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Introduction

During April 2013, South Africa's Department of Trade and Industry (DTI) released the fifth iteration of the Industrial Policy Action Plan (DTI, 2013). In the Minister of Trade and Industry's foreword to this document, the publication is referred to as an opportunity to reflect on key achievements, constraints and challenges experienced since the publication of the first IPAP in 2007 as well as an intended review of the various policy and operation platforms that have been put in place since then. The intention of this is to provide a 'foundation upon which an extension, deepening and more timely deployment of industrial policy instruments can be achieved' (DTI, 2013: 6). The notion of a 'rolling plan' in relation to IPAP can additionally be considered as providing an annual statement of intent from the Economic Sectors and Employment Cluster of government – which can be useful for intergovernmental integration and coordination – as well as encouraging wider debate and engagement by respective stakeholders.

In explaining the context of this particular IPAP vision, the Minister (Ibid.: 6) stipulates that IPAP 5 is informed by the vision provided by the National Development Plan (NDP, 2011) and is also located in the 'programmatic' approach of the New Growth Path (NGP, 2010). Despite this assurance, one ought to be aware that the 'iterations' of respective versions of IPAP have attempted to conform to the general principles of the DTI's National Industrial Policy Framework (NIPF, 2007), and that the relative versions of IPAP thus far have been the sole domain of the DTI's Economic Sectors and Employment Cluster of government, rather than that of other government departments. Accepting this, IPAP 5 is certainly different to the four previous versions in that it is presented in a much more user-friendly manner and contains more analysis and detail than previous versions. Although very little mention is made in the main body of the document directly referring to the NDP and NGP, the most recent iteration of IPAP can be considered as a very constructive five-year review of the process thus far, reflecting on the respective (specific and general) interventions put in place since 2007 as well as a statement of proposed areas of the planned interventions of the forthcoming three-year period.

This Trade Brief will initially offer a summary of this new version of IPAP. This is intended not only to inform interested analysts and parties of the progress of respective industrial policy interventions

since 2007, but also to provide some reflections of the DTI's thinking of the short- and medium-term future direction of industrial policy. The briefing will then look at some of these achievements and proposals in a more constructively critical light, given the dramatically changed international and domestic economic environment some six years down the line, when the National Industrial Framework and first version of IPAP were introduced in 2007.

An overview of the key elements of IPAP 5

IPAP 5 opens with the above-mentioned foreword by the Minister of Trade and Industry who states that the overarching goal of IPAP in the more general policy context is '...to prevent industrial decline and support the growth and diversification of South Africa's manufacturing sector. The balance of international evidence is that manufacturing is the engine of growth and employment of all economies that have achieved high domestic product and employment growth. Manufacturing can create significant job creation directly as well as indirectly in a range of primary and service sector activities' (DTI, 2013: 6).

The main structure of the IPAP 5 document proper is divided into a number of sections which include:

- the policy context for IPAP
- the opportunities for industrialisation
- the achievements of IPAP not only covering the 2012-2013 period, but going back to 2007
- 'transversal' and 'sectoral' interventions, much of the latter focusing on clothing and textiles and the automotive sectors but also reviewing other targeted manufacturing sectors

The concluding section of the IPAP 5 document identifies new areas of sectoral intervention and incorporates a description of the development of long-term capabilities. Rather than provide a summary of all of the above, this brief will focus on several important aspects of the new iteration.

The policy context for IPAP

According to the DTI, the critical role assigned to industrialisation with the manufacturing sector at the core is presented in terms of this sector's ability to transform the economy and help attain key objectives, such as employment creation, diversification beyond the current reliance on traditional raw material exports and non-tradable services, and increasing participation of historically disadvantaged

people and marginalised regions in the economy, contributing to the continent's industrial development, and ensuring a sustainable long-term development pattern. The IPAP analysis of the importance of a thriving manufacturing sector to the economy places a lot of emphasis on 'downstream' and 'upstream' linkages, particularly for those value-adding sectors demonstrating 'high employment and growth multipliers' (DTI, 2013: 11-12).

In terms of an overview of the performance of the manufacturing sector during the past few years, IPAP considers the detrimental impact on the sector of both external and internal structural factors.

These include:

- the persistent global recession
- the country's highly unequal pattern of income distribution (restricting the size of the domestic market)
- the fact that much of the country's growth path has been based on consumption-driven sectors rather than production-driven sectors
- the tendency for such consumption-driven growth in manufacturing to be import-intensive, rather than based on growth in the domestic production sector
- the fact that despite increasing financialisation, the financial sector has not actively supported the financing of productive investment
- the increasingly-high levels of structural unemployment (of about 25% based on the narrow definition of unemployment)
- rapidly escalating administered price increases, particularly with respect to electricity and port charges
- currency volatility
- unresolved social and labour relations issues

All the above factors (as well as some not listed) contributed to a dramatic slowdown in the contribution of the manufacturing sector to economic growth in the country, and, when considered together, present challenges to the economy, which are immense and daunting. This most recent IPAP version has its core focus not only on the need to reverse the threat of 'deindustrialisation', but also to

nurture and defend industrial development. Given this quagmire of problems, the IPAP 5 document attempts to identify those opportunities that possibly exist in this current turbulent environment.

The key focus areas that form the core of the document (Ibid.: 20-21) involve:

Beneficiation – directing the emphasis on extending downstream opportunities, as well as deepening and extending upstream value chains

Infrastructure development – which under the Print Industries Cluster Council (PICC) is envisaged to substantially utilise local inputs

Regional economic development and industrial integration – which in the IPAP 5 document 'is arguably the biggest stimulus to long-term growth in South Africa' (Ibid.: 20)

The creation of new export markets – which involves a focus on net food-importing countries such as the Far East and the Gulf states

Local procurement and supplier development – which in contrast to previous iterations of IPAP is given a more intensive focus in this version, using examples such as Transnet and the Passenger Rail Agency of South Africa (PRASA) and Competitive Supplier Development Programmes (CSDP) for state-owned corporations as models

BRICS – which, given its recent formalisation and identification of South Africa's role, introduces a new dimension into policy formulation on a longer-term basis

These opportunities, if exploited, can certainly offer dynamic potential possibilities for the future of industrial policy in South Africa. The crux of the matter is whether the proposed interventions, as stipulated in IPAP 5, will provide the enabling environment to take advantage of such prospects.

The achievements highlighted in IPAP 5

These are broadly divided into **transversal** and **sectoral** interventions, the latter which IPAP 5 categorises into three variants. **Transversal interventions** refer to 'general' interventions – not necessarily focusing on any specific sector – and examples of these include public procurement, competition policy, innovation and technology skill upgrading, industrial financing, developmental trade policy, regional integration, and special economic zones.

Sectoral interventions are more specific and a threefold division is presented in the IPAP 5 document which includes Cluster 1 sectors already supported since 2007: these include clothing, textiles and footwear; automotive products; plastics and pharmaceuticals; metal fabrication; agro-processing; forestry, timber, paper, pulp and furniture; business processing services; and creative industries such as crafts, music and film. Cluster 2 incorporates new areas of focus (green and energy-saving industries, downstream mineral beneficiation, upstream oil and gas services, and equipment and boatbuilding). Cluster 3 involves a focus on the development of long-term advanced capabilities in the areas of nuclear, advanced materials, aerospace and defence as well as electro-technical capacity.

For the purposes of brevity, the rest of this section will focus only on certain of the DTI's considerations of some achievements relating to these general and specific areas of intervention.

Public procurement: In addition to the awarding of a 10-year contract to Gibela Construction to build coaches (achieving 69% local content) and the procurement of 1 060 locomotives for Transnet as part of a massive investment programme, tenders were also awarded to local manufacturers for the provision to Eskom of amorphous transformers with an 80% local content programme. Also in the pharmaceutical sector, tenders were awarded for oral solids. Additionally, school and office furniture was designated for local procurement. Additional designations were provided for by the National Industrial Participation Programme for set-top boxes for digital migration.

Industrial financing: Much greater involvement by the Industrial Development Corporation (IDC) (over the past few years) in financing IPAP/NGP sectors meant that there was access to higher levels of finance, and approvals and commitments of more than R20 billion are stipulated in IPAP. In addition, the launching of the Manufacturing Competitiveness Enhancement Programme (MCEP) (with a R5.8 bn budget allocation from the Treasury's three-year Medium-Term Expenditure Framework) has meant additional financial resources were available. Sectors to have already benefited from this latter programme include agro-processing, metals, chemicals, plastics, printing and film sectors.

IPAP 5 estimates that the above transversal achievements with regard to industrial financing have saved or created 130 000 jobs since 2009 (Ibid.: 26).

The automotive sector*:* With the finalisation of the transition from the Motor Industry Development Programme (MIDP) to the Automotive Production and Development Programme (APDP) during 2012, a greater emphasis was placed on the Medium, Heavy and Commercial Vehicle segments of the

industry. Incentives were created for minibus and midi-bus taxis, trucks and motor cars and these attracted large investments from China, Japan and Europe. Together with the approval by the DTI of some 128 projects, IPAP estimates that over 56 000 jobs were sustained in the industry (Ibid.: 28).

The clothing, textiles, leather and footwear (CTLF) sector: IPAP reports that with the introduction of the Clothing and Textiles Competitiveness Programme (CTCP) in 2010, sectoral production and employment started to stabilise (Ibid.: 28). Employment creation led to more than 12 205 new jobs; local retailers committed themselves to local procurement and approval amounts under the programme amounting to more than R1.5 bn, with over half of this already disbursed to participating enterprises. Just over half of the jobs in the CTCP sector are supported by the programme (Ibid.: 28), while the footwear and leather value chain is expected to increase production and employment during the next three years.

Achievements in some other sectors mentioned in IPAP 5 include ***metal fabrication, capital and rail transport equipment, pharmaceuticals, agro-processing, the film industry and business processing services*** and, similar to the above highlighted sectors, are measured in terms of anticipated investments, job retention, and job creation.

The IPAP areas of intervention and key action programmes 2013/14 - 2015/16

The second half of the IPAP document (which will also be dealt with very briefly in this section of the paper) provides a rather detailed account of the principal key programmes of transversal intervention. These are dealt with in the IPAP document in terms of their nature, economic rationalisation, milestones, time horizons, and priorities. Additionally, this section deals with the anticipated 'lead' and 'supportive' role of various government agencies responsible for future short-term implementation of these initiatives. This section furthermore tries to align some of the sectoral interventions to the broader transversal interventions in an endeavour to fit the whole puzzle together. The prioritised transversal interventions focus on local procurement, industrial financing, the intensification of 'developmental tariffs' as an essential component of development trade policy, enhanced competition policies, and a much more realistic and expanded analysis of regional integration possibilities, the last-mentioned of which incorporates some of the more recent policy initiatives within respective regional economic communities (RECs).

As mentioned in the introduction to this paper, the DTI is to be complimented on producing IPAP 5 as a much more analytical and coherent iteration of industrial policy action plans than has been the case since the initial plan was introduced in 2007 with the National Industrial Policy Framework.

A more critical approach to South Africa's industrial policy interventions and IPAP 5

Much of the above summary of the IPAP has been approving of the trend within the DTI to introduce a much more detailed and integrated approach to this most recent iteration of IPAP. A reading of the plan certainly is indicative of the fact that since 2007 industrial policy interventions seem to have been working in the country. In this version of IPAP, 'success' is measured in terms not only of job retention and job creation but also of stimulating investment in various sectors. The DTI-IPAP document certainly prides itself in some of its industrial policy achievements, thus providing a rationalisation for its various policies thus far, and arriving at a broad conclusion that ***industrial policy can and does in fact succeed***, particularly when world economic conditions have induced most countries to adopt these guidelines in the more recent period of worldwide recession.

Despite the tendency of self-congratulatory rhetoric in this most recent version of IPAP, one needs to subject the quantification of these 'achievements' to a somewhat more critical and objective analysis. This would incorporate not only reflecting on the costs involved with the various programmes but also focusing on several other variables affecting industrial production trends to see whether the broad objectives of industrial policy are in fact being met. This section of the Trade Brief will (very broadly and crudely) attempt to raise some relevant issues and will principally focus on some of the key dominant sectoral interventions discussed above.

DTI expenditures on some of the components of IPAP

From the DTI Annual Report (DTI, 2012: 37-39), one can possibly gain a better perspective (than from the IPAP 5 Report) about some of the expenditures of the DTI on IPAP projects. This most recent DTI Annual Report covering the period 2011-2012 highlights estimated expenditures on a variety of projects for the years under consideration. With regard to the Automotive Production and Development Programme, R951 million was set aside for expenditure, amounting to some 17% of total expenditures. The next largest expenditure related to the Enterprise Investment Programme (R683 million or 12.2% of total expenditure). This programme incorporates the Manufacturing Investment Programme (MIP) which reimburses local and foreign owned manufacturers to establish

new production facilities, expand existing facilities or upgrade existing facilities in the clothing and textiles sector (DTI, 2012). Through the IDC there is an additional Clothing and Textile Production Incentive, which amounted to some R600 million (10.5%) of the estimated expenditure in 2011/2012. Such expenditures, particularly those pertaining to the automotive and the clothing/textile sectors, have, as pointed out above, been substantial and the figures cited above for various expenditures are probably gross under-representations, as these industries qualify for assistance under other categories of expenditure as well. Instances of such additional assistance apply to the Special Economic Zone allocations, the Enterprise Investment Programme, the Export Market and Investment Assistance Programme and the like. An immediate question that comes to mind is whether these either presently, or during the projected future IPAP 5 period, will ultimately start making a positive impact on the sectors in question over the projected IPAP period.

Some recent statistical trends relating to highlighted IPAP 5 sectors

A cursory glance at South Africa's preliminary figures relating to trends in exports and imports for 2012, as well as trends in manufacturing production, suggests that a lot of improvement is still required before the IPAP highlighted sectors can be categorised as sustainable success stories of present industrial policy in South Africa.

For the calendar year 2012, according to the South African Revenue Services' preliminary trade statistics, the Harmonised System categories XVI (machinery and mechanical appliances, motor components, etc.) and XVII (vehicles, aircraft and associated transport equipment) both demonstrated substantial and rising deficits. The vehicle category alone amounted to a trade deficit of approximately R20 bn despite a substantial increase in exports estimated at 16.7% p.a. (SARS, 2013). Important questions in this regard relate to the extent to which there is a definite trend to value added in the automotive industry and how much re-exporting occurs.

As regards the textile and footwear categories (Sections XI and XII), exports showed positive growth of 9.7% and 35% (albeit from a very small base in the case of the latter) respectively, while imports increased substantially by 11.2% and 18.8% respectively.

In terms of the physical volume of manufacturing production indicators for 2012, the motor vehicle and automotive sector showed a growth of 2.3% (predominantly motor vehicle production) while the textile, clothing, footwear and leather sector showed zero growth over the 2012 calendar year (SSA, 2013a: 14). The most recent Quarterly Labour Force Survey (SSA, 2013b) for March 2013 released

by Statistics South Africa (SSA) reveal that on a year-by-year basis, employment in the manufacturing sector had fallen by some 3.3%, suggesting that even the IPAP emphasis on public procurement policies have thus far had little effect on the overall slowdown in manufacturing production.

The above introduction of some recent statistical trends is not meant as an overall critique of industrial policy interventions. In fact, some could perceive the lack of sustained success resulting from particular IPAP interventions since 2008 as an argument that not enough has been done since 2007 to fundamentally alter the industrial framework of the country. Alternatively, there could be the explanation that one should not expect immediate and short-term positive returns from such policy interventions. Industrial policy interventions in the form that they have been introduced in the various iterations of IPAP are complex and, again, to the credit of the DTI, this new version of IPAP realises the multiplicity of impacts that such policy initiatives ultimately involve, not only through the interaction of transversal and sectoral interventions, but additionally recognising the impact of the turbulence and protracted recession affecting the international, regional and national economies.

This present iteration of IPAP, while successful in drafting a more comprehensive and dynamic framework for policy intervention, as well as taking cognisance of new developments, initiatives and opportunities affecting the country's international and regional trading relationships, falls somewhat short in its analysis of domestic conditions. The document goes to great lengths to defend and rationalise the justification for some of its past and present policies. It has been some seven years since the formulation of the NIPF and the most recent iteration of IPAP represented an ideal opportunity for a more informed objective and critical reflection on some of the problems of industrial policy interventions over this period, rather than a clouded and selective reiteration and rationalisation of positive achievements. After all, critical reflection of acknowledged, ill-advised policies of the past can in itself be highly informative and constructive in the process of formulating and implementing industrial policies.

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