The political economy of industrial policy in SA

V2.

Input to TIPS Forum

August 2023

Overview

- Industrial policy response to socio-economic crises since 2020
- A political-economic analysis
- Some implications for industrial policy in SA

Industrial policy responses to crises

- Major differences in response to
  - Pandemic
  - Loadshedding
  - Mandate to reinvent industrial policy (starting in 2019)

- Differences emerge in
  - Scale (reflected in budgets and alignment across state)
  - Whose problems to prioritise – working people, small business, established big business
  - Balance between localisation and export orientation

The pandemic

- Exemptions from lockdown for mining and agricultural value chains
- With new occupa-tional safety rules
- Able to take advantage of high mineral prices, which cushioned fiscus

- Massive support for formal business
- UIF surplus (over R50 bn spent)
  - ➢ In mid-2020, supported
    - 4 mn formal workers (a third of formal employees)
    - 500 000 formal businesses (two thirds).
  - ➢ Excluded informal enterprise as not in UIF
  - ➢ Limited formal business closures through 2020 and delayed job losses (15% by third quarter 2020 compared to 30% in informal)
- Special funds also for tourism, culture and agriculture, with uneven outcomes

- New social grant for jobless who are able to work
- Mid-2020: 3,5 million people; start of 2023: 7 million, or a quarter of working-aged population
- Means tested
- Arguably attempt to cancel in 2022/3 budget contributed to unrest in July 2022, which led to reinstatement

- Localisation especially for medical inputs
  - ➢ Sanitisers, PPE, respirators; later vaccines
  - ➢ Reports of waste and corruption but not visibly worse than in other countries, including global North
  - ➢ Helped sustain local manufacturing as well as meeting needs
  - ➢ Vaccination as example of challenges – how much to pay? Who should pay?

Load shedding

- Economically devastating
- CSIR:
  - Hours of foregone electricity at 2500 in December 2022, up from less than 100 in January.
  - Loadshedding in 2022 over four times as high as in 2021.
- GDP declined 1,1% in fourth quarter 2022 and grew only 0,4% in first quarter 2023

- Official strategy (NECOM)
  - Centred on fixing the national grid, which will take several years.
  - Sole initiative to help business and households is a pledge to "unleash businesses and households to invest in rooftop solar."
  - As of January 2023, however, only drafting regulations to for households to sell electricity to the grid.
- No specific, large-scale measures to mitigate impacts on working people and small business (e.g. support off-grid tech through financing or grants; mini-grids for townships and industrial sites)

- Treasury and dtic initiatives from March 2023 – relatively small and effectively geared to better off businesses and households
- 2023/24 budget
  - R9 bn income tax incentives for off-grid solar – but only formal business and high income people pay income tax
  - R8-billion from "bounce back" facility to guarantee relevant loans and support leasing programmes – still negotiating terms as of mid-July
- dtic initiatives announced in March
  - Reducing regulatory obstacles to off-grid generation
  - IDC to provide R1,3 billion financing for businesses to reduce electricity intensity and invest in off-grid electricity
  - Promote local production of inputs for renewable generation
  - Address rapid price increases for inputs

Reimagining industrial policy

Core aims:

- Need stronger impacts
- Mechanisms:
  - Promote localisation
  - Sector master plans
  - Spread benefits from industrialisa-tion through job creation and more broad-based ownership of businesses
  - Legal and other interventions to increase trade within Africa based on AfCFTA.

Master plans (replacing IPAP)

- Completed from 2019 to 2022: Auto, steel VC, clothing VC, wood/paper VC, sugar, poultry, furniture, creative industries, agriculture
- Main strategy:
  - All except agriculture promise stronger trade protection and/or local procurement by retail or government – the main measure for auto (although not implemented), clothing, sugar, poultry and creative industries
  - All include targets for "transformation" mostly in terms of Black ownership of businesses or share in agricultural production; several include worker and community ownership
- Other interventions generally comparatively vague and left to taskteams to finalise over coming months or years – e.g. infrastructure, training, export drive
- Consultation
  - Extensive with organised business and, in organised industries, labour
  - "Reciprocity" as a principle, but extent to which spelled out varies a lot
  - Other spheres of government and consumer groups not consistently involved
- Stakeholder governance structure chaired by Minister for oversight, with PMO to manage taskteams
- Disrupted by pandemic, so difficult to measure outcomes/impacts

Strengths: Build sector collaboration and institutions; fine-tune key areas (infrastructure, training, etc.)

Weaknesses: Not clear how choose industries and they all avoid disruptive measures (ownership, upstream rents, scale support for small business)

4 levels of explanation

International paradigms

- The pandemic
  - Radical responses in global North and multilaterals
  - Focus on working people and small business
  - Fiscal risks
  - Localisation of healthcare inputs
- Loadshedding and weak industrial policy
  - Local, less abrupt crises
  - No one to copy – harder to take risks of innovative and disruptive solutions

Contested aims

- Reconstruction vs export-oriented industrialisation
  - Paradigm modelled from East Asia
  - But SA more like petrostates (high rents, concentrated power, inequalities, fiscal redistribution)
- Can also understand in terms of extensive vs intensive growth
  - SA industrial policy focused on upgrading competitiveness and technologies
  - But works against inclusion unless very rapid growth in demand
  - East Asia exported initially light consumer goods – but SA is latecomer and mining dependent

Opposition to change

- Deep inequalities in power and voice
  - Pandemic response burdened importers and tax payers – broad and diffuse groups
  - Mitigating the impacts of loadshedding reduces demand fo coal VC and municipalities
- Beneficiaries often not organised and poorly capacitated
- In a democracy, industrial policy cannot build support unless it visibly benefits the majority

Decision-making systems

- Inherited governance structures are top down – "service delivery" rather than promoting mobilisation
- New consultative structures open doors for big business, which has capacity to engage on technicalities and to lobby
- Fragmentation by sphere and department plus divisions within ruling party (or in future coalition) make it harder to engage strategically or coherently
- Existing government economic structures (departments, sector desks) largely shape decisions on which industries to support

Implications

- Can't just keep pointing to economic imperatives as the only argument for industrial policy
- Rather ask what political-economic factors make a stronger industrial policy difficult
  - Costs and benefits for different groups, depending on their capacity (organisation or economic power)
  - Government structures and decision-making systems
  - Existing economic structures that shape both interests and economic power – dependence on exports from mining value chain and commercial farming; concentrated financial and other business supports; associated, long-standing investments in education, infrastructure and other government services
- How to build a stronger coalition for change?

Re a leboha!