economic
development

Economic Development Department
REPUBLIC OF SOUTH AFRICA

Metals and Engineering Indaba 2018

The Manufacturing Circle’s “Map to a Million New Jobs in a Decade”: A Realistic Plan or An Empty Promise?

A critical review of the Manufacturing Circle’s Ambitious Plan to Create a Million Jobs in Manufacturing in a Decade

Zeph Nhleko[1]

21 September 2018

[1]All research work was undertaken by Dr Khathu Sikhitha at Economic Development Department.

1. The plan

1.1 Background

In November 2017 the Manufacturing Circle[1] published a "Map to a million new jobs in a decade" as a proposal for creating 1 million jobs in the manufacturing sector by 2027. It is proposed that the demand for manufactured goods should be enhanced by increasing domestic demand through procurement, pursuing import substitution through tariffs and enhancing export competitiveness for local manufacturers through incentives. On the supply side, it is proposed that manufacturing input costs should be reduced through keeping energy prices low, increasing public funded industrial support, implementing and introducing tax support for manufacturers and invest in skills development.

As can be seen, the interventions lean heavily on the public sector and very little is advanced as private sector contributions. Instead it is argued that business will take investment actions once guaranteed success through the proposed government interventions. Really, no role for the private sector until then?

1.2 The question

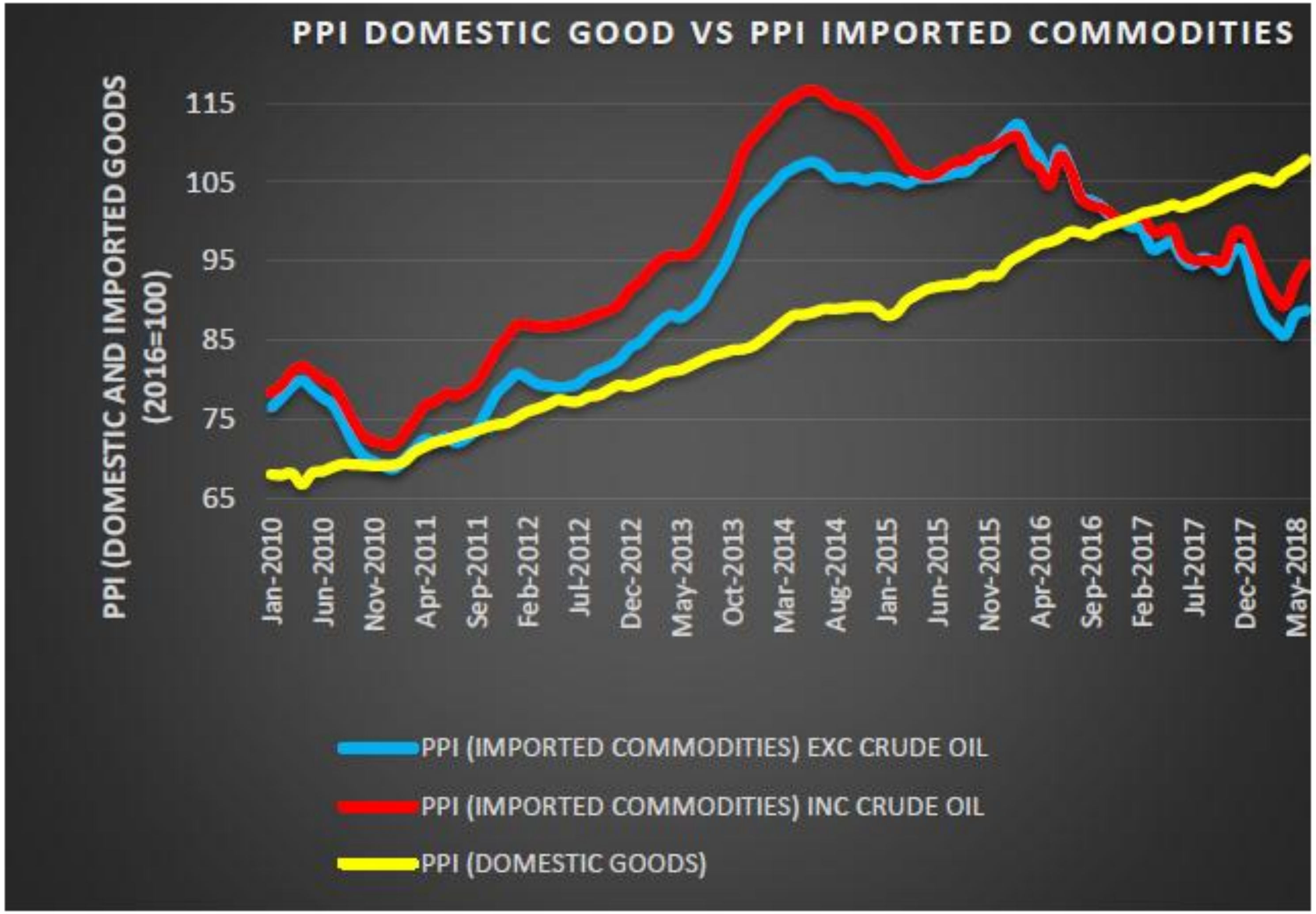
The question is now asked whether this map is realistic or an empty promise. If the question is directed to the private sector and given the proposed interventions, then the answer is that the map is an empty promise. However, if the question is directed to the public sector, then the answer is that there is a case to be made. So the response below assumes that the "reality or empty promise" question is directed to the government.

2. What do we know

There is no doubt that the large majority of the interventions recommended in the map are areas in which the government is already doing work. But whether or not these interventions are implemented, there are 3 issues that must be considered about the economics of the manufacturing sector.

Firstly, some have argue that a weak rand should assist with increasing exports, but thus far an explanation has not been given as to why domestic prices do not seem to respond to exchange rate movements. Using 2016 prices, it would seem that domestic prices are only ever one directional – up, as shown by the producer price indices (PPI) in Chart 1 below.

Chart 1


PPI DOMESTIC GOOD VS PPI IMPORTED COMMODITIES
PPI (DOMESTIC AND IMPORTED GOODS (2016=100)
115
105
95
85
75
65
Jan-2010
Jun-2010
Nov-2010
Apr-2011
Sep-2011
Feb-2012
Jul-2012
Dec-2012
May-2013
Oct-2013
Mar-2014
Aug-2014
Jan-2015
Jun-2015
Nov-2015
Apr-2016
Sep-2016
Feb-2017
Jul-2017
Dec-2017
May-2018
PPI (IMPORTED COMMODITIES) EXC CRUDE OIL
PPI (IMPORTED COMMODITIES) INC CRUDE OIL
PPI (DOMESTIC GOODS)

It is a fact that employment in the manufacturing sector has experienced growth challenges. The absolute number of those employed in manufacturing has decreased from 2.1 million people in Q1 2008 to 1.7 million in Q2 2018. What is interesting is that this decline in unemployment was accompanied by a sharp increase in manufacturing labour productivity from the 1990s as Chart 2 suggests. So whether we use man hours to units produced or units produced to the number of workers it is clear that either machines are closing the gap or the remaining workers do more. Either way this should have caused prices of manufactured goods to fall since more goods are produced with the same amount of inputs or improved efficiencies.

Chart 2

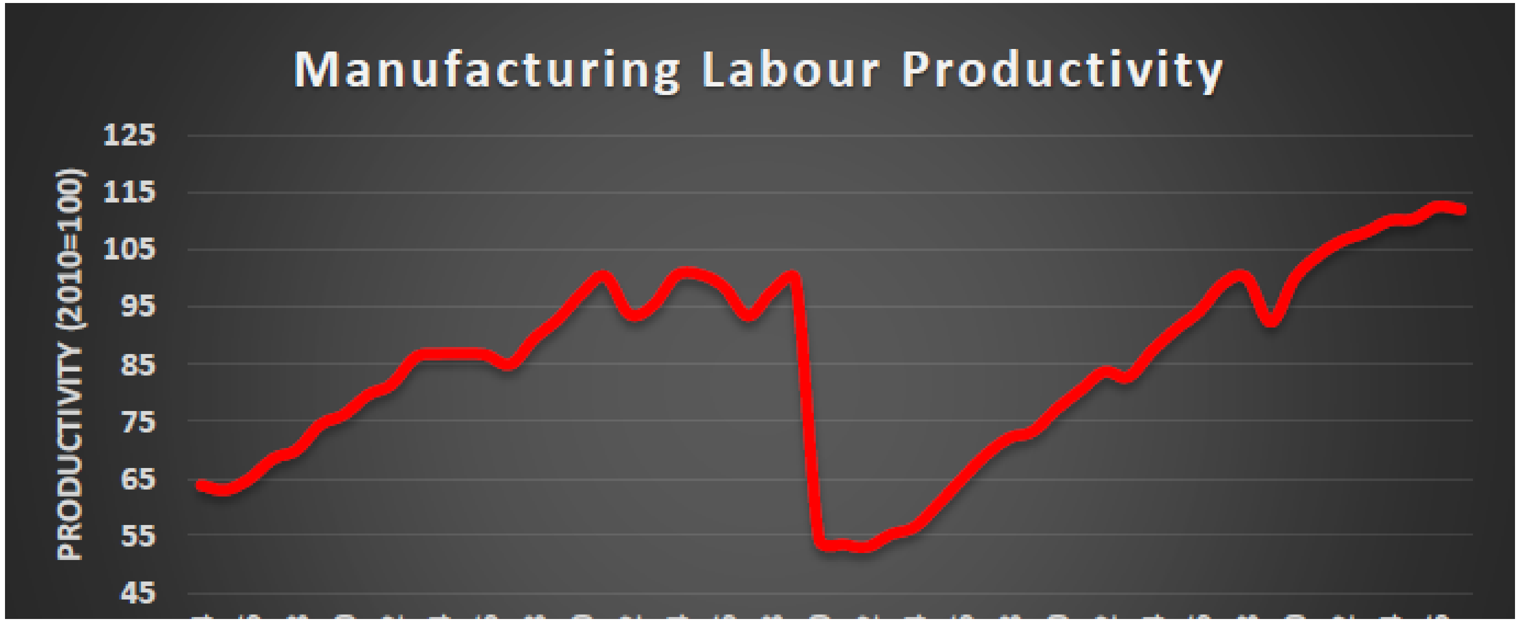


Chart 2

Manufacturing Labour Productivity
PRODUCTIVITY (2010=100)
125
115
105
95
85
75
65
55
45
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
TIME

Secondly, using the multipliers in the latest iteration of the Industrial Policy Action Plan, it is clear that there is a more than 1 for 1 relationship between increases in the manufacturing gross value add (GVA) and growth in the various services such that a 1% growth in manufacturing will lead to around 2.2% growth in business services, around 2% growth in transport and storage, around 1.7% increase in general government services, around 1.6% growth in finance and insurance, around 2.3% growth in the catering and accommodation services as well as medical, dental and veterinary services.

By extension this increase in manufacturing should impact jobs in the services sector positively. This means a 1% increase in the GVA of the

employment increases slowly in the manufacturing sector, significant jobs are created in the services sector such as medical, dental and veterinary services, finance and insurance.

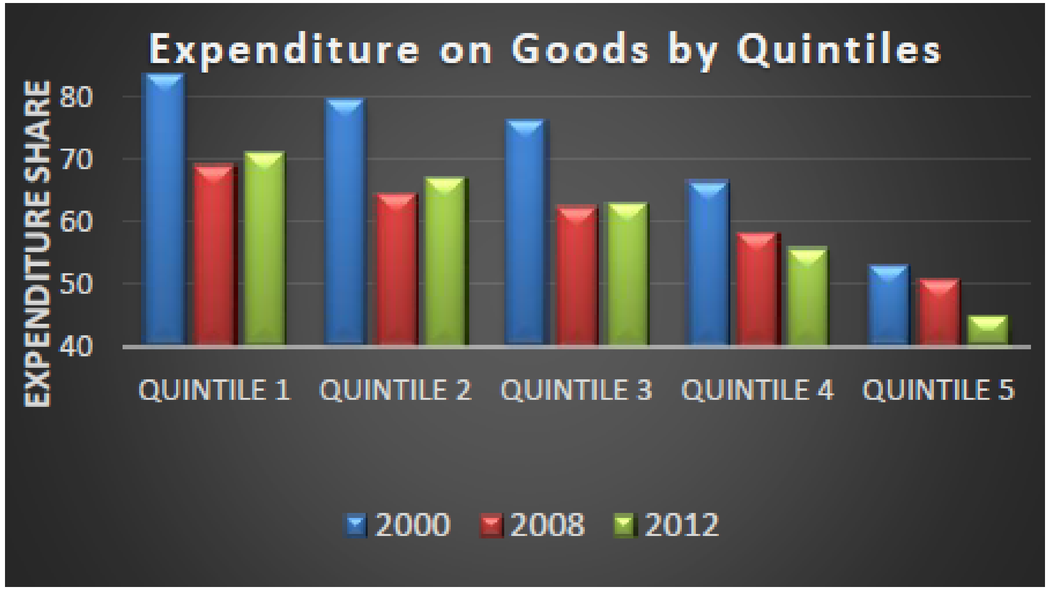
Similarly, there is therefore a more than 1 to 1 relationship between the growth of the manufacturing sector and the growth in employment in the service sector. A million manufacturing-related jobs may be created by 2027, but they do not necessarily have to be in the manufacturing sector. However if a million jobs are created in the manufacturing sector, there will be more than a million jobs created in the services sector as a result.

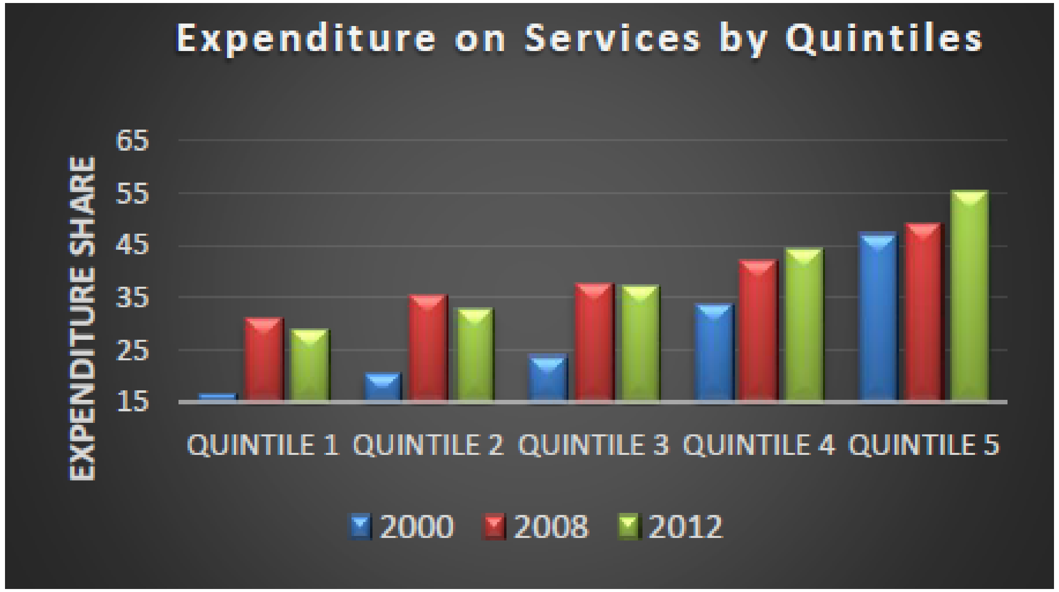
It is a fact that the share of manufacturing to gross domestic product (GDP) has declined from over manufacturing sector would lead to roughly 3.7% increase employment in general government services, around 3.6% increase in employment in the medical, dental and veterinary services, around 3.6% increase in employment in business services, around 3.4% increase in employment in the wholesale, and retail trade and around 1.8% increase in employment in finance and insurance.

When incomes increase, consumers reduce their demand for goods and increase their demand for services as will be explained below. So even if

product (GDP) has declined from over 22% in the 1980's to around 12% currently. The early 1980s is associated with what others refer to as the manufacturing peak that marked the start of the premature deindustrialisation period. What is interesting is the fact that this loss of share in GDP happened as the per capita income in the country increased sharply from R42 000 in early 1990s to over R56 000 currently as shown in Chart 3. So why is this income not inducing its own supply of manufactured goods?

Chart 3





EXPENDITURE 1
2000 UP TO R8 070 PA
2008 UP TO R14 564 PA
2012 UP TO R21 399 PA

EXPENDITURE 2
2000 R8 071 TO R12 263 PA
2008 R14 565 TO R23 278 PA
2012 R21 400 TO R35 750 PA

EXPENDITURE 3
2000 R12 264 TO R24 365 PA
2008 R23 279 TO R69 624 PA
2012 R35 751 TO R61 624 PA

EXPENDITURE 4
2000 R24 366 TO R55 159 PA
2008 R36 756 TO R79 152 PA
2012 R61 625 TO R 142 083 PA

EXPENDITURE 5
2002 R55 160 + PA
2008 R79 153 + PA
2012 R142 084 + PA

The simple answer to that is the fact that as incomes increase people purchase less goods since in general, people do not purchase two stoves or microwave ovens even when those items are cheaper. On the other hand, as incomes increase, the demand for services rises more quickly than the demand for goods. People in the higher income quintiles (4 and 5) spend an increasing share of their incomes on services (e.g. psychiatrists, tax consultants, financial planners, personal trainers, lawyers, etc.) while psychiatrists, tax consultants, financial planners, personal trainers, lawyers, etc.) while the those in the lower quintiles spend an increasing share of their incomes on food, clothing, etc. So the issue is about increasing the demand base in the economy.

Thirdly, manufactured imports continue to outpace manufactured exports in nominal terms. It is surprising why the private sector is not capitalising on these import substitution opportunities. Where are the entrepreneurs? The government has introduced a number of support measures in the form of industrial incentives for building manufacturing capacity. The use of public interest commitments in the competition law through mergers and acquisitions has also been prominent for the same purpose in recent years. But the private sector has to participate side by side with government in the risk taking exercise as well. This can also be augmented by private sector investment in manufacturing infrastructure which has been growing at a declining rate over the past decade or so.

3. What is possible

Given the three matters raised regarding the manufacturing sector certain conventional beliefs must be revisited to ensure that the following issues are addressed:

3.1 The causes of domestic manufactured goods prices to be sticky on the

upside must be understood and resolved through dealing with productive efficiencies.

3.2 It is likely that more than a million jobs will be created from the manufacturing sector by 2027. However, these jobs are most likely to be induced by the manufacturing sector in the services sector.

3.3 The private sector should take more active risk taking and investment roles in the manufacturing sector to maintain an upward growth momentum.

3.4 Issues caused by policy incoherence are very serious and the reorganisation of the state will assist with streamlining government activities and responsibilities and therefore policy implementation.