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)

<table>
<thead>
<tr>
<th></th>
<th>Number of firms</th>
<th>Number of employees</th>
<th>Capital per worker (ZAR)</th>
<th>Output per worker (ZAR)</th>
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<tbody>
<tr>
<td>Non-exporters</td>
<td>25 127</td>
<td>7</td>
<td>22 677</td>
<td>545 235</td>
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<tr>
<td>International exporters</td>
<td>2 836</td>
<td>22</td>
<td>47 379</td>
<td>995 415</td>
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<td>11</td>
<td>38 249</td>
<td>750 550</td>
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<tr>
<td>African exporters</td>
<td>2 377</td>
<td>15</td>
<td>30 585</td>
<td>880 713</td>
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<td>383</td>
<td>12</td>
<td>27 257</td>
<td>758 971</td>
</tr>
</tbody>
</table>

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

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