ACCELERATING GROWTH AND DEVELOPMENT:

THE CONTRIBUTION OF AN INTEGRATED MANUFACTURING STRATEGY

inside cover – dti group institutions

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FOREWORD BY THE MINISTER, ALEC ERWIN

There has been a call from many quarters that the Department of Trade and Industry (the dti) should set out in documented form a clear and accessible industrial strategy. This strategy document does that, after much consultation. We have focused on manufacturing and set out an Integrated Manufacturing Strategy. The reasoning behind this approach is explained in the document.

In May 2001 **the dti** introduced a discussion paper titled '*Driving Competitiveness: An Integrated Industrial Strategy for Sustainable Employment and Growth'*. This led to an intense engagement with many stakeholders and our social partners in the economy. I am pleased to introduce the results of this discussion in the form of a Strategy Document. We have sought to incorporate elements of the vigorous debate that has taken place in response to the first draft. In particular, we would like to recognise the written comments received and the role played by Nedlac through its task team on industrial strategy. We will not have succeeded in satisfying all and further comment is now invited.

I am grateful for the enthusiasm and commitment with which people engaged in these consultations, as these inputs have greatly enriched both the analysis of the challenge facing us in transforming our economy, and the resultant strategy. Furthermore, these debates form an important dimension of strengthening our democracy. If we can harness this passion and commitment into collective actions that seek to implement the strategy, we have an exceptional moment and opportunity to succeed in achieving a shared economic vision.

The debates also demonstrated that stakeholders are increasingly realising that their economic destinies are tied together, and that any sustainable solution will require both leadership from government and a collective effort by all stakeholders and the social partners. Government has demonstrated its commitment to such a partnership by deciding to convene a Growth and Development Summit, which will seek to develop common actions to accelerate growth and development. A focused 'Integrated Manufacturing Strategy' will help to define the most useful common actions in this area. Through its Microeconomic Reform Strategy, government has already identified a series of interventions that it sees as critical to creating a platform to enable competitiveness, employment and equity.

This strategy document will be tabled in the public hearings convened by Parliament on industrial strategy. It will also be formally tabled in Nedlac and discussed in other forums that will deal with the future of our economy.

After these further consultative processes, which we envisage will take two months, a revised draft will be developed and submitted to Cabinet for its consideration and endorsement. It will then constitute a collective government position and coordinate a set of actions across government. In addition, it will provide a public declaration of what economic citizens can expect from **the dti** over the next few years.

I would like to take this opportunity to thank the Parliamentary Portfolio Committee for creating the platform for a rigorous and constructive debate to take place around these critical issues. They bear directly on the lives of all our people and deserve the full attention they are now receiving.

LIST OF ACRONYMS

ANC	African National Congress
BEE	Black Economic Empowerment
CITA	Commission for International Trade Administration
Cosatu	Congress of South African Trade Unions
DACST	Department of Arts, Culture, Science and Technology
DBSA	Development Bank of Southern Africa
DPLG	Department of Provincial and Local Government
Eskom	Electricity Supply Commission
EU	European Union
Fridge	Fund for Research into Industrial Development, Growth and Equity
GATT	General Agreement on Trade and Tariffs
GEAR	Growth Employment and Redistribution
GEIS	General Export Incentive Scheme
HRD	Human Resources Development
ICASA	Independent Communications Authority of South Africa
ICTs	Information and Communication Technologies
IDC	Industrial Development Corporation
IDZs	Industrial Development Zones
ILO	International Labour Organisation
IMF	International Monetary Fund
IMS	Integrated Manufacturing Strategy
Iscor	Iron and Steel Corporation
MIDP	Motor Industry Development Programme
MLIs	Multilateral Institutions
MNCs	Multinational Corporations
Nedlac	National Economic Development and Labour Council
NEPAD	New Partnership for Africa's Development
NTBs	Non Tariff Barriers
R&D	Research and Development
RDP	Reconstruction and Development Programme
RIDP	Regional Industrial Development Programme
SACU	South African Customs Union
SADC	Southern African Development Community
SARS	South African Revenue Services
SDIs	Spatial Development Initiatives
SMME	Small, Medium and Micro Enterprises
SME	Small and Medium Enterprises
SQAM	Standardisation, Quality Assurance, Accreditation and Metrology
the dti	The Department of Trade and Industry
TIDP	Trade and Industrial Development Programme
WB	World Bank
WSSD	World Summit on Sustainable Development
WTO	World Trade Organisation

INTRODUCTION

Our country needs an economy that can sustainably meet the needs of all our economic citizens - our people and their enterprises. This means access to quality work and enterprise opportunities, and access to the capacities and skills to make use of these opportunities. Enterprises of all types and sizes will have to become adaptive, innovative and internationally competitive. We have to build on a platform of infrastructure and logistics, competitive input prices, skills, technology and innovation, partnerships, efficient regulation and effective government offerings. Consumers must have access to safe, competitively priced quality goods and services in a non-exploitative system that encourages producers to respond to consumer needs, while providing effective recourse mechanisms where abuses do occur. This economy will be built on the full potential of all persons, communities and geographic areas.

The government's objective is to substantially achieve these structural changes by 2014. However, we have to accelerate the current trajectory of our economy if we are to achieve this vision. There are constraints in the domestic economy, our relationship to global production systems, and the changing basis of competitiveness that have to be removed. Old ways of thinking and working are no longer appropriate. A concerted effort is therefore required by government and all other economic actors to address these constraints and place the economy on a path that can achieve high growth, employment and equity.

It is the view of **the dti** that the way to achieve this is through a strategy that takes a systemic approach to eliminating constraints in our economy and improving its efficiency. Coordinated and concerted actions have to be taken to maximise the potential within our domestic economy, integrate beneficially into the global economy and build competitiveness based on an increased knowledge intensity, value addition, wider and more equitable participation in the economy and regional production systems. At the core of the accelerated trajectory is knowledge intensity, which means utilising and developing the knowledge and skills of our people in order to integrate ICTs, technology, innovation and knowledge-intensive services into the functioning of the economy as a whole.

A reliance solely on past bases for competitiveness such as abundant natural resources and cheap unskilled labour will create an increasingly low value economy, unable to address our socio-economic legacy of inequality. Similarly, a focus only on domestic or foreign markets will fail to stimulate sufficiently high growth levels, and in the long term could lead to uncompetitiveness, deindustrialisation and marginalisation within the global economy. Failing to integrate the employment and equity focus into the strategy would place limits on the dynamism that could be brought to the economy, creating socio-economic instability, and thus threatening the sustainability of the strategy.

The current programme of Microeconomic Reform being implemented by the government is designed to ensure the preconditions for the success of an Integrated Manufacturing Strategy. These include:

~ a sustainable growth-oriented macroeconomy

- ~ continued expansion of global trade
- ~ capacity within the economy to meet basic needs and expand exports
- ~ increased levels of savings and investment
- ~ capacity in the state to lead and act effectively

The Integrated Manufacturing Strategy builds on the policies that have shaped the actions of this government. The basic vision of an economy that meets the needs of people in a more equitable manner goes back to the *Freedom Charter* of 1955. This was refined and developed in the contemporary context in *Ready to Govern* (1992) and the *Reconstruction and Development Programme* (RDP) (1994). In 1996, *Growth, Employment and Redistribution* (GEAR) set out a macroeconomic stabilisation programme. In 2001 the geographic dimensions were dealt with in the Integrated Sustainable Rural Development Programme and the Urban Renewal Strategy. In 2001, the Integrated Economic Action Plan introduced an important shift towards the necessity of a state-led microeconomic reform programme. The Microeconomic Reform Strategy, a refinement of the Integrated Action Plan, outlined by President Mbeki at the beginning of 2002 sets out a clear work programme for addressing priority microeconomic interventions over the next few years. It also defines more precisely the structural change we seek to achieve within the economy by 2014. This change includes high levels of growth, rapidly increasing employment and greater social and economic equity and integration, built on improved skills levels, broader ownership of productive assets, appropriate urban and rural development strategies, and improved access to basic services and infrastructure for those engaged in economic activities.

What exactly is a Strategy Document? This is an important question if we are to understand the purpose of this document and have realistic expectations as to what the government can and cannot achieve. In essence a strategy is 'a long-term plan for future success or development' (Chambers Dictionary). Therefore this document tries to define a common understanding of what challenges we face with regard to the manufacturing process in the economy;

to devise common actions that can be taken by economic citizens; the main areas of focus of our actions and what **the dti** will undertake to do. The strategy has a number of components to it and it relies on other broader macro and microeconomic programmes of government to be implemented as complementary and supplementary processes. Accordingly, the strategy has to be that of the government as a whole even though **the dti** will have primary responsibilities in many areas.

The Integrated Manufacturing Strategy has components that are general and will be available to all economic citizens and it has specific actions that are designed to achieve structural change in critical areas of economic activity. Since the focus is on a long-term plan to succeed in development, the Strategy Document does not attempt to deal with all the activities and future tasks of **the dti**.

An Integrated Manufacturing Strategy cannot on its own transform all social and economic conditions in South Africa. However, as part of this wider coordinated approach it can invigorate the production of goods and services and create the conditions necessary for the retention and growth of output and employment in other sectors of the economy. Furthermore, the alignment of its interventions with the imperative to create more equitable participation in the economy can significantly advance the progress in black economic empowerment, small business development, alternative forms of ownership and geographic equity. In addition to these direct contributions, a greater vibrancy within this part of the economy will increase revenue streams to government, which can be used to address pressing challenges facing our nation.

This Strategy Document does not present all the supporting statistics and argumentation for the positions developed as it is designed to pull together in an accessible manner the great variety of actions that constitute a successful strategy.

PART 1

AN ANALYSIS OF SOUTH AFRICA'S MANUFACTURING PERFORMANCE

The South African economy has always been integrated into the global economy in various ways. South Africa has a long history of manufacturing, which from the outset has also been integrated into global systems of production and exposed to global forces. Government has played a key role throughout this history in shaping the development and orientation of our industrial sector.

Manufacturing Development Prior to 1994

Manufacturing emerged slowly in South Africa in the late 19th century, in response to dramatic developments in the natural resource extraction sectors, in particular mining. In the early 20th century, government began to support this infant manufacturing sector through protectionist policies.

Institutional measures were put in place by the state to deepen this manufacturing development, through structures such as the Electricity Supply

Commission (Eskom), the Iron and Steel Corporation (Iscor), and the Industrial Development Corporation (IDC). This was further strengthened by the natural protection afforded by the Second World War, and escalating import restrictions and tariff protection after the war.

The apartheid regime's industrial policy continued this trend of import-substituting industrialisation and resource-orientation, while entrenching a racial dimension to ownership, production and consumption. The inward orientation of industry resulted in limited and inefficient infrastructural links to the region and international markets. South African producers were protected by a vast, complex set of tariffs and import controls, with easy access by some industrialists to the trade regulator resulting in rent-seeking and ad hoc decisions that undermined the coherence of trade policy. The main drivers for research and development during the apartheid period were military dominance in the subcontinent, energy self-sufficiency, and national food security. This resulted in major investments such as SASOL, ARMSCOR programmes, Iscor, the Atomic Energy Corporation and strong investments in agricultural sciences.

In addition to interventions specific to industrial policy, various apartheid policies fundamentally shaped the development of manufacturing and the economy more widely. The cost of capital was deliberately influenced in order to reduce demand for labour through a range of government incentives, notably in the agricultural sector. Skills and management development amongst black people were severely restricted. The 1913 Land Act and subsequent Land Acts, and the Group Areas Act, fundamentally undermined black peoples' ability to accumulate capital, contributing to South Africa's relatively poor investment and savings record. They also located black people far from their places of work, increased the cost of living for the working class and established uneconomical settlement patterns. Collectively, apartheid's policies left a legacy of marked geographic inequalities and inefficiencies. Infrastructure developments were heavily biased towards white interests and urban industrial or commercial interests, sometimes on an uneconomic basis.

These interventions also had a devastating effect on enterprise development over many decades.

By the 1960s and 1970s South Africa had a relatively large and diversified manufacturing sector. However, it had been built up behind protective barriers and was inwardly focused, with the only “manufactured” exports consisting of semi-processed agricultural and mineral raw materials. Distorted markets for factors of production, particularly for capital and labour, significantly dampened employment creation, distorted domestic prices and increased levels of poverty. While a sophisticated financial sector and other business services developed to serve these manufacturing interests, they reflected the high levels of concentration and lack of focus on the needs of the majority of the population.

South Africa’s industrial performance during the late 1980s and early 1990s was constrained by both external pressures towards the political and economic isolation of South Africa, and continued internal structural inadequacies. In the sanctions era, manufacturing policies moved further towards import substitution and self-sufficiency in strategic products leading to huge government investments in oil-from-coal and weapons industries, for example. High levels of protection remained largely in place until the early 1990s. Weak competition laws, powerful industrial interests, and various prohibitions on entrepreneurial activities, combined with a lack of interest from foreign investors, led to rising levels of concentration in the ownership and structure of the manufacturing sector. This constituted a hostile environment for new entrants, black-owned enterprises and small businesses. In addition, public investment in infrastructure began to fall, leading to a backlog of new infrastructure development and maintenance of existing infrastructure. South Africa had become a country of two nations; one well-resourced with the potential to compete; the other marginalised, lacking the necessary infrastructure and with limited access to economic assets and opportunities, and in danger of even further marginalisation.

The previous government began to recognise the dangers and that the structure of the economy was fundamentally unsustainable. The economy was vulnerable to international competition and the threat of de-industrialisation. However, to continue to remain isolated from the global economy would only increase the level of vulnerability. The policy challenge was to manage the re-integration into the global economy. The sequencing of reforms had to be managed to avoid a dramatic collapse of South Africa's manufacturing sector.

Some initial government responses were developed and administered through the Department of Trade and Industry. For example, the General Export Incentive Scheme was introduced in 1990 to encourage processed and manufactured exports through a direct subsidy. The Regional Industrial Development Programme (RIDP) had a primarily political imperative to decentralise production. In both cases, little attention was given to economic sustainability or the opportunities for exploitation and corruption that were created. These programmes therefore proved to be both expensive and counterproductive.

Initial moves towards trade reform were fragmented and largely dictated by the lobbying of special interests. It required new initiatives to change this situation. This emerged in the National Economic Forum where the then government, the ANC and COSATU engaged. The ANC and COSATU had undertaken substantial trade and industrial policy investigations, such as the Industrial Strategy Project and the Macroeconomic Research Group. Between 1992 and 1994, the groundwork for an agreement on trade policy reform was laid in the context of South Africa's negotiation in the Uruguay Round.

The interventions made prior to 1994 were inadequate for the task at hand. As a result, the economy inherited by the new government in 1994 continued to demonstrate many of the structural constraints that have been outlined. In addition, the economic actors had little experience of global trends, and therefore too little attention to international competitiveness or the need to cooperate domestically to confront the challenges posed by the global economy. In sum, the economy was in crisis. This demanded a fundamental shift to a more externally focused and value-adding strategy for economic transformation, growth and development.

Post 1994: Building the Foundations for Sustainable Growth

The new government was faced with a massive challenge; not only did it have to address the domestic constraints that had been identified, it had to bring a vulnerable and isolated South African economy back into a volatile global economy at a time when the forces of globalisation were accelerating.

Global Changes

Changes in **global capital markets** had implications for a national strategy to increase investment. Financial deregulation, real-time cross-border flows, new financial instruments and institutions, all impacted on the nature of investment decisions. This significantly increased the opportunity cost of working capital tied up in production. The increased mobility of capital resulted in increased competition for investments, often based on the extent of integration into the global economy. Investment decisions also increasingly depended on the degree of predictability; higher risk conditions necessitated more rapid and/or higher returns to attract investment.

A process of **selective trade liberalisation** driven primarily by dominant economies was underway. The opening up of trade was applied unequally across sectors of the economy, with areas such as agriculture remaining highly protected. Nevertheless, global trade was growing at a faster rate than global GDP growth, varying from 11% in 1994 to 8% in 2000, with the only significant dip being during the crisis of 1998 (Source: IMF & WTO). This compared to GDP growth rates that did not climb above 5% in G7 countries during this period and which fluctuated widely within and amongst emerging economies (Source: IMF).

A major cause for concern was the extent to which expanded trade and investment flows outstripped the ability of the international community to devise a system of **global governance** and a framework of rules that functioned effectively in the interests of all nations and the diverse interest groups within them. The outcomes of the world economic governance system, including multilateral institutions such as the World Trade Organisation (WTO), World Bank (WB), International Monetary Fund (IMF) and the International Labour Organisation (ILO) were imbalanced because of both the application and enforcement of rules. This was reflected in the continued imbalance of trade and investment between the North and South. Another trend was the increasing organisation of countries into regional trade and governance systems, which created an additional layer of governance in the global system, and presented both an opportunity for greater market access and the risk of exclusion.

Government's Response

The new government committed to avoid deindustrialisation, and to accelerate the growth of the manufacturing sector in South Africa as a key driver for growth and employment. As a result, an important set of initial microeconomic policy reforms was initiated. This took place within a broader strategy to transform the economy to improve the life of all our citizens, including macroeconomic interventions to address the debt and balance of payments crises threatening the sustainability of economic transformation.

While at the time government did not clearly articulate a coherent industrial policy framework, the purpose of reforms was clearly aligned towards an opening up the economy, enhancing competitiveness, improved access to economic opportunities and greater geographic equity.

Significant trade reforms took place in order to open the economy and create opportunities for growth and improved competitiveness. At a multilateral level, South Africa played a significant role in alliance with other countries of the South in seeking to reform the World Trade Organisation. The negotiation of trade agreements with the EU and SADC created the possibilities for improved market access. Various bi-national commissions were established, and the foundations laid for further trade agreements. In general, the tendency was towards a lowering and simplification of tariffs. This process took place from 1995 and was largely completed in 2002. Henceforth further tariff reform must now be related to specific objectives to support the Integrated Manufacturing Strategy.

Government moved away from expensive subsidies such as GEIS and replaced them with new supply-side measures. New competition policy was implemented and sector-specific regulators were established. A new small business institutional framework and legislation was put into place, which has had some success in supporting small and medium enterprises, although numerous challenges still exist, particularly in relation to micro-enterprises. A process of transforming the Boards and mandates of DTI-related institutions was undertaken. Similarly, regulatory structures were transformed to depoliticise them, create greater transparency and ensure the separation of investigative and adjudicative functions. Geographic interventions to boost investment, production and development in marginalised areas were approached on a more commercially grounded basis, through mechanisms such as spatial development initiatives (SDIs), including some cross-border initiatives.

Although the intention to deracialise ownership and transform the economy was present since the RDP, a clear strategy on black economic empowerment was not initially articulated. In addition, limited progress was made in fundamentally overhauling the fragmented existing consumer protection legislative and regulatory regime. However, certain consumer protection measures were addressed through concurrent responsibilities with provinces, which increased enforcement and redress, particularly in cases where provinces established consumer courts.

More broadly, a new labour relations dispensation was negotiated with social partners and its implementation has seen a normalisation of labour relations in South Africa and subsequent decline in industrial action. Fundamental reforms were introduced in the Skills Development Act, which modernised skill definition and accreditation in line with global trends. The challenge is to now use the institutions and resources that are now available. Significant reforms in the agricultural sector have had an important effect on lowering food prices on a sustainable basis contributing to the declining inflation rate since 1994; more recently, however, volatility in these prices has re-emerged.

Although the majority of interventions were broad based, special programmes for sectors undergoing severe structural change were introduced, such as those in the auto sector, clothing, textiles and footwear, with mixed success. One highly successful example is the Motor Industry Development Programme. Similarly, there were various collaborations at sectoral, cluster and location-specific levels.

Perhaps as important as the interventions themselves, was a new approach taken by government. Social partnership has been key to trade and industrial policy development since 1994, in a significant shift from past, often adversarial, relationships between government and other key economic stakeholders. The commitment to the development of Nedlac as a mechanism for social dialogue resulted in dialogue around matters as diverse as trade agreements, competition and small business policy and supply-side measures packages. Collective research was conducted, first through the Japanese Grant Fund and then the Fund for Research into Industrial Development, Growth and Equity (FRIDGE) resulting in the implementation of recommendations such as the establishment of Investment South Africa and the Competitiveness Fund. Similarly, through Nedlac engagements, initiatives were put in place to shift ways of thinking and working in order to transform workplaces, improve competitiveness and reduce the negative impact of economic restructuring, such as the Workplace Challenge, Sectoral Partnership Fund (with its component specifically for unions), and the Social Plan.

In particular, the crisis of unemployment was recognised by these social partners, and a collective commitment was made to the convening of the Presidential Jobs Summit. The resultant declaration set out a range of agreements through which social partners would seek to create jobs. This was an important moment in the development of South African social partnership. However, in hindsight, the summit reflected expectations not grounded on requisite resources for effective implementation and monitoring, and an unequal distribution of obligations. It also demonstrated the lack of the extension of the ethos of partnership to the level of collective action - one exception being the Proudly South African campaign, which serves as an example of achieving continuity between a collective vision and collective action. The success of the Job Summit was less that hoped for, as there was a disjuncture between its decisions and what the government was doing and what was in departmental budgets. It is clear that the alignment of government programmes and the outcome of any summits is fundamental to the success of both.

In addition, a number of initiatives through non-governmental organisations, academic institutions and research institutions affiliated to constituencies sought to assist the new government in the formulation of industrial and sectoral policies. However, the impact of this work on policy was marginal.

It is clear that a wide range of policies have been developed and new approaches initiated since 1994. It is difficult to judge the exact impact of these initiatives, given the time lags in their effects being felt, and the absence or inadequacy of monitoring and evaluation systems. Despite this, it is clear that through a combination of policy interventions and an array of external and internal forces, there have been significant structural changes in our economy, demonstrated in our industrial performance. In particular, many enterprises have responded to increases in domestic competition and greater export opportunities. However, many constraints to accelerated levels of growth and equity in the economy remain, and have now become the focus for government policy.

Industrial Performance Since 1994

Growth and Competitiveness

The manufacturing sector has grown relatively slowly over the last 5 years - on average output has increased by 1.8% per annum. While slow, this growth represents a significant success in avoiding the very real threat of deindustrialisation. Three groups of sectors have experienced particularly slow growth impacting upon the growth for the entire sector, namely basic wage-goods sectors such as clothing, food and footwear, resource intensive sectors such as metal products, and capital goods and equipment.

However, some sub-sectors have performed significantly better than the average. These include the autos, chemicals and radio, television and communications equipment. The expansion of the auto assembly industry particularly has also had a significant impact on a number of local industries in its supply chain such as leather, glass, rubber and platinum group metals. The Motor Industry Development Plan has been a key intervention to effect this transformation.

Integration into the Global Economy

Much of the growth of these sectors has resulted from increased exports. Indeed manufacturing's share of total SA exports is growing rapidly as traditional exports (mining in particular) decline in importance, expanding from 39% of all exports in the first half of the 1990s, expanding to 51% in 2000. Manufacturing exports have been rising far faster than overall sales. The growing export orientation of South African manufacturing industry is true of every single sector of manufacturing. Indeed, there are a number of sectors which have experienced stagnant or even falling output levels, but have experienced increasing exports – clothing, textiles and fabricated metal products. This trend is likely to continue – more particularly in the short term on the back of the depreciated exchange rate and also as a consequence of the market access that SA manufacturers enjoy in the markets of the developed world (notably the EU and the US) and the region (SADC). Many of the manufacturing sub-sectors that experienced a rapid increase in their exports have benefited from substantial tariff reductions.

Despite progress in growth in exports, it is of concern that South Africa's share of global trade is declining, in part to due to high export growth rates in some large economies. Reduced tariffs constitute a necessary, but not sufficient condition for increased exports. We need to intensify our analysis of the continued constraints to significant export growth, both in terms of other barriers to trade - such as Non-Tariff Barriers (NTBs) – and the factors inhibiting South African enterprises taking up the challenge, particularly new exports, small businesses and black-owned enterprises. Of particular importance is the efficiency, cost and capacity for intermodal transfers in our infrastructure system. Similarly, we need to address the factors that are inhibiting the growth of domestic demand, and production to meet that demand.

Imports have also been increasing significantly, albeit at a lower rate than our manufactured exports. Between 1996-2001, imports grew at 6% per annum – a little over half the rate of growth of exports.

Investment and Technology

Investment rates have been generally low in manufacturing. Moreover, they have shown a tendency to decline and manufacturing investment has grown more slowly than for most other sectors. This poor aggregate performance cannot be denied. However, there are some important mitigating factors. There are a number of sectors that are experiencing robust growth in investment – plastic products, leather, television radio and communications equipment, motor vehicles and parts, paper and paper products and basic chemicals. However, these sectors constitute a relatively small share of manufacturing. As these sectors increase in importance, we can expect this to impact on aggregate investment. Over the past 12 months, the decline in investment has been arrested with many sectors showing moderate increases.

There is a significant correlation of those industries with a high and growing export orientation and those industries with a high rate of investment, with some evidence that enterprises are investing primarily in capital equipment and capital- and skill-intensive technologies as they gear up for greater involvement in export markets. This reinforces the need for additional interventions to absorb unskilled labour.

Productivity and Employment

There has been a sustained and steady rise in labour productivity since 1994, with labour productivity having increased by 26% since 1994. Labour productivity has risen in almost all sectors, except for wood and wood products, footwear and leather and leather products. Rising productivity is an indicator of the capacity of our manufacturing firms to compete in global markets.

However, these productivity increases have taken place in a context where the manufacturing sector has been consistently shedding labour. It is therefore important for us to develop an understanding of what is happening to multifactor productivity, including a more complex understanding of the interplay between the productivity of capital and labour and competitiveness.

Job losses in manufacturing have tended to accelerate. There are only a few sectors that have experienced any increase in demand for labour, such as leather and leather products, plastic products, wood and related products, other chemicals and television radio and communications equipment, printing publishing and recorded media and basic chemicals. A number of the most labour intensive sectors, such as clothing, wood and wood products, footwear and furniture have all seen a significant decline in employment intensity measured by the employment/output ratio.

Many of the sectors that have seen rapid increases in output, such as television and communications equipment, motor vehicles, parts and accessories and basic and other chemicals, are also less labour intensive than the manufacturing sector in aggregate. Employment growth in the short-medium term, within the productive traded sector of the economy, is likely to be most evident in the services and related areas, including business and professional services, tourism and hospitality, arts and crafts, ICT and the catering and retail trade. These are also areas where opportunities are particularly promising for small business development.

Thus the employment decline in manufacturing has a number of mutually reinforcing dimensions. There is a general tendency in most sectors for employment to decline. The labour intensive sectors are growing less rapidly than the non-labour intensive sectors, with a particular tendency to decline in labour intensity in the more labour intensive sectors. There is a shift from demand for semi- and unskilled labour towards skilled labour, in some cases creating a shortage in the supply of particular skills sets such as science and technology. There has also been a significant shift to outsourcing and subcontracting, which has impacted on the structuring of production and the quality of work opportunities. Any successful attempt to address job creation needs to give consideration to this complex interplay of factors influencing employment. Of particular importance is the changing composition of the demand for skills.

Equity and Economic Participation

SMMEs have played a vital role in our economy, and are seen as a key lever for its further transformation. They currently contribute 35% to GDP, with contributions of over 40% to the sectoral GDP of agriculture, construction, trade and transport. They also contribute 54% to formal private sector employment (Ntsika, 2000); within manufacturing their share of employment has risen from 39% in 1988 to 44% in 1999, which may be related in part to outsourcing trends. However, the survival rate of small businesses remains low by international standards, and we have failed to develop a vibrant critical mass of small enterprises that are effectively integrated into the mainstream operations of all sectors.

Black economic empowerment has also not developed at the desired rate. The market capitalisation of black controlled firms rose from 3% in October 1997 to 6,8% in November 1998, but was significantly damaged, in part due to the East Asian crisis, dropping to less than 1.5% by 2001. The significant broadening of black ownership that was hoped for has not materialised. It was therefore recognised that a clear strategy to address this was needed. Similarly, women's participation in the economy has not been made equitable, with black rural women in particular bearing the brunt of poverty and our failure to fully transform the economy.

Corporate governance and business practices have also emerged as an area that requires attention, in order to improve the integrity and sustainable competitiveness of South African enterprises. The publishing of the King Reports has raised awareness of these issues, in particular with regard to the need for accountability to both shareholders and stakeholders, and the requirements for a "triple bottom-line" introducing social and environmental accountability. However, there are still issues around the enforcement of corporate governance and jurisdictional issues between regulators.

In terms of geographic patterns, the dominance of metropoles has continued, with limited economic opportunities in smaller settlements and rural areas, particularly in those areas that were homelands. This inequality has been exacerbated as unemployment levels rise and remittances to rural areas decline. Within the SADC region, the dominant industrial role of South Africa has continued. Given the continued importance of the SADC region as a key destination for South Africa's manufactured exports, the potential for economic decline within SADC is of concern. Some of South Africa's larger corporates have begun to extend their reach into the region, while institutions such as the IDC and DBSA have also begun to play a regional role.

Domestic consumption has continued to be limited and distorted. The majority of consumers in South Africa remain ill-informed and poorly equipped to defend their interests, avoid exploitation and play a role in stimulating more competitive business practices. Gaps in consumer protection exist particularly in relation to the rights of low-income consumers and protection related to financial services.

Securing our Future Competitiveness

Old Ways Don't Work

In a context where the global trends that have been outlined are accelerating and becoming more pervasive, South Africa cannot afford to ignore global shifts in the changing basis of competitiveness. Traditional modes of securing competitive advantage employed by manufacturing firms are becoming increasingly less significant. First, **raw materials** are increasingly traded internationally, with duties and other trade barriers coming down and transport costs declining. Manufacturers, wherever they are situated, will therefore face similar prices and delivery conditions for most raw material inputs, with material commodity prices being at historically low levels. Further, materials are a declining share by weight in many manufactured articles and of little or any significance in most rapidly growing service activities, giving rise to notions of “the weightless economy.”

Second, **cheap labour** is no longer a sustainable advantage. Increasingly selective and demanding consumers and the emphasis on technology limit unskilled and semi-skilled labour creation and require skilled and adaptive labour and effective management capacity. In addition, as the large population countries, notably India and China, increasingly integrate into the global economy, the supply of unskilled and semi-skilled labour has risen dramatically.

Third, as production knowledge diffuses ever more quickly while the market for technology is increasing rapidly, it is far less likely that firms will retain a clearly superior **proprietary production technology** for any lengthy period. If firms have to acquire much of their technology from abroad the costs are high and competitiveness reduced. It is essential to develop a domestic capacity for science, technology development and advanced skill development. This requires institutional reform and development.

Fourth, **privileged access to markets** is diminishing. The opening up of markets is the consequence of liberalisation of trade and investment and, in many countries, stronger legal prohibitions on monopoly powers and market restrictive practices.

New Sources of Competitiveness

As the more traditional mechanisms of securing a competitive position decline, so the ability of firms to compete will depend on their capacity to adapt and to take advantage of the new manufacturing environment.

The development of **Information and Communication Technologies (ICTs)** has revolutionised the transmission and manipulation of information throughout manufacturing and related processes. The speed, precision and diffusion of information have affected the consumer, and the structure of the labour market and structuring of work and organisations, with networks become an increasingly important mode of organising. This makes it vital to adjust effectively or face rapid decline in the employment capacity of the economy. As is mentioned earlier, it has also enabled the increasing disaggregation of production processes, although it should be noted that good physical infrastructure is still important to link the stages of production together.

The role of **technology** is increasingly integral to competitiveness, in part due to the role of ICTs in expanding technology diffusion into products, across institutions and between countries. If one is left out of the technology transfer loop, one can rapidly be left behind and become marginalised. New technologies have led to new families of products and the reduction in shelf life of older products. Advanced technological products are being added to or combined with traditional products. The biotechnology revolution is one example of a group of technologies that is likely to fundamentally affect production.

The **importance of time and efficiency** to the costs of production has increased significantly. This has implications for how business needs to operate, and for the efficiency with which government needs to interact with the economy. **Responsiveness** and the ability of all economic actors to learn and adapt are therefore vital.

The combined impact of these global trends is that the ways in which value is added and where employment is generated in production processes is changing. Increasingly, extraction of raw materials, product design, production, distribution, sales and marketing are integrated into a coherent supply or **value chains**, in many cases transnational and strongly influenced by the operations of multinational corporations (MNCs). The challenge for emerging economies and countries such as South Africa which have a resource-oriented legacy, is to ensure that opportunities within the domestic economy are developed and integrated advantageously into both domestic and transnational value chains, in order to meet national socio-economic objectives.

It is important to stress this link between development and equity in the domestic economy and our competitiveness in the global economy. An economy where the human and economic resources are underdeveloped will not sustain its growth and competitiveness. As an Integrated Manufacturing Strategy is implemented it has to be done so in conjunction with programmes for black economic empowerment, gender participation and spatial development.

Risks and Opportunities for South Africa in Engaging with the Global Economy

The current global economy is inherently risky, and South Africa's engagements with this system are not immune to these risks. Global investment and production dynamics tend to favour geographic areas that are already developed with a high potential to entrench and heighten existing spatial inequalities and underdevelopment. Further economic marginalisation is a very real threat. The changing basis of competitiveness away from SA's traditional competitive advantages poses a huge challenge, especially if we continue to fall behind with regard to ICTs. The potential for a slowdown in global growth rates might limit trade growth, as could a rise in protectionism. The size of the South African economy, particularly if it experiences a relative decline in share of global trade will reduce our bargaining power and our capacity to implement policy.

The risks of not engaging are however far greater. Deciding not to engage will not prevent our economy and our citizens from being affected by these processes; it will rather mean that these forces will not be mediated by our attempts to redirect them towards achieving our national objectives. The opportunities presented by effective integration into global systems are essential to our ability to achieve the necessary levels of growth and equity, but benefits will not flow automatically.

South Africa therefore needs to strategically engage with these processes in order to mitigate the negative effects while at the same time seeking to maximise advantages gained for our domestic economy. This requires that we understand the operation of global economic systems, strive to locate ourselves strategically within those systems, and develop strategic alliances with developing countries in order to reshape the system of global governance to achieve more equitable outcomes. Simultaneously, it requires that we equip our economy as a whole, our sectors and our enterprises to meet the challenge we face in becoming sustainably competitive in this environment.

A partial foundation for this strategic engagement has been laid. We have an economy that has experienced a significant degree of restructuring. The economy is more open and less protected than before 1994, with significantly expanded market access, and particular opportunities within the SADC region and New Partnership for Africa's Development (Nepad). There has been a shift towards manufacturing and services rather than primary production. The economy has become more competitive as manufacturing exports have increased, productivity levels have risen, and domestic enterprises have been exposed to global competition. The economy has become more attractive for direct investment and the number of viable investment opportunities has increased. Significant progress has been made in regulatory reform and the development of Standardisation, Quality Assurance, Accreditation and Metrology (SQAM) systems and preparation for sustainable production, which create a platform for long-term competitiveness. Sector-level strategies such as that in the auto and components sector have significantly transformed the trajectory of those sectors, with benefits for associated industries.

However, it is evident that our current industrial policies are not having the desired impacts in particular areas, most notably on the growth rate, employment creation, small business development, income distribution and equity. In addition, the economic restructuring that has taken place has uncovered specific underlying constraints to successful integration into global production systems and drawing the full potential of our economic citizens into the development of the economy.

This point in our economic development therefore poses a massive challenge to all economic stakeholders in South Africa. The following section will look at how government, and **the dti** in particular, have chosen to respond to the challenge, while the final section will outline the challenge of promoting collective economic action through partnerships.

PART 2

GOVERNMENT ACTIONS TO ACCELERATE GROWTH AND DEVELOPMENT

Government's response to the challenge outlined in the previous chapter is an integrated Microeconomic Reform Strategy to accelerate growth and development. The implementation of this Microeconomic Reform Strategy represents the starting point for **the dti**'s new approach to support enterprise development. In future, all of **the dti**'s policies, actions and offerings will reflect a new understanding of how our economy works, and in particular the strategic role that can be played by the manufacturing sector.

The Role of the State: Accelerating Growth and Development through Manufacturing

Most governments around the world are currently playing leading roles to advance the competitiveness of their national economies in the global environment. The government of South Africa is no different. However, while South Africa's industrial development has been characterised by an active state providing leadership to the economy, the nature of the state's leadership role has changed from the establishment of parastatals like Eskom to focusing on the provision of coherent economic policy, removing the constraints to growth in order to benefit all South Africans, and building strategic partnerships for growth. Where necessary, the state has and will continue to establish new public sector institutions and enterprises, in order to achieve defined and specific objectives.

In recognition of the continued existence of microeconomic constraints to higher levels of growth, employment and equity that became apparent with the development of an outward orientation, government shifted its policy emphasis towards microeconomic reforms and identified a set of decisive and integrated actions that could be taken to address these constraints. Government has committed itself to locating South Africa within the global economy in such a way that advances the achievement of specific domestic growth and equity objectives.

A Microeconomic Reform Strategy

In February 2001, President Mbeki announced in his State of the Nation Address to the opening of Parliament that government would embark on an Integrated Economic Action Plan. In January 2002, government reviewed implementation of the plan and identified additional actions required and areas for fine-tuning. Government also recognised the critical importance of policy stability and effective regulation for certainty and confidence in the economy, as well as the need for the continuation and strengthening of coordinated actions by government to improve the capacity for implementation and delivery. The outcome of this review was the adoption of a Microeconomic Reform Strategy to further advance the removal of obstacles to competitiveness, economic efficiency and equity.

A very brief overview of the Microeconomic Reform Strategy is outlined below. Only those aspects of the strategy relevant to this paper are examined.

The Microeconomic Reform Strategy seeks to positively impact on six key performance areas, namely, growth, competitiveness, employment, small business development, black economic empowerment, and geographic spread of economic activity. Government has recognised that weaknesses in addressing these issues arise, in part, from a failure to adequately integrate government policies and programmes. The Microeconomic Reform Strategy sets out to effect greater coordination, and as such it represents a key step towards integrated government in South Africa. It is the product of information-sharing and joint policy formulation by the 17 departments that comprise the economic, investment and employment cluster in government.

No single department has the capacity or mandate to adequately address these cross-cutting issues. Therefore government-wide responses are needed in which the specific role of each department is clarified. For example, in respect of black economic empowerment (BEE) the work by the Department of Minerals and Energy to develop the liquid fuels charter, procurement reform led by National Treasury and the black farmer support programmes managed by the National Department of Agriculture, are all important elements of government's strategy.

Government is aiming to provide greater certainty to economic actors in these key areas:

- A four-pronged approach has been adopted by government towards **BEE** including the provision of a more conducive environment; introducing new products and offerings; the introduction of a partnership programme with the private sector; and the establishment of a non-statutory BEE advisory council.

- A more targeted **small business development** strategy has been developed that focuses on the specific needs of different segments of the SMME sector.

~ The specific roles of different government departments, and other economic actors, needs to be clarified in addressing the critical **employment** problem confronting South Africa. Government, specifically, will examine all of its policies and support measures for anti-employment bias.

~ Government has recognised that it needs to do more to improve the coherence of existing strategies seeking to promote a more equitable **geographic spread** of investment and economic activities. In addition, the critical linkages between the integrated development plans being formulated by municipal governments, provincial growth and development strategies, and national economic strategies are being strengthened.

A country's current and future competitiveness requires that a set of 'fundamentals' be in place in the economy. These 'fundamentals' include appropriate and efficient economic and social infrastructure, access to finance for productive activities, investment in research and development, innovation and the take-up of new technologies, as well as investment in human capital and an adaptive workforce. Another fundamental component of competitiveness is efficiency of economic input sectors.

Government must make a number of strategic choices about the direction of the economy and how to actively develop appropriate policies and initiate programmes to ensure that these fundamentals are in place in the economy. Government must also ensure that these fundamentals are appropriately aligned to steer the economy in the chosen direction towards knowledge-intensive, value-adding and employment-generating production.

With respect to **technology and innovation**, more will be done to promote the development and assimilation of new technologies and the innovativeness of manufacturing enterprises. A new technology, innovation and research and development (R&D) strategy proposes a number of measures that government will take in this regard including the provision of an enabling institutional environment for R&D, as well as developing South Africa's technological capacity in strategic areas such as biotechnology.

The integrated **human resources** strategy is currently being implemented and represents government's core strategy to boost skills levels in the economy. Government will do more work to facilitate the identification of priority areas for skills development within integrated value chains and sector strategies in collaboration with business.

Access to finance for small business development and black economic empowerment will be enhanced through the coordination and subsequent integration of existing financing vehicles. A more coordinated approach by government seeks to provide a one-stop shop for entrepreneurs to access finance for productive activities. This approach will also allow for government to package risk, cost-recovery, and different types of financing, to meet the different needs of microenterprises, small and medium firms, large companies, as well as black- and women-owned firms.

An integrated system for planning and implementation of **infrastructure** is critical. As mentioned above this system will include national departments, parastatals, provincial and local governments. Further work will be undertaken to integrate social and economic infrastructure projects in order to overcome the dislocations of the past.

The **efficiency of input sectors** represents another fundamental component of competitiveness. Three critical input sectors, namely, transport, energy and telecommunications, are firmly within the ambit of the state's control as these sectors are dominated by parastatals. Two issues confront the state with respect to these sectors: ensuring greater access to these services by all South Africans, and ensuring the cost competitiveness and efficiency of these services. Government is addressing these imperatives through managed liberalisation of these input sectors and through its infrastructure investment programme. Critical focus areas for government include the impact of administered prices on competitiveness and household incomes, for example, wharfage charges, telephone tariffs, and the petrol price; the removal of anti-export biases that still exist in these sectors (for example differential wharfage charges disadvantage manufactured exports) and the efficiency and capacity of sector regulators like ICASA.

Five sectors of the economy that have considerable potential for increased outputs, exports, and employment creation will receive focused attention from the state. The future direction of these sectors contribute to the trajectory envisioned for the economy as a whole by government, that is, beneficiation of natural resources, knowledge intensity, and export orientation. These sectors are agriculture (including food production), tourism, ICTs, cultural industries and export sectors, including minerals and metals, clothing and textiles, automobiles, agro-processing, and chemicals. A focus on these sectors does not preclude government actions to support other sectors not specifically listed. In each sector, strategies will include a specific focus on employment generation, value addition, production for the domestic market as well as export growth, small business development and black economic empowerment. Government has a ‘sustain-and-maintain’ approach to other sectors and will be receptive to working with sectors on turnaround strategies in order to place sectors on a knowledge-intensive, export-oriented trajectory.

A key objective of the Microeconomic Reform Programme is to improve the effectiveness of public sector investment and to align public and private sector investment. This will assist in generating a 'crowding in' effect from public sector investment.

An Integrated Manufacturing Strategy

The dti places manufacturing at the centre of its analysis, given South Africa's current economic, industrial and manufacturing capacity, the changes in the processes of production and the basis of competitiveness, and the significant changes in the global economy.

South Africa, through its past policies, has developed an established and diversified manufacturing base that has demonstrated resilience and the potential to compete in a global economy. The manufacturing sector provides a locus for stimulating the growth of other activities, such as services, and achieving specific outcomes, such as value addition, employment creation, and economic empowerment. This platform of manufacturing presents an opportunity to significantly accelerate our growth and development if approached appropriately. If this capacity did not exist, as is the case in many African economies, then prior steps to build infrastructure and institutions are essential. This is the approach taken in Nepad in relation to the economic development of the African continent.

It is only because of this situation that we can consider as an immediate response how we can collectively strengthen the manufacturing process. An understanding of the changing nature of manufacturing is critical for answering this question. More particularly, it needs to be recognised that this change in manufacturing means that it can be used to stimulate a far wider range of economic activity and associated employment and value addition within our country. Productions processes in each sector are more similar through their use of ICT processes. Central to these ICT processes is their ability to link and relate to immense bodies of information and to effectively utilise this in the specific manufacturing process being undertaken. It is this that changes the manufacturing process. The relationship with other parts of the economy becomes integral to the process that is taking place at any one site or stage of production. This has also meant that the division between the service sector and the manufacturing and industrial activities has become less defined as service type activities become more integrated into all production.

Therefore, by an integrated manufacturing strategy we mean a strategy for all processes that transform natural products into manufactured products, and all associated processes, thus extending beyond the boundaries of what were traditionally considered to be industrial processes to include various related activities and services. These include the extraction of raw materials and procurement of inputs, the production of intermediate goods and final products, packaging, marketing, distribution and retail.

An integrated manufacturing strategy can also be understood as the **integration of interventions** related to competitiveness. These interventions include market access, beneficiation and value addition, regional production, equity and economic participation, knowledge-intensity and services integration, and the development of integrated value matrices. It is the integration of all six of these aspects that will allow us to achieve our vision. Becoming increasingly competitive without ensuring that market access is secured would produce only limited growth. The reverse is true in that negotiating market access without enabling enterprises to rise to the challenge will leave many of these opportunities unfulfilled. The long term trajectory of the growth path is secured through building integrated value matrices that include regional platforms for production-expanding opportunities, increasing value addition and knowledge-intensity, and building equity and wider participation in the economy.

Market Access

The two critical dimensions of South Africa's market access strategy are to increase access to large markets in the developed world, and to establish new trade links with other countries in the South.

Currently, South Africa exports a range of products and services to a range of markets and is not dependent on any single export product or market. This reduced the vulnerability of the economy. However, we need to further improve South Africa's terms of trade by increasing the export of higher value-added goods, and increasing South Africa's share of total global trade.

There are numerous dimensions to the strategy to meet these objectives: South Africa has made significant progress in gaining access to major markets and expanding access to non-traditional markets. This has been achieved through multilateral negotiations, in particular those in the World Trade Organisation, regional arrangements (SACU and SADC) and bilateral negotiations (such as the EU Trade Development and Cooperation Agreement). In addition opportunities have been afforded through the African Growth and Opportunity Act (AGOA). Increasingly market access will be sought in those areas where developing countries have a competitive advantage such as agriculture and textiles. It is for this reason that South Africa's participation and influential role in multilateral fora like the WTO and the WSSD are important.

There is a need for a thorough review of the role of tariffs in competitiveness, and the strategic use of the tariff instrument in sector strategies will be considered. New instruments will be developed to encourage export competitiveness, including more effective tariff administration through the new Commission for International Trade Administration (CITA) structure, and through technology promotion and Standardisation, Quality Assurance, Accreditation and Metrology (SQAM) interventions.

Trade administration is a critical matter that will receive greater attention, including compliance and enforcement issues around rules of origin, counterfeit goods, illegal imports, in order to avoid undue harm being suffered by South African enterprises, workers, and consumers. The efficiency of customs and excise is a priority and this represents a potential area for partnership with business and labour, SARS, and other jurisdications.

There are also issues around securing domestic market access, particularly for black-owned enterprises and small businesses. The constraints in gaining access may be related to anti-competitive practices, infrastructure, retail and distribution systems, networks and insufficient linkages into established value chains. For example, the fact that 72% of the complaints of alleged prohibitive practices received by the Competition Commission are submitted by SMEs gives an indication of the challenges faced by small enterprises in this regard.

Regional Production

The economic destiny of South Africa is intertwined with that of the SADC region. Not only must the threats of regional deindustrialisation be averted, the opportunities for more competitive production that build on the collective potential of the region must be realised through the development of regional value chains. Such regional value chains within SACU and SADC will enhance existing resources and synergies to lower relative costs of production and develop productive capacity within the region. A core component of Nepad is to focus on continental production systems as well as the introduction of a General System of Preferences for Africa in order to enhance intra-African trade

This requires new organisation of production in the region, and a platform for effective integration, including infrastructure and logistics systems, SQAM harmonisation, competition policy coordination, coordinated systems for inputs such as energy and water, and customs and excise efficiencies, as well as labour market issues such as employment standards and migration. In order to avoid a 'race-to-the-bottom' in the region that will ultimately undermine the region's future competitiveness, it is essential that the framework provided by the SACU and SADC agreements are utilised to promote greater harmonisation of standards and policy instruments.

Beneficiation and Value Addition

South Africa's economic development is founded upon its natural resource endowments. However, we have failed to fully capitalise on these resources even though has been significant progress made in the past eight years in value addition and beneficiation of raw materials, as is demonstrated by the increased share of manufactured goods in its export basket. Further, for example, South Africa has developed competitive capacities in mining capital goods and deep mining technology. This type of value addition will be encouraged. Issues to be addressed include import-parity pricing, the creation of opportunities for BEE, women, and small businesses, as well as innovation, and locational issues. Beneficiation is the core mechanism for the transformation of our economy.

However, we continue to miss opportunities to produce and retain more value within the economy. Value matrix analysis is critical in identifying these opportunities and linking them to areas where market access opportunities exist as well as to logistics platforms.

Equity and Economic Participation

Equity and increased economic participation by historically disadvantaged individuals are identified as outputs in the Microeconomic Reform Strategy. Through the Integrated Manufacturing Strategy and the use of value-chain analysis opportunities to deliver these outputs will be identified. In addition generic strategies will be designed to improve access to government services and support measures, facilitate the development of a credible voice of black business and of small business, and increase the participation of these groupings in policy processes and institutions for social dialogue including export councils.

South Africa has a rich history of alternative forms of enterprise, specifically cooperatives, although these have been traditionally neglected by government even post-1994. Cooperatives have been confined to the agricultural sector and received little support from government. Mechanisms to encourage this critical sector are being developed, including amendments to legislation to provide for the registration of cooperatives and subsequently, allow cooperatives to access existing enterprise support measures. Various types of cooperatives will be encouraged including craft and taxi cooperatives. Consumer cooperatives to promote the buying power of poorer households will also be examined. Government will draw on the expertise of trade unions and community organisations in the development of appropriate offerings to promote cooperatives.

Knowledge-intensity and Services Integration

Knowledge-intensity is not a separate sector or restricted to areas of "hi-tech", but is rather an approach which impacts on the economy as a whole. Knowledge-intensity affects all production processes, from the way in which natural resources are extracted to the means of getting the product or service to the customer. Increasingly, ICT is being integrated into manufacturing and related processes through computer-aided-design (CAD) and computer-aided-manufacturing (CAM). Enterprises have introduced computer systems to improve supply-chain management, accounting, customer relationship management, stock and materials control, as well as making use of e-commerce and business-to-business portals, thus contributing to the increased knowledge-intensity of production. This trend has crucial implications for employment and skills development and increases the importance of widespread ICT diffusion, R&D and innovation, as well as the significance of the cost of telephony.

Similarly, there is a range of business services which can improve our competitiveness if further supported, developed and integrated into the operation of value chains. These services might include engineering, project management, marketing, R&D and industrial design, financial service, freight, transport and logistics, and ICT services. The outsourcing of non-core business by many medium-sized and large firms has seen the development of catering, publishing, training, events management, cleaning, and security services. This trend provides significant opportunities for small business development and BEE.

In developing this knowledge-intensity, it is vital that we avoid a dependency purely on external sources of knowledge. We need to work closely with DACST to generate and protect our own indigenous knowledge, building on our diverse human and natural heritage.

Integrated Value Matrices

In national accounts and the categorisation of the economy, the manufacturing sector has a specific meaning. It is generally seen as separate from transport, agriculture, mining or services as examples of other sectors. Within the economy it is accepted that these sectors are related to each other and that this relationship is essential for the operation of each one of them.

The stress on relationships between sectors as opposed to vertical and horizontal connections within sectors has been growing in the literature on industrial and manufacturing policy. Michael Porter's work on clusters and the importance of the interaction of the public and private sectors around specific actions is a methodology that the government and **the dti** have consciously used. However, we have also found that we have to be even more rigorous in this approach.

Our analysis and experience over the last eight years draws us to the conclusion that there is a qualitative and decisive change in the importance of the interrelatedness of sectors. An important implication of this is that the enterprise, and specific relationships and networks of enterprises arranged vertically, horizontally and spatially (often global space), becomes very important. It follows from this that the physical means of communicating and exchanging ideas, manufacturing instructions and products - road, rail, air, telecommunications and energy - become integral to the production process and not just aids to production. This is a decisive break with the past. The ease with which integration can be achieved is the essence of competitive difference.

Increasingly we have found that the traditional description of economic activity using sector categorisations is not always the most useful basis for facilitating change. Key networks of enterprises and their logistical connectivity are usually more important. This does not mean that sectors are descriptive and analytical categories that have to be abandoned. However, what is essential is various forms of collective action by citizens. This does not mean that competition stops. However, the matrix of relationships and the interconnectivity of the enterprises is what is important in assessing and establishing competitive capacity.

A further important implication is that the greater the capacity for economic networks that are efficient, the greater the capacity for value addition within the economy. The greater the capacity to add value in the economy, the greater will be the capacity for employment creation. In a complex way the modern basis for competitiveness is the same as that for employment creation - although this is by no means automatic. To achieve it we can conceive of a value matrix that does explicitly link competitiveness and employment opportunity.

The role of enterprises and multinational corporations is very important. A range of enterprises can be involved and they may span the globe involved in the extraction of natural resources and raw materials, through to various stages of manufacturing, and finally distribution and marketing to the end user. Value can be added, and employment created, at each stage of production, and increasingly this value addition emanates from the incorporation of business services, information and communication technology, and efficient logistics into the various production stages.

Value matrices are increasingly transnational, and the challenge is to ensure that those parts of the value chain that generate the most jobs and value addition are located within South Africa. In the past, South Africa's value chains have in general been poorly integrated and truncated, with the emphasis on natural resources and only limited manufacturing. Yet the proactive development of greater integration of value chains will serve numerous objectives. It enables the mobilisation of infrastructural development around key objectives. It directs investment strategically, both in terms of the investment by government and its agencies, and private sector investment. Finally, it provides leadership around which stakeholders in the sector can mobilise.

More specifically, activities in these value matrices are also integrated through the organisation, vision and strategy of value chains, logistics and infrastructure, and the use of ICTs, knowledge management systems and business services. The concept of integrated manufacturing allows for a broader analysis of where value can be generated, where obstacles to growth and efficiency need to be removed, and where leverage points for actions by government and other actors exist.

Through the use of value-matrix analysis, other sectors or sub-sectors may be identified that can contribute to the strategic objectives such as business services such as design and marketing, chemicals, and capital equipment. Developing a comprehensive understanding of these opportunities will require consideration of such factors as the location of growing markets (intermediate goods, products and services and their spatial location), business practices and ways of operating (production processes and supply chain management, distribution and retail, marketing). Equally important, the constraints to South African enterprises making use of these opportunities need to be considered, and addressed through sector-specific strategies.

A value-matrix approach presents a challenge to economic actors to organise in new ways to build competitiveness and remove constraints to growth. There are many instances where the failure of enterprises to organise in this way has contributed to sub-optimal outcomes, for example, half-empty containers leaving South Africa for the EU because enterprises have not collaborated to share container space and reduce costs.

In summary, **the dti** regards manufacturing as the fulcrum from which accelerated growth, employment and equity in our economy can be leveraged. However, in order to fulfil this role, manufacturing must be fully integrated with related activities within a value chain. A strategy for how this integration can be achieved has been outlined above and the question arises as to the mechanisms that **the dti** will use to implement this strategy.

Implementing the Integrated Manufacturing Strategy

The core business of **the dti** is to provide strategic leadership to the economy and to provide value-added products and services to economic citizens in accordance with the Integrated Manufacturing Strategy, and in partnership with other actors, and thereby contribute to the achievement of higher levels of economic growth, employment and equity in South Africa. The experience of **the dti** over the previous 8 years has led it to conclude that economic actors require three types of support from **the dti** that will lead to improved industrial performance: the championing of competitiveness within government, customised support measures, and broad-based support measures.

Thus there are three central elements to **the dti**'s core business strategy:

- The first element is the role played by **the dti** to champion competitiveness through its **leadership** role in the economic, investment, and employment cluster of government departments through which the implementation of the Microeconomic Reform Strategy is monitored and assessed. **The dti** will also seek to provide leadership to the economy through promoting policy certainty and coherence and through the provision of valid and reliable statistics and other kinds of information and analysis of the economy to economic actors.

- The second element comprises a set of work programmes to be implemented by **the dti** to promote competitiveness in specific sectors and value chains. **The dti** has made some strategic choices, based on value-chain analyses and an assessment of its institutional capacity, about key areas for targeted interventions to be designed and implemented in close collaboration with our social partners in these sectors. These **customised services** will focus on improving the competitiveness of those sectors that demonstrate a strong potential for growth, employment creation, and value addition. One of the key criteria to be used by **the dti** in selecting priority sectors is the level of organisation and vision exhibited by a sector as well as the sector's willingness to work with **the dti** in removing obstacles to competitiveness in the relevant value chain, including those issues that while not completely within the ambit of **the dti** do form part of the Microeconomic Reform Strategy, such as logistics and infrastructure for example. The initial set of programmes identified by **the dti** are elaborated below. Cross-functional teams will be established within **the dti** to manage these programmes. Strong partnerships will be established between these teams and economic actors within the sectors, as well as representatives from **the dti** Group and elsewhere in government where necessary. It is envisaged that these partnerships which will be driven by **the dti**, will engage in data collection and analysis, strategy development and implementation, and will identify specific opportunities and constraints, and work to address the constraints and maximise the benefits gained from the opportunities. Accordingly, targets will be set for the performance of that sector or sub-sector.

~ The third element of **the dti**'s strategy is the provision of widely-accessible **broad-based products** and services to enterprises aimed at the generic matters that impact upon the efficiency of all enterprises and value chains. Certain of these offerings to enterprises seek to benefit the economy in a collective sense, namely appropriate policy, legislation and regulation, by creating policy certainty and stability. There are also direct services which **the dti** offers, typically one-off transactions like the registration of a company or trademark patents, or the disbursement of an incentive. Greater emphasis is being placed on ensuring that such services are provided efficiently, that application procedures are simple and transparent, and that all of these offerings can be accessed easily around the country through the use of innovative delivery mechanisms. **The dti**'s objective is to quickly address the continued lack of access to government support by historically disadvantaged individuals. Specific broad-based programmes are discussed in more detail below.

Customised Programmes

Each of the customised programmes to be developed and implemented by **the dti** in partnership with sectors will analyse a range of issues, including, *inter alia*:

- ~ Current competitiveness and future competitiveness, long-term outlook for the sector domestically and globally
- ~ Market access and tariff structure
- ~ Opportunities for value addition and beneficiation, upstream and downstream from the core manufacturing platform both locally and internationally
- ~ Benchmarking the sector against relevant competitors
- ~ Ownership patterns and levels of concentration
- ~ Possibilities for using the National Industrial Participation Programme to leverage investment in the sector
- ~ Firm sizes
- ~ Consumer market trends
- ~ Opportunities to expand geographic, gender and racial equity
- ~ Opportunities to increase innovation, technology take-up and knowledge intensity
- ~ Employment and labour market dynamics and opportunities for employment generation in the value chain
- ~ Required skills and competencies.

Programmes are being developed by **the dti** in relation to the following six areas:

Clothing and Textiles

In this cluster, **the dti** will promote the growth of a globally-competitive industry that provides sustainable employment opportunities and exports to the value of R5bn. This will be facilitated through the aggressive promotion of South African exports, as well as inward investment in the industry, to take advantage of favourable market access conditions for locally-manufactured clothing and textiles. Value addition will be promoted through the development of a National Indigenous Fashion Technology Institute.

Agro-processing

The ability of the agricultural and agro-processing industry to increasingly access global markets for high-value technologically-advanced processed agricultural products will be supported through appropriate assistance and regulatory measures, including the creation of strong downstream value addition, providing an efficient logistical platform, and negotiating for greater market access for agricultural products in developed markets. A well-developed agro-processing sector has important benefits for food price stability and food security.

Metals and Minerals

Opportunities for the further beneficiation of metals and minerals will be exploited through targeted investment promotion and the diversification of ownership in terms of black economic empowerment and small business objectives. Logistics platforms are an important factor in developing this sector.

Tourism

The dti will work closely with the Department of Environment Affairs and Tourism to promote investment in the tourism industry especially by black-owned, women-owned, and smaller firms.

Automotive and Transport

The automotive industry has been a successful in terms of positioning itself in global supply chains and exporting value-added manufactured goods. The linkages with local suppliers will be strengthened further through the use of appropriate support measures. In addition to automobiles, **the dti** is looking at other transport sub-sectors including rail, air and marine transport, to replicate the success of the auto sector.

Crafts

The dti will work closely with DASCT to support the development of a vibrant and competitive craft sector in South Africa through measures such as a craft export council, the promotion of craft cooperatives, the establishing of a craft emporium, and an appropriate and enforced intellectual property regime.

Chemical and Biotechnology

A diversified and value-adding chemical sector, including pharmaceuticals and botanical products, that increases the export of beneficiated products is **the dti**'s objective. This objective will be pursued through increasing exports by 16% over the next 24-months and securing more investment in the sector.

Knowledge-intensive Services

The dti will encourage the growth of South African-based ICT and electronics enterprises through various projects including a joint business-government ICT Development Council, an effective accreditation system for black-owned ICT firms to assist them in tendering and the development of an ICT youth internship programme with industry. **The dti**'s offerings, particularly investment incentives, will be amended to increase their availability to small ICT enterprises.

In respect of all of these programmes, **the dti** does not envision that government will provide massive injections of money to sectors or enterprises or make interventions that run counter to principles of sustainable economic viability. Interventions that do not encourage enterprises or sectors in the direction of knowledge-intensive, value-adding growth with equity will also not be considered.

In addition, the integrating and enabling elements of competitive value chains, namely HRD, technology, infrastructure and logistics, will also comprise specific programmes. Programmes to develop **the dti**'s specific contribution to the achievement of government's objectives of black economic empowerment, small business development, employment, and geographic spread are also included in the department's strategy.

Broad-based Programmes

Programmes are also being developed by **the dti** to address many of the more generic issues that are critical to accelerated growth and development. It is envisaged that these programmes will be integrated with the more sectorally-based programmes, so that, for example, market access is pursued in direct relation to specific objectives for the clothing and textile sector. In addition, broad-based programmes will seek to promote market access, a fair and efficient regulatory environment, investment, access to finance, and policy coherence in general, and not just in specific relation to the prioritised sectors.

Competitive Market Access

Increasing the market access for South African goods and services will be advanced in various ways include international trade negotiations and export development and promotion programmes.

The dti, on behalf of the South African government, is engaged in various bilateral and multilateral trade negotiations to lower tariff barriers and remove technical and non-tariff barriers to trade. Trade agreements are being sought with key markets including India, Nigeria, Brazil, Japan and the US. South Africa is an active participation in the World Trade Organisation and **the dti** is preparing extensively for the Doha Round. **The dti** will continue to work with business and labour, particularly through the Technical Sectoral Liaison Committee of Nedlac, to prepare South Africa's strategic negotiating positions. **The dti** has invested resources to build its analytical capacity with respect to international trade negotiations in this regard. In addition, sectoral objectives defined in the customized programmes outlined above, will shape negotiating strategies. In addition, South Africa will pursue strategic alliances with countries of the South in multilateral processes.

Generic export development and promotion activities will continue in a refocused and more efficient manner and be expanded into new offerings, including facilitating the establishment of export councils, offerings programmes like the Export Marketing Assistance programme, the Ntsika-managed TIDP programme for small and medium-sized exporters, international trade missions and marketing projects, the provision of competitive intelligence, and the provision of export guarantees through the Export Credit Agency. Many aspects of the Microeconomic Reform Strategy outlined above aim at improving the efficiency of South Africa's exports.

Regulatory Environment

The dti seeks to ensure a fair, transparent and efficient regulatory business environment for all economic actors that contributes to a stable and predictable environment. Lowering excessive compliance on enterprises, especially small businesses, will be pursued. Projects to meet this objective include corporate law reform, the formulation of modern consumer protection legislation, improved international trade administration, the promotion of good corporate governance, the establishment of a standards-quality assurance-and-trade metrology institutional framework and the development and implementation of appropriate policies for regulated industries and related public interest issues. Improving the efficiency of regulatory services, such as company and trademark registrations, is another priority.

Investment Promotion

The promotion of domestic and foreign direct investment is critical given the low savings and investment rates in the economy. **The dti** will primarily pursue this objective through its customized sector and value chain strategies. More generic investment promotion offerings from **the dti** will include marketing South Africa as an investment destination, conducting investment missions, investment facilitation services, and investment incentives. Programmes such as the National Industrial Participation Programme and Industrial Development Zones will also be harnessed in support of investment objectives.

Access to Finance

The dti will prioritise the expansion of access to finance for productive activities. This will be undertaken through building closer linkages between existing development finance institutions and schemes such as Khula and the National Empowerment Fund. In particular, the historical neglect of the microenterprise sector by government will be addressed through new offerings. Innovative delivery mechanisms are being designed to considerably widen access to these financial offerings by enterprises.

Policy Coherence

The dti will actively seek to build greater economic policy coherence in government through a programme of government coordination, effective intergovernmental relations, and sound policy management, including the strategic alignment of the mandates of the members of **the dti** Group. **The dti** is working more closely with provincial roleplayers and local government structures to align economic development strategies and initiatives into a coherent programme. A transformed **dti**, an aligned **dti** Group, and policy coherence from government, present a new platform from which **the dti** will manage these programmes and implement the integrated manufacturing strategy. **The dti** will, in addition, actively seek to forge partnerships for industrial performance with key economic actors including other government structures, business and labour. This is elaborated on in the next part of this document.

Conclusion

In summary, **the dti** will be playing a key role in the implementation of the Microeconomic Reform Strategy, with a particular focus on championing competitiveness, while integrating equity considerations into interventions. In particular, the Integrated Manufacturing Strategy, which seeks to address key drivers in transforming the industrial sector's growth path, will be implemented through more efficient and accessible broad-based measures, as well as customised support measures that address constraints at a sectoral and value chain level.

It is clear that the challenge cannot be successfully met by government alone. The capacity and the responsibility rest with all of us. Government will therefore actively seek to forge partnerships for industrial performance with key economic actors.

PART 3

PARTNERSHIPS FOR PERFORMANCE

Deepening Stakeholder Partnerships

This strategy seeks to provide a basis for the generation of a common vision amongst economic stakeholders. It further seeks to develop a framework within which each of the constituencies will be called upon to make a contribution. Moreover it calls upon parties to find ways to contribute additional value by creating partnerships for growth and performance. The notion of partnership has been loosely used in our South African discourse. However, what is significant about our industrial history is how government and its partners, in particular labour and business, have progressively given effect and content to the notion of partnership.

The new sources of competitiveness outlined in this strategy mean that strategic cooperation and collective action between economic actors become even more important. The value matrix approach provides a tool for economic stakeholders to cooperate in new ways so as to secure additional value and employment. It should be noted that this does not change the fact of competition between enterprises within the domestic economy, or that stakeholders may disagree in some areas.

A platform for partnership already exists. The basic **institutionalised partnership** within which **the dti** is involved in Nedlac. As reflected earlier in this document, Nedlac has had a significant impact on collective and participatory decision-making. In addition, more recently established structures such as the Presidential Working Groups have played a key role. Some formal and informal partnerships have also developed at a sectoral level. **The dti** commits itself to improve the effectiveness of such institutionalised dialogue with social partners.

However, this partnership approach needs to be extended and enhanced in order to achieve success. Our task is to take this principle to all levels in the economy, from the shop floor, to local areas and geographic clusters, value chains and sectors, and to extend dialogue towards action through cooperation, joint ventures and concrete commitments. At each level an action plan will need to be developed that is situated within the framework provided by the strategy. Existing mechanisms for dialogue at each level need to be identified, reviewed, lessons learned and improvements or new approaches sought where necessary. Stakeholders are invited to make proposals in this regard.

The role of **Parliament** as a stakeholder is also key. While **the dti** has been building its relationship with both the Portfolio and Select Committees of the National Assembly and National Council of Provinces respectively, more can be done to maximise the benefits of the strategic, tactical and oversight roles that Parliament can play, as well as ensuring that the needs of economic citizens remain foremost for **the dti.** As representatives of constituencies, Members of Parliament can also play a leadership role in the economic development within those constituencies

There have been some voices which have not been sufficiently expressed through existing forms of partnership. These include small enterprises, broad based black business representation, alternative enterprise forms, women, youth and geographic areas beyond the metropoles. Mechanisms will be sought to include these groups in future. Existing organised constituencies are encouraged to seek mechanisms to do this.

The dti is also in the process of building **knowledge networks**, in order to enhance the analytical capacity brought to bear on the policy challenges we face. These networks will be extended to include international expertise. Our ongoing interactions with the **donor community** constitute another opportunity to build international partnerships towards achieving our vision, in particular in building technical expertise.

Partnerships within Government

National Government

The early successes achieved in the Integrated Action Plan can largely be accounted for by a focus on integrated action, with an attempt to sequence interventions to maximise their impact, and the coordination of the activities of government departments. Departments are being encouraged to work together more effectively and organise what has traditionally been a set of uncoordinated and disparate activities into a set of sequenced interventions

The cluster system in government is a key vehicle to improve coordination. **The dti** is co-chair of the Economic and Employment Cluster. As the cluster system becomes entrenched into decision-making processes, the benefits of this coordination are beginning to be felt. However, there is still scope to improve by strengthening capacity, and by ensuring the alignment of the work of departments as a whole, as well as the work of sector regulators and other implementing and regulatory bodies. In addition, greater coordination needs to be built between economic, social and international relations policy areas, in order to maximise the overall socioeconomic benefits of policy interventions.

The dti has also established a programme of bilaterals with other national departments in order to consider matters of mutual interest and coordination of actions.

The lessons learnt from this short period have confirmed the need for more effective strategies to give effect to joined up government, in terms of both "horizontal" or departmental integration and "vertical" integration, i.e. the relationship between national, provincial and local processes.

Provinces

Over the past two years, **the dti** has been working to improve its relationship with provincial MECs and Heads of Department. These efforts have included **dti** visits to provinces and capacity-building efforts. The results of these interactions are increased information sharing and better coordinated planning and implementation, in particular in relation to investment and sector strategy development. **The dti** is committed to extending this partnership.

Local Government

The developed of Integrated Development Plan provides an opportunity to link local economic development processes with sectoral and national economic strategies. **The dti** has begun a process of interacting with Metropolitan Councils, and will extend this to interaction with local government more widely. **The dti** is working closely with DPLG to effect this coordination, in particular in order to assist local areas to identify their potential competitive advantage without entering into a “race to the bottom”.

The establishment of **IDZs** has also created an opportunity to establish effective partnerships between local, provincial and national spheres of government to cooperate at the level of regional economic development and investment promotion. The lessons from this process will be used to enhance further vertical integration.

The dti *Group of Institutions*

The dti's initial response to the challenge of joined up government has included an effort to improve the coordination and alignment of **the dti** group of institutions, which include development finance institutions, regulators and specialist service providers. The Council of Trade and Industry Institutions (Cotii) was established in 2000 for this purpose. Its membership includes the following institutions:

~ Industrial Development Corporation
~ National Empowerment Fund
~ Khula Enterprise Finance
~ Competition Commission
~ Competition Tribunal
~ Micro Finance Regulatory Council (MFRC)
~ National Gambling Board of SA
~ National Lotteries Board
~ South African Bureau of Standards
~ South African National Accreditation System (SANAS)
~ Ntsika Enterprise Promotion Agency
~ Council for Scientific and Industrial Research (CSIR)
~ National Coordinating Office for Manufacturing Advisory Centres (NAMAC).

Significant progress has been made to date, and this platform will be used be to ensure that the activities of this group are aligned and synergies developed, in order to find creative ways to increase the value offered to economic citizens. The coordination and oversight of this significant group of institutions represents a significant challenge to **the dti**, and requires that the **dti** be equipped with the requisite capacities to meet this challenge.

Measuring our Performance

In the past, there has been limited agreement between stakeholders on the nature of our socioeconomic performance, and the key drivers shaping that performance. A deepened partnership approach provides an opportunity to address this situation by improving information sharing within and between stakeholder groups and building a common understanding of economic trends. This foundation is necessary if we are going to develop an understanding in the future of the impact of the strategy and our wider success in transforming the economy.

The dti has a particular responsibility to evaluate the impact of its efforts on this transformation on an ongoing basis, in order to ensure that taxpayers, parliament and stakeholders are getting an acceptable return on the public funds invested. Evaluation systems are also important in order to ensure that **the dti** is able to learn from experience. This task is a major challenge, even for similar institutions in developed economies. Notwithstanding these problems, **the dti** has committed itself to the implementation of performance measurement systems to monitor and evaluate the contribution of **the dti** to the prioritised economic objectives. These objectives include increased Gross Domestic Product (GDP), employment, investment, exports, small business development, BEE, women's empowerment, future competitiveness and the geographic spread of social and productive investment. This will involve the development of efficiency, output and outcome indicators.

The following broad requirements will be used to determine appropriate indicators: they must reflect policy objectives; they must be within **dti**'s sphere of influence; they must be quantifiable; and they must be as simple as possible to measure. There are a range of **practical and methodological difficulties** which need to be taken into account. At the sectoral level certain industries lack adequate data. Similarly, provincial and other geographic data is often lacking. It is also difficult to isolate the impact of **the dti** as opposed to a range of other influences, and to avoid double-counting the impact of its activities.

The principle of **target setting** has been adopted by **the dti**. In practice it means that, where appropriate, business units will be required to estimate their impact in terms of economic variables.

The following process will be undertaken by **the dti** in order to implement a measurement system:

~ Analysis will be undertaken to develop a better understanding of the **economic drivers** which propel the economy forward with respect to each economic objective.

~ A process of **benchmarking competitiveness** will be initiated which identifies a limited number of key indicators of economic performance. This will allow for a relative international comparison of performance and adjust for the state of the global economy. This is vital as competitiveness is defined by our performance relative to other economies, sectors and industries; it is not an abstraction. However, our particular South African context means that we have to develop a definition of competitiveness that does not run counter to our objectives of employment and equity. In addition, our understanding of the current constraints to competitiveness will inform the prioritised measurement of elements of competitiveness, for instance, immediate concerns such as the cost of doing business in South Africa, in particular the transaction costs involved in forming, operating and growing an enterprise, and the cost and efficiency of critical inputs such as wharfage and telephony.

  In addition, a review of **best practice of dti-equivalents** in competitor and more advanced economies needs to be undertaken, with respect to how they measure their performance and set targets.

~ Quantitative targets will be supplemented by other **qualitative methodologies** available for measuring performance, in order to develop a richer understanding of performance.

Strategy Review

A rapidly changing domestic and global environment requires a responsive strategy. While the broad thrust of this strategy and its associated policies will be maintained, **the dti** is committed to a regular process of review to assess the relevance and effectiveness of instruments, in order to improve their operation and devise new mechanisms where necessary. This process will undertaken in consultation with economic stakeholders.

The dti will also be engaging in scenario development, in order to improve our capacity to identify future trends and plan accordingly.

PART 4

CONCLUSION

Government has a vision of an economy that can sustainably meet the needs of all our economic citizens by 2014. The realisation of this vision requires that we accelerate the growth of our economy and make concerted collective efforts to remove obstacles and place the economy on a path that is characterised by competitiveness, employment and equity.

In this strategy document we have sought to introduce a new conceptual approach which in the first instance places our manufacturing sector - in its widest definition - at the centre of our analysis. Understanding manufacturing required us to develop a new set of conceptual tools to help us to understand the way production does and should operate, and how we can best and most effectively enhance the performance of that system of production in relation to our objectives of competitiveness, employment and equity. The long-term growth of our economy will only be secured through building integrated value matrices that include regional platforms for production-expanding opportunities, increasing value addition and knowledge-intensity, and building equity and wider participation in the economy.

We must now translate words into action - action not just by **the dti**, and by government as a whole - but action also from all economic stakeholders. By finding new ways of thinking and working together, we can remove the constraints inhibiting our growth and development, and build an economy that identifies and develops the full potential of our people and resources. While we will see some results in the near future, we will need to persevere with our efforts in order to achieve the full benefits in the long term.

LIST OF SUBMISSIONS RECEIVED IN RESPONSE TO THE FIRST DRAFT

1. Business South Africa
2. Competition Commission
3. Congress of South African Trade Unions (Cosatu)
4. Graytek Management
5. National Union of Metal Workers of South Africa (NUMSA)
6. Trade and Investment South Africa (TISA)
7. North West Province
8. Nic Tselentis, Grocery Manufacturers Association (personal capacity)
9. Pencorp
10. South African Communist Party, Dr Rob Davies
11. UNI/Intech

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