



Localisation and industrial policy

TIPS Development Dialogue

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What it is

- Localisation seeks to replace imports of
 - intermediate and capital goods used for export production and infrastructure
 - final consumer products
- Instruments:
 - Tariffs, but also
 - Changes in public and private procurement systems, and
 - Measures to address supply-side constraints.

Logic:

- SA needs to diversify away from commodity dependency
- Emerging local producers can become competitive if
 - Local demand is adequate, and
 - They address supply side constraints and inefficiencies – but that may take time
- Imports indicate demand – but risk vicious cycle where imports shut out local producers before they can become competitive

- Difference from classic import substitution
 - Not just final consumer goods
 - Tariffs are not the main instrument – rather look to local procurement by public and private sectors
- Increased role for government departments, retailers and downstream manufacturers
- How to manage rents along the value chain?

Blockages

- Initial price premium
 - How much to pay to support infant industries?
 - Function of
 - Time required to catch up
 - Production costs and quality relative to imports
 - External benefits
 - Faster delivery, able to take local/regional needs into account
 - Job creation
 - Long-term industrialisation
 - Negative externalities from reduced access
 - Impact depends on the product
 - A price premium costs society more if it applies to vaccines or solar panels than if it applies to luxury cars or toys
- Incidence varies by group
 - Price premium is immediate and concrete for government departments, businesses and ultimately consumers
 - Benefits down the road from more diverse, dynamic, equitable and jobs-rich economy – often diffuse and externalised
- Risk management
 - No guarantee that producers will in fact become competitive
 - When to give up and when to persist?
 - Need to accept some failures and costs – difficult in current audit system
- When is it worthwhile to pay more for producers that will never become competitive?

The regulatory system

- Tender specs often unnecessarily exclude local producers
- Tenders often have tight deadlines, so local producers do not have time to gear up
- They are often hard to find
- Procurement of most products, especially consumables, are split across departments and unpredictable

- No mandated points for local procurement
- What to do if
 - Importers are Black owned, township based or small, and
 - Local manufacturers are not empowered?

- Procurement officers often don't know if a product is imported or not
- Higher risk for individual officials because no recognised methodology to show that benefits justify higher price
- Regulations and limited capacity make it difficult to cooperate with suppliers

- Departments pay price premium from their own budget, even if industrialisation is not part of their mandate

Some ideas

- More consistent engagement between dtic and supply chain managers in public sector
- Aims:
 - ensure adequate notice of procurement
 - consolidate and systematise across agencies so as to ensure consistent demand
 - coordinate with supply-side support
- Needs platforms for major procuring departments across the spheres

- Stronger guidelines to avoid excluding local suppliers unnecessarily
- Guidance on specs, timeframes and advertising; dtic to maintain database of potential suppliers; hotlines; others?)

- Clarify how to weight localisation compared to other objectives – e.g. in APPs
- Requires ability to track import share, which in turn needs new systems and capacity
- Develop standardised cost-benefit techniques

Meet any price premiums from industrialisation funding rather than departmental budgets



Benefits, costs, risks

- Benefits

- More income for local producers
- Greater production and job creation
- Over time, improved competitiveness while moving up the value chain, promoting faster and more dynamic growth in the long run
- R&D geared more to domestic and regional needs
- Shorter supply chains

- Costs

- Consumer prices and access to government services – how to ensure progressive impact?
- Lose access to cutting edge and branded products
- Supply-side support costs (incentives, infrastructure, etc.)

- Risks

- Local production fails or never become as competitive, so just build in higher costs for the entire economy
- Lobbying leads to measures that protect upstream rents and high costs on basic necessities
- Excessive delays as local producers gear up leads to shortages
- Corruption



Re a leboha!