

# **UCT GSB Distinguished Speaker Programme**

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## **SA's Industrial Policy Action Plan (IPAP2)**

**Dr Rob Davies MP  
Minister Trade and Industry**



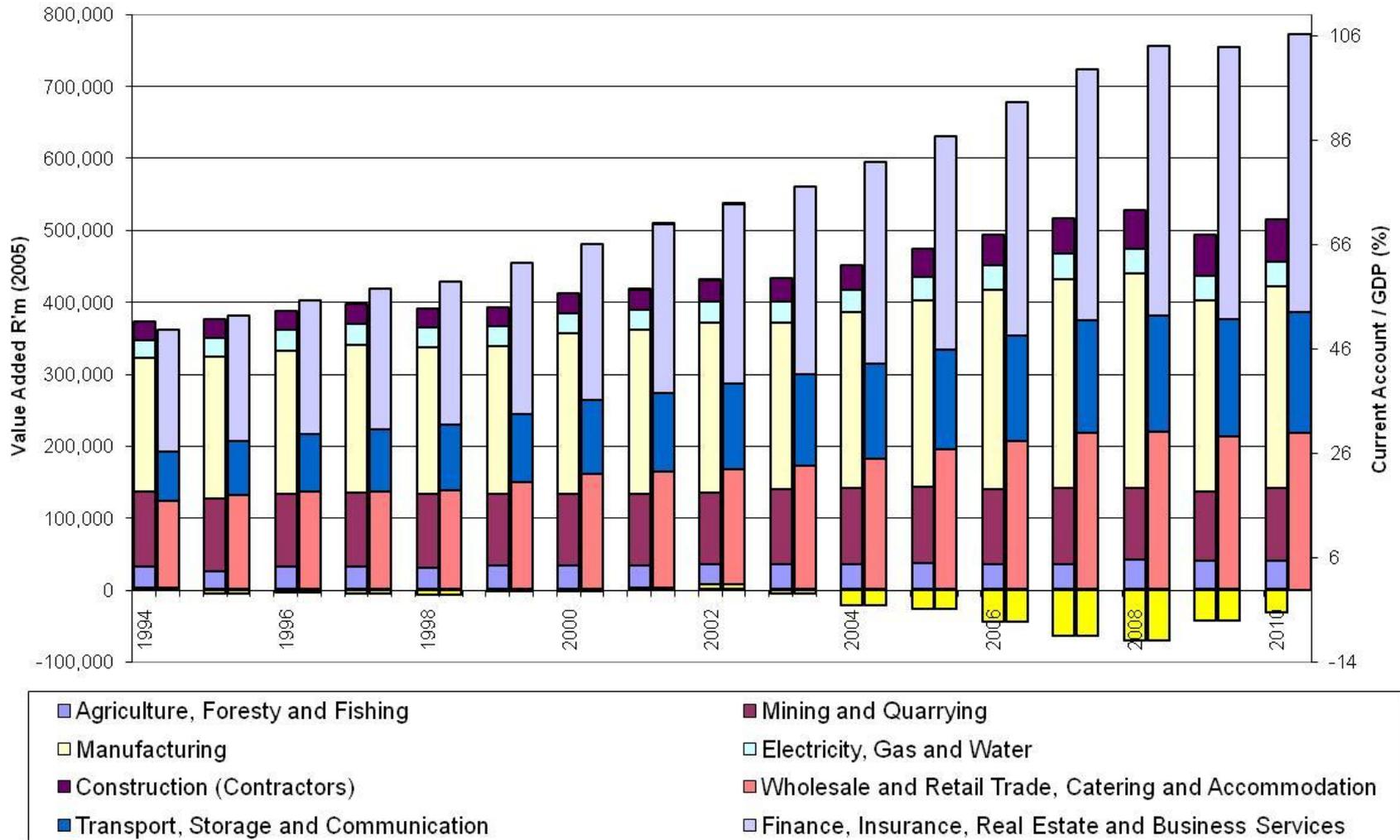
# Problem statement

- Prior to global crisis SA achieved relatively high growth rates but this masks key structural problems
- SA growth rates lower than peers
- Growth driven by unsustainable increases in credit extension and consumption (financial intermediation, insurance, real estate, transport, storage, communication, wholesale and retail, catering, accommodation) grew 7.7% annually,
- Production sectors, (agriculture, mining, manufacturing, electricity, water and construction) only grew 2,9% annually. There has been a substantive decline in manufacturing sector production
- Contributed to range of imbalances in economy including current account deficit
- Employment has remained unacceptably high – never below 22.8%<sup>2</sup>

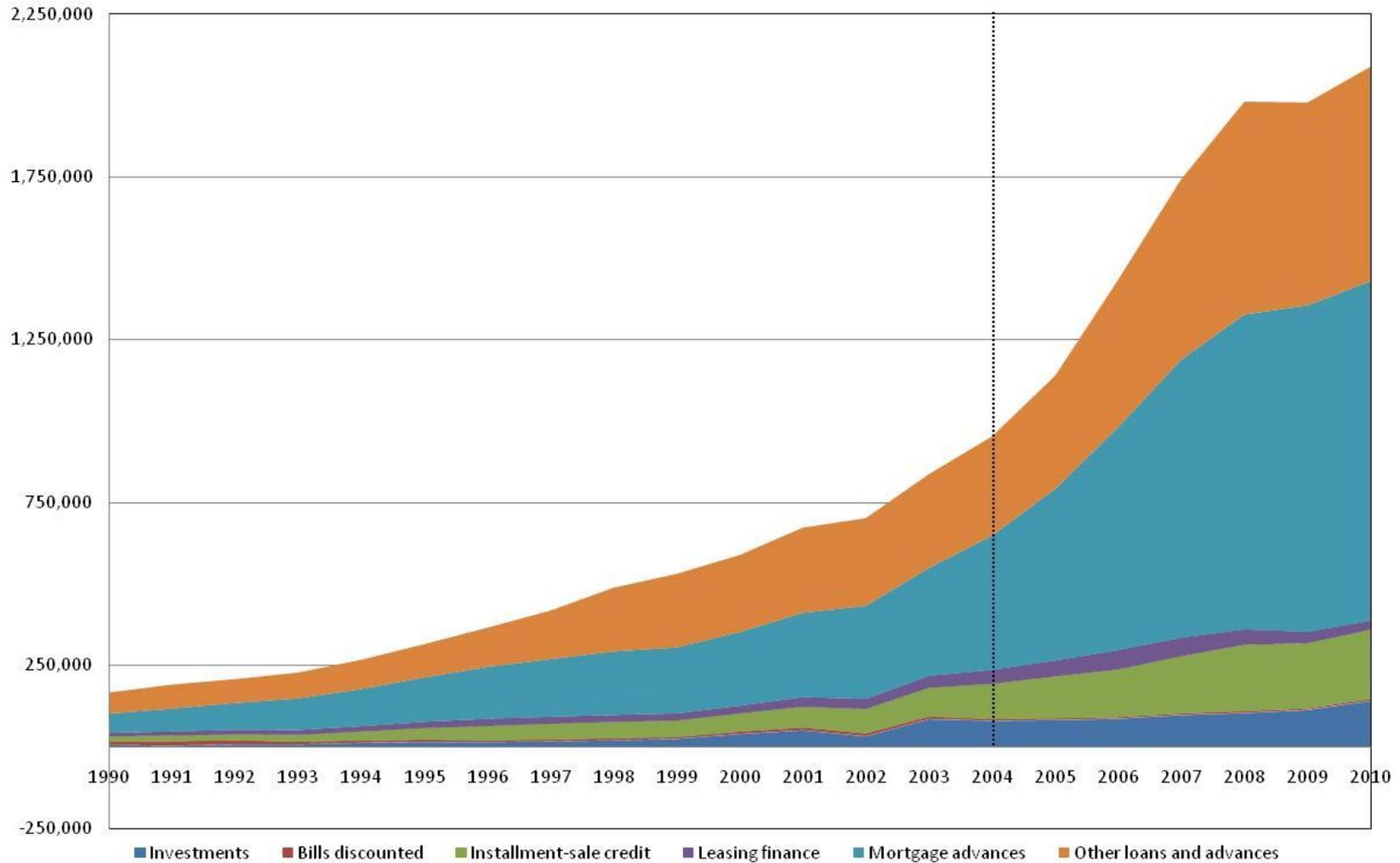


# Unsustainable consumption-led growth path

Divergence of GDP by production and consumption-driven sectors, 1994-2010



# Private credit extension



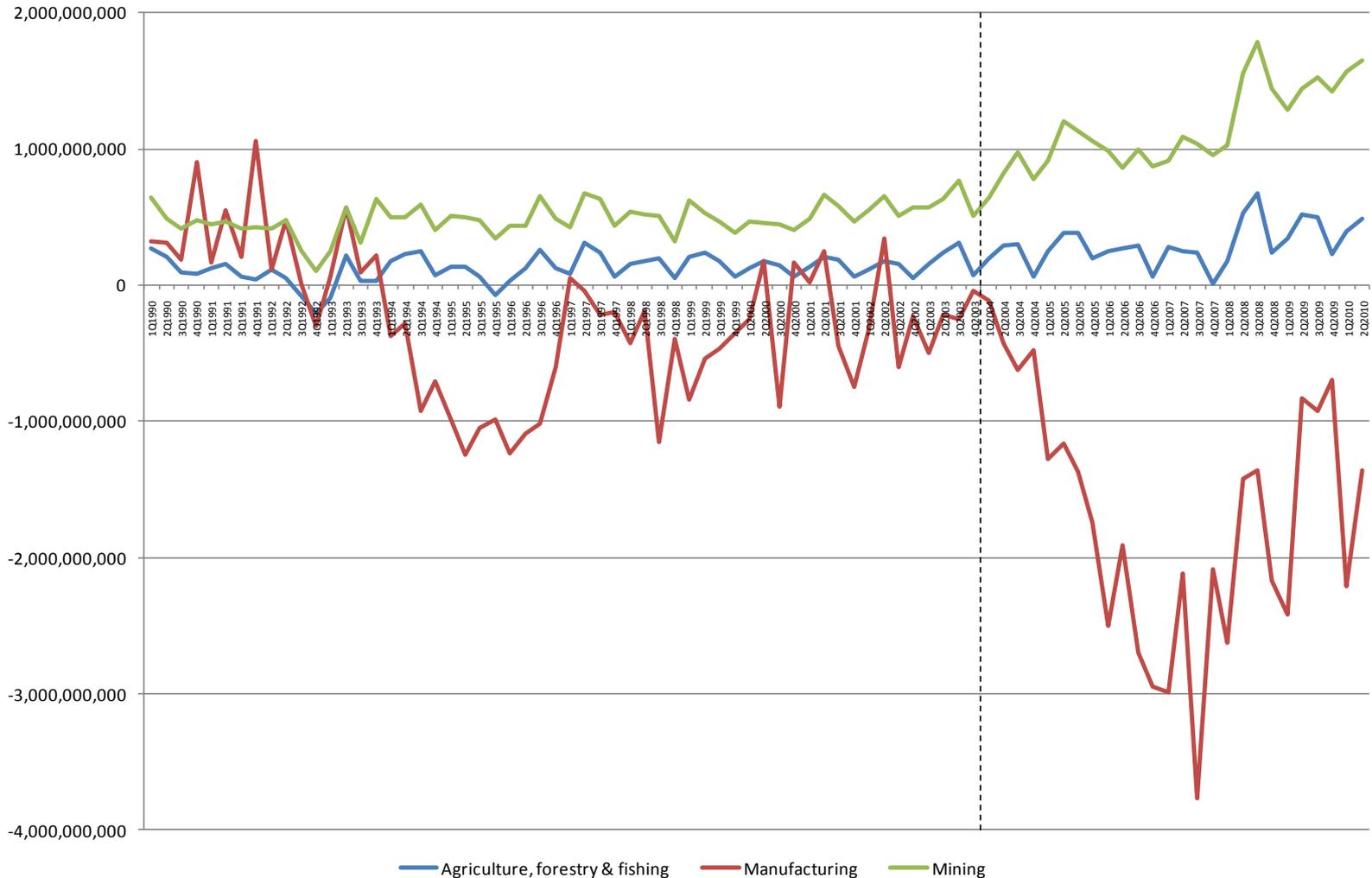
# Structural constraints have worsened since 2008 crisis

- Since the 2008 crisis manufacturing has experienced a virtual 'perfect storm' of:
  - Slow global growth particularly in traditional export markets of the US and EU
  - Weakened domestic demand as the credit-fueled boom of 2005-2007 unwound
  - Currency overvaluation and high real effective exchange rate
  - High administered prices - escalating electricity price increases of the order of 75-90% from Eskom and up to 140% including municipal increases.
  - Backlogs in infrastructure expenditure across levels of government,
  - Slow progress with skills development
  - and recent industrial action.



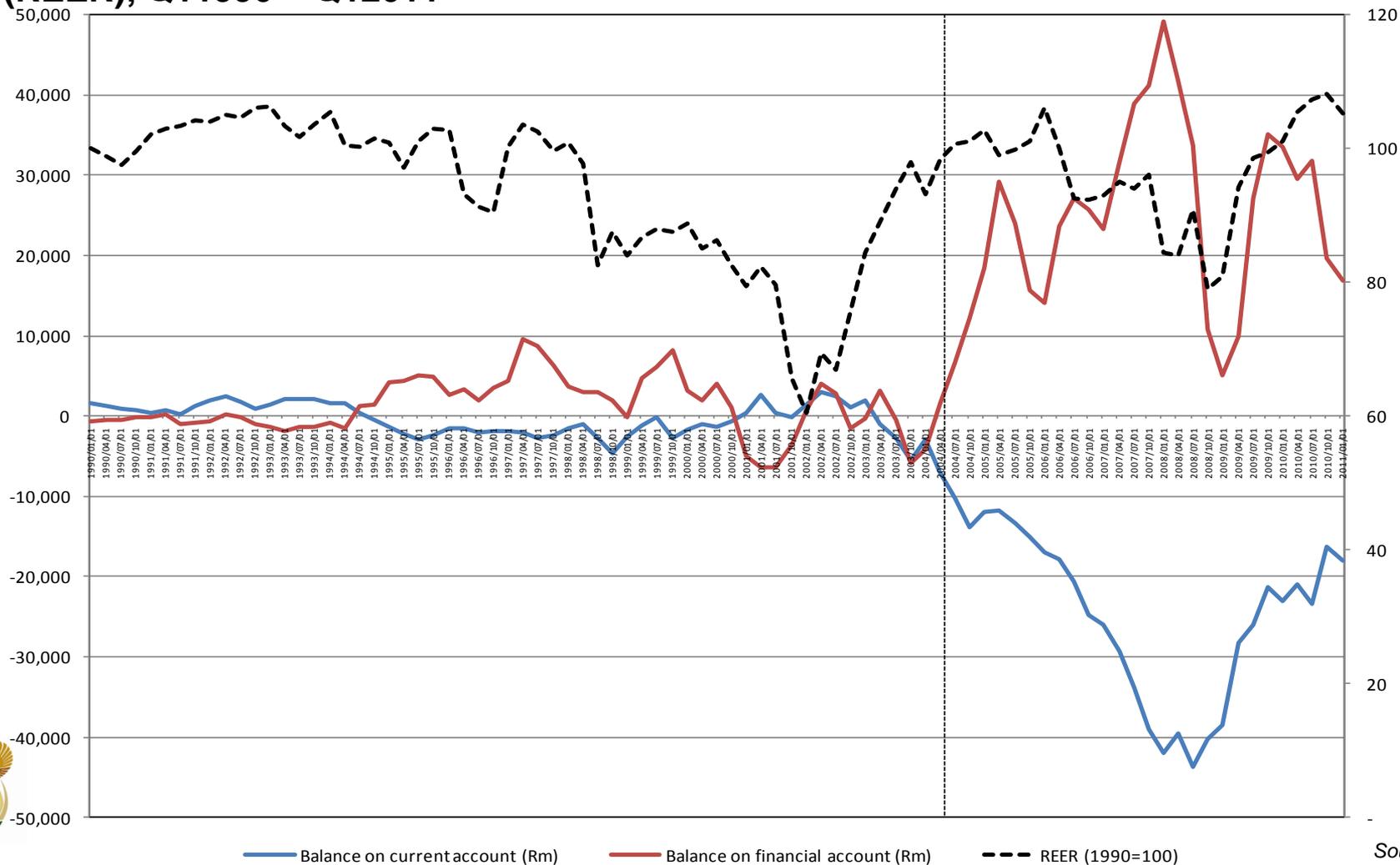
# Trade Balance

Manufacturing, Mining and Agriculture Trade Balance Q11990 – Q32010, US\$m



# Currency

**Balances: current account, financial account and real effective exchange rate (REER), Q11990 – Q12011**



# IPAP2:

## Requires *comprehensive* and *integrated* action

1. **Macro-economic policies** which support more competitive and stable real exchange and interest rates
2. **Industrial financing** channelled to more labour-intensive and value-adding sectors
3. **Leveraging procurement** to raise domestic production and employment in a range of sectors
4. **Developmental trade policies** such as tariffs and standards deployed in a selective and strategic manner
5. **Competition and regulation policies:** competitive input costs for productive investments and affordable goods and services for poor and working-class households
6. **Skills, technology and innovation policies** better aligned to sectoral priorities
7. Intra- governmental action on **customs fraud and illegal imports.**
8. Deploying these policies in general and in relation to more ambitious **sector strategies**, as set out in detailed Cross-cutting and Sector KAPs



# IPAP2: Sectors

## *Cluster 1: Qualitatively new areas of focus*

- **Metals fabrication, capital and transport equipment sectors:** leverage Capex programme, rebuild and position as future exporters
- **Green and energy saving industries:** solar water heating, concentrated solar power, wind power, energy efficiency
- **Agro-processing** linked to food security and food pricing imperatives
- **Boatbuilding and Oil and Gas** sectors with significant potential

## *Cluster 2: Scale up / broaden interventions in existing IPAP sectors*

- **Automotives, Components, Medium and Heavy Commercial Vehicles:** raise economies of scale and localisation of components
- **Downstream Mineral Beneficiation:** based on establishing minimum beneficiation levels
- **Plastics, Pharmaceuticals and Chemicals:** focused on plastics and value-adding pharmaceuticals
- **Clothing, Textiles, Footwear, Leather:** recapture domestic market share through competitiveness upgrading and tackling illegal imports



# IPAP2: Sectors

## ***Cluster 2: Scale up / broaden interventions in existing IPAP sectors***

- **Biofuels:** establish regulatory framework and support agricultural and refining investment
- **Forestry, Paper & Pulp, Furniture:** promotion of afforestation to ensure downstream sawmilling
- Strengthen **Craft and Cultural Industries**
- **Business Process Services:** broaden and deepen SA's product offerings

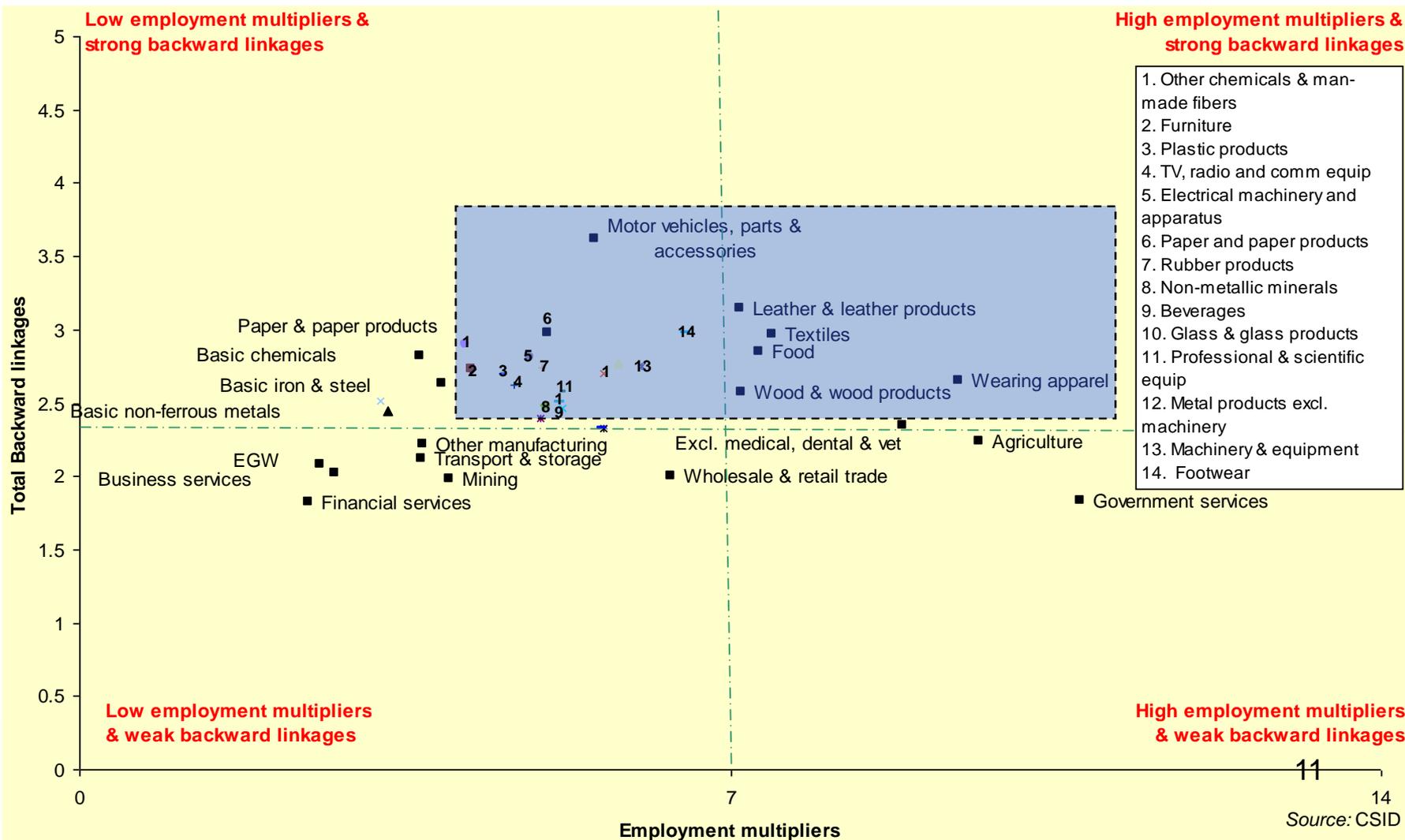
## ***Cluster 3: Sectors to develop long-term advanced capabilities***

- **Nuclear:** leveraging local production and technology transfer
- **Advanced Materials:** feeding into new growth industries such as aerospace, solar and nuclear
- **Aerospace:** strengthening integration into supply chains



# IPAP 2: Key pillar of the New Growth Path

IPAP: value-added sectors with high employment and growth multipliers





# Progress: Industrial Financing

## ***Short term industrial concessional financing***

- IDC reviewed its business model and balance sheet
  - Identified R102bn over the next five years for investment in NGP and IPAP sectors at Prime minus 3% in many instances and includes
  - R10bn Job Creation Fund
  - R25bn earmarked towards Green Economy
  - R5bn Agro-processing fund

## ***Further interventions for industrial financing.***

- Further significant work taking place to address the the key issue of mismatch between short-term sources of funds (largely deposits) and long investment terms required in real sectors like manufacturing
- Development banks play a fundamental role in closing this gap in many countries such as Brazil and Germany. New policy proposals to leverage and deploy long term concessional industrial finance to be completed in 2011/12 and feed into appropriate processes.
- This will include sector specific industrial financing packages in support of other industrial policy levers to scale up production value chains in key sectors.



# Progress: Sectoral highlights

- ***Automotives***

- Automotive Investment Incentive with a budget of R2, 69 billion over the MTEF period instrumental in securing R14 billion investment commitments from assemblers and component suppliers such as VW, GM and Daimler Chrysler. There have been significant increases in volumes and levels of localisation in auto's sector. Conservative estimate of 12,000 new jobs in this sector in 2011 – 2013

- ***Clothing & Textiles***

- Rollout of the Clothing Textile Competitiveness Programme (CTCP) and the Production Incentive (PI) totalling R731m supporting more than 200 companies. This is in support of 48 384 jobs.

- ***Business Process Services***

- 2010/11 financial year:
  - R40 million investments made.
  - R42 million new investment commitments approved.
  - Sector specific Monyetla II Training Programme for 3,400 young trainees is a model for demand side skills interventions.



# Progress: Sectoral highlights

- ***Green Industries and bio-fuels***

- SABS finalised enabling standards for: solar water heaters; wind energy turbines; energy efficient lighting, appliances and products; electric batteries and alternative fuel vehicles; co-generation of electricity and biofuels
- DOE have published REIPP to enable renewable energy generation. Request for Proposals were published by DoE on 31 July 2011 for 3 750 MW.
- DTI to publish wind and solar power strategies shortly – emphasis must be on local production of components and equipment for renewable energy generation.
- Intra-departmental South African Renewables Initiative (SARI) initiative to leverage international climate finance to supplement domestic funding sources for renewable energy production linked to domestic manufacturing

- Regulatory mechanisms to enable creation of **biofuels industry** to be finalised shortly with target of 100 000 jobs.

- ***Illegal imports and customs fraud.***

- Sars/Customs putting in place new electronic system to significantly scale up interventions.



# Progress: Transversal highlights

- **Competition**

- Referrals against many companies including tyre companies; scrap merchants; chemical companies; airlines and construction companies
- Findings against bread price collusion including establishment of associated agro-processing fund at IDC to promote competition.

- **Trade**

- Exporters Early Warning System on Technical Barriers to Trade developed by SABS fully operational.
  - Identifies technical barriers to trade for exporters notified to WTO
  - Distributed via email free to exporters on a weekly basis
- ITAC processed numerous applications for increases, rebates and reductions of duties in line with IPAP priorities
- SABS developed a range of enabling standards for various industries / products



# Impact of Current Wave of Global Financial Crisis

- **SA must respond to current wave of global crisis and persistent market and institutional failures:**
  - Increasingly volatile and still overvalued exchange rate
  - Decades old and multi-billion Rand backlogs in rail, port and electricity infrastructure.
  - Adoption by government of a 'user pays' approach to financing such backlogs, resulting in large and rapid increases in utility price increases, especially in relation to new electricity build.
  - Financial rather than economic approach to cross-subsidisation of rail leading to excessive ports charges, impacting particularly on exporters of value-added products
  - Low absolute and relative levels of profitability, low investment per worker and inadequate productivity growth in manufacturing
  - Private financial sector which has major structural failures, notably a mismatch between short term sources of finance (deposits and short term inflows) and long term bricks and mortar investment .
  - Recognition that large swathes of global trade and production are subject to significant subsidies, trade measures and other 'distortions'.



# A South African response

- **Should strengthen existing measures which include:**
  - IDC concessional industrial financing;
  - designations;
  - sector specific and transversal incentive support mechanisms
  - Scaled up anti fraud and illegal import measures.
- **Government will announce raft of support measures in form of Manufacturing Competitiveness Enhancement Programme (MCEP.)**
  - Detail and implementation in 2012 Budget



# Key components of the MCEP

- **The Production Support Mechanism (PSM)** - labour intensive and strategic manufacturing industries - funding assistance for competitiveness improvements and expansions with conditions.
- **Enhanced IDC Distressed Funding** – subsidised interest rates for funding that IDC currently provides to distressed companies, with conditions.
- **Energy Efficiency and Co-generation** – assistance to companies wrt impact of electricity price increases through the implementation of more efficient technologies and assist in building generation capacity.
- **Capital Good Supplier Programme (CGSP)** - subsidised loans for purchase of capital goods from domestic manufacturers.

# Opportunities

- No country has experienced rapid employment and per capita income growth without a strong industrialization effort
- Manufacturing has the highest growth multipliers in the SA economy, significant employment multipliers and is key to sustainable consumption growth and employment in the medium to long term.
- Significant opportunities in manufacturing in key sectors – green industries, agro-industries, metals etc.
- BRICS represents both a challenge and enormous opportunity to shift our trade regime to grow value add tradable exports to new markets and promote FDI into manufacturing sectors.



# Opportunities.

- Significant growth of African economies and emerging possibilities of single African market of 700 million strong. Must identify and utilise opportunities to enter and support :
  - Infrastructure development - rail and ports
  - Development corridors
  - Regional trade integration
  - Integration of production supply and value chains in key sectors :
    - oil and gas, agro-industries, pharmaceuticals, etc.
  - Common approach to minerals beneficiation strategies to leverage maximum value added production.
  - Investment promotion strategies to build production capacity and manufacturing sectors - lessen dependence on commodity exports
- Build stronger partnerships between government, business and labour to support and strengthen Industrial Policy Action Plan and New Growth Path to address economic growth, unemployment and inequality.



# Thank you

