

Tilting the playing field: Capital intensity, employment and sustainability in the South Africa manufacturing sector

Anthony Black, Stephanie Craig and Paul Dunne

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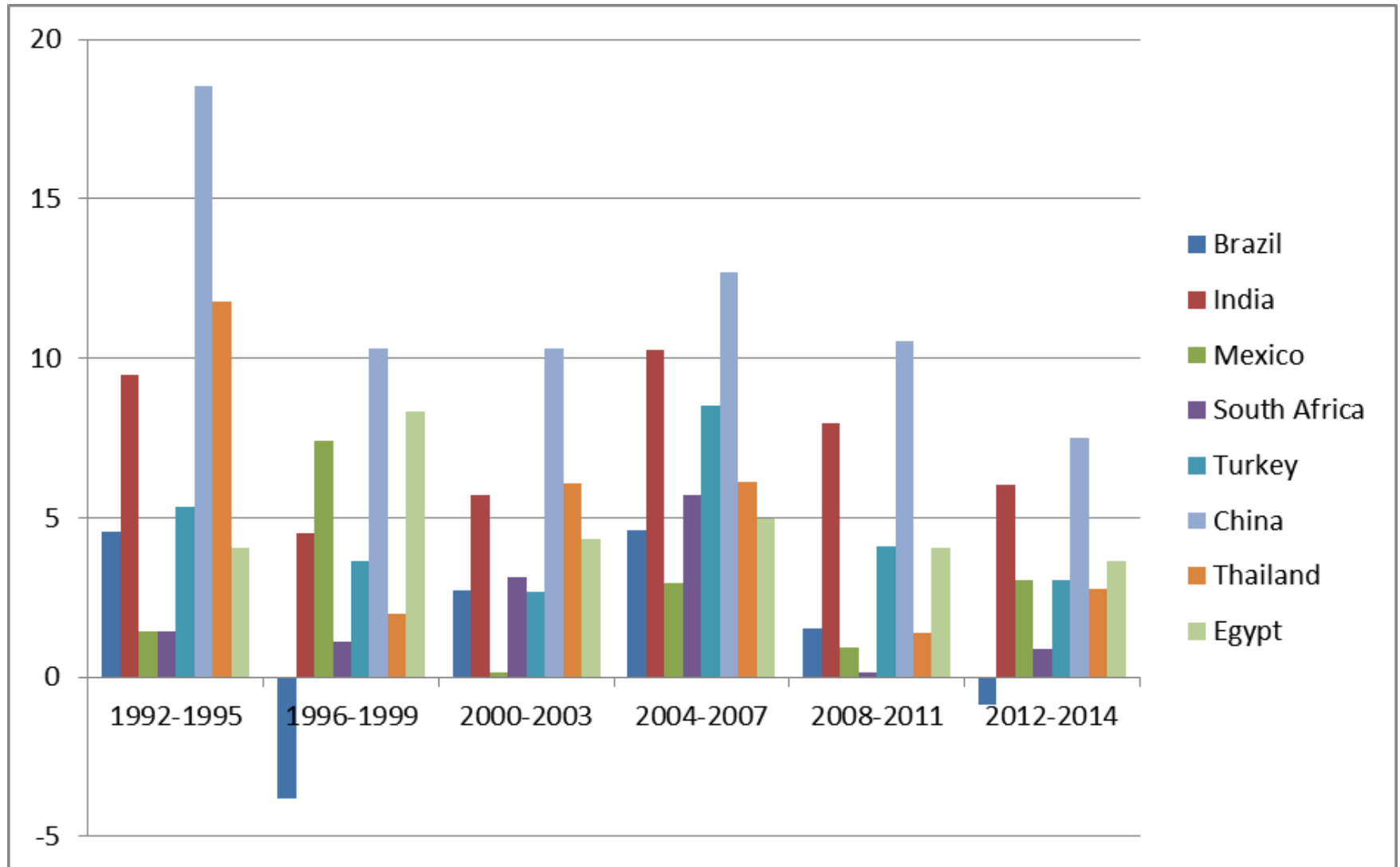




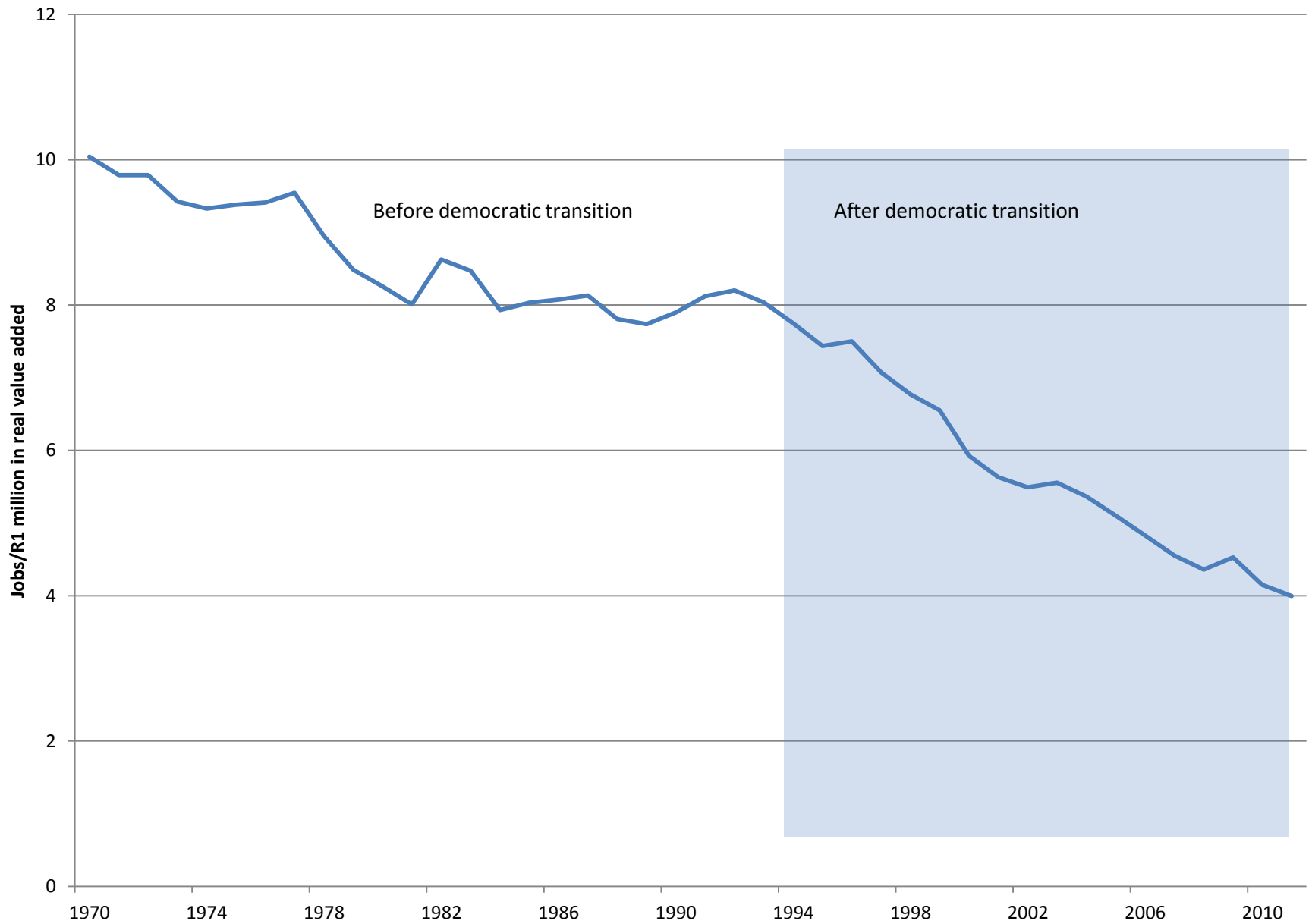
The key point I am going to make.....

- Playing field has historically been tilted in favour of capital-intensive, heavy industry
 - Negative implications for employment (and emissions)
 - Corollary has been poor performance in light manufacturing
- With SA's employment crisis we do not need a level playing field
 - Playing field needs to be tilted in favour of employment intensive growth
 - This would also make economy less emission intensive

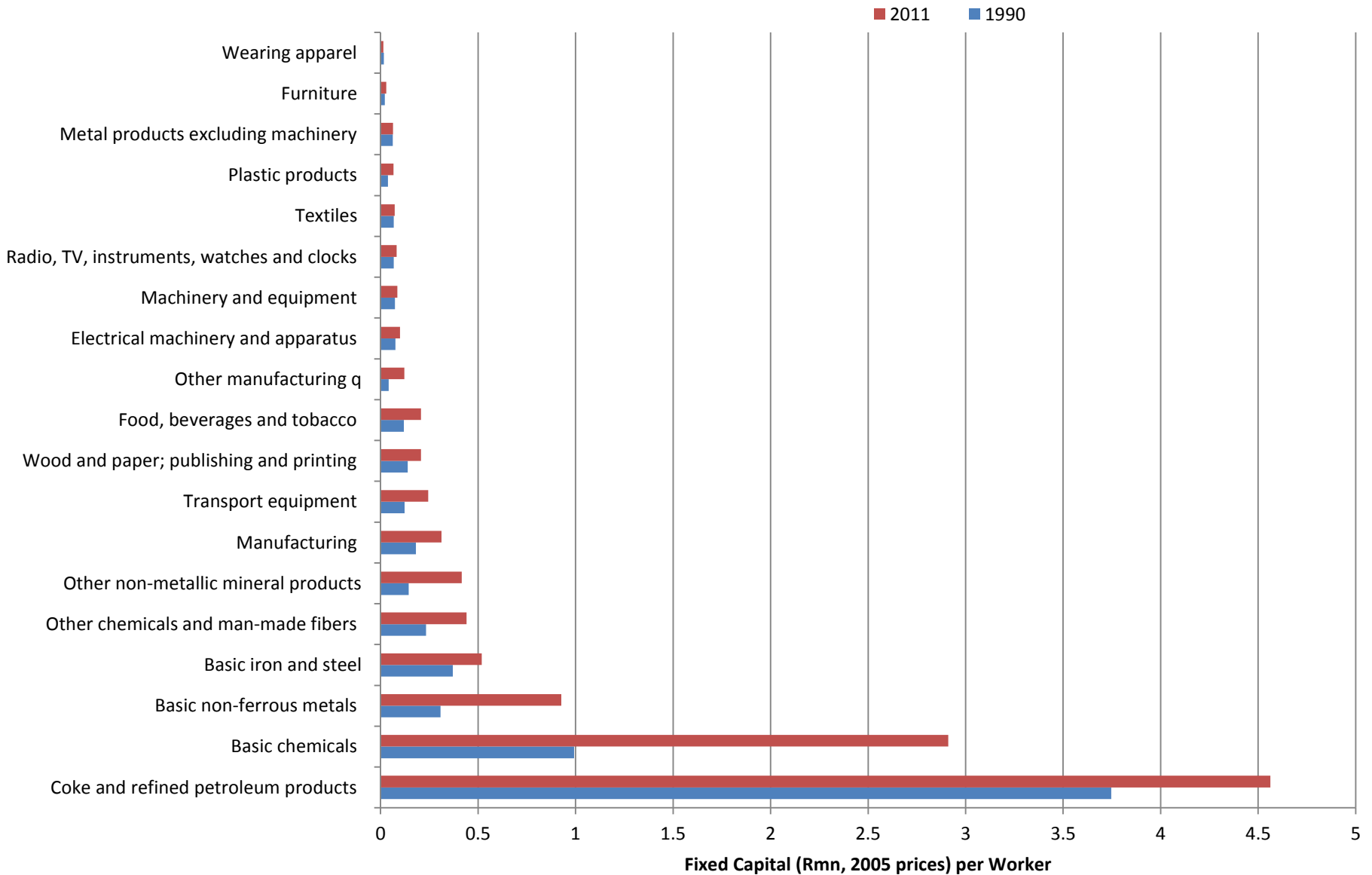
Annual average manufacturing growth rates, selected countries, 1992-2014



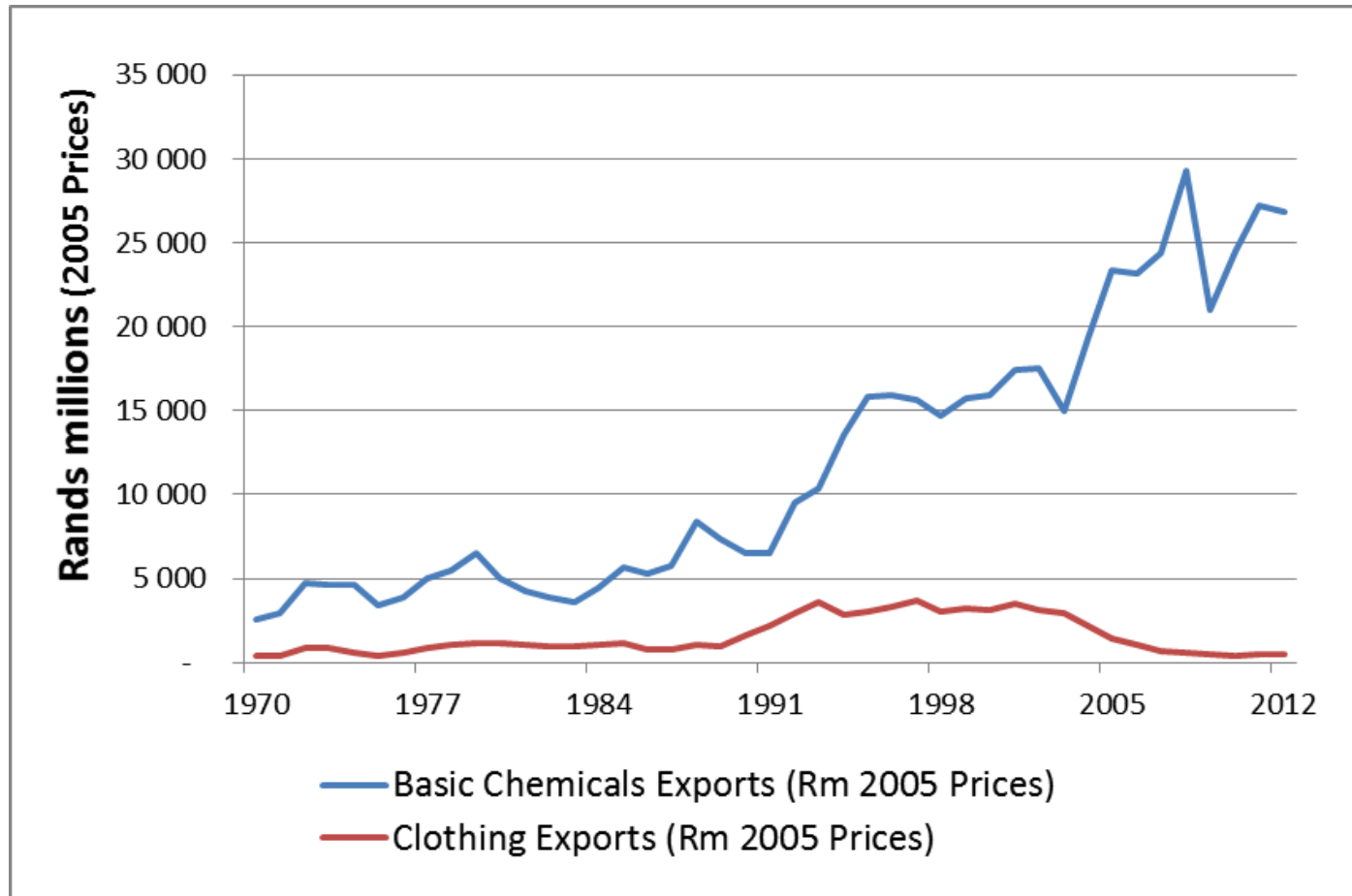
Ratio of formal employment to GVA for South African manufacturing, 1970-2011



Capital intensity by industry, 1990 and 2011



Basic chemicals and clothing exports, 1970-2012



Import penetration ratios in South African manufacturing sub-sectors (%)

Manufacturing Sub-sector	1970	1980	1990	2000	2010	2013
<i>Capital-Intensive</i>	17,3	14,7	12,9	19,9	23,4	28,1
Iron and Steel basic industries	12,7	6,9	10,7	10,7	21,0	28,4
<i>Intermediate-Capital-Intensive</i>	21,5	23,2	16,8	25,7	36,8	44,2
Motor Vehicles and parts	38,7	40,0	29,2	30,3	49,9	60,8
<i>Labour-Intensive</i>	22,5	22,2	24,8	32,6	41,1	48,4
Machinery	49,0	47,1	46,6	66,4	75,5	86,2
Textiles	25,0	16,8	20,3	23,8	28,4	34,2
<i>Ultra-labour-intensive</i>	16,9	10,1	6,3	15,6	25,4	31,2
Footwear	10,0	11,5	4,5	32,0	45,4	52,8
Clothing	16,2	8,8	6,1	14,8	39,4	45,5
TOTAL	20,0	20,0	16,8	25,0	34,4	41,5

But...

- SA has large scale unemployment of unskilled and semi skilled workers
- Other upper middle income countries have large, light manufacturing sectors (e.g. Turkey, Brazil, Mexico, Thailand, Malaysia)
- Inequality in SA – characteristics of low middle income country
- Revealed comparative advantage has been distorted

Market power and input pricing

- Import parity pricing

The skills constraint

Support for heavy industry

The pricing of energy

DTI incentive schemes

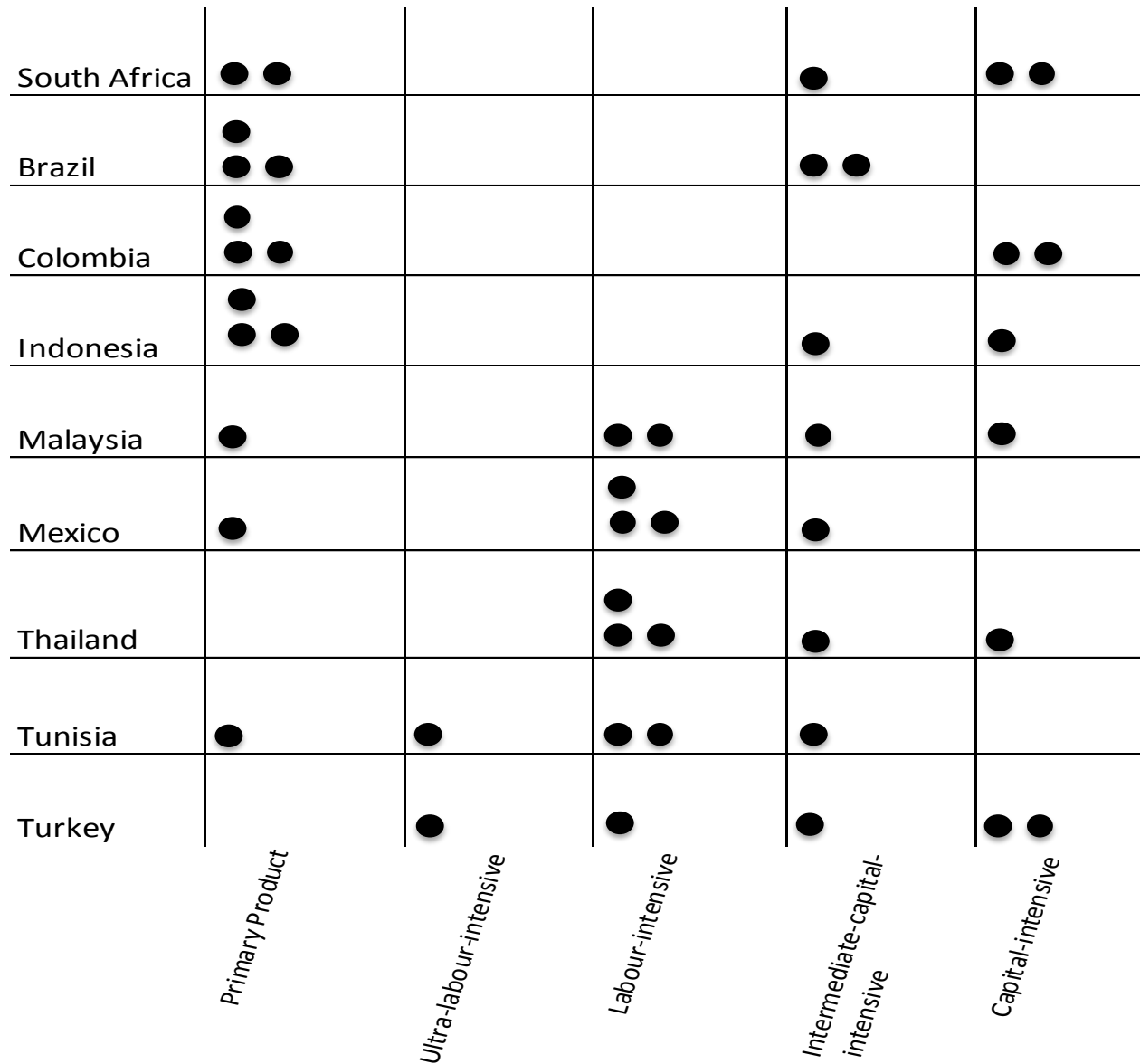
IDC funding

Does SA have actual or potential comparative advantage in light manufacturing?

- Most major labour-intensive sectors in decline
- Export profile shows little revealed comparative in advantage in light manufacturing
- Cannot compete with China; and even less so with lower wage countries such as Vietnam, Bangladesh etc.

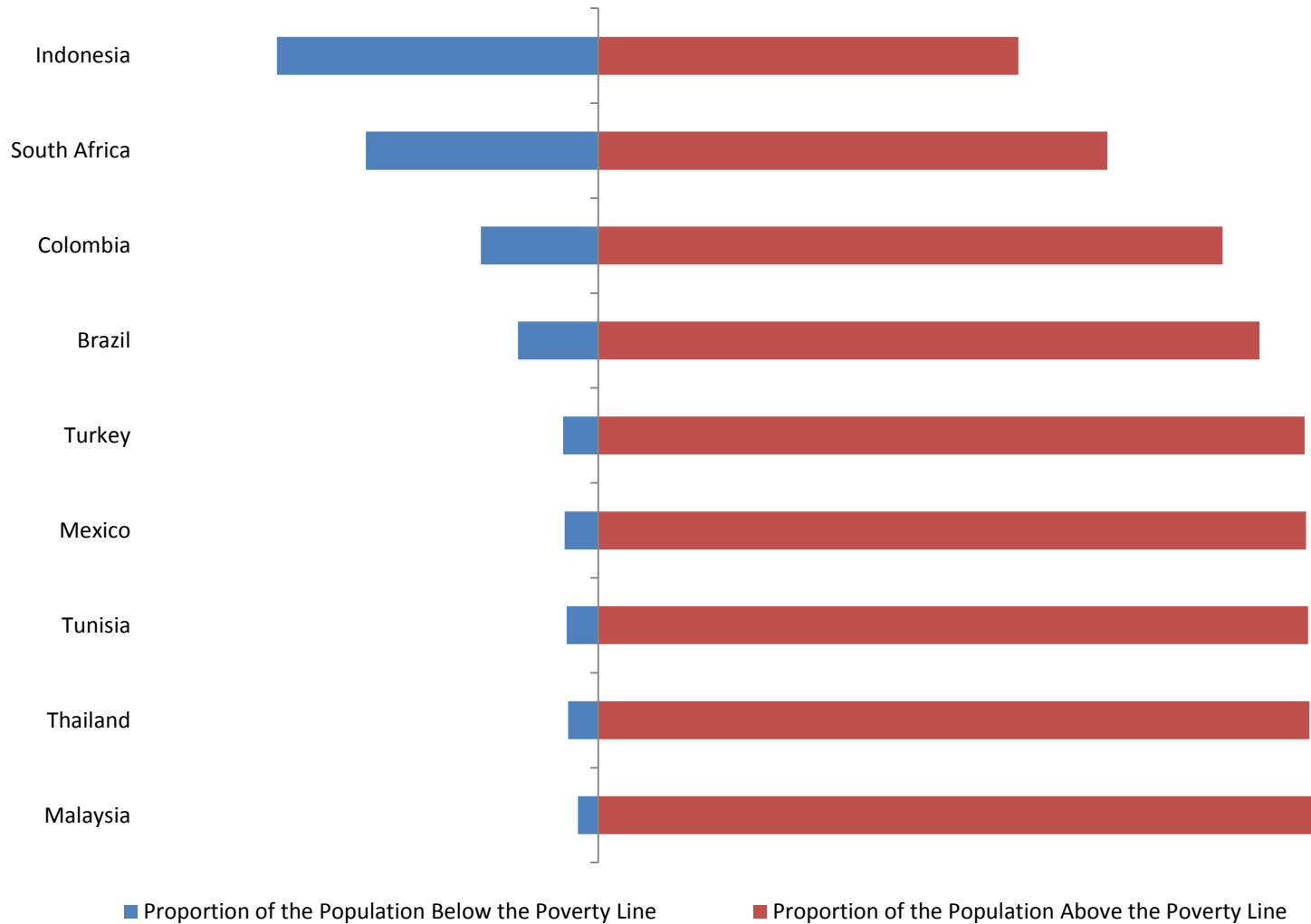
Top five export products by labour intensity category, 2012

Source: Derived from WITs Database, World Bank



Share of population below the poverty line in upper middle income countries and Indonesia

Source: World Bank: World Development Indicators



Is employment the domain of industrial strategy?

- Surely industrial policy should be concerned with
 - Moving up the technological ladder?
 - Moving up the value chain
 - Encouraging resource based exports (beneficiation)
- In SA's (unique) circumstances key objective should be to promote economy wide efficiency by aligning with other policies to promote greater utilisation of our most abundant resource i.e. labour
 - Best way to promote upgrading (walking on two legs)

‘Make the unemployed into a leading sector’ (Chang)

Practical steps

- Explicit employment strategy
- Wage subsidies for all workers below certain wage level
- Do not fund SETAs via tax on payroll
- Shift subsidies on electricity/capital investment into direct support for wages, training, social wage (e.g. housing)
- SEZs, EPZs dedicated to light manufacturing
- Attention to labour regulation