

# Reaching consensus on **industrial policy**

*The National Economic Development and Labour Council (Nedlac) has devoted huge resources to ensuring sector summits take place.*

*David Jarvis provides an update on how the sector summit process is unfolding.*

Ideally, sector summits reflect a common vision amongst stakeholders for taking the sector forward. Sectors identified by labour have focused on those that have lost many jobs (such as engineering), have the potential to create jobs (such as hospitality and tourism) or are of particular interest to labour as the mass-based representative of the working poor (such as food, transport and finance). The success of a sector summit hinges on the capacity of stakeholders to take agreements reached forward. The role of government is most important, as it is the party that will have the responsibility of turning strategies into policies and agreement into action.

The ICT Sector Summit, held in June this year, is a case in point. The focus of the negotiations that came before the summit were to get broad agreement on a range of issues that will lead to increased job creation and service delivery within the sector. Much of the agreement focused on setting up processes that will take the agreement forward (including the commissioning of further research on substantive issues). The approach to other sector summits, which the National Labour and Economic Development Institute (Naledi) is



SA  
the financial sector summit

involved in, has a greater focus on obtaining evidence supporting labour's submissions into the process before the negotiations take place. Both approaches point to the fact that a sector summit is about negotiating frameworks and processes and delivering, where possible, concrete policy proposals. This is contrary to (it

seems) a common misconception of a sector summit as a public relations exercise, probably as a result of disproportionate focus on the signing of the agreement and its associated fanfare.

At the core of the process of sector summits is the need to develop consensus on industrial policy. As negotiations begin within sectors, it becomes apparent that the various stakeholders' industrial policy



priorities will impact on the process of engagement.

### **Conflicting interests**

The major priorities of government within the manufacturing environment are export promotion and increased investment. At the same time, government is duty bound to ensure that industrial policy does not contradict its macroeconomic policy principles and its liberalisation agenda. For business, the protection of current South African business interests and the creation of business opportunities (such as through the privatisation of government-delivered services) is the driving imperative. For community representatives the emphasis is on job creation and access to the labour market and service delivery. For labour, the emphasis is on job retention, decent work and job creation as well as delivery of services and other issues of interest to its members (for example, the provision and accessibility of basic wage goods).

Labour in particular, points to jobless growth, casualisation and increasing formal sector unemployment as a counter to the belief that profitability, exports and increased economic performance will lead to development and employment creation. In addition labour argues that inequalities in the society require a particular industrial strategy that focuses on more than just economic performance.

The challenge is how to combine these various interests and priorities into implementable policies? For policies adopted at sector summits to lead to growth *and* development will not be determined by the balance of forces within that sector but based on evidence and research of the conditions and performance of that

sector. Labour has argued strongly that industrial strategies can only work if they are based on sector specific evidence. Sometimes evidence is hard to come by while even access to official statistics and the manner in which these statistics are collected has proved to be an impediment to the collection of relevant data that can feed into the process of developing sector-specific industrial strategies.

Evidence has shown that labour cannot accept economic consensus within sectors but needs to investigate to find the real job growth drivers and impediments. Research has shown, for example, that foreign investment is not always the positive development that it is generally accepted to be. The lowering of tariffs in certain sectors has seen an increase in imports (as negotiated within trade deals), which have, in conjunction with foreign investment seen the warehousing of local production facilities. An example of this is in the dairy industry where local production facilities have been converted to importing and packaging facilities resulting in job loss. A similar situation has occurred in the pharmaceutical sector. In support of this questioning of accepted doctrine, a recent study conducted by economist Stephen Gelb entitled: 'Foreign companies in SA: Entry performance and impact' has shown that even when looking at *productive* (ie value adding) foreign direct investment, three quarters of greenfield investments after 1990 had fewer than 100 workers and half had a capital stock value of less than US\$1m. Based on this evidence, the strategy is not to merely increase foreign direct investment, but to ensure that it leads to development and not displacement of local industry and reinforces the need to marshal

local sources of investment as a priority.

### **How bright is the future?**

So what hope is there for the successful development of industrial policies that will be agreed upon by stakeholders and implemented by government? Over the last year, there has been a marked shift within the dtl with the release of their Integrated Manufacturing and Microeconomic Reform Strategy. There is now an acknowledgement of the need for a targeted industrial strategy. There has also been a commitment to stakeholder involvement in the creation of these strategies. Furthermore, government has made a commitment to treat the next few sector summits as testing processes. Therefore, the success of current summit initiatives is crucial. This challenge should be made easier by the fact that some of the research that is being done for the dtl under the auspices of the FRIDGE Fund, is coming up with similar conclusions to that of labour. For example, a recent study into the automobile industry concurred with labour's position that increased exports do not only bring positive benefits to an industry but may have negative consequences as well. A study into the trade deal with the European Union (EU) also pointed to the fact that South Africa will stand to lose as trade frees up between the South African and the EU's highly subsidised agricultural goods.

Currently, the engineering sector summit is in the planning stages in Nedlac and is being earmarked for early next year. The process is complimented by research being undertaken under the auspices of the FRIDGE Fund.

Other sectors being targeted include petrochemical, retail and food.

*Jarvis is a researcher at Naledi.*