# Industrial policy and South Africa's economic trajectory: from apartheid to present day

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## Extended Abstract

### Introduction

South Africa's economic performance since the defeat of apartheid has been modest by international standards as well as by comparison with the country's own historical experience. With an average per annum growth rate of 3.6%, the period 1994 - 2008[1] saw an improvement from the 1.4% per annum average growth rate during the crisis period of apartheid (1980-1993), but was still a far cry from GDP growth rates experienced during the 1960s that averaged 6% per annum and peaking in 1965 at 9%.[2] Moreover, modest rates of GDP growth have been accompanied by dramatic changes in economic structure marked by: industrial stagnation, and decline in industries outside of those linked to mining; the rise of the financial sector's contribution to GDP - which now accounts for some 20%; both an absolute and relative decline in manufacturing employment; a deepening crisis of unemployment with rates consistently over 25%; and worsening inequality.

This paper argues that solutions to current economic malaise of the South African economy need to be based upon an understanding of the evolution of South Africa's industrial structure as developing out of its specific historical political economy, with industrial policy during apartheid critically determining the patterns of industrial development and the absence of strategic, systemic and integrated industrial policy explaining both the persistence of this industrial pattern.

Our analysis of the interplay between industrial policy and structure in the apartheid and post-apartheid periods goes beyond conventional analysis of industrial structure based upon standard industrial categories. Rather, we reveal the structure of the South African economy on the basis of material interdependencies between sectors given in input-output tables. On the basis of the relative strengths of forward and backward linkages between sectors, Fine and Rustomjee (1996) identified a core set of industries belonging to what they termed the "Minerals Energy Complex" (MEC). These industries consisted of mining and closely linked industries with very strong linkages with each other and relatively weaker linkages with other sectors. The coherence of this core set of industries meant that their development was mutually reinforcing[3] with few knock on effects for sectors outside of the core. By extending this input-output analysis to present day we reveal both the role of industrial policy in expanding and strengthening the MEC core during apartheid as well as nature of 'de-industrialisation' and unemployment in the context of the post-apartheid policy landscape.

### Industrial policy and development under apartheid

The election of the Nationalist government in 1948 marked the pinnacle in the disjuncture between economic and political power in South Africa. Economic power was largely in the hands of English speaking capitalist factions, financed by the financial houses of London, that held monopoly over mining and political power in the hands of the Afrikaners and deployed by the state. Industrial policy in the early apartheid period was driven by the need to promote Afrikaner capital. The state achieved this through the creation of the National Finance Corporation in 1949 that promoted interests in mining. State focus on large scale investments in electricity, fuel and chemicals was driven by the need to consolidate Afrikaner capital into large enough units to compete with English capital as well as the dependence on mining as a source of demand. This acted to develop and strengthen the MEC core during the 1950s and 1960s with little diversification. High gold prices in the 1970s saw further state led expansion in gold production, energy and chemicals deepening the consolidation of the

[1] 2009 saw the onset of recession in South Africa.

[2] The high growth rates in the 1960s, as well as the 1950s, are associated with the specific pattern of industrialization as focused upon large scale industry associated with extractive activities through heavy state intervention.

[3] MEC sectors benefited from the type of scale economies identified by Hirschman (1953)

MEC core. The crisis of apartheid in the 1980s precluded a state strategy for industrial promotion instead we see the development and expansion of the financial sector fueled by surpluses from the MEC core that were 'trapped' as a result of sanctions. In this way, the ANC government in 1994 inherited an economy with an industrial structure highly skewed towards capital intensive industries connected to mining and a large and highly sophisticated financial sector. (Fine and Rustomjee 1996)

**Industrial policy since apartheid**

If the state's industrial policy was critical to the pattern of industrial development during the apartheid era, the post-apartheid period of Industrial Policy has been significantly different in approach. The new government of 1994 recognised the limitations of Industrial Policy driven by the desire to build up Afrikaner capital and to create employment for white workers. The new government sought to create an alternative Industrial Policy framework, the thinking around which was embodied in the Department of Trade and Industry's document 'Support Measures for the Enhancement of the International Competitiveness of South Africa's Industrial Sector' (1995) which in turn was influenced by the Industrial Strategy Project's (ISP) document *Improving Manufacturing Performance in South Africa* (Joffe et al 1995).

The ISP's approach can be said to have emphasised 'micro' level factors at the expense of issues of broader economic restructuring. Indeed it has come to be dubbed 'supply-side industrial policy'. In this approach, trade policy was set by, and so constrained by, South Africa's ('non-negotiable') GATT obligations, whilst the ISP's report (1995:15) speaks of the need for 'industrial restructuring' without defining it. Implicit however is the view that it primarily involves changes aimed directly at making domestic producers more efficient and hence more competitive internationally through the removal of the anti-export bias due to protection. The ISP report (1995:xi) lists as the causes of the 'malaise' of the manufacturing sector a number of essentially supply-side factors: the skills profile of the workforce, repressive and outmoded industrial relations systems and work organisation, technological backwardness, a highly concentrated industrial structure coupled with weak and repressed SME and micro-enterprise sector and a poorly structured system of protection (plus income inequality and ISI policies which contribute to ineffective demand). There is little discussion of what determines output growth or of the macro in general. In policy recommendations, it defaults to trade liberalisation whilst neglecting issues of capacity utilisation and levels of investment. **The result for South Africa's industrial policy was an ad hoc system of ineffective and scattered supply side incentives which have failed to alter the pattern of investment and industrial development.**

There have been changes in approach, with the Department of Trade and Industries' new Industrial Policy Action Plans attempting to take a more broad and systemic approach. This shift has come as it has been increasingly recognised how de-industrialisation, particularly in developing economies, is connected with trade and financial liberalisation, and so with particular policy regimes. But to be successful the IPAPs need to be integrated and aligned with macro and other policy, particularly as embodied in the New Growth Path and now the National Development Plan, the ANC's major umbrella document for all economic and social policy.

**Conclusions**

Structural change (and a shift from low to high productivity sectors) must remain a key objective of industrial policy particularly if employment generation is to be addressed. From a wide variety of structuralist perspectives, manufacturing is particularly important for economic growth and development (Kaldor 1978; Blankenburg, Palma and Tregenna 2008) .

South Africa's heavily state driven path of industrialisation historically is highly distinctive, but its legacy has been left largely unaddressed by industrial policy in the post-apartheid era except in the negative – the persistence of the same patterns of investment, reinforced by corporate restructuring and internationalization, capital flight, growth of the financial sector.

Re-industrialisation and diversification is a difficult task, particularly for developing economies facing significant competitive pressure from China. Achieving this means addressing trade and financial liberalisation as well as pursuing more robust and wide ranging industrial policy in the context of a different macroeconomic framework. Industrial policy in South Africa today needs to be driven by targeting development of high value exports for both agriculture and beneficiation (and other mineral-energy related production); the goal of expanding domestic production (for domestic consumption), and for such production to become targeted for higher productivity and a sustained reduction in the level of imported inputs required for output growth. In other words, setting industrial policy to expand high productivity domestic manufacturing that contributes to achieving a sustained reduction in the level of imported inputs required for output growth. In addition, a major expansion of health, education and welfare expenditure with the dual purpose of the provision of services **and** the creation of employment (as opposed to emphasis upon income transfers), can be an important part of industrial policy with corresponding public sector programmes for social and economic infrastructure. The success or failure of industrial policy is not simply about sectoral interventions. Industrial Policy needs to be seen as strategic, systematic, and integrated across all policies. Whatever course South Africa adopts is likely to be of significance for the continent as a whole.

**References**

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