

OSAGYEFO MAZWAI: The country needs a robust and realistic industrial policy

SA's industrial policy framework is vital for future employment opportunities and economic growth, so the country can regain lost ground as the economic leader of Africa.

As political parties throw down the gauntlet before next month's elections one thing they should all agree on is the catalytic role industrialisation can play for economic prosperity. Circumspection is needed about the solutions that have been proposed and unpack the challenges we are solving for.

At the recent Progressive Business Forum colloquium ANC treasurer-general Gwen Ramokgopa highlighted the role of network industries in the overall functioning of the economy. There was broad consensus that problems with SA's energy and logistics must be resolved. In discussion much time was spent on issues over localisation and manufacturing.

We should avoid putting the proverbial cart before the horse by attempting to solve problems before the constraint has been dealt with. We should have a robust policy framework to guide our future trajectory. It is important that we plan and sequence interventions effectively.

SA faces unique challenges of energy insecurity and severe logistical constraints, meaning industries are unable to operate at full capacity. Due to the energy crisis miners struggle to extract mineral resources. Because of water infrastructure issues farmers are similarly constrained. An additional headwind is logistical bottlenecks in road and rail that restrict exports. We also have myriad structural issues to resolve.

It thus seems strange to seek to add to the burden on the economy by adding new complexities with localisation. Even if we were to commit to reducing exports of raw materials, we need to answer the question of "how" to initiate a value-adding process that invariably needs energy and logistics capacity we lack. Our primary industries typically do not operate in urban areas but in less developed regions, highlighting the need for municipalities to come to the party by ensuring operable roads and other services and infrastructure.

Full efficiency

These constraints affect our relative competitiveness in each industry as production costs increase when you use road instead of rail, invest in alternative power as opposed to procuring from Eskom, or have to spend more time transporting goods on underdeveloped roads.

The network industries need to be unequivocally trending towards full efficiency before we can have serious conversations about localisation. Broader industrialisation has limited prospects while industry is struggling, and industrialisation adds complexity to the economic trajectory.

Still, when considering a long-term view, localisation as part of industrial policy is key. But this should be targeted at certain industries in which there are capacity for value add and for increased domestic production.

We also need to have a clear focus about job creation, and industrialisation is a viable avenue for achieving it. When you export raw materials you are exporting jobs. With SA's employment problem that should be avoided. Jobs are the backbone of society, and by supporting job creation we also lessen the reliance on social grants and other

forms of social support, which means more resources to invest in critical infrastructure that enhances network industries.

For that to happen we need to ensure that we understand existing industries, and new industries we wish to exploit, and have the requisite skills for success, as well as the capital, capacity and technology.

The government must focus on access to markets so that from a competition perspective new industrialists do not seek to participate in the existing competitive landscape, which is biased towards traditional trade partners. Rather, they should explore new trade opportunity areas that result in “growing the pie”, as opposed to growing the number of participants.

Agricultural economist and Business Day columnist Wandile Sihlobo has highlighted the inherent opportunities in expanding agricultural trade opportunities in Asia. Growing of the base implies greater economic opportunity, more economic activity, and greater economic growth and job creation.

Much work remains to be done with industrialisation policy, the first step being to fix and build up network industries. The next is to have an industrial policy framework that speaks to competitive advantages and has a clear focus on job creation.

Exploring new markets will allow SA to diversify from its traditional trade partners while growing its economic base through new opportunities.

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