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International Trade, Manufacturing and Employment: The First Two Decades of South African Democracy

Authors : Phillip F. Blaauw, Anna M. Pretorius

Abstract : South Africa re-entered the international economy in the early 1990s, after Apartheid, at a time when globalisation was gathering momentum. Globalisation led to a more open economy, increased export volumes and a changed export mix. Manufacturing goods gained ground relative to mining products. After 21 years of democracy, South African researchers and policymakers need to evaluate the impact of international trade on the level of employment and compensation of employees in the South African manufacturing industry. This is important given the consistent and high levels of unemployment in South Africa. This paper has this evaluation as its aim. Two complimenting approaches are utilised. The 27 sub divisions of the South African manufacturing industry are classified according to capital/labour ratios. Possible trends in employment levels and employee compensation for these categories are then identified when comparing levels in 1995 to those in 2014. The supplementing empirical approach is cross-sectional and panel data regressions for the same period. The aim of the regression analysis is to explain the observed changes in employment and employee compensation levels between 1995 and 2014. The first part of the empirical approach revealed that over the 20-year period the intermediate capital intensive, labour intensive an ultra-labour intensive manufacturing industries all showed massive declines in overall employment. Only three of the 19 industries for these classifications showed marginal overall employment gains. The only meaningful gains were recorded in three of the eight capital intensive manufacturing industries. The overall performance of the South African manufacturing industry is therefore dismal at best. This scenario plays itself out for the skilled section of the intermediate capital intensive, labour intensive an ultra-labour intensive manufacturing industries as well. 18 out of the 19 industries displayed declines even for the skilled section of the labour force. The formal regression analysis supplements the above results. Real production growth is a statistically significant (95 per cent confidence level) explanatory variable of the overall employment level for the period under consideration, albeit with a small positive coefficient. The variables with the most significant negative relationship with changes in overall employment were the dummy variables for intermediate capital intensive and labour intensive manufacturing goods. Disaggregating overall changes in employment further in terms of skill levels revealed that skilled employment in particular responded negatively to increases in the ratio between imported and local inputs for manufacturing. The dummy variable for the labour intensive sectors remained negative and statistically significant, indicating that the labour intensive sectors of South African manufacturing remain vulnerable to the loss of employment opportunities. Whereas the first period (1995 to 2001) after the opening of the South African economy brought positive changes for skilled employment, continued increases in imported inputs displaced some of the skilled labour as well, putting further pressure on the South African economy with already high and persistent unemployment levels. Given the negative for the world commodity cycle and a stagnant local manufacturing sector, the challenge for policymakers is getting even more pronounced after South Africa’s political coming of age.

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