



The political economy of industrial policy in SA

V3.

Input to TIPS Development Dialogue

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The problem

- Very little structural change in SA economy since 1994
 - Compared to other upper middle income economies, even if exclude China:
 - Extraordinarily low employment and inequalities in incomes and assets (business ownership, housing, financial)
 - Unusually heavy dependence on mining exports (although diversifying within mining), with fast growth only in auto assembly and horticulture from commercial farms
 - Low levels of tertiary education despite comparatively high expenditure
 - Budget for dtic now at under 0,5% of total government spending, down from 0,9% in 2008
 - Persistent failure to ensure consistent support across the state
- Here explore political-economic factors that underpin these outcomes
 - Look at three industrial policy initiatives since 2019 – the pandemic response, loadshedding and master plans
 - Big divergence in scale and approach underscores systemic questions, especially
 - Priority setting in a deeply unequal democracy with a divided dominant party
 - Balancing demands from established businesses and emerging clusters
 - Effects of global ideological trends
 - Institutional and systemic path dependency

Industrial policy in the pandemic

- Exemptions from lockdown for mining and agricultural value chains
- New occupational safety rules
- Uneven response to business lobbying against restrictions – tourism, alcohol, tobacco
- Used UIF surplus to support extensive support for small formal business to avoid layoffs from UIF surplus
- In mid-2020, funded
 - 4 mn formal workers (a third of total)
 - 500 000 formal businesses (two thirds)
- Special funds also for tourism, culture and agriculture, with uneven outcomes
- Localisation especially for medical inputs
 - Sanitisers, PPE, respirators; later vaccines
 - Helped sustain local manufacturing
 - Reports of waste and corruption but not visibly worse than in other countries, including global North
 - Lack of clarity on when worth it – see vaccines
- New social grant for jobless
- Mid-2020: 3,5 million people
- 2023: 7 million, a quarter of working-aged population
- Arguably attempt to cancel in 2022/3 budget contributed to unrest in July 2022

Load shedding

- Economically devastating
- Twice as high in 2023 as in 2022, which in turn four times 2021
- Lagging SA growth in part due loadshedding

- Official strategy centred on fixing the national grid, with little to support small businesses or households to mitigate impacts or go off grid
- Substantial delays in regulations reflecting strategic disagreements within state
- Progress:
 - Loadshedding down but Eskom output 25% below 2010, mostly due Medupi and Kusile
 - Bigger projects like REIPP largely stalled – 560 MW by end of 2023
 - Rooftop solar from 1GWh in 2020 to over 5GWh in 2023 (around 15% of demand)

Initiatives:

- Treasury:
 - Almost R10 bn in tax incentives for off-grid solar from 2023
 - Only benefits high income households/formal business
- dtic:
 - Address regulatory obstacles to off-grid
 - Disbursed R100 mn and approved R1,6 bn financing for formal businesses to build resilience (go off grid or reduce energy intensity)
 - “Facilitated” 2,2 GWh off grid power

Master plans

Original proposal:

- Well-defined aims for industrial policy
- Prioritise key industries to enable scaled up support
- Close collaboration with industry stakeholders – more important than published document
- Evidence-based approach
- Increased resourcing and alignment across the state

- In practice:
 - 11 published master plans as of end 2023
 - Unclear aims (especially balance between promoting new clusters and sustaining existing producers)
 - Industries apparently chosen because in crisis or where established capacity – some tiny; core industries excluded (chemicals, capital goods, most services); increasingly niche products
 - Government emphasis on setting targets for incremental growth in existing business and for black ownership
 - Agreements seem driven by established business
 - Prioritised protection, local procurement and improved government services, rather than exports or cost drivers
 - Almost no new product lines and/or producers to step up job creation or meet needs of working-class communities
 - Several include measures that protect established business at the cost of emerging clusters and working-class households
 - No new systems for either
 - Obtaining and using evidence
 - Promoting alignment across the state
 - Scaling up resourcing (which would be hard to argue for given incremental agreements)
 - Ultimately, both industries and proposals are too small to step up national economic growth or job creation

Explaining disparate responses

International paradigms

- The pandemic
 - Radical responses in global North
 - Focus on working people and small business
 - Fiscal risks
 - Localisation of healthcare inputs
- Loadshedding and industrial policy
 - Local, incremental crises
 - No one to copy – harder to take risks of innovative and disruptive solutions

Contested aims

- Reconstruction vs modernisation
 - In East Asia, moving smallholders into light industry with rapidly growing world and regional demand
 - SA more like petrostates with flat demand, relatively small population, and mostly low-income region
- Extensive vs intensive growth
 - SA industrial policy focused on upgrading competitiveness and technologies, now for localisation as well as exports
 - Won't solve jobs deficit unless very rapid growth in demand or big shift to labour-intensive industries

Opposition to change

- Structures of power and voice
 - Pandemic response burdened UIF financial managers, tax payers and importers – latter are broad and diffuse groups
 - Master plans effectively gave voice mostly to established business
- In a democracy, industrial policy cannot build support unless it visibly benefits the majority

Decision-making systems

- Contestation between political and economic constituencies/power reflected in divisions in ruling party (coalition may be even worse)
- Top-down governance structures – “service delivery” rather than mobilisation
- Inadequate conflict resolution systems within state
- Consultative structures effectively empower established business
- Decision-making systems biased toward established producers

Implications

- Industrial policy will remain weak unless it has a defined coalition of support in both the economy and political constituencies
- How to ensure adequate concern for interests of historically excluded?
- Need to be more explicit about:
 - Relative benefits for political as well as economic stakeholders (established business; emerging business; workers; jobless)
 - Risk management as inevitably disruptive
 - Managing costs to reduce political and social opposition
- Need to re-think engagement and administrative/regulatory systems to
 - Get a better balance between supporting established business and promoting new clusters
 - Support mobilisation and agency especially for historically excluded
 - Secure alignment and manage disputes within the state



Re a leboha!