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Factories going quiet: How industrial stagnation in South Africa erodes competitiveness

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South Africa's competitiveness debate is often framed around short-term constraints: exchange-rate volatility, electricity shortages, or weak global demand. These factors matter. But they do not explain why periods of recovery fail to translate into sustained export growth or durable improvements in productivity. The deeper problem lies in industrial stagnation. Over the past three decades, the manufacturing sector has lost momentum, and with it, South Africa's long-term competitiveness.

This is not a story of collapse. It is a story of flattening production, rising import penetration, and constrained export capacity, whose effects accumulate slowly but persistently.

Why industry matters for competitiveness

Manufacturing plays a central role in long-run economic development. It is the sector most closely associated with learning-by-doing, scale economies, technological upgrading, and export diversification [1]. Countries that sustain industrial growth tend to expand exports, improve cost competitiveness, and move into more complex products over time [2]. When industry stagnates, these channels weaken together.

In South Africa, manufacturing has not disappeared, but it is no longer a dynamic engine of competitiveness. This pattern is consistent with broader evidence on premature deindustrialisation, where industrial activity peaks and declines at relatively low income levels [3].

How the data show industrial stagnation

Industrial stagnation becomes visible when production, trade, and structure are examined jointly rather than in isolation.

Manufacturing output

Real manufacturing gross value added (GVA) increased gradually from the mid-1990s to the mid-2000s. Since then, growth has been weak and uneven. Indexed to the mid-1990s, manufacturing output flattens after the global financial crisis and fails to establish a strong upward trajectory thereafter [4][5]. This pattern points to persistent underperformance, not a temporary downturn.

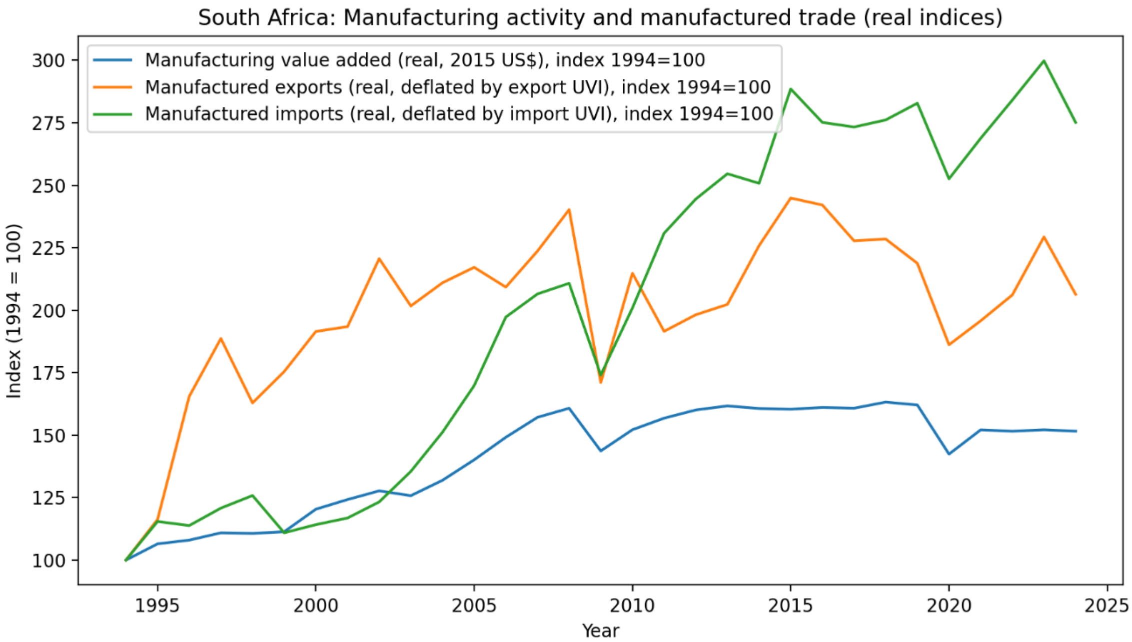
Exports and imports in real terms

Trade data reinforce this picture. Manufactured exports fluctuate with global cycles, but their long-run momentum weakens alongside domestic production. Manufactured imports, by contrast, continue to rise strongly over time.

Crucially, exports and imports are examined in real terms, deflated using unit value indices (UVIs).[1] Deflating by UVI removes price effects and ensures that trade series reflect quantities rather than inflation. This distinction matters. Rising nominal exports driven by prices do not indicate improved competitiveness; rising real imports do indicate growing import penetration [6].

Figure 1 compares three things over time: how much South Africa produces in manufacturing, how much it exports, and how much it imports. All three are shown in real terms, meaning the effects of inflation have been removed, and the lines are indexed so that changes over time are easy to compare. The figure shows that manufacturing output grew slowly in the early years but has largely flattened since the mid-2000s. Manufactured exports follow a similar pattern, rising at first but losing momentum over time. Manufactured imports, however, continue to grow steadily and now rise much faster than both production and exports. In simple terms, the figure shows that South Africa is producing and exporting less relative to the amount it imports. This widening gap points to a weakening manufacturing base and increasing reliance on foreign manufactured goods.

Figure 1. Manufacturing GVA, exports, and imports in South Africa (1994–2024)



Sources: Authors own computation; Data from the World Bank & Statistics South Africa.

From stagnation to competitiveness: what the regressions show

Descriptive evidence shows *what* is happening. To understand *why it persists*, we estimate long-run relationships between industrial performance and competitiveness outcomes using a national time-series framework for South Africa covering 1994–2024, examining how changes in domestic manufacturing performance over time are associated with export capacity, production costs, and export sophistication. Manufacturing performance is proxied by real manufacturing output, interpreted as a measure of system-wide productive capacity. Manufacturing is treated as an aggregate sector in order to capture overall industrial strength rather than sub-sectoral dynamics, which are left for future research.[2] Competitiveness is measured using three indicators: manufactured exports, unit labour costs, and export sophistication. Exports and labour costs are shown in percentage terms so that the results tell us how much they rise or fall when manufacturing changes. Manufacturing output, by contrast, is treated as a measure of how much the country is able to produce. It is used to represent industrial capacity rather than demand.[3] Controls include the real effective exchange rate (REER), foreign demand, and energy constraints.[4]

The focus is on long-run equilibrium relationships, abstracting from short-term volatility.

Table 1. Long-run relationship between industrial performance and competitiveness

Dependent variable	Manufacturing output	REER	Foreign demand	Energy constraint
Manufactured exports (log)	**0.62***	–0.31**	0.44**	–0.21*
Unit labour costs (log)	**–0.47**	0.12	–0.08	0.29**
Export sophistication	**0.38**	–0.05	0.26*	–0.17*

Notes: Long-run coefficients from Autoregressive Distributive Lag – Error Correction Model (ARDL–ECM) specifications. Robust standard errors omitted for brevity. *, **, *** denote significance at the 10%, 5%, and 1% levels.

Interpreting the results

Three key findings stand out.

First, countries that produce more manufactured goods tend to export more of them over time. In simple terms, South Africa cannot export what it does not produce. While a weaker or stronger rand can affect exports in the short run, exchange rates cannot replace a strong and growing manufacturing base.

Second, when manufacturing grows, firms become more efficient. Higher productivity helps keep production costs down. But when manufacturing stagnates, productivity improvements slow, costs rise relative to output, and local producers struggle to compete, even if wages are not increasing rapidly.

Third, stronger manufacturing performance is linked to exporting better and more complex products. Expanding industry allows firms to learn, improve quality, and move into higher-value goods. When industry stagnates, the economy becomes stuck exporting simpler, lower-value products.

Taken together, these findings show that industrial stagnation undermines competitiveness in several ways at once: it limits how much the country can export, raises relative costs for local producers, and prevents movement into higher-value activities.

These are long-run associations rather than strict causal effects. Manufacturing output, exports, and competitiveness are jointly determined, and feedback effects are likely.[5] But the direction of travel is clear: a weak industrial base and weak competitiveness go hand in hand.

Why stagnation persists

The analysis shows that once manufacturing weakens, it takes a long time to recover. In practical terms, this means that damage to industrial capacity does not easily reverse. When factories close, firms delay investment, or supplier networks break down, the economy cannot quickly rebuild these capabilities, even when overall economic conditions improve.

This helps explain why South Africa's exports and cost competitiveness remain weak, even during periods of strong global demand or when the rand depreciates. Temporary boosts from global cycles or exchange-rate movements are not enough to overcome deeper, structural problems. Over the long run, these structural constraints matter far more than short-term economic ups and downs [3].

Policy implications

Industrial stagnation is not merely a problem affecting one sector of the economy; it shapes South Africa's long-term growth path. Three implications follow. *First*, stable and reliable basic inputs are essential, as sustained industrial investment depends on reliable electricity, efficient logistics, and regulatory certainty. *Second*, investment is the critical hinge on which industrial recovery turns. Without consistent investment in manufacturing, productivity growth will remain weak, and firms will struggle to upgrade into higher-value activities. *Thirdly*, competitiveness requires policy coherence. Industrial policy, trade facilitation, skills development, and infrastructure investment must work together and reinforce one another, rather than being pursued in isolation.

Conclusion

South Africa's industrial stagnation is a competitiveness problem in slow motion. The data show a flattening of manufacturing output, weak export momentum, and rising real imports. The regression evidence demonstrates that this stagnation systematically erodes export capacity, worsens cost competitiveness, and limits export upgrading over the long run.

The factories going quiet today define the limits of tomorrow's growth. Reversing this trend is not about nostalgia for manufacturing; it is about rebuilding the productive foundations required for sustained competitiveness.

References

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Note: This article is written independently of the University of South Africa. The affiliation listed reflects the author's current position only.

Footnotes

[1] Unit value indices (UVIs) estimate the average price of traded goods by dividing trade value by trade quantity. They are used to remove inflation from trade data so that real changes in how much South Africa is actually importing and exporting can be observed.

[2] Manufacturing is treated as an aggregate sector in order to capture system-wide industrial capacity. While important compositional shifts have occurred between sub-sectors over time, the objective here is to assess whether the overall industrial base is strengthening or weakening. Sector-level dynamics are left for future research.

[3] Manufactured exports and unit labour costs are expressed in logarithmic form so that coefficients can be interpreted as elasticities. Manufacturing output enters in levels as a proxy for productive capacity rather than a demand variable.

[4] Foreign demand is proxied by a trade-weighted index of GDP growth in South Africa's major export destinations. Energy constraints are proxied by an electricity supply disruption index based on Eskom load-shedding stages and supply shortfall indicators.

[5] The estimated relationships represent long-run equilibrium associations rather than causal effects. Manufacturing output, exports, and competitiveness influence one another over time, and feedback effects are likely.