

the dti

THE DEPARTMENT
OF TRADE AND INDUSTRY
SOUTH AFRICA



SOUTH AFRICA'S POST-APARTHEID INDUSTRIAL POLICY EXPERIENCE

Initiative for Policy Dialogue Task Force
11-12 July 2007

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Industrial and trade related policies since 1994: policy and practice

- Key economic policy “statements”
 - Macroeconomic stabilisation (control inflation and fiscal discipline)
 - Trade liberalisation: WTO, EU and SADC FTA’s
 - ‘Supply-side measures aimed at small-medium firms
 - Strong competition policy to facilitate entry of foreign investors, small and black-owned firms
 - New skills development system: skills levy + drawback via Sector Education and Training Authorities (SETA’s)
- **Export led growth and employment creation based on getting relative prices right**

Industrial and trade related policies since 1994: policy and practice

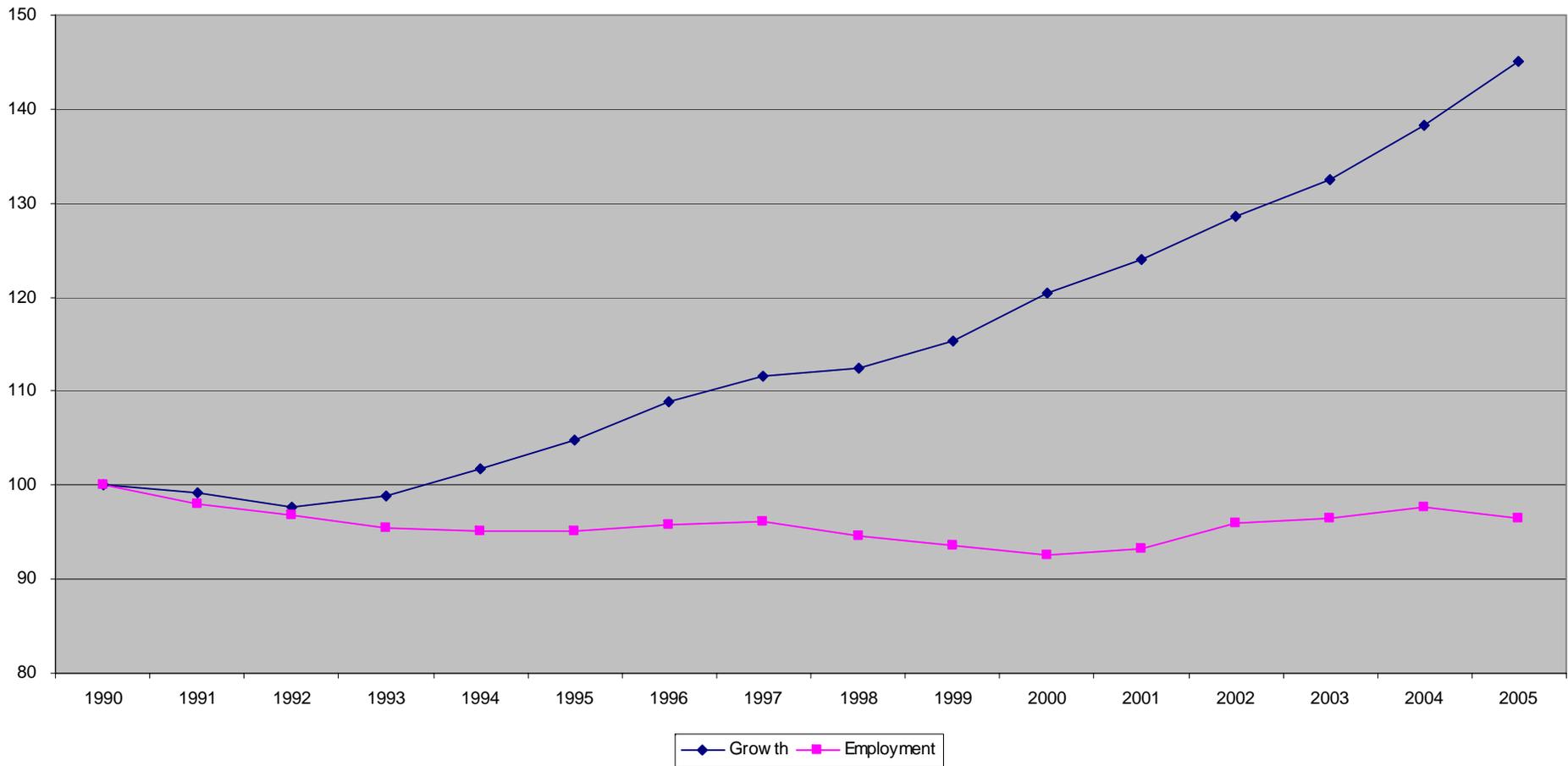
- Actual economic policy implementation
 - Macroeconomic stabilisation (inflation targetting and fiscal discipline) → exchange rate volatility and overvaluation
 - Substantial trade liberalisation except for 'sensitive' sectors: clothing / textiles and automotives
 - 'Supply-side measures' for SMME's weak and dispersed
 - Substantial tax allowances and favourable restructuring arrangements for capital-intensive resource-processing industries (steel, chemicals, aluminium, paper & pulp) Weak enforcement of competition policy
 - Weak enforcement of competition policy

Industrial and trade related policies since 1994: policy and practice

- Actual economic policy implementation
 - Automotive import/export complementation scheme (MIDP)
 - Substantial international marketing support for Tourism
 - Clothing and textiles import/export complementation scheme (DCCS)
 - Underinvestment in physical infrastructure, particularly rail and ports
 - Skills system: collapse of previous artisan system, major challenges with new system
- **Mitigated against any serious manufacturing export and diversification drive**

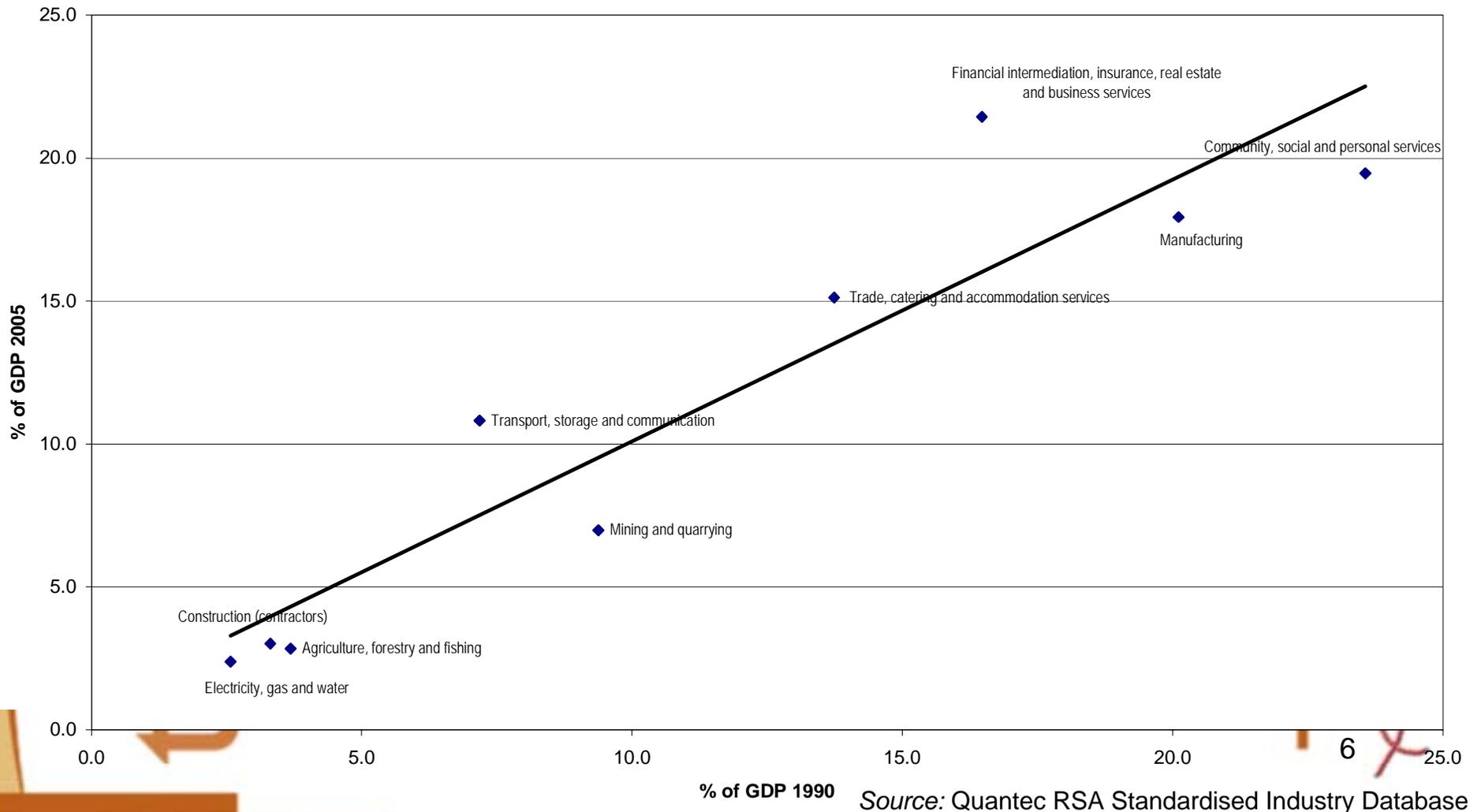
Economic performance

GDP versus employment growth, 1990-2005, index (1990=100)



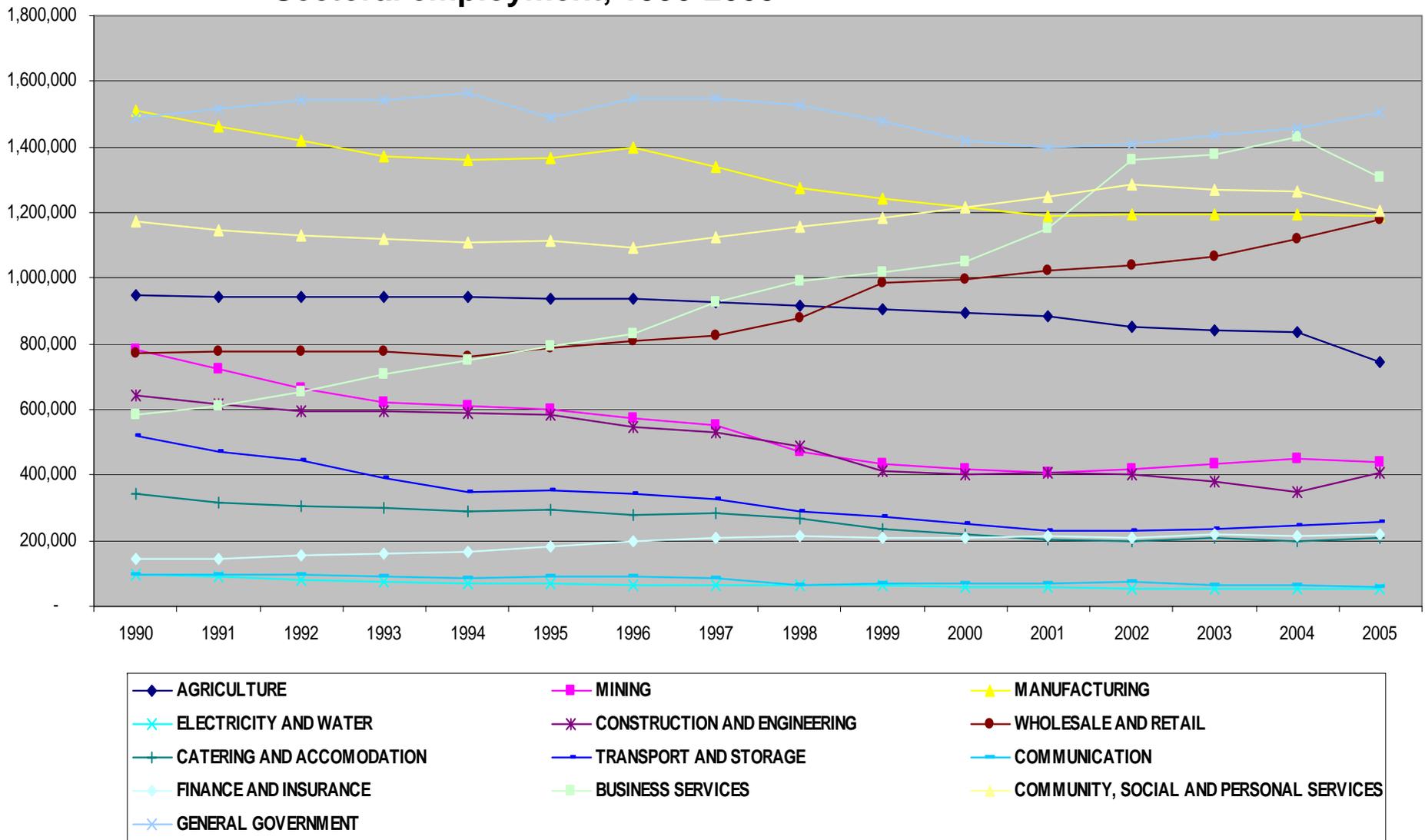
Growth of broad sectors of the economy

Change of Broad Sectors in Share of GDP (%), 2005 versus 1990



Employment

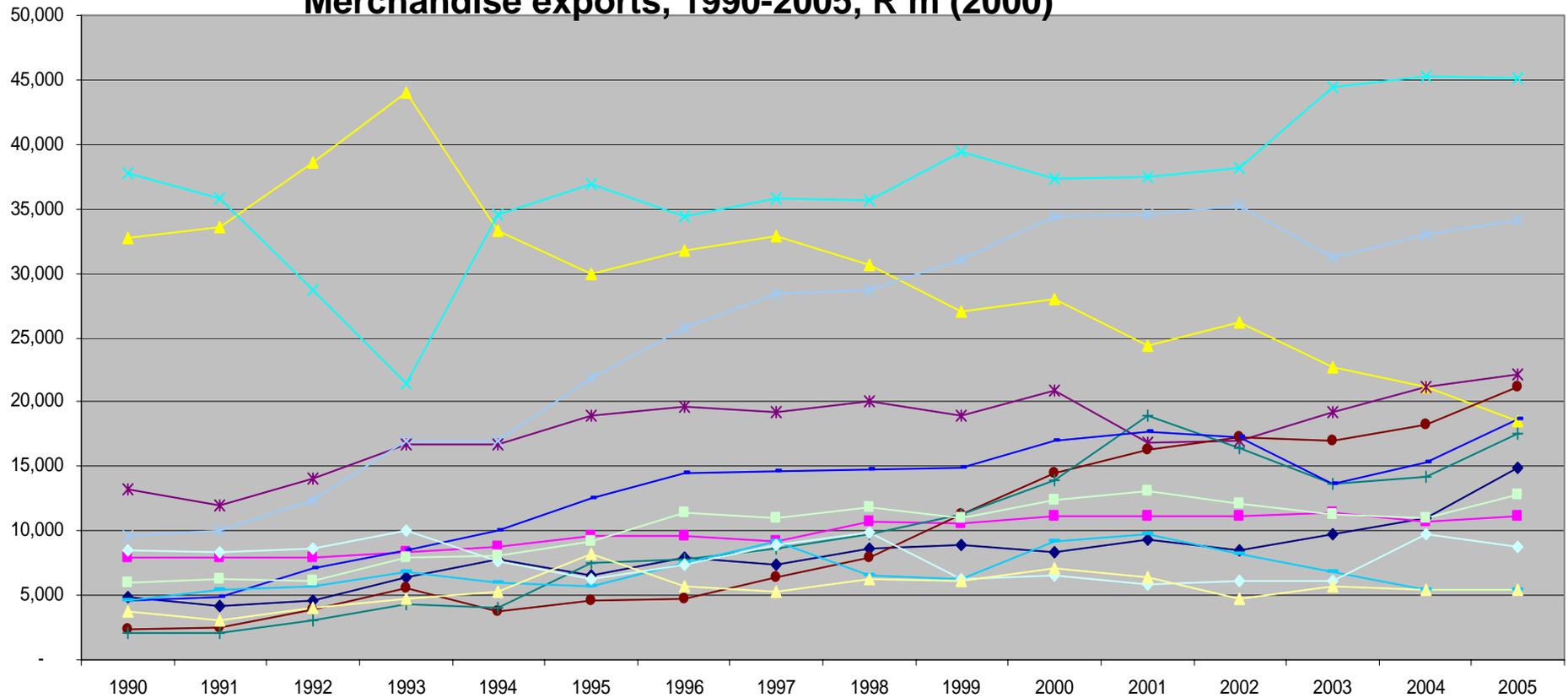
Sectoral employment, 1990-2005



Source: Quantec RSA Standardised Industry Database

Merchandise Exports

Merchandise exports, 1990-2005, R'm (2000)

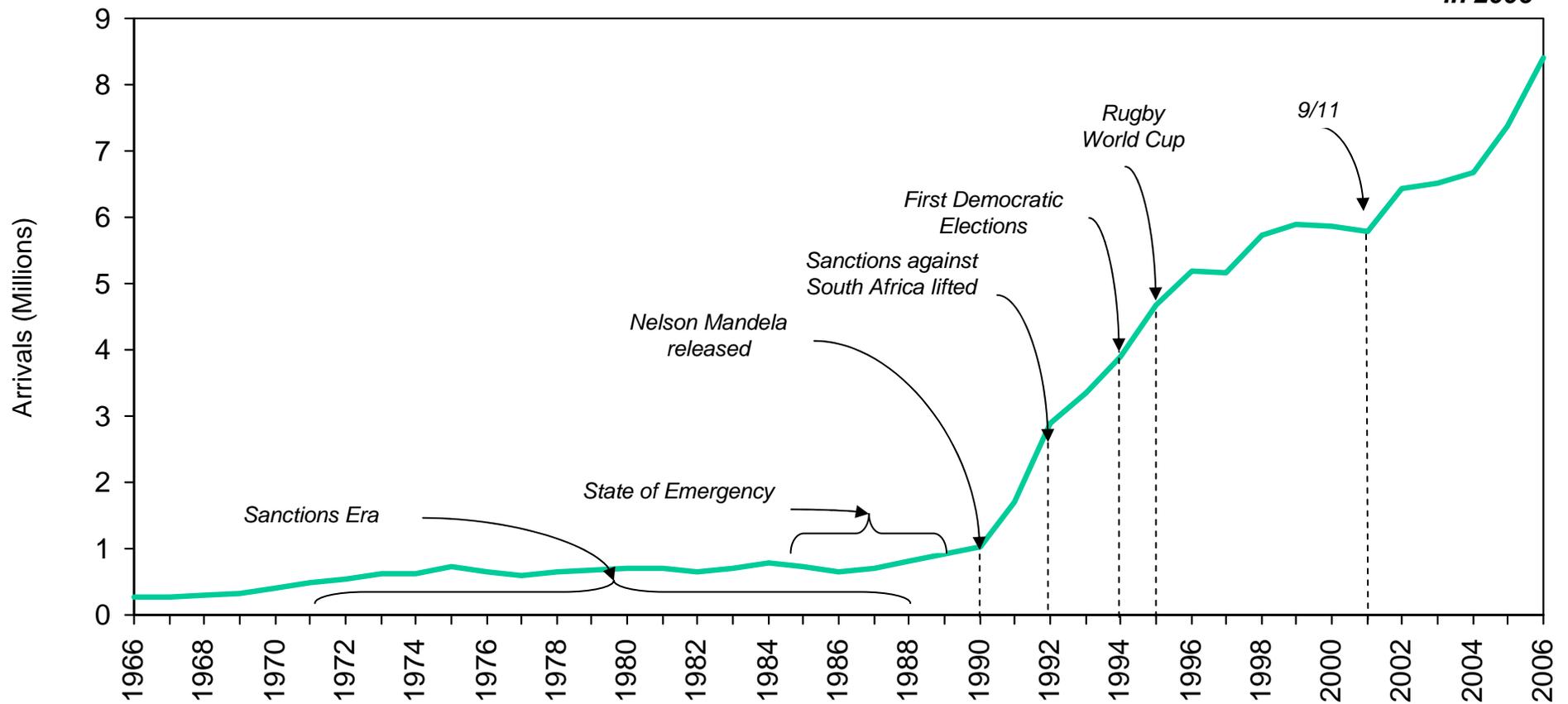


Source: Quantec RSA Standardised Industry Database

Tourism

Foreign Tourist Arrivals in South Africa, 1966-2006

8,4 million arrivals
in 2006



Conclusions

- Major disjunctures between industrial policy and supporting policies: macroeconomic, infrastructure, skills
- However, notwithstanding these difficulties three of the four manufacturing and tradable services sectors which government has actively supported have achieved substantial growth and exports
 - Automotives
 - Resource-processing industries: steel, chemicals, aluminium
 - Tourism
- Clothing and Textiles support was not effective due to intense global competition and a flawed instrument
- Export growth was achieved in areas of pre-existing comparative advantage (minerals) and where there was strong state support

Conclusions

- Challenges remain
 - Monopoly pricing resource-processing sectors impose on the rest of manufacturing
 - Generating stronger local content and economies of scale in automotives
- Industrial policy opportunities going forward
 - Leverage public expenditure:
 - Capital expenditure programme (R450bn = \$64bn) → Machinery, metals, rail
 - Pharmaceuticals
 - Business process outsourcing
 - Biofuels
 - Agro-processing → high value industries
 - Capital equipment and services linked to mining / mineral processing

Tentative implications for other African countries

- Building industrial capabilities requires substantial effort – danger of attempting ‘premature’ export orientation
- Policy integration: macro, infrastructure, skills
- Reciprocal control mechanisms: tailored to industry in question
- Management of natural resources: avoiding dutch disease and channeling surplus to more productive activities