South Africa's new growth path

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The 2010/11-2012/13 Industrial Policy Action Plan (IPAP) represents a significant step forward in scaling up our efforts to promote long-term industrialisation and industrial diversification beyond our current reliance on traditional commodities and non-tradable services.

The purpose of the plan is to expand production in value-added sectors with high employment and growth multipliers that compete in export markets as well as in the domestic market against imports.

The Action Plan also places emphasis on more labour-absorbing production and services sectors, the increased participation of historically disadvantaged people and regions in our economy and will facilitate, in the medium term, South Africa's contribution to industrial development in the African region. As a country, South Africa has no alternative to the course of action we propose. Manufacturing and other productive sectors of the economy, are the engines of long-term sustainable growth and job creation in developing countries such as our own. However, South Africa's recent growth was driven too much by unsustainable growth in consumption, fuelled by credit extension.

Between 1994 and 2008 consumption driven sectors grew by 7.7 per cent annually, compared with the productive sectors of the economy which grew by only 2.9 per cent annually. This has meant that even at the peak of our average annual growth – 5.1 per cent between 2005 and 2007 – unemployment did not fall below 22.8 per cent.

Manufacturing – which constitutes a sizeable chunk of our value-added production – has not enjoyed sufficient dynamism. The relative profitability of manufacturing has been low as a result of a number of factors, including:

- A volatile and insufficiently competitive currency;
- The high cost of capital relative to our main trading partners; particularly that channelled towards value-added sectors such as manufacturing, resulting in a too limited allocation of capital to these sectors;
- The monopolistic provision and pricing of key inputs into manufacturing;
- An aged, unreliable and expensive infrastructure system;
- A weak skills system; and
- The failure to adequately leverage public capital and other large and repetitive areas of public expenditure.

The negative, unintended consequences of this growth path are manifold and include large and unsustainable imbalances in the economy, continued high levels of unemployment and a large current account deficit.

These weaknesses have been exacerbated by the global recession. Taken together these challenges are enormous and make it critical that we upscale our industrial policy efforts, building on the achievements of the 2007-08.

The 2010/11-2012/13 Industrial Policy Action Plan rests on four cornerstones. First, government intends to develop proposals to enhance access to concessional industrial financing for investment in terms of the priorities, and other productive sectors on terms comparable to those of our major trading partners. Increased investment in these sectors will generate a mix of import replacement and exports which will help to lower the current account deficit and reduce balance of payments risks.

Increased supply in productive sectors will help lower price pressures and hence will assist in moderating inflation. It will also contribute to the medium-long term objective of diversifying the structure of our economy. Government will revise procurement legislation, regulations and practices to enable the designation of large, strategic and repeat or 'fleet' procurements in a range of sectors.

This will aim to sequentially increase competitive local procurement and supplier development opportunities, minimise 'leakages' from the domestic economy, and support meaningful Broad-Based Black Economic Empowerment (B-BBEE) in all three spheres of government and in State-owned enterprises (SOEs).

Government will deploy its trade policies more strategically. This includes intensifying the campaign led by the South African Revenue Services against practices such as customs fraud, under-invoicing, smuggling and illegal imports – all of which profoundly undermine productive capacity and employment in the economy. Trade policy instruments such as tariffs will be deployed on a strategic basis underpinned by the imperatives of our sector strategies.

Standards, Quality Assurance and Metrology (SQAM) institutions and practices – otherwise known as Technical Infrastructure – will be strengthened to support the development, accreditation and enforcement of standards and bolster other measures to create, scale up and resuscitate certain industries.

Anti-competitive practices will be targeted, particularly where these concern intermediate inputs to downstream labour-absorbing production as well as consumer goods to low income households. This applies especially to products such as carbon and stainless steel, chemical polymers, fertilisers and aluminium, amongst others and will build on the very positive achievements of the Competition authorities in the recent past. These cross-cutting interventions will underpin focused and significant interventions in three clusters of sectors.

First, sectors including metals fabrication, capital and transport equipment, green and energy saving industries and agro-processing, will be qualitatively new areas of focus of industrial policy.

Second, we will build on and broaden interventions in sectors which were identified in the first Industrial Policy Action Plan, namely, automotives and components, medium and heavy vehicles; plastics, pharmaceuticals and chemicals; clothing, textiles, footwear and leather; bio-fuels; forestry, paper, pulp and furniture; cultural industries and tourism and Business Process Services (or Call Centres.)

The third cluster focuses on sectors in which we have the potential to develop long-term advanced capabilities: nuclear, advanced materials and aerospace. In each of these sectors a careful and strategic combination of policy instruments is set out in some detail in the IPAP2.

IPAP2 is a product of extensive collaborative work by the Economic Sectors and Employment Cluster of Ministers. Its adoption by the National Cabinet follows extensive engagement with other Departments, state owned enterprises (SOEs), government agencies and institutions. It has been widely canvassed with labour and business organisations. IPAP2 is one component of a broader effort to integrate inter-related policies to place us onto a new growth path – work that is being led by the Minister of Economic Development, Ebrahim Patel.

IPAP2 is now a public document. The Portfolio Committee on Trade and Industry has scheduled public hearings to allow for further consultation. It will be formally presented to the NEDLAC Trade and Industry Chamber in the near future. The Department of Trade and Industry remains open to further concrete proposals and suggestions to strengthen the action plan.

IPAP2 is a 'living document' which outlines a range and combination of industrial policy interventions and instruments to address the critical challenges of our economy. IPAP will from now on take the form of a three-year rolling action plan, which will be strengthened and refined on an annual basis.

IPAP will identify the lead and partner departments and institutions responsible for its implementation. It underlines the necessity for the integration and alignment of the work of government departments and institutions. It identifies the constraints and risks, economic rationale, economic outcomes and Key Action Plans (KAPs) for each one of these actions. It attaches ambitious but realisable timelines to this work. Its implementation will be reviewed and monitored against these measurable actions and it will be the subject of annual amendment and strengthening.

It is estimated that the IPAP will result in the creation of 2,477,000 direct and indirect decent jobs over the next ten years. It will diversify and grow exports, improve the trade balance, build long-term industrial capability, grow our domestic technology and catalyse skills development. This is neither a wish list nor a set of unattainable objectives. It is an action plan which, like any other, will require sustained and focused work and perseverance if it is to succeed – which it must do.

Above all it is a call to our workers, our industry and business leaders, our public servants and our citizens at large, to join hands with government to build our economy and a better life for all. By working together we can do more. F

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The Volkswagen South Africa plant in Uitenhage is the largest vehicle factory in Africa

Photo: Volkswagen South Africa