Industrialisation and Industrial Policy

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The importance of manufacturing

- Physical transformation of raw materials into value-added products
- Knowledge and learning
- Linkages
  - Backward linkages
    - Inputs from upstream sectors like agriculture and mining
  - Forward linkages
    - New industries / diversification
    - Demand for associated services
- Direct and indirect employment creation effect
- Export earnings and balance of payments
Case Study: the Steel Value Chain

Iron Ore
$180 per ton
0.2 Jobs per 1000 tons per year

Hot Rolled Coil
$585 per ton
0.8 Jobs per 1000 tons per year

Structural Steel
$3000 per ton
30 Jobs per 1000 tons per year

Capital Equipment / “Yellow Metals”
$13700 per ton
150 Jobs per 1000 tons per year
The importance of manufacturing

Growth rates by sector: countries post WWII experiencing high and sustained growth

Source: Growth Commission
The importance of manufacturing

- Virtually no countries have attained rapid and sustained growth and high income levels without industrialisation
- Growth Commission
  - Brazil, China, Indonesia, Japan, the Republic of Korea, Malaysia, Singapore, Taiwan, China and Thailand
- Other success stories
  - India, Argentina, Chile, Mexico, Turkey
- No country has successfully industrialised without industrial policy
The need for industrial policy

- Developing countries do not automatically converge with advanced countries
- Path dependence
  - More of the same
  - Locked into low value activities
  - Highest profit versus high value-adding activities
- Structural change
  - Coordination
  - Price and non-price mechanisms
  - Financing / supporting industrial learning
Key elements of industrial policy

- Tariffs
- Subsidies
- Concessional Finance
- Procurement
- ...}

- Policy
- Infrastructure
- Skills
- ...

SUPPORT

COORDINATION

ADAPTATION

CONDITIONALITIES

COMPETITION

- Minimum requirements
- Targets

- Domestic rivalry
- Export markets
Case Study: Ethiopia

• **Industrial Development Strategy (IDS) 2003**
  - Agriculture demand-led industrialisation (ADSI)
  - Support growth of agricultural sector (“industrial policy for agriculture”)
  - Value-addition
  - Export-led
  - Labour-intensive
  - Public-private

Source: Gebreeyesus, 2013
Case Study: Ethiopia

Textiles and Leather
• Ambitious target of US$500 million exports each by 2010
  • **Textiles**
    • Required $US1.6bn investment
    • Self-sufficiency in fabrics
    • Direct state investment and joint ventures in textiles
  • **Leather**
    • Upgrade tanneries and finished products
    • Discourage hide and skin exports: 150% export tax
  • Support for training and world-class manufacturing

Source: Gebreeyesus, 2013
Case Study: Ethiopia

Textiles and Leather

• **Performance**
  • By 2010 textile exports were only 8% and leather products 3.7% of target…
  • … but textile exports were four times their 2003 base

• **Lessons / constraints to be addressed**
  • Poor logistics $\rightarrow$ investment in infrastructure
  • Weak fabric production base $\rightarrow$ invest in fabrics
  • Quality of leather $\rightarrow$ modernize tanneries

Source: Gebreeyesus, 2013
Case Study: Ethiopia

Cut Flowers

• Government recognises potential, adds cut flowers to industrial policy
• Target 1,000ha flower production in five years
• Provision of:
  • Land
  • Long-term credit
  • Air transport

• Performance
  • By 2008: 81 farms, 1,200 ha under cultivation
  • 50,000 jobs
  • Fourth largest export sector
  • 5\textsuperscript{th} largest exporter to the EU
Case Study: Ethiopia

Fig. 4: Ethiopia; exports of selected products 1997-2011

Source: Gebreeyesus, 2013
South African Industrial Policy context
Policy integration

- **Macro policy**
  - Interest rate
  - Exchange rate
  - Savings and investment
  - Finance
    - Short vs long term,
    - Consumption vs investment
    - Financial instruments vs “bricks and mortar”

- **Infrastructure**
  - Electricity
  - Rail
  - Ports
  - Enablers of new industries
Policy integration

- **Competition policy**
  - Intermediate inputs
  - Purchases by poor / working class households

- **Education and skills**
  - Vocational training
  - SET skills

- **Innovation / Technology**
  - Support for primary and industrial research
  - Commercialisation
  - Process and product improvements
Industrial policy instruments

• **Industrial finance**
  - “On-budget” e.g. DTI investment incentives
  - Development Finance Institutions (DFI’s) e.g. IDC
  - Export credit and insurance

• **Procurement**
  - Designation of sectors / products for public procurement
  - Minimum levels of local content
Industrial policy instruments

• Trade policy
  • Tariffs
  • Anti-dumping and countervailing duties
  • Technical infrastructure / standards

• Regional integration
  • Regional trade agreements
  • Regional infrastructure
  • Regional value chains
Industrial policy instruments

• **Investment / Export Promotion**
  • Foreign direct investment promotion
  • Export promotion

• **BEE / Black Industrialists**
  • Finance
  • Skills

• **Intellectual Property**
  • Commercialisation of SA intellectual property
  • Production opportunities e.g. pharmaceuticals