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Industrial Policy in South Africa: From 1994 to now

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ERSA Policy Papers typically address current issues pertinent to the national economic policy discourse. These papers aim to succinctly summarise a policy challenge and discuss its relevance, significance, and potential pathways forward for South African policymakers and researchers. They are primarily narrative-driven, drawing on existing research and descriptive analysis. We hope that, through this, ERSA can contribute to constructive and informed economic policy debate.

This Paper is one of nine papers prepared for the 1994 to Now Policy Paper Series, prepared for the SALDRU, South Africa at 30 Years of Democracy Conference scheduled for 2-4 April 2025. The papers will be (were) presented at the conference with the aim of contributing to discussions and debates and fostering informed and constructive economic dialogue.

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Industrial Policy in South Africa: From 1994 to now

Trudi Makhaya[1]

Abstract

This policy paper critically examines South Africa's industrial policy evolution from 1994 to 2024, assessing its alignment with developmental objectives in a middle-income country context. The Paper explores the transition from apartheid-era policies to post-apartheid frameworks, focusing on the tension between liberalisation and state-led interventions through initiatives, such as the Industrial Policy Action Plans (IPAPs), master plans, and the Black Industrialists Programme. The analysis identifies persistent structural challenges, including stagnant performance in terms of economic complexity and structural change. Through a comparative lens, the Paper situates South Africa's industrial strategy within global best practices, offering policy recommendations to take advantage of new opportunities presented by the green economy and continental integration.

Keywords: South Africa, industrial policy, middle-income trap

JEL classification: L52

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EXECUTIVE SUMMARY

Prospects for structural change were dim when South Africa transitioned into democracy in 1994. Before then, industrial policy since 1948 was driven by the aims of building industrial capabilities in steel, petrochemicals and other high value-added sectors, supported by cheap energy and logistics, through state-owned monopolies such as Sasol, Iscor, Eskom, South African Railways and Harbour Administration, Telkom and others. Though the pre-1994 era produced some diversification of the economy into value-added sectors such as steel and chemicals, the core of the industrial base was driven by mining and resource extraction.

Industrial policy can be seen as an arena where South Africa's middle-income trap is vividly manifested. South Africa, classified as a middle-income country since the 1960s, has failed to make the transition to a high-income country. The term middle-income can be deceptive in our circumstances; average income is not a meaningful metric in a highly unequal society. Yet the maladies we observe in South Africa are typical of middle-income countries, many of whom don't have a sizeable middle class and struggle with inequality.

From the Reconstruction and Development Plan (RDP) to Growth, Employment, and Redistribution (GEAR), and later iterations such as the Industrial Policy Action Plans (IPAPs) and sectoral masterplans, South Africa's policy approach has oscillated between state-driven industrialisation and market-led liberalisation. The 2007 National Industrial Policy Framework (NIPF) was pivotal in solidifying industrial policy as a mechanism to drive structural change, but its implementation has revealed gaps in execution and alignment with broader economic realities.

In 2019, building on the Industrial Policy Action Plans, the DTIC introduced a shift in approach towards sectoral masterplans. This signalled continuity in terms of the sectoral approach to policy, with the key difference being the mode of engagement shifting from consultation with industry to a deep negotiation of outcomes with all parties expected to make some commitments.

The practice and performance of industrial policy in South Africa has attracted robust critique. The main charges relate to the apparent inability to break out of low growth and job creation even in targeted sectors, stagnant economic complexity and declining export competitiveness. The performance of network industries is not supportive of the development of dynamic capabilities. Policy has also struggled to articulate a clear vision for the macroeconomic-real economy interface. There is a persistent tension between the role of competitive markets versus the forces of incumbency within both the private and public sectors.

The share of manufacturing value added in total GDP and the share of manufactured exports in total exports has fallen between 2000 and 2022. South Africa's manufacturing sector peaked at 24% of GDP in 1990 when the country only achieved $3 000 per capita. Historically, manufacturing typically peaked when it reached 24% of GDP (28% if one looks at the period before 1990), whilst the country would have reached $22 000 of per capita income ($49 000 before 1990). On the economic complexity index, which captures an economy's degree of diversification in its exports and a measure of the quality of those products, South Africa has muddled along. On the simple measure of people employed in secondary sectors, South Africa has a lower proportion than middle-income countries, including countries that rank lower on the economic complexity index.

There is a strain of critique that, at least since the introduction of the GEAR macroeconomic policy framework in the late 1990s, macroeconomic policy has not been supportive of deliberate industrial policy, or as some critics might argue, it has even been detrimental to the *laissez-faire* development of value-added production. The counterargument has been that the pursuit of macro-stability has been positive for all sectors of the economy and that the counterfactual, with high and volatile inflation, a fiscal cliff and policy uncertainty, would be far worse for any productive activity.

The apparent points of tension between macroeconomic and industrial policy might point to the absence of a 'development bargain' in South Africa. Dercon (2022) posits that there are different paths to economic development which produce distinct sets of trade-offs. What bodes for success is not the execution of a universal 'recipe' but a bargain that elites make to make (painful, from a short-term perspective) sacrifices in exchange for higher economic growth in future. This is a gamble because the gains might not appear, or some elites might not share in them.

The industrial policy review paper published by the DTIC at the end of the 6th administration provides a comprehensive overview of the state of play and provides a range of policy recommendations. This Paper does not rehash all the points made in the DTIC review but drills down on a few themes and expands on areas where there might be areas of divergence:

Incentives: The current set of incentives reinforces the current structure of the economy and does not contribute to economic dynamism. The government needs to reprioritise and streamline industrial policy incentives. Further, it needs to reduce the complexity, opacity, and red tape that affect access to state support.

Investment mobilisation: Fixed capital investment remains too low. An investment target set to a clear baseline, indexed to some measure of significance (e.g. as a ratio of GDP) and with indications of the quality of investment sought (e.g. greenfield versus maintenance) would set an appropriate level of ambition. Investment (and trade) facilitation is under-resourced, whereas the private sector could be making a more meaningful contribution to a joint effort through a public-private partnership model (such as Invest India).

Competition and industrial policy interface: Tools such as market inquiries can play an important role in reshaping industries through remedial orders and policy recommendations. However, it is important to manage the scope of such inquiries to avoid the risk or perception of 'overreach' and to advocate for the buy-in of other stakeholders and policymakers in the markets under scrutiny. Similarly, public interest remedies in merger control must bear a relationship to specific harms that arise due to a transaction, even if innovation and negotiating dynamics may yield more expansive conditions. More attention should be directed to curbing state-driven distortions to competition and pursuing the potential gains from competitive markets, such as in the nascent work in electricity and logistics markets.

Spatial approaches: Special economic zones and other place-based industrial policies have stood at the heart of industrial policy, notably in high-performing East Asian countries. Whilst the DTIC presents the Tshwane Automotive Special Economic Zone as the exemplar of a new framework towards implementing SEZ policy, it remains to be seen whether this instance marks a fundamental change to SEZ development, which engages with the lessons offered in many studies on the topic.

Performance-based industrial policy: Over the past three decades, so much has been done, whether looking at policy in terms of sectoral interventions, trade policy tools, or competition policy interventions, but with modest impact. Some of the industry masterplans adopted since 2019 include targets that suggest a performance orientation, but it remains to be seen whether enforcement will follow and mitigations taken at a time when results are under threat of not being realised. It might also be argued that the performance metrics contained within the masterplans are not sufficiently related to exports, productivity (including through skills development) or innovation.

Institutionalising and implementing industrial policy: South Africa's industrial policy desperately needs a framework for prioritising the many and fragmented activities taking place under its ambit. A framework for prioritisation should begin with a clear articulation of the metrics that will be applied transparently to elevate certain activities over others, such as the potential contribution to GDP, employment or the development of intellectual property or know-how.

A developmental bargain on industrial policy: South Africa does not have a pact that reconciles macroeconomic policy with structural transformation. A South African developmental elite pact that delivers on value-added growth and job creation would seek consensus around a policy environment that protects investment in the real economy, public and private spending on infrastructure, lowered input costs and a shared understanding of industrial policy priorities.

To form credible commitments and iterative learning, a developmental bargain should institutionalise performance benchmarks, such as export targets for firms receiving state support, productivity and job-creation conditions for access to financing, and periodic reviews and sunset clauses for failing industrial programs. Incremental trust-building mechanisms and enforceable commitments would strengthen the pact over time. Such a developmental bargain could transition South Africa from a stagnant (even if with a reasonable degree of macroeconomic stability) to a dynamic, value-adding economy.

Despite the headwinds, new opportunities are emerging. The Just Energy Transition, the African Continental Free Trade Area (AfCFTA), and advances in digital industries present fresh avenues for industrialisation. Green industrialisation, particularly in critical minerals and renewable energy components, could provide a foundation for new value chains. However, this will require a reckoning with the lessons presented by the experience of the last 30 years.

1. Introduction

Prospects for structural change were dim when South Africa transitioned into democracy in 1994. Though the country possessed an economy with notable secondary and tertiary sectors, these faced serious constraints, with the preceding decade marred by political violence, sanctions and macroeconomic volatility. This economic and political context presented deep challenges for deepening value-added production and achieving global competitiveness.

The apartheid regime had practised state-led isolationism, partly driven by ideology (Hart and Padayachee 2013), but also compelled by international sanctions. Industrial policy since 1948 was driven by the aims of building industrial capabilities in steel, petrochemicals and other high value-added sectors, supported by cheap energy and logistics through state-owned monopolies such as Sasol, Iscor, Eskom, South African Railways and Harbour Administration, Telkom etc There was also a clear initiative, sometimes expressed as volkskapitalisme (O'Meara, 1997), to create private industry controlled by Afrikaner capital. This tension between the role of markets and the state persisted after 1994. The main incoming policy statement of the new government, the Reconstruction and Development Plan, positioned the state as the driving force to rebuild the economy and to bring in the formerly excluded into productive economic activity.

Though technically defined as a middle-income economy, apartheid-era economic policy could not, and did not intend to, produce a middle-class society with a large internal market for value-added products.[2] Based as it was on extracting cheap labour out of the majority black population, with a hostile approach towards the development of their skills and human capital, it served to create an underclass and to limit the emergence of a broad middle class. The low level of human capital development did not set the country up to deepen value-added and competitive industries.

Though the pre-1994 era produced some diversification of the economy into value-added sectors such as steel and chemicals, the core of the industrial base was driven by mining and resource extraction. The isolationism of the past left the country with industries that lagged behind their international peers in productivity, production methods and innovation (Black et al., 2016). Whilst emerging Asia and some parts of Latin America produced increasingly sophisticated products, this drew upon the broad base of human capital developed in those countries.

When the ANC-led administration came into office in 1994, its main tasks were to halt the decline of the productive base of the economy whilst also creating an inclusive economy. This policy paper critically examines South Africa's industrial policy evolution from 1994 to 2024, assessing its alignment with developmental objectives in a middle-income country context. The Paper explores the transition from apartheid-era policies to post-apartheid frameworks, focusing on the tension between liberalisation and state-led interventions through initiatives, such as the Industrial Policy Action Plans (IPAPs), master plans, and the Black Industrialists Programme. The analysis identifies persistent structural challenges, including stagnant performance in terms of economic complexity and structural change. Through a comparative lens, the Paper situates South Africa's industrial strategy within global best practices, offering policy recommendations to take advantage of new opportunities presented by the green economy and continental integration.

[2] For example, the implementation of the 'civilised labour policy' sought to eliminate competition between black and white workers. In the railways, this meant the introduction of a 'probation' programme limited to unskilled white workers only. This saw the number of black workers fall from 47 000 in 1924 to 41 000 in 1929; the number of white employees increased from 39 000 to just under 60 000.

The policy evolution of the past thirty years can be periodised through some shifts in stated official policy. The next section begins by grappling with the definition of industrial policy and situates the South African experience against the 'middle-income trap' phenomenon. It then presents an overview of the key phases of post-apartheid industrial policy. This is followed by an overview of observed outcomes in the economy. The resourcing of industrial policy is discussed in the next section, followed by a discussion of the interface between industrial policy and macroeconomic policy. The Paper concludes with a discussion of some considerations for economic policy.

2. Post-Apartheid Industrial Policy Frameworks

2.1 Defining Industrial Policy

Industrial policy gets a bad rap. This is also true in South Africa, where the tension between market-led versus state-led development has been the backdrop of economic debate. Until recently, economic orthodoxy had associated the concept with those policies that place the state in the inappropriate role of 'picking winners'. However, industrial policy has been practised for centuries. The notion of industrial policy is closely linked to the idea of structural change. Juhász et al. (2023) define industrial policy as: "as those government policies that explicitly target the transformation of the structure of economic activity in pursuit of some public goal. The goal is typically to stimulate innovation, productivity, and economic growth. But it could also be to promote climate transition, good jobs, lagging regions, exports, or import substitution."[3] Barwick et al. (2024) define it simply as "a government agenda to shape industry structure by promoting certain industries or sectors."

How industrial policy became a dirty word takes us back to the last three decades of the 20th century. Before then, countries in the now-industrialised West consciously shaped market outcomes in support of their productive sectors, especially manufacturing. The East Asian miracle economies followed the same playbook. However, as other developing countries sought to build their industry, their efforts faltered. Import substitution industrialisation came to be the unacceptable face of industrial policy. In various African and Latin American countries and in India, inward-focused industrial policies did indeed result in severe economic distortions.

In a working paper entitled "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy," researchers from the IMF present a good attempt at disentangling these disparate experiences of industrial policy across time and geography (Cherif et al., 2019). In this analysis, 'true industrial policy' is underpinned by the guiding principles of export orientation, vigorous domestic competition and interventions to fix market failures that get in the way of producers in sophisticated industries. In other words, industrial policy that delivers is performance-based, transparent and open to experimentation and learning.

Industrial policy has also been associated mostly with developing economies, yet it has been practised quite vigorously in advanced economies, including through recent efforts towards green industrial policy in Europe (EU Green Deal) and in the US (CHIPS Act, Inflation Reduction Act). In fact, Juhász et al. (2023) argue that advanced economies deploy industrial policy the most.[4]

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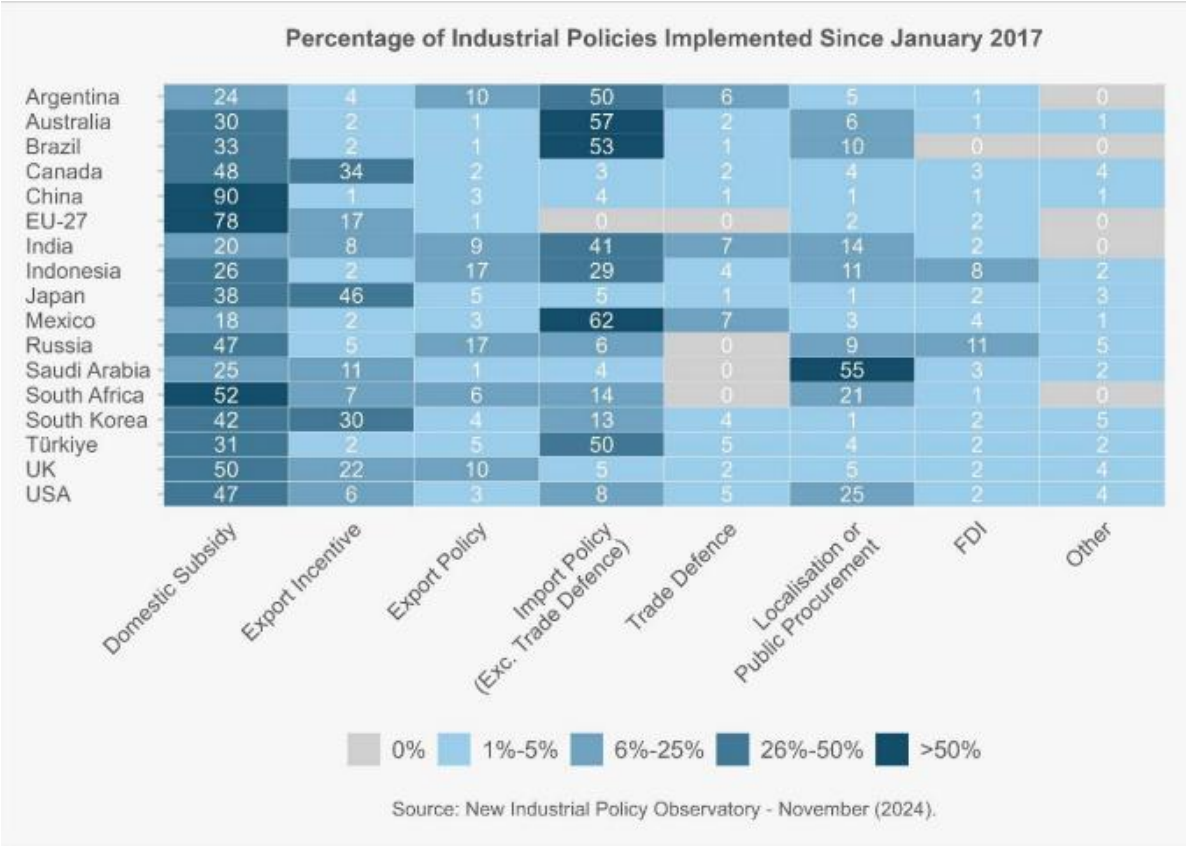
[3] Juhász R, Lane R, Rodrik D. (2023), *The New Economics of Industrial Policy*. Annu. Rev. Econ. 16: Submitted. DOI: https://doi.org/10.1146/annurev-economics-081023-024638

[4] Juhász R, Lane R, Rodrik D. (2023), The New Economics of Industrial Policy. Annu. Rev. Econ. 16: Submitted. DOI: https://doi.org/10.1146/annurev-economics-081023-024638

Figure 1: Summary of industrial policy tools in G20 countries[5]



The New Industrial Policy Observatory database finds that amongst G20 countries, subsidies are the most dominant industrial policy instrument. However, amongst developing country members, import barriers and trade defence measures enjoy greater emphasis due to limited fiscal space.

While subsidies are widely used, countries with larger fiscal space rely more on corporate subsidies, whereas developing countries focus on import barriers. The USA has deployed localisation and public procurement as its second most popular measure since 2017, whereas China, the EU, and, surprisingly, South Africa rely most heavily on subsidies. Japan, Korea, and Canada use export incentives relatively more than other G20 countries, with Japan using these as the most dominant policy instruments.[6] Global sentiment towards the practice of industrial policy has rarely been more positive despite the well-documented risks[7]. This presents the prospect of South Africa reorienting its policy stance towards performance-based, targeted and transparent policy instruments whilst mindful of historical pitfalls.

2.2 Structural change against the context of a middle-income trap

Industrial policy can be seen as an arena where South Africa's 'middle income trap' is vividly manifested. South Africa has been classified, on a GDP per capita basis, as a middle-income country since the 1960s. It has failed to make the transition to a high-income country in the mould of the likes of South Korea and Japan.

[5] New Industrial Policy Observatory (2024).

[6] This picture will shift over 2025, as the US has introduced new import measures, and other countries respond accordingly.

[7] For instance, Pradhan (2025) highlights the weak outcomes of India's industrial policy, with the introduction of trade and localisation measures, without addressing fundamentals of competitiveness.

In fact, per capita GDP has steadily diverged from the G7 average over the past 50 years, with a brief period of respite in the 2000s.

The term middle-income can be deceptive in our circumstances; average income is not a meaningful metric in a highly unequal society. South Africa might represent a 'middle-income trap of a special type'. Yet the maladies we observe in South Africa are typical of middle-income countries, many of whom don't have a sizeable middle class and struggle with inequality.

South Africa is also stuck in the middle when it comes to its competitiveness profile. Its cost structure precludes it from playing in low-cost manufacturing, whilst its factor endowments, particularly skills, means it can't play in the high-value-added, innovative space.

Situating technological upgrading within the middle-income trap construct, Andreoni and Tregenna (2020) characterise a 'middle income technological trap' that reflects the challenges that developing countries face in domestic value-added production and technological upgrading. The authors describe the middle-income technology trap as related to three factors, namely i) breaking into the global industry where 80% of value addition is concentrated in about 16 countries in 2011, ii) linking up & back - up to global value chains and back to domestic production systems and iii) keeping pace with technological change and innovation.

Box 1: Not basic, not luxury

An illustration of this 'stuck in the middle' conundrum can be found in attempts in commodity beneficiation through gold jewellery manufacturing in the early 2000s. An initiative of the gold mining industry, spurred on by a beneficiation clause in the Mining Charter (2004) and inspired by the World Gold Council, saw some South African companies making a push into the downstream gold manufacturing industry. However, South African manufacturers struggled with high input costs, skills shortages in jewellery design, and limited market access. While local production could not compete with mass-produced gold chains from Asia, it also lacked the brand strength and artisanal craftsmanship to break into high-end markets such as Bond Street and Fifth Avenue.

Yet, there are lateral moves in the mining value chain that seem viable, such as the manufacturing of mining equipment for domestic use and export markets, especially on the African continent. South Africa has successfully developed a mining equipment sector that produces specialised machinery for deep-level mining. With strong engineering capabilities, the sector supplies both domestic mines and exports to other African and Latin American markets.

Increasing global focus on critical minerals marks a return to the value addition debate. As South Africa and other African countries boast resources such as manganese, platinum, copper, and cobalt needed to fuel green technologies, the argument is made that these resources should be processed locally, from refining to the manufacture of components. This supports local economic development but also presents a possible climate mitigation rationale for not shipping raw materials over great distances. This presents opportunities for regional collaboration, with neighbouring countries cooperating to create infrastructure corridors and regional manufacturing hubs.

South Africa's experience with gold jewellery beneficiation highlights the challenge of shifting from raw mineral exports to value-added production. While jewellery manufacturing struggled due to cost and competitiveness issues, mining equipment manufacturing has successfully leveraged South Africa's deep-mining expertise. The current global focus on critical minerals presents a renewed opportunity for beneficiation, but success will depend on addressing infrastructure gaps, scaling refining capacity, and securing demand through regional industrial cooperation.

Many countries that find themselves in a middle-income trap have adopted technology and innovation policies, including through attracting multinationals and global value chains, yet Cherif and Hasinov (2019) argue that this has not translated into these countries effectively "developing their own technology at the frontier or moving away from low R&D intensity sectors such as natural resource extraction." Meanwhile, truly successful Asian miracles have moved their domestic firms to the frontier by taking long-term and risky projects that generate their own intellectual property.

Successful emerging markets that have closed the gap with the frontier have to overcome the challenge of scale to move production from small, high-cost businesses to large firms that operate at a globally competitive scale. To achieve scale, in some emerging markets, 'business groups' such as keiretsu (Japan) or chaebol (Korea) form to create a constellation of companies that are connected over a long period in informal and formal ways but fall short of merging into a single entity. Such groups are instruments of catch-up where they help their affiliates to penetrate new markets by underwriting losses, sharing resources and generating knowledge spillovers that drive innovation. Where capital markets are lacking or the cost of (external) capital is high, these groups help to achieve scale, innovation and catch-up (Lee, 2019).

The World Development Report (2024) argues that two transitions are required to move from middle-income to high-income status. In the first transition, the country requires *investment*, which is complemented with *infusion* as the country imitates and diffuses modern technologies into its own production. The first transition is especially applicable to lower-middle-income countries. In the second transition, the country moves towards innovation: through *investment and infusion*, the country adds *innovation*. This applies mostly to upper-middle-income countries, where this second transition allows for the development of domestic capabilities to add value to global technologies. This stage ushers the country's transition to becoming an innovator.

The World Development Report argues that this cumulative *investment+infusion+innovation* path (from 1i to 3i) has been followed by many successful middle-income countries such as Chile, Korea and Poland. Poland's economy moved from 20 per cent of the average for the European Union in the 1990s (similar level to South Africa) to 50 per cent. Poland's story features SOE reform, integration into a sophisticated continental market (EU) and human capital development. Its path starts with the reform of state-owned enterprises by cutting subsidies and introducing competition and private ownership. Infusion followed in the 2000s as the country deployed technologies and received FDI from its EU counterparts. The Polish presence in other parts of Europe further supported infusion. Human capital development sped up, with tertiary education rates rising from 15 per cent in 2000 to 42 per cent in 2012.

Korea walked the path from an investment push in the 1960s (led by the public sector) to infusion through tax credits to encourage the adoption of foreign technology in the 1970s and 1980s to the development of high-tech sectors in the 1990s. Chile was the first Latin American country to achieve high-income status in 2012. Its trajectory moves from mining dependence (80% of exports in the 1960s to 50% in 2023) to export promotion and technology transfers.[8]

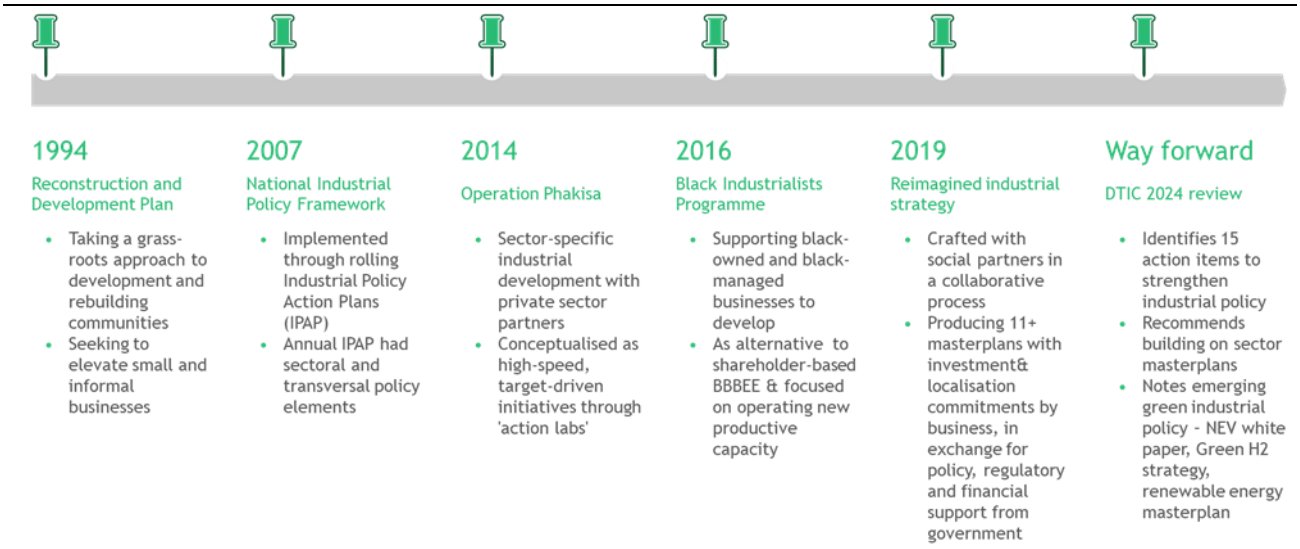
[8] Institutions such as the Chilean Agency for Exports Promotion (ProChile) and Fundación Chile (technology transfer), have facilitated the increasing sophistication of the economy.

2.3 Early post-apartheid period – modernising industrial policy

Despite an inclination to view the state as the driver of economic development and the desire to control the 'commanding heights of the economy', the new administration in 1994 was quick to espouse an agenda of modernisation[9] and liberalisation (Mandela, 1992).

The Reconstruction and Development Plan called for inclusive industrialisation through the development of labour-intensive industries. In the Budget Review of 1995, we read that the new government regards 'industrial development as the central thrust of government's approach to employment creation and income generation', with promises of programmes for restructuring industry and supply side measures to support manufacturing. "The main objectives of these programmes are to increase the competitiveness, growth rate, foreign trade performance and labour absorptive capacity of the domestic manufacturing sector." The Growth, Employment and Redistribution policy (GEAR) was more explicit in aiming for trade liberalisation, higher flows of foreign direct investment and privatisation (Manuel, 1997).

Figure 2: The evolution of industrial policy after 1994



Industrial Policy Action Plans

The National Industrial Policy Framework, ushered in 2007, aimed to articulate guiding principles for industrial policy interventions. Driven by the Department of Trade of Industry, it was implemented through a series of Industrial Policy Action Plans, with a sectoral focus and some transversal elements aimed at improving the climate for economic activity. The sectors of focus included automotives, chemicals, textiles and furniture. Industrial policy in the automotive sector stands out as a sustained effort to maintain export-oriented manufacturing through subsidies and other supportive policy measures.

The Black Industrialists Programme

The Black Industrialists programme launched in 2015, aimed to accelerate the inclusion and growth of black-owned and managed companies in value-added production. This was a departure from the dominant approach to black economic empowerment at the time, which mainly saw black entrepreneurs holding small stakes in incumbent firms without much operational and managerial control.

[9] One of the key tasks of early post-apartheid industrial policy focused on unifying disparate urban and homeland approaches

This attempt to pivot black economic empowerment from passive shareholding to active industrial involvement was implemented through financial (loans and grants) and non-financial mentoring and market access support for black-owned firms. According to the DTIC, this programme supported over 1 700 black-owned firms, which generated over R180 billion in revenue and created over 160,000 direct jobs.[10]

A Reimagined Industrial Strategy and Masterplans

In 2019, building on the Industrial Policy Action Plans – the DTIC introduced a shift in approach towards sectoral masterplans. This signalled continuity in terms of the sectoral approach to policy, with the key difference being the mode of engagement shifting from consultation with industry to a deep negotiation of outcomes with all parties expected to make some commitments.

The masterplans, with their practice of closely involving the private sector in crafting economic strategies for sectors, can be seen as instances exemplifying embedded autonomy,[11] where the government leads in policymaking but is fully engaged with the private sector and is influenced by it but with the public interest in mind.

South Africa's practice of industrial policy, though often couched in the language of structural change, is not always geared towards complex economic activities. Bringing the New Industrial Policy Observatory and the Economic Complexity Observatory together, researchers find that many policies are deployed towards industries of below-average technological complexity. South Africa stands out amongst G20 countries in that for most industrial policy instruments, save for import defence, a relatively low percentage of measures is directed towards products with above-average technological complexity.[12]

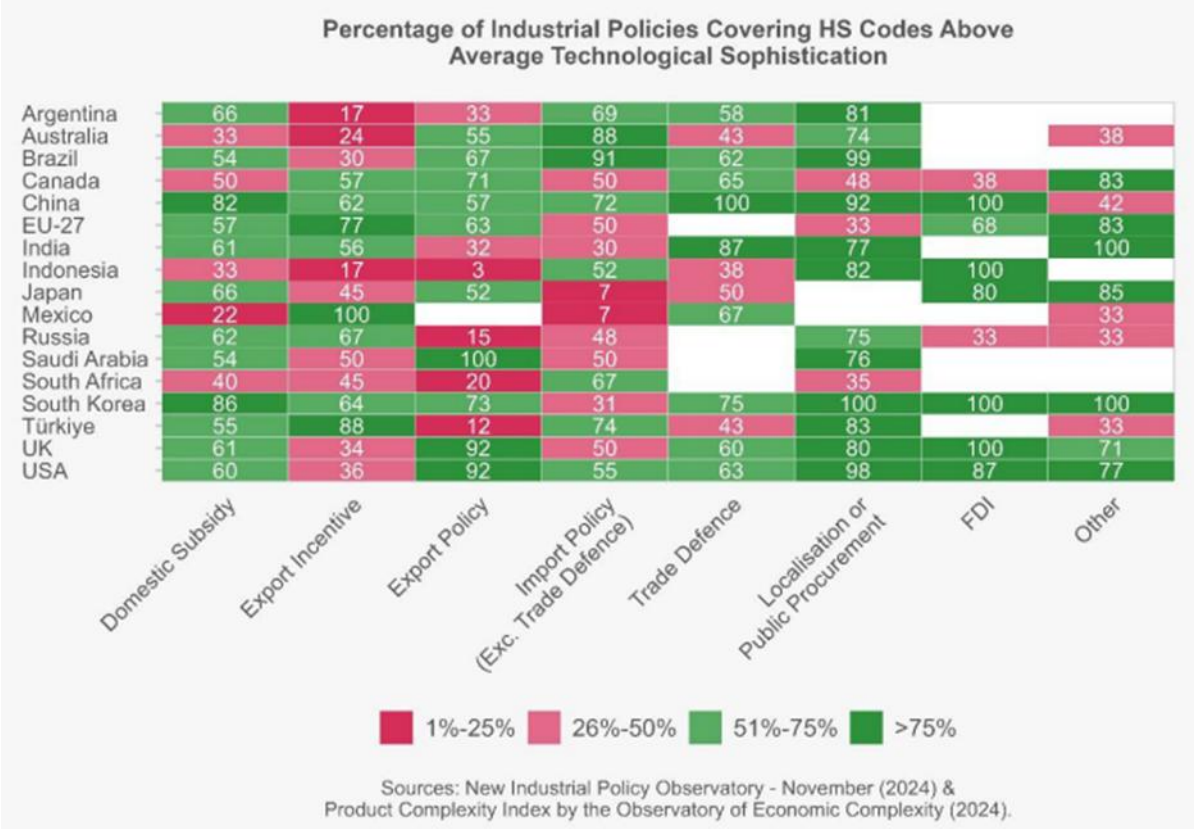
[10] DTIC (2024), Industrial Policy & Strategy Review Transforming Vision into Action: Charting South Africa's Industrial Future. Policy Paper

[11] Evans, P. (1995), *Embedded Autonomy: States and Industrial Transformation*. World Politics, 50(1), 53-79. Princeton University Press.

[12] NIPO (2024). New Industrial Policy Observatory. "In general, public procurement, localisation policies, and domestic subsidies tend to emphasise more complex products and technologies compared to export and import restrictions.

Economic coercion is more frequently applied to high-complexity products. Export curbs tend to affect more complex tariff lines than import barriers, indicating that governments are more likely to restrict the outward flow of more advanced technologies while limiting to a lesser degree imports of more basic products. Additionally, governments often use export incentives to assist domestic firms in securing foreign contracts for simpler products."

Figure 3: Industrial policy tools by technological sophistication



2.4 Other manifestations of Industrial Policy

Renewable Energy Independent Power Producer Procurement Programme.

Industrial policy manifests itself in many forms, to the extent that the state has a wide variety of tools to drive structural change, which may be deployed without an explicit industrial policy declaration. South Africa's deployment of renewable energy, through government-guaranteed procurement of renewable energy by Eskom, saw the beginnings of a green industrialisation strategy. It is a case study of how energy planning and procurement can drive industrial development and a cautionary tale of the perils of 'stop-start' policy development.

As the REIPPP programme was rolled out, a nascent renewable energy components industry began to form, buoyed by the certainty of local demand as various bid windows were announced. This attracted the manufacturers of wind turbines and solar energy components, in addition to a wide range of service-oriented firms.

However, as energy planning became heavily contested and the REIPPP stalled, these manufacturers struggled to remain viable or justify their presence in the local market[13]. Thus, the conditions for the localisation of components for solar or wind energy generation, despite an early promising start, were compromised.

[13] ArtSolar (PV manufacturer), Kestrel Renewable Energy (wind turbines), Nordex Energy (wind turbines), SolarWorld, Ecco Solar have been cited in news reports as companies facing challenges.

Operation Phakisa

Drawing inspiration from Malaysia's Big, Fast Results methodology, Operation Phakisa, launched in 2014, sought to drive growth through sector-specific action labs. The private sector was drawn in as thought partners and stakeholders to draw up plans demanding rapid implementation that was in line with the fast/phakisa[14] ethos. However, this was not to be the case, as the Phakisa action labs morphed into status quo departmental plans with slow and inconsistent implementation, leading to stakeholder disengagement. Nonetheless, the various sectoral Phakisa plans (in the blue economy, etc.) could be viewed as an attempt to build a collaboration platform to shape the course of industrial policy.

Competition Policy

Competition policy can exert an important influence on the structure of the economy. In investigating claims of anti-competitive behaviour brought by complainants or initiated by the authority itself, adjudicating the competitive effects of mergers or conducting market inquiries, the authorities are guided by legislation, jurisprudence and economic orthodoxy in favour of fair competition. For instance, in tackling anti-competitive practices in markets that produce intermediate industrial inputs, the competition authorities protect downstream value-added producers, who are the consumers of these products.

The Competition Commission has also sought to influence investment and local production through public interest conditions imposed on mergers and through the recommendations arising from market inquiries.

2.5 Subsidies and other expenditures

A review commissioned by the Department of Planning, Monitoring and Evaluation found that South Africa spends around R50 billion a year on business incentives that cut across multiple departments and sectors (DPME, 2018). This is about 1% of GDP in 2018. The study tallied 244 business incentives: 64 direct incentives, 43 indirect (tax) incentives, 10 other incentives (mostly information services) and 127 different SETA grant programmes. The review finds that the incentive system is "well-aligned" with the government's strategies and goals but found it difficult to assess whether it was contributing to the achievement of those goals and objectives. The review also found that "a large part of the incentive system is oriented towards sustaining mature industries and protecting workers in existing companies, rather than facilitating new entrants (companies or sectors) or technology diffusion."

Policies that encourage the diffusion of global technologies are key to helping middle-income countries escape the middle-income trap (World Bank, 2024). South Africa's incentives "are directed towards capital intensive projects, and towards existing companies in mature sectors". South Africa's spending on incentives, skewed as it is towards capital-intensive projects in mature firms in mature industries, is not likely to contribute to dynamic structural change.

Though South Africa spends at least 1% of its GDP on financial incentives, this spending appears to be directed towards activities that are unlikely to accelerate structural change (mature firms in legacy industries). The record of state-owned enterprises in providing opportunities for local firms is marred by inefficiency and corruption. Policymaking would benefit from rigorous studies of the direct costs, trade-offs and opportunity costs entailed by industrial policy measures.

[14] Phakisa means hurry up in Sesotho and Setswana.

3. Outcomes

3.1 Overview

The practice and performance of industrial policy in South Africa has attracted robust critique. The main charges relate to the apparent inability to break out of low growth and job creation even in targeted sectors, stagnant economic complexity and declining export competitiveness. The performance of network industries is not supportive of the development of dynamic capabilities. Policy has also struggled to articulate a clear vision for the macroeconomic-real economy interface. There is a persistent tension between the role of competitive markets versus the forces of incumbency within both the private and public sectors.

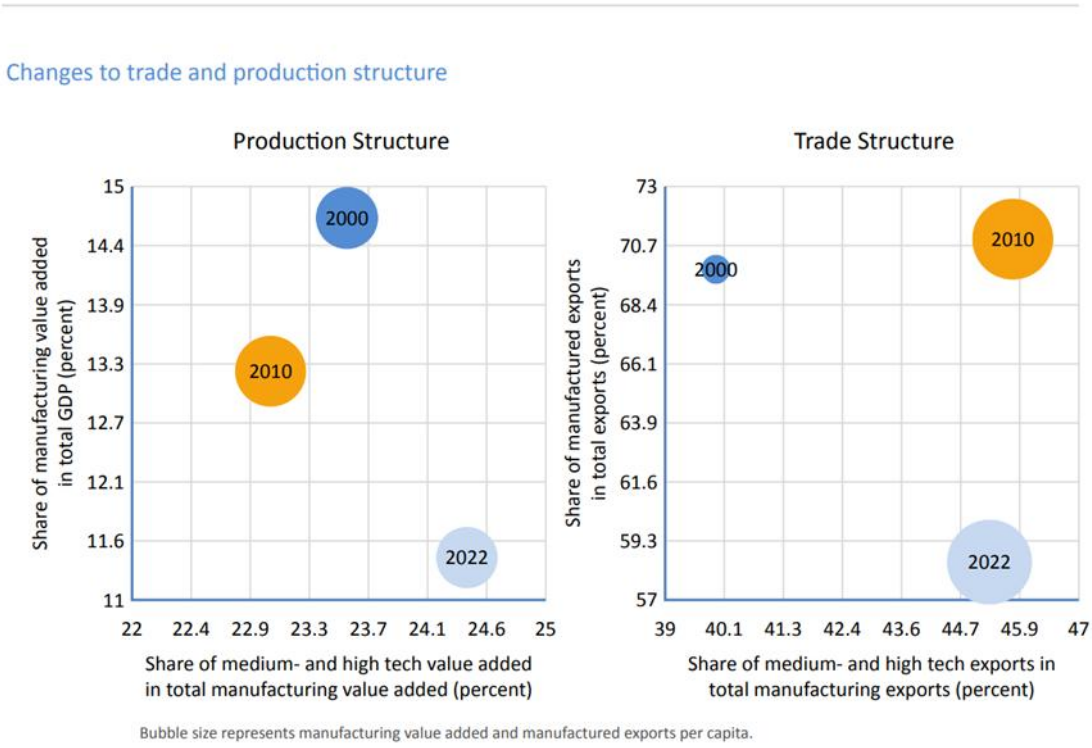
South Africa, classified by UNIDO as a middle-income industrial economy[15], is the most sophisticated economy on the African continent. Over the past thirty years, the economy has shown some dynamism in value chains as diverse as automotive, agro-processing and pharmaceuticals. However, its performance has lagged and continues to diverge from comparable developing economies such as Chile, Malaysia or Morocco.[16] South Africa has steadily lost its position on UNIDO's competitive industrial performance index over time. Just in the period between 2015 and 2020, the country dropped by 14 positions. This is driven by a decline in the share of manufacturing value added in GDP, which is not only symptomatic of growth elsewhere in the economy but is a direct outcome of structural pressures from energy insecurity, poor logistics and a skills mismatch. The sophistication of exports is also questionable, with the share of medium and high-technology exports remaining low.

Looking at changes to production and trade structure over time presents a complicated picture. The share of manufacturing value added in total GDP and the share of manufactured exports in total exports has fallen between 2000 and 2022; however, within these categories, the share of medium and high-tech value-added products has increased.

[15] Out of 153 countries, Unido ranks South Africa at 51 on its *Competitive Industrial Performance Index*. The index ranks countries on manufacturing value added as percentage of GDP, share of manufactured exports and share of medium and high-tech global value added.

[16] Chile, Malaysia, Morocco, Poland, Colombia share similar characteristics with South Africa (classified by Unido as a 'middle-income industrial economy') in terms of population size, sectoral distribution, demographic (Malaysia, Colombia) and spatial inequality.

Figure 4 Changes to trade and production structure



A causal analysis of the effects of industrial policy over the past thirty years would need to study specific sub-sectors and places targeted by policy in detail. A whole-of-economy lens to assessing outcomes is not particularly useful. However, when looking at the stated vision of successive waves of policymaking, it becomes clear that the goals espoused, such as promoting labour intensity, absorbing low-skilled labour or moving up value chains, remain largely out of reach. Further, some practices of industrial policy seem to reinforce the high-skills and capital-intensive biases present in the economy.[17]

3.2 Key Performance Indicators

The 2024 review of industrial policy by the DTIC notes some positive indicators arising out of discrete industrial policy actions, including:

- the expansion of local production in the automotive and poultry sectors;
- commitments to local procurement by private sector players provided as masterplan pledges;
- positive employment outcomes in some sectors, with notable local content growth in industries like clothing and
- reduced imports and increased exports in sectors such as sugar and poultry.

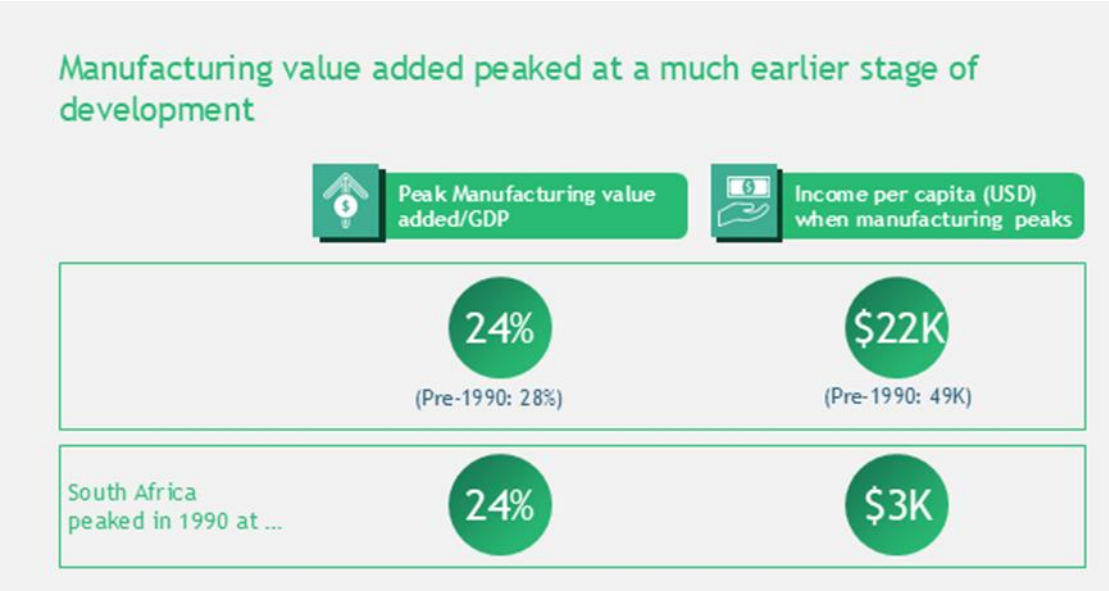
These are important sectoral outcomes during a complicated economic and geopolitical climate, but the true measure of industrial policy is whether it is achieving significant structural change. At the aggregate level, the picture does not look promising. In fact, as has been extensively argued, what appears to be happening

[17] For instance, a report commissioned by the DPME (DNA, 2018), shows that most government support to business goes to capital intensive industries such as automotives.

is that South Africa is losing ground, with manufacturing value added having peaked at a lower level of development than was the historical case in rich economies.[18]

Pre-mature deindustrialisation

Figure 5: Pre-mature deindustrialisation



Whereas manufacturing typically peaked when it reached 24% of GDP (28% if one looks at the period before 1990), whilst the country would have reached $22 000 of per capita income ($49 000 before 1990), South Africa's manufacturing sector peaked at 24% of GDP in 1990, when the country only scored $3 000 per capita. In fast-developing economies (especially in East Asia and China), manufacturing has been a driver of innovation, learning and export performance. However, in recent years, developing countries have seen manufacturing peak and decline at lower levels of development (pre-mature deindustrialisation).

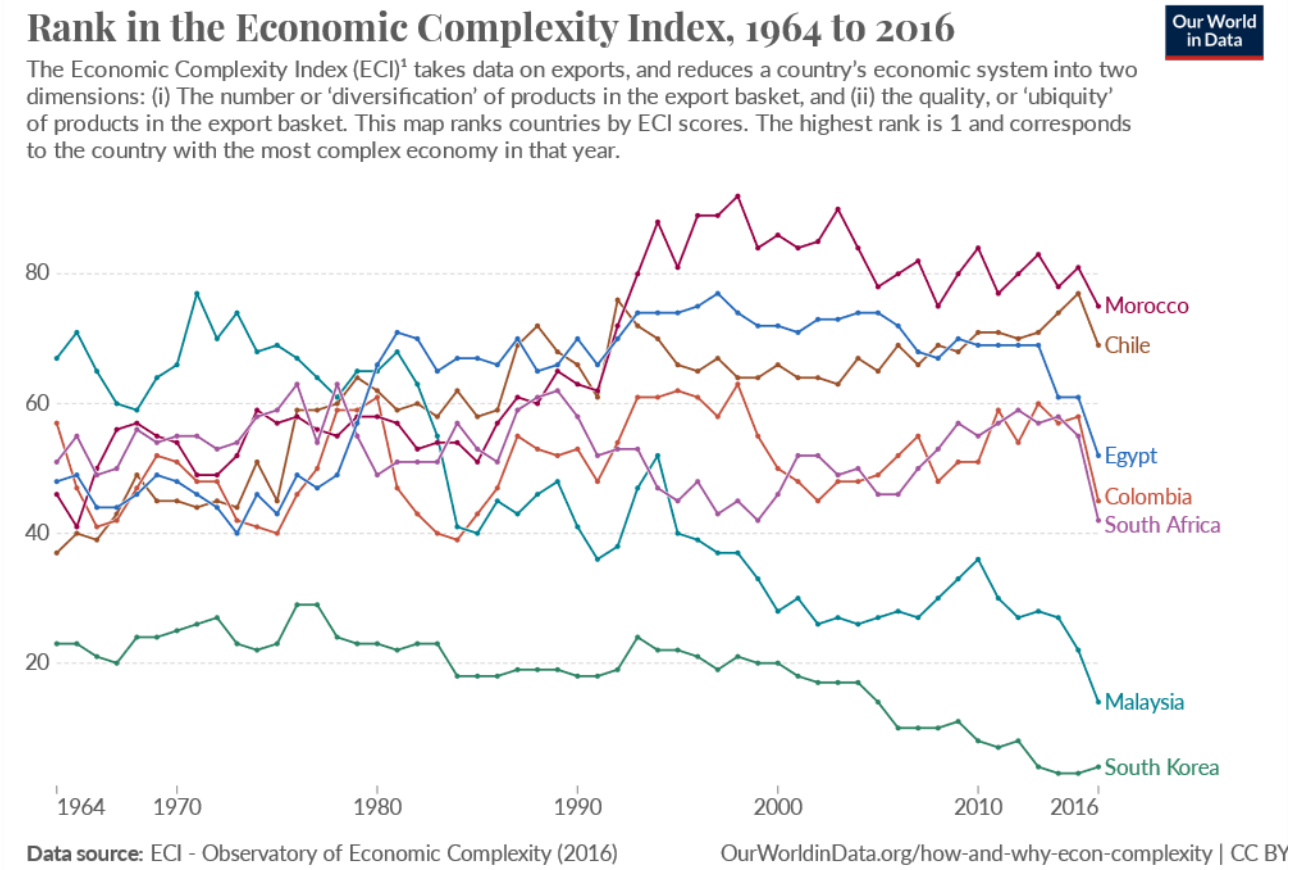
The limited opportunities for export-oriented growth in the face of China's unassailable lead, the increasing skills intensity of manufacturing, and geopolitically driven fragmentation put pause on the idea that industrial development is a viable path for structural change for latecomers or those losing ground like South Africa. The point to make here is that despite the industrial policy actions of the past three decades, South Africa remains firmly on the path of deindustrialisation.

Economic complexity

On the economic complexity index, which captures an economy's degree of diversification in its exports and a measure of the quality of those products, South Africa has had a mixed performance in its ranking, whereas Malaysia has had a clear trajectory of improvement. In 1990, South Africa ranked 58, whilst Malaysia ranked 41. By 1999, Malaysia ranked 33 and by 2016, an impressive 14, whereas South Africa was stagnant at 42 in both periods. South Africa essentially muddled along, much like Colombia and Chile, though South Africa was ranked above them in 2016.

[18] Rodrik, D. (2016). "Premature Deindustrialization." Journal of Economic Growth, 21(1), 1–33. https://doi.org/10.1007/s10887-015-9122-3.

Figure 6: Economic Complexity Index

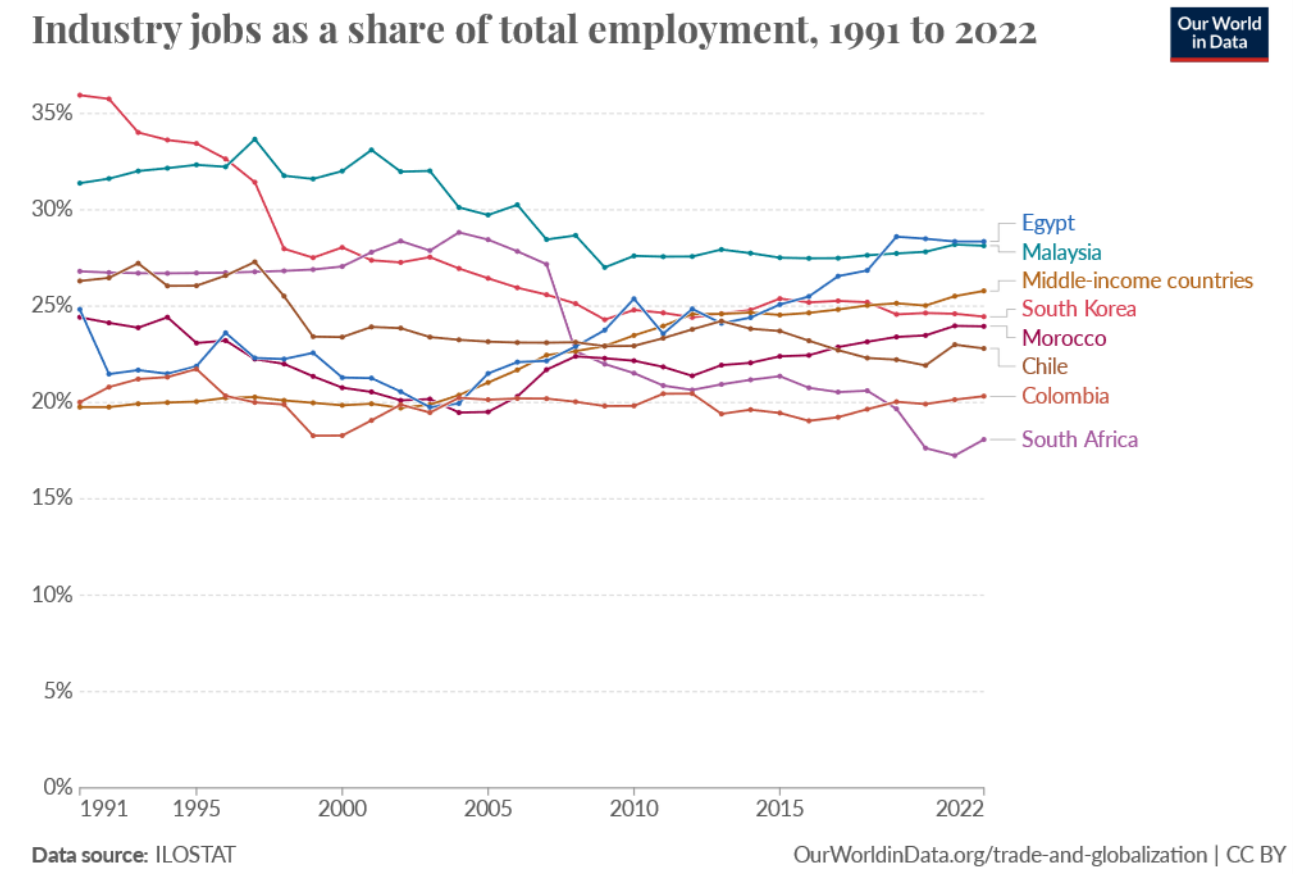


1. **Economic Complexity Index:** The Economic Complexity Index (ECI) is a measure of the productive capabilities of a country, proposed by Ricardo Hausmann and Cesar Hidalgo. Productive capabilities are defined by them as all the inputs, technologies and ideas that, in combination, determine the frontiers of what an economy can produce. The ECI takes data on exports, and reduces a country's economic system into two dimensions: - The diversity of products in the export basket. - The ubiquity of products in the export basket. 'Diversity' is the number of products that a country can export competitively; and 'ubiquity' is the number of countries that are able to export a product competitively. Read more in our article: How and why should we study 'economic complexity'?

Employment in Secondary Sectors

On the simple measure of people employed in secondary sectors, South Africa has a lower proportion than middle-income countries, including countries such as Chile and, more recently, Colombia, which ranks lower on the economic complexity index, as shown above. Thus, the labour force, which is said to enjoy capability dividends from manufacturing, is increasingly engaged elsewhere in sectors which may not necessarily represent comparable levels of productivity.

Figure 7: Industry as a share of total employment



Box 2: The Electricity Sector's Role in Value-Added Growth & Economic Complexity

The electricity sector in South Africa is emblematic of both the possibilities but also the challenges of industrial policy. Between the 1980s and early 2000s, cheap electricity was a key pillar of industrial expansion, particularly for energy-intensive industries such as smelters, mining, and steel production, which benefited from preferential tariffs. The sector was dominated by Eskom, a vertically integrated state-owned enterprise, which maintained excess capacity during the 1990s, but underinvestment in new capacity after this period set the stage for future crises.

The 1998 Energy White Paper outlined a path toward a liberalised, competitive electricity market, envisioning greater private sector participation. However, implementation stalled, leading to underinvestment in new-generation infrastructure. Unlike in the 1970s, when capacity expansions aligned with economic growth, the 2000s saw a larger economy and near-universal electricity access, increasing demand. This culminated in rolling blackouts from 2007 onwards, exacerbated by delayed, over-budget coal-fired power stations (Medupi & Kusile), governance failures, and state capture-related corruption.

By 2019, the Eskom Roadmap initiated plans to unbundle the utility into separate generation, transmission, and distribution entities. This was formalised under the 2022 Energy Action Plan and Operation Vulindlela, which aim to introduce private sector investment and market competition. However, it remains to be seen whether these reforms will succeed in restoring electricity as a driver of industrial policy.

For South Africa's economy to increase complexity and move into higher-value manufacturing, stable, affordable electricity is critical. The renewable energy transition presents new vectors for value addition,

such as green hydrogen, battery manufacturing, and mineral beneficiation. But this requires better grid infrastructure and policy coordination. Without aligning energy security with industrial policy goals, South Africa risks failing to capitalise on new growth sectors and reinforcing its dependency on low-value resource exports.

Emerging markets such as China, India, Vietnam, and Brazil have leveraged energy infrastructure, industrial incentives, and policy coordination to drive structural transformation. China's industrial clusters are powered by dedicated grids, while India uses sectoral electricity pricing to boost strategic industries. Vietnam guarantees uninterrupted electricity for export-driven manufacturing, and Brazil has leveraged renewable energy and biofuels to lower industrial costs. For South Africa, aligning renewable energy investments, competitive electricity tariffs, and industrial policy incentives will be crucial in enabling higher-value manufacturing, digital industries, and green industrialisation, ultimately driving long-term economic transformation

A reliable, cost-competitive electricity supply is essential for diversifying South Africa's economy into higher-value industries such as advanced manufacturing, digital services, and renewable energy production. The ability to sustain power-intensive industrial activities, such as mineral beneficiation and high-tech production, will be critical to moving up global value chains.

4. The Macro/Industrial Interface

There is a strain of critique that at least since the introduction of the GEAR macroeconomic policy framework in the late 1990s, macroeconomic policy has not been supportive of deliberate industrial policy or, as some critics might argue, it has even been detrimental to the laissez-faire development of value-added production. In this view, macroeconomic policy has denied industrial policy of fiscal resources. Further, macroeconomic policy has created relative price outcomes that stifle the development of value-added sectors.

The interest rate environment, an outcome of a policy of managing inflation expectations to achieve an inflation target, is said to create difficult conditions for business growth. High interest rates raise the cost of borrowing for private sector expansion and limit the size of the consumer market for locally produced goods.

Exchange rate policy has also come under attack. Especially before 2008, the argument was that the exchange rate was too strong to support export-oriented production.

The counterargument has been that the pursuit of macro-stability has been positive for all sectors of the economy and that the counterfactual, with high and volatile inflation, a fiscal cliff and policy uncertainty, would be far worse for any productive activity. The steady and deep depreciation of the Rand since 2002 also casts doubt on the idea that an excessively strong currency has undermined exports. In the period of deep depreciation, other constraints have operated to limit the buoyancy of value-added exports to the currency. It is also important to note that many exporters are also significant importers of intermediate inputs whilst exporting resource-based products, complicating the relationship between value-added exports and the level of change in the currency's value.[19]

A decade of macroeconomic easing in South Africa, with a significantly depreciated exchange rate and a doubling of the public debt to GDP ratio - inadvertent stimulus, you might call it - did nothing to halt the decline in the productive sectors, including manufacturing capability.

[19] Edwards & Hlatshwayo (2020), Exchange rates and firm export performance in South Africa Lawrence. UNU Wider Working Paper

The strength of the financial sector, which on one hand can be seen as the financialisation of the economy at the expense of the 'real economy', also provides financial services to the economy, including access to credit for automotive, energy and other industries.

The constraints of the fiscal framework, including attempts at fiscal consolidation, have also been invoked as limiting the ambition of industrial policy. The expenditure ceiling limits the allocations that can be advanced to departments and programs, and government investment in infrastructure has also declined. As Juhanz et al. argue, industrial policy has a positive correlation with a country's income levels. From that perspective, it is not surprising that South Africa's industrial policy is less ambitious than some commentators would like. Yet, in an environment where, for whatever reason, both monetary and fiscal policy have been restrained, the potential for structural change is stunted.

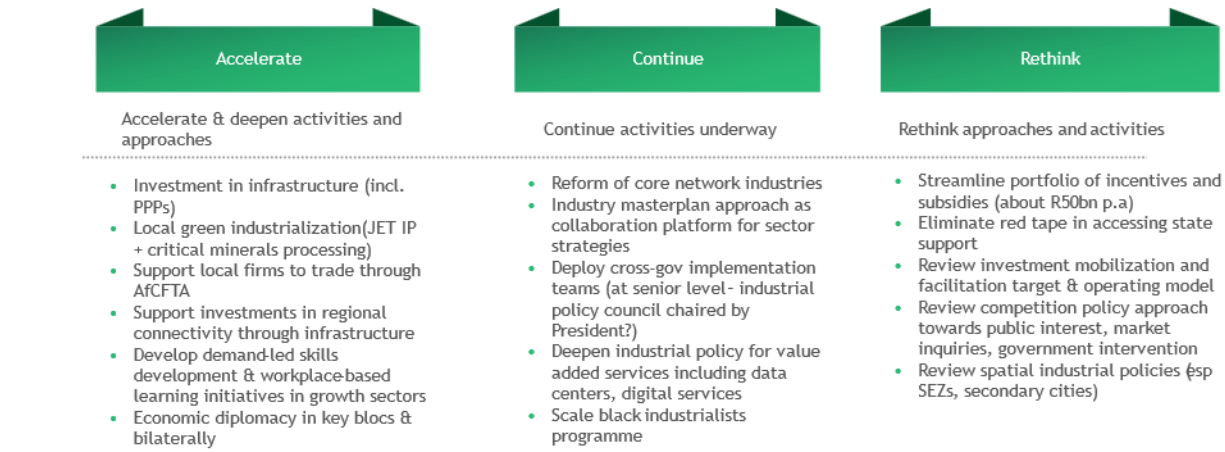
The apparent points of tension between macroeconomic and industrial policy might point to the absence of a 'development bargain' in South Africa. Dercon (2022) posits that there are different paths to economic development which produce distinct sets of trade-offs. What bodes for success is not the execution of a universal 'recipe' but a bargain that elites make to make (painful, from a short-term perspective) sacrifices in exchange for higher economic growth in future. This is a gamble because the gains might not appear, or some elites might not share in them.

Viewed within this framework, South Africa does not have a pact that reconciles macroeconomic policy with structural transformation. A South African developmental elite pact that delivers on value-added growth and job creation would seek consensus around a policy environment that protects investment in the real economy, public and private spending on infrastructure, lowered input costs and a shared understanding of industrial policy priorities.

5. Policy Considerations

The industrial policy review paper published by the DTIC at the end of the 6th administration provides a comprehensive overview of the activities undertaken during this period. The review also identifies a range of policy recommendations.

5.1 High-Level Summary of the Themes Identified in the DTIC Review



This Paper adds its own evaluative layer to group the themes presented as those that warrant acceleration or continuation whilst highlighting others that require a rethink because they have limited impact or may be counter-productive. As such, this Paper does not rehash all the points made in the DTIC review but drills down on a few themes and expands on areas where there might be areas of divergence.

Accelerate and deepen activities and approaches.

This Paper is in alignment with the propositions that:

- Effective industrial policy depends on investment in infrastructure (including through PPPs
- capitalising on the opportunities of the green economy articulated in the Just Energy Transition Implementation Plan, NEV White Paper, the Green Hydrogen Commercialisation Strategy and the Renewable Energy Masterplan is important, including critical minerals processing
- infrastructure development should also focus on regional connectivity
- local firms should be supported to trade through the AfCFTA
- economic diplomacy in key blocs must be accelerated and finessed in this fraught geopolitical environment.

Continue activities underway

There are aspects of industrial policy already underway that the review points to and which warrant continuation:

- As the share of traditional manufacturing in output and employment falls, it becomes important to think of supporting productive investments where new economic activities are likely to emerge, notably in the services sector. As the DTIC review acknowledges this: 'Building on lessons from support to global business services and film industries, it is proposed to expand support to high-value services sectors like tourism, engineering, digital services, the creative industries, security, education and healthcare.'
- The masterplan approach to industrial policy has played out in different ways across sectors. However, the core idea of building a transparent collaboration platform with the private sector, with clear roles, responsibilities and targets, should continue.
- The reform of network industries is a crucial unlock for industrial policy.

Rethink activities

It is undeniable that industrial policy is a complex policy terrain, and there are no easy answers. However, there are practices that do not seem to contribute much to outcomes or have features that mean that they are likely to cause more harm than good. Below, we highlight some areas where a fundamental rethink is required:

Incentives

As the DPME-commissioned review of incentives shows, there is a plethora of incentives, some of which reinforce the current structure of the economy and do not contribute to economic dynamism. An exercise to reprioritise and streamline those incentives aimed at industrial policy is needed.

Related to the above is a renewed impetus to reduce the complexity, opacity and red tape that attends to access to incentives and state support for innovation and value-added production more broadly.

Investment mobilisation

The investment mobilisation drive under the sixth administration helped to bring the government and business closer to cracking the investment challenge. However, quantitatively, the level of fixed capital formation remains at levels that are too low for a developing economy, reaching depths below half of the 25% - 30% investment/GDP ratios seen elsewhere and to which the NDP aspired.

A reframing of the target so that it is set relative to a clear baseline, indexed to some measure of significance (e.g. as a ratio of GDP) and with indications to the quality of investment sought (e.g. greenfield versus maintenance) would set an appropriate level of ambition. Much effort has been put towards investment (and trade) facilitation, but the work remains under-resourced, whereas the private sector could be making a more meaningful contribution to a joint effort – see Invest India's public-private partnership model, for example.

Competition/Industrial Policy Interface

Industrial policy finds expression in a mixed economy, mainly through private companies. Company behaviour matters, as does market structure. It is important to foster pro-competitive behaviour and to create market conditions conducive to the entry and survival of efficient small and young firms. Yet, the tools of industrial policy still need to be deployed in a predictable manner.

There is a tension between disciplining market power and building national champions that can drive innovation and industrial development, especially in a middle-income economy without a large domestic market. Of course, building strong domestic companies does not entail destroying local competition, which may, in fact, be useful in instilling the ability to compete on a bigger international stage, and strong domestic competition also limits cronyism[20]. The point to be made is that to nurture the companies that can form the basis for solid local value addition implies a competition regime that leans towards allowing companies to achieve economies of scale. This means finding ways to make companies compete *for* the market, if not necessarily competing *in* the market, to borrow a perspective applied to the regulation of natural monopolies. As the World Bank argues, incumbents have the resources to strive for innovation, and it is important to discipline the negative effects of incumbency.[21]

Tools such as market inquiries can play an important role in reshaping industries through remedial orders and policy recommendations. However, it is important to manage the scope of such inquiries to avoid the risk or perception of 'overreach' and to advocate for the buy-in of other stakeholders and policymakers in the markets under scrutiny. Similarly, public interest remedies in merger control must bear a relationship to specific harms that arise due to a transaction, even if innovation and negotiating dynamics may yield more expansive conditions.

Further, an emerging market like South Africa needs a clear narrative and strategy for nurturing national champions through whom industrial policy is manifested. The literature on large firms has messages both on the importance of disciplining incumbents and on how they can contribute to innovation.

Finally, more attention should be directed to curbing state-driven distortions to competition and pursuing the potential gains from competitive markets, such as in the nascent work in electricity and logistics markets.

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[20] Cherif and Hasanov (2019), The return of the policy that shall not be named: principles of industrial policy. IMF Working Papers. 2019/074.

[21] World Bank (2024), World Development Report.

Spatial Approaches

Special economic zones and other place-based industrial policies have stood at the heart of industrial policy, notably in high-performing East Asian countries. In South Africa, special economic zones and industrial parks (some of the latter were an attempt to preserve 'border' industries of the apartheid era) have been mired with challenges ranging from low levels of investment to inadequate job creation.

The DTIC Review presents the Tshwane Automotive Special Economic Zone as the exemplar of a new framework towards implementing SEZ policy. The approach to investment facilitation and coordination is reported to have been different for that SEZ. It remains to be seen whether this instance marks a fundamental change to SEZ development, which engages with the lessons offered in many studies on the topic[22].

5.2 Performance-based Industrial Policy

Over the past three decades, the core challenge facing South African industrial policy is that so much has been done, whether looking at policy in terms of sectoral interventions, trade policy tools, competition policy interventions, but with modest impact. This lack of strong measurable outcomes presents lessons for the design of policy. Though there are many exogenous events that had an adverse effect on industrial policy (like the global financial crisis in 2008, the COVID-19 pandemic, or endemic corruption), a big part of the challenge relates to how industrial schemes and incentives set the frame for performance and related to that, for monitoring and evaluation.

Examining the effectiveness of industrial policy requires an examination of the resources expended on it and the opportunity costs of specific policy measures. This is a difficult exercise for various reasons, including the fact that many measures are not reported, reported measures are not reliable, and some measures are unmeasurable (Barwick et al., 2024). This is a difficult exercise for various reasons, including the fact that many measures are not reported, reported measures are not reliable, and some measures are unmeasurable (Barwick et al., 2024)[23] . However, some qualitative themes emerge from the literature.

Studies of successful instances of industrial policy in East Asia suggest that corporate behaviour was kept aligned with public goals through criteria linked to export performance. Further, state support came with measures to enforce accountability by monitoring and disciplining the market[24] . Firms that received subsidies and other forms of public support could lose their benefits if they did not meet their export or productivity targets. This implies the need for well-structured incentive programs with clear targets, and credible threats that support will be withdrawn in the face of under-performance. Other literature also points to the need for strong conditionalities and key performance metrics to be imposed on the beneficiaries of public interventions.[25]

Under the IPAP series, though sectoral strategies were outlined, many of these did not have an explicit articulation of expectations related to output, exports and jobs above a certain benchmark. There are notable exceptions, such as the Automotive Production and Development Programme, which set clear targets for production, exports and local content. Similarly, the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) provided a state-backed procurement programme with clear targets for

[22] See for instance Parliament (2018), Report of the High Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change. or CDE (2021) What if South Africa had a special economic zone that was actually special?

[23] (Barwick et al, 2024) pose the example of a small airport that builds an expensive, overly long runway, which is used by an aircraft manufacturer for large plane trials.

[24] Cherif and Hasanov (2019), *The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy*. IMF Working Paper.

[25] Mazzucatto and Rodrik (2023), *Industrial Policy with Conditionalities: A Taxonomy and Sample Cases*.

production (MW to be delivered), jobs and local content, with private sector participants chosen through a competitive process.

South Africa does not have a strong record of halting practices that are ineffective. Some incentive schemes have been discontinued without a replacement, such as the section 12 (j) tax incentive. The arguments advanced to discontinue the scheme were based on an impact logic, in that it was argued that the scheme did not meet its intended objective of entrepreneurial support and job creation whilst creating costs to the fiscus and a high administrative burden. This is a fiercely contested argument in terms of the specifics of the scheme but points to an instance where an incentive was subjected to scrutiny based on its performance and cost-effectiveness.[26]

Some of the industry masterplans adopted since 2019 include targets that suggest a performance orientation, but it remains to be seen whether enforcement will follow and mitigations taken at a time when results are under threat of not being realised. It might also be argued that the performance metrics contained within the masterplans are not sufficiently related to exports, productivity (including through skills development) or innovation.

5.3 Institutionalising and Implementing Industrial Policy

The DTIC review proposes that industrial policy should be coordinated through an Industrial Policy Council chaired by the President. Coordination from the centre is seen as a way to overcome fragmentation, resolve contradictions and tensions between different policy domains, and optimise complementarities.[27] It also lauds the experience of masterplans, which have succeeded in bringing together implementation-level officials to work together on cross-cutting policies and projects.

A central coordination structure, as proposed by the DTIC review, is likely to add value if it provides industrial policy with clear goals, a prioritisation framework, a clear resourcing strategy and effective monitoring and evaluation. The need for central coordination is a common theme in local and international reviews of industrial policy (Black et al., (2016); Reed (2024)).

South Africa's industrial policy desperately needs a framework for prioritising the many and fragmented activities taking place under its ambit. A framework for prioritisation should begin with a clear articulation of the metrics that will be applied transparently to elevate certain activities over others, such as the potential contribution to GDP, employment or the development of intellectual property or know-how.

The use of masterplans as a platform for cooperation falls under the ambit of what Reed (2024) identifies as industrial policy action that meets global trade rules. Sector-specific dialogue is presented as a tool to coordinate the many regulatory requirements that befall firms in a specific sector whilst also being a channel to elicit information from firms about the constraints they face and an opportunity to craft targeted, as opposed to generic measures to boost national competitiveness. Black et al. (2016) highlight the need for a developmental compact between the public and private sector that allows for a unified strategy, a notion dealt with more extensively in Dercon's concept of a 'developmental bargain' as discussed in Section 5.

Taking a wider lens, a developmental bargain on industrial policy could include the following elements:

- Big business, labour, and the state agree on priority sectors for industrial growth.

[26] Balfour, N (2021), The sun sets on 12J VCCs – what are the lessons from the last decade? Investec: Link accessed 30 November 2024.

[27] Black, et al (2016)

- Macroeconomic policy decisions (e.g., interest rate policies) actively consider industrial sector needs.
- Industrialists receive support in exchange for performance-based accountability.

This necessitates short-term pain as entrenched interests in legacy industries that don't contribute to industrial expansion are deprioritised, financial institutions take on more risk in financing productive enterprises and labour market rigidities (esp. for entrants in high potential activities or special zones) are examined. The gamble is that these sacrifices could deliver a diversified economy, higher employment absorption and a more competitive private sector.

To form credible commitments and iterative learning, a developmental bargain should institutionalise performance benchmarks, such as export targets for firms receiving state support, productivity and job-creation conditions for access to financing periodic reviews and sunset clauses for failing industrial programs. Incremental trust-building mechanisms and enforceable commitments would strengthen the pact over time. Such a developmental bargain could transition South Africa from a stagnant (even if with a reasonable degree of macroeconomic stability) to a dynamic, value-adding economy.

5.4 Further research

Juhanz et al. make the case that, observationally, both instances of bad and good industrial practice can look the same. For example, bad policy and good policy can produce similar, modest outcomes: in the first instance of bad policy, the outcomes are modest because the policy is poorly formulated; in the second instance, the policy is well formulated, but it is targeting difficult problems. Most research to date also fails to fully identify all the tools of industrial policy and limits it to a few tools that are easily observed (like tariffs) or capture tools that look like industrial policy but are, in fact, pursued for reasons that have nothing to do with industrial policy. Novel techniques, including those that analyse voluminous texts, could provide better avenues to classify and quantify the impact of industrial policy.

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Tools used:

- Microsoft Editor to edit for spelling and grammar
- Chat GPT to refine some text, sources references and to format the list of references