Manufacturing Circle unveils plan to create a million jobs in a decade

The Manufacturing Circle has launched its 'Map to a Million New Jobs in a Decade', a plan containing constructive and actionable steps to create an environment in which manufacturing in South Africa can thrive and jobs can be created.

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“With unemployment at a 14-year high of 27.7%, business confidence at its lowest level in a quarter of a century, and more than half of the population living in poverty, delivering jobs and inclusive growth has to be highest priority for government, business and labour,” said Manufacturing Circle chairman André de Ruyter.

In the past two decades, the manufacturing sector has shed half a million jobs. At just under 13%, it contributes less than half to GDP than is appropriate for South Africa’s stage of development.

“If manufacturing can expand to 30% of GDP, between 800 000 and 1.1 million direct jobs can be created, with 5 to 8 times that number in indirect jobs,” he added. “Our ‘Map to a Million’ puts forward detailed proposals to deliver a million jobs in manufacturing in the next decade.”

The Manufacturing Circle, the voice of the South African industry, submitted its proposals to fellow manufacturers, to ministers and administrators, to regulators and policy writers, to labour and to business, and the public at large. “If we succeed in catalysing a debate on how to grow the economy, and put more people to work, we will have achieved the first step on the road towards creating a million new jobs,” de Ruyter said.

The first priority is to prevent further de-industrialisation in rust belts like the Vaal Triangle, arresting further job losses and stabilising the industrial base. Then, to increase the utilisation of existing capacity, and boost the demand necessary to underpin new investment, additional demand for manufactured goods must be created.

Demand-side interventions

The ‘Map to a Million’ proposes a number of demand-side interventions to increase domestic demand, pursue import substitution and enhance South Africa’s export competitiveness. These include:

• A commitment by both business and government to visibly support Proudly South African, increasing the procurement of locally manufactured goods (provided their cost and quality are competitive)
• Investigation by government of its options to invest in catalytic projects, such as a new pipeline to bring natural gas from Rovuma in Mozambique into SA, using SA steel and pipe, to lower the cost of natural gas
• An increase in the renewables’ component of electricity procurement, with solar and wind generation equipment manufactured in SA
• A reconsideration of administered prices to put more money back into the pockets of consumers. For example, fixing a maximum price for petrol will encourage competition, lower fuel costs and could add up to R1,8 billion a year to disposable income, and reduce transport costs across value chains
• Our trade policy should adopt an actively pro-South African approach, within WTO rules
• Greater collaboration between producers across value chains to enhance in-country value addition, particularly in the agro-processing, platinum, manganese and steel value chains
• The implementation locally of similar policies to SA’s key competitors in manufacturing, in particular export incentives
• A reduction in Portnet tariffs, which are 88% higher than the world norm, and an improvement in port efficiency
• The re-instatement of rail subsidies for export containers to overcome the disadvantage of manufacturers’ inland location
• The emulation of the successful Motor Industry Development Programme for key industries, in particular secondary steel manufacturing.

Supply-side interventions

The ‘Map to a Million’ also proposes various supply-side interventions to improve manufacturer’s competitiveness by reducing input costs, making changes to fiscal policy and supporting labour productivity. These interventions would:

• Ensure effective price regulation of natural gas and electricity, reducing costs
• Regulate pricing of key inputs from sole suppliers
• Enable competition in electricity generation by deregulating the sector
• Use the IDC’s balance sheet to lower the cost of capital by liquidating long-standing investments to drive industrialisation, in particular supporting black industrialists, at much bigger scale
• Improve the many provisions in the Income Tax Act that support manufacturing
• Implement the 15% tax rate for existing special economic zones, and also apply it to distressed industrial areas such as the Vaal Triangle
• Allow accelerated depreciation for manufacturing, similar to that for mining
• Implement conditional tax holidays for investments, with targets for job creation and value addition
• Introduce recapitalisation allowances to enhance competitiveness of existing factories
• Reconsider sugar, packaging and carbon taxes that hurt manufacturing
• Support the dti’s Intsimbi Future Production Technologies Initiative to resolve skills shortages
• Implement transport subsidies to overcome spatial distortions and increase disposable income
• Ease the work permit process for scarce foreign skills
• Include labour in company governance structures to increase transparency and reduce adversarial labour relations.

Structural fixes

In addition to these improvements to demand and supply, the following structural fixes will help to increase investment and job creation through manufacturing:

• Prioritise industrial development and job creation in a coordinated manner, through a super-ministry similar to Japan's MITI, incorporating dti, EDD, DSBD and DPE, and aligned closely with Treasury
• Introduce significant private sector equity participation in SOEs
• Focus on education as an essential service, and promote high standards instead of high pass rates
• Rescind and renegotiate the Mining Charter, which is detrimental to investor confidence across sectors and has already reduced demand for manufactured goods
• Ensure greater policy certainty and reduced currency volatility to free up balance sheet capacity as fewer 'shock absorbers' would be required for foreign loan covenants
• Support municipalities with the capacity to deliver and maintain infrastructure
• Split Eskom into independent generation, procurement and transmission entities, introduce private sector equity partners, and enable the creation of a home-grown renewables sector instead of unaffordable nuclear energy
• Abolish the costly and ineffective SETA system and rather give direct tax credits for training
• Rethink concurrent jurisdiction to give the Competition Commission more power where regulators such as NERSA fail to regulate monopolies appropriately.

"None of these interventions on its own will be enough to create economic growth and job creation through manufacturing," said de Ruyter. "We propose that a 'manufacturing working group' between business, labour and government be established to coordinate the implementation of the Map to a Million."

And although the proposals may seem disproportionately weighed towards government interventions, the Manufacturing Circle considers them an essential first step to slow down the rate of job losses and de-industrialisation, before real growth is observed, and new jobs are created.

"Our proposals are modest, and can be achieved with ease if the necessary political will is applied," said de Ruyter. "They are not costly to the fiscus: on the contrary, the additional tax revenue from a million new jobs will far exceed the cost of extending modest incentives to manufacturers."