

The dti takes the debate

Public hearings were held from 23 April to 2 May 2002. The hearings were scheduled to discuss general views held by key stakeholders on an industrial strategy but were refocused to comment on the dti's proposed IMS.

From the outset all parties indicated that their comments on the dti's proposed IMS would be brief, as they had not had sufficient time to study the document. The document was officially released to the public on 18 April 2002, a mere four days before the start of the public hearings.

An important issue to emerge during the proceedings was the status of business input to the process. The chairman of the parliamentary portfolio committee on trade and industry Rob Davies and chair of the select committee on economic and foreign affairs Mooshen Moosa expressed their concern at businesses' failure to engage in the parliamentary process properly. They argued that business appeared poorly represented at a policy level; that they were dominated by big white business (black business was supposed to make representation but withdrew during the hearings); there was limited take-up of a developmental agenda and there was limited evidence of a grasp of big policy issues facing the country. Moosa argued that businesses failure to engage was critical if the IMS was to be implemented. Its implementation, he argued, would affect business

(industry) – 'that is the coalface and where the IMS will be implemented'.

Davies and Moosa highlighted some of the potential areas of tension that emerged from the presentations of the various stakeholders. These included finding a balance between competitiveness and developmental imperatives; a balance between the production of export-oriented goods to producing to meet the basic needs and ensuring a domestic demand-driven approach and the focus on employment. They argued that the absence of a strategic vision was critical. Davies said an 'absence may lead to negative consequences of potentially positive trends'. Parties had to explore more carefully issues around skills development and training; stakeholder dialogue and engagement; a proper assessment of the sector summit process; coordination in government; research and development; the critical role of the Industrial Development Corporation and how to ensure its mandate more effectively supports local economic development and SMMEs.

Business submissions

Business submissions were made by the Textile Federation, the Small

Business Project, Business South Africa and Sacob (Safcoc) while the black business groupings failed to appear. The submissions from these groupings included the following comments on how government should approach the drafting of an industrial strategy.

- There is general support for the IMS document, but concerns around implementation.
- Certain sectors affected by tariff reforms should get a 'breathing space'.
- Government needs to address the influx of cheaper imports and be more proactive on its anti-dumping legislation.
- High input costs such as wharfage charges and transport costs are too high.
- The dti needs to ensure reliable and timeous statistics.
- Government needs to ensure greater efficiency and a higher level of coordination.
- The role of the IDC came into question and whether it treated domestic investors in the same way as foreign investors (some of whom had dubious intentions).
- Government should review all regulations relating to small business.

to Parliament



- Small business strategies should be integral to an industrial strategy.
- Business faces a number of factors inhibiting investment including the cost of capital, potential rates of return, and limited economic opportunities because of dominant state role in the economy, the availability of investment projects and the size of domestic market and access to other markets.
- The effective company tax rate is too high (for example, Ireland's average is four times lower).
- The ability to participate in the economy is hampered by the fact that there is limited ICT capacity.
- Integrated value matrices concept and collective action are useful – but still need to address 'investment fundamentals' – leadership by each constituency is vital.
- There is a need to explore SMME financing institution alternatives.

Trade union submissions

The submissions from the trade unions were dominated by comments by Cosatu, four of its affiliates and Naledi, a research unit linked to the federation. These submissions included the following comments:

- Government's microeconomic reforms are welcomed while the new IMS document is an improvement on the previous discussion document.
 - The increased focus on consultation and involvement of stakeholders is welcomed.
 - The analysis in the first section of the document is inconsistent with the second section, which focused extensively on exports. There should not be an exclusive focus only on exports. There is a tendency to neglect production for basic needs, which could improve quality of life and boost domestic demand.
- There is undue focus on investment in labour-shedding technologies instead of a shift towards more labour intensive production.
 - Despite the adoption of a value matrix approach, the document does not spell out the implications for sectors outside of manufacturing. In addition, downstream activity and completing of value chains should not just focus on international value chains, but also (primarily) on completing value chains within the domestic economy. Factors that needed to be considered in this regard include import parity pricing, procurement to help domestic production and tariff distortions, which could lead to input costs being higher than manufactured goods.
 - There is a need for a national strategy and strong sectoral

dimension: sector summits and other forums are crucial for engagement around the economy.

- Need to improve access to finance and policy coordination. The concept of the joined up government needs to be taken on board.
- A macroeconomic policy needs to support industrial policy.
- The role of state-owned enterprises should play an important role in an industrial strategy. The dti needs to expand on this.
- There is a need to explore the concept of a developmental strategy within the overall focus of an industrial strategy. There is a need to align social development with an economic development strategy.
- The IMS document does not define collective economic action.
- The document is weak on production for domestic needs as well as its focus on capital and the financial sector.
- The document fails to highlight how the capacity of the IDC will be integrated into the overall strategy.
- Some positive steps in relation to trade policy were noted in the document such as the need to align sectoral and regional imperatives. However, increased exports do not necessarily lead to jobs. Increased exports should be done in a way that will lead to the creation of jobs.
- The dti should be making better use of WTO rules as a legitimate tool to strengthen domestic production.
- There is an acknowledgement that the current skills base is too small.
- Supply-side measures such as incentives have a role to play.
- The dti needs to explore the barriers to entry to the economy for SMMEs.

- Foreign direct investment, has in some instances, led to the replacement of local production and is in effect resulting in the deindustrialisation of the economy. The latter relates to concerns raised around technology transfer and the relationship between multinationals and new technology.
- There is a need to link tariff and trade strategies with an overall industrial strategy.
- Some caution expressed around the notion of knowledge-intensity roll-out and what role it can realistically play within a developmental strategy.

SA Communist Party submission

The SACP welcomed the IMS as an advance on the first draft. It welcomed the following approaches outlined in the document:

- The shift in focus of government policy towards the real economy.
- The comprehensive approach to accelerating growth and development.
- It provides a leading role for government and active state leadership.
- The focus on promoting collective action.
- The focus on employment.
- It offers a new range of measures and customised services.

The SACP felt the document failed to explore the promotion of a developmental agenda within the context of globalisation. Ultimately, the SACP argued for the need for an active developmental state with government-led sector and industrial strategies. Reinforcing the views of Cosatu, the SACP argued that the focus should not purely be on export-orientation but on those sectors which could cater to domestic demands in the provision of basic

services. The transformation of the financial sector was crucial, and should be at the centre of an industrial strategy.

Research institutions

A number of research institutions and one government department made submissions on the role of research and development within an overall industrial strategy. They provided a sober picture of the poor state of R&D in South Africa.

The institutions included the Foundation for Education Science and Technology, the Department of Arts Culture, Science and Technology and the CSIR.

Their submissions included the following comments:

- Research and development capacity in South Africa is declining.
- Government is intervening to ensure the remaining elements of R&D capacity in the country are not lost and is increasingly being incorporated into parastatal structures such as the CSIR.
- R&D capacity is critical to enhance and maintain competitiveness.
- Those working in science and related fields are predominantly white and aging and this is hugely problematic.
- There needs to be interventions to engage R&D in the private sector. These could include the possibility of incentives to encourage R&D.
- There is a need to draw people into appropriate skills. There is a need to inculcate a culture of science and technology.
- There is a need to elaborate on technology implications for an industrial strategy – technological changes have significant implications for economic growth.
- The IMS needs to be more explicit about how it will support a

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Alistair Ruiters, DG for the dti



technology-based future. It is weak on clear actions and targets.

- There is an urgent need to restructure tertiary education subsidies – currently there are incentives for social sciences over science and technology because universities make financial losses on these students.
- There is also a need to restructure secondary education to produce more maths & science higher-grade matriculants.

Dti institutions

A number of institutions, which fall under the jurisdiction of the dti, such as the IDC and the Competition Commission, made the following submissions:

- There is general support for the IMS document but a number of areas of clarity are required, including issues around input costs.
- Although there is agreement on the

overall importance of new sources of competitiveness, the document needs to provide more clarity on the implications for industrial strategy.

- While there is agreement on the strategic use of tariffs, tariff reductions should be used to counter the potential for import parity pricing.
- The approach of 'picking winners' is a problem. Any incentive given to an industry disadvantages other sectors in the economy, caution against customised support measures – not level playing field. Simplification of 'broad raft' of measures more important than selection of particular sectors.

Nedlac

Nedlac informed the committees of the progress being achieved in the discussions on industrial strategy. During the Nedlac process

engagement was focused on a number of areas such as the relationship between macroeconomic policy and industrial strategy, whether the IMS was going to be able to facilitate the creation of jobs; the degree of state involvement in the IMS and issues around foreign direct investment.

Nedlac executive director Philip Dexter explained how the workings of the institution and the involvement of all key constituencies (labour, government, business and the community) could provide useful input to the dti on the notion of collective action and the necessary ingredients for this to be achieved. Of critical importance is an acknowledgement of the importance of the constituencies to ensure things happen. Other factors included the need for decisive leadership; access to relevant information, which did not support an approach of 'limited or

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privileged' access and more importantly, whether the parties have the capacity and organisational strength to drive processes.

The dti response to submissions

Following input from various stakeholders, the dti director general Alistair Ruiters made an initial response to the overall comments made. He said: 'The hearings have represented an important moment in the process of developing a shared vision of our economy and the challenges confronting us as we move our economy onto a higher growth path.' The conclusion of these hearings does not signify the end of the process, he said.

Ruiters explained that the IMS document, together with the Microeconomic Reform Strategy, would provide the framework for further engagement. Many of the submissions presented had recognised three important policy areas identified by the dti in the IMS, he said. They included the fact that:

1. Manufacturing represents the linchpin of the strategy to improve the economy's performance.
2. The role of the state – not only in regulating the economy, but also in providing economic leadership for the transformation of our economy in a manner that also meets our development challenges as a nation.
3. The need for customised interventions to address specific developmental and competitiveness

challenges in high potential sectors.

Perhaps the key theme that has emerged from many of the submissions, he said, was the concern about South Africa's readiness to embrace a knowledge economy. The knowledge economy, he said, involves new ways of working, new management practices, new forms of corporate governance, more visionary boards and enlightened managers, new forms of government offerings, and new relations between government, business and labour. The knowledge economy also requires the development of networks and the diffusion of best practice between enterprises.

Studies conducted by the dti in a wide variety of sectors had identified knowledge-driven activities, such as innovation and marketing intelligence, as the prerequisite of their further development. The key blockage to growing these sectors 'for example clothing, wine, chemicals, pharmaceuticals and jewellery and others' is frequently the absence of knowledge, he argued. Thus, the focus on knowledge is not just a strategy only for high-tech industry but is relevant for the entire economy.

'The economic problems we currently confront reflect that the economy has significantly restructured and that this restructuring is deep-seated and cannot be easily reversed.' This was evident in the fundamentally altered sectoral contribution to gross value-

add (the tertiary sector now contributes nearly two-thirds of gross value-add), the change in the labour-skills mix (demand for highly skilled labour has increased in all sectors while at the same time the demand for unskilled labour has fallen), and the rapid deepening of technology (capital to labour ratios have increased despite the relatively high cost of capital). This structural change, he said, gives rise to negative social implications that must be addressed through immediate and medium-term interventions otherwise higher growth rates will only serve to exacerbate inequality and poverty.

The dti, he said, will ensure closer working relationships with its social partners in specific sectors and value matrices to promote increased output and employment at a sector level. 'This work is hampered by the absence of a credible, highly-organised and unified business voice in South Africa.' The department, he added, was developing strategies around small business development and black economic empowerment, which would address questions around marginalisation and economic development.

Ruiters concluded that the IMS required a detailed implementation plan, which would follow. A key step in this process would be for Parliament and all social partners to work with the dti to shape the plan and to ensure that sufficient resources are allocated to the implementation of the plan. LB

on a lighter note



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