Review of industrial policy for COSATU CEC

July 2005

1 Introduction

Since the RDP, government's industrial policy has been contested and contained different tendencies. On the one hand, government strategies have focused on efforts to expand exports and increase the competitiveness of the economy through increased trade and integration into the world economy. On the other, there have been (generally ineffective) programmes for broad-based BEE, widespread skills development and employment equity, development of small enterprise and co-operatives, and employment creation.

Neither of these approaches has constituted a coherent developmental industrial strategy focused on restructuring the economy to ensure more rapid, employment-creating and equitable growth. Specifically, no government economic programmes have sought consistently to diversify the economy toward more labour-intensive activities, encourage collective ownership, or provide basic needs for working-class communities.

The dti's current policy documents continue to reflect the contestation. As a result, they do not provide a clear vision for economic development or even ensure consistent prioritisation of job creation and equity. The most recent documents argue that economic policies must address unemployment, while their recommendations still focus almost exclusively on ways to grow exports – which admittedly will not do much for job creation.

In short, in practice the competitiveness approach has won out. We have compelled the dti to prioritise employment and to pursue sector strategies – but only paper. In practice, it is still focusing its efforts almost exclusively on expanding exports and, most recently, on BEE in the narrow sense of enhancing black ownership of the dominant companies.

We here first suggest a conceptual approach that contrasts competitiveness and industrial strategies. We then review core government policies since 1994, starting with the RDP and moving on to GEAR, the Micro-Economic Reform Strategy, the Integrated Manufacturing Strategy and trade negotiations.

2 Competitiveness *vs* industrial strategies[1]

To understand the differences between government strategies and the more structural approach historically adopted by the democratic movement, we first review the broader debate between competitiveness and industrial strategies. Both these strategies differ from extreme free-market versions of the "Washington Consensus" by recognising that the state plays a crucial role in development. But they differ fundamentally about the nature of that role.

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[1] This section draws on Neva Seidman Makgetla, "Policymaking and Development in South Africa" in, Ann and Robert Seidman, forthcoming. *Policymaking in Africa.* Africa World Press (New York).

Competitiveness strategies essentially argue that the state must provide protection for property rights and public goods, especially infrastructure and basic social services. They go beyond free-market orthodoxy only in the extent of state efforts in these areas, particularly to develop skills and infrastructure as well as enforcing competition policy. But they agree with the free-market tenet that the state should not, except in extreme cases, explicitly target the structure of ownership or production. That should be left to private actors reacting to market conditions. In this view, the state's role is to make the market work effectively and efficiently, then leave the private sector to shape decisions about the structure of production and ownership.[2]

Supporters of industrial strategies agree that the state must act to ensure greater overall efficiency. They argue, however, that even with improved infrastructure, skills and services, market forces may not spontaneously overcome the narrow production structures typical of many developing countries. In line with earlier dependency theories, they argue that the critical challenge is to diversify into new industries and establish more complete domestic production chains. By extension, the state should identify and support necessary changes in the structures of production and ownership. For this approach, the developmental states of eastern Asia provide the main model. (See for instance Woo-Cumings, 20xx; Kim 20xx)

In South Africa, the line between competitive and structuralist approaches reflected debates about the relative importance and causes of unemployment and slow growth.

- Competitiveness approaches essentially argued that pervasive inefficiency and consequently slow growth arose because the apartheid state intervened in markets. In particular, they blamed the long history of high protection to support import-substitution industrialisation, inefficient state control of basic infrastructure and, in the 1980s, massive strategic investments in petrochemicals and arms. (See for instance World Bank 19xx)
- In contrast, the structuralist approach argued that economic policies must focus on South Africa's mass poverty and unemployment. These challenges arose from a combination of continued dependence on minerals, which can no longer create substantial employment, and the historic denial of productive assets and skills to the majority of the population. The state should thus seek to diversify the economy while improving basic economic and social services for poor communities. (See for instance UNDP 2004; Makgetla 2004xx; ANC 1994)

3 Core government strategies since 1994

3.1 The RDP

The RDP broadly[3] argued that apartheid generated massive inequalities and poverty, which in themselves were a central obstacle to broad-based growth and employment creation. On the one hand, these factors reduced the ability of the poor to generate incomes for themselves outside the formal sector. On the other, they dampened

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[2] This approach is articulated clearly in the latest World Development Report (World Bank 2004), which distinguishes measures to improve the overall investment climate from "targeted interventions," about which it is very cautious.

[3] Note that the RDP as it was perceived by most stakeholders differed substantially from the actual text, which was lacking in detail – specifically on industrial strategy – and contradicted itself on the relative importance of transformation and competitiveness.

domestic demand especially for basic goods and services, which are relatively labour-intensive. In addition, the formal economy has long been biased toward mining and refining. These industries are relatively capital intensive, so this structure slowed job growth.

This problem statement did not, however, lead the RDP to consistent proposals on restructuring the economy. Instead, contestation within the democratic movement meant two contradictory strategies emerged: a redistributive strategy that proposed increasing local demand through efforts to ensure more equitable income distribution, and a competitiveness strategy focusing on macro-economic stability and driving exports.

One strand of the RDP strategy, which is reflected across all chapters, argued that the market would not end these structural problems. It proposed that government drive four main strategies to shift to more equitable, job-creating growth:

1. Improving infrastructure and government services for the poor, which would increase local demand especially for relatively labour-intensive industries.
2. Supporting a strong industrial strategy and land reform to expand sustainable labour-intensive sectors and broaden ownership and control.
3. Encouraging new centres of capital and expanding the access of the majority to productive assets and skills, including through co-operatives and support for SMEs.
4. Consistently strengthening democracy in the state and economy.

This analysis pointed to the importance of production for the domestic market both to build productive capacity and to support greater equity. Export industries, while obviously an important component of any development strategy, by themselves would not create adequate employment or meet the needs of the majority. Instead, government should use large-scale anti-poverty programmes to increase the access of the poor to assets while expanding domestic demand and skills.[4] The RDP therefore emphasised land reform, support for co-operatives and micro enterprise, as well as a massive expansion in basic infrastructure, housing, education, welfare and health care for poor communities.

The strategy has important implications for the formal sector. In effect, it requires a re-orientation to meet growing domestic demand for basic goods and services for the poor, for instance housing, basic infrastructure, education and healthcare. Much of this demand would be funded through the state. Importantly, however, the RDP itself was markedly unclear and in fact contradictory on the transformation of the formal economy.

A second strand of the RDP, however, focused on export-oriented growth. This strand emerged almost exclusively in the section on the economy. This view emerged in the RDP's statement on the objectives of industry, trade and commerce policy:

> … In general our objective is to enhance our technological capacity to ensure that as part of the restructuring of industry, South Africa emerges as a significant exporter of manufactured goods. The industrialization

[4] This strategy resembles the policies pursued in the 1950s in the high-performing East Asian countries. See Hilton and Root 1996.

> strategy aims at the promotion of a more balanced pattern of industrial development, capable of overcoming the acute over-concentration of industrial activities in certain metropolitan centres of the country. (para 4.4.2.1)

In a position that foreshadowed GEAR, macroeconomic strategies, rather than targeted restructuring, were critical to this approach: "Through the prudent implementation of macro-economic policies such as monetary policies, and in particular such instruments as interest rates and an increase in public sector investment, gross investment in industry will increase." (para 4.4.2.1)

The focus of industrial policy was, in this view, largely focused on increasing beneficiation for export, rather than meeting basic needs, ensuring more equitable ownership or creating jobs.

> While trade policy must introduce instruments to promote exports of manufactured goods in general, industrial policy must support and strengthen those internationally competitive industries that emerge on the basis of stronger internal linkages, meeting the needs of reconstruction and raising capacity utilization. (para 4.4.2.3)

In sum, the RDP as a whole focused on a redistributive strategy, where more equitable income distribution would lead more or less automatically to balanced growth. But the economic section already reflected a second, more conservative tendency, which focused on encouraging exports by the high end of manufacturing, including refined metals. This approach that rapid growth in formal manufacturing for export was both feasible and likely to lead to substantial expansion in the economy as a whole.

3.2 Initial government strategy

For the first few years of democracy, government strategies essentially derived from the RDP. It had a clear mandate to roll out services, so it redirected its spending to roll out infrastructure and improve services in black communities. It also had a clear mandate to democratise the economy and extend rights, so it introduced progressive labour legislation and established NEDLAC as the legally recognised forum in which business, government and labour would engage on socio-economic policy.

In contrast, the mandate on industrial strategy was less clear. From the beginning, then, economic policy was at best contradictory. Essentially, government departments saw their objectives as:

- pursuing trade liberalisation both to open up foreign markets and to compel local manufacturing to become more competitive;
- promoting export sectors, especially auto and metal refineries;
- maintaining mining as a world-class industry;
- deregulating agriculture and supporting black small holders, as well as making operations in the former homelands viable;
- maintaining sound banking systems; and
- supporting small industry and local economic development.

In the process, support for employment creation, co-operatives, public investment and micro enterprise fell off the table. Support for small enterprise generally remained ineffective.

3.3 The GEAR

In 1996 government introduced the GEAR, which promoted a very different approach to that of the RDP. In contrast to the RDP's commitment to driving balanced growth through redistribution, the GEAR sought to constrain government spending. The central argument was that high government spending reduced saving and investment by the private sector.

In terms of industrial strategy, the GEAR focused explicitly on competitiveness, liberalising trade and growing exports. This marked a shift away from developing domestic industry to meet basic needs, while reinforcing the export orientation. The GEAR did argue, however, for support for labour-intensive industries, mostly through tax incentives and the public service.

In the words of the U.S. State Department, "The Government of South Africa demonstrated its commitment to open markets, privatization, and a favourable investment climate with its release of the crucial Growth, Employment and Redistribution (GEAR) strategy - the neoliberal economic strategy to cover 1996-2000." (State Department 2004)

In the event, government focused on achieving the deficit targets set under the GEAR. When the policy was introduced, these targets were expected to lead to more rapid growth, permitting continued expansion in government spending while reducing the deficit relative to the economy. In the event, however, economic growth slowed through the late 1990s, at least in part as a result of constrained government spending. As a result, the deficit targets translated into real cuts in the budget.

In these circumstances, the GEAR actually slowed delivery of services to the poor and led to downsizing of the public sector. It also supported commercialisation and privatisation of basic services, leading to big cost increases for low-income households. Investment in infrastructure was also heavily reduced. These policies reversed the RDP's focus on redistribution and anti-poverty measures as a stimulus for local demand and ultimately production.

By 2000, the official endpoint for the GEAR targets, it was clear that conservative fiscal policies had failed to stimulate investment or growth. Unemployment soared from 16% to 29% between 1995 and 2000, while the rate of public and private investment relative to the GDP had fallen to a ten-year low. At the same time, the government's main constituencies, represented by COSATU and the rest of progressive civil society, rejected the GEAR.

An assessment of the GEAR using its own criteria demonstrates the failure to meet its economic goals. The only exceptions are targets for policy instruments - the government deficit and average tariffs – and inflation. The decline in inflation reflected world-wide trends, with almost every other country seeing similar trends.

GEAR targets and actual performance of the economy, 1996-2003

	GEAR projections			**Actuals**			
	1996	**2000**	**Aver-age**	**1996**	**2000**	**Aver-age**	**Actual, 2003**
Targets							
Fiscal deficit (% of GDP)	5%	3%	4%	5%	3%	3%	3%
Real bank rate	7%	3%	4%	14%	8%	12%	11%
Real government investment growth	3%	17%	7%	14%	-6%	-2%	9%
Real parastatal investment growth	3%	10%	8%	11%	-20%	-1%	17%
Real private sector investment growth	9%	17%	12%	8%	6%	1%	1%
Real non-gold export growth	9%	10%	8%	12%	10%	5%	-2%
Outcomes							
GDP growth	4%	6%	4%	4%	4%	3%	2%
Inflation (CPI)	8%	8%	8%	6%	7%	6%	0.3%
Employment growth (non-agricultural formal)	1%	4%	3%	0%	4%	1%	6%
New jobs per year (‘000s)	126	409	270	20	256	83	650
Real export growth, manufacturing	10%	13%	11%	8%	22%	9%	-7%
Gross private savings (% of GDP)	21%	22%	21%	21%	18%	19%	17%
Government dissavings (% of GDP)	3%	1%	2%	5%	2%	3%	1%
Resources for government spending (1995 billions)	161	179	167	161	162	160	193
Change in resource envelope	n.a.	6.1%	2.1%	n.a.	3.5%	0.1%	6.5%

Source: GEAR projections: National Treasury, *Growth, Employment and Redistribution: A Macroeconomic Strategy*, p. 7 and, for resource envelope, Appendix 9 (unnumbered pages). Pretoria, 1997. (Downloaded from www.treasury.gov.za in December 2004.) Actual results: Fiscal deficit: National Treasury, *Budget Review 2000*, Table 3.3, p. 46; *Budget Review 2001*, Table 3.3, p. 45; MTBPS 2004, Table 1.2, p. 10; real bank rate – predominant nominal interest rate from SARB, *Quarterly Bulletin*, June 1999, p. S-28; December 2002, p. S-28, December 2004, p. 2-28, deflated using CPI; investment figures – SARB long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; real non-gold exports calculated using volume indices for exports from SARB, *Quarterly Bulletin*, December 2002, p. S-87 and December 2004, p S-89; GDP growth from long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; CPI from StatsSA, long-term data series on inflation, downloaded from www.statssa.gov.za in November 2004; employment growth from Business Trust, *Employment and Unemployment In South Africa: A Brief Description*, Johannesburg, 2004, Table 4, p. 27, and Statistics South Africa, *Labourforce Survey*, March 2004, downloaded from www.statssa.gov.za in January 2005; manufacturing exports from TIPS EasyData, nominal values for manufacturing exports, deflated using CPI, downloaded from www.tips.org.za in June 2004; figures for savings from SARB long-term data series on national accounts, downloaded from www.resbank.gov.za in December 2004; figures for resource envelope are nominal total expenditure from National Treasury, *Budget Review 2002*, Table 1, p. 190 and *Budget Review 2004*, Table 1, deflated using CPI for March recalculated with 1995 = 100. Downloaded from www.treasury.gov.za in December 2004.

3.4 The Microeconomic Reform Strategy and the Integrated Manufacturing Strategy

Government's industrial strategy, as set out by the dti, is contained in two documents – the Microeconomic Reform Strategy (MERS) and the Integrated Manufacturing Strategy (IMS). Both these documents focus on the need for micro-economic reform as the basis for increasing competitiveness, while arguing that government must stay the GEAR course on macro-economic policy. But neither proposes concrete measures to support employment creation or equity.

3.4.1 The MERS

The MERS was released by government in May 2002 as a discussion paper without any consultation with stakeholders. Its primary aim is essentially to accelerate growth.

> The need for microeconomic reform is based on the view that the basics are in place in terms of macroeconomic policies (as well as some considerable achievements at the micro level, such as South Africa's motor industry). The next phase of economic reform must focus on removing those things that impede growth. We must identify the points of blockage one by one, and find ways of removing the obstacles to faster economic growth. (page 3)

The MERS does identify the need to focus on individual sectors. But it pays 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 starts by arguing the need for job creation and socio-economic 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.

> In the developed economy there are impediments to cost competitiveness such as the tariffs charged by certain state-owned enterprises, impeding the efficiency of supply chains. In the underdeveloped economy there is a lack of basic infrastructure, especially roads and communications. Impediments to cost competitiveness exist in the labour market as a result of a mismatch of labour demand and supply, the low levels of education and skills of the workforce, and the need for ongoing review of labour market regulation. There is also technological under provision: per capita expenditure on information technology (IT) is low compared to South Africa's competitors, investment in research and development is inadequate, public science and technology infrastructure is weak, and there are low levels of public science awareness. Insufficient investment in modern equipment and machine tools aggravates under-investment in knowledge and training. Furthermore, there are low levels of integration in the manufacturing process in South Africa, contributing to insufficient value addition. **The dti**'s integrated manufacturing strategy (IMS) specifically addresses this question of low levels of integration in the manufacturing sector as a key impediment which can be overcome." (MERS, pg 13).

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 cross cutting issues (technology, human resource development, access to finance, and infrastructure):

> "A country's current and future competitiveness requires that a set of 'fundamentals' be in place in the economy. These fundamentals include appropriate and efficient economic and social infrastructure, access to finance for productive activities, investment in research and development, innovation and the take-up of new technologies, as well as investment in human capital and an adaptive, flexible workforce. The state has a critical and active role to play in developing appropriate policies and initiating programmes to ensure that these competitiveness fundamentals are in place in the economy. However, the state will also be looking to the private sector in raising levels of investment in R&D, human resource development, and infrastructure, as well as in making capital available for new productive activities."

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 were Coega, Industrial Development Zones in Richards Bay and East London, steel and aluminium hubs, logistics projects linking the Gauteng auto cluster and the Durban port, and Blue IQ in Gauteng. None of these is labour intensive, likely to create employment on a mass scale, or able to ensure a more inclusive economy. In contrast, the MERS entirely ignores two micro-economic reforms that could help build a more inclusive economy – namely large-scale land reform and support for co-ops.

The MERS proposes that promotion of exports centre on:

- Taking advantage of and expanding market access, which is essential code for free-trade agreements of various kinds
- Supporting product design and innovation
- Addressing issues of standards and non-tariff barriers to trade
- Strengthening and expanding export councils and other sectoral partnerships
- Branding and marketing sectors and clusters
- Increased government coordination in the development of sector strategies
- Integration of geographic, BEE and small business objectives in sector strategies.

Again, these measures are geared primarily to expansion of the existing formal sector. The last point remains an add on, with little relevance to the other, long-standing strategies. In these circumstances, export promotion is unlikely to support new activities and industries capable of substantial job creation.

> The narrow focus on exports emerges most clearly in the proposals on sectors.

The export sectors given priority in 2002/3, when the MERS was launched, were

- Clothing and textiles
- Auto, auto components and transport
- Agro-processing
- Mining, metals and minerals beneficiation
- Chemicals and biotech
- Crafts
- Information and communication technology

The MERS argued that these sectors "have considerable potential for increased outputs, exports, and employment creation." But its proposals focused almost exclusively on ways to enhance competitiveness, with virtually no attention paid to measures that could actually expand employment. In particular, no explicit measures sought to support the more labour intensive segments of the focus industries. Moreover, some of the sectors chose –notably auto and the minerals chain – provide virtually no scope for labour-intensive growth.

The MERS did require a stronger role for government than the 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.

3.4.2 The Integrated Manufacturing Strategy

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 rooted in the observation that while the opening of the economy after 1994 led to increased exports, overall growth, unemployment and inequality remained little affected. By extension, the core challenge was to define ways the state could shape integration with the world economy to achieve greater benefits.

The IMS analysis started with the argument that the democratic government had to open the economy in order to overcome the distortions imposed by concentrated ownership and the history of protectionism. In the 1990s, it said, these measures encouraged rising productivity and diversification of the economy.

From these initial arguments, the IMS concluded that the state should focus on factors that prevented broader benefits from globalisation. As the main blockages, it pointed to:

- Shortcomings in infrastructure, particularly transport and communications, as well as high input prices generally,
- Continued dependence on historic comparative advantage, especially reliance on cheap resources and labour plus privileged market access, which are not viable in a globalising world,
- Job shedding in manufacturing as a result of relatively rapid growth in capital-intensive sectors and rapid improvements in productivity,
- Slow growth in small and micro enterprise and black economic empowerment, without giving reasons,
- Inadequate partnerships between the state and key stakeholders.

This analysis pointed to concrete action to deal with broad inefficiencies. But it provided little guidance for programmes to address unemployment and inequality. The confusion on this critical issue emerged in contradictory summations of the proposed growth path. Thus, as various points, the IMS suggested,

> "…the trajectory envisioned for the economy as a whole by government [is] beneficiation of natural resources, knowledge intensity, and export orientation." (p 30)
>
> "The long-term trajectory of the growth path is secured through building integrated value matrices that include regional platforms for production-expanding opportunities, increasing value addition and knowledge-intensity, and building equity and wider participation in the economy." (p 32)
>
> "At the core of the accelerated trajectory is knowledge intensity, which means utilising and developing the knowledge and skills of our people in order to integrate information and communication technologies, technology, innovation and knowledge-intensive services into the functioning of the economy as a whole." (p. 3)

The proposed trajectories all had knowledge intensity in common, and little else. Nowhere did the IMS explain how knowledge-intensity would support employment and equity. The risk was that deepening mechanisation would in fact further displace labour. Moreover, persistent inequalities in skills and access to technical education severely limited the ability of black communities to benefit from high-tech opportunities.

The IMS was notably short on concrete measures, instead identifying critical areas for future policy development. It located itself within the government's earlier Microeconomic Reform Strategy (xx), which was also essentially a competitiveness approach. The Microeconomic Reform Strategy emphasised skills development, innovation, finance for small enterprise and black economic empowerment, improved infrastructure and input costs, and sector strategies aimed primarily at increasing exports. The DTI's role in this context was to champion industrialisation in general, develop sector-specific strategies, and provide support for manufacturing enterprises across the economy.

As the basis for sectoral work, the IMS proposed analysis of value matrices – that is, the chain of production from raw materials to final output, plus related services and distribution. In terms of the competitiveness/structural dichotomy, however, it gave divergent priorities. Although it suggested at one point that analyses should identify job-creating activities within the value matrix, (DTI 2002, p. 38), it generally emphasised cost-cutting as a near-exclusive goal. (DTI 2002, p. 39)

More specifically, the IMS's proposals for specific sectors – clothing, agro processing, minerals beneficiation, tourism, auto, crafts, pharmaceuticals and biotechnologies and information and communication technologies – focussed 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 IMS ended with sections on the importance of partnership, especially with business and labour through NEDLAC, and monitoring against prioritised objectives. These included "Gross Domestic Product (GDP), employment, investment, exports, small business development, BEE, women's empowerment, future competitiveness and the geographic spread of social and productive investment." (DTI 2002, p 54)

The results of the IMS were mixed.

Little evidence emerged of more integrated, knowledge-intensive or faster growth in manufacturing or manufacturing exports. In the early 2000s, the value of the rand dominated trends in manufacturing. When the rand dropped precipitously in late 2001, industrial exports increased; when it rose, they declined substantially. The lack of a clear policy on the rand pointed to the failure of the IMS to establish a clear trajectory for industrial policy.

The DTI itself apparently saw the development of sector strategies as the central to the IMS. (Minister of Trade and Industry xx) 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 DTI introduced more consistent monitoring of its proposals, attaching targets to key programmes in its budget and annual report. But these targets related almost exclusively to increased competitiveness and growth, with little attention to equity or employment. Of a total of xx targets in the DTI's 20xx medium-term strategy, only two related directly to employment creation. The DTI made no published attempt to monitor overall trends in employment and equity, or to link these trends to its own efforts.

The policy development process for the IMS reflected a logjam over policy, which helped explain the failure to finalise it. On the one hand, both business and labour rejected the IMS as overly focused on formal manufacturing, and therefore unable to restructure the economy as needed. On the other hand, DTI officials maintained a narrow focus on competitiveness. They were able to continue to work on sector strategies even in the absence of consensus on industrial policy – although it seemed unlikely that these strategies would prove effective in the absence of support from either business or labour.

The drafters of the IMS remained strictly within the DTI. A large number of internal drafts circulated, with different authors essentially re-starting the process periodically. The first published draft, written by an economist recruited to the department mainly for that purpose, focused very narrowly on proposals to develop formal manufacturing through a focus on enhancing knowledge-based production (which remained very poorly defined).

The first draft was then discussed at NEDLAC and in Parliament. The main criticism that arose in both forums was the failure to emphasise job creation and equality, and the lack of direction for restructuring the economy to achieve those aims.

The inclusion of these broader inputs remained mixed at best. New drafters at the DTI essentially added employment creation and equity as explicit priorities. They did not, however, fundamentally rethink the analysis of the economy or the actual proposals. The result was an ambiguous and contradictory document.

The IMS did support improvements in monitoring. The process demonstrated the difficulty of alternating basic priorities, however. Evaluation of employment clearly remained an afterthought, while the department does not include any indicators for investment. Moreover, the indicators monitored generally reflect departmental outputs, such as xx, rather than broader economic outcomes.

In sum, the process of developing the IMS pointed to the importance of broader inputs in ensuring more appropriate policies. At the same time, it underscored the need for systems to ensure that officials genuinely engaged with outside inputs. Otherwise, they may just pay lip service to other views while continuing to pursue their own aims.

At the same time, the IMS pointed to a profound contradiction in the role of the state in driving development. To be effective, the state must give leadership, both enforcing policy priorities that consistently reflect national needs and providing the technical capacity to propose sustainable measures. At the same time, it must test proposals against stakeholders' practical experience and maintain enough support to avoid unnecessary resistance.

From this standpoint, the failure of the IMS largely arose because the government did not give unambiguous mandates to DTI officials both

- To ensure a clear emphasis on addressing the central economic problems of unemployment and poverty, and
- In that context, to work with organised stakeholders to ensure sustainable solutions, rather than relying solely on their own expertise.

3.4.3 Implementing government strategy

While there had been agreement in NEDLAC that the dti would redraft the IMS based on comments from labour and business, we still await the redrafted IMS. The Medium Term Strategy Framework (MTSF) also commits to reviewing the IMS. (Government is apparently currently redrafting the IMS). However, until the new IMS is released, the existing IMS forms the basis of the dti's policy and programmes. According to Minster Erwin (the then Minister of Trade and Industry) the dti's current programmes are based on the Medium Term Strategy Framework which elaborate on the IMS.

The dti continues to measure itself against competitiveness criteria. In the Director General's input to the Trade and Industry Portfolio committee on 2 March 2005, he listed the following as the key outputs delivered by the dti in 2004:

- increasing the contribution of small enterprises to the economy
- significantly progressing broad –based black economic empowerment
- raising the level of investment in the economy
- increasing market access opportunities and increasing exports.

The dti's current activities are to continue to focus on increasing investment, improving competitiveness and broadening economic participation:

> "To reinforce and sustain this positive trajectory, government is focusing on three key areas of intervention, namely increasing the rate of investment, improving levels of competitiveness, and broadening economic participation. This requires that we accelerate the Microeconomic Reform Strategy, which is government's primary strategy for addressing constraints to economic growth and employment creation. The coordinated implementation of MERS will ensure that the economy grows in a manner that generates decent work for South Africa's people and realises the full potential of our country's resources, diversity and creative energies." (Minister of Trade and Industry, Budget speech to NCOP 2005).

However, commitments made in the Growth and Development Summit, including commitments to sector summits and increasing employment, have significantly shaped government's plan of action. For example, the Minister of Trade and Industry now talks more explicitly of channelling investment into sectors:

> Efforts will be intensified to increase investment in key areas of the economy. The customised sector programmes will channel investment into sectors that demonstrate significant growth and/ or employment creation potential, such as business process outsourcing, film and agro-

> processing. Government will also provide active support to those sectors, such as mining and clothing and textiles, which are in distress, with the aim of protecting jobs and enhancing long-term sustainability of the sectors.
>
> In order to maximise the benefits derived from a more targeted approach to sector development, interventions in priority sectors must, where possible, be mutually reinforced by Provincial Growth and Development Strategies. This requires that the development of sectors of local relevance be well aligned with national strategies to build a growing, competitive economy. (Minister of Trade and Industry, Budget speech to NCOP 2005)

Clearly, from the quote above, government's key aims in developing sector strategies include increasing competitiveness, promoting growth and investment, and thus creating jobs. The competitiveness approach is thus being applied to the sector specific strategies as well.

In fact when it comes to balancing what may appear to be contradictory goals, government in practice places greater emphasis on competitiveness and exports and less emphasis on active support to protect jobs. For example, the clothing and mining sectors continue to experience a job loss bloodbath and government will not take action to weaken the rand or ensure the speedy implementation of safeguard measures. In practice, too, government continues to aggressively pursue trade liberalisation.

A second example of implementation of policy supporting a competitiveness approach, is the high emphasis of constructing IDZs linked to exports in East London and Coega, and while the objective stated by the Minister is to " to create a more equitable geographic spread of industrial activity", in practice, the industrial activity will be highly capital intensive export oriented.

Other work to increase competitiveness includes government incentives to improve competitiveness[5] and addressing pricing structures – administered pricing and import parity pricing - in an effort to lower the cost of doing business in South Africa.

The approach taken by the dti has been contested by Parliamentarians as well. Two examples evidence this. In the Trade and Industry Portfolio Committee of 18 June 2003 the parliamentary portfolio committee on trade and industry raised concerns about TISA's impact on unemployment. Again, in the Trade and Industry Portfolio Committee meeting on 2 March 2005, Professor B Turok of the ANC urged the Department to not only focus on growth, but development as well, as "these went hand in hand".

4 Trade policy

South African government policy has been to use trade as a means to achieve economic growth on the basis of export and investment expansion. Trade policy was also to enhance competitiveness and promote a restructuring in the economy. This section explains government's approach in more detail.

When the new government took power in 1994 it analysed the economy as:

- Being isolated due to trade boycotts and sanctions

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[5] The Competitiveness Fund as one example.

- Having a manufacturing base that was inward looking, high cost and uncompetitive
- Having exports that were dominated by primary products.

Government policy, drawn from their analysis, was to promote exports and trade, and to promote competitiveness and integration into the world economy. Xavier Carrim, the dti Chief Director of Multilateral Trade Negotiations, explains: "To realise SA's trade potential, it was necessary to initiate a process of structural reforms to enhance the competitiveness of the SA economy and its capacity to compete in an increasingly integrated global economy in value-added production and export. The basic motivation for a trade strategy, therefore, was and is the imperative of achieving sustained economic growth on the basis of export and investment expansion".[6] The Chief Director also emphasises the role of trade in enhancing competitiveness: "The key objective of trade policy is understood as a means to advance economic reform and restructuring, as well as to enhance the competitiveness of firms to compete in international markets".(Carrim, 2004: 2).

This policy was put into action by government when it made binding commitments – first at the WTO and then in a variety of regional trade agreements[7]. SA committed itself to multilateral trade arrangements and thus joined the WTO in 1994 and committed itself to comprehensive trade policy reform[8]. This included:

- The reduction of industrial tariffs by one-third over 5 years (to 2000) with some exceptions e.g. clothing and textile & auto had longer phase down periods;
- Binding 98% of tariff lines – fish, oil & petroleum; and arms and ammunition were not bound (a bound tariff means that government is committed to a maximum tariff for that good);
- The schedule of bindings was structured according to sector and stage of processing.
    a. Raw materials 5 – 10%
    b. Intermediates 15 – 20%
    c. Final products up to 30%[9]

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[6] Carim, Xavier. 2004. "SA's trade policy – ten years on" in Trade and Industry Monitor, September 2004, Volume 31, page 2.

[7] South Africa entered into FTA's (free trade agreements) with the EU and SADC.

[8] It is interesting to note that while SA had greatly increased its bindings in the Uruguay round, it had increased its binding much more than developing countries did. Developing countries increased their bindings from 21% to 73%, while developed countries increased their bindings from 78% to 99%. South Africa thus has a higher level of binding than many developing countries. Another key difference between developing countries is that they bound at different average rates. For example, SA's average rate is much lower than that of Brazil and India.

[9] Example of SA structure from chapter 39: plastics:

Polymers 15%

d. Exceptions: clothing 45% (few 60%), autos 50%

- Rationalising the number of tariff lines (that is reducing the number of tariff lines);
- Eliminating quantitative restrictions and using ad valorem tariffs instead (that is reducing limits on how much can be imported and introducing tariffs based on the value of imports instead);
- Terminating export subsidies by 1997.

While SA had bound its rates, it also lowered its applied rates on a unilateral basis to a rate lower than the bound rates. (For example, even though a commitment was to a maximum rate of 20%, South Africa only applied 10%). While a comprehensive study needs to examine the extent of overhang (the difference between the bound and applied rates), it is the view of one trade ‘expert’ that the applied rate is generally 5% lower than the bound rate for industrial products and there are generally large overhangs in agricultural products.

At the same time, government phased out export subsidies (e.g. GEIS) and instead introduced supply side measures. The intention was to enable South African firms to become more competitive. However, there were numerous indications that the timing of the supply side measures was not optimal, and that many firms either don’t know about them or had problems accessing them.

South African had also made commitments in regional trade agreements. Under bilateral/ regional trade agreements, government committed to reduce or phase-out tariffs and promote trade in a number of areas. This is clearly set out, for example, in one of the objectives set out in the SA-EU trade agreement which is “to promote the expansion and reciprocal liberalisation of mutual trade in goods, services and capital” (SA –EU agreement, page 6).

Government considers bilateral/ regional trade agreements important, not only for political reasons but also to ‘keep up with the rest’. In Xavier Carrim’s words: “Another feature of the global environment has been the proliferation of regional and bilateral trading arrangements. This has meant that countries must engage in such negotiations if only to retain their competitive position vis-à-vis other countries in vital external markets”. (Carrim, 2004, page 4)

South Africa thus concluded free trade agreements[10] with the EU and SADC. It is (together with the other SACU[11] countries) negotiating a free trade agreement with the USA and intends negotiating free trade agreements with China, Mercosur and

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Plates, sheets, pipes 20%

End products 30%

[10] The phase down committed to is usually asymmetrical – that is the stronger party phases down more quickly. Thus for example the EU phased down more quickly than SA. SA phased down more quickly than many SADC countries. While the rational is to phase-out tariffs, there is a reserve list in the bilateral agreements which excludes certain products from phase down. However, the overriding push from trade negotiators is to minimize the number of products excluded from phase down.

[11] SACU refers to the Southern African Customs Union and includes Botswana, Lesotho, Namibia, Swaziland and South Africa. A customs union has the same tariffs on products entering the country.

India. The reasons given for pursuing trade agreements with the North is to lock-in access to markets for goods, services, capital, technology and finance. Reasons given by government for pursuing trade agreements with the South include access to fast-growing markets which "offer vast export opportunities and the potential to absorb a higher proportion of value-added exports". (Carrim, 2004, page 4)

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