

BRIEFING ON THE SONA & BUDGET WITH RESPECT TO the dti's MANDATE

Minister of Trade & Industry

06 March 2018

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Trade Report

Delegation

- ❑ Minister of Trade & Industry, Dr Rob Davies, MP
- ❑ Deputy Minister, Mr Bulelani Magwanishe
- ❑ Director-General, Mr Lionel October

Introduction – Key themes of the SONA and Budget speech 2018

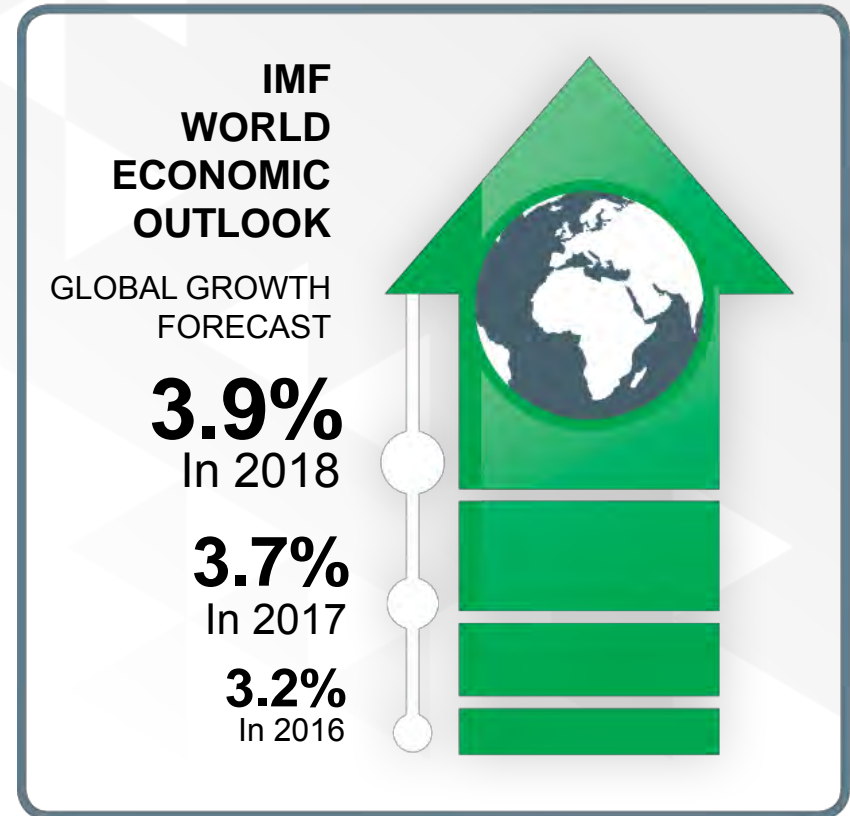
- ❑ Consensus-building to achieve ‘inclusive growth’
- ❑ Priority sectors – Manufacturing, Mining , Agriculture & Tourism
- ❑ Priority outcomes – Jobs, Small Business (SMMEs), Youth, Women
- ❑ Priority interventions –
 - Partnerships and strategic use of incentives;
 - Investment Conference;
 - Special Economic Zones (SEZs) & Industrial Hubs;
 - Industrial Policy Action Plan (IPAP) – not for discussion as the IPAP will be presented to the PC as part of a dedicated session ; and
 - Digital Industrial Revolution Commission.
- ❑ Trade Policy

Introduction – Key themes of the SONA and Budget speeches 2018

- ❑ We welcome the commitments made by the President to advance:
 - Black Industrialists programme
 - SEZs and Industrial Hubs as important instruments for industrialisation;
 - Designation of sectors for local procurement;
 - Boosting investor confidence and;
 - Regional trade initiatives.
- ❑ These are the areas of work where the department will sharpen its focus.
- ❑ In very difficult fiscal circumstances, the Budget provides a substantial allocation for Government to deepen industrialisation to revive the economy and create jobs.

Global Economic Context

- Global economic growth has been revised upwards by 0.2 percentage points to reach 3.9% in 2018 and 2019.



Source: IMF, *World Economic Outlook*, January 2018.

Global Economic Context Cont.....

- ❑ The pickup in growth has been broad-based, with notable upside surprises in Europe and Asia.
- ❑ Key Emerging Markets and Developing Economies (EMDEs) posted stronger than expected Q3 growth.
- ❑ Growth in EMDEs is expected to remain resilient, reaching 4.9% and 5.0% in 2018 and 2019.
- ❑ Growth in the Euro Area is projected to slow to 2.2% and 2.0% in 2018 and 2019.



**GLOBAL GDP GROWTH,
WITH NOTABLE UPSIDE
SURPRISES IN EUROPE
AND ASIA**

Global Economic Context Cont....

- ❑ Sub-Saharan Africa is projected to grow by 3.3% in 2018 and 3.5% in 2019.
- ❑ Growth prospects for South Africa (SA) are improving rapidly and National Treasury has raised its forecast to 1.5%, 1.8% and 2.1% for 2018, 2019 and 2020 (National Treasury, 2018 Budget Speech).

Risks to the global growth forecast appear broadly balanced in the near term, but remain skewed to the downside over the medium-term. One notable threat to growth is a tightening of global monetary policies in response to the strengthening global economic recovery.

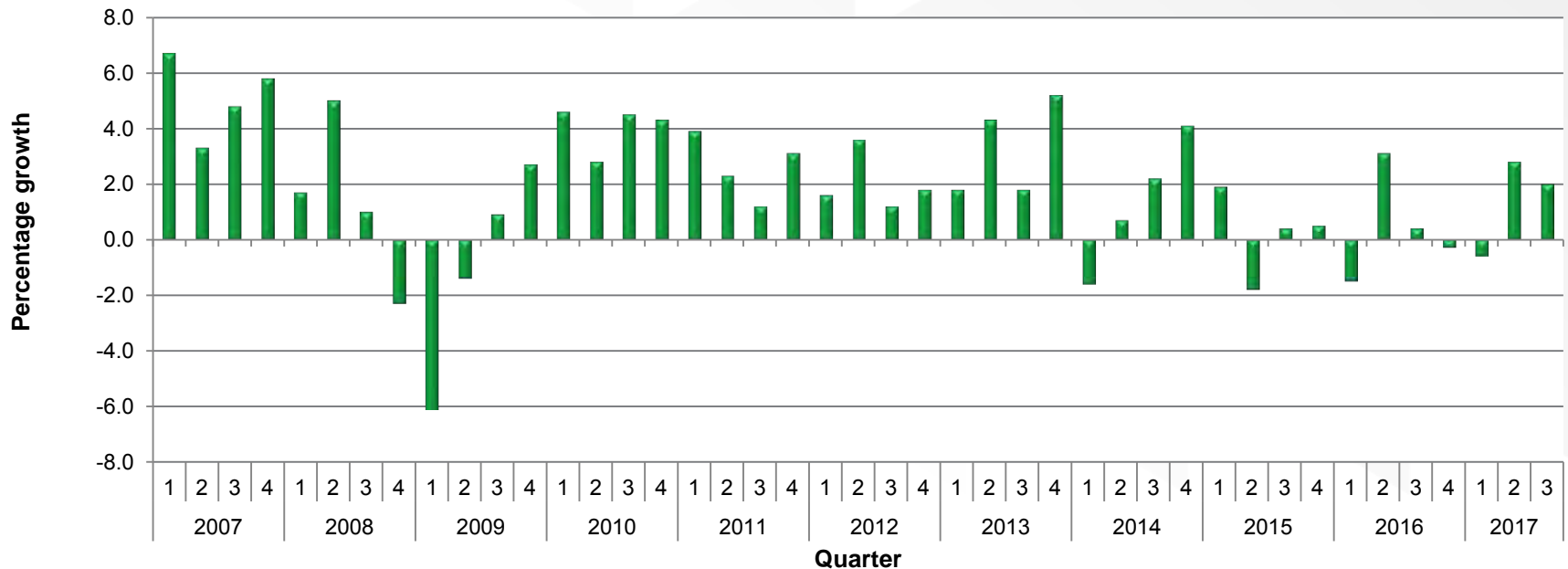


SUB-SAHARAN AFRICA IS PROJECTED TO GROW BY 3.3% IN 2018

Domestic GDP Maintains Growth Momentum

- Economic conditions improved gradually in Q2 & Q3 of 2017 & output expanded by 2% in Q3 of 2017 compared to 2.8 % in Q2 2017.

GDP at Market Prices (Seasonally Adjusted Annualised Percentage Change At Constant 2010 Prices)



Source: StatsSA

Domestic economy maintains growth momentum

- ❑ The largest contributor to GDP growth in Q3 of 2017 was the agriculture, forestry and fishing sector, which grew by 44.2% compared to 33.6% in Q2 2017.
- ❑ Mining and quarrying increased by 6.6% in Q3 compared to 3.9% in Q2 2017.
- ❑ Manufacturing increased by 4.3% in Q3 2017 compared to 1.5% in Q2 2017.

We expect that with good retail sales in Q4 2017, GDP growth may surprise on the upside in Q4 2017.



**THE AGRICULTURE,
FORESTRY AND FISHING
INDUSTRY WAS THE
LARGEST CONTRIBUTOR TO
GDP GROWTH IN Q3 OF 2017**

Domestic Economic Context

- ❑ Although the outlook has improved substantially, business confidence remains very low at 34 index points in Q4 2017.
- ❑ However, sentiment is improving rapidly as a result of both SONA and the Budget.

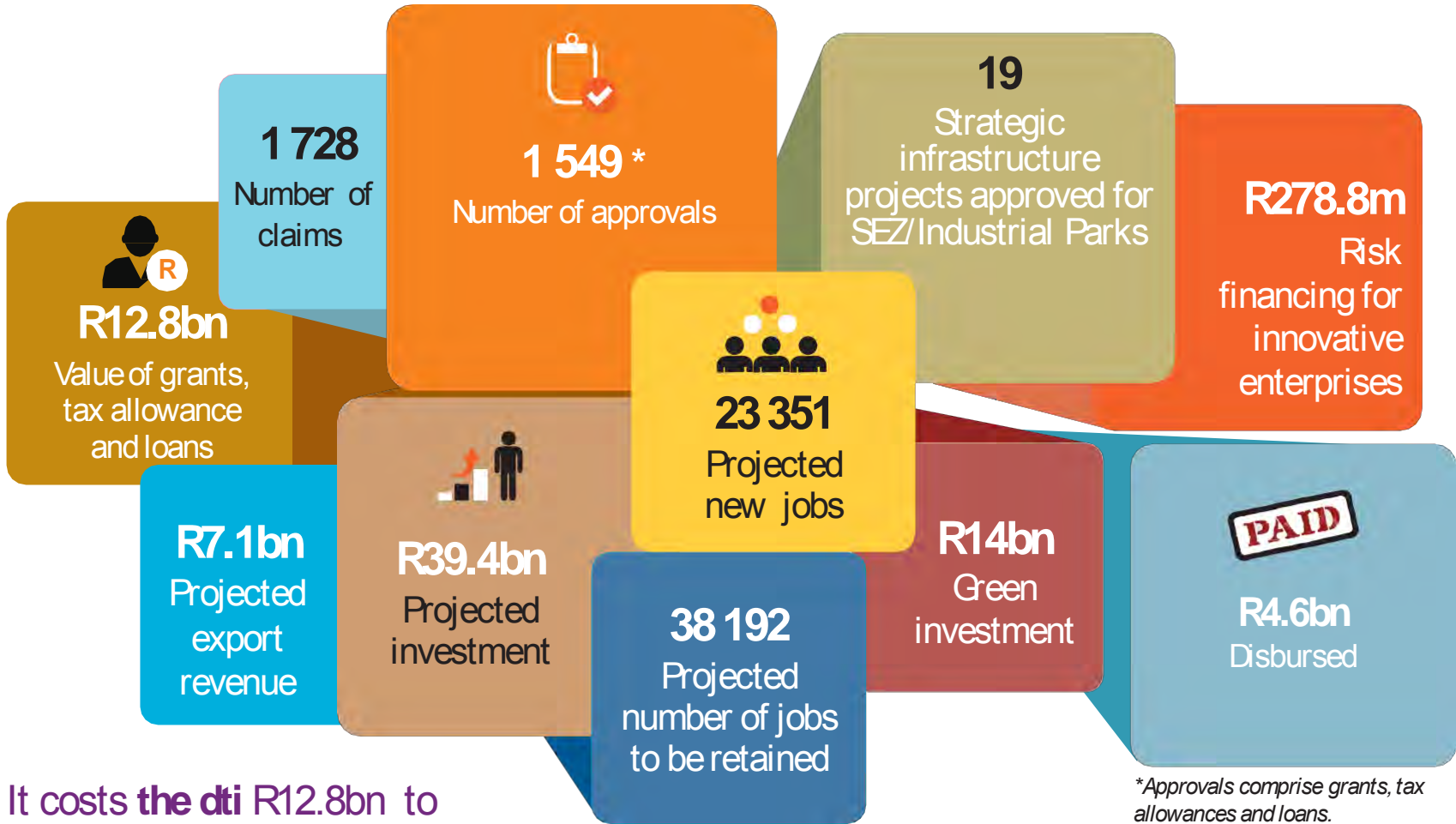
Priority interventions – Partnerships & strategic use of incentives

- ❑ We welcome the President's emphasis on developing consensus with social partners and developing partnerships to revive growth and encourage inclusive growth.
- ❑ **the dti** is already engaged in important partnerships with the private-sector through the Manufacturing Circle's Map to a Million project which seeks to create a million jobs in the medium-term.
- ❑ **the dti** is also partnering with the private-sector through the Youth Employment Service (YES) which seeks to create 1 million youth internships over the next 3 years.

Priority interventions – Partnerships & strategic use of incentives

- ❑ We have demonstrated what can be done through the judicious use of incentives to encourage investment.
- ❑ The R18.8 billion MTEF Budget allocation will allow the Department to continue providing financial support to the private-sector with a strengthened focus on labour-intensive sectors which can create jobs for the youth.

SNAPSHOT OF INCENTIVE PERFORMANCE 2016/17



It costs **the dti** R12.8bn to generate **R39.4bn** in investment and **R7.1bn** in export revenue.

Through incentives, **the dti** supports the creation and retention of jobs.

**Approvals comprise grants, tax allowances and loans.*

On average **the dti** processes 4 applications and 5 claims per day.

Black Industrialist

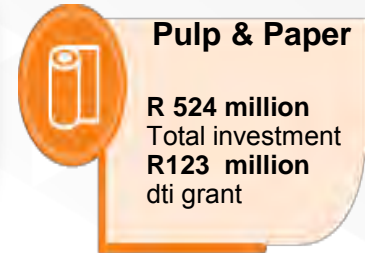
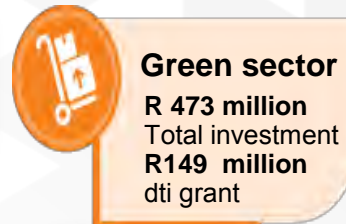
PROGRESS TO DATE: 79 PROJECTS APPROVED

TOTAL INVESTMENT

INVESTMENT PER SECTOR

R6.9b

invested in various sectors through the BIS grant of R1.9bn



Black Industrialist Cont.....

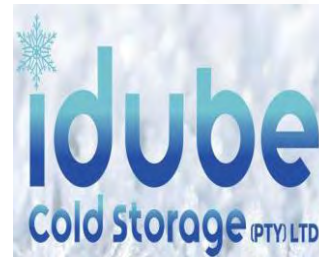
NEWS



DOMESTIC

Multi-million rand black industrialist firm Microfinish Automotive launched

Home > News > Domestic
07:59 (GMT+2) Sat, 08 Jul 2017



AUTOMOTIVE INVESTMENT SCHEME

FAST FACTS

88

Projects approved
(R3.6bn)

R12.4bn

Projected investment

34 788

Baseline jobs

2 370

Projected new jobs

R2bn

Disbursed

AIS APPROVALS

EASTERN CAPE	GAUTENG	KWAZUL-NATAL	NORTH WEST	WESTERN CAPE
2015/16 14 approvals (R241m) Baseline jobs: 289 ¹ Projected investment: R832m	2015/16 12 approvals (R291m) Baseline jobs: 123 Projected investment: R1.3bn	2015/16 8 approvals (R404m) Baseline jobs: 199 Projected investment: R1.3bn	2015/16 1 approval (R41m) Baseline jobs: 0 Projected investment: R164m	2015/16 0 approvals Baseline jobs: 0 Projected investment: R0
2016/17 27 approvals (R273.3m) Baseline jobs: 9 699 Projected new jobs: 339 Projected investment: R973m	2016/17 24 approvals (R1bn) Baseline jobs: 9 145 Projected new jobs: 763 Projected investment: R3.6bn	2016/17 33 approvals (R2.2bn) Baseline jobs: 14 605 Projected new jobs: 1 183 Projected investment: R7.7bn	2016/17 1 approval (R13.7m) Baseline jobs: 495 Projected new jobs: 2 Projected investment: R45.8m	2016/17 3 approvals (R36.6m) Baseline jobs: 844 Projected new jobs: 83 Projected investment: R113.4m

¹ Capturing data for projected jobs only commenced in 2016/17.

AIS PROJECTED INVESTMENTS ARE ON AN UPWARD TRAJECTORY



12I TAX ALLOWANCE INCENTIVE

FAST FACTS



12I encourages industrial investment.

EASTERN CAPE	GAUTENG	KWAZULU-NATAL	FREE STATE	WESTERN CAPE	LIMPOPO
2015/16 2 approvals R413.9m investment allowance R14.4m training allowance R788.8m projected investment 363 projected jobs	2015/16 9 approvals R2.3bn investment allowance R16.2m training allowance R5bn projected investment 415 projected jobs	2015/16 11 approvals R1.5bn investment allowance R43.8m training allowance R3.4bn projected investment 1 196 projected jobs	2015/16 2 approvals R282.3m investment allowance R5.5m training allowance R769.4m projected investment 105 projected jobs	2015/16 11 approvals R1bn investment allowance R58.7m training allowance R2.5bn projected investment 4 407 projected jobs	2015/16 0 approvals
2016/17 2 approvals R160.2m investment allowance R4.4m training allowance R258.2m projected investment 110 projected jobs	2016/17 11 approvals R1.1bn investment allowance R33.1m training allowance R2.9bn projected investment 455 projected jobs	2016/17 7 approvals R1.5bn investment allowance R28m training allowance R7bn projected investment 380 projected jobs	2016/17 1 approval R321.3m investment allowance R1.6m training allowance R953m projected investment 0 projected jobs	2016/17 3 approvals R175.9m investment allowance R9.1m training allowance R475.3m projected investment 9 projected jobs	2016/17 1 approval R550m investment allowance R6.9m training allowance R2.7bn projected investment 194 projected jobs


MANUFACTURING INVESTMENT PROGRAMME

**FAST
FACTS**



26 030
New jobs supported

508
Number of claims paid



R400.8m
Disbursed

MIP is achieving its objective of job creation.

MIP supports jobs in key manufacturing sub-sectors

AGRO-PROCESSING	METALS	TEXTILES	CHEMICALS	ELECTRO-TECHNICAL	WOOD AND PAPER	OTHER
2015/16 237 claims R115.9m 8 949 jobs supported	2015/16 201 claims R179.3m 7 765 jobs supported	2015/16 27 claims R10.1m 1 681 jobs supported	2015/16 210 claims R198.6m 6 128 jobs supported	2015/16 7 claims R759 000 127 jobs supported	2015/16 118 claims R34.2m 3 467 jobs supported	2015/16 36 claims R58.1m 3 242 jobs supported
2016/17 160 claims R134.4m 8 778 jobs supported	2016/17 88 claims R60.5m 4 888 jobs supported	2016/17 17 claims R5.8m 642 jobs supported	2016/17 107 claims R130.1m 4 275 jobs supported	2016/17 1 claim R197 000 20 jobs supported	2016/17 73 claims R27.3m 4 704 jobs supported	2016/17 62 claims R42.3m 2 723 jobs supported



Located in KwaZulu-Natal producing energy-efficient freezers and fridges.



R12.5m
CLAIMS PAID



857
JOBS SUPPORTED

PROVINCIAL SPREAD OF APPROVALS WITH PROJECTED NEW JOBS AND INVESTMENT

NORTHWEST

2015/16	2016/17
26 approvals (R178.7m)	35 approvals (R106m)
R403.4m projected investment	R324.6m projected investment
577 projected new jobs	88 projected new jobs

LIMPOPO

2015/16	2016/17
69 approvals (R17.8m)	32 approvals (R660.9m)
R226.8m projected investment	R2.8bn projected investment
1 575 projected new jobs	272 projected new jobs

GAUTENG

2015/16	2016/17
807 approvals (R4.3bn)	597 approvals (R3.9bn)
R37bn projected investment	R11bn projected investment
62 860 projected new jobs	8 647 projected new jobs

NORTHERN CAPE

2015/16	2016/17
5 approvals (R9.3bn)	6 approvals (R26.7m)
R315.9m projected investment	R180.6m projected investment
1 210 projected new jobs	100 projected new jobs

MPUMALANGA

2015/16	2016/17
34 approvals (R480m)	11 approvals (R73.7m)
R943.5m projected investment	R29.6m projected investment
1 139 projected new jobs	0 projected new jobs



FREE STATE

2015/16	2016/17
13 approvals (R298.6m)	8 approvals (R402m)
R800.5m projected investment	R1.7bn projected investment
192 projected new jobs	339 projected new jobs

WESTERN CAPE

2015/16	2016/17
672 approvals (R2.1bn)	556 approvals (R1.5bn)
R9.5bn projected investment	R4.6bn projected investment
33 123 projected new jobs	8 583 projected new jobs

EASTERN CAPE

2015/16	2016/17
75 approvals (R775m)	81 approvals (R1.5bn)
R2bn projected investment	R2.9bn projected investment
5 525 projected new jobs	800 projected new jobs

KWAZULU-NATAL

2015/16	2016/17
261 approvals (R2.4bn)	223 approvals (R4.6bn)
R13.3bn projected investment	R15.8bn projected investment
15 537 projected new jobs	4 513 projected new jobs

Priority interventions – Investment Conference

- ❑ InvestSA is operationalising the One-Stop-Shop service for all investors, with the National One-Stop-Shop launched in March 2017.
- ❑ The One-Stop-Shops will be focal points of contact between investors and government, enabling coordination with and between all the relevant departments involved in regulatory, registration, permit- and licence-issuing.
- ❑ As the President announced, government will be organising an Investment Conference in the next three months, targeting both domestic and international investors.
- ❑ Invest-SA will be working very closely with key stakeholders including the Provincial One-Stop-Shops.

Priority interventions – Investment Conference

- ❑ The Investment Conference will stress the need to encourage investors from the continent to locate in SA.
- ❑ In addition, we will encourage multinationals corporations to invest their R&D facilities in SA as we seek to make SA a knowledge and innovation center.
- ❑ InvestSA Western Cape, Gauteng launched in September and November 2017



Feedback from investors: Trina Serghei from Monsson SA said “the initiative was awesome, something that was stuck for 5 months was clarified in half an hour”.

Priority interventions – Special Economic Zones (SEZs) & Industrial Hubs

- ❑ The SEZ programme is a critical instrument for accelerating industrialisation.
- ❑ More importantly, the SEZ programme is a critical tool for attracting foreign direct investment, creating decent jobs, establishing new industrial centres as well as developing and improving infrastructure.
- ❑ Government now has a total of 7 designated zones: Saldanha Bay (WC), Dube Trade Port (KZN), Coega (EC), East London (EC), Richards Bay (KZN), Maluti a Phofung (FS) and the recently added Musina (Limpopo).



Priority interventions – Special Economic Zones (SEZs) & Industrial Hubs

- ❑ The following are some of the key highlights for SEZs:
 - Coega launched the R11.5 billion BAIC automotive investment & 1,000 MW under IPP, with an investment value of R25 billion;
 - Yangtze Optics Africa Cable (Pty) Ltd - a Chinese company with local BEE partners Mustek is gearing up for big data infrastructure. The company is investing R150 million (US\$13 million) to operate a modern optical fibre cable manufacturing in SA. The facility will be situated in the Dube Trade-Port.
 - Saldanha Bay has a pipeline of 34 investments worth R14 billion;
 - OR Tambo has attracted a total of R260 million in new investment covering horticulture and metal refining; and
 - Richards Bay was awarded 2,000 MW under the Gas IPP.

Priority interventions – Special Economic Zones (SEZs) & Industrial Hubs

- ❑ The Budget allocation of R4.9 billion for industrial infrastructure projects is in line with our objectives of expanding economic opportunities focused on under-developed areas.
- ❑ The department will finalise 2 SEZs for designation namely, Atlantis (Western Cape) and Nkomazi (Mpumalanga) in the coming year.
- ❑ As the Minister of Finance noted in the Budget speech, investments in SEZs will benefit from a reduced corporate tax rate and the Employment Tax Incentive.
- ❑ The ‘package’ of support measures available to investors in SEZs is becoming comparable to that offered by our global competitors. SA still has work to do to improve the efficiency of regulatory decision-making but the investment offering is improving significantly.
- ❑ Scale-up implementation of Local Industrial Park Revitalisation and rollout ICT hubs in Townships.

Priority interventions – Digital Industrial Revolution Commission

❑ Preparing for Digital IR:

- Disruptive change through new digital technologies that will affect all production and most service activities;
- Robotics, IoT, 3D printing, AI;
- Already underway and pace accelerating;
- Will have profound effects: technologies could bring many benefits but could also reduce employment, widen inequalities, result in ‘re-shoring’;
- Likely to lower barriers to entry for small business but raise barriers to entry into employment for lower-skilled workers.

Priority interventions – Digital Industrial Revolution Commission

- ❑ Our coordinated efforts to prepare SA for Digital IR must include:
 - Addressing infrastructure issues;
 - Ensuring that our productive sectors adopt new technologies to remain competitive;
 - Supporting innovation and the emergence of technology savvy black industrial companies;
 - Addressing skills challenges – already many industrial jobs increasingly requiring post-school qualifications but continuous learning and mentorship at a premium (YES initiative);
 - Developing greater capacity to analyse our own national and developmental interests in host of proposals for new international trade rules on digitised platforms (E-commerce being just the start).

Trade Report – Global Context

- ❑ Disruptions caused by intensifying patterns of automation and digitalization.
- ❑ Increase in protectionist measures, especially in developed countries against a backdrop of rising nationalist and populist politics.
- ❑ Rise in trade disputes triggering adverse impacts and retaliatory moves along global value chains.
- ❑ Possible increase in SA imports as countries find alternative markets due to rise in protectionism – need to preserve policy space to protect productive capacity.
- ❑ Institutional risk to the WTO and its ability to resolve trade disputes – Appellate body vacancies.
- ❑ The T-FTA will form the basis for an Africa-wide FTA (CFTA).

Trade Report – African Integration

- ❑ Global context points to the importance of regional integration and the African market to support job creation and industrialization in SA.
- ❑ SA advocates a developmental integration approach in all African regional economic integration initiatives.
- ❑ This is supported by an investment-led strategy into the Continent.
- ❑ Guidelines on good business practices.
- ❑ Prioritisation of TFTA and CFTA negotiation
- ❑ Prioritisation of Trade in Services – SADC, CFTA.
- ❑ Substantial progress has been achieved in the TFTA with legal framework for the TFTA concluded.

Trade Report – Progress in TFTA CFTA Negotiations

□ TFTA

- Substantial progress has been achieved in the TFTA with legal framework for the TFTA concluded
- Negotiations with EAC almost concluded with tariff phase down on over 90% of tariffs agreed
- SA to host a Ministerial meeting in May 2018 toward conclusion of the negotiations
- Negotiations with Egypt have also commenced.

□ CFTA

- Summit to launch CFTA on 21 March 2018 which signifies the conclusion of negotiations on the legal framework – Agreement establishing the CFTA, Protocol on Trade in Services, Protocol on Goods.
- Negotiations on tariffs and Rules of origin will continue thereafter.
- Will provide access for SA goods and services and unlock economic growth.

Trade Report – BRICS

- ❑ SA current Chair of BRICS
- ❑ In 2016, intra-BRICS trade amounted to US\$235 billion.
- ❑ China accounted for 56%, Brazil 18%, Russia 15%, India 7%, and South Africa 5% as a source of the Intra-BRICS imports.
- ❑ SA exports to BRICS stood at \$13.5 billion, while imports were \$21.4 billion in 2017.
- ❑ SA biggest export destination within BRICS remains China, followed by India, Brazil and Russia with exports in mainly primary products.
- ❑ The latest investment covering January 2015 to February 2016 indicates that intra-BRICS investment amounted to R554 billion.
- ❑ China accounted for 76.7%, India with 12.7%, Russia with 5.3%, South Africa with 4.1%, and Brazil with 1.4%.

Trade Report – BRICS

- ❑ SA priorities include promoting practical cooperation on:
 - Promotion of value-added trade;
 - Investment into productive sectors and practical cooperation among Investment Promotion Agencies;
 - Trade in Services statistics which is critical to policy formulation;
 - Development aspects of e-commerce to address digital divide;
 - Intellectual Property Rights
 - Development of a BRICS narrative on Inclusive Multilateralism
 - Quality infrastructure - technical regulations, standards, conformity assessment, metrology and accreditation
 - Development of a monitoring mechanism for BRICS CGETI initiatives.

Trade Report – Priorities for the dti

- ❑ Implementation of the EPA with the EU.
- ❑ Enhance trade and investment relations with key economies globally.
- ❑ Review of EFTA with focus on enhanced market access for SA agriculture products, EFTA already provides duty free, quota free access for industrial products.
- ❑ Develop AGOA utilization strategy.
- ❑ Enhanced engagement with stakeholders on market access opportunities in various trade agreements, including MERCOSUR.
- ❑ Participate in global fora such as the G20 or the WTO to preserve SA policy space to promote structural transformation and industrialization, as well as inclusive growth.

*Thank you
Ngiyathokoza
Ke a leboha
Ke a leboga
Siyabonga*

*Inkomu
Ndo livhuwa
Enkosi
Ngiyabonga
Dankie*

Glossary of Abbreviations

- Brazil, Russia, India, China and South Africa (BRICS)
- Contact Group for Economic and Trade Issues (CGETI)
- Continental Free Trade Area (CFTA)
- Economic Partnership Agreement (EPA)
- European Free Trade Association (EFTA)
- European Union (EU)
- Information and communication technology (ICT).
- Mercosur comprised of Argentina, Brazil, Paraguay, Uruguay
- Southern Africa Development Community (SADC)
- Tripartite Free Trade Area (TFTA)
- World Trade Organization (WTO)