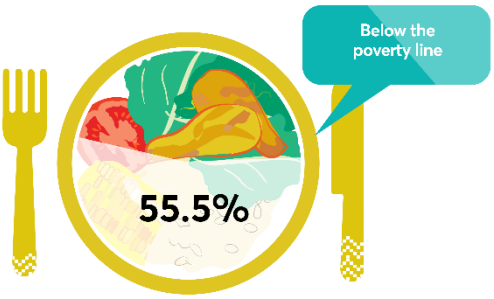
Structural Transformation in South Africa: Moving towards a smart, open economy for all[1]

Executive Summary

It is evident that South Africa's post-apartheid economic transformation project has not generally delivered a "better life for all" as promised at the dawn of democracy. It is not generating prosperity and economic justice for the majority of the population and suffers from long-standing weaknesses which make it unfit to tackle the challenges of the 2020s. Unemployment remains stubbornly high. At the end of 2017, unemployment by the narrow definition stood at 26.7% and, by the broader definition, at 36.3%. Youth unemployment, narrowly defined, remained at an untenable level of 38.6%.[2] Instead of being empowered, South Africa's people are increasingly directly and indirectly reliant on various forms of social grants.



The social fabric is tearing, with a marked increase in service delivery protests - from an average of 900 a year between 1997 and 2013, to 2000 a year between 2014 and 2017.[3] Moreover, the recent protests appear to have been driven by communities' exclusion from democracy in addition to discontent around the lack of delivery of basic services. The highest levels of income inequality in the world are combined with a large proportion of the South African population living below the poverty line – 30.4 million (55.5%) survive on less than R992 per person per month.[4] Meanwhile, all the indications are of ongoing concentration of wealth.[5]

Any 'new deal' must chart a path to shared prosperity and meaningful economic participation. This can only be achieved by investing in the capabilities of individuals, firms and communities. Such investment will only happen if hard choices are made about the model of the market economy which has been adopted. Muddling along is not an option.

What are these choices? The main contribution of this study is to point out that shifts in the structure of the economy have been towards lower productivity and resource-based activities – which has taken the economy in the wrong direction. However, we can learn from our experience and recognise that only a

[1] Authored by Jason Bell, Sumayya Goga, Pamela Mondliwa, and Simon Roberts, Centre for Competition, Regulation and Economic Development. See full paper here.
[2] Quarterly Labour Force Survey QLFS Q3:2017
[3] Runciman, C. (2017). 'South African social movements in the neoliberal age' In: Paret, M., Runciman, C. & Sinwell, L. (eds). Southern Resistance in Critical Perspective: The Politics of Protest in South Africa's Contentious Democracy. 2017. Abingdon: Routledge.
[4] Inequality in terms of the distribution of the nation's income across the population (Gini Index) stands at 63,38, where 0 represents complete equality and 100 is total inequality. The Palma index focuses on the differences between those in the top and bottom income brackets. The ratio takes the richest 10% of the population's share of gross national income (GNI) and divides it by the poorest 40% of the population's share. South Africa's Palma ratio is 7.1, where 0 represents complete equality and 100 is total inequality. https://www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries . Poverty is defined as below R992 per person per month in 2015 prices.
[5] 95% of assets in the country are in the hands of the richest 10% (Orthofer, 2016).

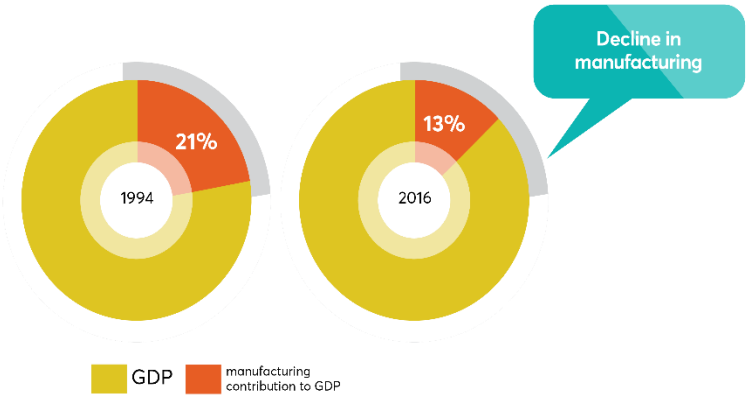
focus on developing industrial capabilities across manufacturing and related services, in engineering and design, can sustainably generate higher incomes and wealth for all.

The political compromise in 1994 largely entrenched the economic status quo of years before. This can be understood within the context of the time. But, it does not explain the persistence of this approach through the 2000s. The market-friendly set of economic policies adopted by successive South African post-apartheid governments rested on a narrative that apartheid had undermined the productive potential of the economy through far-reaching interventions in markets and therefore liberalisation was essential. However, liberalisation has reinforced, rather than altered, the existing development trajectory. A concerted programme is required to alter the rules for markets, in order to incentivise broad-based investment in skills and productive capacity, if real economic transformation is to stand a chance.

Lack of structural transformation

Countries develop by changing the structure of the economy to move from sectors of low to high productivity and complexity (sectoral transitioning) and within sectors through upgrading to higher value-added activities (sectoral deepening).[6] The shift to more advanced activities further raises the national income and taxation base, making deeper and more equitable provision of universal social services possible. Typically, sectoral transitioning has been about moving from mining and agriculture, to manufacturing, and then to advanced industries (combining high value services, research and development, and manufacturing). Manufacturing is central due to its interdependencies with agriculture and mining, on the one hand, and services like engineering and design on the other.[7]

South Africa has not made significant progress in transforming the structure of its economy and, by some measures, has in fact regressed. It has ***prematurely deindustrialised***, with the contribution of manufacturing to GDP declining from 21% in 1994 to 13% in 2016.[8] This matters for a developing economy as, throughout history, manufacturing has been regarded as the main source of productivity growth. Manufacturing has the ability to pull along growth through backward and forward linkages to the rest of the economy. For example, productivity increases in the agricultural sector have been made possible by the developments in manufacturing industries producing agricultural machinery, chemical fertilisers and, increasingly, genetic engineering. The manufacturing sector drives technology-driven productivity growth and has strong inter-dependencies with other high value activities, especially high value-added services.[9] Consequently, the loss of manufacturing capabilities disadvantages economies in the long run.



[6] Hidalgo, C., Klinger, B., Barabási, A.-L. & Hausmann, R. (2007). The Product Space Conditions the Development of Nations. Science, Volume 317, pp. 482-487; Hidalgo, C. & Hausmann, R. (2009). The building blocks of economic complexity. PNAS. 106 (26), pp. 10570-10575; Andreoni, A. (2011). Productive capabilities indicators for industrial policy design. UNIDO Working paper series, (17/11); McMillan, M., Rodrik, D. & Sepúlveda, C. (2017). Structural change, fundamentals, and growth. In McMillan, M., Rodrik, D. & Sepúlveda, C. (eds). Structural change, fundamentals, and growth: A framework and case studies. Washington DC: World Bank International Food Policy Research Institute.

[7] Andreoni, A. & Chang, H.J. (2016b). Industrial policy and the future of manufacturing. Journal of Industrial and Business Economic, 43(4), pp. 491-502.

[8] Statistics South Africa

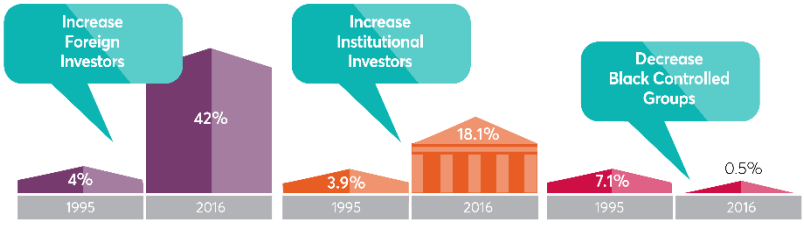
[9] See footnote 6 above.

Within manufacturing in South Africa there has been a ***structural regression*** as growth in value added has continued to be biased towards mineral and resource-based sectors.[10] There has been a decrease in manufacturing employment across the board, but the largest losses have been borne by exactly those diversified manufacturing industries where strong growth would create jobs, directly and in related industries.[11]

The lack of structural change is reflected in South Africa's ***undiversified exports***. Mineral and resource-based sectors continue to dominate the export basket and together account for 60% of merchandise exports. South Africa is thus missing out on the gains from international integration from improved competitiveness and 'learning through exporting' in diversified manufacturing industries. Instead, there are 'islands' of export capabilities, such as in mining machinery, which have not been built upon. While the auto sector – which has been highly incentivised under successive industrial policies – stands out in terms of the value of exports, these have been limited to fully assembled vehicles and a narrow range of components.

In services too, the trend has been to lower value, ***lower productivity services*** overall, including those statistically classified as 'other business services' (such as security and cleaning services) and retail. There has been strong growth in communication services reflecting technological changes, but not employment growth. While financial services has also grown in value-added, it has not grown employment. Nor has its growth been associated with higher levels of savings and investment in the real economy. Thus, the increase in the contribution of services to GDP from 60% in 1994 to 68% by 2016 has not been part of a positive structural transformation of the economy.

The South African economy continues to be ***highly concentrated***, with some data showing worsening concentration levels, even while ownership has changed with an increase in foreign and local institutional investors. At the same time, average rates of profit have remained high. Firms have been channelling funds towards mergers and acquisitions rather than in expanding and upgrading productive capacity. Monopolistic firms have less of an incentive to invest, since they can earn rents by protecting their market share rather than upgrading their product offering. Furthermore, ***barriers to entry*** for smaller firms inhibits investment and thus dynamism.



Percentage control of JSE by selected owner categories

Capital account liberalisation has resulted in large portfolio inflows as well as outflows, resulting in a volatile exchange rate, while investment rates have remained much lower than in other middle-income countries.

South Africa's poor performance must be understood in the context of the evolving ***political settlement***, that is, the compromises reached between powerful groups in society which sets the context for

[10] For example, value added in coke and refined petroleum products grew at an average rate (CAGR) of 6% over the period 1994-2016 while other diversified manufacturing only grew by 1% in the same period. Diversified manufacturing's share of total manufacturing value added *declined* by 12.5 percentage points between 1994 and 2016. Similarly, employment share declined by 5 percentage points between 1994 and 2016, equivalent to 243 417 people.

[11] Tregenna, F. (2012). Sources of sub-sectoral growth in South Africa. Oxford Development Studies, 40(2): 162-189; Black, A., Craig, S. & Dunne, P. (2016). Capital intensity, industrial policy and employment in the South African manufacturing sector. REDI3X3 Working paper 23.

institutional arrangements and other policies.[12] The compromises reached in 1994 reflected the strength of established business groups. The government sought to discipline their rents by subjecting them to market competition, from imports, and through competition law enforcement.[13] At the same time, macroeconomic policy emphasised 'stability' and cutting the fiscal deficit. Monetary policy was narrowly focused on reducing inflation, meaning higher interest rates and returns for those with positive net wealth. In the 2000s high real interest rates coupled with natural resource earnings led to a strong, over-valued Rand and hence a growing trade deficit exacerbated by burgeoning credit-fuelled consumer spending. The unsustainability of this path became glaringly obvious with the global financial crisis of 2007/8 and the end of the commodities boom shortly thereafter.

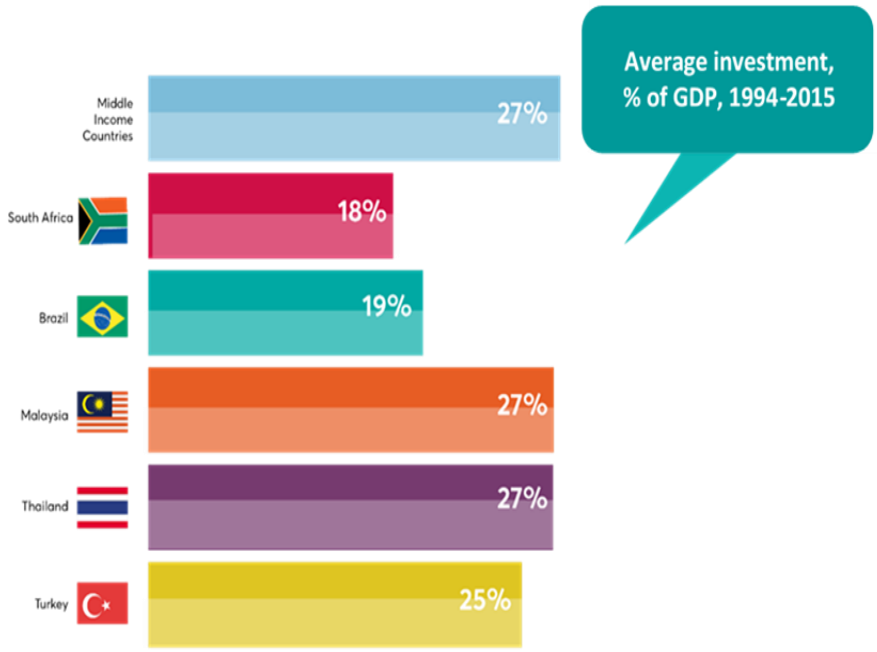
The political settlement has evolved since 1994 with the introduction of social grants for the poor; higher earnings for professionals, including for the growing number of public servants in a small middle class; and changing ownership patterns mainly towards a political elite and connected persons. Despite the rhetoric of 'economic transformation', the actual focus on a market-friendly, non-interventionist set of economic policies left little space, in practice, for manoeuvre in terms of redistribution.[14]

The lack of trickle-down benefits resulting from embarking on this development path meant growing pressure to accumulate wealth by leveraging state influence. From 2008 there has been vertical fragmentation of control within the African National Congress (ANC) as a result of competition for extractive rents from local to national levels of government and in state-owned corporations.[15] In addition, a horizontal fracturing also occurred within the labour and business constituencies. Along with the rise of the Association of Mineworkers and Construction Union (AMCU), industrial unions split and left the Congress of South African Trade Unions (COSATU). For a time, public sector trade unions were kept onside by higher public wage settlements for government employees. But as the delivery of services by the state deteriorated, protests increased across the country.

The fragmentation of government is problematic for realising a coherent industrial policy. Industrial development requires co-ordination between policies on mining, energy, trade, development finance, competition, technology, sector industrial development and procurement. In fact, the ***fragmentation of the state***, with its accompanying proliferation of departments, opened-up more space for successful lobbying by large international businesses and aided rent-seeking. Inconsistent stances have been taken across government. The impact on industrial policy has been profound as it has made effective interventions across departments and the combination of policy instruments near impossible.

The result has been much poorer economic performance in South Africa compared with other upper-middle income countries. South African industry value-added grew at an average rate of just 1.6% over the period 1994 to 2016 while GDP grew at 2.9%. This contrast with the average for all the upper-middle income countries which recorded an average industry value-added growth of 5.5%, leading GDP growth of 5.0%. Investment levels have been much weaker in South Africa, and efforts to improve skills have had limited success. Between 1994 and 2014, the share of black African youth in skilled occupations *decreased*.[16] Malaysia is a particularly useful comparison as in the 1980s and 1990s it had

[12] Khan, M. (2010). Political settlements and the governance of growth-enhancing institutions. [Online] Available: https://eprints.soas.ac.uk/9968. (Accessed 14 March 2018).
[13] Joffe, A., Kaplan, D. & Lewis, D. (1995). Improving Manufacturing Performance in South Africa: Report of the Industrial Strategy Project, s.l.: University of Cape Town Press.
[14] Ponte, S., Roberts, S. & van Sittert, L. (2007). 'Black Economic Empowerment', Business and the State in South Africa. Development and Change, 38(5), pp. 933-955.
[15] Makhaya, T. & Roberts, S. (2014). The changing strategies of large corporations in South Africa under democracy and the role of competition law. CCRED Working Paper 2/2014.; Bhorat, H., Kanbur, R. and Stanwix, B. (2017). Minimum wages in Sub-Saharan Africa: a primer. The World Bank Research Observer, 32(1), pp.2174..
[16] StatsSA (2016). Employment, unemployment, skills and economic growth. An exploration of household survey evidence on skills development and unemployment in 1994 and 2014.



a strikingly similar economic structure to South Africa in terms of mining share of GDP, output per head and total factor productivity.[17] Both South Africa and Malaysia were medium-sized economies with deep racial divides, where the ethnic majority had political power, but economic power lay with the ethnic minority. Over the last three decades, however, Malaysia continued to industrialise while South Africa went in the opposite direction. Malaysia recorded investment rates averaging 27% of GDP over 1994 to 2015[18] compared to South Africa's 18%, and high technology manufacturing exports at 43% of the total compared to South Africa's 6%.

Key industry studies

Three in-depth industry studies were conducted in order to analyse the dynamics behind these aggregate trends. The industry groupings studied are: Metals, Machinery and Equipment; Automotive Vehicles and Components; and Agriculture and Agro-processing. These industries are important not only in their own right, but also because of the key linkages they exhibit and the broad range of policies of multiple government departments and institutions which impact on them. In each study, the extent of structural transformation is assessed, taking into account their linkages with sectors including agriculture, energy, mining and different groups of services. The studies analyse the impact of policies including, but not limited to, those traditionally identified as industrial and trade policies.

The **Metals, Machinery and Equipment** industries have seen a hollowing out of capabilities in the downstream, more diversified industries mainly as a result of failure to manage resource earnings during the commodity boom years to ensure the exchange rate was not over-valued, and to invest in downstream capabilities. Various forms of continued support for the upstream basic metals sectors has also contributed to this trend. The sector has witnessed increasing import penetration, particularly in the machinery and equipment industries, though there are pockets where South Africa remains competitive, notably in mining equipment.

The **Automotive Vehicles and Components** sector reflects a similar story, even though there has been sustained industrial policy support through the Motor Industry Development Programme (MIDP) and Automotive Production and Development Programme (APDP). The industry continues to run a significant trade deficit while local content remains low. As such, South Africa has not developed capabilities of more sophisticated auto hubs in countries such as Thailand and Mexico. The design of the system favours the multinational vehicle exporters by allowing import rebates and has resulted in

[17] Rodrik, D. (2008). Understanding South Africa's economic puzzles. Economics of Transition, 16(4), 769-797.
[18] Malaysia is not unusual in its levels of investment. The average for middle-income and upper-middle income countries are 27% and 28% respectively. This is measured by gross fixed capital formation.

significant downstream import penetration, with tier 2 and 3 producers increasingly isolated from vehicle manufacturers.

In the **Agriculture and Agro-processing** industries there have been widespread liberalisation of markets, except for sugar which continues to enjoy protection. The resultant restructuring brought huge job-losses. The fresh fruit sector has emerged as a strong export generator and has built considerable capabilities to export fruit into international markets. While downstream processing of sugar, dairy and fruit does present opportunities for industrialisation, value chain challenges remain. This includes, for instance, continued support for the sugar industry, raising the price of sugar for downstream producers. The dairy processing sector is concentrated, with the increasing presence of multinationals resulting in significant barriers for new entrants. The retail level of the value chain is also concentrated.

Economic development requires deliberate industrial policies, which are at the heart of countries' development. Industrial policy plays an important role in coordinating investment in interdependent activities, addressing underinvestment in capability development due to externalities, and dealing with the inherent discrepancies in the ability to deal with risk and uncertainties between individual producers.[19] The lack of an overarching industrial policy in South Africa in the 1990s and early 2000s, and poor commitment across government following the introduction of the National Industrial Policy Framework in 2007, has undermined various industrial policy interventions and limited its impact on industries. Moreover, the failure to manage the commodities boom to ensure the exchange rate was not over-valued, and that revenues were saved and invested, exacerbated the hollowing out of industrial capabilities over the 2000s.

Key challenges for a new development path

The studies taken together highlight the following policy challenges.

Limited collaboration for 'learning' and building capabilities: The process of adopting and adapting technology requires learning and investment in capability-building in a number of related activities. Extensive company and industry-level analyses makes it clear that achieving competitiveness is about understanding value chains and building clusters to address collective challenges in productive capabilities at different levels of the chain.[20] In South Africa there have been very few cluster initiatives in the areas where structural transformation is required. For instance, strategies to build downstream capabilities in the Metals, Machinery and Equipment industries, where South Africa already has a significant industrial base, have not been effective. Furthermore, co-ordination with other areas, notably public procurement, has been lacking in design and especially in implementation.

Lack of coherence between technology and industrial policies: The lack of coherence between skills development policy and industrial policy means that firms often privatise the necessary training, which implies a bias against smaller firms. Furthermore, government's technology policy and industrial policy are fragmented and ineffective in working together towards industrialisation. While the fourth industrial revolution brings opportunities, there is a question around how to create an environment for smaller firms to participate in the changes, with the risk that technology advancements leave South African firms even further behind.

[19] Andreoni, A., & Chang, H.J. (2016a). Bringing production and employment back into development: Alice Amsden's legacy for a new developmentalist agenda. Cambridge Journal of Regions, Economy and Society, 10(1), 173-187.
[20] Sutton, J. (2012). Competing in Capabilities: The Globalization Process. Oxford University Press.

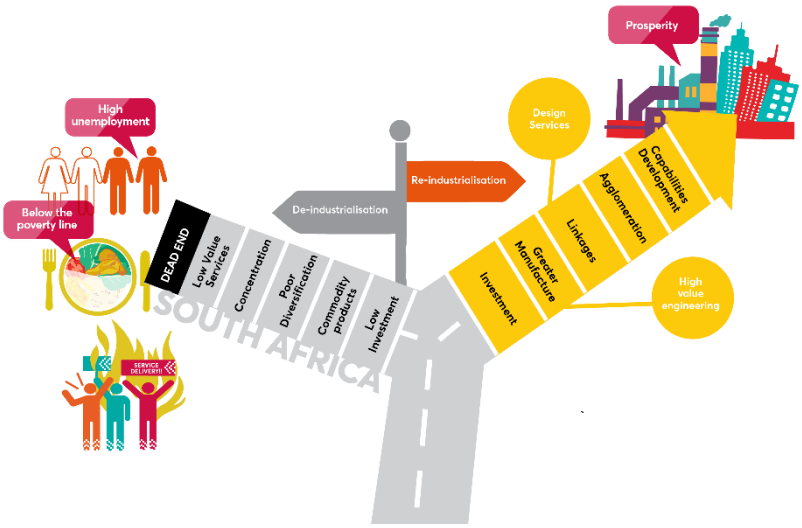
Over-reliance on competition law enforcement for making markets work: Understanding competition issues through the value chain is critical for industrial policy, since industrial policy interventions at one point of the value chain may result in sub-optimal outcomes in another point of the value chain. For example, the study of agro-processing demonstrates the central role of supermarkets in routes to market for food producers. However, competition law enforcement does not create competition in the face of barriers to entry, as the competition authorities only address the conduct of existing businesses. The proposed amendments to the Competition Act, published in 2017, provide for market enquiries, which broadens the scope of the competition authorities to enable proactive interventions.

Design, co-ordination and implementation of policy instruments: In order for government incentives and other support measures to have a wider impact on the economy, it is necessary that incentive packages are designed with robust conditionalities. Incentives should be carefully designed, taking the roles of various government departments into account.

Poor co-ordination between macro policy and industrial policy: Managing the exchange rate to ensure exports are competitive has been a key pillar of the industrial policy of industrialising countries. South Africa's monetary policy of a flexible exchange rate and inflation targeting, however, has resulted in significant import penetration and destruction of industrial capabilities during periods of exchange rate overvaluation. The uncertainty around the exchange rate, as well as its level, has proved a major deterrent to investment in tradable goods and services. As far as fiscal policy is concerned, the focus has been to reduce the government deficit, with the underlying assumption that the private sector will invest if the role for government is reduced, but this has not happened. A growing public-sector wage bill has also had the effect of limiting the resources available for public sector investment.

Way Forward

We need an economy that is more dynamic, competitive and sustainable, where innovation and productivity lead to better jobs with high wages, and where entry is supported. In order to do this, there needs to be a new vision for reindustrialisation under a political settlement which prioritises long-term investment in productive capacity and rewards effort and creativity rather than incumbency. It requires a broad rethink rather than piecemeal initiatives, in order to place re-industrialisation and industrial policies at the centre of the country's development strategy.



It is important to acknowledge that in many areas there have been strategy documents, including the industrial policy framework and action plans, which have set out objectives and policy levers but these have been undermined by the fragmentation of the state and the failure of government departments to follow-through. This has no doubt partly been due to state capture, the full extent of which is becoming uncovered with each passing day. What is required, however, is to face up to the hard choices for the structural transformation required.

The elements of this vision and the main planks in addressing the structural transformation challenges are set out as follows.

a) Building a broad coalition for reindustrialisation

South Africa's course for reindustrialisation and inclusive growth needs to be based on a broad coalition which focuses on productive investment and widening economic participation. The narrow coalition of elites, buttressed by higher government salaries and social grants for important constituents has undermined investment and reinforced rather than changed the existing structure of economic power. Reindustrialisation requires public investment to provide effective public transport and education for economic activity, alongside long-term private investment and entrepreneurship.

The new political settlement must set out expectations for large firms for local investment, innovation and competitive rivalry. In return, government must commit to effective policies for infrastructure, procurement, skills development, technology and markets.

The levels of poverty and inequality are unsustainable, and the youth is bearing the brunt of the high unemployment rates. The creation of jobs and livelihoods are a priority for avoiding further unravelling of the social fabric. Newly elected president, Cyril Ramaphosa, is in the process of forging a "new social pact" between government, business and labour. The previous pact benefitted the insiders, with emphasis on wealth 'trickling down', but this did not drive industrial development. Though the current political settlement has accommodated the small black middle class to an extent including through public sector jobs, the burden of 'black tax' is a constant reminder that things need to change. Higher earnings for a small minority of the black population is not sustainable.

What is the new political settlement that can inform the new 'social pact' or new deal to ensure that it delivers real economic transformation? A new political settlement for industrialisation must speak to and mobilise key black constituencies, including industrial trade unions through effective skills upgrading and investment, and productive black entrepreneurs through opening-up economic opportunity. The settlement must speak to their aspirations, especially in urban areas where the majority now live and where industrial agglomerations are built. It must reach and sustain a shared and binding commitment which, through shared growth and investment, will lead to a reversal of the growing inequality in wealth. The settlement needs agreement around the expectations for large firms, rewarding long-term domestic fixed investment, innovation and dynamic competitive rivalry with effective government policies regarding infrastructure, procurement, skills development, technology and opening regional and international markets. It must be captured in a national agenda, which is designed and delivered locally, where people have a strong sense of identity, and a stake in the outcomes.

b) A commitment to structural transformation and the consolidation of fragmented government structures

The vision for industrialisation must be integrated with overall economic planning and be based on an understanding of sectoral dynamics and opportunities, taking land, water and energy into account. Successful industrial policy requires analysis of the challenges and opportunities, design, intervention and coherence. Experience from other countries highlights that this needs to be led politically from the apex of government and that lessons learnt along the way need to be incorporated in an iterative process of continuous improvement of policy design and implementation.

The vision includes a re-shaping of government departments bringing together those that relate to technology, industry, trade, development finance and regulating markets, and providing for clear leadership and coordination with areas including skills development, energy, minerals and agriculture.

This needs to be accompanied by improving the institutional capacity and accountability of public institutions, rather than their number.

c) Understanding and pursuing opportunities

The importance of the region for South Africa's growth needs to be factored into future industrial policies. The most important market for much of South Africa's diversified products and services has become the wider southern African region, although South Africa is losing market share in a number of products. Partly this reflects the lack of commitment to a shared regional vision for industrial development across southern Africa. South Africa's reindustrialisation must therefore be in line with the Southern African Development Community's (SADC) regional industrial development strategy, which seeks to *jointly* uplift the economies in the region. We must import as well as export. Regional value chains are crucial, for instance, in the mining capital equipment sector. In agriculture, as South Africa moves to higher value products it needs to import more staple foodstuffs from the region. In the context of climate change, it is important to recognise that the great majority of water resources in SADC are not being used effectively and, with South Africa likely to more frequently experience drought conditions, it could take advantage of the ample rainfall in countries to the north by supporting the expansion of their agriculture, importing staple foods, and ensuring a more competitive regional agro-processing sector.

d) Incentivizing and investing in capabilities development

The fourth industrial revolution is bringing the role of technology into sharp focus in moving countries forward. While the apartheid government heavily supported innovation and industrial development in organizations related to its own objectives, post-apartheid governments have had more broad-based innovation strategies. Technology is, however, embodied in investment, and the low level of investment in the economy means poor progress in technological upgrading. A strategy for building capabilities must bring together technology policy, investment and industry incentives to present a coherent path for firms.

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Incentives, technological change and development finance therefore all need to work together along with cluster initiatives at the local level. Incentive programmes should include conditionalities to ensure that there are wider benefits to the economy and care needs to be taken to avoid creating or entrenching firm dominance. Cluster initiatives have a key role to play in linking skills development, shared facilities for technological capabilities such as design, testing and prototyping, and in supporting firms to pool resources, creating economies of scale and developing supply markets. Understanding how collective action can be supported for private investment in capabilities by groups of firms is central to building dynamic industrial clusters, along with effective institutions of industrial policy. Local and provincial governments have played a leading role in the few cases where clusters have been successful given the geographical embeddedness of cluster initiatives.

e) Confronting concentration

Changing the profile of ownership and control is critical to public support for any economic agenda and this includes directly addressing the concentrated structure of the South African economy. Competition between firms is at the heart of an economy's dynamism. First, rivalry between firms promotes productivity improvements as firms invest in upgrading and improving production capabilities in order to win market share. Second, the competitive dynamics within a market determine the ability of new

participants to bring new products, and in the South African context, this refers to the possibilities for accommodating black entrepreneurs.[21] Third, the exertion of market power can contribute to inequality by facilitating a transfer from the poor to the wealthy in the form of management compensation, profits and shareholder dividends emanating from anticompetitive conduct.[22]

Competition law enforcement under the Competition Act addresses the behaviour of firms and evaluates mergers but does not create competition in the face of barriers to entry. The South African economy requires a broader competition policy, as part of industrial policy, which facilitates the entry and expansion of businesses, especially black entrepreneurs, and reduces barriers to entry. In addition to noting concentration, the industry studies point to the importance of understanding vertical integration in some value chains. Co-ordinated interventions are required at the different levels in order to support entry. The interventions need to be coupled with development finance to enable the investment in capabilities and learning necessary to grow efficient businesses. Specifically, there is a need for "patient capital" given the time required to build the scale and reach required to be competitive, and the appetite for risk in financing rivals taking on powerful incumbents. Development finance institutions need to be both aligned to industrial policy and make significant funds available for funding investments and supporting entry of businesses.

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Effective regulation for competition and entry is an important aspect, especially in sectors where there are strong network effects such as telecommunications. Local government policies are also crucial for opening-up opportunities for rival businesses, such as the ways in which retail space is configured. The analysis of barriers to entry has further highlighted the importance of access to markets for rivals, for instance, a possible 'supermarkets code' where retailers commit to open-up shelf space to smaller businesses and engage in supplier development initiatives.

f) Reorientation of macroeconomic policy for industrialisation

A reorientation of macroeconomic policy is required to ensure the long-term management of natural resource earnings, consider the appropriate exchange rate, take into account the causes of inflation and dis-incentivise volatile capital flows. Fiscal policies need to prioritise longer-term investment.

[21] Roberts, S. (2017b). Assessing the record on competition enforcement against anti-competitive practices and implications for inclusive growth. REDI3X3 Working Paper 27.
[22] Baker, J.B. & Salop, S.C. (2015). Antitrust, Competition Policy, and Inequality. Georgetown Law Faculty Publications and Other Works. 1462.