

UNIVERSITY OF KWAZULU-NATAL

South Africa as an aspirant 'developmental state': Lessons from the steel industry

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ABSTRACT

The South African government is eager that it be branded as a developmental state. However, most analysts are sceptical about the appropriateness of South Africa being classified this way. In addition to lacking many of the features that developmental states have traditionally possessed (such as dynamic bureaucracies, supportive and reciprocal relations between the state and the private sector, and astute utilisation of industrial policy), post-apartheid South Africa has not experienced particularly impressive industrialisation or social upliftment successes. Accordingly, this study is of the view that South Africa is currently an aspirant developmental state.

The study – which was a case study of the government’s industrial policy towards the steel industry, and in particular of the government’s endeavours to actualise a developmental flat steel price in the domestic market – adopted a critical social science approach, and thus sought to garner understanding and insight; not necessarily to corroborate or negate specific hypotheses. In broad terms, the study sought to understand what factors are impeding South Africa from attaining legitimate developmental state status, and what sorts of measures might the government consider adopting if it is to realise its stated objective of being a bona fide developmental state. The study has used the government’s handling of the steel industry as a platform from which to derive insights to the mentioned concerns.

Subsequent to the privatisation of Iscor (the Iron and Steel Corporation of South Africa) the South African steel market came to be dominated by ArcelorMittal South Africa (AMSA) – a subsidiary of the world’s largest steel company. AMSA’s dominance in the domestic market has enabled it to utilise import parity pricing in the domestic market; to the detriment of steel using industries. In spite of the significance of steel to the rest of the economy the government has to date not managed to bring a developmental steel price to pass. In December of 2012 the government announced a handful of measures it intended to invoke; these measures are yet to be enacted though. That the government has to date not managed to realise a developmental steel price provides confirmation that South Africa is currently not a veritable developmental state.

If South Africa is to become a bona fide developmental state then the capacity of the state needs to be increased, as do the degrees of both inter and intra departmental coherence. Additionally, the government – whom have to date been inclined to adhere with economic orthodoxy – needs a change in mind-set, and to be more open to the heterodox perspectives that underpin successful industrial policy.

At a theoretical level this study sheds light on the fact that – while lessons can still be extracted from the experiences of the East Asian developmental states – contemporary developers are faced with different opportunities and challenges to those which the East Asian development states were, and thus that the concept of the developmental state needs to evolve, so as to be more pertinent to, and utilisable in, contemporary developing countries.

DECLARATION

The following dissertation is submitted as a partial requirement for the degree: Masters of Development Studies (MDev), by course work and short dissertation.

This dissertation has made use of the Harvard referencing method. Moreover, I hereby declare that:

- I know what plagiarism is, and I know what the penalties of being found to have plagiarised are;
- This dissertation is entirely my own unaided work. Where other peoples' ideas, thoughts and/or research have been referred to, cited and/or quoted, that the people in question have been fully and appropriately acknowledged as the sources of those ideas, thoughts and/or research;
- This dissertation has not previously been submitted for academic accreditation at the University of KwaZulu-Natal or any other university.

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I have no reason to issue any thanks whatsoever to either the Department of Development Studies or UKZN as an institution for anything at all; apart – at a push – from providing me with a fist hand account of mediocrity personified. I will confine myself to stating that coming to the erstwhile School of Development Studies (SDS) was the biggest mistake of my life, and as such it would be improper to issue any thanks to the bigots whom are otherwise known as its staff. For the record though, this dissertation attained a distinction in spite of me having received no support or supervision; and the latter has been conceded by UKZN authorities. In other words, don't let the mark this dissertation attained fool you into thinking this dissertation was compiled in a supportive department: because it wasn't.

¹ And no, don't for a moment think that this has been a trying time because of the high academic standards set at what was previously known as the School of Development (SDS). To the contrary, it has been trying because of SDS's brash smugness coupled, paradoxically, with their inability to appreciate what academic standards, beyond empiricism and the running of regressions in particular, in fact are. What has made it an exceptionally trying time though is the department's oblivion of and indifference to their own ineptitude, which translate into a departmental culture of entitlement, contempt and impunity.

² And trust me when I tell you, I have been through some very trying times indeed.

List of Acronyms

AIDS	Acquired Immunodeficiency Syndrome
AMSA	ArcelorMittal South Africa
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative – South Africa
CACSA	Competition Appeal Court of South Africa
CAPAM	Commonwealth Association for Public Administration and Management
CEMFTE	Capital Equipment, Metal Fabrication and Transport Equipment
CEO	Chief Executive Officer
CSDP	Competitive Supplier Development Programme
CTSA	Competition Tribunal of South Africa
DBSA	Development Bank of Southern Africa
DCSS	Duty Credit Certificate Scheme
DED	Department of Economic Development
DFI	Development Finance Institute
DPE	Department of Public Enterprises
DOF	Department of Finance
DMR	Department of Mineral Resources
DTI	Department of Trade and Industry
EPP	Export Parity Price/ing
EOI	Export Orientated Industrialisation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Macroeconomic Framework
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
IDC	Industrial Development Corporation
IDTTIS	Inter Departmental Task Team on Iron Ore and Steel
IMF	International Monetary Fund
IPAP	Industrial Policy Action Plan
IPF	Industrial Policy Framework
IPP	Import Parity Price/ing
ISCOR	The South African and Iron and Steel Corporation
ISI	Import Substituting Industrialisation
LDC	Lesser Developed Country

MEC	Minerals-Energy Complex
MIDP	Motor Industry Development Programme
NDP	National Development Plan
NGP	New Growth Path
NP	National Party
NPC	National Planning Commission
NIPP	National Industrial Participation Programme
PPPFA	Preferential Procurement Policy Framework Act
R&D	Research and Development
RDP	Reconstruction and Development Programme
SAISI	South African Iron and Steel Institute
SAISC	South African Institute of Steel Construction
SOE	State Owned Enterprise
WTO	World Trade Organisation

List of interviewees

In addition to books, journal articles, policy documents, legislation as well as Court and Competition Tribunal cases – all of which are listed in the bibliography at the end of this dissertation – this study has been informed by semi-structured interviews with the individuals listed below. The institutional affiliation of the individuals in question is reported in the methodology chapter of this dissertation.

Kobus de Beer, personal interview, 6 July 2011

(Southern African Institute for Steel Construction's offices – Johannesburg, 14h00-16h00)

Jorge Maia, personal interview, 4 July 2011

(Industrial Development Corporation's offices – Johannesburg, 12h30-13h30)

Neva Makgetla, personal interview, 27 September 2011

(Doppio Zero, Rosebank – Johannesburg, 8h00-9h00)

Brian Molefe, personal interview, 29 July 2011

(Michelangelo Hotel – Johannesburg, 16h00-17h00)

Johann Nel, personal interview, 15 July 2011

(South African Iron and Steel Institute's offices – Pretoria, 15 July 2011, 8h00-9h00)

Simon Roberts, telephone interview, 19 September 2011

(10h30-10h50)

Garth Strachan, personal interview, 29 September 2011

(Department of Trade and Industry's offices – Pretoria, 29 September 2011, 13h00-14h00)

Nimrod Zalk, personal interview, 30 September 2011

(Department of Trade and Industry's offices – Pretoria, 30 September 2011, 14h00-15h00)

Chapter 1

Introduction and Background: Economic development, the need for industrialisation and the importance of an active state

“Development is a process of growth towards self-reliance and contentment. It is a process by which individuals, groups and communities obtain the means to be responsible for their own livelihoods, welfare and future.”
(Remenyi, 2004: 25)

“[I]ndustrial growth is a key determinant of any country’s overall economic growth, and economic growth remains a core element of any understanding of development”
(Kohli, 2004: 2)

The South African government frequently asserts – in both official policy documents and formal speeches as well as in press releases and media briefings – that it considers itself to currently be, or (at the very least) that it is working towards becoming, a ‘developmental state’. The government’s desire to be a developmental state raises several interrelated questions though. For starters, what is a developmental state in the first place? And what are its defining features, practices and characteristics? Secondly, is the government’s claim of currently being a developmental state credible? If not, what sorts of measures does the government need to partake of in order to bring its stated desire of being a developmental state to fruition? This dissertation is underpinned by all these questions.

To conclusively address the question ‘how can South Africa become a developmental state’ is a task too onerous for a relatively short dissertation, such as this is¹. Therefore, in order to make such an evaluation more manageable, this dissertation will focus on the government’s handling of the steel industry (and in particular, the government’s endeavours to negotiate a developmental flat steel price), which is being used as a lens through which to derive insights as to the legitimacy of the government’s claim that it is a developmental

¹ The National Development Plan (NDP) – a 500 page document that in essence undertakes this exact task – is testament to magnitude of the question at hand.

state, as well as a platform from which to better understand the challenges that the government faces in accomplishing 'developmental stateness' (so to put it).

1.1 Background and Contextualisation

South Africa is faced with a myriad of socio-economic challenges². Addressing these various challenges, it goes without saying, requires resources: and the accumulation of wealth and resources is dependent on a strong domestic economy. Hence, economic growth – by virtue of being a necessary, albeit insufficient, condition of long-term and sustained human development (Sen, 1999) – is imperative, if South Africa is to address these challenges. This begs the question though: how should South Africa proceed in our endeavours to undergo sustained economic growth? This exact question is too broad and too complex to be answered in its entirety in this dissertation. Therefore, by means of focusing the question and narrowing it down to a manageable enquiry, this dissertation will analyse the measures that the government is and/or could be taking to promote the steel industry³ – which is being treated as a lens through which to derive lessons pertaining to South Africa's attainment of legitimate classification as a developmental state.

Before substantiating why the dissertation is focussing on the steel industry specifically, this introduction will commence with a discussion of what 'real', as opposed to economic, development is: this will assist in clarifying why economic development is a prerequisite of 'real' development. Thereafter the features of economic development will be depicted and the functions of industry and industrialisation in the growth process will be discussed. The introduction's final contribution will be to flesh out the study that has been undertaken (including the objectives and methodology of the study), and to depict the structure of the remainder of the dissertation.

² Such as, for example: redressing apartheid wrongs; tackling poverty and inequality; creating job opportunities for the many unemployed (and arguably unemployable) in the country, the majority of whom are considered to be youth; tackling HIV/AIDS and the secondary conditions associated therewith; and overhauling the education system; amongst others.

³ It is necessary to emphasise that the steel industry as a collective is also arguably too ambitious a unit of analysis, and so this dissertation will orientate the bulk of its analysis around the government's endeavours to realise a developmental steel price in the domestic flat steel market.

1.1.1 'Real' and Economic Development

In defining development it is necessary to differentiate between three somewhat related concepts: 1) economic growth; 2) economic development; and 3) human or, what this dissertation will refer to as, 'real' development. Although it has not always been the case, development theory has reached a point at which development academics, policy makers and practitioners are – by and large – in agreement that the objective of development is the eradication of poverty and the realisation of humane, meaningful and sustainable livelihoods (Sen, 1999; Thomas, 2000; World Bank, 2008). This understanding of development falls within the confines of the third of the above listed conceptions: human development.

Between the 1940s and 1970s, when the development discipline (as we know it today) was emerging and taking shape, the attainment of economic growth – which is quantified by an increase in a country's gross domestic product (GDP) – was considered to be an end in its own right. Development thinkers of that time were inclined to believe that once the wheels of modernisation started turning, all other developmental concerns would follow there from (Finnemore, 1997; Remenyi, 2004). Today, however, it is acknowledged that economic growth does not necessarily translate into poverty alleviation, relative equality and/or sustainably improved livelihoods (Ingham, 1993; Osberg and Sharpe, 2005). GDP, interpreted in isolation from other factors, is therefore no longer considered to be a particularly effective measure of 'real' development. Additionally, as the validity of GDP as an indicator of development is relative to population size and growth – in the event that one does seek to measure GDP growth – GDP/per capita is considered a more reliable indicator of progression.

Economic development on the other hand refers to advancement in the capacity and structure of an economy, irrespective of actual output within that economy⁴. Economic

⁴ The difference between economic growth and economic development is best illustrated with an example. A resource (whether it be oil or minerals) based economy could undergo growth merely by increasing the quantity of minerals available for sale. However, as the inherent capacity of the economy in question would not have increased, the economy in question could not be deemed to have undergone economic development, despite having experienced economic growth. Economic development requires the productive capacity and/or efficiency of the economy to be improved (as opposed to merely mining longer hours or pumping greater quantities of oil); by, for instance, investing in new technologies, new skills and/or new areas of economic activity. In short,

development is evident in the modernisation of an economy from traditional labour intensive means of production to more industrial and capital intensive means of production; a diversification of a country's economy, away from the production of primary goods into manufacturing and then service based industries; diversification among the goods that an economy is capable of producing; as well as an increase in the sophistication of goods that an economy is able to produce (Rodrik, 2006; Vickers, 2007).

As already alluded to, human development is concerned with eradicating absolute poverty and improving the living conditions of all of a country's citizens⁵ (Thomas, 2000). Sen (1999: 36) writes of this approach that development ought to be considered to be "a process of expanding the real freedoms that people enjoy." Sen (1999: 36) proceeds to explain that:

[S]ubstantive freedoms include elementary capabilities like being able to avoid such deprivations as starvation, undernourishment, escapable morbidity and premature mortality, as well as freedoms that are associated with being literate and numerate, enjoying political participation and uncensored speech and so on.

The realisation of the above mentioned elementary freedoms requires, amongst other measures, that all people receive a sufficiency of food, and have access to essential services such as housing, water and sanitation, basic health care and education. Thus, as Edigheji (2010) points out, redistributive social policy is a developmental necessity. However, the provision of the above mentioned services and social policies costs money. This is why, as Kohli's above quote summates, both economic growth and economic development are prerequisite conditions to the attainment of 'real' development. Moreover, industrialisation has traditionally been considered to be the most effective means of inducing rapid yet sustained economic growth. Accordingly, industrialisation – as the below discussion will demonstrate – is considered to be central to developing country advancement.

whereas economic growth can occur in the absence of economic development, economic development usually translates into economic growth.

⁵ The Human Development Index (HDI) is one means through which this conceptualisation of development can be quantified.

1.1.2 The Role of Industry and the Necessity of Industrialisation

One of the main purposes of lesser developed country (LDC) industrialisation is to enable those countries to become economically self-reliant, and thus better positioned to deliver upon their human development objectives (Bos, 1984). In short, industrial production is capable of making a significant contribution towards breaking LDCs' poverty cycles: by potentially enabling them to produce goods that are less assailable to market price volatility and which in turn therefore are less likely to induce the cyclically regressive effects arising from primary commodities' deteriorating terms of trade, identified in the Prebisch-Singer hypothesis⁶. Bos (1984: 3) affirms that:

Industrialisation promotes stability of development by making the economy less dependent on uncontrollable fluctuations in production prices and revenues of primary commodities through diversification of the economic structure.

Industrialisation contributes to LDC development – economically and otherwise – in an array of inter-connected ways. First, industrialisation is pivotal to LDCs experiencing sustained economic growth (Cypher and Dietz, 1997; Meir, 1984; Todaro and Smith, 2003). Second, as alluded to above, industrial production enables developing countries to diversify the range of products that they produce; thereby decreasing their reliance on a single commodity/product, and in turn reducing their vulnerability to the erratic price fluctuations that primary commodities are particularly susceptible to (Bos, 1984; Rodrik, 2006). Third, industrialisation potentially enables LDCs to reduce their trade deficits (Cypher and Dietz, 1997; Todaro and Smith, 2003); by (hopefully) reducing their imports and increasing their exports. Accordingly, if developing countries are successful in industrialising they may eventually manifest trade surpluses. Hence, the generation of foreign currency reserves is a fourth benefit that LDCs stand to potentially derive from industrialising (Bos, 1984; Wade, 2004).

Fifth, Rodrik (2006) points out, countries that have embarked on industrialisation – even if they are at a relatively early stage thereof – have more versatile economies than countries that rely purely on primary commodities; and are thus better equipped to reorganise their

⁶ See Bloch and Sapsford (1998) for a more comprehensive explanation of the hypothesis.

manufacturing activities in order to capitalise on emerging opportunities, as and when such opportunities may arise. Moreover, once the industrialisation process has been instigated, further industrialisation becomes incrementally easier. Rodrik (2006: 14), for instance, writes that “making the transition to manufactur[ing] helps not just because it pulls resources into higher productivity activities, but also because it makes future structural change easier”. On the issue of structural change, Cypher and Dietz (2007) add that one of industry’s roles is to expedite diversification of a LDCs economy, by propelling its work force from being predominantly located in the primary/agricultural sector to eventually being significantly located in the services sector.

Finally, the creation of both employment as well as of long-term employment opportunities is one of the most important contributions that industrialisation can make to LDC upliftment (Bos, 1984; Chang, 1996; Wade, 2004). In the short-term the transition to more technologically intensive production may serve to displace some workers. However, in the long-term, employment opportunities for LDC residents will increase as a result of expansions in the manufacturing sector (Bos, 1984). The benefits of industrialisation are summarised in Box 1 below.

Box 1: The Benefits of Industrialisation

- 1) Facilitate and expedite economic growth;
- 2) Enable a country to diversify the products it produces, and the manner in which such products are produced; thereby serving to
- 3) Diminish a countries sensitivity to price fluctuations, particularly of primary commodities;
- 4) Reduce trade deficits; and in turn potentially
- 5) Facilitate the accumulation of foreign reserves;
- 6) Increase the versatility of an economy, thus increasing its likelihood of being able to capitalise on newly arising opportunities that may present themselves;
- 7) Accelerate the process of societal (and economic) transformation, from labour intensive agricultural production, through technologically intensive production, and eventually into the services sectors; and
- 8) Create employment and potential employment opportunities.

Given the above depicted importance of industry and hence of industrialisation, the question arises: what measures can/should developing countries take to promote their domestic industries and expedite the process of industrialisation, so as to be able to realise their broader developmental objectives? The debates that have arisen in response to this

question will be addressed in detail in the literature review to follow (chapter 2), and it will be argued that an active state that facilitates the corporates sector's ability to be internationally competitive, and thus better able to sell their produce and/or ideas in international markets, is vital for developing country advancement. In other words, it will be argued that a developmental state is a necessity, if currently underdeveloped countries are to become developed (Edigheji, 2010; Evans, 2008; Mkandawire, 1998).

This study draws upon and revolves around the issues to be discussed in the literature review. While the study's overarching concern is the measures that the South African government in particular is and/or could be taking to promote our domestic industries and consolidate our endeavours to further industrialise, as already noted, a comprehensive appraisal of South Africa's all-encompassing industrialisation strategies is too broad and thus unfeasible for this (relatively short) masters dissertation. The study, therefore, is focussing on the measures that the South African government is, could and/or should be taking to ensure that the steel industry in particular provides a foundation from which the rest of the South African economy can thrive. The measures the government has taken to bring about a developmental flat steel price will then be interpreted with a view to better comprehending the challenges that the South African government faces in its pursuit of authentic developmental state status.

1.2 The Steel Industry as a lens through which to appraise South Africa's Endeavours to Promote Economic Development

Using the steel industry as a lens through which to examine and better comprehend South Africa's broader industrialisation efforts is tenable for two core reasons. Firstly, the steel industry is a highly strategic one, capable of either inhibiting or facilitating the expansion of other domestic industries. The significance of steel to a country's development trajectory is captured in the below proposition⁷:

Steel is vital to the development of any modern economy and is considered to be the backbone of the human civilisation. The level of per capita consumption of steel is treated as one of the

⁷ This is reiterated by Roberts and Rustomjee (2010: 70, emphasis added), who report that: "[s]teel is a key input for many downstream manufacturing products and is at the center of industrialization".

important indicators of socio-economic development and living standards of the people in any country. [...] All major industrial economies are characterised by the existence of a strong steel industry and the growth of many of these economies has been largely shaped by the strength of their steel industries in their initial stages of development. (Web 1, no date)

Differently put, steel is a core input of numerous domestically manufactured goods, the mining industry and the construction industries (Fine and Rustomjee, 1996; Mkhize, 2010; Roberts and Rustomjee, 2010). Thus, the vibrancy, efficiency and competitiveness of these downstream industries are directly related to the efficiency and competitiveness of the steel industry. Accordingly, the measures that the South African government takes to promote the steel industry, directly and indirectly impact on the rest of the economy, and particularly on South Africa's broader industrialisation efforts. This is one reason why it is admissible to use the steel industry to gauge the government's broader endeavours to promote the domestic economy, with a view to being a developmental state.

Secondly, South Africa is fortunate to be endowed with extensive mineral reserves, and it is no secret that the South African economy has grown out of and been built upon our mineral endowments (Altman and Myer, 2003; Fine and Rustomjee, 1996; Freund, 2010; Walker, 2001). Furthermore, South Africa's possession of both iron ore and coal reserves mean that steel production is an activity at which one would prima facie anticipate South Africa could be highly competitive (Fine and Rustomjee, 1996). However, as will be discussed in chapter 5, local industries do not benefit as much as they could from what should be an area of domestic comparative advantage (Black, 2010; Roberts and Rustomjee, 2010); consequently downstream development of activities that utilise steel inputs is hindered. The fact that steel should be an area of domestic comparative advantage, yet it is not sufficiently so, means that an appraisal of the measures that the government is taking to rectify this undesirable situation has the potential to provide insight into: 1) the power dynamics and structural challenges faced by the government in its efforts to facilitate national economic prosperity; 2) the government's approach to other similar constraints faced within the economy; as well as 3) the government's plan for ensuring that the country's biggest asset, our mineral reserves, provides a foundation for sustained economic development into the future.

1.3 The research question

In summary, given 1) the stratified structure of the South African economy, 2) the strategic importance of steel to the economy, and 3) the fact that domestic steel users are not benefiting as much as they could from what should be an area of domestic comparative advantage, this dissertation considers it justifiable to utilise the steel industry as a lens through which to derive insights pertaining to the South African government's broader endeavours to stimulate the South African economy; and in turn of the government's endeavours to attain rightful (as opposed to self-sanctioned) classification as a 'developmental state'. Accordingly, the primary questions that this dissertation seeks to address are:

- 1) **Does the manner in which the South African government has conducted itself in relation to the domestic steel industry adhere with the conduct one would anticipate to be associated with a typical 'developmental state'⁸? and, if not,**
- 2) **What lessons can be derived from the government's handling of the steel industry, pertaining to South Africa progressing towards legitimate classification as a 'developmental state'.**

1.4 The aim and objectives of the study

The objectives of the study are twofold. Firstly, the study is being conducted with a view to understanding better the current realities, dynamics and challenges facing the South African economy at large, as well as the nature of the prohibitions faced by the government in its endeavours to surmount the highlighted challenges, so as to augment domestic economic advancement. Secondly, the study seeks to use the government's handling of the steel industry specifically to derive insights pertaining to the impediments (economic and political) that the government faces in its attempts to formulate and implement coherent industrial policy, as a means of assessing the measures that the South African government is taking in its efforts to become a truly (as opposed to a rhetorical) developmental state.

⁸ Before one can begin to start composing an answer to the posed question, one needs to be clear as what the developmental state is, what its features are and how a developmental state might be anticipated to conduct itself. The literature review (chapter 2) of this dissertation will discuss all these matters in detail.

Sub-questions and issues to be addressed in formulating some sort of an answer to the above portrayed concerns are:

- i. What is a developmental State?
 - a. What are the features, characteristics and practices of a developmental state?
 - b. How might a typical developmental state be expected to conduct itself?
- ii. Does South Africa possess the features or characteristics thought to be associated with a developmental state?
- iii. Does South Africa conduct itself as a typical developmental state might be expected to conduct itself?
- iv. What have South Africa's former and current experiences with industrial policy been?
- v. How did it come to be that the domestic steel industry is not providing the South African economy with the footing that it possibly could be?
- vi. What contemporary policy measures is the South Africa government taking in order to bring about a developmental steel price, and with what effect?
- vii. What factors have influenced the above alluded measures and the implementation thereof?
- viii. What, if any, policy alternatives might South Africa consider invoking with a view to realising a developmental steel price that is supportive of downstream steel using industries?

1.5 Value of the study

The DBSA (2011: 3, emphasis added) write in their annual development report that "South Africa's ability to realise an inclusive and sustainable development path in the long term will be determined by the choices that we make today". Accordingly, it is important to be aware about, to appraise – and where necessary, for the government to amend – the decisions they are making and the policies they are implementing; so as to ensure that they (the government) are in fact making choices conducive to South Africa's long-term collective prosperity. This study is of value as it provides some (albeit limited) insight into the measures that the government is taking to galvanise the steel industry, so that it in turn can contribute to South Africa's long-term advancement. More importantly though the study contributes some (once again, limited) insight into the challenges that the government faces in its endeavours to formulate and implement coherent and grounded industrial policies.

This in turn has the potential to provide some (even if it is limited) insight as to what it may take to overcome the challenges in question. It is, after all, as important for development planning to understand one's limitations and constraints – so as to be able to work within and around these (Makgetla, 2008; Pempel, 1999) – as it is to have noble aspirations and grandeur vision.

1.6 Methodology used to conduct the study

The study is a case study of the industrial policy measures that the South African government has adopted towards the steel industry. The study relied on a combination of primary and secondary sources, and was informed by a mixture of content analysis, policy analysis and semi-structured in depth interviews with a few experts and stakeholders in the steel industry. Chapter 3 of this dissertation, on the methodology used to conduct the study, will discuss the data sources utilised, explain how possible interviewees were identified and depict in greater detail the analytical tools employed in the study. For now it is sufficient to note that the study relied on qualitative methods, adopted a critical social science approach, made use of purposive sampling, and has sought to apply the theory pertaining to the 'developmental state' to South Africa's experiences and realities – with a view to attaining a better understanding of what it will take for South Africa to become a bona fide developmental state.

Marais (2011: 346) astutely identifies that:

[T]he question of whether South Africa is, or can become, a developmental state can be approached along two paths: by examining which of the features deemed essential for such a quest are present or imminent [in contemporary South Africa;] and by assessing if [the South African government] is already conducting itself in the manner of a developmental state.

This study embraces both of the above means of determining 'developmental stateness', but primarily adopts the latter approach when it comes to assessing if the South African government's handling of the steel industry adheres with the conduct one might expect of a prototypical developmental state; and, if not, how the government could perhaps change its approach so as to be in greater conformity with such expectations?

1.7 Structure of the dissertation

Conducting an appraisal of whether or not South Africa is handling its domestic affairs in a manner that a 'developmental state' might, requires (obviously) that one have an archetypal developmental state against which to execute one's appraisal. Thus, one of the tasks of the literature review, found in the next chapter, will be to enunciate on such an archetype; fleshing-out the features that the East Asian developmental states are thought to have been characterised by. Thereafter the chapter will review the literature relating to South Africa's adherence with the identified features. Given that a fundamental facet of a developmental state is the adoption and successful implementation of industrial policy, the literature review will also appraise both the generic aims and objectives of industrial policy as well as the generic arguments for and against such policies.

In chapter 3, on the methodology used in this study, the means through which interview respondents were identified and selected will be conveyed and the means of enquiry will be discussed. Chapter 4 will briefly depict South Africa's industrial policy experiences under the apartheid regime, as well as the legacy that these policies have had on contemporary South Africa. The chapter will also depict the post-apartheid regime's approach to economic development. In chapter 5, analysis of the state of the steel industry specifically will be conducted, and the findings of the interviews conducted with a few stakeholders in, or related to, the South African steel industry will be portrayed. After which, in chapter 6, conclusions will be summated and the theoretical and policy implications of these conclusions will be discussed.

Chapter 2

Literature Review:

The necessity for, as well as features and characteristics of, a developmental state

“The developmental state underscores the ways in which political power, if wielded astutely, can contribute positively and effectively to a nation’s economic well-being.”

(Pempel, 1999: 140)

“Because it influences the nature and pace of industrial development, industrial policy represents a key aspect of state intervention to achieve the broader objectives of economic development.”

(Altman and Mayer, 2003: 65)

The term ‘developmental state’ came into being in reference to the rapid, significantly state-driven, industrialisation that various East Asia countries – particularly Japan, Taiwan and South Korea – underwent subsequent to the Second World War. Gumedé (2009: 4) describes the advances made in these countries as “one of the greatest industrial transformations of the modern era”. The successes attained in East Asia, in spite of many other developing regions’ on-going struggles to advance, have led to the developmental state – that is, a state that makes ‘real’ development, economic growth and industrialisation in particular its mission, its *raison d’être* (Mkandawire, 1998; Pempel, 1999) – being heralded as the solution to the challenges of contemporary underdevelopment. Evans (2010: 37) goes so far as to propose that “[h]istory and development theory support the proposition ‘no developmental state, no development’”.

The upcoming literature review is divided into six discernible sections. Firstly, generic industrialisation strategies are discussed. This discussion will elaborate on the rationale behind and differences between the import substitution (ISI) and the export orientated (EOI) approaches to industrialisation. It will be demonstrated that an EOI approach has, historically speaking, led to more sustained industrial advancement than the ISI approach has; however, successful implementation of an EOI approach may depend on concurrent utilisation of ISI techniques and strategies. Secondly, the opportunities and challenges

presented by globally interconnected markets will be briefly discussed, and it will be argued that developing countries need to be strategic in the manner in which they interact with the global trading system. Thirdly, in establishing the importance of a developmental state, if developing countries are to develop, the necessity of state involvement in the economy is discussed. Fourthly, the stylised features of a prototypical developmental state are portrayed. These features are in turn fleshed-out; and, fifthly, South Africa's adherence with them is tentatively assessed. Sixth, and lastly, the rationale behind and the reasons for and against industrial policy – implementation of which, as already noted, is a central characteristic of a developmental state – will be depicted. It will ultimately be argued that developing countries' utilisation of industrial policies is both necessary and justifiable; after which a generic summation of industrial policy measures, as well as of South Africa's conformity therewith, will also be presented.

2.1 Normative Industrialisation Strategies

Traditionally there have been two cardinal, although interrelated, points of contention in the debate on how developing countries ought best to approach the challenge of industrialisation. The first point of contention relates to the industrialisation strategy itself: should it be internally or externally disposed? The second point of debate is as to the roles of the state and market forces respectively in the economic development process.

2.1.1 Import-substituting industrialisation

In terms of the industrialisation strategy, two broad schools of thought can be found in the literature. On the one hand, the internally orientated approach to industrialisation seeks to promote domestic manufacturing by restricting imports into the domestic economy, through the utilisation of tariffs and quotas, in order that the restricted items can be domestically produced. Hence this method is known as the import-substitution approach to industrialisation. The anticipated benefits of this approach are threefold. Firstly, countries adopting it are expected to conserve their resource bases, by reducing their expenditure on imported goods; thereby enabling them to allocate a greater portion of their resources towards investment into their domestic economies. Consequently, the second benefit to

potentially be obtained by ISI adopters is the precipitation of economic development; particularly as domestic industries are protected from foreign competitors, and are thus afforded opportunities to expand and become proficient. (Cypher and Dietz, 1997; Ogujiuba et al, 2011; Sapelli, 2002)

Thirdly, countries adopting an ISI approach – in contrast to those adopting export-orientated approaches to industrialisation – do not have to worry about locating a market to sell their produce into. They merely have to look at their trade records to identify the externally produced goods for which there is already domestic demand, and local entrepreneurs could then be incentivised, and even aided, to produce those specific items. (Cypher and Dietz, 1997; Ingham; 1993; Todaro and Smith, 2003).

As cogent as the ISI approach may at first seem to be, this approach – which was popular amongst Latin American countries between the 1950s and 1970s – has proven to be unsustainable in the long-term. The countries that relied exclusively on this approach did undergo an initial period of growth. However, this period was relatively short lived, and tended to be terminated either once the ‘easy gains’ had been realised or upon exposure to competition from foreign industries¹ (Cypher and Dietz, 1997; Ogujibua et al, 2011). Three main reasons have been put forward to explain the ISI approach’s failure to enable developing countries to generate sustained growth and overcome their ‘developing’ statuses.

For one, the protectionist measures associated with the ISI approach guaranteed local manufacturers exclusivity in their domestic markets. This, it is argued, induced corruption and patronage (otherwise known as ‘rent-seeking’) in relation to the provision of state funding and licensing to produce for the protected, and thus lucrative, domestic market; with politically connected firms being favoured over others that might have been more competent and/or efficient (Cypher and Dietz, 1997; Todaro and Smith, 2003). Thus, in

¹ Such exposure could arise either due to foreign companies entering the local market, or when ISI reared firms sought to enter foreign markets.

economic terms, the ISI approach is said to induce an inefficient, and hence sub-optimum, allocation of scarce resources² (Dollar and Kraay, 2004).

Secondly, the ISI approach's tendency to produce weak, uncompetitive industries is attributed to the lack of competition faced by local industries. This enabled mediocre industries to survive without having to undergo drastic learning and/or improvement in order to stay in business: that is until they were exposed to international competitors, at which point many of the industries in question folded (Dollar and Kraay, 2004). Thirdly, the limited size of the domestic market prevented industries from growing the way they might have done, if these industries had access to foreign markets (Cypher and Dietz, 1997). In other words, industries catering exclusively for their local market were unable to attain the benefits to be derived from the economies of scale offered by global markets³.

2.1.2 Export-oriented industrialisation

For all three of the above reasons the internally focussed, reactive and relatively conservative import substituting approach to industrialisation is no longer considered to be a viable development strategy on its own⁴. The ISI approach has, for the most part, been supplanted by the externally focussed, and more ambitious, EOI approach to industrialisation. Rather than producing an array of mediocre goods to be consumed in the local economy⁵, the theory underpinning export orientated industrialisation is that developing countries should specialise in the mass production of a few select, higher quality and more sophisticated, products; to be sold in international markets (Ingham, 1993; Todaro and Smith, 2003). The proceeds of such sales could then be used to offset the ensuing increase in imports, and to fund both the means and ends of 'real' development. In

² This argument implies, inappropriately, that corruption and bribery do not occur under competitive market conditions.

³ It is because of this consideration that it was necessary in the first place to expose domestic industries to international competition, in spite of the prospects that such exposure may potentially result in the collapse of the industries in question.

⁴ As noted later in this literature review though, ISI measures often need to be implemented in conjunction with EOI strategies.

⁵ The production of which often remained dependent on the utilisation of capital goods that had to be imported from abroad; thus frequently resulting in ISI adopters maintaining the trade deficits that they sought to eradicate in the first place.

addition to being theoretically capable of overcoming the above cited deficiencies in the ISI approach, the EOI approach, it is argued, stimulates developing countries' learning and growth prospects by exposing them to international best-practice, thus enabling them to benefit from the knowledge and technological spill-overs arising therefrom (Ghani, 2006).

In contrast to Latin America's stalled industrialisation attempts up until the 1990s, the success of the newly industrialised countries (NICs) in South East Asia is attributed to their strategic adoption of EOI strategies (see, for instance: Dollar and Kraay, 2004; Krueger, 2008; Lall, 2004; Santos-Paulino and Thirwall, 2004). Latin America's subsequent abandoning of the ISI approach, in favour of the EOI approach, is further testament to the supremacy of the EOI approach. Confirmation of the benefits to potentially be derived from developing countries adopting an EOI approach is found in Ingham's (1993: 1808) summation that history tells one:

[C]ountries which have [...] followed outward-looking development strategies have [had] higher rates of growth in per capita income than countries which followed more inward-looking import substitution [strategies].

In summary, with regard to the first point of contention – within the broader debate as to the best industrialisation strategy for late developers – there is, on the whole, agreement in the literature that some sort of an EOI approach is the most effective strategy that developing countries can adopt in their endeavours to industrialise (see for instance: Kaplinsky, 2005; Kohli, 2004; Rodrik, 2006; Wade, 2004). However, successful implementation of an EOI strategy requires strong domestic industries⁶. Consequently, select ISI measures, in particular the protection of infant-industries, are amongst the defining features of successful EOI strategies (Naude, 2010; Kohli, 2004; Rodrik, 2004; Shafaeddin, 2005).

⁶ Additionally, the success of an EOI strategy is also dependent on having access to an adequacy of foreign markets to export one's produce/services into. Subsequent to the 2008 slump of the world economy, this factor is proving to be somewhat prohibitive for current developers.

2.2 Globalisation and the Global Economy

An EOI strategy it should be noted though is not without prospective pitfalls and, moreover, is not guaranteed to succeed (Rodrik, 2008). For one, implementation of an EOI strategy, by definition, entails engagement with the manifestly uncompromising international trading system. Countries that are not sufficiently strategic, innovative and/or enterprising, and who are thus unable to handle the pressures exerted by globally interconnected markets and supply-chains, are potentially susceptible to: capital flight; exploitation and/or the imposition of unfavourable constraints at the hands of imperious multinational corporations; the collapse of domestic industries, and in turn deindustrialisation; and/or the accrual of debt; to mention only some of the possible reverberations of countries being ill-equipped for the challenges posed by globalised production networks⁷. (Kaplinsky, 2005; Milanovic, 2003; Mittleman, 2006; Nissanke and Thorbecke, 2006)

Be that as it may, Rodrik (2006: 3) – writing prior to current decline in the global economy – was of the view that within the international trading system there is a “near limitless demand for manufactured exports from developing countries”⁸. This is why the international trading system has traditionally been considered to offer “large potential benefits for the countries that decide to engage strategically and actively in the globalisation process” (Nissanke and Thorbecke, 2006: 1354; emphasis added). What though, it must be asked, constitutes ‘strategic engagement’ with the global economy?

For starters, engagement with the global economy should not be mistaken for unfettered liberalisation⁹. The latter, Rodrik (2001: 2) points out, is not a “substitute for [a] development strategy”, nor is it a “short cut to development”. Today’s developed countries,

⁷ A more thorough appraisal of the benefits and drawbacks of globalisation is beyond the ambit of this literature review.

⁸ It is, as noted already, perhaps debatable how true this sentiment is subsequent to the global recession that has arisen since 2008/9.

⁹ The term ‘trade liberalisation’, Santos-Paulino (2005: 783) writes, refers to the “reduction of trade barriers and opening of international trade to foreign competition”, exhibited by “[t]he simplification of import procedures, the reduction or elimination of quotas, and the rationalisation of the tariff structure”.

including newly industrialised ones, after all, only sought to adopt unchecked trade relations with the rest of world once they had nurtured their domestic industries to the point where they could compete with their trading partners (Chang, 2002; Reinert, 2009; Wade, 2004). Secondly, and more to the point, if developing countries are to prosper from an EOI approach to industrialisation, they need to identify a range of (preferably sophisticated) products and/or services¹⁰ for which there is demand on international markets and, moreover, which they have the potential to competitively produce and/or provide. Hausmann and Rodrik (2003) refer to this process, of identifying what an economy has the capacity to produce/provide, as one of “sell-discovery”.

O'Connor (2007) is of the view that earmarking appropriate sectors, products and/or services to orientate one's economic development around is one of the hardest decisions that developing countries have to make. Conventional trade theory stipulates that what particular countries specialise in producing or providing is determined by those countries' respective areas of comparative advantage (Krugman and Obstfeld, 1994): that is, the sectors in which they have the ability to produce goods or provide services more efficiently than other countries can produce the same goods or services¹¹ (Todaro and Smith, 2003).

Comparative advantage has conventionally been considered to be somewhat ordained, and thus relatively static¹². However, Shapiro (2007: 5) makes the argument that comparative advantage, especially in more 'sophisticated' activities, “is determined by innovation rather than factor endowments”¹³. In other words, comparative advantage – particularly in secondary and tertiary sectors – is not predetermined or static: it can be cultivated! Accordingly, the challenge for developing countries is to move beyond their

¹⁰ Note, rather than over-specialising on a narrow range of products, Rodrik (2004:3; emphasis added) is of the view that “[t]he trick seems to be acquiring a mastery over a broad range of activities”. Additionally, Rodrik (2006: 3) also notes that “countries that promote exports of more sophisticated goods grow faster”.

¹¹ Comparative advantage is somewhat, but not entirely, dependent upon geography, climate, availability of skilled and unskilled labour, human and monetary capital, land, technological advancement and natural resource endowments (Krugman and Obstfeld, 1994).

¹² Traditionally, developed countries have had comparative advantages in capital intensive skilled and semi-skilled manufacturing, as well as in the service industries. Developing countries, on the other hand, have tended to be comparatively advantaged in labour intensive (and relatively low skilled) manufacturing, agriculture and mineral extraction (i.e. primary commodities) activities.

¹³ Rodrik (2006) is in fact the originator of Shapiro's argument.

traditional areas of competitiveness, to foster competencies in and position themselves to be able to prosper from growth and learning intensive activities. Hence Pempel (1999: 139) is of the view that:

Rather than accepting some predefined place in a world divided on the basis of 'comparative advantage' [developmental] states seek to create 'competitive advantages'.

The next question, of course, is: how do developing countries go about creating non-conventional competitive advantages, so as to elicit the potential benefits to be derived from an export orientated industrialisation strategy? Morris and Kaplinsky (2001) highlight that, in addition to identifying a product – or, in fact, a range of products (Rodrik, 2006) – that they are potentially capable of competitively manufacturing, developing countries also need to familiarise themselves with the value chains of their earmarked sectors. This is necessary so as to identify: 1) where in their earmarked value chain/s there is scope to carve out a niche for themselves; 2) who their potential competitors within the segments of the their respective value chains are; 3) what standards they need to match (if not surpass), if they are to survive in the value chains in question; and 4) how to potentially advance, into [i] the higher echelons of their identified value chains, as well as [ii] into more skilled and higher worth value chains (otherwise referred to as 'up-grading'), where the multiplier effects are greater, profit margins higher and competition from other producers is potentially reduced¹⁴ (Gerreffi et al, 2005; Gibbon and Ponte, 2005; Morris and Kaplinsky, 2004; Staam, 2004).

In addition, as will be demonstrated below, statesmen in developing countries need to make a conscious decision to utilise the state as an active development agent: as opposed to the state being a passive bystander awaiting unregulated market forces to work miracles (see, for instance: Evans, 2010; Kohli, 2004; Leftwich, 2000; Pempel, 1999). This leads directly onto the second point of contention within the late-industrialisation debate; regarding the appropriate roles of the state and market forces respectively in developing countries' endeavours to industrialise.

¹⁴ A more extensive discussion of the benefits to be derived from value chain analysis is beyond the scope of this literature review.

2.3 The Need for a Proactive State

“The role of the state in the capitalist economy”, in Chang’s (1996: 7) words, “has been one of the most controversial issues in economics since the birth of the discipline”. On the one hand, pro-marketeters and neo-liberals are of the view that the state’s sole duties should be to provide public infrastructure, enforce contracts, uphold property rights and create – through stabilisation, liberalisation and privatisation (the neo-liberal mantra) – the conditions in which the market can be the sole determinant of prices and items of production¹⁵ (Krueger, 1990; Lal, 1985; Martinussen, 1997; Toye, 1993).

Exponents of the pro-market school of thought are wary of the state for three main reasons. Firstly, they profess, government personnel – contrary to statist’s claims – are not benevolent and will invariably have vested interests in the manner in which state power is utilised. Corruption and wastage, it is accordingly held, will be perennially problematic. Secondly, the government – it is argued – will habitually experience capacity constraints, in terms of skilled personnel, relative to the private sector. As such, the state will consistently be less competent and less efficient than private actors. Thirdly, the state – it is said – is likely to suffer from knowledge deficits; thus it will make less consummate decisions than the private sector, responding to market signals, would. (Harvey, 2007; Martinussen, 1997; Toye, 1993)

On the other hand, structuralists and development economists argue, in Lall’s words (2004: 2, emphasis added), that:

[G]reater reliance on markets does not pre-empt a proactive role for the government. Markets are powerful forces but they are not perfect; the institutions needed to make them work efficiently are often weak or absent. Government interventions are needed to improve market outcomes.

¹⁵ Additionally, proponents of this approach argue that by ‘getting prices right’, thereby granting the market exclusivity in deciding what is produced and in what quantities, the economy will flourish and in turn collective prosperity will be realised (Krueger, 1990; Lal, 1985).

This proposition is reiterated by Stiglitz (2004: 3), who maintains that “[t]here is no theoretical underpinning to the belief that in the early stages of development, markets by themselves will come to efficient outcomes”. Shafaeddin (2005) takes the argument further, and suggests that, due to coordination failures, markets may in fact not function at all (let alone come to efficient outcomes) in the early stages of economic development. State intervention, therefore, is needed to establish functional markets and to overcome the regressive relationship between underdevelopment and coordination failure¹⁶.

In addition to the above logistical argument, dissenters of the pro-market outlook critique the ‘Washington-consensus’ approach on two core grounds. Firstly – they argue – neo-liberal policies have, empirically speaking, failed to deliver on their assurance of increased growth for all adherents. Such failure is evident in the fact that – as pointed out by Birch and Mykhnenko (2010), Chang (2003), Harvey (2007) and Rodrik (2006b) – in spite of neo-liberal prescriptions having dominated development policy throughout the 1990s and 2000s, developing countries’ growth levels were generally lower over this period than in the period between the 1960s and 1980s, when they implemented more Keynesian and ISI interventionist-type policies¹⁷. Secondly, pro-market detractors point out that even when neo-liberal policies produce growth, that growth tends to be accompanied by vast inequities in the distribution thereof; which, it is argued, serves to impede the ends of ‘real’ development (Chang, 2003; Edigheji, 2010; Harvey, 2007).

The neo-liberal approach has been criticised on theoretical grounds too. Chang (2003: 77), for instance, had the following to say:

The messianic convictions with which many proponents of neo-liberalism have delivered their message have created the impression that it is a very coherent doctrine with clear conclusions. However, contrary to popular belief, the neo-liberal doctrine is in fact a very heterogeneous and internally inconsistent intellectual edifice.

¹⁶ This argument will be further explored in the upcoming discussion relating to the necessity for, and rationale of, industrial policy. ‘Co-ordination failure’ will also be defined in the upcoming section.

¹⁷ Additionally, dissidents to the pro-market outlook also point to the current state of the world economy, precipitated by Europe and America’s slump of 2008/09, as further evidence of the dangers posed by unregulated markets (Birch and Mykhnenko, 2010; Birdsall, 2011; Edigheji, 2010).

In an extensive dissection of the implications and ramifications of neo-liberal arguments and declarations, Toye (1993) – by rigorously following individual premises and assumptions to their logical ends – provides step-by-step corroboration of Chang’s proposition that the neo-liberal paradigm is beset with contradictions and inconsistencies. These contradictions and inconsistencies are somewhat explained by the fact that the neo-liberal paradigm is comprised of political and economic schools respectively¹⁸ (Chang, 2003; Harvey, 2007; Miller, 2010). There is a disconcerting propensity within the collective neo-liberal paradigm, Chang (2003) suggests, for economic arguments to be tailored to suit the needs of the political school; as opposed to the political school adapting their outlook to rigorously established economic laws and principles. The effect of this kneading, Toye (1993:100) points out, is that the neo-liberal outlook lacks scholarly veracity, and is thus more appropriately classified as ideology than as science.

The successes attained by the East Asian ‘Tigers’ (as they have come to be called) during the 1970s and 1980s prompted a scramble from marketeers and interventionists alike; both of whom sought to cite East Asian successes as vindication of their respective outlooks. On the one hand, anti-statists pointed to the fact that it was market mechanisms, coupled with trade liberalisation, that were doing the arduous work that underlay the Tigers’ advancement; and hence that the Tigers epitomised the successes to be attained by relying exclusively on price and market signals (Krueger, 1990). Furthermore, the marketeers also claimed that the Tigers would have grown faster, and for longer, if the state had not meddled in the economic affairs of these countries (Krueger, 1990; Lal, 2000; Naude, 2010). On the other hand, the interventionists pointed to the industrial policy measures adopted in all of the East Asian countries in question, and attributed the Tigers’ successes to these policies¹⁹ (for example: Amsden, 1989; Chang, 1996; Evans, 1995; Wade, 2004)²⁰.

¹⁸ Chang (2003: 77), in fact, speaks of “a marriage of convenience” between neo-classical economists (the economic arm) and Austrian libertarians (the political arm).

¹⁹ Amsden (1989: 139), for instance, argues that South Korea’s success can be explained by them having “deliberately gotten [prices] wrong” (referring to interest and exchange rates as well as commodities); thus enabling them to release the funds needed to overcome initial coordination failures and to subsidise newly emergent industries, in order to protect them from foreign competitors.

²⁰ The East Asian financial crisis, of 1997, saw an extenuation of the debate: with the marketeers claiming that the collapse was brought on by unnecessary intervention; and the interventionist attributing the collapse to unfettered liberalisation, sanctioned by the IMF and the World Bank (Radice, no date).

Naude (2010: 5) summarises though that in contemporary literature on state intervention and industrial policy it is generally agreed that all of the East Asian Tigers were characterised by:

(i) export promotion, (ii) attraction of foreign direct investment (FDI), (iii) the imposition of macroeconomic policies to encourage savings and select channelling of credit to firms, [...] (v) the creation of venture capital funds, and (vi) [government] coordination of complementary investments.

Moreover, referring to the experiences of Japan, Taiwan and South Korea, Wade (2004: 7) wrote:

All three countries [had] in common intense and almost unequivocal commitment on the part of government to build up the international competitiveness of domestic industry – and thereby eventually to raise living standards.

Ultimately, it is now emphatically agreed that the Asian Tigers did not succeed by virtue of relying exclusively on free unregulated markets; but rather by virtue of the state aiding markets, and the firms competing therein, to thrive (Evans, 2010).

In short, the weight of evidence against Washington-consensus prescriptions eventually became too great for neo-liberals to continue disputing that the state is a pertinent, and moreover necessary, actor in the economic development process. Even traditional neo-liberal apologists, such as the World Bank (1997), have had to concede that the State has a key role to play in promoting and fostering economic development, particularly in underdeveloped economies. Consequently, the question is no longer whether the state has a role to play in the promotion of economic and industrial development. Rather, the questions are now: what is the optimum role of the state in promoting economic development; and how can the state best execute these roles²¹?

²¹ This reality has prompted the emergence of what has been dubbed the ‘post-Washington consensus’ (Stiglitz, 2001); which condones select government intervention in the economy, so long as such interventions do not produce more distortions than they avert (Fine, 2006a; Rodrik, 2006b). This sounds good in theory, in reality though it is not always feasible to know a priori the exact impact that state interventions into the economy will have (Rodrik, 2004), hence Rodrik’s (2006b) characterisation of the post-Washington consensus as one of “confusion”. Additionally, the post-Washington consensus emphasises that oversight mechanisms and ‘good

Additional arguments against exclusive reliance on market forces – or, in other words, in favour of state intervention in the economy – are similar to the arguments that will be presented in due course, in support of the implementation of industrial policy. For now it is necessary to emphasise that, contrary to the ‘old style’ state-market debate – in which a command economy (with no place for market forces) was held (by some) to be a viable alternative to an unregulated free-market economy – contemporary proponents of state intervention do not deny that markets have a salient role to play in developing country advancement (see, for instance: Chang, 1996; Evans, 1995; Lall, 2004; Wade, 2004). The state-market debate, in other words, is no longer a simple matter of ‘state’ versus ‘market’. Rather, the debate now focuses on how state and market forces can collaborate to maximise developmental objectives, as the East Asian Tigers managed to do; and as subsequent developers such as India, China and Brazil are currently doing. This reality is affirmed by Rodrik (2004: 1), who writes:

Few people seriously believe anymore that state planning and public investment can act as the [exclusive] driving force of economic development. [...] At the same time, it is increasingly recognised that developing societies need to embed private initiatives in a framework of public action that encourages restructuring, diversification and technological dynamism beyond what market forces on their own would generate.

A proactive ‘developmental state’ – which “actively and regularly intervene[s] in economic activities” in order to improve “the international competitiveness of [its] domestic economy” (Pempel, 1999: 140), and which is capable of ensuring that economic growth translates into ‘real’ development (Evans, 2010; Southall, 2008) – is considered to be the means through which the ‘market can be managed’ (Wade, 2004), in order to hasten the realisation of developmental objectives. Furthermore, given the challenges presented by globalisation, and that the world is a significantly tougher place now than it was in 1960s and 1970s²² (Kaplan, 2007; Sindzingre, 2004), when the Asian Tigers made their headway, Evans

governance’ practices need to be bolstered, so as to limit the parasitic tendencies inherent to state involvement in economic activities (Leftwich, 2000; Fritz and Menocal, 2006).

²² The World Trade Organisation’s (WTO) prescriptions as to what measures states can and cannot take in their endeavours to promote their domestic industries are just one example of the world being a tougher place (Kaplan, 2007). The fact that today’s developers have not only got to compete amongst themselves, but also with the initial industrialisers of the ‘old world’ (i.e. Britain, America, Canada, Australia, Germany and Italy) and the newly industrialised countries in South East Asia and South America, is an additional factor contributing

(2008) argues that a dynamic developmental state is even more necessary today than it was in the 1970s. Accordingly, a more extensive portrayal of what a developmental state is, what its modus operandi is, as well as what its defining practices and features are – not to mention, what ‘managing the market’ entails – will be provided in the upcoming sections.

2.4 The Features and Objectives of the Developmental State

A developmental state, Fritz and Menocal (2006: v) suggest, “is broadly understood as one that evinces a clear commitment to a national development agenda, that has solid capacity and reach, and that seeks to provide growth as well as poverty reduction”. Chang (1999: 183, emphasis added), on the other hand, defines a developmental state as “a state which can create and regulate the economic and political relationships that can support sustained industrialisation”. Five recurrently cited features, or ‘stylised traits’ (Sindzingre, 2004), of developmental states can be derived from the literature. These are as follows:

- i) commitment to a national development agenda, often – although not necessarily – derived from some sort of nationalism;
- ii) state capacity, generally derived from a strong and independent bureaucracy;
- iii) the existence of cooperative working relationships between the state and the private sector;
- iv) the realisation of poverty reduction; and, most notably
- v) the promotion of industrialisation, domestic industry and economic diversification, through the implementation of industrial policies.

A sixth, albeit contested, but nonetheless often cited, feature in discourse on the developmental state is the presence of authoritarian governments, whom have been inclined to suppress the labour force as well as labour’s ability to undertake collective action (Gainsborough, 2010; Leftwich, 2000). Edigheji (2010) and Kohli (2004), for instance, have argued that – despite authoritarian regimes having been a characteristic of the East Asian Tigers – authoritarianism is not necessarily a defining trait of a developmental state. The

to the ‘tougher’ nature of today’s world; relative to 1960s and 70s, when the newly industrialising countries in South East only had to compete amongst themselves and with the ‘old world’ powers.

mentioned authors cite the former Scandinavian developmental states and contemporary India, respectively, in making the case for non-authoritarian developmental states. Additionally, environmental concerns have traditionally been absent in analysis of former developmental states; however, environmental sustainability has now become a prominent feature in all developmental discourse, including that on the developmental state (see for instance: Edigheji, 2010; Evans, 2010).

The above discord, on the necessity or not of an authoritarian political regime, points to the reality that there is not a single unwavering model of the developmental state²³. Nor for that matter are there any blueprints or guarantees: a certain combination of relationships, policies and/or institutions having worked in one country, does not necessarily mean that the same combination of factors will prosper under different settings in another country (Makgetla, 2008; Marais, 2011; Sindzingre, 2004). It therefore is important that, through a process of ‘self-discovery’, developing countries tailor their efforts to undergo development to suit the opportunities and constraints presented by their respective social, political and economic realities, and ever changing circumstances (Chang, 2010; Evans, 2010; Makgetla, 2008; Pempel, 1999).

It does not follow from this point though that today’s developers cannot learn from and/or attempt to emulate former developers²⁴. It is therefore necessary to unpack the above depicted stylised features of the East Asian developmental states, so as to attain a better feel for what contemporary developers (South Africa included) might have to do, as well as what they need to avoid, if they are to accomplish developmental state status. Developmental states are, after all, political constructs (McCord and Meth, 2008) – and deliberate constructs at that – as opposed to “initial endowments” (Sindzingre, 2004: 6) or incidental manifestations.

²³ Sindzingre (2004: 6) suggests that it is necessary to think of the developmental state as an ‘ideal type’ concept, rather than an absolute concept. Sindzingre further proposes that the generic features, or stylised facts, associated with developmental states should be thought of as “family resemblance” features; and thus they may be present in greater or lesser degrees, and in various permutations, in different states.

²⁴ To the contrary in fact, Chang (1998: 59) points out that “being able to learn from earlier experiences is one of the very few benefits of being a backward country.”

i. Commitment to a national development agenda

The five, above depicted, generic features of a developmental state are all inter-related. It is for the most part though feasible to divide them into two overarching categories (Fine, 2010): those relating to state capacity and the functioning of the bureaucracy; and those relating to policy formulation, and getting the social and economic “policy-mix right” (Gumede, 2009: 9). The first of the above listed traits (commitment to a national development agenda), however, does not fit flushly into either of these categories, although it arguably underpins both. This is as the vision which underlies a long-term development agenda moulds and influences any country’s ability to formulate, and in turn execute, long-term development plans and strategies. Differently put, “the foundations and motivation of government matter at least as much as the policies they adopt” (Fritz and Menocal, 2006: 5).

In a similar vein, Leftwich (2000: 160) suggests that a firm commitment to a national development agenda tends to be derived from a strong “developmental elite” (i.e. leaders), characterised by “developmental determination, their commitment to economic growth and transformation and their capacity to push [such determination and commitment] through”. In essence, the absence of concrete vision and purpose – which is provided by a firm commitment to a developmental agenda – potentially hinders the state’s ability and/or willingness to:

- adequately train and motivate bureaucrats to put national interests before their personal gain;
- maintain working relations with the private sector, without becoming consumed by private sector interests;
- coordinate short and medium term activities and objectives into the realisation of coherent long term strategies;
- adopt sufficiently developmental social policies; and/or
- prioritise their actions and policy measures²⁵.

²⁵ On the question of priorities it is interesting to note that Johnson (1982: 306; emphasis added) was of the view that:

ii. State capacity and the need for a strong bureaucracy

Making decisions that are in a country's long-term interests requires a strong and disciplined bureaucracy; particularly when the attainment of long-term objectives may require renouncing short-term rewards. Consequently, the bureaucracy needs to be insulated from both public and political pressure, so as to be able to implement and enforce developmental decisions that are in their country's best long-term interests, even when such decisions may be unpopular (Marais, 2011; Pempel, 1999; Woo-Cummings, 1999). Kohli (2004) and Leftwich (2000) point out that focussing on long-term goals, in order to achieve one's developmental vision, can be harder for democratic regimes – where governing parties face the prospect of being voted out of power – than it is for authoritarian ones²⁶. This is one reason why it has been argued that the construction of a developmental state is easier for authoritarian regimes than it is for democratic ones. However, as already noted, this does not mean that democratic regimes are incapable of being developmental: and it certainly does not mean that authoritarian regimes are necessarily developmental²⁷ (Edigheji, 2010; Kohli, 2004; Leftwich, 2000).

A state attempting to match the economic achievements of Japan must adopt the same priorities as Japan. It must first of all be a developmental state – and only then a regulatory state, a welfare state, an equality state, or whatever kind of functional state a society may wish to adopt.

This proposition brings a potentially contentious issue to the fore. On the one hand, Johnson makes the argument that a country being a welfare state hinders that country from becoming a developmental state; as resources spent on welfare are diverted from strategic investments into the domestic economy, thereby stalling economic advancement – the attainment of which is one of the core objectives of a developmental state. Although this argument seems plausible, it is not compatible with Evans' (2010) proposition that the provision of capability enhancing welfare is a fundamental component in the construction of a contemporary developmental state.

Corrales-Leal (2003), Lall (2004) and Naude (2010a) point out that a country's ability to benefit from exposure to international best-practice, knowledge and technological spill-overs, is dependent on that country's capacity to absorb the novelty and nuance in the ideas and practices they are exposed to. A skilled, and hence educated, populace is therefore a necessity, if developing countries are to advance. Hence Evans (2010: 38) being of the view that: "[e]xpanding the capabilities of the citizenry is not just a 'welfare' goal. It is the inescapable foundation of sustained growth". Accordingly, the line between the welfare state and the developmental state is seemingly not as clear cut as Johnson's above proposition suggests it is. Nevertheless, Johnson's point that developmental objectives need to be the primary impetus of aspiring developmental states is well taken.

²⁶ The full argument is that the prospect of being voted out of power, faced in democratic countries, lures governing regimes to partake of imprudent short-term social spending (to, in essence, buy the support of voters), thus diverting resources from long-term investments (or astute social policies). In non-democratic countries, on the other hand, assured of holding on to political power, authoritarian governments can act with only long-term factors in mind, without having to worry about short-term 'distractions'. Similar arguments are also made in relation to the treatment of labour. Whereas authoritarian regimes can get away with outright exploitation of labour, democratic governments may not have this 'luxury' (if it can be called that).

²⁷ The vast number of non-developmental authoritarian states – such as Mobutu Sese Seko's Zaire, Saddam Hussein's Iraq and Robert Mugabe's Zimbabwe, to name just a few – are testament to this reality.

Sindzingre (2004) makes the additional point that a strong bureaucracy is crucial to curbing the predatory tendencies of the state, thereby enabling a state to become developmental. But what are the features of a strong bureaucracy? Leftwich (2000: 77) summarises Max Weber's writing on the characteristics of a rational, rules-based, bureaucracy down to the following points, and I quote:

1. a personally free staff with impersonal duties;
2. hierarchy;
3. a clear specification of the tasks of the offices;
4. a contractual basis for employment;
5. the selection of staff by professional qualification and tested expertise;
6. payment by fixed salaries and pensions;
7. bureaucratic work being the single major occupation for the incumbents office;
8. promotion by merit or seniority;
9. non-ownership of the post or its resources by officials; [and]
10. officials [must be] subject to systematic discipline

Expanding upon several of the above points, both Evans (2010) and Robinson (2009) discuss the necessity of a bureaucracy being depoliticised – that is, comprised of competent and bipartisan professionals, as opposed to political appointees (Marais, 2011) – so as to be able to withstand pressure from political figureheads and in turn to make rational decisions in their country's best long-term interests. Accordingly, Evans (2010: 45) argues, "meritocratic recruitment", clearly defined career paths for civil servants and remuneration "commensurate with that obtainable in the private sector" are of utmost importance, if prospective developmental states are to have bureaucracies composed of skilled and dynamic personnel.

iii. The need for close, and reciprocal, working relationships between the state and the private sector

In addition to withstanding pressure from politicians and the public, bureaucrats in developmental states also need to establish a balance between the need to accommodate and cooperate with the private sector; while at the same time remaining adequately distant

to be able, if necessary, to coerce the private sector to do its part, and of course to avoid being captured by this sector²⁸ (see, for instance: Besson, no date; Chang, 1999; Evans, 1995; Kohli, 2004). After all – as already discussed – creating the conditions and fostering the working relationships between the state and the private sector, for market forces to lead developmental efforts, is one of the primary functions of a developmental state (Chang, 1999; Leftwich, 2000).

The need for cooperation between the state and the private sector, it must be emphasised though, is not a one-way relationship. In as much as it is important that the state supports the private sector and augments its ability to be internationally competitive, it is equally necessary that the private sector be prepared to make some sacrifices too, in order to further long-term developmental objectives (Terreblanche, 2009). This argument is echoed by Magketla (2008: 140), who writes that:

[A] successful developmental state requires that capital as a class supports development and is willing to sacrifice some fractions of capital in order to achieve that aim.

The state expecting capital owners to either curtail their profit margins or part with some their wealth will typically induce tension between the state and the private sector. Managing this potential conflict – Chang (1999), Johnson (1999) and Leftwich (2000) point out – is also amongst the functions of a developmental state. Possessing the ability to straddle the precarious line between being firm with the private sector, but not too firm to cause private actors to reduce their contribution to the economy, is arguably what differentiates aspirant from authentic developmental states (Rodrik, 2004). Evans' (1995) notion of 'embedded autonomy' encapsulates the delicate balancing act, underpinned by dependent yet independent – love-hate – dynamics, that the state has to play in 'managing the market', if market forces are to facilitate the attainment of 'real' development.

In sum, 'managing the market' so that it can expedite developmental ends, this section has argued, requires that the state "harnesses rather than suppresses the private sector and the profit motive" (Radice, no date: 2). However, it is not necessarily conducive to

²⁸ Evans (1995) coined the term 'embedded autonomy' to describe this dynamic.

developmental ends for the private sector to be given a ‘free ticket’ (so to speak). The promotion of sustained long-term economic advancement may at times require the state to discipline and or coerce the private sector (Rodrik, 2004; Shafaeddin, 2005), thus potentially – albeit temporarily – suppressing the profit motive. What an appropriate balance of ‘carrot’ and ‘stick’ measures are has to be determined by individual states on a case by case basis taking their respective social, economic and political contexts into account (Chang, 2010; Kohli, 2004; Leftwich, 2000; Rodrik, 2004).

The upcoming section on industrial policy will expand on the need for both incentives and limitations in the state’s endeavours to promote industrialisation and the expansion of industry. Before discussing the rationale for and measures associated with industrial policy though, this literature review will commence with a brief portrayal of the literature appraising the extent to which South Africa adheres, or not as the case may be, with the stylised traits of a prototypical developmental state discussed this far.

2.5 South African Adherence with the First Four Characteristics of a Developmental State

It has become second nature for leading politicians to refer to South Africa as, or imply that South Africa is, a developmental state. For example, in his 2012 State of the Nation address the president narrated:

As a developmental state that is located at the centre of a mixed economy, we see our role as being to lead and guide the economy and to intervene in the interests of the poor [...].”
(Zuma, 2012: 3, emphasis added)²⁹

While it is worth noting that the government consider ‘guidance’ of the economy to be one of their roles, Edigheji (2010: 16) points out that:

²⁹ Additionally, both the New Growth Path (DED, 2010) and the National Development Plan (Presidency, 2011) also make reference to the government’s desire for South Africa to be a developmental state.

Labelling a state 'developmental' does not make it so. [...] It is what the South African state does – rather than proclamation by policy makers – that will qualify it as a developmental state.

Thus begging the (somewhat rhetorical) question: to what extent is South Africa conducting itself in a manner consistent with that in which one might expect a typical developmental state to conduct itself?

Most commentators on South Africa's progression towards developmental state status are sceptical about the validity of the South African government's desire to classify South Africa as such. Southall (2007: 1), for instance – in light of the absence of a concrete developmental strategy and the inefficiency of large portions of the civil service – describes South Africa as being "more dysfunctional than developmental". Various other authors also highlight the incapacity and ineptitude within large portions of the state apparatuses, as well as the high levels of corruption, as the biggest impediments to South Africa's rightful classification as a developmental state (for example: Fine, 2010; Freund, 2010; Marais, 2011; Terreblanche, 2009).

The post-apartheid government, no doubt, faced many pressing challenges on coming into power: at political, economic and socio-economic levels. It has been suggested though that in its haste to transform the demographic composition of the civil service, the new regime erred in side-lining too many apartheid-era bureaucrats too quickly, before they could transfer some of their long accumulated know-how and institutional memory to the new incumbents (Terreblanche, 2009). The National Planning Commission (NPC) has identified the construction of a strong civil service as one of South Africa's priorities (Presidency, 2011). However, at this given moment, the capacity of the civil service, particularly at provincial and municipal levels, is not what one would expect of an aspirant developmental state.

With regard to a developmental vision, the NPC (cited in DBSA, 2011: 8) concedes that:

[T]o date, the lack of a coherent long term plan has weakened the South African government's ability to provide clear and consistent policies, to mobilise all of society in the pursuit of our developmental objectives, to prioritise resource allocations and to drive the implementation of government's objectives and priorities.

The African National Congress' (ANC) adoption of the Growth, Employment and Redistribution (GEAR) strategy – described by Hart (2008: 681) as a “home grown” structural adjustment programme – is symptomatic of this shortage of long-term and/or developmental vision on the part of the current regime. By embracing the GEAR the government diminished what was already limited manoeuvring space; consequently restricting its ability to implement more heterodox, and arguably more hard-hitting, development policies³⁰ (Luiz, 2002; Terreblanche, 2009).

Moreover – as Marais (2011), Mohamed (2011) and Terreblanche (2009) point out – in permitting the likes of Old Mutual and Anglo America to list offshore, on the back of the liberalisation provisions of the neo-liberally orientated GEAR, the government sanctioned the departure of wealth that had been accumulated over generations, and under apartheid's exploitative conditions at that: enabling the firms in question to move beyond the South African government's realm of authority, and to “escape contributing to economic development” in the new South Africa (Mohamed, 2011: 150). Confirming this reality, Fine (2008) reports that between 1995 and 2002 South Africa experienced capital flight in excess of one hundred billion Rand. An oversight of this nature does not constitute strategic or astute use of political power (Pempel, 1999), is indicative of a lack of vision on the part of the government, and certainly does not adhere with the sort of conduct expected of an incisive developmental state³¹.

³⁰ A more detailed discussion of the rationale behind and the provisions of GEAR will be provided in chapter 4 of this dissertation, in which South Africa's past and present macroeconomic and industrial policies are discussed.

³¹ “Moreover freeing financial flows has meant that FDI comes in, speculates profitably and leaves at will while many of our best firms are bought up by foreigners to fit into their value chains: quite different than the FDI of the old days” (Bill Freund, personal correspondence, 2014).

This relates to the state's relationship with the corporate sector, which several authors have argued – and as is evident in the above scenario – is not adequately reciprocal and is too tilted in favour of the corporate sector (Bond, 2008; Fine, 2010; Mohamed, 2011; Terreblanche, 2009). The effect of this, in Fine's (2010: 175) words, has been that "the interests of private capital have predominated over developmental goals". Reiterating this sentiment Terreblanche (2009: 119) writes:

The corporate sector's experience during the apartheid-colonial accumulation path in the twentieth century has spoiled it into thinking that the only real state intervention that is permissible is for the [post-apartheid] state to do the same heavy lifting [that the apartheid state did] for the corporate sector [so as] to enhance and promote profitability.

On the other hand, however, Kaplan (2007: 100) offers a different perspective, and suggests that relations between the government and the private sector are characterised by "mutual suspicion" and "mistrust", and that government makes minimal effort to consult with the private sector on policy formulation, only consulting with the corporate sector to inform them of decisions that have already been made. Both of the above scenarios point to the fact that working relationships between the state and the private sector are not necessarily close or reciprocal; which, of course, amounts to non-adherence with the above discussed traits of a prototypical developmental state.

Thus, with regard to the first three stylised characteristics of a developmental state, South Africa appears to be lacking on all three accounts. We evidently lack vision (this has certainly been so up until the state's recent introduction of the National Development Plan [NDP], although how much vision the NDP actually provides is yet to be established), the state is under-capacitated and relations between the state and the private sector are tenuous (at best). It therefore seems fair to conclude that, at this point of the analysis, South Africa appears not to be the developmental state that leading politicians would have us believe it is.

Marais (2011: 340) makes the argument though that rightful classification as a developmental state is ultimately determined by "success, [...] more so than key

characteristics and methods". Marais is suggesting, in other words, that the attainment of developmental ends is more important than the means through which these ends are attained. In terms of this approach it is plausible that South Africa may in fact be a developmental state in spite of the above depicted ostensible failure to adhere with the stylised characteristics of a developmental state discussed this far. The test of whether or not South Africa is a developmental state, in terms of this gauge, is whether or not poverty alleviation and economic development, since 1994, have been adequate.

Unfortunately, in depth discussion on the adequacy of South Africa's poverty alleviation measures and the results arising therefrom is ultimately beyond the ambit of this dissertation³². In terms of economic development and resource utilisation though: the imprudent arms deal, the state of the national education system, the Mbeki administration's reluctance to produce generic anti-retroviral drugs domestically (Marais, 2011), the dilapidation of Eskom (Fine, 2011) (as well as of several other parastatals) and South Africa's failure to develop a more competitive manufacturing sector (Chang, 2011; Kaplan, 2007; Rodrik, 2006a), have all been cited as indicators that – even in terms of Marais' less stringent gauge of a developmental state – South Africa has some way to go before we can legitimately claim developmental state status. Thus, it ultimately seems, the validity of the South African government's desire to be classified as a developmental state hinges on the nature and adequacy of South Africa's industrial policies. This literature review, therefore, will now turn its attention to the fifth of the above listed stylised features of a developmental state: the promotion of economic development through the implementation of industrial policies.

³² Marais (2011: 206) points out that "poverty is multi-faceted and no single measurement adequately captures it". For what it is worth though, the DBSA's (2011: 41) Development Report recounts that "in 1994, over half (53%) of the population lived on less than two US dollars per day. By 2010, this percentage had dropped to 49%". Additionally, Terreblanche (2009: 112) is of the view that "[i]f the ANC policy approach and the economic system remain more or less unchanged for, say, the next 20 years, the levels of poverty and unemployment in 2028 will (in percentage terms), in all probability, still not be half of what they [were] in 2008": and this is in spite of South Africa's relatively extensive welfare provisions (see Gelb [2010], Marais [2011] and/or Turok [2008] for details of the welfare provisions).

2.6 The Promotion of Economic Development Through the Implementation of Industrial Policies

Chang (1996) points out that if the term 'industrial policy' is not clearly enough defined, then it is susceptible to being used to refer to any and all policy measures that might affect the performance of the economy: ranging from macroeconomic, to educational to intellectual property policies, for instance. It is therefore necessary that the concept of industrial policy be quite tightly defined, if the concept is to be of value (Chang, 1996). Johnson (1999: 48) speaks of industrial policy as being "what the state does when it intentionally alters incentives within markets in order to influence the behaviour of civilian producers, consumers and investors". Rodrik (2004: 2), on the other hand, uses the term to denote government initiated "restructuring policies in favour of more dynamic activities generally, regardless of whether those are located within industry or manufacturing per se"; and one should in fact add the services sector to this too.

Building on both of these definitions, the term 'industrial policy' shall henceforth be used to refer to: government initiated efforts to "promote the viability and/or competitiveness of a country's industries or a segment thereof" (Bezuidenhout, 2001: 381), as well as to promote the domestic manufacturing and services sectors; with a view to producing "outcomes that are [...] efficient for the economy as a whole" in the long term (Chang, 1996: 58, emphasis added). Industrial policy measures – Chang (1996: 58) summates – include, but are not limited to:

[F]avouring promising industries; creating skilled workforces; developing infrastructure; [...] fiscal and financial incentives for investment; public investment programmes; public procurement policies; fiscal incentives for R&D; firm-level policies to create 'national champions'; support for small firms; regional policies such as the development of physical and social infrastructure and the establishment of industrial complexes; generalised trade protection; sectoral policies such as organisation of recession cartels in depressed industries; [and] product upgrading in labour-intensive industries.

Evidently, industrial policy measures are extensive and varied. In essence though the ultimate objective of industrial policy is to expedite economic diversification, promote

forward and backward linkages amongst activities and between sectors within the economy, and – essentially – increase the capacity and competitiveness of the economy. Or, as Hausmann et al (2008: 1) put it, “the main purpose of industrial policy [is] to speed up the process of structural change towards higher productivity activities”.

2.6.1 Arguments for and against industrial policy

The arguments for and against industrial policy are similar, although not identical, to the arguments already depicted supporting or rebuking state involvement in the economy. In essence, the most convincing argument in support of industrial policy is the fact that industrialisation and economic development have never – with the arguable exception of Hong Kong – been attained by exclusively unregulated and/or unaided market forces (Cimoli et al, 2009; Chang, 1998; Kohli, 2004). Accordingly, the onus is in fact on industrial policy detractors to refute why industrial policy is necessary; not on industrial policy advocates to demonstrate why it should be espoused. Nevertheless, this literature review will depict the arguments in favour of industrial policy, and review the rebuttal to the arguments against such policies.

Coordination and information externalities³³ – both of which inhibit economic diversification, as potential investors are unaware of the profitability of underdeveloped sectors (Rodrik, 2004) – are two of the core reasons that have been offered to explain the necessity of industrial policy for developing countries. The attainment of economic development often requires several developmental factors and/or conditions to simultaneously be in place (Lall, 2004; Rodrik, 2004; Todaro and Smith, 2003). The realisation of these requisite factors and/or conditions, however, may not be possible due to the absence of the other simultaneously required factors and/or conditions. Differently put, the presence of developmental necessities may be mutually dependent upon each other’s prior existence; meaning that their respective absences inhibit each other’s

³³ Kaplan (2007: 99) notes that “[i]nformation failures result in economies staying on the same course and not diversifying into new activities with associated spill over effects”. Additionally, Rodrik (2004) points out that the collective benefits of research – which is required to overcome information externalities – are far greater than the personal benefits that private individuals can expect to reap from such research, relative to the costs. Thus, Rodrik argues, government subsidisation of research is an essential component of self-discovery.

respective materialisation³⁴. This cyclically degenerative state of affairs is referred to in the literature as ‘coordination failure’, and produces what is known as a ‘low level equilibrium trap’ (Todaro and Smith, 2003: 150).

Coordination failures and low level equilibriums are in part caused and are exacerbated by information deficiencies³⁵ (Rodrik, 2004; Todaro and Smith, 2003). In short (as depicted in footnote 35), an economy overcoming coordination failures, and moving on to higher equilibrium levels, requires external intervention. Generally speaking, however, the state is the only agent that has sufficient resources and appropriate disposition to make economy-wide interventions (Chang, 1996; ul Hague, 2007). Hence, strategic implementation of industrial policy is evidently a necessity, if developing countries are to break out of their poverty cycles and experience economic progression.

One of the arguments that industrial policy antagonists make against the implementation of industrial policy is that the economy is too complex to be micro-managed, and the state is not adequately informed to know what the right course of action is to enable all (or as many as possible) economic agents to overcome the low level equilibrium challenges they may be encountering (Todaro and Smith, 2003). Additionally, industrial policy detractors further suggest that state involvement in the economy only serves to distort market signals, thereby exacerbating coordination failures; not diminishing them (Krueger, 1990; ul Hague, 2007). In

³⁴ Todaro and Smith (2003: 150) provide the example of ‘a skilled workforce’ and ‘investment levels’, to demonstrate such an inter-dependent relationship between developmental requisites. Attracting investment into the economy and getting firms operational, the mentioned authors point out, requires a skilled workforce; but if there is no demand for skilled workers, then workers do not have incentive to up-skill, nor do they have to ability to do so, because of the absence of functional firms/industries. However, functional industries will continue to be absent until a skilled workforce comes into existence.

³⁵ For example, the profitability of a coal mine may depend on the existence of a functional railway service, to transport the coal. Similarly, a railway service may only be feasible if it is assured that it will be operational (i.e. that it will be able to provide its service to the local coal mine). From a distance, one can see that if the mine and railway owners were to simultaneously invest in dropping mine shafts and laying railway tracks, then both ventures would in due course gain each other’s business, and stand to be profitable activities. However, lack of trust between the respective agents – which may lead to both parties waiting for the other to start construction first, before they commence with their own construction – could result in neither the mine nor the railway ever actually getting going. The lack of knowledge as to each other’s true intentions, in other words, may stifle each other’s – and in turn, the economy’s – progression. However, if the government were either to partake of simultaneously constructing both the railway and the mine shafts in question, or were to provide surety to both the mine and railway track owners respectively, then this coordination problem could possibly be overcome.

response to the latter argument, Amsden (cited in ul Haque, 2007) points out that market signals are distorted whenever a market lacks perfect competition; which is often.

In response to the former argument Rodrik (2004) points out that market forces do not know everything either, and they therefore are also susceptible to not always knowing what the economy needs. This is further reason why – as per the preceding discussion on the developmental state – successful implementation of industrial policy requires that the state and the private sector interact and cooperate with each other and share their respective knowledge, in order to diminish the likelihood of mistakes being made (Lall, 2004; Naude, 2010; Rodrik, 2004; ul Haque, 2007). Hence Rodrik (2004: 3) being of the view that “industrial policy is as much about eliciting information from the private sector on significant externalities and their remedies as it is about implementing appropriate policies”.

The second argument that industrial policy detractors espouse is that the state is not equipped to pick ‘winning’ industries and/or sectors more successfully than private actors can (ul Haque, 2007). Industrial policy advocates concede that this may be a legitimate point. They respond, however, that it is all the more reason why the state needs to work in conjunction with the private sector when formulating and implementing industrial policies; so as to ensure that both parties are involved in identifying prospective sectors for targeting (Lall, 2004; Naude, 2010; Rodrik, 2004; ul Haque, 2007). Additionally, both Rodrik (2004) and Shafaeddin (2005) argue that it is the responsibility of the state to ensure that start-up industries that do not really take-off do not consume too much public funding³⁶. Accordingly, Rodrik (2004: 12) proposes, “the trick for government is not to pick winners [per se], but to know when it has a loser”.

This last point relates directly to the third critique that industrial policy decriers make of industrial policies, which is that industries that receive protection in terms of industrial policy measures, remain dependent on subsidies/protection and do not mature into strong independent ventures (ul Haque, 2007). The above argument, that it is the state’s

³⁶ Rodrik (2004) acknowledges that mistakes will occur, and argues that making mistakes is part of the process of ‘self-discovery’; the challenge, therefore, is to keep the losses arising from such mistakes to a minimum.

responsibility to be firm and to ensure that promoted industries are not subsidised forever³⁷, is as pertinent to this third critique as it is to the second one above. Shafaeddin (2005: 1152, emphasis added) explicitly states, in fact, that:

[P]rotection of selected industries should not be unconditional or unlimited: the government should insist on performance [quantified in terms of cost reduction and quality improvement] in exchange for incentives, and should sanction firms whose performance is not satisfactory.

Additionally, it is worth noting that empirically speaking there are numerous examples, the world over, of industries which were initially the recipients of subsidies and protection that are now established, competitive and self-sufficient³⁸ (Chang, 2002; ul Haque, 2007).

In summary, both empirical and theoretical rebuttal can be provided to the most significant arguments that industrial policy detractors present against the implementation of industrial policies. Furthermore, industrial policy advocates also make convincing arguments of their own in favour of industrial policy utilisation. In short, it is clearly evident that developing country implementation of industrial policy is both necessary and justifiable, if developing countries are to make headway. Yes, states need to be both strategic and circumspect in their utilisation of industrial policies. The underlying necessity of industrial policies is indisputable though. Thus, the penultimate task of this literature review, before briefly assessing South Africa's experiences in implementing industrial policy, is to ephemerally depict generic industrial policy measures, and convey some of the requisite conditions of attaining success from industrial policy implementation.

2.6.2 Industrial policy measures and requisites, and South Africa's adherence therewith

Industrial policy can be divided into two broad categories: supply-side and demand-side measures, respectively. The latter are considered to be quite conservative, and concern

³⁷ Rodrik (2004: 22) points out that the provision of support to domestic industries should not be forever and hence "[t]hat there must be a built in sunset clause".

³⁸ In a South African context, both Sasol and Iscor (now part of ArcelorMittal) are good examples of such successes (Roberts and Rustomjee, 2010). On the international front, Chang (2003) sites Nokia as one example of a firm that initially depended on state support but which is now profitably self-sustaining (at least it was self-sustaining prior to its recent acquisition by Microsoft).

themselves with regulating who produces for (and hence who captures the rents derived from) the domestic market, which is taken to be relatively constant (Chang, 1998). Demand-side policy measures, such as the subsidisation of domestically produced goods as well as the application of tariffs or quotas on foreign produced goods, are often prohibited in terms of World Trade Organisation (WTO) regulations (Kaplan, 2007; Vickers, 2007). Supply-side industrial policies, on the other hand, are concerned with increasing the capacity of the economy, enabling it to increase production levels, reduce costs and to diversify the types of goods produced in the economy (Chang, 1998). Investment incentives, subsidisation of research and development (R&D), up-skilling initiatives and infrastructure development are some of the measures typically associated with supply-side industrial policies.

Three conditions in particular for the successful implementation of industrial policy can be drawn from the literature. Firstly, related to the discussion on the developmental state, Chang and Grabel (2004: 78) highlight the importance of an overarching industrial strategy, which in turn needs to be underpinned by “an overall ‘development vision’”. Secondly, Chang (1998: 54) identifies that industrial policies need to be implemented and bolstered by supportive institutions (such as development banks, state enterprises, as well as technology development and R&D institutes), and thus proposes that “institutional building is as much, if not more, important in determining the success of industrial policy, as the issue of designing incentive schemes is”³⁹. Relatedly, and third, in as much as it necessary to differentiate between industrial policy and other economic policies, Cimoli et al (2009: 11) point out the importance of coherence and compatibility between industrial policies and other “macro policies including exchange rates, taxation, fiscal policies, public investment, governance of labour market and income distribution” policies; to which Chang (1998) adds that industrial policies need also to be backed-up with congruent education, training, and science and technology development policies and/or programmes.

³⁹ Rodrik (2004: 24) seconds this view, and argues that “[t]he authority for carrying out industrial policies must be vested in agencies with demonstrated competence.” Rodrik (2004: 24) further proposes, “[t]he implementing agencies must be monitored closely by a principal with a clear stake in the outcomes and who has political authority at the highest level.”

Kaplan (2007) points out the importance of coherence across various industrial policy measures, so that such measures are all working towards similar goals and outcomes. Disconcertingly though, the same author is of the view that that in South Africa industrial policy initiatives (i.e. initiatives to promote diversification of and improved efficiency within the economy, even if they are not formally branded as ‘industrial policy’ per se) are handled by too many government entities, and thus could be said to lack a unifying vision. The effect of this, in Kaplan’s (2007: 99) words, is:

First, inconsistent criteria are applied to the selection of activities that are favoured by government. Second, institutionally, there is no clear centre in government to coordinate the design and implementation of industrial policy. No ministry has oversight of or provides direction to the totality of industrial policy presently. Lack of coherence in desired policy goals and criteria are complemented and reinforced by lack of organisational coherence within government⁴⁰.

With regard to supporting institutions, it is encouraging to note – on the one hand – that in the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and a couple of the state owned enterprises (although he did not specify which ones), South Africa has institutions that Chang (2010) feels are strong and dynamic enough to lead South Africa’s drive towards genuine developmental state status. On the other hand however, Chang (2010: 91) also notes that:

[T]he lack of control over the banking sector (other than the DBSA) and the weakness of agencies that promote R&D are serious organisational shortcomings for a potential developmental state in South Africa.

With regard to the compatibility of South Africa’s macroeconomic policy with industrial policy objectives, Edigheji (2010: 29) expresses apprehension and suggests that, “for South Africa to become a developmental state, its macroeconomic policy needs to serve social objectives, rather than social transformation being held hostage to macroeconomic policy”.

⁴⁰ Kaplan’s comments were made in 2007 before the introduction of either IPAP2 or the NPC. It is yet to be seen however if these policy endeavours change the reality depicted by Kaplan of there being ‘too many cooks’, so to speak. I am inclined to think though – in light of the seeming disunity across the departments of Trade and Industry, Economic Development, the Presidency and the Treasury, respectively – that there still are ‘too many cooks’.

Partial corroboration of these concerns is found in the current minister in the Department of Trade and Industry's (DTI) acknowledgment, for instance, that the cost of capital in South Africa is high relative to other developing countries⁴¹, "particular[ly] in the industrial sector – with private credit [often] not being extended to production sectors" (Davies, 2011: 116).

Ultimately, although there are some promising factors, including the manner in which South Africa has endured the global economic crisis (Gelb, 2010), it appears that South Africa, once again, does not adhere with (or is lacking) the classic characteristics of a developmental state. It therefore is justifiable to conclude that South Africa is currently an aspirant developmental state, but not yet 'the complete package' (so to speak). On a positive note though, the government's recent undertaking to partake of a concerted infrastructure drive, as well as to start producing the components used in the assembly of anti-retroviral drugs (Zuma, 2012), are both promising signs that South Africa could be turning the corner – at least in terms of industrial policy rhetoric⁴² – in our endeavours to become an authentic developmental state.

The remainder of this dissertation seeks to unpack the structural constraints faced by the economy at large and by the government in particular, with a view to better understanding the challenges that the government faces in its attempts to stimulate and expedite South Africa's industrialisation endeavours. The steel industry – and in particular the government's ventures to realise a developmental flat steel price – will be used as a lens through which to more closely observe the impact that such structural impediments have on the economy, as well as to get a feel for how the government is responding to such impediments; with a view to formulating insights as to how South Africa might move towards more veritable classification as a developmental state.

⁴¹ A contributing factor to the cost of capital is, arguably, the very low saving rate (as a percentage of GDP) in South Africa, compared to other middle income countries (Poon, 2009); which in turn is partially attributable to the high levels of spending on consumer and luxury goods (Gelb, 2010).

⁴² Whether such rhetoric translates into action and results is yet to be seen though.

Chapter 3

Methodology: Mindful but not mechanical

“[G]eneralising from case studies is not a matter of statistical generalisation (generalisation from a sample to a universe) but a matter of analytical generalisation (using single or multiple cases to illustrate, represent, or generalise a theory).”

(Yin, 1998: 239)

“From an understanding-orientated and an action-orientated perspective, it is often more important to clarify the deeper causes behind a given problem and its consequences than to describe the symptoms of the problem and how frequently they occur.”

(Flyvberg, 2006: 224)

3.1 The Research Method

The study at hand is a case study of the government’s efforts to galvanise the steel industry. The industry in question is being treated as a lens through which to attain insights into both the political and economic structural veracities in which the government has to formulate and implement industrial policy, as well as of better understanding the government’s overarching approach to the promotion of economic and industrial development.

Case study, Yin (2003: 4) writes, “is the method of choice when the phenomenon under study is not readily distinguishable from its context”. Similarly, Crowe et al (2011: 1) maintain that:

The case study approach is particularly useful to employ when there is a need to obtain an in-depth appreciation of an issue, event or phenomenon of interest, in its natural real-life context.

Given the inseparability of economic and industrial policy from the political and economic conditions of the country in which such policy will be implemented (Chang, 2010; Kohli, 2004; Leftwich, 2000; Rodrik, 2004;), case study is clearly a permissible means of conducting

an enquiry into South Africa's approach to industrial development, which forms part of the government's broader ambitions of being a developmental state.

Utilisation of multiple data collection and analysis techniques is the hallmark of a good case study (Gillham, 2004). Differently put, "[t]he case study's strength is [...] its ability to deal with a full range of evidence – documentation, artefacts, interviews and observation" (Schell, 1992: 3); and, as Gibbert and Ruigrok (2010) point out, quantitative data too. The adoption of the case study method, furthermore, does not confine one to the utilisation of specific research techniques: the most appropriate data collection and/or analysis techniques are determined by the issue being investigated (Stake, 1994).

Stake (1994) is of the view that case studies can be categorised into one of three variants: i) intrinsic, ii) instrumental or iii) collective. Intrinsic cases, the same author writes, are "undertaken because, first and last, the researcher wants better understanding of this particular case [...] because, in all its particularity and ordinariness, this case itself is of interest". With instrumental cases, on the other hand, "a particular case is examined mainly to provide insight into an issue or redraw a generalisation. [...] The case [itself] is of secondary interest, it plays a supportive role, and it facilitates our understanding of something else". Collective cases, lastly, are undertaken and "chosen because it is believed that understanding them will lead to better understanding, perhaps better theorising, about a still larger collection of cases" (Stake, 1994: 437, emphasis added). The study at hand is an example of an instrumental case study. It has been undertaken with a view to the steel industry – which is of secondary interest¹ – providing insights into both the government's generic approach to industrial policy as well as the challenges encountered by the government in formulating and implementing national industrial policies.

¹It is necessary to highlight that a case study on the steel industry would, no doubt, have taken on a different form and invoked a different approach, if the study in question were being conducted for instance by either an engineering or a law student: the former would most likely conduct a 'intrinsic' case study, with to a view to understanding much more technical issues than this study has been concerned with; and the latter, who could plausibly conduct either an intrinsic or an instrumental study, would be more interested in details relating to trade and competition law, and how they impact upon and play out in the steel industry.

Adopting a slightly different approach to the categorisation of case studies, the Commonwealth Association for Public Administration and Management (CAPAM) recount that case studies can be classified as being either fieldwork or literature based case studies. The latter are “developed by looking exclusively at already existing/published material”. The former approach, on the other hand, “involves gathering of original research by gathering data within the context being studied” (CAPAM, 2010: 3). The study at hand is a combination of these two approaches, and makes substantial reference to previously published research, but has also collected ‘original’ data, in the form of semi-structured interviews with a selection of stakeholders involved in or related to either the South African steel industry or economic sector government portfolios. The process by which interview respondents were identified is discussed below.

3.2 The Research Paradigm and Means of Enquiry

The study at hand has been conducted in accordance with a critical social science approach², not a positivist one³. Consequently, rather than setting out to corroborate or negate a particular point or premise, this study has been conducted with the aim of

² ‘Critical social science’ refers to the application of Critical Theory to the social sciences. In short, Critical Theory, which was popularised by the practitioners of the Frankfurt School in the 1930s and 40s, arose in response to what How (2003: 8) describes as the “empiricist-positivist paradigm” of social science, and argues that positivism is limited in its ability to analyse that which cannot necessarily be physically observed and/or quantified, but which nonetheless substantially impacts upon reality, and real world issues (Bronner, 1994; How, 2003; Hoy and McCarthy, 1995). Additionally, Critical Theory rejects the idea that social analysis can be done in a detached, value-free manner (Bronner, 1994; How, 2003; Hoy and McCarthy, 1995).

Ultimately, Critical Theory is emancipatory in nature: that is to say, it is underpinned by a desire to improve the human condition and enable people/communities to overcome the structural impediments – which, as Flyvberg’s (2006) above quote notes, are distinct from the manifestations or symptoms of such barriers – that they may be exposed to in their day-to-day lives/existences (Neuman, 1994). Moreover, critique (which is distinct from mere criticism) is deemed, in terms of this school of thought, to be the basis from which to improve the human condition (Bronner, 1994; Hoy and McCarthy, 1995). How (2003: 5) pithily summates: Critical Theory locates “itself at the disjunction between ostensible claims and what actually happens [in reality], which is where the potential for new more rational forms of thought and action might appear”.

³ Scientific positivism is the method of enquiry utilized in the natural sciences. In Neuman’s (1994: 58) words, it considers social science to be “an organized method for combining deductive logic with precise empirical observation of individual behavior in order to discover or confirm a set of probabilistic causal laws that can be used to predict general patterns of human activity”. Challenging the positivistic approach, Gillham (2004:6) points out that “experimental science’ type approaches are ill-suited to the complexity, embedded character, and specificity of real-life phenomena”. This is in part due to the difficulty of isolating societal dynamics from the “real-world context in which the phenomena occur” (Eisenhardt and Graebner, 2007: 25). Likewise, Flyvberg (2006: 224, emphasis added) notes, “[p]roof is hard to come by in social science because of the absence of ‘hard’ theory, whereas learning is certainly possible”. In summary, with these and other similar critiques of positivism in mind, this dissertation has concerned itself more with the act of ‘learning’ and the accrual of insight, than of ‘proving’ per se.

acquiring increased understanding of the structural and historical determinants and power dynamics that impact upon the government's ability to formulate and implement industrial policy (Flyvberg, 2006; Neuman, 1994); in an attempt to produce increased comprehension as to how the government's efforts to stimulate economic development could perhaps be improved. This is in conformity with Neuman's encapsulations that:

- [1] The critical social science approach argues that social reality has multiple layers. Behind immediately observable surface reality lies deep structures or unobservable mechanisms. (1994: 68); and
- [2] [Critical social science considers] social science to be a critical process of inquiry that goes beyond surface illusions to uncover the real structures in the material world in order to help people change [their current] conditions and build a better world for themselves. (1994: 61)

A combination of content-analysis and policy-analysis are the predominant means of inquiry utilised in this study. "Historically", Wissink (2005: 51) reports:

the aim of policy analysis has been to provide policy-makers with the information that could be used to exercise reasoned judgement in finding solutions to policy intricacies. Thus policy analysis has a fundamental, practical *modus operandi*, originating in the applied social sciences.

Like critical social science, policy analysis too sees its purpose to be that of improving (i.e. changing) the world and overcoming the challenges facing society at large (Etzioni, 2006). Additionally, in conjunction with the case study method, policy analysis also utilises "multiple methods of enquiry and arguments to produce and transform policy-relevant information that may be utilised in political settings to resolve policy problems" (Dunne cited in Fisher, 2003: 1). Furthermore, Etzioni (2006: 839) argues that "[t]he main purpose of policy research is not to contribute to the cumulative process of building knowledge but rather to put to service available knowledge". Accordingly, the study in question has placed greater emphasis on utilising existent research and knowledge in order to better understand the challenges that South Africa faces in stimulating the domestic economy, than on formulating novel findings *per se*.

In summary, the study at hand, which (as already noted) is a case study, has relied on content analysis to garner improved comprehension of the historical, political and economic actualities (i.e. the structural context) in which the South African government has to exercise its agency in its attempts to promote South African economic development. Furthermore, the study has sought to utilise policy analysis with a view to fostering increased understanding about the opportunities and constraints that are present in the steel industry in particular, as well as of the measures that the government is taking to maximise the opportunities and overcome the constraints in question. The study aims to derive generic policy lessons from the government's experiences with the steel industry, with a view to assembling insights relating to how South Africa's broader industrialisation efforts – which in turn form part of the government's efforts to become an authentic developmental state – could possibly be bolstered.

3.3 The Data Sources and Sampling Strategy

The study at hand has been informed by a variety of sources, including: secondary literature on both former and contemporary South African economic and industrial policies, as well as material (academic literature and economic commentary / newspaper reports) relating to the steel industry specifically; official government policy documents (which, technically speaking, are primary sources in their own right); judgements issued by both the Competition Commission's Tribunal as well as the Competition Commission's Appeal Court (also primary sources in their own right); and interviews conducted with a few private and public sector stakeholders involved in or associated with either the steel industry or economic sector government portfolios. The data sources this study has been informed by are summarised in Table 1, overleaf.

Table 1: Summary of Data Sources

Secondary Sources		
<i>Data Source</i>	<i>Variant</i>	<i>Details</i>
Secondary literature	Books Journal Articles	
Economic commentary and newspaper articles	Predominantly material from: <i>Business Day</i> ; <i>Mail and Guardian</i> ; <i>Engineering News</i> ; and <i>Mining Weekly</i> .	Predominantly views about South Africa's economic policies and, particularly, material on happenings within and related to the steel industry.
Primary Sources		
<i>Data Source</i>	<i>Variant</i>	<i>Details</i>
Legislation		
Policy documents	Macro-economic, development and industrial policies	RDP, GEAR, ASGISA, National Industrial Policy Framework, IPAP1, IPAP2, the NGP and the NDP, amongst others.
Judgements issued by the Competition Commission's 1) Tribunal, and 2) Appeal Court	Cases concerning the mergers between Mittal and Iscor and subsequently between Mittal SA and Arcelor, respectively; as well as the various legs of Harmony Gold's complaint against AMSA's import parity pricing policy.	Case no's: 70/CAC/Apr07 08/LM/Feb04 53/LM/Jun06 13/CR/Feb04
Interviews	Semi-structured and in depth	See table 2, below.

Interview respondents, whom are depicted in Table 2, were all purposively selected, based on their involvement in or association with either the steel industry or their occupation of economic sector government portfolios, coupled with the ease with which contact with them could be established. One of the challenges inherent to conducting interviews, particularly with busy professionals, is the scheduling of interviews. Whereas interview requests were sent to a large pool of possible respondents, several of the people

whom it would have been useful to interview did not respond to such requests or, for whatever reason, were unable to avail themselves for interviews. Although interviews were held with senior personnel from the DTI, the Department of Economic Development, the IDC and Transnet – as well as representatives from both the South African Iron and Steel Institute (SAISI) and the Southern African Institute for Steel Construction (SAISC) – the fact that it was not possible to schedule interviews with representatives from either labour unions or the Department of Mineral Resources (DMR) (although attempts were made to contact both) must be noted as a shortcoming and a limitation of the study.

Table 2: Interview Respondents

Interview Respondent*	Position / Portfolio and Institutional Affiliation
Kobus de Beer	Industrial Development Executive – Southern African Institute for Steel Construction (SAISC) ⁴
Jorge Maia	Head: Economic Research & Information – Industrial Development Corporation of South Africa Limited (IDC)
Neva Makgetla	Deputy Director General – Department of Economic Development (DED)
Brian Molefe	Chief Executive Officer (CEO) – Transnet
Johann Nel	Acting Secretary General – South African Iron and Steel Institute (SAISI) ⁵
Simon Roberts	Chief Economist and Manager of the Policy & Research Division – Competition Commission of South Africa
Garth Strachan	Director: Industrial Policy, Department of Trade and Industry (DTI)
Nimrod Zalk	Deputy Director General: Industrial Development Division, Department of Trade and Industry (DTI)
*Dates, times, duration and location of interviews are provided in the list of interviewees at the beginning of this dissertation. Also, the depicted portfolios of the interviewees are what their portfolios were at the time that I interviewed them.	

⁴ On their website SAISC describe their mission as being: “to promote the holistic vigour and prosperity of the people and companies in South Africa that provide steel-related products or services to the building and construction industry”. In addition, Kobus De Beer (personal interview, 2011) reported, “[o]ur membership represents the structural steel industry in its widest sense”.

⁵ SAISI is not a steel producer, rather it is an organisation that seeks to promote the collective interests of primary steel producers. On their website, SAISI describe themselves as being “a non-profit, pro-competition and non-governmental representative organisation serving the collective interests of the primary steel industry in South Africa”. ArcelorMittal South Africa, Cape Gate, Columbus Steel and Scaw Metals Group are all SAISI members.

3.4 Limitations of the Study

In addition to not having conducted interviews with labour or DMR representatives, amongst the study's other limitations, the amount of time it took to submit this dissertation – with a long interval from the time that interviews were conducted (interviews which themselves took quite a while to be conducted) to the submission of the final product – must also be cited as a shortcoming⁶. The study's biggest limitation, it must be stated though, was the author's lack of familiarity with the steel industry prior to commencement of the study. Hypothetically, a researcher who knew more about the issues and dynamics within the steel industry, prior to commencing a study of this nature, may have been in a position to ask more insightful, astute and/or pertinent questions of their interviewees.

An additional challenge incurred while doing the research for this dissertation was the contemporary nature of the problem being looked at; which often lead to interviewees being quite tight-lipped about current developments in the steel industry, for fear of possibly jeopardising developments taking place at the time, by talking about them before they had been finalised⁷. Moreover, the contemporaneity of the issue being investigated coupled with the amount of time it has taken to write up the study, have resulted in developments – which needed to be incorporated into the findings of this dissertation – occurring while the dissertation was being written; leading, in essence, to the unit of analysis being in continual flux.

⁶ It is not misplaced to state that the unsupportive, and moreover obstructive, environment in which the author of this dissertation was located while undertaking the study – coupled with the depression and lack of motivation faced by the author, which arose from the referred to environment – were significant contributors to it having taken as long as it did to complete this study. An additional factor, as already referred to, was having tutoring commitments in Durban which prohibited the author of this study from being in Pretoria/Johannesburg as freely as would have been optimum; resulting in it only being possible to do interviews during university term breaks. Additionally, financial constraints also limited the author's ability to go back and forth between Durban and Johannesburg/Pretoria. As a consequence everything took longer than envisaged. Additionally, even when the author if this dissertation left the DDS, it was to do a PhD on a full time basis; with the effect, ultimately, that this project ended up being placed on the backburner.

⁷ As will be noted in chapter 5, Nimrod Zack for instance, reported that he is not in a position to talk about current negotiations taking place between the South African government and ArcelorMittal.

Chapter 4

South Africa's Industrial Policy Experiences: background and contextualisation

“While the stated objective of [post 1994 industrial] policy has been to encourage higher value-added manufacturing, labour intensive activities and smaller firms, in practice the weight of support has continued to be focussed on larger scale, capital intensive activities.”

(Black and Roberts, 2009: 215)

“In comparison with its income level, South African exports tend to be unsophisticated, i.e. proportionately more of its exports are in less sophisticated products that tend to be exported by countries with lower levels of income.”

(Kaplan, 2007: 93)

Both the current levels of inequality as well as the structural distortions within the South African economy have their roots in South Africa's history of racially discriminatory capitalism, which was promoted and legally entrenched by a government that sought only to advance the well-being of a minority of the population (Bozzoli, 1975; Legassick, 1974; Wolpe, 2008). “[T]he development of South Africa capitalism”, in other words, was dependent on and build upon “the supply of cheap, controlled African labour”, utilisation of which enabled the mining and agricultural industries to flourish (Marais, 2011: 16). The structural distortion within the economy, on the other hand, is primarily attributable to the capital-intensive composition of the South African economy, which developed around the ‘minerals-energy complex’¹ (Fine and Rustomjee, 1996): conducting selective beneficiation of the minerals in question (Kaplinsky, 1995; Walker, 2002), to the detriment of other manufacturing sectors; which have struggled to evolve beyond producing tools and/or

¹ The MEC, Fine and Rustomjee (1996: 71) write, “includes the mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to constitute the core site of accumulation in the South Africa economy”. MEC sectors include: “coal, gold, diamond and other mining industries; iron and basic industries; non-ferrous metals basic industries; and fertilisers, pesticides, synthetic resins, plastics, other chemicals, basic chemicals and petroleum” (Fine and Rustomjee, 1996: 79). Additionally, the MEC should not be seen merely “as a core set of industries and institutions[,] but also as a system of accumulation” (Fine and Rustomjee, 1996: 10), traditionally characterised by “an integral partnership between the state and private capital” (Fine, 2008: 1).

inputs required by mining related industries (Altman and Mayer, 2003; Black and Roberts, 2009; Fine and Rustomjee, 1996; Walker, 2001).

In order to contextualise the political and especially the economic environment in which the present-day government has to formulate and administer industrial policy, this chapter will proceed with a brief depiction of both the growth path pursued and the approach to industrial development adopted by the apartheid regime, as well as of the legacies of this growth path on the contemporary South African economy. A discussion of the challenges inherited by the post-1994 regime, and the economic strategies adopted in response to these challenges, will then be presented; after which the chapter will briefly sketch the nature of select industrial policies adopted by the post-apartheid government.

4.1 Background: Apartheid-era Approaches to Economic Development

4.1.1 Overarching objectives and strategies

From as early as the 1920s South African industrial policies sought to realise two principal objectives. Firstly, to create employment opportunities for working class whites² (Freund, 2010a); and secondly, particularly from the 1940s onwards, to promote the accumulation and development of Afrikaner capital relative to, what was traditionally more plentiful and better established, English capital³ (Fine and Rustomjee, 1996). The apartheid regime's pariah status led to South African industrial policy taking on a distinctly third dimension from the 1950s onwards: mere survival and self-sufficiency⁴ (Schneider, 2000). This was

² With regard to this objective Freund (2010a: 5), for instance, writes: “[i]ndustrialisation was associated into the 1930s [...] with creating and supporting the jobs of low-skilled white male voters, especially Afrikaners”. Schneider (2000) is of the view that the regime was relatively successful in accomplishing this objective. According to Schneider (2000: 417), “[b]y 1939, South Africa's inward-orientated program of industrialisation, begun in 1925, had tripled manufacturing output and doubled the number of white jobs in manufacturing”.

³ With regard to this objective, tariffs and subsidies were designed to favour Afrikaner, over English, capital: in what, at the time, was a tussle between political power (predominantly held by Afrikaners) and economic power (predominantly held by immigrants of British descent) (Fine and Rustomjee, 1996).

⁴ It is interesting to note that parallels can possibly be drawn between Johnson's (1999: 41) description of post Second World War Japan as an economy “mobilised for war, but never demolished during peacetime”, and apartheid-era South Africa, which was also an economy either at war or on perpetual standby for war. The mentality that their very survival depended on a rapid industrialisation drive, Johnson argues, facilitated Japan's ability to execute the ‘miracle’ of undergoing the fastest industrialisation by any country hitherto. A similar mentality (of industrialise or perish) could possibly be ascribed to apartheid South Africa too.

amplified in the 1960s as a result of the increased isolation brought on by the international community's espousal of sanctions against the National Party (NP) government. This reality gave additional impetus to the growth of South Africa's domestic arms industry (Altman and Mayer, 2003; Birdi et al, 2007).

In short, apartheid-era industrial policies can be seen to have been characterised by three core attributes. Firstly, the utilisation of ISI: personified by the dispensation of subsidies and tariffs to promote domestic industries, particularly of consumer goods (Altman and Mayer, 2003; Habib and Padayachee, 2000); the production of inputs necessary for both mining, mining related industries and arms production (Altman and Mayer, 2003; Birdi et al, 2007); and the subsidisation of, as well as the renunciation of import taxes on, technology and capital goods that had to be sourced abroad (Schneider, 2000). Secondly, the formation of state run, and hence highly subsidised, industrial corporations – such as Eskom, Sasol, Iscor and Armscor – that were responsible for the development of heavy industries, which was pivotal to the regime's ambitions to be self-reliant (Altman and Mayer, 2003; Archer, 1987; Fine and Rustomjee, 1996; Schneider, 2000). Thirdly, as already noted, a dual and racist labour market, that reserved select jobs for whites and simultaneously provided a relative abundance of cheap semi-skilled and unskilled black labourers to perform less salubrious tasks; which galvanised both the agricultural and mining sectors (Habib and Padayachee, 2000; Wolpe, 2008).

4.1.2 The impact of the adopted industrialisation strategies

The apartheid regime succeeded in both modernising and industrialising select parts of the country and economy, to the extent that South Africa is the most industrialised country in Africa (Schneider, 2000), and the South African economy enjoys high degrees of sophistication in certain sectors (Black, 2010). But it did so at a price. For instance, the lack of competition faced by South African firms enabled them to enjoy near (if not outright) monopolies in the domestic market. This enabled those firms to develop into "large conglomerates" (Habib and Padayachee, 2000: 247). The aftermath of this is that the current economy is home to a few well established firms, who often face little (if any) competition, and are thus able to charge excessive prices for what is at times mediocre

output (Altman and Mayer, 2003). Moreover, the firms in question have been known to apply anti-competitive pricing – as opposed to honing their efficiency and/or developing additional capabilities – to maintain their market dominance (Black and Roberts, 2009). Differently put, South Africa faces the challenge of an “[u]ncompetitive market structure” (Black and Roberts, 2009: 217) typified by “high mark-ups, correlated with low productivity growth” (Black and Roberts, 2009: 216). The steel industry, as will be discussed in chapter 5, exemplifies this tendency.

A second, already alluded to, drawback arising from the apartheid growth path is the capital intensive, MEC-orientated, constitution of the economy. “[M]inerals economies”, Altman and Mayer (2003: 68) write:

tend to leapfrog from the resources base into heavy industry and chemicals industries (HCI) development, bypassing the development stage of labour-intensive manufacturing. This is made possible by the large profit margins from the export of minerals.

Historically, South Africa's industrialisation has adhered with this trend (Altman and Mayer, 2003; Fine and Rustomjee, 1996); as is evident in Fine and Rustomjee's (1996: 233) avowal that under the apartheid regime there was “in effect [...] no industrial policy for non-MEC manufacturing”. This has resulted in South Africa's manufacturing sector being significantly underdeveloped, relative to other middle income countries. Such underdevelopment is affirmed by Kaplan (2007: 93), who reports, that “[f]or much of South Africa's history, GDP has been pulled down by the low level of sophistication of its export basket”.

The retardation of the manufacturing sector has two implications, in particular, for the current South African economy. Firstly, the economy's ability to generate employment through the manufacturing sector has been appreciably stifled (Black, 2010; Rodrik, 2006a). Secondly, although there are pockets of technological sophistication (DTI, 2007; Black, 2010), the economy has failed to accumulate the technological savviness that various other middle income countries have had to acquire, through a process of learning-by-doing (Lall, 1996). This, ultimately, has impeded South Africa's ability to cultivate internationally competitive enterprises and is a hindrance to the country's endeavours to diversify into

higher-end ventures (Black and Roberts, 2010; Fine and Rustomjee, 1996); both of which, in turn, further limit job creation prospects. In other words, the MEC-orientated growth path that South Africa has pursued can be seen to have stunted the development and diversification of the South African economy, inducing an on-going and potentially cyclically-reinforcing state of subordination, relative to other middle income countries. Hence the need for the government – in conjunction with the private sector – to play an active role in moving South Africa on to a different, more abounding and labour-absorbing, growth path (Black, 2010; Kaplan, 2007; Roberts, 2007; Rodrik, 2006a).

In starting to conclude this section, it is worth noting Schneider's (2000: 417) view that, in so far as the apartheid regime can be considered to have been successful, it was:

because it carefully controlled its linkage with the rest of the world, pursuing free trade when it was beneficial (in gold and diamond markets) but using protectionism when international competition was viewed as destructive (in manufacturing and agriculture).⁵

The regime's biggest shortcoming (economically speaking, as opposed to morally), on the other hand, is arguably that it concerned itself too much with the realisation of immediate, relatively short-term and often political, objectives; to the detriment of longer-term concerns, such as the diversification and sustainability of the economy. Extending on this sentiment Chang (1998: 51) argues that:

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 [arguably inconsistent] objectives that ultimately undermined its viability in the long-run such as the building up of Afrikaner capital, job creation for Afrikaner workers, military objectives, evasion of international sanctions, and the satisfaction of aspirations of the elite consumers to imitate the consumption patterns of the most advanced

⁵ On the one hand, this method of engagement with the global economy adheres with some of the precautions discussed in the literature review (for example: Chang, 2003; Nissanke and Thorbecke, 2006; Rodrik, 2001). On the other hand, however, in light of the increased global regulation of trade and industry measures that countries are permitted to adopt, it is no longer feasible for developing countries to rely exclusively on demand-side management (Kaplan, 2007). Accordingly, as Hirsch and Hanival (1998) point out, much greater emphasis needs to be placed on supply-side measures, if the present-day South African economy is to diversify more expediently.

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.

4.1.3 The end of an era

Sanctions notwithstanding, the apartheid economy experienced high trade volumes up until the early 1980s; albeit it that the export of minerals and the importation of technology and capital goods constituted the bulk of such trade (Altman and Mayer, 2003; Schneider, 2000). Ultimately, however, in spite of the profuse mineral reserves, the effect of isolation (coupled with the above referred to onerous and also somewhat contradictory objectives) took its toll, and from the late 1970s the economy began to decline (Altman and Mayer, 2003; Fine and Rustomjee, 1996). This decline was partially due to the relatively small domestic market, which constrained the resident conglomerates (Schneider, 2000; Walker, 2002), whom began to push for liberalisation of the economy and relaxation of capital movement regulations (Altman and Mayer, 2003; Fine and Rustomjee, 1996). Additionally, the economic downturn was amplified by the increasing desire of industry leaders to move their wealth abroad, which induced a reduction in local investment levels (Altman and Mayer, 2003; Fine, 2008). Habib and Padayachee (2000: 246) report, for example, that "domestic investment as a proportion of GDP declined from 27% to 15% over 1983-93. Domestic savings fell from an average of 23,5% of GDP in the 1980s to 17% in 1993".

Confirming these trends, Hirsch (2005: 112) summates:

To any economic observer in South Africa in the early 1990s, it was clear that the country had entered an economic cul-de-sac. The economy was shrinking. Its assets were being run down – gross fixed investment was negative for four consecutive years to 1994, and capital was in full flight. National income was stagnating, and per capita income had declined every year since 1982, except 1988. Government debt was rising to dangerous levels, with the general government fiscal deficit over 9% of [...] GDP in 1993.

Simply put, the days of the apartheid dispensation were nearing an end, and political transition was imminent. The deteriorating economy would ultimately be the undoing of the NP regime.

4.2 Economic and Industrial Strategies of the Post-94 Regime

On coming to power in 1994 the new, ANC led, government was faced with several responsibilities, challenges and constraints. These included, for example, the need to: stabilise and rejuvenate the waning economy; repay debt accumulated by the apartheid regime; create jobs and improved livelihoods for the majority of the population, whom had high expectations of the new administration; and redress the injustices and inequities that had arisen from the country's wretched history (Gelb, 2006; Hirsch, 2005; Lodge, 2002; Marais, 2011). Consequently, in Hirsch's (2005: 1) words:

The big economic question faced by the ANC [was]: What would be the ideal relationship between growth and redistribution in South Africa? Or, more precisely, how could it [the government] set South Africa on the path of economic growth and at the same time ensure fair, just and politically necessary redistribution outcomes? Put yet another way: was there a way in which growth and redistribution in South Africa could complement each other?

In light of the above considerations, the newly elected government defined its primary objectives, with regard to its handling of the economy, to be the creation of growth and employment, as well as the instigation of economic redistribution⁶, which was to include redressing apartheid's wrongs (Black, 2010; Hirsch, 2005; Marais, 2011). Thus – following the maxim that “[t]he cures for low growth and unemployment are largely the same” (Rodrik, 2006a: 3) – the government identified the development of an internationally competitive manufacturing sector as a central component in its endeavours to induce growth and generate employment (Black and Roberts, 2009; DOF, 1996; Kaplan, 2007; Lewis, 2001). Unfortunately, as will be discussed below, diversification of the manufacturing sector has been somewhat elusive (Altman and Mayer, 2003; Black, 2010; Black and Roberts, 2009; Rodrik, 2006a), and job creation has not been as voluminous as might have been hoped for (Banerjee et al, 2008; Hart, 2008; Marais, 2011).

⁶ The macroeconomic framework adopted by the government in 1996 subsumed these exact objectives: Growth, Employment and Redistribution (GEAR).

4.2.1 Overarching policies and their impact

The “neo-Keynesian” (Hart, 2006: 13) approach to economic development first espoused by the ANC (in the form of the Reconstruction and Development Programme [RDP]) – which sought to foster economic growth through government spending on service delivery and infrastructure development⁷ (Hart, 2006; Luiz; 2002) – was swiftly supplanted by the more orthodox, neo-liberally disposed, GEAR framework (Gelb, 2010; Luiz, 2002; Marais, 2011). In order to make South Africa a more desirable destination for foreign direct investment (FDI), amongst GEAR's utmost priorities were to reduce the levels of government debt, create macroeconomic stability by maintaining inflation within single digit levels, and gradually liberalise the economy (DOF, 1996; Hirsch, 2005; Luiz, 2002; Mohamed, 2010). Hirsch and Hanival (1998: 3) summarise GEAR's stated objectives to have been, and I quote:

- budget reform to strengthen the redistributive thrust of expenditure;
- fiscal deficit restraint to facilitate investment;
- exchange rate policy to stabilise the real effective rate at competitive levels;
- consistent monetary policy to counter inflationary pressures;
- tariff reductions to facilitate industrial restructuring and enhance international competitiveness;
- incentives to stimulate new investment in small and large manufacturers;
- an expansionary infrastructure programme; and
- a commitment to the implementation of stable and coordinated policies.

Achieving these objectives, especially the first two – when imprudent redistribution and extensive dispensation of welfare may have been enticing – required austerity on the part of government: which decided to ‘err on the side of caution’, in order to preserve national sovereignty; rather than risking becoming dependent upon international financial institutions, whose terms and conditions could possibly have impeded South Africa's subsequent development endeavours (Hirsch, 2005: 76). In short, GEAR facilitated

⁷ The RDP, Luiz (2002: 594) writes, was “[f]undamentally [...] an anti-poverty strategy which [sought] to eradicate the consequences of apartheid by meeting basic needs [...] investing in job creation, housing, welfare, water and sanitation, health-care, transport, land reform, and so forth, [and was] expected to stimulate the economy through increased demand for producer and consumer goods and services”.

significant liberalisation of the economy (Aron et al, 2009; Black and Roberts, 2009)⁸; succeeded in stabilising the economy, which has undergone growth in every year but one since the new administration took charge (see Graph 1, at the end of this sub-section); reduced the government debt (Hirsch, 2005; Lewis, 2001); and, with the exception of 2008, maintained inflation within the targeted band (see Graph 2, at the end of this sub-section).

However, in spite of these achievements, growth levels were generally lower than in other middle income countries (Roberts, 2007). This is evident in Table 1 (located at the end of this sub-section), which confirms that all the featured countries, bar Mexico, have – in aggregate terms – outperformed South Africa since 1995. FDI levels have been modest (Cassim, 2006; Hirsch, 2005; Marais, 2011), job creation has been moderate (Banerjee et al, 2008; Hart 2008), and unemployment has consistently been in excess of 20 per cent of the eligible labour force⁹ (Banerjee et al, 2008; Luiz, 2002; Marais, 2011), as is conveyed in Graph 3 (located at the end of this sub-section). Cassim (2006: 56) recapitulates:

In spite of an investor-friendly macro policy, the economy is characterised by extremely low levels of investment, and an increase in output that has resulted in a less than proportionate increase in employment.

Briefly, in attempting to explain GEAR's limited success, it has been suggested that the emphasis which GEAR placed on macroeconomic stability served to confuse developmental 'ends' and 'means' (Luiz, 2002). In other words, domestic demand and investment levels – it has been argued – were encumbered by the government's austerity measures (Marais, 2011; Roberts, 2007); resulting in diminished growth and job creation. Moreover, although the government succeeded in keeping inflation within endurable levels, both the interest rate

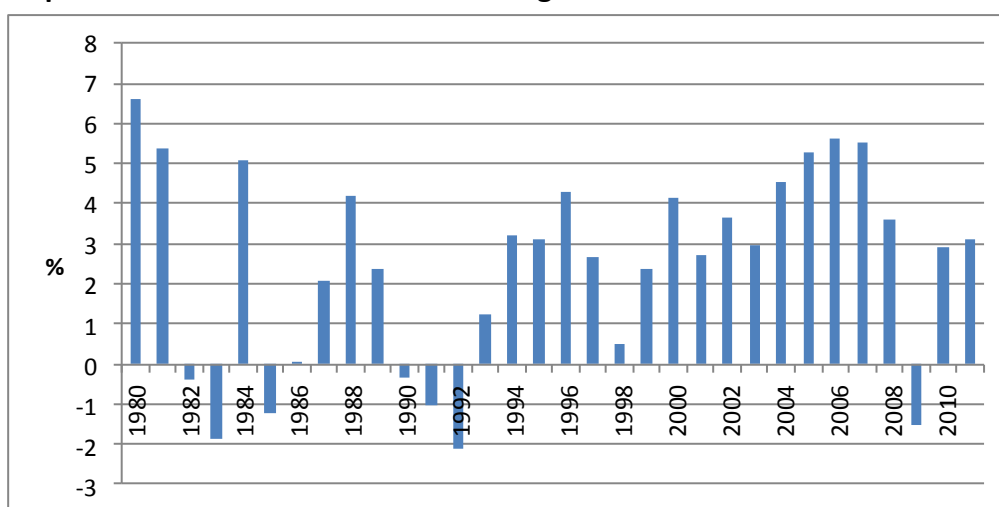
⁸ Black and Roberts (2009: 214) report that the tariff reductions that were introduced under GEAR's auspices served to "reduce effective rates of protection substantially, from a weighted average of 42,4 per cent on manufactured goods in 1989 to 38,1 per cent in 1993 and then to 14,8 per cent in 2003". In light of these reductions Aron et al (2009: 11) write that "South Africa can now be classified as an only moderately protected economy with protection higher than Chile, Indonesia, Malaysia and Mauritius, but lower than in Brazil, Thailand, Egypt and India".

⁹ The figure of between 20-30 per cent unemployment, Hirsch (2005) and Marais (2011) point out, is calculated utilising a tight definition of unemployment, which omits those who have become too despondent to continue seeking work opportunities. If a loose definition (that included people who need to work and would accept a job if offered one, but have ceased actively looking for work) were utilised, it would place unemployment in the vicinity of 40 per cent of the working age population (Hirsch, 2005; Marais, 2011).

and the exchange rate have been volatile (Altman and Mayer, 2003; Kaplan, 2007; Presidency, 2011). These factors, coupled with the country's skills shortage – Kaplan (2007) maintains – have all further stymied investment and particularly FDI levels.

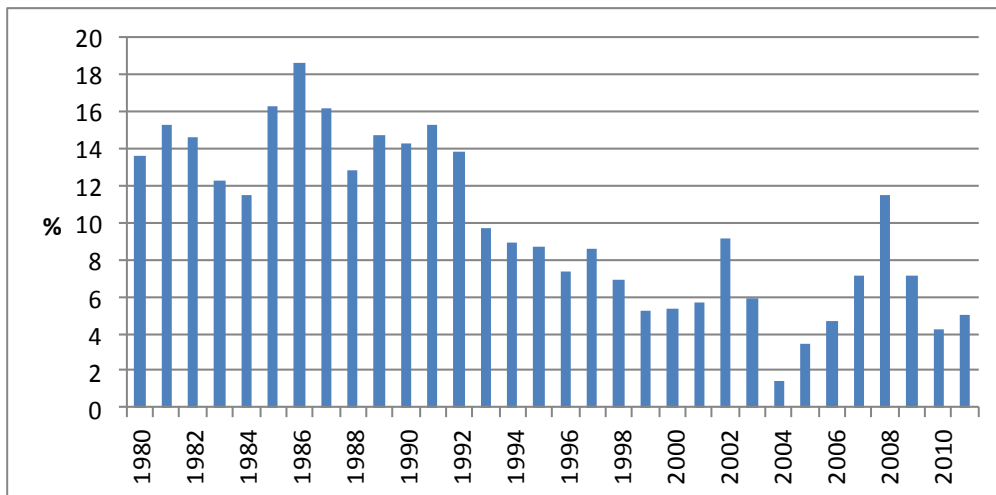
In addition, it has also been suggested that the government's eagerness for South Africa to be perceived by international capital as a safe investment destination, induced conformity and excessive passivity on the part of the government (Marais, 2011; Mohamed, 2010); who were – until the introduction of the second tranche of the Industrial Policy Action Plan (IPAP2) – seemingly too inclined to wait for market forces to work their miracles (so to speak). Differently put, GEAR arguably failed to recognise the importance of an active state and of proactive industrial policies to South African development endeavours. This view is supported by Luiz (2002: 59) who writes that: “[i]n terms of industrial policy, GEAR [was] particularly weak and vague, and lack[ed] imagination”. Similarly, albeit that he was writing in 1998, Chang (1998: 59) described South African industrial policy between 1994 and the time of writing as being “vague, blurred, and too abstract”: characterised by buzz words, with an insufficiency of substance, specificity or strategic and implementable plans. The upcoming section will tentatively discuss whether or not South Africa's more recent economic and industrial policy endeavours are susceptible to the same critique.

Graph 1 South African GDP growth: 1980-2011



Source: World Bank, World Development Indicators (2012).

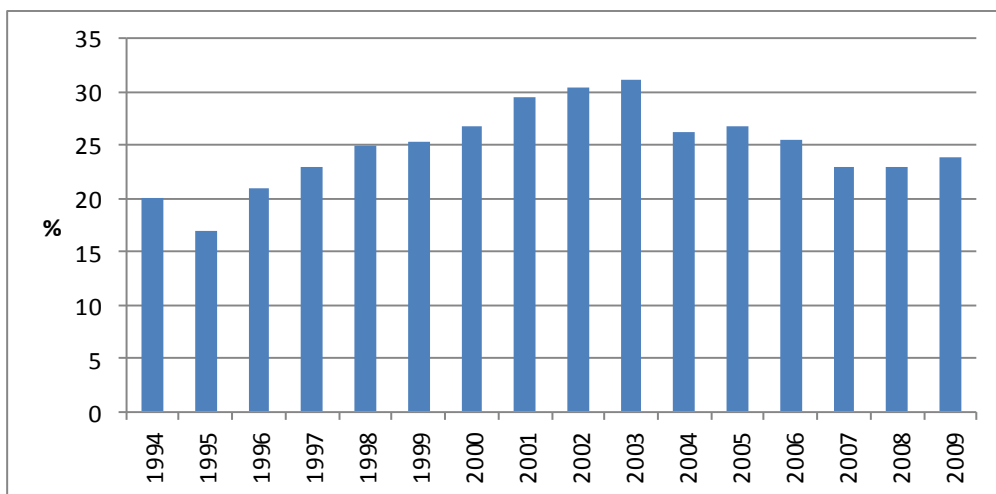
Graph 2 South African inflation: 1980 - 2011



Source: World Bank, World Development Indicators (2012).

Note: Calculated using the consumer price index (CPI) method.

Graph 3 Unemployment expressed as a percentage of the South African labour force: 1994-2009



Source: World Bank, World Development Indicators (2012).

Note: The Labour force is taken to constitute people between 15 to 65 five years of age.

Table 1 Middle income percentage growth rates, 1995-2011: a selective comparison

	South Africa	Botswana	Brazil	India	Indonesia	Malaysia	Mexico	Turkey
1995	0.91	1.82	2.84	5.55	6.81	7.10	-7.83	6.13
1996	2.01	3.08	0.60	5.57	6.12	7.28	3.36	5.66
1997	0.32	7.73	1.81	2.18	3.27	4.69	5.00	5.88
1998	-1.82	8.29	-1.46	4.32	-14.29	-9.60	3.22	0.72
1999	-0.08	3.08	-1.22	6.60	-0.54	3.61	2.28	-4.83
2000	1.61	4.09	2.82	2.23	3.55	6.31	5.06	5.21
2001	0.65	2.01	-0.09	3.23	2.30	-1.79	-1.51	-7.04
2002	2.25	7.58	1.28	2.25	3.15	3.02	-0.45	4.70
2003	1.65	5.00	-0.16	6.27	3.45	3.49	0.11	3.85
2004	3.33	4.71	4.42	6.21	3.74	4.57	2.79	7.90
2005	4.09	0.37	1.99	7.65	4.44	3.27	1.94	6.96
2006	4.43	3.74	2.87	7.66	4.30	3.91	3.83	5.47
2007	4.40	3.36	5.06	8.22	5.18	4.65	1.95	3.28
2008	2.48	1.50	4.21	2.42	4.89	3.09	-0.10	-0.66
2009	-2.59	-6.11	-1.21	6.73	3.54	-3.21	-7.42	-6.05
2010	1.51	5.66	6.60	8.04	5.11	5.49	4.23	7.80
2011	1.91	3.82	1.84	5.40	5.38	3.47	2.70	7.18
Average	1.59	3.51	1.89	5.33	2.97	2.90	1.13*	3.07

Source: World Bank, World Development Indicators (2012).

*Note: If 1995 were omitted from the Mexican calculation, then Mexico would average a growth rate of 1,65 for the years thereafter.

4.3 Select Industrial Strategies in the Post-apartheid Era: Focussing on Measures Relating to or that Impact upon the Steel Industry

In 2006 the government introduced the Accelerated and Shared Growth Initiative – South Africa (ASGISA), which marked somewhat of a break, on paper at least, with the government's former disproportionate subscription to orthodox economic prescriptions. ASGISA identified several objectives that the government sought to accomplish, but – similarly to GEAR – generally failed to spell out how the government would in fact realise the objectives in question. Moreover, ASGISA failed to introduce additional sector targeting measures, over and above the Motor Industry Development Programme (MIDP) and the Duty Credit Certificate Scheme (DCSS) (Presidency, 2006) (which sought to boost the clothing and textiles sector); both of which were introduced under the auspices of GEAR.

While it is true that the government has somewhat haphazardly implemented an array of industrial policy measures in addition to the MIDP and the DCSS¹⁰ – by the government's own admission – it took until 2007 to “produce a comprehensive statement of [the] government's approach to industrialisation and industrial policy” (DTI, 2007a: 1). That is to say, the introduction of the Industrial Policy Framework (IPF) and the foundational Industrial Policy Action Plan (IPAP1) marked the government's first vocalisation as to its strategy to proactively engender economic development in a consolidated manner.

IPAP1's core objectives were to:

- facilitate diversification of the economy, from its historical orientation towards primary and secondary mineral extraction, into labour-intensive manufacturing activities “that [could] compete in export markets as well as against imports”;
- intensify the economy's progression towards being a substantially service and knowledge-based economy;
- facilitate transformation of the economy in terms of its ownership and participation patterns, with a view to inducing “increased participation of historically disadvantaged people and marginalised regions”; and
- contribute “to industrial development on the African continent with a strong emphasis on building its productive capability”. (DTI, 2007a: 1-2)

IPAP1, arguably, also failed to indicate how several of these stated objectives would in fact be realised. In its defence though, it is reported in IPAP1 that more concrete plans would be spelt out in IPAP's subsequent versions. IPAP1 did however demarcate the following sectors:

- “capital/transport equipment and metals”;
- “automotive assembly and components”;
- “chemicals, plastic fabrication and pharmaceuticals”; and
- “forestry, pulp and paper, and furniture”

¹⁰ See Rustomjee and Hanival (2010) for a summation of these.

as the core sectors to be targeted with a view to galvanising manufacturing and job creation (DTI, 2007a: 5). Additionally, “mining and mineral beneficiation”, “agriculture/agro-processing”, “ICT (services and products)” and “creative industries” were earmarked as ancillary sectors for economic targeting (DTI, 2007a: 33).

The steel industry is part of the first of the above identified sectors: the “capital equipment, metal fabrication and transport equipment” (CEMFTE) sector (DTI, 2007a: 5). Concerning this sector, amidst other constraints, IPAP1 identified the predilection for “raw material inputs such as steel, aluminium and scrap” to be sold within the domestic market at higher prices to which they are sold on international markets (a practice known to as ‘import parity pricing’)¹¹ – thereby preventing South African manufacturers benefiting from what should be an area of comparative advantage and thus of cost reduction – to be problematic (DTI, 2007a: 5-6). Consequently, one of the key action plans relating to the CEMFTE sector espoused in IPAP1 is the induction of “[m]easures to stimulate more competitive input pricing”, so as to “[r]educe the costs of inputs to downstream industries to internationally competitive levels” (DTI, 2007a: 7).

In the above light, strengthening the Competition Commission – to enable it to play a “stronger policy advocacy” role and providing it with sufficient authority to “deal with anti-competitive practices” – was one of the activities that IPAP1 undertook to instigate (DTI, 2007a: 40); and somewhat succeeded in accomplishing¹² (DTI, 2010: 1). Another key, CEMFTE sector related, action plan advocated in IPAP1 was the leveraging of public expenditure to promote domestic suppliers and in turn the domestic economy (DTI, 2007a: 7). Both of these objectives are extended upon in IPAP2.

With regard to the later objective IPAP2 reports, for instance, that:

¹¹ A more thorough definition of and discussion about import parity pricing will be provided in the following chapter.

¹² The term ‘somewhat succeeded’ has been used as the Competition Commission has indeed been set up, and is operational and strong; it is an arguable point though – as will be noted in the next chapter – whether the Commission does in fact have adequate authority to be able to discipline companies, particularly multinational ones, that partake of uncompetitive practices.

Public infrastructure investment has been a key driver of recently improved investment rates. Public investment of R404 billion (bn) was attracted over the 2006/7-2008/9 period, rising to R787bn for the period 2009/10-2011/12 [...] However, much of the tradable content of public infrastructure investment – as well as other large components of public procurement – are being imported. (DTI, 2010: 8, emphasis added)

The same document proceeds to acknowledge that importing the inputs utilised in infrastructure-drives serves firstly to deplete South Africa's capital reserves – thus potentially undermining the sustainability of capital expenditure projects; and, furthermore, amounts to squandering of an opportunity to stimulate the domestic economy and promote domestic competencies (DTI, 2010: 8).

1) Revamping of the 'Proudly South Africa' initiative; 2) strengthening of the National Industrial Participation Programme (NIPP¹³), so that offset requirements on the part of foreign suppliers are negotiated at the same time as procurement contracts, not after; 3) amalgamation of NIPP and the Competitive Supplier Development Programme (CSDP)¹⁴; 4) overhauling the Preferential Procurement Policy Framework Act, to – amongst other measures – permit domestic suppliers to amend their quotes for tenders relating to the government's capital expenditure projects, in the event that foreign suppliers should initially out-price them; and 5) making it a requirement that government departments, state owned enterprises (SOEs) and resident development finance institutes (DFIs) make as concerted an effort as possible to utilise local suppliers: are amongst the measures that IPAP2 espouses with a view to deriving the maximum yield from the development potential of government procurement (DTI, 2010: 16-20 and 29-33).

¹³ The NIPP is a policy mechanism to "offset major state purchases [from foreign suppliers] by requiring a quid pro quo of the percentage value of the order to be reinvested in some way in the [domestic] economy": thus enhancing the government's ability "to moderate the impact of large purchases in foreign dominated currencies, stimulate local industries, develop new industries, receive assistance in finding new markets, and benefit from skills and technology transfers" (DTI, 2002: 6).

¹⁴ The CSDP is a government initiative that permits SOEs to import the inputs required for infrastructure projects if the savings, and subsequent price reductions to the end consumer, arising from importing the goods in question outweigh the benefits (including the multiplier effect) that would arise from domestic procurement. Or, in the words of the DPE (2007: 20), "[t]he key objective of the supplier development plan is to create a balance between increasing the value added component of the spend produced by national industry without unduly increasing the cost paid [for] these products or services".

The current minister in the DTI (2010: vi) acknowledges that IPAP2 “is one pillar of the ‘New Growth Path’ [NGP], comprising a larger set of inter-related policies and strategies, brought together under the Economic Development Department”. The NGPs ultimate object is to generate five million additional jobs by 2020 (DED, 2010). The sectors in which the NGP envisages creating the bulk of these jobs are as follows, and I quote (DED, 2010: 10):

- infrastructure [development and maintenance]
- the agricultural value chain
- the mining value chain
- the green economy
- manufacturing [as identified in IPAP2], and
- tourism and certain high-level services

Like both GEAR and ASGISA before it, the NGP refers to grandiose plans and aspirations, but all too often the policy document fails to demonstrate how these plans and aspirations will be realised: resulting, arguably, in the NGP being ungrounded and overly ambitious¹⁵. When it comes to industrial policy provisions, the NGP (encouragingly) acknowledges that “[t]he government has a critically important role to play in accelerating social and economic development including through effective regulations of markets” (DED, 2010: 4). However, the NGP fails to enunciate specific policy measures; stating instead that such measures are handled by and are depicted in IPAP2 (DED, 2010). It thus seems that the NGP is intended to provide an overarching vision and framework in which economic / industrial policy will be created, and IPAP2 is the entity responsible for articulating specific and implemental measures to realise the overarching vision and/or objectives¹⁶.

Lastly, the government's most recent development initiative – the National Development Plan: 2030 (NDP) – is also a provider of overarching vision, although it does contain some concrete proposals too. The vision encompassed by the NDP relates to societal issues at

¹⁵ Echoing this view, Business Day (2011) for instance, went so far as to describe the NGP as being a “fantasy document”.

¹⁶ If one is to be critical, perhaps even cynical, one might ask: is the NGP actually adding any value – especially given the manner in which it transfers the onus of formulating concrete policy recommendations to IPAP2?

large, not only economically orientated ones; as is evident from the NDP's below depicted priorities, which are – and I quote:

- Uniting all South Africans around a common programme to achieve prosperity and equity.
 - Promoting active citizenry to strengthen development, democracy and accountability.
 - Bringing about faster economic growth, higher investment and greater labour absorption.
 - Focusing on key capabilities of people and the state
 - Building a capable and developmental state
 - Encouraging strong leadership throughout society to work together to solve problems
- (Presidency, 2011: 16)

Like its predecessors, the NDP identifies the development of a competitive manufacturing sector as being key to South Africa's efforts to stimulate growth and employment. Additionally, the NDP notes that South Africa's status as a middle income country means that:

On the one hand, [we] cannot compete in low-skilled industries because cost structures are already too high. On the other hand, the country lacks the skills to compete with the advanced manufacturing countries such as Germany. South Africa therefore needs to compete in the mid-skill manufacturing and service areas, and niche markets that do not require large economies of scale. (Presidency, 2011: 115)

The NDP identifies, in other words, that while it is important to earmark labour-intensive sectors for potential government targeting, it is equally (if not more) important that such labour-intensive activities are not in inherently 'unsophisticated' sectors. Steel is certainly an industry that conforms with this requirement. The NDP, however, does not contain provisions that relate to the steel industry specifically. While normative appraisal is possible, it is too soon to conduct an impact evaluation of the NDP. It can only be hoped, however, that the NDP will provide the government with the focus that it has arguably been missing hitherto.

In starting to conclude, South Africa's various industrial policy initiatives, in Altman and Mayer's (2003: 66) words, have included measures geared towards "investment facilitation, trade, technology, small business promotion, strategic and informational leadership,

competition, and labour market policy"¹⁷. However, these undertakings have lacked a central focus (DED, 2010: 6) and, moreover – according to Black and Roberts (2009: 221) – have “had little impact on the economy’s development path”. South African exports, for instance, “remain dominated by mineral intensive manufactured products” (Black and Roberts, 2009: 221); with government policies inadvertently “reinforc[ing] rather than alter[ing] the [country’s] industrial development path” (Black and Roberts, 2009: 225). Corroboration of this trend is found in IPAP2, where it is acknowledged that:

Investments in production sectors have themselves been concentrated in capital-intensive mineral-and-energy sectors such as mining, cement and chemicals. With the exception of the automotive industry, most relatively labour-intensive and value-adding productive sectors have experienced low – and sometimes falling – rates of investment. (DTI, 2010: 7)

South Africa’s reliance on the MEC and MEC related industries makes it all the more disconcerting, and no less incongruous, that the steel industry is not providing the South African economy with the footing that it possibly could. The upcoming chapter seeks to assess in greater detail why this is in fact so, as well as to assess in greater detail how the government has attempted to overcome this undesirable state of affairs.

¹⁷ Also see Hirsch and Hanival (1998).

Chapter 5

Empirical Application and Discussion: Lessons to be learnt from the steel industry

“Users of steel pay prices which bear no relation to the very low costs of steel production such that South Africa remains an exporter of minerals and energy intensive basic products, and has failed to diversify in to more labour-absorbing manufacturing activities.”

(Roberts and Rustomjee, 2010: 60)

“[I]n an industrial policy regime, whenever the efficiency objective of an individual industry and that of the whole economy clash with each other, the latter is permitted to dominate.”

(Chang, 2003: 112)

The steel industry, as already noted, is a highly strategic one that is paramount to industrialisation and in turn therefore to broader economic development. South Africa, by virtue of possessing both coal and iron ore reserves, is well positioned to be – and indeed is – a competitive steel manufacturer; as is evident in ArcelorMittal South Africa (AMSA), the dominant steel producer in the domestic market, possessing amongst the lowest cost steel plants in the world “on an operating or ‘cash cost’ basis”¹ (Roberts, 2008: 8). Unfortunately, however, the benefits of the low steel production costs are all too often not passed on to downstream steel users² (Fine, 1997; Roberts, 2008; Roberts and Rustomjee, 2010). This chapter will discuss how it came to be that downstream steel users are not benefiting as much as they could from the country’s steel producing capability, and will also examine the measures that the government intends to implement to address this oddity; with a view to deriving insights pertaining to the government’s aspiration of being a bona fide developmental state.

¹ Affirming the relatively low costs within the South Africa steel industry Donnelly (2010) reports, for instance, that AMSA acquires iron ore domestically at approximately R125-00 per tonne – courtesy of deals which arose from the debundling of Kumba (CTSA, 2007) – whereas it would cost approximately R475-00 per tonne if the ore had to be imported.

² With the effect that ArcelorMittal’s profit margins are higher in South Africa than at any of their other plants around the globe (Roberts, 2008); to the extent that AMSA have argued that they need to charge the prices that they do in the South African market in order to cross-subsidise ArcelorMittal operations in other countries, which AMSA claim are incurring losses (CTSA, 2007; Murgatroyd and Baker, 2010).

5.1 The Current State of the South African Steel Industry: Background

The South African Iron and Steel Corporation (ISCOR), a state run steel company, was founded in 1928³ (CTSA, 2004). Being a state enterprise, ISCOR was “guided by the government objectives of the apartheid state and not strict profit making imperatives” (Roberts and Rustomjee, 2010: 51, emphasis added); with the effect that, during the apartheid era, downstream steel users were able to acquire relatively affordable steel, which was priced on a cost-plus basis – in accordance with, if not below, the international steel price⁴ – and not necessarily at profit maximising levels (Fine, 1997; Fine and Rustomjee, 1996; Roberts and Rustomjee, 2010).

Having been founded (and its monopolistic status within the domestic market instituted) with government support and resources, ISCOR was privatised in 1989⁵ (CTSA, 2004); although the entity continued to receive government protection, in the form of subsidies (CTSA, 2007) as well as the implementation of tariffs on foreign produced steel (Roberts, 2008), for some time thereafter⁶. The interests of private (profit driven) entities, however, are not always aligned with the interests of the countries in which those entities operate (Fine, 1997). Ultimately, this proved to be so in the case of listed-ISCOR, which – in addition to rationalising and increasing operational efficiency – began to implement import parity pricing⁷ (IPP) in the South Africa market, in order to bloat profit margins⁸ (CTSA, 2004; Roberts, 2008; Roberts and Rustomjee, 2010).

³ ISCOR was established as a state company for two reasons. First, the strategic nature of steel – imperative to infrastructure development and mining as well as armament endeavours – impelled the government to desire wholesale control of the industry. Additionally and second, the size of the investments required to get the industry off the ground were, in any event, greater than private actors could afford to have made at the time (Roberts and Rustomjee, 2010).

⁴ This price is also referred to as an export parity price (EPP): defined by Parr (2005: 2) as “the world price [of a commodity], converted into rand, minus any transport, tariff (in destination market) and any other costs the supplier would incur if exporting [the commodity in question]”.

⁵ With the effect, in the words of the Competition Tribunal (CTSA, 2007: 46), that having once been a “state owned monopoly”, ISCOR was “transformed into a privately owned and unregulated monopoly”.

⁶ The government of the time, Roberts and Rustomjee (2010) report, were impelled to privatise Iscor on account of the institution’s operational inefficiency. In addition to being in need of rationalisation, it was felt that Iscor also needed exposure to more cutting edge technological advancements, which could possibly be derived from some strategically sourced FDI. Or, as the Competition Tribunal (CTSA, 2007: 9) put it: “[b]y receiving new technology and skills from a global partner it was believed that Iscor could participate more effectively in the global steel industry”.

⁷ The import parity price is an artificially inflated price that is constructed based on what it would cost to import steel from abroad, taking duty and transport costs into account; and is often significantly higher than the cost of

The practice of IPP has subsequently been maintained by the multinational company that ISCOR eventually came to be a subsidiary of⁹ – AMSA (Fine, 1997; Roberts and Rustomjee, 2010; Roberts and Zalk, 2004). AMSA, Campbell and Hackett (2006b: 38) report, is “responsible for 84% of the flat steel production in South Africa”. AMSA’s approach to pricing has created the bizarre, not to mention abhorrent, reality that South African steel users pay more for domestically manufactured steel than users in foreign countries who import steel from South Africa do; as is affirmed by Roberts and Rustomjee (2010: 59), who report:

When the import parity and export prices are compared, the net price for steel to customers at the import parity level has been some 60 per cent or more above that received for steel sold to export customers.

That AMSA utilise IPP is not disputed (CACSA, 2009; CTSA, 2007; Roberts, telephone interview, 2011). AMSA, in fact, have conceded that implementation of IPP is a standard part of their operational practice (CACSA, 2009; CTSA, 2007). Nor is it contested that this approach to pricing is detrimental, both to downstream steel users¹⁰ (whom are increasingly

domestic production (Murgatroyd and Baker, 2010). A more precise account of how the IPP is calculated, is provided by Roberts (2008: 7) who writes:

Mittal [ISCOR’s heritors] calculate their import-parity price (or international price as Mittal now terms it) by taking the cheapest import source, such as steel from the Black Sea region (the free-on-board price), and adding on: (1) sea freight, wharfage, and port and administration charges that would be incurred by an importer; (2) an agent’s commission of 2,5 per cent; (3) an import duty of 5 per cent [...]; (4) the costs of forward exchange cover that would be incurred by an importer; (5) the hassle factor of importing (set at a further 5 per cent); and (6) the costs of overland transportation from Durban to inland customers. This price has been around 30 to 40 percent or more above the free-on-board price at the base of the calculation.

Roberts elsewhere adds that fluctuations in the Rand/Dollar exchange rate are also factored into the calculation.

⁸ ISCOR, and then subsequently AMSA too, were able to get away with this by virtue of their dominance in the South African market, faced with insignificant competition from rival producers – to the extent that the Competition Tribunal (CTSA, 2007: 33) have described AMSA as in fact possessing ‘super-dominance’ (that is dominance verging on monopoly) in the South African market. This dominance is in part attributable to South Africa being geographically isolated, relative to other steel producers (Roberts and Zalk, 2004). The Competition Tribunal (CTSA, 2007: 38) report, AMSA are “to all intents and purposes, an uncontested firm in an incontestable market”; with the effect, the Tribunal (CTSA, 2007: 15) elsewhere notes, that AMSA are able to charge “a price that is not influenced by any competition considerations whatsoever”.

⁹ In brief, between 2000 and 2006, amidst a flurry of both domestic and international mergers, acquisitions and unbundlings, ISCOR came to be owned by Mittal Steel, who subsequently merged with Arcelor, to form the biggest steel company in the world, ArcelorMittal. See the Competition Tribunal’s (CTSA, 2004) judgment in the matter between LNM Holdings N V and Iscor Ltd for an explanation of the rationale behind the acquisition, as well as AMSA (no date) for a more detailed account of the various mergers that lead to ISCOR coming to be the South African branch of the world’s largest steel company.

¹⁰ Roberts and Zalk (2004: 2) capture this reality as follows:

finding themselves being pressed out of business¹¹ [CTSA, 2007; Terreblanche, 2008]) as well, in turn, as the economy at large (Fine, 1997; Roberts and Rustomjee, 2010; Roberts and Zalk, 2004). The questions, rather, are:

- 1) What might have been done to prevent this inimical situation – whereby South Africa’s economic longevity and industrialisation endeavours are contingent upon the cooperation of a foreign-owned, profit-driven, self-serving, multinational corporation – from arising in the first place?
- 2) Looking forward – what, normatively speaking, could possibly be done to ameliorate the adverse reality currently existent in the steel industry?
- 3) Of these options which, if any, is the government in fact attempting to implement? and
- 4) Of the measures that the government is not attempting to implement, why is it not doing so?

The remainder of this chapter will engage with these questions as well as with the political-economy considerations that impact upon, and moreover underpin, the above concerns.

[T]he practice of import parity pricing goes to the core of the competition problems associated with attempts to promote beneficiation in the South African economy. It is widespread in upstream, resource-based industries, and effectively works as a mechanism to retain resource rents upstream as opposed to passing the advantages of South Africa’s resource endowments on to the downstream industry.

¹¹ In its judgment permitting LNM Holdings (Mittal Steel’s proprietors) to purchase ISCOR, the Competition Tribunal (CTSA, 2004: 5) cited CADAC – described by the Tribunal as “one of the quintessential South African brand names” – as an example of a company being put out of business by ISCOR’s (as it then was) pricing policy. More specifically, summing the testimony of Simon Nash (CADAC’s executive chairman), the Competition Tribunal (CTSA, 2004: 5) perturbingly recounted:

Firstly [CADAC’s] domestic customers can purchase an imported, fully manufactured cylinder at a price lower than what [CADAC] pays the steel merchants for the steel that goes into a cylinder. Secondly, [...] one competitor from Portugal is able to buy steel from Iscor, import it into Portugal and then sell its finished cylinder in South Africa at prices much less than [CADAC] can achieve. These differences in price, [CADAC] blamed on Iscor’s [and now AMSA’s] policy of discriminating between its domestic and foreign customers.

The effect of this, the Tribunal proceed to report, is that having once been the sole supplier in the domestic gas cylinder market, CADAC now services none of the market in question; and this in spite of AMSA’s export rebate.

5.2 Options, and the feasibility thereof, in the steel industry?

5.2.1 How might the current state of affairs within the steel industry have been prevented in the first place?

An appraisal of what could perhaps have been done differently in the past, to facilitate the steel industry's progression along a different trajectory, is somewhat – but not entirely – an academic exercise. On the one hand one might argue, what is done is done, and this cannot be changed. On the other hand though, it is important to understand the erroneousness of prior decisions and actions; both to avoid repeating similar mistakes going forth, and also to aid one in attempting to formulate solutions to contemporary challenges, which (obviously) are the consequence/s of prior decisions. So, hypothetically speaking, what could perhaps have been done differently in the case of the steel industry?

Bearing in mind that AMSA's current monopoly in the domestic market was initially established with government backing, protection and financing, the most obvious alternative might have been not to privatise ISCOR in the first place¹². Thereby preserving the status quo of there being a single dominant steel producer. It would, however, have been a government owned dominant producer; which could, therefore, be expected to conduct itself in accordance with the long-term interests of the economy at large, and not in a short-term profit maximising manner.

If, however, privatisation did in fact have to occur (in order to improve ISCOR's efficiency), then it could perhaps have occurred in such a manner as to break up ISCOR's near monopoly in the flat steel market; maybe by selling to two (or more) independent producers. Similarly, conditions could perhaps have been put in place, at the time of privatising ISCOR, to ensure that ISCOR's purchaser/s subsequently supplied the domestic market with developmentally priced steel. Although the former suggestion was not enacted, attempts were in fact made

¹² As already discussed, the government of the time felt it necessary to privatise ISCOR due to the entity being operationally inefficient and costly to maintain, coupled with the emergence of the neo-liberally spurred 'free market drive' that arose in 1980s. On this point Kobus De Beer (personal interview, 2011) reported:

When ISCOR went bust in the 80s early 90s, they were a real dog, there was no question, I was close to them [...] Mittal came and bought them for a bargain basement price, no question about it, but I tell you, the government was only too happy to sell, because they had no idea what the hell to do with it.

Ultimately though, as noted below, the decision to privatise ISOCR was made by the apartheid dispensation, and as such cannot be construed as a misstep on the part of the current regime.

to effectuate that latter; albeit that the end objective – of developmentally priced domestic steel – was not actually brought to fruition¹³.

Essentially, as will be further discussed below, the extant trajectory of the steel industry is largely attributable to decisions made by the apartheid dispensation (in so far as the decision to privatise, and endorsement of the contractual arrangements relating thereto, were decisions of the former dispensation). As such, it is unreasonable to hold the current administration entirely responsible for the challenges existent within the industry. That is not to say though that the present-day administration have either handled the situation that they inherited ideally, or that they are exempt from any accountability pertaining to the industry in question. The post-apartheid government did have some policy levers at its disposal, which – perhaps until the last year or so – it has not necessarily optimised. The below section will review the policy options that the government might have considered, as well as discuss possible reasons / factors for not implementing these options.

5.2.2 Possible policy options to ameliorate the adverse state of the steel industry, and the feasibility thereof

In spite of having inherited a market dominated by a monopolistic producer, the present-day administration, as noted above, did have some policy measures they could have implemented – with a view to realising a developmental flat steel price – available to them. For example, regulation of the domestic steel price (Fine, 1997; Magketla, personal interview, 2011; Murgatroyd and Baker, 2010); implementation of an export tax on both

¹³ At the time of ISCOR's privatisation and the debundling of its mining arm – Kumba, measures were put in place in an attempt to bring to pass a developmental steel price. For instance, it was stipulated at the time of the debundling that Kumba would be required to provide AMSA with iron ore at the discounted price of cost plus 3%, so that AMSA could in turn provide the domestic market with affordably priced steel. There have subsequently been numerous tussles between Kumba and AMSA pertaining to the price at which the latter entity attained iron ore from the former: a full chronology of these being beyond the ambit of this dissertation. It is however worth noting Nimrod Zalk's (personal interview, 2011) comment that, firstly:

The intent was that price concession around iron ore be passed should not just be captured at the steel making stage but should be passed on to downstream users, which it never was in any kind of meaningful way. So we are now, the government is essentially trying to pull back this arrangement, to ensure that the benefit is passed on to downstream steel manufacturers, that the downstream benefit is in fact locked in.

Moreover, Zalk (personal interview, 2011) also reported that the terms agreed to at the time of Kumba's debundling were captured in private contractual arrangements between Kumba and AMSA, and did not provide the government with recourse if either of the primary contracting parties failed to adhere to their respective undertakings.

ready-to-use steel as well as scrap (Donnelly, 2012b; Maia, personal interview, 2011; Nel, personal interview, 2011); leveraging of government procurement (Lazenby, 2012; Molefe, personal interview, 2011); increasing competition within the domestic steel market (Donnelly, 2012c; Maia, personal interview, 2011; Roberts and Zalk, 2004) and prohibiting AMSA from preventing resale of the their steel, intended for export markets, into the domestic market (CTSA, 2007a; Roberts, 2008): are all normative measures that the government might have considered in their quest to bring about a developmental flat steel price.

he one measure, of the above cited options, that the government had been implementing prior to December of 2012 (when they articulated additional and more proactive measures), is the leveraging of government procurement¹⁴ (Lazenby 2012). In the interview conducted with Kobus De Beer (of SAISC), he bemoaned the fact that government was not, in his view, utilising an optimum quotient of South Africa produced steel in its infrastructure drives. De Beer expressed concern that the multiplier effect (that is, the ancillary growth in economic activity that arises from any given economic transaction) derived from utilising domestic inputs is lost when government purchases inputs, to be used in infrastructure drives, abroad. It is, de Beer argued, short sighted of the government to purchase cheaper inputs abroad, as opposed to promoting domestic growth by buying domestic inputs, even if these inputs are marginally more costly when purchased domestically¹⁵.

However, contrary to de Beer's belief that the government is oblivious to the gains arising from the multiplier effect; the government is in fact fully aware of such gains: which is why, as reported in chapter 4 of this dissertation, the government is perturbed that the "tradable content of public infrastructure investment – as well as other large components of public procurement – [is] being imported" (DTI, 2010: 8). It is not a simple matter of oversight or

¹⁴ Lazenby (2012) reports that it was a tactical move on the government's part, in an attempt to force AMSA to be more compliant, to divert government business away from AMSA until they provided a developmental flat steel price. This was somewhat confirmed by Brain Molefe (personal interview, 2011), who informed me that Transnet are purchasing all the steel to be used in their railway refurbishments from either China or India, on account of it being too costly in South Africa.

¹⁵ However, in spite of being of this view, de Beer (personal interview, 2011) subsequently conceded – in reference to the fact that one of Eskom's power plants would cost two hundred million Rand if it were to use local inputs, whereas the same plant would only cost one hundred and sixty million Rand if steel for the plant was purchased from India: "I personally became aware that competitive supplier development is a wonderful thing, provided that South African producers can be competitive. Otherwise you actually end up in mess, it's a no win situation".

short-term budgeting (on the government's part) that is leading to the steel utilised in several projects connected to the government's infrastructure drive being imported. Rather, it is the excessive domestic steel price to which the above unfortunate state of affairs can be attributed; prompting the government to feel that (in spite of the multiplier effect) it is more beneficial to the economy at large to import cheaper inputs (such as steel) than to purchase them domestically.

In the absence of a developmental steel price, provision is made in the Competitive Supplier Development Programme (CSDP) that government entities, Eskom and Transnet in particular, be permitted to purchase externally produced inputs to be used when constructing power plants, and refurbishing and expanding the railway networks, respectively; so as not to excessively burden the end users of the services provided by the two mentioned entities. The government, in other words, are of the view that savings incurred by purchasing foreign steel (which should subsequently translate into lower service fees, thereby inducing a multiplier effect of its own) outweigh the benefits arising from the multiplier effect derived from procuring steel domestically¹⁶.

On the issue of the steel price, it is worth noting Kobus de Beer's telling responses to the suggestion, on my part, that the domestic steel price is excessive and is thus impeding domestic growth. De Beer was at first quite dismissive of the suggestion that the steel price is too high¹⁷; and cited, instead, the cost of labour coupled with labours' general inefficiency

¹⁶ The CSDP (DPE, 2007: 2, emphasis added) explicitly states:

In addition to enabling higher levels of economic activity by providing the required physical infrastructure, the capex [capital expenditure] programme will itself be a stimulant for economic growth. Research by DPE has indicated that a modest increase in the contribution of national industry to the capex programme will result in a large increase in the contribution of the capex programme to economic growth. [Thus demonstrating awareness of the multiplier effect.] However, this will only be the case if the increased contribution of national industry does not involve unacceptable sacrificing [in] delivery times, quality or increasing costs. Giving preference to uncompetitive local suppliers will not result in a sustainable increase in economic growth. This is because providing significant preferential price premiums to the local supplier industry will result in an increase in the cost of investment to SOE, and will therefore result in an increase in the prices charged to the SOE customers. This will have the effect of crowding out investment in the industries which are customers of the SOE, which will in turn dampen growth.

¹⁷ De Beer's (personal interview, 2011) dismissiveness of the steel price being too high is most evident in the below extract from my interview with him:

and relatively low skill levels as an alternative explanation for non-competitiveness in the steel, and associated, industries¹⁸.

De Beer's second means of condoning the steel price that AMSA provide was to ask, what the right price would be?¹⁹ In this light he proceeded to report: "I think steel is expensive, but if it were too expensive our members would import steel. [...] if they can buy cheaply and at the right quality, then they will buy it; but they can't"²⁰ (personal interview, 2011). This comment gave way to the following interaction:

FS: From my perspective, in terms of concern for the national economy, the question for me is, what's the point of having a domestic steel industry if we are going to be paying import parity prices? And when I talk about what we should be charging or what we should be paying, I am referring to the optimum rate for the economy to prosper, and not just one company within the economy to prosper.

KdB: I hear what you are saying, but I don't know how on earth you are ever going to get an internationally owned company to ever do that [i.e. price at a level that would be in the best interests of the whole economy]. [...] I think it is not realistic to expect them [AMSA], from the goodness of their hearts, to do so.

A similar sentiment was expressed by Johann Nel (personal in interview, 2011), of SAISI, who – in response to questions pertaining to the domestic pricing of steel – reported firstly,

We [SAISC] think it is a storm in a teacup. We think that the government regrets having sold their ISCOR shares, and Mittal of course doesn't want to knuckle under in any way, or be treated as an extension of the government any more.

¹⁸ However, in spite of at first being dismissive, and claiming that South African companies are able to export steel products, which they would not be able to do if the steel price was excessive, one of de Beer's (personal interview, 2011) final comments in the interview I did with him was: "[w]e are quite anxious to see better steel prices for export purposes, because we are competing with people like the Chinese and the Indians, that are really dirt cheap. Their value added products really are dirt cheap".

¹⁹ The question of what the steel price should be – or, differently phrased, at what point does the price AMSA are charging for steel come to be classified as excessive, unfair or exorbitant – is addressed in detail by the Competition Tribunal in their judgement in the case lodged by Harmony Gold against AMSA (CTSA, 2007). Portrayal of the intricate academic arguments covered by the Tribunal is beyond the scope of this dissertation though.

²⁰ De Beer's response disregards the fact that import parity pricing entails deliberately setting the price marginally below what it would cost to import, meaning that it remains rational for consumers to purchase domestically. The issue at hand, which De Beer is attempting to sidestep, is steel being priced in such a manner that the country as a collective, not just a single firm, gets the fullest benefit possible from it.

that AMSA is a business, and moreover that “the object of business is to make money”. Secondly, Nel emphasised that there is an internationally determined price for steel, and it does not make business sense for AMSA to charge below that internationally determined price. Thirdly, Nel argued that there is nothing wrong with AMSA, the domestic steel manufacturer, charging a slight premium for the service it offers in the domestic market: such premiums, he claimed, are more than made up for by the quality of products that AMSA provides and especially by the time in which AMSA can provide the products in question, relative to waiting times associated with importing steel²¹ (personal interview, 2011).

The above depicted elevation of business interests and profit above any other considerations, including national well-being, demonstrates the aptness of Chang’s (2003) above cited proposition, that industrial policy regimes need to place national well-being above the well-being of any given industry or firm. Thus bringing us back to the question, what measures might the government have considered with a view to instilling a developmental flat steel price in the domestic market?

As already noted, regulation of the domestic steel price was one option the government might, normatively speaking, have considered with a view to lowering the steel price. This particular option has been veered away from though, on account of the government’s reluctance to distort the market price for steel (Makgetla, personal interview, 2011)²²; which, it is argued, would undermine the market mechanism (and the market’s ability to self-regulate) and could perhaps have the effect of inducing steel shortages, by virtue of suppliers not being willing to supply at the regulated price (Murgatroyd and Baker, 2010). Additionally, in the worst case scenario, it is claimed that price regulation could possibly

²¹ Nel’s (personal interview, 2011) exact words were as follows:

Again, there is a market price, determined by international demand and supply. So what are we doing as an industry? My members say, that is the international price. To be able to get your steel in South Africa there should be a small premium, because we provide a good quality steel and we provide it on time. If you order your steel from overseas it is going to take two months, at least, to get here. So that is why I am saying, all these escalate to a small premium in the local price. I think maybe that is factor that many people cannot understand.

²² Makgetla (personal interview, 2011) proceeded to dismiss this line of reasoning though, stating: “It’s a monopoly. What are we talking about, ‘disturbs the market price’?”

result in AMSA's closure, by virtue of non-profitability – which in turn might be even more detrimental to the South African economy than the harms caused by the current steel pricing arrangements are (Murgatroyd and Baker, 2010).

An issue that arises from the prospect of regulating the steel price is, who will do the regulating? One option might be the Competition Commission. In this light, however, the Competition Tribunal (CTSA, 2007: 25) forewarn that:

[T]he theory and practice of competition law and economics is dominated by an [...] unambiguous maxim that asserts that the task of a competition regulator does not extend to the determination and fixing of prices.²³

At the end of the day though, irrespective of who actually does the regulating, and in spite of the prospect of distorting the (monopolistically set) domestic steel price, a strong argument in favour of price regulation is derived from the fact that AMSA's dominance in the domestic market arises not only from ISCOR having initially been a state owned company, but also from privatised ISCOR (and subsequently AMSA too) continuing to receive government assistance. Accordingly, it has been argued, the government is in fact within its rights to take an interest in the levels at which steel is priced, with a view to creating an environment that is more beneficial to the economy at large, and not just one company within the economy. The Competition Tribunal (CTSA, 2007: 37) put it as follows:

[W]hile this firm [AMSA] may not have been a legal, licensed monopoly, it enjoyed, even after it was privatised, a degree of public largesse that would [...] qualify it for membership of that small universe of companies whose pricing practices the state is entitled to take an active interest in.

²³ Adding to this sentiment, and also reiterating the orthodox view that markets are self-regulating and responsive to the needs of the economy, the Competition Tribunal (CTSA, 2007: 25, emphasis added) proceeded to report that:

The reluctance of competition practitioners to assume a price regulating functions does not only derive from the truly massive technical difficulties entailed in determining the 'right', or, for that matter, the 'wrong' price, but from the founding principle underpinning the world view of the practice of competition law and economics that holds that price determination is best left to the interplay of independent actors engaging with each other in the market place. The fundamental task of competitive regulators is then to promote and defend competitive market structures and to guard against conduct on the part of market participants which seeks to undermine the promise of those competitive structures to deliver quality goods and services at competitive prices.

A second option available to the government – relating to their endeavours to lower the flat steel price – is implementation of an export tax, on both ready-to-use steel and scrap. The former measure (taxing ready-to-use steel), it is has been suggested, would have the effect of increasing the supply of steel in the domestic market, thus inducing a lower domestic flat steel price (CTSA, 2007; CTSA, 2007a). Even if the domestic price did not in fact decline in response to the increased supply (on account of AMSA’s monopolistic status), the government could consider utilising the proceeds of the export tax to subsidise domestic steel consumption; thus, in essence, forcing AMSA to bear the burden of subsidising internal steel usage. Taxing scrap, on the other hand, is desirable both to keep steel production costs down and to maximise South Africa’s steel producing capability²⁴. In December of 2012, as will be discussed below, the government announced its intention to implement both these options, although prior to that neither measure was in vogue²⁵.

An additional option that the government might have considered, with a view to increasing the supply of flat steel in the domestic steel market, is prohibiting AMSA from restricting their steel, intended for export markets, from being resold into the domestic market – thereby potentially undercutting AMSA’s inflated price²⁶ (Roberts, 2008). The challenge inherent to implementing such a solution though (as noted in footnote 13) lies both in AMSA’s current ownership structure as well as the contractual arrangements that

²⁴ Jorge Maia (personal interview, 2011), Kobus de Beer (personal interview, 2011) and Johann Nel (personal interview, 2011) all reported the exporting of scrap steel to be problematic for the competitiveness and longevity of the domestic steel industry.

²⁵ The only reason I can identify for it having taken until 2012 for the government to implement these measures lies in the fact the wheels of government turn slowly (so to put it), on account of several factors: including bureaucratic channels, the government having multiple and sometimes conflicting priorities to attend to and intra departmental incoherence. This view is somewhat corroborated by Neva Makgetla’s (personal interview, 2011) comment that, “[t]he thing about steel that is interesting is that we have known forever what to do and we just can’t figure out how to get there”. The above expressed view (as to factors that led to the government taking as long as it has to implement an export tax on steel) is further corroborated by Garth Strachan (personal interview, 2011, emphasis added) in his observation that: “its policy coherence, it’s the right institutional architecture, its coordination and its integration and its monitoring and evaluation in a centralised capacity which says X is holding up the processes, lets address it. We don’t have that.”

²⁶ Roberts (2008: 8) summates the current reality pertaining to AMSA’s proscribed restrictions as follows:

The differential between export and import parity prices means that there is an incentive for a buyer of exported steel to resell back into the local [South African] market. The MacSteel International steel export arrangement effectively regulates the market to ensure that this arbitrage is not possible. Under this arrangement overseas export customers must purchase the steel from MacSteel International, a joint venture between Iscor and MacSteel in 1995. The joint venture ensures that the steel [purchased for export] exits the country and thus cannot be resold by another seller.

were made at the time of ISCOR's privatisation, under the auspices of the apartheid regime, by which the current administration is now bound.

Lastly, the final measure that government might have considered, in its quest to engender a developmental steel price, is the facilitation of increased competition in the domestic flat steel market; thereby potentially disbanding AMSA's monopoly status and ensuing pre-eminence (Maia, personal interview, 2011). The Industrial Development Corporation (IDC), Maia (personal interview, 2011) reported, potentially has a role to play in bringing this option to life (if it is to in fact be brought to life). And indeed, increasing competition in the domestic market was something that the IDC were looking into (in 2011, when I interviewed Maia), as is confirmed by Maia's admission that: the introduction of "new players, considerable sizable players" into the steel industry "is where the IDC is going, we are just looking at whether the market can take it, what will be the source, and so on and so forth".

A consideration to bear in mind regarding the introduction of an additional steel manufacturer in the domestic market pertains to the economies of scale necessary for steel production to be profitable (Roberts and Zalk, 2004). Thus begging the question, as Maia notes, can the South African market sustain more than one major steel producer? Johann Nel (personal interview, 2011) is of the view that "we have overproduction in South Africa, of steel, as it is", and hence that introducing a new steel manufacturer is not the solution to the current pricing dynamics. Roberts and Zalk (2004) have also queried the capacity of the domestic market to sustain more than one steel producer domestically. Nonetheless, in spite of these concerns, the government has in fact opted to go this route; leading nicely onto the other policy measures that government is considering in its endeavours to realise a developmental steel price.

5.3 Recent Developments: Which of the above options is the government considering?

It is necessary at the outset to state that what discernments this study has managed to compile, pertaining to the government's efforts to actualise a developmental steel price, are largely derived from public sources such as media reports and press releases, and not necessarily from having been directly informed by the policy makers whom were

interviewed in this regard. At the time of conducting interviews for this research report, several of interviewees stated that they were not in a position to talk about developments in the steel industry, and moreover, that Nimrod Zalk would be the optimum person from whom to attain the inside track on the government's efforts to negotiate a developmental steel price. However, Zalk (personal interview, 2011) – understandably – reported:

Now obviously I can't go into a huge amount of detail about how exactly, what the precise policy instruments [to bring a developmental steel price into being] are, because that remains part of our armoury of instruments, which is an issue that is on-going.²⁷

Nevertheless, in spite of the above restriction, as already noted, interviewees did convey useful insights on issues relating to industrial policy in general, and the challenges the government encounters in both formulating and implementing industrial policy; some of which will be discussed after reviewing the measures that the government has decided to invoke in their efforts to lower the domestic flat steel price.

5.3.1 Policy measures that government is contemplating

In December of 2012 it was announced that, in their pursuit of a developmental steel price, the cabinet had endorsed the recommendations of the Inter Departmental Task Team on Iron ore and Steel (IDTTIS); and, accordingly, that the government intended to implement the following measures – as recounted by the DTI (2012: 1):

1. “Legislative amendments to the Mineral Resources and Petroleum Development Act (MPRDA)”, potentially providing the government with a means through which to influence the steel price²⁸;

²⁷ Similar elusiveness was also evident in the DTI's press conferences subsequent to the Inter-Departmental Task Team on Iron ore and Steel (IDTTIS) releasing their recommendations. For example, referring to the prospect of a new steel company being established, Garth Strachan (cited in Kolver, 2013, emphasis added) is quoted as saying, “while I cannot provide more detail, I can confirm that negotiations are at an advanced stage”. Another example is provided in an official DTI (2012) press release in which it was reported, “since this process [negotiations between the DTI, Kumba and AMSA, pertaining to the pricing of iron ore] is the subject of ongoing and confidential negotiation no further information will be made available at this stage”, other than to confirm that negotiations are ongoing.

²⁸ Providing additional clarity on this particular measure Sabinet (2013:1) report that, “[t]he mineral resource minister would be empowered to determine how much of a locally mined commodity, and at what price, would have to be made available for beneficiation in South Africa”.

2. "The amendment of the Competition Act to take into account and ensure that iron ore price concessions accruing to the primary industry are indeed passed on to downstream steel users. This will require appropriate powers to determine pricing methodologies, monitor compliance and sanction non-compliance"²⁹;
3. "Strategic utilisation of state infrastructure to support developmental outcomes set out above"³⁰;
4. "Proposals under the terms of the International Trade Administration Act to considerably strengthen the existing conditions and export control measures for scrap metal. [...] These measures will serve to prevent the export of stolen metal through strengthened inspections and processes under the Second Hand Goods Act and help to safeguard the supply of affordable scrap metal to domestic mini-mills"³¹;
5. "A process to establish new domestic steel production capacity and hence to contribute to effecting a reduction in the steel price and achieve related economic objectives. [...] Strong conditionalities in the proposed agreement will seek to ensure that the shortcomings of the ISCOR unbundling process are avoided and that developmental objectives are achieved"³².

While the above statement of intent is certainly encouraging, construction and/or amendment of the various pieces of legislation to bring the stated objectives to life is yet to occur. It awaits to be seen, firstly whether the cited measures are indeed enacted, and secondly what impact the measures in question will in fact have on the steel price and on downstream steel users. As already stated though, that the government is exhibiting increased proactiveness and has articulated measures to realise a developmental steel price is in and of itself reassuring.

²⁹ As it is currently stated this measure is quite broad. Unfortunately I have not been able to acquire further information or additional detail as to more specific measures which might be implemented.

³⁰ Sam proviso as footnote 30.

³¹ On this measure, Sabinet (2013: 1) report, "[t]he export of scrap metal will only be considered if export permit applications are accompanied by a metallurgical certificate outlining the type, grade and quality of metal to be exported as well as a certificate indicating that the metal is not stolen".

³² Regarding this measure, Garth Strachan (cited in Kolver 2013: 4) is quoted as saying: "Hopefully, in the near future, an announcement will be made which secures the inter-national partner with conditionalities. This will ensure that the problems associated with the commercial agreement which underpinned the unbundling of former State-owned steelmaking corporation Iscor, which never secured a developmental steel price, are not duplicated".

A factor which could potentially be problematic, with regard to the enactment and implementation of the above intended measures though, is the fact that various government departments – amongst which are the DTI, the DED, the DRM and the DPE – are responsible for different of the respectively cited provisions (DTI, 2012). On the one hand, it might be argued that this will expedite the rate at which the necessary legislation, to bring the intended measures to bear, can be passed. On the other hand, it potentially opens the door to inter-departmental policy incoherence. Linking nicely onto the general challenges that the government faces in formulating and implementing industrial policies, which are not necessarily specific to the steel industry (although they may also be applicable to the steel industry).

5.3.2 General considerations and challenges faced by the government

In broad terms, the issue of policy coherence is a challenge to government at both intra and inter departmental levels (Maia, personal interview, 2011; Strachan, personal interview, 2011), as is the matter of skills and capacity constraints (Strachan, personal interview, 2011). With regard to the latter, Maia (personal interview, 2011) made the point that, “[t]he Taiwanese, the Koreans, the Malaysians etc., they built their own capacity, and very strongly. The question is can we, have we?”³³ In short, that Maia has to pose the latter question at all, points to the fact that the South African state has not, as of yet, adequately developed its capacity; which though, in answering Maia’s first question, is not to say that it cannot do so.

On the question of coherence (or the lack thereof), an example of non-coherence, pertaining to broad level industrial policies, is evident in the fact that, on the one hand both Maia (personal interview, 2011) and Zalk (personal interview, 2011) refer to the government having formally acknowledged the importance of, and vocalised its intention to implement,

³³ On the one hand, that government openly admits to facing capacity constraints would seem to point to the fact that South Africa has not adequately built up its skill levels, certainly not in many public sector posts (confirmed by Makgetla, personal interview, 2011). On the other hand though, Strachan (personal interview, 2011) reported that – in light of the necessity of the state being staffed with dynamic personnel, if the state is to be capable of effectively intervening in, and guiding, the economy – the DTI have partaken of a conscious up-skilling and recruitment drive. Nonetheless (as noted in the literature review), at this point South Africa cannot claim to be a Taiwan, a Korea or a Malaysia with regard to the capacity of the state and the civil service, and Strachan (personal interview, 2011) – as does Makgetla (personal interview, 2011) – concedes this to be so. This in turn negatively impacts on the state’s ability to balance the political and economic pressures it encounters; which is the second major challenge faced by the government in its attempts to construct and implement coherent industrial policies.

industrial policy – with a view to becoming a developmental state. However, Maia (personal interview, 2011) proceeded to report: “I am afraid to say that we have not always had a supportive purse holder”. Differently put, Maia feels that the treasury is prone to not providing adequate funding for industrial policy activities, in spite of the government’s stated commitment to industrial policy in general. This view was reiterated by Zalk (personal interview, 2011) who felt that the treasury is inclined to favour financial sector, over production and manufacturing, activities³⁴.

While not necessarily condonable, the government’s lack of long-term vision and inability to put supporting measures and policies in place to facilitate the realisation of long-term strategies is perhaps (somewhat) explained by the numerous social, political and economic challenges that the government has to simultaneously address. This sentiment is captured in Maia’s (personal interview, 2011) observation that:

When you have got voters on the one hand demonstrating, and on the other hand people in the economic arena saying you don’t want to disturb the status quo too much because it could have negative reactions, for example, from investments. Gosh, it is that balancing act that is a very difficult one.

The balancing act Maia refers to is indeed a difficult one; but one that it is imperative South Africa gets right, if we are to experience long-term and sustained prosperity and well-being.

The issues Maia raises though point to a significant difference between the East Asian developmental states (which came to prominence in the 1960s) and modern day aspirant developmental states. In addition to the global political climate in the 1960s and 70s being

³⁴ Zalk’s (personal interview, 2011) exact words were as follows: The Treasury’s policies

have been crafted around the imperatives of the financial sector. And I think their view of the world and their understanding of how markets work is informed by this very close relationship, this kind of mutually reinforcing kind of relationship with the financial sector. And in particular they [the treasury] have great difficulty in distinguishing the financial sectors and the real sectors of the economy. So, I think, there is a very strong bias towards understanding markets as working in instantaneous ways, like financial markets do. But there is no really long-term outlook. And I think there is a lack of understanding of the complexity of the real economy. First of all, why manufacturing is really important, and how manufacturing doesn’t and can’t function like a financial market does; that it takes considerable time and effort to build up manufacturing capabilities and competitiveness, that, particularly in an economy like ours, that those capabilities are very vulnerable to external shocks, like big swings in the currency, that manufacturing closes down because the exchange rate is overvalued. That’s it, it doesn’t, it’s very unlikely to, open up again, even if the currency swings in the opposite direction.

less prohibitive of active state intervention and industrial policy, the domestic political dynamics in countries such as Japan, Taiwan and Korea were – both Makgetla³⁵ (personal interview, 2011) and Zalk (personal interview, 2011) argue – different to, and more conducive of rapid industrialisation and economic transformation, than those currently existent in South Africa (as well as numerous other emerging countries for that matter) are³⁶.

Zalk (personal interview, 2011, emphasis added), for example, explicitly stated that:

One of the limitations of that literature [on the East Asian developmental states] is that it sees development and the role of the state very much in technical terms. What it doesn't look at that closely is what are the political economy conditions under which those strategies were mobilised, and why is it that the kinds of catch-up that Japan underwent that Korea underwent were possible, not just technically possible but politically possible. And what is politically possible in other countries? So, that is a very long-winded way of saying that you can't just look at and you can't just see the issue of the developmental state in a technical sense. It is critical to understand what are the power relations and what are the compromises that are being made by different parts of business and within the ANC.

Relating this back to the steel industry and the government's industrial policy relating thereto, there are clearly distinct power relations at play in the industry in question. ArcelorMittal is not only the world's biggest steel company and the dominant producer in the domestic flat steel market, it is also an internationally listed company working towards maximising profits and dividends for its international shareholders (Maia, personal interview, 2011; de Beer, personal interview, 2011); with, ultimately, little to no regard for South Africa's collective, long-term, well-being. The government, on the other hand, is (or at least ought to be) concerned about the well-being of the broader economy and the country at

³⁵ Makgetla's exact words were:

Asia had, in terms of the structure of their economies, a better basis for industrialisation and that made it easier for a developmental state to function. Whereas when you have the kind of economic and social structures we have here [in South Africa] it's very hard for a developmental state to function.

³⁶ The East Asian Developmental States, for example, were not restricted by the extensiveness of colonial redress that South Africa is. Additionally, the East Asian countries had much lower degrees of inequality prior to their respective take-offs, than South Africa does. Moreover, the capitalist classes in East Asia were largely developed in the post-colonial era, and the emergent capitalist classes by-and-large were domestic; whereas post-94 South Africa inherited a strong well-established capitalist class, who are strong enough not to have to kowtow to government and, therefore, who are harder to manage when it comes to implementing industrial policy, particularly given their often international (or globalised) constitution.

large. The state and ASMA having the different interests that they do, lays the ground for conflict between the mentioned entities. How this potential conflict is managed, as noted below (and in the literature review), will impact significantly upon South Africa's developmental state endeavours.

5.4 Discussion and Analysis

In conformity with Terreblanche's (2009) proposition, cited in the literature review – that the corporate sector is inclined to only be tolerable of state intervention in the economy if such intervention will in some way bolster profits margins – Johann Nel (personal interview, 2011) more than once bemoaned that the government was not doing enough to promote domestic steel usage/consumption³⁷. Yet, at any suggestion that the excessive domestic steel price was either impeding steel usage or constraining the economy – and hence that the government should perhaps take measures to set a different price – Nel was only too quick to point to the market mechanism and the international steel price as being the only permissible means of determining the local flat steel price³⁸.

The above example brings to the fore, as discussed in the literature review, that fostering mutually beneficial state-market relations is not the state's responsibility exclusively; the corporate sector needs to be prepared to make some sacrifices too (Makgetla, 2008; Terreblanche, 2009). If necessary, as already reported, the state may have to resort to coercion to attain corporate sector compliance (Rodrik, 2004; Shafaeddin, 2005). Thus

³⁷ This tendency is evident, for example, in Nel's (personal interview, 2011) response to my enquiry as to what he thought the biggest impediments to the steel industry were, which was: "I think the fact that there is no protection of our steel, there is zero duty on imports of steel. In all other countries there are duties, where government protects against imports". This response, however, disregards the fact – as AMSA and Nel know only too well, and as acknowledged by the Competition Tribunal (CTSA, 2007) – that by virtue of its geographical isolation from other steel producers coupled with the onerousness of transporting steel, the South Africa steel market is naturally protected against imports. It is this very protection which enables AMSA to charge its bloated IPP. Besides, even if the government were to enforce tariffs on imported steel, it would then become quite rational for AMSA – given their profit making imperative – to simply increase the IPP they charge in the domestic market, thus making domestic steel even more costly. So, government invocation of tariffs on foreign produced steel would, in fact, be tantamount to subsidising AMSA to increase their domestic prices. Neither Nel nor AMSA are prepared to concede that if steel users are prepared to go to the trouble of importing steel, in spite [1] of South Africa producing "more steel than it can consume" (Donnelly, 2012b: 1) and [2] the hassle factor associated with importing steel, then it must be because the domestic steel price is unreasonably high.

³⁸ Yet one more example of this sentiment is provided in Nel (personal interview, 2011) declaring that: "There is an international market price, so why would I be selling less than the internationally determined market price?"

begging the question however, what measures can the government in fact take to strong-arm a multi-national corporation of AMSA's magnitude³⁹?

One measure – suggested by Nimrod Zalk (personal interview, 2011) – that government could perhaps consider, is having “stronger conditionalities attached to mining licenses”⁴⁰. Companies that failed to adhere with the specified conditions would face the prospect of fines, or at worst loss of their licenses; thereby providing the government with the leverage with which to coerce multi-national giants – such as AMSA – when the need arises. That South Africa has been so reluctant to implement this suggestion (as is alluded to in footnote 38) is indicative of passivity on the government's part. Moreover, it is also evidence of the difficulty that the government encounters in creating intra departmental policy coherence, so that several departments are all ‘reading off the same hymn sheet’ (so to speak) and working complimentarily towards common objectives and outcomes.

Additionally, the government's reluctance to instil stronger conditionalities on mining rights is arguably also testament to the government's failure to utilise the political power vested in the state astutely, in its pursuit of veritable developmental state status (Pempel, 1999). As such, the evidence that I have been able to attain from the steel industry leads me to the conclusion – in agreement with Terreblanche (2009: 124) – that, indeed, “the government has not used its restricted sovereignty and restricted manoeuvring space within the global structure judiciously”.

Sure, the government has recently – even if it took years for them to do so – vocalised an array of measures that it intends to implement, with a view to actualising a developmental steel price. In light of the fact that these measures (and the negotiations associated therewith) are still ongoing, the government has been relatively elusive as to the finer details pertaining to the measures to be enacted. As such, it is not possible to conduct an evaluation

³⁹ The differences between the socio-political composition of the East Asian developmental states and modern day South Africa is once again apparent in this question. Whereas in the East Asian countries in question the state could force corporate entities to comply with their developmental vision and plans, it is much harder for the South African government to force its corporate sector to do so (Turok, 2011).

⁴⁰ Zalk's (personal interview, 2011, emphasis added) full proposition was as follows:

To me the fundamental question is why do we not have stronger conditionalities attached to mining licenses. If you ask pretty much anybody in government, if you ask anybody in the department of mineral resources, they will just say, of course we support beneficiation. But the real test of that is in how you actually deploy your policy instruments.

per se of the measures in question. Nonetheless, two lessons in particular can be extracted from the government's endeavours, to date, to bring a developmental steel price to fruition.

5.4.1 Lessons from the Steel industry

First, if a country gives a multinational company freedom to walk over and exploit them, then the multinational company will do just that. In the case at hand, in the absence of decisive interventions/regulations on the government's part, AMSA would no doubt continue to exploit South Africa's steelmaking capability, while simultaneously charging higher prices in the domestic market than ArcelorMittal charge in any of its other steel markets. The challenge for all countries, South Africa included, is to identify what sorts of interventions are necessary, feasible and implementable – relative to their respective social, economic and political settings – to remove the barriers impeding economic progression⁴¹ (Hausmann et al, 2008).

Until very recently, the government's disproportionate subscription to economic orthodoxy – resulting in an inclination to wait for markets to deliver, and a reluctance to disturb market mechanisms – has impeded the government's willingness and ability to assertively intervene in the economy. In the case of the steel industry, it was the government's disinclination to distort the (monopolistically set) 'market' price for steel that, up until December of 2012, prevented the government from addressing the root source of the problem in the steel industry: the excessive flat steel price. Thus – as per the submission that a developmental state cannot merely be willed into existence, it has to be consciously constructed (McCord and Meth, 2008; Sindzingre, 2004) – the second lesson the steel industry sheds light on, is the importance of the government embracing that it is indeed a critical role-player in the economy. If aspiring developmental states merely pay lip service to – but do not actually have conviction about – heterodox approaches, and in particular the

⁴¹ Generically speaking, once this diagnosis has been made, the second challenge for states is to be resolute in the manner in which they implement their chosen solutions. Being decisive and resolute though requires that the state be dynamic, which in turn is dependent upon the state being staffed with skilled personnel. Additionally, it is also important, in order to increase coherence, that specific government departments be mandated to handle all of the government's industrial policy initiatives; and, if this is not in fact the case, the various departments handling such policies must communicate with each other, in order to diminish the prospect of contradictory and/or inimical measures being formulated.

necessity of proactive industrial policy, then accomplishment of bona fide developmental state status will continue to be illusory

Lastly, and in starting to conclude, Hausmann et al (2008: 5) suggest that:

A parsimonious strategy for industrial policy would focus on existing economic activities, and consist of putting mechanisms in place to ensure that roadblocks facing these activities can be identified and removed. Such a strategy is based on improving the provision of public inputs to existing activities with the hope that this will lead to higher productivity and quality for existing activities and a higher likelihood that nearby products will emerge.

Steel, as discussed, is a key input of various important industries (including mining, agriculture and manufacturing). Accordingly, as the above proposition implies, removal of the blockages within the steel industry is an obvious starting point for South Africa's industrial policy and economic development endeavours. Thus consummation of a developmental flat steel price is a task that a budding developmental state should, in all honesty, be expected to accomplish. Yet, in spite of the strategic nature of steel to various other economic sectors, the government has to date failed to remove the main 'roadblock' in the industry; which is the pricing of flat steel. Although the government recently announced an array of measures it intends to implement, with a view to lowering the domestic flat steel price, it remains to be seen whether the stated intentions will indeed be actualised, as well as what impact these measures will in fact have.

Certainly, resolving the adverse reality pertaining to the domestic flat steel price requires the government to negotiate and compromise with the world's largest steel producer, and consequently the government is not free to act in an unrestrained manner. This, however, is not say that the government ought to be totally compliant. Ultimately – as Chang (1999), Johnson (1999), Leftwich (2000) and Rodrik (2004) recount (and as discussed in the literature review) – the manner in which the state manages its diverging interests and/or disagreements with the corporate sector will, essentially, mark the difference between being an aspirant and a bona fide developmental state. Nimrod Zalk (personal interview, 2011) acknowledges this to be so, reporting that how the government resolves the various contesting interests at play in the iron ore and steel production sectors “will be a significant indicator of whether the government is indeed able to act developmentally”.

Chapter 6

Conclusions and Recommendations: Is the glass half-full or half-empty?

“South Africa has a long way to go if it is to do more than aspire to be a developmental state. Indeed, South Africa might be thought to have been much closer to developmental state status in the past [under the apartheid regime] than it is now.”

(Fine, 2010: 169)

“[D]evelopment is a process, not an event, and it is fraught with failure, with tension and with loss as well as gain, in South Africa as much as elsewhere.”

(Freund, 2010: 4)

This dissertation was undertaken with a view to using the manner in which government has conducted itself in relation to the steel industry to derive insights pertaining to the challenges that the government faces, as well as strategic measures that the government might consider invoking, in its endeavours to become a bona fide developmental state. Although the government is eager that it be branded as a developmental state, this dissertation took as its starting point that South Africa is currently an aspirant development state, but not yet the real deal; hence the need to investigate what factors might be inhibiting South Africa from attaining rightful classification as a developmental state.

It is demonstrated in both chapters 2 and 4 of this dissertation that whether one uses the possession of specified features or the attainment of developmental outcomes as one's benchmark of developmental stateness, South Africa falls short on both accounts. Furthermore, the manner in which the government has conducted itself in relation to the steel industry – and in particular the government's inability to date to engender a developmental flat steel price – is further testament that South Africa is currently not an authentic developmental state. After briefly recapping the dissertation's findings, this chapter will proceed to layout both the theoretical and policy implications of such findings, and flag potential areas for future research.

6.1 Summary of findings

As already noted, this study's overarching objective was to garner insights as to the challenges faced by the government in its pursuit of developmental state status. The steel industry was used as a platform from which to attain these insights, and accordingly the primary questions underpinning this dissertation were:

- 1) *Does the manner in which the South African government has conducted itself in relation to the domestic steel industry adhere with the conduct one would anticipate to be associated with a typical 'developmental state'? and, if not,*
- 2) *What lessons can be derived from the government's handling of the steel industry, pertaining to South Africa progressing towards legitimate classification as a 'developmental state'.*

The short answer to the first of the above question is – no; in failing to secure a developmental steel price, the government has failed to conduct itself in the manner that a budding development state could be expected to conduct itself. Moreover, not only has the government not actualised a developmental steel price, the government was – up until December of 2012 – strikingly complacent in its efforts to bring about change in the strategic industry in question. Although the government announced (in December of 2012) some measures that it intends to invoke with a view to lowering the domestic steel price, that it took as long as it did for the government to decide upon the measures in question (measures which are still to be actually executed) is in itself cause for concern; and is indicative of government lacking urgency and dynamism.

Consequently, a significant lesson to be derived from the government's handling of the steel industry relates to the manner in which the government utilises its policy space and options. The globalised climate in which development has to occur – characterised by unprecedented access to information, as well as mobility of goods and especially of capital – deprives states of some of their autonomy and somewhat diminishes the policy options available to states. This, however, does not mean that developing countries are required to be, nor should they be, totally subservient to the multinational companies they encounter. To the contrary, states still have significant degrees of political power and influence; and it is all the more imperative, in light of their somewhat diminishing policy space and options,

that states wield such power astutely in order to maximise the policy clout that they do have. Countries that allow themselves to be run over and/or pillaged by multinational corporations will indeed be run over and pillaged.

This point is evident in the industry which was this dissertation's subject of study. Without policy intervention on the government's part, AMSA would have no hesitation about utilising South Africa's preferentially priced iron ore, to make exorbitant profits – higher than at any of ArcelorMittal's other operations – in order, AMSA claim, to subsidise other of its globally operating plants. The onus is on the government to take measures to ensure that preferentially priced iron ore translates into an affordable and developmental steel price in the domestic market. Whether this objective is attained through regulation of the steel price, the implementation of export taxes on assembled steel or through conditionalities associated to mining rights – or, indeed, permutations thereof – is a decision that the government needs to make, and then rigorously enforce. The point here is that it is imperative that the government does in fact utilise the policy options at its disposals, and makes some hard decisions; lest a developmental flat steel price, and the industrialisation benefits associated therewith, will remain permanently illusory.

6.2 Theoretical and governance implications

If the government can accomplish its objectives – and provide a platform for the economy as a collective to flourish – through negotiation and compromise with the heavyweights in the corporate sector, then so be it. However, removal of blockages and cultivation of an environment conducive to broad ranging economic development may at times require the government to assert its authority, and to utilise the political power at its disposal.

The prospect of the government having to resort to political force brings to the fore a critical difference between the East Asian developmental states and contemporary developers. Whereas the East Asian developmental states were, on the whole, able to influence their resident business players and sectors (in part due to them predominantly being domestically reared), contemporary developers often do not share this privilege. Consequently, the viability of 'managing the market', so as to realise developmental ends, is

diminished. The necessity to 'manage the market', however, has not declined; if anything, in fact, it has increased. Thus, at a theoretical level, this study sheds light on the need for the developmental state concept to evolve, and to factor into account that contemporary developers are faced with different pressures, opportunities and impediments to those which the East Asian developmental states encountered.

At a policy and governance level, the study provides an illustration of the government not maximising what policy space – in spite of the local and international pressures it is faced with – it does have. On the one hand, this can be partially explained by reluctance on the government's part to rock the boat (so to speak), by diverting from orthodox economic prescriptions. On the other hand, it is also attributable to capacity constraints and the inability to create multiple policy mechanisms that are capable of working towards aligned, even if sometimes diverse, objectives. Accordingly, this study has demonstrated, if South Africa is to do more than aspire to be a developmental state, then – firstly, the government needs to change its mind-set and fully embrace heterodox approaches. The government is eager to talk the language of state intervention and industrial policy; it is time the government start acting upon these convictions, if that is what they in fact are. Relatedly and second, accomplishment of the former recommendation will require the government to increase its capacity levels, and work towards ironing out the instances of policy incoherence inherent in its approaches to economic and industrial policy¹.

6.3 Limitations and shortcomings of the study, and areas for future research

At a procedural level, this study (as already noted) was marred by two shortcomings in particular. Firstly, the author's lack of familiarity with the issues and dynamics in the steel industry prior to commencement of the study, detracted slightly from the author's ability to ask penetrative questions. This proviso, however, does not mean that this research report is devoid of intellectual penetration and/or critical analysis; it merely means that the report would have been more penetrating and more critical, if the author had a different starting

¹ It is acknowledged however that this is easier to do (and to write) on paper than it is to accomplish in reality.

point. Additionally, and second, the amount of time it took to complete this study is also a limitation of the study².

At a substantive level, the study's main limitation is arguably the contemporary, as well as contentious, nature of the matter being looked into; aggregating in this report having to be submitted before the problem being investigated, as well as possible solutions thereto, have been finalised. The study, as a result, is not in a position to pass commentary on the final outcome of the government's efforts to bring a developmental steel price to pass. In addition, both the contemporaneity and contentiousness of the issue being investigated, and government personnel's resultant unwillingness to divulge details pertaining to the government's efforts to make headway, made it all the harder to ascertain specifics relating to the exact measures that government is contemplating, in their attempts to lower the domestic steel price.

Accordingly, the first area for prospective future study that this chapter will point to, is the need for further evaluative study – once the government has implemented all of its intended measures, the dust has settled, and adequate time has passed for such measures to take effect – on the efficacy of the government's bid to secure a developmental steel price in the domestic market. Additionally, although the East Asian Tigers have traditionally been held up as the exemplars of the developmental state model – in light, as portrayed above, of 1) the world being different today to what it was when the Tigers made their respective headways, and 2) many developing countries having different political make-ups to what the East Asian countries did (thus making it hard, if not impossible, for contemporary developers to directly emulate the Tigers) – it is necessary that the idea of the developmental state evolves in order to remain pertinent to today's developers.

Evolution of the development state concept will hinge on comparative study of contemporary developers, as opposed to ongoing referral back to the Tigers' experiences. Accordingly, comparative study of the development experiences, challenges and successes of contemporary developers – who, generally speaking, are faced with much more similar political and economic challenges and realities to those faced by the Asian Tigers – is the

² On the other hand though, one (but not the only) of the reasons that it took as long as it did to finalise this study, is the amount of material that this study has drawn upon – which is arguably a key strength of study one of the study's strengths, in spite of the collection, assimilation and processing of the material in question having taken longer than had initially intended.

second area that this study has identified for future research. Comparison of how contemporary developers have managed both their domestic and international business sectors, so as accomplish developmental outcomes; as well as how contemporary developers have overcome dynamics relating to capacity constraints and the formation of coherent and complimentary economic and social policies – are both in particular need of further study³.

6.4 Final thoughts

In conclusion, the undercurrent throughout this dissertation has been that, in spite of the government's eagerness that South Africa be classified as a developmental state, at this point in time, such classification would be erroneous; hence my dubbing South Africa to be an aspirant developmental state. If South Africa is to do more than aspire to be an authentic developmental state, then the government will need to be more proactive, judicious and incisive in the manner in which it utilises state authority. This is in adhering with the main thesis presented in this dissertation, that – contrary to the Washington consensus outlook – an active and interventionist state is critical to developing country advancement: now more so than ever!

³ On this note, the challenge of evolving the developmental state concept through comparative study of contemporary middle-income developers is one that I have already embarked upon in the PhD for which I am currently enrolled.

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