



Industrial Policy & Strategy Review

Transforming Vision into Action:
Charting South Africa's Industrial
Future

May 2024



the **dtic**

Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

Purpose of this paper

This paper maps industrial policy interventions of the South African government since 1994; focusing on the Sixth Administration (2019-24).

The paper sets out the extraneous challenges in the operating environment that impacted on implementation of the Administration's Reimagined Industrial Strategy.

Notwithstanding the implementation challenges, the harsh environment provided an opportunity to stress-test approaches that will inform future industrial policy and identify successes that have been achieved and can be built on further.

Advancing the Reimagined Industrial Strategy in the Seventh Administration will require adaptation to emerging trends. The last section of the paper addresses how this can be achieved.

The paper concludes with a summary of priorities going forward.



EXECUTIVE SUMMARY

The role of industrial policy is to unleash private investment and energise the state to boost economic growth and inclusion. This is an essential part of building investor confidence and the platform for job-creation.

Industrial policy during the Sixth Administration was characterised by innovation within the confines of an increasingly complex context, characterised by global instability and system-level shocks and trends. Important lessons have been learnt that will inform the next phase of industrial policy development, with a strategic focus on aligning South Africa with the global green economic and technology revolutions and coupling its trade policy to Africa's positive economic development and growth story, while continuing to strengthen government institutional capability and its productive partnerships with the private sector.

The opportunity to deliver a more effective and focused industrial policy over the past five years derived from:

- Fundamental changes to the way sector plans are developed and implemented;
- New approaches to investment and export promotion;
- The landmark development of the African Continental Free Trade Agreement (AfCFTA); and
- Major evolutions in the conduct of competition and tariff policy.

In practice, an unprecedented series of economic shocks limited the opportunity, with the COVID-19 downturn foremost among them. The resulting headwinds meant that the new approach could not secure the full benefit of faster growth. Still, it laid the basis for a more successful industrial policy in the future.

This review of industrial policy in the Sixth Administration proceeds in five sections.

- 1. Section 1** outlines the policy context prior to and during the Sixth Administration, examining the move from the Industrial Policy Action Plan (IPAP) to an evolving Reimagined Industrial Strategy.
- 2. Section 2** provides an overview of the economic conditions facing the Administration, examining both the state of manufacturing and productive services, and the ways these conditions changed following the string of serious economic shocks arising from the COVID-19 pandemic.
- 3. Section 3** provides an overview of experiences and lessons from 13 industrial policy streams that were prioritised under the Sixth Administration.
- 4. Section 4** reviews core changes and choices facing industrial policy in the coming years.
- 5. Section 5** develops a set of principles for industrial policy going forward based on a reflection on experiences to date.

Context

The sixth administration inherited an established industrial policy framework and institutions. The then Department of Trade and Industry (dti) published the National Industrial Policy Framework in 2007. For the next 12 years, it produced annual iterations of the Industrial Policy Action Plan (IPAP) that identified

industry-level and cross-cutting priorities. Government gradually strengthened key institutions for industrial and trade policy, including the Competition Commission, the International Trade Administration Commission (ITAC), and the Companies and Intellectual Property Commission (CIPC). It refined key industrial-policy instruments, including a suite of incentives, funds for industrial finance, the Broad-Based Black Economic Empowerment (BBBEE) Codes, trade measures and the designation of specific goods for local procurement by state agencies.

The onset of state capture undermined this progress.

The dtic's political leadership and officials (in both the Economic Development Department and the Department of Trade & Industry) largely shielded its own institutions and resources, but state capture strained state finances and capacity, undermined efforts to localise the production of inputs for the infrastructure programme, and sparked a crisis in public infrastructure, especially electricity and rail services.

Industrial policy at the start of the Sixth Administration confronted a complex economic environment.

On the one hand, it faced the long-standing challenge of dealing with unusually high levels of joblessness, rooted largely in policies that stunted or facilitated the destruction, of Black-owned small business over decades of apartheid and the long-standing bias toward capital-intensive industry. On the other, the economy had grown only slowly over the previous decade: it had been shaken first by the global financial crisis in 2008-9, and then by the collapse in export prices in 2011, as the international commodity boom came to an end. Growth began to recover toward the end of the 2010s, but in the second quarter of 2020 the unprecedented global COVID-19 shock brought a 17% fall in South Africa's GDP. While the recovery began almost immediately, production only returned to pre-pandemic levels in 2022, and employment only in mid-2023 – a recovery pathway that was further complicated by serious civil unrest in July 2021; the war in Ukraine; serious flooding in KwaZulu-Natal in 2022; intensified loadshedding from 2022; and an increasing number of rail and port bottlenecks in 2023. Besides their immediate impact on households and consumers, these crises compelled the re-allocation of public resources to deal with disasters and immediate needs.

Industrial policy initiatives mitigated the impact of the shocks of the early 2020s on the economy, but the losses remain immense. Estimates suggest that the pandemic downturn and subsequent disruptions to the economy cost South Africa close to R1 trillion in foregone output between 2020 and 2023.

Industrial policy played an important part in dealing with the pandemic downturn and other shocks. The state rolled out a R500 billion package in response to the pandemic, which both cushioned producers and employers against some of the costs and maintained, and even built,

capacity for future growth. Interventions were designed at record pace, and then deployed through streamlined procedures that lifted more of the application burden off companies and internalised it within the state. Senior officials volunteered time to staff 24-hour support hotlines; all the spheres of government cooperated to rebuild critical logistics infrastructure; government agencies and financial institutions collaborated in the extraordinarily rapid roll out of the UIF Temporary Employer/Employee Relief Scheme that supported over five million workers, as well as the special relief grant that reached millions more. These initiatives demonstrated the value of investing in a responsive state that can help companies and communities survive, rebuild and grow increasingly resilient.

The difficult and dynamic context shaped the development and implementation of industrial policy during the Sixth Administration and created an imperative for greater innovation.

As the Administration of President Ramaphosa sought to rebuild institutions, the dtic had to re-establish trust with the main economic stakeholders both nationally and at industry level and identify key infrastructure needs while continuing to drive more inclusive industrialisation. The Reimagined Industrial Strategy began to address these challenges, building on the foundations of the dtic's work since 1994. These efforts watered the shoots of the economic recovery from 2019 onwards.

Industrial policy innovations

In June 2019, the Administration established the initial framework for the Reimagined Industrial Strategy. It laid the basis for policy documents on localisation, trade policy and competition. All of these initiatives had to evolve in response to the new reality of the COVID-19 downturn, as reflected in the 2020 Economic Reconstruction and Recovery Plan. These initiatives kicked off a period of aggressive innovation and experimentation around industrial policy, with numerous notable achievements.

The Reimagined Industrial Strategy proposed a new approach to industry-level planning, which was implemented through a set of Masterplans starting in 2019. The Masterplans established a multi-stakeholder approach to industry-level initiatives, in which government, the private sector and labour collectively developed and implemented plans. In this, they contrasted with the earlier approach of state-led measures developed through comparatively informal consultations. The Masterplans typically posed pragmatic questions about the particular constraints facing each industry, and then developed a joint action plan to mitigate them. They involved actions around multiple dimensions of a company's operations, ranging from firming up demand to securing competitive inputs to resolving regulatory barriers and upgrading productive capacity.

The specifics of these interventions varied between the eleven Masterplans published since the start of the Administration. For example:

- The poultry masterplan included government commitments to protect local producers from unfair trade, and producer commitments to scale-up production through an initial R1,5 billion in investment in industrial capacity and to restrain prices for lower-income consumers.
- The Retail, Clothing, Textiles, Footwear and Leather (R-CFTL) masterplan codified commitments from retailers to source from local producers, undertakings from producers to invest in upgrading competitiveness, backed by government support to upgrade competitiveness and commitments to crack down on illegal import activities, and agreement by organised labour to facilitate adaptable production capacity in line with production cycles.
- The automotive and furniture masterplans included commitments on government funding and incentives in exchange for private sector investment.
- The sugar masterplan contained commitments by retailers and food and beverage producers to procure a higher percentage of locally-produced sugar, growers and processors undertook to align their production and constrain prices, complemented by supportive public policies in a collective effort to pull

an industry back from the brink of collapse and set foundations for a future industry based on diversified downstream industrial development. This included postponement by government of an increase in a health protection levy that would have negatively affected jobs.

The Masterplan process modelled a new approach, where the state works in a flexible way to address the diverse concerns facing individual companies and other stakeholders, especially labour and working-class communities. A major example emerged with Tshwane Automotive Special Economic Zone (Tasez), which set a new model for Special Economic Zones. Tasez featured a notably more rapid and coordinated development process. Investment was unlocked through an anchor firm, Ford, while **the dtic**, the Gauteng government, and the City of Tshwane pooled their resources and capabilities. This solid base allowed for the rapidly unlocking of ten investments by component firms, and helped establish the SEZ by developing a network of interconnected producers around the zone. All of this was underpinned by strong alignment with pre-existing policy, including state support through the Automotive Production and Development Programme (APDP) and investment funding through projects like the Automotive Investment Scheme (AIS). This model – of moving quickly, working through partnerships, coordinating across the state and aligning with broader support programmes – offers a sturdy pathway for the revitalisation of industrial policy.



The Investment Mobilisation Drive also centred on improved collaboration between the main economic stakeholders. Above all, it aimed to rebuild investor confidence after the period of state capture. Headlines often focused on pledges made by leading companies at the annual Investment Conferences. But the real work took place behind the scenes, as government agencies responded as far as possible to individual company concerns and worked to reform critical investment enabling systems such as network infrastructure, the company registration system, and work visa procedures. The net result of these efforts was to secure commitments of R1,5 trillion in investment by 2023, surpassing the government's initial target despite the disruptions brought about by the COVID-19 pandemic.

A similar evolution took place in export promotion, with economic diplomacy and export support structures being repurposed to focus on unblocking individual opportunities. In this context, a closer synthesis emerged between high-level policy statements and on-the-ground support for investment and exports. Trade policy was a significant focus of the administration, with a balanced approach aimed at securing domestic market space for companies to grow, and unlocking foreign market access to let companies realise their full growth potential. South Africa pursued a comprehensive trade and economic development agenda, strengthening partnerships (China, US-AGOA), navigating trade disputes (EU), finalising a new free trade agreement (with UK after Brexit), expanding markets for South African exports (agriculture, Middle East), supporting domestic industry (tariffs, permits), advocating for vaccine access (WTO-TRIPS), and actively shaping global trade rules (WTO agreements, discussions).

A landmark achievement was the launch of the African Continental Free Trade Agreement (AfCFTA). The AfCFTA represents both a landmark for South Africa's trade policy, and a statement of intent on the growth path that will sustain South Africa's development in the coming decades. Already, African countries account for over 25% of South Africa's total goods exports and 40% of exports of manufactured products. Between 2019 and 2023, annual exports to other African countries rose from R343 billion to R547 billion, a 59% increase. Noteworthy is the pronounced surge in exports of manufactured goods, which accounted for a substantial 87% of total SA's exports to other African countries in 2023.

The AfCFTA will ensure South Africa grows with the rest of the continent. The Sixth Administration put together the complex legal and other arrangements in record time – including rules of origin for thousands of products; dispute-settlement institutions; and protocols on competition, investment, economic inclusion of women and youth, digital trade and others. By 31 January 2024, SA's trade started with a group of 12 countries under the AfCFTA preferences.

Africa represents the future. With a rapidly urbanising and industrialising economic base, and a wealth of mineral and agricultural potential accompanied by a demographic boom whereby the continent's population growth is two and a half times higher than the global average, Africa looks set for growth. The **dtic's** strategy has been to position South Africa to benefit from economic development and growth on the continent.

An effective trade policy also has to provide tailored, time-bound protection to local producers, giving them space to invest in competitive production and grow into efficiency. The Sixth Administration brought a progression in tariff policies to achieve this aim. It introduced tariffs that balanced efforts to protect firms from unfair trade while developing local capacity and protecting consumers. New reciprocal agreements with companies aimed to cushion price rises and promote investment while securing the benefits of protection.

Competition policy underwent a significant transformation. Reforms to the Competition Act in 2018 empowered the Competition Commission to take a more assertive stance in tackling concentration, primarily by authorising market inquiries at industry level to identify systemic blockages to competition. Market inquiries saw action on data prices saving consumers an estimated R20,5 billion over a five-year period. An inquiry into the grocery retail sector protected consumers through interventions like the end of exclusive grocery retail leases in shopping malls. In addition, the Commission expanded the use of public interest commitments on mergers. Through a series of high-value interventions, it secured over R68 billion in investment pledges, R58 billion in equity participation for about 200 000 employees, R17 billion in local procurement commitments, and R4 billion in supplier development funds. These figures represent very significant wins for the public interest and promotion of structural change in South Africa's economy.

In 2016, the Administration launched the Black Industrialist Programme, an ambitious plan to support the entry and expansion of black-owned and black-managed firms. The contribution of black industrialist firms to the economy has grown steadily. By 2023, these firms supported by **the dtic** contributed more than R180 billion in direct turnover (R330 bn if indirect turnover is added), and supported more than 161 000 direct jobs. Support for black industrialists has expanded beyond funding to include measures by regulators, procurement commitments, export support networks established and capacity building and access to markets facilitated. The Black Industrialist Programme has hosted regular conferences that showcase successful firms, provide match-making opportunities, and facilitate a strategic dialogue between government agencies and the private sector. During the 2022 Black Industrialist Conference, a Black Exporter Network was launched that brings together over 100 firms to share export expertise and opportunities, and to explore partnerships.

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At a time of ‘poly-crisis’, people need their governments to step up and take responsibility for shielding lives and livelihoods from the system-level shocks. The dtic has responded to this challenge through these various initiatives, which have strengthened the industrial policy toolkit at a time in which critical global trends require a strong and supportive government response.

Foremost among these system-level shocks and trends is the climate crisis. The global green economic revolution generates immense new opportunities for almost every part of the economy. As President Ramaphosa stated in the 2024 State of the Nation Address, “we are positioning our economy for future growth in a world shaped by climate change and a revolution in green technologies.” The dtic has made substantial progress in defining a pathway to take advantage of this transformed global economy with the launch of three landmark strategies: the New Energy Vehicles White Paper, the Green Hydrogen Commercialisation Strategy, and the Renewable Energy Masterplan. These strategies build on green shoots of progress already visible, including the start of hybrid vehicle production in South Africa and Investment Drive commitments to R165 billion in green economy projects.

Lessons

Understanding the changing context remains critical to effective policy-making, as the past four years have underscored that the world has become more volatile, polarised and crisis ridden. The resulting disruptions to South Africa’s economy bring new opportunities as well as threats, including: the green transition, which promises major benefits for South Africa as well as significant costs in shifting to more low-carbon production; the plateauing of international trade through the 2010s; a slowdown in growth in China and Europe, which

are key trading partners; new technologies, including biotechnologies, digitalisation and, most recently, artificial intelligence; and increasing geopolitical conflict and war.

Despite notable challenges and setbacks, the South African economy demonstrated adaptability and agility amidst adversity. Despite the headwinds, collectively the various agents of the economy (business, labour and government) navigated turbulent times during the Sixth Administration. Furthermore, proactive measures have been implemented to safeguard businesses and livelihoods, serving as resilient shock absorbers during tumultuous periods. Moreover, amidst these challenges, strides have been made in fostering innovation, driving transformation, and initiating efforts to restructure the economy towards a more inclusive framework.

South African policies have to adapt continuously to abrupt changes in external realities. To achieve that requires the reinforcement of South Africa Inc., where the economic partners work together to manage threats and take advantage of opportunities in ways that spread the benefits of growth increasingly to the majority.

The last five years shows the importance of practical, on-the-ground communications and collaboration with stakeholders. Government has to set clear aims and minimise unnecessary blockages to achieving them. It has to meet the needs of established and emerging business as far as possible, as long as it does not impose excessive costs on other groups such as consumers, downstream businesses, municipalities and the environment. That in turn requires clarity about the allocation of costs, benefits and risks of new initiatives between stakeholders.

The challenge and opportunity is to now move from

management of economic shocks to driving more inclusive industrialisation. The Sixth Administration necessarily focused largely on managing the crises of the early 2020s. This led to an emphasis on saving industrial capacity and jobs, with less capacity available to identify opportunities for new economic clusters that could generate large scale employment. Critical steps are to support more labour intensive manufacturing, agriculture and productive services, and to promote community-based private and social enterprises. To dent South Africa's deficit in employment requires that both strategies be pursued on a mass scale. Success also requires growth-friendly fiscal and monetary policies.

In the global economic landscape, significant shifts have emerged, marked by evolving megatrends that shape policy and practice. Historically, economic policies prioritized integrated supply chains, efficiency, and cost-effective procurement strategies. However, the onset of the COVID-19 pandemic catalysed disruptions in global supply chains, prompting a re-evaluation of traditional economic paradigms. Concurrently, escalating geopolitical tensions have underscored the importance of economic security and resilience on a global scale. Against this backdrop, it becomes imperative for South Africa to identify both the opportunities and risks presented by these transformative trends.

It is important to define the role of industrial policy in this context. A range of government agencies and all of the spheres have to contribute to large-scale programmes to generate employment and self-employment. It will be important to allocate clear responsibilities between agencies, with defined objectives for each. Industrial policy may be a critical driver, but industrial policy has to leverage complementarities with other economic initiatives, notably infrastructure, education, agriculture and land reform, public and subsidised employment, and social and community services.

It is important to take demand into account in developing industry-level programmes. Domestic, African and overseas markets vary in importance for different industries, depending in part on the nature of their product and in part on their phase of development. Increasing domestic demand can be critical for developing new capabilities and clusters, and for job creation. The challenge in these situations is to ensure that producers cannot just rely on protection to maintain higher prices for domestic consumers and downstream businesses, but rather continue to invest to improve competitiveness.

Some industries can focus primarily on exports - which includes the provision in South Africa of services for foreign markets, for instance entertainment, education and health. That enables them to access larger markets, increasing their scope for growth and reducing unit costs. Not every industry, however, can realistically expand exports. Measures to promote exports have to take into account the specifics of the producers. Industry-level programmes help to implement this differentiated approach.

Government has to continually promote more competitive production and logistics. That means prioritising improvements in the electricity supply, freight rail, the ports and other border crossings; managing pricing and production of upstream products; and encouraging investment in improved technology and work organisation. Experience shows that in developing industry-level strategies, businesses usually prefer to focus on increasing demand and improving government services, which is easier and less disruptive than identifying and addressing cost drivers in their own production processes or in terms of pricing on upstream inputs.

Effective partnerships with economic stakeholders requires that government can deliver on its promises.

That in turn requires improved alignment across the state, with stronger platforms and systems to ensure coordinated implementation. It is particularly important that key national portfolios such as the National Treasury, Mineral Resources, Energy/Electricity, Agriculture, and Transport; as well as provincial and municipal governments, state-owned entities such as Eskom and Transnet, and education providers are aware of industrial policy requirements and respond to them.

Managing changing conditions while sustaining on-going partnerships also requires government systems, officials and political leadership that has the capacity to monitor progress, identify upcoming threats and opportunities, and act swiftly to change course where required. Investment in collecting information both as data and through engagements with stakeholders, and in efficient decision-making platforms will repay itself many times over.

Way forward

As South Africa exits the shocks of the last few years, there is growing scope to complete and scale-up the changes made to industrial policy in the previous administration. **Fifteen** anchor initiatives are proposed.

1. **Rapid scaling-up of infrastructure spending should be a top priority.** There is a need to increase levels of investment to at least R400-500 billion per annum in fixing public infrastructure, drawing on private and public sector resources, with a combination of delivery-mechanisms, including Build-Operate-Transfer, PPP and public-sector financing models. As discussed in section 2.3, priorities will be to improve electricity and freight transport for established businesses, and to qualitatively upgrade infrastructure to support economic activities in working-class communities and townships, especially by providing industrial, commercial and cultural centres.



2. **Green industrialisation will build on existing initiatives and scale up:** electric vehicles; green hydrogen production; and processing of critical minerals particularly for the battery value chain. It will also revitalise efforts around renewable energy components. An Africa-led initiative to ensure coordination in critical minerals policies will be required, under a Minerals Commission. South Africa will continue to advocate for a just transition, to ensure that the costs of the climate crisis do not fall disproportionately on working people and the Global South.
3. **South Africa to set a stretch target for expanding trade with Africa within the next five years, using the platform of the AfCFTA.** As part of this focus, the dtic-group will develop a programme of support for companies seeking to make use of the AfCFTA.
4. **Trade diplomacy to focus on fully implementing the AfCFTA,** rebalancing trade with BRICS countries to greater manufacturing value-addition, developing and expanding access to US and European markets for value-added products, and expanding food and light manufacturing exports to the Middle East and ASEAN countries. South Africa will continue to work with other African countries to finalise an extension of the US African Growth and Opportunities Act (AGOA).
5. **A strategy to be implemented to position South African firms to both manage and benefit from the digital transition.** The strategy will include proposals to expand the share of the population with computer, language and design skills and with access to high-speed internet, as well as the number of students pursuing science, technology, engineering, and math (STEM) and associated courses. The challenge and opportunities from artificial intelligence is best taken up through a wider policy framework that includes national measures and greater coordination with other countries.
6. **Investment facilitation policies to target new investment pledges of R2 trillion within a 5-year period** - with at least R1,5 trillion in investment pledges spent in the period; and with 70% of all investment projects under construction, or new machinery in progress of installation or projects completed and launched. The dtic will ensure substantially greater prioritization of labour-intensive industries. South Africa must support competitive industries, but industrial policy must also do more to structurally increase the rate of investment in industrial activities that can address the deficit in employment and self-employment.
7. **To promote transformation, existing measures to be scaled up, building on work done in the Sixth Administration.** The Competition Commission is now ready to undertake market inquiries in at least ten sectors in the coming five years, aimed at addressing high levels of economic concentration and low participation by small businesses. This programme of work can be complemented by additional funding support for black industrialists, small businesses and township entrepreneurs, which should seek to expand the number of black-owned businesses benefiting from the Black Industrialist programme to 2 000 firms. The foundation has been laid by the end of the Sixth Administration to mobilise at least R50 billion over the next five years for programmes supporting black industrialists, SMMEs and township enterprises. In addition, a further target could be set of 200 000 workers to participate in worker share ownership schemes within the next five years. The dtic will develop guidelines to ensure that these schemes provide tangible benefits to workers in terms of income, assets, influence over strategic company policy and workplace relationships, whilst benefiting corporations through building greater shopfloor commitment to firm-level growth plans.
8. **High-value trade in services to be prioritised with a focus on labour-absorbing activities that harness South Africa's unique expertise.** Building on lessons from support to global business services and film industries, support should be expanded to the export-components of high-value services sectors like tourism, engineering, digital services, the creative industries, security, education and healthcare. Global business services offerings will increasingly shift to greater complexity and value-addition, drawing in South African professionals to provide their services to global markets, whilst based in South Africa.
9. **The next phase of labour market reform to promote greater job-creation within a decent-work policy framework.** It must also drive a new skills development focus to address tectonic shifts in economies, from the rise of Artificial Intelligence (AI), to the disruptions that will accompany urgent climate action. To bridge the gap, there is a need for stronger government and businesses collaboration to improve training program responsiveness; strengthen education-workplace links (apprenticeships) and provide job placement; interview coaching; and retraining support. Higher education funding should target employable skills, while government agencies and businesses can offer reskilling opportunities. Public incentives can further encourage workplace upskilling.
10. **Building on prior spatial industrial programmes (like the SEZs) and the District Development Model, at least five secondary cities to be targeted for pilot industrial policy partnerships.** These partnerships should aim to mutually develop a regional industrial plan around select secondary cities, and create shared capacity between the municipality and central government for common industrial policy tasks like export promotion, investment promotion and company-level financing and support.

11. Government to urgently resolve the key structural constraints to faster growth such as energy availability, logistics challenges, market concentration and the rising cost of doing business. However, these interventions require time to be implemented and to take effect. In the intervening period, Government may need to consider reforming the basket of support measures provided to the private-sector in order to increase its impact and limit the costs imposed by energy and transport-logistics challenges. This may include streamlining application processes, focusing on demonstrably needed investments, and reviewing incentive effectiveness across sectors. Carefully structured and strategic tax breaks alongside targeted investments can spur innovation and address R&D underinvestment.

12. Policy coordination should continue to be a priority in the next administration. Effective industrial policy requires a unified approach. It should be part of a broader economic strategy that promotes inclusive growth, job creation, and other policy interventions should support the economic strategy – for example foreign policy, skills development and social policy measures. Fragmentation weakens its impact. The Seventh Administration can build on progress from the Sixth Administration, ensuring workforce readiness through STEM education and vocational training. This integrated approach fosters innovation and sustainable economic development.

13. Realising the programmes detailed above will require both improvements in underlying state capacity, and better utilisation of the skills and resources available within the state. Experience in the past administration has demonstrated how cross-departmental or cross-agency teams are often best placed to deliver on critical objectives. Work in the next administration will aim to formalise this approach, which will improve alignment and coordination across departments and government agencies.

14. Masterplans to continue to serve as the coordinating structure for sector-led development plans. A range of industry-level objectives will also be pursued to increase production and, on that basis, employment. They build on experiences with the Masterplans over the past five years. New industrial opportunities in a range of sectors provide a significant source of growth for South Africa. These include opportunities which can be leveraged through increased economic integration within the African continent, and development and expansion of expertise in areas such as advanced manufacturing, the green economy and productive services.

15. Work in the next administration to formalise greater coordination through an Industrial Policy Council, chaired by the President. To improve alignment and synchronicity of policy, Cabinet Portfolios should have explicit industrial policy targets in Performance Compacts, cascading to provincial and local government level, and incorporated in the Performance Agreements of senior civil servants.



INDUSTRIAL POLICY HIGHLIGHTS OF THE SIXTH ADMINISTRATION – SOME EXAMPLES



Masterplans:

- 12 Masterplans were finalised and implemented during the administration in sectors from clothing, textile, footwear and leather; poultry; sugar; commercial forestry; steel & engineering; automotives; global business services; furniture; agriculture and agro-processing; tourism; and most recently medical devices.
- 3 Masterplans are near finalisation, including renewable energy; and cannabis and hemp.
- Masterplans have ushered in a new era of industrial policy design and implementation focused on stakeholder needs and a shared sense of ownership.
- 743 000 workers are covered by the 7 dtic-administered Masterplans.

Trade:

- New free trade agreements covering the UK post Brexit (implemented from 2021) and the African continent (implemented from 2024) – with close to 40 new markets where SA will have preferential access in future
- The African Continental Free Trade Area (AfCFTA) came into operation during the administration, with the legal and operational modalities concluded, and South Africa's first exports under the preferences commenced on 31 January 2024
- Improved market access was achieved for South Africa products to countries like China, Vietnam, Japan and Saudi Arabia (see Table 4)
- South African manufacturers were supported with tariff amendments which saw 20 tariff increases to protect local firms; and 26 tariff rebates and reductions to improve access for downstream manufacturers (see Table 5)
- Exports of manufactured goods topped R1 trillion for first time in 2023, and South Africa recorded its two first annual trade surpluses for goods trading with the EU in 20 years
- Protocols concluded with the AfCFTA covering Competition, Investment Protection, Digital Trade, Women & Youth in Trade and ratified Agreement of WTO on Fisheries
- Supreme Court of Appeal upheld the actions of Government to impound containers of goods imported into SA with suspicious declared prices

Competition:

- The Competition Amendment Act came into operation in 2019, with provisions which paved the way for use of market inquiries to address sector concentration; tools to address excessive pricing; and public interest measures which requires authorities

to consider the spread of ownership resulting from an acquisition or merger

- The Competition Commission initiated or completed six market inquiries over the administration, in sectors such as mobile data, which resulted in a fall in data prices; food and grocery retail, which resulted in the end of exclusive leases in shopping malls, opening the way for more competition and smaller grocery stores to open stores; healthcare; and digital commerce, which resulted in a number of remedies including ending anti-competitive practices and promoting entry of young South Africans into the market
- The **dtic** participated in a number of mergers, with ground-breaking settlements to protect workers; increase BBBEE and worker ownership; increase investment; and increase localisation measures from companies like Coca-Cola, PepsiCo, Shoprite, Imperial, and Heineken.

Transformation and inclusion:

- More than 1 700 black industrialists have now been supported by **the dtic** and its agencies, employing more than 160 000 people directly and generating more than R183 billion in turnover in South Africa,
- Transformation was supported by a number of Equity Equivalent Investment Programmes agreed in terms of the BBBEE Act with the seven major auto producers (BMW, Ford, VW, Toyota, Mercedes, Isuzu and Nissan), as well as companies like JP Morgan, Citibank, and Amazon Web Services
- Transformation targets have been agreed across each of the Masterplans, with significant funding or commitments to support black businesses incorporated, including a R6 billion automotive transformation fund, and R1.2 billion in funding to support small-scale sugar growers

Jobs

- The work of **the dtic** and its agencies covered more than 1.28 million workers in the economy, representing 1 in 8 private formal workers
- More than 100 000 new jobs have or will be created through investment support and other programmes of **the dtic** – significant examples include 4 000 jobs at Hesto Harnesses in Kwadukuza, doubling of employment at Volpes, building of a new steel plant, expansion of food and poultry factories, opening of new pharmaceutical production facilities, bricks manufacturing, solar plants and many more.

Investment:

- The Presidential investment drive, supported by **the dtic** and its agencies, secured R1.5 trillion in investment pledges over the five-year period, exceeding the R1.2 trillion target set by President Ramaphosa
- Some 317 investment pledges were received over the period with 111 of the projects completed
- The pledges included R214 billion in manufacturing investments, R234 billion in services and digital infrastructure, and more than R100 billion in productive infrastructure. Major new projects included the expansion of Sappi Saiccor, the Google undersea cable connecting SA with west Africa and Europe and new car production in SA.

Spatial transformation:

- Two new SEZs were agreed in the past 5 years: a Tshwane Auto SEZ and a Namaqua SEZ (N Cape) focussed on beneficiation and green energy; and a new SEZ framework was adopted with greater coordination across the three spheres of government, creating a blueprint for the future

- The Tshwane Automotive Special Economic Zone (TASEZ) was launched in November 2019, underpinned by a significant US\$1 billion investment by the Ford Motor Company to expand production in South Africa, and it led to the building of ten new factories employing 3 200 workers

Greening the economy:

- The Electric Vehicle strategy and action plan was published in 2023, with a number of incentives announced by the Minister of Finance to support increased manufacturing of electric vehicles in South Africa
- The Green Hydrogen Commercialisation Strategy was finalised in 2023, which paves the way for a coordinated effort to commercialise green hydrogen production in South Africa
- Hybrid vehicle production started in South Africa at two car-makers; Defy Appliances produced green fridges and freezers that does not require electricity from the grid; and **dtic**-supported firms manufactured photo-voltaic panels and built solar plants and wind-farms
- Publication of a new standard that will usher in a new era of energy-efficient light-bulbs

COVID-19 resilience

- Existing industrial capacity was repurposed to manufacture essentials like face masks, Ventilators, hand sanitisers, medical supplies and vaccines into an industry which exceeded R20 billion in annual revenue by March 2022 (see Case Study 1):
- A waiver and flexibilities on certain Trade-related Intellectual Property Rights (TRIPS) provisions, secured through an initiative at the WTO by South Africa and India, enabled developing countries to manufacture vaccines

- Competition policy was leveraged to tackle excessive pricing and provide collaboration exemptions during the pandemic so that capacity in health services could be scaled up
- Dtic-entities contributed to Government's R500 billion Covid-response package and **the dtic** initiative the establishment of the Solidarity Fund that mobilised South Africans behind a united health and welfare response to the pandemic

Weathering adversity - six shocks were navigated:

- COVID-19 – the largest pandemic in 100 years which led to the deepest recession since the Second World War
- Civil unrest in July 2021 in parts of KZN and Gauteng, with loss of life and significant damage to property
- The April 2022 floods on the eastern seaboard which disrupted logistics systems, damaged factories and swept away livelihoods and lives
- the impact of the war in Ukraine on global supply chains and prices of fertilisers, food and fuel; and the 2022 floods in Durban
- energy shortages that led to load-shedding and production downtime, impacting on GDP growth
- port and rail logistics challenges that caused delays with movement of freight and cargo
- In response to the unrest in 2021 and floods, support was provided to firms and workers affected, the basic goods supply chains

were kept open; and public engagement were undertaken (see Case Study 2). Among the core funding managed by **the dtic** group, approximately R3 billion in approvals were allocated for more than 1800 companies, supporting more than 37 000 jobs.

- To address energy and transport logistics challenges, regulatory reforms were enacted, partnerships were forged with the private sector and investment was speeded up on new energy generation

Addressing inequality; promoting worker and broader empowerment

- **Asset ownership:** through implementing changes to the Competition Act to boost worker share ownership schemes: 300 000 more workers became owners in the companies they work for, and total worker share ownership in the economy rose to 550 000 employees, with more than 1,5 million South Africans benefiting (inclusive of families of workers)
- **Excessive executive pay:** through changes to Companies Act approved by Parliament that requires disclosure of executive salaries, ratios between top and bottom earners and shareholder right to approve salary policies
- Strengthened provisions on Social and Ethics Committees in the boards of companies in South Africa
- **Widening board membership:** through agreements to have worker-nominated board members at 8 companies employing more than 125 000 workers



DTIC BY THE NUMBERS

R1,5 trillion

Investment pledges in
317 projects

551 000 workers

at 125 firms with worker share
ownership schemes, and more
than 1,5 million South African
beneficiaries once family
members are counted

R39 billion

in funding for Black
Industrialists

**1,28 million
workers**

covered by
dtic-group trade, competition,
incentive or other measures or
masterplans

**More than
700 000 jobs**

covered by masterplans

R100 billion

in Industrial funding
provided over five years

1 700

Black Industrialist firms
supported, employing
160 000 workers directly
and with R183 billion in
direct turnover

100 000+

new jobs created or
expected through **dtic**
measures

8 firms

with agreement to have
worker nominees on the
boards of the companies,
covering 125 500 workers

60% rise

in SARS-reported exports to
other African countries,
exceeding half a trillion
rands annually





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1. POLICY CONTEXT – A BRIEF REVIEW

1.1. Pre-1994

Industrial policies seek to actively shift an economy's path of development, in terms of what is produced, where, by what kinds of business and what technologies. South Africa's unique history has had a deep impact on the demands on industrial policy in the democratic era. Before 1994, both economic policy and the structure of industries were designed around maintaining a colonial and a racialised political system, initially as a major raw material and resource provider to European industry; and later through the efforts to circumvent global sanctions against apartheid. The legacy of these decisions continues to remain important today.

South Africa's colonial past reflects in the structure of the country's mineral-industrial complex, with core industries and infrastructure focused on extracting and exporting commodities, often with minimal processing. This also helped lock-in deep trading relationships with commodity buyers, mostly in Europe, but to the exclusion of deeper relationships with African markets. Growing economic isolation and sanctions due to apartheid contributed to higher levels of concentration in strategic sectors by domestic capital, and this was combined with the growth of state-backed conglomerates to manage global isolation. A range of carbon-intensive production techniques and technologies, notably Eskom's coal-fuelled electricity and Sasol's coal-to-gas process, were embedded with the same aim in mind. Sanctions-busting became a lucrative business and the capacities developed during this period would outlive the apartheid period, stretching its impact to the contemporary period.

Spatial patterns of growth were influenced by the development of heavily subsidised industrial clusters alongside homelands and communities that had been the subject of forced relocation, dislocating both workers and production systems. Industries and industrial sites were built on the assumption of being

able to exploit a disenfranchised community of low-wage workers, while apartheid policies of dispossession and the precarious livelihoods of the black majority destroyed family owned businesses and wealth and entrenched high levels of joblessness and market concentration.

The combination of dependency on commodities, especially the capital-intensive mining value chain, and apartheid laws shaped a deeply exclusionary economy. In particular:

- It stunted the development of most small black businesses in both farming and other industries, contributing to extraordinarily low employment by global standards. In 1994, just under 40% of working-aged adults were employed, compared to an international norm of 60%. Since 1994, though employment has grown significantly, the growing size of the labour force (population growth-rates, rapid urbanisation and migration from neighbouring countries) has resulted in this figure fluctuating between 40% and 45%. As a rule, 20% of adults are self-employed in upper middle income countries such as China and Latin America; in South Africa, the figure is just 4%.
- It shaped deeply inequitable and conflict-ridden workplaces. They were characterised by unusually high pay for professionals and managers compared to other workers; extraordinary power for managers over employees (especially where workers were not organised); entrenched discrimination against black people, especially women; a lack of career paths for lower skilled workers; and deep mistrust and hostility between employers and workers in many workplaces. Workplace inequalities were reinforced by legally-enforced racial inequalities in

education, training and licencing for the professions, which significantly reduced the share of graduates and artisans in the labour force compared to other upper middle income countries.

- It led to racially-defined control of virtually all formal businesses, including commercial farms, and almost all financial assets. The distribution of wealth and income from investments was highly unequal by global standards. Inherited wealth contributed to the reproduction of inequalities in education and income over generations.
- The Competition Commission's landmark 2021 report on Measuring Concentration and Participation in the South African Economy found that South Africa's "economic conditions and structure are hostile to SMMEs and therefore undermine inclusion and the job creation potential of the economy", while deepening the extremely high degree of concentration in the economy. The study found that over 40% of South African economic sectors are highly concentrated with a presumptively dominant firm. These sectors include healthcare, communications and steel. Another 30% are highly concentrated without a dominant firm; amongst them are transport and financial services. Under 10% of sectors are classified as truly competitive. Moreover, fewer than a third of sectors have become less concentrated over the last few years. These findings point to the need for continued efforts to support competition in critical sectors.

Compounding these challenges for manufacturing, the outgoing apartheid government during the Uruguay Round of trade talks under the GATT-system made significant trade liberalisation concessions based on the conceit that South Africa was a 'developed' economy, a step that was seized on by major trading partners and locked into the WTO agreements.

1.2. 1994 to 2007

Industrial policy after 1994 faced a difficult task. On the one hand, it had to sustain the existing formal sector, which was in crisis as from 1989 it suddenly faced new international competition and sharply falling subsidies, including for newly privatised companies such as Iscor and Sasol. On the other, it had to help overcome the extraordinarily high levels of inequality and joblessness entrenched under apartheid. These challenges meant the aims of industrial policy were far more complex and contested than in other regions, where it generally focused primarily on assisting industries in crisis; promoting increasingly competitive industries; and supporting depressed regions.

At the time of the transition to democracy in 1994, many economists assumed that a more inclusive, diverse and equitable economy would follow naturally from four core initiatives:

- The elimination of racial and gendered laws in the economy and the workplace, such as the pass laws and limits on the rights of black workers;
- Increased public investment in working class communities (townships), especially in housing and education, which was expected to stimulate demand, increase productivity, and open the door to new Black-owned enterprises,
- Ending subsidies and protection for historically privileged industries and businesses, principally by redirecting support away from commercial agriculture, banning racist licencing and financing laws and practices, and reducing tariff protection in line with the Uruguay Round of trade talks, to promote international competition, and
- Land reform to improve rural livelihoods, especially for families that had been pushed off their farms over the previous century and now lived in the often over-crowded so-called "homelands" or worked as farmworkers on commercial estates.

This narrative largely informed the Reconstruction and Development Programme, adopted in 1994.

In practice, the economy grew 3,2% a year from 1994 to 2007, up from 0,8% a year in the decade before the transition to democracy. For comparison, other upper middle income countries excluding China grew at the same rate from 1994 to 2007, after expanding 1,9% a year from 1985 to 1994. Inequality and joblessness remained far worse than the international norm, however. The employment ratio improved marginally, from an estimate of under 40% in 1994 to 42% in 2005.

In short, the systems entrenched under apartheid proved more resilient than expected, while the rapid opening of the economy, in part to comply with the newly-launched WTO agreements, put huge pressure on manufacturing. A core challenge was that the high budget deficits accumulated in the dying days of apartheid – which saw the debt-to-GDP ratio surging from 32% in 1990 to 45% by 1994 - constrained the extent to which the government could improve services for the majority in the late 1990s. That in turn limited the anticipated impacts on both aggregate demand and opportunities for Black households and enterprises.

In response to these experiences, from 2005 greater emphasis was placed on industrial policy approaches to bring about inclusive industrialisation. These initiatives are discussed in the following section.

1.3. 2007 to 2019

In the Third Administration, the government decided to introduce more pro-active measures to restructure the economy. The process started with AsgiSA, which initiated a major infrastructure programme in 2005, as well as significant improvements in skills development. In 2007, the National Infrastructure Policy Framework initiated a series of rolling annual plans for industrial

policy, the Industrial Policy Action Plans (IPAPs). These became the main expression of practical industrial initiatives from 2008 to 2019, when it was superseded by other initiatives, especially the masterplan process.

The IPAPs presented practical, detailed annual measures for major industries as well as cross-cutting initiatives to improve overall growth and job creation. Overall, they represented an important step in the development of South Africa's industrial policy. Industrial policy initiatives bolstered South Africa's industrial strengths, especially around the auto, mining and food value chains, and promoted new clusters in amongst others medical and pharmaceutical products, renewable energy and auto components. The IPAPs communicated key measures to the public and other government agencies; guided government initiatives in important industries; supported monitoring of progress in implementing programmes and policies; and laid a basis for **the dtic** to engage with stakeholders as well as other government departments and agencies.

The IPAPs were guided by and reinforced a set of strategic plans for economic reconstruction, specifically:

- the New Growth Path (NGP, 2010) was a job-focused strategy that identified a number of jobs drivers and key policies required to unlock their potential (e.g. the role of development finance, public procurement and infrastructure investment);
- the National Development Plan (NDP, 2011) set an overarching planning framework for economic, social and other development policies;
- the National Infrastructure Plan (2012) had 18 Strategic Integrated Projects (from water to energy and spatial development) aimed at a major boost in building, maintaining and operating public infrastructure.

These were further supported by the Trade Policy and Strategy Framework (2010) which revised South Africa's trade policy but also set out how this policy can contribute to the country's broad economic

development and industrial upgrading. The Preferential Procurement Regulations (2011) provided for the designation of certain products for local procurement by the state.

The experience of developing and implementing the IPAPs pointed to some important learnings for industrial policy in South Africa, which laid the basis for the Reimagined Industrial Strategy that was adopted in the Sixth Administration. The most important of these learnings were the following.

- Industry-level measures should be developed and implemented through structured engagement with stakeholders at industry level, in order to ensure appropriate measures and on-going collaboration to achieve national development goals.
- The government should focus resources and capacity on scaling up a few priority industries with prospects to make a significant socio-economic contribution.
- Industrial policy cannot be a project for **the dtic** alone. Rather, it has to rely on alignment of functions across the state, from education to infrastructure to licencing procedures and regulatory frameworks.

The Reimagined Industrial Strategy, initiated in 2019, largely responded to these three core learnings from the IPAPs.

1.4. From 2019 – a Reimagined Industrial Strategy

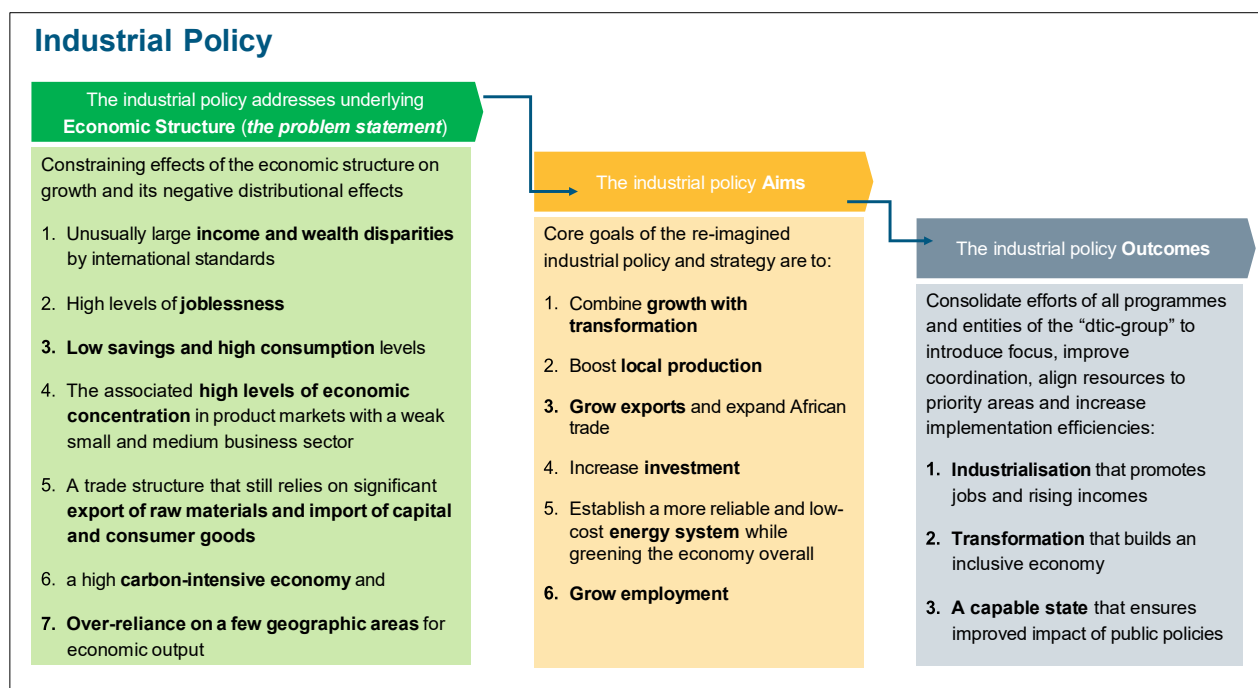
The Reimagined Industrial Strategy built on the IPAP, NGP and NDP approach, addressing their limitations and updating industrial policy for a rapidly changing economic environment. It was not an attempt at a new plan or framework, but focused on more effective implementation. It defined industrial policy as more than a set of firm-level incentives. Instead, it pointed to the wider coordination of policy across the state and in partnership with the private sector. As Figure 1 illustrates, industrial policy ultimately has to help build a more inclusive and dynamic economy.



Core to the changes in the new strategy were:

- A focus on partnerships with the private sector and labour; and
- Situating industrial policy within a broader economic policy framework, in which efforts to address long-term structural challenges (like a lack of diversification and deep inequality) were located alongside emerging constraints (like the energy crisis, weakening logistics infrastructure, greater fiscal constraints, and the erosion of state capacity).

Figure 1: Context, aims and outcomes in the Reimagined industrial strategy



The Reimagined Industrial Policy was underpinned by strategies to enhance seven key outcomes.

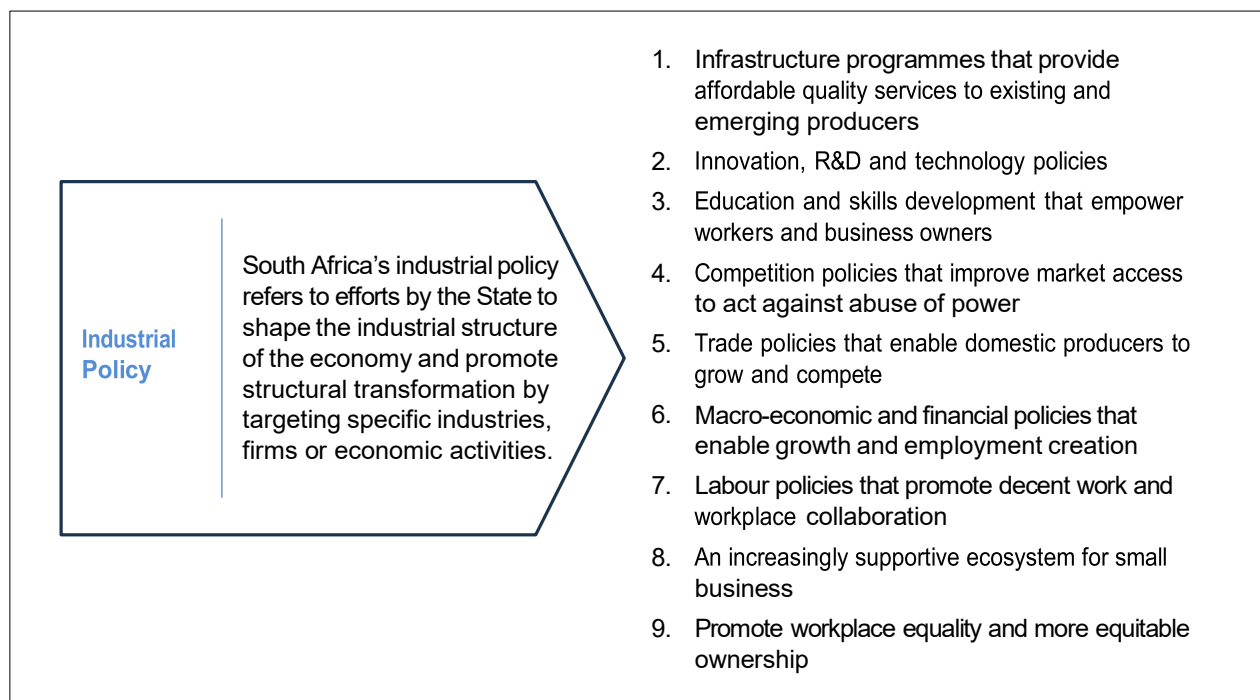
- **Industrialisation:** through programmes that identified opportunities for replacing imports with locally-manufactured products where these were commercially feasible as well as promoting exports in new industries such as capital equipment, auto, processed foods and clothing
- **Investment:** in the private sector, largely through mobilising investment through annual Investment Conferences, investment facilitation support to address licensing, visas and other constraints and business conferences held as part of official state visits
- **Infrastructure:** through the new Infrastructure Fund
- **Integration:** through completion of the African Continental Free Trade Agreement legal modalities and a shift in export-promotion and business forums towards a greater focus on opportunities in other African countries
- **Inclusion (equity):** with a widening of the entrepreneurial base through the black industrialist

programme and SMME enhancement; and a widening of the shareholding pool through worker share ownership

- **Inclusion (spatial):** Launching a township economy programme and revising the SEZ approach, piloted with the launch of the Tshwane SEZ
- **Innovation:** through digital economy, developing and diffusing new technologies

A critical aim of the Reimagined Industrial Strategy was to leverage government’s basic services in ways that built more inclusive industrialisation, as illustrated in Figure 1. Industrial policy had to move from a responsibility for the then-Department of Trade and Industry (the dti) to a whole-of-state approach, with the dti as one partner of many in realising a common industrial policy vision. Implementing this approach required new partnerships, structures and platforms within the state to enable more coordinated action. The merger of the dti and Economic Development Department to form the new Department of Trade, Industry and Competition (**the dtic**) exemplified the effort to build more coherent governance systems. It also meant that individual state agencies and departments had to rethink how their programmes affect inclusive industrialisation.

Figure 2: Pillars of the Reimagined industrial strategy



The Reimagined Industrial Strategy proposed a new approach to industry-level planning, which was implemented through a set of Masterplans starting in 2019. The Masterplans established a multi-stakeholder approach to industry-level initiatives, in which government, the private sector and labour collectively developed and implemented plans. In this, they contrasted with the earlier approach of state-led measures developed through comparatively informal consultations.

The Masterplans typically asked pragmatic questions on the particular constraints facing each industry, and then developed a joint action plan to mitigate them. They involved actions around multiple dimensions of a company's operations, ranging from firming up demand to securing competitive inputs to resolving regulatory barriers and upgrading productive capacity.

The specifics of these interventions varied between the eleven Masterplans published since the start of the Administration. For example, the poultry masterplan included government commitments to protect local producers from unfair trade, and producer commitments to scale-up production through R1,5 billion in investment in industrial capacity and to restrain prices for lower-income consumers. The Retail, Clothing, Textiles, Footwear and Leather (R-CFTL) masterplan codified commitments from government to crack down on illegal import activities, commitments from retailers to source from local producers, organised labour's undertaking to coordinate collective bargaining and production cycles more carefully and commitments from producers to invest in upgrading competitiveness, backed by government incentives.

The automotive and furniture masterplans included commitments on government funding and incentives in exchange for private sector investment and transformation commitments. The sugar masterplan contained commitments from growers and processors to align their production and prices, and support small-scale sugar farmers, complemented by supportive public policies.

An expanded focus on productive services was adopted, focused on sectors that offer both job-rich growth opportunities and which can unlock value addition in other parts of the economy. Examples included placing greater emphasis on business process services, a highly labour-intensive sector to which South Africa's English language ability offered global opportunities; and on film, which helps unlock growth in a number of secondary manufacturing and services sectors through tasks like set design and animation.

In addition to the Masterplans, a range of cross-cutting policy initiatives were adopted to implement the Reimagined Industrial Policy. They included the following.

- The Policy statement on Localisation for Jobs and Industrial Growth identified the vulnerabilities exposed by the COVID-19 pandemic, quantified the level of South African imports compared with both developed economies and peers in BRICS, as well as the volume of imports by African countries from the rest of the world; and set out the rationale for using policies to support greater industrial development leveraging off the local base to build industrial capacity for both the domestic market and export

opportunities; and pointed to the need for both private and public sector procurement policy reforms.

- The Trade Policy for Industrial Development and Employment Growth focused on trade directed at growing the level of employment in the economy and supporting workers and communities through defensive use of trade policy space, refocusing bilateral relations from import opportunities in South Africa to investment opportunities to grow the industrial output in South Africa and reform of World Trade Organisation rules to enable greater levels of African industrialisation.

- The Competition Policy for Jobs and Industrial Development set out the rationale for the focus on public interest conditions by the competition authorities to address the need for structural transformation of the economy, and thus the broader competition focus on economic structure.
- A document on the advancement of electric vehicle production in South Africa led to the adoption of a White Paper on Electric Vehicles in 2023.

More detail on the implementation of the Re-imagined Industrial Strategy is provided in section 3.1. That said, because of the crises that impacted the economy soon after its adoption in 2019, it was not fully scaled-up. That must form the basis for more expansive efforts in coming years.





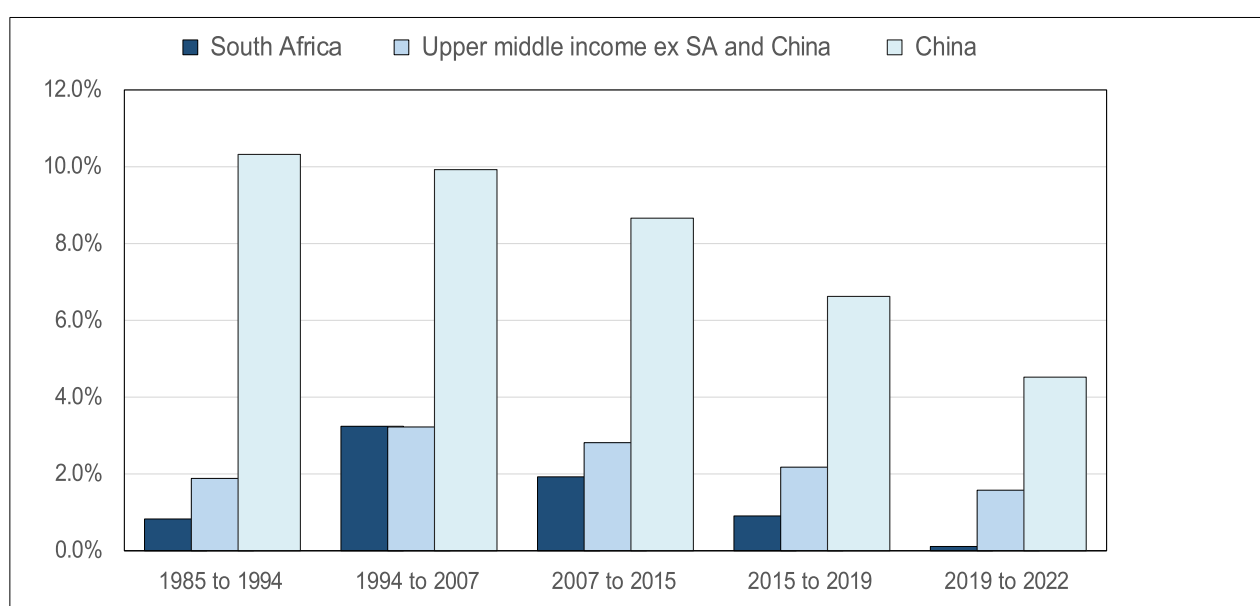
2. THE ECONOMIC CONTEXT

2.1. Growth patterns to 2019

The Sixth Administration's industrial policy was designed in the face of serious economic challenges in the preceding decade or more. These challenges emerged primarily from growing volatility and slowing growth and trade internationally, and domestically from the period of state capture.

The initial adoption of IPAP coincided with the 2008/09 global economic crisis, followed in 2011 by the end of the international commodity boom. These worldwide events impacted heavily on the South African economy. In particular, the sharp fall in global minerals prices from 2011 cut into South African export revenues. Economic growth slowed, falling to 1,9% from 2007 to 2015 and then to 0,9% from 2015 to 2019, as Figure 3 shows. Both joblessness and inequality remained fairly stable, but at a high level. The share of working aged people with employment peaked at 45% in 2008, but fell back to 44% in 2015 and 42,5% in 2019.

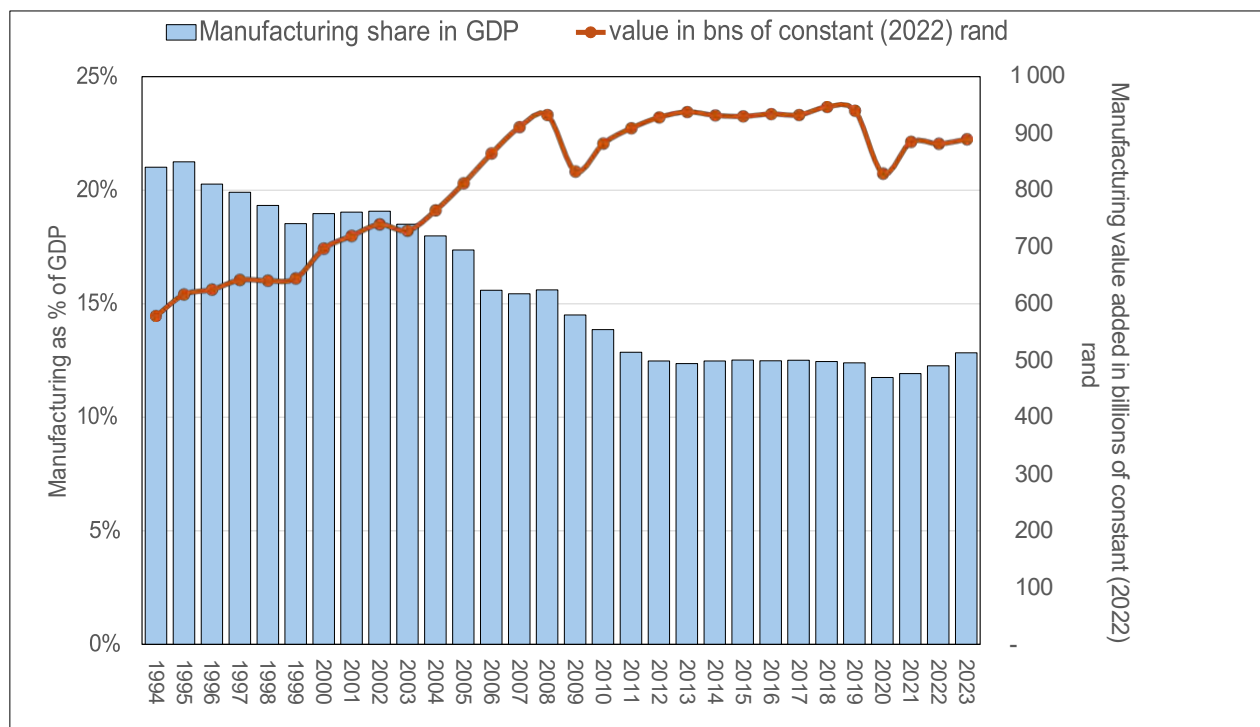
Figure 3. Growth in South Africa compared to China and other upper middle income countries, relevant periods from 1985 to 2022



Source: *Tips*, from World Bank, World Development Indicators.

A particular challenge for industrial policy was the sharp fall in the share of manufacturing in the GDP and employment from 1994 to 2012. Thereafter it stabilised between 12% and 13% of the GDP. (Figure 4)

Figure 4. Manufacturing value added in billions of constant (2022) rand (a) and as a percentage of GDP, 1994 to 2023 (b)



Notes:

(a) Revalued to 2022 rand using rebased GDP deflator for manufacturing.

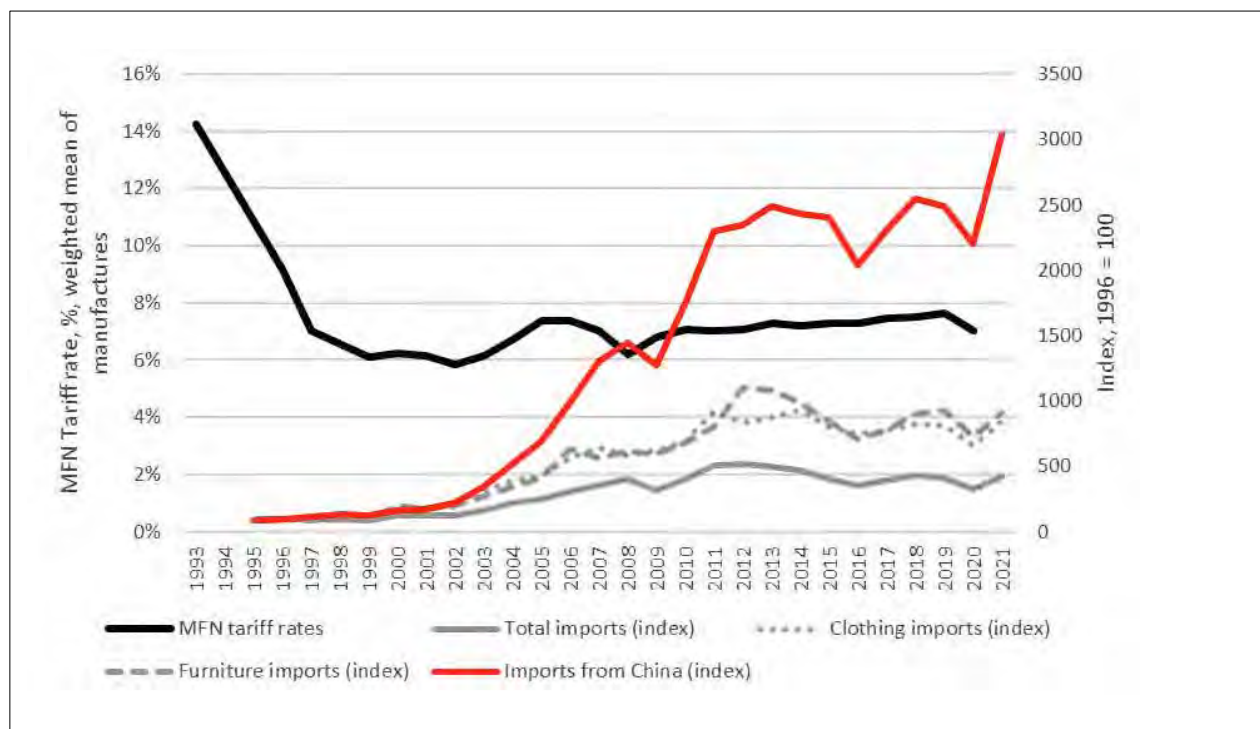
(b) First three quarter of 2023; figures in rand are annualised. Source: Statistics South Africa GDP data.

In large part, the initial decline in the share of manufacturing resulted from the rapid opening of South Africa to global markets just before the transition to democracy. The out-going regime joined the organisation that became the World Trade Organisation on the eve of the transition to democracy, leading to a substantial decline in tariff protection. The average most-favoured nation tariffs for manufactured products halved between 1993 and 1997. This process, combined with the enduring legacy of apartheid economic structures, the lack of supply-

side support to industry as public resources shifted to the massive backlogs of social services for black South Africans, and the unprecedented entry of Chinese exports into global markets, significantly increased the pressure on South African manufacturing, especially outside of the mining value chain. (See Figure 5) That said, some industries – notably auto and horticulture, and to some extent capital goods production – were able to take advantage of new export opportunities to boost growth.



Figure 5: Trends in trade liberalisation and imports, SACU, 1995 - 2021



Source: CEPII, BACI (Base pour l'Analyse du Commerce International); World Bank, World Development Indicators, "Tariff rate, most favoured nation, weighted mean, manufactured products (%)" Page 22

In addition, high levels of economic concentration contributed to a less agile and competitive private sector. The conglomerate structures that characterised apartheid South Africa were largely dismantled in the early days of the new democracy. Still, high levels of economic concentration remained embedded at sector level, as shown by among others a 2018 World Bank Report ("An Incomplete Transition: Overcoming the Legacy of Exclusion in SA") and the results of the Competition Commission Study on Concentration, with initial results released in 2017 and, in more comprehensive form, in 2021.

The World Bank Report noted that

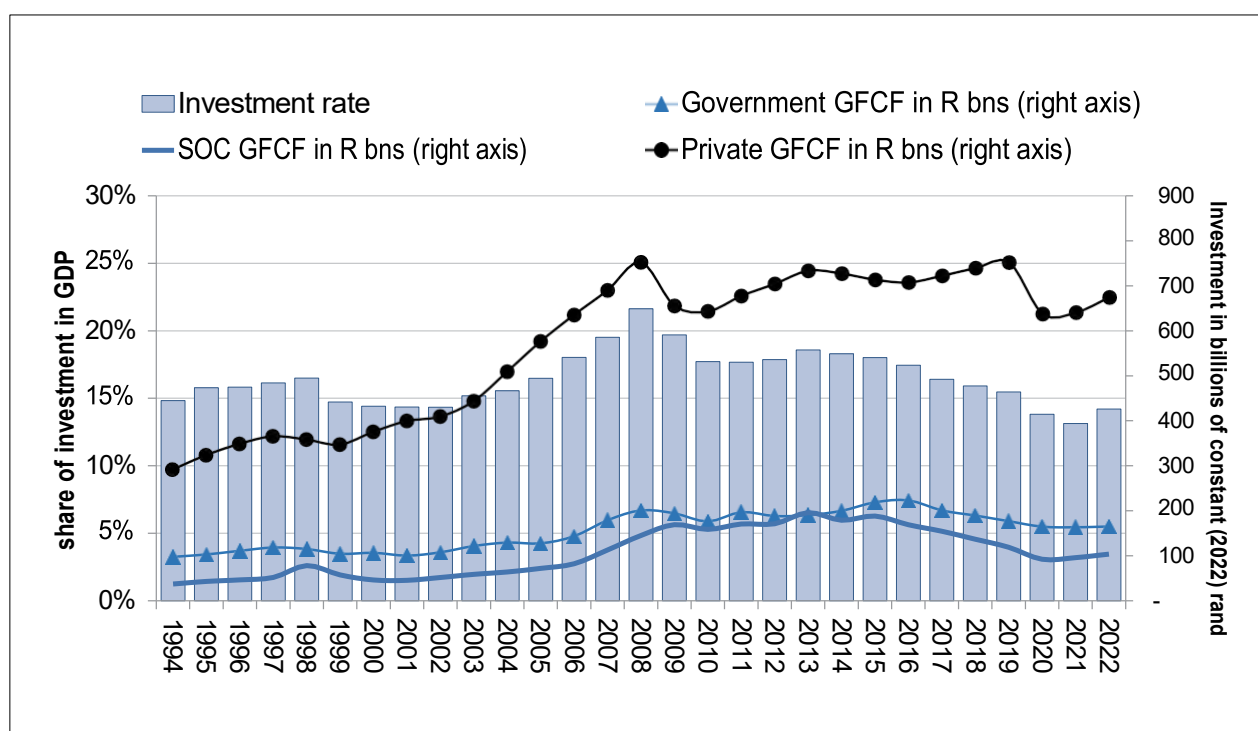
"Competition issues in South Africa are reflected in the large dispersion of rates of return to capital across sectors, with some exhibiting very high markups. Substantial market power in these sectors is likely to result in suppressed demand for capital and labour, low total factor productivity and reduced price-competitiveness for sectors that use...the inflated goods and services produced in concentrated sectors. Markups above normal profits...are estimated to amount to close to 10 percent of GDP in South Africa."

The impact of these structural constraints to growth led to a major reform of competition policy, launched in 2016, completed in late 2018 and implemented from the start of the Sixth Administration in 2019.

The impacts of the global slowdown were also aggravated in South Africa by the state capture period in the second half of the 2010s, which had a particularly negative affect on core infrastructure and on investor confidence. It was associated with a pro-cyclical fiscal policy, with the rate of growth in government spending dropping as economic growth declined.

State infrastructure spending, which had helped stimulate industrial demand and underpinned a procurement-centric approach to industrial policy, became less and less effective during the height of state capture and in the period thereafter. Investment by both the government and state-owned companies peaked in 2015, then fell continually through 2019. Private investment plateaued from 2013 to 2019. (Figure 6 below) Equally important, the funds allocated for investment were used inefficiently or, in some cases, misappropriated by contractors and officials. These practices impacted directly on the economy, as producers faced increasing costs for deteriorating services from Eskom, Transnet and many municipalities. The secondary cities in particular suffered from inadequate capacity and a significant increase in responsibilities as they struggled to serve historically excluded working-class townships, swelled by growing migration from the historic labour-sending regions.

Figure 6. Public and private gross fixed capital formation (GFCF) in billions of constant (2022) rand (a) and total GFCF as a percentage of GDP (the investment rate), 1994 to 2022



Note: (a) Reflated with relevant deflators rebased to 2022. Source: Statistics South Africa GDP data.

These conditions formed the basis for the decision to reimagine industrial policy with the advent of the Sixth Administration in 2019.



2.2. A new strategy...and new shocks

In June 2019, the re-imagined industrial strategy was announced during the first SONA in the new Administration. The next nine months saw energetic implementation of the new framework in a blistering start to the Administration, with the following key actions:

- **Masterplans:** The new masterplans for four sectors were finalised, covering poultry, sugar, clothing/textiles and automobiles, and work commenced on a steel masterplan. Clothing retailers committed to shift to local procurement, with a target of 65% local sourcing off a base of 44% (in 2016); food retailers committed to buy 80% of their sugar from local mills
- **African trade:** Key modalities for the AfCFTA were agreed with other African countries, leading to the launch of a new AfCFTA Council of Ministers that commenced work on finalising the implementation of the treaty with SA playing a leading part, culminating in appointment of the first Secretary General of the AfCFTA in February 2020
- **Competition reforms:** The new competition reforms were activated with the promulgation of the changes to the legislation in July 2019 and the first provisions in SA law dealing with abuse of buyer power (February 2020); release of three market inquiries (private healthcare in September, 2019; grocery-retail in November 2019; and data services in December 2019); announcement of settlements with the major telecoms companies in March 2020 which resulted in a significant reduction in prices of data services in SA; and an agreement with PepsiCo on extensive public interest terms related to its purchase of a major SA food firm, which provided fully-paid shares in the global company to SA workers, worth more than R1 billion, and significant support for supply-chains and small businesses.
- **Special Economic Zones:** A new policy framework for SEZs was developed within months, approved by Cabinet and piloted with the approval of the Tshwane SEZ in November 2019, enabling construction to start and investment to flow in the subsequent period
- **Investment:** The 2nd SA Investment Conference was convened in November 2019, with growing business confidence reflected in R363 billion in new investment pledges
- **Trade measures:** tariff adjustments were introduced to support ailing industries as part of an investment-led rejuvenation, for example on poultry and top-loader washing machines and anti-dumping duties on float glass, PET products, wheel-barrows and soda-ash

- **UK Free Trade Agreement:** An agreement was put together with the UK to secure free trade access for SA to the UK market following the announcement by the UK of its decision to leave the EU (Brexit); and SA secured through the talks, the prior access and a further enhancement of trade access to the UK for certain agricultural products
- **Red tape reduction:** to improve the ease of doing business, the BizPortal was launched that enables a young entrepreneur to go to one website, register her company, register for tax, get a BBBEE certificate, register for UIF, get a domain name, and open a bank account. All in a few hours, with no need for queuing.
- **Transformation:** Amongst others, the auto industry announced a R6 billion support plan for black component makers and downstream entrepreneurs; and Amazon Web Services committed to a R365 million support programme for black-owned businesses in the ICT sector.
- **Reconfiguration in the state** (with a reduction in the number of Ministries) began to be implemented, with mergers of departments and action on corruption and state capture.

There was a palpable sense of optimism following the drift during the period of state capture, when officials and departmental leadership successfully shielded key industrial policy instruments and agencies such as the Industrial Development Corporation and the competition authorities from capture.

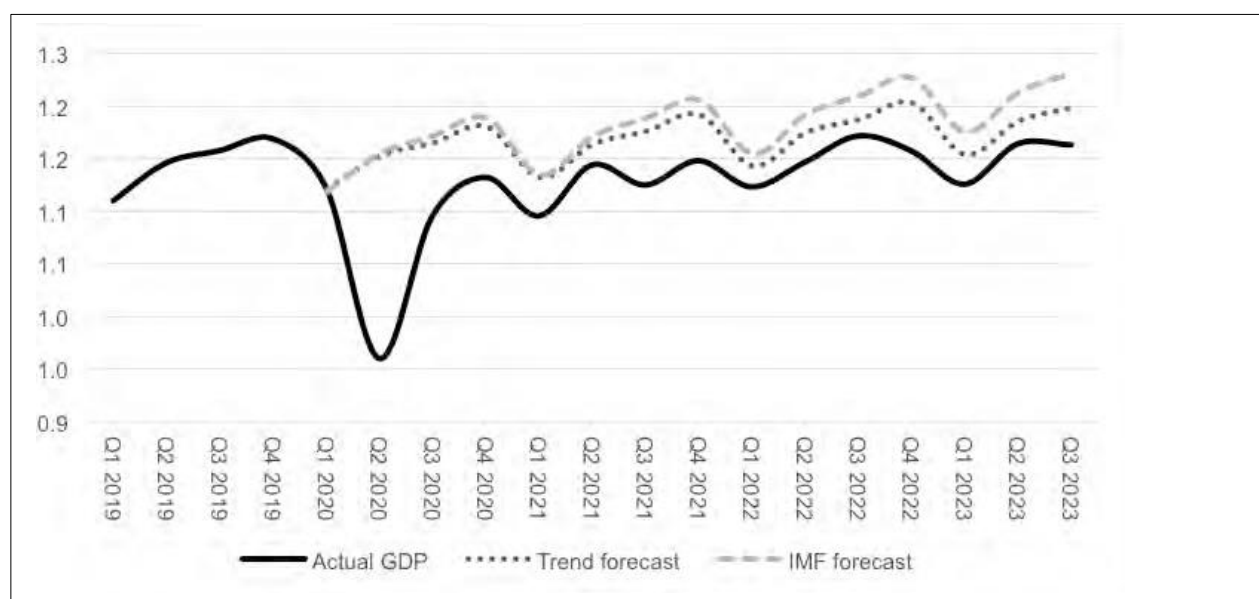
This economic environment was upended by a dramatic series of six shocks (two global, four local) that manifested in quick succession between early 2020 and 2023. The shocks were aggravated by the legacy of state capture, which had weakened capacity especially at Eskom, Transnet and Prasa. The shocks were:

1. **The COVID-19 crisis** from March 2020, accompanied by severe lockdowns and disruptions to supply-chains, and the deepest recession since the second world war.
2. The worst **civil unrest** in the post-apartheid era in July 2021, causing serious economic damage and denting investor confidence.
3. The war in Ukraine, from February 2022, which led to a sharp rise in fuel, fertiliser and food prices, and ushered in a new tension in geo-politics.
4. **Serious flooding** in Durban in April 2022, which damaged the freight-rail line between the largest port (Durban) and the country's economic hub in Gauteng for seven months with significant economic cost to exporters. It also closed the operations of the largest auto-producer in South Africa for four months.

5. Intensified **load-shedding** in the economy due to delays at Eskom in constructing new capacity, which led to daily shutdowns of businesses; and
6. Growing challenges with **transport logistics**, affecting port performance and, increasingly, freight rail.

The global shocks starting with the COVID-19 pandemic transformed economic prospects around the world. These realities delayed, then shifted the focus of industrial policy. Without these shocks, and assuming the country had simply matched growth trends seen in the decade prior to COVID-19, South Africa's GDP would be between 3% and 5% larger (in constant rand) than it currently is. Between the start of COVID in 2020 and Quarter 3 in 2023, the cumulative output lost to the South African economy is estimated at between R650 and R850 billion.

Figure 7: GDP forecasts made prior to COVID-19 compared to actual growth, in trillions of constant rand



Source: StatsSA, GDP series; IMF World Economic Outlook update January 2020; calculations by the dtic

The pandemic slowdown had a particularly harsh impact on employment, with the loss of 1,8 million jobs in the second quarter of 2020 followed by a gradual recovery. The number of people employed only returned to 2019 levels in mid-2023. Because the working-age population grew over the period, however, the employment ratio remained lower than before the pandemic, at 41%. That compared with 42% in 2019. The job losses were particularly harsh because they affected mostly production and service workers, with relatively little impact on professionals and formal-sector managers.

While less extreme, the crises that followed were also very damaging. The unrest and floods destroyed businesses and closed the critical logistics infrastructure that exporters rely on. Moreover, inflationary impacts from supply-chain disruptions and speculation on world markets following the war in Ukraine fuelled persistent inflation, particularly for food. That has left families straining to afford essential goods and businesses struggling to make sales. Successive shocks also eroded the confidence of investors, impacting their willingness to invest in the economy.

The state responded with a massive economic and social welfare package, comprising a package valued at the time at R500 billion. While this helped to stabilise communities and provided much-needed support, it also shifted resources from other priorities, including

economic growth initiatives and municipal and network infrastructure.

These shocks make for a complex economic environment for companies and industry policy. Both firms and households are in a much more vulnerable position than they were prior to COVID-19. Even in sectors in which economic conditions have stabilised, shocks of this magnitude have lasting impact. Investment shortfalls during the crisis period created lingering backlogs of underinvestment that undermine competitiveness. Strained balance sheets meant companies were unable to take advantage of new opportunities.

Individual pandemics and floods may appear as once-off events, but they form part of larger global trends. In particular, the increasing integration of global society speeds up the sharing of public goods like technology and public risks like viruses, and climate change makes natural disasters more likely. Moreover, large-scale disruptions to production and transport are multiplied in a world of complex, fragile just-in-time supply chains.

The experience of these shocks demonstrates the value of a more fluid and flexible industrial policy, that is capable of responding as quickly as conditions can change. Two case studies demonstrate this: the shift in productive capacity to support the fight against Covid-19; and the establishment of more responsive industrial funding capability.

Industrial Policy in Action - Case Study 1: Manufacturing products to fight Covid-19

The response to COVID-19 required the rapid sourcing of critical medical equipment, like ventilators and face-masks, at a time in which countries around the world were competing for limited global supply capacity. As shortages became more acute, it was increasingly clear that countries with strong existing production capacity were best suited to source key medical products, and that South Africa had to repurpose existing production capacity to meet growing needs.

South Africa developed an industrial action plan with a number of elements:

- **First**, to repurpose existing industrial capacity where possible.
- **Second**, to secure greater flexibility in international trade rules covering intellectual property rights for developing countries to produce vaccines
- **Third**, to lobby for changes in global sourcing policies from major health product procurers, to allocate procurement to African -based firms and production facilities.

From March 2020, the state partnered with the private sector and organised labour in what became a massive mobilisation of social partners across a number of platforms with a mission to develop, support finance and repurpose industrial capacity to address shortcomings. A local manufacturing partnership (LMP) was established, which assisted over 100 firms to start producing Personal Protective equipment (PPE) and both hand and surface sanitisers, with 54 new companies accredited for medical grade manufacturing. This triggered a rapid uptick in production that both helped meet the demands of the pandemic, and set up a number of forward-looking export sectors. The interventions were

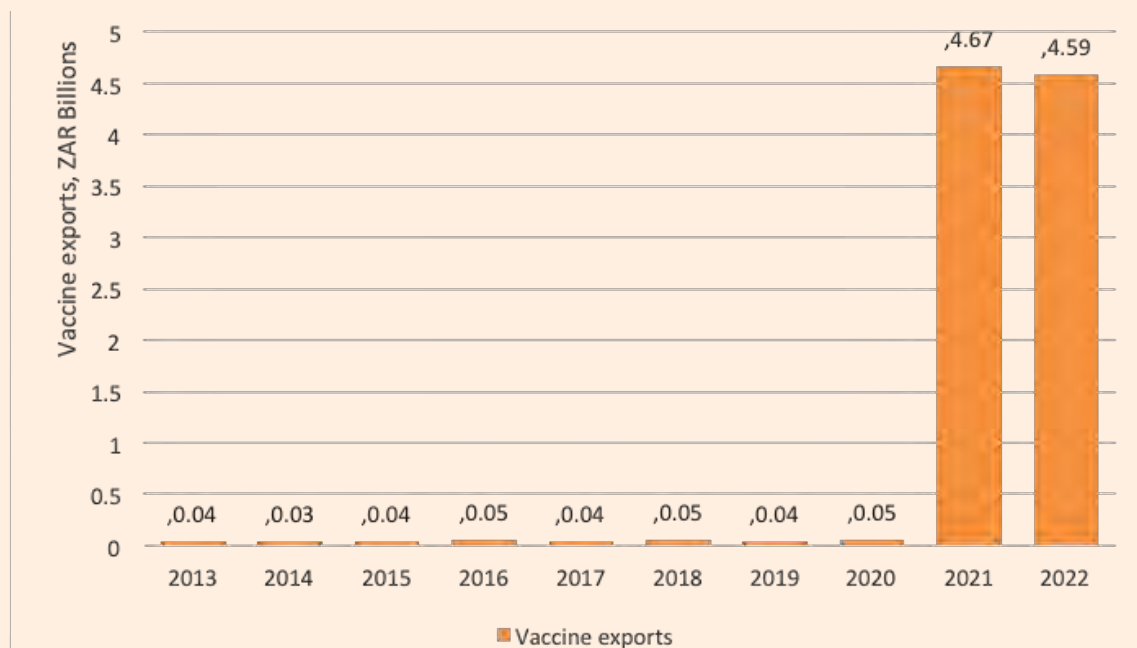
- **First - Face-masks:** to address a shortage in the healthcare industry, South Africa ramped up capacity to manufacture medical-grade face-masks from a start that required initially repurposing of existing capacity to produce 6 million industrial grade units per month before the pandemic, and then scaling new capacity to more than 16 million units per month— enough to meet the needs of the entire SA health sector. This could be done because of South Africa's existing capabilities in textile fabrics essential in the manufacturing of these masks, which meant it could rapidly pivot away from sourcing these fabrics internationally when global demand was at an all-time high.
- **Second - Ventilators:** following a request-for-proposals issued by the dtic twenty-thousand continuous positive airway pressure (CPAP) ventilators were manufactured locally, with the design, prototyping, funding, regulatory approval, scale-manufacturing, testing, quality-control, procurement and distribution stages concluded in a matter of months.
- **Third - Hand-sanitisers:** a large local industry grew from the decision that South Africa made to redirect ethanol to produce hand-sanitisers, thereby creating jobs, generating billions of rands of value-addition and providing a highly effective means to limit the spread of COVID-19.
- **Fourth - Medical supplies:** South Africa ramped up local production of Vitamin B, C and D as well as zinc supplements; dexamethasone and betamethasone and oxygen supply, enabling the local industry to provide the bulk of what was needed for the efforts around Covid-19.
- **Fifth - vaccine manufacturing.**

From October 2020, South Africa and India initiated a proposal at the WTO for greater flexibility in the rules applicable to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Treaty. By June 2022, a formal agreement was reached at the WTO, and the pressure of this negotiations assisted to secure greater levels of contract manufacturing of Covid-19 vaccines in Africa and better terms for manufacturers, most notably with Aspen PharmaCare securing contract manufacturing for the J&J vaccine in 2021 (with licensing secured later) and Biovac's accreditation for the Pfizer vaccine. South Africa was designated an mRNA Hub by the WHO and a local firm, Afrigen invested in local applications of the mRNA technology to other illnesses and diseases.

By December 2023, the Board of GAVI approved the establishment of the African Vaccine Manufacturing Accelerator, a financing instrument that will make up to US\$1 billion available to support sustainable vaccine manufacturing in Africa.

Together with other state policies on investment promotion and localisation in procurement, other medical production contracts were facilitated – see Industrial Policy in Action - Case Study 24.

Table 1: Exports of human vaccines, 2013 – 2022



Source: COMTRADE reporting of SARS data

By the end of March 2022, the entire manufacturing response to COVID-19, including vaccines and essential items, had generated more than R20 billion in annual turnover, with exports of hand sanitisers, vaccines and face masks to a number of countries, most prominently on the African continent.

While Covid-19 set back some parts of the planned rollout of measures related to the reimagined industrial strategy, the flexibility of the new strategy enabled a rapid shift to new product manufacturing goals. New production capabilities were developed in South Africa under challenging conditions, which are now being repurposed into advanced product manufacturing (see later case study). These examples show the value of the integrated approach.



Industrial Policy in Action - Case Study 2: Responding to the July 2021 crisis

In July 2021, civil unrest broke out across KwaZulu Natal and parts of Gauteng, leading to the deaths of hundreds of people and damage to factories, shopping malls, industrial areas and sugar-fields. The main transport-logistics artery, along the N3 from Gauteng to the port of Durban, was blocked. Estimates of damage were as high as R50 billion. Confidence was shaken and supply-chains for food, medical products and other essentials were seriously disrupted.

To avoid a downward cycle of jobless workers and towns without food, key economic departments coordinated their efforts into an immediate response plan. It drew on its industrial networks, funding capacity and partnership approach to enable rapid recovery.

This case study highlights five key actions.

The **first** element was a rapid response to support companies and workers affected by the unrest, which included:

- Mapping those companies affected by the unrest, including the extent of damage and the impact on production, through a government-managed real-time survey and sector databases developed by some Masterplan signatories and **the dtic**
- Creating a channel of communication between firms and security services, through a phone-bank taking and making calls, setting up an email hotline for affected firms and contacting the security forces to alert them of impending or actual unrest action
- Holding virtual meetings with firms affected and with business associations to mobilise efforts to counter the threats to persons and property;
- Undertaking site-visits to industrial areas, affected firms, distribution centres and shopping malls
- Meeting with community and other leaders and visited communities affected; and addressed meetings of unions and shop-stewards;
- Conducted a phone and web-based survey across industries to determine the level of damage to develop appropriate support measures to assist companies;

The **second** element of the response was a set of actions to reopen and secure the basic goods supply chains, which included:

- Coordination between the economic and security ministries to reopen the N3 artery between Gauteng and KZN, reopen the ports and secure key secondary roads;
- Focusing on key supply-chains to secure the flow of food and medicines; and to enable retailers to restock their distribution centres and stores;
- Addressing concerns by neighbouring countries on potential disruptions to the flow of goods and maintaining supply of goods
- Identifying alternative suppliers where KZN-based factories were damaged;
- Gazetting exemptions to the Competition Act to enable businesses to coordinate their efforts to secure food, medicines and essential goods;
- Publishing a special rebate facility that enables manufacturers whose businesses were damaged, to import free of duties those goods not available locally, subject to commitments on rebuilding their businesses locally;

The **third** element of the response was public engagement, which included:

- Engaged international investors concerns regarding security stability and safety of personnel
- Supported companies to unblock challenges to get production/distribution working again;
- Collated data from business groups and undertook economic modelling of the impact of the looting and damage as well as the relief package on the economy.

The fourth element of the response was the implementation of a special recovery support package of funding, which included:

- Developing an Economic Recovery Fund with R3,7 billion earmarked and announced by the Minister of Trade, Industry and Competition;
- Developing a broader R38 billion relief-package announced by Minister of Finance;
- Partnering efforts with food/medical supplies to communities in distress (for example the work of the Solidarity Fund);
- Mobilising support from private sector for SMMEs and
- Communicating the support package to potential beneficiaries, including through masterplans meetings, trade union structures and shop stewards and industry bargaining councils.

Finally, these interventions were the subject of ongoing assessment and planning, to improve both the delivery of support and to respond to evolving challenges.

However, while there were clear responses, the crises also highlighted vulnerabilities. In particular, they pointed to shortfalls in local production of core products needed in society, and in systems to respond to rapidly evolving crises. More work is needed to build greater resilience. This includes avoiding overreliance on single channels in any crucial part of key value chains – whether that take the form of a single country supplying a product, a single rail-line or port that is essential to reaching markets, or a single client or export destination for a key product. While resilience does not mean abandoning global supply chains, it does imply thinking beyond short-term supply chains, and considering how supply looks in the various complex scenarios that await in the future.

2.3 Network infrastructure

These global shocks arrived at a moment of vulnerability in the South African economy, most notably due to growing strain on core network services and infrastructure, marked by loadshedding and escalating dysfunction in freight rail. At the same time, the provision of infrastructure to small businesses, especially in historically underserved working class townships, is an important way to promote emerging businesses and more dynamic communities. For industrial policy, a four-fold challenge emerges:

- to help established companies find ways to circumvent problems with existing network infrastructure;
- to take into account the effective new cost structures for energy and logistics when evaluating projects for support;
- to enable local manufacturers and service providers to support and benefit from new infrastructure

investment by investing to produce the necessary inputs and expertise; and

- to promote access to reliable, affordable electricity and roads for emerging businesses, especially through the development of industrial and commercial sites in townships.

Manufacturing firms are core users of economic infrastructure like electricity, water, logistics systems (road, rail and ports), and ICT networks. Problems in this infrastructure, even if only short-term, can have serious implications for companies that need them to work reliably and affordable in order to remain competitive. Interruptions like loadshedding require companies to invest heavily in alternative sources, or to accept downtime even if they have fixed costs to meet, for instance for rent, workers and inputs.

The growing complexity of infrastructure makes it more difficult to maintain everywhere in the world. In Germany, for example, four out of five companies report that their business activities have been impaired by inappropriate infrastructure. The United States plans to spend US\$ 1,25 trillion (around R25 trillion) over the next ten years to revitalise decaying infrastructure and promote green growth.

South Africa's problems are compounded by institutional dysfunction in key service providers, including the leading state-owned companies. It also has to maintain infrastructure for formal producers while providing for historically underserved communities and ensuring the financial sustainability of municipalities.

For industrial policy, the state of network infrastructure has multi-layered implications.

Industrial policy also needs to play an active role in both helping firms manage the impact of infrastructure

challenges, and assist in efforts to resolve these challenges. In the case of building resilience, industrial policy had to increasingly focus on helping firms invest in technologies and equipment that enable them to cope with disruptions. This would include sector-specific interventions, like helping the steel industry move away from electric furnaces, and cross-cutting programmes such as financing for solar power.

While loadshedding arises principally from Eskom's long delays in completing new power plants, it has foregrounded the potential of South Africa's

abundance of wind and solar power. In the long run, shifting to local energy sources will reduce dependence on imported fuels, which now comprise between 20% and 25% of total imports, while lowering energy costs. They also enable South African companies to avoid domestic and overseas taxes designed to disincentivise carbon use.

Industrial Policy in Action - Case Study 3: Re-purposing industrial policy to address energy challenges

Effective industrial policy requires reliable infrastructure at affordable rates. The challenges faced by the energy sector emerged through the 2010s. They intensified sharply as economic activity recovered after the pandemic slowdown. In response, the Presidency announcing an Energy Action Plan and drew in resources and expertise from across the society, particularly from formal business.

The **dtic**-group initiated a number of actions to assist with addressing the widening crisis. These included:

1. Support for new energy generation through measures such as funding of renewable energy interventions, unblocking and promoting investment and addressing regulatory challenges
2. Assisting firms with adaptation strategies, such as the development of an energy resilience scheme
3. Promoting longer-term energy-efficiency in the economy through introducing new energy-efficient technical standards
4. Enabling firms to collaborate on energy matters, through granting a block exemption to certain provisions of the competition legislation
5. Promoting industrialisation opportunities to ensure that South Africa can develop security of supply of components and create jobs in the process.

As part of the Energy Mitigation Strategy through the National Energy Crisis Committee, Government tasked Invest South Africa to establish an Energy One Stop Shop to deal with and fast-track applications from energy developers. The Energy One Stop Shop is expected to contribute to streamlining regulatory processes required for private investment in electricity generation, facilitate pre-investment screening for all energy projects and thereby fast-tracking the approval of energy applications. This is to be achieved through timely intervention on blockages and red tape, reducing the time and cost of getting energy projects onto the grid.

The requirement for predictable energy availability has led **the dtic** to support alternative energy generation solutions, storage and efficiency measures to support businesses to become energy resilient. It has established the Energy Resilience Scheme involving resources from **the dtic**, the Industrial Development Corporation (IDC) and the National Empowerment Fund (NEF), comprising of targeted funding solutions for businesses affected by load shedding, including those operating in the townships and rural areas, and to support the localisation of inputs

The IDC administers the Fund in partnership with the National Empowerment Fund (NEF) to support companies through interest-free loans, and to support township businesses.

EOSS Offering

- fast-track and unblock energy project applications
- deliver a streamlined, effective, fast-tracked application process
- Allow new and existing energy developers to register, and track their applications via the EOSS portal.
- Facilitation between energy developers, Government and Industry Associations;
- Provide Technical and Administrative Advisory

Energy Resilience Fund Offering

- a R1,3 billion Energy Resilience Scheme that will be deployed through **the dtic**
- Fund is administered by the IDC and NEF
- R140 million managed by the IDC and R100 million by the NEF

Core Outputs – case study

Energy support - Scatec Kenhardt and Sustainable Heating 8



Location	IDC Funding	Project size and description
Kenhardt, Northern Cape	R1 589m (Senior debt and BEE Mezz loan) utilised to co-fund the implementation of the Project	Combined solar (capacity – 540 MW) and battery storage project (capacity – 225MW/1,140MWh), providing 150 MW of dispatchable power
Notable impact	Project status	The Project is part of the Risk Mitigation Independent Power Producers Procurement Programme (RMIPP). Total project cost is R16bn
The local community has a 25% shareholding in the EPC company. The project has created 204 equivalent permanent jobs during construction and 55 direct permanent jobs.	The Project was approved in FY2022. It is under construction.	

Location	IDC Funding	Notable impact
Aspen Pharmacare operations, Gqeberha, Eastern Cape	R116m (Senior debt and BEE Mezz loan) utilised to co-fund the establishment of the biomass boiler at Aspen's operations, plus the supporting infrastructure for the supply of reliable biomass	Aspen's state-of-the-art facility is one of only seven plants worldwide licensed to produce J&J COVID-19 vaccines, and the only one in Africa. The Project is critical in ensuring the plant's continuing capacity to manufacture these and other critical medicines.
Project size and description	Project status	The biomass boiler plant replaces the (HFO) Heavy Furnace Oil fuelled boiler plant, which will significantly reduce the carbon footprint of Aspen operations, a key factor in retaining and growing access to international markets.
20-ton-per-hour Low-Pressure Biomass Boiler Total project cost – R149m	The Project was approved in FY2022. Construction has been completed and the Project is undergoing cold commissioning.	

Major infrastructure and performance challenges also impacted long-distance freight rail and ports, which companies rely on to reach foreign markets and source inputs. In this context, the disruption of Transnet freight rail has become an increasing burden especially on the mines and metals refineries. In addition, land borders and seaports have struggled with long delays, in part due to excessive clearance times, which make it difficult to plan for exports and imports. Ship turnaround times at Durban, Cape Town and Ngqura almost doubled between 2016 and 2022, with more serious spikes in wait times during at peak periods or when natural disasters like the Durban floods hit. Similarly, in 2020/21, drivers typically waited about 100 hours at border crossings on the route to the DRC, with delays in some cases of up to 300 hours.

Industrial policy initiatives can bolster efforts to resolve network infrastructure challenges, especially by supporting local production of inputs, both structural products and machinery. Local manufacturers help sustain the networks of knowledge and component supply that are essential to maintaining complex infrastructure like power stations and grids. In addition, industrial policy interventions can accelerate approvals and licencing for projects. The **dtic's** Energy One Stop Shop, described in the box above, helps resolve blockages for renewable energy projects, and can play a complementary role in broader efforts to improve network infrastructure.

At a strategic level, the infrastructure crisis means that decisions about what types of production to support have to take into account the cost and available of

electricity and freight. It has tended to shift investment toward products that are less bulky and electricity intensive, except where it is possible to draw on South Africa's abundant supplies of renewable energy. Projects that are heavily energy intensive or rely on rail transport have increasingly become less viable.

Industrial policy also has to do more to address the backlog in infrastructure in both townships and informal settlements. Apartheid was characterised by extraordinary underinvestment in network infrastructure in black and especially African communities. In the past 30 years, enormous progress has been to overcome the resulting backlogs. The share of African households with grid electricity climbed from 45% in 1996 to 95% in 2018; with piped water on site (in the house or yard), from 45% to 70%. Municipalities and private companies have invested in commercial and industrial sites in and near townships and informal settlements. That has resulted in the emergence of new shopping centres and stand-alone retail (e.g. Cashbuild) and food-service (McDonalds, Chicken Licken, KFC) facilities in townships.

Still, in many townships economic infrastructure is largely absent or of poor quality. This is even more true of informal settlements. A variety of serviced industrial and commercial sites, with electricity, water, refuse disposal, shelter and storage, would substantially improve conditions for small businesses. Possibilities include:

- Upgraded fresh-produce and second-hand goods markets; at present entrepreneurs often have no alternative to sidewalks in busy areas such as taxi ranks, and nowhere to store their wares overnight.
- Unbranded facilities for street food, and assistance in getting food trucks; many entrepreneurs currently often have to cook in the open without shade or rain cover.
- General-purpose commercial sites that would provide space and services, including internet access, for retail, entertainment facilities such as restaurants and gyms, financial and medical providers, and similar activities.
- Low-cost, secure industrial parks for small-scale manufacturing, so that small businesses do not have to operate from their backyards in violation of zoning rules and sometimes causing health and safety hazards.
- Cheap and efficient transport services, storage and internet access for township businesses.
- Cheap, basic workshop facilities to accommodate auto-related services; thousands of mechanics, panel-beaters, tyre and exhaust repair entrepreneurs now operate alongside busy roads.
- Training and educational facilities, since young people now often have to travel – at significant transport cost – to urban areas to attend courses.

These kinds of facilities are critical for building a more supportive ecosystem for small business. Efforts to overcome the extraordinary backlog in infrastructure left by apartheid in historically African areas should therefore be prioritised. That in turn requires changes in municipal planning systems to ensure that every township and informal settlement has appropriate industrial and commercial sites for small business.

The benefits are likely to be substantial and include higher circulation rates of consumer spend within township precincts which in turn leads to more local job opportunities. It also relieves working class households, which typically often spend a disproportionate share of their income on transport for work, education and shopping. As demonstrated by the Black Industrialists programme, entrepreneurs develop over time, and may expand into upstream or downstream activities as they identify new opportunities. Developing this value-chain of entrepreneurs will inject dynamism into South Africa's business sector while levelling up the playing field for township entrepreneurs. That in turn is critical for improving living conditions in working-class communities, generating new kinds of production and incomes, and increasing equality of opportunity and wealth.

The strain on network infrastructure was a symptom of a broader challenge facing the administration, namely the legacy of state capture. While the impact of state capture is often less obvious than major shocks like COVID-19, its impact is ubiquitous and takes time to fully address.

In addition to the misappropriation of funds, the period of state capture imposed an array of costs by undermining critical institutions, weakening the fiscus, and causing a flight of skills from the state. Some of these impacts, such as the long-term weakening of systems, were hard to quantify. Other effects have been more immediate. Critical challenges – like energy or logistics – became exponentially more difficult to address because the champion institutions that could have driven improvements were drained of resources and capability. Rising indebtedness and debt services costs meant less money was available to spend on critical projects. Sanctions-busting networks were repurposed to facilitate high levels of customs fraud and illegality, limiting the impact of some industrial policy measures such as tariffs on imported goods.

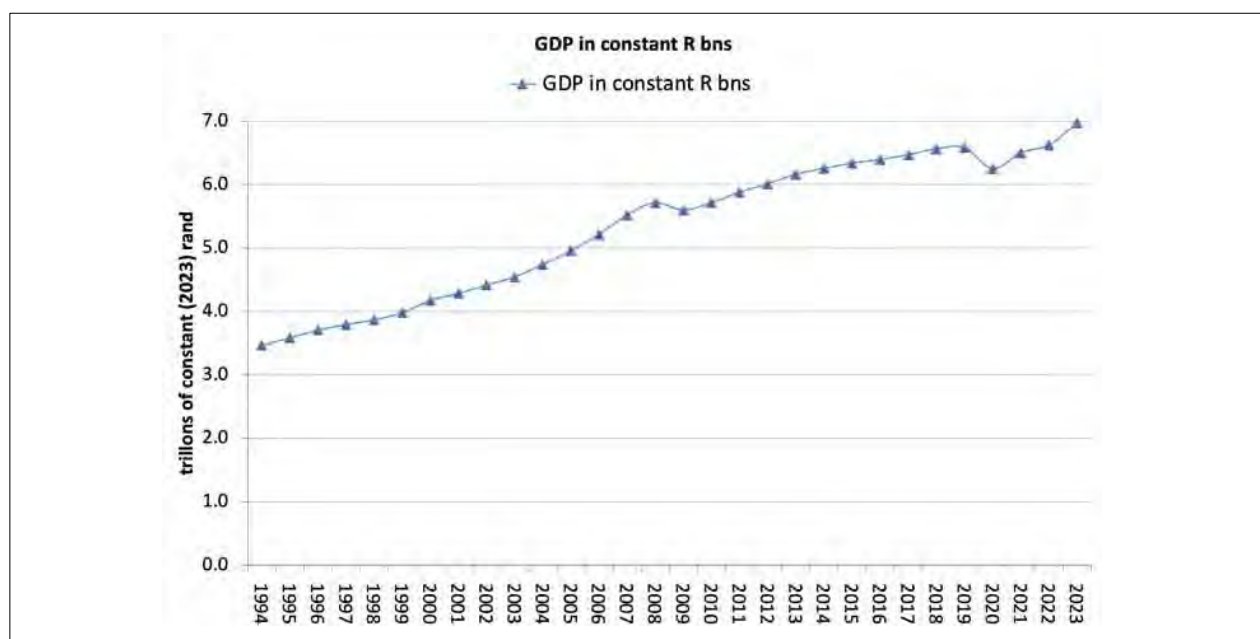
A comprehensive evaluation of the economic cost of state capture is not yet available. In 2017 the then Economic Development Department undertook work during the state-capture period on the economic impact of corruption and state capture on infrastructure spend. The study showed that, based on an assumption of a 10% overpayment in infrastructure due to corruption, GDP would be negatively impacted by R27 billion and 76 000 jobs would be lost or foregone annually. This calculation did not include other costs such as the destructive impact on the quality and reliability of new infrastructure. Still, it points to the

extraordinary economic impacts of state capture, while assisting with efforts to mobilise public sentiment behind the anti-corruption drive.

2.4. Long term growth in GDP and employment

Before considering specific interventions by the Sixth Administration, it is worth taking an overall view on progress in the economy. As noted earlier, at the end of apartheid, the South African economy was worth R3,5 trillion in 2023 rand, and 9,6 million workers were employed. In 2023 the economy generated R7 trillion in 2023 rands and employed 16,7 million people. This growth is the result of a fundamental reconfiguration of the South African economy, as the excluded majority were finally given access to both personal opportunities and the chance to help drive growth for the country at large.

Figure 8. Growth in GDP in billions of constant (2023) rand

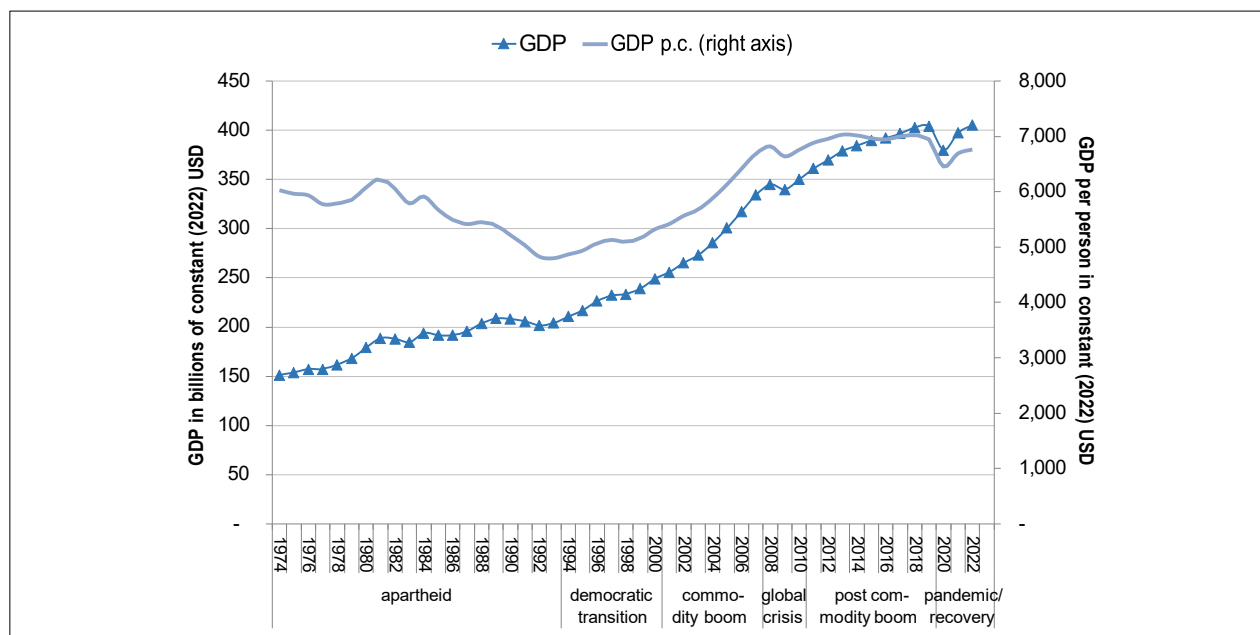


Note: (a) Reflated with deflator rebased to 2023. Source: Statistics South Africa GDP, accessed via Quantec EasyData.

While growth has been fairly steady, it has not been sufficient to overcome the backlogs left by apartheid. By the end of apartheid, US dollar GDP per capita had fallen 23% from just more than a decade earlier (see Figure 9).

As the Administration of President Ramaphosa sought to rebuild institutions, the dtic had to re-establish trust with the main economic stakeholders both nationally and at industry level and identify key infrastructure needs while continuing to drive more inclusive industrialisation.

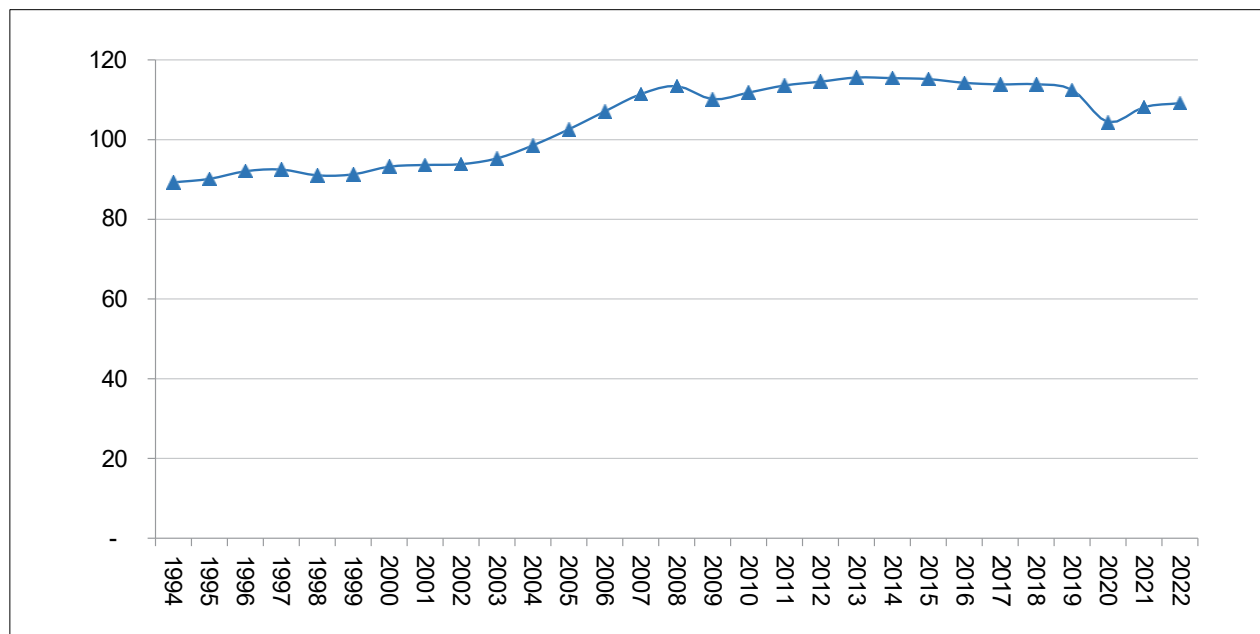
Figure 9: South African GDP and GDP per capita in constant (2022) USD



Source: TIPS based on StatsSA and World Bank data.

From the 2010s, it has been slower than in other upper-middle-income countries. (See Figure 3) As a result, the GDP per person peaked in 2013, at the end of the commodity boom. It fell by 2,7% from 2013 to 2019, and as of 2022 had not recovered fully from the pandemic downturn. As a result, it was 5,6% lower in 2022 than in 2013. (See Figure 10 below.)

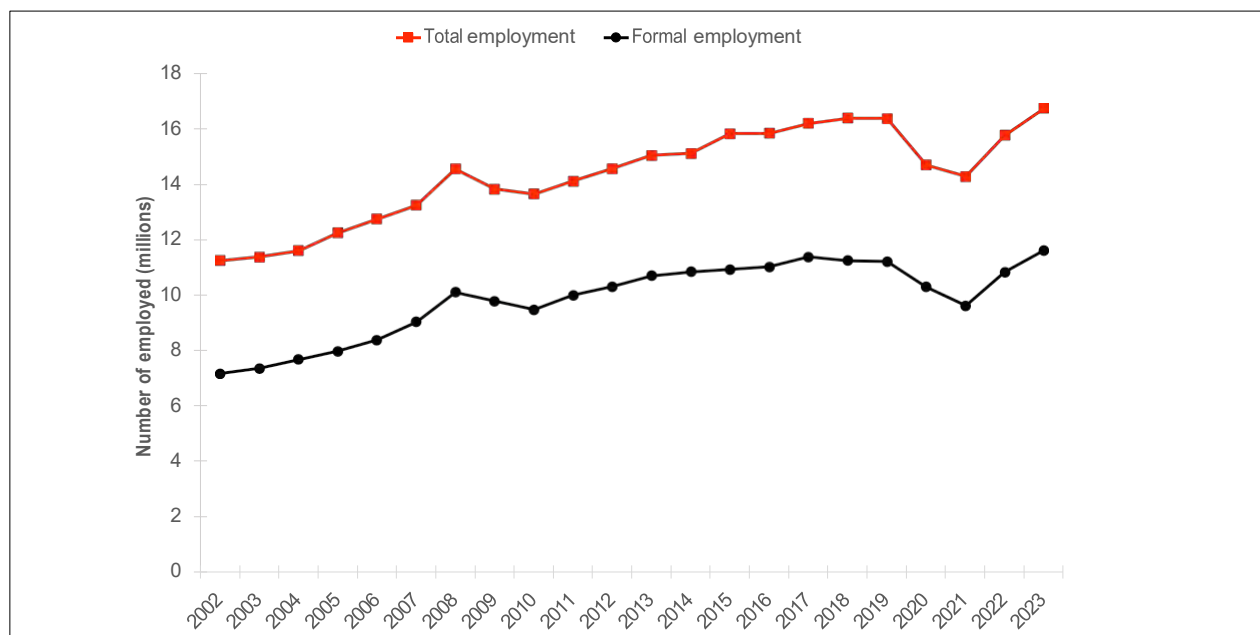
Figure 10. GDP per person in thousands of 2022 rand (a), 1994 to 2022



Note: (a) Reflated with deflator rebased to 2022. **Source:** SARB Quarterly Bulletin.

A similar picture emerged for employment. Total and formal employment grew quickly during the first part of the new millennium, before falling alongside a global fall in commodity prices following the Global Financial Crisis. Employment recovered during the next decade, before falling again in the wake of the COVID-19 pandemic.

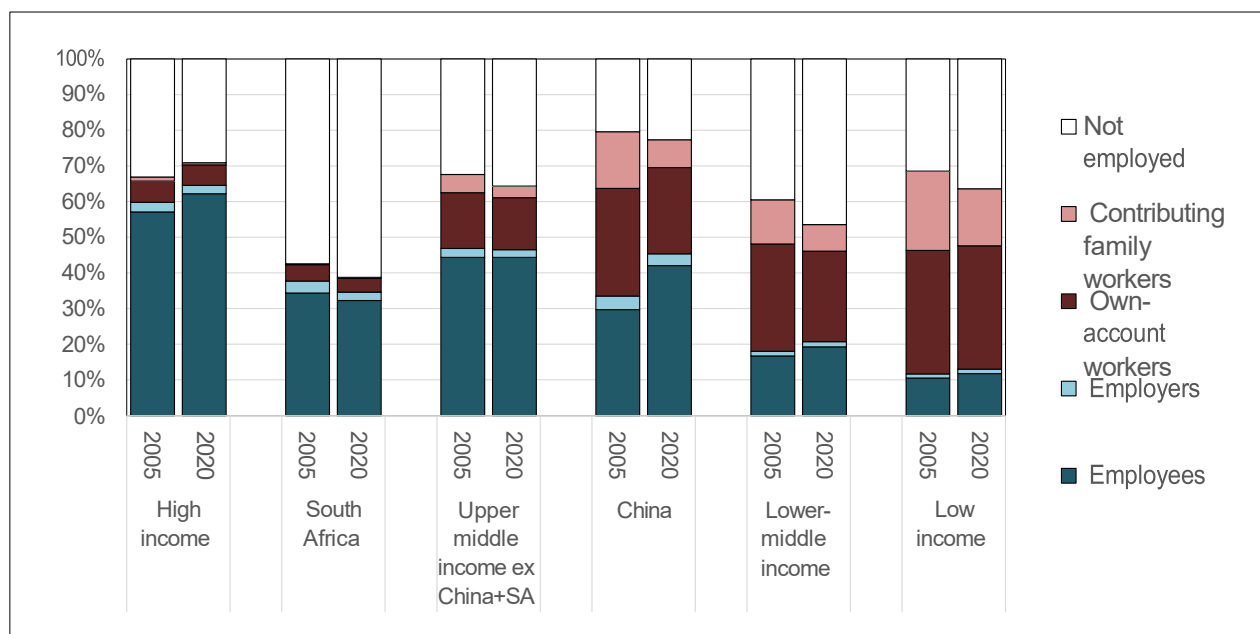
Figure 11: Total and Formal Employment in South Africa since 2002



Source: TIPS based on StatsSA data; Bi-Annual Labour Force Survey before 2008, and Quarterly Labour Force Survey from 2008.

Overall, the share of working-aged people with income-generating employment (the employment ratio) remains significantly lower than in other upper-middle-income economies. The main reasons are much lower levels of self-employment as a consequence of the stunting and destruction of black-owned business under apartheid, combined with the dominance of heavy industry linked to the mining value chain.

Figure 12. Employment in South Africa as a percentage of working-age population compared to China and other countries by income group, 2005 and 2020



Source: TIPS based on ILOstat data.



3. IMPLEMENTATION

Using the framework described above, the Sixth Administration focused on implementation, learning from doing, with adjustments where required. During the Sixth Administration, significant innovations have emerged in industrial policy, aimed at driving desired economic outcomes and fostering inclusive growth. One notable innovation is the implementation of masterplans as a strategic tool to guide and coordinate interventions in priority sectors. These masterplans provide a comprehensive framework for collaboration between government and industry stakeholders, facilitating targeted initiatives to enhance competitiveness and productivity. The introduction of market inquiries represents a key means to address market concentration in sectors characterized by excessive dominance, promoting fair competition and consumer welfare. Moreover, the administration has made strides in enhancing support for black industrialists beyond only financial assistance, emphasizing regulatory support, procurement, partnerships, capacity building, mentorship, and access to markets. These innovations underscore the government's commitment to advancing industrial development and economic transformation, laying the foundation for sustainable and inclusive growth in South Africa.

This section provides information on the following focus areas:

- Masterplans and sector partnerships
- Managing imports to advance inclusive industrialisation
- Boosting exports and foreign investment and refocusing economic diplomacy
- Localisation for industrialisation
- Investment drive
- Transformation
- Competition policy
- Promoting advanced manufacturing and services
- Green economy
- Crisis response
- A focus on jobs
- The IDC
- An integrated approach to implementation

3.1. Masterplans and sector partnerships

While industry consultation and coordination were always part of the industrial policymaking process, the Masterplans shifted companies and stakeholders from being informed external advisers to the processes, to being active participants in the crafting and implementation of the plan. The extent of this shift is evident in three components of the Masterplan process: the design of a plan, the development of specific interventions, and the implementation of the action plans.

The first phase of the Masterplans, from 2019 to 2022, had to deal with the crises of the early 2020s. As a result, they focused primarily, although not exclusively, on facilitating the recovery and growth of established industries. In future, they must focus more on bringing about structural change in the sense of inclusive industrialisation and encouraging new firms and investors.

The following table shows the master plans finalised by 2023. Several others were near finalisation but had not yet been published, including Renewable Energy, Medical Devices and Cannabis and Hemp.

Table 2: Masterplans finalised as of December 2023

Masterplan	Date
South African Retail-Clothing, Textile, Footwear and Leather (R-CTFL) Value Chain Master Plan to 2030	2019
The South African Poultry Sector Master Plan	2019
South African Sugar Value Chain Master Plan 2030	2020
Master Plan for the Commercial Forestry Sector in South Africa 2020-2025	2020
The South African Steel and Metal Fabrication Master Plan 1.0	2021
South Africa's Automotive Industry Master Plan to 2035	2021 (finalised in 2019)
Global Business Services	2021
Masterplan for the South African Furniture Industry	2022
Agriculture and Agro-Processing Master Plan	2022
Cultural and Creative Industries	2022
Tourism Master Plan	2023

A key focus of the master plans is on protecting and growing the number of jobs in the economy. The following figure sets out the number of jobs covered by the seven dtic-administered masterplans in place by 2023:

Figure 13: Employment impact of select Masterplans





In the design of the plan, sector policy moved from relatively top-down government decision-making to a process of negotiation with the key companies and unions impacted by the plan. That involved complex negotiations, often led by an expert facilitator, with participation from government officials, private companies, labour unions, and sometimes outside experts and other interest groups. The core of the plan – the diagnosis of growth bottlenecks, the identification of interventions to resolve these problems, and the design of the action plan and key action commitments – all result from this process of collaboration and negotiation.

The collaborative model ensures that the plans take into account stakeholder needs and creates a shared sense of ownership. It enables stakeholders to manage the trade-offs and conflicts within policy – such as between buyers and producers of steel, or between producers and consumers of chicken – to be explored and addressed within the design of the plan. Each Masterplan process ends with all participants signing onto the plan, and committing to the solutions and compromises reached as part of the process.

The collaborative model affected the nature of interventions that are designed. Policy making can

often be done in ways that are removed from the detail of day-to-day business operations. In contrast, the Masterplan process focusses government action to solve the problems that companies care about most. The challenge is to ensure that the ultimate agreement also contributes to inclusive industrialisation, rather than benefiting a few established producers at the cost of consumers, emerging businesses and technological advances, and ultimately overall competitiveness and inclusion.

The action plans decided under the Masterplans are inherently collaborative in nature. Typically, each plan assigns actions to participants, ranging from government departments and agencies to companies and labour. Implementation thus draws on those capabilities that each of the social partners are best positioned to deploy, and ensures shared accountability for results. This is a marked departure from a narrow focus on how the government can intervene to a programme of action that benefits all of the industry stakeholders. It also helps find solutions to the capacity constraints facing the state and allows the best-placed stakeholders to handle individual actions. (See Case Study 4)

Industrial Policy in Action - Case Study 4: Trade-offs and contributions in sector pacts or masterplans

In the Sugar Masterplan, urgent action required to stabilise a collapsing industry and the need to set new foundations for long-term sustainability through diversification was achieved through agreement to take three core short-term actions:

- End-users like retailers and industrial users committed to initially source 80% (rising to 95%) of their sugar from local sources. This agreement aimed to stabilise demand for sugar producers, enabling them to invest in locally produced sugar, and protecting workers and small-scale producers. It effectively limited imports; particularly cheap imports dumped on global markets.
- Producers (farmers and millers) agreed to price-restraint, locking price increases to a maximum of CPI for a period of three years, and limiting when and how often price increases can happen, to provide certainty to industrial users. They also committed to support measures to strengthen the performance of the small-scale black sugar growers, through a price premium and capacity-building support.
- Government delayed a planned increase in the health promotion levy (the “sugar tax”) on sugary beverages to enable producers to explore longer-term solutions and implemented a supportive trade framework.

These commitments ensure both a fair sharing of the burdens of strengthening the sector. They aimed to create a virtuous cycle of interlocking support, in which actions from one partner strengthens the ability of other industry stakeholders to drive growth.

By the end of the Administration, the industry had stabilised and had output growth. The results of these measures, comparing 2018 (the year prior to the masterplan) and 2023 were:

- Sales of locally-produced sugar had increased by 23%
- Imports of deep-sea sugar had dropped by 38%
- The number of small-scale growers that sold cane to millers increased by 1 924 farmers over the past 3 years, with 460 000 tons more cane sold by them to millers; and their output was calculated at R1,6 billion a year.

In the case of the Poultry Masterplan, three core commitments were agreed:

- Government, within the bounds of ITAC’s legal framework, committed to reviewing the level and structure of poultry tariffs, and to accelerate investigations of unfair trading practises.
- With the policy certainty from these trade measures, poultry producers committed to invest R1,5 billion in their production capacity, expanding production by 1,7 million birds per week and creating 3 600 jobs.
- This increase in production would help anchor an expansion in local sourcing of animal feed, to underpin investment in the feed industry. With a lack of scale in feed production being a structural barrier to growth, this certainty and investment would help drive long-term competitiveness growth in the local industry.

A balanced approach including funding from the IDC and protection from unfair competition by ITAC, has resulted in the creation of 1 900 additional jobs in the poultry producers’ sector and 2 000 additional jobs in the animal feed sector. Investments by the sector exceeded the target agreed, with higher levels of investment.

In the case of the R-CTFL Masterplan, four core commitments were agreed:

- Retailers committed to source 65% of CTFL sales from local producers, helping support R69 billion in demand for local producers.
- Government committed to practical initiatives to stem the flow of illegal imports, with SARS leading on efforts to combat challenges like under-invoicing and misdeclaration.
- With both measures reinforcing local demand, government committed to funding programmes to support investment by local CTFL firms, who in turn committed to invest in verticalisation and increased racial representivity in the sector.
- Labour committed to greater coordination in collective bargaining cycles in the sector, while all parties agreed to make key support measures (such as rebates) conditional on compliance with bargaining councils.

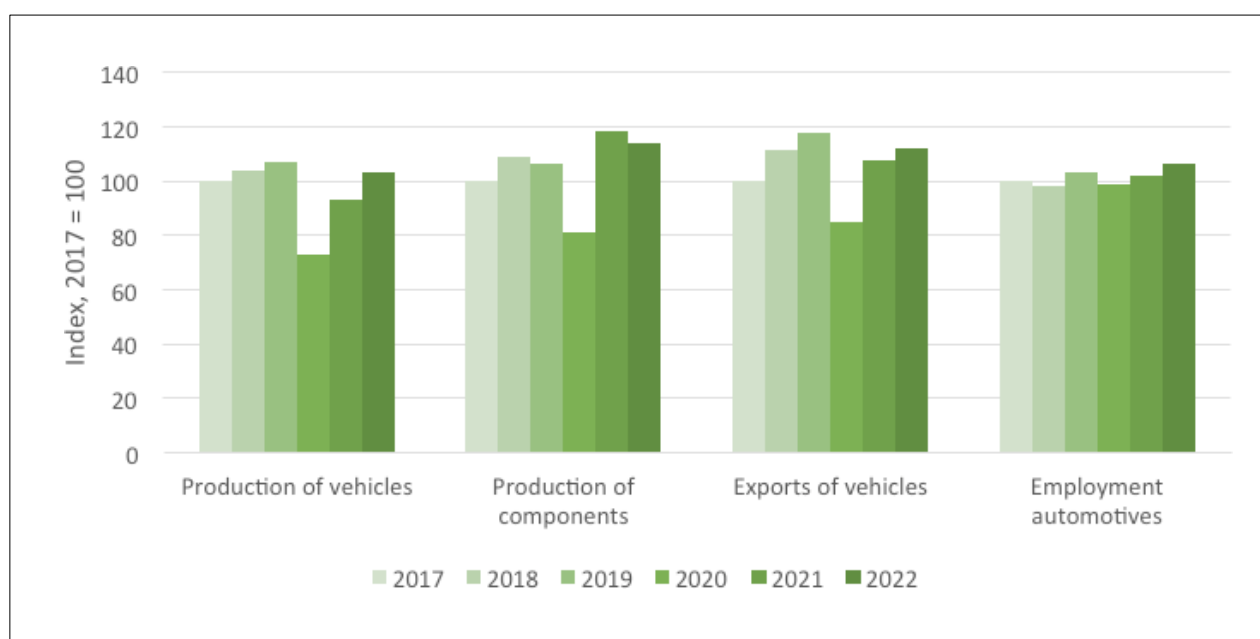
The implementation of this masterplan has borne fruit with a strong increase in local procurement. In 2022 (the latest numbers available), local CTFL products procured by retailer signatories increased by 16% (or 50,8 million units) compared to 2021, substantially outstripping the 6% growth in imports. The dtic extended and strengthened the CTFL Growth Programme, including by introducing transformation targets. It approved R1,48 billion in grant and loan financing to 175 firms and clusters in 2022/23.

The combination of the innovations, and the specifics of each individual plan, have already started to deliver real results. That said, the extraordinary disruption in 2020 as a result of the COVID-19 pandemic, combined with the fall-out from the war in Ukraine, make it difficult to distinguish the effects of policy innovations at industry level.

In the Automotive Masterplan, production reached 626 900 units per year in 2023 after the decline during the pandemic, as global manufacturers like Mercedes-Benz, Toyota, Ford and other have invested in new models and factories, across both traditional and next-generation hybrid vehicles. Two major new car manufacturing plants (BAIC and Stellantis) may be able start production in the next Administration, based on groundwork laid in the past five years. Significant additional component manufacturing was announced, like the opening of a wire harness factory employing 4 000 workers.

The automotive masterplan is a good indicator of the extent of the impact of COVID-19, as the following figure shows. Automotive production was impacted both directly by global lockdowns and a sharp fall in car sales, but also by broader disruptions to their value chains, particularly the supply of semiconductors. S&P estimates that in 2021, 9,5 million fewer cars were produced worldwide as a result of the lack of semiconductors.

Figure 14: Indicators of performance in the automotive industry, 2017 - 2022



Source: StatsSA Manufacturing Sales and Production (production); COMTRADE reporting of SARS data (exports); StatsSA Quarterly Employment Survey (employment)

In 2023, South Africa exported its 6 millionth vehicle since the start of the democratic era. This is significant when considering that in 1994, this industry exported little more than 14 000 vehicles.

The South African automotive industry offers valuable lessons in the formulation and implementation of industrial policy initiatives. Firstly, the importance of policy certainty has been underscored, as fluctuations in regulatory frameworks can disrupt investment and undermine long-term planning. Additionally, providing sufficient incentives to foster a competitive business environment has proven instrumental in attracting investment and stimulating growth within the sector. Moreover, adopting a partnership approach with large private sector players has facilitated collaborative efforts towards achieving common objectives, leveraging both government and industry expertise and resources. Furthermore, setting clear targets and implementing effective tools to promote localization and transformation has been crucial in advancing economic inclusion and industrial development. By drawing on these lessons, policymakers can craft more robust and effective industrial policies to drive sustainable growth and competitiveness across various sectors of the South African economy.

Information box: ten key interventions by government in the automotive industry during the past sixth administration:

1. Masterplan:

The regulations to give effect to the South African Automotive Masterplan crafted together with industry, was implemented in July 2021, setting the policy framework for the next decade, with a focus on promoting local component manufacturing

2. African Market Access:

The conclusion in 2023 of modalities to commence the start of trade under the African Continental Free Trade Agreement, including agreement on rules of origin for a first list of auto products and the auto chapter headings, as well as a common tariff offer under the AfCFTA by Botswana, Lesotho, Namibia, eSwatini and South Africa. This is a significant step to open up of a potentially vast market for new automobile in future. VW has already taken the opportunity to export auto kits made here in South Africa for basic assembly in Ghana and in East Africa.

3. UK Market Access:

The conclusion in 2019 and implementation in 2021 of a free-trade agreement with the UK after Brexit was announced, which enabled SA to retain access on preferential terms in the UK market

4. Assembly Transformation Commitments:

The establishment of the R6 billion Auto Industry Transformation Fund in 2020, to provide grants and market-access grants to black-owned business in the automotive value chain. By 2024, R464 million had been committed as grants (with just over R300m disbursed) and 17 black component manufacturers have been supported.

5. Component Transformation Commitments:

A major agreement reached in 2023 with Tier 1 auto component manufacturers that will ensure greater opportunities for black manufacturers in Tier 2 or Tier 3 level, with up to R690 million in grants and R1,5 billion in procurement committed

6. New Industry Investments:

R50 billion in new investment commitments were announced in the auto sector, for upgrading plants and equipment for new models, covering among others Toyota, Isuzu and Ford as well as component manufacturers.

7. New Car Factory To Be Built:

The announcement of a new auto factory to be built by Stellantis, for the production of Peugeot vehicles in South Africa

8. New Car Production Commenced:

A Chinese manufacturer, Beijing Auto Industrial Corporation began production of the semi-knock down cars in the Coega SEZ in January 2024, as a first phase to planned full CKD production;

9. New Auto SEZ and Component Factories:

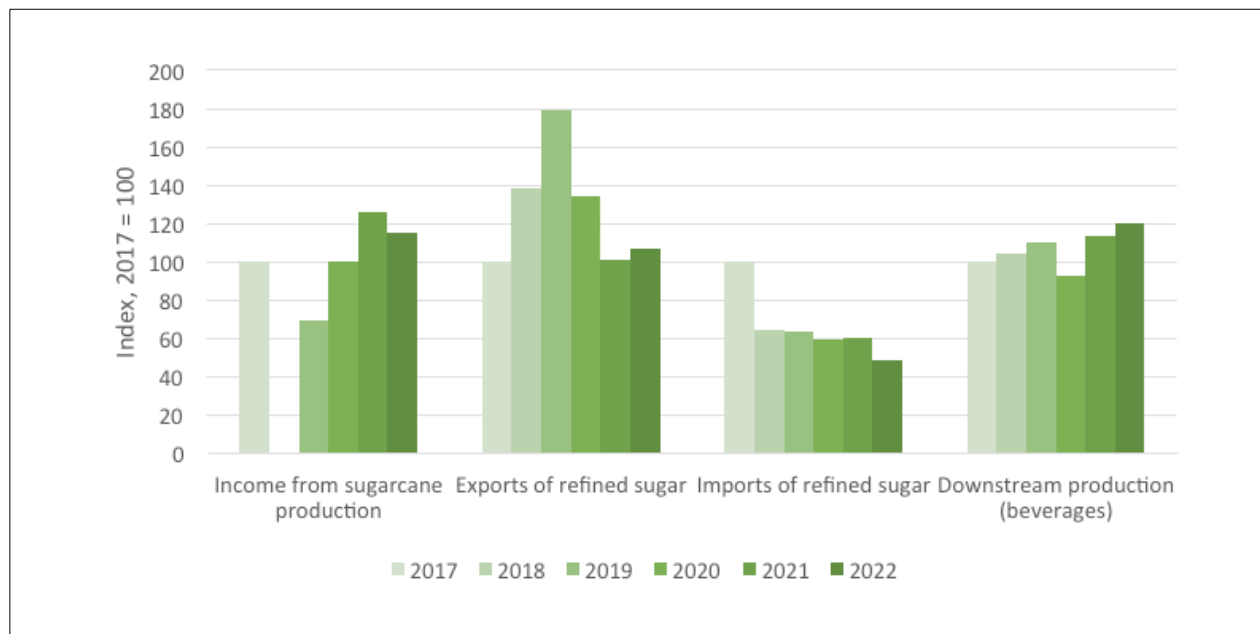
Establishment of the Tshwane Automotive SEZ in late 2019, with 10 auto component factories subsequently built, employing 3 300 workers by 2024; and

10. Electric Vehicle Transition:

Finalisation of the EV Policy by Government in December 2023; and of the new incentive package announced in February 2024, to assist the transition.

For the Sugar Masterplan, results over the last five years show some positive signs emerging. The industry has seen rising income, falling imports, and growing demand from downstream industries. As with many of the Masterplan sectors, most of these indicators are testimony to the emergence of positive fundamentals, but absolute performance may still only increase at a lag to these changes.

Figure 15: Indicators of performance in the sugar industry, 2017 - 2022



Source: StatsSA Agricultural Survey (income); COMTRADE reporting of SARS data (exports/imports); StatsSA Manufacturing Sales and Production (downstream)

The impact of Masterplan outcomes emerged strongly in developments in the sugar value chain in 2023, after the three-year pricing agreement came to an end. From December 2019 to December 2022, the producer price index for sugar rose in line with CPI, as agreed in the Masterplan, and lower than for all final manufactured goods. From December 2022 to December 2023, however, after the agreement ended, it jumped as producers took price to recoup losses resulting from the massive spike in input prices resulting from the war in Ukraine, with the increase being higher than for all manufactured goods over the same period.

In 2022, the industry's largest milling company, Tongaat Hulett was confronted by the results of massive fraud committed by directors and managers over a considerable period, from 2011; and the company faced an immediate and disorderly collapse. The strategic direction outlined in the Master Plan, coupled with robust stakeholder relationships forged throughout the process, laid a solid foundation for Tongaat-Hulett (THL) stakeholders to navigate the challenging terrain of business rescue. This collective effort ensured the preservation of a key industry player and the retention of 2 500 employees under unchanged terms and conditions; and more significantly, retained the milling capacity that services more than half South Africa's sugar output and that of a large number of small sugar-cane growers. Upon entering business rescue in October 2022, operations came to a standstill due to a lack of funds for essential expenses, creditor settlements, and employee salaries. However, swift action by the Government, in collaboration with the business rescue practitioners (BRPs), secured post-commencement finance (PCF) of approximately R900 million from THL's lender group, enabling the resumption of South African operations. Subsequently, replacement PCF of approximately R1,2 billion was secured from the IDC within two months, facilitating the completion of the 2022 sugar season and the commencement of the 2023 season's off-crop program.

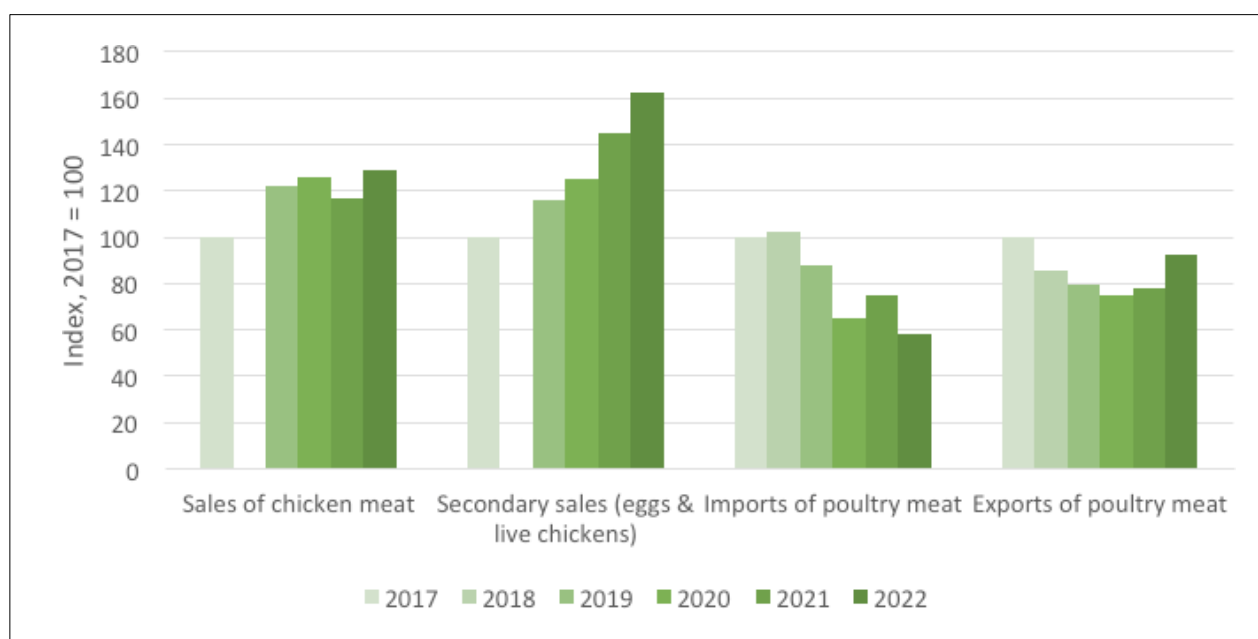
Table 3: Selected companies where closure was avoided following government intervention in the Sixth Administration

Company	Jobs saved
Tonga-at-Hullett	2 500 workers
Langeberg-Ashton (Tiger Brands)	4 300 seasonal and 250 permanent
Newcastle Steelworks (AMSA) (decision postponed)	1 400 permanent and 880 contractors
Jet (Edcon) sold to TFG	4 800 workers

Source: Company reports

In the Poultry Masterplan, the industry has seen strong growth in both core poultry sales and in secondary product lines (like eggs and live chicken), while imports have decline and exports have started to recover from the pressure faced in recent years. The subsequent outbreak of Avian flu likely dampened some of these positive trends, but falls in imports are particularly notable, given prior challenges with the dumping of below-cost chicken pieces. In 2023, concerns arose around the high price of feed, reflecting mostly surging international prices for soya and maize, and a falling per-person consumption of chicken as a result of rising prices and lower levels of employment following the pandemic downturn. From 2019 to 2023, prices for individually quick frozen chicken – the staple for low income households – climbed 2,6% a year faster than the overall CPI.

Figure 16: Indicators of performance in the poultry industry, 2017 - 2022

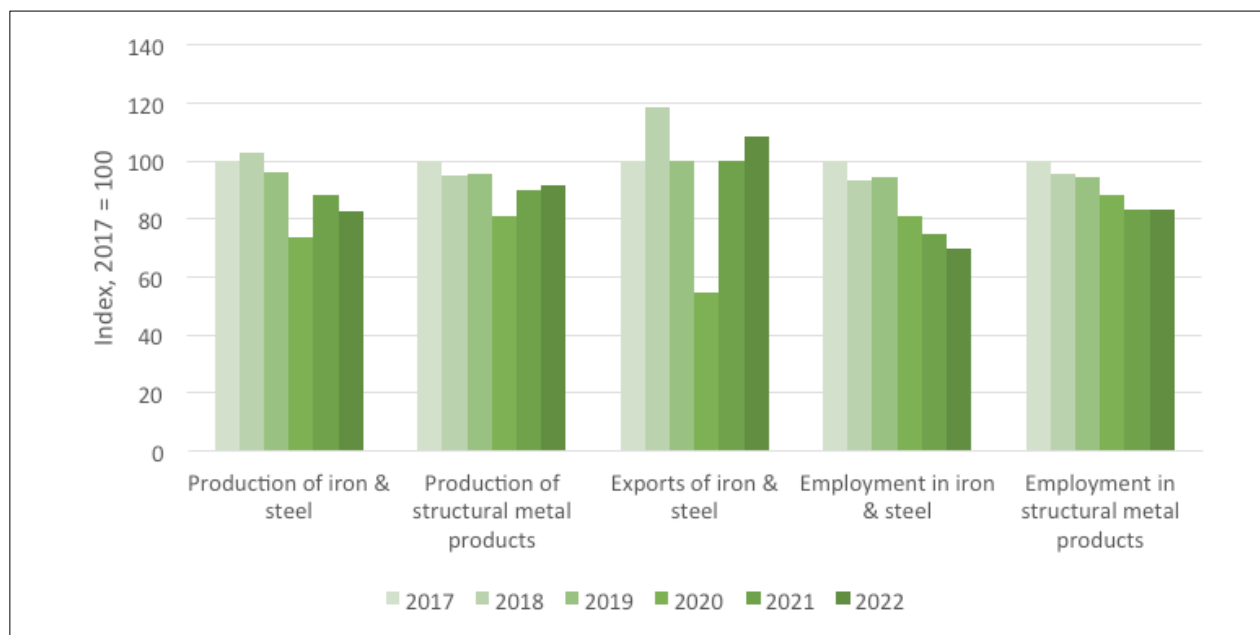


Source: StatsSA Agricultural Survey (income); COMTRADE reporting of SARS data (exports/imports)

In the Steel Masterplan, the sector that has weathered a global oversupply crisis for many years, has seen factories such as Highveld Steel and CISCO Steel exit business rescue, with a new steel mill in Germiston under construction. But overall performance remains challenging, with declining employment and production. Still, the decline appears to have slowed. Moreover, the Masterplan provided critical platforms for dealing with a proposed downsizing by Arcelor Mittal South Africa, which has been postponed subject to stronger implementation of actions that were mostly already agreed at industry level. Critical steps are dealing with electricity and freight rail; changing rules designed to reduce the cost of scrap for local recyclers, which Arcelor Mittal argues provide an unfair advantage to its competitors, and enforcing tariffs and standards more rigorously on imports.

During the 2022 Black Industrialist Conference, a Black Exporter Network was launched that brings together over 100 firms to share export expertise and opportunities, and to explore partnerships.

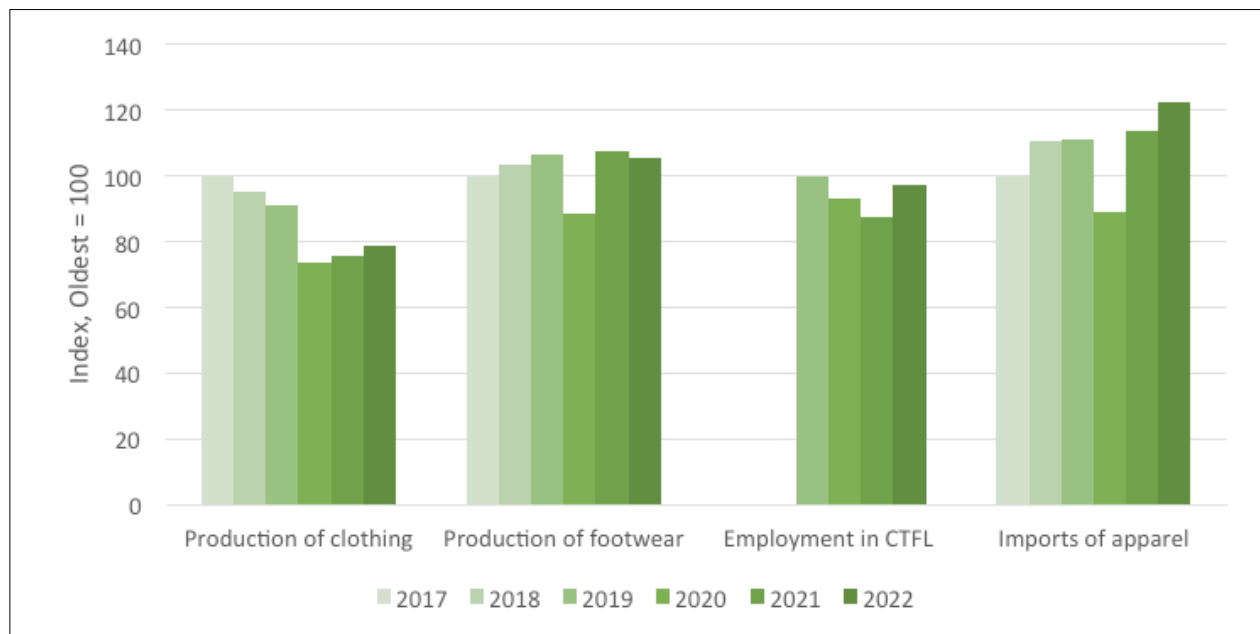
Figure 17: Indicators of performance in the steel industry, 2017 - 2022



Source: StatsSA Manufacturing Sales and Production (production); COMTRADE reporting of SARS data (exports); StatsSA Quarterly Employment Survey (employment)

The clothing industry has seen some recovery from the 2020 downturn, although conditions remain difficult. Import intensity increased in every year except 2017 from 1998 to 2020, but then stabilised. From 2020 to 2023 the share of imports in total sales fluctuated around 52%.

Figure 18: Indicators of performance in the CTFL industry, 2017 - 2022



Source: StatsSA Manufacturing Sales and Production (production); COMTRADE reporting of SARS data (imports); StatsSA Quarterly Labour Force Survey (employment)

In short, the Masterplans have shown some signs of success despite the broad economic headwinds that emerged as they were adopted. Still, they are a new intervention, and each has involved a process of learning and collaborating. Implementation is complex, with the collaborative approach requiring significant capacity to manage relationships and coordinate. Some of the industries covered by Masterplans - such as steel, poultry and sugar – have faced significant shocks, which has required adjustments by the partners. Moreover, the finalisation of additional masterplans has had increasingly to balance expanding coverage against the risk of overcommitting the state's finite resources.

Significant engagements also take place in industries that do not have a formal Masterplan. The following box outlines the experience of the soya processing industry.

Industrial Policy in Action - Case Study 5: The soya industry – a story of increased value-add

In 2009 and 2010, cattle and poultry producers noted that high levels of soybean meal imports exposed the domestic meat and grain sectors to price volatility. Soya production remained depressed, however, in large part because commercial farmers were reluctant to significantly increase plantings without increased local processing capacity. Absent a supply of local beans, however, processors also hesitated to invest.

In response to this deadlock, government engaged with various parts of the value-chain individually before bringing all role-players together to agree a sector plan and build trust across the sector.

Government worked closely with industry associations such as GrainSA, the Animal Feed Manufacturers Association (AFMA) while also coordinating the full range of government agencies such as the National Agricultural Marketing Council (NAMC), IDC, ITAC, Land Bank, and the Agricultural Research Council (ARC).

The sector plan included:

- Partnerships between the ARC and seed companies, the Oil and Protein Seed Development Trust (OPDT) and farmers to develop new cultivars for higher oil content, drought-resistance, plant density and optimum plant-care.
- Agreement to establish a tariff rebate facility for soybean and soybean meal imports in order to encourage new investments in processing facilities while the farming sector prepared to increase plantings of soybeans. This was a crucial element of the sector plan as it lowered the risk for processing investors by providing an alternate supply of soybeans if the domestic crop was insufficient or affected by adverse weather.
- Financial support from the IDC for expansions and new investments in oilseed processing facilities at scale.
- Financial and non-financial support from the Land Bank and the then Department of Agriculture to farmers.

These partnerships contributed to a rapid increase in total soya crop production, which a Business Day editorial argued “shows what can be achieved when the government and private sector earnestly pursue a common vision”. It climbed from 650 000 tons in 2012 to 2,7 million tons in 2022/23. Imports of oilcake for animal feed production decreased from 900 000 tons to an estimated 220 000 tons. Meanwhile, substantial new investments and expansions took place in the downstream oilseed processing sector, with participation by seven processing plants.

The investments in up- and down-stream sectors have substantially reduced imports and positioned South Africa as a potential exporter of soybeans and soybean meal with government again partnering with business to negotiate access to key export markets such as China.

Industrial policy is often used in public discourse in South Africa interchangeably with manufacturing strategy, but its mandate is to promote more inclusive growth through structural change across the economy. Today, services are the largest industries in terms of contribution to the GDP and employment. The dtic has prioritised film, global business services, the digital economy and tourism, among others. Masterplans have been published for tourism and cultural industries, and finalised in business services. The following box outlines programmes for film and business services.

Industrial Policy in Action - Case Study 6: Industrial policy and productive services – global business services and film-making

The dtic's film incentive has supported South African films, from entertainment to those which tell the story of the struggle for liberation and African history; and it also drawn Hollywood movies to be shot on location in South Africa. Films about Africa include The Silverton Siege, The Woman King, Umbrella Man, Kalushi, Blood Psalms, Shaka iLembe, Happiness Ever After, Ubettina Wethu, Christmas in the Wild, Kings of Queenstown, Spinners, Knuckle City, Mr Bones 3, Golide, Black Tax, How to Ruin Christmas, Blood & Water, iNumber Number. Hollywood movies include Mad Max 3, Deep Blue Sea 3, Raise By Wolves, Safe House, Last Days of American Crime, Kissing Booth 2, Mission Impossible 8, Warrior Season 3, My Spy 2, Reyka, Around the World in 80 Days, Bulletproof, Monster Hunter and Misfits.

South Africa's Global Business Services incentive covers back-office support to global firms, typically through the provision of customer-care services to banks, insurance companies, retailers and other large businesses. During the Sixth Administration, South Africa's Global Business Services industry won a number of awards for the support provided to projects in call-centres and digital hubs to create and retain jobs. It has expanded to include job opportunities for graduates and persons with more complex skills and expertise, such as risk management and legal services.

Exports included services delivered by the local workforce to established markets such as the UK, US, Canada and Australia, as well as new markets like China (BRICS member), Mauritius (SADC member), Belgium, Netherlands, France and Germany (EU members) as well New Zealand.

A masterplan has been developed for the Global Business Services sector, which is assisting with a shift from traditional call centre services to more value adding and high-level skills services. Service delivered by South African employees to international clients included financial and accounting, legal support, regulatory, financial risk, technology, digital and cyber risk, and data analytics.

Over 50 global business services companies have been supported during this administration, generating over R40 billion in export revenue. By September 2023, incentives were provided by **the dtic** support 31 700 jobs at firms who are part the programme. About 90% of the jobs are held by youth, and about six out of every 10 workers are female. A notable development is the growth of digital hubs in two large auto-makers, Mercedes Benz and BMW, providing technical and digital services to those car-makers' global operations from South Africa.

3.2. Managing imports to advance inclusive industrialisation

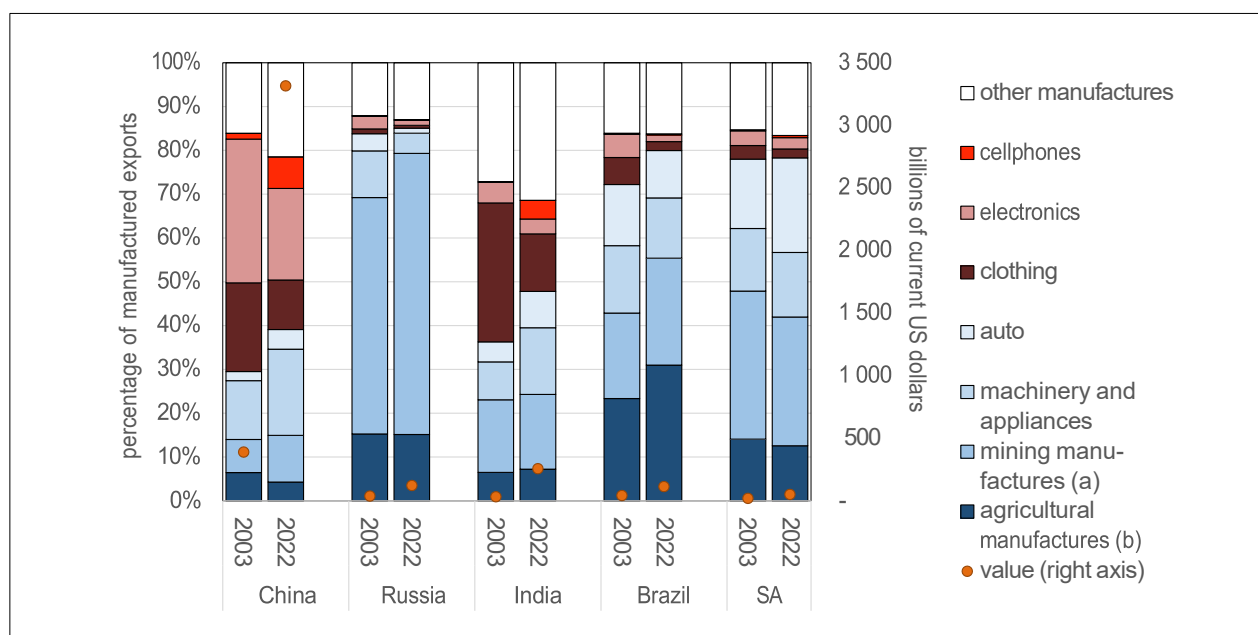
Trade policy under the Reimagined Industrial Strategy aimed to promote industrial upgrading and learning, the acquisition of capabilities, improved competitiveness and productivity. It had to manage a series of inherent trade-offs, notably between

- Upgrading technology and maintaining employment in established industries.
- Efforts to reduce the price of consumer staples and intermediate inputs for labour-intensive industries and the desire to protect and support upstream companies.
- Measures to scale up opportunities for workers and small businesses in labour-intensive industries while sustaining key producers in the metals value chain and commercial agriculture.

South Africa has accounted for around 0,5% of global goods exports since 2010, although the share spiked to over 0,55% when global metals prices jumped in 2021. The bulk of its exports are from the mining and agricultural value chain. The major export industry that is not commodity based is automobiles (cars, bakkies, minibus, taxis, trucks and components). Mining ores and downstream products (including metals and coal-based petrochemicals and electricity) consistently account for over half of total goods exports.

In terms of manufactured exports, South Africa's strengths are in auto, coal-based petrochemicals (especially polymers), metals and processed foods. Compared to other upper-middle-income countries, SA has scope to increase exports from labour-intensive industries outside of food, such as clothing and electronics. Figure 19 compares the structure of South African manufactured exports to the original BRICS members.

Figure 19. Manufactured goods exports by industry for original BRICS members and value of manufactured exports in billions of current US dollars, 2003 and 2022



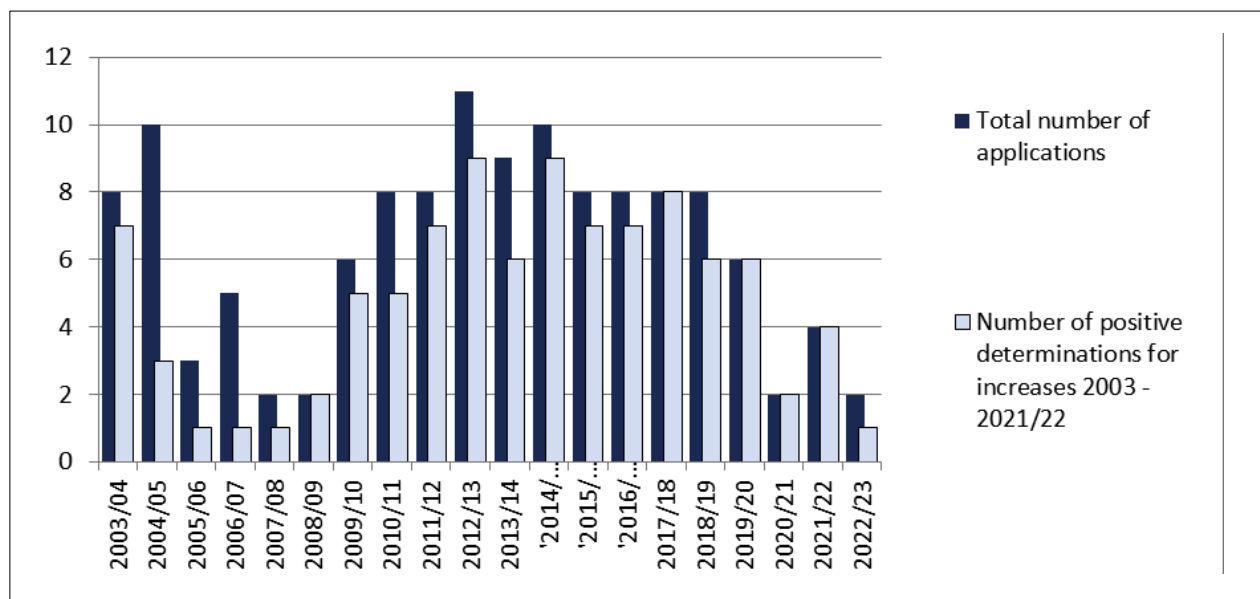
Note: (a) Includes metals and coal-based chemicals. (b) Includes food and wood products. **Source:** TIPS, using data from TradeMap.

Trade policy employed the following instruments to promote inclusive industrialisation:

- Providing rebates to import duty-free essential raw materials and intermediate inputs not manufactured locally or in sufficient quantities, thus enabling cost competitive manufacturing of these goods. These rebates help limit customs revenue losses associated with circumvention by linking the issue of permits to market-responsive import volumes through mechanisms like guaranteed off-take agreements from customers retailers and/or downstream manufacturers.
- Determining appropriate policy instruments to protect product markets where the domestic industry is rendered vulnerable against unfair trade and injurious foreign competition, where foreign companies dump goods below production cost or get subsidies from their own governments. South Africa uses protective instruments like anti-dumping duties in these cases to prevent the loss of capabilities due to import competition.
- Encouraging and facilitating entry and advance into tradable sectors and in particular export markets, for South African-based businesses, including black-owned small and medium sized firms and firms based in regions with limited industrial and economic activity.
- Granting tariff support with reciprocal commitments in order to narrow the gap between private and social benefit, through commitments to increased production, capital investment, employment and supply-side measures (R&D, skills development, and industrial upgrading); and considering likely price impacts of trade measures, mitigated with price restraint commitments.
- Utilization of policy space to advance and utilise opportunities in latent and new product markets to provide for industrial upgrading and learning and the acquisition of new capabilities.

Figure 18 shows the number of tariff applications received and granted from 2004 to 2023. The following boxes underscore the nuanced approach taken to tariffs during the Sixth Administration.

Figure 20: Tariff Amendment Measures Introduced by South Africa 2003-2022



Source: ITAC

Industrial Policy in Action - Case Study 7: Use of rebates in the clothing-textile value-chain – smart trade policy in action

Industrial tariffs are vital to support domestic industries from cheaper products manufactured in markets with significant competitive advantages such as scale, energy-costs and labour rates. However, they may also come with an industrial cost, as tariffs on intermediate goods can decrease the competitiveness of downstream manufacturing, which is often comparatively jobs rich.

This was the position in the clothing and textile industry at the start of the Sixth Administration. High import duties on selected textile fabrics effectively limited the range of cloth available clothing manufacturing. Yet they served the function of protecting domestic textile production.

During Covid-19, as global supply-chains were interrupted, local retailers saw a commercial case for increasing the level of local procurement of clothing products, but were discouraged by high fabric tariffs. As part of the clothing industry masterplan, a new approach negotiated with social partners saw the introduction of a rebate facility that effectively brought tariffs down to zero in return for retailers and clothing firms committing to procure the full output of the textile industry. As domestic textile firms supplied only a small percentage of all fabric used by the clothing industry, the agreement enabled protection of domestic production together with a decrease in the cost of fabric supplies that were imported.

This balancing of measures to retain textile production in South Africa through off-take of

domestically produced fabrics by the apparel sector, with alleviating input costs for the sector in order to compete with low priced similar imported clothing products, required high levels of coordination between the state, textile mills, garment manufacturers, retailers and trade unions.

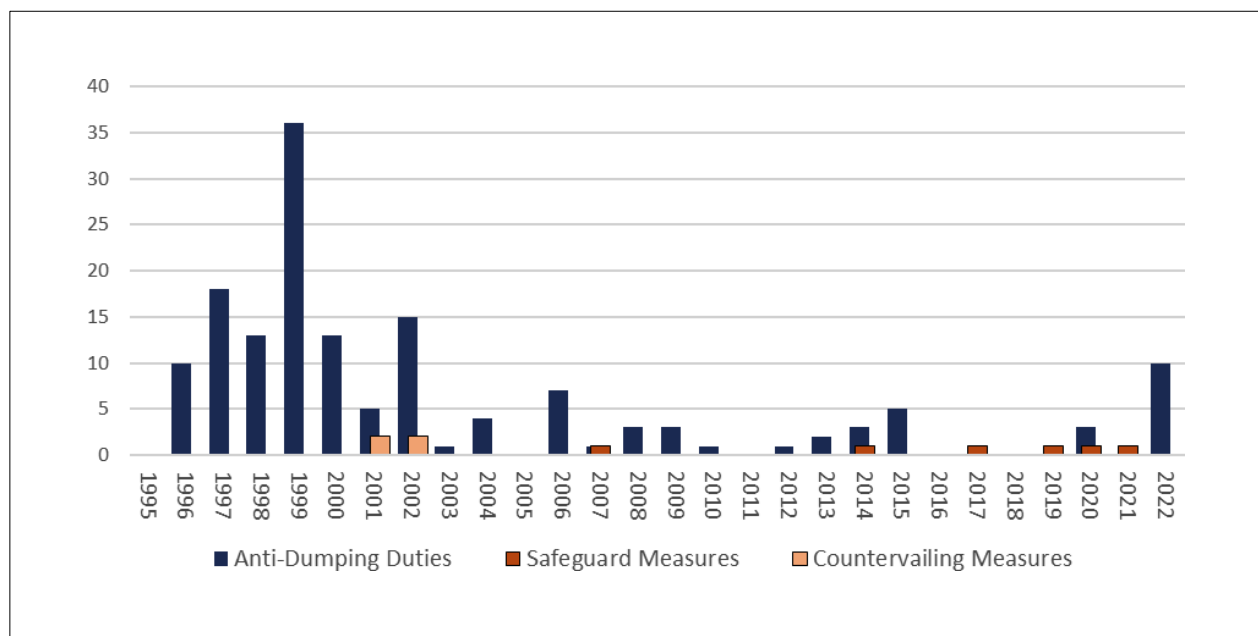
The impact was positive and quite immediate, boosting confidence in the sector and reducing input costs. Indeed, reporting by industry indicates that the impact of the measure was to localise the production of significant quantities of garments previously imported.

This rebate has allowed 18 million kg or R2,3 billion of fabric to be brought into South Africa duty free, supporting the competitiveness of 66m finished garments by reducing their price by an estimated R9.50 per garment.

Firm-level example: Keedo is crucial to the entire baby clothing industry value chain. The rebate facility assisted the firm in reducing production costs and thus increasing production volumes, sales, employment and investment. Production volumes have increased by 9% after the granting of the rebate permit. Sales volumes increased in the first seven months following the issuing of the permit in 2022 compared to the first 7-months of 2021 by 9,1 percent. Furthermore, 124 new employees were employed. Keedo supports over 100 small businesses through its cut, make and trim program. Investment has increased ninefold from 2020 to 2022.

In the case of unfair and injurious import competition, South African firms continue to use trade remedy measures. The main instrument has been anti-dumping measures. These measures seek to level the playing field where foreign producers sell products below the cost of production in order to maintain production at scale or because they view the exports as by-products.

Figure 21. Trade Remedy Measures Imposed by South Africa 1995-2022



Source: ITAC

While the examples cited here go some way to explaining the objects and impact of policy, the repurposing of apartheid-era sanctions-busting networks to profit from evasion of trade protection measures acted as a significant brake on overall success. In 2018, Global Financial Integrity (GFI), a US-based non-profit organisation, estimated the losses due to misinvoicing on trade in a report entitled "South Africa: Potential Revenue Losses Associated with Trade Misinvoicing." For the period from 2010 to 2014, it identified losses in excess of US\$7,4 billion (or R64 billion in current rand) a year, totalling US\$37 billion (or R320 billion) over the five years. Of the annual losses, the average portion of revenue due to mis-invoicing on imports alone came to US\$4.8 billion (or R41 billion). Of that, uncollected VAT came to US\$2,1 billion; customs duties to US\$0,6 billion; and corporate income tax to US\$2,1 billion. Similar results emerge from **dtic** research showing similar gaps between the declared value of South African imports and the exports recorded by major trading partners.

During the Sixth Administration, the strategy to combat illegal imports rested on efforts to rebuild the capacity of SARS, introduce stronger risk-based tools, partner actively with industry players to obtain data on suspicious import activity and a robust policy of seizing goods. In addition, the industry masterplan partners provided information to SARS. In the clothing/textiles and steel industry, dedicated teams were set up to provide support to SARS, including a technical analysis of products to help detect mis-declarations on customs import documentation.

Industrial Policy in Action - Case Study 8: Combating illegal imports in CTFL

From the signing of the R-CTFL Masterplan in late 2019 to mid-2023, SARS achieved the following in the CTFL sector.

- R1,2 billion additional revenue raised from audits triggered by undervaluation (the additional revenue includes duties but also corporate income tax and VAT)
- R220m additional revenue raised from enforcement in the sector
- 816 customs seizures to the value of R890m
- 48 cases referred to SARS Criminal Investigations for criminal prosecution and import licence cancellations. The investigations are in progress. 10 cases where import licences of traders were either cancelled or suspended.

As part of the Masterplan process, the CTFL stakeholders developed a set of reference prices for clothing. That made it easier for SARS to identify under-invoicing. For instance, in the early 2020s importers tried to bring in men's suits with an alleged value of R4.74 per unit, and girls' suits with

an alleged value of R1.81 per unit.

In 2020, SARS seized 19 containers of clothing imported where it suspected that the value of the clothing in the containers has been under-declared to avoid paying tariffs. The importers took SARS to court. Although they won in the initial case, SARS was vindicated by the Supreme Court of Appeal in 2022.

The Minister of Trade, Industry and Competition submitted to the court that "The under-declaration of clothing imported from countries such as China is a systemic problem in South Africa. A graphic illustration of the extent of the problem is this: in 2018 the value of the exports of textiles and clothing goods from China to South Africa as reported by the General Customs Administration of China to the United Nations was US\$2,4 billion, whereas the value of the imports of textiles and clothing goods into South Africa from China as reported by SARS to the United Nations was US\$1,5 billion. That is a difference of US\$900 million even though the two values should be substantially the same."

3.3. Boosting exports and foreign investment

Supporting firms to reach exports markets has long been a key motivation of South Africa's industrial policy. Industrial policy seeks to help firms develop export capabilities, competitively reach foreign markets, and secure export clients. This has manifested in practical policies such as the development of a network of preferential market access agreements; financial support for marketing activities abroad, including hosting trips to major exhibitions and building domestic export councils to support local activities; and offering support to help firms build domestic capacity and export-readiness.

The work of the Sixth Administration built on these successes in a number of ways, Government prioritising a comprehensive trade and economic development agenda, focusing on several key areas:



Information box:

Ten Key initiatives and outcomes with trade partners or trade policy during the Sixth Administration

During this Administration,

1. **Two sets of trade agreements were concluded:** the legal and operational modalities of the AfCFTA (see next Info Box); and a Free Trade Agreement (Economic Partnership Agreement or EPA) with the United Kingdom, following Brexit. In the UK EPA, SA obtained additional benefits on aggregate in product categories such as wine, sugar and canned fruit, retaining the previous EU quotas and expanding these with additional quotas for the UK market.
2. **China-SA trade and economic relations:** the focus was on market opening (rooibos, red meat, citrus), addressing under-invoicing of imported products (with greater information-sharing from Chinese customs authorities), and conclusion of 5 MoUs to shift to greater partnerships on SA industrialisation (these included MoUs on Green Economic and industrial Development, Blue Economy Promotion, Digital Industrialisation, Strengthening Investment Cooperation, and promotion of Special Economic Zones).
3. **European Union:** the range of engagements were on expansion of SA industrial exports, managing the disruptions to SA exports caused by Brexit, focusing on opportunities for processing of critical minerals in SA, engaging on the Carbon Border Adjustment Mechanism (CBAM) and engaging on a range of trade disputes (citrus, poultry, horses and other products). SA and other SACU countries were taken on arbitration by the EU on safeguard duties applied to EU-originating poultry and the finding on the substance upheld SA and SACU's right to have taken the action.
4. **US-SA trade relations (AGOA):** extensive engagement with the US Administration and Congress, and hosting of the AGOA Forum in Johannesburg
5. **Middle East countries:** the main focus was on expanding SA industrial and food exports to Middle Eastern trading partners, market access (Saudi Arabia red meat) and attracting new investment (Saudi Arabia, Qatar, UAE) – South Africa exports increased 85% between 2019 to 2023, from R32 billion to R59 billion.
6. **BRICS:** hosting of BRICS Summit in 2023, developing B2B partnerships, engaging on the composition of trade, and agreement to address under-invoicing challenges. MORE??
7. **Market opening** especially for agricultural products (see Table 4 for list of countries and products)
8. **Tariff support for local industry:** as well as anti-dumping duties and administration of import/export permits, with 49 specific tariff measures, including an equal number of tariff increases and decreases/rebates (see Table 5 below).
9. **WTO rules to enable vaccine production:** A waiver and flexibilities on certain Trade-related Intellectual Property Rights (TRIPS) provisions, secured through an initiative at the WTO by South Africa and India, enabled developing countries to manufacture vaccines
10. **Fisheries Sustainability Framework:** Conclusion at the WTO and ratification by South Africa of a Fisheries Subsidies Agreement that prevents subsidies for illegal, unreported and unregulated fishing in the world's oceans

In addition, South Africa led efforts to set out a developing country perspective at WTO-discussions on eCommerce, Agriculture, Dispute Settlement, Pandemic Preparedness, Climate Change, and Policy Space for Industrialisation, among other matters, at two Ministerial Conferences (2022 and 2024).

Table 4 Selected market openings during the Sixth Administration

Export market	Action taken
China	The market access restriction for greasy wool exports to China was resolved in September 2022
	Relisting of South African oysters on China's approved import list by the end of August 2021
	Lifting ban on South African beef that was imposed due to foot-and-mouth disease
	Market access for processed rooibos negotiated; import tariff decreased from 30% to 6%
	Protocol signed for avocado export during the China State visit in August 2023
Vietnam	In 2024, South Africa gained market access for oranges in Vietnam following a decade of negotiations
Japan	In 2024, South Africa gained market access for avocado in Japan following more than a decade of negotiations
Russia	Reduction of Tariffs by the Eurasian Economic Union (EAEU)
Saudi Arabia	Lifting of the ban on meat and meat products from South Africa

Table 5: Summary of tariff investigations implemented from May 2019 to publication

Sector	Increase	Rebate	Reduction	Review
Agro-processing	2	1	1	1
Chemicals/Plastics	3	5	0	0
Textiles/clothing/Footwear and Leather	1	4	1	2
Metals	11	8		0
Telecommunications		2		
Electronics			0	0
White goods	2	1		
Automotive		1	1	
Defence and Aerospace		1		
Glass	1			
TOTAL	20	23	3	3

Source: dtic

Of course, the cornerstone initiative has been the completion of the African Continental Free Trade Agreement (AfCFTA). It was formally initiated in the year before the start of the Administration, and concluded with the finalisation of SACU's initial tariff offer in 2023. South African exporters should be able to start trading under the agreement from 2024.



Information box:

Nine actions on the implementation of the AfCFTA during the Sixth Administration

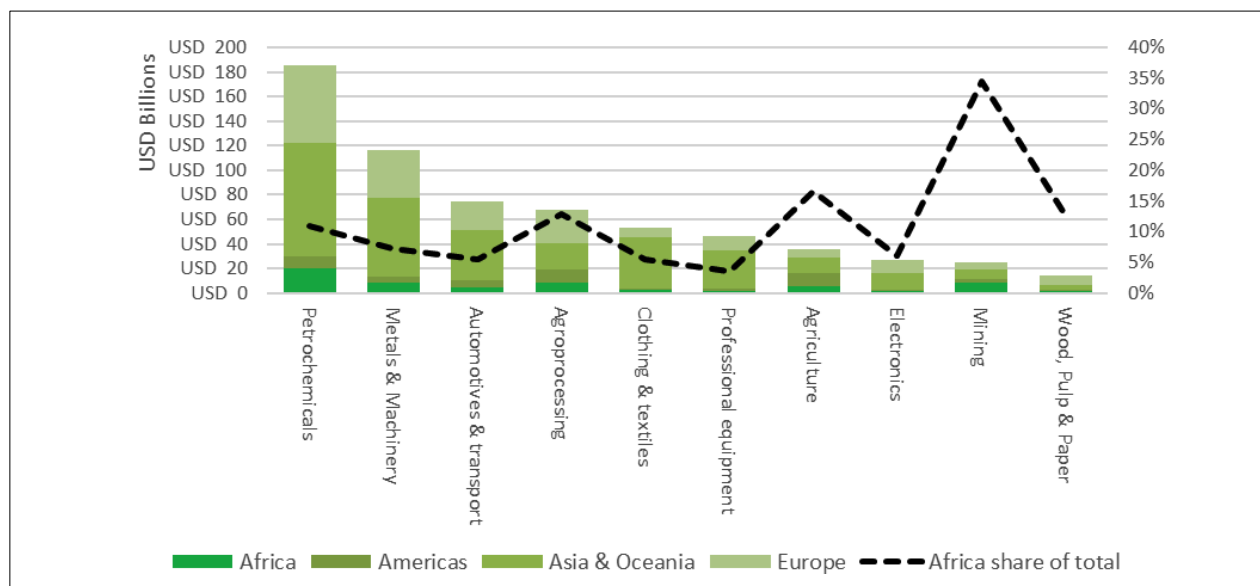
During the sixth Administration, SA led efforts to operationalise the AfCFTA, through a number of measures and actions, which included:

- Helping to set up a functioning AfCFTA Secretariat, headed by a South African who was an official in **the dtic** previously. This included employment of staff, setting up offices, developing and managing budgets and hosting of governance meetings
- Operationalising an AfCFTA Council of Ministers, which SA chaired for more than a year during the Covid-19 pandemic
- Promoting ratification of the AfCFTA treaty, with 47 countries who have now formally ratified and approved the treaty
- Finalisation of Rules of Origin covering more than 92% of products and tariff lines in the tariff book for goods
- Setting up the Dispute Settlement Body under the AfCFTA and appointment of the first 5 Appellate Body members, which includes a South African jurist
- Agreement by SA, Namibia, Botswana, eSwatini and Lesotho on a common offer of 90% of products in the tariff book to commence trade under the AfCFTA and acceptance that our tariff reduction schedule would, for most markets, be over 10 years
- Finalisation of text and adoption of 5 major Protocols that will help to harmonise policies on a range of policy areas, covering competition, intellectual property, promotion of investment, and digital trade. The first-ever trade Protocol on promotion of women and youth in trade, was adopted; while the AfCFTA Digital Protocol was also adopted, serving as a crucial legal instrument aimed at accelerating technology-driven innovation and commerce in Africa by establishing harmonized rules, common principles, and standards to promote intra-African digital trade, enhance cooperation on digital matters; and creating a transparent, secure, and trusted digital trade ecosystem.
- Publication and Gazetting of a provisional schedule of products that SA will implement in opening our market, signalling the start of trade
- On 31 January 2024, South Africa commenced trade under the AfCFTA, together with 11 other African countries. President Ramaphosa launched the first shipments of SA industrial products to Ghana and Kenya. Botswana has now published its tariff schedules, increasing the number of countries to 13 who have started trade under the new preferences.

The potential of the AfCFTA is immense. By 2030, African household consumption is estimated to reach US\$2,5 trillion. By 2040, the urban population of Africa will be larger than that of China. And by 2050, Africa's population will grow to 2,5 billion people. Demand for consumer goods such as food, clothing, furniture, consumer electronics, and construction materials for housing will all grow along with this population boom. The advent of mega-cities will create nodes of growth from which to expand more broadly into emerging markets. An emergent middle class will create a dynamic environment for entrepreneurship and the digital economy.

Africa's US\$660 billion in imports represents an enormous unrealised opportunity to drive growth on the continent. Other African countries supply only US\$67 billion of this total. Some 92% of manufacturing products imported into Africa originate from outside the continent. Every 2,5% of deep-sea imports that are displaced by African exporters would result in US\$15 billion in economic stimulus for the continent. (Figure 22)

Figure 22: African imports, by major sector and origin, 2021 (a)



Source: CEPII, BACI (Base pour l'Analyse du Commerce International)

As with all trade agreements, these opportunities need to be balanced against the risks that goes with opening markets to other African countries. As African markets grow, more investors may look outside of South Africa to locate their regional operations and headquarters. Growth in manufacturing, services and agriculture in the region will inevitably see some South African exports being replaced. These factors underscore the need to address the challenges to competitiveness in South Africa (this includes the regulatory regime and ease of doing business) as well as improving the infrastructure linking South Africa with the rest of the continent.

Africa's emergence as a common market reflects a broader shift in economic dynamism, with rapid growth in much of the Global South even as countries in the Global North remain key trading partners. The Sixth Administration continued efforts to grow trade with emerging markets. Achievements include the expansion of BRICS to a range of major emerging markets as well as numerous individual market access and purchases agreements with major developing countries. These initiatives have benefited from the cross-cutting improvements mentioned elsewhere, such as strengthening our domestic capacity to trade with emerging regions and more closely targeting barriers and opportunities when engaging in bilateral discussions.

The expansion of South African goods exports into the broader African market has been notable in recent years. During the period spanning from 2019 to 2023, there has been a substantial uptick in exports to the rest of Africa, signifying a robust growth trajectory. Specifically, the value of SARS-reported goods exported surged from R343 billion to R547 billion over this period, reflecting a significant 59% increase in trade activity. A particularly noteworthy aspect of this growth is the pronounced surge in exports of manufactured goods, which accounted for a substantial 87% of total exports in 2023.

This surge in manufactured goods exports underscores the evolving dynamics of South Africa's trade relations within the continent. It signifies a shift towards value-added products and indicates an increasing sophistication in the country's manufacturing capabilities. This trend not only reflects South Africa's competitiveness in producing high-quality goods but also highlights the growing demand for such products within African markets.



Industrial Policy in Action - Case Study 9: Regional value-chains

The development of the South African auto industry has provided significant economic benefits to regions of the country and to SA's industrial and advanced manufacturing base.

What has been less commented on is the growth of a regional value-chain in the auto industry, integrating raw-materials and production capacities in different parts of the African continent.

South African automotive companies source leather car seats from Lesotho, copper wire from Zambia and the wiring harnesses from Botswana, rubber from Cote d'Ivoire, Nigeria, Malawi, Ghana and Cameroon for use in production of tyres, and steering wheel components from Tunisia.

These inputs alone accounted for more than US\$200 million worth of product traded among African

countries, to help produce cars that then makes its way to the markets of the world.

Africa is able to sustain a much larger car-making industry. India, with about the same population, produces five times more vehicles. China is in a league of its own. For African regional value-chains to deepen and scale up, the continent has to address the challenge of imported used cars, Japan being a particularly large supplier as its own domestic policies geared to support new car consumption, results in vehicles being dumped in African markets. They come with a cost advantage but stunts the growth of advanced manufacturing industries, locking Africa into a market that struggles to generate the purchasing power to sustain large-scale production.

Going forward, our focus will be primarily on diversifying our export basket to major growth regions. This requires two very different approaches for Africa, and for emerging markets in the rest of the world (such as the BRICS and emerging Asia).

In the case of Africa, our diversification efforts build on an already extensive base of manufacturing exports. South African exports to the rest of Africa already consist primarily of manufactured products. In the case of high-growth markets outside of Africa, our diversification efforts aim to break from emerging patterns in which we are primarily a supplier of products from the mining value chain, both ores and metals.

South Africa's export relationship with global markets can broadly be categorised into three categories: traditional (markets for which South Africa is a commodity supply); transforming (markets for which South Africa's role as a commodity supplier has evolved to include more diversified exports); and advanced (markets for which South Africa exports more value-added goods than anything else). Most of the advanced markets for South Africa are based in Africa. On the opposite end of the spectrum, a number of leading Asian markets remain traditional export destinations, with commodities still overwhelmingly dominating trade. The countries of the Global North largely lie in between. (Table 6)

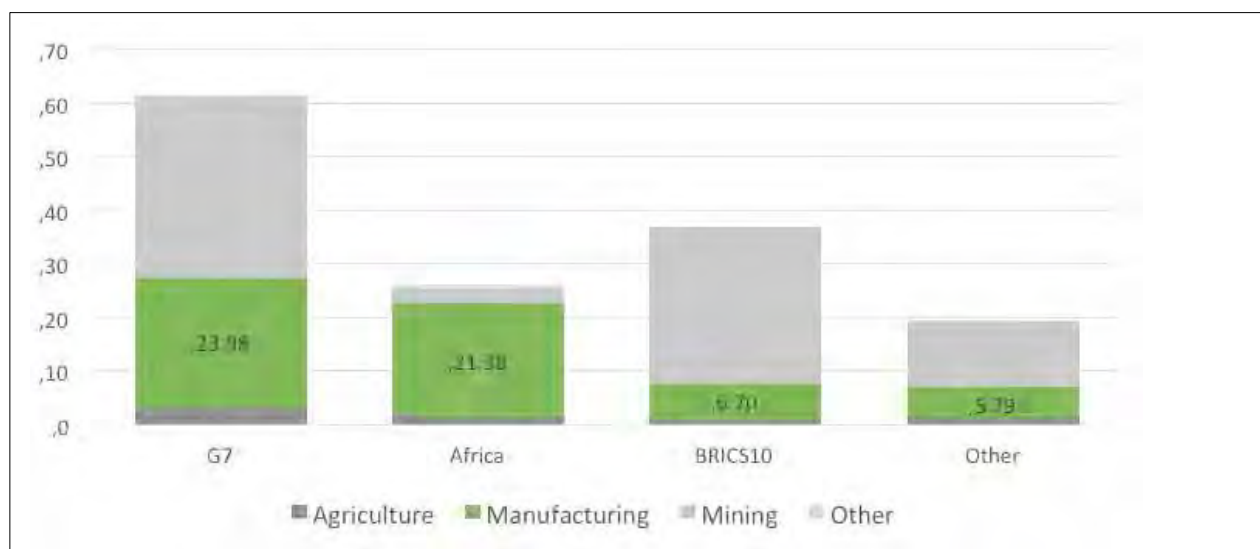
Table 6. South Africa's largest exports markets by category of diversification, and share of manufacturing in total exports, 2022

Traditional Manufacturing and agriculture are less than 33% of total exports		Transforming Manufacturing and agriculture are 33% - 66% of total exports		Advanced Manufacturing and agriculture are more than 66% of total exports	
Country	Mfg %	Country	Mfg %	Country	Mfg %
China	23%	USA	44%	Zimbabwe	95%
Japan	18%	Germany	53%	Belgium	72%
India	27%	UK	39%	Botswana	78%
S Korea	18%	Netherlands	45%	Namibia	96%
Hong Kong	22%	UAE	50%	Zambia	98%
Pakistan	11%	Italy	41%	Eswatini	93%
Morocco	9%	Taiwan	37%	DRC	98%
Poland	26%	Malaysia	51%	Spain	80%
Denmark	24%	France	45%	Lesotho	93%
Sri Lanka	5%	Mauritius	53%	Australia	91%

Source: SARS customs data

Among the European destinations with more diverse export bundle, exports are often anchored by commodity and ownership linkages, with exports to Spain led by stainless steel, produced locally by Spanish subsidiary Columbus. Exports to Belgium have been transformed by a surge in vaccine exports thanks to J&J's outsourcing of production to Aspen Pharmacare. Similarly, many of the more transformed value chains remain anchored by a relatively narrow number of sectors, such as exports of automobiles (as in the case of Germany), and by domestic champions like the citrus industry (in the case of the Netherlands). By contrast, exports to Africa are shaped by a more diverse group of food and consumer goods, often with local branding, as well as some capital goods, largely for the mines and construction. Figure 23 underscores the importance of Africa for South African exports of manufactures.

Figure 23: South African exports in billions of US dollars, by bloc and sector, 2021



Source: CEPII, BACI (*Base pour l'Analyse du Commerce International*)

The Sixth Administration also undertook cross-cutting improvements to economic diplomacy efforts. State visits now feature dedicated business forums that help policymakers raise economic barriers and enable companies to connect with new opportunities. Improved export targeting systems refine messaging and priorities when engaging with partners, and domestic export networks like the Black Industrialist Network equip companies to benefit from these engagements. The broad focus of has been on transforming our diplomatic efforts from closed state-to-state discussions, towards platforms that help unlock practical opportunities for industrial growth.

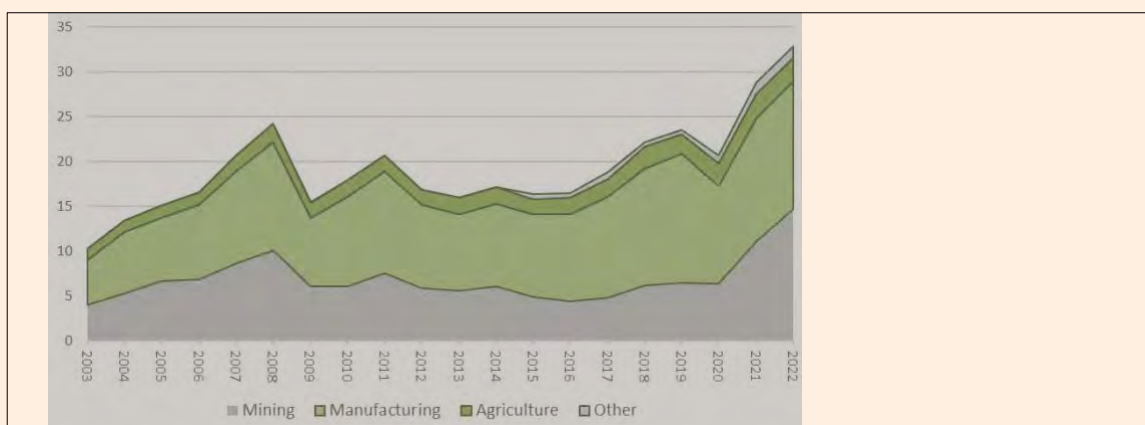
The case study below shows an example of successful transformation of the composition of trade:



Industrial Policy in Action - Case Study 10: Trade with the EU – a shift to greater levels of value-addition in export products

Over the last decade, trade with the European Union (EU) – South Africa's largest trading partner - has been undergoing a quiet revolution. It continued to be strongly influenced by fluctuating prices of key commodities (like coal and metals), but progressively moved from a deficit of almost EUR 10 billion in 2013 to a surplus in 2021 and 2022. In fact, 2021 and 2022 reflected the first two trade surpluses which South Africa has recorded with the EU going back to 2004, evidencing a shift in overall the structure of trade. Even more significant, over these ten years the value of raw materials exported to the EU declined. Instead, exports of manufacturing and agricultural goods drove growth. Since 2013, value-added goods like manufacturing and agriculture have made up the majority of exports to the EU. By 2021 manufacturing alone accounted for 46% of exports. (Figure 24.)

Figure 24. Composition of South African exports to the EU, 2003 - 2022



Source: COMTRADE reporting of Eurostat data

This transformation results from a multifaceted set of trends and initiatives. Trade policy is a part of this story, with preferential access to the EU market being enabled by the Economic Partnership Agreement. Use of this access was enabled by supportive policy and the competitiveness of key industries. Automotives have been the largest driver of export growth, thanks in large part to the APDP support programme. In addition, growth in steel and aluminium exports has benefited from measures to protect the metals sector from a string of crises.

Table 7: Top growing exports to the EU in millions of US dollars, 2003 - 2022

	Value, 2003	Value, 2022	Growth, 2003 - 2022
Coal	1 591	4 945	3 354
Automotives, cars	121	3 472	3 351
Platinum Group Metals (PGMs)	549	3 096	2 547
Automotives, trucks	35	1 848	1 813
Precious-metal ores	156	1 920	1 764
Iron ores	75	1 398	1 323
Catalytic converters (and centrifuges)	876	1 860	984
Citrus	265	964	699
Aluminium	15	608	593
Grapes	267	590	323

Source: COMTRADE reporting of Eurostat data

Trade with the EU still needs further transformation, particularly to close the large deficit in trade in services and manufacturing goods. Still the positive shift in the past 15 years is emblematic of the potential for trade policy to be deliver when it works alongside industrial policy and private sector initiatives to build the types of networks of support that can drive real change.

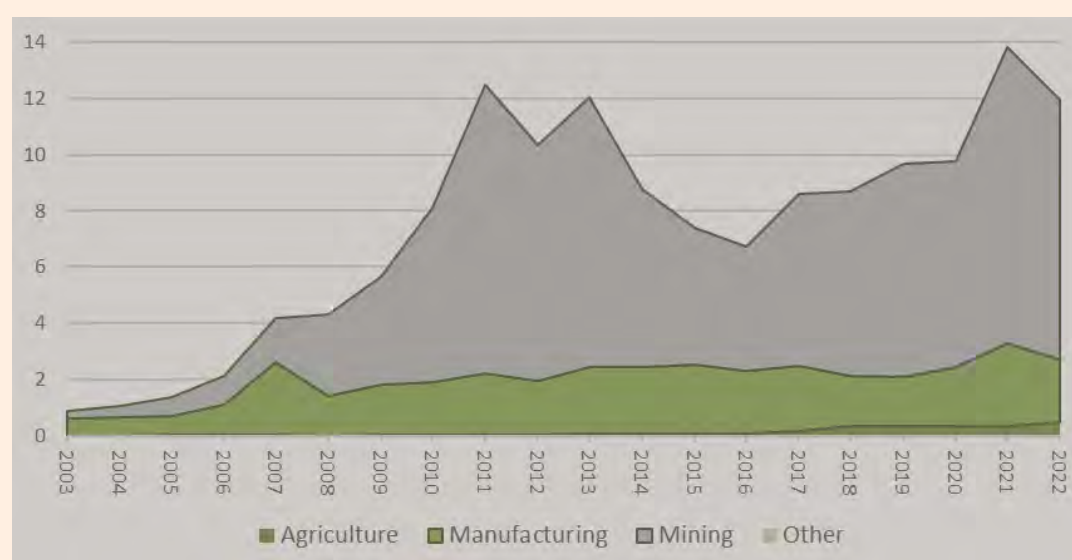
South Africa has not always been as successful in transforming trade policies, as the following case study of trade with China highlights.

Industrial Policy in Action - Case Study 11: Trade with China – managing and changing commodity dependence

China's transformation into an economic powerhouse brought a vast increase in trade with South Africa. Between 2003 and 2009, China moved from being South Africa's eighth largest export destinations (with exports valued at roughly a fourth of the top export destination) to being the country's largest single one-country export market. This growth underscores the enormous potential of building close relationships with large emerging markets.

That said, trade with China also currently shows some of the starkest imbalances in the composition of trade. Mining exports make up more than three-quarters of total exports to China according to South African statistics. (See Figure 25) In contrast, almost all South Africa's imports from China are manufacturing goods. In short, trade with China makes for a pattern of raw material exports and manufactured imports that replicates the post-colonial trade patterns previously seen with major advanced economies.

Figure 25: Composition of South African exports to China in billions of current US dollar, 2003 to 2022



Source: COMTRADE reporting of SARS data

Both China and South Africa recognise the need to transform their trade relationships. Efforts to improve the structure of trade include a number of buying missions from China during the course of the Administration. In August 2023 a number of MoUs were signed with China in areas such as Green Economic and industrial Development, Blue Economy Promotion, Digital Industrialisation, Strengthening Investment Cooperation, and promotion of Special Economic Zones). In addition, a list of 100 high-potential products that South Africa could supply to China was developed. This list will serve as the basis for joint efforts to deepen manufacturing trade going forward.

Investment by Chinese companies in light-manufacturing and the auto industry is a model of what is possible, but will need to be scaled up. Hi-Sense now produces 1 million television sets a year and has the capacity to produce up to 500 000 fridges; FAW assembles trucks in South Africa and the Beijing Auto industrial Corporation has completed the building of a plant that can assemble vehicles in the E Cape.

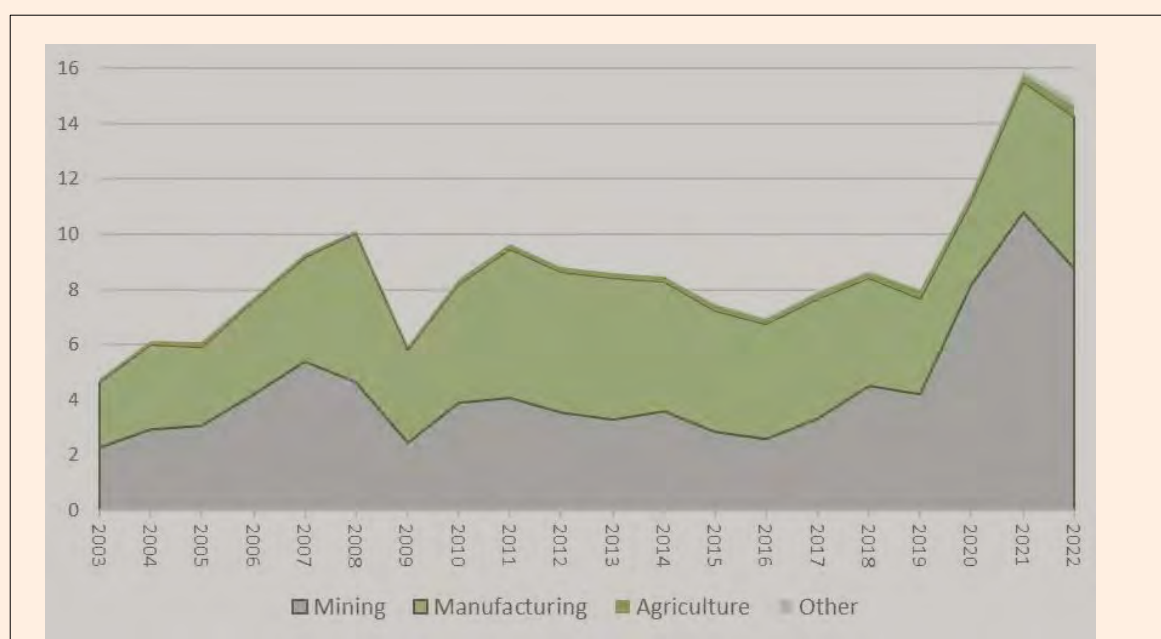


Somewhere between these two cases is the more complex case of important anchor markets, with complex growth paths, as is illustrated by trade with the United States:

Industrial Policy in action Case Study 12: Trade with the United States – preserving AGOA and advancing diversification

The United States remains the second largest single-country market for South African exports. As with the EU, manufactured exports to the US have grown rapidly, more than doubling over the last 20 years. But manufacturing trade has consolidated around a few central exports, notably automobiles, while surging commodity prices in the early 2020s reinforced dependence on raw materials exports.

Figure 26: Composition of South African exports to the US in billions of current US dollars, 2003 to 2022



Source: COMTRADE reporting of US Census Bureau data

The trading relationship with the US is largely shaped by the US African Growth and Opportunity Act (AGOA). AGOA is a unilateral market-opening by the US government, available to sub-Saharan African countries. AGOA and related programmes account for a quarter of South African exports to the US, and make up a significant majority of manufacturing and agricultural exports. As a unilateral preference, however, it is subject to decisions by the US on which countries qualify, and how long the programme will last.

South Africa has used diplomatic efforts to stabilise relations with the US around AGOA, following geo-political challenges. Initiatives included a high-level delegation to Washington in mid-2023 and later the hosting of the AGOA Forum in Johannesburg. The Forum offered a chance to showcase and promote South African firms while reinforcing a common message from the African delegation on the importance of maintaining South African participation and the benefits for the US of South African exports of industrial inputs and finished products.

Utilisation of AGOA was supported through industrial policy support. Programmes like the APDP, the Tshwane Auto SEZ and other programmes encourage a strong local presence for US manufacturers. That generates supports among leading US companies for South Africa to remain in the programme. Strategies like the Electric Vehicle White Paper can also help local producers manage changing policy environments in the US.

While AGOA does not provide general preferential market access for the US to SA markets, it provides a framework for the overall trade and investment relationship.

South Africa supplies the US with 12 of the 50 mineral products identified by the US Geological Survey as critical for US interests. South Africa is the largest supplier of six of these commodities, and the second largest supplier of a further three. This is most striking for PGMs and chromium, particularly given potential geopolitical concerns on the supply of platinum from Russia and the supply of chrome from Kazakhstan. In addition, SA is a key facilitator of stability in the sub-region, including through support for peace-keeping efforts in the Democratic republic of Congo (DRC).

Table8: South African supply of critical minerals to the US, 2022

Mineral	US imports from SA, 2022, thousands	Rank of US suppliers	SA share of US total imports	Share of global production	Share of global reserves
Rhodium	2 625 205	1	39%		90%
Palladium	1 406 700	1	35%	38%	90%
Platinum	782 366	1	46%	71%	90%
Aluminium	490 618	17	1%		
Chromium (ferrochrome)	281 587	2	27%	44%	36%
Iridium & Ruthenium	221 023	1	59%		90%
Nickel	170 420	9	4%		
Titanium	141 120	1	28%	10%	5%
Manganese	44 515	2	30%	36%	38%
Zirconium	39 286	2	34%	23%	9%
Chromium (ore)	32 619	1	97%	44%	36%
Germanium	2 979	7	4%		

Source: COMTRADE reporting of US Census Bureau data; USGS data on production and reserves

3.4. Localisation for industrialisation

Localisation strategies aim to encourage public and private parties to progressively increase the level of local goods purchased, whilst using such growing domestic base to increase the level and range of goods exported. They have three main forms: requirements on government procuring agencies; agreement with local retailers and downstream manufacturers; and import tariffs. This section focuses on public and private local procurement, since tariffs were covered above.

Localisation rests on two fundamental economic arguments. First, in many cases local suppliers could compete with imports if given the opportunity to gear up. Often, they are shut out by exclusionary procurement systems and longstanding relationships, or because they need time to invest in new production lines. Second, in some cases local suppliers end up with higher costs and prices than imports, but the benefits of buying from them outweigh the premium. For instance, local suppliers can deliver more promptly and are also more easily able to undertake repairs and modifications. Even where that is not the case, the benefits to society of gradually developing new production capacity may exceed a moderate price premium. Obviously, the benefits loom larger where the price premium is relatively small. The challenge for industrial policy is to develop policies that encourage local procurement without compelling it in cases where the cost to users significantly outweighs the benefits.

The downturn in public investment from the mid-2010s and state capture of important procurement processes diminished the scope for local procurement by state agencies. The challenge has been to tighten procurement rules while still allowing supply chain managers to take into account the benefits of supporting local production.

The Sixth Administration built on earlier measures to expand local procurement by state agencies, especially for infrastructure inputs. In particular, the procurement regulations permitted the designation of particular products for local procurement. The dtic and National Treasury designated products where local suppliers were able to gear up to meet government needs.

In 2022, however, a court decision found that the National Treasury did not have the power in the empowering legislation to set requirements for procurement by other government agencies. New procurement regulations, in effect from 2023, gave the power to designate goods for local procurement to individual departments and agencies. Still, national designations should help persuade government agencies to favour local providers. New legislation introduced in parliament during 2023, in the form of a Procurement Bill, will once passed, address the gap in the legislative framework to empower national designations of products for local procurement.

Procurement by the private sector can assist with deeper industrialisation in the economy. Established companies also agreed to increase local procurement, based on the 2020 NEDLAC local procurement accord and specific commitments in the Masterplans. Measures ranged from agreement on off-take targets for upstream suppliers to agreements to support the development of local suppliers more actively with expertise, mentoring and financing. The auto Masterplan set targets to measure its progress in increasing the use of local components. CTFL retailers also set taggers for the share of local goods in their total sales. Further examples are given in the section on Masterplans.



Industrial Policy in action Case Study 13: Lessons from Localisation in the Sixth Administration

The South African government's localisation agenda has yielded valuable lessons, shedding light on the significance of various factors in promoting domestic production and economic resilience.

Supportive regulatory environment: Firstly, the establishment of a supportive regulatory environment, particularly in trade and competition policy, has played a pivotal role. Conditions imposed during merger investigations in competition policy have effectively incentivized industry players to engage in discussions, facilitating collaboration towards localization goals. A number of competition settlement agreements have included localisation conditions including PepsiCo, Coca-Cola, Air Liquide, Heineken and Shoprite. In addition, a number of parties have begun contribution to the Localisation Support Fund, which aims to unlock and accelerate domestic manufacturing growth in South Africa.

Policy coordination: Policy coordination has proven to be a crucial factor in advancing the localisation agenda. Initiatives such as the Equity Equivalent Investment Programme (EEIP) played a growing role in aligning various stakeholders and resources towards both the common goals of transformation and localisation objectives. Funds provided by JPMorgan and Citibank (see Case Study 14) as part of their EEIP commitments have been used to address the funding for entrepreneurs.

Supply-chain resilience: The COVID-19 pandemic has served as a stark reminder of the vulnerabilities inherent in overly reliant and lengthy supply chains. The disruption caused by the pandemic has underscored the importance of diversifying supply chains and establishing shorter, more resilient sourcing networks. This heightened awareness has prompted businesses and policymakers alike to prioritize local sourcing and production, recognizing the strategic imperative of mitigating supply chain disruptions and ensuring continuity of critical goods and services.

Industry champions: Moreover, the influence of industry champions has played a significant role in driving the localisation agenda forward. The leadership provided by champions rallied stakeholders and resources towards the common goal of promoting domestic production. Particularly in sectors such as sugar, the presence of industry champions has been instrumental in garnering support for investment and localisation initiatives, highlighting the importance of visionary leadership in driving industry transformation.

Targeted use of incentives: Incentives and policy certainty have emerged as critical enablers of localisation efforts, particularly in automotive manufacturing. The provision of targeted incentives and clear policy frameworks has incentivized investment and facilitated the localization of production processes.

Increasing domestic demand: Increasing domestic demand serves as a pivotal driver of localisation, as it not only stimulates economic activity within the country but also creates a robust market for domestically produced goods and services, reducing reliance on imports and fostering sustainable economic growth. Increasing domestic demand serves as a pivotal driver of localisation, as it not only stimulates economic activity within the country but also creates a market for domestically produced goods and services, reducing reliance on imports and fostering sustainable economic growth. In the clothing and textiles sector, localisation has been driven by the ability of local retailers to cater to customer preferences more effectively, underscoring the importance of aligning production with market demand to drive sustainable growth in the industry.

These reflections underscore the multifaceted nature of successful localisation efforts, highlighting the importance of regulatory support, policy coordination, diversified supply chains, industry champions, and targeted incentives in driving domestic production and economic development. As South Africa continues to navigate the complexities of globalization and economic transformation, these lessons will remain invaluable in shaping future localisation strategies and fostering sustainable growth.

3.5. The Investment Drive

The state capture period frayed relations between the state and established local and foreign businesses. This situation contributed to stagnation in investment, as shown in Figure 6. In response, the Sixth Administration aimed to restore trust with investors through more proactive investment promotion, designed to address their key concerns and smooth the way for investment in South Africa. To this end, the Presidency appointed Presidential Investment Envoys and held annual Investment Conferences, at which major investors could demonstrate their support by publishing planned projects. In addition, **the dtic** negotiated investment commitments as a condition for state support in some cases, as well as providing industrial fundings for desirable projects. In the eve of the Sixth Administration, the President set a target of attracting R1,2 trillion in investment in the next five years.

Supporting investment proved unexpectedly challenging due to the series of shocks in the early 2020s. Global FDI inflows fell by 40% in 2020, and despite a relatively fast recovery greenfield projects remain subdued. South Africa also faced fiscal constraints and financial crises at the main infrastructure companies, which made it more difficult to increase aggregate demand and to incentivise investment.

Nonetheless, the Investment Drive managed to secure notable successes from a wide range of companies. Published pledges exceeded the President's target of R1,5 trillion in 2023, reflecting the willingness of major companies to support the investment effort. The pledges included R214 billion in manufacturing investments, R234 billion in services and digital infrastructure, and more than R100 billion in productive infrastructure. With projects in 47 of South Africa's 52 districts, the pledged projects represent a substantial commitment to South Africa's economic future. The table below sets out progress made on the investments as of late 2023.

Table 9. Projects published in Investment Conferences by stage of completion and sources, end 2023

	Number	Value	Flows
Total projects	317	R1 500bn	R562bn
Projects completed	111	R273,7bn	R265bn
Projects under construction	99	R525bn	R217bn
Projects: early stages of implementation	59	R343,7bn	R6,2bn
Projects delayed/on hold	27	R52,9bn	R5bn
Private finance	5	R18,8bn	R4,9bn
DFIs	16	R221,6bn	R64bn
Announcement additions		R55,7bn	
Announcement reductions		-R15,5bn	

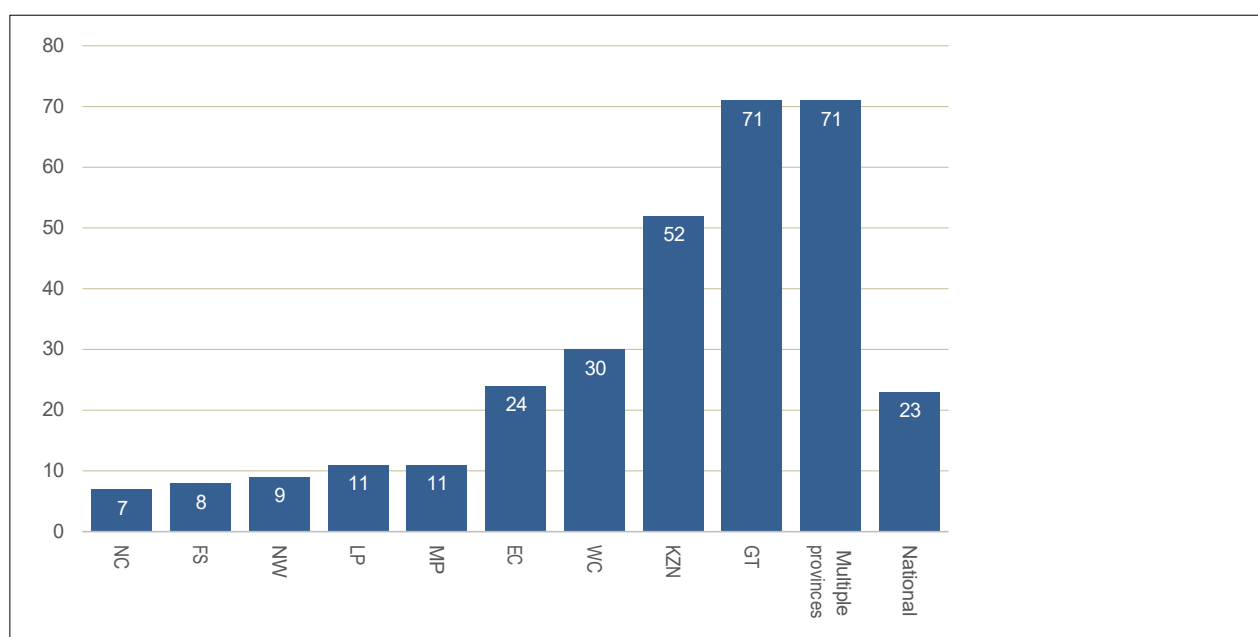


The projects announced at the Investment Conferences include the following.

- Five major auto-industry investments worth R34,2 billion for the Toyota Corolla-Cross, the new C-class Mercedes model, the Isuzu D-Max bakkie, the new Ford Ranger bakkie and the BMW X3.
- Investment in food production worth R33 billion, including projects covering expansion in production at PepsiCo, Wilmar, Nestle, Rainbow Chicken, Dr Oetker, Lotus Bakeries, Kerry Foods, in2food, Heineken and AB InBev.
- The opening of the new Sappi-Saiccor facility worth R7,7 billion, which is expected to generate R5,5 billion in output and exports, by processing raw timber into pulp that can be used for viscose, pharmaceutical products and other industrial applications.
- Expanded production of MDF board by PG Bison, in a R1,98 billion investment, which will sustain and expand local furniture production.
- Projects in the digital economy, including undersea fibre-optic cable by Google, connecting South Africa with West Africa and Europe, as well as expansion by Vodacom, MTN and Telkom of their South African networks.
- New mining projects such as the first large new diamond mine by Anglo American, and Vedanta Zinc International's Gamsberg Mine.
- Green energy projects such as Bio2Watt partnership with BMW to provide the company's local factories with green biofuel energy.

The provincial spread is set out in Figure 27.

Figure 27. Provincial spread of investments announced at investment conferences, in billions of rand, as of end 2023



The impact of the Investment Drive emerged from EY's Africa Attractiveness study for 2022. It found that, amidst Africa's increasing emergence as a global hub for inward investment, South Africa stood out as the destination for the most projects. It accounted for over a fifth of total investment projects on the continent in 2022. The 157 projects identified were valued at US\$26.8 billion, and look set to create 14 500 jobs. South Africa was the largest destination for tech projects and the third largest destination for renewable energy investments.

The investment drive has provided a solid base from which more work is required to lift the investment rate in the economy. This further structural transformation will be critical to ensuring that investment can generate the desired economic multipliers, including increased labour absorption and participation of small and black-owned business.

3.6. Transformation and spatial development

The need for transformation is a cross-cutting imperative in response to the deep inequalities in ownership and opportunities that was a central feature of colonialism and later Apartheid. Transformation here means principally the effort to increase black ownership and control in the economy, either by individuals or through broad-based projects such as worker and community schemes. Most black industrialists are emerging entrepreneurs, who often have to deal with inadequate access to capital, whether borrowed or from family and friends; concentrated markets that are difficult to break into; and often limited access to networks of established business owners and investors. For this reason, the Broad-Based Black Economic Empowerment (B-BBEE) Act (2003) requires that “every organ of state and public entity” consider transformation in the “issuing of licenses, concessions or other authorisations” as well as in procurement.

The focus of transformation has expanded over time:

- Initially the emphasis was on individual share ownership, typically a non-controlling share within an existing business, which helped the process of capital accumulation in the hands of black South Africans.
- That was followed by broad-based empowerment made up of communities, consortia of women, youth or workers, and collective investment and empowerment vehicles, with key social programs funded through these (e.g. community bursary schemes).
- A focus on black industrialists then emerged, aims at genuinely empowering individual black entrepreneurs with controlling stakes in a company and executive responsibilities.
- The Sixth Administration expanded efforts to promote ownership by the employees of a company, developing an inclusive South African model that can move away from the long-standing adversarial approach on the shop-floor.

All of the Masterplans published under the Sixth Administration committed to accelerating black ownership. A number set targets for transformation, largely through increased black ownership in the supply chain or in some cases in the dominant companies. Some also aimed to promote employment equity. The quantified transformation progress on selected Masterplans is indicated in Table 8.

Table 8. Progress on transformation in the published Masterplans

Industry	Targets
Auto	R302 million grant funding disbursed (R464m approved) to 52 black-owned businesses in auto value chain, creating 1 572 jobs. Of the firms supported, 17 are manufacturers.
Poultry	20 new black contract farmers established
Sugar	Number of small-scale growers that sold cane to millers increased by 1 924 farmers over the past 3 years, with 460 000 tons more cane sold by them to millers; To date over R1,2 billion of the Transformation Fund has been spent on funding support for small-scale growers.

The B-BBEE Codes of Good Practice provides for an Equity Equivalent Investment Programme (EEIP) for foreign investors that cannot accommodate a direct equity interest by black South Africans. During this Administration, a number of significant EEIP transactions were approved. They include:

- seven auto assemblers (covering BMW, Ford, Toyota, Mercedes Benz, Nissan, VW and Isuzu);
- component manufacturers in the auto industry (Tier 1 suppliers);
- two banks, namely JP Morgan and Citibank (see box); and
- digital services with Amazon Web Services – the company to a R365 million support programme for black-owned businesses in ICT.

Each of these transactions required that the company agree an ‘equity equivalent’ with **the dtic**. They have unlocked billions in support for black and small enterprises, mostly as suppliers, through loans, grants and procurement.

Industrial Policy in Action - Case Study 14: introducing flexibility with empowerment rules through the Equity Equivalent programmes – the case of Citibank

Citibank applied for an EEIP. It was approved in June 2023 for eight years. Citibank committed to an investment of R1,375 billion, to be utilised as follows:

- The development of Vaal River City and Vaal Aerotropolis, Vaal Special Economic Zone, as catalyst for the economic development of the Vaal area.
- A grant of R200 million that will be managed by the IDC to support black industrialists within the Vaal SEZ. This funding is intended to ensure a transformed, viable industrial base being set up as part of urban development strategies.
- An amount of R544 million for bulk infrastructure, half of which will be allocated to black-owned service providers. The selected infrastructure will serve as a development catalyst for the area.
- 6 496 jobs are projected to be created during construction.

Across competition and trade policy, participation by and support for black-owned companies has become an important public-interest criterion in decision-making, as foreseen in the Broad-Based BEE Act.

In competition decisions, where mergers and acquisitions have a public interest component, the ability of black-owned enterprises to enter and advance in key product and service markets has been a key consideration. So too has been the spread of ownership to black people and other historically disadvantaged groups, such as workers and working-class communities. In some instances, transfers of ownership have also been associated with the creation of industry-wide supplier or localisation funds. They have pooled resources to promote market access via private sector procurement.



Industrial Policy in Action - Case Study 15: Supporting transformation – the case of Heineken

Heineken, a global beverages company made a bid to buy a controlling stake in Distell, a South African firm with local and some global presence in the same industry. Under the provision of the Competition Act, the government and the merger parties agreed a number of measures to advance national public goals on investment, small business development, boosting local manufacturing and expanding participation of black South Africans in the economy.

The following graphic summarises key features of the agreement.

Case Study: Heineken, Distell and Namibian Brewery Merger

The merger resulted in significant commitments from the merger parties:
Investment:

- Capex of R10 billion over 5 years
- R3.8 billion investment within 5 years to for a new greenfield brewery
- R1.7 billion investment within 5 years for a new greenfield maltery
- The above investment will reduce Heineken import of finished products and barley; support approximately 279 new direct jobs and support approximately 900 indirect agricultural jobs

Enterprise Support

Source more than 80% of key inputs locally which includes – malt, grape and wine, dairy, apple juice concentrate, compounds and flavours and maize etc.
Procurement from black suppliers over 5 years, commitment of R4.7 billion

Supplier Development And Other Funding Support

Commitments Totalling R775 Million

The merging parties will spend R400 million over 5 years for investment in SME and HDP controlled suppliers to promote agriculture, research and development and provide support to black women owned and controlled business.

Contribute R200 million to a localisation and growth fund

Invest R175 million over 5 years to support 1000 Tavern owners to create a safe, responsible and sustainable business

ESOP and Employment Commitment:

Within 3 months of approval the merger parties shall establish a new ESOP (Employee Share Ownership Plan) of approximately 6.33% valued at approximately R3.5 billion.

For 5 years the merged entity shall maintain the total aggregate number of all employees in South Africa.

In trade policy, discretionary programmes such as amendments to customs duties and guidelines for rebate programmes take into account the role of black ownership in the affected value chains.

Incentive programmes for producers and industries provide direct financial and non-financial support to black owned and operated enterprises. These measures have included initiatives such as the Black Industrialists Programme, which since its inception provided over R39 billion to over a thousand black industrialists, with these black-owned firms now employing more than 90 000 workers and contributing billions of rands to our economy. A similar initiative is the Black Industrialists and Exporters Network. It aims to facilitate access to export opportunities in major destination markets for black-owned firms in manufacturing and other tradable sectors.



Industrial Policy in Action - Case Study 16: The Black Industrialist Programme – a focused effort to improve the number and size of black-owned firms in key productive sectors.

In 2015, Cabinet approved the Black Industrialists Policy, which seeks to increase participation of black South Africans in ownership and control of productive enterprises. The programme aims to unlock the potential of black entrepreneurs in South Africa. The dtic advances the objectives of the Black Industrialists Policy through grant funding to applicants in productive sectors of the economy. The IDC and the National Empowerment Fund provide funding to eligible black entrepreneurs, including those who would have had difficulty obtaining funding from commercial banks.

To date, the dtic-group has provided a mix of loan, equity and grant funding as follows:

- R39,2 billion in industrial finance accessed by Black Industrialists and black film makers since implementation of the policy in 2016 through loans and grant funding.
- R27 billion accessed by black-empowered businesses (excluding black industrialists) over the past 5 years.
- R14 billion support across the country by the NEF towards black-owned businesses since its inception
- R10 billion accessed by over 200 projects in and around townships for the past 5 years.

In the period since 2023, the focus of government policy has shifted from measuring support to measuring impact. In this regard, the Black Industrialist programme now targets increased industrial output and job creation. The Programme has also shifted from being solely a funding platform, to utilising regulatory and partnership instruments of support, e.g. competition settlement agreements and masterplans. By this measure, in 2023, Black Industrialist firms employed more than 100 000 workers and produced goods and services worth more than R120 billion. Full details are due to be released at the Black Industrialist and Exporter Conference during 2024.

Industrial Policy in Action - Case Study 17: Expanding worker ownership in the economy

The extraordinary levels of asset and income inequality in South Africa entrenched under apartheid stunt demand for basic goods, limit savings and contribute to household instability and social conflict. In 2019, changes to the competition legislation required the competition authorities to evaluate the impact of proposed mergers on, among others, worker ownership in enterprises.

The competition authorities and the dtic Ministry soon reached landmark agreements with PepsiCo and Coca-Cola, that secured significant worker ownership in both companies. A series of settlements followed involving companies such as Old Mutual, PepsiCo, Coca Cola, Burger King, Astron, Shoprite-Checkers, Imperial/Dubai World and Heineken. This is a solid start to making economic empowerment more effective, and broad-based.

During the Sixth Administration, the number of workers covered by new worker share ownership

schemes grew by over 307 000 workers. In total, by March 2024, some 551 000 workers were shareholders through ESOPS in the companies they work at.

Figures released at the Inaugural Worker Share Ownership Conference indicated that R3,3 billion in dividends were paid to worker shareholders during 2023. Eight companies were reported to have agreed to worker nominees serving on company boards. They include Shoprite-Checkers, Coca-Cola, PepsiCo, Heineken and Vitol (in a planned transaction involving Engen). These developments represent a quiet but profound shift in the South African industrial relations environment.

Companies with new worker ownership schemes operate in energy, medical services, food and beverages, and transport and logistics.

The table below provides an indication of concentration by sector:

Formal sector	1 in 16 workers
Manufacturing	1 in 15 workers
Mining	2 in 5 workers
Beverage	1 in 2 workers

Based on Quarterly Employment Survey Data

3.7. Competition policy

The Sixth Administration adopted an ambitious approach to competition policy through a combination of reforms to the Competition Act in 2018 and fuller utilisation of existing powers in **the Act**. It expanded the ability of the Competition Commission to address market structures rather than just firm behaviours. It also strengthened attention to public interest considerations in mergers, leading to a range of actions to promote wider transformation of the economy.

The costs of highly concentrated markets are well understood. They inhibit new entrants, limit investment and employment, and stifle innovation. Dominant firms are able to charge higher prices and exclude rival firms, reducing competitiveness and dynamism, and opening the door to imports. These practices are particularly damaging in South Africa because they maintain and reinforce inequalities and entrench exclusion and joblessness.

The Sixth Administration strengthened two central elements of competition policy. First, it enabled the Competition Commission to address structural factors behind concentration directly, rather than focusing principally on abusive behaviour. Second, it required that large mergers take into account developmental issues, by giving greater weight to their impact on specified public-interest criteria. In consequence, the Commission was able to agree with the merging companies on a range of actions that promoted more inclusive growth.

The 2018 amendments to the Competition Act provided the competition authorities with the power to determine whether market structures inhibit competition and the entry and participation of small and micro enterprise and black South Africans. This contrasted with the inherited practice, in which competition and anti-trust measures target cartel behaviour and abusive conduct rather than the structure of the market. More than two decades of experience with this approach following the transition to democracy demonstrated its inadequacies.

The 2018 amendments empowered the Competition Commission to conduct market inquiries as the basis

for binding findings and remedies to reform market structures, which could include divestitures and break-up of large companies which distort competition in the market. Previously it could only make recommendations on structure, with prosecution limited to illegal behaviour. The amendments also provided stronger powers to address abuse of dominance by large firms. The reforms focus on ensuring that dominant firms do not stifle the growth of small and medium enterprises and firms owned and controlled by black South Africans. Specifically, they prohibit:

- Charging an excessive price to consumers or customers. An excessive price is defined as a price higher than one that would be charged if there was robust competition in a market, which would usually be the cost plus a normal rate of return. The Commission has to show that a price is excessive; thereafter the firm concerned has to provide evidence to prove that it is in fact reasonable. These amendments, along with new regulations, were critical in addressing price gouging during the COVID-19 pandemic.
- Refusing to give a competitor access to an essential facility or to supply goods or services to a competitor when it is economically feasible to do so.
- Predatory pricing, where a dominant firm temporarily sets a price below cost in order to force competitors out of business. The amendments also address volume discounts that effectively work against smaller firms.

The Competition Commission initiated or completed six landmark market inquiries over the course of the Sixth Administration. Market inquiries empower the Competition Commission to identify structural barriers to participation by other firms. In the process, they can unlock opportunities that led to lower prices and better services. The market inquiries during the Sixth Administration focused on sectors that play a gatekeeper role in access to markets (retail, online intermediation platforms, and media and digital platforms) or have a direct and meaningful impact on the cost of living (fresh produce markets, data services, and public passenger transport).



In addition, the Competition Commission recommended divestitures during merger and acquisition investigations to address market concentration, including the divestiture of Strongbow in the case of the Heineken-Distell merger and the meat processing facility in the case of Burger King.

The case study that follows, highlights the impact of competition measures on data prices.

Industrial Policy in Action - Case Study 18: Bringing down data prices through competition remedies

The Competition Commission launched a market inquiry into data services prices in South Africa, following a request by the Minister of Economic Development. The report of the Inquiry was released in late 2019. It led to settlement agreements with the major telecoms companies, resulting in large reductions in the price of data. The Commission estimates that the remedies in savings to mobile consumers plus wholesale savings through lower prices for fixed broadband would amount to R20,5 billion over the next five years.

The settlements were tailored to each company involved – Vodacom, MTN, Cell-C and Telkom. We here outline the agreements with Vodacom and MTN.

Vodacom

The settlement agreement with Vodacom illustrates the breadth of price remedies secured by the Commission. Vodacom agreed amongst others to the following.

1. **Retail Pricing Reduction:** Vodacom agreed to a substantial multi-year reduction in the price of monthly data bundles across the board. Effective from 1 April 2020, prices of 30-day prepaid bundles dropped by over 30% across all channels. For example, the 1GB monthly data bundle dropped from R149 per 1GB to no more than R99 (including VAT). This represents a 34% price decrease. Customers that buy the lowest volumes of data, typically the lowest income group, would see the greatest benefit.
2. **Lifeline Data and Zero Rating of Data:** Vodacom agreed, except for the zero-rated Government websites, to make available all of its current zero-rated services on one platform. It also increased services for consumers in working class communities through "ConnectU". Under the agreement, ConnectU was to address seven key areas:
 - **Education** – Vodacom would expand its zero rating offering to all public universities, technical colleges and state schools; Internet Search – Vodacom shall provide a full zero-rated Internet search function powered by Wikipedia, which will enable customers to search for any topic online.
 - **Jobs** – Vodacom would allow customers to view and apply for job opportunities as advertised on seven zero-rated South African job portals.
 - **Social and essential internet access** – Vodacom would provide customers with free access to

Facebook Flex, local and international news headlines, trends, and weather forecasts.

- **Health and wellness** – Vodacom pledged to expand its health information by the third quarter of 2020.
- **Safety and security** – Vodacom would bolster measures to shield children from exposure to illegal and inappropriate adult content.
- **Pro-poor personalized discounting and free communication** – Vodacom would extend zero-rating to essential state and emergency specified sites, and enable citizens to access emergency services as well as crucial government information and services.

Vodacom also committed to extend personalised discounts to prepaid customers in all suburbs and villages where most of the population have income levels below the upper bound food poverty line.

3. **Transparency:** Vodacom agreed to improve customer awareness of the personalised price promotions and guaranteed that there will always be better value on the personalised price promotion platforms when compared to headline offers.

MTN

1. **Retail price reductions:** MTN agreed to reduce the price of 30-day prepaid bundles up to 1GB, with the 1GB monthly bundle being reduced to R99. From 1 May 2020, MTN would implement the retail price reductions across all its retail channels. MTN agreed to communicate these reductions to all channel partners in April 2020 and will endeavour to apply these price reductions across all MTN channels from 1 May 2020.
2. **Daily lifeline package and zero-rated access:** MTN would offer all its customers a daily free Data bundle to use in Ayoba, capped at 20MB per day. MTN implemented the daily lifeline package in respect of the Ayoba chat, media and channels functionalities on 12 March 2020.
3. **MTN also agreed to offer all its customers zero-rated access to specified websites focussing on education, healthcare and job recruitment via MTN's own website.** It capped free access at 500MB per month per customer, and 500 sites.
4. **Transparency:** MTN agreed to enable all its customers to manage their data usage at no cost through an MTN USSD and on the MTNApp.co.za website.

The next case study considers the impact in food and grocery markets.

Industrial Policy in Action - Case Study 19: Bringing competition to the food and grocery retail sector

Competition Commission actions on food retail systems demonstrate the power of competition policy to improve conditions for working-class consumers while promoting a more open and dynamic economy.

Food price monitoring

High food inflation in recent years led the Commission to expand its oversight of food retail systems. Food constitutes approximately 40% of the expenditure of the lowest 10% of households by income. Moreover, agriculture has substantial potential generate growth, employment, and transformation across rural South Africa.

To improve transparency on price trends for staple foods, the Commission uses the Essential Food Price Monitoring (EFPM) report. Transparency and public engagement on potential profiteering often helps to correct behaviour quickly where prosecution would impose significant delays. For instance, exposure of price increases for cooking oil despite no change in commodity costs in 2023 saw prices drop within days, with a downward trend through the end of the year. As agricultural prices came down, the report shifted to exposing where producers and retailers failed to pass the benefits on to consumers.

The Commission also initiated in-depth research, in collaboration with the Department of Agriculture Land Reform and Rural Development, to understand costs, price formation and margins throughout the value chains of all zero-rated food staples.

Market inquiry on the grocery retail sector

The Competition Commission conducted a market inquiry into the grocery retail sector, focused on shopping malls and township businesses. It found that a number of large grocery retailers had locked-in long-term exclusive leases which prevented any other competitor or smaller independent retailers from being given space in shopping malls. These agreements covered close to 2 000 malls and convenience centres in South Africa. High retail margins on food in large part result from leases that prevent direct competition for grocery items at shopping malls across the country.

The Commission put in place measures to bring these exclusive leases to an end. The leading retail chains Shoprite, Pick 'n Pay and Spar have now all signed settlement agreements to phase them out by December 2026. These commitments have been made orders of the Competition Tribunal.

This is part of a much larger focus by the competition authorities and government to open up the economy, to combat abuse of dominant market positions and to help the economy to deconcentrate and grow faster.

Further investigations into food markets

The Essential Food Price Monitoring Report reports and the Commission's Concentration Study identified uncompetitive outcomes and a lack of broad participation in fresh produce markets as a concern. In 2023, the Commission launched the Fresh Produce Market Inquiry (FPMI) to investigate and remedy these concerns. The Inquiry is focused on three main areas, namely a) the efficiency and outcomes at the municipal fresh produce markets where farm produce is sold, b) the pricing and competition of key fresh produce inputs such as seed, fertiliser and agrochemicals, and c) the barriers faced by small businesses and black emerging farmers in entering and expanding in these markets. The Inquiry has held public hearings and is expected to release its provisional findings and recommendations early in 2024.

The next case study highlights the outcome of competition measures on digital commerce markets.

Industrial Policy in Action - Case Study 20: Digital commerce platforms

Digital commerce platforms have a growing impact on how households and businesses search for and purchase goods and services. The competition authorities acted proactively to ensure they are both competitive and inclusive.

In 2023, the Competition Commission released the final report of the Online Intermediation Platforms Market Inquiry, which focused on eCommerce, food delivery, online travel agencies, online classifieds, application stores and the role of Google search in shaping platform competition. It developed proposals that reflected South Africa's unique needs, going beyond the conventional competition issues developed in other jurisdictions.

The inquiry imposed far-reaching remedial actions to ensure a level playing field for domestic platforms, remove barriers to expansion for local start-ups, ensure small businesses have equal access to list on the platforms, and promote participation by black businesses. All the major platforms were required to implement black business programmes that reduce the cost of onboarding and ongoing subscription fees, promote discoverability through targeted promotions to consumers and support expansion through advertising promotion credits. Appeals against these remedies are limited. The Competition Commission estimates the package have a financial value of R1,2 billion.

As an example, Google must promote South African platforms and apps by providing South African identifiers, search filters and prominence in curated results. In addition, it will invest R330 million in initiatives to provide small and black businesses with training, business development services, and advertising credits. It agreed to eliminate any practices that effectively discriminated against smaller enterprises.

The Commission launched a further market inquiry into the distribution of news media through search and social media platforms. It arose from concerns that these platforms unfairly profit from media content, denying critical funding to the independent media. The inquiry again brings a South African lens to the issues by incorporating in the terms of reference the impact on media concentration, corporate funding of the mainstream media, the sustainability of the public broadcaster through advertising revenue, digital exposure of community and African language media to the public, and media diversity and plurality more generally.

The following case study considers the work of the competition authorities during Covid-19 – how policy is applied in a disruptive event that changes market dynamics.

Industrial Policy in Action - Case Study 21: COVID-19 and the competition authorities

The more expansive approach to competition policy was particularly important during the shocks of COVID-19. Supply chains for essentials like food, medicine and COVID-specific tests and vaccines were all under strain, and the threat of spikes in prices risked worsening conditions for struggling households. These conditions led to a world-wide surge in speculative and exploitative pricing.

The Competition Commission acted rapidly to counter these anti-competitive behaviours. Within 24 days of the first COVID-19 case being detected in South Africa, the Commission had received 1 500 complaints or tip-offs related to excessive pricing of basic food products, masks and sanitizers; and had already referred four investigations to the Competition Tribunal.

Five block exemptions were granted to vulnerable or priority sectors, like healthcare and hotels, and a special monitoring programme for food prices was in place. The rapid response demonstrated how the new approach empowered the Commission to better protect the public against unfair competition.

The next case study considers the work of the competition authorities in the health-care sector.

Industrial Policy in Action - Case Study 22: Ensuring affordable healthcare

The Competition Commission works closely with the National Department of Health on interventions that advance affordable healthcare. One such area is the pricing of pharmaceutical drugs. The Commission is pursuing strategic cases to create precedents that shapes pricing and patent decisions in South Africa.

A notable success was achieved with Johnson and Johnson's (J&J) monopoly medication for multi-drug resistant tuberculosis. The disease is particularly prevalent in South Africa.

In 2023, J&J slightly modified its medication in order to extend its patent in South Africa and globally. It then raised the price to the government. In response, the Commission initiated an investigation against J&J on potential excessive pricing and exclusionary conduct against generic manufacturers.

The investigation received global coverage, including at the United Nation High-level Meeting on tuberculosis. In light of the Competition Commission's inquiry as well as work by health activists and the Department of Health, J&J announced it would not enforce the secondary patent in South African and 133 other low- and middle-income countries. It has also agreed to cut its prices in South Africa by 45%.

Similarly, even before the Competition Commission completed its investigation into the pricing of a cystic fibrosis drug, the supplier cut its price by 60%. Pressure is continuing to reduce the cost even more.

The Commission has referred to the Competition Tribunal (Tribunal) a case against Roche on a breast cancer drug. It aims to establish a general precedent around the affordable pricing of drugs in South Africa. It argues that companies must take into account the fact that South Africa is an upper-middle-income country with limited resources, as well as the Constitutional right to healthcare. This case will be heard in 2024.

Following the exposure of profiteering on Covid PCR tests, further investigations are planned for diagnostic services in collaboration with the NDoH.

Government is considering a Ministerial block exemption to permit the medical aids to undertake collective negotiation on the pricing of prescribed minimum benefits. This approach would effectively increase the power of consumers in price negotiations. It is expected to reduce healthcare costs and premiums for medical schemes, expanding access in the lead up to the NHI.



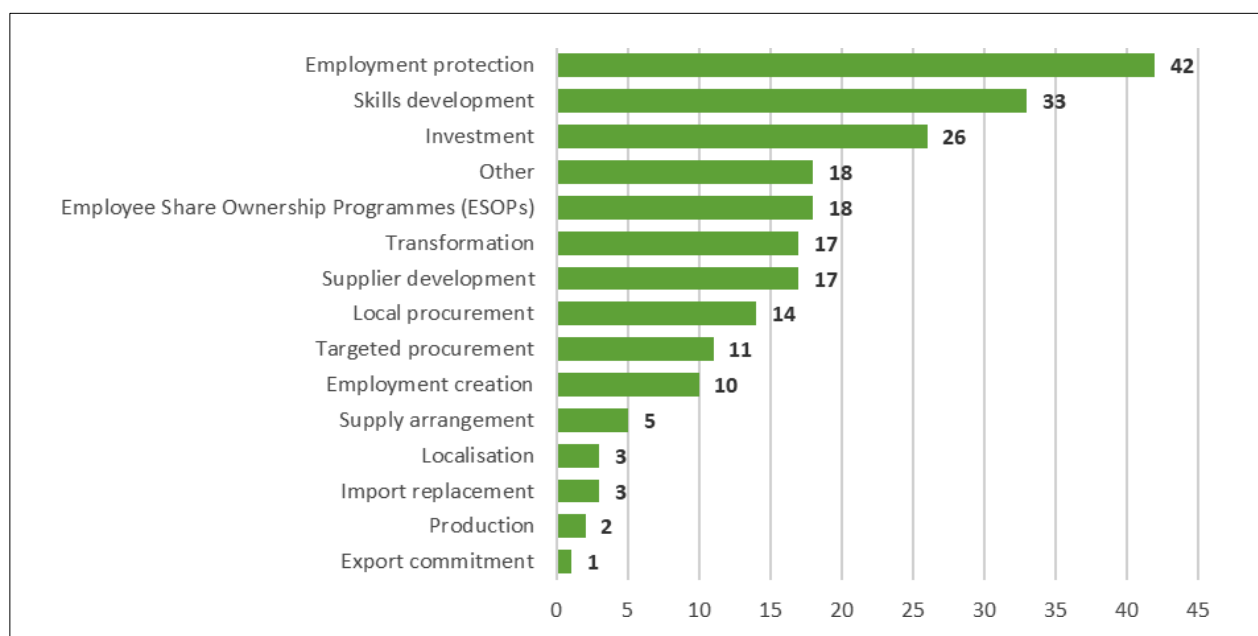
The 2019 reforms to the Competition Act also strengthened the application of public interest criteria to mergers. They specified that the Commission had to consider the impact of large mergers on the public interest, as reflected in specific criteria, even if it did not involve competition concerns. The criteria relate to the impact on:

- “(a) a particular industrial sector or region;
- (b) employment;
- (c) the ability of small and medium businesses, or firms controlled or owned by historically disadvantaged persons, to effectively enter into, participate in or expand within the market;
- (d) the ability of national industries to compete in international markets; and
- (e) the promotion of a greater spread of ownership, in particular to increase the levels of ownership by historically disadvantaged persons and workers in firms in the market.” (The Competition Act, Section 12A(3))

Large mergers now generally require firms to commit to legally-binding conditions to act in the public interest, for instance by protecting workers against job losses, improving access to training, helping firms enter their supply chains, or investing in domestic productive capacity.

Across the course of the Sixth Administration, 69 mergers included 220 public interest commitments. The categories of commitment are summarised in Figure 28.

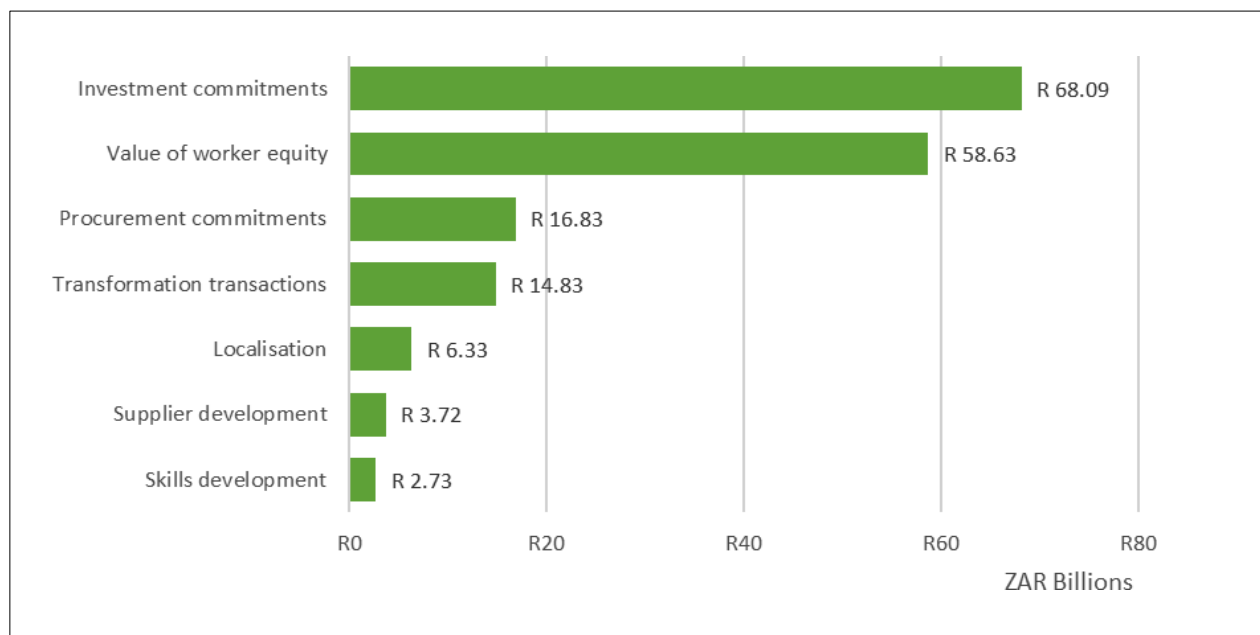
Figure 28. Public interest commitments made between 2019/20 and 2022/23, by type



Source: the dtic, “*Competition impact database*”

These commitments unlocked R68 billion in investment, while companies agreed to procure goods and services worth over R17 billion from local companies. In many cases, the benefits were biased toward small and black-owned firms. For instance, merging companies committed to provide R4 billion in supplier development funds, R2,7 billion in training and skills development, and almost R17 billion to broaden ownership of the merged companies. Employees benefited from job protections and from Employee Share Ownership Programmes (ESOPs), which unlocked over R59 billion in equity for workers. Around a quarter of a million workers were ESOP beneficiaries.

Figure 29: Value of public interest commitments, 2019 – 2023



Source: Competition Commission, "Mergers Public Interest Scorecard, January 2019 – November 2023"

Critically, these commitments intersect to establish a network that expands economic opportunity as a counter-balance to economic concentration in critical sectors. In effect, they begin to transform the economy ecosystem to be more friendly to emerging entrepreneurs and to working people.

3.8. Promoting advanced manufacturing and services

The **dtic** collaborates with the Department of Science and Innovation to support advanced manufacturing and services. South Africa has some centres of globally competitive production, for instance in metallurgy and mining technologies; digital, legal, engineering, finance and most of the other professional business services; heavy chemicals; and pharmaceuticals.

Outside of services, these industries typically do not directly generate new opportunities on a large scale. But they are critical for maintaining competitiveness in export industries and promoting technological advances. South Africa's historically unequal education system combines world-class centres of excellence with generally substandard education in working-class communities. As a result, it has a pool of graduates with the skills to drive highly advanced production processes across a range of industries.



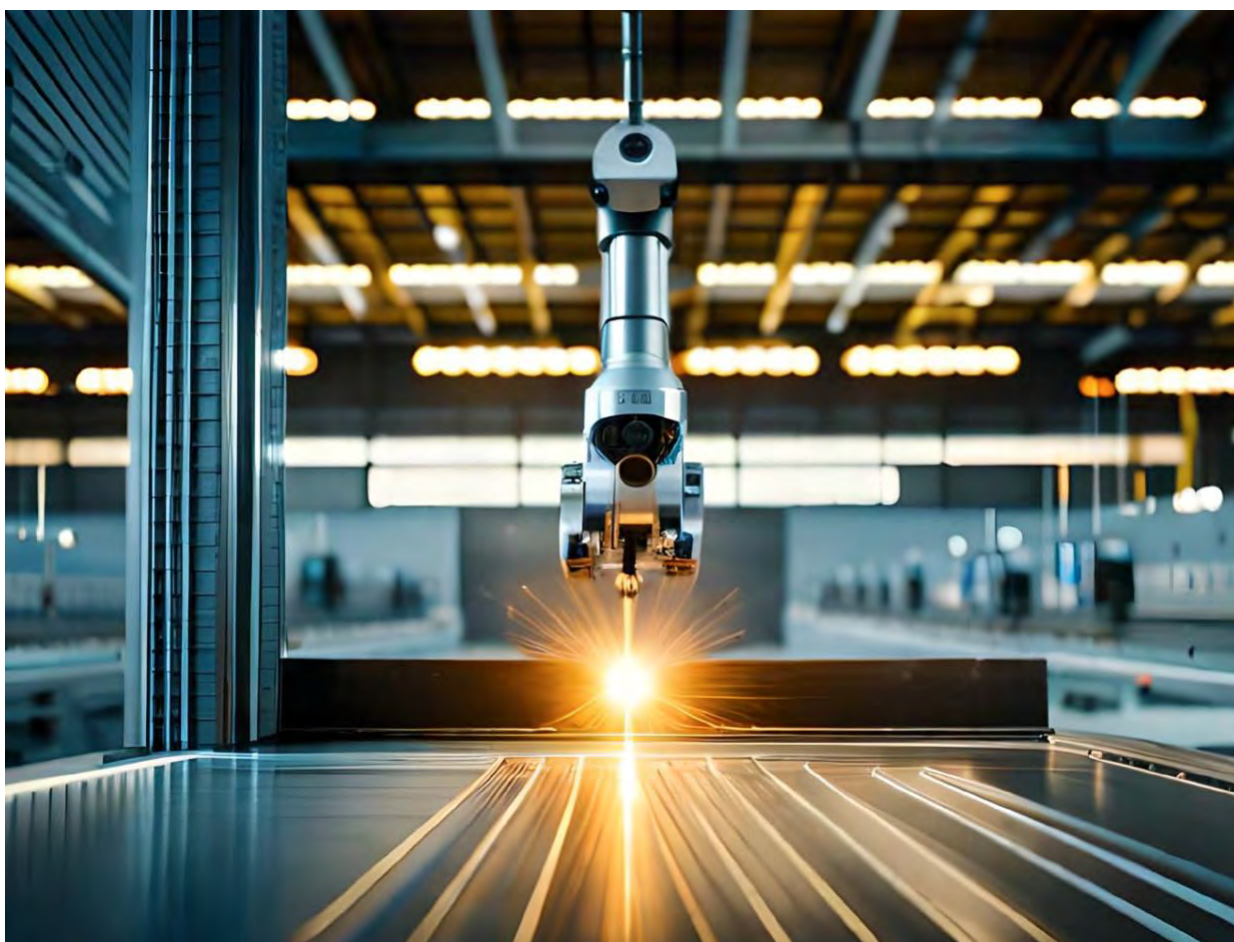
Industrial Policy in Action - Case Study 23: The space industry – using satellites for economic development

Astrofica designs and builds satellites for specific missions, and also manufactures ground-based support systems for the export market. The company exports to the Middle East, Europe, Australia and the US. Its satellites provide real-time earth observation data to local and international clients. The information is used in sectors such as agricultural, water, mining, disaster management applications.

The company is half owned by women – a rarity in the space sector – and adheres to international quality standards. It was established by Jessie Ndaba and Khalid Manjoo after they met as interns in 2006 on the SumandilaSat programme, government's first satellite project. Ndaba won **the dtic's** black industrialist exporters' award in 2022, and the company was in the Top Ten African Start-ups in 2021.

The **dtic** also has a central role in regulating and promoting satellite technology for South Africa. It facilitated the launch of South Africa's first commercial earth observation satellite (AGRISAT-01/ZA-008) in January 2023. AGRISAT is designed to monitor plants for health and stress, with oversight of up to a million kilometres a day. The data gathered will help farmers increase their yields while reducing water and pesticides use.

The launch of AGRISAT entailed an investment of R250 million, including the satellite itself plus launch costs (R30 million) and insurance of (R22 million) as well as R27 million for infrastructure. It lays the basis for development of a constellation of satellites whilst consolidating local component suppliers. The satellite was built by Dragonfly, and is the first manufactured in South Africa since 2009. Its production used components and services worth about R10 million from local suppliers.



Industrial Policy in Action - Case Study 24: The pharmaceutical industry

South Africa has a small pharmaceuticals industry by global standards, but it is highly innovative and competitive. Government has long provided a range of incentives as well as encouraging local procurement by healthcare providers in cases where domestic producers approach global costs and standards. This case study presents four success stories.

In October 2018, at the first South African Investment Conference, Aspen Pharmaceuticals, a leading South African company, announced a R3,4 billion world-class sterile production facility in Gqeberha. Aspen drew on **dtic** incentives for this purpose. It used the facility initially for the COVID-19 vaccine, then for production of propofol (branded as Diprivan), for which Aspen owns the global rights. Diprivan is one of the most important global general anaesthetic interventions and is used for patients on ventilation as well as a range of standard operations and medical procedures.

The new facility created 192 new jobs. At least half of the new workers are graduates. In addition, the plant has the potential to spawn an eco-system of suppliers of glass vials, caps, stoppers and protective clothing, which would generate employment and business opportunities on a significant scale. Aspen and **the dtic** have initiated discussions with the Eastern Cape government and local businesses about a possible supplier park.

Aspen has also initiated production of insulin, which is critical for treating diabetes, at its new facility. Production is under contract with Novo Nordisk, a global leader in diabetic treatment, and will lead to sales across Africa. Aspen is undertaking the conversion of insulin into finished dose vials. The collaboration initially aims to supply over a million patients with 16 million doses in 2024, scaling up to four million patients in 2026.

This project is a first step that can pave the way for both licensing and additional manufacturing opportunities in areas such as sterile cartridge production. It should also make it easier to initiate production of new classes of drugs such as the glucagon-like peptide1 (GLP1), which is largely inaccessible at present to African patients.

In 2022, a South African based bio-pharmaceutical company, Biovac, concluded a ground-breaking licensing and technology transfer agreement with the International Vaccine Institute, a non-profit international organisation headquartered in South Korea, for the manufacture of an oral cholera vaccine. The project enables Biovac to produce the raw material – that is, the antigen - needed to manufacture vaccines. Until now, no country in Africa has hosted this component in the vaccine value chain. The agreement comes at a time when climate change, armed conflict and displacements have led to an escalation in cholera outbreaks, causing thousands of deaths and wreaking havoc on fragile health systems, including in southern Africa. The result has been growing pressure on the global supply of cholera vaccines, which has long been inadequate in any case.

Biovac aims to demonstrate capacity to meet international standards, manufacture clinical trial products locally, and ultimately undertake end-to-end vaccine production for Africa and worldwide. Until now, it has only undertaken the final stage of filling and packaging, so this is a major step forward. The first clinical trial batches are expected to be produced in 2024 and licensing of the product by the South African National Regulatory Authority (SAHPRA) to be concluded in 2026 alongside WHO Prequalification certification which will follow shortly thereafter.

The project forms part of a broader effort endorsed by African leaders to increase vaccine production in Africa, where infectious diseases are still the leading cause of death. The goal is to boost the share of vaccines manufactured in Africa from 1% in 2021 to 60% in 2040. The Wellcome Trust and the Bill and Melinda Gates Foundation are providing R120 million for the first phase.

Biovac has also signed a memorandum of understanding (MOU) with South Korean-based manufacturer EuBiologics in September 2023 for the technology transfer of a meningococcal meningitis vaccine. The collaboration will enable local production and distribution of a life-saving vaccine for use across Africa. This will bring critical help to the so-called meningitis belt in sub-Saharan Africa, which stretches from Senegal to Ethiopia. Meningitis is often deadly, even when treated appropriately with anti-biotics. Local production of vaccines will enable more rapid adaptation to regional variants, which often differ from overseas versions.

Industrial Policy in Action - Case Study 25: Aerospace and defence

The foundations for South Africa's advanced aerospace and defence industry were laid under apartheid, as international sanctions forced the regime to develop local weapons and air capacity. Today it has a wide range of capabilities and infrastructure for vertical product integration. Entry into the global market and supply chains necessitated increased competitiveness and new technologies. South African firms have developed innovative technical solutions, strong capabilities at systems and subsystem integration levels, and on-time delivery schedules to global brands such as Airbus and Boeing.

The industry has a competitive advantage in major and minor subassemblies and components, which means it is integrated in global supply chains for aerospace and defence. South Africa also has a long track record of producing full aircraft and complex aircraft systems, from the Rooivalk helicopter, which has been developed from the mid-1980s, to general aviation aircraft such as the Sling.

Defence and aerospace support highly skilled jobs and contributes to the expansion of the national science engineering and technology base. The industry employs around 5000 specialists in a cluster of over 100 companies.

In 2020, the Aerospace and Defence Sector Masterplan was developed in consultation with industry stakeholders. It finds that there are immediate opportunities for exports, localisation and commercialisation with no significant costs to the state. Given fiscal constraints, exports are crucial for the survival of the industry, with demand in recent years mostly from the Middle East. In this context, an important barrier to exports has been South Africa's strict system for approving exports of war materiel. It was instituted in South Africa after the transition to democracy as part of the national commitment to promoting peace and human rights.

Industrial Policy in Action - Case Study 26: New Sailplane for the Export Market supported through the Aerospace Industry Support Initiative (AISI)

Jonker Sailplanes Pty Ltd (JS) is a small South African business that designs, manufactures and maintains sailplanes (gliders) from their base at Potchefstroom Airfield in the JB Marks municipality. It is the only producer of high-performance sailplanes outside of Germany, and produces the best in the world.

The company employs 150 people in an area of the country where industrial jobs are scarce. Potchefstroom is supported primarily by the local university and farming. For most of the company's staff, this is their first employment opportunity.

The company received assistance from the government to design, develop and manufacture 24-metre wings for a new sailplane in order to retain market share in Europe, its biggest market. The new product replaced its earlier model, which was losing market share as it became outdated. It will enable the company to retain permanent jobs through 2030, with expected exports at R40 million a year. The new product had its maiden flight on 7 November 2023. The first sailplane was exported for around R6 million, and the company has already received 24 additional orders for 2024.

The company has also begun a production run of five gliders in response to international orders. This project will likely lead to an increase in the workforce.

3.9. The green economy

Over the course of the Sixth Administration, the green economy evolved from a next-generation opportunity to perhaps the central concern of industrial policy around the world. The need to contain the climate crisis and respond to its fall out has begun to redefine the global economy's most important industries, from automotives and energy to chemicals, agriculture, tourism and logistics. Countries around the world have invested enormous resources the main industries. In these circumstances, developing local production in green industries has immense potential, but it also has to take into account where South Africa has core strengths. In addition, industrial policy has to assist companies to develop cleaner production and logistics systems. This is particularly important because key trading partners have begun to adopt carbon taxes that will effectively discourage exports from emissions-intensive industries.

Green industries have been a focus area of industrial policy in South Africa since at least 2007, initially focused

on biofuels and later on renewable energy production. To date, the IDC has invested about R14 billion. It has been particularly important in financing projects under the Renewable Energy Independent Producer Programme. Interest has now also turned to new energy vehicles and green hydrogen, as well as supporting companies in adopting more sustainable technologies.

The Sixth Administration adopted three notable new initiatives. Firstly, the Electric Vehicles White Paper outlined steps for the automotive sector to transition to the new reality of electric and other green energy-based vehicles. This transition has become increasingly urgent as leading markets for South African auto exports are expected to shut the door on petrol-fuelled cars in the next 10 to 20 years. South Africa cannot however compete with the enormous subsidies on electric vehicles provided especially in the US and the EU. Instead, it has focused on supply-side measures and expanding charging stations, as discussed in the box below.

Industrial Policy in Action - Case Study 27: The shift to electric vehicles

South Africa's auto industry, the largest on the continent, is deeply integrated into global supply chains. It exports light vehicles to more than 150 countries worldwide, with around half going to Europe. That means the industry has no choice but to keep up with the accelerating global shift toward electric cars. Transitioning South Africa's automotive productive capacity to EVs also supports South Africa's contribution to global decarbonisation. The transition to electric cars also offers new opportunities to African countries, because they are important sources of critical minerals used in the batteries that drive the new cars.

The White Paper includes actions for both the transition to electrical vehicles and for development of a battery industry. Priorities for the transition to production of electric vehicles include the following.

1. An increase in levels of investment and funding, including the development of improved incentive support for electric vehicle production.
2. A temporary reduction on import duties on batteries for vehicles produced and sold in the domestic market, so as to improve their cost competitiveness. This will be subject to careful consultation to ensure that local producers are not undermined.
3. Securing or maintaining duty-free export market access for vehicles and components produced in South Africa to maintain the industry's competitiveness.
4. Leveraging R&D tax incentives to deepen domestic value addition.
5. Supporting green hydrogen production, which may provide an additional option for moving away from petrol-fuelled cars.

6. Implementing reforms to network industries, including electricity, freight rail and ports, to improve overall cost-competitiveness.
7. Developing a certification programme in collaboration with industry for electric-vehicle skills development.

To support expanded demand for electric vehicles in South Africa, the white paper proposes the following.

1. Developing and implementing a framework for fleets to transition to SA-produced new energy vehicles, including government-owned and corporate fleets, public transport and mining equipment.
2. Scaling up investment in charging infrastructure, and developing a regulatory framework for the emerging charging market.
3. Developing opportunities for localisation of charging components and infrastructure.
4. Supporting increased grid capacity to facilitate uptake of electric vehicles.
5. Considering consumer financing or other incentives for adoption of electric vehicles.

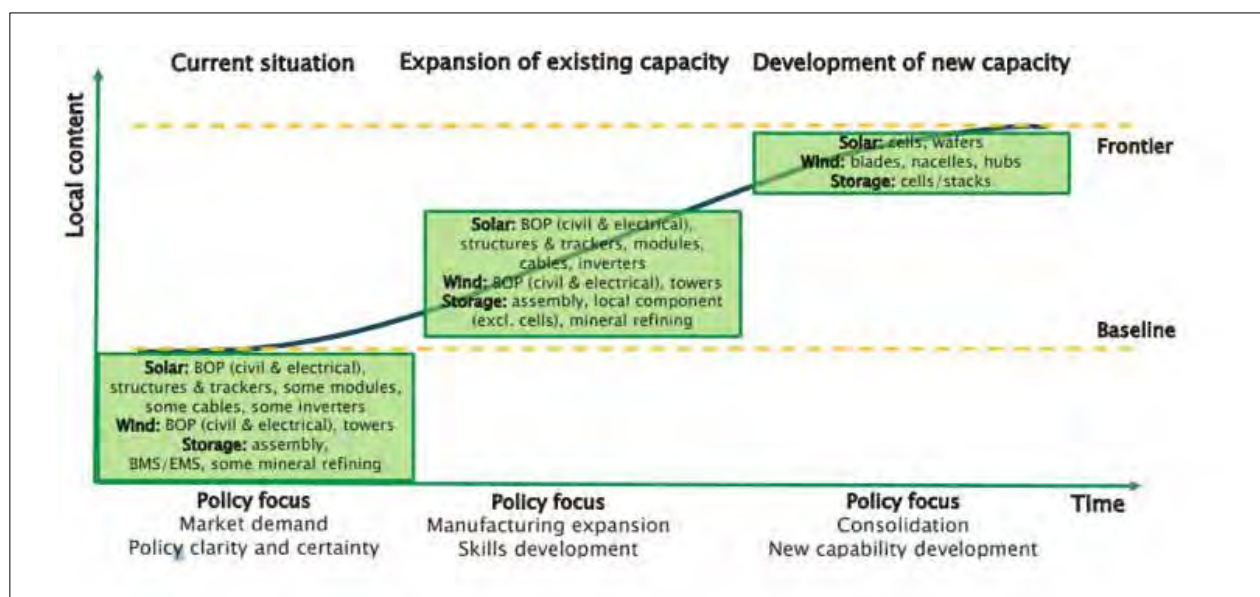
Africa has critical minerals needed for batteries for electric vehicles, and Southern Africa in particular is endowed with resources required for the global green transition. This lays the basis for regional minerals-to-batteries value chain. The White Paper seeks to establish a framework under which African countries work with partner countries to develop the industrial capacity necessary to make the continent a key industrial player, rather than just a source of critical minerals, in the transition to electric vehicles.

Secondly, the Green Hydrogen Commercialisation Strategy was also finalised in 2023. Green hydrogen is produced using renewable energy, which gives South Africa a competitive advantage because of its boundless supplies of wind and solar energy. The hope is that, as a liquid fuel, it will gradually take over oil and gas in hard-to-abate industries like steel. It may also be useable in cars. That said, the technology is still in its infancy, with significant uncertainty around final technologies and uses despite the enormous global attention and investment.

The Green Hydrogen Commercialisation Strategy draws on South Africa's strengths in terms of renewable energy and a long coast line. It lays out a roadmap for state support for the key elements of the nascent industry.

Finally, the South African Renewable Energy Masterplan (SAREM) was published as a draft for comment at the end of 2023. It builds on decade-long measures to expand industrial capacity connected to the Renewable Energy Independent Power Procurement Programme. It aims to revitalise this capacity as solar and wind energy expand to meet over a fifth of electricity used in South Africa by 2030. As demand grows, the rollout of incentive support for investment in production capacity, along with long-term clarity on local content recruitments, should create an environment for production capacity to ramp up from basic structures and assembly activities to more complex cell and blade manufacturing.

Figure 30: Stylised illustration of renewable energy's local content trajectory



Source: DMRE, "South African Renewable Energy Masterplan (SAREM)"

Beyond these cornerstone projects, green industries are increasingly integrated as a central priority in the broader work of industrial policy. Green projects contributed R165 billion in investments published under Investment Drive. The dtic's launch of an Energy One-Stop-Shop aims to both facilitate energy investments to combat the loadshedding crisis, and support the projects that underpin the manufacturing of renewable energy technologies.

3.10. Crises response

While there is a clear throughline in industrial policy for many of the areas explored above, virtually every part of the policy space had to adjust to the radically altered conditions seen after COVID-19. As discussed in 2.2, the early 2020s combined shocks from the pandemic, the July 2021 unrest, the Durban floods, the war in Ukraine, and the ongoing crisis of loadshedding and more recently in rail freight.

While the costs in terms of lives and livelihoods was immense, without strong collective action they would have been exponentially worse. The crisis response to COVID-19 was characterised by the formation of partnerships and task-teams which leveraged the insights and action of organised business, labour and civil society, working closing with Government to mobilise resources and address challenges.

While industrial policy is too often implemented from a distant, disconnected perspective, the responses to these shocks were characterised by officials being on-the-ground in impacted communities or voluntarily staffing twenty-four hour hotlines that companies could use to get help. Financial support was combined with the range of interventions mentioned above, from the Competition Commission's action to combat price gouging during COVID-19, to ITAC's actions to build resilient local supply chains during the cost-of-living crisis.

Many of these innovations were on display in the response to the July 2021 unrest. An Economic Recovery Forum convened Ministerial-level, and comprising of senior representatives from the IDC and NEF, oversaw the rapid rollout of support to companies. This saw an initial set of approvals of R262 million by 13 August 2021 grow more than ten-times to R3,2 billion by February 2022. Among the core funding managed by **the dtic** group, approximately R3 billion in approvals were allocated for more than 1800 companies, supporting more than 37 000 jobs.

The experience of these shocks demonstrates the value of a more fluid and flexible industrial policy, that is capable of responding as quickly as conditions can change. However, it also shows the difficulties of rolling-out rapid-response interventions during quick-moving crises, and the need to build systems that enable effective responses, rather than introducing bespoke interventions each time. This can be achieved by having a strong existing network of support that can be adapted as needed, including via robust institutions (like the IDC and NEF), as well as establishing early-warning systems, processes and response channels that can be utilised in responding to varied crises.

3.11. A focus on jobs

South Africa's historically-high levels of joblessness requires that industrial policy goals actively pursue job-creation. The shocks faced by the economy during the Sixth Administration served as a strong headwind in efforts to create new jobs, and indeed many of those pressures had significant job-reducing impacts on firms

and sectors. As a result, much of the effort in the Sixth Administration was therefore to save existing jobs and recover lost jobs, as well as identifying new sources of job creation.

Promoting employment requires efforts across the public sector. Initiatives range from the Presidential Employment Stimulus programme, to the Economic Reconstruction and Recovery Programme and measures by National Treasury, infrastructure departments and the entities responsible for skills development and innovation. During the pandemic, measures to support formal and informal employees and businesses provided a critical foundation for the ultimate recovery. The most important programmes were the UIF Temporary Employer-Employee Relief Scheme (TERS) and a new social grant to support jobless adults.

The **dtic** has made job retention and creation central to all of its work. Key elements include the following.

- In trade policy, reductions in tariffs on intermediate goods can enable more competitive downstream industries, while tariff increases and trade remedies such as anti-dumping duties, provide a measure of protection for industries against low-priced imports or dumping.
- Competition measures during mergers now routinely ensure protection of existing jobs in merged firms, and many also include commitments to expand employment.
- Industrial funding by development finance institutions (the IDC, NEF and the Export Credit Insurance Corporation) and incentives by **the dtic** itself, all of which include requirements around protecting or expanding employment.
- Investment facilitation seeks to expand production, which in turn is the foundation stone for increased employment.
- All of the masterplans foresee some increase in employment as a consequence of improved growth in the industries covered.



During 2023, **the dtic**-group began to systematically measure the employment impact of its work. The results show that just over 1,1 million jobs were covered by programmes of **the dtic**-group. That is, **the dtic** support companies that employed 1,1 million people. The following figure provides details:

Jobs supported by the dtic group or covered by master plans

Total Jobs	Entity	# Jobs
1 280 000 jobs supported through programmes of the dtic-group or covered by master plans	Programmes of the Department across different sectors and masterplans	743 000
	Jobs in firms covered by trade measures (ITAC)	131 600
	Jobs in firms covered by IDC-funding	129 000
	Jobs in firms covered by NEF funding	20 500
	Competition merger agreements protecting jobs in merged firms agreements protecting jobs in merged firms & covered by market inquiries	460 000

3.12. The IDC

The IDC plays a central role in industrial policy, both providing its own financial support to companies and administering **dtic** incentives. Over the past 15 years, its role has evolved, with a focus on scale and impact, especially through stronger alignment with national industrial policy priorities.

The role of the IDC is to assist with the structural transformation of the economy in the following areas.

- Support for South Africa's industrialisation drive, with expansion of output, jobs and exports (particularly to other African countries) in manufacturing and productive services, and assisting industry to master increased complexity of production as a strategy to increase local value addition.
- Measures that help shift economic activities to lower carbon emissions and promote growth in the new green technologies and sectors, to embrace the potential of digitalisation and new technologies, and to increase levels of beneficiation of South Africa's raw materials to consumer and capital-goods stage.
- Enabling greater levels of economic inclusion through the growth of black industrialists as well as broader participation by workers, women and youth as managers, shareholders and workers.

In the IDC's 2023 Annual Report, it noted the following achievements.

- Funding approvals increased to R20,7 billion for the year, up from R16 billion in the previous corresponding period. The 29% increase in approvals, more than 20% above headline inflation, represents the highest nominal amount ever approved by the IDC.
- Disbursements for the year increased to R17,8 billion from the low base of R7,2 billion in 2021/22. This reflects improvements in the IDC's origination and coverage activities supported by better operating efficiencies including improved ways of work. Most of this funding is directed towards capacity expansions, projects and start-ups, in line with the IDC's mandate of expanding industrial capacity. These investments will catalyse and sustain the recovery of productive sectors, further underscoring the significance of the IDC's countercyclical role in stimulating our economy.

The IDC's efforts to support inclusive industrialisation include the following.

- To support manufacturing growth, the IDC facilitated almost R10 billion towards localisation and beneficiation activities across sectors such as steel, pharmaceuticals, automotive and food products. In addition, it provided funding for a platinum mine in the Bojanala Platinum Valley.

- In 2022/23, the IDC, in partnership with **the dtic** and other departments, supported the development and implementation of the Masterplans. Almost R32 billion in projects will be catalysed in the years to come across the steel, agriculture (poultry, sugar and other value-chains) and clothing, textile, footwear and leather industries. New value chains with significant job growth potential will be prioritised in the year ahead, including medical inputs, the green economy, digital industries and food.
- To support the greening of the economy, the IDC disbursed R1,1 billion to renewable energy projects approved in previous years. It committed almost R1,5 billion towards new renewable energy projects. Since the start of the IDC's focus on renewable energy in 2011, it has invested about R16 billion in renewable energy, in projects worth around R65 billion in total investment. Almost 30% of IDC funding went to community trusts and black-empowered entities.
- To ensure the infrastructure investment required for industrialisation, the IDC supported investment in freight and air logistics, pipeline and project infrastructure and as well as bulk water provision, in South Africa, as well as a project in Uganda. In addition to renewable energy investments, the IDC approved infrastructure investment funding of R4,3 billion in 2022/3.
- To support African economic development, funding of R3.4 billion was approved for projects in other African countries, including mining in the DRC, aluminium manufacturing in Mozambique, liquid fuel refining in Angola, pipeline infrastructure in Uganda and a paper mill in Botswana. These investments complement the trade strategy of **the dtic**-group, which aims to expand economic integration and trade between African countries.
- In support of South Africa's export strategy, additional exports of about R40,7 billion are expected to be generated by IDC-supported companies.
- Job creation and protection of existing jobs is a national priority. The IDC reported that its funding saved over 14 000 jobs and contributed to the generation of 13 000. Of these, 13 000 were in manufacturing, with 9000 in mining and agriculture and 5000 in services. Almost 3600 of the mining jobs were created through the IDC's investment to expand a platinum facility in Limpopo. The total employment numbers include almost 8 500 jobs saved by the IDC's contribution of R1,25 billion to the Flood Relief Fund intervention, which supported businesses affected by the devastating floods of April 2022. In addition, these funds resulted in the creation of 1 011 jobs. The IDC also managed the Social Employment Fund, with 6 400 full-time equivalent non-permanent jobs created in the social economy. Other funds managed by the IDC on behalf of clients created 700 additional jobs.
- Committed transformation funding for the year amounted to R11,5 billion, R7,5 billion of which targeted black industrialists. In 2022/23, IDC approved funding for six worker trusts, in meat, horticulture (citrus, almonds and cherries), metal fabricators and electronics firms. IDC is developing a framework to assist worker ownership schemes to foster a more productive workplace culture as well as more inclusive growth outcomes. The framework could be replicated across other South African corporates to enable critical mass in achieving these goals.
- The IDC's Township Economy Partnership Fund was launched and a reported R290 million of funding to 279 township clients. Seventy-four approvals were made through the IDC's direct funding channel for small and medium enterprises, with an additional 81 businesses benefitting from a partnership with the South African SME Fund.
- As part of improving institutional capability, the IDC has focused on the turnaround of struggling subsidiaries. Progress has been made with Foskor, which has moved from being a drain on the IDC's balance-sheet to a net profit position.
- In short, the IDC has made real progress. Still, more needs to be done.
- While progress has been made in supporting manufacturing, the sector's share in the GDP has remained almost flat. This requires larger scale and deeper financing partnerships.
- Funding approved fell short of targets for women-empowered companies (R1,1 billion against a target of R2.5 billion) and youth businesses (R501 million against a target of R1,1 billion).
- Funding to renewable energy projects has not sufficiently leveraged opportunities for local manufacture of components for use in South Africa and for export. In addition, funding in the mining industry, particularly in critical minerals, should enable greater levels of downstream beneficiation, to final product level (consumer or capital goods). This requires more than a funding decision – it requires strategic partnerships and developing a conducive eco-system to enable such projects to be commercially feasible.
- Going forward, the IDC aims to be bolder in stimulating the economy and driving sustainable and inclusive industrial capacity. In particular, it aims to make more progress in the following areas.
- Support to overcome the energy shortage – focus on accelerating the energy resilience

scheme, fast-tracking energy projects through the recently launched energy one-stop shop and the development of the green hydrogen economy.

- Expediting the development of industries for battery storage and electric vehicles, including creating customised financing solutions for original equipment manufacturers and component manufacturers.
- Deepening the development impact of its work, including funding for black industrialists and women-owned businesses, expansion of decent work opportunities, empowerment of youth and workers, funding of rural enterprises and supporting more equitable regional development.
- Expediting faster approval times, improving client service and the sustainability of the IDC investment portfolio and the institution as a whole.

3.13. An integrated approach to implementation

The main government services – from infrastructure and municipal planning to regulations and licencing to social services – as well as the elements of industrial policy often appear as discrete, stand-alone initiatives. In reality, however, they shape the broad ecosystem of support for industrialisation, with innumerable interconnections and synergies. Developing a consciously integrated approach is therefore essential to the vision of industrial policy pursued under the Sixth Administration. It aims to get the best value for the state's resources and policy levers by coordinating multiple interventions around a set of common aims. This involves both the setting of shared targets, and more direct cooperation on issues of shared interest.

Examples of this cooperative approach can be seen across the initiatives described in this section. Amongst others:

- The ten published Masterplans were led by four departments (**the dtic**, the Department of Forestry, Fishing and Environmental Affairs, DALRRD and the Department of Tourism). They involved participation in the implementation and design of plans from a wide range of institutions, from funders like IDC to regulators like SARS and on to specialist institutions in sectors like sugar.
- The annual Investment Conferences were hosted by the President, with active participation from across Cabinet.
- In tariff policy, ITAC's development of formal tariffs on clothing imports is made possible by a collaboration between **the dtic** and SARS to combat illegal and under-priced clothing imports and with National Treasury on tariff-setting. Efforts to curb illegal exports of scrap metal rely on close collaboration with the South African Police Service.
- The development of the White Paper on Electric Vehicles benefitted from an integrated approach between **the dtic** and National Treasury. Economic diplomacy has been enabled by closed linkages between **the dtic** and the Department of International Relations and Cooperation.

While government agencies may differ in their priorities and approaches in some cases (for example on the price/industrialisation trade-offs), these efforts show successes in partnerships around key industrial policy goals.



Efforts to improve the alignment of industrial-policy initiatives across the state also played out within **the dtic**, as the following case study illustrates.

Industrial Policy in Action - Case Study 28: The dtic – from sprawl to focus

At the start of the Sixth Administration, the Department of Trade and Industry (the dti) and the Economic Development Department (EDD) shared responsibility for industrial policy. Together, they oversaw around 20 public entities. In 2019, the departments were merged into **the dtic**. The process required the alignment of meant aligning the departments, their entities, and dozens of smaller panels and institutions. The organisations involved included financiers, regulators, technical bodies and other specialist entities, which combined pursued hundreds of targets across a broad spectrum of priorities.

This pattern is replicated in many parts of the state. A sprawl of entities has emerged, each with legitimate and important objectives, which nonetheless risk fragmenting efforts and resources until no initiative has the scope or capacity to drive economic reconstruction.

In response to this challenge, **the dtic** progressively introduced over-arching objectives of relevance to all entities. These objectives do not supersede the organisations' individual mandates, but help to align the work of these bodies around departmental priorities.

This is a complex, multi-year process that is still being scaled up. It started with the merging of the dti and EDD in 2019/20. In 2022, three three overarching

objectives (Industrialisation, Transformation and a Capable state) were adopted. Finally, in 2023 the department adopted 45 joint targets that focused on outputs, not processes, across all of its entities. These included numeric targets for investment pledges, export levels, jobs created or saved, industrial output achieved by black industrialists and the number of workers with ownership in their companies.

These alignment efforts are complex and time-consuming to implement and maintain. Still, they offer the best way to concentrate state resources on national objectives, particularly at a time of limited budgets and capacity.

For example, a unified focus on transformation might mean that the CIPC streamlines company registration systems to make it easier for black-owned firms to formalise their operations, while the IDC and NEF make funding available to new black industrialists, the Competition Commission protects those firms from established competitors, and the Consumer Commission and National Credit Regulator protect them from malicious suppliers or creditors. Each of these entities remains committed to their core focus areas, but with an eye on how they can integrate into broader efforts to meet key objectives.

Over the period of the Sixth Administration, **the dtic** shifted away from simple input-based key performance indicators, which measure the effort of the department, to outcomes-based metrics, which can better measure the impact of efforts on the economy and lives of South Africans.

During 2018, and in the first years of the Sixth Administration, the Annual Performance Plans of the two Departments that merged into **the dtic** reflected a heavy bias to reports on activities undertaken and spending data; by 2023 this had been substantially shifted to KPIs that set out numeric outcomes.

The following table sets out ten of the 45 key performance indicators for 2023/24 (last full financial year of the Sixth Administration), to illustrate the approach.



The new APP: Core outputs and targets

The new approach focuses on meaningful **outputs** (referred to as targets).

Ten core targets represent the real impact we aim to achieve in the economy, and measure crucial indicators like local output, job creation, and the performance of black industrialists. While all our targets are important, these Core targets are the apex priorities for the Department, and all programmes of **the dtic** are expected to contribute to the achievement of these essential Outputs.

R300 billion In investment pledges secured across the state	R40 Billion In additional local output committed or achieved	R800 Billion In manufacturing exports to global markets	R330 Billion In manufacturing exports to other African countries	R8 Billion In exports of Global Business Services (GBS)
R40 Billion In annual Black Industrialist Output Achieved	1 Million Jobs Supported by measures or covered by Master Plans	100 000 Jobs to be created (50 000 SEF & 50 000 full-time jobs)	23 000 Jobs in Black Industrialists firms retained	20 000 Additional workers with shares in their companies

Industrial Policy in Action - Case Study 29: Cross-governmental cooperation by the Competition Commission

The Competition Commission's work in the administration demonstrated the value of working closely with a range of government departments. Working collaboratively on common problems ensures coordination for a more holistic solution and the complementary use of skills and powers to bring about those solutions.

For instance, the National Department of Health assisted the Commission in identifying likely abuse of dominance in the healthcare sector. This included the rapid investigation and settlement of Covid test pricing by the national pathology groups. The National Health Laboratory Service helped in costing the tests. The Commission and the Department of Health have collaborated on other investigation, and on potential Ministerial exemptions for prescribed minimum benefits for medical aids in the lead up to the introduction of the National Health Insurance system.

The Commission is currently working with DALRRD on food security. The aim is to coordinate competition enforcement with regulatory and support programmes to increase access to and production of food.

The Commission has also collaborated with the Gauteng Department of Economic Development

on the implementation of recommendations of the Grocery Retail Market Inquiry to support the township economy. More recently, these agencies have undertaken joint research on the township economy.

The Commission has also stepped up collaboration with other agencies that fall under **the dtic**. For instance, the Commission and the South African representatives to the World Trade Organisation (WTO) collaborated on submissions to the WTO General Council on ending the moratorium on digital tariffs. The findings of the market inquiry into online intermediation platforms highlighted the ongoing deindustrialisation that the moratorium was causing. The **dtic** funding agencies participated in the inquiry into online funding in order to enhance their understanding of risk funding for entrepreneurs and the recommendations for a government Startup Fund for historically disadvantaged people. Collaboration around funding for empowered buyers in divestiture conditions is being explored along with how IDC funding can support improved competition. In addition, the Commission and B-BBEE Commission are working jointly on research the extent and nature of transformation across sectors of the economy.



4. CHANGING CONTEXT: Headwinds and tailwinds going into the next administration

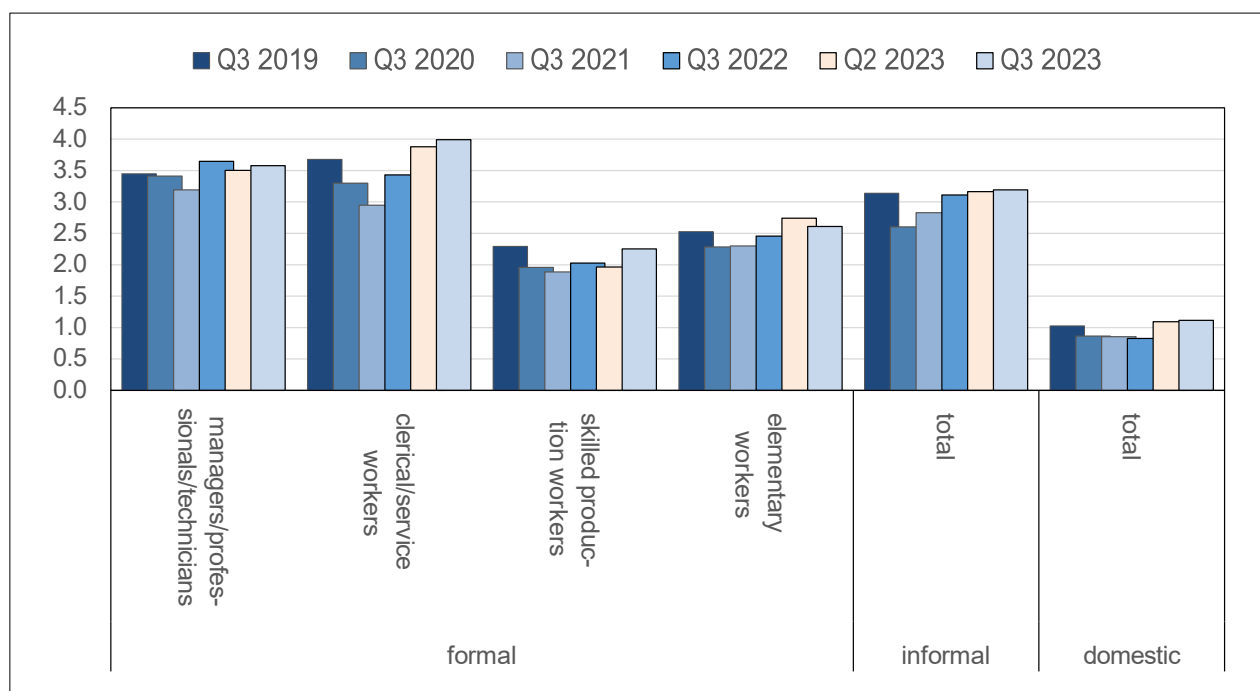
As South Africa heads into the Seventh Administration, the opportunity exists to build on the tumultuous experience of implementing industrial policy in a difficult and unpredictable operating environment. However, implementation will need to take into consideration the changing context to for South Africa's industrialisation agenda.

4.1. The inequality challenge

In the past five years, South Africa has seen growing demands for more rapid change to generate a more inclusive economy. The result has been rising expectations that industrial policy will do more to promote opportunities for the majority of our people.

Increased pressure to ensure more equitable distribution of the benefits of economic growth arise, in part, because of the deeply unequal impacts of the COVID-19 pandemic. As Figure 31 shows, less qualified, informal and domestic workers saw the sharpest job losses during the pandemic, and the slowest recovery. Although the government expanded support for unemployed people, above all through new social grants and the UIF Temporary Employer-Employee Relief Scheme, the pandemic greatly intensified pressure on working-class households and communities.

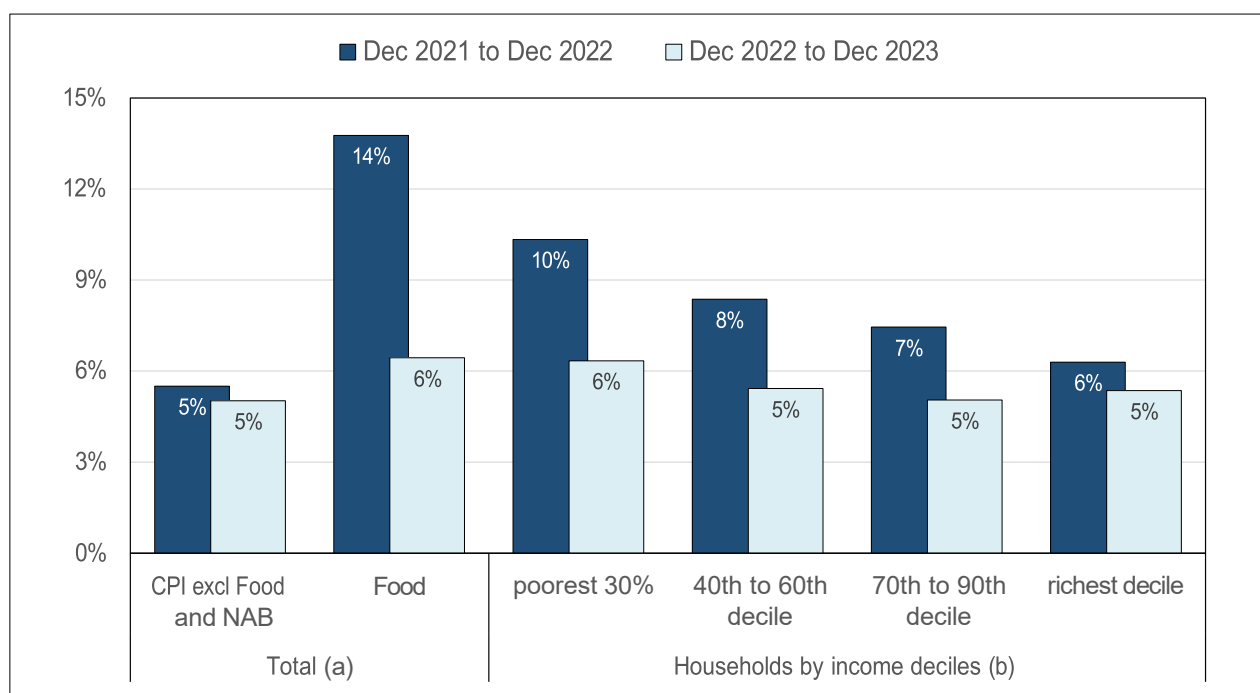
Figure 31. Change in employment by occupation and sector, third quarter 2019 to third quarter 2023



Source: TIPS. Real Economy Bulletin, third quarter 2023. Excel spreadsheet. Accessed at www.tips.org.za in January 2024.

A surge in food prices from the end of 2021 added to the burdens facing most households. As Figure 32 shows, from December 2021 to December 2022 inflation for food climbed 14%, almost three times as fast as for other goods. As a result, the cost of living for the poorest 30% jumped by 10% - much more than the increase in wages and social grants. In contrast, for the top-earning 10% of households prices climbed by only 6%, not much more than in the previous decade. In 2023, food prices rose only slightly faster than other goods, and the inflation rate for different household groups became more equitable.

Figure 32. Inflation for food and non-food products and by household income level, December 2021 to December 2022 and December 2022 to December 2023



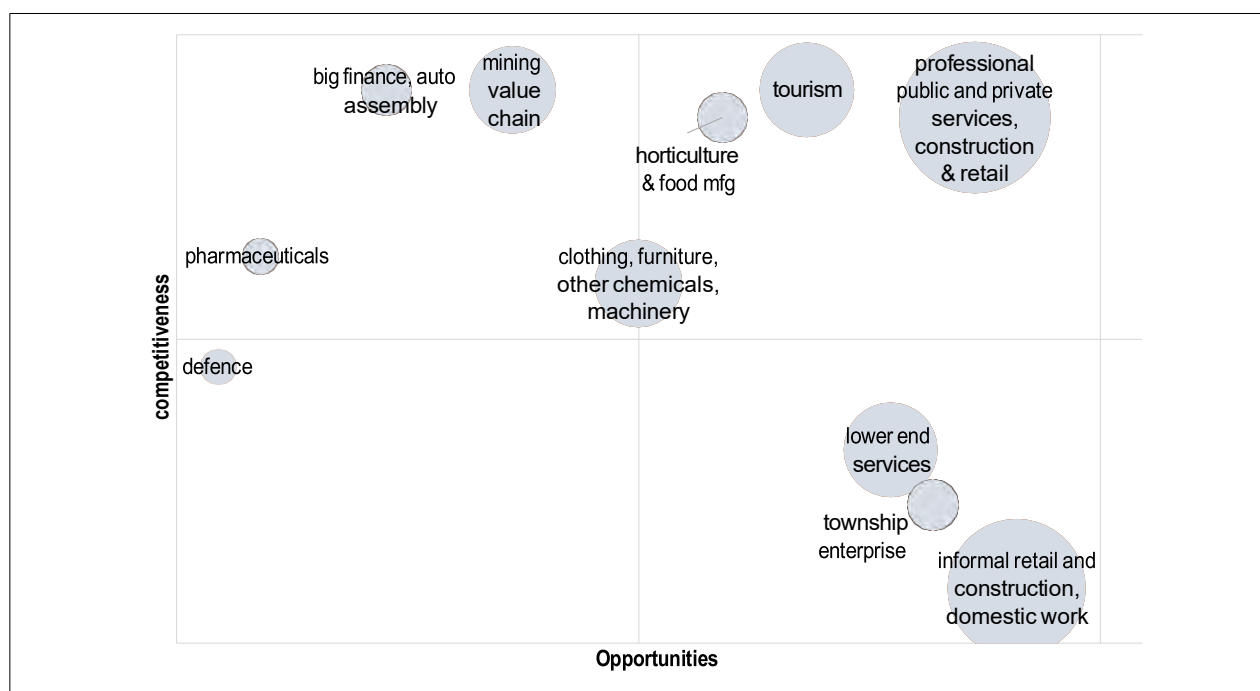
Source: TIPS. Real Economy Bulletin, fourth quarter 2023. Excel spreadsheet. Forthcoming, March 2024.

The impacts on working people of the pandemic and the food-price crisis aggravated longer-term pressure to accelerate progress toward a more equitable and inclusive economy. Despite substantial progress in job creation and improvements in public services for the majority of South Africans, joblessness and inequality remain high by international standards. The share of working-aged adults with employment has fluctuated around 40% since the late 1980s, compared to a global norm of around 60%. Moreover, incomes from economic activity remain amongst the most unequally distributed in the world.

In these circumstances, it is important to clarify and communicate how industrial policy fits into the broader national effort to build a more inclusive economy and a more equitable society overall. Industrial policy initiatives have to maximise the benefits for working class communities, above all by substantially scaling up interventions to support labour-intensive production in manufacturing, the services and the agricultural value chain.

A quandary for industrial policy in South Africa is that, as Figure 33 illustrates, some industries are critical for long-term economic development but do not generate employment directly. Other industries, such as cleaning and security, retail and township enterprise, can generate employment on a much larger scale, but do not have significant growth multipliers or technological spill overs. A third category, located largely in the professional public and private services, cultural industries, horticulture and labour-intensive manufacturing, has potential to become competitive and to create employment. For industrial policy, the challenge is to find a balance between industries that ensure long-run growth as well as qualitatively stepping up opportunities for employment and self-employment.

Figure 33. Conceptualising the role of industries in driving competitiveness and employment creation



Source: TIPS; Source: TIPS; size of circle depicts the relative size of employment in each sector

4.2. State capacity

Industrial policy requires extensive skills and, even more, appropriate systems. Supporting existing producers and promoting new clusters and enterprises requires an understanding of the environment in each industry and the needs of individual companies within that environment. In that context, implementation systems and officials have to be able to evaluate successes and failures and modify policies and programmes in response. At the same time, given South Africa's socio-economic challenges, it needs officials with the capacity and understanding required to ensure that support for established enterprises ultimately accelerates inclusive industrialisation, rather than reinforcing pre-existing inequalities.

Meeting these challenges necessitates knowledge and research systems that let policymakers evaluate demands from companies and other stakeholders while assisting established and potential producers efficiently, without excessive delays or burdensome bureaucratic requirements. Government systems and officials need to manage the complex balancing-act of partnering with companies without accepting undesirable trade-offs. For example, in the case of tariffs on intermediate inputs, upstream and downstream producers typically disagree about the ultimate impacts on inclusive industrialisation. Decisions have to be informed, not by lobbyists, but by a rigorous understanding of the specific value chain and its impacts on the GDP and

employment. More broadly, measures to promote industrialisation or more equitable and inclusive growth often impose some short term burdens on established businesses. To decide when the costs are warranted requires systems and capacity that can realistically assess when the longer run gains to society and the economy outweigh those costs, and manage the attendant lobbying and risks.

The re-imagined industrial strategy demanded new capacities from government systems and officials. South Africa benefits from a professional civil service with a long history of industrial policy work, but the new approach shifted focus from policy design to implementation in partnership with stakeholders. Moreover, the fiscal pressures that resulted from state capture and then the COVID-19 crisis meant both human and fiscal resources are under increased pressure. Innovation often requires a redirection of existing resources, since there are no additional resources for new projects. That in turn means disrupting existing institutions, officials and interventions in order to shift resources from entrenched but unproductive activities to support those parts of the state that perform best.

A particular challenge for the Sixth Administration was to shift capacity away from small industries with strong lobbyists to industries that had far greater potential to drive change. Similarly, new capacity often has to be found for rapidly growing industries, for instance digital production. In some cases, that would require changing the structure of directorates and sub directorates in order to increase capacity for higher priority industries.

Ultimately, policies that work in theory may be less successful if they require capacity that we simply do not have. In these cases, work needs to be done to close the capacity gaps so as to broaden the tools available in the future. This was the focus of a major shift in the “how” of industrial policy that commenced immediately after the Covid-19 crisis, with a restructuring of the work of **the dtic**.

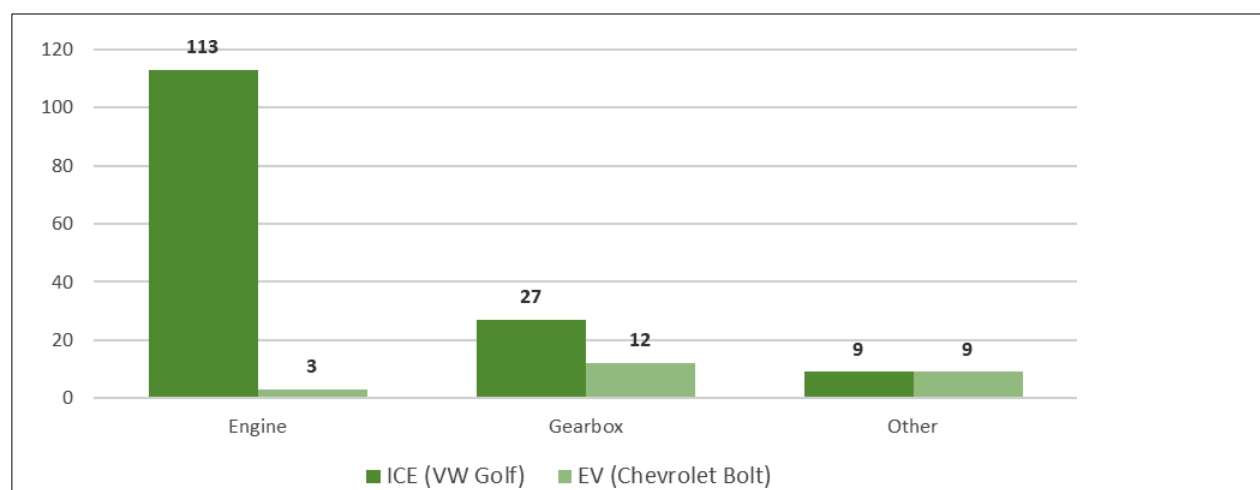
4.3. The green transition

While there is consensus on both the threat of climate change and the need to adapt, the specific technologies and approaches are still uncertain. This makes for a complex environment to undertake industrial policy.

Responding to the climate transition clearly requires substantial investment in these new technologies and sectors, both to transform critical infrastructure like energy, and to build adequate production capacity. The supply of critical inputs into things like batteries and solar panels need to be secured, while companies need to be supported to adopt new technologies. Newer technologies often have to be supported before they’re at peak efficiency, in order to sustain investment in their development. With ownership of intellectual property spread around the world, attracting foreign investment by leading producers is important, as is developing a domestic base of knowledge and research capacity. And, as discussed below, with record levels of government support being offered to green technologies in other countries, our industrial policy will need to compete smartly to avoid being overwhelmed by enormous subsidies offered by wealthier markets. Finally, choices around technology are deeply complicated by the fundamental uncertainty about which technologies will become dominant.

Similarly, there is a need to manage the disruptive effects of rapid growth in green industries. For example, electric vehicles require fewer workers and less maintenance than petrol-driven cars. Their drivetrains are often constructed as a single integrated unit, which makes it much less likely that there will be networks of component suppliers providing things required in an internal-combustion engine vehicle like exhausts, steering columns and engine parts. This integrated approach may also mean that the big car brands will in-house more of their core production processes.

Figure 34: Moving parts in a standard drivetrain, EV vs ICE



Source: UBS, “UBS Evidence Lab Electric Car Teardown - Disruption Ahead?”

A second challenge is to manage the transition in high-emissions industries. Sasol in particular recognises the need to move to cleaner production processes in order to maintain access to export markets. A core challenge is to find a viable feedstock. Similarly, steel producers need to develop less emissions-intensive production processes if they want to maintain their overseas sales. Even the auto industry may face challenges in the future if it continues to rely on coal-fuelled electricity.

Industrial policy has a threefold aim in these circumstances. First, it has to assist established and emerging producers to adopt more appropriate technologies where that is possible. Second, it has to manage downsizing of existing projects that cannot shift to cleaner production techniques. Finally, it has to help ensure that the disruption of existing production systems does not impose disproportionate burdens on working people and the poor.

4.4. Mineral beneficiation

Increasing local value addition for South Africa's rich mineral commodities has long been a priority for industrial policy. Resistance from vested interests, coupled more recently by energy shortages, has meant a slower rollout than required. The Sixth Administration focused on:

- investment that facilitated for example, the opening of a manufacturing facility in the Dube Trade Port to produce fuel-cell units that uses local platinum;
- the building of a second upstream flat-products steel mill in Germiston using local iron ore and
- export policies on scrap metal (a price-preference system and an export tax, which assisted with the growth of steel mini-mills).

The agenda on beneficiation is facing a radical change around the world, as the energy and digital transitions drive a shift in the nature and scale of demand for minerals. The scramble for next-generation commodities has sparked a wave of initiatives by governments around the world to ensure processing of these commodities take place locally, at least on a greater scale than before. It has triggered commitments from major markets to support this local production if it helps them unlock a reliable and resilient supply of key minerals.

China, a major producer of rare earth minerals, has introduced a range of export quotas, tariffs and bans to gain both market leverage and expand local industries in areas like battery and electric vehicle production. Indonesia, which holds critical stockpiles of nickel and tin, has utilised strategic export bans to drive growth in downstream sectors, such as the development of the stainless steel industry. Brazil – which has a range of minerals, such as niobium, tantalum, lithium and graphite – has announced measures to capture a greater share of processing. Even Australia's Critical Mineral Strategy reflects similar priorities, after many

years of positioning itself as an efficient mining and services economy.

On the demand side, leading markets like the US and EU have announced initiatives to diversify and secure sourcing of key minerals, through respectively, the American Battery Minerals Initiative and the EU Critical Raw Materials Act. These initiatives create significant incentives for companies investing in minerals processing. They have been supplemented by global diplomatic efforts to deepen relationships with countries and companies producing key minerals.

South Africa's policy response is already underway, notably through cooperation between the DMRE and **dtic** on the Battery Minerals Masterplan as well as work on the Minerals of the Future Policy. These efforts will need to ramp up in the coming years, in cooperation with similar efforts across the region. The African Union's draft Africa Green Mineral Strategy seeks to leverage the continent's rich mineral resources for Africa's industrialisation agenda. Zimbabwe and Namibia have announced export bans. Zambia and DRC have signed memoranda of understanding with the US on access to critical minerals. Collaborating across the region would offer an even richer mineral basis for beneficiation, and may give the region the weight needed to divert substantial production capacity to the countries that produce essential minerals.

The immediate agenda on beneficiation can embrace the following:

1. Battery-manufacturing and fuel-cell value-chains, covering lithium, copper, PGMs, vanadium and other critical minerals. The White Paper on Electric Vehicles set out a clear approach for South Africa.
2. Ferro-chrome manufacturing, using an export tax on chromium.
3. Steel mini-mills, through retention of policy measures to promote the use of local scrap metal, including the price-preference system and the export-tax on scrap metal.

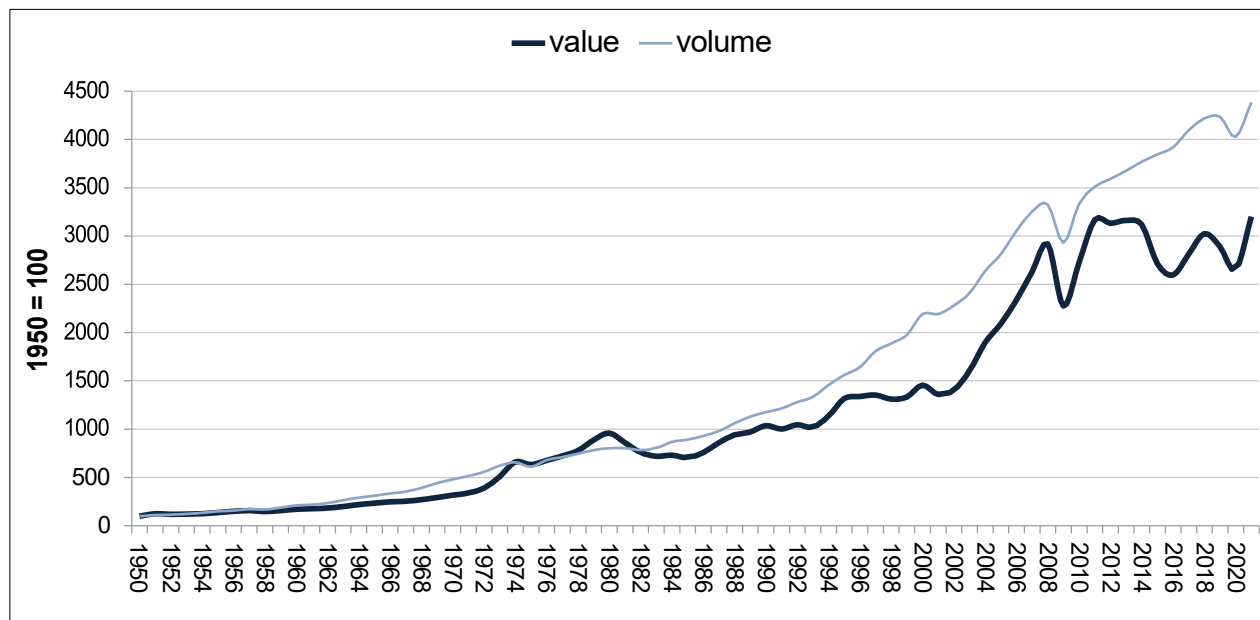
The role of export taxes on essential raw materials can play a role in fostering domestic development of critical industries, especially those expected to benefit from the low-carbon transition. During the Seventh Administration a number of minerals should be considered for export taxes and coordination of policies within the southern African region. Key minerals include cobalt, lithium, graphite, chromite, manganese, platinum group metals, copper and vanadium.

4.5. Flattening world trade and growing protectionism

From 2010, world trade in value terms stalled after growing rapidly from the 1950s. (Figure 35). That had important implications for industrial policy as conventionally understood in South Africa. From the 1980s, countries in the global South have been urged

to focus on increasing exports of manufactures as a way to generate employment on a mass scale. That was the model that Asian economies adopted for most of the past century. In practice, South Africa was not able to encourage mass production of labour-intensive exports even when world trade was expanding rapidly. The plateauing of trade in value terms makes it even more difficult to break into global markets.

Figure 35. Index of world merchandise trade by volume and in constant US dollars, 1950 to 2021 (1950 = 100)



Source: Calculated by TIPS from WTO data.

The disruption of global supply chains during the pandemic and rising geopolitical tensions (discussed in section 4.6) mean that international trade is unlikely to return to rapid growth in the foreseeable future.

The sharp slowdown in global trade is interlinked with rising protectionism in the Global North. In the late 2010s, the US imposed tariffs on steel and other major products, including on South Africa. The US and the EU

have increasingly restricted trade with China. Efforts to protect local production of renewable energy inputs and electric vehicles have also relied heavily on consumer subsidies and in some cases tariffs, which make it harder for other countries to compete. Carbon taxes are also increasingly being extended to imports, with potentially serious consequence for South Africa because of its reliance on coal-fuelled electricity.



Industrial Policy in Action - Case Study 30: The Carbon Border Adjustment Tax and South African industry

The EU proposal for a carbon border adjustment mechanism (CBAM) EU Regulation was introduced as part of the EU's "Fit for 55" package of policy proposals published in July 2021. The package aims to align EU policies with the climate goals agreed by the European Council and Parliament. In this context, the CBAM aims to ensure that imports face costs for emissions that are equivalent to those borne by EU producers. The CBAM regulation was approved by the European Parliament in April 2023.

Implementation of the CBAM will be phased in. From late 2023 until December 2025, importers of selected goods will have to report on a quarterly basis on the direct and indirect emissions involved in their production. Toward the end of the period, the EU will decide whether to extend the scope of the CBAM to additional products such as polymers. The EU will also assess the methodology for measuring indirect emissions.

A recent research paper has calculated the loss of export revenue to the EU due to the CBAM on South African industry at R2 billion per annum, based only on products already included. A number of other potential threats exist, including the risk of increased competition in domestic and alternate markets as well as constrained access to input materials as global steel and aluminium markets adjust to reduced EU access.

The implications for industries covered by the CBAM differs, however, depending on their exposure to the EU market, carbon intensity and extent of direct or indirect emissions. For example, in the case of iron and steel, the impact is expected to be high since significant production currently depends on coal-powered electricity; uses coking coal in its production process; and lacks the resources to develop its own energy sources and to improve

efficiency. In aluminium, 40% of South African exports go to the EU. Its carbon footprint arises principally out of its reliance on coal-fuelled electricity, so it will be at risk once indirect emissions are included.

CBAM also entails significant administrative and compliance burdens. Exporters will initially require systems to calculate and report the quantity of emissions embedded in affected goods. This will prove particularly complicated in the case of products that include affected raw materials.

A study by UNCTAD shows that CBAM will change international trade patterns in favour of countries where production is relatively carbon efficient. That will effectively favour high-income economies that already tend to have less carbon intensive production processes.

From the standpoint of South Africa, CBAM effectively enable the EU to prioritise its climate targets over the Nationally Determined Contributions adopted by its trading partners. A country may be fully compliant with its contributions as submitted to the United Nations climate processes, but still have to pay taxes under CBAM. This approach effectively up-ends multilaterally negotiated agreements under the Paris Accords.

A number of jurisdictions are now considering equivalent measures, which may have the effect of increasing green protectionism around the world, with countries such as the United Kingdom, Canada, Japan and the United States all proposing similar mechanisms.

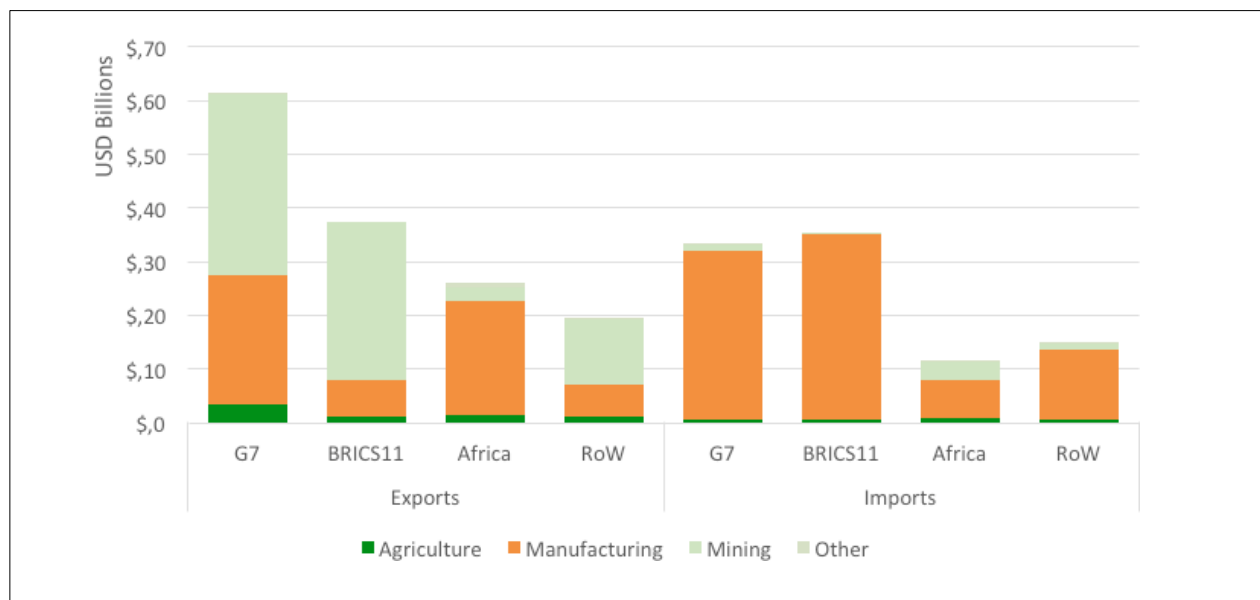
As a unilateral measure affecting trade, CBAM will likely be subject to a legal challenge at the WTO. A final decision will depend in large part on the details of the specific tax system.

As global trade slows down and protectionism rises, South Africa will have to develop a nuanced approach to domestic, regional and overseas markets. Responses include placing more emphasis on local and African demand, where South African producers are often relatively competitive; taking full advantage of the AfCFTA; and exploring new markets, for instance in the Middle East and Latin America. In addition, some observers argue that international trade in services, which is extremely hard to measure, will likely continue to grow relatively rapidly. In addition, on the diplomatic front, South Africa will continue to support a rules-based order that takes into account the historic disadvantages facing the Global South. That means in particular that rules to ensure fair competition internationally must also provide space for countries to promote industrialisation through supply-side measures, local procurement, and responses to the climate crisis that take different levels of development and national levels of emissions into account. An important first step was taken at the 13th Ministerial Conference of the World Trade Organisation (WTO), at which the Africa Group tabled a proposal for greater flexibility in WTO rules to enable developing countries to pursue industrialisation initiatives.

4.6. Geopolitical fragmentation

Slowing world growth and trade have laid the groundwork for the deepening geopolitical fault lines. They were sharpened by the war in Ukraine and now in Palestine, as well as growing economic and geo-political competition between China and the US. At the economic level, these tensions play out primarily through various kinds of sanctions, limits on the sale of technologies and investments, and threats to market access. They pose a particular challenge to an open economy like South Africa's, which has deep trade, investment and diplomatic relationships that stretch across competing blocs.

Figure 36: South Africa's trade with geopolitical groupings, 2021



Source: CEPII, Base pour l'Analyse du Commerce International (BACI). Data reflects a trust-weighted average of direct and mirror data.



South Africa's efforts to retain a global rules-based system (whilst seeking to make these rules more development-friendly particularly for developing countries) and its non-alignment in big-power rivalries are a reflection of the need to maintain strong diplomatic and economic relations with countries that are as diverse as our economic needs. Building broad, inclusive alliances offers the best chance for South Africa to advocate for an international order defined by mutual respect and shared prosperity.

With a high cost to any serious effort by major blocs to fully decouple from each other, this approach will also allow South Africa to act as a bridge in value chains that cross between conflicting countries, helping to process goods sourced from anywhere in the world and destined for consumers anywhere in the world. Having structures that enable this engagement, like the BRICS, also helps with building government-to-government partnerships, which are often essential to economic success in markets where the state takes a leading role, such as in China or new BRICS members like Saudi Arabia.

Finally, our relationship with Africa will be increasingly paramount in a period of growing global fragmentation. The AfCFTA has signalled a deepening of regional integration in Africa, even at a time of growing fragmentation elsewhere. Maintaining this trend, and building stronger relations among Africa states, offers perhaps the best avenue for ongoing development that will remain robust even in the face of mounting challenges elsewhere. While Africa also faces steep geopolitical challenges, most notably a recent string of coups in West Africa, South Africa may have relatively more weight in supporting resolutions to conflicts on the continent, and more scope to take a proactive diplomatic stance.

4.7. Digital transformation

Technological change continues apace. A shift to smaller, digitally managed technologies has increased the pressure on some large, long-established production lines, such as basic steel, auto, and coal-fuelled electricity generation. It is also affecting the kinds of skills needed for employment, as well as the requirements for producing and maintaining machinery and equipment.

In 2023, the potential of vastly improved digital management through artificial intelligence came to the fore. As with many such technological spurts, the actual implications will take time to emerge. As with any technology that has the potential to vastly improve productivity, for industrial policy the main question is how to manage the transition. New technologies have the potential to overtake established producers, improving overall incomes and living standards at the cost of significant write offs in existing businesses and sometimes substantial job losses. This process has been termed creative destruction. It requires both support for technological development and measures to

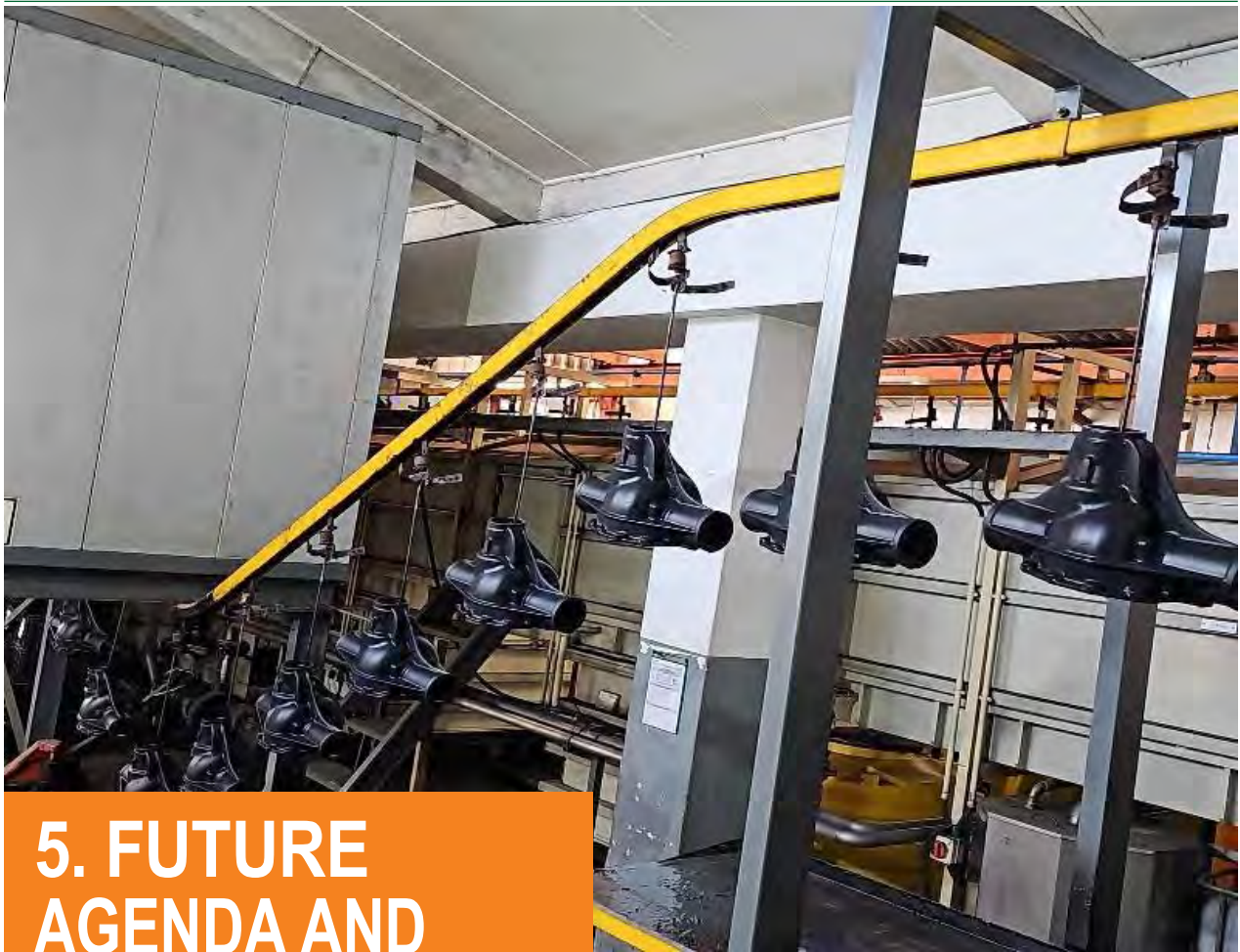
ensure that the costs of the transition are managed appropriately.

In South Africa, the digital transition poses particular risks. As a rule, new technologies are developed and adopted in high-income economies, where labour is both comparatively costly and skilled. It is often designed both to displace lower skilled workers and to require highly skilled, computer-literate operators. In South Africa, where the education system remains profoundly inequitable and joblessness is high, this is an undesirable outcome. Furthermore, many South African companies cannot afford to acquire the new technology immediately or to write off their existing equipment.

Obviously, the digital revolution also promises significant benefits. It can improve the quality of healthcare, alleviate elements of the skills shortage, and generally increase the quality of products while eliminating some routine parts of white-collar work. The challenge, as always, is to ensure it is adopted in ways that benefit the majority of citizens rather than deepening South Africa's already stark economic and social inequalities.







5. FUTURE AGENDA AND SOURCES OF GROWTH

Perhaps the central finding of this review is that industrial policy and the world in which it operates is rapidly changing. Global and local economic trends have been shaken by a radical transformation of core value chains, a reshaping of global geopolitical dynamics and the economic relations they enable, and the lasting impacts of long-term crisis like state capture. At the same time, industrial policy has been undergoing an unfinished reinvention, with a significant policy agenda aimed at consolidating gains and introducing outstanding innovations.

Each individual change requires a significant rethink of priorities. But this wide-spread change needs to be managed, particularly given a policy environment defined by very limited fiscal space, a state rebuilding its capacity and global competition from a wave of major-market industrial policy. As a result, this paper can be the foundation of annual Action Plans that will consolidate these findings into a set of strategic, sector and other priorities.

5.1. Economic and other policy coordination

Industrial policy plays a pivotal role in driving economic growth by creating a conducive environment for industries to flourish. However, for it to be truly effective, it must be integrated within a broader economic policy and synchronized with other policies such as foreign policy initiatives and education and skills-development strategies. This integrated approach ensures that industrial policy contributes to a comprehensive, growth-oriented, job-rich, and inclusive economic strategy.

A fragmented or isolated approach to industrial policy, operating in a vacuum without aligning its interactions with other policy domains, risks diluting its impact and effectiveness. Therefore, Government must strive for a holistic alignment that considers the interconnectedness of various policy areas.

The effective coordination of macroeconomic policy tools, including fiscal incentives, monetary policy, and exchange controls, with industrial policy is thus imperative for achieving sustainable economic growth and development in South Africa. These policy instruments must work in tandem to support the objectives outlined in industrial policy frameworks, ensuring alignment towards common goals.

Progress has been made during the Sixth Administration, for example during Covid-19 and in the roadmap for electric vehicles, which the Seventh Administration can build on.

One of the key considerations in designing industrial policy measures, such as targeted incentives, is to ensure fiscal sustainability and align them with broader macroeconomic objectives. This alignment is crucial for maintaining long-term economic stability and avoiding potential imbalances or fiscal risks.

Additionally, a skilled and adaptable workforce is essential for sustaining a thriving industrial sector. Aligning industrial policy with investments in education, especially in areas like Science, Technology, Engineering, and Mathematics (STEM), as well as implementing targeted vocational training programs linked with workplace experience, helps ensure the availability of qualified personnel. This not only supports the day-to-day operations of industries but also fosters a culture of innovation and continuous improvement within prioritized sectors. By integrating these elements into a coherent industrial policy framework, policymakers can better support sustainable economic growth and development.

5.2. Energy security

Energy security is paramount to the design and implementation of industrial policy within South Africa. As a nation heavily reliant on energy-intensive industries such as mining, manufacturing, and agriculture, a stable and secure energy supply is vital for sustained economic growth and development. Access to affordable and reliable energy sources not only ensures the smooth operation of industrial processes but also underpins the competitiveness of South African businesses in both domestic and international markets.

Furthermore, energy security plays a pivotal role in attracting investment and fostering a conducive environment for industrial expansion and innovation. Investors seek environments with dependable energy infrastructure and minimal risk of supply disruptions, as uncertainty in energy provision can deter investment and hinder industrial growth. Therefore, integrating energy security considerations into industrial policy design is essential for enhancing the resilience and competitiveness of South Africa's industrial sector, ultimately driving job creation, economic diversification, and sustainable development.

To enhance energy security, South Africa must pursue a multifaceted approach that addresses both short-term challenges and long-term strategic objectives. Continued expansion of the grid and energy access as highlighted by Census 2022 will be critical to continued energy inclusion. In the short term, diversification of the energy mix is critical to mitigate the risks associated with over-reliance on a single energy source. Expanding renewable energy capacity, such as solar and wind, can bolster the resilience of the energy system while

reducing dependence on fossil fuels. Additionally, promoting energy efficiency measures across industries, businesses, and households can help optimize energy usage and alleviate pressure on the grid.

In the long term, investing in the modernization and expansion of energy infrastructure is essential to ensure a robust and reliable energy supply. This includes not only upgrading aging power plants, but transmission lines, distribution networks and storage capabilities to improve efficiency and reliability. Moreover, fostering further innovation and research in energy technologies, such as energy storage and smart grid systems – as highlighted by the public-private partnership between Eskom, the IDC and Bushveld Minerals – can enable South Africa to harness the full potential of renewable energy sources and enhance grid resilience.

5.3. Scaling-up

With a number of innovations being introduced during challenging economic conditions over the course of the Administration, some of these interventions could best be characterised as a partial success. In many cases, the changes have proven their potential with real impact on industrial performance, but now need additional attention and refinement, and to be scaled-up to full changes in a more comprehensively redesigned industrial policy.

Masterplans form a solid basis for the continuation of cooperation in critical sectors. However, implementation needs to be accelerated, and new governance structures may be needed in order to better coordinate the inherently more complex implementation of multi-stakeholder action plans. While all Masterplans do have key implementing officials in their partner Departments, efforts may be needed to improve the structure of support and to empower those line officials to deliver on state commitments in the Masterplans. In the case of **the dtic**, for example, some **dtic** units lack the capacity to fully engage with industry partners on their needs as well as adherence to their commitments. These and other problems will require innovation in the structure of the state that matches the innovation seen in the structure of Masterplans.

Similar considerations will need to be borne in mind to manage trade-offs in other innovations. In the case of the increased use of reciprocal commitments in tariff applications, while the approach offers strong potential to protect consumers from price increases and to ensure companies add value through tariff protection, the commitments take time to develop. Learnings from the first generation of reciprocal commitments can now be institutionalised to speed up processes. As part of the scaling-up process, reciprocal agreements will be better institutionalised and aligned across individual applications, offering faster turn-around times and greater predictability among applicants – an accelerating trend seen in the more established process of agreeing public good commitments in mergers and competition matters.

Similar institutionalisation and refinement exercises will take place in a range of policy areas, while others will see a scaling up of ambition. In the case of the Investment Drive, a new target of attracting R2 trillion over five years will drive a further ramping-up of proactive investment promotion, with special focus on expanding the Energy One Stop Shop as a tool to speed-up the completion of renewable energy projects. Implementation will start in earnest on landmark green industry projects like the New Energy Vehicles white paper and Green Hydrogen Commercialisation Strategy.

5.4. Innovations

Alongside the scaling of existing changes, a number of areas have been identified for reform or innovation.

Key among these is a deepened rethink of the approach to spatial economic impact within industrial policy. While spatial considerations have always been a strong theme in industrial policy planning, most notably through SEZs, they at times have not fully delivered on their potential, nor have they been able to turn around trends of increasing centralisation of economic activity around the metros. During the course of the Sixth Administration, a number of innovations were introduced to spatial economic policy, including the rollout of the District Development Model and, more notably for industrial policy, the rollout of a new approach to SEZs in the Tshwane Automotive Special Economic Zone (Tasez).

Tasez featured a notably more rapid and coordinated development process. Investment was unlocked through the presence of an anchor firm, Ford, and through the pooling of resources and capabilities among the dtic, the Gauteng government, and the City of Tshwane. This solid base allowed for the rapidly unlocking of ten investments by component firms, and helped establish the SEZ by developing a network of interconnected producers around the zone. All of this was underpinned by strong alignment with pre-existing policy, including state support through the APDP and investment funding through projects like the Automotive Investment Scheme. This model – of moving quickly, working through partnerships, coordinating across the state and aligning with broader support programmes – offers a solid path to drive a revitalisation of both SEZs, and broader spatial industrialisation work.

Similar transformations are underway in other areas of support that are not meeting their potential.

In the next Administration, efforts will need to be focused on sharpening the impact of export support through South African embassies.

5.5. Alignment

This review also underscores the importance of improving intergovernmental coordination and planning around industrial policy. While there has been notable successes and improvements during the Sixth Administration, industrial policy is still often considered the responsibility of a handful of Departments and agencies, rather than a fully coordinated, cross-governmental policy. Setting targets and priorities still tends to happen in isolation, and long-term planning remains a serious challenge. Work in the next administration should aim to formalise this approach through an Industrial Policy Coordination Council, chaired by the President. Most Cabinet Portfolios should have explicit industrial policy targets in Performance Compacts, cascading to provincial and local government level, and incorporated in the Performance Agreements of senior civil servants.

In this context, an area of growing importance is managing the rapid evolution of the national electricity and rail systems in ways that minimise the damage to producers and maximise industrial deepening. The electricity transition in particular offers the opportunity in the medium term of shifting to more affordable and reliable as well as cheaper energy sources, both on and off the national grid. In the process, it can lay the basis for developing more advanced auto and battery production, as well as other inputs for renewable energy and the associated expansion in transmission.

5.6 Skills development

Another key area of focus is around education and training. Developments in digital technologies, including artificial intelligence; green industrialisation; and industrial priorities around manufacturing and productive services, will require the development of a set of skills which navigate the changing tides of the economy.

The persistence of extremely unequal education, with particularly poor schools in working-class communities, makes every industrialisation policy harder to implement. High dropout rates before matric aggravates the problem. The key to better skills development and higher employability lies in a strong alignment between classroom and workplace, with vocational training drawing inter alia from the learnings of the German system of study and work.

To bridge this skills gap, a collaborative effort is crucial, bringing together efforts from both the private and public sector. Government will need to improve the responsiveness of training programs by aligning them with in-demand occupations. Strengthening the link between education and workplaces through



apprenticeships can further bridge the theory-practice gap. Programme which support the employability of young South Africans through job placement; interview support, including feedback on unsuccessful interviews; and retraining in the event of workplace-skills mismatches, should also be introduced. Greater funding and support for tertiary institutions can also be targeted towards areas of greater employability. In addition, specific Government departments and agencies, like the Department of Defence, can be leveraged to provide specific placement opportunities for re-skilling.

Businesses in collaboration with organised labour should be incentivized to upskill their existing workforce to meet future demands. This partnership is key to ensuring a smooth and successful transition. Organised labour can provide valuable insights into the current skillsets and training needs of employees, ensuring that upskilling programs are targeted, relevant, and address both the needs of the market and worker concerns.

An appropriately structured set of financial incentives, which may take the form of tax incentives, should also be considered, which can further support investment in workplace retraining and upskilling.

5.7. Responding to change

Alongside these improvements to existing and new policy approaches, will require an effort to respond to a number of major global economic shifts that are expected to accelerate in the coming years.

As discussed above, the next administration will have to continue a strong focus on improving support to domestic green industries, while transforming both South Africa's power grid and the efficiency and sustainability of local industries.

However, this will increasingly need to be balanced against a continued challenge to unfair trade practises. Changes as fundamental as the green transformation require all markets to invest in a collective effort to transform global markets, including through the hosting of productive activities that play to their strengths. Protectionist measures from developed economies that distort developing country markets like South Africa's in areas like battery technologies or automotive production risk slowing the green industrial transformation, weakening buy-in among emerging markets and distorting the share of benefits in new technologies, entrenching many of the imbalances seen in the coal-era of industrialisation.

The next Administration will have to utilise multilateral institutions like the WTO, and economic diplomacy through blocks like the G20 and BRICS, to continue to advocate for a multilateral trading system with fair and proportionate rules for all markets and an effective and efficient dispute settlement mechanism.

5.8. Sources of growth and the emergence of cross-cutting priorities

An industrial strategy that promotes more inclusive and sustainable industrialisation would lay the basis for much faster growth. On the one hand, it should unlock new opportunities in labour-intensive sectors, that is light manufacturing, services and agriculture, undertaken by both established formal firms and by emerging small businesses, social producers and the public service. It should also open up investment in more efficient energy, transport and agricultural systems, and reduce South Africa's dependence on imported petroleum. On the other hand, it should enable the state to define more clearly and consistently its support for established producers, which will remain the backbone of the economy for the foreseeable future.

The South African economy includes a number of strengths which will provide the backbone for growth in the future, including:

- Africa's most diversified large economy, with considerable industrial strengths and capacity, including in the auto, steel, engineering, petrochemicals and other sectors

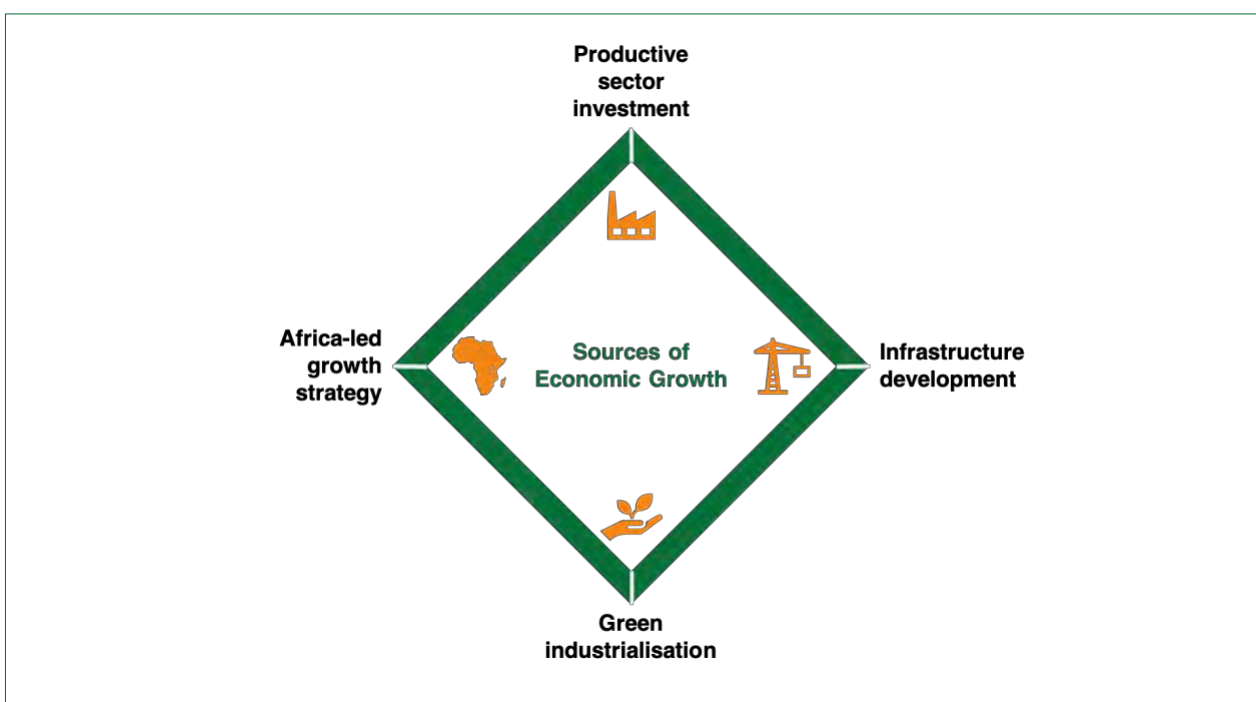
- Major producers in mining (which has been able to diversify substantially since 1994), horticulture, and tourism, with well-established public and private support systems;
- Strengths and capabilities in the digital sector, with a growing number of data-centres, a domestic online intermediation platform and a skills base used by multinational corporations to service their global customer-base
- Historic investment in electricity, rail, road, ports, water and digital systems to serve established industries;
- Strong institutions, including the democratic and legal systems, the financial sector, tax and regulatory authorities, and the development finance institutions;
- World-class managers, professionals and skilled workers in the formal sector; and
- Access to the rapidly growing continental market through the AfCFTA; with free trade agreements with the European Union and United Kingdom; preferential trade agreements with Mercosur and the EFTA countries
- Nevertheless, the South African economy faces several challenges, including:
- However, the economy is also hampered by a number of weaknesses, including:
- Persistent inequality and unemployment, stemming in part of high levels of economic concentration, which have marginalized small-scale black businesses. Furthermore, urban townships and rural areas have suffered from historical underinvestment;



- Widespread disparities in education leading to shortages in various skill sets;
- High emissions from electricity and petrochemicals, posing a potential threat to export markets due to future export barriers; and
- Relatively low incomes across Southern Africa, which restrict both export markets and opportunities for infrastructure collaboration.

The following cross-cutting measures thus serve to address weakness and unlock growth in the priority sectors detailed in Section 5.8, and as detailed in Figure 37.

Figure 37: Sources of growth for the South African economy



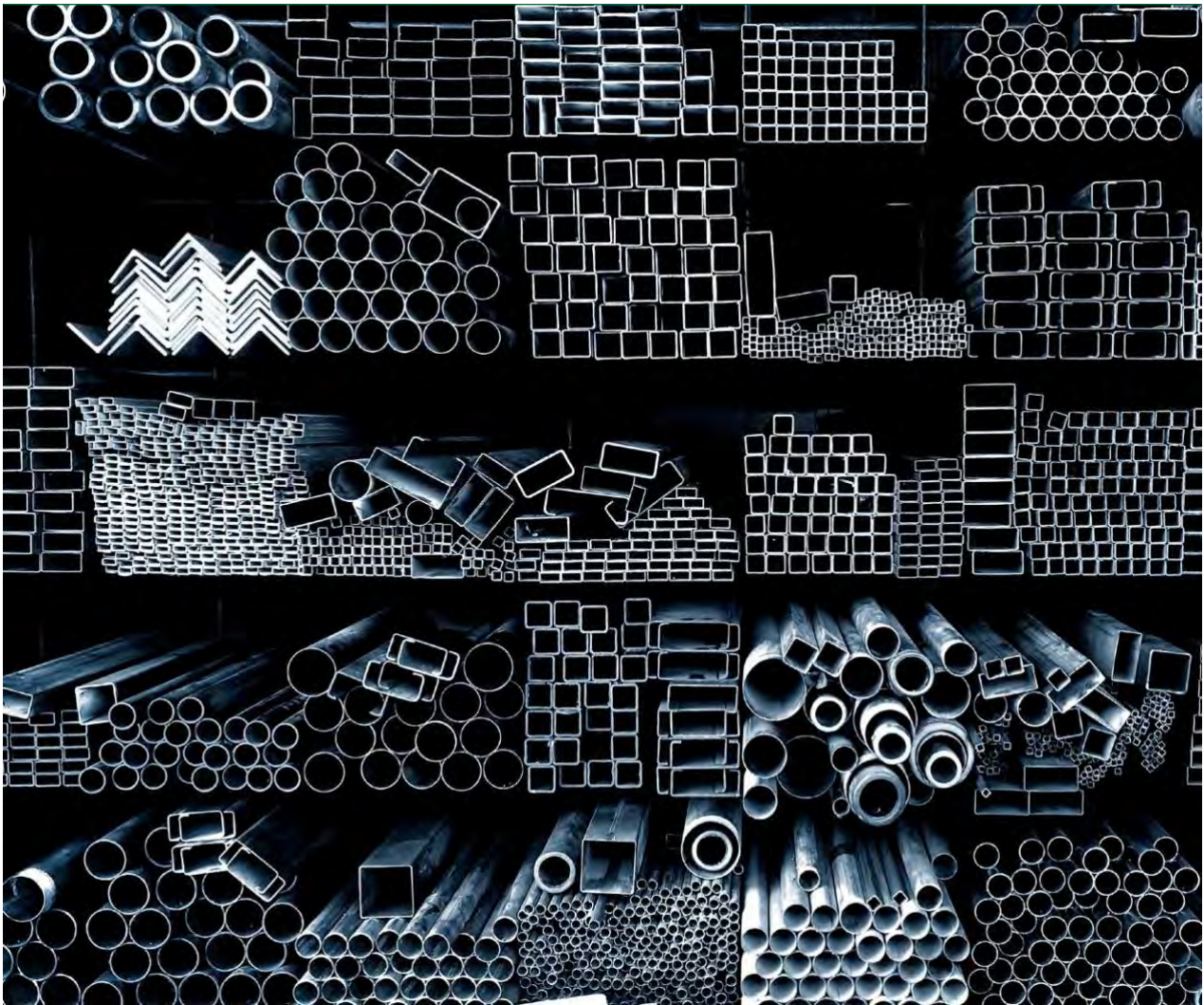
5.8.1. Infrastructure development

Rapid scaling-up of infrastructure spending should be a top priority, with the need to increase levels of investment to at least R400-500 billion per annum in fixing public infrastructure, drawing on private and public sector resources, with a combination of delivery-mechanisms, including Build-Operate-Transfer, PPP and public-sector financing models. As discussed in section 2.3, priorities will be to improve electricity and freight transport for established businesses, and to qualitatively upgrade infrastructure to support economic activities in working-class communities, especially by providing industrial, commercial and cultural centres.

As infrastructure spending recovers, **the dtic** should work with the SOC's and municipalities to boost manufacturing of inputs, while developing local capacity that can contribute to high-quality infrastructure development. The provisions of the new Procurement Act, due to be passed by Parliament in 2024, will be utilised, with an initial publication under the new Act of the product lists previously designated

as locally-sourced. A further ten products should be identified for designation. In addition, **the dtic** should undertake a review of the designation system to ensure more consistent implementation across all of the agencies and spheres of the state.

The construction industry is a driver of significant economic opportunity, anchoring sectors from steel to wood, and enabling more complex industries around household fittings and appliances. Alongside the broader investment-led industrialisation push, a more focused programme will be required to support firms taking part in the development of social housing infrastructure. This initiative would aim to both ensure that local firms benefit from a widely expanded housing programme, and to ensure that the housing programme benefits from a competitive and reliable set of suppliers. The strategy should ensure that the state can deliver high-quality, affordably priced social housing, while laying the foundations for an industry able to respond to rising construction needs across Africa.



5.8.2. Expanding industrial and economic investment

Investment facilitation policies should target new investment pledges of R2 trillion within a 5-year period; with at least R1,5 trillion in investment pledges spent in the period; with 70% of all investment projects under construction, or new machinery in progress of installation or projects completed and launched.

InvestSA should be strengthened with consideration of additional unblocking powers, set out in proposed legislation to address red tape and investment blockages.

The **dtic** must ensure substantially greater prioritization of labour-intensive industries, with the top priorities being professional public and private services; subsidies to basic consumer goods and services (some of which are in the public sector) and to small businesses/workers supplying them; and new initiatives to substantially scale up clothing, plastics production, and furniture production. Obviously South Africa must still support competitive industries, but industrial policy must also do more to address the deficit in employment and self-employment.

5.8.3. Reform of government support and incentives for new investment

South Africa's fiscus is highly constrained and is likely to remain so for at least the next three to five years. This limits the extent to which Government can use financial incentives to kick-start the economy. At the same time, a central constraint to sustained economic growth is South Africa's stubbornly low investment-to-GDP rate.

Government must resolve the key structural constraints to faster growth such as energy availability, logistics challenges, market concentration and the rising cost of doing business. However, these interventions require time to be implemented and to take effect. In the intervening period, Government may need to consider reforming the basket of incentives provided to the private-sector in order to increase its impact. This could include streamlining of incentive applications processes across Government to reduce administrative costs, policy changes which shift the onus to the applicant to prove that without the incentive the investment will not take place (essentially introduction of a needs test), review of the scope and range of incentives offered across the three spheres of Government to

reduce duplication and test for effectiveness, analysis of the effective tax rate faced by different sectors of the economy and policy interventions to re-balance the effective tax rate to support industries that have the potential to drive job creation, self-employment, exports and transformation.

Government can significantly bolster the trajectory of technological development and innovation by strategically employing a carefully-crafted system of tax incentives alongside direct investment. This approach aims to stimulate investment in sectors where the country currently lacks capacity and expertise. By doing so, government can take on a more proactive role in driving technological progress and addressing the chronic underinvestment in research and development that is crucial for unlocking economic growth in South Africa.

The withdrawal of tax incentives, such as the Section 12i incentives under the Income Tax Act, may have eroded the competitive advantage of certain industries, making it more challenging for them to attract capital and remain viable in the global market. Thus, restoring policy certainty through clear and consistent fiscal policies is essential to reigniting investment and fostering sustained economic growth and development in South Africa.

However, it is imperative to exercise caution and thorough evaluation to ensure that the utilization of tax incentives does not inadvertently lead to the consolidation of market power in specific sectors, potentially stifling competition, nor subsidise new players – other than for transformation purposes - at the expense of established businesses, with a zero or limited net positive impact. Furthermore, these incentives must be precisely targeted towards sectors and segments of the economy that promote technological innovation and offer the highest economic multiplier effect, maximizing their impact on overall growth and development. This balanced and strategic approach can effectively harness the power of incentives to fuel innovation, enhance competitiveness, and drive sustainable economic expansion in the country.

5.8.4. Promoting transformation and economic inclusion

Transformation in the economy is a key part of realising the goals of a non-racial inclusive democracy. Industrial policy can serve to address transformation and economic inclusion through a number of means, including through addressing competitive dynamics which impede the participation of black-owned businesses in the economy; factors which dampen the level of ownership of black South African and workers in the economy; and spatial dynamics which hamper the growth of economic areas outside of the major metros, including rural areas and townships.

The Competition Commission should undertake market inquiries in at least ten sectors in the coming five years, aimed at addressing high levels of economic concentration and low participation by small businesses. This programme of work should be complemented by a R50 billion support package for black industrialists, small businesses and township entrepreneurs, which will seek to expand the number of black-owned businesses benefiting from the Black Industrialist programme to 2 000.

The strategy also emphasizes leveraging the Black Industrialist program as an engine for economic growth. This entails increased funding directed towards black industrialists, with ambitious targets set for economic output (aiming for around R200 billion) and job retention (targeting 160 000 jobs within black industrialist businesses) over the next five years. Additionally, plans include involving 200 000 workers in worker share ownership schemes, designed to provide tangible benefits such as increased income, assets, influence in decision-making, and improved workplace relationships.

Moreover, planning has laid the basis for an additional R15 billion annually in loans and support for supporting enterprises outside the major metropolitan areas, with a strong focus on rural and township economies. Infrastructure investment will also be prioritized to enhance economic accessibility and opportunities in these regions. These concerted efforts are aimed at fostering a more inclusive and diversified economic landscape that benefits all segments of society, contributing to sustainable growth and development across South Africa.

5.8.5. Accelerating green industrialisation with a just transition and harnessing of critical minerals

Green industrialisation must build on existing initiatives in areas like electric vehicles; green hydrogen production; and processing of critical minerals particularly for the battery value chain. It must also revitalise efforts around renewable energy components.

An Africa-led initiative to ensure coordination in critical minerals policies will be required, as set out in the Electric Vehicle White Paper. A focus of new investment should be on the transition to electric vehicle and related battery and component manufacturing. New incentives were announced in February 2024, to be rolled out over a 10-year period.

Just transition efforts require global advocacy for support to countries in the Global South to green their economies. It should also include efforts in South Africa to ensure the energy transition in particular benefits working people. The dtic must support a new SEZ on green industrial production for Mpumalanga.

It should also cooperate with strategies to generate new opportunities for workers in industries affected by climate-change policies and strategies.

Southern Africa possesses significant mineral resources crucial for facilitating the global shift towards sustainability, including minerals like lithium, cobalt, and rare earth elements. These resources are vital for manufacturing components of electric vehicles and other clean energy technologies essential for the green industrial revolution. It is imperative to establish a comprehensive framework through which African nations collaborate with partner countries to build the industrial capabilities needed to position the continent as a major player, rather than merely a supplier of raw materials, in the transition to electric vehicles and other climate-friendly technologies. This strategic approach would not only ensure the sustainable utilization of Southern Africa's mineral wealth but also contribute to the region's economic development and global leadership in the green energy sector. Initial discussions have been held with DRC, Namibia and other neighbours and can be concluded in the Seventh Administration.

The creation of a Mineral Commission to oversee this work, drawing on expertise from both the private and public sector and labour, may serve as an appropriate

structure to drive the necessary inter-regional work. In April 2024, the United Nations established Panel on Critical Energy Transition Minerals in the office of the Secretary-General, co-chaired by South Africa's permanent representative to the UN in Geneva.

5.8.6. Pivoting to an Africa-led growth strategy that leverages the AfCFTA

The AfCFTA marks a significant milestone in South Africa's trade policy, signalling a clear commitment to a growth trajectory that will underpin the country's development for years to come. Currently, the rest of Africa account for more than 25% of South Africa's total goods exports, with manufactured products making up 40% of these exports. During the Sixth Administration, SARS-reported exports to the rest of Africa increased from R343 billion in 2019 to R547 billion in 2023, an extraordinary increase of 59%, outstripping the aggregate growth in SA's global exports.

The AfCFTA presents a unique opportunity for South Africa to capitalize on the vast African market through greater integration with regional trading partners. Africa's potential is immense, with a rapidly urbanizing population and abundant mineral and agricultural resources. Furthermore, the continent is experiencing a demographic boom, with population growth rates



that are two and a half times higher than the global average. This demographic trend positions Africa for substantial economic growth in the foreseeable future.

The **dtic** has strategically focused on positioning South Africa to harness the economic opportunities and growth potential within the continent. By leveraging the AfCFTA and engaging with the burgeoning African market, South Africa aims to drive sustainable development and prosperity both domestically and across the African continent.

South Africa should set a stretch target for expanding trade with Africa within the next five years, using the platform of the AfCFTA. As part of this focus, **the dtic**-group should develop a programme of support for companies seeking to make use of the AfCFTA, including identifying critical markets, products and value chains for targeted support. A list of key products is being developed. It is recommended that it be complemented by a strategic approach to the various regions of the continent.

5.8.7. Trade diplomacy

The key export priorities are to implement the AfCFTA fully; rebalance trade with BRICS countries to greater manufacturing value-addition; develop and expand access to US and EU/UK markets for value-added products; and expand food and light manufacturing exports to the Middle East.

Just one year before the start of the Sixth Administration, the AU's Kigali Declaration announced our joint intention to build the African Continental Free Trade Area (AfCFTA). In the four years since, we have collaborated with our partners in the rest of Africa to build an agreement that is ready for South Africans to start trading. With the UK – South Africa Economic Partnership Agreement helping shore-up our existing market access, the AfCFTA once fully implemented, will let us build on our existing preferential access to 48 markets, and reach a further 41. This market access, combined with efforts to build continental frameworks on crucial issues like investment, competition and digital trade, will help South Africa grow as Africa does.

Engagement with the US is taking place to extend AGOA for 10 years from its expiry in 2025. A review of the EU Economic Partnership Agreement is under way that will consider strengthening the beneficiation of critical minerals on the African continent. A list of 100 products has been developed for the Chinese market.

5.8.8. Digital economy and Artificial Intelligence (AI)

It is recommended that a strategy be developed to position South African firms to both manage and benefit from the digital transition. Initial measures include scaling-up 3-D printing, support for artificial

intelligence applications to manufacturing and export services, and consideration of policies to promote South Africa as a location for digital nomads (that is, professionals working remotely on digital services). An appropriate regulatory framework will be required and consulted.

The strategy will include proposals to expand the share of the population with computer, language and design skills and with access to high-speed internet. It will also propose measures to increase the number of students pursuing computer science and associated courses. Government must ensure that students from poor households have the educational prerequisites to enter these professions.

5.8.9. Expanding support to productive services

While much of the focus of industrialisation centres around expansion of manufacturing and the agro-processing value-chain, the greater automation on modern production floors, coupled with a global shift to greater value-addition in services sectors, opens an opportunity for SA to actively pursue growth-enhancing services.

Building on lessons from support to global business services and film industries, it is proposed to expand support to high-value services sectors like tourism, engineering, digital services (linked to the strategy proposed in section 5.8.8), the creative industries, security, education and healthcare.

5.8.10. Labour market and skills development for a new economy

South Africa's labour market policies have sought to address the historical legacy of low-wages and limited rights for working people. The next phase of labour market reform must be to promote greater job-creation, focusing on measures that can absorb more school-leavers and long-term unemployed. . It must also drive a new skills development focus to address tectonic shifts in economies, from the rise of AI to the disruptions that will accompany climate-change policies, as discussed in section 5.5 above.

The labour market had historically been characterised by high levels of exclusion and adversarial industrial relations. While industrial action levels have come down significantly over the past number of years, a concerted effort to build stronger positive relations and partnerships if undertaken, can assist with greater job creation, improved productivity outcomes and inclusive economic growth.

Challenges such as high income inequalities and wage differentials have been the subject of policy interventions during the Sixth Administration. The Companies Amendment Bill 2023 has extensive wage



ratio disclosure provisions, with enhanced shareholder powers to address excessive executive pay. The promotion of worker share ownership schemes, properly implemented, can contribute to greater worker voice in strategic discussions on firm-level growth. These foundations can be used in the Seventh Administration to build a new South African industrial relations compact.

5.8.11. Strengthening industrial policy in secondary cities

Cities are central nodes of economic development, but recent decades have demonstrated how a consolidation of economic activity around a handful of major urban centres can place pressure on housing and key services, narrow the space for new companies to develop and innovate, and undermine broader regional economies. South Africa's unusual spatial history, in which populations and industries were relocated to outlying areas, means that an excessive consolidation of economic activity around

the metropolises could prevent opportunities reaching people in need. Weakening municipal finances and capacity leaves secondary economic areas little space to arrest this threatened centralisation, and a lack of central support could mean economic activity continues to gravitate to the cities and regions with the clout to implement their own regional industrial policies.

Building on prior spatial industrial programmes (like the SEZs) and the District Development Model, it is recommended that five secondary cities be targeted for pilot industrial policy partnerships. These partnerships will aim to mutually develop a regional industrial plan around select secondary cities, and create shared capacity between the municipality and central government for common industrial policy tasks like export promotion, investment promotion and company-level financing and support. In addition, construction and property development contracts can be tailored to ensure maximum economic impact through appropriate localisation criteria.

5.8.12. Improving state capacity through a new approach to projects and support with technical standards

Implementing industrial policy is extremely complex, and successfully realising the programmes detailed above will require both improvements in underlying state capacity, and better utilisation of the skills and resources available within the state. Experience in the past administration has demonstrated how cross-departmental or cross-agency teams are often best placed to delivery on critical objectives, with this approach having delivered on key projects like the TASEZ, the five Investment Conferences and the Masterplans.

These projects shifted from the old model of intergovernmental cooperation, which often focused on broad meetings of very senior officials, towards a model in which talented implementation-level officials were given the space to collaborate on specific objectives. Work in the next administration will aim to formalise this approach through a new system of Project Groups, including by creating flexibility in the work and targets by which officials are evaluated, and embedding planning for Project Groups into the annual planning process. Starting with a pilot programme among the major economic cluster Departments and some of their agencies, this approach will be refined and tested in the coming years.

5.9. Sectors and market opportunities

The piloting of masterplans provided important new learnings on what works and what does not. The following objectives will be pursued at industry level, both within the framework of Masterplans and using other broader industrial policy toolkit.

5.9.1. Energy, oil, gas and the chemicals industry

Energy stands as a pivotal sector for growth in South Africa, given its indispensable role in powering industries, driving economic activities, and enhancing overall productivity. The country's transition towards cleaner and more sustainable energy sources, coupled with the exploration and development of domestic resources, presents significant opportunities for innovation, job creation, and investment.

Investments in renewable energy infrastructure, such as solar, wind, and hydroelectric power, not only contribute to mitigating climate change but also foster economic resilience and energy independence. Moreover, the expansion of energy access to underserved communities and the electrification of rural areas holds immense potential for socio-economic development and poverty alleviation.

While South Africa is a net importer of oil and gas, recent exploration suggests significant potential for domestic resources. Estimates indicate that South Africa's offshore waters could hold billions of barrels of oil and natural gas. Developing these resources could present a two-fold opportunity: domestic production could lessen reliance on imports, potentially improving energy security and price stability; and successful exploration and extraction could lead to job creation, economic growth, and revenue generation for the fiscus. Environmental concerns and responsible resource management will need to be addressed throughout the process.

Government's work with the private sector to address any potential 'gas cliff' will also be critical. Analysts assert gas-to-power, alongside battery storage, emerges as a promising solution to bridge the variability gaps left by renewable energy sources. The draft Integrated Resource Plan of 2023 underscores the importance of installing 7,220 MW of new gas-to-power capacity to address the nation's electricity shortfall effectively. Furthermore, the recent discoveries of significant natural gas resources offshore offer potential long-term solutions to South Africa's energy challenges.

Strategic infrastructure investments and collaborative dialogues among stakeholders are essential to navigate the complexities of gas supply effectively. Balancing immediate energy security with long-term sustainability goals requires a nuanced approach that leverages gas as a bridge fuel while advancing towards cleaner energy solutions.

The development of a biochemicals and bioplastics strategy will position South Africa as a leader in a rapidly emerging global industry, while protecting the local chemicals and plastics sector from possible long-term price shocks in their essential inputs, many of which are by-products of petroleum refinery. The advancement of bio-based chemicals and plastics value chains will unlock new opportunities for agricultural communities, and offer a route to monetising waste for sectors like sugar and forestry.

5.9.2. Green hydrogen

Green Hydrogen is expected to play an important role in the overall decarbonisation of the global energy supply for a number of reasons. Firstly, there is growing impetus to increase the proportion of the energy produced from low- to zero-carbon sources as countries adopt net-zero strategies. Secondly, hydrogen can be stored and transported over large distances, providing a solution to the intermittency of solar and wind energy. Thirdly, the energy per unit of mass of hydrogen versus fossil fuels is significant, with as much as three times more energy generated from hydrogen versus gasoline per kilogram. Hydrogen is also able to burn at temperatures equivalent to fossil fuels (including coking coal and

oil), providing a number of applications for hydrogen in hard-to-abate sectors, like iron, steel, cement and non-ferrous metal production. Finally, the development of domestic hydrogen production can further support energy security by reducing the reliance on oil, natural gas and other imported fossil fuels.

Successful commercialisation of green hydrogen in South Africa can have significant economic benefits, with the potential to add as much as R188 billion to GDP supporting 387 774 jobs, and generating R29 billion in revenues for the fiscus, all by 2030, according to work done by a Ministerial Panel on Green Hydrogen. Ultimately, a thriving green hydrogen sector in South Africa will contribute to the country's sustainable competitiveness as the world transitions to Net Zero greenhouse gas emissions; and can further position the country as a major player in the global energy sector as reliance on oil and coal decreases ahead of 2050.

5.9.3. Green industrialisation, and climate sustainable technologies

The transition to more climate-sustainable technologies presents significant economic opportunities for South Africa. By adopting cleaner technologies and processes, South Africa can reduce production costs, improve resource utilization, and potentially access new "green" markets seeking sustainable products. Additionally, this approach can attract investment and position South Africa as a leader in sustainable manufacturing on the continent. Demand for direct carbon capture technologies also presents an opportunity for the country.

Government can play a pivotal role in supporting green industrialization through a multi-pronged approach, including (i) Policy and Regulation, including clear and stable environmental regulations coupled with targeted incentives; (ii) financial Instruments, including green financing mechanisms, such as loan guarantees or dedicated green investment funds; (iii) skills Development; (iv) increased support for research and development; and (v) infrastructure Development, including investment in renewable energy infrastructure and promotion of energy efficiency measures.

5.9.4. The automotive industry

Consolidating South Africa's position as Africa's largest car-assembler and component producer presents a significant economic opportunity for the country.

Automobile and component production: during the next five years, production of automobiles will be stepped up as part of the masterplan commitments to substantial scale up output.

The following outcomes will be pursued:

- At least 200 000 additional vehicles to be produced annually by the end of the five-year period, increasing production to at least 800 000 vehicles a year.

- Enabling up to two new global manufacturers to commence assembly of vehicles (Stellantis and the Beijing Auto Industrial Corporation).
- Expansion of production at existing assemblers (e.g. Ford);
- New targets for local content in electric vehicles to be developed, and local content in petrol-fuelled cars to increase in line with masterplan targets.
- The shift to electric vehicles will commence, with small-scale production expected by 2026.

5.9.5. Mining equipment

The mining value chain provides an important source of growth for investment in the expansion of South Africa's mining equipment industry. The expansion of a domestic mining equipment manufacturing industry in South Africa presents a significant growth opportunity with a two-pronged approach. Firstly, it can address the needs of the country's well-established mining sector. By producing equipment locally on a competitive basis, South Africa can reduce reliance on imports, potentially lowering costs and lead times for mining companies. This fosters a more efficient and cost-competitive domestic mining industry. Secondly, South Africa is strategically positioned to become a major exporter of mining equipment. The continent has vast mineral resources, and many neighbouring countries are experiencing growth in their mining sectors. By developing expertise and a competitive edge in equipment manufacturing, South Africa can tap into this expanding African market, generating valuable export revenue and establishing itself as a regional hub for mining technology. Such 'side stream' value-addition can help to increase the industrialisation impact of the mining sector.

5.9.6. Heavy transport equipment, including trucks and trains

The domestic production of trucks and trains in South Africa holds immense potential for both internal growth and export opportunities. It can significantly bolster South Africa's extensive freight transportation sector. Locally manufactured trucks and trains can directly address the needs of the country's thriving mining, agricultural, and retail industries. This not only shortens lead times and potentially reduces costs compared to relying on imports, but also fosters a more self-sufficient and responsive domestic logistics network. South Africa's strategic location positions it perfectly to become a major exporter of trucks and trains. Neighbouring countries are experiencing rapid economic growth, leading to increased demand for efficient transportation solutions. By leveraging its skilled workforce and established manufacturing base, South Africa can become a key supplier to the continent, generating export revenue and establishing itself as a regional leader in the commercial vehicle and rail transportation industry.



5.9.7. Steel and metal fabrication

The steel industry continues to face challenges in basic steel production. Downstream producers have stabilised, with some recovery from the pandemic downturn. They account for the bulk of value added employment and small business in the industry, as well as manufacturing more advanced products such as machinery.

It is recommended that the following outcomes be pursued:

- Focus on increased demand through a revitalised infrastructure drive and start of trading under the AfCFTA as well as clawing back volumes lost due to high growth of imports, by addressing custom fraud; mis-declaration and duty circumventions.
- Expand programmes to assist firms in adopting green production technologies.
- Implement reforms to critical network infrastructure important to the sector, notably rail.
- Enhanced industrial financing instruments to support downstream competitiveness and growth

5.9.8. Retail, Clothing, Textiles, Footwear and Leather

The value chain will seek to increase local production to 65% of sales in the domestic market, in partnership with the manufacturers, retailers and labour, building on successes over the past five years. That translates into local procurement targets for the major retail chains of R66 billion.

Other interventions include:

- Addressing import customs duties avoidance through loopholes in the system that enable off-shore e-commerce businesses to send parcels to South Africa at reduced tariff rates.
- Strengthening the competitiveness and modernisation of manufacturing, including upskilling workers and management, increased investment and a re-alignment of production cycles.
- Improved efforts to avoid sweatshop conditions through better coverage of collective bargaining arrangements, coupled with appropriate negotiated flexibility

- The development of agricultural value chains as a source of materials for the textile industry, including hemp, wool, mohair and cotton.

5.9.9. Food and beverages

The development of a robust domestic food and beverage manufacturing industry presents a strategic opportunity for South Africa to achieve multiple economic and social objectives. By increasing domestic production capacity, South Africa can enhance its food security and build resilience against potential disruptions in global supply chains. This not only safeguards the nation's ability to provide its population with essential food and beverages, but also mitigates potential price hikes associated with import dependence. South Africa's diverse agricultural sector and its position as a gateway to sub-Saharan Africa offer significant potential for export-oriented growth. By investing in value-added processing and innovative food and beverage products that cater to regional tastes and preferences, South Africa can create high-value exports, generate foreign currency earnings, and contribute to regional economic integration.

This focus on value addition can leverage South Africa's existing agricultural strengths while creating high-skilled jobs within the manufacturing sector. Furthermore, a thriving food and beverage manufacturing industry can stimulate economic activity throughout the value chain, fostering growth in related sectors such as packaging, transportation, and logistics. By prioritizing the development of this industry, the South African government can contribute to a more diversified and resilient national economy, while ensuring long-term food security and promoting regional economic development.

5.9.10. Sugar and downstream industrial products

Sugar production stabilised over the course of the previous Administration, following a period of falling production and rising imports. The Masterplan helped achieve this aim through localisation commitments by retailers and downstream manufacturers, while providing a R1 billion transformation fund and minimum payment guarantees for small farmers. The entry into business rescue by Tongaat Hulett, as a result of massive fraud in the company, nevertheless limited efforts to ramp up production, and declining milling capacity remains a threat.

The following outcomes will be pursued under the Masterplan:

- Maintaining local production of sugar for the food value-chain, whilst developing more advanced downstream products as foreseen by the Masterplan. At least three pilot programmes will be rolled out that either diversify crops grown alongside sugar or increase downstream uses of sugar, for instance through sustainable aviation fuel options.

- A framework for regional sugar trade harmonisation will be completed.
- A sustainable plan to support small-scale growers will be developed, to complement the financial support provided through the Sugar Masterplan.

5.9.11. Poultry

Work in the poultry sector has focused on promoting the local industry whilst safeguarding consumer interests. Local production increased while imports declined significantly. Consumer chicken prices rose more than 2% a year above headline inflation, however, in large part because of high feed prices nationally and internationally, which led to a global surge in poultry prices. These trends combined with the effects of the pandemic downturn to lead to a decline in per-person consumption of chicken over the past few years.

The following outcomes will be pursued under the Masterplan:

- Expand production of poultry, with further growth of two million birds over the next five years; and expand the poultry-feed industry, with a target for higher feed consumption.
- Review measures to moderate the cost of feed and the cost of individually quick frozen chicken pieces, which are a staple for working class households. The target should be that the consumer price of frozen chicken should not increase more than inflation.
- Implement a joint initiative to combat the avian influenza outbreak and manage the impact on consumers
- Implement local procurement commitments by retailers like Shoprite and OBC Stores, and the finalisation of additional commitments from at least two large retailers.
- Support a shift to export of poultry-meat to enable the industry to secure stronger margin on breast-meat and be more price competitive in the domestic market on other meat cuts. The target of increasing exports to between 7-10% of production should be maintained
- Continue to periodically review the tariff provisions and to strengthen measures to limit undeclared or substandard imports.

Expand the number of black poultry producers throughout the value-chain, including in feedstock, hatcheries and abattoirs; and secure 100 new contract farmers over the next five years.

5.9.12. Consumer durables and electronics

South Africa is fast emerging as a centre of production for consumer durables and electronics, including kitchen goods - like fridges and washing machines – and electronic goods like televisions. The country's strategic location on the African continent positions it as a hub for exports within the region under the AfCFTA. Furthermore, prioritizing domestic production of consumer durables can stimulate growth across various interconnected industries. The demand for locally manufactured components and raw materials can create opportunities for upstream suppliers, while a thriving consumer durables sector can bolster the development of the retail and after-sales service sectors.

5.9.13. Furniture, forestry and timber industries

Furniture starts from a strong basis, with a globally regarded forestry sector and strong anchor demand locally and in the region. It has substantial room for growth in the years ahead. The recently completed Masterplan aimed in the short run to protect the current industry and existing businesses, and over time to improve competitiveness, create employment and expand markets for local furniture products.

It is recommended that the following outcomes be pursued:

- To reduce the import to domestic demand ratio, from an estimated baseline of 30% of R48,7 total value of sales recorded in 2019 to 25% by 2026 and 20% by 2030. The main instrument to achieve this aim will be the finalisation of procurement pledges from leading retailers and state agencies, coupled with a competitiveness enhancement programme.
- Government will invest R400 million currently earmarked, to support small business development in the furniture industry
- Exports of South Africa manufactured furniture and components should be targeted to grow by at least 20% by 2030 in real terms.
- Address shortages in timber supply by increased management of pine plantations, and this will require co-ordination with the forestry sector.

5.9.14. Pharmaceuticals

The development of a strong domestic pharmaceutical manufacturing industry presents South Africa with a compelling opportunity to achieve multiple economic and social objectives. It can enhance access to essential medicines for the domestic population, improving public health outcomes and reducing reliance on often pricier imported medications. This only strengthens healthcare security and fosters greater affordability and equity within the healthcare system. A thriving pharmaceutical manufacturing sector can create high-skilled jobs in research, development,

production, and distribution. This promotes knowledge transfer and technological advancements, positioning South Africa as a leader in pharmaceutical innovation within the region. Furthermore, by focusing on value-added production and niche markets, South Africa can position itself as a strategic exporter of pharmaceuticals to neighbouring countries. Overall, prioritizing the development of the domestic pharmaceutical manufacturing industry aligns with South Africa's commitment to public health, economic diversification, and regional collaboration.

5.9.15. Cosmetics, skincare, haircare and other fast moving consumable goods (FMCG)

The cosmetics, skin and haircare industries provide an opportunity to drive greater levels of inclusion and participation by small and black-owned businesses, given the array of consumer preferences and the relatively lower barriers to entry. By providing targeted support, training, and access to financing, Government can empower a new generation of black entrepreneurs to build successful cosmetics businesses, which also meet the preferences of South Africa's consumers.

Moreover, building on the work of the Sixth Administration, fostering partnerships between public and private sectors, as well as providing tailored financial assistance and technical support to aspiring manufacturers, can further incentivize investment in FMCG sectors. By addressing regulatory hurdles, enhancing access to finance, and promoting skills development, the government can facilitate the expansion and modernization of FMCG manufacturing, driving economic growth, job creation, and competitiveness in South Africa's consumer goods industry.

5.9.16. Medical Devices

South Africa has an established medical devices sector with an estimated valued of R21 billion in 2021. It has pockets of excellence with a capacity to manufacture innovative products that are globally competitive (e.g. Lodox, spinal, orthopaedic and dental titanium-based implants, ventilators, certain diagnostics etc.). Local manufacturers export regionally as well as to mature markets such as the USA and the EU.

A master plan is being led for the medical devices industry. In the short term. It aims to ramp up production by stabilising domestic demand through procurement commitment by the public and private sector combined with the identification of viable product lines for expansion.

5.9.17. Advanced manufacturing

South Africa is well-positioned towards a future-proof economy by embracing advanced manufacturing. This approach harnesses cutting-edge technologies like 3D printing, robotics, and artificial intelligence to



revolutionize production processes. The benefits are multi-fold. Firstly, advanced manufacturing can boost domestic competitiveness by enabling the production of high-value, innovative goods, reducing reliance on imports. Secondly, it fosters the creation of high-skilled jobs in areas like design, engineering, and data analysis. This not only upskills the workforce but also attracts foreign investment and positions South Africa as a leader in technological innovation within Africa. However, challenges exist. Building a skilled workforce and fostering a culture of research and development are crucial.

While work done in the Sixth Administration provides a good basis for advancement, Government should seek to step up this growth by investing in STEM education and R&D initiatives, while also offering appropriately structured incentives for businesses to adopt advanced manufacturing technologies.

5.9.18. Global Business Services and other digital services

South African exports of business services were approximately R6 billion in 2022, according to Business Process Enabling South Africa, as the industry continued to grow off a combination of strong local ICT infrastructure, skilled English-speaking workers, and extensive government incentives.

Significant investment in data centres has already taken place in South Africa, marking a crucial infrastructural milestone in laying the groundwork for a world-class information economy. These data centres represent a vital component of the country's digital infrastructure, providing essential storage, processing, and networking capabilities to support a diverse range of digital services and applications. With this existing infrastructure in place, South Africa is poised to leverage its robust data centre ecosystem to drive innovation, economic growth, and improved service delivery across various sectors. Moreover, the substantial investment in data centres underscores the nation's commitment to fostering digital transformation and entrepreneurship, positioning it as a competitive player in the global digital economy. Moving forward, continued investment and innovation in data centre infrastructure will be essential for sustaining South Africa's momentum towards becoming a leading hub for digital innovation and economic development. The new administration is able to focus on continued growth of the sector.

The following outcomes can be pursued:

- Obtaining a wider geographic and location spread, moving beyond the four core metros for call-centre location, and also developing sites in townships as well as work-from-home options.

- Moving up the value-chain by expanding call-centre and other related services in fields like information technology, finance, healthcare, education, legal services, retail and e-commerce, utilities and energy, insurance, media, and gaming.
- Improving infrastructure and resilience. In addition to improving the reliability of electricity in the industry, including through off-grid solutions, continued efforts are required to strengthen digital capacity, including the number of undersea cable connections to the rest of the world.
- Strengthening social impact and labour relations, and expanding the market share of businesses owned by black people and especially women.
- Consider the impact of, and embrace the new technologies, recognizing their challenges and also the opportunities. Artificial intelligence is already having a significant impact on the industry, and it is likely to expand significantly. South Africa should identify and build on uniquely human traits, like empathy, problem-solving and creativity and to shift to greater task complexity in order to avoid being displaced.

5.9.19. Film production, music and fashion

South Africa has rapidly emerged as a global centre for major film and TV productions. In the years ahead, the focus should be on formalising state support through the development of a Film Masterplan, which will lay the groundwork to build on prior growth or diversify into new areas (like animation and visual effects).

South Africa has a rich and vibrant music industry, already a significant contributor to the country's cultural identity and economy. However, there is immense potential for further growth. By leveraging the talent and creativity of its artists, South Africa can become a major exporter of music. This can be achieved through targeted support for artist development, music production, and international promotion. While challenges like limited access to funding and global distribution networks exist, South Africa's unique musical heritage and burgeoning talent pool position it for significant growth in the global music industry.

South Africa's fashion scene pulsates with creativity and innovation, offering a wealth of potential for economic growth and global recognition. This potential can be harnessed by nurturing the country's unique design talent. By providing targeted support through initiatives like business skills development, fashion incubator programs, and participation in international trade shows, South African designers can gain the necessary tools to compete on the global stage. Furthermore, fostering collaboration between established designers

and emerging talent can foster a vibrant fashion ecosystem. Additionally, promoting "Proudly South African" fashion through marketing campaigns can cultivate national pride and attract international consumers seeking distinctive and culturally-influenced designs.

5.9.20. Export of Professional services

South Africa has a wealth of talent to leverage in the export of professional services. The nation has a highly skilled workforce in various sectors, including finance, accounting, engineering, law, marketing, and Information Technology. This expertise, coupled with South Africa's strong business acumen and understanding of the African landscape, positions it to become a major exporter of professional services. By capitalizing on this opportunity, South Africa can generate significant foreign currency earnings, create high-skilled jobs domestically, and solidify its reputation as a leading professional services hub on the continent. South Africa's ecosystem of world-class professional services also provides an attractive space for digital nomads and entrepreneurs looking to develop their business ideas.

Government can foster the growth and development of the country's professional service sector, by (i) investing in skills development and accreditation; (ii) facilitating market access and promotion, including trade missions and participation in international events; (iii) enhancing the enabling environment through investment in digital infrastructure; and (iv) facilitating collaboration and networking, through promoting public-private partnerships to leverage the strengths of the country's professional service sector and foster exports.

5.9.21. Oceans economy

The South African government has recognized the ocean economy's potential through initiatives like Operation Phakisa. The vast potential of South Africa's ocean economy remains largely untapped. This rich marine environment presents a multitude of opportunities for sustainable economic development. Fisheries management and aquaculture hold the potential to create jobs, boost food security, and generate export revenue. The exploration and responsible development of offshore renewable energy sources like wind and wave power can contribute to a cleaner energy future and attract investment in related technologies. Promoting ocean tourism, marine research and development, and the sustainable use of marine resources can further unlock economic potential. However, careful management and conservation efforts are crucial to ensure the long-term health and sustainability of this valuable resource.

Message from the Minister

This Industrial Policy & Strategy Review sets out the many ways in which industrial policy has been used to build the foundations for economic growth in South Africa. By focusing on targeted interventions which strategically align resources, priorities, and incentives, industrial policy can catalyse innovation, productivity, and competitiveness within critical sectors.

From the design and implementation of new ways of working together across key sectors of the economy under the Masterplans, to the pioneering efforts to build a single African market through the AfCFTA, our industrial policy and strategy seeks to promote resilience, innovation, and inclusive growth. We have used our industrial toolkit in increasingly innovative ways to open greater market access both locally and abroad; improve the operating environment for local manufacturing and productive services; foster a fairer economy through competition policy, promotion of entrepreneurship and support for black industrialists; and facilitate increased investment through hands-on work to unblock obstacles.

Amidst challenges and adversity, including the global COVID-19 pandemic and other unforeseen events, South Africa's commitment to industrial transformation and economic resilience is clear. The initiatives outlined here underscore Government's dedication to cultivating a more competitive, jobs-rich and equitable economy where all citizens can prosper.

The challenges of tomorrow will drive the need for new skills, innovation and effective implementation. As we move into the next era of South Africa's democracy, the learnings encapsulated in this review provide a blueprint for how we can get industrial policy to work for all South Africans, creating decent employment for workers; a supportive environment for business to thrive; and a fairer economy, transformed to reflect the diversity of South Africa's people.

Ebrahim Patel

Minister of Trade, Industry and Competition



Minister Patel with Neliswa Susani, a worker at Volpes linen factory in Struandale, Eastern Cape



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Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA