Chapter 6

Industrial Policy Revisited

When reviewing South Africa’s industrial development in Chapter Two, the goals, instruments chosen and outcomes of industrial policy have been highlighted consistently. After the theoretical and empirical work in Chapters Three to Five, I want to return to this theme now and take a closer look at very recent developments: the shifts of the South African government towards a more interventionist economic policy regime, noticeable since at least 2004, and explicitly linked also to a reformulation of industrial policy.¹

Sectoral development and the linkages between these sectors have been the overarching focus of this thesis, and this chapter will attempt to remain within this framework. It will analyse the “National Industrial Policy Framework” (Department of Trade and Industry, 2007a), the main reference document for industrial policy makers, from this point of view. Particularly, I will try to assess whether this policy change is likely to facilitate more sectoral diversification—away from the dependence on resource-based sectors and towards more dynamically developing and possibly labour-intensive sectors, also contributing to a healthier and more stable balance of payments. However, I will not limit myself to sectoral analysis but also try to locate this policy shift within a broader observable change in policy towards a developmental state. An analysis of proposed measures, the actors and institutions involved in the process and a tentative evaluation of hitherto implementation in the realm of industrial policy provide a case study that allows to draw broader conclusions on South Africa’s rocky path towards a developmental regime.

¹This section is based on Schwank (2008).
The concrete and applied policy steps that together make up the policy shift are taken from official policy documents. Additional insight is gained from interviews with key stakeholders and policy makers involved in the process and academic experts in the field that have closely followed the evolution of industrial policy since the advent of democracy.

6.1 Developmental States

The notion of the ‘developmental state’ was first introduced by Chalmers Johnson in his landmark study on trade and industrial policy in Japan (Johnson, 1982). In it he defines the Japanese state as a plan-rational or developmental state, differentiating it from the market-rationality of the United States (ibid., 18ff.). According to Johnson, a developmental state leads the industrialisation drive of the economy by pursuing strategic social and economic goals, usually with an emphasis on industrial policy. “In the plan-rational state, the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances international competitiveness.” (ibid., 19). Johnson further asserts that a regulatory state like the US does not place emphasis on industrial structure, instead limiting itself to defining and monitoring the rules of the market process.

Following Johnson, a number of authors have stressed the state’s crucial contribution to growth performance, for example in East Asian countries like Taiwan and South Korea. The seminal works are Amsden (1989), Wade (1990) and Evans (1995), and an overview is provided in Chang (2006). This literature generally addresses two main questions: 1) What kind of interventions resulted in the phenomenal growth rates in these countries, and 2) Under which conditions did the incumbents choose to adopt and implement this set of policies successfully? Fine (2006, 103ff.) uses these two guiding questions to divide the literature into an economic school focussing on the former question and a political school mainly concerned with the latter. Although authors of both schools would probably claim to have a broader research agenda, this distinction is useful for a brief summary of their main ideas.
6.1.1 Economic and Political Schools

Alice Amsden, whose work shall serve as an example of the economic school, posits that development is about increases in productivity that are potentially greatest in manufacturing. This is why developmental states like South Korea have subsidized the entry of entrepreneurs into the secondary sector at an early stage (Amsden, 1989, 2001). As the market process would not have led to diversification, due to a number of market failures, the policy makers deliberately had to “get prices wrong” (Amsden, 2001, 10), thereby setting incentives that facilitated manufacturing investment. For developing countries, the market failures most commonly identified in the literature are information and coordination externalities. The former relate to the uncertainty of entrepreneurs with regards to the profitability of new investments. They do not know the exact costs involved in the exercise, and thus cannot know whether it should be pursued or not. In case of failure, the costs are entirely borne by the entrepreneur, in case of success, the economy as a whole profits since the cost structure of the respective activity is now known and imitators will enter the industry and quickly erode any monopoly profits. Therefore the expected social value exceeds the private value and investment will be in short supply. The latter, coordination externalities, relate to the necessity of simultaneous, large-scale investments to make individual activities profitable (for example Rodrik, 2007, 104ff.).

Developmental states attempted to overcome these market failures through interventions in the form of developmental banking, subsidised credits in targeted sectors, and managed trade that combined import substitution and tariff protection with export subsidies. Crucially, support was always combined with policy standards (e.g. local content requirements) and performance standards. The latter, best exemplified by minimum export requirements, guaranteed efficient production, and a failure to comply with them resulted in a withdrawal of support. All contributions by the economic school identify an interventionist industrial policy at the heart of a set of policy interventions that led to industrial diversification and rapid economic growth, with macroeconomic, trade and welfare policies supporting the industrialisation strategy.

While the pursuit of industrial policy and trade policy, such as the import substitution strategy, was by no means geographically limited to East Asia, few other developing countries having implemented such policies can boast a comparable growth performance. Within the political school, au-
thors such as Evans (1995) and Kohli (2004) attempt to understand why some states were so successful while others failed. The key issues under consideration are policy coherence and state capacity. Firstly, they relate to the state’s capability to define and pursue narrow goals—industrialisation and rapid economic growth—that lead to a coherent development strategy and a coherent economic policy. Secondly, the successful implementation of policy in turn relies on a competent and capable bureaucracy, based on a meritocratic civil service regime, and a pilot agency that coordinates economic policy across all government agencies (e.g. the MITI in Japan, the Economic Planning Bureau in Korea).

Since the state is perceived as an actor in its own right analytically, both authors take into account the state’s relation to society and classes. Evans coins the term “embedded autonomy” which captures the state’s autonomy from particularistic interests, i.e. its ability to resist the pressure of influential groups with access to the corridors of power, and its simultaneous responsiveness to the needs of industry (Evans, 1995, 50). The concept of ‘autonomy’ specifically refers to the state’s dominance over private capital, allowing it to withdraw support from a certain sector or company if that is perceived necessary for the economy as a whole. If it were merely a reflection of capitalist interests, it would not be able to prevent such ‘rent-seeking’ activities. On the other hand, ‘embeddedness’ describes the close cooperation and manifold ties between state and business that allow the state to elicit information from the private sector and to “orchestrate their activities” (Evans, 1995, 53). Kohli on the other hand asserts that successful developmental states usually pursue industrialisation and rapid economic growth in an elitist alliance with producer or capitalist groups. This alliance often comes at the expense of labour, which finds its demands suppressed by an authoritarian regime—notwithstanding those social policy initiatives that are perceived to be contributory to growth (Kohli, 2004, 10).

6.1.2 Social Actors and the Accumulation Regime

There are two critical omissions that Fine observes in the developmental state literature: an absence of the scrutiny of social actors and their interests, or class analysis, particularly visible in Evans’ notion of state autonomy; and a lack of consideration of the structural features of an economy, the sectoral composition of its output and the specific system of accumulation in place - the “sectoral composition and level of investment, financed and coor-
dinates through private and public institutions [...] specific to each country, reflecting its history and dynamic as well as its evolving class structure" (Fine, 2006, 115).

Kohli attempts to rectify the omission of social actors by emphasising the significance of the alliance between South Korea’s capitalist class and the South Korean state under Park Chung Hee (in power from 1961 to 1979), in which the state played the dominant role. Under this regime, labour was tightly controlled and political mobilisation was suppressed (Kohli, 2004, 96ff.). Fine and Rustomjee agree with this description of the class nature of the Korean state, but they also show how pressure from below was influential in the land reform (Fine and Rustomjee, 1996, 46). The developmental state therefore needs to be situated in a conflictual context where policies invariably “have class biases either in their purpose or in their unintended outcomes. Some classes or groups become beneficiaries while others are alienated.” (Cho and Kim, 1998, 130). Furthermore, state autonomy itself is a function of social and class conditions and not merely of bureaucratic competence. In a developmental context, it depends on the potential of resistance of the working class and peasants and of the old ruling class, presumably uninterested in change, and on whether a developmental alliance can be formed with capitalist groups (ibid., 131). Thus, conflicting class interests shape state institutions and policies and also determine the extent of state autonomy.

Viewed within the South African context, state capacity and particularly state autonomy will therefore inevitably rely on the power, influence and access of various groups to state institutions as well. When compared to the East Asian prototypes, the main difference that is evident is the higher degree of mobilisation of the working class—which has direct access to policy formulation via the inclusion of the unions in the governing alliance—and the historically stronger, more independent and outward-oriented capital groups that have grown in the mining sector. Both these groups and their interests and pursuit thereof will have to be taken into consideration when analysing questions of capacity and coherence in policy, where the latter stems to a large extent from state autonomy from particular interests.

With regards to the accumulation regime of South Korea, “the state’s near-exclusive commitment to high growth coincided with the profit-maximizing needs of private entrepreneurs” (Kohli, 2004, 12f.). The domestically owned and diversified chaebols were mostly responsible for real accumulation, and government policy ensured domestic investment opportunities and their prof-
itability in targeted sectors. At first this mainly applied to labour intensive sectors such as textiles, but in the 1970s the government also orchestrated a push into heavy industries such as steel and ship-building, which again served the interests of large-scale domestic capital and further marginalized other sections of business (Fine and Rustomjee 1996, 46, see also Cho and Kim 1998, 144).

The case of South Africa is quite different: historically, investment has been concentrated in mining and closely related downstream manufacturing. It has come from a small number of hugely influential conglomerates and from the state itself that long favoured a development path along these lines, particularly during the apartheid years. A developmental strategy of industrial diversification and less reliance on the mineral endowment thus represents a break with past patterns, and it requires influential and powerful actors in the country to change their strategies—a considerably more difficult challenge then the one confronting a state like South Korea in the 1960s and 1970s. Again, these structural preconditions have to be kept in mind when assessing any developmental—in our case industrial—policy initiatives.

To summarise, in this light neither state capacity and policy coherence nor economic policy choices can be analysed in isolation from the specific system of accumulation and the class relations in an economy. The latter shape institutions and policy choices and thus certainly help to explain the existence (or absence) of a coherent strategy and the expertise and capacity (or lack thereof) in different government agencies. Therefore, the following study of the South African developmental state, both as a broad concept and in a case study on industrial policy, will attempt to include these concepts and also shed light on social actors, their interests, the structure they create and how they shape the developmental regime.

### 6.1.3 A South African Developmental State

Based on a narrow interpretation of this literature, the definition of a developmental state is often limited to a list of interventionist economic policies, and industrial policies in particular, as well as an analysis of the state’s capacity to implement them coherently. However a critical reading reveals as conducted above reveals that such an analysis must be placed within the context of a broader view of class relations and the accumulation regime within an economy. I will try to show that this analytical ambiguity is re-
fleeted in the controversial use of the concept and in studies on the South African development state thus far.

The Evolving Strategy of the ANC

In the mid-1990s the emerging economic strategy of the first African National Congress (ANC) government encouraged little debate on the notion of South Africa as a developmental regime. Too firmly was their strategy rooted in a discourse on macro-economic stabilisation that left little room for an activist state. The publication of GEAR (Growth, Employment and Redistribution) as a cornerstone of economic policy confirmed a narrow understanding of this stabilisation approach—fiscal restraint and inflation reduction accompanied by a liberalised trade regime. The adoption of GEAR and its consequences for the economy have been analysed above, in Chapter Two. At this point, I focus on the criticism of GEAR that emerged quickly within the ruling party and the recent strategic shifts that resulted from the criticism.

Not surprisingly, GEAR was met with stiff opposition from the ANC’s alliance partners on the left—the trade union federation COSATU and the Communist Party of South Africa (SACP), exponents of which were later labelled ‘ultra-leftist’ by Mandela’s presidential successor, Thabo Mbeki. The criticism never subsided, fuelled by a very mixed performance of the economy. While inflation and budget deficits came down, growth remained well below expectations. Contrary to the government’s predictions, private and foreign direct investment did not pick up and massive job losses, particularly in manufacturing, led to an ever rising unemployment rate. As a result, social protests over delivery increased sharply, particularly after the second democratic election in 1999, and gave critics of GEAR more leverage (Ballard et al., 2006, 397).

In response, the ANC shifted its priorities, and the change became noticeable in more expansionary budgets after 2001. These were loudly trumpeted in the election campaign and the pre-election budget of 2004, which promised to halve unemployment and poverty in the country’s second decade of democracy. A more activist state was supposed to increase public expenditure, particularly investment in infrastructure, and revitalise rather than privatise public enterprises, as well as further boost social and welfare spending (Daniel et al., 2005, xxiii).
While these changes are interpreted as a logical next step in government—successful macro-stabilisation followed by micro-economic reform and targeted intervention—in this case they also clearly signal a change in course. The ANC’s key strategic documents indicate that it has now committed itself to building a developmental state. This state aims to mobilise society and gain a strong popular mandate in order to drive change and attain “sustained development based on high growth rates, restructuring of the economy and socio-economic inclusion” (African National Congress, 2007). The declared intention of this developmental state is to obtain the capacity to formulate the national agenda (e.g. a growth strategy) and implement policy throughout government spheres.

In terms of economic policy, this agenda has been most clearly laid out in the government-led Accelerated and Shared Growth Initiative (AsgiSA) which is supposed to remove the binding constraints that prevent the economy from achieving growth rates compatible with its ambitious socio-economic goals. The most prominent interventions include increased infrastructure investments, an industrial policy with detailed sector strategies, the addressing of capacity issues within the public sector, skills development and the stabilisation of the exchange rate (The Presidency, 2006).

Since 2004, non-interest spending by the central government has increased annually by an average of more than 9%. The bulk of the money has gone into increased public investment, both by the government itself and by public enterprise, which was the fastest growing position, rising annually by almost 20% in real terms (Department of Finance, 2007, 46f.). In addition to roads and public transport infrastructure, this area also covers increased spending on social infrastructure, such as health facilities, schools, public housing, and access to electricity and water for poor communities. Social expenditure is thus geared towards increasing productivity levels. The government’s vehement resistance against a monthly basic income grant, which would, according to various statements, establish a ‘culture of dependency’, is further indication of a ‘productivist’ social policy typical of developmental states. Despite increased spending, service delivery has not always kept the pace however, as many critics have pointed out and as the Treasury readily admits in its own assessment (Department of Finance, 2007, 49). Capacity problems within the relevant parts of the public sector—particularly the provincial departments of health and education—are responsible for poor delivery.
State-owned enterprises are considered key actors in the more interventionist strategy and have received budget boosts since 2004 that have allowed them to address infrastructure backlogs in electricity (by the electricity provider Eskom) and road and public transport infrastructure (by Transnet, which is responsible for South Africa’s ports and railways). The state’s attitude towards these public companies is quite telling in the context of strategic shifts in economic policy. Once a cornerstone of the apartheid regime’s plan to achieve economic self-reliance, these businesses were partially privatised towards the end of the 1980s when a black dominated government became an increasingly likely prospect. Under the banner of GEAR, the ANC vowed to continue this policy, however, it preferred to label it ‘restructuring’ and aimed for the mobilisation of resources, increased efficiency, international investment and the diversification of ownership in the national economy through sales to black-owned companies (Southall, 2007a, 208).

For various reasons, real progress has been slow, and in 2004 the minister of public enterprise, Alec Erwin, announced a “major investment and efficiency programme” for state-owned enterprises in keeping with the general shift to a more interventionist policy, along with a pledge to spend 165 billion Rand “to address chronic backlogs” (Southall, 2007a, 219). Quite characteristically, the state-owned enterprises are also supposed to be drivers of change and transformation, providing opportunities for aspiring black professionals through affirmative action hiring and black-owned companies in their procurement.

Another core aspect of the growth initiative AsgiSA is its pledge to implement sector strategies that provide targeted support for prioritised sectors. As a result, the cabinet adopted the National Industrial Policy Framework (NIPF) (Department of Trade and Industry, 2007a) in January 2007. It was released to the public in August 2007 and will be analysed in detail in the following section on industrial policy.

One last point worth mentioning here is the coordination and centralisation drive of the government under the auspices of President Thabo Mbeki, as it relates to the state’s capacity to formulate and implement policy in a coherent way. Under Mbeki’s reign, the Presidency became the coordinating and guiding unit within the government and steadily extended its influence over policy formulation. Additionally, departments were organised in clusters to align programmes and implementation (Makgetla, 2005, 12). Together with interventions to improve skill levels of civil servants and efficiency in service delivery, these initiatives clearly aim to replicate the capable
bureaucracies that were characteristic of East Asian developmental states. While these efforts were positively received by cabinet ministers (ibid.), the concurrent centralisation of decision making within the ANC was far more controversial. It caused major discontent among ordinary ANC members and was an important reason Mbeki lost the party's presidency to his bitter rival, the trade union and communist backed Jacob Zuma, in December 2007.

Problems of Implementation?

In a first critical assessment of South Africa’s attempts to become a more developmental state, a number of authors have pointed out stumbling blocks that could derail the project. Most prominently and in line with the emphasis of developmental state scholars, they point out limits in the state’s capacity to implement policy, as well as a general lack of coherence in policy.

Capacity problems abound in large parts of the public sector and the resulting failures in service delivery are explicitly acknowledged by the government (The Presidency, 2006). They are most visible in the failure of provincial and national departments to spend allocated budgets and in the large number of unfilled positions in the higher management echelons of public administration (Hamlyn, 2007). They are however not uniform, neither across government agencies nor across regions. The National Treasury, at the heart of successful macroeconomic stabilisation efforts since 1994, is an oft-cited example for administrative excellence within government. It contrasts starkly with other departments that were not able to stamp their authority on government policy to such an extent—I will come back to this issue when assessing industrial policy below.

Nonetheless, the existence of capacity problems is not altogether surprising in light of South Africa’s history. Public service delivery was extremely uneven during the apartheid years, and the notorious education policy led to a vast shortage of skilled workers. This shortage is most acutely felt in the public sector which not only aspires to become more efficient, but also more representative (Southall, 2007b, 6). If there is an equity/efficiency trade-off, this might be indicative of a broader dilemma for the ANC: Does its democratic tradition and its aim to transform South Africa into a truly democratic society stand at odds with the single-mindedness and coherence of the archetypal developmental state? In more controversial terms, is there a democracy/growth trade-off? Kohli emphasises this point: “[An] element
of 'ruthlessness' or of coercion in its various forms has also been omnipresent in the most successful cases of rapid industrialization in the contemporary developing world. The normative implication then is to treat with suspicion claims that trade-offs are not necessary and that all good things can readily go together" (Kohli, 2004, 422). The broad-based alliance that governs South Africa certainly cannot and does not intend to pursue industrialisation and economic growth as its only policy goals. The racial transformation of the public sector is one example of this, and progressive labour laws are another.

Perhaps more importantly, the structure of South African capital bears little resemblance to that of East Asian countries. It was and continues to be shaped by the mining industry and big business, and therefore has a very different outlook. It is certainly more outward-oriented and therefore less inclined to favour domestic industrialisation (Makgetla, 2005, 6). While the ANC is aware of the powerful and antagonistic interests that pervade the South African socio-economic landscape, there seem to be different approaches to achieving policy coherence within the party. While the left argues for mass mobilisation of the working class and the poor and a strengthening of the party base to ensure hegemony for these forces (South African Communist Party, 2006, 29ff.), others strike a distinctly different chord. Alec Erwin, the minister of public enterprise and an influential member of Mbeki's cabinet, argues for the mobilisation of "a multi-class political force capable of designing and effecting a strong state" (emphasis added, Erwin, 2007). He asserts that, in the context of a globalising economy that constantly reduces policy space for nations while weakening local capital and the working class, national development can only be fostered by an alliance between these forces under the leadership of a strong state. Thus, there are different visions of the developmental state within the governing alliance, and the concept of development is vague enough to accommodate both those who aim to reduce the costs of doing business by eliminating binding constraints for investors and those who aim to alter the development trajectory of the South African economy by breaking the alliance between state and capital. While both of these camps want higher growth to tackle unemployment and poverty, their envisioned ways of achieving this goal are radically different.

The leadership struggle within the ANC, which saw leftist candidate Jacob Zuma's ascent to power, is indicative of the conflicting visions of a developmental state within the ANC. As a result of internal upheaval,
Mbeki and other key proponents of the ‘1996 class project’ (a term the communist party SACP uses to describe the neo-liberal turn of the ANC that cumulated in the 1996 publication of GEAR) were relieved of their positions by the party base and replaced by a more left-leaning leadership. However, the battle is far from over and differing ideas and interests within the party will likely continue to be reflected in an incoherent policy. In this light, incoherence is better perceived as a result of conflicting class interests, as exposed in the above examples, than simply as a weakness of the state.

In the following case study on industrial policy, I try to illustrate South Africa’s attempts to become a developmental state and ‘the problems it has encountered along the way’. As I attempted to illustrate in the general discussion above, these problems are related to issues of capacity and coherence which cannot be fully grasped without considering the peculiar design of South Africa’s accumulation regime.

6.2 Industrial Policy in a Developmental Regime

The analysis of industrial policy of course needs to be embedded in both a discussion of industrial development and the broader directions of economic policy. While this has been the focus of Chapter Two, I will recount these issues in the time period after 1994 below, with a particular focus on industrial policy measures implemented. This discussion will lead us to the recent shifts in industrial policy, expressed in the publication of the National Industrial Policy Framework NIPF in 2007, and to an evaluation of its content and hitherto implementation.

6.2.1 Industrial Policy after 1994

An interventionist industrial policy has undeniably formed the core of all East Asian developmental states. This means that an evolving range of sectors have been targeted over time and vigorously supported through an array of policy measures—from R&D support and subsidised credit to direct state involvement by public companies. South Africa’s apartheid regime adhered to a comparable industrial policy when it supported and essentially built up industries such as iron and steel and later heavy chemicals. As was the case in East Asia, the ultimate aim of South Africa’s policy was to preserve national security. However, while East Asian industrial policies successfully generated jobs and economic growth in the process, South African policy
makers' focus on the white population and on economic and, more importantly, military self-sufficiency created different incentives. The resulting interventions—particularly the reinforcement of the minerals-energy core of the economy—were massive and continue to shape the South African economy.

After 1994, with macroeconomic stabilisation looming large in policy makers' minds, industrial policy and more specifically sector-specific interventions were not a priority area for the incoming government. Yet, this certainly was not due to a shortage of discussions on industrial policy within the ANC, its alliance partners and associated or sympathetic researchers. There were a number of research projects, but the discussions failed to produce a clear path forward in terms of industrial policy strategy, and the resulting ambiguities might be one reason for industrial policy's shadowy existence in the 1990s.

The most prominent among these works certainly was the report of the Industrial Strategy Project (ISP), a group of researchers affiliated with the biggest union federation COSATU, named "Improving Manufacturing Performance in South Africa" (Joffe et al., 1995). Its focus was on increasing the productivity of South African firms, eschewing a strategy based on cheap labour and instead focusing on moving up the value chain. The authors explicitly recognized that jobs thus created would in their majority be located at the upper end of the skills spectrum and that industrial policy alone would not solve the unemployment crisis. This view was also associated with a specific interpretation of the weaknesses of the manufacturing sector—resulting from a failed or exhausted import-substitution industrialisation strategy (Lewis et al., 2004, 154f.). In terms of policy recommendations, trade policy reform, skills creation and the support of technological upgrading and innovation (Joffe et al., 1995, 31) hinted at a supply-side oriented policy focus.

On the other hand, the work by Fine and Rustomjee (1996) interpreted South Africa's industrial history in a different light (see above). There are no easily applicable policy recommendations to draw from this strand of work, but "the MEC view tends to a more dirigiste approach to industrial policy, one inclined to a close interaction between the state and those relatively few firms that dominate the MEC core, interactions designed to strengthen their material linkages with the rest of the economy " (Lewis et al., 2004, 155).

Hirsch formulated this as a choice between support for "smaller businesses and pre-reform uncompetitive labour-absorbing sectors [or] policies
designed to exploit existing comparative advantages and bigger projects” (Hirsch, 2005, 122). He also states that the actual outcome was more of an “unresolved compromise” (ibid.). This critical assessment from an inside perspective is widely shared in the literature and with policy makers. The Department of Trade and Industry initially focused on trade policy and supply side measures—with a myriad of support programmes for firms—in line with the priorities formulated in the Industrial Strategy Project report. Trade liberalisation was combined with a range of general—i.e. not sector-specific—supply side measures in order to boost international competitiveness and exports. These included export credit guarantees and support in market access, innovation, research and development. However, firms do not appear to have frequently taken advantage of these measures and this has limited their effectiveness (Kaplan, 2004, 626).

At the same time, there were also strong elements of continuity in the implementation of industrial policy which was historically tilted towards the MEC (Zalk, 2007). One of the most important supply side programmes, the Spatial Development Initiatives, and its flagship project, the Maputo Development Corridor, provide a telling example. The initiative intends to revitalise a long-neglected region of South Africa, Mpumalanga, by making it globally competitive. But the benefits of the improvement in infrastructure have been limited mostly to the anchor project—the huge aluminium smelters of Mozal that are extremely capital intensive and provide very few linkages with the regional economy (Soederbaum 2004, 160ff., see also Lewis et al. 2004, 171).

Another example is the Strategic Industrial Projects programme, implemented by the DTI between 2002 and 2005, providing tax relief for large investment projects. Again, these projects were mainly concentrated in heavy industry (Roberts, 2005, 25). The same is true for the lending of the Industrial Development Corporation (IDC), South Africa’s main development bank and holding company. It has historically supported industries close to mining and continued this pattern throughout the 1990s. Continuity was particularly visible also in those fields of industrial policy that were not under the direct control of the DTI, such as infrastructure provision, electricity or arms procurement (Mohamed, 2007).

In contrast to these ambiguities, the commitment to trade liberalisation was strong. At first sight, this might seem surprising, but many in the incoming government viewed protective tariffs as support for a privileged group of white business and embraced a strategy of opening the economy to
global competition (Lewis et al., 2004, 161). South Africa’s offer to GATT in early 1994 was a joint effort by business, labour and the incoming government (institutionally situated in the ‘National Economic Forum’), and was publicly endorsed by the then presumptive president Mandela. The country became a founding member of the WTO in 1995 and implemented a simplified tariff structure and an overall reduction of tariffs. At the same time, the expensive and—by many accounts—inefficient export support scheme GEIS (General Export Incentive Scheme) was abolished (Hirsch, 2005, 127ff.). This focus on trade policy also had institutional consequences, as the negotiation and administrative processes (including those related to later trade agreements with the Southern African Development Community and the European Union) tied up many of the resources available in the DTI, an institution already heavily taxed by internal restructuring processes (Makgetla, 2007; Mohamed, 2007).

One notable exception to this pattern—a successful sectoral support programme outside the confines of the MEC—is the automotive industry. The Motor Industry Development Programme (MIDP) managed to retain production in South Africa amidst a significant reduction of tariffs, helping producers achieve international competitiveness. Moreover, there are significant linkages to other sectors due to local sourcing incentives (Roberts, 2005, 28). Historically, producers in the local auto industry built a variety of vehicles (at high unit costs), predominantly for the protected domestic market. The imperatives of global trade reform and South Africa’s commitment to liberalisation necessitated a reorientation and a move away from inward-oriented production patterns. The industry development programme, started in 1995, gradually reduced tariffs on fully built-up vehicles and at the same time introduced ‘Import Rebate Credit Certificates’ that could be earned by exporters of vehicles and components and allowed them the duty-free import of built-up vehicles and components (see for example Black, 2001, 782). The intention of course was to entice producers to reduce the variety of locally produced vehicles and focus on one or fewer models, manufactured at efficient scale and globally competitive costs. Although there is criticism, particularly from the point of view of domestic auto prices paid by South African consumers (there still is significant protection of the domestic market), the MIDP is generally regarded as a major success of industrial policy. The success of this sector, however, is exceptional and has not been repeated in other sectors where firms place little importance on the Department of Trade and Industry’s strategies (Kaplan, 2004, 627). Perhaps
characteristically, the MIDP was an outcome of research carried out within the union-aligned Industrial Strategy Project rather than an initiative of the DTI initially (Mohamed, 2007).

Not surprisingly, most assessments of industrial policy in the first decade of democracy are critical and find only limited success. As seen above, South Africa has certainly failed to significantly develop manufacturing capacities outside the MEC and limited pockets such as auto components. To a large extent, this view is shared by policy makers and also informs new policy priorities. Alan Hirsch, the former Chief Director of the DTI, states: “It is probably fair to say that government is haunted by the nagging feeling that we could have and should be doing more. Surely we know enough to be able to identify some key sectors that can grow faster with effective policies” (Hirsch, 2005, 160). This statement must be understood within the context of a gradual shift in emphasis occurring at the time—towards a more interventionist industrial policy that targets sectors explicitly and on a broader basis.

6.2.2 National Industrial Policy Framework

The industrial policy initiative NIPF must be examined within the broader context of the government’s growth programme AsgiSA which—at the time it was implemented—already contained explicit references to this yet-to-be-published document. Just as AsgiSA provided a framework for the overall growth strategy, the NIPF lays out a vision for South Africa’s industrial development and intends to be the point of reference for all stakeholders in the process. Most importantly, this includes other government agencies and private business. Through the publication of this document, the DTI seeks to achieve better coordination within government to provide the necessary coherence in industrial policy and to offer the private sector security about future policy directions.

The document begins with a critical assessment of industrial policy since 1994, admitting that, amongst other shortcomings, “sectoral programmes to restructure the industrial economy [...] were generally not of a sufficient scale to induce the necessary structural change.” (Department of Trade and Industry, 2007a, 13). It further states that, in order to “facilitate diversification beyond our current reliance on traditional commodities and non-tradable services” (ibid., 6) and move towards tradable, labour-absorbing goods and services, South Africa cannot rely on market forces alone but has to imple-
ment an interventionist strategy based on an analysis of concrete constraints and opportunities. The DTI thus rejects the ‘one-size-fits-all’ approach of the Washington consensus and considers this the main lesson to be learnt from the successful development trajectory of the newly industrialised East Asian countries, thereby locating itself firmly within the discourse on developmental states.

In order to be successful, the DTI reckons that industrial policy interventions need to take place in a suitable macroeconomic, regulatory and infrastructural environment. With regards to the macroeconomy, this implies that fiscal, monetary and industrial policy need to better complement each other—a stable and competitive exchange rate is explicitly mentioned at this point. Furthermore, interventions are to take place on a sectoral level and on cross-cutting issues that concern the whole economy through Key Action Plans (KAPs) (Department of Trade and Industry, 2007b), and will always be preceded by consultation with business and other stakeholders in a so-called ‘self-discovery process’. The Key Action Plans comprise detailed benchmarks to evaluate outcomes, name the stakeholders responsible for implementation and put specific time frames on expected completion.

Although the NIPF itself does not intend to pick sectors (its focus lies on defining procedures), a number of priority sectoral groupings with potential are identified. The handful of priority sectors that will eventually be chosen for support every three years should mainly be found within these groupings. These are natural resource-based sectors, medium technology sectors, advanced manufacturing sectors, labour intensive sectors and tradable services (Department of Trade and Industry, 2007a, 19)—a broad selection by all measures.

The first round of action plans, which is intended for immediate implementation, focuses on the following four lead sectors: capital and transport equipment and metal fabrication; automotives and components; chemicals, plastics fabrication and pharmaceuticals; and forestry, pulp and paper and furniture (Department of Trade and Industry, 2007b). The metals sector provides 18% of manufacturing jobs in South Africa, nonetheless it has underperformed in the past. Providing mostly inputs to other industries, firms in the sector have certainly suffered from low investment levels in the economy, and particularly from the public sector and the mining industry. Additionally, and in common with the plastics sectors, the uncompetitive pricing of inputs is identified as the major constraint, and in both cases a review of tariffs on upstream products is suggested. With regard to steel
and aluminium, the action plan in this sector also foresees a strengthening of the competition act to put more pressure on the dominant domestic producers with huge market power. The public infrastructure investment programmes, in particular the spending of state-owned enterprises, also come under scrutiny, as the DTI intends to commit relevant actors to a higher level of local content in their procurement. Policy in the automotives and components sector is driven by the Motor Industry Development Programme which expires in 2009. The DTI has committed itself to a continuation of sector support and announced the publication of a replacement programme that intends to help firms double production by 2020. Finally, the labour intensive forestry sector could provide jobs in poor rural communities. Technical and financial support should enable small growers to participate in the growth of the industry.

Apart from these sectors, the activities that have already been singled out in AsgiSA will continue to receive attention; among these are business process outsourcing, the tourism sector and biofuels; all three are characterised by their labour-intensity. In addition, the DTI intends to reserve some attention for the clothing and textiles sector, diamond beneficiation, agro-processing, film and television, and crafts; and will develop strategies or perspectives for mineral beneficiation, ICT services and products, creative industries, white goods, retail and other sectors.

The cross-cutting issues that are to be tackled immediately complement and often are a crucial part of the sectoral interventions. They include the improvement of the industrial financing system, the leveraging of public procurement, the reduction of intermediate input costs, and the improvement of research and development support, infrastructure and skills development. Industrial financing is to be expanded through the existing institutions—the DTI itself and the Industrial Development Corporation—and improved by more prioritisation, in line with overall sectoral priorities, and higher reciprocity. The massive increase in public investment that is currently under way should be carried out in a way that maximises opportunities for South African firms. While price and quality considerations must continue to inform procurement decisions, all government departments should include the domestic production perspective in their consideration. The reduction of input cost has already been mentioned in connection with the metals and plastics sector; the DTI’s efforts in the field of infrastructure improvement and skills development mostly concentrate on aligning current initiatives of other departments with the sector priorities in the industrial policy strategy.
6.2.3 Capacity and Coherence

The public reception of the NIPF was decidedly mixed. While it drew applause from some quarters, it was met with skepticism and severe criticism in others. It is certainly too early to make a definite statement about the policy, however a review of recent developments and an interpretation of the policy’s aims within the context of South Africa’s growth trajectory permit a tentative assessment.

The publication of the NIPF has definitely put industrial policy back in the spotlight. First steps are being taken toward implementation and a comprehensive review of tariff protection for upstream industries is already under way. In timely coincidence, the Competition Tribunal has fined Arcelor Mittal Steel, South Africa’s dominant steel producer, 700 million Rand for excessive pricing. The DTI also gave first broad indications of how support for the automotive industry will look when the original MIDP expires. The revised programme will be published in August 2008, but support has been pledged until 2020.

The MIDP and its successor programme can also serve to illustrate one of the major concerns—that of the department’s capacity, or lack thereof. The review of the programme started in 2005, but publication of its results and the revised programme has been repeatedly postponed, much to the dismay of car producers and critics who have urged the government to provide clarity. Many interpret this as a sign that the DTI still faces severe capacity constraints. This is a long-standing problem to which the DTI itself cautiously admits: “[C]apacity to formulate and implement high-quality industrial policy interventions has been uneven across government departments” (Department of Trade and Industry, 2007a, 28). One reason for these capacity problems was the historical focus of the DTI on the administration of tariffs and, on the eve of democracy, on the export support programme GEIS. Its staff, redeployed to administer the taxing supply-side programmes that formed the core of industrial policy in the 1990s, struggled to fulfill this new role (Lewis et al. 2004, 175, Robbins 2007). Additionally, there were numerous processes of internal reorganisation which led to large fluctuations within the department and to a less than optimal retention of knowledge gained in the process of engaging with industry stakeholders (Morris et al. 2006, 207, Robbins 2007).

In addition to in-house capacity, the implementation of an industrial strategy requires close coordination across government agencies, in other
words, the capacity of a nodal agency to drive policy. The sectoral and cross-cutting Key Action Plans invariably involve a number of different departments, agencies or state-owned enterprises that should play their part in implementation. Whether the DTI has the clout to be this agency in South Africa remains to be seen. It is an open secret that the National Treasury is less than convinced of the merits of an interventionist industrial policy. Its response to the publication of the NIPF has been lukewarm, and in his medium term budget policy speech before parliament in November 2007 finance minister Trevor Manuel told parliament that, in order to diversify its exports, South Africa would have “to ensure that competition is fostered through tariff simplification and reform.” (Manuel, 2007, 6) The corresponding policy statement contains an explicit critique of high levels of protection in the auto and textiles industries without even mentioning the NIPF (Department of Finance, 2007, 22).

If there is a nodal agency with regards to economic policy in South Africa, it still seems to be the National Treasury that is at the heart of the economic policy making process (e.g. Mohamed, 2007, also Zalk, 2007). In another intervention that overlaps with the competency of the DTI, the Treasury hired an international advisory panel, comprised of mostly American-based economists, to identify the binding constraints that hamper the South African economy, and particularly its industry. The findings were published over a period of two years with the final report released on the Treasury’s website in May 2008 (Hausmann, 2008). While they do not represent the policy positions of the Treasury, the findings nonetheless serve as an indicator for its overall policy preferences since they are concordant with its other publications and statements. Some of the recommendations of the panel are in line with the industrial strategy proposed by the DTI, notably the targeting of a more stable exchange rate, but also with regards to higher investment in public infrastructure. On the other hand, the authors are critical of sectoral targeting as proposed in the NIPF—they suggest to “[s]ubstitute or complement the current DTI policy of developing customized sector programs with a strategy based on an open-architecture approach with self-organization of relevant actors” (ibid.). Also, they call for a more wide-reaching simplification of the tariff regime and a reduction or elimination of tariffs on inputs. Lastly, the report is highly critical of initiatives to promote beneficiation, stating that, if viable, it should and would have happened already.
For now, the Treasury continues to subscribe to an economic policy vision that views sectoral targeting and tariffs with suspicion. From ‘the other side’ of the political spectrum, the unions put pressure on the government to implement a more interventionist strategy. In a strategy paper on industrial policy, COSATU asks for a “fundamental redirection of activities by all stakeholders, including the state, capital and even labour” (COSATU, 2006, 14). This redirection includes a more expansionary fiscal and monetary environment, more public ownership and a more protective trade policy, all under the mantle of a developmental state.

If coherence is one of the pillars of success of East Asian industrial policy, South Africa will in all likelihood fall short of meeting this criterion. Different players within the governing coalition and within cabinet adhere to differing strategic visions of industrial policy. The ascension of Jacob Zuma to President of the ANC and his likely taking over of the country’s presidency after the general elections in 2009 might lead to a shift in policy priorities towards the vision expressed by COSATU. The union federation, the communist party and the ANC left are among his most vocal and influential supporters. For now, the more cautious stance of the Treasury holds sway, creating a significant amount of insecurity over future policy directions.

A similar argument could be made with regard to macroeconomic policy. The DTI is not alone in its call to alter monetary policy strategy in order to provide South African exporters with a more competitive exchange rate. However, the independent Reserve Bank’s inflation targeting policy—causing high interest rates and an overvalued currency—is not under review. The liberalisation of the capital account, very much in the interest of mining conglomerates that rapidly internationalised since 1994 and saw investment opportunities mostly outside South Africa, is not under scrutiny—if anything there are calls for further liberalisation, for example by the panel engaged by the Treasury (Hausmann, 2008). So it is likely that interest rates will have to remain high to continuously attract short term capital inflows (Fine, 2008). And while state expenditure has indeed increased over the last few years, the Treasury remains cautious in its policy stance, budgeting for a surplus for the period from 2008 to 2010. So far there is no indication that industrial policy as laid out in the NIPF will also govern the decision making of these key economic policy institutions. This implies that a more conservative interpretation of the developmental state continues to hold sway in South Africa.
As mentioned above, the recent changing of the guard in the ANC could alter the balance of forces in government over time. In light of some of the policies the DTI promotes, this is probably a prerequisite for success. The first sector strategies target downstream industries such as plastics and they will inevitably have to tackle the monopoly power of upstream suppliers. The announced reduction of input tariffs will not suffice in this regard, and this might also be true for the strengthening of the Competition Act. Chang argues that a purely legalistic approach to competition policy is unsuitable because it is a long and costly process (Arcelor Mittal will of course appeal its fine in the Competition Appeal Court), which moreover does not achieve what South Africa needs most from its conglomerates: increased domestic investment. He advises a more hands-on approach, controlling outward investment and striking deals to increase domestic engagement (Chang, 1998, 68f.). What has happened so far is the opposite: South Africa experiences a net outflow of foreign direct investment and its economic policy facilitates further capital outflow (Fine, 2008).

This brings us back to the structural features of South African capital, which differs markedly from its counterparts in other aspiring developmental states. “Where the developmental states of Asia faced national capital groups that saw industrial growth as their main road to profit, key sectors of South African capital saw their future in mineral investments abroad” (Makgetla, 2005, 6). This point is also forcefully made by Fine, who claims that “conglomerates attached to the MEC [...] have otherwise demonstrated little or token commitment to the economic and social restructuring and expansion of the local economy other than in furnishing continuing and secure profitability to feed into their globalisation” (Fine, 2008). So far, the interests of mining and financial capital have been well served by economic policy—the immediate opening of capital markets in 1995 and the conservative monetary policy regime are obvious examples.

If the DTI is to achieve its objectives of industrial diversification and higher growth in tradable goods sectors, then macroeconomic policies will have to change as well—notably in the form of a more competitive exchange rate. This further implies a change in the financial system, gearing it to the needs of industry rather than those of international and domestic financial investors. The NIPF only tentatively addresses these issues and it indeed sounds rather ambitious. However, a changing of the growth trajectory of the South African economy will always be an ambitious project. A different
policy outlook by the new ANC leadership might lead to bolder proposals and a more vigorous implementation in the future.

6.2.4 Competing Visions

The aim to transform South Africa into a developmental state is shared by all constituencies within the ANC. This goal therefore serves as a rallying point upon which all its members can agree. However, similarly to the strategic concept of the National Democratic Revolution, its interpretation is fiercely contested. While some merely consider the developmental state a competent state that can intervene in targeted areas to reduce the cost of doing business in South Africa, the left subscribes to a different interpretation, based on which a progressive developmental state would have to alter the capital-intensive growth trajectory of the South African economy and therefore clash with the entrenched interests of capital.

This case study on industrial policy has reaffirmed that there are indeed competing visions of the South African developmental state. While the National Industrial Policy Strategy sets itself the goal of diversifying the South African economy beyond its traditional reliance on commodities, this diversification will not be possible without a disruption of the dominance of upstream monopolies and a fundamental alteration of the macroeconomic framework. At the moment, the DTI does not have the clout to implement such measures. However, the recent change in ANC leadership could improve its chances to do so in future.

Finally, the case study also shows that, while concerns about the state’s capabilities and the coherence of policy are justified, they cannot simply be interpreted as administrative weaknesses of the state. They are rather a result of conflicting class interests, reflected in the governing alliance and within government departments, and shaping its policies. The more fundamental issue at stake then is which groups can assert their interests and determine what kind of a developmental state South Africa eventually wants to be.