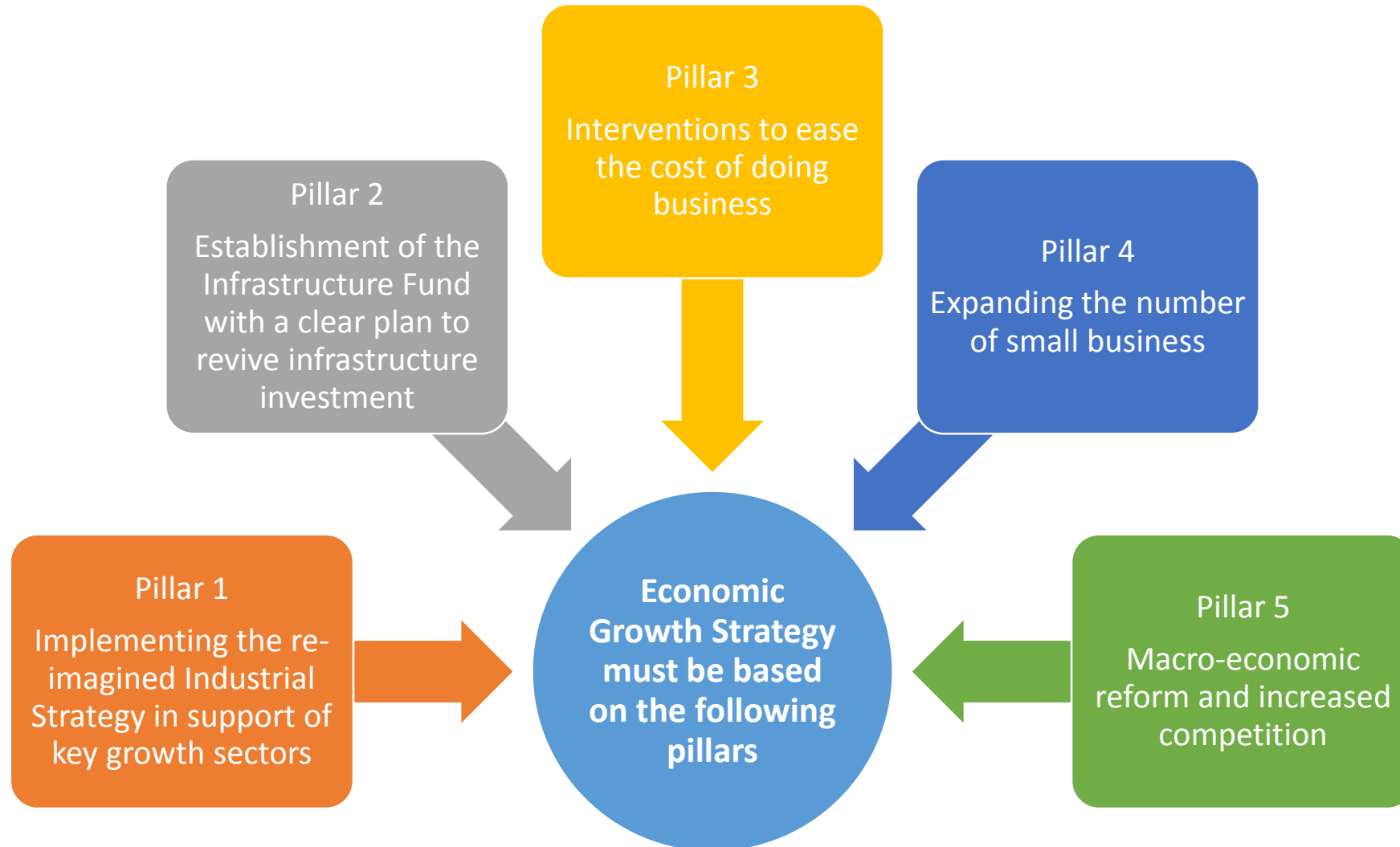


Re-imagined Industrial Policy: Next Steps

4 September 2019

Economic Growth 'Strategy'



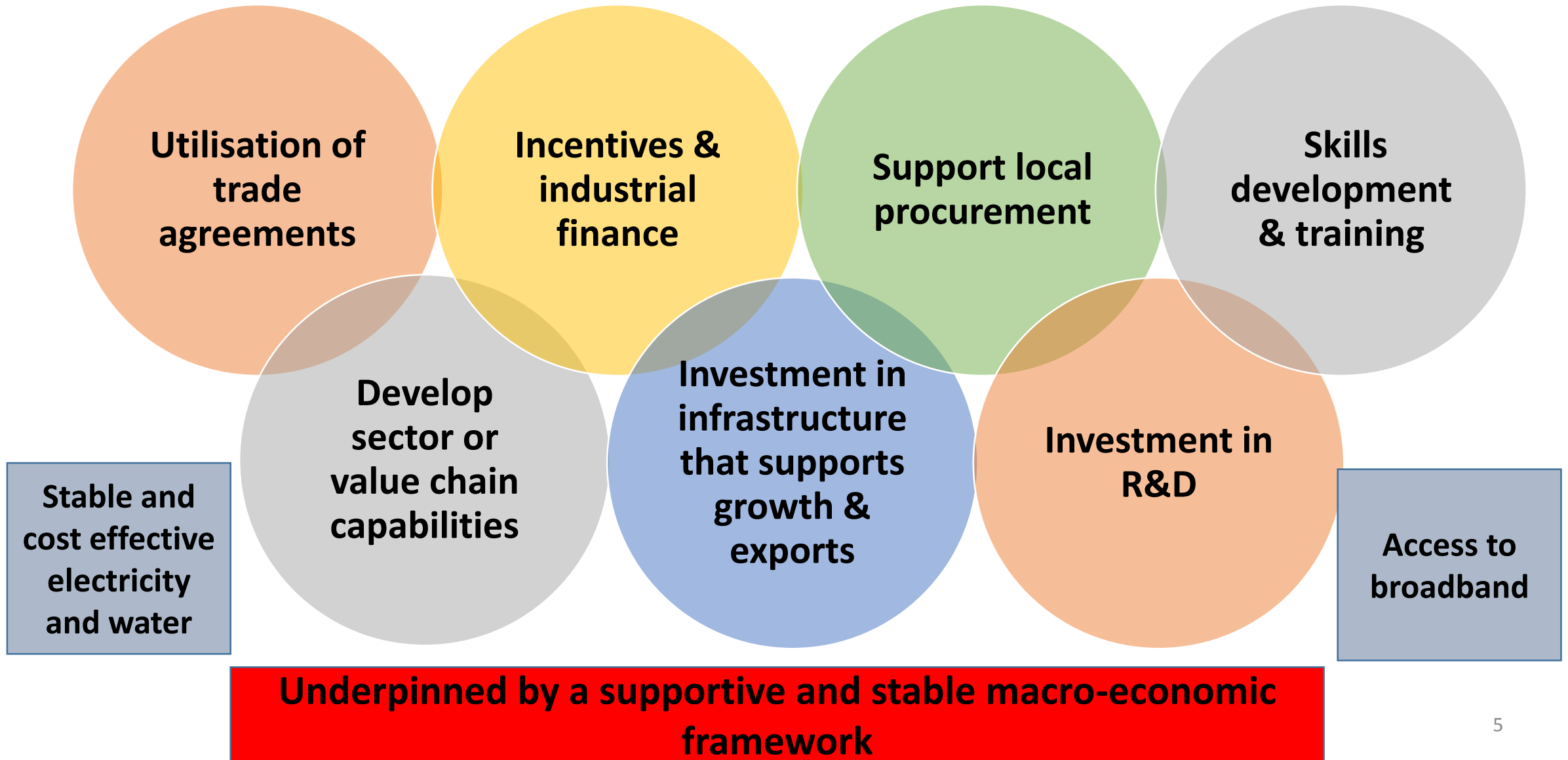
Learning from the Automotive Sector

- **Targeted industrial policy** intervention over decades has made the auto industry SA's most successful & dynamic manufacturing exporter
- Natural **evolution** of the sector
 - The key to the success of the auto programme is government did not seek to change the natural evolution of the programme
 - Continual engagement with stakeholders to align the country's requirements with the sector's requirements
 - Prioritisation of excellence was key as the goal was to continue to be part of the global value chain
- Success from **integrated, responsive, long-term** & very large-scale approach
 - Combination of trade, infrastructure, tax & skills policies, & not just incentives BUT the utilisation of all levers has made automotives a success
 - Continual engagement with stakeholders in the development of sector strategy (compacting)
 - When challenges have emerged there has been a relatively rapid action to address problems collaboratively
- **Advanced industries are critical for industrialisation** but do not only create direct jobs. They require a combination of:
 - Developing equally large-scale programmes for labour-intensive manufacturing & value-adding service industries
 - Continue to support high-tech industries as central to industrialisation, & expand employment to support agricultural value chain & tourism for instance

Learning from the Automotive Sector

- Understanding the impact of **work stoppages and port bottlenecks** in a global value chain
 - Reliability of labour and port availability essential components of productions & establishing a reputation as a reliable supplier
 - Port bottlenecks significantly impacts on export deliveries & on availability of parts
- On-going **investment & upgrade of machinery and skills**
 - On-going skills upgrade based on global standards
 - Machinery upgrades have been an essential part of maintaining position in global value chain
 - Integration of OEM & supplier standards
- Challenge is to get **programmes to scale** (effort must equal outcomes & impact) & don't repeat what doesn't work – have the audacity to change if things don't work
 - Manage risks through commitment but also continual evaluation & responsiveness
 - Clear priorities so that we can mobilise resources & capacity on reach scale
 - Require high level leadership to deal with poor implementation & coordination across government
 - Ensure platform for engagement with stakeholders (compacting is a deal breaker)
- Continuous **assessment, evaluation and adaptation** in the programme

Successful Industrial Policy works with a Combination of Levers



As a result

- In terms of export shares from 1994 to 2017, the most marked increase occurred in auto, which climbed from 1% to 10% of total goods exports (total export value reached over R171bn in 2016)
 - Total export value reached over R150bn in 2016; imports were valued at just over R80bn in 2016
 - By 2017, autos dominated manufactured exports outside of commodity-based products in the mining & agricultural value chains
- Direct job creation is only around 110 000, incl. input production
- Automotive sector median employee earnings in 2016 was R5633 a month, compared to R4000 in the rest of manufacturing & R3300 in other sectors
- Spillovers into technology development are significant both at a local & global levels

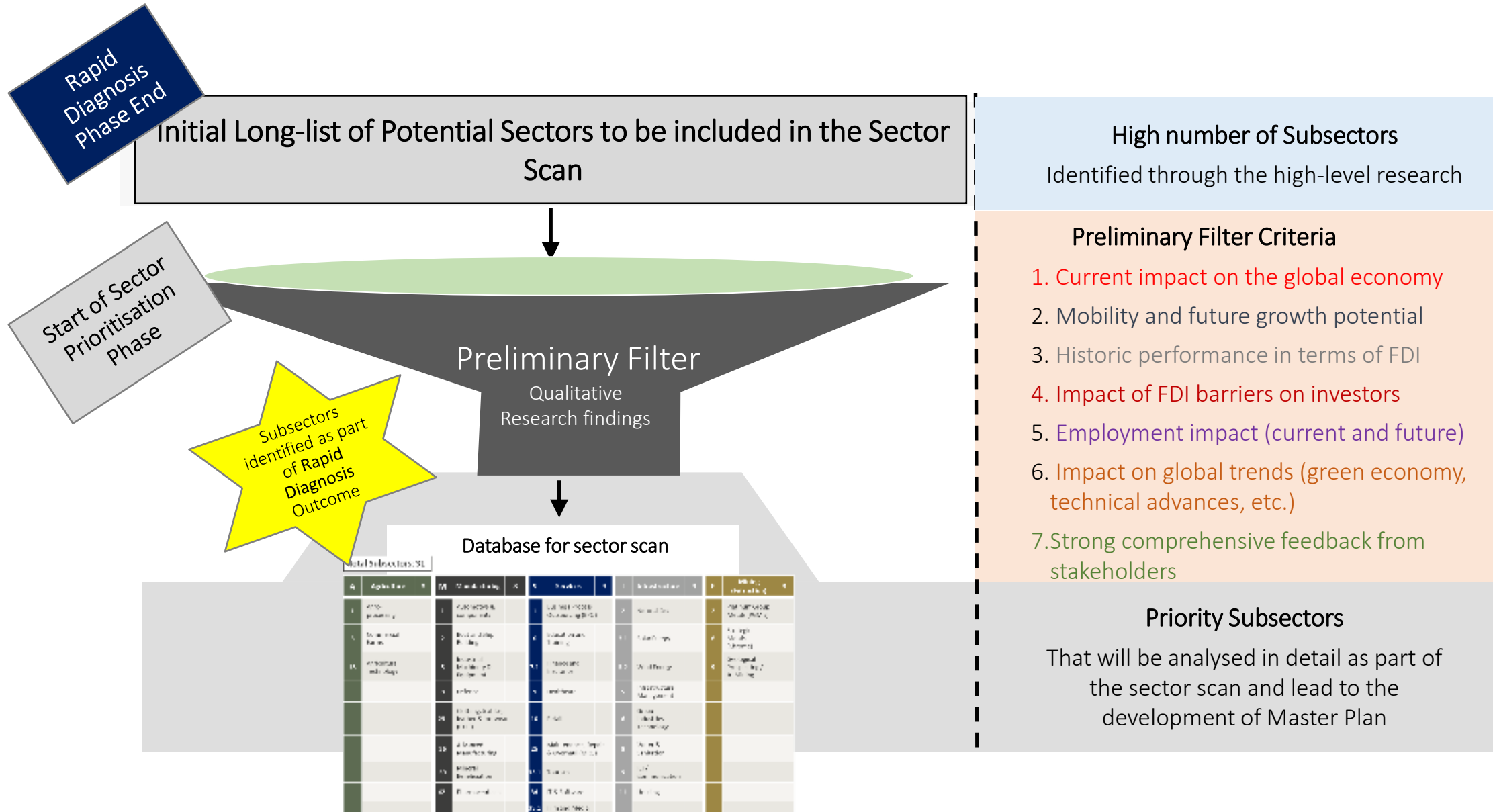
What does it mean to rethink IP?

- Identify **policy objectives**
- A national focus with sufficient **prioritisation** of sectors
 - Prioritisation means that we cannot cover all sectors to the fullest
 - The importance of a value chain approach
- **Coordinating and aligning** our Industrial Policy response
 - Industrial Policy has been considered a “dti issue” with other departments & SOC’s sometimes ignoring localization requirements
 - Industrial strategy must be established as one of the central pillars of the revised economic policy and more strategically focused within the MTSF across government departments, SOE’s and agencies
 - Must be driven from the center of government – Political driven by the President
- A lack of **collaborative approach** with industry & other stakeholders as a prerequisite for sector success – where this has happened the impact has been positive such as Automotives, Tourism, Business Processing Outsourcing as well as in Clothing, Textile, Footwear & Leather
- **Capacity** within and outside the State to implement a re-imagined industrial policy
- **Evidence-based** policy approach with continual evaluation and learning

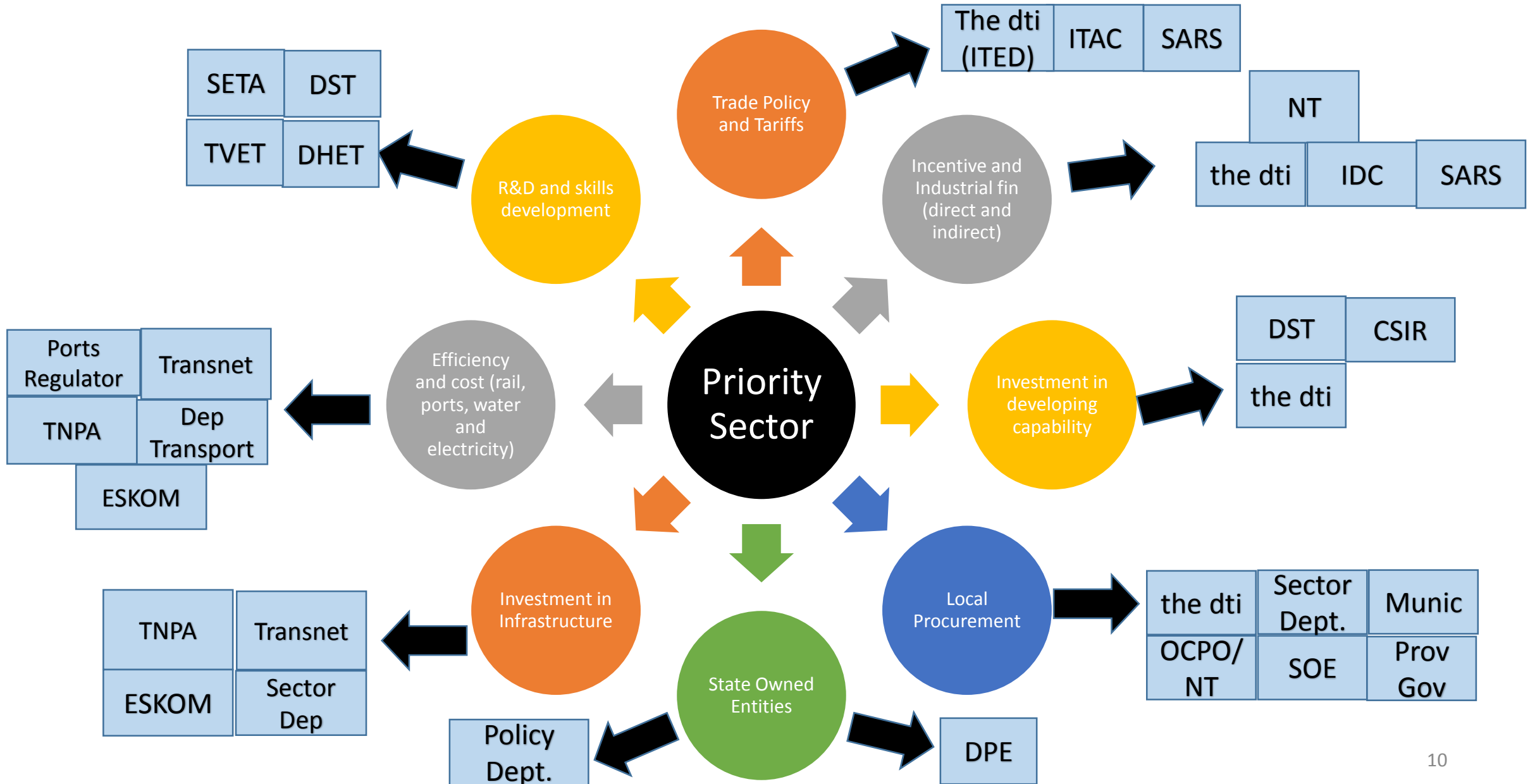
1. Prioritisation of Sectors

- **Policy objectives:** labour intensive growth, exports, capability development etc
- Industrial Sector (Automotives, Clothing Textile Leather and Footwear, Chemicals and Plastics, Energy – Renewables and Gas, Steel and Metal Fabrication)
- Tourism
- High Tech (Digital economy inclusive of ICT and Software Production, Health and Defense Economy)
- Agriculture and Agro-processing (4-5 high value exports)
- Mining (minerals beneficiations)
- Creative Economy
- Oceans Economy

Need a proper filtering criteria?



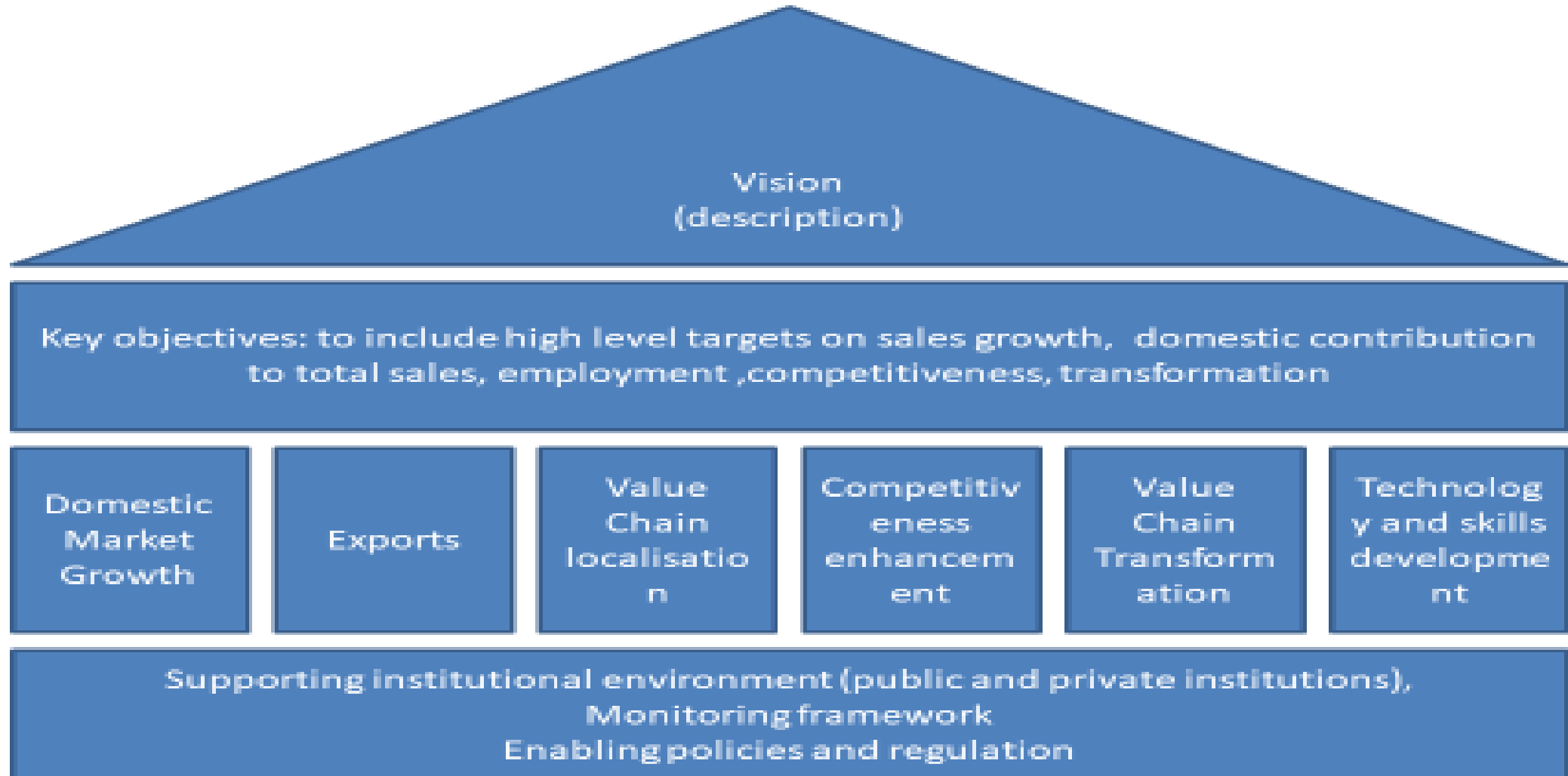
2. Getting the Eco-System Aligned



3. Collaborative Approach

- 13 Departments, 14 SOE's, 25 Agencies, 14 Employer Associations and 15 plus Unions
- Masterplan encompasses policy, research and industry deliverables
- A masterplan is developed by:
 - Comprehensively reviewing the South African value chain's present position and policies
 - Completing an industry SWOT, and drawing lessons from international successes
 - Developing policy and regulation recommendations for government
 - Proposing programmes for collective action (industry, government and labour)
 - Developing development targets for industry
 - Establishing an institutional structure to drive implementation
- Establishment of Industry Reference Group (IRG) and Executive Oversight Committee (EOC) to manage and drive the process

Elements of a Master Plan



4. A continuous learning system

- Must be evidence based
- Development of an extensive monitoring and evaluation system to track commitments
 - Develop systems and not adhoc arrangements
 - Must be able to address blockages speedily
 - Shift direction if needs be
 - Abandon if objectives are not being achieved
- Regular review against outcomes to ensure on track and avoid unnecessary delays – this should be done on annual basis with a major evaluation every 3 years
- Develop strong capacity and delivery units across eco-system to ensure success

Reemphasis of Critical Success Factors

- There is value in having fewer priority sectors for concentration of efforts - distinguish between business as usual and new efforts
- Having clear-cut & targeted outcomes is essential
- Every sector is different and thus Plans must be adaptable & changed if they do not work
- Understand and address factors essential for setting up & scaling up operations to achieve outcome
- Understand and address costs imposed by regulation and inefficiency
- Social Compacting is a critical factor for success