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# A comprehensive regional industrial policy for SADC

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## Introduction

This discussion paper recognises that there are, at present, ongoing Southern African Development Community (SADC) initiatives underway to construct a comprehensive Industrial Policy Framework for the region. The purpose of this paper is to highlight certain pertinent issues that ought to be brought into focus in the design and construction of this policy.

The consideration by SADC of a comprehensive Regional Policy Framework document is important in the light of renewed efforts by national governments (within the region) attempting to implement viable industrial policies for their respective countries. For example, the release earlier this year by South Africa's respective ministries, of the revised Industrial Policy Action Programme (South Africa DTI, 2012), a prospective Special Economic Zones Bill and the enhanced New Growth Policy have indicated that, for the dominant country in the region, little cognisance is placed on encouraging broader industrialisation for the region. The visions for future industrial policy for other members of the Southern African Customs Union (SACU) highlighting some of the binding constraints of the present scenario for Botswana, Swaziland, Lesotho and Namibia have been well argued by Sandrey (2012). On a much broader geographical level (SADC), a possible potential for more coordinated industrial policies that would enhance the region's industrialisation levels as well as overcome some of the identified binding constraints, has been given further priority in the light of the imminence of the Tripartite Free Trade Agreement.

Additionally, towards the end of 2011, the SADC Secretariat released a Report of the Review of the Regional Indicative Strategic Development Plan (RISDP) and one of the conclusions of this Review Report advocated that continued support for interventions and policies to enhance the region's productive capacity and competitiveness is required. There has only been limited success in the SADC region with respect to the area of industrialisation (tralac, 2012).

What this discussion paper sets out to do, is to try and provide some coherence to the debate, by introducing a timeous reflection of the challenges and potential for more regionally integrated industrialisation strategies. The paper begins by summarising some of the more recent approaches to the issue highlighted by the United Nations Industrial Development Organisation (UNIDO) and the United Nations Conference on Trade and Development Report (2011). This report emphasises the

dramatically changed world environment of the 21st century which, in turn, has induced a shift in thinking on how to implement viable and sustainable industrialisation strategies and policies.

The second theme of the paper reflects on exploring some of the newer theoretical approaches to the issue in the light of these changes and their appropriateness to the issue in question. The paper concludes with a vision for a more integrated approach and a suggested institutional role that SADC and its relevant organs can play in this transformation strategy.

### **The context of the UNIDO/UNCTAD Report**

Much of the focus of the UNIDO/UNCTAD Report principally details the issue for individual countries but, as will be suggested in this paper, the key elements can be transposed to a wider regional framework. In providing a detailed analysis of the practicalities of nurturing an industrial transformation for a country (or, relevant to the theme of this paper, countries bound by established regional integration arrangements) the report cites work done by Lauridsen (2010: 38) relating to the dynamics of industrial policy. These include:

- a. fostering new industrial capacity
- b. diversifying production
- c. creating intersectoral and interindustry linkages
- d. promoting learning
- e. improving productivity
- f. shifting economic activity towards higher value-added activities which provide access to more dynamic and rewarding niches in the world.

Lauridsen, recognising the difficulties of drawing the exact boundaries of the above, therefore simplifies these to distinguish three separate approaches and this indeed forms the core of the UNIDO/UNCTAD focus on framing an industrial policy (UN, 2011: 38):

- an upgrading of existing manufacturing industries towards more competitiveness (industrial upgrading and modernisation)
- the fostering of backward and forward linkages and complementarities between sectors and industries across the region (industrial deepening)

- diversifying the region's industrial base through new productive activities (industrial diversification).

While acknowledging that industrial policy is essentially a national prerogative and that there is no one-size-fits-all set of policies, the UNIDO/UNCTAD document advocates that an approach which takes cognisance of the importance of regional integration is essential, given the existing economic diversities and regional imbalances prevalent in most regions. In the light of the realities of the SADC region, a new comprehensive framework emphasising those intervention mechanisms with a regional linkage, such as improving the competitive environment for the industrial sector, promoting competitive regional value chains and enhancing cross-border linkages that build a diversified SADC industrial 'fabric' around priority sectors, should be prioritised. Otherwise the historical polarisation tendencies will be magnified.

Another dominant theme throughout much of the UNIDO/UNCTAD Report places importance on an active public-private stakeholder dialogue in the formulation, implementation and evaluation of industrial strategies and measures – an important development given that the private sector is going to be the prime 'driver' of industrialisation.

From the viewpoint of SADC, the rationale for the envisaged more focused approach to the issue of a regional industrial policy framework (that would incorporate a much more coherent and coordinated approach) is that it will hopefully enable dynamic gains from economies of scale, a clustering of industrial activities in regional activities and specialisation, rather than the present situation of a winner-takes-all scenario.

Apart from the above conventional arguments advocating the benefits of regional integration in sustaining industrialisation, the UNIDO/UNCTAD document also introduces one of the key elements more specific to the present framework of industrial policy (UN, 2011: 98-100). This entails the promotion of the global value chains and production network linkages, which are key components for the enhancement of competitiveness. It is really this dynamic that differentiates the current theoretical analyses of industrial policies and strategies from those of the protectionist import substitution eras prevailing during much of the 20th century. This can have huge positive implications in framing and successfully introducing a comprehensive industrialisation programme for the region and can take the form of a notion of regional value chains. Such a concept of the

value-added chain across a region would entail the consideration of a full range of value-generating activities required to produce a product or service across national borders involving different production phases and different modes of delivery to final consumers. A more detailed analysis of the UNIDA/UNCTAD considerations will be presented in the next section.

The fruitful implementation of such a strategy represents one of the key challenges for a more sustainable regional industrial policy; and as to questions of implementation, they will be dealt with later. This approach (influenced and dictated by shifts in mass production and worldwide global production techniques) recognises the reality of the current global environment – a far shift from earlier national industrialisation policies whereby industrialisation tended to be equated with self-sufficiency.

Allied to the fundamental changes in integrated production resulting from recent globalisation and technology patterns are the issues of the dominance of China and India in global shifts of industrial production, as well as the international mobility of ‘productive’ capital. Also, the commitments to trade liberalisation under the guidance of the WTO since the 1990s have further entrenched the inability of national governments in the present environment to influence their industrialisation efforts as directly as was the case in the past.

### **Changing theoretical perspectives regarding the advent of ‘new’ industrial policies**

The overall impact of these more recent global scenario factors mentioned above has necessitated a new paradigm in development thinking with regard to the pursuit of industrial policy. What could have had relevance in the latter half of last-century patterns of industrialisation, using East Asian models as a template, can only have limited relevance in the present dramatically changed environment of the 21st century. Added to this is the global economic crisis prevalent since 2008, which should highlight for developing countries the need to reconsider their long-term industrialisation and development strategies. While the commodity boom during 2003-2008 allowed many of these countries to enjoy accelerated growth and increased contributions of the manufacturing sector to overall growth, these benefits have been lost since 2008 and many of these countries have suffered a decline in the growth of their Gross Domestic Product (GDP) and consequent ‘deindustrialisation’ and increasing unemployment. As the South Centre’s comprehensive document dealing with industrialisation for Least Developed Countries (LDCs)

outlines, the exposure of the manufacturing sector to severe external competitive pressures due to changes in the ‘rules of the games in international competition’ has increased the need to restructure and nurture their industries. (South Centre, 2010). This South Centre Report rejects the one-size-fits-all proposal, given the diverse nature of countries. The report highlights some general guidelines, supplemented by specific policy proposals for the successful implementation of industrialisation strategies in the present environment. These guidelines also take cognisance of the need for a combined role of market and government in coordinating economic activities (thus rejecting the picking-of-winners approach characterising the previous development paradigm). The South Centre Report, additionally, points out that for smaller countries, the need for regional cooperation and industrialisation (incorporating industrial collaboration, production sharing and joint industrial policies) is a crucially important component in the process. This would require a mode shift in thinking with regard to the need to implement ‘a dynamic, flexible and targeted industrial policy based on the principle of dynamic, rather than static, comparative advantage’ (Ibid.: iii). More specifically, the South Centre Report argues that regional integration provides a dynamic component to sustainable industrialisation, through recognising that specialisation and the division of labour lead to trade expansion rather than the reverse: trade leading to a division of labour and specialisation (Ibid.: 65). Concerted policy measures and efforts by the countries concerned are required for the building-up of supply capacity, as market forces alone will not lead to such a division of labour.

Reverting back to the UNIDO/ UNCTAD Report (2011) mentioned in the previous sections of the paper, a considerably detailed framework addressing important areas relating to rationale, design, implementation and coordination of industrial strategy in the present era is presented. The starting point of the UNIDO/ UNCTAD Report is the rejection of a ‘universal blueprint’ approach (Ibid.: 34). The focus in the document relates to issues of industrial diversification, industrial deepening and industrial upgrading. As mentioned above, the UNIDO/UNCTAD Report also acknowledges the critical role that regional integration and ‘global value chains’ can perform in industrial policies. While realising that the responsibility for industrial development rests primarily with national governments, the report is explicit that regional integration has enormous potential for the realisation of national industrial development objectives (Ibid.: 79). The report almost exclusively focuses on the demand side of the issue. But, additionally, supply factors are critical and apart from the obvious benefits stemming from rectifying poor infrastructure, high regulatory burdens, political

instability and so on, regional integration could, if effectively implemented, assure a much more coherent set of industrial policies that would provide the core for a much more sustainable move to industrialisation for the region, rather than an incoherent and inefficient set of industrial policy measures.

The importance of Global Value Chains in the present international industrial configuration is one of the central arguments in the UNIDO /UNCTAD Report (Ibid.: 98) and it is worth expanding on this issue:

Production is being increasingly segmented in different stages located in different countries, according to the competitive advantages of each location. This so-called globalization of the value chain or global value chain allows producers to improve on competitiveness by making better strategic use of available global endowments, to lower costs. It also creates opportunities for a greater number of countries to take part in the global industrialization process and in so doing spur their own national industrial development.

This more dynamic viewpoint relating to the specialisation and value addition can certainly be transposed to a regional framework, incorporating a notion of regional value chains in order to deepen regional integration. Critical to this is the enhancement of skill and infrastructural development, institutional change and the political will by member states to prioritise a more collective set of industrialisation policies based on a shared vision and focusing on economic diversification within the region, rather than inefficient duplication and replication. A key ingredient of this approach is the identification of linkages, areas of harmonisation and coordination in the design and implementation of a more broadly based policy.

Sceptics of the above insights may argue that the requisite change in conditions necessitating a changed mode of thinking and prescription on industrial policy in the current era lacks a theoretical basis and does not define a role for the state. Some may claim it is devoid of analysing the institutional realities and political economy considerations, so essential if such policy shifts are to be sustainable.

The recommendations included in the deliberations of UNIDO/UNCTAD as well as in the South Centre, however, do not reject a framework incorporating a crucial role in devising industrial policies

for the state or other broader-based institutions. In fact, a strong theoretical paradigm has emerged of late regarding the importance of industrial policies in transforming developing countries in the present environment into a high-performing, sustained, catching-up and strong transformation trajectory. This is the key focus in an Employment Working Paper by the International Labour Organisation (ILO) dealing with the frameworks and paradigms relating to industrial policies and capabilities in developing countries (Nubler, 2011). This Working Paper begins by arguing that industrial policies can be regarded as a ‘powerful instrument to support recovery following the economic crisis and to ...follow the development example of very successful developing countries in rapid catching up’. The key issue is that, despite the history of failure in many instances of such policies, with bureaucrats not being good at picking winners, government interventions being prone to political capture, a consensus within different theoretical paradigms considering industrial policies has recently emerged agreeing that the states have an integral role in shaping growth and development for their economies through such policies. Industrial policies are essential to support growth and development initiatives. The difference between these recent approaches rests in the nature and scope for such policies. Nubler (2011) differentiates three recent separate theoretical perspectives dealing with industrial policy that have depicted the analysis of industrial policy since the 1980s, viz. the ‘Growth Perspective’, (Commission on Growth and Development, 2008), the ‘Institutional Perspective’ (Hausmann, Rodrik and Sabel, 2007) and ‘Evolutionary Perspective’ (Chang, 2009 and Nelson, 2008 ). The Working Paper provides an excellent insight into how these three approaches differ in focus and scope ranging from the growth approach (reflecting the most limited form of intervention) to the evolutionary approach with the widest set of interventions. There is an overall consensus within all of these strands of thinking, namely that the justification for government and institutional intervention in the area of industrial policy is based on market failure. The particular failures alluded to, relating to present circumstances, in each of the above approaches are identified as coordination, information and organisation problems.

In another recent paper by Harrison and Rodriguez-Clare (2010: 5-6), these authors strongly advocate that the future of successful industrial policies for developing countries in the present environment be guided by ‘soft’ industrial policies which aim to develop a process whereby government, industry and cluster-level private organisations collaborate on interventions that can directly increase productivity. ‘The idea is to shift the attention away from interventions that distort prices (“hard industrial policies”) to interventions that deal directly with the coordination problems

that keep productivity low in existing or raising (sic) sectors' (Harrison and Rodriguez-Clare, *Ibid.*). The origins of this type of argument can be attributed to the earlier work of Hausmann and Roderik (2003) which in turn suggested that the long-running discussion about "picking winners" be sidestepped by subsidising private efforts to "discover" new areas of comparative advantage or by simply working with existing industries and clusters to deal with the coordination failures that limit their productivity and expansion.

Thus, in place of the 'picking winners' strategy (dependent on tariffs and other trade barriers, export subsidies and tax breaks for local investors and foreign corporations), there is a growing consensus on helping particular industries and clusters by increasing the supply of skilled workers, encouraging technology adoption and improving regulation and infrastructure, irrespective of whether this represents a nation-state or wider regional organisation. The chronic shortage in coordination, information, organisational and educational skills are crucial 'market failures' and should be placed at the core of the policy through a more penetrative focus on these aspects at national as well as at collaborative regional levels.

The above issues are particularly pertinent with regard to debates on how to implement a successful regional industrial strategy. Provision has to be made for a set of coordinating as well as organisational proposals, and to how these issues can be addressed in policy recommendations. With regard to SADC there is a vital role that the organization can play in providing such functions. The secretariat can provide the organisational, coordinational and informational support and ensure that a transparent and participatory set of structures are put in place involving both public and private stakeholders throughout the defined region. This would necessitate various committees structured to ensure not only policy dialogue and implementation but also the further exploration and viability of regional value chains in identified priority sectors.

A starting point for such an exercise would involve the compilation and analysis of existing industrial census data for the region as well as an attempt to incorporate updated regional input-output tables, depicting both backward and forward linkages, import content, and so forth. This process could enable governments within the region to identify the list of tradable goods and services that are currently available in the region. It could also help to identify and indicate which private domestic firms are established and could participate in the strategy. Additionally, this recommendation could also indicate and prioritise the obstacles preventing such firms from upgrading or alternatively

reflect the barriers that limit entry to such industries by other firms. This recommendation will help provide a focus on the key strategic elements relating to industrial upgrading, deepening and diversification.

## Conclusion

This discussion paper has attempted to look in some detail at some crucial and challenging elements that should be considered by SADC in its deliberations regarding a regional industrial policy. The paper has introduced readers to some of the more critical elements of the debate and has attempted to present these while adopting a theoretical perspective more appropriate to the changed global environment of the 21st century, when compared to the presently- outdated models of industrial policy that were dominant in the 1970s and 1980s. Industrial policy has up to now had a rather mixed history, with several of the success stories (principally in East Asia) during the latter-mentioned era, serving as a model for all countries to follow. Developing countries attempting to replicate this model in later years have experienced failures. The dramatically changed global environment of the present has not only forged a change in the theoretical approach to the subject in that it has exposed a different set of market failures necessitating urgent institutional interventions, but has also presented a new challenge to governments as to how to implement sustainable and successful industrial policies. The one-size--all scenario has been rejected.

Regional integration (particularly in a Southern African-SADC context) at present can possibly offer some viable opportunities for a differentiated pattern of industrialisation for each of the member countries that would incorporate considerations of both demand and supply issues within an institutional framework such as the SADC organ. The overriding question that sceptics will raise relates to the practicality of such a cooperative regional strategy. Would individual nation states within an arrangement such as SADC be willing to sacrifice their autonomy, policy independence and narrow, sectional, selfish interests for a more collective set of rewards? (Such cynics could allude to the acronym RIP heading this paper as Rest in Peace). If implemented properly, however, there could be a collective, positive sum game inherent in this new industrial policy. One possible way in which this question could be answered is through conducting a comprehensive benefit-cost analysis. With detailed discussions relating to the future introduction of the Tripartite Free Trade Agreement, some of the above issues could also serve as a focal point in the evolution of this agreement.

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