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Briefing Note: Understanding localisation

Localisation has become a buzzword in industrial policy in South Africa, appearing in departmental strategies, Parliamentary debates, and National Economic Development and Labour Council (NEDLAC) agreements. For most people, however, it remains poorly defined, although the Department of Trade, Industry and Competition (the dtic) has published some useful guidelines.[1]

The policy of localisation effectively uses trends in imports to signal when demand would justify local production if it can become competitive. Demand could be from export industries, with localisation applying to inputs of all kinds, from commodities to semi-manufactures. It could also be from final consumption regionally or locally.

In this understanding, localisation supersedes the often unnecessarily rigid distinction between export-oriented and import-substitution industrialisation. Both these strategies have core weaknesses. On the one hand, import-substitution industrialisation historically focused on final consumer goods, such as clothing and cars, rather than capital equipment and intermediate inputs. As a result, local manufacturing could end up just assembling imported inputs, with only limited local value add, technological sophistication, and job creation. On the other hand, export-oriented manufacturing strategies often ignored the need to build competitiveness by initially supplying local and regional markets. Typically, developing economies can only enter direct competition with long-established international companies in commodities. An initial focus on closer markets, where local companies have a built-in advantage, can lay the basis for greater competitiveness over time.

Effective localisation strategies must start by identifying the constraints on local producers that make it harder for them to compete with foreign suppliers. These constraints may include, for instance, inadequate information about market opportunities; high-cost or poor-quality infrastructure, inputs and/or skills; lack of access to markets at home and abroad, for instance because they cannot get into the relevant retail chains; and prohibitive initial investment costs. In all these areas, the government can promote competitiveness and build local markets, including through local procurement, without raising prices for domestic consumers. That said, in the case of luxuries and semi-luxuries, tariffs may be appropriate to build local capacity and create jobs.

A core challenge to the localisation strategy, then, is to identify opportunities, based on analysis of import data (see the TIPS Import Tracker and Import Localisation and Supply Chain Disruption studies for examples), and to find ways to take advantage of them without unduly burdening especially working-class households and smaller businesses. Ideally, the process should centre

[1] See the dtic. Policy Statement on Localisation for Jobs and Industrial Growth. 18 May 2021. Accessed at: http://www.thedtic.gov.za/wp-content/uploads/Policy_Statement.pdf in June 2022.

on cutting input and logistics costs and improving efficiency, not on protecting domestic markets or raising procurement burdens on government agencies.

While localisation is a valuable tool for inclusive industrialisation, it is not a panacea. Basing industrialisation on import trends alone may lead policymakers to miss opportunities to innovate, especially to meet the needs of working-class households and to address environmental imperatives. For instance, South Africa does not import e-bikes or motorcycles on a mass scale, but local production of low-cost versions could go far in improving mobility for lower-income families. Similarly, the mass roll-out of solar heaters for township homes in the early 2010s brought hot water to many for the first time – but they did not displace imports at all.