

**To what extent does the DTI ‘reward’ and ‘discipline’ firms for performance
and non-performance in target sectors?**

Industrial Policy in South Africa’s Quest for a Developmental State

1994-2013

Research Report for the Degree of Master of Arts in Political Studies

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Declaration

I declare that the research report is my own unaided work. It has been submitted for the degree of Master of Arts: Political Studies, to the University of the Witwatersrand, Johannesburg. It has not been submitted before, for any other degree or examination, to any other university

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1. INTRODUCTION

This dissertation delves into the contested post-1994 transition to deliver economic justice and development¹ in South Africa, particularly the country's more recent quest to emulate the interventionist economic strategies successfully implemented in South East Asia. It follows from the governing African National Congress (ANC) being one among a few governments that have explicitly committed themselves to building a developmental state. Among some of its intentions, such a state aims to alter market incentives, reduce risks, offer entrepreneurial visions and manage conflicts. Specifically, the research study examines the role of industrial sector planning in South Africa as a component of a developmental state. In the 20th century East Asian developmental states, also known as early generation developmental states, such selective industrial policy was characterised by close ties between government and business that facilitated the sharing of information. These countries – Japan, South Korea, Taiwan, Hong Kong and Singapore - were also distinguishable by the ability of the state to “discipline” capital through treating incentives, not as “gifts” but as enforceable performance contracts.

The paper is split into three parts. Part 1 looks at the origins and evolution of the concept of a developmental state, along with key elements of such a state and their applicability to South Africa. Part 2 traces South Africa's association with industrial sector planning, from the Jan Smuts era, through Hendrik Verwoerd until the Jacob Zuma administration. Part 3 is a case study that examines two particular sectors, the automotive industry and the business process outsourcing (BPO) sector (consisting of offshore call centres and related activities) to gauge the level of corporatism, along the state's ability or desire to “discipline” or “reward” companies in pursuit of its industrialisation goals.

¹ Used as described in Roger Scruton's Dictionary of Political Thought, to denote the process of economic growth in per capita income, and the fundamental changes in economic structure that generate growth – usually including industrialisation, division of labour, the consequent revisions in economic relations; especially in the modes of land tenure and the steady increase in investment

2.1. THE DEVELOPMENTAL STATE IN HISTORY

South Africa's quest for a developmental state comes at a time when, as the most industrialised country on the continent, it appears well-placed to join the path towards high rates of accumulation associated with the likes of Botswana and Mauritius, two much-cited countries in Africa that have bucked the trend towards stagnation and decline. However, while the role of the state in development has changed since World War II it is still a contested notion. Williams (2014, p.3) suggests that the geopolitics of the Cold War era lent legitimacy to calls for development that included redistribution through state involvement in the economy. This emerged as a way to have national development through state-managed economic change, in a bid to catch up with the West. However, by the 1980s, this had given way to neo-liberalism which shifted the focus on national development to private initiative, self-regulating markets and public sector downsizing. As development moved from economic nationalisation to market liberalisation over the course of the twentieth century, so too did the role and function of the state (Williams 2014, p.3).

While post-colonial African economic development had attained "fairly respectable rates of growth for nearly a decade", Nabudere (2007, p.130), notes a stagnation such that by the end of the 1980s many African economies had a lower GDP per capita than at independence. Nabudere (2007, p.130) also states that Africa's industrialisation went into crisis at exactly the same time that technological renewal and export-oriented industrialisation began to take root in other countries, particularly in South-East Asia. Under these conditions, the survival of most African economies came to depend on international aid and foreign borrowing (ibid). Such failures of developmentalism in Africa have constrained the use of the concept of a developmental state (Freund 2007, p.664). However, after the initial criticism against Africa first's post-colonial leaders, there is now a softening of opinion, amid the view that a majority of such leaders were in fact "preoccupied with development as well as nation-building to the extent that the post-colonial state in Africa has in more recent

years been dubbed ‘developmentalist’” (UNCTAD 2007, p.77). But these states still fell short of the present-day understanding of a developmental state which; driven by a desire to industrialise “does not only try to create conditions favourable to more rapid capital accumulation but also tries to affect the direction and quality of investment” (Chibber 2011, p.2).

Daniel, Southall and Lutchman (2005, p.xxix) have argued that whereas in post-colonial Africa government intervention emphasised restrictions and control, developmental states have provided a policy framework for competition, growth and export. Furthermore, the ability to discipline capital also set the later developmental state apart from its earlier manifestation in the 19th century (Chibber 2011, p.3, citing Amsden 1989).

In slower-growing late-industrialising regions, subsidies have tended to be allocated according to the principle of giveaway, in what has amounted to a free-for-all. In East Asia, beginning with Japan, there has been a greater tendency for subsidies to be dispensed according to the principle of reciprocity, in exchange for concrete performance standards with respect to output, exports, and eventually, R&D (Amsden 1991, p.284)

However, Amsden (1991, p.285) also makes the observation that market forces and the state have divided the labour of disciplining East Asian business. During an industry’s import substitution phase, the state has typically been the disciplinarian unlike during its early export phase, when that role has fallen to the market. Then during an industry’s “neo-import substitution phase,” when subsidizing R&D and shifting into a higher-quality market segment come on the agenda, the state’s dominant role resumes – as became evident by the late 1980s in Taiwan, South Korea, Singapore and even Hong Kong (ibid).

In sub-Saharan Africa, more recent efforts at creating developmental states have been met with scepticism not only about the quality of institutional infrastructure, but also about the capacity of African states to design, implement and monitor complex and demanding policies such as those that have been at the core of success among Asia’s newly-industrialised economies (UNCTAD 2007, p.74). Much of this adverse assessment is based on the changed external environment, but just as pervasive is the “assumption that African States are too corrupt and predatory, and ruled by rent-seeking or just plain kleptocratic officials who prioritize their private interests over

those of the state, and use rents to fund patronage for their constituents (UNCTAD, p.74).” However, Freund (2007, p.664) states that Afro-pessimism which accompanied the severe economic downturn closely linked to broader international change in the last quarter of the twentieth century, has since moderated not least because mineral and energy prices have boomed again and money has begun to flow into Africa.

Onis (1991, p.109) notes a resurgence of what he describes as the counter-critique of the neoclassical paradigm based on a reinterpretation of the East Asian development experience. This has followed a period in the 1950s and early 1960s when the “structuralist” development theory was the prevailing orthodoxy, premised on the belief that market failure is a pervasive feature of the underdeveloped economy and that the state has an important role to play in correcting it. What Onis (ibid) calls the neoclassic resurgence had attacked structuralism on three separate grounds. First, that extensive state intervention to promote import-substitution industrialization had generated inefficient industries requiring permanent subsidization for their survival with little prospect of achieving international competitiveness. Second, that extensive government intervention tended to generate “rent seeking” on a substantial scale, which detracted the attention of economic agents from productive activities into lobbying for increased allocations of government subsidies and protection. Third, and most significant, that empirical evidence on the experience of the most successful countries to emerge from the Third World, namely the five East Asian countries - Japan, Taiwan, South Korea, Hong Kong and Singapore - showed that these economies achieved extraordinary rates of economic growth using an outward-oriented model driven by market incentives and a strong private sector.

Onis (1991, p.110) cites Amsden (1989) Johnson (1982), Wade (1990) and Deyo (1987) among the strongest within the counter-critic of the neoclassical onslaught. The central thesis associated with this “institutionalist” counter critique is that the phenomenon of “late development” should be understood as a process in which states have a strategic role in taming domestic and international market forces and harnessing them to national ends. The argument shows that key to East Asian development has been the focus on industrialization as opposed to maximizing profitability on the basis of current comparative advantage. Furthermore, driving rapid

industrialization is a strong state, providing directional thrust to the operation of the market mechanism. The market is guided by a conception of long term national rationality of investment formulated by government officials (Onis 1991, p.109).

2.2. THE CONCEPT OF A DEVELOPMENTAL STATE

The idea of a developmental state follows from the view that while laissez-faire was a dominant ideological element in the classical formation of capitalism in Britain and perhaps some of its relatively successful competitors, thereafter, a successful transition to capitalism ironically required far more direct state intervention where local conditions did not allow for competitive factors to come to the fore and where so-called market failure was relatively prevalent (Freund 2006A, p.3). However, the concept of a developmental state is often used very loosely without being defined. Furthermore, usage of the term rarely accounts for differences even among the successful developmental states themselves, nor does it always recognise that the much-cited developmental states, particularly Japan, South Korea, Hong Kong, Taiwan and Singapore were all capitalist in orientation characterised by private ownership of property.

In a warning that applies to South Africa, which still has a sizeable number of state owned enterprises, Chang (2004, p.142), cautions against the belief that in order to be effective a selective trade and industrial policy requires a large SOE sector, noting that in many developing countries the sector has been a drain on state resources rather than a channel for state control of resources. In South Africa, it is ironic that those on the left are the main proponents of the idea of a developmental state, although they are also the most vocal opponents of privatisation of loss-making parastatals. They include the ANC's two allies in the governing alliance, the South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu).

The notion of a 'capitalist developmental state' was coined by Chalmers Johnson in 1982 (Johnson 1982) to refer to the collaboration between the state and the market that arguably led to Japan's post-second World War economic boom, resulting from an economy "mobilized for war but never demobilized during peacetime" (Johnson

1999, p.41). Since then, various studies have described such states as characterised by visionary leadership, nationalism, patriotism, a strong meritocratic career bureaucracy, a political class, close ties between government and business, protectionism, paternalism and massive investment in social capital (Levin 2008, p.51). With the exception of China, these states are not usually associated with the terms ‘state capitalism’ or ‘political capitalism’ – both of which are often given to Russia, some Arab monarchies and Eastern European states in the post-Cold war era. Rather, developmental states are more often described as *dirigisme*, a word most frequently associated with the post-war French state committed to modernisation, defined in terms of contemporary social and economic competitive goals (Freund 2007, p.662).

Williams (2014, p.7) notes several aspects distinguishing developmental states: development as economic growth placed as the first priority, the existence of an elite state bureaucracy consisting of the best talent using market-conforming methods of state intervention. Other factors are: a pilot organisation within the bureaucracy with leverage to control and command the implementation of industrial policy, ‘embedded autonomy’, or the ability to construct an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure, and a state with enough political will, power and capacity to discipline capital. Just as significant for the success of the Asian Tigers was “a politically weak bourgeoisie, unorganised peasants and a subordinated working class”, together with the support that these countries received from external allies (Williams 2014, p.5).

This study identifies six of the main factors associated with the success of East Asian developmental states – factors that are used to gauge the extent to which South Africa is a developmental state:

- 1). Economic growth and competitiveness as the state’s overriding priority
- 2). A labour market and education system geared towards growth
- 3). A Weberian bureaucracy insulated from political interference

- 4). Embedded autonomy which, in spite of the close relationship between the state, labour and capital, allows the state to lead development without being captured by vested or sectional interests.
- 5). Selective industrial policy coordinated by a pilot agency
- 6). The state's ability to discipline capital

Significantly, Nattrass (2001, p.9), singling out the World Bank (1993, p.1997), notes that other analyses have sought to play down the role of strategic intervention and ascribe the success of the Asian Tigers to the business environment common to all of them – a realistic and stable real exchange rate, relatively competitive labour markets, very high saving and investment rates, high and growing levels of education and considerable numbers of capable entrepreneurs.

Weiss (2005, p.9) observes that most interpretations of the Asian miracle story have cited the rapid growth of exports which in turn set in motion a cumulative process of high investment, high profits, high savings and high economic growth. This is notwithstanding the fact that the East Asian developmental state has since matured and has had to deal with new challenges – such as the evolution from manufacturing as the engine of growth to the knowledge and services sector, along with greater demands for social welfare, environmental justice and the link between accumulation, corruption and collusion that, in the words of critics, appear to be intrinsic to state-led economic development. In some ways, the East Asian developmental state has become a victim of its own success, with its achievements being blamed on the Asian financial crisis of 1997 (Wong 2004, p. 346).

However, it is important to note that despite the classical developmental state's single-minded prioritisation of economic growth, not all economic growth can be regarded as developmental, with India under Nerhu being viewed as a failed developmental state (Chibber 2011, p.9-12; Chibber 2014, p.39; Herring 1999, p.306-334), largely for its inability to discipline capital. A developmental state is distinguishable from a 'non-developmental state' in ideology and structure (UNCTAD 2007, p.59). The former delivers sustained economic growth and development based on "high rates of accumulation, industrialisation and structural change" through a combination of "institutional, technical, administrative and

political factors” (UNCTAD 2007, p.59). While almost all states intervene in the economy for various reasons, not all of them can be described as developmental, not least the US which is a good example of a state whose regulatory orientation predominates (Johnson 1999, p.37).

As will be seen, South Africa has been described as possessing some of the conditions of a developmental state - such as high levels of corporatism - but lacks the political will to follow the path set by the Asian Tigers, even though under Jan Smuts the country pursued policies akin to those of a developmental state. However, unlike most the South East Asian Tigers, with the exception of Japan, the South African government has to contend with the fact that the country is a democracy, hence policies have to be negotiated, although the ANC’s successive electoral majorities since 1994 give it strong leverage. Yet the risk of policy-making in a democracy is that the system could allow unpopular policies to be reversed, and the short-term elections-oriented focus of politicians could prevent implementation of long term projects (White 1998, p.29) such as the establishment of a developmental state. Thus, democracy presents South Africa with both opportunities and challenges if it is to navigate its way around the implementation of the six factors already mentioned, that would see it become a developmental state of the South East Asian mould – prioritising GDP growth and competitiveness, developing a labour market and an education system geared towards growth, identifying a pilot government agency to coordinate industrial policy, nurturing a professional public service with the ability to discipline capital as well as cultivating embedded autonomy from the existing corporatist relations.

2.3. A DEMOCRATIC DEVELOPMENTAL STATE

In more recent years, the concept of a development state has been further refined to ‘democratic developmental state’, in line with the current orthodox towards human rights and free and fair elections, and also to distance development from the authoritarianism with which some of the early developmental states such as Korea and Taiwan were associated. A curious caveat is the observation made by Wong (2004, p.353) that because the lack of democracy was never a hindrance to East Asia’s initial post-war industrial focus – despite Japan being the exception - this is one of the main

reasons why nondemocratic China has been so attracted to the East Asian model. It is also the reason why Beijing has continued to justify the slow pace of political reform in China (Wong 2004, p.353). But Lee (2014, p.105) has persuasively argued that China cannot be described as a developmental state, not least because Chinese bureaucrats do not enjoy the requisite embedded autonomy and instead need to maintain a power base to defend themselves from vicious political attacks amid the rampant rent seeking and predatory behaviour prevalent at local government level. Interestingly, this is largely true of South Africa's bureaucrats too who, through the ANC's policy of "cadre deployment" and affirmative action, are very often seen as driven by a desire to show loyalty to the party and associated business networks rather than by professionalism.

The connection between democracy and development as embodied in the concept of a 'democratic developmental state' has been the subject of debate among development theorists. The dominant view in the international development policy establishment is that democracy helps economic development and therefore has to be promoted as a precondition for development (Chang 2003, p.72). Chibber (2014, p.52) has also argued that democracy works in favour of disciplining capital, as public sentiment against the wastefulness of monopolistic firms and the demands of wealthy businessmen, can provide a "political base for acquiring the leverage over firms to induce compliance to performance standards."

Sen (1999, p.3) argues that democracy and development are not mutually exclusive, contending that "development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or the over-activity of repressive states." This is in line with Evans' (2010, p.47) argument for a "capability approach" required of a 21st century developmental state. Evans (ibid) argues that a developmental state must perform at least two general roles: it must support a distribution of basic rights that gives individuals incentives to invest in their own capabilities, and must be a vehicle for making social choices and defining developmental goals.

Johnson's position is to "deny any necessary connection between authoritarianism and the developmental state but to acknowledge that authoritarianism can sometimes inadvertently solve the main political problem of economic development using market forces – how to mobilize the overwhelming majority of the population to work and sacrifice for developmental projects (1999, p.52)." However, White (1998, p.28) offers the argument that comparison between systemic alternatives such as 'democracy' and 'authoritarianism' obscures the ambiguities and diversity of real-world political regimes. Just as elements of democratic freedom have existed in many authoritarian regimes, elements of authoritarianism also persist in formally democratic regimes (White 1998, p.27).

The concept of a democratic developmental state gives rise to the promise of deliberative democracy, premised on the idea that greater participation by stakeholders is conducive to better policy outcomes. However, the neo-liberal critics of the developmental state question the notion of the public interest, that it is wrong to believe that the objective of the state – which is ultimately determined by certain individuals and interest groups – will be commensurate with what is good for society and individuals (Johnson 1999, p.183).

Debate on the developmental state has not failed to recognise that despite the lessons that can be derived from the concept, the success of the East Asian economies reflected exceptional circumstances at a certain period in history that are not likely to be reproduced (Noland and Pack 2005, p.12). Just as important is the recognition that South Asia's Gang of Five had different experiences, the main one being the ability of the Japanese model to co-exist with democratic institutions. Wong (2004, p.356) notes that once closed and tightly knit policy networks have become more institutionally porous and pluralistic, the bureaucracy has become delinked from the ruling parties, while legislatures have become increasingly accountable to voters and civil society has been reinvigorated. Thus the institutionalisation of democratic politics in East Asia has eliminated the authoritarian basis of the post-war developmental state, forcing what are now democratic developmental states to reconfigure state institutions, to recast state and society linkages, and to redefine developmental policy agendas.

The concept of a developmental state has had its share of critics, with Mkandawire (1998, p.2) making the observation that the common definition “equates economic success to state strength, while measuring the latter by the presumed outcomes of its policies” (Mkandawire 1998, p.2-3). Similarly, Kohli (1999, p.132) asserts that arguments about “developmental states” often focus more on explaining a state’s capacity to implement goals and less on where these goals come from in the first place. Such questions are some of the issues that in South Africa appear to be confined largely among the left in the ruling alliance, who are the main proponents for the adoption of a developmental state.

3.1.ECONOMIC GROWTH AS THE STATE’S MAIN PRIORITY

As already stated, this dissertation argues that to create a developmental state of the South East Asian mould, South Africa would need to meet the six conditions below:

- 1). Economic growth and competitiveness as the state’s overriding priority
- 3). A labour market and education system geared towards growth
- 3). A Weberian bureaucracy insulated from political interference
- 4). Embedded autonomy which, in spite of the close relationship between the state, labour and capital, allows the state to lead development without being captured by vested or sectional interests.
- 5). Selective industrial policy coordinated by a pilot agency
- 6). The state’s ability to discipline capital

Yet on the first pointer South Africa seems to fall short since the government has multiple priorities, including a stated policy to reduce unemployment, poverty and inequality. Freund (2006A, p.1) argues that the ANC’s defining ambition has historically been of a “united African nationalism transcending tribal or class distinctions”. Even though other ideals such as non-racialism and alleviation of poor living conditions are important, they are secondary to “favouring the ‘previously disadvantaged’” or “recovering the dignity of the black man (and in recent discourse,

woman) Freund (ibid).” The ANC’s success in promoting these ideals has ensured overwhelming electoral success despite a variety of dissatisfactions (Freund 2006A, p.1).

Johnson (1999, p.37) contends that those aspiring to match Japan’s success need to prioritise economic development, just like Japan did for over 50 years:

Overcoming the depression required economic development, war preparation and war fighting required economic development, postwar reconstruction required economic development, and independence from US aid required economic development. The means to achieve development for one cause ultimately proved to be equally good for the other causes (Johnson 1999, p.37).

Such commitment towards economic development was also present among the other Asian NICs:

This one overriding objective – economic development – was present among the Japanese people after the war, among the Korean people after Syngman Rhee, among the Chinese exiles and the Taiwanese after Chiang Kai-shek acknowledged that he was not going home again, among the Singaporeans after the Malayan Emergency and their expulsion from Malaysia, among the residents of Hong Kong after they fled communism, and among Chinese city dwellers after the Cultural Revolution (Johnson 1999, p.53).

Poor outcomes in South Africa are illustrated by the average per capita GDP growth of 1,2% per year in the first decade since 1994 – a rate comparable to that of sub-Saharan Africa (1,1%) and Latin America (0,8%) but much less than that of East Asia (6,2%) (Rodrik 2006, p.2). The savings rates, which in South East Asia was used to feed investment for capital deepening has also been very low in South Africa, compared to countries such as Japan that had higher savings rates imposed – something that is likely to elicit resistance in South Africa (Burger 2013, p.17). In addition, although the stated policy of the South African government since the implementation of the Growth, Employment and Redistribution plan (GEAR) up to and including the NDP is that the country should use exports as a driver of growth, exports remain subdued and the current account remains perpetually in a deficit (Burger 2013, p.18).

But Burger (2013, p.13) argues that South Africa is legally unable to prioritise economic growth because its constitution sets out a series of social rights that, depending on the state’s ability to afford providing for them, need to be progressively realised. This implies an increase in the social wage which may divert resources from what would otherwise have been a policy strictly focused on growth (ibid). In any

case, while it has been established that the Asian Tigers owe much of their legitimacy and success to the state's overriding commitment to economic growth and competitiveness, it could be argued that no 21st century democratic developmental state can exist without taking on many other priorities as dictated by citizens. Evans (2010, p.50) notes that the 20th century developmental state could separate growth policy from social and welfare policy in the establishment of partnerships between government and the private sector. But he argues that such separation cannot be done in the 21st century developmental state, maintaining that "policies that expand capabilities may look like 'social policy' or 'welfare policy' but they are essential to growth policy".

Thus, the prioritisation of growth and competitiveness in South East Asia should be seen in the context of the 20th century developmental states, many of which were faced with external threats without having the requisite natural resources to build strong economies. However, it could still be argued South Africa has not shown enough resolve to achieve growth and competitiveness. Yet it is possible that South Africa could follow the example of Taiwan and South Korea where economic development took on what Amsden (1991, p.285) described as a pragmatic fashion. Once they began not just to subsidise business but to impose performance standards on it (especially export targets), then growth increased. As growth increased, the state became more committed to economic development and allocated more resources to it, which increased development further. Thus, the state transformed the process of economic development and, in turn, was transformed by it (Amsden 1991, p.287).

In sum, it could be argued that South Africa simply has no choice but to show more than lip service in placing GDP growth and competitiveness at the top of its policy agenda since the government's other priorities, especially job creation as well as reducing poverty and inequality, depends on the former. At the very least, the government needs to provide the leadership in providing a long term vision for the country.

3.2. EDUCATION AND LABOUR POLICY

Burger (2013, p.3) has argued that among the characteristics of the South East Asian developmental states are education and labour market systems singularly focused on economic growth. Indeed, in South Africa these two areas have been characterised by failure and contradictions that discount any comparison with the South East Asian developmental states.

The rapid expansion of education systems in South East Asia was largely sequential, with first priority being placed on primary education, then later on secondary education, and subsequently to tertiary education amid a focus on critical areas such as engineering and science (Abe 2006, p.10). Yet in South Africa poor outcomes in education and training have emerged among the biggest challenges since 1994. So fraught with gross underperformance has been the education system to the extent that the epithets “crisis” and “disaster” are frequently used to describe it. At the centre of this has been the low matric pass marks for the national school certificate, the low uptake of maths and science and high drop-out rate at university, resulting in too many school leavers being in neither a training institution or in a job. Other problem areas include persistent race-based inequalities, poor discipline, weaknesses in the education of girls and women and in early childhood development, adult and special education. Coupled with this is inadequate financial support for tertiary level education together with lack of opportunities for out-of-school youths (Chisholm 2005, P.206). This is despite that education is the single biggest expenditure on the national budget and South Africa’s teachers are among the highest paid in the world [in purchasing power parity terms] (National Planning Commission Diagnostic Overview p.14).

Such poor outcomes in education do not bode well for the future. Evans (2014, p.222) notes that the changing nature of economic activity has resulted in a decline of manufacturing, with most people’s livelihoods in the 21st century being centred on the delivery of intangible goods resulting from new ways of value add, including novel methods of arranging information, software code and images. This allows for innovation and makes investment in education critical, more so in mathematics and science. In particular, strong performance in maths is a key indicator of the well-being of the educational system, predicting the skills available for post-secondary education

and training and to the economy, with poor maths performance also being a contributor to inequalities of access and income (Reddy 2006).

If the education sector in South Africa can be described as troubled, the situation is not much better in the skills area. Bloch (2009) has termed the sector a “mess”, characterised by “little co-ordination, less vision, and enormous, debilitating bureaucracy”. This is despite much work around Sector Education and Training Authorities (SETAs), qualifications frameworks, Further Education and Training college re-capitalisation and curriculum reform, learnerships and artisan training, and limited progress in workplace-based skills development. Kruss, Wildschut and Reddy (2013, p.422) note a tendency to assume an automatic relationship between investment in education and skills development and economic growth, without sufficient analysis of the complexity and conditionality of the relationship between qualifications and the labour market. Not only is South Africa’s post-school education and training system fragmented and uncoordinated, formal opportunities for young people are extremely limited with demand for education and training exceeding the capacity of the post-school public sector institutions (Kruss, Wildschut and Reddy (2013, p.423).

Labour policy and practice in South Africa is also a far cry from the situation in South East Asia. Amsden (1991, p.285) notes that the East Asian NICs have managed the shop floor exceptionally well, partly because the wage gap dividing managers and workers is relatively narrow, while education levels are high and performance-based bonuses are a large share of wage payments. The situation in South Africa is different. Race exacerbates shop floor differences, with annual wage negotiations being characterised by tensions and frequent work stoppages, sometimes over the narrowest of differences between what is offered by the employer and what the workers are demanding.

Nattrass (2001, p.7) argues that if there is a broad consensus on the ‘lessons’ of successful economic growth it is probably that an export orientation and an educated labour force are good for growth. But that is not the end of the story. While in the 1960s during their infancy, the high performing Asian economies – Japan, Hong Kong, South Korea, Singapore and Taiwan, along with Indonesia, Malaysia and

Thailand – dominated the low-wage, labour-intensive end of international trade, South Africa has chosen a different growth path. Despite its unemployment crisis and the stated policy towards a “labour-absorbing” growth path (Industry Policy Action Plan), South Africa has been moving towards more skills intensive product lines, with technological change in manufacturing resulting in an increased demand for skilled labour (Nattrass 2001, p.8).

The demand for skilled workers especially in the information technology sector has been rising and the general shift towards capital intensity has further increased the demand for skilled workers and reduced the demand for unskilled workers, suggesting that rising wage inequality and persistent unemployment will characterise the South African growth path for some time (ibid). Indeed, the country might also be heeding Amsden’s (1991, p.285) warning that in the absence of pioneering technology, low wages even in labour-intensive sectors usually fail to provide a cost advantage at market determined prices.

Even then, South Africa appears to have badly managed the trade-off between short-term job creation and laying the basis for sustainable growth and higher future job creation. Nattrass (2001, p.12) asks: “Is it better to go for maximising the number of jobs created now – in which case labour-intensive investment is preferable – or is there an argument in favour of labour-demanding growth later? In the high performing Asian countries “there was no tension between these objectives because the growth path was labour-demanding, although not in the main labour-intensive” (Nattrass 2001, p.12). Workers were initially drawn into labour intensive sectors and activities, but as economic growth gathered pace, the production structure shifted steadily towards higher productivity activities. Labour productivity rose, but so did employment because of the even faster increase in output (ibid). However, South Africa appears unlikely to replicate this growth path because, firstly, the international conditions under which the country is operating are very different to those enjoyed by the Asian Tigers in the post war boom. Secondly, the South African growth strategy is not premised on the notion that labour should first be drawn into low-wage, low-productivity activities, and then only subsequently be drawn up the value chain. The very opposite notion appears to be driving labour and industrial policies – that high-

wage activities should be promoted now in order to transform South African manufacturing into a dynamic and competitive lead sector (Nattrass 2011, p.13).

On one level, it seems absurd, given South Africa's massive labour surplus, to be engaging in any form of increase in labour productivity. Indeed, in a relatively capital-scarce and labour abundant economy, there is a strong argument to be made that it is capital productivity that should be maximised, even if this implies falling labour productivity. However, the implication of a low wage labour path is unpalatable to organised labour and to proponents of 'high productivity now' who populate the corridors of the Ministry of Labour and the Department of Trade and Industry (DTI) (Nattrass 2001, p.13).

However, part of the explanation could be that the South African government recognises and is disinclined to be left behind in the switch to a bit-driven economy identified by Evans (2014, p.222). This is characterised by the changing nature of economic activity, leading to a decline of manufacturing, with most people's livelihoods in the 21st century being centred on the delivery of intangible goods, resulting in new ways of value add, including novel methods of arranging information, software code and images. But Nattrass (2001, p.13) argues that the 'high productivity now' strategy assumes that even in a labour surplus middle income economy like South Africa, it is necessary to increase productivity today in order to project the economy onto a more dynamic (and ultimately more labour-demanding) growth path tomorrow. It belongs in the class of growth strategies which assume that competitiveness rests primarily (if not solely) on the adoption of cutting-edge technologies, on nurturing firms and segments of the economy that demonstrate competitive advantage. Backed by the endogenous theory, proponents of such views point to the success of industrial policies among the Asian Tigers. However, highlighting South Africa's unemployment crisis, Nattrass (2001, p.16) suggests a different strategy that encourages rising productivity in the high-wage, high tech, skill-intensive sectors, but which is characterised by falling average productivity as new low-wage, low-productivity jobs are created for the unemployed at an even faster rate.

In sum, South Africa's education and skills sector is dysfunctional and so far seems ill-equipped to support the country's developmental state ambitions. The country's labour policy also seems to be going counter to the "labour-absorbing" growth path cited in the Industrial Policy Action Plan. This could be because in the labour sector –

like in the rest of the country – the two realities of a highly advanced and an underdeveloped economy prevail, coupled with the recognition that growth in the bit-driven 21st century would come from capital intensive activities rather than old-type manufacturing processes. A clear lesson for labour policy exists in the ‘social contract’ behind the Scandinavian model. This is based on increasing the cost of labour (through centralised wage bargaining designed to set wages regardless of productivity) and putting pressure on low-productivity firms and sectors, with high taxes for the better educated and skilled funding welfare grants and training for the unemployed (Nattrass 2001, p.16). Although this model is not necessarily ideal for South Africa, the principle is instructive as South Africa cannot count on the wage suppression that contributed to the South East Asian developmental states achieving competitiveness.

3.3. A WEBERIAN BUREAUCRACY INSULATED FROM POLITICAL INTERFERENCE

A profession public service that enjoys bureaucratic autonomy ranks among the six prerequisites of a successful South East Asia-type developmental state. (The other five pillars are the state’s overriding prioritisation of economic growth and competitiveness, a focus on education and labour policy, as well as deep corporatism, selective industrial policy coordinated by a pilot agency, as well as the state’s ability to discipline capital). An efficient and autonomous bureaucracy is key to policy unlocking cooperative relationships and the implementation of sound policy. Onis (1991, p.114) observes that among the most puzzling and intriguing aspects of the East Asian developmental state is how bureaucratic autonomy was acquired in the first place and why it was subsequently directed to developmental goals as opposed to the self-maximizing or predatory forms of behaviour so common in other contexts. This is in sharp contrast to South Africa where, as will be seen, the bureaucracy is facing a unique set of challenges that deprive it of the effectiveness and prestige associated with the public service in South East Asia. Theft, fraud, extortion and forgery cost taxpayers nearly R930m in 2011-12, up from R346m in 2009-10 (Maswanganyi 2013), while skills shortages persist – from teachers and nurses to technicians, doctors and engineers. The bureaucracy in South Africa is “cumbersome and inefficient, creating inertia and inflexibility”, amid a risk of the country turning

into a “tender state”, with corruption being prevalent in all spheres of government (Ensor 2013). However, Burger (2013, p.22) notes that some policy initiatives have been successful, such as the rollout of social grants and the turnaround at the Department of Home Affairs.

Onis (1991, p.114) suggests that in the South East Asian development state bureaucratic autonomy has been due to several factors: an extremely meritocratic form of recruitment for elite bureaucrats, a common educational background and rigorous standards of entry which generated a sense of unity and common purpose. Coupled with this is early retirement for elite bureaucrats and their subsequent move to top positions in politics and business which helped enhance their power and legitimacy. Such conditions do not exist in South Africa where recruitment into the bureaucracy is viewed as happening mainly through connections and “cadre deployment”, a system underpinned by a candidate’s loyalty to the ANC.

Johnson (1999, p.38) also explains the success of bureaucratic autonomy among the Asian Tigers as dependent on a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively. According to Johnson (1999, p.38) the first element of the East Asia model is:

“the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system...The duties of this bureaucracy would be first, to identify and choose the industries to be developed (industrial structure policy); second, to identify and choose the best means of rapidly developing the chosen industries (industrial rationalisation policy); and third, to supervise competition in the designated strategic sectors in order to guarantee their economic health and effectiveness. These duties would be performed using market-conforming methods of state intervention.”

However, Onis (1999, p.114) raises the vexing question over resolving the inherent tension between autonomy and accountability for the bureaucracy, suggesting that the East Asian developmental state is unable to resolve this tension, leading to questions over its long-term sustainability. Autonomy from both societal interest groups and other layers within the state is a necessary condition for effective action, yet the powers granted to the bureaucratic elites may easily be misused in the absence of external checks and balances on bureaucratic power. Onis (1991, 115) cites several mechanisms instituted to resolve the tension between bureaucratic autonomy and accountability. The first was that the size of the bureaucratic apparatus was kept

extremely small by international standards – “what matters is not the size of the bureaucratic apparatus, but its coherence” (ibid). The limited size of the bureaucracy helped to consolidate the elite position of the bureaucrats in society and also to contain the problems involving lack of control and accountability associated with massive bureaucracies. The second element concerned the powers granted to pilot agencies such Japan’s Ministry of International Trade and Industry (MITI) and the Economic Planning Board in Korea which emerged as the principal institutions responsible for the implementation of industrial policy. The problem here was to find the mix of powers needed by the pilot agency without giving it control over so many sectors as to make it all-powerful or so few as to make it ineffective. The dilemma was resolved by confining the powers of MITI to a limited number of selected strategic sectors of the economy. Hence the pattern of MITI’s (or its Korean and Taiwanese counterparts’) involvement in the economy was consistent with both the economic logic of finding an equilibrium between bureaucratic autonomy and effectiveness, on the one hand, and bureaucratic power and accountability, on the other. Equally important is a political system that gives bureaucrats the space to design and implement policy.

In South Africa, the bureaucracy is characterised by a set of contradictions to the extent that it battles to achieve the required levels of coherence and is far from the Weberian idea. Weber argued that capitalism and bureaucracy belong intimately together, and that the superiority of bureaucracy over pre-bureaucracy forms is that it supersedes an individual logic, with the corporate cohesion of a modern bureaucracy largely insulating it from the tug and pull of different interest groups (Van Holdt 2010, p.241). The South African bureaucracy is miles away from this conception, as “an alarming number of local governments, especially in smaller towns, are crisis-ridden and unable to deliver services because of the loss of skills, lack of expertise and institutional memory, numerous vacancies in senior positions, and apparently endemic corruption” (Von Holdt 2010, p.241-242). Von Holdt (2010, p.246-255) identifies the five challenges facing the bureaucracy in South Africa as:

- 1). Class formation: Affirmative action and the shortage of skills create opportunities for upward mobility within the bureaucracy, generating a culture of moving onward

and upward. This culture encourages an attitude of 'facing upwards' towards the next job prospect, rather than 'facing downwards' to improve service.

2). Ambivalence towards skill: In South Africa modern skills such as engineering and medical knowledge were always bound up with racial domination. The result in the post-apartheid state has been a degree of ambivalence towards skill and those, mostly white, who have high levels of skill, knowledge and expertise. In many respects, the new post-apartheid authorities adopted cavalier policies towards the incumbent officials with skills, leading in many instances to the loss of those skills to the state.

3). The significance of 'face': The state in post-apartheid South Africa represents the sovereignty of Africans and a conquest of white domination. Even then, the fragile (due to lower skills levels) African sovereignty is associated with the culture of extreme deference towards authority and towards the administrative and political leadership. This translates in the axing of messengers who bring bad news, or finding scapegoats when things go wrong.

4). Breakdown of discipline: The old apartheid workplace was authoritarian and this authoritarianism was inseparable from the racial authority established by apartheid. The post-apartheid era has brought self-assuredness and tardiness among black workers, in many instances bolstered by unionisation.

5). Rituals of budgetary discipline: Budgets are drawn up in head office and are based on historical allocations. Financial systems do not record expenditure in a way that can relate activity to costs. Managers of function domains have no idea what their budgets are supposed to be and therefore cannot manage costs.

Thus if South Africa is to professionalise its bureaucracy it has to resolve the above contradictions. The implication is that the country cannot engender a highly motivated, well-structured and ably-managed MITI-type bureaucracy, even at the DTI which in many respects has the reputation of being efficient and professional. Yet Weiss (2005, p.27) provides both courage and cold comfort when she argues that the efficient bureaucracy insulated from political pressures to withstand rent-seeking associated with corruption is "absent in virtually all economies". Similarly, Weiss (ibid) notes that the growing technological sophistication in the world is beyond the scope of well-informed bureaucrats and other non-industry sources to create winners. Ironically, the East Asian developmental state is now faced with questions over its sustainability despite the successes it achieved. Onis (1991, p.121) observes that

several scholars including Amsden have drawn attention to fact that the East Asian developmental state is inherently unstable, not least because of the inherent tension within the state between the “bureaucratic autonomy” and the “public-private cooperation” conditions. In Korea, the state (Onis 1991, p.121) created private business groups, chaebols, as a basis for securing cooperation for its industrial policy and enhancing its autonomy in implementing its strategic goals. The relative size of the chaebols has increased dramatically in the course of the liberalisation drive during the 1980s, which in turn has progressively limited the capacity of the state to control the actions of these groups and to direct them towards strategic goals. This contradicts the suggestion by Johnson (1999, p.60) that where the developmental state is working well, “neither the state officials nor the civilian enterprise managers prevail over the other”.

The Korean example illustrates quite conclusively that it is extremely difficult to engineer an equilibrium between the two apparently contradictory conditions, “bureaucratic autonomy” and “public-private cooperation” and to sustain it over time. In such an environment, bureaucratic elites will lack the capability to identify dynamic industries to be targeted in the first place and will be in a weak position in terms of monitoring and regulating the activities of firms located in the strategic industries. The inability of the state elites to discipline private business in exchange for subsidies may lead to a situation where selective subsidies can easily degenerate into a major instrument of rent seeking by individual groups.

In sum, among the success factors in the South East Asian developmental states was the creation of a professional and meritocratic bureaucracy that in turn was able to work with business in a relationship of bureaucratic autonomy in which neither party prevailed over the other – at least not until the result was the growth of some of the companies in the target industries to the extent that it became difficult for state officials to control such firms and direct them towards strategic goals. South Africa’s bureaucracy has the potential to be professional but will need to resolve a set of contradictions, including careerism and indiscipline. Just as important is for the government to grant it autonomy and also build capacity in the DTI, which seems to be the lead agency in the creation of a developmental state.

3.4. EMBEDDED AUTONOMY: UNION-BUSINESS-STATE RELATIONS

It is worth emphasising that the logic of the developmental state rests on the combination of bureaucratic autonomy and an unusual degree of public-private cooperation (Onis 1991, p.114). The combination of these two factors results in embedded autonomy, premised on cooperation and partnership in the setting and achievement of strategic long term goals. The logic is that such cooperation results in the sharing of information, along with quick feedback to minimise policy failure. Weiss's (1995, p.604) theory of governed interdependence, refers to a state that is paradoxically both distant and close to the private sector. Connectedness without insulation breeds rent seeking while insulation without connectedness widens information gaps and risks policy failure (ibid). Weiss also argues against the notion that the state's ability to 'impose' its decisions is central to effectiveness, stating that this is contradicted by many historical instances. Rather, unilateralism is more likely to be a developmental minus than a plus as "what really matters is whether the state is able to use its autonomy to consult and to elicit consensus and cooperation from the private sector" (Weiss 1995, p.595).

Like Weiss (1995, p.604), Evans (2010, p.49) emphasises the democratic underpinnings of the developmental state in the 21st century, arguing that such a state requires the ability to promote "a more encompassing form of embeddedness." For such a developmental state, based on capability expansion, the need for information and engagement from social partners is even greater, yet the information "must be gathered from constituencies that are more numerous and less organised".

Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources. The centrality of accurate information to state bureaucracy makes deliberative institutions key contributors to development as well as building blocks for democratic politics. In the 21st century, 'deliberative development' is the foundation of efficient economic strategy as well as effective public policy. (Evan 2010, p.49)

This is a far cry from the 20th century developmental state whose "strategic power...depended on the formation of political coalitions with domestic industry and on the destruction of the left and curtailment of the power of organised labour plus other popular groups (Onis 1991, p.114)". This is despite that the militant student movement in Korea was cited as having contributed to checking the abuse of

bureaucratic and government powers (ibid). Freund, (2013, p.1, citing Woo-Cumings, 1999) has also observed that: "...a developmental state is not an imperious element lording it over society but a partner with the business sector in an historical compact of industrial transformation."

However, Evans (2010,p.50) warns that the growing power of capital along with the deepening interaction of local capital into transnational networks, have made close ties with capital riskier and more difficult for a developmental state. The result is that capture is more likely to happen and maintaining the "essential balance" between autonomy and embeddedness is harder to sustain. In the same vein, allowing "capture to masquerade as a developmental alliance is the biggest pitfall in the construction of a 21st century developmental state, albeit also a politically attractive proposition, since - as long as they avoid corruption – such states will be applauded by local private elites and global policy-makers (Evans 2010, p.51).

State-business co-operative relationships within the Asian Tigers were among the main reasons for their success, allowing them to pursue common strategic goals. While common education backgrounds of the bureaucratic elites as well as their significant cross penetration have played a key role in generating extraordinary degrees of elite unity and embedded autonomy in South East Asia, this was only part of the story. Public-private cooperation has also been directly engineered by the state elites. In both Japan and other East Asian states which have evolved along the lines of the Japanese model, the state elites have consciously sought to create cooperative relationships with private business via the creation of a series of unusual institutions, often relying on a significant element of compulsion. For Johnson (1999, p.39), this was part of market-conforming methods of state intervention in the economy that in Japan included "the creation of numerous, formal, and continuously operating forums for exchanging views, revising policies, obtaining feedback, and resolving differences, the assignment of some governmental functions to various private and semi-private associations (such as the Japan External Trade Organisation (JETRO)". Indeed, MITI could count on some 250 deliberating councils (Johnson 1985), the most extensive institutional arrangements for reaching agreement between government and industry. Taiwan relies on joint 'industry task forces' which meet at two-monthly intervals, while Korean policy linkages have been most effective in the

famous monthly meetings held at the Presidential Blue House to push exports (Weiss 1995, p.600).

Onis (1991, p.118), citing Wade (1990), notes differences among the Asian Tigers themselves. For example, while Taiwan satisfied the “bureaucratic autonomy” condition of a developmental state, it failed to conform to the “public-private cooperation” condition, differing markedly from Japan and Korea. Due to weak institutionalised links between government and business, industrial policy in Taiwan was implemented through “a rigorous but very different type of policy network linking the central economic bureaus with public enterprises, public banks, public research and service organisations, universities, foreign multinationals with operations in Taiwan, consulting firms, and some ‘special status’ private manufacturing companies linked to the party, military, and economic ministries” (Onis 1991, p.118). This approach could explain the limited number of very large companies to emerge out of Taiwan, compared to Japan and Korea.

Mkandawire (2010, p.71) contends that the challenge in furthering corporatist arrangements is to establish ‘social pacts’ that would ensure the coexistence of ‘patient capital’ and ‘patient labour’ – the idea that labour would forgo some of the gains in productivity on the grounds that capitalists would re-invest the profits to create further productive employment opportunities. South Africa’s National Development Plan (p.5, p.13) has referred to a need by the unions to moderate wage demands as part of their compromise in pursuing a path towards high growth and full employment by 2030. Yet the NDP also recognises that trust levels between business, labour and government are low in South Africa, with labour relations environment “being unduly tense and sometimes violent” – making it almost impossible for the economy to evolve in a more labour intensive manner. Gumede (2011) points out that in the past few years the South African government, organised labour, business and community organisations have failed to agree on a national social pact, making it more advisable to structure sector-based social pacts in the short term.

Yet there is still room for much deeper compromise and partnership in South Africa, it appears. Recent examples of positive reciprocal action between the state and social actors include the May 2010 agreement when the country’s two largest business

organisations Business Leadership South Africa and Business Unity South Africa pledged to develop initiatives to increase the country's power capacity (Gumedé 2011). Similarly, Friedman (2013b) argues that the most important development at the ANC's Mangaung conference held in December 2012 was not the election of Cyril Ramaphosa as the party's deputy president but a clear signal that the government takes business seriously and wants to talk to it, along with other key economic interests. At the conference ANC leaders "repeatedly stressed the need for dialogue and a social compact" (Friedman 2013b).

The ANC in the wake of Mangaung, has offered little more than moral appeals stressing that our current inequality levels are unsustainable. That is, the beginning of a conversation. The nearest it has come to proposals that can be negotiated is its endorsement of the National Development Plan – as this consists of hundreds of pages and almost as many proposals, it falls short of a concrete negotiating position. (Friedman 2013b)

However, Friedman (2013b) observes that business's readiness to talk is far from clear, not least because negotiated compromise requires strong business associations able to bind their members, and South Africa does not have any of these. So far, statements on business's position are little more than repetitions of well-worn stances with innovative proposals for change being few and far between. Yet despite labour being better than organised business to bind its members, it is ill-equipped for bargaining. "The unions are divided on strategy and also more inclined to repeat established positions than float new ideas" (Friedman 2013b).

In sum, while it might appear that negotiations on the six pillars needed to establish a developmental state would be tough, the building blocks for discussion already exist. The country has a tradition of negotiation, with various fora already in regular use for all manner of issues, from annual wage talks to proposed legislative changes. What seems to be missing is the willingness of the government to show the political will and leadership to place on the bargaining table the core principles of a developmental state.

3.5. SELECTIVE INDUSTRIAL POLICY COORDINATED BY A PILOT AGENCY

A key feature among the successful East Asian developmental states was the existence of a nodal agency to coordinate industrial policy. MITI is among the most

well-known, along with Korea's ECB. Through such an agency the state directly coordinated industrial investment, actively directed macroeconomic policy towards developmental goals while also protecting and promoting the widest national interest instead of factional, ethnic or regional interests (Gumede 2011). MITI, as the pioneer among the 20th century developmental states, was also the flag bearer.

The key characteristics of MITI are its small size...its indirect control of government funds (thereby freeing it of subservice to the Finance Ministry's Bureau of the Budget), its "think tank" functions, its vertical bureaus for the implementation of industrial policy at the micro level, and its internal democracy. It has no equivalent in any other advanced industrial democracy (Johnson 1982, p.39)

Also citing MITI as an example, Wong (2004, p.351) states that pilot agencies in South East Asia's Gang of Five served to anchor bureaucracies which were organised hierarchically around such nodal agencies, with vertical lines of authority fostering consensus among state-level policy-makers, facilitating both horizontal cooperation between the line ministries and promoting policymaking efficiency. Johnson (1999, p.40) suggests that it is critical for a developmental state to have a coordinating pilot agency, stating that beyond Japan and the rest of the East Asian newly-industrialised countries, economic growth has produced "severe economic and environmental dislocations together with high levels of structural corruption". The implication is that nodal agencies would have prevented such problems from happening.

Chang (1997, p.7-9) notes that the success of industrial policy in South Africa depends not only on policy coordination between the Department of Trade and Industry and other relevant policy actors, but also on the administrative capabilities of the DTI itself amid "widespread agreement that such capabilities are still inadequate and need to be significantly enhanced." Gumede (2011) refers to a disagreement in South Africa over the central coordinating centre, and whether it should be located in government or in the secretariat of the governing alliance, composed of the ANC, the Congress of South African Trade Unions (Cosatu) and the South African Communist Party. With no single entity having been identified for this role, the government has left coordination in the hands of the Economic, Investment and Employment cluster, although it appears that the DTI is the central agency. This arrangement might to some extent present similarities with Taiwan's Council for Economic Planning and Development (CEPAD) which integrates the leadership of the individual ministries

who are inclined to act as a unit rather than represent client interests. However, it is unclear to what extent South Africa's economic cluster is able to operate independently of the DTI bureaucracy, which is responsible for the implementation of industrial policy. The National Industrial Policy Framework singles out three main areas for attention: intra-governmental coordination at national level, intra-governmental coordination between the three spheres of government, with the strengthening of the organisation and capacity of the DTI being of particular importance. Among other interventions, the NIPF proposes the establishment of an industrial policy think tank, consisting of both local and international experts, that would convene on a quarterly basis to review progress and to advise the minister of trade and industry on industrial policy issues.

However, the necessity for any nodal agency to coordinate policy in South Africa is perhaps constrained by its very limited selective industrial policy. Burger (2013, p.14) argues that South Africa has been unsuccessful in implementing a wider industrial policy that supports state-selected industries. With the possible exception of the automotive industry, no manufacturing industry is "performing spectacularly or contributing significantly to exports", even though the Industrial Policy Action Plan (IPAP) has been in place since 2007-8 (Burger 2013, p.14). Furthermore, the expenditure of the DTI, which administers IPAP, is budgeted to grow to only R11,4 billion over the medium term to 2015-6 (this amount includes R5,5bn to support the improvement of manufacturing competitiveness and R2,1bn for Special Economic Zones). Using National Treasury's GDP forecast, this would constitute only 0,27% of GDP (ibid). The indication is that IPAP's capacity will most likely remain limited, along with the DTI's own capacity to scale up South Africa's selective industrial policy.

3.6. THE STATE'S ABILITY TO DISCIPLINE CAPITAL

A key theme running through the developmental states is the concept of "reciprocity", whereby the state provides the incentives, with companies being expected to reciprocate by meeting certain performance levels (Gumede 2009, p.5). Indeed, as already noted, the ability to discipline capital also set the later developmental state

apart from its earlier manifestation in the 19th century (Chibber 2011, p.3, citing Amsden 1989; Amsden 1991, p.284; Evans 1998, p.67).

The principle of disciplining capital has been strongly illustrated by Chibber (2011, p.9-12) who has shown the failure by the Indian National Congress government soon after the 1945 transition to adopt policies and institutions to use in disciplining capital. This, effectively, culminated in the roll-back of attempts to lay the building blocks of a developmental state in India. At the root of this is the dilemma of import substitution industrialisation (ISI) which presents capitalists with a vested interest in opposing the discipline side of state support. The contrast is export-led industrialisation in the 20th century where capitalists in Korea, among other developmental states, saw the benefit of working with the state to build capacity to confront the much stronger external competition. Chibber (2011, p.8) notes that the immediate effect of ISI is to protect domestic markets from competition from imported foreign goods, a process that results in the domination of many manufacturing lines by a small number of producers. With the threat of external competition extinguished, local capitalists would enjoy monopolistic control of the local market, a move that also eliminated the compulsion to innovate and invest in best-practice techniques. The incentives from the state were not reinvested to upgrade plant and equipment but instead it made better sense to use the resources to start operations in new lines and acquire a 'first-mover' advantage there (Chibber 2011, p.8). In India, this scenario played out in the context of attempts to create a planning commission that would have executive powers and would function as a nodal agency. There had also been plans institutionalise corporatism by creating instruments for on-going liaisons between the state and business representatives. Both of these efforts failed due to resistance by business.

Indian industrialists did not attack the idea of state intervention in the economy; they attacked only its disciplinary components, designed to equip the state with the power to monitor and regulated the flow of capital. Capitalists wanted to maximise the flow of resources coming in from public coffers, while also maximising their freedom over the disposition of this largesse. For this it was critical to block the state's agenda of building institutions which would be capable of imposing discipline. Chibber 2011, p.12).

However, the principle of disciplining capital cannot ignore the ability of market discipline which has the same effect as state action on the behaviour of companies.

Weiss (1995, p.608) has argued that governments in the successful East Asian economies have generally made protection conditional, either by specifying limited duration tariffs and quotas to hasten upgrading and innovation, or by tying protective measures to export obligations. Both Korea and Taiwan pursued such schemes throughout their high-growth era while Japan also used protection as a creative discipline. In Japan's critical electronics industry, companies had to work feverishly to improve productivity and develop technology to meet liberalisation schedules (Weiss 1995, p.608). Upgrading quality standards has been another aim of disciplined support. In Taiwan's early phase of export development, for example, the economic bureaucracy sought to enforce quality standards by making receipt of official subsidies and licensing of new enterprise conditional upon their fulfilment. In the mid-1950s, as the Taiwanese government lifted its ban on the entry of new firms in 10 core industries, it also applied strict performance conditions to the new plants which were required to reach minimum standards relating to size and product quality. More recent cases of disciplined support focus on innovation and upgrading rather than exports, as in the case of new product development in Taiwan's electronics industry (Weiss 1995, p.608).

Roberts (2010, p.232) has argued that in South Africa "the most striking feature of performance since 1994 has been the strong elements of continuity in the industrial development trajectory" and where incentives have been provided, "it appears that firms have not been held to clear conditionalities or performance targets, nor has government sought to use rivalry as a mechanism to induce concerted effort towards achieving industrial development goals" (ibid). It has also been argued that the government has largely placed faith in moral suasion (such as in the commitment by Mittal Steel to agree on a 'developmental steel pricing policy' with the DTI) and an overall emphasis on improving productivity through liberalisation (Roberts 2010, p.232). Hausmann, Rodrik and Sabel (2008, p.12) argue that the test for an industrial policy framework is:

Whether there exist institutions that engage policy officials in an ongoing conversation with the private sector, whether the government has the capacity to respond selectively, but also quickly and using a variety of policies, to the economic opportunities that these conversations are helping identify; and finally whether there are monitoring and evaluation procedures to ensure the policy process is self-correcting.

These conditions do not seem to exist in South Africa's industrial sector, but "the good news" is that many of the elements of a better policy environment are in place (Hausmann, Rodrik and Sabel, 2008, p.12).

-----PART 2-----

4.1. INDUSTRIAL POLICY AND SOUTH AFRICA

The basis for industrial policy is the notion that some activities are more desirable than others and therefore deserve government support or targeting, given the limitations of resources and administrative capacity (Chang 2004, p135). Its main purpose is to "speed up the process of structural change towards higher productivity activities" (Hausmann, Rodrik and Sabel 2008, p3). Selective industrial and trade policies have been practised in most of the now-developed countries in their early days of development in the late 19th and early 20th centuries, persisting into the latter part of the 20th century for some of these countries – such as France, Austria, Finland and Norway (Chang 2004, p.135). Even the rise of industrial America was built upon a Republican policy of high tariffs and open internal markets, an industrial structure remarkably similar to Bismarck's Germany, which in turn served as the basis of the East Asian, and more specifically the Japanese, developmental state model (Wong 2004, p.349). However, the difference with the East Asian success stories has been on implementation. Among the Asian Tigers the state has single-mindedly prioritised economic development – defined in terms of growth, productivity, and competitiveness. As Chibber (2014, p.32) has observed, a developmental state "does not only try to create conditions favourable to more rapid capital accumulation but also tries to effect the direction and quality of investment."

However, there is also an argument that can be made against industrial policy, that the state can structure market incentives to protect vested interests – of itself and those of friends – at the expense of consumers, good jobs and development (Johnson (1999, p.48). In particular, the US is regarded as having an easily lobbied government, with its industrial policies serving the interests of politically-well-connected declining

industries and not high value-added jobs for Americans (ibid). But Chang (2007, p.4) argues that industrial policy can, and should, play an important role in resolving the coordination problems that cannot be easily dealt with by the market mechanism. In any case, the market mechanism is particularly inept at resolving coordination problems that require large-scale changes – such as those required in South Africa (ibid).

To put it bluntly, the attempt to maintain a “California” standard of living for 25% of the population, surrounded by the rest of the population in conditions which are not much better than in most other African countries has created an industrial structure which is not sustainable in the longer run, despite the country’s mineral wealth. To change such industrial structure into one that is capable of improving the living standard of the vast majority of the population who were underprivileged under apartheid within a politically acceptable timeframe is a truly mind-boggling exercise. (Chang 2007, p.4).

Wade (1995, p.133) distinguishes between two types of government ‘intervention’ – leading the market and following the market. Following the market means that the government assists some of the projects that private business people want to undertake at current prices. Leading the market means that the government initiates projects that private business people would not undertake at current prices. In the successful East Asian countries, there was a discernible pattern of government intervention shifting between these two roles in some industries over time, while in others there was little, if any intervention, not even regulatory (Wade 1995, p.133).

But Chang (1997, p.3) refers to the recognition in recent years that industrial policy is more about broad “vision” and coordination than about doling out subsidies or providing trade protection. Indeed, many commentators have pointed out that “the East Asian countries do not necessarily spend more money on industrial policy than others, but that their industrial policy is more successful because they have a dense institutional network of coordination that facilitates information flows between the government and business, on the one hand, and between firms, on the other hand” (ibid).

Chang (1997, p.3) also notes two extremes in the definition of industrial policy - from those who describe it very broadly and include in it every government policy that affects industrial performance including even macro-economic, infrastructural, and education policies – to those who define it very narrowly, and equate it essentially

with a sector-specific targeting exercise. Like Chang (1997, p.3), this dissertation chooses the narrow definition, excluding macro-economic policies or industrial training even though this is important. On the other hand, the South African government takes a broad view of industrial policy, with the National Industrial Policy Framework stating that industrial policy is not the preserve of a single government department and should be aligned with four supporting policies:

- 1). A stable and supporting macroeconomic and regulatory environment
- 2). Appropriate skills development and education systems which are increasingly integrated with the needs of the industrial economy
- 3). Sufficient, reliable and competitively priced traditional and modern infrastructure
- 4). Adequate support for various forms of technological effort within the economy

Industrial policy in South Africa dates back to the promotion of an indigenous steel industry in the 1920s (Barnes, Kaplinsky and Morris 2003, p.3). Subsequently, industrial policy was characterised by import-substitution, preferential purchasing and the picking of “winners” in the selection of certain industries for promotion in the 1960s, 1970s and 1980s. Freund (2013, p.5) has marvelled at the relatively minor importance in South Africa of the clothing and textile industry, which in many countries has been the pioneer secondary industrial sector. Yet from the 1930s, largely due to state guidance, the country managed to leap into the construction of heavy industry (ibid).

The desire to mitigate sanctions against apartheid in 1980s led to the promotion of a coal-based synthetic-fuels capability, along with heavy investment in an uncompetitive off-shore gas deposit, and the bolstering of military capacity (Barnes, Kaplinsky and Morris 2003, p.3). By the early 1980s, the industrial landscape had become complex and “in the context of a small economy, the consequence of a large number of protective tariffs and non-tariff barriers was that these in effect had become firm-specific” (Barnes, Kaplinsky and Morris 2003, p.3).

Due to balance of payments issues which were constraining economic growth, two major changes were made in the late 1980s. First, as a result of efforts to clean up the protective regime, non-tariff barriers were replaced by tariffs, which were simplified,

and second, due to the influence of the success in South East Asia, exports were promoted through a subsidy scheme based on the degree of value-add (Barnes, Kaplinsky and Morris 2003, p.3). While there were a number of reasons for this, including the influence of the World Bank and other parties promoting policy in the new dispensation, “perhaps the most persuasive was the judgement that the new government lacked the administrative capacity to define and implement selective industrial policies” (Barnes, Kaplinsky and Morris 2003, p.5). However, among the selective sectoral programmes that survived were two that affected the automobile and the textile and clothing sectors. Yet the post-apartheid state sought to make changes, beginning with the move to “supply-side” industrial promotion to restructure the production side of the economy in order to deal with the increased global competition introduced by trade liberalisation (Chang 1997, p.6). This was in contrast to expensive and ineffective export support measures such as the “demand-led” General Incentive Scheme (GEIS), which tended to subsidise exports that would have occurred anyway (A Industrial Policy Framework, Department of Trade and Industry). More effort was placed in reducing the number of tariff codes and a commitment was made to bring tariffs in line with the requirements of the General Agreement on Tariffs and Trade (GATT). According to Barnes, Kaplinsky and Morris (2003, p.4) the logic was to “force domestic industry to sharpen its competitiveness and to reduce the cost of inputs for user-industries” while export subsidies were removed because they were very costly (the value of subsidies were about 0,5% of GDP at their high point in the mid-1990s), were subject to corruption and in any case were becoming GATT-illegal. The new government’s macro-economic policy was also geared at enhancing greater competitiveness, not just through tariff reform but also as defined by a new competition policy, while also ensuring greater transparency in the incentive system, along with achieving macroeconomic stability. But almost universally absent in the new regime were the selective policies widely adopted in East Asia and in previous import-substituting policy regimes (Barnes, Kaplinsky and Morris 2003, p.5).

The launch of the Accelerated and Shared Growth Initiative South Africa (ASGI-SA) in February 2006 was accompanied by an industrial strategy – A National Industrial Policy Framework - that declared the need for inter-departmental coordination towards the government’s vision of a more labour-absorbing industrialisation,

together with the movement towards a knowledge economy. The first Industrial Policy Action Plan (IPAP) was launched in August 2007. Its provisions included strengthening of the Competition Act to introduce stronger investigative powers and personal liability, finalisation of a revised new support programme for the automobile and clothing and textile sectors².

In February 2010, almost a year after taking office, the Zuma administration launched a revised IPAP for 2010/11 – 2012/13, or IPAP2. This was followed eight months later by the unveiling of a New Growth Path whose aim was to create five million new jobs by 2020 “by identifying areas where employment creation is possible on a large scale as a result of substantial changes in conditions in South Africa and globally”³. It was also decided that a one-year IPAP is too short a period and that future IPAPs would be for a three-year rolling period, updated annually and with a 10-year outlook on desired economic outcomes. IPAP2 made the case for dedicated industrial financing; leveraging procurement; adopting developmental trade policies. IPAP2 also fed into agro-processing; advanced technological capabilities in the nuclear, materials, aerospace and ICT industries; the Green economy; downstream mineral beneficiation; strengthened linkages between tourism and cultural industries; and stronger integration between sector strategies, skills development plans and the commercialisation of publicly funded innovation⁴. IPAP2 was upgraded a year later to the Industrial Policy Action Plan 2011/12 – 2013/14, many of whose targets overlapped with the New Growth Path. However, it also includes two new sector-specific programmes on boat-building and oil and gas⁵.

On November 11, 2011, yet another plan – the NDP – was released by the National Planning Commission. Described as the best “of all the plans we have been bombarded with by the ANC and its governments in the past 17 years” (Business Day editorial 14 November 2011, p.10), it focuses on creating jobs, expanding infrastructure, transitioning to a low carbon economy, promoting manufacturing in areas of competitive advantage and lowering the cost of doing business, among other proposals.

² Industrial Policy Action Plan 2010/11-2012/13, p.3

³ The New Growth Path Framework, p.1

⁴ Industrial Policy Action Plan 2010/11-2012/13, p.16

⁵ Industrial Policy Action Plan 2010/11-2012/13, p.10

4.2. A FAMILIAR ROAD

As will be seen, the ANC is officially pursuing the establishment of a developmental state, having approved such policy in 2007. But Fine (2010, p.174) argues that “if South Africa has ever been a developmental state, it might be considered to have been such more so in the past than now or in the immediate future.” However, it is arguable if during this earlier period the government fulfilled the six defining principles of a developmental state set out in this dissertation:

- 1). Economic growth and competitiveness as the state’s overriding priority
- 2). A labour market and education system geared towards growth
- 3). A Weberian bureaucracy insulated from political interference
- 4). Embedded autonomy which, in spite of the close relationship between the state, labour and capital, allows the state to lead development without being captured by vested or sectional interests.
- 5). Selective industrial policy coordinated by a pilot agency
- 6). The state’s ability to discipline capital

Freund (2006B, p.3) draws attention to the foundations laid by Pact government established between the National Party and Labour Party in 1924, although it was under the premiership of Jan Smuts in wartime (1939-48) that the basis of an industrial society were laid in terms of social security, education and urbanisation. It was during this time that the foundation of the Council for Scientific and Industrial Research, the Industrial Development Corporation and other bodies was set. Credit was given to Smuts whom Freund (2006B, p.3) says was influenced by Keynes and the New Deal and was able to take the role of the state forward (Freund 2006B, p.3).

South Africa came to fit very well into the rubric of developing countries which sold valuable natural resources or agricultural goods to the world and threw a wall of protection around home industries. This encouraged foreign companies, notably major automobile manufacturers, to produce within South Africa for a local market. Later other parastatals were established, with more and more emphasis in the apartheid era on security concerns, such as SASOL (coal into oil) and ARMSCOR (armaments, including aircraft). (Freund 2006B, p.3).

The background is that until 1939, the United Party government under General Hertzog had contained developmentalism but “within an atmosphere of caution and fiscal conservation”. This changed under Smuts. Key elements were the initiation of a series of commissions intended to consider all aspects of government policy, social and economic, the establishment of new institutions which could regulate and take forward overarching policies outside the normal work of ministries and the furtherance of the existing parastatals, ESCOM and ISCOR, along with plans to create new ones (Freund 2006B, p.7). Just as significant was the coming together of a dedicated elite.

...it is important to stress that the core activists around (HJ) van der Bijl who had Smuts’ ear, represented just the sort of small, personally close kind of elite circle that developmental state theory stresses are crucial. Frederick Meyer, German-trained like van der Bijl and with a faith in the power of steel, and HJ van Eck, perhaps van der Bijl’s chief advisor, were key lieutenants who remained significant figures in the National Party era. Schonland, a geophysicist who helped in the applied development of radar, was a wartime scientific adviser of importance. He succeeded in bringing a range of autonomous state-initiated research organisations into the more centralised CSIR penumbra. (Freund 2013, p.9).

However, Freund (2013, p.15) notes that in its last years the Smuts government was not such a reforming agent but was in a coalition split by pressures arising from the opposition’s growing popularity among Afrikaners. While after 1948 the National Party in power did purge the most prominent liberal voices on race and social policy, it retained existing structures, including the development of a coal into oil parastatal (SASOL, founded in 1955) based on wartime German technology, along with advances in nuclear research (Freund 2013, p.15).

Max (2015) explores developmentalism and planning for industrialisation under Hendrik Verwoerd, through his approach to the Orange River Dam Scheme, the largest building scheme during his time as prime minister. It was to be a symbol of the new republic as a modern state moving into the future. The building of the dam commenced after 1965, was opened in 1971 and named the Hendrik Verwoerd Dam. The name was later changed in the 1990s to the Gariep Dam.

The dam was expected to contribute to a more even distribution of the white population, because it provided the local population with water and electricity. It was supposed to accelerate the decentralisation of industry, especially in the interest of establishing industrial production sites close to the Bantustan borders, a central project of apartheid. Since the dam was situated at the middle part of the Orange River, it remained under white control. As a consequence of the

dam, more whites should settle in what used to be a region with a strong coloured population. White settlement should help to secure white control in the long run. (Max 2015)

Due to the complexity of the project and its intentions – including agricultural research, planning and mechanisation, the prime minister established an inter-departmental commission chaired by the chairman of the economic advisory board, which in turn was part of the prime minister's office.

Fine (2010, p.174-177) contrasts the pre-1994 state's positive intervention in the economy, especially in the mineral energy complex, to the democratic state's failure to galvanise the interests of "conglomerate capital" for internal development purposes. Instead, the post-apartheid state has been more concerned with macro-economic policy, with the power crisis experienced after 2007 being "indicative of the absence of a developmental state in South Africa (ibid)"

However, Chang (1997, p.2) is not as praising of the South African state's old developmental credentials, and is critical of its industrial policy:

Despite some considerable successes in establishing certain critical upstream industries based on natural resource advantages, South Africa's industrial policy under the apartheid regime was burdened with many objectives that ultimately undermined its viability in the long run – such as the building up of Afrikaner capital, job creation of Afrikaner workers, military objectives, evasion of international sanctions, and the satisfaction of the aspirations of the elite consumers to imitate the consumption patterns of the most advanced economies. However, thanks to its outstanding natural resource wealth, the country was able to sustain such "irrational" industrial policy for a considerable length of time.

Marais (2001, p.21) is also not as impressed with apartheid South Africa's developmental state approach which he compares to the later example of the Asian Tigers, stating that rather than adopt a 'hands-on' role throughout the economy in terms of a comprehensive strategy, the apartheid state sought to establish optimal conditions for capitalist growth to occur. This was done by erecting high tariff and non-tariff protective walls around vulnerable industries, setting up massive parastatal corporations and expanding and upgrading transport and telecommunications infrastructure (Marais 2001, p.21). On the other hand, the East Asian Newly Industrialised Countries (NICs) restructured capitalist production by intervening in investment and production decisions, research and development to move from the import-substitution stage to a primary export-substitution stage. In Taiwan and South

Korea, focus was on the production of non-durable, labour-intensive goods and the development of markets for them. This path addressed the problem of an urban influx of workers from ailing agricultural areas, by structuring the economy in ways that would absorb the labour surplus.

In contrast, South Africa chose to persist with an exclusionary regime of accumulation, barricading the labour surplus on the periphery which took economic, social, political and geographic forms. Furthermore, the growth model favoured capital-intensive industry, which meant limited absorption of labour surplus, and an (increasingly mechanised) agricultural sector marked by very low wages and dismal working conditions. Dependency on the reproduction and exploitation of cheap African labour increased, chiefly in the mining and agricultural sectors, thus elaborating and intensifying a process which had been integral to the development of capitalism in South Africa (Marais 2001, p.21-22).

Even then, statism in the apartheid state is widely seen as having been a positive force now worth emulating, albeit only for the white minority. However, Chang (2010, p.88) points out that South Africa also “has a unique negative political condition for the developmental state” – its energy-mineral conglomerates, with “unusually globalised links and capabilities for firms from a developing country”. The mining industry was for a long time the dominant player and the only sector that could contest much with the state, until the rise of conglomerates in other sectors and the men who controlled them (Freund 2006B, p.15).

The national scene was dotted with weighty characters whose rise had certainly been at the least blessed by the Afrikaner National politicians. Some of the most eminent were Albert Wessels who ran the autonomous South African operations of Toyota, which became the most successful automobile manufacturing venture, Bill Venter, the most important figure in the development of information technology in the country, the colourful Louis Luyt, fertiliser king and the richest of all, Anton Rupert, whose Rembrandt Corporation arose from cigarette manufacture. The web that linked bureaucrat, businessman and politician was an intricate one. In this sense, South Africa really did qualify as a developmental, late industrialising state with a particular sort of power elite that reflected the particularities of Afrikaner nationalism. (Freund 2007, p.4).

In sum, pre-1994 South Africa gave rise to key institutions such as the Industrial Development Corporation that promoted industrial innovation, especially in the development of oil-from-coal, leading to the birth of SASOL, and in the armaments industry through ARMSCOR. Focus on capital intensive industry prevented the adoption of excess labour. Indeed industrial policy was overburdened by too many other goals underpinned by the defence of apartheid. The system’s developmental role was rendered unsustainable by its reliance on the exploitation of black labour which was also confined to homelands, preventing the development of a much larger internal

market. In any case, South Africa during this period did not meet all six conditions that this paper has ascribed to a developmental state: making economic growth and competitiveness its top priority and supported by a requisite education and labour policy, selective industrial policy coordinated by a pilot agency, developing a professional public service, achieving embedded autonomy, along with disciplining capital. The government's many goals and its contradictions on the race questions interfered with the focus of a South East Asian-type developmental state. However, there were similarities. This included a hostile environment that bolstered the nationalistic vision among the elite and the long-term commitment to the transformation of the economy, brought about through interventions to support new technologies and effect the direction of investments.

4.3. FROM MBEKI TO ZUMA: THE RHETORIC OF A DEVELOPMENTAL STATE

South Africa's governing party, the ANC, has committed itself to creating a developmental state, making the country among the few that have explicitly voiced their intention to construct a developmental state unlike other countries which were so labelled after the fact (Edigheji 2010, p.2). Satgar (2014, p.136) describes South Africa as a "declaratory developmental state" in view of the rhetorical pronouncements over this intention. This suggests that there has been little or no elaboration of the type of developmental state that the government in South Africa has sought to create. Thus the debate in South Africa has taken place in an environment where the term is used loosely, to refer to a general desire for economic growth and better living standards, without necessarily tying meaning to specific conditions. This is not entirely surprising as Johnson (1999 p.43) states that the developmental state is "both particular and generalizable", existing in "time and space in East Asia and also exists as an abstract generalization about the essence of the East Asian examples".

Thus the call for a developmental state is sometimes dismissed as utopian or ideological posturing (Gumede 2011). But Burger (2013, p.16) notes that despite divisions in South Africa on the desirability of a developmental state, "criticism of the developmental state from both business and the opposition Democratic Alliance disappeared once the government adopted the NDP".

Reference to the term 'development state' in South Africa gained momentum under the administration of President Thabo Mbeki despite suggestions that conditions that favoured the creation of a South East Asi-type developmental state had existed since 1994 (Southall 2007, p.21). The need for compromises across and between classes and the articulation of a common vision had been underpinned by the accommodation reached between established capital and the ANC, a democratic constitution that balanced majority and minority rights, the broad representation of the ANC itself, along with Nelson Mandela's message of reconciliation (Southall 2007, p.21).

However, some commentators have looked to the configuration of the South African state in searching for clues on why a developmental state vision was not articulated as early as 1994. The structure of the present South African state can be traced to the nature of the conditions following the negotiations that led up to the democratic transition whose effect was condemned by some as "an incomplete transformation" (Mare 2003, p.35). Southall (2007, p.4) notes that while the ANC had wanted a strongly centralised state to replace fragmented and racially divided apartheid governance structures, what emerged from the pre-1994 negotiations was a compromise three-tiered government, encompassing national, provincial and local authorities. However, this does not mean that the South African state is weak. Since 1994, the ANC has won all four general elections with huge majorities that would allow for the government to push through with the six pre-conditions for establishing a democratic developmental state cited in this paper: prioritising GDP growth and competitiveness, developing a labour market and an education system geared towards growth, identifying a pilot government agency to coordinate industrial policy, nurturing a professional public service with the ability to discipline capital as well as cultivating embedded autonomy from the existing corporatist relations.

After President Mbeki won a second term of office in 2004, there was talk of South Africa being on the cusp of change in economic policy in the form of a "third way" (Daniel, Southall & Lutchman, 2005, p.xxvi). "From being a neo-liberal lapdog, based on the adoption of the GEAR strategy in 1996 characterised by tight monetary regulation, privatisation and enthusiastic promotion of international investment and trade as the locomotive to take the country out of poverty, President Thabo Mbeki has shifted instead towards visualising the country as a developmental state" (Freund

2007, p.661), citing Bond 2000, Marais 1998, Padayachee & Valodia 2001). Feeding this perception were the shortcomings of GEAR - measured as a five-year programme ending in 2000 – that it had “not succeeded in addressing the pressing needs of the population, particularly with respect to the redistribution of economic spoils” (Fikeni 2008, p.9).

Freund (2006A, p.4) suggests that by seeking to move away from GEAR, Mbeki had found South East Asia’s economic transition quite appealing – especially the creation of a large internal market and the subsequent empowerment of women – but is regarded to have been against privatisation (although the South East Asian developmental states were largely private sector driven), viewing parastatals as having a key role to play in the economy. Furthermore, the view was that Mbeki’s “commitment to a New International Order globally is palpable and he has chosen to try and align South Africa with countries such as India and Brazil to this end” (ibid).

The demonstration of South Africa as a well-run efficient participant in the global economy that plays by the rules but is managed by the ‘previously disadvantaged’ is extremely important to Mbeki and his team.... At the heart of their vision is the emergence of a new nationally-defining elite that transcends the boundaries of private and public, a new power elite (Freund 2006A, p.4)

Kagwanja (2009, p.xxxvi) notes that discussion on the concept of a developmental state took place at the 2002 ANC congress in Stellenbosch, gaining momentum in the run-up to the elections in 2004, and especially around the local government elections of 2006. In the ANC itself, the case for a developmental state was formalised in 2005 in the document: ‘Development and Underdevelopment’ that drew lessons from East Asia. The ANC’s key document, ‘Strategy and Tactics’ adopted in June 2007, declared a developmental state as party policy. The policy was later adopted at the Polokwane conference (Kagwanja 2009, p.xxxvi). The government’s commitment towards a developmental state was also reflected in the ANC’s manifesto for the 2009 general election, with such an undertaking now a recurring theme in government policy documents (Edigheji 2010, p.1).

However, Kagwanja (2009, p.xxxvi) has noted that it was not always clear if the notion of a developmental state in South Africa was meant to replace GEAR policies “or whether the developmental state will formulate and implement policies that will

co-exist with GEAR.” Furthermore, aspirations for a developmental state are threatened by “worryingly dysfunctional” aspects of the state (Southall 2007, p.20). These include the limited technical capacity of public service associated generally with human development shortcomings. The second major concern was the lack of national coherence, arising from the negotiated settlement that brought together former enemies in a country where for generations personal circumstances were mainly determined by race (Daniel, Southall, and Lutchman 2005, p.xxxiv). But the ANC has found the idea of a developmental state quite attractive. Edigheji (2010, p3) notes that:

The desire for and much of the debate around the developmental state in South Africa is that it is seen as a panacea for the country’s social, economic and institutional problems. As an example, the developmental state is seen as a way of building the capacity of the state; it is envisaged as having the necessary capacity to provide base goods to citizens and thus able to put an end to the spate of service delivery protests, in their thousands annually, that the country has witnessed in the last decade.

Bond (2009, p.1) contends that in the South African context, the concept of a developmental state hides more than it reveals and is used to mean “a combination of macro-economic neoliberalism and unsustainable megaproject development, dressed up with rather tokenistic social welfare policy and rhetorical support for a more coherent industrial policy.” His description is a persuasive assessment of what could be described as the failure of the post-1994 governments to take advantage of the existing environment and aggressively move ahead with the planned policy transition.

Terreblanche (2008, p.117) cites four reasons why a developmental state would be difficult to create in South Africa:

1). The lack of capacity in the public sector, which is neither efficient nor well-disciplined, makes it unable to live up to the developmental challenge. To blame for this was the belief in the early 1990s that the private sector would deliver key services amid a perceived roll-back of the bureaucracy. Coupled with this was the rapid ‘Africanisation’ of the bureaucracy since 1994 on the basis of affirmative action and BEE policies. The result is that the public service is now characterised by careerism, nepotism, corruption, with many of its senior officials guilty of questionable moral behaviour.

2). The second impediment is the business culture of materialism, individualism and obsession with the bottom line cultivated in South Africa during the periods of racial capitalism and globalisation.

3). The third point is the huge bargaining power wielded by organised businesspeople living in the modern sector, compared to the extreme powerlessness of those living in the “second economy”. This massive bargaining power of organised business is based on the elite pact negotiated between the leadership core of the ANC and local and global corporatism. The pact has been strengthened over the years through strategic concessions to the corporate sector. The terms of this pact restrict the ANC government’s sovereignty to act effectively on behalf of the poor, as is also the case with other governments in the global South.

4). Another stumbling block – which Terreblanche describes as the most stubborn - to South Africa’s developmental state ambitions is the country’s extensive involvement in the “American empire” and the consequent stranglehold of global institutions, such as the World Bank, the International Monetary Fund, the World Trade Organisation, the Washington Consensus, international monetary institutions and credit rating agencies, as well as transnational corporations. According to Terreblanche (2008,p.117), these global institutions do not promote development in the South, as they claim to, but seek to incorporate only the propertied classes and the privileged groups in developing countries into the global economy game.

Burger (2013, p.2) argues that the South East Asian model is neither a model that would work in South Africa, nor a model that South Africa would wish to apply. Citing Bernard and Boucher (2007, p.220-6), Burger (ibid) distinguishes three types of states (curiously leaving out the developmental state): the Anglo-Saxon liberal state, the Scandinavian social investment state and the continental transfer welfare state. He argues that South Africa resembles a transfer welfare state rather than an East Asian-type developmental state. In a liberal state private investment by individuals is responsible for the care of dependents, education, training and life-long learning and health. Thus the government spends less on social goods and needs to raise less from taxes and thus fiscal sustainability is less likely to be a problem, with growth being robust and market-driven. In contrast, the social investment state is responsible for social investments and thus the government needs to spend more.

However, despite the trade-off of higher taxes to pay for social services such countries are still able to remain competitive and grow the tax base. However, by comparison the transfer welfare state has a larger component of passive social transfers such as old-age pensions and generous unemployment compensation. Burger (213, p.4) states that while inequality could be significantly reduced in such a state, high transfer expenditure puts pressure on a limited tax base, resulting in fiscal strain. Therefore, a transfer welfare state is unlikely to boost productivity, international competitiveness and growth – a position South Africa finds itself in (ibid).

Southall (2006, p.xxii) suggests that there are three broad strands in the debate around a developmental state in South Africa. The first is the position of economic liberals, the second by ‘Jacobins’ and the third by admirers or advocates of the developmental state. The economic liberals fear a “developmentalism” that panders to the narrow interests of the ANC elite. Their position is best illustrated by the opposition Democratic Alliance which has argued in a critique of the developmental state that:

Firstly, under the ANC the state has been turned into a closed, patronage-based system – used to enrich a cabal within the ruling party and reward its cronies through various forms of ‘deployment’....Secondly, many state institutions are dysfunctional. They are split into ANC factions and used to wage internal political battles. If the ANC was serious about making the state functional (let alone developmental) then the ruling party would abandon its policy of cadre deployment and make appointment to public service dependent on fitness for purpose. (Democratic Alliance, 2010).

The DA argues that the ANC is punting the notion of a developmental state to “sugar-coat” its real political agenda, which is to “conflate party and state, centralise power, entrench executive control and subvert the constitution” (Democratic Alliance, 2010). Yet Gumede (2011) cites the UNCTAD report on developmental states (2007, p.61) which argues that “neither the ‘market’ nor the ‘state’ can by itself deliver development. Rather, “the real path to sustainable growth and development emanates from a pragmatic mix of markets and state action, taking into consideration the country-specific development challenges (ibid).

Southall (2006, p.xxvii) describes the Jacobins as espousing a nationalist position that only a genuinely South African capitalism – a patriotic black bourgeoisie – rather than one externally directed by monopolistic multinationals, can set the country on a development path to benefit all people. On the third category, composed of admirers

and advocates of the developmental state, Southall (2006, p.xxvii) notes that the developmental state idea offers “experiential support” for the view that states in the South must intervene extensively but appropriately, recognising that there are no general truths that must be slavishly adopted.

Freund (2006A, p.5) has termed South Africa’s developmental state model as “superficial” since the “deep social interventions typical of the Taiwans and the Koreas but also the Israels and the Turkeys, is so far missing”. Freund (2006A, p.5-6) argues that conditions in South Africa are very far from the world of a developmental state.

At base, the government has failed to substantially increase skill levels, to create jobs or to tackle poverty in a substantial way. Large sums of money are devoted to aspects of what is called delivery, the poor do benefit from enhanced transfer payments but the basic conditions of life for much of the population resemble those further north in various much poorer African countries. It is sobering to note that according to the best statistics available, for example, the science and maths knowledge of young South Africans ranks on average below that of many other African countries with dramatically lower GNPs even without distinguishing by race or by quality of school. The reality is an education where budgets go towards a parasitic, relatively incompetent bureaucracy that creams off resources and is spectacularly inefficient by comparative standards (Freund 2006A, p.6-7).

Taking South Africa’s ideological pronouncements a step further Satgar (2014, p.136), describes the country as a ‘green developmental state’ which since 2010 has attempted to “green the globalised accumulation model engendered through neoliberal state practices.” Yet even on this premise South Africa does not match up to the rhetoric, as the state reproduces “an ecologically-destructive minerals-energy complex”, not least through maintaining its coal-fired energy path and its commitment to exploit the Karoo’s shale gas reserves (Satgar 2014, p.148).

A month after President Jacob Zuma’s election in April 2009 he appointed a 23-member national planning commission to draft a ‘Vision 2025’ and a long term strategic plan for the country. This seemed in line with the desire for a democratic developmental state, partly because the Revised Green Paper: National Planning Commission, states that “the mobilisation of society around a common agreed set of long-term goals is a key aspect of a successful developmental state.” Implementation of the developmental state in South Africa should now be seen in the context of the National Developmental Plan, but as will be seen, adoption of the plan is caught in uncertainty. To date there has not been any tangible configuration of the state to make good on its stated intention of establishing a developmental state. To be fair, however,

the NDP advocates for ties between business, labour and capital and refers to creating an efficient bureaucracy. The government appears to be attracted by the economic success achieved in South East Asia and yet is unable to turn rhetoric into reality and change the piece-meal approach into coordinated action. For example, in October 2013 the government announced the set-up of a school of government to provide compulsory training for public servants, in what was described as a decisive move to build a “capable state” (Marrian, 2013A). It was envisioned that by 2016 nobody would enter the public service without having passed through the school. Planning Minister Trevor Manuel, who was due to take a sabbatical to impart his 20 years of government knowledge to trainees, said the school was among the first examples of the implementation of the NDP (Marrian, 2013A). However, no plan has been released over how this would be achieved.

In sum, as has been seen, the government’s failure on the first of the six pre-conditions for establishing a developmental state – prioritising competitiveness and economic growth – is provided by Freund (2006, p.1) who suggests that the ANC’s defining ambition has historically been of a “united African nationalism transcending tribal or class distinctions”. Yet Freund (2007, p.664) also argues that the strongest element in South Africa being labelled a developmental state lie in its efforts, largely through its Black Economic Empowerment policy, “to create a new elite able to navigate the waters of corporate South Africa but fundamentally loyal to the ruling African National Congress and tied to its hegemonic political control of the country.” While a form of BEE policy is necessary if the ANC is to have an embedded elite, so far it is unclear if BEE has wider capabilities in economic and social transformation or if it is creating a class of parasites dependent on an older class with only uneasy linkages to the regime (Freund 2007, p. 669-670). This is also in line with the thinking among the “Jacobins”, whose view of a developmental state in South Africa is that only a black South African capitalism can set the country on a developmental path for the benefit of citizens.

South Africa’s ambitions of setting up a developmental state are wrapped up in pronouncements rather than tangible action. Furthermore, reference to a developmental state in South Africa hardly offers a clear definition, resulting in the envisaged state constituting of a loose collection of variable and general principles

pertaining to efficiency, economic growth and the general well-being of citizens. The government is unable to prioritise economic growth and competitiveness and, instead, seems wrapped up in looking for opportunities to favour the previously disadvantaged.

4.4. THE NATIONAL DEVELOPMENT PLAN

The National Development Plan, which was approved by Cabinet in September 2010, can be seen as an attempt by the Zuma administration to give a sense of mission to the task of transforming South Africa. The SACP has celebrated the NDP as “a democratic (and not authoritarian) version of the developmental state we are seeking to build” (Bua Komanisi). However, the party also states that the NDP has become a useful pawn for political contests, “becoming a political football being used opportunistically by some elements within Cosatu and by the DA and other opposition parties” (Bua Komanisi). It remains to be seen if the outcome of the NDP is indeed a developmental state, although the method of seeking to have stakeholders and citizens rally behind a national vision does give rise to optimism. Given the broad support that the plan has received, including its endorsement by the biggest political parties and by the Cabinet, it may just be the much-needed exception to the observation by Ndletyana (2013, p.51) that the South African state “has performed relatively well in areas where it is called on to act alone, but less so in areas that demand a collaborative effort with labour and capital.”

The NDP can perhaps be criticised for seeking to be all things to all people. Amid a multiplicity of both social and economic goals and objectives – from poverty reduction, redress and the promotion of good health; to employment creation, export development and economic growth - it lacks the single-minded pursuit of a core objective, characteristic of the Asian Tigers whose *raison d’être* was economic growth and the expansion of export markets. However, what does come through is a general desire to see more economic growth and job creation, from which a trickle down towards full employment and poverty reduction would occur. Indeed, under Zuma “the desire for much of the debate around the developmental state in South Africa is

that it is seen as the panacea for the country's social, economic and institutional problems" (Masilela 2013, p36, citing Edigheji (2010, p.3).

Friedman (2013a) has, however, described the NDP as "less a plan than a basis for negotiation". The question is not whether the government accepts or rejects it but which sections it accepts – and this might depend on whether interest groups pick on ideas in the NDP and campaign for them (Friedman 2013a). This, perhaps, is the challenge of implementing a democratic developmental state in that debate, discussion and consensus must be seen as the cornerstone of policy. However, even before tangible evidence of the NDP's implementation, Matshiqi (2013) notes that it has now "become fashionable" for ANC ministers to claim that they are implementing the NDP to justify their extravagant claims. For example, Zuma and Finance Minister Pravin Gordhan claimed, in the 2013 State of the Nation address and budget speech respectively, that the measures they were announcing were the beginning of the journey that implementing the NDP would entail (Matshiqi 2013).

Masilela (2013, p.36) finds it noteworthy that while the draft National Development Plan (November 11, 2011), which was circulated for public comment, only makes reference to a 'capable state', the final version released in August 2012 refers repeatedly to a 'capable and developmental state'. Masilela (2013, p.36) describes this addition as "surprising" given the constant commitments of the ANC towards the construction of a developmental state in South Africa – beginning with the mid-2005 National General Council, through to the party's 52nd national conference in Polokwane in 2007, culminating with the 2009 general election manifesto. But Masilela (2013, p.37) dispels any notion that the belated references to a "capable and developmental state" in the final version of the NDP could be equated to the insertion "of radical policy prescriptions in favour of a more interventionist state".

However, given the difficulty of striking a compromise and moving ahead with implementation of key and even unpopular NDP proposals, Friedman (2013c) argues that the Zuma administration could emulate the second terms of Brazilian Workers Party president Lula Inacio Lula da Silva whose main feature was that it was explicitly based on avoiding a fight with business and the affluent. This came amid Lula's belief that it was possible to reduce inequality and poverty without taking on

the rights and prerogatives of the economic elite. “If Zuma’s administration wants to go that route, it would have to concentrate not on policy change but on making the government work better for the poor” (Friedman 2013c).

Worryingly, the NDP makes scant mention of industrial policy, resulting in harsh criticism by Cosatu (2013), which says about the manufacturing industry:

The plan gives this vital sector virtually no attention, and dispenses with it in half a page. There is certainly no sense that the sector should be the engine of the new growth path; it fails to engage with the role of the state, the IDC, parastatals, macro-economic stimulus, competition policy, regional development and industrialisation, etc. in promoting a vibrant manufacturing sector. The only role accorded to the state is in creating an environment which makes it easy to do business, to promote local procurement, and soothing a volatile currency (Cosatu 2013).

While it is possible that the NDP would have left the nuts and bolts of industrial policy to other interventions, like the NGP and IPAP, Cosatu (2013) says the NDP simply fails to advance this industrialisation vision but “rather proposes strategies which entrench some of the worst features of the old growth path.” But the Democratic Alliance (2011) celebrates this lack of state-led industrialisation, stating that the “authors of the policy, like the DA, understand that creating an enabling environment for growth is the only way to create jobs and lift people out of poverty”.

Friedman (2013a) has persuasively argued that there is confusion over the role of the National Planning Commission and the NDP, mainly because most people have not read the document but have ascribed meaning to both the NPC and the NDP on the basis of the personalities driving the process. For example, contrary to perceptions, the NPC has never been a government planning commission despite its name. As Friedman (2013a) explains, when the NPC was established, the left of the governing alliance complained that it would have too much power if it was responsible for planning and so it was told to come up with a vision for the next 20 years, to frame government plans.

Confusion about the commission’s role is not surprising if we consider the muddled debate on its chief product, the NDP. There are two NDPs – the one in the public debate and the one the commission produced. The one in the public debate promises to do whatever business wants done, from freeing up markets to making government serve business better. The one the commission produced sends comforting messages to business and its opponents. The one the debate discusses is a plan that can be implemented immediately. The real one is nearly 500

pages long and so could not possibly be implemented by any government within decades – even if it was entirely consistent on what needs to be done, which it is not. (Friedman 2013a)

Friedman (2013a) suggests that when people get around to reading the NDP, they discover that its message is much more mixed than they thought. The reason why those who have not read it are keen to accept or reject it is because they believe they know all they need to know about the NPC – because of the prominence of its chairman, along with his reputation.

Among the NDP's most vocal critics is the Nation Union of Mineworkers which has described it as a "right-wing document", copied from the DA (Marrian 2013). The DA itself (2011) voices broad support for the NDP, expressing surprise that the "adoption of the DA's vocabulary throughout the NDP is striking". The party is among those that seek to appropriate the document for their own ends, stating that the NDP "borrows much of the same analytical framework that underpins our political philosophy – the open, opportunity society for all". However, according to Friedman (2013a):

The fact that Trevor Manuel chairs it – and, at least until recently, that Cyril Ramaphosa is its vice-chairman – heartens pro-business interests because they see Manuel and Ramaphosa as politicians who take business and middle class interests seriously. The left of the alliance opposed the NPC for precisely that reason, which is why some in the Congress of South African Trade Unions insist the NDP is a Democratic Alliance-inspired plot against the people. The truth about Manuel and Ramaphosa is far more complicated. But, more to the point, so is the truth about the NPC and the NDP.

Endorsement of the NDP now pushes the political battle from its composition and terms of reference towards implementation. This will be the culmination of a contested process in which the ANC has faced more opposition from within than from without. In its 23-page critique of the NDP, Cosatu (2013) also raises a number of other points against the NDP, including that: "Despite the NDP's concern about the need for greater investment in society, it gives no role to the state in directing investment. There is nothing about prescribed assets to direct investment by the financial sector into the productive sector, or the use of taxation to penalise speculation, and to reward real economy investment etc."

The South African Communist Party is also scathing of the NDP, accusing the NDP of fudging - in the name of building a national consensus and a shared national "road-

map” - the two divergent positions representing the ANC and its alliance partners on the one hand and the DA, the big business lobby and most of the commerce media, on the other (Bua Komanisi). According to the SACP, the former position is based on the understanding and the broad consensus on the need to move into a second and more radical phase of the national democratic revolution. Key pillars of this second phase include placing the economy on a new labour-absorbing growth path through, among other things, a multi-year, state-led infrastructure programme, linked to the re-industrialisation of the economy, including greater beneficiation of South Africa’s natural resources. Amid such debate, the government appears to have lost its voice, along with the will to direct the NDP project towards creating a developmental state, buttressed by the six pillars cited in this paper.

-----PART 3-----

5.1. RESEARCH OBJECTIVES

The research looked into two of South Africa’s priority sectors: the automotive industry and the relatively newer business process outsourcing (call centre and offshoring) sector. The study centred on how closely South Africa’s industrial policy, as implemented by the Department of Trade and Industry (DTI), abides by the main principle of disciplining capital as implemented by the successful Asian Tigers – Japan, South Korea, Taiwan, Hong Kong and Singapore. In these countries – but especially in Japan - the ability to discipline was closely tied to strong corporatist links, both formal and informal, between the companies and the bureaucracy, allowing for the setting and pursuit of common goals. Among the Asian Tigers, because of such discipline imposed over the performance of firms located in strategic sectors, poor performers were penalised in various means, not least by being allowed to fail. South Korea used its industrial licensing policies to limit the number of firms allowed to enter an industry (Onis 1991, p.113). The government in Korea also disciplined its big business groups by means of price ceilings negotiated annually, controls on capital flight, and incentives contingent on performing well (Amsden, 1991, p.284). Outside of the five Asian Tigers, Thailand’s Board of Investment made subsidized credit and protection from competitive imports dependent on its clients’ compliance with sequential performance standards, including exports and local

content targets. Taiwan's state-owned bankers have been held personally responsible for loans to business and have carefully monitored them (ibid).

The research sought to establish:

- 1). The level of corporatism in the sector as this informs the existence of strategic goals and agreements
- 2). How far the DTI provides incentives to companies in target sectors
- 3). Whether the DTI has the inclination and bureaucratic capacity to follow-up on these incentives to assess if they have yielded the desired results
- 4). Whether the DTI takes "disciplinary" action against non-performers – i.e. whether it treats subsidies as "gifts" or "contracts".
- 5). What would constitute such 'discipline'

5.2. RESEARCH QUESTION

The research question is:

To what extent does the Department of Trade and Industry (DTI) 'reward' and 'discipline' firms for performance and non-performance in target sectors?

5.3. DATA COLLECTION

The study was descriptive and qualitative. Data was collected through semi-structured interviews using an interview guide with six officials in the automotive sector and seven from the business process outsourcing industries.

5.4. PARTICIPANTS

Thirteen interviews were conducted: six in the automotive industry and seven in the business process outsourcing sector. Interviewees were senior executives representing companies in the sector, along with DTI officials and a union representative. Saunders, Lewis and Thornhill (2003, p.293) have stated that open-ended questions are the most suitable for this form of research study and are used extensively in semi-structured and in-depth interviews. Telephone and email contact was made prior to

arranging the interviews. The participants were two senior DTI officials responsible for the automotive and the BPO sectors, the heads of three major vehicle assemblers, along with the executive manager of the National Association of Automobile Manufacturers of South Africa (Naamsa) and the head of a major vehicle import company with 12% of the local market. Also interviewed was the president of the main union in the automotive industry. With the exception of the Johannesburg-based DTI official and the head of a major company in Durban, all the other five interviewees in the business process outsourcing sector are based in the Western Cape. The six industry representatives were interviewed via teleconference. Contact had been established through the industry body in Cape Town, Business Process Enabling South Africa (Bpesa) Western Cape. The sector is not unionised.

5.5. DATA ANALYSIS

Each interview was recorded and then transcribed, allowing for summary and comparison among the findings of each participant. The results are of a descriptive and qualitative nature and are dealt with below.

5.6. LIMITATIONS

The limitations of the study can be classified as follows:

- A limited number of participants were interviewed
- Some of the main issues identified could not be dealt with in this study

5.7. The Automotive Sector in South Africa

The South African automotive sector has become a key pillar of the country's production capacity, accounting for 15% of manufacturing output which in turn contributes 30% of the country's GDP. In 2013 the sector reached its fourth production record since the 2009 downturn, with exports climbing 8.2% to R102.7 billion from R94.9bn in 2012 (South Africa Automotive Export Manual 2014). However, the sector's growth and success (as described by government officials and analysts like Barnes and Morris 2008, p.52), belies its long history. The industry

currently employs just over 30,000 in vehicle assembly, with the components sector accounting for a further 82,790 (South Africa Automotive Export Manual 2014).

The industry dates back to the 1920s when Ford and General Motors established assembly plants, in 1924 and 1926 respectively, anticipating tariff protection (Barnes and Kaplinsky 1999, p.798). Yet low levels of value add led the government to target the sector, partly because it accounted for 15% of total imports in 1960 and also because it was seen as having growth potential and linkages with other sectors (Barnes and Kaplinsky (1999, p.798). This led to a series of local content programmes (six in total), between 1961 and 1995, involving a combination of tariffs and import permits, in each phase designed to increase the value of local content (ibid). The 1995 intervention was the Motor Industry Development Programme (MIDP), which accounted for the latest growth spurt but has since been replaced by the Automotive Production Development Programme (APDP) that came into effect in January 2013. Since 1995 the automotive sector has more than doubled in size, with exponential growth in exports achieved despite the lingering challenges of productivity growth, localisation, employment generation and high levels of import penetration (Industrial Policy Plan 2008, Industrial Policy Action Plan 2010/11 – 2012/13). The sector's vision (maintained since it was enunciated in the Industrial Policy Action Plan 2007) is to double vehicle production in South Africa by 2020 to 1.2 million vehicles per year, or over 1% of the global market. The industry's importance is underpinned by the sector's synergies with other manufacturing sectors, such as metals, leather, textile and plastics.

However, Chang (1997, p.4) is among those who have contrasted South Africa's automotive industry with Korea's, arguing that the apartheid regime had allowed too many producers assembling excessively upmarket models with substantial diseconomies of scales whereas the Korean government had restricted the models produced to down market ones while banning all imports. Indeed, the South African automotive industry admits that it is strongly influenced by the Original Equipment Manufacturers (OEMs) such as Ford and Toyota, with key decisions about the sector being made in Europe, the USA and Japan (South Africa Automotive Export Manual 2014). This gives room for the argument that this level of foreign influence gives the

conglomerates a lot of clout, impacting on the DTI's ability to discipline companies in the sector.

The industry consists of seven OEMs: BMW, Ford, General Motors, Mercedes Benz, Nissan, Toyota and Volkswagen – as well as manufacturers and exporters of trucks and buses and more than 500 components suppliers (South Africa Automotive Export Manual 2014). However, the study only looked at assemblers of small vehicles, excluding both the components makers and assemblers of commercial vehicles.

In South Africa, the OEMs specialise in one or two high volume models, obtain economies of scale benefits via exports and in turn import those models not manufactured in the country to complement their domestic model mixes (South Africa Automotive Export Manual 2014). In 2013, the industry exported left and right hand drive vehicles to 87 destinations across the world. The European Union is the industry's most important trading partner, accounting for R35.1bn or 34.2% of exports in 2013. The North American Free Trade Area, consisting of the USA, Canada and Mexico, was the second largest trading, with exports amounting to R19.1bn or 18.6% of exports in 2013.

The growth of the industry has taken place under the MIDP which was based on:

- 1). The abolition of a minimum content provision and the introduction of an import export complementation scheme that allowed both automobile and component manufacturers to earn tradable duty credits for exporting.
- 2). Gradual reduction of import duties on built up vehicles and components
- 3). A duty-free allowance on components equal to 27% of the value of vehicles produced for sale in the domestic (SACU) market
- 4). A small vehicle incentive (SVI) which provided a subsidy for the manufacture of more affordable vehicles. It operated via a duty drawback with the value of the drawback linked to the value of the motor vehicle
- 5). A Productive Asset Allowance (PPA) that provided duty credits equivalent to 20% of the investments, spread over a period of five years. This only applied to investments designed for exports and which enhanced scale of a particular product line

Like the MIDP, the APDP also applies to light vehicle and light commercial vehicles only. As explained by the DTI official (see attached transcript), the APDP was launched when Australia – on whose automotive programme the MIDP was fashioned - threatened to take South Africa to the WTO on the basis that the programme was not in line with WTO regulations. This followed a trade dispute with an Australian producer of leather interiors, who was unhappy with the penetration of competing products from South Africa. Another reason for the review was to respond to the environment and grow the industry further amid the feeling that the industry in South Africa had reached significant milestones in terms of production, exports and other indicators.

The APDP is not meant to be radically different from the MIDP but to offer a smooth transition while offering subtle differences. While under the MIDP the tariffs were gradually coming down year on year, in terms of the APDP they are pegged at the 2012 level of 25% duties for built-up vehicles and 20% for OE components. The APDP also gives European products 7% preferential access to the South African market which means that duties for products from Europe is 18%. On the duty allowance, instead of having the duty free allowance only for those vehicles that are sold on the domestic market, the APDP spread the duty free allowance for all the vehicles that are produced locally. Thus under the APDP all production attracts a duty free allowance, known as a value-added allowance (VAE). It's pitched at 27% but falling over time. The third element is that while under the MIDP there was a rebate based on exported local content, the APDP rewards local value addition. The rebates are now based on value-added, not on local content. The fourth element is investment support which under the MIDP was 20% payable over a five-year period in equal instalments in the duty rebates. The APDP provides a cash grant of 20% to 30% of an investment, payable over a 3-year period after making the investment.

Thus the APDP consists of four pillars:

1. **Tariffs:** Import duties on vehicles and automotive components remain at 2012 levels (25% on light vehicles and 20% on original equipment components) through to 2020. A preferential agreement will result in imported vehicles from the EU paying only 18% duty.

2. **Vehicle Assembly Allowance (VAA):** This support is in the form of duty-free import credits issued to vehicle manufacturers based on 20% of the ex-factory vehicle price in 2013, reducing to 19% in 2014 and in 2015 18% of the value of light motor vehicles produced domestically.
3. **Production Incentive (PI):** From 2013 this support will start at 55% falling progressively by 1% annually to 50% of value added, in the form of duty-free import credits. The equivalent value will be the incentive multiplied by the component duty rate, so this represents 11% of value added in 2013, and will reduce to 10% by 2018. There will be an additional amount for “vulnerable products” which will earn a PI of 80% in 2013 and 2014, reducing thereafter by 5% annually to 50% in 2020. The incentive will flow through the supply chain to the end producer, which will be the OEM or, in the case of component exports or replacement parts, the component manufacturer.
4. **Automotive Investment Scheme (AIS):** Effective from July 2009, this assistance replaces the Productive Asset Allowance (PAA) and provides for a taxable cash grant of 20% of the value of qualifying investment in productive assets by light motor vehicle manufactures and 25% of the value of qualifying investment in productive assets by component manufactures and tooling companies as approved by the DTI. In addition, by achieving certain performance objectives, companies will be able to earn an additional 5% or 10%.

5.8. Business Process Outsourcing

South Africa was among the early first countries in Africa to see the growth and employment potential of Business Process Outsourcing, also known as Business Process Outsourcing and Offshoring (BPO&O) to the extent that the DTI has hosted delegates from countries like Egypt, Kenya and Uganda who were keen to learn from South Africa’s incentives regime (DTI official, Appendix 6). In 2004, the government projected that the sector would grow at 50% per year (about \$50bn to \$60bn) globally (IPAP 2010/11-2012/13) presenting South Africa with a unique opportunity to participate. The potential for South Africa was that the sector would contribute 100,000 new jobs (25,000 direct and 75,000 indirect) and contribute up to \$1bn (ibid) in earnings. But to make use of this opportunity, South Africa had to move quickly to

overcome constraints including high telecommunications costs relative to other BPO destinations, an inadequate skills base, and must also increase its profile and reputation among potential investors (Implementation of Government's National Industrial Policy Framework: Industrial Policy Action Plan, August 2007).

According to the DTI, the government approved the strategy for the sector in 2006 and began implementing the BPO&O incentive programme from July 2007. Between July 2007 and March 2010, the incentive resulted in the creation of at least 6,000 new jobs and attracted R303m in direct investment (DTI website). The first programme offered "capex incentives", which rewarded companies on the basis of the physical infrastructure they set for the business - including lease agreements, tables and chairs - along with the jobs created (DTI official, see transcript). Although 6,000 jobs were created over three years, this model was not hugely successful, as the target of 25,000 jobs was not achieved (ibid). But a major issue at the beginning were the high telecommunications costs, which have since come down by up to 90% due to increased competition on the market engendered by new technologies.

A new "apex-based" incentive structure was introduced from 2011, determined only by the numbers of jobs created. A quarterly cash payment – R40,000 per job per year in 2011 - would be made for each job created in a year. The assumption was that this would be used to offset operating costs, such as salaries. The total number of jobs created between 2011 and 2014 is 9,077, with an average growth rate of 26% per annum during that time (Revised BPS Guidelines September 2014).

Although outside the ambit of this paper, it is worth noting that in October 2014, the government launched the revised Business Process Services incentive which is due to run until March 31, 2019 (DTI media statement 14 October, 2014). The primary objective of the incentive is to create employment among the youth in South Africa, with the secondary objectives being to contribute to the country's export revenue.

Trade and Industry minister Rob Davies, described the previous BPO&O programme as "hugely successful in terms of meeting the objectives of the Department of Trade and Industry" (DTI media statement 14 October, 2014). Davies also stated that the majority of foreign investment in the sector originates from the UK due to cultural

affinity and time zone compatibility (75%), with voice services accounting for 80% of all BPO work conducted in South Africa. The split among the sector services is as follows: telecommunications and ICT (34%), retail (29%) and utilities (12%) (DTI media statement 14 October, 2014).

Davies also said the key difference between the old and new incentive was the splitting of the incentive into Tier 1 (non-complex) and Tier 2 (complex) work. The purpose was to attract more complex work such as Legal Process Outsourcing (encompassing legal work such as transcribing, document review, contract management) and shared services by offering a higher incentive for utilising and employing a higher skilled workforce (DTI media statement 14 October, 2014). Shared services encompasses any service within an organisation which could be outsourced, such as financial and accounting services, payroll, human resources and procurement. Thus the revised incentive was two-tiered to cater for the traditional low-value call centre and the new form of service requiring higher skilled personnel.

The revised incentive works as follows:

- 1). A base incentive as a tax exempt grant paid over five years for each offshore job created and maintained. This incentive is R124,000 for each job created for each Tier 1 (lower-value) job created and maintained and R184,000 for Tier 2 work. This incentive is calculated on the basis of costs and is a five-year operational expenditure (Opex) grant that tapers down in line with the narrowing cost gap between South Africa and other offshoring destinations (Revised BPS Incentives Guideline September 2014).
- 2). A once-off bonus incentive paid at the end of five years as follows:
 - 20% bonus for more than 400 but less than 800 (non-complex) offshore jobs paid once off in a year in which the bonus is reached.
 - 30% bonus for more than 800 (non-complex) offshore paid once off in the year in which the bonus level is reached.
 - 20% once-off bonus for creating and maintaining more than 200 offshore (complex) jobs.

- 30% once-off bonus for creating and maintaining more than 400 offshore (complex) jobs.

The DTI will determine the eligibility of applicants to benefit from the BPS incentive, on the basis that the applicant:

- 1). Must be involved in starting a new operation or in expanding an existing operation, in order to perform BPS activities, which may be operated from more than one physical location in South Africa.
- 2). Submit an application for the BPS incentives prior to the engagement of qualifying jobs.
- 3). The project must commence with operations no later than six months from the date on which the BPS incentive grant was approved. Failure to reach this target will lead to the cancellation or disqualification of the applicant, thus requiring the applicant to submit a revised application to reapply for the grant.
- 4). The project must, by the end of three years from the start of operation of a new project or the expansion, create and maintain at least 50 new offshore jobs in South Africa, as defined in the BPS Incentive Programme Guidelines.
- 5). In a joint-venture arrangement, must have at least one of the parties registered in South Africa as a legal entity.
6. The project must comply with the requirements for Broad Based Black Economic Empowerment (B-BBEE) as issued in the Government Gazette 11 October 2013, in terms of the Codes of Good Practice. Applicants who are applying for a new investment project must submit a plan demonstrating how they will progress towards achieving level-four⁶ contributor status within 24 months from the date of incentive grant approval.

⁶ Broad based Black Economic Empowerment (BBBEE) is the government's programme to accelerate the participation of black people in the economy by encouraging change in the following areas of business: ownership, management and control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development. A number of points and targets are allocated to each of these indicators and a company's scores are calculated based on how close the business is to each target. A business is regarded as being 100% BBBEE compliant when it reaches level 4, having scored 65 points or more.

- 7). The project must employ at least 80% youth (between the ages of 18 and 35) as part of its employment establishment

5.9. RESEARCH FINDINGS

5.10. Automotive sector

Unlike in the Business Process Outsourcing sector, where meeting black economic empowerment targets is among the requirements for receiving state incentives, the situation in the automotive sector is ambiguous, with suggestions that BEE was never part of the MIDP (Appendix 2 and 4). But compliance with employment equity laws and BEE targets was also an ongoing challenge (Appendix 1). There were also suggestions of attempts by the main union in the sector to get BEE included among the pre-conditions for operating in the sector, amid the claim that there was a lot of fronting in the industry that was beyond the scope of the DTI to monitor (Appendix 4). However, it appears that the level of corporatism is high in the sector, among the oldest industrial sectors prioritised for state support in South Africa. The peak of this is represented by industry, government and labour working under the Motor Industry Development Council (MIDC) that created the MIDP in 1995. However, the prevailing corporatism was described by one interviewee as “imperialist corporatism” (Appendix 4), with the claim that the heads of the motor assemblers operating in South Africa did not have the power to make key decisions, which were in fact made at head office level. It was argued that this lack of power at the local level often resulted in unnecessary strikes as local executives approached wage negotiations with fixed positions that they had no power to change. The same interviewee stated that the local assemblers only called labour when they wanted assurances on stability, rather than including the unions during the other processes such as in the decision to launch a new product.

However, it could still be argued that the industry functions on a high level of bureaucratic autonomy and embedded autonomy. Collaboration encompassing government, companies in the sector and the unions, was key in getting the industry to modernise soon after 1994 (Appendix 2, 3,4 and 13). Although the MIDC has been watered down due to having no decision-making powers, it has been maintained and is still relevant (Appendix 3). The benefits for the industry is that automotive industry

players make decisions and are able to present a clear industry view when they get to other fora such as the National Economic Development and Labour Council (Nedlac) where wages and related issues are discussed. Other platforms for engagements in the industry include the industry policy forum through which the heads of the assemblers meet with the union and government, and the Automotive Supply Chain Competitiveness Initiative (ASCCI) programme, also representing industry, government and labour. ASCCI is meant to coordinate all competitiveness programmes and is independently facilitated.

The upshot is that without state support South Africa would not have had an automotive industry. At the dawn of the democratic transition in 1994, the industry in South Africa had old technology and was producing old models. The MIDP helped the sector catch up quickly. More importantly, South Africa is far from source markets and hence would not otherwise have had an industry had it not been for state support, which created “one of the most successful interventionist policies ever implemented” (Appendix 2). Thus, much like the survivalist spirit and nationalism that compelled government actors and the private sector in South East Asia to work together or sink together, especially in Japan and Taiwan - and to a lesser extent in Hong Kong, Singapore and Korea - the survival of the motor industry in South Africa was characterised by a similar motivation. It is worth noting that the two reviews of the MIDP were independently facilitated, and “like any consensus process, what comes out is not necessarily what people came in with”, (Appendix 1).

The APDP inherited the same spirit of collaboration and the realisation that the industry was facing tough international competition. The recent decline of Australia’s automotive industry⁷ - on which South Africa fashioned the MIDP - has also served to

⁷ In February 2014 Toyota announced its decision to close its Australian assembly operations in 2017. General Motors (GM) and Ford revealed similar plans a year earlier. Toyota blamed a strong Australian dollar, low economies of scale and high manufacturing costs for its decision to quit. Ford’s and GM’s decisions came after the then new Prime Minister Tony Abbott confirmed his coalition’s election pledge in the September 2014 federal elections to cut at least \$500m in further government assistance to the motor industry. At its peak, the Australian industry built 475,000 vehicles. By 2013, this was down to just over 210,000, according Business Day, 17 September, 2014.

cement a collaborative spirit in the sector, with the various parties, including the main union in the sector, being fully aware of the taxing demands on labour productivity due to international competition. But this does not mean the union will compromise on its demands for what it regards as a fair deal for its members. However, the downward spiral in the Australian automotive sector was blamed on that country having implemented import duties of 5%, which is “too low” while also focusing on big cars whose sales faced a decline due to increases in the oil price (Appendix 3). Yet to strengthen its position on the global market South Africa would need to create efficiencies at various levels and also specialise in, say, bakkies and trucks, to target the wider African markets, since the industry is presently seeking to be “everything to everybody” (Appendix 6).

Like in South East Asia, the incentives in South Africa’s automotive sector are not seen as hand-outs for individual companies since they are paid on performance, after careful auditing, and never in advance. Unlike Korea’s extensive intervention in the target sectors, the DTI does not tailor-make incentives for individual companies as this would have implication on competition frameworks (Appendix 1, 13). But one interviewee (Appendix 5) stated that the DTI treated companies with “warm hands” referring to a disinclination by the department to punish companies that did not honour their commitments. Indeed, there are instances where companies fail to live up to their commitments, including reaching the main threshold to access the volume assembly allowance, which requires a minimum production run of 50,000 a year (Appendix 1). Due to market conditions “one or two” currently fall in that category. The remedy for the DTI was to ask the Minister to apply his mind to whether to allow the two assemblers to continue or to shut them down (Appendix 1).

However, it seems that the DTI is barely compelled to discipline companies that have received support, since incentives are only received on reaching certain milestones. Failure to perform not only disqualifies the company concerned but has severe implications: such a firm would be less competitive against the headwinds of international competition. Hence it could be argued that it is not the DTI that imposes discipline on companies in the automotive sector but the ruthless pressures of global competition in an industry, already battling the worldwide problem of over-supply. Generally, companies not meeting their targets would only get incentives proportional

to their performance and investments. As a general rule, incentives are aligned to the DTI's budget processes, with companies applying in advance of an incentive being granted, and then being assessed to see if they have fulfilled the conditions of the application. Where a company has exceeded the estimates cited in the application, it is only granted the incentives applied for, and has to make another application if it is to be considered for the extra performance (Appendix 1). The APDP is not the only source of incentives available for the automotive assemblers. There are various other forms of support but "one cannot double-dip" (Appendix 13).

Estimates from Treasury are that support for the automotive industry costs the economy R17 billion per annum due largely to foregone duties. But there has been no agreement with the DTI on the formula used, with one interviewee (Appendix 1) pointing out that: "It's not like if you don't have the programme you'd have R17 billion elsewhere." However, even though this might be a high cost to pay, it was pointed out that the country's very high employment rate of 25% and the very high competitive external environment, including within Africa, make it critical and inevitable for the state to provide support to retain and grow the industry. Even the US government has provided huge amounts to save its automotive sector, it was pointed out⁸. Thus, South Africa with barely 1% of global production would not have the kind of industry that it has without state support. It was also argued that the tax revenues and the effect that the sector has had on other support industries would be nothing to be sneered at, given that revenues more than doubled since 1995 to reach R102.7 billion in 2013.

In terms of administrative capacity, interviewees described the DTI as having built up capacity to effectively manage the motor industry support programme, along with other incentive schemes. The auditing was described as rigorous and professional, with only one interviewee questioning the ability of the DTI to impose penalties for

⁸ In a bailout of the country's motor industry announced in 2009, the US government gave General Motors, Chrysler, Ally Financial, Chrysler Financial and automotive suppliers \$79.68 billion through the federal Auto Industry Financing Programme. It was later revealed that the government recovered \$70.42 billion, saddling taxpayers with a loss of \$9.26 billion, according to USA Today, 30 December, 2014

missed targets. The inter-departmental and multi-agency approach also seems to prevent rents. Involved in the running of the support programme in the automotive industry are several divisions of the DTI, along with the International Trade and Administration Commission (Itac) and the South African Revenue Service (Sars). However, one interviewee (Appendix 13) expressed concern at existing gaps in the coordination of programmes across different agencies.

5.11. Business Process Outsourcing

The sector is a new industry which the government has sought to promote, largely due to its potential in creating work for young people, along with generating revenue for the country. It is concentrated in Johannesburg, Durban and Cape Town. Corporatism is centred around the industry body Business Process Enabling South Africa (Bpesa) which negotiates with government on members' behalf. But the DTI is also active in conducting field visits to meet with companies. The sector is not unionised. This makes it among those in South Africa with no set entry level wages, and as a result has a high level of staff turnover. The main pre-conditions for accessing incentives is that a company engages in offshoring work and that it achieves level 4 BEE compliance. The DTI has 30 companies on its books (Appendix 7). Since 2007 when the first incentive was launched, the DTI has disbursed just over R1 billion for about 16,000 jobs serving offshore clients. This makes it an expensive scheme but is an example of new areas that a 21st developmental state could venture into. Over half of the jobs, 9077, were created between 2011 and March 2014 (Appendix 7). Just like with the automotive sector, companies get incentives for actual targets reached and fulfilled commitments. Failure to qualify for DTI incentives puts them at risk of succumbing to international competition. The incentives are key in companies' decision to set up shop in South Africa, assisting in making them competitive against other voice alternatives like the UK, Philippines and India (Appendix 8, 10). The effect of the incentives is mainly to reduce the cost of labour and other operational costs. This strengthens South Africa's attraction as the country already has advantages of cultural affinity with its main source market, time zone compatibility, English ability, large available labour pool, infrastructure similar to that found in Europe, along with legal and banking services, political stability and ease of doing business. However, the major bone of contention currently is the requirement for B-BBEE

which in the past was not a requirement for accessing BPO incentives. With the new B-BBEE codes coming into effect on 1 May, 2015, achieving the required level 4 might be a challenge for outsourcers who are multinationals since such businesses do not give away equity (Appendix 9). However, they do have the option of “equity equivalents” to get around this issue. The DTI is understood to be engaging with the industry over this issue.

5.12. INTERPRETATION OF FINDINGS

The findings in the two sectors show both similarities and differences, largely because the automotive sector is an old industry with a history of state-support, while the BPO sector is fairly recent. For both sectors, the policy problem is how to ensure that after an industry is subsidized possibly for lengthy periods, it achieves world-competitive levels of productivity and quality. Such a transition lay at the heart of the success of South East Asian developmental states.

The study corroborates suggestions of a high degree of corporatism in the automotive sector made by analysts, such as Flatters (2002, p.5) as well as Barnes and Morris (2008, p.52), who have stated that the MIDP (and later the APDP) was designed and was continually monitored in close collaboration with industry representatives. This would be in line with similar action, particularly in Japan where a high degree of government-business cooperation prevailed. Yet this collaboration does not extend to the depth and extent of MITI-type interaction and information sharing, and non-formal contact. Nonetheless, the DTI is seen to be highly engaged and competent in assessing applications and monitoring performance, with an inter-departmental and inter-agency approach working against rent seeking. But suggestions of the need for stronger multi-agency coordination were raised. However, a major difference between the DTI and South East Asian development states could be the DTI’s approach to reward companies only on the basis of results attained and not for prior commitments and pledges. The argument advanced was that breaking from the routine of having companies first submit their applications and then subject themselves to audits prior to getting support would run counter to the logic of budgeting, and would be illegal under the terms of the Public Service Management Act. As a result, incentives are

only paid following prior application and verification. The failure to qualify for state support places companies in the two sectors studied at risk of falling prey to international competition, rather than any direct action from the DTI. The DTI does not offer tailor-made incentive but rather offers generic incentives, a point that may serve to differentiate it from the hands-on approach of the South Korean bureaucrats in the target industries. However, South Africa's desperation to hang on to any jobs created is reflected in the DTI's willingness to use moral suasion in working with automotive assemblers that have fallen short of the 50,000 annual production target and also in assisting BPO companies to achieve level 4 BEE status. Yet it could be argued that the ability of the DTI to discipline players in the automotive industry is constrained by the fact that unlike, for example, in Korea where the state controlled financial sector with its motor industry being largely locally owned, South Africa's automotive industry is dominated by foreign multinational companies, represented by the seven main assemblers of light motor vehicles.

The findings appear to be consistent with Amsden's (1991, p.285) observation that market forces and the state have divided the labour of disciplining East Asian business. In terms of this argument, during an industry's import substitution phase, the state has been the main disciplinarian while during its early export phase, that role has fallen to the market. Then when subsidizing R&D and shifting into a higher-quality market segment come on the agenda, the state's dominant role resumes – as became evident by the late 1980s in Taiwan, South Korea, Singapore and even Hong Kong (Amsden 1991, p.285). South Africa's automobile sector could be regarded to be in the early export phase in which the discipline of the market is the dominant force. However, although still in its infancy, the BPO sector could be said to be subject to both market discipline by virtue of the very high levels of competitiveness in the sector, along with the state discipline due to sector's reliance on incentives with stringent conditions (such as BEE compliance) to achieve competitiveness.

The findings in the automotive sector are also consistent with the contention by Weiss (1995, p.608) that government in the successful East Asian economies have generally made protection conditional, either by specifying limited duration tariffs and quotas to hasten upgrading and innovation, or by tying protective measures to export obligations. Both Korea and Taiwan pursued such schemes throughout their high-

growth era while Japan also used protection as a creative discipline. In Japan's electronics industry, companies had to work under pressure to improve productivity and develop technology to meet liberalisation schedules (Weiss 1995, p.608). Upgrading quality standards has been another aim of disciplined support. In Taiwan's early phase of export development, for example, the economic bureaucracy sought to enforce quality standards by making receipt of official subsidies and licensing of new enterprise conditional upon their fulfilment. In the mid-1950s, as the Taiwanese government lifted its ban on the entry of new firms in 10 core industries, it also applied strict performance conditions to the new plants which were required to reach minimum standards relating to size and product quality. More recent cases of disciplined support focus on innovation and upgrading rather than exports, as in the case of new product development in Taiwan's electronics industry (Weiss 1995, p.608).

Barnes, Kaplinsky and Morris (2003, p.13) have previously stated that the MIDP did not result in any cost to national treasury, arguing that duty drawbacks created no budgetary cost and that the cost of running the MIDP was miniscule. This was contradicted by an interviewee who cited Treasury's estimate that support to the industry amounted to R17 billion a year. Another contentious view has been that an undesirable consequence of support given to South Africa's automotive sector has been the high cost of vehicles on the domestic market. But this was denied by industry executives, with one interviewee (Appendix 2) suggesting that the price is largely a function of the prevailing exchange rate. Another argued that imports helped to check the price on the domestic market (Appendix 6). Even then, the study supports the contention that the success of South Africa's automotive sector shows that selective industrial policies work if "intelligently" designed (Barnes, Kaplinsky and Morris 2003, p.20).

5.13. CONCLUSION

This paper has sought to measure the extent to which South Africa abides by the six conditions of a developmental state:

- 1). Economic growth and competitiveness as the state's overriding

priority

- 3). A labour market and education system geared towards growth
- 3). A Weberian bureaucracy insulated from political interference
- 4). Embedded autonomy which, in spite of the close relationship between the state, labour and capital, allows the state to lead development without being captured by vested or sectional interests.
- 5). Selective industrial policy coordinated by a pilot agency
- 6). The state's ability to discipline capital

A case study of the automotive and the Business Process Outsourcing sector has sought to establish the level to which the state, through the DTI, disciplines capital and whether it treats incentives as gifts or performance contracts. The main conclusion from the study is that South Africa does have the capacity to implement selective industrial policies akin to those implemented by the successful South East Asian developmental states. This is notwithstanding the argument that in the 21st century production is moving away from its early manifestations to become more knowledge based. The two case studies showed that selective industrial policies work to create conditions allowing an industry to take root, where conditions or distance from the market would have made such an industry uncompetitive. As the exponential growth of production and exports in the automotive sector shows, the DTI is capable of running complex market-conforming programmes without generating rents or creating adverse distortions. This is despite the lack of a clear pilot agency or super ministry that is able to be both connected such that it is at the centre of information networks and also insulated enough to escape rent-seeking. The chosen method of coordinating industrial policy in South Africa is through a cluster of economic departments, a move akin to Taiwan's Council for Economic Planning and Development (CEPAD) which integrates the leadership of the individual ministries who act as a unit rather than representing client interests. The test for the BPO sector is in how the DTI will be able to enforce its condition for black economic empowerment and still be able to grow the sector. Arising from the case studies is that the DTI has been able to build in limited duration tariffs and quotas to hasten local value addition and meet export obligations in the automotive sector. Similarly, the DTI has sought to use market discipline to leverage performance in the two sectors.

This dissertation has also taken a broad overview of South Africa's ambitions to create a developmental state, observing first of all that the concept is used loosely in South Africa, largely without reference to its South East Asian underpinnings. With strong support from its leftist allies, the governing African National Congress approved the creation of such a state in 2007, rendering it official party policy which was also reflected in the manifesto for the 2009 general election. However, the lack of a consensus on the specific kind of developmental state required in South Africa is an obstacle to its implementation. The main argument by this paper has been that conditions exist for the creation of a developmental state in South Africa, including what could be described as prior experience under Jan Smuts. The ANC's ability to secure a large electoral majority since 1994 would allow it to make the policy changes necessary to create a developmental state. It could be argued that the elite in the ANC are too divided, with only a section being in favour of creating such a state. Thus the willingness to engage with the mainly white business establishment for the required partnership has not even begun to happen. In this regard, the South African government needs to assume leadership and even work at establishing a Scandinavian-type social contract, spelling out priorities that would set the country towards a long term vision, with all the parties being fully aware of their assigned responsibilities and roles. Unlike, the early generation East Asian developmental states, the South African government has multiple priorities, many of which could be described as conflicting with the need to focus on economic growth, productivity and competitiveness. But given the constitutional requirements for providing citizens with certain social rights, along with the realisation that growth and social development are not mutually exclusive, the country cannot stand on just a single priority. Instead, South Africa needs to combine delivery with the deepening of its democracy which would allow citizen to contribute in shaping priorities. Hence so far the country cannot be described as a developmental state, despite that the term has since found itself in the lexicon of politicians.

In spite of the strong results shown by the automotive sector whose success illustrates what can be achieved by well thought out selective industrial policies, this strategy is not extensive enough to march the East Asian success factor and to make much of a difference to the local economy which is desperate for growth, not least to absorb the large numbers of unemployed. Miniscule budgetary allocations to the DTI mean that

selective industrial policy will remain only confined to a few industries. It could also be argued that while almost all South East Asian developmental states could count on a professional and politically insulated bureaucracy, South Africa's public service is largely inept and unmotivated, with officials largely driven by careerism and other private interests. Standing in the way of embedded autonomy – the ability of bureaucrats and companies to work together in defining strategic goals – are clearly defined national priorities. The National Development Plan can be seen as an attempt to set such goals and visions. For now, however, it can be criticised for seeking to be all things to all people, with little discernible room to narrow down along a clear agenda towards a developmental state. Unless South Africa quickly makes the transition towards building a developmental state, it runs the risk of having to expand its welfare system to include transfers to the growing army of unemployed, a burden that would turn the state, not into a capability expanding high-growth economy, but into a transfer welfare state. In the words of Peter Evans: "If the 21st century developmental state can promise a combination of high growth, broad-based employment expansion and a lighter ecological footprint, it is worth prodigious effort to bring the required institutional transformation about (2010, p.55)."

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APPENDIX 1

Interview with Mkhululi Mlota January 2015

TO WHAT EXTENT HAVE THE PRIVATE SECTOR AND THE UNIONS BEEN INVOLVED IN THE SET OF THE MIDP?

In the early 1990s, before the advent of democracy the then minister of trade and industry formed what was called the motor industry task group (MITG) whose purpose was to come up with ways and means of sustaining an automotive manufacturing industry in South Africa in the long term. The situation then was quite different from now. He foresaw that with the political changes that were beginning to show, there wld be a need for South Africa to open up to international markets. Then we were in a protected environment. Also responding to sanctions that were instituted and therefore there was an inward focus in many of these industries. The MITG was instated by government as well as business as well as labour (numsa representatives). Over time they scanned the environment and looked at other jurisdictions with a motor industry and sought to fashion something for south Africa along those lines. In this instance they fashioned the MIDP on the Australian programme. Part of that MITG was the likes of Prof Anthony Black who is at UCT and is still a resource in this environment. He was then working for NUMSA but then govt also engaged him from time to time thereafter. So the outcome of the work of the MITG resulted what was launched in 1995 as the MIDP part of which constituted a situation where tariffs wld be gradually coming down from more than 100% to current levels to 25% for CBU and 20% for OE components. When it was launched in 1995 it was meant to be a seven year programme with the understanding that there would be a mid-term review to see whether it was achieving what it was set up to achieve. There were a few other goals, firstly to sustain the industry, to ensure that it was fully integrated into the global automotive value chains and also to look at issues of affordability and so of. And through rationalisation there was an issue that perhaps we could attain better economies of scale. Before you had plants that were making a variety of models, some in not so viable volumes. In one year – for example – one OEM plant made two vehicles of a certain model. And the level of technology wasn't that great.

The MIDP came in with initially three elements to it.

1). The gradual reduction of tariffs from those high levels. So an annual level there would be these gradual reduction of tariffs. Let's be clear that this was mainly focussed on your light motor vehicles because a separate dispensation or decisions were taken on the medium and commercial side because they are also used as inputs in the general economy. The decision was to drastically cut down duties thereon to 20% immediately so that they don't become undue costs in other industries. The major focus of the MIDP was on light motor vehicles. Even the light programme is still focusing on that. So tariffs was the first element. (2). Secondly we had a duty free allowance. This wld allow local OEMs or assembly plants to offset duties on the components that they import specifically targeting those vehicles that they wld build and sell in the domestic market. That was pitched at 27% - that was on the understanding that as south Africa, given our size we are not going to make everything we need to produce a car – that there wld still be those elements that we need to import. (3). Lastly because we

wanted south Africa to be part of the global market, we provided an incentive based on exported local content. We were encouraging that these plans rationalise their products – they make fewer models at higher volumes to service not only the domestic market to also to export. So we provided an incentive from that. Also on the understanding that we're sitting quite far from the major market so we provided that kind of incentive which was in the form of duty rebates. Also the duty free allowance is a rebate. So those were the three components of the MIDP initially. But just to go back a bit: the king landscape for autos was also supported by two major decisions one major one being that as South Africa we do not allow the import of used vehicles except in exceptional circumstances where you have to get a permit for that – for instance a south African returning from abroad. Secondly when the MIDP was crafted when we created this duty pool that needed to be offset by rebates we created a special dispensation for OE components. While you can import the components through various tariff lines at different duties from zero to five, to 30% for tyres but for those components that are gonna be used in the manufacturing or assembly of vehicles we created a special dispensation, chapter 98 tariff book. So they would import their components through that chapter and the duties were set higher than the rest but also in line with the duties for fully built vehicles that was coming down gradually, currently its sitting at 20%. But it enables the assemblers to import everything they need through that chapter and clear it under one tariff line and 20%. And then they can use their rebate certificates that they generate or buy to offset that duty. Whereas if you take the components one by one some of them don't attract any duties – of course tyres are still high at about 30%. So we created those special dispensations to make the programme work. In the first few years something came to the fore that yes the industry is trying to rationalise, they are trying to integrate back but there is a gate in the support which was investment support. They needed to invest in plant and machinery, in new technologies. That came through as we had our first review of the MIDP, that then resulted in the forth element of the MIDP being instituted, being investment support. Under the MIDP we had a Productive Asset Allowance (PAA) which was 20% of whatever you invest in in qualifying productive assets payable over a five year period – also in the form of duty rebates. There was no cash payment. This minimised the risk of running out of funds. It allowed the industry to modify their business model accordingly. So we had the first review and the PAA came into being and so it continued. Overtime there were these reviews which ended up extending the period of the review until 2012. But then other developments came to the fore during the life of the MIDP. Australia on which we fashioned the MIDP threatened to take us to the WTO on the basis that the programmes can be viewed as not in line with WTO regulations. Specifically we were exporting leather interiors to Australia. And to the detriment of an Australian firm that was making leather interiors. So they felt aggrieved and thought they needed to do something. In order to deal with such we started looking for ways and means of ensuring that we don't face a situation where we are ordered to stop the MIDP and be given a short time and the whole industry collapses. We engaged Australia. We excluded exports to Australia and a whole lot of other things. Soon thereafter, there were also firms that felt they were not fairly competing in other markets because products from South Africa were supported by this scheme which could be supported at the WTO. So part of the brief we reviewed the MIDP in 205 was to ensure that whatever amendments we made were more aligned to WTO regulations. And secondly, was to respond to the environment as well. Because at some stage – 2005-2006-2007, we had reached some significant milestone in terms of production, exports and so on. So we were seeking something that would catalyse and grow the industry which is why then in 2008 an announcement of the new programme was made, the APDP which was somewhat different from the MIDP. However because we wanted a smooth transition we didn't want to rock the rock that much, you'll find that the APDP also has four elements. It talks to tariff structure. Under the MIDP the tariffs were gradually coming down year on year. But under the APDP we said we've gone a bit far and therefore we should the tariffs stable at the 2012 level – 25% duties for built up duties and 20% for OE components. Also then we had negotiated an agreement which gave Europe 7% preferential access. Which meant that in earnest for duties coming from Europe the duty is only 18%. And if you look at other territories that we compete with – Thailand, Brazil and even China and India – they have higher duties than us and bigger markets. The competition is not that fair. We thought that 25% is quite low (down to 18%) and on top of that these duties can be rebated as compared to 35% in Brazil and other places which also have differential duties for sedans and pick-ups. So the duties are kept constant under the APDP. On the duty allowance, we found that its also one area which cld be interpreted by some as favouring exports or differentiating between the domestic market and the international market. Therefore instead of having the duty free allowance only for those vehicles that are sold on the domestic market we spread the duty free allowance for all the vehicles that are produced. Under the APDP all your production attracts a duty free allowance which we call the value-added allowance (VAE). However its not 27%, we pitched it at 27% but reducing it overtime. The third element which under the MIDP was a rebate based on exported local content. Because of that export

focus and local content. Now we are rewarded local value addition. The rebates now are based on value-added, not on local content. That's the major difference between the MIDP and the APDP – that while we were rewarding exports now we are rewarding local value-addition. The fourth element was investment support which under the MIDP was 20% payable over a five year period in equal instalments in the duty rebates. Now we have that investment support on budget. So it's in the form of a cash grant – it's 20 to 30% of your investment. You apply first and if you qualify you'd get that 20 to 30% on meeting certain criteria in cash payable over a 3 years period after making the investment. That it's on budget that means it's not applicable Sacu-wide.

CORPORATISM SEEMS APPARENT IN HOW THE MIDP WAS CRAFTED, HOW DOES THAT COMPARE WITH THE NEW PROGRAMME?

That MITG spirit was taken through all along. In the review for instance, govt wld engage an independent facilitator to lead that process but it would be all inclusive. Overtime we have used the likes of Justin Barnes, Anthony Black, our ex-colleague Johan Cloete and others to facilitate that process. Currently we have engaged an ex-industry person as well, Roger Pito. But then whatever comes out wld be a subject of that kind of engagement. Like any other consensus position, what comes out is not necessarily what people came in with. Of course it's a power issue at times.

ARE THERE ONGOING MECHANISMS TO KEEP MEETING AND IRONING OUT PROBLEMS

During these reviews there wld be these special creations of platforms of engagements that look into that. But also since the start of the MIDP we had an informal kind of forum that monitors the implementation of the programme. It still continues, it's still informal. We call it the Motor Industry Development Council (MTDC). We meet quarterly. Currently it's chaired by govt. in the initial stages industry used to chair it. In there we share data as it comes. In there we have Itac who are involved in the administration of the programme, we have SARS, the DTI, industry and the unions. We meet quarterly to make sure that whatever is noticeable can be referred to the relevant authorities party. That also enables feedback to the minister for policy-making. That continues to date but for reviews we have special sessions. In the MTDC the industry is represented by their association but in the reviews sometimes you also involve the CEOs themselves.

WHAT'S YOUR ASSESSMENT OF THE COST OF THE PROGRAMME, BOTH IN CASH TERMS AND PERHAPS IN TERMS OF OPPORTUNITY COST

The national Treasury has together a figure that talks to the support that we provide the motor industry. They estimate it at around R17bn annually. Of course we've never sat with them and agreed on the formula. This of course is based on the duties foregone. But how realistic is it. It's not like if you don't have the programme you'd have R17bn elsewhere. It's debatable. As a DTI we'd like to support and further this industry and provide as much support as we can at the Treasury they are saying perhaps you are paying too much for very little. But then the environment is different from other localities. When the first plant – Mitsubishi – was closing in Australia, they were almost at full employment – 34% unemployment. They were training their staff for mining because there was a boom in mining. We are sitting in a different environment. Every job when the unemployment is 25% is quite important. That we still have the industry that we have is not going to be cheap – it is expensive. Other jurisdictions with the motor industry support it, quite well actually. If you look at the continent currently, there are a lot of initiatives meant to attract local assembly, from Mozambique to Morocco. All are going out of their way to support the industry, from providing a greenfield environment where they actually build roads, they build the plant and provide long term tax holidays to situations where the state through various mechanisms almost takes ownership. Nigeria just doubled duties or levies on vehicles in an effort to protect and encourage local production. Look how the US intervened to protect their industry. That we hardly 1% of the global market, that we still have the kind of industry that we have surely is not going to be cheap. It is expensive. Talking about the affordability of vehicles, also there is also a raging debate. Of course because we have protection everyone is pricing behind that protection but how large is that protection. Also because of these programmes we have opened up to global competition. Anyone can utilise these rebates, buy these rebates, and compete on the domestic market. Hence the Korean and Chinese producers are coming and competing. Who benefits. It should be the consumer at the end of the day.

HOW DEAL WITH THE CRITICISM AROUND TOO MANY MODELS

We're sitting with that. We're saying let the market dictate. If your product is good enough you thrive. If you see that it makes sense for you to manufacture locally please come. For a small market to have seven major OEMs it's never seen in others, it's quite unique. And there is a possibility we might add on those models. Last year FAW came in. they are also starting to sell their light motor vehicles, Hyundai is starting an assembly of trucks. Iveco has just opened in Rosslyn. There is competition all round.

THE VISION OF ASSEMBLING 1.2M PER YEAR BY 2010.

One can realistically say that vision is far-fetched because immediately after announcing it, we had to be on a different mode of trying to save this industry to the extent that govt got involved to try and assist some of the investments by forwarding loans directly which was never anticipated. We were looking to doubling our production from our previous highs where we produced just over 600,000 units. But now there is an understanding that it's never going to be reached unless something drastic happens because of market conditions. However we also seen during that period that a few companies managed to increase their volumes. However a few are struggling. We're sitting in a market where there are those star performers and there are those few. Perhaps one would say let them die. But in our situation that is every politician's nightmare to be responsible for job losses.

THE COMPONENTS SUPPLIERS SEEM TO HAVE IT MUCH HARDER ON THE MARKET

The OEMs rule the roost in the value chain and it's not only a South African phenomenon. It's a global thing. They do global sourcing therefore it means a components supplier in South Africa has to compete with a components supplier in Thailand and everywhere. And that components supplier in Thailand is making ten times the volume made by the local supplier. I do understand. Hence government is trying partnering with industry to try to improve our competitiveness especially at the supplier level. Last year we launched a structure that includes industry and labour, which we call ASK, which is meant to be a coordinating body for all these competitiveness improvement programmes. It is facilitated independently. The idea is that we are able to scan the environment, to prioritise what competitive initiatives need to be tackled and also to coordinate. Also in terms of identifying materials and products for joint sourcing. It's hardly 12 months and we are seeing some progress. We're funding this jointly with the industry. Government is putting in 50% and the industry 50% on running this structure. Regarding the interventions, govt would fund some fully and some would be funded through other international agencies.

ARE THERE INSTANCES WHERE COMPANIES GET THE SUPPORT AND NOT DELIVER

Yes, how this happens maybe just two examples. When we implemented the EPDP we said every plant has to produce a minimum of 50,000 units. However because of market conditions there is one or two that are not meeting that currently. And we provided for such instances where they then needed to make an application to the minister and based on the motivation and their plans for back to meet that requirement, the minister then applies his mind and then allows them to continue or not. In this instance those firms that haven't met that 50,000 we understood their issues they've come up with interventions and they were given a reprieve. They are allowed to still benefit but at a proportionally reduced rate until such time that they pick up again. So there are such instances. Of course the situation would differ from each company and the reasons and so on. Also, if you look at the cash grant that we provide as an investment incentive you'd apply and say that you'd invest a billion and you'd be buying machine 1, 2, 3 and so on. And we'd say this machine qualifies, etc. after having that ok, you'd start the investment and when start production you get your third. In some instances you'd find that between the allocation time and the actual investment things change. You get the benefit on what you actually you invested for this. At times you find that instead of 10 you have to invest more, we'd say 'no' you must apply for this. Also we'd have to budget for this. And therefore there has to be that understanding. There are situations where people who didn't comply with the guidelines and regulations we had to cut the level of benefit that was due to them or some instances say 'sorry you're not getting this anymore'

because your business just changed totally from what you said you'd do." You apply in advance as we need to have an estimate and budget for those funds.

ADMINISTRATIVE CAPACITY

Within DTI we have a number of divisions from corporate services to TISA – responsible for investment and export assistance – to IDD (the Industrial Development Division) under which we fall. There is also another division that administers all our incentives as DTI. When it comes to automotives, under IDD we're a small unit of nine people including two administrators primarily looking at policy and in that you have your policy, you set it up you monitor it. There are other issues that would crop up from time to time. You support the other implementing partners, be it the investment promotion guys when they go out, you'd join them. You'd need to support them one way or the other. Be it the incentive administration one in terms of ensuring that all they do from setting up the guidelines, they are aligned to what the policy intention was.

So we are sitting on the policy from. We have the incentive division administering the automotive investment scheme which is the investment part. It's a cash grant but administered by the DTI internally so they have people responsible for putting together the guidelines, disseminating that, receiving and processing the applications and the benefits themselves. Because it's based on duties and under the customs act you have Itac also involved. Itac reports to the Economic Development Division. We work with Itac as well. We sit in their committees. They would be the ones who issue the rebates, who go out to the factories to ensure that things are done properly. But also our internal guys who are administering the invest part, because there are set guidelines they would also go and inspections and make sure that things are what they are. Also SARS gets involved because that's where the actual exchange of these rebates happens. Itac will issue the rebate certificate. They send them directly to SARS and the notification to whoever that certificate belongs to. So they would have a reference number and the value and SARS would be involved in the administrations thereof. When we meet as MIDC we get data from all these people that are involved and also from Naamsa on the sales figures.

APPENDIX 2

Interview with Dr Johan van Zyl, President and CEO of Toyota South Africa February 2015

HOW WOULD YOU DESCRIBE THE LEVEL OF CORPORATISM IN THE SECTOR

Between govt and Naamsa there is quite a strong relationship in terms of what do we want to achieve with the motor industry. It started already before 1994 when we developed the Motor Industry Development Plan. And not just with the industry, but also with the unions – everybody was involved and everybody participated. I still regard that as one of the most successful interventionist policies ever implemented. Frankly if it wasn't for that the industry would have been closed. There is no reason to have an industry in South Africa – its far away from markets, its distant. The technology after the end of apartheid was old. We were producing old models. We had to replace those models. We didn't use the latest technologies. We have old paint facilities, for instance. Through that first phase of the MIDP we could achieve many things, like revitalising our industry, getting the technology in that was required. One good thing about it, which of course raised eyebrows at the WTO was that it was an export driven programme which forced us to be competitive from a quality point of view and also to look at our cost structures. Everybody participated and if you look at the programme and how it was structured it was very good. The second phase now, the APDP, once again all participated. Everybody could give their input, everybody could look at the changes, because its quite a dramatic change from the MIDP. The MIDP was a market specific programme. The APDP is a market-neutral programme but it is a production led programme and I think much more to the ideals of a developmental state: to say we want to create jobs, we want to make sure we local more, we deepen local content, we deepen the industry base and we all agreed to that. And I played a very strong role to say we must manufacture here. We mustn't manufacture and only those who export get the benefits. Everybody that manufactures should get benefits. That way we want to grow the industry and deepen local content and create more jobs. Again it was a programme where govt, the unions and the industry sat together.

ARE THERE NON-FORMAL WAYS IN WHICH THE THREE PARTIES MEET?

We have Aski which is a new initiative where we meet. The whole industry is working together. Competitors are working together to see how we can localise more. Also the OEM Purchasing Council.

THE INCENTIVES – I'VE READ ABOUT THE FOUR PILLARS OF THE MIDP AND THE FOUR PILLARS OF THE APDP - WHAT DO THEY REQUIRE YOU TO DO?

The first thing is that to qualify for them – the first one, for instance: VOLUME ASSEMBLY ALLOWANCE. That is to say we will give you an allowance so that some of the CKD parts you import – because we acknowledge that you cannot localise all the components. So it is to entice you to come and assemble here. But you need to assemble at least 50,000 then you qualify for that. So you're no assembling here or are not assembling 50,000 units you can't get.

The second incentive is the so-called AIS (a capital incentive). To say if you have a certain investment and you comply with certain criteria, then you can get half this investment back. Again, you need bring new technology or to create more jobs to qualify for that.

The PRODUCTION INCENTIVE is where you create local value. That local value addition, you get incentive based on that.

If you put all these things together, you come around 6% of the value of the vehicle (that is the level of support obtaining). Is this enough, that should be the question. We are logistically far away from markets, so if you just want to offset that....you will see that its expensive to produce things in south Africa.

My personal view: I have no problem with govt saying this is how much we are putting in and this is what you must do.

THE MARKET APPEARS CROWDED CURRENTLY. WITHOUT SUCH SUPPORT, HOW MANY PLAYERS WLD ACTUALLY BE IN SOUTH AFRICA?

I don't think you'll see many more coming in. there might still be one or two coming, when it comes to the market in South Africa if you cant export from this market the domestic market is not big enough to accommodate everybody. The market is about 600,000-700,000 vehicles big now. I think it will fluctuate in that band for some time to come, and start moving to the 800,000 to the 900,000 level. Just think that we want to produce 1,2m vehicles (from 2020), we've got to export quite a lot of vehicles. The visionary objection of 1,2m vehicles I think its still fine. Its just the timelines that change. If you look at the markets after the Liemann shock – if you look at what happened to markets, in many countries these markets disappears to 25% of the level before the shock. Some of our export markets were severely affected. I think we should keep our visionary objective and just change the timeline.

DO YOU THINK THAT WITHOUT THE INCENTIVES SOME OF THE OEMs LIKE YOURS WLD CONTINUE DOING WHAT THEY ARE DOING?

I don't think we'd produce here if it was not for the APDP.

BUT MANY OF THOSE COMPANIES HAD A LOT OF HISTORY IN THIS COUNTRY AND MIGHT HAVE DEVELOPED SOME CAPACITIES

You'd be quite surprised. We've just closed our plant in Australia. It had been there for more than 50 years. We produced more vehicles in Australia than what we produce here. We must never never think that we have this industry forever. What happened in Australia we cannot blame anybody specifically. Govt policy was to reduce the duties to zero and of course they opened their market completel. So who will produce vehicles in Australia if you can import them from Thailand, Indonesia, China, Korea, Japan. Its much cheaper and its right at your door step. In Australia, Toyota was the last one still there but we cant keep the supply base going. The volumes are not enough.

HOW ABOUT MOVES BY COUNTRIES LIKE NIGERIA TO TRY AND ENTICE THE LIKES OF NISSAN

I don't think Toyota will move. If you look at the Nigerian market, it's a small new vehicle at the moment, its very small. But they have a huge popn. What they have done is that they have used the duties and levies to increase the cost of importing vehicles. So they are actually forcing local manufacturers to go and assemble there. This is not necessarily very efficient because the cost of the vehicles will definitely go up because if you put a 70% duty on a vehicle, the importer will still import the vehicle and those who want to start producing there, the production cost in Nigeria and the fact that there is not such a supply base there – is not so easy. Of course, every country, I think, would like to have a motor industry. Its not always easy to start. South Africa, I think, its by luck that we still have this industry and that it was still in place after 1994. The industry was well-prepared I must say...We were all very concerned – will the industry survive, will we have to shrink it or grow it. There was a bit of a spirit of we can take on the world. This wasn't just from govt but from the industry and the unions as well.

GOING BACK TO INCENTIVES, ARE THERE INSTANCES WHERE GOVT WLD SAY YOU DIDN'T SAY WHAT SAID YOU'D DO AND THEREFORE WE ARE WITHDRAWING THEM?

If you'd say you are going to invest in certain equipment and machines, they come and they audit it, they check and if it's not there you get nothing. So the process is quite rigorous. Everything is after the event.

HOW ABOUT COMPLIANCE WITH BEE LEGISLATION?

When it comes to BEE – BEE is not part of APDP. BEE is driven through the Employment Equity and Labour regulatory framework. And the industry is not taking it very seriously. You'd be quite surprised to see how many lady black engineers we have. A few years ago they said it's impossible to find them. And we went to the universities and we found them. We put them through training and through education. They are fantastic. And even the Japanese say where did you get them. They are just as good as anybody in the world – it's just a question of training.

ARE YOU AWARE OF COMPANIES WHO DIDN'T GET THE INCENTIVES AND WENT ON TO APPEAL TO THE GOVT FOR RECONSIDERATION?

I can only talk for my company and everytime when we have to comply with things, they get audited and checked and if you haven't done it, there are certain rules. It's not a question of someone walking in and putting a piece of paper on the table and saying give me a cheque. The govt sends auditors. The big auditing firms come out and you have to tag all your assets (as the auditors need you to link components to invoices).

DO YOU THINK WE ARE PAYING A LOT MORE FOR VEHICLES ON THE DOMESTIC MARKET DUE TO THE SUPPORT THAT THE INDUSTRY GETS?

Vehicle prices are a function of structures in the market. Of course things like exchange rates and duties play a role. This argument whether we have expensive or cheap cars comes and goes. When the exchange rate is very strong, nobody complains. Of course we watch it very carefully. We cannot just price whatever we want. This is a highly competitive market. We've 62 brands, competing for 600,000 per annum. These are global companies.

DO YOU BELIEVE IN SELECTIVE INDUSTRIAL POLICIES IN THE ECONOMY

I truly believe that you want to have a developmental state, then you must follow some kind of interventionist policies. These interventionist policies don't mean that govt is starting to do what the private sector should do. These actually mean that there is a big partnership between govt and the private sector, like we have in Japan.

APPENDIX 3

INTERVIEW WITH NORMAN LAMPRECHT, EXECUTIVE MANAGER, THE NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SOUTH AFRICA (NAAMSA) February 2015

TO WHAT EXTENT DO THE PARTIES – LABOUR, CAPITAL AND GOVERNMENT – IN THE SECTOR MEET WHETHER FORMALLY OR INFORMALLY, TO DISCUSS AND AGREE ON MATTERS AFFECTING THE INDUSTRY?

In 1995 when the MIDP started the Motor industry Development Council (MIDC) was established by Minister Alec Erwin at the time as a government/business/labour automotive forum to discuss all automotive related issues, policies, etc. The MIDC is the forum where all automotive issues had to be endorsed before accepted by Dti. It has been watered down since due to no decision making powers but is still relevant today. The benefit is that automotive people make automotive decisions and when we get to Nedlac and the likes we are able to table the clear automotive view. Two key features of the automotive industry for me is firstly the long term policy certainty and secondly the constructive collaboration amongst stakeholders in the industry.

ARE THERE SPECIFIC PROGRAMMES THAT TESTIFY TO THIS?

ASCCI is the Automotive Supply Chain Competitiveness Initiative consisting of Dti, industry and labour to focus on supply chain competitiveness and act as a coordinating body for all the fragmented projects in the three auto clusters, etc. The Industrial Policy Action Plan (IPAP) is the action part of the Industrial Policy Framework of the Dti and is updated on a rolling 3-year basis with a 10 year time frame. The auto industry is one of the key focus areas to fast track its growth and development under the IPAP.

TO WHAT EXTENT HAS THIS CONSULATION LED TO THE PREVAILING INCENTIVES?

It has been publicly stated by industry commentators that there would not have been an automotive industry in the country without a support programme. Support is provided in all other automotive manufacturing countries in view of the significance of an automotive sector to a country's economy. Incentives under the previous MIDP and now APDP are nationally the same. The AIS investment incentive provides for an additional 5 to 10% for incremental employment, R&D, etc. Support by the provincial and local authorities is aiming to focus on local taxation, transport, etc to streamline the investments in the regions. The previous MIDP and current APDP are simply tariff based systems driven by market principles. It is a typical supply side measure whereby the benefits received are based on performance.

TO WHAT EXTENT ARE COMPANIES MADE TO ACCOUNT FOR THE INCENTIVES?

There are no handouts to industry. The duty provides protection to local manufacturers but the import duty can be rebated down to zero based on performance. Under the MIDP the rebate credits were based on exports and under the APDP they are based on local value addition. The companies doing more are able to rebate more of the import duty. Not doing enough simply means paying a portion of the import duty which has price and competitiveness implications in an industry where competition is fierce.

WHAT ARE THE PROSPECTS FOR THE INDUSTRY IN SA, GIVEN THAT IN AUSTRALIA THE AUTOMOTIVE INDUSTRY IS IN DECLINE?

In respect of Australia we have followed the Australian policy framework as the MIDP was based on the Australian Button Plan and thereafter they had a value addition programme, etc. The flaw on their side was that they reduced their import duties to 5% which is too low while they also focused on big cars of which sales declined with oil price increases (niche market). We have the benefit of learning from these mistakes over many years as Australia was always a bench mark for SA in many auto studies since the 1960s.

APPENDIX 4

Interview with Andrew Chirwa, president of the National Union of Metalworkers of South Africa (Numsa) February 2015

DOES THE CORPORATIST SPIRIT OF THE MIDP ALSO PREVAIL IN THE APDP? WOULD YOU SAY LABOUR WAS FULLY INVOLVED?

The process of migration from the MIDP to the APDP was mostly led by the DTI, with all stakeholders. As labour we were involved in the process from the word go. We were given time and we developed a position. For us as a union our first prize would be to defend jobs and part of our endeavour in doing this to ensure that we fight for issues of localisation. Our main fight was to disallow these companies to discontinue benefitting from the incentive schemes but at the same time not creating jobs in the country, but also not creating value to the extent that some would continue to import parts of a vehicle under the pretext that they have added jobs during assembly meanwhile all the components were finished goods. Employment in the industry has been going down. We used to be around 40,000 employed by the assemblers, its close to 30,000 now. It has been going down due to new processes production. Now it is at least stable. Most of these OEMs take government for granted, also govt's inability to monitor and to enforce the agreements or enforce the programmes once there is commitment. So most of these companies will get away with murder and sell govt a raw deal. We supported this industry because as a union we know that this industry is reliant on incentives, taxpayers' money. Hence there was an introduction now that any company that exports 50,000 units as a minimum will qualify on the scheme.

YOU RAISE THE QUESTION OF THE DTI'S CAPACITY TO ENFORCE THESE CONDITIONS AND INCENTIVES – WHAT INDEED IS THEIR CAPACITY TO HOLD FIRMS TO ACCOUNT FOR THESE INCENTIVES?

That's part of the problem. There are no penalties for employers who default on commitments. The department has no capacity at the moment to ensure that this programme is adhered to by all parties. Its an issue we have raised with the department. The same thing goes for black economic empowerment. Govt structures have no ability. You find us alone have taking the responsibility of tackling the companies head-on, exposing them, even inviting govt departments, to the extent that govt depts don't respond.

DOES THE DTI MONITOR BEE COMPLIANCE CLOSELY, EVEN IF NOT THROUGH THE DESK THAT RUNS THE APDP?

I don't think they monitor closely. I think the DTI find it very difficult to monitor companies – that's why there's lots of fronting taking place as far as BEE is concerned. There's lots of numbers that get inflated so that people reach the required levels so that they can continue to do business with govt. From where we are sitting as a union this industry is still untransformed. People are only implementing minimum programmes for compliance with the law and not really to transform.

WHY DIDN'T YOU AS A UNION INSIST ON BEE COMPLIANCE BEING LINKED WITH THE SUPPORT PROGRAMME?

We did, we wanted it to be linked with employment equity, BEE and the issue of local content as well because OEMs right now is that they would import the most basic components yet we have companies involved in such production. Instead of going to Roslyn they wld go to Thailand just because of economies of scale. A local manufacturer of vehicle bumpers shut down as a result, with an Indian company now supplying. We tried and lost that battle because DTI would say that is a separate law, etc. we couldn't win that battle but we thought in our view that if the APDP is to make huge progress it needed to be linked with this important measurements. In fact I must say is that the OEMs in the country here part of the problem is that they have not much power to decide, including the CEOs, powers are regionalised and centralised at head office. We're not dealing with corporatism only, in fact we are dealing with an imperialist corporatism where you have senior management sitting here but not with full power. In fact, in my view, the CEO has been reduced to the level of a manager or snr manager instead of a CEO who must decide 'how do we organise our production system.' If there has to be a new production system that must be implemented, it doesn't start here. Under the pretext of one company, one goal, global competition and everything else all those things are used to undermine the ability of local companies as well. How do you expect the Germans to care about employment, to them what is black economic empowerment? That's part of the challenge. You see it in the wage negotiations that they come with fixed positions – because they have no scope and power to decide what is reasonable, what is possible we end up in a strike unnecessarily and only during the strike are they able to shake their bosses. We are treated as third class citizens in my views, workers in Africa and asia are not treated like core workers in Germany. In Germany when they decide this is the new product, we want to launch it, the union is there with them. When they decide which company in the world or plant must produce the unions are with them, when they decide on suppliers, the union is with them. Here they don't do that. They only call labour when they want assurances on stability.

CAN GOVT AND THE DTI FACILITATE AN EFFECTIVE CORPORATISM?

That's why I call it imperial corporatism because even govt itself is pushed sometimes. Govt is told govt has no business in business. So if want us to invest there move aside. At times when as union you think DTI has a role to play, DTI doesn't see that role to play. Obviously on the APDP govt had to get involved but in key decisions about jobs govt doesn't have the space. They are told this is a labour relations matter.

THE DTI HAS GENERIC INCENTIVES; CAN A COMPANY ALSO GET TAILOR-MADE INCENTIVES. IS THE DTI OPEN TO NEGOTIATIONS?

They are. That's part of the problem. In fact is allowed to present a case to the govt like GM did last year – to say we did not meet 50,000 but we have met 42,000 and we think we have a solid case why we did not meet 50,000 therefore can we at least be allowed to be exempted so that we qualify for these incentives, meaning that companies have that space to do. They engage govt directly knowing that govt treats companies with very warm hands. The matter is not concluded with GM, its still under consideration. GM has presented a case. They undermined the union in the plant. They went to govt alone.

ARE CONDITIONS LIKE VALUE ADD COMPATIBLE WITH JOB CREATION AND JOB RETENTION?

It's a very difficult issue. Who decide what is value add? For the fact that this is in the hands of the employer to determine, measure and present a case and say we have added is open to manipulation.

HOW DO WE ACHIEVE WHAT APPEARS TO BE STABILITY IN THE SECTOR AT THE MOMENT?

We can say that there are high levels of stability. We think that south Africa is the best place for OEMs and other investors because you can plan, especially negotiations. we have a bit longer term agreements. So you do know when are going to have disputes, when we have to have a potential strike. It's about the leadership managing the potential for those type of issues. That doesn't mean that workers are fully happy, there are issues at plant level, including restructurings. Yes there is stability but there are challenges that we are dealing with. There is an industry policy forum that has been established some 2 – 3 years ago, in which we meet with all 7 OEMs in the country, with the national leadership of the unions to look at strategic issues – issues of job creations, sustainability and issues of local content.

HOW OFTEN DO YOU MEET?

It's supposed to be quarterly but we meet about twice in a year.

THERE'S AN ARGUMENT THAT THE SUPPORT PROGRAMME HAS PUSHED UP THE COST OF THE CARS ON THE DOMESTIC MARKET?

That's an area that we think govt must intervene, because the industry is playing double standards on this question. Why must cars be made so expensive when they are produced here. Even after being transported through the harbours and sea, they are still much cheaper overseas. We think that govt must stamp its authority on this question. Logic would be that if something is made here it would be cheaper than if it was bought somewhere else. Strangely that's the opposite. As a union we are engaged in a battle now over must workers produce cars that they cant own. We are engaging them in the industry policy forum about what type of schemes who produce these vehicles can also drive them. They are the best people who can market these cars.

APPENDIX 5

Interview with Arno van Der Merwe, CEO of Mercedes Benz SA

February 2015

Has corporatism in the automotive sector continued after the MIDP?

Certainly, there were a few indicators that would show us what the industry would look like with or without some kind of industrial policy or a programme like what the MIDP was and what the APDP is. We all know that the automotive market in South Africa is very small – we’re talking about a market around the 600,000 to 650,000 mark and we know that the rest of the world has a much larger market – in America we are talking about 13m to 14m, for example. So the question is: how does one create or incentivise the establishment of industry that accesses and can strive to access large volumes – that can actually only happen through an export-driven programme such as the MIDP was and such as the MIDP is. I think that it stands to reason that without such a programme, one could be bold and say that either the automobile industry would not exist at all, as one in countries like Australia of late or at least it would have been a very uncompetitive industry which is protected by some of form of more stringent duty regulation that maybe is happening similar to countries to Brazil, for example. Obviously Brazil has a much much larger market to south Africa and so you can it from a market point of view. The MIDP and the APDP from my point of view have been absolutely instrumental to the existence of the automobile industry in South Africa. And if you at the automobile industry in South Africa – obviously I can only speak of Mercedes benz – we find ourselves actually quite competitive. It is from our point of view a healthy business considering the incentive system that obviously on the one hand incentives direct production investment, increase of local content and rebate of local duties. That model is a good one. We think it is quite well- thought through in terms of its consequences. It has certainly been a driving force on the expansion of Mercedes benz in south Africa, no doubt..

TREASURY PUTS THE SUPPORT PROVIDED TO THE INDUSTRY AT R17bn A YEAR. DO YOU THINK THIS IS JUST A SMALL PRICE TO PAY FOR THE SUCCESS OF THE INDUSTRY?

I haven’t heard that number, so I cant comment on that and I don’t know what the basis is to get to that number. It’s a difficult question to answer because the question must it must be seen in the context of an opportunity cost. What would one do differently?

IN TERMS OF THE INCENTIVES, IS THERE A PENALTY OR CENSURE IF YOU DON’T DO WHAT YOU COMMITTED TO?

The incentive system is based really only on what you realise and we have found it to be a very well-audited and a very well-administered system within the DTI. There are very stringent systems and checks and balances; there are exhaustive audits in order to see that companies comply with the

principles that are documented within the APDP. For example, what is the method of calculating local content, what is local content and what is not local content? And are qualifying investments? What types of investments? If you have an increase of an investment for an example, that is subject to a grant, how is that increase justified? There are strict rules around job creation. There are very strict rules around an increase in technology. We have found in our dealings with the DTI and in our experience, this to have been a well-administered and robust process. From our experience I don't think this is a system open to some form of abuse or a wrong interpretation.

IS BEE COMPLIANCE AMONG THE CONDITIONS FOR ACCESSING ANY INCENTIVES?

Currently the APDP system is not built on BEE compliance. It is based on three fundamentals. The first one is automotive investment. It seeks to incentivise investment into the country by giving a grant which is a certain portion of the qualifying investment which is taxable and at the same time also reduces the value of the asset. The next part of it is the volume assembly allowance (VAA). That is a portion that is based on volume. There is a 50,000 units a year threshold. If you invest to a point where you are manufacturing more than 50,000 units a year then you can access this part of the incentive system. These are mechanisms that reduce import duty. In a scale that reduces overtime, for the rand value that you export claim a reduction in import duty.

WOULD YOU SAY THAT IF YOU DON'T TAKE THE INCENTIVE OR DON'T USE THEM, THEN YOU ARE SUBJECT TO THE DISCIPLINE OF THE MARKET? THAT THE MARKET AND NOT THE DTI WOULD PUNISH YOU IN TERMS OF COMPETITIVENESS?

I think the market will deal with you whether you are accessing the incentives or not. You have to take a global view. So if you take a company, for example, that is importing into the country, without any local manufacturing base, they have the ability access or to use maybe a manufacturing facility or capability in a market that has a much higher production volume – maybe a product or plant in Thailand or Mexico, etc with very significant cost advantages because of that manufacturing location, being very close to a different market and have that advantage which they have to offset on import duty into the country. What the system seeks to do is to balance those two effects. It says we don't have a big market in South Africa so we have to export. We are not very closely located to any big export market, how do we create a system in which we can import components and have a manufacturing and assembly process and export that can compete with just importing fully built up vehicles without any local manufacturing whatsoever. I think we have to look at the system as a global one if we are to talk about competitiveness.

THERE IS A CLAIM IN SOME QUARTERS THAT THE SUPPORT THAT THE INDUSTRY GETS HAS RESULTED IN HIGHER PRICES OF CARS ON THE LOCAL MARKET. DO YOU BELIEVE IN SUCH A CORRELATION?

No, not at all. Any entrepreneurial endeavour will always seek to find the lowest cost, the highest return. and whether that lowest is found here or somewhere else, the industry in SA spread the sector by giving it a broader market through incentivising exports.

WHAT HAS BEEN THE BIGGEST SUCCESS FACTOR REGARDING THE SUPPORT PROGRAMME FOR THE MOTOR INDUSTRY?

If I was to look at the manufacturing capability in this country, firstly, it is absolutely critical that any developing economy has the ability to manufacture. Within the manufacturing industry lies skills creation, skills development, the ability to simulate technology, etc. the biggest success of incentivising and support an industry like automotive manufacturing has been the build of a manufacturing skills base in the country. And associated with that the level of employment, the type of employment as well as an increasingly advanced level of employment. For example in our plant in East London now, we have a very transformed technical skills base that are able to and do work in many different parts of the world and there is no discussion about can a country like South Africa, actually deal with this level of technology. And as a result of that we are talking about downstream economic activities like the possibility to localise the manufacture of aluminium sheet metalwork, which is a very technical process, etc. if we did not have the skills based within our own company that can handle technology we'd never access that. That is something SA as an economy has to be very wary of. It needs to keep

on innovating and manufacturing at very high technology levels because manufacturing can only become more complex and we have to be ready for the complexity.

CAN SA COPE WITH THOSE LEVELS OF COMPLEXITY GIVEN THAT OUR MATHS AND SCIENCE IS NOT UP TO SCRATCH

We have in the country a lot of contracts – we have schools, individuals and tertiary institutions that are delivering among the most remarkable results in the world. The opposite is also true. I think that for the scale that we are busy with now and for the immediate growth it is a challenge but it is a challenge that we are managing with additional development programmes, additional support. However, if we want to increase our economic growth – to match the growth we saw around 2001 - then we will need a broader education capability because we simply are going to run out of a feeding pipeline into our tertiary system and into our companies. For now its ok but it is something that is critical for our future.

Appendix 6

Interview with Associated Motor Holdings head Manny de Canha March 2015

What are your views on the incentives in the automotive sector? The common view is that industry would not exist without those incentives?

From our point of view – we bring cars in and we pay the rate of duty, 25%, DTI then have the APDP programme which I think is over generous for the local industry. What is that creating? It's creating a bit of a discount war. You might its good, you might its bad, I'm not here to say. I just think there is so much money being thrown around to car dealers – not from our point of view, because we're subject to the rand and duty. They are virtually paying no duties. Last year they did a study of the duties paid. We probably pay a 100%, the industry pays 5% of the 100%. I'm saying they actually pay no duties. If they were using that money to do something else with it I'd understand. I they are using that money to incentivise dealers. Some of the incentives – like with Nissan and Mercedes – are just out of proportion. I just think its crazy. I think they are abusing the incentives and I just think its wrong.

Do you think the assembly of vehicles would happen without incentives?

They need the incentives but the incentives must be directed at that purpose. You cant use that incentive money, directed at various channels and give them to the dealers. That's the issue that gripes me. I have no issue with the incentives, yes they need it, I'm in full support of that. I think they must be justified in the manufacturing sense not from a retail perspective.

From your point of view, would you say there is corporatism in the sector. Does DTI consult you as part of the industry?

We've got Naamsa which is the representative body that deals with govt. I think govt should have more interaction with the industry and listen to different viewpoints and have an open mind about it. If we had a panel that met every quarter and went through...and govt must also have an open mind to say how do we treat this sector, I think we can achieve a lot. At the moment there seems to be a distrust between industry and govt. an understanding of the industry. I think govt has to try and understand business better. And if this happens I think we can achieve a lot. At the moment we have this divide.

But don't you interact through Naamsa?

We do but it's not enough. I think we just need more...maybe workshops – 'tell me how the industry works'. I just look at the motor industry code. You have a govt that has never been in business, so how

do we educate how business really works so that they can then make a decision which affects everyone, creates jobs....The problem is that all these departments don't talk to each other. If we could get to a situation where govt departments talk...

Back to the incentives: would you qualify for the incentives?

Yes, we do for the trucks. We do CKD trucks. So we qualify for some of the incentives. But nowhere as generous as manufacturing locally.

How do you compete with the guys who are getting incentives?

We have to compete. We have no choice. We make sure our costs are low, we make sure we run efficiently. I think importation and local manufacture is a balance because we keep them in check on prices. I think it's very good for an open economy that you have these checks and balances. I just think the money they get is disproportionate.

In countries in Japan the incentives were not free, the recipients were made to account for them

I just think we have to have more accountability on the incentives, I really do.

Do you think there is capacity in the DTI to monitor the industry?

I think capacity and lack understanding of how it works. We have experienced OEMs from overseas who have been around the block 55 times. You get the DTI which through transformation is relatively new. What you find is that the lack of understanding and comprehension in govt that creates the problem.

Do you think the incentives push up the price on the local market?

I don't think they do. It's an efficiency thing.

Where is the balance between local manufacture and imports?

We control about 15% of the market. About 76% of all cars sold in South are imported. I think there should be a balance local manufacturing and import, somewhere between 75-80% local, and 20-25% imports. You need that import for price competition, choice and all that.

Do you think we go towards more local production?

I think we say what are we good at? We are good at bakkies. Maybe we should in the South African industry we're going to produce bakkies and trucks. It's the third of our market and Africa is a big potential for us. Let's specialise. You can't have cars and bakkies. Cars are highly specialised things and I don't we have that skill. But on bakkies we have got have that skill. Body-bldg we should look at. We should look at things to say what are we good at? The problem at the moment is we are trying to be everything to everybody.

APPENDIX 7

Interview with Reshni Singh January 2015

Back in 2006 cabinet had approved the strategy for the BPO sector, the fact that it was a sector that was new to South Africa and that we were going to be putting effort in growing the potential of job creation that it posed and the fact that we saw lots of other developing countries doing very well like India, the Philippines etc in terms of the jobs that were created in the sector. The cabinet memo was signed in 2006 and the first incentive was launched in 2007. That was a capex incentive. So the model was where you wanted to encourage companies to come and invest here and set up the infrastructure and put the desks and chairs in place and create these jobs. But it wasn't hugely successful because this type of services sector, especially where it comes to non-core services being outsourced. It is a footloose type of industry – you take it where its cheapest and you take it on an opex model and not on a capex. So you go and you lease buildings, you do everything on a lease agreement as opposed to investing capital into the set up. Although we created about 6000 jobs over three years on that programme we found that a lot of what was projected didn't happen. We had a target of 25 000 direct jobs. We created 6000 direct jobs so that's why I'm saying it wasn't hugely successful. The other challenge back in 2007 was telecoms costs. There was a monopoly at that stage, there wasn't competition. Prices were very high. So from then to where we are today prices probably came down about 80 to 90%

Because of the competition that's coming to the market. It was your Neotel that came in thereafter and started taking a lot of the market share and then you find all the undersea cable Seacom that started developing and as a result that brought costs down. We now have lots of different suppliers and different ways – there is voice over IP as opposed to your normal telephone calls etc. All of that technology has evolved. In 2010 we looked at revising that incentive – the BPO incentive because of the fact that it was not hugely successful. And we looked at global trends. We looked at how do these people actually enter different countries. And obviously there was obviously what was happening in Egypt that created an opportunity for us to change our landscape so that we can actually attract more. Remember that Egypt was very successful – they started after us but they were hugely successful in attracting huge names from the US and the UK.

WHY WERE THEY MORE SUCCESSFUL THAN US?

They obviously had very good incentives as well - in fact they learnt from us. When I say that I mean there was cooperation between govt and business. Their red tape is not as much bureaucracy there as there was here. And they wld tailor make a package to suit, for example, if it was STREAM that went there. They would tailor-make something to suit STREAM. In South Africa we don't tailor-make

incentives to individual company needs. We have generic incentives. Its either you fit into it or you don't.

WHEN DID EGYPT COME ON STREAM?

They also started roughly in 2007-2008. That's what led us to moving the incentives to an apex model. The previous capex-based incentive was based on the amount that you invested from the capital expenditure perspective and the number of jobs that you created. It was straight line equation where you had your investment on one line and had your jobs on the other line and it determined the number of incentives you'd get. So if you didn't buy capex or spend on capex you wldnt get the full incentive value. The Opex incentive now is based on the number of jobs that you create. There is a two-tier very complex method – high investment, high jobs; high investment, low jobs – that kind of scenario. With the opex incentive which started on 1 January 2011, we found there was a lot more interest. We managed to attract a lot more of those major targeted investors that we wanted.

WHATS A TYPICAL INVESTOR LIKE?

So if look at AMAZON, for example. In cape town they've got a facility that services all their clients in the UK and US. So if you were in the US and you purchased a kindle and you needed support and you call, the call ends up in cape town. Someone in cape town actually gives you that support. But I must stress what we now call BPS is not limited to call centres, its much wider than that. I will come back to that. So looking at 2011 and what has happened there, you got a value per job that you created. For example in 2011 the rate was R40,000 for a job that you'd have created in that year. It wld be paid to you quarterly. So you actually got R3,333 per job that you create and you wld allocate that to your opex – it cld salaries, it could be training, electricity – different companies had different cost challenges. Telkom wasn't as high on the list of challenges as it was before. But then you had other things – like taking staff home if you had a 24/7 call centre. The opex incentive was to address all of those challenges. From 2011 we got a lot interest into the country. We've created 9,077 jobs on the programme from 2011 until March 2014. We've recently revised that incentive. We've moved into a space of high end services. We did have a few applicants in the past that were doing things like what we call LPO – legal process outsourcing. And that is any sort of transaction type legal work – it could be legal transcribing. It cld be document review, contract management – all those things that cld be outsourced. The cost of that in the UK is very high. Its much cheaper in South Africa. Plus the type we use is aligned with the type of law they use in the UK. The other specialised services – what we call shared services, any service within an organisation which cld be outsourced. It cld be financial and accounting services, payroll, HR, procurement etc. if you look at Barclays – they have their shared services for Africa out of South Africa. Its based in Watloo and they service the rest of Africa from here. We are not neglecting call centres, we are trying to encourage high end – there is more longevity and sustainability. Based on that principle, the revised incentive now is two tiered. There is an incentive for your low valued call centre type of work and then there is a higher valued incentive for the high end service – there you are employing graduates, etc and so your salary cost itself is a lot higher.

WHAT IS THE DIFFERENCE INCENTIVE THERE BTWN SHARED SERVICES VS A TYPICAL CALL CENTRE

You get R124,000 currently on a tier 1 (the low value work) over five year. The previous incentive was a three year incentive. This one is now a five year incentive. Companies felt they needed a longer transitioning period. The three years was a bit too short for them. And remember these incentives are all linked with actual contracts and its only for offshore services. The domestic guys do not get an incentive and the reason for that is because if we do domestic there is a great risk of displacement. Its not actually creating new jobs. But if you bring offshore investment here its guaranteed that its new jobs being created and not Discovery moving guys from place A to place B because they want incentives. And then there is the element of export revenue that we bring from doing this. Its R124 000 for Tier One – that is determined by fully-loaded costs which covers the salaries and the costs of running that seat, whether its telecoms costs and electricity, whatever. Anything under R300,000 will fall under Tier 1 and that's where you get R124,000 a job. Then your Tier 2 is where your fully loaded costs are above R300,000. Typically then that only happens in a high value service centre. Then the incentive is R184,000 over five years per job. It's a R60,000 difference.

AT WHAT POINT IS THAT MONEY DISBURSED

How the process works is that if you secure an offshore contract to service the client you would apply to us for the incentives at that stage. You would get an approval based on the signed contract to show that its actually happening. So we wld only make the commitment based on the commitment. Once you've been approved, you'd accept the terms and conditions of the incentives and thereafter every quarter you claim and you claim based on the number of jobs you actually have. In some cases people wld project a 100 and would end up with 60, so they paid only on the 60 as opposed to the 100. So it claims with cashflow as well and its done quarterly. Having said that the incentive of govt is not to create an incentive dependent industry and that is what we most feared. Because this industry is so price sensitive and footloose you don't want it to be just about the incentive, there are other things. Other support mechanisms that we as govt use. We work very closely with the industry body called BPESA (Business Process Enabling South Africa). There is a national body and then there is provincial bodies. We've got a whole lot of skills development programmes from the national skills fund and the jobs fund. We administer the funds that we get from there to do work readiness training – to get people who are school leavers or graduates into a work environment. We do the supervisor type of training. We fund that to get them to that level so that there is a career progression for them. We as govt do that through those two entities. But the industry body does a lot as well through the services Setas. The other thing we are pushing very hard is trying to get them to get into other city. We are looking at the Coega and Port Elizabeth where we'd like to see people moving into. The challenge that the business have is that there is a high attrition rate – a high turnover of staff.

WHERE ARE THE BUSINESSES CURRENTLY CONCENTRATED

In Cape Town, Durban and Gauteng

STILL ON INCENTIVES: I NOTICED THAT THE BASE INCENTIVE IS WHAT YOU SPOKE ABOUT AND THEN THERE IS A BONUS INCENTIVE

There is a bonus incentive where people create jobs aggressively. They create more jobs in one year – its not over the 3 or five year cycle. So if they create more than 400 jobs in any specific year we'd give them a bonus. Remember we want fast job creation here. That is why the whole element of the bonus, is to encourage and to sweeten it for them. So you get 20% of the base incentive if you do more than 400 jobs. But only on the value about 400 and then you get 30% if you do more than 800 in a specific year. I must tell you, only one company in Durban – CCI - has even been able to do the 800 in one year. They employ currently close to 2500 people. They did get the incentive over 800. We probably have three in total that got the bonus and the other two got it over 400. So its not easy to create large numbers of jobs in a quick timeframe. Aside from getting the contracts there is also the challenge of working capital, of set up. In some cases the clients that we service there are reluctant to pay you for setting up, they don't want to invest in the cape. They just want to pay a rate per hour, so the actual capex becomes your problem. But because there is a risk – what if they go tomorrow and I have set up this 1000 seat centre, what are I going to do with it. Those are the challenges that are faced. The latest research on the incentives was done by EVEREST in 2014. The new incentive reduces a company's capex by 11 to 12%. The previous incentive reduced it by 20%. The reason we brought it down if because of this incentive dependency. We want to do other things to make them stay, like quality, skills. Bigger things: we have a very politically stable environment, and financial services – we don't have any risk of civil unrest compared to what has happened in Egpt.

HOW MANY NUMBERS ARE WE LOOKING AT OF CLIENTS IN YOUR BOOKS

I've got about just over 30 companied in my books – and they are made up of two categories: the captives – the Barclays, UTI for examples have a shared service for Europe out of Johannesburg, you've got Ricoh they have a shared centre out of Johannesburg. Captives are not only for shared services, Amazon for example are a captive but they do contact centre work. Then you have outsources – there are two categories of outsources: typically your global outsources, many of whom are based in the WC. If you look at their profile they have like 90,000 employees or 100,000 employees globally, they just have operational centres in different areas. They mostly come through acquisitions – so they acquire one of the local outsources that are doing well and that's what happened in each of these cases.

The other type of outsourcing is your typical south African outsources so you look at a MERCHANTS – division of DIMENSION DATA – they are an outsource that only does work for offshore clients. They for instance did work for America on line at some stage. They actually were very big on that, and now they do work for INET from Australia, etc. So those are the three main

WHAT IS THE LEVEL OF COOPERATION WITH THE PVT SECTOR. ARE THEY AN EQUAL PARTNER. DO THEY PARTICIPATE WHEN YOU REVIEW PROGRAMMES, WHAT ARE THE FORUMS AVAILABLE FOR THIS?

We work very closely with Bpesa. For example as part of the incentive review process we engaged a global company - to do the study – that specialises in this sector globally. Remember it involves benchmarking South Africa against the rest of the world. It was a very high profile company that did the work, and during that process there was a lot of consultation. For example they called each of the companies that we have on our books as well as others that are thinking of south Africa to get input into the study. They would work through the industry body as well. Once they did a draft report for example we had a stakeholder engagement session, where all stakeholders were invited into a room and we presented and we got their inputs and we ended up their views into consideration before we finally come up with the final product. It's continuously consulting. One of the challenges we are facing currently is that because this incentive was focused on offshore investment and FDI and job creation, we never had BEEE as a requirement. For the very first time because of a decision that was taken within DTI that anyone that does work with govt irrespective of procurement even if its incentives that you want from govt you have to have level four compliance. Because the act states it we put it into the guidelines. And it wasn't well-received. We were in London when it was launched and a lot of prospective investors immediately think we have to give away equity. Since this services is a I have even been asked if this is not a conflict of govt policy – do you jobs or do you want transformation. What do you want. What we are doing is that we are consulting with industry. We are engaging with them. Next week's travelling to Cape Town. I'm meeting with each and everyone of them that have had challenges, and saying to them its not just about equity. You can do procurements, etc and you'd point and it would still take you there. There is also the cost of associated with doing that. Because the incentive is only 11 – 12% of opex do you really to add a separate cost on top of that. That is a challenge. Having said that as a govt official it is also very difficult to come up with special dispensations for different sectors because if it's a law that we are the custodians of and suddenly you're making a special dispensation for the BPS sector it becomes a competition issue. Its very difficult but we've got to listen to what the investor says.

HOW IS SOUTH AFRICA RATED IN AFRICA IN THIS SECTOR

We've always seen South Africa as a gateway into Africa. If you look at head offices - a lot of corporate head offices are based in South Africa. When we market out there we say look at it as a gateway into the rest Africa. Kenya are a strong competitor for us in this space. Egypt was a competitor as well. Ghana is also very aggressive in this space. North Africa has a lot of skills that we don't have – they can offer French etc. if you're going to cater for Europe you have to have the language capabilities. There is potential for partnership. I stand to be corrected as there has been much research done from an Africa perspective in terms of BPO but I can tell you that we are one of the first players in this space. Because of this we probably are sitting with more offshore seats than any of the others but they are lagging not far behind. We've hosted Ghana here trying to go through are strategy with them and we've share that we Kenya as well and Egypt – that's what makes me cross. We shared with them and then just overtook us. We have way too much bureaucracy here.

ARE WAGES A FACTOR IN THIS INDUSTRY

Wages are not regulated in this industry currently. There isn't any minimum wage and the sector is not unionised. (investors don't like unions. a lot of them with commission models)

AR THERE INSTANCES WHERE COMPANIES GET INCENTIVES AND NOT DO WHAT THEY COMMITTED THEMSELVES TO

That question would have been very appropriate on the BPO from 2007 to 2010. There we approved people on projections. They just said this what they wanted to do. This is their pipeline of who they are

targeting and this is what they are going to do over this period of time. The performance rate was probably 20% of underperformance (interpreted to mean underperformance was 20%). The new incentive when it started in 2011 we were started at 40% underperformance – for various reasons: working capital, etc. we're now probably in a better position where there is so much focus on the contacts and the commitments that are being made, we're probably looking at a 70 to 80% performance. We've got some companies that are 100% because they are very conservative in what they project so they overshoot the mark. In those cases we always go back to the committee to say the jobs have been created, let's give them the incentive for it because we've asked them to be conservative. We prefer them being conservative in their approach than being overly optimistic about what's going to happen. So we say be realistic, align it with contracts that you have, that kind of thing. Based on that I would say it's fairly well controlled, well managed. We are to spend our budget. In govt we get appraised by our spending. If we spend it means we've delivered, and because we're paying based on actual performance it shows that this stuff has actually happened and it also the actual timeframes as well. It's a piecemeal fashion (for actual jobs created every quarter). It's not R124,000 on one shot. The actual disbursement in all incentives in government is based on actual performance. Remember PFMA doesn't allow us to pay (in advance) there is too much risk on that.

I ALSO NOTICED THAT YOU DO SITE VISITS, ETC

And independent auditors have to go in to do what we call a factual findings reports – to verify that that there are no ghost employees and those kinds of things.

HOW BIG IS YOUR STAFF

I only have 30 clients. There are two categories of incentives in DTI: low valued high volume incentives – in these cases you have a separate inspectorate division. (these can be about R30,000 per client but the volumes of clients and disbursements are high). Those inspectors their job is to only go and inspect those businesses and see that they happen. The other category is your high value and low volume – the automotive guys fall in that category. Because of they are low volume you can actually micro manage clients.

I have a team of six people and we manage adequately. There are set times when the claims come in. we go out on site visits etc. it's very manageable.

ARE YOU THE LEAD AGENCY – DO YOU COOPERATE WITH SARS AND OTHER GOVT BODIES IN MANAGING THE PROGRAMME

This sector is one of the priorities in the Industrial Policy Action Plan. Within DTI there are three divisions that are focussed on this programme:

(1) You get the Industrial development division – they do the policy on BPOs. Then you have (2) Trade and Investment South Africa – a division of DTI, they do the investment promotion. They are the division that puts in the foreign economic reps that sit in all the countries. We work together we work as a team. My division is implementation. Within my division there is a separate unit that does monitoring and evaluation and there is a strong audit to all of this – there is internal audit, external audit that also gets involved. From an external basis we work with IDC, the department of communication. And then we work with the national skills fund and the jobs fund.

WHAT IS THE TOTAL COMMITTED UNDER THE INCENTIVE

It's R270m that was allocated for this financial year

HOW MUCH HAVE YOU SPENT SINCE THE PROGRAMME STARTED

Since R2007 when the first incentive was launched we disbursed just over R1bn – for approximately 16,000 jobs servicing offshore clients.

APPENDIX 8

Interview with Brandon Aitken, manager at Serco Global Services SA which is part of the Serco Group, a UK listed company with over 120,000 employees in over 40 countries. Serco operates as four divisions; US, UK & Europe, AMEAA and Serco Global Services; the Global BPO division of which Serco SA is a part of. Serco BPO has over 55,000 employees. The South African division was established in 2012/2013, launching its first client, UK online retailer Shop Direct. It employs around 650 employees. Its offerings include customer service and sales contact centres as well as digital services. The global service centres include back-office capability as well.

February 2015

What difference does the incentive make to your operation - Would you have set up shop in South Africa had it not been for this incentive?

The incentive helps to make our operations competitive against other voice alternatives like Europe, UK, Philippines and India. It allows us to operate at a profit and ensure we are able to invest in skills development so we can invest in the sustainability of the BPO industry in SA. The access to the incentive did play a big part in the decision and one could argue that it would have happened but maybe not as quickly. Setting up in 2012 would have been less likely had the incentive not been available; but SA's value proposition without the incentive still stacks up and there is a strong argument to generate business cases without a dependency on the grant.

To what extent does DTI make you account for the support given?

Each month the grant details are scrutinized as part of a well maintained audit process. Physical site visits as well document reviews are completed before any payments are authorized.

In your experience how would you describe the DTI's capacity to follow up on companies that have applied for such support?

The Dti are very engaged with individuals within companies that apply and were very active in the inception of the contract as well as since we launched in SA. They show an active interest in ensuring that applicants can benefit from the grant process.

In your experience what is the level of consultation, discussion and partnership between companies in the sector and the DTI to achieve common goals - such as employment generation?

The SA BPO community has a unique nature in that companies actively engage and collaborate to drive common outcomes to each other's benefit. Using BPeSA as a conduit and facilitator for active

debate among companies, common issues are collectively addressed with a 'one voice' approach to gain buy-in from supporting functions. Latest example being the issue of visas for foreign nationals and BPeSA's facilitation of open dialogue with the Dti. I wouldn't say employment generation is a key point of collaboration as that is driven by contract wins. Where the consultation and discussion is effective is in driving the best outcomes from the enabling bodies, like Dti, training bodies etc.

APPENDIX 9

February 2015

Interview with Sipho Zungu, a business consultant focusing mainly on Transformation and B-BBEE. He is also a former CEO of BPeSA Western Cape (previously called CallingtheCape

What would you say is the level of corporatism in the sector - the extent to which companies and the DTI engage with each other - both formally and informally - to discuss strategic objectives and goals?

My understanding is that such engagements with the dti are mainly with regards to incentives that will attract off-shore companies to move their operations to South Africa. The example here being the current BPS Incentive Scheme

Is there any competitive or comparative advantage cited by BPO sector companies in the Western Cape? In other words, why would a foreign company choose to outsource to a company in the western cape and in South Africa?

The competitive advantages I will refer to are not only applicable to the Western Cape (Cape Town) but to all the major cities of South Africa (Johannesburg, Durban, PE, etc), particularly for foreign companies from the UK (main buyers) and Europe:

- Time Zone
- Language suitability and availability
- Available labour pool (minimum entry requirement being a Matric as well as the level of unemployment especially in youth)
- Availability of infrastructure which is similar to what is available in the UK, Europe, etc
- Political stability
- Ease of doing business

What role do DTI incentives play in enticing new entrants into the sector?

The major role is contributing to the reduction in labour costs

It seems to me the incentives can be grouped into three phases, as follows:

A. 2007-2011 - apex-based incentives

B. 2001-2014 - open based incentives (R4000 job created per year)

C. 2014- to date - R124000 for each job created, payable over 5 years in Tier 1, R184000 in Tier 2. Once off bonus for high numbers of jobs created, over 400 and over 800. What are your observations of what one would describe as the 3 phases?

One of the key objectives of BPO is cost reduction (through set-up costs, labour costs and operational costs). The incentives has thus far been geared towards achieving this.

Do the companies in the sector complain about the conditions for receiving incentives? Apart from proving job creation, what are the other conditions that companies have to meet?

The major bone of contention currently is the B-BBEE requirement which have in the past have not been a requirement. There is now a requirement that the business must have at least a Level 4 B-BBEE status to access the BPS incentive. With the New B-BBEE Codes coming into effect in 1 May 2015 and with Ownership (Equity) being one of the compulsory Priority Elements, achieving a level 4 may be a challenge for Outsourcers who are multi-nationals. The reason for this being the fact that most multi-nationals don't give equity. They however have the option of "Equity Equivalents" to circumvent this challenge.

Are you aware of instances where the conditions were relaxed or scrapped, on appeal by an company?

Not to my knowledge. Please bear in mind that the B-BBEE requirement cited above does not only apply to the BPO industry but to all industries wanting to access government incentives, certifications, etc. Key to this is the government's drive of true and genuine transform which is thus far lacking.

Is BEE compliance a pre-condition to accessing incentives?

Yes.

How does the DTI deal with non-compliant firms?

Non-compliance means no access to the BPS incentive. Please note however that the dti is currently engaging with the BPO industry with the intention to see that there could be a solution to deal with this challenge faced by the multi-nationals

How do the incentives in SA in this sector compare to other jurisdictions that are also competing in the offshoring space?

My understanding is that it is on par if not better. Particularly the BPS incentive

Are there any incentives at local or provincial level?

Not to my knowledge. Each case is handled differently by the local government where there could be agreements with the specific company depending on the level of potential investment, job creation and sustainability

APPENDIX 10

Interview with Gary Bennett, who has worked in the SA BPO sector for 10 years as an Offshore Country Manager and supplier side as Vice President for Operations, General Manager and currently CEO of a domestic provider.

March 2015

What would you say is the level of corporatism in the sector - the extent to which companies and the DTI engage with each other - both formally and informally - to discuss strategic objectives and goals?

For me it is sporadic. On a personal level I have always found that working with the DTi has been fruitful and I have managed to create positive relationship – especially in relation to the grants, as an aside the grant application I did for Virgin was the 1st one approved by the DTi on the new scheme! J Outside of this personal experience I think the BPO sector struggles to gain consistent traction and attention from the DTi at a country level. The industry has seen many peaks and troughs of success/employment over the years with the Western Cape remaining the lead, until recently and the rise of Durban. This volatility of focus seems to make it tough for a sustained, Government level approach and strategy.

Is there any competitive or comparative advantage cited by BPO sector companies in the Western Cape or South Africa generally? In other words, why would a foreign company choose to outsource to a company in the western cape and in South Africa?

For me with any potential offshore investor we must 1st sell South Africa as a location with all its advantages – cultural affinity, English ability, infrastructure, legal and banking structures, accessibility etc. From there and with an investor interested in an offshore solution the locations can highlight their individual advantages.

Cape Town - -Location. Experience (its tried and tested to the UK).

Durban – Culture for sales operations, or IT.

Joburg – Large recruitment pool providing multiple options for service type and scale.

What role do DTI incentives play in enticing new entrants into the sector?

They represent a positive message regarding SA commitment to BPO and help (but do not remove) the price differential between our strongest competitor in the Philippines.

It seems to me the incentives can be grouped into three phases, as follows:

A. 2007-2011 - apex-based incentives

B. 2001-2014 - open based incentives (R4000 job created per year)

C. 2014- to date - R124000 for each job created, payable over 5 years in Tier 1, R184000 in Tier 2. Once off bonus for high numbers of jobs created, over 400 and over 800.

What are the peculiarities per phase, including the attraction of each phase? Which phase was responsible for the highest growth in the sector.

A. 1st attempt and largely based on the approach taken in the manufacturing sector (even a copy and paste of the form!). It provided for set up and growth of a new operation but didn't really support the job creation focus as we will place multiple people on one workstation. In addition to this there was the ability to ensure you 'found' Capex spend to ensure you received the max return per seat!

B. Positive 2nd iteration based on learning from round 1 and feedback from the industry. Better focus on the people impact which support the core of the industry (we are a people industry not Capex and workstations, they are just an enabler). Attraction remains the same for an investor but does better support people growth plus less onerous in relation to 'proving' certain elements such as DoE requirements in relation to training facilities etc.

C. Positive tweaks again to reflect longer contracting periods and the higher end work. Probably missing a way to drive / incentivize employment from different recruitment pools, i.e. unemployed youth through Harambee style initiatives.

I am not sure you can directly link the schemes themselves to being responsible for driving highest growth. They are a contributor but not a deciding factor.

Do the companies in the sector complain about the conditions for receiving incentives? Apart from proving job creation, what are the other conditions that companies have to meet?

Always going to be complaints and that is particularly the case now with the inclusion of stringent BBBEE codes in line with government transformation policy. Offshore entities are going to struggle with the new codes and the level achieved to be eligible for grants.

Are you aware of instances where the conditions were relaxed or scrapped, on appeal by an company?

Not officially. The only one that has seemed questionable was Teletech who apparently had the grants in advance of the contracts, but this is industry gossip as all information is confidential really.

Is BEE compliance a pre-condition to accessing incentives?

It is very much so now!

How does the DTI deal with non-compliant firms?

If the firm is only doing offshore work then it doesn't matter if they are compliant or not. If they are not compliant they will now not be eligible for grants.

How do the incentives in SA in this sector compare to other jurisdictions that are also competing in the offshoring space?

They appear competitive from a value perspective, the question now is more around the implications of BBBEE and how they impact the ease of a company offshore to do business with South Africa.

APPENDIX 11

Interview with Charles Morgan, operations Director for a worldwide BPO company that have a presence in South Africa. The company has offices all over the globe and SA is part of the UK. March 2015

1). What would you say is the level of corporatism in the sector - the extent to which companies and the DTI engage with each other - both formally and informally - to discuss strategic objectives and goals?

Good – there will always be competition between the companies but in the short time that I have been in SA I have seen a lot of teak work and the different companies working together for the strength of the industry

2). Is there any competitive or comparative advantage cited by BPO sector companies in the Western Cape or South Africa generally? In other words, why would a foreign company choose to outsource to a company in the western cape and in South Africa?]

The main reason will be one of cost – 30% cheaper than that of the UK. Cost should not be the main reason but it is the perception that exists and cost is a key driver for most companies.

3). What role do DTI incentives play in enticing new entrants into the sector?

I cannot say due to limited experience in SA

4). Do the companies in the sector complain about the conditions for receiving incentives? Apart from proving job creation, what are the other conditions that companies have to meet?

I cannot say due to limited experience in SA

5). Are you aware of instances where the conditions were relaxed or scrapped, on appeal by a company?

Again I cannot say due to limited experience in SA

APPENDIX 12

Interview with Ross Telfer, managing director of Coracall, which runs a facility that can operate 500 outbound dialling seats at any one time, all with UK clients. The company is also testing the Australian market as well.

March 2015

What would you say is the level of corporatism in the sector - the extent to which companies and the DTI engage with each other - both formally and informally - to discuss strategic objectives and goals?

The DTI is hugely co-operative, both at start up phase and on going. They meet with us at least once per quarter, and in my opinion try to foster a partnership approach with the sole purpose of creating jobs!

Is there any competitive or comparative advantage cited by BPO sector companies in Durban? In other words, why would a foreign company choose to outsource to a company in KZN and in South Africa?

Durban has tended to fare better in commercial transactions, be that sales or collections. It has also a very good track record in performing for UK Telco operators.

What role do DTI incentives play in enticing new entrants into the sector?

They are happy to be involved in site visits on an adhoc basis, and have brought delegations from offshore to all 3 geographies to showcase all that South Africa has to offer.

It seems to me the incentives can be grouped into three phases, as follows:

A).2007-2011 - apex-based incentives

B).2001-2014 - open based incentives (R4000 job created per year)

C).2014- to date - R124000 for each job created, payable over 5 years in Tier 1, R184000 in Tier 2.

Once off bonus for high numbers of jobs created, over 400 and over 800.

What would you say are the differences per phase?

Having only been involved in “B” to date, and with 2 more years of that current incentive to run for us it is difficult to comment on the differences as yet. Phase “C” looks equally as attractive and will certainly help us with our growth plans.

Do the companies in the sector complain about the conditions for receiving

incentives? Apart from proving job creation, what are the other conditions that companies have to meet?

The DTI are (quite rightly) rigorous in the approval of any incentive plans and there are various rules that need to be followed. This then has to be approved by recognised auditors. I am sure if you approach the DTI they will let you have the scheme rule. We have found no reason to complain, and found the process to follow an easy one.

Are you aware of instances where the conditions were relaxed or scrapped, on appeal by any company?

I am not aware of any instances.

How do companies get around the requirement for BEE compliance?

There is no getting around it. You have to be compliant.

How does the DTI deal with non-compliant firms?

I am not sure, as can only comment on Coracall.

How do the incentives in SA in this sector compare to other jurisdictions that are also competing in the offshoring space?

I believe that they are very competitive.

APPENDIX 13

**Interview with Mike Whitfield, Managing Director, Nissan SA
March 2015**

To what extent would you say the industry is characterised by the cooperation we saw in Japan and other South East Asian countries?

What we need is go to the early days when the auto industry like in many parts of the world was identified as an opportunity for technology growth, skills growth, job creation, also very importantly to generate foreign revenues through exports. The local industry started with a local content programme that was based very much on weight in the early 80s. We built very heavy cars. Your duties were over 100%. Progressively it came down overtime to the point where in the 90s we became a lot more WTO-compliant. We go to the point where or duties are at 25%, if you are importing from Europe 18%. That progression forced the industry to become a lot more competitive. Looking back from where govt and industry were, one could say we have come a long way. The challenge now is how do we sustain it because I think we need to make the next quantum leap. There is very close interaction – and there has been for many many years, between govt and industry, and labour – obviously there is a lot of awareness of the dispute side of labour. But outside of that there is still a lot of interaction, a good understand when you have a one on one discussion with union leadership of what is needed...fundamentally between govt and industry and labour there is an understanding of what's need to keep and grow and sustain the industry. The difficulty is how do we implement it, how do we reach it. Its important through that process of cooperation and collaboration, there is mutual agreement and understanding and there is a willing about how to move forward. The objectives of the APDP – which were not just dreamed up by govt – this was well built and structured with a lot of input from a lot of experts from all sides of the equation – Numsa played a big role in it, govt, and obviously industry. The net effect is you have an APDP which has a stated objective of 1,2 million production, at least 50-60% of that wld be exported earning revenue. We have very sound policy, there is consistency in it because any investment in any manufacturing activity particularly the auto industry requires massive investment upfront that you only get returns downstream over many many year...for example we are busy making and finalising investment decisions that will result in the first vehicle being built in the beginning in 2018 and the life of that vehicle is going to six years. APDP ends in 2020, so there is a good understanding with govt that to do that we need to show policy commitment that come January 2021 there is no policy because then its very difficult to make a decision...the knowledge in govt of the industry is very good. The first foundation is that we have stable policy frameworks and obviously moves with the times and obviously is aligned with all stakeholders.

When you meet with govt and labour is there genuine sharing of information?

There is not too many examples of the level of interaction and understanding between all three stakeholders. In the south African context you cant operate without labour. Its not going to work. Sure

we have different views and things but at the end of the day I think there is a different purpose we end up with. As an interest we will fight each other out there – we will be competitive and that's important. But we also understand that none of us are big enough to influence the industry in South Africa. But collectively we can work together – we do work together the seven manufacturers through Naamsa, on a very structured basis that results in an auto policy that tries to achieve a balance of what all stakeholders want. We'd love to have massive incentives but we're also realistic. If you have that – let's call it an entry ticket, because we mustn't believe that we are the only people that have an auto policy etc. Thereafter, the only that we are going to reach the ultimate goals of 1,2m is that you have to get all the other building blocks required. That is where I think a lot more work is required. While we all say yes we need beneficiation policies....those other building blocks that are needed to get from this space – which is the foundation, which is the policy: beneficiation, preferential procurement, how do we get people who can't afford vehicles access to finance, the skills up that we need (the days are gone when you can fix a car at home: it's a computer that you plug in). Collaboration between us and the Gauteng govt, which through the AIDC, have developed a state-of-art training academy which will have what have simulator lines.....to answer your question I think the level of cooperation and alignment between govt and business and to a lesser extent labour is very good in the automotive sector. I think that's one of the reasons why we have an auto sector that has grown and continues to grow.

Going back to the incentives themselves, the lessons from Japan similar places are that these were given but were treated as contracts – you wouldn't proceed into the next round if you didn't show results in the first. How does that work in South Africa?

Obviously there is nothing for free. You're not going to get the incentives unless you build a certain number of vehicles. You're not going to have the incentives unless you have a certain level of local content. You're not going to have the training incentives unless you train people. So there is a contractual obligation. Your AIS, your automotive investment scheme, starts at 20%, you can go up to 30% but you have to create a certain amount of jobs, you need to achieve certain levels of localisation. Etc. it's actually well-contracted, you don't get for doing nothing. I'm not going to get a production incentive or a value addition incentive unless I build a car from pieces of metal – in other words, I can't take what we traditionally call an SKD – that is considered as production. Yes, there is a contractual obligation to deliver on various criteria and then you access the incentives. There is obviously the argument we hear through various economists that the amount of incentives that govt is paying to the industry could be better spent elsewhere. I think that's a debatable point because you're not going to create the jobs, you're not going to create the skills transfer, you're going to end up with the industry dying as we saw in Australia. By the way they had a market of a million vehicles versus ours of 100,000.

Would you say the incentives drive up the cost of the vehicles on the local market?

As we sit here today, very roughly speaking, it's probably 20% more expensive to build here than it is to build it in Thailand. Duty neutralise that. But all of those industries, including Thailand, they all had high levels of duty and support. You can go one of two ways – you can either have high levels of support and very low duties or you can have very high duties and very little support. But guaranteed if you have low duties and low support you are not going to manufacture cars, that I can guarantee you. So where is the optimum balance? The optimum balance would depend on where a country is in its industrialisation, phase, its cycles. Ultimately, incentives or duties if they are persistently high on either side, is not going to promote efficient and competitive manufacturing. You need to bring your protection down, it's difficult to find the right point. Without a delicate balance it's not gonna work, either way.

What is the long term like as duties progressively come down?

The current structure, maybe you can go down another 2-3% over time. It's pretty much at the level where you are compensating for distance to market....No incentives will not work. So if you go to far bigger markets, like India and Brazil, their duties are far higher than us. They have incentives but maybe a little bit less. What happens there is that the customers are paying a higher price for vehicles but that profit there is enabling the manufacturers to invest in the cars they can export....You also have to be careful, too high a protection, or too high an incentive is also going to create a lot of inefficiencies. No one will continue paying high incentives, or if you're going to have high duties,

you're going to say I'm only a local manufacturer because you're never going to enter the export market and you'll have efficiencies.

After APDP what support programme do you see as likely to be in place in South Africa

Right now, the APDP is scheduled to run until 2020. It has built into the mechanism of it a number of review cycles. We are currently through a review now with govt – we are all stakeholders, including the components makers. The review cycle we are going through now is making it very clear and is fully understood by govt and ourselves and everyone that the investment being made now for product that will come to market in late 2017 and 2018 need to understand the what the certainty is beyond 2020. If I make an investment decision now even though the model life is six years, I only factor in the benefits of APDP for the first two years, if I launch in 2018. It makes the business case to invest here a lot more marginal. If I have certainty that whatever I introduce in 2018 and has a six year model life and that the benefits under the current model life will apply to my product until 2024, I can make it. In the absence of that I can assume nothing, even if I know there will be something. Govt recognises that and we are hoping that one of the outputs of the current review session will be – is not an announcement of what APDP 2021 is – but the commitment that there will extension of a motor policy. Obviously the details of it will be different then to today.....the nature of our game is that you want to have little complexity, ie ideally build one. What you want in this country are high production volumes of one range and as a result of that you can then afford to go for very high levels of localisation. That's the utopia of being in this business.

How would you describe DTI's capacity to monitor these incentives?

Over the years DTI has built up this core competency and we find the administration, reputation and understanding very good.

Can one negotiate incentives – any prospect of tailor-made incentives?

No, its got to be fair to everyone otherwise you're creating unfair advantages. The APDP is only incentive available although one cannot double-dip. You all sorts of different forms of support available to manufacturers, provided that one doesn't double-dip. The challenge is – because many of these support activities come from a variety of govt agencies (e.g dept of labour or dept of education) – the difficulty which we find is this inter-agency coordination. Dti are moving towards that – eg. through a new business establishment facilitation to navigate the different agencies. That is where we cld improve a lot.
