

# INCLUSIVE GROWTH AND WAGE INEQUALITY: THE CASE OF SOUTH AFRICAN MANUFACTURING EXPORTERS

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# Introduction

- Link between a vibrant export sector and strong economic growth
- 2030 Agenda for Sustainable Development identifies exports as an engine for inclusive growth
  - springboard for poverty alleviation, job creation and more sustainable societies
- However, exporting also poses a challenge to the achievement of such inclusive growth
  - discernible wage inequality between exporting and non-exporting firms
- Exporting firms pay a wage premium relative to non-exporting firms
  - wage gaps have widened over the years in line with expanding global trade

# The case of South Africa

- South Africa's economy
  - trade liberalization since 1990s, export sector is ripe for expansion and diversification
  - one of the most unequal societies in terms of wage distribution
- The correct policies are therefore required
  - to stimulate a more robust, job-enriched export sector while also minimising the risk of negative reactions from non-exporting businesses
- Aim: to investigate how South Africa's export participation affects the wage distribution within the manufacturing sector
  - manufacturing exporters employ more people and pay higher wages than non-exporters
  - limited work has been done:
    - how these higher wages are distributed within manufacturing exporting firms relative to non-exporting firms (e.g. do all employees earn a wage premium or only some of them?)
    - how this wage differential contributes to wage inequality

# Multi-party initiative

- Multi-party initiative was launched to provide an informed base for policy makers on South Africa's labour market
  - policy makers from
    - South Africa's National Treasury,
    - the South African Revenue Service (SARS),
    - UNU-WIDER and
    - academics from North-West University and Stellenbosch University (among others)
- Unique to this initiative was the use of newly available South African firm-level data
  - a panel dataset from 2010–2014 was created by linking company income tax data (CIT), employee data (IRP5) and customs data

# Literature overview

Different strands of literature:

- Wage differential between exporting and non-exporting firms
- Skilled versus low-skilled workers (wage inequality)
- Wage distribution within firms
- Heterogeneous nature of exporters

# Data and descriptive statistics

Characteristics of different firms (serving domestic, African and non-African countries)

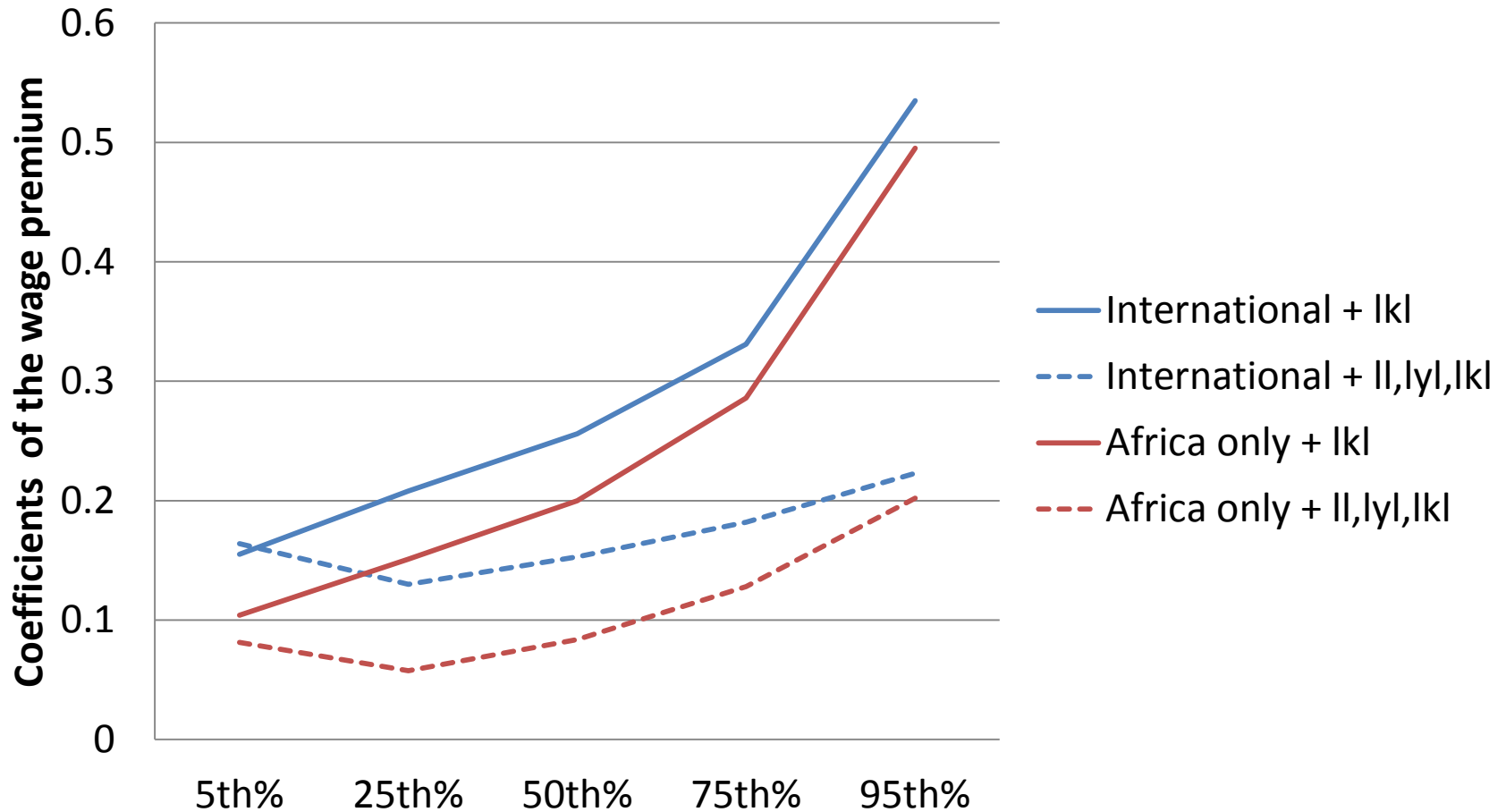
	Number of firms	Number of employees	Capital per worker (ZAR)	Output per worker (ZAR)
<b>Non-exporters</b>	<b>25 127</b>	<b>7</b>	<b>22 677</b>	<b>545 235</b>
<b>International exporters</b>	<b>2 836</b>	<b>22</b>	<b>47 379</b>	<b>995 415</b>
<i>Continue</i>	2 228	32	55 492	1 185 082
<i>Enter</i>	817	22	48 397	1 050 613
<i>Exit</i>	170	11	38 249	750 550
<b>African exporters</b>	<b>2 377</b>	<b>15</b>	<b>30 585</b>	<b>880 713</b>
<i>Continue</i>	2 834	19	32 426	962 327
<i>Enter</i>	1 468	14	32 072	920 840
<i>Exit</i>	383	12	27 257	758 971

*Note: These are the median figures for these six groups for 2010–14.*

*Source: Authors' own calculations*

# Results

Distribution of the coefficients of the wage premium: firms serving domestic, African and non-African countries, with different controls

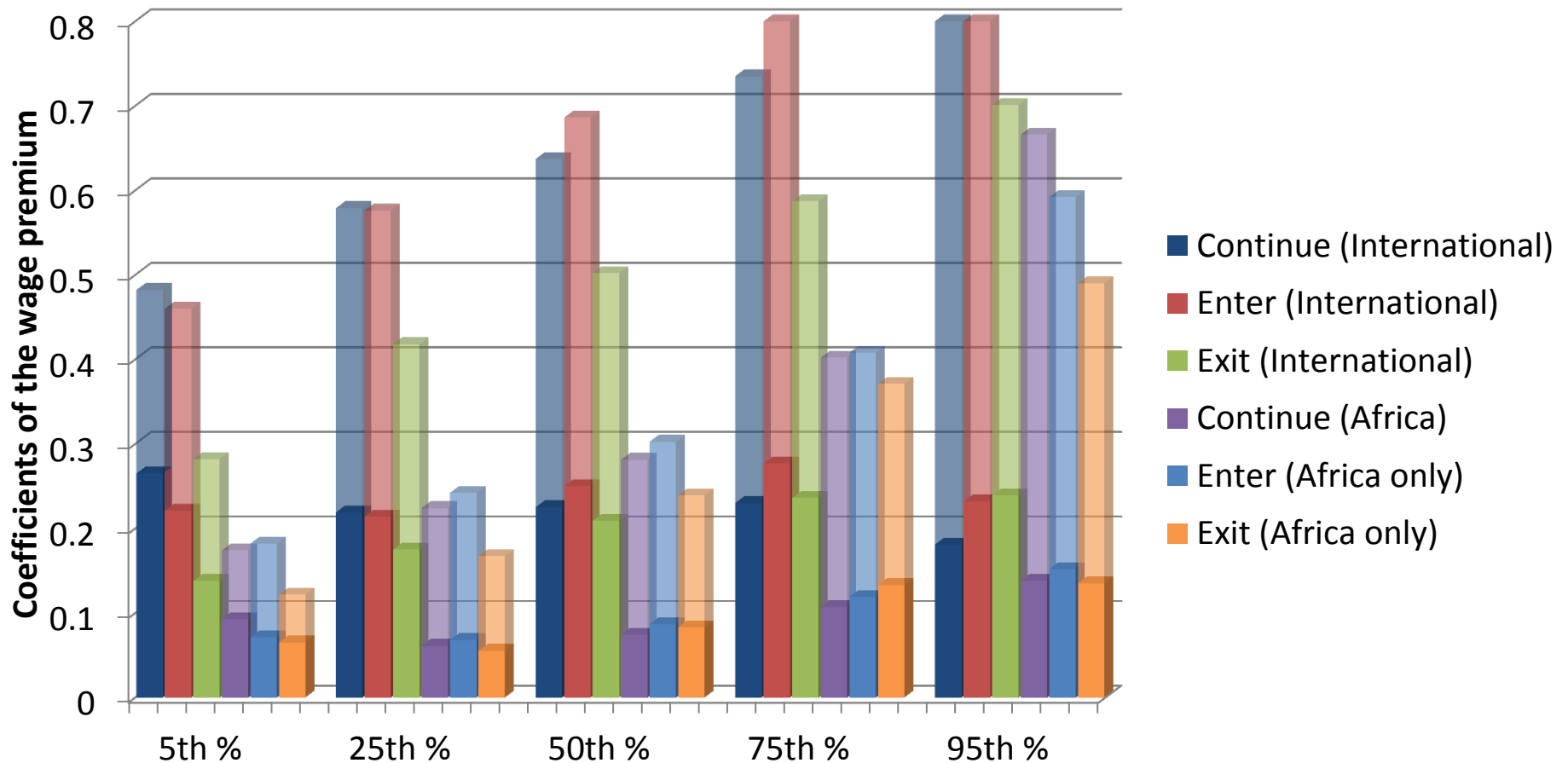


*Note: Premium relative to non-exporters*

*Source: Authors' own calculations*

# Results

Distribution of the coefficients of the wage premium: exporter dynamics (to African and non-African countries)



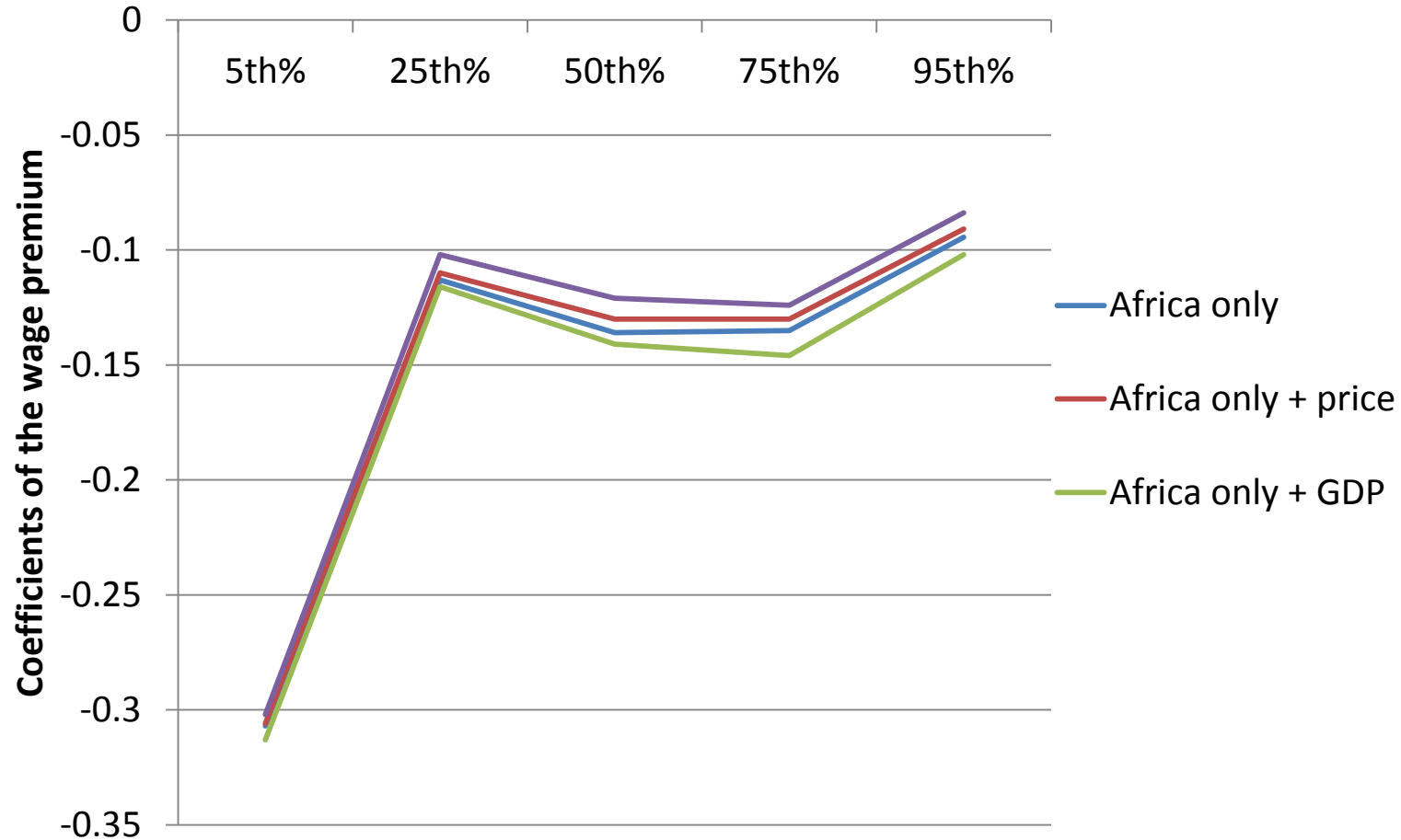
*Note: Premium relative to non-exporters*

*Source: Authors' own calculations*



# Results

Distribution of the coefficients of the wage premium (inequality):  
firms exporting to African and non-African countries



*Note: Relative to international firms*

*Source: Authors' own calculations*

# Conclusion

- Policies to support specific types of exporting firms (as opposed to all exporters) to achieve inclusive growth
  - Specific interventions might include:
    - providing financial support and market information
    - targeting investment in sectors with strong export growth potential
    - adapting trade and investment policy to allow cost-effective sourcing from abroad
    - encouraging more competition in the local market
- Policies to improve education and skills development
  - Specific interventions to increase the supply side of skilled workers (reducing premium paid to skilled workers):
    - building capacity and accountability in schools and other education/training institutions
    - reducing government red tape in the education and training sectors
    - providing greater incentive to firms to engage in staff training and development.
    - open up the education/training sector to more foreign participation
    - ensuring that low-skilled individuals participate in life-long learning opportunities
- Scope for further research

# Acknowledgements

- All the authors would like to thank the United Nations University World Institute of Development Economics Research and South Africa's National Treasury for funding support. Also, they would like to thank the South African Revenue Service for the data.
- In addition, Carli Bezuidenhout acknowledges the financial assistance of the World Trade Organization (WTO) towards this paper. Opinions expressed and conclusions arrived at are those of the authors and should not necessarily be attributed to the WTO.
- Finally, Marianne Matthee acknowledges the support from the National Research Foundation (NRF) of South Africa (Grant Number 90709). Furthermore, any opinion, finding and conclusion, or recommendation expressed in this material is that of the authors and the NRF does not accept any liability in this regard.