

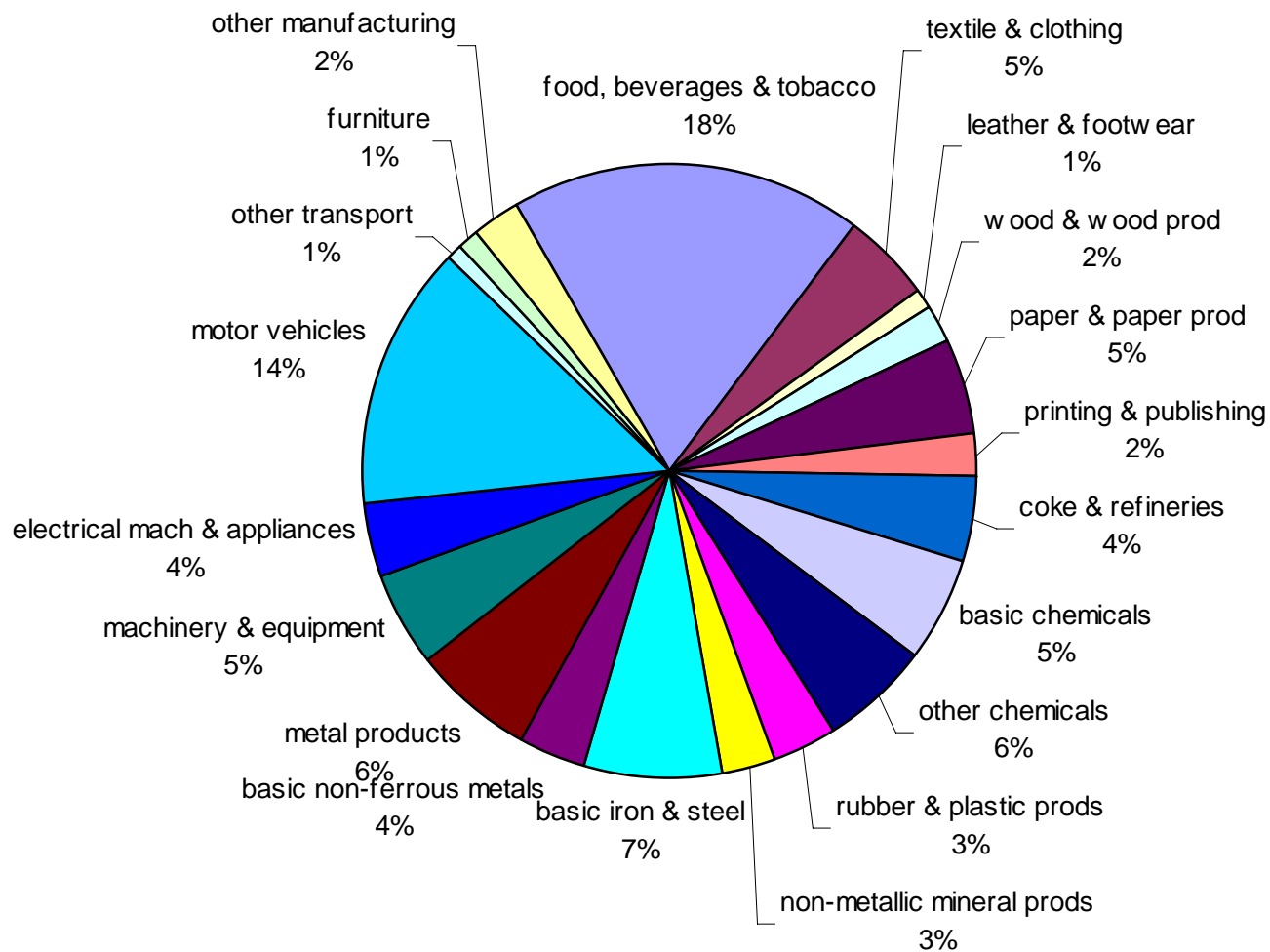
South Africa's Manufacturing Performance



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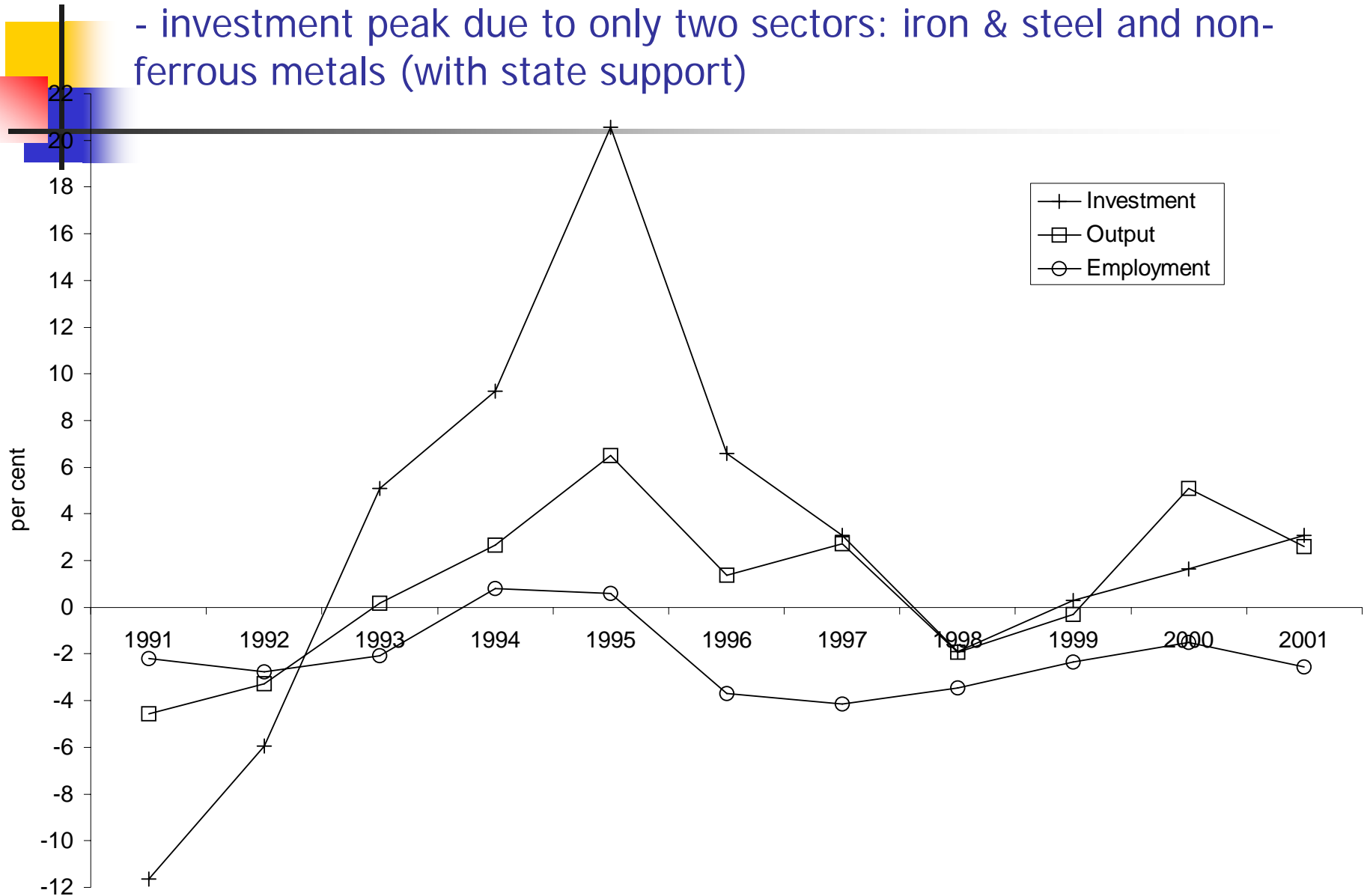
Manufacturing structure

Output shares: - heavy industry orientation: iron & steel, non-ferrous metals, chemicals, food products



SA manufacturing performance (% gr):

- restructuring, low growth, employment loss
- investment peak due to only two sectors: iron & steel and non-ferrous metals (with state support)





Manufacturing sectors

- average annual growth, %, 1996-2001

	Output	Employmt		Output	Employmt
TV, radio & commu equip	8.4	-3.6	other chemicals	1.0	0.5
motor vehicles, parts	7.7	-1.1	machinery & equipment	0.9	-2.3
basic chemicals	6.0	-0.8	food, beverages and tobacco	0.8	-3.7
other manufacturing	4.6	-5.3	metal excluding machinery	0.7	-3.9
basic iron & steel	4.1	-7.7	electrical machinery & apparatus	0.3	-1.6
basic non-ferrous metals	3.9	-5.9	textiles	0.1	-7.2
wood & wood prod	3.7	2.5	plastic products	0.0	4.0
paper & paper prod	3.6	-2.6	furniture	-0.5	-1.4
leather & leather prod	3.1	0.5	non-metallic minerals	-1.4	-12.2
coke & refine petr prod	2.6	-5.7	wearing apparel	-2.0	-2.4
glass & glass prod	1.7	-6.9	printing, publishing & rec media	-2.5	2.9
rubber products	1.6	-6.4	footwear	-8.7	-12.7



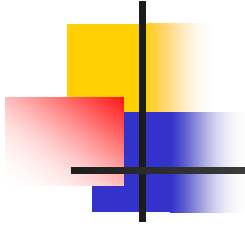
What underpins changes?

- Minerals and heavy industry?
- Labour-shedding, and poor performance of more labour-intensive sectors
- Local demand weak, especially for 'wage goods'
- Increased openness/outward orientation, but growth links?
- Influence of government policies? - MIDP



International trade

- Minerals-based economy:
 - Minerals exports are 27% of total exports, manufacturing 53%. Manufacturing 78% of imports.
- Sectors which are capital-intensive, scale economies are highly traded:
 - iron & steel exports 38% of output
 - Basic chemicals export 41% of output.
- Strong export growth:
 - motor vehicles, communications equipment – with output growth
 - Machinery, electrical machinery, clothing – no growth
→ weak domestic demand, 'distress exporting'



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- Imports increasing in more labour-intensive sectors: furniture, clothing, footwear
 - Shifts within sectors – restructuring and trade
 - Success stories? - plastics, wood products, other chemicals, paper, auto



Investment patterns

- Some expansions of capacity
- Heavy industry investments
- Machinery, communications and auto investment
- Liberalisation → Pressure to upgrade in contractionary environment: labour-replacing modernisation
- Internationalisation
- Low and unfocused R&D



Value-chains: chemicals and plastics

- Overall – growth in value-added; upstream bias
- Basic chemicals:
 - High investment rates
 - Highly traded (economies of scale, concentration)
- Other chemicals & plastics
 - Growth in employment and output
 - Improved trade performance, with falling import penetration (ERP and reer effects?)
 - Export orientation to Africa
- International comparisons:
 - Dynamic sectors
 - SA: competitive wages, but low growth, low prody<-> low investment



Iron & steel, metal products

- Overall: poor performance; upstream bias
- Basic iron & steel:
 - Rationalisation and employment loss
 - Large investments, modernisation, international ownership
 - Economies of scale & import-parity pricing, trade surplus
- Metal products:
 - Growth in VA, employment loss, low I
 - (small) trade surplus (less benefited; to Africa)
 - Domestic demand linkages (infrastructure I)
- International comparisons:
 - SA: relatively large, poorly performing iron & steel, falling \$ wages
 - Other countries with downstream growth and productivity



The auto industry and the Motor Industry Development Programme (MIDP)

- Highly protected
- Assembly, without economies of scale or strong components sector
- MIDP:
 - Liberalisation
 - Duty-free import credits for exporters: to encourage focus on smaller range of models and increased production, export
- Result?
 - restructuring and expansion, export of some models
 - Components production in quite limited areas (now widening)



Industrial policy evolution

- Trade liberalisation
(not high average tariffs but v differentiated, high variance)
- Functional 'supply-side' measures linked to technology, skills development, export capabilities etc
- Small and medium enterprise development
- Tax holidays
- Industrial Development Corporation – role and significance
- Integrated Manufacturing Strategy
- Competition policy



The 'Integrated Manufacturing Strategy'

- Microeconomic Reform Strategy
- IMS: basis for 'a collective government position..[to] co-ordinate a set of actions across government'
- Five focus sectors: agric & food, tourism, ICT, Cultural industries, export sectors (incl different manuf sectors)
- Knowledge-intensity and ICTs
- Beneficiation
- Value-matrices