JOURNAL FÜR ENTWICKLUNGSPOLITIK
herausgegeben vom Mattersburger Kreis für Entwicklungspolitik
an den österreichischen Universitäten

vol. XXIV 2–2008

PERIPHERE STAATLICHKEIT
Kritische Staatstheorie des globalen Südens

Schwerpunktredaktion: Ilker Ataç
Katharina Lenner
Wolfram Schaffar

mandelbaum *edition südwind*

Inhaltsverzeichnis

Journal für Entwicklungspolitik XXIV 2-2008, S. 92-115

Oliver Schwank

Limits to a Developmental Regime in South Africa – Industrial Policy Revisited

1. Introduction

The recent shift in South African economic policy towards a more interventionist regime and the ruling African National Congress's (ANC) self-proclaimed transformation of the South African state into a developmental state have sparked new academic interest in the concept of the developmental state within the South African context. So far the main theme of this debate has been the question of viability: is the South African state capable of implementing an interventionist policy in a coherent way? Thanks to the publication of the National Industrial Policy Framework (Department of Trade and Industry 2007a) in mid-2007, I would argue that it is now possible to address this question by examining South Africa's industrial policy – a core feature of the emerging developmental state.

This paper aims to shed light on whether South Africa has the capacity to be developmental while at the same time broadening the debate by tackling conceptual issues. The theoretical ambiguity of the notion of the developmental state leaves ample room for interpretation. In a political context, this ambiguity can be exploited by competing factions, as evidenced in the ongoing internal conflict in South Africa's ruling party, which culminated in the change of much of its leadership in December 2007. In other words, the developmental state means different things to different people, and these contrasting interpretations have played a significant role in South African party politics. In order to understand these debates, we must look at the underlying class interests and the accumulation regime that have shaped them. An analysis of South African industrial policy will show that conflicting interests have led to an incoherent policy – a major shortcoming given that policy coherence is a key criterion of any successful developmental state.

I begin with a brief critical overview of the origins of the concept of the developmental state in chapter 2, mainly referring to the classic studies of East Asian industrial development which first drew attention to the idea. Chapter 3 situates this discussion within the South African context, describing the ANC's policy changes since 2001 and reviewing the academic debate on this shift. There is a fair amount of scepticism in the literature with respect to both the relevance of the concept within the South African context and the capacity of the South African state to perform a function similar to that of the East Asian prototypes. I pick up on these perceived constraints and re-examine them in chapter 4, in which I present my case study on industrial policy in South Africa.

2. The Developmental State in Development Theory

The notion of the developmental state was first introduced by Chalmers Johnson in his landmark study of trade and industrial policy in Japan (Johnson 1982). In it he defines the Japanese state as a plan-rational or developmental state, differentiating it from the market-rationality of the United States (ibid.: 18ff). According to Johnson, a developmental state leads the industrialisation drive of the economy by pursuing strategic social and economic goals, usually with an emphasis on industrial policy. "In the plan-rational state, the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances international competitiveness." (ibid.: 19). Johnson further asserts that a regulatory state like the US does not place emphasis on industrial structure, instead limiting itself to defining and monitoring the rules of the market process.

Following Johnson, a number of authors have stressed the state's crucial contribution to growth performance, for example in East Asian countries like Taiwan and South Korea. The seminal works are Amsden (1989), Wade (1990) and Evans (1995), and an overview is provided in Chang (2006). This literature generally addresses two main questions: (1) What kind of interventions resulted in the phenomenal growth rates in these countries, and (2) Under which conditions did the incumbents choose to adopt and implement this set of policies successfully? Fine (2006: 103ff) uses these two guiding questions to divide the literature into an economic school focussing on the former question and a political school mainly concerned with the latter. Although authors of both schools would probably claim to have a broader research agenda, this distinction is useful for a brief summary of their main ideas.

2.1 The Economic and Political Schools

Alice Amsden, whose work shall serve as an example of the economic school, posits the theory that development is about increases in productivity that are potentially greatest in manufacturing. This is why developmental states like South Korea have subsidised the entry of entrepreneurs into the secondary sector at an early stage (Amsden 1989, 2001). As the market process would not have led to diversification, due to a number of market failures, the policy makers deliberately had to "get prices wrong" (Amsden 2001: 10), thereby creating incentives that facilitated manufacturing investment. For developing countries, the market failures most commonly identified in the literature are information and coordination externalities. The former relate to the uncertainty of entrepreneurs with regard to the profitability of new investments, the latter to the necessity of simultaneous, large-scale investments to make individual activities profitable (e.g. Rodrik 2007: 104ff). Developmental states attempted to overcome these market failures through interventions in the form of developmental banking, subsidised credits in targeted sectors, and managed trade that combined import substitution and tariff protection with export subsidies. Crucially, support was always linked with policy standards (e.g. local content requirements) and performance standards. The latter, best exemplified by minimum export requirements, guaranteed efficient production, and a failure to comply with them resulted in a withdrawal of support. All contributions by the economic school identify an interventionist industrial policy at the heart of a set of policy interventions that led to rapid economic growth, with macroeconomic, trade and welfare policies supporting the industrialisation strategy. The latter, a 'productivist' social policy (Holliday 2005), focuses on welfare measures that contribute to growth, in particular in education and public health (see Leubolt/Tittor in this volume).

While the pursuit of industrial policy and trade policy, such as the import substitution strategy, was by no means geographically limited to East Asia, few other developing countries which have implemented such policies can boast a comparable growth performance. Within the political school, authors such as Evans (1995) and Kohli (2004) attempt to understand why some states were so successful while others failed. The key issues under consideration are policy coherence and state capacity. Firstly, they relate to the state's capacity to define and pursue narrow goals – industrialisation and rapid economic growth – that lead to a coherent development strategy and economic policy. Secondly, the successful implementation of policy in turn relies on a competent and capable bureaucracy, based on a meritocratic civil service regime, and a pilot agency that coordinates economic policy across all government agencies (e.g. the MITI in Japan, the Economic Planning Bureau in Korea). Since the state is analytically viewed as an actor in its own right, both authors take into account the state's relation to society and classes. Evans coins the term "embedded autonomy", which captures the state's autonomy from particularistic interests, i.e. its ability to resist the pressure of influential groups with access to the corridors of power, and its simultaneous responsiveness to the needs of industry (Evans 1995: 50). The concept of autonomy refers specifically to the state's dominance over private capital, allowing it to withdraw support from a certain sector or company if that is perceived necessary for the economy as a whole. If it were merely a reflection of capitalist interests, it would not be able to prevent such 'rent-seeking' activities. On the other hand, embeddedness describes the close cooperation and manifold ties between state and business that allow the state to elicit information from the private sector and to "orchestrate their activities" (ibid.: 53). Kohli on the other hand asserts that successful developmental states usually pursue industrialisation and rapid economic growth in an elitist alliance with producer or capitalist groups. This alliance often comes at the expense of labour, which finds its demands suppressed by an authoritarian regime – notwithstanding those social policy initiatives that are judged to contribute to growth (Kohli 2004: 10).

2.2 Towards a more explicit recognition of class influences and the accumulation regime

There are two critical omissions that Fine observes in the developmental state literature: an absence of class analysis, particularly visible in Evans' notion of state autonomy, and a lack of consideration of the specific system of accumulation in place – the "sectoral composition and level of investment, financed and coordinated through private and public institutions […] specific to each country, reflecting its history and dynamic as well as its evolving class structure" (Fine 2006: 115).

Kohli attempts to rectify the omission of class by emphasising the significance of the alliance between South Korea's capitalist class and the South Korean state under Park Chung Hee (in power from 1961 to 1979), in which the state played the dominant role. Under this regime, labour was tightly controlled and political mobilisation was suppressed (Kohli 2004: 96ff). Fine and Rustomjee (1996: 46) agree with this description of the class nature of the Korean state, but they also show how pressure from below was influential in the land reform. The developmental state therefore needs to be situated in a conflictual context where policies invariably "have class biases either in their purpose or in their unintended outcomes. Some classes or groups become beneficiaries while others are alienated" (Cho/Kim 1998: 130). Furthermore, state autonomy itself is a function of social and class conditions and not merely of bureaucratic competence. In a developmental context, it depends on the potential for resistance of the working class and peasants and that of the old ruling class, presumably uninterested in change, and on whether a developmental alliance can be formed with capitalist groups (ibid.: 131). Thus, conflicting class interests shape state institutions and policies and also determine the extent of state autonomy.

With regards to South Korea's accumulation regime, "the state's near-exclusive commitment to high growth coincided with the profit-maximizing needs of private entrepreneurs" (Kohli 2004: 12f). The domestically owned and diversified chaebols were mostly responsible for real accumulation, and government policy ensured domestic investment opportunities and their profitability in targeted sectors. At first, this mainly applied to labour intensive sectors such as textiles, but in the 1970s the government also orchestrated a push into heavy industries such as steel and ship-building, which again served the interests of large-scale domestic capital and further marginalised other sections of business (Fine/Rustomjee 1996: 46; see also: Cho/Kim 1998: 144).

In this light, neither state capacity and policy coherence nor economic policy choices can be analysed in isolation from the specific system of accumulation and the class relations in an economy. The latter shape institutions and policy choices and thus certainly help to explain the existence (or absence) of a coherent strategy and the expertise and capacity (or lack thereof) of different government agencies.

3. The Developmental State arrives in South Africa

Based on this literature, the definition of a developmental state is often based on a list of interventionist economic policies, and industrial policies in particular, as well as an analysis of the state's capacity to implement them coherently. However, a critical reading reveals that such an analysis must be placed within the context of a broader view of class relations and the accumulation regime within an economy. I will try to show that this analytical ambiguity is reflected in the controversial use of the concept in South Africa.

3.1 The evolving strategy of the ANC

In the mid-1990s the emerging economic strategy of the first African National Congress (ANC) government encouraged little debate on the notion of South Africa as a developmental regime; their strategy was too firmly rooted in a discourse of macro-economic stabilisation that left little room for an activist state. The publication of GEAR (Growth, Employment and Redistribution) as a cornerstone of economic policy confirmed the rather narrow understanding of this stabilisation approach – fiscal restraint and inflation reduction accompanied by a liberalised trade regime (Department of Finance 1996). GEAR closely resembled the economic strategy recommended by big business within South Africa and favoured the interests of domestic and international capital. In a convincing interpretation, Gelb describes GEAR as one side of an "implicit bargain" that delivered white business's support for the new democratic dispensation in exchange for a racial restructuring of asset ownership (Gelb 2005: 369).

Unsurprisingly however, this strategy met with stiff opposition from the ANC's alliance partners on the left – the COSATU trade union federation and the Communist Party of South Africa (SACP), exponents of which were later labelled 'ultra-leftist' by Mandela's presidential successor, Thabo Mbeki. The criticism never subsided, fuelled by a very mixed performance of the economy. While inflation and budget deficits came down, growth remained well below expectations. Contrary to the governments' predictions, private and foreign direct investment did not pick up and massive job losses, particularly in manufacturing, led to an ever-rising unemployment rate. As a result, social protests over delivery increased sharply, particularly after the second democratic election in 1999, and gave critics of GEAR more leverage (Ballard et al. 2006: 397).

In response, the ANC shifted its priorities, and the change became noticeable in more expansionary budgets after 2001. These were loudly trumpeted in the election campaign and the pre-election budget of 2004, which promised to halve unemployment and poverty in the country's second decade of democracy. A more activist state was supposed to increase public expenditure, particularly investment in infrastructure, and revitalise rather than privatise public enterprises, as well as further boost social and welfare spending (Daniel et al. 2005: xxiii). While these changes are often interpreted as a logical next step in government – macro-stabilisation followed by micro-economic reform and targeted intervention – in this case they also clearly signalled a change in course. The ANC's key strategic documents indicate that it has now committed itself to building a developmental state. This state aims to mobilize society and gain a strong popular mandate in order to drive change and attain "sustained development based on high growth rates, restructuring of the economy and socio-economic inclusion" (African National Congress 2007: n.pag.). The declared intention of this developmental state is to develop the resources to formulate the national agenda (e.g. a growth strategy) and implement policy throughout government spheres.

In terms of economic policy, this agenda has been most clearly laid out in the government-led Accelerated and Shared Growth Initiative (AsgiSA), which is supposed to remove the binding constraints that prevent the economy from achieving growth rates compatible with its ambitious socio-economic goals. The most prominent interventions include increased infrastructure investments, an industrial policy with detailed sector strategies, the addressing of capacity issues within the public sector, skills development and the stabilisation of the exchange rate (The Presidency 2006).

Since 2004, non-interest spending by the central government has increased annually by an average of more than 9%. The bulk of the money has gone into increased public investment, both by the government itself and by public enterprise, the latter being the fastest growing position, rising annually by almost 20% in real terms (The Treasury 2007: 46f). In addition to roads and public transport infrastructure, this area also covers increased spending on social infrastructure, such as health facilities, schools, public housing, and access to electricity and water for poor communities. Social expenditure is thus geared towards increasing productivity levels. The government's vehement resistance to a monthly basic income grant, which would, according to various statements, establish a 'culture of dependency', is further indication of a 'productivist' social policy typical of developmental states. However, despite increased spending, service delivery has not always kept the pace, as many critics have pointed out, and as the Treasury readily admits in its own assessment (ibid.: 49). Capacity problems within the relevant parts of the public sector – particularly the provincial departments of health and education – are responsible for poor delivery.

State-owned enterprises (SOEs) are considered key actors in the more interventionist strategy and have received budget boosts since 2004 that have allowed them to address infrastructure backlogs in electricity (by the electricity provider Eskom) and road and public transport infrastructure (by Transnet, which is responsible for South Africa's ports and railways). The state's attitude towards SOEs is quite telling in the context of strategic shifts in economic policy. Once a cornerstone of the apartheid regime's plan to achieve economic self-reliance (discussed in more detail in the next section), these businesses were partially privatised towards the end of the 1980s when a black dominated government became an increasingly likely prospect. Under the banner of GEAR, the ANC vowed to continue this policy; however, it preferred to label it 'restructuring' and aimed for the mobilisation of resources, increased efficiency, international investment and the diversification of ownership in the national economy through sales to black-owned companies (Southall 2007a: 208). For various reasons, real progress has been slow, and in 2004 the minister of public enterprise, Alec Erwin, announced a "major investment and efficiency programme" for SOEs in keeping with the general shift to a more interventionist policy, along with a pledge to spend 165 billion Rand "to address chronic backlogs" (ibid.: 219). Quite characteristically, the SOEs are also supposed to be drivers of change and transformation, providing opportunities for aspiring black professionals through affirmative action hiring and for black-owned companies in their procurement policy.

Another core aspect of AsgiSA is its pledge to implement sector strategies that provide targeted support for prioritised sectors. As a result, the cabinet adopted the National Industrial Policy Framework (NIPF) in January 2007. It was released to the public in August 2007 and will be analysed in the following section on industrial policy.

One last point worth mentioning here is the coordination and centralisation drive of the government under the auspices of President Thabo Mbeki, as it relates to the state's capacity to formulate and implement policy in a coherent way. Under Mbeki's reign, the Presidency became the coordinating and guiding unit within the government and steadily extended its influence over policy formulation. Additionally, departments were organised in clusters to align programmes and implementation (Makgetla 2005: 12). Together with interventions to improve skill levels of civil servants and efficiency in service delivery, these initiatives clearly aim to replicate the capable bureaucracies that were characteristic of East Asian developmental states. While these efforts were positively received by cabinet ministers (ibid.), the concurrent centralisation of decision making within the ANC was far more controversial. It caused major discontent among ordinary ANC members and was an important reason why Mbeki lost the party's presidency to his bitter rival Jacob Zuma in December 2007.

3.2 Problems of implementation?

In a first critical assessment of South Africa's attempts to become a more developmental state, a number of authors have pointed out stumbling blocks that could derail the project. Most prominently, and in line with the general view of developmental state scholars, they point out limits in the state's capacity to implement policy, as well as a general lack of coherence in policy.

Capacity problems abound in large parts of the public sector and the resulting failures in service delivery are explicitly acknowledged by the government (The Presidency 2006). They are most visible in the failure of provincial and national departments to spend allocated budgets and in the large number of unfilled positions in the higher management echelons of public administration (Hamlyn 2007). They are however not uniform, neither across government agencies nor across regions. The National Treasury, at the heart of successful macroeconomic stabilisation efforts since 1994, is an oft-cited example of administrative excellence within government. It contrasts starkly with other departments which were not able to stamp their authority on government policy to such an extent – I will come back to this issue in chapter 4.

Nonetheless, the existence of capacity problems is not altogether surprising in light of South Africa's history. Public service delivery was extremely uneven during the apartheid years, and the notorious education policy led to a vast shortage of skilled workers. This shortage is most acutely felt in the public sector, which not only aspires to become more efficient, but also more representative (Southall 2007b: 6). If there is an equity/efficiency trade-off, this might be indicative of a broader dilemma for the ANC: does its democratic tradition and its aim to transform South Africa into a truly democratic society stand at odds with the single-mindedness and coherence of the archetypal developmental state? In more controversial terms, is there a democracy/growth trade-off? Kohli emphasises this point: "[An] element of 'ruthlessness' or of coercion in its various forms has also been omnipresent in the most successful cases of rapid industrialization in the contemporary developing world. The normative implication then is to treat with suspicion claims that trade-offs are not necessary and that all good things can readily go together" (Kohli 2004: 422). The broad-based alliance that governs South Africa certainly cannot and does not intend to pursue industrialisation and economic growth as its only policy goals. The racial transformation of the public sector is one example of this, and progressive labour laws are another.

Perhaps more importantly, the structure of South African capital bears little resemblance to that of East Asian countries. It was and continues to be shaped by the mining industry and big business, and therefore has a very different outlook. It is certainly more outward-oriented and therefore less inclined to favour domestic industrialisation (Makgetla 2005: 6). While the ANC is aware of the powerful and antagonistic interests that pervade the South African socio-economic landscape, there seem to be different approaches to achieving policy coherence within the party. While the left argues for mass mobilisation of the working class and the poor and a strengthening of the party base to ensure hegemony for these forces (SACP 2006: 29ff), others strike a distinctly different chord. Alec Erwin, the minister of public enterprise and an influential member of Mbeki's cabinet, argues for the mobilisation of "a *multi-class* political force capable of designing and effecting a strong state" (Erwin 2007: n.pag., emphasis added). He asserts that, in the context of a globalising economy that constantly reduces policy space for nations while weakening local capital and the working class, national development can only be fostered by an alliance between these forces under the leadership of a strong state. Thus, there are different visions of the developmental state within the governing alliance, and the concept of development is vague enough to accommodate both those who aim to reduce the costs of doing business by eliminating binding constraints for investors and those who aim to alter the development trajectory of the South African economy by breaking the alliance between state and capital. While both of these camps want higher growth to tackle unemployment and poverty, their visions of how to achieve this goal are radically different.

The leadership struggle within the ANC, which saw the leftist candidate Jacob Zuma's ascent to power, is indicative of the conflicting visions of a developmental state within the ANC. As a result of internal upheaval, Mbeki and other key proponents of the '1996 class project' (a term the SACP uses to describe the neo-liberal turn of the ANC that culminated in the 1996 publication of GEAR) were relieved of their positions by the party base and replaced by a more left-leaning leadership. However, the battle is far from over and differing ideas and interests within the party will likely continue to be reflected in an incoherent policy. In this light, incoherence is better perceived as a result of conflicting class interests, as exposed in the above examples, than simply as a weakness of the state.

In the following case study on industrial policy, I try to illustrate South Africa's attempts to become a developmental state and 'the problems it has encountered along the way'. As I attempted to illustrate in the general discussion above, these problems are related to issues of capacity and coherence, issues which cannot be fully grasped without considering the peculiar design of South Africa's accumulation regime.

4. Industrial policy in South Africa – A case study

An interventionist industrial policy has undeniably formed the core of all East Asian developmental states. This means that an evolving range of sectors have been targeted over time and vigorously supported through an array of policy measures – from R&D support and subsidised credit to direct state involvement by public companies. South Africa's apartheid regime adhered to a comparable industrial policy when it supported and essentially created industries such as iron and steel, and, later, heavy chemicals. As was the case in East Asia, the ultimate aim of South Africa's policy was to preserve national security. However, while East Asian industrial policies successfully generated jobs and economic growth in the process, South African policy makers' focus on the white population and on economic and, more importantly, military self-sufficiency created different incentives. The resulting interventions were massive and continue to shape the South African economy. Therefore, any account of a South African industrial strategy must first consider the specific historical development of the country's industrial sector and industrial policy.

4.1 Industrial development until 1994 – dominance of the minerals-energy complex

South Africa's economy was built around the mining sector, and many of the structural features which characterise South Africa today can be traced back to the 'mineral revolution' of the 1870s when gold was first discovered in the region. Due to the depth of the mines, the exploitation of minerals was a very capital-intensive undertaking, requiring expensive exploration operations and elaborate and energy-intensive physical and chemical processes. This resulted in an early consolidation of ownership in the industry, while backward linkages fostered growth in coal mining and electricity generation, chemicals (explosives) and a range of other industries (Feinstein 2005: 101ff). The evolution of the South African economy around the mining sector has inspired Fine and Rustomjee (1996) to coin the term 'Minerals-Energy Complex', or MEC. By MEC they mean the mining sector and the tightly integrated sectors built up around it: "Coal, gold, diamond and other mining activities; electricity; non-metallic mineral products; iron and steel basic industries; non-ferrous metals basic industries; and fertilisers, pesticides, synthetic resins, plastics, other chemicals, basic chemicals and petroleum." (ibid.: 79). They interpret the MEC as a system of accumulation that can explain the structure of South African industrialisation. This system is central, not only due to its input-output linkages, but because of its specific ownership structure and its relation to the financial sector and state. In mining, ownership was highly concentrated, but the mining conglomerates' economic control also extended to manufacturing and – crucially – the financial sector, leading to oligopolistic or monopolistic structures in many sub-sectors, as well as an extremely high overall ownership concentration.

The South African state reinforced these developments by establishing state-owned corporations such as Eskom (electricity, founded in 1923), Iscor (steel, 1928) and Sasol (petrochemicals, 1950), and by encouraging joint ventures with the private sector. State investment and support was mostly concentrated in capital-intensive sectors linked to the MEC, where skilled and highly paid white workers would find jobs (Black 1991: 159ff). The massive expansion of Sasol's capacity to produce oil from coal in the late 1970s – when talk of economic sanctions grew louder – was certainly motivated by concerns over energy supply as well. While attempts were made to support manufacturing sectors such as textiles by means of a tariff policy, these measures lacked coherence and proved far less effective and important than support for the MEC (Fine/Rustomjee 1996: 191). The problem, of course, was that the MEC was capital intensive, and this led to a quite paradoxical production structure in a country with an abundant supply of unskilled labour.

4.2 Industrial strategy since 1994 – more of the same?

South Africa's production structure as a capital intensive biased minerals economy with relatively weak and inward-oriented light manufacturing industries would clearly have an impact on policy choices after 1994. However, an analysis of the development of the South African economy should also take into account the ANC's broader economic strategy. As described above, macroeconomic stabilisation loomed large in policy makers' minds and certainly took precedence over any sector-specific interventions. An 'inward industrialisation' path, geared towards a growing domestic market, and financed domestically by fiscal expansion and/or redistribution of income, was thus never seriously considered. Quite to the contrary, the ANC took early measures to open the economy through tariff reductions in an attempt to foster the global competitiveness of South African firms. Increasing exports from manufacturing would address both unemployment and the chronic balance of payments problems that plagued the economy.

Within this framework, the ANC was faced with the choice between an industrial policy that supported either "smaller businesses and pre-reform uncompetitive labour-absorbing sectors [or] policies designed to exploit existing comparative advantages and bigger projects" (Hirsch 2005: 122). As a clear and coherent vision is considered vital to industrial policy, it is telling that the actual outcome was more of an "unresolved compromise" (ibid.). Indeed, authors assessing trade and industrial policy in this early phase place emphasis on the liberalisation drive in trade policy. South Africa was a founding member of the WTO in 1995 and implemented a simplified tariff structure and an overall reduction of tariffs. Trade liberalisation was combined with a range of general – i.e. non-sector-specific – supply side measures in order to boost international competitiveness and exports. These included export credit guarantees and support in market, innovation, research and development. However, it appears that firms have not frequently taken advantage of these measures and this has limited their effectiveness (Kaplan 2004: 626).

One notable exception to this pattern is the automotive industry. The Motor Industry Development Programme (MIDP) managed to retain production in South Africa amidst a significant reduction of tariffs, helping producers achieve international competitiveness. Moreover, there are significant linkages to other sectors, due to local sourcing incentives (Roberts 2005: 28). The success of this sector, however, is exceptional and has not been repeated in other sectors where firms place little importance on the Department of Trade and Industry's (DTI) strategies (Kaplan 2004: 627).

At the same time, there has been well-funded support in MEC sectors. The Strategic Industrial Projects programme, implemented by the DTI between 2002 and 2005, provided tax relief for large investment projects which were mainly concentrated in heavy industry (Roberts 2005: 25). The same is true for the lending of the Industrial Development Corporation (IDC), South Africa's main development bank and holding company. It has historically supported industries close to mining and continued this pattern throughout the 1990s (ibid.).

Not surprisingly, most assessments attribute limited success to industrial policy. In recent years, South Africa has certainly failed to significantly develop manufacturing capacities outside the MEC and limited pockets such as auto components. At the same time, previously registered trends, such as rising capital intensity and job losses in labour intensive manufacturing sectors, have persisted. A number of case studies find the following recurring pattern in the chemicals and plastics, metal products and other sectors: while upstream industries located in the MEC are well developed and internationally competitive, downstream sectors with linkages to the former – and which are potentially more labour-intensive – are not developed accordingly (Machaka/Roberts 2003; Roberts 2006). In the sectors of both iron and steel and chemicals, South Africa profits from its mineral endowment. Earlier governments built up these scale-intensive industries through state owned companies (Iscor and Sasol). While each of these was privatised before 1994, they continue to dominate their respective sectors. This dominance results from scale effects but also from continued investment (often with government support) and ongoing technological development. However, the comparative advantage of South Africa's resource endowment is not passed on to downstream producers. Both steel and basic chemicals producers engage in import parity pricing. They charge local customers an import parity price that is just below the one they would have to pay for the imported product. Firms in the metal products and plastics sectors then struggle to become internationally competitive and perform disappointingly in terms of investments and job creation.

I would like to conclude this review of the first ten years of industrial policy with a self-assessment by Alan Hirsch, the former Chief Director of the DTI: "It is probably fair to say that government is haunted by the nagging feeling that we could have and should be doing more. Surely we know enough to be able to identify some key sectors that can grow faster with effective policies" (Hirsch 2005: 160). This statement must be understood within the context of a gradual shift in emphasis towards a more interventionist policy that targets sectors explicitly and on a broader basis. This policy is most clearly laid out in the National Industrial Policy Framework, as analysed in the next section.

4.3 The National Industrial Policy Framework – a way forward?

The NIPF must be examined within the broader context of AsgiSA, which at the time it was implemented already contained explicit references to this yet-to-be-published document. Just as AsgiSA provided a framework for the overall growth strategy, the NIPF lays out a vision for South Africa's industrial development and intends to be *the* point of reference for all stakeholders in the process. Most importantly, this includes other government agencies and private business. Through the publication of this document, the DTI seeks to achieve better coordination within government to provide the necessary coherence in industrial policy and to offer the private sector security regarding the direction of policy.

The document begins with a critical appraisal of industrial policy since 1994, admitting that, amongst other shortcomings, "sectoral programmes to restructure the industrial economy [..] were generally not of a sufficient scale to induce the necessary structural change." (Department of Trade and Industry 2007a: 13). It further states that, in order to "facilitate diversification beyond our current reliance on traditional commodities and non-tradable services" (ibid.: 6) and move towards tradable, labour-absorbing goods and services, South Africa cannot rely on market forces alone but has to implement an interventionist strategy based on an analysis of concrete constraints and opportunities. The DTI thus rejects the 'one-size-fits-all' approach of the Washington consensus and considers this the main lesson to be learnt from the successful development trajectory of the newly industrialised East Asian countries, thereby locating itself firmly within the discourse on developmental states.

Furthermore, interventions are to take place on a sectoral level and in cross-cutting issues that concern the whole economy through Key Action Plans (KAPs), and will always be preceded by consultation with business and other stakeholders in a so-called "self-discovery process" (ibid.). The KAPs comprise detailed benchmarks to evaluate outcomes, name the stakeholders responsible for implementation and put specific timeframes on expected completion. Although the NIPF itself does not intend to pick sectors (its focus lies on defining procedures), a number of priority sectoral groupings with potential are identified. The handful of priority sectors that will eventually be chosen for support every three years should mainly be found within these groupings. These are natural resource-based sectors, medium technology sectors, advanced manufacturing sectors, labour intensive sectors and tradable services (ibid.: 19) – a broad selection by all measures.

The first round of action plans, which is intended for immediate implementation, focuses on the following four lead sectors: capital and transport equipment and metal fabrication; automotives and components; chemicals, plastics fabrication and pharmaceuticals; and forestry, pulp and paper and furniture (Department of Trade and Industry 2007b). In both the metals and plastics sectors, the uncompetitive pricing of inputs is identified as the major constraint, and in both cases a review of tariffs on upstream products is suggested. With regard to steel and aluminium, the KAP also foresees a strengthening of the competition act. The public infrastructure investment programmes, in particular the spending of SOEs, also come under scrutiny, as the DTI intends to commit relevant actors to a higher level of local content in their procurement. Policy in the automotives and components sector is driven by the Motor Industry Development Programme, which expires in 2009. The DTI has committed itself to a continuation of sector support and announced the publication of a replacement programme that intends to help firms double production by 2020. Finally, the labour intensive forestry sector could provide jobs in poor rural communities. Technical and financial support should enable small growers to participate in the growth of the industry.

The cross-cutting issues that are to be tackled immediately include the improvement of the industrial financing system, the leveraging of public procurement, the reduction of intermediate input costs, and the improvement of research and development support, infrastructure and skills development.

4.4 A first – tentative – evaluation

The public reception of the NIPF was decidedly mixed. While it drew applause from some quarters, it was met with scepticism and severe criticism in others. It is certainly too early to make a definite statement about the policy; however, a review of recent developments and an interpretation of the policy's aims within the context of South Africa's growth trajectory permit a tentative assessment.

The publication of the NIPF has definitely put industrial policy back in the spotlight. First steps are being taken toward implementation and a comprehensive review of tariff protection for upstream industries is already under way. In timely coincidence, the Competition Tribunal has fined Arcelor Mittal Steel, South Africa's dominant steel producer, 700 million Rand for excessive pricing. The DTI also gave first broad indications of how support for the automotive industry will look when the original MIDP expires. The revised programme will be published in August 2008, but support has been pledged until 2020.

The MIDP and its successor programme can also serve to illustrate one of the major concerns – that of DTI capacity, or lack thereof. The review of the programme started in 2005, but publication of its results and the revised programme have been repeatedly postponed, much to the dismay of car producers and critics who have urged the government to provide clarity. Many interpret this as a sign that the DTI still faces severe capacity constraints. This is a long-standing problem to which the DTI itself cautiously admits: "[C]apacity to formulate and implement high-quality industrial policy interventions has been uneven across government departments" (The Department of Trade and Industry 2007a: 28).

In addition to in-house capacity, the implementation of an industrial strategy requires close coordination across government agencies; in other words, the capacity of a nodal agency to drive policy. The sectoral and cross-cutting Key Action Plans invariably involve a number of different departments, agencies or SOEs that should play their part in implementation. Whether the DTI has the clout to be this agency in South Africa remains to be seen. It is an open secret that the National Treasury is less than convinced of the merits of an interventionist industrial policy. Its response to the publication of the NIPF has been lukewarm, and in his medium term budget policy speech before parliament in November finance minister Trevor

Manuel told parliament that, in order to diversify its exports, South Africa would have "to ensure that competition is fostered through tariff simplification and reform." (Manuel 2007: 6) The corresponding policy statement contains an explicit critique of high levels of protectionism in the auto and textiles industries without even mentioning the NIPF (The Treasury 2007: 22). If coherence is one of the pillars of success of East Asian industrial policy, South Africa will in all likelihood fall short of meeting this criterion. For now, the Treasury continues to subscribe to an economic policy vision that views sectoral targeting and tariffs with suspicion. A further indiscriminate liberalisation of the trade regime would, however, benefit sectors with an existing comparative advantage, i.e. those close to South Africa's resource endowment, while making diversification as envisioned by the DTI even more difficult.

A similar argument could be made with regard to macroeconomic policy. The DTI is not alone in its call to alter monetary policy strategy in order to provide South African exporters with a more competitive exchange rate. However, the independent Reserve Bank's inflation targeting policy – which has caused high interest rates and an overvalued currency – is not under review. And while state expenditure has indeed increased over the last few years, the Treasury remains cautious in its policy stance, budgeting for a surplus for the period from 2008 to 2010. So far there is no indication that industrial policy as laid out in the NIPF will also govern the decision making of these key economic policy institutions. This implies that a more conservative interpretation of the developmental state continues to hold sway in South Africa.

The recent changing of the guard in the ANC could alter the balance of forces in government over time. In light of some of the policies the DTI promotes, this is probably a prerequisite for success. The first sector strategies target downstream industries such as plastics and they will inevitably have to tackle the monopoly power of upstream suppliers. The announced reduction of input tariffs will not suffice in this regard, and this might also be true for the strengthening of the Competition Act. Chang argues that a purely legalistic approach to competition policy is unsuitable because it is a long and costly process (Arcelor Mittal will of course appeal its fine in the Competition Appeal Court), which moreover does not achieve what South Africa needs most from its conglomerates: increased domestic investment.

He advises a more hands-on approach, controlling outward investment and striking deals to increase domestic engagement (Chang 1998: 68f). This brings us back to the structural features of South African capital, which differs markedly from its counterparts in other aspiring developmental states. "Where the developmental states of Asia faced national capital groups that saw industrial growth as their main road to profit, key sectors of South African capital saw their future in mineral investments abroad." (Makgetla 2005: 6). So far, the interests of mining and financial capital have been well served by economic policy – the immediate opening of capital markets in 1995 and the conservative monetary policy regime are obvious examples.

If the DTI is to achieve its objectives of industrial diversification and higher growth in tradable goods sectors, then macroeconomic policies will have to change as well – notably in the form of a more competitive exchange rate. This further implies a change in the financial system, gearing it to the needs of industry rather than those of international and domestic financial investors. The NIPF only tentatively addresses these issues and they indeed sound rather ambitious. However, a changing of the growth trajectory of the South African economy will always be an ambitious project. A different policy outlook by the new ANC leadership might lead to bolder proposals and a more vigorous implementation in the future.

5. Conclusion

The aim to transform South Africa into a developmental state is shared by all constituencies within the ANC. This goal therefore serves as a rallying point upon which all its members can agree. However, similar to the strategic concept of the National Democratic Revolution, its interpretation is fiercely contested. While some merely consider the developmental state a competent state that can intervene in targeted areas to reduce the cost of doing business in South Africa, the left subscribes to a different interpretation, based on which a progressive developmental state would have to alter the capital-intensive growth trajectory of the South African economy and therefore clash with the entrenched interests of capital.

This case study on industrial policy has reaffirmed that there are indeed competing visions of the South African developmental state. While the

National Industrial Policy Strategy sets itself the goal of diversifying the South African economy beyond its traditional reliance on commodities, this diversification will not be possible without a disruption of the dominance of upstream monopolies and a fundamental alteration of the macroeconomic framework. At the moment, the DTI does not have the clout to implement such measures. However, the recent change in ANC leadership could improve its chances to do so in the future.

Finally, my case study also shows that, while concerns about the state's capabilities and the coherence of policy are justified, they cannot simply be interpreted as administrative weaknesses of the state. They are rather a result of conflicting class interests, reflected in the governing alliance of the ANC and the unions and even within government departments, and these conflicting interests shape its policies. The more fundamental issue at stake then is which groups can assert their interests and determine what kind of a developmental state South Africa eventually wants to be.

References

African National Congress (2007): Building a National Democratic Society – Strategy and Tactics of the ANC. Revised Draft (August). http://www.anc.org.za/ancdocs/policy/2007/conference/tactics.html, 4.1.2008.

Amsden, Alice (1989): Asia's Next Giant. South Korea and Late Industrialization. Oxford: Oxford University Press.

Amsden, Alice (2001): The Rise of 'The Rest'. Challenges to the West from Late-Industrializing Economies. New York: Oxford University Press.

Ballard, Richard/Habib, Adam/Valodia, Imraan (2006): Social movements in South Africa: promoting crisis or creating stability? In: Padayachee, Vishnu (ed.): The development decade? Economic and social change in South Africa, 1994-2004. Cape Town: HSRC Press, 397-412.

Black, Anthony (1991): Manufacturing Development and the economic crisis: a reversion to primary production? In: Gelb, Stephen (ed.): South Africa's Economic Crisis. Cape Town: David Philip, 156-174.

Chang, Ha-Joon (1998): Evaluating the current industrial policy of South Africa. In: Transformation 36, 51-72.

Chang, Ha-Joon (2006): The East Asian Development Experience. The Miracle, the Crisis and the Future. London: Zed Books.

Cho, Hee-Yeon/Kim, Eun Mee (1998): State Autonomy and Its Social Conditions for Economic Development in South Korea and Taiwan. In: Kim, Eun Mee (ed.): The Four Asian Tigers. London: Academic Press, 125-158.

Daniel, John/Southall, Roger/Lutchman, Jessica (2005): Introduction: President Mbeki's second term: Opening the golden door? In: Daniel, John/Southall, Roger/Lutchman, Jessica (eds.): State of the Nation. South Africa 2004-2005. Cape Town: HSRC Press, xix-xlii.
Department of Finance (1996): Growth, Employment and Redistribution – A Macroeconomic Strategy. Pretoria: Department of Finance.
Department of Trade and Industry (2007a): National Industrial Policy Framework. Pretoria: the dti.
Department of Trade and Industry (2007b): Industrial Policy Action Plan. Pretoria: the dti.
Evans, Peter (1995): Embedded Autonomy. States and Industrial Transformation. Princeton: Princeton University Press.
Erwin, Alec (2007): An effective developmental state needs a strong Alliance. In: Umrabulo 30 (3), http://www.anc.org.za/show.php?doc=./ancdocs/pubs/umrabulo/umrabulo30/art1.html, 6.5.2007.
Feinstein, Charles (2005): An Economic History of South Africa. Conquest, Discrimination and Development. Cambridge: Cambridge University Press.
Fine, Ben/Rustomjee, Zavareh (1996): The Political Economy of South Africa. London: Hurst & Company.
Fine, Ben (2006): The Developmental State and the Political Economy of Development. In: Fine, Ben/Jomo, Kwame Sundaram (eds.): The New Development Economics. London: Zed Books, 101-122.
Gelb, Stephen (2005): An overview of the South African economy. In: State of the Nation. South Africa 2004-2005. Cape Town: HSRC Press, 367-400.
Hamlyn, Michael (2007): Manuel: State underspends by R5,3bn. In: Mail&Guardian, 6.9.2007.
Hirsch, Alan (2005): Season of Hope – Economic Reform under Mandela and Mbeki. Scottsville: University of KwaZulu Natal Press.
Holliday, Ian (2005): East Asian social policy in the wake of the financial crisis: farewell to productivism? In: Policy and Politics 33 (1), 145-162.
Johnson, Chalmers (1982): MITI and the Japanese Miracle. Stanford: Stanford University Press.
Kaplan, David (2004): Manufacturing in South Africa over the last decade: a review of industrial performance and policy. In: Development Southern Africa 21 (4), 623-644.
Kohli, Atul (2004): State-directed development. Political Power and Industrialization in the Global Periphery. New York: Cambridge University Press.
Machaka, Johannes/Roberts, Simon (2003): The DTI's new 'Integrated Manufacturing Strategy'? Comparative Industrial Performance, Linkages and Technology. In: South African Journal of Economics 71 (4), 679-704.
Makgetla, Neva (2005): A developmental state for South Africa? Discussion paper for Cosatu's 2005 Central Committee. http://www.cosatu.org.za/cc2005/Developmental.pdf, 12.4.2007.

Manuel, Trevor (2007): Medium Term Budget Policy Statement. Speech by Minister of Finance. http://www.treasury.gov.za/documents/mtbps/2007/mtbps/speech.pdf, 14.1.2008.
Roberts, Simon (2005): Industrial Development and industrial policy in South Africa – a ten year review. Paper presented at the 'South African Economic Policy under Democracy'-Conference at Stellenbosch University, 27.-28.October 2005.
Roberts, Simon (2006): Encouraging Downstream Value-Added and Labour-Intensive Growth? The Case of the Metal Products Sector. In: Roberts, Simon (ed.): Sustainable Manufacturing? The Case of South Africa and Ekurhuleni. Cape Town: Juta, 159-181.
Rodrik, Dani (2007): One Economics, Many Recipes. Princeton: Princeton University Press.
SACP – South African Communist Party (2006): Class Struggles and the post-1994 state in South Africa. In: Bua Komanisi! 5 (1), 18-31.
Southall, Roger (2007a): The ANC, black economic empowerment and state-owned enterprises: a recycling of history? In: Buhlungu, Sakhela/Daniel, John/Southall, Roger/Lutchman, Jessica (eds.): State of the Nation South Africa 2007. Cape Town: HSRC Press, 201-225.
Southall, Roger (2007b): Introduction: The ANC state, more dysfunctional than developmental? In: Buhlungu, Sakhela/Daniel, John/Southall, Roger/Lutchman, Jessica (eds.): State of the Nation South Africa 2007. Cape Town: HSRC Press, 1-24.
The Presidency (2006): Accelerated and Shared Growth Initiative – South Africa. http://www.info.gov.za/asgisa/asgisadoc.pdf, 4.1.2008.
The Treasury (2007): Medium Term Budget Policy Statement. Pretoria: National Treasury.
Wade, Robert (1990): Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization. Princeton: Princeton University Press.

Abstracts

The recent shift in South African economic policy towards a more interventionist regime has sparked new academic interest in the concept of the developmental state within the South African context. This paper aims to shed light on whether the South African state has the capacity to be developmental, while at the same time broadening the academic debate by tackling conceptual issues. The theoretical ambiguity of the notion of the developmental state leaves ample room for interpretation. Critical omissions are an explicit class analysis and a consideration of the specific system of accumulation in place. In a political context, this ambiguity can be exploited by competing factions, as evidenced in the ongoing internal conflict in South Africa's ruling party. In other words, 'developmental state' means different things to different people and these contrasting interpretations have played a significant role in South African party politics. In order to understand these debates, we must look at the underlying class interests and the accumulation regime that has shaped them. An analysis of South African industrial policy will show that conflicting interests and the resulting competing visions of the developmental state have led to an incoherent policy and lie at the heart of capacity and coherence problems that impede the South African developmental state.

Die interventionistischere Wirtschaftspolitik der südafrikanischen Regierung in den letzten Jahren hat zu einer Diskussion des Entwicklungsstaats-Konzeptes im südafrikanischen Kontext geführt. Anhand einer Analyse der Industriepolitik geht dieser Beitrag nicht nur der oft gestellten Frage nach der Kapazität des südafrikanischen Staates, ein Entwicklungsstaat zu sein, nach, sondern versucht auch, konzeptionelle Unklarheiten aufzuzeigen. Die mangelnde Eindeutigkeit des Konzepts ist auf die Nicht-Berücksichtigung des Akkumulationsregimes und der Klassenverhältnisse zurückzuführen. Im politischen Kontext wird diese Ambiguität von konkurrierenden Gruppen ausgenützt – so existieren im Rahmen des gegenwärtigen Richtungsstreits innerhalb der Regierungspartei sehr unterschiedliche Vorstellungen vom „südafrikanischen Entwicklungsstaat". Am Beispiel der Industriepolitik zeigt sich, wie die Interessen verschiedener Einflussgruppen zu teils widersprüchlichen, in jedem Fall heterogenen Maßnahmen führen. Diese widersprüchlichen Interessen sind damit zentrale Ursache der Inkohärenzen und der Kapazitätsprobleme, mit denen der südafrikanische Entwicklungsstaat zu kämpfen hat.

Oliver Schwank
Institut für Außenwirtschaft und Entwicklung
Wirtschaftsuniversität Wien
Augasse 2-6
A-1090 Wien
oliver.schwank@wu-wien.ac.at