

■ OPINION / COLUMNISTS

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NEVA MAKGETLA: Master plans could change save-the-big-firms-first policies

Smaller businesses, households and citizens would have to bear much less of the cost

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12 OCTOBER 2020 - 13:58 by NEVA MAKGETLA



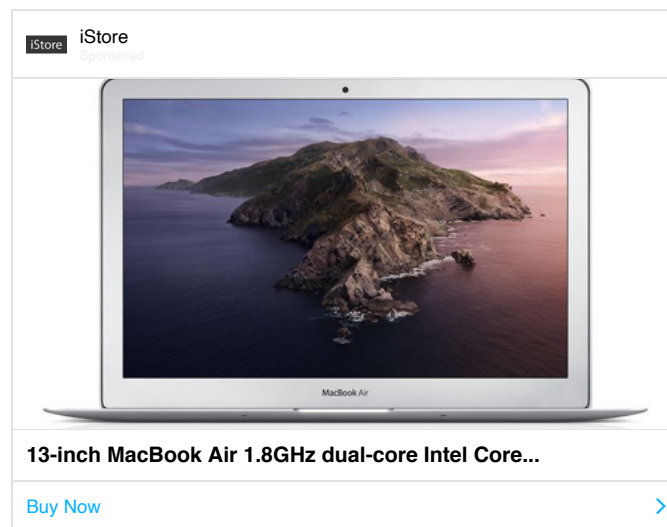
Picture: BUSINESS DAY/RUSSELL ROBERTS

Industrial policy aims to promote a more advanced and equitable economy, brimming with innovative and dynamic industries that create jobs and new business opportunities on a mass scale. But in practice economic policies over the past 20 years have often sought to save big established companies at the cost of other producers, households and the fiscus. The new “master plans” process will hopefully turn this around.

In steel, over the past decade ArcelorMittal SA has closed plants and cut production. It suffers from inflated iron ore prices from Kumba in Northern Cape, surging Chinese steel production that depressed global prices, Eskom’s soaring tariffs and unreliability, and a parent company that seems uninterested in maintaining production in SA. But ArcelorMittal also depends on huge old plants, some dating back to the 1920s, that are less agile and often more expensive and energy-intensive than modern minimills.

As a main part of its response SA introduced import tariffs to protect ArcelorMittal from foreign competition. That means downstream manufacturers — comparatively small producers of capital equipment, structural steel and other advanced products — end up paying to save it. Yet these producers employ about 250,000 people, compared to under 50,000 in the steel mills, and are a pillar of advanced manufacturing.

Instead of reflexively turning to tariff protection, SA could have moved more aggressively to get Kumba to cut its prices to ArcelorMittal, and fix Eskom. Alternatively, it could have helped downstream manufacturing by holding down the cost of steel, promoting new minimills or simply accepting cheap steel imports. Making that socially and politically palatable would also require real resources to assist the workers and towns affected by ArcelorMittal's downsizing to find new livelihoods.



These options would be hard. ArcelorMittal is a storied company whose predecessor, Iscor, was built by decades of state investment and workers' sweat and blood. But building a stronger economy requires embracing and managing change, not just stalling it.

In poultry, SA has industrial production on a scale found in few developing countries. Yet SA producers cannot compete with certain categories of imports, largely because, like ArcelorMittal, they face import-parity pricing on inputs — in this case, mostly soya for feed. They also don't meet export requirements. Moreover, one of the largest producers had to pay off high debts, squeezing its profitability. The poultry master plan tackles these problems, but meanwhile, the government has imposed a whopping tariff — about 50% — on imported chicken, even though it is a staple food for low-income households.

In aviation, for 20 years the state spent billions to bail out SAA. Meanwhile, more efficient and dynamic airlines have emerged. Today, the whole aviation industry faces catastrophe — but instead of developing a national strategy policymakers are fighting narrowly about billions more for SAA.

Finally, like ArcelorMittal Eskom has long bet on old, large-scale technologies. Over the past decade, while the world turned to smaller, more agile and cleaner generation options, it built huge coal plants, which now turn out to be hugely faulty. Yet government policy remains centred on rescuing Eskom through bailouts, higher prices to users and slow-walking access for new producers. In consequence, electricity will remain a drag on the economy for the foreseeable future.

Industrial policy requires disruption. In SA, it needs decisive action to secure more competitive input prices, keep up with global technology, and create an environment that favours competitive new producers. In practice, powerful private and public companies have consistently enjoyed protection without improving efficiency in return — which means smaller businesses, households and citizens end up bearing the cost.

Avoiding this kind of path dependency requires more rigorous exploration of all

options, analysing who will pay for each measure and ensuring that the end-state is a more competitive economy. This kind of structural change is sustainable only where the affected workers and communities are assured of support in finding new livelihoods.

• *Makgetla is a senior researcher with Trade & Industrial Policy Strategies.*

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Geoff Coles • 20 days ago

How, Mr Patel, do you explain to someone that they can't afford to buy, even chicken, very often because of the tariffs!

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James Cunningham • 20 days ago

Dear Neva, that's a good article that illustrates why knee jerk reactions like high import tariffs don't always have the desired effects. Niche fabricators like us would love to expand our workforces but steel prices are increasing and profiles are scarce. Why was the Saldana facility closed?

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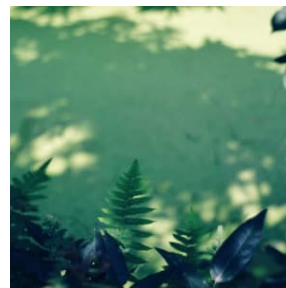
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