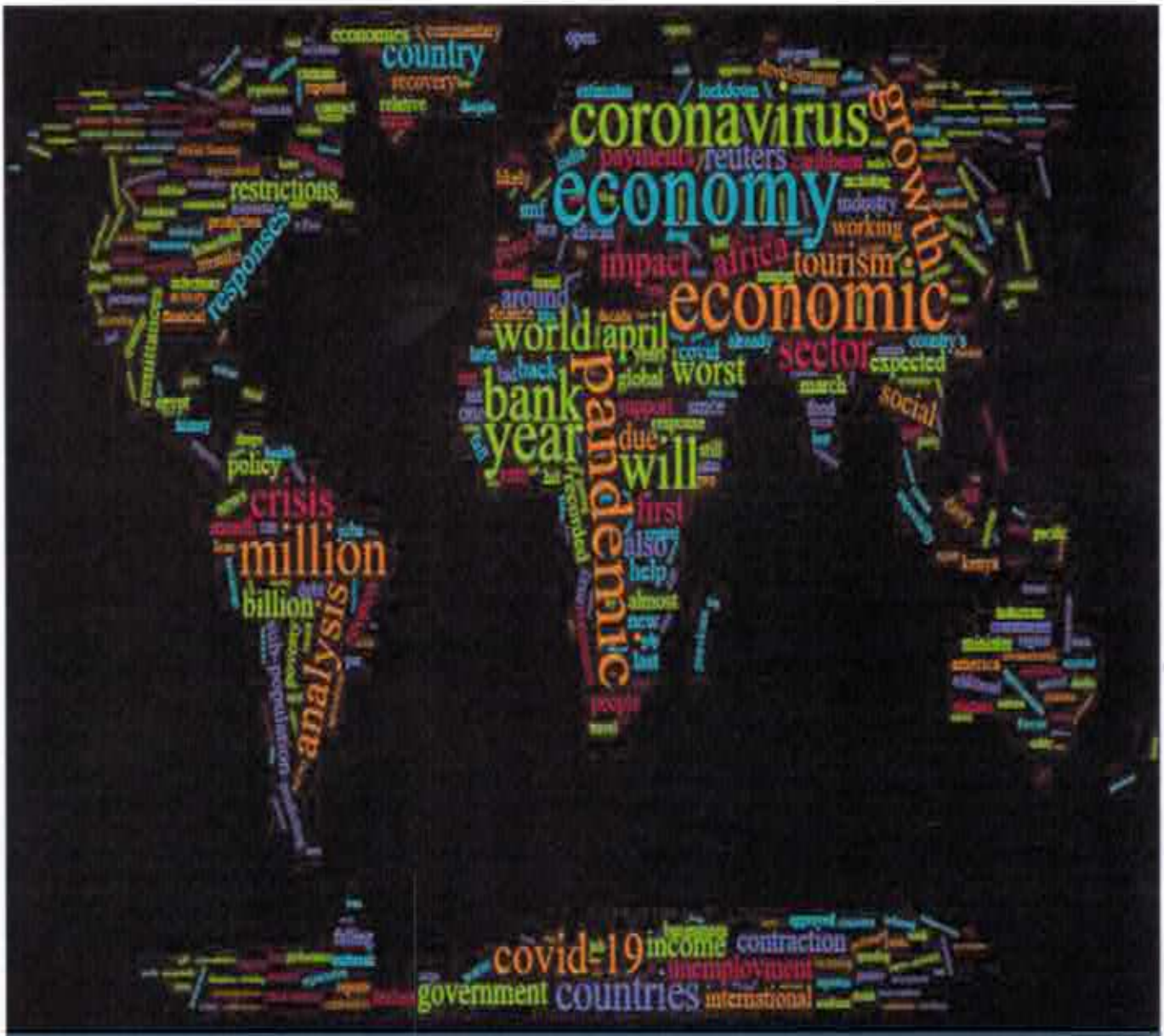

Elements of a transformed Free State Economy: Paper 1

September 2020

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1. Introduction

Economic transformation refers to a rapid and fundamental change in the systems and patterns of ownership and control that govern the economy.[1] Economic transformation is often associated with a fundamental change in the structure of the economy and the drivers of growth and development. It involves; *(1)* a reallocation of resources from less productive to more productive sectors and activities; *(2)* An increase in the relative contribution of manufacturing to Gross Domestic Product (GDP); *(3)* a declining share of agricultural employment to total employment; *(4)* a shift in economic activity from rural to urban areas; *(5)* the rise of a modern industrial and service economy; *(6)* a demographic transition from high rates of births and deaths (common in underdeveloped and rural areas) to low rates of births and deaths (associated with better health standards in developed and urban areas); *(7)* and a rise in urbanization.[2]

Despite South Africa reintegrating into the international community, the South African economy has not displayed significant transformation. During the fourth quarter of 2019, South Africa's Gross Domestic Product (GDP) decreased by 1,4% which followed another decrease from the third quarter (decreased by 0,8%). The only positive contributors to the 2019:Q4 GDP was finance, real estate and business services industry and the mining and quarrying industry. Transport, storage and community industry recorded a significant decrease by 7,2% and contributed -0.6 of a percentage point to the GDP growth. Trade, catering and accommodation industry also decreased by 3,8% and had a negative contribution of -0.5 of a percentage point to GDP growth. Manufacturing, agriculture and construction each contributed -0.2 of a percentage point to GDP growth.

[1] Economic transformation, inclusive growth, and competitiveness:
Towards an Economic Strategy for South Africa.
[2] United Nations Economic Commission for Africa: Economic Transformation for Africa's Development

Figure 1: South Africa vs Free State statistical overview

Source: DESTEA, 2020

At a provincial level, the Free State Provinces contribution to the South African GDP has not improved much during the period 2009 to 2019. In 2019, the Free State had a GDP of R251 billion in 2019, which was an increase from R136 billion recorded in 2009. The province contributed 4.95% to South Africa's GDP of R5.08 trillion in 2019 which was an increase from 5.42% in 2009. The Free State economy have consistently had a lower growth rate compared to the national growth rate. For example, the Free State achieved an annual growth rate of -0.27% in 2019 which was lower than the GDP rate of 0.15% (IHS Markit Regional eXplorer, 2020). The table below indicates the GDP of the Free State Province during the period 2009-2019.

Table 1: GDP of Free State and National Total (2009 -2019) [R Billions, Current Prices]

Year	Free State	National Total	Free State as % of national
2009	135.9	2,507.7	*5.4%*
2010	147.2	2,748.0	*5.4%*
2011	157.6	3,023.7	*5.2%*
2012	163.9	3,253.9	*5.0%*
2013	176.9	3,540.0	*5.0%*
2014	190.9	3,805.3	*5.0%*
2015	203.9	4,049.9	*5.0%*
2016	218.2	4,359.1	*5.0%*
2017	234.5	4,653.6	*5.0%*
2018	243.1	4,873.9	*5.0%*
2019	251.5	5,077.6	*5.0%*

Source: IHS Markit Regional eXplorer, 2020.

The recent 2020:Q2 report released Statistic South Africa provides a snapshot of the impact of the outbreak of Covid-19 pandemic. There is a huge slump in GDP as a result of Covid-19 and the subsequent lockdown regulations took its toll on the economy. South Africa's economy contracted by 51% in 2020; the primary sector declined by 59%. Agriculture sector was the only positive contributor to the GDP (increasing by 15%), while mining sector (decreased by 73%). The secondary sector decreased by 72%, dragged lower by manufacturing, electricity & construction. Tertiary sector declined by 40% as trade, transport, finance and government decreased. Household spending on most products declined in the second quarter, in line with the closure of hotels, restaurants, transport services and other recreational facilities. It was reported that consumers spent more on communication. A contributing factor could be that many South Africans were suddenly compelled to work and study from home.

2. Problem Statement

Although the outbreak of the Covid-19 pandemic has had major economic impact on the global economy and that of South Africa, at a provincial level, the Free State economy had been struggling to grow prior to the pandemic. As previously indicated the Free State has consistently performed at a lower growth rate compared to South Africa as a whole. The Free State recorded an average annual growth rate of a mere 1.2% for the period 2009 to 2019 and ranked eighth amongst other provinces in terms of growth constant 2010 prices. At regional a level, the five districts in the Free State each has its own niche and potential competiveness as outlined in table below.

Table 2: Free State District Properties

District	District Properties	Key sectors (GVA, R billions, current prices
Lejweleputswa	Lejweleputswa District, through Bothaville, South Africa's maize "capital". Other agricultural products in the district are sunflower, wheat, groundnuts, cattle and poultry.	• Mining (R11.6bn) • Community Services (R5.6bn) • Trade (R4.4bn) and Finance (R4.2bn) • Agriculture (R2.6bn)
Fezile Dabi	The District produces more than 50% of the country's sorghum; nearly 50% sunflower and more than 30% of all wheat, maize, potatoes and groundnuts. The District is home to the World Heritage site - the Vredefort Dome where a meteor crashed on earth.	• Manufacturing (R14.0bn) • Mining (R9.5bn) • Community Service (R6.8bn)
Thabo Mofutsanyana	The District produces 90% of the country's cherry. Other agricultural products that may serve as a feedstock for agro-processing are asparagus,	• Community Services (R11.9bn) • Trade R6.9bn

	sunflower, potatoes in Reitz, Kestell, Memel, Bethlehem and Fouriesburg areas as well as sub-tropical and deciduous fruit like nectarines, apples, apricots and peaches.	• Finance R6.3bn
Mangaung	The largest concentration of dairy cattle is situated in the metro. Poultry is prominent in the Botshabelo area (namely Supreme Chicken). The challenge though is that the area is not producing grain	• Community Services (R29.9 bn) • Finance (R18.9bn) • Trade (R15.4bn)
Xhariep	The northern parts of the District produces potatoes whilst the southern part deals with sheep farming. Trompsburg has the second-biggest sheep-shearing barn in the country and Jacobsdal is an important grape producing town. Ostrich farming activities are also available in the District. The District is home to the biggest dam in South Africa; Gariep Dam.	• Community Services (R2.4bn) • Agriculture (R1.1bn) • Trade (R1.0bn)

Source: DESTEA, 2020

Despite the competitive advantages of key sectors within the Free State, the province continues to underperform compared to its peers. Hence, the urgent need to transform the Free State economy. Literature suggest that in order to transform an economy, fundamental change in the structure of the economy needs to take place and the drivers of growth and development need to be identified.

3. Objectives of the study

The Department of Economic, Small business development, Tourism and Environmental Affairs (DESTEA) has been tasked to be at the fore front of creating an enabling environment to produce a transformed Free State economy. It is therefore, important for DESTEA to have a comprehensive understanding of what are the elements of a transformed economy. This paper seeks to determine which elements are required to transform the Free State economy. Therefore, the objectives of the study includes the following;

- To determine which sector (s) are important to catalyse transformation for growth and development in terms of transformation in the Free State; and
- Determine what lessons can be drawn from international community with special focus on South Africa's BRICS partners;
- Provide recommendations on which element (s) of the Free State need to be transformed to create suitable growth and job opportunities

4. Research methodology

This research report made use of the qualitative research methodology through collection of information from different sources. The document provide contextual analysis in order to address the objectives as set out for the research. Various sources have been consulted such as academic journals, published newspaper articles, legislative documents and the World Wide Web. The information is limited to readily available information.

5. Literature review: Transforming economies

In the past decades, the world witnessed how countries such as China have drastically experienced economic transformation. This economic transformation was a result of change in, the change in scale or changes in the structure of the economy itself. The transformation in economic changes also led to environmental and socio-economic impacts at multiple scales within those countries (Yang, Lupi, Dietz & Liu, 2015). Transformation is generally characterised by a number of patterns. Firstly, during the transformation period, there are significant changes to economic structures. This is because industrialization ignites accelerated increases in the share of manufacturing in the economy and as a consequent the decline of the share of agriculture. Secondly, the share of the total labour force employed in the agricultural sector falls, while that in other economic sectors rises. Thirdly, agricultural productivity rises as a result of the use of modern agricultural technology and better seedlings. Fourthly, the main driver of the country's economy shifts from rural areas to cities, and therefore degree of urbanization significantly increases.

Literature has also highlighted the importance of the endogenous growth theory which holds that economic growth is primarily the result of endogenous and not external forces. That investment in human capital, innovation, and knowledge are significant contributors to economic growth. The theory notes that the enhancement of a nation's human capital will lead to economic growth by means of the development of new forms of technology and efficient and effective means of production. The theory also focuses on positive externalities and spill over effects of a knowledge based economy which will lead to economic development. The endogenous growth theory primarily holds that the long run growth rate of an economy depends on policy measures. The main channels through which emerging economies have gained access

to international knowledge and technology are through Foreign Direct Investment (FDI) and domestic investment. Technological diffusion in the countries playing catch up, has usually resulted from lagging countries accessing technology developed in leading nations, adapting it effectively to cater to local circumstances, and subsequently relying more on indigenous innovation. Technology has become more important as ever, in the current modular and flexible production systems that has come to characterize the world economy.[3]

5.1 Economic Transformation perspective

Literature concurs that the transformation has been on the African continent's agenda for many years. Their quest for economic transformation is evident in their development plans and strategies. The ambition is to reach a middle-income-country status. However, moving from low- to middle-income status would not only require an increase in per capita income but also structural transformation of the economies as an important part of development. The economic history of the world shows that development is a long term goal and is a constantly evolving journey marked by specific milestones. The development path of countries in Africa is no exception.[4] Historically, manufacturing drove economic transformation, as is the case in East Asia. Today, new technologies have spawned and a growing number of services and agro-industries including horticulture that share many characteristics with manufacturing. A new pattern of structural change emerging in Africa, one different from the manufacturing led transformation of East Asia. ICT based services, tourism, and transport are outpacing the growth of manufacturing in many African countries. Between 1998 and 2015, services exports grew more than six times faster than merchandise exports. Kenya, Rwanda, Senegal, and South Africa have vibrant ICT based services sectors.[5] Because tradable services, agro-industry, and horticulture share many firm characteristics with manufacturing, it is possible to develop a strategy for structural transformation based on three factors that have largely shaped the global distribution of manufacturing. *(1)* The first is the "investment climate". *(2)* The second is the capacity to export, and the *(3)* third is agglomeration. The three are inter-related, and to boost the pace of structural change these need to address them concurrently. Conditions in South Africa much like in other African nations are compounded by the perpetuation of inequality within nations especially with respect to access to the job market, education, and to capital.

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[3] ECONSTOR; Industrialization Lesson from BRICS: A comparative analysis. 2013
[4] UNCTAD Economic development in Africa. Report 2018
[5] Rethinking Africa's, structural transformation. The rise of new industries.

5.2 Asian countries

East Asian economies are able to shift into increasingly complex manufactured products because the productive capabilities imbedded in their existing productive structure are similar to those required in order to shift into these products. This has implications for the extent to which the manufacturing sector can generate employment. The sheer scale and diversity of the manufacturing sector in Asia allows for the generation of a large number and diversity of employment opportunities.[6] In Indonesia during the 1970s and 1980s, poverty reduction was facilitated by high rates of growth in agriculture and rural non-farm activities, on top of which the country experienced increases in manufacturing and real wages. Africa has experienced an unprecedented growth over the past decade and has been remarkably resilient to the global economic crisis. The continent ranked the second fastest growing region of the world after East Asia. However, after careful assessment of the economies in the region reveals the following characteristics: besides agriculture, most economies are driven by natural resource and or primary commodities; the manufacturing sector remains new, limiting the potential employment gains from the processing of primary commodities; agricultural productivity remains low at 56% of the global average and characterized by limited application of modern technologies (World Economic Forum, 2017).

5.3 Economies of BRICS partners

In 2010, the BRIC bloc (an acronym for Brazil, Russia, India and China) invited South Africa to be part of the growing powerful economic bloc on the international arena. That same year, China was declared to be the second biggest economy in the world and in 2011, Brazil became the sixth-largest economy. In 2011, Russia was declared the ninth-biggest economy while South Africa further down the ranking stood at 26th largest economy. Therefore, as an economic block, the BRICS group showed their position in the international community (South African Government: internet). Literature indicates that at the beginning of the new century, emerging countries have the highest number of population which led to their economic growth in the world and increased their GDP per capita, collectively of that of developed countries (Radulescu, Panait & Voica, 2014). The BRICS country with the most noticeable economic

[6] Sub Saharan Africa's Manufacturing Sector: Building Complexity, 2017

transformation has been China. China began its transformation process with agricultural reforms, particularly through the land tenure system. It focused on changing the land arrangements for rural household by offering them enhanced incentives for increased production of food and consequently higher incomes. It started with a village-based experiment, whose success was quickly replicated around the country. The state further contributed by increasing its investments in infrastructure and technology in the rural regions which helped to accelerate food production. The rural surpluses generated by small farms became the foundation for the whole system of national economic development. The republic of China opened up foreign trade and investment only in 1979, prior to that the country was operating in isolation due to its economic policies that were centrally controlled and ineffective. Once, the country opened its economy to the rest of the world, it resulted in China becoming one of the most noticeable economies with an average GDP 9.5% through 2018. As a result, China was able to ensure that 80 million people were rescued out of their poverty stricken environment (Peterson Institute for International Economics, 2015). The much faster industrialization displayed by China, as compared to that of Europe or the USA, reflects the stage skipping phenomenon, made possible by the country benefitting from the more rapid diffusion of technologies by foreign firms, coupled with domestic efforts for acquisition of technology. The country playing catch up does not have to go through every stage of technological development. As such it can immediately jump from a relatively backward level of technology to a relatively advanced level. In some technological fields, the Chinese industrialization involved, jumping directly from the imitation of mature technologies to innovation at the global frontier (Ki and Lee, 2011).

By 2014, China's imports and exports was worth $4.3 trillion, representing 14 percent of the total world trade (Peterson Institute for International Economics, 2015). In 2015, the Chinese government took on high-profile initiatives like the "Made in Chine 2025" concept which places economic planning as a top priority for the country. Through this initiative, China greatly invested in its manufacturing industry within 10 sectors through assistance from government. China's amended economic policy was aimed at turning the country into a major economic competitor in the global arena (Every CRS Report, 2019).Furthermore, in recent years, China have prioritised investing towards natural resources which is largely linked to its business relationship with Africa. Its focus on natural resources has been maximising China's manufacturing capabilities (Peterson Institute for International Economics, 2015). Economic

transformation leads to the rise in the overall productivity and income per capita of the country as well as the rapid creation of new and higher-paid jobs. Additionally, in order to transform their economies, the countries move away from the production of primary products and into value-added products. There is no clear agreement on what constitutes the sources of economic transformation. However, there are several sources of transformation, most of which are interrelated and very difficult to separate out (Breisinger & Diao, 2008). Breisinger and Diano (2008) further add that their extensive review, they grouped the sources of transformation into five: *(1)* technology-led productivity growth; *(2)* rapid capital accumulation; *(3)* the role of linkages; *(4)* the roles of market, institutions, and governments in transformation; and *(5)* infrastructure development.[7]

5.4 Lessons from South African Provinces

According to the Census of commercial agriculture, Financial and production statistics report (2020), there was a total of n=40,122 farms or farming units in 2017 involved in commercial agriculture industry in South Africa. Of the total of n=40,122, n=13,639 were farming with animals, n=12,458 were mixed farming and n=8,559 were growing cereals and other crops. During the 2007 to 2017, the mixed farming increased by 8,4 percentage points (from a percentage contribution of 22,7% in 2007 to 31,1% in 2017). In 2017, the province with the highest number of farms was recorded in the Free State (7,951 or 19, 8% of the national total), followed by the Western Cape with (6,937 or 17, 3), North West (4, 920 or 12, 3%) and the Northern Cape (4,829 or 12, 0%). During the same period, the provinces with the least number of farms were Limpopo (3,054 or 7.6%), followed by Mpumalanga (2,823 or 7, 0%) and the province with the lowest number of farms is Gauteng (2,291 or 5, 7%) (Statistics South Africa, 2020). Despite the Free State having the highest number of farms in South Africa, it should be noted that the Western Cape contributed the most towards total income in 2017 (R64,3 billion or 19,3%) while the Free State Province came in second with (R46,9 billion or 14,1%), North West (R39,7 billion or 11,9%), Mpumalanga (R38,4 billion or 11,6%) and KwaZulu-Natal (34, 0 billion or 10,2%). During the period 2007 and 2017, largest gains in share of national income were the following provinces; Limpopo (increased by +2,0 percentage points, from 7,4% to 9,4%), Gauteng (increased by +1,9 percentage points, from 7,8% to 9,7%) and Eastern Cape (increased by +1,5 percentage points, from 6,6% to 8,1%). The province that had a huge lost

[7] Towards the Economic transformation of Africa. 2015

in percentage share during the period in question was the Western Cape (decreased by -2,4 percentage points, from 21,7% to 19,3%) (Statistics South Africa, 2020). The table below provides a comparative analysis between the top four farming provinces.

Table 3: Comparative analysis: Top four farming provinces in South Africa

Item	FS	WC	NW	NC
No of farms	7,951	6,937	4,920	4,829
(%) of Agricultural production to national total	15.2%	23.1%	10.1%	6.4%
Agricultural income	R46,9 billion (14,1%)	R64,3 billion (19,3%)	R39,7 billion (11,9%)	R46,9 billion (14,1%),
Farming activities	(1) Produces summer & winter crops, major player in grain and oilseeds crops. (2) FS to national contribution: maize (39%), grain sorghum (17%), groundnuts (33%), sunflower (57%), dry beans (40%) and soya beans (34%). (3) 28% of SA's commercial potatoes are produced in FS. (4) Sheep (20%), cattle (17%), pigs (7.8%) and other livestock's are farmed.	(1) Top-grade fruit; apples, table grapes, olives, peaches and oranges. (2) Wines that are exported around the world. (3) Canola and majority of its barley (85%) and wheat (48%). 4) Ostriches (meat, leather and feathers); 5) Export horses (earning valuable foreign exchange). (6) Produce wool and mutton; (7) Top pork producers.	(1) Contributes to national production: maize (15%), groundnuts (36%), sunflower (31%), dry beans (16%), and grain sorghum (14%). (2) Other crops include soy beans, grain sorghum, tobacco, paprika, peppers, cotton and wheat. (3) Mayor player in poultry sector (22.4%) of SA's broilers and 9.8% of its layers. (4) NW hosts 21% of pigs, 12% of national cattle and 12% of its goats. (5) More than 8% of SA's mil produced	1) Sheep farming accounts for (24%) goats (9%) and cattle (3.5%). 2) Produces 12% of SA's groundnuts, 10% of its barley and 16% of its wheat.

	(5) FS produces 15% of SA's milk and approximately 10% of its dairy producer-distributors/ milk buyers (MPO, 2020).		and dairy producer-distributors/ milk buyers and 12% of national commercial pork produced.	

Source: Statistics South Africa, 2020, MPO, 2020; SAPA, 2016; SALRRD, 2019 within Agribook, 2020. .

Literature reveals that manufacturing companies in South Africa have been struggling due to the lack of demand, unreliable power supply and imported goods. Between March 2019 to March 2020, manufacturers in South Africa recorded a significant decrease in their total income earned of -10.6%. During the period in question, the profit on assets/ investments sold or revalued also declined by approximately 40%. In 2019, it was reported that South Africa's manufacturing industry's under-utilisation was on the increase. Simply put, more manufacturing companies in South Africa are using less of their full capacity (South African Market Insight, 2020).). The reasons provided by South African manufacturing companies for their 19.7% under-utilizations include the following;

- Insufficient demands accounted 12.4%;
- Other reasons (not specified) accounted 3.6%;
- Raw materials accounted 2.5%;
- Skilled labour accounted 1%; and
- Semi- and unskilled labour accounted for 0.2% (South African Market Insight, 2020).

In light of the reasons provided by South African manufacturing companies, it is clear that the major contributing factor to under-utilization relates to insufficient demand. This could be due to weak economy and the increase in imports (South Africa's Manufacturing Industry, 2020). According to the South African Reserve Bank, the manufacturing industry in South Africa is greatly affected by electricity-supply shortages, weak local demand and international trade tensions. Overall, the production volumes decreased in subsectors which supply petroleum, chemical products, rubber and plastic products; motor vehicles, parts and accessories; wood and wood products, paper, publishing and printing; glass and non-metallic mineral products; as well as textiles, clothing, leather and footwear (South African Market Insight, 2020). In

terms of highest numbers of employees in South Africa's manufacturing industry, more than 50% of the workforce are in Johannesburg, Cape Town and eThekwini. Gauteng Province employs 44% of the national total employees in the manufacturing industry, followed by the Western Cape (19%), KwaZulu-Natal (19%) and the Eastern Cape (7%). The remaining five provinces all represent less than 5% respectively (Plastic & Chemical Trading, 2019). It should be noted that the overall number of people employed as decreased in the past few years. In 2005 a total of 1,44 million people were employed which decreased to 1,9 million in 2014 and further decreased to 1,1 million in 2019 (Plastic & Chemical Trading, 2019).

6. The Role of Manufacturing for Transformation.

The major challenge facing sub-Sahara Africa countries is that it comprised of a young and growing labour force. The question arises; *whether countries within the sub-Saharan Africa can experience a similar manufacturing led growth path?* Economic complexity is also a question, inherent in a productive structure characterized by lower levels of economic complexity, is the notion of limited productive capabilities. Using the analytical and empirical toolkit offered by the Atlas of Economic Complexity, it was shown that productive capabilities in Africa remained relatively low, which translated into low levels of economic development. With the product space analysis shows that the export portfolios of African economies are peripheral, and thus dominated by primary products. The opportunity value index indicates that the peripheral nature of the African export portfolio has implications for the region's ability to transform itself structurally. It is clear that the productive capabilities embodied in the productive structure of a typical African economy are far from the productive capabilities required to shift production toward more complex manufacturing activities.[8]

The Manufacturing sector is one of the prioritized sectors in the Free State economic environment. Previous, the overall growth in the manufacturing industry in the province has been closely linked to the fuel, petroleum and chemical sub-sector. Emphasis has been put on the economic contribution of the manufacturing sector in relation to the historical contribution of the other sectors such as agriculture, mining, electricity, construction, trade, transport, finance and community services (DESTEA, 2017). Through extensive interactions with Stake holders from the manufacturing sector in the Free State and Provincial Research Advisory

[8] Understanding the Determinants of Africa Manufacturing Malaise. 2017

Committee (PRAC), it's been found that the sector's potential, manufacturing sector has not always performed optimally. This is both in terms of its contribution to economic growth and employment creation. Therefore, stakeholder engagement with key players in the Free State have come up with the following recommendations:

- **Advanced manufacturing**. To focus on a globally competitive manufacturing hub with high-value-added categories such as automotive, industrial machinery and equipment, and chemicals. To realize this opportunity, Free State manufacturers will have to pursue new markets and increase innovation and productivity.
- **Natural gasses and Natural-gas plants**. Which are fast to build, entail low capital costs, and have a small carbon footprint. It can provide an alternative to diversify the power supply.
- Sophisticated manufacturing like; **Additive Manufacturing** (AM). CRPM currently has ten AM machines which makes it one of the best equipped AM Centre's of its kind in the Southern Hemisphere. The Centre received ISO 13485 certification for 3D printing of medical devices making it the first Centre in South Africa and Africa to receive this prestigious certification for an Additive Manufacturing Centre.

It is therefore important to develop the Free State's manufacturing sector and then work to upscale it. This can be done through further research and development. Further research should be done in collaboration with manufacturing stakeholder and institutions such as, the Industrial Development Corporation to collectively find ways to incorporate up and coming Free State SMMEs.

7. The role of Agriculture for Transformation

The agriculture sector makes up a significant portion of the African economies. As a sector it can therefore contribute towards major continental priorities, such as eradicating poverty and hunger, boosting intra-African trade and investments, rapid industrialization and economic diversification, sustainable resource and environmental management, and creating jobs, human security and shared prosperity.[9] The major opportunity for transforming Africa's agricultural sector lies, within, the dynamism of food markets. The World Bank estimates that Africa's market for food could be valued at more than $1,000 billion by 2030, compared to $313 billion

[9] OECD-FAO Agricultural outlook. 2016

in 2013. The increase in global demand is linked to population growth of the continent. Agricultural transformation can be understood as the process through which farms slowly but gradually move from highly diversified, subsistence oriented production systems towards more specialized and business oriented production processes (AGRA, 2016).[10]

The Free State Growth and Development Strategy has identified the agriculture sector as a key priority to be supported. According to the Who Owns Whom (WOW) database, there are approximately 141 registered small medium and micro enterprises (SMMEs) in the Free State. Out of 141 SMMEs, a mere n=4 companies are black-owned (three out of the four are categorized as large enterprises) while 137 are white-owned companies (WOW, 2020). This is a clear indication that the ownership patterns in the sector has not transformed as yet. The ownership of agricultural businesses are in the hands of the minority. The agriculture sector have been identified as one of the key priority sectors that need to be supported by the Free State Government. As previously indicated under the literature review, transforming an economy also requires change in ownership patterns.

One of the key strategic goals of the Free State Department of Agriculture and Rural Development is to increase profitable production of food and fibre in the province, thus the department support smallholder and subsistence farmers with grants for production inputs and animals (Ilima/Letsema) and infrastructure and mechanization Comprehensive Agricultural Support Program- (CASP). This is done in order to contribute to the provincial economic growth through creation of jobs, sustainable food-security and subsequently to achieve increased provincial GDP (Gross Domestic Product) contribution by the sector.[11] The Free State agriculture sector is responsible for producing 100,000 tons of vegetables and 40,000 tons of fruit annually. The primary vegetable is asparagus, which includes a variety of green and white. There is an opportunity for the Free State to tap into manufacturing through different initiatives such as the planned food processing park in Harrismith, situated in the eastern Free State (Free State Development Corporation: internet). In addition, another opportunity in Harrismith is planting new apple orchards in Harrismith area to supply apples to AJC processing in order to export those apples or manufacture them to produce apple juice. The

[10] African development bank group; Africa Economic brief: Agriculture
[11] Mangaung Metro, 2020.

production of apples and adding value to them has the potential to address the socio-economic problems in Maluti-A-Phofung Local Municipality (DESTEA, 2018). During the 2019 annual NAMPO (South African Agricultural Trade Show) in Bothaville, is a platform where Free State agricultural companies and several companies showcased their latest smart tools and monitoring systems for farming. This further motivates, that for meaningful transformation, a move to non-farming activities in rural areas to absorb displaced labour. In order for South Africa to gain a competitive edge on the international arena, the country will have to start reshaping its high school curriculum and reskilling its workforce. The agriculture industry is one that is fast embracing fourth industrial revolution technologies because of the convenience it presents for farmers. Farmers can manage their yields wirelessly through connected devices and sensors that monitor various aspects that affect their produce and livestock simultaneously.

8. Recommendations

The product space analysis shows that the export portfolios of African economies are marginal, and are thus dominated by primary products. Substantive literature concurs that industrialization and the rise of manufacturing, have been synonymous with economic change and development ever since the first industrial revolution. Thus moving from producing primary products, to value added products, is an important step in transformation. Manufacturing industries have helped drive economic growth and raising living standards for centuries and can still be attributed to doing so in developing economies. Building a manufacturing sector is still a necessary step in the national development, raising incomes and providing the machinery, tools, and materials to build modern infrastructure and housing.[12] Secondly, there is desperate need for agricultural reforms in the Free State. Innovative ways of facilitating youth participation in agriculture has the potential to drive widespread poverty reduction among youths and adults alike. A coherent and integrated approach that addresses challenges related to education, land access and occupancy, access to financial services, access to markets needs to be developed. With a general focus on non-farming activities within rural areas.

[12] McKinsey Global Institute (MGI), Manufacturing the future: The next era of global growth and innovation

9. Conclusion

The research on the "Elements of a transformed Free State Economy" was guided by the following objectives:

- To determine which sector (s) are important to catalyse transformation for growth and development in terms of transformation in the Free State; and
- Determine what lessons can be drawn from international community with special focus on South Africa's BRICS partners;
- Provide recommendations on which element (s) of the Free State need to be transformed to create suitable growth and job opportunities.

This research report found that the two major sectors that are important to catalyse transformation for growth and development in terms of transforming the Free State economy is agriculture and manufacturing sectors. Literature has found that those two sectors continue to play a vital role on the global, domestic and regional levels. Secondly, the lessons that can be drawn from the international community and BRICS partners is that the Free State Province need to determine which niche it wants to support and allocate its resources accordingly. The Free State Growth and Development Strategy already identified the key priority sectors that Provincial Government need to support which includes both manufacture and agriculture. However, this study found that there is room to support manufacturing companies. In term terms of agriculture, despite the Free State having the biggest number of farms in South Africa, it does not take first place in terms of its national contribution, which indicates that although number of farms have increased, it does not automatically increase its producing quantity and export levels have increased.

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