TRADE & INDUSTRIAL POLICY STRATEGIES

POLICY BRIEF: 2/2019

The National Treasury economic policy discussion paper

OVERVIEW

In August 2019, the National Treasury released a discussion paper on economic policy for comment, titled *Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa*. The paper lists a compendium of proposals loosely arranged around six "fundamental building blocks" for sustainable growth plus a host of "growth reforms" organised into five themes.

The list of around 70 proposals is overwhelming, with some strong ideas, some weak ones, and some that are contradictory. We have seen this kind of lengthy shopping list for economic policy before, including the National Development Plan and Treasury's 2017 Inclusive Growth Action Plan. They have inevitably generated more disappointment than economic growth. Their length means that commentators mainly end up speaking only to the executive summary, which inevitably lays out laudable aims. Very few will read the full document. Ultimately, government departments will implement the bits with which they agree, and ignore the rest.

This approach carries real risks. First, it effectively raises expectations with business-friendly proposals that will not be implemented because they have not been fully agreed and mandated within our fragmented state. In many cases, while the proposals follow well from economic orthodoxy, they ignore South African realities, so they would not succeed even if pushed through. Second, the reliance on long lists of economically correct proposals avoids the hard task of negotiating and pursuing genuine high-level priorities through practical, coherent strategies. Given South Africa's deep inequalities, any shortlist of priorities will inevitably be fiercely contested inside and outside of government. Much easier for officials to brainstorm inside their own bubble, then blame the rest of government for failing to carry out their proposals.

This briefing note first reviews the shortcomings in policy development procedures that lead to the repeated publication of bloated and ineffective economic strategies. It then briefly reviews some of the proposals in the text with an appendix that lists all the recommendations and provides some responses. Finally, the concluding section suggests a few imperatives for boosting growth in the short run.

POLICY DEVELOPMENT AND PRESENTATION

The discussion document reflects two common weaknesses in economic policy development. First, its proposals derive principally from economic theory rather than an analysis of South Africa's peculiar brand of exclusive growth. Second, the proposals have not been tested, either for their economic or their political viability. As a result, most will not be implemented in practice.

The document asserts two principles drawn from mainstream economics as the basis for its proposals. First, it argues that growth rooted in international competitiveness is critical for achieving greater equality. Second, it notes that there will be losers and trade-offs in the process. (p. 12) It does not, however, specify for individual proposals what those trade-offs would be, which leads to persistent over-optimism about both their likely impacts and political viability.

This approach avoids identifying the historic, systemic factors behind the reproduction of exclusive growth in South Africa even after the transition to democracy. Nor does it ask why the economy slowed down after 2015. As a result, it generates a set of uncoordinated, piecemeal proposals that would end up strengthening established businesses without effectively promoting new activities or greater inclusivity.

At a metatheoretical level, developing policy based on a series of desired outcomes and abstract prescripts failed because fundamental economic theories, especially around the way markets function, did not arise to analyse post-colonial circumstances. Rather, they emerged in economies in which technologies were broadly accessible,

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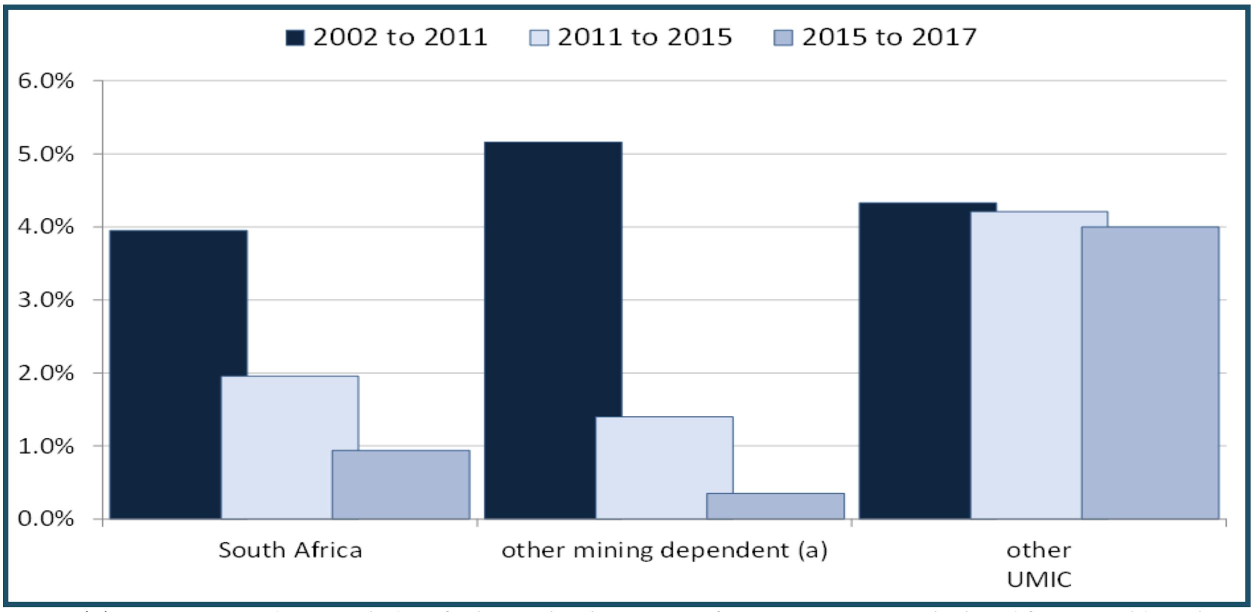
Graph 1. Growth in mining-dependent economies (a) compared to other countries, upper-middle-income countries (UMIC) only, excluding China



Note: (a) Extractive products, including fuel, equal at least 20% of exports. Source: Calculated from World Bank. World Development Indicators. Downloaded from www.worldbank.org in January 2019.

incomes and assets were fairly equal, and market dominance was the exception rather than the rule. In these circumstances, markets will indeed typically generate socially desirable outcomes by meeting consumer needs while holding down costs and incentivising innovation.

Unfortunately, markets are less likely to bring about socially desirable outcomes when, as in South Africa, colonial rule has led to deep inequalities in incomes and assets as well as strong market concentration in many industries, while advances in technology have made it harder for newcomers to compete in both domestic and global markets. In these circumstances, they may reproduce inequality by sustaining high barriers to entry and fail to meet the needs of the poor majority. Moreover, they tend to reinforce the power of established large businesses both to obtain state support, especially around infrastructure and incentives, and to use monopoly power rather than innovation to sustain profitability.

A more useful way to generate a strategy for inclusive growth in South Africa would start by analysing the systemic factors behind exclusive and slow growth. The strategy would then seek to address them systematically.

From this standpoint, apartheid entrenched exclusive growth by destroying African farming and other enterprises and developing key systems – notably infrastructure, education, access to finance, workplace organisation and pay scales, and residential rights – to promote mining and, secondarily, commercial farming and manufacturing, and to ensure European standards for the white minority. After 1994, these systems largely persisted, although the racial bias was officially removed. In particular, state systems, as seen for instance in the state-owned companies' investment plans, continue to effectively prioritise established industry and especially mining, while failing to address the spatial legacy of apartheid. Ending legal discrimination in itself did not reverse the inherited inequalities in asset ownership, education, access to infrastructure and finance, and state support systems. Programmes to cushion the low-income group have been rooted in the top-down delivery of household services and social grants rather than promoting collective action, more equitable pay and education, or ownership of economic assets.

In this context, the slowdown since 2015 reflects a broader trend for mining-dependent economies since the international commodity boom ended in 2011. In fact, other upper-middle-income economies that depend on extractive industries have seen growth slow considerably further than South Africa, as Graph 1 shows. The increase in droughts as a result of climate change have added to the malaise. This points to need for much more consistent, large-scale (and consequently risky) measures to diversify into new activities, both in manufacturing and in other sectors, as well as to address the growing implications of the climate crisis for agriculture, energy and tourism.

A second weakness of the reliance on orthodox economics to generate proposals is that the resulting measures often cannot be implemented because of broad resistance from key constituencies. This is not a bug, but a feature, of economic policy development in a deeply inequitable democracy. South African politicians have to answer to the majority, but economic power is wielded by a few. In these circumstances, officials need to develop policies that are sustainable both socially and economically. If political and social realities mean that economic orthodoxy cannot be implemented, then we need to find “second-best” solutions that can be adopted, implemented and succeed in the real world.

Finally, the discussion document presents the hoped-for gains for all the measures, but does not outline the inevitable blockages, risks and costs. Even the quantitative “test” of the measures at the end of the document only sums up the multiplier effects of the presumed benefits, with no reflection on the likelihood of success. The tendency to oversell proposals by only looking at the putative benefits is a besetting challenge in government. All too often, it leads either to failed programmes or to unintended consequences on a large scale.

THE PROPOSALS

This section notes some concerns about the broad strategic approach to major themes in the document. Obviously, many of the 70 or so proposals would be helpful, but a number are also poorly thought out, and none include a discussion of alternatives, risks or costs. A more detailed list of all the measures, with a brief indication of possible counterarguments and concerns, is provided in the appendix.

1. The building blocks

The document starts by briefly outlining the “fundamental building blocks of long-run sustainable growth.” (p. 13) In this section, it focuses on socio-economic outcomes, such as improved education and reduced youth employment, rather than strategies to achieve them. The proposed measures often have some merit. Still, they address the challenges in an apparently arbitrary fashion, rather than constituting systematic responses to consistent diagnostics. The proposals on education and macro-economic policy are outlined to illustrate the problem; more detail on the other “building blocks” are in the appendix.

While the document acknowledges that education outcomes are generally poor, it makes only two concrete proposals: to expand early childhood development and establish a “comprehensive reading plan for primary school learners”. (p 13) It does not mention the history of downgrading African education that largely shaped the South African school system before 1994. Nor does it reflect consistently on what changes are needed in education to improve the employment prospects of the majority who leave school with matric or less. Such an analysis would point to the importance of addressing the persistent under-resourcing of historically African schools, where learner:educator ratios are still twice as high, on average, as in historically white schools, while buildings and other infrastructure are far worse. It would also underscore the failure of the curriculum to target key skills for employment in today’s economy, especially computer use, design and problem-solving competencies, basic numeracy and English language skills.

The discussion of macroeconomic policy is cursory at best. It calls for “fiscal sustainability, a flexible exchange rate, and credible inflation targeting.” (p. 15) But these principles impose trade-offs with the need to sustain counter-cyclical policies during periods of slow growth. In practice, since 2015 the state contribution to both consumption and investment has slowed, aggravating the slowdown in the economy as a whole (see Graph 2 on page 4). In this context, it is not easy to define what constitutes “fiscal sustainability,” as austerity during a slowdown can lead to falling revenues and consequently rising debt.

Inflation targeting can also foster excessively conservative decision-making for a country with high joblessness unless it is complemented by goals for employment and growth. In South Africa, moreover, interest rates have historically been used to sustain the exchange rate, which effectively reduces competitiveness across the economy.

2. Network infrastructure

The proposals on network infrastructure – electricity, telecommunications, transport and water – are the most substantive in the document. In every case, the solutions seek to open the market to private providers, with strong independent regulators to prevent possible negative outcomes. The regulators’ main role would presumably be to prevent monopoly pricing, deliver services for the majority who cannot pay the full cost, and generally promote timely and coordinated investment and supply.

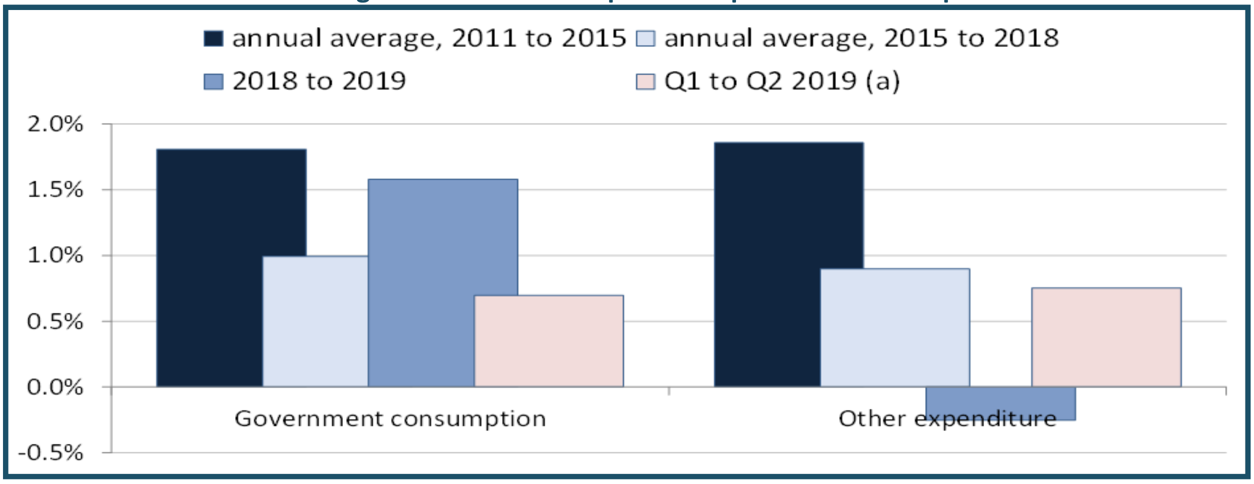
This approach aligns with standard economic prescripts, which aim to replace the democratic state with a technical agency that can ensure a level playing field while addressing market imperfections. But it ignores South Africa’s extensive, mostly woeful, experience with independent regulators. These agencies have to operate in a context in which capacity is thinly spread between government departments, businesses and the regulator itself; where mass poverty means that most people cannot pay much or anything for services, making them unattractive customers; where fragmented state institutions often have divergent mandates and regulatory powers; and where concentration is generally high.

In practice, the existing regulators have almost all proven unable to make large suppliers hold the line on pricing, provide affordable, quality services for poor households or small businesses, or maintain the value of their assets. Arguably, the result has largely been additional regulatory hurdles to reform as well as unpredictable delays and bias in decision-making.

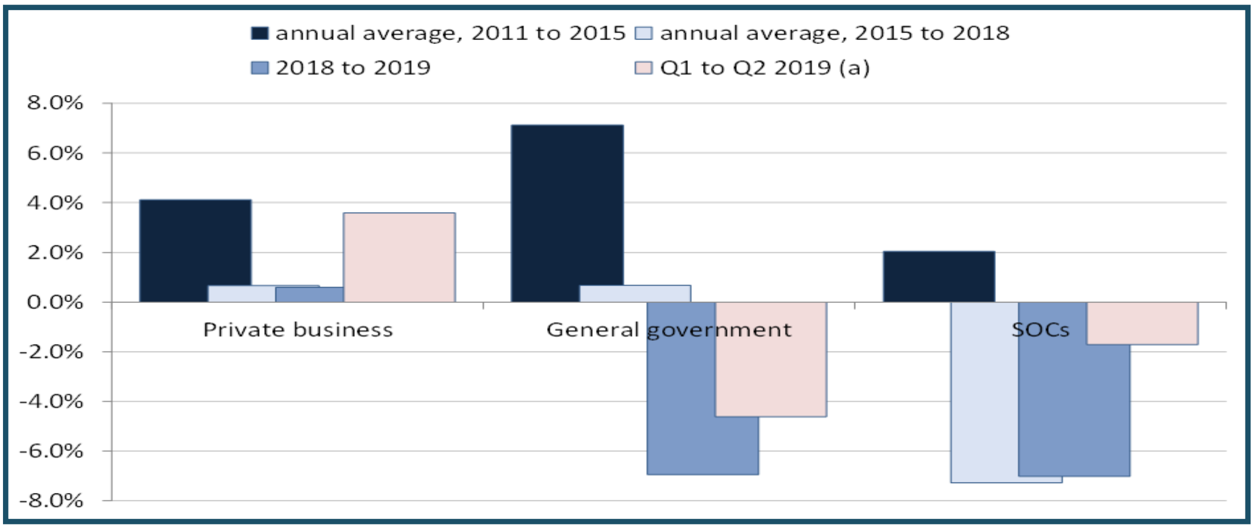
In the event, permitting more suppliers to enter the electricity market seems the only viable solution to the current malaise. It will, however, very likely lead

Graph 2. Growth in government consumption and investment, 2011 to 2019, year to second quarter

A. **Growth in government consumption compared to other expenditure**



B. **Growth in government and state-owned company investment compared to private investment**



Source: Calculated from Statistics South Africa. "GDP P0441- 2019 Q2." Excel spreadsheet. Downloaded from www.statssa.gov.za in September 2019.

to a write-off of some Eskom assets, since the utility already faces substantial over-capacity. Moreover, contrary to the assumptions in the discussion document, it seems unlikely that private investors will be willing to buy up the worst-performing Eskom plants unless they can obtain a price that returns a profit and renegotiate at least some coal contracts.

In contrast, there is no obvious need to bring in private competitors in rail transport and bulk water. In these areas, South African infrastructure compares well with other upper-middle-income economies. In 2016, the World Bank ranked South Africa 21 in the world for quality of export infrastructure (ports, rail, roads and information technology) – the highest among developing economies.

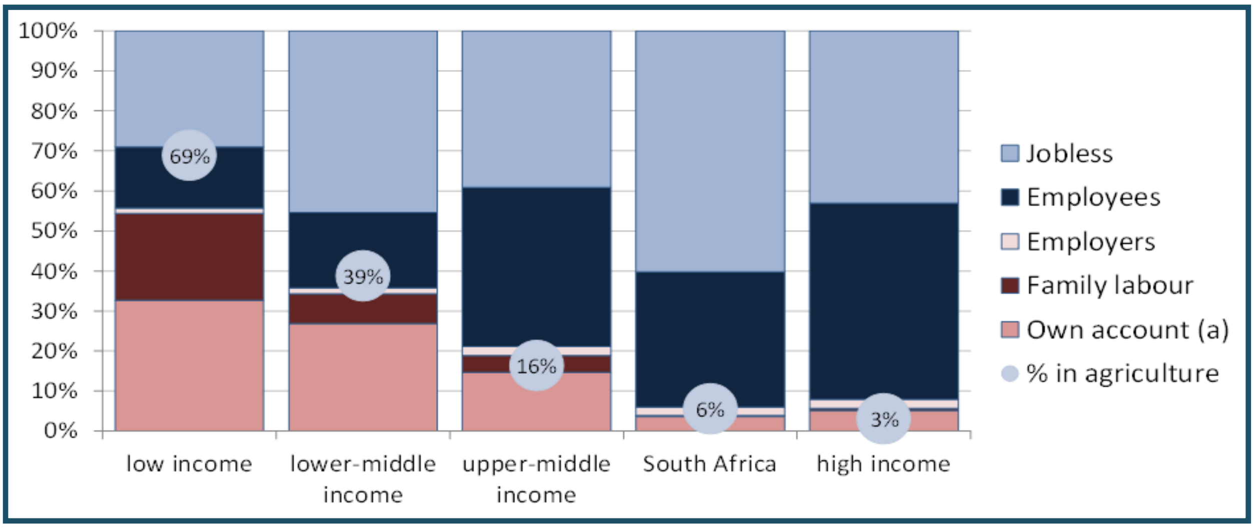
The problems with water and sanitation are mostly at the municipal level outside of the metros. It largely reflects a lack of capacity, planning and revenue, especially in historic labour-sending regions where both the infrastructure and the municipal governments were often only established after 1994. Bringing in private bulk suppliers will not resolve this problem, and experience shows that privatising municipal supplies tends to end with worse services for low-income households and higher prices.

3. Promoting competition and small business

The discussion of small business underscores the analytical inconsistency in the document. The section starts with a set of proposals on barriers to entry arising from regulation and market structure. (pp 27 ff) When it comes to small business, however, its focus shifts to regulation, labour law including the minimum wage, and access to finance, without reference to market structure. (p. 32) Its ultimate proposals then centre on procurement, reducing red tape, and consolidating financial institutions for small business. (p. 33)

The document explicitly aims to redress the unusually limited role of small business in South Africa, but it does not explain why that backlog exists. A crucial factor was the suppression of African agriculture and informal retail before 1994. That in turn meant few African households inherited productive assets, experience, networks, sites or infrastructure for small

Graph 3. Employment status and employment in agriculture in South Africa compared to other countries by income level, 2017



Source: Calculated from ILO. ILOSTAT. Interactive database. Downloaded from www.ilo.org in August 2018.

business. Moreover, the market institutions that emerged to support small business in other countries, including supply networks, finance, logistics and training, remained stunted in South Africa. After the end of apartheid, these deficits persisted. In consequence, as Graph 3 shows, South Africa has lower levels of self-employment and higher levels of joblessness than peer economies, as well as comparatively limited agricultural employment.

Effective measures also need to be clear about the challenges different categories of small business face. Needs vary sharply between formal companies, township businesses, and producers in the historic labour-sending regions. Many small formal enterprises have high levels of expertise and close links to dominant companies. They would certainly benefit from the measures proposed in the discussion document. In contrast, for emerging micro and township enterprises, the proposals fall far short. These producers need a more supportive ecosystem as well as access to assets and resourcing on a large scale. As a rule, that requires a dedicated institutional driver able to manage holistic support. The document proposes this kind of approach for agriculture, but does not extend the proposal to other small business.

4. Agriculture and services

The document initially calls for a shift to labour-intensive activities but ends up with proposals only for agriculture and tourism.

On agriculture, it argues that experience shows that smallholder schemes supported by agro-industrial producers often work well. It does not, however, analyse the reasons big businesses get involved – typically because they cannot otherwise gain access to land and water to produce desired inputs – nor the consequent potential for scaling up these efforts. Nor does it look at other agencies that can provide holistic support for small farmers. Experience suggests that marketing co-ops, clusters and NGO marketing agencies can also manage this kind of scheme effectively. In any case, the document does not explain what the government can or should do to promote private support for smallholders. A further challenge is that the document does not discuss the accelerating effects of climate change on agriculture. It notes the need to promote more water-saving irrigation methods, but does not propose how that aim should be achieved.

The document stresses the importance of services for job creation, but then provides proposals narrowly on tourism. Specifically, it argues for increased funding for tourism agencies, greater government support for tourism enterprises, a more efficient and accessible visa regime, and a stronger tourism safety initiative. While these programmes would certainly help, they ignore key obstacles to tourism to South Africa, specifically:

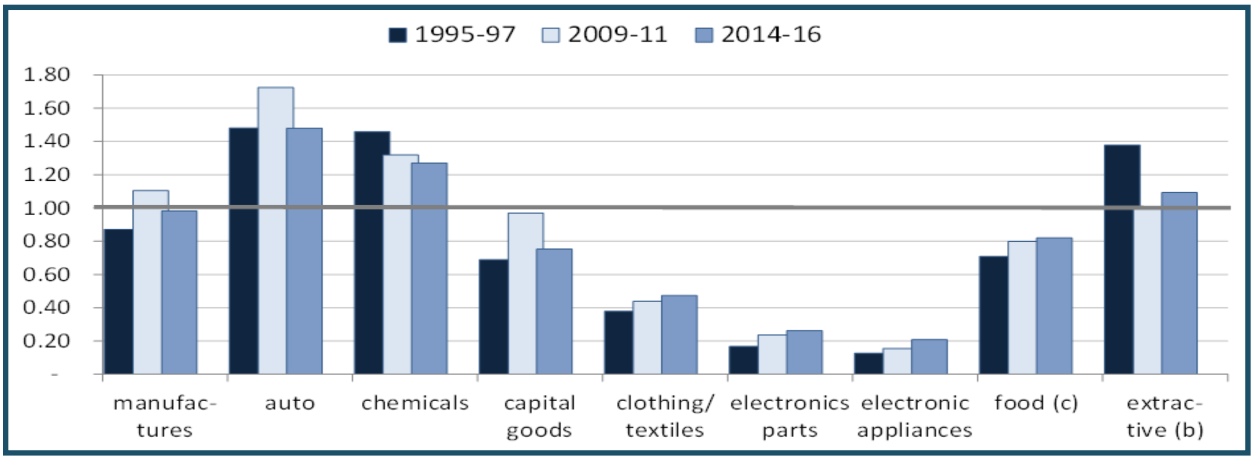
- The cost of international travel;
- The benchmarking of prices for local tourism services to high-end European products; and
- The threat from climate change, in both efforts to discourage air travel and of sea level rise as well as droughts, which affect critical eco-tourism attractions.

5. Industrial policy

On industrial policy, the document's proposals focus almost exclusively on the policymaking process. They propose a range of conventional improvements that are not controversial in the abstract, such as limiting the number of priority industries and evaluating the impact of measures more consistently. But they do not discuss substantive measures to address blockages to industrialisation, which would start with more co-ordination around and resourcing for industrial policy.

The fundamental economic challenge for industrial policy is that South African manufacturing is internationally competitive only in heavy industry

Graph 4. Revealed comparative advantage (a) for South Africa compared to upper-middle-income economies excluding China, average for periods



Note: Where a ratio in the graph is above one, the share of the product in South Africa's exports is higher than in the other economies. Where the ratio is below one, the share of the product in South Africa's exports is lower than in the benchmark economies. a) Defined as the share in South African exports of a product as a ratio to the share of the same product in total exports by the benchmark economies. The charts here rely on UNCTAD data, which do not fully report South Africa's gold exports before 2010. As a result, they somewhat overstate South Africa's revealed comparative advantage for manufactures compared to raw materials. (b) Ores, metals, precious stones and fuels. (c) Excluding coffee, tea and spices. Source: Calculated from UNCTAD. Merchandise trade matrix - product groups, exports in thousands of dollars, annual, 1995-2016. Electronic database. Series on relevant export groups and groups of country by World Bank income level. Downloaded from www.unctad.org in April 2018.

(metals, capital equipment, basic chemicals and auto) and food processing (see Graph 4). In contrast, exports of clothing and appliances, which kick-started industrialisation in Asia while creating jobs on a large scale, remain far behind the global norm, even if China is excluded. As a result, it is hard to develop a political constituency for a stronger industrial policy.

The structure of South African manufacturing points to the need for a more innovative as well as a more vigorous industrial policy that balances the need to build on national strengths with the imperative of ensuring more inclusive growth. By extension, a robust industrial policy for South Africa requires not only a clearer focus and more consistent evaluation, but also larger resourcing and stronger support from all state agencies, including infrastructure and education. Without these preconditions, improved monitoring of implementation could end up serving only to justify cutting programmes.

ALTERNATIVE APPROACHES

Achieving inclusive growth requires change in production, education, workplace and ownership systems. These are long-run processes that require continual monitoring and course correction as well as adequate resourcing and technical capacity. Rather than long lists of specific fixed measures, they would be better served by:

- Agreement within government on a short, concise list of priorities with key strategies to achieve them; with
- Capacity in the Presidency to quality assure policies and programmes, ensure alignment across state agencies, and monitor implementation against outcomes.

The discussion document also aims, however, to identify some immediate interventions that could boost growth. Two imperatives stand out. First, Eskom's debt and growing overcapacity constitute a threat to the economy as a whole. Any solution must build on an in-depth review of the potential of each generating plant and of how its fixed costs can be managed down in light of slow and uncertain growth in its demand. The process will impose unavoidable costs both for writing down assets and for debt. At the same time, government should establish a timetable for opening the grid to new suppliers with a commitment to increasing electricity tariffs no more than 2% above inflation for next three years.

Second, the current fiscal stance is undoubtedly pro-cyclical. Fiscal space is limited, although neither the annual deficit nor public debt are anywhere near crisis levels. In these circumstances, innovative ways to provide a stimulus to demand should be sought, for instance by leveraging the Unemployment Insurance Fund (UIF) surplus (now at well over R100 billion and rising) and through more effective measures to promote local procurement.

In addition, government could fast-track existing commitments that have significant potential for boosting confidence and growth. They include revising visa regulations to enable immigration of skilled personnel and facilitate tourism; implementing Job Summit agreements on township and rural enterprises and on industrial finance; and the Master Plan process now under way to reinvigorate individual industries, which should extend to large services such as software production and construction services as well as retail.

APPENDIX: PROPOSALS IN THE NATIONAL TREASURY DOCUMENT: SUMMARIES AND RESPONSES

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
1. Building blocks			
Education	Expand early childhood development and primary reading programme.	Inequality is reproduced by unequal resourcing of schools, due in part to fee system and residential requirements, in part to inappropriate curricula and teacher training, and in part to low education levels among parents in poor communities. Need systemic responses to all of these; low hanging fruit are resourcing and residential requirements.	There should be a review of resourcing of schools aimed at genuine equality, taking fees into account, and admissions requirements should be revised to ensure that every school, irrespective of location, fees or ownership status, is at least 50% black.
Youth unemployment	More training and apprenticeships plus tax incentives.	Focusing narrowly on youth unemployment risks ignoring the broader factors behind joblessness.	Proposals are fine (although Employment Tax Incentives (ETIs) are expensive and not effective), but they won't go far unless the economic causes of joblessness are addressed.
Urban space	Improve transport and densify housing, with priority apparently to stronger housing markets and private funding of low-income housing.	This is just a statement of a desired outcome; not clear how housing market proposals would help with either transport or densification.	We need long-term, systematic plans to densify cities, which in turn requires a review of land use especially in high-income suburbs and along transport corridors as the basis for plans with timeframes and key performance indicators (KPIs) for densification and travel times. Options include (a) requiring low-income housing be included in every new housing development and (b) construction of high-density social housing in central business districts (CBDs), suburbs and transport corridors.
Skills constraints	Change visa requirements in short run, education in long run		The current visa system allows small groups of professionals effectively to veto competition, which in turn sustains high income inequality.
Economic institutions	Effective pact between government and business based on viable, reasonably stable policies to achieve inclusive growth	Core challenge is fragmentation of government combined with deep inequalities and the associated anger of most voters at business. These factors lead to contestation within government as well as political risks from measures that visibly support established business.	Presidency needs to ensure much more discipline around policy pronouncements by individual departments (including NT!), securing alignment around well-defined priorities and understanding of trade-offs. For that, the Presidency needs rigorous procedures and very high-level capacity to quality assure policy proposals before they are published.
Macro policies	Emphasise fiscal sustainability, a flexible exchange rate, and credible inflation targeting	As the document itself notes, this approach has led to pro-cyclical policies in the current gradual slowdown. There needs to be more innovative thinking on how to stimulate the economy without excessive disruption of macro indicators.	Options include more pro-active use of the UIF surplus, which is worth well over R100 billion, and a sharp reduction in payroll deductions which lead to its escalation; much more rigorous promotion of local procurement; and use of competition and environmental fines for economic development programmes.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
2. Network industries			
Electricity	Seek viable least-cost options even if disruptive of existing producers (taking into account skills etc) – contrast to the current Integrated Energy Plan (IEP), which limits renewables.	Eskom claims stability of grid requires baseload from coal or nuclear – effectively imposes higher unit cost to offset risk. Would ultimately require downsizing at Eskom with writing off of (state-owned) assets.	We need a better understanding of the baseload requirement and a real strategy for downsizing Eskom's coal plants with a better understanding of alternatives. Specifically, studies on (a) coal contracts, (b) technical problems in both old and new Eskom plants, starting with highest cost/outages, and (c) staffing levels and where they are, based on organisational needs rather than superficial international comparisons (e.g. from much more densely populated countries).
	Enable households and business to sell electricity to grid – now heavily regulated and often impossible.	As above Could also reduce municipal electricity revenues.	Critical and should be fast tracked as the main way to leverage strategic change at Eskom. Does require Independent System and Market Operator (ISMO). Also the costs and risks, which are considerable, need to be assessed and managed.
	Municipalities should (a) develop alternative revenue sources and (b) include social housing in solar to reduce own electricity purchases.	Risk is that municipalities end up fighting residents and business over rising prices for other services, while households and businesses do not get full relief from lower electricity costs.	Most municipalities make no money off electricity anyways, and those that do are mostly metros, so in practice not a huge problem.
	Need to restructure Eskom as can no longer compete with new sources – propose auction of coal-fired plants raising up to R450 billion.	Not clear who would buy them; at best end up with cherry-picking. Low efficiencies in coal plants result from (a) technical factors (age in some plants, poor construction in Medupi), (b) coal contracts and (c) possibly overstaffing, although appears to be more in "soft" functions rather than in generation. Unless new buyers can break contracts and fix technologies, or after they've bought the assets increase prices (whatever they agreed in advance), they won't be interested.	There needs to be a deeper understanding of cost drivers and whether private companies could actually manage them better than Eskom (e.g. if could change coal contracts). This proposal only works if new investors are in fact able to reduce operating costs well below Eskom levels.
	ISMO, including possibly a concession model.	Again, not clear anyone would concession the ISMO unless could increase the revenues.	Setting up ISMO has long been agreed and should be pushed through, also to reduce Eskom's monopoly power. The ISMO already exists as an autonomous unit within Eskom. Need a quick study on cost requirements and how they would be covered. There doesn't seem to be any reason to pursue concessioning the ISMO.
Telecomms	Enforce local loop unbundling for Telkom infrastructure, as only fixed line is good for broadband;		

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
	leverage private sector for rolling out broadband to public institutions.		
	Make it easier to deploy telecoms infrastructure.		
	Strengthen ICASA and fund from industry levies.	Regulators are a problem in SA due to lack of capacity combined with need for structural change. Industry levies may just increase the risk of state capture.	Absolutely strengthen ICASA but don't be over-optimistic about potential improvements, given context.
Transport	Independent regulator	As above	As above
	Separate accounting for Transnet divisions to show cross subsidies.	Enables companies that pay more, especially established mining companies, to mobilise against socially desirable cross subsidies.	This really is critical for a strategic approach to Transnet. Should also link to an evaluation of outcomes including impact on inclusive industrialisation and equality (e.g. through cross subsidies of general freight).
	Grant private access to rail lines although Transnet remains owner.	Risk of cherry picking of profitable business by private companies leading to downward spiral at Transnet.	Transnet is actually reasonably functional as well as crucial to the national economy, given South Africa's dependence on long-distance freight and ports. Not clear how and why private services would help. The general assertion in the text that allowing more private suppliers would not affect SOC balance sheets needs to be tested more rigorously.
	Increase competition between port operators.	Can lead to under- and overuse of some facilities, at least in medium term.	Not clear how this would be implemented.
	Improve information flows and coordination within the network, including through regional Joint Operating Centres and improved border facilitation.		They say Joint Operating Centre with Mozambique led to significant improvements in efficiency.
	Reduce implicit subsidies to road freight	Would increase the cost of road transport	This is an important step toward internalising externalities around road freight, but as the document notes it would require Transnet to sustain efficiencies and improve services as demand increases. There would certainly be major pushback from road users.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
	Place all local transport under municipalities and extend subsidies to taxis.	Municipalities often lack capacity; decentralisation could undermine the current subsidy system, which is not perfect but cannot simply be downsized given the persistence of apartheid geography.	How to ensure that resources follow function? Not a problem for metros, but other towns may struggle. There should be a coherent study of subsidies that explores who benefits, where and how. Note that the proposed reduction in subsidies to road transport could raise the cost of commuting unless managed well (*vide* problems around Gauteng tolls)
Water	Set up independent suppliers with an independent regulator.	As above about the regulator.	The problems with water are not at bulk level but in municipalities and agriculture. If we are serious, there should be far more effort (a) to support municipalities in managing water and waste and (b) to reduce the water intensity of agriculture through more appropriate irrigation techniques.
3. Increasing competition and small business growth			
Cross cutting measures for small business	SEIAS to take into account impact on competition and market structure.	Socio-Economic Impact Assessment System (SEIAS) already takes into account impact on SMMEs as well as other affected groups.	The challenge is to upgrade the quality of SEIAS, not to keep adding detailed criteria that bias the outcome toward particular groups.
	IDC to do more to support SMMEs, possibly through dedicated funds financed by competition fines.	The problem is lack of viable small business applicants; need to address through more substantive changes to provide supportive systems more holistically, for instance by setting up marketing co-ops, clusters, contracting out or other support programmes.	Dedicated funds are useful. To date, NT regulations have generally required that all fines go first to Treasury, which then has sometimes transferred a share to the IDC.
	Government incentives to be more widely communicated.	As above	
Network infrastructure and banking	Regulate to favour new entrants including at municipal level.	There are substantial risks around coordination and fraud if goes too far.	Links back to earlier proposals on network industries generally. A core challenge is municipalities often lack the capacity to manage infrastructure as it is; adding many small suppliers could be problematic – the experiences around small contractors for RDP housing are instructive. Is this a proposal in principle, which would lead to more detailed studies on options, or an actual mandate to move without more understanding of the issues in specific areas?
Retail	Open up leases, increase retail spaces and facilitate access to distribution centres and logistics	Ending exclusivity for big shops could make them – and the malls – less viable. If serious about small business, then exclusivity is not the main issue. Rather, it's the rental cost. On the other proposals: need to be clear on how; as above, often need to establish dedicated capacity.	No mention of township economy initiatives, which provide a more integrated approach. If serious about support for small retail, need to put in capacity (a) to assist municipalities with urban planning to enable access to consumers especially for street sellers and township retailers, and (b) improve produce supply, for instance through dedicated agencies, NGOs or co-ops.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
		A core challenge for township economy is very low incomes (around R5 000 a month per household, compared to over R20 000 p.m. in suburbs), which limits demand.	
	Make it easier for consumers to switch telecoms and banking accounts.		
Promote SMME growth	Procurement: interest on delayed payments; departments should respect 30% rule; expand subcontracting so as to enable up-front payment, but then regulate to avoid exploitative relationships.	Delayed payments are often due to officials' refusal to accept invoices at all on quality grounds. In these cases, a cheap, efficient dispute-settlement procedure would be more helpful. 30% rule: may add to cost of government procurement in terms of time and inputs. Regulators: As above. Why not just change the rules to permit a share of payment up front? Lack of information on tenders and control of specs is a challenge they mention, with no solutions.	There may be trade-offs between favouring small business and local producers – experience shows that favouring small suppliers can actually lead to more imports, as it opens access to trading companies. They do not deal with the real challenge, which is that it is often a burden on government agencies to identify and work with small business. We need proposals to address this cost. Currently there is very little support for companies that feel unfairly excluded by tenders. It would help if Treasury would set up effective complaints and dispute-settlement procedures.
	Reduce red tape: Independent agency to review across all three spheres for SMMEs, including labour standards; set up one-stop shops.	There needs to be a balance between the aims of regulations, e.g. consumer safety, safe neighbourhoods, labour safety and employment equity, and burdens on SMMEs. This approach could come at the expense of consumers, communities and workers. A key challenge has been delays in licensing due to lack of capacity to manage existing systems – reviewing that would be more helpful. One-stop shops only help if adequately resourced.	TIPS piloted an approach to red-tape reduction that used the SEIAS methodology to ensure a balanced approach. Paper is on the TIPS website. Who would resource one-stop shops?
	Finance: consolidate existing funds into a single fund and focus on start-ups.	To be effective, funding for small businesses requires more resourcing, not just consolidation. Different funds exist largely to meet needs of different kinds of enterprise; consolidating them may just make it harder for some businesses to obtain support.	This is only relevant to relatively formal start-ups, which are a tiny share of the universe. Need to specify who would benefit and how.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
4. Promote agriculture and services			
Agriculture	Innovative joint ventures based on initiatives from formal business and farmers, with concessionary financing	Critical issue is creation of an institution that can provide holistic support, including inputs, extension and marketing. Experience shows that a multiplicity of organisations can achieve that aim, not just formal business. There is no visible policy proposal here.	There should be a sizeable fund to promote a broad range of this kind of farm-support scheme, including obtaining access to land and water; inputs; extension support; and markets. The Jobs Fund model would work well, but waiving the co-funding requirement for non-profit agencies. There is a proposal to this end in the Jobs Summit agreement.
	More concessionary finance; insurance; improved extension, including through private providers; upgrade irrigation systems; improve market links for small farmers.	Contrary to the assertion in the document, support for commercial farmers is equal to peer economies, but embedded in existing systems and so not visible. Upgrades would have to clarify who would pay and who would benefit, and how these improvements would also support smallholder schemes as proposed above. The issues with extension and irrigation are complex; we need an analysis of blockages to improvements to date to identify practical proposals for improvement. There is evidence of monopoly pricing by the dominant storage companies (the former commercial farmer co-ops). Import parity pricing in the industry increases both maize and soya prices for processors (millers, feed and livestock producers).	The proposals have merit, but they as formulated they are mere expressions of goodwill. Supporting dedicated agencies for smallholder schemes would be a useful way to bolster these supports. In addition, • Climate change makes the current water-wasting system a real risk for commercial agriculture and ultimately for food security. Government should resource a support scheme for water-saving agriculture, with help in identifying technologies and funding for initial investment. • Government should require supermarkets to buy a share of produce locally, through the store manager. • The Competition Commission should undertake a market inquiry into storage companies, focusing on maize and soya.
Services	Increase funding for tourism agencies, advocacy for tourism enterprises, reformed visa regime and Tourism Safety Initiative	Tourism is not the main employer in services – what about other services? How should policy deal with (a) the fact that many are highly dualised between skilled and unskilled labour, and (b) increased commodification of health, education and security may effectively direct resources toward those who can pay and away from poor?	There should be a serious strategy on all the value-adding services, not just tourism, as part of South Africa’s industrial strategy. The Department of Trade and Industry (the dti) has commissioned an initial study. There should be an intervention to see what can be done to ameliorate the effects on construction of the slowdown in public and mining investment.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUMENTS	COMMENTS
		The decline in construction is a major factor behind slowing growth and employment. It reflects declining public and mining investment. There should at least be a discussion of if and how it could be ameliorated. The core obstacles to tourism are the cost of international travel and the benchmarking of local services to high-end Europe. The threat from climate change in this context cannot be ignored, both in terms of reducing air travel and in terms of sea level rise and droughts affecting ecotourism.	
Industrial policy	Prioritise and rationalise interventions – specifically reduce sectors in IPAP; develop metrics to improve learning; expand experimentation with learning over time; establish a multi-stakeholder body to oversee implementation.	It doesn't make sense to critique industrial policy solely on process rather than substantive grounds. There needs to be an analysis of what systems lead to the reproduction of commodity dependence and profound inequalities even after the end of apartheid. Problem with industrial policy is not too many priorities, but that taken together they seem unlikely to achieve substantial outcomes. A particular challenge is that all the interventions proposed in IPAP seem unlikely to bring about a step-change toward inclusive growth, even in the long run.	The current process of Master Plans aims to ensure responsive policy making at industry level. The methodology should be formalised and publicised to secure broader buy-in and ensure continual upgrading. Industrial policy should encompass much larger support for SMMEs, including township/rural enterprise initiatives as above.
	Local procurement: Upgrade designation process to take into account government demand and sustainability of local production; improve information on tenders; standards for local content through SABS.	Designation does not work especially for consumer goods. Critical problems are (a) lack of centralised info on tenders and (b) no response to stakeholders who complain that tender specifications exclude local producers. In addition, there is a built-in disincentive for departments like health, which may bear substantial costs although economic development is not in their mandate. SABS does not have capacity for certification, which becomes a serious bottleneck for local procurement.	Set up a centralised tender information site for all spheres, and make it open to stakeholders (business, unions, others). Require responses when stakeholders complain about tender specifications, with real penalties if they are ignored, e.g. a written reprimand to the relevant Director General that would go into audit record. Establish a fund at the dti that can compensate departments for the costs of local procurement where warranted by developmental outcomes. Require Auditor General to develop procedures to audit local procurement, including local content.

SECTOR	SUBSTANTIVE PROPOSALS	COUNTER ARGUEMENTS	COMMENTS
Trade policy	Ensure competitive pricing of intermediate inputs as well as trade promotion. In this context, ensure ITAC does not respond to lobbying for tariffs by established companies.	This proposal is very unclear, but appears to relate to the need to ensure lower-cost inputs for major import-dependent exporters, which effectively means the auto industry. Other major exporters are mining refineries – metals and chemicals – and food, which are less import dependent. The main challenge outside of auto centres on import-parity pricing on locally produced inputs, which is a competition rather than a trade issue.	ITAC should be required to use a SEIAS methodology to indicate the impacts especially on downstream producers, employment and consumers. In addition, where a major industry is facing an import surge, the dti should work with business to develop a Master Plan before any tariffs are granted.
Export promotion	Cross-cutting: infrastructure, as above; more bilateral trade agreements; upgrade export licencing and standards systems; improve marketing.	South African trade is dominated by mining products, including metals, and auto. Proposals outside of infrastructure really only apply to (a) agricultural exports, mostly in horticulture, and (b) capital goods and equipment. To succeed, these measures therefore need to be linked to industrial policy measures to promote new industries, rather than presented as general proposals.	Export promotion, including phytosanitary systems in agriculture, should be embedded in Master Plan processes.
Regional trade and develop-ment	Leverage regional value chains	How? This would require SA to do much more to support regional and/or bilateral industrial planning processes.	The first step would be to strengthen capacity in the dti and to require every Master Plan to spell out regional implications and, if possible, opportunities.
	Improve intraregional logistics, power grid and construction contracting.	These are long-standing commitments. The question is why they have not been implemented on a larger scale.	Get an analysis of blockages to efforts to improve regional logistics and power grid, with proposals on how to address them.

Trade & Industrial Policies Strategies (TIPS) is an independent, non-profit, economic research institution established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing. Its areas of focus are: trade and industrial policy, inequality and economic inclusion, and sustainable growth.

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