WITS SCHOOL OF GOVERNANCE
UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

SA Future Economy

COVID-19 and beyond: Rethinking industrial and competition policy

By Nishal Robb and Thando Vilakazi

COVID-19 and beyond: Rethinking industrial and competition policy:

Nishal Robb and Thando Vilakazi[1]

1. Introduction

Since the end of formal apartheid in 1994, progress in changing entrenched patterns of economic participation, improving low levels of productive investment, and stimulating dynamism and diversification in the South African economy has been limited. In essence, the structural transformation of the South African economy – the key growth-enhancing process of shifting capital and labour toward higher productivity activities and acquiring more sophisticated productive capabilities (McMillian and Headey 2014; Nissanke 2019) – has stalled, with a number of studies suggesting that the country is in a process of "premature deindustrialisation" (Rodrik 2006; Andreoni and Tregenna 2018).

The above concerns, alongside the scale and persistence of economic exclusion in South Africa – embodied most clearly in growing inequality and deepening unemployment – suggest the need for a rethinking of a number of areas of economic and social policy. The effects of the COVID-19 pandemic and associated lockdowns on economies worldwide, the disruption of global supply chains and the erosion of productive capabilities key among these, provide a powerful stimulus for a rethinking of the roles of and relation between industrial policy and competition policy in particular. These policy areas can act as powerful tools in supporting new entrants and stimulating competitive rivalry in traditionally concentrated economic sectors, and for building capacity for dynamism, innovation and resilience in the economy generally.

In the South African context however, industrial and competition policies have for the most part been considered separately rather than as complementary. We argue that this approach has been counter-productive. Closer coordination between the two would be mutually-reinforcing in a number of important ways, and such a realignment would strengthen the state's capacity to better manage economic rents in a development-enhancing manner. To a significant extent, large firms in a range of important industries have maintained market power and access to rents through barriers to entry, abuse of dominance and political influence, rather than through investment, innovation and dynamism. These dynamics have had the effect of constraining growth in general and downstream manufacturing in particular, in some cases leading to the loss of entire areas of industrial capabilities (Zalk 2017; Mondliwa and Roberts 2019). Reshaping the economy and rewriting its rules such that firms are incentivised to invest and innovate, rather than being rewarded for incumbency and rent-seeking, will require an ambitious industrial policy strategy in which competition policy has an

[1] Centre for Competition, Regulation and Economic Development (CCRED), University of Johannesburg.

important supporting role to play.

In making these arguments, we draw on Klaaren et al's (2020) case for a 'competition policy' beyond competition law in South Africa, and argue that a more expansive approach to competition policy ought to be developed in close coordination with a more targeted, sector- and industry-level approach to industrial policy. This aspect of the work reflects on the main aspects of the history and outcomes of industrial policy and competition laws in South Africa post-1994, draws lessons from the literature on successful late industrialisation, and considers a number of new challenges that developing countries face in their efforts to drive structural transformation of their economies.

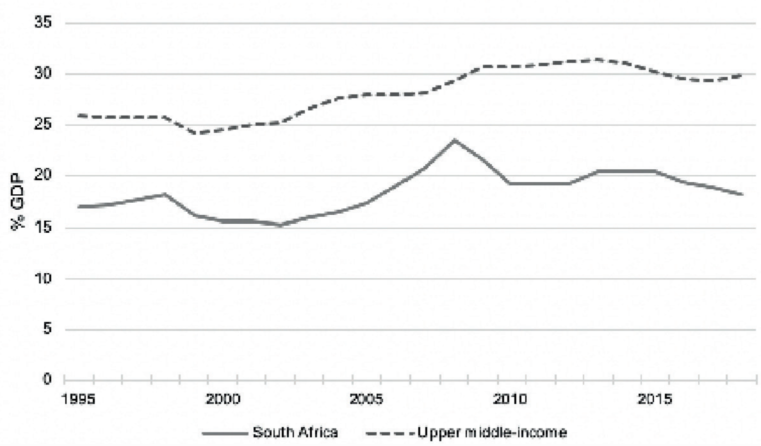
We proceed in section 2 to set out key aspects of the economic performance of the South African economy post-1994, with a focus on the lack of structural transformation and symptoms of premature deindustrialisation. Sections 3 and 4 provide critical overviews of industrial and competition policy experiences in South Africa respectively, with section 4 also making the case for a realignment and integration between the two. Section 5 provides a discussion of a number of cross-cutting themes, opportunities and challenges raised by our arguments, including the importance of (re)building state capacity, and section 6 concludes.

2. The wrong kind of structural transformation and the importance of manufacturing

The South African economy has substantially underperformed in the past two decades in terms of growth, investment and job creation. Critically, the economy has not been able to diversify from core minerals and mining related activities, and has not achieved extensive structural transformation, i.e., the transition from low to high value adding activities over time (McMillan and Rodrik, 2011; Bell et al., 2018). We begin by setting out the context in terms of the performance of the economy on key parameters.

First, despite consistently strong profitability across sectors (Bosiu et al, 2017), domestic investment remains low relative to other upper middle-income developing countries. This is reflected in Figure 1 below in terms of gross fixed capital formation (GFCF) as a percentage of GDP. Chronically low domestic fixed investment has been repeatedly identified as a major source of weakness, both for the industrial base and the economy more generally (Rodrik 2006, p.28; Bell et al 2018).

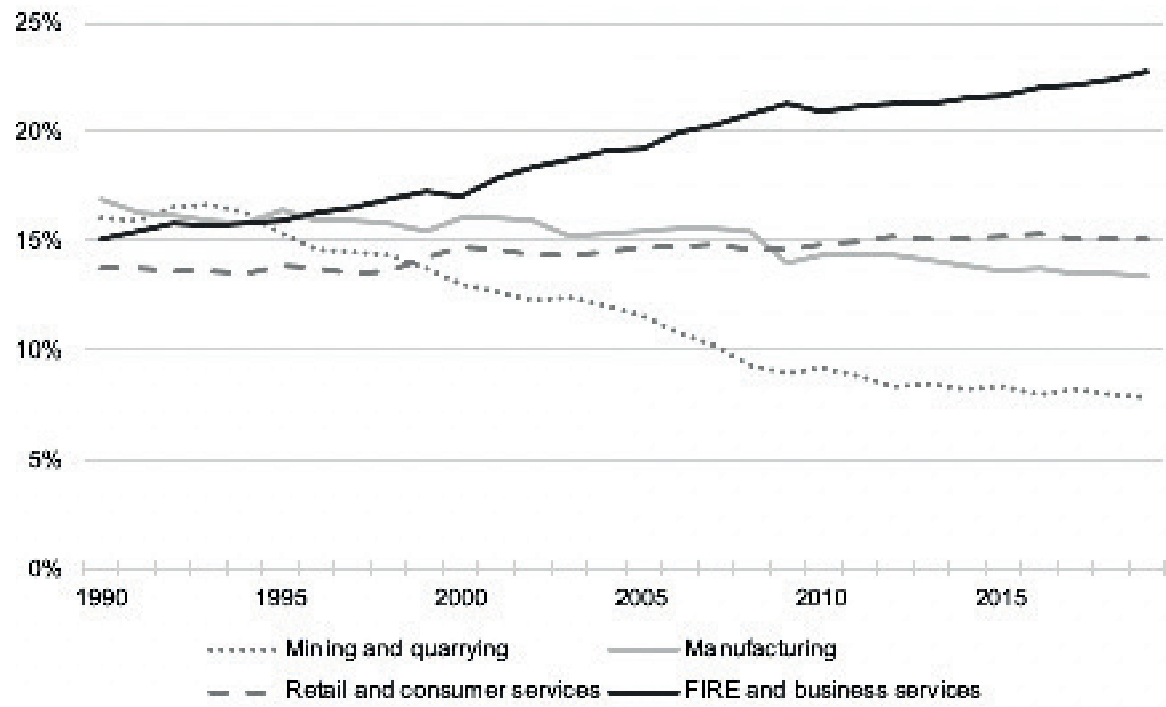
Figure 1: Gross fixed capital formation as % of GDP, 1995-2019



Source: World Development Indicators, World Bank.

Second, important structural changes in the economy have taken place over the last 25-30 years. Manufacturing as a sector has been a major casualty of this process, with the finance, insurance, and real estate (FIRE) industries the clear winner, as illustrated in Figure 2 below. There is a significant correlation between levels of investment and the fortunes of manufacturing industries; Rodrik (2006) illustrates that manufacturing employment as a share of the labour force peaked and has fallen in step with levels of domestic fixed investment. Around 1976-77, this figure was almost 15%, dropping below 8% by the late 1990s and reaching 7.3%[2] in 2020 (Rodrik 2006, p.31; Statistics South Africa 2020).

Figure 2: Share of gross value added by sector, 1990-2019



Source: South African Reserve Bank.

The relative decline of manufacturing is a symptom of "premature deindustrialisation", a worrying developing in light of the role played by the sector in driving sustained growth in developing countries (Rodrik 2006; Andreoni and Tregenna 2018). The provision of relatively well-paid jobs, the manufacture of exports that generate foreign currency earnings, and the improvement of productive capabilities and strong backward and forward linkages in the local production system are a few important themes in this regard. Rodrik (2006), using 2004 data for South Africa, shows that manufacturing contributes significantly higher value added per employee than services. Bell et al (2018) show that jobs in manufacturing have consistently paid higher real wages and achieved higher labour productivity throughout the post-apartheid era. For these reasons, a robust manufacturing sector is a key element of structural transformation.

Third, the profile of South African manufacturing reflects failures of diversification, innovation and upgrading of capabilities, and may be vulnerable to further deterioration (Andreoni and Tregenna,

[2]Although this is likely to reflect the pre-COVID-19 scenario.

2018). Bell et al. (2018), analysing the value-added performance of manufacturing sub-sectors post-1994, indicate that upstream, resource-based industries have outperformed those that rely on more sophisticated capabilities, indicating failures of diversification and capabilities upgrading in the post-apartheid period. Additionally, where domestic linkages between upstream, resource-based manufacturers and downstream sub-sectors exist, dominant upstream firms have tended to capture the lion's share of value, squeezing profits and further dampening growth (and even viability in some cases) in downstream industry. Mondliwa and Roberts' (2019) and das Nair et al's (2014) analyses of Sasol provide an especially clear example of how the structure of the South African economy and the failure of the state to intervene more decisively and effectively have combined to undermine stronger diversification, growth in value-added and capabilities development.

Lastly, South Africa's export profile provides an additional indicator of failures to upgrade and diversify the industrial base. Minerals and other resource-based industries continue to dominate the export basket, while manufacturing exports indicate an increased share of foreign value added (implying import penetration in intermediate inputs) and a failure to expand and diversify existing export capabilities via the development of linkages in the local production system (Bell et al., 2018).

It is important to note that low levels of investment, premature deindustrialisation, poor performance in manufacturing, and a range of other undesirable results have materialised in spite of the South African government's commitment to an orthodox economic policy framework, including "cautious fiscal and monetary policies", inflation targeting, trade and capital account liberalisation, central bank independence and resistance to large-scale redistribution (Rodrik, 2006).[3] Rodrik put it as follows: "If the world were fair, political restraint and economic rectitude of this magnitude would have produced a booming South African economy operating at or near full employment" (2006, pp.2-3). As things have turned out, by the first quarter of 2020, on the cusp of the COVID-19 crisis, the narrow unemployment rate had hit 30,1%, i.e., over 7 million people without employment (Stats SA 2020).

The understanding of South Africa's industrial base that readers carry into the discussion that follows must therefore be one of sustained decline, stagnation and vulnerability (even prior to COVID-19), and of the need to remedy this situation urgently. While the achievements of key redistributive and poverty-reducing measures ought to be acknowledged,[4] the state has failed to drive structural transformation, the critical driver of inclusive and sustained economic growth for developing countries. Indeed, the evidence presented above suggests that the structural changes that have taken place have been overwhelming negative. Structural transformation in the positive sense, revival of the manufacturing sector, and the successful creation of decent jobs ought to be viewed as urgent priorities if the state is to deliver on the promises and generate the opportunities that underwrite the post-apartheid social compact.

[3]Ndikumana, Naidoo and Aboobaker's (2020) note that a key argument for capital account liberalisation was that it would yield a "democratic dividend" in the form of increased private investment, both domestic and foreign (pp.22-23). It is clear from Figure 1 that this has turned out not to be the case.
[4]See Ndikumana et al 2020 (p.79) for a short discussion on this topic.

3. Industrial policy – principles, experiences and outstanding issues

Salazar-Xirinachs et al.'s joint UNCTAD-ILO report on industrial policy opens with a useful summation of the challenges facing emerging markets and developing economies (EMDEs) like South Africa as they seek to achieve job creation, poverty reduction and meaningful participation in the world economy through structural transformation (2014, p.1):

"The process of structural transformation remains particularly challenging for developing and emerging economies. Their efforts to upgrade and diversify take place in an interdependent world economy where earlier industrializers have already accumulated both enabling capabilities (individual and enterprise level know-how and skills, along with collective knowledge and sources of creativity) and productive capacities (embodied in production factors and physical and technological infrastructure) that give their producers significant cost and productivity advantages and equip them to push out the technological frontier through research and innovation."

The role of industrial policy in EMDEs is to navigate these challenges and drive structural transformation through policies that promote the upgrading of productive capabilities, transform the productive structure of the economy, build and strengthen linkages in the local production system, and facilitate progress toward higher productivity activities and the production of more complex products (Wade, 2015; Bell et al, 2018).

Andreoni and Tregenna (2018) provide a helpful framework for organising the industrial policy instruments most relevant for the challenges faced by middle-income countries as they seek to promote structural transformation and prevent premature deindustrialisation, which reproduce in part in Table 1 below. They propose five key policy areas: 1. Production, technological and organisational capabilities building; 2. Innovation and technological change; 3. GVC integration, local production system (LPS) development and industrial restructuring; 4. Demand and trade; and 5. Industrial finance.

Table 1: Industrial policy instruments

Areas	*Policy instruments*
1. Production, technological and organisational capabilities building	*1.1 Skills policy (TVET)*
	1.2 R&D intermediate institutions and extension services
	1.3/2.1 Matching grants for investments

2. Innovation and technological change	*2.2 PPP research consortia with universities*
	2.3 Joint ventures with TNC
3. GVC integration, LPS development and industrial restructuring	*3.1 Mergers and acquisition and recession cartels*
	3.2 Competition policy
	3.3 FDI incentives
	3.4 Local content policy
	3.5 SMEs incentives
	3.6 Cluster policy
	3.7/4.1 Special Economic Zones/Export Promotion Zones
4. Demand and Trade	*4.2 External demand: Trade policy and regional value chains*
	4.3 External demand: Export cartels
	4.4 Internal demand: Public procurement
	4.5/5.1 Export oriented: Export finance services
5. Industrial finance	*5.2 Long term: Development banks*
	5.3 Small size: Hybrid/blended finance, grants, procurement
	5.4 Public investment policy

Source: Adapted from Andreoni and Tregenna, 2018.

Policy instruments in areas 1 and 2 include the establishment of "intermediate institutions" to help firms build new and competitive capabilities, state assistance in financing of research and development (R&D) and joint ventures between the state, universities and firms in regard to fostering innovation and the development of new technologies to apply in production. Andreoni and Tregenna highlight the roles played by state institutions such as Embrapas in Brazil and Innofund in China as examples of successful interventions in these industrial policy areas. Embrapas, operating "at the interface between agriculture, biotechnologies and advanced manufacturing", plays a major role in coordinating research, training, investment and innovation across different sectors, facilitating the development of strong linkages and processes of "inter-sectoral learning" (2018, p.31). Innofund's role has been to finance and coordinate the growth of small-medium technology-based enterprises in China, providing targeted support at different stages of firms' development. Importantly, Innofund applies strict eligibility criteria in allocating its resources and capacities; firms must comply with national industrial policies, have shown a minimum level of R&D investment in relation to turnover, and meet a range of other performance criteria.

Area 3 of Andreoni and Tregenna's framework comprises industrial policy instruments aimed at GVC integration, local production system (LPS) development and industrial restructuring. The instruments in this area include competition policy, FDI incentives, local content policies and Special Economic Zones (SEZs), among others.

Area 4 in Andreoni and Tregenna's framework comprises industrial policy instruments related to demand and trade, i.e., internal and external demand. In relation to internal demand, the National Treasury has highlighted the need for industrial policy to prioritise demand-side measures, procurement policy key among these, in support of industrialisation (2019, p.59). This is a welcome development in light of "supply-side bias" and overemphasis on purely "functional" (i.e., non-selective and non-targeted) measures that have characterised much of the discourse on industrial policy, including in South Africa, where until 2007 the scope of industrial policy was relatively restricted (Chang and Andreoni, 2020; Zalk, 2014).

In relation to area 5, industrial finance, effective allocation and management of state support for private enterprises – including the possible withdrawal of such support and associated rents – has played a critical role in late industrialisation. The provision of industrial finance, typically in the form of long-term financing on concessional terms, has been a key policy lever for many successful late industrialisers, used to promote specific industries according to strategic national plans and to discipline firms that fail to perform or refuse to comply with these national plans. Andreoni and Tregenna's (2018) case studies of a number of key examples showing the importance of the industrial finance component of industrial policy in Brazil, China and Malaysia, makes clear how pivotal a role strategic and well-coordinated industrial finance can play in developing countries. These examples indicate that industrial financing ought to be large in scale, long-term (or "patient") in outlook, concessional relative to commercial financing, tailored to specific sectoral needs and dynamics, guided by a diversification strategy, and targeted at upgrading technological, innovation, and other *high value-adding capabilities (Goga et al., 2019; Vilakazi, Goga and Roberts, 2020).*

In the South African context, considerable scope exists to improve the effectiveness of existing development and industrial finance institutions – the IDC, DBSA and PIC pivotal among these – in regard to their mandates, financing models, governance, conditionalities, and patterns and terms of lending (Goga et al., 2019). As noted by Cramer et al (2020, p.77), it is not enough for late industrialisers to target a generically higher level of investment; the nature of the activities invested in are critical. There is therefore a key role for the state in directing credit and "crowding in" investment to sectors and industries with high potential for employment, export earnings and capabilities upgrading.

Competing visions of industrial policy: The South African experience and the role of the state

In line with the commitment to a relatively conservative economic policy framework described previously, a narrow vision and scope characterised the critical first decade or so of South African industrial policy post-1994, with a skewed focus on some areas such as the automotive sector. In the context of the neoliberal turn and the collapse of the USSR, "'industrial policy' became a phrase that one did not utter in polite company" (Chang and Andreoni, 2020, p.324). Nobel laureate Gary Becker's view on the matter has become symbolic of the prevailing perspective at the time: "The best industrial policy is none at all" (quoted in Wade, 2020, p.223).

From this perspective, the second-best type of industrial policy was one in which the state's role was highly constrained. Thus, throughout the critical period of trade liberalisation and up until 2007, industrial policy in South Africa was limited to "functional", non-selective policies aimed at improvements in market conditions at a general level (Zalk, 2014). This helps at least partially to explain why South African manufacturing contracted so significantly in the process of trade liberalisation, and without sufficient gains in employment or otherwise elsewhere in the economy (Roberts, 2007).

Critical labour-intensive industries, clothing and textiles the obvious example, were all but decimated in this process. These clearly required a more gradual exposure to international competition, as well as targeted support to retain market share and achieve higher productivity in the context of a vicious "race to the bottom" based on the lowest wages and the poorest conditions. In his 1998 critique of newly-democratic South Africa's approach to industrial policy, Ha-Joon Chang had warned that an approach limited to non-selective and purely supply-side measures would be likely to further entrench the economic dominance of highly concentrated, capital-intensive and resource-based industries. Despite the officially non-selective industrial policy approach to which South Africa had been committed, these upstream sectors benefited from a great deal of direct and indirect state support throughout the post-apartheid period, in what Kaplan (2007) referred to as a "hidden" industrial policy. Their continued dominance, in combination with the failure of the state to effectively intervene, has had a range of negative effects, particularly on downstream industries (Mondliwa and Roberts, 2019). In sum, no industrial policy or weak industrial policy is still industrial policy, just one *that tends to reinforce entrenched interests and path dependence – in the South African context, entrenching the power of resource-extractive and financial sectors in the economy.*

At the core of the ongoing debate on industrial policy lies the nature and extent of the state's role in the economy. Competing visions remain, especially where state capacity is relatively weak. Our view, informed by the analysis above and by the extraordinary role that states have been called upon to play in the course of the COVID-19 crisis, is that the South African state cannot and ought not to cede its responsibilities for development, industrialisation and economic governance in general to market forces. While there is no doubt that, at present, a lack of capacity in the South African state is an obstacle to an ambitious, industrial policy-led economic restructuring, we argue that capabilities can be acquired, institutions can be built, and that a route to structural transformation can be forged. In the words of Salazar-Xirinachs et al (2014, p.33):

> *"…if countries that have been successful in catching up had actually applied the prevailing market orthodoxy, they would not be success stories today. They were successful because their governments were both unorthodox and pragmatic in their approaches. They experimented with different forms of sectoral, trade, education, technology and macroeconomic policies that allowed them to launch and manage a sustained process of structural transformation and capability building, and they learned from their mistakes and adapted policies accordingly. They applied the principle that 'the market is a good servant but a bad master'"*

Learning from the history of late industrialisation

While for a time controversial, the importance of the state in driving industrialisation, especially "late industrialisation" in the 20th century, is by now well-established. The case of South Korea has become the paradigmatic example of successful late industrialisation, and the subject of a great deal of debate. The orthodox position, as put forward by the World Bank and IMF among others, was initially that the success of East Asian industrialisation was due in large part to these countries' governments limiting their involvement in the economy and sticking to the protection of property rights, macroeconomic stability and trade liberalisation.

Alice Amsden (1989), Robert Wade (1992), Ha Joon Chang (1993) and a number of others demonstrated convincingly that this was not the case, and that the state had played an indispensable, highly interventionist role. This role has been multi-faceted in examples of late successful late industrialisation, involving protective tariffs, extensive subsidies, regulation of FDI, foreign ownership and access to hard currencies, and, critically, close involvement in flows of credit and financial matters generally (Chang and Zach, 2018). The South Korean state also deployed these measures selectively – acting to support particular sectors and industries according to a coordinated and strategic national plan. The power, political will and technical capacity to support, direct and discipline capital – private conglomerates, large firms, banks and wealthy individuals – according to *this national plan has been identified as a critical prerequisite for successful late industrialisation.*[5] *"Reciprocal control mechanisms" – strategic combinations of financing, incentivising and disciplining instruments – made state support for business conditional on volume and quality of production, export performance, and adherence to a national strategic growth plan; support would be withdrawn from actors unwilling or unable to deliver on their end of the bargain (Amsden, 2001; Salazar-Xirinachs et al, 2014).*

In stark contrast, the South African state has, in the democratic era, essentially failed to assert its authority vis-à-vis the most powerful fractions of capital (Chabane et al, 2006; Makhaya and Roberts, 2013). The highly-concentrated upstream sectors in which these fractions are embodied continued to benefit from a great deal of direct and indirect state support throughout the post-apartheid period, despite the demonstrably negative effects their continued dominance, rent extraction and "regulatory capture" have had on manufacturing in particular (Roberts and Rustomjee 2009; das Nair et al 2014; Zalk 2017; Mondliwa and Roberts 2019, Ndikumana et al 2020). The state support and continued access to rents which these industries have been able to secure – via tax concessions, state financing, discounted rates on utilities, etc. – have in general been received without reciprocal conditionalities linked to performance, support for diversification and contribution to structural transformation (Zalk, 2014). Access to state support has been retained despite failure to adjust their strategies and behaviours in support of national priorities regarding diversification, employment creation and support for downstream manufacturing (Mondliwa and Roberts, 2019). In this sense, South Africa has thus far failed to absorb one of the most critical lessons of successful late industrialisation: state support for private enterprise through industrial policy and other mechanisms must be given on a conditional basis, and the state must retain the ability to withdraw such support. In essence, the post-1994 state has been unable to allocate and discipline rents in a strategic and development-enhancing manner, and its strategy for disciplining powerful incumbent firms through trade liberalisation has failed to generate the desired outcomes (Mondliwa and Roberts, 2019; Ndikumana et al., 2020). This is a strong indication of the post-apartheid state's weakness vis-à-vis entrenched fractions of capital, and of the need for the state to reassert itself. Identifying and mitigating the sources of this weakness and developing strategies to overcome it ought therefore to be urgently prioritised. The achievement of an inclusive, transformative growth path for South Africa will turn on whether the requisite capacity and vision in the state can be developed, and on whether a sufficiently organised developmental coalition capable of uniting diverse interests behind the imperatives for structural transformation and industrialisation can be forged.

Outstanding issues and challenges for industrial policy

There are a wide range of challenges to overcome in regard to developing and implementing an ambitious industrial policy-led growth strategy in the South African context. Just two are discussed here briefly, one domestic and one international.

[5] Vivek Chibber, a critic of "statist" explanations of South Korean industrialisation, correctly emphasises the roles of complementary interests between Korean and Japanese capital, the role of Cold War-era geopolitics, and other factors, arguing that a finely-balanced array of interests and opportunities and not the state alone is responsible for South Korea's success (1999). However, Chibber does not contest that state influence vis-à-vis capital was an important factor; whether this influence is understood as absolute or dependent on a confluence of factors, the state's role remains critical.

A potential domestic source of difficulty in implementing a coordinated, industrial policy-led development strategy may be that government responsibility in regard to critical industries and key policy levers is divided among several separate departments. The success of an ambitious industrial policy will depend to a large extent on coordination and policy alignment across a wide range of government departments and agencies. Insufficient coordination between industrial policy and other economic policy areas has been a recurring theme in much of the literature on industrial development in the post-apartheid era (including Kaplan 2007; Roberts and Rustomjee 2009; Zalk 2014 and 2017; Bell et al 2018; and Mondliwa and Roberts 2019).

Responsibility for and strategic oversight of critical sectors and industries is presently split among the Departments of Mineral Resources and Energy (DMRE), Communications and Digital Technologies (DCDT), and a number of others. Government's "Economic Cluster" appears to include no fewer than twenty different Ministers and their departments. Critical policy levers required to implement an ambitious industrial policy also appear to be spread between multiple departments and agencies. Policies aimed at capabilities upgrading, innovation and technological change may require coordination between the DTIC, the Department of Higher Education, Science and Technology (DHEST), the National Treasury and a range of other departments depending on the industry targeted. Policies designed to leverage public procurement for targeted support of key industries would require coordination across almost all Departments, especially the Departments of Public Enterprises (DPE), Public Works and Infrastructure (DPWI), and those with large and complex procurement needs such as the Departments of Basic Education (DBE) and Health (DOH). Industrial policy measures aiming to raise "patient finance" for long-term growth in higher value-added export industries would need buy-in, sustained commitment and capacity from the Minister of Finance (responsible for the PIC, DBSA, Land Bank and other key institutions), SARS, SARB and others.

Only a coherent set of macroeconomic, trade, investment, sectoral, labour market and financial policies can adequately respond to the myriad challenges of structural transformation and decent jobs faced by countries today. Strategies to enhance capabilities for high-performing catch-up growth require education, training, investment, trade and technology policies to promote learning at different levels and in different places – in schools, in enterprises, in social and organizational networks. Focusing systematically on coherence adds another dimension to the debates on industrial policy (Salazar-Xirinachs et al 2014, p.4)

The need to coordinate industrial policy initiatives across so many different government actors adds a layer of complexity to an already difficult task. While it is beyond the scope of this paper to wade fully into debates on more extensive centralisation of government authority in regard to economic policy, it remains worthwhile to note that the existing division of responsibilities may be counterproductive. Indeed, retaining multiple centres of authority and influence may have the effect of helping firms and industries with powerful lobbying capacities to frustrate or subvert government policy, providing more numerous points of access to and influence on policy development and implementation processes than there might otherwise be. As noted in the growing literature on *political settlements, "institutional change almost always involves the creation or destruction of rents" (Khan 2000, p.3). It follows then that the size of the rents and other benefits associated with entrenched dominance and incumbency is likely to incentivise extremely vigorous lobbying and rent-seeking activities aimed against government interventions that may disrupt well-established interests and networks. Consolidating the state's fragmented approach to economic governance under a common set of goals and principles may therefore play an important role in improving state capacity, insulating policy design and implementation from capture, and improving coordination within government and with the private sector.*

A second set of difficulties for EMDE aspirations for structural transformation in general arises from the changed nature of the world economy. It is critical to appreciate that the contemporary global political economy presents a range of new challenges for EMDE aspirations for structural transformation that simply didn't exist when South Korea and the other "Asian Tigers" achieved their late industrialisation. Even if one were able to set aside the immediate threats posed by COVID-19, climate change and intensified contestation between the USA and China, a formidable array of challenges would remain. These include the effects of: global financial liberalisation and the volatile international private capital flows (IPCFs) unleashed by this process (generating financial fragility and undermining individual states' abilities to discipline capital, constraining EMDE policy space in particular); the rise of global value chains dominated by lead firms largely based in advanced economies (in which lead firms monopolise profits through their asymmetrical power in GVCs and force EMDEs into a global "race to the bottom" in wages and working conditions); and the pressure exerted by financialisation, which has extended the logic and power of finance capital into the ways that state, households and firms operate, which in the latter has the effect of siphoning profits into financial markets and away from productive reinvestment (see Chang and Andreoni, 2020, for a recent analysis of some of these issues).

4. The South African approach to competition and the need to rethink it

Despite having one of the world's most progressive competition law regimes in terms of emphasis on economic redress, inclusion and public interest, competition policy remains underdeveloped, and outcomes in terms of wider economic participation and competitive rivalry have been poor. A number of critical assessments of South Africa's competition regime have suggested the need for a re-examination of the assumptions that have underpinned it (see Makhaya and Roberts, 2013; Banda et al, 2015; Klaaren et al., 2020). Perhaps most urgently, there is a need to move beyond a notion of competition in which market power and its various symptoms are understood as an aberration, rather than as an intrinsic feature of capitalist economies.

The underlying, erroneous assumption of this approach is that markets would function efficiently and produce optimal social outcomes if only things like cartels, collusion, predatory pricing and other abuses of dominance didn't exist. Indeed, market power is typically only recognised when the threshold for what is considered abuse of dominance is breached.

The key point here is that this theory of competition does not survive contact with reality, and is unfit to underpin an important set of tools for economic governance. It is trite that perfectly competitive markets do not exist. In reality, most markets in small, open economies such as South Africa's are characterised by some concentration of resources and imperfect competition. The key question in these contexts is whether effective disciplines on firms with market power are present, and if competitive rivalry between firms is functioning effectively to constrain abuse of market power.

Differential economic power always plays a role in capitalist economies, and renewed recognition of this reality has fuelled a growing global consensus that states should not seek to outsource their responsibility for economic governance to the market. However, entrenched structures of economic power cannot be eliminated or even seriously reconfigured by changes in legislation or policy on paper alone. Legislation and policy must actively generate and facilitate countervailing economic forces and disciplines that challenge established interests, restructure markets where this is desirable, and incentivise changes in the behaviour of dominant firms according to national developmental strategies and in ways that serve national developmental goals.

In the South African context, acknowledging the differences between competition law and competition policy is a vital first step for closer coordination between competition policy and other key areas of economic governance (Klaaren et al., 2020). Klaaren et al. argue that the South African approach has been to conflate the two, with policymakers "[falling] into the trap of understanding legal changes as policy changes and moreover as sufficient policy changes" (p.1).

As a result, interventions have typically taken the form of technical, protracted, expensive and adversarial legal processes, reducing competition law, policy and enforcement to "a process of seeing just how close to the edge of legality large firms can go" (p. 8). This has had the effect of constraining the potential for competition policy to play a more proactive role in reshaping the economy, reinforcing minimum standards for firm behaviour rather than actively lowering barriers to entry, facilitating the growth of new entrants, and incentivising behaviours that support structural transformation.

An industrial policy/competition policy nexus in South Africa?

We argue that competition policy can be made to play a more significant and potentially powerful role in economic governance for structural transformation on the basis of a closer alignment with, and in some senses subordination to, industrial policy and its objectives. In essence, the critical task for policymakers is to integrate competition policy and enforcement mechanisms with the broader project of structural transformation of the economy.

Studies of late industrialisation have much to offer in the development of guiding principles for an integration of industrial policy and competition policy. A fundamental point that may be drawn from the pioneering work of Alice Amsden (1989; Amsden and Chu, 2003) and others on late industrialisation is that, if we are interested in structural transformation, the elimination of dominance by oligopolistic *or even monopolistic firms as a general principle ought not to be one that guides our approach to competition. Competition-related interventions ought to be tailored to the needs of specific sectors and industries; a "one-size-fits-all" approach that seeks to promote maximal competition in every part of the economy is unlikely to be productive.*

There are at least two reasons for this. First, the presence of dominant firms and associated high profitability need not undermine broader developmental objectives, and in fact have historically played a critical role in industrialisation. With the right combination of policy coordination, enabling institutions and enforcement capacity, high profitability in dominant upstream firms can be strategically leveraged to promote downstream diversification and capabilities development. Developmental pricing of key inputs, and the deepening of production, consumption and technological linkages between dominant firms and those up and downstream from them, are two well-established channels through which oligopolistic/monopolistic profits may promote broader development. Naturally, there is a critical role here for reciprocal control mechanisms in ensuring that rents associated with dominance indeed translate into positive spillover effects and developmental outcomes elsewhere in the economy.

Second, large, oligopolistic developing country firms are likely to have distinct advantages in integrating into global supply chains, acquiring organisational efficiencies, advanced technologies and capabilities, and achieving functional upgrading into higher value segments of these supply chains (Chandler et al., 1997). Amsden and Chu (2003) provide evidence from successful cases of upgrading in Taiwan, and emphasise the critical role of achieving economies of scale, particularly when a "latecomer economy" seeks to enter production in sectors where producing at scale is critical to sustained profitability, and firm size plays an important role in signalling the capability to deliver on large contracts at lower average costs. Larger firms may be uniquely placed in this regard in many developing countries, including South Africa. In Amsden and Chu's words, "to survive, a latecomer must exploit unique types of scale economies and manufacture in large volume" (2003, p.3).

In this light, the key question is not how to eliminate oligopoly or even monopoly, but how to assess, using what principles and methods, when unilateral or joint dominance in a given market constrains positive developmental outcomes, and when it has the potential to promote them. It is also critical to ensure that the conduct of large firms can be disciplined, not least because this ensures that they retain the incentive to innovate, invest and develop their capabilities (Vilakazi, Goga and Roberts, 2020). As such, competition policy ought not to be preoccupied with ensuring an unattainable, maximal level of competition, operating independently from other areas of economic policy and governance. In concert with other industrial policy measures, competition policy can instead target an "optimal" level of competition for development (Singh, 2002; Roberts, 2010). That is, an industrial policy/competition policy nexus should promote rivalry in sectors where competitive discipline is likely to generate developmental outcomes, while ensuring that large firms elsewhere are subject to other disciplinary mechanisms (including regulations where applicable) that leverage the rents *associated with dominance in a manner that promotes industrialisation.*

In short, competition policy ought to be reconfigured as one of several policy channels that act together to ensure that firms are incentivised to invest, employ and innovate (Klaaren et al., 2020). Further, competition policy ought to have more ambitious and explicitly developmental goals. In relation to the prior discussion of industrial policy, competition policy can act as a key policy lever for strengthening conditionalities linked to national development strategies and objectives. For example, an integrated industrial policy/competition policy perspective might allow for a given firm or group of firms to dominate in a given market on some or all of the following conditions:

1. *Dominance is achieved and sustained on the basis of efficiency, innovation, and adherence to the rule of law, not through the creation of barriers to entry;*
2. *Above-normal profits (i.e., rents) associated with dominance are reinvested to support innovation and leveraged strategically to promote the development of the local production system, particularly of downstream manufacturing;*
3. *Adherence to corporate governance principles that limit and/or roll back the degree to which profits can siphoned out from firms and into financial markets through excessive dividends, share buybacks and financial speculation, or paid out to executives through excessive salaries and stock options;*
4. *Market power in a given sector plays an enabling role in government's national growth strategy (through export earnings, employment, innovation, functional upgrading in GVC integration, etc.) or in providing for other essentially public goods.*

Where dominance fails to meet developmental criteria of this sort, competition policy ought to be empowered to actively support new entrants, break down barriers to entry, and impose competitive discipline on incumbent firms. In this way, competition policy can more effectively serve developmental goals, supporting industrial policy imperatives to allocate and discipline rents according to the needs of specific sectors and industries. This last point is critical; as discussed previously, both the history of late industrialisation and of South Africa's post-1994 development trajectory suggests that the retention and expansion of industrial capabilities requires the state to go beyond a general, "market-enabling" approach and take responsibility for supporting growth in specific areas of the economy via targeted or "selective" measures. In this regard, market inquiry tools used by the competition authorities are especially relevant in that they empower government to understand more systemic factors (including regulations) that undermine inclusion and rivalry in different sectors, rather than narrow investigations of individual firms, for example.

Rethinking competition policy and enforcement in a more pragmatic and selective way may therefore provide a strong basis for its closer alignment with industrial policy. Forcing firms to prove the social benefits of their dominant positions rather than forcing the state to prove negative effects thereof would arguably reduce the burden on competition authorities. Linking enforcement measures including fines, breaking up of monopolies/oligopolies, etc. to performance in line with national growth strategies and provision of other public goods would provide industrial policy with *a powerful reciprocal control mechanism that it currently lacks.*

5. Discussion

In section 2, we set out a number of urgent priorities for South Africa in terms of fostering economic recovery and sustainable, inclusive growth. These include the need to turn high profitability into higher investment, the importance of reviving the manufacturing base, and promote upgrading and diversification; in short, structural transformation of the economy. In this context, we draw out from the preceding sections a number of broad thematic ideas for policy consideration, as part of rethinking the roles of and approach to industrial and competition policies in South Africa. These cut across four core themes: building state capacity; policy alignment and prioritisation; commitment to sector/industry-specific interventions; and strategic responses to contemporary global challenges.

While previous sections have made it clear that a lack of state capacity is a major obstacle to structural transformation in South Africa, we have also argued that such capacity can be built and must be prioritised. It is also evident that there is no coherent, cross-cutting policy agenda for industrial policy and achieving structural transformation. We make three interrelated proposals in this regard. First, the fragmentation of economic governance must be addressed, and access to key policy levers – particularly those that can be applied to the most concentrated sectors and dominant firms – must be consolidated and brought in line with national development strategies. While such a centralisation of economic governance powers is certainly no silver bullet, the current fragmented dispensation is counterproductive, minimising the state's ability to incentivise and discipline dominant firms while maximising the ability of entrenched interests to influence policy and stymy efforts to regulate and govern. A lack of coherence and coordination in South Africa's approach to economic governance, with different departments and policies operating at cross-purposes, has long been identified as a driver of poor outcomes. It is also a major barrier to building the capacity required to respond effectively to the challenges posed by a volatile global economic context, unequal power relations in global financial markets and value chains, and the effects of financialisation on investment in productive capabilities.

Second, improving state capacity will require the development of effective tools and policy levers for economic governance; the economy cannot be effectively managed at arm's length and primarily through suasion. Appeals to the patriotism and goodwill of powerful interests can only take us so far, and ultimately the departments and agencies responsible for industrial policy (and those that are not, for that matter) need effective and powerful policy levers if policy goals are to be met. A critical area where improved policy levers are required is the effective allocation, management and discipline of economic rents. As argued by Mazzucato et al. (2020), modern economic rents are increasingly sophisticated, and can act through channels other than straightforward price increases to constrain productivity and innovation, and skew the distribution of incomes between capital, labour and other factors of production and social groupings.

There is much further research to be done on these questions in the South African context, but in *relation to the role that industrial policy measures and competition policy interventions can play in rent management, we have drawn on South Africa's industrial policy experience and the history of late industrialisation to motivate for the use of "reciprocal control mechanisms" as part of the state's economic governance toolkit. Market inquiries conducted by competition agencies illustrate the potential positive impact of industry-wide interventions to address systemic inhibitors of rivalry and economic dynamism. Conditionalities on state support in general, performance and developmental requirements for dominant firms, and a range of other reciprocal control mechanisms are well-established as tools with which rents can be managed productively and firm behaviour shaped to promote structural transformation. Relevant departments and agencies must be empowered to build and use tools of this sort. History suggests that state capacity is not an abstract quality that some countries have and others don't, but rather is built up through "learning by doing"; the sooner South Africa commits to learning and starts doing, the better for structural transformation of the economy.*

Lastly, the project of enhancing state capacity to drive structural transformation is likely to benefit a great deal from a commitment to targeted, sector/industry-level interventions in the economy, rather than general, non-selective interventions that aim to "make markets work" in a general sense. In the South African context, this will require reprioritisation of IPAP sectors to focus on support for those with substantial potential to realise employment growth, investment and diversification. A policy approach that is too broad may lead to suboptimal outcomes from interventions, which is especially problematic in the resource and demand constrained economic environment brought about by economic shocks such as the COVID-19 pandemic. Similarly, important decisions need to be made about the historical skewing of industrial policy support to some parts of the economy such as the automotive sector, and the skewing of industrial finance towards traditional industries and market participants rather than driving diversification and investments in innovative, dynamic sectors and firms. A renewed focus on promoting medium- to long-term investment in new technologies and capabilities, including through patient investment and commitment under uncertainty is required (Chang et al., 2020).

Driving growth in specific sectors and industries that have been identified as strategically important (in terms of employment, diversification, capabilities upgrading, GVC integration, etc.) will require specific capabilities and intimate knowledge of these sectors and industries. "Intermediate institutions" of the kind used to great effect in Brazil, China and Malaysia (Andreoni and Tregenna, 2018) can play a role in developing these capabilities, housing institutional knowledge and stimulating productive relationships between the state and private enterprise. The process entailed herein can feed into the reform and improvement of other institutions and agencies involved in economic governance, triggering "processes of collective and cumulative learning" between and within government and private firms (Andreoni, 2014; Andreoni and Chang, 2017).

6. Conclusion

The performance and trajectory of the South African economy in the last three decades or so, indicative of stalled structural transformation and premature deindustrialisation, suggests a need for a major rethinking of the country's growth strategy. As with countries all over the world, the economic crisis precipitated by the COVID-19 pandemic has brought South Africa's underlying weaknesses out into the open and has helped to clarify the need for a number of urgent interventions.

Our key argument in this paper has been that a closer integration of industrial policy and competition policy, with the overarching goals and strategies of the former guiding the development of the latter, ought to be considered as one of these urgent interventions. We have drawn out a number of lessons for future developments in industrial policy from South African and international experiences, and have made the case for competition policy as a more proactive set of tools for opening up participation in the economy, stimulating competitive rivalry, and disciplining and incentivising firms to invest, produce and build domestic linkages in support of industrial policy goals and national development strategies. Critically, as argued by Klaaren et al (2020), this entails the growth and development of competition policy beyond the constraints of the existing competition law regime and its institutions.

Finally, we have reflected on major challenges for structural transformation in South Africa, including relatively weak state capacity, lack of policy alignment and a number of contemporary challenges faced by all developing countries in a volatile global environment. We argue that a coordinated industrial policy/competition policy nexus focused on strategic, industry-level interventions can play an important role in improving state capacity and policy coordination through processes of "learning by doing". There is no doubt however that formidable challenges lie ahead; it remains to be seen whether South Africa's political leadership and organs of state can marshal a sufficiently powerful developmental coalition in support of structural transformation and reindustrialisation.

REFERENCES

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

Amsden, A. (2001). The rise of "the rest": Challenges to the west from late-industrializing economies. New York: Oxford University Press.

Amsden, A. and Chu, W. (2003). Beyond Late Development: Taiwan's Upgrading Policies. Cambridge, MA: MIT Press.

Andreoni, A. (2014). Structural Learning: Embedding discoveries and the dynamics of production. Structural Change and Economic Dynamics 29, pp.58-74.

Andreoni, A. (2019). A Generalized Linkage Approach to Local Production Systems Development in the Era of Global Value Chains, with special reference to Africa. In R. Kanbur, A. Noman and J. Stiglitz (eds.), The Quality of Growth in Africa. New York: Columbia University Press.

Andreoni, A. and Chang, H. J. (2017). Bringing production and employment back into development: Alice Amsden's legacy for a new developmentalist agenda. Cambridge Journal of Regions, Economy and Society 10(1), pp.173–187.

Andreoni, A. and Tregenna, F. (2018). Stuck in the Middle: Premature Deindustrialisation and Industrial Policy. Johannesburg: Industrial Develop Think Tank, University of Johannesburg.

Banda, F., Robb, G. and Roberts, S. (2015). The links between competition policy, regulatory policy and trade and industrial policies. Centre for Competition, Regulation and Economic Development, Review Paper. Johannesburg: CCRED, University of Johannesburg.

Bell, J., Goga, S., Mondliwa, P., and Roberts, S. (2018). Structural Transformation in South Africa: Moving towards a smart, open economy for all. Johannesburg: Industrial Develop Think Tank, University of Johannesburg.

Bosiu, T., Nhundu, N., Paelo, A., Thosago, M. O. and Vilakazi, T. (2017). Growth and Strategies of Large and Leading Firms – Top 50 Firms on the Johannesburg Stock Exchange. Centre for Competition, Regulation and Economic Development, Working Paper 17. Johannesburg: CCRED, University of Johannesburg.

Chabane, N., Goldstein, A. and Roberts, S. (2006). The changing face and strategies of big business in South Africa: more than a decade of political democracy. Industrial and Corporate Change 15(3), pp.549-577.

Chandler, A., Amatori, F. and Hikino, T. (1997). Historical and Comparative Contours of Big Business. In: A. Chandler, F. Amatori & T. Hikino, eds. Big Business and the Wealth of Nations. Cambridge: Cambridge University Press.

Chang, H. J. (1993). The political economy of industrial policy in Korea. Cambridge Journal of Economics 17(2), pp. 131–157.

Chang, H. J. (1998). Evaluating the current industrial policy of South Africa. Transformation: Critical Perspectives on Southern Africa (36), pp. 51-73.

Chang, H. J. and Zach, K. (2018). Industrial development in Asia: Trends in industrialization and industrial policy experiences of developing Asia. UNU WIDER Working Paper 2018/120.

Chang, H. J. and Andreoni, A. (2020). Industrial Policy in the 21st Century. Development and Change 51(2), pp.324-351.

Chibber, V. (1999). Building a Developmental State: The Korean Case Reconsidered. Politics & Society 27(3), pp. 309–346.

Cramer, C., Sender, J. and Oqubay, A. (2020). Investment, Wage Goods and Industrial Policy. Chapter 4 in 'African Economic Development: Evidence, Theory, Policy'. Oxford: Oxford University Press.

das Nair, R., Mondliwa, P. and Roberts, S. (2014). Excessive pricing verdict in Sasol polymers case. Centre for Competition, Regulation and Economic Development, Competition Review. Johannesburg: CCRED, University of Johannesburg.

Goga, S., Bosiu, T., and Bell, J. (2019). Linking IDC finance to structural transformation and

inclusivity in post-apartheid South Africa. Development Southern Africa, 1-18.
Kaplan, D. (2007). The constraints and institutional challenges facing industrial policy in South Africa: a way forward. Transformation: Critical Perspectives on Southern Africa (64), pp. 91-111.
Khan, M. (2000). Introduction. In M. Khan and J. S. Jomo (eds.) Rents, Rent-Seeking and Economic Development. Cambridge: Cambridge University Press. [Online] Available at: https://eprints.soas.ac.uk/9841/1/Introduction.pdf.
Klaaren, J., Roberts, S., Valodia, I. and Vilakazi, T. (2020). A Working Paper on Competition Policy in South Africa for the 2020s.
Mazzucato, M., Ryan-Collins, J. and Gouzoullis, G. (2020). Theorising and mapping modern economic rents. Institute for Innovation and Public Purpose, working paper. London: IIPP, University College London.
Makhaya, G. and Roberts, S. (2013). Expectations and outcomes: Considering competition and corporate power in South Africa under democracy. Review of African Political Economy, 40(138), pp.556-571.
McMillan, M. and Rodrik, D. (2011). Globalization, structural change and productivity growth. National Bureau of Economic Research working paper 17143, Cambridge, MA.
McMillan, M. & Headey, D. (2014). Understanding Structural Transformation in Africa. World Development 63, pp. 1-10.
Mondliwa, P. and Roberts, S. (2013). Reviewing regulation and regulators in the context of economic development in South Africa. Centre for Competition, Regulation and Economic Development, concept paper. Johannesburg: CCRED, University of Johannesburg.
Mondliwa, P. and Roberts, S. (2019). From a developmental to a regulatory state? Sasol and the conundrum of continued state support. International Review of Applied Economics, 33(1), pp.11-29.
Nissanke, M. (2019). Exploring Macroeconomic Frameworks Conducive to Structural Transformation of Sub-Saharan Economies. Structural Change and Economic Dynamics 48, pp.103–16.
Ndikumana, L., Naidoo, K. and Aboobaker, A. (2020). Capital flight from South Africa: A case study. PERI Working Paper 516. University of Massachusetts-Amherst.
Rodrik, D. (2006). Understanding South Africa's economic puzzles. National Bureau of Economic Research (NBER) Working Paper 12565.
Roberts, S. (2007). Patterns of industrial performance in South Africa in the first decade of democracy: the continued influence of minerals-based activities. Transformation: Critical Perspectives on Southern Africa (65), pp. 4-35.
Roberts, S. (2010). Competition policy, competitive rivalry and a developmental state in South Africa. In: O. Edigheji, ed. Constructing a democratic developmental state in South Africa: Potentials and challenges. Pretoria: HSRC Press, pp. 222-237.
Roberts, S. and Rustomjee, Z. (2009). Industrial policy under democracy: apartheid's grown-up infant industries? Iscor and Sasol. Transformation: Critical Perspectives on Southern Africa 71, pp.50-75.
Salazar-Xirinachs, J.M., Nubler, I. and Kozul-Wright, R. (2014). Transforming Economies: Making industrial policy work for growth, jobs and development. Geneva: UNCTAD-ILO.
Singh, A. (2002). Competition and competition policy in emerging markets: International and developmental dimensions. G-24 Discussion Paper Series, Issue 18.
Vilakazi, T., Goga, S. and Roberts, S. (eds). (2020). Opening the South African Economy: Barriers to entry and competition. HSRC Press: Cape Town.
Wade, R. (1992). East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence. World Politics 44(2), pp. 270–320.
Wade, R. (2015). The role of industrial policy in developing countries. In A. Calcagno, S. Dullien, A. Marquez-Velazquez, N. Maystre and J. Priewe (eds.), 'Rethinking Development Strategies after the Financial Crisis, Volume 1: Making the Case for Policy Space'. Geneva: UNCTAD.

Zalk, N. (2014). Industrial policy in a harsh climate: The case of South Africa. In J. M. Salazar-Xirinachs, I. Nubler, and R. Kozul-Wright (eds.), Transforming Economies: Making industrial policy work for growth, jobs and development. Geneva: ILO.
Zalk, N. (2017). Things we lost in the fire: the political economy of post-apartheid restructuring of the South African Steel and Engineering Sectors. PhD thesis. London: SOAS, University of London.

SA Future Economy

GET IN TOUCH:

WITS SCHOOL OF GOVERNANCE
UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

(011) 717 3567
kemantha.govender1@wits.ac.za
Visit www.wits.ac.za/wsg
WSGWITS
Wits_WSG
Wits School of Governance