

Industrial policies in South Africa -

And why the policy process matter

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Abstract

This thesis examines the potential for industrial policies to support the development of competitive industrial sectors in developing countries, and how the set-up of the policy processes can influence whether the approach of the industrial policy targets the relevant challenges and therefore lead to more successful outcomes. This is done by using two case studies from South Africa.

In 1995 when the first democratically elected government came into power in South Africa, the local automotives sector and clothing- and textile sector faced a similar challenge of increasing their competitiveness in order to survive the liberalization of the domestic market. The government has since 1995 followed very different approaches in the industrial policies that were to support the effort of integrating the two sectors into the global economy. Where the Motor Industry Development Programme introduced incentives to attract FDI to the automotives sector, the government followed an Export-Oriented approach in order to integrate the clothing- and textiles into the global market. By 2011 the policies have had different outcomes. The automotives sector has developed through the influx of FDI, while the clothing- and textiles sector has declined drastically and struggle to compete on the global and local market against cheap Asian competitors.

Hubert Schmitz' theory on "four strategies for integrating into global economy" and Dani Rodrik's claim that inclusive and well-structured policy processes are essential for effective industrial policies is the thesis' theoretical framework. From this the thesis explains the rationale behind the applied industrial policies; evaluate their outcome; before analyzing how the interaction between the relevant stakeholders, government, industry actors and labor unions, have influenced the design of the industrial policy.

Through an analysis based on interviews with industry representatives from the two sectors, scholars who follow the South African industrial policies closely and published research and reports on the subject I will argue that the policy processes have indeed played an important role in the relative success of the South African automotives sector and failure of the clothing- and textiles sector. The conclusions adds to the argument that industrial sectors in developing countries can potentially develop through industrial policies, if the relevant stakeholders are included in the policy process and have a similar vision for how the sector should progress.

Abbreviations

AGOA - African Growth and Opportunities Act

ANC - African National Congress

APDP - Automotive Production and Development Programme

CBU - Completely Built Unit

CKD - Completely Knocked Down

CSP - Customized Sector Plan

COSATU - Congress of South African Trade Unions

DCCS - Duty Certificate Credit Scheme

DTI – Department of Trade and Industry

EOI - Export Oriented Industrialisation

FDI - Foreign Direct Investments

GEAR - The Growth, Employment, and Redistribution plan

IDC - Industrial Development Corporation

IEC - Import-Export complementation

ISI - Import-Substitution Industrialisation

MIDC - Motor Industry Development Council

MIDP - Motor Industry Development Program

NAACAM - National Association of Automotive Component and Allied Manufacturers

NAAMSA - National Association of Automobile Manufacturers of South African

NUMSA - National Union of Metalworkers of South Africa

OEM - Original Equipment Manufacturer

R&D – Research and development

SACTWU - South African Clothing and Textiles Workers Union

TCDC - The Textile and Clothing Development Council

WTO – World Trade Organization

1 Introduction

For decades the challenge for developing countries to successfully develop competitive industrial sectors has been discussed by politicians, international organizations and scholars. While the main focus is to create jobs and economic growth for the population, the theoretical and political discussion is how the balance between state intervention and the free market forces must be weighted in order to overcome the technical and marketing gaps that are often obstructing progress for many industrial sectors and companies in developing countries (Schmitz 2007). As history has shown there are no blue-prints for success and this leaves some important choices for decision makers in order to design industrial policies that can support and develop local industries in the best possible manner.

Many supporters of industrial policy have focused on the impressive progress made by several South East Asian countries from the 1950'ies by emphasizing the potential of having the state playing a prominent role in the development of the industrial sectors. Equally opponents of industrial policies have pointed to the failures of introducing similar state-led industrial policies in Latin America and they have instead promoted a neo-classical economic approach, as the way to attract the necessary investments to establish the domestic industries. The debate and political approaches for decades was restricted to protection and support of the local industry, Import-Substitution Industrialization (ISI), or liberalizing the markets and focus on macro-economic stability, as seen with the Washington Consensus approach (Schmitz, 2007, Rodrik, 2004). However, over the past decade the positions on industrial policies have softened and on a global level countries are exploring ways for the state to support the development of the private sector (Altenburg et al. 2008; Rodrik 2007).

Hubert Schmitz argues that the position within industrial policy theory that promotes the idea that government must be willing to support industry actors, while at the same time challenging the industry to achieve an increase in competitiveness has gained in importance (Schmitz 2007). Furthermore, there is an increased focus on the relations between government and actors from the private sector, and how the interaction between them is structured. This approach finds it essential that the government must have a continued dialogue with the industry in order to understand the challenges that local companies face, and receive inputs on how the government's industrial policies can help to overcome these challenges (Rodrik 2004 and 2007; Altenburg et. al 2008; Morris and Levy forthcoming). It is believed that by combining the

state's economic resources and interest in economic growth and job creation with the market knowledge of the industry actors the possibility for developing an industrial base in developing countries is set to increase. It is with this theoretical background that I wish to look into the South African government's industrial policies towards the automotives sector and the clothing- and textiles sector from 1995 to 2011.

There has been an enormous development of the South African society since the apartheid-regime was replaced by the democratically elected ANC-government in 1995. Today the country stands out as the biggest economy on the continent with a solid democracy that has established South Africa as a regional and continental leader. This position has been recognized in the past years where South Africa has been included into important political groups, such as the G-20 and BRICS. With that being said the issue of creating a sustainable economic growth and developing the country's manufacturing sector in order to create jobs for the population the South African government has not been dealt with successfully. The official unemployment remains as high as 23,9%¹ and has not improved since the arrival of democracy. This makes it relevant to focus on the efforts that the South African government has made to support and develop the local manufacturing sectors.

Despite huge differences between the automotives sector and the clothing- and textiles sector they faced many similar challenges when the first democratically elected government came to power in 1995. As both the South African automotives sector and the clothing- and textiles sector were developed following an ISI-strategy they were both due to be exposed to heavy competition for the first time, when the new government quickly lowered the tariffs on the heavily protected products and joined the World Trade Organization (WTO) regulations. This left both industries with the challenge of increasing their competitiveness in order to find their place in the local and global value chains. In 1995 the two sectors were the largest manufacturing sectors in the country in an economy that was otherwise build up around the mining and energy sector (Fine & Rustomjee, 1996). 15 years later the sectors have developed in separate ways. From its peak in the 1980'ies where 300.000 were employed in the clothing- and textiles sector, the decline of the sector have seen the labor force shrink to 127.000 (Jeppesen and Barnes 2011, p. 232). This is in contrast to the automotives sector where the amount of employees has remained more or less the same.

¹ See the latest numbers from the national statistics agency here: <http://www.statssa.gov.za/>. The percentage is believed to be closer to 30% by other observers.

The South African government's approach in the industrial policies that were to support the two sectors have been radically different - and so have the results. The government's Motor Industry Development Program (MIDC) from 1995 was successfully aimed at attracting Foreign Direct Investments (FDI) to the automotives sector. The investments have helped the industry to develop, as the local companies were integrated into the global value chain, and have increased the sector's level of efficiency and competitiveness without significantly reducing the number of employees. In contrast the government expected that the clothing- and textiles manufacturers could compete on the global market without incentives for investments in the aging machinery and unskilled workforce that characterized the sector in 1995. South African manufacturers never became competitive enough to grow any sizeable export and have since seen the domestic market flooded with cheap imports from Asia with a massive loss of jobs being the consequence.

In this thesis I will go through the South African government's industrial policies towards the two sectors since 1995. By applying Schmitz' theory on "strategies for integrating in the global economy" (Schmitz 2007) I will seek to establish whether the rationales behind the policies matched the challenges that the sectors faced when the policies were introduced. Further by using the parameters employment, trade and production, competitiveness and contribution to the national economy it will be determined how the industrial sectors have developed in the period from 1995 to 2011.

Rodrik's argument that "getting the policy process right" is more important than the actual policy will be pursued by looking into whether the organizational set up between the relevant actors from the state, the industrial sectors and labor representatives was appropriate to establish a common understanding on what the industrial policies should target.

Through an analysis based on interviews with industry actors from the two sectors, scholars who follow the South African industrial policies closely and published research and reports on the subject I will argue that the policy processes have played an important role in the relative success of the South African automotives sector and failure of the clothing- and textiles sector.

With this in mind I wish to answer the following research question:

- How have the policy processes influenced the different approaches and outcomes of the South African government's industrial policies towards the automotives sector and clothing- and textiles sector from 1995 to 2011?

1.1 Specifications and limitations

To answer the research question it is necessary to take a closer look at two different levels of the automotives sector and the clothing- and textiles sector. First, the industrial policies and the results they have brought to the two sectors from 1995 to 2011 need to be established in order to justify that there are differences in approach and outcome. Second, the organization of the set-up between the relevant stakeholders, government, industry and labor, need to be accounted for to argue whether the policy processes were undertaken in an appropriate way and if this have influenced the different approaches and outcomes . This means that the following sub-questions needs to be answered in order to make conclusions on the research question:

- How have the South African government's industrial policies towards the automotives sector and clothing- and textiles sector supported the development of the two sectors?
- How did the industrial policies match the challenges that the South African companies faced and required government support to overcome?
- How has the policy processes influenced the government's ability to introduce industrial policies that reflected the demands of the industrial sectors?

Overall the thesis deals with the hypothesis that industrial policies are more likely to support the demands of the local industry, if the relevant actors are included in the process of designing the industrial policy. By using the South African government's policies and the automotives and clothing- and textiles sectors as the case, a few things needs to be clarified.

The industrial policy concept is used in many different contexts and means different things to many people (Chang 1994, pp. 58-61). While acknowledging that industrial policy is often to used to define the governments broad strategy in supplying a good investment climate, infrastructure investments, a well-functioning education system etc., it will be used to describe the state's support for selected industrial sectors throughout this thesis. Chang defines industrial policy as: *a policy aimed at particular industries*

(and firms as their components) to achieve outcomes that are perceived by the state to be efficient for the economy as whole. (Ibid, p. 60)

There is an obvious advantage of using two cases from the same country, as there is not a difference in historical, socio-economic or political characteristics that can explain differences in the results. In this thesis the two sectors faced a similar challenge of integrating into the value chain within the same period in time. However, the differences between the two sectors also need to be taken into consideration. The automotives sector is characterized by a producer-driven value-chain where a limited number of Original Equipment Manufacturers (OEM's) control the global market. In contrast the clothing- and textiles sector is customer-driven and consists of a much more diverse segment of manufacturing companies. Also, the sector is characterized by being more dependent on the local than the global market, and being more labor-intensive and mainly employing women with little formal education. I will not go closely into the details of the two value chains or make any suggestions on how the differences have affected the developments of the sectors, but am aware of the enormous differences that exist among the two industries.

1.2 Structure of the thesis

The thesis is structured in the following way. The next chapter, the literature review, will introduce the ideas and theoretical discussion behind the concept industrial policy. Further it will be presented how the theories will be used to analyze the South African government's industrial policies towards the automotives and clothing- and textiles sector. Chapter 3 outlines the methodology of the thesis. The philosophical approach is based on critical realism theory, while the reason for applying a multiple case study as the empirical approach is explained. Chapter 4 introduces the two cases. After providing an overview of the two sectors, the government's policies towards the two sectors and the results that have been achieved, it will be defined whether the policies matched the challenges that the industrial sectors faced. Chapter 5 illustrates how the policy processes that were facilitated by the South African government were structured and it will be discussed if the processes were able to include inputs from the relevant actors, as suggested by Dani Rodrik's theory. This leads to a discussion of the part that the policy processes have played in the government's ability to introduce an appropriate industrial policy. In chapter 6 it will be accounted for in what ways the applied theory and methodological approach have influenced the conclusions of the study. Finally, in chapter 7 I will provide an answer to the research question based on the analysis in the previous

chapters and suggest why the South African case can be relevant for the use of industrial policies in other developing countries.

2 Literature review

The literature review consists of three different parts. First, I will present three approaches towards industrial policy and the recent historical experiences with industrial policies. Then I will introduce a framework by Schmitz, which is useful in identifying the challenges that industrial sectors in developing countries face and how the state can address these. I will use this framework when identifying and comparing the South African government's industrial policies towards the two sectors. Finally, I will present the business and state relations approach that will be used for the analysis on defining how the relations between the South African government, actors from the automotives sector and clothing- and textiles sector and the relevant labor unions have influenced the outcome of the industrial policies.

2.1 Defining the industrial policy approaches

When writing about industrial policy it is important to get it properly defined, as the concept is used on different backgrounds and with different meanings by proponents and critics. By presenting three different approaches I build a foundation to understand the more specified theories that I present in the following paragraphs and apply to describe and compare the industrial policy efforts in South Africa.

The state-led approach

The ideas of letting the state play a leading role in the development of a more competitive national industry, is often traced back to the writings of German economist Friedrich List from the early 19th century. List's theories on supporting "infant industries" in order for not-industrialized countries to "catch-up" with industrialized countries are still relevant in present day's theoretical discussions. One group of scholars argue along these lines when they claim that all successful transformation of societies since the modern industrialization, most often from rural or mineral dependent economies to well-functioning economies based on manufacturing, are build on well-executed state interventions that was promoted through state institutions (Cimoli et al. 2009a). This state-led approach includes a broad view on what areas the state must intervene in, such as trade policy, financial policy, competition policy, infrastructure policy, education policy and employment policy, as suggested by (Altenburg et al., p. 135). This broad understanding of industrial policy is in opposition to the liberal economic approach. In short, this industrial policy approach is mainly directed at companies and industrial sectors in developing countries and argues that the state needs to intervene to support and protect these, until they have reached a competitive level – a development that is unlikely to happen if relying on the free market forces.

While proponents of the potential of industrial policy share this belief several criticisms are aimed towards this broad approach. Most notably, the huge role for state institutions is often difficult to provide for in poor countries with limited funds and lack of an experienced, educated bureaucracy meaning that it will be difficult to implement complicated industrial policies such places (Moore and Schmitz 2008). Also the heavy focus on state actors leaves out the big role of the business community, which many scholars argues have played an important part in successful transformations – an element that has often been left out when focusing on the advantage of an active “developmental state” (Whitfield & Therkildsen 2011, pp. 10-15).

Market failures

Another reason for acknowledging the need for state interventions is the concept of market failures. Market failures relate to the difficulties of applying the neo-classical economic theory in praxis. According to Chang there are two main areas where government needs to intervene to make up for market failures. First, the government needs to regulate the market when “imperfect competition” appears, and thereby actively seek to prevent monopolies to form. Second, by making investments in areas such as education, research and development (R&D), health, environment-friendly technology and infrastructure the government can create “externalities” that is of benefit to society and would not have been interesting to finance for private investors (in Altenburg et al., pp. 137-141).

While the concept of market failure is generally accepted, there are very different interpretations of how much the state must react towards these failures. This means that the argument is applied by supporters of heavy state intervention, as well as more liberal scholars who are in favor of little intervention. This is seen by the fact, that the WTO, which is often seen as an obstacle to industrial policies (Cimoli et. al 2009b), admit to the problems of market failures and allow for state subsidies in areas such as R&D and environmental issues (Altenburg et al., p. 138).

Skeptics of the government and its failures

Skeptics of industrial policy often highlight the danger of “government failures” and use this to argue for a limited role of the state. One such market failure is the “information problem”, which questions the possibility of the state’s ability to gather enough information to make better decisions than private actors when supporting selected industrial sectors, and furthermore whether the effort of collecting all this

information does actually not cost more resources than what can eventually be gained (Chang, pp. 26-27; Pack & Saggi 2006).

“Rent-seeking” is another danger and appears when politicians and bureaucrats operate in their own personal rather than the society’s interest. Such behavior can lead to negative outcomes, such as close unhealthy ties between the political elite and the business elite that reduce the effectiveness of the market; a political climate where corruption gains in importance; and the difficulty of recruiting talent to the private sector, as the money and power lies within the state (Chang, p. 28).

As with market failures there is a general acceptance of the danger of government failures, but disagreeing on how these failures should be controlled. Whereas the neo-classical liberal approach relies on the free market powers to avoid government failures, others follow the rationale presented by Chang, when he argues that the risk of government failures should not hinder the effort of overcoming market failures, by asking: *“Does this mean that we are condemned to accept failing markets in favor of failing governments as the lesser of two evils?”* (Ibid., p. 32).

Lessons from ISI and Washington Consensus

The different rationales that define industrial policies are illustrated in the main approaches that was used in developing countries in the period from 1950-1970, Import Substitution Industrialization (ISI), which was replaced by the neo-liberal Washington Consensus from the 1980’ies and up until the late 1990’ies. Schmitz boils the differences in industrial policy approaches down to how the state “supports” and/or “challenges” industry. The state can either “*support*” the industry by easing access to technical equipment or markets, or by protecting it from foreign competition by introducing tariffs or “quantitative restrictions”. It can “*challenge*” industry by introducing targets that must be reached for companies to have access to valuable resources, or by lowering tariffs and thereby increase the competition from foreign companies. (Schmitz 2007, p. 418) The placing of the ISI and Washington consensus approaches in the industrial policy framework illustrates their respective focus on support (protectionism) and challenge (liberalization).

		Support	
		Low	High
Challenge	High	Washington Consensus	Active industrial policy
	Low	No Policy	Protection under ISI

Schmitz, 2007, p. 419

Much theory on industrial policy builds on the experiences of ISI industrial policies in East Asia and Latin America, where similar policies had very different results. The explosive economic growth and development of Asian countries like South Korea, Japan and Taiwan shows the potential of a well-executed industrial policy, whereas the failure of several Latin American countries shows how an inefficient policy is expensive and damaging to the society. These developments do more than just illustrate how similar policy measures have different effects in different settings. The main lesson learned from ISI policies from the past is that incentives (support) need to be followed by discipline (challenge) in order for a developing industry to become globally competitive (Di Maio, pp. 123-126; Schmitz 2007, p. 419; Rodrik 2004, p. 11). The danger of rent-seeking when state funds are available is definitely real and does not only waste government money, but also holds back entrepreneurship (Altenburg et al., p. 140). Monitoring the progress of sectors and economies, and demanding a positive development in quality and efficiency should therefore follow support.

The response from the powerful international organizations to the short-comings of ISI policies in many developing countries was to push for economic liberal reforms, known as the Washington consensus. However, the reliance on investments from the private sector to develop the national industry has not been successful. The focus to pressure developing countries into improving their business environments by opening up their markets, respecting property rights, securing macro-economic stability, was not followed by the heavy investments needed from business to integrate the newly liberalized countries into the global value chain (Schmitz 2007, p. 419; Rodrik 2004). Just as ISI policies are criticized for not challenging industrial actors, it can be argued that the Washington Consensus did not combine the challenges it put on the industry with support measures and as a result it is widely considered a failure (Schmitz 2007 p. 419; Hausman & Rodrik 2006, pp. 3-4).

A concept that is connected to the Washington consensus is the Export Oriented Industrialization (EOI) strategy, which was implemented with success in several Asian countries in the 1980'ies, and often includes lowering of tariffs, growing deregulation and privatization of state owned enterprises (Jeppesen & Barnes, pp. 241-242). Countries such as Japan, South Korea, Singapore and China have used different methods to become big exporters, some relied more on FDI's and others on policy programs, and inspired developing countries to follow the same path. However, only few countries have been able to reach the same positive impact from the EOI. The demands to become competitive enough to base the national economy on exporting are high, whether countries target industries of simple or advanced technology. None the less, this was what South Africa hoped to achieve, as seen with the overall development strategies that the first democratically elected governments introduced in the 1990'ies.

Learning from past mistakes has seen industrial policy move away from the rigid understanding of either market or state, as the driver for development. Rather, Rodrik observes that we are entering a period where private market forces and state interventions supplement each other and writes: *The softening of convictions on both sides presents an opening to fashion an agenda for economic policies that takes an intelligent intermediate stand between the two extremes.* (Rodrik 2004, p. 2) Schmitz' calls this approach an "active industrial policy", which is characterized by combining high challenge and high support in his framework (Schmitz 2007, p. 419).

2.2 Active industrial policy

Active industrial policy goes beyond the classic discussion of state vs. market in what should be the driver in the quest for economic growth and job creation. Rather, industrial policy can be seen as the state and private sector's joint effort to find blockages and propose solutions to increasing a country's or a sector's competitiveness (Rodrik 2007, p. 23). Altenburg is along the same line when he notes that the most important question of industrial policies is "*how*" they are designed rather than if they are needed (Altenburg et al, p. 143).

While the successful transition of the Asian countries were all characterized by an active state, they all followed different strategies. The same can be said about the most noticeable success stories of the past decade China, India and Brazil. (Ibid., pp. 141-142) This goes to stress that there is not a "one-size-fits-all" when it comes to developing successful industrial policies. Differences in demography, historical

developments, government funds and minerals in the underground etc. influence the country specific challenges and no policies can change that.

When designing industrial policies it is not only the country specifics that must be taken into consideration, but equally the industrial sector that is targeted. The challenge that many companies from developing countries have faced is the transition from operating in a protected home market and then to become able to compete in the global market when the home market is liberalized. However, the challenges differ according to the particular sector and how the sector’s global production is established. Schmitz identifies the problems for companies from developing countries, as being “a technology gap” and/or “a marketing gap”. In Schmitz’ framework these gaps are narrow or wide with each of the combinations suggesting what sort of policies the government must pursue in order to best support an industrial sector to find its role within the global value chain (Schmitz 2007, p. 422).

The technology gap refers to the lack of world class technological equipment; limited funds and support for innovation; and a further need for knowledge on how to manage the line of production more effectively, which many of these companies face. The marketing gap mentions the issues of being isolated from the global market; not being able to relate to latest developments within customer needs and changes in styles and fashion; and finally a lack of finance to establish a local brand. (ibid, p. 420)

Table 1. Four strategies of integrating in the global economy

	Technology gap	
	Wide	Narrow
Marketing gap	Wide	Challenge is not technology, but marketing. Integration into value chains co-ordinated by global buyers is most applicable.
	Narrow	Challenge is not marketing, but technology. Acquiring technology through licensing seems best option. Alternatively, pursue Joint Venture . Technology and marketing gaps are narrow. Local firms can export own-designed, complete products directly .

Schmitz, 2007, p. 422.

The figure above is useful in pointing to the overall challenges that industrial sectors and companies in developing countries face in their struggle to establish themselves in the global value chain, and suggesting what strategies governments can pursue through industrial policies. As seen in the figure Schmitz concludes that active industrial policies should target to attract FDI's; integrate into global value chains; licensing or joint venture agreements; or to export own-designed products depending on the gaps.

While the simplicity of the framework is in contrast to the complexity of detailed industrial policies, this underlines the move away from the "one-size-fits-it-all" approach. As Schmitz' concludes the text: *The objective is not to derive blueprints but to concentrate on those options that are most relevant and steer a way through difficult political and technical terrain*" (Ibid, p. 426)

Inspired by Jeppesen & Barnes' use of Schmitz' framework (Jeppesen & Barnes) I will use these definitions and the rationale in defining the challenges that the South African automotives sector and clothing- and textiles sector have faced from 1995 to 2011. Further it will be argued whether the industrial policies that were introduced by the South African government were a logical response to the challenges, before evaluating whether the policies brought the desired results.

2.3 Business and state relations matters

In order to understand why some industrial policies leads to better results than others it is essential to look into the relations between state and industry actors. In a recent article by Whitfield and Therkildsen they mention two different perspectives of how the interaction between state and industry actors is essential for the result of industrial policies. The first, the business and state relations approach, focus on the ability of the government, industry actors and bureaucrats to work together to overcome challenges that limits economic growth and investments. The second, "Domestic politics and the imperatives of political survival", involves the power relations within the national political sphere, in order to explain the motivation of the government to interact with the industry. (Whitfield & Therkildsen, pp. 10-15) The analysis of this thesis will follow the logics of the business and state relations approach.

By applying the business and state approach I wish to look into the processes that led to the respective industrial policies towards the automotives and clothing- and textile sectors, and hereby follow one of the

main points of Rodrik, being that getting “the policy process right” is the most important element in whether an industrial policy will have the desired effect (Rodrik 2004, p. 3).

In what follows I will elaborate on the business and state approach and how it can be used to explain the outcome of the industrial policies towards the two sectors. Further I will operationalize Rodrik’s theories into concrete questions that will be used in the analysis of deciding if the policy processes were organized in a constructive way in order to introduce well-functioning industrial policies.

Getting the policy process right

Often international organizations, consultants and scholars have a long list of requirements that must be in place for a developing country to attract investments, and create jobs and economic growth. Parameters like those seen in the World Bank’s World Development Reports on business climates tend to focus on promoting an orthodox liberal economics approach, which tells governments to remove legislation and tariffs that hinders interest for international investments, rather than intervene and support selected industrial sectors (Moore & Schmitz, pp. 16-31). While the economic and industrial progress made in several Asian countries is attributed to private investments, which have been attracted after efficient work by the state and their bureaucracies, the prospects are bleak for poor countries in Latin America, the Middle East and Africa that does not have similar capabilities. And according to the orthodox liberal approach such countries should acknowledge the limits of their limited resources and follow the free market path: “*these economies hewing to some of the major tenets of the Washington Consensus while recognizing some of its weaknesses, might prove a better investment of limited government competence and legitimacy, than the extraordinarily complex strategies required by either the new or old industrial policy*” (Pack & Saggi 2006, p. 36).

By focusing on the process of gathering the relevant actors from the industrial sector and the government and its bureaucracy, and having them present their worries and then collaborate on finding solutions, Rodrik advocates for a much more practical and unorthodox approach. In fact, by maintaining that getting the process right is more important than the exact policy outcome, the difference in approach could not be any bigger than the orthodox liberal approach mentioned above (Rodrik 2004).

Close ties between industry and state actors are often seen as a potential danger to potential growth. The danger lies in unhealthy relations (government failures), which can lead to corruption of politicians and bureaucrats and rent-seeking by actors in the private sector, and thereby not effective and economically viable solutions. However, when the process is characterized by being “democratically accountable” and “carry public legitimacy” a close relationship between state and industry is a good foundation for a successful industrial policy (Ibid., pp. 16-19). The rationale is that when it is believed that the state has the ability to make a difference in the conditions for companies to succeed, they are better equipped to do it properly when they are aware of the problems these companies face.

As one of Rodrik’s main points is that government institutions must act according to the specific local conditions in the making of industrial policies, he does not have a list of requirements for what constitutes a satisfying industrial policy process (Rodrik 2004 and 2005). However, he does present a broad description of an ideal industrial policy process: *What is needed (instead) is a more flexible form of strategic collaboration between public and private sectors, designed to elicit information about objectives, distribute responsibilities for solutions, and evaluate outcomes as they appear. An ideal industrial policy process operates in an institutional setting of this form* (Rodrik 2004, p. 18).

Following this statement and other of Rodrik’s principles I will set up some criteria that are useful in comparing the industrial policy processes of the South African automotives sector and the clothing- and textiles sectors. These criteria will be used to structure the analysis that will try to define whether the policy processes were “right”:

- **Who organized and participated in the industrial policy process and is it prioritized highly in the government?**

It is of great relevance that all relevant parties are included in discussions and negotiations in order for the state to get as much relevant information as possible and a common understanding of which policies are possible. Therefore it is relevant to look into who arranged for the initial discussions and who participated. As it pointed out by Rodrik high-profile supports from government officials to the industrial policy is also likely to improve the policy process, as this will add prestige to the project and can potentially increase the focus on the work of the bureaucrats and add political accountability to the industrial policy (Rodrik 2004, pp. 19-20).

- **How was the cooperation between government, industry and labor organized and how did they contribute?**

More than just participating it is important that the relation between the representatives from government, industry and labor is organized in a way that ensures for reviews on the policies and recommendations for improvements on a continuing basis. While such “councils” do not necessarily have any direct power they could discuss and pass on valuable proposals such as “...*investment ideas, (achieve) coordination among different state agencies when needed, push for changes in legislation and regulation to eliminate(ing) unnecessary transaction costs or other impediments, generate subsidies and financial backing for new activities when needed, and credibly bundle these different elements of support along with appropriate conditionalities*”(Ibid, p. 20).

- **Did the capability of the bureaucracy match the responsibilities of the industrial policies?**

The role of bureaucracy is highlighted in much industrial policy theory. In general bureaucrats must find a balance that means they have a close relationship with the industry actors, while remaining autonomous (Ibid, p. 20). It is not controversial to note that the size of bureaucracies and their expertise is often limited in developing countries, but if this is taken into consideration when designing the industrial policies this obstacle can be overcome. By following the logic of Rodrik, the effect of the policies is put into a very relevant perspective: “*when administrative and human resources are scarce, it is better to employ second-best instrument effectively than to use first-best instruments badly*” (Ibid, p. 24). This underlines that what matters is to find a policy that can be implemented and monitored properly by the authorities.

- **Have the industrial policies reflected the demands of the industrial sector?**

Finally, it must be seen whether the policy processes have managed the ultimate goal, which is an effective use of industrial policies that removes or reduces the barriers to growth of the local industrial sectors.

3 Methodology

In this section I will present how the research has been undertaken and for what methodological reasons. Firstly, I will account for the methodological approach by elaborating on the use of a critical realism approach and how this fits the use of the South African case, the research object, before specifying on the research approach and research strategy. Secondly, the empirical approach is presented, before finally accounting for the reliability of the data and the validity of the final conclusions.

3.1 Methodological approach

Philosophical approach:

The research study is based on a critical realist approach. Critical realism follows the rationale that reality has an “objective existence”, which cannot be fully understood or theoretically explained. In order to try and understand and create knowledge on the “objective existence” that surrounds us we are dependent on theories, even when acknowledging that these theories and our knowledge are “fallible” (Danermark 2002, p. 15). In order to generate this knowledge critical realists use the term “abstraction”, as a way to discuss isolated areas of the larger reality, a concrete object, in order to find a more specific knowledge about this object (Ibid, pp. 43-45). The “abstraction” must, however, have its roots in something concrete and is therefore bound to explain something that has already taken place and has been observed. Thereby critical realism excludes research that is based on either abstraction (theory) or the concrete (empirical observations) alone, as the research must include both perspectives.

Sayer proposes the following procedure for a research process, the double movement: concrete -> abstract, abstract ->concrete (Sayer, in Danermark 2002, p. 51) to ensure that the original concrete observation is analyzed and therefore add further knowledge on the concrete subject.

In this study I use the double movement procedure. The different industrial policies introduced by the South African government towards the automotives and clothing- and textiles sector from 1995 to 2011 and the results that have been achieved is the concrete object -> a broad introduction of the industrial policy approach is chosen as an abstract framework to learn more about how the industrial policies and results of the two sectors can be compared – from this Rodrik’s theory on industrial policy processes and the relations between state and industry actors is used to come up with some relevant questions -> an analysis will eventually lead to some concrete answers on how the industrial policy process between the

South African government and the representatives from the two selected sectors have influenced the development of the sectors.

Further critical realists use causal analysis that seeks to explain why things have taken place the way they did, as this explanation can be useful in affecting future occurrences in a given direction. Causal analysis seeks to understand how the different “mechanisms” have led to the observed action of the “concrete object”. This implies that an object has a potential to act in different ways, but ultimately acts depending on how its “mechanisms” are influenced and interrelate. (Ibid., pp. 52-59)

As the object of this study is the industrial policies and the results of these, the mechanisms are mainly the relevant actors: leaders and staff from government institutions, industry representatives, labor unions and factors from the general business environment. Throughout the study I will use knowledge from reports, academic papers and personal interviews to understand what has shaped their actions, the mechanisms, and how this have affected the outcome of the industrial policies, the object.

Research Approach

My research is based on developments in the South African automotives sector and the clothing- and textiles sector in the period from 1995 to 2011, and encompasses descriptive, explanatory and exploratory elements. The part of the project that summarizes the industrial policies and the development of the two industrial sectors in the period to a large extent follow a *descriptive* approach, through descriptions of the policies, and the use of evaluations and statistics from statistical work and academic reports. The need to better understand the causes for strategies appointed by the different actors in the process of the policy-making led to a more *explanatory* and *exploratory* approach, as I got a wider knowledge on the industries and collected interviews.

Research strategy

The research strategy is a multiple case design, with a focus on the industrial policy processes and the effect of the policies in the South African automotives and clothing- and textiles sectors. A multiple case design does not stand out from a single case study in how it is executed, apart from that the methods from the one case is replicated and tested on the other case(s). The replication can be used to either: a) *predict*

similar results (a literal replication) or b) predict contrasting results, but for predictable reasons (a theoretical replication). (Yin 2003, pp. 46-55)

I will use a theoretical replication in the sense that I will establish cohesion between the respectively positive and negative effects of the industrial policies towards the two sectors and whether the industrial policy processes were characterized by good and well-structured relations between the representatives from government, actors from the two industries and the labor unions.

The use of case studies is indeed in line with the critical realism approach. Despite that all cases are believed to be unique this does not mean that there cannot be similar underlying causes for the outcomes of the cases. This also means that the use of single case studies can be used to generalize certain aspects within a theory and potentially add further knowledge on the specific subject (Easton 2010, pp. 126-127). As it is argued by Geoff Easton: *A causal explanation in a single case must be based upon a theory structured in terms of what comprises a critical realist causal explanation. The best explanation, that is the one most consistent with the data, is what is being sought.* (Ibid., p. 127)

3.2 Empirical Approach

The data that is used in the study consists of both primary and secondary sources. The primary data is based on interviews with relevant industry representatives and scholars who closely follow the two sectors. Ideally I would have liked to have interviewed representatives from the relevant ministry, the Department of Trade and Industry (DTI), the labor unions and the representatives from the respective organizers of the value chains, the Original Equipment Manufacturers and the retailers. It would have given a more complete picture of the policy processes, which is the main focus of the research question, if all participants could have told their side of the story. However, this was not possible despite many efforts to set up meetings.

Interviews

The interviews have been collected using a semi-structured approach where questions have been prepared in order to bring in the specific perspective of the interviewee, while at the same time leaving room for follow-up questions to the interviewees' replies. The interviews had two functions. First, to attain knowledge on the history and dynamics of the automotives and clothing- and textiles sectors from key

persons and specifically their opinions on how the industrial policies have affected the results of the two industries. Second, the interviewed have either interacted with the relevant ministry, the DTI, as representatives of business organizations, companies or advisers to the ministry, and were therefore asked on their experiences on the relationship between state and industry during industrial policy processes.

The interviews were conducted in English and often included quite technical language when talking about technicalities within the industries and the industrial policies. This can have caused for minor misinterpretations during the interviews. As the interviews were recorded potential misinterpretations have been discovered early on in the process. Further by listening and learning from the interviews, the nature of the interviews changed along the way as the focus was narrowed.

The following persons were interviewed:

Automotives and clothing- and textiles sector:

- Justin Barnes: Founding partner in the consulting firm B&M Analysts, which organizes the automotives and clothing- and textiles clusters in South Africa. Justin Barnes has been the main consultant to the DTI in drawing up industrial policies² for the two sectors. He has worked closely with Anthony Black and Mike Morris over the years and published several articles with the latter.

Automotives:

- Professor Anthony Black from University of Cape Town. Anthony Black follows the South African automotives industry closely and has published several articles on the subject. Further he participated in the initial MIDP policy process as a representative of the National Union of Metalworkers of South Africa (NUMSA) and has worked as an advisor to the DTI in order to design the APDP program.
- Dr Norman Lamprecht, Executive manager at the National Association of Automobile Manufacturers of South African (NAAMSA).
- Mr. Roger Pitot, Executive Director at the National Association of Automotive Component and Allied Manufacturers (NAACAM).

Clothing- and textiles sector:

- Professor Mike Morris of University of Cape Town. Mike Morris follows the clothing- and textiles and automotives industry closely and has published many articles on the industrial policies towards these.

² B&M have been a driving force behind the APDP-program in the automotives sector, which will replace the MIDP-program by 2013. Also the company led the efforts to conclude a CSP-program in the clothing- and textiles sector 2006.

He has led several government committees, including the CSP from 2006. Mike Morris also functions as a director in B&M Analysts.

- Dr Nick Steen, CEO at Sheraton Textiles. Sheraton Textiles is one of the largest textiles companies in the country and employs around 600 people. The majority of the company is owned by the Industrial Development Corporation.
- Mr. Brian Brink, Executive Director at the Textiles Federation.

The interviews were conducted in a period from the 14th to the 31st of November in Durban, Cape Town and Pretoria/Johannesburg. I had contact with Justin Barnes, Mike Morris and Anthony Black before my trip to South Africa, and it was through them that I was referred to the other interviewees. The interviews can be heard on the attached cd-rom, just as an interview guide from the interview with Justin Barnes is attached as appendix 1.

Secondary data

The use of secondary data has been important in order to summarize the introduced industrial policies correctly and get an overview of the results that have been achieved in the sectors. Secondary data is found in reports from international organizations like the World Bank and United Nations Industrial Development Organization; public institutions and from published academic articles, that for a large part is written by the interviewed scholars. The statistics that I use are either from official government agencies; industry organizations; B&M Analysts who collects data from hundreds of local companies on a regular basis; or survey's that have been organized and made account for by scholars. Overall, the use of secondary data has been essential in drawing up a representative evaluation of the effects of the industrial policies.

Reliability

The reliability of the research deals with how the collection of data has been conducted and whether it is possible to make similar studies in order to test the presented results. Basically it must be shown to what extent the data is reliable (Bitsch Olsen & Pedersen 2003, p.321). Having interviewed seven different people who have all been working closely with the sectors, the DTI and the labor unions in relation with policy processes I believe this data gives a believable account of the events. Further, I have used secondary sources to back up the points made by interviewees. Therefore, I believe the conclusions of this thesis build on credible data.

However, the fact that all interviewees are either representatives of the industrial sectors or academics, who have also written several of the articles that are used as secondary data, can indicate a bias in favor of the industrial actors rather than the public authorities and the labor union. Despite several attempts I was not able to get any interviews done with representatives of the DTI or the relevant labor unions, as one appointment³ was cancelled the day before the meeting and the others did not respond.

Validity

The validity of the study deals with the coherence between the collection of data and what is concluded from it (Ibid, p. 317). When looking at the research question the applied data must be proven for two different purposes. First, the South African government's approach in the industrial policies towards the two sectors and the actual outcome needs to be established. Second, it must be proven how the policy processes influenced the approach of the industrial policy.

I find that the use of interviews, official reports, academic publications and surveys are appropriate in order to make precise characteristics of the policies and the development of the sectors. Also, the use of interviews with participants in the policy processes backed up by accounts made in academic articles are suitable in order to establish the connection between policy process and the applied industrial policy approach, which is needed in order to answer the research question satisfyingly. But then how can the final answers to research question be used?

By applying a multiple case study, with just two cases within a South African context, as the research strategy it would be naïve to make a strict generalization of the findings of the research. The answers refer strictly to the South African case and the specific setting – however, the experiences and the development of the two South African cases should be acknowledged by other governments in developing countries who are in the process of introducing industrial policies. The overall challenge faced in the South African cases is identical to many other sectors on a global level, but the specific developments of the two cases relates to the specific context.

There are advantages and disadvantages in applying and comparing the two chosen South African industrial sectors. The fact that the two manufacturing sectors operate in a similar historical, political and societal

³ The meeting with Elaine Smith, head of DTI's desk on Clothing- and textiles, was cancelled.

context and under the same juridical framework limits the number of country-specific objections to the performance of the sectors (Moore & Schmitz, p. 54). However, the huge differences in how the sectors operate, such as differences in value chains (buyer and producer driven); producing for the domestic or global market; whether the products requires low or highly-skilled labor and so on, will be taken into consideration when making conclusions on the effects of the industrial policies and policy processes.

4 The industrial policies and the development of the automotives sector and clothing and textiles sector from 1995 to 2011

In what follows the two cases will be introduced. After having presented the political and business climate in South Africa the sectors will be introduced by placing them in a global context, presenting the challenges they faced in 1995 and the state's industrial policies towards them. After evaluating on the development of the sectors in the period from 1995 to 2011, it will be discussed whether the industrial policies were based on the right approach according to Schmitz' framework for integrating into the global economy.

4.1 South Africa – the political situation and the industrial policies

South Africa is the richest and most developed country in the Southern African region and falls under the category of a middle-income developing country. This, however, covers over an enormous inequality that has not been lessened substantially since the country became a democracy in 1994. In 1998 it was estimated that the poorest 40% of the population earned less than 4% of the national income, while the 10% of the highest earners pocketed 51% of income (Marais 1998, p. 7). The structures of the South African society illustrate more than a century's exploitation of its natural resources and the population. Currently the official unemployment rate stands at 23,9% - a number that is likely to be even higher.

After having been controlled by white minority governments since the forming of the Republic of South Africa in 1910, the first democratic elections took place in 1994 after decades of struggle by the population to oust the racist apartheid-regime. The African National Congress (ANC) won the elections and it has won all elections since and thereby remained in power. The government is based on a tri-partite alliance that apart from the ANC also includes the South African Communist Party and the Congress of South African Trade Unions (COSATU). The alliance has led a macro-economic politic far away from the usual rhetoric of the left wing and the early economic and industrial policies resembled the neo-liberal policy recommendations of the International Monetary Fund and the World Bank more than the wordings of the idealistic, socialist manifest of ANC's original Freedom Charter (Ibid., pp. 147- 172). As it will be shown the close ties between COSATU and the government is however visible in other policy areas.

The ambition of the government was to increase the amount of exports significantly, an export-oriented growth, by attracting FDI to the country. The Growth, Employment, and Redistribution plan (GEAR) from 1996 was based on a neo-liberal approach that was expected to be enough to lure foreign companies to the

country. Among the main initiatives in GEAR was: reducing state spending; reducing corporate taxes and providing tax holidays for certain investments; wage restraint for organized workers; and speeded up privatization (ibid., p.162). GEAR was the main government approach for the majority of the period covered in this thesis and played a major role in the government's overall approach. However, programs such as the Accelerated and Shared Growth Initiative – South Africa, (ASGISA from 2006); and the recently published New Growth Path have increased the level of public investments and taken some steps away from the neo-liberal approach of the GEAR plan (Jeppesen 2007, pp. 13-15).

Historically, the industrial policies have been shaped by the close links between the South African government and the large conglomerates that have been based on the country's mineral resources (Fine & Rustomjee 1996). This left the country with a less than impressive manufacturing sector in 1995, due to the economy's reliance on minerals and the lack of effort to have local manufacturing sectors grow into exporters of their products. Two of the most important manufacturing sectors at the time were the automotives sector and the clothing- and textiles sector.

The following case studies will focus on the methods that the ANC government has applied in order to increase the competitiveness of the two sectors, as the liberalization of the domestic market challenged their existence.

4.2 The Automotives industry

4.2.1 The global automotives industry

The automotives industry is one of the most important manufacturing sectors in the world, due to its technical complexity, the number of vehicles, 68 million in 2006 (Barnes & Morris 2008, p. 39), and components being produced and the millions of people employed in the industry. The last decades have seen big changes in the industry. Whereas auto manufacturing in developing countries was earlier being promoted by ISI approach, effectively meaning high tariffs and requirements for local content, this has been minimized by the influence of the World Trade Organization and the growth of the emerging markets.

The national strategies have to a large extent been replaced by the power of the OEM's (Original Equipment Manufacturers) who have integrated world-wide value chains and invested heavily in developing countries (Barnes & Morris, 2008; Sturgeon et al. 2008, p. 302). Today the OEM's have

increased in size due to mergers and acquisitions and they have the ultimate power to decide how to design their value chains (Barnes & Morris, 2008; Black, 2009; AIEC 2011). This basically means that with the influx of investments in these developing countries' automotives sector the OEM's, from their head quarters in Europe, United States and Japan, are the main factor in deciding whether the national automotive sectors will be able to survive.

While some countries are attractive for OEM's due to their size and potential, like China and India, other countries need to qualify themselves through support from the government to reduce the risk of the OEM's investment. The main criteria for OEM's to invest in the expensive production facilities in a developing country is a sizeable domestic and regional market that follows a common set of guidelines for trade; an attractive industry program from the government that promotes a competitive local workforce and generally supports the OEM's target of exporting cheaply to the region; and an open trading environment that limits expenses of imports and exports to the country (Black 2009, pp. 485-488). Naturally, the industrial policies are put together in order to make up for the specifics of the market and sector in the country, as will be seen in the case of South Africa that does not have a particularly big domestic or regional market.

The financial crisis has been tough on the automotives industry and while the long-term effects remain to be seen, the importance of the industry to national politics and economies has been obvious⁴. The sector is regarded as prestigious and well-established. While a transformation of the production patterns has occurred the importance of the sector means that production is unlikely to move away from the largest producing areas. The importance of the sector to politicians and national actors is described as, *"powerful lead firms and industry associations, large-scale employment and relatively high rates of unionization, and the iconic status of motor vehicles in the minds of consumers (and policy-makers) in many countries increase the political clout of the automotive industry"* (Sturgeon et al., p. 317). This means that despite the crisis of the sector and the prospects of the markets in emerging economies the main share of production of passenger and light vehicles⁵ has remained in the U.S, Europe and Asia (where China, India and Thailand have taken over Japan, as the main producers)⁶.

⁴ Several of the world's leading car manufacturers had to be rescued by government support to avoid bankruptcy.

⁵ South Africa is mainly active in the production of light vehicles.

⁶ For an overview of the global production see this link: <http://oica.net/wp-content/uploads/cars-2010.pdf>

For many developing countries, including South Africa, the challenge is to find a role in the OEMs' global value chain. However, in the automotives sector even being a small fish in the big pond is extremely attractive. This is why government industrial policies functions as attractive support measures to the OEM's, who then reply by investing in world-class facilities and job creation in a globally competitive sector – in accordance with Schmitz' framework that sees attracting FDI, as the right way for developing countries to overcome wide marketing and technical gaps.

4.2.2 The actors in the South African Automotives sector

In the process of developing the industrial policies for the South African automotives sector several actors are included. In what follows I will shortly present these actors and what role they play:

Department of Trade and Industry (DTI): The DTI is the ministry that is responsible for industrial policies. This goes for broader industrial frameworks, as recently seen with Industrial Policy Action Plan I & II, but also for industrial policies towards sectors. In the DTI one department is responsible for the automotives industry⁷. According to several of the interviewees the department has lost valuable knowledge over the past decade and has been limited in size. Nonetheless the department is the facilitator in the process of developing the industrial policy, just as the DTI has the mandate to decide on the final policy.

Original Equipment Manufacturers (OEM's): At present eight auto manufacturers have production facilities in South Africa, being Ford, Nissan, BMW, Renault, Volkswagen, General Motors, Mercedes Benz and Toyota. While the OEMs are also represented by NAAMSA they have a huge influence on the industrial policies, as they can threaten to leave the country unless support measures are sustained (Black 2009, p. 505).

National Association of Automobile Manufacturers South Africa (NAAMSA): NAAMSA represents a wide range of members such as major importers and distributors of new vehicles, local manufacturers and assemblers. The association is responsible for collecting facts about the sector, and is the voice of its members. (www.naamsa.co.za)

⁷ Despite many efforts I was not able to get in touch with the department.

The Authority of the South African Components Industry (NAACAM): NAACAM represents 190 producers of automotive components. While some foreign companies associated directly to OEM's are not members of the association, NAACAM is recognized as being the representative of the the sector and had 43,500 members in 2010. (www.naacam.co.za)

National Union of Metal Workers of South Africa (NUMSA): NUMSA represents the labor within the industry and are participating in negotiations and discussions on the industrial policies. However, the union does not have much influence in the negotiations of industrial policy in the automotives sector, due to the structure of the MIDP program.

4.2.3 The South African automotives industry before 1995

Production of vehicles in South Africa began in the 1920'ies where local assemblers provided mainly American models, Ford and General Motors, to a growing local market. A high tariff on Completely Built Units (CBU's) laid the foundation for a profitable sector, despite of an inefficient production mode that provided a wide range of models only for the domestic market , and the industry set-up remained like this until 1961 (Black 2001, pp. 5-6).

Motivated by saving foreign exchange the South African government started supporting the industry heavily through an ISI approach in 1961, the Local Content Program. The approach encouraged local manufacturing by introducing large tariffs on imported vehicles and components, just as auto assemblers had to apply a certain amount of local components. Before the new government program the level of local content in the vehicles was about 20 %, but this was set to change as a level of 66% was now required to avoid tariffs. This approach was instrumental in developing the South African component manufacturing industry. (Barnes & Morris 2008, pp. 39-40, Black 2001)

The sector was affected by the international sanctions on South Africa due to the resentment of the apartheid regime, as several of the OEM's dis-invested in the 1980'ies, or had limited involvement in the country by operating through local subsidiaries or franchises. Up until the end of the 1980'ies the automotives sector was characterized by mainly locally-owned auto assemblers, who bought components from local manufacturers, as a result of the heavy tariffs on imports and the requirements of local content (Barnes and Morris 2008). The narrow focus on the limited domestic market left the sector uncompetitive and the sector was ill diagnosed in a global automotives sector report from 1984: *Neither Australia nor*

South Africa has developed an export industry, and it is difficult to see any competitive superiority developing in these locales which share the disadvantages of relatively high wages, small domestic markets, long shipping distances to major markets and low labor productivity compared with Japan (Althuler et al. in Black 2009, p. 484).

The general gloom over the prospect of the sector led to reduced protection of the sector with “phase VI” of the local content program in 1989. The requirements of the level of local content were reduced to 50%, just as measures to increase exports were implemented. However, one of the main targets to increase specification of the production and thereby production of scale did not succeed, which meant that the industry still suffered from producing too wide a range of models, which kept productiveness at a low level. Phase VI was widely regarded as being unsuccessful, but it did lay the foundation for the government program that was to follow, the Motor Industry Development Program (MIDP) (Black 2001, pp. 6-7).

However, when using Schmitz’ framework it seems fair to define the South African automotives industry as having both a wide marketing and technology gap, as suggested by Barnes and Jeppesen (Barnes & Jeppesen 2011). The *wide marketing gap* is seen by the isolated focus on the domestic market, with the local ownership and high tariffs excluding the integration into global value chains and a lack of competitiveness to achieve exports. The *wide technology gap* can be recognized through the low levels of production, and the lack of investments in modern equipment and technology. Before the introduction of the MIDP the tariffs remained extremely high at 115 and 80% on CBU and Completely Knocked Down (CKD’s) respectively. This was an obvious obstruction in regard to attracting the Foreign Direct Investments, which according to Schmitz’ framework is needed to make a sector with these characteristics competitive.

4.2.4 The Motor Industry Development Program

The development of the MIDP-program took around 18 months to develop and included negotiations among the above mentioned actors. The policy was introduced in 1995 shortly after the country’s first democratic elections that ended with the ANC party forming the government.

There was consensus among all actors that the focus on the domestic market and the way that production was organized was not sustainable. In line with the new government’s general set of policies the MIDP intended to integrate South Africa into the global system, as seen with the country’s entry to the WTO.

Thereby the challenge was to design a policy that was able to support the transition of the protected and inefficient automotives industry that had to become globally competitive, as its domestic market was liberalized (Black 2009, pp. 489-490). The MIDP is an export-oriented industrial policy that intends to attract FDI, in order for the South African industry to find its role in the global value chain. This is needed to maintain the sector with all the prestige, technical knowledge and jobs it brings to the country. In what follows I will briefly sum up the rationale behind the incentives that the MIDP used to attract FDI. Initially MIDP was scheduled to run until 2002, but it was since extended two times and will proceed until 2012. From 2013 MIDP will be replaced by The Automotive Production and Development Programme (APDP)⁸, and I include the policy changes in the review.

Tariffs: The level of tariffs was immediately lowered from 115% and 80% on CBU's and CKD's respectively to 65% and 49% in 1995. Since then the tariffs have gradually been lowered every year and they will reach 25% and 20% in 2012 – a level that will be fixed until 2020, when the APDP expires (South African Automotive Benchmarking Club Newsletter 2008, pp. 1-5). Further the local content requirements were dropped.

The liberalization of the South African market eased the access of foreign vehicles and components to the local market. The lowering of tariffs increased competition and forced local manufacturers to become more competitive. Also the fact that it has become cheaper to import cars and components has encouraged production of scale and thereby an export-oriented production, as the cost of keeping a very wide range of models was no longer sustainable.

Local vehicle allowance: With the MIDP a Duty Free Allowance on 27% are given to OEM's that produces vehicles for the domestic market in South Africa. In other words 27% of the cars local wholesale price can be used as rebate on imported components by OEM's. This incentive has been used to make it attractive for OEM's to establish production facilities in South Africa, rather than import.

⁸ While the guidelines for the APDP program were finalized in 2008 the final policy paper has not yet been finalized by the DTI. However, the numbers used in the thesis have been agreed with industry and will not be changed.

With the APDP the policy will change. The new Local Assembly Allowance will be reduced to 20% in 2013 and be lowered to 18% by 2020. Further in an effort to promote further production of scale the LAA will only be given to plants that produce more than 50.000 vehicles a year. (Ibid, pp. 1-5)

Import-Export complementation (IEC): This measure in MIDP rewards exporting vehicle and component manufacturers, by allowing them import duty credits equivalent to the amount of products exported. The import duty credits lower the cost of importing vehicles and components into the country. Initially the IEC compensated exporters 1:1, but the compensation has gradually been reduced by 4% a year before ending at 70% with the end of the MIDP in 2012 (Barnes & Morris 2008, p. 42). The incentive has been a main driver in the heavy increase of South African exports and thereby a more efficient production of scale, but it equally increased the level of imports. I will look further into the implications of the IEC below.

The IEC will be replaced by a Production Incentive in APDP. Rather than supporting exporters the Production Incentive will aim at encourage manufacturers to increase their levels of value-addition (South African Automotive Benchmarking Club Newsletter, pp. 1-5).

Investment Assistance: The Productive Asset Allowance has been used to attract investments in new facilities, as investors receive a 20% payback on the investments over a period of five years. As it has been difficult to qualify for the Productive Asset Allowance some changes has been made to the measure in the APDP, now called Automotive Investment Allowance, but the level of 20% payback remains.

4.2.5 Results of the MIDP program 1995-2011

There are several parameters on which the results of the MIDP can be judged. On a broad scale the fact that the MIDP program has been extended twice, and that government support will continue through the APDP until 2020 shows that the government believes that the sector is developing in a satisfying way.

Overall the program has been successful in attracting FDI. Compared to the situation in 1995 the local industry has been integrated into the global value chain, as it is seen by the level of ownership. In 1995 all South African auto manufacturers were primarily locally owned, but by 2007 all auto manufacturers were either fully owned or mainly owned by foreign OEM's (Barnes & Morris 2008, pp. 40-41). The same tendency can be observed in the components sector. The amount of foreign owned component

manufacturers and joint ventures have increased noticeably since 1995 (Ibid., p. 42). In 2010 South Africa was ranked as the 24 largest vehicle producer in the world with a market share of 0,61% (AIEC 2011, p. 75).

The OEM's have also made investments to upgrade the production sites in the country and improved the level of production efficiency. This had led to a successful transition. Where the majority of local vehicle production was formerly based on CKD assemblers producing for the local market, it is now manufacturing the vehicles (CBU) and supplying the local market as well as exporting (Black 2009, pp. 490-491, interview with Anthony Black). While observers and local actors are worried about the future of the local industry the development within trade, employment, competitiveness and the overall effect on the local economy gives an indication of a relatively successful industrial policy program.

Employment: The level of employment has not changed significantly since 1995. While some jobs was initially lost, as the OEM's entered the South African auto manufacturing market, the number of employees increased from 32.757 in 2000 to 38.623 in 2007 according to NAAMSA (Barnes & Morris 2008, p. 44). The global financial crisis has since reduced the workforce and in 2010 the aggregate employment was 28.128 (AIEC 2011, p. 75). A report published on DTI's website suggests an increase in the components sector from a level of 60.800 in 1995 to 76.911 in 2004 (Bentley West Strategic Consulting 2005). Again there has been a decrease in the latter years with an average of 64.000 employees in 2010, which is a decrease of 23% (78.720) since the peak in early 2008 (www.naacam.co.za). When combining the number of employees in the auto manufacturing and components sector it shows that the industry has been able to maintain 90.000 and 120.000 well-paid manufacturing jobs in the country despite the liberalization of the local market.

Competitiveness: It has been one of the main challenges of the MIDP to increase the level of the sector's competitiveness, in order to remain an attractive location for the OEM's when the level of subsidies from MIDP was reduced. While substantial progress has been made there is still some way to go before it reaches the competitiveness of the international competitors. The data gathered from the South African Benchmarking Club, which had 73 members in 2008, underlines the progress that has been made and the challenges that threaten the sector (Barnes & Morris 2008, pp. 47-52).

In the period from 2001 to 2006 a survey made from 73 South African companies showed a positive development within the areas cost-control, quality and reliability (Ibid, p.52). The progress follows the investments made in modern technology and the increased level of competition and in these areas the South African companies were relatively close to the level of their international competitors. However, within the areas of flexibility, and spending by the companies in human resources and R&D were worrying. Not only did the South African companies perform considerably worse than the competitors, but also the spending had decreased since 2001. (Ibid, pp. 47-52) While one explanation of the difficulty to reach a higher level of competitiveness is the relatively limited domestic market that hinders a larger production of scale and higher salaries than in many Asian countries, the “*continued under-investment in people, equipment, manufacturing processes and products*” is critical (Barnes 2009, p. 4).

So while there has been taken steps in the right direction the South African automotives sector is still not competitive and there is considerable barriers for this to happen in the near future. This was also confirmed by Justin Barnes who noted that the positive progress shown above has stagnated since 2006 (Interview with Justin Barnes).

Production and Trade: The production of vehicles and components has grown enormously since 1995, and it has provided both for a larger domestic market, but more importantly a still growing level of exports. This development is largely due to the IEC measure. While the export of cars was slow in taking off, as seen by the level of export and import of cars in 1996 where it was virtually non-existing, it increased very fast, as the auto manufacturers switched into production of scale. By increasingly focusing on an export-oriented production on a few models, this increased the need to import models that were no longer produced locally, and these models could be imported without paying the tariffs due to the IEC measure. (Black 2009) The heavy increase in exports led to a rise in the number of vehicles produced. From producing just over 200.000 passenger cars in 2001 the number increased to 335.000 in 2006. Since 2006 the production has been slightly reduced, but is expected to reach 340.000 in 2011 (Morris & Barnes 2008, p. 44; AIEC 2011, p. 16). The importance of the exporting vehicles for the manufacturers is seen in the export share of total production, as it has increased from 4% (15.764) in 1995 to 35,6% (119.171) in 2006 before reaching its current level of 61% in 2010 (181.654) and 2011 (expected 210.000). (Morris & Barnes 2008, p. 44; AIEC 2011, p. 16)

The export of components grew rapidly from 1990 and has also been pushed by the IEC. The increase have seen the value of exports rise from 3,318 Million Rand in 1995 to a peak of 44,055 in 2008, and was at 30,802 Million Rand in 2010 (Black 2009, p. 504; AIEC 2011, p. 50). While the growth of production and exports is impressive, the fact that two products, catalytic converters and stitched leather seats, make up a very large part of exports is cause for some worries. The export of catalytic converters makes up almost half of total exports, and according to NAACAM's executive director the IEC work as an obstacle to growth in the components sector, as OEM's are given incentives to import components similar to the value received from the import duty credits rather than by further South African products (Interview with Roger Pitot). So the impressive growth of the sector has a backside to it, as Black explains: *"the bulk of export expansion has, therefore, not been by "traditional" component suppliers but by a rapidly emerging new group of mainly foreign owned firms with links to vehicle manufacturers"* (Black 2009, p. 503).

Effect on the national economy: The automotives industry stands out as the leading manufacturing sector in South Africa and is of great importance to the country. This is seen with the sector contributing 6,2 % to the country's GDP and 11,9 % of the national exports in 2011. The impressive growth in production and exports is exceeded by the level of imports. The trade deficit has been relatively large since 2005, where it peaked in 2007 (-34,6 billion Rand) and hit its lowest deficit in 2008 (-14,7 billion Rand). In 2010 the industry imported products worth 100,2 billion Rand and exported for 69,5 billion Rand ending with a trade deficit of 30,7 billion Rand. (AIEC 2011) The trade deficit is one sign that the industry needs to develop further.

4.2.6 Did the industrial policy approach match the challenge?

When looking at the development of the automotives sector it seems fair to conclude that the approach of attracting FDI and the establishment of world class production sites through the MIDP was indeed appropriate in order to overcome the wide technology and marketing gap that was apparent in 1995. The positive results from the MIDP adds to the point made by Schmitz, in that incentives from the government to attract FDI can support the efforts of integrating the local industrial sector into the global value chain. While the target of becoming globally competitive is still not reached, the investments have seen the sector integrate into the global value chain, increase production and maintaining the employment in a period of a heavy liberalization of the domestic market. Overall the MIDP can be regarded as a "considerable success" (Barnes et al. 2004, p. 168).

However, as the industry representatives stress the sector need to develop further in order to be able to survive in the future. Therefore the upcoming APDP program has been developed according to the challenges that the sector currently face and give incentives to increase the level of local content, which can lead to further value-addition and eventually more South African manufacturing jobs (Interviews with Justin Barnes, Anthony Black, Norman Lamprecht and Roger Pitot). It remains to be seen whether this approach will become successful.

4.3 The clothing- and textiles sector

4.3.1 The global clothing- and textiles sector

Historically the production of textiles and clothing has worked as an engine to develop an industrial sector in many countries. Particularly the clothing sector is attractive for many developing countries, as they are able to overcome the relatively low entry costs and the limited need for specified knowledge. As the value chains have become increasingly globalised many developing countries have developed into exporters of clothes, as they can compete on low costs in the more labor intensive part of the value chain. The production of textiles is more costly and it has proven more difficult for developing countries to become competitive. (Morris & Barnes 2008, p. 6; Gereffi and Memedovic 2003).

The clothing and textiles sector today is buyer-driven and therefore it is retailers who are organizing the global value chains. By closely following the patterns of customer demands the retailers interact with the different links in the value chain in order to become as efficient as possible, while at the same time producing exactly what customers require. Nordas illustrates the value chain in the following way. The flow of goods is as follows: Raw material -> Textile plants -> Apparel plants -> Distribution centres -> Retail stores -> Customers. In contrast the organization of the production, the flow of information, moves in the opposite direction (Nordas 2004, pp. 3-4).

While low cost is naturally one of the main advantages for developing countries, other factors are important for companies to be included into the global value chain. Companies must be able to deliver quality products on a short term notice, while at the same being flexible to the customer's demands. Also it has become increasingly important for retailers that the companies apply to environmental standards and treat their employees respectfully. The need for retailers to check up on the conditions of their suppliers

has led to closer relationship with a smaller number of suppliers. (Morris & Barnes 2008, pp. 32-36; Nordas 2004, p. 3).

The clothing and textiles sector have traditionally been heavily protected by governments. This is seen with the Multi-Fibre Agreement which was signed in 1974 and effectively installed quotas on how much developing countries could export to developed countries. As this practice violated the laws of the WTO it was effectively ended in 2004 and while relatively large tariffs remain in the sector, the global market has been liberalized. The global trade is still influenced by a number of bilateral agreements between blocs of country that trade on beneficial terms. One example is the African Growth and Opportunities Act (AGOA), which gives duty and tariff free access to the American market for a number of African countries.

The liberalization of the sector has contributed to much of the production moving away from industrialized countries and going to “developing “countries. This development is best illustrated with the explosive growth of China⁹ that in 2007 had a global market share of 30 and 40% on textiles and clothing manufacturing respectively and were market leaders by far, as no other country had a market share over 10% (Morris & Barnes 2008, pp. 23-24). The dominance of China, and to a lesser extent countries like India, Bangladesh and Indonesia, has unlike former market gains by developing countries not just come on the expense of developed countries (Ibid, pp. 31-32). Rather, the end of the quota system have seen a number of developing countries struggle to remain competitive enough to export, while their domestic market is in danger, as local retailers can import at much lower costs than previously.

The clothing- and textiles sector is highly regarded in developing countries, as it is labor intensive and employs thousands of people, mainly women, without much education. However, many jobs are lost due to the inability of most countries to compete with Asian competitors on costs. It leaves companies and governments with the huge task of working towards finding a suitable place in the global value chain and requires the will to redefine the practices that were developed to another period in time.

4.3.2 The actors in the South African clothing- and textiles sector

DTI: The DTI is the ministry that is responsible for industrial policies. This goes for broader industrial frameworks, as recently seen with Industrial Policy Action Plan I & II, but also for industrial policies towards

⁹ Including Hong Kong

sectors. The department for clothing- and textiles has lost valuable knowledge over the past decades with the number of employees being minimized from 11 at in the mid-1990'ies to only one in 2011 (Morris and Levy, p. 25). While the DTI outsources the designing of industrial policies to consultants, such as B&M Analysts, the DTI makes the final decisions and policies.

SACTWU: The South African Clothing and Textiles Workers Union play a significant role in developing the policies towards the sector due to its close connections with COSATU and the government. The union has the ear of government due to COSATU's role in the Tri-partite government. SACTWU had 99.000 members in 2010 (www.sactwu.org.za).

Clothing manufacturers: The South African clothing manufacturers is mainly located in the Western Cape and Kwa-Zulu Natal with larger and more value-adding companies centered in the Western Cape and the more labor-intensive companies operating in Kwa-Zulu Natal. In 2007 there were 1007 registered clothing manufacturers in the country. While there are several business organizations representing the sector Clothing Trade Council of South Africa (CloTrade) has often functioned as representative.

Textile Manufacturers: Textile manufacturers cover three stages of production spinning, weaving and finishing. These stages can either be undertaken at integrated plants, or at different companies (Nordas 2004, p. 7). The majority of South African textile manufacturers are organized in the Textiles Federation.

Retailers: The local retailers organize the domestic value chain and are very powerful. The retailers, known as the big 5, are located in Cape Town and account of 70% of the country's formal clothes sale (Morris & Reed 2008, p. 10).

4.3.3 The South African clothing- and textiles sector before 1995

The production of clothing and textiles in South Africa goes back to the 1920'ies and began with blanket manufacturing. It was not until the late 1940'ies that production of clothing and industrial fabrics was established. The manufacturers all benefitted from a massive protection of the domestic market, as characterized by the ISI approach (Maree 1995, p. 22). The huge tariffs on imported goods saw the local industry develop the full range of production – producers of raw material; yarn and textiles mills; cut-make-trim firms and clothing manufacturers; and finally retailers (Jeppesen & Barnes, p. 240).

The industry has played an important role for the country in several ways. By the 1980'ies the industry was employing around 300.000 people, and accounted for 11% of the national manufacturing output (Ibid.). Furthermore a large share of the employees were women with little, if any, formal education. When taking into consideration the high level of unemployment and the poor living conditions for a large part of the population, the industry provided many jobs for families that were dependent on the income for survival (Vlok 2006, p. 1). The protection of the sector did also come at a high cost, not just for the consumers who paid high prices for their products in the uncompetitive market, but also the lack of competition made it unnecessary for South African companies to become efficient. One symptom of this was the inability to grow into exporters¹⁰. Only a very small part of South African products were exported (Vlok, p. 1; Maree 1995; Altman 1994), and from the 1980'ies it became clear that South African textile producers were falling behind competitors in Asia and Europe when looking at investments in new equipment, adding value to products and increasing labor productivity (Maree 1995, pp. 22-34). Similar tendencies were observed in the clothing production, where the need to increase productivity was highlighted as the main issue (Altman 1994, p. 87).

By the end of the 1980'ies efforts were made to increase the level of exports through new trade policies. One of the main features was the introduction of the Duty Certificate Credit Scheme (DCCS), which allowed exporting companies' access to buy imports at a lower tariff. At the time South African clothing manufacturers had a minimal global market share of 0,11%, and though the amount of products for exports out of the total production increased from 6,5% to 9,0% from 1989 to 1991 this share was still small compared to global levels. In the meantime the new policy, which had eased on the tariffs led to an increase of imported clothing from retailers going from 21% to 44% from 1989 to 1991 (Altman 1994, p. 98). As it will be shown this development could have worked as a warning for the times ahead.

One feature that has haunted the clothing and textiles sector historically is the disagreements between producers of textiles and clothing. Throughout the years they have disagreed on how the tariffs system should be organized, with clothing producers arguing they were forced to buy relatively expensive and low quality local textiles due to the high tariffs. Further differences have occurred due to company size, as the interest of family owned businesses were different to companies affiliated with large conglomerates

¹⁰ Even though the international ban on South Africa in the 1980'ies set a natural limit on that point of time.

(Maree 1995, pp. 32-35; IGD 2005). Overall the industry has consistently been fragmented with actors split between sectors, company size and also to some extent the right of the workers, as represented by the union.

By 1994 the South African clothing and textiles sectors was severely challenged. With the prospect of an increasingly liberalized global¹¹ and local market the situation of the sectors was critical. When applying Schmitz' framework it seems clear that there was a *marketing gap* due to the lack of knowledge and experiences on foreign markets, while the domestic market was about to undergo radical changes. The general use of outdated machinery and the low level of productivity give a clear indication of a *wide technology gap* that needed to be dealt with. These characteristics would, according to Schmitz, suggest an industrial policy that aimed to attract FDI's, as it is also pointed out by Jeppesen and Barnes (Jeppesen and Barnes, p. 241). While FDI's might not have been an option in this case, as it was argued by Mike Morris and Justin Barnes in interviews, at least an export-oriented industrial policy would be considered unrealistic with the wide marketing and technological gaps.

4.3.4 Government policies

In 1995 when the ANC government came to power it seemed clear that the clothing- and textiles sector was of great importance to the country, but also that it would have difficulties to compete in a more liberalized global and domestic market. The government was made aware of the need to specialize in products higher up in the value chain, as South African companies could not compete with cheap Asian competitors in the low value-added segment, and that heavy investments were needed to achieve this (Malee 1995; Altman 1994). Despite of this there has been a lack of industrial policies to support the development of the sector. Rather, by lowering tariffs and singlehandedly applying an export oriented approach the sector's performance have been closely linked to the value of the local currency and changes in the international business environment.

In what follows I will briefly sum up the policy measures that have been implemented by the South African government, and also include some of the outside factors that have influenced the poor results of the sector. Due to the difference in results from 1995-2002 and 2002-present I will describe the periods separately.

¹¹ Due to the agreement made in 1994 at the WTO's Uruguay round to phase out the Multi-fibre agreement.

Export oriented growth - 1995-2002

There was a clear signal of the new South African government's approach towards the clothing and textiles sector, during negotiations at the WTO meeting in Uruguay in 1994. The South African representatives agreed to half the tariffs, to a maximum of 40% over a period of 7 years, despite of being allowed to introduce the lower tariffs over 12 years¹² (IGD, p. 10; Barnes & Jeppesen, p. 250). Despite that the level of tariffs remained relatively high in the clothing- and textiles sector the reduction showed a strong will to be included into the global trade system. The opening up of the domestic market was followed up by an effort to increase the level of exports. This was done by extending the DCCS policy¹³, which had been introduced in 1989. It seems clear that the government intended to develop the sector through an Export Oriented Industrialization approach.

The AGOA-agreement, which was introduced in 2000, also played a big part in the ups and downs of the South African industry. AGOA includes 41 African countries that have a preferential access to the American market. Initially the agreement increased the level of South African exports to the US. However, as the rules started disfavoring South Africa¹⁴, much production moved to neighboring countries, and particularly Lesotho (Morris & Reed 2008, p. 6). After a few years AGOA turned out to give South African manufacturers a disadvantage compared to other African competitors and unlike in Mauritius the government did not seek a dispensation from the American authorities (IGD, pp. 22-23). AGOA is set to expire in 2015.

The clothing and textiles sector performed relatively well in the period from 1995 to 2002. More than a successful transition of the companies or the abovementioned EOI-approach this was rooted in the low exchange rate of the South African Rand. The importance of the exchange rate is illustrated by a growth in exports of 60% between 2000 and 2002, when the exchange rate was very low. As the rand strengthened by 2002 the decline in exports came just as rapidly, as they fell to the level of the end-90'ies by 2004 (Morris and Reed 2008, pp. 13-16). The Rand is very volatile and this is of great importance for the whole

¹² Examples being that the tariff on textiles and clothes went down from over 100% to 28 and 40% respectively (Morris forthcoming, p. 5).

¹³ In practice the DCCS works as an export incentive on 14 to 25% for companies within the clothing and textiles sector (Jeppesen & Barnes 2011, chapter 4.1)

¹⁴ As the only countries South Africa and Mauritius have to use garments and yarn from signatory countries, while the rest of the countries, as less developed countries, can use cheap Asian products in the process (Roberts & Thoburn 2002, p. 81)

industry, as a low exchange rate increases interest in South African exports, while the opposite lowers the costs for South African retailers to import.

A sector in decline - 2002-present

The crisis in the sector was really being felt from 2002. The inability to compete with cheap Asian competitors; the competitive advantage of other African countries regarding the AGOA-agreement; the transition towards lower tariffs was completed; the high level of illegal imports; and the high value of the Rand were the main factors to huge job losses and poor results. It seemed clear that something had to be done to improve the performance of the industry.

By 2004 the government/DTI began the process of designing a Customized Sector Plan (CSP), which brought together industrial actors, clothing and textiles manufacturers sector and retailers. The aim was to establish closer bonds among the different business actors and motivate them to work along the same lines with the government's support. Retailers made it clear that they needed local manufacturers to have shorter lead times and be more flexible. The local manufacturers replied that it would need investments in technology and skills in order to deliver this. A plan was drafted including a board where all parties met frequently to review policy measures and plan ahead. However, the CSP never materialized as SACTWU convinced the DTI to make changes in the initially agreed draft. (Morris & Levy, pp. 19-24; Jeppesen & Barnes, p. 257) Thereby the government's initiative to upgrade the technology and skills within the sector did not materialize. I will look closer into the flawed relationship among the different actors and how this has influenced the sector in chapter 5.2.

As the government was not able to support the development of the local sector it tried to lessen the competition, by imposing quotas on Chinese imports in 2006. China's role on the global textiles market had skyrocketed with the end of the Multi-Fibre Agreement, and after it joined the WTO in 2001. In South Africa retailers increased their sales of clothing and textiles 34,5% between 2001 and 2005, however the local clothing and textiles sector saw a decrease in local demand on 13,4 and 22% respectively in the same period (Morris & Reed 2008, pp. 12-13). In the meantime Chinese clothing products made up 74,5% of all South African clothing imports in 2005 (Ibid., p. 18). However, both the South African retailers and clothing manufacturers strongly opposed the quota and the policy was generally not coordinated with the manufacturing sector. Eventually the drop in the Chinese market share was taken over by other countries,

rather than local manufacturers, just as local suppliers had problems with access to products (Morris & Reed 2008). Following an extensive review Morris and Reed concluded there were three primary reasons, as to why the quotas could not provide economic growth and jobs as envisioned by the DTI: *“First, the timing of the intervention - quotas came too late. Second, the motivation for the intervention - the real problem was never identified. China is simply a symptom of other underlying problems, not the cause. Third, the scope of the intervention and manner of its implementation”*. (Ibid, p. 75) The quotas on Chinese imports were not extended from the original period of time 2007-2008.

In 2009 the DTI provided what it called a rescue-package towards the sector, acknowledging how important the sector is for South Africa (Bisseker 2009). The rescue-package rewards local manufacturers that provide value-addition and increased competitiveness through Production Incentive grants. The grants however are tied to investments in new equipment or skills improvement for the workforce and these investments have to be accepted by the Industrial Development Corporation (IDC) (Ibid, interview with Justin Barnes). A similar proposal was included in the CSP, and while some observers fear that the incentive to upgrade the technology and skills level comes too late (Bisseker 2009), it shows some signs of having a positive effect (interview with Justin Barnes). The initiative replaces the DCCS which expired in 2010, and have a similar annual budget of 550 million Rand and is set to run for five years (Bisseker 2009).

As I have shown the South African government has led an Export Oriented approach towards the clothing and textiles sector, by liberalizing the domestic market to an even larger extent than the WTO requires, and until recently using incentives to export, as the only support measure. The lack of incentives to attract investments to the sector or support for investments, as suggested by Schmitz, has however left the sector bleeding, as the development of the sector from 1995 to 2011 will show.

4.3.5 The development from 1995-2011

The government’s choice of applying an export-oriented strategy has not led to a successful development of the sector, but rather seen it decline drastically in the period from 1995 to 2011. Apart from lowering tariffs and supporting exporting companies, the government has undertaken initiatives pointing in very different directions, with none of them having the desired effect. The sector has not been able to develop any sort of sizeable export and thereby link up to the global value chain, and in the meantime the domestic

market has largely been taken over by foreign competitors meaning a domestic value chain has not been developed.

The government's EOI-approach has left out initiatives that could attract FDI and/or support local companies working closely with foreign companies to acquire new technology and skills development, as Schmitz' figure suggest is needed to reduce the technology gap (Jeppesen & Barnes, pp. 251-252). Apart from the DCCS approach, which had a limited impact, little has been done to reduce the marketing gap. While some textile manufacturers manage to export in niche markets, the survival of the sector seems to rely on the ability to build up a more competitive domestic value chain, where local manufacturers can respond fast to the need of local retailers.

Finally, the government has not been able to facilitate incentives that could unite the different actors in the industry and support the effort to develop a domestic supply chain. The hope of developing an effective tri-partite alliance between government, business, and labor as represented by SACTWU has not been fulfilled, but rather obstructed the possibility of finding common ground.

While the clothing- and textiles sector peaked in the early 1980'ies and was having difficulties before 1995, the situation has gone from bad to worse since, as the parameters below will show.

Employment: Different figures appear in the debate of how severe the job losses has been – however it is without doubt that many companies have closed down and employees has left the sector. According to one study the total of formal employees decreased from 228.053 in 1996 to 142.863 in 2005, and estimates the number to be around 200.000 when including informal workers as well (Vlok 2006, pp. 229-230).

The decline of the clothing sector is seen by the closure of 14% of all companies in the period from 2003 to 2007, while employment fell by 26% from 95,187 to 72.796 (Morris & Reed 2008, pp. 21-23). By 2008 the industry employed a total of 127.000 people with no signs of big improvements around the corner (Jeppesen & Barnes, p. 232).

While these numbers build on different statistics, just as the number of informal workers makes it difficult to find the exact number of employees, there is no doubt that the number has fallen substantially.

Competitiveness: In the highly competitive global market South Africa are not able to compete on costs. While South African wages are low on a global level, they are not nearly as low as by many Asian competitors. Further the industry suffers from inflexible regulations on labor that limits the amount of work days; the hours a worker is allowed to work per week; and sees a high level of absenteeism (Morris & Reed 2008b, pp. 23-24).

From 1995 to 2003 the output per worker decreased significantly (Ibid., pp. 23-24) and this despite it already being singled out as the main problem in the clothing sector in 1994 (Altman 1994). The problem seems to be two-folded with both the inflexible labor regulation, but also the lack of investments in new machinery and upgrading of the worker's skills playing its part (Morris & Reed 2008b, p. 19). A survey from 2006 illustrates the problem. The main customer of clothing and textiles manufacturers is local retailers. An extensive survey showed how the retailer's requirements for companies, which are price, delivery reliability, lead time flexibility, speed to market/new product, lead time, and product development/modification capacity were far away from being met (Ibid., pp. 34-35).

In other words, the level of competitiveness has not increased, but rather decreased, since 1995 and with the larger amount of imports this has had the consequence that local companies have found it difficult to live up to the required standard.

Production and trade: The aim of the government's EOI-approach, increasing production through exports, has not been reached. A study of textile manufacturers from 2002 showed that while a large part of companies were exporting, for the large majority the share of products for exports was below 20% of overall production (Roberts & Thoburn 2003, p. 87). The surge that was in clothing exports from 2000 to 2002 was short-lived and was mainly due to the low value of the Rand. Overall, it seems fair to suggest *"that exports of clothing and textiles are no longer a substantial part of the clothing and textile industries"* (Morris & Reed 2008, p. 15). The results of textiles companies from 1995 to 2002 show the problem of the low competitiveness and lack of investments in skills and technology. Here it is seen that companies that based their production on quality and short lead times, rather than viewing low prices as their main target, were three times as likely to maintain or increase employment. These companies also achieved higher rates of turnover growth (Roberts & Thoburn, pp. 86-92).

The lack of ability to build up an overseas market has been followed up by an enormous increase in imports on the domestic market. The effect is seen most obviously by the fact that despite a growing domestic market for clothes and textiles, local manufacturers have been in decline in the same period.

Effect on national economy: While government often underlines the importance of the clothing- and textiles sector due to its labor-intensive character, this is not matched by the sector's contribution to the total GDP, which is currently around 0,6% compared to between 2 and 3% in the 1980'ies. However, the 127.000 people that are still officially employed make up 11% of the total manufacturing workforce (Jeppesen & Barnes, pp. 239-241).

The rescue package from 2009 will cost the state about 1 billion Rand per year. If successful the investment will be worth its money, as the industry contributed with 17,5 billion Rand in value-addition to the economy (Bisseker 2009). The sector remains important to the national economy because of the lack of alternatives. No other manufacturing sectors have developed significantly since 1995 and the more than 100.000 jobs that have been lost since the 1980'ies have only added to the high level of unemployment.

4.3.6 Did the industrial policy approach match the challenges?

As it has been argued above, the DTI have failed in introducing an industrial policy that attended to the challenges of wide marketing and technical gaps within the clothing- and textiles sector in 1995. Rewarding exporters was for many years the only direct support to the sector while the sector became less competitive and faced much tougher competition on the local and global market. By not making incentives to attract FDI to the sector or supporting local manufacturers directly in order to upgrade their outdated machinery and the lowly-skilled workforce, or allow for changes in the labor regulations the government's approach have a big part of the responsibility of the decline of the sector.

4.4 Concluding on the industrial policies

It has been argued and accounted for that the two sectors in the period from 1995 to 2011 developed with very different levels of success – not least due to the South African government's ability to introduce industrial policies that matched the challenges of the local sectors. By using Hubert Schmitz' framework for "strategies on integrating into the global economy" it has been argued that while the government's MIDP

program was suited to deal with the challenges of the automotives sector, this has not been the case in the government's approach towards the clothing- and textiles sector.

In the next part I will seek to determine whether the organization of the policy processes and the relations between the government representatives, the relevant actors from the industry and the labor unions can help to explain why the industrial policy matched industry demands in the one sector and not in the other.

5 The industrial policy processes – were they right?

In this section I will follow up on the questions outlined in the theory chapter, which are based on Rodrik's claim that good policy processes are the main factor in having successful outcomes of industrial policies. Having already illustrated and concluded on the difference in the approaches and outcomes of the industrial policies towards the automotives sector and clothing- and textiles sector, I will therefore look into how the policy processes between the South African state, the actors from the two industries and the labor unions went along. This will lead to proposing answers on how the policy processes have influenced the industrial policies towards the sectors and whether they were "right". The analysis will be based on these four questions:

- Who organized and participated in the industrial policy process and was it prioritized highly in the government?
- How was the cooperation between government, industry and labor organized?
- Did the capability of the bureaucracy match the responsibilities of the industrial policies?
- Have the industrial policies reflected the demands of the industrial sector?

5.1 The automotives sector

As the industrial policy process has been quite structured within the period from 1995 to 2011 the analysis builds on negotiations leading up to the MIDP program, the constant evaluation and extension of the program. As the policy process that has led to the APDP program have been ongoing for some years the negotiations on the conditions in the APDP program is natural to include in the analysis despite that it will formally move into force in 2013.

Who organized and participated in the industrial policy process and was it prioritized highly in the government?

The policy process of the MIDP started in the aftermath of Phase VI of the Local Content program in 1992, as the Motor Industry Task Group was appointed by the finance minister to make recommendations on how to make the industry "*more productive, increasingly internationally competitive, and a provider of stable employment*" (Lamprecht 2006, p. 62). This task group included representatives from DTI, NAAMSA, NAACAM and NUMSA and met every week for 18 months to negotiate the industry's recommendations for the framework (Interviews with Anthony Black and Roger Pitot). The recommendations that were to

become the MIDP were in line with the government's overall strategy of becoming an export-oriented economy and were also within the framework of the WTO that South Africa joined in 1995.

The inclusion of state, business and labor union representatives have been continued in the Motor Industry Development Council (MIDC) that functions as an advisory board to DTI and meet every six weeks (Barnes et al. 2004, pp. 168-169). In the MIDP the following organizations are represented (Lamprecht 2006, pp. 77-78):

The government is represented by:

- Trade and Investment South Africa
- The International Trade Commission
- The South African revenue Service
- South African Bureau of Standards

Labor is represented by:

- The National Union of Metal workers in South Africa (NUMSA)

Industry is represented by:

- The National Association of Auto Manufacturers of South Africa (NAAMSA)
- The National Association of Automotive Components and Allied Manufacturers (NAACAM)
- The Retail Motor Industry Organisation
- The South African Tyre Manufacturers Conference
- The Catalytic Converter Interest Group

This broad coalition ensures that the different elements of the sector interact and more importantly can pass on recommendations on to the DTI. However, the MIDC has not got any decision power and while the OEM's are not directly represented, though they are members of NAAMSA and NAACAM, they also have got a huge influence on the design of the industrial policies. Initially the MIDP is build around the investments made by the OEM's and they have mainly been attracted to the country by the substantial subsidies. All of the interviewees within the automotives sector agree to the enormous power of the OEM's, as they can threaten to pull the plug on their engagements in South Africa, which would be a

devastating blow to the local industry (Black 2009, pp. 505-508). That this scenario is a serious risk was confirmed by several of the interviewed that confirmed that some of the OEM's had contacted high level government representatives and called for certain demands in the APDP if they were not to move out of the country (Interviews with Justin Barnes, Norman Lamprecht and Roger Pitot).

The above also imply the status that the automotives sector enjoys in the South African government. The automotives sector was pointed out as being a "key growth area" early on by the ANC government (Lamprecht 2006, p. 63) and it cannot be allowed to fail by the government. Further when looking at how it contributes to the national economy, employment and the efforts that have been made to support the sector it seems beyond doubt that the sector has a high priority in the government.

Overall, the responsible ministry, the DTI, is getting recommendations from the relevant domestic actors, who meet on a frequent basis and have a good understanding of the needs of each other. Furthermore, a close interaction with the OEM's is required to ensure that they too are satisfied with the prospects of the conditions in the industrial policy, as they are the key to having an automotives sector in South Africa. The development of the sector is being closely followed by the government and is highly regarded due to its importance to the national economy.

How was the cooperation between government, industry and labor organized and how did they contribute?

As it has been accounted for above the MIDC has been the main forum for exchange of ideas between state, industry and labor representatives, while the DTI makes the ultimate decisions. Initially the MIDP was scheduled to expire in 2002, but it has been extended two times before it will ultimately be replaced in 2013 by the APDP. In this period there have been three reviews that evaluated whether the program worked according to the plan and made corrections to the policy. These reviews were made in 1999, 2002 and 2006 and included revisions to the original framework (Ibid, pp. 67-70).

The framework for the APDP has been developed by the consultancy company B&M Analysts. Originally the need to change the structure of the MIDP stems from it breaching the regulations of the WTO regulations. However, the APDP also have different targets from the MIDP. The MIDP mainly sought to attract FDI's to the sector, rationalize the production and integrate the sector into the global value chain, whereas APDP,

without radically changing the support measures, seeks to increase the level of local content in the cars, which should lead to an increase in value added manufacturing and thereby create further jobs to the local industry (Interview with Justin Barnes). In the process of developing a policy that can satisfy the OEM's and the local companies it has been highlighted by several of the interviewed that the fact that labor regulations are not included in the negotiations has been very important (interviews with Justin Barnes, Anthony Black, Norman Lamprecht and Mike Morris). While NUMSA are represented in the MIDC they negotiate labor regulations in another setting and thereby the conflict between industry and unions cannot obstruct the negotiations, as it will be shown that it has done in the clothing and textile sector (Morris & Levy, p. 20). While industry representatives are critical towards high increases in wages that are above the inflation, they have so far accepted the demands in order to avoid strikes. However, they see it as being damaging to the industry's global competitiveness. This potential conflict between the industry organizations and NUMSA is exactly why it is perceived as being important that it cannot interfere in the industrial policy process.

With this set up it seems clear that the industry actors have been essential in bringing input to the industrial policy and also correcting it along the way. This has been done through the MIDC that includes representatives from all of the relevant actors and also the frequent reviews of the MIDP. It would therefore be fair to suggest that with the MIDC the policy process includes many of the elements that Rodrik uses to describe an "ideal process": *...collaboration between public and private sectors, designed to elicit information about objectives, distribute responsibilities for solutions, and evaluate outcomes as they appear* (Rodrik 2004, p. 18). However, the negotiation power of the OEM's should also be included in the characterization of the policy process. Apart from being members of NAAMSA and NAACAM the OEM's are in direct contact with the DTI and government officials in order to secure that their demands are met. Finally, by avoiding negotiations on wage agreements in the policy process between industry and NUMSA there is less risk of the framework collapsing.

Did the capability of the bureaucracy match the responsibilities of the industrial policies?

While the DTI facilitates negotiations and makes the final decisions on the design of the industrial policies, it is a ministry with a relatively limited capacity. While the sector in general suffers from a large part of the experienced workforce emigrating during the 1990'ies, the capability of the DTI is also limited by a reduction in the staff. While this is often mentioned as a hindrance to success of state-led industrial

policies, as argued by Pack & Saggi (2006), it has been included in the design of the MIDP, as the measures do not require a large bureaucracy and is therefore suited to the local conditions (Barnes et al. 2004, pp. 168-170).

The weak capacity of the DTI is seen in the fact that they outsource the design of the policy framework to a consultancy rather than doing it themselves, and the long time they need to conclude the details of the policies. The process of drawing up the APDP was very long and in the end led to the OEM's pressuring for answers and demands, as they needed assurances for future support in order to stay and make further investments (Interview with Anthony Black and Norman Lamprecht). While these guarantees were agreed upon and the framework presented in 2008 the details of the APDP were still not finalized in November 2011. This gives an indication of a ministry lacking in capacity.

The support measures in the MIDP are all fixed and do not include any conditional support. While a more conditional framework could potentially have put more demand on the OEM's to include more local content in the cars or a less rigid use of the IEC and thereby led to a more nuanced agreement, this has not been possible for the DTI. As it pointed out by Anthony Black: *"It is not ideal but I don't think the government has the capacity to run a more nuanced industrial policy, which I think would be ideal, but only if it did have the capacity. Otherwise it would become a mess."* (Interview with Anthony Black) This view is supported by Barnes, Kaplinsky and Morris who refer to the incentives as being "blunt" compared to the "nuanced" policies introduced in several Asian industrial policy programs (Barnes et al. 2004, pp. 168-170).

As for the fear of rent-seeking behavior of bureaucrats there is not much talk of corruption within the sector (Ibid, p. 163). Again the fixed structure of the MIDP does not leave many opportunities for corruption. Neither in the general literature or the interviews have there been any indications of the DTI and its staff not being autonomous from industry or the unions. Rather, it seems they are under pressure from the negotiation power of the OEM's and its limited capacity in staff.

This all indicates that Rodrik's rationale of applying policies that are suited to the capacity of the "administrative and human resources" has been followed. By designing an industrial policy program that takes the capabilities of the bureaucracy into the consideration, rather than simply looking at what could potentially strengthen the sector, the program has had a much more realistic approach. This, however, can

also be seen as a reminder of the potential that a better equipped bureaucracy with more funds could perhaps install a more “nuanced” set of support measures.

Have the industrial policies reflected the demands of the industrial sector?

It seems beyond much doubt that the South African automotives sector would not have survived had it not been for the MIDP. From being an isolated, expensive and inefficient manufacturing sector it has now been integrated into the global value chain by the world’s leading auto and components manufacturers, and is now much more efficient and competitive while the support has been reduced. This would not have been possible if the OEM’s were not convinced of making the much needed investments and the local companies being willing to accept the new structure within the sector.

As it has been shown the industry have been very active in pointing out the problems where they believed the government should intervene and suggesting how to do it. While acknowledging that the policy process and its results overall have been good, the fact that the different parties of the industry disagree on the success of the program underlines how difficult it is to satisfy an industry that in itself have separate actors that represent its members. In the automotives case it is particular the components manufacturers that complain that too much support is given to the OEM’s, rather than pushing for more local content in the cars, which would boost the amount of local jobs within the sector. This shows how the industry recommendations build on a consensus agreement, rather than identical interests. Roger Pitot mentions that while the OEM’s are the drivers for the sector through their investments, local suppliers contribute with twice as many jobs to the sector and more value-adding processes. This leads to the following statement of the internal relations between the different actors within the industry representatives: *“The balance of power and influence is distorted towards OEM’s in an unhealthy way. They have too much power”* (Interview with Roger Pitot). A “conflict” that is very common within the sector.

While I have focused on the specific support measures of the MIDP program it is also worth mentioning that the sector have benefitted from public investments in infrastructure, mainly new roads and the upgrading of ports. However, further investments needs to follow (Interview with Norman Lamprecht). Also the increasing factor costs, such as water and electricity prices and higher wages, influence the overall competitiveness of South African industry and therefore any evaluation of the MIDP program needs to

include the effects of the “broader industrial environment” that influence the competitiveness of the industry (Interview with Justin Barnes).

When concluding on the question it does seem that the government has been very eager to listen and try to fulfill the wishes of the automotives industry. The objections towards the program are more down to the internal differences of interest among the actors in the automotives industry, and the heavy power of the OEM’s as the leaders of the global supply chain. The future of the South African industry is uncertain and the interviewees each have different perspectives of the potential of the sector. But the targets of the MIDP that was presented by the government have more or less been achieved, due to the incentives that were offered to the industry actors. This in itself suggests that the industrial policy, the MIDP, reflected the demands of the industry.

Was the policy process right?

Overall it seems that the organization of the government representatives, industry actors and SACTWU in the MIDC has been very useful in getting a constructive dialogue. While the different actors have different interests and perspectives the MIDC has been a forum where recommendations could be passed on and discussed and it seems beyond doubt that the local industry has played a big part in the MIDP. Criteria for success have been to accept the relative big power of the OEM’s and designing policies that took the limited resources of the DTI into consideration. This has led to an industrial policy that has included the industry’s requirements and been essential in the survival of the South African automotives sector.

5.2 The clothing- and textiles sector

In the years following the liberalization of the South African market in 1995 the only industrial policy to support the local clothing- and textiles sector was the DCCS, which was originally implemented in 1989. Therefore this section will mainly be based on the industrial policy processes of designing the CSP, the quotas on Chinese imports and the Rescue Package from 2009, which were all introduced after the big decline of the sector from 2002.

Who organized and participated in the industrial policy process and is it prioritized highly in the government?

In 2004 the DTI organized negotiations for a Customized Sector Programs (CSP) in several industrial sectors, including the clothing- and textiles sector. This was the first effort for an organized national industrial policy process towards the sector that included all of the actors in the historically fragmented industry. The CSP negotiations followed shortly after clothing- and textiles clusters were established in the two regions where the industry is mainly centered, Kwa-Zulu Natal and the Western Cape, with support from the local and provincial governments. The industry-led clusters included textile manufacturers, clothing manufacturers and retailers and thereby gave hope for the industry actors putting past differences aside and work towards a broad agreement in the CSP negotiations (Morris & Levy, pp. 9-19).

With the heavy influence of South African labor unions in the political system, through COSATU's partnership with the ANC in the government, the dismissal from SACTWU to participate in the CSP process left a question mark over the negotiations. However, the negotiations proceeded with the intention of making an equivalent to MIDC in the automotives sector –The Textile and Clothing Development Council (TCDC) should ensure a close interaction between government and industry actors. The actors that were involved in the CSP process were (Ibid, p. 19-21):

The government was represented by:

- The DTI
- The Ministry of Finance
- The South African Revenue Service
- The Industrial Development Corporation¹⁵

The industry was initially represented by:

- Textiles and clothing Business Associations¹⁶.

However, soon after a Business Alliance consisting of retailers, clothing manufacturers and textile mills was established and participated in the policy process (Ibid., p.21).

¹⁵ IDC is a parastatal investment bank that is very involved in the sector.

¹⁶ Several organisations are representing the clothing and textile manufacturers. It is not mentioned directly who the participants were.

It was among these participants that a draft for a CSP program was agreed only for the Director of the DTI to sign. The program acknowledged the need for upgrading machinery and improving the skills of the workers and saw the new Textile and Clothing Development Council (TCDC), as being instrumental in proposing solutions on how to do this with support from the state. Before the CSP was signed SACTWU, however, used its access to the influential persons in government and the DTI to have the original agreement revised so it included labor market issues and changed the set-up of the TCDC. Despite negotiations that included the state and industry representatives, and also SACTWU, there was not found a satisfying compromise, as the Business Alliance felt that DTI was biased towards the demands of SACTWU. (Ibid, pp. 19-24; Jeppesen & Barnes, pp. 256-259) Thereby the CSP process stranded.

While there is naturally some contact between DTI and other relevant public institutions and the business representatives there has not been much effort to organize cooperation between state, business and labor since 2007. Morris and Levy suggests that particularly the retailers have mistrust to the DTI, which is a problem due to their role as leaders of the domestic value chain (Morris & Levy, pp. 23-24). DTI's Rescue Package towards the sector includes some of the mechanisms to upgrade technology and skills that were proposed in the CSP, but no steps of re-establishing a TCDC were included. DTI Director General Tshediso Masona complains that it is the industry that is not interested in co-operating, as close cooperation should be the way forward. As he argues: *"The decision on whether something can still be done to save the industry doesn't just depend on the DTI; it also depends on industry co-operation. It's not enough to employ the programmes we're proposing if the role players aren't co-operating, so there's still some policy work that needs to be done to forge that consensus."* (Bisseker 2009) This consensus has not been found yet, and that has had big consequences.

While the clothing- and textiles sector have been regarded as an important South African manufacturing sector, it does not seem that the government has prioritized the support of the industry sector highly, despite its claims (Ibid). At least SACTWU's demands that rules out changes in labor regulations have been prioritized over industrial policies that could support the domestic companies much needed effort to reduce the technology gap, and has not been able to bring consensus between labor and industry interests. It is suggested that the lack of stronger leaders of the value-chain than the domestic retailers, can explain the relatively low priority of supporting the industry actors. Where the OEM's in the automotives are regarded as prestigious companies that brings investments and jobs to the country and could move if their

demands are not accepted, the retailers are not accepted as important partners to develop a successful clothing- and textiles sector, but rather as enemies that should be fought, as their business model have been based on an increase in imports. The negotiation power and importance of the leaders of the automotives value chain, the OEM's, have led to the DTI's supportive industrial policy, whereas the demands from the leaders of the domestic clothing- and textiles value chain, local retailers, to improve local competitiveness have not been prioritized nearly as high (Morris & Levy, p. 26).

So the effort to establish an industrial policy process that could ensure the interaction between government, business and labor with the CSP was flawed from the outset as an important actor, SACTWU, was not participating. While the crisis in the sector have forced former competitors within the industry to become partners, it has not been possible to find a broad consensus going forward. It is particularly the leader of the all important domestic value chain, the retailers, and SACTWU that have had incompatible interests. It does not seem that the government has prioritized the sector highly, or has had any vision of how the sector should develop.

How was the cooperation between government, industry and labor organized and how did they contribute?

The lack of an organized relationship between government, industry and labor described above can be seen in the many directions that the government policies have pointed towards. While the period from 1995 to 2003 was characterized by a naïve belief that the sector could develop through exports without much investment to improve the level of competitiveness, the industrial policies that followed illustrated how industry actors and SACTWU pulled the DTI in different directions. Whereas the CSP from 2005 targeted how the government could support the local manufacturers effort to become competitive enough to be included into the retailer-led value chain, the quota on Chinese imports intended to protect the local market and thereby the jobs for the members of SACTWU. In this way the policies of the DTI reflect the fragmented state of the industry and that the DTI have not taken leadership in directing what should be the way forward.

Justin Barnes and Mike Morris who have followed the sector closely for many years and both were included in the CSP negotiations¹⁷, are both very skeptic of SACTWU's close ties to the DTI. In their view the project of having state and industry working together has been directly obstructed by SACTWU's demands, as they did not wish to participate in the original policy process, but still convinced the DTI to withdraw from the original agreement. The confusion of what role SACTWU should have differed among the involved parties. *"Business regarded labor as an 'interested party' to be consulted and incorporated in the process. The DTI regarded labor as an equal stakeholder. Labor, with its strong political connections, regarded itself as a pre-eminent stakeholder in driving sectoral policy"* (Morris & Levy, p.25).

The prominent role of SACTWU and the organizational set up that allowed them to bring the labor regulations into the industrial policy negotiations is mentioned as being the key to the breakdown of the policy process, as it meant the TCDC collapsed. The TCDC would have been essential in bringing the different stakeholders together and find common ground according to Mike Morris: *"The key thing was this governance system, the TCDC. And unless you get that into place you don't get the value chain alignment"*. (Interview Mike Morris)

When summing up it seems that the inability to form an organized collaboration between state, industry and labor has been damaging to the industrial policy process. The lack of consensus among the parties has seen the DTI trying to attend to the different agendas of the industry representatives and SACTWU, with the effect that there has not been cohesion throughout the industrial policies. Also, it seems that the unclear role of SACTWU in the policy process has played a part in the unsuccessful effort of finding consensus for the way forward. Finally, the inclusion of labor regulation discussions into the policy process blocked the negotiations on how the state could contribute to the integration of the clothing and textiles manufacturers into the retailer's domestic value chain – a topic that was avoided in the MIDP policy process.

Did the capability of the bureaucracy match the responsibilities of the industrial policies?

Over the past decade the DTI have reduced the staff working with the clothing- and textiles sector significantly. From being eleven employees in the department in 1996, there only was one staff member at

¹⁷ Justin Barnes was the main consultant in designing the framework for the CSP. Mike Morris chaired the CSP negotiations.

the time that the CSP negotiations ended, which has obviously limited the expertise and work capacity of the DTI. Also there has been a busy exchange of Directors in the department, which could indicate a lack of coherence (Morris & Levy, p. 26; Jeppesen & Barnes, p. 255). The lack of staff has the natural consequence that the DTI cannot meet with that many business representatives and get their inputs. One example is that Nick Steen who runs one of the largest textile factories in the country had not been invited to talk to the DTI for more than a year – something that went for his colleagues in the clothing sector as well according to him (Interview with Nick Steen). Against this the management of the DTI has very close relations to SACTWU who seem to have their demands included in the industrial policies.

The low work capacity has also had a direct effect on the Quota on Chinese imports policy from 2006, as the initial requests for the measure took very long to respond to. Originally the request for a quota was presented to the DTI in 2004 by the industry organization CloTrade and SACTWU. However, as the DTI did not give any indications of introducing the quotas CloTrade found an alternative way forward by working closer together with the retailers. Therefore when the DTI announced the quotas in 2006 they came too late in order to support the industry actors that had requested for it (Morris & Reed, pp. 8-9). In effect, it was only SACTWU and the textile manufacturers who supported the quotas on Chinese imports.

As it turned out the quotas did not have the intended effect of protecting and creating local jobs, as a result of keeping the cheap Chinese imports out of the South African market. The quota on Chinese imports makes a good case for Rodrik's claim that well-intended industrial policies are no good if they are "employed badly". The South African Revenue Service, who is in charge of protecting the borders, did not have the capacity to patrol the borders and search for the illegal imported products. Nor did the authorities have any ways to control whether the heavy increase of imported products from other countries was in fact Chinese products that had just gotten another label (Interviews with Brian Brink and Nick Steen). Thereby the quota on Chinese imports did not only contradict the requirements of large parts of the local industry, but also it turned out to demand more resources to be properly implemented than the public authorities could provide.

Overall the combination of a weak capacity of the DTI and the fragmented industrial sector has led to industrial policies pointing in different directions. The industry representatives object that the DTI leaves it to them to agree on industrial policies, rather than take the lead and indicate where they want the sector

to go. The lack of expertise, staff and decision power in the DTI have led to ineffective policy processes and poor policies. The request from several of the industry representatives to the DTI was to take a qualified stand in order for the situation to improve. In the words of Justin Barnes: *“The DTI must own its own industrial policy”* (Interview with Justin Barnes).

Finally, the industrial policy that was implemented, the quotas on Chinese imports, was more demanding on the public authorities than what they could deliver. The responsibility of designing a broad industrial policy for the sector has shown to be too big for the DTI with their limited capacity, just as the policy it introduced was eventually too comprehensive for the authorities to implement it in a satisfying way. Added up it seems that the DTI and the government bureaucracy was not up for the task.

Have the industrial policies reflected the demands of the industrial sector?

The South African clothing- and textiles sector have gone from bad to worse from 1995 to 2011. While the local manufacturers bear part of the blame, by not being able to adjust to the new challenges of a liberalized local and global market, the flawed industrial policies of the government have to take a huge responsibility for the tens of thousands of jobs that have been lost. As it has been shown throughout the DTI simply have not been able to include all of the relevant parties in an organizational set up that could work for the common goal of integrating the local manufacturers into the retailer’s value chain.

Despite the differences between the industry actors none of them can be said to be particularly happy with the outcome of the government policies. The lack of competitiveness of the local producers have forced the retailers to rely on imported products; textile and clothing manufacturers enjoyed the DCCS as long as the low value of the Rand secured for an increase in exports, but have eventually not been given incentives to invest in much needed new machinery and upgrading of skills; this has led to the dire state of the industry all together and with no one benefitting.

While the DTI have at times tried to meet proposals of some of the industry representatives their reply have not been decisive or delivered quickly enough. The initial steps of establishing the TCDC and bringing together government, industry and labor saw the industry actors move closer together and the DTI interacting with them in a constructive way. Unfortunately, the resistance and power of SACTWU was too big for the TCDC to become established, as this could have been the forum that unified the interests of all

of the stakeholders. Instead the quotas on Chinese imports that followed the failed CSP policy process became the symptom of the problems of the sector. It was a policy that went directly against the wishes of most of the industrial actors. The retailers were forced into finding new suppliers with possibly higher costs, and the clothing manufacturers who had requested the quotas at an earlier time opposed, as 1) the policy came too late to make a difference; 2) a better relationship was just being established between retailers and local manufacturers, and the retailers were very opposed to the quotas; 3) many local manufacturers used imported fabrics and garments in their production (Morris and Reed 2008, p.9).

The Rescue Package has been quite popular among particularly clothing manufacturers with its Production Incentive program that reward value added production with grants for investments in machinery and skills improvement. While it have stopped the job losses within clothing manufacturers in the Western Cape it will not lead to a new surge of the sector and according to Nick Steen only helps a small part of the overall sector. It is the belief of the interviewed industry representatives that the clothing manufacturers will be able to remain and further integrate into the value chain, while there is less hope for the textiles industry. However, all of them agree that the sector will never grow any recognizable exports or regain the more than 100.000 jobs that have been lost since 1995.

As mentioned the blame for the decline of the sector partly falls partly on the industrial sector, who took a long time to adjust to the challenges of the liberalized local and global market. However, the inability of the DTI to include the demands of the industry into their policies and the industrial sectors have proved disastrous in achieving the targets that was set out in 1995 of supporting the integration of the clothing- and textiles sector into value chain in the transition from a protected to a liberalized market.

Was the policy process right?

There was not much organized dialogue in the years when the clothing- and textiles sector benefitted from the low value of the currency from 1995 to 2002. This meant that the different actors in the industrial sector each followed their separate agendas, which was more likely to include cheap Asian partners, than a more expensive South African partner from another part of the sector. Unlike in the automotives industry the different industry actors were not dependent on each other, as cheaper, foreign alternatives were available. The disagreeing between the clothing and textiles manufacturers was not addressed, or understood to be an integral part of the overall problem for the sector. When there was finally made an

effort to design a broad sector policy in 2004, the CSP, it began when the historically fragmented sector was under intense pressure, which has not benefitted the negotiations. The DTI has not been able to create a forum where all the relevant actors were present, and the lack of a common understanding of the underlying problems has prevented a constructive dialogue for how the government could support the industry. The flawed policy process has led to policies that were beyond the capabilities of the government's bureaucracy and did not respond to the industry's requirements. This has been a definite factor in the heavy decline of the sector.

5.3 Concluding on the policy processes

Despite that the DTI have been in charge of the policy processes in both sectors they have followed very different courses. Where there has been a structured dialogue that included all the relevant actors in the automotives sector within the MIDC since 1995, it has not been possible to create an organized forum where the different stakeholders in the clothing- and textiles sector discuss and pass on their recommendations for the DTI's industrial policies. The coherence that characterizes the MIDP and APDP is the consequence of a well-structured relationship that builds on consensus between everyone involved and reflects the limited capacity of the DTI, the power of the OEM's and the potential of the South African automotives sector. On the other side the lack of capability, or will, of the DTI to motivate SACTWU and the industrial actors to find a common path in order to stop the decline of the clothing- and textiles manufacturing sector has led to unsuccessful industrial policies that followed different approaches.

While there are naturally numeral other reasons for the performances of the two sectors, it seems very plausible that Dani Rodrik's claim that good policy processes are a pre-requisite for a well-functioning industrial policy is very accurate when looking at the South African cases of the automotives sector and the clothing- and textiles sector. This indicates that a constructive dialogue between government, business and labor is indeed essential for the state to deliver industrial policies that can successfully support the local manufacturing industries and companies in developing countries.

6 Reflections on the applied theories and the methodological approach

The characterization and analysis of the two South African industry sectors in this paper have quite naturally been influenced by the use of Hubert Schmitz' theory on how industrial sectors in developing countries can "integrate into the global economy" and Dani Rodrik's writings on the importance of policy processes, as the theoretical framework. Also, the methodological approach has defined how the study is conducted and to what extent the conclusions on how the policy processes influence the design and outcome of industrial policies can be transferred to other developing countries.

Schmitz' theory has been very useful in defining the challenges of the sectors, just as it offers explanations on what policies should be pursued in order to overcome these challenges. As the mission of Schmitz' text is to "reduce complexity" in industrial policy, it is also implied that the framework does not include the nuances and details that make all cases unique. This is particularly seen in the use of the framework towards the clothing- and textiles sector. Due to the lack of competitiveness of the South African clothing and textiles manufacturers and the increased dominance of Asian products on the global market, it became obvious that the survival of the sector relied on the increasing the share of the domestic market, rather than integration on the global market. In that sense the recommendations in Schmitz' framework are less applicable to the main challenges that the clothing- and textiles sector have faced over the past decade.

The questions that are used to reproduce the policy processes and analyze on their influence on the industrial policies are inspired by Rodrik's theory. Rodrik's point on policy processes is part of a larger argument on how state intervention through industrial policy is a necessary alternative to the orthodox classical economic approach. And it is exactly through understanding the relations and interaction between the relevant stakeholders that the specific South African context is included into explaining the development of the two cases. Therefore the conclusions from the focus on the policy processes that are mainly based on interviews and academic articles from participants in the policy process, such as Justin Barnes, Mike Morris, Anthony and Norman Lamprecht, adds valuable explanations to the characterizations defined from Schmitz' framework and more descriptive sources. However, there are limitations to the approach, as it does not offer any explanations on why some policy processes functions better than others. Therefore the analysis does not include the perspective of what interests the government, the industry and labor unions each have in a successful development of the industrial sectors.

Using critical realism as the methodological approach means that the study must focus on something concrete that has already taken place. The study seeks possible explanations of the difference in performance between the automotives sector and the clothing- and textiles sector from 1995 to 2011 and does not deal with recommendations for how the sectors should develop in the future. Further the two cases are used to identify underlying causes for the development of the sectors. It is not the purpose to suggest that the policy measures that have been used in one sector should be applied to the other, as the context of each case is very unique. Therefore the focus of the study is on the policy process, as an underlying factor, and how it can add further knowledge on the outcomes of industrial policies.

The conclusions of the study are indeed relevant for other developing and African countries, despite of its South African context. South Africa stands out on the African continent due to its relatively advanced manufacturing sector, its status as a middle-income developing country and its inclusion into international groups such as BRICS and G-20. Therefore the specific challenges faced by the South African manufacturers, and the capacity of the government is very different from other developing countries. This means that the exact measures and details of the industrial policies are not as important, as the point that all stakeholders in an industrial policy must share a vision for the development of the sector and work towards the same goal. In this sense the use of the case studies from the South African industrial sector, is used to create further knowledge on the theoretical approach that suggests that policy processes does indeed influence the making and outcomes of industrial policies.

7 Conclusion

In this final chapter I will first answer the three sub-questions based on the analysis of the two case studies. From this I will be able to provide answer to the overall research question. Finally, I will suggest how further research can bring more knowledge to the subject of industrial policy.

7.1 Answers to the sub-questions

How has the South African government's industrial policies towards the automotives sector and clothing- and textiles sector supported the development of the two sectors?

As the two cases have shown the government's industrial policies have played a role in the ability of the two sectors to successfully integrate into the requirements of the global and liberalized local market since 1995. It is considered a fact that the South African automotives sector would not have been able to survive had it not been for the introduction of the MIDP program and the FDI it attracted. On the contrary the government's belief that the clothing- and textiles could develop by following an export-oriented approach without any state intervention to attract investments or support the local companies have contributed to the decline of the sector. Whether the structural problems of the sector were too big for any industrial policy to maintain the size of it is unknown, but it seems certain that the introduced measures to develop the industry have not been the right ones.

Overall, it seems fair to conclude that the industrial policies have played a significant role in the development of the two sectors.

How did the industrial policies match the challenges that the South African companies faced and required government support to overcome?

Having used Schmitz' framework for identifying the technology and marketing gaps within the two sectors, it has been shown that the MIDP was an appropriate response in order to overcome the wide technology and marketing gaps that were apparent in the automotives sector. By attracting investments from the OEM's to the sector the local companies have become more effective and increased their level of competitiveness. The industrial policy in many ways reflected the challenges that were obvious for the local industry actors in the early 1990'ies and have also to a very large extent included the demands of the OEM's who are controlling the global value chain.

The wide technology and marketing gap that were pointed out in the clothing- and textiles sector in 1995 were not identified in the industrial policy approach. Thereby local manufacturers did not seek to produce products higher up along the value chain and eventually could not compete with the cheaper Asian, mainly Chinese, competitors in the global or domestic market. Despite efforts from several industry actors from the industry to encourage the government to support investments in new equipment and upgrading of the worker's skills this was not included in any industrial policy until 2009.

I will therefore suggest that the better outcome of the industrial policy towards the automotives sector can be explained by the fact that the policy targeted the challenges that the local companies faced in order to integrate into the global economy.

How has the policy processes influenced the government's ability to introduce industrial policies that reflected the demands of the industrial sectors?

Even though the DTI has been in charge of both industrial policies, the policy processes have been managed very differently. All the relevant actors from government, the industry and the labor union have been included in the design of the original MIDP, and further on had frequent meetings in the MIDC, which have been the basis for a common understanding of the challenges of the sector. While there have been internal differences throughout the set-up has ensured that these differences have not led to conflict. The policy process in many ways lives up to Dani Rodrik's characterization of a good policy process, and this had led to an industrial policy that matched the limited capacity of the DTI and most importantly the demands of the different actors of the automotives sector.

Against this the DTI have not been able to facilitate a forum in which all relevant representatives could meet and work towards finding solutions that could benefit the manufacturers, the retailers, SACTWU and not least the many thousands women with little formal education who are employed in the sector. It seems that the ties between SACTWU and the DTI have been too strong, and that this has created heavy opposition from the industrial actors. This divide has made it impossible to create a constructive policy process and this has had the consequence that the industrial policies pointed in different directions. Unfortunately, the poor industrial policies are reflected in measures that could not be enforced by the public institutions, nor identified the challenges met by the industrial sector.

This suggests that in the South African case there has been a connection between how the policy processes were structured and went along, and whether the government's industrial policies targeted the challenges faced by the local companies.

7.2 Answer to the research question

How have the policy processes influenced the different approaches and outcomes of the South African government's industrial policies towards the automotives sector and clothing- and textiles sector from 1995 to 2011?

Before making the final conclusion to the research question, the pre-requisites for the study should be clarified. Firstly, while the two sectors shared the same overall challenge of increasing their competitiveness and integrating the sector into the global economy in 1995, the differences between the sectors were enormous when looking at the value-chains, market focuses, internal dynamics, international developments etc. Therefore it would be naïve to argue that the different approaches of the industrial policies can fully explain the difference in how the sectors have developed. However, it has not been the purpose of the study to argue that one approach is better than the other. Rather, by using the rationale from critical realism it has been pursued whether the policy process could be an underlying cause to designing an industrial policy that targets the relevant challenges and therefore could lead to positive outcomes. With that perspective the differences between the two sectors is only a minor issue.

Secondly, the fact that it was not possible to interview representatives from the DTI, the two trade unions or the organizers of the value chains, the OEM's and the retailers, means that I have not heard their side of the story. While I believe the articles that describes the policy processes and the persons that I have interviewed gives a true account of the events, it is very likely that the thesis is slightly biased, as the sources have mainly included the perspective of the industry actors.

With these reservations in mind and based on the answers for the three sub-questions I will claim that it has been shown that the policy processes have indeed influenced the different approaches in the industrial policies towards the two sectors, which have contributed to the different outcomes of the policies. The well-structured policy process in the automotives sector has led to a policy that targeted the challenges faced by the local industry. The MIDP has been essential in the successful integration of the local companies into the global value chain, as it has been the key to attracting the FDI from the OEM's. The

investments have been necessary in order to overcome the wide technology and marketing gaps, as pointed out by Schmitz. It seems that the ability to unite the interests of the government, the local companies and the OEM's has led to the survival of the South African automotives sector and thousands of manufacturing jobs, despite of the sector still facing big challenges in order to become competitive in the future.

The experiences have been the total opposite in the clothing- and textiles sector, which has suffered from a flawed policy process. The lack of consensus among the industrial actors internally, and most importantly the retailers and SACTWU, has left the sector without a broad industrial policy. After the DTI passively followed an EOI-approach towards the sector until 2004, the policies have since pointed in different directions, which have illustrated the fragmented state of an increasingly pressured industry. The lack of government incentives to attract investment or introduce initiatives to support the upgrading of machinery and skills, the wide technology gap, has seen the sector decline so that the products from the local manufacturers does not live up to the requirements of the local retailers. The wide marketing gap has not been targeted either - the DTI has not been able to bring the different stakeholders together and convince them that the industry would have a better chance to survive, if they all worked for the same goal. The inability to compete with the Asian competitors on the global, but most importantly on the liberalized domestic market, have had the tragic consequence of more than 100.000 jobs being lost, in a country that is already suffering to provide jobs for its population.

The main lesson that other developing countries can learn from the two South African cases, does not lie in the design of the industrial policies, due to the unique South African context and the challenges faced by the two sectors. Rather, the message is for leaders in developing countries to acknowledge the importance of making sure that before spending a large part of a limited budget on industrial policies, the government must be convinced that all relevant stakeholders share the visions and will to join forces. This builds on the argument that in order to establish competitive industries in developing countries state intervention can play an integral part. However, a well-structured and inclusive policy process is the foundation for an effective and rewarding industrial policy.

7.3 Implications for future research

The issue of power relations can add an important perspective to the studies of policy processes. While Rodrik's angle is indeed useful in illustrating how important the processes are, it cannot help to determine *why* some policy processes and industrial policies are more successful than others. Despite the efforts of having all stakeholders to negotiate in the South African clothing- and textiles sector the differences have so far turned out to be too big to overcome. This led Mike Morris and Brian Levy to suggest that Rodrik's theory on the potential benefits from bringing all relevant actors together in the policy process are not as simple, as Rodrik has made it sound: *there seems to be a large gap between the enthusiastic rhetoric championing initiatives along these lines, and the more mixed realities on the ground* (Morris & Levy, p. 1).

In order to find possible explanations for these "mixed realities" one group of theorists focus on the power relations between government and the business sector (Moore & Schmitz; Therkildsen and Whitmore). The argument goes that the design of the industrial policy and the outcome of these are determined by whether the state and the industry have a mutual interest in cooperating, or if there is a "clash of interests" that can explain why some policy processes and industrial policies have better outcomes than others. While it would demand access to important politicians and business leaders, further research in this area would be useful in order to get a better understanding of what characteristics in the relationship between state and business increases the likeliness of successful industrial policies towards selected industrial sectors. This applies for determining why the two policy processes in the South African cases turned out so different, but more importantly to better understand the potential of industrial policies in general.

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Internet links:

NAAMSA: www.naamsa.co.za

NAACAM: www.naacam.co.za

SACTWU: www.sactwu.org.za

Appendix 1 – guide for interview with Justin Barnes

- Could you please introduce yourself, your background and what you do at B&M Analysts?

Questions on the automotives sector:

- Has the automotives industry developed according to the targets set in the MIDP-program?
- What are the parameters for success?
- How has the influx of FDI and the presence of OEM's been received by the local actors?
- How has the DTI interacted with the local companies and OEM's in the process of designing industrial policies, and how have they influenced the MIDP and APDP?
- It seems there are new targets with the introduction of the APDP program. Can you elaborate on these?
- With the ambitions of the APDP in mind. What is the realistic potential of the industry?
- What methods have the government used as carrot and stick in order to support and develop the local companies?

Questions on the clothing- and textiles sector:

- How did the local industry react to the lowering of tariffs in 1995?
- There are many actors with different agendas, manufacturers, the labour union and retailers. Has this complicated the process?
- At the current time what is the potential of the sector?
- Over the years several measures have been introduced without success. Are incentives to attract MNC's needed or what is the way forward?
- The local manufacturers was still doing relatively well until 2004. Did they foresee the issues came to haunt them in the period that followed?
- Has the rescue package from 2009, which include relatively large support measures, had an impact?

Summing up:

- In general the automotives sector seems to be the most successful manufacturing sector in the country. How come the example of the sector has not been used in other sectors?
- Does the fact that it is world famous brands that are partners and can pressure the government in the negotiations make it easier to find common ground in the industrial policies towards automotives sector?
- Do you have name and contact details for relevant persons to interview?

Appendix 2 – Content of the attached cd

On the attached cd-rom the interviews with the following persons are available.

- Justin Barnes, Founding partner of B&M Analysts.
- Dr. Nick Steen, CEO Sheraton Textiles
- Professor Mike Morris, University of Cape Town.
- Professor Anthony Black, University of Cape Town.
- Dr. Norman Lamprecht, Executive manager at the National Association of Automobile Manufacturers of South African (NAAMSA).
- Brian Brink, Executive Director at the Textiles Federation.
- Mr. Roger Pitot, Executive Director at the National Association of Automotive Component and Allied Manufacturers (NAACAM).