

Role of government in Industrial Development: South African experience

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DOMESTIC CONTEXT: SOUTH AFRICA'S ECONOMIC CHALLENGE

High Unemployment

- 32.1 % (using narrow definition)
- 35.8% women
- 46.6% Youth

Inequality

- Low employment and incomes in Historically Disadvantaged Areas
- Huge differences in access to quality education
- Poor infrastructure in rural /townships communities

Mining

dependency

- Minerals ,metals and coal
- 55% of SA goods exports compared to 35% for upper middle income countries
- Value addition in decline Manufacturing GDP declining to around 13%

Slow growth

- GDP Growth equal to peers from 1994-2015 largely attributed to the mining boom of the 2000s

Industrial Policy : Principles and debates

- At a theoretical level industrial policy seeks to address **structural changes** in production
 - Initially, from agriculture and mining to labour-intensive or resource-based manufacturing
 - Ascending to higher value-addition, diversification and competitiveness
 - Finally, at an 'advanced' stage, through intensive technological innovation
- Industrial policy places the **state at the centre of development** – identifying appropriate levers and policy space
- Alignment of macro policy, fiscal, monetary policy and industrial policy
- State responsible for **'allied' policies and programmes** which directly support industrial policy:
 - Trade policy (defensive and offensive)
 - Investment policy
 - Export promotion to support industrial effort
- State responsible for other 'key drivers of structural change' which support industrial policy:
 - Education and 'skills for the economy' – demand led interventions
 - Infrastructure 'led' growth to raise aggregate demand, improve accessibility, competitiveness
 - Technology absorption and a system of STI to support industrialisation



Industrial Policy Phases –phase 1

- **Apartheid industrial development trajectory (pre-1994)**
 - built on ‘**Mineral Energy Complex**’ (MEC) sectors: Mining + capital and energy intensive mineral processing sectors (steel, petro-chemicals, aluminium etc.)
 - Strategic use of SOCs and utilities to lower input costs (electricity; telecommunications) and transport/port freight and logistics
- **Democratic government adopted reforms: 1994 -2006**
 - Widespread trade-liberalisation; 28% in 1990 -> 23 % in 1994 -> 8.2% by 2006
 - Inflation targeting and high real interest rates
 - Significant under-investment in electricity and transport infrastructure
 - Commercialisation of state assets (Iscor/Sasol)
 - Removal on incentives with the exception on Automotive - MIDP

- **Racial transformation policies**
 - Employment equity / affirmative action
 - Black Economic Empowerment
 - Land reform
- **Emphasis on skills development**



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National Industrial Policy Framework and successive Industrial Policy Action Plans (2007-2018) phase 2

- ❑ NIPF provided an integrated and coherent framework looking to foster structural transformation (diversify, improve competitiveness, grow jobs,etc

- ❑ Identified specific structural constraints and 13 strategic pillars
 - ❑ Sector Strategies;
 - ❑ Industrial Financing;
 - ❑ Trade Policy;
 - ❑ Skills and Education for Industrialisation;
 - ❑ Competition Policy and Regulation;
 - ❑ Leveraging Public Expenditure;
 - ❑ Industrial Upgrading;
 - ❑ Innovation and Technology;
 - ❑ Spatial and Industrial Infrastructure;
 - ❑ Finance and Services to Small Enterprises;
 - ❑ Leveraging Empowerment for Growth and Employment;
 - ❑ Regional and African Industrial and Trade Framework; and
 - ❑ Coordination, Capacity and Organisation.

- ❑ IPAP - annual implementation plan with inter-locking cross-cutting and sector specific, with specific **defined targets** , **time-bound** action plans , **assigned** roles and responsibilities for each implementing department and/or agencies.

Implementation coincided -

- financial crisis in 2008,
- energy crisis- with electricity prices doubling
- Administered prices e.g.ports charges were once highest in the world
- Declining budget allocations in real terms

NIPF/ IPAP – hits and misses

Hits

- ❑ Ambitious, well articulated and provided broad guidance to industrialisation
- ❑ Deployed trade policy in difficult global environment
- ❑ FDI 'steered' towards key sectors
- ❑ Built productive partnerships with the private sector
- ❑ Significant growth in Autos, owing APDP revisions to promote economies of scale and exports
- ❑ Developed new incentives CTCP, MCEP, BI, APSS reorientation of IDC to support IPAP priority sectors
- ❑ Development of the SEZ programme /revaluation of Industrial Parks
- ❑ Designation of sectors at the back the PPPFA Act regulations – built capacity
- ❑ SA retained and built capacity and capabilities in key 'spillover' sectors (Automotives, Clothing, textiles, leather and footwear, Mining and transport capital equipment, especially rail, Boatbuilding, Aerospace)

Misses

- Was not resourced
- Budget across state not aligned to the ambitions of IPAP
- State capabilities and political will for implementation across govt
- No institutionalisation across the state
- No "real" prioritisation

Reimagined Industrial Strategy- Masterplans

- ❑ The Reimagined Industrial Strategy proposed a new approach to industry-level planning, which was implemented through a set of Masterplans starting in 2019.
- ❑ The Masterplans established a multistakeholder approach to industry-level initiatives, in which government, the private sector and labour collectively developed and implemented plans.
- ❑ A range of industrial policy tools are utilised with the aim to claw back domestic market share; build supply chains; support jobs and transformation; grow and develop export capabilities.
- ❑ To this end, 11 Masterplans were developed across government including 8 by **the dtic**. These Master Plans are at different stages of implementation.

Examples of commitments

- The poultry masterplan -: State committed to **protect local producers from unfair trade**, and producer commitments to scale-up production **through an initial R1,5 billion** in investment in industrial capacity and to restrain prices for lower-income consumers.
- The Retail, Clothing, Textiles, Footwear and Leather (R-CFTL) masterplan : retailers committed to source from local producers, undertakings from producers to invest in upgrading competitiveness, **backed by government support to upgrade competitiveness and commitments to crack down on illegal import activities**,
- The automotive and furniture masterplans included **commitments on government funding and incentives** in exchange for private sector investment.
- The sugar masterplan : commitments by **retailers and food and beverage producers to procure a higher percentage of locally-produced sugar, growers and processors** undertook to align their production and constrain prices, complemented by supportive public policies in a collective effort to pull

Industrial Policy lessons

❑ Industrial policy programmes have worked when

:

- ❑ Based on ongoing robust research and policy design with stakeholder collaboration at the core
- ❑ Effective governance structures e.g the Executive Oversight Committee (EOC) in decision making and clearing out challenges.
- ❑ Speedy sectoral **interventions where there was broader and better coordination** in the identification of challenges and opportunities , areas of investments and technological improvements in different sectors.

- ❑ Masterplans provided an innovative way to implement industrial policy
- ❑ Masterplans are a form of a social contract to implement industrial policy and are critical in driving re-industrialisation in South Africa.
- ❑ Stabilisation and growing of the South African manufacturing, trade and business sectors remain key in rebuilding the economy.



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Conclusion

- ❑ In all phases of Industrial Policy – **the state** played a critical role
 - ❑ A policy maker - ‘a laser focused industrial strategy’
 - ❑ A **market maker or risk taker of first instance** to create a market esp for nascent industries Renewable energy, Green Hydrogen, EVs.
 - ❑ A **regulator** – customs, competition, tax, tariffs; standards; compulsory specifications, environmental - development and investment ‘friendly’ intra-government regulation
 - ❑ The **largest consumer** – public procurement as an important lever
 - ❑ As a provider of enabling infrastructure, services and inputs – special role for SOC’s in the energy; transport, ports and logistics etc,.
 - ❑ As a **provider of development finance** to support essential private sector investment in building productive capacity – with strong ‘conditional reciprocity’.

