

## Briefing Note 2: TIPS report on localisation

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The localisation strategy has become a leading strand in the industrial policy approach adopted by the Department of Trade, Industry and Competition (the dtic). TIPS has recently published a report that explores the conceptual underpinnings of the strategy as well as its practical implementation. The report aims both to assist practitioners in determining when localisation makes sense, and to indicate changes in procurement systems to promote better outcomes. (See [Localisation and industrial policy: Scopes, debates and instruments](#)).

Localisation uses demand for imports as an indicator of where domestic production may be justified. In contrast to classic import-substitution industrialisation measures, it relies not on tariffs alone, but also on reforms to public and private procurement systems, and measures to address supply-side constraints. Tariffs should be used strategically, and not as standard practice. Moreover, unlike standard import-substitution strategies, localisation does not focus on final consumer goods almost exclusively. It also targets capital and intermediate products, including in export-oriented value chains, as well as services.

Localisation strategies essentially derive from two arguments. First, they suggest that both public and private procurement policies are effectively biased against local suppliers. Second, they draw on the infant industry approach. In this view, local producers often need public support for years, even decades, before they can compete with long-established foreign suppliers. That support may include protection of local markets or payment of a price premium for domestic products, as well as supply-side assistance such as targeted infrastructure and training.

In this framework, the core question become when the cost of state support is justified by the benefits of diversifying the economy, increasing local production, and creating employment. Localisation can also benefit consumers by producing goods that are designed for local needs and tastes and by shortening supply chains.

The first step is to understand and address the core blockages to local procurement, and then to identify when the costs of overcoming them outweigh the potential benefits. These costs may take the form of:

- Higher prices or worse quality for consumers, which is more problematic if they affect basic goods and services such as staple foods or medicines;
- Supply-side measures aimed at assisting local producers to become more competitive; and/or
- Reforms to long-standing procurement systems.

A core challenge in the public sector is that government agencies are expected to meet the cost of localisation from their own budgets, even if their mandates do not include industrialisation. This can become a quandary for departments like health and education, which have limited funds to meet pressing human and social needs.

Possible reforms to public procurement systems include establishing platforms for major procuring departments to engage with the dtic on potential areas for local suppliers and ways to support them; requiring that specifications do not unnecessarily exclude local suppliers, for instance by specifying brand names; requiring government officials to prioritise localisation compared to other objectives (for instance by including it in departmental KPIs); establishing a standardised cost-benefit system; and funding price premiums, if any arise, from industrialisation funding rather than departmental budgets.