COVER STORY

An evaluation of industrial policy perspectives **in the South African context**

In order to facilitate meaningful debate in Nedlac's Trade and Industry Chamber a discussion paper was prepared by sociology researcher ***Andries Bezuidenhout*** *to evaluate different approaches to industrial policy.*

Countries are becoming more economically interconnected as trade barriers between them are dismantled. In the context of trade liberalisation, the way in which goods and services are produced has changed significantly – commodity chains now span across national boundaries, and many products are assembled in several countries. In this context, the role of the state, and particularly in developing countries, has come under renewed scrutiny. New approaches to industrial policy have emerged, as the traditional model of Import Substitution Industrialisation (ISI) is no longer available in its classical form. These approaches focus specifically on how developing countries are affected by the global process of industrial restructuring – or how countries are incorporated into the global production process along commodity chains.

Processes of policy analysis and research can no longer focus on the national level – the local and the national must be grounded in global processes of restructuring. Various states are 'inserted' into global commodity chains in different ways. Hence, one can no longer talk about 'best practise' in policy making in an unproblematic way. Commodity chains are not static, and are influenced by processes of national policy. The aim of industrial policy should therefore be to 'insert' the national economy into global commodity chains in a way that reduces vulnerability and risk. Hence, industrial policy is not a matter of whether the state has a role to play, but what the appropriate role is.

Historically, however, debates on the ability of industrial policy to shape development within a capitalist framework revolved around different perspectives on the nature of relationships between states and markets. On the one end of the spectrum, institutions such as the World Bank traditionally supported a neoliberal approach. In this model, industrial development should be market-driven, with a minimalist role for the state to play in influencing industrial structure. On the other end, the model of the developmental state saw a central role for the state in shaping industrial structure through industrial policy measures such as the targeting of certain industries for investment or for other supportive measures.

Debate on industrial policy

Debates and a conscious focus on industrial policy became prominent globally since the late 1970s. In the mid-1980s, the debate subsided to some extent, but in the 1990s, renewed attention was paid to the issue.

Since the 1930s, governments tended to play a central role in their economies through demand-side macroeconomic management. These demand-side measures included various ways of boosting domestic demand, such as minimum wages, coupled with the protection of local industries by import tariffs. The intention was to facilitate the development of local industries. This approach to industrialisation is known as import

substitution or ISI. However, this 'golden age of capitalism' came under pressure because of rising inflation and the oil crisis in the early 1970s. Governments started to abandon these demand-side policies for neoliberal policies, implying a withdrawal from the economy through privatisation, trade liberalisation and flexible labour markets.

Trade liberalisation exposed many developed countries to competition from certain Asian economies, notably those of Japan and South Korea. This drew attention to the role played by the governments of those countries in facilitating industrial development. Many of these governments used a combination of supply-side and demand-side measures to stimulate and to strengthen their manufacturing industries. Certain industries were targeted for export promotion. They would initially be protected to develop capacity to serve domestic markets while receiving considerable support from governments through various supply-side measures, including state-funded research and development, financing and tax incentives.

Recent debates on the impact of globalisation on societies have drawn renewed attention to the need for governments to cushion some of the negative social effects of globalisation. A re-evaluation of the relationship between state and markets has taken place. This has given rise to new perspectives, some of which draw on the notion of industrial policy to shape the outcome of neoliberal globalisation.

Perspectives on industrial policy in the SA context

The broad industrial strategy followed since the 1920s in South Africa, even though not consciously framed in those terms, seemed to display three main characteristics:

- It contained some elements of import substitution industrialisation by means of protecting local industries from competition through import tariffs. To what extent tariffs protected local industries is subject to debate.
- The state played a significant role in setting up corporations to drive a programme of industrialisation. During the sanctions era, the state attempted to use corporations to supply key resources, such as fuel extracted from coal through Sasol.
- A dual labour market was created, where white South Africans were incorporated into a limited welfare state and were accorded labour rights, whereas black South Africans were formally excluded through a repressive labour regime.

During the 1980s the industrial policy of the apartheid government started to shift towards a position where tariff reform and privatisation were supported. However, decisive steps on economic reform, especially privatisation, could not be taken because of the illegitimacy of the government.

As with all policy, the making of industrial policy does not take place in a social vacuum. Policy is always influenced by the articulation of vested interests. When it became clear in the early 1990s that South Africa would enter a transition process based on a negotiated settlement, industrial policy as a way to address the legacies of apartheid capitalism received renewed attention. Debates on the relationship between the state and market became an area of intense contestation. During these debates, a number of major perspectives emerged. All the approaches agree that it is important to strengthen manufacturing. In the context of a mineral rich country such as South Africa, policy measures can be aimed at moving up the value chain – focusing on adding more value to commodities through manufacturing before exporting goods or selling it to the local market. This form of industrial restructuring would attempt to strengthen the local manufacturing industry.

But the perspectives have radically different approaches to how this should be brought about, and what role the state should play.

- The World Bank approach follows the orthodox neoliberal approach where the market should determine the cost of labour and capital. The state's role is limited to that of a regulator. In more recent times the World Bank's position has shifted to increasing the importance of an industrial strategy (the extent of government involvement is not clear).
- The post-Fordist approach became prominent through the work done by the Industrial Strategy Project (ISP) in the early 1990s. At the request of Cosatu, the ISP conducted detailed case studies of several of

the South African manufacturing sectors in order to devise an industrial strategy to improve performance. According to the ISP analysis, South Africa's industrial structural deficiencies can be traced to the decline of the manufacturing sector brought about by the sustained regime of import substitution. Since

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manufacturing firms were protected from global competition, the South African manufacturing industry relied on dated technology and managerial techniques. In addition, the unequal income distribution patterns that mainly favoured white South Africans led to a saturation of the local market. Hence investment in the manufacturing industry, as well as productivity levels, declined. This approach emphasises trade liberalisation, and supporting an export-oriented manufacturing industry through supply-side measures, human resource development, and technological policy.

- The Porterist approach entered the debate following a study conducted by the Monitor Company on behalf of the National Economic Forum in 1994. The Porterist approach to competitiveness assumes that it is 'firms that compete and not nations'. However, government still has an important role to play. Monitor argued that the 'most productive role of government is to improve the quality of the inputs (factors) firms can draw upon, and to define a competitive environment and rules of the game that promote innovation and upgrading'. Competitive advantage does not only relate to individual firms, but also to cooperation between different firms in so-called 'clusters', they said. Monitor believed the state could play an important role in facilitating cooperation in certain 'clusters'.
- Whilst the ISP located the reason for South Africa's economic decline in the manufacturing industry,

economists Ben Fine and Zav Rustomjee questioned the extent to which the manufacturing industry is central to the South African economy. They argued that if South Africa wanted to build an economy of scope and scale based on manufacturing, industrial policy considerations had to take into account the influence of powerful corporate interests in the economy, and how these interests shape the role of the state. Fine and Rustomjee's political economy approach questions the assumption that South Africa has moved away from a minerals-based economy to an economy based primarily on industrial manufacturing. Industrial policy measures proposed include demand-side measures through the development of infrastructure, as well as the targeting of manufacturing industries that can build on the strengths of the minerals energy complex.
- The Global Commodity Chain approach has emerged in more recent debate. This approach recognises that industries do not operate nationally but transnationally and that it is important to look at production as a process and how each production process links backward into agriculture and mining and forward into retail. The real issue here is how these commodity chains are controlled globally and where different countries fit into the commodity chains. Developing countries are generally locked into the lower end of the commodity chain. Therefore, the issue

for industrial strategy is to attract the higher value added activities into the country – or to 'upgrade' along existing value chains.

One has to take into consideration what is included in, as well as what is excluded from industrial policy. It would seem that different components of industrial policy are prominent at different times. Therefore, definitions of industrial policy are not neutral, 'because of what is included and what is excluded'.

South Africa has never had a clear industrial strategy in the 1990s that could have led to a coherent set of industrial policy measures. Hence, the role of the dti, as well as the Industrial Development Corporation (IDC), has generally been used as a yardstick to assess current government thinking on industrial policy. Documents such as the section on industrial policy in the Growth, Employment and Redistribution strategy (Gear), as well as other the dti discussion documents, were used as indicators for the thinking of government officials on the status and direction of industrial policy.

Generally speaking, the industrial policy orientation shifted towards what the dti called a supply-side orientation, where import substitution made way for export-led growth. This movement is in line with the proposals of especially the World Bank, the Porterist and some of the elements of the post-

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Fordist perspective. Alongside a programme of import tariff reduction, the dti put in place a general set of supply-side measures, including a tax incentive scheme and the provision of low interest loans to companies in industries undergoing rapid tariff reductions. Legislation governing competition was reviewed, and new agencies were created to support the development of small business. It also embarked on spatial development initiatives (SDIs) and industrial development zones (IDZs) in order to attract investment to certain geographical regions.

In the context of a policy of export-led growth, it is interesting to note in which sectors of the manufacturing industry jobs have been created. From 1996 to 2000, the highest growth rate in employment has been in plastic products, leather & leather products and wood & wood products (not including furniture). These sub-sectors of manufacturing each achieved annual average growth rates above 5%. In only three other sub-sectors (out of the 27 main sub-sectors in manufacturing) was employment in 2000 higher than in 1996.

Two of these sectors (plastics and leather products) may have benefited from active government industrial policies – such as the MIDP. However, the argument that government should be more pro-active in the targeting of certain industries seemed to lose ground. Two reasons given for this is the perception that the dti does not have the capacity to do this successfully, and the concern that some of these measures may not be admissible under the World Trade Organisation rules. (However, there now seems to have been a shift in this area with the focus on targeting sectors in the draft manufacturing strategy.)

It is also important to recognise that the way in which the government's macroeconomic policy was introduced, and the strict adherence to fiscal discipline, closed down some of the space provided in the RDP framework to couple supply-side measures with demand-side measures. Hence, an industrial strategy that could focus on economic growth through infrastructure development and the meeting of basic needs became undesirable in the broader policy framework adopted by the government.

Conclusion

Countries occupy different positions in the world economy, and governments function from different positions of power. Yet, there remains significant scope for industrial policy to shape processes of industrial restructuring. A key area of concern in the context of globalisation is how national economies are 'inserted' (incorporated) into global commodity chains. South Africa's manufacturing industry has not been able to build a downstream economy of scope and scale on the benefits provided by a minerals-rich context. An important step would be to develop a better understanding of how trade liberalisation and other macroeconomic changes have impacted on the South African industrial structure – ie the extractive, beneficiation, manufacturing, retail and service sectors have to be analysed in relation to each other. But such an analysis has to take seriously the fact that commodity chains operate transnationally.

There appears to be a growing convergence of interests since the presidential jobs summit in 1998 around the need for a more active role for government in industrial development, particularly with a view to job creation. It is evident that such an approach requires concrete inputs from all social partners. The areas that could be built on, are:

- Links between the sector summits and specific industrial policy measures addressing specific needs of sectors.
- A regional analysis of the sector development across the SADC countries. This applied to heavy industry such as Mozal as well as the development of the clothing and textiles sectors to maximise the potential gains from AGOA.
- An understanding of the role of key institutions such as the IDC in building strong capabilities in downstream manufacturing sectors.
- Measures to strengthen overall South African value chains to build competitiveness and create jobs.
- Draw on the existing sector specific research to understand the development dynamic. LB

This is an edited version of the discussion document prepared by the Sociology of Work Unit, University of the Witwatersrand in association with the Nedlac Research Department. The full version can be found on the Nedlac website (which will include a comparative study of Malaysia, Ireland and Mauritius).