

## **Industrial policy and ‘winner picking’**

Sanctions on capital flows and trade pushed SA into limbo. Positive net exports became a major policy target, to be achieved by a weak rand and, by international standards, low wages. Achievement of a satisfactory balance of payments permitted repayment of overseas debt. Success? “No” says Michael Porter’s recent book, *The Competitive Advantage of Nations*. Politics and arithmetic may have compelled the economic pattern of the past few years but it has not been optimal. But as external political pressures weaken, two alternative scenarios beckon.

Number one says unemployment is a major problem. Job creation, with “appropriate” technology for the local environment, funded by taxpayers or by prescriptive direction of financial sector funds will provide tomorrow’s success. “Wrong” says Porter, unless we wish to live in a low-wage country such as India or join the basket cases in the rest of the continent.

## **Jobs for the boys – or wealth for the people?**

There is a more desirable scenario, tantalisingly within reach now sanctions have gone. This is to export goods with a high value-added component. They will fund the sophisticated imports we cannot produce. Michael Porter tells us how to do it. His encyclopaedic work is close on 900 pages long. It provides detailed industry profiles of more than 100 industries drawn from 10 countries. At a sitting it is indigestible. As a library resource it is worth buying. The author, or his publisher, shows amazing self-confidence in blending both Ricardo and Adam Smith into a carefully chosen five-word title. But this is more than just a slick piece of marketing. Porter identifies what makes some nations successful and others not. His sample includes both developed and developing nations.

Porter’s study shows that success is generally long-lived and occurs in *clusters of firms*. Prosperous nations, he argues, are those which are the home base for clusters of internationally operating firms. Why does a particular nation become a home base for successful international competitors in an industry? Why is Germany the home base for many firms in chemicals, in luxury cars, in printing presses? Why does the US have many internationally operating firms in advertising, detergents and computer software? Why does the UK have clusters of firms in biscuits, insurance and electrical generation; Korea in shipbuilding, semiconductors and pianos; Italy in ceramic tiles, skiboots and domestic appliances?

## **Consumer-backed clusters**

The list goes on. In each case the cluster of firms in the nation in question possesses a competitive advantage relative to the best worldwide competitors. The result is that the home nation benefits substantially and persistently. Nor does the home nation necessarily indicate the nationality of most shareholders; it is rather the country where the effective strategic, creative and technical control of the company lies.

There are four interacting conditions for national success in a specific industry. Resorting to baseball jargon, Porter calls them the four points of the “national diamond”. These interacting prerequisites are factor endowments (particularly skilled labour and trustful management); a strong and sophisticated domestic market; a strong, internationally competitive group of supplying or complementary industries; and fourthly, rivalry, managerial strategy and an enterprise culture in the industrial cluster of firms. Porter’s arguments are not based on high theory – although at times he almost claims his book will displace traditional views of economics. His achievement is in some ways less than that, in others more. The traditional economic establishment certainly does sometimes appear to view a balance of payments surplus as an end in itself, to see job creation as an ideal irrespective of the type of work done, and government direction of capital flows for “social” ends as somehow superior to markets which express the judgements of individuals.

Competition, to Porter, is not a sterile textbook abstraction. It is Schumpeterian innovation and

dynamism, not equilibrium. Textbook factor substitution of resources from low return to high return areas is less important than how firms increase returns through new products and processes. Developing nations often shun such lessons and, Porter argues, even resource-rich countries like Norway, Canada and Australia could become trapped as technology advances and natural resources play a smaller and smaller role in global economic growth. Trade, which benefits all through exports and imports, occurs because of natural differences in character and culture.

### **Not government-chosen commercial rejects**

Porter's policy conclusions for government are that it must reinforce the "diamond" by policies which encourage effort, incentives and competition, "not the tempting but counterproductive choices such as subsidy, collaboration (with industrialists) and so called temporary protection". Home governments do not know what domestic markets want; they have even less knowledge of what foreign markets require.

What are the South African clusters which could propel us into the international arena beyond 2000? The list is, in fact, heartbreakingly long for a country our size. Porter does not tell us, but there are obvious examples: insurance, property development, retailing, alcohol, tobacco, mining exploration, hotels and tourism. These may or they may not be the optimal clusters for SA in the next century. The departure of the foreign multinationals, who left because of our national racist and socialist policies, imposed a cost. A far greater cost, Porter's thesis suggests, was the stunting of our home-based clusters (Pick 'n Pay out of Australia, De Beers and Rembrandt shuffling sideways into Europe, Anglo and Liberty hiding their origins behind a costly welter of associates in the US and Britain).

If SA is to become the locomotive of Africa's growth, these "clusters" need policies which encourage them. Without them SA will become another carriage in the African train – sitting immobile in the siding while the rest of the world rushes past.

*This Briefing Paper was written by Duncan Reekie  
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