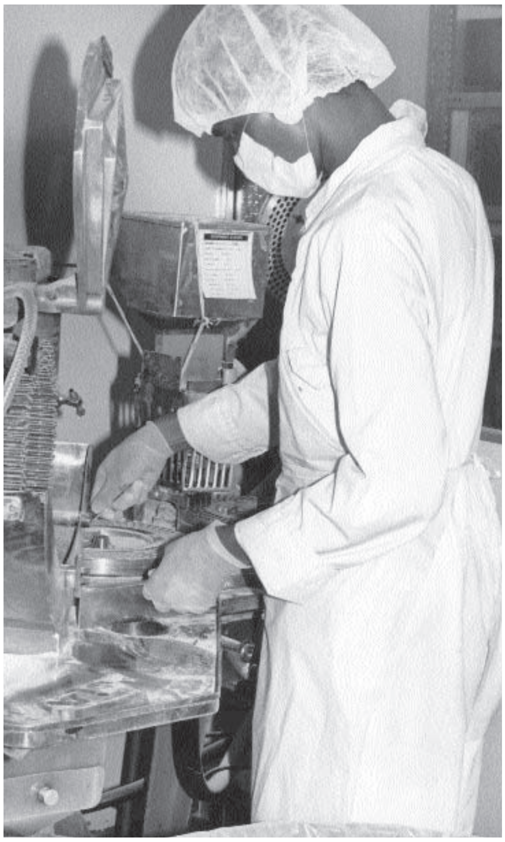

economy. There is now a recognition that things have to be done differently, an economist argues. Aside from the interventions mentioned above, Mpahlwa and Zalks point to other issues, which need to be addressed, including, disciplining the power of some key large firms by 'changing the balance between major industrial interests'. If competitive pricing is not in place how will downstream beneficiation occur? Will government now curb the power of organisations such as Iscor and the like?

CURRENT DEBATES

At the centre of current debates between the DTI and key constituencies such as labour and business is: Firstly, what should an industrial strategy achieve? For the DTI, an industrial strategy should be about moving the country more into a productive route; assist in creating jobs and see where the state can intervene to unlock potential in identified sectors. Zalk says an industrial policy should give more weight to employment but it is not an employment or poverty relief strategy. For organised labour the focus should be on employment by promoting labour intensive sectors. Is an industrial policy geared towards job creation or raising the hi-tech sectors? The challenge is how to increase productivity, competitiveness and create jobs. The Ekurhuleni study provides some insights into how this can be done.

If an industrial policy is about fundamental change to the structure of the economy there is bound to be contestation of power as inevitably some sectors and interest groups will be disadvantaged in some way. This leads to the second and probably most critical area: the link between industrial policy and other policies such as fiscal, monetary and labour market policy. This emerged as a key issue during the DTI workshop where Ha-Joon Chang presented a paper on the approach developing countries should take in designing industrial policies (see p28). He argued that despite various constraints, a lot of scope existed for the adoption of strong or what he called activist trade and industrial policies.

During the discussion some delegates argued for an alignment between the countries macro and industrial policies. Within this context a number of issues were raised such as the value of the currency (the rand); interest rates and fiscal policy. Whilst the DTI might want to see a more accommodating macro policy (with more competitive currency and interest rates) will it be able to influence other key government departments and cabinet?

WHAT ABOUT TRADE?

The relationship between trade and industrial policy has been of ongoing concern to the labour movement. It has become a commonly held view that in effect our trade policy has become our industrial policy. Seifsa's Michael McDonald explores whether and how the countries trade policy affects our industrial policy (see p30). He provides some pointers (including a look at the rand) on the approach, which should be adopted on industrial policy and discussions around various free trade agreements. He argues that our free trade agreements, especially in relation to China 'need to be mutual co-operation and development agreements, not full-blown free trade agreements that would certainly seriously undermine our local manufacturing base.'

The relationship between trade and development formed the focus of a workshop held between the various union federations and other organs of civil society such as Sangoco. The aim of the workshop was to explore this relationship as the country prepares and finalises its position ahead of the Hong Kong round which is supposed to focus on development. The focus was to ensure that our trade negotiations are guided by broader developmental objectives of which an industrial policy is one.

Ha-Joon Chang argued that South Africa is not a helpless victim in global trade negotiations. 'It has the power to influence the course of events. Its emerging alliance with India, Brazil, and Argentina is slowly but surely beginning to change the geometry of international trade negotiations.' This issue is taken up by Rhodes University senior lecturer in the sociology department, Darlene Miller, who explores the potential of such an alliance but argues that the forging of global co-operation will be suppressed in favour of bilateral arrangements, which will ensure continued US dominance (see p32).

CONCLUSION

For many the current industrial policy process is being portrayed as the ISP/IMS part 2 as a number of the same personalities are involved. Hence McDonald's reference that some who have been attending the various DTI meetings have claimed that it is 'Déjà vu - all over again!' There is a feeling that much of what was in the IMS is included in a draft paper under construction within the DTI. However, the sense from the department is that its new approach goes much broader and reflects a stronger role and leadership from government. This however, requires capacity in government to drive such processes and a more 'joined up' government, which has not always been evident.

Ultimately, however, we have to be realistic about what an industrial policy can do in isolation of other policies. As one economist argued employment is an outcome of changing the structure of the economy. The question is what do we need to do to get this outcome? - The editor

LB

The Labour Bulletin would like to express its appreciation to the Corporate Strategy and Industrial Development research programme, School of Economic and Business Sciences, University of the Witwatersrand for assisting with this special report.

SPECIAL REPORT

Shifts in industrial strategy

Have Cosatu's key demands been reflected in government's industrial strategy? A review by **Cosatu** on shifts in government strategy from 1994 until now reveals that whilst some key demands have been incorporated into industrial strategy, it currently remains a compromise containing both a competitiveness and a rather confused structural approach with insufficient attention to ensuring job-creating growth.

Cosatu's position during the 1994 to 2000 period was that industrial strategy should address the massive inequalities due to high unemployment, low wages and poverty. It was also concerned about low levels of growth and low investment. Based on its analysis of the reasons for the state of the economy, Cosatu's policy proposals before 2000 largely supported the Reconstruction and Development Programme's (RDP's) basic strategy of growth with redistribution. Cosatu also generally supported the emphasis of the Industrial Strategy Project (ISP) on increasing benefication so as to increase local value added and revenues. It agreed with the opening of the economy only if there were extensive policies to assist vulnerable sectors to compete.

Government's approach to industrial policy during this period was contested. Increasingly, it focused quite narrowly on encouraging exports from manufacturing, especially auto and refined minerals. In part, this reflected the intellectual history of the ISP, which focused heavily on moving up the value chain and finding new export niches. In part, it arose from the departmental structure of the state, with the DTI responsible only for formal manufacturing.

The contestation over industrial policy emerged in the RDP itself. On the one hand, it emphasised the need to address inequalities and poverty, in particular supporting investment in rural areas. On the other, it did not provide a structural vision beyond strengthening benefication. In 1996, the Growth, Employment And Redistribution strategy (Gear) shifted the focus of industrial strategy unambiguously to integrating into global markets, promoting exports and improving competitiveness. At the same time it cut back on the budget, limiting the scope for infrastructure delivery and social services.

In this context, Gear emphasised cutting the government deficit, encouraging exports and privatisation. This undermined the RDP strategy of rapidly improving government services in black communities as the basis for domestic industrialisation. At the same time, it reduced the ability of the government to help industries adjust to the tariff cuts. Government spending on economic services declined steadily through the late 1990s.

In this context, the DTI focused effectively and quite narrowly on supporting exports. Towards the end of the 1990s, it strongly promoted cluster studies. Essentially, this initiative argued that low competitiveness resulted because firms were not co-operating with each other to develop and jointly break into export markets. The studies themselves, however, generally bogged down in detailed research, without generating strong strategies.

COSATU POST 2000

By 2000, it had become clear that just introducing new labour laws and improving infrastructure, giving budget cuts, would not lead to economic transformation. Cosatu increasingly saw that the renewed pressure for competitiveness was undermining working conditions as well as slowing job loss and fuelling retrenchments. Increasingly, it called for industrial strategy to do more to create jobs, rather than just increasing value added and meeting basic needs.

This approach led to an emphasis on structural changes in production and ownership, in particular to support relatively labour-intensive activities, meet the needs of the poor and ensure more equitable ownership. In this context, it called for greater efforts to align trade negotiations, and in particular tariff cuts, with an employment-oriented industrial strategy. That required greater protection for vulnerable and infant industries as well as support for local producers against imports.

Cosatu saw the main mechanisms for defining sustainable structural change as sector summit processes. These processes proved very slow and required a huge amount of capacity.

At the same time, Cosatu reacted to Gear by demanding a more expansionary fiscal strategy and an end to privatisation. When the rand surged in 2003/4, costing

thousands of manufacturing and mining jobs, Cosatu urged government to do more to support depreciation.

GOVERNMENT POST 2000

From 2000, government began to emphasise the need to restructure the economy, rather than focusing narrowly on fiscal and monetary policy. The nature and aims of the necessary restructuring remained heavily contested, however. Three broad thrusts emerged to:

- enhance competitiveness by supporting exports at sectoral level, reducing trade barriers, and improving economic infrastructure and skills;
- support employment creation through sector strategies, local procurement; support for small and micro enterprise and changes to investment patterns; and
- encourage greater black ownership.

These three basic strategies are to some extent contradictory. In particular, efforts to raise productivity and focus on exports are unlikely to create jobs, and may indeed lead to retrenchments, higher concentration and slower employment growth. Perhaps even more important, given government's limited capacity and resources, it could not effectively put major effort into meeting all three priorities. In the event, employment creation typically fell off the table, while the more established trajectories of support for exports and black economic empowerment (BEE) took precedence.

The following constitute some of the key documents to emerge from government over this period in relation to achieving its stated objectives:

Microeconomic Reform Strategy (MERS)

The MERS was released by government in May 2002 as a discussion paper without any consultation with stakeholders. Its primary aim was essentially to accelerate growth. It identified the need to focus on individual sectors but paid little attention to the need for changes in the structure of production or ownership other than to increase exports of manufactured goods. In this context, it started by arguing the need for job creation and socioeconomic development. But its specific proposals on what changes are needed, why they are needed, and how they are to be effected shift the MERS from a developmental strategy to a competitiveness strategy.

The primary problems according to the MERS are a lack of competitiveness in the 'developed' (formal) economy and the failure to harness economic potential in the 'underdeveloped economy.' The MERS then identifies microeconomic constraints to growth in both the developed and underdeveloped areas of the economy as high administered prices; the lack of infrastructure in the less developed areas; poor education and skills, and 'the need for ongoing review of labour market regulation,' as well as low levels of information technology, science and technology infrastructure and modern capital equipment across the country.

The MERS identified six key performance areas, namely growth, competitiveness, employment, small business development, black economic empowerment, and geographic spread. In order to accelerate growth, the MERS proposed addressing the crosscutting issues of technology, human resource development, access to finance, and infrastructure.

Despite the initial recognition of the need to include the marginalised in the so-called 'underdeveloped economy,' the MERS ultimately emphasised only the formal sector and exports. Thus, the sites identified for infrastructure development such as some of the mega projects are not labour intensive and unlikely to create employment on a mass scale.

The MERS did, however, focus on a stronger role for government than Gear. Critically, it called on government to do more to prioritise growth and employment consistently, including through the parastatals, legislation and budgeting. It also expected a substantial expansion in parastatal investment. But despite the list of sectors, it did not really seek government action to restructure the economy to support equity or employment creation.

The Integrated Manufacturing Strategy (IMS)
Overall, the IMS aligns with a competitiveness approach, although it remains internally contradictory, with substantial gaps between its aims, analysis and proposals. Although it acknowledges the central importance of dealing with unemployment and inequality, its proposals emphasise instead the need to enhance efficiency. It suggests virtually no practical measures to address joblessness.

The IMS was notably short on concrete measures, instead identifying critical areas for future policy development. In terms of the competitiveness/structural dichotomy, it gave divergent priorities. Although it suggested at one point that analyses should identify job-creating activities within the value matrix, it generally emphasised cost cutting as a near-exclusive goal.

The IMS proposals for specific sectors – clothing, agro processing, minerals benefication, tourism, auto, crafts, pharmaceuticals and biotechnologies and information and communication technologies – focused narrowly on increases in high-tech exports. These efforts were not likely to generate jobs or provide opportunities for smaller enterprise on a large scale.

The DTI itself apparently saw the development of sector strategies as central to the IMS. But the dualist approach rooted in the IMS persisted.

- Nedlac-sponsored tripartite sector processes focused explicitly on job-creating growth. Most made only very slow progress, in large part because organised business and labour had limited policy capacity, while government officials did not drive the process or ensure a focus on employment. Even when sector strategies led to worthwhile agreements, government departments often ignored them. The two exceptions were the agreements on the financial sector and discussions on the chemicals industry, where business put in greater effort to develop and implement innovative proposals.
- Meanwhile, the DTI forged ahead with the development of strategies geared narrowly to increasing exports, without engaging business or labour until the strategies were finalised. This approach caused confusion and delays at best, and at worst unrealistic proposals and more uneasy relations with the hoped-for partners.

The Programme of Action
From 2004, government began to publish programmes of action that laid out its key priorities. These largely reflected the continued focus on increasing competitiveness in the formal sector with very little regard for employment creation or equity. Still, there was somewhat more support for job retention and creation, and efforts to support greater equity. Overall, the programmes remained vague, and certainly did not portend the major structural changes needed to deal with the legacies of apartheid.

The key thrusts of the 2005 programme, published at the end of June 2005, were:

- Crosscutting measures such as skills development, encouragement of foreign investment and efforts to increase research and development. Specifically, the programme promises to maintain existing fiscal and monetary policies, with some effort to ensure a more competitive exchange rate while maintaining low inflation.
- Sector development strategies: Some new sectors have been added to the MERS list, clearly chosen for their employment-creating potential (wood, appliances, social and community services, retail and construction). Most of the sector strategies focus on improving infrastructure and skills, and where relevant addressing import-parity pricing. None explicitly focus on either employment or working conditions, even in agriculture. The programme does promise efforts to support the clothing industry in the face of massive imports.
- Enhancing economic inclusion through broad-based BEE plus support for co-ops and SME, including larger budgets for this purpose and deregulation.
- Support for the 'second' economy – that is, primarily micro enterprise - through an expansion in expanded public works programmes (EPWP) in health and education; improved financing initiatives, including the APEX fund for community-based credit schemes; land reform, greater support for smallholders, and the AgriBEE charter; support for co-operatives; deployment of community development workers in every municipality; and improved communication about government programmes for micro enterprise and skills development.

Broad-based BEE
BEE became an increasingly dominant part of government's microeconomic policy in 2004. Contestation emerged primarily over whether it should benefit the unemployed and workers or existing black business. The new draft Codes on BEE reflect this contestation. Under the Broad-based BEE Act, all government agencies will have to take the BEE status of companies into account when deciding on tenders and licences. The DTI proposes a generic scorecard for this purpose, which can be superseded by approved sector charters.

The current generic scorecard proposes:

- 30% of points for black ownership and control up to 25%
- 30% of points for employment equity and human resource development (HRD)
- 30% for support for new enterprise and procurement from black-owned companies
- 10% for other worthwhile activities.

Sectors will probably be able to put up to 50% toward developmental activities such as new investment, employment creation and provision of services to poor communities. In addition to the support for types of empowerment going beyond ownership, the Codes provide some points for ownership by community and/or worker groups. The amount awarded for this type of ownership is currently very much contested.

LB

This is an edited version of a document prepared by Cosatu.

SUMMARY OF COSATU AND GOVERNMENT POSITIONS

	COSATU demands	Government policy
1994-2000 Priority issues	Massive inequalities due to high unemployment, low wages and poverty Slow growth Low investment	Reduce trade barriers and avoid capital flight as SA reintegrated into global economies Ensure greater competitiveness and grow exports WTO-unfriendly incentives (GEIS) had to be replaced
Analysis of factors behind problems	Discriminatory labour laws and economic policy Lack of access for black communities to infrastructure, assets, skills, finance Concentration of ownership Weak state sector and privatisation Focus on resource sectors that cannot create jobs	High tariffs related ISI and over regulation of agriculture led to inefficiencies Macro imbalances, especially high deficit and large size of public sector, could cause capital flight Poor skills Increase benefication
Specific measures/ policies/legislation	Sector strategies to increase benefication Greater state investment and prescribed assets Public works, reform of the financial sector Labour laws to protect labour rights RDP strategy of redistribution through infrastructure and land reform. Cluster studies focused on increasing exports based on increased linkages	Join GATT (later WTO) and cut tariffs, with limited support measures for some industries, except major support for auto Gear policies of fiscal restraint and privatisation Introduce supply side measures geared to manufactured exports only, without sectoral strategies. Skills development strategy Various specific spatial programmes like IDZs and corridors
2000-2005 Priority issues	Massive inequalities with rising unemployment, low wages and poverty; increasing atypical work Slow growth Low investment	*Note growing fragmentation and contestation!* Increasing focus on failure of growth to address unemployment and poverty (Presidency's Ten Year Review), side-by-side with emphasis on lack of competitiveness. Slow growth and low investment Lack of representivity in business and management
Analysis of factors behind problems	Same as above, except: • Overt discrimination has ended, but system remains inherently discriminatory • Need to prioritise retention and creation of decent work in light of job losses following 1994 • More focus on fiscal and monetary policy following setbacks due to Gear and high rand	Lack of competitiveness due to failure to maintain and improve economic infrastructure Continued emphasis on resource-based sectors (mining, agriculture) rather than knowledge-intensive activities Skills shortages. Continued barriers to trade from other countries, hindering exports. New labour laws hindered SMEs, according to some in presidency, treasury and DTI.
Specific measures/ policies/legislation	Sector strategies Prescribed assets or other measures to increase private investment; increased state investment Stronger link between redistribution and employment Local procurement Trade policy to support infant and vulnerable industries Work towards a more competitive rand	Increase state investment and more strategic use of parastatals to provide infrastructure Support in high-tech industries like Pebble-Bed Nuclear Reactor, defence and auto. Agree on need for more competitive rand, but no specific measures. Support efforts to build partnerships on economic policy, including through sector strategies – but how and why remains unclear. Negotiate FTAs and ally with other countries from the South to pressure EU and US to open markets – framework at NEDLAC but agreed to trade policy. Skills strategy but also import more skills. Review impact of labour laws on SMEs Broad-based BEE measures incentivising black partners in existing business, support for new black-owned business, sectoral transformation measures, employment equity and skills development. Deregulation to permit growth in micro enterprise
Outcomes by 2005 Achievements	Ended legal discrimination and entrenched labour rights Some redistribution, especially after budget increase from 2000. Small improvement in investment, including state investment from early 2000s. State now looking more seriously at structural issues and prioritisation of employment. Financial sector processes Chemical, ICT and metals sector processes	Increasingly integrated in world trade and financial flows. Prevented destabilising capital flight in late 1990s. Lower inflation. Rising productivity and growth of between 3.5% and 4% in early 2000s, recovering from slowdown of late 1990s. Stabilisation of unemployment and rapid job creation in 2003/4 (though slowdown from late 2004). Growth in informal employment to 22% of employment Financial sector charter and other Broad-based BEE processes.
Central concerns	Continued high unemployment with inadequate prioritisation by state, which continues to focus exports on high-tech and capital intensive sectors that cannot create jobs. Worsening quality of jobs in many cases (casualisation, informalisation, low pay) Low investment. Very slow and uneven sector strategies, with little support from the state Lack of co-ordination across state (departments or spheres)	Growth still well below 6% and unemployment is still high Investment still below 20% of GDP Most black people still marginalised from economic power – stuck in the 'second economy' due to lack of skills and assets, in particular

INDUSTRIAL STRATEGY APPROACHES

This table summarises the industrial strategy approach implicit in key documents and methods, which inform current debates.

	ISP (1992-5)	RDP (1994)	GEAR (1997)	Clusters (late 1990s)
Basic problem	Decline in productivity and weak manufacturing	Inequality, poverty, slow job growth	Slow growth Lack of competitiveness Government debt too high Primary sector bias	Industry is not competitive
Industrial Structural Deficiencies	Legacy of import substitution industrialisation Racial Fordism	Formal sector biased to mining and refining; Majority lack access to assets, skills & formal economy	Capital intensity in industry, though not explained	Firms in 'clusters' do not coordinate. Little synergy between actors (including government) which decreases competitiveness
Proposed Industrial Strategy	Improve productivity and exports in manufacturing, with sector-specific measures	Improving infrastructure and government services for the poor. Encouraging new centres of capital (cooperatives & micro enterprises) & expanding the access of the majority to productive assets and skills. Grow exports	Promote trade liberalisation with export orientation Commercialisation/ privatisation of SOE's	Encourage clusters in market context
Link to international market	Define areas of specialisation for exports Cannot compete for mass market exports	Support competitiveness Increase production to meet basic needs locally and regionally	Promote liberalisation Export orientation	Focus boosting exports
Proposed Industrial Policy Measures	Strengthen markets through trade liberalisation, competition policy and enhancing role of SMEs Sector strategies specialise on export 'niches' and move up the value chain Improve HRD and support R&D	Increase demand through state spending Rest was vague on active measures to support sectors	Promote macroeconomic stability. Move away from the primary sector bias? No intervention identified ex tax relief for some sectors	Create an enabling business environment through increased local and international competition, encouraging 'clusters', moving up the value chain and developing related and supporting industries
Role of the state	Build institutional capacity Support sectoral development Support skills development Promote R&D	Increased spending on infrastructure and services	Diminished role of the state – commercialisation/privatisation	Create a market-driven enabling environment for firms Coordinating role
Unique concepts	IS as sectoral strategies Racial Fordism Wage goods	Focus on meeting local needs State spending	Macroeconomic stability	Clusters

IMS (2002)	GDS (2003)	BEE (2005)	COSATU (200
Industry is not competitive	High unemployment Low growth & investment Lack of skills and decent work Lack of empowerment	Unrepresentative ownership Massive inequalities in ownership and control in the economy	Formal job losses, rising unemployment, failure to meet basic needs, concentration of ownership and control
Inefficient infrastructure and skills. rely on traditional advantages (cheap labour and resources) and protection from imports	Structural unemployment Lack of access to skills & assets	Excessive concentration, weak SMMEs	Dominance of metal and minerals refining and exports, which do not create jobs Opening the economy led to import penetration and rationalisation in export sectors Majority excluded from production due to lack of assets, skills, finance and marketing links; poverty also limits domestic demand
Encourage shift to knowledge-based economy with focus on exports and allow international markets to discipline local capital	Sector strategies with specific emphases put in by government, focusing unsustainable employment creation. BBBEE and support for SMEs, co-ops and LED	Support black entrepreneurship AND broader ownership, new enterprise, employment equity and skills development – no structural vision	Link redistribution and growth Encourage labour-intensive sectors (downstream and basic goods and services) Ownership
Increase knowledge based exports in increasing open and rules-based trading environment	Strategic engagement but not defined	None acknowledged	Exports are necessary but not sufficient – need more focus on domestic and regional market. Need shift to more labour intensive export sectors. Protect infant industries
Improve competitiveness by improving infrastructure and skills. Encourage knowledge- based production, rather than relying on historical advantages. Strengthen competition policy exports	Public investment initiatives Expanded public works programmes. Sector partnerships and strategies Local procurement Small enterprise promotion Support for cooperatives Jobs impact and monitoring Targeted investment (5% investible income). Financial Sector Charter Address competitiveness through IPP and administered pricing. BEE	Govt procurement and licensing to back up codes and charters	Use full array of measures to encourage investment in relatively labour-intensive activities, including dealing with IPP as well as support for relevant sectors Shift demand for basic goods and services through poverty-alleviation measures
Address market failures, including support for R&D base	Investment Legislative/regulatory – procurement, cooperatives, SMME support	Set basic guidelines through Code	State to support shift to labour-intensive sectors and enhance social protection, which should also expand the domestic market (democratic state as counter to capital)
Knowledge-based production	Sector strategies. BEE Local procurement. Supporting cooperatives and SMMEs. Impact on jobs	Broad-based ownership National bourgeoisie	Growth path Class