NEVA MAKGETLA: SA will never be a tiger, so it needs a different roar for its economy

Our services industry is healthy, but we don't yet have the right manufacturing mix to stimulate large-scale employment

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Picture: REUTERS

Part of growing up is accepting that you can't magically turn into your idol. You have to build on your own strengths and find your own path.

Democratic SA is now well past the age of maturity, and it's time to accept that we are not going to turn into an East Asian tiger, with double-digit growth kick-started by huge exports of clothing and then appliances.

That reality emerges unavoidably from analysis of SA's manufactured exports. The share of clothing and appliances in our exports comes to just 4%, compared to 12% for other upper-middle-income economies excluding China, and 42% for China.

The rapid growth in clothing and appliance exports at the start of Asian industrialisation generated jobs on a large scale. As a result, industrial policy benefited the majority of the population, making it possible to mobilise broad support. In SA, by contrast, clothing and appliances are relatively small, precarious and slow-growing.

While SA lags in the normal gateway industries for industrialisation, it overperforms in heavy industry and auto exports. Refined mining products — metals and coal-based chemicals — come in at 27% of SA's total exports, compared to 13% in China and other upper-middle-income countries.

Cars alone contribute 11% of SA exports, which contrasts with just 3% for China and 7% for other upper-middle-income economies. Among the light industries, SA approaches the rest of the developing world only for food processing, which accounts for 9% of SA exports compared to 11% for other upper-middle-income countries excluding China.

The historic promise is that industrialisation will generate decent work on a mass scale. But heavy industry and auto assembly, where SA has undoubted strengths, are highly capital intensive, and directly employ relatively few people. Metals and chemicals refineries account for more than a fourth of SA's exports but under a 20th of total employment. The auto industry has just more than 100,000 workers — under 1% of all employment. In contrast, food processing alone employs 350,000 and clothing and appliances together somewhat more, although they contribute only slightly over a 10th of SA exports.

SA's large service exports do more to generate employment directly. Their successes are visible in booming tourism as well as a range of professional services, from advertising to software to health care. But measuring service exports is notoriously difficult. They are defined to include services provided to foreigners both in SA and abroad. That means they appear as a combination of repatriated profits; sales to foreigners inside SA's borders, which are rarely measured separately; and cross-border receipts — for instance, for transport or freight insurance.

The impact of service exports on job creation varies depending on whether they are supplied to foreigners in SA or abroad. For inclusive growth, a bigger problem is that services only provide decent incomes and security for relatively skilled workers. The bulk of jobs in formal services in SA are in cleaning and security, with median pay of about R2,000 a month — about half the figure for formal manufacturing — and often very little job security or benefits.

These figures help explain the attraction of manufacturing growth as a policy goal. And we should not underestimate the importance of heavy industry, auto and food exports for overall growth. In the process, they sustain a significant share of employment indirectly, as their stable and relatively well-paid labour force bolsters domestic demand for consumer goods and services.

Generating employment on the scale required to tackle SA's extraordinarily high level of joblessness, however, requires structural transformation that is both large-scale and tailored to SA's realities.

SA might want to become an East Asian tiger (when it's not dreaming that it will somehow wake up as Sweden), but its economic structures probably place that future out of reach. Successful transformation of our economy requires a cold hard look in the mirror, not a leap of fancy.

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