the dtic
Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

THE NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NO. 1881

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Mr G K Y Cachalia (DA) to ask the Minister of Trade, Industry and Competition:

(1) With regard to the target of 20% of non-petroleum imports that are to be substituted for locally produced goods, which he communicated to the National Economic Development and Labour Council, (a) how was the figure of 20% established and (b) what is the time frame for reaching the set target;

(2) Whether his department has done any research and/or analysis to motivate the target of 20%; if not, why not; if so, what are the relevant details? [NW2109E]

REPLY:

A focus on localisation is at the heart of Government's strategy to create sustainable jobs for South Africa and build the economic base for long-lasting prosperity. The reliance on imports is a challenge to the South African economy in that it makes our business and consumers vulnerable to supply shocks in other parts of the world, amply demonstrated in the Covid-19 pandemic. The undue reliance on imports also means longer lead times to get the necessary goods; and it results in South African businesses being price-takers in international markets. It undermines our strategic autonomy, and it means that we create fewer jobs at home.

At the same time, it is not desirable nor feasible to seek to manufacture all goods in a local economy – there are considerable advantages in a global trading system where countries play to inherent strengths (and create or enhance these). The issue is about an appropriate balance of locally-made and imported goods. In South Africa, it is clear the balance has not been struck at a level that enable sufficient jobs and entrepreneurial opportunities, particularly for young people.

The process followed to set a target for localisation and finalise a list of products involved inter alia research on import levels, a comparative analysis of global import levels in leading economies, a number of meetings with business executives in specific sectors or from firms in specific product markets, review of the Master Plans applicable for sectors, consideration of the products that have been designated by the state for local procurement by public entities in terms of applicable legislation and engagement with social partners at Nedlac, resulting in agreements on targets and products.

First, from June 2020, Government commenced discussions with a number of different business groups, such as the Consumer Goods Council of SA and CEOs of different sectors. Separate meetings were held inter alia with CEOs of the following sectors:

- Fast-food operators;
- Grocery retailers;
- Food and beverage manufacturers;
- Clothing, textile, footwear and leather retailers and manufacturers;
- Hardware retailers; and
- Construction companies.

Discussions also took place with Business Unity SA leaders and with firms.

These discussions focussed on ways to develop a partnership between the private sector and the public sector to promote the deeper industrialisation of the SA economy, through a significant reduction in the level of imported products and considered what would be pragmatic and achievable targets over a reasonable period of time; and the identification of potential products that could be localised.

Second, the Department compiled and evaluated data on the import levels of different products and in a number of cases, shared data with business representatives, to help identify products that could be localised.

For example, the research showed that SA imported R9,1bn of edible-oils during 2019. Work was done on the local capacity in SA to be able to supply the market. Consideration was given to the decision by a large importer to refine a significant quantity of palm oil locally, adding at least 20% local value in the process.

Research was conducted on the comparative position of other leading economies, in respect of imports measured against GDP. The results of the study showed that South Africa has an over-propensity to import goods which could otherwise be produced in South Africa. Every year, the South African economy spends approximately 25% of the national wealth created, on goods imported from other countries. (See **TABLE** below.)

TABLE 2

Merchandise imports as a % of GDP

Brazil	9,6
United States	12,0
Colombia	13,4
European Union	14,0
Japan	14,2
Russia	14,3
China	14,4
Indonesia	15,3
India	16,7
Turkey	18,3
Global Average	21,8
South Africa	**25,1**
Egypt	26,0

Source: dtic calc from World Bank; Trade Map data (2019)

This propensity is far greater than in other similar countries and is out of line with our developmental needs, and impedes the opportunity for South Africa to develop its manufacturing capacity across carefully-identified selected strategic industries to take advantage of the enormous export potential, particularly in the context of the African Continental Free Trade Area.

Third, the work done with firms and associations at sector level that led to industry Master Plans being developed, were used to identify both specific products and opportunities to localise.

By way of example, the auto industry set a target to localise the components used in SA-assembled vehicles, from 39% to 60% over a 15 year period. In the sugar industry, the parties agreed to improve local sourcing from 60% to initially 80% and thereafter to improve it further. In the poultry industry, R1.5 billion was committed by local producers to expand production, with an additional more than 1 million chickens produced in South Africa per week during 2020, when compared to the prior year. In the clothing industry, retailers committed to improving the level of local procurement by 21 percentage points over a 10 year period to 2030.

Fourth, the Department undertook a review of products included in the designated public procurement list to identify further products which the private sector could be encouraged to localise. These products had been designated over a number of years and the demand available from the public sector can be enhanced by collaboration with the private sector. For a complete list of designated products, see http://www.thedtic.gov.za/sectors-and-services-2/industrial-development/industrial-procurement/.

Fifth, Government engaged social partners at Nedlac in August and September 2020 in an economic recovery plan, which resulted in a Nedlac Agreement reached in October 2020, that contained a number of pillars, including localisation.

The Agreement provided inter alia as follows:

> **Strategic localisation for jobs and growth**
>
> Social partners recognise that localisation and import replacement have significant potential for job retention and creation, the development of new SMMEs and start ups and the initiation of new technology platforms that can strengthen South Africa's human resource endowment. Further, import replacement lowers South Africa's vulnerability to global value-chain disruptions in strategic sectors.

The social partners agree to work jointly to:

- Reduce the proportion of imported intermediate and finished-goods;
- Improve the efficiency of local producers; and
- Develop export competitive sectors that can expand the sales of South African made products on the continent and beyond. They thus commit to:

… Implement **measurable and significant increases (by volume and value) in public and private-sector procurement** from local manufacturers across value-chains set out in Annexure B by, *inter alia*:

I. Establishing **targets** for improvement of current levels of localisation in value chains, with the first set of targets to be announced within six weeks; and subsequent targets to be materially completed by the end of November 2020;
II. Establishing supplier development programmes, as appropriate, on a sectoral or large firm basis;
III. Expanding the platform used to locally manufacture personal protective equipment (PPE) to other targeted sectors and large volume items where practical and feasible; and
IV. Ensuring that public and private sector infrastructure investment is underpinned by the procurement of locally-manufactured inputs and capital equipment where practical and feasible.

…

Ramp up **buy-local campaigns** through *inter alia*:

- Joint public awareness, education and social media campaigns;
- Retailer promotions;
- Clearer labelling of South African manufactured products;
- A commitment to promote 'buy local' statements;
- Training of procurement entities in the public and private sector; and
- Working with buyers and procurement entities to support and develop programmes to maximise orders with local producers.

The Agreement contained the following value-chains in Annexure B, which the parties agreed should be the primary focus of localisation:

"[NEDLAC-AGREED] VALUE CHAINS FOR PRIORITY ACTION IN RESPECT OF LOCALISATION

Agro-processing value chain, including poultry, sugar, oils, grains, juice concentrates and dairy products used in the food and grocery industries.

Health-care value-chains: pharmaceuticals, personal protective equipment and medical equipment, (e.g. ventilators) used in public and private healthcare facilities.

Basic consumer goods: clothing and footwear, home textiles, consumer electronic products and appliances (including televisions, mobile phones, and white goods like fridges, stoves and washing machines), household hardware products, packaging material, furniture.

Capital goods: equipment and industrial inputs particularly used in infrastructure projects, mining, agriculture, the green economy and digital infrastructure.

Construction-driven: value-chains, such as cement, steel, piping (plastic and steel), engineered products and earth-moving equipment.

Transport rolling stock: automobile and rail assembly and component production, in preparation for the African Continental Free Trade Area."

A working group with senior representatives of the Nedlac constituencies was composed, led by the CEO of BUSA and the general secretaries of some of the largest labour federations, which considered proposals on localisation. In addition, a number of bilateral meetings took place between Government and BUSA, which worked on establishing a quantitative target on localisation. A number of product-specific suggestions and proposals were considered. Discussions took place with organised labour, who generally favoured a robust and ambitious target. The discussions identified those products that were regarded as capable of implementation or where significant opportunity existed.

The results of the bilateral discussions were shared with the other Nedlac parties and the Nedlac working group was also able to draw on the work on trade flows, compiled by Government. Finally, a pragmatic target was agreed based on all the available information, the value of a metric against which progress could be measured and a recognition that the parties will need to approach implementation with flexibility, with the first two years setting the platform for greater localisation in subsequent years.

On 14 December 2020, Nedlac agreed to a Localisation Targets and Modalities Plan, which contained the following:

“**Overview:** the framework for the common commitment to promote localisation is set out in the Nedlac Economic Recovery Plan. This document sets out the agreed approach following discussions between BUSA, Government, [Organised labour/Community].

It covers the implementation of the commitments made by social partners, based on:

- A set of targets
- A set of products
- Private sector Champions
- A simple and effective monitoring and reporting arrangement.

Targets (macro):

It is agreed that the parties would use their best efforts to reduce imports of all products (excluding crude oil) into SA by 20%, to be achieved over a 5 year period. Based on the 2019 import data of R1,1 trillion (non-oil imports), this target would entail a reduction of R220 billion and an indicative annual target of R45bn a year in current prices.

Product targets:

In order to achieve the overall goal of a 20% reduction in total non-oil imports, some products will need to have a target above 20% and some will be below this target, based on what is practicable.

To enable the process to start, the parties agree that the general goal will be 20% and this will be adjusted based on the work undertaken, provided they are able to still achieve the overall goal of a 20% reduction.

The targets in this document are indicative and seek to provide a set of goal posts to galvanise social partners towards greater levels of localisation across the value chains identified.”

Chief Executive Officers and other senior leaders have agreed to serve as product champions across a number of the product areas (“Localisation Champions”).

The localisation programme will help to stimulate aggregate demand and strengthen support for the local manufacturing sector. This is an added incentive for both domestic and foreign direct investment in the production sectors of the economy.

The government's policy in this matter is encapsulated in the Policy Statement on **Localisation for Jobs and Industrial Growth,** which was released on 18 May 2021. The policy is aimed at building local industrial capacity for the domestic market and for export markets. It is not a turn away from engaging in global markets, but it is about changing the terms of the engagement to one where we are no longer mainly an exporter of raw materials.

Implementation of the strategy will not be without challenges – and finding the policy blend and careful execution required to promote deeper levels of localisation, will require drawing on the skills and expertise in the private and public sectors. SA can build on a number of successes with localisation, draw the lessons and scale these up.

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