# Rethink growth, jobs and the DTIC

ACTION SEVEN

PRIORITIES

FOR SA'S NEW GOVERNMENT

CDE

AGENDA 2024

## About CDE

The Centre for Development and Enterprise, an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation. By examining South African and international experience, CDE formulates practical policy proposals outlining ways in which South Africa can tackle major social and economic challenges. CDE has a special focus on the role of business and markets in development.

CDE disseminates its research and proposals to a national audience of policy makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts (local and international), senior government officials (national and local), business leaders, politicians and civil society organisations to debate critical challenges facing the country and the policy implications of research findings.

## The AGENDA 2024 series

**Series editor: Ann Bernstein**

Reports in the AGENDA 2024 Series are based on CDE's many policy initiatives, commissioned research and think pieces, as well as consultations and workshops with experts and stakeholders.

This special project has been guided by the CDE Board, a select group of senior business leaders, a strategy group of analysts supplemented by other senior advisors.

This document and the other reports that will follow in the AGENDA 2024 series are available from CDE and can be downloaded from www.cde.org.za.

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Photo credit: Union Buildings, by Mano Africa

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## AGENDA 2024: Priorities for South Africa's new government

AGENDA 2024 is based on CDE's extensive policy work and recent collaboration with experts, business leaders, former public servants, and others across our society. The project sets out to answer what is by far the most important question facing South Africa: **what can a new government do to get the country back on track after 15 years of stagnation and decline?**

We cannot afford to keep making the same mistakes while hoping for a different outcome. We need a new vision of how to govern South Africa and a carefully crafted strategy to make it happen. Confronted with a generational challenge to get tens of millions of people out of poverty, the new government must take bold action.

AGENDA 2024 makes the case for a policy agenda that is substantially different from what we have seen over the past 15 years. It consists of a series of carefully selected and crafted actions to signal a new approach to reform. We have to prioritise fixing the basics and sending strong signals that a new determination and focus will characterise the seventh democratic government. The right priorities are essential and the first step of reform is to appoint excellent people into senior government positions.

Our priority areas for action are:

- Fix the state
- Drive growth and development by freeing up markets and competition
- Build a new approach to mass inclusion
- Tackle the fiscal crisis
- Strengthen the rule of law

This report is the seventh in CDE's AGENDA 2024 series, **ACTION SEVEN: Rethink growth, jobs and the DTIC.**

See also:

- **ACTION ONE: Reorganise the Presidency and the Cabinet**
- **ACTION TWO: Appoint the right people in mission critical public sector jobs**
- **ACTION THREE: Fix the fiscal crisis**
- **ACTION FOUR: How to appoint a strong judiciary**
- **ACTION FIVE: Energise the NPA**
- **ACTION SIX: Solve the SOE challenge**

# ACTION SEVEN: Rethink growth, jobs and the DTIC

## Introduction

When President Ramaphosa opened the seventh Parliament in July 2024, he said, "We will pursue a smart industrial policy that focuses on the competitiveness of our economy, and that incentivises businesses to expand our exports and create jobs". He also called for a review of the master plans "to see whether they are becoming as effective as we had envisaged". At the same time, he committed the new government to "continue to work with stakeholders to develop and implement master plans to grow important industries, to increase investment, to create jobs and foster transformation".[1]

The National Economic Development and Labour Council (NEDLAC) echoed this call. In September 2024, it released a report reflecting on the achievements of the first 30 years of democracy, identifying the need for "a comprehensive review of South Africa's trade and competition policies".[2] The report pointed out that, "master plans have been developed in many sectors, including clothing and retail, sugar, steel, agriculture, agri-processing, and furniture. They have provided for wide stakeholder involvement and inclusive consultations. However, most master plans have either failed or achieved slow progress".[3]

**"Countries that are good at manufacturing have tended to grow more quickly and for longer periods than countries that are not"**

These are important acknowledgements from the President and NEDLAC partners that existing policies have failed to deliver and that we need fresh thinking.

However, the way forward the President and NEDLAC appear to have in mind, does not acknowledge the fundamental issues that have held us back. NEDLAC, for example, calls for more protectionism, and Ramaphosa remains committed to the master plan approach. They are looking to 'double down' rather than move to new, workable ways to change the fortunes of our manufacturing sector.

As the evidence-based diagnosis presented below shows, the Department of Trade Industry and Competition (DTIC) has failed to achieve its own goals for re-industrialising South Africa's economy. Indeed, a recent review of the DTIC's master plans by the Trade and Industry Policy Strategies (TIPS) found little evidence of success. The plans, they concluded address only a small sliver of the economy and have had little impact. "As a group," TIPS wrote, "the master plan industries saw slower increase in import intensity than other industries, but only historic commodity exports climbed significantly (mostly due higher world prices)".[4] In other words, while the master plans have delivered some protection from foreign competition, they have done nothing to raise the level of manufactured exports. This is one reason why manufacturing in South Africa has performed so poorly compared with other developing countries.

> **"Fewer than 10 per cent of manufacturing firms export more than five per cent of their output"**

South Africa needs a new approach. The government of national unity (GNU) creates an opportunity to change the country's course for the better. It must prioritise tackling the fundamental barriers that prevent South Africa from moving onto a faster, more labour-intensive growth path. In this, the DTIC has a vital role to play.

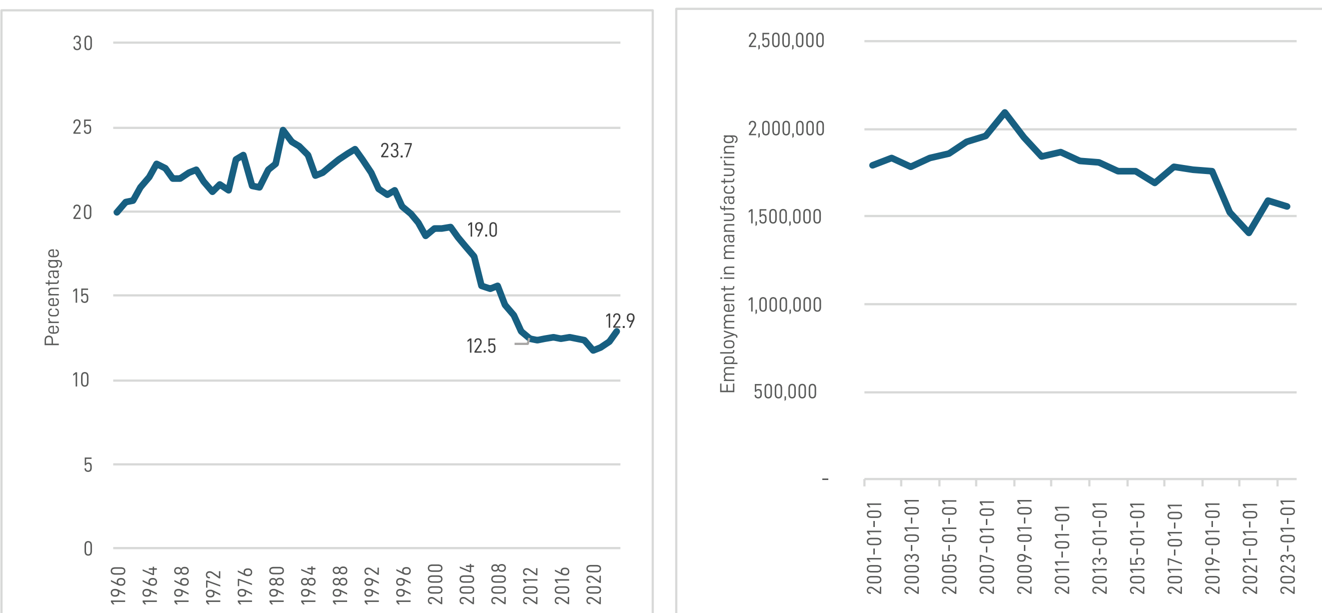
In this report we explain why the DTIC's current approach has generated such dismal results and recommend alternative ways to formulate and implement trade, industry and competition policies.

## How to think about SA's declining manufacturing sector

Manufacturing has been at the heart of successful development over the past five centuries – countries that are good at manufacturing have tended to grow more quickly and for longer periods than countries that are not. This history of manufacturing-led development means that every country in the world continues to look at that sector as the critical lever for accelerating its growth and development. Convinced that the challenges that need to be overcome are amenable to industrial policy, governments around the world subsidise and protect manufacturing firms. Unfortunately, however, manufacturing's role in driving development is significantly less potent than it once was.[5] This is not to say that a focus on manufacturing can now never work, only that it has less traction in a world in which manufacturing's role – both as an employer and as a share of all output – is declining.

But even in the context of a decline in the relative importance of manufacturing, the performance of South Africa's manufacturing sector has been woeful. As Figure 1 shows, manufacturing has declined both as a percentage of gross domestic product (GDP) and as an employer. From 1960 to 2023 manufacturing as a percentage of GDP fell from 20 per cent to under 13 per cent. Employment in manufacturing declined from 1.8 million in 2001 to less than 1.6 million in 2023.[6]

**Figure 1: Manufacturing as a percentage of GDP, 1960-2023 (LHS); Employment in manufacturing, 2001 to 2023 (RHS)**




Source: Share of manufacturing in GDP data from World Bank; Employment in manufacturing data from OECD

**"The efforts of the DTIC to promote manufacturing have been more harmful than helpful"**

If we compare the decline of manufacturing growth and employment that took place in South Africa after 2008 with the rest of the world, it is clear that the rate of decline is significantly worse than elsewhere. South Africa is one of a few countries that saw an overall loss of manufacturing jobs during this period.[7]

The poor performance of manufacturing in South Africa is reflected in a range of other metrics, too. The most important of these metrics relates to exports, which provides unambiguous evidence of a sector's declining health because it reveals the extent to which South African firms are able to sell their output to buyers who can choose to buy from anywhere in the world.[8] Consider:

- Only 20 per cent of South Africa's manufacturing firms export at all. Of these, more than half export less than five per cent of their output. The top five per cent of exporters account for 92 per cent of exports, a much larger share than is typical in the world.
- The number of exporting firms has been falling, largely because of low levels of entry into exporting and declining firm survival rates. In 2015, over 42 000 firms exported manufactured goods. In 2022, the figure was under 36 000.
- Declining competitiveness is also reflected in a decline in the number of products in which South African firms have revealed comparative advantage, with the composition of the basket of these products also changing dramatically since 2010.
- Exports remain concentrated in minerals and metal products, with the export of manufactured goods tending to be dominated by minerals-based products. The failure to diversify into higher-quality, non-traditional exports is reflected in a declining share of technology products, which now account for only two per cent of export products, half the value it was in 2000.[9]

There are many reasons why manufacturing has performed poorly in South Africa, including the underlying dynamics affecting manufacturing in all countries. But it has unquestionably also been held back by a range of factors that are not intrinsic to the sector itself. These include:

- **Manufacturing's dependence on mining.** South Africa's manufacturing sector emerged as a crucial supplier to the mining industry. The stagnation and decline of mining since the early-1980s has had a knock-on effect on manufacturing.
- **Declining quality of South Africa's infrastructure.** The competitiveness of a country's industrial sector depends heavily on the quality of its infrastructure. Deficiencies in access to reliable electricity have impacted on investment in manufacturing, as has the rapid increase in electricity prices. Because both intermediate and final goods need to circulate, the quality, cost and reliability of logistics also play a critical role in manufacturing.
- **Increased competition from imports.** Profound and irreversible changes in the global economy over the past five decades have impacted the competitiveness of industrial sectors in every economy in the world. This has led to hundreds of millions of people rising out of poverty and delivered enormous benefits to the world's consumers, but it has also impacted negatively on many countries' industrial sectors which have faced dramatically more competition from highly efficient producers, particularly in Asia.
- **Ill-conceived empowerment policies.** Important as the goals of empowerment policies are, their design and implementation have tended to add both cost and uncertainty, impacting negatively on investment and growth across all businesses, but particularly those that are relatively capital-intensive.

Nevertheless, in the context of this challenging environment, the efforts of the DTIC to promote manufacturing have generally been harmful rather than helpful. This is due largely to policy choices that were overwhelmingly not premised on maximising export growth, but at replacing imports with local production, an approach that has led South Africa down an increasingly protectionist path.

**Findings of a recent World Bank study**

The World Bank released a report titled "Unlocking South Africa's Potential: Leveraging Trade for Inclusive Growth and Resilience" while CDE's report was being finalised. It makes seven key findings, which largely confirm and support the analysis in this CDE ACTION Report:

1. South Africa's exports have expanded more slowly than the rest of the economy and remained highly concentrated in a few products and markets.
2. While South Africa's exports to African markets have expanded faster than to other destinations, they have remained constrained by tariffs and logistics barriers.
3. Exports in services have underperformed merchandise exports contrary to the global trend, but there is significant growth among knowledge-intensive services.
4. Exports have been dominated by a few firms, in a context of declining entry rates and few new entrants surviving and growing over time.
5. Increasing transport and logistical costs have penalised the competitiveness of South African exports.
6. Although South Africa failed to significantly increase its total exports over the past decade, higher exports at the firm level have been associated with improvements in wages, particularly amongst the lowest-paid workers.
7. South Africa's current policy of promoting local industries has come at the expense of competitiveness, penalising export performance and consumers.

In the light of these findings, the World Bank puts forward, among others, the following policy recommendations:

1. Align trade and industrial policies towards the objective of improving export competitiveness. That includes making the most of new trade agreements and other opportunities for diversification.
2. Participate in the African Continental Free Trade Area (AfCFTA) through increased regional trade and new or strengthened value chains. This could increase South Africa's income by 3.8 per cent relative to the baseline by 2035.
3. Implement measures to support exporting firms with opportunities to be competitive in a low-carbon environment by reducing barriers to trade in environmental goods and services. Such measures would include improving access to environmental technologies, such as renewable energy and the equipment needed for emissions monitoring.[34]

**CDE, 2024**

Restoring the health and export performance of the South African manufacturing sector must be a critical priority for the new administration. Thus, the core focus and arguments of this report refer specifically to the manufacturing sector and most of the policies we recommend are designed to strengthen manufacturing firms and their ability to create jobs.[10] However, that does not imply that we should neglect the employment and export potential of the service sector. The World Bank, for example, believes there are important opportunities to expand service sector exports, especially digital services, into African markets. These should be explored and, where appropriate, encouraged.[11]

## Why doubling down on current approaches won't work

The DTIC's focus on protectionism, master plans and a selective, interventionist approach to regulating firms, especially in the realms of competition policy, have largely been counterproductive. Such policies have overwhelmingly taken the form of import-replacement, known colloquially as 'localisation', and consist of measures such as:

- **Higher duties on imports.** Average import duties have risen, as has the number of items subject to duties, even as the process of re-examining the necessity and utility of existing tariffs has ground to a halt. Duties on 94 tariff codes have been increased since 2003.[12]
- **Preferential price policies for local users.** Domestic price discounts are imposed by the DTIC on raw materials and/or export duties deemed "strategic". This creates significant distortions and disincentivises producers of these raw materials while lowering the pressure on the firms benefitting from this subsidy to improve competitiveness.
- **Subsidies.** Subsidies have been provided to firms in key sectors, with automotive firms accounting for the vast majority of these. The textile and clothing sectors have also received significant support, as has the business process outsourcing (BPO) sector. In total, the DTIC spends a little less than R10 billion a year in business incentives. This figure excludes the subsidies which flow directly from the Treasury, particularly for the automotive sector. Most of this is given as customs revenue forgone. The total auto incentives amount to approximately R35 billion per annum.[13] Ultimately, much of this is paid by consumers in the form of higher vehicle prices.
- **Preferential procurement and localisation.** Preferential procurement arrangements have become common, with government agencies being required to purchase a wide range of designated products solely or predominantly from domestic firms.[14] In sectors like clothing and textiles, the private sector has also agreed to seek out local producers rather than import products. More generally, business agreed through NEDLAC in 2023 to try to reduce the value of South Africa's non-oil imports by 20 per cent over the next five years.
- **'Public interest' interventions in mergers and acquisitions.** The Competition Commission and the former Minister of Trade, Industry and Competition used their powers to intervene in mergers and acquisitions on 'public interest' grounds in order to shape the final agreement in ways that promoted various industrial policy goals. These interventions seek to reach agreements that revolve around either a commitment to avoid retrenchments for a certain period after the transaction and/or a commitment to increase the representation of domestic suppliers in the supply chain of the entities involved in the transaction. In some cases, particularly where the buyer of a firm was foreign, intervention has sought to minimise the possibility that the firm's ownership would become less empowered.[15]

**"Restoring the health and export performance of the South African manufacturing sector must be a critical priority for the new administration"**

**Localisation is misconceived**

The core problem with the DTIC's approach is that it focusses largely on sustaining existing firms behind tariff barriers at a time when technological changes raise the productivity of firms and reduce the number of manufacturing jobs created below historical averages. For a government that should relentlessly prioritise jobs and growth, that is *exactly* the wrong response to the decline.[16]

> **"Localisation policies ensure South African firms fail to keep pace with global competitors"**

Firms are only able to offset employment losses from productivity improvements if their sales increase. However, firms that are locked into supplying only the domestic market cannot increase their sales sufficiently because the domestic market is very small. In South Africa's case, the local market is also usually dominated by a few large firms. Competitive firms that can trade globally will have access to much larger markets. As a result, they will be able to turn their productivity gains into substantially larger sales, permitting firms to grow and to create additional jobs. That is the only way forward for the manufacturing sector.

The problem with localisation policies is that they undermine the likelihood of South African firms becoming competitive enough to compete globally, for three reasons:

- Protectionist policies mean that South African firms do not face competition from foreign firms, so they have less incentive to increase productivity as quickly as is being achieved elsewhere.
- Tariffs generally disincentive exports. Why would you export frozen poultry at the world price (minus international transport costs), when you can sell the same product locally at a price that includes a 62 per cent tariff? This is the anti-export bias of tariff protection.
- Local firms are inhibited from importing new technologies by the same protectionist policies that reduce competitive pressures on them.

Localisation is, of course, not the only issue preventing South African firms from becoming globally competitive. But, in treating the current state of affairs as a given and trying to offset that by providing South African companies with the protection they need just to survive, localisation policies ensure that South African manufacturing firms will fail to keep pace with competitors. Inevitably, that means that they will lose market share over time. Far from protecting South African manufacturing employment, localisation policies are accelerating firms' loss of competitiveness, with a negative impact on employment.

**The cost of protecting incumbents**

Unfortunately, this is not even the most serious problem with localisation and protectionist policies. These at least can provide a temporary reprieve for firms and industries whose viability is impacted by foreign competition, so the policies may preserve some jobs for some period of time, though this should be seen as akin to their walking up the stairs on a down escalator. The bigger problem is that the preservation of these jobs must be at the expense of other jobs. This is because the mechanism for saving jobs in protected industries/firms is by increasing the price that downstream users and consumers pay for protected goods. Inevitably, the increase in prices means:

- less demand for all other goods as firm and household budgets must accommodate these higher prices; and
- less competitive downstream industries, both in manufacturing and elsewhere.

**"Protecting industries to create jobs is akin to walking up on a down escalator"**

Consider motor vehicles, the industry which is the recipient of by far the majority of industrial policy support, but which operates behind tariff barriers that keep the cost of vehicles higher in South Africa than they would be if consumers and businesses could import them. This is good for the industry, and, because it exports, it helps South Africa's current account (even allowing for the fact that South Africa imports a large proportion of the parts that go into vehicles, as well as vehicles that are not manufactured here). The sector, though not a massive employer, does create high-productivity, well-paid jobs in a highly unionised sector. And it does so in parts of the country in which it is hugely significant socially, politically and economically.

These are all real benefits. But they are paid for in higher vehicle prices. And these have knock on effects for the rest of the economy. In particular, this policy means that:

- South African firms incur higher total transport costs. These accumulate across supply chains, which has particularly adverse effects in a country with South Africa's spatial inequality and sprawl.
- South African consumers pay more for cars. For example, foreign buyers of South African made cars pay significantly less for similar cars. A Mercedes Benz C200 retails for R1 203 754 in South Africa, which is 38 per cent more than the C300 (a car with 25 per cent more engine capacity) sells for in Manhattan ($50 135). This premium is a consequence of the various tariffs behind which South Africa's automotive industry operates.[17]
- Higher vehicle costs mean that South Africans own fewer cars, which means fewer jobs in selling cars, in servicing cars, and in supplying the fuel and oil that keep cars running.

Do the benefits of the support provided to the vehicle manufacturing industry outweigh the costs? They certainly do for the protected firms, their suppliers, owners and employees. It is very doubtful, though, that the aggregate effects for the economy as a whole outweigh the costs.

The last time the benefits of the programme were assessed, which was more than 15 years ago, the assessment was that "under even the most optimistic of assumptions the [government] transfer to foreign firms was significantly larger than the maximal labour gain", leading to the conclusion that the policy was "a net drain on the national economy".[18]

Another example of the costly consequences of short-term protectionist measures relates to the many perverse outcomes that have flowed from the imposition of a 10 per cent tariff on solar panels in 2024. This followed an application for tariff increases by a local solar panel manufacturer in April 2017, and the increased protection was in addition to an existing 25 per cent local content requirement on solar panels in the Renewable Energy Independent Power Producer's Programme. According to XA Global Trade Advisors, the result is that the cost of creating jobs in the local industry is equivalent to R2.6 million per existing worker per year. Perversely, the tariff contradicts the goal of encouraging the adoption of alternative energy sources. For example, in 2023/24, as policy makers sought to encourage firms and households to generate more electricity, consumers were subsidised through a 25 per cent rebate on purchases of solar panels. Now the same consumers are being taxed.[19]

**"Higher costs of delivering public infrastructure must result either in less infrastructure being procured or in higher tariffs for users of that infrastructure"**

Similar points can be made about other forms of protection on other products.

Particular attention should be paid, however, to the impact of localisation policies in government procurement. These policies consist of rules that require organs of state – government departments, local governments and state-owned enterprises (SOEs) – to purchase a large number of products exclusively (or predominantly) from domestic suppliers. As CDE has argued elsewhere, the mere existence of a policy like this raises the cost of government services and makes the government less efficient. If locally produced products have to be designated by the DTIC, they must be inferior in price or quality to possible imports. If this were not the case, why would organs of state have to be compelled to buy them?[20]

Once again, it is clear who benefits from policies of this kind: firms that make the designated products. It is much less clear, however, whether those benefits outweigh the costs to the economy as a whole. Higher costs of delivering public infrastructure must result either in less infrastructure being procured or in higher tariffs for users of that infrastructure. And the effect is potentially far from negligible. In his book on the time he spent leading Eskom, André de Ruyter writes: "If Eskom wants to build a transmission line, we pay a whopping two and a half times more per kilometre than NamPower does in neighbouring Namibia. It's one of the many poisonous effects of our government's insistence on local procurement".[21] Those inflated costs must be recouped from electricity users, so the benefits reaped by Eskom's suppliers are paid for by Eskom's customers. And those prices then get baked into the costs of every company, impacting on growth and employment creation across the economy.

Finally, tariffs on consumer goods tend to be significantly higher than those on intermediate and capital goods. Food products, such as poultry, face particularly high tariff protection. The costs of these tariffs are not born equally by households. It is poor households that spend the largest share of their income on food, and it is they who disproportionately pay the price for this protection. The gains, however, are concentrated amongst owners (including shareholders) and workers in the firms. South Africa's concentration of wealth means that these gains can become highly concentrated. Tariff policy therefore most likely amplifies the already very high inequality in the country.

**Protectionist policies are unsuited to a world of complex supply chains**

One frequently made argument for protectionist policies is that they allow domestic firms time to develop their capabilities behind tariff barriers so that, having accumulated new technologies, knowhow and economies of scale, they are better able to compete with foreign firms. Protectionism, so this argument goes, facilitates exports. In practice, however, this is seldom how things work.

When proponents of protectionist policies envisage those policies being used to protect firms and industries from foreign competition temporarily while capabilities are expanded, the underlying mental image they have of the way international trade works is of a system in which finished goods flow from country to country. In such a world, preventing one's citizens from importing a particular product means that domestic firms that make that product have a guaranteed market.

**"Protectionism cannot work in a world of complex global value chains"**

But that isn't how 21st century trade works: in the modern global trade system, firms specialise not in finished goods, but in particular steps or tasks in the production process. Instead of a system of finished goods being exchanged, global trade involves the circulation of raw materials, parts, partly finished goods and final products moving into and out of countries. In such a world, exporters are also importers: they import goods, combine them with other goods (many also imported) and re-export them to firms who work on the next stage of the production process. Famously, almost none of the component parts in a China-assembled iPhone are made in China.

In such a world, making it harder or more expensive to import goods means making it harder to export. More importantly, there is no way for a firm in one country to become good at a single part of a production process without already being in the global value chain. Protectionism cannot work in such a world because there will never be a time when a local firm can be sufficiently competent at all the steps/tasks in a production process to compete with all the highly specialised firms that make foreign competitors so efficient. There is no market for the newly capacitated domestic firm to enter.

Protectionist policies also cut domestic firms off from sources of new technology. By making capital equipment and technology more expensive, tariffs impact on domestic firms' capacity to become more competitive. In the long run this must end badly, and it generally results in calls for even more protection as domestic firms fall further behind the technological curve.

One response to these arguments by proponents of protectionism is an acknowledgment that these effects could possibly happen, combined with an assertion that they do not invalidate protectionism in general. Rather, so the argument goes, they imply that protectionist policies need to be carefully crafted to discriminate between desirable imports (which facilitate productivity growth and exports) and undesirable imports (that compete with local production).

This approach is certain to fail simply because trade systems can never be sufficiently discriminating for this to work.[22] Intermediate goods (and their potential uses) are too various and they change too frequently, and the nature of what can and can't be traded along a value chain changes too often for trade policy to keep up even when there are world-class customs and trade officials designing and implementing the system.

South Africa's system is, in any event, nowhere near this level of sophistication and subtlety: as Donald MacKay has pointed out, "In 2023, R89 billion was collected in import duties, paid on 3 406 tariff codes. Of the codes which attracted duty and on which duty was actually paid, 93 per cent have had their duties in place since before 2003 and have not been reviewed in the intervening 21 years. In many cases, it's impossible to know if the companies or industries that applied for the duty increase even still exist."[23]

When the system is weak, the probabilities of success decline exponentially. In any event, a trade system that sought to achieve this level of discrimination and precision, and which was amended frequently in response to changing technologies and patterns of trade, would introduce high levels of uncertainty into the system. This would itself become an obstacle to increased investment in industrial capacity because firms would never know for sure whether and to what extent the goods they needed would attract trade duties. The net result would be to defeat the goal of improving domestic firms' competitiveness. To the extent that protectionist policies are applied, they need, therefore, to be both simpler and more predictable.[24]

**The problem with 'public interest' interventions in mergers and acquisitions**

Apart from industrial and trade policy, the DTIC is also responsible for competition policy. While these are distinguishable policy domains, in practice the DTIC's implementation of competition policy has tended to narrow the distance between competition policy and industrial policy, with harmful consequences.

Competition policy is needed to manage a range of well-understood risks originating with large firms with market power that might engage in anti-competitive conduct. This is bad for the industry's clients, who pay higher prices as the dominant firm ensures it captures monopoly rents. It is also bad for economic growth because firms that face too little competition have less incentive to increase productivity.

Given these risks, competition authorities are supposed to investigate claims of anti-competitive behaviour. They are also empowered to review proposed mergers and acquisitions to ensure that one or more firms that are competing against each other are not combined into a single firm that faces too little competition.

**"DTIC interventions do not deliver because they are premised on a view that competition from imports holds back South African industry"**

Under the stewardship of the previous DTIC Minister, competition policy became focused on merger regulation and the pursuit of a set of industrial policy goals, in particular employment and transformation.[25] As a result, less energy and resources were committed to investigations of anti-competitive conduct, while more and more were allocated to 'market inquiries' – processes intended to assess the general state of competition within a market for particular goods or services in order to ascertain whether any feature or combination of features of a market prevents, distorts or restricts competition. These processes may take years to complete, and seldom result in any enforceable actions.

This use of competition authorities' powers is not well-suited to the main goals of competition policy. Worse, the result is that competition policy becomes less predictable, and the costs, timing and benefits of mergers and acquisitions are less predictable, reducing the attractiveness of investing. As a result, firms involved in mergers/acquisitions go out of their way to satisfy what they think the minister wants. While these deals are not necessarily corrupt (since they need not be constructed with the intention of securing benefits for politically connected individuals), they introduce policy-driven discretion and uncertainty into what should be market transactions. This is a poor substitute for clear rules about what does and does not violate competition policy. Inevitably, this makes it harder to do business.

## Why master plans fail to deliver

The DTIC's approach to trade and industrial development is excessively protectionist in character and designed with the goal of protecting local producers from foreign competition. This harms the local economy in multiple ways, primarily by raising costs for consumers and downstream users of protected goods. The goal of this is to incentivise domestic businesses to maintain or expand capacity more than they might otherwise do, but, because it is premised on a view that what holds back South African industry is competition from imports, the interventions do not deliver what they promise. Instead, they condemn the economy to slower growth, fewer jobs and widening technological and productivity gaps between domestic firms and foreign competitors.

**"To maximise the growth effects of industrial policy the focus should be on the needs of firms looking to expand their exports"**

All of these weaknesses and more are contained in the master plan approach. Firstly, the master plans are predicated on the DTIC view that the South African economy is composed of a number of sectors and sub-sectors. Thus, interventions are organised around the needs of agriculture or BPO, the automotive or clothing and textile sub-sector. These sectors are understood by the DTIC as being composed of firms that operate in similar ways and face similar challenges. Understood this way, it seems clear that government should focus on sector-specific challenges that they all face. Nor is the DTIC alone in this approach: a similar logic informs South Africa's skills system (where *Sector* Education and Training Authorities are the principal funders of skills training) and the bargaining system (where *sectoral* bargaining is the norm).

While there are circumstances in which this approach is appropriate for framing policy, a sectoral view can also create blind spots that inhibit the development of the kind of policies and support that would maximise export-led growth.

Firms involved in a particular sector do have some important commonalities, but they are also potentially very different from each other. There are small, family-owned firms and large, listed companies; there are new firms and mature firms; there are profitable firms and there are loss-making firms. Firms in Gqeberha have different needs from firms in Johannesburg, which have different needs, again, to firms in Cape Town.

A different reason to become less wedded to sector-based policy development, is that the process of developing these polices tends to generate appeals for greater protection from foreign competition. This is because most firms exist to sell products and services to domestic buyers and have a shared interest in trying to limit foreign firms' access to their customer base. Worse, the firms that participate in processes of policy engagement with government are likely to be those that face the most significant challenges to their business model, likely because their productivity growth is failing to keep up with their competitors'. These kinds of firms are the most likely to support restrictions on foreign competition, reinforcing the tendency of these processes to generate protectionist proposals.

Another critical reason that sector-focused engagement led by the DTIC tends to generate protectionist policy proposals is that this is a benefit that the DTIC is actually able to deliver. While the firms themselves may need more reliable (or cheaper) electricity, better roads, more efficient ports, reforms to the labour market regime or lower taxes, the DTIC cannot deliver any of those things. What it can deliver is increases in import tariffs. This sets up an inherent bias towards protectionism in the way sector-based master plans are devised.

A further critique of the master plan approach is that it does very little to promote transformation and inclusive growth. This is a point powerfully made in the 2024 TIPS review of the master plans. The review points out that in most of the plans, "transformation was interpreted primarily as increasing black ownership in formal businesses … rather than a shift to more labour-intensive activities or small business".[26] The TIPS review also argues that "for marginalised people and communities, the risk is that the master plans could divert attention and resources away from larger-scale initiatives to shift the growth trajectory toward more inclusive and dynamic industrialisation".[27]

From the point of view of maximising the growth effects of industrial policy, however, by far the most sensible approach would be to focus on the particular needs of firms looking to expand their exports. These are likely to be the most productive firms in each sector and the ones most able to absorb and use public support effectively. By focusing on exports and making the goal of each intervention an increase in exports, policymakers also obtain objective, reliable evidence of whether the support being received is achieving its goals.

**"We should eliminate all tariffs applied to goods not made by any South African firm"**

Exports should, therefore, be regarded as the most important metric to assess the competitiveness of firms and of the impact of policy interventions. Further, by making exports the goal of industrial policy, policymakers are forced to focus on the key elements that drive competitiveness, particularly input costs and productivity. The effect of these policies will be broader than just exports. The aim would be that these gains spill over to firms supplying the domestic market. Thus, the focus on exports would also help ensure that domestic firms are better able to compete against imports, though it would not do so on the basis of handing those firms a policy rent in the form of tariffs.

New kinds of policy interventions related to export-specific challenges will then emerge, such as skills, trade finance, the peculiarities of South Africa's exchange control regulations when applied to intellectual property, and the need to facilitate access to advanced technologies, global skills and appropriate training. Focusing on exports might also encourage the DTIC to help address all the logistics related challenges that exporters face. These initiatives would not be sector-specific but would address challenges faced by exporting firms across all sectors. Precisely because such a small proportion of all firms actually export, these challenges tend to be under-emphasised in sector-based initiatives (where the needs of non-exporters tend to dominate).

## CDE Recommendations

South Africa's stagnant economy and sky-rocketing unemployment have multiple causes, most outside of the DTIC's remit. Indeed, DTIC officials will often say that they favour protecting domestic firms precisely because they recognise how unfavourable the domestic business environment has become. This is not a recipe for success, however, and it is no wonder, therefore, that the DTIC has not delivered. Indeed, the approach has made some things worse as a result of increased protectionism and the distortion of markets. The DTIC needs to reform its trade policies, shift its industrial policies towards promoting exports, and harness the competitive pressures that well-functioning markets can provide. It should also become an effective advocate for business and markets, within government and across society. Such an approach would help remove obstacles to firms' market entry, survival and expansion. The DTIC's aim should be to create the environment in which firms can become more productive and to harness the competitive pressures of markets.

These goals can be achieved. The first steps involve the following catalytic actions in the three areas that the DTIC oversees – trade, industrial and competition policy.

**Trade: reform protectionist tariffs**

The DTIC needs a new approach based on the following principles:

- *Decisions to extend or amend existing tariffs must consider the impact of tariffs on prices faced both by consumers and downstream users of the protected goods.* Currently, too much weight is given to the needs and interests of firms seeking protection, while the needs and interests of their customers are largely ignored. This needs rebalancing. The claims made in tariff applications by firms seeking some form of protection should be independently evaluated and should focus on the full economic costs of protection.
- *The impact of tariffs must be reviewed more regularly.* Most tariffs have been in place for decades and, while they are supposed to be reviewed periodically, this almost never happens. All tariffs should have sunset clauses after a defined period unless strong motivations can be shown for their continuation.
- *Eliminate all tariffs applied to goods which are not made by any South African firm.* Such tariffs raise costs but, self-evidently, do not generate any offsetting benefits.

**Set up an independent review of the DTIC's automotive programme**

The DTIC's automotive programme is the largest industrial subsidy programme in the country.[28] For 2018 alone, Treasury calculated that support to the industry amounted to R27 billion. This exceeds the support given to the rest of South Africa's manufacturing industry, and a review in 2008 concluded that the programme constituted a net drain on the economy and that it failed to deliver the job opportunities it had promised.[29] *It is time for this programme to be assessed again.*

**"The DTIC should more vigorously embrace its institutional role as the voice of business and markets"**

An external review should be set up to examine the programme's impact on the auto and components sector and to consider the benefits and costs of all the support the sector receives. This has become more urgent than ever in the light of two new developments: Chinese production of cheaper vehicles for the global market and the accelerating shift to electric vehicles in the developed world, which is creating new, possibly insurmountable, challenges for the programme. The review should weigh the benefits to current firms and employees against the direct- and opportunity costs the programme imposes on the wider economy while recognising that companies in the auto sector have made long term investments based on current policies and support and may be entitled to compensation if policy changes. The auto industry should be consulted as to terms of reference and composition of the review, but it must not have the only or the final say on this.[30] The review's findings should be a public document, and its recommendations widely debated before decisions are made.

**Replace master plans with productivity councils**

As currently constituted, the master plan approach is fundamentally flawed because it is structurally biased to deliver protectionist 'solutions'. The DTIC should substitute master plan processes with 'productivity councils', which can sometimes build on existing plans but will often be focused on value chains rather than industrial sectors.[31] This will entail a radical shift in focus though. According to the TIPS review published in 2024, none of the master plans has proposed specific measures to reduce the costs of production.[32] The focus of these new councils would be on specific ways to enhance productivity, including the adoption of cutting-edge technologies, as well as challenges in the ecosystem such as logistics and infrastructure deficiencies, government inefficiency, labour market policy, investment finance, and more. The goal must be to remove obstacles, reduce costs and encourage exports. Nor, as mentioned earlier, does the focus have to be purely on manufacturing activities. For example, the World Bank has flagged digital services as a sub-sector with untapped export potential, which could be developed through targeted cooperation between the state and private sector firms.[33] The new councils should be set up in response to proposals from the private sector, along lines that businesses would find most useful. For example, dairy products could include representation from farmers, agri-processing firms, cold-chain logistics, large retailers, etc.

**Change the focus of competition policy**

Policymaking should return to the foundational goals of competition policy – to make sure that firms do not engage in anti-competitive conduct intended to restrict or distort the markets in which they operate.

**"The focus of productivity councils would be on specific ways to enhance productivity"**

The Competition Act should be amended, so that the tests for evaluating mergers are clearly outlined and relatively restrictive. The goal should be to narrow the grounds for 'public interest' interventions in mergers and acquisitions to genuine national security issues, not broad industrial policy goals.

More resources should be devoted to competition law adjudication, especially the appointment of suitably qualified lawyers and economists. Increasing the budget of the Competition Tribunal would raise both the degree of competition enforcement and its impact.

**DTIC - Become the voice of business and markets**

On top of these catalytic actions, the DTIC should more vigorously embrace its institutional role as 'the voice of business and markets' within Cabinet and across government and society.

Thus, the DTIC should become an advocate for creating a business environment in which it is as easy as possible to start and expand all kinds of business, to attract as much foreign direct investment as possible, and to encourage companies to gear themselves for the export market. As importantly, the minister needs to speak up, within Cabinet meetings, in day-to-day operations, and in communicating with the public.

In essence this means that the DTIC should adopt a 'watching brief' to pressurise other government agencies into doing everything required to promote the expansion of business activity. Wherever possible it should also seek to influence public discussions on this topic, emphasising that more, faster-growing firms and more effective markets are key to achieving the GNU's stated goals. The focus should be on influencing other departments in economic-cluster discussions as well as more generally for necessary infrastructure reforms and investments, ensuring the regulatory and labour market framework is conducive for business, that employees and future employees have access to useful training, and that firms are able to access advanced technologies and global skills to enable them to grow and become more competitive.

## Final thoughts

Of course, the policy issues and institutions under the DTIC's control are only one part of the GNU approach to economic growth. As a key player in driving faster growth and increased employment, however, the DTIC needs to be focussed on the best possible policies and programmes and pushing government for the wider changes needed to drive investment and growth. This shift to a more business-friendly, export-oriented role needs to be accompanied by specific policy adjustments and reforms. To make that happen the DTIC should prioritise these catalytic actions.

**Reform the tariff system**

- Establish an independent evaluation process for all tariff applications by firms seeking some form of protection and ensure that these evaluations consider the full economic costs of protection.
- Regularly review all tariffs and their supposed benefits, all of which must have sunset clauses, which automatically compel their phase-down after a defined period, unless strong motivations can be shown for their continuation.
- Eliminate all tariffs applying to goods not made by any South African firms.

**Review the DTIC's major industrial subsidy programme**

- Set up an independent review of the support provided to the vehicle industry and release its findings for public debate.

**Move from masterplans to productivity councils**

- Replace the existing master plan approach by setting up productivity councils as designed and requested by groups of firms. The focus must be on helping firms, often organised according to the logic of value chains, to improve competitiveness and move into export markets.

**Change the focus of competition policy**

- Competition policy must return to its foundational goals – preventing market participants from engaging in anti-competitive behaviours that will limit and distort those markets. Public interest interventions and full scale 'market inquiries' should be kept to a minimum.
- Adopt a new role for the DTIC: promote business and markets in government and society.
- Within government generally, in the economic cluster of ministers, and in communications with the public, the DTIC should seek to shape the debate to ensure other departments do everything required to promote the expansion of businesses.

## Endnotes

[1]https://www.youtube.com/live/T6pBSJqUdD4?si=6X_3DIfRYEs1Xr6d&t=6945. Note these quotes are from the recording of his actual speech, which differs from the official transcript.
[2]Nedlac, 'Reflecting on 30 years of democracy and planning for the future: report for the seventh administration' (September 2024), p. 19.
[3]Nedlac, 'Reflecting on 30 years of democracy and planning', p.19.
[4]Trade and Industrial Policy Strategies, 'Evaluation of the master plans: A summary' (July 2024).
[5]For an explanation of the underlying dynamics that account for this, see Robert Lawrence, 'The future of manufacturing employment', CDE, (2018). For a broader, global view see Robert Lawrence, 'Behind the curve: can manufacturing still provide inclusive growth?', Columbia University Press (2023).
[6]Given the enormous differences in employment numbers across different surveys, it may be worth noting the source of this number (not just OECD, but what survey they base their number on).
[7]Andrés Fortunato, 'Getting back on the curve South Africa's manufacturing challenge,' The Growth Lab at Harvard University (November 2022), pp. 18-19.
[8]Lawrence Edwards, 'Trade and industrial policy for South Africa's future', CDE, (2024).
[9]Lawrence Edwards, 'Trade and industrial policy for South Africa's future', (2024).
[10]Réka Juhász, Nathan Lane, and Dani Rodrik, 'The new economics of industrial policy', the National Bureau of Economic Research, (August 2023).
[11]World Bank, 'Unlocking South Africa's potential: leveraging trade for inclusive growth and resilience', World Bank: Washington D.C., (July 2024)'
[12]Donald MacKay, 'Regular tariff code review make it easier to invest', Business Day, (September 2024).
[13]Donald MacKay and Daan Steenkamp, 'Government protection keeps SA on a low-growth path', Business Day, (June 2024).
[14]It must be noted, however, that these requirements were put on hold following the court ruling in 2023 Sakeliga wins court case: BEE and other prerequisites in public procurement invalid: Gordhan acts ultra vires - Sakeliga.
[15]See: Sale of Burger King South Africa blocked over lack of black ownership: https://www.news24.com/fin24/sale-of-burger-king-south-africa-blocked-over-lack-of-black-ownership-20210601; Burger King and The Competition Tribunal: https://www.comptrib.co.za/info-library/case-press-releases/tribunal-releases-public-version-of-conditions-imposed-on-sale-of-burger-king-sa;
[16]Lawrence Edwards, 'Trade and industrial policy for South Africa's future', CDE, (2024).
[17]https://www.mbmanhattan.com/new-vehicles/c-class/?_dFR%5Bmake%5D%5B0%5D=Mercedes-Benz&_dFR%5Bmodel%5D%5B0%5D=C%2520300&_dFR%5Bmodel%5D%5B1%5D=C-Class&_dFR%5Btype%5D%5B0%5D=New
[18]This review, undertaken in 2008, is discussed in David Kaplan, 'South Africa's industrial policy: time for a review and a rethink', CDE, (August 2019).
[19]Lawrence Edwards, 'Trade and industrial policy for South Africa's future'.
[20]CDE, 'The seven sins of localisation: Can South Africa afford this costly policy?', (September 2023).
[21]André de Ruyter, 'Truth to Power: my three years inside Eskom', Cape Town: Penguin Random House South Africa, (May 2023).
[22]As Professor Lawrence Edwards pointed out in a personal communication, deeper integration into global value chains is NOT a linear process. "It depends on a multiplicity of factors, some of which are under the firm and government control (e.g. infrastructure), but a lot of which is outside of their control (e.g. foreign infrastructure, productivity, etc etc.) No government can predict this," he said.
[23]Donald MacKay,'Catalytic actions for Minister Tau', CDE, (2024).
[24]Lawrence Edwards, 'Trade and industrial policy for South Africa's future'.
[25]Liberty Mncube, 'How might a new government approach competition policy?', CDE, (July 2024).
[26]Neva Makgetla, 'Evaluation of the industry/sector master plan process', Trade and Industrial Policy Strategies, (February, 2024), p 66.
[27]Neva Makgetla, 'Evaluation of the industry/sector master plan process', p 66.
[28]David Kaplan, 'South Africa's industrial policy: Time for a review and a rethink', CDE, (August 2019).
[29]David Kaplan, 'South Africa's industrial policy: Time for a review and a rethink'.
[30]David Kaplan, 'Rethinking South Africa's industrial policy: objectives and policies', CDE, (July 2024).
[31]This approach was recommended to us by Ricardo Hausmann, head of Harvard University's growth lab.
[32]Neva Makgetla, 'Evaluation of the industry/sector master plan process'.
[33]World Bank, 'Unlocking South Africa's potential: leveraging trade for inclusive growth and resilience'.
[34]World Bank, 'Unlocking South Africa's potential: leveraging trade for inclusive growth and resilience'.



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