Briefing to Portfolio Committee on Trade and Industry

State of Manufacturing – 2017

28 November 2017

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

Manufacturing Matters

- Why Manufacturing Matters
- Global Manufacturing Trends
- High-level Patterns of Growth in South Africa
- Trends in South Africa's Manufacturing sector
- Conclusions

Manufacturing Matters

- Very few if any cases, anywhere in economic history, where a country has achieved sustained and sustainable economic development, which has not been led by manufacturing.
- This applies to the early industrialisers (UK, Europe and the US, followed by Japan) to the 'late' industrialisers (South Korea, Taiwan and the PRC and the newly emerging Asian Tigers – Vietnam , Thailand and India.
- The manufacturing sector has the highest economic multipliers because of its value-addition, linkages to the upstream production sectors of the economy (mining and agriculture) and the downstream services sectors.
- Manufacturing sector contributes directly to GDP, employment, exports and human capital development.
- Developed country *practices* confirm that Manufacturing is a critical component of their economic policy and supports the need to view the economy as an eco-system, not disparate sectors.

Global Manufacturing Trends

- China's export-led growth strategy has been very successful.
- But the relatively weak global economy after the Financial Crisis resulted in large surplus production of clothing, textiles, toys, furniture, metal products, plastic products and steel.
- For many countries, a tipping point was reached and in almost every case, the response was to defend their domestic industrial capabilities.
- In a growing number of cases, interventions similar to our own are now being pursued by our competitors.

theguardian

UK world sport football opinion culture business lifestyle fashion environment tech travel browse all sections

home › UK education media society law scotland wales northern ireland

National living wage

'National living wage' will push up wages at more than half of employers

Increase in minimum hourly wage to £7.20 from April 2016 will see many employers seek to make savings through increased productivity, survey finds

Phillip Inman Economics correspondent

Wednesday 18 November 2015 00.26 GMT

This article is 1 year old

0 318

Bloomberg the Company & Its Products | Bloomberg Anywhere Remote Login | Bloomberg Terminal Demo Request

Markets Tech Pursuits Politics Opinion Businessweek

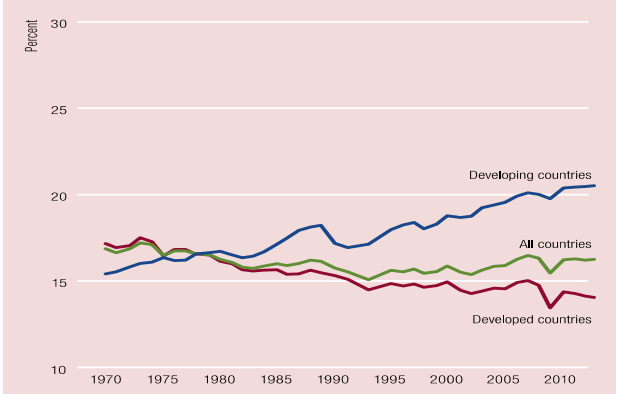
Trump Tax Cuts Could Jump-Start Global Economy, World Bank Says

by **Andrew Mayeda**
10 January 2017 23:00:00 GMT+02:00

Global Manufacturing Trends

- Clear ‘winners and losers’ after Asian crisis in mid-1990s.
- Large portion is China but other Developing countries also benefited.
- In general, sub-Saharan Africa has missed out.
- Shares within the economy shows a coincidence of high-growth and Manufacturing value-add.
- Theory is that the causality runs from Manufacturing growth to economy-wide growth.
- This holds in general but Unido (2016) finds that in 15 years, countries must invest far more heavily in education to unlock this benefit.

Manufacturing value added shares, worldwide, constant prices, 1970–2013



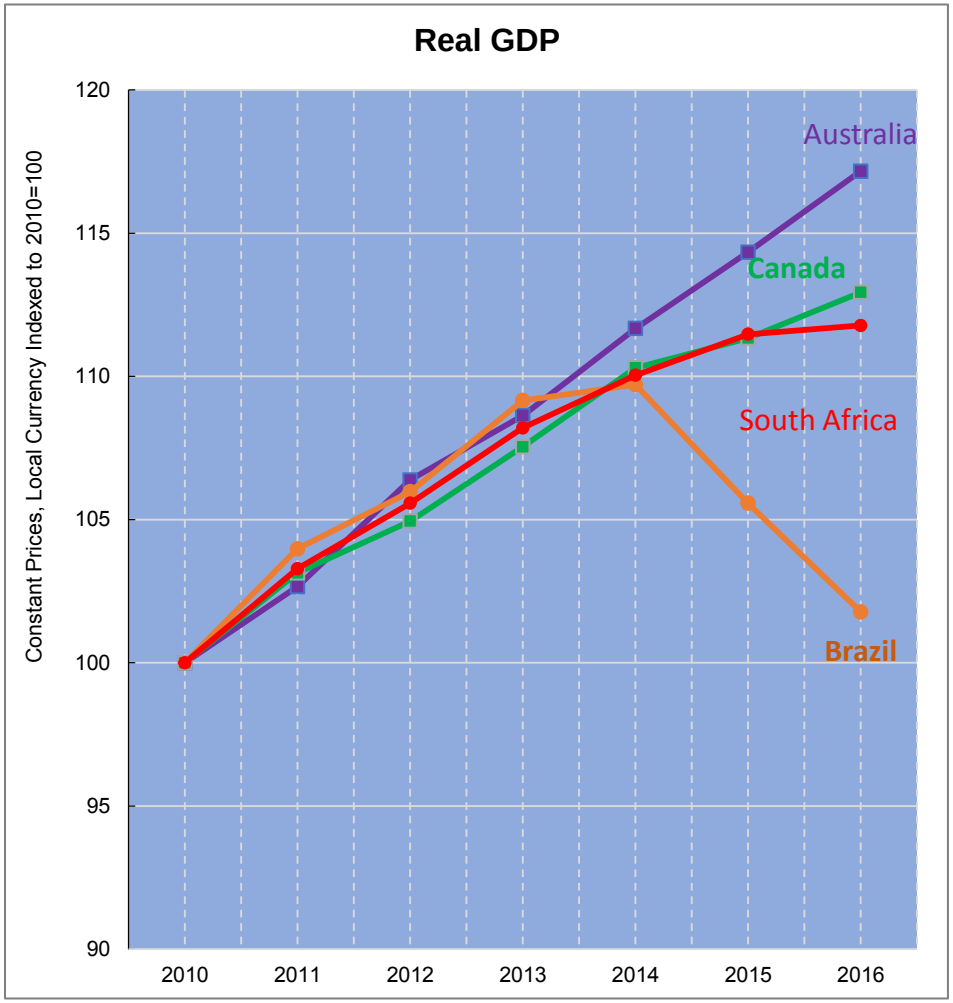
Source: UNIDO elaboration based on UN National Accounts Statistics (UN 2014b).

Manufacturing value added share in GDP by region, current prices, 1970–2010 (percent)

	1970–1974	1975–1979	1980–1984	1985–1989	1990–1994	1995–1999	2000–2004	2005–2009	2010–2013
World	23.4	22.0	20.3	20.5	19.0	18.0	16.5	15.7	15.8
Developed countries	24.0	22.6	20.9	20.3	18.7	17.5	15.5	14.0	13.3
Americas	22.2	21.2	19.4	18.2	16.6	16.1	14.0	12.5	12.0
Asia	31.3	26.9	26.1	25.3	23.5	21.0	19.3	18.8	18.0
Europe	24.7	23.3	21.3	20.5	18.5	17.4	16.0	14.4	13.6
Africa	12.3	8.5	9.9	13.1	12.7	13.3	12.2	10.0	9.6
Oceania	20.8	18.8	17.7	15.5	13.6	12.8	11.3	9.5	7.5
Developing countries	21.1	20.1	18.7	21.5	20.2	19.8	20.1	19.9	20.1
Americas	23.6	24.3	22.9	24.6	20.6	16.6	16.7	15.4	13.5
Central America	19.8	19.7	19.9	19.1	18.7	18.7	17.9	16.4	15.0
South America	25.1	26.4	24.9	26.0	21.2	15.4	15.8	14.9	12.5
Asia	23.3	23.0	20.4	22.6	23.0	25.2	26.0	26.8	26.8
East Asia	33.5	31.8	25.6	28.8	26.6	29.0	29.9	30.7	30.8
South-East Asia	16.4	16.9	18.5	21.6	24.4	25.8	26.9	26.4	24.1
South Asia	13.0	14.4	14.3	14.3	14.2	14.5	13.9	14.8	13.5
Europe	27.3	26.8	25.8	25.4	18.8	16.6	15.5	15.5	15.8
Western Europe	17.7	16.9	16.6	16.0	14.1	13.0	11.6	10.0	9.9
Eastern Europe	31.2	31.8	30.7	31.1	23.5	19.3	18.2	18.6	18.3
Africa	12.2	10.8	10.5	13.8	15.2	15.1	12.5	11.2	10.7
North Africa and Middle East	12.9	10.9	10.0	14.4	15.7	16.0	12.8	11.8	11.4
Sub-Saharan Africa	11.7	10.7	11.2	12.9	14.2	13.2	11.8	9.9	9.1
Oceania	12.6	12.6	11.1	11.2	10.3	9.3	9.2	9.4	8.3

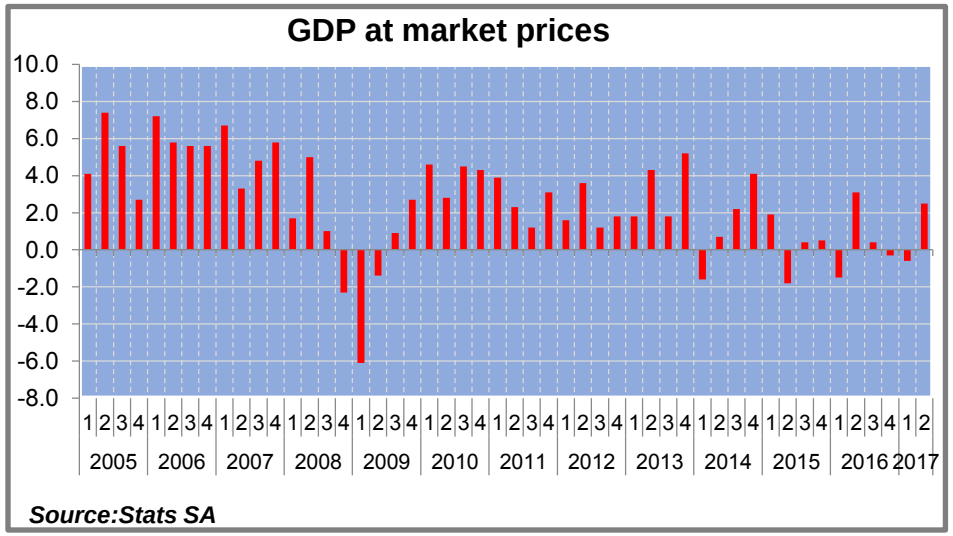
High-level Patterns of Growth in SA

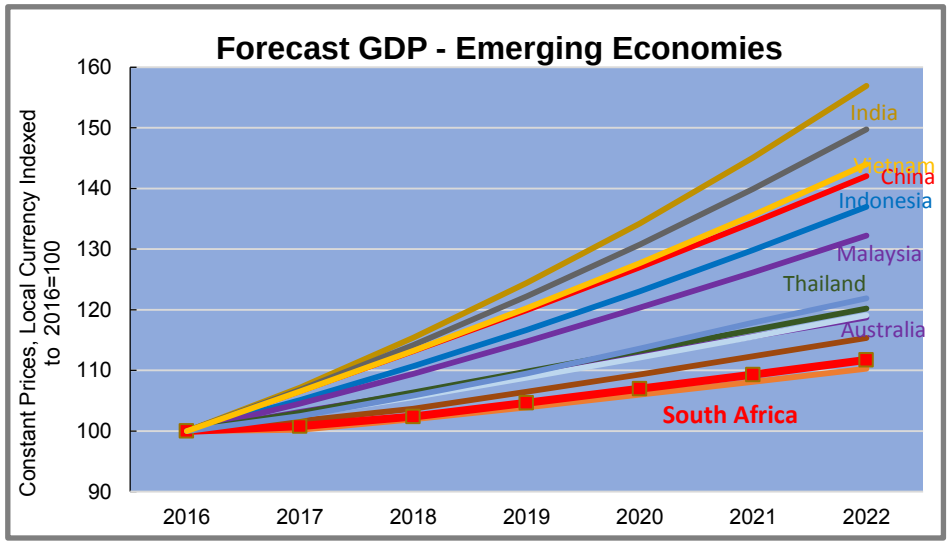
- From the onset of the Global Financial Crisis in 2009 to 2014, SA GDP growth closely tracked peer non-oil, mineral commodity exporters.
- SA deployed a range of policy interventions in the aftermath of the Crisis, including:
  - Infrastructure build programme, and
  - Supply-side support measures such as the MCEP.
- However after 2014 SA GDP growth began to diverge from peer countries.
- Causal factors included emergence of domestic policy shocks and challenges (sharply escalating administered prices and other economic infrastructure constraints).



High-level Patterns of Growth in SA

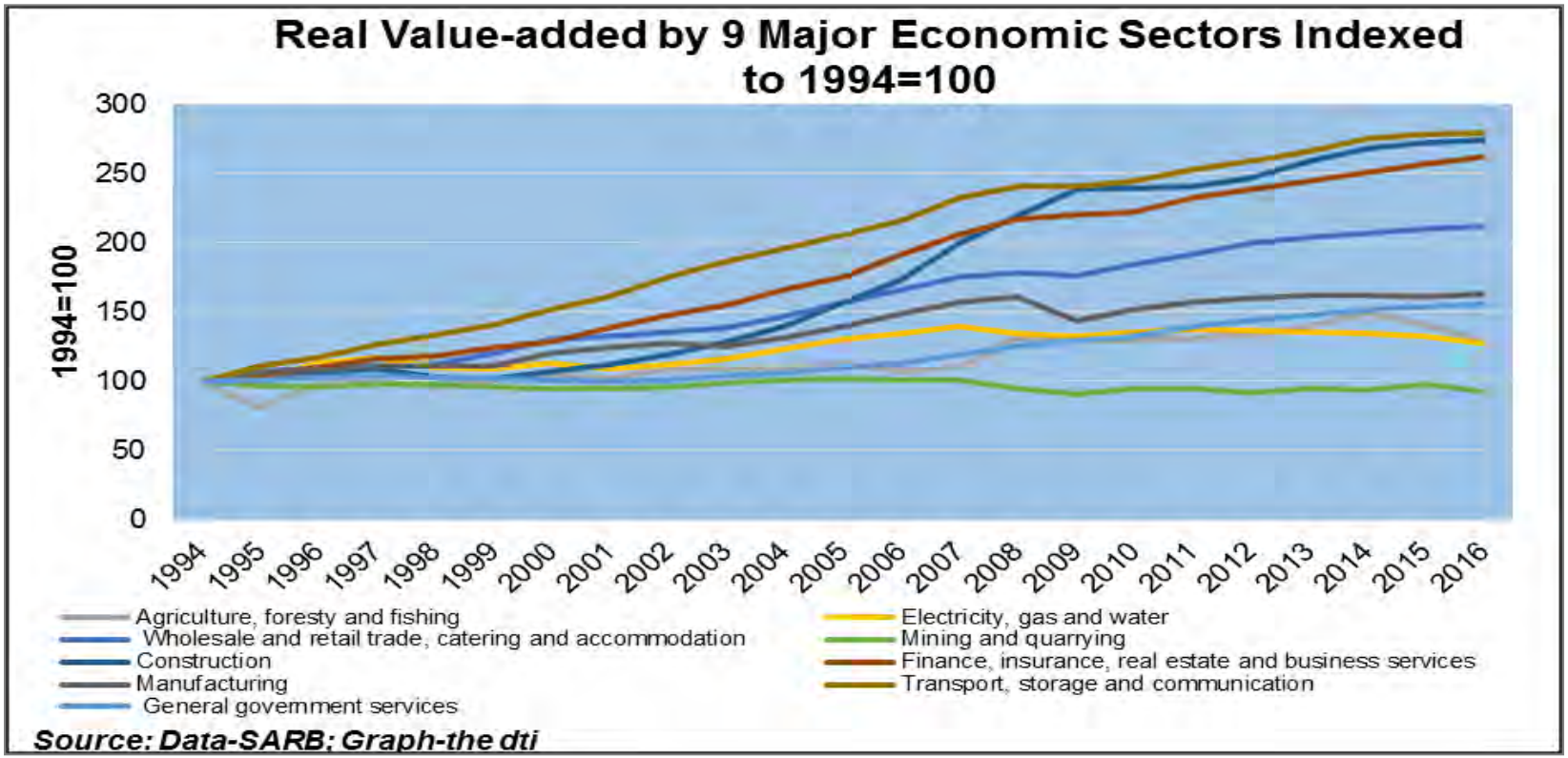
- SA economic recovery has lost momentum from early 2015.
- Crucially, SA outlook is now diverging from global outlook.
- The IMF's World Economic Outlook suggests that SA is facing the possibility of sustained slow growth – possibly for 5 years.
- Obviously a key - and not unreasonable - assumption of the IMF forecast is that commodity prices continue to recover only slowly.
- Faster mineral commodity price growth will benefit SA - but in the absence of structural change these benefits will be temporary at best.





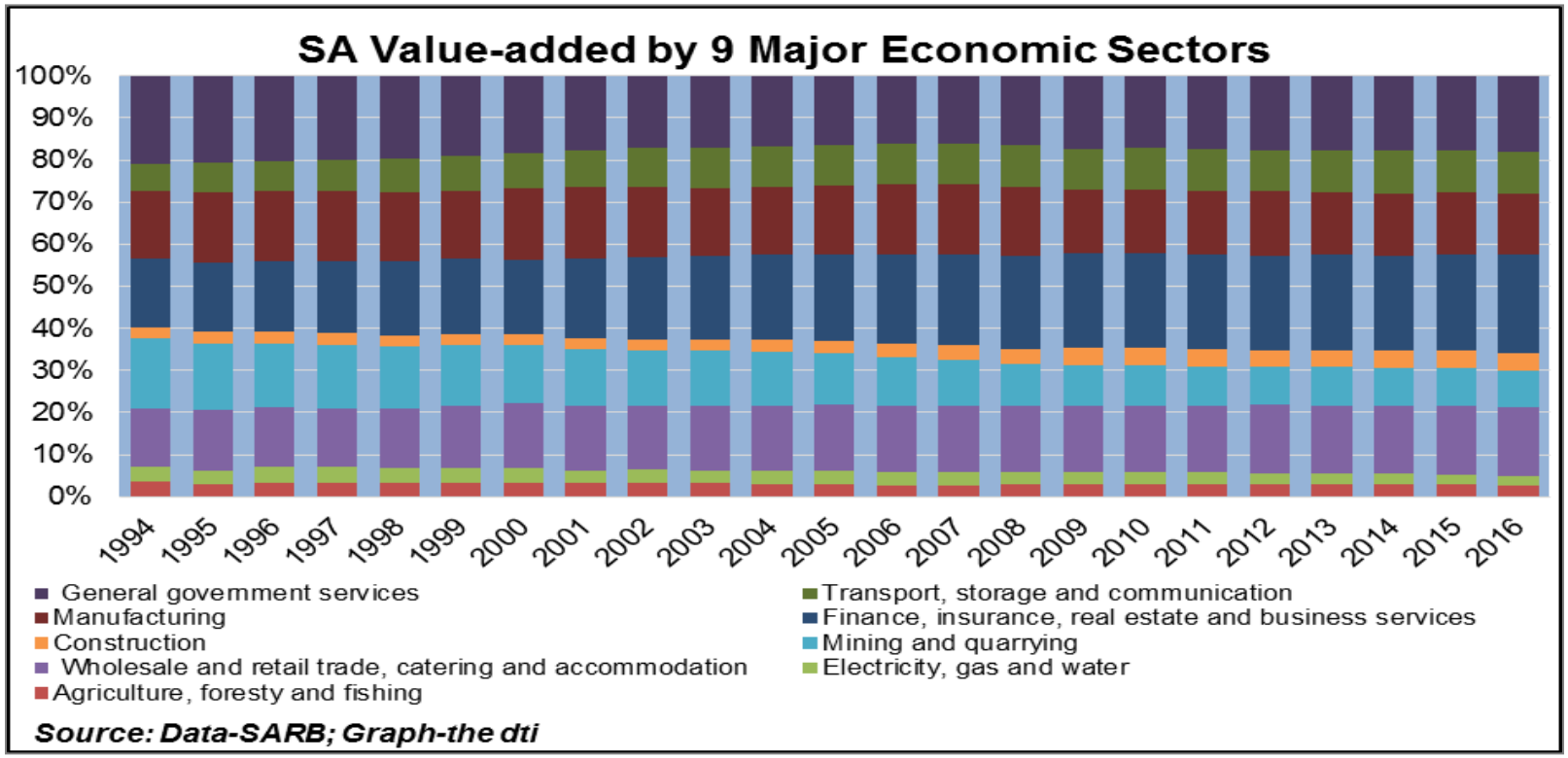
High-level Patterns of Growth in SA

- Although almost all sectors have grown since 1994 (in real terms), the productive sectors which are crucial for long-term growth and job creation have grown more slowly than services sectors.



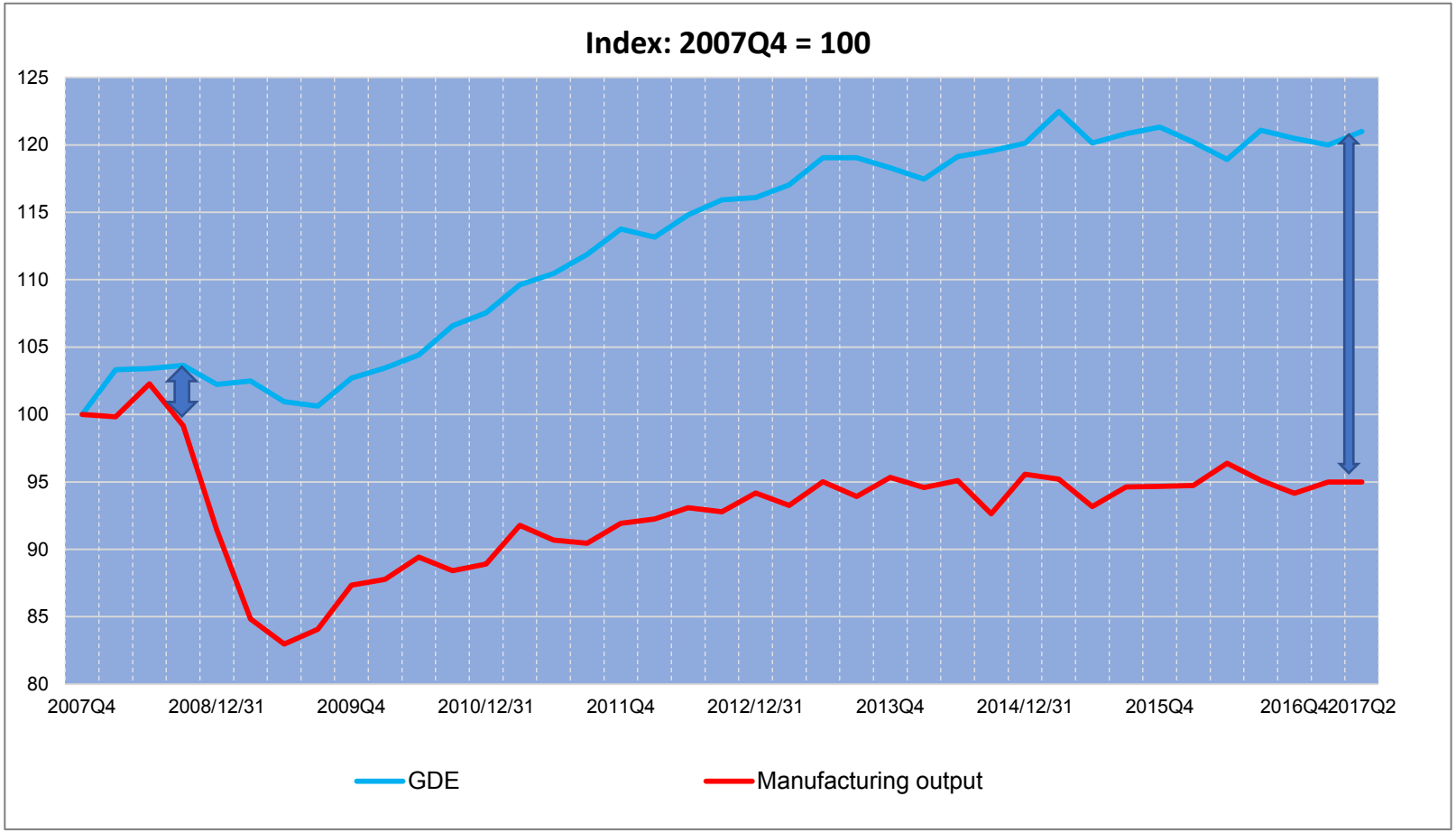
High-level Patterns of Growth in SA

- Consequently, the structure of SA economy looks much more like a Developed country than an Emerging Market.



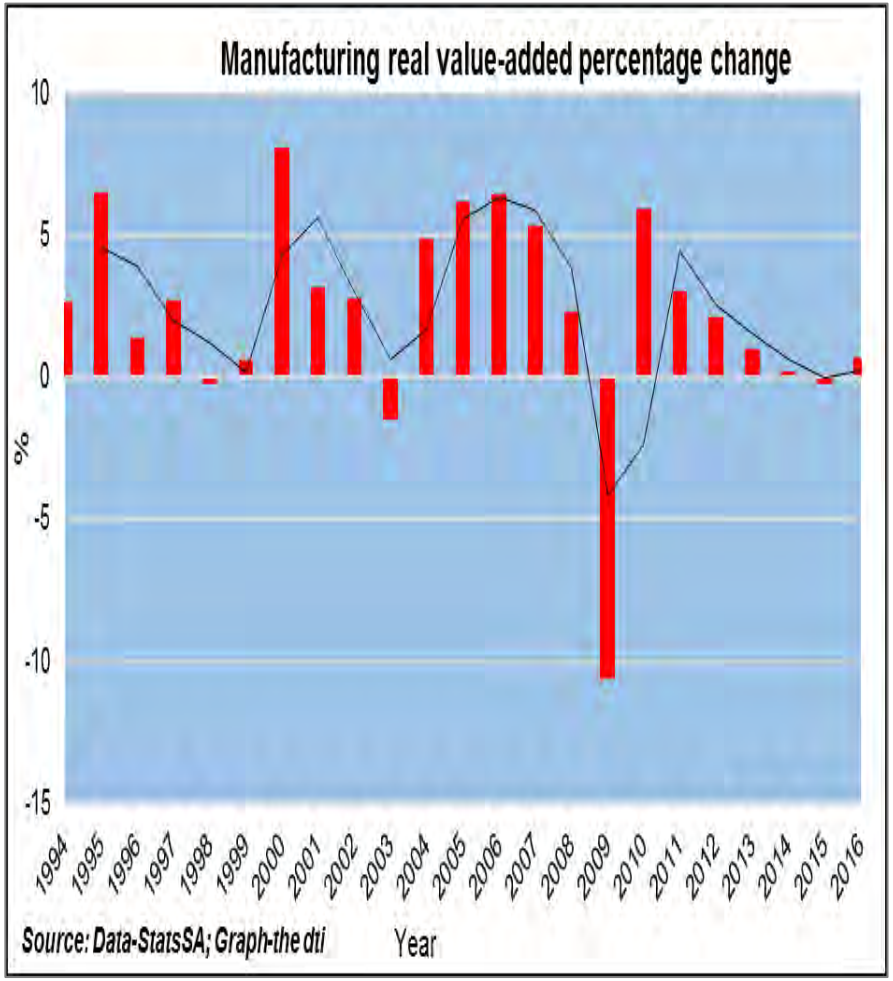
High-level Patterns of Growth in SA

- Can't simply write this off to lack of SA competitiveness!
- Persistent global trade imbalances such as the steel glut have played major role.



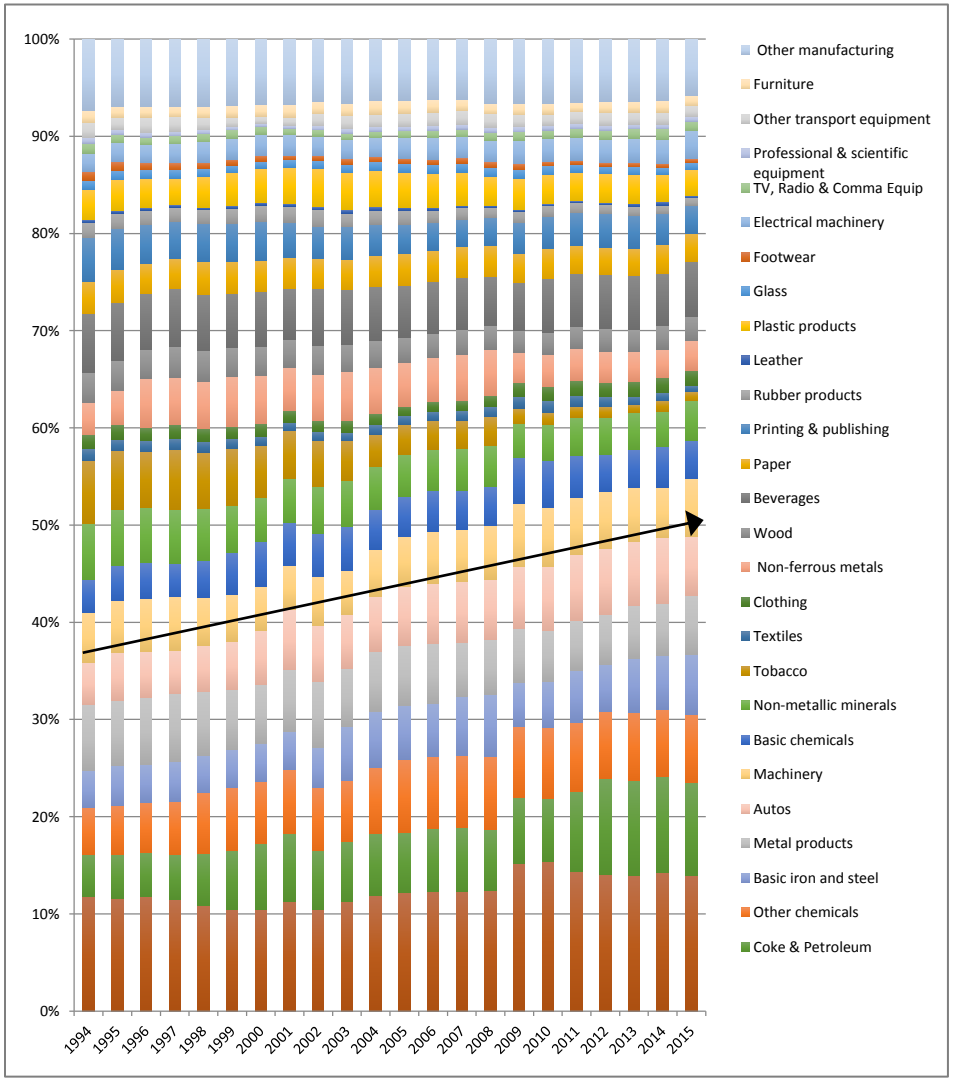
Trends in SA Manufacturing Sector: Gross Value Added

- SA Manufacturing is relatively vulnerable to global external shocks such as the East Asian crisis in 1998, the bursting of the 'Dot.com' tech bubble of 2002, and the GFC in 2009.
- The domestic policy environment similarly has a major impact on the sector:
  - Electricity prices,
  - Rail and port logistics prices and inefficiencies,
  - weak aggregate demand, and
  - unusually volatile demand which is difficult for the private-sector to plan and invest for.



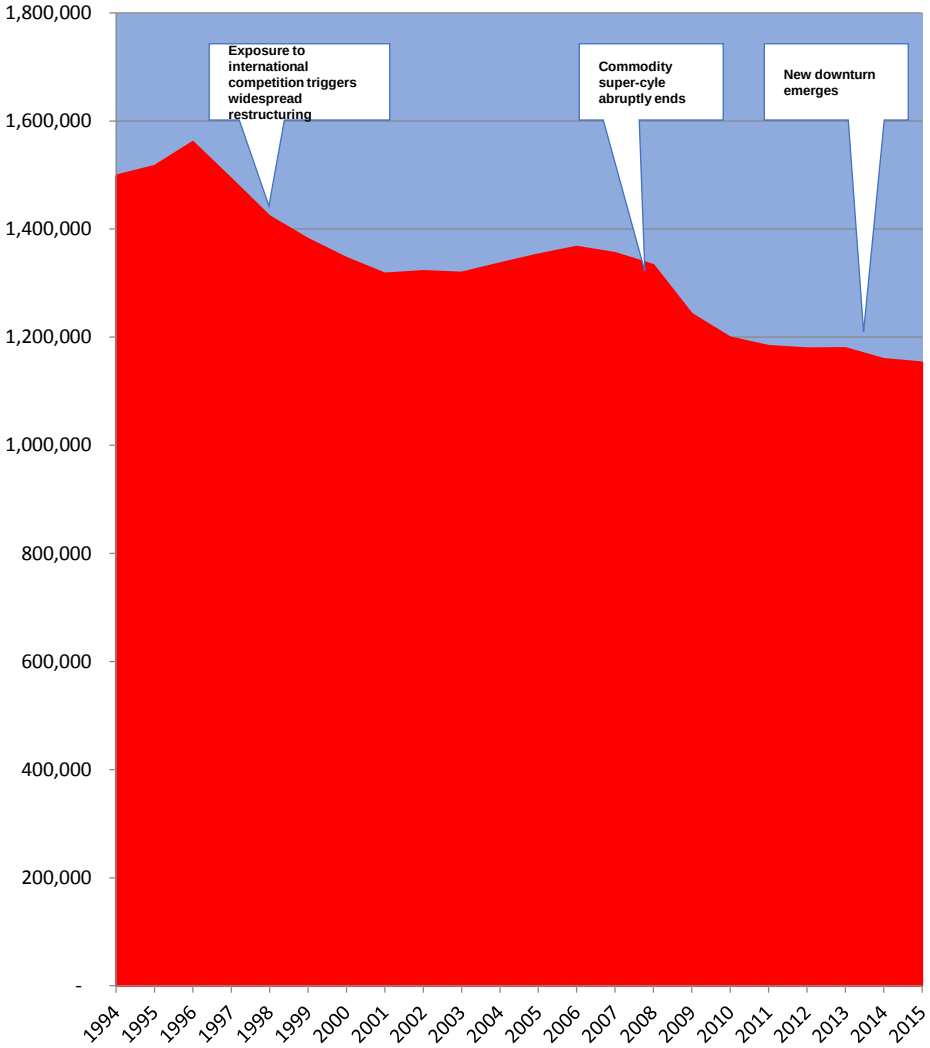
Trends in SA Manufacturing Sector: Structure of Value Added

- Most striking feature of structure is concentration on just 6 subsectors:
  - Food-processing,
  - Coke and Petroleum Products,
  - Other Chemicals,
  - Basic Iron & Steel,
  - Metal Products, and
  - Automotives.
- In 1994, these 6 subsectors accounted for approximately 37% of total Manufacturing value-added. By 2015, these same subsectors accounted for almost 50%.
- This has raised SA's vulnerability to internal and in particular external shocks. In recent years, SA has experienced both.



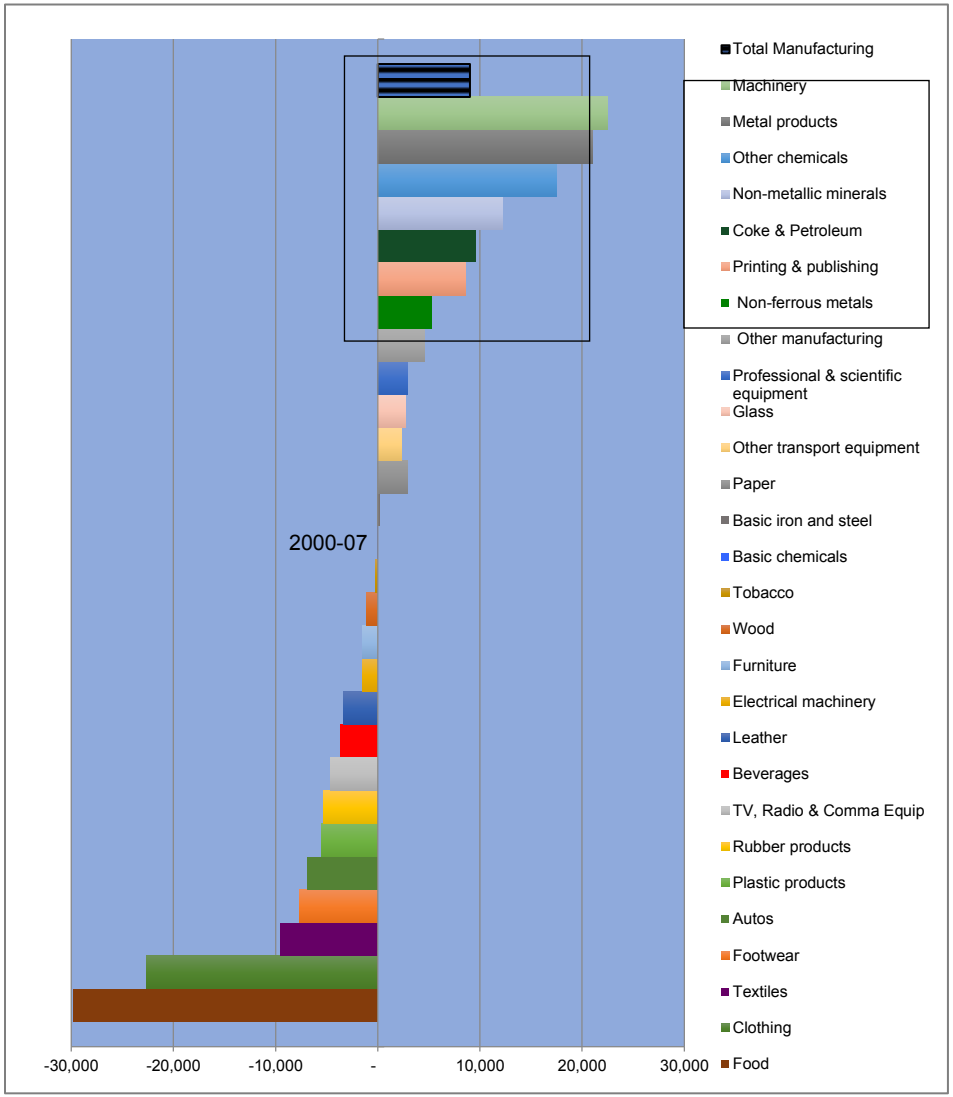
Trends in SA Manufacturing Sector: Formal Employment

- First period coincides with SA's trade liberalisation episode. Approximately 150,000 jobs lost as industries faced harsh global competition.
- Second period coincides with the commodity 'super-cycle':
  - Over this period, total manufacturing employment increased by 9,000 jobs.
  - However, the mining-facing sectors such as Coke & Petroleum, Machinery, Chemicals, Non-ferrous Metals & Other Transport Equipment, experienced significant, sustained employment growth.
  - These mine-facing sectors grew employment by about 20%, leading to the creation of about 88,000 jobs.
  - Total Manufacturing employment grew by just 0.6%.



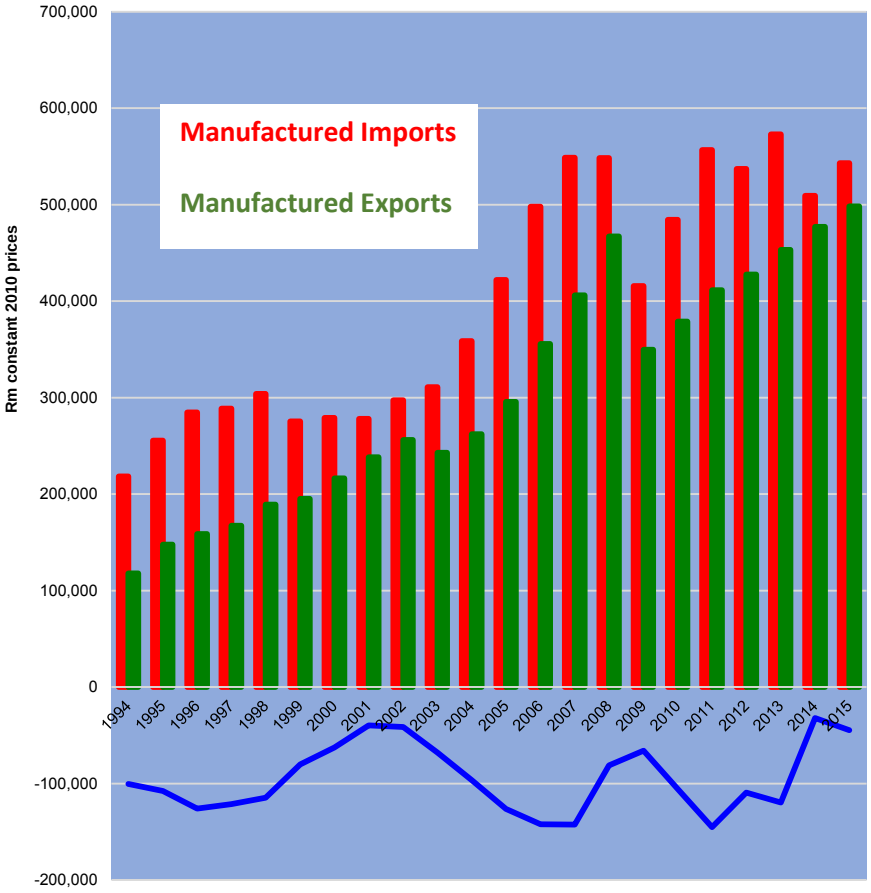
Trends in SA Manufacturing Sector: Formal Employment

- Counter-intuitively, the consumer-facing sectors such as Food-processing, Beverages, Clothing, Footwear, and Furniture experienced substantial job losses over the period.
- Given rapid expansion in un-secured credit this is surprising. Coincides with expansion of imports.
- Third period starts in 2008 as the effects of the Global Financial Crisis in terms of the fall in commodity prices and the fall in global demand begins to filter through to the SA economy.
- Consequently, Manufacturing employment fell by almost 200,000 jobs in the period between 2008-2015.



Trends in SA Manufacturing Sector: Trade

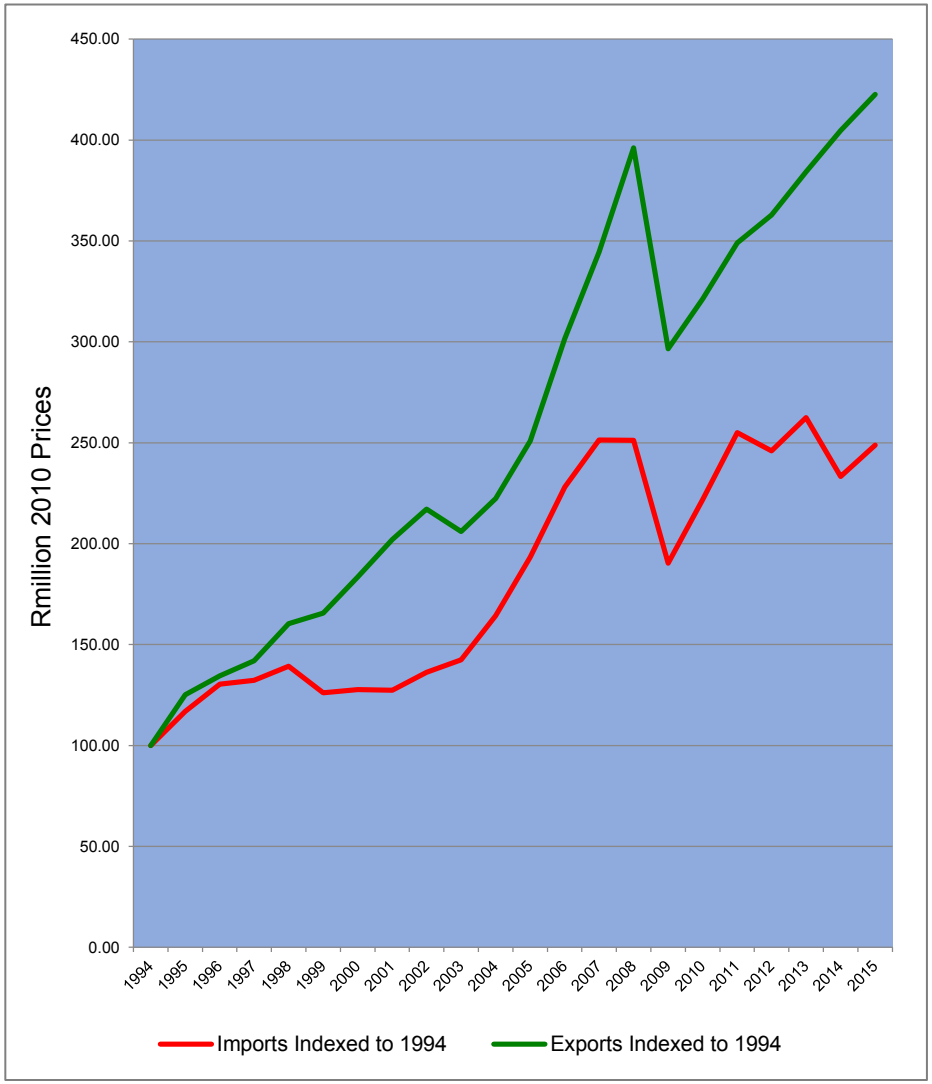
- At the aggregate level, SA shows many of the classic signs of 'Dutch Disease".
- Commodity super-cycle and exports lead to strengthening Rand. This leads to spike in consumer-spending fuelled by relatively cheap imports.
- This is illustrated by changes in SA import patterns away from capital goods and towards more luxury and consumer goods.
- In recent years, the trade deficit has narrowed, but this is primarily because of slowing investment spending (and therefore capital good imports).



Source: Data-Quantec & SARB

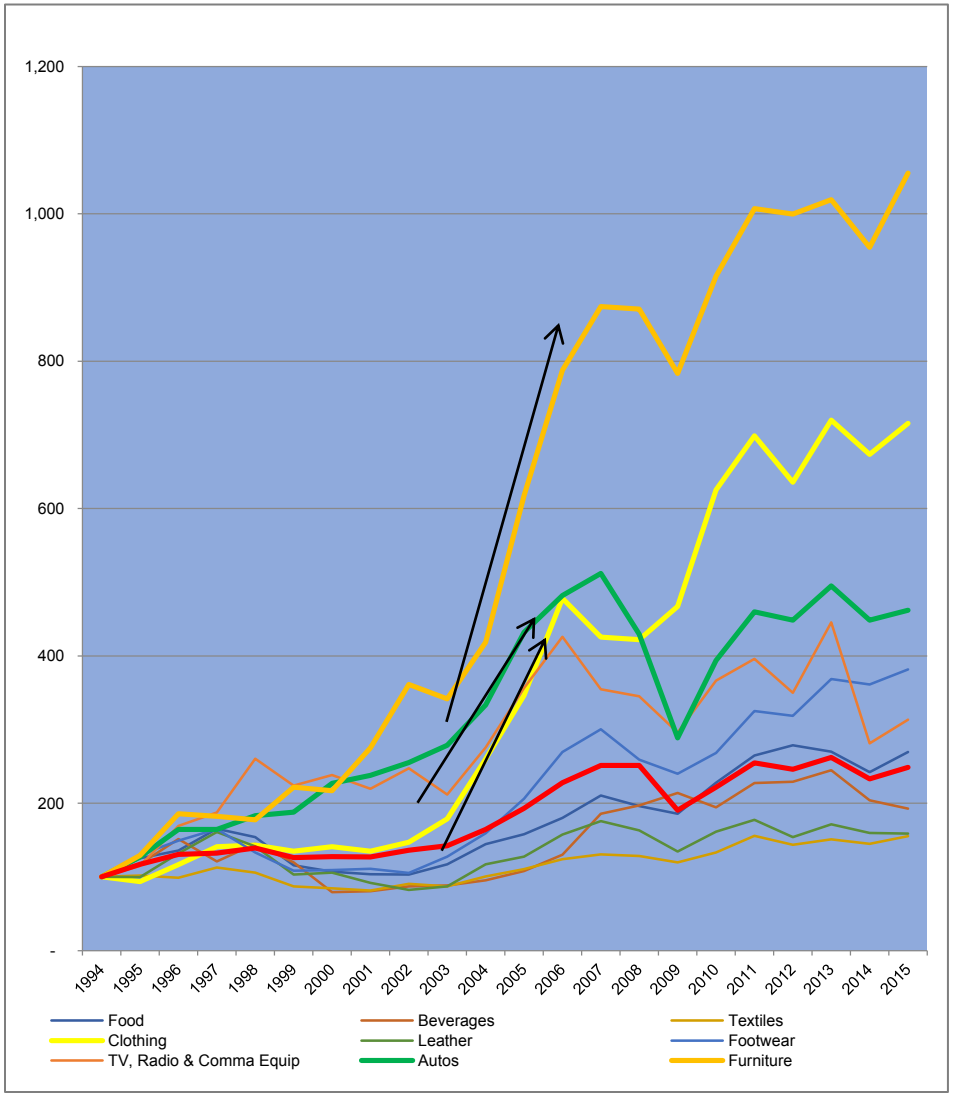
Trends in SA Manufacturing Sector: Trade

- Somewhat surprisingly given the volatility and significant periods of Rand strength, SA exports have grown more quickly than imports.
- Since 1994, manufactured exports have grown 4-fold while imports have doubled.
- Although Manufactured imports remain higher than exports – thereby resulting in a trade deficit for Manufacturing as a whole.
- The data suggests significant diversity in the trade performance of different Manufacturing sectors and subsectors.



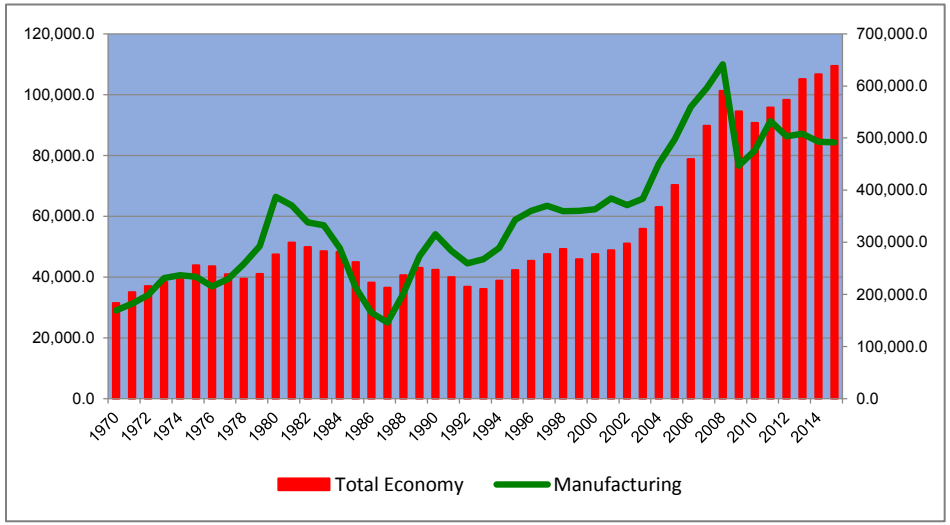
Trends in SA Manufacturing Sector: Trade – Changes in Import Basket

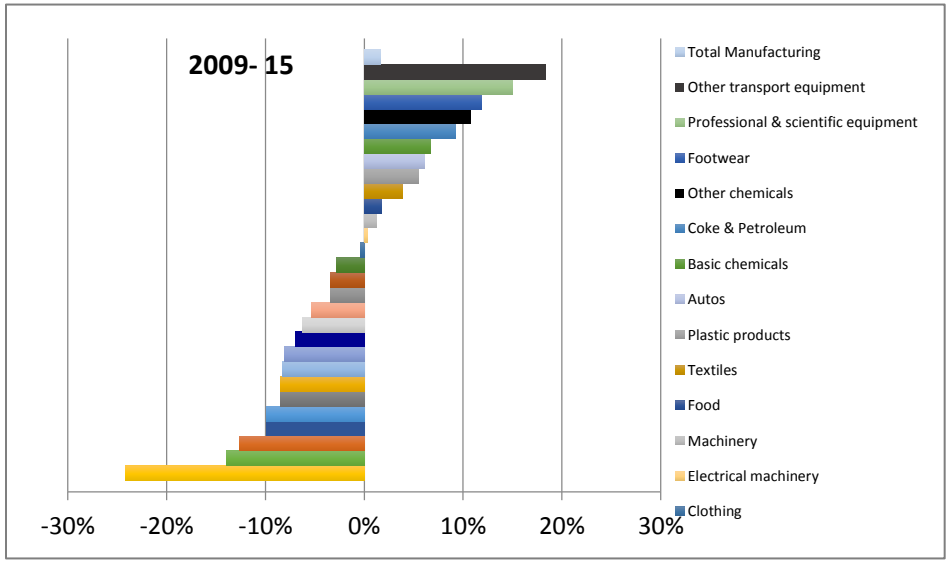
- Total Manufactured imports more than doubled over the period.
- But "consumer-facing" sectors such as Furniture, Clothing, Autos, TV & Communication Equipment, and Footwear have experienced far faster growth. For period 2003-07 some sectors saw a doubling of imports in just 4 years.
- "Infrastructure investment-facing" sectors experienced below average import growth from 1994 to 2005.
- 10% point decline in their share of Total Manufactured imports.
- This only began to change from about 2005.



Trends in SA Manufacturing Sector: Investment

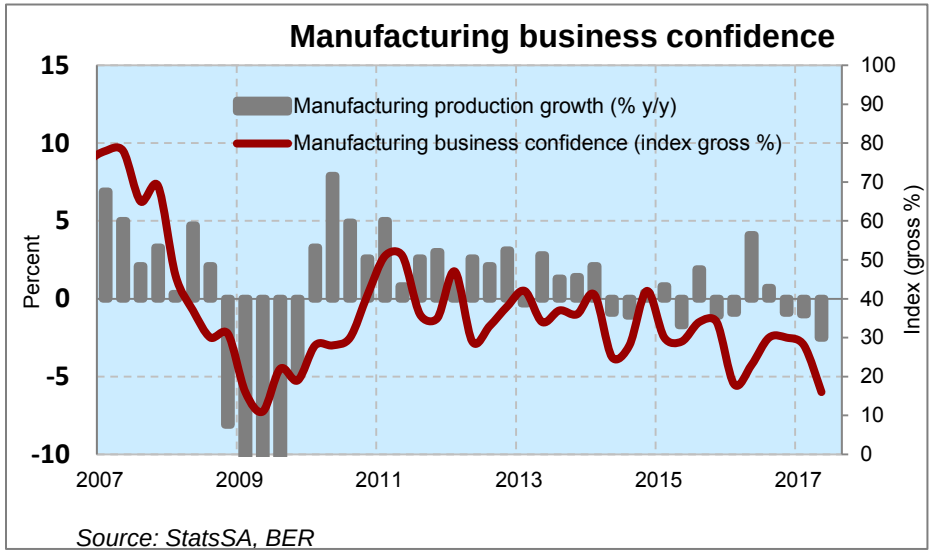
- From 2003 to 2008, GFCF grows very strongly as the commodity super-cycle leads to large investments in sectors such as Machinery, Non-Metallic Minerals, Basic Chemicals, and Professional & Scientific Equipment.
- In aggregate, these four sectors' CAGR was over 13%. For the period 2009 to 2015, these sectors experienced CAGR of just 2%.
- From a policy perspective, it is encouraging to see the strong growth in Other Transport Equipment, Footwear, Autos and Textiles as these are sectors in which Government has intervened decisively.

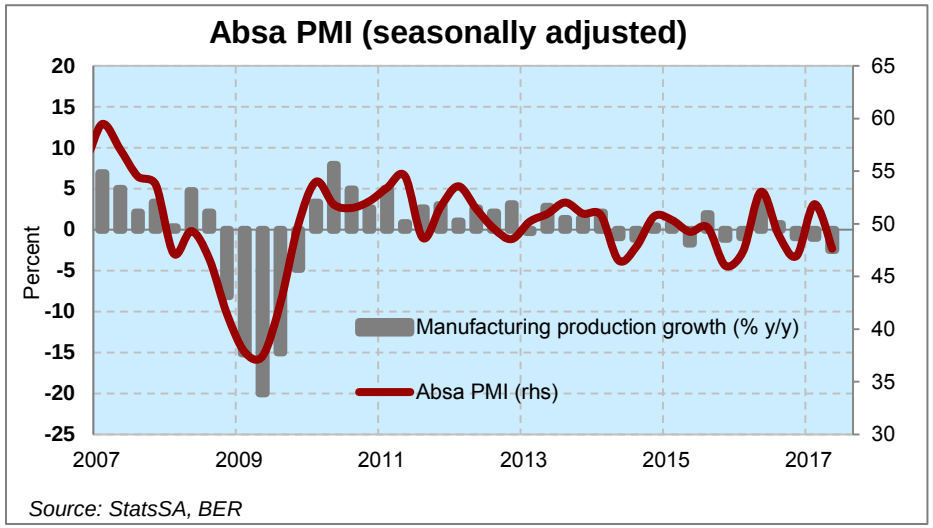




Trends in SA Manufacturing Sector: Business Confidence

- According to the BER manufacturing survey, business confidence fell sharply in 2017Q2 to 16 points from 28 in Q1. This is a level last seen in 2009.
- The general political climate was highlighted as a significant constraint to business operations.
- After falling to its lowest level since 2009 in July (42.9 points), the Absa PMI improved marginally (to 44 points) in August 2017
- Respondents were pessimistic about the future. The sub-index measuring expected business conditions over the coming six months fell to 46.6 points from 51.3 in July





Conclusions

- Current structure of the SA economy cannot create large numbers of jobs and at appropriate skill levels.
- By this we mean that:
  - The composition of the economy by sector (primary, secondary, and tertiary) is not appropriate for SA, given development challenges.
  - Within sectors (e.g. Manufacturing), labour-intensive sectors are not growing fast enough to create large numbers of jobs.
  - Jobs in tertiary sectors are not substitutes for jobs in productive sectors (because these are very vulnerable to downturns, have limited career development prospects, and don't always include pensions etc.)
  - Imports (legal and illegal) have become a major economic leakage. Linked to illicit economy, 'discount Mall' phenomenon. Unlikely that import tariffs and VAT are being paid.
  - Apartheid spatial geography continues to constrain economy ito travel time and costs, and ability for firms to run multiple shifts.

Conclusions

- But – unlike many other Developing countries – we have prevented major hollowing-out of our industrial capacity.
- This has been achieved through the judicious use of incentives, and the successful deployment of IPAP Task Teams to deal with challenges such as in Poultry and Steel.
- But, Manufacturing sector is nearing a tipping-point. With business and consumer confidence so low, coupled with rising administered costs and imports there is a growing risk that our interventions will simply not be sufficient to protect our industries.
- We will need to develop a much more tightly coordinated and supportive environment – premised on policy and programmatic certainty – if we are to convince the private-sector to invest heavily, create jobs and ignite *inclusive growth*.

Ke ya leboga

Ke a leboha

Ke a leboga

Ngiyabonga

Ndiyabulela

Ngiyathokoza

Ngiyabonga

Inkomu

Ndi khou livhuha

Dankie

Thank you