the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

INTEGRATED NATIONAL EXPORT STRATEGY (INES) OR "EXPORT 2030"

Excellence into Emerging and Traditional Markets

Trade and Investment South Africa – a division of ***the dti***

Contents

Background and Context

Introduction

The Department of Trade and Industry (**the dti**), through Trade and Investment South Africa (TISA) is mandated to grow the export base and increase exports of South African value added products and services. TISA identified the need to review existing strategies and develop a streamlined approach to export development supported by strategic export promotion in line with global best practice.

The development of this Integrated National Export Strategy (INES) or "Export 2030" therefore looked into the progress of South Africa's export sector and identified priorities for enhanced export performance. The INES covers a basket of interventions at the macro and micro levels of export development and promotion. The strategies and principles of the INES extend to the activities of the relevant economic agents from the public sector (all departments, at all three spheres of government, State-owned enterprises and other government agencies) as well as the private sector. Many of the strategic actions, which are outlined in this document, will be implemented in the short term, while others require medium and long-term time horizons (refer to Annexure 1).

Part of the preparation of the INES required that a critical analysis of the export environment be conducted, which included a review of the current policy environment, a review of the 2006 export strategy, an examination of international best practices, and the application of econometric analysis to better understand South Africa's comparative advantages. This research process also included consultations with stakeholders and a survey of exporters. The work done through this process sets out where South Africa is as an exporting nation and where it needs to be in order to achieve its socio-economic goals. Some of the gaps identified within the 2006-2009 NES were domestic competitiveness, limited consultation processes, weak institutional arrangements, lack of a common export agenda and fiscal constraints. In response, the INES addresses these constraints within the implementation plan by advocating for adequate infrastructure to facilitate safe and rapid international freight movements through engagement with the Ports Regulator of South Africa by investigating fees which are conducive to the national export effort and facilitating the interaction between Export Councils and shipping/airlines to negotiate cost-effective rates; mitigating foreign market access barriers whereby Export Councils report to International Trade and Economic Development (ITED) Unit tariffs and nontariff barriers (NTB) issues and facilitating assistance programmes to enable exporters to meet commercial foreign market standards; facilitating trade through collaboration with SARS on a national electronic "single window" providing an opportunity to reduce time, cost and complexity of preparing and submitting data and documents for exports and imports. Furthermore, the identification of various factor conditions and the attempt to reduce the costs of the export transaction such as the cost of doing business, input costs and improving productivity as well as addressing competitive issues such as improving quality and innovation. The INES contributes to a better understanding of the export environment, the position of South Africa's exports and the challenges faced by exporters.

The process of development of the INES has paid attention to the need for co-ordination between border in, border and border out issues, as well as synchronicity of the export strategy with the developmental agenda as articulated in the National Development Plan, the New Growth Path, and the National Industrial Policy Framework amongst others.

In the preparation of the INES it has been seen as essential that there be wide consultation on the various components of the strategy. This participatory and inclusive stakeholder engagement process was separated into a reference group, an exporter survey, focus group meetings and provincial consultative workshops.

- **The Reference Group:** This Group composed of public, private sector and institutional representatives who played a valuable role in identifying critical areas of research and in reviewing the research in pursuance of a national export agenda.

- **Exporter Survey**: A survey was undertaken of present, past and potential exporters in the manufacturing, agricultural and mining sectors to test, among other responses, their reasons for exporting or not exporting, the problems they face, and their experience of the various export services available to them.
- **Focus Group Meetings:** Parallel discussions were held with development finance institutions; the South African Association of Freight Forwarders, the Small Enterprise Development Agency (seda), Brand South Africa, the Productivity Institute of South Africa and the Engineering and Technology Export Cluster group in order to ascertain sectorial perspectives.
- **Consultative Workshops:** There was consultation with the provinces through Consultative Workshops in all nine provinces. Comments, suggestions, concerns, challenges and constraints were collected during these workshops and the issues raised have been incorporated into this document.
- **Benchmarking Best Practice:** An international literature review has been conducted of the following countries: Malaysia, Ireland, UK, Philippines, Jamaica, Canada, Brazil, India, China and USA. Information on Australia, Uganda and Chile was also obtained. This review was followed up with an international study tour to further probe best practices in Japan, Malaysia, India, Turkey, Ireland, Brazil and Jamaica.

Review of the Previous Strategy

As part of the development of this INES, the 2006 strategy was reviewed. The objectives of the NES 2006 strategy were:

- Growing exports in volume and value;
- Diversifying export products (in particular beyond traditional commodities);
- Diversifying export markets; and
- Diversifying the exporter base in terms of Small- and Medium-sized Enterprises (SMEs) and Historically Disadvantaged Individuals (HDI) Enterprises.

The strategy was endorsed by the Executive Board of **the dti**, and it served as a road map for TISA from 2006 to date. It was envisaged that the strategy would be reviewed every three years.

South Africa's Export Performance

Trends in Global Trade

The global economic landscape is not the same as it has been a few years ago. Post the Uruguay Round, the level of global trade has raised significantly due to the liberalization commitments which was undertaken in reducing tariffs and non-tariff barriers. Recently the global economic crisis caused a decline in these global trade flows of about 12.2%. There is no doubt that there is a seismic shift in global trading patterns with the new Global order being led by the developing south. Between 2014-2015, growth in developing countries is fragile. Developing countries are characterized by a low level of market diversification and small export bases compared to developed countries which lead to greater volatility, which produces weaker export performances (refer to Annexure 1, figure 1).

It is essential for South Africa to enhance its export composition by diversifying into new markets with exports as well as by intensifying its present export basket. Export diversification has many benefits such as reducing the country's vulnerability to external shocks, creating learning opportunities, and correlates with high rates of economic growth.

Share in World Exports

South Africa has a long tradition of exporting. A significant percentage of the country's exports have been primary products (agricultural products, precious metals and other minerals). Although South Africa's trade has been growing since the 1950s, its share of world trade has fallen considerably (from approximately 25% to 0,5%), since it was unable to keep up with the rapid growth of world trade and increased globalisation during this period.
This declining trend has continued in recent years. South Africa's market share expressed as an index in volume terms has decreased while its share expressed as an index in value terms (using nominal USD) has increased.

South Africa's Trade with the World

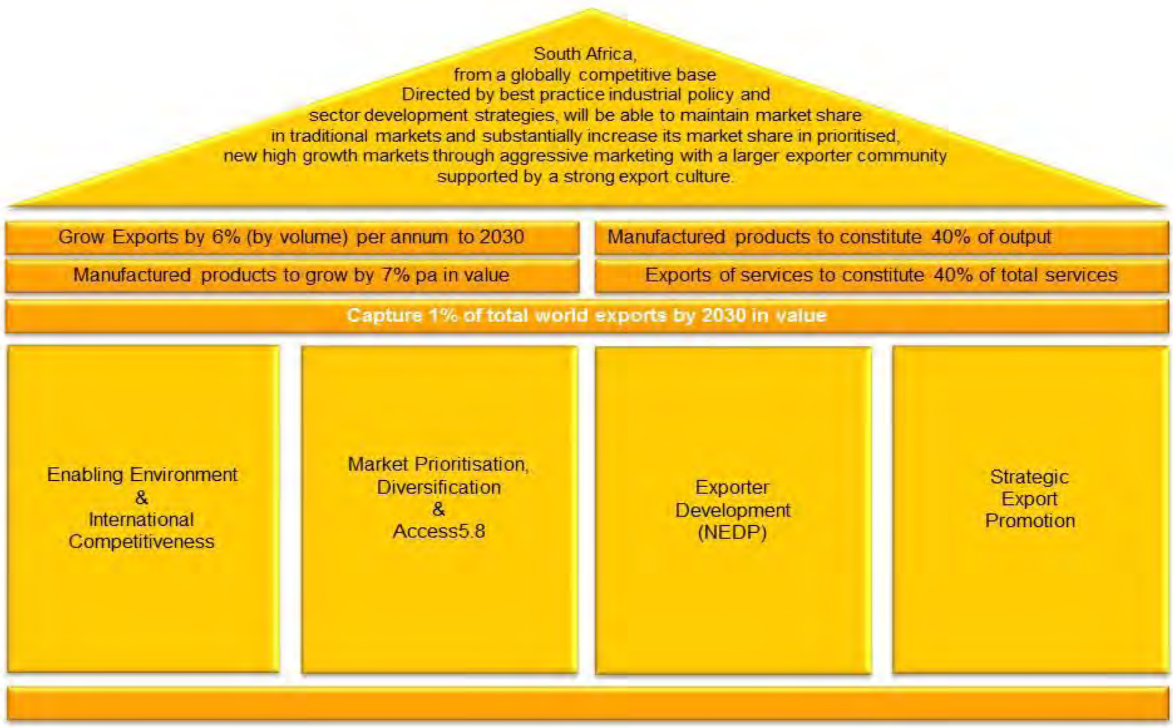
In reviewing South Africa's trade performance it is apparent that the economy has opened up substantially. The level of both exports and imports has grown over the past two decades. Exports have risen steadily since 1994, underlying the progressive opening up of the South African economy that has occurred during this period. Since 2003, the country's demand for imports has exceeded its exports, resulting in a widening trade deficit.

In the period following apartheid, as South Africa quickly adopted a more open economic stance, there was a great surge in export growth. It is apparent that a robust increase in exports was recorded between 1994 and 2002, when growth in world exports was also healthy. Following this period, the annual growth rate for exports from 2002 to 2006 remained high at just over 9% whereas imports grew relatively faster at 14.5%. This trade performance led to a widening trade deficit from R3.5 billion in 2002 to R81.5 billion in 2006 even though the real effective exchange rate increased in the same period. From 2007 to 2014, imports grew by only 3% and exports rose by just below 7% owing to the slowing down of the global economy. Exports have increased 4% from R1.001 trillion in 2014 to R1.039 trillion in 2015 (refer to Annexure 1, figure 2).

Hence, the INES is part of a broader approach to economic development since improved and diversified export performance contributes to higher growth rates by supplementing domestic demand with global demand thereby increasing output levels across the economy and creating conditions for increased employment. Improved and diversified export performance also contributes to reduced trade deficits and exchange rate variability. The INES is an important part of the overall strategy to transform the South African economy as part of **the dti**'s efforts to upscale the economy and industrialisation. The objective of the INES is to increase South Africa's capacity to export diversified and value added products to various global markets and to strengthen South Africa's export performance by enhancing the trade and business environment and improving the competitiveness of companies and sectors. The INES has a horizon up to 2030, with 5 year focus including a comprehensive implementation plan.

Introducing the Strategy

Figure 6: The INES at a glance



The structure of the INES is premised by the four main pillars of the INES. These pillars are:

- Improving the export enabling environment and international competitiveness;
- Increasing demand for goods and services through market prioritisation, diversification and access,
- Developing exporters, increasing export capacity and strengthening exporter performance through the National Exporter Development Programme (NEDP); and
- Strengthening the export promotion mechanisms through enhancing South Africa's value proposition.

National Vision

South Africa, from a globally competitive base directed by best practice industrial policy and sector development strategies, will be able to maintain market share in traditional markets and substantially increase its market share in prioritised, new high growth markets through aggressive marketing and a larger exporter community supported by a strong export culture.

National Mission

The INES mission is comprised of the following components:

- Diversification of South Africa's export basket into more value-added and manufactured goods and services (product diversification);
- Development of new markets with an emphasis on **Africa** and emerging markets (market diversification);
- Engage the Top 50 manufacturing exporters;
- Grow the exporter base through Retain, Expand and New Exporters (REN) approach within the National Exporter Development Programme [NEDP] (supplier diversification);

  by integrating into local, regional and global value chains.

National Targets

The INES targets, which are in line with the export targets of the National Development Plan, are:

- South Africa to grow in total exports by 6% pa in volume as determined in the NDP;
- Exports of manufactured products to grow by 7% pa (double in 10 years) in value;
- Exports of manufactured products to constitute 40% of total manufacturing output by 2030 in value;
- Exports of services to constitute 40% of total services supplied by 2030 in value; and
- South Africa to capture 1% of total world exports by 2030 in value.
  in order to increase export-oriented employment.

These targets will be reviewed periodically in view of the prevailing economic conditions and the available fiscal support in order to implement.

Strategic Pillar 1: Improving South Africa's Export Environment and International Competitiveness

Introduction

Government and business have increasingly paid attention to the macro factors that influence national competitiveness and impact, constrain, or enhance industry or firm competitiveness at the micro level. In a relatively open and integrated global economy, the linkages between these factors or sources of competitiveness have become more apparent and important. The concept of national competitiveness is used to analyse and measure South Africa's macroeconomic performance. The review of the strategy considers competitiveness, the development of the country's export sector and identifies priorities for enhanced export performance.

Improving the Export Environment

TISA will institutionalise the National Export Advisory Council (NEAC) whose primary function is to serve an advocacy role for exporters and to provide a channel through which exporters can bring matters to the attention of government. NEAC shall also provide input into the INES, export-related programmes, projects and plans. NEAC shall be the main voice of the export community. It will serve both in an advisory and an advocacy role. The functions of NEAC are therefore to:

a) Represent and promote the interests of exporters, potential exporters and export service enterprises; and
b) Advise the national, provincial and local spheres of government on social and economic policy that promotes exporters and the development of exporters and potential exporters.

The role of institutions such as the Export Councils, the Provincial and Local Government Trade Promotion organisations will need to make a concerted contribution towards achieving the national targets and should provide additional input with regards to sectors and regional advantages.

Additionally, the government-owned Export Credit Insurance Corporation of South Africa (Pty) Ltd (ECIC) provides export credit insurance for capital goods and services. Political and some commercial risks are also covered. Government underwriting of political risk in export transactions is common internationally. The South African government in partnership with the relevant entities is currently looking at an appropriate model for financing small and medium entities by establishing public financial entity or reviewing the existing entity incorporation. ECIC has submitted a proposal to the National Treasury regarding the EXIM Bank concept. Given the amount of capital that would be required to set up a successfully functioning EXIM Bank structure, the preferred option may be to form some structure between IDC and the ECIC which would process export credit and insurance transactions in a manner akin to EXIM Bank. **The dti** is currently championing the alignment of Development Financial Institutions.

South Africa's Competitiveness

South Africa's current comparative advantage exists in sectors such as financial and business services; pharmaceuticals, information communication and technology (ICT); mining and beneficiation, including capital equipment; automotive; petrochemicals and biofuels; clothing & textiles; agriculture and forestry; agro-processing; organics and natural ingredients; biotechnology; petrochemicals; transport & storage; fertilizer and pesticides; aquaculture; leather and leather products; machinery and equipment; and energy. Future comparative advantage will need to be determined.

However, the changing global and local economic outlook has compelled TISA to review its export promotional strategies in alignment to the prevailing economic conditions which include sluggish growth, a weakening rand, constrained human and financial resources as well as drought that will adversely impact South Africa's ability to export fresh produce and other inputs that are reliant on agriculture to manufacture agro-processed products. Subsequently the services sector will receive greater prominence within TISA work through the launch of the services export strategy that is aimed at assisting South African firms to integrate into global supply chains of multi-national firms, by actively promoting subcontracting in power, infrastructure programmes and the built environment. Additionally, TISA will continue to support the export of manufactured products in the IPAP sectors as well as other sectors that showcase South Africa's value proposition in traditional markets (NAFTA and Europe) which include unique natural ingredients; an unparalleled organic sector, component manufacturing and Resources Equipment and Technology Services (RETS) in Latin America. A recent review of our regional target markets necessitates that South Africa also leverage of its unique value propositions in order to retain or improve current trade in the identified target markets such as Asia, Africa and the Middle East where distinct capabilities in technology and skills transfer, high technology solutions, agro-processing and supply capabilities have been proven. Furthermore, South Africa's value position is unique in that its proximity to African and Middle Eastern markets is uncontested and that it is the only African country with a sustained and effective membership to BRICS as well as the leveraging of trade agreements to which it is a signatory. These elements of value proposition will be continually teased out in order to maintain South Africa's lead position as a supplier of choice in several emerging high growth markets while increasing its share of export high-value and locally manufactured products in markets where it is currently less than optimal.

To optimise on the former, TISA in collaboration with various stakeholders in the export value chain will develop and implement a concerted country-product matrix for its target markets. Additionally, greater emphasis will be placed on supporting large, leading and dynamic entities (super exporters) whilst maintaining support to emerging exporters, SMMEs and black industrialists at National Pavilions, Trade Missions and Investment and Trade Initiatives.

The Gears of the Integrated National Export Strategy

A comprehensive approach is required to create a competitive export enabling environment. The adoption of the International Trade Centre's (ITC) Four Functional Gear Concept of Competitiveness and Development by TISA are concerned with the creation of an enabling environment that makes it as easy as possible for existing, potential, aspiring, and even past exporters to export. It encourages existing exporters to increase their exports to current and new markets and also to develop new products for export. This approach ensures that the INES is comprehensive and inclusive; while it is integrated with economic development in general.

The INES focusses on two broad focus areas:

1. The business focus that inter alia includes:
    - Ensuring the long-term international competitiveness of local industry (manufacturing, agriculture and services);
    - Developing new export capabilities and competencies; and
    - Promoting commercial partnerships between exporters and foreign buyers/investors.

2. The socio-economic development focus.

The Border-in Gear of the Integrated National Export Strategy (supply-side issues)

This gear pertains to the extent of skills, competencies and capabilities available in South Africa which considers the adequacy of capacity to improve on current production throughputs, add value and enhance quality. This gear further seeks opportunities to develop new businesses that could potentially grow out of cluster development, joint ventures or through linkages between large and small business whereby the former outsources to the latter. Consequently, the new small enterprises could develop into nationally competitive entities. Finally, the strategy under the border-in gear looks at human capital development needs which are critical in a modern economy.

South African policies that contributes to the Border-in gear

- Capacity development
    - Industrial Policy (IPAP); and
    - Agricultural development.
- Competency development
    - National Exporter Development Programme;
    - Small Business Development;
    - Black Supplier Development programme; and
    - Youth Development (NYDA).
- Capacity diversification
    - Product Development;
    - Engagement with the Top 50 manufacturing exporters.

The Border Gear of the Integrated National Export Strategy (business environment)

This particular gear relates to the cost of doing business. It is a function of the business environment, government regulations and trade facilitation. Of critical importance here are issues of transport, administrative procedures, documentation, customs regime, standards and communication.

South African policies that contributes to the Border gear

- Infrastructure development.
- Procedures and documentation
    - The South African Trade Policy and Strategy Framework (TPSF);
    - Customs modernisation programme;

    - Tripartite Free Trade Area (TFTA); and
    - Trade facilitation.
- Transaction support.

The Border-out Gear of the Integrated National Export Strategy (demand-side)

This particular gear aims at achieving market access. It addresses the identification and communication of market opportunities abroad; offers in-depth and customized market support on target markets and assists to maintain a good public image for the country internationally and on the domestic front.

South African policy that contributes to the Border-out gear

- National Promotion
    - Brand South Africa; and
    - Sector branding.
- Opportunity identification
    - Identification of current and potential comparative advantage; and
    - Prioritisation Tools such as Gravity, DSM and ITC's Trade Map.
- Foreign Economic Representatives
    - Support the implementation of the INES through an advisory role and economic intelligence;
    - Assist with identification of export opportunities that would unleash potential identified in IPAP sectors with particular emphasis on emerging markets;
    - Strengthen country to country business linkages by highlighting strengths, gaps or trade leads that could be exploited for IPAP related sectors and subsectors;
    - Building relations with best practice Ministries and Agencies operating within the space of Trade Policy for knowledge sharing and capacity building; and
    - Collaboration with military or agricultural attaches in order to maximise exports in these sectors.
- In-market business support
    - Export Marketing and Investment Assistance Scheme (EMIA); and
    - Sector-Specific Assistance Scheme (SSAS).

The Development Gear of the Integrated National Export Strategy

Although the INES concentrates on "business" there is a second dimension of export performance, specifically, the contribution of the export sector to "national development". The INES aims to address, directly and specifically, the national development objectives. The three competitiveness gears of the INES must reinforce other each, whilst powering the developmental gear resulting in a combined competitiveness-development focus.

The INES does not assume that the benefits of heightened international competitiveness and improved export performance "trickle down". The INES ensures that the transformation imperative, women and youth empowerment development, as well as rural and regional development form an integral part. The INES therefore actively promotes "business for development".

This gear of strategy looks at the overall economic and social order in the country. Issues of poverty alleviation, export oriented job creation, the development of black industrialists, rural development, service to targeted groups and environmental matters are considered under it.

Figure 7: ITC's Four Functional Gear Concept of Competitiveness and Development

Source: Export Strategy Design - Sector-Level Strategy Product Sectors: Guidelines for Strategy-Makers. International Trade Centre (ITC), Palais Des Nations, Geneva, Switzerland, (undated)

Improving Export Infrastructure and reducing trade-related costs

The review of international best practice identified that the development of infrastructure to support increased exports was an essential element of economic development plans (medium- to long-term) of countries such as the Philippines and Uganda, as well as Jamaica and Malaysia.

Although South Africa has an extensive road, railway and ports network, the policy framework developed for the country recognises the importance of further improvements in infrastructure and addressing infrastructure backlogs, with a view to supporting export development. The National Development Plan, the New Growth Path and the Industrial Policy Action Plan outline several initiatives that are required to improve the export infrastructure. In particular, the need to improve the effectiveness of ports and port infrastructure, lower port tariffs, and improve the borders with other African countries.

Exports require adequate infrastructure to facilitate safe, cost effective and rapid international freight movements. Part of the success of the INES would therefore rest on improving the existing infrastructure available to exporters, particularly ports infrastructure and border posts. Other factors related to infrastructure are the reduction in the costs of tariffs for export transactions as well as improving the productivity and efficiency of the export infrastructure. The Global Pricing Comparator Study, 2014 highlights total port costs in South Africa (including terminal handling charges) for container owners at 190% above the global average in 2014/15[1].

Addressing the need for additional infrastructure will also be essential once the INES targets are achieved, for example, an annual 6% growth in export volumes would see a doubling of exports after approximately 12 years. It is notable that currently exports emanating from extractive industries have favourable infrastructure support and dedicated terminals. If the INES is to achieve the shift from extractive exports and diversify the export basket to the export of value added goods, then there needs to be a concerted effort to provide the required infrastructure, systems and pricing to support this shift.

The INES is called to collaborate more closely with South African Revenue Service (SARS) in improving the facilitation of trade through the implementation of the "single window" facility. SARS has embarked on a programme to improve their turnaround time at ports of entry, with an emphasis on completion of documentation and compliance being undertaken 'pre-border'. Improvements in technology such as the introduction of scanners are also improving the efficiency at points of entry.

[1] *Source: The Ports Regulator of SA: Global Pricing Comparator Study 2014*

The Trade Policy agenda is currently focused on the Tripartite Free Trade Area (including SADC, COMESA and EAC). The agreement considers addressing the trans-border infrastructure linking these African countries and improving the border post blockages between them.

Furthermore, national competitiveness can be enhanced through export clustering. The Special Economic Zones (SEZ) programme is also a critical instrument that can be used to advance government's strategic objectives of industrialization, regional development and job creation.

The concept of export villages is intended to assist mainly the SMME to collaborate, jointly pooling the resources in tackling foreign markets. It is evident that successful exporting in general is considerably more difficult than establishing a presence in domestic markets. The majority of small South African companies neither meet the requirements nor have the means to successfully establish a presence in international markets. The design of envisaged Export Villages will encourage close corporation of complementing companies and conquer the targeted markets with a competitive edge. South Africa needs to explore a model of this nature.

Strengthening the Linkages between Exports and Foreign Investment

Foreign Direct investment (FDI) has an important role to play in the development of South Africa's exports. FDI can create an improved domestic environment that will enable companies to better compete in global markets, including:

- **Access to efficient service providers**. In order for South Africa to be a successful exporting country there is a need to provide a national environment in which access to services, particularly infrastructure services, is competitive. Owing to severe constraints in financing infrastructure, FDI can bridge this gap, and also provide benefits such as transfer of technology and know-how as well as risk-sharing through public-private partnership models.
- **Access to credit and other financing for local exporters**. Companies face many difficulties in obtaining favourable access to finance. Thus, foreign investors, who are well-financed with better access to credit markets than government or private investors would fill this gap.
- **Access to global supply chains**. Multinational companies (MNCs) are to be engaged in outsourcing and globalized production with a network of subsidiaries in South Africa, thereby plugging South Africa into global value chains. There has already been a significant rise in intra-firm trade between developed and developing countries. The INES can play an important role in assisting in the creation of these linkages – both backward and forwards.
- **Access to technology and know-how**. Outdated technology, poor knowledge of markets, poor management and weak marketing channels constrain exporting companies. Local companies would thus benefit from the transfer of technology and know-how from foreign companies directly to them.
- **Outward FDI as alternative sources of supply**. Companies can choose to export or to supply foreign markets through their subsidiaries established in those markets.

In South Africa, MNCs are mainly market seeking investors. In this regard, South African is used as a base to also serve the Africa market, especially the SADC region. This, therefore, presents an opportunity for more companies to invest locally and to export into the African continent. Currently 60% of global trade consists of intermediary goods and services and therefore there is a fragmentation of production, which is referred to as global value chains of production. The National Investment Promotion & Facilitation Strategy and the INES Strategy seeks to complement each other by facilitating investments and exports in these spheres.

Coherent Co-ordination and Alignment of Macro-initiatives

The INES identifies South Africa's revealed comparative advantage that can be immediately targeted and areas of potential comparative advantage for development. There are, however, other factors, such as labour costs, interest rates, and exchange rates that are also determinants of competitiveness. The success of the INES would come through the factors that reduce the costs of exports including:

- Reducing input costs;
- Improving productivity.
- Improving quality; and
- Improving innovation.

The alignment of the South African government's broader efforts to improve the competitiveness of its industry with the export strategy is therefore critical to achieving the INES vision and targets.

Strategic Pillar 2: Increasing Demand for South African goods and Services through Market Prioritisation, Diversification and Access

Introduction

The financial crisis of 2008 resulted in world exports contracting by a significant 23% in 2009. This was followed by a pronounced recovery of 22% in 2010. This recovery was sustained in 2011 with growth in world exports of almost 19%. World trade however slowed during 2014. Developing economies exports, including South Africa's, followed this post financial crisis pattern, although with a consistently better performance than exports from developed economies.

As export diversification has many benefits, such as reducing the country's vulnerability to external shocks, creating learning opportunities, improving overall export performance and correlating with high rates of economic growth, it is essential, therefore, for South Africa to enhance its export composition by diversifying into new markets, as well as intensifying its present export basket.

The INES therefore places a sharper focus on high growth emerging markets, especially those in Africa, Asia, BRICS, Latin America and the Middle-East. Export promotion mechanisms such as National Pavilions, Trade Missions, Investment and Trade Initiatives, and unconventional interventions will be used as levers to create visibility and market access for South African exporters. The effort aims to provide the right exposure to South Africa's exporters and for South Africa's products by increasing the visibility of South Africa as a supplier of choice.

Market Selection

In order to identify where these 'new high growth' markets are and which products can be exported to these markets, it was necessary to disaggregate the high growth regions to identify specific countries which pose lucrative opportunities for South African exporters in the next 5 to 10 years, as well as identify products in these markets for which there is a large potential.

The market selection methodology is informed by the following imperatives as outlined in IPAP 2016/17-2018/19 and the Market Diversification Strategy. These are:

Africa Regional industrial integration and new export markets

In the short to medium term regional integration offers continuous opportunities for South Africa to grow its exports base. A number of on-going and scaled-up interventions are in the pipeline. These include:

- planning cross-border infrastructure;
- effective articulation of up- and downstream linkages in resource exploitation; and
- the realisation of massive construction opportunities.

More so, other countries and trade blocs in Africa have been identified as an area of focus for South Africa; which has seen South Africa finalising the Tripartite Free Trade Area agreement (TFTA). The TFTA intends to integrate the East African Community (EAC), Common Market for East and Southern Africa (COMESA) and SADC into a single free trade area. This holds significant potential to unlock trade within Africa.

Continuing rapid progress in the regional integration drive will, however, require stronger identification of complementarities and cross-border value chains; the strengthening of existing export market research; market and product identification; and an export promotion drive built around strategic domestic manufacturers. Given the importance of the African market and the support for regional integration, and continental intra trade coupled with the industrialisation efforts, an Africa Export Council (AEC) is being established. In developing the Market Diversification strategy, we had considered an Africa Regional and

Sectoral Strategy which has now translated into the AEC consideration. This Council is geared to provide strategic guidance and unlock bottlenecks in the growth of exports, promotion of exports and business opportunities, leveraging tenders and servicing the North - South Corridor projects and other corridors within the continent. The platform will also identify key policy and regulatory blockages that need to be resolved to facilitate trade and exploitation of business opportunities within the continent. It will be supported by an overarching governance framework.

Brazil, Russia, India, China and South Africa (BRICS)

South Africa's participation in the BRICS provides important opportunities to build its domestic manufacturing base, enhance value-added exports, promote technology sharing, support small business development and expand trade and investment opportunities.
The findings, summarized in the table, below point to maintaining exports to traditional trading partners, while looking at emerging markets; in particular looking at other African countries as areas for expansion in trade.

Table 1: Target Markets

Sub-Saharan Africa	North Africa	Asia	Latin America	North America	Middle East	Europe
Angola Cameroon DRC Ethiopia Ghana Kenya Mozambique Nigeria Senegal Tanzania Uganda Zambia Zimbabwe	Algeria Egypt Libya Sudan Tunisia	China Hong Kong India Indonesia Japan South Korea Malaysia Philippines Singapore Thailand Vietnam	Argentina Brazil Chile Peru Colombia Venezuela Uruguay	Canada Cuba Mexico USA	Iraq Iran Kuwait Oman Qatar Saudi Arabia UAE	EU 28 Russia Turkey

*Source: TISA Market Diversification Strategy (2014/15) - **the dti***

Sector Selection

The broader issue of sector selection arises in the context of policy alignment. Industrial policy, investment promotion and export promotion are all mutually reinforcing. The value of such alignment has been amply demonstrated in recent years when considering the performance of the agro-processing, automotive sector, capital, transport and mining equipment sectors. These sectors which received prioritised and focused support through IPAP and supporting policies such as government procurement and innovation and R&D support have become considerably more competitive and are in the strongest position since 1994 to improve their export performance.
From an export promotion perspective, the challenge is to select sectors which play a pivotal role in achieving both the volume and the diversification of export performance sought by the overall INES while simultaneously overlapping with sectors already prioritised in the basket of broader industrialisation and growth initiatives undertaken by the government. Some of the sectors in which South Africa has comparative advantage include financial and business services; pharmaceuticals; information communication technology (ICT); food and beverages; automotive, petrochemicals, forestry; clothing and textiles; agriculture and agro-processing, biotechnology; transport and storage; mining and beneficiation; fertilizer and pesticides; machinery and equipment; aquaculture and energy. Currently, future comparative advantage is being developed through sector development strategies.

The INES sees great value in selecting sectors for prioritisation which follow those selected in IPAP. This selection is aligned with sector selection identified in the NGP and NDP and thus delivers consistent alignment. Over and above the reasoning given for such sector selection in the relevant documents, the sectors below also enjoy particular relevance and opportunities arising out of development issues locally and globally; they are highly relevant from a regional and African perspective and exhibit all the characteristics of backward and forward linkages, such that output growth in such sectors would ensure broad economic growth throughout the economy. Finally, such sectors are well supported by innovation, technology, R&D and skills development prioritisation in departments across the government and are highly labour absorbing. The sectors include primary, secondary and tertiary sectors, as well as a mix of high, medium and low value addition activities. The sectors also have a strong domestic firm base of both large and small producers. The sectors of focus are tabulated below:

Figure 8: Sector Selection

*Source: IPAP 2016/17 - **the dti***

Strategic Pillar 3: Increasing Export Capacity and Strengthening Exporter Performance through the National Exporter Development Programme (NEDP)

Introduction

The National Exporter Development Programme (NEDP) was launched in 2013 and is currently being implemented with the aim of expanding the exporter base in South Africa and increasing exports in general, but especially of those products and services that add value, and contribute to employment and the green economy.

The NEDP offers an integrated approach to developing and educating both exporters and potential exporters in order to encourage the entry of new exporters into the domestic and international market. This would take place against the backdrop of improving the industrial capacity of the country.

The principle of this programme is a series of targeted interventions with the intention to develop and migrate prospective exporters to become effective global exporters. The strategic intent of the NEDP is also to monitor the progression of exporters through the phased interventions, ensuring an optimal amount of new global exporters are created and supported in entering the international markets.

Global Exporter Passport Initiative

Central to the NEDP and the service offering it proposes, is the principle that companies need different types of services and interventions at different stages of their export development. The Global Exporter Passport Initiative is meant to enhance the export-readiness of companies as they graduate from entrepreneurs to global exporters including black industrialists and super exporters. The development is as follows:

- Phase 1: The Explorer is the enterprise that is exploring options for developing the business, of which exporting might be a possibility;
- Phase 2: The Export Aware enterprise has some idea of what exporting entails, is export-ready in some aspects, but lacks basic export skills;
- Phase 3: The Export-Ready Company has the basics in place and needs to develop an export marketing plan;
- Phase 4: The Start-up Exporter is export-ready and has completed an export marketing plan, which now needs to be implemented to achieve initial orders; and

- Phase 5: The Global Exporter may have been exporting for a number of years and now needs to further penetrate markets, develop new markets, or develop new products.

Additionally, TISA will be rolling out standardised export training across the country linked to best practice which is accredited by the South African Qualifications Authority (SAQA) and the implementation thereof, will be overseen by the Quality Council for Traders and Occupations (QCTO).

Strategic Pillar 4: Strengthening the export promotion mechanisms through enhancing South Africa's value-proposition

Introduction

The seismic shifts in the poles of growth and growing influences of globalization have placed an additional burden on countries to compete for a share of the world's consumers, tourists, exports and investors. This inadvertently requires countries to be more vigilant and aggressive in their export promotion and nation branding efforts which are pivotal in communicating national identities abroad.

Export Promotion

In pursuance of higher levels of economic growth and a more sustainable source of competitive advantage, the South African government has set in place a series of trade promotion programmes and measures to promote and develop trade with other countries. These measures sought to include a comprehensive mix of consistent policies and organizations that are responsive to the market conditions and needs of business enterprises.

Super Exporters

Super-exporters are those exporters that are responsible for a significant share of a country's exports. In South Africa 98% of exports are generated by the top 25% of exporters. The top 1% account for just under 80% of South Africa's exports. This is relatively high when compared to an international average of 55%. According to Rankin (2013) in 2008 about 200 manufacturing firms accounted for almost 90% of total manufacturing export value and the dominance of super-exporters in South Africa is not confined to mineral exports alone, although it is important. TISA will embark on structured engagements with the top 50 manufacturing exporters by conducting interviews and site visits in order to ascertain the company's productive capacity and target markets.

Strategic Export Promotion Plan

TISA will embark on achieving the objective of the Strategic Export Promotion Plan in order to enhance export volume (export growth) and grow export value (move up the value chain). This enhancement is achieved through the retention of current exporters, expansion of the exports of current exporters and to develop new exporters as directed by the NEDP.
The methodology is to develop country-product matrices for the traditional and diversified markets informed by the demand and supply factors of sector development and market access.
Strategic export promotion mechanisms will be employed to engagement with private sector on targeted exports markets and to support to private sector, particularly the Top 50-100 super exporters.

FER strategy to cultivate new high growth markets

TISA will increase penetration into existing markets and foster access to new and emerging markets by:

- Capacitating Foreign Economic Representatives (FERs) in marketing South African exports at appropriate platforms while gathering valuable market intelligence;
- Optimise the existing pool of FERs in priority and traditional markets to identify tariff and non-tariff barriers related to market access as well as export opportunities;
- Assist with identification of export opportunities that would unleash potential identified in IPAP sectors with particular emphasis on "emerging markets"; and
- Strengthen country to country business linkages by highlighting strengths, gaps or trade leads that could be exploited for IPAP related sectors and subsectors.

Export Marketing and Investment Assistance Scheme (EMIA)

EMIA will place concerted efforts on Group Missions and support the Top 50-100 super exporters, specifically within the manufacturing sector. Super exporters will need to be incentivised to participate on EMIA instruments. One of the options is to explore the income tax allowance for export marketing expenditure (Section 11 bis of the Income Tax Act). This was previously supported by transport concessions, financing incentives through the IDC, private-sector price concessions for steel and tin-plate used in the production of export goods and support activities by the then Department of Commerce. In addition, the internationally accepted principle that domestic market taxes should not impact on export prices was covered through a range of import duty drawbacks and refunds. In 1980, Government introduced an incentives incorporating the **Section 11 bis of the Income Tax Act** which allowed exporters an additional deduction from taxable income of specified export marketing costs.

It is recommended that TISA and SARS to revisit the Income Tax Act export marketing allowances in order to incentivise the super exporters to participate on Group Missions, particularly National Pavilions. Thereby enabling established exporters to claim back marketing costs whilst allowing the EMIA incentive to focus on new exporters.

ANNEXURE 1

South African Trade

The top export destinations of South Africa are China (R94.2 Billion), the United States (R78.6 Billion), Germany (R67.9 Billion), Namibia (R52.8 Billion) and Botswana (R52.5 Billion). Countries that are selected are those whose imports from South Africa are in the top twenty in 2015.

The most recent South Africa exports are led by mineral product (R213.8 billion), Natural or cultured pearls, precious or semi-precious stones, precious metals (R189.2 billion), Vehicles, aircraft, vessels & associated transport equipment (R130.5 billion), Base metals(R124.4 billion) and Machinery & mechanical appliances; electrical equipment(R100.4 billion). These products comprise 73 per cent share of the total commodities that South Africa export to the world in 2015. In 2015 South Africa exported R1.04 trillion, making it the 41 largest exporters in the world. The exports of South Africa have increased 4%, from R1.001 trillion in 2014 to R1.039 trillion in 2015.

Trade with the Asian region increased significantly in recent years as China became South Africa's single most important trading partner. The expansion of South Africa's trade with countries such as Namibia, Botswana, Japan, United Kingdom, India and Mozambique is also notable. However, as much as diversifying into new markets and product lines is fundamentally important for enhancing export performance, in particular value-added manufactured exports, it is equally important to maintain and regain the strength of South Africa's exports to traditional trading partners, the Eurozone and the United States in our industrial efforts (refer to Annexure 1, figure 3).

The country's import penetration ratio (i.e., the extent to which the country relies on merchandise imports to satisfy domestic expenditure) increased sharply between 2000 and 2008 before receding temporarily in 2009 (Figure 5). Subsequently, this ratio gained its upward momentum reaching 26.7 per cent in the third quarter of 2015.

The export penetration ratio to other countries has been oscillating around 24.3 per cent on average. However, it receded to 20.5 per cent in 2009 before it strengthened reaching 26.1 per cent in the third quarter of 2015. However, growth in imports surpassed that of merchandise exports, the trade balance switched from a surplus in 2003 to a deficit in the subsequent years up to the third quarter of 2015 (refer to Annexure 1, figure 4).

The terms of trade were unfavorable to South Africa trading below an index of 100 from the first quarter of 2000 to second quarter of 2010. During this period, the prices of imports have increased more than the exports prices by an average of 18.2 per cent. In other words, the country has to pay 18.2 per cent more for a given amount of imports.

However, from the third quarter of 2010 the terms of trade were favorable trading at an index 101.7 and lasted until the second quarter of 2013 trading at 102.3. On average, the prices of imports have decreased more than the exports prices by an average of 2.9 per cent. During this period, the terms of trade were favorable to the country by 2.9 per cent (refer to Annexure 1, figure 5).

Inasmuch as exports constituted 30.7% of South Africa's Gross Domestic Product (excluding gold and services) in Q3 of 2014, the Apex policies of government and of **the dti** acknowledges the need to enhance export performance. The New Growth Path (NGP), the National Development Plan 2030 (NDP), the Industrial Policy Action Plan (IPAP), and Monetary Policy Committee statements (2013) all identify export growth as a priority. Re-igniting the export engine is critical to radical economic growth and to developing a more diversified export base to help reduce growth volatility. The NDP aims to increase annual real GDP growth to about 5.5 percent, well above the 3.5 percent average in the decade preceding the crisis. Exports are expected to be a key driver of the faster growth, with the NDP targeting export volume growth of 6 percent a year. A stronger export sector also drives export-related job creation. Increasing exports, particularly in manufacturing, may be crucial for the low-skilled job creation needed to substantially reduce high overall and youth unemployment. Therefore, the a national export strategy is of particular importance amid the country's widening current account deficit and the external vulnerability arising from its reliance on volatile capital flows to fund the deficit.

Figure 1: South Africa's market share

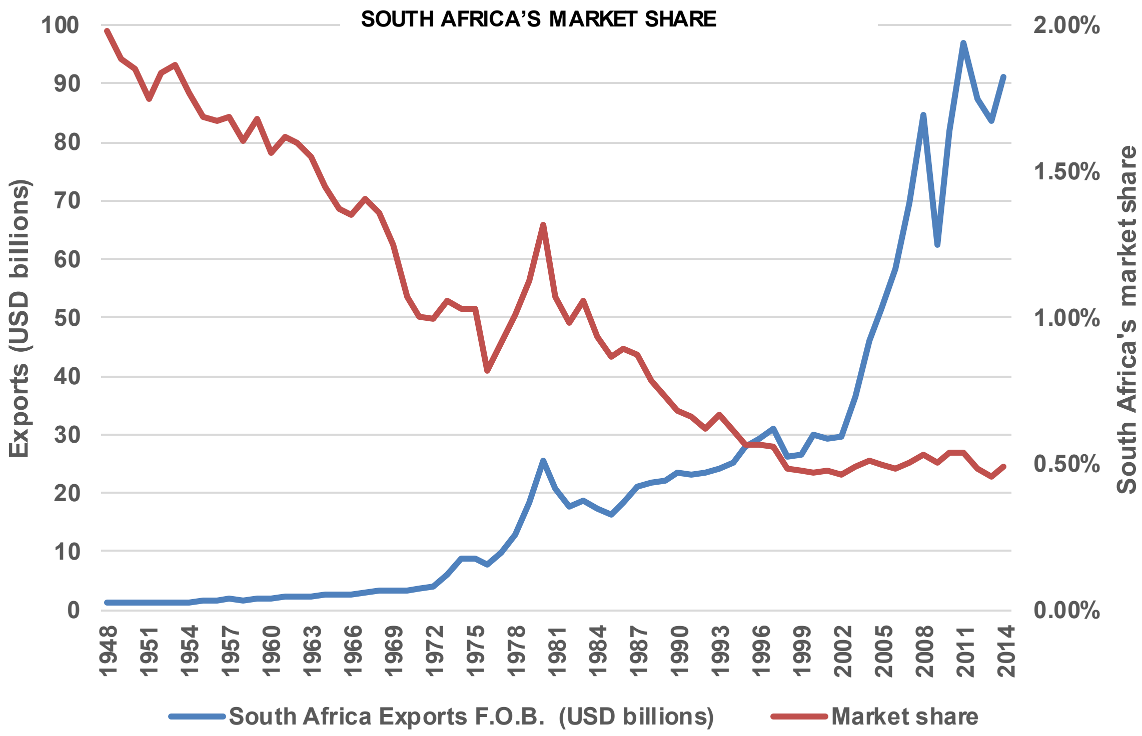


Figure 2: South Africa's trade with the world

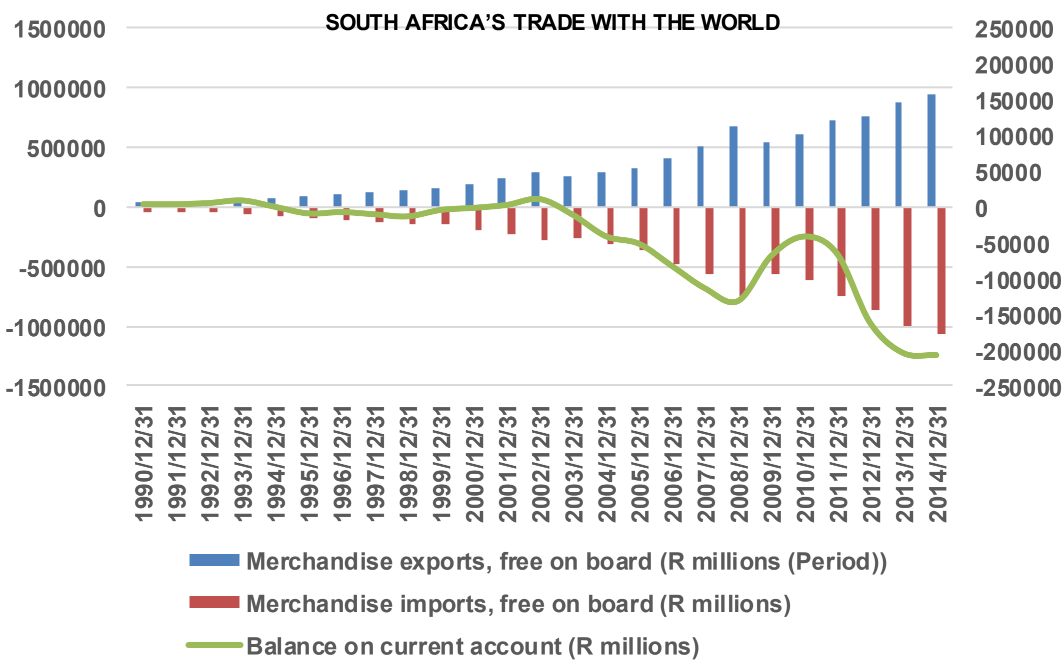


Figure 3: South Africa's major export destination

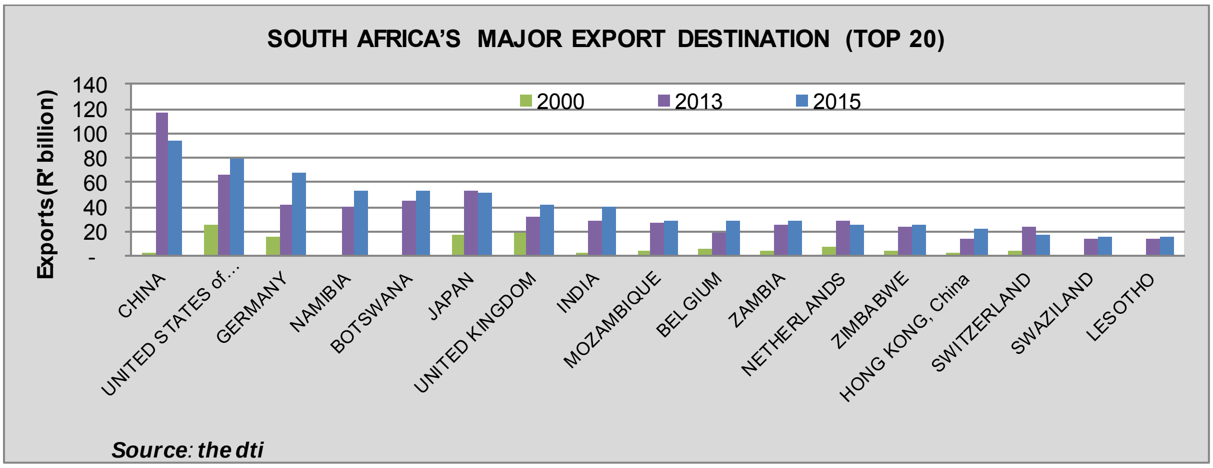


Figure 4: Export and Import Volumes as a ratio of GDP

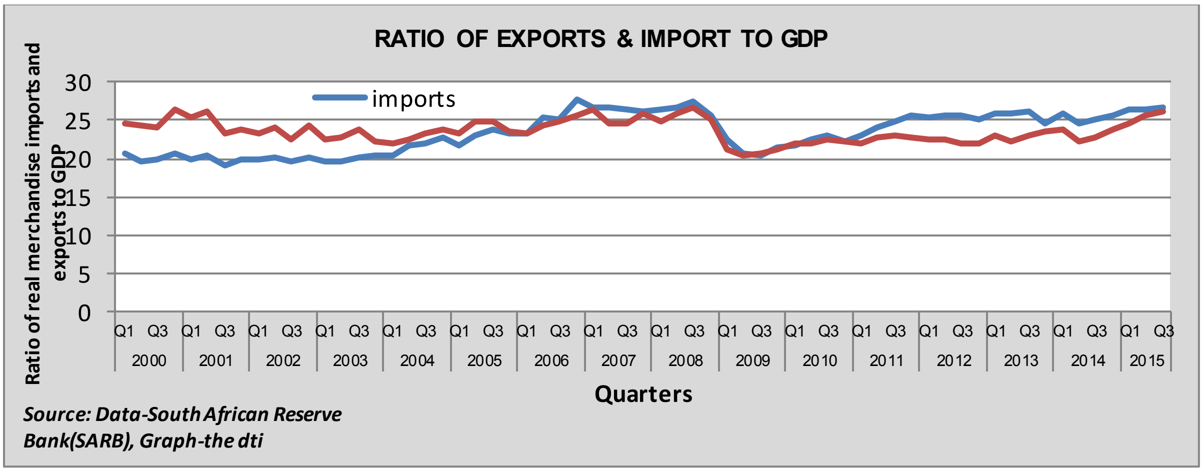


Figure 5: Terms of Trade