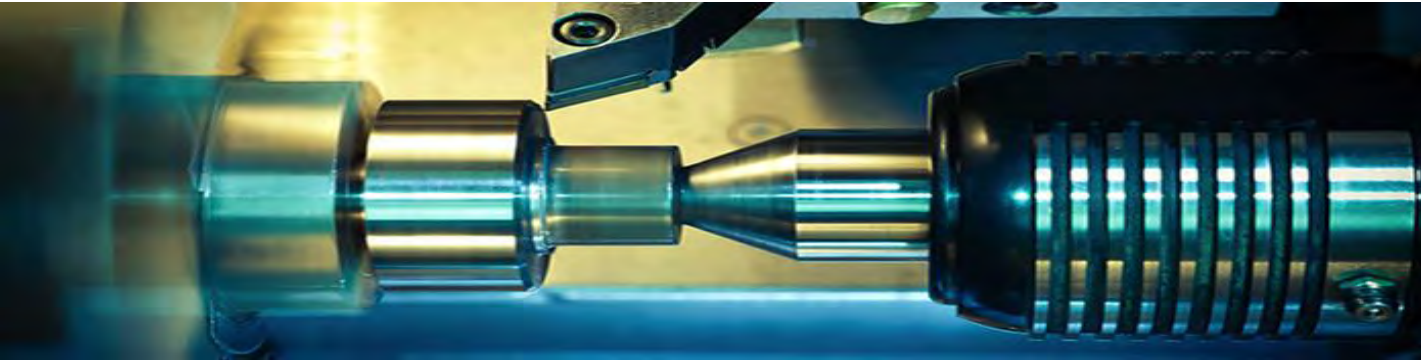


Industrial Policy Action Plan 2017/18 - 2019/20



Economic sectors, infrastructure and employment cluster

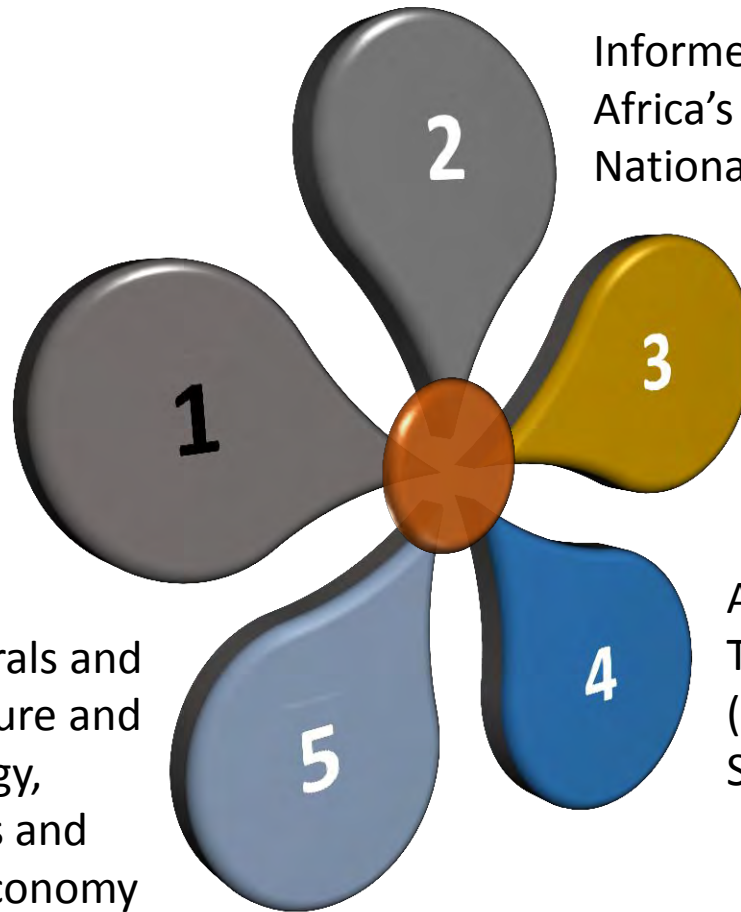
**Presentation to the Portfolio Committee on
Trade and Industry
13 June 2017**

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- **Policy context**
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- **Selected transversal highlights 2016/17**
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Policy Context 1: Situating IPAP



A key component of the President's Nine-Point Plan

Special focus on minerals and beneficiation, agriculture and agro-processing, energy, attracting investments and growing the oceans economy

Informed by the vision set out for South Africa's development provided by the National Development Plan (NDP)

Located within and provides one of the key programmes of the New Growth Path (NGP)

Aligned to both the Medium Term Expenditure Framework (MTEF) and the Medium Term Strategic Framework (MTSF)

Policy Context 2: Embedding IPAP



Economic restructuring

- IPAP supports radical economic transformation by an on-going effort to fundamentally change the structure of the economy
- The focus is on patterns of ownership, management and control, with a central emphasis on the manufacturing sector

Employment & integration

- Sustainable job creation is a key priority. Hence:
 - an ever-stronger focus on labour-intensity in key sectors of the productive economy and
 - the integration of primary, manufacturing and service value chains across sectors

Policy Context 2: The importance of manufacturing



There are very few if any cases, at any time in economic history, where a country has achieved sustained and sustainable economic development, that have not been led by manufacturing

The manufacturing sector has high economic multipliers because of its value-addition, linkages to the upstream production sectors of the economy (mining and agriculture) and the downstream sectors, including services; and because of its all-round contribution to strengthening integrated value chains

The growth of the manufacturing sector has multiple macro-benefits:

- Value-added exports break dependency on resource exports
- Reduced vulnerability of the current account to commodity cycles
- Limits currency volatility

SA has amongst the world's highest reserves of minerals, which must be used to build competitive capabilities and advantages

- Certain manufacturing sectors have high employment multipliers across the value chains
- Manufacturing drives technology and innovation through technology absorption and diffusion and research and development
- Manufacturing supports and enables the growth of national skills capacity and capabilities and the movement towards a knowledge economy

IPAP core objectives

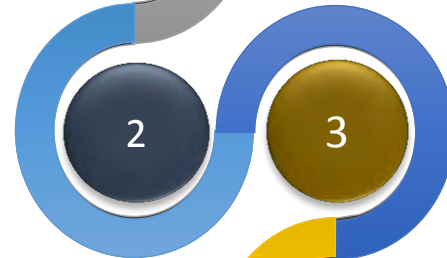


Developmental model
focused on radical economic
transformation and social
inclusion

Emphasis on R&D and
movement towards a
knowledge economy



Diversifying the economy and providing
strong support for value-added
manufacturing



Building regional investment,
trade and industrial
development integration

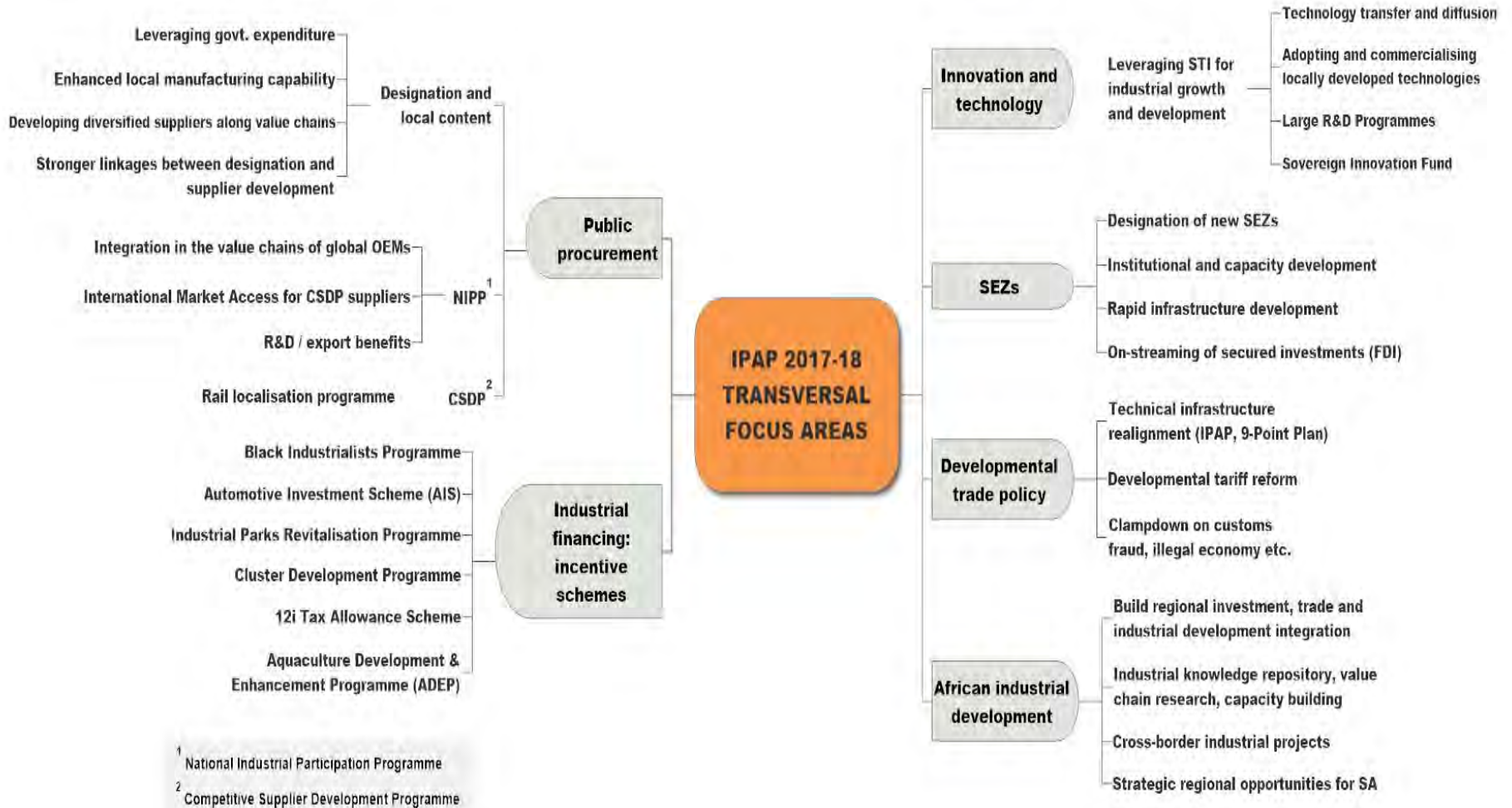


Working with the private
sector to prepare for and
adapt to the challenges in
digitised production and
logistics associated with the
“4th Industrial Revolution”

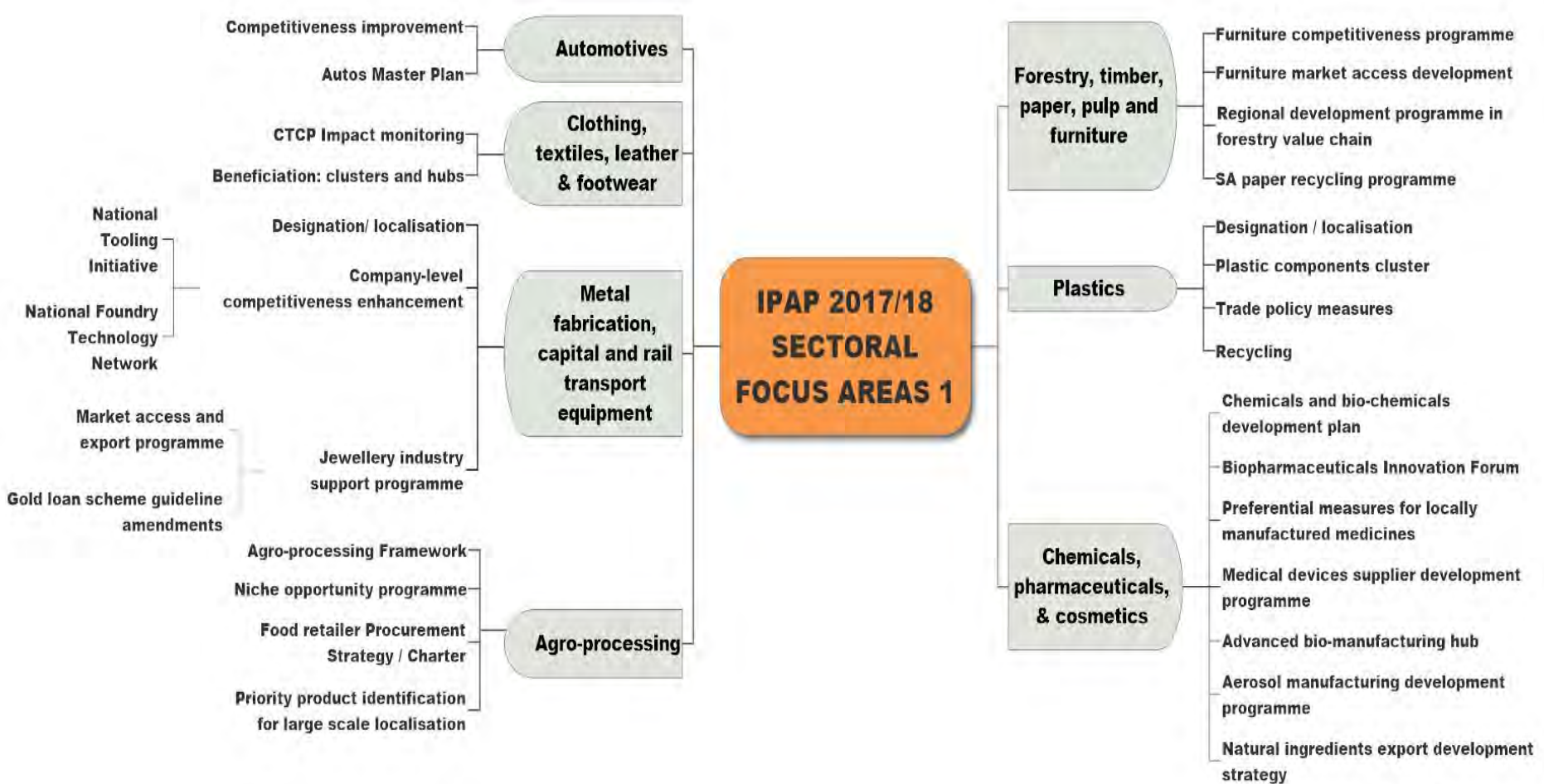




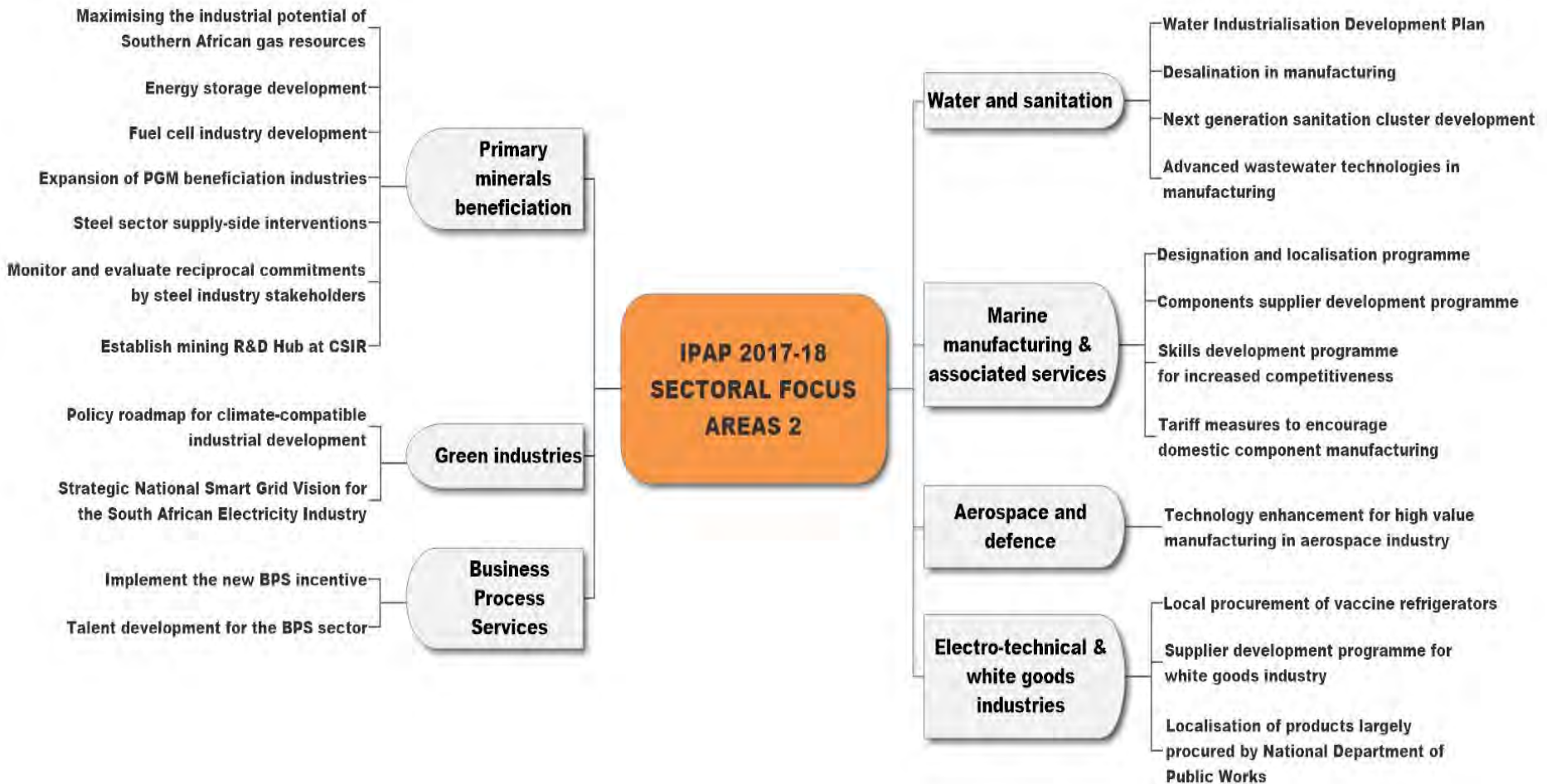
IPAP transversal focus areas 2017



IPAP sectoral focus areas 1



IPAP sectoral focus areas 2



Achievement highlights 2016/17



- ❑ **Securing SA's primary steel production capability and supporting the downstream steel sector**
 - ✓ Agreement with the primary steel producer on a set of principles for flat steel pricing in SA that is priced appropriately to ensure competitiveness of steel-dependent industries and sustainability of upstream steel mills
 - ✓ Tariff increases for a range of steel products to protect industry from 'dumping'; tariff review on a range of downstream products and the deployment of rebates
 - ✓ Local procurement by government through the designation of steel and steel products
 - ✓ Settlement of the Competition Commission issues with AMSA
 - ✓ Investment support through the **dti** 12i tax allowance programme for plant, equipment and building upgrades as well as training support
 - ✓ Establishment of a Steel Development Fund to support key downstream steel sectors/sub sectors

Achievement highlights 2016/17



- ❑ **Industrial Financing & Incentive Support:** supporting private sector investment and black economic empowerment in critical industrial sectors
 - ✓ **Automotive Investment Scheme:** R8.7bn on investment leveraged through 2 new projects with an estimated investment value of R548.9m, projected to create 1 140 jobs
 - ✓ **Manufacturing Competitiveness Enhancement Programme (MCEP):** R1bn loan component reopened; 270 projects supported; R8.24m disbursed, supporting R3.38 bn of investments & 62 2353 jobs
 - ✓ **12i Tax Allowance Incentive Scheme:** April 2015 – September 2016, 49 projects approved with an investment value of R25.7bn
 - ✓ **Aquaculture Development and Enhancement Programme (ADEP):** R85.6m approved for 17 projects, with a projected investment value of R383.3m; 474 jobs created

Achievement highlights 2016/17



- ✓ **Black Industrialists Development Programme:** 27 approved projects to the value of R577m, with a projected investment of R2.5 bn and a projected 5,235 direct and 1,228 indirect jobs to be created
- ✓ **R&D tax incentive** supported R36.1 bn in R&D expenditure
- ✓ **Export Marketing and Investment Assistance Scheme (EMIA):** support package of R90m and export sales of R4.1 bn
- ✓ **Industrial Development Corporation (IDC):** disbursed R8bn, created and saved 14,636 jobs
- ✓ **Export Credit Insurance Corporation (ECIC):** approved R318.6 m for 3 major export-related projects with a local content value of R3.784 bn achieved

Achievement highlights 2016/17



- ✓ **Technology and Innovation Agency (TIA):** since 2013, disbursed in excess of R1bn; approximately 70 of the technologies funded reached demonstration stage; 23 technologies successfully commercialised
- ✓ **Industrial Park Revitalisation Programme (IPRP):** R180m spent on upgrading 6 industrial parks in 2016 (R216m set aside for 5 additional industrial parks)
- ✓ **Cluster Development Programme:** 6 cluster initiatives totalling R56.6m approved, in the medical device, composites, non automotive, advance manufacturing, pharmaceuticals and creative industries

Achievement highlights 2016/17



❑ Technology Localisation Programme (TLP)

DST provided funding of R9m for the Bombardier locomotive building project; total revenue to be generated is R350m, with a full local content value of R350m (100%)

❑ TLP outputs and impacts 2012-Aug 2016:

No. of companies supported towards the development of new products	16
Total direct jobs created due to the implementation of FTAPs	650
No. of companies where export capability was developed	22
No. of companies supported where import substitution was achieved	20
No. of companies that have gained work with SOCs	57
No. of companies supported where SOC/OEM work has been retained	65
Jobs retained at companies supported	6,500
Percentage of companies supported that are black women-owned	40%

Achievement highlights 2016/17



- ❑ **InvestSA:** securing foreign direct investment in a difficult economic climate:
 - ✓ Government has established a national investment One Stop Shop and will open provincial centres in KZN, GP and WC; thus securing a streamlined, inter-departmental 'clearing house' system
 - ✓ InvestSA was awarded the Global Investment Promotion Agency (IPA) Award for excellence
 - ✓ In 2016, South Africa FDI inflows increased at 38% year-on-year
 - ✓ Investments by Nestle, Beijing Automotive International Corporation, ACWA Power, Ford, Toyota, Sumitomo Rubber, Cipla, Johnson & Johnson, 3M, amongst others, have reaffirmed South Africa as a regional manufacturing hub

- ❑ **Public Investment (PI)**
 - ✓ PI increased by R14 bn to R272 bn in 2015; R36 bn in power generation projects and R35 bn in railway equipment

Achievement highlights 2016/17



- Clothing, Textiles, Leather and Footwear (CTLF):** supporting and growing a key labour-intensive sector
 - ✓ dti support amounts to R4.2 billion since inception. 70,000 jobs saved and estimated 9,550 jobs created
 - ✓ 28 new companies established; creation of 2 200 jobs; growth in exports
 - ✓ Production of footwear grew by over 2 million pairs in 2016

- Agro-processing:** securing investment and provision of economic infrastructure in another critical labour-intensive sector:
 - ✓ Close to R15 billion private sector investment leveraged through projects by Nestle, AB Inbev, GWK Farm Foods and Citrus and Deciduous Fruit industries
 - ✓ R100 million tomato processing Dursots-All Joy plant launched in Tzaneen, to employ 300 people
 - ✓ Two Agri-parks are operating while 6 are under construction; Clover, Tiger Brands, McCain and Distell have initiatives to improve market access for small farmers

Achievement highlights 2016/17



- ❑ **Business Process Services:** ongoing effort to build this globally competitive and labour-intensive sector
 - ✓ 6 new projects approved, 5-year projected export revenue R4.5 billion. R193.3 million disbursed, 10,466 jobs sustained
 - ✓ Call Centres - EXL call centre in Cape Town plans to create 6,000 jobs
 - ✓ SA secured 2 projects to provide tutor services to learners in Asia via online platform, 688 jobs created
 - ✓ Since inception of the Monyetla Work Readiness Programme, has seen provision of training opportunities to over 16,000 unemployed youth, with the placement rate well over 70%

Achievement highlights 2016/17



❑ **Metal Fabrication, Capital And Rail Transport Equipment:** rebuilding and supporting a key industrial sector

SA's efforts to up-scale our industrial capacities and capabilities in the manufacture of rail transport and components were boosted by the launch of several new facilities:

- ✓ Bombardier Transportation Propulsion and Control facility launched in Elandsfontein with 100 people employed
- ✓ AVK Valves, in partnership with Premier Valves, launched a R200m new plant in Benoni
- ✓ MTU South Africa unveiled its newly-upgraded workshop facility to assemble the diesel engines for the 232 diesel locomotives for China North Rail

❑ **Rail localisation**

- ✓ Gibela secured 32 local suppliers for the R51bn Passenger Rail Agency of South Africa (PRASA) contract; 580 trains to be built in SA
- ✓ Rail signalling components designated for local procurement

Achievement highlights 2016/17



□ **Automotives:** supporting and strengthening SA's globally competitive sector

Through the APDP incentive, R7.8 billion has been disbursed which unlocked R28.5 billion in private investments. For example:

- ✓ Beijing Automobile International Corporation (R11 billion)
- ✓ Toyota SA (R6.1 billion)
- ✓ Ford SA (R11.5 million)
- ✓ Volkswagen SA (R120 million)
- ✓ Mercedes-Benz and Government (R130 million)

These investments are expected to create approximately 4,720 direct jobs

- ❖ Work is well advanced on an Automotive Masterplan (post-2020) to secure higher economic impacts

Achievement highlights 2016/17



❑ **Green Industries:** supporting the development of new industrial capabilities

- Renewable Energy Independent Power Producer Procurement Programme (REIPPPP):
 - ✓ 6 rounds of bids attracted investment of R 194.1 billion, including R 53 billion (27%) from foreign sources. 28,484 jobs created
 - ✓ IDC signed agreement with the French Development Agency (Agence Française de Développement - AFD), for a EUR 60-million credit line for a local small-scale green project
- Supply side measures include:
 - ✓ The National Cleaner Production Centre (NCPC) – working with Unido - assisted 160 companies
 - ✓ R1.7 billion saved in energy costs, 1,744 jobs created/preserved

Achievement highlights 2016/17



- ❑ **Beneficiation – Fuel Cells:** a key platform for technology-intensive investment and for building globally competitive domestic capability
 - Fuel Cells are a key area for collaboration between the mining industry, manufacturing and government
 - Key projects:
 - ✓ CSIR/Busmark (local OEM)/HySA for a bus prototype
 - ✓ Anglo Platinum collaborating with HySA Infrastructure on developing fuel cell powered mining equipment
 - ✓ Implats and its partners deployed a fuelling station using the locally developed system - metal hydride compressor
 - ✓ Impala/Doosan project - Feasibility studies for potential deployment of 85MW Doosan systems under way; to be serviced by proposed SA manufacturing facility
 - ✓ Isondo Fuel Cell plant launched in Cape Town

Achievement highlights 2016/17



☐ **Beneficiation - Metals and Minerals:** building competitive capabilities from SA's resource endowment:

- ✓ The Chamber of Mines Research Organisation (COMRO) has re-opened with funding from the DST to secure upstream mining localisation and downstream beneficiation.
- ✓ Tronox opened R3.3bn Fairbreeze mineral sands mine in KZN for titanium dioxide; 250 direct and 1 000 indirect jobs created
- ✓ De Beers selected 5 black-owned cutting and polishing companies for entrepreneurship development and beneficiation

Achievement highlights 2016/17



❑ **Domestic Ship/Boatbuilding** and Associated Services: rebuilding the Industry

- ✓ Armscor announced preferred bidders to supply ships for the Navy's projects Biro and Hotel: Southern African Shipyards and Damen Shipyards
- ✓ A R290 million new Durban floating dock launched on the back of R160 million support through the 12i incentive
- ✓ Fabrication of liquefied petroleum gas (LPG) vessels, or 'bullets', for an open access LPG terminal being developed at Saldanha Bay completed. The pressure vessels were fabricated domestically, and will provide 5,500 t of LPG storage capacity

Achievement highlights 2016/17



❑ **Electro-technical and white goods**

- ✓ Government incentives and tariff reviews contributed to enhancing South Africa's Value Proposition as an investment destination
- ✓ OEM investments by Hisense, Defy and Samsung in the television and White Goods sub-sector
- ✓ Zero Medical SURE – a new off-grid vaccine refrigerator technology - launched
- ✓ Yangtze Optics Africa Company (YOAC) - R150m Optic fibre plant at Dube Trade Port; 150 jobs to be created
- ✓ Purchase orders for set-top boxes placed with the first three companies (Leratadima, CZ Electronics and BUA Africa) out of the 26 identified
- ✓ Designation of two-way radio terminals and associated equipment

Achievement highlights 2016/17



- ❑ **National Industrial Participation (NIP)** - a key procurement instrument to support industrialisation:
 - ✓ Agreement between an obligor and CSIR to provide a full software suite for Product Life Management (PLM). It is estimated that 2,000 companies over a seven year period will be supported
 - ✓ Agreement Between South African Airways Technical (SAAT) and an obligor to revive the aircraft engine maintenance, repair and overhaul capabilities of SAAT
 - ✓ Huawei to establish a Joint Innovation Centre in SA for the development of technologies such as 4G/5G and software modules, expected to generate R5 billion in revenues over a seven years

Achievement highlights 2016/17



❑ Special Economic Zones

Securing investment and building industrial and export capabilities

A total of seven designated zones - Saldanha Bay, Dube Trade Port, Coega, East London, Richards Bay, Maluti a Phofung & Musina

Investments:

- ✓ Dube Trade Port signed a R1, 3 billion agreement with CIPLA to produce biosimilars
- ✓ Saldanha Bay IDZ has, to date, a pipeline of 34 investments worth R14 billion (letters of commitment)
- ✓ OR Tambo IDZ attracted a total of R260 million new investment covering horticulture and metal refining
- ✓ Coega has been allocated 1,000MW under IPP, with an investment value of R25 billion
- ✓ RBIDZ awarded 2,000MW under Gas IPP

IPAP key themes for 2017/18



1

Radical Economic Transformation: upscaled efforts to secure *shared and inclusive growth*: transformation of ownership and management control; empowerment through decent jobs, especially in labour-intensive sectors

2

Programme alignment: intensified effort to secure a streamlined, inter-departmental 'clearing house' to fully align policy and programmes, deal with bottlenecks and ensure that all departments, SOCs and agencies are pulling in the same direction and supporting the industrialisation effort

3

Cutting red tape: continuing efforts to achieve a well-regulated, integrated, development-friendly investment framework to raise levels of productive (non-portfolio) capital inflows

IPAP key themes for 2017/18



4

Strengthen efforts to raise aggregate domestic demand – mainly through localisation of public procurement and intensified efforts to persuade the private sector to support localisation and local supplier development

5

Much stronger ongoing focus on labour intensity across the value chains that link the primary and secondary sectors of the economy – CTLF; Agro-processing; component manufacturing and so forth

6

A stepped-up export effort - with a focus on key existing exporters, emerging export-ready firms and strong support for new black-owned industrial export entrants

7

The national *Buy Back SA* Campaign will be energetically implemented, with the full support of the public sector, led by *Proudly SA*, the SOCs and the private sector

IPAP key themes for 2017/18



8

Strengthening of ongoing efforts to build a **less concentrated, more competitive economic and manufacturing structure** in which barriers to entry for new entrants are lowered

9

Building a **stronger system of industrial finance and incentives** to support and secure higher levels of investment in the productive sectors of the economy

10

Ensuring that the foreseeable effects of the **Fourth Industrial Revolution** and emergent disruptive technologies are understood, and adapting SA's productive and services sectors to meet the challenges, including those relating to employment displacement

11

Illegal economy: a concerted national effort to lock out illegal and sub-standard imports - led by the security cluster and involving the NRCS and customs

IPAP key themes for 2017/18



12

Beneficiation: Ongoing effort to secure technology-intensive, value-adding production capabilities to utilise SA's comparative resource endowment advantage as a global competitive advantage

13

Technology: a stronger inter-departmental effort is already under way to optimise technology transfer and diffusion (building on the programmes of the CSIR's Technology Localisation Unit) and to commercialise 'homegrown' R&D in key sectors; these efforts will be further broadened and stepped up

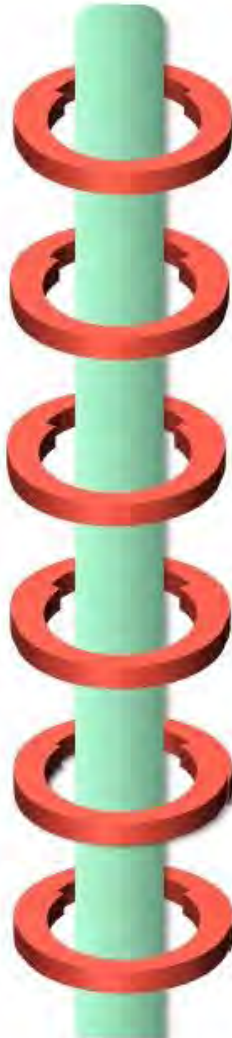
14

Gas Industrialisation: First steps are already in place - LPG/LNG; gas to power RFPs and the expansion of the Sasol pipeline. Continuing integrated support for the gas industrialisation effort is critical, given its significant economic and employment multipliers and lower carbon-intensity

15

Greening: Driving energy-efficient production and carbon mitigation efforts and measures which will increasingly have to be phased in to all sectors of the economy in a manner that allows for sustainable adaptation

Challenges 2017-2020



Continuing resource dependence

At the height of the commodity boom driving GDP growth up to 5% (and in part leading to currency overvaluation and volatility)

Financialisation of the economy

F.I.R.E. sectors growing at twice the rate of the productive sectors

Deindustrialisation *

Manufacturing shrinking from a peak of 28% of GDP to just 13% over the past two decades

Lagging manufacturing investment and value-add

Since 2008, investment as a share of GDP has remained below the 25% needed for sustained economic growth

Weak domestic demand/persistent unemployment

Never falling below 23% (narrow defn.); continuing race- and gender-based inequality, rural marginalisation

Deep-seated **skills shortages and mismatches** which have acted as a barrier to growth

Continuing effects of the Great Global Economic Recession

Precipitous fall in global demand, leading to oversupply and aggressive market penetration; unwinding of the commodity super-cycle

Decline in primary sector performance

Investment, output and employment

Domestic economic constraints

Escalating electricity prices (especially where municipal premiums added); high port and rail costs and inefficiencies; road transport externalities

Policy uncertainty / programme misalignment

Examples: weak compliance with legal procurement requirements by government depts.; mining localisation; beneficiation; misalignment between SOCs' mandates & industrial policy

High input costs where private sector market power enables high pricing for key downstream sectors

Red tape, legislative and regulatory delays

Particularly with respect to securing coherent, integrated and development-friendly legislation and regulations

* Of the million SA jobs lost in the wake of the global recession, 250,000 came from manufacturing

Key action areas 2017-2020



BB-BEE and transformation
Building on the Black Industrialists Programme, government will use all its demand- and supply-side levers to ensure inclusive growth

Industrial finance, incentives and export support
Building a strong system of industrial finance incentives and export support for industrialisation

Strengthen the procurement instrument
Full compliance with the 75% local procurement target

Technology transfer and diffusion
A stronger inter-departmental effort to optimise the commercialisation of South Africa's R&D achievements in key internationally competitive sectors

Achieve policy coherence and programme alignment
Government departments, SOCs and agencies must pull in the same direction

Anticipating the 'Fourth Industrial Revolution'
Meet the urgent need to understand its implications, support the manufacturing sector and adapt to its fast-changing dynamics

SOC oversight
The implementation of supplier development and localisation measures by SOCs must be rigorously monitored and enforced

Cleaner energy to drive re-industrialisation
First building blocks for gas industrialisation and rapid expansion of gas market in place: LPG/LNG import; gas-to-power RFPs; expansion of the Sasol pipeline

A strong national export drive
Supporting existing and export-ready companies, without excluding new entrants

Beneficiation
SA must use its resource endowment across the entire mining value chain, building competitive advantages and linkages between all the productive sectors of the economy

A National Buy Back SA Campaign
Involving the public sector, SOCs and the private sector, led by *Proudly SA*

Green adaptation
Securing less energy- and carbon-intensive production across all sectors of the economy

The global context



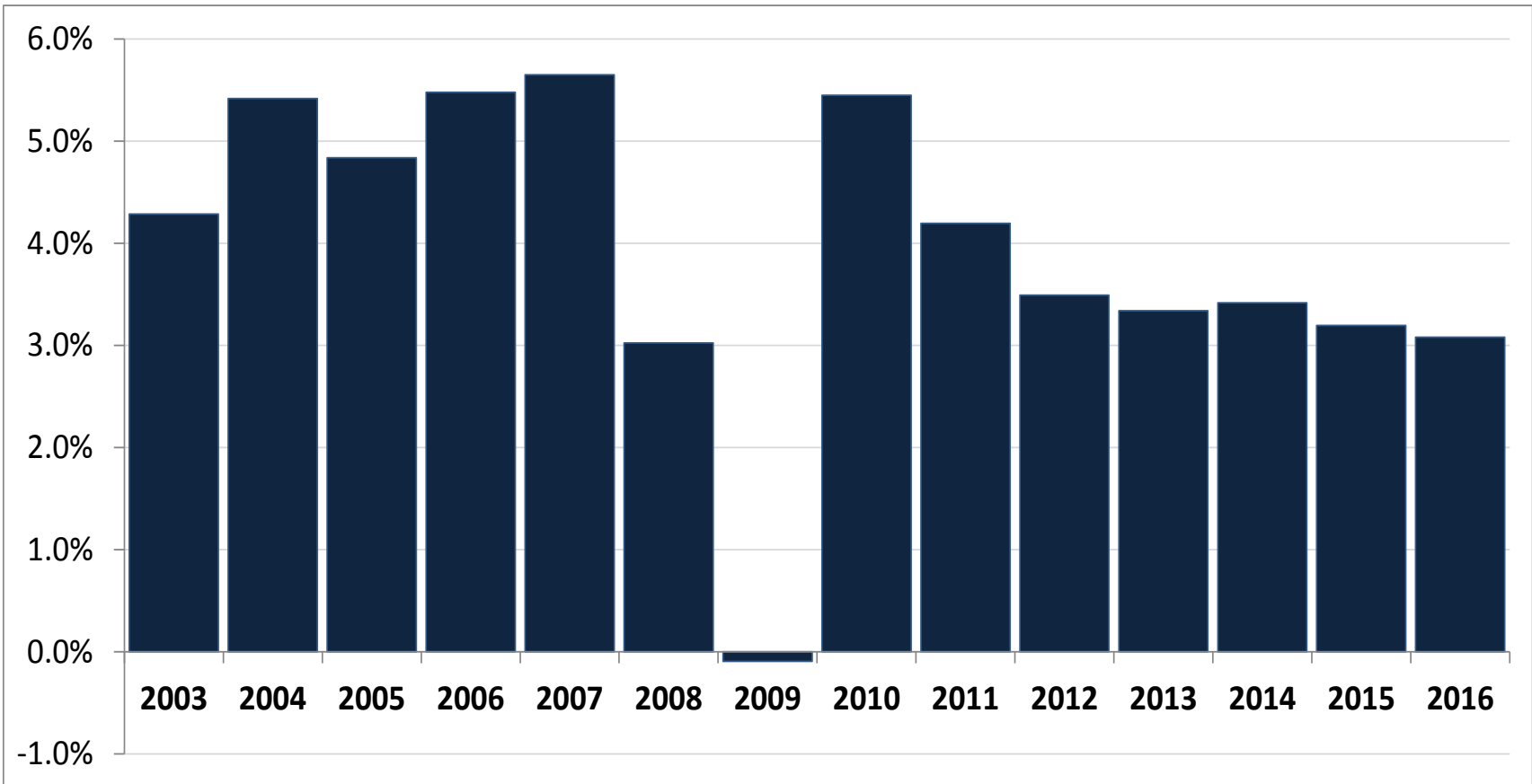
- ★ Ongoing after-shocks of the Great Global Recession. Further deterioration in the already-fragile international economy with steadily declining growth rates; global slowdown affected world trade as imports as a percentage of global GDP declined from 30,2% in 2011 to 28,8% in 2015
- ★ Global oversupply and over-capacity in key sectors (China accounting for most of the global growth in steel production in the 21st century and the major contributor to the steel glut)
- ★ The ongoing commodity demand/price slump
- ★ FDI into middle-income countries declined as outward investment contracted
- ★ Increasing use of protectionist measures ('neo-mercantilism')
- ★ Emergence of right-wing populist backlashes in the US and much of Europe

The global context



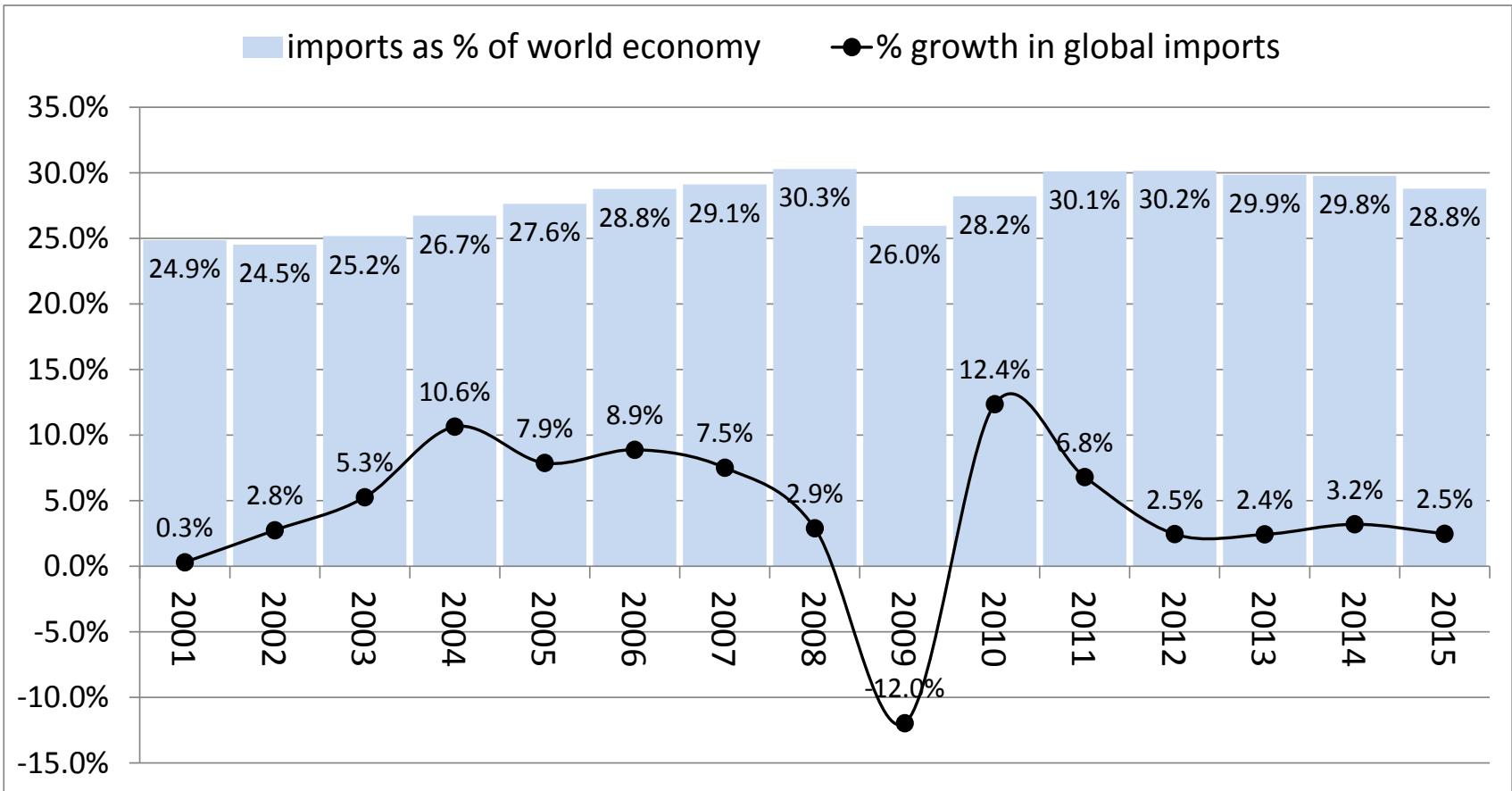
KEY STATS

Growth in the world economy 2003-2016



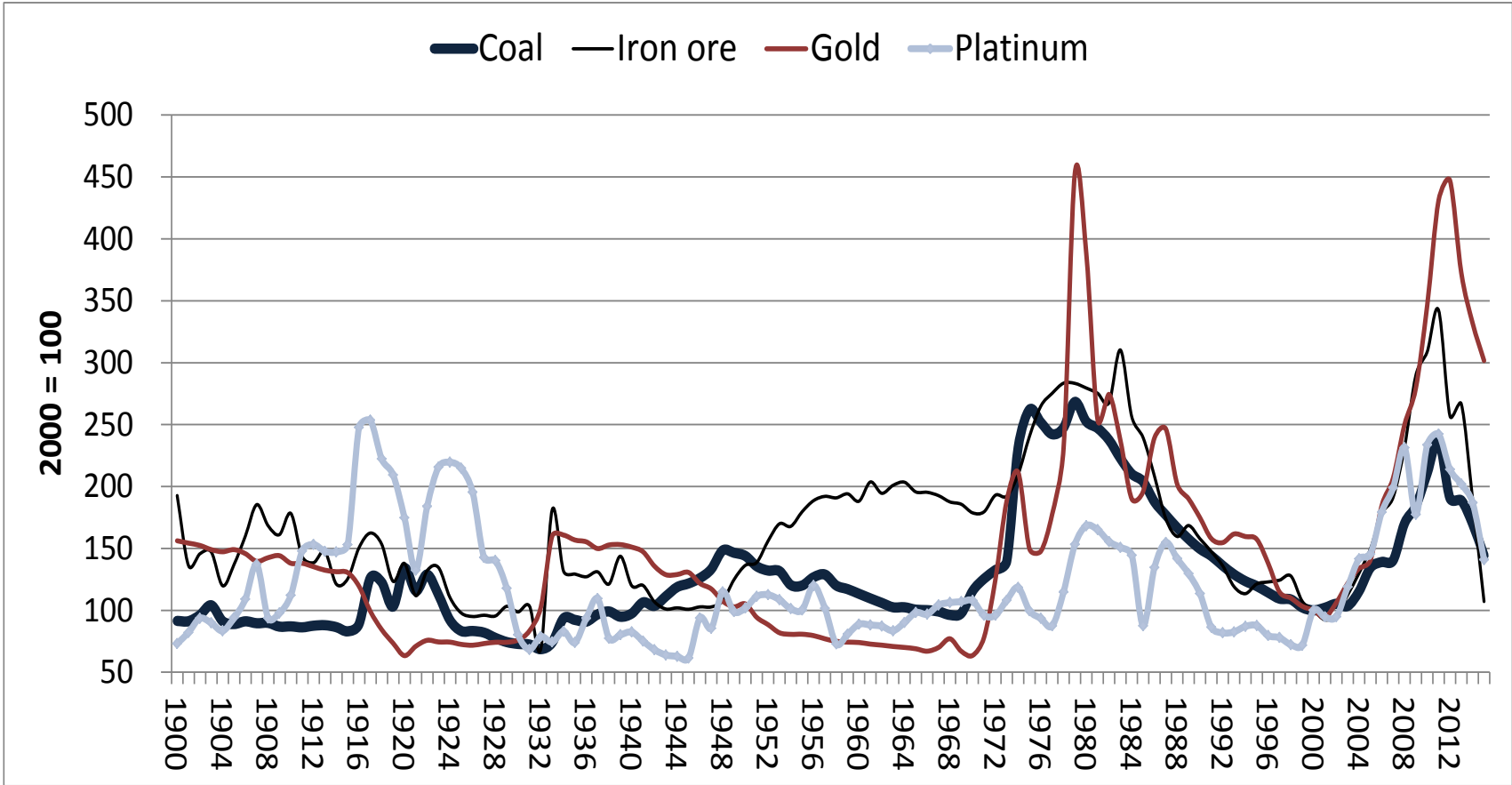
Source: IMF

Growth in global imports and change imports as a share of world GDP, 2001-2015



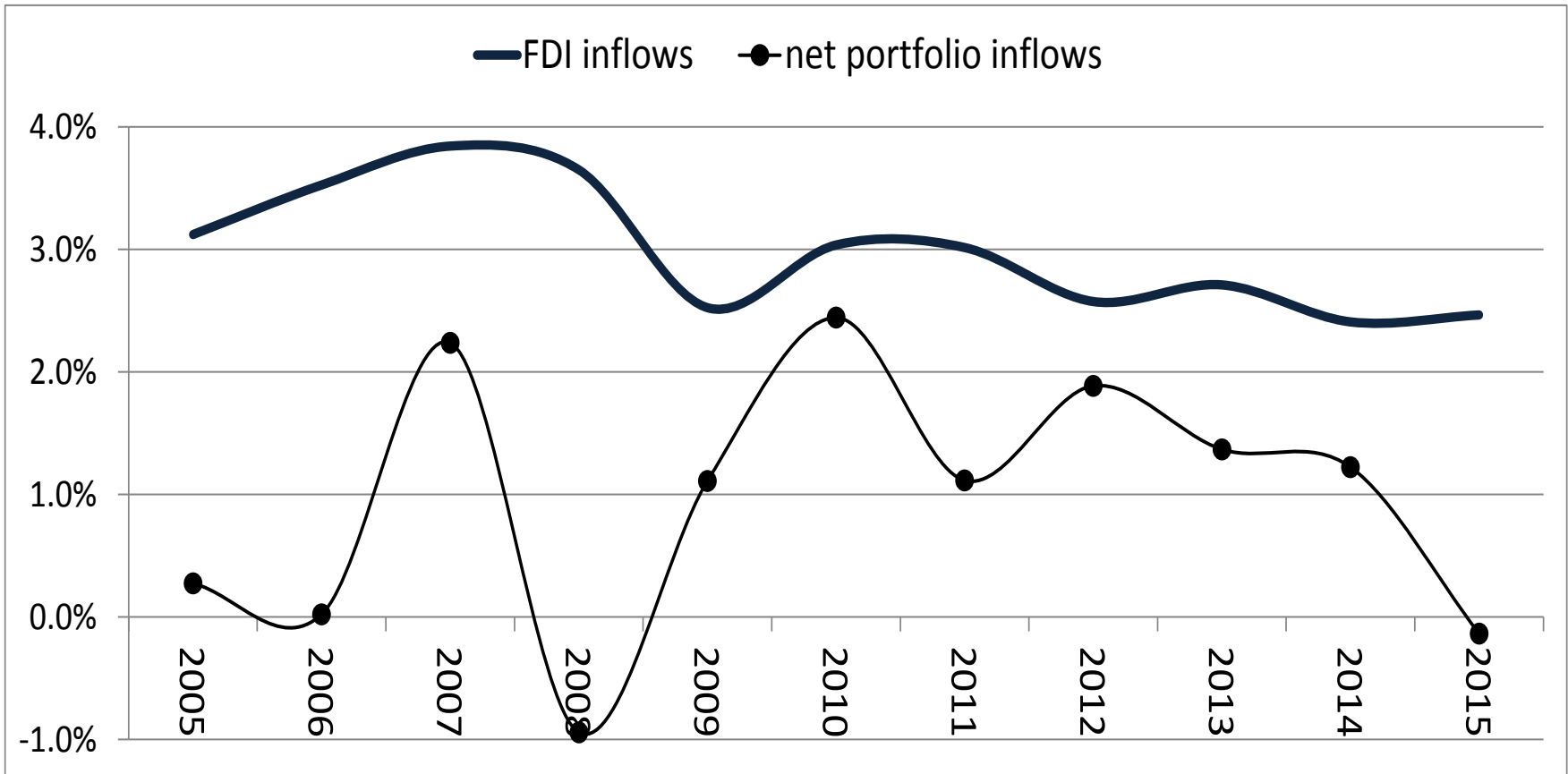
Source: World Bank

Index of mining commodities in US dollars, 1990-2012



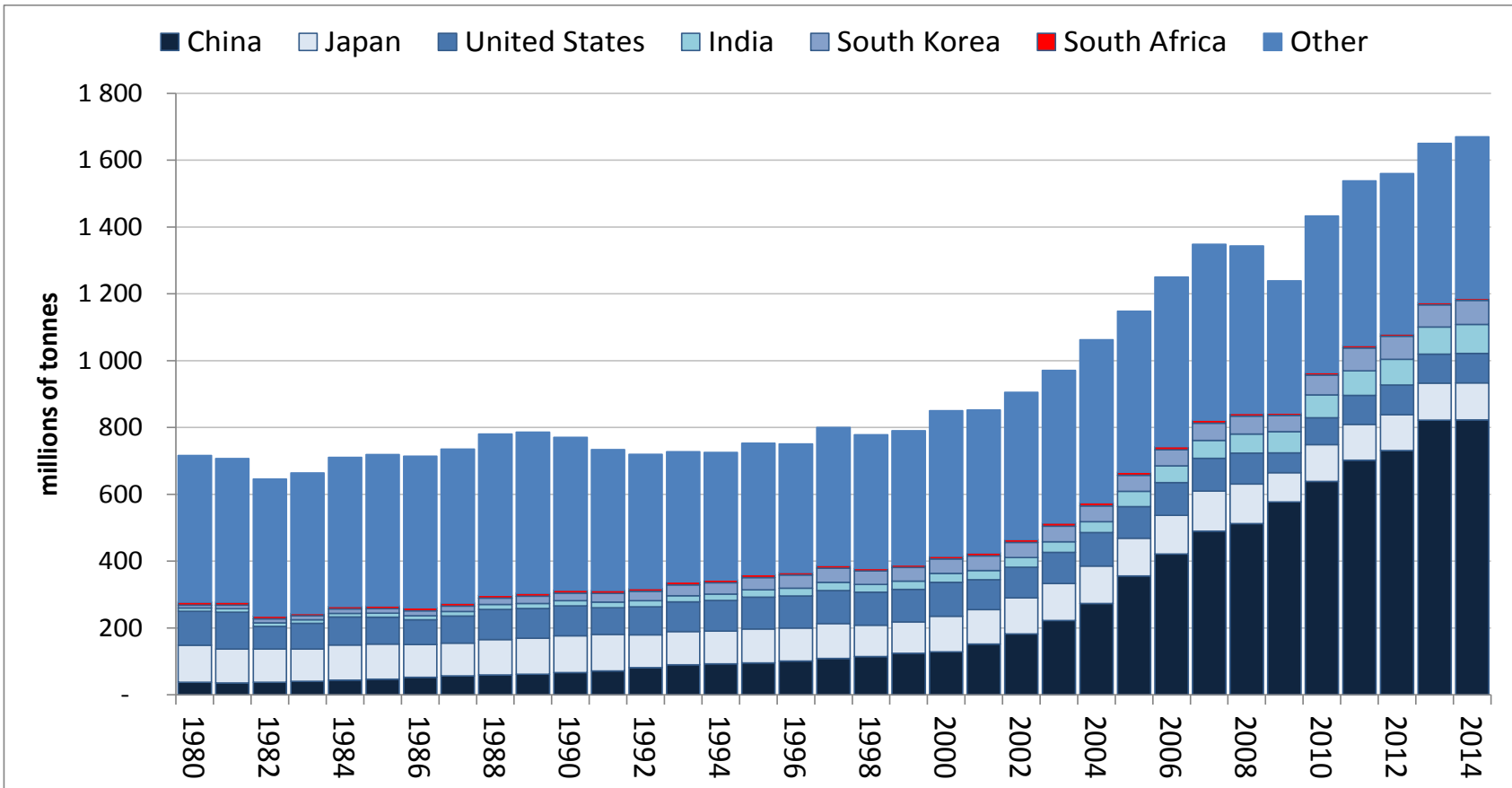
Source: NBER

Inflows of FDI and net portfolio investment as a share of GDP for middle income countries, 2005-2015



Source: World Bank

Global steel production by country, 1980-2014



Source: WorldSteel

The SA domestic context



Deep-seated structural fault-lines in the economy remain in place and stubbornly difficult to overcome:

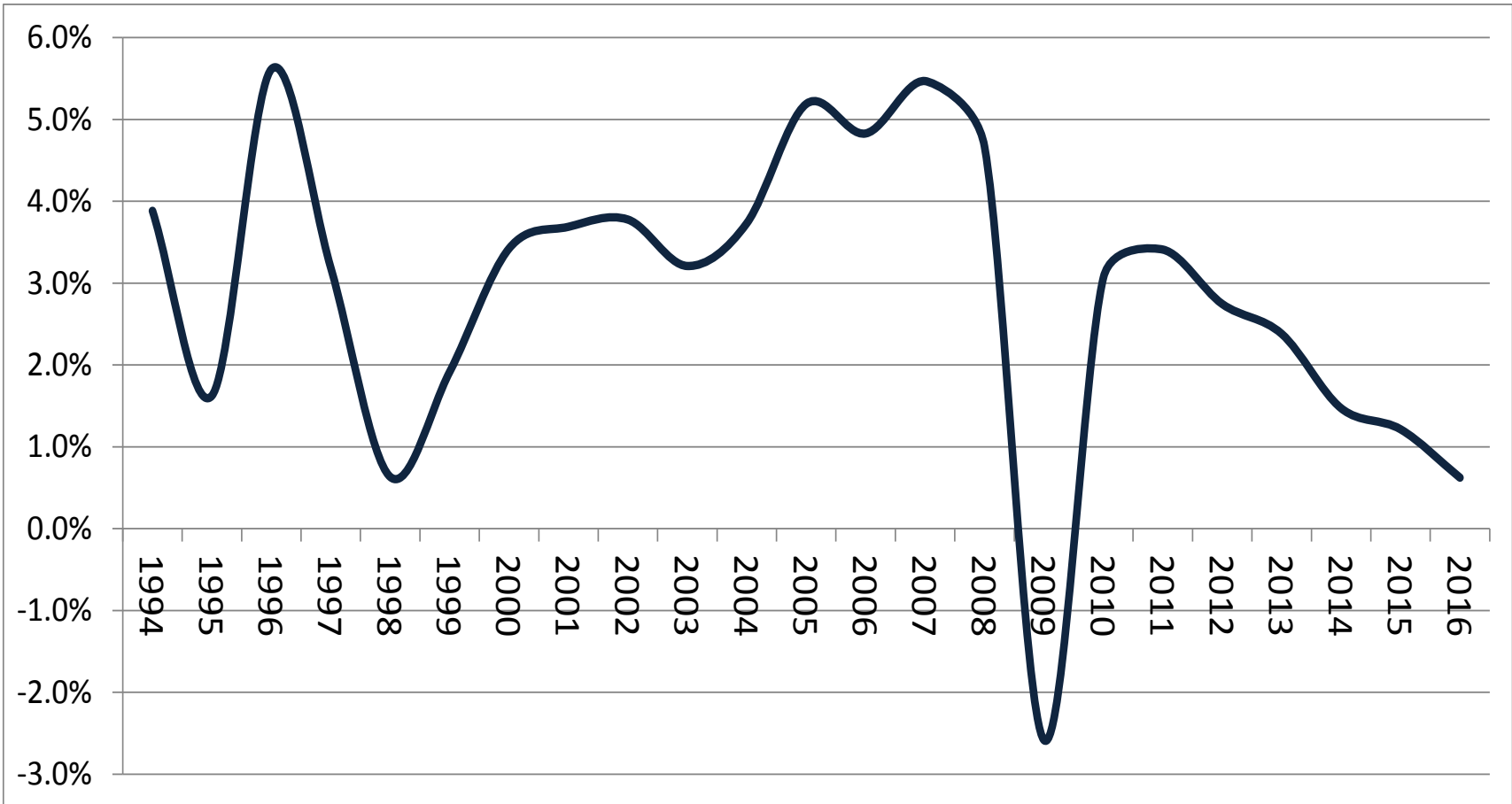
- ★ Weak growth and domestic demand, reflecting and contributing to persistent unemployment, with unsustainable race- and gender-based inequality and rural marginalisation
- ★ Value-add in manufacturing lagged behind the economy as a whole from 2008
- ★ Continuing primary resource dependence
- ★ Financialisation of the economy - with the financial sector growing at twice the rate of the productive sectors. Private sector investment has been at an average of 13% of GDP since 1994, with especially low levels of investment in the productive sectors
- ★ Investment in manufacturing has declined since the global credit crisis, whilst investment in mining has somewhat stabilised
- ★ Investment as a share of GDP is also below the 25% level required for sustained economic expansion
- ★ South Africa's trade deficit did, however, narrow from 2012 onwards, assisted by a reduction in the trade deficit for manufacturing

The SA domestic context



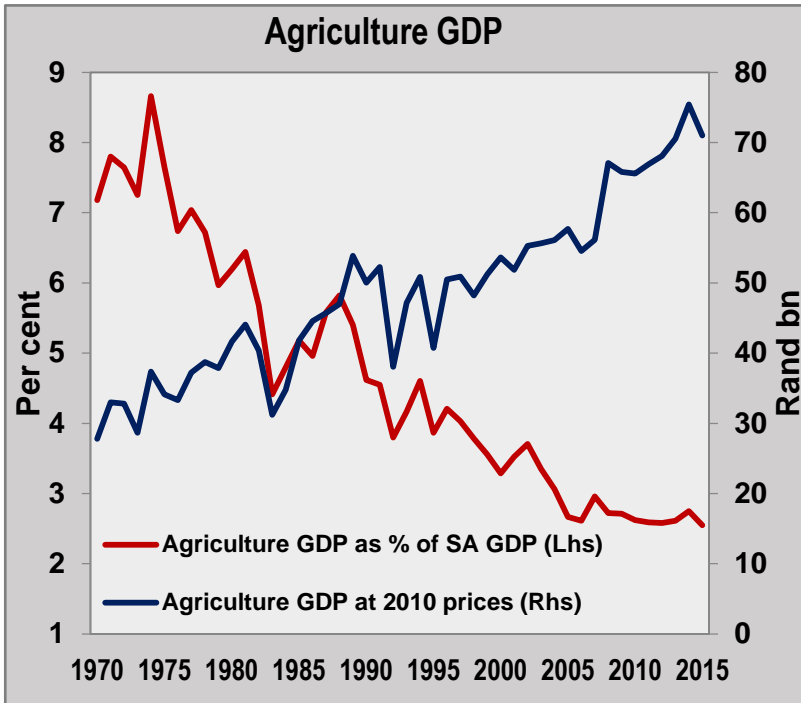
KEY STATS

SA GDP Growth 1994-2016

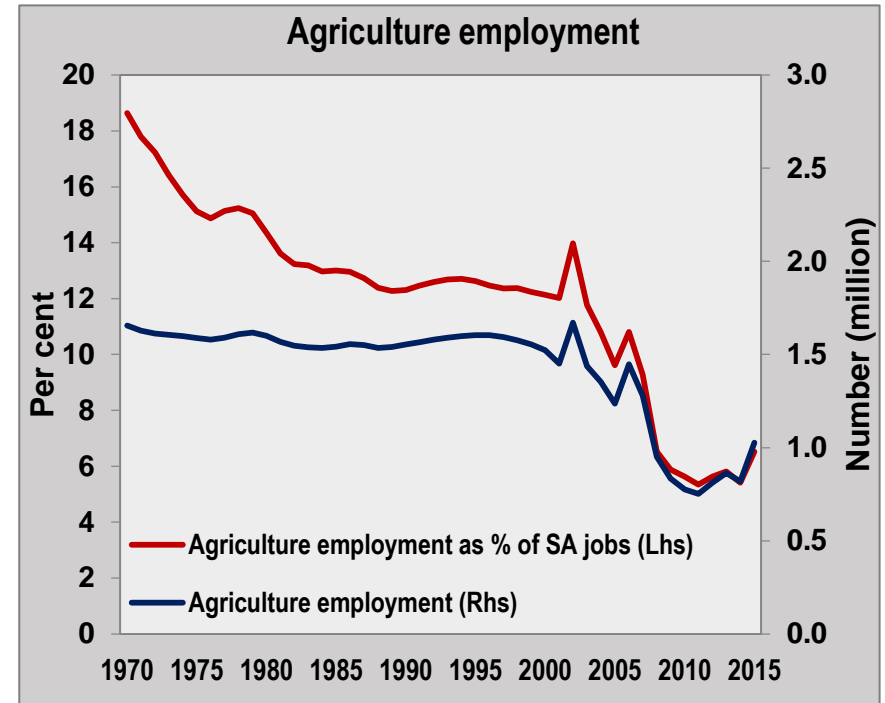


Source: Stats SA

Agriculture: GDP and employment, 1970-2015

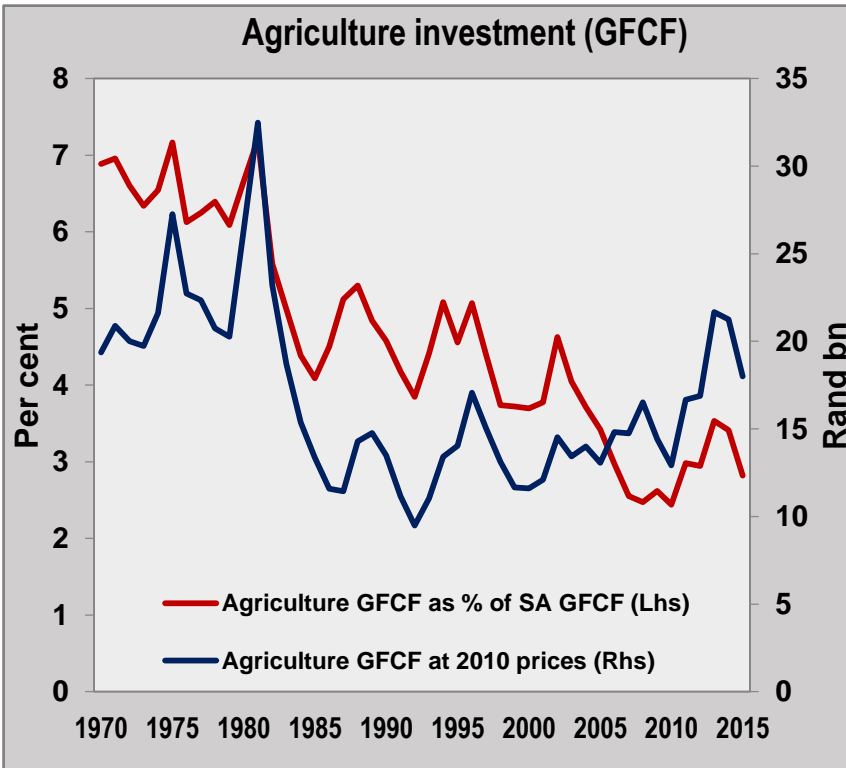


Source: Stats SA

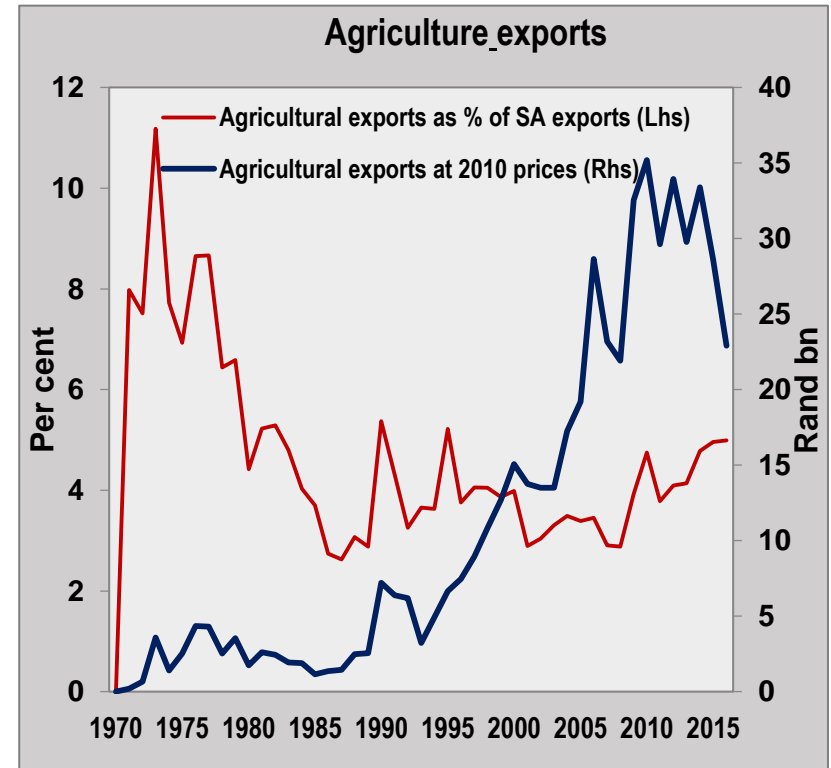


Source: Stats SA

Agriculture: investment and exports, 1970-2015

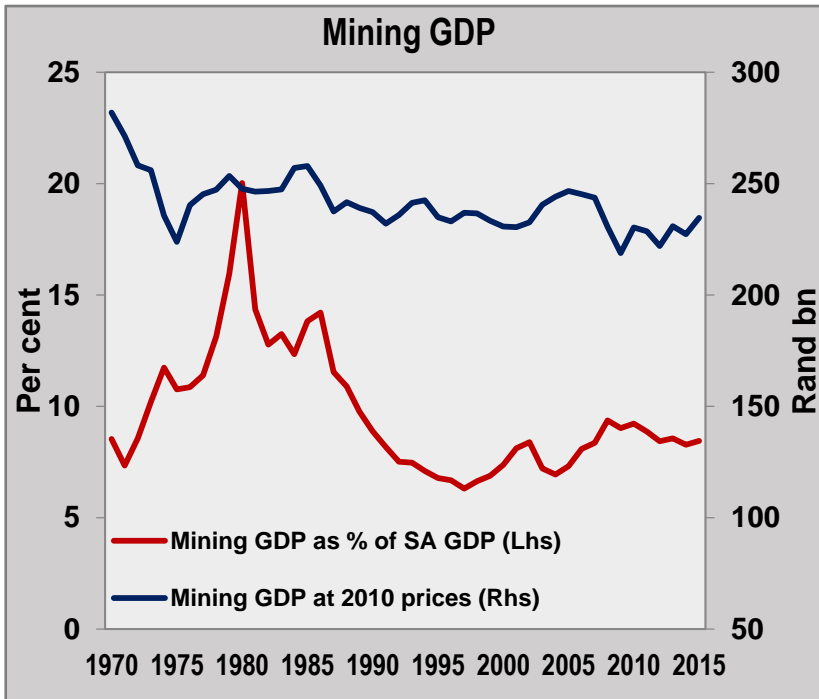


Source: Stats SA

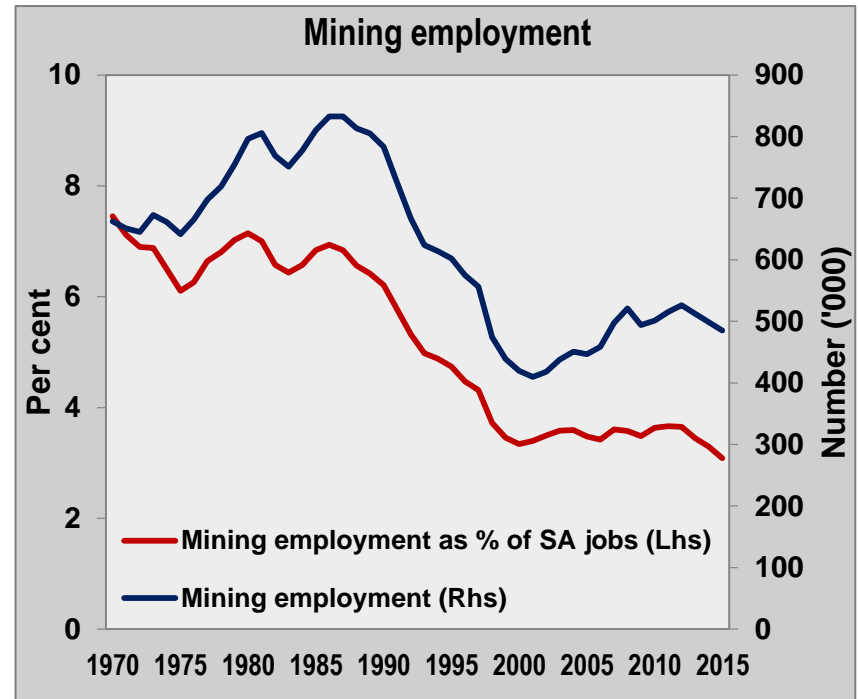


Source: Stats SA

Mining: GDP and employment, 1970-2015

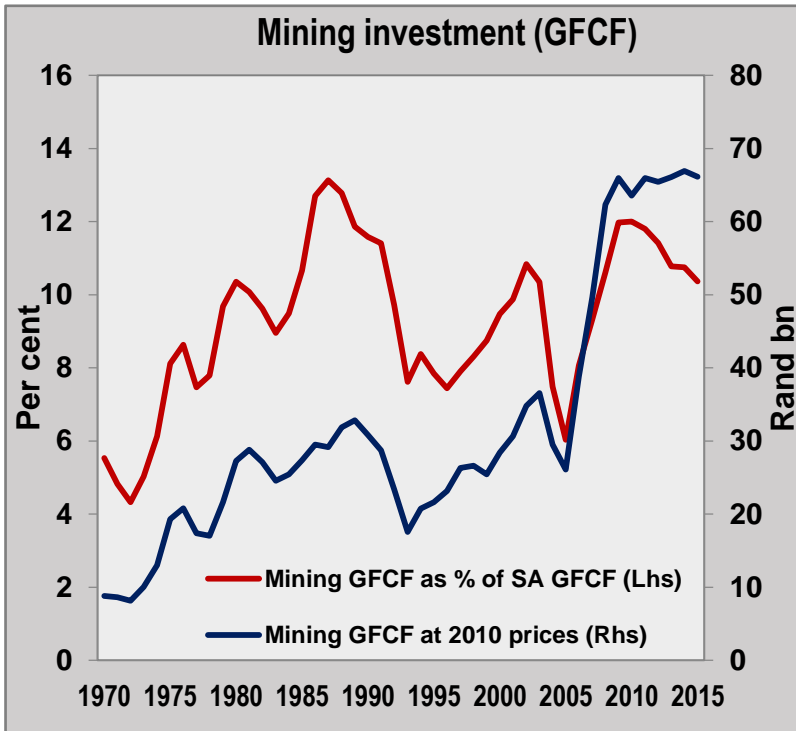


Source: Stats SA

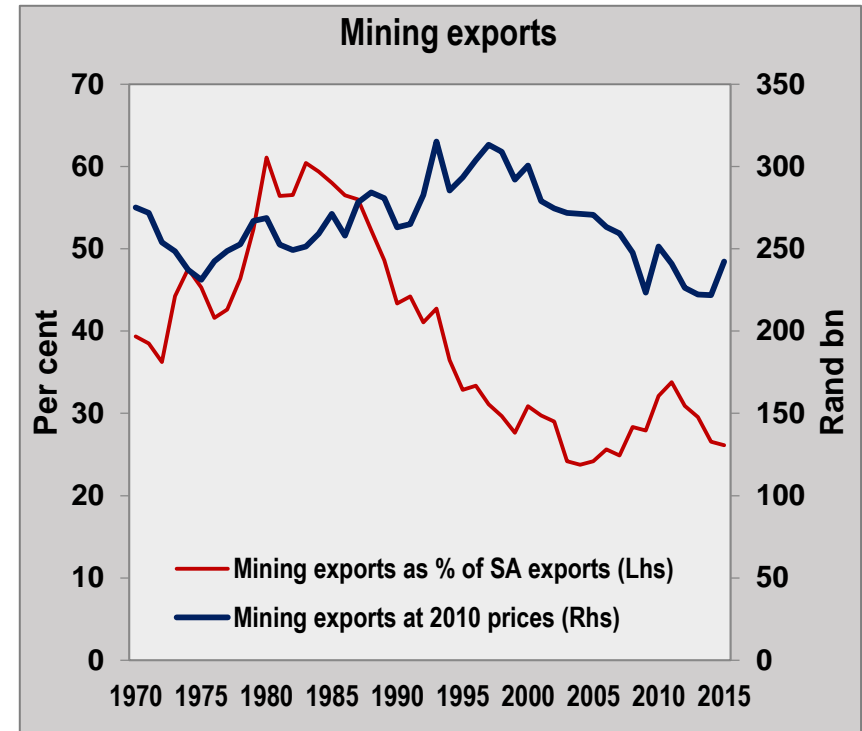


Source: Stats SA

Mining: investment and exports, 1970-2015

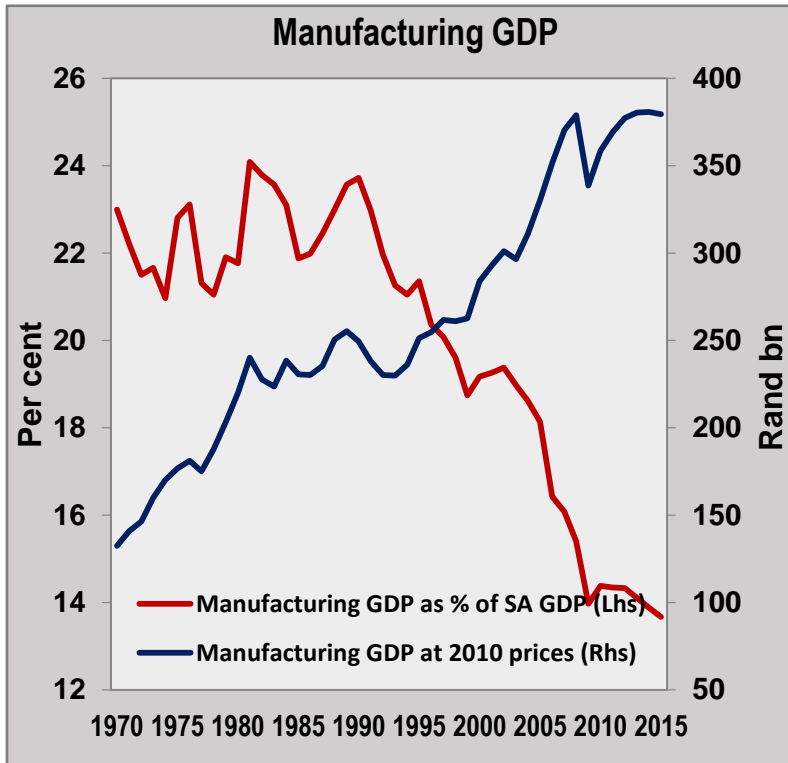


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Source: Stats SA

Manufacturing: GDP and employment, 1970-2015

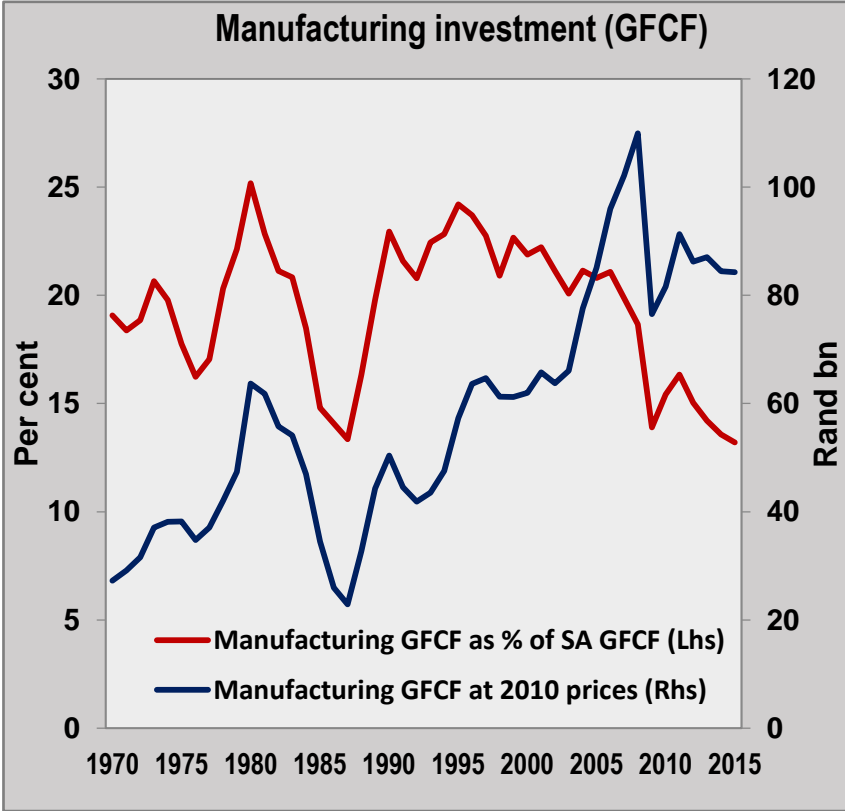


Source: Stats SA



Source: Stats SA

Manufacturing: investment and exports, 1970-2015

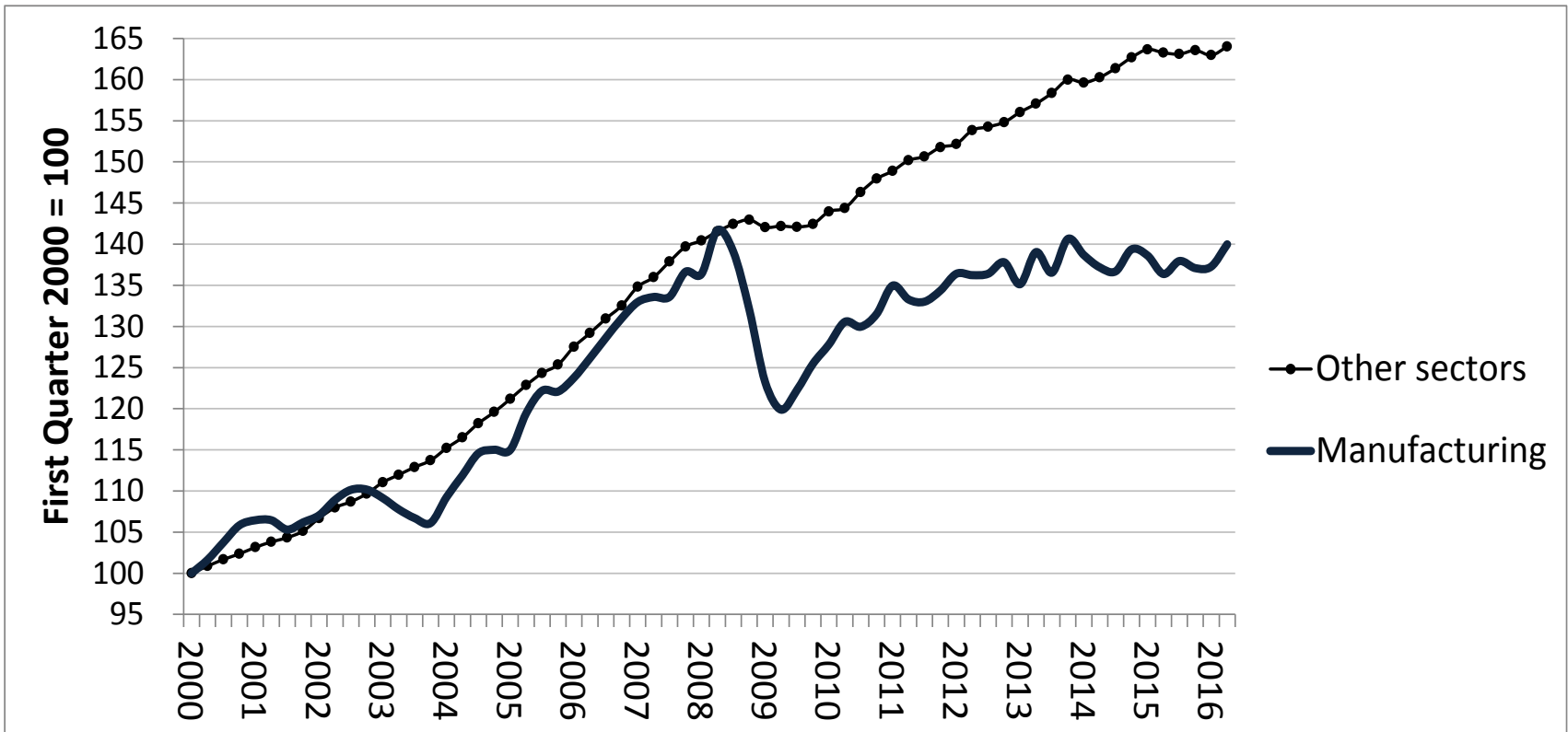


Source: Stats SA



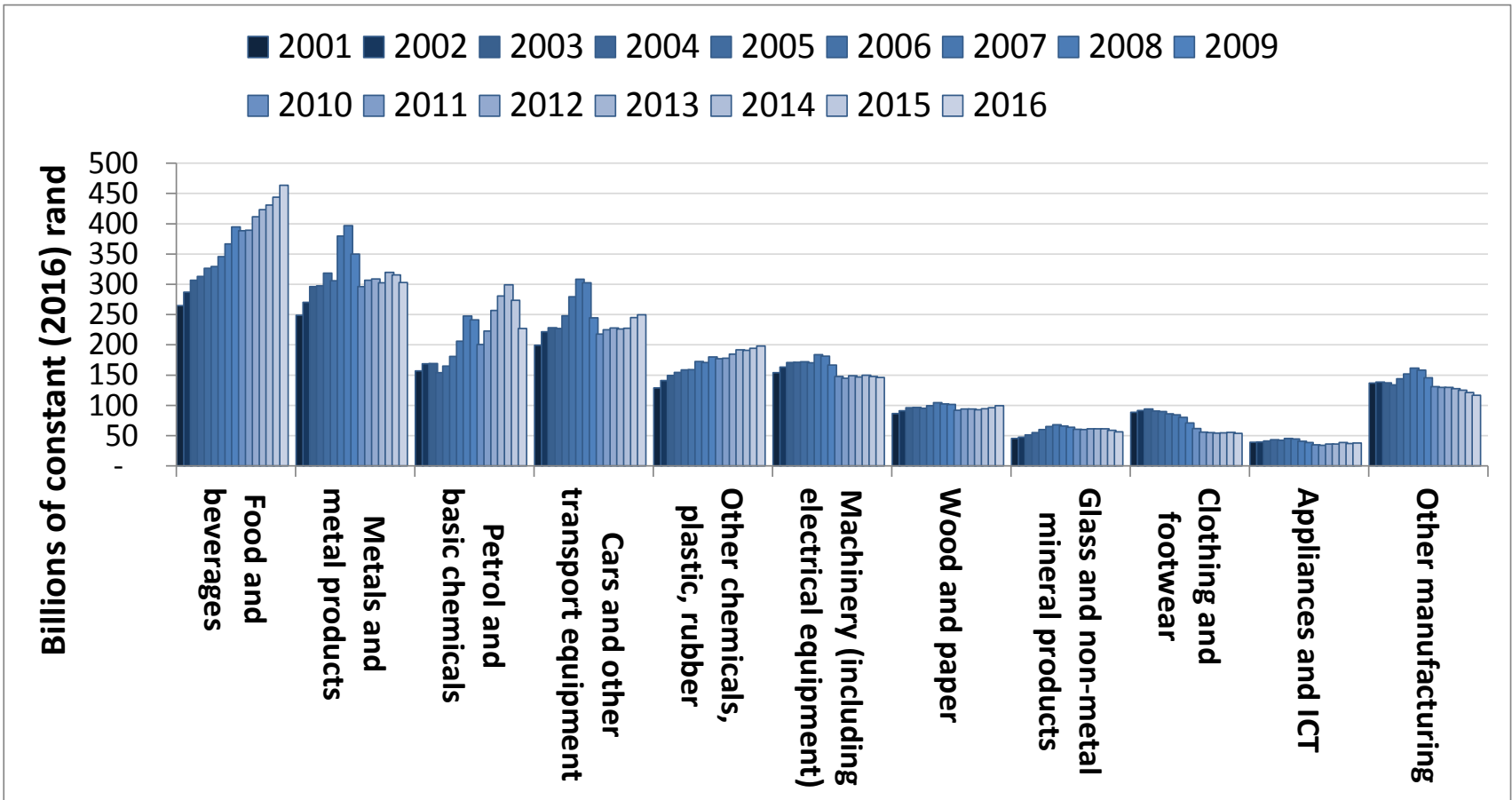
Source: Stats SA

Value-added in manufacturing and the rest of the economy, 2000-2016



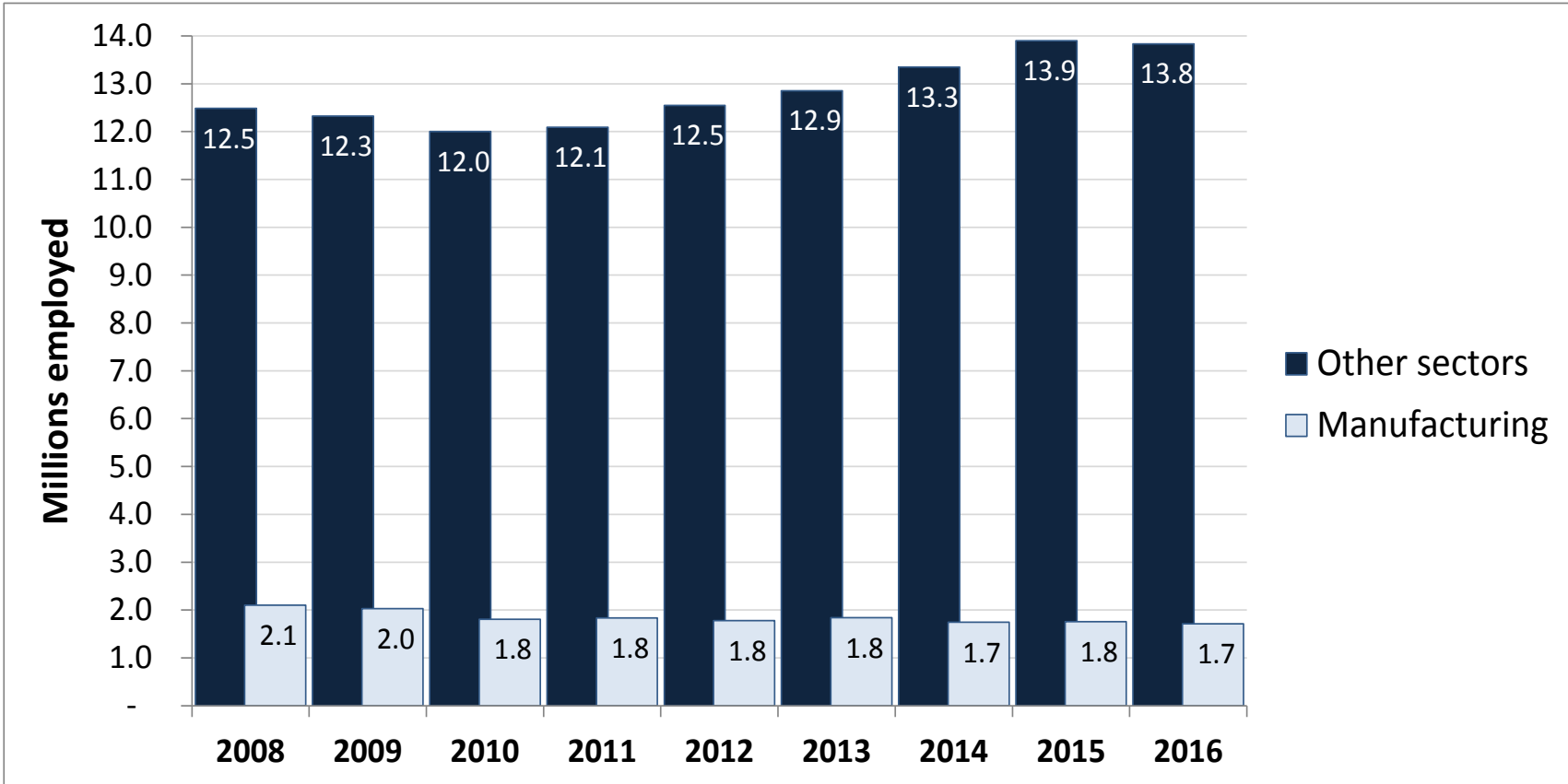
Source: Stats SA

Sales by manufacturing industry sector, 2001-2016



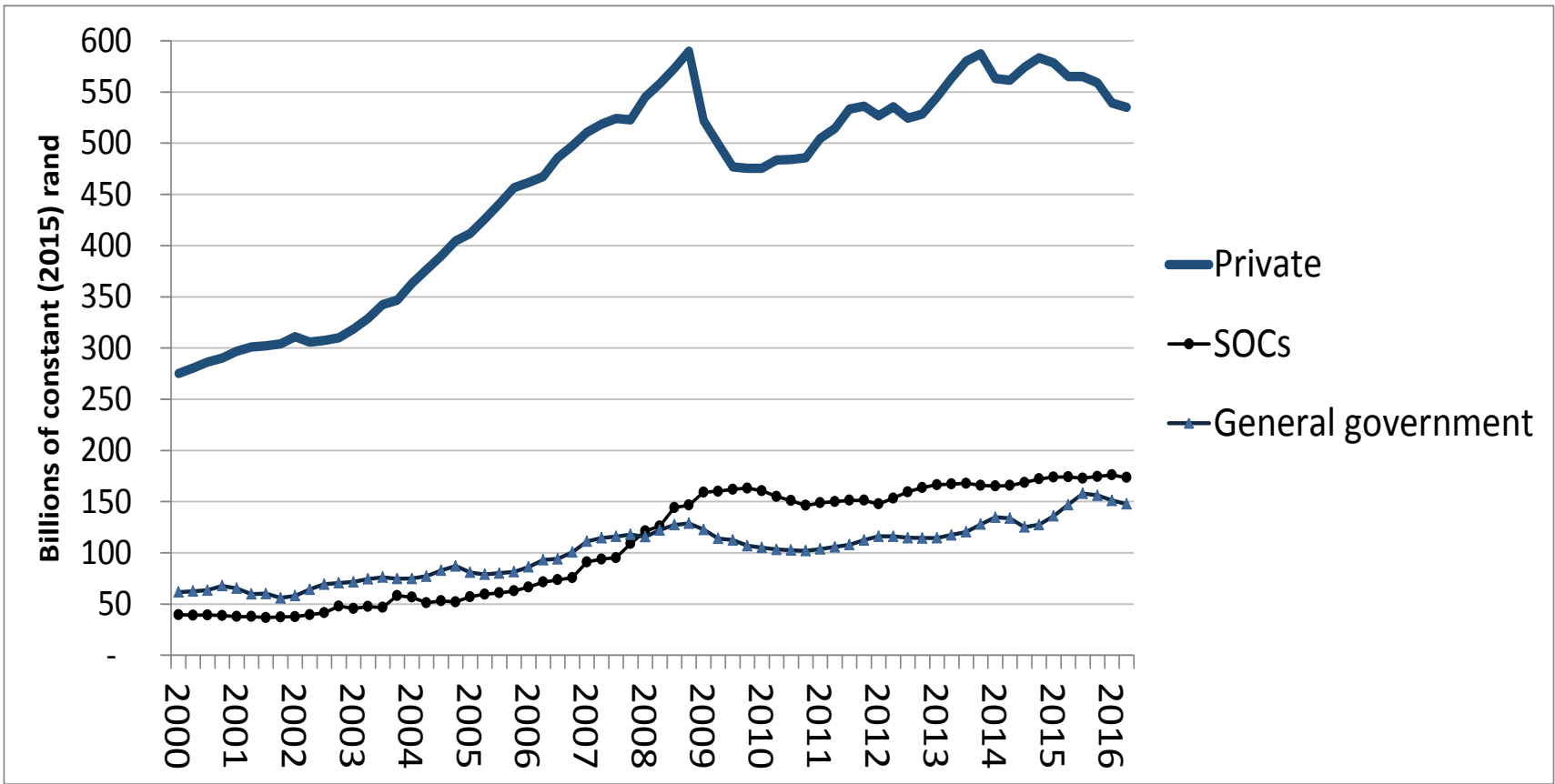
Source: Stats SA

Employment in manufacturing and rest of the economy, 2008-2016



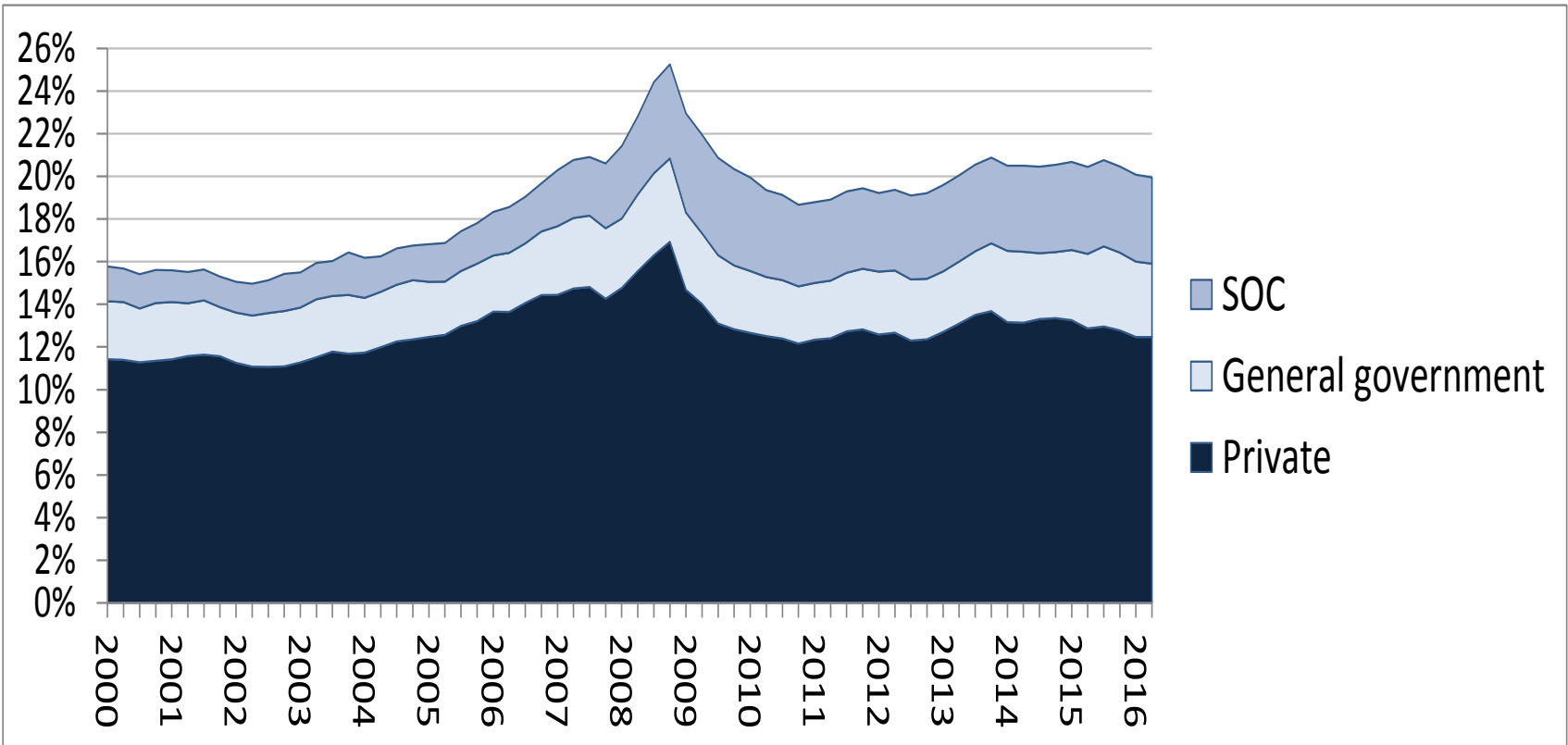
Source: Stats SA

Investment by type of organisation, 2000-2016



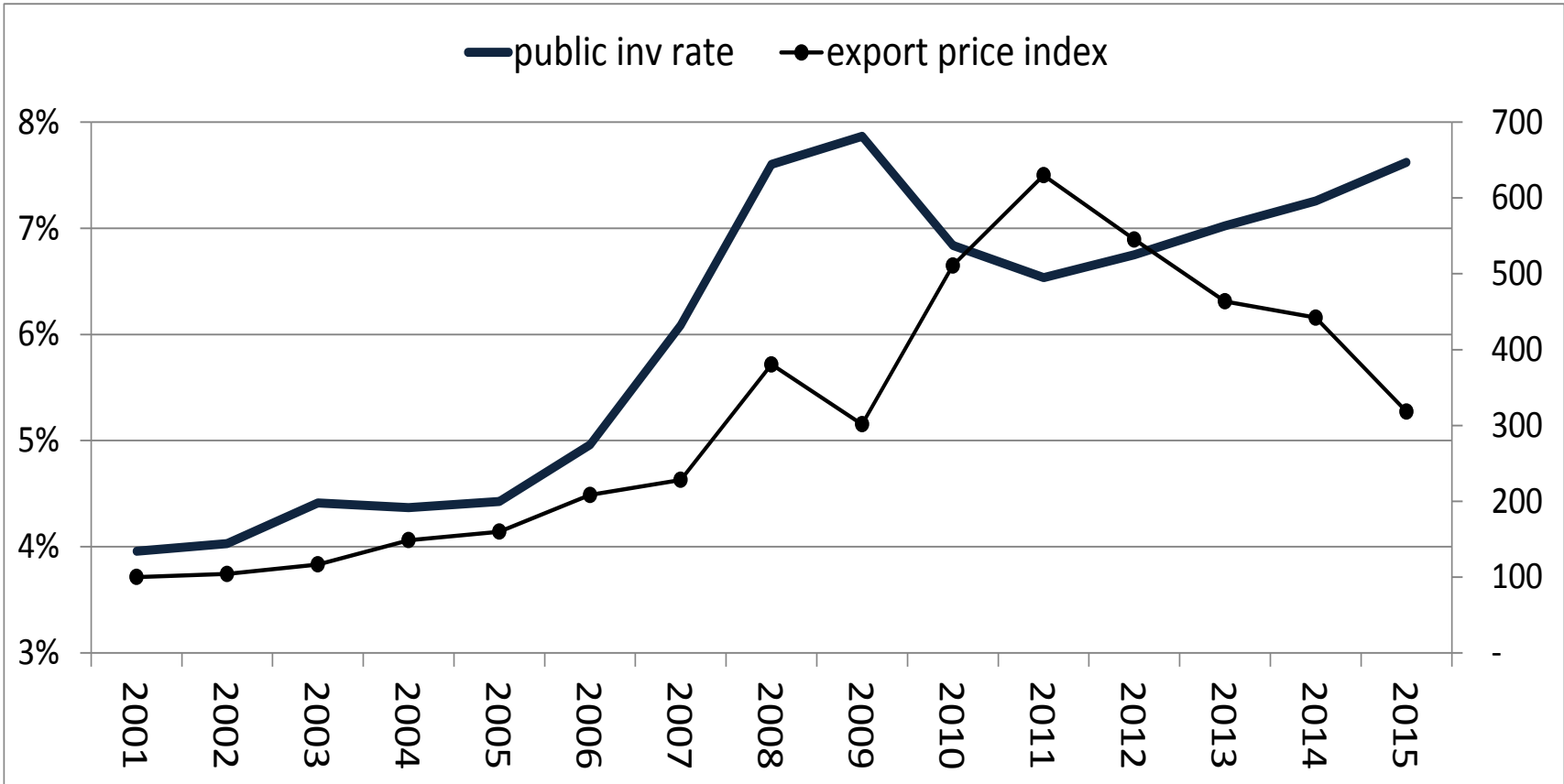
Source: Stats SA

Investment as a percentage of GDP, 2000-2016



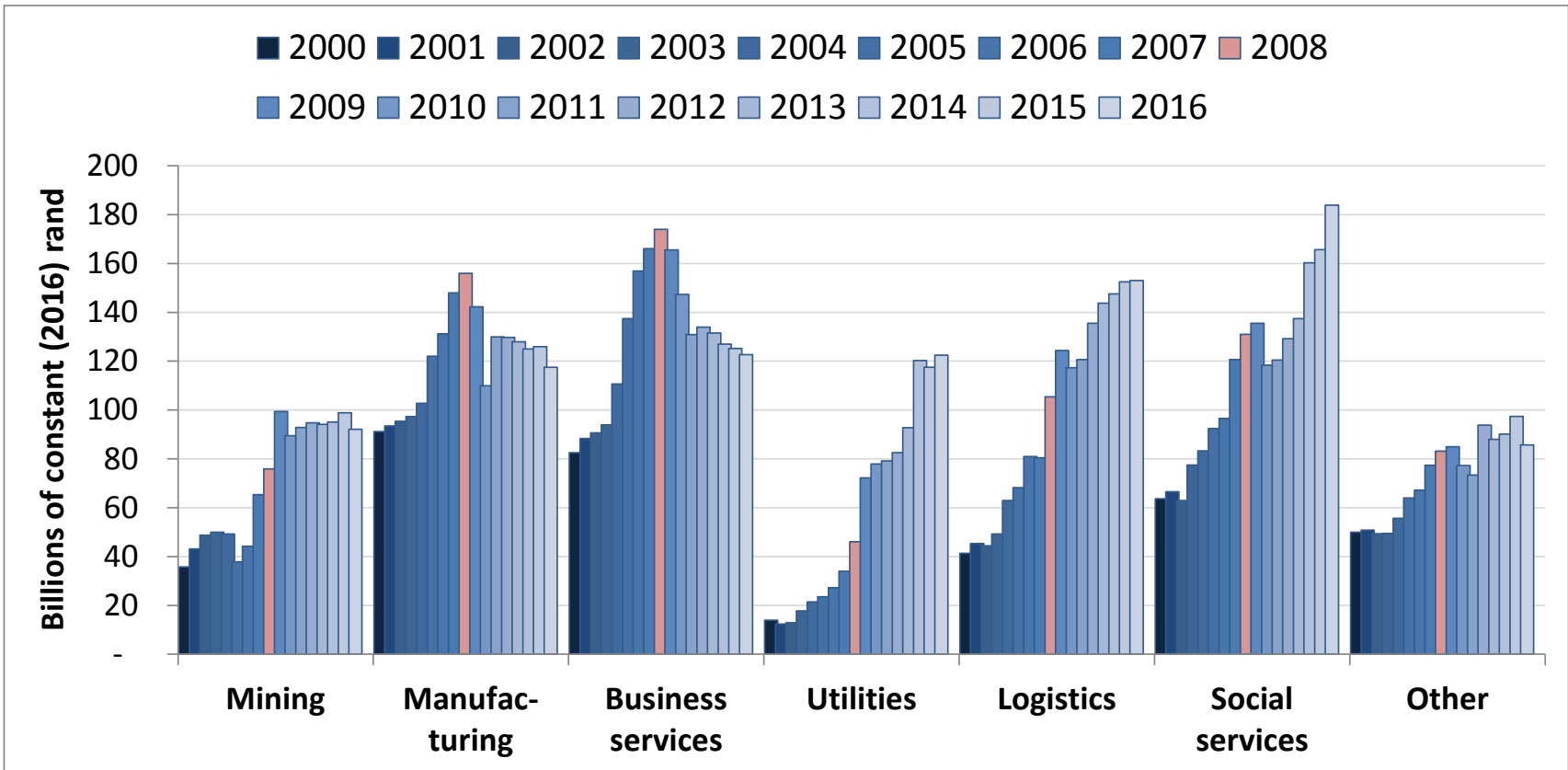
Source: SARB

Public investment as a % of GDP compared to changes in the price of major metals exports, 2001-2015



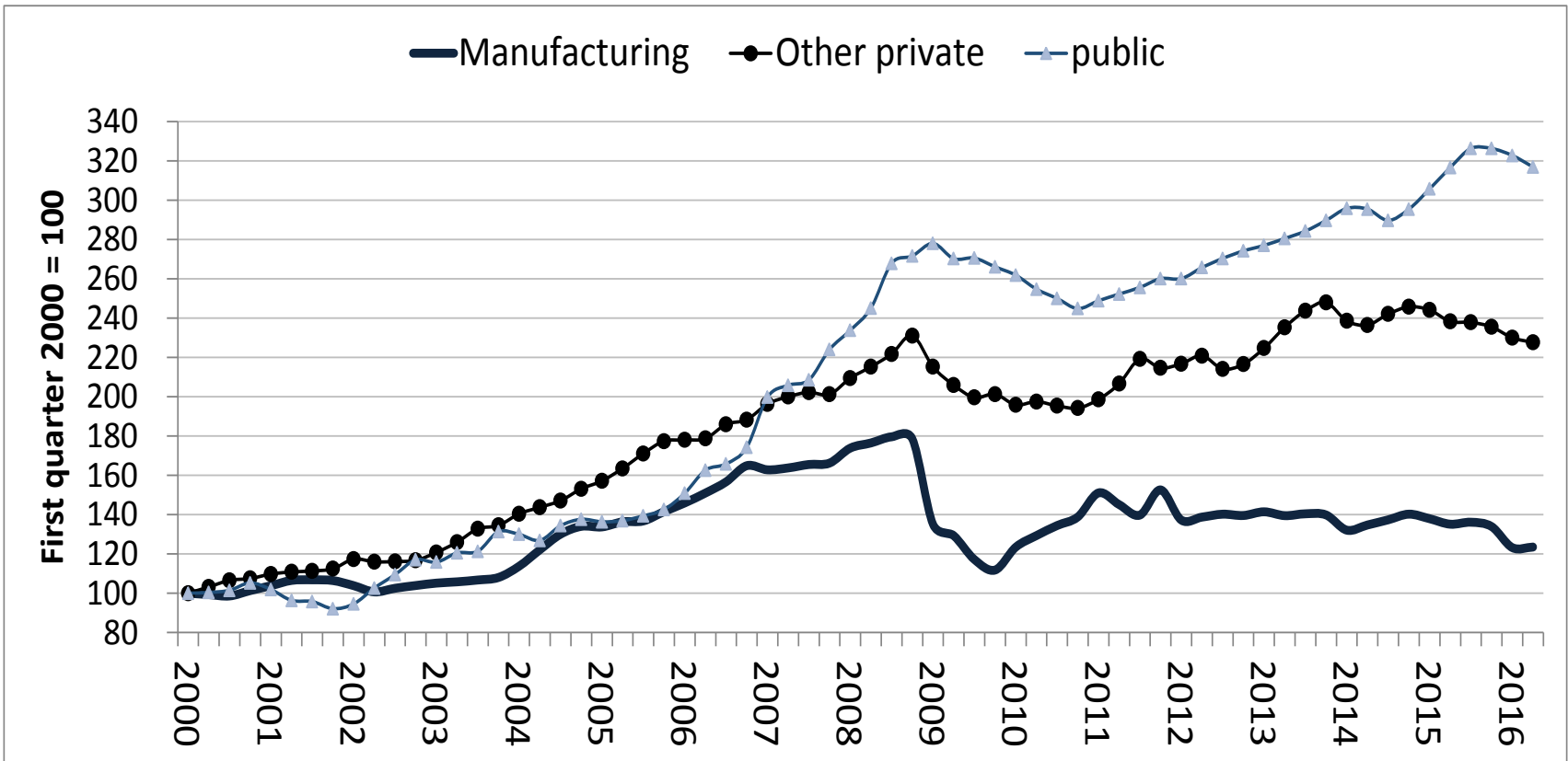
Source: SARB

Investment in major sectors of the economy, 2000-2016



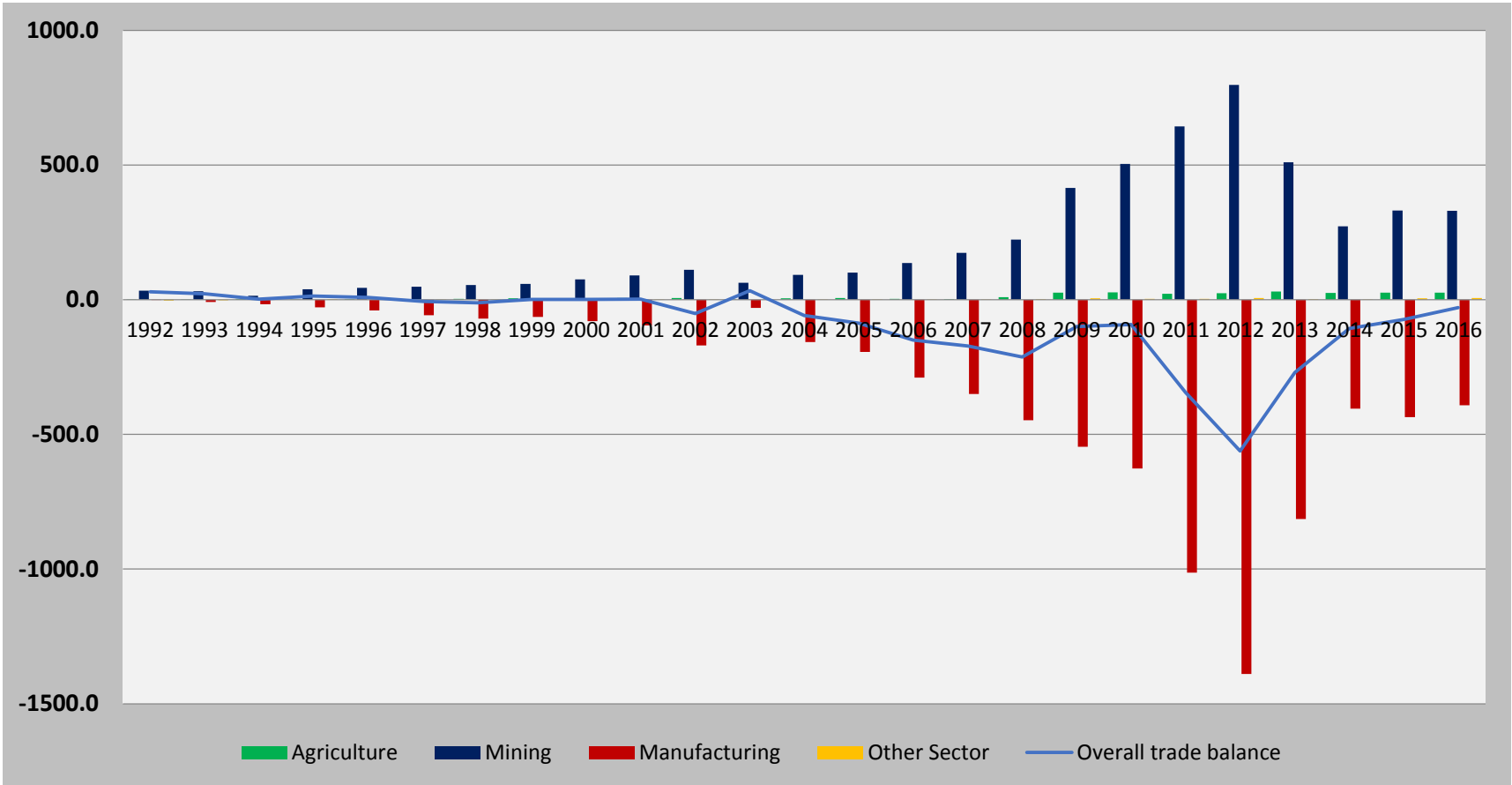
Source: SARB

Investment in manufacturing compared to private and public investment, 2000-2016



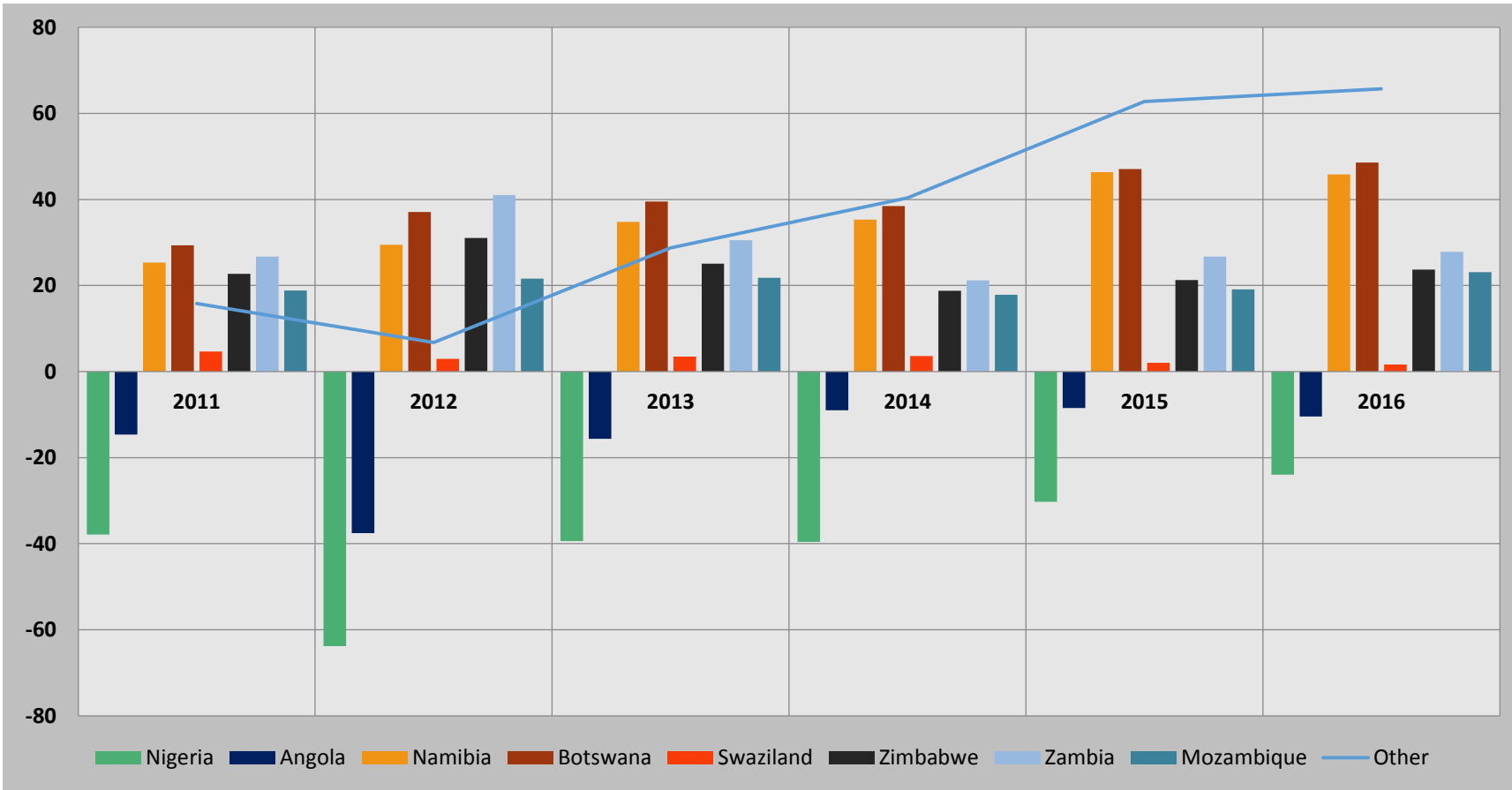
Source: SARB

SA's trade balance according to broad sector (R bn) 1992-2016



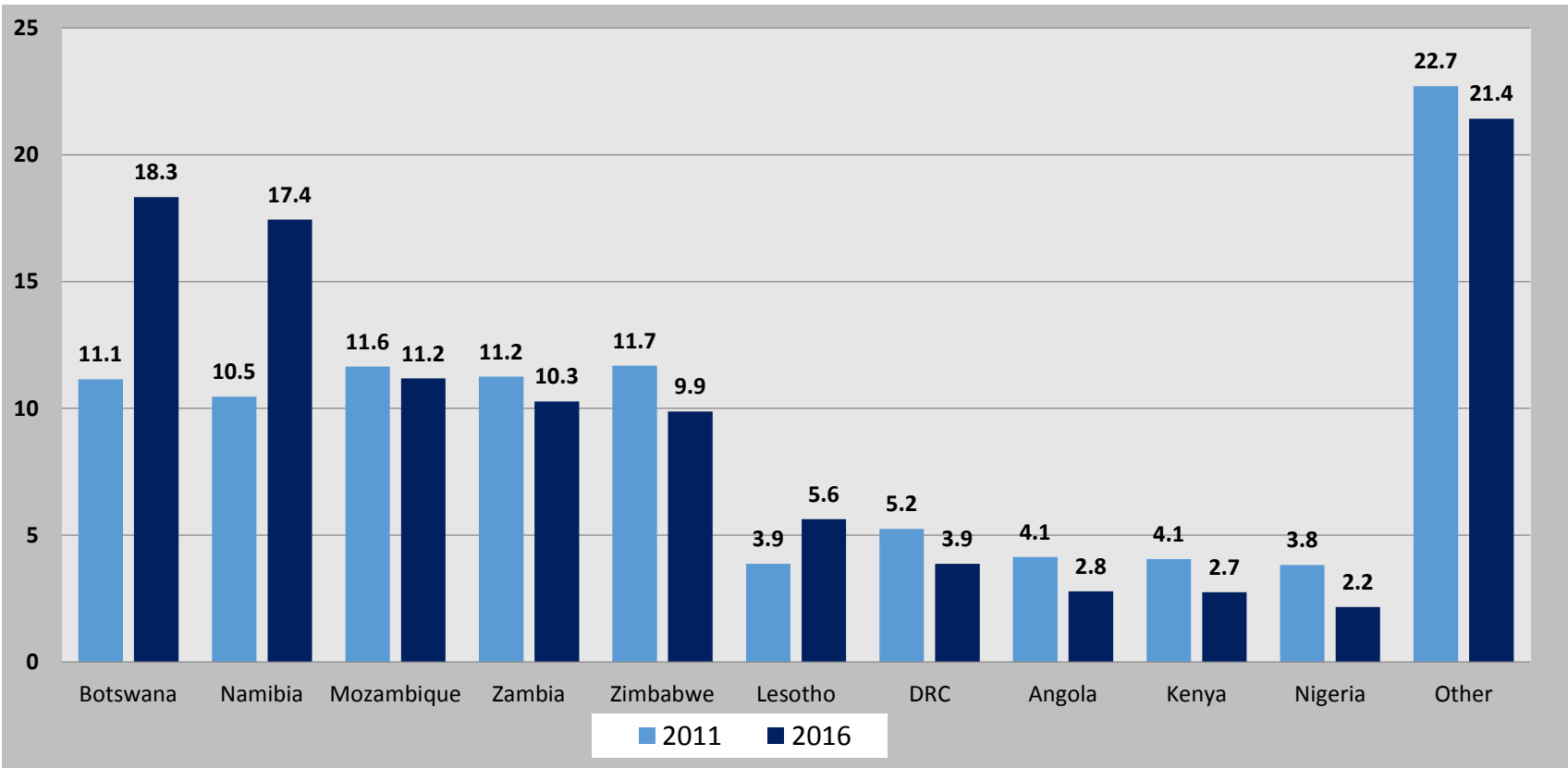
Source: the dti

SA's trade balance with the rest of Africa (Rand bn) 2011-2016

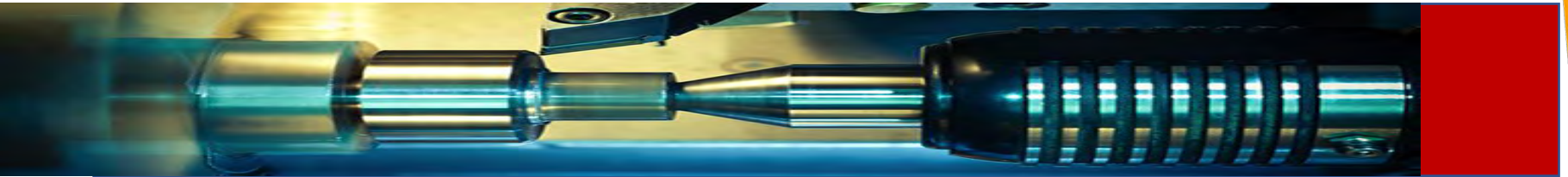


Source: the dti

SA's top export destinations in Africa (R bn) 2011 v. 2016



Source: the dti



Thank you