



INCLUSIVE SOCIETY INSTITUTE

Op-ed

Reviving factories can fire up a much-needed growth engine

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Driving through the industrial areas of the East Rand, the once mighty ‘workshop of Africa’, is a depressing sight. The humming sound of industrial machinery has made way for abandoned factories; now the breeding ground of pigeons and migrating swallows.

Difficult labour relations, cheap imports, rocketing electricity prices, lack of confidence in the future and policy and regulatory uncertainty have choked South African manufacturing, which now contributes less than 13% to gross domestic product (GDP) – a far cry from the 24% of the 1980s manufacturing heydays.

The reality is that South Africa is in the throes of a painful process of de-industrialisation, which will have significant economic and political ramifications for an economy struggling to hold the line and create viable opportunities, particularly for young people entering the labour market.

Manufacturing must be an integral part of the vision for inclusive growth and employment; but what will it take to restore industrial production, get people into work and rejuvenate the struggling industry?

Recent discussions that the Inclusive Society Institute held with manufacturers affirmed that they are passionate about South Africa and that they want to continue to invest in the country, but regulatory burdens, including stringent black-economic empowerment requirements; rigid labour legislation; skills shortages; failing municipalities and crime, weigh heavily in decision-making by business owners and managers.

If opportunities are to be grasped, South Africa will have to improve its ease-of-doing-business status and its attractiveness as a place to invest in manufacturing activity. The country aims to be among the top 50 global performers in the World Bank’s Doing Business index, but that objective seems far off as we lingered at eighty-fourth out of 190 countries assessed in the latest survey. South Africa is also not doing much better on the Competitive Industrial Performance index, which ranked us at 52 out of 152 countries assessed.

To improve its status, South Africa will need to revitalise a spirit of entrepreneurship so desperately needed. Too often, merely complying with administrative legalities takes-up valuable resources that could otherwise have been channelled into growth.

It is an urgent priority to fix dysfunctional municipalities, where a lack of service delivery is sending businesses packing. Poultry producer Astral’s court order against the Lekwa municipality for failing to deliver basic services to its factory in Standerton, Mpumalanga, and the departure of South Africa’s biggest cheese factory from Lichtenburg, in the North-West, over continued poor service delivery,

should be a wake-up call for municipal managers across the country – shape up or business will ship out.

Modernise labour legislation to make it easier for employers to hire and dismiss workers. Collective bargaining structures and legislation, which benefit big businesses more than smaller ones, will also need to be revisited.

Increases in rates, services charges and wages must be kept in line with and even below inflation. This will allow business to catch its breath, regroup and focus its energy on the proverbial out-of-the box thinking, for which South Africans are renowned. Between 2007 and 2020, electricity tariffs increased by more than 500% and average municipal water tariffs have risen four times faster than inflation since 1996.

Keeping costs in check will improve the competitiveness of South African goods. This move, in turn, will enhance export growth, especially in the lucrative African market that has turned its sights eastwards when purchasing goods.

The same goes for steel input pricing. We cannot continue to protect upstream steel production at the expense of the downstream steel industry. If protection measures for the primary steel are to be maintained, the same level of protection must be afforded to the downstream industry. South African steel fabricators have significant job creation potential and can be made competitive again in the vast and promising African market.

Closer to home, more locally manufactured goods must be procured, but only if their costs and quality are competitive.

Creating special economic zones (SEZs) in rural areas or revitalising 'old' industrial parks located in former 'homeland' areas can act as a catalyst for economic and industrial development in economically lagging rural regions. However, SEZs have failed to meet expectations. Industry experts believe that this is because what makes them 'special' is in fact not so special and that the core function of these economic zones must be re-imagined.

Financing rules must also be revisited to ensure that they actively promote economic development by mobilising and allocating resources efficiently, making it easier for entrepreneurs to access credit. Banks are unwilling to offer monetary assistance to provide specialised upgrades, for instance, and are arguably more willing to provide loans for more common assets, like buildings or vehicles.

Education is another area that needs urgent intervention. Manufacturing, like many other industries, are heavily reliant on a skilled labour force, which will contribute to its standing globally. Education must be redesigned to meet job market requirements.

South Africa's highly-developed automotive sector is an exception in the otherwise stagnant manufacturing industry. Motor manufacturing has gone from strength to strength since the democratic government's initial support programme was introduced in 1995. Today, the automotive sector is highly integrated into global supply chains and a significant export earner and contributor to skills development and GDP growth.

The long-term strategic partnership between government and the automotive industry provides a clear illustration of the power of cooperation between government and business – both local and global – as well as the importance of a shared vision and common purpose among business managers, trade unions and surrounding communities.

The success of the automotive industry is a model worth emulating and could be appropriately modified for different sectors. It is through a spirit of cooperation and common purpose that South African manufacturing will be moved forward into a new era of success.

It is time to blow life-giving breath onto the embers of the once-roaring furnaces of South African industry and to see the lights burn brightly again through the grimy windows of currently abandoned factories. Finding effective strategies to re-animate manufacturing will fire-up a much-needed growth engine for the economy.

Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the manufacturing sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.