Quarterly Update: Q1 2018

MANUFACTURING CIRCLE

EMPLOY . PRODUCE . PROSPER

Dear Stakeholders of the Manufacturing Circle

Creating additional demand for local goods is the key to a virtuous cycle that promotes economic growth

South Africa is at a crossroads. After more than two decades of democracy and the failure of economic policy to lift the majority of our people out of poverty, something radical needs to be done to create jobs and grow the economy. Current levels of unemployment are not merely unsustainable: they create fertile ground for populist rethoric and thus threaten to unravel the social fabric woven by our constitutional compact. As long as our economy excludes large sections of our population from decent work, we will not be able to address or to realise the elusive vision of inclusive growth. The number one priority for South Africa is to create jobs through economic growth.

Manufacturing, with its strong multiplier effects on value addition, job creation, export earnings and revenue generation, is the one sector in the economy that has the potential to create these jobs. But its positive contribution is under threat and declining. Since the 2008/9 financial crisis when almost 400 000 South African manufacturing jobs were lost, the industry has not been able to recover to those levels and we currently have 300 000 fewer manufacturing jobs than in 2008.

SA has fallen into a vicious cycle of de-industrialisation and spiralling unemployment rates, even when the balance sheet reflects the capacity to invest. When underutilised capacity exists, and demand is anaemic, business will not invest, not because of an "investment strike", but because new investment will not deliver an adequate return on capital. To escape the unemployment trap, government must actively intervene for there to be any hope of establishing a virtuous cycle of inclusive growth. SA is facing tough competition, contending with other nations on the continent in a way that it never has before, with lucrative and attractive investment incentives offered by countries with comparable risk profiles and higher growth rates. SA can no longer rely on being the default entry point for foreign investment into the African continent. Now, more than ever, there is a unique opportunity to secure significant economic transformation by creating demand for goods manufactured in South Africa..

There are three key demand-side interventions required. Firstly, increasing aggregate domestic demand. This includes getting all South African businesses and government institutions to commit to tangible support for Proudly South Africa, increasing the procurement of locally manufactured goods, provided that cost and quality are competitive. Incremental demand growth is only part of the solution: we need catalytic projects to unlock growth, using our industrial development institutions to drive demand for locally manufactured goods. If SA could underwrite a \$6 billion project to build a new 1700 km gas pipeline in Mozambique from the gas-rich Rovuma basin to Temane, demand would be created for an estimated 1,1 million tonnes of pipeline manufactured in this country. Not only would this provide an extraordinary stimulus for the distressed primary steel industry, it would also utilise capacity in the secondary steel industry for the manufacture of spiral-weld pipe, valves and ancillary products. In addition, studies have indicated that the introduction of additional natural gas into SA would create up to 350 000 jobs.

The second is that active pursuit of opportunities for import substitution, within WTO rules, should characterise our trade policy with explicit support for South African industry. We don't advocate autarky, and we are supporters of global trade, but the playing field has to be level when it comes to competing for trade. Government and business should promote more collaboration between producers across value chains on a vertical basis (ie from upstream to downstream in a single value chain) to enhance in-country value addition, particularly in the agro-processing, platinum, manganese and steel value chains.

Thirdly, the country can learn from India and China in enhancing our export competitiveness by implementing similar policies and incentives for manufacturing. South Africa could enhance exports by reducing port tariffs from the current level of 82% higher than the global average, improving port efficiency and re-instating rail subsidies for export containers. Administered pricing often holds back our competitiveness, and greater regulatory assertiveness in this regard, from rail tariffs to natural gas prices, would enhance our competitiveness as a country.

Given significant underutilised capacity, the first effect of the interventions will be to slow down the rate of job losses and de-industrialisation, before real growth is observed, and new jobs are created. In this ramp-up period, little new investment can be expected. It is only new demand that will create new factories and new jobs, and it is only through the more competitive supply of input costs, better skills and more coordinated policy interventions that manufacturing in turn can be competitive.

South Africa has new leadership, a renewed sense of purpose, strong companies, many committed people and solid infrastructure, all of which if adequately enabled can drive the growth, employment and equality we so desperately need.

– André de Ruyter, Chairperson

Q1 Overview

Following the Map to a Million launch in November last year, we have prioritised five areas:

- Skills
- Trade Policy
- Fiscal Policy
- Local Procurement
- Infrastructure

Where possible we are collaborating with, and supporting, existing initiatives run by a variety of public and private institutions, to identify and implement tangible deliverables during the course of 2018. In so doing, we aim to achieve effective co-ordination as evidenced by the engagements conducted in Q1 2018.

- Member Meetings
- MCIT Launches
- Manufacturing Indabas
- Government Engagements
- EXCO Meetings
- Industry Engagements

Q1 January

18 January
Deloitte Africa in 2018 Outlook Conference:
The Quest for Inclusive Growth Participation in panel discussion:
"Can Africa Reindustrialise?"

25 January
National Science and Technology Forum Session
Participation in technical input session on the draft 2018 White Paper on Science, Technology and Innovation

25 January
EXCO

26 January
National Treasury
EXCO meeting with DDG and CD for Economic Policy in the national Treasury on the importance of fiscal support for the manufacturing sector, in preparation for the 2018 Budget Speech

31 January
The dti: International Trade and Economic Development Division (ITED)
Meeting with ITED DDG, Ms Xolelwa Mlumbi-Peter, to discuss increasing the effectiveness of industry input during trade tariff negotiations

Q1 February

16 February
Gauteng Department of Economic Development: Manufacturing Seminar
Delivery of presentation of the state of the Gauteng manufacturing industry

28 February
Standing Committee and Select Committee on Finance
Delivery of presentation in Parliament on the Fiscal Framework and Revenue Proposals that were tabled together with the 2018/19 Budget on 21 February 2018

Q1 March

6 March
Vaal Triangle Rejuvenation Project
CEO's Workshop

12 March
Manufacturing Circle Investment Tracker Q4 2018: "Manufacturing Investment on the Rise"

15 March
Participation in Skills Focus Group in support of the National Business Initiative (NBI) project to enhance education, training and skills outcomes in the manufacturing sector; commissioned by the Department of Planning, Monitoring and Evaluation (DPME)

15 March
Proudly South African Buy Local Expo
Panel Participation

15 March
EXCO

29 March
CSIR Industrial Development Advisory Panel
Participation in Panel Advisory Meeting to introduce and review Project Synapse