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NEVA MAKGETLA: The right policy could make light industry SA's job-creation saviour

SA will not shift its world-beating deficit in employment creation unless heavy industry's dominance is challenged

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Picture: SOWETAN

Industrial policy advocates typically present manufacturing growth as key to long-run job creation. However, in SA, manufacturing is dominated by heavy industry, which neither generates employment nor supports self-employment on a significant scale. Unless that dominance is challenged by accelerated growth in light industry, agriculture and services, SA will not shift its world-beating deficit in employment creation.

SA's export profile underscores its weakness in light industry. In 2019 clothing contributed 1.3% of SA's goods exports, electronics 1.5%, and machinery and appliances 9.2%. As a group, that comes to just more than a tenth. Even excluding China, for other upper-middle-income countries, clothing made up 3.5% of goods exports, electronics 10% and other equipment 20% — a third of the total. For

China, these products groups contributed 85%.

The only light industry where SA approaches international norms is food and other agricultural manufactures. They made up 6.5% of SA's goods exports in 2019, compared with 7.7% for other upper-middle-income countries except China. For China, the figure was 3.2%.

Heavy industry provides a mirror image. Mining-based manufactures — metals and (coal-based) petrochemicals — contributed more than half of SA's goods exports in 2019, about the same as 30 years ago. For China, mining-based products accounted for 4%; for other upper-middle-income economies, less than a third.

The auto industry is SA's only major export industry that does not follow directly from mining or agriculture. In 2019 it contributed 12.5% of SA's exports, compared with 8.5% for other upper-middle-income countries and 2.5% for China. Yet car assembly and components production generated less than 1% of all employment in SA.

A similar discrepancy between output and employment was common across heavy industry, where, by definition, each new job requires more capital. In 2022, the metals and petrochemical refineries contributed 20% of gross value added in manufacturing but only 14% of formal manufacturing jobs. Light industry has the opposite relationship. Clothing, electronics and plastic products generated 12% of formal manufacturing employment in SA, though just 7% of value added.

By this measure, auto, and in SA, food processing were relatively neutral. Auto generated 8% of jobs in manufacturing, compared with 7% of value added. Food processing, which by world standards is unusually capital intensive in SA, contributed just more than a fifth of both formal manufacturing jobs and value add.

The bias towards heavy industry helps explain why manufacturing has become less and less important for employment in SA. In 2022 the sector as a whole provided 14% of national value added but just 10% of all formal employment, down from 13% in 2000.

In contrast, retail and the services contributed 71% of formal employment and 62% of the GDP. These jobs are often highly skilled, for instance, in the public and private professions, and their median pay equals manufacturing.

SA's dependence on heavy industry results largely from official policies. From the turn of the last century the state fostered the beneficiation of mining products by providing infrastructure, especially rail, water and electricity; direct investment and financing, notably for steel and petrochemicals; and a host of helpful regulations on electricity pricing, pollution and trade.

For decades the implicit trade-off was that commodity producers moderated their prices to domestic manufacturing, supporting downstream growth and job creation. The privatisation of Sasol and Iscor in the late 1980s, and the increase in domestic coal prices in the 2010s, effectively eliminated those benefits. But the support systems remain.

The auto industry also arose out of state assistance over the past half century. The Treasury estimates government support for the auto industry totals R30bn a year, three times the department of trade, industry & competition's budget.

SA cannot simply abandon its competitive industries. But they will never close the employment gap. Unless industrial policy vastly scales up support for innovative, labour-intensive activities inside and outside manufacturing, inclusive industrialisation will remain a pipe dream.

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