COSATU discussion document on industrial strategy

July 2005

In 2003 the Eight National Congress said that the Central Committee should develop more detailed positions on industrial strategy. The CEC started the process of preparing for the CC in 2004. COSATU has extensive demands on industrial policy. The CC should take this work further by defining

1. Broad job-creating strategies for each sector, including services and agriculture, in terms of production, ownership and markets in particular, and
2. More detailed proposals on the role of the state, business and COSATU in taking forward structural policies. This will provide the basis for a more effective engagement strategy.

This paper first reviews economic outcomes since 1994 from the standpoint of workers and the poor. Part 2 explains COSATU's positions on industrial strategy and contrasts them to current government strategies. This section also develops scenarios to illustrate the possible consequences of these differences. The third section looks at the role of the state and other stakeholders in carrying out a strong industrial strategy. The final part outlines claims for the main economic sectors.

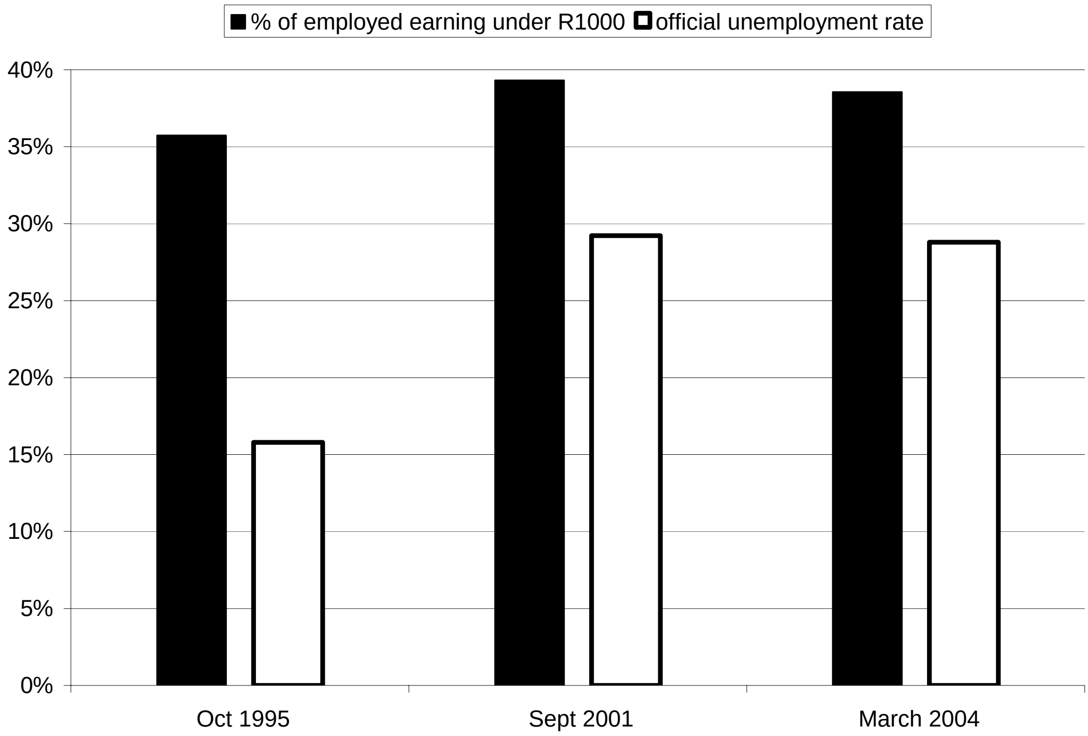
1 Economic outcomes since 1994

After 1994, the South African state made great progress in consolidating democracy and improving services to the poor. Nonetheless, thanks largely to extraordinarily high unemployment and fairly slow economic growth, progress toward prosperity and equity remained disappointing compared to expectations.

As the following graph shows, unemployment rose between 1994 and 2002. In 2003 and 2004, the unemployment rate levelled out at just under 30%, using the official definition that considers as unemployed only those actively seeking work. In 2004, over four million people were officially unemployed, while almost as many wanted paid work but were too discouraged to keep looking for it.

Meanwhile, incomes remained low across the economy. Almost 40% of workers earned under R1000 a month through the independence decade, while the purchasing power of R1000 dropped by over half. Even in the formal sector, one worker out of four earned less than R1000 a month.

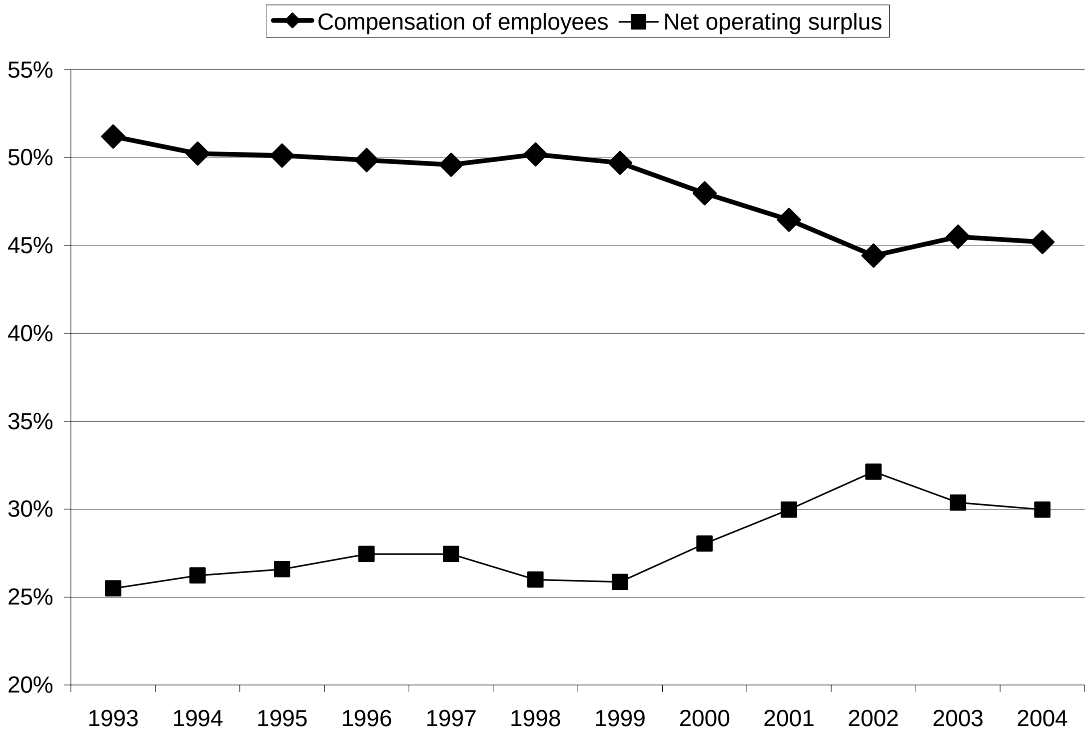
Table 1. Unemployment and incomes, 1995, 2001 and 2004



Note: The official definition of unemployment, used here, classes workers who want paid jobs but are too discouraged to seek them as "economically inactive," rather than as unemployed. Source: Figures calculated from Statistics South Africa, *South Africa in Transition* (Pretoria: 2001) for 1995; and from Statistics South Africa, *Labour Force Survey*, September 2001 and March 2004, downloaded from www.statssa.gov.za

The worsening position of the working class emerged from the declining share of wages and salaries in national income, while the share of profits increased. This means that capital captured most of the benefits from growth after 1994.

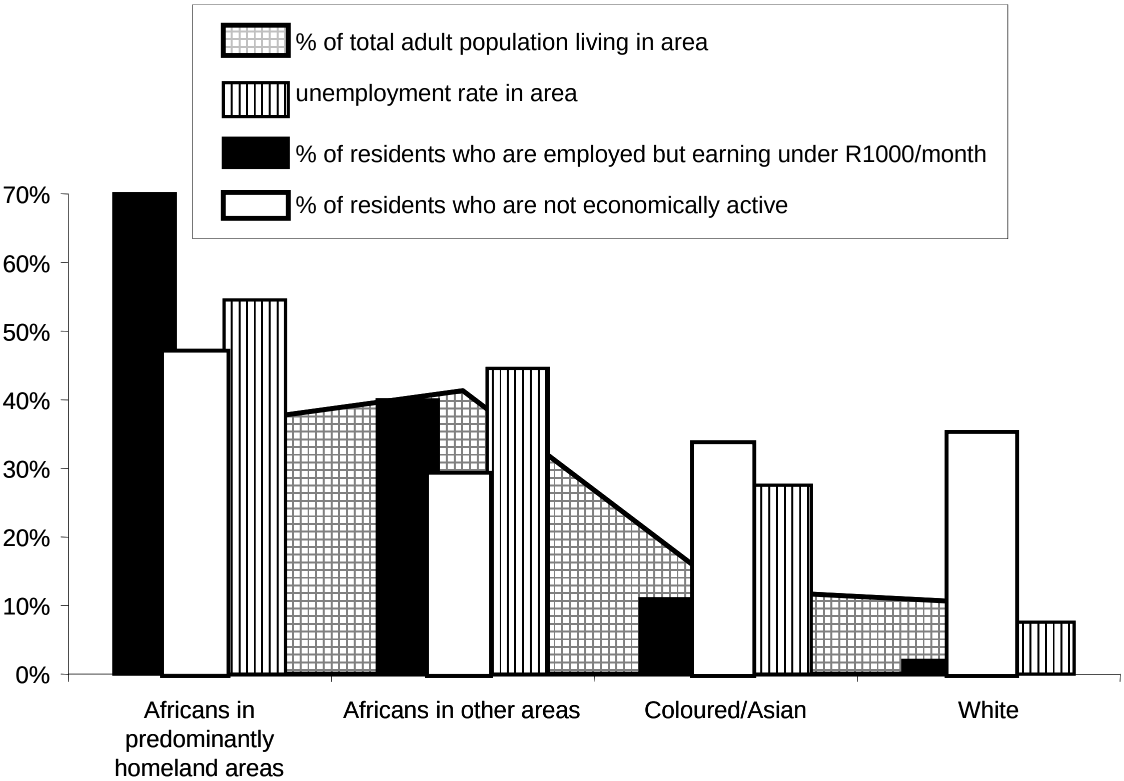
Table 2. Shares in national income, 1993 to 2004



Source: Reserve Bank data, downloaded from TIPS EasyData in June 2005.

Inequalities around class, race and gender may even have deepened. A few Africans joined the political and economic elite. But most continued as poorly paid workers, or scraped out existence as hawkers or subsistence farmers. Almost half of all Africans still lived in the former homeland areas, where formal employment was practically non-existent except in the public sector.

Table 3. Economic status and incomes by race and gender, 2003[1]



Notes: 1. The former homeland areas are here represented by the rural areas of KwaZulu Natal, Mpumalanga, North West, Limpopo and the Eastern Cape. This area also includes some commercial farming areas. Virtually no Coloureds, Asians or Whites live in the former homeland areas. Gender is not shown for these groups due to lack of space, but the gender differences are in any case much lower than for Africans. "Not economically active" means neither earning an income nor trying to. 2. As noted, the data refer to an area largely but not perfectly contiguous with the former homeland areas. 3. In US dollar terms, R1000 fluctuated between $76 and $166 between 2002 and 2004, depending on the exchange rate. *Source:* Statistics South Africa, 2003. *Labourforce Survey September 2003.* Database on CD-ROM. Pretoria.

As the following table indicates, South Africa's economic performance did not match up to other middle-income countries for most of the period after independence.

Table 4. Growth, investment and unemployment compared to other middle-income countries

	GDP growth 1990-2001	GDP per capita[1] 2001	investment as % of GDP 2001	Unemployment rate 1998-2001[2]
South Africa	2.1%	10,910	15%	23%
Middle-income countries	*3.4%*	*5,390*	*24%*	*5%*
of which:				
Malaysia	6.5%	7,910	29%	3%
Chile	6.3%	8,840	21%	10%
South Korea	5.7%	15,060	27%	4%
Egypt	4.5%	3,560	15%	8%
Brazil	2.8%	7,070	21%	10%

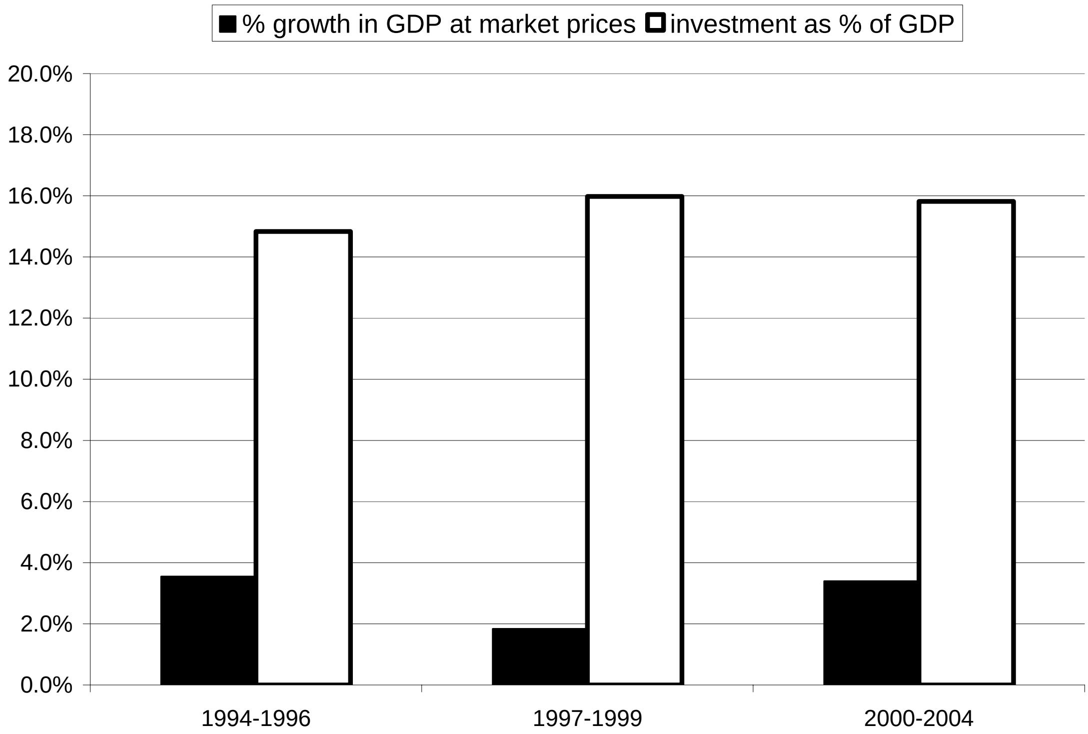
Notes: 1. The GDP per capita is here calculated in terms of purchasing power parity, which seeks to measure actual output without taking exchange rate fluctuations into account. 2. The unemployment rate is given for one year between 1998 and 2001. *Source:* World Bank, *Development Indicators 2003*. Washington, D.C.

Growth from 1994 to 2004 averaged just under 4%, while investment stagnated well below levels required for more rapid development. After a downturn in the late 1990s, growth in the 2000s remained around 3,5%, largely as a result of a slightly more relaxed fiscal policy combined with high commodity prices.

From 2003, the overvaluation of the rand meant that growth was associated with a substantial increase in the balance-of-trade deficit and a slowdown in gold mining and manufacturing. Employment grew primarily in retail trade and construction, reflecting the roots of growth in cheap imports and government investment. The long-term sustainability of the expansion and the resulting jobs thus remained somewhat dubious.[1]

[1] The balance of trade deficit rose from a R8 billion surplus in 2002 to a R44 billion deficit in 2004. 2004. Employment rose by xx% between March and September 2004. See also Makgetla 2004xx.

Table 5. GDP growth and investment rate, 1994-2004



Source: GDP data calculated from Statistics SA, data on GDP, downloaded from www.statssa.gov.za in May 2005. Investment rate calculated from SARB, long-term data series on national accounts, downloaded from www.resbank.co.za in May 2005.

2 Existing positions on industrial strategy

The accompanying detailed paper on industrial strategy positions includes the Congress and inaugural CC resolutions. COSATU has also developed positions

- In a handbook on industrial strategy prepared in 2001
- In an incomplete Alliance process on industrial strategy in 2001.
- Through affiliates' work in sectoral engagements
- In position papers at the GDS.

We here summarise the main claims that have arisen in these contexts.

2.1 The structural challenge

COSATU's call for an industrial strategy arises from the recognition that

1. Colonialism and apartheid shaped the economy to support mineral exports, with very concentrated ownership and control. The result was high levels of un- and underemployment, especially in the former homeland areas.

2. The market will not lead to more equitable development or job creation unless the state intervenes to mobilise stakeholders to bring about change. In particular, the state must discipline big business to support national development.

3. The most important interventions must support

   a. labour-intensive activities and

   b. more equitable ownership, especially collective ownership through the state, worker control and co-ops.

4. This strategy will require a greater balance between production for export and production to meet the needs of the poor in South Africa and the region.

These claims seek to meet the short-term imperative of enhancing economic expansion in ways that create employment and reduce inequalities with the long-term vision of a socialist South Africa. The main linkage is through the effort to build strong collective ownership through the public sector, worker-controlled pension funds and a powerful co-operative movement.

We here first review the apartheid growth path, which began to fail in the mid-‘80s as a result of a combination of economic, political and social factors. Policy choices in the 1990s aggravated the resulting crisis.

The economic structure is defined by the nature of production and ownership. These structures generally cannot change rapidly, so efforts to bring about a new structure require consistency and patience. To provoke debate, this paper describes only major trends, ignoring exceptions and complexities.

2.2 The apartheid growth path

Historically, the production structure was shaped by dependence on gold mining as the main export product. This situation had a major impact on the economy and indeed on society as a whole.

In terms of the production structure:

- Electricity and transport systems were largely designed to support mining. Gold mining required cheap electricity, and the main road and rail systems served transport from the coast to the mines.
- Government supported industrialisation through production of inputs for mining, increased refining of minerals for export, consumer goods especially for the high-income group, and strategic industries (defence and petrochemicals). This structure led to rising capital intensity from the 1980s, while, except for mining, production of capital goods remained weak.
- The financial sector was focused largely on serving the minerals sector. The state used its own resources, largely through the IDC, as seed-money for mobilising finance for new manufacturing and minerals ventures.

- Retail and private services, including finance for households, focused on the high-income group – effectively the white community. Neither the state nor the private sector provided adequate services for black communities.
- Commercial agriculture was essentially shaped to produce maize for the urban workforce while producing some goods (wine and fruit, in particular) largely for the high-income group and export.

Schafer[2] argues that the economic structure shapes state regulation of the economy, often in ways that stakeholders now take for granted. This was true in South Africa. State support for mining was built into the institutions providing transport, electricity, finance and higher education. It shaped regulatory and technical support institutions as well as the tax system.

The structure of the economy had major implications for social development, especially for class formation.

- Apartheid labour policy aimed largely to generate unskilled migrant labour for the mines and farms by depriving the majority of Africans of alternatives, especially land. In effect, the system sought to generate unemployment and underemployment, while providing virtually no state support for the destitute. At the same time, it raised the cost of living for black workers by increasing transport, education and health costs and by ensuring that every worker supported many unemployed or underemployed dependents.
- The mining and metals sector was characterised by huge companies and highly concentrated ownership. Apartheid aggravated the tendency toward concentration by excluding the majority of the population from the capitalist class across the economy.
- Tax revenues gained from mining went primarily to build up infrastructure and services for the white community, and from the mid-1970s for defence and policing.

2.3 Developments since 1994

Since 1994, little has changed in the production structure. Gold exports have declined in importance, but been replaced by platinum, coal and refined base metals. As the following table shows, mining and metals still provide three quarters of exports, although they contribute far less to employment and total production. As a result, the economy remains heavily affected by uncertain commodity markets. Low prices in the late 1990s contributed to stagnation; in the mid-2000s, high prices contributed to more rapid overall growth.

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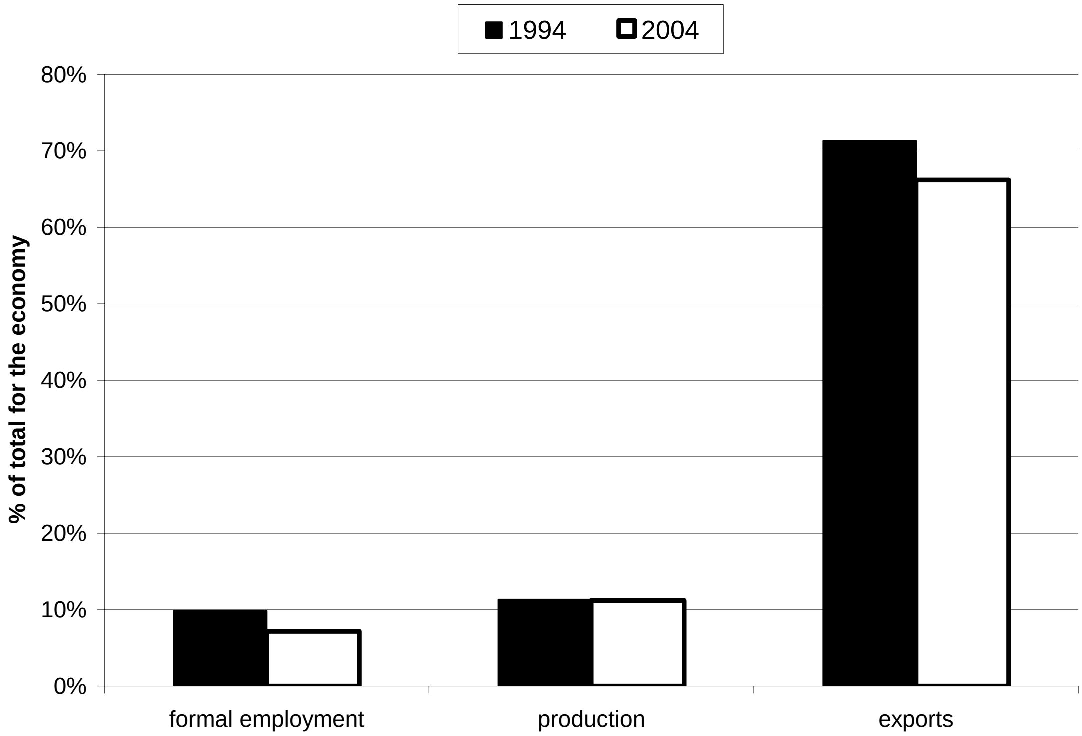
[2] D. Michael Schafer. 1994. *Winners and Losers: How Sectors Shape the Developmental Prospects of States*. Ithaca and London: Cornell University Press.

Table 6. The importance of mining and metals in the economy, 1994 and 2004[1]



Note: 1. Metals refers to raw materials of metal, rather than manufactured objects. Employment figures derive from the Survey of Total Employment and Earnings for 1994, and the Survey of Employment and Earnings for 2004. *Source:* Calculated from TIPS EasyData, downloaded from www.tips.org.za in July 2005.

The transition to democracy saw a stronger integration of the economy into world markets. In effect, faced with the demand for sanctions and rising revolt before 1989, many foreign companies lost interest in South Africa. After 1994, this situation reversed. Mining and financial companies began to seek investment opportunities abroad, while foreign multinationals sought local opportunities in manufacturing, services and infrastructure.

The democratic state tried to manage this process through a two-pronged strategy.

1. It argued that South Africa had to cut tariff protection for industry in order to gain access to foreign markets and force local producers to become more competitive. At the same time, it generally limited its support to industries that could increase exports or foreign-exchange earnings.

   Until 2002, the impact of reduced tariffs was offset to a degree by steady depreciation in the rand, which also encouraged exports. In addition, the state provided massive support for the auto industry, essentially in the form of tariff cuts on inputs. The cost of this programme was estimated at well over R1 billion a year. In these circumstances, while formal manufacturing gradually shed jobs, exports expanded from the auto industry and heavy chemicals as well as some smaller industries.

The rapid appreciation in the value of the rand from 2002 qualitatively changed these trends. Industries that had expanded into exports or competed with imports shed jobs and capacity. Sectors that relied heavily on imports, including parts of the engineering, appliance and auto industries, were able to maintain production or even expand.

2. The state sought to avoid capital flight by adopting conservative fiscal and monetary policies while weakening foreign-exchange controls. This had three main consequences.

   a. In the late 1990s, under GEAR, government cut the budget, which contributed to very slow economic growth. It also limited expansion in basic government services and led increasingly to the view that workers must pay more for them. In contrast, the more relaxed fiscal policy since 2000 has supported relatively rapid expansion in government services and in the economy.

   b. The state maintained relatively high interest rates in real terms (that is, taking inflation into account). In nominal terms, interest rates spiked in the late 1990s and then dropped rapidly from 2000. Since 2003, this policy has supported a high rand, aggravating the balance-of-trade deficit and weakening gold mining as well as sections of manufacturing.

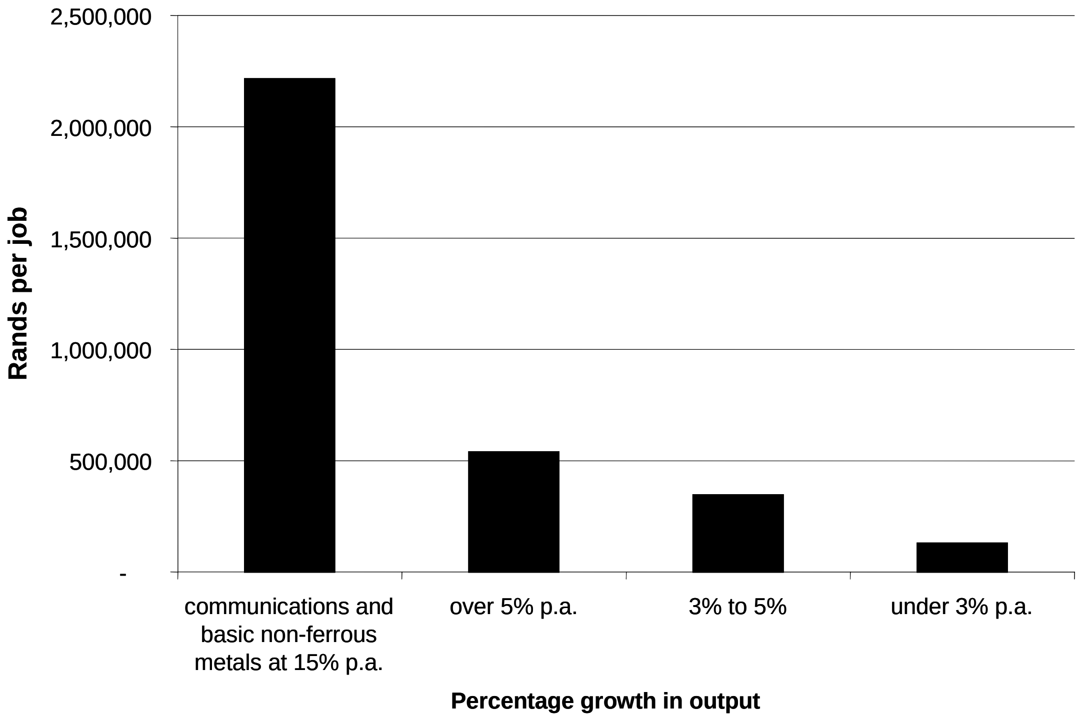
   c. In part because of the weakening of exchange controls, major financial and mining companies increasingly reintegrated into foreign groups. Several relocated their headquarters overseas or were bought out. In manufacturing, multinational enterprise reasserted their influence over local producers. In pharmaceuticals, dairy, appliances and other industries, this trend led to greater dependence on imports. The auto industry proved an exception, as multinational auto companies saw South Africa as a competitive export base.

This two-pronged globalisation strategy dominated economic outcomes. In contrast, government support for small enterprise, BEE and rural development had relatively little impact.

The continued dependence on minerals combined with government's conservative macroeconomic strategies meant that growth lagged behind other middle-income developing countries. The economy did, however, recover from the crisis of the late 1980s. After a slowdown in the late 1990s, growth stabilised at around 3,5% in the early 2000s. Investment remained well below 20% of GDP, which is the minimum most economists agree is needed to drive more rapid growth.

Meanwhile, as the following table shows, growth remained focused on capital-intensive sectors – notably finance, telecommunications, minerals, heavy chemicals and especially auto – which could not create jobs on the necessary scale. Moreover, the focus on heavy industry left little scope for small and micro enterprise.

Table 7. Growth of sectors according to capital intensity, 1994-2002[a]



Note: a. The y-axis shows the average capital intensity of all sectors (at the three-digit SIC level) achieving each rate of growth. *Source:* Calculated from, TIPS EasyData, downloaded from www.tips.org.za in December 2004.

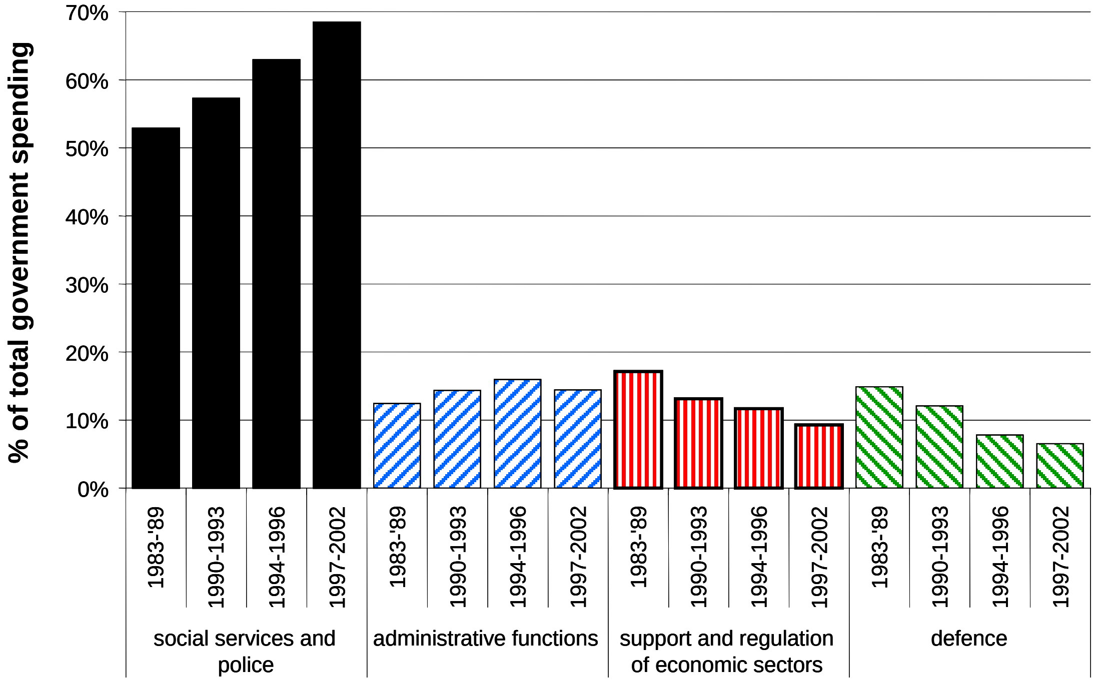
The structure of growth after 1994 had substantial social implications.

- Unemployment remained extremely high. Two thirds of adults aged under 35 unable to find paid work. As a result, every worker had to support more unemployed relatives. Government expanded social grants for old people and children, providing increasingly important support for families without much earned income.

- Pay in much of the formal sector was high compared to poorer countries, especially when the rand rose. With an exchange rate of R7 to a dollar, pay for workers in the auto industry came to USD1000 a month, in mining to around USD300 a month, and in light industry to USD150 a month. These are very low compared to industrialised countries, but higher than in, say, China. There, the currency is undervalued by as much as 40% - and minimum pay is around USD100 a month in light industry.

Finally, the state's main strategy for addressing poverty became, not economic transformation to create jobs and ensure greater equity, but improved provision of services and welfare grants. As the following table shows, the share of government spending on the social wage rose steadily, while expenditure on economic services declined in relative terms. This continued trends that started in the 1980s.

Table 8. Government spending by function, 1983-2002



Source: Calculated from, SARB long-term data series on public accounts. Downloaded January 2005.

Because of budget cuts in the late 1990s, however, government increasingly made the working poor pay for basic services like water, electricity, health and education. It only exempted the destitute, with household incomes under R800 a month. As a result of these policies, the cost of living in working communities remained high compared to other parts of the world.

Working-class households gained access to basic services such as water and electricity - but only at a price, generally equal to between 5% and 10% of their wages. Moreover, the combination of commercialised public transport and apartheid settlement patterns meant workers paid an extraordinarily large share of their income on transport costs. A 2003 survey by the Department of Transport found that for workers earning under R3000 a month, almost a third paid 20% of their income for transport.

2.4 Scenarios

We here use scenarios to explore the implications of basic strategic decisions. We can understand these as a choice between the current redistributive strategy, which focuses on using resources from the formal sector to support the un- and underemployed, and an industrialisation strategy, which emphasises employment creation through a massive increase in support for light industry and services.

2.4.1 Redistribution

A redistributive strategy involves:

- Continued dependence on minerals exports, with limited diversification into heavy chemicals, auto and possibly some other relatively high-tech activities such as the Pebble-Bed Nuclear Reactor and armaments. The rest of manufacturing and private services (such as finance as well as private health and education) would continue to produce mostly for the high-income group in the region.
- Given this structure of production, formal employment would continue to grow slow – around 1% a year - so unemployment would stay high. Still, since formal jobs would remain concentrated on heavy industry, their pay would remain high. The growth in capital-intensive sectors would also ensure fairly concentrated ownership.
- Government taxes would capture surpluses generated by the export sector to provide support for the unemployed and underemployed. The main debate would arise over whether to provide direct transfers, for instance the Basic Income Grant, or support micro-enterprise such as spaza shops, crafts and repair shops. In addition, workers in the formal sector would continue to support unemployed family members.
- Although the poor would have a safety net, the unemployed as well as people in micro-enterprise would remain very poor compared to the employed. The legitimacy of the system would be enhanced through redistributive measures plus narrow black economic empowerment (BEE), which would greater representivity in big business.

To succeed, this strategy requires a durable commodity boom. This is a possibility, given in particular the growth in the Chinese and U.S. economies. Diversification into other metals, especially platinum and steel, supplemented by gas and coal-based chemicals, could cushion the decline in gold mining.

This is a redistributive scenario because

- Unemployment would remain very high, but
- The state would effectively capture a share of the resources generated by minerals production to improve conditions for those left out of the formal sector.

Redistribution could take place through grants, improved basic services, support for micro-enterprise and, possibly, land and agrarian reform. In the absence of substantial employment generation, these measures would not lead to a major reduction in poverty levels, but they would address the worst aspects of poverty.

Ideally, the redistributive pattern would lead slowly to an expanded domestic market and growth in new sectors. As a result, over the next few decades, more balanced development would emerge.

In the event, however, this ideal has not been achieved by most developing countries that depend on mineral exports. Instead, redistributive measures improved welfare but did not lead to significant growth in other sectors. Most of these economies continued to depend on mineral exports, with huge inequalities, high unemployment and poverty persisting for decades, despite the cushion of family and state transfers. Australia, Canada and, to a lesser extent, Chile are the main exceptions.

The biggest short-run economic risk in this scenario is a crash in commodity prices, like that experienced through much of the 1970s and '80s. It would cause a crisis, with a decline in core industries in the economy. Factors that can lead to plummeting mineral and coal prices include a downturn in the industrialised countries, technology changes that reduce the need for mining products, or the entry of new producers of gold, platinum, coal or steel.

With a decline in export income, redistribution through both the state and the family would fall apart as both tax revenues and employment shrink. At the same time, the loss of export sales would lead to depreciation in the currency, providing greater protection for local industries – but in very unfavourable overall economic circumstances.

This was, of course, the experience of most African countries from the 1960s. They were shaped by colonialism to depend heavily on one or two commodities – cocoa in Ghana, sisal in Tanzania, copper in Zambia. When the prices of their exports plummeted, they had to cut back on government programmes, their currencies depreciated and unemployment soared.

2.4.2 Industrialisation

The industrialisation scenario looks to the growth of new sectors to generate a substantial expansion in employment. Some new capacity might aim at exports, but some would focus on meeting local demand, especially for necessities for the poor. Critically, to accelerate job creation, there would be a bias toward relatively labour-intensive sectors, generally light industry, services and agriculture.

In this scenario, mining would continue as a major engine for the economy, but its importance would gradually decline. Government would encourage investment of surpluses in new formal industries that could create employment, rather than focusing on welfare and micro-enterprise. Rising employment would in turn increase domestic demand, stimulating new activities.

The industrialisation strategy requires a fundamental redirection of activities by all stakeholders, including the state, capital and even labour. For decades, economic and social institutions and measures have been structured to support heavy industry. Reversing that requires painful readjustments.

Successful industrialisation requires a strong government for various reasons.

- As a first step, the government must mandate *every* state agency, including economic and social service departments as well as parastatals like the IDC, to pursue employment creation and economic development as the central priority. That will require far-reaching re-alignment of most government programmes, including for instance monetary, trade, energy, transport and housing strategies. To guide all levels of government, the state must ultimately define a long-term vision of the changes in the production and ownership structure needed to achieve higher levels of employment and equality.

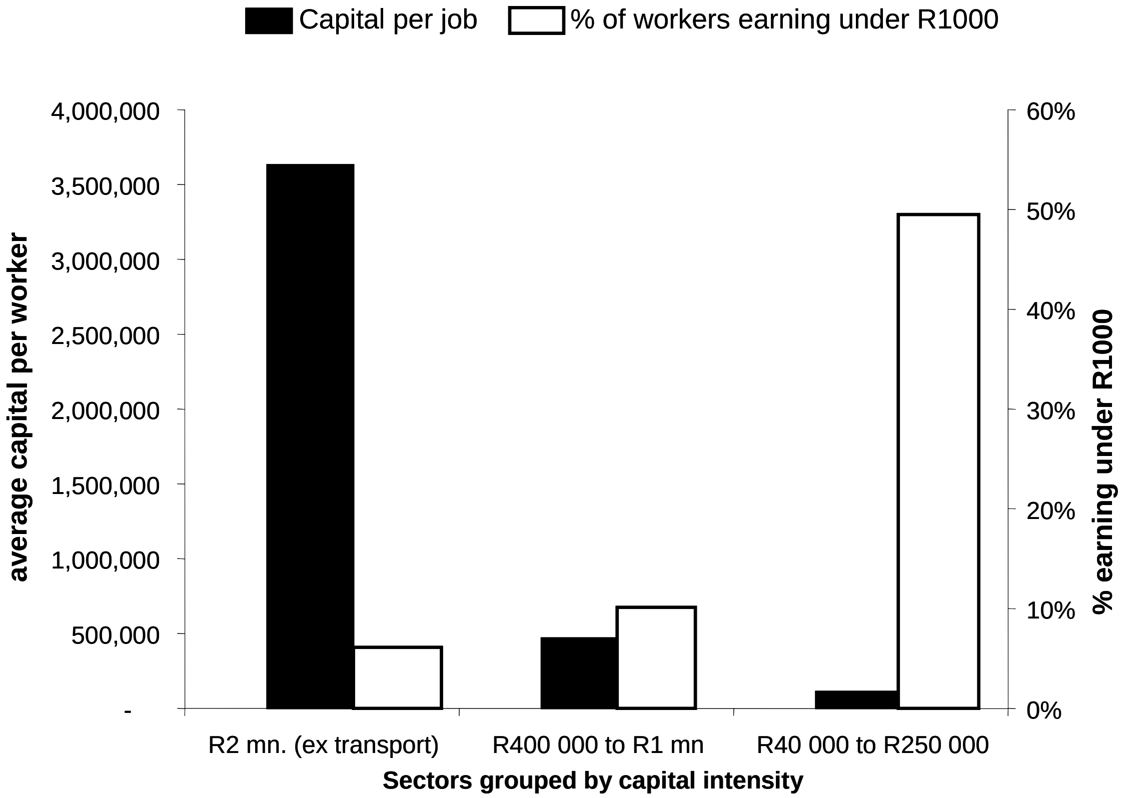
- The state must engage with stakeholders to define potential areas for growth and to develop new forms of ownership, including greater public ownership, a co-op movement and better use of pension funds. In that context, it must use its power consistently to protect and support infant industries. This could require increased spending on economic functions, which could constraint social spending. It would also require further work to transform finance, retail and other business networks to support new kinds of enterprise and employment-creating activities.
- In this context, the state should ideally provide explicit support for more collective ownership, including public ownership, a strong co-operatives movement and more active involvement by workers and communities. Moreover, it would have to drive much stronger agrarian reform, based in substantial land reform, and strong support for co-ops and community-based enterprise.

Industrialisation requires macro-economic policies that support growth in light industry and services. Critical elements include:

- A relatively expansionary fiscal policy, with greater government spending to support employment-creating activities and reduce the cost of living for working communities. This would require both increased spending on economic functions, and greater efforts to enhance the efficiency of and subsidies for public transport, water and electricity and education. In addition, the state should prioritise programmes to reduce the cost of producing and marketing basic foods in ways that increase employment opportunities.
- Monetary policy should ensure lower real interest rates, at least for employment-creating sectors, and depreciation of the rand. No country has successfully industrialised without maintaining an undervalued exchange rate. The depreciation of the rand should be supported by concerted efforts to ensure does not translate into higher costs for wage goods.
- Trade policy would have to protect local markets sufficiently to provide a basis for industries, even if ultimately they managed to move into exports. Every country that has industrialised has far higher tariff protection than South Africa. In addition, light industry and services have greater scope for exports into Africa, so trade support should focus far more on the region.

This industrialisation strategy does not require weaker labour laws. Still, it is not a high-wage strategy, since it would create jobs primarily in labour-intensive sectors that rarely pay very well. As the following table shows, capital-intensive industries are much less likely to pay poor wages. For working-class households, the low wages associated with the new jobs should be offset by increased family incomes, as young adults get jobs, and a reduced cost of living.

Table 9. Wages and capital intensity by sector,[1] 2003



Note: 1. Sectors were grouped by capital intensity. Within each group, the black bar shows the average capital for worker within the range, while the white bar shows the share of workers in the industries that earns under R1000 a month. *Source:* Capital intensity calculated from data on assets and employment by sector in 2004, using data from TIPS EasyData, downloaded from www.tips.org.za in July 2005; share earning under R1000 calculated from Statistics SA, Labourforce Survey for September 2003, database on CD-ROM (Pretoria).

If successful, industrialisation would ensure a rapid expansion in employment through the development of new, sustainable industries and agrarian reform. Workers would be better off both because they would not have to support so many unemployed people, and because lower unemployment would ultimately increase unions' leverage to negotiate better pay. Industrialisation in South Africa would both require and support more rapid development throughout the region.

But the industrialisation strategy can easily fail. The state may support activities that are simply not sustainable in the long run, putting pressure on social spending without ending up with sustainable employment. Moreover, unless handled very carefully, the strategy can lead to capital flight, so that diversification fails for lack of capital. Notably, the countries generally seen as typifying successful industrialisation strategies – mostly Asia - did not face strong mining groups that could resist the strategy.

Table 10. Summary of scenarios

	Redistributive	**Industrialisation**
Structure of production	Continued dependence on mineral exports and on manufactured imports	Develop agriculture, light industry and services geared to local and regional market as well as exports
Ownership structures	No change	Increased small and micro enterprise in light industry and services
Anti-poverty measures	Social grants, wage transfers	Rising employment
Unemployment	Little change	Substantial reduction
Wage levels	Typical for capital intensive industry (currently R5000 a month)	Typical for labour-intensive industry (currently R1000 to R2000 a month)
Labour laws	No weakening needed	No weakening needed
Unionisation	Same if successful, decline if economy declines	Smaller enterprises and casual workers are difficult to organise
Challenge to unions	High unemployment leading to poor conditions in vulnerable sectors	Organising in new industries with lots of new workers and small enterprise
Role of state	No change	Restructure all activities to prioritise employment creation; strong sectoral programmes
Risks	Fall in commodity prices; unrest over inequalities	Failure to develop sustainable new activities

2.5 Conclusions

Examining the strategic options for development underscores that there are no easy answers. The industrialisation strategy is obviously more desirable if it works. But if it fails, policymakers will bear the blame. In contrast, if the redistributive strategy fails, policymakers can blame international commodity markets.

The core challenge for the industrialisation strategy is to transform the state to make employment and economic growth the central aim of every programme. Achieving this requires overcoming bureaucratic inertia and power plays between government agencies and spheres.

We have here presented two extreme scenarios. A less risky strategy would probably involve a combination, which would involve

1. Continued dependence on mining, with more diversification and beneficiation, and with conscious efforts to build related capital-goods industries and services.
2. Far-reaching agrarian reform to raise living standards and productive opportunities for people now trapped in the former homeland regions.
3. Increased support for light industries and services providing basic necessities for

working-class communities. This would in turn require a review of government programmes to ensure appropriate procurement and support strategies.

4. Growth of collective ownership in all sectors through broad-based BEE, a strong co-ops movement and the state itself. The first two require active intervention by the labour movement.

3 Toward job-creating growth

We here review some key requirements for an effective industrial policy focused on creating decent work.

3.1 Cross-cutting issues

An effective industrial policy combines sectoral and cross-cutting programmes. This section identifies key areas that affect all sectors.

The developmental state. The state must absolutely prioritise sustainable employment creation, which combines economic development with an expansion in decent work. Moreover, the state must have structures that can drive development through a combination of discipline and resourcing for capital. This requires

- Strong central authority to define the broad vision for development and ensure consistent prioritisation of employment creation and improved economic capacity.
- Capacity for co-ordinating all government programmes, including at provincial and local level, around these aims. That means both economic and social programmes must consistently seek to support long-term employment creation.
- Capacity and willingness to develop specific programmes, especially at sectoral level, in consultation with stakeholders. Consultation should ensure sustainable and broadly supported programmes, without compromising long-term developmental aims.

Fiscal policy. Fiscal policy must remain expansionary. The resources needed to kickstart new economic activities must be guaranteed. All government procurement must ensure a strong commitment to buying local.

Monetary policy. Interest and foreign-exchange rates must be designed to support increased investment and growth in exports. That generally requires a reduction in real interest rates to levels comparable or lower than South Africa’s main trading partners. It is critical that the state require development finance institutions, especially the IDC, to support its structural initiatives. In addition, targets for the Reserve Bank should include the current employment and growth targets.

Trade policy. Trade policy must ensure adequate protection for domestic markets combined with measures gradually to improve competitiveness.

Infrastructure. The current commitment to increased spending on infrastructure is an important step. Still, infrastructure spending remains focused on mega projects and, in townships, on cost recovery – policies that will do little to foster employment creation or small enterprise. The infrastructure strategy should be reviewed to reduce the cost of living for workers (and by extension the cost of employment), support the development of agriculture and food processing, and support retail and production in historically black areas. Specially, this requires

- Increased cross-subsidisation of municipal services
- Greater subsidies for commuter transport and densification of housing
- A review of investment and tariffs for rural freight transport
- Increased development of retail and industrial sites in townships.

Financial and retail networks. New industries and services require supportive financial and retail networks. On the one hand, existing institutions, especially in the public sector (such as the IDC and DBSA) must do more to support innovative projects that can create sustainable employment. On the other, consumer and financial co-ops should be encouraged.

Skills development. While the national skills strategy sets a crucial framework for skills development on a mass scale, it has not succeeded in ensuring that lower-level workers have access to qualifications and career paths. We need a stronger analysis to understand the reasons for these shortcomings.

Unionisation. To ensure growth brings about decent work requires that workers entering newly created jobs also join unions. The labour laws never work primarily through government inspections, but rather through union monitoring and action. Government must do more explicitly to support organisation in vulnerable sectors, rather than relying on its own power to set standards.

3.2 An approach to sectors

COSATU has long argued that specific sectoral strategies are needed to restructure the economy toward more equitable, job-creating growth. This is a long-run process. It takes at least five to ten years to change the sectoral structure of the economy substantially. Effective interventions must be geared consistently and systematically toward the new growth path. Far-reaching restructuring of the economy cannot be achieved if we frequently change direction because of lobbying or hopes for short-term gains.

Sector strategies must ensure, as far as possible, that every major economic sector:

1. Protects and creates sustainable and decent employment
2. Meets basic needs better, by cutting prices or improving the quality of goods used by the poor
3. Ensures adequate exports to obtain necessary imports, which means continued diversification in mining remains critical
4. Contributes to development in the former homeland areas and in neighbouring countries

5. Supports more collective ownership, especially through the public sector, a strong co-operatives movement and enhanced worker and community control.

A critical task is to identify industries that are **both** relatively labour intensive and sustainable – that is, able to grow substantially for the foreseeable future. Generally, considerable state support will be required to help these industries take off while achieving more equitable outcomes.

This approach differs from the current government strategy in that

- It sees the domestic market as an important source of growth for labour-intensive production, rather than focusing narrowly on export industries.
- It does not glorify high-tech production, rather arguing that production of basic goods for the poor in South Africa and the region at least may provide an important source of employment growth.
- By extension, it requires a low exchange rate as well as measures to reduce the cost of living in order to make possible competition with Asian suppliers who typically undervalue their currencies and subsidise key goods and services.

It takes at least five to ten years to change the sectoral structure of the economy substantially. Effective interventions must be geared consistently and systematically toward the new growth path. Far-reaching restructuring of the economy cannot be achieved if we frequently change direction because of lobbying or hopes for short-term gains.

3.3 Proposals for sectoral strategy

Critical structural changes for this industrial policy include:

1. A substantial expansion in agriculture and food processing for both the domestic and regional market and, especially through horticulture, for overseas export. To ensure decent work and greater equity in the sector, a major land reform and agrarian development based on marketing co-ops would have to form a central part of this sectoral strategy.
2. To maintain export revenues and technological capacity, mining would have to continue to diversify with conscious efforts to diversify the associated industries and services, both upstream – essentially capital equipment, electricity, construction materials and chemicals – and downstream (beneficiation and manufacture of mining products).
3. Strong support systems would be needed to grow light manufacturing, especially food processing; appliance assembly; crafts; plastics (based on local inputs); furniture; publishing; and clothing. In each case, sources of local inputs should be identified and expanded. Growing these sectors will require an overhaul of the retail sector as well as some tariffs, in order to ensure access to domestic and regional markets. Co-ops and state agencies must play a role in providing inputs and marketing.

4. Both public and private services should grow in ways that create employment. The main public services are understaffed. They also have to review all their programmes to ensure they contribute more to employment creation, both by enhancing local procurement and by improving the capacity of working-class households to engage with the economy. The private services – for instance, restaurants, childcare and hair-dressing - are dominated by micro-enterprises, but provide an important source of employment especially for women.

As noted above, these developments would require a substantial reform of the transport, retail and financial sectors as well.

We here discuss briefly how some sectors could develop, first evaluating it against the objectives listed above, and then outlining key advantages, obstacles and strategies. The aim is more to illustrate the issues and stimulate debate than to provide answers. Affiliates should develop more detailed proposals in the run up to the Central Committee.

3.3.1 Agriculture and food processing.

Employment creation. Agriculture, food processing, catering and retail – all part of the agricultural value chain – are all relatively labour intensive. They can do a lot to improve employment in the former homeland areas, if linked to a strategy of land reform and agrarian development. Unionisation is low outside of food processing, however, and pay tends to be low across the value chain.

Meeting basic needs and exports. Ensuring access to more affordable food is critical for improving living standards for the poor in South Africa and across the region. The state plays a central role in this regard, and its procurement for welfare programmes should seek more explicitly to support local production. In addition, horticultural products are suitable for export, and catering is important for tourism.

Ownership. Rural development usually relies heavily on a state-supported co-operative movement, at least to deliver inputs, ensure access to markets and provide affordable credit. The sector generally would support new small and micro enterprises, especially in agriculture, retail and catering. Land reform is critical to ensure employment creation on a larger scale.

Advantages: Agriculture has well developed irrigation, transport, marketing, extension and financial systems, although geared primarily to the commercial sector. South Africa should be able to increase exports to Europe and Asia during their winter, when it is summer in South Africa.

Obstacles: Mass poverty limits the domestic and regional market, although the need for food is obviously huge. Export subsidies, the high rand and trade barriers encourage imports (such as Irish cheese and Italian tinned tomatoes) while cutting into foreign sales. Moreover, systems are not in place to support large-scale horticultural exports (transport, grading, marketing, etc.)

Since 1994, ownership of land has apparently become even more concentrated, leading to job shedding in recent years. This has distorted systems to support agriculture, which still largely ignore black smallholders in the former homelands.

Transport in rural areas has become more expensive in recent years with the commercialisation of Transnet and the increased reliance on private road transport.

Key strategies: Critical strategies include agrarian development based on land reform with massive support for community-based co-ops, plus improved linkages between government spending on welfare and food producers. Export activities require a review of trade policy, rural transport, skills development and other systems to ensure greater support for exports plus a reduction in unfair competition by subsidised imports. All of these proposals require huge changes in existing government programmes.

3.3.2 Forestry, wood, furniture, paper and publishing

Employment creation. The entire value chain based in forestry is fairly labour intensive, except perhaps for paper production. It has very strong internal linkages and is based on a renewable resource, making it relatively sustainable.

Meeting basic needs and exports. Cheap construction materials and furniture are important for raising the living standards of the poor. Access to cheap paper and publishing is crucial for democracy and education. The sector is also a substantial exporter, especially of paper.

Ownership. Historically, the state has owned much of the forests, although they have largely been privatised to large companies. There is scope for smaller enterprises and co-ops in forestry, sawmills, furniture and publishing. Paper requires large-scale producers, and is dominated by two companies.

Advantages: The climate is very suitable for forestry. State ownership of some foresters should give greater leverage for supporting a growth strategy. The existing forests seem fairly well served by transport and energy. The state is a major user of furniture and publications for its own institutions.

Obstacles: Privatisation of the forests and efforts by the paper companies to move production abroad have undercut local employment. Mass poverty limits demand for low-end furniture and publications, while the high-income group may prefer the snob value of imports. The high rand hurts exports and encourages imports, especially for furniture and higher value-added products. Potential producers lack skills, funding and access to retail.

Key strategies: We need to explore

- The potential for growing co-ops in forestry
- The scope for a substantial growth in local furniture production and publishing both to meet basic needs and, at least through crafts production, for export. This would require shifts in trade policy, forestry strategy (growing trees for furniture creates more jobs), skills development, retail and state procurement, amongst others.

3.3.3 Mining and metals

Employment creation. Gold mining has historically been a major employer, but has lost more than half its jobs since 1980. The other sectors of mining are more capital intensive: diversification has maintained export revenues, but mining employment has dropped overall, from around 700 000 in 1980 to around 400 000 today. Coal mining is the backbone of both the electricity and the heavy chemicals industries.

Meeting basic needs and exports. Exports from mining are critical to pay for the imports needed by the rest of the economy.

Ownership. Highly concentrated, and little scope for small-scale producers or even suppliers.

Advantages: The industry is very well established and highly technologically advanced. This permits diversification into new minerals as gold matures.

Obstacles: The main problem is the maturing of the gold industry, which appears in rising costs. This is combined with the tendency of the mining companies to seek new opportunities abroad rather than developing the regional economy. Downstream production has been hindered by import-parity pricing and skill shortages, combined with the lack of government support.

Key strategies: We need to review the obstacles to beneficiation and understand them better. If beneficiation stops at refining, then the metals are exported without fabrication, there is relatively little benefit to either the economy or to employment. At the same time, the shift from gold to other minerals must be managed in ways that support long-term growth in the sector without losing jobs unnecessarily. That requires both a clear strategy for the gold industry and surrounding communities, and active labour market policies for miners.

3.3.4 Clothing and textiles

Employment creation. Clothing and textiles remain one of the largest employers in manufacturing, and the industry is relatively labour intensive. Retail based on clothing is also a major source of jobs. Clothing relies largely on imported material, however, reducing employment creation in the input sectors (textiles, chemicals and agriculture).

Meeting basic needs and exports. Affordable clothing and linen is important for poor households and for many government institutions such as hospitals and the defence forces. The industry was able to break into export markets for some kinds of goods – mostly higher level clothing and linen – until the rand appreciated in 2002. Lesotho and Malawi developed clothing industries using imported textiles that export largely to South Africa and the U.S., but they almost closed down as a result of the increased competition from China when trade quotas ended in 2004.

Ownership. Clothing is largely small-scale, while textiles and clothing retail are dominated by a few large companies. There is thus scope for smaller enterprises and, on the retail side at least, for marketing co-operatives that could reduce the cost and improve access for poor households.

Advantages: The industry has historically been sophisticated and geared largely to the domestic and regional market, providing a more stable basis for production. Government procurement and guidelines for uniforms could provide a boost for local demand. The ban on second-hand clothing imports, although often violated, has been critical for sustaining local demand. Although the elimination of the quota system increases competition from Asia, AGOA and the FTA with Europe still ensure lower tariffs for exports to the U.S. and E.U. South Africa has begun to develop a craft industry linked to tourism and high-level exports.

Obstacles: The high rand and undercutting by China, based in part on undervaluation of its currency and illegal imports, has led to large losses in production capacity and jobs since 2002. This situation aggravated trends from 1994, when the government cut tariffs and turned its back on local procurement. The tariff draw-back programme, which sought to encourage exports by letting exporters import goods duty free, led to higher import dependency and reduced capacity.

Mass poverty limits the domestic market for basic goods. The high-income groups often prefer imports on principle. The retail industry is highly concentrated and has not worked closely with local producers to help them compete better with imports.

The textiles industry remains fairly limited, unable to supply an impetus to clothing producers. Relatively weak design capacity constrains efforts to compete.

Key strategies: An Alliance taskteam on the industry has developed detailed proposals to improve the quality of locally manufactured goods, promote product and design innovation, upgrade technology, reduce raw material costs, use local supplies more effectively, improve efficiencies and supply-chain management through enhanced communications and infrastructure, and increase investment. They include measures to train workers and managers and to combat sweatshop practices in the industry.

The taskteam also recommended additional measures to enhance local demand, including promoting local sourcing by government and retailers, consumer campaigns around Proudly South African, efforts to improve market access for exports, promotion of South Africa as a destination for fashion tourism, safeguard measures on imports as allowed under the rules of the World Trade Organisation (WTO) and combating illegal imports.

3.3.5 Chemicals

Employment creation. Heavy chemicals, which has been growing fastest, provides relatively few jobs directly, but can support relatively labour-intensive downstream activities (textiles and plastics). The plastics industry is a major source of employment and has been creating jobs.

Meeting basic needs and exports. Many basic necessities and construction materials can be made relatively cheaply from plastic, raising the living standards of the poor. If we include petroleum refineries, the sector is critical for transport costs, affecting both households and the economy as a whole. The pharmaceutical sector is critical for providing affordable drugs and healthcare product, as well as health security.

Ownership. SASOL and Dow Chemicals dominate heavy chemicals production, which permits them to engage in import-parity pricing, limiting downstream growth. Plastics is characterised by a huge number of small and micro-enterprise, suggesting some scope for looking at co-operative development in the future.

Advantages: South Africa is highly competitive in heavy chemicals, providing substantial exports as well as basis for expansion in downstream industries. The production of oil-from-coal is worthwhile when, as now, the international petroleum price is high. The chemicals sector has entered into a sector summit process with substantial support from both labour and business.

Obstacles: The downstream industry remains weak. There are environmental and occupational health and safety concerns around the industry. The high rand blocks exports of downstream products in particular. Research into product development remains unaffordable for many wanting to enter the downstream sector.

Key strategies: The sector summit is exploring ways to grow downstream industries that are relatively labour intensive. That requires that the state deal with import-parity pricing, as well as exploring the other factors that limit expansion of downstream activities.

3.3.6 Retail

Employment creation. Retail is a major employer, accounting for close to one in ten jobs. It pays relatively badly, however, even in the formal sector, and many jobs are casual or informal. The retail sector also has an enormous indirect impact on employment. Decisions about whether to focus on local products or imports, on the rich or on mass-consumption goods, greatly affect consumer goods production. Concentrated retail chains, like those found in South Africa, tend to be hostile to new or small producers.

Meeting basic needs and exports. The mark-up in retail affects the overall cost of living. Concentration in the formal chains has made prices on necessities sticky downward in some cases. Spaza shops have a far higher mark-up than the formal chains, increasing costs especially in working-class communities. The formal chains have begun to establish networks in other African countries, which could support exports of South African manufactures.

Ownership. The retail sector has essentially three tiers: the dominant chains, which control most of the industry; some small formal and semi-formal producers in city centres, including some operating as franchises; and informal spaza shops and hawkers, who have little in the way of facilities. The micro enterprises are an important source of opportunities for the unemployed, but they tend to provide higher priced, sometimes worse quality goods in poor communities.

Advantages: The formal chains have considerable capital and skills, and seem efficient.

Obstacles: High levels of concentration and the emphasis on the high-income group discourages procurement from new and smaller producers and encourages provision of imports in the name of quality and diversity. Town planning for poor communities, especially RDP projects, has usually not included formal retail sites, leaving communities dependent on expensive and poor quality informal shops. A degree of discrimination apparently still prevails in granting franchises, which still go largely to white entrepreneurs.

Key strategies: The retailers should commit to buying local and to working more closely with local producers to develop new capacity, particularly around food, clothing, books and plastics. COSATU will explore whether it is possible to set up consumer co-ops to provide basic necessities at a lower price in poor and especially rural communities. Planning for poor communities must include formal retail sites, although we need to discuss whether they should aim for the chains or for smaller formal shops. We need to explore ways to improve protection for casual workers.

3.3.7 Health

Employment creation. The health sector employs close to half a million workers, ranging from cleaners to doctors and hospital management. It is one of the main sources of employment for women professionals. The sector has a critical impact on indirect employment – poor, expensive or time-consuming healthcare all cut into competitiveness overall. In South Africa, the capacity for maintaining health for people with AIDS is particularly important for employment.

Meeting basic needs and exports. Health is a critical basic need. It can earn foreign exchange through treatment for Africans seeking more high-tech care and for Europeans and others who want lower-cost quality treatment.

Ownership. The public health system accounts for about two fifths of personnel and resourcing, and serves 80% of the population. Control is split rather awkwardly between the provinces, who are responsible for most of the health budge and employment, municipalities with some clinics, and the national government, which is responsible for some funding and for national policies and norms. The remaining resources and personnel are in the private sector, split between hospital chains and mostly self-employed general practitioners. Until last year, when Wits University set up a private teaching hospital, all the university hospitals were in the hands of the state. Private health insurance has a substantial impact on the industry, with very large cost increases in recent years.

Advantages: The public sector still has substantial strengths, including the training hospitals. Both the public and private sector have international centres of excellence. The country has world-class nursing and medical schools, although many graduates end up overseas. The national department of health is committed to ensuring more equitable care, even at the cost of confronting the private sector.

Obstacles: The public sector is severely underfunded, plagued by very poor management systems and occasionally erratic policies (notably, until recently, on HIV). Training has apparently been neglected in recent years, especially with the closure of some nursing schools. The state has not set up viable norms for staffing and funding to ensure equitable care between communities, leading to the persistence of unacceptable disparities. This feeds into differences in capacity and budgets between provinces. Very long queues at primary clinics have a particularly negative impact on workers, especially women who also have to take their children for care.

The private sector is very expensive and often inefficient, duplicating state facilities and underutilising expensive equipment. The medical-scheme system is increasingly regulated but often without adequate concern for cost control and access. These factors have led to soaring healthcare costs, well above inflation levels and also far above the norm for other middle-income countries. The result is a higher cost of employment for workers, reducing competitiveness throughout the economy.

The national department of health has in recent years been pushing social health insurance (SHI) as a way to push formal workers out of public healthcare. The system would compel about half of all formal workers to join medical schemes, at a substantial cost to themselves and to the economy.

Key strategies: In the long run, COSATU supports a national health insurance (NHI) system, which would pay for medical care for all South Africans through tax revenues. The main demands in the medium term are a substantial improvement in public healthcare combined with stronger regulation of the private sector.

For the public sector, demands include an increased focus on improving healthcare for working communities, including less time-consuming primary care and a stronger roll out of anti-retroviral treatment. Measures to that end include a substantial increase in funding and staffing in the public health system, with sustainable norms to monitor equity; development of specialised courses for hospital management, combined with a review of management and financial system; better training of personnel to deal with all aspects of HIV, including confidentiality and stigmatisation; retaining all teaching hospitals in the public system; ensuring greater access to underutilised capacity in the private sector; and the establishment of career paths in line with professional norms for all health personnel. Health should explore closer links to EPWP, including expanding the corps of nursing assistants as well as home-based care and support for clinics.

For the private sector, COSATU has called for regulations to enhance affordability and access. This would require a shift in the focus from efforts to dump people out of the public sector. Specific measures could include a review of medical-scheme regulation to support collective insurance schemes, including through union and bargaining council clinics, targeted at members' needs; closer regulation of membership costs; and stronger regulation to reduce duplication, excessive testing and medication. The regulatory agencies should be controlled by stakeholders – that is, unions, employers and other major consumers – and get more capacity.

Finally, the dti and the national Department of Health should do more to encourage local production of pharmaceuticals, as well as developing a procurement policy that supports local food processing as well as the clothing and textiles industry.

3.3.8 Education

Employment creation. The public education sector employs close to half a million people, while the private sector employs around half as many. Like all services, the sector is labour intensive. It is a major source of employment for women professionals.

Meeting basic needs and exports. Education is a critical need for the economy as well as for democratic rule. Higher education can generate foreign exchange by serving foreign students.

Ownership. Most of the sector is owned by the state, although there are some private schools. The state has delegated some of its powers effectively to SGBs and university administrations.

Advantages: South Africa has relatively well-trained teachers and in some communities good facilities.

Obstacles: Apartheid established unacceptable inequalities between rural, township and suburban schools, which persist especially in the form of appalling facilities in some areas. The curricula are often not suited to the needs of the economy or the society in general, and are especially weak on basic skills (maths and writing), science, computer work and design. Budget cuts in the late 1990s led to chronic understaffing and the introduction of fees, which essentially block access of poor and working-class students to the better schools and universities.

Key strategies: We need to explore whether it is possible to fast-track curriculum changes that will support employment creation, for instance around computer studies. That would have to be linked to a substantial improvement in in-house training.

It might be possible to link EPWPs to education in ways that reduce the learner:educator ratio, for instance by bringing in teacher assistants.

Generally, education needs a substantial improvement in the budget, which should be used to target a substantial improvement in township and rural schools.

4 The way forward

Two areas require much more work. First, we need to discuss structures for developing and driving structural change. Second, some affiliates have much more advanced proposals for their sectors than others.

4.1 Developing structural strategies

COSATU argued, with the RDP, that sector strategies should be driven by tripartite consultation. This process led to the sector summits. Experience suggests, however, that sector summits engagements are often very slow and place huge burdens on unions because of their long-drawn-out and technical engagements.

A critical problem has been the failure of the state to take a leading role, as discussed in the paper on the developmental state. Government officials in sector strategies tend to be lower level and very quiet. They neither demand rigorous prioritisation of employment and equity, nor themselves table strong proposals. Furthermore, the national government has given set no visible guidelines or priorities for provincial or municipal development strategies.

In these circumstances, sector strategies have succeeded only where business has made a genuine commitment to sustainable development. This occurred, for instance, in the financial sector and the chemical industry. In other sectors, it has taken very long to reach agreements, the contents are often not very specific, and business and government have largely ignored them.

The weak role of the state in sector strategies can be contrasted with its ability to drive BEE charters. The main difference appears to be the willingness of government to define both extremely clear priorities for BEE and strong incentives – essentially government procurement.

In light of these experiences, a critical demand must be that the role of the state in industrial strategy be defined more clearly. We propose

1. The critical role of the state is to prioritise sustainable employment creation and equity, and insist that all economic and social programmes, including procurement, support those aims.
2. To support sector strategies, the state should
    a. Identify the potential for sustainable job creation and/or reducing the cost of living or production in every major industry
    b. Develop and drive strong consultation mechanisms to ensure that these proposals are both realistic and broadly supported within the sector.
3. The IDC and HSRC must be drawn in as consistent technical back up for the development of sector strategies, with a clear directive to focus on sustainable employment creation.

4.2 COSATU claims for sectors

COSATU still has to develop stronger claims for most sectors. The discussion here highlights the need for further work in virtually every industry.