



PEOPLE'S COALITION

C19 Coalition Economic Policy Working Group

People's Assembly brief: Industrial policy

Industrial Policy refers to the strategies government puts in place to encourage growth, innovation and employment, particularly in non-financial and manufacturing sectors.

Covid-19 is the biggest challenge the world has faced since World War II, and the most serious economic crisis since the Great Depression. What began as a health emergency is threatening to turn into a global economic crisis, as countries all over the world implement various kinds of lockdown. This poses great dangers for developing countries like South Africa. An effective industrial policy can help protect jobs and industries during the crisis, and help the recovery afterwards.

Governments around the world are introducing subsidies, debt relief and a range of other measures to ensure that jobs and businesses are protected. Is our government doing enough? Debates on increasing government spending are ongoing, despite a clear need for intervention. Government has not yet confirmed whether it will agree to significant extra spending to deal with the crisis, for example via increased social benefits. It remains to be seen how many firms—especially SMEs and the informal sector—will be able to survive the COVID-19 pandemic and lockdown without serious government support.

This pandemic will intensify the effects of persistent inequalities. Vulnerable households and businesses will suffer the highest losses, and our already high levels of inequality will worsen. The contribution of industry and industrial development to our social transformation goals may be seriously jeopardized.

Industrial firms have responded to the spread of COVID-19 in various ways. Many are trying to solve immediate cash-flow challenges by laying off workers, cutting costs and seeking debt relief and compensation from government. Employees are being put on short hours and are requested to take unpaid leave to reduce the wage burden. Some companies are repurposing their production lines, switching to the production of urgently needed goods such as ventilators, masks, PPE etc.

It remains to be seen how many businesses will be able to survive the economic shock of COVID-19. Government needs to urgently consider subsidies for the most severely affected. Some firms have started rethinking their business models, with supply shortages from overseas leading to an increase in procurement of inputs from local or regional businesses. Such strategies offer interesting prospects for a post-disaster rejuvenation of local industry.

How should government help?¹

Industry will not be able to weather the storm on its own. While many governments have already adopted a wide range of policies, our National Treasury and Reserve Bank are moving slowly - this has to change, and fast! Policy measures can be structured around four target areas:

1. **Measures to maintain employment during COVID-19 crisis:** Temporary regulations should be introduced to prevent large-scale layoffs, replace lost wages and prepare for the recovery phase so that lost jobs return as quickly as possible. Current measures introduced to support laid-off workers via UIF appear to be failing, and exclude millions of workers. To avoid mass hardship, urgent steps must be taken to expand, simplify and speed up the system.
2. **Measures to keep businesses afloat during COVID-19 crisis:** Such measures include policies to tackle immediate cash flow challenges and keep businesses from closing permanently. This might include subsidies, temporary debt relief and emergency access to credit. Government could consider deferring the payment of taxes, duties and other fees. Significant additional capacity should be created to assist businesses to apply for emergency government funding.
3. **Measures to adapt jobs and businesses during COVID-19 crisis:** Firms must be helped to shift to safer means of doing business: e.g. by improving their web presence, advertising via social media, enhancing customer service functions via phone and online, and engaging in e-commerce. Active companies should be supported to achieve higher safety standards and protection for workers. Grants and loans should be available to businesses producing goods and services necessary to curb COVID-19 and to support the growth of COVID-19-related industrial clusters.
4. **Measures to help jobs and businesses recover after Covid-19 containment efforts:** The DTI must start now to implement measures that prepare businesses for post-COVID-19 economic conditions and realities. These measures should prioritise regaining lost jobs and creating new ones, protecting the basis of domestic industries and promoting most-crucial production (including food products, health care products, telecommunications technology and inputs for local manufacturing). In the medium term, government must promote initiatives to secure the supply of such products in view of possible disruptions in global trade and value chains.

We need an inclusive approach to re-organisation of production

Implementation of these kinds of emergency industrial policy measures must include all key stakeholders, but in particular, business, organised labour and representatives of excluded groups, like informal sector workers. The current NEDLAC structures are largely inadequate to deal with a crisis of this extent. Industrial policy and other key areas of the government's economic policy (e.g. fiscal and monetary policy) must be aligned with one another; this is a crucial failure that needs to be fixed urgently in this moment.

Extending government's current "war room" capacity via an **Emergency Production Council**, supported by new laws if needed, could be a good first step. Such a Council should include delegates from all relevant government departments and sectors – agriculture, commerce, labour, and community structures, and key organisations in civil society – as well as advisors with relevant technical expertise. This Council structure can be replicated at provincial and district levels.

¹ Drawn from *Managing Covid-19: How industrial policy can mitigate the impact of the pandemic*, UNIDO, April 2020