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THE ECONOMIC DIVERSIFICATION AND POVERTY NEXUS IN SOUTH AFRICA: ASSESSING THE MODERATING ROLE OF ECONOMIC GLOBALISATION

Abstract:

Economic diversification is widely recognized as a critical driver of higher development levels and poverty reduction. However, achieving diversification has proven challenging for many developing countries, particularly in Africa. The complex interplay of globalisation in this context acts as a double-edged sword, simultaneously promoting and hindering efforts towards a better standard of living. Despite the evident impacts, the existing research required to fully understand these effects remains largely limited and inconclusive. Therefore, the main objective of the study was to investigate the moderating role of economic globalisation on the poverty and economic diversification nexus in South Africa, Africa's largest economy. This was done through a quantitative approach by means of secondary time series data ranging from 1990 to 2022. The analysis comprised different techniques including Bayer and Hanck cointegration, fully modified ordinary least squares, dynamic ordinary least squares and canonical cointegration estimation. In addition to this Toda-Yamamoto Granger causality was employed to identify any possible casual linkages between the variables under investigation. Results in this respect on one hand revealed that the progress South Africa has made in diversifying its economic structures, although minimal, has contributed notably to reducing poverty levels. Though on the other hand, when globalisation induced moderating effects were considered, it showed a negative interaction effect. In other words, findings suggest that the manner in which the country has integrated globally, reflected in the peripheral position in global value chains, overreliance on commodity exports, and the slow uptake of advanced technology has prevented the manner in which its diversification has contributed to a pro-poor socio-economic outlook. Similarities in the effects across both de jure and de facto measures, further point to both external and internal policy considerations within this nexus.

Keywords:

Economic diversification, globalisation, poverty, South Africa, interaction effects.

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