



KZN Growth Coalition Strategic Workshop

The potential of and challenges affecting the Manufacturing Sector

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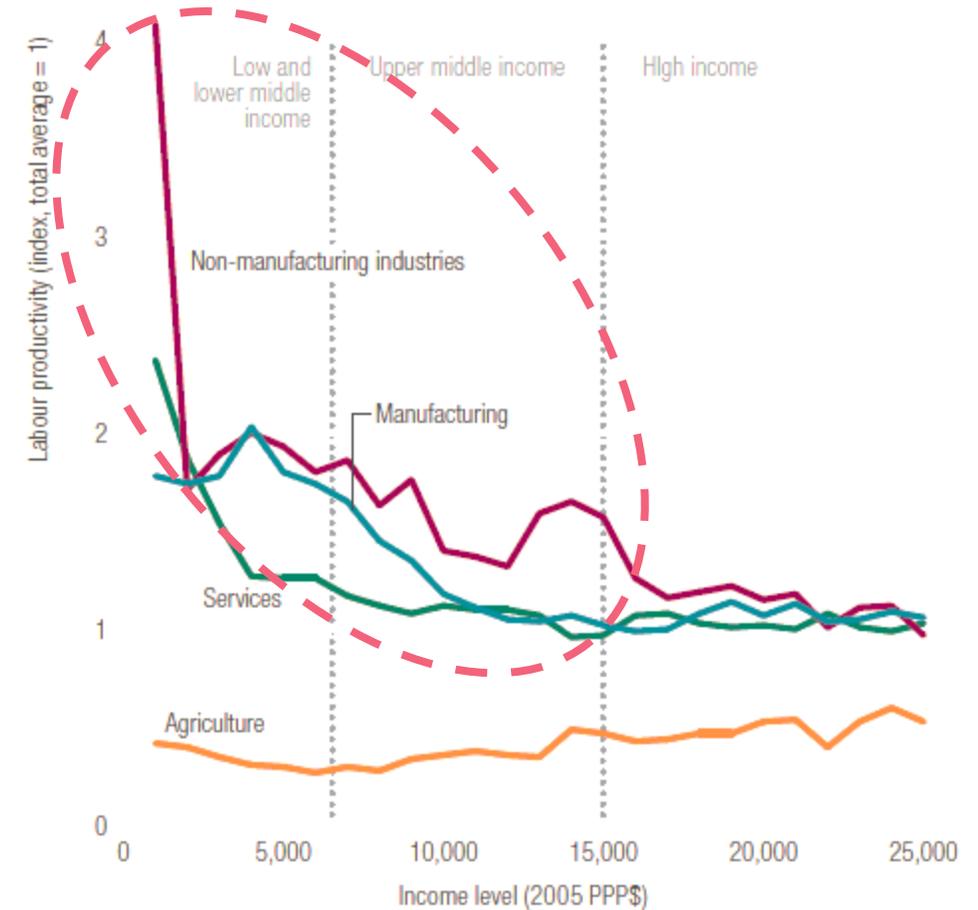
Overview

- 1 Why manufacturing matters
- 2 Global value chains introduce complexity
- 3 South African manufacturing performance
- 4 Implications to consider

Why manufacturing matters

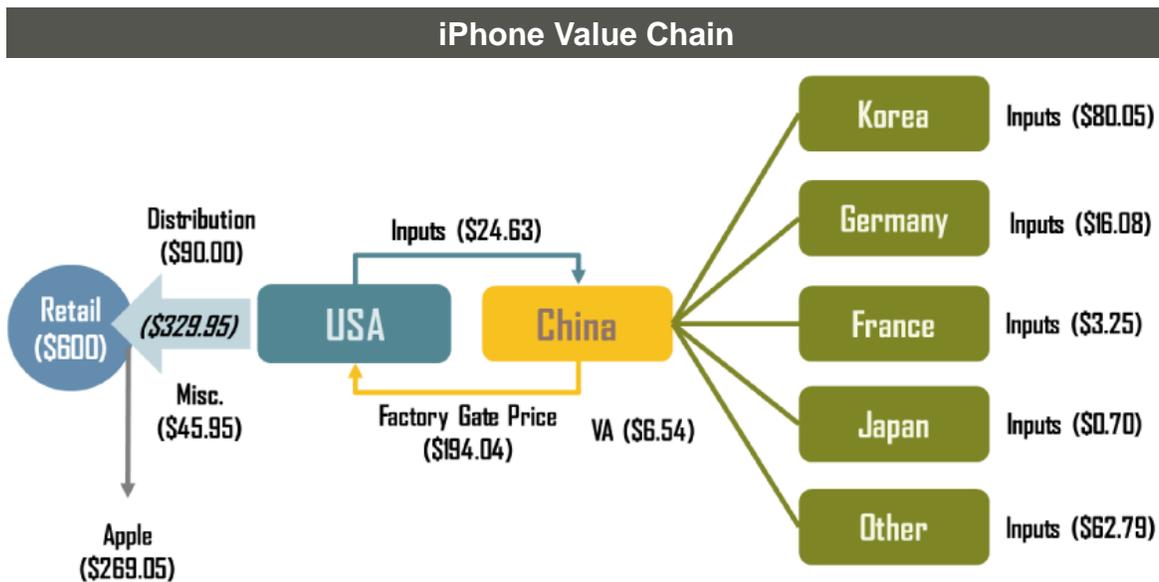
1. Raises productivity, especially for economies in earlier stages of economic growth cycle (to GDP per capita of ~USD14,000)
2. Provides direct employment
3. Generally provides better remunerated work due to productivity link p
4. Provides indirect jobs due to demand for support service and input materials
5. Organisational requirements lead to development of a “middle class”

Relative labour productivity by income and sector (1991-2010)



Global value chains introduce complexity

International production, trade and investments are increasingly organised within so-called global value chains (GVCs) where the different stages of the production process are located across different countries (OECD 2018)



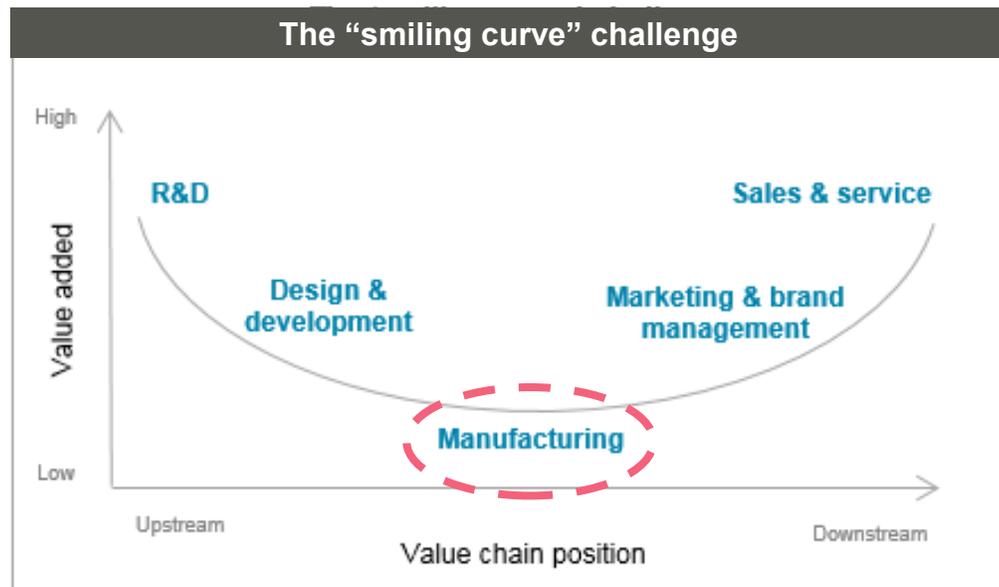
Source: OECD 2011

Major opportunities created for those equipped to meet the challenge:

1. Economies no longer need to master all or most elements of production (i.e. they can “scale up” within defined areas of comparative advantage)
2. Market size becomes less constraining (critical to smaller economies)
3. Enabled access to global capital (FDI, etc.)
4. Pace of learning amplified across the areas of process, product etc.

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Source: World Bank 2017

But equally there are substantial threats for those who aren't equipped to meet the challenge:

1. Market access works both ways – heightened competition from imports
2. Challenging to sustain/grow an infant industry space in small, open domestic markets
3. Can create productivity-reducing competition (i.e. “race to the bottom”) and modularity trap
4. Capital displacement and manufacturing decline

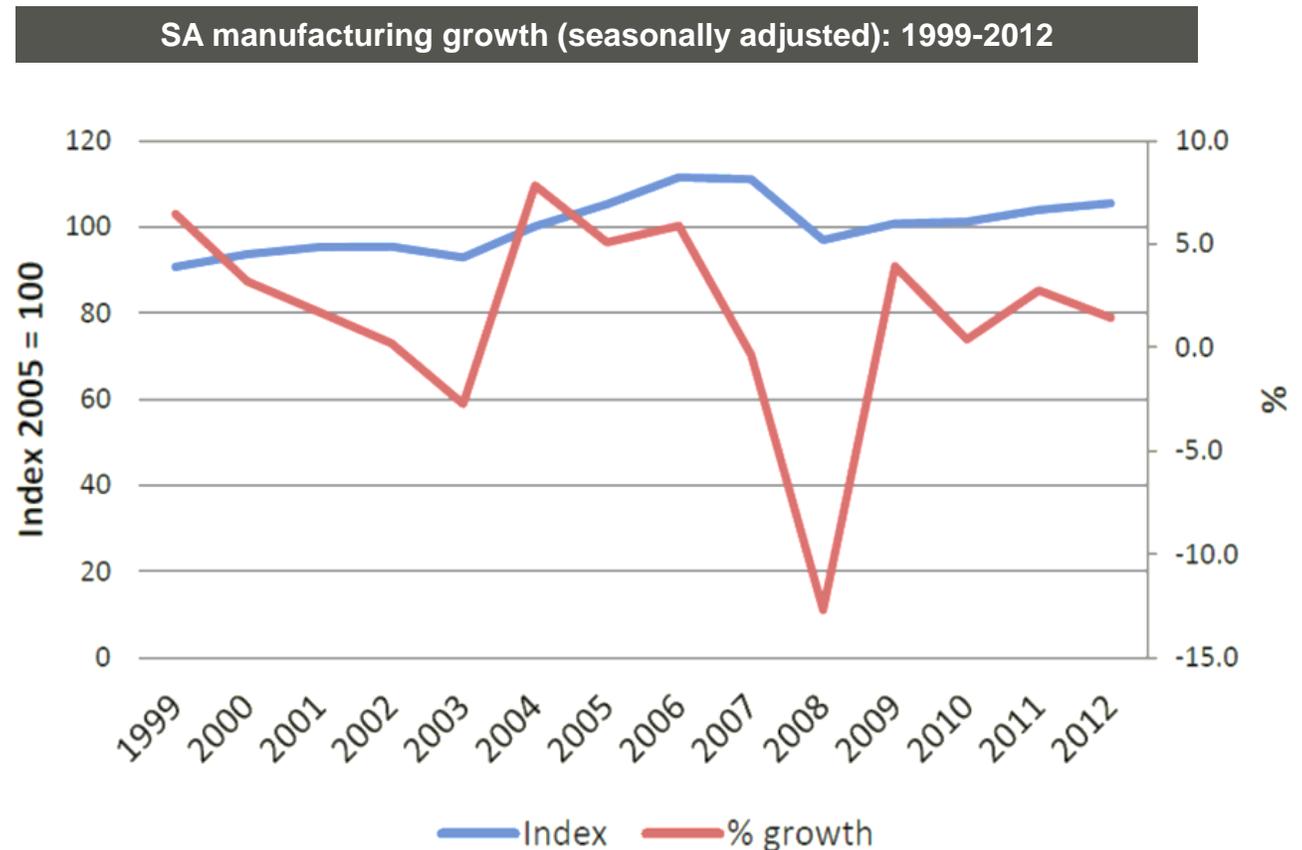
South African manufacturing performance

Post-Apartheid SA has much to be proud of, but manufacturing performance is unfortunately not one of our successes

Highly constrained performance:

1. Production output
2. Exports and imports
3. Employment
4. Investment levels

However, major structural changes have also occurred at a sector-level (e.g. automotive industry)



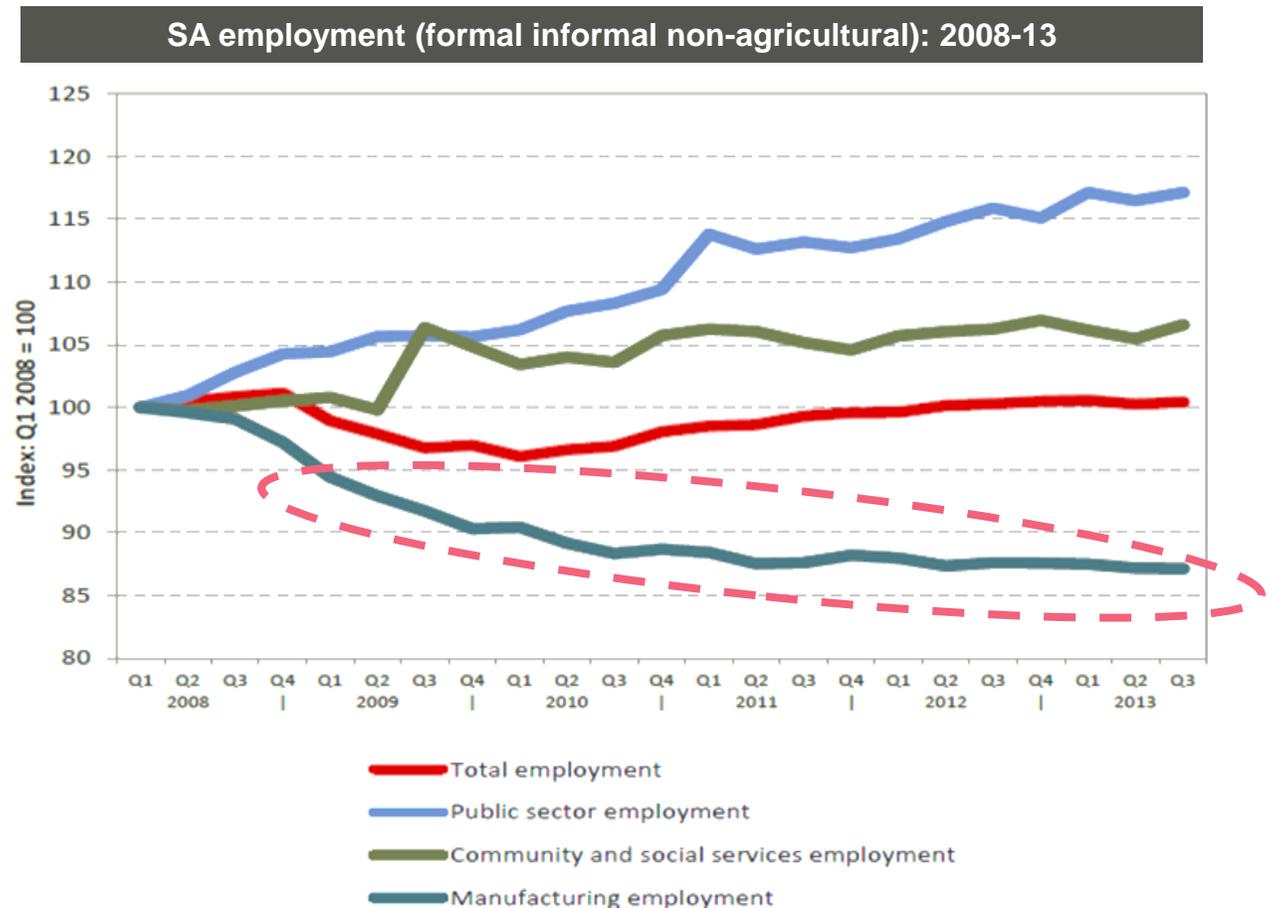
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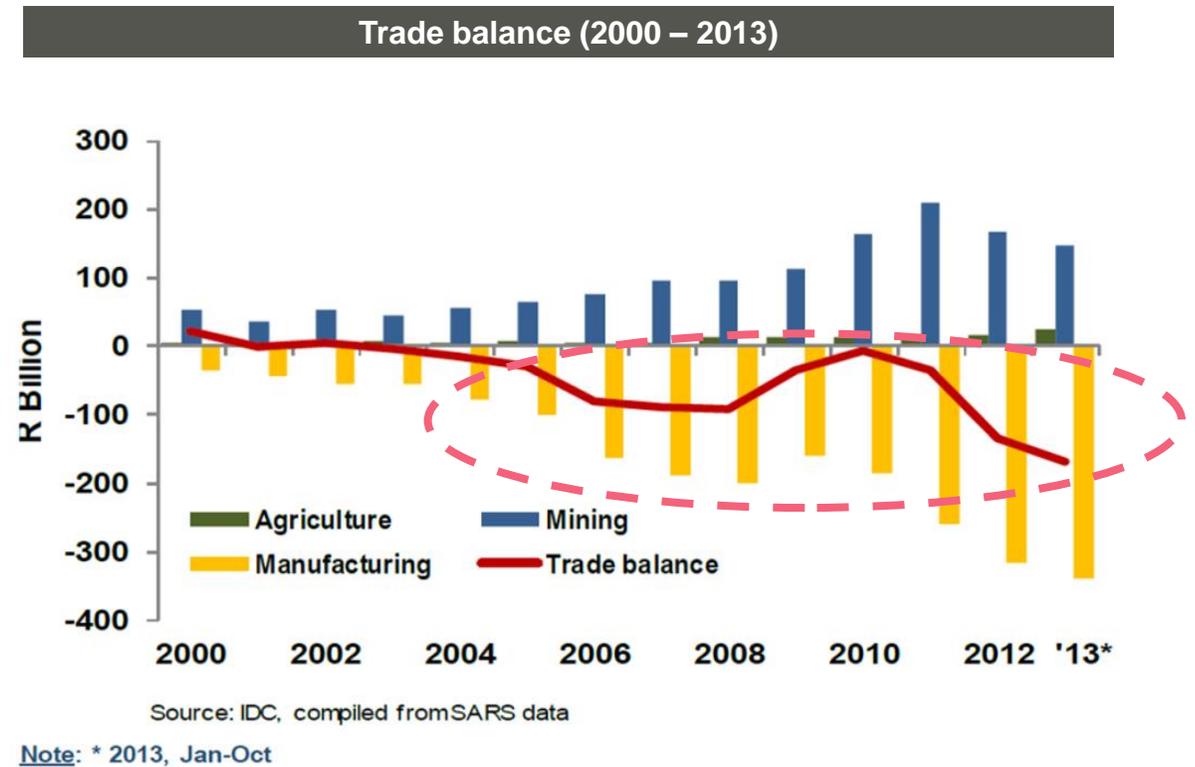


Implications to consider

Can SA afford not to have a dynamic manufacturing sector?

Key considerations:

1. Economic growth
2. Employment
3. Income inequality
4. Trade balance
5. Current account balance
6. Tax receipts and welfare borrowings



Source: in IPAP6

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