POLICY BRIEF: 5/2015

Reflections on the National Industrial Policy Framework and industrial policy implementation in South Africa post-2007

INTRODUCTION

The 2007 launch of the National Industrial Policy Framework (NIPF) and the Industrial Policy Action Plan (IPAP) could not have anticipated the impact that the global financial crisis of 2008/2009 and subsequent recession would wreak on South Africa's economy. With its strong focus on the manufacturing sector as a key driver of balanced development, the NIPF set a framework and an implementation mechanism – in the form of IPAP -– for addressing cross-cutting and sector-specific constraints (and optimising opportunities) to put South Africa on a stronger growth path. As it turned out, it also assisted in shoring up the South African industrial sector against the worst effects of the recession, particularly through support for industrial upgrading, local procurement designations and export facilitation. This policy brief explores the intended outcomes of the NIPF and assesses some of the progress (and unintended consequences) achieved in implementing IPAP since 2008. It concludes with some recommendations on the need to do a full review of the impact and implementation of IPAP.

Trade & Industrial Policy Strategies (TIPS) is a research organisation that facilitates policy development and dialogue across three focus areas: trade and industrial policy, inequality and economic inclusion, and sustainable growth

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INDUSTRIAL POLICY IS KEY TO THE DEVELOPMENT OF SOUTH AFRICA

In South Africa, 20 years of democracy has yielded minimal changes to the structure and ownership of the economy, which has led to direct (political) calls for greater state intervention by the majority party, the African National Congress (ANC). In response to the global recession of 2008/2009, there have been various discussions on the future of modern capitalist models. This has also led to the adoption of interventionist (some would say protectionist) stances by many countries around the world (both developing and developed).

There has been an accompanying observed shift in global attitudes towards industrial policy, with words like "state intervention" and "developmental state" gaining prominence. Institutions such as the World Bank have also experienced radical shifts in thinking about industrial policy (see Stiglitz et al, 2013). In South Africa, there have been concerted policy efforts in this regard. The NIPF encapsulates the framework and rationale for supporting industrial growth in South Africa, and the IPAP concretises this through strategic interventions (and customised support) to priority industries, especially within manufacturing. Yet, global competitiveness (broadly) remains an issue, and IPAP attempts to support investments in productive capacity, skills and increased local manufacturing capabilities. To achieve its goals, the NIPF had the following core objectives:

- Restructuring the economy and reversing the prospect of deindustrialisation;
- Moving to a more value-adding, labour-intensive and environmentally sustainable growth path – especially in globally competitive non-traditional tradable goods and services;
- Shifting the focus of economic activity towards historically disadvantaged people and regions; and
- Contributing towards comprehensive industrial development in Africa (primarily through infrastructure development, increased industrial productive capacity and greater regional integration).

The NIPF was premised on the need to implement 13 strategic programmes (SPs). IPAP, as the implementation programme, translated these programmes into key action plans with measurable performance indicators. The linkages between the two are outlined in the table on pages 2-6.

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National Industrial Policy Framework (2007)	Industrial Policy Action Plan (2015/16-2018/19)
SP1: SECTOR STRATEGIES The sector development process in government included thorough, evidence-based and realistic economic analysis of sectors, taking into account relative size and growth prospects and potential impacts on employment, value-addition, diversification of production and exports, technology development and broad-based empowerment. The process outlined included a robust consultation with business and social stakeholders, the identification of key sectoral constraints and where opportunities lie, an economic cost-benefit analysis, an assessment of institutional considerations, and intra-governmental co-ordination mechanisms. Priority sectors were clustered around natural re-source-based sectors, medium technology sectors (including downstream mineral beneficiation), ad-vanced manufacturing sectors, labour-intensive sectors and tradable services with sector research identifying new sector opportunities.	**SP1: SECTOR STRATEGIES** IPAP has targeted specific industries for rapid development, especially by working with industry and labour to support investment, technology uptake, upgrading and competitiveness improvements and importantly – job creation. A number of success stories can be highlighted in the various sectors. Sectoral priorities are clustered around two main themes: first, traditional sectors with strong growth multipliers (automotives, metals fabrication, capital and rail equipment, plastics, pharmaceuticals and chemicals); sectors with strong employment multipliers (agro-processing, forestry, timber, paper, pulp and furniture) and stressed sectors (clothing, textiles, leather and footwear), and sectors offering paths to skills upgrading (business processing services and crafts). The second cluster focuses on sectors deemed crucial for long-term resource sustainability (oil and gas, renewable energy, and green transport), sectors that can leverage domestic comparative advantage (mineral resources) and high-tech, ICT, advanced materials and niche manufacturing.
SP2: INDUSTRIAL FINANCING Industrial financing* was recognised as being crucial for the implementation of industrial policy in South Africa. Financing was to focus on supporting the production of substantively new goods and services, new forms of production, as well as expansive growth of existing non-traditional tradable activities through relieving some fundamental constraints. As far as possible the financing aimed at generating significant spillover and demonstration effects, being as transparent and easy to access as possible, containing a minimum of uncertainty and regulatory costs for applicants, and being targeted at sufficient scale to achieve the necessary structural change. The review process implied the need for much stronger systems for incentive design, performance monitoring, enforcement of compliance, regular reporting, periodic review and adaption, and impact assessment.	**SP2: INDUSTRIAL FINANCING** Over the past 20 years, the Industrial Development Corporation (IDC) has approved industrial funding of more than R128 billion (R204 billion in 2013 prices) to firms, supporting the creation of 360 000 direct jobs over the period and saving an additional 43 000 jobs. Particularly important was a R6 billion fund that was part of South Africa's Framework Response to the Global Economic Crisis – which followed an MoU signed with the dti to facilitate the implementation of Industrial Policy in South Africa. Since 2010, the IDC has been a part of the Department of Economic Development (EDD**).

* Programmes administered by the dti, Department of Science and Technoolgy (DST) and the IDC provide industrial financing in South Africa. The current financing mechanisms required re-evaluating taking into account evidence about their effectiveness, changed conditions and global best practice to improve their effectiveness.

** EDD is responsible for co-ordinating the New Growth Path (which addresses the structural constraints to absorbing large numbers of people into the economy and the creation of decent work) and overseeing the work of key state entities engaged in economic development. These include the IDC, the Competition Commission and Competition Tribunal and, the International Trade Administration Commission of South Africa (ITAC). The Small Enterprise Finance Agency (SEFA) previously also reported to EDD.

*** Tariff reform in South Africa since 1994 has been extensive in the scale of tariff reduction and in simplifying the tariff structure. Additional refinements of tariffs have two focus areas. Tariffs on upstream input industries will be reviewed and in the interests of lowering input costs into downstream manufacturing, while tariffs on downstream industries will be treated more carefully, particularly those that are strategic for employment or value-addition.

**** The 1998 Competition Act recognised the need to promote much higher levels of competition in the economy to facilitate entry of small and medium sized businesses, historically disadvantaged people and foreign direct investment (FDI). It also emphasised that certain industries need to achieve minimum economies of scale to be globally competitive.

National Industrial Policy Framework (2007)	Industrial Policy Action Plan (2015/16-2018/19
SP3: TRADE POLICY Trade policy was integrated into the NIPF with the aim of significantly contributing to achieving the objectives of sustainable economic growth and international competitiveness. Nevertheless, South Africa's trade performance has not been to date on par with comparator economies especially in non-traditional export performance – particularly more sophisticated, value-added products. Boosting exports (for employment creation and current account deficit reduction) therefore required consideration of the constraints to exports and responses included targeted FDI) promotion, tariff reform,*** a more focused export promotion strategy, and a revised trade negotiating strategy.	**SP3: TRADE POLICY** The International Trade Administration Commission of South Africa (ITAC) (now part of EDD rather than the dti) continued to consolidate and realign itself to support strategic industrial development imperatives including a revised Trade Policy and Strategy Framework (TPSF) released in 2009. Although South Africa's export profile continues to be dominated by primary mineral commodities, base metals, ferro-alloys and precious metals (mainly due to strong growth in commodity prices), some success has been recorded in the export growth of machinery, vehicles, bulk chemical and food and beverages. Tariff reform has also progressed with 17 applications for increases, rebates and reductions of duties across a range of sectors having also been completed. The department export promotion work has been bolstered by the National Export Strategy (NES) with support enhanced primarily through the Export Marketing & Investment Assistance Scheme (EMIA), the main support programme overseen by Trade and Investments South Africa (TISA), a division within the dti. TISA is also the custodian of the NIPF that is leading the development of a National Investment Promotion Strategy (NIPS).
SP4: SKILLS AND EDUCATION FOR INDUSTRIALISATION Emphasised alignment between industrial policy and skills and education development especially the role of the Skills Education Training Authorities (SETAs) particularly for sector specific strategies. More graduates in tertiary technical skills such as engineering and larger pools of math's and science school-leavers were acknowledged as necessary for a modern knowledge-driven economy.	**SP4: SKILLS AND EDUCATION FOR INDUSTRIALISATION** Mandate shifted to new ministry (EDD). Progress has been made in undergraduate engineering and enrolment figures with emphasis shifting towards graduate mentoring workplace learning. An integrated skills plan for the next 20 years is being developed across all the Strategic Integrated Projects (SIPs) so as to inform training colleges, universities and artisan schools across the country of the skills required to support industrialisation.
SP5: COMPETITION POLICY AND REGULATION High levels of concentration and excessive market power were a major policy concern in many South African industries, and this necessitated the institution of more robust competition legislation and institutions, which came into force in 1998.**** A need to strengthen competition policy to address some of the unique features of South Africa was noted, particularly continued (and growing) high levels of concentration in the economy in a range of sectors. The responses including setting up a number of regulators, addressing the specific practice of import parity pricing (IPP) including removing import protection on products priced according to IPP principles.	**SP5: COMPETITION POLICY AND REGULATION** Since 2009, the Competition Commission also reports through EDD. Mergers have taken place across the entire spectrum of the economy, with the largest number in manufacturing, property and the wholesale and retail sectors, an indication of the extent of corporate restructuring since the late 1990s. In 2007 the Competition Act was amended to enable the Commission to become more proactive in investigating markets, the abuse of dominant positions, and ensuring market transparency. Further amendments strengthen its powers to combat anticompetitive behaviour and to provide for criminal sanctions for individuals and entities. While competition policy was designed to tackle concentration in the economy, it has been a relatively blunt instrument. Despite some successes in addressing collusive practices (notably in some → *continued on page 4*

National Industrial Policy Framework (2007)	Industrial Policy Action Plan (2015/16-2018/19
	SP5 CONTINTUED food manufacturing sectors, construction, chemicals and fertilisers), it has been unable to achieve the structural shifts in levels of concentration required to change patterns of asset ownership – more specifically reducing barriers to entry for new firms.
SP6: LEVERAGING PUBLIC EXPENDITURE Investments in new infrastructure* and maintenance provide economic participation opportunities to domestic companies as suppliers by facilitating the build-up of manufacturing capabilities and competitiveness that can be leveraged for exports. Public procurement of designated** products such as clothing and textiles, rail and bus fleets, infrastructure projects, and renewable energy is supporting increased local content. The Preferential Procurement Policy Framework Act (PPPFA) was amended to enhance the procurement of locally manufactured products. Previously PPPFA scoring tended to incentivise increased imports since black-owned importers were rated above domestic manufacturers with lower black economic empowerment (BEE scores).	**SP6: LEVERAGING PUBLIC EXPENDITURE** The Local Procurement Accord was signed in 2011 to promote local procurement to create five million jobs in South Africa by 2020. Competitive Supplier Development Programmes (CSDP – run by the Department of Public Enterprises) further highlights the role of State Owned Companies (SOCs) such as Eskom and Transnet in developing local supplier development programmes. Heavy emphasis was also placed on developing skills within government, especially around Monitoring and Evaluation to ensure compliance with localisation targets of state procurement.
SP7: INDUSTRIAL UPGRADING Upgraded industrial capabilities such as investments in machinery, upgraded skills and improved logistics capabilities assist firm competitiveness. Key programmes include the Manufacturing Excellence Programme*** (MEP), Technological Infrastructure and Technical Infrastructure for a sound Standards, Quality Assurance and Metrology (SQAM) system.	**SP7: INDUSTRIAL UPGRADING** In 2009, the dti completed the revised guidelines for the Enterprise Investment Programme and Automotive Investment Scheme and developed the Section 12i Tax Allowance Regulations with National Treasury. The Manufacturing Competitiveness Enhancement Programme (MCEP) is another programme that provides enhanced manufacturing support to encourage upgraded production facilities that sustain employment and maximise value addition. As part of its developmental trade policy, the dti has reoriented its Technical Infrastructure to support the development of enabling standards and compulsory specifications specifically to lock out inferior products and improve the quality of locally manufactured goods.
SP8: INNOVATION AND TECHNOLOGY Providing greater support for innovation and technology so as to reach the research and development (R&D) expenditure target to 1% of gross domestic product (GDP). Particular emphasis for the dti was on process and product development, and the commercialisation of technology. The need for coherence and collaboration with the Department of Science and Technology (DST) was clearly identified.	**SP8: INNOVATION AND TECHNOLOGY** In collaboration with DST, the dti continues to review incentives and instruments for science, technology and innovation, including formalising an R&D-led industrial development approach and R&D projects that scale-up industrial growth – ideally through partnerships between government, academia (including science councils) and industry (large, medium, and small enterprises). Key programmes include the Technology Commercialisation Strategy and a process to harmonise innovation support programmes.

* Road, rail, ports, electricity, telecommunications, water and social infrastructure such as housing, schools, hospitals and libraries. At the time this included mega-projects such as the Gautrain and 2010 World Cup infrastructure such as stadiums.

** The PPPFA allows for the designation of certain products in support of increased local content. Designated products are products for which local production capacity exists and where government procurement of such products is mandated to be from local manufacturers.

*** Supporting firm-level upgrading efforts such as process, product and value-chain upgrading.

National Industrial Policy Framework (2007)	Industrial Policy Action Plan (2015/16-2018/19
SP9: SPATIAL AND INDUSTRIAL INFRASTRUCTURE Focused on delivering industrial infrastructure (especially in underdeveloped areas with latent economic potential) – this was primarily through Industrial Development Zones (IDZs) and an extension to other types of infrastructure.	**SP9: SPATIAL AND INDUSTRIAL INFRASTRUCTURE** The South African Government adopted a National Infrastructure Plan in 2012 aimed at transforming the economic landscape and creating significant numbers of new jobs. The Infrastructure Development Act No. 23 of 2014 was promulgated and the Presidential Infrastructure Coordinating Commission (PICC) was established to integrate and co-ordinate the long-term infrastructure build. Eighteen SIPs* have been developed and these cover social and economic infrastructure across all nine provinces (with an emphasis on lagging regions with latent potent such as Limpopo, Mpumalanga and the Northern Cape). Following implementation of an IDZ programme, weaknesses were identified that led to a policy review and the introduction of a new Special Economic Zones (SEZ) policy by the dti. IPAP identifies SEZs as key contributors to economic development especially industrialisation, regional development and employment creation and the SEZ Act No. 16 of 2014 characterised SEZs as including IDZs, Free Ports, Free Trade Zones and Sector Development Zones.
SP10: FINANCE AND SERVICES TO SMES Ensuring the successful delivery of financial and non-financial support to small enterprises with the Small Enterprise Development Agency (SEDA), KHULA (enterprise finance) and the South African Microfinance Apex Fund (SAMAF) being the key institutional drivers.	**SP10: FINANCE AND SERVICES TO SMES** Having been initially shifted to EDD in 2009, the small and medium-sized (SME) finance agencies (KHULA and SAMAF) were merged to create SEFA in 2012. These financial (and non-financial) support functions have since been transferred to the Department of Small Business Development (DSBD) which was established in 2014. Discussions among policymakers indicate a likely move to merge SEDA and SEFA into one agency – with the hope of streamlining the service offering to SMEs.
SP11: LEVERAGING EMPOWERMENT FOR GROWTH AND EQUITY Increased focus of broad-based black economic empowerment (BBBEE) on increasing the entry of black people into new (and growing) economic activities and areas.	**SP11: LEVERAGING EMPOWERMENT FOR GROWTH AND EQUITY** With no explicit programmes targeting BBBEE, IPAP has a diminished focus on promoting empowerment. BBBEE was intended to have a wider reach and included a set of codes promulgated by the dti that links government procurement to a set of incentives based on black ownership, management, corporate social investment and training activities.
SP12: REGIONAL AND AFRICAN INDUSTRIAL AND TRADE FRAMEWORK South Africa is well positioned to drive industrialisation on the continent given its size and capabilities. However, Africa is limited in its productive capacity and infrastructure, requiring a shift from a trade focus (particularly market access) towards continental industrialisation and integration	**SP12: REGIONAL AND AFRICAN INDUSTRIAL AND TRADE FRAMEWORK** Africa's high growth and increasing consumer demand across the continent presents substantial opportunities for resource exploitation and infrastructure development. On-going programmes are examining regional value-chain linkage opportunities across a few key product categories particularly mining (and beneficiation), agro-processing, pharmaceuticals and chemicals.

* The SIPs comprise: five Geographically-focussed SIPs, three Spatial SIPs, three Energy SIPs, three Social Infrastructure SIPs, two Knowledge SIPs, one Regional Integration SIP and one Water and Sanitation SIP.

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SP13: CO-ORDINATION, CAPACITY AND ORGANISATION A key focus was on improving inter-governmental co-ordination around industrial initiatives. There was a further emphasis on capacity building within the dti, the creation of an industrial policy think tank and increased research and information capabilities (through industrial policy centres of excellence).	**SP13: CO-ORDINATION, CAPACITY AND ORGANISATION** The Economic Sectors, Employment & Infrastructure Development Cluster has increased in number with the addition of EDD and DSBD. Ongoing capacity building initiatives such as the African Programme on Rethinking Development Economies (APORDE) continue to strengthen the developmental thinking behind economic policy in South Africa and although no official industrial policy think tank exists, TIPS has for the past 10 years provided essential research inputs to the dti and other economic cluster departments. Also, increased collaboration between institutions such as the Centre for Competition regulation and Economic Development (CCRED) and Corporate Strategy and Industrial Development (CSID) have assisted industrial policy development and analysis.

Source: Adapted from the dti (2007) and (2015); and The Presidency (2014)

The information in the table shows there has been significant progress in implementing most of the core elements of the NIPF through IPAP. Noticeable is the diffusion of some key programmes to other ministries and departments, such as Small Business Development and Economic Development. Although not envisioned when the NIPF was first developed this trend may have some unintended consequences – especially around co-ordination and implementation with the potential of reducing impact. A key question remains: has the NIPF supported significant alteration of South Africa's industrialisation path and has the implementation of IPAP had an impact on the performance of manufacturing in South Africa?

MANUFACTURING SECTOR HAS UNDERPERFORMED

South Africa's economy has undergone noticeable structural changes since 1970s with the tertiary sector (which includes services) expanding as production in the primary sector (agriculture and mining) declining. The change in the structure has been in line with global trends, though in the past five years the economic structure has remained relatively the same with the tertiary sector dominating economic activity. The fastest growing sectors between 1994 and 2014 were telecommunications, financial services and retail. The share of mining and quarrying in the GDP grew from 7% in 1994 to 10% of GDP by 2012 primarily due to booming global commodity prices (while mining output decreased slightly over the period), this subsequently fell to 7.5% in 2014 due to declining commodity prices. The manufacturing sector is particularly worrying, having decreased its share In GDP from more than 20% in 1994 to around 13% in 2013 with related decreases in proportionate employment in manufacturing.

Since 1994, manufacturing firms have been successful in enhancing their international competitiveness as evidenced in the marked increase in exports. However, the contribution of the manufacturing sector to growth and employment creation has been disappointing (see Figures 1 and 2). The NIPF and successive IPAPs have consistently stressed the manufacturing sector's vital role in supporting dynamic employment and growth in the economy. It has also emphasised the need to frame and drive industrial policy with a particular focus on high value-adding sectors that embody a combination of relatively high employment and growth multipliers.

But what does the real story of the South African manufacturing sector tell us? As alluded to, industrial policy envisages the manufacturing sector as a key growth and employment driver, but internationally the sector is no longer a major source of employment creation. Data also show a negative trade balance for the entire economy since the second quarter of 2002, with employment having been stagnant and employment in real terms declining since 2003 (see Makgetla and Dicks, 2014). The performance of the manufacturing sector has been especially worrying post-2008 (see Figures 1 and 2).

MANUFACTURED EXPORTS HAVE INCREASED

Exports of manufactured goods are an additional source of aggregate demand for producing firms and manufactured goods constituted around 52% of the

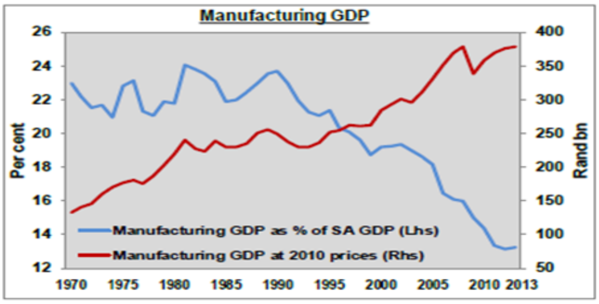

Figure 1 and Figure 2 (above) and Figure 3 (right)

Source: the dti (2015: 16)

merchandise export basket in 2013, up from 41.2% in 1994 (see Figure 3). The main manufactured export product categories are machinery and equipment, motor vehicles (including components for auto assembly), refined petroleum products and other chemicals. Noteworthy is that government assistance to these sectors has been key to developing export capabilities through, for example, historical state ownership, incentives such as MCEP, 12i, the Motoring Industry Development Programme/ Automotive Production and Development Programme, financing from the IDC, and crucially, FDI.

NIPF AND IPAP REVIEWS MAY CONTAIN VALUABLE LESSONS

What is evident is that the manufacturing sector (although growing) has not performed to expectation, compromising key strategic objectives of economic policy in South Africa, especially on the jobs front.

The IPAP (now in its seventh iteration with annual revisions) continues to provide targeted support for the manufacturing sector., However, it has been accepted that industrial policy formulation and implementation has to be an adaptive process, as can be seen by the evolution of industrial policy implementation outlined in this study. As with all experiential learning, it is crucial to review policies so as to improve their implementation and impact by continuous learning and adjustment.

The 15 and 20 year reviews (Hanival and Rustomjee, 2010; Rustomjee, 2013) demonstrated how industrial policy is increasingly impacted by activities that are beyond the influence of the dti, hence policy coherence and alignment is crucial to ensure industrial policy's successful implementation, especially when economic growth and development are dependent on multiple factors (and actors including specifically the dialogue and interface between the private sector and the government). The NIPF was not intended to stand alone, hence the alignment of economic policies (e.g. trade facilitation, competition policy, small business development, investment promotion and facilitation, higher education, infrastructure development and macroeconomic policy) becomes critical, especially as some of these policies are driven and implemented by different agencies and government departments – some of which did not exist when the NIPF was developed.

With a mandatory review of the NIPF and its core underpinnings now due, and given the drastically altered economic climate, there is a need to revisit and review the NIPF as was formulated initially and IPAP as is being implemented in its current form so as to optimise their implementation and impact on, among other objectives, ensuring inclusive industrial development in South Africa.

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