

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"

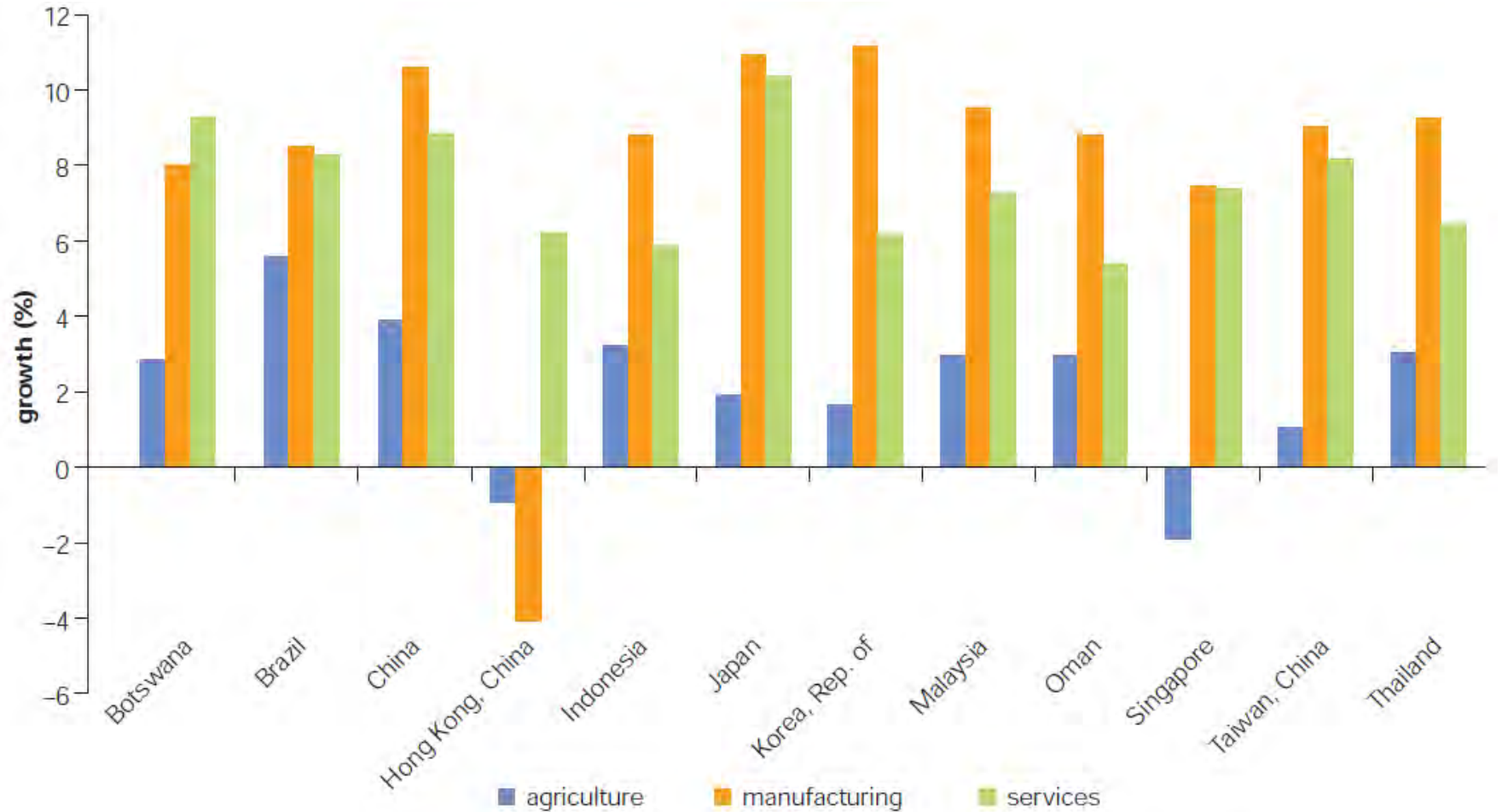
\$13700 per ton

150 Jobs per 1000 tons per year



The importance of manufacturing

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



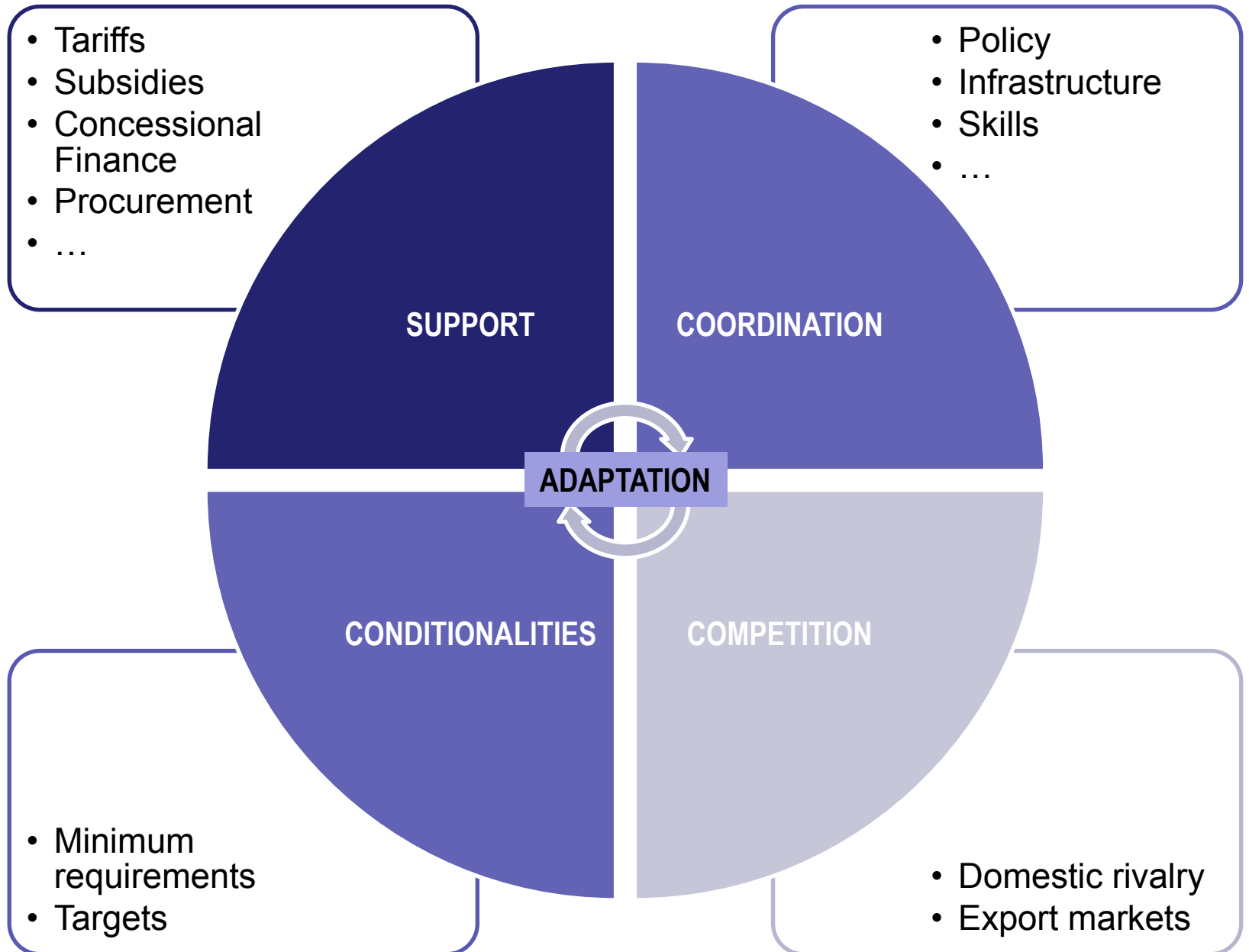
The importance of manufacturing

- 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



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

Case Study: Ethiopia

Textiles and Leather

- Ambitious target of US\$500million 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

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 → investment in infrastructure
 - Weak fabric production base → invest in fabrics
 - Quality of leather → modernize tanneries

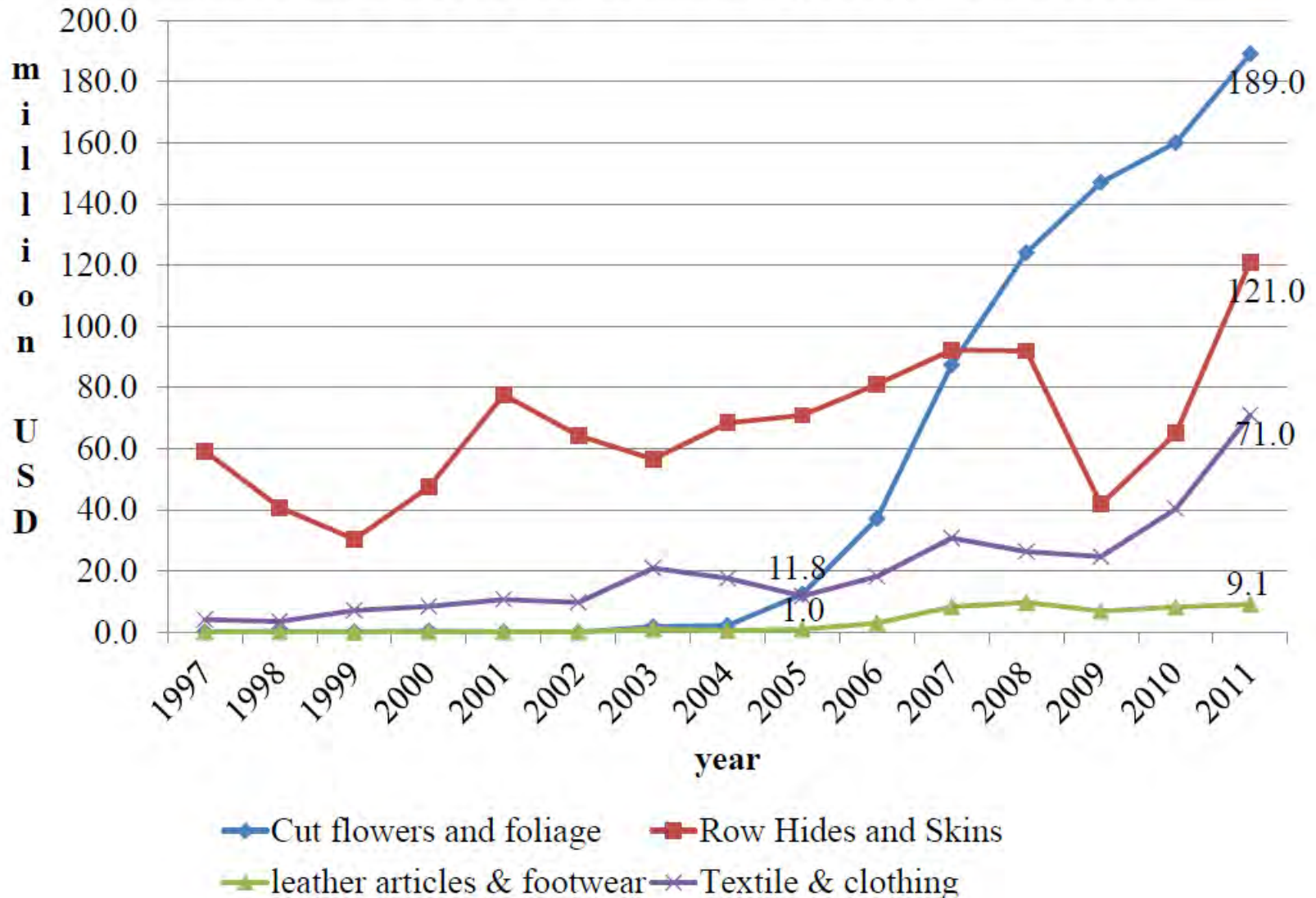
Case Study: Ethiopia

Cut Flowers

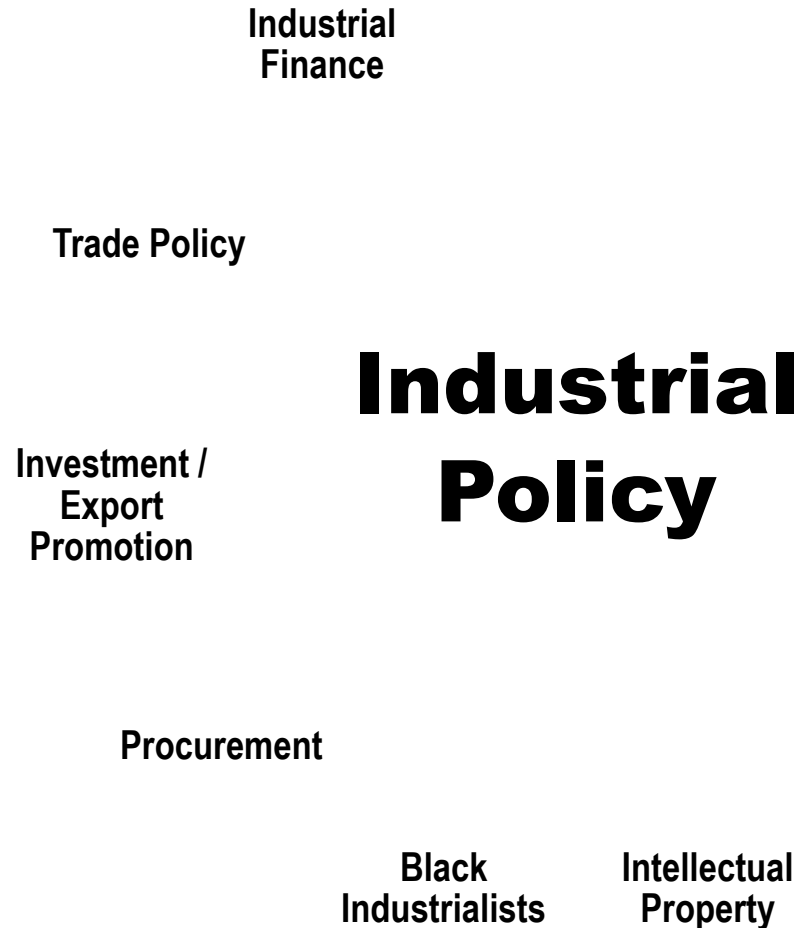
- Government recognises potential, adds cut flowers to industrial policy
- Target 1,000ha flower production in five years
- Provision of:
 - Land
 - Long-term credit
 - Air transport
- **Performance**
 - By 2008: 81 farms, 1,200 ha under cultivation
 - 50,000 jobs
 - Fourth largest export sector
 - 5th largest exporter to the EU

Case Study: Ethiopia

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



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