

The relationship between industrialisation, trade and investment policy

***Portfolio Committee on Trade and Industry
Trade and Investment Policy Training Workshop
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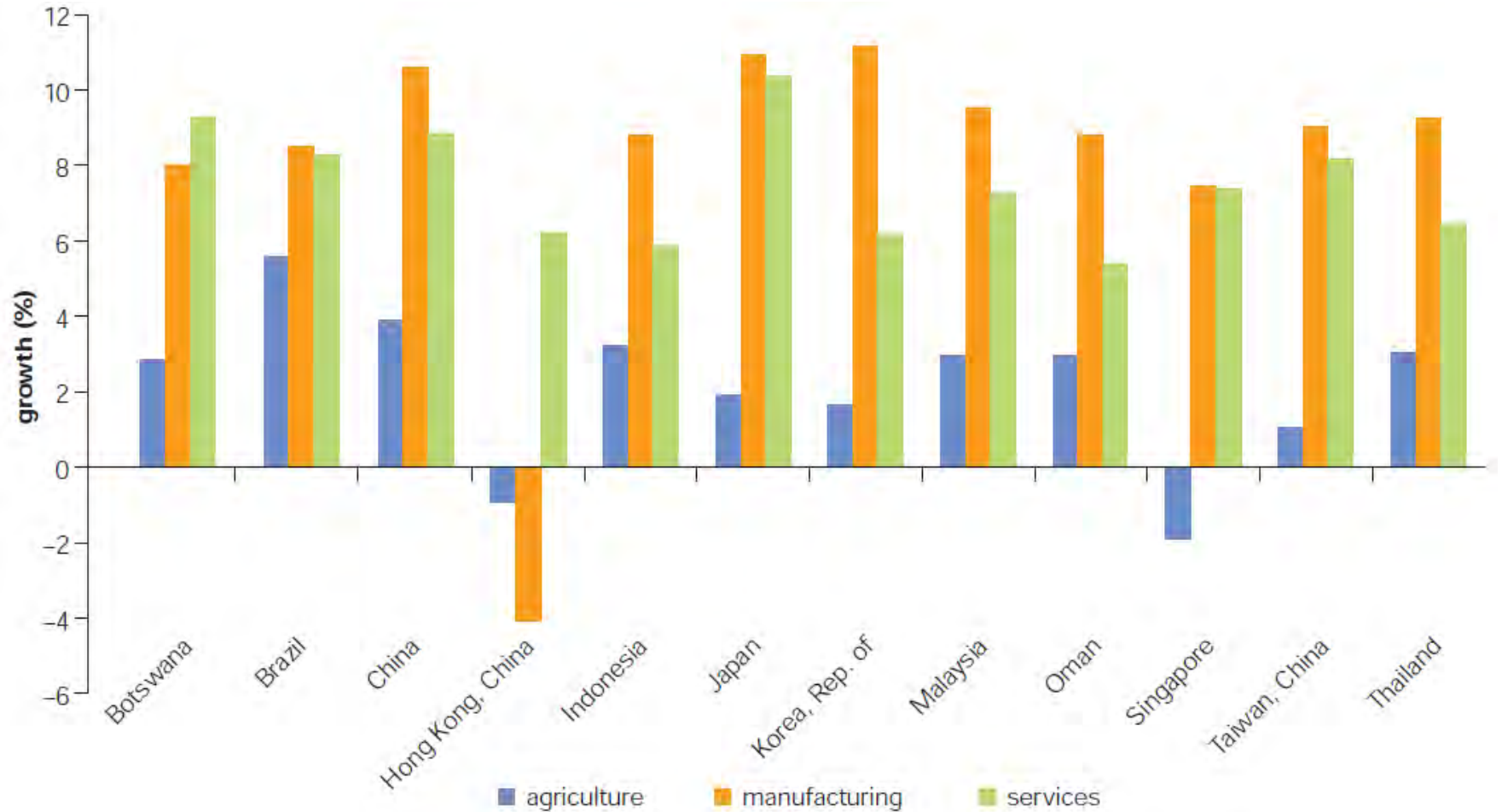
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The importance of manufacturing

- 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 and effect
 - Export earnings and balance of payment

The importance of manufacturing

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



The role of trade

- Trade has the *potential* to promote rapid growth through *structural change*
 - Specialisation
 - Economies of scale
 - Export earnings
- Successful late industrialisers have engaged *strategically* with external trade:
 - Generate export earnings in order to purchase ...
 - ... machinery needed to to upgrade to more sophisticated industrial structure
 - Industrialisation objectives have led trade policy

The role of trade

- Trade liberalisation
 - Could push industries close to international competitiveness the “last step”
 - Could damage / destroy industries which are not yet close to international competitiveness
 - Industries that are damaged / destroyed will not automatically be replaced by other more competitive industries
- Global value chains
 - Increasing amount of global trade
 - Participation depends on domestic industrial capabilities

The role of foreign investment

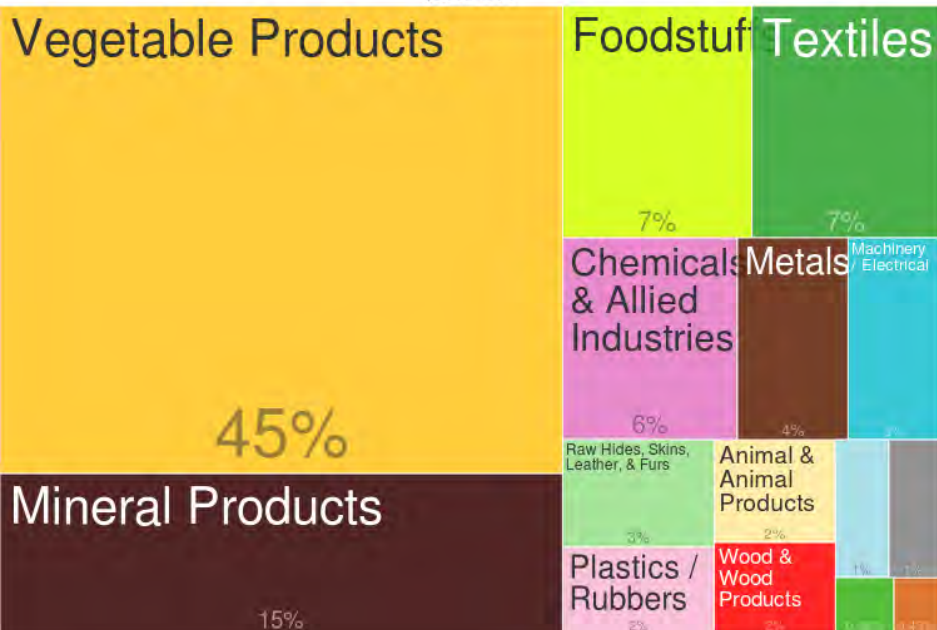
- Foreign investment *could* promote industrialisation, depending on ...
 - Supplement domestic savings for investment
 - New technologies / production techniques
- Short or long-term?
 - Portfolio
 - Direct investment
- New investment?
 - Greenfield
 - Mergers & Acquisition

Regional industrialisation

- Increased African growth rates
 - Commodity boom
 - But limited diversification to greater industrialisation
- African countries generally export: primary and semi-processed mineral and agricultural commodities
- African countries generally import: final consumer goods and machinery
- Scope for lowering tariffs between African countries
- Fundamental constraint is mismatch between export and import patterns, requiring investment:
 - Diversified manufacturing capabilities
 - Physical infrastructure

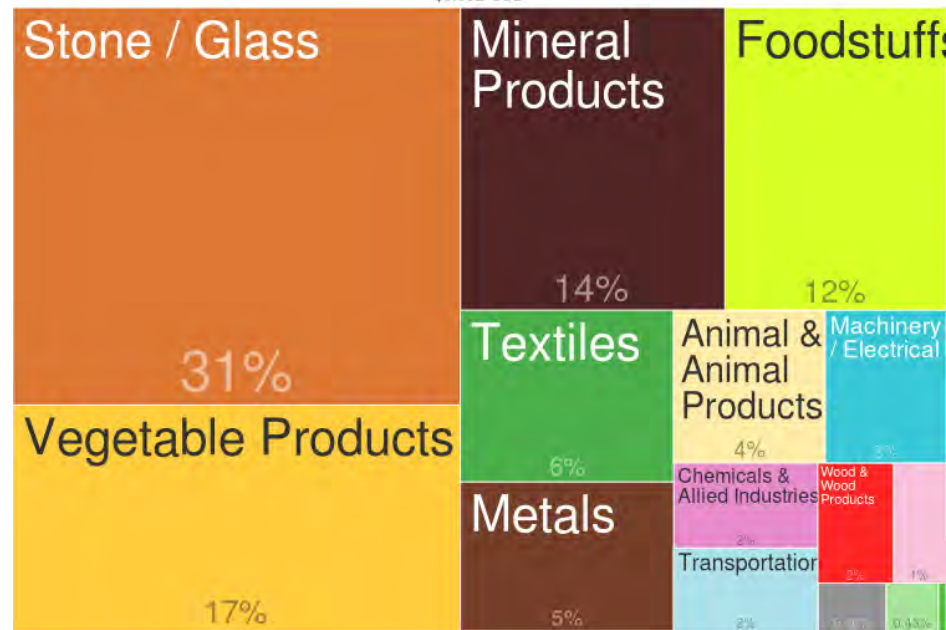
KENYA: EXPORTS

\$5.22B USD



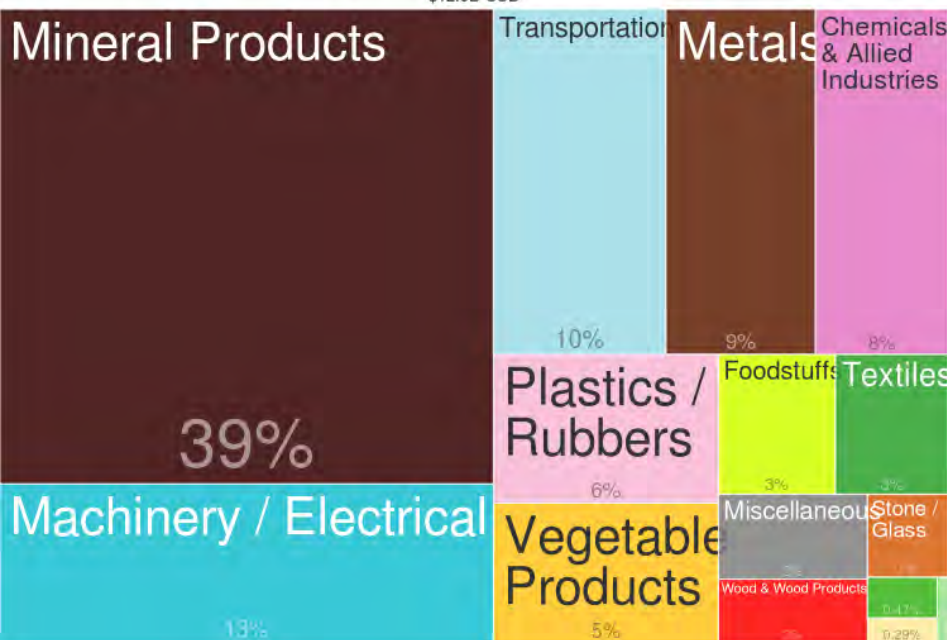
TANZANIA: EXPORTS

\$5.59B USD



TANZANIA: IMPORTS

\$4.26B USD



KENYA: IMPORTS

\$15.7B USD



Source: Harvard, CID, Atlas of Economic Complexity, 2013