

“Southern Africa is poorly integrated into global value chains,” said **Talitha Bertelsmann-Scott**, head of the Economic Diplomacy Programme at SAIIA. “There is great potential in the area of agro-processing, for example, but weak production and logistics capacity is a serious impediment. Many foreign investors looking at the region also see policy uncertainty, which is a further deterrent. What is needed is a much more aggressive marketing drive by regional players to convince the world that southern Africa is worthy of investment. This must be backed up by a credible and actionable programme of industrial development and export capacity building that centres on the building of human capital.”

Peter Draper, managing director of Tutwa Consulting, said that regional trade agreements can help to bolster trade within southern Africa but that his preference is for a ‘light’ regional integration model, characterised by inter-governmental coordination rather than supranational arrangements that require the kind of capacity that African states generally lack. “Building customs unions around the continent”, he said, “is misplaced”, citing the loss of sovereignty that these entail as being a particularly contentious issue. Peter indicated that a system of regulatory convergence, as opposed to harmonisation, is generally more palatable and realistic, which would be further helped by a collective commitment to reducing red tape—particularly where regional value chain opportunities present themselves.

Taking a holistic view of industrial and trade policy is clearly an imperative in South Africa because production quality and efficiency are emerging as the new drivers of trade relationships which, in turn, should influence the industrial agenda. This, though, will involve a shift in mind-set. Although the government advocates an industrial path that has a strong developmental/labour-intensive character, what needs to be accepted is that many jobs—by their very nature—are under threat because they will eventually be performed by machines. Such jobs are largely in the medium-skilled range, with those in the low-skilled and highly-skilled categories being comparatively less vulnerable.

As South Africa is engulfed in a rising tide of unemployment, the need to build more—and more appropriate—skills has never been so urgent. In this regard, it is important not to fall into the habit of protecting jobs rather than making way for new ones. The government is often coy about the role that imports play in the country’s economy because imports can put local producers out of business. Yet imports are fundamental to the workings of an economy—as a source of technology-rich capital equipment and as inputs for export-gearred production. Services, too, are becoming integral to a value chain’s architecture and offer many opportunities, but are frequently overlooked at the policy level.

Where industrial policy and trade policy should naturally converge is in the area of infrastructural development. However, according to **Martin Cameron**, director of TRADE Research Advisory (Pty) Ltd, a longstanding ‘silo’ mentality in government departments looking after trade, transport, energy, telecommunications, etc. has produced a range of policies that are insufficiently aligned or simply lacking in substance, which has resulted in much dislocation at the operational level.

“Deficiencies in the area of ‘critical infrastructure’ make it almost impossible for countries to capitalise on their industrial or export potential,” said Martin. “For example, about 50% of businesses in sub-Saharan Africa cite the unreliable electricity supply as being a major impediment to their operations. South Africa is no exception in this regard, with its sporadic power problems being attributed to years of under-investment, which is further compounded by an opaque energy policy.”

South Africa is looking into an abyss as far as its incoming foreign direct investment (FDI) is concerned. Not only has incoming FDI been on a steadily declining growth path in recent years, it

has been overtaken by a steep rise in outward FDI flows as more and more companies establish operations in more cost-efficient and investor-friendly locations, such as Mauritius, India, the UK and other parts of the EU. Shrinking investment has serious implications for the whole economy—not least of which for South Africa’s export sector which could hold the key to greater economic stability and inclusiveness if it created more opportunities for SMEs, which constitute around 90% of businesses in the country.

Prof Raymond Parsons, from the North-West University School of Business & Governance, said that one of the cornerstones of an effective industrial-trade partnership in any country is a coherent set of policies straddling many economic sectors. “In South Africa’s case, the pervasive message coming from investors is that there is insufficient policy certainty and as a result, there is no clear sense of direction.” This, he said, was inhibiting the country’s economic performance and making it difficult for businesses to take advantage of opportunities presented by regional and global value chains.

“Where there is policy certainty,” continued Prof Parsons, “companies are encouraged to build up cash reserves as part of a long-term commitment. However, in an uncertain climate, a long-term commitment of funds is much more difficult to secure. Even a weak policy relating to a fairly certain outcome is better than a policy that lacks definition and/or the assurance of continuity.”

With local and foreign investment being crucial for the development of South Africa’s industrial and trade sectors, a key priority going forward is for government and business to jointly commit to implementing the National Development Plan (South Africa’s economic and social development blueprint to the year 2030) and continuously—and together—monitoring and reacting to regional and global dynamics that are likely to affect the country’s economic trajectory.