. Table 6.9 shows the decline in employment in the sector.

Policy Responses and Implications

The public sector response to the crisis is contained in the government's document, 'Framework for South Africa's Response to the International Economic Crisis' (commonly referred to as the 'Framework Agreement'). The Framework identified the clothing and textile industry as a vulnerable sector and recommended inclusion of the sector for rescue package. The Framework Agreement introduced a number of measures to support the auto and textile and clothing industries.

The policy response consisted of different policy packages. These were in the form of the following set of policies:

Countercyclical Fiscal and Monetary Policies

Countercyclical fiscal policy refers to those macroeconomic policies which seek to stimulate aggregate demand by increasing public expenditure when an economy is in recession and by decreasing it when there is inflation. They are founded in the Keynesian tradition which advocates that contrary to classical and neo-classical theory, markets are unstable and to restore stability may require interventions by the state in the form of countercyclical policies. Countercyclical monetary policy refers to the use of expansionary or easy monetary policy with the aim of stimulating aggregate demand and also inducing positive supply-side responses. A central bank can reduce interest rates or buy open market securities in order to increase liquidity in the economy.

As discussed in the literature review, these policies have been strongly recommended by Kasekende et al (2010, Wad (2010) and the AfDB (2009b), among others.

UNECA (2009) emphazises the point:

> In the short run, African countries should pursue expansionary countercyclical fiscal and monetary policies to finance investment and infrastructure, education and health as a way to recover from the economic downturn. It also advised that a large proportion of the projects in the package should focus on labour-intensive projects, such as rural roads and water projects.

South Africa's public sector response to the crisis was informed by the government's serious concern about the adverse impact of the crisis on the automotive, textile and clothing and mining sectors. As indicated above, all these three sectors were losing jobs especially over the period 2008 to 2009 and investor and consumer confidence was being eroded. Government was particularly keen to save the textile and clothing industry which appears to have been the worst affected as reflected in the number of company closures and job losses experienced in that sector. It was also keen to save the textile and clothing sector because of the labour-intensive nature of its employment.

Examples of fiscal measures implemented by the South African government in order to deal with the effects of the global crisis are as follows.

Public Infrastructure Investment Programme

The government introduced a R 789 billion (approximately US$ 100 billion) public infrastructure investment programme which was designed to improve road and rail networks, public transport, port operations, dams, water and sanitation infrastructure, housing construction including low-income housing and publicly-owned rental stock, information and communication technology and energy generation capacity. No period was specified, the whole intention was to protect as well as create new jobs. It also included education and health infrastructure. Such a massive programme was also expected to create thousands of additional decent work opportunities (DTI 2009).

Table 6.9: Employment in the Mining and Quarrying Industry 2008

		Number of employees		Change in number of employees		Per cent Change in number of employees
Dec	2008	518000	2008	12000	2008	2.4
Dec	2009	488000	2009	-30000	2009	-5.8
Dec	2010	504000	2010	16000	2010	3.3
Dec	2011	518000	2011	14000	2011	2.8

Source: StatsSA 2012 Quarterly Employment Statistics (QES)

Thus, evidence shows that the mining sector was also adversely affected by the crisis.

The Public Infrastructure Investment Programme was welcomed by all parties, government, labour and business. It is still ongoing and has been acknowledged as a success already. For example, it is expanding energy, transport and social infrastructure. The Medupi power station construction currently employs many thousands of workers. Stadium construction programmes have been a significant stimulus in five localities with total spending of R14,6 bn. The improvements in public transport that include the rapid bus transport system have also contributed positively to employment. There is increasing local procurement and supplier development by SOEs associated with the infrastructure programme.

The Expanded Public Works programme aspect of the infrastructure programme was rolled out at the end of the second quarter of 2010. It was estimated that 223,568 work opportunities had been created. Of course, without knowing the exact target envisaged by the whole programme, it is difficult to judge success but at least the programme had started to yield results in terms of work opportunities.

Although the infrastructure programme was widely accepted by government and business as well as labour, represented by the Congress of South African Trade Unions (COSATU), some groups were critical of the bailout package. For example, the National Union of Metalworkers of South Africa (NUMSA), criticized the programme as being too capital-intensive, focusing on construction of 'fancy airports', stadia, ports and highways and not investing more significantly in low-cost housing which will benefit millions of South Africans who have no shelter. The potential to create new job opportunities was therefore likely to be limited. The union was also critical that the programme was too pro-corporate, and particularly of MNCs; and that the government was bowing unnecessarily to pressure from big business who really should not be bailed out because they could have set aside reserves to cater for crisis situations. The union also felt that the programme was also likely to be ecologically damaging (politicsweb 2012).

Training Layoff Scheme for Workers in Affected Industries

The government allocated R 2.1million towards a National Jobs Fund for the purpose of retraining workers who had been retrenched. The funds would be sourced from the National Skills Fund and the Unemployment Insurance Fund. It was reported that by end of 2009, 4,492 jobs had been saved already (Department of Trade and Industry 2009). No data is available to show progress since then.

The Tax Incentives

In 2010, the government introduced a new tax incentive programme to raise the productivity of the manufacturing sector. A total of R17.5 billion was provided for in tax incentives. The new incentive programme replaced the Strategic Industrial Projects (SIP) programme which had been established to promote private sector investment (Department of Trade and Industry 2009).

These incentives consisted of provisions such as improving capital investment. Under this scheme which is expected to run until December 2015, investors in 'greenfield' projects (which use new and unused manufacturing assets) and 'brownfield' projects (expansions or upgrades of existing projects) that involve capital of more than R200 million but less than R1.6 billion, can apply for a tax allowance equal to between 35 and 55 per cent of a project's value (Department of Trade and Industry 2010). The incentive also offers a maximum of R900 million in tax breaks for greenfield projects, and a maximum of R550 million in tax breaks for brownfield projects. Other incentives were in the form of tax deductions for companies which provided training of employees as part of a strategy to upgrade the manufacturing sector and improve productivity. The qualifying criteria for the tax incentives include companies operating in accordance with best practice in terms of business principles and also those in compliance with labour and tax laws.

Trade Policy

Trade policy refers to those measures which target exports and imports with a view to either expanding or contracting them. They are typically used to control the volume of imports into a country and also to promote the growth of exports. South Africa introduced trade policy measures in response to a sharp rise in imports arising from an increase in the exports of China and other Asian countries when in response to a fall in demand for their own exports to Europe, the US and Japan, they increased their exports to South Africa and other countries. The Framework Agreement called for tariffs to be increased beyond prevailing levels (40 per cent) on clothing products to bound levels (around 45 per cent) since under the WTO, countries are allowed to raise them but not above the bound levels. The government also considered the use of WTO Agreement on Safeguards Measures as an alternative strategy. Under WTO rules, safeguards may be applied to a product only if it has been determined that such a product is being imported in such increased quantities as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products. There was also a call for tighter monitoring and control of SACU and SADC trading to prevent abuses such as false labelling to allow trans-shipment of goods from China destined to South Africa.

Industrial Policy

Industrial policy refers to the set of policies and strategies used by a government to promote the growth of industry. It includes a range of instruments which include, but are not limited to the use of incentives to stimulate production, improve efficiency and competitiveness. The government has actually used industrial policy significantly since 1994. For example, from 1995, it implemented the Motor Industry Development Programme (MIDP) which aimed to support the automotive industry in order to boost production, exports and enhance competitiveness.

Measures to Support the Automotive Industry

The government introduced the Manufacturing Investment Programme (MIP) in 2008. The MIP included an Enterprise Investment Programme (EIP) which targeted those investments which will create jobs, advance empowerment and develop rural areas. Clothing and textile companies qualify for this incentive.

Under this scheme, eligible companies can apply for grants towards investment in plant, machinery and equipment (both for new investments or upgrading of existing production capability). The government allocated R750 million for the first year with possible increases subsequently. For investments of less than R5 million, grants up to 30 per cent or R1.5 million will be paid out. For investments of between R5 million and R30 million, grants between 30 per cent and 15 per cent or up to R9 million and R4.5 million will be paid out. For investments up to R200 million, the maximum grant is 15 per cent or R30 million (Department of Trade and Industry 2009).

In 2008, the government approved the new Automotive Production and Development Programme (APDP). The programme is successor to the Motor Industry Development Programme (MIDP) which started in 1994. Although the MIDP was considered to have been successful, the government was concerned that the industry continued to face a number of challenges, a major one being that the country and the sub-region remained a relatively small market in global terms, isolated from larger markets and shipping routes. The APDP aims to stimulate growth in the automotive vehicle production industry to 1.2 million vehicles per annum by 2020, with associated deepening of the components industry. This would provide an opportunity to increase the local content of domestically assembled vehicles. The programme now includes certain locally manufactured heavy industrial vehicles which are both relatively labour-intensive and generate high levels of local value addition. These will benefit from the incentives which are already channelled to the rest of the auto industry.

Although there was support by both business and labour with regard to support to the car industry, there were critics who questioned the use of taxpayers' money to bail out corporates, particularly multinational companies. The funds should instead have been channelled towards supporting component manufacturers that are largely locally owned. These manufacturers offer hope for more indigenous participation in the automotive manufacturing and assembly industry. These are indeed valid arguments. However, I did not have data to show that component manufacturers did not receive the kind of support which they needed. I agree though on the need to review the strategy of bailing out foreign-owned corporations, particularly since they could get the parent companies to support them. Government could still support them in view of the local employment which they are creating but at least the budgetary support would be less.

Measures to Support the Textile and Clothing Industry

These largely took the form of incentive schemes. Some examples are noted below.

Introduction of a Production Incentive for the Textile and Clothing Industry

This entailed the extension to March 2010, of the export incentive to the textile and clothing industry-known as the Textile and Clothing Industry Development Programme (TCIDP) (DCCS). The government entered into negotiations with industry stakeholders with a view to introducing a replacement scheme. An amount of R280 million was allocated in 2007 which was subsequently raised to R550 million in 2009. The purpose of the scheme was to support the industry to deal with the profitability gap in the sector which was aggravated by the global crisis. Under the scheme, companies would receive a subsidy based on their production:

a. A cash grant (80 per cent of total value)
b. A competitiveness cash grant (20 per cent of total value, with 15 per cent being spent on training)

Over the period of the scheme, the cash-grant component would steadily decrease to be replaced by the competitiveness component.

The Clothing and Textile Competitiveness Programme (CTCP)

This programme was introduced in order to assist the industry to upgrade its processes, products and people, as well as to reposition it to compete effectively both domestically and globally. It aims to help the sector restructure itself for long-term sustainability and competitiveness. The CTCP comprises the Capital and Technology Upgrading Programme, the Preferential Financing Scheme, the Competitiveness Improvement Programme, and the core funding mechanism, the Production Incentive. This programme is administered by the Industrial Development Corporation on behalf of the Department of Trade and Industry. The sector was responsive to this incentive. By the end of 2010, the CTCP desk had received over 80 applications to the value of R311.8 million, with applications to the value of R36 million having already been approved. This, however, appears to be a small amount in relation to the urgent need to improve competitiveness of the industry. Unfortunately, there was no up-to-date information with respect to the overall performance of the programme as of 2012. These are information gaps which future research could fill.

Skills Training for the Textile and Clothing Industry

The training was designed to address the chronic shortage of high-end technical skills in the industry and to create opportunities for employment. It aimed to train at least 162 technologists, skills which were crucial for the survival and sustainability of the industry.

Increase in Working Capital to Companies

During the crisis, many companies restricted credit to distressed textile and clothing companies because of the risk of default. Through the state-owned Industrial Development Corporation (IDC), the government increased working capital available to firms in large, labour-intensive sectors such as textiles. The IDC's Clothing and Textile Firms Competitiveness Scheme would provide working capital loans at prime minus five per cent. These loans were earmarked for capital upgrading. The maximum loan period would be five years for working capital. Granting of the loans would be based on stringent criteria such as that applying firms should have active programmes in place and be operating in terms of best practice in business terms and also employment performance or potential.

Competitiveness Improvement Programme

In order to support the clothing and textiles sector, the government introduced the Clothing and Textile Competitiveness Programme under which companies or clusters would apply to the IDC for grants to help fund competitiveness and productivity improvement programmes. Companies can have 65 of their projects funded. The fund was to be geared towards employment retention.

Specific provisions are:

- Five-year funding period
- Approved applicants receive a maximum of R500,000 per year and clusters R5 million per year.

The IDC to Increase Equity in the Textile and Clothing Sector

Government, through the IDC announced that it would increase its equity exposure to those companies which are of strategic importance in terms of the product which it manufactures, its position in a value chain, the geographic area where it operates, the number of people it employs and its technological importance.

Other Support Measures

The government also introduced other support measures such as preferential procurement where it would identify products and sectors including clothing and textiles which could be procured from those industries in distress. Public sector institutions were mandated to procure clothing products such as nurse and police outfits, uniforms for the defence force and navy, protective wear and hats and berets and textile products ranging from bed linen, curtains and blankets to bags and other accessories, At the time of writing this chapter, there was no available evidence to show that the impact of all these public policy interventions had been reviewed.

The government also took steps to protect labour because it was very much aware that in situations of crisis, some companies could flout labour and tax regulations. In order to ensure compliance, the DTI announced that the incentives under the rescue plan would be for those companies which were compliant with labour and tax laws.

Most of the measures described above were essentially short-term in nature, designed to provide urgent support to those industries which were adversely affected by the crisis. The government realized that a more lasting solution actually lay in promoting interventions which could result in structural change. Longer-term interventions would be necessary. This explains the government's introduction of the Industrial Policy Action Plan under the guidance of the DTI. The plan is a detailed policy strategy which seeks to promote the industrialization through value-addition. It focuses on those sectors where the country has abundant resources, for example, agriculture and forestry, mining, automotive manufacturing and tourism, among others. In January 2007, the government adopted the National Industrial Policy Framework (NIPF). The framework aims at diversifying the production and export structure, promoting labour-absorbing industrialization, moving towards a knowledge economy, and contributing to the industrial development of the region. An Industrial Policy Action Plan (IPAP) was subsequently developed to implement the framework. IPAP I was to be implemented over the period 2007/08 whereas the second phase, IPAP II, was adopted in 2009 and was to cover the period 2010/11 to 2012/13. Both plans are quite detailed (DTI 2009). There has not yet been a review of progress with respect to implementation of both plans. Progress in implementation, however, appears to be slow. It is recommended that the government allocates adequate resources for implementation and closely monitors the process.With reference to the three sectors under discussion, a long-term strategy for promoting processing or mineral beneficiation should be developed in order to enable the sector to diversify production towards more processed mineral products. The strategy should also explore ways to increase South Africa's intra-African trade as compared to other export destinations.

Conclusion and Recommendations

The chapter was about assessing the responsiveness of the public sector in South Africa to the global financial and economic crisis with respect to three sectors, the automotive, mining and textile and clothing industries. These sectors were selected as the focus of the study because of their strategic role at a national level in terms of contribution to GDP, opportunities for decent employment, export earnings and also the fact that they are part of the manufacturing sector, an important sector in terms of South Africa's prospects for producing high-value products.

It presented an analytical framework which argues that in order to understand both the impact of the crisis and how the public sector responded to it, one has to analyse the issue within the framework of globalization and how an open economy like South Africa which is now increasingly integrated into the world trading and financial system, is vulnerable through its dependency on primary exports and also through its wholesale opening up to external competition despite its being a higher-cost producer compared to competitors such as China, India and Malaysia.

The evidence from the literature and available data used for the study support the argument that the global financial and economic crisis did have an effect on the automotive, textile and clothing and mining industries. The sectors were affected through declining production, sales, exports, employment and in some instances, company closures.

It was argued that even though, from a technical viewpoint one cannot conclude that because the decline in performance in 2009 coincided with the crisis, the latter was therefore the cause of the decline, based on confirmations from government, industry bodies and associations as well as labour unions, the crisis played a critical role in the declining performance.

The government's response was largely in the form of countercyclical fiscal and monetary policies. Trade and industry policy measures were also taken to deal with the crisis. As indicated in the literature review, these were standard responses which other African countries have implemented as well. Evidence seems to show that responses were timely and successful to some extent in saving some jobs and averting the crisis. This is reflected in the recovery which ensued in 2011 onward. However, the chapter also argued that given the structural nature of the problem, countercyclical measures alone are not enough.

A number of recommendations are made based on the issues raised in the chapter. South Africa, like the rest of Africa, should find it imperative to run an intensive industrialization agenda which aims to diversify its economy, build resilience to shocks, and develop productive capacity for high and sustained economic growth, the creation of employment opportunities and substantial poverty reduction.

The agenda for moving from commodity production to higher-value manufacturing value addition in the textile and clothing as well as the mining industry has to be a central feature of South Africa's long-term development strategy. The National Development Plan has to invent such strategies and the government should engage industry and prospective foreign investors on this. The government could consider opportunities which are offered by joint ventures with companies from emerging economies (BRICS), Japan, and those from the US and Europe which may be willing to invest on the basis of joint ventures or partnerships with the government. Without addressing these long-term structural challenges, and improving productive capacity in mining, the sector will always be vulnerable to the dynamic changes of the world economy. Investing in this kind of long-term development strategy should therefore be a priority.

New competitive advantages should be explored as well through innovations, research and development. Held et al (1999) emphasize that because of global competition, what may have been a country's competitive advantage may change due to stiff competition from other producers or market players. Can developing countries afford such strategies? This is costly.

One of the main reasons why South Africa was vulnerable to the crisis was the concentration of its markets to a few regional destinations, one of which (Asia) has emerged as a major competitor to the country's exports. The country should therefore seriously consider increasing its share of the African market in order to minimize risk of exposure. Investing in African projects to improve trade facilitation and infrastructure development would be worthwhile. COMESA, SADC, the EAC and the Economic Community of West African States (ECOWAS) should be explored as potential destinations for South Africa's auto, textile and clothing industries, as well as mining.

Whereas rescue and stimulus packages can be effective in saving industry from collapse, care must be taken to avoid wasting resources by supporting industries which will or are not likely to recover, important as they may appear to be in terms of their historical role in contributing to GDP and employment. Questions have to be raised about the state of the textile and clothing industry in South Africa and whether it can indeed become internationally competitive given the high labour costs prevailing in the country as compared to the cheap labour used by most of the country's competitors like China, Malaysia and India. A comprehensive review of the competitiveness of the sector and its likely future performance in the light of global competition, should inform the government about the best strategy to adopt for the industry.

A more fundamental issue raised by South Africa's experience with the global crisis, at least in relation to the three industries, is the need to revisit the debate about the role of trade and industry policies in the era of globalization. Whilst the WTO has outlawed their use because they are said to stifle competition and breed inefficiency, it has become clear that liberalization of African industries when they are ill-prepared for external competition can only de-industrialize the continent, and of course South Africa. The need to continue engaging and negotiating with the WTO on the development agenda is now more necessary than ever; South Africa could use its position as a member of the BRICS and G20 and its partnership with other African countries, to lobby for inclusion of the use of trade and industry policies to promote industrial development and growth in Africa.

It is also recommended that South Africa should seriously support African initiatives to build productive capacity and to invest in the relevant technical skills which will make this goal achievable.

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