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Revisiting export competitiveness: The World Bank's most recent economic update for South Africa

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Earlier in February 2014, the World Bank's Africa Region Poverty Reduction and Economic Management researchers presented their most recent economic update on South Africa, which brought into focus the notion of 'export competitiveness' (World Bank 2014). In the foreword to the document by Asad Alam (the Bank's Country Director for South Africa), the central conclusion highlighted and investigated in depth how opportunities for growth are available through 'export competitiveness', particularly trading such goods and services with other Sub-Saharan African countries, and how, in combination with strategic shifts in economic policy (which will be elaborated on later), export competitiveness can ignite economic growth and help South Africa realise its goals of creating jobs and reducing poverty and inequality. These objectives are in line with both the National Development Plan (National Planning Commission 2013) and the New Growth Path (South Africa 2011) which had earlier identified the export sector as an engine for faster, more inclusive and job-intensive growth.

This trade brief will present a summary of the World Bank document and its approach will concentrate on the notion of export competitiveness, examining not only the conceptual difficulties associated with such a construct, but also whether, in fact, the extensive focus on this strategy will indeed provide the anticipated benefits that the World Bank envisages. In clarifying this standpoint, it must be pointed out that this briefing paper does not at all dispute the substantial contribution that export growth can yield to an economy, nor that the determinants of a successful export policy are unimportant. The brief does not argue for a reversion back to the simplistic and outdated thinking that dominated debates on the trade strategies throughout the 1960s and 1970s. Rather, this brief argues that the relevant question that ought to be asked is whether the extensive focus on 'export competitiveness' comprehensively addresses the inherent structural deficiencies in an economy such as South Africa's.

Recent economic developments in South Africa

This discussion forms the first section of the update and presents an updated overview of several of the key economic indicators affecting the country. Acknowledging the anticipated improvement in global growth over the period 2013-2016, with high-income economies expected to recover, the update highlights that this improvement appears to have proved elusive thus far in South Africa's case (World Bank 2014: 1, and 7-9). Moderate growth in both private consumer and investment expenditure, together with low confidence and uncertainty, persistently high unemployment and labour unrest brought into focus structural problems and a certain vulnerability in the economy, and these were reflected in a substantial depreciation of the currency to the lowest levels in a decade. This section contains both useful and updated data and diagrams showing how South Africa's growth performance (using indicators such gross output, exports, capital flows, employment generation and widening current account deficits, *inter alia)*, has remained static in relation to that of other major trading partners, other developing countries, the BRIC countries (Brazil, Russia, India and China), and some of this country's regional trading partners. Policymakers in South Africa are obviously aware of the need to reignite export growth as a strategic priority; evidence of this has been explicitly articulated by various ministries of the South African Government in the New Growth Plan (Republic of South Africa 2011), the National Development Plan (National Planning Commission 2013) and the most recent version of the Industrial Policy Action Plan (Republic of South Africa 2013). Exports are seen as the source of reigniting and reinvigorating growth in the economy; hence the focus on the design of successful export strategies is regarded as being the key element of this quest for growth. The dominant theme in Section 2 of the update deals with methods to enhance export competitiveness. This will be the principle focus in the rest of this trade brief.

Export competitiveness

What is commendable in reading the World Bank South African update in its assessment of the country's export competitiveness, is how the World Bank has attempted to move away from sole reliance on broad aggregate trade figures and has supplemented these with 'a unique dataset containing information on the exports of some 20 000 South African firms spanning 2001-12' (World Bank 2014: 17). This dataset reduces the importance of the large mineral sector, allowing for comparison with 'peer group' countries such as South Africa's BRICS partners and countries such as Chile, Colombia, Thailand and Turkey – countries that are regarded as similar in population size, income and export baskets. Apart from, additionally, allowing an examination of service exports, the data can incorporate the manufacturing sector to a greater extent than aggregated data. The dataset, (based on the World Bank's Trade Competitiveness Diagnostic Toolkit) is used as a complement to the usual aggregate analysis extracted from the various United Nations (UN) organisations, the International Monetary Fund (IMF) and South African statistical sources such as Statistics South Africa (Stats SA), the Reserve Bank and South African Revenue Services (SARS). The firm-level analysis is primarily drawn from SARS and covers transaction data received from some 20 000 firms over a ten-year period or so and includes data on individual export transactions not only by value and volume, but also by product and destination. By including detailed South African firm-level data, the approach recognises the principle that *it is not countries that export – rather it is firms*. As will be discussed in a later section in this brief, incorporating this micro-focus represents an important shift in direction for studies on competitiveness.

The World Bank update does recognise the limitations of this dataset. Firstly, the set depends on the accuracy, coverage and quality of the data available from various UN and SARS databases but, in South Africa's case, important data relating to the Southern African Customs Union (SACU) is not included. The second major problem, relating to the dataset, comprises the estimation of unit export values over the period. Additionally, while this dataset provides broad insights into 'how individual firms enter and exit export markets, expand and diversify, these…provide no information on firms' other characteristics, including size, ownership, investment levels and productivity' (World Bank 2014:18). Thus, some of the fundamental determinants of performance appear to be missing.

Using the dataset, a detailed analysis, both graphical and statistical, is presented suggesting that, during the past decade or so, South African exports have underperformed. Export growth in real terms has stagnated, and South African exporters have made only marginal inroads into global markets (World Bank 2014:3). This applies to minerals, non-minerals and services where it is found that South Africa has 'lagged behind those of its peers and not lived up to potential' (Ibid.). Additionally, as far as 'concentration of exporters ' is concerned, there appear to be a few 'super-exporters' dominating South Africa's export sector in both mineral and non-mineral sectors and, despite this dominance, the top firms in this cluster appear to be losing dynamism and competitiveness. The update cites a distribution figure of the top 5% of South Africa's exporting firms accounting for more than 90% of its exports (Ibid.: 20). These exporters appear not to have taken fully exploited opportunities in both markets and products nor in large markets such as BRICs (Ibid.: 3). Furthermore, the 'super-exporters' tend to trade products that are 'technologically sophisticated and highly capital-intensive' (Ibid.) which, while indicating a higher level of competitiveness, underutilises South Africa's pool of unskilled labour and fails to create enough jobs to contribute to employment growth and poverty reduction.

The World Bank update, then, looks at the regional Sub-Saharan African market and identifies several key elements emerging from the patterns of trade within this market. It considers that this market represents the key destination for South Africa's non-mineral exports; opportunities within this market appear to have, thus far, been lost. According to the data, trading in this market has remained somewhat smaller and shorter lived than exports to traditional markets (Ibid.). This, in the opinion of the update, suggests that, for South African firms, 'lower competitiveness in regional markets is allowing the less efficient firms to enter and exit opportunistically' (Ibid.).

The above rather detailed analysis of export trends in the World Bank's update document does give prominence to several of the problems that impact on South African firms with regard to their lack of export competitiveness. The update then stipulates **three key areas** presently where opportunities exist to promote such competitiveness and spur growth in South Africa's export sector:

- *Boosting domestic competition to increase efficiency and productivity*:

  The arguments used to justify this as a key area for improvement involve the notion of total factor productivity, particularly in the lagging manufacturing sector. Accepting that there is a positive correlation between allocative efficiency and those firms with the highest market shares, 'high domestic entry barriers as documented by the South African Competition Authority and protection from imports preserve the market share of less productive and innovative firms in some sectors' (Ibid.: 31). An increase in domestic competition, aligned with the reduction of industry concentration, weakens the (negative) link between a firm's market share and productivity (Ibid.). An important component of competition policy ought to be trade policy, and with regard to this the World Bank update argues with reference to multilateral and regional initiatives, that those liberalising reforms which were introduced in the 1990s ought to be renewed and intensified. Increased competition will enhance firms' incentives to focus on export markets, and to increase their strategic commitment to exporting (rather than adopting exports as a temporary reactive approach to lagging domestic conditions). Another possible area for state policy could be support for the development of medium-sized exporters to generate diversification, innovation and job creation through export markets (Ibid.).

- *Alleviating infrastructure bottlenecks, especially in the provision of power and infrastructure, and removing distortions in access to pricing of trade logistics with regard to rail, port, information and communication technologies:*

  These are some of the so-called 'trade facilitation' measures so essential in boosting exports. In essence, the reduction of input and trade costs is regarded by the update as a priority for

South Africa to raise productivity and develop its export capacity. The areas considered involve the high barriers (in the form of high costs and unreliable availability) imposed on potential exporters by transport, electricity and communications suppliers and technologies in the country. These are distortionary and discourage the development of new sectors (Ibid.: 34).

- *Promoting deeper regional integration in goods and services to open export opportunities and build supply-side competitiveness:*

  The World Bank update regards this as providing the potential for unlocking the country's non-mineral and service exports (Ibid.). Given that South Africa's major growth in exports in the past few years emerged from increased trade with the rest of Africa – despite the continent being regarded as a region where the barriers to trade are among the highest in the world and the cost of trading across borders in the continent is more than twice the cost in East Asia and the Organisation for Economic and Cooperation Development (OECD) countries (Ibid.) – the potential for further export growth in this area is considered to be substantial. This market also offers an ideal opportunity to generate not only the right conditions for the emergence of 'Factory South Africa' but also for a regional value chain that could feed into global production chains. South Africa could play the central role in such a chain, leveraging the scale of the regional market and exploiting sources of comparative advantage across Africa in order to reduce production costs and provide other countries in the region with a platform for reaching global markets (Ibid.: 3).

The above summary of the World Bank update concentrates on some of the essential points regarding the approach, methodology and rationale supporting the central conclusions and recommendations of the document. It certainly offers a new approach by incorporating useful firm-level data which allows for a better understanding of the underlying trends and comparisons and enables a more informed approach to policy making. The conclusions regarding the need for substantially enhanced export performance are not questionable as such. The focused recommendations by the World Bank regarding areas of opportunity to both promote competitiveness and spur export growth in South Africa are obviously important – but do these get to the crux of the issue and, more importantly, will the central focus on these issues alone provide a sustainable growth strategy to achieve the policy objectives articulated in some of South Africa's various more recent policy documents?

The concluding section of this document will consider these issues.

Conclusion – towards a more generic interpretation of 'competitiveness'

Much of the analysis and recommendations included in World Bank's South African update has considered the notion of 'competitiveness' as applying principally to export expansion, and while the conclusions and recommendations stemming from this update can be considered important stepping stones in enhancing this country's export drive, the question that comes to mind is whether the World Bank in this update has truly got to grips with the meaning of competitiveness. Genuine competitiveness (along the lines of the Michael Porter connotation) regards substantial productivity improvements at the heart of the process (Porter 1990; Porter 1998; Porter 2005). Productivity improvements are emphasised because this is the critical driver of long-term sustainable prosperity. This outcome can be considered as the relevant objective of economic policy (Ketels 2010). In one of Porter's less abstract formulations he considers what matters for competitiveness: 'almost everything… The schools matter, the roads matter, the financial markets matter and customer sophistication matters. These and other matters of a nation's circumstances are deeply rooted in a nation's institutions, people and culture. This makes improving competitiveness a special challenge, because there is no single policy or grand step that can create competitiveness, only improvements that inevitably take time to accomplish' (Porter 2005).

While Porter's analysis argues that stable institutions, sound macroeconomic policies and market liberalisation may be necessary for economic development, he contends that these are far from sufficient and often neglect the fact that wealth is created at a microeconomic level of the economy (Porter 2005:2). Economic development rests with the microeconomic environment and unless there is an improvement in this, macroeconomic, political, institutional, legal and social reforms will not bear fruit. It is microeconomic competitiveness that should be at the core of the policy agenda of every nation (Ibid.: 3).

Along similar lines, Ketels (2010), using the Porter-influenced new growth approach relevant to the present era), questions whether the focus on export-led growth strategies provides the right solutions to the requisite growth strategies. The debate should be shifted to those actual policies that can increase competitiveness in general rather than exports per se (Ketels 2010).

What is fundamental according to Ketels, is that, empirically, the link between exports and prosperity is less robust and the causal relationship from one to the other less clear than would be necessary to confidently put exports at the centre of growth strategies. Viewed alternatively, export orientation works if some other fundamental conditions are in place. A policy focus on exports can also lead to insufficient attention being paid to domestically oriented or more traditional sectors. Doubts prevail as to whether an export strategy represents the best lever to achieve sustained growth (Iibid.).

Given an acceptance (even in the World Bank update) that firms (rather than countries) remain the source of exports from a country, increased trading of these locally produced goods with the rest of the world can be considered as an intermediate indicator. This enables and contributes to competitiveness rather than being the fundamental driver of competitiveness. Ketels (2010) argues that competitiveness strategies should be applied across the entire economy rather than just the export-oriented sectors. The objective should be overall higher productivity and this achievement would attract Foreign Direct Investment (FDI), generate jobs and increase exports. This represents a long-term target for the economy, rather than the more intermediate outcome such as export expansion per se. Exports can be driven up by policies that do not raise productivity or long-term prosperity. What this more generic approach to competitiveness involves is that, even though there may be overlap in individual policies recommended in these two approaches, the export-oriented approach suggested by the World Bank may not be wrong. The danger is that it may be incomplete (Ketels 2010: 8).

This brief has attempted to provide a constructive assessment of the World Bank's most recent update on South Africa. The update, as regards its approach, logic, argument and method, does provide a useful assessment of some of the barriers to exports from this country. Its recommendations regarding overcoming these barriers may be useful in encouraging increased exports, particularly to the rest of the subcontinent. Whether this can lead to a sustainable export drive is another question that has been raised in the brief. Recent work, cited above and predominantly influenced by the work of Michael Porter, on the true nature of competitiveness in firms suggests that such a concept arises from substantially improved productivity in various firms and industries. Export competitiveness is the result rather than the cause of competitiveness enhancement generally. The approach taken in this brief differs substantially from the outdated industrial policy approach, whereby selected industries were favoured through governments defying the competitive environment with ill-advised and ill-implemented policies. This revised approach (suggested in the brief) urges that the core of the issue be addressed. A better understanding of the nature of competitiveness has important implications for an improved design framework for future growth and prosperity.

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