



South Africa's Industrial Policy - by the Numbers

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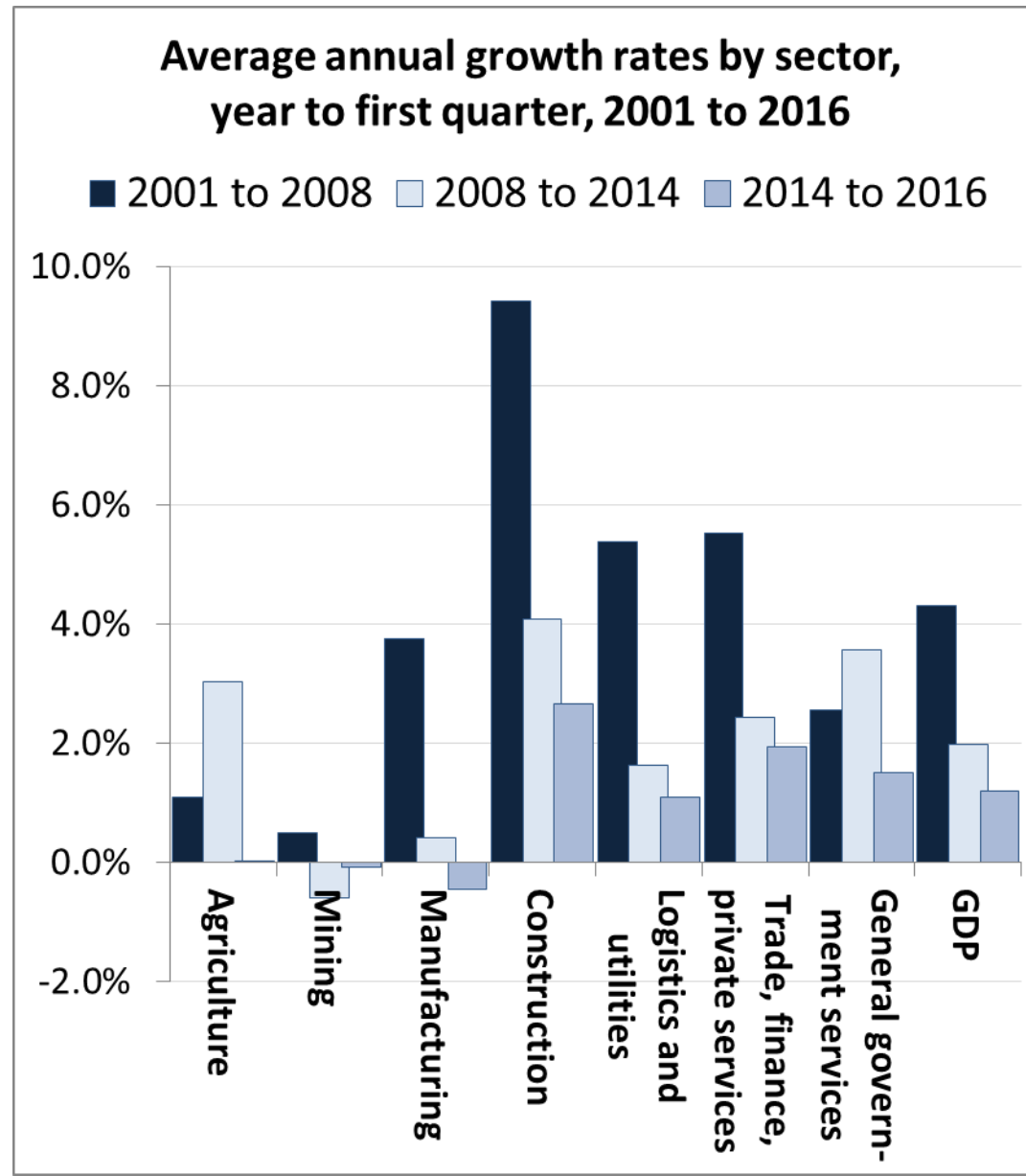
May 2017



Key trends

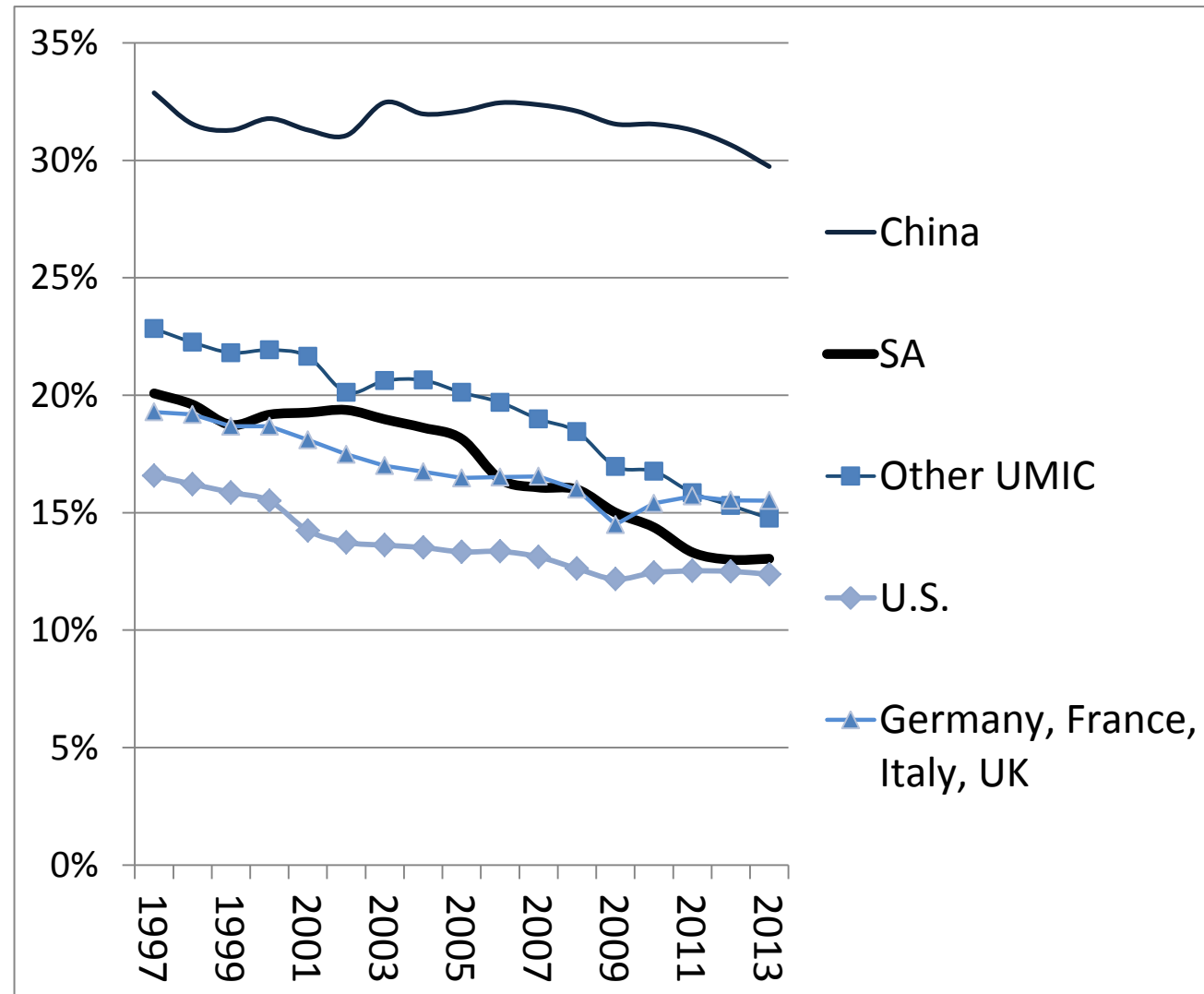
GDP growth by sector

- Manufacturing never really recovered from the 2008/9 downturn
- Mostly due heavy industry especially steel and ferro alloys
- Aggravated in part by increasing electricity prices in the same period
- Manufacturing dropped from 20% of the GDP in 1994 to 14% in 2008, and in 2016 was at 12%



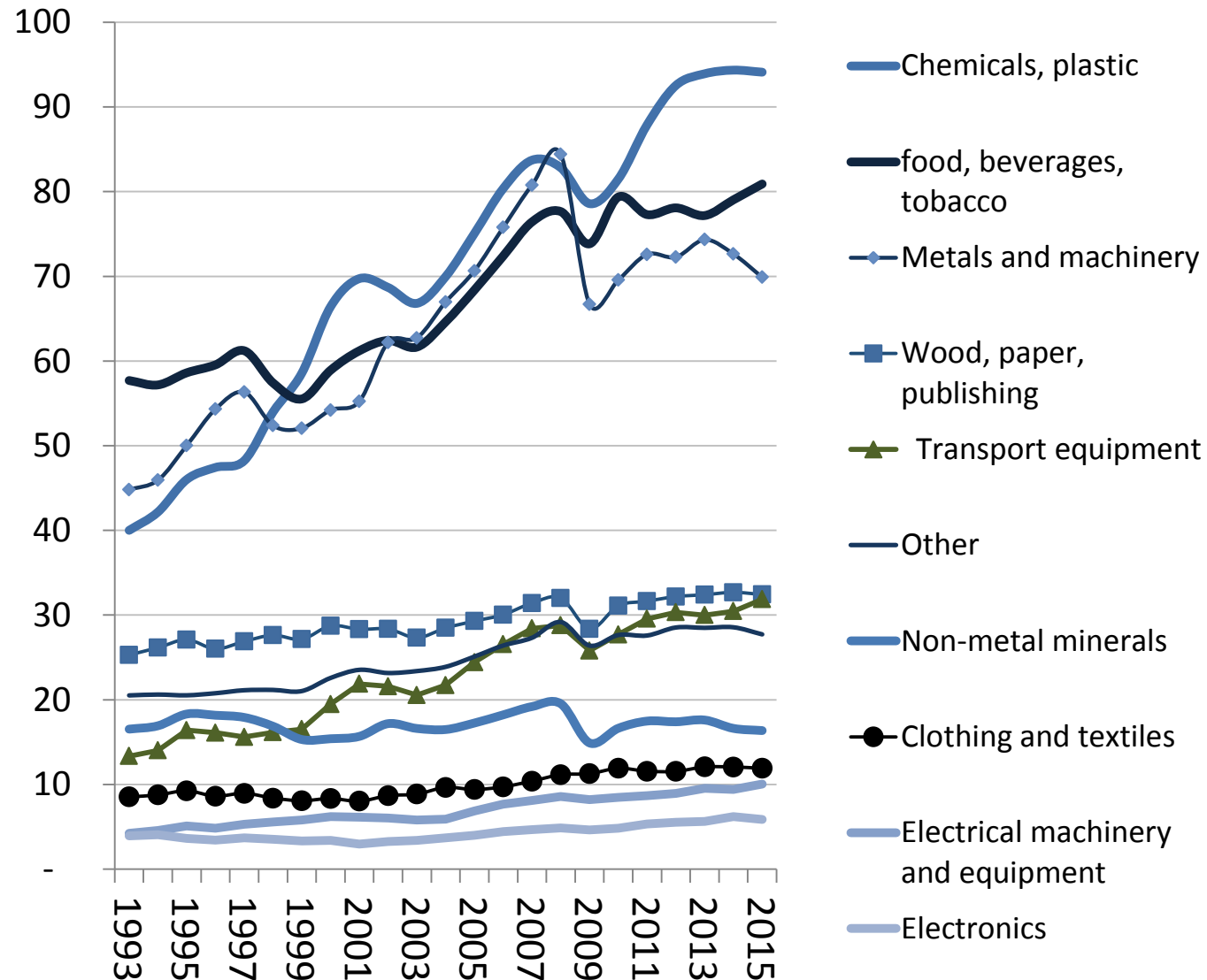
Share of manufacturing in GDP

- Decline in manufacturing share in GDP in most countries other than China from the 1990s
- SA slightly below other upper-middle-income economies excluding China
- Levelling out in global North



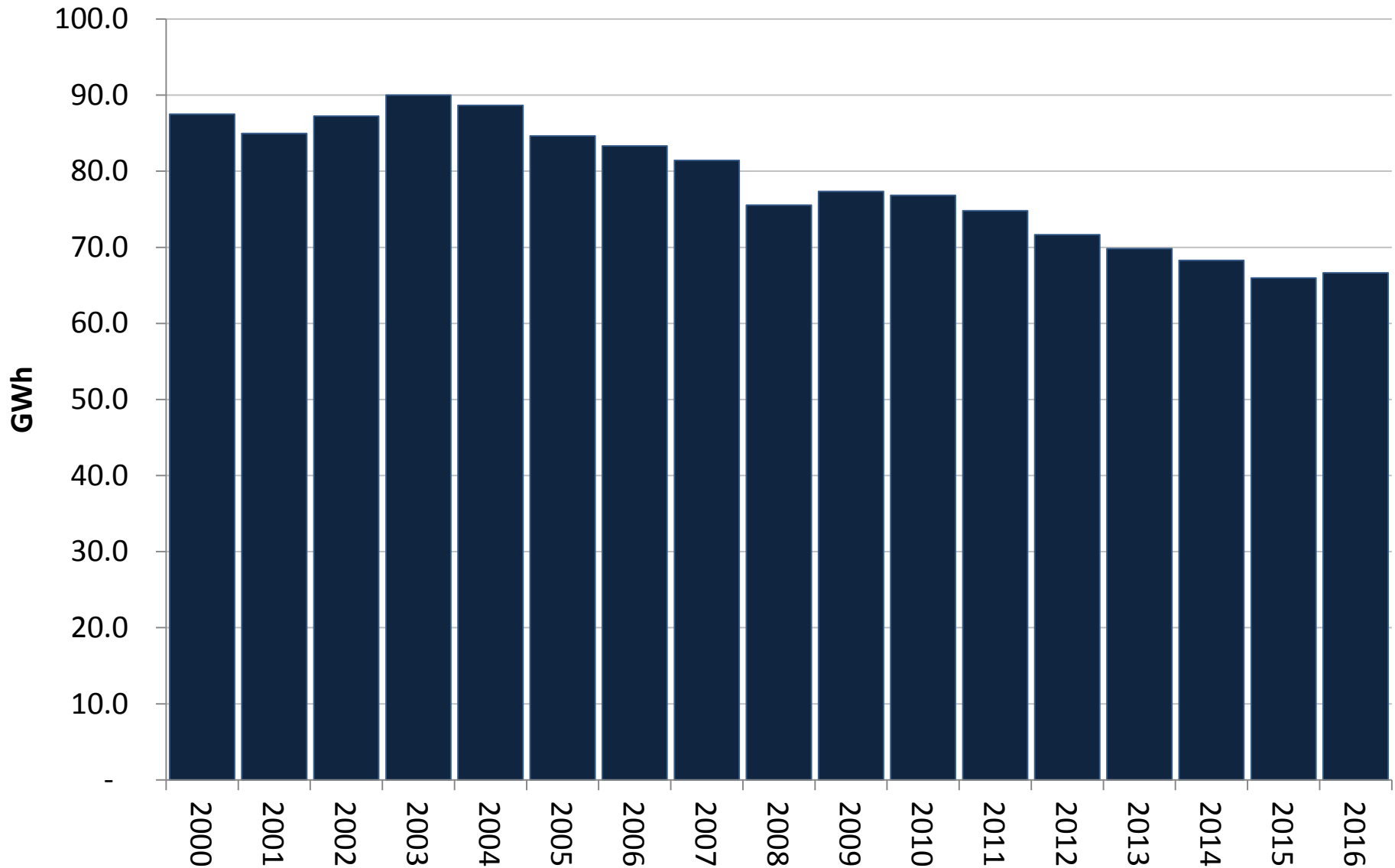
Manufacturing industries

Contribution to GDP



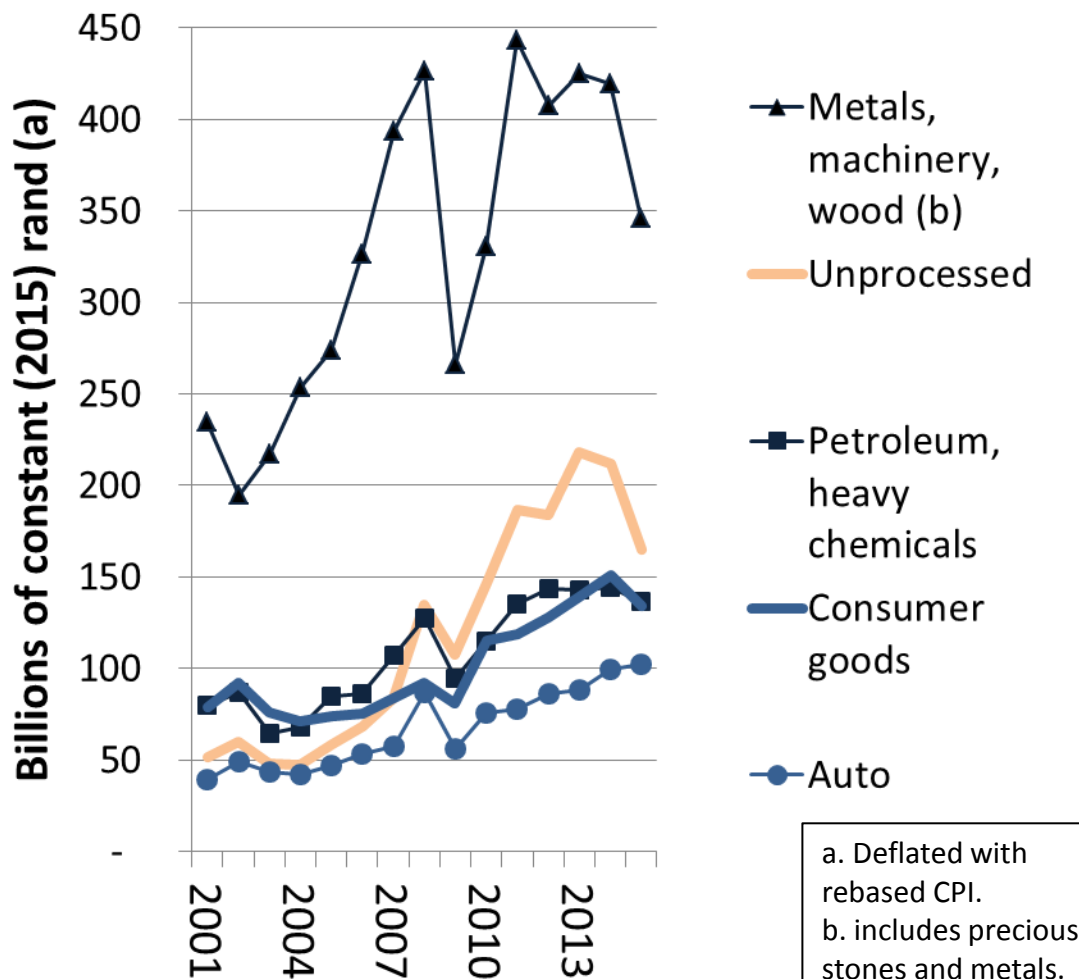
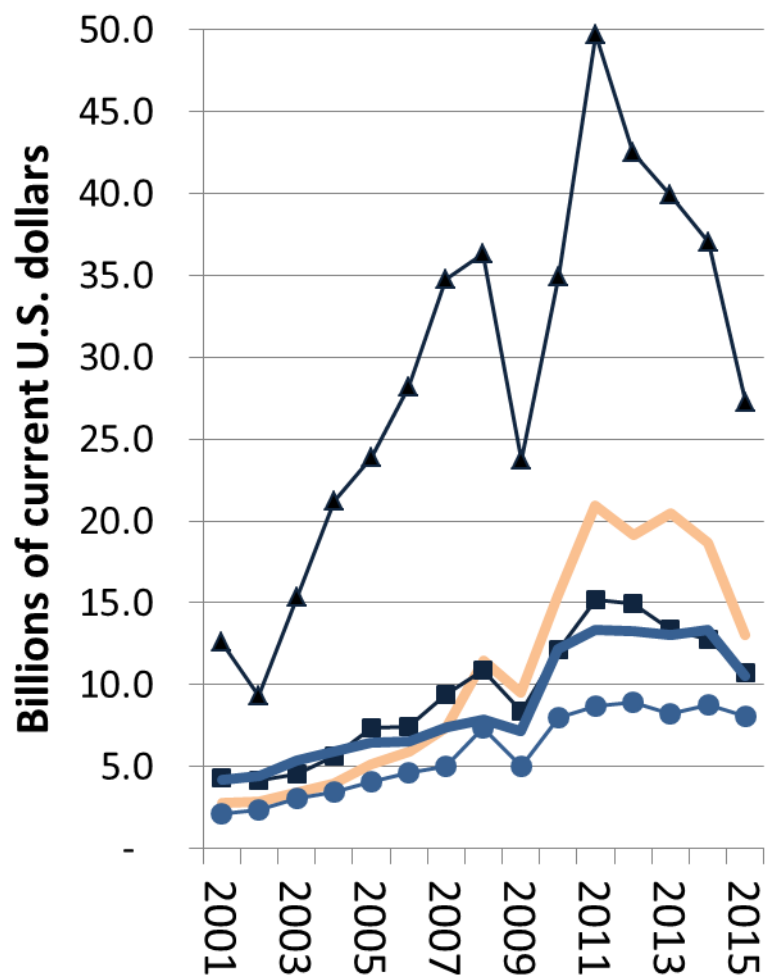
- Chemicals accounted for over a third of GDP growth from 1994
- Followed by food and beverages, metals and auto at 12% to 16% each
- But food/beverages contributed a quarter of growth from 2011 to 2015 while metals and machinery declined and chemicals slowed
- Auto showed relatively stable growth across the period

GWh per billion rand of GDP



Manufacturing exports

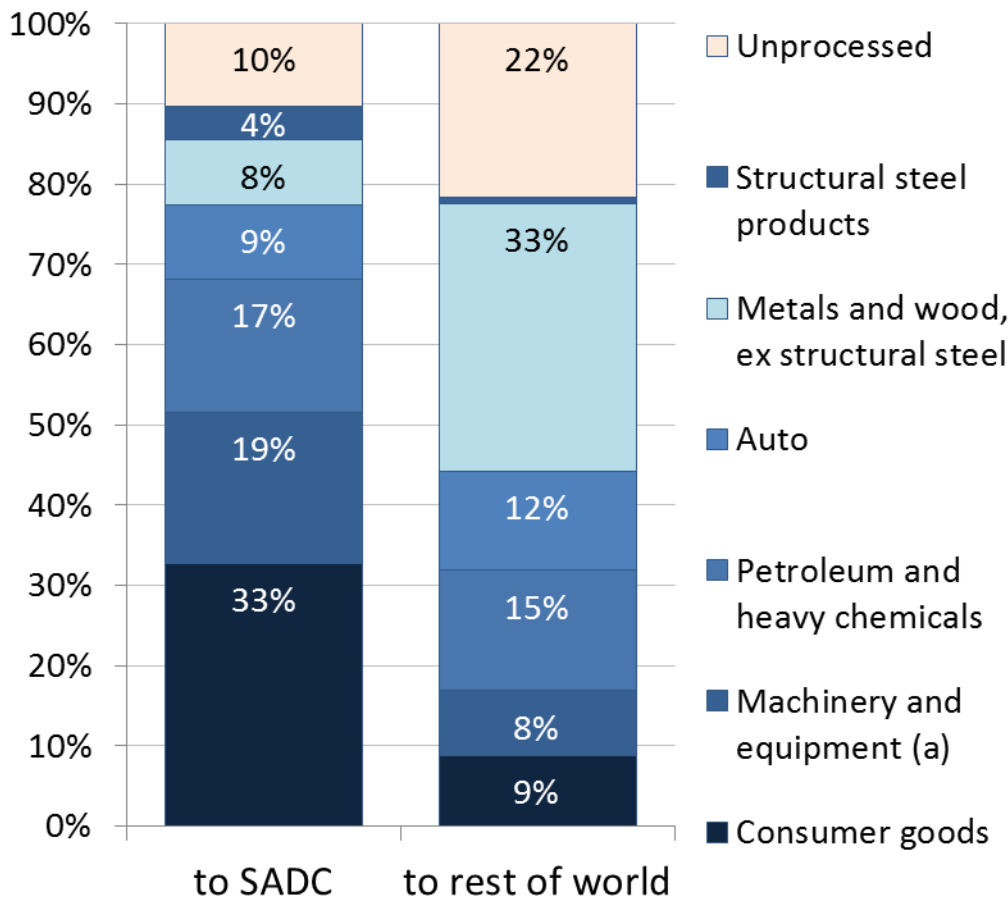
- Exports of metals and basic chemicals declined in dollar terms from 2011, while consumer goods and auto were fairly stable until 2014/5
- Depreciation meant that in rand, smaller fall but still declined ex in auto in 2014/5



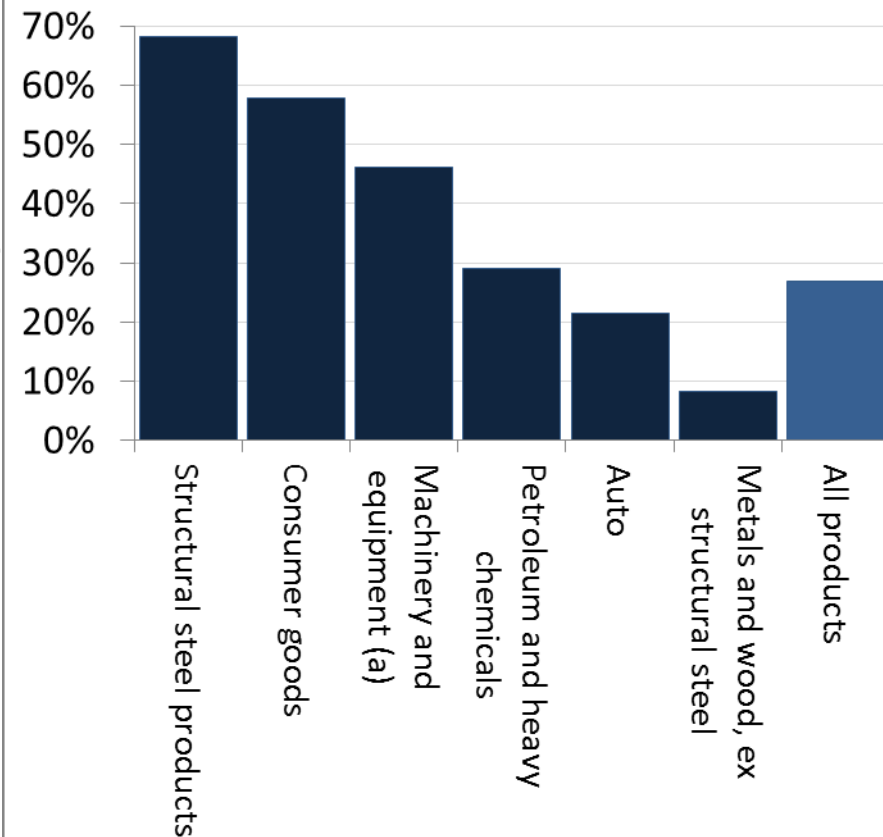
SADC and SA exports

- SADC accounts for 40% of SA's exports of manufactures excluding metals and wood
- Around half of SA's exports of consumer goods and machinery and equipment go to SADC – consumer goods largely Namibia and Botswana

Structure of SA exports, 2015

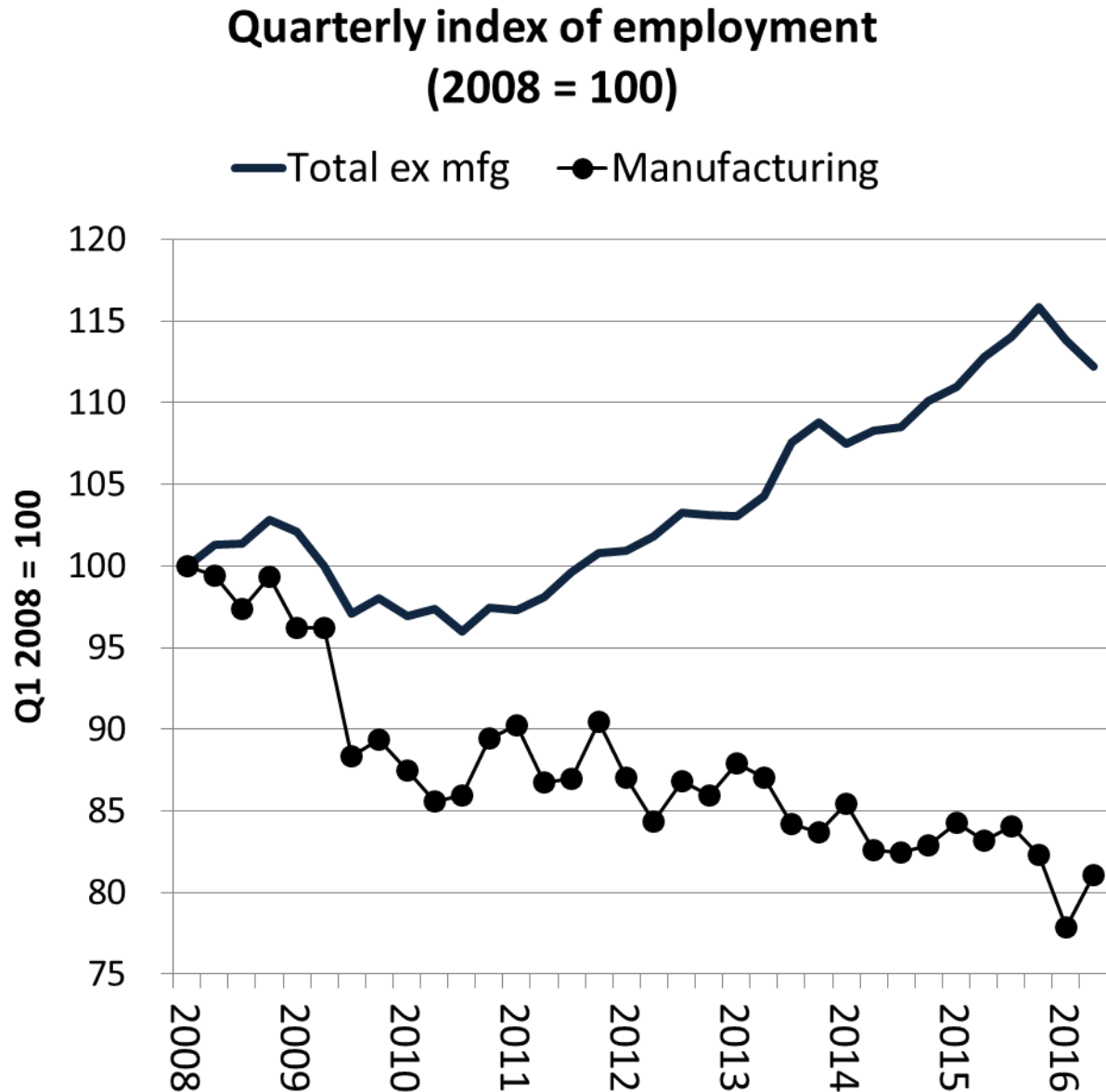


SA exports to SADC as % of total SA exports in category, 2015

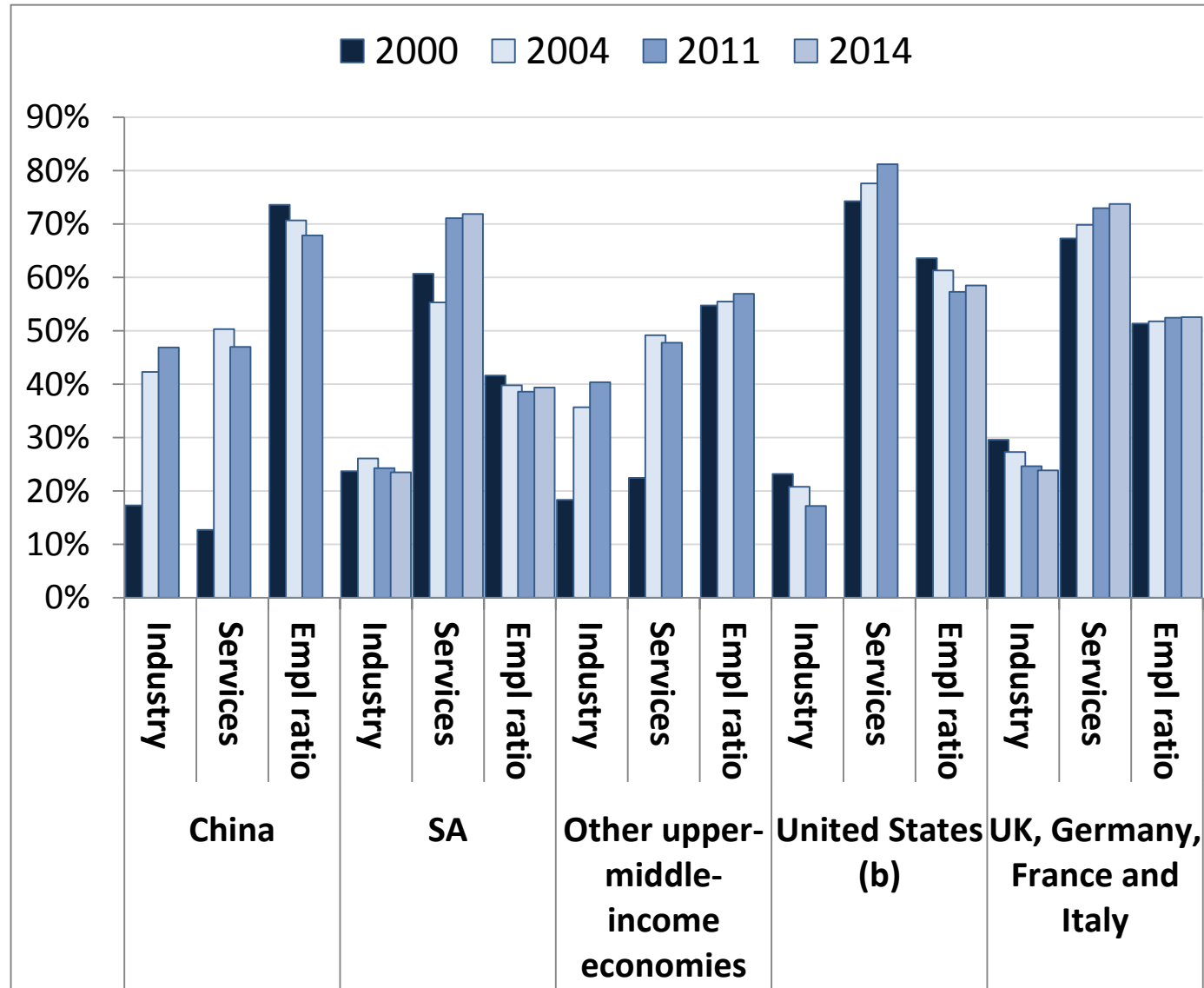


Manufacturing employment

- Total employment recovered from the downturn from late 2010, but reportedly fell sharply in the past six months
- In contrast, manufacturing employment declined more or less steadily from 2008
- Reported job losses in 2016 are entirely in informal sector
 - May be due in part to rebasing of survey in 2015
 - But job losses in 2008/9 started in informal sector



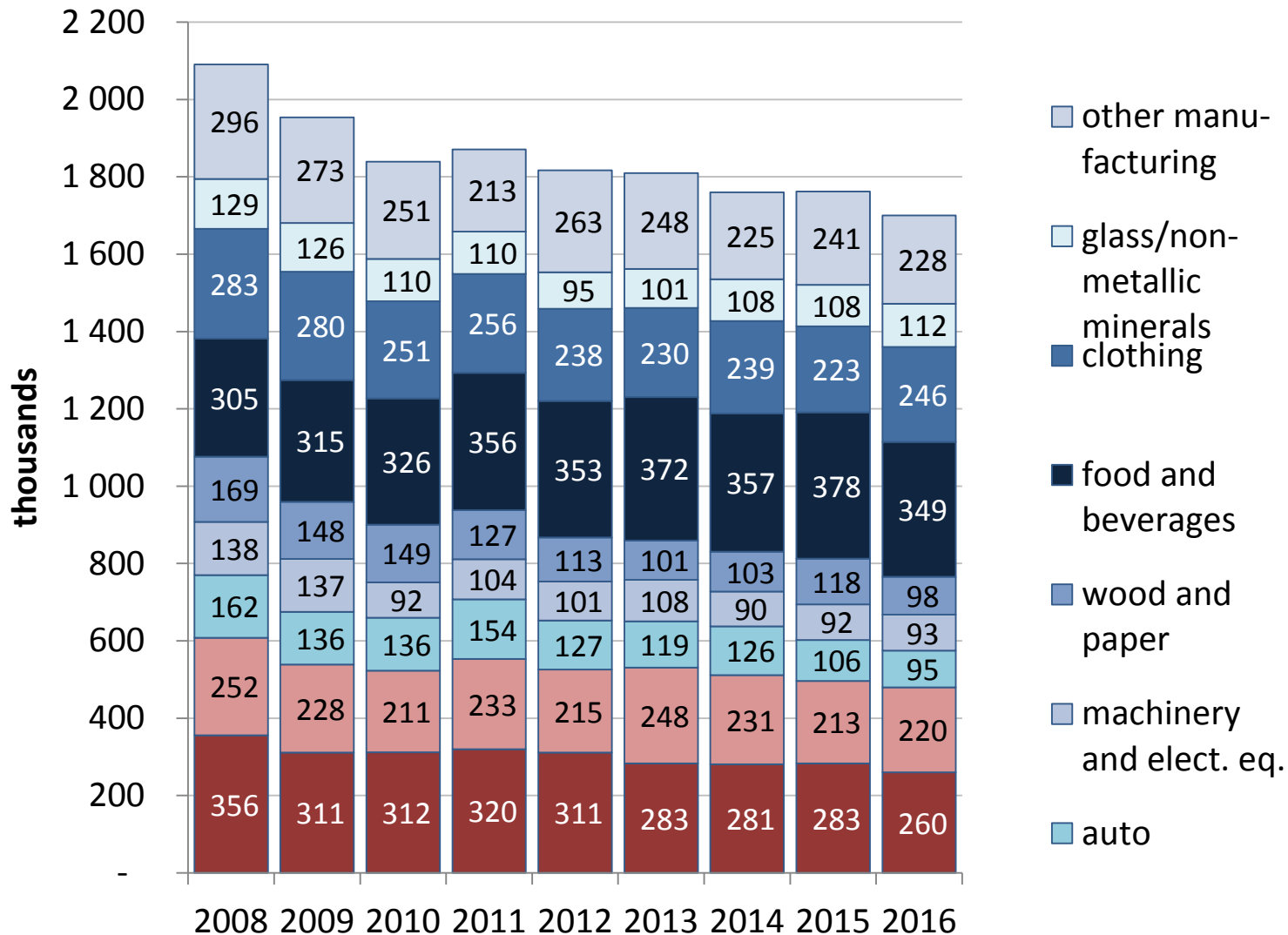
Employment intensity



- Compared to other UMIC, share of manufacturing in employment is much lower than share in GDP
- Reflects relative capital intensity of industries in mining value chain

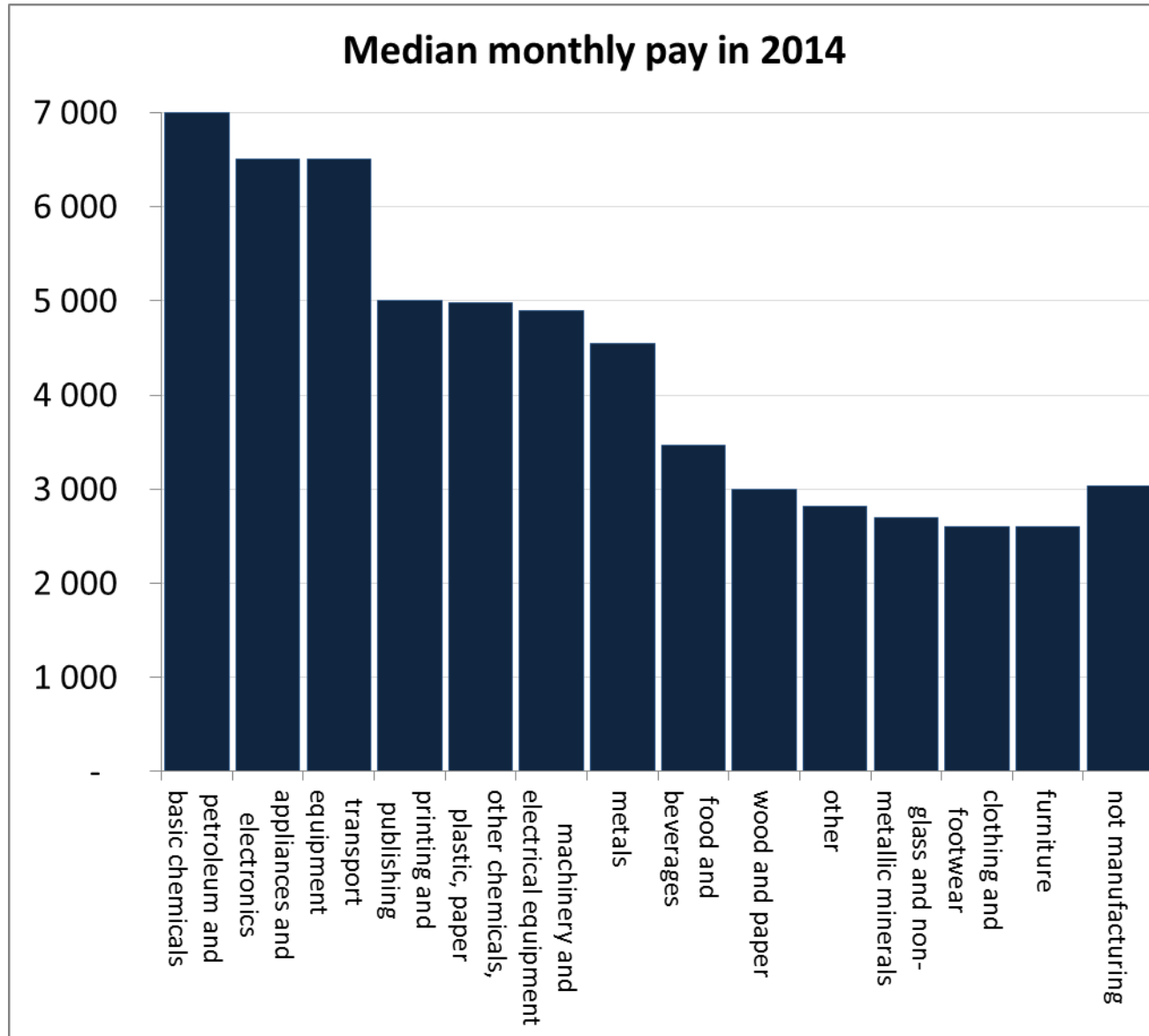
Composition of manufacturing employment

- Metals accounted for a quarter of manufacturing job losses from 2008
- Only food and beverages grew, though fell during drought



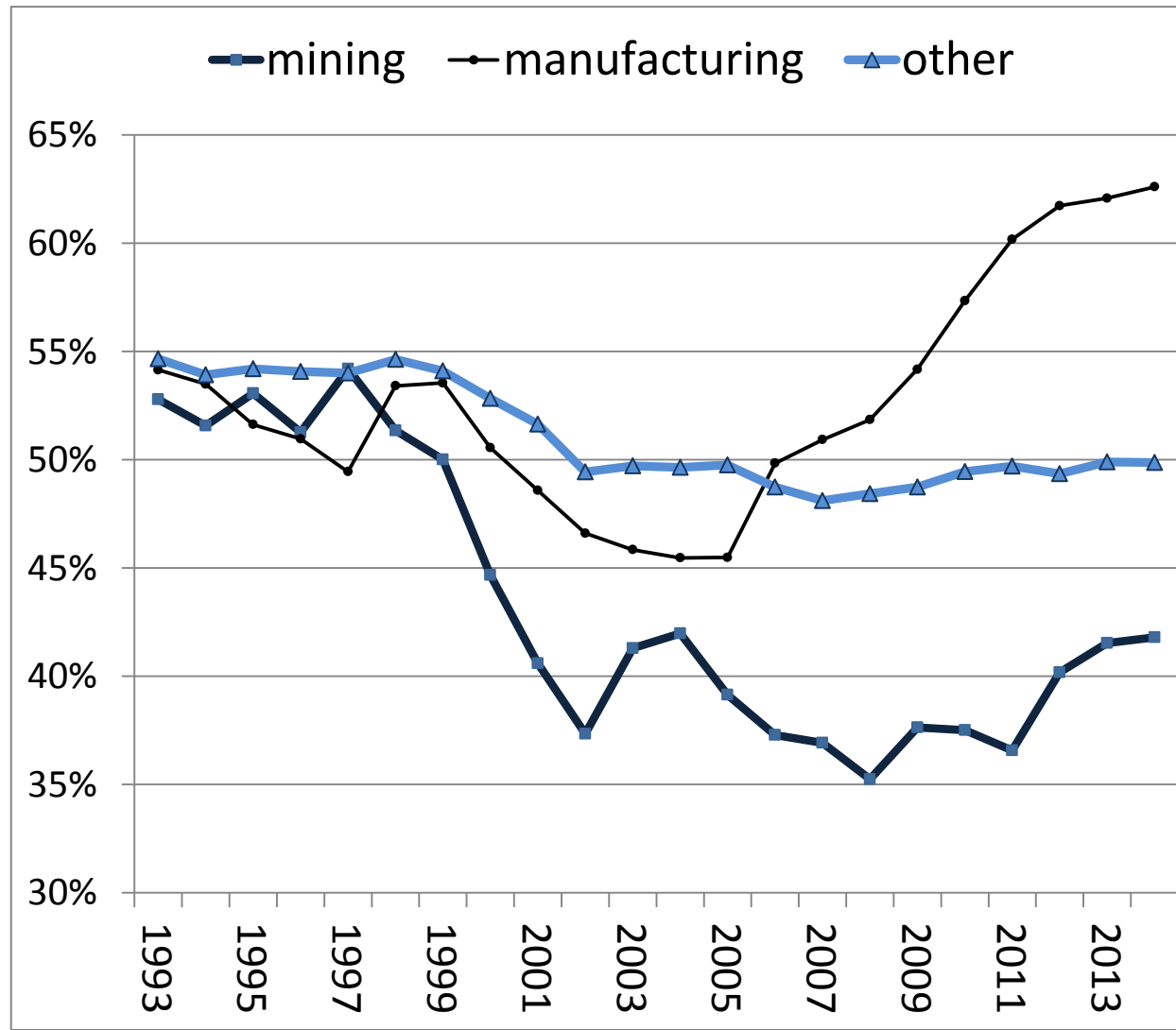
Wages

- Median pay in manufacturing in 2014 was R3900, compared to R3200 for the economy as a whole
- Unusually inequitable by international standards:
 - Bottom 90th percentile earned less than a 20th of top 10th percentile in manufacturing in 2014
 - That compared to an average for UMIC of around a tenth
- 32% union members, compared to 28% in rest of the economy



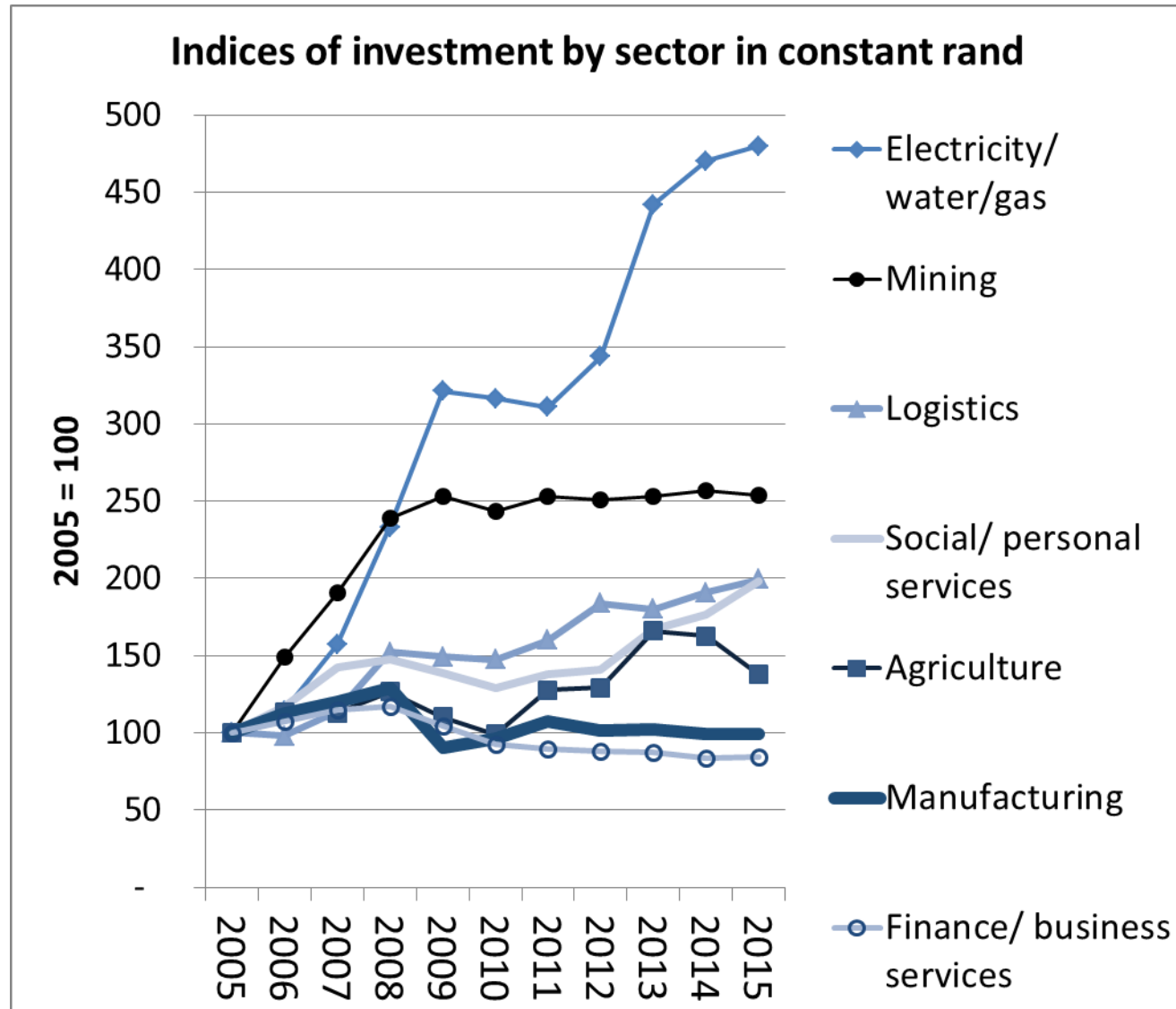
Remuneration as % of value added

- Significant increase from 2008 especially in capital intensive industries, although levelled off in 2014
- Seems to reflect slow employer response to crisis combined with capital mobility



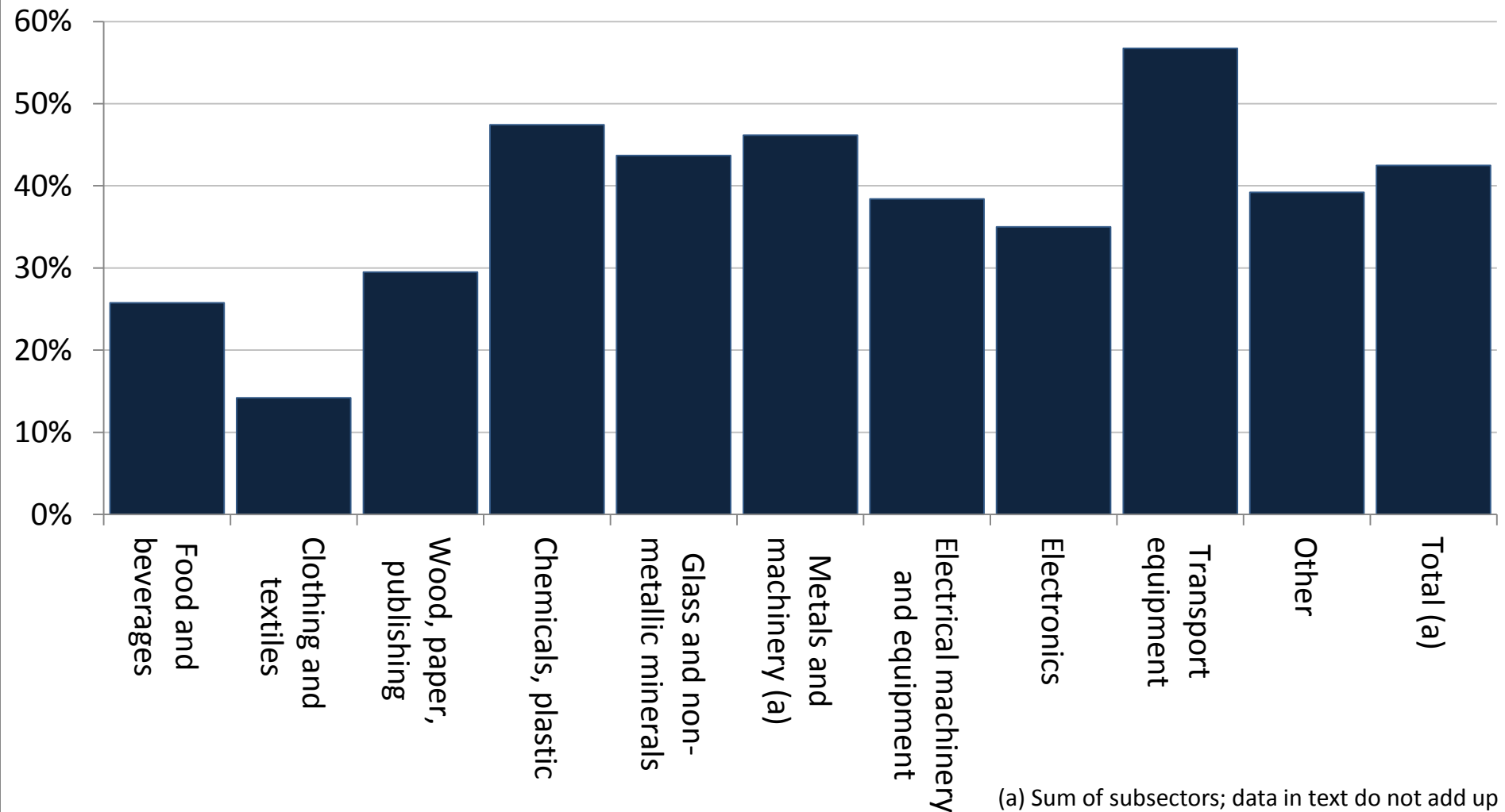
Investment

- Investment in manufacturing fell in 2008 and did not recover
- Most growth in investment after 2008 due public investment especially in energy
- As a percentage of GDP
 - Private investment from under 12% in 2000 to peak at 16% in 2008, but since then has hovered around 13%
 - Public investment peaked at around 8% in 2009 and is now at 7,5%



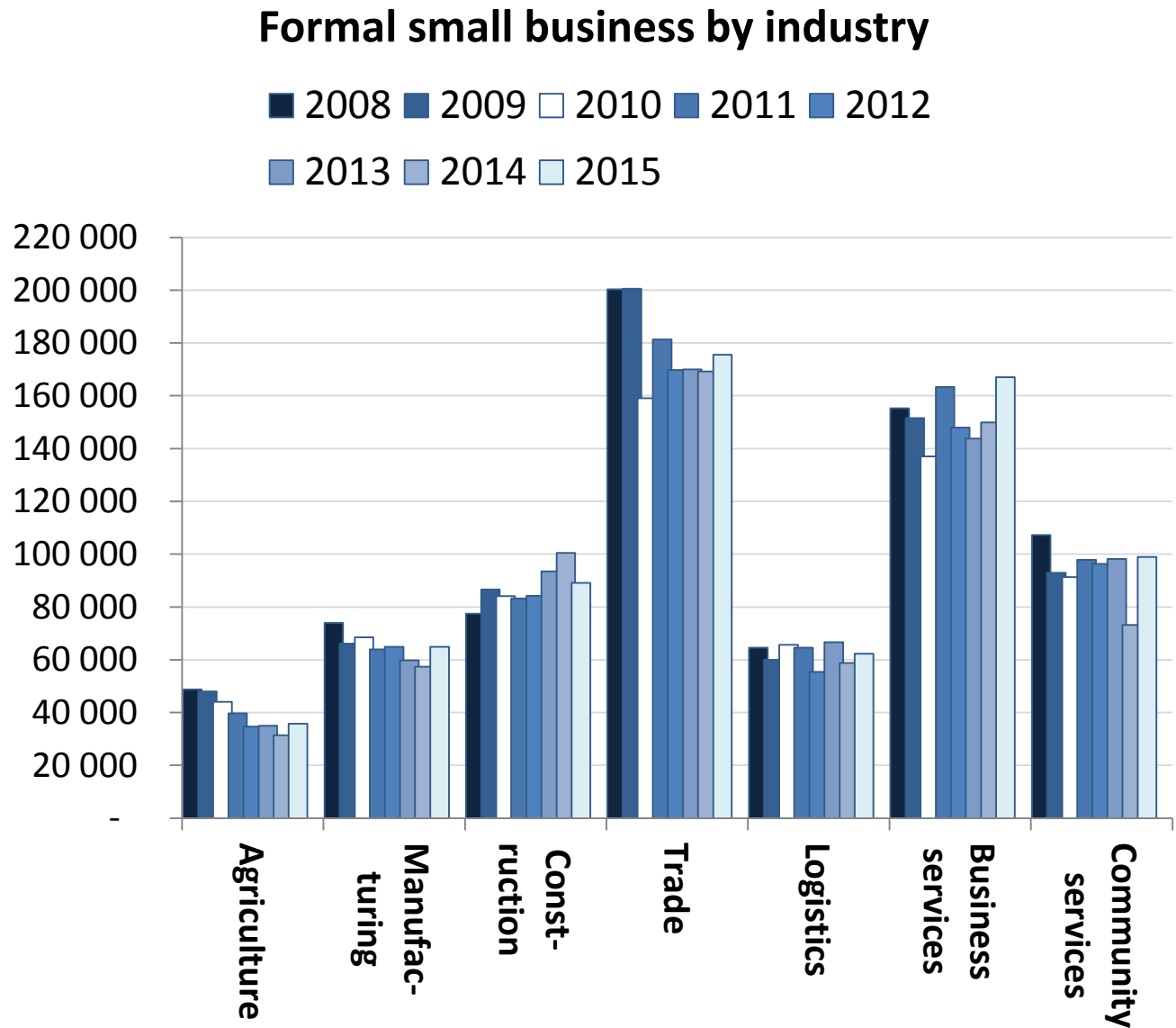
Concentration

Top five companies' share in income



Small business in manufacturing

- Number of small businesses in manufacturing appears to be declining from 2008
- But half of manufacturing workers in businesses with under 50 employees
- Around 60% of manufacturing employers were white in 2015

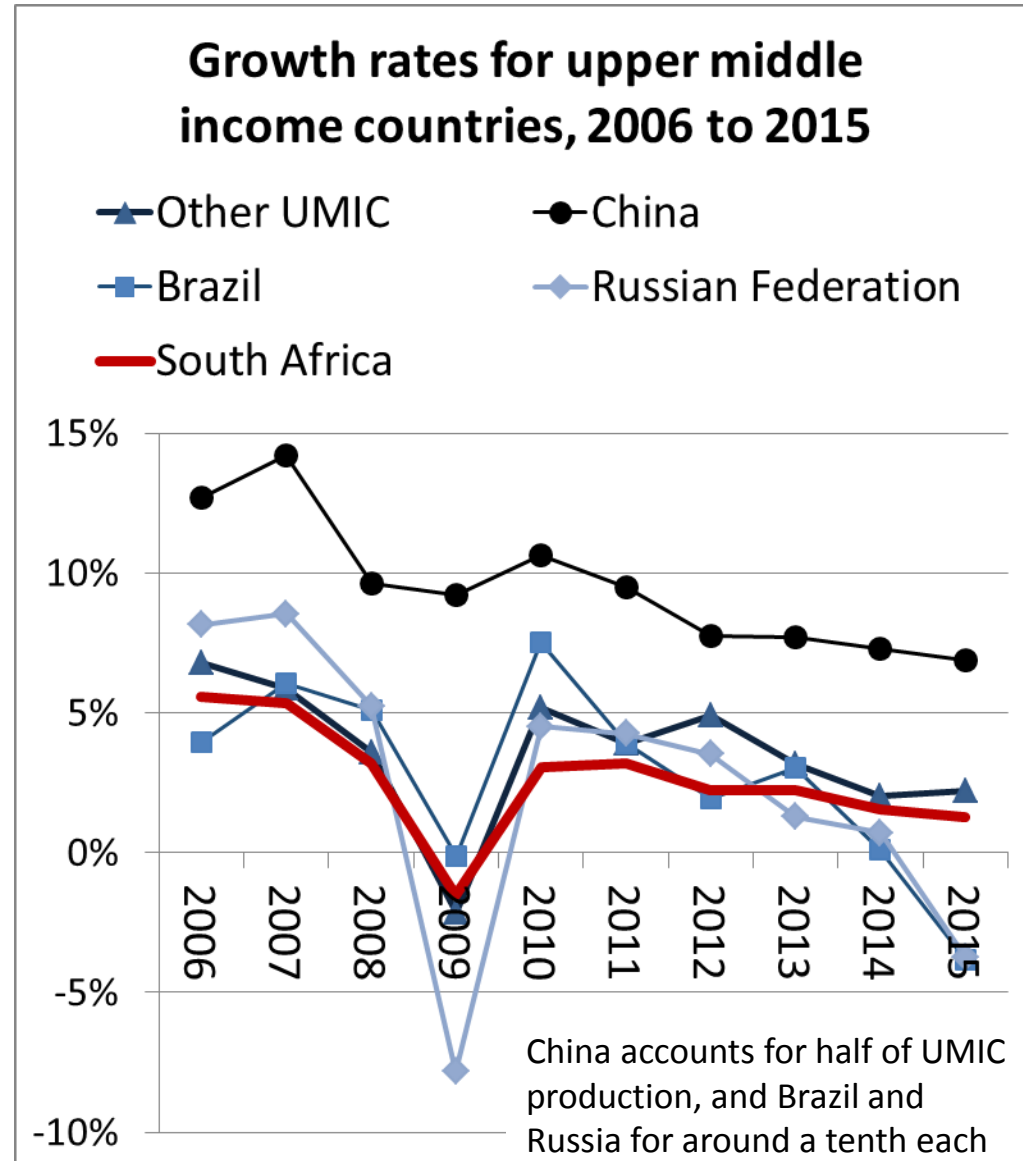




Factors behind the trends

Slowdown in global growth...

- Only India and the U.S. have sustained reasonably strong growth in the past five years.
- Recent IMF projections have tended to overstate future growth.
- Linked to commodity bust from 2011



Domestic trends

- Demand-side drivers

- Reduced demand from mining
- Greater equality/redistribution boosting demand for basic consumer goods
- Depreciation: Improves domestic and international competitiveness
- Local procurement: Focused on capital goods
- Tariffs: Steel; enforcement in clothing
- Fiscal/monetary: Pro-cyclical
- Regional growth: Slower with end of commodity boom especially in extractive countries (Angola, Zambia, Zimbabwe)

- Cost drivers

- Electricity: Cost in constant rand more than doubled from 2008
- Petroleum and coal: Substantial fall in dollar costs but less in rand
- Some measures that stimulate demand also affect input costs – especially tariffs and depreciation
- Transformation (changing ownership, supporting SMEs)
- Climate change: Internalisation of externalities (energy costs, carbon tax) plus clean up for heavy industry

Some issues for industrial policy

- How to manage the unwinding of the MEC?
 - Shift to gas and renewables offers opportunities
 - Should Eskom be supported in encouraging new refineries?

- If not coal-based metals and chemicals, then what?
- Other countries industrialised with clothing, appliances and electronics, and auto
- SA has only very weak clothing and appliances, and auto is not on global scale (similar to Brazil and Mexico)

- If manufacturing cannot create employment and equity, is industrial policy sustainable politically and socially in the longer run?
- Focus on maximising direct or indirect employment?
- Role of self-employment?



Re a leboha!