## ERSA-SARB CONFERENCE

*Finding a Path to Growth and Employment in South Africa*

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**SESSION REPORT**

# Session 8: Unlocking Manufacturing Growth in South Africa: Firm Productivity, Labour Mobility and Participation

**Presentation:** Professor Carol Newman, Trinity College Dublin (virtual)

**Date:** Friday, 6 March 2026

## Key Takeaways

- South Africa's manufacturing decline is driven by three interlocking micro-level mechanisms: weak within-firm productivity growth, distorted resource allocation between firms, and labour mobility that produces churn rather than progression. Addressing any one in isolation will not be sufficient.
- Productivity spillovers in South Africa flow disproportionately to firms that are already productive or already connected to foreign markets - reinforcing rather than closing productivity gaps across the firm distribution.
- Labour and capital misallocation reduced total factor productivity in manufacturing by an estimated 16 - 22% between 2010 and 2014. Historical legacies, including apartheid-era restrictions on occupational and geographic mobility, continue to contribute to misallocation today.
- Around 10% of manufacturing workers change employers annually, but nearly a third leave their new firm within a year. Transitions are as likely to be to lower-productivity firms as to higher-productivity ones - a pattern of job churn rather than career progression.
- The presentation proposed a "productivity proofing" framework for policy design: every industrial, trade, and labour market intervention should be assessed for its effects on resource allocation, firm dynamism, capability upgrading, and worker progression - not only on its primary objective.

## The Presentation: Micro-Level Mechanisms Behind the Manufacturing Decline

The presentation synthesised a growing body of micro-level evidence on South Africa's manufacturing sector, drawing extensively on firm-level research enabled by the tax administrative data available through the SA-TIED programme. It framed the manufacturing challenge not as a single problem but as **three interacting mechanisms**: constraints on productivity within firms, distortions in resource allocation between firms, and patterns of labour mobility and participation that fail to translate into productivity gains.

### *The Macro Picture*

The long-run trends are well established but were set out starkly. Manufacturing value added as a share of GDP has fallen from around 19% in the early 2000s to 12 - 13% by 2024 - a decline that was earlier and more persistent than in other BRICS economies. Employment in the sector has contracted from 15 - 16% to below 10% of total employment, with a net loss of roughly 200,000 manufacturing jobs in the last decade. The losses are concentrated in labour-intensive subsectors. Aggregate profits fell to around 2% by 2020–21. Investment has weakened, particularly in labour-intensive activities, while capital-intensive sectors have fared somewhat better.

The firm landscape is highly unequal. Large firms account for around 77% of income but only 42% of employment; small and micro firms provide roughly 40% of employment but just 12% of income. The top 20 manufacturing firms alone account for over 30% of sector income. Markups are high by international standards, though concentrated among a small group of dominant incumbents rather than at the median firm. Entry and exit rates are low, post-entry growth is weak, and the firm population is aging - nearly 60% of firms are more than ten years old. Manufacturing exports peaked before 2008 and have been in prolonged decline since the mid-2010s, with export participation concentrated among a small number of large, productive firms.

## *Mechanism 1: Within-Firm Productivity Constraints*

The first mechanism examined was the set of constraints preventing firms from becoming more efficient internally. Four factors were identified.

Innovation and technology adoption remain limited despite evidence that investment in R&D, product and process innovation, and automation are all associated with higher productivity. Policy measures such as the Section 11D tax incentive have been shown to increase reported R&D expenditure, but there is no robust evidence that this has translated into measurable productivity gains. The binding constraint appears to be not the technology frontier itself but the diffusion of technology to the broader firm population.

Productivity spillovers - the learning that firms gain from interaction with other firms - operate in South Africa through three channels: vertical linkages with foreign-owned upstream suppliers, engagement in two-way trade, and labour mobility. But in a pattern not seen in other countries, labour mobility generates positive spillovers only at the upper end of the productivity distribution. At the lower end, worker movement between firms actually produces negative spillovers. The net effect is that spillover mechanisms reinforce existing productivity gaps rather than driving convergence.

Input reliability acts as a productivity wedge. The cost and unreliability of electricity, water, and logistics do not merely impose short-term costs but have long-term consequences for technology upgrading, capacity building, and the ability to scale. Unreliable infrastructure erodes capacity utilisation, reduces the returns to technology investment, weakens export competitiveness, and damages investor confidence.

Capabilities - both managerial and worker-level - are the fourth constraint. The international literature is clear that management and organisational quality are central to firm performance: well-managed firms scale faster, adopt more technology, and are more likely to export. South Africa faces a data gap on management quality, but the international evidence suggests it could be a significant constraint. On the worker side, employment growth in manufacturing has been skill-biased, concentrated in higher-skilled occupations, while education and training systems have struggled to supply appropriate skills. Learnership programmes have shown only modest and short-lived employment gains.

## *Mechanism 2: Between-Firm Resource Misallocation*

The second mechanism concerns whether labour and capital are flowing toward the most productive firms. The evidence suggests they are not. A large share of the productivity differences observed in South African manufacturing reflects allocative inefficiency rather

than technological gaps. Research estimates that labour and capital misallocation reduced total factor productivity by 16–22% between 2010 and 2014, with distortions disproportionately affecting small and medium-sized firms.

Three sources of misallocation were identified from the literature and South African evidence. Statutory distortions - regulations, tariffs, and size-dependent rules - alter relative prices and market shares in ways that impede efficient allocation. A one standard deviation increase in import tariffs was found to reduce productivity by 3–6%, illustrating how trade protection intended to support domestic industry can have unintended consequences for allocative efficiency. Discretionary distortions, including preferential treatment of specific firms or sectors and subsidised credit, create further wedges. And market imperfections — monopoly power, weak property rights, incomplete financial markets - prevent resources from finding their most productive uses.

A striking finding was the persistence of historical legacies. Apartheid-era labour regulations that restricted occupational and geographic mobility are associated with an estimated 4-14% higher level of labour misallocation in the manufacturing sector today. The coexistence of high-markup incumbents with low-productivity, low-markup firms points to weak competitive selection at both ends of the distribution, a pattern also linked to the effects of mergers on resource allocation.

### *Mechanism 3: Labour Mobility Without Progression*

The third mechanism examined was labour mobility and its relationship to productivity. Labour mobility matters for productivity when it reallocates workers from low- to high-productivity firms, when it transmits knowledge and practices between firms, and when it supports sustained wage progression. The critical distinction drawn was between job churn - frequent movement in and out of employment or between jobs at similar levels - and job progression, the sustained movement into more productive or higher-paying firms.

The South African evidence points overwhelmingly to churn rather than progression. Around 10% of manufacturing workers switch employers annually, but nearly a third leave their new firm within one year. Transitions into lower-productivity firms are just as likely as transitions into higher-productivity ones. Wage growth depends on accessing firms that pay a wage premium and remaining in them, but for a large segment of the workforce this does not happen. The result is a dual labour market: an upwardly mobile group of productive workers who can transition to better jobs, and a larger group of low-productivity workers cycling in and out of employment without advancing.

Participation is further stratified by gender, youth status, and education. Women, particularly those with low education, have weaker labour market attachment, are more likely to sort into lower-paying firms, are less likely to transition to higher-wage-premium firms, and face gender wage gaps that widen over the life cycle. Structural constraints - spatial mismatch, search frictions, limited competition in product markets, and the disconnection of township economies from broader value chains - compound these patterns. Institutional features such as minimum wages, centralised bargaining, and contract regulation have mixed effects: some facilitate mobility within connected labour markets while constraining it elsewhere.

### *A Productivity Proofing Framework for Policy*

The presentation concluded with a challenge to the current policy architecture. Industrial policy in South Africa was described as ambitious and comprehensive, but the question posed was whether it targets the constraints that are actually binding. The argument was that industrial policy should not be thought of in isolation from trade policy, competition law, infrastructure investment, labour market regulation, and education — all of which shape the incentives and constraints facing firms and workers.

On within-firm productivity, the suggestion was to shift emphasis from expanding the technology frontier toward supporting the diffusion of technology to the broader firm population - reducing the fixed costs and risks of adoption, supporting non-exporting and domestic firms in process upgrading, and aligning skills development explicitly with technology absorption. On between-firm allocation, any form of protection or incentive should be assessed for its effects on allocative efficiency: does it create distortions in the allocation of labour and capital? Does it reduce competition? Does it allow less productive firms to retain disproportionate resources? Protection should be conditional on performance metrics, time-bound, and subject to review. On labour mobility, the focus should shift from employment creation alone to progression - addressing spatial and information barriers, strengthening school-to-work linkages, integrating township enterprises into broader value chains, and understanding the unintended effects of wage-setting institutions on mobility across the productivity distribution.

The overarching proposal was a “productivity proofing” framework: a systematic lens through which every policy intervention - industrial, trade, labour market, or competition - is assessed for its effects on resource allocation, firm dynamism, capability upgrading, and worker progression, not only on its stated primary objective.

## Audience Discussion

The audience discussion, though brief, raised two substantive questions. The first concerned the exit margin in South Africa’s manufacturing sector. The evidence presented suggested that exit rates are low by international standards and that the firm population is aging, with the challenge being less about productive firms leaving and more about unproductive firms persisting. The implication is that the allocative efficiency problem is as much about insufficient exit of low-productivity firms as it is about barriers to scaling for high-productivity ones. More granular research on the relationship between firm productivity and exit was identified as a priority.

The second question probed the link between productivity and investment at the macro level - whether the learning-by-doing dynamic, in which productivity improvements follow from investment in new processes and capital, could help explain the stagnation observed when aggregate investment is weak. The response acknowledged that micro-level evidence confirms links between process investment, R&D, and firm-level productivity gains, but noted that the macro-level implications - whether reviving investment could unlock a broader productivity recovery - have not been systematically investigated and represent an important gap in the evidence base.

## Implications for Growth and Employment

This session provided the most granular account of any at the conference of the micro-level mechanisms that underpin South Africa's manufacturing decline. The picture that emerged is one of compounding constraints: firms that struggle to adopt technology and improve efficiency internally; a resource allocation system that rewards incumbency rather than productivity; and a labour market in which mobility produces instability rather than advancement. These three mechanisms interact - weak within-firm productivity limits the gains from reallocation, distorted reallocation prevents productive firms from scaling, and churn-dominated mobility fails to transmit knowledge or support wage progression.

The most important contribution to the broader conference discussion was the concept of productivity proofing - the idea that every policy instrument, whether it targets industry, trade, competition, or the labour market, should be evaluated for its effects on the allocation of resources, firm dynamism, and worker progression. This resonates directly with the conference's recurring finding that South Africa tends to overload individual policy instruments with multiple objectives. A productivity proofing lens would discipline that tendency by requiring policymakers to ask, for every intervention: does this help resources flow to where they are most productive?

For the growth and employment agenda, the actionable implications include: prioritising technology diffusion over frontier expansion in innovation policy; investing in systematic measurement of management quality and targeted capability-building interventions for both managers and workers; reviewing trade protection for its effects on allocative efficiency, with sunset clauses and performance conditionality; addressing the spatial, informational, and institutional barriers that prevent labour mobility from translating into career progression; and embedding productivity proofing as a cross-cutting principle in the design and review of all economic policy.