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Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

ANNEX A

Private Bag X84, PRETORIA, 0001, **the dtic** Campus, 77 Meintjies Street, Sunnyside, 0002, Tel: (012) 394 0000
the dtic Customer Contact Centre local: 0861 843 384 International: +27 12 394 9500, www.thedtic.gov.za

SOUTH AFRICA'S INDUSTRIAL DEVELOPMENT STRATEGY

2026

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ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
AI	Artificial Intelligence
AMSA	ArcelorMittal South Africa
APIs	Active Pharmaceutical Ingredients
B-BBEEE	Broad-Based Black Economic Empowerment
BPO	Business Process Outsourcing
CBAM	Border Carbon Adjustment Mechanism
CKD	Completely Knocked Down
DCDT	Department of Communications and Digital Technologies
DFFE	Department of Forestry, Fisheries and the Environment
DFI	Development Finance Institution
DHA	Department of Home Affairs
DIRCO	Department of International Relations and Cooperation
DMPR	Department of Mineral and Petroleum Resources
DoA	Department of Agriculture
DoH	Department of Health
DoT	Department of Transport
DSTI	Department of Science, Technology, and Innovation
dtic (the)	Department of Trade, Industry, and Competition
GAIN	Growth and Inclusion Strategy
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communication Technology
IDS	Industrial Development Strategy
IPAP	Industrial Policy Action Plan
IRP	Integrated Resource Plan
ITP	Independent Transmission Project
JEP IP	Just Energy Transition Investment Plan
MEC	Mineral-Energy Complex
MSMEs	Micro, Small, and Medium Enterprises
MTEF	Medium-Term Expenditure Framework
NDOH	National Department of Health
NDP	National Development Plan
NERSA	National Energy Regulator of South Africa
NEVs	New Energy Vehicles
NIPF	National Industrial Policy Framework
NT	National Treasury
OECD	Organisation for Economic Cooperation and Development
OEMS	Original Equipment Manufacturers
R&D	Research and Development
SAAM	South African Automotive Masterplan
SADC	Southern African Development Community
SARS	South African Revenue Service
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises (SMEs)
SMMEs	Small, Medium, and Micro Enterprises
STI	Science, Technology, and Innovation
WTO	World Trade Organization

Executive Summary

South Africa's Industrial Development Strategy (IDS), 2026

Purpose and Context

South Africa's Industrial Development Strategy (IDS) is a strategic response to a rapidly changing global and domestic economic environment. The global economy is evolving due to rising geopolitical tensions, reconfiguration supply chains, climate change challenges, and the digitalisation of the economy. In the midst of the structural transformation and transition, South Africa is grappling with its own economic challenges, which include slow growth, declining industrial capacity, dwindling investments in the economy's productive sectors, backlogs in infrastructure, and a persistent concentration of economic power that stifles competitiveness.

The IDS, therefore, has an important role in anchoring economic growth through a coherent coordinating mechanism and system for building productive capacity, competitiveness, and structural transformation of the South African economy. It must do so by create stable, long-term drivers of economic expansion; shift the economy towards higher-value production; and reduce reliance on the export primary mineral agricultural products, which are prone to cyclical prices.

The declining share of manufacturing as a percentage share of GDP is a structural economic challenge that must be addressed in South Africa; that reflects premature deindustrialisation. In dealing with these challenges, the South African government has deployed policy instruments to optimise the performance of the manufacturing sector, including the implementation of sectoral masterplans. The performance and outcomes of masterplans has been varied across sectors due to low growth, subdued demand, capacity to implement them, lack of policy enablers, and sometimes polarisation and lack of coherence by the stakeholders. Nevertheless, there are green-shoots in some of them and there is a need to accelerate performance, especially in the areas of productivity growth, export expansion and job creation.

Key to the achievement of the aforementioned objectives is addressing the cost of production in the South Africa economy and ensuring affordable energy security of supply, especially electricity, which is the biggest and urgent enabler for industrial development. Preferential electricity tariffs for the industrial sector (including mining, manufacturing, and energy-intensive industries like smelters) are critical for competitiveness, job creation and industrial development.

Linked to this is the urgent need to address other infrastructure bottlenecks in other network industries like ports, rail and telecoms. The IDS recognises that industrial outcomes depend on enabling conditions and coordinated execution. Key enablers include:

- Infrastructure investment in energy, logistics, water, and digital networks, supported by public-private partnerships and localisation strategies.
- Special Economic Zones and Industrial Parks, reoriented toward stronger developmental outcomes, regional integration, and SME participation.
- Trade and industrial finance instruments, including tariffs, trade defence measures, public procurement, blended finance, and reinstatement of targeted tax incentives.
- Regulatory reform and ease of doing business, including reduction of red tape, faster approvals, and investment facilitation mechanisms.

Addressing binding constraints through Operation Vulindlela and the National Infrastructure Plan is central to unlocking industrial growth.

The IDS is forward and outward looking, it does not only focus on supporting established sectors of the economy but future industries as well, thus enabling technological upgrading, innovation, long-term competitiveness and productivity.

The IDS is structured around three mutually reinforcing strategic pathways:

1. **Decarbonisation** – transitioning industrial production toward low-carbon technologies, cleaner energy systems, and climate-resilient processes to safeguard export competitiveness, reduce vulnerability to carbon border measures, and unlock new green industrial opportunities.
2. **Diversification** – expanding the productive base beyond traditional resource-intensive activities by deepening value addition, fostering new industrial sectors, strengthening agro-processing, services, and regional value chains, and diversifying export destinations.
3. **Digitalisation** – embedding digital technologies across industries to raise productivity, enable innovation, improve scale and coordination, and position South Africa competitively in digital services and knowledge-intensive activities.

The policy objectives of the 3Ds are to reduce structural vulnerabilities, mitigate commodity dependence, and support long-term competitiveness and resilience. The IDS identifies and supports industries with future potential, such as diversified energy sources, green technologies, advanced manufacturing, digital and knowledge-based sectors.

Pathway 1: Decarbonisation of energy intensive industrial sectors

Priority interventions focus on energy transition investments, critical minerals and beneficiation, automotive and steel value-chain reform, and cleaner fuels and gas-to-power development. Key areas include:

- Scaling renewable energy, transmission infrastructure, gas and nuclear investments to secure energy supply, reduce production costs, and enable industrial expansion.
- Positioning South Africa in global value chains linked to critical minerals, batteries, green hydrogen, and clean technologies through beneficiation and exploration support.
- Reforming automotive incentives to support localisation and the transition to new-energy vehicles.
- Stabilising and upgrading the steel and metals value chain through coordinated demand-side, trade, and technology interventions.

These measures protect existing industrial capacity, attract new investment, and future-proof exports under tightening global climate regulations.

Mainstreaming the role of the circular economy as part of the decarbonisation agenda

The circular economy offers an alternative economic approach that can contribute to inclusive low-carbon economic growth and job creation through the revitalisation and creation of key manufacturing industries while reducing the negative impact on the environment.

Circular economy programmes and projects can be implemented a number of different sectors such as steel, autos, clothing and textiles, building and construction, electronic goods, and other waste materials to make the most of resources.

Pathway 2: Diversification of Products and Markets

A key component of the South African economy's long-term growth and resilience is product and market diversification. This involves shifting away from resource-based industries and toward manufactured and value-added goods in order to increase the variety of goods and services produced and exported. Reducing reliance on a small number of significant trading partners and breaking into new regional and international markets are necessary for export growth. Priority sectors include:

- Agriculture and agro-processing, supported through masterplans, value-chain upgrading, export facilitation, and SME integration.

- Health industries, notably pharmaceuticals, vaccines, medical devices, and biotechnology, to reduce import dependence, utilise existing manufacturing capacity, and scale regional exports.
- Services, with emphasis on tourism and Global Business Services (GBS) as high-employment sectors for youth and women.
- Security, aerospace, and defence industries, leveraging advanced manufacturing, innovation, and strategic public–private partnerships.

This pathway aims to broaden South Africa's industrial base, deepen linkages across sectors, and expand value-added exports, particularly into Africa under the AfCFTA.

Pathway 3: Digitalisation and Technology-Enabled Industrialisation

Digitalisation is positioned as a cross-cutting productivity and competitiveness driver rather than a standalone sector. Interventions include:

- Expanding digital infrastructure, data centres, cloud services, and connectivity.
- Integrating digital technologies, automation, and AI across priority value chains.
- Building domestic capability in capital equipment, machinery, and digital systems that underpin industrial upgrading.
- Strengthening science, technology, and innovation ecosystems through coordinated R&D investment, technology parks, and commercialisation platforms.

These measures enable productivity growth, innovation diffusion, and global competitiveness across manufacturing and services.

Linking the industrial development strategy to job creation and transformation

The IDS must explicitly target labour-absorbing sectors and not just high-growth ones. It prioritises sectors like agro-processing, steel, automotive and services that create large numbers of jobs. Global Business Services (GBS) and tourism are key drivers of jobs, particularly for women and youth, thus ensuring economic inclusivity, while also attracting foreign direct investment in those sectors in South Africa.

The expansion of such investments in South Africa provides opportunities for the training and development of employees. Linked to that is the opportunity to deepen transformation through supplier development programmes, preferential procurement policies and the broadening of ownership and participation initiatives targeted at black owned companies.

Enablers for the effective implementation of the industrial development strategy

By accelerating reforms in energy, logistics, water, and digital infrastructure, and crowding in private investment, these initiatives are expected to raise aggregate demand and unlock supply-side efficiencies.

A number of enablers, which are critical for an effective industrial policy have been identified:

Leveraging multiple funding sources for industrial development

Leveraging funding for industrial development is about using financial resources strategically to draw in more capital, boost the impact of investments, and accelerate industrial development. Public finance, supported by development finance institutions, is a critical lever in this regard. In implementing industrial policy, governments use a mixture of taxes and fiscal transfers to support industry development. Fiscal instruments reduce the cost of investments and encourage capital flows into targeted sectors. There is fiscal space to review tax and other economic regulatory instruments in order to stimulate investments and encourage industrial productivity and growth in South Africa. Thus a submission is made that Section 12I Tax Allowance should be reinstituted to incentivise industrial development.

Various other financial instruments, such as direct government grant funding, debt funding, equity funding, venture capital investments, crowdfunding, carbon credits, blended finance, and offtake agreements are all important in financing industrial policy in South Africa. However, each instrument has its advantages and disadvantages, and it is essential to assess the available options and develop tailored solutions for different sectors and industries. Initiatives such as the Just Energy Transition Investment Plan (JET IP), EU-South Africa Clean Trade and Investment Partnership (CTIP), China-South Africa Framework Agreement on Economic Partnership for Shared Prosperity (CAEPA), and other multilateral and bilateral agreements can be leveraged to finance industrial development in South Africa, especially in the area of green industrialisation. The financing of the IDS must prioritise sectors with high economic multiplier effects to drive growth, development and inclusivity.

Incentives for industrial development should be conditional on meeting transparent and measurable outcomes such as jobs, exports, supplier and enterprise development, and so forth, which must be linked to sunset clauses. The aim must be to strengthen competitiveness, innovation, dynamism and the resilience of the industrial sectors of the South African economy.

Addressing trade-offs in the financing of industrial development

In the context of South Africa, the financing of IDS entails addressing trade-offs and balancing competing priorities in the funding and targeting of sectors for industrial growth. There no 'perfect' choice but the government, in partnership with the industry and financial institutions must decide how much capital and risk premiums they are willing to commit to implement the IDS.

In the context of industrial development, addressing trade-offs is unlocking and strategically using limited public finances to unlock larger private investments and international funding. The cost of not comprehensively addressing the role of public finance in funding industrial development in South Africa is one of the factors that are inhibiting economic growth, including the high cost of production, which is exacerbated by inflationary administered prices. Addressing these binding constraints is of critical importance.

Beneficiation of minerals and addressing hard-to-abate sectors

The beneficiation of minerals and addressing hard to abate sectors are two closely linked priorities in the IDS. Done right, mineral beneficiation can directly support the decarbonisation of hard-to-abate sectors. As global demand grows for minerals used in new energy vehicles and renewable energy storage, such as lithium, copper, cobalt, and manganese, South Africa is strategically placed to play a larger role in these industries.

South Africa has no choice but to accelerate investments in the decarbonisation of hard to abate sectors such as steel, cement, chemicals, energy, and automotive industries. International climate policies such as carbon pricing and Border Carbon Adjustment Mechanism (CBAM) pose a threat and opportunity for the South Africa to reduce high carbon footprint. Transitioning to a low-carbon economy requires the blending of policy, legislative, institutional and financial instruments. The recycling of carbon tax revenues must entail deploying revenues raised to assist decarbonisation programmes like the adoption of green technologies in order to lessen the economic impact of the taxes levied on energy intensive sectors. That will assist in lessening the detrimental effect of carbon taxes on industrial development, competitiveness, exports and trade.

The reviewing of mining legislation to facilitate the beneficiation of minerals at source

There is a need to review the legislation to address the beneficiation of minerals in South Africa. This is more about reshaping the entire mining incentive structure around exploration, extraction, processing, and investment. If it's done well, in consultation with stakeholders, it can anchor industrialisation.

A review of mining legislation on the allocation of mineral rights is critical to enable the government to attach conditions that must facilitate beneficiation, and this must be in line with international mining, trade and investment laws. This shift is crucial because it will allow beneficiation objectives to be embedded in mining licensing decisions.

The scaling up of the exploration fund

An exploration fund provides funding for high-risk and early-stage mining investments and activities such as geological surveys, drilling and sampling and resource estimation. This phase is crucial because without exploration, there would be no mines in the future and no pipeline for beneficiation.

The exploration fund should focus on junior explorers and miners, new entrants and firms with beneficiation plans and historically disadvantaged individuals and groups in other drive transformation in the sector. It must be noted that industrialisation eventually runs out of raw material inputs in the absence of exploration. Therefore, increasing financing for the latter will guarantee a steady supply of minerals, support downstream industries, attract foreign direct investment, and create a pipeline for jobs in the mining, manufacturing and services sector in the future.

Tightening up the coordination, resourcing and implementation of the industrial development strategy

The coordination, resourcing, and implementation of the IDS will determine whether it will actually deliver structural economic change or just remains a strategy on paper. Industrial policy cuts across many sectors, government departments and state owned companies, so coordination is essential, backed up by a top-level political oversight.

Effective IDS requires institutional coordination, regulatory certainty, fiscal alignment, skilled personnel, and consistent policy signals. Social compacts with industry and labour, enforceable conditionalities, and monitoring and evaluation are integral to maintaining credibility and discipline in implementing it.

The whole-of-government must be aligned and work towards shared goals of implementing the IDS. This will require institutional leadership such as a central coordinating body to ensure consistency and delivery. The government needs a continuous engagement with business and labour in the implementation, review and refinement of the IDS.

The Department of Trade, Industry and Competition must lead the coordination of IDS with clear implementation plans and supported by an Inter-Ministerial Committee chaired by the Presidency.

The expected outcomes of the industrial development strategy

If implemented effectively over 2025–2029, the IDS is expected to support:

- Average GDP growth of approximately 3% per annum.
- Recovery in manufacturing value-added growth and export expansion.
- Increased investment, localisation, and productive employment.
- Greater export diversification and regional integration.
- Improved competitiveness and resilience of the South African economy.

Conclusion

The Industrial Development Strategy represents a deliberate shift from fragmented interventions toward coherent, capability-driven industrial transformation. By anchoring policy around decarbonisation, diversification, and digitalisation, and by prioritising implementation, coordination, and credibility, the IDS seeks to stabilise industrial decline, unlock new growth pathways, and place South Africa on a more inclusive, competitive, and sustainable development trajectory.

CHAPTER I. INTRODUCTION

1.1. THE NEED FOR AN UPDATE OF SOUTH AFRICA'S INDUSTRIAL POLICY

The global and domestic context for industrial policy has shifted materially over the past decade and a half. In this context, South Africa's industrial policy needs to be both adaptive and implementation-focused. Globally, rising geopolitical tensions have accelerated the reconfiguration of global supply chains, with trade and industrial policy increasingly used to secure strategic capabilities, markets, and critical inputs. The COVID-19 shock underscored the importance of economic resilience to disruptions that can rapidly transmit across borders.

This is occurring alongside two structural transitions that are now central drivers of economic change: climate change and digitalisation. Climate transition risks – through technological shifts in sectors such as automotives, and regulatory pressures such as carbon border measures – are already reshaping competitiveness and investment incentives, while also creating opportunities to enter or scale new industries, such as critical minerals beneficiation and green hydrogen.

At the same time, physical climate risks threaten the resilience of agriculture and infrastructure, strengthening the case for technology adoption to enable precision, efficiency, and climate adaptation. Digitalisation, in turn, is disrupting patterns of value creation and capture and is increasingly a determinant of competitiveness across existing value chains, rather than a standalone "tech" sector. These forces collectively point to an industrial strategy that is explicitly oriented toward structural change, upgrading, and new capability formation, rather than incremental sector support.

At a domestic level, South Africa's core economic challenge is a weak growth path rooted in premature de-industrialisation, low fixed investment, and persistent concentration of economic power. Manufacturing's share of GDP has fallen sharply (21% in 1994 to 13.6% by 2025) and investment has lagged middle-income peers, weakening productivity and export sophistication. Exports remain anchored in resource-based, capital-intensive activities, while high-technology exports remain low, evidence of limited capability deepening and diversification. After the 2008 global financial crisis, output and investment contracted, and recovery was partial, alongside rising import penetration in tradeables that eroded local value-addition and jobs. These outcomes are reinforced by upstream market power and liberalisation of trade and capital flows without sufficiently building competitive downstream capabilities or enforcing strong conditionalities on support. Increasing administered prices and challenges related to the availability of electricity (now addressed) and rail and port logistics have further impacted the competitiveness of the domestic industry.

Against this backdrop, government has continued to implement the National Industrial Policy Framework (NIPF) and successive Industrial Policy Action Plans (IPAPs), while also introducing more targeted strategies to address emerging challenges and opportunities. In particular, the Re-imagined Industrial Strategy (2019) placed implementation at the center by shifting from government acting alone toward a formalised social compact, with Masterplans built on partnership between government, industry, and organised labour, and reciprocal commitments to deliver agreed actions. Masterplans were designed with explicit institutional arrangements and oversight structures to identify bottlenecks, coordinate responses, track commitments through monitoring and evaluation, and enable course correction as conditions evolve, treating implementation as a continuous learning system rather than an ad hoc process. Following COVID-19, the Economic Reconstruction and Recovery Plan further sharpened the emphasis on localisation and industrialisation, and elevated priorities such as the green economy and agriculture, reinforcing the need to align industrial policy with resilience, sustainability, and inclusive growth objectives.

With the Seventh Administration's economic policy focus, including development of the Growth and Inclusion Strategy (GAIN) which is an overarching economic policy strategy, the immediate task is to ensure coherence: aligning industrial policy objectives, instruments and implementation mechanisms with the administration's emphasis on inclusive growth and jobs, improved coordination across the state, and a more deliberate push toward

competitiveness, investment and export capability, while maintaining continuity with the National Development Plan (NDP) as the overarching framework.

South Africa's Industrial Development Strategy (2026) task is to assemble feasible, coordinated industrial-policy packages that align instruments with priorities and unlock coordination failures, so firms invest, learn, and upgrade. Structural transformation provides the theory of change: the reallocation of capital and labour toward higher-productivity activities, alongside sectoral deepening into higher value-adding production, is a key driver of productivity growth, higher incomes and sustained competitiveness. It strengthens growth and competitiveness by enabling firms to build productive capabilities, diversify production activities, and develop domestic supply chains, supporting upgrading within and across sectors and more effective participation in global value chains. In South Africa, where structural transformation has been uneven and constrained by low levels of investment, an explicit structural-transformation agenda is therefore central to accelerating growth and rebuilding a competitive industrial base.

Driving inclusion in South Africa depends on enabling black-owned and smaller firms to participate as effective rivals, not simply increasing their numbers. Inclusion is closely tied to structural transformation because competition drives productivity, innovation, and investment, yet rivalry remains weak due to high concentration and significant entry barriers that disproportionately affect black-owned firms. Meaningful inclusion therefore requires addressing both structural barriers (such as scale economies and network effects) and strategic barriers arising from incumbent conduct, through a coordinated, multi-pronged policy approach. To build on the experience to date, policy leverages the lessons learnt.

1.2. LESSONS LEARNED IN THE IMPLEMENTATION OF INDUSTRIAL POLICY

South Africa's industrial policy experience underscores the importance of a coordinated, whole-of-government approach to industrialisation. Policies implemented in isolation across departments often lack coherence, limiting their effectiveness. Collaboration between government, business, and labour is critical to identify sector-specific opportunities, address constraints, and ensure practical, targeted interventions. When industrial policy is supported by regulatory certainty, effective coordination, stakeholder engagement, and focused instruments, it can drive positive outcomes. However, in the post-apartheid era, progress has been hindered by limited state capacity, fragmented institutional coordination, and insufficient alignment of budgets with initiatives like the Industrial Policy Action Plan.

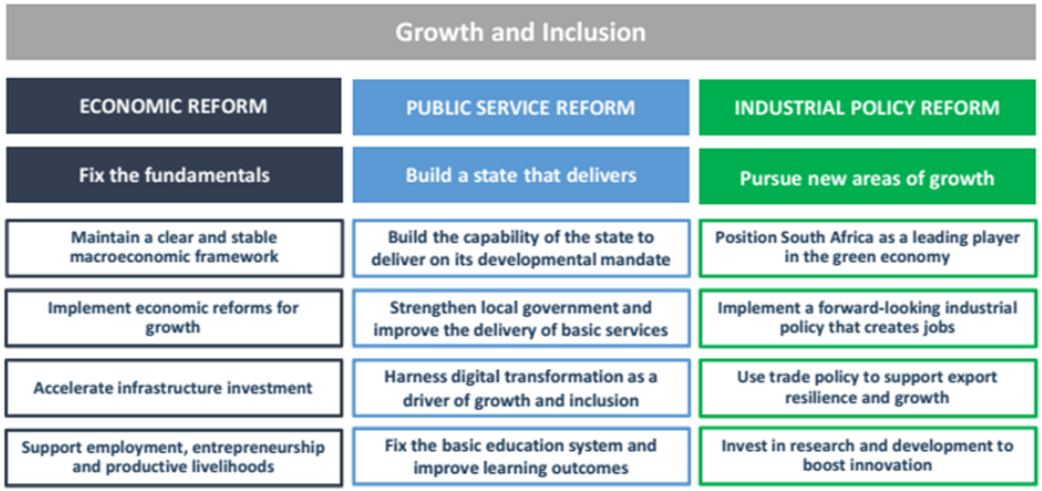
Post-1994, South Africa's industrial policy achieved notable success despite challenges such as the 2008 financial crisis, energy shortages, and declining real budget allocations. Ambitious and well-articulated policy frameworks provided strategic guidance for industrial growth, while trade instruments and targeted incentives helped domestic industries remain competitive globally. The government guided foreign direct investment toward priority sectors and fostered partnerships with the private sector, enabling practical interventions. Key successes included the growth of the automotive industry under the Automotive Production and Development Programme, and support for sectors through initiatives like the Clothing and Textiles Competitiveness Programme and Manufacturing Competitiveness Enhancement Programme. Notable progress has been made in economic transformation, particularly through the B-BBEEE (Broad-Based Black Economic Empowerment) and Black Industrialists Programme. In addition, the development of Special Economic Zones (SEZs), revitalised industrial parks, and localisation policies helped strengthen local productive capacity.

These achievements show that well-designed industrial policy, combined with targeted incentives and institutional coordination, can strengthen capabilities in industries with high developmental impact. Overall, South Africa's experience highlights that an active, capable, and collaborative state working alongside the private sector is essential to drive industrial development and build long-term productive capabilities.

1.3. THE OBJECTIVES OF SOUTH AFRICA'S INDUSTRIAL POLICY

The objective of South Africa's industrial policy (known as Industrial Development Strategy: IDS) is to respond to a rapidly changing global and domestic economic landscape through financial and non-financial incentives, public investments, tariffs, regulations, research and development, skills development, leveraging social compacts and other policy instruments, which are aimed at supporting, developing, or transforming specific industries or economic sectors. It is also a central pillar of GAIN, as it provides the instruments and sectoral interventions necessary to drive structural transformation, expand productive capacity, and support inclusive and sustainable economic growth.

Figure 1: Three pillars of the GAIN framework



Source: GAIN

The properly targeted and implemented industrial policy can generate economic multipliers in sectors that are key for high levels of productivity, economic development, employment, and innovation. For economies like South Africa, aiming to resuscitate manufacturing amid high unemployment, focusing on sectors with strong forward and backward linkages could maximise economic growth, industrialisation, job creation, and ensure environmental sustainability.

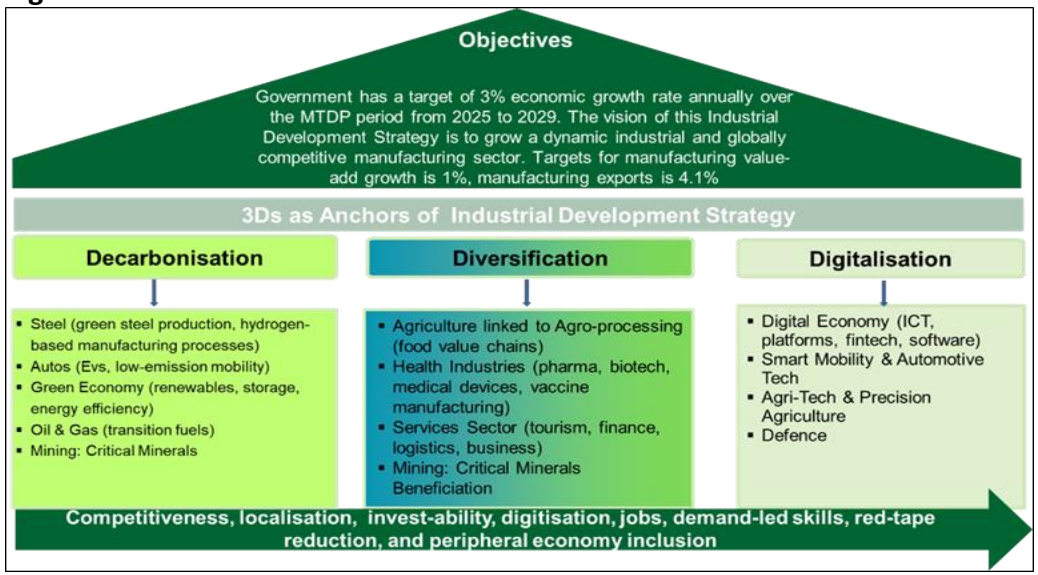
The IDS set out government's action plan for industrial development. It is informed by the policy priorities of the Government of National Unity or Seventh Administration:

- Inclusive growth and job creation;
- Poverty reduction and strengthening the social wage; and
- A capable, ethical, and developmental state.

Anchors of Industrial Policy: 3Ds

Three key anchors, which are critical for driving South Africa's industrial growth and transformation, are decarbonisation, digitalisation, and diversification (3Ds). The 3Ds are important in reducing economic vulnerabilities and commodity dependency by building economic resilience and capturing higher-value activities. The South African government has prioritised climate change-mitigation policies and green industrial development to anchor the economy towards a low-carbon economy. In the context of industrial policy, this is about the consideration and balancing of economic growth, industrial development, and sustainable development goals. Therefore, the decarbonisation of the South African economy is about reducing, diversifying, and reducing energy intensity in industrial production, and beneficiating critical minerals, which are essential for climate change mitigation, energy transition, sustainable development, and technological development. The diversification of the economy is about fostering new growth sectors and markets by reducing over-reliance on traditional sectors through a carefully managed implementation of industrial policy. Diversification is about leveraging the growing global demand for critical minerals, renewable energy, and green hydrogen. It is about positioning South Africa to play a critical role in the growing intra-African trade and targeting exports for markets in Asia and the Middle East, while deepening the relationships with traditional economic partners in the United States, Europe, and the United Kingdom. The digitalisation of the South African economy is about growing and positioning the country as an advanced digital market in the areas of digital infrastructure, data centres, artificial intelligence (AI), internet of thing and cloud services, which are linked to the decarbonisation and diversification pathways.

Figure 2: 3Ds Framework



Source: ***the dtic***

Successful implementation of the Industrial Development Strategy aligned with the Medium-Term Development Programme for 2025–2029, is envisaged to support the achievement of the following targets for the period 2025 to 2029[1]:

- Average GDP growth of 3% a year.
- Value-added growth in the manufacturing sector to grow by 1%.
- Manufacturing exports to increase by 4.1%.

CHAPTER II. PATHWAYS FOR GROWTH, JOB CREATION, AND INCLUSION

Sector selection within the Industrial Policy is guided by the objectives of growth, job creation, inclusion, decarbonisation, digitalisation, and economic diversification, while safeguarding existing industrial capacity and positioning the economy for future growth. Some value chains act as crosscutters, as their characteristics enable them to straddle more than one pathway and do contribute to multiple areas of industrial development. The policy also targets emerging opportunities in high-growth areas such as the digital and green economy to support innovation and sustainable development, while prioritising sectors with strong employment potential, particularly for youth, including tourism decarbonisation, digitalisation, and diversification (3Ds). At the same time, maintaining competitiveness and employment in traditional industries remains essential to sustaining a balanced and resilient industrial base.

2.1. SOUTH AFRICA'S INDUSTRIAL POLICY AND INVESTMENT CHOICES

South Africa's industrial policy and investment choices are informed by the National Development Plan, Medium-Term Development Plan (MTDP 2024–2029), and alignment with the GAIN strategy. These frameworks emphasise inclusive growth, job creation, exports, and structural reforms through the decarbonisation, diversification, and digitalisation of the economy.

Industrial policy is forward-looking and must pivot the South African economy to industrial capabilities that scale intensive technologies in the production of goods and services and facilitate the skilling of human capital. The choice of priority sectors for industrial development is informed by the Organisation for Economic Cooperation and Development (OECD), which has classified industries by technology intensity. High and medium-high technology industries tend to have complex technologies with moderately high levels of research and development (R&D), advanced skill needs, and longer growth and learning periods. Medium-low technology and medium-high technology differ in terms of technology intensity but are labour-intensive and critical for job creation in South Africa. The choice of targeting industries is also informed by the composition of the manufacturing value addition in South Africa, criticality, backward and forward linkages, as well as multiplier effects.

[1] Manufacturing Sector Recovery and Expansion, Quantec January 2025

Table 1: South African sectoral interventions and investments

High technology industries • Energy investments in line with the decarbonisation targets • Electronics; and telecommunications linked to sectors • Health manufacturing industry development (pharma, vaccines, devices) • Petrochemical, gas and refinery investments • Defence materials (military, crime fighting, migration systems) • Beneficiation of minerals (local value addition)	**Medium-high technology industries** • Electrical machinery • Motor vehicles, trailers and semi-trailers • Chemicals excluding pharmaceuticals • Transport equipment, rail rolling stock and associated equipment
Medium-low technology industries • Basic metals and fabricated metal products • Building and repairing of ships and boats • Rubber and plastics products • Coke, refined petroleum products and nuclear fuel • Other non-metallic mineral products	**Low technology industries** • Circular economy and recycling • Wood, pulp, paper, paper products, printing and publishing • Food products, beverages, and tobacco • Textiles, textile products, leather and footwear

Source: OECD classification of industries, by technology intensity category

2.1.1. PATHWAY 1: Optimising investments linked to the decarbonisation of the economy

The pathway for decarbonisation must for focus on promoting clean technology investments, developing energy transition infrastructure, advancing low-carbon economy, and supporting sustainable industrial development. For South Africa to retain and grow its industrial base and export market share, it does not have choice but to accelerate decarbonisation investments in energy, steel and automotive industries. International climate policies such as carbon pricing and the Border Carbon Adjustment Mechanism (CBAM) pose a threat and opportunity for the South Africa to reduce high carbon footprint. Transitioning to a low-carbon economy requires the blending of policy, legislative, institutional and financial instruments. Leveraging the commitments made in the Just Energy Transition Investment Plan (JET IP) will assist the country to transition from the carbon-intensive economy to a sustainable one that balances the interests of society. Supported by the government and the Presidential Climate Commission, the transition is focused on developing a diversified energy market, green hydrogen, electric vehicles, and beneficiation of critical minerals, all designed to strengthen local manufacturing, supporting sustainable economic growth and job creation.

2.1.2. Mining linked to Critical Minerals and Beneficiation

South Africa possesses abundant mineral resources, including gold, platinum group metals, chrome ore, and manganese, and has one of the world's largest mining sectors by GDP value. Mining remains a cornerstone of the economy, contributing significantly to exports, employment, and industrial development.

Current reforms led by the Department of Mineral and Petroleum Resources (DMPR) aim to strengthen beneficiation and position South Africa within emerging global value chains linked to critical minerals. As global demand grows for minerals used in new energy vehicles and renewable energy storage, such as lithium, copper, cobalt, and manganese Africa are strategically placed to play a larger role in these industries.

South Africa's strategy focuses on expanding exploration through geoscience mapping, improving infrastructure and energy security, on developing a battery value chain, and introducing supportive financial instruments and regulatory reforms. Priority actions include implementing the critical minerals strategy, incentivising beneficiation, accelerating development of key SEZs, and expanding funding for exploration through the Junior Mining Exploration Fund to attract private investment and support the transition from raw mineral exports to higher-value industrial participation.

2.1.3. Leveraging energy investments for industrial development

South Africa's energy diversification strategy as encapsulated in the Integrated Resource Plan (IRP) and JET IP aims to provide energy security, abolish load shedding permanently, draw in investment, and facilitate a fair transition to a low-carbon economy while lowering the country's historically high reliance on

coal. The IRP aims to add about 105 gigawatts of new electricity generation capacity by 2039 (including renewables, gas, battery storage, and nuclear). Nuclear plays a central role in providing baseload, low-carbon power through investments in large-scale pressurised water reactors for coastal sites, the revival of the Pebble Bed Modular Reactor programme and the development of small modular reactors for flexibility, grid compatibility, and regional African applications.

Part of the electricity generation expansion is the acceleration of gas-to-power procurement. The anticipated depletion of the Temane and Panda gas fields in Mozambique by mid-2026 raises concerns about a potential "gas cliff" that could disrupt industrial production and economic activity. This will also require the scale-up of domestic offshore exploration and development. Gas projects could add significant reserves and investments in pipelines to connect to the grid.

South Africa's investments in the Transmission Development Plan are a critical pillar of energy diversification and the broader energy transition. This requires constructing approximately 14 500 km of new high-voltage transmission lines, which will add about 210 transformers, and related infrastructure like substations and reactive power devices. In terms of the localisation programme and commitments, the South African industry will be able to manufacture and supply materials and components needed for the expansion of the transmission line.

Energy investments are also critical for reducing the cost of production in South Africa, thus propelling industrial development and economic growth.

2.1.4. Autos: Reforming the support measures for the automotive industry

The South African automotive industry is a cornerstone of the national economy, contributing roughly one-third of manufacturing value and supporting significant employment and export activity. However, progress towards the South African Automotive Masterplan (SAAM 2035) goals is stalling due to stagnant production volumes and a 39% localisation rate, which is well below the 60% target.

Efforts are focused on enhancing localisation and transitioning to completely knocked down (CKD) assemblies to protect industry jobs and navigate changing environmental legislation. The government is also scaling up its incentives for the manufacturing new energy vehicles (NEVs) in South Africa, including support for component manufacturers. These measures will assist the industry to remain globally competitive and attract new investors into the country.

2.1.5. Optimisation and decarbonisation of the steel value chain

South Africa's steel industry is challenged by the global overcapacity of steel, rising imports, carbon intensity, changing steel production technologies, low demand, and carbon taxes, among others.

In response, the government is deploying policy instruments and interventions aimed at stabilising and revitalising the steel value chain. These include developing a comprehensive steel value chain roadmap that incorporates support for diversification steel production technologies, development of the downstream industry, diversification of output, tariff reviews, safeguard and anti-dumping measures, reforms to the price preference system, export tax on scrap metal to support domestic production, and demand side interventions. These measures are critical to make sure that the industry remains the backdrop of industrialisation in South Africa.

2.1.6. Circular economy

A circular economy[2] can be defined as a regenerative system in which resource input and waste, emissions, and energy leakages are minimised through long-lasting design, maintenance, repair, reuse, sharing, remanufacturing, refurbishing, and recycling activities. The circular economy offers an alternative economic approach that can contribute to inclusive low-carbon economic growth and job creation through the revitalisation and creation of key

[2] United Nations, United Nations Economist Network

manufacturing industries while reducing the negative impact on the environment. According to the South Africa Foresight Exercise for Science, Technology and Innovation, 2019. National Advisory Council on Innovation, the circular economy is seen as a new source of growth and should be central to the efforts to build an inclusive economy.

Globally 7.2% of waste is cycled back into the economy, and through circular economy initiatives this can be increased. To decouple economic growth from environmental degradation will take new technology inputs, and efficiency improvements in production processes. Preliminary data from a South African Materials Flows Analysis shows that South Africa could be less than 2% circular, compared to the global figure of 8.6%. This creates an opportunity to transition to a circular economy as well as providing a means to implement a just transition for South Africa to unlock socio-economic opportunities; address the country's climate commitments; and make significant progress towards achieving the Sustainable Development Goals (SDGs).

Circular economy approaches can be employed in a number of different sectors such as textiles, buildings and construction, electronic goods (refurbished, recyclable and biodegradable packaging), animal waste (fertilisers and biogas) to mention just a few examples. These approaches can be deployed at various stages of a product's lifecycle, including design, manufacturing, distribution, and disposal.

2.2. PATHWAY 2: DIVERSIFICATION

The pathway for diversification is on industrial value chain development, export diversification, strengthening small and medium enterprises (SMEs) and innovation ecosystems, regional industrial development, and diversification of trading partners. The objective is to broaden the productive base of the economy by developing new industries and expanding value-added sectors.

2.2.1. Agriculture linked to agro-processing: value addition, food processing, agri-industrial development

The agricultural sector's prominent role in the economy stems from its connections to other sectors. These connections include backward interactions with farmers through the purchase of goods such as fertilisers, chemicals, and implements, as well as forward connections through the export of primary products, distribution into the food chain, and the supply of raw materials for agro-processing. It is for this reason that the Agriculture and Agro-processing Master Plans were designed to drive growth, transformation, and resilience in South Africa's agriculture sector while improving food security and creating employment. The plan prioritises key value chains, such as poultry, red meat, sugar, grains, fresh produce, wine, and industrial hemp.

One critical implication is that it is becoming more difficult for small, medium, and micro enterprises (SMMEs) to enter due to the cost of compliance with general as well as private standards; economies of scale; difficulty of penetrating highly concentrated markets; cost of procuring technologically sophisticated manufacturing equipment; and poor access to cold chain, storage, and advanced logistics. Intervention for the growth of SMMEs will include support for technological innovation in the sector and localisation of vaccines for livestock.

Industrial Policy efforts will strengthen and deepen industrialisation through the implementation of sectoral master plans, such as the Agriculture and Agro-processing Master Plan, the Cannabis and Hemp Master Plan, and the Furniture Industry Master Plan, as prescribed in the GAIN strategy.

2.2.2. Health Industries: pharmaceuticals, biotechnology, medical manufacturing

The COVID-19 pandemic exposed Africa's heavy reliance on imported pharmaceuticals, vaccines, and diagnostics, particularly during global supply shortages when African countries were often deprioritised. Despite relatively strong regulatory systems, research capacity, and skilled human resources, South Africa still imports 70%-80% of its medicines and nearly all active pharmaceutical ingredients (APIs) and vaccines. The country's pharmaceutical market was valued at R77.4 billion (US$4.2 billion) in 2024 and is projected to reach US$5.6 billion by 2030. However, domestic manufacturers currently supply only around 30% of

national demand, despite having significantly installed manufacturing capacity – particularly in oral solid dose formulations. Capacity utilisation remains low at 30%-40%, largely due to industry fragmentation, limited economies of scale, and strong competition from imported products.

At the regional level, the pharmaceutical market within the Southern African Development Community (SADC) is valued at approximately R138.6 billion (US$7.6 billion), while the broader African market is estimated at R540 billion (US$29 billion), presenting significant opportunities for expansion. The Medical Devices Master Plan highlights the need for stronger financing mechanisms to support companies from early-stage innovation to full commercialisation, particularly as start-ups often face challenges related to regulatory compliance, technical expertise, and business development. Key policy interventions include securing long-term procurement commitments for priority medicines, supporting pharmaceutical SMMEs, establishing shared manufacturing infrastructure in zones such as the Coega Special Economic Zone and the Atlantis Special Economic Zone, developing domestic API production, and leveraging regional procurement platforms like the African Pooled Procurement Mechanism to strengthen local manufacturing and reduce import dependence.

2.2.3. Services: tourism, finance, logistics, business services

The services sector is the largest contributor to South Africa's economy, accounting for most of the country's GDP and employment, and includes industries such as finance, trade, tourism, transport, communications, and professional services. It plays a critical role in supporting economic activity by facilitating trade, investment, and business operations, with the financial services industry being particularly well developed and globally competitive. Despite its importance, the sector's growth has been constrained by broader economic challenges, including slow economic growth, infrastructure limitations, and high unemployment, although areas such as digital services, tourism, and business process outsourcing (BPO) continue to show robust growth potential.

Within this sector, Global Business Services (GBS) and tourism have been prioritised as key drivers of job creation, particularly for women and youth, while also attracting foreign direct investment through offshoring. South Africa's GBS industry is the largest in Africa, valued at approximately US$5.26 billion in 2023 and accounting for about 28% of the continent's GBS/BPO market. Tourism also remains significant due to its labour-intensive nature and strong linkages with sectors such as transportation, retail, and financial services. Strategic interventions aim to expand offshore work, strengthen service delivery capacity, support transformation and employment initiatives, reform visa regimes, provide investment incentives, and improve infrastructure to accommodate growing visitor numbers.

2.2.4. Security Industries: Aerospace and defence

The global defence industry is undergoing a significant transformation driven by rapid technological advancements, changing geopolitical threats, and evolving economic structures and models. Defence expenditure, procurement, and investments are imperative to propel the advancement of cutting-edge technologies and the modernisation of military equipment.

The aerospace and defence sector are the cornerstone of advanced manufacturing and can assist South Africa to transition towards being the global supplier of materials and equipment in the sector. However, for the country to do that, the broader South African defence industry requires improvement in funding models, industrial capacity, technology, and international collaborations. This will require the restructuring and recapitalisation of the army and its artillery, design and manufacturing capabilities, and the introduction of public-private partnerships. The opportunity exists in the production of military vehicles, boats and vessels, aerospace components, unmanned aerial systems, drones, and electronic sensors. Through those investments, South Africa can become a global supplier of specialised military equipment and systems.

2.3. PATHWAY 3: DIGITALISATION

The pathway focus will be on strengthening digital infrastructure and connectivity; fostering data and innovation ecosystems; advancing digital skills development; and promoting digital technologies. The objective is to integrate digitalisation in multiple sectors to improve productivity, innovation, and global competitiveness.

2.3.1. Digital economy: ICT infrastructure development, software development, trade in digital services

The Digital Transformation Roadmap, approved in March 2025, aims to integrate government services and introduce a national digital identity system. Digital technologies are driving growth, investment, and employment through technology development, digital services, infrastructure expansion, and productivity gains across sectors. Rising smartphone use has boosted digital platforms and logistics, while South Africa has developed a strong digital infrastructure, including mobile networks, fibre, data centres, and cloud services, supported by major global tech firms. The platform economy or e-commerce is expanding rapidly across retail, education, entertainment, and selected capital goods, creating both risks, challenges, and opportunities, which must be attended to. Planned interventions include strengthening e-commerce regulation, optimising supply chains and human capital for hardware and software development. The aim is to scale up productivity, innovation, and global competitiveness across industries by leveraging technological changes. Achieving these outcomes requires a strong policy focus on expanding digital infrastructure and connectivity, providing affordable data and network services.

2.3.2. Building industrial capacity through capital equipment

Capital equipment comprises machinery and electrical equipment used in production, including industrial machinery, electric motors, transformers, and control systems and, while not a discrete statistical category, is a strategic enabler of industrialisation as digitalisation and automation blur traditional boundaries. In South Africa, the sector underpins priority industries such as mining, construction, power generation and distribution (including renewables), and agro-processing, but is dominated by firms linked to foreign OEMs, limiting transparency on local content and constraining domestic capability development. At the same time, smaller local firms play a critical role in system design, specialised manufacturing, installation, and after-sales services, supporting supply-chain resilience, localisation, and skills development. The value chain also supports upstream industries such as steel and metals and is well positioned to benefit from demand, driven by mining electrification; infrastructure investment; the energy transition; and creating scope for targeted industrial policy interventions focused on localisation, supplier development, and technology upgrading to deepen value addition and reduce import dependence.

2.3.3. The role of technology and innovation, and associated sectors, including techno parks

The 2019 White Paper on Science, Technology, and Innovation positions science, technology, and innovation at the centre of South Africa's industrial policy, linking trade, investment, and innovation while supporting business, government, and civil society. It emphasises the role of state-owned companies in strengthening R&D, industrialisation, and technological performance, and promotes public-private research partnerships to accelerate innovation and increase private sector R&D investment. Drawing lessons from East Asian industrialisation models such as South Korea, Taiwan, and Japan, sustained R&D investment, strong public institutions, and close government-industry-university collaboration are shown to enable technological upgrading and movement up global value chains. For South Africa, intensifying R&D investment, improving the commercialisation of research into marketable products, and leveraging public procurement are critical. Greater coordination between the Department of Science, Technology, and Innovation (DSTI) and the Department of Trade, Industry, and Competition (**the dtic),** alongside innovation clusters, technology business incubators, and a value chain approach, is essential to scale high-impact technologies. The growth of tech hubs and advances in AI, data, and digital services further create opportunities for innovation-driven industrial growth and employment.

CHAPTER III. ENABLERS OF INDUSTRIAL POLICY

3.1. Special Economic Zones (SEZs) and Industrial Parks in supporting industrial development.

SEZs have made notable strides in attracting investment and creating sustainable jobs, though outcomes remain uneven, with most benefits concentrated in seven zones. To address underperformance, the Reimagined SEZ Strategy looks to strengthen capacity and accelerate operationalisation with the goal of improving developmental impact. In addition, the Spatial Industrial Development Strategy consolidates district-level industrial interventions under the District Development Model to maximise socio-economic impact. Plans include designating four additional SEZs to attract private investment in manufacturing and support employment, alongside a new infrastructure financing model encouraging private participation, including privately owned or operated SEZs. The expansion of trade corridors and cross-border SEZs aims to enhance continental value chain integration, leveraging opportunities from the African Continental Free Trade Area (AfCFTA) and other trade agreements, while integrating township and rural micro, small, and medium enterprises (MSMEs) into the SEZ and Industrial Parks framework to foster inclusive industrial development.

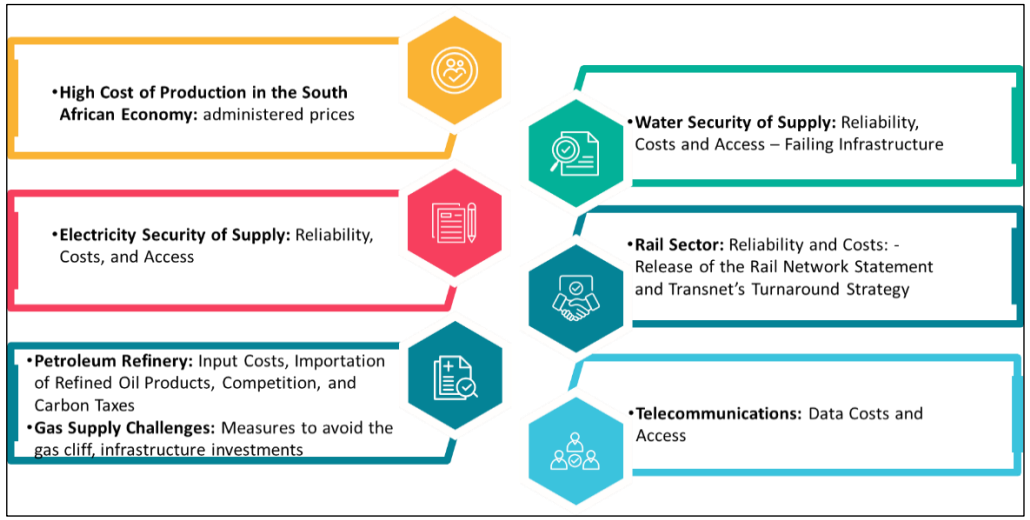
3.2. Addressing the reduction of red tape and improving the ease of doing business

The government is cognisant of the fact that for the economy to grow, red tape must be cut and the ease of doing business in South Africa optimised. This requires the reduction in regulatory compliance costs and facilitates the speed of associated approvals for investments. A case in point is the introduction of one-stop shops to facilitate investments and intergovernmental approvals. The government commits itself in addressing regulatory hurdles inhibiting business investments through legislative, regulatory, investment and incentive reforms.

3.3. Resolving binding constraints for economic growth and industrial development

South Africa's binding constraints to economic growth and industrial development remain structural and interconnected. These constraints limit GDP growth to modest levels, impede investments, job creation, industrialisation, and export growth. Thy must be addressed speedily to enable investments in various sectors of the economy.

Figure 3: Critical enablers and investments required in the implementation of industrial policy



Source: ***the dtic***

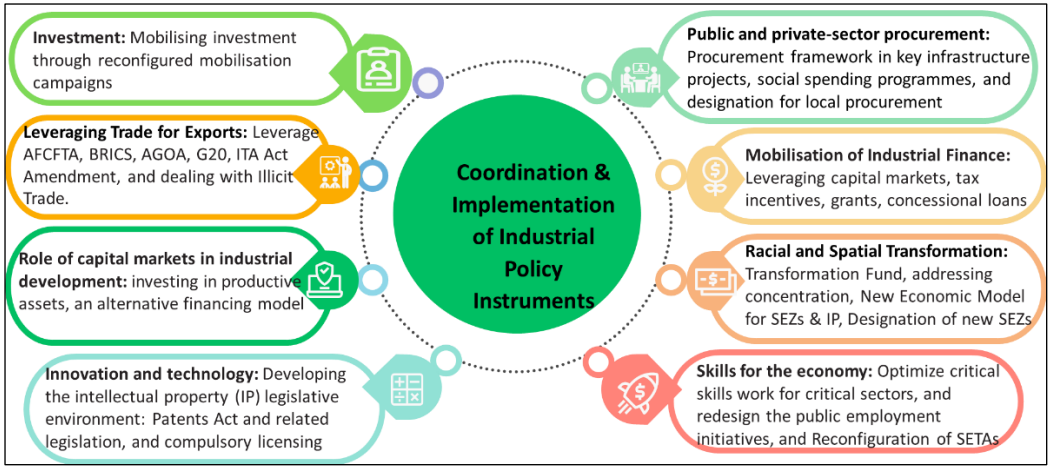
The implementation of the National Infrastructure Plan, alongside the fast-tracking of structural reforms through Operation Vulindlela, remains critical for revitalising productive sectors of the economy. By accelerating reforms in energy, logistics, water, and digital infrastructure, and crowding in private investment, these initiatives are expected to raise aggregate demand and unlock supply-side efficiencies. Increased public and private investment in transport, energy, water, and social infrastructure will stimulate demand for core inputs such as cement and steel, supporting higher capacity utilisation, improving cash flow, and stabilising firms currently under distress.

CHAPTER IV: IMPLEMENTATION MODEL

4.1. The importance of coordinating and aligning policy instruments for industrial development

Coordination and alignment of industrial policy instruments are essential to ensure that different policy tools work together to support a coherent industrial development strategy. To achieve the objectives of sustainable industrial development through the 3Ds (decarbonization; diversification; and digitalisation), simultaneous use of multiple instruments is required, such as tariffs, safeguards and antidumping measures, public procurement, fiscal incentives (tax; grants; infrastructure investments; demand-led skills programmes; and research and development support). Effective coordination will help to avoid policy fragmentation, duplication of efforts, and conflicting incentives, thereby improving the overall impact of industrial policy interventions.

Figure 4: Coordination and alignment of industrial policy instruments



Source: ***the dtic***

4.2. The importance of the capacity of the state to implement industrial policy

State capacity is essential for implementing industrial policy effectively, ensuring benefits like industrialisation, job creation, and technological progress while minimising negative impacts. Building this capacity requires investment in institutions, expertise, and inclusive processes to make the state the main driver of policy. Countries adopt different approaches – top-down, bottom-up, or mixed, with the mixed approach risking incoherence and conflict between institutions.

Industrial policy often suffers from inconsistencies as countries struggle to align policies with each transformation cycle or transition between policy packages, causing disruptions in industrialisation trajectories. Effective implementation relies on state capacity, including strong institutions, fiscal support, regulatory certainty, trade measures, investment promotion, and coordinated government action across departments and state-owned enterprises. Success also depends on a supportive regulatory and investment environment, skilled workforce, reliable infrastructure, and broad policy consensus.

Industrial policy analysts argue that the inconsistency of countries in aligning policies with each transformation cycle over time, as well as transitioning from one cycle to another, or from one policy package to another, leads to discontinuities in their industrialisation trajectories.

The capacity of the state to implement industrial policy is about the role of institutions, fiscal support (transfers and taxation), regulatory certainty and ease of doing business, investment attraction, myriad of policy instruments, social compacts, trade measures. The implementation of industrial policy requires strong, coordinated government capability across government departments and state-owned companies, combined with a supportive regulatory and investment environment, skilled workforce, and reliable infrastructure. It is also important for industrial policy to garner sufficient buy-in or policy consensus for it to be effective.

4.3. Leveraging trade partnerships for industrial development

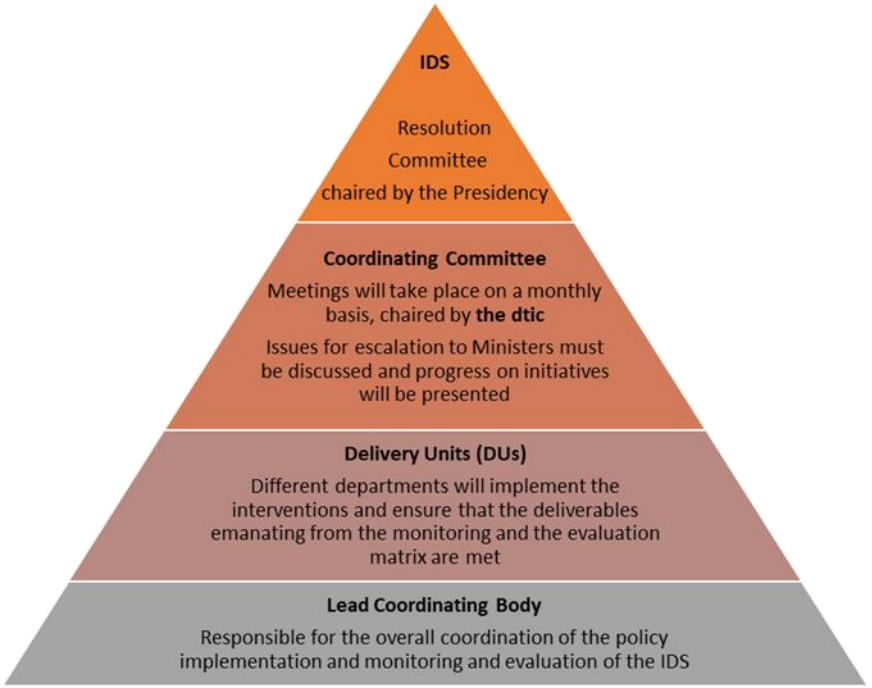
South Africa has long relied on strategic trade relationships to support industrial growth and broader economic development. Leveraging these partnerships more effectively can accelerate industrialisation by expanding export-led growth, promoting value addition, diversifying exports beyond raw and unprocessed minerals, and strengthening integration into regional and global value chains. AfCFTA presents significant opportunities as the world's largest free trade area, covering more than 1.3 billion people with a combined GDP exceeding US$3.4 trillion, enabling South African firms to expand market access across the continent. The African Growth and Opportunity Act in the United States remains strategically important for exports of agricultural products, automotive goods, textiles, and other manufactured products. Similarly, the Clean Trade and Investment Partnership between South Africa and the European Union provides an opportunity to leverage trade for industrial development in clean and sustainable sectors. This framework supports shared decarbonisation goals, promotes bilateral trade and investment in clean supply chains, and strengthens industrial competitiveness, resilience, and job creation. In addition, trade with BRICS countries Brazil, Russia, India, and China, along with new members, has grown significantly and now accounts for roughly 21% of South Africa's total international trade. However, exports remain concentrated in commodities, highlighting opportunities to diversify into higher-value manufactured goods, expand agricultural exports such as citrus and nuts, and grow trade in services.

Industrial policy interventions aim to expand both the volume and value of exports by promoting beneficiation, strengthening trade defence mechanisms under the International Trade Administration Act No. 71 of 2002, addressing non-tariff barriers, and improving coordination in tariff administration among institutions such as the International Trade Administration Commission, the National Treasury of South Africa, and the South African Revenue Service.

4.4. Monitoring and evaluation framework

A bottom-up governance structure is proposed for industrial policy coordination, with a lead body overseeing implementation and Delivery Units ensuring targets are met. **the dtic** chairs monthly Coordinating Committee meetings to track progress on IDS and escalate issues, while an Inter-Ministerial Committee, chaired by the Presidency, meets quarterly to monitor interventions and report to the President. Effective policy requires strengthened coordination across national departments and the three spheres of government, along with enhanced organisational capacity to overcome historical challenges in policy formulation and implementation.

Figure 5: Proposal on Coordinating Structure on Industrial Policy Coordination



Source: ***the dtic***

CHAPTER V. CONCLUSION

Amid global economic uncertainty and structural constraints on inclusive industrialisation, South Africa needs common priorities across government and the private sector to drive aligned socioeconomic development.

The IDS is comprehensive and ambitious, aiming for diversification, employment creation, value addition, technological upgrading, export expansion, and industrial deepening. It stabilises industrial decline by strengthening manufacturing and mining-linked sectors, elevates the services sector as a central pillar linked to new growth areas like the digital economy, and prioritises implementation by addressing infrastructure, logistics, regulatory, and innovation constraints. A new governance structure supports this approach, focusing on Capabilities, Coordination, and Credibility. IDS underscore that industrial policy must be whole-of-government, with aligned platforms and systems across national, provincial, and municipal governments, state-owned entities, and education providers to maximise impact on both the supply and demand sides of the economy.

ANNEXURES

ANNEXURE 1: IMPLEMENTATION PLAN FOR IMMEDIATE PRIORITIES

	Decarbonisation	Diversification	Digitalisation	Targets	Midterm Targets	End-term Targets
SECTORAL INTERVENTIONS						
Green Economy: decarbonising industries, renewable energy, energy storage, and energy efficiency industries	**X**	**X**		Total value (R) of public and leveraged private funding committed and disbursed for industrial decarbonisation programmes (**the dtic**, Department of Forestry, Fisheries and the Environment (DFFE), National Treasury (NT), Development Finance Institutions (DFIs), private sector, JET IP, DSTI)	Increased investments in projects /programmes for decarbonisation	Reduced greenhouse emission
				Implement integrated decarbonisation programmes across Green Hydrogen, SAREM and cleaner production to cut emissions while strengthening industrial competitiveness. (**the dtic**, Department of Electricity and Energy (DEE), DFFE, DSTI)	Increase in green energy use	Encourage green industrialisation
Mining linked to Critical Minerals: lithium, cobalt, platinum group metals, and other inputs for clean energy technologies	**X**	**X**		Operationalization of the critical minerals' strategy implementation plan (DMPR, **the dtic**, Mintek, DSTI, NT, Industrial Development Corporation (IDC))	Improve competitiveness in the global value chains	Increase the beneficiation of value addition
				Expansion of exploration and beneficiation financing instruments (DMPR, **the dtic**, Mintek, DSTI, NT, IDC)	Increased investment in beneficiation capacity	Increase the beneficiation of value addition
				The preferential allocation of mining rights and licences, with conditionalities for beneficiation (DMPR, **the dtic**)	Increased investment in beneficiation capacity	Increase the beneficiation of value addition
Chrome	**X**	**X**		Institute export tax and quota for the chrome industry (**the dtic**/ International Trade Administration Commission (ITAC))	Export tax and quota (**the dtic**/ITAC)	% increase of beneficiated Chrome
				Institute the tariffs or negotiated pricing agreement for the chrome sector (DEE/**the dtic**)	Affordable tariffs for beneficiation (DEE/**the dtic**)	% decrease in the cost of Chrome beneficiation
				Designation of Bojanala and Fetakgomo-Tubatse SEZs for beneficiation of chrome (**the dtic**)	Attract investors and technical partners for the beneficiation of chrome in South Africa (**the dtic,** NT, provinces)	% increase in investment attracted (**the dtic**)
Steel and Metals Sector:	**X**	**X**		Finalise the takeover of ArcelorMittal South Africa (AMSA) (**the dtic**/IDC)	Restructure and optimise the performance of AMSA	Return primary steel capability/profitability

	Decarbonisation	Diversification	Digitalisation	Targets	Midterm Targets	End-term Targets
support for the Steel and Metals Sector				Designation of Steel as a strategic commodity to promote economic sovereignty	% increase in demand for local steel	% increase in aggregate demand for steel
Autos: transition to electric vehicles and low-emission mobility technologies	**X**	**X**		Table policy proposal for the review of the ad valorem tax for motor vehicles (**the dtic**, NT)	Institute the ad valorem tax	% increase in locally manufactured vehicles for the local market
				Increase in the number of Original Equipment Manufacturers (OEMs) attracted to manufacture in South Africa – CKD kits) (**the dtic,** NT)	1 OEMs Attracted – completely knocked down kits (CKD)	2 OEMs Attracted – completely knocked down kits (CKD)
Oil and Gas: cleaner fuels, and transition energy systems	**X**			Accelerate gas-to-power procurement (DPMR, DEE, **the dtic**, NT, NERSA, Transnet, ESKOM)	Grid stability	Increase in energy available for industrialisation
				Scale up domestic offshore exploration and development. (DPMR, DEE, **the dtic**, NT, DFFE)	Increase reserve and investments in pipelines to connect to the grid	% increase in gas reserve for industrialisation
				Establish a specialized court to urgently deal with litigation related to oil and gas exploration (DPMR, DEE, **the dtic,** NT, Department of Justice and Community Services	Fast-tracking resolving legal disputes	Quick resolution of disputes
Agriculture linked to agro-processing: value addition, food processing, agri-industrial development		**X**		Enabling market expansion, improving market access, and trade facilitation (Department of Agriculture (DoA), **the dtic**, Department of International Relations and Cooperation (DIRCO), NT)	Grow export volumes in key value chains by 5%, emphasizing priority export products.	Grow export volumes in key value chains by 10%, emphasizing priority export products.
				Industrial Financing & Incentives: Provide targeted incentives (grants, blended finance) for agro-processing investments, particularly for SMEs and black-owned enterprises (NT, DoA, IDC, **the dtic**)	Upgrade or establish 15 agro-processing facilities (livestock, fruit, grains, furniture, hemp & cannabis, etc.).	Upgrade or establish 20 agro-processing facilities (livestock, fruit, grains, furniture, hemp & Cannabis etc.)
				Localisation of vaccines for livestock (Department of Health (DoH), NT, DoA, **the dtic**)	Targeted incentives for R&D for vaccine manufacturing	Increased vaccine production capacity for livestock
				Hemp and Cannabis Accelerate trade and export facilitation (DoH, NT, DoA, DIRCO, **the dtic**)	Achieve 5% increase of total revenue from exports targeting both raw materials (hemp fiber, seeds) and	Achieve 10% increase of total revenue from exports targeting both raw materials (hemp fiber,

	Decarbonisation	Diversification	Digitalisation	Targets	Midterm Targets	End-term Targets
					finished products (CBD, medicinal cannabis, etc.).	seeds) and finished products (CBD, medicinal cannabis, etc.).
Health Industries: pharmaceuticals, biotechnology, medical manufacturing		**X**		Secure long-term procurement commitments from the National Department of Health (NDOH) and NT through designation of pharmaceutical products and vaccines for local content in the public procurement system (**the dtic**/NT/NDOH/DSTI)	% increase in demand for locally manufactured pharmaceutical and vaccine products	% increase in aggregate demand for locally manufactured pharmaceutical and vaccine products
				Designation of Coega SEZ for the production of pharmaceutical products, as well as Atlantis for the manufacturing of vaccines (**the dtic**, NT, provinces, municipalities)	Greenfield investments and soft funding for facility upgrade for brownfield investments to optimize capex and Opex.	Increase production of locally manufactured pharmaceutical products
Digital Economy: software, digital platforms, knowledge industries	**X**	**X**	**X**	Development hub established by a large global tech company (Independent Communication Authority of South Africa(ICASA), Department of Communications and Digital Technologies (DCDT), DFIs, Competition Commission**, the dtic**)		Increase investment
				Software Development (DCDT, DSTI, digital economy industry, **the dtic**)	Increase job opportunities for youth	
				Device Refurbishment Programme (DCDT, DSTI, digital economy industry**, the dtic**)	Increase job opportunities for youth	
Services: tourism, finance, logistics, business services		**X**		Establishing a National Air Access Programme to activate new tourist flight routes (Department of Transport (DoT), NT, DIRCO, Department of Home Affairs (DHA)		15 million tourist arrivals 1.3 million employment opportunities
				Implementation of the Electronic Travel Authorisation system (DoT, NT, DIRCO, DHA)		
Security Industries: aerospace and defence		**X**	**X**	Restructuring and recapitalisation of the army and its artillery, design, and manufacturing capabilities (**the dtic**, Department of Defence, Armscor, Denel, DSTI, NT)	Securing public–private partnerships	Investment in the production of military vehicles, boats and vessels, aerospace components, unmanned aerial systems, drones, and electronic sensors.

	Decarbonisation	Diversification	Digitalisation	Targets	Midterm Targets	End-term Targets
CROSS-CUTTING INTERVENTIONS						
Leveraging Trade Partnership	X	X		Development of cross-border value chains (**the dtic**, Export Credit Insurance Corporation, DFIs, DIRCO)	Increased value addition and sophistication of exports	Increased market access
Energy and Electricity	X	X		Reform of legislation, electricity pricing policy, and mobilisation of investment (DEE, **the dtic**, National Energy Regulator of South Africa (NERSA), Eskom)		Reduced greenhouse gas emissions
				A concessional electricity tariff for energy-intensive users and beneficiation (DEE, **the dtic**, NERSA, Eskom)	Affordable tariffs for intensive energy users	% decrease in the cost of beneficiation
				Implementation of Independent Transmission Project (ITP) Programme (Phase 1) (DEE, **the dtic**, ESKOM)	Localisation of components into the ITP	Increased grid capacity
Special Economic Zones (SEZs) and Industrial Parks		X	X	Designation of 3 SEZs (Vaal, Bojanala, and Fetakgomo-Tubatse SEZs) (**the dtic**, NT, provinces, and local governments)	Attract investors and technical partners	% increase in investment attracted
				Establish cross-border SEZ (**the dtic**, NT, provinces, and local governments)	Continental value chain integration	Increase intra-regional trade
Industrial Finance	X	X	X	Identify the appropriate percentage of funds to be invested in productive assets by the financial sector (NT, **the dtic**, Public Investment Corporation)	New ventures developed by the private sector	Increase investments
				Pivot incentives towards low-carbon manufacturing technologies (consider green sector-specific incentives) and modernization of existing industries (**the dtic**, NT, DFFE, Development Bank of Southern Africa, IDC)	New green financing mechanism	Improve competitiveness
				Reinstituting of 12I tax incentive (**the dtic**, NT, South African Revenue Service (SARS)		Investment and productivity
				Directives for IDC to invest in SOE in support of industrialisation (**the dtic**, NT, IDC)		Improved availability of funds for industrialisation
Ease of Doing Business		X		Omnibus Bill developed for an enabling environment (**the dtic**)	Fast-track mechanism for regulatory approvals	Red tape reduction
				Number of new Fusion Centres to undertake regulatory reform for Acts, Regulations, Licencing, Permits, and Registrations (**the dtic**)	5% improvement in the ease of doing business, and a reduction in red tape	10% improvement in the ease of doing business, and a reduction in red tape

ANNEXURE 2: SOUTH AFRICA'S INDUSTRIAL POLICY EVOLUTION, PRE-AND POST 1994

South Africa's current economic structure is largely shaped by decisions made during the apartheid era, particularly the development of the mineral-energy complex (MEC). The MEC prioritised investment in carbon-intensive and capital-intensive industries such as mining, steel, petrochemicals, aluminum, defence, automotive and other energy-intensive mineral processing sectors. These industries formed the backbone of the economy and were supported by strong trade links with European commodity markets, while trade relationships with Africa, Asia, and the Middle East were largely neglected. The MEC strategy also stimulated industrialisation and led to the development of technological, industrial, and employment capabilities in several sectors. These industries were heavily protected from international competition, resulting in inflated production costs and reduced global competitiveness. In addition, apartheid's racial discrimination policies limited the development of a broad and skilled labour force, resulting in a small and unequal skills base.

Following the transition to democracy in 1994, South Africa began to reform its economic policies. The country had been a member of the General Agreement on Tariffs and Trade (GATT) since 1948 and became a founding member of the World Trade Organization (WTO) in 1995 after the Uruguay Round negotiations. As part of this process, the post-apartheid government rapidly liberalised the economy and reduced tariffs to integrate South Africa into the global trading system.

Despite these reforms, the government continued to face significant economic challenges, including slow economic growth, high unemployment, and the declining contribution of manufacturing to the economy. Various economic and industrial policy frameworks were introduced to address these challenges and promote economic restructuring.

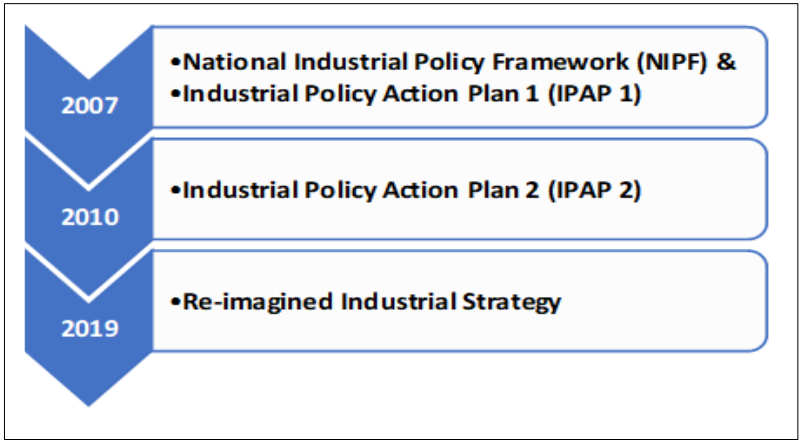
Figure 1: The evolution of economic policy in a post-apartheid South Africa



Source: ***the dtic***

From 2007 onwards, South Africa adopted more proactive industrial policies through the Industrial Policy Action Plans (IPAPs). These policies aimed to support strategic sectors, strengthen industrial value chains, and promote economic diversification. They were supported by broader frameworks such as the NDP and large-scale infrastructure investment programmes. These initiatives helped strengthen industries such as automotive manufacturing, mining, food processing, renewable energy, and pharmaceuticals. However, structural constraints such as infrastructure limitations, skills shortages, and economic concentration continued to limit growth.

Figure 2: The evolution of industrial policy in a post-apartheid South Africa



Source: ***the dtic***

In 2019, the government introduced the Reimagined Industrial Strategy, which shifted the focus of industrial policy from individual firm incentives to broader systemic coordination across government, business, and labour.

A key component of this strategy is the development of sectoral Masterplans, which are collaborative, action-oriented plans designed to strengthen productivity, increase local content, regain domestic market share, expand export capacity, and create employment. Currently, 17 Masterplans are being implemented, with **the dtic** responsible for nine. These include the Retail-Clothing, Textiles, Footwear, and Leather Masterplan; Sugar Masterplan; Furniture Masterplan; Poultry Masterplan; Automotive Masterplan; Steel and Metal Fabrication Masterplan; Medical Devices Masterplan; Cannabis and Hemp Masterplan; and the Global Business Services Masterplan.

Overall, more than three decades after the end of apartheid, many structural features of the apartheid economy remain persistent. While industrial policy has evolved from trade liberalisation in the 1990s to more coordinated industrial strategies in recent years, meaningful economic transformation remains a challenge. Achieving inclusive and sustainable growth will require stronger institutional coordination, targeted support for key sectors, and structural reforms aimed at reducing economic concentration and expanding participation across society.

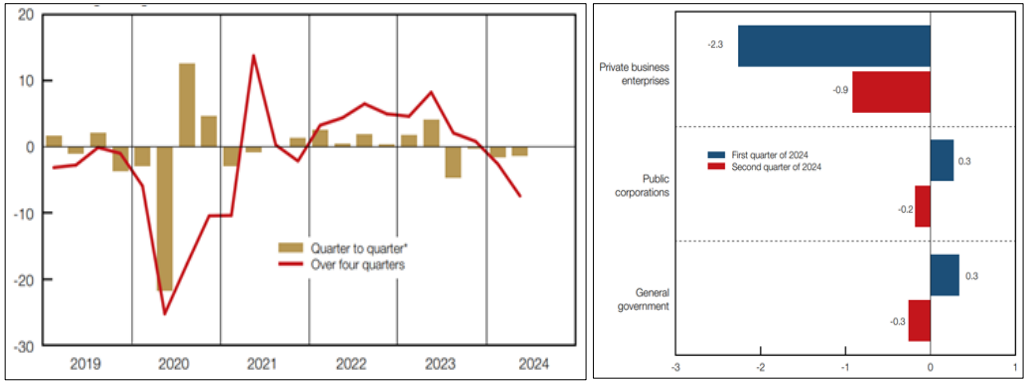
ANNEXURE 3: ADDRESSING THE DECLINING CAPITAL INVESTMENTS IN THE PRODUCTIVE SECTORS OF THE ECONOMY

South Africa's gross fixed capital formation (GFCF) stood at 15.15% of GDP in 2023, covering investment in land, plant, machinery, and equipment, while real fixed investment by private businesses declined by 1.3% in Q2 2024. Since the global financial crisis, slower growth in capital spending has coincided with structural shifts in investment patterns, particularly a sharp decline in manufacturing's contribution to GFCF from 20.1% in 2000-2009 to 14% in 2018-2024, placing pressure on the country's industrialisation agenda and affecting broader economic sectors.

In contrast, investment by public corporations has begun to recover after the COVID-19 shock, playing a catalytic role in infrastructure development; for example, 250 fully funded infrastructure projects worth R231 billion are planned for 2025/26, which are expected to stimulate construction activity and increase demand for key inputs such as cement and steel. To maximise these benefits, government policy is focusing on strengthening localisation through procurement reforms, supporting domestic producers via public infrastructure spending, enforcing fair-trade measures against cheap or illegal imports, and expanding trade agreements to diversify export markets, particularly as industries like cement and steel face oversupply and competition from substandard imports.

Figure 1: Gross Fixed Capital Formation

% change in real GFCF (2019-2024) **Contributions to GFCF (2024)**

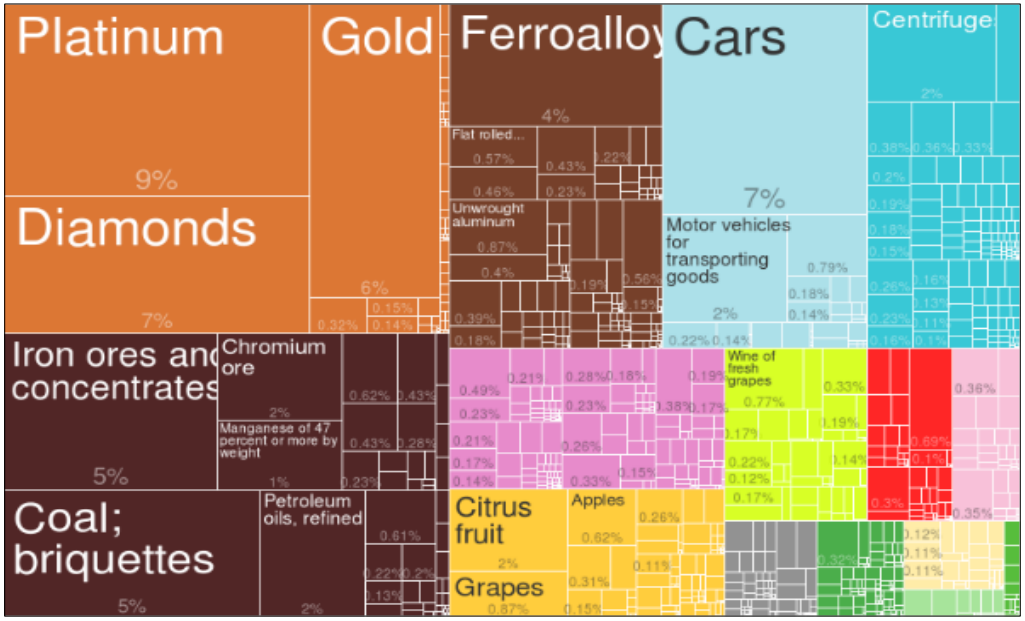


Source: Reserve Bank; Stats SA

ANNEXURE 4: DIVERSIFYING THE COMPOSITION OF SOUTH AFRICAN EXPORTS

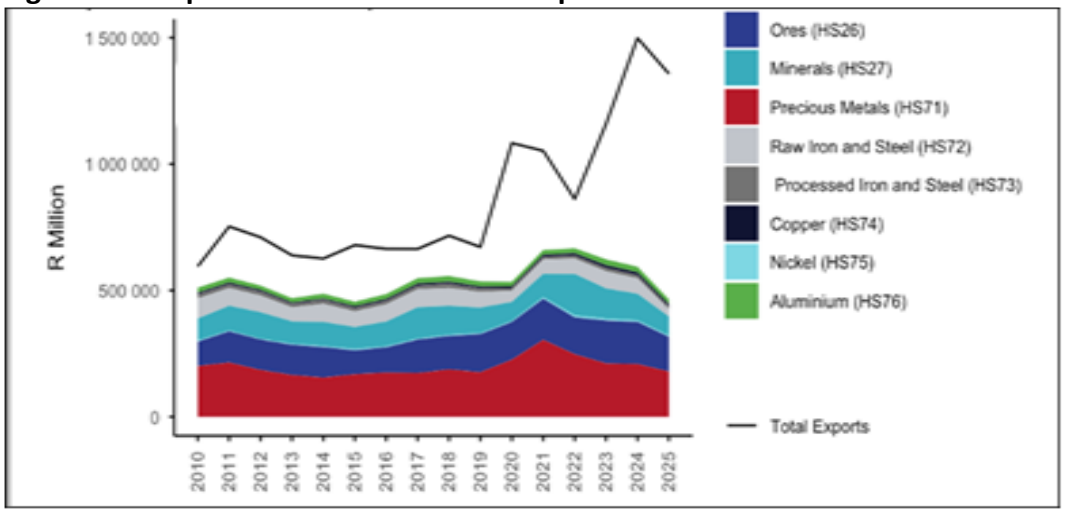
The composition of South Africa's export basket is heavily dominated by natural resources and minerals, making the country a resource-based economy, prone to commodity demand and price fluctuations.

Figure 1: Composition of South Africa's exports



Source: Stats SA; SARS; Codera Analytics

Figure 2: Composition of South Africa's exports



Main export destinations are China, particularly for minerals, the United States, Germany, India, and regional African countries, which are absorbing most of South Africa's manufactured export products.

ANNEXURE 5: TRADE-OFFS IN INDUSTRIAL POLICY DEVELOPMENT

Industrial policy necessarily entails trade-offs because it is ultimately about making choices under uncertainty, coordinating investments over time, and sequencing means and ends across interconnected ecosystems rather than treating sectors in isolation. In this context, the relevant trade-offs are both static (near-term costs, prices, and fiscal implications) and dynamic (capability formation, technology upgrading, and long-run competitiveness), and they are amplified by intertemporal coordination problems, scale thresholds, and non-linear technological change.

Trade-offs related to major economic risks must be addressed in South Africa, especially those brought about by the global energy transition, regulations, technology, evolving export markets, and other sectoral shifts. This entails weighing long-term advantages like sustainable growth, competitiveness, and technological innovation against costs, investment requirements, and possible job disruptions, and incorporating such considerations into industrial strategy. In implementing industrial policy, governments use fiscal tools (i.e. a mixture of revenue-side (tax-related) and expenditure-side tools (budget transfers)) to support industry development. Fiscal instruments reduce the cost of investments to encourage capital flows into targeted sectors. The Section 12I Tax Allowance is used to support large-scale manufacturing investments (greenfield/brownfield) with allowances up to R900 million for qualifying projects, plus training support. It must be reinstituted. Other investment allowances include credits on accelerated depreciation of machinery/ equipment/R&D; tax holidays or reduced Corporate Income Tax rates for new/greenfield projects or expansions in existing brownfield investments as well as sector-specific incentives for manufacturing, exports, or priority industries (e.g. steel, autos). Incentives should be conditional on meeting transparent and measurable outcomes such as jobs, exports, supplier and enterprise development, and so forth, which must be linked to sunset clauses.

The cost of not engaging with these trade-offs is now material. First, failing to support the transition exposes South Africa to a high-probability erosion of its manufactured export base as global demand, standards, and procurement rules shift toward low-carbon products and processes. The consequence is not only foregone participation in fast-growing markets for new goods (e.g., green industrial inputs and associated value chains), but a potential loss of existing market access where carbon-related compliance becomes a binding condition.

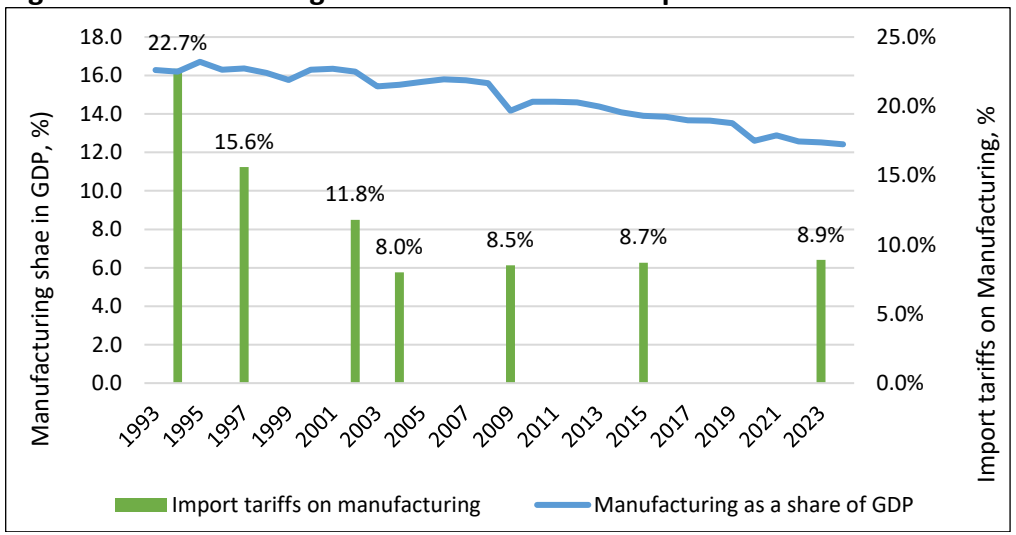
Second, failing to actively support competitiveness through capability upgrading increases the risk of a dual loss: internationally, through declining export competitiveness; and domestically, through rising import penetration as firms are unable to meet cost, quality, and delivery benchmarks. In practice, this is a dynamic competitiveness problem: without coordinated support for technological, organisational and human capabilities, firms do not invest and learning does not accumulate, especially where uncertainty and coordination failures are high.

Third, the cost of not diversifying is an inability to create jobs at scale. In a path-dependent economy, “no decision is a decision”: absent deliberate market shaping, demand creation and credible “rules of the game”, investment will continue to gravitate toward established activities, reinforcing concentration and limiting labour-absorbing structural change. The policy response is therefore to manage trade-offs explicitly – using demand aggregation, public procurement and other market-shaping tools – while embedding reciprocity and enforceable conditionalities to ensure that public support translates into investment, upgrading and measurable outcomes.

ANNEXURE 6: THE IMPACT OF THE WTO AND ASSOCIATED TARIFFS ON INDUSTRIAL POLICY DEVELOPMENT IN SOUTH AFRICA

Since joining the WTO in 1995, South Africa's industrial policy has been heavily influenced by trade liberalisation, which curtailed traditional protectionist tools and limited subsidies and local content requirements, leading to rapid tariff reductions from 22.7% to 8.9% and increased exposure to international competition. This shift, combined with declining government support, restructuring of state assets, and reduced industrial incentives, contributed to rising cost pressures, uncompetitive domestic industries, deindustrialisation, and higher unemployment, while the country's manufacturing sector's contribution to economic growth declined. Concurrently, the budget of **the dtic** fell sharply over the past decade, dropping 40% in constant terms from 2013/14 to 2025/26 and reducing funding for incentives from R7.5 billion in 2019/20 to R5 billion in 2025/26, further constraining industrial development.

Figure 1: Manufacturing as a share of GDP and import tariffs



Source: WTO Trade Policy Review

The rapid reduction of tariffs, associated with declining government support in subsidies, and the restructuring and sale of state assets led to unintended economic consequences in the form of rising cost pressures, uncompetitive domestic industries, de-industrialisation, and a rising unemployment rate.

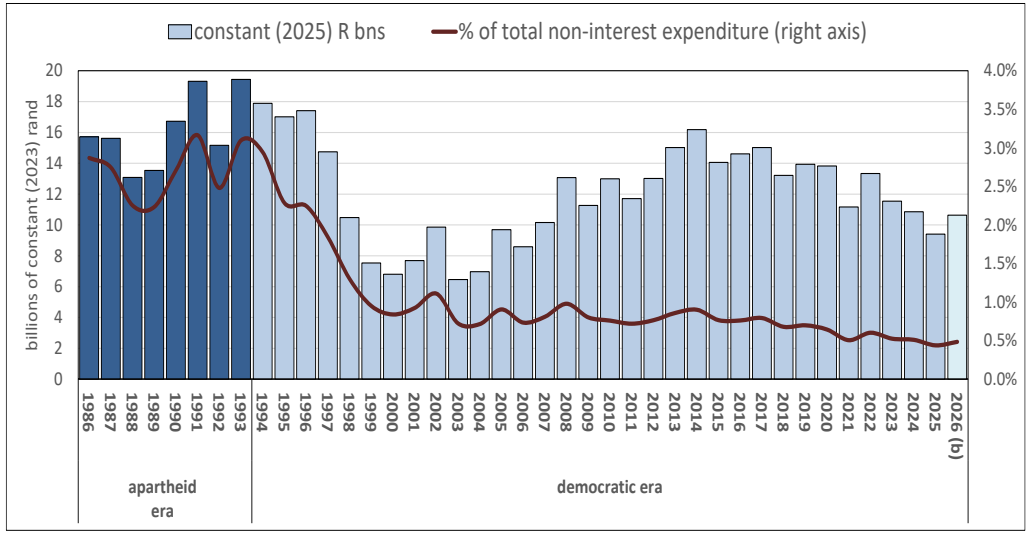
The expectation from the rapid liberalisation was that openness and international competition would drive efficiency, export growth, and industrial upgrading. However, liberalisation preceded a coherent industrial policy framework, which only emerged from 2007 through the Industrial Policy Action Plans. Evidence indicates that trade opening alone did not deliver broad-based industrial upgrading or diversification: outcomes were uneven, with stronger performance where sustained, targeted support existed (notably motor vehicles), and weaker outcomes in sectors exposed to competition without complementary capability-building measures.

The experience highlights that industrial outcomes were shaped by domestic value-chain constraints, including high upstream input costs, concentrated market structures, and weak institutional coordination. Fragmented policy tools and limited state capacity further constrained implementation and impact. The key lesson is that trade policy must be sequenced and integrated with industrial policy: liberalisation should be packaged with targeted measures for skills, technology, supplier development and finance; tariff policy should be applied through a value-chain lens to support downstream competitiveness and employment; and effective outcomes require strong whole-of-government coordination, clear accountability and enforceable commitments.

Linked to the rapid decline in tariffs and trade liberalisation, Figure 2 shows that total budget allocated to **the dtic** declined over the past decade. In constant Rand terms (deflated using the consumer price index), **the dtic's** budget dropped by 40% from 2013/4 to 2025/6. As a result, it fell from 0.9% in total government spending to 0.4%. In constant 2025 Rand, funding for incentives, through **the**

dtic, shrank from R7.5 billion in 2019/20 to R5 billion in 2025/6, which is a 33% decline.

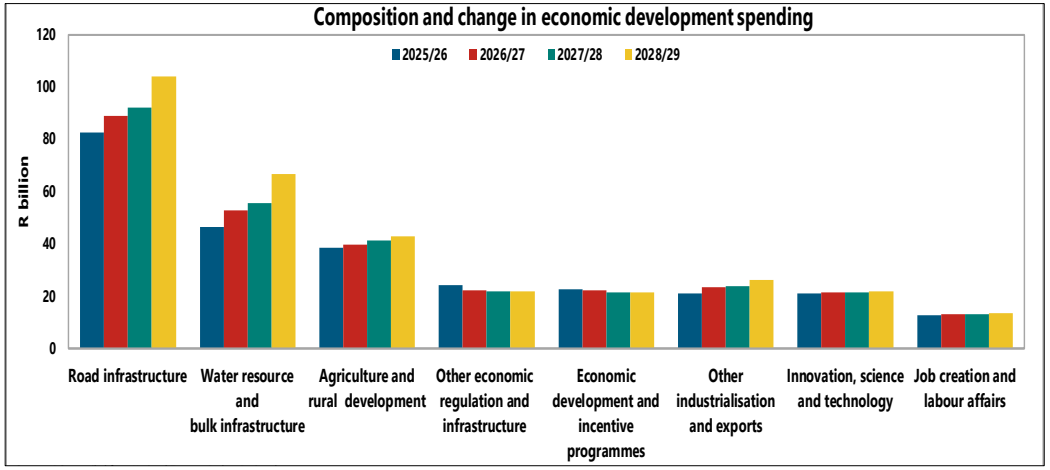
Figure 2: the dtic's budget and share in total government spending



Source: Calculated from the National Treasury budget database

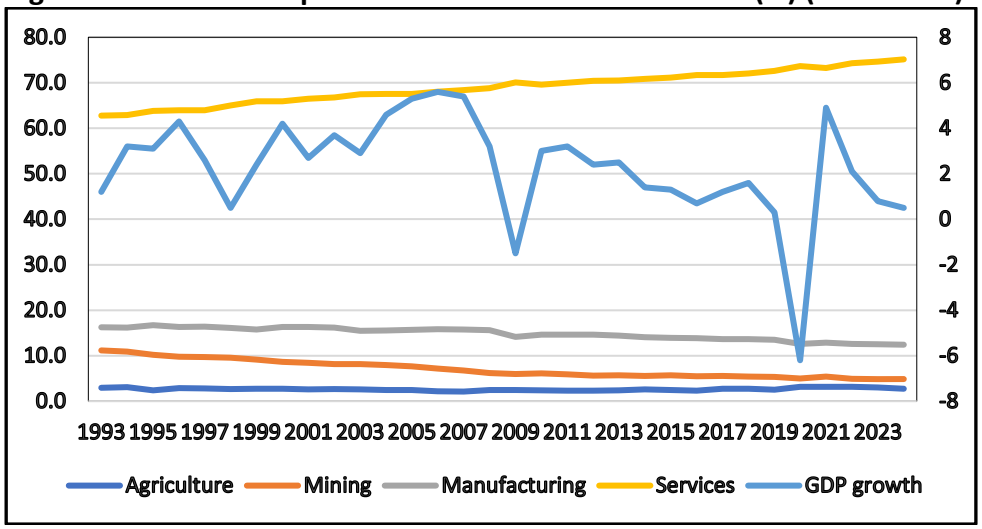
South Africa's fiscal policy must balance poverty alleviation with industrial growth by prioritising pro-poor, labour-intensive, and export-oriented investments alongside skills development to generate employment and reduce poverty, with multi-year budget allocations enhancing investor confidence and industrial policy credibility. The 2026 medium-term expenditure framework (MTEF) continues to prioritise the social sector education, health, and social services, which account for about 60% of non-interest spending, reflecting long-standing commitments to income redistribution. However, trade liberalisation, tariff reductions, declining industrial budgets, rising administered prices, and unreliable electricity and water have shifted the economy's structure, reducing the contribution of productive and tradable sectors while increasing the share of services.

Figure 3: 2026/27 MTEF consolidated government expenditure (R billion)



Source: IDC, National Treasury budget database

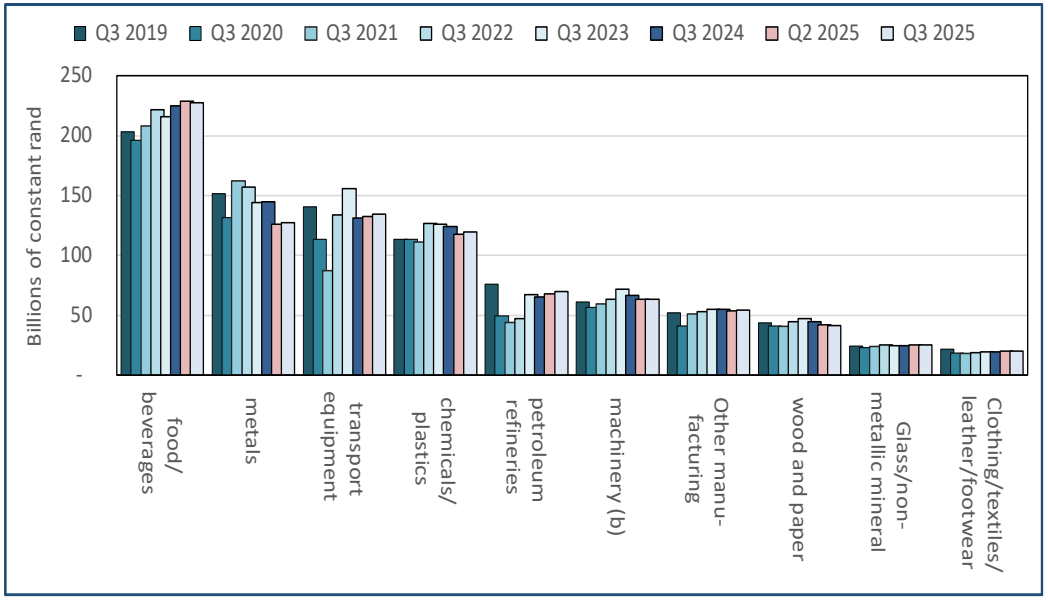
Figure 4: Sectoral composition of the South African GDP (%) (1993-2024)



Source: Quantec database

The decline in manufacturing's share of GDP in South Africa has reduced production capacity, employment, and competitiveness, compounded by low economic growth, weak local demand, ageing infrastructure, and sub-optimal energy, logistics, and transport services, contributing to de-industrialisation and higher poverty, inequality, and unemployment. While similar trends have occurred in developed economies where manufacturing fell from 28% of GDP in 1970 to 13.3% in 2022, these countries retain more advanced productive capabilities. Despite these challenges, manufacturing remains vital for South Africa, contributing around 13% of GDP, employing 1.6 million people, and supporting industrialisation, exports, high-income jobs, research, and technological innovation, with key sectors including food and beverages and steel and metal products.

Figure 5: Manufacturing sales in South Africa (Q3 2019 - Q3 2025)



Source: Stats SA

ANNEXURE 7: COUNTRY COMPARATIVE ANALYSIS

Table 1: Policy Measures

Country	Policy measures in implementing industrial policy
China	• Directed industrial policy, which is targeted at infant industry protection and export promotion. • Introduced competitive dynamics among regions (e.g. sectoral and regional clusters policies). • The government helped overcome market imperfection/failure through targeted industrial policy.
Germany	• The country uses a multi-layered industrial policy model combining top-down and bottom-up approaches. • An industrialised country with diversified production capabilities, aimed at the export market. • Supporting regional value chains in Europe.
United States	• The country uses a multi-layered industrial policy model combining top-down and bottom-up approaches. • At the federal level, the United States uses accelerated subsidies to support targeted industries like defence, autos, and technological development. • Direct government intervention to boost strategic sectors like semiconductors, AI, and clean energy through subsidies, tax incentives, trade protection measures, Buy America Act, and other legislative measures.
South Korea	• Industrial policy is based on strict performance indicators. • Focused on export-oriented industrialisation, heavy and chemical industries (steel, shipbuilding, chemicals, machinery), and building large conglomerates Samsung, LG, Hyundai, Kia and others. • The government provided subsidised loans, tax incentives, protection from foreign competition through import bans and export targets.
India	• Industrial policy emphasises initiatives like self-reliant India, backed by production-linked incentives for manufacturing, tariffs, and domestic content requirements. • Financial incentives to manufacturers based on measurable outcomes, such as sales of products manufactured in India.