INDUSTRIAL POLICY AS A TOOL TO SPEARHEAD ECONOMIC GROWTH AND REGIONAL INTEGRATION IN SACU

Levy Maduse,
National Programme Officer: UNIDO Regional Office, South Africa

Ludovico Alcorta,
Director, Development Policy, Statistics and Research
United Nations Industrial Development Organization
Outline

• **Definitions**: Industrial Policy, Economic Growth and Regional Integration
• Africa’s Commitment to **Regional Integration**
• **Issues and Challenges** on African Economic Growth And Regional Integration
• Revisiting **Industrial Policy**
• **South Africa**’s Adopted National **Industrial Policy** Framework’s Core Objectives
• UNIDO’s Strategic Industrial Policy Services
• UNIDO’s **Analytical** Tools
• UNIDO’s **Expertise** (including SADC’s IUMP)
• **Conclusion**

Industrial Policy (IP)

- A nation's declared, official, total **strategic effort to influence sectoral development**, i.e. "policies that **stimulate specific activities and promote structural change**, e.g. trade and fiscal policy.
- IP requires concerted **private-public action** through government policies going hand in hand with private initiative,

- The main objective is to anticipate **structural change**, facilitating it by **removing obstacles** and **correcting for market failures**
  - Good IP usually brings higher economic growth and prosperity for a country

- Other **objectives** of IP include:
  - Maintaining a **sustained growth** in productivity;
  - Enhancing gainful **employment**;
  - Achieving optimal **utilisation** of human resources (HR);
  - Attaining international **competitiveness** and
  - **Transforming** the country into a major partner and player in the global arena
Economic Growth

• A positive change in the level of production of goods and services over a period of time, or
• increase in the Ability of the economy to produce goods and services
• Economic growth is part of the 5Es, of which the others are:
  – Allocative Efficiency
  – Productive Efficiency
  – Equity
  – Full Employment
Graphical Representation of the 5Es

Limited Resources → SCARCITY of goods and services ← unlimited wants

ECONOMIZING PROBLEM (must make choices)

society's 3 options for dealing with scarcity

Economic Growth

Improve the use of available resources

Reduce Wants

Allocative Efficiency

Productive Efficiency

Equity

Full Employment

Source: http://www.harpaercollege.edu
Regional Integration

• a process in which states enter into a **regional agreement** in order to **enhance regional cooperation** through regional institutions and rules.
• an association of states based upon location in a given geographical area, for the safeguarding or promotion of the participants, an association whose terms are fixed by a **treaty or other arrangements**
• **Africa too highly fragmented**
• Benefits of integration
  – Create **larger markets** to permit economies of scale, wider competition and increased foreign investment
  – Accelerate **opening of economies** to the rest of the world
  – Enhance credibility of **national reform** through lock-in policy mechanisms
  – Strengthen unity for **international negotiations**
  – Help **reduce/resolve** interstate **conflicts**
Africa’s Commitment to Regional Integration (1)

• Africa accounts for only 1% of global manufacturing
  – Not enough for job creation, poverty alleviation and employment creation

• 26-28 November 2010 EU-Africa Business Forum Declaration on Trade and Regional Integration (Tripoli) resolved to:
  – Advance the Regional Integration Process to promote inter-African trade, strengthen Regional Economic Communities, dismantle tariff and non-tariff barriers and implement trade facilitation mechanisms.
  – Renew political momentum to conclude the WTO Doha Round and the negotiations on the Economic Partnership Agreements.
  – Implement Aid for Trade projects. Ensure trade liberalization is gradual and backed up with accompanying measures.
  – Develop effective joint strategies with the private sector to tackle counterfeiting and illicit trade.
  – Support African exporters in implementing technical standards in order to facilitate their exports.

• 13 June 2011: SADC, COMESA and EAC agree to form Common Market
Africa’s Commitment to Regional Integration (2)

- AIDA- Accelerated Industrial Development of Africa-
  - Enhancing Competitiveness of the African Industries through Increased and Improved Value Addition
  - AIDA priorities:
    • Policy on Product and Export Diversification, Natural Resources, etc
    • Infrastructure Development
    • Human Capital Development and Sustainability, Innovation, Science and Technology
    • Development of Standards and Compliance
    • Development of Legal, Institutional and Regulatory Framework
    • Resource Mobilization for Industrial Development
- APCI—Africa Productive Capacity Initiative adopted in 2004:
  - the improvement of industrial performance at the sub-regional level, and
  - the expansion of integration efforts-to able to access regional and global markets.
  - Emerging Programs of APCI has four main elements:
    (i) Productive Capacity and Quality Promotion, (ii) Standards and Conformity Assessment, (iii) Regional Accreditation, and (iv) Industrial Upgrading and Modernization
Issues and Challenges on African Economic Growth And Regional Integration (UNECA)

- **Trade and market integration**—impact yet to be seen
- **Manufacturing**—cooperation and private sector participation lag behind
- **Policy convergence**, monetary and financial integration—still a mirage
- **Infrastructure**—plagued by missing links and lack of investment resources,
- **Labour mobility**—still limited,
- **Cross-cutting issues**—peace and security a major concern, health and gender not fully mainstreamed,
- **Political will**—not adequately translated into action,
- **Rationalization of regional economic communities**—imperative, but in need of further research,
- **Regional institutional architecture**—generally weak,
- **Integration agenda**—wide in scope, some provisions in need of review,
- **Private sector involvement** in integration—recognized but limited,
- **Africa’s regional integration frameworks**—a loose or strictly binding blueprint for action?,
- **Global exigencies (WTO, GATT)**—yet to be fully grasped,

Source: http://UNECA.org/aria1/chapetr.pdf
Revisiting Industrial Policy (1)

- **Structural Change** (SC) involving product diversification and upgrading is very important part of IP
- SC involves:
  - constantly **improving existing activities** and generating **new ones**
  - Absorbing surplus **labour**
  - Increasing the contribution of individual workers (**productivity**) 
  - Promoting the **integration** of production sectors within the domestic economy
  - **Investment, technological change and innovation**
  - ** Adopting** technologies from established producers abroad to domestic conditions
Revisiting Industrial Policy (2)

• African governments need to take effective measures to **expand the manufacturing sector**
• A **well-designed approach to industrialisation**, that is **ADJUSTED TO SPECIFIC COUNTRY CIRCUMSTANCES** is needed
• Africa is **losing ground in labour-intensive manufacturing**-a very important part of industrial development (e.g. Manufacturing Value Added (MVA) fell from 23% in 2000 to 20% in 2008)
• Governments must tailor effective **strategies** to **spur industrial development**
• **Mutually reinforcing linkages** between the **agricultural and non-agricultural sectors** should also be created
• **Industrial policy** must be consistent with other **macroeconomic policies** for better development outcomes like:
  – avoiding **exchange-rate** overvaluation
  – to mobilising **domestic resources** to fund industrial development
  – **Aligning policies** with the objective of industrial development, namely
    • monetary and fiscal policies
    • Technology and innovation policies
    • Education and skill-formation policies
    • Trade policies
    • Cluster policies
• **expanded economic relations** with neighbouring countries (i.e. **regional integration**)

South Africa’s Adopted National Industrial Policy Framework’s Core Objectives

- To facilitate **diversification** beyond the current reliance on traditional commodities and non-tradeable services.
- The long-term **intensification** of South Africa’s **industrialisation** process, and moving towards **knowledge economy**.
- The promotion of a more **labour-absorbing industrialisation** path that catalyse **EMPLOYMENT CREATION**.
- The promotion of a **broader-based industrialisation** path characterised by greater levels of **participation** by historically disadvantaged economic citizens and marginalised regions in the mainstream of the industrial economy.
- Contributing to **industrial development in Africa**, with a strong emphasis on building **regional productive capabilities**.

Since the launch of the Industrial Policy Action Plan 2 (IPAP2), progress has been made in the following areas: **Procurement Policy, Industrial Financing, Competition, Trade, Automotives, Clothing and Textiles, Business Process Services, Green Industries, Forestry, Iron and Steel, etc**.
UNIDO’ Strategic Intelligence
Industrial Policy Services

• Strategic Industrial Policy (SIP)
• Intelligence Services: Focus
• Intelligence Services: Modes
Strategic Industrial Policy (SIP)

• What is SIP?
  – Long-term positioning in world economy
  – *Structural change towards areas that are expected to offer better prospects for economic growth than in the absence of such an intervention.*

• Principles
  – *No one size fits all*
  – Industrial sustainability
  – Supporting and challenging
  – Self reinforcing and effective

• New approach
  – Process orientation
  – Multi-stakeholder focused
Strategic Industrial Policy (SIP): Stages

1. Diagnosis
   Assessment of industrial capabilities & performance

2. Design
   Identification of constraints and solutions

3. Implementation
   Selection, financing & coordination of interventions

4. Evaluation
   Continuation, adaptation, cessation of interventions

Legitimation

Monitoring
Intelligence Services: Focus

SIP: Diagnosis and Design Stages

- Industrial Diagnosis
  - Industrialization path
  - Structural stage
  - Comparative assessment

- Monitoring & Evaluation
  - Critical examination
  - Success stories vs. failures
  - Sunset clauses

- Industrial Strategy
  - Capacity expansion
  - Diversification
  - Deepening

- Complementary Policies
  - Alignment with macro policies
  - Financing
  - Regional integration

- New Global Environment

- Trade & Investment Rules

- South-South Cooperation

- Green Industry

- Industrial Policy
  - Selectivity
  - Prioritization
  - Experimentation

Poverty Reduction through Productive Activities • Trade Capacity Building • Energy and Environment
Intelligence Services: Modes

- **Strategic Advice**
  - Industrial Diagnosis
  - Industrial Strategy Design
  - Industrial Policy Design
  - Implementation and Evaluation
  - Information & Knowledge
  - Process Facilitation
  - Industrial Governance Mechanisms
  - Industrial Policy Making dialogue
  - Capacity Development
  - Trainings, seminars, workshops
UNIDO’s Analytical Tools

• Africa Industrialization Analysis
• Competitiveness Analysis
Africa’s Industrialization (1)

Structural transformation of African industry vis-a-vis other developing regions
Africa’s Industrialization (2)

Structural transformation of African exports vis-a-vis other developing regions

Share of manufacturing exports in total exports 2000 and 2008; Bubble size indicates regions share of world manufacturing exports.
Africa’s Industrialization (3)

• Selected industries (e.g. the chemical industry), expanded their output volume by more than +8% p.a. as well as their share in global MVA by +0.6% during the last decade.

• A few African countries show a relatively advanced industrialization level, e.g. Mauritius at $801 MVA per capita and South Africa at $581 MVA per capita.

• Some others show a highly dynamic and sustained growth performance during the last two decades, e.g. Namibia with +7% p.a., Mozambique +6% p.a. and Egypt +4% p.a.

• All indicators are standardized according to the formula:

\[ I_{ij} = \frac{X_{ij} - \text{Min}(X_{ij})}{\text{Max}(X_{ij}) - \text{Min}(X_{ij})} \]
Comparison on Industrialization Between Ivory Coast (CIV) and South Africa (RSA)

Early Sectors
- Tobacco
- Textiles
- Wearing apparel
- Wood products
- Non-metallic minerals
- Food and beverages
- Coke and petroleum
- Basic metals
- Printing and publishing
- Fabricated metals
- Paper
- Rubber and plastic
- Chemicals
- Motor vehicles
- Precision instruments
- Electrical machinery
- Machinery

Middle Sectors
- High growth
- Medium growth
- Slow growth
- Decline

Late Sectors
Industrial Policy Directions

• Forerunners
  – Diversification into high tech and higher value addition (e.g. machinery)
  – Broaden technological capabilities

• Achievers
  – Diversification and deepening in existing sectors
  – Increase technological depth

• Catching-up
  – Deepening, upgrading and low-tech diversification
  – Expand population of firms and linkages between firms, formalization

• Falling behind and infant stage
  – Diversification into new sectors
  – Focus on entrepreneurship and organizational skills
Figure 7. Typology of African countries based on industrial performance

- **Achievers**
- **Forerunners**
- **Falling behind**
- **Catching-up**
- **Infant stage**

**Industrialization level (MVApC)**

**Industrial growth performance**
African countries’ industrialization level and growth are highly heterogeneous.
The Competitive Performance (CPI) Index

- Benchmarking industrial performance at the country level

- Criteria:
  - **Industrial capacity**: MVA per capita
  - **Manufactured export capacity**: Manufactured export per capita
  - **Impact in World MVA**: share in world MVA
  - **Impact in World manufactured trade**: share in world manufactured exports
  - **Industrialization intensity**: share of MVA in GDP and the share of medium and high technology activities (MHT) in MVA
  - **Export quality**: share of manufactured exports in total exports and the share of medium and high technology products in total exports
<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>CPI Index</th>
<th>Ranking</th>
<th>Country</th>
<th>CPI Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>45</td>
<td>South Africa</td>
<td>0.187</td>
<td>0.194</td>
<td>105</td>
</tr>
<tr>
<td>58</td>
<td>47</td>
<td>Swaziland</td>
<td>0.159</td>
<td>0.190</td>
<td>97</td>
</tr>
<tr>
<td>49</td>
<td>49</td>
<td>Tunisia</td>
<td>0.176</td>
<td>0.183</td>
<td>90</td>
</tr>
<tr>
<td>68</td>
<td>62</td>
<td>Egypt</td>
<td>0.146</td>
<td>0.161</td>
<td>102</td>
</tr>
<tr>
<td>59</td>
<td>64</td>
<td>Morocco</td>
<td>0.159</td>
<td>0.160</td>
<td>101</td>
</tr>
<tr>
<td>57</td>
<td>68</td>
<td>Mauritius</td>
<td>0.161</td>
<td>0.147</td>
<td>114</td>
</tr>
<tr>
<td>69</td>
<td>71</td>
<td>Senegal</td>
<td>0.145</td>
<td>0.140</td>
<td>108</td>
</tr>
<tr>
<td>83</td>
<td>73</td>
<td>Zimbabwe</td>
<td>0.116</td>
<td>0.138</td>
<td>109</td>
</tr>
<tr>
<td>80</td>
<td>80</td>
<td>Botswana</td>
<td>0.128</td>
<td>0.128</td>
<td>111</td>
</tr>
<tr>
<td>86</td>
<td>90</td>
<td>Nigeria</td>
<td>0.115</td>
<td>0.118</td>
<td>118</td>
</tr>
<tr>
<td>74</td>
<td>93</td>
<td>Côte d'Ivoire</td>
<td>0.142</td>
<td>0.107</td>
<td>115</td>
</tr>
<tr>
<td>87</td>
<td>95</td>
<td>Niger</td>
<td>0.113</td>
<td>0.105</td>
<td>117</td>
</tr>
<tr>
<td>98</td>
<td>96</td>
<td>Madagascar</td>
<td>0.089</td>
<td>0.104</td>
<td>96</td>
</tr>
</tbody>
</table>
UNIDO’s Expertise

• Strategic Industrial Policy Experience
• UNIDO’s Capacity Building
Industrial policy expertise and experience

- Evolution of UNIDO industrial strategy and policy services:
  - Master plans for government action (up to early 1980s)
  - Involving private sector in planning process (mid 1980s – end of 1990s)
  - Removing obstacles for private sector led industrial development (beginning of the millennium - 2010)
  - Strategic Industrial Policy

- Countries where strategic advice has been given in the past: Mauritius, Malaysia, Thailand.....
- Countries under current advice: Mongolia, Vietnam, Nigeria, Colombia, Ecuador.......
UNIDO’s approach to capacity building

- Aims **strengthening** the physical and human knowledge base of institutions
- **Taylor-made** to the specific demands of the institutions
- Embeds **capacity building** in the advisory and policy process
- **Brings together public and private sectors**, including representative associations
- Focuses on small groups of middle to high ranking officers
- Based on ‘**learning by doing**’
- Heavy use of **international benchmarking and comparisons** and exchanges (study tours)
- **Brings together best available expertise** worldwide
The Industrial Policy Partnership

UNIDO
Strategic policy advice, capacity building and process facilitation

Partnership through dialogue

Government  Entrepreneurs
Programme on Industrial Upgrading and Modernization (IUMP) in SADC Countries

• Request from SADC to UNIDO received in January 25th, 2007 to assist in the formulation of an Industrial Upgrading and Modernization Programme (IUMP)

• Problem of lack of effective industrial productive capacity being faced by the majority of SADC member countries.
• Respond effectively to the challenges of globalization and development and will enable the SADC region and countries to become more competitive, diversify their exports and build a regional market.

• Programme has two integrated components, namely:
  – Support for upgrading and improving competitiveness of industries and related services;
  – Establishment/upgrading of the technical support institutions.

• To date:
  – SADC IUMP was adopted by Member States
  – Implementation of SADC IUMP will be at national level
  – Some SADC Member States have developed national IUMPs in conformity with the SADC IUMP; others are expected to follow in due course
Conclusion

• Industrial development presents great opportunities for sustained growth, employment creation and poverty reduction.
• a new IP (which is IMPLEMENTABLE) is needed to induce structural transformation, engender economic development and regional integration in African economies.

• Promotion of industrial development should therefore focus on:
  – the promotion of scientific and technological innovation;
  – the creation of linkages in the domestic economy;
  – the promotion of entrepreneurship;
  – the improvement of government capabilities;
  – strengthening regional integration; and
  – maintenance of political stability

• Windfall resources from commodities could and should be used for the financing of industrialization

  Industrialization is a critical engine of ECONOMIC GROWTH AND DEVELOPMENT; to promote the coherent INDUSTRIAL DEVELOPMENT and REGIONAL INTEGRATION in SACU and in AFRICA
Thank you
Annex I: Malaysia’s development path

1960s Import substitution
  Low end processing
  Agric food products

1970s
  Low value exports
  Textile / garment industry
  Labor-intensive
  Electronic components
  Assembly and testing

1980s
  Export-oriented
  Semiconductor manufacturing
  Consumer electronics
  Local tooling and fabrication industry

1990 and beyond
  Export-oriented
  High-technology manufacturing
  Industrial automation
  System integrators
  Supply chain growth in SMEs
  Emerging technology

Annex I: Malaysia’s development path