FREE STATE PROVINCIAL ECONOMIC REVIEW & OUTLOOK 2013

MEC's FOREWORD

The consequences of the 2009 global financial meltdown continue to affect many economies, including that of South Africa and, by extension, the Free State province. During the past five years, the world economy has been characterized by serious uncertainty and the global economic recovery remains uneven and fragile.

Global growth has experienced what the International Monetary Fund termed as —low gear. The advanced economies have shown some signs of recovery, though such recovery have been focused mostly on repairs of the 2009 financial meltdown challenges and fiscal consolidation. The emerging economies, which have been lauded for carrying the world economy during the difficult times, are also facing their own challenges, including slowing growth and increased constrained global financial conditions.

For the Free State, other dynamics, including the declining primary sector with very little in the way of industrialization, poses an even much bigger threat to the provincial economic prospects. In 2012, the provincial economy posted a discouraging 2.2% growth, with prospects for job creation being the hardest hit. At 2.2%, the provincial economy was the 5th best amongst the nine provinces. Our contribution to the national Gross Domestic Product (GDP) has continued to decline from 5.9% in 1997 to 5.2% in 2012. These factors have contributed to the province posting the highest unemployment rate in the country, at an average of 34%. This is higher than the national average which has been languishing at around 26%.

As we prepare to implement the National Development Plan and the electoral mandate conferred upon this administration following the fifth democratic elections, this document affords decision-makers the opportunity to consider effective means to bring about radical economic transformation that will set the Free State on a dynamic growth path. Both the public and private sector should make use of this information to enhance their decision-making to promote the Free State provincial economy. In doing so, we will jointly contribute to the building of a South Africa that benefits us all.

Ms Elzabe Rockman
MEC for Finance

CEO's OVERVIEW

The Free State Provincial Treasury proudly brings to you the fifth release of the Provincial Economic Review and Outlook (PERO). The publication provides an overview of the current global, national and provincial economic state of affairs; it identifies a number of key industry and labour market trends that require focused attention. The purpose of the PERO is, therefore, two-fold:

- On the one hand, the PERO is intended to review both the structure and performance of the Free State economy as well as making projections up to 2017
- Whilst, on the other hand, the PERO locates itself as a policy review and analysis toolkit, with a special emphasis on the economic drivers in the Province;

The 2013 PERO comes amid thorny economic times with the South African economy struggling to accelerate to levels last seen prior to the 2009 economic recession. The World Bank has revised South Africa's economic growth outlook in 2014 to 2.7% from an earlier forecast of 3.2%, though an improvement from the estimated 1.9% achieved in 2013. The South African Reserve Bank hiked its repo rate in January 2014 for the first time in five years. Governor Gill Marcus warned that the global financial crisis, which started in 2008, was not over. She said the world was entering a new phase "that is creating new challenges for emerging market economies". The backdrop to the repo rate hike was a sharp slide in the value of the rand in the preceding days. The slide has compounded losses the currency has suffered since the start of 2012, now amounting to more than 20 percent against the dollar.

It is clear that 2014 will be an even tougher year on the economic front, particularly with the mounting socio-economic challenges faced by the country. South Africa continues to face the triple challenge of chronic high unemployment, poverty and inequality amid a slow and volatile domestic and global economic environment. In response to challenges facing the country, the government, in 2012, unveiled a 15-year infrastructure development plan to upgrade roads, ports and access to utilities, as well as to exploit coal and other mineral deposits.

The Free State economy is not immune to these national challenges. The province has the highest unemployment rate in the country, whilst its economy continues to grow below the national average. As government, and other stakeholders, we need to use this publication to assess the province's strides and achievements over the past few years, as well as the projected performance of the provincial economy.

This publication presents us with an opportunity to chart a potentially new path for this province and its people, it presents us with an opportunity to dialogue on what matters most for this province and its people, it presents us with an opportunity to make bold, yet potentially life-changing decisions for the Free State and its people. In this instance our bold decision will be based on a sound foundation premised on a thoroughly researched publication, published by ourselves as the people of Free State.

Mr Godfrey Mahlatsi
CEO: Free State Provincial Treasury

EXECUTIVE SUMMARY

This is the fifth publication of the Provincial Economic Review and Outlook (PERO) by the Free State Provincial Treasury's Economic Analysis Directorate. The document is purposefully divided into four chapters. Chapter 1 highlights issues related to global and national economic performance and outlook. In Chapter 2, the performance of the Free State economy is discussed in detail, and forecast into the near future are made. In Chapter 3, the focus shifts towards analysis of the Labour Market at a global, national and provincial level. Chapter 4 concludes with an analysis of the economies of the district municipalities. What follows below is a summary of the major findings from the four chapters.

GLOBAL MACROECONOMIC PERSPERCTIVE

The year 2013 spelt a new era in post-recession World economy, with glimpse of the "old guard" economies, having their houses in order and commandeering the economy forward. For the first time in five years, the advanced economies have shown greater improvements, compared to the "new kids on the block", in reference to the emerging and developing economies.

World output growth is forecast to reach 3.2% in 2013 and 4.0% in 2014. According to the IMF 2013 July Update, growth in the emerging market and developing economies is expected to evolve at a more moderate pace than earlier anticipated, with some 0.25 percentage points slower than in the IMF's April 2013 WEO. The anticipation is that growth in the region to hover at 5.0% during 2013 and improve ever so marginally to about 5.5% in 2014.

Therefore, in agreement with the national Treasury, the world economy has changed dramatically over the past five years. The sea change signaled by the growth of emerging markets in world trade and investment poses challenges and opportunities for South Africa. The South African economy has begun to adapt to these changed patterns. At the same time, global financial and monetary trends, new technologies, urbanisation, climate change and demographic shifts pose complex challenges for both industrialised and emerging economies. According to the World Bank (2014), South Africa's economic growth probably moderated to 1.9% in 2013 from 2.5% in 2012 due to "structural bottlenecks", "tense" labour relations and weak external demand. The world institution was, however, more optimistic about growth prospects in South Africa in the years ahead. It forecast GDP growth of 2.7% in 2014, 3.4% next year and 3.5% in 2016 in its latest Global Economic Prospects report.

FREE STATE ECONOMIC PERFORMANCE AND OUTLOOK

The second chapter of the 2013 Free State Provincial Economic Review and Outlook explores the provincial economic performance over the last eleven years, covering the symptomatic global financial crisis of 2009 and its impact of the provincial growth and the transcendental effects on the provincial household's. The chapter furthermore, using IHS Global Insight data, paints a portrait in terms of the future direction of the provincial economy, as things stood, in the drafting of the 2013 FSPERO.

The Free State economy was initially premised on a sound and robust Primary sector. However over the recent past it has mutated to a rather progressive. According to the 2013 FSGDS, in the Free State economy, about 30 years ago, the primary sector contributed more than 50% to the provincial economy compared to the 13% in 2010. Whilst this trend is often interpreted as a sign of a maturing economy, it represents de-industrialisation. The industrial base of the provincial economy exhibits the features and vulnerabilities of the minerals-energy complex. Although the Mining sector was historically the mainstay of the provincial economy, its contribution dropped from 16% of the provincial output in 1996 to 9% in 2010. This led to a decline in employment by the sector from 180 000 in 1980 to 33 000 in 2010 (Free State 2030 Vision)

The Free State Provincial economy has circumnavigated through the pressures broad about by the 2009 Global Financial crisis – that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory, and as such registering a below par growth of 2.1%. This minute growth is in spite of the happenings in both the Eurozone area and the United States, which have resuscitated the topical issue of a double dip recession. Post Global Financial crisis, the provincial growth has averaged just over 2%, and thus not near the pre-recession average of 3.2%.

There is a growing lower and middle class cohort in the province. However, this trend can be chiefly attributed to, among factors, a growing dependency on the Social Grants by households in the province, as the province has not significantly created employment opportunities since the 2009 Global Financial crisis.

What is pleasing is the fact that the provincial economy is set to transcend on a positive growth trajectory over the forecasted period by IHS Global Insight, anticipated to hover around the 3% mark.

What continues to bedevil the provincial economy is the perennial question of what strategies are needed to revitalise the economy, and thus create sufficient employment opportunities, as the province is now tagged the worst performer in job creation. As things stand the provincial economy or the province has an unemployment rate of 34.0%. A concerted effort is required by both the private sector and government to harness the economy of the province and make it a viable option for investment in Africa, and the world. The provincial economy needs to be critically assessed and inferential policy stance should be understood and adopted to create a world class economy in South Africa.

LABOUR MARKET ANALYSIS

Labour market analysis can be defined as the economic study of the dynamic relationship between employees and employers in the regional, national, or global labour market. To better understand the nature of unemployment, policymakers need information on many aspects of it, including, amongst others, the number of unemployed people, the period of time for which they have been unemployed, their skill levels, the trend in unemployment, regional disparities in unemployment and so on. The purpose of this chapter is, therefore, to avail such information in order to influence policy direction.

The effects of the global economic downturn of 2007/08 continue to be felt throughout the labour market. According the International Labour Organization (2013), it is estimated that around 197 million people worldwide did not have a job in 2012 and many millions more have simply dropped out of the labour force because they are too discouraged to continue looking for work. Furthermore, about 39 million people are said to have dropped out of the labour market as job prospects proved unattainable, opening a 67 million global jobs gap since 2007. Young people remain particularly stricken by the crisis. Going forward, the future still looks bleak; the ILO finds that despite a moderate pick-up in output growth expected for 2013/14, the unemployment rate is set to increase further and the number of unemployed worldwide is projected to rise by 5.1 million in 2013, to more than 202 million in 2013 and by another 3 million in 2014.

Unemployment remains a mammoth challenge for South Africa. The official unemployment rate is estimated at 25%, whiles the broad unemployment rate, including those wanting work but not actively seeking it, is said to be closer to 35%. The 2009 economic recession had a severe impact on the national labour market with employment levels decreasing by 2.6% and 1.0% in 2009 and 2010 respectively. Employment growth levels are yet to reach the pre-recession levels of growth, only growing by 2.3% in 2012 compared to 5.7% in 2008.

The Free State Province has the highest provincial unemployment rate in the country, estimated at 34.0% in the third quarter of 2013. The rate of unemployment is more prominent among the African population and females in particular. Although the number of people employed in the Free State has increased, the unemployment rate is on an upward trend. The biggest employer in the province remains the community services with a substantial share of 28% of total provincial employment, followed by trade (19%), households (14%) and agriculture (13%). On the other side of the coin, the smallest employers are electricity (1%), transport (4%), construction (4%) and mining (5%).

MUNICIPAL ECONOMIC PERFORMANCE

The purpose of this chapter is to highlight the importance, characteristics, difficulties and outlook of the municipalities within the Free State Province and how they affect the provincial stratosphere.

Fezile Dabi district municipality is the biggest contributor towards the provincial GDP, contributing approximately 35%, followed by Mangaung with a share of 31%. Lejweleputswa and Thabo Mofutsanyane contribute 17% and 14% respectively, while Xhariep is the smallest with a share of 3%.

Fezile Dabi, as the fastest growing district over the past eight years, has consistently grown above the provincial growth rate. During the period 2005 to 2012, the district's economy grew by 4.8% on average compared to the provincial average growth of 2.6%. The second fastest growing region during the period under review was Xhariep (3.1), followed by Thabo Mofutsanyane (2.8%). Lejweleputswa and Mangaung were the slowest growing economies with 0.3% and 1.6% growth rates respectively

Mangaung is the biggest employer in the province, employing 30% of the people employed in the province. Fezile Dabi, the biggest regional economy in the Free State with a GDP share of around 35%, only employs 19% of the employed in the province. As is the case with the ranking in terms of GDP, Lejweleputswa (24%) and Thabo Mofutsanyane (22%) hold the third and fourth positions respectively in terms of employment share. In During the period 2002 and 2012, Lejweleputswa's unemployment rate averaged 36.1% and Thabo Mofutsanyane averaged 33.5%. The region with the lowest average unemployment rate was Fezile Dabi (21.8%), followed by Xhariep (26.1%) and Mangaung (27.1%) respectively.

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CHAPTER 1:

GLOBAL MACROECONOMIC PERSPECTIVE

1.1 Introduction

The International Monetary Fund's (IMF) April 2013 World Economic Outlook (WEO), gave resounding and yet promising global economic prospects. According to the report, world economic prospects have improved; this is however the road to recovery in the advanced economies will remain rather bumpy. World output growth is forecast to reach 3.25% in 2013 and 4.00% in 2014. In advanced economies, activity is expected to gradually accelerate, starting in the second half of 2013. Private demand appears increasingly robust in the United States but still very sluggish in the Euro area. The activity and prospects in the emerging market and developing economies, has already picked up steam, and going forth, the IMF expects positive growth in the region.

According to the IMF WEO July update, the global economic growth is anticipated to remain rather subdued at slightly above 3% during 2013, depicting as resemblance of the 2012. The update furthermore contextualised the fact that, this projection is less than forecast in the April 2013 WEO, and is driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market economies, as well as a more protracted recession in the euro area. The downside risks to global growth prospects still dominate; whereas the old risks remain, and new risks have emerged, including the possibility of a longer growth slowdown in emerging market economies, especially given risks of lower potential growth, slowing credit, and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the United States leads to sustained capital flow reversals.

Robust global growth will require additional policy action, specifically, in the major advanced economies should maintain a supportive macroeconomic policy mix, combined with credible plans for reaching medium-term debt sustainability and reforms to restore balance sheets and credit channels. In the case of the emerging market and developing economies, many still brace themselves for a tradeoff between macroeconomic policies to support weak activity and those to contain capital outflows. Macro-prudential and structural reforms can help make this tradeoff less stark (July 2013; WEO Update).

In a rather glaring view at the Regional Economic Outlook (REO) of the Sub-Saharan Africa, the IMF anticipate that growth in the region to remain strong, with regional GDP rates increasing in most countries (with the exclusion of Nigeria and South Africa). The IMF Regional Economic Outlook points to a moderate, but broad-based acceleration in growth to around 5.5% in the 2013-14 financial year. Thus, reflecting a gradually strengthening global economic sentiment and robust domestic demand. Investment in the export-oriented sectors remains an important economic driver in the region, and the resurgence in the agricultural sector, which is mostly identified in the drought-ravaged areas, will also help growth. Uncertainties in the global economy are the main risk to the Sub-Saharan regional outlook; however the IMF posits that, plausible adverse shocks could in all likelihood not have a large effect on the region's overall economic performance.

As the world economic prospects seem promising, the South African economic growth potential has reneged, and besieged economic experts and forecasters, with the question, what will happen now? The South African economy grew by an uninspired 0.9%, during the first quarter of 2013. Leading economic hubs, to both locally and internationally, have had to re-forecast growth, and the picture painted by their reviewed forecast, is rather worrisome. The IMF in July 2013 re-forecasted the economic growth potential of South Africa, and thus disheartening, anticipates the country would grow by a measly 2.4%. This is on the back of a 0.9% growth, which according to Stats SA, was supported by strong mining and quarrying industry and the finance industry, both growing by 0.7 of a percent. Not far off in the trail of the Mining and Finance industries, was the Government sector, which registered growth of 0.3 of a percentage points. Government has proved to be a consistent, companion of the South Africa's growth and growth potential.

Many Developmental practitioners often raise eyebrows at the impact and veracity of the influence the Government has on the economic growth and the potential, thereof, often citing, that a too large a government crowds out potential investment and private players. These South African policy-makers should review, and thus afford interrogation, and the drafting of new economic trajectory, premised on sound understanding on the dynamics at play.

The 2013 Free State Provincial Economic Review and Outlook (FSPERO), comes in amid the resurgence of a disquieting and yet bellowing economic storm, both in the global economic sense, as well as from a South African economic perspective. Thus this Chapter of the 2013 FSPERO would discernibly analyse the global economic happenings, through the analysis of data and literature provided by the IMF, and other reliable economic sources, both locally and internationally. It will furthermore, explore the intricacies of the Sub-Saharan African region, that is in economic perspective, this would be a first for the FSPERO, that thorough analysis of the region in undertaken. The South African economic trajectory looks rather woeful, and the time to review the course is upon us, thus the 2013 FSPERO, would focus on the tenets of the dread economic space that the economy is faced with. The chapter would conclude by rounding off all the critical avenues that require considered interrogation, and offer scientifically analysed recommendations.

1.2 The World economy – Hopes and Realities, as well as the Risks ahead

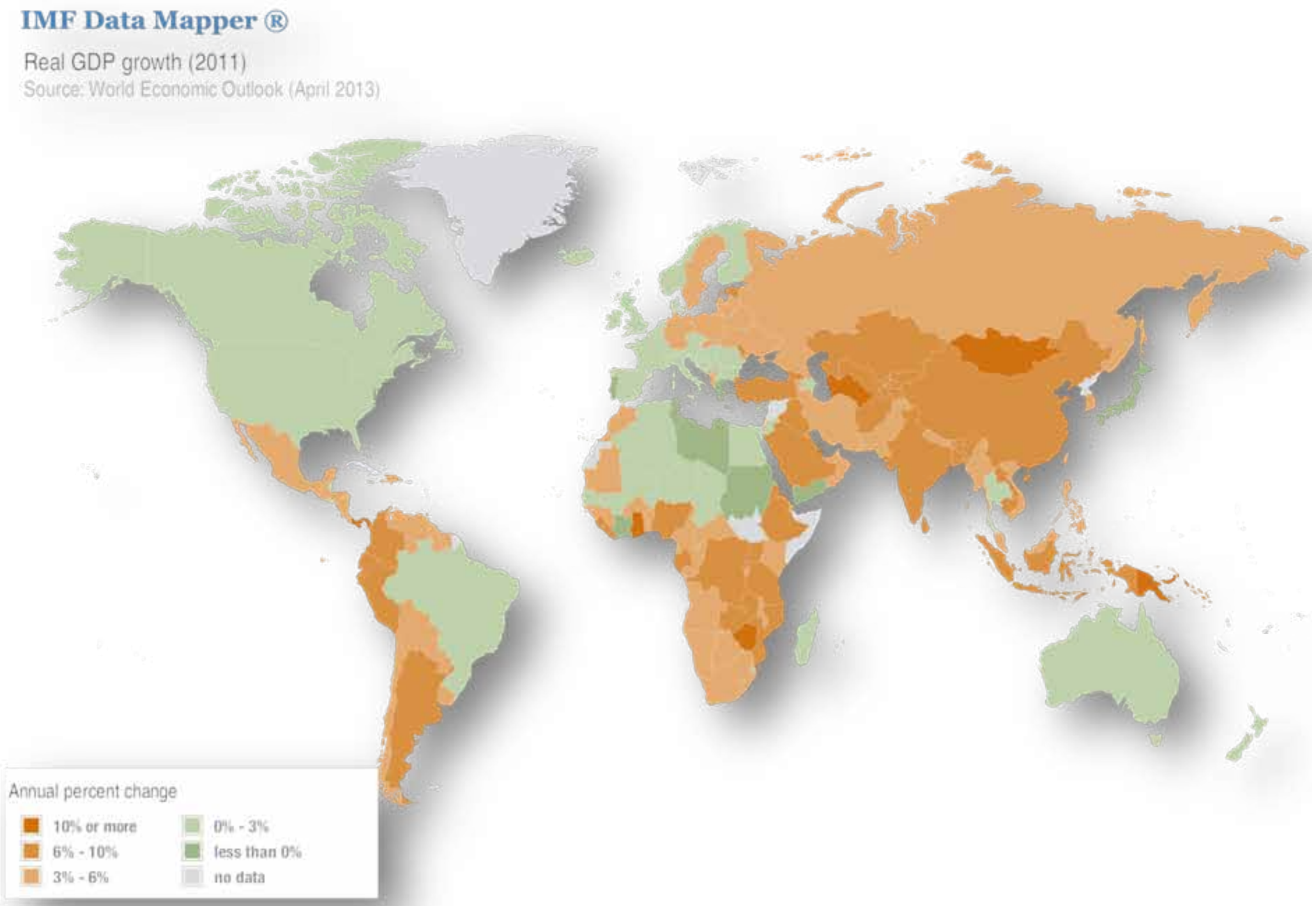
IMF's April 2013 World Economic Outlook (WEO) report, discernibly contrast the economic activity from a vantage point, wherein the Advanced Economies are contrasted to the Emerging and Developing economies point of view. From the studied economic data, the monetary body then postulates that there is a multi-speed growth in the world economy, and there appear no end or convergence in sight. In contextualising the current global economic predicament, the South African Reserve Bank's (SARB) June 2013 Monetary Policy Review (2013:14), states that although the trajectory for the global economy in 2013, has not changed since the third quarter of 2012, the economic outcomes in key areas have begun to diverge.

That is, giving rise to the characterisation of a multi-speed global recovery in economic activity, with more rapid growth experienced in the emerging-market and developing economies, more so in the developing Asia. This is in contrast to the, continued weak outcomes in Europe and a stronger-than-anticipated recovery in economic activity in the United States. Furthermore the SARB (2013:14), posits that in the absence of demand pressures, and with the expected softening of food and oil prices, the inflationary pressures in all likelihood would remain rather timid, in most advanced and the emerging-market economies.

In a speech prepared for and delivered by the David Lipton, First Deputy Managing Director IMF, he conceded that "*most recent forecast shows that the world economy is slowly strengthening. But we still are not seeing growth anywhere near the levels before the 2008 crisis. While financial markets have recovered, the real economy continues to lag in many countries—and that means there is not enough growth to generate jobs for the millions who have lost their jobs over the past five years. Our most recent forecasts see global growth of 3.3% this year, and 4% in 2014. We are seeing a three-speed global recovery, but we need a full-speed recovery, which means strong, sustained, and balanced growth. Emerging markets and developing countries generally have been doing well, and some advanced economies are showing signs of recovery while others still have a way to go*".

The First Deputy Managing Director furthermore retold that "*the IMF doesn't see Europe returning to growth before 2014, and then at a modest 1 percent rate. He postulated that the countries in the Southern part of Europe remain mired in deep recession, and growth is weak among the core economies. The banking system is unable to provide much-needed credit in many countries, and business investment is falling. Unemployment continues to rise to unacceptable levels. Europe's problems require both national and collective actions. Fiscal policy is crucial. Countries that can afford to support their economies need to do so—and in ways that encourage the private sector to invest and boost demand. Others will need a sustained commitment to adjustment to ensure sustainable public finances. On monetary policy front, the European Central Bank has protected monetary union with the LTRO bank funding scheme and the conditional Outright Monetary Transactions (OMT) monetary transmission preservation scheme. But more needs to be done to get credit channels functioning again. Additional unconventional monetary measures may be required.*

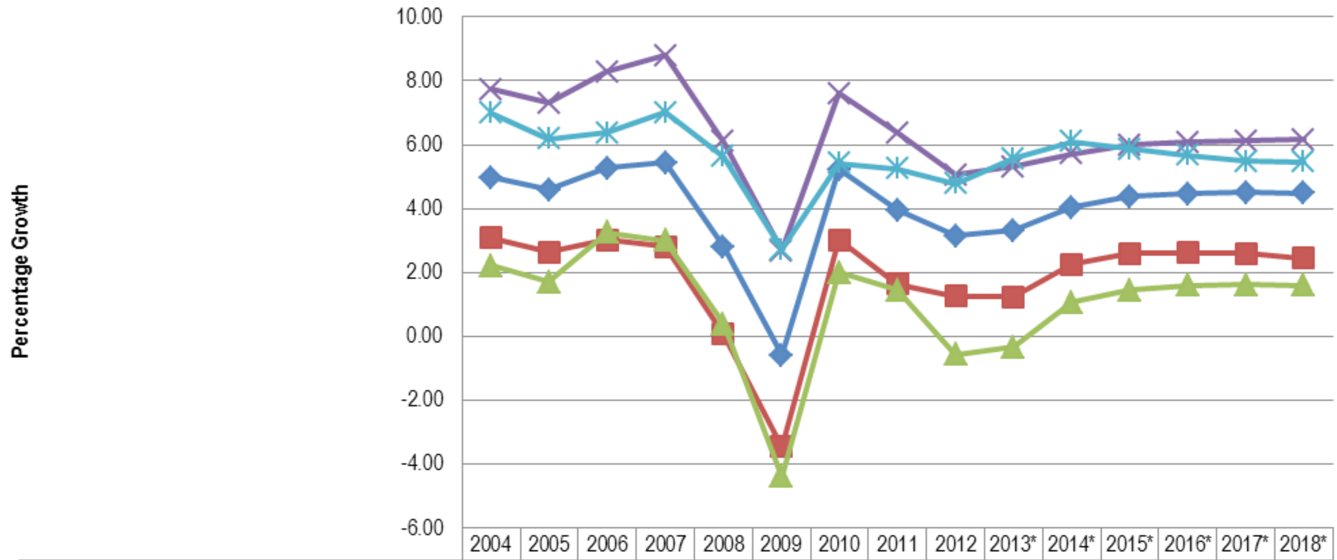
Graphic 1.1: Geographical depiction of Real GDP Growth in 2011 - IMF



Source: International Monetary Fund – IMF Data Mapper

The graphic above depicts the world real GDP growth during 2011, and the North American, in the true sense of the word a pixilated contrast were in the green, with economies in the region facing growths level between 0% and 3%, growth during the financial year. Whilst in total contrast the Asia and Europe, were in the brown, in this instance being in the brown meant being on the expeditious growth trajectory. Meanwhile on the African continent a mix-bag of growth is captured. As most countries in the region registered growth rates of between 3% and 10%, whilst there were some which negated to record below, par growth of between 0% and 3%, and those with less than 0 percent (Egypt, being a case in point, that is following the ousting of the President Mubarak in 2012).

Figure 1.1: IMF World Real GDP Growth in 2004 - 2018



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*	2016*	2017*	2018*
World Economy	4.97	4.58	5.27	5.44	2.81	-0.59	5.22	3.95	3.15	3.31	4.04	4.37	4.46	4.51	4.49
Advanced economies	3.09	2.64	3.03	2.80	0.07	-3.47	3.01	1.63	1.25	1.23	2.25	2.58	2.61	2.60	2.45
Euro area	2.20	1.71	3.25	3.00	0.38	-4.39	2.01	1.45	-0.58	-0.34	1.07	1.45	1.60	1.62	1.61
Emerging market and developing economies	7.73	7.32	8.28	8.79	6.09	2.67	7.61	6.37	5.06	5.31	5.72	5.98	6.08	6.12	6.15
Sub-Saharan Africa	7.00	6.18	6.38	7.02	5.63	2.72	5.42	5.26	4.79	5.57	6.10	5.86	5.67	5.48	5.45

Source: International Monetary Fund – April 2013_World Economic Outlook

According to the SARB June Quarterly Bulletin, the first quarter of 2013 permeated hesitant global economic recovery, which however continued at a somewhat firmer pace, as a slackening in the rate of expansion in the developing economies was more than fully contradicted by improved real growth in the advanced economies, particularly in the United States (US) and Japan. Economic activity in the euro area contracted further over the period, with already fragile confidence being undermined towards the end of the quarter by developments in Cyprus. Among the developing countries China experienced lower-than-expected growth in the first quarter, although still expanding at more than twice the pace of overall global output. While the outlook for economic activity in sub-Saharan Africa remained positive, a number of setbacks detracted from the region's growth momentum in the early part of the year.

Figure 1.1, depicts a somewhat improved growth momentum in the world economies, more so in the advanced economies. Comparing 2004 and 2012, it is abundantly clear that the world economy has not been able to relive the heightened growth figures of yesteryear, as it recorded a woeful growth of 3.2%, as compared to the 5% reached in 2004, spelling a negative growth of 4.1%, on an annualised basis. The IMF projects, that growth in the world output would improve and thus average 4.2%, during the period 2013 until 2018. However, this average appears to be rather muted, as compared to its heyday, which is the period 2004-2007, when it averaged 5.1%.

Advanced economies continued to make a smaller contribution to world output growth than emerging-market economies. IMF projects that output in the advanced economies will grow by 1.2%, during 2013 marginally lower than the pace of increase in 2012. The IMF expects growth of 2.1% in 2014, these were revised down from the projections made in April 2013, thus a 0.2% downward adjustment. Although a more carefully designed fiscal adjustment could have yielded about 3.1%.

Table 1.1: Overview of the World Economic Outlook Projections

	Year over Year				Difference from April 2013 WEO Published		Q4 over Q4		
			Projections				Estimates	Projections	
	2011	2012	2013	2014	2013	2014	2012	2013	2014
World Output	**3.9**	**3.1**	**3.1**	**3.8**	**–0.2**	**–0.2**	**2.6**	**3.5**	**3.7**
Advanced Economies	**1.7**	**1.2**	**1.2**	**2.1**	**–0.1**	**–0.2**	**0.7**	**1.8**	**2.2**
United States	1.8	2.2	1.7	2.7	–0.2	–0.2	1.7	2	3.1
Euro Area	1.5	–0.6	–0.6	0.9	–0.2	–0.1	–1.0	0.3	1.1
Germany	3.1	0.9	0.3	1.3	–0.3	–0.1	0.3	1.1	1.2
France	2	0	–0.2	0.8	–0.1	0	–0.3	0.5	0.6
Italy	0.4	–2.4	–1.8	0.7	–0.3	0.2	–2.8	–0.9	1.4
Spain	0.4	–1.4	–1.6	0	0	–0.7	–1.9	–0.7	0
Japan	–0.6	1.9	2	1.2	0.5	–0.3	0.4	3.5	0.2
United Kingdom	1	0.3	0.9	1.5	0.3	0	0.2	1.1	1.7
Canada	2.5	1.7	1.7	2.2	0.2	–0.2	1	2	2.4
Other Advanced Economies	3.3	1.8	2.3	3.3	–0.1	–0.1	2	3	3.2
Emerging Market and Developing Economies	**6.2**	**4.9**	**5**	**5.4**	**–0.3**	**–0.3**	**5**	**5.6**	**5.6**
Central and Eastern Europe	5.4	1.4	2.2	2.8	0	0	0.8	3.6	2.5
Commonwealth of Independent States	4.8	3.4	2.8	3.6	–0.6	–0.4	1.3	3.3	2.9
Russia	4.3	3.4	2.5	3.3	–0.9	–0.5	2	3.6	2.5
Excluding Russia	6.1	3.3	3.5	4.3	0	–0.3	. . .	. . .	. . .
Developing Asia	7.8	6.5	6.9	7	–0.3	–0.3	6.9	7	7
China	9.3	7.8	7.8	7.7	–0.3	–0.6	7.9	7.9	7.6
India	6.3	3.2	5.6	6.3	–0.2	–0.1	3	6	6.6
ASEAN-5	4.5	6.1	5.6	5.7	–0.3	0.2	9.1	5.5	5.1
Latin America and the Caribbean	4.6	3	3	3.4	–0.4	–0.5	2.8	2.9	3.5
Brazil	2.7	0.9	2.5	3.2	–0.5	–0.8	1.4	2.6	3.5
Mexico	3.9	3.9	2.9	3.2	–0.5	–0.2	3.3	3.6	2.4
Middle East, North Africa, Afghanistan, and Pakistan	3.9	4.4	3.1	3.7	–0.1	0	. . .	. . .	. . .
Sub-Saharan Africa	5.4	4.9	5.1	5.9	–0.4	–0.2	. . .	. . .	. . .
South Africa	3.5	2.5	2.0	2.9	–0.8	–0.4	2.3	2.3	3
Memorandum Items									
European Union	1.7	–0.2	–0.1	1.2	–0.1	–0.1	–0.6	0.7	1.3
Middle East and North Africa	4	4.5	3	3.7	–0.1	0.1	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.9	2.4	2.4	3.2	–0.1	–0.2	1.8	2.8	3.1
World Trade Volume (goods and services)	**6.0**	**2.5**	**3.1**	**5.4**	**–0.5**	**0.1**	**. . .**	**. . .**	**. . .**
Imports									
Advanced Economies	4.7	1.1	1.4	4.3	–0.8	0.1	. . .	. . .	. . .
Emerging Market and Developing Economies	8.7	5	6	7.3	–0.2	0	. . .	. . .	. . .
Exports									
Advanced Economies	5.6	2	2.4	4.7	–0.4	0.2	. . .	. . .	. . .

Emerging Market and Developing Economies	6.4	3.6	4.3	6.3	–0.5	–0.2	. . .	. . .	. . .
Commodity Prices (U.S. dollars)									
Oil	31.6	1	–4.7	–4.7	–2.4	0.2	–1.2	–4.1	–3.8
Nonfuel[1]	17.9	–9.9	–1.8	–4.3	–0.9	0	1.2	–4.5	–2.3
Consumer Prices									
Advanced Economies	2.7	2	1.5	1.9	–0.1	0	1.8	1.6	2.1
Emerging Market and Developing Economies	7.1	6.1	6	5.5	0.1	–0.1	5.2	5.4	4.9

Source: International Monetary Fund, July World Economic Update, 2013

According to the IMF 2013 July Update, growth in the emerging market and developing economies is expected to evolve at a more moderate pace than earlier anticipated, with some 0.25 percentage points slower than in the IMF's April 2013 WEO. The anticipation is that growth in the region to hover at 5.0% during 2013 and improve ever so marginally to about 5.5% in 2014, thus a telling 10% between 2013 and 2014. The downward moderation in economic activity pace embodies weaker prospects across all regions.

The *Economist* (www.economist.com), drawing inference from data provided by the IMF, conceded that from 2003 to 2011 the share of world output provided by the emerging-market and developing economies grew at an advanced pace than a percentage point a year. The remarkably rapid growth the world has seen in these two decades marks the biggest economic transformation in modern economic history. The *Economist* furthermore posits that the feat like this will probably never be seen again. Growth rates in all the BRICs have dropped, as compared to the heyday.

The nature of their growth is in the process of changing, too, and its new mode will have fewer direct effects on the rest of the world. The likelihood of growth in other emerging economies having an effect in the near future comparable to that of the BRICs in the recent past is low; they do not have the potential for catch-up the BRICs had in the 1990s and 2000s. And the BRICs' growth has changed the rest of the world economy in ways that will dampen the disruptive effects of any similar surge in the future. The emerging giants will grow larger, and their ranks will swell; but their tread will no longer shake the Earth as once it did (www.economist.com).

In **China**, growth will average 7.75% in 2013-14, 0.25 and 0.5 percentage points lower in 2013 and 2014, respectively, than the April 2013 forecast. Forecasts for the remaining BRICS have been revised down as well, by 0.25 to 0.75 percentage points. The outlook for many commodity exporters (including those among the BRICS) has also deteriorated due to lower commodity prices. Growth in sub-Saharan Africa will be weaker, as some of its largest economies (Nigeria, South Africa) struggle with domestic problems and weaker external demand. Growth in some economies in the Middle East and North Africa remains weak because of difficult political and economic transitions. In sum, global growth will recover from slightly above 3% in 2013 to 3.75% in 2014, some 0.75% weaker for both years than the April 2013 projections.

Downside risks, old and new, still dominate the outlook. Although imminent tail risks in advanced economies have diminished, additional measures will be needed to keep them at bay, including timely increases in the U.S. debt ceiling and continued "*do what it takes*" action by the euro area authorities to avoid a sharp deterioration in financial conditions. In contrast, risks of a longer growth slowdown in emerging market economies have now increased, due to protracted effects of domestic capacity constraints, slowing credit growth, and weak external conditions.

Important to note that the IMF forecasts assume that the recent rise in financial market volatility and the associated yield increases will partly reverse, as they largely reflect a one-off re-pricing of risk due to the changing growth outlook for emerging market economies and temporary uncertainty about the exit from monetary policy stimulus in the United States. However, if underlying vulnerabilities lead to additional portfolio shifts, further yield increases, and continued higher volatility, the result could be sustained capital flow reversals and lower growth in emerging economies (http://www.imf.org/external/pubs/ft/weo/2013/

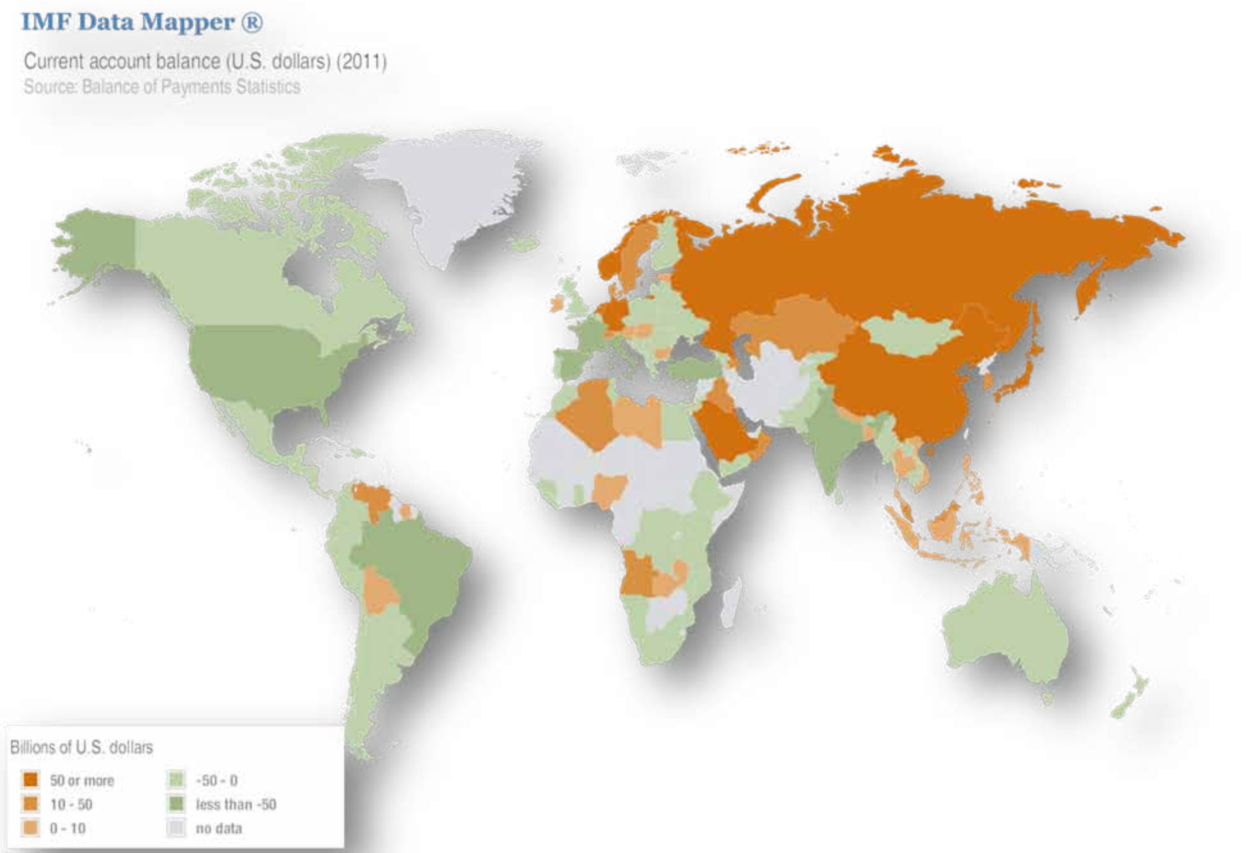
update/02/index.htm).

1.3 World Trade Performance in Perspective

The logic of **International Trade**, exports and imports, is grounded in the benefits to be derived from the division of labour and hence, specialisation. Specialisation, which causes efficiency in production, results in surplus production that, has to be traded. Adam Smith, who brought this to the fore in his classic work, *The Wealth of Nations (1776),* when he argued that the size of the market can be a constraint. This situation applies to the individual worker and firm but can be extended to apply to a town, region and nation. Essentially, what Adam Smith has argued is that the wealth of the individual and the nation is determined by specialisation and consequently trade. In the wake of Adam Smith's ground-breaking work many other theoretical developments refined our understanding of the role of trade in economic activity with the most recent work that emphasis's the existence of external economies, integrating trade theory and economic geography.

Globalization is neither inevitable nor irreversible. Technology – especially transport and communications – has been the main driver of global economic integration over the past 200 years. But political forces have also played a powerful role, sometimes helping to manage and cushion integrationist pressures, and at other times resisting or even reversing them (World Trade Organisation; 2013 World Trade Report: 05). Most of the 19th century and the early years of the 20th century produced the first great globalization. The years between 1914 and 1945, however, stand out as a period of dramatic "de-globalization". The combined shocks of the First World War, the Great Depression and the Second World War saw countries pull back from global integration and turn to more nationally focus and state-directed economic models. The world economy became more fragmented and international trade declined over this period.

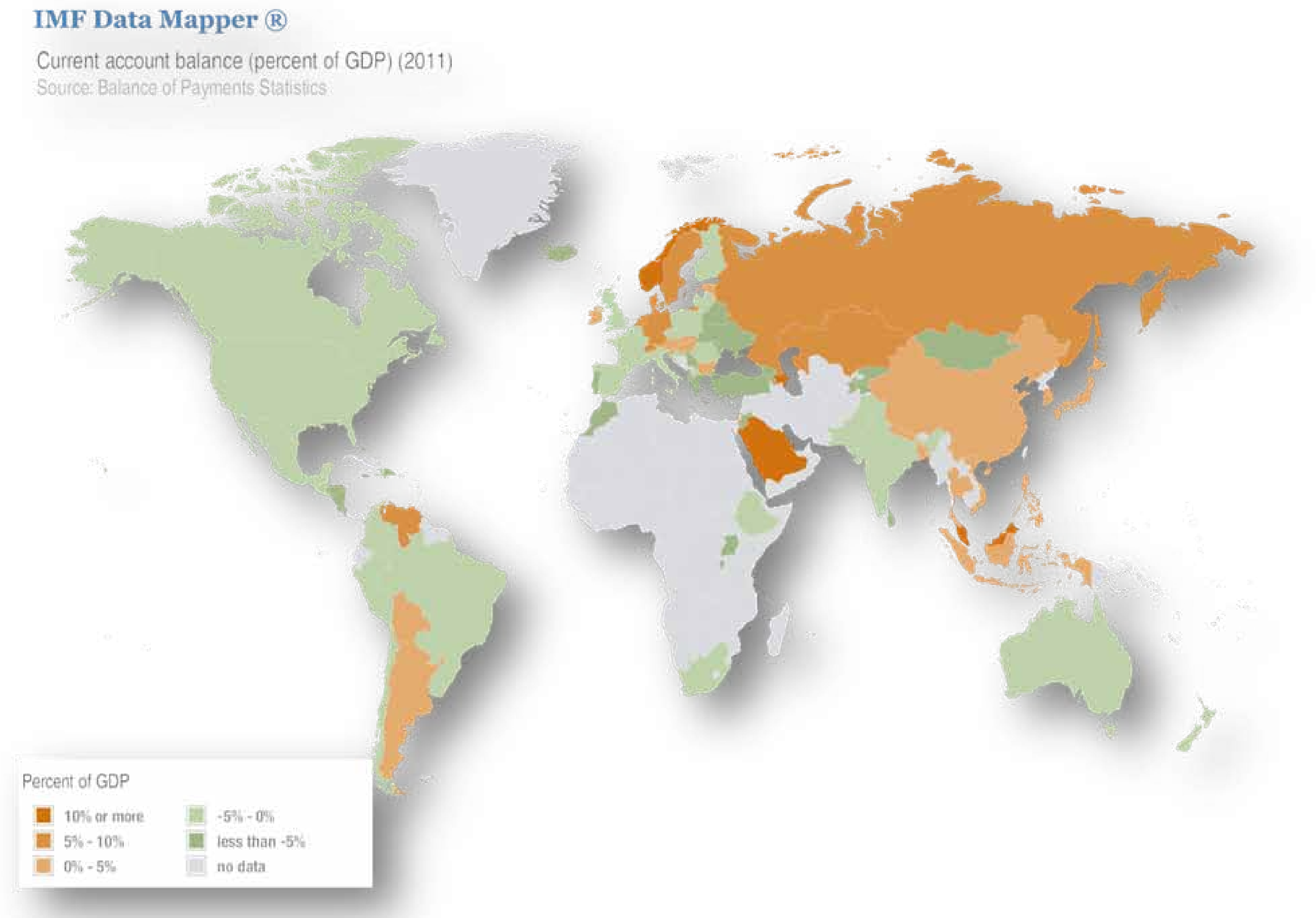
Graphic 1.2: Geographical depiction of Current Account Balance in US Dollar during 2011 - IMF



Source: International Monetary Fund – IMF Data Mapper, 2013

The WTO Report further traces the evolution of the global trade in brief and thus retrospectively. And thus, posits that the trends were reversed after 1945 as the world economy progressively "re-globalized" following the devastation of war and depression. A novel difference in the second age of globalization was the creation of international institutions – the United Nations, the International Monetary Fund (IMF), the World Bank, the General Agreement on Tariffs and Trade (GATT – later the WTO). These institutions were to keep the peace and curtail the economic nationalism and beggar-thy-neighbour policies that had done so much to destroy international stability in the first half of the 20th century. Globalization is unlikely to thrive in the absence of effective international political cooperation.

Graphic 1.3: Geographical depiction of Current Account Balance as a percent of GDP during 2011 - IMF



Source: International Monetary Fund – IMF Data Mapper, 2013

Trade takes place in a broad economic, societal and political context. This context matters for trade policy decisions. Historically, social and macroeconomic concerns have repeatedly influenced decisions in trade policy matters. Both themes are currently again high on the political agenda. Another issue that has rapidly been gaining prominence in national, regional and global policy debates is environmental sustainability. To put context in the realm of **International trade**, and its significance in the country's economy, the graphic below depicts the current account[1] balance in US dollar per country. Most of the African countries do not have data and thus cannot be critically analysed. The Northern American region indicates that most countries in that spatiality have recorded negative current account balances as a percentage of GDP, hovering around the -5% to – 0% mark. The former Soviet Union and the Asian countries depict a rather healthy current account balances, in the range of 5% and 10%.

1 According to the International Monetary Fund, Current Account indicates and thus refers to the flows of goods, services, primary income and secondary income, between residents and non-residents during a given period say a year. The balance between the two accounts is referred to as current account balance, and indicates the difference between the sum of exports and the income receivable, as well as the sum of imports and the income payable. The value of the current account equates to the saving-investment gap in an economy, in a particular country.

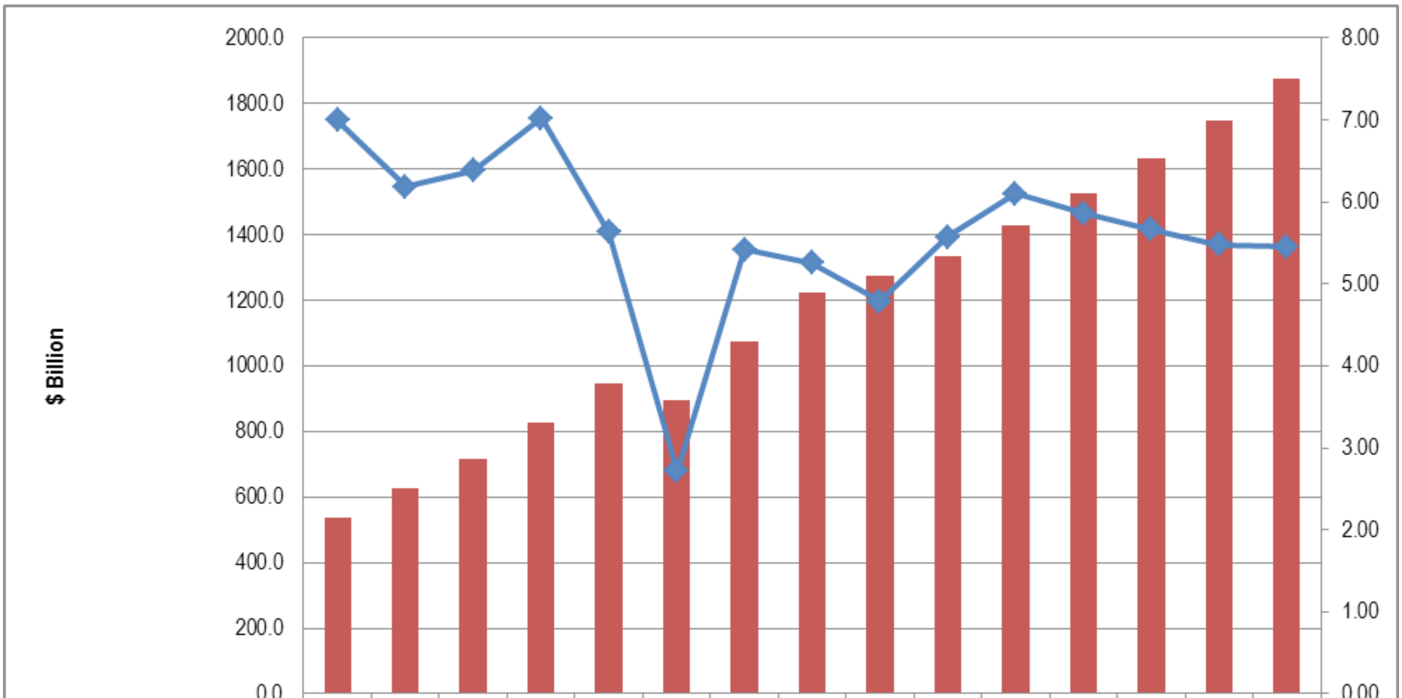
1.4 Sub-Saharan Africa: The beacon of the emerging markets and developing economies

Most Economic pundits often peddle the BRICS (i.e. Brazil, Russia, India, China and lately South Africa) group of nations, as the darlings of the emerging-market and the developing economies. The logic and somewhat context to the thinking, is often precipitated by the magnanimity of the group, constituting about 42% (roughly 2.95 billion people) of the Global population, and a relatively young populace. Thus the rational would be potential market in these economies, with the inclusion of South Africa in 2012, taught as the gate way in to Africa, wherein almost a billion potential market players reside. In 2009, before the inclusion of South Africa, the BRICs nations contribute about two thirds of the world economic growth, and were left unscathed by the global financial crisis, that permeated the world over.

However this section of the 2013 FSPERO, would attempt to quell this unfortunate myth, by revealing the major role players in the Sub-Saharan Africa region. And would do this through a scientific qualifying mechanism, rather than hearsay, that is discern, what the proponents of strong economic growth are. Through deductive reasoning establish the unsung embryonic economies of the Sub-Saharan African region, a region once thought to be an ill-gotten region, beset and ravaged by the HIV/AIDS pandemic, no adherence to the rule of law and no economic potential.

Despite its unfortunate past, the Sub-Saharan African region has continued to churn out unheralded growth rates, however, the cautious once always, argue that the region's growth is premised from insignificant basis. In much simpler terms, most Economist caution that one should not be mesmerised by a 40% growth, but rather a contextualisation of the growth should be completed first The region grew by a surprising 4.3% during the height of the Global Financial Crisis of 2009, and continued on the growth momentum to register growths of 5.3% and 5.4%, in 2010 and 2011, respectively. In July 2012, the IMF projected the Sub-Saharan region to grow by 5.4%, following on the growth momentum assimilated during 2010 and 2011; however, the region reneged on the promising growth potential to record growth of 4.8%.

Figure 1.2: Sub-Saharan Africa's real GDP growth and GDP at current prices – 2004 until 2018

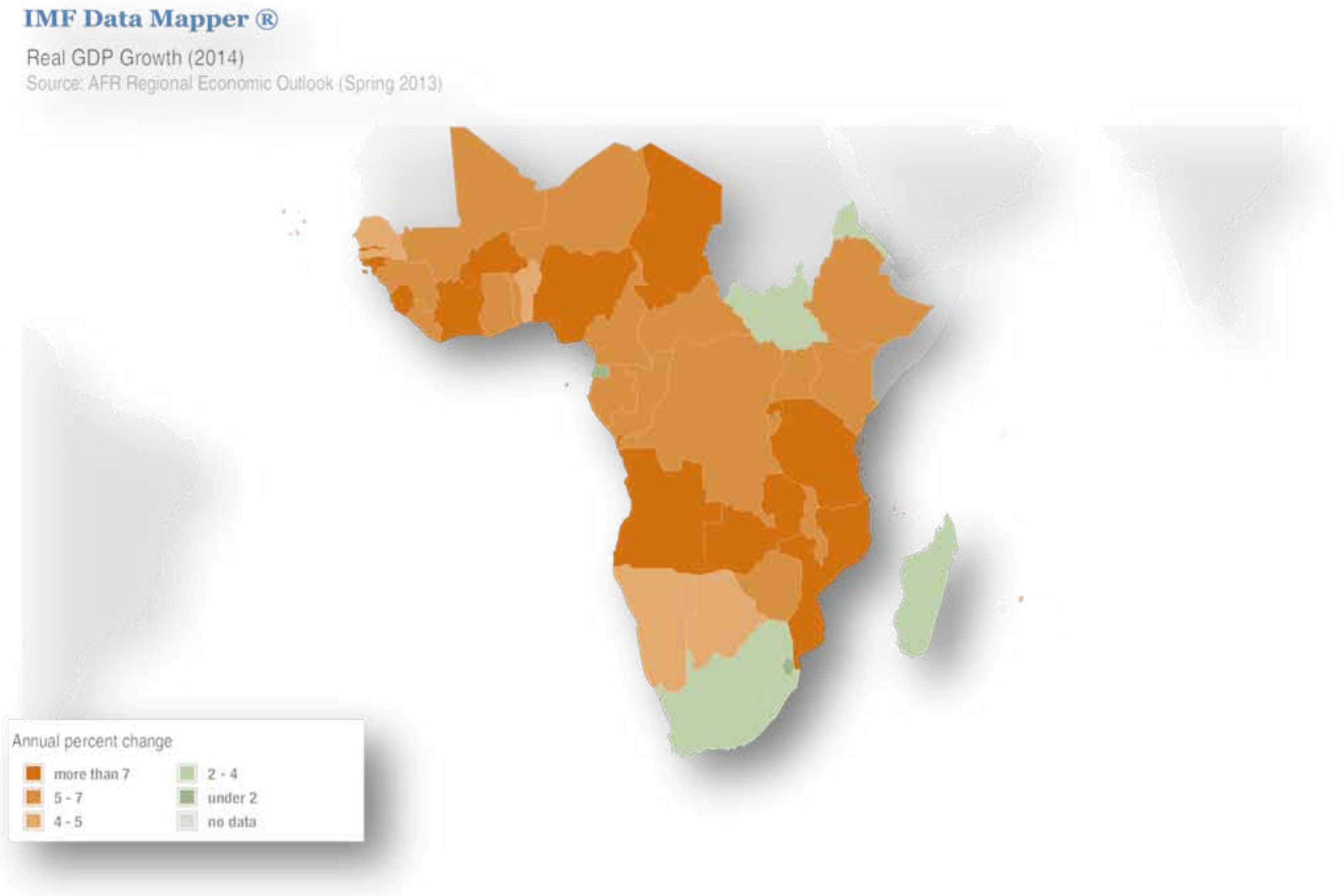


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	2015*	2016*	2017*	2018*
SSA_Current Prices	537.9	627.6	717.7	828.8	945.3	895.9	1075.5	1225.3	1273.4	1332.8	1426.1	1526.3	1634.4	1750.1	1877.1
SSA_growth	7.00	6.18	6.38	7.02	5.63	2.72	5.42	5.26	4.79	5.57	6.10	5.86	5.67	5.48	5.45

Source: International Monetary Fund, Regional Economic Outlook, 2013

According to the IMF, the Gross Domestic Product, which is the most commonly, used single measure of a country's overall economic activity, that is representing the total value at constant prices of final goods and services, produced in a country during a given or specified time period, such as in a year. The indication from the projections by the global economic body (IMF), are that the region could return to the above five percent mark in 2013, to record growth of 5.6%. The growth and growth potential growth remained strong in the region in 2012, with regional GDP rates increasing in most countries (excluding Nigeria and South Africa). IMF projections, point to a moderate, broad-based acceleration in growth to around 5.5% in 2013 (5.6%) and 2014 (6.1%), thus spelling gradual strengthening of the global economy and robust domestic demand.

Graphic 1.4: Sub-Saharan African regional real GDP Forecast Growth in 2014 - IMF



Source: IMF Data Mapper, 2013

The graphic above depicts the real GDP forecast growth in the Sub-Saharan African region, which is amongst the fastest growing regions in the world. As the world economic output hovers around the 3% mark, whilst those of the advanced economies made palsy growth of 1.3%, the Sub-Saharan region has bolstered growth rates between five and seven percentage points. Out of the 45 Sub-Saharan states, only four managed to record negative growth rates during 2012. Amongst, the four (i.e. Mali (-1.2%), Swaziland (-1.5%) and Guinea-Bissau (-1.5%)), included is the newly independent state of South Sudan, which recorded a woeful growth of -55%. However, for 2013 and 2014 the IMF anticipates the youngest country in the World, Republic of South Sudan, to recoup and make inroads to record a solid 69.6%, and moderate to 3.3% growth.

Table 1.2: Sub-Saharan Africa's Real GDP Growth (Annual percent change), per country

Country	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*	2014*	Average	Growth %	Annualised	Difference
Angola	11.2	20.6	20.7	22.6	13.8	2.4	3.4	3.9	8.4	6.2	7.3	11.0	-25.0	-2.8	-2.8
Benin	3.1	2.9	3.8	4.6	5	2.7	2.6	3.5	3.8	4.1	4.1	3.7	22.6	2.5	0.7
Botswana	6	1.6	5.1	4.8	3	-4.7	7	5.1	3.8	4.1	4.2	3.6	-36.7	-4.1	-2.2
Burkina Faso	4.5	8.7	6.3	4.1	5.8	3	7.9	4.2	8	7	7	6.0	77.8	8.6	3.5
Burundi	3.8	4.4	5.4	4.8	5	3.5	3.8	4.2	4	4.5	5.1	4.4	5.3	0.6	0.2
Cameroon	3.7	2.3	3.2	2.8	3.6	1.9	3.3	4.1	4.7	5.4	5.5	3.7	27.0	3.0	1
Cape Verde	4.3	6.5	10.1	8.6	6.2	3.7	5.2	5	4.3	4.1	4.5	5.7	0.0	0.0	0
Central African Republic	2.6	2.5	4.8	4.6	2.1	1.7	3	3.3	4.1	4.3	6	3.5	57.7	6.4	1.5
Chad	33.6	7.9	0.2	0.2	1.7	-1.2	13	0.5	5	8.1	10.5	7.2	-85.1	-9.5	-28.6
Comoros	-0.2	4.2	1.2	0.5	1	1.8	2.1	2.2	2.5	3.5	4	2.1	-1350.0	-150.0	2.7
Congo, Dem. Rep. of the	6.6	7.8	5.6	6.3	6.2	2.8	7.2	6.9	7.1	8.3	6.4	6.5	7.6	0.8	0.5
Congo, Republic of	3.5	7.8	6.2	-1.6	5.6	7.5	8.8	3.4	3.8	6.4	5.8	5.2	8.6	1.0	0.3
Côte d'Ivoire	1.6	1.9	0.7	1.6	2.3	3.7	2.4	-4.7	9.8	8	8	3.2	512.5	56.9	8.2
Equatorial Guinea	38	9.7	1.3	18.7	13.8	-3.6	-2.6	4.5	2	-2.1	-0.8	7.2	-94.7	-10.5	-36
Eritrea	1.5	2.6	-1	1.4	-9.8	3.9	2.2	8.7	7	3.4	2.1	2.0	366.7	40.7	5.5
Ethiopia	11.7	12.6	11.5	11.8	11.2	10	8	7.5	7	6.5	6.5	9.5	-40.2	-4.5	-4.7
Gabon	1.1	1.5	-1.9	5.2	1	-2.9	6.8	7.1	6.2	6.1	6.8	3.4	463.6	51.5	5.1
Gambia, The	7	-0.9	1.1	3.6	5.7	6.4	6.5	-4.3	3.9	8.9	8.5	4.2	-44.3	-4.9	-3.1
Ghana	5.3	6	6.1	6.5	8.4	4	8	14.4	7	6.9	6.8	7.2	32.1	3.6	1.7
Guinea	2.3	3	2.5	1.8	4.9	-0.3	1.9	3.9	3.9	4.5	5.2	3.1	69.6	7.7	1.6
Guinea-Bissau	2.8	4.3	2.1	3.2	3.2	3	3.5	5.3	-1.5	4.2	10.2	3.7	-153.6	-17.1	-4.3
Kenya	4.6	6	6.3	7	1.5	2.7	5.8	4.4	4.7	5.8	6.2	5.0	2.2	0.2	0.1
Lesotho	2.8	2.9	4.1	4.9	5.1	4.8	6.3	5.7	4	3.5	3.1	4.3	42.9	4.8	1.2
Liberia	4.1	5.9	9	13.2	6.2	5.3	6.1	7.9	8.3	7.5	5.3	7.2	102.4	11.4	4.2
Madagascar	5.3	4.6	5	6.2	7.1	-4.1	0.4	1.8	1.9	2.6	3.8	3.1	-64.2	-7.1	-3.4
Malawi	5.5	2.6	2.1	9.5	8.3	9	6.5	4.3	1.9	5.5	6.1	5.6	-65.5	-7.3	-3.6
Mali	2.3	6.1	5.3	4.3	5	4.5	5.8	2.7	-1.2	4.8	6.3	4.2	-152.2	-16.9	-3.5

Mauritius	4.3	1.5	4.5	5.9	5.5	3	4.1	3.8	3.3	3.7	4.4	4.0	-23.3	-2.6	-1
Mozambique	7.9	8.4	8.7	7.3	6.8	6.3	7.1	7.3	7.5	8.4	8	7.6	-5.1	-0.6	-0.4
Namibia	12.3	2.5	7.1	5.4	3.4	-1.1	6.6	4.8	4	4.2	4	4.8	-67.5	-7.5	-8.3
Niger	-0.8	8.4	5.8	0.6	9.6	-1.0	10.7	2.2	11.2	6.2	6.4	5.4	-1500.0	-166.7	12
Nigeria	10.6	5.4	6.2	7	6	7	8	7.4	6.3	7.2	7	7.1	-40.6	-4.5	-4.3
Rwanda	7.4	9.4	9.2	5.5	13.4	6.2	7.2	8.3	7.7	7.6	7.2	8.1	4.1	0.5	0.3
Senegal	5.9	5.6	2.4	5	3.7	2.2	4.3	2.6	3.5	4	4.6	4.0	-40.7	-4.5	-2.4
Seychelles	-2.9	9	9.4	10.1	-1.9	-0.2	5.6	5	2.8	3.2	3.9	4.0	-196.6	-21.8	5.7
Sierra Leone	6.5	4.4	4.4	8	5.3	3.2	5.3	6	19.8	17.1	14.2	8.6	204.6	22.7	13.3
South Africa	4.6	5.3	5.6	5.5	3.6	-1.5	3.1	3.5	2.5	2.8	3.3	3.5	-45.7	-5.1	-2.1
South Sudan, Republic of		1.4	-55	69.6	3.3	4.8									
Swaziland	2.3	2.2	2.9	2.8	3.1	1.2	1.9	0.3	-1.5	-0	0.3	1.4	-165.2	-18.4	-3.8
São Tomé and Príncipe	4.5	1.6	12.6	2	9.1	4	4.5	4.9	4	4.5	6	5.2	-11.1	-1.2	-0.5
Tanzania	7.8	7.4	6.7	7.1	7.4	6	7	6.4	6.9	7	7.2	7.0	-11.5	-1.3	-0.9
Togo	2.1	1.2	4.1	2.3	2.4	3.5	4	4.9	5	5.1	5.5	3.6	138.1	15.3	2.9
Uganda	6.6	8.6	9.5	8.6	7.7	7.1	5.6	6.7	2.6	4.8	6.2	6.7	-60.6	-6.7	-4
Zambia	5.4	5.3	6.2	6.2	5.7	6.4	7.6	6.8	7.3	7.8	8	6.6	35.2	3.9	1.9
Zimbabwe	-6.1	-5.6	-3.4	-3.7	-17.8	8.9	9.6	10.6	4.4	5	5.7	0.7	-172.1	-19.1	10.5

Source: IMF, Regional Economic Outlook, 2013

According to the IMF's Regional Economic Outlook (2013), output in Sub-Saharan Africa expanded by 5.1% in 2012. A moderate acceleration is expected in 2013 and 2014, with growth gradually rising as the global environment improves. Middle-income countries will likely continue to expand more slowly than the rest of the region, with South Africa recovering only gradually from the weak growth, recorded in 2012. On average, inflation in the region has eased to near 8% by end-2012 and, on current trends, could fall below 6% by end- 2014.

Table 1.3: Total Investment (% of GDP) (Percent of GDP) **

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Angola	9.9	8.8	15.4	13.5	16.2	15.2	12.7	11.4	13.6	16	14.4
Benin	19.3	16.4	17.2	20.1	18.4	20.9	17.6	18.7	18	19.2	19.2
Botswana	33.2	26.3	24	25.8	30.8	31.8	29.5	30.7	25.8	26.8	27.1
Burkina Faso	16.2	20.3	17.1	18.9	20.1	18	18.3	15.6	18.4	17.8	17.8
Burundi	19.2	19.4	19.5	19.7	19.8	19.9	19.9	20	20	20	20
Cameroon	20.4	16.8	14.3	15	17.5	16.3	16.3	18.6	19.7	19.7	20.4
Cape Verde	39.5	36	38	47	46.2	39.1	37.8	36.5	32.9	35.2	34.5
Central African Republic	6.9	9.9	10.2	10.7	12.7	13.2	14.3	12.2	15	15.7	16.2
Chad	29.3	24	26.9	26.5	27.1	36.9	42.4	33.3	35.1	33.7	30.9
Comoros	9.4	9.3	9.6	11.2	14.3	12.4	15.4	14.9	16.8	19.3	19.7
Congo, Dem. Rep. of the	12.8	13.8	13.2	18.2	22.4	18	23.5	20.5	27.4	29	30
Congo, Republic of	22.5	20.2	21.6	21.8	18.3	22.5	20.5	25.3	25.7	29.5	32.4
Côte d'Ivoire	10.8	9.7	9.3	8.7	10.1	8.9	9	8.2	13.7	17.5	18.2
Equatorial Guinea	51.7	49.3	39.8	41.2	35.3	69.4	62.5	50.6	50.6	46.8	45.6
Eritrea	20.3	20.3	13.7	12.7	12.7	9.3	9.3	10	9.5	8.7	8
Ethiopia	26.5	23.8	25.2	22.1	22.4	22.7	24.7	25.5	28.1	31.8	29.8
Gabon	17.8	14.6	17.7	26.4	23.2	32.8	30	30.8	31.2	31.4	32.3
Gambia, The	24.2	22	24.3	19.1	15	19.6	21.4	19.2	23.1	19.3	20.8
Ghana	22.8	23.8	21.7	22.9	23	23.8	23	18.6	19.1	21	21.9
Guinea	20.7	19.5	17.2	14.2	17.5	11.4	10.6	14.6	25.6	28.7	51.3
Guinea-Bissau	7.6	6.6	6.4	11.7	8.7	10.1	9.8	10.1	5.5	4.5	8.8
Kenya	14.4	16.9	17.9	19	19.2	19.9	20.9	20.9	21.6	20.9	22.4
Lesotho	26.3	23.5	23.7	25.9	27.9	28.8	28.7	33.2	38.2	38.6	35.3
Madagascar	25.8	23.8	25	28.3	41	34.1	28.6	25.7	23.4	24.5	26.1
Malawi	18.2	22.7	25.7	26.5	25.7	25.6	26	15.3	17.1	21.5	22.1
Mali	16.5	15.5	16.9	16.9	19	20.3	18.4	20.2	14.7	19.5	21.6
Mauritius	24.4	22.7	26.7	26.9	27.3	21.3	23.6	25.7	24.7	25.1	25.3
Mozambique	18.3	17.7	17	15.3	17.6	14.9	28.2	36.9	37.1	38	54.1
Namibia	19.1	19.7	22.3	23.7	25.4	22.3	21.2	19.8	21.1	21.1	20.6
Niger	14.6	23.1	23.6	23.1	32.3	32.6	45.4	45.7	39.3	37.7	37.5
Nigeria	23.3	22.2	23.5	27.7	23.3	31.9	25.8	22.5	22.1	23.6	24.3
Rwanda	19.9	20.9	19.7	20.2	23.5	22.3	21.7	22.1	22.9	23.8	22.2
Senegal	26	28.5	28.2	34	33.8	29.3	29.7	29.1	30.1	30.9	29.6

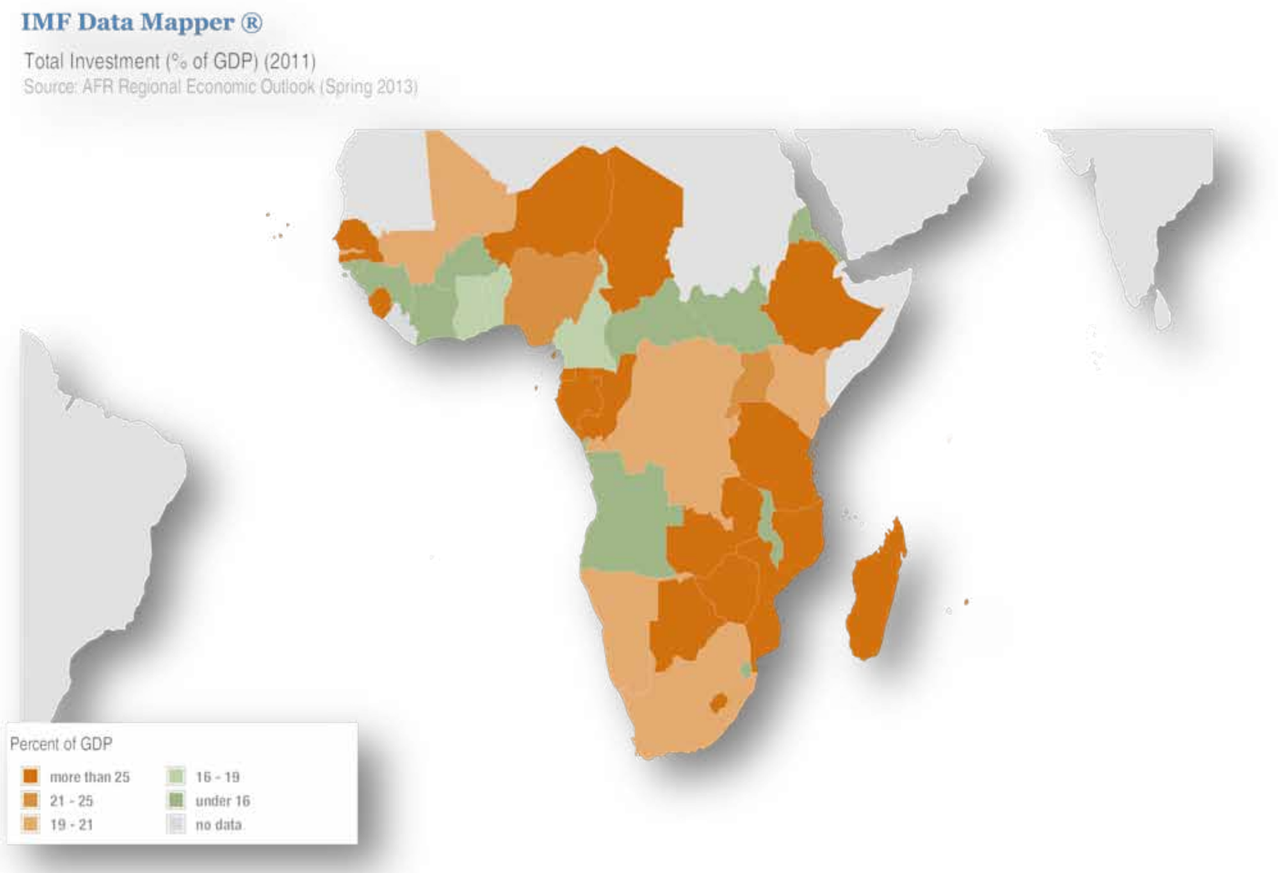
Seychelles	21.1	35.7	30.4	29	26.9	27.3	36.6	35.1	38.8	34.7	31.4
Sierra Leone	10	11.3	10	9.6	9.8	9.3	24.5	40.7	13.9	15.3	16.5
South Africa	18.1	18	19.7	21.2	22.7	19.5	19.2	19.5	19.4	19.8	19.9
South Sudan, Republic of	n/a						11.5	10.4	7.1	7.5	9.2
Swaziland	1.4	15.9	6.8	12.4	13.9	14.4	11.8	8.9	9.2	10.4	9.6
São Tomé and Príncipe	44.5	79.3	39.6	53.5	29.5	48.6	48.4	49.7	33.2	48.6	39.7
Tanzania	22.6	25.1	27.6	29.6	29.8	29	32	36.7	39.4	39.1	37.7
Togo	14.5	16.3	16.8	14.7	17.3	18	18.9	18.8	20.1	20.2	21.97
Uganda	21.3	21.7	22.5	23.3	22.4	22.8	24.3	24.8	22.3	21.1	22.1
Zambia	24.9	23.7	22.1	22	20.9	21	22.6	25	26.8	28.2	29
Zimbabwe	n/a					15.1	24.3	25.6	24.8	27.3	26.7

Source: International Monetary Fund, 2013

***Note that no investment data was available for Liberia, thus the exclusion from the table.*

Investment in export-oriented sectors remains an important economic driver for the region, and an agriculture rebound in drought-affected areas will also help the projected growth. However, the uncertainties in the global economy are the main risk to the region's outlook according to the IMF, but plausible adverse shocks would likely not have a large effect on the region's overall performance (2013 Regional Economic Outlook).

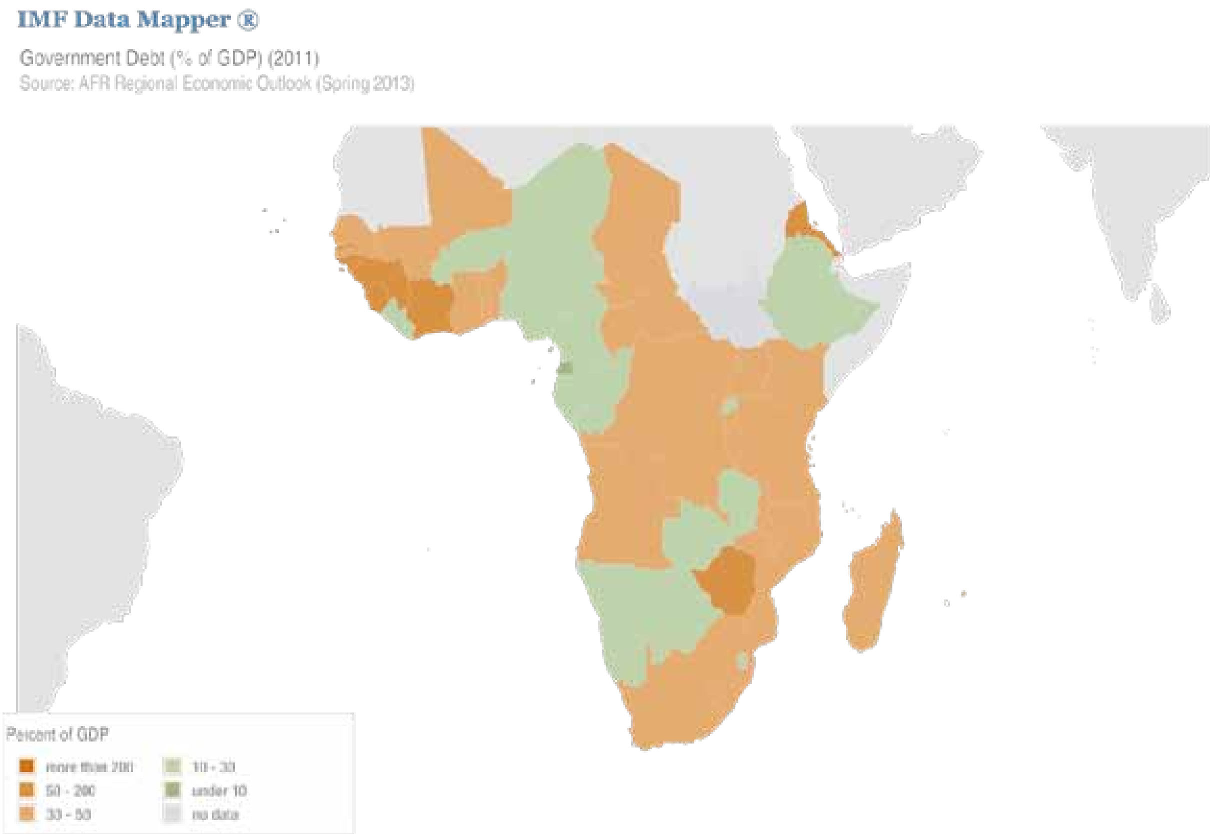
Graphic 1.5: Geographical depiction of Sub-Saharan African Total Investment (% of GDP) in 2011 - IMF



Source: International Monetary Fund – IMF Data Mapper, 2013

Foreign direct investment (FDI) remained a key source of external financing for the region, although its importance varied significantly across countries, in good part linked to the presence of oil/mineral resources. Such investment was of particular importance in low-income and fragile economies, where current account deficits have widened significantly over the past several years; noteworthy country examples include Mozambique and Sierra Leone, where current account deficits of 26% and 21% of GDP, respectively, were almost entirely financed by direct foreign investment inflows. Foreign portfolio investors returned to the South African bond market in 2012, with such inflows accounting for the bulk of the financing of the current account deficit. There were also sizable inflows into bond markets in several frontier economies, including Ghana and Nigeria. Although stock markets are of limited importance in the region, other than in South Africa, the search for yield among international investors meant that even modest-sized markets in countries with solid growth prospects attracted new inflows that boosted share price indices, most notably in Kenya, Nigeria, and Uganda.

Graphic 1.6: Geographical depiction of Sub-Saharan African Total Investment (% of GDP) in 2011 - IMF



Source: International Monetary Fund – IMF Data Mapper, 2013

The near-term outlook is positive, with aggregate output growth in sub-Saharan Africa projected to accelerate to 5.4% in 2013 and 5.7% in 2014 (Graphic 1.6). The projection reflects in part the gradually improving outlook for the global economy discussed in the April 2013 World Economic Outlook, which sees advanced economies, including in Europe, moving toward firmer growth in 2014, albeit at differentiated speeds, and emerging economies maintaining their momentum. In Sub-Saharan Africa, investment remains a key driver of growth, with the region's investment-to-GDP ratio forecast to rise by 1½ percentage points between 2012 and 2014, with most countries in the region participating in this trend, seen for example in buoyant construction activity. Relative to 2012, some one-off factors that will support growth in 2013 include rebound effects from last year's floods in Nigeria, recovery of agriculture in regions affected by drought in 2011/12 (such as the Sahel and the horn of Africa), and gradual normalization of economic activity in Guinea-Bissau and Mali.

1.5 The repositioning of the South African economy

The OECD in their Economic Survey Report on South Africa conceded that despite considerable success on many economic and social policy fronts over the past 19 years, the Republic still faces numerous of long-standing economic problems that still reflect at least in part, the long-lasting and harmful legacy of apartheid. The report cited that, one is a lack of economic dynamism: convergence towards advanced country per capita income levels has been slower than in most other emerging economies. The fastest-growing countries tend to have low per capita income, but even taking into account starting levels South Africa's growth has been relatively slow. Above all, employment remains too low and unemployment excessively high, which exacerbates a range of social problems and tensions. One aspect of this central problem is that educational outcomes are poor on average and extremely uneven, which aggravates the excess supply of unskilled labour as well as worsening income inequality.

In addition, the prospects for sustained improvements in well-being are compromised by environmental challenges, notably climate change and water stress. As well articulated in the National Development Plan (NDP) published in August 2012, South Africa needs to achieve rapid, inclusive economic growth while at the same time making the transition to a low-carbon economy and managing effectively the country's scarce water resources. Tackling the key problems effectively will require continued skillful management of macroeconomic policies, as part of the process of providing helpful framework conditions for economic activity, but above all improved implementation of structural policies, with education being a particularly critical area (OECD Economic Survey: South Africa, 2013).

In its recommendations to South Africa, the OECD pin pointed the following more so with regard to the Macroeconomic circumstances in the country: **Macroeconomic policies**

- Adjust the macroeconomic policy mix, using the full available scope to reduce interest rates to support economic activity while reducing the structural budget deficit somewhat faster than currently envisaged.
- Move towards the introduction of fiscal rules, notably an expenditure rule. Increase the emphasis on the cyclically adjusted balance when setting and explaining fiscal policy.

Before attempting to implement the OECD recommendations and brief analysis as to the country's foremost planning document is considered. The National Development Planning document seeks to eliminate poverty and reduce inequality by 2030 through uniting South Africans. The NDP plans to accomplish that through, unleashing the energies of its citizens, growing an inclusive economy, building capabilities, enhancing the capability of the state and leaders working together to solve complex problems. South Africa's transition from apartheid to a democratic state has been a success. In the last 19 years of a democratic dispensation, Government and the general citizenry have been able to build democratic institutions, transformed the public service, extended basic services to the previous marginalised, stabilised the economy and placed the country in the echelons of family of nations.

However the successes realised are overshadowed by the fact that, too many people are still trapped in poverty and the country has developed into a highly unequal society. Drawing from Statistics South Africa's data, too few South Africans are working, the quality of school education for the majority is of poor quality and the state lacks capacity in critical areas. This is despite significant progress, our country remains divided, with opportunity still shaped by the legacy of apartheid. In the main, young people and women are still denied the opportunities to lead their lives to the heart's content. Therefore, drawing on the country's collective successes and failures, there's need to do more to improve our future, mostly for the youth, the disabled and women, as captured in the South African Constitution.

On the present socio-economic trajectory, South Africa will not be apt to achieve the objectives of eliminating poverty and reducing inequality. There is a burning need for faster progress, more action and better implementation. The approach of the National Development Plan (NDP) revolves around citizens being active in development, a capable and developmental state able to intervene to correct our historical inequities, and strong leadership throughout society working together to solve problems. The National Development Plan addresses the need to enhance the capabilities of our people so that they can live the lives that they desire. As well as to develop the capabilities of the country so that we can grow faster, draw more people into working environment and thus ultimately raise the living standards for all, but particularly the poor and the previously marginalised. This is a plan for

South Africa, requiring action, change and sacrifice from all sectors of society (Foreword by the Minister in the Presidency, Hon. Trevor Manuel).

The National Development Plan: Vision 2030, also encapsulates the twin-imperatives of the post-Apartheid South Africa which are; eliminating poverty and reducing inequality, as well as propel growing economy, which is more inclusive and promote faster growth and creating employment. The NDP articulates on one of the highlighted aims as envisioned in the New Growth Path (Economic Master plan developed by the Dept. Economic Development), that of creating five million jobs, and the plan positively punts to create eleven millions before 2030. The key tenets of the NDP Vision 2030:

- Realising an environment for sustainable employment and inclusive economic growth;
- Promoting employment in the labour-intensive/absorbing industries;
- Raising exports and the country's competitiveness;
- Strengthening Governments' capacity to give leadership in the Economic Development arena; and
- Mobilisation of all sectors of society around one National Vision, Vision 2030.

For a critical understanding of the South African current economic nuances and therefore the position, a holistic quantitative and qualitative assessment is required, thus table 1.4 below, and details the economic data, from 2004 until 2012, and hypothetical forecasts for 2013 by the IMF. The following section will analyse the South African economic data, by combing through the most critical indicators, as provided by the IMF.

Table 1.4: South African Economic Indicator in 2012 and Forecast for 2013 - IMF

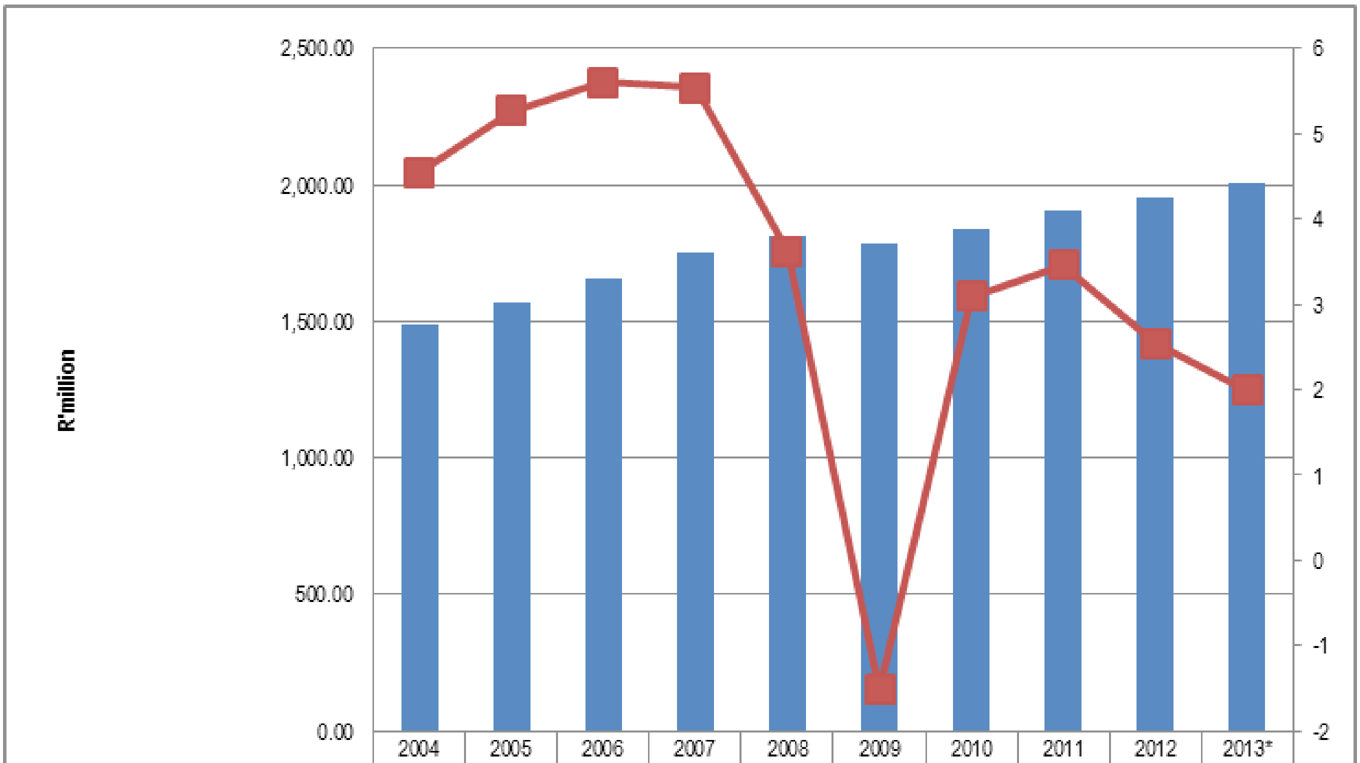
Economic Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Gross domestic product, constant prices	1,492.33	1,571.08	1,659.12	1,751.17	1,814.59	1,786.90	1,842.05	1,905.74	1,954.30	2,009.88
Gross domestic product, constant prices	4.55	5.27	5.60	5.54	3.62	-1.52	3.09	3.46	2.55	2.0
Gross domestic product, current prices	1,415.27	1,571.08	1,767.42	2,016.19	2,256.49	2,406.40	2,659.37	2,917.54	3,155.20	3,459.15
Gross domestic product, current prices	219.419	246.951	261.176	285.805	273.453	285.217	363.198	402.248	384.315	375.994
Gross domestic product, deflator	94.836	100	106.528	115.134	124.352	134.669	144.37	153.093	161.449	172.107
Gross domestic product per capita, constant prices	32,120.22	33,506.98	35,009.20	36,208.78	37,099.92	36,125.20	36,847.67	37,670.21	38,172.16	38,792.24
Gross domestic product per capita, current prices	30,461.68	33,506.98	37,294.46	41,688.58	46,134.51	48,649.54	53,196.90	57,670.27	61,628.42	66,764.19
Gross domestic product per capita, current prices	4,722.68	5,266.81	5,511.09	5,909.57	5,590.82	5,766.16	7,265.27	7,951.14	7,506.58	7,256.98
GDP based on Purchasing-Power-Parity (PPP) valuation of country GDP	371.68	405.757	442.34	480.427	508.869	505.47	528.035	557.936	582.391	608.804
GDP based on Purchasing-Power-Parity (PPP) per capita GDP	7,999.87	8,653.71	9,333.84	9,933.76	10,403.99	10,218.95	10,562.60	11,028.58	11,375.48	11,750.37
GDP based on Purchasing-Power-Parity (PPP) share of world total	0.704	0.712	0.715	0.717	0.724	0.719	0.705	0.704	0.700	0.698
Implied PPP conversion rate	3.808	3.872	3.996	4.197	4.434	4.761	5.036	5.229	5.418	5.682
Total investment	18.075	17.958	19.689	21.24	22.705	19.544	19.229	19.498	19.414	19.756
Gross national savings	15.04	14.489	14.382	14.269	15.567	15.538	16.622	16.664	13.152	13.38
Inflation, average consumer prices	123.8	128	134	143.5	160.055	171.459	178.781	187.721	198.334	209.786
Inflation, average consumer prices	1.392	3.393	4.688	7.09	11.536	7.125	4.271	5	5.654	5.774
Inflation, end of period consumer prices	125.8	130.3	137.8	150.2	165.319	175.715	181.841	192.87	203.763	215.174
Inflation, end of period consumer prices	3.454	3.577	5.756	8.999	10.066	6.289	3.486	6.065	5.648	5.6
Volume of imports of goods and services	15.508	10.879	18.261	8.986	1.513	-17.391	9.556	9.719	6.286	2.401
Volume of Imports of goods	17.895	11.776	19.888	9.428	2.936	-20.464	8.85	9.719	6.286	2.401
Volume of exports of goods and services	2.833	8.568	7.463	6.552	1.754	-19.532	4.534	5.936	0.116	3.484
Volume of exports of goods	4.158	8.802	6.987	5.961	2.594	-21.551	6.138	5.936	0.116	3.484
Value of oil imports	5.897	6.479	9.525	10.893	15.049	10.31	11.178	14.053	16.377	16.329
Value of oil exports	0.001	0.002	0.45	0.861	0.001	0.292	0.007	0.01	0.077	0.097

Unemployment rate	25.45	25	23.85	23.25	22.925	23.95	24.925	24.9	25.2	25.706
Population	46.461	46.888	47.391	48.363	48.911	49.464	49.991	50.59	51.197	51.811
General government revenue	357.979	421.878	515.372	601.396	672.972	658.294	726.656	819.455	881.02	961.48
General government revenue	25.294	26.853	29.16	29.828	29.824	27.356	27.324	28.087	27.923	27.795
General government total expenditure	375.229	421.713	493.766	573.184	682.783	791.647	863.461	935.786	1,031.58	1,126.63
General government total expenditure	26.513	26.842	27.937	28.429	30.259	32.898	32.469	32.075	32.695	32.57
General government net lending/borrowing	-17.25	0.165	21.607	28.212	-9.81	-133.353	-136.805	-116.332	-150.558	-165.149
General government net lending/borrowing	-1.219	0.01	1.222	1.399	-0.435	-5.542	-5.144	-3.987	-4.772	-4.774
General government structural balance	-13.526	-3.272	5.477	-4.893	-47.897	-129.076	-128.572	-116.773	-144.903	-155.888
General government structural balance	-0.947	-0.208	0.313	-0.249	-2.187	-5.312	-4.82	-4.004	-4.57	-4.473
General government primary net lending/borrowing	31.175	50.626	73.304	81.129	47.778	-71.991	-65.236	-34.738	-58.236	-61.432
General government primary net lending/borrowing	2.203	3.222	4.148	4.024	2.117	-2.992	-2.453	-1.191	-1.846	-1.776
General government net debt	496.009	470.632	474.261	483.314	518.612	632.679	780.879	946.684	1,122.02	1,309.49
General government net debt	35.047	29.956	26.833	23.972	22.983	26.292	29.363	32.448	35.561	37.856
General government gross debt	507.85	544.434	576.746	570.846	627.936	754.266	952.877	1,155.86	1,334.08	1,477.86
General government gross debt	35.884	34.653	32.632	28.313	27.828	31.344	35.831	39.618	42.282	42.723
Gross domestic product corresponding to fiscal year, current prices	1,415.27	1,571.08	1,767.42	2,016.19	2,256.49	2,406.40	2,659.37	2,917.54	3,155.20	3,459.15
Current account balance	-6.659	-8.566	-13.861	-19.924	-19.617	-11.504	-10.237	-13.62	-24.068	-23.971
Current account balance	-3.035	-3.469	-5.307	-6.971	-7.174	-4.033	-2.819	-3.386	-6.263	-6.375

Source: International Monetary Fund, 2013

Economic growth

According to the SARB's Annual Economic Report (2013: 09), the slackening in South Africa's real gross domestic product growth, which in part set in from the second quarter of 2012 intensified in the first quarter of 2013 when growth decelerated to an annualised rate of 0.9% – the lowest rate of increase since the height of the global economic meltdown, which for the country was during the second quarter of 2009. This disappointing performance can be attributed to a range of factors, including widespread labour unrest, production disruptions in a number of industries, rising inflation expectations, falling commodity prices, electricity supply constraints, hesitant domestic and foreign investor confidence and pessimism about the longer-term outlook for the economy. To achieve an overall growth rate of 2.4% for the year 2013 as a whole, real gross domestic production will have to increase at annualised rates in excess of 3.0% in each of the remaining three quarters of the year.

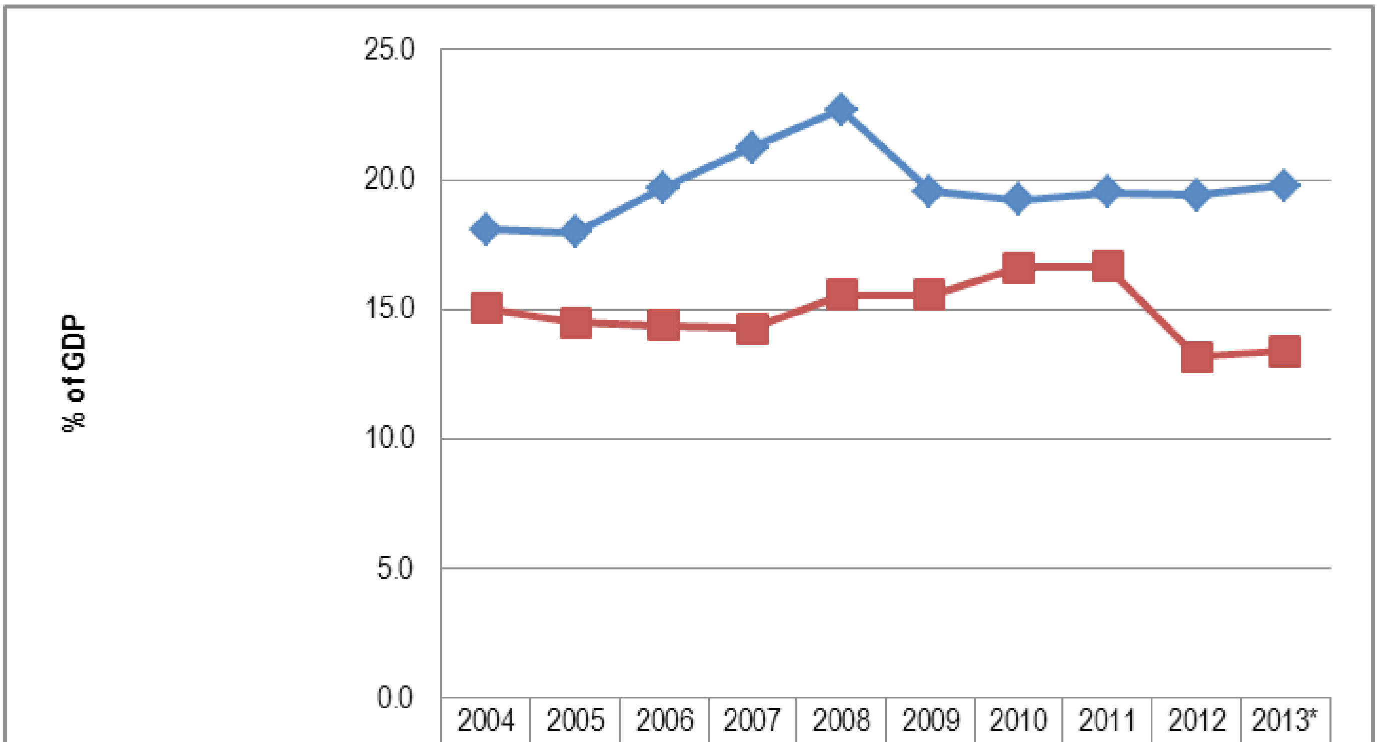


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
GDP at Constant Prices	1,492.33	1,571.08	1,659.12	1,751.17	1,814.59	1,786.90	1,842.05	1,905.74	1,954.30	2,009.88
GDP growth	4.55	5.27	5.6	5.54	3.62	-1.52	3.09	3.46	2.55	2

The National Development Plan: Vision 2030, for South Africa to achieve an inclusive growth that translates to sustainable job creation, a GDP of around 5.7% growth should be obtained, on a consistent basis. According to the IMF, the Gross Domestic Product, which is the most commonly, used single measure of a country's overall economic activity, that is representing the total value at constant prices of final goods and services, produced in a country during a given or specified time period, such as in a year. During 2013, the IMF anticipates the South African economy to grow, by an uninspiring 2.0%, spelling a 21.9% decline from the 2.56% realised in 2012.

Investment and Savings

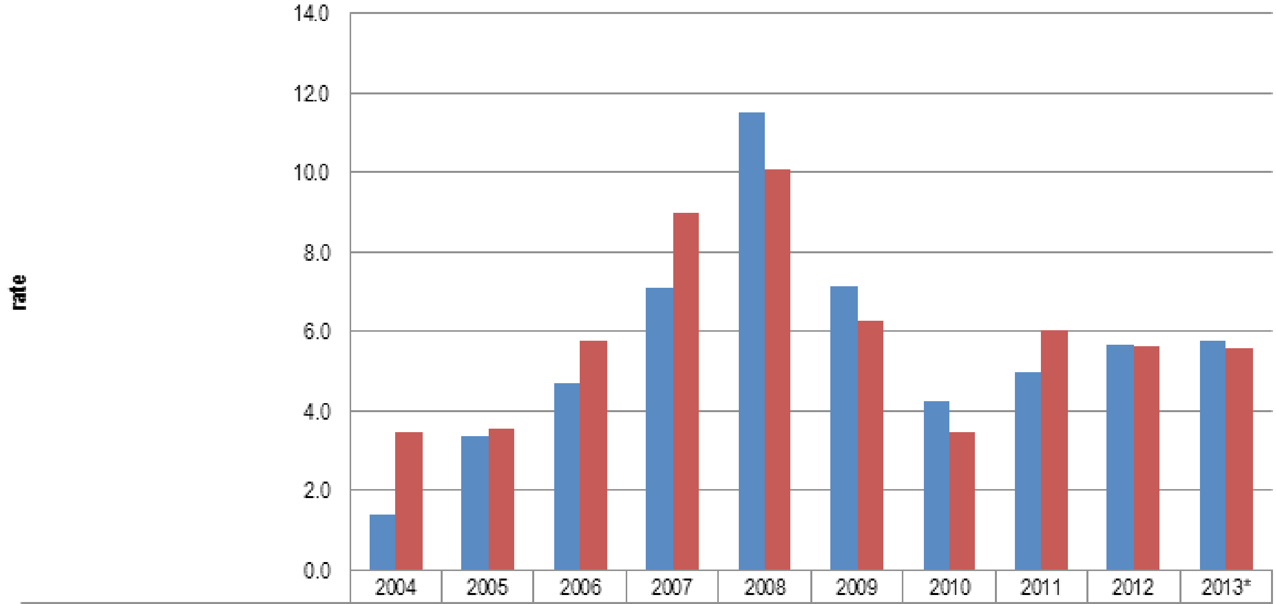
As gross fixed investment tends to lag developments in financial markets, the adverse impact of the global financial crisis in 2008 only became visibly from the first quarter of 2009. Real capital formation picked up from the first quarter of 2010 and by the fourth quarter of 2012 surpassed the highest level prior to the onset of the crisis. The national saving ratio of South Africa amounted to an average of 16.5% in the period 1990 to 1999 but lost momentum and slowed to an average of 15.2% in the period 2000 to 2012. Saving ratios in excess of 16.0% were recorded in 2010 and 2011 from where the ratio dropped to a low of 13.2% in 2012 before recovering marginally to 14.0% in the first quarter of 2013. The decline in the saving performance of the country in 2012 was caused by lower saving ratios of the general government and corporate sectors, while household saving increased somewhat.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Total investment	18.1	18.0	19.7	21.2	22.7	19.5	19.2	19.5	19.4	19.8
Gross national savings	15.0	14.5	14.4	14.3	15.6	15.5	16.6	16.7	13.2	13.4

CPI – Inflation

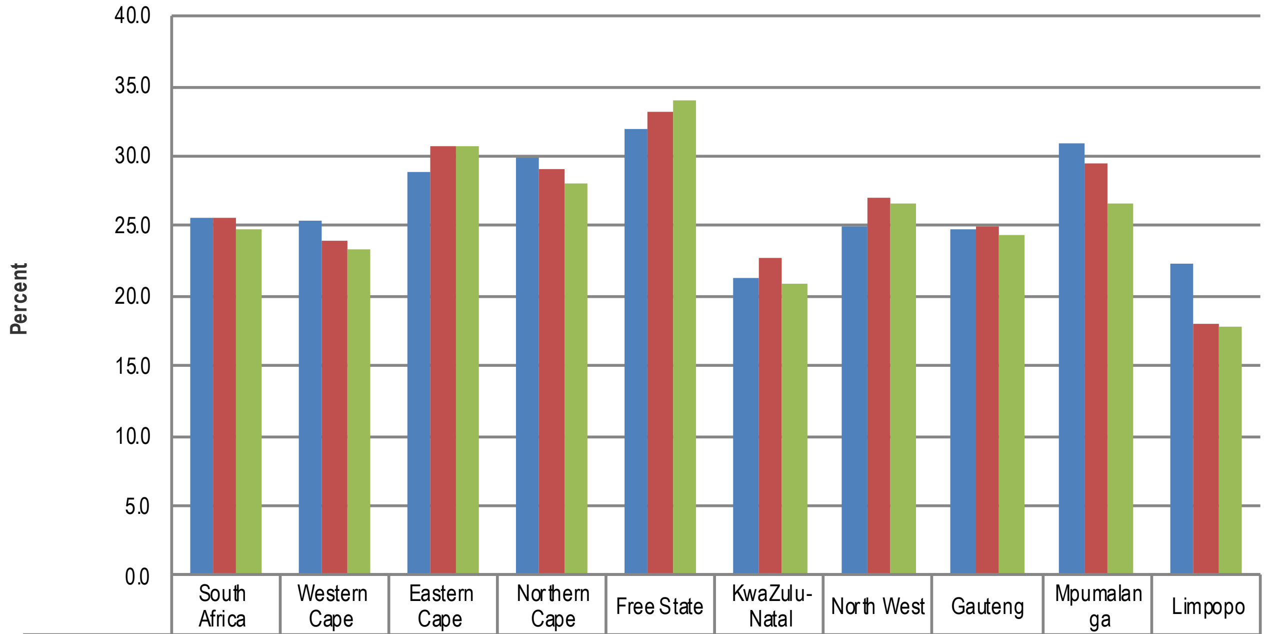
Against a backdrop of subdued global economic growth in the second half of 2012 and the opening months of 2013, international inflationary pressures remained modest, particularly in advanced economies. The slowdown in global output growth resulted in generally lower international commodity prices in especially the second half of 2012. In addition, international food prices remained fairly stable at a high level throughout 2012, before increasing marginally in the first half of 2013. Despite the benign international inflation environment, domestic consumer price inflation has accelerated gradually since the middle of 2012. Factors that have and could possibly add to domestic inflationary pressure include the depreciation in the exchange value of the rand, high administered price inflation and wage increases in excess of inflation. Since 2009, annual increases in nominal unit labour cost have consistently exceeded headline consumer price inflation. Given the current volatile labour relations environment, inflation pressures emanating from high unit labour cost could increase should wage increases continue to exceed consumer price inflation without a concomitant rise in productivity.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
CPI, average consumer prices	1.4	3.4	4.7	7.1	11.5	7.1	4.3	5.0	5.7	5.8
CPI, end of period consumer prices	3.5	3.6	5.8	9.0	10.1	6.3	3.5	6.1	5.6	5.6

Unemployment rate

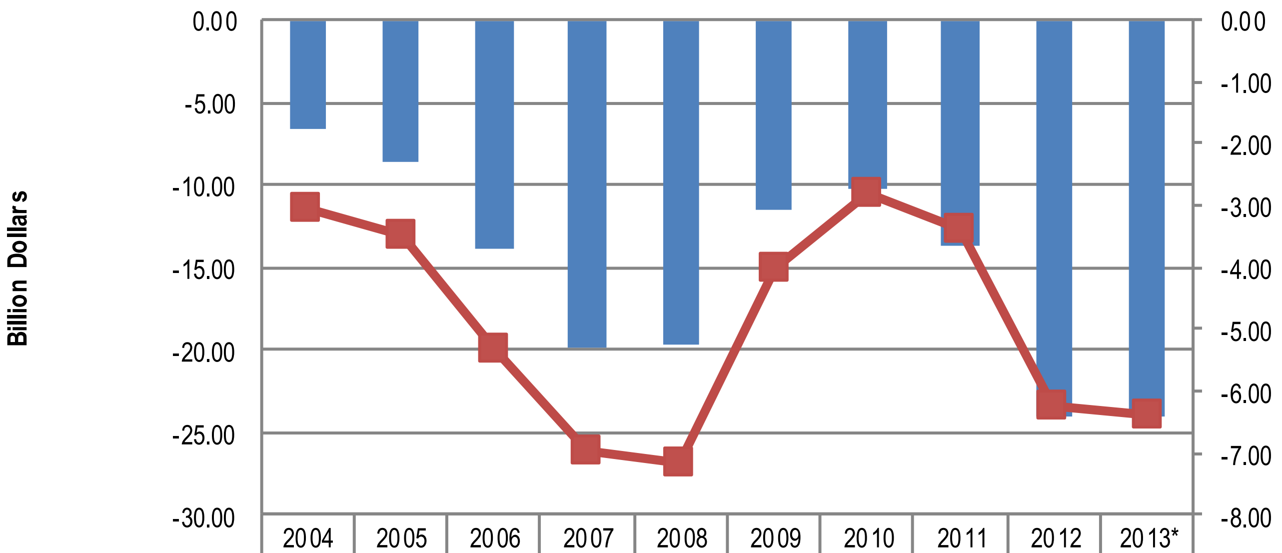
The resumption of growth in the economy since the third quarter of 2009, following the international financial crisis, occurred within an expansionary monetary policy environment as evidenced by the decline in interest rates, shown in the following graph. At the same time the relative price of capital goods moved lower, partly on account of technological advances. Within this environment the coherence between the production factors of capital and labour has shifted: whereas the capital stock has increased further since the resumption of domestic economic growth, there has been no expansion in the aggregate level of formal non-agricultural employment. In fact, the total capital stock increased by 10.7% from the fourth quarter of 2008 to the fourth quarter of 2012, while the level of formal non-agricultural employment declined by 0.5% over the same period, leading to increased capital intensity in production processes in the economy.



	South Africa	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North West	Gauteng	Mpumalanga	Limpopo
Jul-Sep 2012	25.5	25.4	28.8	29.9	32.0	21.3	25.0	24.8	31.0	22.3
Apr-Jun 2013	25.6	24.0	30.8	29.0	33.1	22.7	27.1	25.0	29.4	18.1
Jul-Sep 2013	24.7	23.4	30.8	28.0	34.0	20.9	26.6	24.3	26.6	17.8

Trade

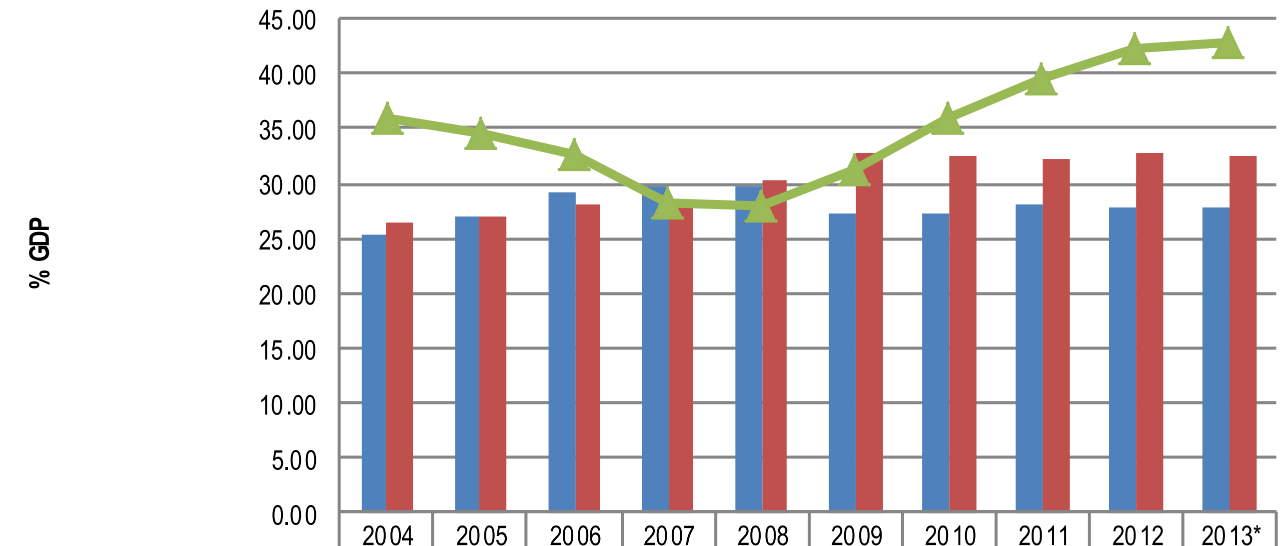
South Africa has a relatively open economy. Foreign trade accounts for almost two thirds of GDP. The European Union, China and the United States are among its largest trading partners but trade with other African countries has increased significantly over recent years. The economy ranked 63 in the 2012 Enabling Trade Index, up ten places from 72nd position held in 2010 (Grant Thornton International Business Report).



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
CAB_$	-6.66	-8.57	-13.86	-19.92	-19.62	-11.50	-10.24	-13.62	-24.07	-23.97
CAB_% GDP	-3.04	-3.47	-5.31	-6.97	-7.17	-4.03	-2.82	-3.39	-6.26	-6.38

Whilst according to the Reserve Bank's 2013 *Annual Economic Report* (2013:04), the balance of payments reflected buoyancy in domestic expenditure, particularly in capital spending and purchases of consumer durables and semi-durables – all items with high import content. Thus accordingly imports raised marginally, meanwhile the export volumes increased ever so slightly. Although the shift in the South African exports towards the faster-growing markets of Africa and Asia continued. The favourable terms of trade assisted the moderation of the deficit on the trade account and current account. Nevertheless, the shortfall on the current account of the balance of payments exceeded 6% of GDP in the final three quarters of 2012, before receding to just below 6% in the first quarter of 2013. Financial inflows continued on a scale that was adequate to finance the shortfall on the current account of the balance of payments. In 2012 the direct investment inflow from foreign investors into South Africa was approximately equal to the direct investment outflow from South African investors starting or expanding their businesses in other parts of the world, including Africa. Net inflows of portfolio investment and especially other investment capital were recorded during the year.

Fiscal – Public Finance



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Govt. Revenue	25.29	26.85	29.16	29.83	29.82	27.36	27.32	28.09	27.92	27.80
Govt. Expenditure	26.51	26.84	27.94	28.43	30.26	32.90	32.47	32.08	32.70	32.57
Govt. Gross Debt	35.88	34.65	32.63	28.31	27.83	31.34	35.83	39.62	42.28	42.72

Fiscal 2012/13 was the fourth successive year of comparatively large deficits, following the onset of the global economic crisis, and the associated substantial reduction in revenue and upward adjustment in spending associated with the change in the economic outlook. In fiscal 2012/13 the continued lack of economic vigour resulted in a cash-book deficit before borrowing and debt repayment of R175 billion, or R27.6 billion higher than the cash-book deficit recorded in fiscal 2011/12. The cash-book deficit was originally budgeted to amount to R168 billion in fiscal 2012/13, but was revised upwards to R183 billion in the Budget Review 2013. In the past year government's continued growth-supportive countercyclical fiscal policies and direction of financial resources towards capital expenditure were reflected in the finances of the consolidated general government (i.e., consolidated central, provincial and local governments). Net investment in non-financial assets recorded a year-on-year rate of increase of 6.1% to amount to R92.0 billion in 2012/13. A sizeable cash deficit of R143.0 billion was recorded by consolidated general government, relative to the average of R118 billion recorded in the three preceding fiscal years. The widening of the general government deficit was mainly on account of a higher shortfall at national government level. This deficit would have been worse if it were not for the surpluses recorded by all other levels of general government.

Box 1.1: IMF's Distress in Europe Slows South Africa's Economic Recovery

Distress in Europe Slows South Africa's Economic Recovery - Calvin McDonald and Jorge Iván Canales-Kriljenko: IMF African Department

South Africa's economic and financial policy frameworks have reliably delivered domestic and external stability, but the country needs to build on its many policy successes. In its regular annual assessment of the South African economy, covering the year to July 2012, the IMF said South Africa faces the immediate challenge of conducting policy under a highly uncertain global environment and of making firm progress on reforms that promote the long-run inclusive growth needed for maintaining social cohesion. In its review that concluded August 1, the IMF urged further action to expand employment opportunities, secure better education and health outcomes, and build more efficient infrastructure, while maintaining macroeconomic and financial stability in a risky global environment.

Since the IMF's previous annual economic assessment, renewed distress in Europe—South Africa's main trading-partner region—has delayed South Africa's recovery. Economic output will take longer than envisaged earlier to reach potential: reflecting the global slowdown, growth is likely to fall below 3% in 2012, and gradually recover ground to close the negative output gap, now two years later than envisaged. External sources of risk include slower demand for South African exports and a further decline in commodity prices. Renewed concerns about the euro area and signs of a slowdown in China have recently tilted risks to the downside.

Increased risks, from a low base

Although vulnerabilities remain low, risks have increased. External debt remains moderate and about half of it is rand denominated. International reserves are currently adequate, but the expected increase in foreign liabilities warrants increasing reserve coverage over the medium term. Banks' capital and liquidity cushions have stabilized at comfortable levels, and credit growth and bank profitability have started to pick up from a low base. The main risks remain banks' dependence on domestic short-term wholesale funding and their heavy exposure to home mortgages. Broad regulatory reforms to further enhance financial sector resiliency are under way.

Fiscal and monetary policies stance have appropriately reacted to the slowdown. They have provided further stimulus in the face of weak external demand and a negative output gap. But after four years of monetary and fiscal stimulus, the policy space to deal with adverse shocks has significantly diminished. In a severe adverse scenario that could lead to a substantial deceleration in economic activity, authorities agreed with IMF staff that monetary policy should provide most of the stimulus given the more limited fiscal space.

Rebalancing fiscal spending

Although the fiscal stance is broadly appropriate, rebalancing the composition of public spending remains a priority. As recognized in the 2012 Budget Review, the composition of spending needs to shift away from the wage bill and toward capital spending to help promote long-term growth. The IMF assessment welcomes the authorities' renewed drive for building public infrastructure. Because of bottlenecks in electricity generation, transport, and port infrastructure, South Africa has not benefited as much as other resource intensive emerging market economies from its large terms of trade gains of the last decade. This in turn has discouraged investment in South Africa's natural resource industry, and some key exports have seen substantial volume declines despite high commodity prices.

The IMF staff team has argued for rebuilding fiscal buffers in the medium term. The credibility of this commitment would improve with the forthcoming publication of a report on South Africa's long-term fiscal dynamics. This report would highlight the medium-term tradeoffs involved in fiscal spending associated with government priorities, including the envisaged National Health Insurance scheme and social security and retirement reforms.

The health insurance reform rightly aims to improve access to public health services, while improving its quality and coverage. Visiting IMF staff endorsed the authorities' gradual and cautious implementation, and stressed that attention should be given to design issues, which determine incentives and ultimately the cost of the programs. Although financing options are still under debate, the chosen financing package should keep the fiscal consolidation plan intact and preserve fiscal sustainability.

Job creation

IMF staff and national authorities agree that labor and product market reforms are key to reduce high structural unemployment, improve external competitiveness, and foster inclusive growth. If not addressed, the stubbornly high unemployment rate, especially of the young, is likely to become politically and socially unsustainable. A durable pickup in job creation that reduces mass unemployment seems unattainable without major labor and product market reforms. The structure of product and labor markets has contributed to preserving inequality and high unemployment. They have ended up protecting insiders at the expense of the unemployed. IMF staff welcomed the national debate on the steps needed to achieve more inclusive growth in the context of the National Development Plan.

High margins in product markets and wages in labor markets have resulted in uncompetitive domestic costs of production, eroding external competitiveness, and excluding part of the population from formal economic activity. This has constrained South Africa's ability to diversify its exports into areas that go beyond its comparative advantage of exploiting its mineral endowment.

Including outsiders

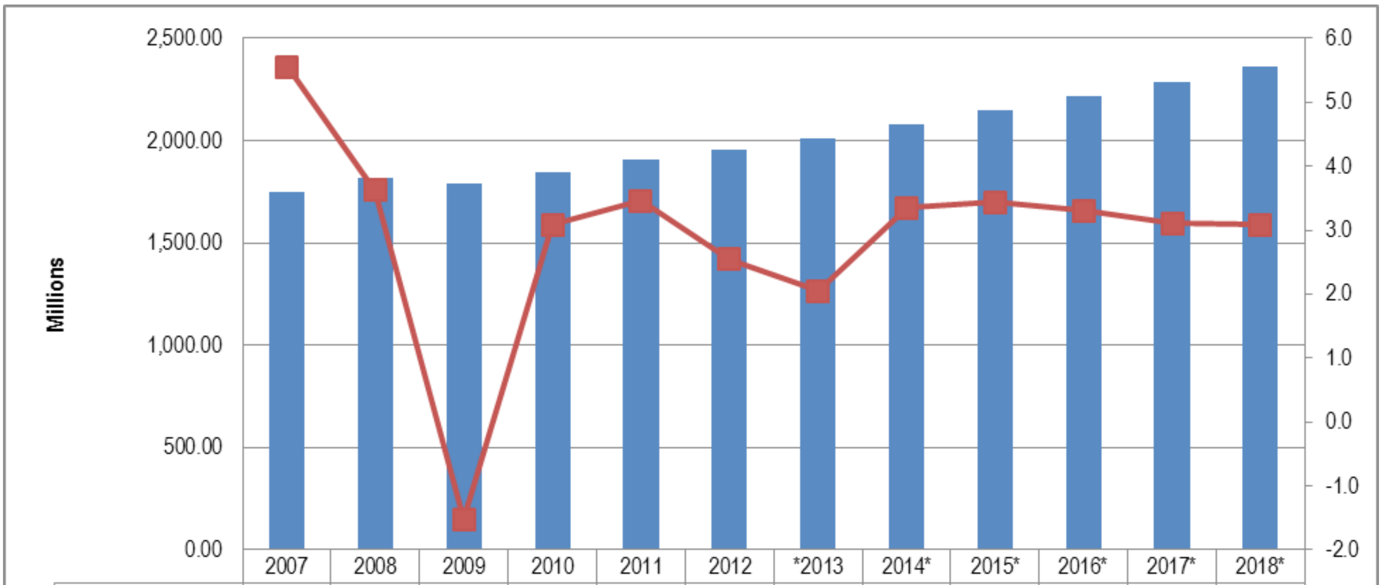
The relatively high wages and profits for insiders have resulted in higher consumer price levels and unemployment for outsiders. In addition, labor market arrangements have set entry-level wages above the productivity of inexperienced workers with little marketable skills, including through relatively high minimum wages. The struggle for dividing rents between highly concentrated, oligopolistic firms and strong and politically influential labor unions has resulted in large economic losses associated with frequent labor strikes. IMF staff and the authorities agreed that a four-pronged approach is needed to improve external competitiveness and reduce structural unemployment.

1. Labour and product markets reforms to increase their flexibility, contestability, and access, which would contribute to reduce domestic costs of production and better aligning wages with productivity levels at the firm level;
2. Improved service delivery in health and education to improve human capital, marketable skills, and entrepreneurship of the currently unemployed;
3. Short-term active labor interventions to create first-time employment opportunities for the young; and
4. Better infrastructure in network industries that remove bottlenecks and support higher growth rates.

An excerpt from the IMF Staff report on South African Economy.

The National Treasury in its 2013 MTBPS, in Chapter focused on the Macroeconomic issues, and thus aptly titled *"Securing Inclusive Growth"*, conceded that it has been five years since the start of the global financial crisis. Therefore, over this period, macroeconomic policy has focused on providing support to the economy, minimising South Africa's exposure to volatility, and encouraging domestic and international investment. With countercyclical fiscal policy resulting in the widening of the budget deficit and subsequently increased borrowing as South Africa was faced by recession and then a period of slow growth. In the period ahead, spending on infrastructure, health, education and social assistance will continue to grow, while the deficit will narrow to protect long-term sustainability, with is in line with the distribution of resources, as espoused in the National Development Plan (NDP).

Figure 1.3: South Africa's Growth Actual, Estimated and Projections – 2007 - 2018



	2007	2008	2009	2010	2011	2012	*2013	2014*	2015*	2016*	2017*	2018*
GDP	1,751.17	1,814.59	1,786.90	1,842.05	1,905.74	1,954.30	2,009.88	2,077.19	2,148.48	2,219.35	2,288.29	2,358.81
GDP Growth	5.5	3.6	-1.5	3.1	3.5	2.5	2.0	3.3	3.4	3.3	3.1	3.1

Source: IMF, July Updates, 2013

The figure 1.3 above reflects the South African economic growth. It encompasses the actual growth figures from 2007 until 2012, as punted by the IMF, with also the forecast growth figures from 2013 up to 2018. In July 2013, the Absa Capital economic forecasters trimmed their growth forecasts to 2.3% (from 2.7%) for 2013 and to 3.2% (from 3.4%) for 2014. Growth was surprisingly weak, at 0.9% q/q seasonally adjusted annual rate (saar), in quarter 1 13 but this was because of the unusual timing of Easter plus some supply shocks in the manufacturing sector. Manufactured output in April points to some recovery in quarter 2, but with household consumption and private investment both stagnant, faster growth rates are unlikely in the absence of major structural reforms.

In particular, household consumption has slowed markedly from its halcyon days to just 2.3% q/q saar in quarter 1 13, with spending on durable goods falling steadily since end-2011 to just 5.4% q/q saar. This trend seems to have continued in quarter 2. Although car sales have remained robust, real retail sales contracted by 0.6% m/m sa in April, and the March print was revised weaker too. Several factors lie behind the slowdown in household consumption spending. In our view, the lack of job growth is the most important factor by far. The latest quarterly employment statistics data show a surprising gain in non-farm payrolls of 0.1% q/q and 1.0% y/y in quarter 1 of 2013.

Whilst according to the National Treasury, South Africa's economy has expanded over the past three years, but the rate of growth has steadily declined, from 3.5% of GDP in 2011 to a projected 2.1% in 2013. This trend reflects a confluence of unfavourable global and domestic circumstances. Over the past year, economic growth in emerging economies has slowed, while the outlook has improved somewhat in industrialised economies. The intention to phase out the US Federal Reserve's asset purchase programme, which has flooded global markets with liquidity, has contributed to turbulence in capital flows and currencies. Commodity prices have declined from historically high levels.

Table 1.5: Macroeconomic Actual, Estimated and Projections – 2012 - 2016

Calendar year	**2012**	**2013**	**2014**	**2015**	**2016**
	Actual	**Estimate**	**Forecast**		
Percentage change unless otherwise indicated					
Final household consumption	3.5	2.5	2.9	3.2	3.4
Gross fixed capital formation	5.7	4.1	5.0	5.5	6.3
Real GDP growth	**2.5**	**2.1**(2.3)	3.0	3.2	3.5
GDP at current prices (R billion)	**3,155.2**	**3,411.7**	**3,720.2**	**4,061.7**	**4,443.7**
CPI inflation	5.7	5.9	5.6	5.4	5.4
Current account balance (% of GDP)	-6.3	-6.5	-6.4	-6.2	-6.1

Source: National Treasury, MTBPS, 2013

South Africa's economy has also been affected by the limited availability and rising cost of electricity, labours disputes, rising unemployment and lower household consumption, weak business confidence and lower private sector investment. In combination, these developments have contributed to a widening current account deficit, rising costs of borrowing in bond markets and a significant weakening of the rand exchange rate. South Africa's current account deficit will be about 6.5% of GDP this year, which reflects both the low level of domestic savings and considerably higher imports than exports. This means the economy is reliant on foreign savings to fund the gap between government revenue and spending, and the cost of infrastructure expansion.

ABSA Economists trimmed their growth forecasts to 2.3% (from 2.7%) for 2013 and to 3.2% (from 3.4%) for 2014. Growth was surprisingly weak, at 0.9% q/q saar, in first quarter of 2013; however this was as a result of the unusual timing of Easter plus some supply shocks in the manufacturing sector (ABSA Economic Perspective). Manufactured output in April points to some recovery in the second quarter; however, with household consumption and private investment both stagnant, faster growth rates are unlikely in the absence of major structural reforms. With regards to the inflation outlook, it has been surprisingly muted, despite the rand's 11% depreciation against a trade-weighted basket (in the year to end-April), nonetheless the further 10% fall since then will likely cause headline CPI inflation to breach the 6% upper bound of the SARB's target range. Pass-through will be limited, however, by the weakness of demand. The SARB will likely keep interest rates on hold until the third quarter of 2014, even if headline CPI inflation temporarily deviates from the target range (ABSA Economic Perspective).

Mining sector woes; have softened commodity prices, and the weak global demands are once again dragging on exports, while vital imports of oil and capital equipment are swelling imports. As such, great current account deficits are likely to continue for the foreseeable future. Portfolio capital inflows may prove scarcer now, given the looming end of quantitative easing by the Reserve Bank. Moreover, ABSA Economist anticipate, the dollar's generalised rise and, hence, expect USD/ZAR to rise further, peaking at 10.50 in the third quarter, before retracing somewhat towards the year end.

1.6 Summary and Conclusion

Chapter one of the 2013 Free State Provincial Economic Review and Outlook (FSPERO), delved in the uncharted intricacies of the world economy head first, and also for the first time in the history of the publication also paid special homage to the Sub-Saharan African region through a quaint analysis of the region's economy premised on the data provided and disseminated by the IMF. The chapter went further to analyse the South African economy in context, with special emphasis placed on the outlook, given the fact that the country's economy has performed below, and in the beginning of the year reflected a compromised growth trajectory on the back of a woeful growth in the first quarter of 2013. With the World Bank, the IMF and the National Treasury, as well as Domestic (South African) Private Banks, revise their growth projections.

2013 spelt a new era in post-recession World economy, with glimpse of the "old guard" economies, having their houses in order and commandeering the economy forward. For the first time in five years, the advanced economies have shown greater improvements, compared to the "new kids on the block", in reference to the emerging and developing economies. Therefore, in agreement with the national Treasury, the world economy has changed dramatically over the past five years. The sea change signaled by the growth of emerging markets in world trade and investment poses challenges and opportunities for South Africa. Our economy has begun to adapt to these changed patterns. At the same time, global financial and monetary trends, new technologies, urbanisation, climate change and demographic shifts pose complex challenges for both industrialised and emerging economies.

Macroeconomic policy, industrial development, the role of state enterprises, economic regulation, tax structure and spending programmes all confront difficult trade-offs and uncertainties in seeking to improve livelihoods, lower the cost of doing business and improve government performance. Many South African firms have begun to adapt to changes in the world economy. Such companies are adjusting to changing cost structures and patterns of demand, integrating into global and regional value chains, and expanding their African operations. Further implementation of well- targeted sectoral initiatives will promote greater competitiveness and balanced growth (2013 National Treasury, MTBPS).

CHAPTER 2:

FREE STATE ECONOMIC REVIEW AND OUTLOOK

2.1 Introduction

The 2009 Global Financial Crisis tremors are still felt four years down the road. The 2009 economic crisis seems to have inflicted an unrelenting, and painful state of affair for the Free State province, both to the economy and the general populace. It saw the provincial economy succumbing to the unrelenting global pressures, broad about by the globalized world economy, the province and indeed South Africa play within. Similar trends could be discerned many regions throughout the world, the Free State economy not only registered dismal economic growth performance, it also shed jobs in the most critical sectors of the economy. This unthinkable and unforeseeable economic phenomenon, is still playing its card in the labour market, wherein the province has been bestowed with the honour of having the highest unemployment rates, in the country. This goes against the wishes of a democratic South Africa, as it sought to develop an economy that is job creating, abolishes inequality, as well as do away with poverty.

Free State economy has moved steadily from dependence on **primary sectors** such as mining and agriculture to **secondary sectors** such as manufacturing and export, and largely the **services sectors**. This diversification of the provincial economy bodes excellently for the long-term economic health of the province. In the meantime, all sectors are playing a dynamic and important role in the economy, and offering investors outstanding opportunities at the same time. The biggest sectors in 2012 in the Free State were the community services 28.1%, finance 16.0% and trade 14.5%, whilst the smallest were construction 2.3%, electricity 3.4% and agriculture 4.8%. The share of the tertiary industries stood at 66.5%, compared to 18.6% and 14.8% for primary and secondary industries respectively.

Free State provincial economy grew on average by a meager 0.5% between the years 1996 and 2001. For the period 2001 to 2006, the provincial economy performed relatively better, registering an average growth rate of 3.8%. However, between 2006 and 2011, the province registered poor growth (2.0%) partly and in large due to the global economic recession of 2009 from which the province was not spared. Holistically, for the period 1996 to 2011, the provincial output was recorded at a paltry 2.1% growth compared to national output of 3.2% during the same period.

In an ambitious and bold move by the Free State Planning Unit, a think-tank based at the Office of the Premier, to reverse the losses experienced recently, sought to comprehensively revise the 2002 Free State

Growth and Development Strategy (FSGDS), and as such strategically align the new FSGDS to the Vision 2030, as premised and embodied in the National Development Plan. The central message and primary aim of the NDP Vision 2030, is and continues to be, the elimination of poverty and reduce inequality by 2030. According to the plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships throughout our society (2013 SOPA, Hon. Elias Magashule).

Premier "Ace" Magashule, in tabling his 2013 State of the Province, deliberated on the conceptualisation of the 2012/13 FSGDS, and insisted that it was done, through an extensive consultative and public participation process involving a broad spectrum of stakeholders we have produced the final draft of the review of the Free State Growth and Development Strategy. Furthermore, the Premier declared, "*we will engage further with the Legislature and other political parties on this final draft so that we ensure the speedy finalization of the reviewed strategy*". Alluding to the Free State Growth and Development Strategy, it "*recognizes the value of creating the environment, institutions, processes and mechanisms crucial for inclusive growth and development and produces Free State Vision 2030, which is aligned with the values espoused in the Vision 2030 of the NDP*".

Free State Vision 2030 postulates the future which the people of the province yearn for. It is a reflective long-term framework envisioned to create an environment to respond to the complexities that characterise the provincial development landscape. This conception entrust the future of the province on the courage of the people of the Free State to understand the nature of the challenges they face. Most importantly, Vision 2030 implores the people of the province to devise means to transcend the challenges they encounter and relentlessly seize the development opportunities that emerge. Vision 2030 acknowledges the central role that the state must play in addressing the historical legacy of dispossession, marginalization and domination. In this acknowledgement, the Vision also recognizes the nexus that exists between state organs and an active citizenry, enjoined together in the struggle to overcome historical and emerging challenges. This Vision draws on the experiences of the people of the province to shape the future they want. Central in this connection are economic, social and governance dimensions that permeate a spirit of common purpose and a commitment to ultimately create a better life for people of the Free State. This is about an appreciation of collective action that together we can do more. Embedded in the Free State Vision 2030 are the success, challenges and opportunities that simultaneously continue to characterise the provincial development landscape amid a wave of changing domestic and global trends. The Vision illuminates the province's long-term priorities and defines a common trajectory that is characterised by transformation, convergence, integration and cooperation. Underpinning the Free State Vision 2030 is the ability of government together with the people to map out the destiny of the province. (2012, Free State Growth and Development Strategy (FSGDS)).

As alluded to earlier, the Free State economy has faced a torrid post-recession, registering poor growth performance, as well as shedding much needed jobs, and thus new innovations are need to chart a new growth trajectory premised on the creation of sustainable jobs, as envisioned in the Free State Vision 2030. At the back of the aforesaid, the Free State Vision 2030 sets out the future the people of the province want. In principle, it provides a guide for the Free State to ensure that – "*By 2030, the Free State shall have a resilient, thriving and competitive economy that is inclusive, with immense prospects for human development anchored on the principles of unity, dignity, diversity, equality and prosperity for all.*"

The FSGDS is underpinned by six growth and development pillars with a set of drivers. These six pillars are:

1. Inclusive economic growth and sustainable job-creation
2. Education, innovation and skills development
3. Improved quality of life
4. Sustainable rural development
5. Build social cohesion
6. Good governance

Each of these pillars has a set of specific drivers which serve as the building blocks for the FSGDS. However for the purpose of this chapter reference would be made only to the first pillar; which relates to the inclusive economic growth, which accrues to sustainable job-creation. According to the FSGDS it identifies a number (five to be precise) of key economic drivers[2], which will lead to the achievement of an inclusive economic growth which goes hand-in-hand with the creation of sustainable jobs:

- Diversify and expand Agricultural Development and food security;
- Minimise the impact of the declining mining sector and ensure that existing mining potential is harnessed;
- Expand and diversify manufacturing opportunities;
- Capitalise on Transport and Distribution opportunities; and
- Harness and increase Tourism potential and opportunities.

Chapter 2 of the 2013 FSPERO, will discernibly outline the provincial economic structure, and thereafter pixelate the provincial economic performance over the past eight year, i.e. from 2004 until 2013. The chapter would then transcend to contextualise the economic structure and the performance thereof, through an in-depth sectoral analysis of the provincial economy, and would attempt to do this through comparative analysis, with the other eight South African provinces. It will also put in context the Free State household sector, through the analysis of the contributions to provincial growth by the sector, and give a historical basis for further analysis. The chapter would also offer a glimpse to the Provincial Trade performance, through data sourced from IHS Global Insight, and thus concluding by giving a peek at the provincial economic growth future, through the usage, of projected growth figures by the economic data provider for the Free State Provincial Treasury. Unwittingly, the chapter would conclude by giving a summary of the critical matters, and thus to give credence to its content, it will thus offer brief yet considered recommendations, on the provincial economic landscape.

2 Important to emphasize the fact that considerable emphasis would be placed on the key drivers of the Free State Economy, as identified and proclaimed in the 2013 FSGDS

2.2 Free State Economic Structure

The economic structure of a region is an essential economic system, which is a way of answering the fundamental and yet the most basic of questions and different economic systems answer them differently. Many different objectives may be seen as desirable for an economy, like efficiency, growth, liberty, and equality. Economic systems can be divided by the way they allocate economic inputs i.e. the means of production and how they make decisions regarding the use of these inputs. This kind of economic structure is also called vertical economic structure. And it is therefore defined as an economic structure, which is not a fixed and unchangeable grouping, but it more or less changes through time, and structural changes in the economy can be set as a specific long term objective of development.

Faster or slower changes in the economic structure are influenced by a number of factors, especially economic growth and capital accumulation as the most important. On a wider scale, economic structure is conditioned by the entire economic life. True to Arandjelović et al (2007) assertion that economic structure is not a fixed and unchangeable category; but economic structure transcends overtime and it is thus not immune to developments in the mechanics of the economy. More so, is the case with most economies in the world, including the Free State provincial economy, which has transcended from a relatively primary sector oriented, to succumb to the evolution of the industries or the Industrialisation revolution, and went on to notice considerable growths in the tertiary sector of the provincial economy.

According to the Free State Vision 2030, the provincial economy about 30 years ago, was chiefly dependent on the primary sector, which contributed more than 50% to the economy. However, the sector has seen rather precarious times, as it has declined in contribution to the provincial economy comparatively, to a timid 13.% in 2012. Whilst this trend is often interpreted as a sign of a maturing economy, it represents de-industrialisation. The de-industrialisation of the provincial economy to a more service-driven economy has thus seen bellowing number of job losses, more so for the relatively unskilled workforce. The Free State Growth and Development Strategy (FSGDS) postulate that the industrial base of the provincial economy exhibits the features and vulnerabilities of the Minerals-Energy complex (MEC). Mining has always been the mainstay of the provincial economy. However, the sector's contribution dropped from 16% of the provincial output in 1996 to 9% in 2010, and this led to a decline in employment by the sector from 180 000 in 1980 to 33 000 in 2010.

The Manufacturing sector makes up 14% of the provincial output. However, the Petro-chemicals sector constitutes more than 85% of the economic output of manufacturing in the Free State. This sector is capital-intensive and energy-intensive. In the province, 71% of manufacturing employment is accounted for by activities that account for 22% of the sector's output. The petro-chemicals sector, which accounts for more than 85% of manufacturing output, accounts for 29% of the sector's employment, thus impressing upon its highly merchandised operations, which requires highly skilled staff complement. The manufacturing sector is thus concentrated in terms of ownership, production and geographical location. It is also disconnected from the rest of the provincial economy (Free State Vision 2030).

Another important sector is agriculture identified by the Free State Vision 2030. According to the FSGDS, the sector also experienced a relative decline. The contribution of agriculture dropped from 5.3% in 1996 to below 3.8% in 2010. Employment in agriculture in the province and nationally has decreased. However, the decrease in the province has been marginal than that at national with about 20 000 jobs lost. It should be noted that agriculture has been significantly affected by liberalisation policies, which included the removal of subsidies to farmers and the reduction of import barriers. These processes not only led to increased concentration of production, but also rapid mechanisation in the large-scale commercial segments, which further limits the ability of the sector to absorb labour.

The above is a contextualisation of the Free State economy, as encapsulated in the 2030 Vision. What follows herein, is a more recent glimpse of the provincial economy, based on the IHS Global Insight regional explorer database. The table below, explains the Free State Gross Value Added by Region (GVA-R), in the 2005 Constant Prices and Percentage Terms, from 2002 until 2012. The Mining sector is the only sector not to have had an increase in its contribution to the provincial economy, declining by roughly

10.3% over the period 2002 until 2012. However, its contribution in monetary terms has averaged about R7.7 billion, highlighting a decline of 30.5% in its weight in the economy for the year 2012. Whilst, the other primary sector, that is, the Agricultural sector has seen 10.5% growth in its contribution to the provincial economy, averaging about R3.3 billion between 2002 and 2012. The Finance sector and that of Construction have recorded the highest margins in growth over the period reviewed, with growing by 60.1%.

Table 2.1, below succinctly details the composition of the Free State provincial economic structure by sectors, as disseminated by the provider of quality statistics, Statistics South Africa. As earlier detailed based on the finding of the Free State Vision 2030, the provincial economy, was cradled by the primary sector, which has however, in the recent past waned in its contribution to the economy. In 2002, the primary sector contributed around R10.7 billion to the provincial economy, which translated to roughly 14.6% of the provincial value addition. The bulk of which was from the Mining sector, contributing just over R7.7 billion in 2012, or about 10.5%. The primary sector's contribution peaked in 2005, when the sector recorded a contribution of R11.7 billion, only to recede in 2006 to record contributions of R10.9 billion, and continued on a downward slope, recording R10.5 billion in 2012.

This has also meant that the percentage share of the sector's contribution has markedly declined over the recent past; decreasing from 14.6% to just over 10.9%. Over the period 2002 until 2012, the Free State mining sector was the only sector to register a decline in its contribution to the provincial economy, decreasing by a resounding 7.5%, leading a decline of 0.7 percentage points on an annualised basis. The secondary sector's contribution has continued on a positive yet wobbly road, peaking in 2012, when the contribution amounted to just under R15.3 billion, or 15.9% of the provincial economy. The biggest contributor to the ever increase in the secondary's sectors contribution has been the manufacturing sector, with over 11.7% percent stake in the Free State economy, or R11.3 billion in monetary value.

Table 2.1: Free State – Gross Domestic Product Region by activity, Constant 2005 Prices and Percentage Terms

Industry	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Primary Industries	**10,762**	**10,886**	**11,037**	**11,645**	**10,832**	**10,721**	**10,692**	**10,199**	**10,574**	**10,540**	**10,504**
Agriculture	3,028	2,807	2,821	2,967	2,676	2,716	3,310	3,194	3,227	3,248	3,353
Mining	7,734	8,079	8,216	8,678	8,157	8,005	7,382	7,006	7,346	7,292	7,151
Secondary Industries	**12,253**	**12,274**	**12,869**	**13,394**	**14,222**	**14,964**	**15,206**	**14,431**	**14,958**	**15,160**	**15,291**
Manufacturing	9,247	9,163	9,530	9,898	10,583	11,044	11,276	10,426	10,972	11,161	11,246
Electricity	1,971	2,013	2,170	2,265	2,333	2,411	2,324	2,233	2,312	2,317	2,323
Construction	1,035	1,097	1,169	1,230	1,305	1,510	1,606	1,772	1,674	1,682	1,722
Tertiary industries	**42,676**	**44,053**	**45,906**	**47,595**	**50,533**	**53,305**	**55,583**	**55,370**	**56,252**	**58,061**	**60,023**
Trade	7,566	7,790	8,213	8,462	8,978	9,346	9,410	9,088	9,369	9,707	10,460
Transport	5,962	6,091	6,237	6,447	6,770	7,164	7,476	7,403	7,490	7,643	7,774
Finance	11,076	11,314	12,207	12,831	14,085	15,156	16,249	16,142	16,330	16,928	17,520
Personal services	8,244	8,699	8,852	9,113	9,578	10,090	10,460	10,304	10,323	10,541	10,722
Government services	9,826	10,159	10,398	10,741	11,122	11,548	11,988	12,433	12,740	13,243	13,547
All industries at basic prices	**65,690**	**67,213**	**69,813**	**72,633**	**75,587**	**78,990**	**81,481**	**80,000**	**81,784**	**83,761**	**85,817**
Taxes less subsidies on products	7,801	7,918	8,298	8,728	9,424	9,866	10,110	9,653	10,072	10,357	10,405
GDPR at market prices	**73,490**	**75,131**	**78,111**	**81,362**	**85,010**	**88,856**	**91,591**	**89,653**	**91,856**	**94,118**	**96,222**
Percentage Share											
Industry	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Primary Industries	**14.6%**	**14.5%**	**14.1%**	**14.3%**	**12.7%**	**12.1%**	**11.7%**	**11.4%**	**11.5%**	**11.2%**	**10.9%**
Agriculture	4.1%	3.7%	3.6%	3.6%	3.1%	3.1%	3.6%	3.6%	3.5%	3.5%	3.5%
Mining	10.5%	10.8%	10.5%	10.7%	9.6%	9.0%	8.1%	7.8%	8.0%	7.7%	7.4%
Secondary Industries	**16.7%**	**16.3%**	**16.5%**	**16.5%**	**16.7%**	**16.8%**	**16.6%**	**16.1%**	**16.3%**	**16.1%**	**15.9%**
Manufacturing	12.6%	12.2%	12.2%	12.2%	12.4%	12.4%	12.3%	11.6%	11.9%	11.9%	11.7%
Electricity	2.7%	2.7%	2.8%	2.8%	2.7%	2.7%	2.5%	2.5%	2.5%	2.5%	2.4%
Construction	1.4%	1.5%	1.5%	1.5%	1.5%	1.7%	1.8%	2.0%	1.8%	1.8%	1.8%
Tertiary industries	**58.1%**	**58.6%**	**58.8%**	**58.5%**	**59.4%**	**60.0%**	**60.7%**	**61.8%**	**61.2%**	**61.7%**	**62.4%**

Trade	10.3%	10.4%	10.5%	10.4%	10.6%	10.5%	10.3%	10.1%	10.2%	10.3%	10.9%
Transport	8.1%	8.1%	8.0%	7.9%	8.0%	8.1%	8.2%	8.3%	8.2%	8.1%	8.1%
Finance	15.1%	15.1%	15.6%	15.8%	16.6%	17.1%	17.7%	18.0%	17.8%	18.0%	18.2%
Personal services	11.2%	11.6%	11.3%	11.2%	11.3%	11.4%	11.4%	11.5%	11.2%	11.2%	11.1%
Government services	13.4%	13.5%	13.3%	13.2%	13.1%	13.0%	13.1%	13.9%	13.9%	14.1%	14.1%
All industries at basic prices	**89.4%**	**89.5%**	**89.4%**	**89.3%**	**88.9%**	**88.9%**	**89.0%**	**89.2%**	**89.0%**	**89.0%**	**89.2%**
Taxes less subsidies on products	10.6%	10.5%	10.6%	10.7%	11.1%	11.1%	11.0%	10.8%	11.0%	11.0%	10.8%
GDPR at market prices	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: Statistics South Africa, Third Quarter, 2013

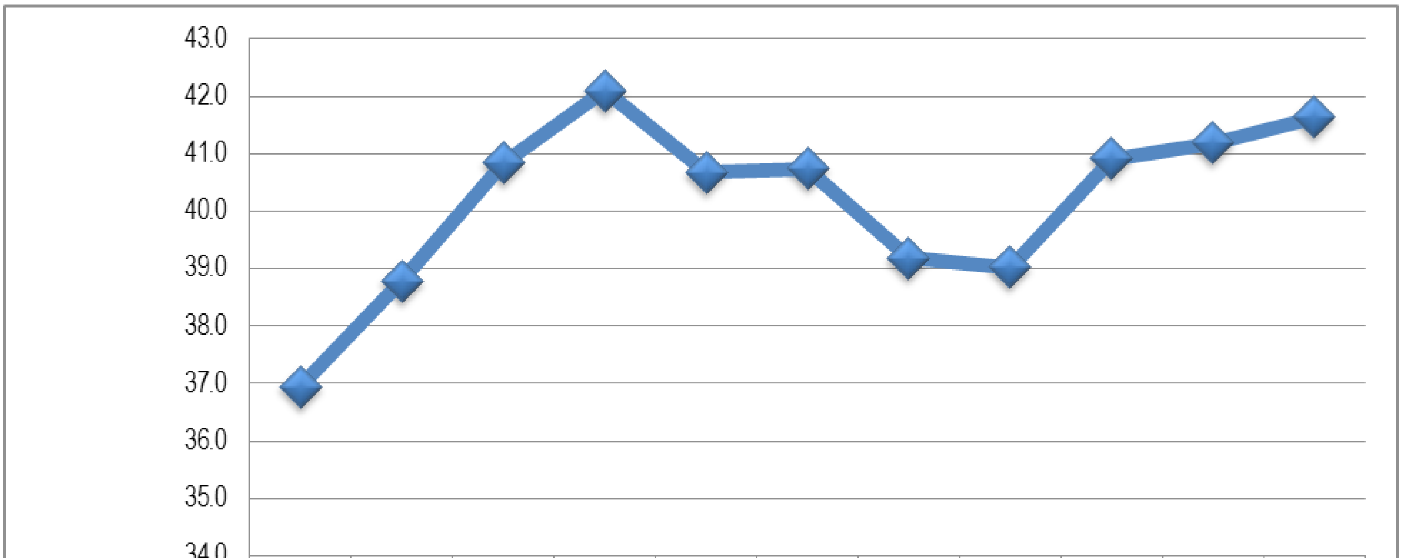
The 2030 Free State Vision envisions a manufacturing sector that is robust and expanding to create sustainable jobs. It is captured in the document (FSGDS, or 2030 Free State Vision), as the third pillar, and contextualised as expand and diversify manufacturing opportunities. The acknowledgement afforded the sector, bodes well for the province, as the sector is the third highest grossing sector, after the Finance and Government services. The other two sectors (i.e. Electricity and Construction) of the secondary sector have also provided increases in respect to their contributions, averaging, 2.6% and 1.7%, respectively. In monetary terms, the two sectors averaged contributions of R2.3 billion and R1.4 billion, and the construction sector has seen tremendous growth over the period analysed, growing by an unprecedented 66.4%, culminating in an annualised growth of 6.0%.

Over the past 30 years, the provincial economy has transcended to an advanced economy setting, wherein the services (or Tertiary) sector has taken center stage, managing an impressive 60.1% stake of the provincial economy, when averaged for the period 2002-2012. During 2012, the tertiary sector peaked its contribution mark, when it recorded a contribution of R60.2 billion, which was equated to over 62.4% of the provincial value added. The tertiary sector has grown in leaps and bounds, and for the period under the microscope (between 2002 and 2012), grew by a staggering 40.6%. The biggest and most influential sector in the provincial economic setting is the Finance sector, with a contribution of 18.2% in 2012, which translated to over R17.5 billion the same year. This growth in the Finance sector is a pleasing sight; given the fact that sector has seen turbulent times, when it declined in 2009, following a global economic malaise, perpetuated by the sector.

The finance sector contributed R16.3 billion in 2008, only for its contribution to decline marginally to R16.1 in 2009. However, the sector has since regained its growth momentum and can be tracked through by the increase in contribution during 2010 and 2011, when the sector contributed over R16.3 billion and R16.9 billion, correspondingly. Another impressive yet poignant observation is the fact that for the period 2002 to 2012, the sector was the second fastest growing sector, following on the steps of the Construction sector, which grew on average by 5.3%. The second highest contributing sector towards the provincial economy happens to be the provincial Government services sector, with a contribution of 14.9% in 2012, and equated to R13.5 billion in the same year.

The sectoral composition of economic activity in a region is a good indication of the level of diversification or concentration of a region's economy and can be measured by the so called tress index. According to the Development Bank of Southern Africa (DBSA, 2001), Tress Index refers to the measure of the level of diversification or concentration of a region's economy. A Tress Index of zero represents a totally diversified economy. On the other hand, the higher the index (closer to 100), the more concentrated or vulnerable the region's economy to exogenous variables, such as adverse climatic conditions, commodity price fluctuations, etc. (DBSA, 2001).

Figure 2.1: Free State Tress Index, 2002 - 2012



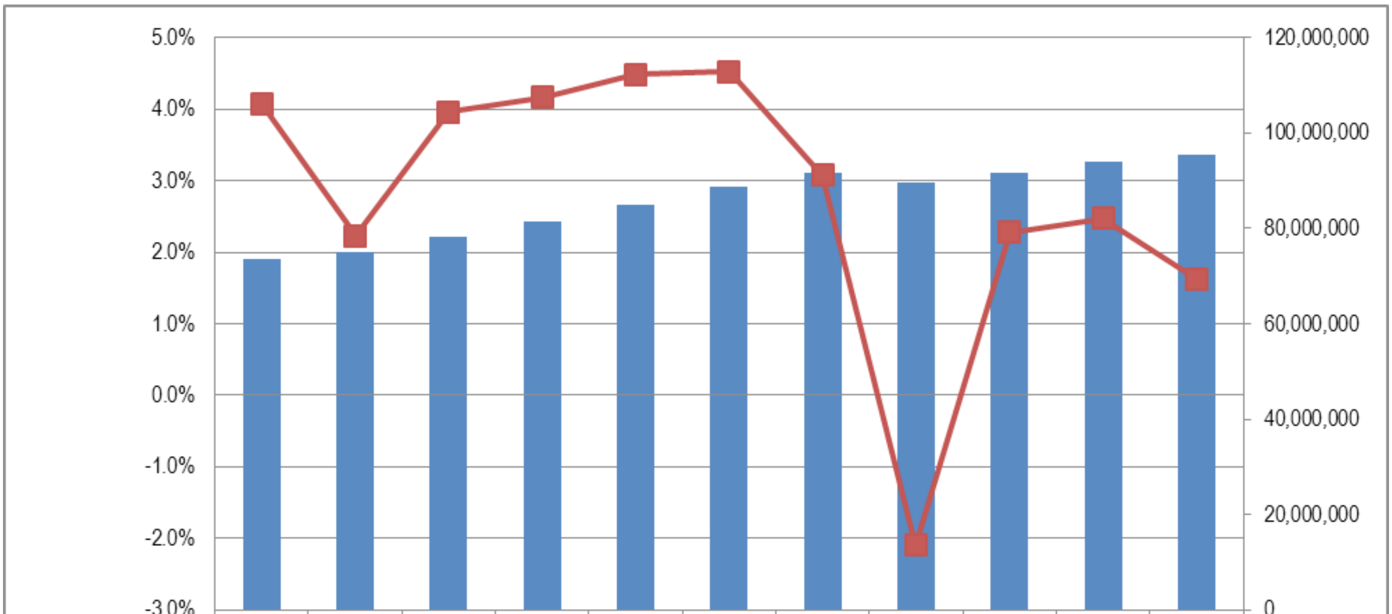
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Tress Index	36.9	38.8	40.8	42.1	40.7	40.7	39.2	39.0	40.9	41.2	41.6

Source: IHS Global Insight, Regional Explorer, 2013, According to the 2011 FSPERO, the Free State economy was the second most diversified of South Africa's nine provincial economies, following on KwaZulu-Natal province's footsteps. The province's tress index has gravitated to around 40.2 mark. What is clearly discernible is the fact that the provincial economy has become less diversified and thus dependent on a smaller number of sectors. Which does not bode well for the future, as high concentrated would expose the provincial economy and could thus be vulnerable to external shocks, which may impair the 2030 Free State Vision.

2.3 Free State Economic Performance

This section of the 2013 Provincial Economic Review and Outlook (PERO), tackles the performance of the provincial economy, and focuses on the usage of the GDP as a measure. Historically, the GDP figures have been regarded as a good measure or proxy for progress, however, GDP as a measure of economic progress is going under a change. There are increasing concerns have been raised since a long time about the adequacy of current measures of economic performance, in particular those based on GDP figures. Moreover, there are broader concerns about the relevance of these figures as measures of societal well-being, as well as measures of economic, environmental, and social sustainability.

Figure 2.2: Free State Growth, 2002 - 2012



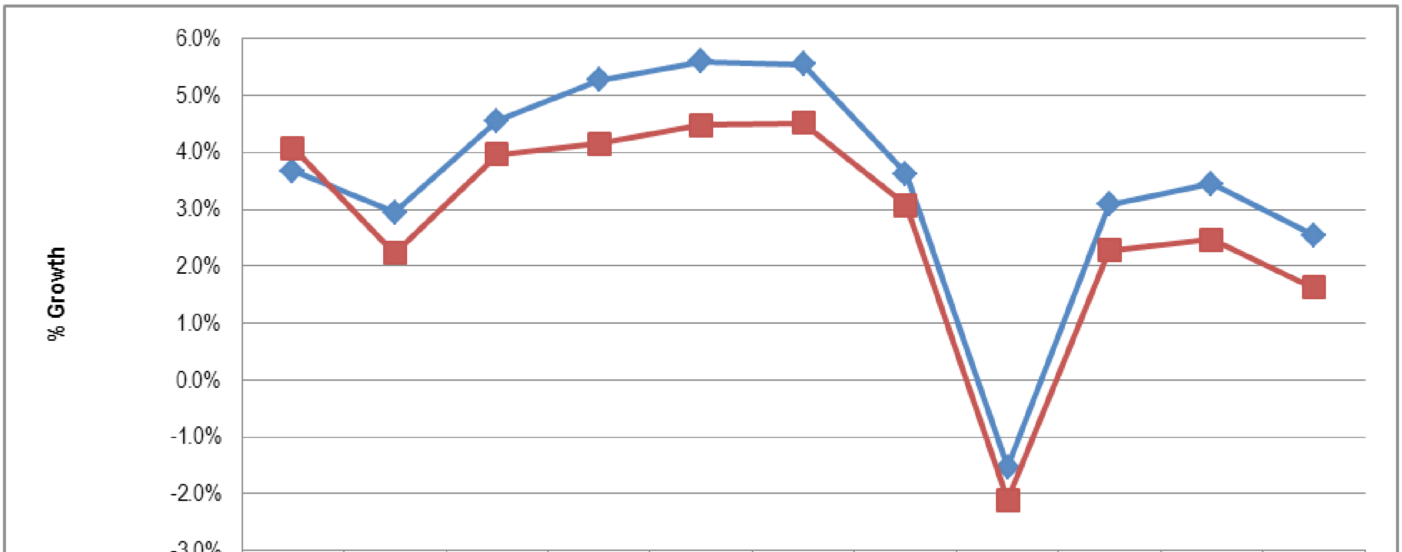
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP-R	73,490,49	75,131,45	78,110,88	81,361,69	85,010,33	88,855,97	91,591,11	89,665,49	91,707,16	93,972,28	95,498,47
% Growth	4.1%	2.2%	4.0%	4.2%	4.5%	4.5%	3.1%	-2.1%	2.3%	2.5%	1.6%

Source: IHS Global Insight, Regional eXplorer, 2013

An increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries. In the context of this section, will disregard the adequacy of GDP as an adequate measure, however rather proceed to analyse the movements of the measure in economic performance, thus neglect the social progress but reflect on income through the analysis of the Gross Domestic Product (GDP) per capita income.

The Free State principal economy has continued to surge, and has increased from R74 billion in 2002 to almost R100 million during 2012. The Free State Provincial economy has circumnavigated through the pressures broad about by the 2009 Global Financial crisis – that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory, and as such registering a below par growth of 2.1%. This is based on the data from IHS Global Insight figures. This minute growth is in spite of the happenings in both the Eurozone area and the United States, which have resuscitated the topical issue of a double dip recession. Post Global Financial crisis, the provincial growth has averaged just over two percent, and thus not near the pre-recession averages of 3.2%.

Figure 2.3: South Africa and Free State Growth, 2002 - 2012



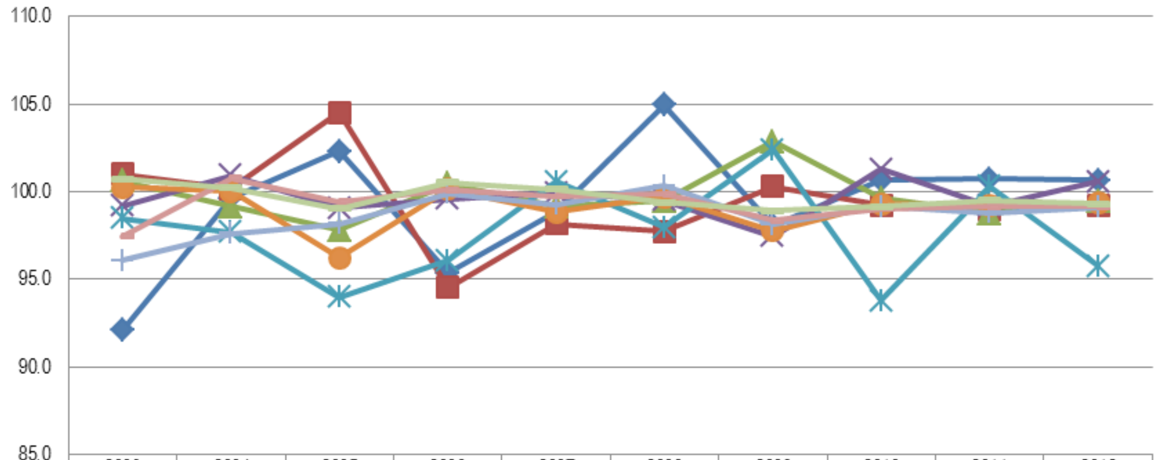
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
South Africa	3.7%	2.9%	4.6%	5.3%	5.6%	5.5%	3.6%	-1.5%	3.1%	3.5%	2.5%
Free State	4.1%	2.2%	4.0%	4.2%	4.5%	4.5%	3.1%	-2.1%	2.3%	2.5%	1.6%

Source: IHS Global Insight, Regional eXplorer, 2013

Figure 2.3 above indicates and thus confirm that the Free State growth performance has lagged behind the National average, and the other major provinces such as Gauteng, Kwazulu-Natal and the Western Cape. According to the 2011 FSPERO, between 2007 and 2010, the Free State growth rate averaged 1.97%, whilst the National average for the same period was 2.57%, which translated to a deficiency of about 0.60 percentage points than that of the Free State. Pre-recession, the province growth was at an averaged 3.2% (i.e. 2002 until 2008), and hit a slump following the financial crisis that plummeted the global economy in 2009 to register a negative growth of 2.1%. What has been a stinging factor in the post-financial crisis is the observation that no real employment creation has taken place, and the Free State is currently at number one in terms of the percentage of unemployed persons in the country.

In defining a *Growth Performance Index (GPI)*, the DBSA, insist that a growth performance index provides an indication of the growth in a certain sector in a particular economy relative to the growth attained in the same sector in the aggregate economy. An index larger (less) than 100 indicates a leading (lagging) sector. The same applies to the growth recorded in a specific sub-economy relative to the aggregate economy (in this instance the South African economy).

Figure 2.4: Free State Growth Performance Index, 2002 - 2012



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture	92.1	99.6	102.3	95.4	98.9	105.0	98.1	100.7	100.7	100.7
Mining	101.0	100.2	104.5	94.6	98.2	97.7	100.3	99.2	99.0	99.2
Manufacturing	100.6	99.1	97.8	100.5	99.1	99.5	102.9	99.6	98.8	99.4
Electricity	99.2	100.9	99.1	99.6	99.9	99.5	97.5	101.3	99.2	100.6
Construction	98.5	97.7	94.0	96.1	100.6	98.0	102.4	93.8	100.3	95.8
Trade	100.3	100.0	96.3	100.1	98.9	99.7	97.8	99.3	99.2	99.4
Transport	96.1	97.6	98.2	99.9	99.3	100.4	98.1	99.2	98.8	99.1
Finance	97.5	100.8	99.4	100.1	99.8	99.9	98.4	99.0	99.2	99.1
Community Services	100.7	100.2	99.0	100.5	100.1	99.4	98.9	99.1	99.5	99.3

Source: Free State Provincial Treasury's computations based on IHS Global Insight, ReX Database

Figure 2.4 above implicitly indicates the growth performance index, which is calibrated based on a simplistic methodology proposed by the Development bank of Southern Africa and the data provided by IHS Global Insight. Figure 2.4 thus confirms that the Free State growth performance has lagged behind the South African economic sectors. In 2008, the Agricultural sector recorded its highest GPI of 105.0, only to recede during 2009, and thus become a leading indicate in the post-recession era, with an index over 100.7. Other notable leading *GPI* by sector is in 2009, wherein, the construction sector recorded a 102.4 GPI; this could be attributed to the strong yet firm growth performance of the sector, in preparation for the 2010 FIFA World Cup. During 2012, only the Agricultural sector and that of electricity were leading sectors, with the remaining seven sector lagging.

Table 2.3 below discernibly depicts the Free State Sectoral Contribution to total economic growth, as encapsulated in the IHS Global Insight Database, for the period 2002-2012. In 2002, the Mining sector contributed a little of over 45.6% of the provincial growth of 4.1%. Whilst in 2003, its contribution towards the provincial growth dwindled and thus managed only to contribute 22.4% of the 2.2% growth realised in that year. And the sector's contribution has thus been on a downward slope. According to the IHS Global Insight data, 2003, was a hard year, as the growth of the provincial economy was held by the Community Services sector, which contributed half (i.e. 50%) of the year's realised annual growth of 2.2%. however, over the recent past the Community Services sector has encountered indifferent performance, whilst there has been an upsurge in the other Tertiary sectors of the economy, a case in point being the Financial services sector.

Table 2.2: Free State Sectoral Contribution to total economic growth (% point, Constant 2005 prices)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture	0.0%	-0.3%	0.0%	0.2%	-0.4%	0.0%	0.7%	-0.1%	0.0%	0.0%	0.1%
Mining	1.9%	0.5%	0.2%	0.6%	-0.6%	-0.2%	-0.7%	-0.4%	0.4%	-0.1%	-0.4%
Manufacturing	0.4%	-0.1%	0.5%	0.5%	0.8%	0.5%	0.3%	-0.9%	0.6%	0.3%	0.2%
Electricity	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	-0.1%	-0.1%	0.1%	0.0%	0.0%
Construction	-0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	-0.1%	0.0%	0.0%
Trade	0.4%	0.3%	0.6%	0.3%	0.6%	0.4%	0.1%	-0.4%	0.3%	0.4%	0.3%
Transport	0.5%	0.2%	0.2%	0.3%	0.4%	0.5%	0.4%	-0.1%	0.1%	0.2%	0.1%
Finance	0.5%	0.3%	1.2%	0.8%	1.5%	1.3%	1.2%	-0.1%	0.2%	0.6%	0.4%
Community services	0.4%	1.1%	0.5%	0.8%	1.0%	1.1%	0.9%	0.3%	0.3%	0.8%	0.5%
Total Industries	**4.0%**	**2.1%**	**3.5%**	**3.6%**	**3.6%**	**4.0%**	**2.8%**	**-1.6%**	**1.9%**	**2.1%**	**1.3%**
Taxes less Subsidies on products	0.1%	0.2%	0.5%	0.6%	0.9%	0.5%	0.3%	-0.5%	0.3%	0.4%	0.3%
Gross Domestic Product	**4.1%**	**2.2%**	**4.0%**	**4.2%**	**4.5%**	**4.5%**	**3.1%**	**-2.1%**	**2.3%**	**2.5%**	**1.6%**

Source: IHS Global Insight, ReX, 2013

The table below clearly discerns the Free State sectoral growth performance, between 2002 and 2012. In 2009, only the Free State Community Services and that of Construction industries contribution towards the provincial economy increased, as the other sectors of the economy faced declines. The Community services sector recorded a growth of 1.3%, with the biggest recorded increases being in the Construction sector with a 10.4% increase. Steepest decline noted was in the Manufacturing sector, with a 7.5% decrease. This decline could also be explained by the declines in all the sectors, and also to the then recession, whilst the increases in both the Construction and Community Services sector could be apportioned to the then 2010 FIFA World Cup preparations and a robust and employment creating Government sector. However, in 2012, the tables were turned and the Construction sector's contribution lagged behind and even recorded a negative sectoral growth, relating to a slump in demand for new houses and also the conclusion of 2010 legacy projects.

Table 2.3: Free State Sectoral Growth

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community Service
2002	-0.3%	21.0%	3.2%	3.6%	-8.6%	3.6%	5.9%	3.5%	1.4%
2003	-7.3%	4.5%	-0.9%	2.1%	6.0%	3.0%	2.2%	2.2%	4.4%
2004	0.5%	1.7%	4.0%	7.8%	6.6%	5.4%	2.4%	7.9%	2.1%
2005	5.2%	5.6%	3.9%	4.4%	5.2%	3.0%	3.4%	5.1%	3.1%
2006	-9.8%	-6.0%	6.9%	3.0%	6.1%	6.1%	5.0%	9.8%	4.3%
2007	1.5%	-1.9%	4.3%	3.3%	15.7%	4.1%	5.8%	7.6%	4.5%
2008	21.9%	-7.8%	2.1%	-3.6%	6.3%	0.7%	4.4%	7.2%	3.7%
2009	-3.5%	-5.1%	-7.5%	-3.9%	10.4%	-3.4%	-1.0%	-0.7%	1.3%
2010	1.1%	4.9%	5.1%	3.4%	-5.5%	3.1%	1.2%	1.2%	1.3%
2011	0.6%	-0.7%	2.3%	0.3%	0.8%	3.6%	1.9%	3.1%	3.0%
2012	3.0%	-4.8%	1.8%	-0.6%	-1.9%	2.9%	1.4%	2.4%	2.1%

Source: IHS Global Insight, ReX, 2013

Employment-related economic indicators, particularly those that measure the ability of economies to generate sufficient employment opportunities for their populations, often provide valuable insights into economies' overall macroeconomic performance. Among the most widely publicized indicators along these lines are unemployment rates, employment-to-population ratios, and labour force participation rates. Another labour market indicator that, perhaps owing to its somewhat less accessible title, receives less attention in the literature is the employment intensity of growth, or elasticity of employment with respect to output. The most basic definition of this indicator is that it is a numerical measure of how employment varies with economic output – for instance, of how much employment growth is associated with 1 percentage point of economic growth.

Though discussed less frequently than other key labour market indicators, employment elasticities can provide important information about labour markets. In their most basic use, they serve as a useful way to examine how growth in economic output and growth in employment evolve together over time. They can also provide insights into how employment generation varies for different population subsets in an economy, and assist in detecting and analysing structural changes in employment over time. The most basic definition of employment elasticity is the percentage change in the number of employed persons in an economy or region associated with a percentage change in economic output, measured by gross domestic product.

Within this broad definition, two methodologies are frequently utilized for calculating elasticities. It is important to note at the outset that the trends in employment intensity presented in this paper are indicative of the response of employment in terms of quantity of employed persons to GDP growth. While this is an important macroeconomic indicator in its own right, the tools at hand are limited in that they say nothing about overall changes in the quality of jobs or growth in the number of "decent" jobs. Another caveat that should be raised relates to making value judgements on employment elasticities.

Table 2.4: Free State Employment-Growth Elasticities – 2002 - 2012

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community Service
2002	-2.27	-0.46	-3.32	-0.57	1.38	-4.35	-1.14	0.85	1.78
2003	0.74	0.55	4.95	-2.19	0.57	1.01	-2.73	-0.60	1.09
2004	-16.43	-2.52	0.25	0.22	1.81	0.11	0.80	-0.06	-0.19
2005	-0.92	-2.45	-0.02	0.94	3.63	3.90	0.73	1.40	0.69
2006	0.16	0.56	0.15	1.22	0.33	1.67	-0.55	0.39	0.53
2007	4.30	-3.68	-0.28	1.07	-0.02	-1.12	-0.34	0.64	1.33
2008	-0.06	0.41	-0.39	0.80	0.09	3.81	2.97	1.66	1.47
2009	1.59	1.57	0.62	0.45	-0.76	1.51	3.38	-13.47	0.47
2010	-4.08	-0.97	-0.47	-2.72	1.40	0.06	0.61	-4.02	1.07
2011	-7.41	9.87	-0.93	-9.75	-0.92	-0.31	0.05	-0.17	1.50
2012	3.02	0.71	-3.14	-4.78	1.22	-0.33	1.70	-0.97	2.60
Average	**-1.94**	**0.33**	**-0.23**	**-1.39**	**0.79**	**0.54**	**0.50**	**-1.31**	**1.12**

Source: Free State Provincial Treasury's computations based on IHS Global Insight, ReX Database

Quoting Moses (2011:16), of the nine provincial economic sectors, six had positive average growth-employment elasticities for the period 2002 to 2012, with Mining, Construction, Trade and Community service recording the highest figures of 0.33, 0.79, 0.54 and 1.12, respectively. Whilst, the three economic sectors with negative growth-employment elasticities, were the Agriculture sector with a growth-employment elasticity of -1.94, Manufacturing (-0.23) and the Finance sector (-1.31). Unpacking these figures further, reveals the fact that, in the case of mining, its output declined on average by 2.2% which can be ascribed to the dwindling gold reserves, whilst also employment declined almost four times, i.e. 8.4 percent. Trade, on the other hand, had an output increase of 2.3%, whilst employment increased slightly more than two-fold, i.e. 5.6%. Zooming in on the Community services sector, the sector's output increased by 2.6%, whilst its employment increased slightly by 4.3% (See Moses et al (2011:14-18)).

Notably, this is the only sector that recorded the least number of incidents of negative employment growth, i.e. -0.6% in 2001. Turning to the three sectors that have posted negative growth-employment elasticities, Agriculture's output increased on average by 0.7%, whilst its employment declined by 1%. Manufacturing had an output increase of 2.6%, whilst employment declined by 1%. Lastly, Transport's output increased by 4 percent, whilst its employment declined by 1.4%. What is clear is that these three sectors, accounting for 26.5% and 27.2% of output and employment, respectively, have shed jobs whilst they were still experiencing output growth. In fact in the case of Agriculture and Transport, these sectors experienced reduction in employment for nine of the thirteen years under review.

Table 2.5: Regression Analysis Growth-Employment Elasticities

Regression Statistics						
Multiple R	0.317545584					
R Square	0.100835198					
Adjusted R Square	0.000927998					
Standard Error	0.028344429					
Observations	11					
ANOVA						
	df	*SS*	*MS*	*F*	*Significance F*	
Regression	1	0.000810869	0.00081087	1.0092886	0.34131793	
Residual	9	0.00723066	0.00080341			
Total	10	0.008041529				
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-0.011764803	0.015998274	-0.7353795	0.4808319	-0.04795541	0.02442581
gdp	0.488681194	0.486427302	1.00463356	0.34131793	-0.61169381	1.5890562

Source: Free State Provincial Treasury's computations based on IHS Global Insight, ReX Database

Similar to Moses (2011:25), first equation is invariably a different estimation technique for the simple growth employment of elasticity, where employ_growth is the annual percentage change in employment for the Free State province; gdp_growth is the annual growth rate of real GDP and β1 is the estimated simple elasticity. According to Seyfried (2005), the estimated elasticity provides a measure of the employment intensity of economic growth. High employment intensity indicates that growth in output leads to considerable job creation while low estimates of employment intensity suggest little correlation between economic growth and employment (a jobless recovery). Some have suggested that higher productivity growth may limit the relationship between economic growth and employment. Thus, when productivity growth rises, economic growth must be higher in order to generate jobs. When GDP grows quicker than its potential, economic growth is high enough to generate jobs.

Comparative Advantage (CA) of a region indicates relatively more competitive production function for a product or service in that specific economy than in the aggregate economy. This economy therefore produces the product or renders the service more efficiently. An indication of the CA of an economy is its **Location Quotient**. A region's economy, for instance, has a location quotient larger (smaller) than one or a comparative advantage (disadvantage) in a particular sector when the share of that sector in the specific economy is greater (less) than the share of the same sector in the aggregate economy. Important to highlight the fact that, sectors with values higher should, however, not be regarded as the only sectors worth developing as latent potential in other sectors has not been addressed by this technique(DBSA, 2001).

Table 2.6: Free State Location Quotient

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community Services
2002	2.23	1.58	0.71	1.23	0.63	0.79	0.82	0.81	1.19
2003	2.04	1.65	0.74	1.26	0.64	0.83	0.85	0.80	1.22
2004	1.72	1.69	0.73	1.36	0.59	0.85	0.85	0.80	1.27
2005	1.53	1.58	0.74	1.32	0.62	0.84	0.89	0.84	1.29
2006	1.75	1.59	0.75	1.29	0.55	0.87	0.85	0.80	1.26
2007	1.71	1.61	0.74	1.31	0.55	0.87	0.90	0.77	1.27
2008	2.06	1.67	0.72	1.25	0.55	0.85	0.87	0.76	1.23
2009	2.03	1.61	0.75	1.26	0.59	0.88	0.83	0.75	1.21
2010	1.87	1.60	0.76	1.22	0.58	0.91	0.83	0.75	1.22
2011	1.96	1.51	0.74	1.22	0.59	0.89	0.86	0.74	1.24
2012	1.87	1.49	0.74	1.21	0.59	0.91	0.86	0.75	1.25
Average	**1.89**	**1.60**	**0.74**	**1.27**	**0.59**	**0.86**	**0.85**	**0.78**	**1.24**
St. Dev.	**0.20**	**0.06**	**0.01**	**0.05**	**0.03**	**0.04**	**0.02**	**0.03**	**0.03**

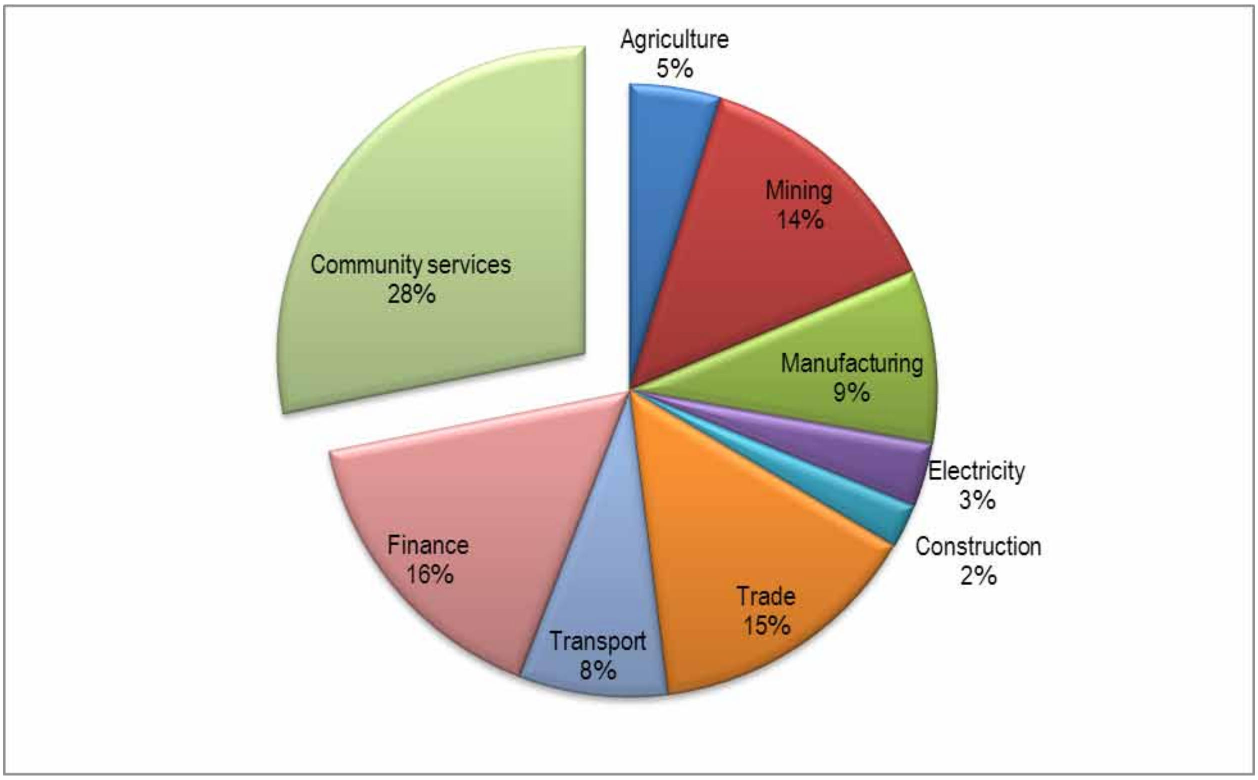
Source: IHS Global Insight, Regional Explorer, 2013

Free State Location Quotient for the years 2002 to 2012, and it is clearly evident that in 2012, the province had significant comparative advantage in sectors such as agriculture (1.87), mining (1.49), the utilities (1.21), and to some degree the community services sectors (1.25), as detailed by table 2.4, above. The improvement in the agricultural sector's comparative advantage is a pleasing sight, as it indicates the provinces continued investment in the agro-processing sector and all other sectors with the sector is bearing fruit. The improvements in the sector are also notable in the sectors though marginal but improvements in the sectors contribution to both the provincial and national output. The Manufacturing, finance and construction sector have the lowest comparative advantages in the province, with 0.74, 0.75 and 0.59, respectively.

2.4 Provincial Sectoral Analysis

In the preceding sections, the 2013 FSPERO has conceded that the Provincial economy has transcended from the primary sectors to the more technologically advanced services sector (or tertiary sectors). Free State economy has moved steadily from dependence on primary sectors such as mining and agriculture to secondary sectors such as manufacturing and export, and largely the services sectors. This diversification of the provincial economy bodes well for the long-term economic health of the province. This is also depended on the increases in the number of person with the requisite skills to function in the ever changing dynamic provincial economy. In the meantime, all sectors are playing a dynamic and important role in the economy, and offering investors outstanding opportunities at the same time. Therefore this section of the second chapter would focus on the different provincial economic sectors, whilst also delving in on the relevance of the sectors to other provincial economies.

Figure 2.5: Free State Provincial Gross Value Added Sectoral Depiction (2012)



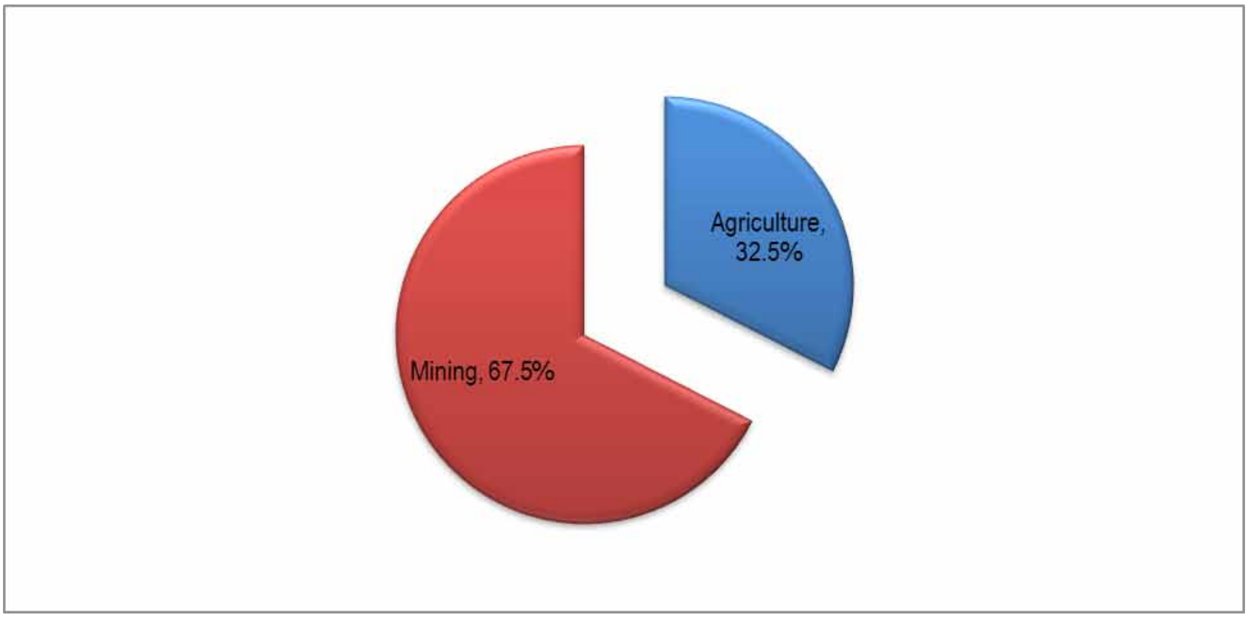
Source: IHS Global Insight, Regional Explorer, 2013

The graphical representation (figure.2.5) above, clearly and discernibly outlines the Free State Provincial economy during 2012. It is thus clearly depicted that in 2012, the Mining sector was the fourth biggest provincial economic sector, with a contribution of roughly 14.3%, in poll position being the Community services sector, with 28% contribution, and thus commanding of the provincial economy. The Manufacturing sector continues to be one of the mainstay sectors Free State economy, with a healthy 8.1% contribution towards the economy, during 2012. The least economic sector contributors in 2012 were Agriculture, Electricity and Construction sectors, with a 5%, 3% and 2% contributions, respectively.

2.4.1 Free State Primary Sectors

The Free State Primary industries, is not a falling sector in magnitude as earlier fathomed. In fact according to the IHS Global Insight figures the Free State, the primary sector contribution grew by roughly 3.5 percentage points or 21.1%, between 2002 and 2012. The Free State primary consists of the mining & quarrying industry (67.5%) and the agricultural industry (32.5%).

Figure 2.6: Free State Primary Sector (2012)



Source: IHS Global Insight, Regional eXplorer, 2013

Agriculture

Agriculture dominates the Free State landscape, with cultivated land covering 32 000 square kilometers, and natural veld and grazing a further 87 000 square kilometers of the province. It is also South Africa's leader in the production of biofuels, or fuel from agricultural crops, with a number of ethanol plants under construction in the grain-producing western region. Field crops yield almost two-thirds of the gross agricultural income of the province. Animal products contribute a further 30%, with the balance generated by horticulture. Ninety percent of the country's cherry crop is produced in the Ficksburg district, which is also home to the country's two largest asparagus canning factories. Soya, sorghum, sunflowers and wheat are cultivated in the eastern Free State, where farmers specialise in seed production. About 40% of the country's potato yield comes from the province's high-lying areas. The main vegetable crop is asparagus, both white and green varieties. Although horticulture is expanding and becoming increasingly export-orientated, most produce leaves the province unprocessed. The Free State's advantage in floriculture is the opposing seasons of the southern and northern hemispheres. The province exports about 1.2 million tons of cut flowers a year.

According to the Vision 2030 for the Free State, The agricultural sector in the province is characterised by large-scale commercial agriculture, small-scale commercial agriculture, and subsistence agriculture. The historical evolution of agriculture has been the progressive decline of small-scale commercial agriculture, which has been stifled by lack of access to credit, and limited access to markets and transport. The two major poles of agriculture are subsistence and large-scale commercial farms. A major challenge is that the agricultural sector in the Free State is dominated by wheat and maize and there is limited diversification.

Table 2.7: South African Agricultural Sector – 2002/2006/2010/2012

	2002	**2006**	**2010**	**2012**	**2002**	**2006**	**2010**	**2012**
Western Cape	8,243,365	8,369,906	9,696,198	9,806,612	23.0%	23.7%	23.3%	23.1%
Eastern Cape	2,390,387	2,290,559	2,707,516	2,781,351	6.7%	6.5%	6.5%	6.5%
Northern Cape	1,786,108	1,975,159	2,199,102	2,193,263	5.0%	5.6%	5.3%	5.2%
Free State	**3,027,775**	**2,675,572**	**3,228,557**	**3,345,205**	**8.5%**	**7.6%**	**7.8%**	**7.9%**
KwaZulu-Natal	10,180,594	10,173,124	12,064,262	12,667,160	28.4%	28.8%	29.0%	29.8%
North-West	2,371,173	2,330,996	2,818,830	2,829,262	6.6%	6.6%	6.8%	6.7%
Gauteng	2,111,190	1,994,102	2,186,508	2,206,248	5.9%	5.6%	5.3%	5.2%

Mpumalanga	3,592,166	3,085,297	3,739,235	3,700,927	10.0%	8.7%	9.0%	8.7%
Limpopo	2,123,242	2,464,284	2,989,220	3,008,987	5.9%	7.0%	7.2%	7.1%
South Africa	**35,826,000**	**35,359,000**	**41,629,429**	**42,539,016**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

Table 2.7 accounts for the South African agricultural sectors performance for the following years, 2002, 2006, 2010 and 2012. South Africa has a dual agricultural economy, on the one had a well-developed commercial farming sector and a more subsistence-based agricultural production sector, mostly found in rural areas. About 17% of the country's commercial farmers produce 80% South Africa's maize and contribution to GDP was R35.4 billion in 2006 and increased to round about R41.6 billion in 2010.

Free State was previously known as the *"Granary of the country"*' however, the province has since been experiencing major fluctuations in its Agricultural production capacity, with the main factors cited, chiefly among those being commodity prices and low rainfall in the region. Large percentages of South Africa's products such as grains originated from the Free State; however the lack of rain has dwarfed the output. This assertion can be traced through, the fact that the provincial contribution towards the South African Agricultural output declined by a marginal 7.05%, between 2002 and 2012. In 2012, the Free State Agricultural sector contributed R3.4 billion towards the South African Agricultural output thus in percentage terms 7.9%.

Kwazulu-Natal still remains the highest contributor to South's Africa's output at 29.8% share in 2012, whilst in monetary terms amounted just over R12.6 billion. KwaZulu Natal province is thus followed by the Western Cape with an average of 23.3% share, for the four years assessed. The Eastern Cape, Northern Cape and Mpumalanga remained stable at 6.6%, 5.3% and 9.1%, respectively. Contrary to popular myth the Gauteng province, is a steady contributor towards the agricultural sector, and thus continues to provide South Africa with roughly 5.4% agricultural outputs.

Mining

The Free State is also rich in mineral wealth, gold representing 20% of the world's total gold production. Mining is the province's major employer. The province has 12 gold mines, producing 30% of South Africa's output and making it the fifth-largest producer of gold in the world. The Harmony Gold Refinery and Rand Refinery are the only two gold refineries in South Africa. Gold mines in the Free State also supply a substantial portion of the total silver produced in the country, while considerable concentrations of uranium occurring in the gold-bearing conglomerates of the goldfields are extracted as a byproduct. Bituminous coal is also mined, and converted to petrochemicals at Sasolburg. The Free State also produces high-quality diamonds from its kimberlite pipes and fissures, and the country's largest deposit of bentonite is found in the Koppies district (www.wikipedia.com).

Table 2.8: South African Mining Sector – 2002/2006/2010/2012

	2002	**2006**	**2010**	**2012**	**2002**	**2006**	**2010**	**2012**
Western Cape	434,194	442,588	394,314	367,900	0.4%	0.4%	0.4%	0.4%
Eastern Cape	154,934	157,542	135,893	131,848	0.2%	0.1%	0.1%	0.1%
Northern Cape	8,682,531	8,721,411	7,733,775	7,173,877	8.7%	8.3%	7.8%	7.5%
Free State	**7,733,854**	**8,156,721**	**7,346,485**	**6,942,763**	**7.7%**	**7.7%**	**7.4%**	**7.3%**
KwaZulu-Natal	3,665,740	3,585,477	3,516,992	3,382,541	3.7%	3.4%	3.5%	3.5%
North-West	23,851,271	27,185,621	26,041,593	25,729,927	23.9%	25.8%	26.2%	26.9%
Gauteng	13,312,088	12,337,578	11,171,036	10,373,452	13.3%	11.7%	11.2%	10.8%
Mpumalanga	18,678,857	20,763,401	19,769,410	19,004,348	18.7%	19.7%	19.9%	19.9%
Limpopo	23,446,340	24,013,920	23,273,673	22,530,755	23.5%	22.8%	23.4%	23.6%
South Africa	**99,959,810**	**105,364,260**	**99,383,171**	**95,637,412**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

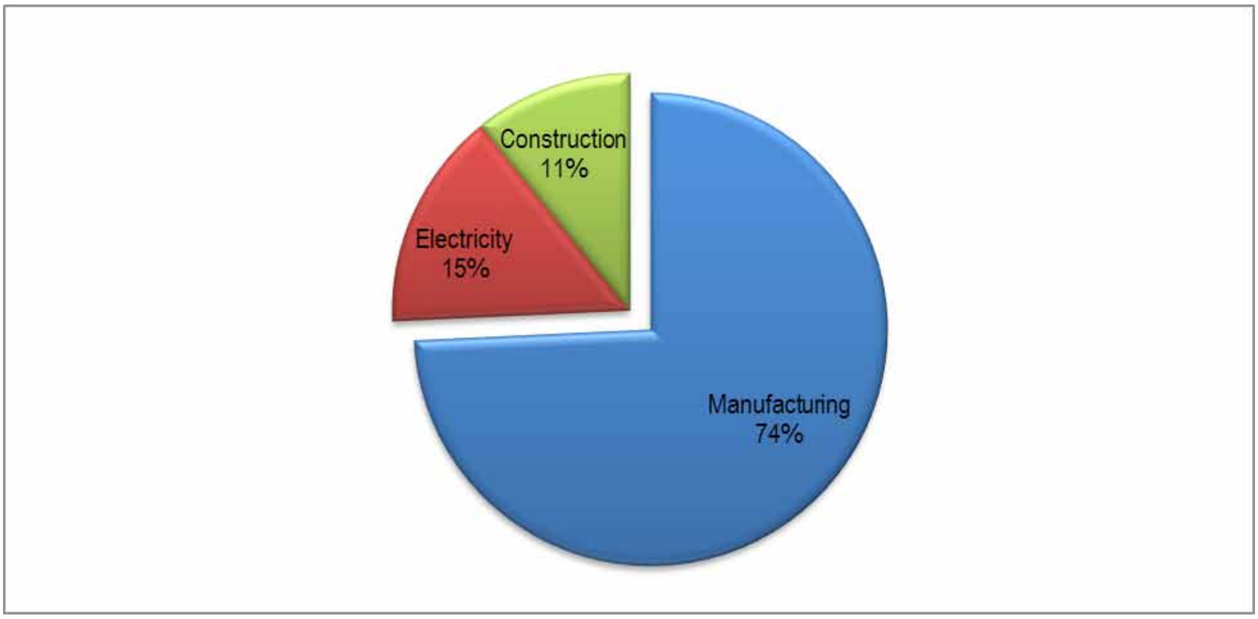
South Africa is the largest gold producer in the world with Harmony Gold refinery and Rand refinery as the only 2 refineries. Free State produces high-quality diamonds which were first discovered in Jagersfontein and are now mined at Koffiefontein together with gravel and clay. North West, Limpopo, Mpumalanga and Gauteng still remain the largest contributors to the mining output. In 2012, North West and Limpopo increased their Mining outputs to about 26.9% and 23.6%, whilst Mpumalanga and Gauteng followed with 19.7% and 11.3% correspondingly.

Free State is the world's largest gold producer and contributes 7.3% share in 2013, decreasing by 0.4% from 2006. The contribution of mining has declined throughout the years due to a number of factors such as international gold price, an increase in costs e.g. labour and exchange rates (e.g. an improvement in the exchange rate implies lower returns), as well as the decline in the gold reserves. Eastern Cape and Western Cape are the least contributors at 0.1% and 0.4%, during 2012. The Northern Cape province; has maintained a steady however declining contributions to the South African Mining sector, averaging 8.1% for the four years analysed. The Northern Cape, mining activities are in the main from Diamond mining.

2.4.2 Free State Secondary Sectors

The **Secondary Sector** of the economy or industrial sector includes those economic sectors that create a finished, tangible product: production and construction. The sector generally takes the output of the primary sector and manufactures finished goods. These products are then either exported or sold to domestic consumers and to places where they are suitable for use by other businesses. This sector is often divided into light industry and heavy industry. Many of these industries consume large amounts of energy and require factories and machinery to convert the raw materials into goods and products. They also produce waste materials and waste heat that may pose environmental problems or cause pollution.

Figure 2.7: Free State Secondary Sector (2012)



Source: IHS Global Insight, Regional eXplorer, 2013

The Free State Secondary sector is premised on three broad economic sectors, which are manufacturing with the biggest slice of the sector 74% stake of the sector, whilst Electricity and Construction share the remaining 26%.

Manufacturing

Since 1989, the Free State economy has traversed from dependence on primary sectors such as mining and agriculture to an economy increasingly oriented towards manufacturing and export. Some 14% of the province's manufacturing is classified as being in high-technology industries – the highest of all provincial economies. The northern Free State's chemicals sector is one of the most important in the southern hemisphere. Petrochemicals Giant that is Sasol, based in the town of Sasolburg, is a world leader in the production of fuels, waxes, chemicals and low-cost feedstock from coal. According to Vision 2030; the overall growth in the manufacturing industry in the Free State is closely linked to the fuel, petroleum and chemicals sub-sector. Although this sector is largely linked to Gauteng, effective support for this sector remains a priority as significant linkages would exist with the province. Given the success of this sector, up-stream and down-stream activities will be supported and concerted effort will be made to ensure provision of information communication technology infrastructure to support all knowledge-based industries. These industries will be linked to the province's institutions of higher learning.

Emphasis will also be on supporting the non-petro-chemicals manufacturing sector. This will require both forward and backward linkages, and the deepening of provincial markets for the manufacturing sector through procurement of inputs into public infrastructure and the supply of basic services. Infrastructure will thus provide a key link in the integration of economic growth, development and redistribution of economic resources. The provincial government will strive for the optimal use of the infrastructure budget to stimulate the non-petro-chemicals manufacturing sector.

The report (Free State Vision 2030 or aptly the FSGDS) further says that linkages between agriculture and manufacturing through agro-processing will be strengthened. The creation of the agro-manufacturing complex, which has capacity to export goods to other provinces, will also form the basis for the transformation of the provincial economic structure. The strategic role of the province in agriculture is well acknowledged. Nevertheless, without progressive value addition on agricultural products through manufacturing, the provinces will progressively contribute less to national growth. Its capacity to create long-term and sustainable jobs will also be limited.

Table 2.9: South African Manufacturing Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	35,546,414	41,156,977	42,412,285	44,786,340	15.1%	14.9%	15.0%	14.9%
Eastern Cape	18,898,518	21,294,223	22,244,595	23,580,163	8.0%	7.7%	7.9%	7.9%
Northern Cape	1,072,894	1,236,756	1,366,248	1,423,203	0.5%	0.4%	0.5%	0.5%
Free State	**9,246,843**	**10,583,294**	**10,961,733**	**11,420,697**	**3.9%**	**3.8%**	**3.9%**	**3.8%**
KwaZulu-Natal	50,005,204	58,392,685	60,221,375	64,055,805	21.2%	21.2%	21.3%	21.4%
North-West	4,510,202	5,467,181	6,152,587	6,562,573	1.9%	2.0%	2.2%	2.2%
Gauteng	96,673,487	113,872,548	113,646,718	121,068,088	40.9%	41.3%	40.2%	40.4%
Mpumalanga	17,085,548	20,161,167	21,739,277	22,928,043	7.2%	7.3%	7.7%	7.7%
Limpopo	3,093,890	3,617,570	3,764,113	3,880,583	1.3%	1.3%	1.3%	1.3%
South Africa	**236,133,000**	**275,782,400**	**282,508,931**	**299,705,493**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

The South African Manufacturing sector is the third largest sector in the economy, and its contribution to the Gross domestic Product was at approximately R282.5 billion in 2010 thereby increasing by 6.08 percentage points to almost R300 billion in 2012. The South African Manufacturing sector is dominated by the following industries:

- Agro processing;
- ICT and electronics;
- Automotive;
- Metals;
- Chemicals; and
- Textiles, clothing and footwear

The Free State Manufacturing sector contributed a palsy 3.8% of the South African aggregated Manufacturing sector, culminating in a contribution of R 11,4 billion of the almost R 300 billion accrued by the sector during 2012. The most important manufacturing subsector in the Free State is the chemical and the petroleum industry (that is the oil giant SASOL) and accounts for approximately 70% of the province's manufacturing sector. Petrochemicals Company Sasol, based in the Northern Free State is a world leader in the production of fuels, waxes, chemicals and low-cost feedstock from coal. According to the IHS Global Insight (2013), the manufacturing sector is gradually depreciating due to slow productivity growth performance. Gauteng is leading at a percentage share of 40.4%; it is then followed by Kwazulu-Natal maintaining an average share of 21.4% during 2012.

Electricity

South Africa is the largest emitter of Greenhouse gases in Africa out of the 20 in the world, largely because of the economy's dependence on fossil fuels and its biggest rivers and dams are in the Free State. Utilities sector is made up of electricity and water sectors and its role is to provide clean and affordable water and energy within everyone's reach.

Table 2.10: South African Electricity Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	2,718,330	3,545,521	3,564,084	3,539,564	9.5%	10.4%	10.4%	10.3%
Eastern Cape	1,055,184	1,360,222	1,382,546	1,362,043	3.7%	4.0%	4.0%	4.0%
Northern Cape	567,707	659,909	687,237	678,397	2.0%	1.9%	2.0%	2.0%
Free State	**1,971,273**	**2,333,164**	**2,309,416**	**2,301,192**	**6.9%**	**6.8%**	**6.7%**	**6.7%**
KwaZulu-Natal	5,630,485	5,883,500	5,684,528	5,629,171	19.8%	17.2%	16.5%	16.4%
North-West	686,008	835,345	916,140	928,171	2.4%	2.4%	2.7%	2.7%
Gauteng	9,625,512	11,742,099	12,028,350	12,168,993	33.8%	34.4%	34.9%	35.4%
Mpumalanga	4,211,934	4,952,623	4,993,054	4,825,796	14.8%	14.5%	14.5%	14.0%
Limpopo	2,036,566	2,826,617	2,855,986	2,948,351	7.1%	8.3%	8.3%	8.6%
South Africa	**28,503,000**	**34,139,000**	**34,421,341**	**34,381,678**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

In nominal terms, Gauteng province (35.4%) contributed around R12.1 billion in 2012, followed by Kwazulu-Natal (16.4%) with R5.7 billion and Mpumalanga at R4.9 billion. Free State account for 6.6% share of the Utilities industry's GDP and is slowly declining. In 2006, the province contributed R2.33 billion and it is now at R2.3 billion decreasing at an annual growth rate of 1.8%.

Construction

Construction is considered to be a cornerstone for economic growth and development. As the construction industry in South Africa is comprised of a great number of small firms and a few large civil engineering firms and construction and contributes 11% to the country's GDP growing from R48.9 billion in 2007 to R58.2 billion in 2011.

Table 2.11: South African Construction Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	6,143,015	8,514,182	10,961,082	11,326,192	21.0%	20.0%	19.0%	19.1%
Eastern Cape	1,588,949	2,648,508	3,500,112	3,542,835	5.4%	6.2%	6.1%	6.0%
Northern Cape	423,641	511,708	681,468	678,229	1.4%	1.2%	1.2%	1.1%
Free State	**1,034,541**	**1,305,347**	**1,674,144**	**1,655,834**	**3.5%**	**3.1%**	**2.9%**	**2.8%**
KwaZulu-Natal	4,409,427	6,174,937	8,451,674	8,763,599	15.0%	14.5%	14.6%	14.7%
North-West	1,057,454	1,303,658	1,671,712	1,701,729	3.6%	3.1%	2.9%	2.9%

Gauteng	11,592,244	18,299,704	25,577,746	26,393,844	39.5%	43.0%	44.3%	44.4%
Mpumalanga	1,517,782	2,021,253	2,800,485	2,908,948	5.2%	4.7%	4.9%	4.9%
Limpopo	1,553,947	1,802,703	2,388,481	2,450,788	5.3%	4.2%	4.1%	4.1%
South Africa	**29,321,000**	**42,582,000**	**57,706,904**	**59,422,000**	**100%**	**100%**	**100%**	**100%**

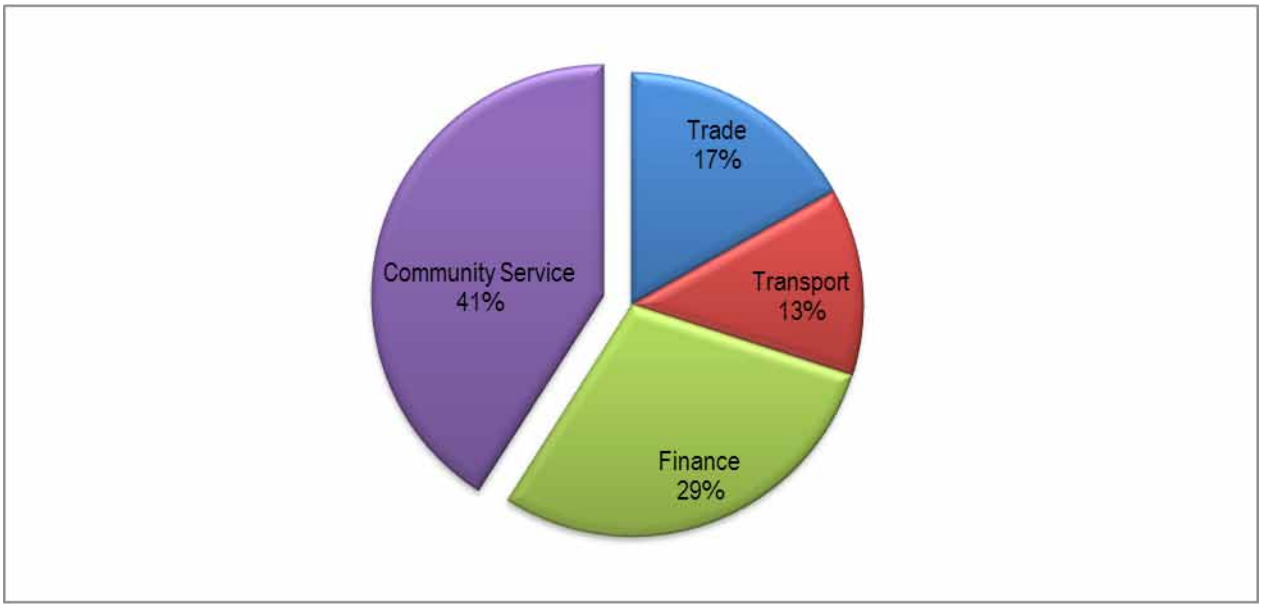
Source: IHS Global Insight, Regional eXplorer, 2013

According to the South African Government information by the Department of Sports, Arts, Culture and Recreation, access to services such as libraries in the Free State will be expanded with improved facilities and it is estimated that about 20 jobs will be created with every library building project. The provinces which are dominant in this industry are Gauteng (44.4%), Western Cape (20.0%) and Kwazulu-Natal (14.4%) and during 2011 Gauteng increased to 44.7%, while Kwazulu-Natal's share still remains stagnant and Western Cape decreasing to 19.1 by only 1%. The Northern Cape still remains the least contributor over recent years.

2.4.3 Free State Tertiary Sectors

The tertiary sector of the economy (also known as the service sector or the service industry) is one of the three economic sectors, the others being the secondary sector (approximately the same as manufacturing) and the primary sector (agriculture, fishing, and extraction such as mining).

Figure 2.8: Free State Tertiary Sectoral Depiction (2012)



Source: IHS Global Insight, Regional eXplorer, 2013

The service sector consists of the "soft" parts of the economy, i.e. activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability, what is termed affective labor. The basic characteristic of this sector is the production of services instead of end products. Services (also known as "intangible goods") include attention, advice, access, experience, and discussion. The production of information is generally also regarded as a service, but some economists now attribute it to a fourth sector, the quaternary sector.

The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. Services may involve the transport, distribution and sale of goods from producer to a consumer, as may happen in wholesaling and retailing, or may involve the provision of a service, such as in pest control or entertainment. The goods may be transformed in the process of providing the service, as happens in the restaurant industry. However, the focus is on people interacting with people and serving the customer rather than transforming physical goods.

Trade

The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are, therefore, organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and non-store retailers.

Table 2.12: South African Trade Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	27,203,919	33,925,544	36,715,652	39,820,808	16.2%	16.4%	16.3%	16.3%
Eastern Cape	14,188,041	16,414,366	17,562,786	18,884,556	8.4%	7.9%	7.8%	7.7%
Northern Cape	2,963,562	3,978,187	4,086,591	4,439,436	1.8%	1.9%	1.8%	1.8%
Free State	**7,566,280**	**8,977,865**	**9,369,300**	**9,991,614**	**4.5%**	**4.3%**	**4.2%**	**4.1%**
KwaZulu-Natal	28,487,998	35,181,223	39,129,768	42,786,181	16.9%	17.0%	17.4%	17.5%
North-West	7,425,336	9,239,162	9,774,763	10,615,639	4.4%	4.5%	4.3%	4.4%
Gauteng	60,616,093	75,660,538	83,486,103	90,558,124	36.0%	36.6%	37.0%	37.1%
Mpumalanga	10,206,760	11,657,834	12,686,309	13,364,491	6.1%	5.6%	5.6%	5.5%
Limpopo	9,699,210	11,601,281	12,526,297	13,363,326	5.8%	5.6%	5.6%	5.5%
South Africa	**168,357,200**	**206,636,000**	**225,337,568**	**243,824,175**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

The majority of the Trade sector's contribution is attributed to the three most affluent and populace provinces in the Country, which is, Gauteng (37.1%), Western Cape (16.3%) and KwaZulu-Natal (17.5%), whilst in monetary value accounted for R90.6 billion, R39.8 billion and R42.8 billion, respectively.

Transport

The central location of the Free State and the fact that significant large volumes of freight are moved across the surface of the province gives it a competitive urge. The province's road network comprises about 1 615km of national roads, 6 316 km of surfaced roads, 21 486km of gravel secondary roads and 22 000km of gravel tertiary roads. The Harr8266ismith node on the N3 corridor between Gauteng and Kwazulu-Natal is of significance while the N8 corridor is also important. The N1 flows through the province linking Gauteng and the Western Cape. The state of the art Bloemfontein international airport is a busy gateway to the province and handles about 250 000 passengers on a yearly basis. This includes international, domestic, and non-scheduled flights. The airport also handles about 221 000 tons of cargo a year, primarily consisting of courier items and spare parts for machinery. Most of the other towns have their own airfields.

Table 2.13: South African Transport Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	16,888,117	21,775,143	24,703,501	26,055,556	14.2%	14.9%	14.8%	14.8%
Eastern Cape	8,769,448	10,203,787	11,471,882	12,041,045	7.4%	7.0%	6.9%	6.8%
Northern Cape	2,553,967	3,141,544	3,448,094	3,569,597	2.2%	2.1%	2.1%	2.0%
Free State	**5,962,217**	**6,769,989**	**7,490,136**	**7,739,220**	**5.0%**	**4.6%**	**4.5%**	**4.4%**
KwaZulu-Natal	25,336,988	31,553,767	36,736,942	38,922,799	21.3%	21.5%	22.0%	22.1%
North-West	5,760,960	7,274,165	8,387,218	9,012,387	4.9%	5.0%	5.0%	5.1%
Gauteng	38,567,160	47,858,689	54,798,015	58,047,627	32.5%	32.6%	32.8%	32.9%

Mpumalanga	7,172,203	9,040,389	10,314,343	10,821,499	6.0%	6.2%	6.2%	6.1%
Limpopo	7,737,940	8,989,528	9,963,289	10,298,186	6.5%	6.1%	6.0%	5.8%
South Africa	**118,749,000**	**146,607,000**	**167,313,420**	**176,507,916**	**100%**	**100%**	**100%**	**100%**

Source: IHS Global Insight, Regional eXplorer, 2013

The transport industry is the sixth largest and one of the most important sectors in South Africa as it contributes 13% of its output to GDP. The Free State has an adequate rail system which is necessary for the transportation of bulk goods. Some of the main railway lines linking the Western Cape and the Eastern Cape run through the Free State. The main purpose for the development of a new transport mode; the Harrismith Logistical Huh (HLM) located in Harrismith in the Free State Province was as a result of the eradication of traffic congestion caused by heavy haulage transportation on the N3 highway and to provide multi-nodal transportation logistics such as air, rail and road.

The Bloemfontein Airport is the third largest Airport in South Africa and handles approximately 17700 air traffic movements a year that include international, domestic and non-scheduled flights. In 2007, Gauteng, Kwazulu-Natal and Western Cape contributed 32.6%, 21.6% and 14.8% to GDP respectively, Gauteng and Kwazulu-Natal increased to 32.8% and 21.8% whilst Western Cape decreased by just 0.01%. Free State still remains the second least contributor with a share of 4.5% in 2011 also declining by 0.01% since 2007.

Finance

Financial services perform best in low interest rate environments. A large portion of this sector generates revenue from mortgages and loans, which gain value as interest rates drop. Furthermore, when the business cycle is in an upswing the financial sector benefits from additional investments. Improved economic conditions usually lead to more capital projects and increased personal investing (www.investopedia.com).

Table 2.14: South African Finance Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	50,310,164	66,090,165	78,536,032	84,114,026	20.2%	20.4%	20.3%	20.2%
Eastern Cape	19,446,424	24,991,630	28,864,374	30,624,488	7.8%	7.7%	7.5%	7.4%
Northern Cape	3,675,711	4,475,215	5,138,910	5,390,590	1.5%	1.4%	1.3%	1.3%
Free State	**11,076,291**	**14,084,546**	**16,329,639**	**17,245,265**	**4.4%**	**4.3%**	**4.2%**	**4.1%**
KwaZulu-Natal	33,198,931	44,723,450	53,887,133	58,139,153	13.3%	13.8%	13.9%	14.0%
North-West	7,963,603	11,642,636	13,935,328	14,540,344	3.2%	3.6%	3.6%	3.5%
Gauteng	101,839,956	128,883,520	156,427,215	169,661,701	40.9%	39.8%	40.4%	40.8%
Mpumalanga	9,994,078	13,589,150	16,123,024	17,496,499	4.0%	4.2%	4.2%	4.2%
Limpopo	11,659,843	15,521,688	17,910,344	18,576,935	4.7%	4.8%	4.6%	4.5%
South Africa	**249,165,000**	**324,002,000**	**387,152,000**	**415,789,000**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: IHS Global Insight, Regional eXplorer, 2013

The Finance Industry is made up of commercial, retail, merchant banking, mortgage lending insurance and investment. This sector play an important role in South Africa as it constitutes 29% of the GDP output. According to the Labour force Survey of 2010 the financial services was the third largest employer representing about 13.1% of total employment. In the Free State only 3% of people were employed in the financial sector by end of 2009. IHS Global Insight (2012) figures, above indicates that Gauteng, Western Cape and Kwazulu-Natal are at the lead towards the finance industry's GDP throughout the years at 39.4%, 20.5% and 13.8%.

Community Services

The community services sector is the largest sector in South Africa compromising of the general government and personal services and has remained the same with a share of GDP at 41%. The IHS Global Insight (2012), indicates the gradual increase of output generated by the Community Services sector of each province. This industry has grown from R321 billion in 2007 to R362 in 2011 thereby achieving a positive growth.

Table 2.15: South African Community Services Sector – 2002/2006/2010/2012

	2002	2006	2010	2012	2002	2006	2010	2012
Western Cape	28,875,183	32,890,765	37,432,425	39,994,807	10.7%	10.7%	10.7%	10.7%
Eastern Cape	31,720,949	35,689,715	40,058,114	42,606,459	11.7%	11.6%	11.4%	11.4%
Northern Cape	7,097,134	8,059,515	9,072,729	9,668,587	2.6%	2.6%	2.6%	2.6%
Free State	**18,070,885**	**20,700,220**	**23,041,896**	**24,240,516**	**6.7%**	**6.7%**	**6.6%**	**6.5%**
KwaZulu-Natal	39,616,933	44,876,927	51,524,601	54,791,353	14.7%	14.6%	14.7%	14.7%
North-West	14,956,121	16,784,907	18,915,726	19,862,872	5.5%	5.4%	5.4%	5.3%
Gauteng	96,003,489	110,606,382	128,671,372	138,310,938	35.5%	35.9%	36.6%	37.0%
Mpumalanga	14,105,751	16,187,575	17,757,015	18,678,422	5.2%	5.3%	5.1%	5.0%
Limpopo	19,809,555	22,223,994	24,736,151	25,588,843	7.3%	7.2%	7.0%	6.8%
South Africa	**270,256,000**	**308,020,000**	**351,210,029**	**373,742,796**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: IHS Global Insight, Regional eXplorer, 2013

Gauteng is the biggest contributor thereafter Kwazulu-Natal follows at 35.9% and 14.7% share in 2007 with both countries slightly increasing to 36.5% and 14.7% in 2009 and Gauteng staying the same in 2011 and . The least contributors to the Community service GDP is the Northern Cape and Mpumalanga with 2.6% and 5.1% during 2011 with the Free State as the fourth least contributor. The Free State's community sector output increased from R21.6 billion to R23.9 in 2011, growing at an annual growth rate of 4.1%.

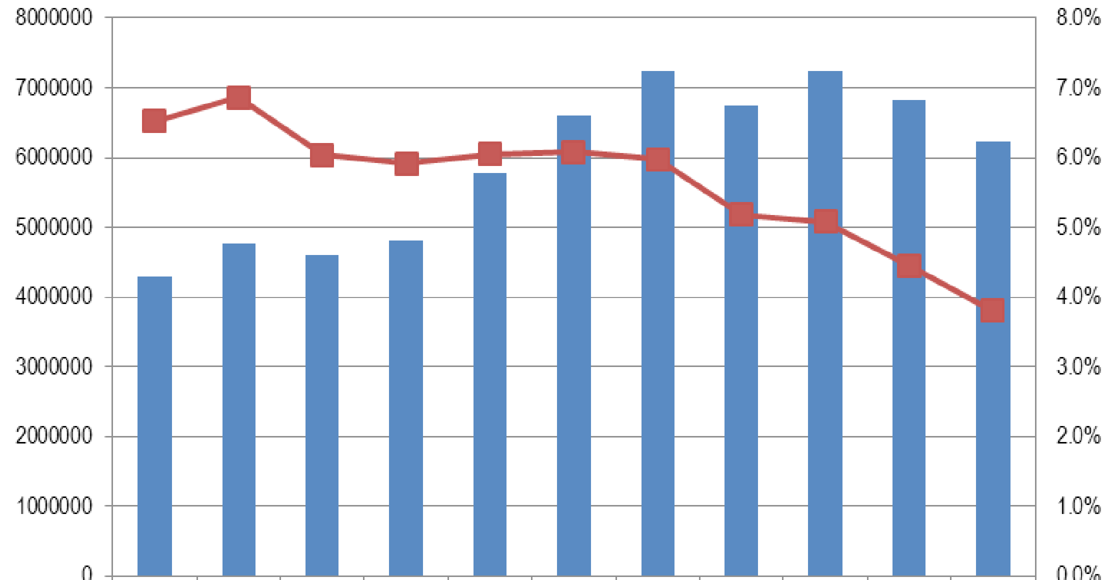
2.4.4 Free State Tourism Sector

The National Department of Tourism will be celebrating the 2013 Tourism Month with the theme ''Tourism and water – protecting our common future'', as identified by the United Nations World Tourism Organisation (UNWTO). The theme for the 2013 Tourism Month highlights the need to bring the tourism sector and water management stakeholders closer together to spur tourism's contribution to water sustainability and the industry's own future survival. In the northeastern Free State, nestled in the rolling foothills of the Maluti Mountains, the Golden Gate Highlands National Park is the province's prime tourist attraction. The park gets its name from the brilliant shades of gold cast by the sun on the spectacular sandstone cliffs, especially the imposing Brandwag or Sentinel Rock, which keeps vigil over the park.
The sandstone of this region has been used for the lovely dressed-stone buildings found on the Eastern Highlands, while decoratively painted Sotho houses dot the grasslands. Some of South Africa's most valued San (Bushman) rock art is found in the Free State, particularly in the regions around Clarens, Bethlehem, Ficksburg, Ladybrand and Wepener. With its breath taking beauty and captivating scenery, tourists into the province will also be left with magnificent memories of the Free State. The province caters for every need. In 2010, the hotels and restaurants subsector of tourism contributed 0.4% to the provincial economy. Between 1996 and 2010, the sector grew by 1.2% per annum and approximately 65 000 people were employed in the hotels and restaurants sub-sector in 2010.

The Free State tourism market is mainly a domestic market with an emphasis on business tourism and weekend tourism. To improve the province's share of tourism a number of strategic interventions are required. A much more concerted effort is required at local municipal level to plan and prioritize tourism possibilities. In addition to long-term strategies, the Free State Provincial

Government will facilitate improved marketing, improved product development and the development of a tourism establishment database. Tourism routes will also be expanded. A concerted effort will be pursued to ensure that the sector builds adequate skills. Continuous education will be prioritised and development of a more diversified ownership profile in respect of tourism establishments will be high on the priority list.

Figure 2.9: Free State Total Tourism Spend as Percentage of GDP



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Tourism Spend	4296444	4762401	4602871	4813515	5769178	6603218	7239570	6747647	7239342	6824395	6227790
Tourism spend as % of GDP	6.5%	6.9%	6.0%	5.9%	6.1%	6.1%	6.0%	5.2%	5.1%	4.5%	3.8%

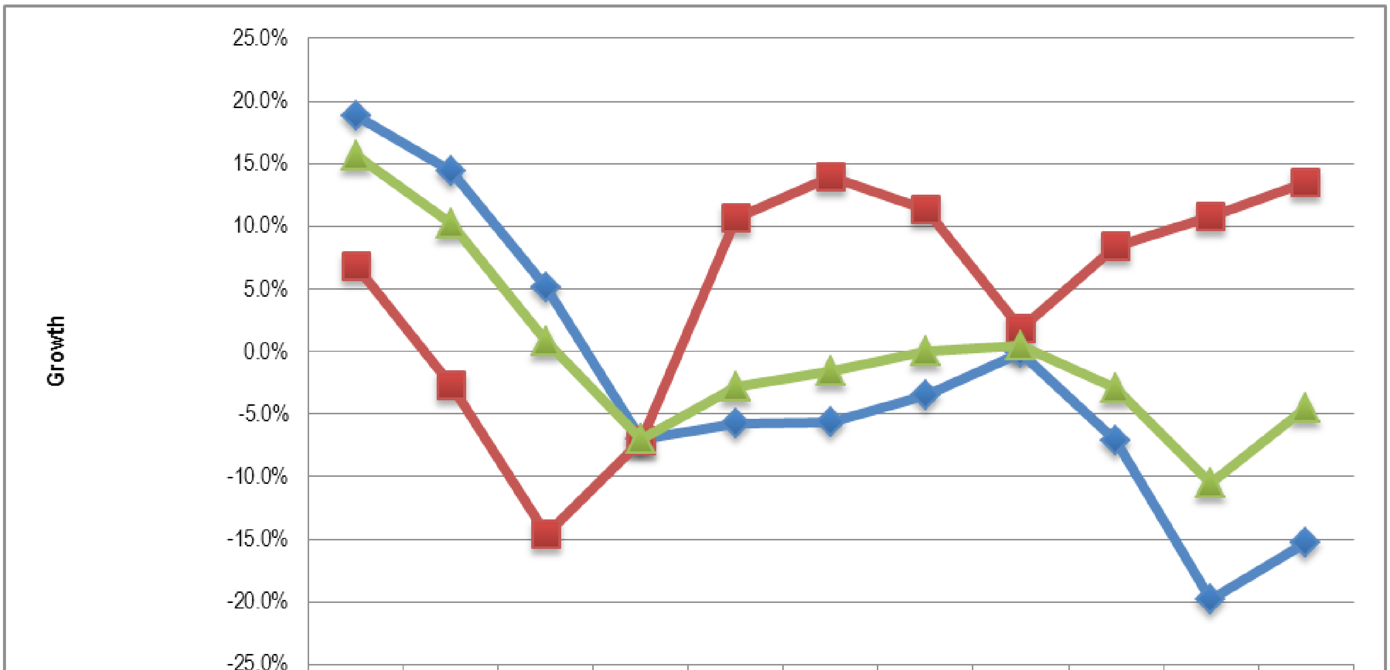
Source: IHS Global Insight, Regional Explorer, 2013

Figure 2.9 above depicts the total tourism spend and as a percentage of GDP, for the Free State province starting off from 2002 until 2012. There was an upsurge in the total tourism spend between 2002 and 2008, increasing by 68.5%, and 9.78% annualised. Then downward or rather inconsistent trend in total tourism spend began during the height of the Global Financial crisis in 2009, when it declined from R7.2 billion in 2008, to R6.7 billion during 2009. Only to increase in 2010 recording R7.2 billion whilst accounting for 5.1% of the provincial GDP, and then declined 2011 and furthermore in 2012, when it registered R6.2 billion accounting for 3.8% of the provincial economy. For the period studied, the Tourism spend has averaged a 5.65% contribution towards the provincial economy, worrying is the fact the contribution has been on the decline. Thus sterner measures are required to turn the tide.

However, from 2008 up until recently, there has been a continuous decline in tourism spend in the province. This is from the heights of 2008 where tourism spend was roughly R7.24 billion, and declined in 2009 due to the economic meltdown experienced then. Whilst, the sector saw some resuscitation in 2010 due to the global spectacle (i.e. the 2010 FIFA World Cup of Soccer), which the Free State province served as a host province, and recorded a marginal decline in 2011, wherein tourism spend was recorded at levels of R6.82 billion, which spelt a decrease of approximately R414 million in this period. The spending declined further in 2012, were the province registered a meager R6.23 billion.

Furthermore, the percentage contribution of tourism to GDP, has decreased over the period analysed. This decline was from the highs 6.9% in 2003 to 5.2% in 2009, during the height of the recession, indicative of a decrease 24.6% in within this period. Overall the figures indicate that the period from 2002 up until 2012 saw an increase in total spending range, from R4.29 billion to R6.23 billion, indicating an increase of approximately R872 million in nominal terms. Coupled with the fact that the total tourism spend as a percentage of the GDP went from 6.5% in 2002 to 3.8% in 2013 (spelling a 2.7% drop in the period analysed), and this would intuitively lead us to the conclusion that the tourism sector has not kept pace with the growth of the other sectors within the province. Plausible reason being cited is that the sector is rather a dependent sector, depending of the increases in the wealth of the population, within the country and from other countries, as most travelers were hard hit by the global financial meltdown.

Figure 2.10: Free State Tourists by categories – Growth – 2002 - 2012



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Domestic tourists	18.8%	14.4%	5.1%	-7.1%	-5.8%	-5.6%	-3.5%	-0.1%	-7.1%	-19.8%	-15.3%
International tourists	6.8%	-2.6%	-14.6%	-7.1%	10.6%	14.0%	11.3%	1.8%	8.4%	10.8%	13.6%
Total tourists	15.6%	10.2%	0.8%	-7.1%	-2.8%	-1.5%	0.1%	0.4%	-2.9%	-10.5%	-4.5%

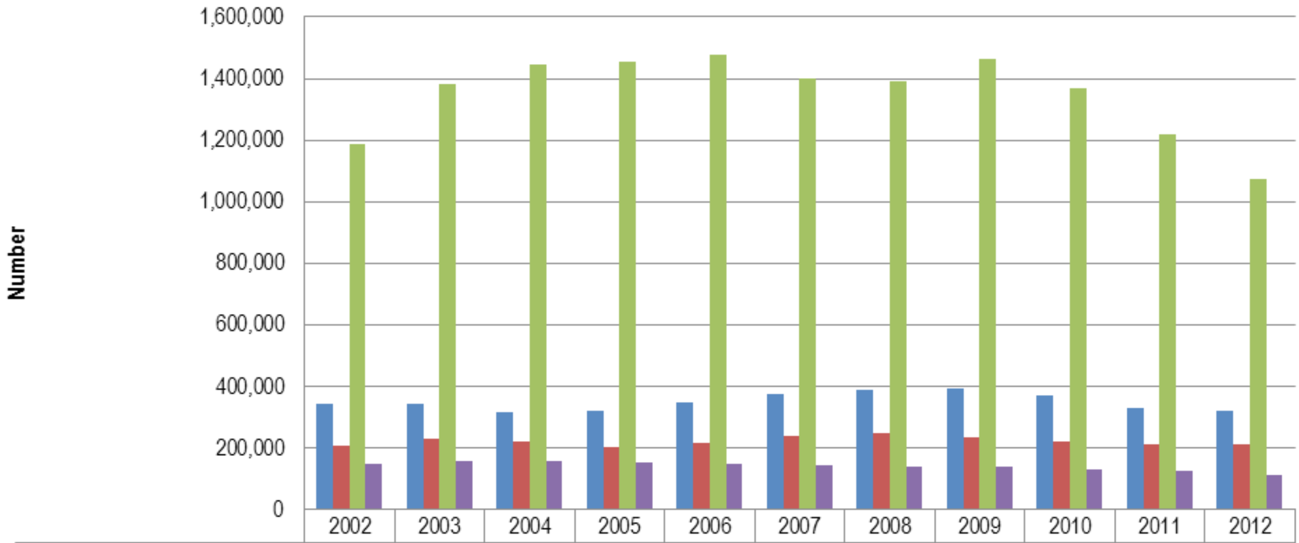
Source: IHS Global Insight, Regional eXplorer, 2013

There has been a general decline in the growth of Tourists, with notable positive growths in tourist been in the earliest years of the period analysed, i.e. 2002 and 2003, wherein growth registered was around 15.6% and 10.2%, for the respective years. However, since this period growth in total tourists has been continually declining to levels unprecedented, such as the -7.1% (2005), -10.5% (2011) and -4.5% (2012). However, what is a sign of comfort is the fact that the International Tourist growth has been increasing, with only three consecutive years of declines highlighted, i.e. 2003, 2004 and 2005.

The domestic tourism market has seen some drastic declines over the period analysed. Increasing only for periods 2002 (18.8%), 2003 (14.4%) and 2004 (5.1%). Between 2005 and 2012, the domestic tourism growth in the Free State averaged a negative 8.1%. Thus inferentially the domestic tourism sector has seen gradual declines which can be attributed to the type of visits that are made to the province, with most being visit to family member in the province, thus nullifying the expenditure on the sector.

The largest percentages of tourists in the Free State are those who come for visits to friends and relatives and this has been the case consistently from 2002 up until 2012, with their percentages always being above 60% in all these recorded years. The second largest category of tourists is those on leisure/holiday, with the exception being for 2004, which has always been above 15% of the overall tourist percentage. The third category falls to business tourists who hover around 10% of the tourist population, with tourists who do not fall into either of these other cohorts having been under 8% and where experiencing a decline until 2009.

Figure 2.11: Free State Tourists by categories - Numbers



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Leisure / Holiday	341,250	343,908	318,322	321,001	345,973	373,459	387,577	392,770	369,907	328,310	322,226
Business	209,259	228,926	219,252	203,723	218,264	238,351	249,704	234,428	219,662	213,849	212,639
Visits to friends and relatives	1,185,345	1,383,634	1,443,540	1,456,465	1,476,010	1,398,506	1,390,858	1,464,377	1,370,317	1,217,948	1,073,545
Other (Medical, Religious, etc)	149,665	157,847	158,732	154,116	148,419	142,430	139,791	137,532	131,927	123,706	110,629

Source: IHS Global Insight, Regional eXplorer, 2013

What we can generally assume from figure 2.11, is that while the largest cohort (tourists who have come to visit family and friends) is steady, although it cannot be assumed that they are as great in terms of economic contribution since their visits are not necessarily based on the Free State's perception as a preferred tourist destination but rather on family ties. Those tourists officially here on holiday saw a steady decline of 3.4% over from 2002 to 2004, and marginally rose for the next four years by 2.6% to reach a peak of 17.3% of the overall tourist cohort in 2008. Although this percentage fell by 0.1% in 2009, it rose again to reach 17.6% in 2010 (This may have been due to the FIFA World Cup hosted that very same year). However, 2011 recorded a 0.3% percentage drop in the tourist percentage here officially on holiday. This cohort saw a 0.8% decrease over the 2002 – 2011 periods.

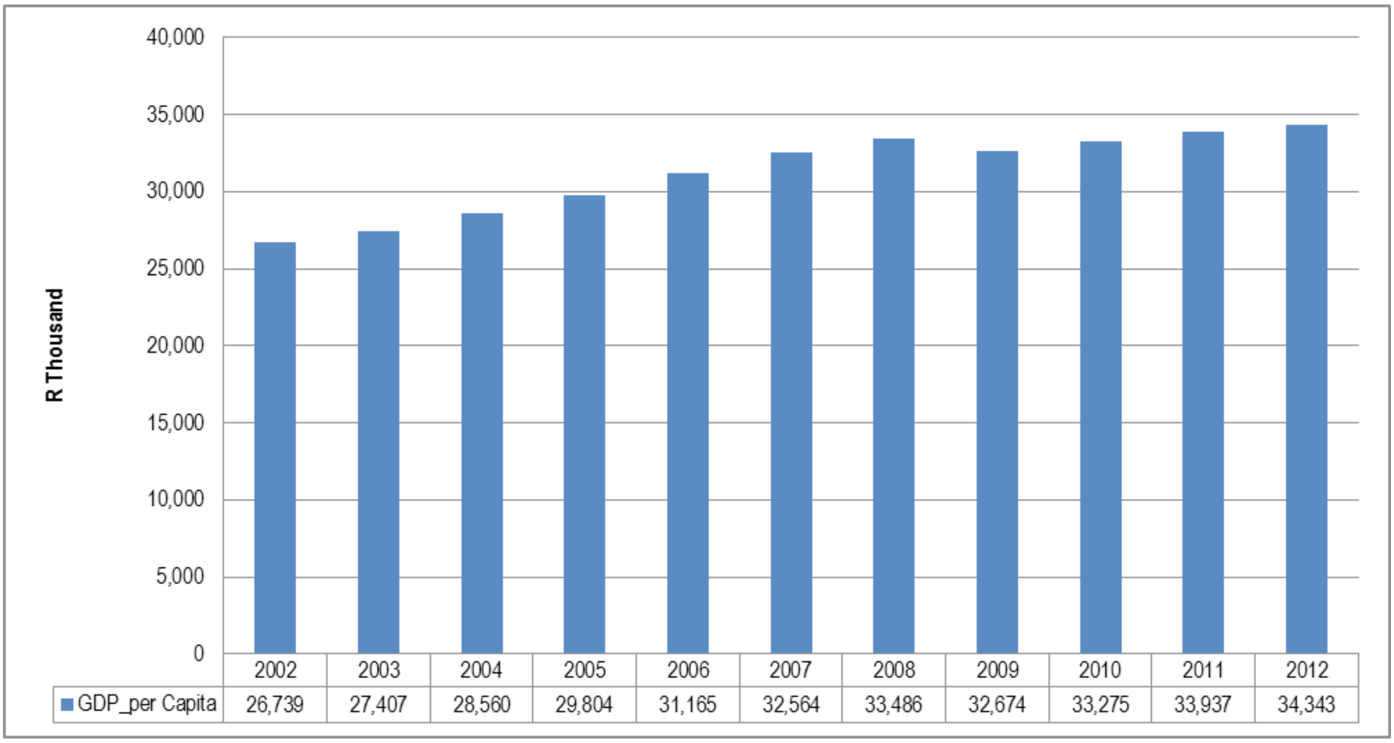
Business tourists saw a 1.7% decrease from 2002 to 2005 (9.4% in 2005 compared to 11.1% in 2002), and then saw a gradual 2.1% increase over the next three years to reach 11.5% of the overall tourist population in 2008. The periods between 2009 and 2011 saw slight deviations, with the percentage falling by 0,8% in 2009, increasing by 0.1% in 2010 and increasing by a further 0.6% to reach 11.4% in 2011. This cohort saw a 0.3% increase over the period 2002 up until 2011. This cohort is economically important as it could reflect the linkages of business ties the province has beyond its borders with private entities and could serve as an indicator of business confidence.

Those tourists who come to the Free State under other reasons saw a steady decrease from a high of 7.9% in 2002 to 6.0% in 2009, then rising over the next two years to rise to 6.5% of the total tourist population. This category tells us very little, as some of them could have been absorbed into other cohorts while the rest could have turned to permanent residents of the province. An overall analysis of figure 2.10 concludes that the Free State province is not a preferential holiday destination in terms of leisure or business pursuits, but is rather seen as a family destination. In this case effort should be made to market the province's tourist spots and create an awareness of the province's tourism potential.

2.5 Free State Provincial Household Sector

According to the 2011 Census released by Statistics South Africa (Stats SA), with the effects of inflation as well as the increasing access to jobs and a growing economy, it can be observed in that the average annual household income increased in all nine provinces quite substantially since 2001 to 2011. The average household income is lowest in the Eastern Cape (R64 000 p.a.) and Limpopo (R57 000 p.a.), whilst it is highest in Western Cape (R143 000 p.a.) and Gauteng (R156 000 p.a.).

Figure 2.12: Free State GDP per Capita, 2002 - 2012



Source: IHS Global Insight, Regional eXplorer, 2013

Figure 2.12 above explains the Free State provincial Gross Domestic Product per capita, Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a year, or other given period of time. GDP per capita is often considered an indicator of a country's standard of living. GDP per capita is not a measure of personal income. Under economic theory, GDP per capita exactly equals the gross domestic income (GDI) per capita.

Table 2.16: Free State Number and Percentages of households by income category, 2002 - 2012

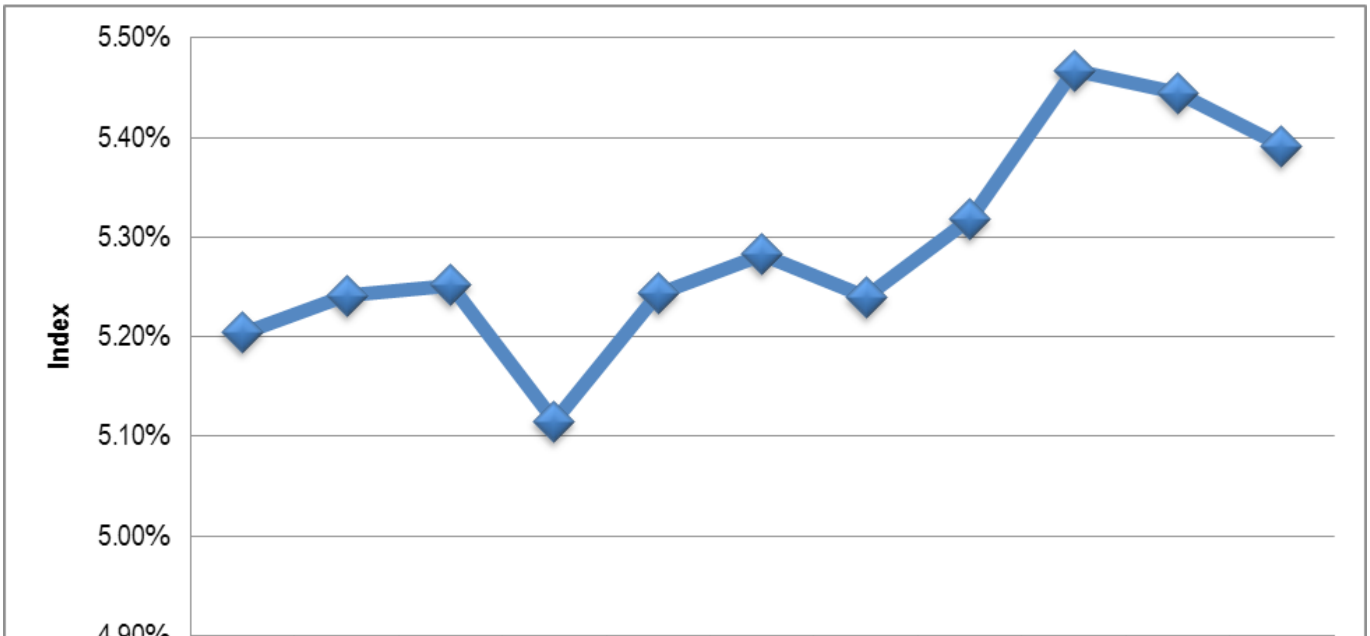
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
0-2400	16,931	16,518	13,564	10,693	8,074	5,549	3,674	1,971	1,115	515	61
2400-6000	62,073	61,099	54,338	48,670	38,617	29,908	22,623	15,926	10,823	6,125	877
6000-12000	129,293	128,589	119,582	114,375	98,041	83,965	71,178	60,616	51,642	48,253	43,105
12000-18000	114,454	111,515	110,009	109,883	105,719	97,002	87,058	79,066	69,837	66,591	61,657
18000-30000	137,832	137,856	136,478	136,261	130,723	127,353	122,887	117,755	109,899	107,224	105,035
30000-42000	84,586	85,574	90,001	94,113	97,655	101,651	104,481	107,172	108,259	117,973	128,944
42000-54000	50,282	51,272	55,868	58,911	67,092	72,484	76,947	80,760	83,845	89,110	95,988
54000-72000	43,631	45,613	51,156	55,265	62,151	69,536	75,314	79,794	83,518	86,383	89,793
72000-96000	31,740	33,387	37,475	40,026	46,688	52,801	58,995	63,504	68,171	70,808	74,450
96000-132000	28,691	30,266	33,363	35,693	40,216	46,388	52,503	57,714	63,182	66,512	70,243
132000-192000	27,804	28,700	32,194	34,572	39,135	43,388	47,888	51,667	55,918	57,029	59,253
192000-360000	29,752	33,138	37,891	42,492	48,444	53,380	57,800	61,809	67,793	72,781	77,289
360000-600000	12,078	13,166	15,903	17,605	22,080	25,084	27,768	29,444	33,133	34,694	37,992
600000-1200000	3,539	4,356	5,729	6,633	8,992	11,559	14,020	15,662	18,804	21,212	23,826
1200000-2400000	649	834	1,143	1,284	1,833	2,355	2,973	3,106	3,734	3,850	4,508
2400000+	110	138	191	209	308	387	471	443	484	393	373

Total	**773,446**	**782,022**	**794,887**	**806,684**	**815,768**	**822,790**	**826,580**	**826,412**	**830,156**	**849,453**	**873,395**
					Percentage Share						
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
0-2400	2.2%	2.1%	1.7%	1.3%	1.0%	0.7%	0.4%	0.2%	0.1%	0.1%	0.0%
2400-6000	8.0%	7.8%	6.8%	6.0%	4.7%	3.6%	2.7%	1.9%	1.3%	0.7%	0.1%
6000-12000	16.7%	16.4%	15.0%	14.2%	12.0%	10.2%	8.6%	7.3%	6.2%	5.7%	4.9%
12000-18000	14.8%	14.3%	13.8%	13.6%	13.0%	11.8%	10.5%	9.6%	8.4%	7.8%	7.1%
18000-30000	17.8%	17.6%	17.2%	16.9%	16.0%	15.5%	14.9%	14.2%	13.2%	12.6%	12.0%
30000-42000	10.9%	10.9%	11.3%	11.7%	12.0%	12.4%	12.6%	13.0%	13.0%	13.9%	14.8%
42000-54000	6.5%	6.6%	7.0%	7.3%	8.2%	8.8%	9.3%	9.8%	10.1%	10.5%	11.0%
54000-72000	5.6%	5.8%	6.4%	6.9%	7.6%	8.5%	9.1%	9.7%	10.1%	10.2%	10.3%
72000-96000	4.1%	4.3%	4.7%	5.0%	5.7%	6.4%	7.1%	7.7%	8.2%	8.3%	8.5%
96000-132000	3.7%	3.9%	4.2%	4.4%	4.9%	5.6%	6.4%	7.0%	7.6%	7.8%	8.0%
132000-192000	3.6%	3.7%	4.1%	4.3%	4.8%	5.3%	5.8%	6.3%	6.7%	6.7%	6.8%
192000-360000	3.8%	4.2%	4.8%	5.3%	5.9%	6.5%	7.0%	7.5%	8.2%	8.6%	8.8%
360000-600000	1.6%	1.7%	2.0%	2.2%	2.7%	3.0%	3.4%	3.6%	4.0%	4.1%	4.3%
600000-1200000	0.5%	0.6%	0.7%	0.8%	1.1%	1.4%	1.7%	1.9%	2.3%	2.5%	2.7%
1200000-2400000	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%	0.4%	0.4%	0.5%	0.5%
2400000+	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%

Source: IHS Global Insight, Regional eXplorer, 2013

For the period 2002 up to 2012, the Free State household's income landscape has shifted more so analysing them by income category, as can be deducted from the table above. The 0-2400 to 18000-3000 cohorts have recorded steep declines in the number of households, decline on average by 67.0%. Whilst the upper middle class cohort (for the sake of this analysis would be, households with income streams amounting to R96000-R132 000 to R600 000-R1, 200 000) has seen the bellowing of this cohort. Increasing from 101, 864 households in 2002 to a little over 268, 603 in 2012, spelling an increase of roughly 150 000 households now considered to be middle to upper class. This could thus have a positive effect on the buying power of the province.

Figure 2.13: Free State Index of Buying Power– 2002 - 2012



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Index	5.20%	5.24%	5.25%	5.11%	5.24%	5.28%	5.24%	5.32%	5.47%	5.45%	5.39%

Source: IHS Global Insight, Regional eXplorer, 2013

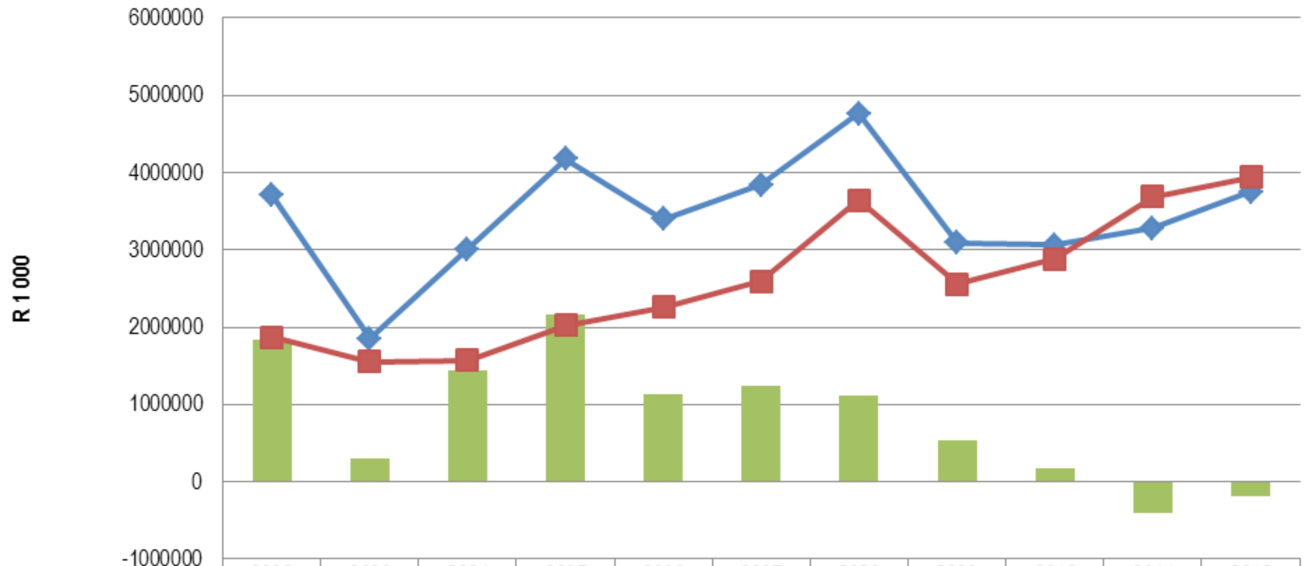
The Buying Power Index (BPI) calculations tell you what the differential rates of the average salary are within a province, to the cost of living in that province, in a South Africa setting. These particular calculations are important when it comes to determining the long term prosperity within that city over the course of a specific time period. An index comprised of weighted measures of disposable income, sales data and market factors for a specific region. The index is used by manufacturers and distributors to determine the revenue potential of a particular region.

The figure above explain in simplistic terms the buying power index as computed by IHS Global Insight, and thus highlights the fact that with the increases in the number of households considered to be lower and middle class increase, so has the buying power of the province increased. It increased from 5.2% in 2002 to peak at 5.5% in 2010, during the height of the 2010 FIFA Soccer World Cup. Thus simplistic inference could be established that since the province was one of the hosting provinces there had been a marginal increase in the buying power of the broader populace however, this has since dawned down as the index has courted the downward slope.

2.6 Free State Trade Sheet

According to a research article presented and drafted by Mashibini and Mokalanyane (2012:16) on the Free State trade, they infer that trade raises income (overall). Contextualising their findings Mashibini et al, contends that Trade stimulates economic growth and thus directly and indirectly contributes to more jobs created for people in the country, while also boosting national income and technological advance. For example we looked at jobs created in different sectors of the economy in both Free State and South Africa. Mashibini et al (2012:20), further more contextualises trade in the Provincial context, and thus expresses the fact that from 1996 to 2011, the average contribution of Free State provincial trade is 0.65% and that makes it the least contributor to South Africa`s total trade and the province`s standard deviation or measure of trade variation stands at 0.14%. This is an indication that Free State trade volume is small and needs intervention to grow the province’s export base and thus create an enabling environment for jobs creation.

Figure 2.14: Free State Import and Export, Trade Balance – 2002 - 2012



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Trade Balance	1836890	298216	1441262	2158089	1134064	1250182	1121822	535336	179251	-403476	-186007
Exports	3702938	1849754	3013683	4179075	3395685	3839600	4767032	3094556	3066282	3282106	3754877
Imports	1866048	1551539	1572420	2020985	2261621	2589418	3645210	2559221	2887031	3685582	3940884

Source: IHS Global Insight, Regional eXplorer, 2013

The figure 2.14 above highlights the Free State trade performance over an eleven (11) year period, and through the analysis of the figures, it is vividly apparent that the province has had considerable positive trade performances in the period reviewed. However, what is more apparent is the fact that the positive trade balance has been inconsistent, thus when computing the average trade balance for the period studied, R851 million, fails to negate the vast variation encountered. For the period 2002 until 2009, the provincial trade balance declined by a staggering 70.8%, and declined further is the succeeding periods/years. Eventually, reaching the negative trade balance margins in 2011 and 2012, and this meant that the province was importing more goods and services from the rest of South Africa and the world.

Table 2.17: South Africa's International Trade - Total Trade (R 1000) – 2005-2012

	2005	2006	2007	2008	2009	2010	2011	2012
Western Cape	107,738,886	148,388,141	180,677,232	239,305,947	176,903,948	161,014,359	196,524,375	248,316,778
Eastern Cape	51,630,158	63,662,605	70,159,943	91,025,651	61,713,934	62,523,696	69,730,733	70,672,197
Northern Cape	9,925,244	9,025,488	8,458,646	1,687,342	1,146,576	1,541,603	5,360,875	4,857,640
Free State	**6,200,060**	**5,657,306**	**6,429,017**	**8,412,242**	**5,653,777**	**5,953,313**	**6,967,688**	**7,695,762**
KwaZulu-Natal	94,090,335	114,781,558	141,354,953	165,896,494	129,222,404	140,700,031	173,669,609	190,441,336
North-West	16,760,391	22,008,646	33,741,682	26,051,064	14,807,718	18,645,458	21,208,492	20,150,692
Gauteng	411,438,247	532,662,855	643,957,190	875,374,770	696,758,058	803,134,864	969,558,989	1,032,340,870
Mpumalanga	8,167,573	7,664,328	9,726,177	14,609,628	12,831,987	13,706,279	15,713,603	16,386,708
Limpopo	4,720,123	9,533,070	13,608,151	21,781,859	11,554,594	17,190,394	17,911,662	19,143,016

South Africa	**710,671,015**	**913,383,995**	**1,108,112,990**	**1,444,144,993**	**1,110,592,994**	**1,224,409,994**	**1,476,646,023**	**1,610,004,997**
Percentage Share								
Western Cape	10.8%	10.1%	10.2%	9.3%	10.6%	8.7%	7.5%	8.7%
Eastern Cape	7.1%	7.1%	6.4%	6.7%	5.5%	5.1%	4.5%	4.2%
Northern Cape	2.4%	2.0%	1.5%	0.1%	0.1%	0.2%	0.6%	0.5%
Free State	**1.2%**	**0.8%**	**0.7%**	**0.7%**	**0.6%**	**0.5%**	**0.4%**	**0.5%**
KwaZulu-Natal	13.0%	12.6%	12.8%	11.6%	11.6%	11.1%	11.3%	12.3%
North-West	4.3%	4.5%	5.8%	3.1%	2.1%	2.5%	2.4%	2.2%
Gauteng	58.4%	59.8%	59.4%	64.5%	66.0%	68.0%	69.4%	68.0%
Mpumalanga	1.8%	1.5%	1.4%	1.7%	1.6%	1.8%	1.7%	1.7%
Limpopo	1.1%	1.6%	1.8%	2.3%	1.8%	2.2%	2.0%	2.0%
South Africa	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

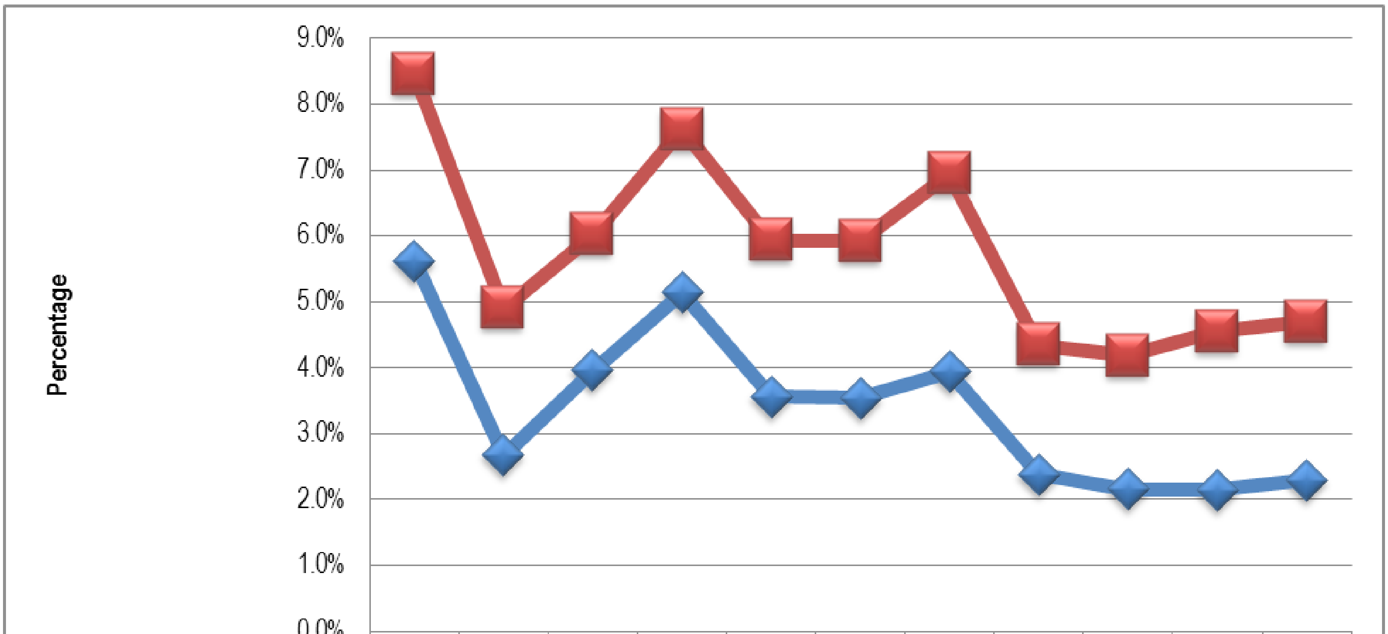
Source: IHS Global Insight, Regional eXplorer, 2013

Table 2.17 above succinctly depicts the South African International Trade has averaged R1.2 trillion over the past eight years, with the greatest share of this trade attributable to the Gauteng province. The Gauteng Province commandeered an averaged 64.2% of the International trade, and in monetary terms amounted to an averaged R745 billion. This contribution by the province of the Champions towards South Africa's International Trade, based on IHS Global Insight data, and has been on the increase, increasing by roughly 18.9% on an annualised basis.
Meanwhile, only the Gauteng province and Limpopo, have recorded an increase in their percentage share of the South African International Trade contribution, whereas the other seven provinces recording declines. With Mpumalanga recording the tiniest of declines in its percentage share declining by 5.6% during the period 2005 until 2012, whilst the Northern Cape registered the steepest declines in the contribution share, decreasing by an unprecedented 79.2%, or roughly 9.9 percentage when annualised.

Zooming in on the Free State provincial contribution to the National International Total Trade has been rather woeful over the eight years studied. The province contribution has declined from 1.2% in 2005 to about 0.5% in 2012, and averaged R6.6 billion in monetary terms, over the same period. In 2008, the Free State reached the R8.4 billion mark, the highest mark in terms of its contribution to the South African International Trade, only to fall to around R5.7 billion during the height of the Global Financial crisis. However, the province contribution was resuscitated in 2010 to record R6.0 billion, and then in 2011 increased by 16.7% to record a trade contribution of R 7 billion and further in 2012, contributed R7.7 billion.

The importance of international trade in different regions is measured by the share of trade in goods and services in GDP. The rates shown correspond to the average of imports and exports of both goods and services at current prices as a percentage of GDP. Goods consist of merchandise imports and exports. Services cover transport, travel, communications, construction, IT, financial, other business, personal and government services, as well as royalties and license fees. The trade-to-GDP ratio is often called the "*trade openness ratio*". However, the term openness may be somewhat misleading as a low ratio for a country or region does not necessarily imply high tariff or non-tariff obstacles to foreign trade, but may be due to a range of other factors mentioned above (http://www.oecd-ilibrary.org/sites/factbook-2010-en/03/01/01/index and the 2012 FSPERO).

Figure 2.15: Free State Export and Total Trade as a percentage of the provincial economy, 2002 - 2012



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports as % of GDP	5.6%	2.7%	4.0%	5.1%	3.6%	3.5%	3.9%	2.4%	2.2%	2.1%	2.3%
Total trade as % of GDP	8.5%	4.9%	6.0%	7.6%	5.9%	5.9%	6.9%	4.3%	4.2%	4.5%	4.7%

Source: IHS Global Insight, Regional eXplorer, 2013

Free State total trade as a percentage of the provincial GDP has averaged 5.76% over the review period, with a modest variation of 1.4%, as illustrated by figure 2.14 above. The provincial total trade is rather timid, when compared to the international trade norm, which according to the OECD, in 2008, the trade-to-GDP ratio for OECD countries was 29%, while the rate for the EU27 countries was 41%. The ratios exceeded 50% for small countries - Austria, Belgium, the Czech Republic, Denmark, Hungary, Ireland, Korea, Luxembourg, the Netherlands, the Slovak Republic, Sweden, and Switzerland - but were under 20% for the two largest OECD countries - Japan and the United States. The provincial economy faced a declining growth rate in terms of the percentage of trade to the GDP (or trade to GDP ratio), declining by 14.6% during the review period, and by 1.46% on an annualised basis.

Looking at the figure above, it is clear that the total trade as a percentage of GDP and the exports as a percentage of GDP seem to be moving in unison. With the difference between the two ratios (i.e. total trade to GDP and export to GDP), averaging 2.4%, from 2002 to 2012, with the minimalist of variation of 0.34%, in the difference between the two ratios. Whilst the export as a percentage of GDP reflecting a negative growth rate of -4.5%, over the review period, whilst on an annualised basis grew negatively by 0.4%. This alarmist growth, saw only subsequent improvements during the two following years (2004 and 2005), growing by 48.4% and 29.9%, in the respective years.

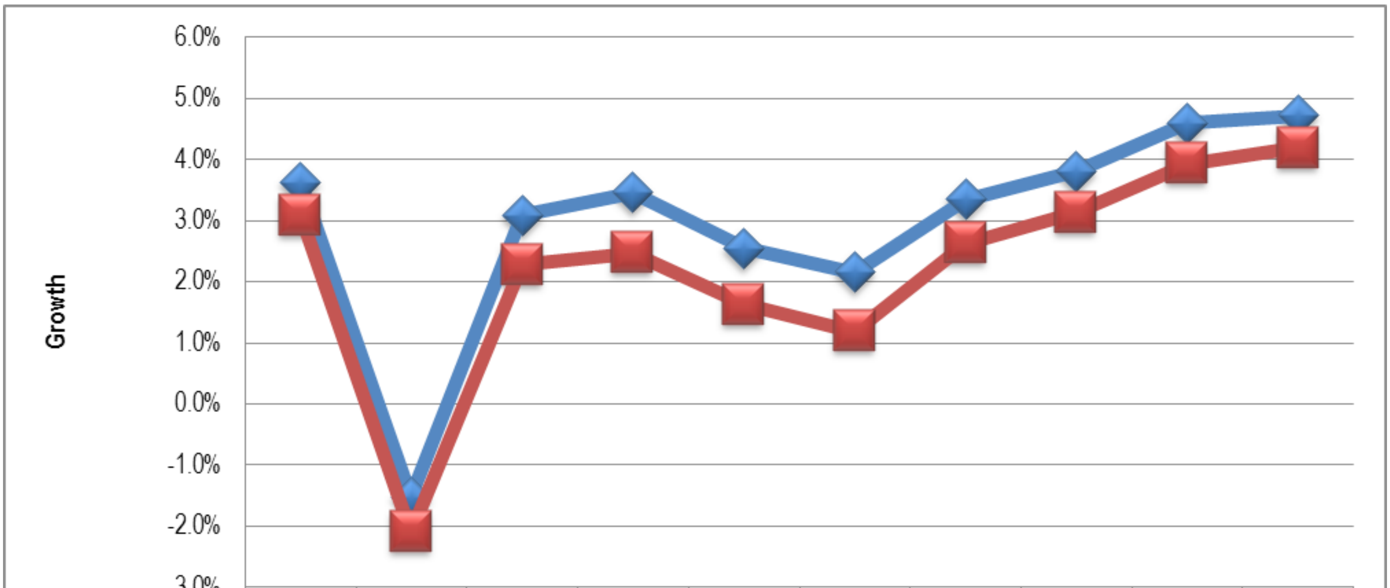
The cycle of rising and falling continued during 2006, when the export to GDP ratio fell by 30.1%, only for the spark to be rekindled during 2008 (pre-financial crisis), when it registered a growth of 10.1%. During the height of the 2009 financial crisis, the Free State export as a percentage of GDP fell by 39.3%, due to the lackluster performance of international trade during an ostentatious period of gloom in the global economy. Along with the improvements in the global economy during 2010, the export to GDP ratio improved somewhat, growing by roughly 30.7%, from a negative 39.3% in 2009, to register an improved negative growth of 8.7%.

2.7 Provincial Economic Outlook

According to the Investopedia, economic outlook is the forecasted expectations for how well the economy will perform during an upcoming quarter, year or other time period. An economic outlook could include expectations for inflation, productivity growth, unemployment and balance of trade. Whilst Mohr (2005:74), looks at economic forecasting, and thus contends that as far as things go, Economist do not often agree on the nature and thus causes of economic fluctuations, however they generally tend to agree that the host of factors which can affect the future course of economic activity, making it difficult to forecast decisively the direction of the economic growth.

Figure 2.16 below articulates the forecasted figures by IHS Global Insight for the period 2013 and 2017. The global data provider expects the Free State economy to record an unimpressive but yet positive growth of 1.2 percent during 2013, and thus to increase in momentum of over the ahead. Between 2013 and 2017, Global Insight anticipate the provincial economy would grow at an averaged three percent, and peak during 2017, when it is expected to breach the 4.2% mark.

Figure 2.16: South Africa and Free State Growth forecast



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
South Africa	3.6%	-1.5%	3.1%	3.5%	2.5%	2.2%	3.3%	3.8%	4.6%	4.7%
Free State	3.1%	-2.1%	2.3%	2.5%	1.6%	1.2%	2.6%	3.1%	3.9%	4.2%

Source: IHS Global Insight, Regional eXplorer, 2013

Table 2.18 below, depicts the Gross Value Added (GVA) by industry in the Free State economy for the period 1996 to 2012 and projections up to the year 2017. During the period 1996 to 2012, the fastest growing industry was finance with an average growth rate of 4.1%, followed by transport (3.4%) and manufacturing (2.7%). The slowest growing industry on the other hand were mining (-2.0%), agriculture (0.2%) and electricity (0.9%). The construction industry is projected to grow by 4.0% in 2013, making it the fastest growing industry in 2013, while mining is projected to shrink by 4.4%. Throughout the forecast period, the mining industry is projected to register negative growth rates, contributing to the declining primary industry in the province. For the period 2013 to 2016, the tertiary industries are projected to be the drivers of the Free State economy.

Table 2.18: Free State Gross Value Added (GVA) by industry

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community Services
2008	6.1%	16.2%	12.1%	2.8%	2.0%	11.3%	8.1%	16.4%	24.9%
2009	5.9%	14.5%	11.5%	3.5%	2.3%	12.1%	7.6%	16.0%	26.6%
2010	4.8%	14.8%	10.8%	3.2%	2.2%	13.6%	7.6%	16.0%	27.1%
2011	4.8%	14.8%	9.5%	3.4%	2.3%	13.8%	8.0%	15.8%	27.7%
2012	4.8%	13.8%	9.1%	3.4%	2.3%	14.5%	7.9%	16.0%	28.1%
2013	4.7%	12.6%	9.2%	3.4%	2.4%	14.6%	8.0%	16.3%	28.8%
2014	4.3%	10.7%	9.4%	3.4%	2.4%	14.9%	8.3%	16.9%	29.6%
2015	4.3%	9.7%	9.6%	3.4%	2.4%	15.0%	8.4%	17.2%	30.0%
2016	4.2%	8.8%	9.7%	3.5%	2.5%	15.1%	8.5%	17.5%	30.3%
2017	4.1%	8.1%	9.7%	3.5%	2.5%	15.1%	8.6%	17.7%	30.8%

Source: IHS Global Insight, Regional eXplorer, 2013

Table 2.18 above illustrates the forecasted figures of the Free State share of the South African economy by the IHS Global Insight forecasters, and does not look rosy for the province. The overall contribution by the Free State to the country would decline by around 7.69 percentage points between 2012 and 2017.

Table 2.19: Region's share of national total (%), by sector, Actual and Forecast for 2013 -2017

	Agriculture	Mining	Manufacturing	Electricity	Construction	Trade	Transport	Finance	Community Services	Free State Industries
2008	11.1%	9.0%	3.9%	6.7%	3.0%	4.6%	4.7%	4.1%	6.6%	**5.4%**
2009	11.0%	8.7%	4.1%	6.8%	3.2%	4.8%	4.5%	4.1%	6.6%	**5.4%**
2010	10.0%	8.6%	4.1%	6.5%	3.1%	4.9%	4.4%	4.0%	6.5%	**5.4%**
2011	10.3%	7.9%	3.9%	6.4%	3.1%	4.7%	4.5%	3.9%	6.5%	**5.2%**
2012	9.7%	7.7%	3.8%	6.2%	3.0%	4.7%	4.5%	3.9%	6.5%	**5.2%**
2013	9.7%	6.9%	3.8%	6.2%	3.0%	4.7%	4.5%	3.8%	6.5%	**5.1%**
2014	9.7%	5.8%	3.8%	6.2%	3.0%	4.7%	4.5%	3.8%	6.5%	**5.0%**
2015	9.7%	5.3%	3.8%	6.2%	3.0%	4.7%	4.5%	3.8%	6.5%	**4.9%**
2016	9.7%	4.8%	3.8%	6.2%	3.0%	4.7%	4.5%	3.8%	6.5%	**4.9%**
2017	9.7%	4.5%	3.8%	6.2%	3.0%	4.8%	4.5%	3.8%	6.5%	**4.8%**

Source: IHS Global Insight, Regional eXplorer, 2013

With the major instigators to the loss in contribution being the Primary sector of the economy, as the Agricultural and Mining sectors, are anticipated to decline in contribution over the five years, starting from 2012. Both these sectors are recognised and targeted in the FSGDS: Vision 2030, as the major sector requiring considered focus, going forward. Thus the implementation of the Vision 2030; would come in handy with regard to stalling the decline. IHS Global Insight, forecast the Mining sector contribution to decline by 45.51 percentage points or 9.1 percentage points when annualised.

2.8 Summary and Conclusion

The second chapter of the 2013 Free State Provincial Economic Review and Outlook delved in on the provincial economic performance over the last eleven years, covering the symptomatic global financial crisis of 2009 and its impact of the provincial growth and the transcendental effects on the provincial household's. The chapter furthermore, using IHS Global Insight data, paints a portrait in terms of the future direction of the provincial economy, as things stood, in the drafting of the 2013 FSPERO. The following could be established in the preceding sections of the chapter:

- The Free State economy was initially premised on a sound and robust Primary sector. However over the recent past it has mutated to a rather progressive. According to the 2013 FSGDS, in the Free State economy about 30 years ago, the primary sector contributed more than 50% to the provincial economy compared to the 13% in 2010.
    - Whilst this trend is often interpreted as a sign of a maturing economy, it represents de-industrialisation. The industrial base of the provincial economy exhibits the features and vulnerabilities of the minerals-energy complex. Mining was the mainstay of the provincial economy. Its contribution dropped from 16% of the provincial output in 1996 to 9% in 2010. This led to a decline in employment by the sector from 180 000 in 1980 to 33 000 in 2010 (Free State 2030 Vision)
- The provincial economy has seen some torrid performance The Free State Provincial economy has circumnavigated through the pressures broad about by the 2009 Global Financial crisis – that saw both the province and the Republic kneeling to the greatest recession in recent history, to chart a new growth trajectory, and as such registering a below par growth of 2.1%. This is based on the data from IHS Global Insight figures. This minute growth is in spite of the happenings in both the Eurozone area and the United States, which have resuscitated the topical issue of a double dip recession. Post Global Financial crisis, the provincial growth has averaged just over two percent, and thus not near the pre-recession averages of 3.2%.
- There is a growing lower and middle class cohort in the province; however, this can be attributed to chiefly among factors, such as a growing dependency on the Social Grants by households in the province, as the province has not significantly created employment opportunities since the 2009 Global Financial crisis.
- What is pleasing is the fact that the provincial economy is set to transcend on a positive growth trajectory over the forecasted period by IHS Global Insight, anticipated to hover around the three percentage point mark.
- What continues to bedevil the provincial economy is the perennial question of what strategies are needed to revitalise the economy, and thus create sufficient employment opportunities, as the province is now tagged the worst performer in job creation. As things stand the provincial economy or the province has an unemployment rate of 34.0%.

A concerted effort is required by both the private sector and government to harness the economy of the province and make it a viable option for investment in Africa, and the world. The provincial economy needs to be critically assessed and inferential policy stance should be understood and adopted to create a world class economy in South Africa.

CHAPTER 3:

LABOUR MARKET ANALYSIS

3.1 Introduction

Labour market analysis can be defined as the economic study of the dynamic relationship between employees and employers in the regional, national, or global labour market. It involves a variety of factors from employment rates to wages, per capita income, and education levels. Governments normally use the practice of labour market analysis to gauge the effects of economic policies, and thus also inform future policy direction. Understanding where we come from, while building on our successes, is an important element to understanding the performance of the labour market, hence the need for this publication.

To better understand the nature of unemployment, policymakers need information on many aspects of it, including, amongst others, the number of unemployed people, the period of time for which they have been unemployed, their skill levels, the trend in unemployment, regional disparities in unemployment and so on. Once these statistics have been obtained and interpreted, policymakers can use them to make better informed decisions about steering the economy and countering unemployment. The purpose of this chapter is therefore to avail such information in order to influence policy direction.

The global economic crisis has had devastating consequences on labour markets. The effects of the global economic downturn have been clearly visible in the official labour market figures. According to a report by the International Labour Organization (2013), it is estimated that around 197 million people worldwide did not have a job in 2012 and many millions more have simply dropped out of the labour force because they are too discouraged to continue looking for work following a deceleration in global growth and a year-on-year increase in unemployment levels in the fifth year after the start of the 2007/8 global financial crisis. This publication will analyze the performance of the global and national labour market, and more so in detail the Free State provincial labour market in the midst of these global challenges mentioned above.

3.2 Global Employment Trends

The global economic crisis that began in 2007/2008 has had an enormous effect on the number of unemployed people around the globe, which, according to the ILO estimates, increased from 178 million in 2007 to around 197 million in 2012, with a peak of 212 million reached in 2009. In the fifth year after the outbreak of the global financial crisis, global growth has decelerated and unemployment has started to increase again, leaving an accumulated total of around 197 million people without a job in 2012. Furthermore, about 39 million people are said to have dropped out of the labour market as job prospects proved unattainable, opening a 67 million global jobs gap since 2007. With regard to employment outlook, the ILO finds that despite a moderate pick-up in output growth expected for 2013/14, the unemployment rate is set to increase further and the number of unemployed worldwide is projected to rise by 5.1 million in 2013, to more than 202 million in 2013 and by another 3 million in 2014. A quarter of the increase of 4 million in global unemployment in 2012 has been in the advanced economies, while three quarters has been in other regions, with marked effects in East Asia, South Asia and Sub-Saharan Africa. Those regions that have managed to prevent a further increase in unemployment often have experienced a worsening in job quality, as vulnerable employment and the number of workers living below or very near the poverty line increased (ILO, 2013).

Young people remain particularly stricken by the crisis. Overall, young people (most often defined as 15-to-24 year olds) have suffered the worst of the crisis. According to the latest ILO estimates, currently, around 73.8 million young people are unemployed globally and the slowdown in economic activity is likely to push another half million into unemployment by 2014. The youth unemployment rate, which had already increased to 12.6% in 2012, is expected to increase to 12.9% by 2017. The crisis has dramatically diminished the labour market prospects for young people, as many experience long-term unemployment right from the start of their labour market entry, a situation that was never observed during earlier cyclical downturns. Presently, about 35% of all young unemployed have been out of a job for six months or longer in advanced economies, up from 28.5% in 2007. As a consequence, an increasing number of young people have become discouraged and have left the labour market. Among European countries where this problem is particularly severe, some 12.7% of all young people are currently neither employed nor in education or training, a rate that is almost two percentage points higher than prior to the crisis. Such long spells of unemployment and discouragement early on in a person's career also damage long-term prospects, as professional and social skills erode and valuable on-the-job experience is not built up.

The rise in estimated global unemployment by 4.2 million in 2012 is one of the largest increases since the early 2000s, excluding the immediate crisis years. Reaching 197.3 million jobseekers in 2012, the ILO projects the number of unemployed to rise further by about 5.1 million in 2013 and by 2.9 million in 2014. At the same time, the global unemployment rate is projected to edge higher and remain stuck at around 6.0% until at least 2017 (see table 3.1 below). The larger increase in global unemployment projected for 2013 as compared with 2012 is due to projected increases in the Developed Economies and European Union region as well as South- East Asia and the Pacific, South Asia and Latin America and the Caribbean. Some of this, in turn, is due to population and labour force growth, while some is due to lags between economic changes and changes in the labour market (ILO, 2013).

Table 3.1: Unemployment rates by region, 2007 – 2017

Region	**2007**	**2008**	**2009**	**2010**	**2011**	**2012***	**2013***	**2014***	**2015***	**2016***	**2017***
World	5.4	5.6	6.2	6	5.9	5.9	6	6	6	6	6
Developed Economies and European Union	5.8	6.1	8.4	8.8	8.4	8.6	8.7	8.6	8.4	8.2	8
Central and South-Eastern Europe (non-EU) and CIS	8.3	8.3	10.1	9.4	8.7	8.2	8.2	8.1	8	8	7.9
East Asia	3.8	4.3	4.4	4.2	4.3	4.4	4.5	4.6	4.6	4.7	4.7
South-East Asia and the Pacific	5.5	5.3	5.2	4.7	4.4	4.4	4.5	4.5	4.5	4.5	4.5
South Asia	3.9	3.9	4.1	3.9	3.8	3.8	3.9	3.9	4	4	4
Latin America and the Caribbean	7	6.6	7.8	6.8	6.5	6.6	6.7	6.8	6.8	6.8	6.8
Middle East	10.3	10.5	10.7	11.2	11.1	11.1	11.1	11.1	11.1	11.1	11.1
North Africa	9.6	9.1	9.1	8.9	10	10.3	10.3	10.2	10.1	10	9.9
Sub-Saharan Africa	7.4	7.5	7.6	7.6	7.6	7.5	7.5	7.5	7.4	7.4	7.4

Source: ILO, Global Employment Trends, 2013

As illustrated in table 3.1 above, the global unemployment rate is estimated to have been 5.9% in 2012. The highest unemployment rates are estimated to have been in the Middle East and North Africa with 11.1% and 10.3% respectively. On the other hand, the regions with the lowest unemployment rates in 2012 were South Asia (3.8%), East Asia (4.4%) and South-East Asia and the Pacific (4.4%) according to ILO (2013) estimates. The unemployment rate in Sub-Saharan Africa was estimated at 7.5% in 2012. Going forward, no significant changes are expected in all the regions, with the global rate projected to remain at the 6.0% mark for the next five years.

Box 3.1: Main findings of ILO's Global Employment Trends for Youth 2013

The global youth unemployment rate, which had decreased from 12.7% in 2009 to 12.3% in 2011, increased again to 12.4% in 2012, and has continued to grow to 12.6% in 2013. This is 1.1 percentage points above the pre-crisis level in 2007 (11.5%).

By 2018 the global youth unemployment rate is projected to rise to 12.8%, with growing regional disparities, as expected improvements in advanced economies will be offset by increases in youth unemployment in other regions, mainly in Asia.

Global youth unemployment is estimated to stand at 73.4 million in 2013, an increase of 3.5 million since 2007 and 0.8 million above the level in 2011. Rising youth unemployment and falling labour force participation contributed to a decrease in the global youth employment-to-population ratio to 42.3% in 2013, compared with 44.8% in 2007. Part of this decrease is due to rising enrolment in education. The global youth employment-to-population ratio is projected to be 41.4% in 2018.

Globally, the ratio of youth to adult unemployment rates hardly changed in recent years, and stands at 2.7 in 2013. Young people therefore continue to be almost three times more likely than adults to be unemployed, and the upward trend in global unemployment continues to hit them strongly.

The global employment-to-population ratio declined by 1 percentage point between 2007 and 2012. This was due to falling labour force participation and rising unemployment, while changes in the demographic structure helped to raise the employment-to-population ratio. The contribution of youth unemployment to the decline in the employment-to-population ratio was particularly pronounced in the Developed Economies and European Union and in East Asia.

Source: ILO, Global Employment Trends for Youth, 2013

3.3. South African Labour Markets Trends

South Africa's labour market transformed since 1994, with an emphasis on strategies that eliminate labour inequalities of the past and improve general working conditions for all South Africans. The most notable pieces of legislation which aim to strengthen the labour market include:

- the *Labour Relations Act (1995)* protects the right of workers to form unions and to strike;
- the *Basic Conditions of Employment Act (1997)* sets out minimum standards for work, such as working hours, and overtime, as well as leave and health and safety standards across the economy;
- the *Employment Equity Act (1998)* seeks to compensate for historical inequality of opportunity by prohibiting discrimination and increasing opportunities for 'designated' groups, including women, black men, and disabled people;
- and the *Skills Development Act (1998)* and the *Skills Development Levies Act (1999)* use a payroll levy distributed to *Sector Education and Training Authorities (SETAs)* to run skills development and training programmes within their sectors.

Together, this legislation protects rights to form unions and strike, provides guaranteed minimum conditions of employment, promotes redress for historical inequality of opportunity, and finances some skills development and training institutions. Key institutions created by these laws include the Commission for Conciliation, Mediation and Arbitration (CCMA; established 1995), which resolves disputes between workers and employers, bargaining councils, which govern working conditions for various sectors of the economy, and Sector Education and Training Authorities (SETAs; established 2000). Legislation is supported by codes of good practice, issued by the Department of Labour. Occupational health and workplace safety is also closely regulated.

The objective of introducing and consequently implementing all this legislation was to improve the performance of the labour market in its entirety. The section that follows will thus look at how the labour market has performed within the above mentioned legislative framework.

3.3.1. The South African Labour Market Overview

With an unemployment rate of around 25%, South Africa's biggest challenge is without a doubt the creation of sustainable jobs. The global recession of 2008 hit the local labour market hard, and more than a million jobs were lost by 2010. In 2012, South Africa had a working age population (16 to 65 years of age) of 33 million people, 18 million (56%) of whom were either employed or actively seeking work. The level of labour market participation has been somewhat volatile but has risen since the mid-1990s, reflecting increasing entry of women into the labour market, growing urbanisation and a fall in temporary, circular labour migration.

Employment has risen since 2001, peaking at 13.7 million in 2008 (before the global recession), and hovering just below that at 13.6 million at the end of 2012; still below the pre-recession level. The private sector accounts for 86% of all employment, with some 20% of these employees working in the informal sector; a low proportion by international standards.

Unemployment has fallen from 30% in 2001 to 26% in 2012. The broad unemployment rate, including those wanting work but not actively seeking it, was closer to 35%. The high unemployment rate is despite the fact that during the boom years, South Africa's rate of employment growth per unit of economic growth (termed the employment elasticity of growth) was actually higher than that of emerging market peers including India and China. This was because in South Africa, the new jobs being created were pulling people out of unemployment, rather than simply moving them from one form of employment to another. High unemployment therefore reflects, in part, low economic growth, as well as the unusually rapid pace of job destruction during the global recession.

Overall, 41% of adults are employed or self-employed, which is low by international standards. Youth employment, which is generally lower than employment for older people, is particularly low by global standards. Only around one young adult in eight is employed in South Africa, compared to two in five in other emerging economies (CDE Round Table, May 2013).

Table 3.2: South African labour market overview

	Jul - Sep 2012	Apr - Jun 2013	Jul - Sep 2013	Qtr-to-qtr change	Year-on-year change	Qtr-to-qtr change	Year-on-year change
	Thousand					Percent	
Population 15–64 yrs	33 018	33 352	33 464	112	446	0.3	1.4
Labour force	18 313	18 444	18 638	194	325	1	1.8
Employed	13 645	13 721	14 029	308	383	2.2	2.8
Formal sector (non-agricultural)	9 663	9 694	10 008	314	346	3.2	3.6
Informal sector (non-agricultural)	2 197	2 221	2 182	-39	-15	-1.8	-0.7
Agriculture	661	712	706	-6	45	-0.9	6.8
Private households	1 124	1 093	1 132	39	8	3.6	0.7
Unemployed	4 667	4 723	4 609	-114	-58	-2.4	-1.2
Not economically active	14 705	14 908	14 826	-82	121	-0.5	0.8
Discouraged work-seekers	2 170	2 365	2 240	-125	70	-5.3	3.2
Other (not economically active)	12 535	12 543	12 586	43	51	0.3	0.4

Rates (%)							
Unemployment rate	25.5	25.6	24.7	-0.9	-0.8		
Absorption rate	41.3	41.1	41.9	0.8	0.6		
Labour force participation rate	55.5	55.3	55.7	0.4	0.2		

Source: Stats SA, QLFS, 3rd Quarter 2013

During the period Q2: 2013 to Q3: 2013, the number of people in employment increased by 308 000, while the number of unemployed people decreased by 114 000; resulting in an increase of around 194 000 people in the South African labour force. The formal sector and private households contributed positively to the increase in employment (up by 314 000 and 39 000 respectively). In contrast, there was a decline in employment in the informal sector (down by 39 000) and in agriculture (down by 6 000). The not economically active population decreased by 82 000 people, largely as a result of the decline in discouraged work-seekers (down by 125 000) while the remainder of the not economically active group increased by 43 000 (see table 3.2 above).

Reflecting the quarterly change in employment and unemployment, the unemployment rate decreased by 0.9 of a percentage point from 25.6% in Q2: 2013 to 24.7% in Q3: 2013, while the absorption rate and labour force participation rate increased by 0.8 and 0.4 of a percentage point respectively.

Year on year, in Q3: 2013 employment increased by 2.8% (383 000), and unemployment decreased by 1.2% (58 000). The number of discouraged work-seekers increased by 3.2% (70 000) and other (not economically active) increased by 0.4% (51 000), resulting in a net increase of 0.8% (121 000) in the not economically active population.

It can be deduced from table 3.2 above that the conditions in the South African labour market have improved in recent times as the more and more people are able to find employment and the number of those unemployed has decreased, while the not economically active population has also declined, all leading to a decline in the unemployment rate.

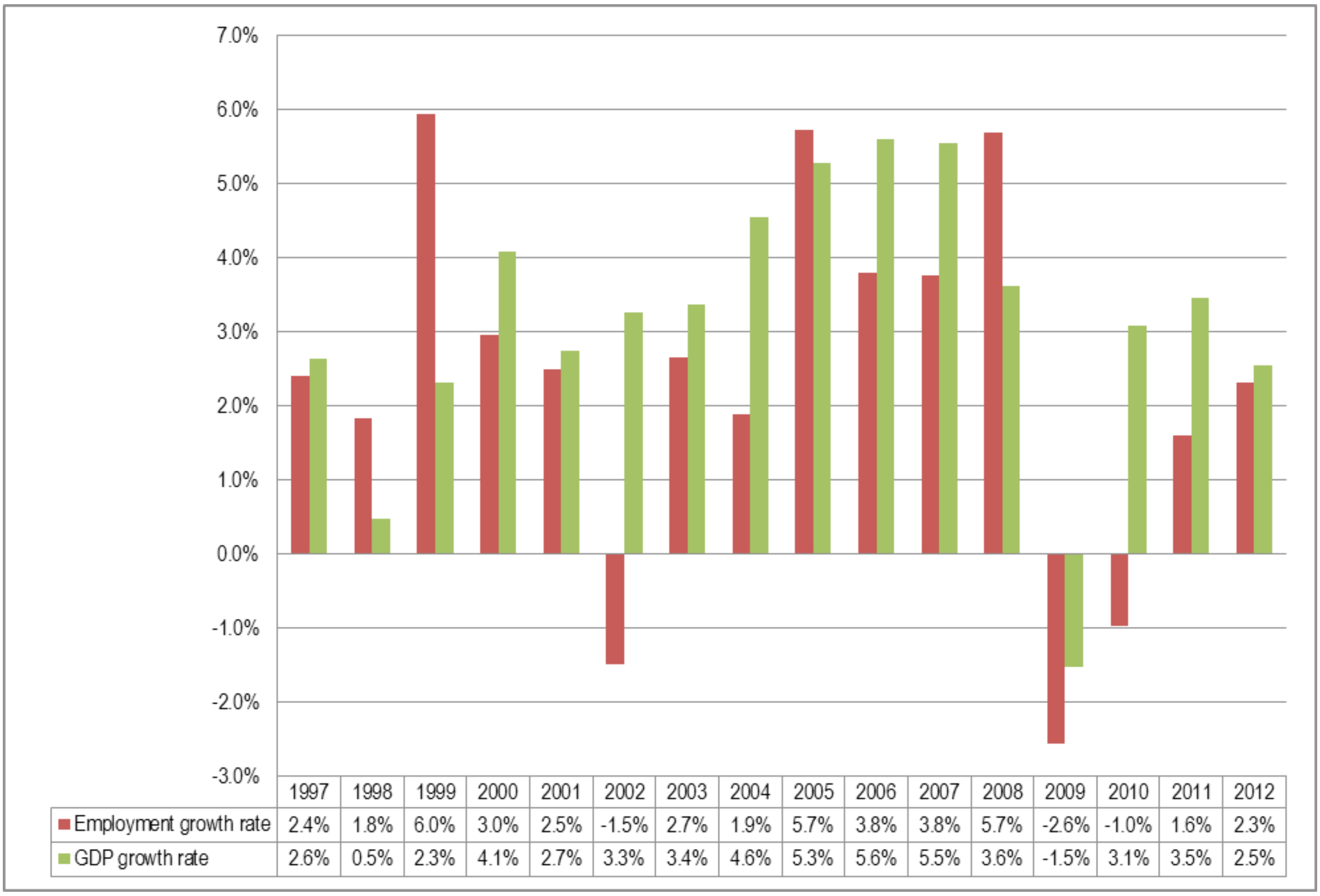
3.3.2. Employment and Unemployment trends

There was a time when economic growth meant more jobs, when growth was built on mining and other labour-intensive industries. Increasingly, economic growth is generated by industries, which are not labour intensive by nature, either because they are mechanised or because they require small numbers of highly skilled people to run them. Creating jobs by investing in industry is a capital-intensive process and industrial jobs grow at a slow rate, slower than populations and the numbers of unemployed. And, in a free-trade regime, businesses need to be competitive, and industrial developments cannot be competitive and job-intensive at the same time.

For these very reasons, the world economy is now characterised by jobless growth, and South Africa's strategy of seeking world market integration has not supported job creation. There have been 800 000 job losses between 1995 and 2000, and the number of unemployed people increased from 1.9 million in 1995 to 4.2 million in 2002. Better-than-predicted growth in the more recent past had little impact on unemployment (Enviropaedia, 2013).

It is, without any reservations, clear that South Africa faces a monumental challenge of creating jobs for the millions of its citizens finding it increasingly difficult to survive in the modern economy where more and more people compete for limited opportunities and resources.

Figure 3.1: GDP and employment growth rates



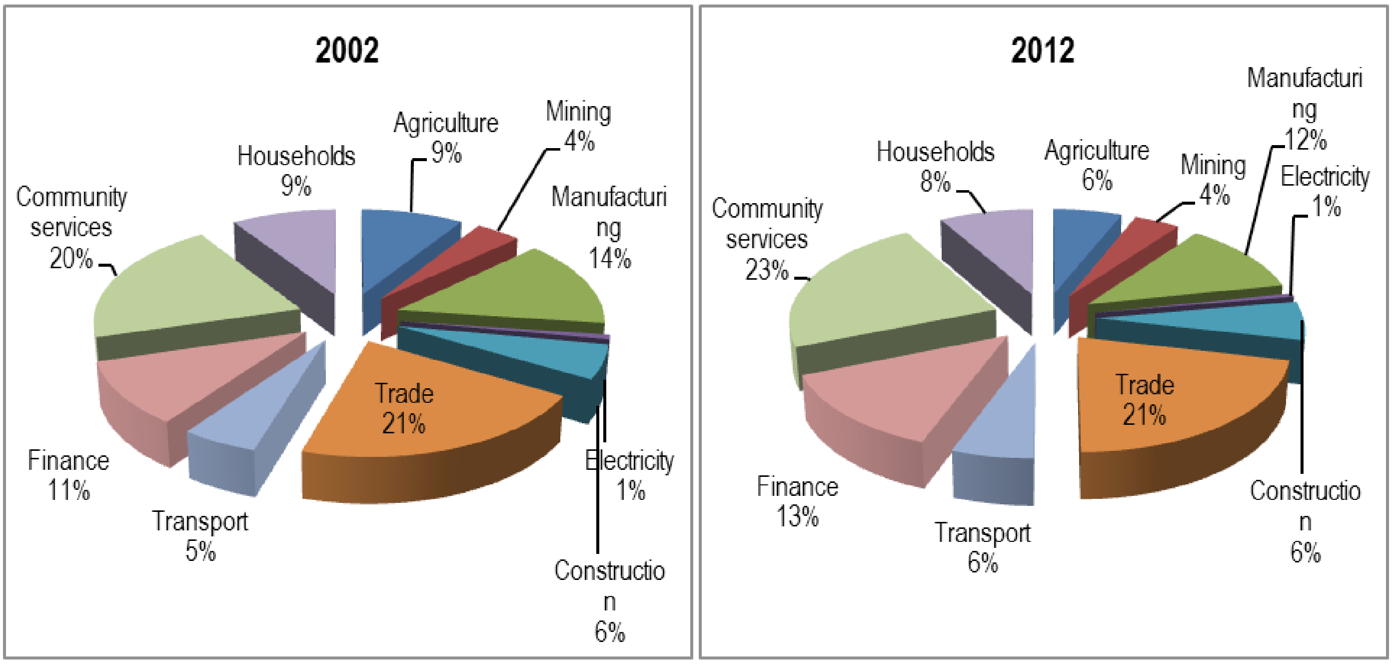
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Employment growth rate	2.4%	1.8%	6.0%	3.0%	2.5%	-1.5%	2.7%	1.9%	5.7%	3.8%	3.8%	5.7%	-2.6%	-1.0%	1.6%	2.3%
GDP growth rate	2.6%	0.5%	2.3%	4.1%	2.7%	3.3%	3.4%	4.6%	5.3%	5.6%	5.5%	3.6%	-1.5%	3.1%	3.5%	2.5%

Source: Global Insight, Regional eXplorer, 2013

Figure 3.1 above depicts a comparison of employment growth with GDP growth for the period 1997 to 2012. Over this period, employment growth has averaged 2.4%, while GDP growth has averaged 3.2%; meaning GDP has grown faster than employment by 0.8 percentage points. If we were to add a linear trendline to this data it would indicate a decreasing trend in employment growth while GDP is increasing though slightly. This analysis tells us that although GDP has shown positive, though minimal, growth during the period under review, the rate of growth of employment has been declining. The data also indicates a level of correlation between employment and GDP post 2001, with employment consistent tracking GDP.

It is evident from figure 3.1 that the 2009 economic recession had a severe impact on the national labour market with employment levels decreasing by 2.6% and 1.0% in 2009 and 2010 as the economy registered negative growth rates in 2009. Employment growth levels are yet to reach the pre-recession levels of growth, only growing by 2.3% in 2012 compared to 5.7% in 2008.

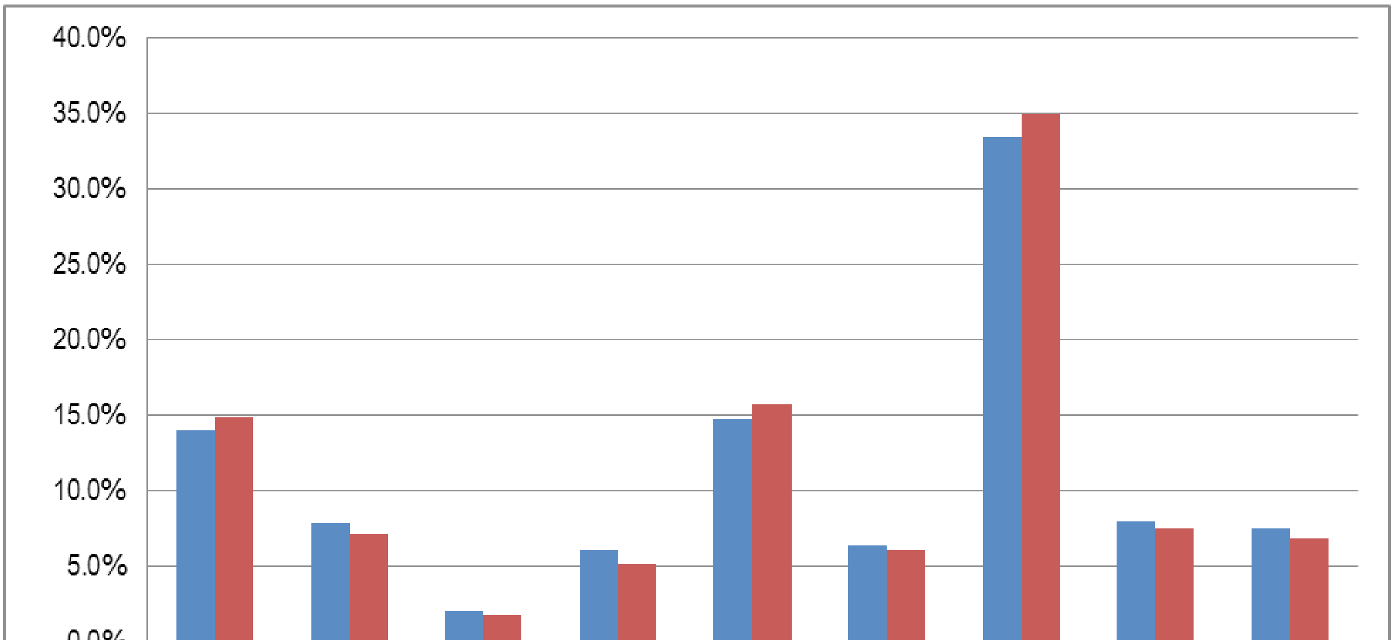
Figure 3.2: Employment share by sector



Source: Global Insight, Regional eXplorer, 2013

As illustrated in figure 3.2 above, the largest sector measured in terms of employment in the country was the community services sector in 2012, with a dominating share of 23% of total employment; an increase of 3 percentage points from 20% share in 2002. The second largest employer was trade (21%), followed by finance (13%) and manufacturing (12%). The smallest sectors measured in terms of employment in 2012 were electricity (1%) and mining (4%). The share of the primary industries decreased by 3 percentage points; from 13% in 2002 to 10% in 2012. Tertiary industries' dominance is continuing as it has the lion's share of employment with a staggering 71% in 2012, up from 66% in 2002; representing an increase of 5 percentage points.

Figure 3.3: Employment share by province

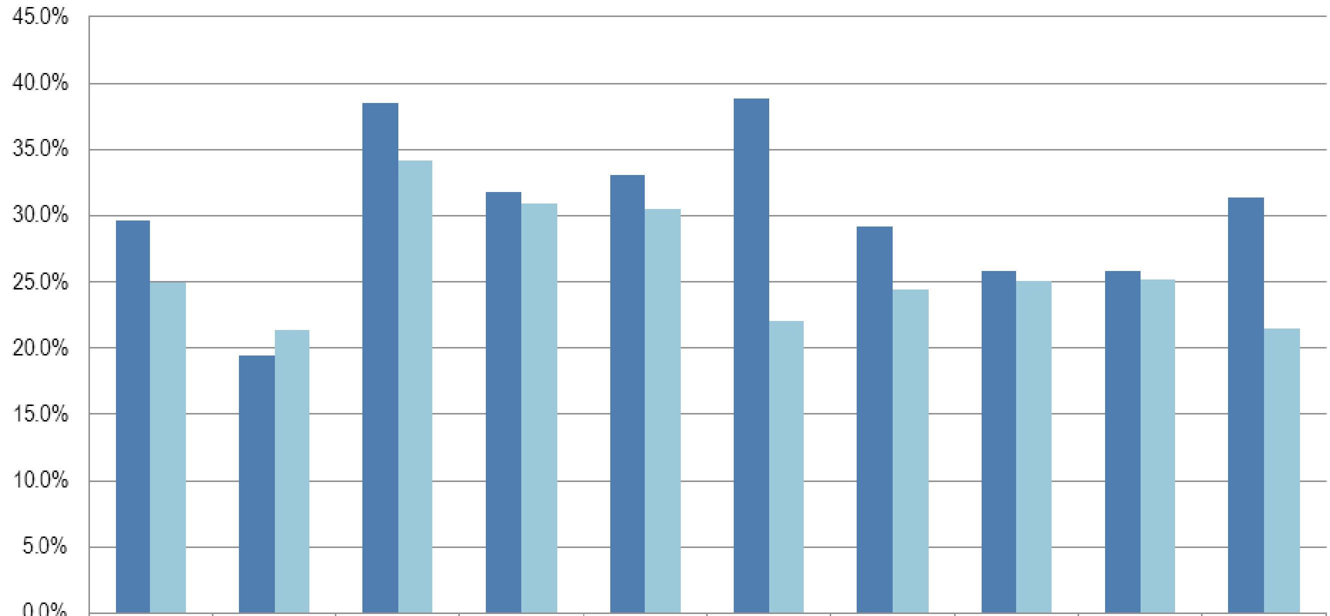


	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North-West	Gauteng	Mpumalanga	Limpopo
2002	14.0%	7.9%	2.0%	6.1%	14.8%	6.3%	33.5%	8.0%	7.4%
2012	14.9%	7.1%	1.8%	5.1%	15.7%	6.0%	35.0%	7.5%	6.8%

Source: Global Insight, Regional eXplorer, 2013

The biggest employer, as would be expected considering the size of its economy, is the Gauteng province with a share of 35.0% of total employment in the country. The second biggest in terms of employment share is KwaZulu-Natal (15.7%), followed by Western Cape (14.9%). The Free State (5.1%) remains the second smallest employer behind the Northern Cape (1.8%). It is important to note that the share of the big three (Gauteng, KwaZulu-Natal and Western Cape) is increasing, while the rest of the provinces' share is declining, perpetuating the misbalance in the distribution of employment among the provinces. The biggest decline in employment share was recorded in the Free State at 1.0 of a percentage share, while the largest increase was in Gauteng with a 1.5 percentage points increase.

Figure 3.4: South Africa's unemployment rate by province

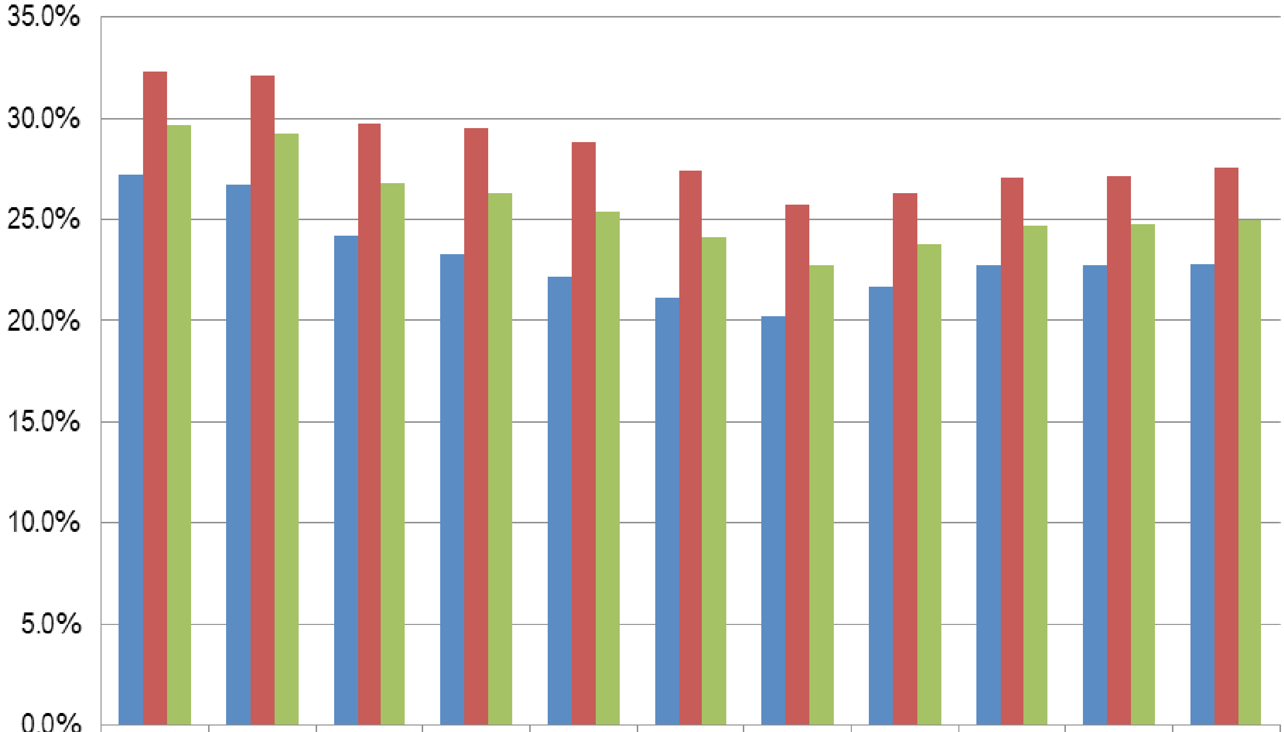


	South Africa	Western Cape	Eastern Cape	Northern Cape	Free State	KwaZulu-Natal	North-West	Gauteng	Mpumalanga	Limpopo
2002	29.7%	19.4%	38.5%	31.8%	33.1%	38.8%	29.2%	25.8%	25.8%	31.3%
2012	25.0%	21.3%	34.2%	31.0%	30.5%	22.0%	24.5%	25.1%	25.2%	21.5%

Source: Global Insight, Regional eXplorer, 2013

According to figure 3.4 above, South Africa's unemployment rate has decreased from 29.7% in 2002 to 25% in 2012; representing a decline of 4.7 percentage points. In spite of this promising trend of declining unemployment rates, South African is still ranked amongst the countries with the highest unemployment rates in the world. The provinces with the highest unemployment rates in 2002 were KwaZulu-Natal (38.8%), Eastern Cape (38.5%) and Free State (33.1%). KwaZulu-Natal has since been able to spectacularly decrease its unemployment rate by 16.8 percentage points to 22% in 2012, while Eastern Cape and Free State remain the provinces with the highest unemployment levels at 34.2% and 30.5% respectively. Limpopo has the lowest unemployment rate at 21.5% followed by the Western Cape at 21.3%. All provinces have managed to decrease their unemployment rate, though at various degrees, over the past ten year with the exception of the Western Cape where the level of unemployment has increased by 1.9 percentage points.

Figure 3.5: South Africa's unemployment rate by gender



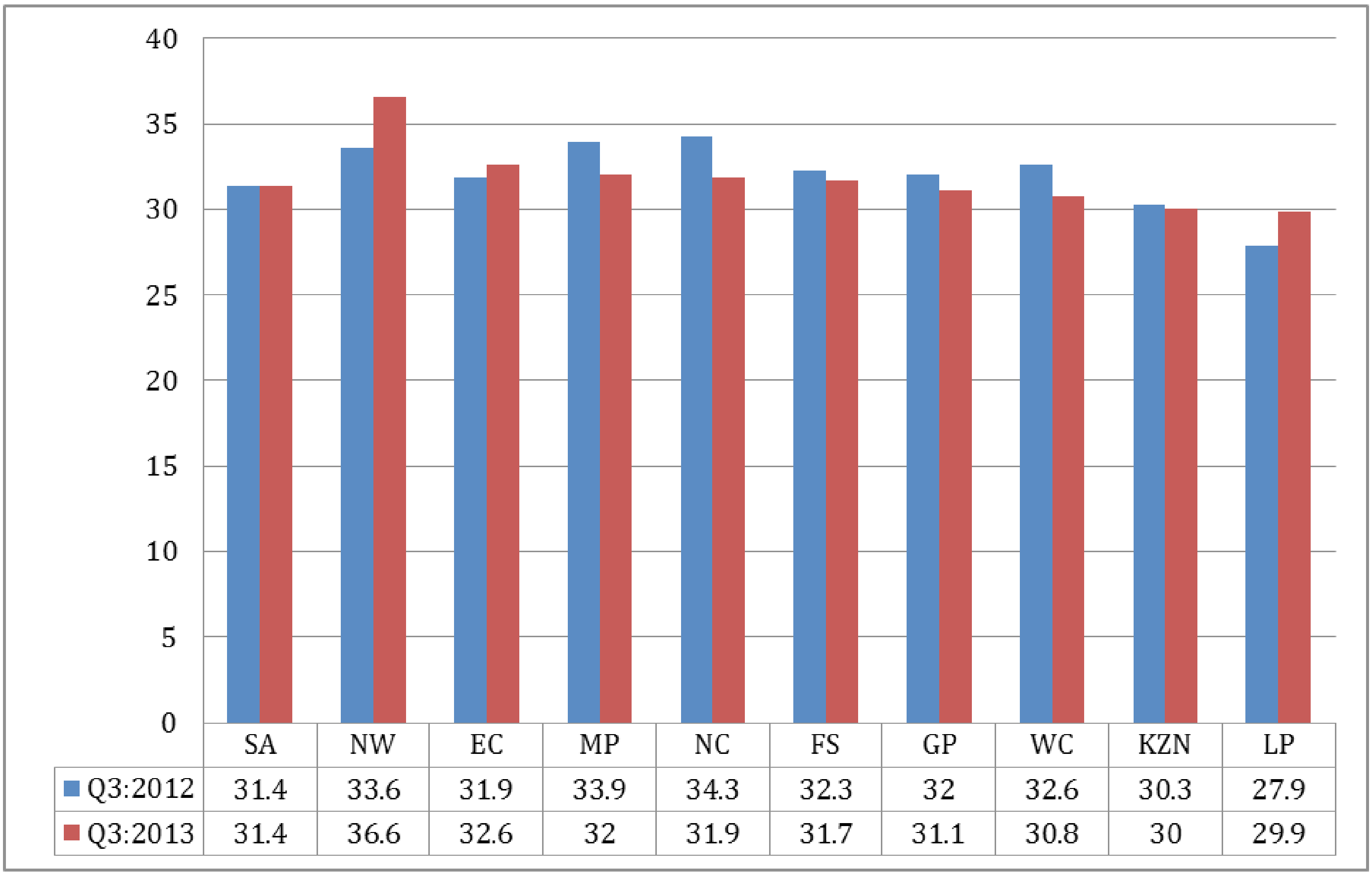
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Male	27.2%	26.7%	24.2%	23.3%	22.2%	21.1%	20.2%	21.7%	22.7%	22.7%	22.8%
Female	32.4%	32.1%	29.7%	29.6%	28.9%	27.5%	25.7%	26.3%	27.1%	27.1%	27.6%
Total	29.7%	29.3%	26.8%	26.3%	25.4%	24.1%	22.8%	23.8%	24.7%	24.7%	25.0%

Source: IHS Global Insight, Regional eXplorer, 2013

Historically, unemployment has always been more profound within the female population. The female unemployment rate has decreased from 32.4% in 2002 to around 27.6% in 2012; representing an increase of 4.8 percentage points, while for men it decreased by 4.4 percentage points from 27.2% to 22.8%. The gap between male and female unemployment has decreased, albeit slightly, from 5.2 percentage points in 2002 to 4.8 percentage points in 2012.

It is estimated by Stats SA that roughly 3.3 million of the 10.4 million youth aged 15–24 years were not in employment, education or training in Q3: 2013, which highlights the vulnerability of this group. This is an indication that a significant proportion of South Africa's youth is not constructively engaged; the youth who are categorized as NEET are considered to be disengaged from both work and education.

Figure 3.6: NEET rate of youth aged 15-24 by province



	SA	NW	EC	MP	NC	FS	GP	WC	KZN	LP
Q3:2012	31.4	33.6	31.9	33.9	34.3	32.3	32	32.6	30.3	27.9
Q3:2013	31.4	36.6	32.6	32	31.9	31.7	31.1	30.8	30	29.9

Source: Stats SA, QLFS, 3rd Quarter 2013

In Q3: 2013, the NEET rate of South African youth aged 15–24 years was 31,4%, same as in Q3: 2012. The North West registered the highest rate at 36,6%, up by 0.3 of a percentage point from 33.6% in Q3:2012. The lowest NEET rate was observed in Limpopo at 29.9%. Over the period Q3: 2012 to Q3: 2013, the rate declined in every province except North West, Eastern Cape and Limpopo. The Free State's rate declined by 0.6 of a percentage point; from 32.3% to 31.7% during the period under review.

3.4. Free State Labour Market Review

3.4.1. Labour Market Overview

Table 3.3 below shows that employment in Q3:2013 has increased by 5 000 or 0.6% compared to the same period last year. Similarly, the working age population (15 – 64 years) has increased by 13 000 or 0.7%. The employment growth of 0.6% is in line with the growth in the working age population (0.7%), but is failing to keep pace with both the narrow labour force (3.7%) and the expanded labour force (3.2%). The later finding is attributed to the decrease in the number of discouraged work-seekers (from 87 000 in Q3:2012 to 80 000 in Q3:2013; representing a 8.8% decline), which suggest improved perceptions of labour market conditions and hope to find employment, as the unemployed choose to actively look for work again. The most rapid growth is observed in the narrow unemployment (10.2%), while expanded unemployment grew by 7.2%.

Labour force participation rates (LFPRs) have remained very stable since Q3:2012, only increasing marginally, with 59.0% and 66.2% of the working age population participating in the narrow labour force and expanded labour force respectively in Q3:2013.

The increase in employment has not been sufficient to offset the increase in both the narrow and expanded unemployment rates. The narrow unemployment rate has increased by 2.0 percentage points; from 32.0% in Q3:2012 to 34.0% in Q2:2013, while the expanded unemployment rate has increased from 39.7% in Q3:2012 to 41.2% in Q3:2013, representing a 1.5 percentage point increase.

Table 3.3: Labour market overview

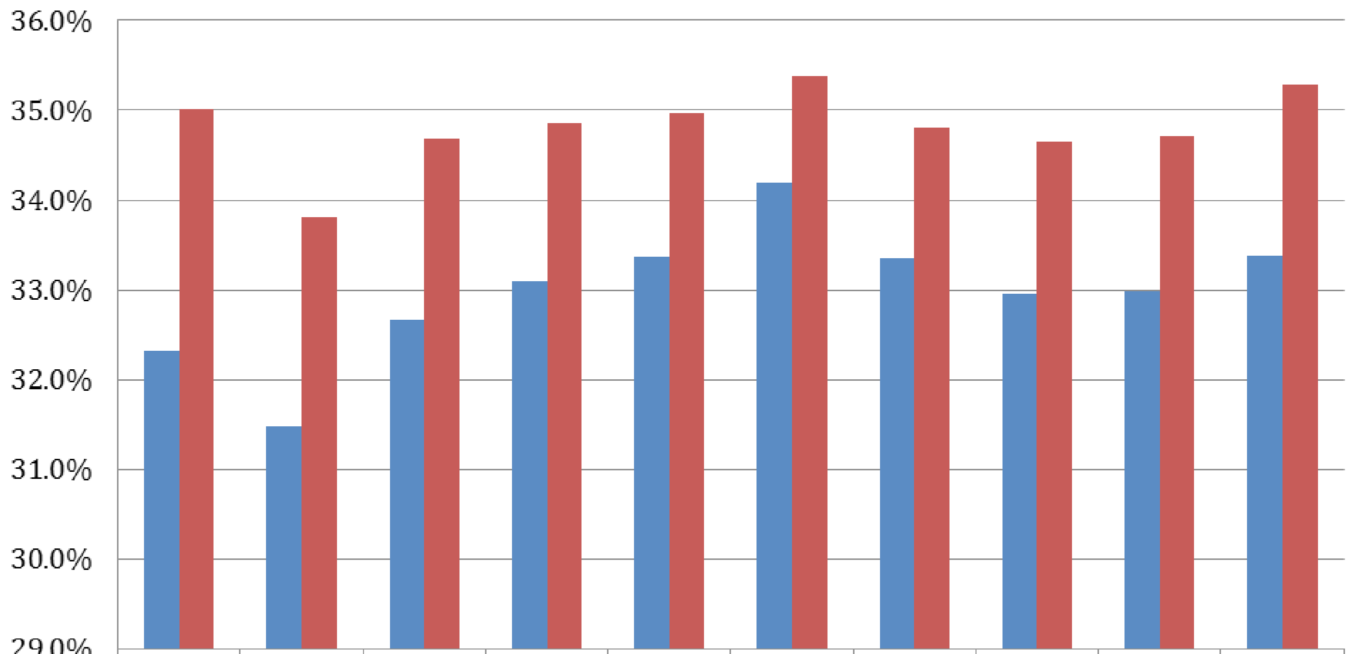
	Jul - Sep 2012	Jan-Mar 2013	Apr-Jun 2013	Jul - Sept 2013	Year on Year change	
					N	%
Labour Market Aggregates (Thousands)						
Working Age Population	1888	1895	1898	1901	13	0.7%
Employment	736	754	761	740	5	0.6%
Narrow Unemployment	346	349	376	381	35	10.2%
Narrow Labour Force	1081	1104	1137	1121	40	3.7%
Expanded Unemployment	484	488	494	519	35	7.2%
Expanded Labour Force	1220	1242	1255	1259	39	3.2%
Discouraged Work-seekers	87	81	67	80	-8	-8.8%
Labour Force Participation Rate (Percent)						
Narrow LFPR	57.3	58.3	59.9	59.0	1.7	
Expanded LFPR	64.6	65.6	66.1	66.2	1.6	
Unemployment Rate (Percent)						
Narrow Unemployment Rate	32	31.7	33.1	34	2.0	
Expanded Unemployment Rate	39.7	39.3	39.3	41.2	1.5	

Source: Stats SA, QLFS, 3rd Quarter 2013

The economically active population (EAP) is defined as the number of people who are able, willing and who are actively looking for, work and who are between the ages of 15 and 65. It thus includes both *employed* and *unemployed* people. Figure 3.7 below represents the EAP in a region, as a percentage of the total population in that region. The population of a region is the total number of people within that region in the middle of the respective year. It therefore includes all residents and non-residents and individuals of any age, gender and population group.

The EAP as percentage of total population in the Free State has increased marginally by 0.3 of a percentage point, from 35.0% in 2003 to 35.3% in 2013. Between 2003 and 2012, it has averaged 34.8% in the Free State, compared to the national average of 33.0%. Compared to other provinces, the Free State has the third highest rate of EAP as percentage of total population. Gauteng, at 47.5%, has the highest EAP as percentage of total population, followed by Western Cape (42.5%), Free State (35.3%) and Mpumalanga (34.4%). The rest of the provinces are as follows, rated from the lowest: Eastern Cape (21.4%), Limpopo (21.7%), KwaZulu-Natal (25.6%), Northern Cape (30.1%) and North West (30.7%).

Figure 3.7: EAP as percentage of total population, official definition



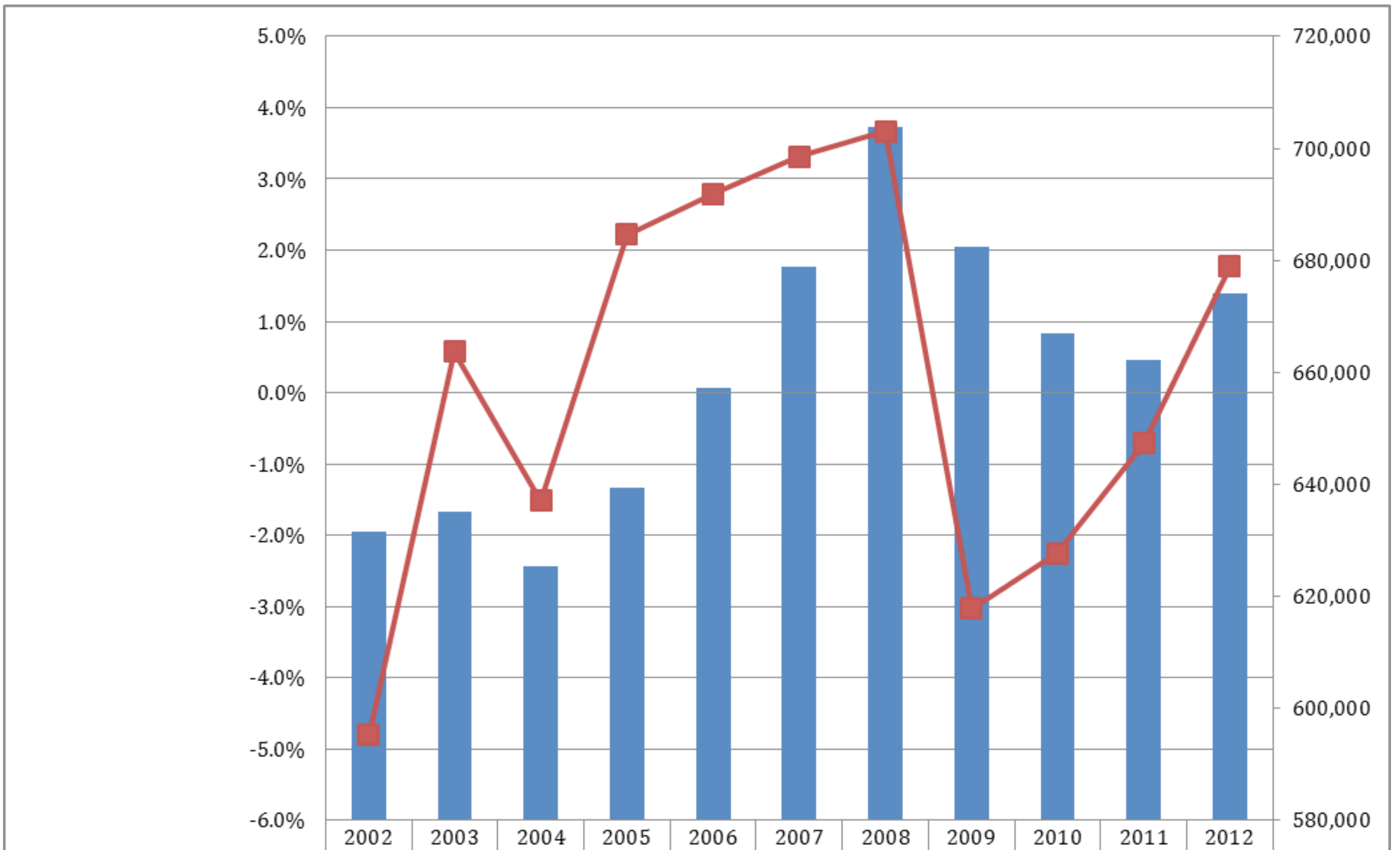
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
SA	32.3%	31.5%	32.7%	33.1%	33.4%	34.2%	33.3%	32.9%	33.0%	33.4%
FS	35.0%	33.8%	34.7%	34.9%	35.0%	35.4%	34.8%	34.6%	34.7%	35.3%

Source: Global Insight, Regional eXplorer, 2013

3.4.2. Employment

The number of people employed in the Free State has increased from 634 447 in 2002 to 674 028 in 2012; representing an increase of 6.7%. However, the annual average growth rate for the period under review was a mere 0.2%. The biggest growth was observed in 2008 with a rate of 3.7%, while the largest decline was in 2002, decreasing by 4.8%. Since the economic recession of 2009, employment growth has averaged -1.1%, with the only positive growth observed in 2012, this means that the economy continues to bleed jobs. In 2008, just before the recession, the province experienced the highest number of employed people at 703 801, but declined by 21 318 (or -3.0%) to 682 483 in 2009. Since 2009, employment has shrunk by 8 455 persons; indicative of the weakness in the economy to recoup the loses brought about by the recession (see figure 3.8 below).

Figure 3.8: Number of people employed and employment growth rate

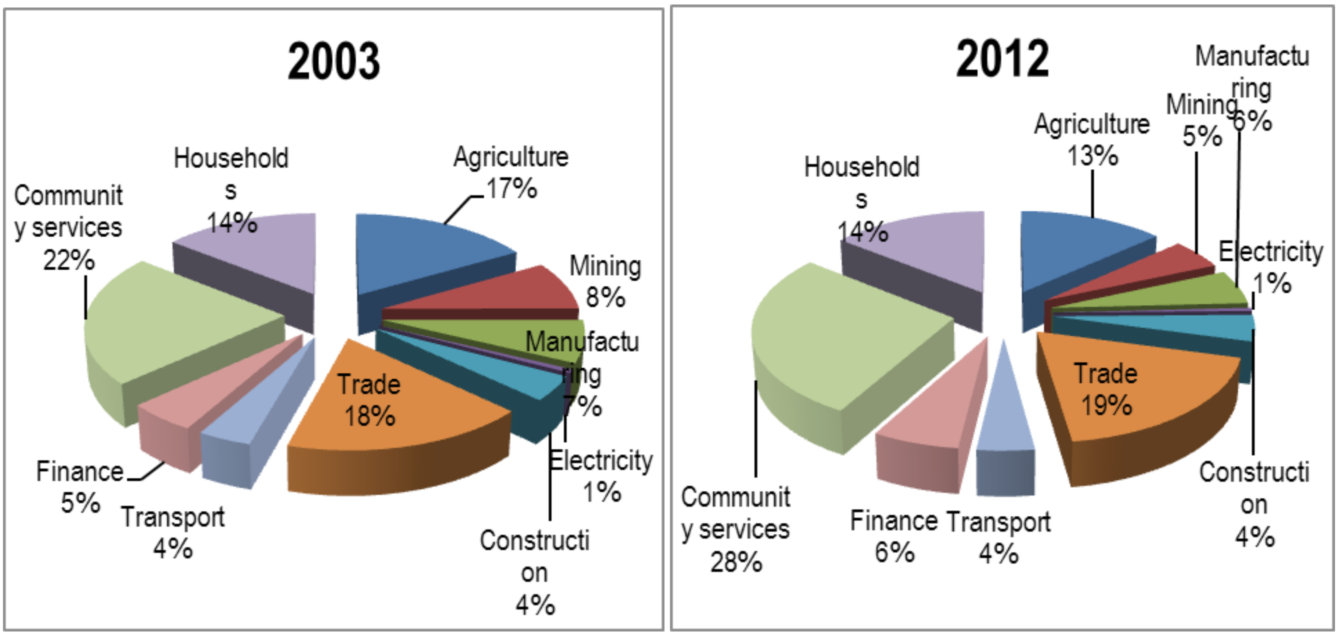


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of emoloyed	631,447	635,077	625,423	639,320	657,175	678,932	703,801	682,483	667,063	662,313	674,028
Employment growth	-4.8%	0.6%	-1.5%	2.2%	2.8%	3.3%	3.7%	-3.0%	-2.3%	-0.7%	1.8%

Source: Global Insight, Regional eXplorer, 2013

As depicted in figure 3.9 below, the biggest employer in the province remains the community services with a substantial share of 28% of total provincial employment, followed by trade (19%), households (14%) and agriculture (13%). On the other side of the coin, the smallest employers are electricity (1%), transport (4%), construction (4%) and mining (5%). Increases in the share of employment were observed in the community services (6 percentage points) and trade (1 percentage point). The largest decreases were observed in agriculture (4 percentage points) and mining (3 percentage points). This indicate a continuing trend of a declining primary industries and flourishing tertiary industries; the primary industries' share declined by a total of 7 percentage points, while the share of the tertiary industries increased by 8 percentage points. The secondary industries' share declined by 1 percentage of a point, attributed to the manufacturing sector.

Figure 3.9: Employment share by sector



Source: Global Insight, Regional eXplorer, 2013

In the third quarter of 2013, total provincial employment decreased by around 21 000 jobs (or 2.7%). The main contributors to this decline was the community and social services (-17 000 or -7.7%), private households (-9 000 or -10.0%) and manufacturing (-5 000 or -8.5%). Since the beginning of 2013, the province has lost 14 000, jobs whilst creating only 7 000 in the process.

Year on year, the province gained approximately 5 000 net jobs. The largest gains were in the community services (26 000 or 14.2%), whilst the biggest losses were in the private households (-12 000 or -12.5%). This again reaffirms the ongoing trend of the government sector being the driver of job creation in the province, employing an estimated 27.7% of the workforce in Q3:2013.

Table 3.4: Employment by sector

	Jul-Sep 2012	Oct-Dec 2012	Jan-Mar 2013	Apr-Jun 2013	Jul-Sep 2013	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand							Percent	
Total	**736**	**732**	**754**	**761**	**740**	**-21**	**5**	**-2.7**	**0.6**
Agriculture	68	63	89	65	66	1	-3	1.1	-3.8
Mining	27	27	26	22	23	1	-5	4.0	-17.4
Manufacturing	59	71	67	64	58	-5	-1	-8.5	-1.8
Utilities	6	3	8	6	5	-1	-1	-12.0	-15.2
Construction	51	52	54	51	53	2	2	4.1	3.7
Trade	149	150	136	145	145		-4	-0.1	-2.6
Transport	32	28	37	34	35	1	3	3.3	9.7
Finance	66	66	61	59	66	7		12.2	-0.4
Community and social services	180	183	194	222	205	-17	26	-7.7	14.2
Private households	96	91	82	94	84	-9	-12	-10.0	-12.5

Source: Stats SA, QLFS, 3rd Quarter 2013

3.4.3. Unemployment

Unemployment occurs when people are without work and are actively seeking work. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. It is widely recognized as a key indicator of labor market performance. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to the ILO, more than 197 million people globally are out of work or 6% of the world's workforce were without a job in 2012 (Wikipedia, 2013). Unemployment levels in the Free State have remained worryingly high particularly since the global economic recession of 2008.

Table 3.5: Quarterly unemployment rates by province

	Jul - Sep 2012	Apr -Jun 2013	Jul - Sep 2013	Qtr-to-qtr change	year-on-year change
South Africa	25.5	25.6	24.7	-0.9	-0.8
Western Cape	25.4	24	23.4	-0.6	-2
Eastern Cape	28.8	30.8	30.8	0	2
Northern Cape	29.9	29	28	-1	-1.9
Free State	**32**	**33.1**	**34**	**0.9**	**2**
KwaZulu-Natal	21.3	22.7	20.9	-1.8	-0.4
North West	25	27.1	26.6	-0.5	1.6
Gauteng	24.8	25	24.3	-0.7	-0.5
Mpumalanga	31	29.4	26.6	-2.8	-4.4
Limpopo	22.3	18.1	17.8	-0.3	-4.5

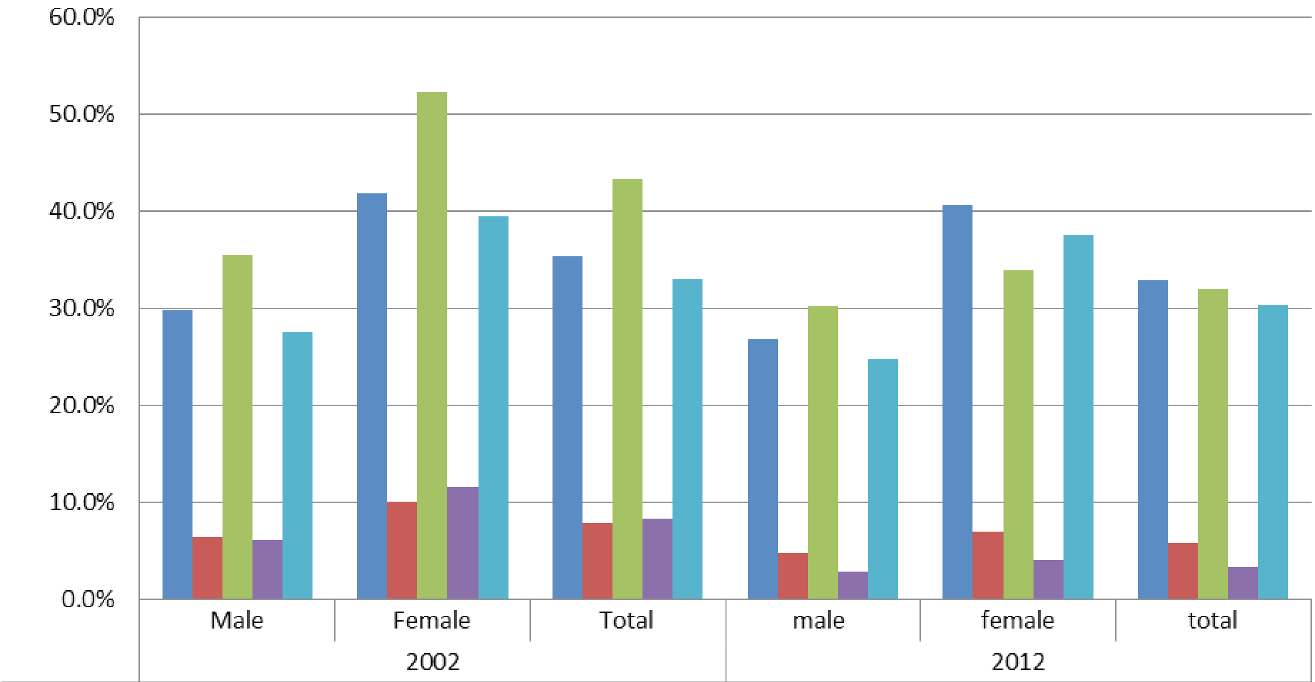
Source: Stats SA, QLFS, 3rd Quarter 2013

The Q3:2013 Quarterly Labour Force Survey (QLFS) reveals that the unemployment rate declined in seven provinces between Q2: 2013 and Q3: 2013. In Eastern Cape, the rate remained the same but increased in Free State by 0.9 of a percentage point from 33.1% to 34.0%. Quarter-to-quarter declines were highest in Mpumalanga and KwaZulu-Natal (by 2.8 and 1.8 percentage points respectively). The unemployment rates observed in Q2: 2013 and Q3: 2013 for Limpopo, KwaZulu-Natal, Western Cape and Gauteng were lower than the national unemployment rates, while in the other five provinces unemployment rates were higher than the national average for both periods (see table 3.5 above).

Year on year, the unemployment rate declined by the largest amount in Limpopo and Mpumalanga (by 4.5 and 4.4 percentage points respectively). Over the same period, the rate of unemployment increased in Free State (2.0 percentage points), Eastern Cape (2.0 percentage points) and North West (1.6 percentage points).

The Free State remains the province with the highest unemployment rate at 34.0%, followed by Eastern Cape (30.8%) and Northern Cape (28.0%). The provinces with the lowest unemployment rates are Limpopo (17.8%), KwaZulu-Natal (20.9%) and Western Cape (23.4%).

Figure 3.10: Unemployment rate by race and gender



	2002 Male	2002 Female	2002 Total	2012 male	2012 female	2012 total
African	29.8%	41.8%	35.5%	26.8%	40.6%	32.9%
White	6.5%	10.2%	8.0%	4.9%	7.1%	5.8%
Coloured	35.6%	52.3%	43.3%	30.3%	34.0%	32.0%
Asian	6.2%	11.6%	8.3%	3.0%	4.1%	3.4%
Total	27.6%	39.6%	33.1%	24.9%	37.6%	30.5%

Source: IHS Global Insight, Regional eXplorer, 2013

The rate of unemployment is more prominent among the African population, though it has decreased by 2.6 percentage points between 2002 and 2012. In 2012, the Coloured population had the second highest unemployment rate at 32.0%; representing a massive decline of 11.3 percentage points when compared to 2002. Asians and Whites have the smallest unemployment rates at 3.4% and 5.8% respectively, and they have both recorded significant declines since 2002.

Historically, women have bared the brunt of unemployment the most. In 2002 the female unemployment rate in the Free State stood at 39.6% compared to 27.6% for men, showing a disparity of 12% between the two. Fast forwarding to 2012, the female population still shoulders the burden of unemployment at 37.6% (a decline of 2.0 percentage points compared to 2002) compared to 24.9% for males (a decline of 2.7 percentage points compared to 2002).

It is clear from figure 3.10 above that the most affected by joblessness in the Free State are the African and Coloured population, and females (particularly African and Coloured females). It is, therefore, important that in order to make a considerable dent on unemployment, job creation policies should be directed at the African and Coloured female population, however this does not mean that other groups should be marginalized.

Table 3.6: Characteristics of the unemployed

	Jul-Sep 2012	Oct-Dec 2012	Jan-Mar 2013	Apr-Jun 2013	Jul-Sep 2013	Qrt to Qrt change	Year on year change	Qrt to Qrt change	Year on year change
	Thousand							Percent	
Unemployed	**346**	**363**	**349**	**376**	**381**	**5**	**35**	**1.3**	**10.2**
Job losers	112	118	108	129	118	-11	7	-8.3	5.9
Job leavers	19	19	20	24	27	3	9	13.0	46.4
New entrants	150	148	159	147	159	12	9	7.9	5.9
Re-entrants	8	12	5	5	5	0	-2	-2.2	-31.6
Other	58	65	58	71	72	1	14	1.5	23.3
Duration Unemployed									
Long-term unemployment (1 year and more)	247	249	242	251	251	0	3	0.0	1.3
Short-term unemployment (less than 1 year)	98	114	107	125	130	5	32	4.0	32.5
Long-term unemployment(%)									
Proportion of the labour force	22.9	22.7	21.9	22.0	22.3	0.3	-0.6		
Proportion of the unemployed	71.5	68.5	69.3	66.7	65.8	-0.9	-5.7		

Source: Stats SA, QLFS, Quarter 3 2013

According to table 3.6 above, a quarter to quarter increase in the number of people unemployed was largely driven by an increase in new entrants from 147 000 in Q2:2013 to 159 000 in Q3:2013, an increase of 7.9%. The number of job leavers also increased significantly by 13% or 3 000 people. However, the number of job losers in the labour market decreased by 11 000 or 8.3%, from 129 000 in Q2:2013 to 118 000 in Q3:2013.

Year on year, the biggest contributors to unemployment in nominal terms was the unclassified group, "other", with an increase of 14 000 or 23.3%, followed by job leavers (9 000 or (46.4%) and new entrants (9 000 or 5.9%).

The percentage of people in long-term unemployment remained constant quarter to quarter, but increased by 1.3% year on year, while short-term employment increased by 4.0% quarter to quarter and 32.5% year on year.

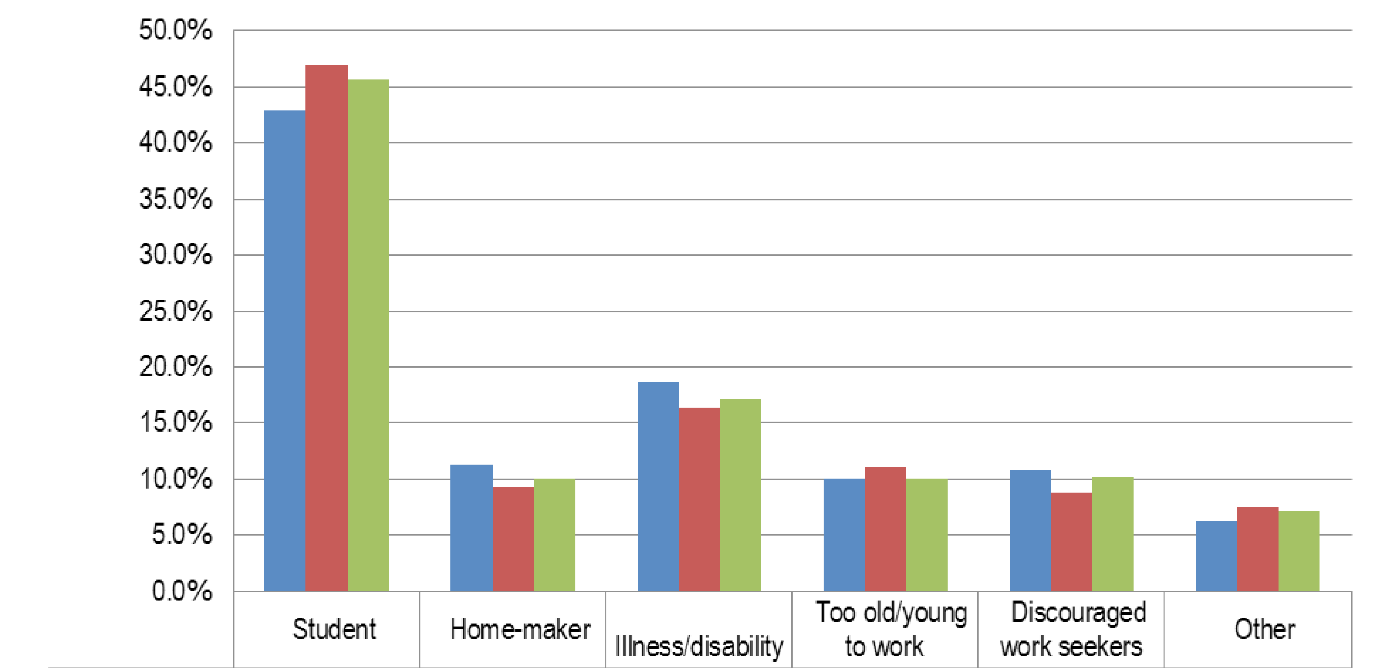
Long-term unemployment as proportion of the labour force increased 0.3 of a percentage points in quarter to quarter, from 22.0% in Q2:2013 to 22.3% in Q3:2013. In Q3:2013, 65.8% of the unemployed are said to be in long-term unemployment compared to 71.5% in the same period in the previous year; indicating a 5.7 percentage point improvement.

3.4.4. Not Economically Active Population

As depicted in figure 3.11 below, the contribution of the discouraged work-seekers to the economically active population is trivial when compared to students and home-makers. In Q3:2013, students accounted for 45.6% of the not economically active population, a 1.4 percentage point decrease compared to the previous quarter. The proportion of home-makers among the not economically active population increased by 0.7 of a percentage point, while the discouraged increased by 1.5 percentage points.

Year on year, the share of students as a group increased by 2.7 percentage points, while the share of discouraged work-seekers decreased by 0.6 of a percentage point from 10.8% to 10.2%.

Figure 3.11: Characteristics of the not economically active



	Student	Home-maker	Illness/disability	Too old/young to work	Discouraged work seekers	Other
Jul-Sep 2012	42.9%	11.3%	18.7%	10.0%	10.8%	6.3%
Apr-Jun 2013	47.0%	9.3%	16.4%	11.1%	8.7%	7.5%
Jul-Sep 2013	45.6%	10.0%	17.1%	10.0%	10.2%	7.1%

Source: Stats SA, QLFS, Quarter 2 2013

3.5. Conclusion

The impact of the 2009 economic recession is still felt throughout the labour market. The level of unemployment has remained relatively high nationally and more so in the Free State. While recent estimates suggest that employment growth occurred, it has not been adequately rapid to lower total provincial unemployment. Weak employment growth is rooted in the subdued economic recovery, which has as yet not been broad-based and sustained. Nevertheless, the sustainability of recent employment gains and beyond is dependent on consistent robust economic growth.

In addition, the Free State labour market remains characterised by significant structural disparities resulting in widespread labour market outcomes driven by certain socio-demographic factors. For those who bore the brunt of job losses during the recession such as the youth and less educated, labour market conditions remain constrained.

CHAPTER 4:

MUNICIPAL ECONOMIC PERFORMANCE

4.1. Introduction

The purpose of this section is to highlight the importance, characteristics, difficulties and outlook of the municipalities within the Free State Province and how they affect the provincial stratosphere.

Although there have been some gains in redressing the legacies of apartheid, the influence of global economic events and the seemingly evolving socio-economic and development challenges of the country have seen a need for policy-makers to have a dynamic and holistic understanding of the province. This section aims to be descriptive with regards to the local government sphere of government within the Free State, since they are primarily at the frontline of communicating with the citizens and service delivery, and have as of late both received the greatest amount of criticism and need for help from all sectors of society.

4.2. Background of Free State municipalities

The Free State Provincial Legislature Analysis of Free State Municipalities highlighted that there are 25 municipalities in the Free State province, of which 19 can be classified as rural (FFC 2011:2). However, with Mangaung becoming a Metropolitan Municipality in 2011, this has reduced the number to 14 as the then Motheo District Municipality has ceased to exist. The first realization this fact raises is that these rural municipalities can be assumed to have very limited powers and impact in terms of their ability to collect own-revenue due to the observation that rural areas often suffer from poverty and thus have a high number of households unable to pay for services. A second realization is that municipalities thus carry the financial burden of having to provide basic services to a larger proportion of their inhabitants, since government has a mandate to provide Free Basic Services (FBS) to all eligible households. Thus a large portion of local equitable share goes towards poverty alleviation and providing basic services, and other priorities necessary to evolve municipalities from welfare-bearers to economically-viable micro-economies are often sacrificed. To remedy this unsustainable economic climate found in such municipalities, local economic development (LED) was created as an intervention.

4.2.1. Local Economic Development (LED)

Within the Free State municipal situation, certain constraints exist, and these also play a large barrier in achieving the necessary momentum to create more self-sufficient municipalities.

Firstly, the National Framework for LED (2006) pointed out that the more underdeveloped and remote areas were less likely to have self-contained economic structures similar to those in metro areas where a level of economic autonomy is often found. Although LEDs are often essentially community projects due to the remoteness in terms of spatial divide seen in most municipalities, there is now a need to make them more coordinated across smaller municipalities. This need was neatly summarised by Deloitte's Local Government Municipal Turnaround and Clean Audit (2011:3) which highlighted that "their economic base, demographics, location, history, access to skills and resources mean many municipalities – even with the best management – could never be financially viable, and indefinite grant dependency would limit the success of any 'turnaround'". Since it was highlighted above that 19 of the 25 municipalities in the Free State are rural, the pooling of resources may achieve greater benefits, although such coordinated actions are hindered by the lack of capacity.

To add to this dilemma is the fact that although it is acknowledged what an LED is, the approaches to how one should approach economic impetus often varies and has far reaching effects. Although the National Framework for LED acknowledges the need for inclusion and participation in drafting the LED strategies, issues on how and who should be included differ quite significantly. Given the separate and racial history of the country and province, smaller communities place greater emphasis on participation and inclusion by historically marginalised communities and less on private sector participation which is largely white-owned. Not to necessarily pin the failures of municipalities on racial divides, but in some instances there are deep divides between predominantly-white and conservative business interests with the rest of the community, which hinders the kind of relationship necessary to support an effective LED strategy (SALGA 2010:15).

Patterson (2008:3) goes on to state that the issue with most LEDs are that they tend to be project based rather than drawing on a superseding development plan, which destroys the impetus of making the processes involved in drafting an LED ongoing and continuous.

Another intricate issue is how national growth strategies, although necessary, are affecting the urban-rural divide. Private sector investment tends to favour metros, where opportunities are more abundant due to the abundance of businesses and required infrastructure and telecommunication needs (SALGA 2010).

4.2.2. Municipal debt and revenue review

Table 4.1: Contribution of various revenue sources to total municipal revenue for the Free State

	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
Own Revenue		74%	63.5%	63.8%	69.7%	54.1%
Equitable Share	86.8%	16%	24.1%	17.9	19.8%	34.4%
Conditional Grants	13.25	10%	12.4%	18.3	10.5%	11.5%

Source: Fiscal and Fiscal Commission, 2011

Table 4.2: Real growth in components of total municipal revenue for the Free State, 2004/05-2009/10

	04/05 – 05/06	05/06 – 06/07	06/07 – 07/08	07/08 – 08/09	08/09 – 09/10
Own Revenue	15.6%	-11.1%	-3.7%	1.5%	4.5%
LES Allocation	-6%	10%	11.1%	14.2%	22.7%
Conditional Grants	-12.4%	41.8%	36%	2.1%	13.1%

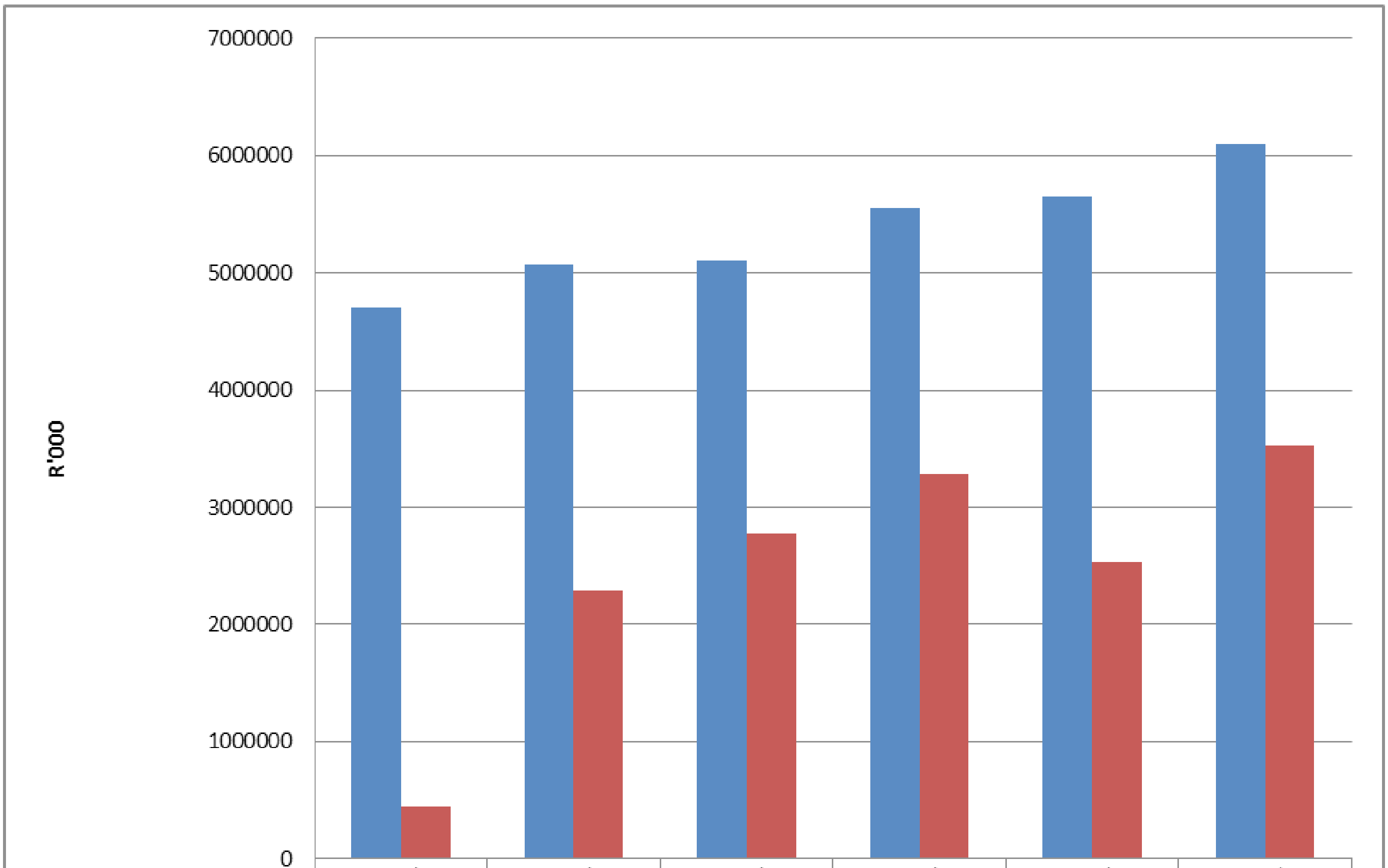
Source: Fiscal and Fiscal Commission, 2011

As can be deduced from the tables taken from the FFC's Free Sate Provincial Legislature Analysis of Free State Municipalities submitted in 2011, the composition of the financial resources contributing towards total municipal revenue have shown somewhat indicative trends of municipalities becoming dependent on intergovernmental transfers. The financial years of 2004/5 and 2005/6 saw most of the municipal revenue being constituted mainly from own revenue, with a minor share being complimented by local equitable share. Although the introduction of conditional grants may have impacted on the composition of municipal revenue, the continuously decreasing percentage share of own revenue and somewhat startling increase of local equitable share seems to point towards a dependency towards the other spheres of government for revenue in order for municipalities to effectively carry out their functions. Own revenue growth has seen single figure percentage growth, being greatly outpaced by the intergovernmental transfers afforded to them through local equitable share allocation and conditional grants, which have experienced double digit growth in real terms.

The recession brought on by the subprime crisis impacted heavily on Free State municipalities, and their impacts are still being felt, especially in the mining and agriculture sectors of the country whose export-potentials were significantly diminished by the decreasing demand of foreign countries and thus saw municipalities' lose their revenue sources through difficult business conditions. Although the country recovered, the recessionary effects affected the province and more especially certain municipalities where the livelihoods and prosperity of the regions where mostly dependent on demand-driven commodity and agricultural markets amongst others.

4.2.3. Municipal Consumer Debt

Figure 4.1: Municipal consumer debt relative to total municipal operating revenue



	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Real operating revenue	4700051	5071850	5106435	5555886	5652059	6097560
Real consumer debt	445649	2289268	2776172	3285653	2529699	3528810

Source: Fiscal and Fiscal Commission, 2011

Looking at figure 4.1 above, real consumer debt has grown quite substantially between the 2004/05 to 2009/10 while the real operating revenue has only increased quite marginally. Real operating revenue has increased by 29.74% over the said period while real consumer debt increased by a startling 692%. This trend either indicates an (i) inability by Free State municipalities to collect their outstanding debt, (ii)that households are refusing to pay their rates due to what they perceive as poor service delivery, (iii) that rates and services may be overpriced, or a (iv) combination of the aforementioned factors. There is a strong need though for municipalities to increase their debt collection methods in order to rehabilitate their diminishing own revenue.

4.2.4 Municipal Managers

The State of Municipal Capacity Report (SMCR) released for the 2010/11 financial year highlighted the fact that staff vacancies tended to be higher in rural municipalities more than urban ones. These trends could partly be explained by municipalities often having poor human resource management practices, the inability to attract and retain professional and technical skills and ineffective performance management systems (Local Government Bulletin Vol. 14[4]). Deloitte (2011) in their *Local Government Municipal Turnaround and Clean Audit* highlight that it is often problematic that municipalities often have to diagnose their own faults and intervention, and this indirectly assumes that they have the sufficient capacity to do so ("the patient is often required to not only diagnose, but also cure himself).

Pertaining to the experience of municipal managers, most in the Free State had an average of 5.2 years (SMCR). The Free State province had quite short tenures of approximately 1.8 years, along with provinces like the North-West (1.5 years), Gauteng (1.7

years) whereas municipal managers in the Eastern Cape and KwaZulu-Natal had occupied their positions the longest (4.3 years and 4.2 years respectively).

4.3. Municipal Profiles

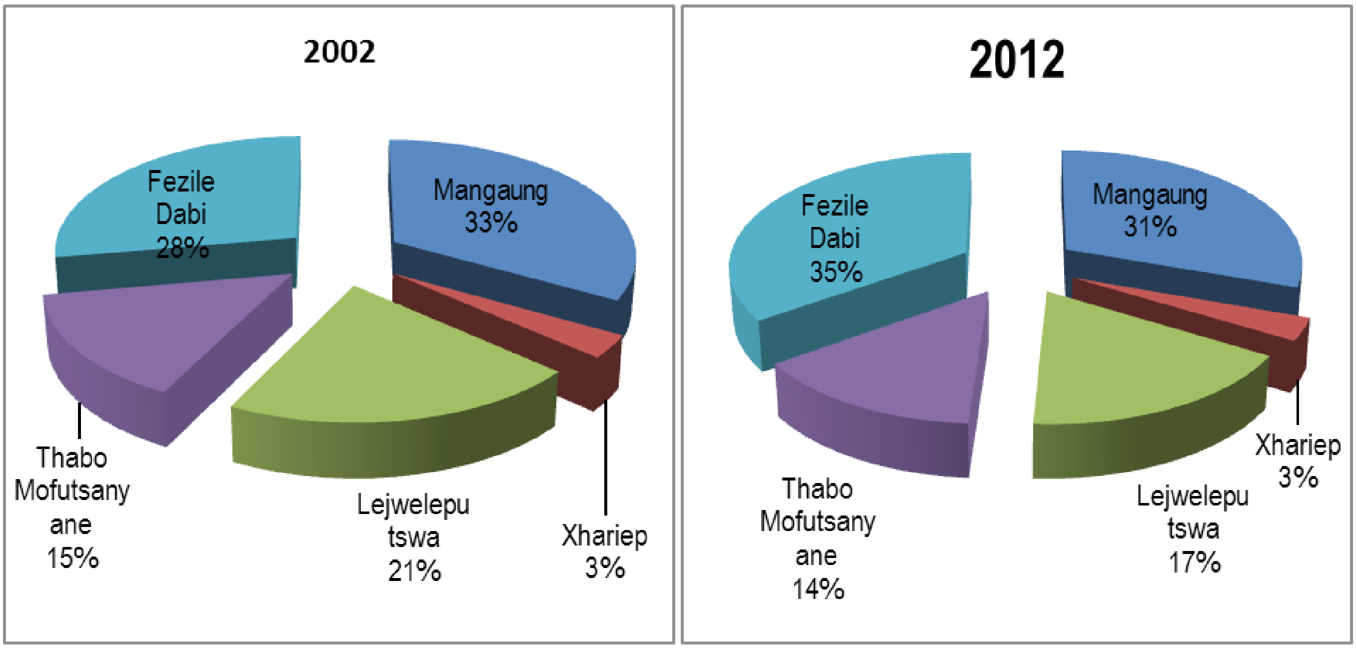
Fezile Dabi district municipality is the biggest contributor towards the provincial GDP, contributing approximately 35% towards the provincial GDP (Global Insight, 2013). Curiously, it should be highlighted that the situational analysis of the province revealed that Fezile Dabi's contribution towards employment in the province is far lower than its share towards provincial output (Fezile Dabi District Municpality Integrated Development Plan 2012 -2017), and this could mean Fezile Dabi is performing well below its potential. The Fezile Dabi area is mostly dominated by the industrial prowess harnessed by Sasol, with the manufacturing of refined petroleum, coke and chemical products adding largely to its GDP (FDC, 2013). The establishment of Chemcity, a wholly owned subsidiary of Sasol has also added a business incubator which allows for SMMEs to feed off and diversify from the opportunities that prevail due to the energy consortium operating in the area.

The Mangaung Metropolitan Municipality has the second largest GDP-R and contributes 31% towards provincial output (Global Insight, 2013). The Mangaung Metro is the most developed of the districts municipalities, and has prowess over the rest of the districts in the wholesale, retail & trade, finance, real estate & business services, transport & communication and community & social services sectors (FDC, 2013). It's more diversified economy opens it up to more avenues of growth and also acts as a buffer against any negative external events beyond its own economic impact.

The Lejweleputswa district, known as a mining powerhouse in the province due to its gold mining activities, may also be in need of the same diversification as the Mangaung Metro since its economic outlook has seen it stagnate as commodity markets behave more erratically, both under falling commodity prices and the social unrest around the mining sector in South Africa.

The Xhariep district, a mostly agricultural part of the province, to facilitate growth, may have to look into moving up the value chain to create more value out of their agricultural output. The rural nature and size of the district may need it to also cooperate more closely with other districts since it may not be able to move forward as independently as the other district municipalities. The same issues surrounding the Xhariep district may also apply to the Thabo Mofutsanyane district although with different outlooks.

Figure 4.2: Gross Value Added (GVA) by region

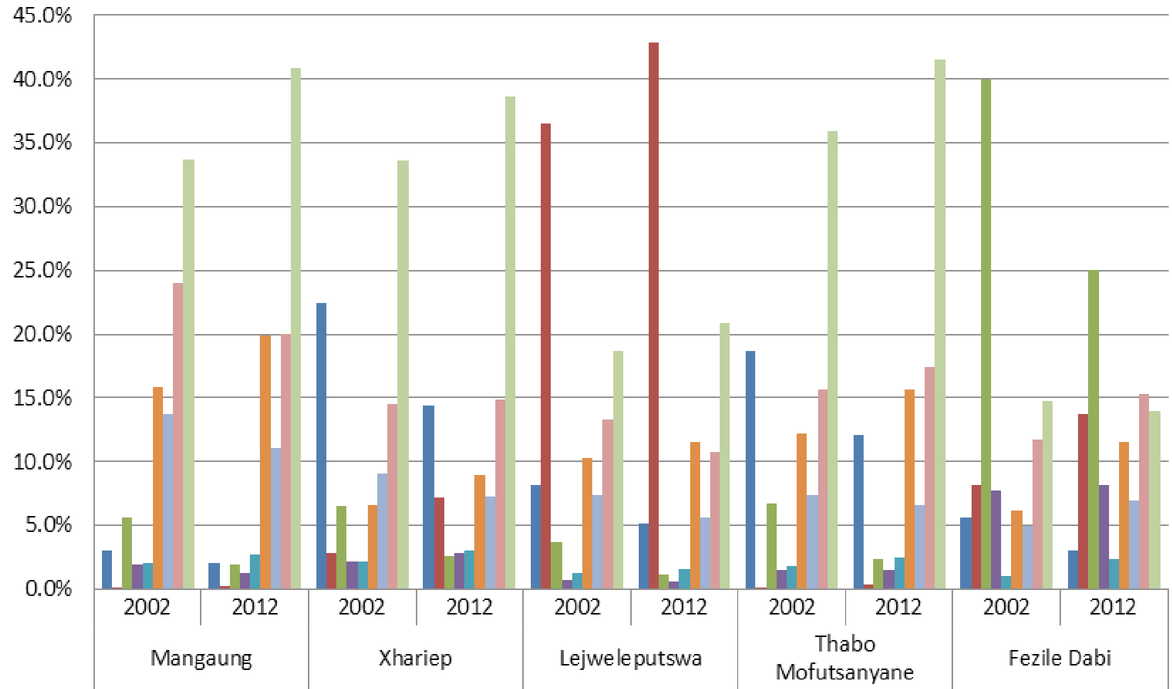


Source: Global Insight, Regional eXplorer, 2013

As depicted in figure 4.2 above, Fezile Dabi's contribution to provincial output has increased to 35% in 2012 from 28% in 2002, propelling the district to the number one spot when ranking the district by the size of their economy. Mangaung has moved from being the largest contributor to provincial GDP in 2002 with a share of 33% to second position in 2012 with a share of 31%, while Lejweleputswa (17%) and Thabo Mofutsanyane (14%) remain third and fourth respectively. Xhariep remains the smallest region with an unchanged share of 3%.

The large share of the Mangaung Metro in the provincial economy is essentially as a result of its tertiary sector concentration in the province, but that it's GVA is almost on par with Fezile Dabi's (which is essentially composed of secondary markets) might point to the fact that the metropolitan might be performing below its optimal level. As noted before, the Lejweleputswa district municipality's dependency on commodity markets plays a very large part in its GVA since external forces determine most of the value created in the district which mostly revolves around mining. The Xhariep and Thabo Mofutsanyane district municipalities, mostly dealing in the primary sector (mostly agriculture), need to diversify and localize their supply chain, along with other measures to increase the efficiency of their labour and capital around creating value in their economies.

Figure 4.3: Sectoral GVA by region



	Mangaung 2002	Mangaung 2012	Xhariep 2002	Xhariep 2012	Lejweleputswa 2002	Lejweleputswa 2012	Thabo Mofutsanyane 2002	Thabo Mofutsanyane 2012	Fezile Dabi 2002	Fezile Dabi 2012
Agriculture	3.0%	2.0%	22.5%	14.5%	8.2%	5.2%	18.7%	12.1%	5.6%	3.0%
Mining	0.1%	0.3%	2.9%	7.2%	36.5%	42.8%	0.1%	0.3%	8.1%	13.7%
Manufacturing	5.6%	1.9%	6.5%	2.6%	3.7%	1.2%	6.7%	2.4%	39.9%	25.0%
Electricity	2.0%	1.3%	2.2%	2.8%	0.7%	0.6%	1.5%	1.4%	7.7%	8.2%
Construction	2.1%	2.7%	2.2%	3.1%	1.3%	1.6%	1.8%	2.4%	1.1%	2.4%
Trade	15.8%	19.9%	6.6%	9.0%	10.3%	11.5%	12.2%	15.7%	6.2%	11.5%
Transport	13.7%	11.1%	9.1%	7.3%	7.4%	5.6%	7.4%	6.6%	4.9%	6.9%
Finance	24.0%	20.0%	14.5%	14.9%	13.3%	10.7%	15.6%	17.4%	11.7%	15.3%
Community services	33.7%	40.9%	33.6%	38.7%	18.6%	20.9%	35.9%	41.5%	14.7%	13.9%

Source: Global Insight, Regional eXplorer, 2013

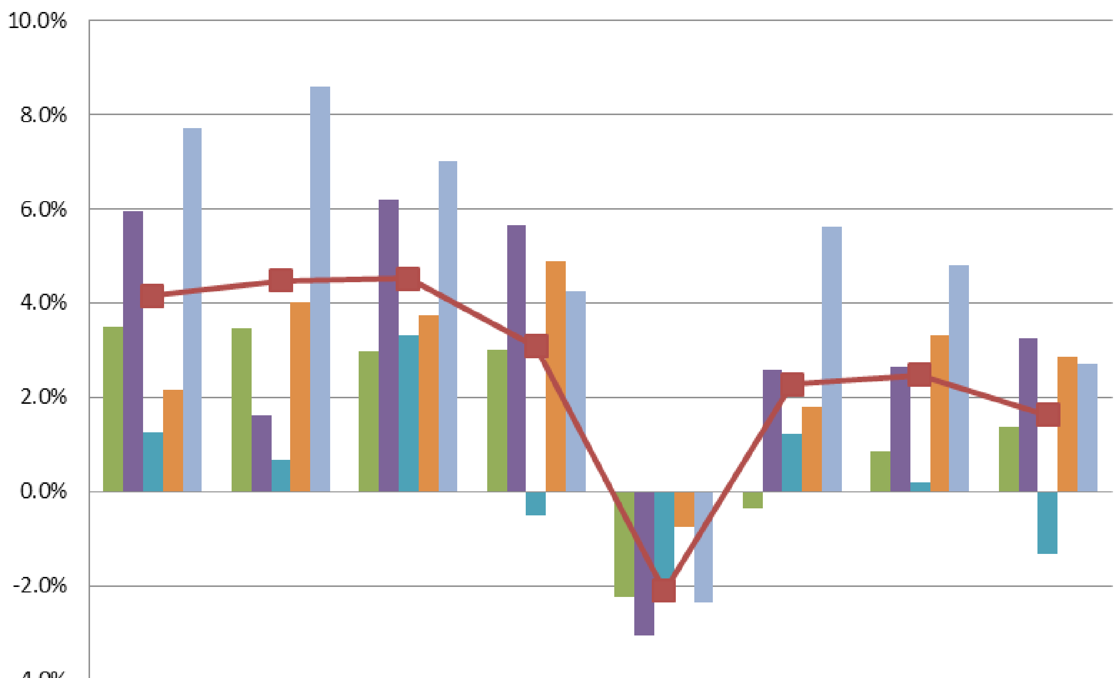
Figure 4.3 above illustrates each sector's contribution to each region's output. In the case of the Mangaung Metro, the largest sector in 2012 was the community services at 40.9%, up from 33.7% in 2002, followed by finance (20.0%) and trade (19.9%). The smallest sector in the region is the mining sector which is practically non-existent with a share of a meager 0.3% to the region's economy. The Mangaung economy is therefore dominated by the tertiary sector (91.8%) with the primary and the secondary sectors together contributing only 8.2% to the region's output.

The economy of Xhariep District Municipality is dominated by the community services (37.7%), followed by finance (14.9%) and agriculture (14.5%). The smallest sectors are manufacturing (2.6%) and electricity (2.8%). The district's economy is also tertiary sector dominated with a share of 69.8%, while the primary sectors and the secondary sector contribute 21.7% and 8.5% respectively. The mining sector is a dominant force in the Lejweleputswa District; contributing 42.8% to the district's economy, an increase of 6.3 percentage points since 2002. This indicates that although the mining sector on its own is declining, its share of the district output is increasing, pointing to the decline in other sectors rather than a real improvement in the mining sector. The second larger sector in the region is the community services (20.9%), followed by trade (11.5%) and finance (10.7%). On the other end of the spectrum, the smallest sectors in the district are electricity (0.6%) and manufacturing (1.2%). Contrast to the structure of the Mangaung and Xhariep economies discussed above, the output of Lejweleputswa is equally share by the primary (48.0%) and tertiary (48.8%) sectors with the secondary sector contributing a paltry 3.3%.

As is the case with the Mangaung economy, the community services sector dominates the Thabo Mofutsanyane's economy commanding a share of 41.5%. Finance (17.4%) and trade (15.&%) are the second and third largest sectors in the regional economy. The smallest sectors are mining (03.%) and electricity (1.4%). The tertiary sector's share of the district economy is estimated at a staggering 81.3%, while the shares of the primary and secondary sectors are estimated at 12.4% and 6.3% respectively.

Fezile Dabi is the only region in the Free State with a significant and thriving secondary sector. Although the tertiary sector, with a share of 47.7%, is still the largest in the regional economy, the secondary sector is a relatively close second with a share of 35.6% of the region's output. The primary sector contributes a healthy 16.7%, making Fezile Dabi the most diversified of the five regional economies. The manufacturing sector is the largest sector with a domineering share of 25.0%, followed by finance (15.3%) and the community services (13.9%). Construction (2.4%) and agriculture (3.0%) are the smallest sectors in the district.

Figure 4.4: GDP-R Annual Growth (2005 Constant Prices)

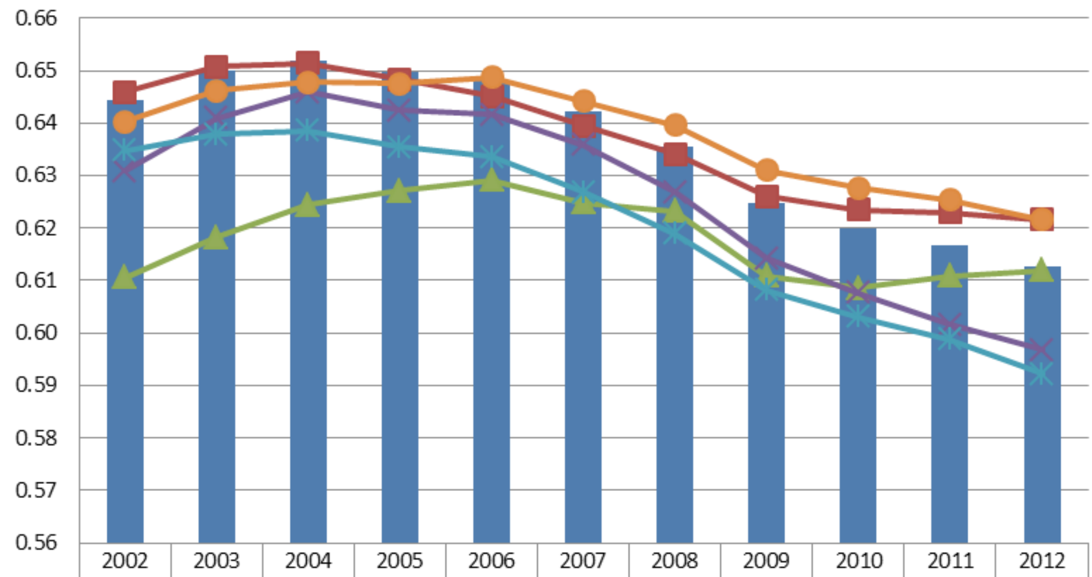


	2005	2006	2007	2008	2009	2010	2011	2012
Mangaung	3.5%	3.5%	3.0%	3.0%	-2.2%	-0.4%	0.9%	1.4%
Xhariep	6.0%	1.6%	6.2%	5.7%	-3.1%	2.6%	2.6%	3.3%
Lejweleputswa	1.2%	0.7%	3.3%	-0.5%	-2.3%	1.2%	0.2%	-1.3%
Thabo Mofutsanyane	2.2%	4.0%	3.7%	4.9%	-0.7%	1.8%	3.3%	2.9%
Fezile Dabi	7.7%	8.6%	7.0%	4.3%	-2.4%	5.6%	4.8%	2.7%
Free State	4.2%	4.5%	4.5%	3.1%	-2.1%	2.3%	2.5%	1.6%

Source: Global Insight, Regional eXplorer, 2013

Fezile Dabi, as the fastest growing district over the past eight years, has consistently grown above the provincial growth rate. During the period 2005 to 2012, the district's economy grew by 4.8% on average compared to the provincial average growth of 2.6%. The second fastest growing region during the period under review was Xhariep (3.1), followed by Thabo Mofutsanyane (2.8%). Lejweleputswa and Mangaung were the slowest growing economies with 0.3% and 1.6% growth rates respectively. All district economies within the Free State province experienced a slump in economic growth in 2009 due to the globe-wide impact of the world economic recession. Mangaung is the only region that recorded negative growth in 2010 as it continues to battle to regain the losses incurred during the recession. The sluggish growth experienced by Mangaung is significantly impacting on the total provincial output as the region contributes over a quarter to the provincial economy. On the other hand, the positive growth of Fezile Dabi is a positive driving force behind the provincial growth, though it weakened in 2012. It is a concern that Mangaung as the second largest region has consistently performed lower than the provincial average growth, and significantly so.

Figure 4.5: Gini-coefficients

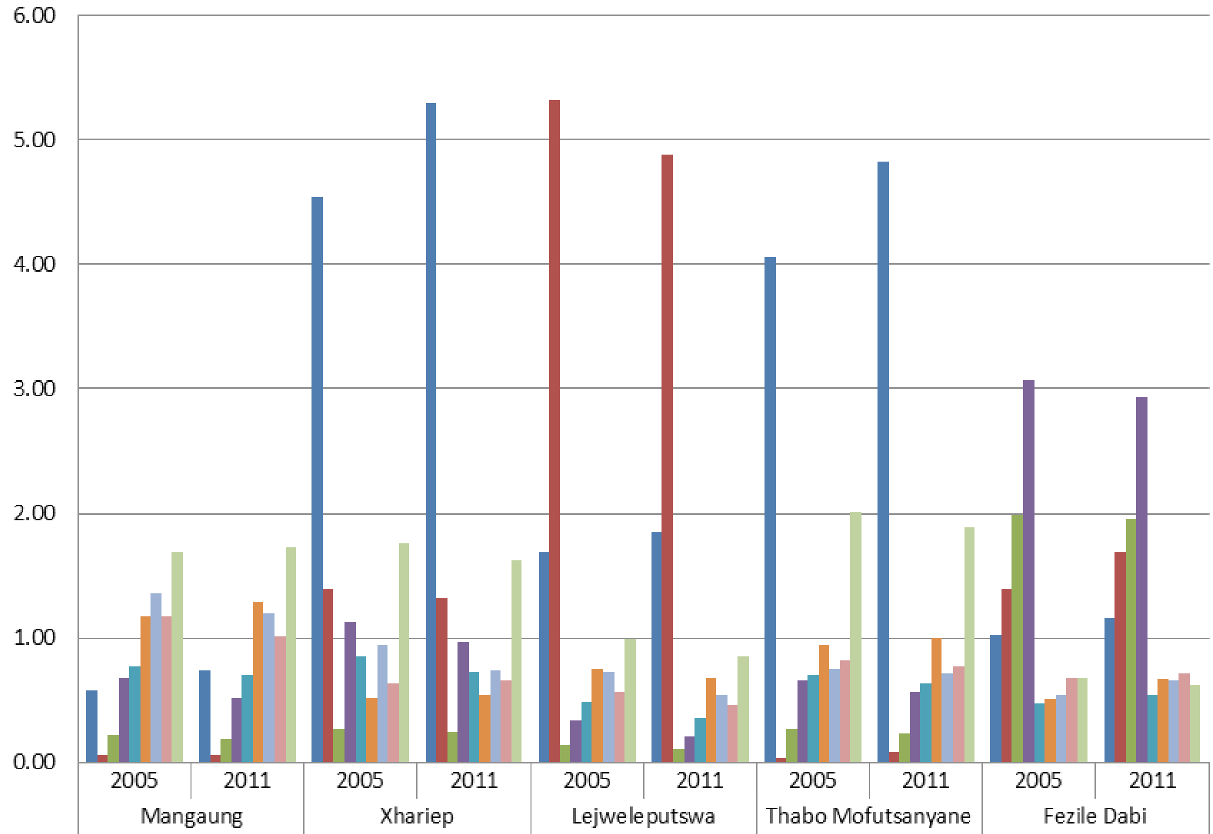


	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Free State	0.64	0.65	0.65	0.65	0.65	0.64	0.64	0.62	0.62	0.62	0.61
Mangaung	0.65	0.65	0.65	0.65	0.65	0.64	0.63	0.63	0.62	0.62	0.62
Xhariep	0.61	0.62	0.62	0.63	0.63	0.62	0.62	0.61	0.61	0.61	0.61
Lejweleputswa	0.63	0.64	0.65	0.64	0.64	0.64	0.63	0.61	0.61	0.60	0.60
Thabo Mofutsanyane	0.63	0.64	0.64	0.64	0.63	0.63	0.62	0.61	0.60	0.60	0.59
Fezile Dabi	0.64	0.65	0.65	0.65	0.65	0.64	0.64	0.63	0.63	0.63	0.62

Source: Global Insight, Regional eXplorer, 2013

Rather than look at the GDP-R in isolation as the sole determinant of prosperity in the pro-poor context of the province, the Gini coefficient is more useful in realizing the socio-economic realities as well. By measuring the income distribution of a region we can conceptualise the extent to which economic growth has been inclusive, and thus work on making economic growth more equitable. It is foremost encouraging to observe that the Gini coefficients for all four district municipalities and the metro have has consistently been on a decline since 2006, although for poverty alleviation to fully benefit from economic growth the rate of decline could be higher. It is worth noting that Mangaung Metropolitan Municipality and Fezile Dabi District Municipality, the two largest municipalities in terms of GDP contribution, have the two highest Gini coefficients in the province. This point to the fact that economic growth needs to become more inclusive, as this would decrease the need to allocate more resources towards social security. Thabo Mofutsanyana and Lejweleputswa district municipalities had the lowest coefficients at 0.59 and 0.60 respectively in 2012. While the consistent decrease in the coefficient may also seem necessary, it could also indicate a shrinking middle class unable to cope with the rising cost of living, higher income earners moving to other provinces, or an inability of the Free State to keep up with the market-related salaries of other provinces. As inequality in the province at large continues to decline, particularly post the economic recession, both Mangaung and Fezile Dabi's inequality levels have remained above the provincial average and the gap is widening; no significantly declines were observed since 2009.

Figure 4.6: Location Quotient



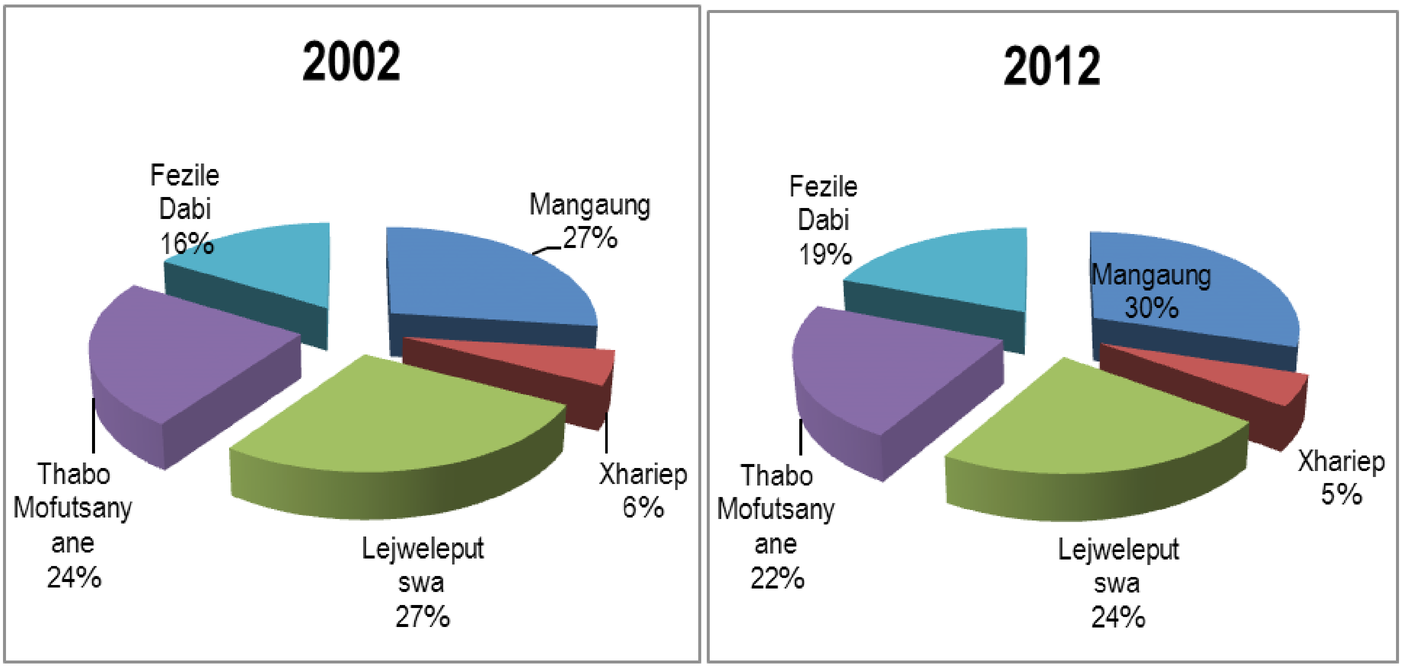
	Mangaung 2005	Mangaung 2011	Xhariep 2005	Xhariep 2011	Lejweleputswa 2005	Lejweleputswa 2011	Thabo Mofutsanyane 2005	Thabo Mofutsanyane 2011	Fezile Dabi 2005	Fezile Dabi 2011
Agriculture	0.57	0.73	4.54	5.30	1.69	1.85	4.06	4.82	1.02	1.17
Mining	0.06	0.06	1.39	1.32	5.32	4.88	0.04	0.08	1.39	1.69
Manufacturing	0.22	0.19	0.27	0.24	0.14	0.10	0.27	0.23	1.99	1.96
Electricity	0.67	0.52	1.13	0.96	0.33	0.21	0.65	0.56	3.07	2.93
Construction	0.77	0.70	0.85	0.73	0.48	0.36	0.70	0.63	0.48	0.54
Trade	1.17	1.29	0.52	0.54	0.75	0.68	0.94	1.00	0.51	0.67
Transport	1.36	1.19	0.95	0.74	0.72	0.54	0.75	0.71	0.55	0.66
Finance	1.17	1.01	0.64	0.66	0.57	0.46	0.82	0.77	0.68	0.71
Communities	1.69	1.73	1.76	1.62	0.99	0.86	2.01	1.88	0.68	0.62

Source: Global Insight, Regional eXplorer, 2013

The location quotient can be described in this instance as a quantifiable measure of how concentrated a particular region is around certain clusters, industries or occupations (www.economicmodelling.com). The location quotient, complemented by the employment numbers in a particular sector/industry and the percentage change of the location quotient over time can be a very worthwhile tool in assessing which industries should be targeted for growth and development strategies, but should be assessed against a national average or some yardstick. (http://www.andrew.cmu.edu). Ideally a location quotient less than 1 indicates that a local area is less specialized than the country (or province), while a value greater than 1 indicates an industry or sector has a higher concentration of employment relative to the same sector on a national level.

When looking at the location quotients of the various district municipalities and the metro between 2005 and 2011, as presented in figure 4.6 above, it is visible the realities of the various regions differ significantly. The Mangaung Metro has location quotients above 1 in the trade, transport, finance and community service sectors. The worrying issue is that only the trade sector has seen a rising location quotient over the given period, which may endanger the region even given the fact that it is more diversified and have a far greater comparative advantage in the tertiary sectors than the other regions. Fezile Dabi's location quotient is above 1 in the electricity, manufacturing, mining and agriculture sectors, although all except for the agriculture location quotients have seen a slight decline. This can be explained partly due to the volatility in mining, and the difficulties experienced between the period in South Africa's energy sector. Xhariep has seen an increasing location quotient in its agricultural sector, and has a declining location quotient in the mining sector although it is still above 1. The concern would be with the electricity sector, which has declined from 1.13 in 2005 to 0.96 in 2011. The large gap between the agricultural sector and other sectors may also hint to the dependency placed on employment initiatives on the agricultural sector, and policy discourse should be towards creating other sustainable industries linked to agriculture but able to diversify. The same could be said of the Thabo Mofutsanyane district municipality, which besides the agricultural sector's LQ of 4.8 (second to Xhariep's 5.3 in 2011) has extremely low LQs in the other sectors. Community services in the Thabo Mofutsanyane district has seen a decline over the period but is still above 1, while the trade sector's location quotient has seen an encouraging growth to reach 1 over this period. This could hint to the area's potential in terms of tourism and other export-orientated markets.

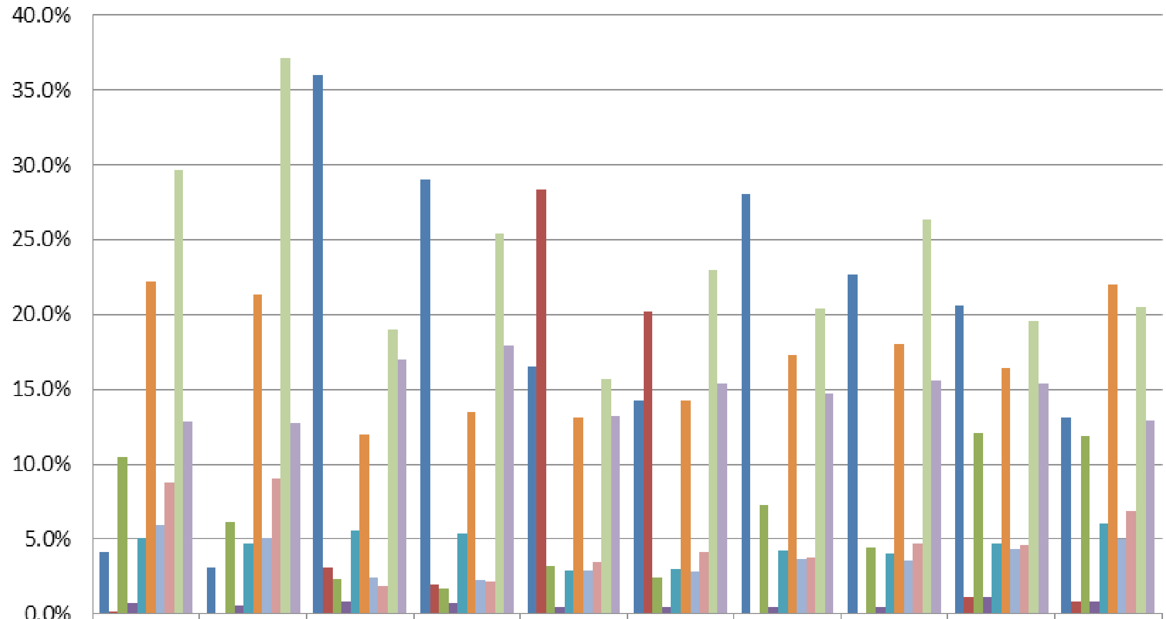
Figure 4.7: Employment share by region



Source: Global Insight, Regional eXplorer, 2013

According to figure 4.7 above, the region of Mangaung is the biggest employer in the province, employing 30% of the people employed in the province; this is in line with its 31% contribution to provincial GDP. The biggest regional economy, with a GDP share of around 35%, only employs 19% of the employed in the province, although its share has increased from only 16% in 2002. As is the case with the ranking in terms of GDP, Lejweleputswa (24%) and Thabo Mofutsanyane (22%) hold the third and fourth positions respectively in terms of employment share.

Figure 4.8: Employment share by sector per district



	Mangaung 2002	Mangaung 2012	Xhariep 2002	Xhariep 2012	Lejweleputswa 2002	Lejweleputswa 2012	Thabo Mofutsanyane 2002	Thabo Mofutsanyane 2012	Fezile Dabi 2002	Fezile Dabi 2012
Agriculture	4.2%	3.1%	36.0%	29.0%	16.5%	14.3%	28.0%	22.7%	20.6%	13.1%
Mining	0.2%	0.1%	3.1%	1.9%	28.4%	20.2%	0.1%	0.1%	1.2%	0.8%
Manufacturing	10.5%	6.1%	2.3%	1.7%	3.2%	2.5%	7.3%	4.5%	12.1%	11.9%
Electricity	0.7%	0.6%	0.8%	0.7%	0.4%	0.4%	0.5%	0.4%	1.1%	0.8%
Construction	5.1%	4.7%	5.5%	5.4%	2.9%	3.0%	4.3%	4.1%	4.7%	6.0%
Trade	22.2%	21.3%	12.0%	13.5%	13.2%	14.2%	17.2%	18.0%	16.5%	22.0%
Transport	5.9%	5.1%	2.4%	2.3%	2.9%	2.8%	3.7%	3.6%	4.3%	5.0%
Finance	8.8%	9.1%	1.8%	2.1%	3.5%	4.2%	3.8%	4.7%	4.6%	6.9%
Community services	29.7%	37.2%	19.0%	25.4%	15.7%	23.0%	20.4%	26.4%	19.6%	20.5%
Households	12.9%	12.7%	17.0%	18.0%	13.2%	15.4%	14.8%	15.6%	15.4%	12.9%

Source: Global Insight, Regional eXplorer, 2013

The biggest employer in the Mangaung region in 2012 was the community services (37.2%), followed by trade (21.3%) and private households (12.7%). The share of the community services sector increased by a substantial 7.5 percentage points; from 29.7% in 2002 to a commanding 37.2% in 2012. The manufacturing sector recorded a drastic decline in its share, from 10.5% in 2002 to 6.1% in 2012; representing a fall of 4.4 percentage points. The smallest employers were mining (0.1%) and electricity (0.6%). It is worth noting that the finance sector, although is the second largest sector measured by GDP, is only the fourth largest employer in the region.

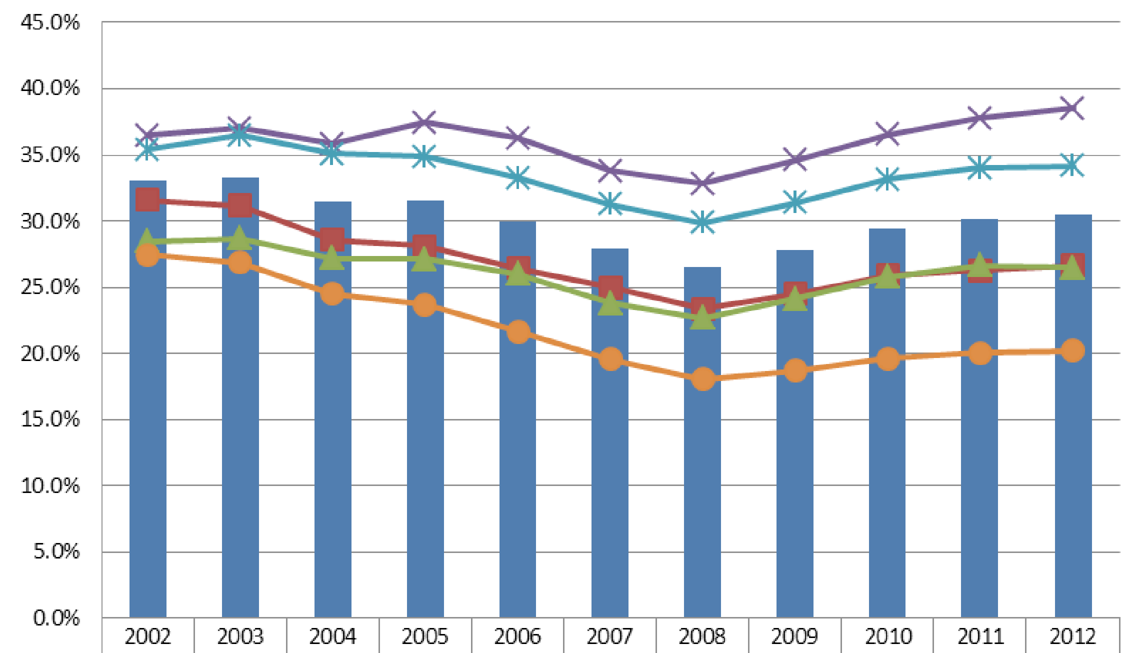
In the Xhariep region, agriculture is the largest employer with a share of 29.0%, followed by the community services (25.4%) and private households (18.0%). The share of agriculture has however declined from a domineering 36.0% in 2002; representing a decline of 7.0 percentage points, while the share of the community services and private households have increased by 6.4 and 1.0 percentage points respectively during the same period. The smallest sectors in the region, measured by their share of employment, are electricity (0.7%), manufacturing (1.7%) and mining (1.9%).

The significance of the mining sector in the Lejweleputswa region is not only felt through its share of GDP, but also by its share of employment in the district. Mining in this region employs around 20.2% of the region's total employment. The employment share of the sector is, however, on a decline as its GDP continues to decline; falling from 28.4% in 2002. The community services is now the largest employer in the region with a share of 23.0%, up from 15.7% in 2002; representing a increase of 7.3 percentage points. Electricity (0.4%), manufacturing (2.5%) and transport (2.8%) are the smallest sectors in terms of employment share.

The biggest employers in the Thabo Mofutsanyane District are the community services (26.4%), agriculture (22.7%), trade (18.0%), and private households (15.6%). Agriculture's share has decreased from 28.0% in 2002 to 22.7% in 2012 which is line with its decline GDP share during the same period. Mining is the smallest employer in the region with a share of 0.1%, followed by electricity (0.4%).

Although manufacturing in Fezile Dabi is the biggest sector in terms of GDP with a staggering share of 25.0%, it is only the third largest in terms of employment contributing only 11.9% to the region's total employment. The biggest employers are instead trade (22.0%) and the community services (20.5%). This points to the capital intensiveness of the manufacturing sector in the region. The smallest sectors are mining and electricity with shares of 0.8% each. It is also worth noting that although agriculture only contributes 3.0% to the region's GDP, its contribution to employment is 13.1%.

Figure 4.9: Unemployment rates



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Free State	33.1%	33.3%	31.5%	31.5%	29.9%	27.9%	26.5%	27.8%	29.4%	30.1%	30.5%
Mangaung	31.6%	31.2%	28.6%	28.1%	26.5%	25.0%	23.3%	24.5%	25.9%	26.3%	26.7%
Xhariep	28.5%	28.7%	27.2%	27.1%	26.0%	23.8%	22.7%	24.1%	25.8%	26.7%	26.5%
Lejweleputswa	36.5%	37.0%	35.9%	37.5%	36.2%	33.8%	32.8%	34.6%	36.6%	37.8%	38.5%
Thabo Mofutsanyane	35.4%	36.5%	35.1%	34.9%	33.3%	31.3%	29.9%	31.4%	33.2%	34.0%	34.1%
Fezile Dabi	27.4%	26.8%	24.5%	23.7%	21.7%	19.5%	18.0%	18.7%	19.6%	20.0%	20.2%

Source: Global Insight, Regional eXplorer, 2013

The Free State Province has the highest unemployment levels in the country at over 30% in the past two years and averaging 30.1% in the past eleven years. The primary culprits for this high rate of unemployment in the province are the Lejweleputswa region and Thabo Mofutsanyane to a lesser extent. During the period under review, Lejweleputswa's unemployment rate averaged 36.1% and Thabo Mofutsanyane averaged 33.5%. The region with the lowest average unemployment rate was Fezile Dabi (21.8%), followed by Xhariep (26.1%) and Mangaung (27.1%) respectively. A deduction from the graph above (figure #), is that there was a declining trend in unemployment rates for all regions between 2002 and 2008 (this happened in conjunction with a booming economy); however, between 2009 and 2012 (as the economy battle the after effects of a recession), the unemployment levels starting to increase and continue on an upward trend (see figure 4.9).

Looking at the year 2012 in isolation, the picture looks dim; the province recorded an unemployment rate of 30.5%, the highest since 2003. Lejweleputswa had the highest unemployment rate in 2012 at 38.5%, followed by Thabo Mofutsanyane at 34.1%.

The other three regions recorded unemployment rate lower than the provincial average; Fezile Dabi (20.2%), Xhariep (26.5%) and Mangaung (26.7%).

4.4. Conclusion

The district municipalities are faced with increasing pressure from an economic and socio-economic perspective. It is, therefore, fundamentally important to base their various LED interventions on the comparative advantages that are manifesting at the local level, i.e. Fezile Dabi must take full advantage of their dominance of the manufacturing industry for the betterment of its population. Closer relationships or integration between municipalities has become crucial for the achievement of higher economic growth and the sharing thereof. This would also be of importance for future development and therefore the achievement of developmental goals set in all municipalities and at provincial level. Local governments must play a developmental role in their communities. They should form partnerships with all the stakeholders at local level such as your businesspeople, Civil Society Organisations and Churches in surrounding areas and see what kind of support they can provide in a number of areas including skills development and even infrastructure. This means working with communities (leaders and organisations) to find sustainable ways to meet the social, economic and material needs of people and to improve the quality of their lives. In particular, local governments should target people who are most often marginalised or excluded, such as women, disabled people and very poor people.

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