LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

1st
Socio-Econmic Review and Overview
Policy Brief
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Abbreviations

NIPF- National Industrial Policy Framework

NDP - National Development Plan

IPAP- Industrial Policy Action Plan

PMG- Platinum Metal Group

SMME- Small Medium and Micro Enterprises

GDP-Gross Domestic Product

LDP-Limpopo Development Plan

LED-Local Economic Development

LEDZ-Limpopo Economic Development Zone

Foreword

The slow growth in the economy of China and other developed countries has negative effect in the developing countries mostly within the African continent. This leads to slower than expected flows in imports and exports, reflecting weaker investment and manufacturing activity in these countries. These developments, together with market concerns regarding the future performance of the Chinese economy, are having spill-overs to other economies through trade channels and weaker commodity prices

Manufacturing activity and trade remain weak globally, reflecting not only developments in China, but also subdued global demand and investment more broadly, notably a decline in investment in extractive industries. In addition, the dramatic decline in imports in a number of emerging markets and developing economies is also weighing heavily on trade. Given that the Limpopo province is one of the largest extractors and exporter of Platinum Metal Group (PMG), our economy is directly affected by the global economic developments.

Understanding the structure of the province's economy will assist the provincial administration in channelling the resources into growth and employment stimulating sectors of the economy. Economic growth is unarguably the precondition of employment creation and economic development in any region. The fiscal policy sustainability is highly reliant on economic growth to maintain current expenditure and supporting infrastructure spending and social development.

This policy brief seeks to provide analytical insights and policy recommendations to direct the fiscal policy in supporting industrialisation in the province.

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1. Introduction

Industrialisation is the process of expanding a country's economic capabilities to design, manufacture and service products of increasing value. The development of the manufacturing sector is consequently core to the industrialisation process. Industrial policies have been used by many economies to encourage investment, technological improvements, exports, and to support small, medium and micro enterprises (SMMEs).

Globalisation has created economies of scale for developed economies who managed to increase production volumes and reduce unit output costs through access to foreign markets. Thereby growing their economies in leaps and bounds subsequently creating job opportunities and reducing poverty levels. Market saturation and economic conditions has increased research and development in the sector to maintain competitiveness in these economies.

2. Policy position on manufacturing

The National Industrial Policy Framework (NIPF) articulates South Africa's overarching approach to industrial development, providing a strong basis for the policy certainty that must underpin it. The Industrial Policy Action Plan (IPAP) further reinforces the policy certainty and provides a working outline of the National Programme of Action that has been put in place to implement the industrial policy objectives.

The IPAP puts a special emphasis on building world-class manufactured product exporters, by working with and supporting leading and dynamic companies with a proven track record as winners in their respective sectors. Key focus areas identified in the IPAP includes metal fabrication, capital and transport equipment, oil and gas, 'green' and energy-saving industries, agro-processing (linked to food security and food pricing imperatives), boatbuilding, automotive (products and components, and medium and heavy commercial vehicles), plastics, pharmaceuticals and chemicals, clothing, textiles, footwear and leather, bio fuels, forestry, paper, pulp and furniture, cultural industries and tourism, business process servicing, nuclear, advanced materials and aerospace.

The emphasis on ramping up export competitiveness will increasingly be achieved through the implementation of a range of carefully considered strategies; as follows:

2.1. Working with Global Original Equipment Manufacturers (OEMs)
2.2. Industrial financing and support
2.3. Exports and African regional integration
2.4. Support for black industrialists

The National Development Plan (NDP) highlights the need for South Africa (SA) to develop a more competitive and diversified economy with a higher global share of dynamic products and greater depth and breadth of domestic linkages. The Limpopo provincial administration has developed the Limpopo Development Plan (LDP) which is intended to provide an economic growth and development road map for the province.

3. Challenges in the Manufacturing sector

The velocity of industrialisation in the province is faced with a myriad of challenges. This has constrained expansions and attracting new industrialists in the province and in the country as a whole. Some of the key challenges of industrialisation include among other things:

Tepid economic growth both locally and internationally. The provincial main international markets for mineral resources and agricultural goods such as China, Europe, and United States of America have had weak appetite for commodity imports due to low economic growth and diminishing consumer and investment expenditure in their respective economies.

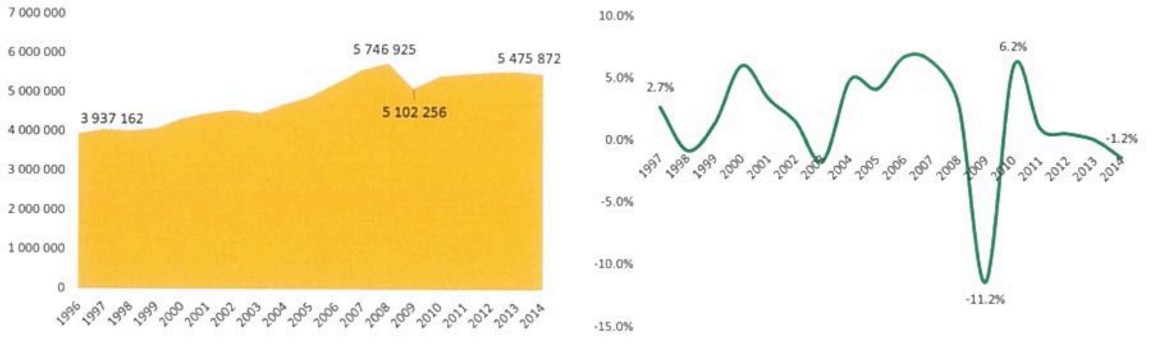
The manufacturing sector generally is facing high input costs both labour and production costs. As the costs of production rise, the domestic manufactured goods lose their competitiveness as the imports of the same goods become cheaper. Therefore it becomes cheaper to import and retail, rather than produce locally.

Banks are reluctant to borrow money to Small Macro Medium Enterprises (SMMEs) as they are seen as a perceived risk, and the nature of their business is sometimes difficult to compute.

4. Trend Analysis

The manufacturing sector is one of the least contributing sectors in the provincial economy. The sector assumed an upward trend from 254 billion in 1996 to 378 billion in 2008 just at the beginning of the global financial crises. Manufacturing sector suffered declined production levels resulting from poor aggregate demand for goods and services. The recovery of the sector was short lived as the manufacturing annual average growth rate declined significantly from 6.2 percent in 2010, boosted by the world cup event to a low of -1.2 percent in 2014.

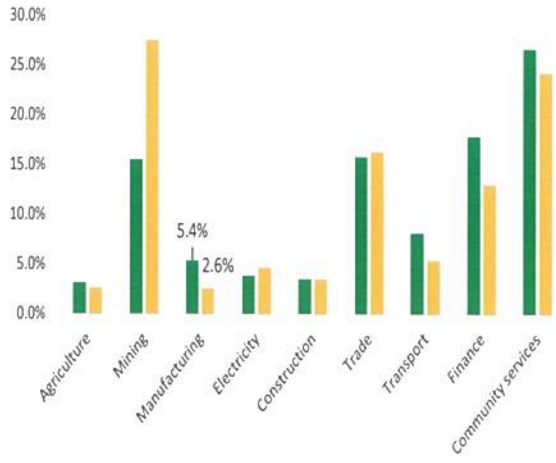
Figure 1 Gross Value Added (GVA) at constant prices and Average annual growth (%, Constant 2010 prices)

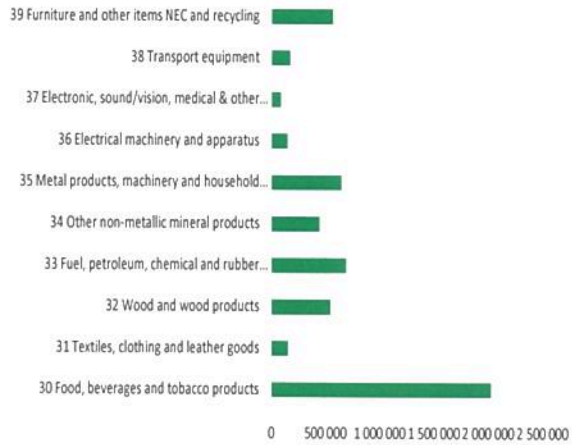


Source: Regional Explorer

Mining, Community Services, Trade and Finance have the largest contribution to the provincial GVA in 2014. Manufacturing sector is one of the least contributing sectors in the local economy, its GVA contribution declined from 5.4 percent in 1996 to 2.6 percent in 2014. The decline in the sector was mainly driven by production curtailments in the food, beverages and tobacco products and furniture.

Figure 2 Sector's share of regional total (%) and detailed sector GVA at constant prices

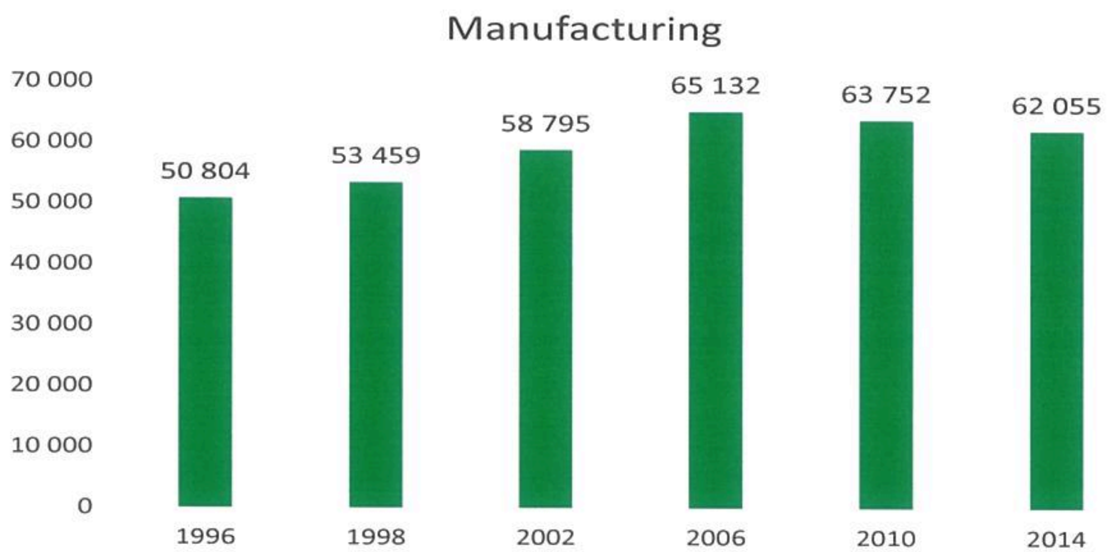




Source: Regional Explorer

The number of people employed in the sector has seen an upsurge from 50 804 in 1996 to 65 132 in 2006. Due to the declining production volumes, the sector began shedding jobs. The total number of people employed in the sector in 2014 was 62 055.

Figure 3 Labour market in the manufacturing sector



Source: Regional Explorer

5. Conclusion

The sector is under severe strain given the weak economic growth outlook in the medium term with consumers experiencing lower disposable income due to increasing consumer prices and cost of servicing debt. This is exacerbated by tepid economic performance in the develop economies which also happen to be the country's main trading partner. Structural and market adjustments in the sector can generate huge multiplier effects in the local economy

6. Policy Recommendations

6.1. There exists a need for a central support mechanism to assist provincial departments with translating their policy documents into actions and to bridge the disconnect between government support agencies who duplicate services and operate in competition rather than as a synergy even though they are striving for the same developmental goals (IPAP and NDP).

6.2. The provincial administration needs a robust and aggressive Industrial Revolution Policy. A plan that will articulate ways in which the province will resuscitate, develop and expand the productive sectors- i.e. manufacturing. This can be achieved by exploring foreign markets mainly in Africa, where lies great economic potential for exportation of both raw materials and value added commodities. The industrial policy should seek to remove constraints on economic growth, investment and employment.

6.3. The local economy is well endowed with natural minerals such as the Platinum Group Metals (PGM) which constitute the bulk of the provincial exports. The province needs to have a clear and articulate action plan in terms of mineral beneficiation- transforming most of the minerals locally, thereby boosting the secondary sector performance and subsequently creating job opportunities in the local economy.

6.4. According to IPAP, public procurement accounts for a sizable part of the economies of both developed and developing countries, generally contributing between 15 to 25 percent to GDP. Government procurement in the provincial administration should be biased to locally produced commodities leveraging public and private procurement to promote localisation and industrial diversification.

6.5. Strengthening network infrastructure and skills supply, and bringing administered prices under control. Implementation, construction and maintenance of Public roads and public transport infrastructure and systems must be accelerated to enhance market linkages supporting rural economic development.

6.6. Intensifying research and development support for product development, innovation and commercialisation.

6.7. Exploring approaches to cushioning manufacturers from the effects of exogenous shocks such as currency volatility and economic crises in specific regions.