Manufacturing is the key to unlocking stunted growth

"How can we stimulate this sector to galvanise growth?"

By Mark Goliath

There is a direct correlation between the tepid economic growth that has characterised the local economy to the wanning fortunes of our manufacturing sector. Question is, how can we stimulate growth, so manufacturing becomes a key enabler of job creation?

Against the backdrop of challenges, government's interventions in kick-starting stalling growth are laudable. However, the successes achieved thus far have largely been offset by the onset of de-industrialisation. Curiously, this phenomenon is not unique or characteristic to SA but the rest of the continent. The caveat – more so in the SA context is that it's becoming increasingly evident that this tepid economic growth won't suffice. Against the backdrop of addressing, the triple challenges of unemployment, poverty and inequality, we need to aggressively ramp-up our investment in manufacturing so it can have a positive knock-on effect on economic growth. More significantly, our growth and expansion trajectory must be unequivocally development-oriented and inclusive, employment-generating and in light of our country's historical legacies, it must be transformational.

Against this background, this prognosis begs fundamental questions to stakeholders attending the 2024 Manufacturing Indaba currently underway in Johannesburg. Manufacturing is critical to SA. The sector is a key contributor to the economy and employment accounting for 14.4 % (2023) to the country's GDP. In second quarter 2024, it accounted for 1.6 million jobs underscoring its importance to the local economy.

The sector has strong linkages with a variety of supplier and supporting industries, particularly mining and agriculture, as well as service providers. Yet, despite its significance to the local economy, it has shed nearly 500 000 jobs over the past decade. We could blame this to the advent and rapid adoption of large-scale industrial automation, which has somewhat contributed to the failure of locally manufactured products to compete against cheap imports. Added to this are a host of other factors, including the rising production input costs – particularly the widely documented erratic energy supply – that have hindered local manufacturing from finding a growth path.

IDC support to local manufacturing

The question is, can local manufacturing re-discover its growth path? I'm optimistic about the sector's fortunes. However, my bullish view is grounded in the reality that we ought to be accelerating the adoption of game changing interventions that aim to strengthen this sector. The unintended consequence of the emergence of automation and artificial intelligence driven manufacturing has led to job loses, with less skilled employees quickly becoming redundant in this sector. This just our reality.

To the contrary, we shouldn't fret about the advent and impact of industrial automation and artificial intelligence but embrace these as catalysts for change. Besides up-skilling our workforce as a means to preventing redundancy, the consolation is that it is almost impossible to entirely dispence with a human element in any manufacturing set up – there is adequate room for co-existence between humans and machines in the workplace. Thus, adopting novel technologies and investing in modern plant, equipment and machinery will certainly help to drive down production costs in the process boost SA's competitive advantage.

As we address our challenges, it's also important to take a leaf from countries that have successfully made the transition from low-income to upper-middle and high-income status – notably China – and learn just how they have reconfigured manufacturing, so it becomes the main driver of growth. The IDC's commitment to manufacturing is best reflected in the R82.2 billion approved to various sub- sectors over the past 10 years.

In specific manufacturing industries, the Corporation has been called upon to assist existing businesses in countering the adverse effects of fiercely competitive factors at play in both regional and global markets. The textiles and clothing industries are two good examples. Launched in 2012, the Manufacturing Competitiveness Program (MCEP) was established to support existing manufacturing enterprises through interventions to improve competitiveness in manufacturing as well as encouraging manufacturers to upgrade their production facilities in the process helping to sustain employment. Although much still needs to be done, MCEP has to an extent succeeded in stabilising industry perfomamnce, helping to retain productive capacity while safeguarding jobs. Simultaneously the IDC has been promoting and contributing to the localisation of components of manufacturing in support of the country's drive to beneficiate its natural resources. Beneficiation or value addition is key to creating employment opportunities as well as strengthening the country's industrial capacity.

In a bid to further augment growth, the Corporation has adopted several bold and ambitious developmental targets that include increased funding for value chains with the highest potential for sustainable job-rich industrial development. To this end, it has earmarked R21 billion for investment into the sector over the next three years. I can state and emphatically so that the IDC considers this sector as one of the keys to unlocking SA's economic potential. That said, the 2024 manufacturing indaba presents stakeholders with yet another opportunity to interrogate the challenges and offer solutions on how best we can use this sector to galvanise growth and create employment opportunities.

Goliath is the IDC acting Divisional Executive for Manufacturing

Fact file on SA manufacturing:

- GDP growth in 2023 = 0.3% vs SA economy (+0.7%).
- Fixed investment growth in 2023 = 7.8% (SA economy = +3.9%).
- Manufacturing fixed investment measured R138.9 billion, or 13.2% of overall fixed investment in 2023.
- Exports = R1 086.7 billion; +10.5% growth in 2023 vs 2022 (SARS data).
- Manufacturing exports accounted for 53.4% of all merchandise exports in 2023.

AfCFTA has potential to hasten Africa's industrialisation trajectory

By Hilton Lazarus

After nearly five decades of market fragmentation, the continent is finally making steady progress towards establishing a structured free trade agreement that is set to strengthen intra-Africa trade. This momentum is partly due to the accelerated adoption of the African Continental Free Trade Area (AfCFTA).

With its extensive number of countries and a significant population, Africa is now home to the largest free trade agreement in the world. This agreement provides i investors with access to a unified trade and investment market of more than 1.3 billion people, with a gross domestic product (GDP) that is projected to exceed US$3.4 trillion by 2025.

Despite these prospects, the latest report from the United Nations Commission for Trade and Development (UNCTAD)'s highlights a concerning reality – intra-Africa trade remains significantly y low, sitting at approximately 14.2%. In contrast, Europe boast a trade rate of 66.2% in Europe, Asia stands at 53.9%, and North America and the Caribbean regions have rates of 29.8% and 14.4%, respectively.. The low levels of intra-Africa trade can be primarily linked to structural constraints, particularly those related to infrastructure.

The fragile supply chain networks, characterized by inadequate transport and logistics infrastructure prevalent in the continent's least developed economies, hinder the smooth movement of goods across borders. Additionally, the heavy reliance on primary goods in trade profiles, combined with limited manufacturing capabilities, contributes to the low levels of intra-Africa trade.

Can the AfCFTA boost trade within the continent and help to accelerate its the continent's industrial growth trajectory? Certainly. The key lies in redirecting the focus of economic activity inwards. Despite ongoing structural challenges, Africa is rich in opportunities that are essential to transforming its fortunes. By investing in modern infrastructure, introducing advanced machinery and embracing cutting edge manufacturing technologies, the continent can boost workforce productivity , and in turn, improve its economic fortunes.

Should these changes take place, this could lead to the creation of new employment opportunities. According to World Bank estimates, the AfCFTA could increase Africa's exports to the rest of the world by 32% by 2035. This raises an important question for South African companies seeking to expand their growth beyond conventional export markets.

Africa stands out for having the youngest population in the world. In 2023, about 40% of its population was aged 15 years old or younger significantly higher than the global average of 25%. Encouragingly, countries to the north are also endowed with a vast array of resources that are critical to driving growth and industrialisation. In addition, opportunities in mining, retail, telecoms and construction among others are ripe for the picking.

Importantly, how is the IDC supporting local companies looking to establish a foothold in the rest of Africa?

The AfCFTA represents the emergence of a continent that is taking a proactive stance, seeking to move away from merely exporting raw materials and to start producing finished products. The IDC's ventures and investments in Africa are well documented. Currently, its investment portfolio in the continent is valued at R12.3bn (R19.5bn: market cost) across 15 countries and spans several sectors of economic activity.

Over the past few years it has played a crucial role in enabling various South African companies from sectors such as telecoms, retail, agriculture, manufacturing and mining to establish a presence across the continent. These investments underscore the IDC's commitment to advancing the continent's infrastructure, promoting industrialisation, increasing trade and fostering economic development, which includes creating employment opportunities throughout the region.

Notably, the IDC's continued investment in the industrialisation initiatives in the the continent, particularly in the SADC region, has resulted in a growing demand for South Africa's diversified exports. The greater the industrial development on the continent, the higher and more sustained levels of local economic growth.

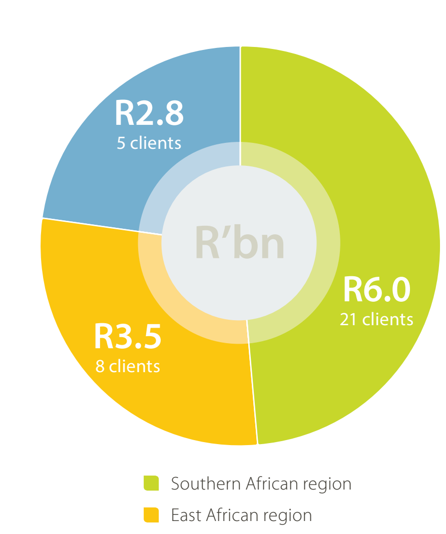
The IDC recently unveiled its continental strategy – which will largely underpin its investment focus in in the continent in tandem with objectives of the AfCFTA. The corporation firmly believes that the expansion of continental trade will undoubtedly create new opportunities for emerging entrepreneurs and small to medium-sized enterprises in SA and throughout the continent.

Sectors that are strategically positioned to gain from this strategy include agriculture and agro-processing, manufacturing, automotive, metals, mining & mineral beneficiation among others. The IDC is committed promoting sustainable industrial development, funding pioneering projects, delivering tailored financial and investment solutions in SA and the rest of Africa, firmly aligned to the objectives of the AfCFTA.

Lazarus is the Strategic Business Unit Head of Chemicals, Medical and Industrial Mineral Products at the IDC

IDC portfolio across the continent

Across the continent, the IDC portfolio is spread across three economic regions:



SOUTHERN AFRICAN REGION		
Country	Business partners#	Exposure (R million)
Mozambique	9	4 616
Angola	1	378
Democratic Republic of the Congo	1	268
Malawi	2	209
Zambia	2	219
Botswana	2	71
Namibia	4	243
TOTALS	21	6 004

EAST AFRICAN REGION		
Country	Business partners#	Exposure (R million)
Tanzania	1	1 237
Uganda	2	1 123
Kenya	2	899
Ethiopia	1	14
Rwanda	1	112
Cross-border East Africa	1	95
TOTALS	8	3 480

WEST AFRICAN REGION		
Country	Business partners#	Exposure (R million)
Ghana	3	2 057
Mali	1	358
Nigeria	1	313
TOTALS	5	2 728

JA Engineering – Transformational Funding at the Coalface

One of the primary objectives of the IDC is to provide transformation funding aimed at helping previously marginalised groups access mainstream sectors of the economy such as manufacturing. In a significant recent transaction, the IDC extended financial support to MMML Consortium (Pty) Ltd, headed by black industrialist Matimba Mahange, allowing the consortium to secure a controlling interest in JA Engineering Works.

Since the launch of the Black Industrialists program in 2014, DTIC entities, including the IDC, have funded over 900 entrepreneurs. JA Engineering Works is a proudly South African company, with over 30 years of experience in manufacturing and engineering, delivering innovative solutions tailored for the coal mining industry. As an established OEM and after-market parts and servicing specialist, its product range supports both open cast and underground mining methods, featuring new OEM equipment and rebuilds, spare parts, earth moving equipment (parts & repairs, as well as drilling and blasting equipment.

Established in 1987, the company specialises in providing the SA mining industry with alternative aftermarket support through its reverse engineering solutions. It operates from three key after-market parts and service centres in Middelburg Mpumalanga, Vryheid KwaZulu Natal and Jet Park in Boksburg, which is also serves as its main office.

In the past few years, the company has significantly enhanced its production capacity and expanded its product range to battery manufacturing, with over 80% of market share. From its Jet Park plant, the company manufactures and distributes equipment and aftermarket parts to local JAE service centres and customer collieries. Its repairs and rebuild capabilities include electrical and mechanical repairs on surface mining blasthole drills, rope shovels walking draglines and on underground mining, continuous miners, battery scoops, haulage systems feeder breakers and roof bolters.

Led by Black Industrialist Matimba Mahange, JAE is making its presence felt locally including in India and Australian markets

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