

Industrial policy is back on the agenda

As SA's industrial potential unravels, Asia may not be the right model to follow

Industrial policy has returned to the mainstream of South African economic debate, but views on it remain worlds apart. That includes views on why South Africa is steadily deindustrialising, with the share of manufacturing in GDP having dropped from 22% in 1980 to barely 12% last year.

At the International Conference on Manufacturing-Led Growth for Employment and Equality held in Joburg this week, various government and academic experts debated the ways in which South Africa was not South Korea, one of the Asian developmental states often invoked as a model.

One senior government economist said South Africans tended to like the Asian model of industrial policy because it implied a strong state, but this ignored the vastly different context.

The Asian countries had far more social cohesion, while South Africa had both high unemployment and a lack of cohesion between government and business.

South Africa had been developing its own industrial policy in fits and starts, but participants at the conference, inside and outside government, complained unreservedly - under condition of Chatham House Rules anonymity - about policy incoherence and weak political leadership.

South Africa is today a fundamentally different kind of economy from places like South Korea in the 1960s.

Another problem raised by one government economist was South Africa's lack of farming output compared with other developing countries and the Asian countries when they began their industrial ascent.

Farming currently contributes only 5% of South Africa's jobs while a third of the population is still rural - a legacy of the apartheid homeland system.

The economist said: "Asia had rural incomes while we had the pretence of rural incomes. We have to change the structure of demand."

University of Cambridge economics Professor Gabriel Palma opened the conference with a presentation calling South Africa and the Philippines "honorary Latin American countries" because of their similar economic problems.

Brazil experienced a more severe deindustrialisation - from having manufacturing constitute more than 30% of GDP in 1980 to 18% in the 2000s (see graph).

Palma is an outspoken critic of neoliberal economic policies and much of his research is about the decline of Latin American economies from 1980 onwards as a consequence of these policies, especially due to a lack of investment in productivity.

He calls it capitalists "not doing their job" and points towards Latin America receiving a "flood" of foreign direct investment "without any perceptible effect on real investment".

The "middle-income trap" is an ideological problem, according to Palma. It happens when countries "don't see the need for structural change".

For him, the problem is how to go "from the Latin American style to the Korean style".

Before 1980, countries like Brazil were improving their productivity at about the same pace as Korea. Then they diverged sharply, with Korea becoming the global poster boy for rapid industrialisation while Brazil's labour productivity stagnated.

There has been massive job creation in Latin America since the 1980s, but it entailed precarious, low-paying jobs in service industries with very low productivity, like domestic servants, according to Palma, who labelled this "Latin-type" job creation.

The conference, organised by the think-tank TIPS under the auspices of the SA-EU Strategic Partnership, was also used to launch the latest Industrial Development Report by the UN Industrial Development Organisation (Unido).

The report sketches a picture of industrialisation where



ON TRACTOR, ON TRACK Workers harvest soybeans in Campo Novo do Parecis in the Brazilian state of Mato Grosso

PHOTO: AP

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SENIOR GOVERNMENT ECONOMIST

all countries proceed through similar developmental stages coinciding with average income levels per capita.

This sees a country first build up low-tech industries like textiles, then progress to heavier industry and more advanced manufacturing until ultimately reaching the global technological frontier.

Both South Africa's Industrial Policy Action Plan and National Development Plan see a major role for labour-intensive manufacturing at the low end of the technological spectrum, which fits into this scheme.

But prominent South Africans on opposite ends of the ideological spectrum lambasted the report for its simplistic take on industrialisation.

It missed the crucial role of inequality, argued UCT Professor Dave Kaplan.

The Asian developmental states "had egalitarian income, we and Latin America do not", he said, adding that "inegalitarian societies will see earlier deindustrialisation".

South Africa's "structure of demand" worked against

manufacturing and instead led to the creation of cheap service jobs, which the relatively rich demanded.

That was why South Africa had almost as many security guards as there were manufacturing jobs, according to Kaplan, echoing Palma's comments on Latin-type job creation.

Without liberalising the labour market, there was no chance of any large-scale, labour-intensive manufacturing in South Africa in any case, Kaplan added. The Unido report also missed the role of exports, according to him.

Because of low local demand, "all manufacturing growth is export-orientated. The key metric is whether we have manufacturing exports, not manufacturing employment," said Kaplan. "If you grow manufacturing exports, it gives you an opportunity to grow service jobs."

The Asian countries that inspired a lot of developmental plans "had no other choice", while South Africa and Latin America had the option of mineral wealth. "We could do better on manufacturing, but it's an absolute crime that we are losing mining," he said.

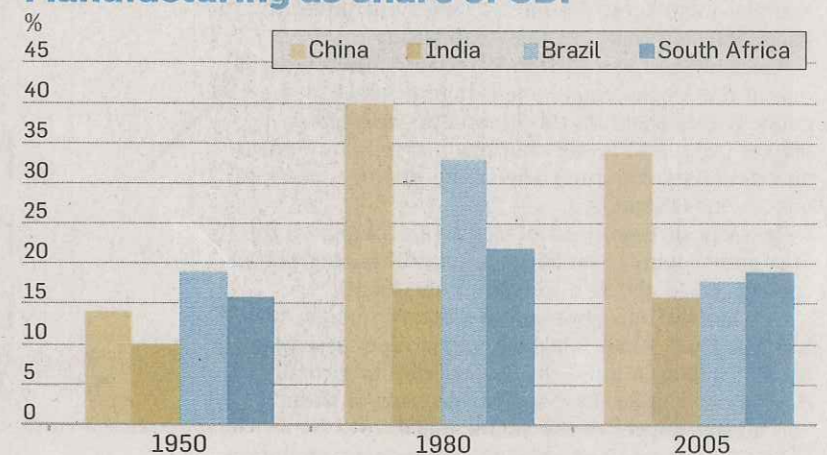
Share of the world's manufacturing value added by region

	1992	2012
Industrialised countries	81.7%	65.2%
East Asia (excl. Japan, Aus, NZ, Korea, Taiwan, Singapore)	5.4%	20.3%
Latin America	6.5%	5.8%
Sub Saharan Africa	1.0%	1.0%
Sub Saharan Africa minus South Africa	0.4%	0.4%

Source: Unido

Graphics24

Manufacturing as share of GDP



Source: Unido

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12%

The contribution of the manufacturing sector to the economy last year, a dramatic decline from the 22% recorded in 1980