

## **THE ROLE OF INDUSTRIAL POLICY AND THE MINERALS-ENERGY COMPLEX IN THE DECLINE OF SOUTH AFRICAN TEXTILES & CLOTHING**

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South African manufacturing has experienced a slow overall decline despite adopting a range of recommended economic policies from protectionism and active state support in the period preceding political change (1994) followed by aggressive trade and financial liberalisation and more free access to markets thereafter. Alongside interfering industrial policies, the decline has also been blamed on poor skills, out of date technology and constrained input access, increasing global competition, high labour costs and a range of microeconomic factors unique to the sector. Evidence for this is mixed. Extensive government support and protectionism on the one hand and aggressive economic liberalisation with a focus on supply side policies on the other have failed to stop this decline. Multiple academic and government commissioned studies have typically focused on single sectors or isolated causes rooted in the neo-liberal tradition. Remedies such as those listed above have followed in the same vein with a focus on correcting market imperfections within the micro-economy. These have failed to bring about noted change precisely because they ignore the dominant elements of the South African political economy. Policy and economic outcome has manifested a remarkable continuity despite political and economic transformation. This continuity refers to the interaction between individual sectors of the economy and of their differing degrees of influence over policy choices. Industrial policy studies have sought to categorise policy choices under narrow government- or market-led frameworks resulting in unrepresentative conclusions reflecting prevailing economic fashions more than the South African context. In addition, macroeconomic policy has reinforced the market operations by exposing the economy to global financial forces through stringent monetary policy (especially the detrimental floating exchange rate in the context of export competition, and tight interest rate and inflation policy making manufactures less attractive than portfolio investment).

Understanding the specific dynamics of manufacturing requires delving into what drives the South African economy and how specific sectors fit together with the underlying combination of economic and political priorities and changing external market conditions. This research aims to show how industrial policy reflects these economic and political priorities with particular focus on the dominant role of the mineral and energy complex (MEC) as a key driver of industrial and macroeconomic policy and economic performance. Core to this analysis is understanding the debate on post-war industrial policy and the false polarisation between the roles attributed to the state (import substitution / protectionism) versus the market (trade and financial liberalisation / supply-side measures) in directing policy. State driven policy is typically associated with the apartheid period and the market driven model with the new ANC government post 1994 whereas a closer look shows liberalisation began before the end of apartheid and elements of strong state involvement remain thereafter.

What emerges is a pattern where mismanaged import substitution, promotion of state owned enterprises, failed decentralisation and unsuccessful support to small and medium sized enterprises during the period preceding political change reflect the underlying presence of minerals energy complex. Though aggressive liberalisation and supply-side policies take over in the 1990's, this role associated with the minerals energy complex remains a substantial (though evolving) influence over the economy. The poor manufacturing performance and alleged policy ineffectiveness reflects a broader failure to achieve structural transformation through diversification away from natural resources and a break in the dominant class structure with a mature capitalist class in control of the profits extracted mainly from minerals and energy related sectors. How is the influence of macroeconomic (especially monetary) and industrial policy reflected in the case of Textiles and Clothing?

The Textiles and Clothing (T&C) sector (as an example of manufacturing unrelated to the capital intensive minerals-energy complex; the dominant driver of the economy and policy) is used to assess the impact of this

unique economic structure and dynamics within a changing global environment. The aim is to show that macroeconomic and industrial policy choices exacerbated the decline in employment and of the sector overall initiated by global and domestic economic changes. This is puzzling given that the T&C industry continued to receive preferential treatment through industrial policy support and exemptions or special arrangements to soften the impact of other policies (notably trade liberalisation). In addition, the low skill and labour intensive nature of T&C fits with the government's claims to prioritise employment and would reinforce the need to ensure the survival of this industry. Further consolidation from these price driven market forces comes from the increasing casualisation/informalisation of labour contracts as a response to the global price competition but also rooted in the labour struggles of the early 1980's and leading up to independence in 1994.

To summarise, explanations for the failure to arrest this decline typically fall into one of the following categories:

- State intervention *and* market (failure) have resulted in poor policy and poor implementation.
- Poor output and productivity growth of the South African economy as a whole are explained by the popular competitiveness analysis rooted in microeconomic analysis. Multiple explanatory variables such as poor skills, obsolete technology, structural and management shortcomings, organisational limitations etc. have been researched through case studies and statistical analyses. Recent supply-side policy measures are directly linked with this type of analysis.
- Developments in the global trading environment and other external market factors such as increased financialisation of the economy leading to capital outflows, changes to the global T&C value chain, new entrants to the (liberalised) markets, and a proliferation of multilateral and bilateral trade agreements have played a dominant role over and above government actions to support vulnerable sectors.

Though relevant in highlighting specific elements of the decline, these explanations suffer from a static and descriptive nature that is devoid of contextual understanding. What is missing is an exploration of the underlying political economy conditions that drive the South African economy and policy; how T&C fits into the overall political and economic priorities and in particular; and how these priorities have evolved over time. In conclusion, the paper proposes the following hypotheses:

- South African development in the 1970-2005 period does not fit under existing industrial policy theorising and definitions polarising the state and the market
- The prospects for the development of the T&C and using it as an employment sector were heavily constrained by the dominance of the capital-intensive arm of the South African economy. Any development opportunities emerging within the T&C were limited or obstructed by the priorities set in the broader economic and political context.

This paper consists of a theoretical branch analysing the combined effects of macroeconomic/ and industrial policy and the economic structure with its underlying labour and liberalisation dynamics. The theoretical analysis is highlighted by fieldwork interviews (conducted Oct-Dec 2008) with various policy interest groups ranging from trade unions, government, industry associations and business representatives.