

ERSA-SARB CONFERENCE

Finding a Path to Growth and Employment in South Africa

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SESSION REPORT

Session 4: Frontiers of Structural Transformation Research and its Relevance to South Africa

Anchor Presentation: Calumn Hamilton (University of Groningen) and Emmanuel Mensah (Utrecht University)

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Note: This report synthesises the key arguments, ideas, and exchanges from the session. It reflects the substance of what was presented and discussed, not necessarily the settled views of all participants. Panellists participated in their personal capacity. Time constraints meant that not all points could be fully debated or responded to. By convention, individuals are identified only on the title page; arguments and ideas in the body of the report are not attributed to named speakers. Video recordings of the session are available on YouTube, where viewers may find nuance in the views expressed that a written synthesis cannot fully capture.

Key Takeaways

- South Africa experienced what the presentation termed a “structural change emergency” in the 2010s: aggregate labour productivity growth turned negative, productivity within all major sectors stagnated or declined, and workers on average relocated from more productive to less productive sectors.
- This performance stands out internationally. Comparator groups - BRICS economies, leading African economies - maintained positive and broadly balanced productivity growth through the same decade. The emergency was not a global phenomenon; it was distinctly South African.
- There are signs of recovery since 2020, with labour productivity growth returning above 1% per annum and structural change turning positive. But the recovery is almost entirely services-driven, while manufacturing, mining, and other industry continue to drag on productivity growth.
- The traditional expectation that manufacturing alone can simultaneously absorb low-skilled labour, generate value added, drive innovation, and earn foreign exchange is increasingly unrealistic. A dual strategy is needed: manufacturing focused on innovation, value addition, and demand linkages; services recognised as the primary engine for mass employment.
- Addressing structural barriers - infrastructure, electricity, logistics, human capital - is a precondition for either manufacturing revival or services-led growth and is arguably more urgent than market-level regulatory reform alone.

The Anchor Presentation: The Structural Change Emergency

The anchor presentation set out to examine South Africa’s post-apartheid structural transformation experience using a toolkit developed through major international structural change databases. The presenters positioned themselves as outsiders applying comparative methods to the South African case.

The starting point was a challenge to the conventional wisdom that manufacturing-led industrialisation is the only viable path to development. Traditional manufacturing-led growth has struggled to take off outside East Asia. Manufacturing has become more capital-intensive and automated, reducing its capacity to absorb low-skilled labour en masse. Meanwhile, services have become increasingly tradable - not only through digital delivery, but through the ability of service hubs to attract consumers across borders. The concept of structural transformation itself, the presentation argued, should be broadened beyond inter-sectoral

shifts to include transitions from informal to formal activity, female labour force participation, and upgrading within sectors - changes that show up statistically as within-sector productivity growth rather than as movement between sectors.

Applied to South Africa, this framework revealed what the presentation called a “structural change emergency” in the 2010s. Using a shift-share decomposition of aggregate labour productivity growth, the analysis showed three compounding problems. First, overall labour productivity growth was slightly negative across the decade. Second, productivity growth within all major broad sectors - manufacturing, mining, services, and other industry - was either negative or negligibly small. Third, structural change itself was growth-reducing: workers were, on average, relocating from more productive to less productive sectors. This was a stark contrast to the 2000s, when productivity growth exceeded 2% per annum, was balanced across sectors, and was supplemented by positive structural change.

The emergency was not a global phenomenon. The BRICS average in the 2010s, while weaker than the 2000s, remained positive and balanced. The leading African economies also maintained positive growth. Even countries that performed poorly, such as Nigeria and Brazil, tended to show sharp declines concentrated in a single sector rather than the broad-based stagnation that characterised South Africa. The pattern was remarkably uniform across South African provinces, with nearly all showing the same compressed productivity profile in the 2010s.

Since 2020, the data shows signs of recovery. Aggregate labour productivity growth has returned above 1% per annum, and structural change is again acting in a positive direction. But the recovery is highly unbalanced. It is driven almost entirely by within-sector productivity growth in services - particularly finance and business services, with some contribution from personal services - while manufacturing and other industry have turned more negative than during the emergency decade itself. The services recovery is not confined to Gauteng and the Western Cape but appears to be diffusing across provinces. However, trade services - the subsector absorbing the most employment - shows almost no within-sector productivity growth anywhere except Mpumalanga.

An analysis of jobs embodied in trade using input-output methods showed that the proportion of jobs linked to exports has remained roughly constant since the 1990s, with a gradual shift toward services. The stability was interpreted as a sign that the boundary of what is achievable with traditional trading partners may have been reached, reinforcing the case for export market diversification and deeper intra-African trade.

The policy implications were framed around a dual strategy. Manufacturing should not be abandoned, but its policy role should be reconceived: rather than expecting it to be a mass employer of low-skilled workers, it should be valued for its contribution to value added, technological innovation, and demand linkages to services. The mass employment function, the presentation argued, now falls to services - and this requires industrial policy for services, including measures to improve employment conditions and productivity in the sectors where jobs are actually being created. A critical distinction was drawn between market distortions, which regulatory reform can address, and structural barriers — infrastructure, electricity, human capital, health - which define the feasible frontier of change and must be tackled as a precondition.

Panel Discussion

Premature Serviceification or Structural Failure?

A central question in the panel was whether what South Africa is experiencing should be understood as a structural change failure or as premature serviceification. The conventional trajectory - agriculture to manufacturing to services - was achieved by the East Asian economies that remain the reference point for industrialisation strategy. In those cases, productivity rose across all sectors during the manufacturing phase; services did not take over until manufacturing had already delivered large-scale industrial employment. South Africa never achieved that large-scale industrial employment phase before sophistication and capital intensity began to erode manufacturing's absorptive capacity. The implication, raised from the panel, was that what is happening may be less a natural transition and more a premature shift driven by the failure of manufacturing to fulfil its traditional role.

The counterpoint was that this framing may itself be outdated. The global manufacturing landscape has changed fundamentally since the 1990s: it is more capital-intensive, more automated, and faces greater trade frictions. The services sector, meanwhile, has become more tradable and more capable of scaling. The example was offered of Gulf states that achieved high-income status without a strong manufacturing base, using resource revenues to build a services economy that attracted labour and capital from across the world. The question posed was whether South Africa's prospective minerals boom could play an analogous role - generating foreign exchange and value added that fuels a services-led employment expansion, even if manufacturing does not lead.

The Heterogeneity Problem: Not All Services Are Equal

The panel pressed hard on the heterogeneity within the services sector. The aggregate finding that services are driving recovery masks large differences between subsectors. Finance and business services show strong productivity growth; personal services and trade services do not. The concern was raised that much of the employment being created in services is in low-wage, low-productivity segments - often through third-party contracting arrangements that depress wages and conditions. Research shared anecdotally suggested that even high-revenue hospitality establishments frequently employ workers through intermediaries rather than directly, with implications for wages and job quality.

This raised the question of whether services-led growth, without deliberate policy intervention, risks creating a large volume of poor-quality jobs. The response was that this is precisely why industrial policy for services is needed - including incentives for direct employment, measures to raise productivity within low-wage services subsectors, and a recognition that if these sectors are genuinely driving growth, the workers in them deserve the same policy attention historically reserved for manufacturing. It was suggested that industrial policy for services should not be confined only to high value-added services as this may be counter-productive from the perspective of viewing services as a potential absorber of labour and may actually be more effective when focused on those services sub-sectors demonstrating rapid employment expansion.

From a policymaking perspective, it was noted that the debate about whether to pivot toward services is already live within the development of South Africa's new industrial policy. The challenge was framed honestly: the manufacturing sector's contribution to GDP has fallen

from around 21% in 1990 to roughly 13%, and the question of why government should continue to prioritise it is being asked with increasing frequency. The paper was welcomed as providing evidence that manufacturing still matters - for innovation, value addition, and demand linkages - but that services must be elevated alongside it.

Why the Emergency? The Role of Structural Constraints

A persistent thread was the question of what caused the structural change emergency. The presentation deliberately adopted a neutral stance, presenting stylised facts without attributing causation, in part to allow South African readers to fill in the context. The panel was less restrained. It was observed that the emergency decade coincided with electricity instability from 2008 onward, logistics bottlenecks, weak investment, and the aftermath of the global financial crisis. The point was made that industrial policy alone cannot offset these structural constraints, and that the succession of policy frameworks - the Industrial Policy Action Plan, the National Development Plan, the sectoral master plans - represented genuine ambition but operated against a deteriorating structural environment.

The observation that South Africa has not lacked policy ambition but that the nature of the structural challenge has evolved faster than the policy frameworks was offered as an honest assessment from within government. It was suggested that the paper could be strengthened by engaging more explicitly with the South African structural context, including the specific constraints that have impaired performance.

Services Exports and the Diversification Imperative

The discussion brought a sharp empirical lens to South Africa's services export performance. Global services exports have grown from roughly \$780 billion in 1995 to \$7.9 trillion in 2023, averaging 8.6% annual growth. South Africa has moved in the opposite direction: the share of services in total exports has declined from around 11% to 6% over the same period. South Africa's services exports are dominated by traditional categories - travel and transport - rather than the higher-value modern services such as finance, business services, engineering, and management consulting that drive growth elsewhere.

Moreover, 75% of South Africa's services exports go to developed countries, with negligible penetration of African markets despite existing trade arrangements. The question was posed: if services are becoming the engine of domestic growth and employment, why is the sector so weakly oriented toward exports, and what barriers - regulatory, skills-related, or structural - are preventing South Africa from participating in the global services trade boom? The AfCFTA's services protocol was identified as a potential lever, but the underlying constraints on outward orientation remain poorly understood.

Disaggregation and the Question of Agriculture

A methodological challenge was raised regarding the level of sectoral aggregation. The analysis disaggregated services into subsectors but treated manufacturing and agriculture as broad aggregates. It was argued that disaggregating these sectors might reveal pockets of dynamism - high-value agriculture such as citrus and wine, or specific manufacturing subsectors that remain productive and competitive - that are obscured by the aggregate picture. If such pockets exist, the policy implication would be different from one that treats entire sectors as uniformly stagnant. The broader point was that pitching sectors against each

other is less useful than identifying where productive capabilities exist across agriculture, manufacturing, and services, and designing policy that supports all of them.

Audience Discussion

The audience discussion turned to three issues of immediate policy relevance. The first was the prospective minerals boom and how South Africa might convert resource wealth into broader economic gains. The anchor presentation's response drew on the Gulf state analogy: if mineral revenues generate foreign exchange and value added, the resulting consumption and investment demand could fuel a services economy that creates employment at scale - even if it looks like Dutch disease through a traditional manufacturing lens. The implication was that a resource boom need not be wasted if services are recognised as a legitimate and productive destination for the demand it generates.

The second was the causes of the emergency itself. The presenters maintained their deliberately neutral stance, noting that they had presented stylised facts rather than causal claims, and that they wanted South African readers to bring their own contextual knowledge to bear. This restraint was both respected and gently challenged by the audience, which noted that understanding causes is essential for designing policy responses.

The third concerned the nuance of the manufacturing–services thesis. The clarification offered was that the argument is not simply that manufacturing has failed and services will succeed, but that the traditional expectation - manufacturing as the single instrument for employment, value added, and foreign exchange - is no longer tenable. A multi-sectoral approach is needed, in which different sectors play different roles: mining and some manufacturing earning foreign exchange, services absorbing labour, and formal manufacturing driving innovation and demand linkages. The sector that creates employment need not be the same sector that earns foreign exchange.

Implications for Growth and Employment

This session challenged one of the foundational assumptions of South African economic strategy: that manufacturing-led industrialisation is the necessary and sufficient path to growth and employment. The evidence presented suggests that manufacturing, while still important for innovation, value addition, and export earnings, is unlikely to play the mass employment role it played in East Asia's development - and that expecting it to do so simultaneously generates value added, absorbs low-skilled labour, drives innovation, and earns foreign exchange is to overload a single instrument in precisely the way the Tinbergen principle warns against.

The services sector is already the de facto engine of employment growth and, increasingly, of productivity recovery. But the quality of that growth - low wages, third-party contracting, limited productivity gains in the largest employment-absorbing subsectors - demands policy attention. Industrial policy for services is not an oxymoron; it is a necessity if the sectors creating jobs are to create good jobs.

For the growth and employment agenda, the most immediately actionable ideas to emerge included: reorienting industrial policy to recognise the dual roles of manufacturing and services rather than treating manufacturing as the sole priority; developing policy instruments for

services - including incentives for direct employment, productivity support, and skills development in the subsectors absorbing the most workers; addressing the foundational structural barriers - electricity, logistics, infrastructure, human capital - that constrain growth in every sector; investigating why South Africa's services export performance has declined against global trends and removing the regulatory barriers to outward orientation; diversifying export markets, particularly through the services and digital trade protocols of the AfCFTA; and disaggregating the analysis to identify pockets of productive dynamism across agriculture, manufacturing, and services that can anchor a more targeted and evidence-based strategy.