



Thinking afresh about Industrialisation and Industrial Policy for Africa

tralac Workshop 2020 Report

tralac hosted a Workshop - Thinking afresh about industrialisation and Industrial Policy for Africa - from 20 to 21 January 2020. The main objectives of the Workshop were to stimulate a fresh debate (and ask relevant and urgent questions) about industrial development and policy. The Workshop brought together representatives from the African Union Commission (AUC), regional and national governments and business organisations and the private sector to share their narratives on industrialisation and industrial policy. The Workshop was organised in focused sessions.

Session 1, focused on industrialisation and industrial policy, with Trudi Hartzenberg, John Stuart (tralac Associate) and Dumisani Mbambo of the International Trade Administration Commission, South Africa. Trudi highlighted the basics of industrialisation (industrial development) and industrial policy in the 21st century. She emphasised that industrialisation is not only about core manufacturing but an economy-wide process of transforming inputs into value added products, where services and importantly infrastructure/network services (e.g. transport, telecommunication, water and energy etc) play a critical role. Trudi further stressed that industrial policy constitutes government interventions to support industrial development and economic transformation through resource reallocation to more productive uses as well attracting new resources (e.g. FDI, skills and technology).

John discussed industrialisation in the 21st century (noting the progression from the first Industrial Revolution to the current Fourth Industrial Revolution (4IR)) and drew out implications for Africa. He noted that, in the 21st century, industry is undergoing a rapid adjustment impacted by machine learning, intelligent robotics, artificial intelligence, and technology. John also pointed out the replacement of traditional by artificial manufacturing, human problem solving by machine learning, humans by robotics labour; hence the urgent need to learn new skills about 4IR.

Dumisani noted that tariff policy is an inefficient industrial policy instrument. He said African firms are not competitive compared to their Asian counterparts and applying high tariffs to imports will not help them, because fundamental efficiency and competitiveness challenges are not addressed. A higher tariff buys time by protecting domestic producers from import competition, but unless the real challenges are addressed, it offers only temporary relief. In the case of South Africa, which had until recently, for example, used anti-dumping duties quite successfully, it has become clear that this instrument has become blunt. It is simply not

available to address the challenge of more competitively produced imports – more competitive producers do not have to dump their products in an export market.

Session 2 (with Prof. Gerhard Erasmus, tralac Associate, and Tania Bowers of Eskom) discussed the importance of governance in industrial development and policy. Prof. Erasmus underlined importance of good governance in supporting industrialisation and broader economic transformation. Good governance relates to how public institutions conduct public affairs and manage public resources, rule of law, transparency, accountability and access to justice or availability of remedies. Tania highlighted Eskom's role in South Africa's industrialisation, socio-economic development and change, job creation and skills development. Eskom has developed several programmes to support South Africa's industrial development, which are facing implementation challenges resulting from skills shortage, high cost of inputs, limited funding, policy uncertainty (complex/inadequate policy provisions), among others. Since energy as a key input in all economic activity – energy insecurity and related policy uncertainty significantly deter industrial development and the attraction of new investment to expand and diversify productive capacity. South Africa needs a good governance, a coherent, integrated and focused approach to industrialisation focusing on innovation and investment, and a more comprehensive implementation strategy to improve local manufacturing to build local capabilities, skills, research and development, technology and intellectual property transfer.

Session 3 provided private sector perspectives of industrialisation and included representatives from agro-processing (Motlatisi Tolo – young woman entrepreneur in the poultry industry), clothing and textiles (Michael Lawrence from the National Clothing Retail Foundation) and chemical industries (Farida Khan from SASOL) and exporters (Terry Gale - Western Cape Exporters Club). Motlatisi noted that agriculture as a science keeps changing hence the need for ongoing policy development/reforms, skills development and multi-stakeholder engagement. She suggested that the agro-processing sector should be exempted from minimum wage policy due to low production often caused by unforeseen circumstances like power cuts, water crisis or climate change. Michael indicated that governments must create a business friendly environment, and a level playing field for big and small, local and foreign firms. There is a need for capacity building to enable government officials to effectively and efficiently collect revenue, construct rules and policies curbing corruption, mis- and under-invoicing, illicit and illegal imports at borders. Failure to do so undermines the government efforts to protect local industry and fulfil domestic socio-economic obligations. Farida cited that high costs of doing business (often caused by policy uncertainty, regulatory and infrastructure challenges) in South Africa impede companies from competing at the international level. There is need for impartial enforcement of law to domestic and international companies, collaboration/transparency between government, business and relevant stakeholders, and investment in network infrastructure or services.

Session 4 revealed industrial development and policy experience from the southern African region, including Zimbabwe (Daniel Ndlela), Namibia (Roberth Simon), Botswana (Reginald Selelo), Malawi (William Mwanza) and Eswatini (Nontobeko Mabuza). Overall, despite efforts to industrialise, all countries are lagging behind in industrial development due to common

issues such as policy uncertainty, infrastructure deficits, high business costs, energy supply shortages and bad governance. Zimbabwe (once the second most industrialised economy in Africa) deindustrialised because of policy uncertainty, unstable institutions, high costs of doing business, aging technology, infrastructure decay, overregulation. Namibia is facing lack of innovation and sustainable businesses, and systematic barriers to entry of local products into local market. Malawi's industrial development is inhibited by electricity shortages, lack of access to finance, infrastructure gaps and high transport costs; the manufacturing sector is declining while the services sector is rising. Botswana's diamond production confronted diamond prices volatility, and its industrial (development) policy is facing numerous challenges including bureaucracy. Eswatini's industrial policy is under construction. Its sugar industry contributes 9% of the country's GDP and depends on South Africa's sugar policy. The industry is confronted with changing consumer preferences and many other challenges.

Session 5 provided an overview of South Africa's industrial policy paradigm particularly the proposed master plans for the clothing and textile industry (Michael) and envisioned agricultural industry (Sfiso Ntombela). The clothing and textile retail masterplan aims to create a competitive, sustainable and dynamic retail value chain providing customers with compelling products and growing employment and advancing inclusion and transformation. The masterplan is committed to domestic market growth, value-chain localisation and transformation, completeness advancement, technology skills development, production flexibility, tariffs and rebates, and curbing illicit and illegal imports. The masterplan envisions the setting up of task teams to assist with implementation. Sifiso revealed that the South African agriculture sector is employing a regional commodity value chain that is based on specific district enhance their agricultural potential. The agricultural sector has identified 10 priority commodities that need to be driven within the agro-processing sector. These products have potential for expansion but mainly must be market led because can only join in the value market chain not push the product.

Session 6 provided regional and continental perspectives on industrialisation and industrial policy. The session included representatives from the African Union Commission (Brian Mureverwi and Rongai Chizema), Southern African Development Community (SADC) Business Council (Tulo Makwati) and the Southern African Customs Union (SACU) Secretariat (Khutsafalo Sekolokwane). AUC representatives perceived the need to understand the politics and political economy governing industrialisation at national, regional and continental levels. They cited continental programmes designed to facilitate industrialisation across the continent including the Accelerated Industrial Development of Africa, 3rd Industrial Development Decade of Africa, Africa Mining Vision, Pharmaceutical Manufacturing Plan for Africa, African Agri-business and Agro-industries Development Initiative, Integrated High Speed Train Network, the African Union Commodities Strategy and the African Continental Free Trade Area.

Following a presentation by Johansein Rutaiwa from the SADC Secretariat (presented by Trudi) on the SADC Industrialisation Strategy, Tulo shared the SADC Business Council programmes to promote industrial development in the region including the SADC Industrialisation Week Declaration (revealing the business' intention to support and drive the

SADC Industrialisation Strategy), Trade Facilitation and Non-Tariff Barriers Workshops with GIZ, and development of Regional (Pharmaceutical) Value Chains. Tulo also noted that the industrialisation in SADC is hampered by, among others, lack of political will, budget constraints by member states to implement industrial policies, lack of human capacity, infrastructure gaps, regional and national policy incoherence or uncertainties.

Khutsafalo shared that SACU industrial policy is faced with asymmetries in terms of industrial objectives across the member states which are at different levels of industrial development. She noted the urgent need for public policy intervention that will promote industrial development and regional value chains, but that the processes of common policy development were in abeyance.

The workshop concluded with participants proposing for the following Follow Up Issues:

- Supranationalism matters to remain on the tables of the African Union to deal with the problems of sovereignty – the lack of supranationality means that regional institutions eg secretariats for the regional economic communities have limited mandates. They do not have the powers of eg the European Commission to hold member states to account in cases of non-compliance with regional agreements (eg trade protocols)
- Sustain and fuel political discussion, increase political commitment re industrial development and policy
- Coordination of private sector from the national, regional to continental levels
- Member states to keep in touch with the SACU Secretariat regarding the customs official's forum
- Development of sector policies/plans across the economy including agriculture is important (agriculture is as much an industry as is clothing manufacture)
- Understanding of policy processes to support industrialisation – which Ministries lead industrial policy development; how are other Ministries involved in the process. Policy coherence requires effective intra-governmental coordination. Non-state stakeholders, especially the private sector must be involved in these processes too
- Provide *opportunities* for multi-stakeholder dialogue to develop creative solutions to industrial development and industrial policy implementation
- Development of sector linkages and cooperation re industrialisation and industrial policy and linkages with other policies eg trade, labour market policies
- *Promote awareness* about industrialisation and trade through the media and building capacity of journalists. Learn from success stories and failures (what can we learn from companies that close down, or down size?)
- Exchange of information related to industrialisation and opportunities can be provided on *interactive platforms*. *tralac already has an interactive Business Forum on AGOA.info for trade with the United States.*
- Skills development and reskilling, education reforms are essential to meet the demands of a 21st century industrial revolution – what skills are needed, how can curricula in schools, universities and other training institutions be adapted? How can the youth

(especially in schools) be encouraged to take mathematics, science, engineering and related courses, and consider careers in these areas?

- Ensure access to regulations and policies related to industrial development - tralac has requested all participants to share policy documents, laws, regulations, which it will make available on the tralac website. All these should be in the public domain. Access to information is essential to make good economic decision, and absolutely essential for good governance
- tralac to do more work on trade-related matters and industrialisation linkages

Submissions from the Tanzania Private Sector Foundation (TPSF)- tralac Industrial policy Workshop 2020

The Annex contains concerns/challenges facing Industrialisation in Tanzania and recommendations from the TPSF.

Challenges/concerns on implementation of industrial policies in Tanzania

Even though industrialisation in Tanzania has become a major and hot development agenda during the fifth government presidency, the battle towards industrialization has a long history. The country has been emphasizing on industrialization since independence.

However, looking at Tanzania's manufacturing sector performance in comparison with other sectors in two decades, the sector has remained stagnant in spite of various efforts and strategies proposed such as adoption of Vision 2025 in 1999. Focusing on industrial development, establishment of export processing zones (EPZ's) 2003, and introduction of integrated Industrial Development Strategy (IIDS) in 2010.

Generally, the sector's contribution to GDP has remained low, and currently statics show a decline (10). Does this stagnant and low contribution imply less importance of the sector towards growth of economy?

Does the economy experience premature deindustrialization? Or the country failing in implementation of its industrial development policies and strategies?

Challenges

- Small national markets
- Weak investment Climates
- Huge transportation costs
- Narrow Economic Structure-dependent on resource-based activities
- High rates of unemployment
- Small import substituting manufacturing sector centered around agribusiness.
- **Tax issues:** Tax issues that stand to challenge those venturing in industrial sector include predictability of fiscal regimes, high tax rates, multiplicity of taxes, and longtime taken for tax refunds. Other challenges include tax incentives misuse by some beneficiaries that constitutes unequal paying ground from competition perspective. Other challenges include tax avoidance, evasion and illicit financial flow, challenges related to the use of
- **Unfair competition:** Generally, competition is healthy for consumers and producers. Unfair competition however is unhealthy. Some Tanzanian industrialists face the challenges of unfair competition. Those include competition via the routes of cheap imported industrial goods. Others are illicit trade that brings counterfeits and sub standards industrial goods in the market. When the initial position is not at a level – playing ground, the affected industrialists may not be able to take off let alone growing and prospering.
- **Regulations:** the challenge with Tanzania include multiple regulations, some of which are contradicting each other. There have also been multiple and high regulatory fees, many regulators as well as lack of one stop center for the multiple regulators. All these inflate the cost of doing business and therefore leading to reduced industrial sector competitiveness of the key challenges related to regulations is predictability of regulatory framework.
- **Corruption:** Corruption increase costs of doing business, presents non-level playing ground for example, in procurement, bring sub standards goods and services in the industrial factor inputs.
- **Technology:** Availability of the access to recent technologies for industrialization is challenging in Tanzania. Challenging too is upgrading of the existing technologies.
- **Value Chain Issues:** Supply and value chain. Linkage are disorganized generally. This leads to challenges related to reliable supply of industrial factor inputs as well as factor

outputs. This includes lack of adherence to agreed supply schedule in quantity and quality, agreed frequency and time. Etc.

Policies needs to address potential drivers of industrialisation.

- **Infrastructure:** while it is less competitive for SADC's entry in global markets, regional value chains are constrained also by infrastructure gaps
- **Employment:** choice of value chains must be labor-intensive
- **Savings:** domestic capital formation mechanism are in elementary level which creates dependency on FDI which is selective in nature
- **Fairness:** dominance of key players needs to be counter-balanced carefully without creating dis-incentive to crucial market actors. This is important for sustainability purposes taking into account low and uneven levels of economic development
- **Regulators:** The Blue Print and its road map for implementation stands to deliver solutions by fixing what is broken in the regulations space.

General Recommendation

- Review of the Sustainable Industrial Development policy
- Review of the Integrated Industrial Development Strategy
- Monitor implementation of the Blue Print Action Plan