



Special report

Industrial policy

Many economists argue that every country needs an industrial strategy. Countries like the US even have one – they have the military. In South Africa, some might well argue that the multi-billion rand arms deal was an attempt at following the US example. Needless to say, Cosatu has often stated that the country has a trade rather than industrial policy. It is therefore interesting and opportune to note that in the build-up to the next round of World Trade Organisation (WTO) talks in Hong Kong, a process has been initiated by the DTI to finalise an industrial policy. The **Labour Bulletin** explores the origins of the renewed focus on an industrial policy, current debates and whatever happened to the ill-fated Integrated Manufacturing Strategy (IMS)

The DTI recently held a workshop, attended by some prominent economists including Cambridge University economics professor and industrial policy specialist Ha-Joon Chang, to exchange views amongst key constituencies on a new industrial policy. Discussions and input provided by Chang highlighted the need for the state to do more to support development; the importance of targeting sectors; getting

the country's macro-economic policy right and dealing with unemployment. This workshop, whether the intention of the DTI or not, clearly revealed that things have to change. Within a matter of weeks following the workshop, finance minister Trevor Manuel announced in his medium term expenditure framework the need for a developmental state. How this would impact on the focus of his department also remains unclear.

What has become clear is that government has begun to rethink its existing strategies around industrial development and the role it plays in the economy. This emerged more sharply following the January cabinet lekgotla this year. The usage of the term 'developmental' state began to be used in some quarters. Speaking at Cosatu's central committee (CC) meeting in August, DTI minister Mandisi Mphahla said the 'need for

Will it have the power to change the economy?



an industrial policy has been emphasised in a number of platforms this year - from the SA Communist Party (SACP) Policy Conference in April which highlighted the importance of sector strategies within a coherent industrial policy to create decent jobs to the June ANC NGC which acknowledged the need for a clearly articulated industrial strategy to lead the economy towards a new pattern of development, which involves a diversified, value-added industrial base. Following the Cosatu CC, the ANC Economic Transformation Committee (ETC) held a workshop on industrial policy and the developmental state.

Amidst all these workshops and conferences, governments' seriousness in drafting a new industrial policy appeared to be reflected in the decision by President Thabo Mbeki to appoint parliamentary portfolio head for trade and industry Rob Davis as one of two deputy ministers to Mpahlwa. His appointment is seen to be critical in driving a new policy. The man in the department responsible for the process, Nimrod Zalk, Chief Director, Industrial Policy, Enterprise and Industry Development Division argues that the renewed interest and call for an industrial policy comes from a new emphasis on the role of the state and the concept of a developmental state. Part of the

reason why a call for a developmental state has emerged is based on the fact that there has been sufficient time for an analysis of the reform process domestically and internationally where the one-size fits all approach has not delivered the growth as promised. Mpahlwa concurred with this '...increasing evidence from the experience of developing countries indicate that the economies that have grown fastest have been the one's that have not blindly implemented 'Washington Consensus' policies. While they have maintained macroeconomic stability, they have intervened selectively and intelligently in their industrial markets. This is particularly true of the East Asian Tigers.

FROM ISP, IMS TO NOW

This is not the first attempt to develop a formal industrial policy. In June 2002, the Labour Bulletin (SALB 26 (3)) provided an overview of the attempts by the DTI at the time to draft an industrial strategy following consistent criticism that the department had failed to come up with one. The department argued that the country did have a strategy but it had not been written down in one document. Some viewed the process hence as an attempt to put in writing what was inside the head of former DTI minister Alec Erwin.

The process around the drafting of the IMS is rather vague and now the subject of numerous anecdotal stories as to who, how, when. Needless to say the official launch of the document in April 2002 was preceded by the release of the Micro-economic Reform Strategy (MERS), which emerged following a cabinet lekgotla in January 2002.

Within a month of the release of the IMS, it became the subject of public hearings in the parliamentary portfolio committee. At the time the DTI's DG Alistair Ruiters indicated that the various comments would be incorporated into a final draft, which would be presented to cabinet 'within two months'. The document was never actually tabled in cabinet and the matter died a quiet death.

The IMS itself was preceded by the Industrial Strategy Project (ISP) set up in the early 1990s (with the involvement of Cosatu) to explore trade related and industrial strategy policies for a post apartheid SA. This process involved a group of progressive and 'left' thinking academics and economists at the time. The ISP influenced the thinking of the DTI as it sought to establish the country in the global economy. The impact of ISP on policy could partly be attributed to the fact that the vast majority of those researchers and economists who were involved either

went into senior government positions or became consultants to government and could influence policy direction. The ISP's proposed measures to improve productivity and exports in manufacturing with sector-specific interventions. It acknowledged that the country could not compete for mass-market exports and hence sought to strengthen certain markets through trade liberalisation, competition policy and enhancing the role of SMMEs. The focus was on sector strategies with various sectors being targeted as export 'niches' which would move up the value chain. This would be achieved through skills development, promoting research and development (innovation) and improved human resources.

Cosatu's Neva Makgetla and Tanya van Meelis provide a comprehensive overview of how industrial policy has changed since 1994 (see p8). They also provide a critique on some of government's interventions such as MERS and the IMS. Ultimately, these strategies failed to tackle the fundamental problems around the structure of the economy and in the end the country's industrial policy became governed by trade liberalization.

AND NOW?

New drivers and people in the DTI who are not beholden to the IMS (but perhaps too influenced by the ISP) are taking this new emphasis on the role of the state and the concept of a developmental state forward. It is hoped that this will create a window of opportunity and openness to different approaches and processes. There appears to be a greater level of openness amongst those driving the new process and higher level of transparency than during the IMS process. There is concern within Cosatu, for example, as to whether the new process will deliver anything more than the IMS document with a few tweaks.

Current thinking within the DTI around a new industrial policy is reflected in Mpahlwa's speech to the Cosatu CC (see p14). He argued that: 'One apparent weakness of post-1994 industrial policy may be that the package of supply side measures as a whole was of insufficient scale to restructure the manufacturing sector adequately to deal with the harsh winds of trade liberalisation... There is therefore a need for a more focused,

targeted and pragmatic industrial policy that is sufficiently resourced to achieve structural change in the industrial economy'. He mentions a number of interventions such as more targeted sector interventions; monopoly pricing; financing and role of the IDC; government's capital expenditure (capex) programme and the role played by the state-owned enterprises (SOEs). The capex programme and SOEs 'will be the largest source of fixed investment spending in the economy over the next five to ten years. This is a major opportunity to generate sustainable growth and employment by locking in as much domestic participation in these programmes as possible'. In view of the fact that the SOEs are being seen as the core 'tool' with which the state aims to leverage its capex programme, M Walker and L Farisani from the Corporate Strategy and Industrial Development Research Programme School of Economic and Business Sciences, University of the Witwatersrand explore the role of the SOEs in facilitating industrial development (see p17).

The capex programme is being seen by the DTI as a real manifestation of a developmental state. University of Witwatersrand sociology lecturer Devan Pillay explores the notion of a developmental state (see p20) within the current crisis in the ANC over the dismissal of deputy president Jacob Zuma.

Aside from the potential impact of the capex programme, Mpahlwa points to the role played by black economic empowerment (BEE) which he argues, 'must be deepened in the industrial sectors, and there is also a need to tie BEE more closely to industrial growth'. With so much of the focus on BEE around enrichment, little attention has been given to whether BEE is sufficiently tied in with industrial growth? Ganief Bardien, programme co-ordinator for the Corporate Strategy and Industrial Development Research Programme, highlights the results of a current study in the metal industry, which has revealed that the way BEE is being implemented could, be hampering rather than assisting in overall transformation (see p22).

WHAT NEEDS TO HAPPEN?

An economist says government is now beginning to focus on action-oriented issues

and processes - trying to get all bits of government to work together. This appears to be happening in the absence of a 'masterplan' but has been given an impetus by the R160 billion capex programme. Zalk says the focus over the next three to five years should be on how to maximise linkages from the capex programme; how to facilitate downstream beneficiation, which will require dealing with import parity pricing; the identification of sustainable labour intensive sectors as well as high value added manufacturing and selective services.

The convergence of activities appears to be occurring between the Department of Public Enterprises (and the SOEs) and the DTI with linkages to the Industrial Development Corporation (IDC). Government is attempting to be proactive in terms of its capex programme, which is seen to be an opportunity to kick start local industrial capacity. The workings of local economies are critical if industries are to benefit. A study conducted in the Ekurhuleni Metropolitan Municipality (EMM) provides some insights into the connectedness between industrial development and local economic development. The study also provides some important pointers, which need to be considered when developing an industrial policy. Lisenda Grace Mohamed from the Corporate Strategy and Industrial Development Research Programme at Wits University explores the workings of the Ekurhuleni economy so as to explore the linkages between industrial policy and local economic development (see p24). Aside from issues around skills and the relationship between levels of investment, competitiveness and jobs, she highlights the importance of public transport in relation to industrial development. Temba Phintshane also from Wits Universities' Corporate Strategy and Industrial Development Research Programme explores this issue further and argues that any policies that seek to address industrial development should take cognisance of the importance of public transport in promoting industrial development and local economic development (LED) (see p26).

The post 1994 period, heavily influenced by the ISP (productivity and competitiveness) did not however, tackle the fundamental problems such as the structure of the