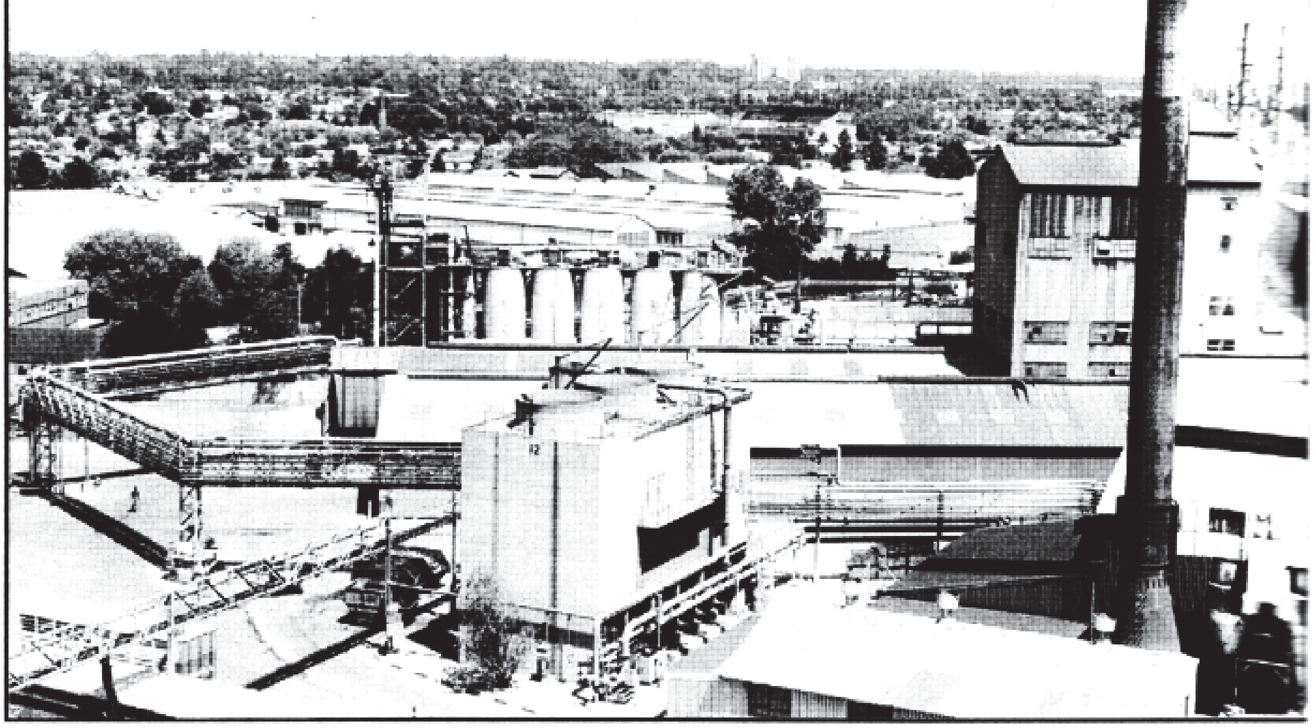

Photo: Shariff/Labour Bulletin

A strategy for South African manufacturing

Industrial restructuring is at the heart of the trade unions' development of alternative economic strategies for South Africa. Avril Joffe and Dave Lewis*report on a major research project on South African manufacturing being carried out by the Economic Trends Research Group which has a longstanding relationship with COSATU**.

COSATU has long recognised that its role extends well beyond bargaining over the wages and working conditions of its members. This has been evidenced by the trade union federation's leading role in the intense political struggles that have characterised its existence. More especially, it is evident in a growing demand from COSATU and its affiliates that the institutions of collective bargaining be used to negotiate over more general issues concerning the long term future of the industries in which union members are employed.

It is widely recognised in COSATU that economic policy cannot be formulated on the

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** *The views expressed here are those of the authors. They note their thanks to Dave Kaplan for comments on an earlier draft of this paper* factory floor alone. The state is a vital pillar, indeed ***the*** vital pillar, in the formulation and implementation of economic policy.

Accordingly, the process of economic policy formulation was enormously accelerated by the unbanning of the ANC in 1990. The potential for intervening in the process of economic policy formulation now extended beyond the factory floor into the very heart of political power, the state.

The more recent demand of the Alliance for the formation of a Socio-Economic Forum, with a key role in negotiating economic policy, institutionalises this process. More important, the Alliance's resolute opposition to the introduction of VAT indicates a willingness to back up words with action in the area of economic policy.

This is the background to the Industrial Strategy Project (ISP) [see box on p 38] being carried out by the Economic Trends Research Groups (ET). It is based on a particular concern with mass unemployment, a trade union movement that demands a role in policy formulation, and on the political developments of 1990, which placed economic policy formulation and industrial strategy high on ET's research agenda.

Why manufacturing?

Earlier work of ET focused on an analysis of the crisis in the South African economy. Much of this work located the crisis in production and more specifically in the poor performance of the manufacturing sector. * .The failures of the manufacturing sector were evidenced at a number of levels:

1. The inability of the manufacturing sector to create jobs

Between 1960 and 1970 manufacturing output grew by 8,6%. In the following decade this growth rate had declined to 5,3%. Between 1980 and 1990 output of South African manufacturing had increased by a paltry 0,1%. In 1980, manufacturing employment comprised 28,8% of total non-agricultural employment. By 1989, this proportion had declined to 26,6%. The importance of the manufacturing sector is underlined when it is recognised that it still remains the largest contributor to output and employment in the South African economy.

The failure of the manufacturing sector to create employment is based, partly, on its inability to attract investment, and partly on the exceptionally low productivity of investment (low volumes of output for every new unit of investment) and very high capital/labour ratios. A large proportion of investment has been directed at capital intensive sectors such as chemicals and steel. Within sectors there appears to have been a tendency for investors to select capital intensive processes rather than more labour demanding processes. Gross Domestic Fixed Investment by manufacturing has declined (in real terms) by approximately 50% between 1980 and 1990.

2. The inability of manufacturing to produce capital goods

A particularly glaring weakness in the manufacturing sector is its inability to produce machinery and other capital goods which then have to be imported. This factor, combined with the low level of manufactured exports, makes the manufacturing sector a considerable net user of foreign exchange. Every unit of output produced by the manufacturing sector uses up more foreign exchange than it earns.

This has a number of implications. Above all, it means that, every time the manufacturing sector begins to expand, it requires increasing injections of foreign exchange. Where this is not available, growth is simply choked off.

3. The inability of manufacturing to export

The manufacturing sector has demonstrated a glaring inability to sell its output in international markets. This gives a striking quality to South Africa's trade profile. In general it means that South Africa, at the beginning of the 1990s, is more dependent upon the export of gold and other primary commodities than it was a decade earlier.

* *The collection of papers analysing the economy is in Gelb S. South Africa's Economic Crisis*

This is remarkably out of phase with the world economy. An increasing proportion of world trade is in manufactured commodities and a decreasing proportion in primary commodities, but South Africa's trade profile shows an increasing reliance on primary commodities with a declining share of manufactured commodities. Between 1960 and 1989, the proportion of non-gold goods exported as raw materials increased from 29% to 42% and processed raw materials registered an increase from 40% to 46%. In the same period, exports of final finished goods fell from a share of 16% of non-gold exports to 6%.*.

In addition, even in those areas where South African manufactures enjoyed some success in international markets, this was overwhelmingly in resource-based and/or energy intensive commodities such as paper and pulp, iron and steel and basic chemicals. In the higher value- added areas of manufacturing - for example electronics, fine chemicals, transport equipment etc - South Africa's success rate was far more limited. These latter are precisely those areas in which international trade is increasing. In short, South Africa is selling into a declining market. It is losing ground in the growing world markets.

The wider political economy of SA

Everyone of these areas can be analysed and a multitude of often conflicting explanations and solutions can be advanced for each problem. But there is a general explanation rooted in the wider political economy of South Africa.

Essentially, an exceptionally skewed distribution of income has generated a manufacturing sector whose output has been directed at producing sophisticated consumer goods for high income groups. The foreign exchange was provided by gold exports, bolstered by the extremely low wages paid to mineworkers.

This market response on the part of South African manufacturers - buy machinery from abroad with our primary product receipts, sell manufactured commodities to white South Africa - was backed by a policy regime that kept mining wages low, income distribution skewed and the vast majority of the workforce unskilled. Moreover, it protected South African manufacturers from imports. This protection gave South African manufacturers an additional incentive to produce for the local market and ignore the international market.

In essence, the structure of South African manufacturing is an obstacle to a growing and equitable economy in two interrelated senses:

1. The South African manufacturing sector's relationship to the domestic market has to be restructured. It has developed primarily on the basis of serving the needs of a small, high income elite. This is not only reflected in the production of luxury commodities - the proliferation of luxury motor car models produced in South Africa is a glaring example - but is clearly apparent in the production and pricing structures of all industries from building materials to pharmaceuticals.

Redistribution has been placed firmly on the agenda in South Africa. This process will potentially place greater purchasing power in the hand of low income consumers, shifting the demand profile of the economy. A redistributive strategy will also find expression in infrastructural projects, for example housing and electrification. This offers both challenges and opportunities. What it clearly requires is a flexible and creative response from South African manufacturing;

2. The South African manufacturing sector's relationship with the international market has to be restructured. Essentially, South African manufacturing has to develop a greater capacity to produce capital goods, and a greater ability to export manufactured goods. This would relax the economy's reliance on gold exports.

More fundamentally it would allow the manufacturing sector to take its place as the engine of, rather than the brake on, economic growth. This is what the Industrial Strategy Project will address.

* *This information is taken from a paper by Alan Hirsch entitled 'The International Environment for South African Trade: Patterns, Institutions, Policies', presented to the June 1991 meeting of ET*

Restructuring the 'neo-liberal' way

Restructuring will take place. Ian Roxborough has outlined in his article in this issue of the Bulletin [see p 42] how the international market - often operating through the agency of powerful multilateral institutions like the International Monetary Fund (IMF) - has imposed its terms and conditions on third world economies.

The solutions of the IMF - the so-called 'structural adjustment programmes' - are directed at creating and maintaining internal and external balance. The favoured instruments for achieving these objectives are fiscal discipline - essentially, reducing government expenditure - and free trade.

The solutions offered by the IMF - broadly, those to whom Roxborough refers as 'neo-liberals' - are harsh. In general, an unguided market favours those who come to the market with economic power. 'Fiscal discipline,' in effect, translates into a series of policy measures that reduce levels of social welfare or eliminate state subsidies on basic commodities, in particular food.

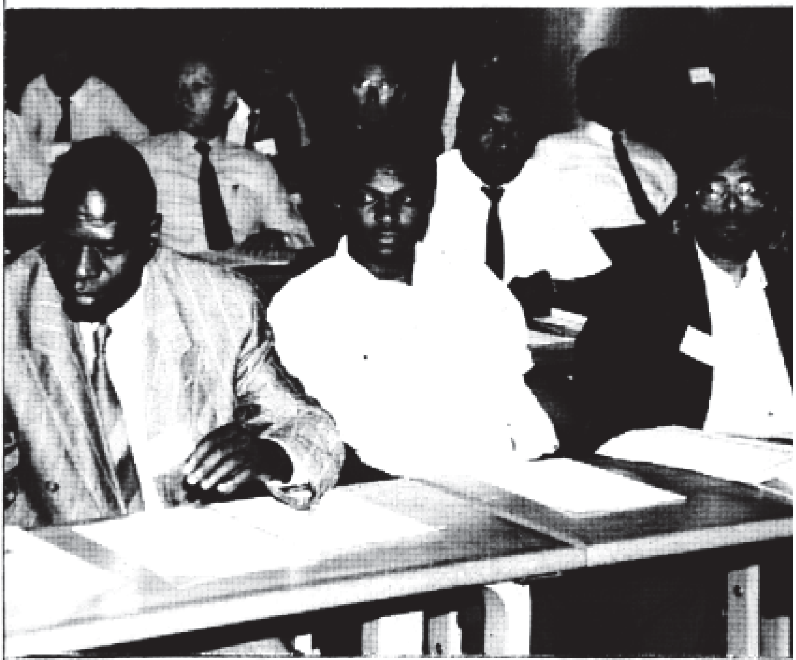
'Free trade' is accompanied by a demand that exchange rates be devalued and this translates into a reduction of real wages. And - very important for our purposes - 'free trade' means an elimination of tariff protection. This is an action which, if carelessly implemented, would immediately threaten jobs in important sectors of the economy.

The structural adjustment programmes of the IMF (and complementary programmes by the World Bank) have not been very successful. In the absence of other forms of state intervention, they have :

- not resulted in a successful export orientation;
- resulted in a precipitous decline in both public and private sector investment as the principle mechanism of'adjustment';
- often generated additional poverty in countries where the poor have no 'safety nets'.

For these and other reasons, the neo-liberal programmes have often been met by popular resistance and a reduction in the legitimacy of the government of the day. It is no coincidence that these programmes tend to have been most 'successfully' implemented in countries with highly repressive regimes. Pinochet's Chile is a clear example.

And yet it seems as though these programmes are irresistible. Not only does one find country after country accepting IMF devised programmes, but, as Roxborough mentions, one finds in Latin America that governments, many elected in the wave of democratisation that swept that continent, are implementing identical programmes themselves. In fact, one does not need to go as far as Latin America for an example of a 'home grown' structural adjustment programme: Zimbabwe is a very clear case in point.



The Economic Forum - a new arena for negotiation

Photo: Shariff/Labour Bulletin

IMF programmes are difficult to resist because the IMF's seal of approval is a precondition for access to the international capital markets. Hence a government that spends without ensuring the ability of the economy to produce wealth, a country that persistently imports more than it exports, will sooner or later, have to go the international banks and lending agencies for assistance. A precondition for that assistance will be the implementation of a set of economic policies approved by the IMF.

What is the Industrial Strategy Project?

The Economic Trends Research Group (ET) has launched a major research project on South African manufacturing. Twelve sub-sectors of manufacturing - including the informal sector - have been selected for the study..

In addition, four researchers will examine key cross-sectoral issues, namely, technology policy, trade policy, the role of unions in industrial restructuring, and the issue of ownership and competition policy.

Most of the researchers will be employed by the project for a period of 15 months. At the end of this period (March 1993) the researchers will submit detailed reports that include policy recommendations. These reports will then be synthesised into an overall study and a set of recommendations for an Industrial Policy for South Africa - a policy designed to enhance the ability of the manufacturing sector to generate employment and compete on international markets.

The Industrial Strategy Project (ISP) is, however, not only intended to contribute to policy by producing a set of recommendations at the end of the study. The research process itself has been designed to enhance the policy making capacities of the Alliance:

- The design of the ISP has been extensively discussed with COSATU and the Department of Economic Policy (DEP) of the ANC. Representatives of both organisations attended the three week training workshop held in January this year that launched the project. They will also be represented at the various research workshops scheduled over the course of the project at which work in progress will be discussed;
- The project will be structured in such a way that interim research reports will be prepared and will contribute to an ongoing policy making process. These will be presented at the workshops referred to above and in meetings with the appropriate COSATU affiliates where specific sectoral issues will be discussed;
- Part of the ISP's brief will be to collaborate with research in other areas: for example work on macro-economics, human resource development, and environmental policy, to name but a few pertinent areas. The ISP will also contribute greatly to research in these areas. One of the tasks of the Macro Economic Research Group (MERG) will be to facilitate communication and co-ordination between these various projects, of which the ISP is one;
- A vital aspect of the ISP is its training programme. Both COSATU and the ANC were requested to second research trainees to the ISP. There are currently 5 trainees employed by the project for 12 months. These trainees will undergo an intensive period of immersion in research methodology and industrial policy. Reading programmes are being co-ordinated; specific research skills are being catered for; they will accompany researchers on interviews and assist with the process of data collection and analysis; they will be expected to produce reports around designated research areas. In addition the researchers and trainees will co-operate with the appropriate educational structures in COSATU and its affiliates and with the ANC.
- In general, the research process will be not be one where, at the end of the project, the researchers hand down recommendations based on an analysis of information gleaned from interviews and reading. Rather, it is intended that the research process will be an interactive one, where the researchers and the major actors in the area of industrial restructuring mould and structure one another's perception of the problems facing South African manufacturing and its possible solutions. ❖

But we cannot use the harshness of the structural adjustment programmes, or their signal lack of success, to avoid serious consideration of the problems to which they refer:

- ☐ A country that continues to rely on natural resources in a world economy dominated by trade in manufactures has no long term future.
- ☐ A country that cannot produce the basic technologies and equipment required to underpin its manufacturing base is heading for economic ruin.
- ☐ A country with a manufacturing sector whose very existence is tied up with state subsidisation and support is unsustainable.

South Africa is on this road, and this is why we have to face up to the necessity for restructuring the manufacturing sector.

Fundamentals of a new Industrial Policy for South Africa.

The Industrial Strategy Project will attempt to contribute to the regeneration of South African manufacturing by devising a set of policy proposals that address both the shortcomings of current policy and the deep-seated structural problems that have led us into the present impasse.

The brief of the Industrial Strategy Project is twofold:

1. to evaluate the position of particular sectors of the manufacturing industry in relation to their capacity to meet basic needs (including the maximisation of growth and employment) and to develop a manufacturing export capacity;

2. to formulate a policy for industry in the context of a commitment to the pursuit of industrial democracy.

The range of sectors under investigation has been carefully chosen. It includes:

- sectors which contribute to the Economic Trends Research Groups' objectives of growth through redistribution such as building materials, consumer durables, clothing and products produced in micro-enterprises;
- sectors in which the downstream activities of products and processes have a positive employment impact including beneficiation, textiles and chemicals;
- capital goods sectors where South Africa already has a competitive advantage, such as mining equipment, or which are needed as inputs in local production, such as electronics;
- sectors which are resource-based and are already well established in the export market, such as pulp and paper.

The Industrial Strategy Project will examine the full range of areas deemed pertinent to the formulation of an industrial policy. In identifying the determinants of competitiveness the Industrial Strategy Project will evaluate the interaction of a set of economic, market, technological and managerial pressures operating both internationally and locally. These include:

- an evaluation of the economic profile of the sectors;
- the extent of adoption of new organisational techniques and new computer-based technologies;
- the trade regime in which the sectors operate;
- the market structure of the sector;
- the trajectory of global change in competition, production and technology, as well as major corporate strategies;

The research will be guided by a methodology drawn from a combination of conventional economic and business management disciplines and the international experience of industrial policy and sectoral strategies.

In evaluating the current performance and potential competitiveness of the different sectors, the Industrial Stategy Project will consider inter-alia questions such as domestic resource costs, effective rates of protection, operational and financial ratios, productivity performance, efficiency and competition policy; side-by-side with those concerning the regulatory and institutional framework, the power relationships within the economy and the impact of industrial restructuring on work organisation and the labour movement.

Difficult and controversial questions will be asked that critically examine policies currently in place. These include

- A serious questioning of the degree of

A restructuring accord balancing industrial democracy and higher productivity: can unions adjust??

Photo: Morice/Labour Bulletin

protection and tariff policy.

- The current ownership structures and the lack of competition within sectors.
- The criteria used by government institutions for the support of particular industries.
- The absence of a coherent policy for human resource development.
- The current disregard for environmental considerations.
- Managerial behaviour which is characterised by short-term profitability and a lack of vision.
- The adversarial industrial relationships governing labour relations.

Difficult adjustments for labour

Restructuring is not only about factory floor organisation, or industry or about ownership issues. It will raise important and difficult questions - particularly for labour - of adjustment.

A number of disruptive factors challenge the trade union movement on a number of fronts: decline of membership, organisational capacity, unity amongst workers in the face of competition, retrenchments and new technologies.

It is not surprising that the unions - both internationally and in SA - have often not responded with enthusiasm to the potential restructuring of their industry. Where unions have responded defensively they have been confined to negotiating redundancy procedures and severance pay with the twin aim of slowing down the pace of restructuring and attempting to reduce the amount of labour displacement.

However the experience of countries such as Australia, Sweden and Canada indicates that restructuring is an inevitable response to the global challenges.It also shows that it is only in reaching some kind of strategic accomodation between labour, the state and capital that unions will be able to extract what potential benefits the reorganisation of manufacturing production offers.

.This is an important difference between the approach adopted by the ISP and the restructuring programmes of the IMF and other international institutions. Theirs are predicated on the lowering of the real wages - through inflationary measures- and the lowering of the social wage - through cuts in government expenditure. The basis of restructuring identified by the ISP are not those of cost-cutting or simple price competition but rest on new and different production and organisational techniques.

While the one objective of the ISP is to re-establish increased competitiveness and productivity (which is not the prerogative only of management) the second objective is to extend and consolidate the organisational capacity of the trade unions in the factory and at industry level.

The achievement of these objectives relies on the ability of these two actors to negotiate a 'restructuring accord'. This will involve:

- balancing off the winning of a greater degree of industrial democracy on the shop floor for increased productivity;
- establishing necessary institutional arrangements - by extending the scope of the industrial councils and enforcing management's participation in employer federations - for cooperation on the shop floor;
- winning a greater degree of job security for increased flexibility.

The underlying assumption of such a social accord, or economic compromise between capital and labour, is that with greater industrial and economic democracy production and productivity will be increased. The implications for labour are a greater involvement in issues of concern to individual workplaces as well as macro-economic issues around the integration of wages, taxation, the social wage and price restraint, unemployment, child care, education and training, health care and other forms of social development.

While conflict on the shop floor cannot be wished away, a recognition of the benefits of cooperation must surely take the place of the adversarialism characteristic of the relationship between capital and labour to date. This involves a recognition that strong, independent and democratic trade unions are essential to the viability of such a social accord.

A new approach is needed

The Industrial Strategy Project is concerned not to see the role of the market as solving all problems; nor to over-emphasize the role or capacity of the state. A new approach is needed. It is one in which capital has to refashion its relationship with labour; in which labour has to develop a new and proactive project in its relationship with capital; in which new types of state involvement are required. And in which a broader institutional involvement is required with universities, technikons and research institutions, trade and industry federations, consumer organisations and environmental groups, amongst others, having a deeper and more relevant involvement with production.

On the one hand, therefore, we will seriously examine the distortions caused by particular state policies. On the other, hand the Industrial Strategy Project's policy proposals are likely to include carefully targeted interventions within and between sectors and between sectors and relevant institutions, both in the private sector and in the state.

The Industrial Strategy Project recognises that industrial restructuring of the required type cannot be achieved by bureaucrats writing the "best economic plan". It can only occur as a process, with all the major parties contributing to an identification of South Africa's economic weaknesses, on a sector-by-sector basis, and identifying the steps necessary to correct weaknesses and to take maximum opportunity of the potential for advance.

The research consultants on this project will engage local manufacturers, state bodies, employer federations and the relevant COSATU affiliates on these issues. Underlining this research project is the understanding that collaborative relationships - between manufacturers, companies and unions, the industry via employer federations and industrial policy makers - are an essential ingredient of any successful industrial policy.

A challenge for the Industrial Strategy Project is to map out a strategic path and set of policies for the manufacturing sector which ensure that such cooperation is possible and in which the role of labour can be enhanced. ✩