TIPS
TRADE & INDUSTRIAL POLICY STRATEGIES

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Towards a reconstruction programme

OVERVIEW

The COVID-19 pandemic has dealt a body blow to the global economy, and South Africa is no exception. Recovery will not succeed, however, unless it addresses the long-standing blockages to inclusive growth. That in turn requires both immediate efforts, to minimise the economic impacts of the pandemic even while it still rages, and longer-run strategies to diversify the economy away from mining and to ensure greater equality in education, workplaces, and access to assets. These kinds of strategies inevitably require innovation and consequently entail risks, as well as running into resistance from the beneficiaries of the status quo. But South Africa will not achieve either higher growth or social cohesion unless it does more to promote a more inclusive, diversified and equitable economy. This policy brief reviews the short- and long-run impacts of the pandemic on the economy, followed by proposals for moderating these impacts while laying the foundations for faster, more equitable and more inclusive growth after the pandemic ends.

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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1. A PHASED RESPONSE TO THE COVID-19 DOWNTURN

The COVID-19 pandemic has profoundly changed both the global and the national economy. It emerged as South Africa had already faced slow growth, with six months of economic contraction as of December 2019, in a fragile global environment. The first quarter 2020 deepened the recession in South Africa as China and then the global North went into lockdowns. In the second quarter, South Africa itself faced the pandemic's full impact. As a result, the South African Reserve Bank forecast in July 2020 that the economy would shrink by 7,3% for the year as a whole.

A strategic response has to take into account the inherent phasing of the pandemic's economic impacts.

1. In the short run, the pandemic brought severe limits on economic activity both at home and abroad, resulting from individual efforts to avoid contagion as well as public health regulations to slow its spread. Experts are hopeful that these supply-side constraints will dissipate by the middle of 2021, as more effective treatments, prophylactics and vaccines become available.
2. After the end of the pandemic itself, the recovery programme will need to address the lingering impacts. On the demand side, households, businesses, municipalities and national governments will have reduced incomes and likely deflated assets. On the supply side, industries and trade will have to rebuild disrupted relationships and systems. Recovery seems likely to take three to four years, depending on the industry. The Reserve Bank expects the gross domestic product (GDP) to return to 2019 levels only in 2023.

The short run impacts of the pandemic on the economy include:

- A sharp fall in household incomes due to higher joblessness, reducing demand both in South Africa and internationally;
- The closure of many small businesses that could not survive the shutdown and lower demand, while most of the survivors face deep liquidity constraints;
- Downsizing or even liquidation for many large companies that were in a weak position before the pandemic (e.g. Sasol, AMSA, Edgars, Massmart, SAA);
- A reduction of around 30% in municipal revenues for 2020/21, which will make it harder to maintain and extend infrastructure for industrial sites, logistics and households;
- Constraints on national government's spending on programmes as a result of high debt costs and lower revenues;
- Lower prices for South Africa's main commodity exports in dollar terms, except for gold, and a 20% to 30% decline in demand for cars, its main manufactured export; and
- Volatile international capital flows, which lead to substantial fluctuations in the value of the rand and precious metals.

The continued failure to control the pandemic in the United States, the largest economy in the world, is likely to add to the burden on the global economy.

In this context, this policy brief identifies key strategies and measures:

1. To bolster economic growth as far as possible while the pandemic persists, and
2. To lay the basis for a more dynamic and equitable recovery after the pandemic is controlled.

Ensuring that the recovery lays the basis for a more inclusive and industrial economy necessarily requires stepping up strategies to broaden economic participation. Given slow growth, it inevitably entails stronger efforts to secure more equitable allocation of economic power and rents. This kind of move will face resistance, mostly in the form of intense lobbying and legal actions by businesses and individuals who benefit from the *status quo*. For the recovery strategy to succeed, it has to build in capacity to manage the inevitable opposition.

2. THE ECONOMIC IMPACTS OF THE PANDEMIC

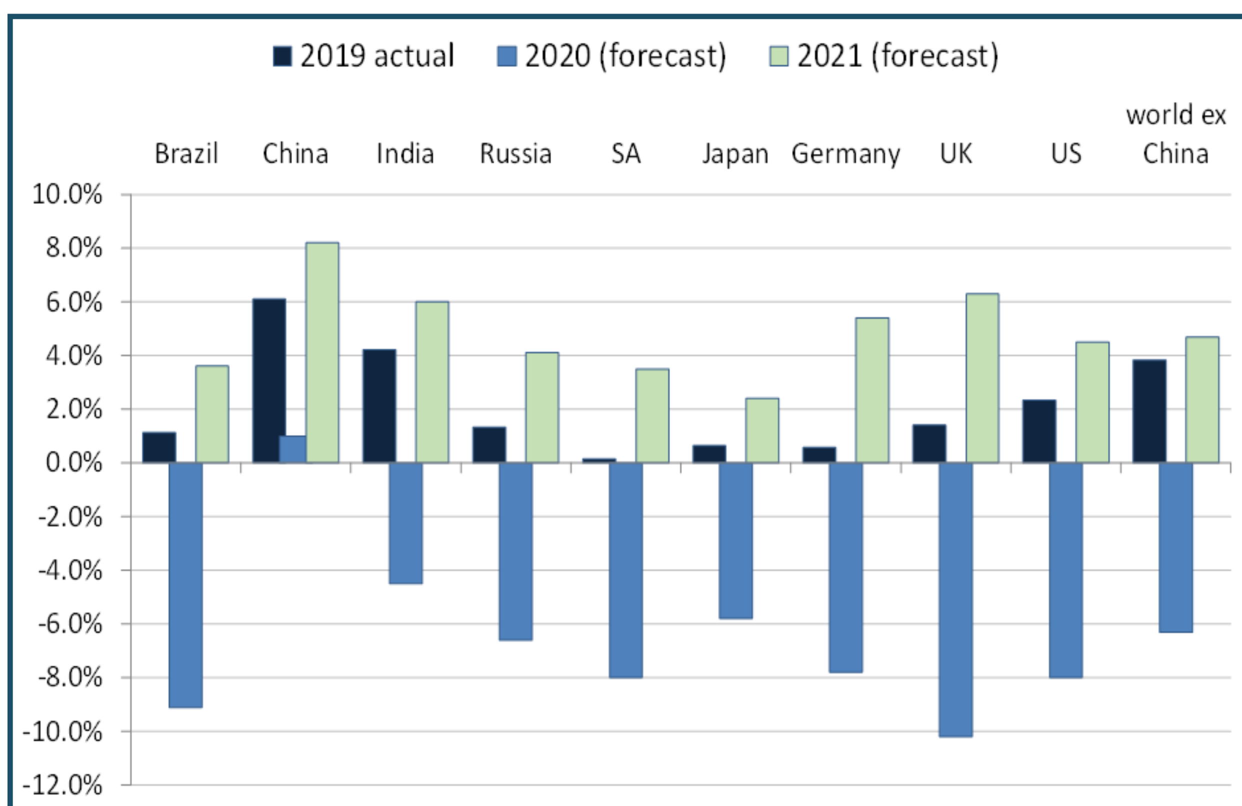
This section summarises some of the main impacts of the pandemic on the global and national economy. It then outlines the long-standing structural issues that led to slower growth in South Africa from 2015.

2.1. The COVID-19 depression

As Graph 1 shows, the pandemic is expected to bring about an economic contraction internationally. Economies in the US and Europe are expected to shrink by between 5% and 7%, while growth for China is forecast at around 1% — its slowest rate in over 20 years. The downturn is much more severe than in the global financial crisis in 2008/9.

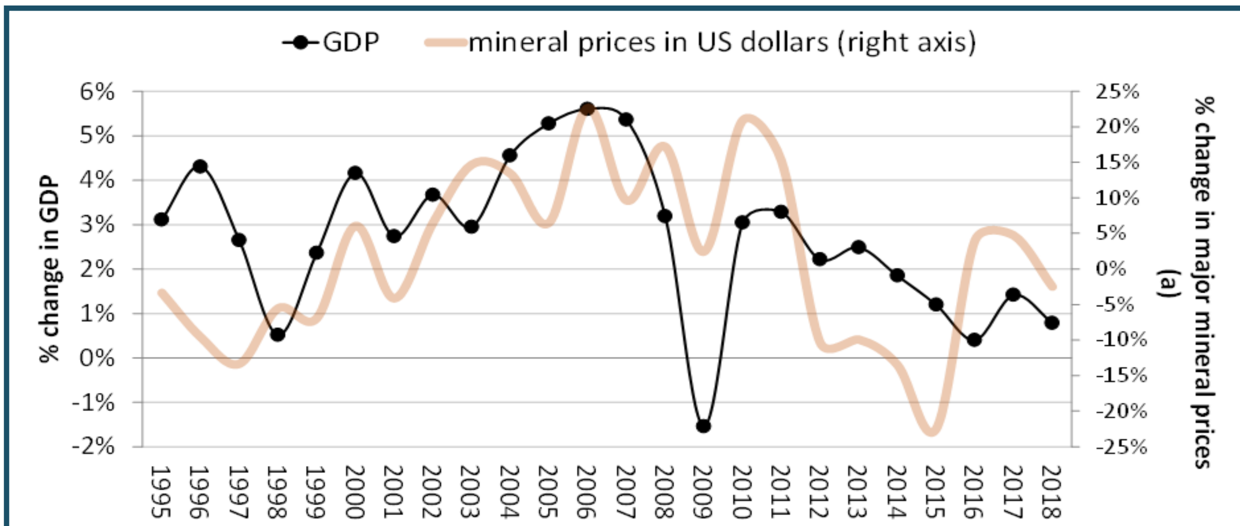
A central question is how fast demand and supply will revive once the pandemic is over, which realistically will only be some time in 2021. Despite th (predictable) optimism of the IMF's forecasts for 2021, most analysts expect the world economy will not just bounce back. In part, this is because of lingering effects from high job losses, which have led to a step down in household incomes and assets that will not disappear even after the pandemic is controlled and employment improves. In part, it reflects the disruption of production systems, as many businesses close down or downsize, and trading relationships take time to recover. In this context, the continued failure to control the pandemic in the United States, the largest economy in the world, is likely to add to the burden on the global economy. In contrast, China and lower-income countries in Africa seem likely to rebound faster, and Europe is in a better position than the US.

Graph 1. IMF growth forecast for major economies and South Africa as of June 2020



Source: IMF. World Economic Outlook. Update from June 2020.

Graph 2. Annual percentage change in GDP compared to annual percentage change in international price of exported metals, ores and coal



Note: (a) Trade-weighted index of prices for coal, iron ore, platinum and gold. *Source:* For GDP, Statistics South Africa; for prices, Index Mundi/IMF commodity prices.

2.2. Structural challenges in South Africa

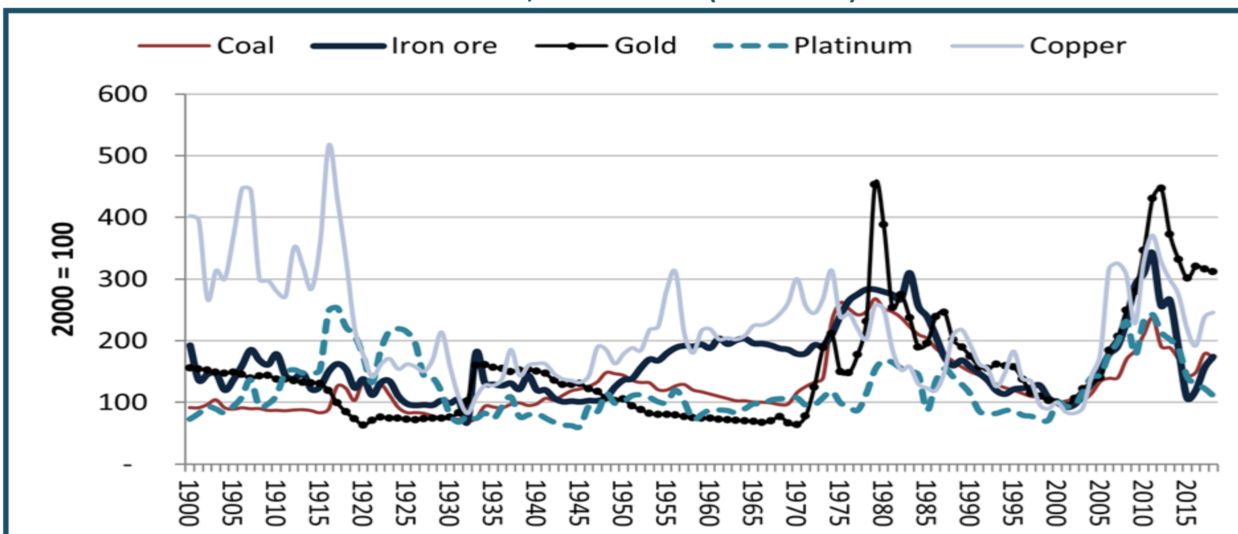
The South African GDP is expected to contract by over 7% for 2020, although forecasts vary. The economy was in a recession in the second half of 2019, even before the pandemic. An effective recovery and reconstruction strategy needs to address the structural factors behind the slowdown.

Falling export prices

The end of the global commodity boom in 2011 was the central cause of the slowdown. It saw a gradual decline in growth rates especially from 2015. As Graph 2 shows, GDP growth in South Africa essentially tracks the prices of its main mining exports. The pandemic brought a further decline in most export prices. As of 24 July, only gold, iron ore and steel had steel had recovered to January 2020 levels, but coal, platinum and aluminium continued to lag behind.

In economic theory, when mining prices and rents fall, business should invest in other industries. In South Africa, this mechanism has largely failed over the past nine years, for various reasons. First, the big mining companies invested, not in other industries in South Africa, but in more profitable mines in other countries. They see mining as their area of expertise, having disinvested from manufacturing following the opening of the economy from 1994. Second, the cyclical nature of global commodity markets means investors linger in mining even with lower profits in hopes of another bonanza. As Graph 3 shows, however, mining prices reached a 30-year peak in real

Graph 3. Index of prices of major mining commodities in constant US dollars, 1900 to 2018 (2000 = 100)



Source: For 1920 to 2015, calculated from Jacks, D.S. 2016. Chart book for "From Boom to Bust." February. Downloaded from www.sfu.jacks.ca in June 2016. Update of David S. Jacks. 2013. "From Boom to Bust: A Typology of Real Commodity Prices in the Long Run." NBER Working Paper 18874. For 2016 to 2018, deflated with US CPI; calculated from Kitco data on gold and platinum; Index Mundi data on iron ore and coal; IMF data on copper cathode prices; and ITC Trade Map data on export unit values for flat-rolled steel.

terms in 2011, which means a full recovery seems unlikely in the short run. Third, since the 19th century, basic government systems in South Africa, from electricity to rail to taxation and licensing, have built in support for mining. It has proven difficult and risky to redirect assistance to new industries.

High upstream prices

Prices of locally produced inputs for South African manufacturers, as well as some staple foods, are typically benchmarked against international prices. As a result, they are often well above the competitive price, which is defined as the cost of production plus a normal rate of profit. In effect, the rents from South Africa's comparative advantage in commodity production are largely captured by upstream producers at the cost of manufacturers and households. In this situation, local manufacturing may reap only limited rewards from depreciation, since upstream producers inflate their prices to match the increase in import prices in rand terms.

The key commodities affected by these practices are iron ore and consequently steel; coal and therefore electricity; wheat and sugar (which also enjoy tariff protection that set a floor under prices when international prices drop); polymers for plastic production; and soya and maize, which in turn push up the price of poultry – the staple meat for low-income households.

Income inequalities

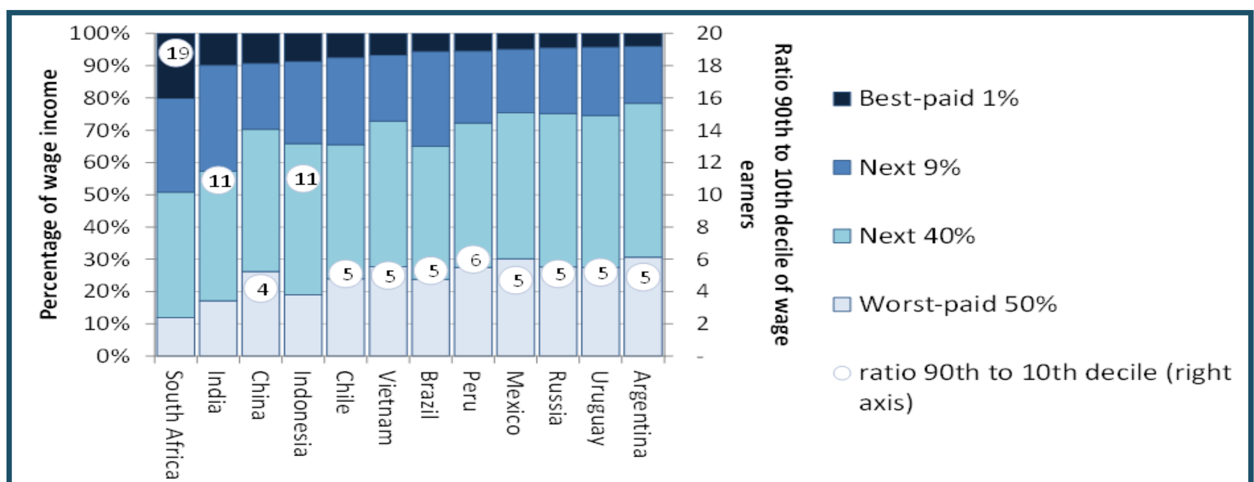
South Africa remains one of the most inequitable countries in the world. International experience shows that deeply unequal countries tend to grow more slowly. Reasons include sharp policy contestation and instability as a result of the divergence in economic interests between different groups; limited demand for basic products and a greater tendency to import luxuries because the high-income group accounts for a larger share of consumer demand than in more equitable countries; challenges around providing quality education and healthcare in impoverished communities; and difficulties in financing infrastructure for households that cannot afford to pay for services.

South Africa's unusually deep inequalities result from highly inequitable systems established under apartheid around access to quality education; ownership of productive assets, housing and viable agricultural land; work organisation and the associated pay scales; and household and economic infrastructure.

Since 1994, the state has spent heavily to improve infrastructure and social services for poor communities. Still, deep disparities remain. The challenges include the following:

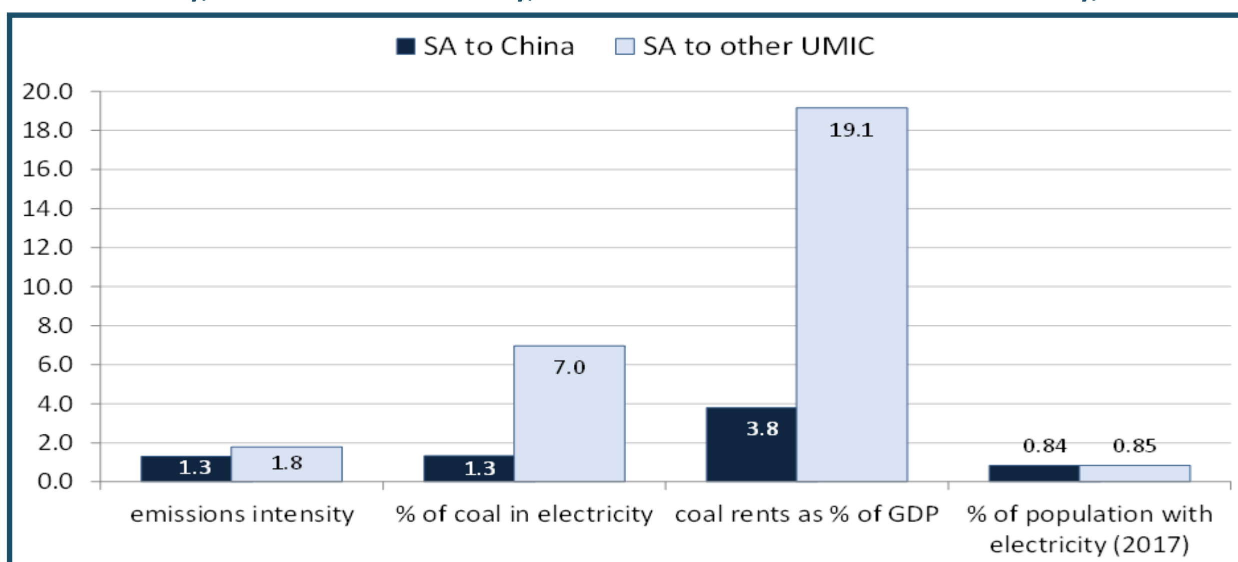
- General education in low-income communities still does not equip school leavers with the skills required in a modern economy. The core competencies comprise facility in English as well as at least one other language; computer use; creativity, design skills and problem solving; the ability to use digitised machinery and tools; and sufficient maths for basic economic transactions. Access to quality education is still determined by where you live (which in practice often means by race) and by household income.
- Lower-income households still lack productive assets and, in rural areas, agricultural land and irrigation, even though the vast majority now own their homes. Moreover, where small businesses do emerge, they face a hostile environment. Many do not have access to the infrastructure needed to engage in the economy, in particular affordable and reliable electricity, broadband, water, sanitation, and transport. The main financial, wholesale and marketing institutions are not geared to supporting small and micro enterprises, especially when they are new and innovative.
- Workplaces are often still characterised by highly hierarchical management and poor communication,

Graph 4. Share of wage earnings in total by income group and ratio of 10th to 90th decile of wage earners, selected countries



Source: Makgetla, N. 2018. "Inequality in South Africa." In, Gilbert Khadiagala *et al.*, *New South African Review 6: The Crisis of Inequality*. Wits University Press. Johannesburg. Calculated from ILO. 2016. *Global Wage Report 2016/7*. Geneva. P 42.

Graph 5. Ratio of South Africa to China and to other upper-middle-income economies for emissions intensity, share of coal in electricity, coal rents and household access to electricity, 2015



Source: Calculated from World Bank, World Development Indicators. Interactive database. Downloaded from www.worldbank.org in February 2020.

which in turn fuels conflict. Both the private and public sector retain the work organisation set up under apartheid, which deskilled the majority while relying on a formally qualified minority. That in turn underpins unusually unequal pay scales by international standards, as Graph 4 shows.

High pay for skilled people is also sustained by inequalities in education and restrictions on skilled immigration.

The climate crisis

The climate crisis has already begun to slow growth in South Africa in two ways: through the limits on the coal economy, and through repeated droughts.

South Africa is far more dependent on coal than most other countries (see Graph 5). In this context, Eskom's inability to restructure efficiently away from coal has contributed to the unreliability and high cost of electricity. In the longer run, it heightens the risk of increased barriers to South African exports as other countries seek to disincentivise emissions.

Sharp fluctuations in agricultural production as a result of droughts in 2015 and 2019 had an outsized impact on the GDP figures, given slow growth in the rest of the economy. Agricultural output fell by 15% from 2014 to 2016, rebounded 21% in 2017, then dropped 11% from 2017 to 2019. In addition, the much-publicised threat of extreme water shortages in the Western Cape in 2017/18 contributed to a downturn in tourism there even before the pandemic.

Conclusions

To secure sustainable growth, the recovery from the pandemic must address the long-standing factors behind slow growth over the past five years. That means promoting diversification away from mining towards manufacturing and value-adding services, in part by ensuring more efficient pricing of commodity inputs for local industry. It also requires systematic efforts to address the root causes of inequality and to sustain the transition away from coal.

3. PROPOSALS

The following proposals distinguish between:

- Opportunities that could have an impact before the end of 2020, assuming that the pandemic continues to restrict economic activities and demand in this period; and
- Programmes to support a stronger recovery in the medium term, which would mostly have tangible effects only after the pandemic ends and the global recovery begins.

3.1. During the pandemic

Four kinds of programmes could help minimise the economic effects of the pandemic:

- Projects to meet new requirements to prevent infection and to replace imports that have become more expensive or unavailable;
- Setting up learning systems to continually improve measures to prevent workplace transmission at industry level;
- Ensuring that unemployment support is provided promptly to people who lose their jobs and that the COVID-19 TERS (temporary employer/employee relief scheme) is extended for people with co-morbidities, which should help sustain household demand; and
- Mobilising savings across the economy to permit more targeted and active expenditure to maintain economic growth as well as to provide relief for low-income households.

Productive projects

Limiting the pandemic necessitates changing behaviour on a mass scale, which in turn increases

> ***Recovery depends in large part on systems to continually identify how transmission occurs in and around workplaces, leading to more effective ways to stop it.***

the need for new kinds of products. In particular, South Africa and the region require mass production of:

- Personal protective equipment and inputs for healthcare; projects to expand production of these products already exist.
- Affordable personal transport such as light motor cycles, e-bikes and tuktuks, so as to reduce crowding around public transport. South Africa could start production of these goods rapidly, but ensuring wide use would require both financial support for low-income users and changes to road-use regulations.
- Digital platforms for e-commerce and the associated delivery services. Three core challenges (and opportunities) emerge. First, most low-income households do not have smart phones, although they can access the internet on their cellphones. Moreover, many cannot afford much data. Innovative solutions are required to make these services broadly accessible. Second, many large, established delivery services do not serve townships or informal settlements. In any case, it would be preferable to encourage local small businesses to provide them. For instance, spaza shops could act as nodal points for payment and delivery. In several areas, local entrepreneurs have set up delivery agencies for their communities. The platform would have to enable an interface with this kind of decentralised system. Finally, most established platforms do not provide space for small local producers. In contrast, in China Ali Baba started off precisely to give smaller businesses access to national and international markets. Obviously it is harder to serve a host of small suppliers, many of which need assistance to access e-commerce platforms and for delivery and payments. Once established, however, the system should promote local procurement as well as competition.
- Platforms for recreational, cultural, educational and skills development services. Again, the aim would be to facilitate access by local producers who otherwise have limited ability to market their services. As with e-commerce, success requires both that potential customers can access affordable data, and that local suppliers can use the platform. In addition, it may require that more households can get smart phones or computers for streaming, for instance through a subsidised leasing programme.

Opportunities also arise out of the disruptions in trade and financial flows resulting from the crisis. The depreciation of the rand and interruptions and delays of imports could open space for local producers of both intermediate and consumer goods.

Producers will likely need assistance so as to quickly identify and take advantage of these opportunities. As a first step, the Department of Trade, Industry and Competition (DTIC) could undertake a fast-track review of where viable opportunities exist. The review could analyse import data and expired patents combined with engagements with businesses, supported by Proudly South African and the Manufacturing Circle. Specific projects could then be defined. The proposed expansion of e-commerce platforms for local producers should assist in marketing once production is underway.

Reducing COVID-19 transmission arising from economic activity

Continued workplace transmission represents a central obstacle to economic recovery. Every time cases show up, workers' concerns and absenteeism increase, often resulting in temporary shutdowns and workplace conflict. Moreover, if workplace contagion cannot be controlled and the incidence escalates further, consumers will continue to avoid going out, slowing economic activity again, while renewed restrictions may ultimately prove unavoidable.

It follows that recovery depends in large part on systems to continually identify how transmission occurs in and around workplaces, leading to more effective ways to stop it.

There are three key opportunities.

First, as soon as possible, the DTIC could set up industry forums to analyse clusters and identify where transmission took place, in collaboration with the Department of Employment and Labour and public-health experts. The forums would recommend improved practices in the industry. For instance, a number of clusters have broken out among retail employees. The question is, at what point in the working day do workers let down their guard and either take off their masks or fail to maintain physical distance? Underground mines have also seen a continued escalation in outbreaks, which might be prevented with better understanding of practices in the cages and at the workplace.

To make this kind of learning system work would require that industry stakeholders consistently report on clusters. Their experiences can then be analysed to see if there are common challenges that need to be addressed. The process would require a secretariat to convene the forums promptly and to develop reporting requirements. Enterprises would likely have to be offered a degree of confidentiality and immunity, or they might be reluctant to admit mistakes.

Bureaucratic processes that delay the spending of funds allocated, despite the deep unemployment crisis and critical need to mobilise communities and encourage solidarity, need to be urgently resolved.

Second, the DTIC could consider working with the Department of Employment and Labour to improve the information available to workers and unions on ways to prevent COVID-19. Currently, misinformation means that cases of COVID-19 in the workplace cause unnecessary disruption while critical steps to prevent clusters are not undertaken. In particular, a review of media reports on workplace infections shows the following.

- Workers often insist that facilities close down for deep cleaning after an infection emerges. Most recent studies, however, suggest that cases are caught primarily through the air, mostly during close contact with infected people, and not from surfaces. From this standpoint, closing down disrupts production but does less for infection prevention than wearing a mask, maintaining distance, and ensuring effective testing and tracing.
- Employers often make people return to work if they have been exposed or have symptoms, but have not yet received their test results. These delays in quarantining lay the basis for further transmission. Employers should have an unambiguous mandate to send potentially infected people into quarantine even before they get their test results. Moreover, employers often do not assist infected workers to get into public isolation centres when they cannot safely self-isolate at home.

Third, the current regulations permit taxis to fill up to 100% on rides of up to 200 kilometres, or around two hours. Even with masks and open windows, this is a high-risk environment for commuters. The DTIC could look into incentives to encourage employers to provide their own transport for workers if at all possible, even if that means hiring taxis on the model used in schools.

Unemployment relief

Financial support for households affected by job and income losses during the downturn in itself boosts demand for basic goods and services, which are more likely to be produced locally. Currently, however, the COVID-19 TERS programme is ending in mid-August, and many companies anticipate downsizing thereafter because of reduced demand. Moreover, historically, many workers have not received normal unemployment insurance promptly. To sustain household demand during the pandemic, it would help if an evaluation were undertaken urgently to see if the UIF will be able to deal with the anticipated demand for its services, so as to address possible blockages in advance.

In addition, the adjustment budget allocated R19 billion for initiatives to establish community-based employment stimulus programmes on a mass scale. These can be used even during the pandemic to provide public health education and to help communities change behaviour to stop transmission, as well as assisting in providing some income relief to poor households and vulnerable individuals. But they need to be activated extremely urgently to reduce the pressures on households, build social cohesion and sustain household demand. Government has invoked disaster management legislation for the public health response, and a similar rapid intervention is urgently required to unlock funds for employment stimulus schemes. Bureaucratic processes that delay the spending of funds allocated for this purpose, despite the deep unemployment crisis and critical need to mobilise communities and encourage solidarity, need to be urgently resolved.

Financing relief programmes

Stalled demand combined with a lack of resources to support business to take advantage of new opportunities constitute central economic challenges during the pandemic. The fiscus, however, faces a sharp fall in revenues as well as increased demand especially for health and safety services. As a result, funding the recovery requires innovative measures to redirect domestic savings. Possibilities include:

- Identifying more developmental uses for surpluses held by the state-run social protection funds (mostly the UIF and the Compensation Fund). This will inevitably require them to accept new kinds of risk.
- Establishing appropriate investment vehicles for retirements funds and financial savings. For instance, the government could issue a dedicated recovery bond, on the model of war bonds, possibly in the form of perpetual bonds or consols. Like war bonds, the bond would be premised on the idea that investors would benefit more by accepting comparatively modest financial returns in order to return sooner to broader prosperity and growth.
- A highly progressive solidarity tax that would ideally be levied on assets rather than income.
- Extension of the holiday on the skills levy and a reduction in UIF contributions to 0.1% of payroll through June 2021. The aim would be to improve business liquidity and increase take-home pay for workers, boosting household demand. The National Skills Fund and many Sectoral Education and Training Authorities (SETAs) as well as the UIF have large surpluses, so the reduction in the levy would not significantly affect their operations.

Obviously, redirecting resources toward new uses means reducing spending in other areas, and

> ***Ensuring that recovery contributes to greater equality involves more complex and broader issues than projects to minimise the impact of the pandemic.***

innovation inevitably brings some risk. That in turn will lead to resistance, which has to be managed. For instance, in the case of the UIF, the financial managers object strenuously to investing the surplus in relief programmes, apparently at least in part because it cuts into their fees.

3.2. Laying the foundations for recovery

Ensuring that recovery contributes to greater equality involves more complex and broader issues than projects to minimise the impact of the pandemic. The pillars of a strategy for more inclusive growth have long been agreed in principle. This section aims mostly to identify gaps and practical interventions to maximise the benefits of:

- The infrastructure programme
- Regulatory reforms
- Measures to promote more equitable pay
- General education
- Public work schemes and township economies

Infrastructure

There is general agreement that infrastructure should be a key element in the recovery package, and that it has to be financed largely through borrowing or through public-private partnerships. To succeed, however, the build programme must:

- Support new industries, rather than reinforcing dependency on the mining value chain, and
- Address the persistent and deep inequalities in access to household services.

A particular challenge is that the pandemic is slashing municipal revenues, mostly for the metros and secondary cities, with an estimated average loss of 30%. Yet these local governments have a core role in maintaining industrial sites, reducing congestion around the ports, and promoting more equitable, dense and efficient urban areas.

Experience shows that private investors and financial institutions tend to prioritise bulk infrastructure funded by revenues from mining projects at the cost of crucial municipal infrastructure. More broadly, path dependency by definition means that many government decision-making systems are inherently biased against the innovative infrastructure projects needed support innovative industries and meet the needs of historically excluded communities.

Given these challenges, it would help to set some key indicators to monitor progress toward developmental outcomes.

The following should be considered.

First, at least 60% of infrastructure spending should go to fund the following projects:

- Upgrading existing industrial sites, with clear standards for the quality and cost of services;
- Addressing congestion around the ports;
- Establishing and upgrading retail, office and light industrial sites in and near townships and informal settlements, with a performance indicator set for serviced business sites per 1 000 households; and
- Upgrading informal settlements and township municipal services as well as providing new housing, supported in part by community-based employment programmes and youth brigades.

Second, in terms of network infrastructure, the following objectives should be prioritised.

- The government should support only relatively small-scale electricity generation with the exception of the infrastructure required to access and utilise gas, in order to maintain flexibility and avoid costly over-build since demand will be highly unpredictable for the next few years.
- To make manufacturing more competitive, rail investment should centre on improving container facilities and securing affordable tariffs for manufacturing industries (in contrast to Transnet's investments over the past 20 years, which have largely centred on providing bulk lines and upgrading port handling for ores and coal).
- Innovative technologies should be explored to expand access to broadband facilities, with the explicit target of increasing access in urban townships to 75% through either mobile or fixed technologies.

Finally, the build programme should aim to reduce the cost and delays in freight transport through the Southern African region, including through improvements in trade facilitation as well as physical infrastructure.

Industrial policy

Industrial policy should be bolstered in four ways: through stronger measures to ensure that local manufacturers pay only competitive prices for locally produced commodities; by establishing more consistent support for local procurement; by prioritising Master Plans for industries that provide scope for more inclusive growth; and by clarifying the role of Broad-Based Black Economic Empowerment (BBBEE).

The Master Plans should be refocused toward industries that can generate employment on a large scale and meet new needs arising out of the pandemic.

A: Competitive upstream prices

The following upstream prices should be moderated:

- Iron ore and steel;
- Electricity;
- Polymers for plastics;
- Wheat; and
- Maize and soya (for livestock feed as well as households).

The DTIC should develop innovative regulations to ensure that where these commodities are sold for domestic use (not export) they should be limited to the competitive price – that is, the cost of production plus a normal rate of return on capital. This will be highly disruptive for many dominant companies, and will therefore require both greater transparency in cost and price setting, and willingness to impose a new price regime.

B: Local procurement

Local procurement incentives and regulations are incoherent and weak in both the public and private sector. Critical steps to strengthening them include the following:

1. For the public sector: Currently, if specifications or tender processes effectively exclude local producers, there is no clear way for the affected workers or businesses to get a hearing. The DTIC should set up and capacitate an easily accessible system to review problematic tenders, including specifications, which can respond promptly and constructively. In addition, every department should have to set a Key Performance Indicator (KPI) for the share of local products in their total procurement of goods. That means National Treasury, the DTIC and departments will have to work together to set up auditable systems to track the share of imports in their procurement. Modern technologies allow for greater transparency in procurement without adding to the administrative burdens on departments. Urgently introducing them would facilitate local procurement as well as helping to limit corruption.
2. For the private sector: Since 2016, the local procurement requirements in the BBBEE codes have been suspended indefinitely. Business claims that they are too onerous to implement. They should be reviewed by the DTIC and, if necessary revised, but then implemented.
3. As noted, efforts to strengthen e-commerce should include a platform that enables government institutions and private businesses to identify local suppliers. At industry level, digitisation of supply chains would also promote local procurement.

C: Master Plans

The Master Plans now constitute the core pillar for reinvigorating industrial policy. They should be refocused toward industries that can generate employment on a large scale and/or meet new needs arising out of the pandemic.

In line with this approach, the following industries should be prioritised; for several, Master Plans have already been initiated.

1. The auto industry.
2. Steel fabrication (centred on bolstering producers downstream from AMSA and Columbus Steel).
3. Food processing, with separate programmes for maize and wheat products and for poultry and red meat (horticulture is a critical subsector but does not need additional support).
4. Appliances and white goods.
5. Low-income personal transport – that is, light motorbikes, bicycles and tuktuks.
6. Digital e-commerce and services (including software exports).
7. Clothing and textiles.
8. Capital goods for infrastructure and mining.
9. Furniture.
10. Hospitality and recreational services, which are highly labour intensive but will take long to return to their pre-pandemic level even with substantial support.

For the Master Plans to succeed, the DTIC must clarify the role of the its sector desks. The desks work best when they can concentrate on monitoring their industries and building relations with stakeholders. That enables them to identify core challenges and respond to them quickly and effectively while promoting implementation of Master Plans. They should not, however, try to identify new products or projects independently, except as provided in the Master Plans or where business requests support in unblocking viable projects. Instead, the DTIC should re-establish a dedicated unit with the capabilities needed to select and support a range of innovative projects using all of the department's levers, including engagement with other departments and spheres of government to unblock delays; industrial finance; and trade support measures.

D: The BBBEE Codes

The BBBEE Codes should be revised to strengthen their support for industrial policy, with a focus on supporting more competitive and inclusive growth, local procurement and diversification.

It is crucial to build township economies – that is, to transform townships from narrow dormitory towns to fully serviced communities, with local outlets for goods and services.

To shape a more predictable environment for business, the Codes should be stabilised for at least a 10-year period. That is, except in the case of local procurement as noted above, government should commit to avoiding any reviews or modifications unless reforms are requested by the National Economic Development and Labour Council (Nedlac) constituencies. Moreover, political leaders and departments should agree that they will rely on the Codes consistently in decision-making, as required by the BBBEE Act. That means they should not introduce new criteria or deviate from the weighting embedded in the Codes.

Pay scales

Unequal pay and work organisation are central factors behind continued economic inequality, conflict and slow growth. In collaboration with the Department of Employment and Labour, the DTIC should therefore initiate a project to promote more equitable workplaces. That would specifically involve:

- Assisting businesses to access expertise in how to reorganise work to support greater equality and career mobility, for instance through Productivity South Africa;
- Promoting unions and employee ownership schemes in order to empower workers; and
- Taking a position on how the national minimum wage should evolve in ways that support greater income equality and promote more productive jobs.

Education

Together with business and labour, the DTIC should develop a clear position on what kind of basic competencies the economy needs from school leavers, including young people who do not finish matric. As noted, the current curriculum often reflects out-of-date assumptions about technological needs, and aims more to prepare young people for university than for immediate employment. Once the DTIC has identified basic competency requirements, it can engage with the Department of Basic Education on how to ensure that all young people, including those from those from poor communities and informal and informal settlements, gain them at school. Obviously, schooling also needs to provide school leavers with the skills they require as citizens, which go beyond what the economy requires.

A similar effort is required for tertiary education, to ensure that graduates have the competencies required to slot into the world of work.

In addition, the DTIC should engage on the role of the SETAs to ensure that they support career mobility for ordinary workers, who start work with at most matric, as well as providing the skills needed for production and for self-employment. Ramping up training as part of an expanded training layoff scheme is going to be particularly critical in the coming months as workers need to be reskilled in the face of massive retrenchments.

Finally, the visa system should be revised to promote in-migration by highly skilled people to reduce South Africa's unusually high premium for highly skilled workers as well as to facilitate foreign investment. In particular, as the National Development Plan proposes, all graduates from South African universities should automatically get a residence permit. In addition, anyone who has a valid university degree, in any field, or an artisanal qualification should be allowed to come to South Africa to look for work even if they do not have a job offer. Foreign direct investors should have a right to bring in middle and senior managers and highly skilled production workers as long as they do not constitute more than half of employment on each level.

Community work and the township economy

Community-based public employment programmes can assist in upgrading infrastructure and housing at community level. They can also mobilise social production through neighbourhood gardens, outdoor markets, and co-ops producing basic goods and services, including education and healthcare.

It is crucial to build township economies – that is, to transform townships from narrow dormitory towns to fully serviced communities, with local outlets for goods and services. Support for township enterprise should be linked to the targeted provision of light industrial, commercial and retail sites.

Trade & Industrial Policies Strategies (TIPS) is an independent, non-profit, economic research institution established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing.

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