Manufacturing a new economic future

Executive Summary

Manufacturing is key catalyst and multiplier for job creation, GDP growth and development in a country. In South Africa, manufacturing as a percentage of GDP has been declining rapidly. In this paper the reasons behind this decline are explored, looking at ANC policies and legislation, the political environment and the tools used by the Department of Trade and Industry (DTI) to stimulate manufacturing.

From the research it becomes abundantly clear that there is no consistency, validity or sustainability in a number of the policies and legislation in the manufacturing space.

The tools used by the DTI including incentives, trade relations and tariff measures have had some impact but need to be enhanced and realigned in a number of areas.

There are also a number of gaps in the suite of tools used by the DTI. The paper further expounds on aims to fill these gaps by exploring amendments to visa requirements, skills shortages, the 4th industrial revolution, trade relations, incentives, local content procurement and tariffs amongst others.

With these amendments and additions, the paper concludes that SA can be an attractive environment for investment from the manufacturing industry.

Contents

Acronyms

AGOA - African Growth and Opportunity Act

AMSA - ArcelorMittal South Africa

ANC – African National Congress

BEE – Black Economic Empowerment

BLNS - Botswana, Lesotho, Namibia and Swaziland

BRICS - Brazil, Russia, India, China, South Africa

COMESA Common Market for Eastern and Southern Africa

CSI – Corporate Social Investment

DA – Democratic Alliance

DTI – Department of Trade and Industry

EAC - Eastern African Community

EPA - Economic Partnership Agreement

EU – European Union

FTA – Free Trade Agreement

GDP – Gross Domestic Product

GIs - Geographical Indicators

GTL - gas-to-liquids

IPAP - Industrial Policy Action Plan

MPRDA - Mineral & Petroleum Resources Development Act

NDP - National Development Plan

NGO - non-governmental organisations

NGP - New Growth Path

PTA - Preferential Trade Agreement

SA – South Africa

SABS – South African Bureau of Standards

SACU – South African Customs Union

SADC -The South African Development Community

SARS – South African Revenue Service

SEDA - Small Enterprise Development Agency

SEZ – Special Economic Zone

SOE - State Owned Entity

SSA - Sub-Saharan Africa

TDCA - Trade, Development and Cooperation Agreement

TTF - Technology transfer funding

WTO – World Trade Organisation

Introduction

Manufacturing is a key driver of economic development, acting as a catalyst to move an economy forward, from low hanging fruits to advanced and specialised technology (low technology to high technology). It can be used to provide value addition and diversify an economy.

Along the way, jobs and wealth are created. According to the World Bank, manufacturing has the highest job multiplier out of any sector. Manufacturing makes 3.4 times higher social returns than returns to mining. It is thus a vital cog in the economy.

The multiplier effect of manufacturing according to a Manufacturing Circle SA report is R0.35 for the fiscus, three additional jobs and R1.13 for output. Thus, for every rand invested in manufacturing, fiscal revenue will increase by R0.35, output will increase by R1.13 while for every R1 million invested, jobs will increase by 3 employees. Looking at two growth scenarios, the sectoral output effects of a 3.4% and 10% annual expansion in manufacturing output is R94.5 billion and R277.8 billion over a 10-year period[1]. Manufacturing is thus a critical sector to analyse and provides rapid growth in an economy. Currently the Department of Trade and Industry (DTI) oversees manufacturing in South Africa (SA).

This paper will explore manufacturing in SA and the Democratic Alliance's (DA) position to manufacture a new South Africa.

Current political context

The key areas for concern around manufacturing in SA remain political instability, policy uncertainty, currency fluctuations, skills shortages, low investment confidence and weak local demand.

The populist drive by the ANC and EFF towards Expropriation without Compensation (EWC) and state capture allegations has created an unstable manufacturing environment where investment in the sector is drying up.

We now know from Trade Envoy, Trevor Manual that EWC has made South Africa a 'hard sell' towards foreign investors which is a big threat to the manufacturing sector

The current climate of political volatility with the factional battle within the ANC, the land debate and state capture allegations has created an unstable manufacturing environment. ANC heavyweights are manoeuvring themselves in anticipation of the elections in 2019. At the same time, the Gupta-leaks saga has resulted in no prosecution to date, the ANC seem happy to try sweep the whole episode under the carpet. The factional battles are under intense scrutiny and pressure from the media, civil society and opposition parties lending itself to desperate political moves by the ruling party.

The policy environment has been littered with poorly drafted legislation that has been challenged by opposition parties, non-governmental organisations (NGOs) and society leading to numerous court battles. This has created an uncertain environment which is putting off investors and manufacturers from long-term investment plans.

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[1] http://us-cdn.creamermedia.co.za/assets/articles/attachments/36962_manufacturing_circle_project_report_30nov2011.pdf

The latest to line up against them are the banks and lenders, who have sufficient clout to press the government into action. However, the situation has deteriorated with the introduction of the "Protection of Investment Act". In crude terms, this Act means that foreign investors will receive no special treatment when it comes to government decisions and the Constitution. Foreign investors will need to exhaust all local avenues before approaching overseas arbitrators. It also effectively replaces bilateral treaties with other countries.

The crux here is around property, where the change of section 25 of the constitution regarding "Expropriation without Compensation" will then apply equally to all foreign investors. It is a scary proposition for any investor to face.

The Act thus does not provide adequate protection for foreign investors, and will be an added reason for investors to look elsewhere or disinvest from South Africa, especially around manufacturing.

The bottom line is that businesses are weary to invest in an economy with weak growth and are increasingly looking to invest offshore where better returns can be found.

SA's currency has also had a major negative impact on the manufacturing environment. For example the Rand depreciated from R14.9/$ to R15.9/$ following the decision to fire former Finance Minister, Nhlanhla Nene. The Rand again tumbled from R13.5/$ to R14.6/$ [2]following the Hawks announcement calling for Pravin Gordhan, the former finance minister, to appear before them so he could be issued with a 'warning statement' with respect to his alleged wrong doing in the early retirement of former deputy SARS commissioner, Ivan Pillay. Lately, the rand/dollar has been fluctuating between R13 and R14 a dollar, with the topic of the land debate at the forefront.

The fluctuations in the Rand affect costs of input and component costs and make it very difficult to budget, plan and strategize as a manufacturer. Businesses require stability to flourish and plan ahead, especially when looking at importing costs that make up a large component of raw materials/input costs and the exporting prices one can charge. It is also incredibly difficult to hedge or buy 'forward cover' with such fluctuations. It is also a key threat to profit margins. SA's structural inefficiencies also limit the extent of the gains derived from a weaker currency.

With the recent yo-yoing of the rand, the business environment has been anything but predicable. It makes it increasingly difficult to form part of global supply chains and benefit from the moderate, but slowly improving global economic growth.

SA's manufacturing performance

What are the numbers revealing about manufacturing in SA?

Seasonally adjusted manufacturing production decreased by 1.5% in the three months ended May 2018 compared with the previous three months. Nine of the ten manufacturing divisions reported negative growth rates over this period. Overall, the manufacturing industry decreased by 6.4% and contributed -0.8% of a percentage point to GDP growth in the first quarter of 2018[3].

[2] https://www.xe.com/currencycharts/?from=ZAR&to=USD&view=5Y
[3] http://www.statssa.gov.za/publications/P0441/P04411stQuarter2018.pdf

The largest negative were made by the petroleum, chemicals, rubber and plastic products division and the basic iron and steel, non-ferrous metal products, metal products and machinery division.

Manufacturing decline has correlated strongly with the loss of jobs and increased unemployment in SA. In 1994, manufacturing made up between 16% and 17% of the workforce. In 2002, manufacturing employment constituted 16% of the workforce. While in Q2 2018, it had fallen to 10.7% of the work force with 1.74 million people[4].

The latest QLFS survey indicates that manufacturing employment has contracted by 3.1% from June 2017 to June 2018, resulting in a loss of 105,000 jobs[5]. There is thus a distinctive downward trend in manufacturing employment which coincides with President Zuma's reign and the current political uncertainty.

Manufacturing in SA is dominated by a few key industries:

- Agri-processing
- Automotive
- Chemicals
- ICT and Electronics
- Metals
- Textiles

The automotive industry is one of South Africa's most important sectors, with many of the major multinationals using South Africa to source components and assemble vehicles for both the local and international markets. These include BMW, Ford, VW and Toyota. This is achieved through an incentive programme – the Automotive Incentive Scheme (AIS). The industry benefits from substantial government support, including the ability to recoup 30% of the costs of local investment and 25% of duty on imports[6]. According Volkswagen, if government support went away, "it would be the immediate end of the motor industry in South Africa". Government support for protection of the industry results in higher taxes to finance the assistance. Motorists also pay higher prices for cars as a result of the tariffs on imports.

Two noticeable traits characterise the South African chemical sector. Firstly, while its upstream sector is concentrated and well developed, the downstream sector, although diverse, remains underdeveloped. Secondly, the synthetic coal and natural gas-based liquid fuels and petrochemicals industry is prominent, with South Africa being world leader in coal-based synthesis and gas-to-liquids (GTL) technologies. South Africa's chemical industry is of substantial economic significance to the country, contributing around 5% to the gross domestic product (GDP) and approximately 25% of its manufacturing sales. The gas industry in South Africa is looking to take off fairly soon. A target of enabling 60 000 jobs in oil and gas at the Saldanha Bay Industrial Development Zone has been set[7].

[4] http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2018.pdf
[5] http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2018.pdf

[6,6,7 and 8] https://www.brandsouthafrica.com/investments-immigration/business/economy/sectors/manufacturing-in-south-africa

The telecommunications industry is thriving, contributing more than 7% to South Africa's gross domestic product (GDP). With approximately 5.5 million installed fixed-line telephones, South Africa is ranked 23rd in telecommunications development in the world and represents more than 30% of the total lines installed in South Africa, however the lack of competition and high data prices continue to inhibit growth and access to opportunities for many South African's [8].

The agri-food sector (inputs, primary production, processing) contributes approximately R124 billion to South Africa's GDP and employs 451 000 people in the formal sector[9].

South Africa's Trade Statistics

(As at 30 June 2018)

South Africa's trade statistics are highlighted below[10]:

Total Exports: R 110.1 billion

Total Imports: R 98.1 billion

Trade Surplus: R 11.9 billion

The main exported products include minerals, iron products and precious metals of 54%, vehicle, aircraft and vessels of 11.66%. Machinery makes up the biggest imported component of 21% and mineral products of 18.97%[11].

Top 5 importers are:

- China (17.5%)
- Germany (10.6%)
- United States (6%)
- Saudi Arabia (5.1%)
- Nigeria (4.3%)

Top 5 exporters are:

- United Kingdom (9.1%)
- China (7.9%)
- United States (7%)
- Germany (6.5%)
- India (5.1%)

The composition of South Africa's exports to Brazil, Russia, India and China (BRIC's) economies is predominantly in energy and capital intensive activities.

Some of SA's trade arrangements include: The South African Development Community (SADC) - Eastern African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). Another trade arrangement, Southern African Customs Union (SACU)-India Preferential Trade Agreement (PTA), posed some challenges because of the Indian non-tariff barriers, and the trade ministers had agreed in January 2013 to a reduced level of tariff exchange. The SADC-European

[10] http://www.sars.gov.za/ClientSegments/Customs-Excise/Trade-Statistics/Pages/default.aspx
[11] https://tools.sars.gov.za/Tradestatsportal/Tree_Map.aspx

Union(EU) Economic Partnership Agreement (EPA) has improved the Trade, Development and Cooperation Agreement (TDCA) market access for SA agricultural exports, notably wine, ethanol and sugar. The EU had agreed to eliminate all agricultural export subsidies on goods destined to SACU. There was an agreement on Geographical Indicators (GIs), which included protection of “Rooibos”, “Honeybush” and “Karoo Lamb” in the European market. The African Growth and Opportunity Act (AGOA) had assisted in growing trade between SA, Sub-Saharan Africa (SSA) and the USA. This agreement has been extended to 2025[12].

The regions with which South Africa trades the most are SADC and the EU. Together they currently account for just less than half of South Africa’s exports, or US$24.6 billion (26%) and US$18.8 billion (20%) respectively, and provide about 35% of imports[13]. The SADC free trade area (FTA) was established in 2008 and implemented by 2012. SACU is an almost invisible organisation. Yet it has arguably had a profound impact on South Africa’s economic and even political relations with its much smaller neighbours: Botswana, Lesotho, Namibia and Swaziland (BLNS). In South Africa’s 2015-2016 budget year the total revenue pool from SACU was expected to be about R84 billion, of which the SA would receive around R38 billion. South Africa contributes about 98% of the total pool, while BLNS receive about 55% of the proceeds.[14]

Why is SA manufacturing declining?

South Africa’s manufacturing growth is lagging behind other emerging markets.

Other than the political reasons mentioned above, the decline is a result of: increased labour costs, high energy costs, poor infrastructure development, misaligned policy, regulatory uncertainty and asymmetrical compliance with World Trade Organisation (WTO) rules. The combination of the above has put a significant handbrake on manufacturing.

With the decline in consumer demand over the past four years, there is little impetus for growth in South Africa’s domestic manufacturing sector. This has been further hampered by the divergence between wages and productivity, with increasing wages and falling productivity. However, in manufacturing, technology has improved productivity which has displaced employment in the sector.

From 2007 to 2017, Eskom tariffs have increased by 500%[15] against inflation of 111%[16], while investment levels have fallen from 20.6% to 19% of GDP[17]. This has hampered manufacturing. Manufacturing value add (the net output of manufacturing after adding up all outputs and subtracting intermediate input) dropped from 16% to 13%[18] as percentage of GDP during this period. Compared to other developing countries SA is lagging behind: Malaysia is sitting at 20%, Mexico is 19%, Indonesia is sitting at 21%, Egypt is 17% and Democratic Republic of Congo is 18%[19].

South Africa’s policies are also self-contradictory. Economic development minister, Ebrahim Patel, stated that government wanted to strengthen industrial competitiveness across the board but also

[12] https://pmg.org.za/committee-meeting/17371/
[13] https://www.gtac.gov.za/Whatsupeditions/Edition_10_2015_files_/sa-trade-goods_Page_11.pdf
[14] https://www.thedti.gov.za/parliament/2015/SACU.pdf
[15] http://www.fin24.com/Economy/Eskom/as-electricity-prices-soar-consumers-abandon-eskom-20170607-2
[16] http://www.inflation.eu/inflation-rates/south-africa/historic-inflation/cpi-inflation-south-africa.aspx
[17] https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=ZA&view=chart
[18] https://data.worldbank.org/indicator/NV.IND.MANF.ZS?locations=ZA
[19] https://data.worldbank.org/indicator/NV.IND.MANF.ZS

wanted to ‘reclaim’ its domestic market and expand its capacity for exports. However ’reclaiming’ the domestic market undermines competition if it means restricting imports and restricting imports also puts up the price of exports.

The Protection Investment Act as mentioned above will scare potential manufacturing investors from selecting SA. Under Economic Development, the recently amended Competition Bill has added a national security clause which will give the minister the power to intervene on cross-border transactions, appeal against decisions by the Competition Tribunal, call for or halt market inquiries, and issue exemptions for the Competition Act to be applied to certain agreements or practices. This is a significant red-flag for any potential merger with international firms.

Structural challenges remain in the country. These are: management shortcomings, labour inflexibility, collective bargaining issues, skills shortages exacerbated by visa challenges and infrastructure inefficiency.

Fiscal challenges may add to the pressure on manufacturing. These include: the potential carbon tax, the newly implemented sugar tax, the waste management tax and the generally slow response to competition from highly subsidised imports and at times. There is the further bizarre import duty regime on raw materials which are not produced in South Africa.

With the high energy costs, political and policy uncertainty, inflexible labour market, poor regulations high taxes, structural challenges and fiscal challenges, manufacturing is slowly being smothered into submission.

Department of Trade and Industry’s (DTI) response

What has Government done to address this slide?

Currently the DTI’s response is to incentivise everything. From textiles to agro-processing and automotives; the DTI has set up incentive schemes often using tax rebates or cash to encourage investment and growth. The DTI also employs policy levers such as the Special Economic Zones that encourage investors to plough money into designated areas that receive tax and infrastructure incentives. The Centurion Aerospace Village is one of these incentivised parks. It has failed to get off the ground despite millions being pumped into it since its birth 12 years ago.

On the trade front, the country has initiated more than 200 anti-dumping investigations, most of which has resulted in the imposition of duties. South Africa has withdrawn from the WTO’s general agreement on trade and services after it realised that its proposed private security companies relinquish 51% of their South African subsidiaries to local ownership would not pass WTO scrutiny. Moreover 13 bilateral trade treaties - all with European partners - have been unilaterally terminated by South Africa[20].

Government has identified the development of small enterprises in this sector as essential to the recovery of the country’s economy and ensuring employment creation. Small, innovative enterprises and entrepreneurs are offered active support from both government and the private sector. Small Enterprise Development Agency (SEDA) is one of the state entities actively involved through various programmes in the development of emerging entrepreneurs in the manufacturing sector. However, with only 250,000 SMEs creating less than 30% of the jobs in SA, this intervention has failed.

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[20] http://www.politicsweb.co.za/opinion/reiterating-the-case-for-free-trade--irr

Through SEDA's Technology Programme six incubation centres in the manufacturing sector have been operational for a period of 10 years, focusing on the development of start-ups and acceleration. The incubation centres are Lepharo (copper, zinc and base metals beneficiation), Furntech (furniture manufacturing), downstream Aluminium Centre for Technology - DACT (aluminium fabrication and casting), Mpumalanga Stainless steel Initiative – MSI (manufacturing of stainless steel products), Chemin (chemical industry) and Egolibio (bio technology). In order to improve the competitiveness of enterprises in this sector, SEDA amongst others provides technology transfer funding (TTF) to small enterprises. Through this special funding small enterprises are supported with the acquisition of new technology and equipment[21].

Government has also embarked on breaking up cartels and silos through a strengthened competition policy framework. This will enable other players to enter the market and increase competition.

Manufacturing Incentives

Manufacturing incentives are financial instruments that aim to make it easier, more attractive and cheaper for companies to invest in manufacturing in South Africa. They can take the form of tax breaks or cash pay-outs. SA's grant and tax incentives cost the taxpayer in the order of R20bn a year, whether this is the best use of tax payers money and whether it needs to be strengthened, is question that needs answering via a review.

SA's incentive package is a drop in the ocean compared to the amounts spent in other countries. For example, in a recent study by Rethinking Incentives, the USA spends more than R750 billion on incentives or almost three quarters of SA's GDP. The same study suggests that about 77% of investment decisions would have been made anyway, without an incentive being on offer[22].

Why incentivise then? It can assist in overcoming drawbacks and promoting one location over another. Incentives in SA have assisted in creating a world-class exporting automotive industry in SA with subsequent spill-overs into downscale manufacturing. They have also helped in reversing the decline of the textile and film industries. The manufacturing competitiveness enhancement programme has been a great success, through assisting start-up and expanding manufacturers with cash injections linked to job creation.

However, DTI has in the last few annual budgets reduced the budget for this programme and allowed it to shrink in favour of the Black Industrialist Scheme.

Agro-processing is the new focus of the incentive suite. A review needs to look at the application process to see if it is speedy, transparent, fair and free from external influence. It also needs to establish whether the incentives are boosting economic growth, employment and exports and whether the incentives are efficient and comprehensive.

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[21] http://www.engineeringnews.co.za/print-version/south-african-manufacturing-sector-in-a-nutshell-2016-06-03

[22] https://www.businesslive.co.za/bd/opinion/2017-03-08-review-of-investment-incentives-must-make-sas-carrots-tastier/

The DA's position

It is clear that an effective trade policy trumps industrial policy. Our position is strongly in favour of increasing free trade while recognising that some measures from time to time must be deployed to protect local industries against dumping in line with WTO regulations. Comparisons with comparable economies such as Mexico illustrate many parallels with South Africa's situation. This includes: The centrality of education and research, the role of the unions and labour stability in development and investment decisions, the use of innovative methods to improve industrial competitiveness and ensure transformation from a low-wage to a higher-wage and higher-value economy, the security dimension, the critical role of trade openness over industrial policy in development, and the importance of getting the politics right.

This has been comprehensively researched by The Brenthurst Foundation and their findings chart the course of the Mexican example and the launch some 30 years ago of the Maquiladoras programme, which transformed the country's job market and export profile by exploiting the comparative advantage of cheap labour through 'quick and dirty' assembly and export. Subsequently through pioneering policy and action, Mexico is proving that manufacturing does not have to be a race to the bottom of the wage pile.

The key is to focus, not on interventionist regulatory measures and fiscal incentives but rather on facilitating higher value addition through improving skills and public-private sector collaboration. This methodology has also assisted in moving Malaysia from a low-growth to high growth path.

South Africa's exports show "relatively little dynamism" according to Richard Hausmann, in a report by the International Panel on growth for the South African government (2008). A World Bank report (2014) remarked "by opening local markets to domestic and foreign entry, South Africa would enable new productive firms to enter and place downward pressure on high mark-ups. This would lower input costs and tip incentives in favour of exporting by reducing excess returns in domestic markets. Competition would also stimulate investment and innovation and, over time, condition the market to ensure that firms entering competitive global markets have reached the productivity threshold to support their survival and growth." Thus increased competition is vital.

Our position is strongly in favour of increasing free trade. As the Institute of Race relations pointed out in May 2017, "free trade maximizes productivity and makes for the most efficient division of labour …..the lowering of trade barriers has helped to lift millions out of poverty. Free trade maximises competition and consumer choice, and helps to keep down prices. It promotes innovation and economic growth. It eliminates the risk that producers will capture control of bureaucrats in order to obtain protection. It eliminates the power of customs officials to exact bribes. It redistributes income from shareholders to consumers. It also transfers power from business monopolies to consumers. It transfers power from government offices to the marketplace. Above all it promotes higher and higher standards of living for more and more people". However, we also recognise that where it may be necessary and warranted to combat dumping of inferior or heavily subsidised products that threaten our local industries, we must act through anti-dumping duties to protect our industries.

DA Proposals

Herewith are the DA's proposals to lift manufacturing growth in SA:

1. Red tape reduction

The DA has launched a Red Tape Impact Assessment Bill which has been gazetted (the ANC has voted this down). The Bill looks to emulate the success of the DA Western Cape Red Tape Reduction Unit which has achieved a 90% success rate for the almost 4 000 cases it has assisted with since its launch in 2009[23]. The Red Tape Impact Assessment Bill, aimed at assessing legislation in order to reduce the regulatory burden it places on small business. This process needs to be actioned urgently. In the World Bank Doing Business Report for 2017, South Africa ranked 131 out of 190 countries for starting a business and 139 out of 190 for trading across borders, while registering a property was 105[24]. Red tape removal will unlock numerous opportunities for new manufacturers to move into the market by making it easier to do business.

2. Policy Certainty

Policy certainty by removing problematic policies e.g. the Promotion of Investment Act which seeks to limit foreign investors rights to justice and gives no clear certainty on expropriation. The Expropriation Bill, The Land Holdings Bill, the Mineral & Petroleum Resources Development Act (MPRDA) and the Mining Charter are all examples of Bill's and policies which create uncertainty and confusion for investors. There is a bias towards capital and high skill-intensive growth and the National Development Plan (NDP), the New Growth Path (NGP) and the Industrial Policy Action Plan (IPAP) call for "developmental trade policies" to encourage and upgrade value-added, labour-absorbing industrial production. Despite the NDP, IPAP and NGP drafted by government which recognized the labour intensive nature of manufacturing, manufacturing numbers have continued to decline. Implementation of these policies has failed the government and would be addressed by the DA.

3. Prepare skills base for a modern economy: 4th Industrial Revolution

Of the three factors which have historically made South African manufacturing competitive – low labour costs, a cheap and reliable electricity supply and government support through subsidies and tariffs, two have been eroded. SA has since this erosion, not adapted and moved forward into the fourth industrial revolution in terms of manufacturing. [25]

Innovation can be enhanced by allowing easier access for foreign skilled workers to attain visas in SA and offering focused DTI incentives coupled with skill visas and skill transfers. This will require visiting the current regulations on visas and raising the strategic importance of visas linked to scarce skills.

4. Increase Trade

Increasing intra-trade, regional trade and global trade - through beneficial agreements. A comprehensive review of bilateral and multilateral trade agreements is required. The SACU relationship would need to be investigated to create a mutually beneficial arrangement. Intra-country

[23] https://www.businesslive.co.za/bd/companies/2016-02-19-da-to-table-bill-to-tackle-red-tapes-strangling-effect-on-small-business/

[24] http://www.doingbusiness.org/reports/global-reports/doing-business-2017

[25] http://www.dpru.uct.ac.za/sites/default/files/image_tool/images/36/Publications/Working_Papers/DPRU%20WP201702.pdf

inequalities within SACU are among the highest in the world, with unemployment and poverty common challenges. The aim was to create a regional value chain in Africa, where trade policy could be an instrument of industrial policy, contribute to employment growth, and support industrial development. SACU's work programme should focus on the promotion of regional industrial development, trade facilitation, the review of revenue sharing arrangements, the establishment of common institutions and a unified engagement in trade negotiations with third parties[26].

The DA would look to pursue new markets and step up innovation and productivity in SA by creating a new manufacturing innovation and export task team. South Africa should be looking overseas for growth in regions such as Asia, South America and Africa and increasing exporting partners. The DA would look at enhancing and expanding SA's existing trade deals.

5. Reduce Costs

Energy costs need to be drastically reduced. Renewable energy should be directly sourced from manufacturers to reduce energy costs. The DA would ensure that manufacturing has access to cheap and reliable power suppliers in order to lower the cost of manufacturing. This would include bulk and long-term deals with heavy industries. The break-up of the energy sector with the Private Members Bill that the DA is drafting will go a long way to reducing the cost of energy.

6. Steel Tariffs

There needs to be a review of tariffs on imported steel to keep prices competitive to local suppliers and build the competitive downstream sector. The DTI has protected monopolies like Arcelormittal South Africa (AMSA), driving up the local price of steel while the downstream sector has received no support, lost jobs and had to pass on price increases to consumers.

7. Comparative Advantage

Focusing on industries where we have competitive, comparative and absolute advantages. SA has a large resource base. SA, has between \$2 and \$4 trillion in mineral reserves with a massive potential in metals, agro-processing as well as chemicals. SA also boasts a developed infrastructure system (Rail is a need of greater investment), sophisticated financial markets, strong agriculture sector and a strong rule of law to build on[27]. The DA would focus on using this resource base to build a strong value chain in South Africa which could be used to export and use for local demand. South Africa needs to develop its skilled labour supply to grow into a globally competitive manufacturing hub focused on high-value added categories such as automotive, processed metals, industrial machinery and equipment, and chemicals. SA's high technology exports need to be a focus. In 2016, only 5% of manufactured exports were high technology related. This is down from 7% in 2010. A review will be conducted to look at gaps in the value chain for these strategic industries and how SA can develop them. With a multiplier of 10.5 jobs for every R1 million invested and output increase of R1.79 for every R1, agriculture and hence agri-processing will be a key priority area in incentives and incubation as one of the strategic industries[28].

[26] http://unpan1.un.org/intradoc/groups/public/documents/cpsi/unpan041126.pdf
[27] https://www.quora.com/What-does-South-Africa-have-a-comparative-advantage-in
[28] http://us-cdn.creamermedia.co.za/assets/articles/attachments/36962_manufacturing_circle_project_report_30nov2011.pdf

8. Local Demand

Stimulate a greater demand for SA products by driving a 'Made in South Africa' campaign which will require the State, as the largest spender on goods and services. This will be enforced through a 'purchasing audit' that each government department, sphere of government and entity will be audited by the Auditor General. They will also have to provide 'source of origin' certificates to indicate where the good originate from to stop 'fronting' through local companies simply importing goods. Recognising in this, that a local premium will have to be accepted for goods to be made in SA, up to a maximum of 20%. Exceptions will be made for special condition procurements.

Ensure that State Owned Entities (SOE’s) entering the manufacturing space like Eskom and Transnet are following stringent procurement processes in order to facilitate local growth and manufacturing. SOE's should be providers of services and not go into competition with local and established manufacturing sectors as is currently happening. In this, the DA will ensure that South African Bureau of Standards (SABS) is funded and able to fully assess local content in manufactured goods sold to the state. The Transnet rolling stock program is a great example of this and how Chinese trains are being sold to SA will little or no local content despite a required 60%.

9. Incentives

Incentivising investment in manufacturing through sector specific manufacturing incentives (SSMI). These would be based on the ability to improve production efficiencies, lowering of manufacturing costs and ability to create new jobs. Reviewing current incentives programmes to make sure there is no administrative blockages and that it is efficient and effective in creating value. In this, DA would advocate unfreezing the budget for the Manufacturing Enhancement Programme. Lowering corporation taxes for manufactures to 15% conditional on re-investment in capacity to expand production, skills training and Corporate Social Investment (CSI).

10. Infrastructure

There is massive backlog in infrastructure development with the country’s roads being overused and collapsing under the strain of transportation. The rail network can be improved through public-private partnerships that will unlock areas earmarked for manufacturing in the Special Economic Zones. In line with this, state capture has torpedoed the national rail build programme and a clean-up of these contracts as well as recoupment of overspend is needed urgently. Budgeted money needs to be ring fenced for specific infrastructure improvements especially amongst ports, terminals and manufacturing nodes. A railway indaba is required to discuss the future prospects and plans for rail in South Africa.

Conclusion

In conclusion, the DA believes that the current suite of tools from the ANC including policies and legislation is extensively inadequate to address the economic challenges and infrastructure backlog required to stimulate sectors such as manufacturing linked to job creation. . The DA’s proposal provides the basic building blocks required for all sectors to thrive.

Manufacturing in particular has the capacity to be a job multiplier within our country and catapult the country to a new level of development. It is thus vital that the government applies the correct set of tools to encourage this sector.

In government, the DA would implement the set of policies to manufacturing necessary to encourage investors and provide confidence in the long-term sustainability and security of their investment.

In this, the DA would need to work hand in hand with the Department of Labour and Education to ensure co-operation and mutual realisation of growth in this sector with increased labour flexibility and skills development.

The DA would look to address manufacturing by focusing on growth in intra-regional trade, improving infrastructure, reducing visa requirements for skilled workers, increasing local content auditing, reducing red tape, adjusting tariffs/taxes and reviewing the high-technology value chain.

With these adjustments, the DA believe that SA can become a major hub for manufacturing across the continent.

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