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Supporting Investment for Dynamic Growth

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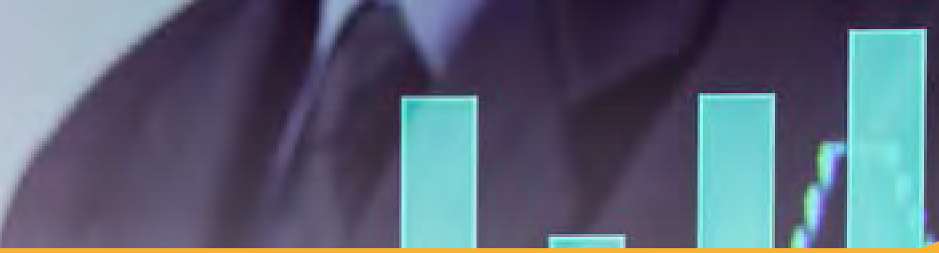
MESSAGE FROM THE ACTING HEAD OF INVESTSA MR YUNUS HOOSEN

Welcome to the first edition of InvestSA's flagship publication that aims to provide a snapshot of industry and investment trends, investment climate issues, research and matters relevant to potential investors and the general public. Articles are welcome from the business community, academia, international and local organisations and from public servants. We look forward to hearing from you!

South Africa remains an attractive investment destination for global multinationals and domestic companies in terms of the return on investments. AT Kearney's Annual Foreign Investment Confidence Index, in April, ranked South Africa in 25th position and this is a realistic representation of the state and outlook of the country's economic prospects and investment landscape.

Ernst and Young's Africa Attractiveness Index, 2017, ranks South Africa in first position. The index measures resilience in the face of current macroeconomic pressures, as well as progress being made in critical areas of longer-term development (governance, diversification, infrastructure, business enablement and human development). The index also indicated that South Africa continues to "buck the trend" in terms of attracting investment compared to other African countries both in terms of value of investments and the number of investment projects.



The PricewaterhouseCoopers report, *The Long View*, How will the Global Economic Order Change by 2050, projects positive growth for South Africa and a number of African countries. "South Africa will be among the few countries to experience a marked acceleration of annual average growth over the next few decades as opposed to moderation". This may be attributed to a concerted effort towards diversification and a shift away from natural resources to value-added economic activities.

Investment promotion is crucial to the greater scheme of economic development in terms of financing development, with multinational enterprises providing employment, technology transfer and access to international markets. Investment promotion activities, when aligned with international best practice, can aid in growing the proverbial economic pie. The role of government is not only to develop prudent and responsive investment policies, but also to emphasise international best practice investor aftercare and advocate for reform. However, investment promotion does not happen in isolation and a conducive investment climate is critical, underpinned by synergies across various government departments and agencies.

The South African Government, the Department of Trade and Industry (**the dti**) and InvestSA is committed to creating an enabling investment climate to attract both foreign and domestic investment through a number of interventions, which include reforming the business regulation environment, reducing the administrative burden of starting a business, and providing incentives and assistance. InvestSA, in collaboration with the World Bank, is bringing together various stakeholders to streamline business processes and improve South Africa's overall rankings in the World Bank's Annual Ease of Doing Business Survey.

Attracting investment under the current global economic climate is no easy task for any economy, and investment policy and its application must be relevant to the dynamics of an ever-changing economic climate. At the same time, investment promotion and FDI ideally should address the developmental objectives of a country/region. For South Africa and Africa, these are the development of manufacturing capacity, addressing unemployment, diversification of the export basket and the ability to add value at source. The ability to attract FDI is a complex convergence of factors, both internal and external, which requires a multi-faceted and dynamic approach.

The South African Government has proactively embarked on initiatives to create an enabling environment for inclusive growth and upscale investments. An Inter-Ministerial Committee (IMC) on investment was established by the President that is testament to the level of commitment to make South Africa a more business-friendly destination for investors.

LAUNCH OF INVESTSA ONE STOP SHOP

In March 2017, the Presidency and InvestSA launched the National One Stop Shop (OSS) to provide investors with services such as investment promotion, facilitation and aftercare that is geared towards fast-tracking projects and reducing government red tape. The OSS actively markets, promotes and facilitates investment in key high-yielding growth sectors of the South African economy.

The South African Government has committed to maintaining South Africa's position as an attractive investment destination and, at a political level, has established an IMC to achieve these ends. The IMC comprises 16 ministers from relevant government departments, including **the dti**, Mineral Resources, Energy, Public Enterprises, Home Affairs and National Treasury. InvestSA has been mandated to champion the initiative, which provides enhanced investment facilitation and aftercare as well as specialist advisory services to investors.

InvestSA facilitates the increase in the quality and quantity of foreign and domestic direct investment by providing investment recruitment, problem-solving and information services to retain and expand investment in South Africa and into Africa.

Key features of the OSS include helping investors to plan their developments in terms of land assessment and office space allocations, assisting with licence and permit applications, assisting investors to access applicable incentives, simplifying administrative procedures and acting as a single point of reference for government processes. New self-service terminals (SSTs), for example, allow for company registration to take place within a day, whereas previously the process would take five to seven days. Registration of foreign companies will also be fast-tracked.

Various departments and agencies will be "housed" at the OSS such as Home Affairs, Labour, Environmental Affairs, Science and Technology, Energy, Agriculture, Forestry and Fisheries, **the dti** and the South

African Revenue Services (SARS), the Companies and Intellectual Properties Commission (CIPC) and Eskom. This will help them obtain required registration, permits and licencing to set up businesses.

The national OSS is located in Pretoria, and more recently, the Western Cape One Stop Shop was launched in September 2017. Provincial One Stop Shops will be rolled out nationally, the next being KwaZulu-Natal, to ensure accessibility of services across South Africa. The InvestSA OSS will further serve to coordinate provincial OSS investment centres incorporating the Special Economic Zones (SEZs), provincial investment agencies, local authorities and the relevant government departments involved in regulatory, registration, permits and licensing matters.

Services offered by InvestSA and the OSS

- Investment information
- Economic environment
- Regulatory environment
- Legal environment and compliance
- Industrial development and financial support
- Investment guides

Investment Facilitation

- Inter-governmental coordination and facilitation
- Licensing, company registrations and work permits
- Municipal facilitation
- Incentives facilitation
- Location analysis and facilitation
- Critical Infrastructure and Utilities
- Broad-Based Black Economic Empowerment (B-BBEE)
- Introduction to financial institutions and funding opportunities
- Priority sectors, designation and localisation
- Site visits and business-to-business programmes, partnerships with stakeholders
- Company verifications
- Enterprise development and supplier development
- Introduction to raw materials suppliers
- Advice on customs clearing
- Investment promotion and international investment missions
- Facilitation by **the dti**

representatives stationed worldwide

Aftercare Services

- Advice on recruitment, talent and skills
- Advice on lifestyle amenities eg. location of housing, schools, etc
- Policy advocacy
- Investor surveys
- Business forums
- Retention and expansion services

InvestSA and the OSS will actively promote investment into sectors identified by the Industrial Policy Action Plan (IPAP) and those that support the overall development goals of the South African economy. Target sectors identified are:

- Advanced manufacturing
- Green industries
- Manufacturing
- Resource industries
- Services

SOUTH AFRICA: THE NEXT FRONTIER FOR GROWTH IN THE PHARMACEUTICAL SECTOR

By Rashmee Ragaven

It is expected that South African exports of pharmaceutical products will increase to R7.1 billion by 2019. Domestic pharmaceutical manufacturers focus almost exclusively on producing generic products and in 2015 the generics medication market was estimated at R11.7 billion, compared to the originators market valued at R16 billion. These numbers present immense opportunities for foreign companies looking to invest in South Africa and the African continent.

South Africa's strategic geographical position, at the tip of Africa, makes it a key investment location, both for opportunities that lie within its borders and as a gateway to the rest of the region.

The South African pharmaceutical sector is the largest drug market in Africa, with the fifth-highest expenditure on pharmaceuticals per capita. The total market value in 2015 was estimated at R44 billion with, R34.2 billion (86,7%) attributable to the private healthcare market and R6.8 billion (13,3%) to the public sector.

Furthermore, the African continent has become the main destination for South African exports of pharmaceutical products and it is expected that more multinational corporations (MNCs) will continue using the country as a platform to explore opportunities in the African market.

The country's export basket largely comprises medicament mixtures (mostly Active Pharmaceutical Ingredient (API)), making up 70% of the total pharmaceutical exports in 2015, followed by medicament mixtures not for dosage at 11,3%. Medicament mixtures not for dosage have grown faster (40,7%) than other export categories, while exports of pharmaceutical goods, specified sterile products, sutures, luminarias have declined by a wide margin, particularly in 2015.

Notably, South Africa is the only country in the Southern African Development Community (SADC) that meets the Good Manufacturing Practice standards of the World Health Organisation (WHO). Furthermore, the SADC free trade area ensures the country of tariff-free exports. The Financial Times Group announced three of South Africa's cities that came out as best cities for investment and expansion of international companies for the biotechnology sector. Johannesburg came in first, Durban second and Stellenbosch third.

A number of leading companies already have facilities located in the Western Cape, KwaZulu-Natal and Gauteng. A number of pharmaceutical companies are also expanding their operations to meet the demands of the South African public and private sectors for accessible and affordable healthcare. Leading companies with a presence in the South African market include Aspen, Adcock Ingram, Roche, Norvartis and Pfizer. Key factors that have influenced their decision to locate their manufacturing facilities in South Africa include pharmaceuticals being a key priority for the South African market and the continent; a number of free trade agreements, such as the Tripartite Free Trade Area (TFTA), open access to a large consumer market; world-class infrastructure; exciting innovation, research and development capabilities; and an established manufacturing base. There are a number of instruments also in place to support industrialisation and manufacturing, including tax breaks, research and development incentives such as the Support Programme for Industrial Innovation (SPII) and Technology for Human Resource and Industry Development Programme (THRIP) as well as Special Economic Zones (SEZs) in KwaZulu-Natal, Western Cape and Gauteng. These SEZs offer various incentives to reduce the cost of doing business in the sector. There are also a number of incentives offered when partnerships are created and technology transfers take place with local entrepreneurs focusing on building the capacity and capabilities of the people of South Africa, with a requisite focus on empowerment.

The KwaZulu-Natal SEZ is currently developing a pharmaceuticals cluster that provides integrated infrastructure and services to allow for ease of doing business. The trade zone is equipped with shared utilities, allowing for increased competitiveness and access to domestic and international markets. It also boasts a stream of scientific talent endowed with the requisite skills and capabilities focused on research leading to cutting-edge technology. The Dube Trade Port has approximately 10 pharmaceutical companies with an estimated R5 billion in investment being negotiated.

SOUTH AFRICAN BREWERIES INDUSTRIAL INVESTMENT LAUNCH

By Bharti Daya

The South African Breweries (SAB) industrial investment launch is the largest merger in the FMCG sector in South Africa to date. **the dti** welcomes the investment by SAB in the installation of new infrastructure at the Gauteng breweries at Alrode in Alberton and Rosslyn in Pretoria. This will contribute to job creation and the development of the South African economy. The R2.8-billion investment is an indication of investor confidence and the economic opportunities abundant within the South African economy. SAB is a major player in the agro-processing sector, which is one of the country's key priority sectors as identified in the IPAP and is targeted for development and expansion. The agriculture and agro-processing value chain represents an important source of labour-intensive growth that is central to government's rural development and smallholder farmer development objectives. The sector's economic performance is closely related to the overall rate of economic growth in South Africa and key exports markets.

On 27 June 2017, the Minister of Trade and Industry announced the launch of a R1-billion agro-processing support scheme, which is testament to Government's commitment to developing this sector and supporting value addition so that the country can diversify its export basket.

Business Monitor International (BMI), forecasts for the Southern African region a rise in beer consumption and alcohol expenditure over the next five years. BMI maintains that a per capita consumption growth is forecasted at a five-year compounded annual growth rate (CAGR) of 6,3% up to 2020, indicating significant volume growth prospects for breweries. (BMI, 2017) The investment is accompanied by a commitment to agricultural and enterprise development, and the protection of jobs. SAB's R610 million agricultural development programme aims to develop local emerging and commercial farmers in order to foster rural employment and job creation. Currently, South Africa is a net importer of barley and this programme will assist in transitioning South Africa to become a net exporter of barley. SAB's intervention therefore resonates well with the IPAP.

Furthermore, commitment will go a long way in strengthening the technology and innovation required to enhance productivity as well as the creation of new business opportunities in agro-production, processing, storage, logistics, transportation, marketing and seed/fertilizer/chemical distribution.

A further R210 million has been committed towards enterprise development; which will contribute towards employment opportunities in beer and cider production, and packaging and distribution value chains in South Africa.

the dti applauds SAB's efforts to be a socially responsible corporate citizen; it has committed R190 million worth of initiatives aimed at promoting advancements in education, business and environmental sustainability, and the reduction of the harmful use of alcohol in the South African society. SAB's efforts to develop the capacity of emerging farmers and create new business opportunities along the agricultural value chain will bring about meaningful change.

The investment is undoubtedly a welcome boost to the economy in these trying times. It will contribute to job creation, efforts to promote industrialisation and overall investor confidence. Additional spinoffs are the transfer of technology and skills development.

INVESTMENT OPPORTUNITIES IN THE WASTE SECTOR

By: Annelize van der Merwe

The waste industry in South Africa consists primarily of waste collection and landfilling, with a limited amount (10%) of recycling (DEA 2012). This is, however, a steadily changing landscape with increased diversion of waste from landfill towards recycling and recovery. With the necessary effort from both the private sector and Government, it is estimated that 65% of waste could be diverted from landfill. The waste sector currently provides more than 29 800 employment opportunities and injects more than R15 billion into the economy (DST, 2014).

Changes in the waste sector are driven by a number of factors, including:

- increasing pressures on municipalities to divert waste away from landfill (mostly due to limited landfill airspace);
- extensive investment and activity by voluntary material organisations and producer responsibility organisations;
- an increase in awareness of sustainability imperatives by business and industry; and
- policy and regulatory reform (for example, the classification of abattoir waste as hazardous).

The vision for the South African waste sector has been set by Government to be one of moving waste up the waste management hierarchy. Government has introduced legislation to help drive the diversion of waste from landfill and to encourage waste beneficiation. It recently launched a waste and chemicals Phakisa (a model to deliver big, fast results in a targeted sector) to help identify and implement necessary interventions.

South Africa's low recycling rate indicates that there are huge untapped opportunities for innovation such as industrial development and employment creation in the recycling sector. This is supported by the emphasis that the National Environment Management: Waste Amendment Act (2014) puts on the re-use, recovery and recycling of waste before disposal.

Waste streams that have been identified as presenting significant opportunities (and in line with international trends) are organic waste (e.g. food waste, biomass, sewage) and recyclables (e.g. plastic, metal, glass, paper, WEEE, tyres). These waste streams, recognised for their secondary resource potential, are being targeted for diversion from landfill into materials and energy recovery.

Through cost savings in materials and energy, recycling of waste has the potential to promote industrial resource development, greater energy efficiency, cleaner production and improved manufacturing competitiveness. Investments in the waste management and recycling sector have proven to contribute towards the achievement of national targets on greenhouse gas emissions reduction and energy security (through waste-to-energy initiatives).

The waste management and recycling sector is known for its significant potential to promote SMME development and job creation, through interventions such as organised waste collection systems, beneficiation of waste as an input resource and manufacturing of new products from recyclables. The waste economy also offers exciting opportunities in small-scale waste-to-energy projects (such as biogas) and increased collection of dry recyclables, as well as their reabsorption into the manufacturing process to produce high-value secondary materials.

Considerable value (not only resource value but broader economic value) is locked-up in waste that is currently being disposed to landfills in South Africa – the opportunity to recycle waste currently diverted to landfills is approximately R17 billion (DST 2014).

There are opportunities across the value chain in the collection, sorting, processing and treatment of waste, provided that there is:

- access to waste;
- at least one market for recovered materials; and
- a viable business case for the recovery of materials (GreenCape, 2017).

Case Studies:

Mpact rPET or Liquid Packaging

Mpact is one of the largest paper and plastic packaging companies in southern Africa. The company has 16 recycling operations around South Africa. Mpact Polymers opened a R350 million state-of-the-art polyethylene terephthalate (PET) recycling operation in Johannesburg in May 2016. The facility produces recycled PET (rPET) plastic for food grade packaging (bottle-to-bottle). This facility increases the amount of PET bottles collected for recycling by 29,000 tonnes a year; generating a new raw material directly from what was previously considered waste material that would have been sent to landfill sites. This amounts to a saving of about 180 000 cubic metres of landfill space each year, the equivalent of 75 Olympic-size swimming pools. The saving in carbon emissions also amounts to about 45 000 tons a year. The project was funded through the Industrial Development Corporation of South Africa and also received a Section 12I allowance from **the dti**.

In July 2017, Mpact also launched a R46 million liquid packaging recycling facility at their paper mill in Springs, outside Johannesburg. This facility that was established in partnership with packaging company Tetra-Pak, will recycle 29 000 tons of liquid packaging a year.

New Horizons – Waste to Energy

New Horizons Energy, a subsidiary of Clean Energy Africa, opened a first in Africa R400-million biogas/waste to energy plant in Cape Town in January 2017. This investment project was as a result of a partnership with a private waste collection company, Waste Mart, contracted by the City of Cape Town to collect municipal solid waste. Waste Mart will deliver over 500 tons a day of organic household, municipal and industrial waste to the plant. The project was partially funded by the Industrial Development Corporation of South Africa.

Waste is sorted at the site and the usable fraction is converted into various products including organic fertiliser, liquid carbon dioxide, compressed biomethane, recyclables and refuse-derived fuel. African Oxygen has also come aboard as a key partner and has signed an offtake agreement to buy the gas that is produced. Liquid CO2 will be pumped into storage tanks and collected by tanker trucks while biomethane is compressed, odourised and stored in tank trailers. This initiative assists in replacing imported fuels by taking the waste and gas out of the resource.

MANUFACTURING FIBREGLASS ROVING IN SOUTH AFRICA

By Simphiwe Fikizolo

Fibreglass is one of the most important reinforcement materials used together with a resin to form a composite material. This roving in a form of a yarn is weaved using textile processes to form mats and chopped strands shown below. These mats and chop strands are impregnated into resins such as polyester, epoxy, vinyl ester and phenolic to form a composite material. There are various processes used to impregnate fibreglass in a resin. These processes are pultrusion, vacuum infusion and hand lay-up. Once the fibreglass is impregnated into a resin it is cured in an autoclave. The

properties of the cured material can be modified to be as strong as steel. In fact, it is better than steel because it is flexible, lightweight and is anti-corrosive. It is also a material of the Fourth Industrial Revolution.

Currently in South Africa roving is imported mainly from China but is weaved locally by Saertex. The main raw material in manufacturing the fibreglass roving is the silica sand which is available in abundance in South Africa and is of good quality and approximately 98% pure. There are enormous investment opportunities in manufacturing fiberglass roving in South Africa. There was a fibreglass roving manufacturing plant in South Africa but it closed down in 2004 due to the small size of the composite industry. The situation has since changed as the industry has more than doubled in size. Fibreglass application has increased in South Africa with it being used in automotives, trains, boat building, industrial composites, infrastructure, aerospace, household, swimming pools, bulk water pipes, tank, health, road signs, manhole covers and renewable energy. Fibreglass roving is able to complement steel well and this offers a possible solution to the challenges experienced by the steel industry. According to Owens Corning, to establish a viable business project approximately 60 to 80 k Tons of fibreglass roving is needed. South Africa's export infrastructure makes it easier to manufacture fibreglass roving. The increased energy capacity in the country makes it even more possible since this is an energy intensive production.

The composition of fibreglass is highly concentrated with silica sand (SiO_2) which can be produced upstream through mining processes and creates approximately 1000 jobs both unskilled and skilled. The downstream can add approximately 200 jobs through weaving of the fibreglass. Composition is completed by adding several chemicals including aluminium oxide (Al_2O_3), boron trioxide (B_2O_3), calcium oxide (CaO), etc. The production of fibreglass textile-grade glass fibers are made from SiO_2, which melts at 1720°C. SiO_2 is also the basic element in quartz, a naturally occurring rock. Quartz, however, is crystalline and is 99% or more SiO_2. If SiO_2 is heated above 1200°C then cooled ambiently, it crystallizes and becomes quartz. Glass is produced by altering the temperature and cool down rates. If pure SiO_2 is heated to 1720°C then cooled quickly, crystallization can be prevented and the process yields the amorphous or randomly ordered atomic structure we know as glass. Although continuously refined and improved, today's glass fibre manufacturers combine this high heat/quick cool strategy with other steps in a process. This process can be broken down into five basic steps: batching, melting, fiberisation, coating and drying/packaging.

The Advanced Manufacturing Unit of InvestSA at the dti is prioritising capacity and funds to attract investors to invest in fibreglass roving manufacturing. Investment in this plant is expected to be between R2.5 billion toR3 billion and is a good opportunity considering the availability of good quality silica sand, abundance of electricity, composite industry growth, export infrastructure, availability of technical skills, government incentives and research capabilities in South Africa.

SA LEADING GLOBAL BUSINESS PROCESS SERVICES DESTINATION

By Dean Hoff and Makana Mandiwana

South Africa was recently recognised as the Global Outsourcing Association's Offshore Destination of the Year for 2016. This success follows previous international awards including the National Outsourcing Association (NOA) Offshoring Destination of the Year award in 2012, the Europe Outsourcing Association (EOA) Offshoring Destination of the Year award in 2013 and the NOA Skills Development Programme of the Year award in 2014.

Government's primary objective is to support economic growth, job creation and empowerment and has recognised the potential of this sector in realising these objectives. Since 2012, the local offshore Business Process Services (BPS) market has experienced compounded average growth of 25% year-on-year and now boasts over 30 000 offshore jobs, with the UK being the leading buyer of South African BPS services, followed by Australia and the US, which is rapidly growing, This work has been spread across South Africa's offshore delivery centres of Cape Town, Johannesburg and Durban.

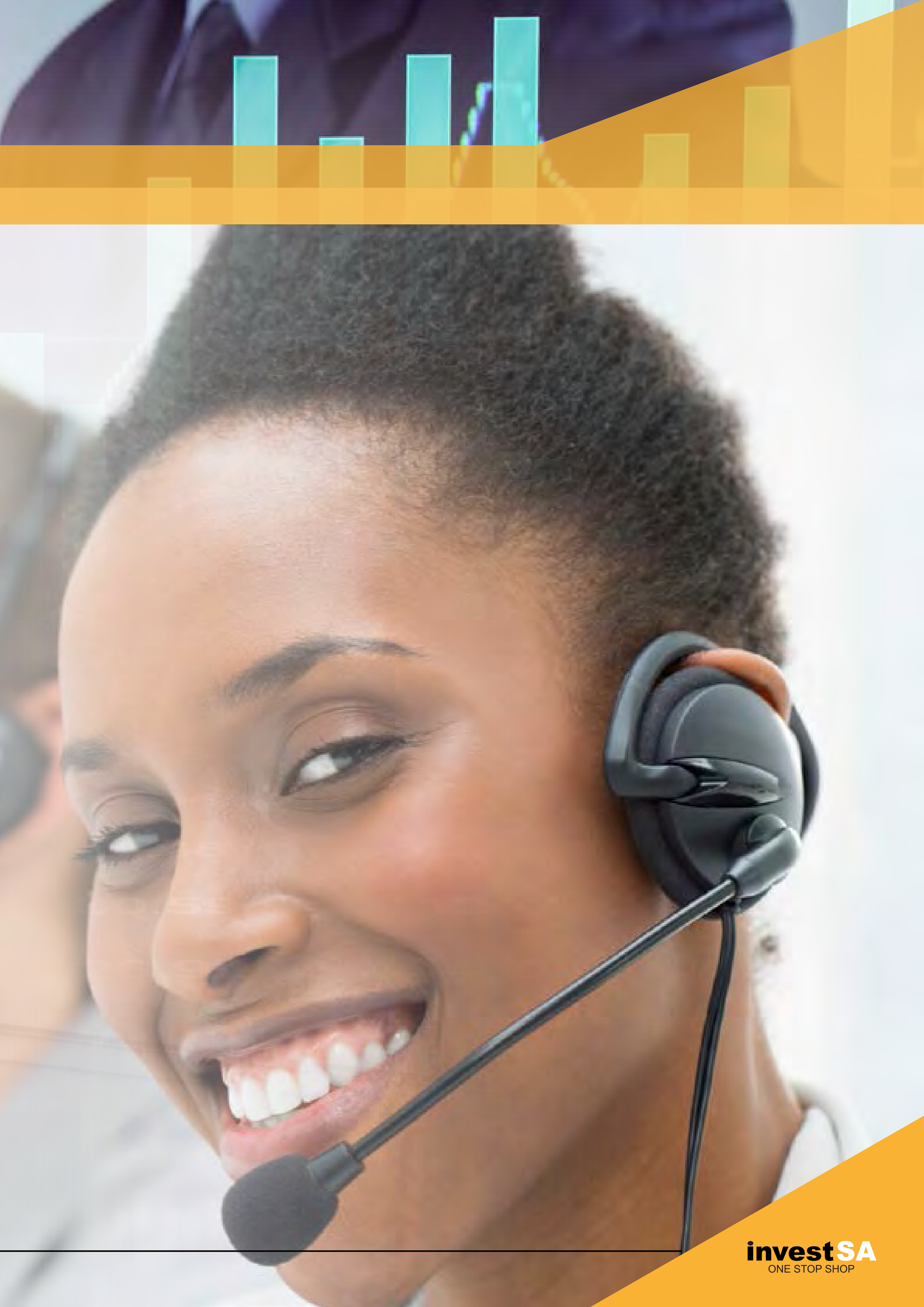
South Africa's mature telecoms and financial services sector has led to the creation of a strong set of domain and specialised skills which have enhanced South Africa's offshore BPO offering. This strength can be seen in the split of offshore verticals serviced with telecoms accounting for 53% of offshore work followed by Banking Financial Services and Insurance (BFSI) at 24% and retail with 10%.

The offshore industry is further supported by South Africa's position as a top three global location able to support English language skills on scale secondly by a domestic BPO industry of 200 000 people with an annual talent supply of 345 000 graduates consisting of 212 000 grade 12 graduates; 46 000 non-degree tertiary graduates; 55 000 tertiary qualified university degreed graduates and 32 000 post graduates.

A further demonstration of government support and belief in the sector is the upcoming review of its industry specific incentive offering and updating of the sector value proposition. The BPS incentive has been designed to increase the attractiveness of South Africa's offshore business processing offer by significantly reducing the cost of offshore operations in South Africa, while providing flexibility in its use and simplified administration.

The contribution of sector participants in highlighting best practice will ensure that an accurate positioning of South Africa is achieved and promoted. One such global achievement is that of Merchants General Manager of Operational Support, Mithum Singh, who won the Best Workforce Planning Award at the 2016 11th Annual Contact Centre World Top Ranking Performers Awards in Las Vegas.

Investment in the sector remains robust with the majority of the leading outsourcers with a presence in South Africa growing and expanding their local capacity. One recent example of this is the Merchants and iSelect partnership, whereby Trade and Industry Minister Rob Davies congratulated Merchants on the launch of a new Australian Offshore BPS campaign iSelect which will be serviced from Cape Town. iSelect is Australia's market leader for online insurance, utilities and personal finance comparison.



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INVESTMENT AND THE SUSTAINABLE DEVELOPMENT GOALS: A NEW PARADIGM SHIFT

By Bharti Daya

The United Nations Conference on Trade and Development (UNCTAD), in partnership with InvestSA and the Development Bank of Southern Africa (DBSA), hosted a regional seminar on the promotion of bankable Sustainable Development Goal (SDG) projects in May 2017. More than 50 representatives from national and subnational investment promotion agencies from 14 African countries, outward investment agencies and institutions, and the private sector participated in the event. The seminar gave participants an overview of foreign direct investment trends and the SDGs, SDG model project proposals and strategies to market them, international partners for promoting investment in the SDGs, and the facilitation of outward investment. The 2030 Agenda for Sustainable Development is a global plan of action for people, planet and prosperity, which demands an entirely new level of international partnership. To ensure sustainable growth, economies are required to transform rapidly. A new model of economic growth and development is required that balances social and environmental interests. According to Yunus Hoosen, Acting Head of InvestSA, “If we are to achieve the goals of decent work and economic growth’ industry, innovation infrastructure development and reduced inequalities, a paradigm shift is required in the approach between the public and private sectors.”

Tangible and meaningful initiatives and interventions are required to promote economic growth, industrial and infrastructure development. Industrial development is key to developing exports and economic diversification as it builds resilience to external economic shocks. Diversification is more relevant today, particularly in South Africa and Africa, because of the high dependence on primary commodities and fluctuating world prices on most primary goods. There is, therefore, a need to pursue developmental strategies that promote value-addition at source.

The development of manufacturing capabilities necessitates

complementary policies and interventions that promote technological innovation in industry, and develop collaborative frameworks focused on increasing investment in technology development, diffusion and commercialisation. South Africa continues to support the manufacturing industry to upgrade technologies for competitiveness and increased levels of production through a number of policy levers, including incentives, competition policy, tariffs and industrial financing.

To achieve the SDGs of economic growth; industry, innovation and infrastructure, requires a stable and supportive macroeconomic and regulatory environment, effective mobilisation of development finance, expanded policy space and flexibility to implement industrial policies (such as the use of export taxes), appropriate skills development programmes that are increasingly integrated with the needs of the industrial economy, and sufficient and reliable infrastructure.

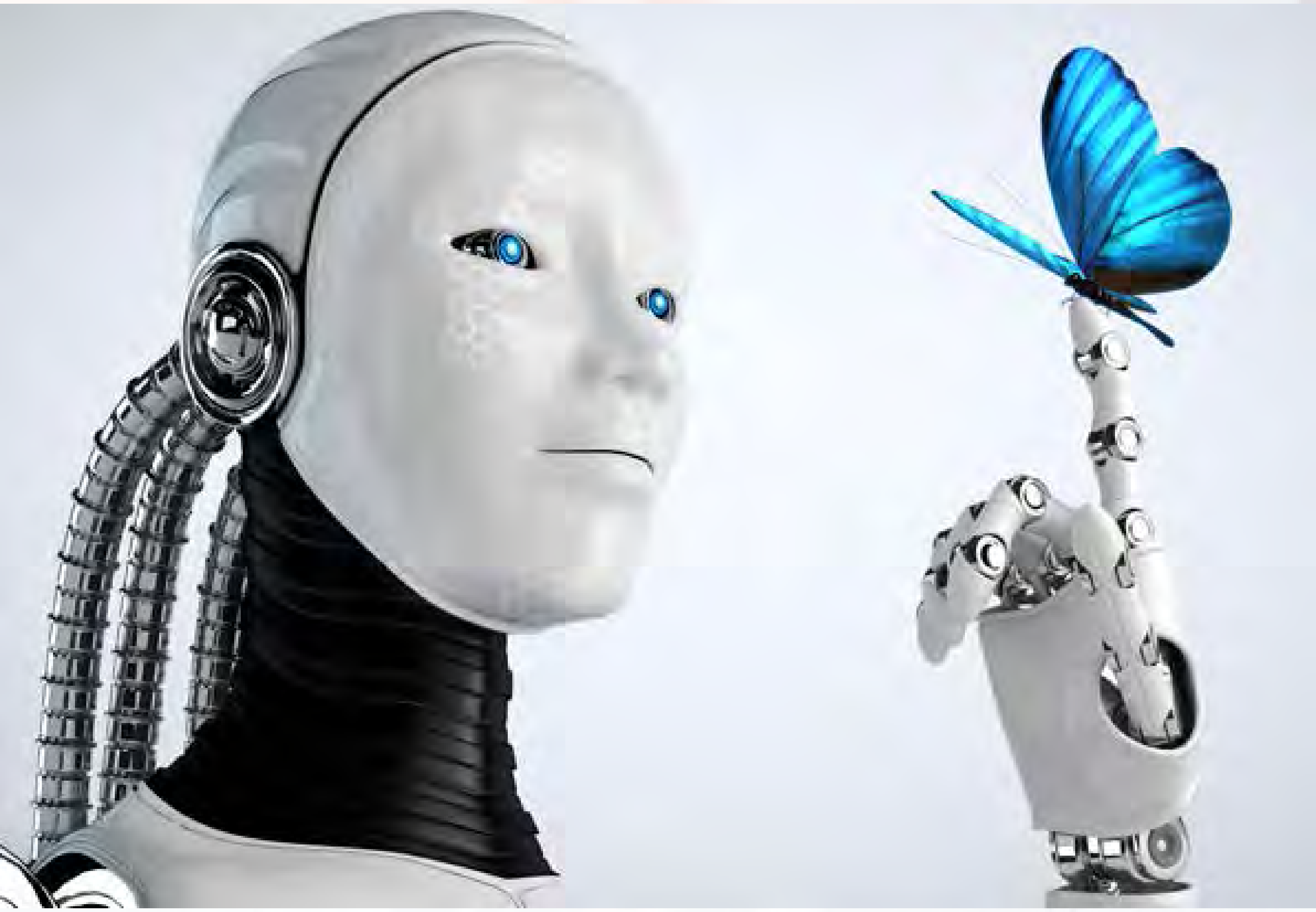
This in turn will attract the necessary domestic and foreign investment that will act as a catalyst in job creation and stimulate economic growth and development. Industrial financing and financing for infrastructure is also critical. The lack of infrastructure translates into significant monetary costs for businesses and impedes competiveness. Adequate, effective, affordable and well-maintained infrastructure is needed to support economic growth, attract investment and enhance service delivery. South Africa continues to make investments in infrastructure (energy, water, roads.) both nationally and regionally through various initiatives.

The objectives of the SDGs and the private sector are not mutually exclusive, according to George Kell, Executive Director, United Nations Global Compact. "The future of markets depends on our collective abilities to tackle challenges covered by the SDGs. In today's world, long-term financial success can only be assured if it goes hand-in-hand with environmental stewardship, social responsibility and good ethics. For business to collaborate effectively, the SDGs must offer ways to mitigate business risks, reduce growth barriers, help build new markets and advance public priorities. For investors, the SDGs can set guidelines for moving from short-term profit maximisation to long-term value creation."

The private sector is not only a source of financing, but also an engine of investment, innovation, and growth and offers an effective way to create employment, income and prosperity. Additionally, more and more businesses are incorporating social and environmental sustainability criteria in core business operations to establish long-terms relationships with their consumers and customers. This dynamic role as a driver of sustainable economic growth brings with it opportunities in value creation.

ARTIFICIAL INTELLIGENCE IN THE ECONOMY

By Ignitious Phoku



Artificial intelligence (AI) carries the promise of enhancing efficiency in business processes, the creation of new occupations as well as personalised customer service to boost economic growth and open up a range of possibilities never before imagined. Certain conditions must be met, however, to take advantage of the positive benefits of artificial intelligence.

Investment in information technology and communications is a prerequisite since advances in artificial intelligence and machine learning are driven by the explosion of data, especially real-time time data that has been made possible by the internet as well as the automation of data analysis[1]. Foreign direct investment can be used as mechanism to facilitate technology and skills transfer for local industries to be able to take advantage of artificial intelligence.

The leading countries in terms of research and development enablers include the United States, United Kingdom, Germany, France, Japan and Italy[2]. The US's strong entrepreneurial business climate and advanced infrastructure position

1 Bernard Marr, Forbes Tech, Why AI Would Be Nothing Without Big Data, 9 June 2017, available at https://www.forbes.com/sites/bernardmarr/2017/06/09/why-ai-would-be-nothing-without-big-data/#64a692fb4f6d accessed 25 August 2017

2 Mark Purdy and Paul Daugherty, Accenture, Why Artificial Intelligence is the Future of Growth, 2016 (page 18), available at https://www.

allows it to benefit from the economic potential of artificial intelligence. It is projected that this will increase the US's gross value added from 2,6% (without factoring in AI) to 4,6% in 2035, resulting in an additional US$8.3 trillion gross value added in 2035[3].

In 2016, companies invested between $26 billion and $39 billion in artificial intelligence. The investments were mainly driven by tech giants, which invested between $20 billion and $30 billion, as well as start-ups, with investments of $6 billion to $9 billion[4]. Investment in artificial intelligence has come from diverse sources, ranging from venture capital and private equity firms to grants and seed funding. This is evidence of the expected success of artificial intelligence and its anticipated economic spin-offs.

The narrative around artificial intelligence has focused heavily on job losses rather than the benefits that may accrue. Some argue that artificial intelligence will render certain occupations obsolete, while others maintain that occupations are more likely to evolve to accommodate the adoption of technology[5]. Currently, machines can only perform task-specific work, but developments in artificial intelligence will make it possible for machines to perform more complex work. For instance, an artificial intelligence platform developed by IPsoft with natural language-processing capabilities is able to aid maintenance engineers in remote locations by diagnosing a problem and suggesting possible solutions[6].

According to a report by Conseil National du Numerique entitled Anticipating the Economic and social Impact of Artificial Intelligence (March 2017), "Incorporating artificial intelligence into the heart of our economics is a vector of significant productivity gains7." An International Monetary Fund (IMF) staff discussion note entitled Gone with the Headwinds: Global Productivity, states that productivity growth is a key long-term driver of living standards. Artificial intelligence presents opportunities for improving productivity as well as raising living standards. Current applications are able to help businesses reduce waste by allowing them to accurately forecast demand.

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4 McKinsey & Company, Discussion Paper, Artificial Intelligence: The Next Digital Frontier?, June 2017 (page 5), available at www.mckinsey.com/mgi accessed 11 August 2017

5 Joint G20 German Presidency/OECD Conference, Key Issues for digital transformation in the G20, 12 January 2017 (page 16), available at http://www.oecd.org/G20/key-issues-for-digital-transformation-in-the-G20.pdf Accessed 11 August 2017

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April 2017
BMW to begin X3 production

The German car maker invested about R6 billion in the Rosslyn facility in preparation for the production of the X3. Sales of SUV vehicles have increased by 30% globally and increasing production of these vehicles makes commercial sense considering expected demand from the African market. In addition to the capital investment, investment is being made in a training centre, technology and a paint plant, which will support the production of the X3s.

June 2017
Lucchini RS invests R200 million

Italian forged railway product manufacturer invested R200 million in Lucchini SA to move from being an importer to a local manufacturer of forged railway wheels and axles. Blank wheels were imported from Italy, but now they will be machined and inspected in South Africa. This investment will create approximately 45 new jobs and has planned local product content of between 30% and 40%. A further investment of R1.8 billion is expected in the future for growth into the regional market, and local content will be pushed to the 100% mark.

July 2017
SAB invests R2.8 billion in brewery expansion

SAB has invested R2.8 billion in expansions at two of its breweries in Alrode, south of Johannesburg, and Rosslyn, Pretoria. The expansions include a new packaging line for returnable glass bottles at both breweries and a brewhouse at Rosslyn, and will create up to 70 full-time jobs. The Alrode packaging line was in production by August, while Rosslyn's will be online by October 2017.

The multibillion-rand investment is over and above the public interest commitments made by Anheuser-Busch InBev (AB-InBev) at the time of last year's (2016) business combination with SABMiller, in which the company agreed to invest R1 billion in South Africa over five years.

"The continuous investment from a capital perspective shows we believe there is a lot of growth still to be had both locally and with the export market, and demonstrates the company's agenda to invest and participate in expanding the economy," said Ricardo Tadeu, SAB and AB-InBev Zone President for Africa. SAB could contribute towards the company's Sustainable Development Goals, which are aligned with South Africa's National Development Plan.

In addition to this investment, a new greenfield malting plant was recently built at Alrode Brewery at a cost of R1.2 billion, expanding malting capacity by 110 000 tonnes to 150 000 tonnes produced a year. Previously, SAB would import 60% of its malt requirements and the new plant has decreased this figure to almost 0%. The new malting plant has seen the creation of 28 new jobs.

August 2017
Goodyear South Africa's R1 billion investment programme

Goodyear South Africa plans to wrap up its R1-billion investment in its Uitenhage plant in the Eastern Cape by the end of 2017. The investment, which began in 2015, means the plant can now produce high-tech tyres like any other Goodyear factory in the world. The plant employs approximately 1 100 people.

August 2017
SA's best cities for investment for biotechnology sector

The Financial Times Group announced three of South Africa's cities as best cities for investment and expansion of international companies for the biotechnology sector. Johannesburg came first, Durban second and Stellenbosch third.

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