

# The dti's integrated manufacturing strategy: Is it

**F**or many years criticism was levelled against the Department of Trade and Industry (dti) for failing to come up with an industrial strategy. It has been argued however, that post-1994, the dti had developed elements of an industrial strategy even though it was never formalised and put down in a document. There were elements of an industrial strategy as depicted in the cluster studies, supply side measures, national small business strategy and other interventions.

Former dti director general (DG) Zav Rustomjee says it would be extremely difficult to put a comprehensive strategy into one document because of the complexity and diversity of issues. A further complication, he says, is that people have different expectations and understanding of an industrial strategy and policy. 'The problem arises however, that if dti is not seen to be producing a document then it is not

seen to be doing anything,' he says. A discussion paper prepared by the University of Witwatersrand's Sociology of Work Unit (SWOP) in association with Nedlac highlights some of the critical debates around the drafting of an industrial strategy (see p 12).

During various intervals from 1994 onwards, the dti drafted numerous documents, which attempted to outline their policy approach. The turning point appeared to occur in 2000 when the department faced rising pressure to produce a document. The spotlight fell on the dti to produce something as increasing questions were raised about the need for an integrated intervention at the micro-level. The view was that the macroeconomic fundamentals were in place but what was missing was a corresponding approach, which would address issues such as competitiveness, small business development and black economic empowerment. These are amongst a range of issues, that fall under the ambit of the dti.

Within the tripartite alliance increased attention was given to a new

economic growth path, post Gear. The ANC's ETC began a process in early 2000 to look into this issue. The view was that a new growth path would go beyond merely relying on 'getting macroeconomic policies right'. Hence the move towards the need for an industrial strategy. 'This realisation led to an increased focus on sector-specific strategies' (*SA Labour Bulletin*, 26 (1)).

The realisation that the micro fundamentals had to be addressed was reinforced during a high-level meeting between President Thabo Mbeki and the head of the World Bank James Wolfensohn. A strong plea was made for the South African government to get its microeconomic strategies together. Following the November

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meeting, Mbeki stated in his opening address to Parliament in February 2001 that government would embark on an Integrated Economic Action Plan.

Against this backdrop the dti began



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# all just packaging?

drafting a paper, which would outline its approach to industrial strategy. The verbal brief given to the drafters seemed to reflect some uncertainty as to whom the document would be directed. It is understood that the brief was to draft something that would reflect what business would wish to see or rather something, which could be given to an industrialist. Sources close to the process say there was confusion about what the document should be doing and at whom it was targeted. In May 2001 the dti released its framework document entitled: 'Driving competitiveness: Towards a new integrated industrial strategy for sustainable employment and growth.'

## **Key elements of the discussion document**

At the heart of the dti's discussion document released in May 2001 are the following:

- the need to move to a knowledge-based economy that recognises the decline in old modes of competitiveness, and
- competition and effective regulation with a focus on how the economy will be able to engage globally and compete.

This is based on an earlier analysis of changes in markets, and the need for a set of rules (to be established and

enforced in an industrial strategy) to ensure markets function effectively and to address market failures. Competition rules are the main thing identified as necessary for the effective functioning of markets. In the dti document various issues such as Black Economic Empowerment, SMMEs and employment were included to indicate that they were areas of concern.

The changing nature of competitiveness and the increased emphasis on a 'knowledge basis' underpins the strategy. As a result, the document highlights the need to develop backward and forward linkages of information and communication technology (ICT) with production, and the use of capacities in knowledge driven activities to realise lower production costs, economies of scale, and integrated regional production systems.

Human resources and telecommunications are identified as two key constraints for the realisation of a 'knowledge driven economy'. The approach outlined by the dti is one of a 'joined-up' government in order to enhance the potential impact of an industrial policy. The discussion document states that in the absence of an integrated approach in government the policy will have very little impact.

It is important to distinguish between the concepts industrial structure, industrial strategy, and industrial policy. Industrial structure refers to the actual structure of different sectors of the economy in relation to each other, as well as the way in which the interaction between the state and markets is structured. Industrial strategy is a broad vision of how the state can bring about, or facilitate, changes in the industrial structure, ie industrial restructuring. The aim of industrial strategy is to shape a process of industrial restructuring with the view of contributing to national socioeconomic goals, such as the creation of jobs and the alleviation of poverty. Different approaches to industrial strategy imply a range of different perspectives on what level of state 'intervention' in the economy is required and feasible. Industrial policy implies the actual policy instruments that can be used to implement an industrial strategy.

### Reaction to document

Tensions emerged within the alliance and other quarters as to its perceived business bias and its main focus on competitiveness and export-driven approach. The document was not drafted as a political text nor was it seen to have emerged out of a politically driven process. The language was business/academic and did not take into account everything going on in the political environment. Based on the brief given, the document focused extensively on the challenges business faces in becoming competitive and growing their export base.

It became clear that the political process was looking for something different, a source close to the process says. As a result political buy-in from alliance partners ran adrift. Planned public hearings in the parliamentary portfolio committee on the document for August 2001 were cancelled. It became clear during discussions, however, sources say, that people viewed what an industrial strategy was meant to achieve, differently. Cosatu, for example, saw it as a wider strategy, which also incorporated an employment strategy while others saw it in its strictest narrow definition. This posed the question as to which ministry looks after employment. Should it be dealt with in a separate ministry or should it be a key concern of the economic affairs cluster, which is chaired by the dti?

### Drafting of the microeconomic reform strategy

During the cabinet breakaway in January 2002, the different government departments reviewed their plans and acknowledged the need for a greater degree of coordination across departments and to put into practice the concept of a 'joined-up' government. Emerging from this

process was the drafting of a Microeconomic Reform Strategy. This strategy, essentially an integrated action plan, seeks to ensure the overall growth of the economy through the following interventions:

- Macroeconomic policy where necessary.
- Competitiveness requires that a set of fundamentals – appropriate and efficient economic and social infrastructure (such as ports), access to finance, investment in R&D, buy-in to new technologies, investment in human capital and an adaptive and flexible workforce – are in place in the economy.
- Ensuring key input costs such as transport, energy and telecommunications are able to be utilised to drive competitiveness.
- A number of growth sectors would be targeted to receive 'focused attention from the state'. These are viewed as having considerable potential for increased outputs, exports and employment creation.
- The plan will then seek to integrate these interventions with the desire to address black economic empowerment, promotion of small business, employment and the broadening economic activities to areas previously ignored for development.
- The state's role would be critical in ensuring the success of this strategy.

### IMS

Learning from the previous experience, the dti began redrafting their May 2001 discussion document by engaging with key stakeholders throughout the process. Various focus groups were convened, including representation by a number of economists across the political spectrum. The revised document entitled: 'Accelerating Growth and Development: The contribution of

the Integrated Manufacturing Strategy (IMS)' was officially released on 18 April 2002.

The new document is being viewed as a politically driven and organised process. The dti's task of obtaining buy-in was made all the more easy by virtue of the fact that the key thrust of its approach was already included in the microeconomic reform strategy.

It is now being acknowledged in dti circles that reworking the discussion document was the appropriate way to go. The May 2001 document served its purpose by allowing everyone to agree on more issues than they did last year, a source says. Some constituencies have raised questions about the extent of buy-in to the strategy from those within dti in view of the fact that the department published a vastly different document six months ago. It is being argued by some in the dti however, that the main thrust of the document is not so different to the previous one. The differences lie in the way the document was drafted, the language, the way in which the issues were contextualised and analysed (more within a political framework) and the fact that it does target potential growth sectors.

The dti has viewed its intervention in the automobile industry – through the Motor Industry Development Programme (MIDP) – as one of its 'success stories'. It is possible that elements of this intervention could form part of the 'customised programmes' to be developed, in partnership, with those sectors targeted. UCT economist Anthony Black analyses the impact of the MIDP to determine the potential implications for the drafting of an industrial strategy as well as the factors underpinning the intervention (see p 16). In contrast Wits sociology researcher Andries Bezuidenhout looks at an industry that has had limited if no government

support – the white goods industry – to show how the power of capital is a critical element to the success of interventions such as the MIDP (see p 20).

#### Key features of the IMS

The essential focus on the most recent document is similar to the previous one. Its emphasis is on manufacturing; the need to move to a knowledge-based economy while recognising the decline in old modes of competitiveness and the need for the economy to engage globally and compete. The other features include:

- A strong emphasis on all parties being able to work together to build the economy. There is a lot of 'Nedlac' talk within the document with a focus on the need for collective action.
- The challenge to bring ICT into the main functioning of the economy. The emphasis is to see how industry can use IT in the manufacturing process to draw a competitive advantage.
- There is an acknowledgement of the need to develop a customised set of support measures. Eight sectors are targeted for special attention with the dti acting in partnership with these sectors to develop customised programmes to ensure their growth. The sectors include clothing and textiles, agro-processing, metals and minerals, tourism, automotive and transport, crafts, chemical and biotechnology and ICT.
- There is a strong focus on a value chain approach.

There is wide acknowledgement that the revised document is an improvement on the original one. There is also a general sense amongst interested parties that no document is going to be perfect. While, vast differences exist between what labour, government and business would like to see in the document, there is a feeling that the document should not be ravaged in total. The document is generally broad and its political nature ensures there is something for everyone. A range of economists was asked to present their views on the document (See p 22).

The broader positions of labour, business and other interested parties were presented during the recent public hearings held in Parliament from 23 April to 2 May 2002. A brief summary of the proceedings is on p 24.

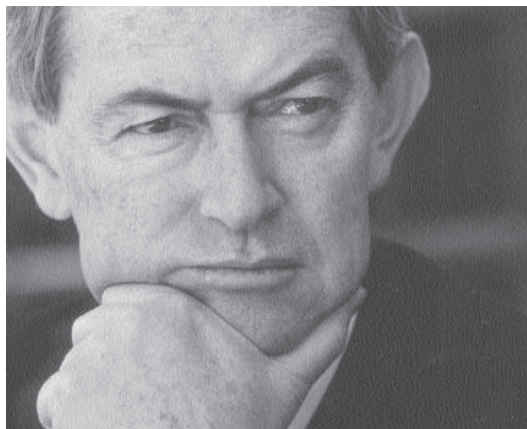
During the proceedings Nedlac executive director Philip Dexter pointed out that the parliamentary process coincided with the Nedlac process.

This, he indicated, was unlikely to cause tension. The Nedlac process is currently continuing. Dexter said there was a general sense among the constituencies that the second draft is a substantial improvement and advance. He hoped this would lead to a commitment to seek consensus around the draft in the

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coming weeks. The dti's DG Alister Ruiters has indicated that comments from the parliamentary process (and Nedlac) will be incorporated into the document and a final recommendation will be made to cabinet within two months.

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#### Conclusion

As with any strategy developed, whether it is within government or the private sector, it will remain as such unless the dti (and other government departments) have the infrastructure and staffing to ensure its implementation. (This is aside from the ability and capacity of labour and business to come on board.) It is no use having a brilliant strategy, which is inside someone's head. As one source said during the process, 'there are a lot of ideas in peoples' heads, (especially in Alec's head) but they are not written down and it is difficult to elicit these ideas in a concrete way.' A further factor is that people were weary about making proposals, which would result in additional restructuring in the dti. At the same time, it is far too easy for the key stakeholders to criticise but a harder job to find out what they actually want. This was all too evident during the parliamentary hearings. LB

*The dti documents referred to are available on ([www.dti.gov.za](http://www.dti.gov.za)) or can be found on the Trade and Industrial Policy Strategies (Tips) website ([www.tips.org.za](http://www.tips.org.za)) The reference to the dti in small letters is not a mistake but part of the departments rebranding exercise.*