

What about local?

Ekurhuleni is the largest industrial concentration in South Africa. Understanding its economy is crucial for local government's ability to develop appropriate policies.

Lisenda Grace Mohamed explores its workings so as to examine the linkages between industrial policy and local economic development (LED).

Ekurhuleni has been the engine of industrial growth, but was hard hit by the impact of trade liberalisation and contractionary macroeconomic policy. Amongst the six metros, it reported the second highest unemployment rates and the lowest household incomes in 2003. The rise of unemployment was largely due to the poor performance of labour-intensive industries in the 1990s, with major reductions in employment in downstream industries such as metal products.

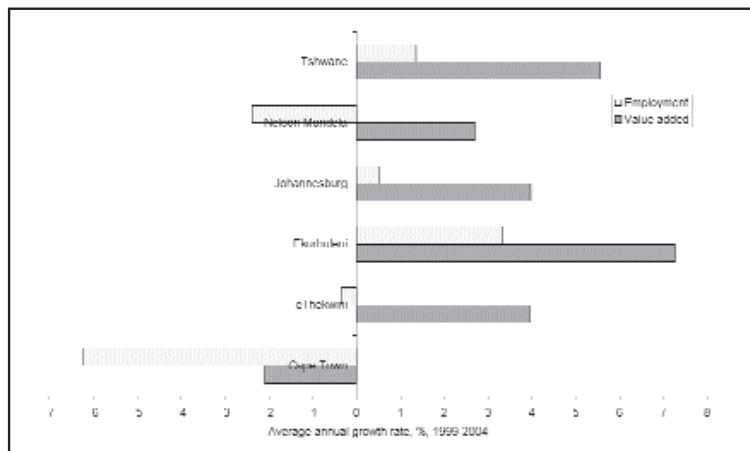
In more recent years, there have been signs of a turnaround. Manufacturing and employment growth has grown faster in Ekurhuleni than in any other metro in the past five years (1999 to 2004). The average annual growth of manufacturing output in Ekurhuleni was 7.3% per annum as compared to 3.1% nationally (see Figure 1). Manufacturing employment grew at an average annual rate of 3.3% in Ekurhuleni compared with continued contraction nationally (-1.4% change per annum).

FACTORS LEADING TO GROWTH

What has underpinned recent performance levels? This has implications for government's industrial policy and the links with local economic development.

The manufacturing firm survey of companies in Ekurhuleni emphasised the crucial factors of increased levels of

FIGURE 1: MANUFACTURING PERFORMANCE, BY METRO, 1999-2004



Source: Global Insight

investment in new machinery; higher spending on training and improved production capabilities, for growth and employment generation. Firms' investment and training expenditures jumped in 2004 compared with the previous year. These patterns are both closely related to increased employment with improved domestic demand being the main driver. Hence, some of the firms that have been growing have prioritised the importance of technology and competitiveness (which has led to more jobs) while also utilising government incentive schemes such as the

Small and Medium Enterprise Development Programme (SMEDP) and Export Marketing and Investment Scheme (EMIS).

SKILLS

It is clear from the survey that there is a group of dynamic firms that have achieved gains by adopting a quality-oriented strategy, which has led to better performance in employment and turnover growth.

The survey revealed that raw material is the main production cost (30% - 50%) for downstream plastic and steel industries. This

makes it difficult for firms to compete on price only. Therefore, the focus has been on quality and on-time delivery of products. Training and skilling (with high levels of employees without matric) has therefore become important to enhance competitiveness and ensure quality with an increased number of firms attempting to claim back their levies. Significantly, firms that recorded increases in wages and salaries did not necessarily reduce employment, suggesting that salary increases were linked to skills development.

Those growing employment appeared to be concerned about the challenges posed by skills constraints. Smaller firms faced problems of a lack of resources to provide on-going training in new techniques and production methods. Various sub-sectors in manufacturing appeared to be affected by specific skills shortages while key weaknesses in skills training appeared to be the misalignment of training offerings by tertiary education institutions to industry needs and the location of training facilities. Hence, firms that increased their training expenditures found that this was not being matched by the pace of improvement in tertiary training institutions and in public initiatives.

INVESTMENT AND TECHNOLOGY

Local demand has been instrumental in the development of local technological capabilities. The progress in local capabilities has also involved taking international products and reverse engineering them while adapting them to South African conditions in an incremental learning-by-doing process. Superior quality and innovation is increasingly becoming important for ongoing competitiveness and employment growth.

Total investment by the surveyed firms in Ekurhuleni has increased almost threefold and investment per employee almost doubled since 2003, but not at the expense of jobs. The importance of non-price competitiveness factors such as quality implies the importance of ongoing upgrading of production capabilities, including renewal of machinery and ongoing skills development. Increased investment in new machinery and equipment will be required, especially in view of expected growth potential in the region with the proposed expanded public works programme,

the Gautrain and the downstream benefits of the government's multi-billion rand capital expenditure programme.

PUBLIC TRANSPORT

Critical to employment growth and local economic development is the issue of both the availability and efficiency of public transport. Firms that cannot provide transport to workers are not able to increase shifts (especially late night shifts). The problem of public transport affects not only the number of shifts firms are able to run, but also productivity, which in turn affects output (in terms of volume and quality) and thus turnover. An increase in the number of shifts could generate additional jobs but also impact positively on quality and quantity of output and hence turnover.

The survey results coupled with interaction with industry revealed that the broader transport policy should be aligned with industrial policy. Acknowledgement has been given to the need to revitalise the rail system, but the importance of this needs to be repeatedly emphasised. This is pivotal, because the most marginalised and poor predominantly use trains, because it is still the cheapest mode of transport. In areas such as Ekurhuleni where rail lines are in place, no significant infrastructural investment will be required. Revitalising the rail system will not only increase employment for Ekurhuleni but will also create additional jobs in the transport sector. Therefore, for industrial policy to have any impact on local economic development in Ekurhuleni it needs to address public transport seriously.

INCENTIVE SCHEMES

The major thrust of industrial policy since 1994 has been trade liberalisation and the shift to supply-side incentive programmes to encourage broad-based manufacturing development. Use and awareness of the national incentive schemes is generally low. The firms, which are often able to access such incentives, tend to be those that have the means to do so – the large firms. The most widely used is the SMEDP followed by the EMIS. The two schemes also stand out as being associated with better performance. The firms that received funding from the Industrial Development Corporation (IDC) were also more

likely to train and focus on higher quality products and levels of technology.

While the supply-side programmes appear to have achieved limited impact at best, this does not imply that government measures are necessarily unimportant. The supply-side measures largely failed to address considerations of production linkages as well as the complex factors underpinning the development of capabilities and firms positioning. These would necessitate targeting policies to selected downstream manufacturing sub-sectors. An alternative approach, and not necessarily mutually exclusive, is to identify groupings of activities where there is potential and provide more targeted support to build clusters of activities. This starts from the premise that the performance of individual firms depends on a network of related firms and institutions that provide a pool of skills, intermediate inputs, ancillary services, and markets for intermediate products. Even with economic activity becoming globalised, there is increasing local agglomeration of clusters of activities within countries but such initiatives need to be tailored to specific industries.

CONCLUSION

The apparent problems around skills development and training (aligning training with industry needs and the resource problems facing small business in utilising the levy scheme), unless addressed, will hamper the development of production and technological capabilities necessary to improve competitiveness. Hence in interrogating industrial policy the alignment of training to industry needs has to be explored as well as issues relating to public transport, incentives to speed up investment in new machinery and equipment. Other areas of concern relate to access to markets, information, financing and the availability of shared testing facilities with public funded assistance (to test products to determine and improve specifications).

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