



# THE CASE FOR INVESTING IN SOUTH AFRICA

ACCELERATING ECONOMIC GROWTH BY BUILDING PARTNERSHIPS



**SOUTH AFRICA  
INVESTMENT CONFERENCE**  
Accelerating Economic Growth by Building Partnerships



*Inspiring new ways*



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# 10 REASONS WHY YOU SHOULD INVEST IN SOUTH AFRICA



1.

## VIBRANT EMERGING MARKET

Growing middle class, affluent consumer base, excellent returns on investment.



2.

## MOST DIVERSIFIED ECONOMY IN AFRICA

South Africa (SA) has the most industrialised economy in Africa. It is the region's principal manufacturing hub and a leading services destination.



3.

## LARGEST PRESENCE OF MULTINATIONALS ON THE AFRICAN CONTINENT

SA is the location of choice for multinationals in Africa. Global corporates reap the benefits of doing business in SA, which has a supportive and growing ecosystem as a hub for innovation, technology and fintech.



4.

## PROGRESSIVE CONSTITUTION & INDEPENDENT JUDICIARY

SA has a progressive Constitution and an independent judiciary. The country has a mature and accessible legal system, providing certainty and respect for the rule of law.



5.

## FAVOURABLE ACCESS TO GLOBAL MARKETS

The African Continental Free Trade Area will boost intra-African trade and create a market of around 1.3-billion people with a combined gross domestic product (GDP) of USD2.3-trillion that will unlock industrial development. SA has several trade agreements in place, creating an export platform into global markets.



6.

## ABUNDANT NATURAL RESOURCES

SA is endowed with an abundance of natural resources. It is the leading producer of platinum-group metals (PGMs) globally. Numerous listed mining companies operate in SA, which also has world-renowned underground mining expertise.



7.

## ADVANCED FINANCIAL SERVICES & BANKING SECTOR

SA has a sophisticated banking sector with a major footprint in Africa. It is the continent's financial hub, with the JSE being Africa's largest stock exchange by market capitalisation.



8.

## WORLD-CLASS INFRASTRUCTURE & LOGISTICS

A massive governmental investment programme in infrastructure development has been under way for several years. SA has the largest air- and sea-ports, as well as logistics networks in Africa, and is ranked number one in Africa in the World Bank's Logistics Performance Index.



9.

## YOUNG, EAGER LABOUR FORCE

SA has a number of world-class universities and colleges producing a skilled, talented and capable workforce. The country boasts a diversified skills set, emerging talent, a large pool of prospective workers and government support for training and skills development.



10.

## EXCELLENT QUALITY OF LIFE

SA offers a favourable cost of living, with a diversified cultural, cuisine and sports offering, generally superb weather all year round and a world-renowned hospitality sector.

## **SOUTH AFRICA IS A VIBRANT EMERGING MARKET**

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- South Africa is one of the most sophisticated and promising emerging markets, offering a unique combination of highly developed economic infrastructure and a vibrant emerging-market economy.
- South Africa has one of the largest economies on the African continent, accounting for approximately 16% of the continent's GDP. It is counted among the world's industrialised nations.
- South Africa is endowed with an advanced financial market infrastructure, with the Johannesburg Stock Exchange (JSE) being Africa's largest and most developed, and one of the world's top 20 exchanges (the only African stock exchange ranked among the world's top 20).

## **... OFFERING WORLD-CLASS INFRASTRUCTURE AND ACCESSIBILITY**

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- South Africa has by far the largest road and rail transport systems in Africa. Consequently, the country hosts the largest cluster of air and maritime transportation companies on the continent.
- South Africa has the most advanced information and communications technology (ICT) infrastructure in Africa.
- The country's internet infrastructure is among the best on the continent, with upload and download speeds much higher than those of most other regional economies. This helps to make South Africa an ideal location for investment in software and information technology, data centres, creative industries and other activities involving high internet usage.
- South Africa has the highest number of secure internet servers in the region.

## **SOUTH AFRICA IS A WORLD LEADER IN MINERAL RESOURCES**

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- South Africa remains the world's top producer of minerals such as platinum, rhodium, chrome, manganese and vanadium, as well as vermiculite. It is the second-largest producer of palladium in the world.
- South Africa holds 29% of global manganese reserves, 75% of chrome, 91% of platinum-group metals (PGMs), 11% of gold and 18% of vanadium reserves.

## **... AND A STRONG CONTENDER IN GLOBAL COMPETITIVENESS**

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- South Africa ranked 60<sup>th</sup> out of 141 countries in the World Economic Forum's Global Competitiveness Index for 2019, an improvement from 67<sup>th</sup> position (out of 140 countries) in 2018. This placed the country ahead of emerging markets such as Turkey, India and Brazil, as well as in 2<sup>nd</sup> position within Africa, after Mauritius. South Africa scored well in various categories of the global competitiveness index, particularly:
  - 19<sup>th</sup> out of 141 countries in the Financial System pillar due to its excellent rankings in the following components: Credit Gap (1<sup>st</sup>); Market Capitalisation (2<sup>nd</sup>); Insurance Premium (3<sup>rd</sup>); and Domestic Credit to Private Sector (10<sup>th</sup>);
  - 35<sup>th</sup> in the Market Size pillar;
  - 1<sup>st</sup> in the category Budget Transparency; 4<sup>th</sup> in Cost of Starting a Business; 7<sup>th</sup> in Road Connectivity; 10<sup>th</sup> in Mobile-cellular Telephone Subscriptions; and 27<sup>th</sup> in Efficiency of Air Transport Services.



## WORLD-RENOWNED FOR INDUSTRIAL INNOVATION

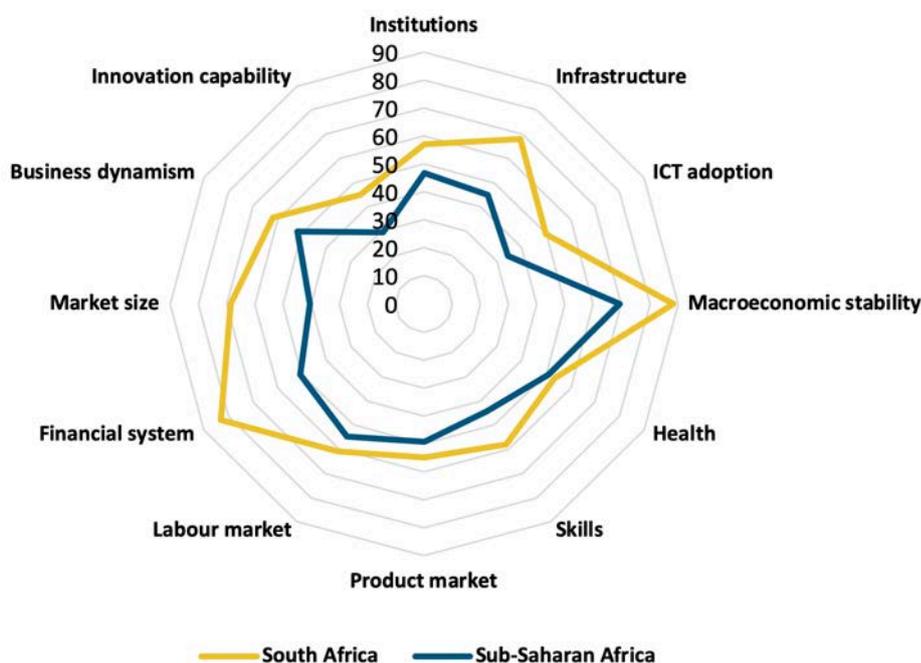
### Some South African innovations:

- World’s first successful human heart transplant
- Coal-to-liquid fuel production (Sasol)
- Deep-level underground mining technology
- Pratley Putty
- Dolosse
- Kreepy Krauly – world’s first automatic pool-cleaning unit
- Retinal cryoprobe
- Smartlock safety syringe
- Computerised Axial Tomography (CAT) scan
- Full-body high-speed radiology solution

## WELL-POSITIONED TO FACILITATE REGIONAL INVESTMENT

- South Africa’s developed infrastructure, level of industrial development and competitive advantages as an export hub underpin its relative attractiveness as a regional gateway for investment.
- South Africa remains one of the most competitive countries on the African continent. The country is ranked in 2<sup>nd</sup> position in Africa (after Mauritius) in terms of overall competitiveness according to the World Economic Forum’s Global Competitiveness Index 2019 edition.
- In sub-Saharan Africa, South Africa ranks 4<sup>th</sup> out of 48 countries in the World Bank’s Doing Business 2019 report (after Mauritius, Rwanda and Kenya).
- The cost of doing business in South Africa is a significant “pull factor”, underpinned by factors such as:
  - Availability of key inputs (e.g. skilled labour, electricity supply);
  - Logistics (e.g. time to import/export); and
  - Supportive operating environment (e.g. sound banking sector).

**SOUTH AFRICA’S GLOBAL COMPETITIVENESS PERFORMANCE SCORES\* COMPARED TO SUB-SAHARAN AFRICA’S AVERAGE, 2019**  
 (\*SCORES ARE ON A 0 TO 100 SCALE; 100 REPRESENTS THE OPTIMAL SITUATION OR ‘FRONTIER’)



Source (chart): World Economic Forum Global Competitiveness Report 2019





2.

**SOUTH AFRICA  
AT A GLANCE**

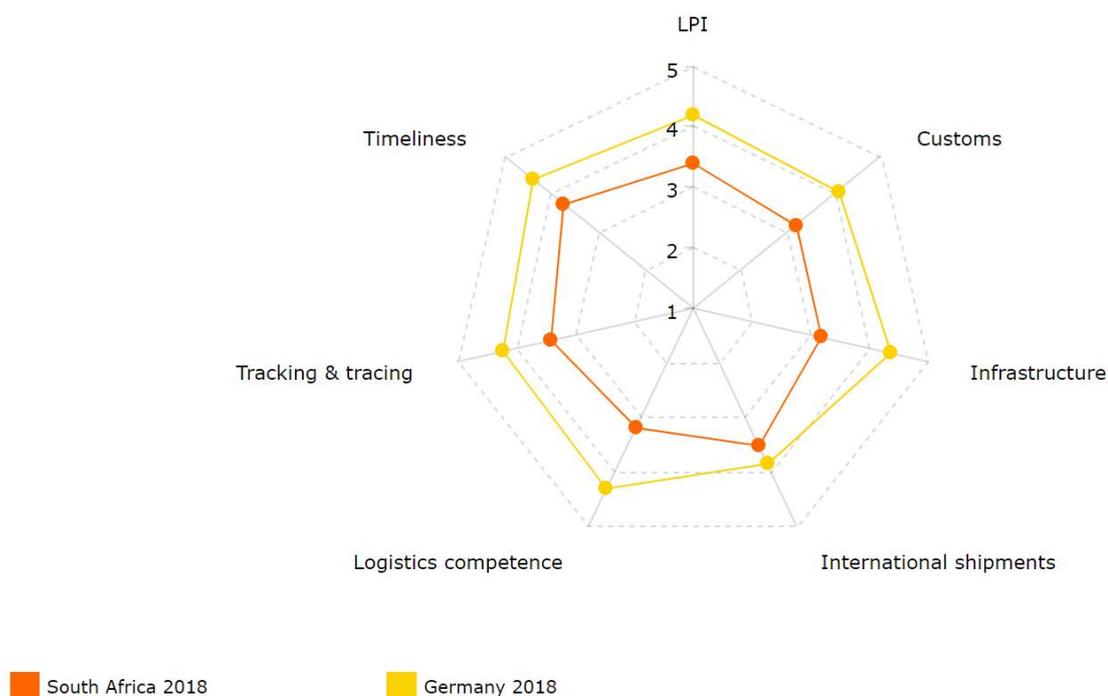


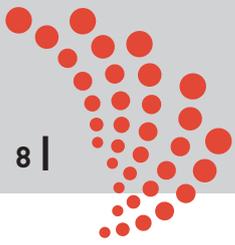


## SOUTH AFRICA AT A GLANCE

- South Africa has the most developed, diversified and technologically advanced economy on the African continent. Its economy is the 30<sup>th</sup>-largest in the world, and one of the three largest in Africa. According to the World Economic Forum's 2019 Global Competitiveness Report, South Africa ranks 35<sup>th</sup> for its domestic market size.
- South Africa has a world-class financial sector, ranking 19<sup>th</sup> out of 141 countries in the Financial System pillar of the WEF's Global Competitiveness Index 2019, and is the investment location of choice for multinationals in Africa.
- South Africa's early-stage entrepreneurs generally display a higher appetite for product and technological innovation compared to the African average, with a high orientation towards the business services sector (Global Entrepreneurship Monitor, 2018).
- South Africa ranked first in Africa in the World Bank's Logistics Performance Index (LPI) for 2018. Its world-class transport infrastructure includes the most advanced and largest air, rail and port networks on the continent. The country has eight ocean economy seaports.
- South African exports represented 0.5% of global exports in 2018 (34<sup>th</sup>-largest exporter in the world). The export base is broad, with its manufacturing component accounting for roughly 57% of total merchandise exports in 2018.

### SOUTH AFRICA'S LOGISTICS PERFORMANCE INDEX (LPI) SCORECARD COMPARED TO GERMANY'S (WORLD'S TOP PERFORMER), 2018





## SOUTH AFRICA AT A GLANCE: RESOURCES

Measure	Fast facts	Key highlights
<b>Land area</b>	<p>1 219 090 100.0%</p> <p>1 214 470 99.6%</p> <p>4 620 0.4%</p> <p>Total land area (In sq km)</p> <p>Land</p> <p>Water</p>	<p><b>Arable land</b></p> <ul style="list-style-type: none"> <li>Agricultural land: 79.4%</li> <li>Arable land 9.9%; permanent crops 0.3%; permanent pasture 69.2%; forest: 7.6%</li> <li>16 700 square kilometres (km<sup>2</sup>) under irrigation (2012)</li> </ul> <p><b>Geography</b></p> <ul style="list-style-type: none"> <li>Coastline: 2 798km</li> <li>Land area: 1 219 090km<sup>2</sup></li> <li>Shares borders with six countries: Botswana, Namibia, Zimbabwe, Mozambique, eSwatini (formerly Swaziland), Lesotho</li> </ul> <p><b>Coastal resources</b></p> <ul style="list-style-type: none"> <li>Territorial sea: 12nm</li> <li>Contiguous zone: 24nm</li> <li>Exclusive economic zone: 200nm</li> </ul>
<b>Mineral deposits</b>	<ul style="list-style-type: none"> <li>Precious metals: gold, platinum, palladium</li> <li>Refractory metals: vanadium, tin, chromium</li> <li>Base metals: iron, copper, nickel, manganese</li> <li>Energy minerals: coal, natural gas</li> <li>Others: antimony, phosphates, rare earth elements, uranium, gem diamonds, salt</li> </ul>	<p><b>Rich in reserves</b></p> <ul style="list-style-type: none"> <li>South Africa holds 29% of global manganese reserves</li> <li>75.2% of chromium</li> <li>91% of platinum-group metals (PGMs)</li> <li>11.1% of gold</li> <li>17.5% of vanadium</li> </ul> <p><b>Leading producer</b></p> <ul style="list-style-type: none"> <li>Ranked the world's leading producer of platinum and manganese</li> <li>Ranked 2<sup>nd</sup> globally in the production of palladium and titanium</li> <li>6<sup>th</sup>-largest producer of gold in the world</li> </ul>

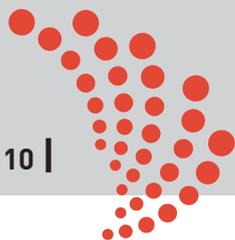
Sources: Department of Mineral Resources and Energy, National Treasury



# SOUTH AFRICA AT A GLANCE: INFRASTRUCTURE

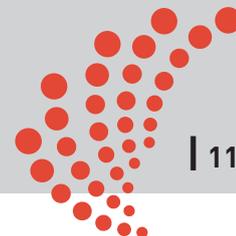
Measure	Fast facts	Key highlights
Infrastructure	<b>Electricity</b> <ul style="list-style-type: none"> <li>Installed energy-generating capacity of 51.7-million kW (2018 estimate)</li> </ul>	<b>Electricity</b> <ul style="list-style-type: none"> <li>Mainly coal-fired power stations</li> <li>Deliberate move by government to utilise renewable energy sources (e.g. solar, wind)</li> <li>Ranked 10<sup>th</sup> among the G20 countries for renewable energy investment conditions (2017)</li> </ul>
	<b>Transport and logistics</b> <ul style="list-style-type: none"> <li>144 airports with paved runways</li> <li>Railways: 20 986km</li> <li>Roads: 747 014km (paved: 158 952km)</li> <li>Eight ocean-economy seaports:               <ul style="list-style-type: none"> <li>Durban</li> <li>Richards Bay</li> <li>East London</li> <li>Ngqura</li> <li>Port Elizabeth</li> <li>Mossel Bay</li> <li>Cape Town</li> <li>Saldanha Bay</li> </ul> </li> </ul>	<b>Airports</b> <ul style="list-style-type: none"> <li>Ranked 27<sup>th</sup> out of 141 countries for Efficiency of Air Transport Services and 39<sup>th</sup> for Airport Connectivity (WEF 2019)</li> </ul> <b>Rail</b> <ul style="list-style-type: none"> <li>Ranked 47<sup>th</sup> globally for Railroad Density (WEF 2019)</li> </ul> <b>Roads</b> <ul style="list-style-type: none"> <li>Ranked 47<sup>th</sup> for Quality of Roads Infrastructure (WEF 2019)</li> <li>Ranked 7<sup>th</sup> for Road Connectivity (WEF 2019)</li> </ul> <b>Ports</b> <ul style="list-style-type: none"> <li>Home to two of the world's top container ports and two of the world's biggest dry bulk ports</li> <li>Durban is the largest port, with 2 770 000 TEU (2015)</li> <li>Mossel Bay allows imports of LNG</li> <li>Ranked 44<sup>th</sup> for Liner Shipping Connectivity (WEF 2019)</li> <li>Overall, South Africa is ranked 1<sup>st</sup> in Africa on the World Bank's Logistics Performance Index</li> </ul>
	<b>Telecommunications</b>	<ul style="list-style-type: none"> <li>South Africa has the highest number of secure internet servers in the region</li> <li>Ranked 3<sup>rd</sup> in Africa on the Information and Communications Technology Development Index. There is huge potential in this sphere:               <ul style="list-style-type: none"> <li>Percentage of individuals using the internet: 56%</li> <li>Fixed broadband subscriptions per 100 inhabitants: 2.4</li> <li>Mobile broadband subscriptions per 100 inhabitants: 76</li> </ul> </li> </ul>

Sources: International Renewable Energy Agency, World Economic Forum's Global Competitiveness Report 2019, World Bank, Integrated Resource Plan 2019, National Treasury



## SOUTH AFRICA AT A GLANCE: ECONOMIC INDICATORS

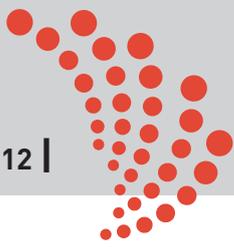
Measure	Fast facts	Key highlights
<b>Gross domestic product (GDP)</b>	<ul style="list-style-type: none"> <li>2018: USD368.3-billion (ZAR4.87-trillion)</li> <li>2017: USD349.6-billion (ZAR4.65-trillion)</li> <li>2016: USD296.4-billion (ZAR4.35-trillion)</li> </ul>	<ul style="list-style-type: none"> <li>South Africa has the 30<sup>th</sup>-largest economy in the world (GDP size on a PPP USD basis) and is one of Africa's largest, accounting for approximately 16% of the continent's GDP.</li> <li>Small-, medium- and micro-enterprises contributed an estimated 36% to GDP in 2017.</li> </ul>
<b>GDP growth</b>	<ul style="list-style-type: none"> <li>2018: 0.8%</li> <li>2017: 1.4%</li> <li>2016: 0.4%</li> <li>2000 to 2018 (average): 2.8% p.a.</li> <li>2004 to 2007 average: 5.2% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>Subdued growth since 2015 due to weak confidence, low investment and employment creation, as well as subdued global demand for some industrial commodities, which weighed on the prices and volume demand for South Africa's primary export commodities basket.</li> <li>Implementation of key structural reforms currently underway in sectors including mining, telecommunications and tourism could significantly raise South Africa's potential growth rate.</li> </ul>
<b>Consumer price inflation</b>	<ul style="list-style-type: none"> <li>2018: 4.6% (average)</li> <li>2010 to 2018 average: 5.3%</li> </ul>	<ul style="list-style-type: none"> <li>Inflation expectations remain anchored well within the SA Reserve Bank's target band.</li> <li>Consumer price inflation expected to average 4.2% in 2019 (SA Reserve Bank).</li> </ul>
<b>Interest rates</b>	<p>Policy rate (repurchase rate):</p> <ul style="list-style-type: none"> <li>2018: 6.58% (average)</li> <li>21 October 2019: 6.5%</li> </ul>	<ul style="list-style-type: none"> <li>Compared to developed markets, South Africa's relatively higher interest rates offer attractive returns for yield-seeking investors. The recent levels of South Africa's prime lending interest rates (banks' unsecured lending rate to prime borrowers) are as follows: <ul style="list-style-type: none"> <li>2018: 10.08% (average)</li> <li>21 October 2019: 10.00%</li> </ul> </li> </ul>
<b>Exchange rate</b>	<ul style="list-style-type: none"> <li>2018 average: USD1.00 = ZAR13.23</li> <li>21 October 2019: USD1.00=ZAR14.75</li> </ul>	<ul style="list-style-type: none"> <li>The rand is the 20<sup>th</sup> most-traded currency globally, with over USD21-billion traded daily.</li> </ul>
<b>Trade in goods and services</b>	<ul style="list-style-type: none"> <li>Exports in 2018: USD110.1-billion (ZAR1.46-trillion)</li> <li>Imports in 2018: USD 108.9-billion (ZAR1.44-trillion)</li> </ul>	<ul style="list-style-type: none"> <li>In 2018, Asia was the largest regional destination for South African exports, accounting for 31.3% of total exports by value (primarily mineral commodities), followed by the rest of Africa (26.5%, mainly food products, beverages, machinery, motor vehicles, minerals and agriculture products).</li> </ul>
<b>Foreign investment</b>	<p>Portfolio investment inflows:</p> <ul style="list-style-type: none"> <li>2018: USD6.8-billion (1.8% of GDP)</li> <li>2010 to 2018 average: 3.8% of GDP</li> </ul> <p>Fixed investment inflows:</p> <ul style="list-style-type: none"> <li>2018: USD5.34-billion (1.4% of GDP)</li> <li>2010-2018 average: 1.1% of GDP</li> </ul>	<ul style="list-style-type: none"> <li>South Africa was named the Offshoring Destination of the Year at the 2016 Global Sourcing Association (GSA) Awards.</li> <li>Three of the best cities for investment expansion of international companies in the biotechnology sector are in South Africa - Johannesburg, Durban and Stellenbosch (Financial Times, 2017).</li> <li>South Africa makes up approximately 5% of institutional bond holders' portfolios for equities and bonds.</li> </ul>



## SOUTH AFRICA AT A GLANCE: SOCIO-ECONOMIC INDICATORS

Measure	Fast facts	Key highlights
<b>Population</b>	<ul style="list-style-type: none"> <li>• 58.8-million</li> <li>• 38.4-million working-age population</li> <li>• 64% under the age of 35</li> <li>• 6% over the age of 65</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa's young population presents major opportunities for investors, as the majority of the population is under 35 years of age.</li> </ul>
<b>Highly urbanised population</b>	<p>Percentage of households:</p> <ul style="list-style-type: none"> <li>• Living in urban areas: 66.4% (2018)</li> <li>• With access to electricity supply for lighting: 90.3% (2016)</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively high access to basic infrastructure.</li> <li>• Highly urbanised country presents concentrated markets, thus reducing distribution costs.</li> </ul>
<b>Middle-class indicators</b>	<ul style="list-style-type: none"> <li>• 68% have access to mobile phones (2017)</li> <li>• 54% have access to the internet (2016)</li> <li>• 153 mobile subscriptions per 100 inhabitants (2018)</li> <li>• 80% are banked (including social grant recipients) (2018)</li> <li>• 97.1% primary school enrolment rate; 98.8% secondary (2017)</li> <li>• 14.3% of population has a post-school or other qualification (2018)</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa has a growing middle class. In 2015, the number of people living below the upper-bound poverty line was estimated at 55.5%, down from 66.6% in 2006.</li> <li>• Ranked 17<sup>th</sup> in the world for mobile subscriptions.</li> <li>• Increasing primary school enrolments create a base for future skilled workers.</li> </ul>
<b>Labour market</b>	<ul style="list-style-type: none"> <li>• Total employment in Q2 2019: 16.3-million individuals</li> <li>• Unemployment rate in 2018: 27.1%</li> <li>• Unemployment rate in Q2 2019: 29%</li> </ul>	<ul style="list-style-type: none"> <li>• There are several initiatives between the government, private sector and civic organisations to address unemployment (e.g. the Presidential Jobs Summit).</li> </ul>
<b>GDP per capita</b>	<p>USD (PPP) :</p> <ul style="list-style-type: none"> <li>• 1997: USD7 191</li> <li>• 2000: USD7 731</li> <li>• 2018: USD13 675</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa is classified as a middle-income country and is ranked sixth-highest in Africa in terms of GDP (PPP) per capita.</li> </ul>
<b>Gini coefficient</b>	<ul style="list-style-type: none"> <li>• 2006: 0.72</li> <li>• 2015: 0.68</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa has a highly progressive social spending system, without which the Gini coefficient would be 10.5% higher.</li> <li>• 17.9-million people (31% of the overall population) benefited from social grants in 2018.</li> </ul>

Sources: Statistics South Africa, South African Reserve Bank (SARB), Finscope, World Bank, International Monetary Fund (IMF), Deloitte, PWC, National Treasury, IDC



## SOUTH AFRICA AT A GLANCE: INSTITUTIONS

Measure	Fast facts	Key highlights
<b>Government</b>	<ul style="list-style-type: none"> <li>Parliamentary democracy</li> </ul>	<ul style="list-style-type: none"> <li>Free and fair democratic elections held regularly since 1994.</li> </ul>
<b>Legal system</b>	<ul style="list-style-type: none"> <li>Constitution protects basic freedoms and secures rights and dignities (including property rights and protection of minorities based on ethnicity, gender, sexual preference, etc.)</li> <li>Mix of Roman-Dutch law (primarily civil), common law and statute (primarily economic affairs)</li> </ul>	<ul style="list-style-type: none"> <li>Ranked 33<sup>rd</sup> out of 141 countries covered in the WEF's Global Competitiveness Report 2019 in terms of Judicial Independence, 40<sup>th</sup> in Efficiency of the Legal Framework in Challenging Regulations and 31<sup>st</sup> in Efficiency of Legal Framework in Settling Disputes.</li> </ul>
<b>Fiscal policy</b>	<ul style="list-style-type: none"> <li>Balances development needs with fiscal sustainability and intergenerational equity</li> </ul>	<ul style="list-style-type: none"> <li>Ranked 1<sup>st</sup> (best in the world) out of 141 countries in terms of Budget Transparency (WEF 2019).</li> </ul>
<b>Monetary policy</b>	<ul style="list-style-type: none"> <li>Inflation targeting regime</li> <li>Target band between 3% and 6%</li> </ul>	<ul style="list-style-type: none"> <li>Independent central bank.</li> </ul>
<b>Capital controls</b>	<ul style="list-style-type: none"> <li>Regulation of foreign inflows is limited</li> <li>Foreign outflows are permitted</li> <li>Some limits on permanent residents and citizens</li> </ul>	<ul style="list-style-type: none"> <li>Since 1994, South Africa has taken a gradual approach to the phasing out and liberalisation of exchange controls.</li> <li>There are no controls or limits on the repatriation of returns or capital for investors who are not citizens or permanent residents.</li> </ul>
<b>Financial institutions</b>	<ul style="list-style-type: none"> <li>Highly developed bond and equity markets</li> <li>Banks regulated under "twin peaks" model, with central bank overseeing both macro- and micro-prudential policy</li> <li>Signatory to the Basel III accords</li> </ul>	<ul style="list-style-type: none"> <li>Ranked 18<sup>th</sup> out of 141 countries in terms of the overall Financial System, 49<sup>th</sup> for the Strength of Auditing and Reporting Standards and 29<sup>th</sup> for Soundness of Banks</li> <li>The Johannesburg Stock Exchange's market cap is 18<sup>th</sup>-largest in the world.</li> </ul>
<b>Trade agreements</b>	<ul style="list-style-type: none"> <li>Member of the World Trade Organization (WTO)</li> <li>Bilateral agreements with most major trading partners</li> <li>Preferential access to the US market via AGOA and to the EU market via the EPA</li> <li>Regional markets via SADC Free Trade Area and African Continental Free Trade Area</li> </ul>	<ul style="list-style-type: none"> <li>In 2018, USD1.5-billion (17.5% of total US imports from SA) worth of US imports from SA entered the country under AGOA, with more than 1 800 African products able to enter duty-free under the GSP.</li> <li>Duty-free access to the EU market (€2.1-trillion imported from the world at large in 2018) as part of the SADC-EPA economic partnership agreement.</li> </ul>
<b>Investment agreements</b>	<ul style="list-style-type: none"> <li>International investors protected under South African court system</li> </ul>	<ul style="list-style-type: none"> <li>Second most preferred investment destination in Africa, after Egypt, in the EY Attractiveness Program Report 2019.</li> </ul>



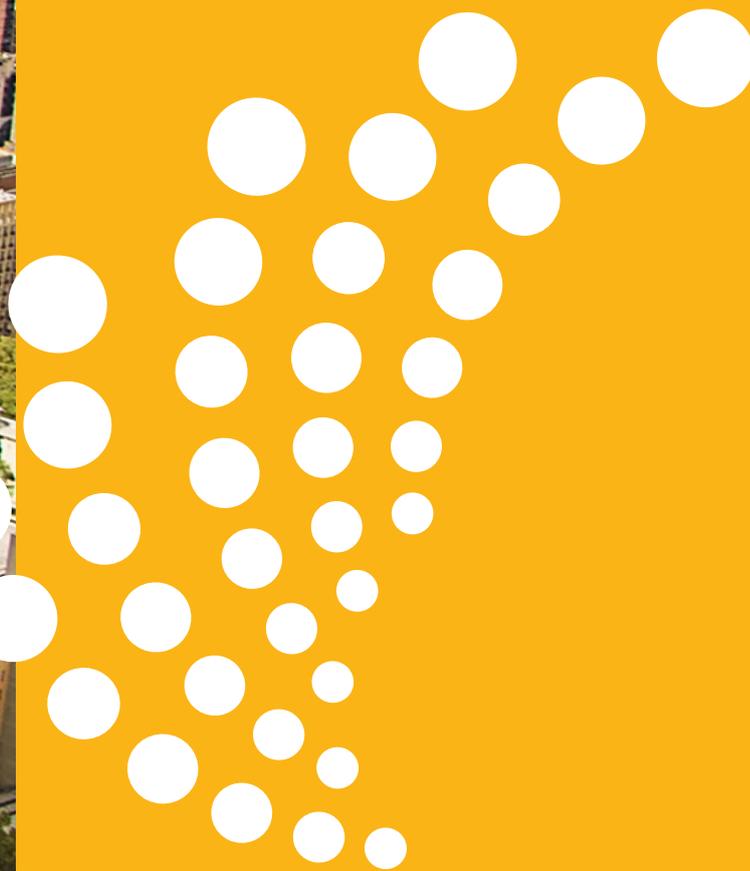




# 3.

## ECONOMIC OVERVIEW

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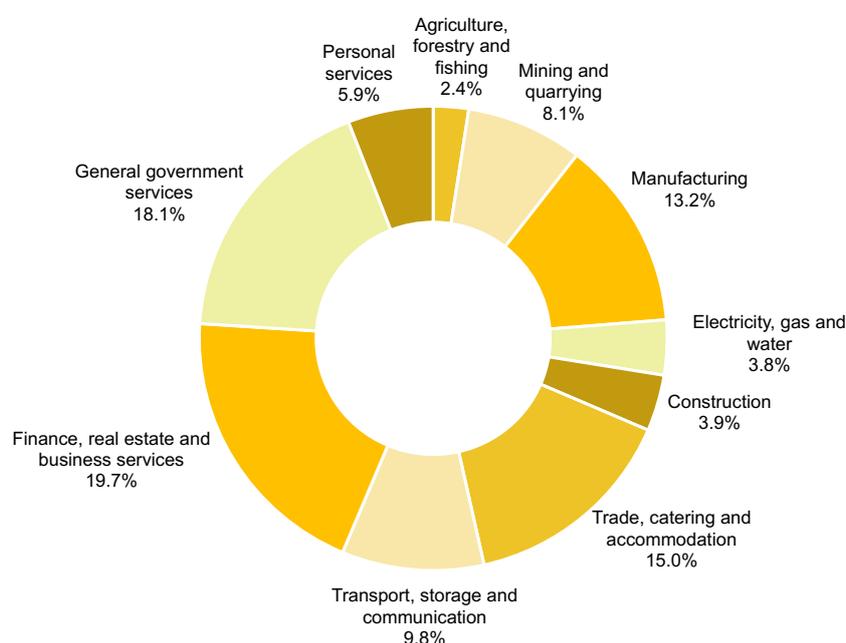




## RECENT PERFORMANCE OF THE SOUTH AFRICAN ECONOMY

- The South African economy experienced modest to subdued growth over the past decade. Structural as well as cyclical factors, alongside policy inertia and uncertainty, affected business, consumer and investor confidence, impacting on production and investment activity.
- Positive signs are emerging that the economy's performance is turning around. A wide range of short-term interventions and long-term reforms will raise the economy's growth rate going forward and ensure a more inclusive and shared expansion path. These will progressively address the structural constraints that have been affecting investment decisions, in the process raising investor confidence.

### SECTORAL COMPOSITION OF GDP IN 2018

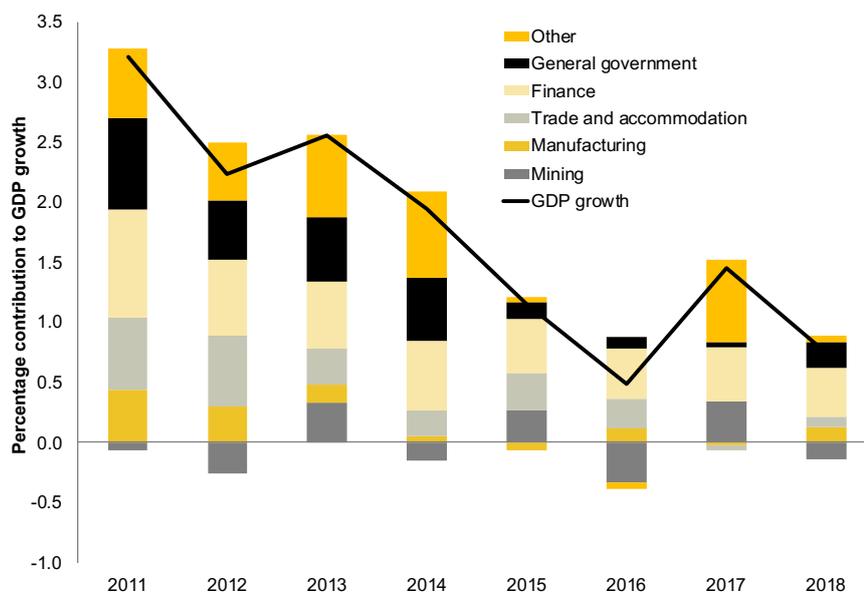


## THE ECONOMY'S PERFORMANCE IN 2018

- The South African economy recorded growth of 0.8% in real terms in 2018, with structural constraints as well as cyclical developments underpinning this subdued performance.
- **On the production front ...**
  - The services sector is well-developed and robust. Its finance and business services sub-sector, along with the retail and wholesale trade (“trade”) sub-sector, have been particularly consistent in terms of performance, supported by a consumer market that has grown in terms of sophistication and spending power.  
Comparatively stronger rates of growth were reported by the finance and business services sub-sector (+1.8%), as well as by transport and communication (+1.6%) in 2018.
  - The manufacturing sector is highly diversified and innovative. Technological developments in manufacturing have been developed for the extractive industries not only locally (e.g. to support deep-level, narrow-reef mining), but also in other parts of the world. Manufacturing has strong linkages with many supplier industries across the economy, with its employment multiplier being the second highest at a broad sector level.

- Manufacturing output increased by a modest 1% in 2018, with weak demand conditions, mainly in the domestic market, as a key constraining factor. However, rising operating costs and increased competition from foreign producers both in local and export markets also affected the sector's performance.
- Although the mining sector makes a relatively smaller contribution to overall GDP than the abovementioned sectors, it is technologically advanced and has important linkages to the rest of the economy. Mining is a key generator of export earnings, particularly the platinum group metals, gold, coal and iron ore mining segments. Mining output fell 1.7% in 2018, largely due to a substantial drop in gold production. The mining sector has been facing a difficult operating and trading environment. Weaker global demand for commodities, especially from China, rising operating costs (e.g. electricity tariffs), labour-related challenges and low confidence levels have been weighing on the sector's performance.
- South Africa has a well-developed commercial agriculture sector. Agriculture output declined by 4.8% in 2018, mainly due to base effects created by the best maize crop on record in the 2017 season, while drought conditions in parts of the country also impacted on production levels in specific segments of the agriculture sector.

### SECTORAL CONTRIBUTIONS TO OVERALL GDP GROWTH

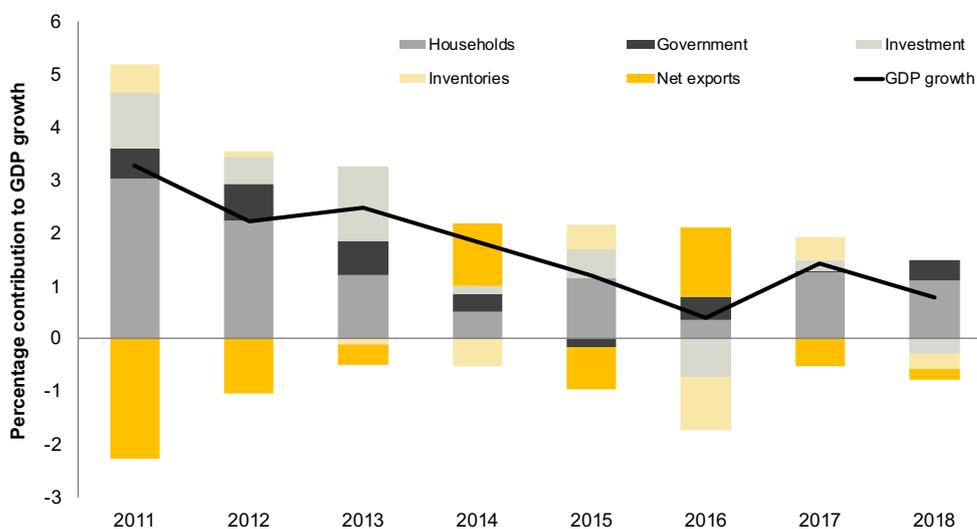


Source: IDC analysis using data from the South African Reserve Bank

### • On the expenditure front ...

- South African households have been facing several challenges, with rising costs of living, yet high levels of indebtedness and difficult labour market conditions affecting their ability and willingness to spend. Household consumption spending, which is the largest contributor to GDP at approximately 60%, increased by 1.8% in real terms in 2018.
- Weak demand conditions, mainly in the domestic market, resulted in surplus production capacity in several sectors of the economy, thereby affecting investment decisions. Overall gross fixed capital formation consequently declined by 1.4% in 2018. Fixed investment by the private sector increased by 2.1%, but capital expenditure by the public sector fell by 8.5%.
- South Africa has a very open economy, considering that exports and imports collectively represented 60% of GDP in 2018. Exports of goods and services increased by 2.6% in real terms, with manufactured goods accounting for 57.2% of all merchandise exports and mineral exports claiming a 35.5% share. The manufactured export basket is dominated by products such as motor vehicles, parts and accessories, base metals, as well as chemicals and chemical products.

### CONTRIBUTIONS TO OVERALL GDP GROWTH BY EXPENDITURE COMPONENT



Source: IDC analysis using data from the South African Reserve Bank

## ECONOMY POISED FOR FASTER GROWTH

- Although subdued growth is anticipated in the short-term, the economy’s performance is expected to improve significantly in the years ahead. The South African Reserve Bank estimates real GDP growth at 0.6% for 2019, projecting it to rise to 1.5% in 2020.
- As households strengthen their balance sheets, spending activity is likely to rise at a progressively faster pace. An accommodative monetary policy stance should alleviate the interest payment costs associated with household debt and, alongside rising disposable incomes in real terms, be supportive of a gradual rise in consumer spending over time.
- As business and investor sentiment recover on the back of gradually improving demand conditions locally, along with positive developments in regional markets, growth in private sector investment is expected to garner stronger momentum. Out of the ZAR300-billion in investment committed at the inaugural South Africa Investment Conference held in October 2018, around ZAR250-billion worth of projects are in the implementation phase.
- The South African economy has the potential to grow at a considerably faster pace than current projections indicate, particularly as the envisaged structural reforms and enhanced policy predictability progressively address current constraints to growth and lead to improved confidence among businesses, investors and consumers.

### GROWTH PROJECTIONS FOR THE SOUTH AFRICAN ECONOMY

	2019	2020
South African Reserve Bank (September 2019)	0.6%	1.5%
Industrial Development Corporation (August 2019)	0.6%	1.3%
International Monetary Fund (October 2019)	0.7%	1.1%
Bloomberg consensus (September 2019)	0.6%	1.5%
Reuters consensus (August 2019)	0.6%	1.3%

Sources: South African Reserve Bank, International Monetary Fund, Bloomberg, Reuters, IDC



## FISCAL POLICY GEARED TOWARDS FISCAL CONSOLIDATION AND DEBT SUSTAINABILITY

- Government's fiscal position weakened considerably in recent years, particularly due to the substantial support provided to financially strained state-owned enterprises (SOEs), especially Eskom, but also due to the impact of weak economic growth on tax revenues.
- The 2019 National Budget reaffirmed government's commitment to address South Africa's fiscal challenges, while introducing measures to implement structural reforms in support of higher rates of economic growth and investment. Government is committed to balanced fiscal consolidation, implementing measures to stabilise the ratio of government debt to GDP and to narrow the budget deficit.
- Government is working on a broad reform programme to strengthen the governance, financial management and operations of SOEs. These reforms are intended to adjust business models in response to changing economic conditions, bolster operational efficiencies, enhance investment activity and maximise their impact on the economy at large. Eskom is the immediate focus in order to reduce the risks it poses to the economy and public finances.
- Fiscal spending is, therefore, likely to remain constrained, especially over the short- to medium-term. However, a reprioritisation of public spending for enhanced economic impact, a more effective implementation of localisation policies and improved efficiencies in payment systems will go a long way in stimulating domestic economic activity.
- Government's turnaround plan, in line with its commitment to fiscal consolidation and debt sustainability, should stabilise and restore the fiscal metrics and avoid further sovereign credit rating downgrades.

### SOUTH AFRICA'S SOVEREIGN CREDIT RATINGS

Rating Agency	LTFC <sup>1</sup>	LTLC <sup>2</sup>	Outlook	Revision
Moody's	Baa3	Baa3	Stable	23 March 2018: Rating affirmation; outlook revised to stable from negative
Fitch	BB+	BB+	Stable	26 July 2019: Rating affirmation; outlook revised to negative from stable
S&P	BB	BB+	Stable	25 May 2019: Rating and outlook affirmation
R&I	BBB	BBB+	Stable	24 May 2019: Rating and outlook affirmation

<sup>1</sup>LTFC = Long-term Foreign Currency Rating, <sup>2</sup>LTLC = Long-term Local Currency Rating

Source: National Treasury

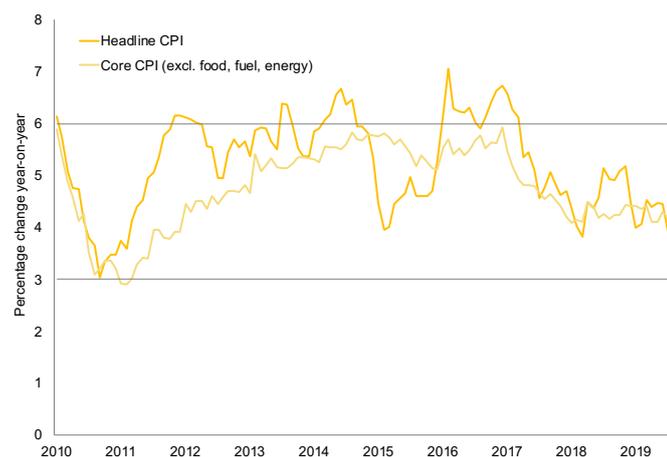
# MONETARY POLICY SUPPORTIVE OF ECONOMIC GROWTH WHILE ANCHORING INFLATION EXPECTATIONS

- Through prudent monetary policy, the South African Reserve Bank (SARB) has succeeded in bringing inflation expectations under control. Over the past couple of years, headline consumer price inflation has been generally hovering around the mid-point of the SARB's 3% to 6% inflation target band.
- The absence of major cost-push shocks, with the exception of significant increases in administered prices such as electricity tariffs, coupled with very limited demand-pull pressures contributed to a fairly stable inflation environment during the past two years.
- The downward trend in inflation outcomes, reduced upside risks going forward and expectations of an improving inflation outlook prompted the Monetary Policy Committee of the SARB to lower the repurchase rate by 25 basis points to 6.50% at its July 2019 meeting.

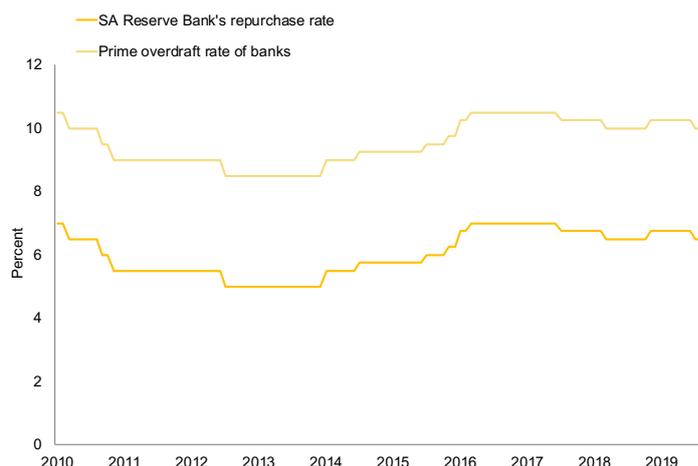
## CONSUMER PRICE INFLATION

CPI expectations	2019	2020	2021
South African Reserve Bank (September 2019)	4.2%	5.1%	4.7%
International Monetary Fund (October 2019)	4.4%	5.2%	5.3%
Bloomberg (September 2019)	4.4%	5.0%	4.8%
Reuters (September 2019)	4.3%	4.9%	4.8%

### CONSUMER PRICE INFLATION



### REPURCHASE RATE AND PRIME LENDING RATE

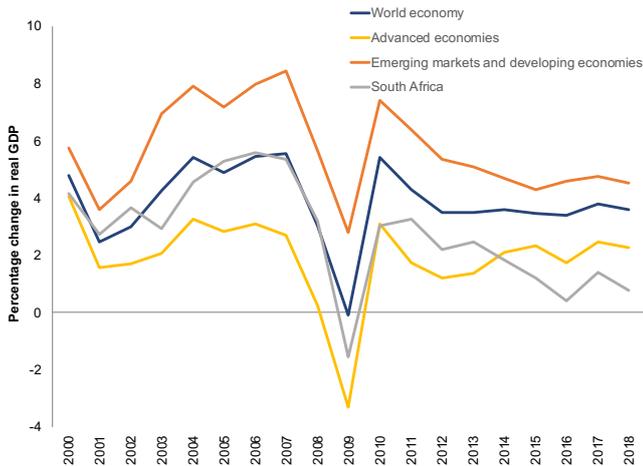


Sources: (table) South African Reserve Bank, International Monetary Fund, Bloomberg, Reuters; (charts) Statistics South Africa, South African Reserve Bank

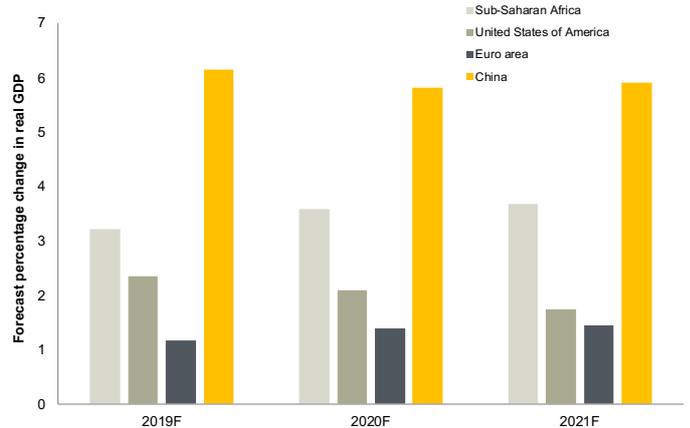
# GLOBAL ECONOMIC DEVELOPMENTS

- The world economy is facing significant threats that are undermining its expansion momentum. Protectionist tendencies, including the trade dispute between the United States and China, along with rising geopolitical risks in various parts of the globe, are affecting trade flows, output levels and investment activity.
- Global growth may, however, be sustained above 3% over the medium-term, which would be relatively supportive of South Africa's export performance.
- Emerging market currencies have generally experienced considerable volatility in a world environment characterised by increased uncertainty and risk aversion.
- Inflationary pressures have been largely muted, permitting central banks in various advanced economies and certain emerging markets to respond to rising risks to economic growth by lowering interest rates or by indicating that accommodative monetary policy may prevail for some time.

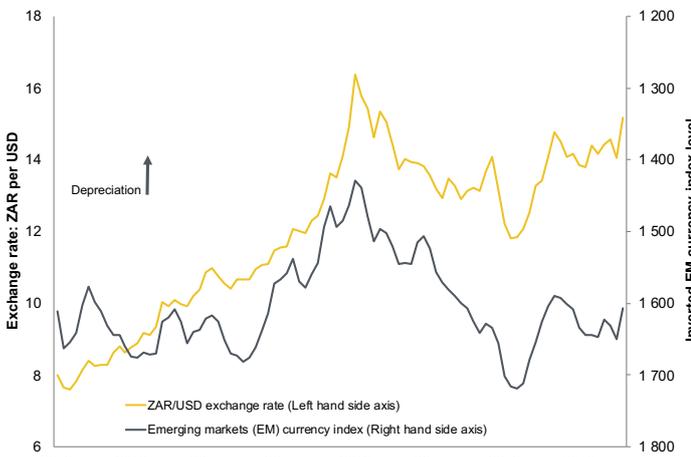
**WORLD GDP GROWTH FOR SELECT REGIONS AND COUNTRIES**



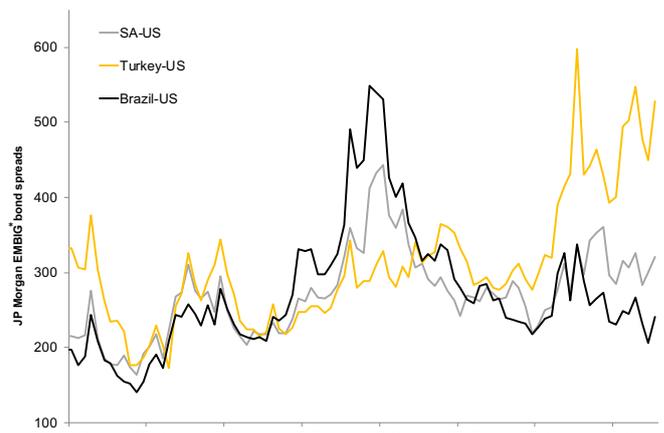
**GROWTH PROSPECTS FOR SELECT REGIONS AND COUNTRIES**



**EXCHANGE RATE MOVEMENTS**



**TRENDS IN BOND MARKET SPREADS IN SELECTED COUNTRIES**

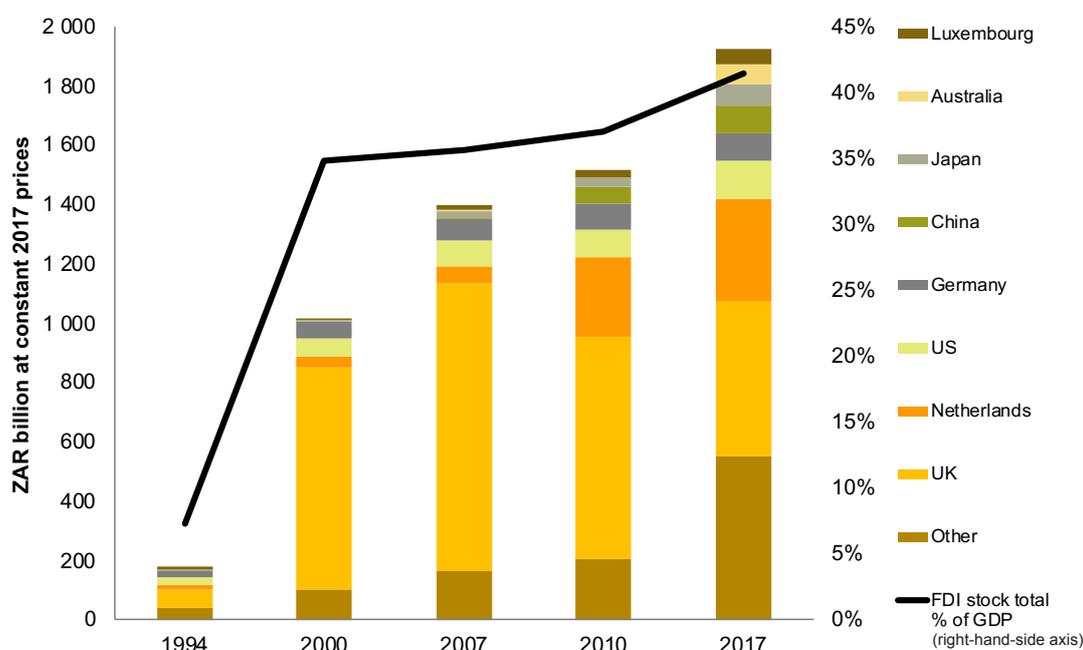


\*EMBIG = Emerging Market Bond Index Global  
Sources: IDC analysis using data from the International Monetary Fund, the South African Reserve Bank and Bloomberg

## FOREIGN DIRECT INVESTMENT SUPPORTING SOUTH AFRICA'S GROWTH AND DEVELOPMENT

- Foreign direct investment (FDI) flows into South Africa rose sharply in 2018 to ZAR70.6-billion, from ZAR26.8-billion in 2017. The positive momentum continued in the first semester of 2019, considering strong FDI inflows valued at ZAR38-billion.
- South Africa's attractiveness as an investment destination is expected to improve over the next couple of years, underpinned by greater policy predictability, a progressive recovery in the economy's performance and improving business and investor confidence. A task team led by the Presidency is looking at ways of addressing the policy, legal, regulatory and administrative barriers that have been constraining investment activity.

### TRENDS IN AND COMPOSITION OF FDI STOCK IN SOUTH AFRICA (AT CONSTANT PRICES)



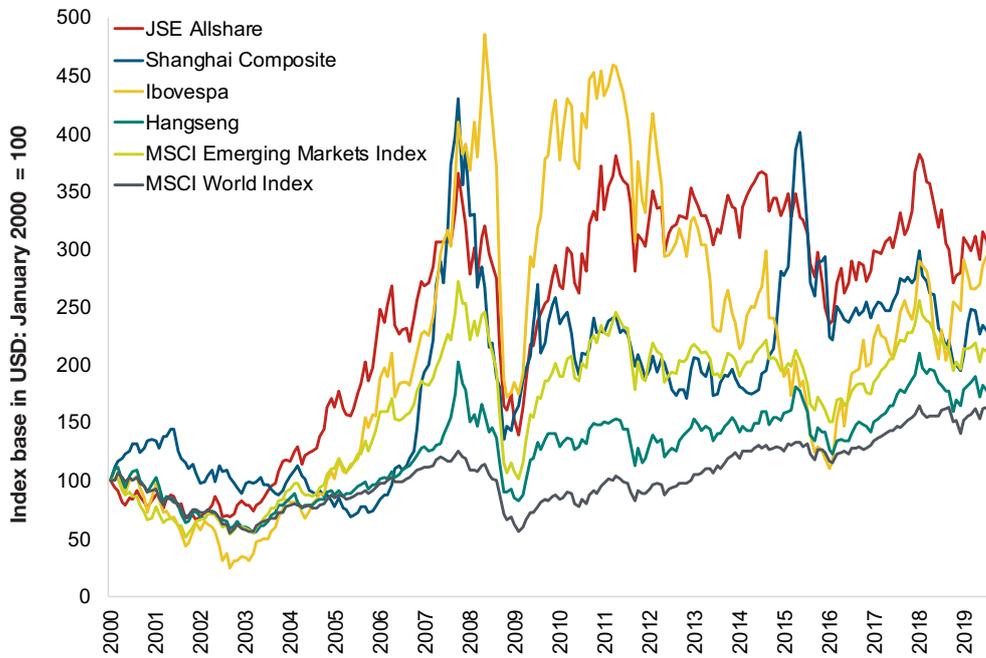
Source: Industrial Development Corporation analysis, compiled using South African Reserve Bank data

## ATTRACTIVE LONG-TERM RETURNS ON PORTFOLIO INVESTMENTS

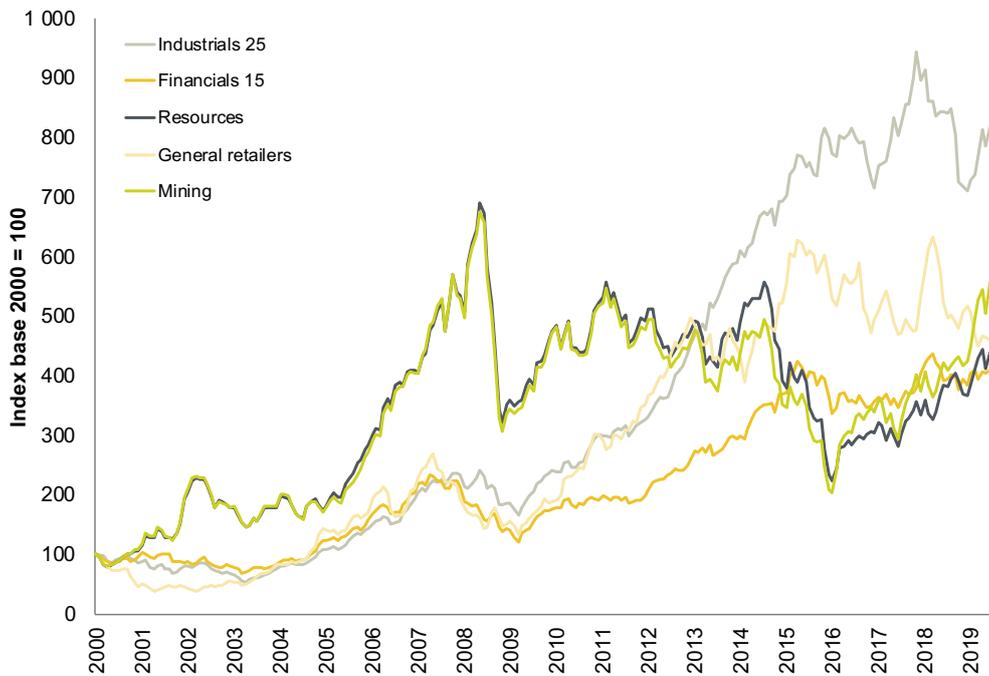
- Although the domestic equities market has underperformed since 2017, over the longer-term the Johannesburg Stock Exchange (JSE) has provided investors with high returns on investment relative to several other emerging markets.
- From a sectoral perspective, industrials have generally outperformed other sector groupings, principally due to the performance of listed industrial conglomerates, such as Naspers. Several of these counters are highly developed, integrated and geographically diversified businesses domiciled in South Africa. The JSE has provided global investors with an efficient means through which to participate in the growth story of these businesses over the years.



### RELATIVE PERFORMANCE OF SELECT GLOBAL STOCK MARKETS



### PERFORMANCE OF SELECT JSE SECTORAL INDICES



Source: (charts) IDC analysis using data from South African Reserve Bank and Bloomberg







# 4.

## POLICY FRAMEWORK

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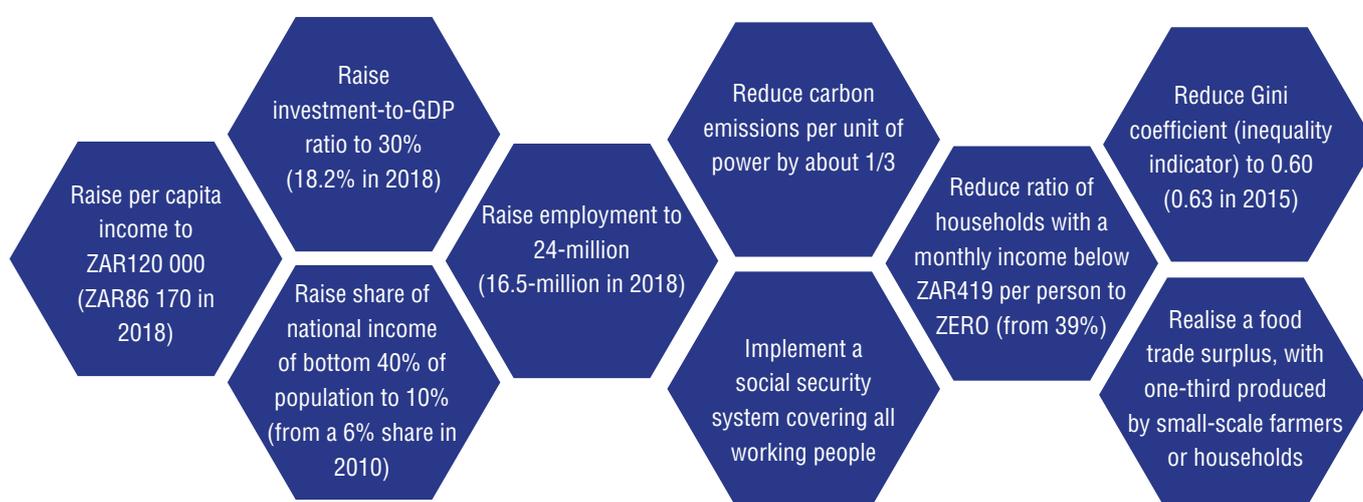




# THE NATIONAL DEVELOPMENT PLAN: VISION 2030 IS SOUTH AFRICA'S OVERARCHING POLICY FRAMEWORK

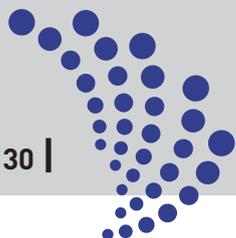


- The National Development Plan: Vision 2030 (NDP), which was launched in 2012, constitutes South Africa's overarching policy framework.
- The NDP's comprehensive framework seeks to drive and entrench an inclusive economic growth agenda for South Africa.
- The NDP places small- and medium-sized enterprises at the forefront of job creation in the economy, accounting for increasing shares of national output.
- **By 2030, the NDP envisions to ...**



Source (graphic): Information obtained from National Development Plan: Vision 2030, National Planning Commission; various sources for recent data

<p><b>Key strategies and initiatives to support a higher growth trajectory</b></p>	<p><b>Economic Stimulus and Recovery Plan and other Presidential initiatives</b> → Growth-enhancing reforms and programmes; drive to mobilise ZAR1.2-trillion in investment over a five-year period; building confidence through enhanced policy coherence and predictability; re-prioritisation of public spending towards investment; measures agreed upon at the Jobs Summit; and interventions to promote youth employment and the labour-intensity of growth.</p>
	<p><b>Reinvigorated industrial strategy</b> → Support for identified sectors and technology enhancement to improve the competitiveness and dynamism of industry, with Master Plans being developed for national priority sectors; spatial interventions in the form of an enhanced support programme for special economic zones and industrial parks, establishment of business centres and incubation hubs, support for township and village enterprises; support for innovation and skills development; strengthened use of Competition Policy to lower barriers to entry and distorted patterns of ownership; effective use of localisation policies and instruments such as designations; border controls to support industrial strategy, especially with regard to illegal imports and to limit the growth of the illicit economy; realise opportunities associated with African regional integration; enhanced preferential access to global markets; support various domestic industries in reclaiming the domestic market; institutional and implementation improvements.</p>
	<p><b>Labour-market policies</b> → Qualitative improvement in education and skills development, as well as in the connection between skills and jobs; reduce industrial conflict through partnership policies.</p>
	<p><b>Infrastructure cost and availability</b> → Provision of affordable and quality infrastructure in the energy, water, transport and logistics, data and ICT sectors.</p>
	<p><b>Regulatory environment</b> → Improve the ease of doing business; supportive regulatory systems; improve the efficiency of government agencies; address monopolies and economic concentration; support SMEs, cooperatives and township enterprises.</p>



## MICROECONOMIC POLICY INTERVENTIONS TO ENABLE TRANSFORMATION, INCLUSIVE GROWTH AND COMPETITIVENESS

Labour-intensive growth: Agriculture, mining & tourism	Modernise network industries		Lower barriers to entry
	Transport and telecommunications	Electricity and water	
Deliver policy certainty in mining: MPRDA remains applicable and new Mining Charter gazetted in September 2018 (DMRE)	Implement hybrid model for spectrum allocation – amendment bill published in November 2018. Ministerial directive to ICASA to begin the process of spectrum allocation (DoC)	Integrated Resource Plan 2019 gazetted in October 2019 (DMRE)	Competition Amendment Act signed into law in February 2019, enabling the competition authorities to address abuse of dominance and high levels of concentration that are detrimental to small and emerging enterprises (DTIC)
Implement innovative financing solutions for farmers (DALRRD, Land Bank, NT)	Introduce Single Transport Economic Regulator to level the playing fields in the rail, maritime and roads sectors (DoT, DPE)	Review the structure of the electricity sector (DMRE, DPE, DEFF, DPME and NT)	Reduce switching costs by instituting a regulated switching process with mandatory timelines in banking and telecommunications (DoC, SARB)
Finalise agriculture insurance framework; implement pilot project (DALRRD, NT)	Consolidate government participation in the aviation industry (DPE, NT)	Develop a comprehensive strategy for investment in water resource development, bulk water supply and wastewater management (DHSWS)	Competitive outcomes improved in retail sector, including limiting the exclusivity of business leases (DTIC)
Improve agricultural exports by leveraging market opportunities around the world (DALRRD, DTIC)	Implement a comprehensive turnaround and restructuring strategy at PRASA (DoT, NT)	Establish an independent water regulator (DHSWS)	Review municipal licensing and servitudes, including implementation of rapid deployment guidelines (NT)
Ease visa restrictions for tourists and highly-skilled immigrants, pilot e-visa system (DHA)	Introduce competition in port terminal sector (DoT, DPE, Transnet)	Institute regular reviews of all regulated prices and their underlying formulae (line departments)	Reduce red tape (DSBD, DPME, DTIC)
Ensure increased safety and security measures for tourist hotspots (SAPS, DoT, municipalities)	Ensure ICASA's proposed economic regulation component is independent of line departments and directly funded from industry levies (DoC, ICASA)		Broaden financing options for small businesses, especially at ideation stage (DSBD)

## RECENT POLICY INITIATIVES/REFORMS TO ADDRESS OBSTACLES TO INVESTMENT

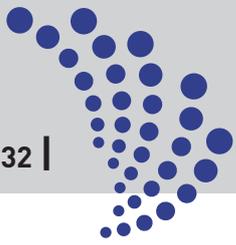
Key sectors/areas	Actions
Mining	<ul style="list-style-type: none"> <li>New Mining Charter gazetted in September 2018 and came into force in March 2019.</li> <li>Current Mineral and Petroleum Resources Development Act remains applicable, with the Amendment Bill having been withdrawn to provide greater certainty for the mining sector.</li> </ul>
Land reform	<ul style="list-style-type: none"> <li>The Presidential Advisory Panel on Land Reform and Agriculture, established in September 2018, put forward several recommendations to correct the skewed distribution of land in South Africa. These complement and reinforce the work undertaken by the Inter-Ministerial Committee on Land Reform, chaired by the Deputy President. The panel's report, which was presented to Cabinet, recommended, among others: legal mechanisms to recognise, record and enforce a continuum of land rights; the identification by government of well-located and unused/under-utilised land and buildings for the purpose of urban settlements; and a participatory and democratic, area-based approach to identifying land needs. The panel also argued that expropriation without compensation is not, by itself, a solution to land reform, but simply one of the means of acquiring land.</li> <li>A process is under way in the National Assembly to initiate and introduce the necessary legislation, taking into consideration the work done and recommendations contained in the reports of the Constitutional Review Committee and the Ad Hoc Committee on Amendment of Section 25 of the Constitution.</li> </ul>
Transport and telecommunications	<ul style="list-style-type: none"> <li>In line with the goal of making it easier to do business in South Africa by reducing port and rail tariffs, the Ports Regulator announced a 6% decrease in tariffs in November 2018 and also lowered container and automotive cargo dues. Commencement of the spectrum licensing process is imminent, opening up investment opportunities in the digital and telecoms sectors.</li> </ul>
Energy	<ul style="list-style-type: none"> <li>The government's long-term energy plan is expressed in the Integrated Resource Plan (IRP) 2019. The IRP 2019 provides a roadmap for planned energy generation and the evolution of the energy mix over the period to 2050, outlining a progressively lower relative contribution by coal-based electricity generation to total energy supply over time, towards an envisaged 58.8% by 2030.</li> <li>Enhanced impetus for renewable energy to replace decommissioned coal generation capacity.</li> </ul>

## ECONOMIC TRANSFORMATION AND REFORM AGENDA

### Drivers of change ...

### ... Government's efforts to effect transformation

<p>The key driver for economic transformation and the reform agenda is an urgent need for greater economic inclusion (that is, to narrow the gap between the rich and poor while further diversifying the economy).</p>	1. Extensive social services	To raise the human capital of the disadvantaged – the foundation of South Africa's fiscal framework.
	2. SME support	That includes funding and a programme of policy improvement.
	3. Active competition policy	That allows for responsive but predictable policy action against anti-competitive behaviour.
	4. Broad-based black economic empowerment	Policies to incentivise firms to ensure economic equity among race groups.
	5. Strategic use of state procurement practices	To give better opportunities to black-owned and small businesses.
	6. Youth	Several initiatives and programmes are in place to facilitate the assimilation of the youth into the mainstream economy
	7. Women	Clear policy framework and several programmes are in place to advance the economic empowerment of women.
	8. Black industrialists policy	To provide targeted support to medium-sized black-owned firms to grow into large firms.
	9. Land reform	To uplift rural communities and allow black people access to productive assets.



## INDUSTRIAL POLICY SUPPORT

Attractive support system for industrial development and investment promotion	Industrial financing
<ul style="list-style-type: none"> <li>• A more focused and purposeful industrial strategy has been adopted, and Master Plans are being developed by government in conjunction with business and labour for sectors with high potential for growth.</li> <li>• The national priority sectors are:               <ul style="list-style-type: none"> <li>(i) Industrial sectors: automotive; clothing, textiles, leather and footwear; gas, chemicals and plastics; renewables/ green economy; steel and metal fabrication.</li> <li>(ii) Agriculture and agro-processing.</li> <li>(iii) Mining sector: minerals and beneficiation.</li> <li>(iv) Tourism.</li> <li>(v) High tech sectors / knowledge-based: digital economy; ICT and software production; health economy (including pharmaceuticals); defence and aerospace industry.</li> <li>(vi) Creative sector: film and television, games (electronic), music and craft industries.</li> <li>(vii) Oceans economy.</li> </ul> </li> <li>• Industrial financing support system, including the deployment of conditional incentives and assistance from state-owned development finance institutions (DFIs).</li> <li>• Localisation initiatives, including product designations, to maximise the benefits of public sector procurement for the domestic economy.</li> <li>• Spatial interventions such as special economic zones (SEZs); the revival of local industrial parks; the establishment of business centres, smart youth centres, incubation hubs and digital hubs; as well as initiatives to support township and village enterprises.</li> <li>• SEZs are designated in areas set aside for targeted economic activities. These are supported through special arrangements (including legislation) and systems that often differ from those applicable in the rest of South Africa.</li> <li>• A wide variety of demand- and supply-side industrial policy levers are designed to secure higher levels of investment and raise the competitiveness of the productive sectors of the economy. These include:               <ul style="list-style-type: none"> <li>- Developmental trade policies, including the technical infrastructure institutions that support the industrial effort;</li> <li>- Efforts to stem the tide of illegal imports, working with Customs;</li> <li>- Technology support measures; and</li> <li>- Competition policy (which addresses anti-competitive behaviour and lowers barriers to entry).</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Availability of attractive incentives (e.g. incentives provided under the Manufacturing Investment Programme, Automotive Production and Development Programme, Clothing and Textiles Competitiveness Programme, Critical Infrastructure Programme, Aquaculture Development and Enhancement Programme).</li> <li>• Various instruments available from a range of state-owned development finance institutions such as the:               <ul style="list-style-type: none"> <li>- Industrial Development Corporation;</li> <li>- Development Bank of Southern Africa; and</li> <li>- Land Bank.</li> </ul> </li> <li>• Export assistance (e.g. export credit insurance, export marketing assistance).</li> </ul>



# INDUSTRIAL POLICY SUPPORT: SPECIAL ECONOMIC ZONES

## Incentives offered by Special Economic Zones

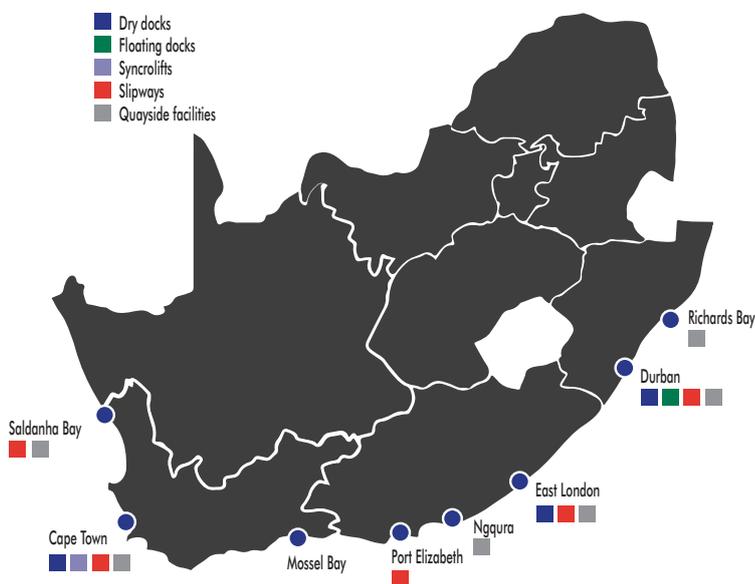
### (SEZs) include:

- Preferential 15% Corporate Tax rate;
- Value-added Tax and Customs Duty suspension in customs-controlled areas;
- Employment incentive;
- Building allowance; and, among others,
- Preferential land rental and utility rates.

## Ten designated special economic zones covering seven provinces:

- Atlantis (Western Cape);
- Coega (Eastern Cape);
- Dube Trade Port (KwaZulu-Natal);
- East London (Eastern Cape);
- Maluti a Phofung (Free State);
- Musina-Makhado (Limpopo);
- Nkomazi (Mpumalanga);
- OR Tambo International Airport (Gauteng);
- Richards Bay (KwaZulu-Natal);
- Saldanha Bay (Western Cape).

## SOUTH AFRICA'S PORTS



# TRADE POLICY: SOUTH AFRICA HAS ENTERED INTO SEVERAL TRADE AGREEMENTS

- South Africa is a member of the World Trade Organisation.
- Access to global markets has been enhanced through bilateral agreements with most of South Africa's major trading partners. Preferential access to key export markets has been secured through various agreements and by participating in regional economic communities.

Agreement name	Type of agreement	Countries involved
Southern African Customs Union (SACU)	Customs union	South Africa, Botswana, Lesotho, Swaziland, Namibia
Southern African Development Community (SADC) Free Trade Area (FTA)	Free trade agreement	16 SADC member states
African Continental Free Trade Area (AfCFTA)	Progressive liberalisation of tariffs	54 member states of the African Union (AU)
Economic Partnership Agreements (EPAs)	Free trade agreement	SACU-EU EPA plus Mozambique and Angola
European Free Trade Association/Southern African Customs Union (EFTA-SACU) FTA	Free trade agreement	SACU and EFTA (Iceland, Liechtenstein, Norway and Switzerland)
African Growth and Opportunity Act (AGOA)	Unilateral assistance measures (non-reciprocal)	US and 39 sub-Saharan Africa countries
Generalised System of Preferences (GSP)	Unilateral (non-reciprocal)	SA and EU, Norway, Switzerland, Russia, Turkey, the US, Canada, Japan
SACU-Mercosur	Preferential trade agreement	SACU and Argentina, Brazil, Paraguay and Uruguay

An economic partnership agreement (EPA) has been concluded between the five member states of SACU plus Mozambique on the one side, and the United Kingdom (UK) on the other side. The SACUM-UK EPA, which basically replicates the terms of the existing SACU-EU EPA in terms of tariffs, rules of origin, and health and safety standards, will come into effect in the event of the UK leaving the European Union.

## TRADE POLICY: MAIN BENEFITS OF SELECT TRADE AGREEMENTS

### Southern African Development Community (SADC) FTA:

- Import market of USD196.5-billion in 2018.
- SADC incorporates 16 member states, namely, Angola, Botswana, Comoros, Democratic Republic of Congo, eSwatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, United Republic of Tanzania, Zambia and Zimbabwe.
- Since 2012, the SADC FTA has allowed for duty-free trade among 12 of its members.
- The SADC FTA encourages intra-regional trade, investment and regional value chain development.



### African Growth and Opportunity Act (AGOA):

- Increased the number of products entering the United States (US) market duty-free under the General System of Preferences (GSP) by more than 1 800 products for African countries.
- Improves market access for African products into the USD2.6-trillion (2018) US import market.
- Encourages intra-African trade through recognition of African inputs for rules-of-origin purposes.
- African countries do not have to reciprocate by opening up their markets to US products.
- In 2018, USD1.5-billion worth of US imports from South Africa (17.5% of total US imports from SA) entered the country under AGOA, with more than 1 800 African products able to enter duty-free under GSP.



### South Africa-European Union Trade and Development Co-operation Agreement (SA-EU TDCA):

- Duty-free access to part of the EU market (overall imports from the world at large amount to about €1.8-trillion).
- Covers 90% of bilateral trade between the EU and South Africa.
- Established as an asymmetrical agreement, with the EU opening up its market faster than South Africa.
- The EU liberalised 95% of its duties on South African-originating products by 2010.
- Covers the liberalisation of trade in goods and services plus the free movement of capital.
- Normally protected agricultural goods in the EU are part of the agreement (with some exclusions).

### European Union-Southern African Development Community Economic Partnership Agreement (EU-SADC EPA):

- Will replace the SA-EU TDCA once ratified by the two parties.
- The agreement offers improved market access relative to the EU TDCA.
- EPAs are permanent in nature and incorporate development aid from the EU.
- The EU's Aid for Trade helps partner countries improve customs procedures and reduce paperwork.
- EPA partner countries export to the EU market free of duties and import quotas.
- EPA supports partner countries to meet high EU standards in food safety, animal and plant health.
- One-stage processing in manufactured goods is sufficient to qualify for duty-free entry.
- EPAs promote regional value chains; one country can process inputs and still benefit from duty-free access to Europe.

### African Continental Free Trade Area (AfCFTA):

- Signed by 54 out of the 55 member states of the African Union, the AfCFTA agreement entered into force on 30 May 2019. South Africa signed the AfCFTA on 1 July 2018 and ratified it on 10 February 2019.
- The AfCFTA will create a market of approximately 1.3-billion people and a USD2.3-trillion GDP economic bloc that will boost intra-African trade and investment, and unlock industrial development.
- The AfCFTA's main objectives are to integrate Africa's markets for goods and services, harmonise regimes for trade in goods and services and thereby enhance intra-Africa trade and investment:
  - Through the progressive elimination of tariffs;
  - by setting up rules to manage non-tariff barriers;
  - by facilitating cooperation on customs, trade facilitation and transit; and
  - by enhancing cooperation on technical barriers to trade, including sanitary and phytosanitary measures.

## SOUTH AFRICA WITHIN THE GLOBAL GOVERNANCE FRAMEWORK

South Africa, as a meaningful contributor to global governance, adds to its investment appeal	South Africa has a sound political governance framework
<ul style="list-style-type: none"> <li>• South Africa has instituted a peaceful, internally-negotiated political settlement.</li> <li>• The country has served two terms as a non-permanent member of the UN Security Council.</li> <li>• South Africa plays an active role in the G20.</li> <li>• South Africa played an active role in transforming the OAU (Organisation of African Unity) into the current AU (African Union), as well as in the facilitation of peace and security on the African continent.</li> <li>• South Africa is a champion of the New Partnership for Africa's Development (NEPAD).</li> <li>• South Africa is positioned to leverage strategic partnerships with Brazil, Russia, India and China as the fifth member of the BRICS bloc of economies.</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa's political governance framework ranks favourably vis-à-vis most African countries.</li> <li>• The Mo Ibrahim Index of the quality of governance in Africa ranked South Africa 7<sup>th</sup> out of 54 countries for overall governance quality in 2018.</li> <li>• South Africa ranked in the top 10 in all of the four sub-categories of the Mo Ibrahim Index. These include (South Africa's ranking in parentheses):               <ul style="list-style-type: none"> <li>- Sustainable economic opportunity (4<sup>th</sup>);</li> <li>- Safety and rule of law (7<sup>th</sup>);</li> <li>- Participation and human rights (4<sup>th</sup>); and</li> <li>- Human development (8<sup>th</sup>).</li> </ul> </li> </ul>
<b>South Africa is an active global citizen</b>	

## MAIN BENEFITS OF SOUTH AFRICA'S PARTICIPATION IN BRICS

### BRICS (Brazil, Russia, India, China, South Africa)

- The BRICS grouping is an increasingly influential body in the world, representing 42% of the global population, accounting for 23.6% of the world's GDP in 2018, and covering 25% of the Earth's surface.
- The BRICS countries seek to influence and/or reform global governance and economic relations.
- BRICS operates on a more equal and balanced development partnership in the relations between major developing countries and their smaller, developing counterparts.
- Other BRICS member states are important destinations for South African exports, collectively accounting for ZAR182.9-billion (14.7% of total South African merchandise exports) in 2018.
- The New Development Bank was established to mobilise resources for infrastructure and sustainable development projects in BRICS. The New Development Bank offers South Africa and the rest of Africa access to funds for infrastructure development.
- The BRICS Business Council is an important facilitator of FDI and trade opportunities.
- The BRICS countries have adopted the MSME Cooperation Framework. This will permit micro-, small- and medium-enterprises (MSMEs) in the partner countries to exchange information and best practices on regulation, financial and export support, as well as to cooperate on international projects.





# 5.

## ENABLING ENVIRONMENT

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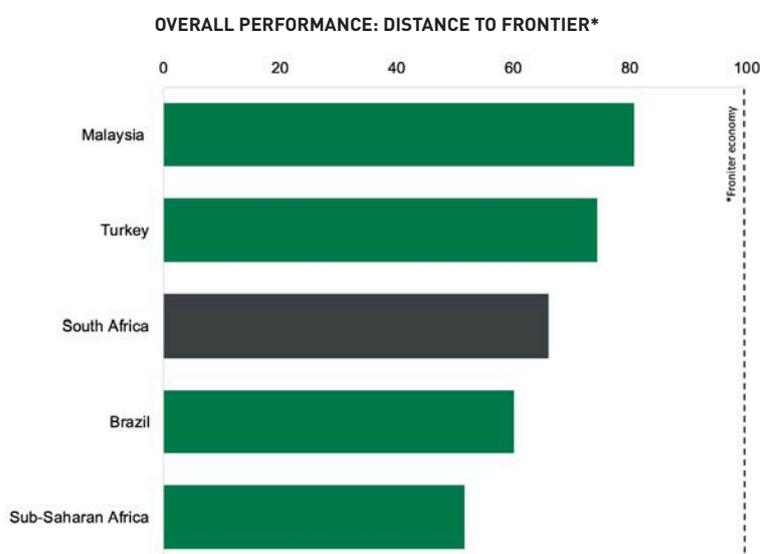




# EASE OF DOING BUSINESS: SOUTH AFRICA VERSUS PEER ECONOMIES

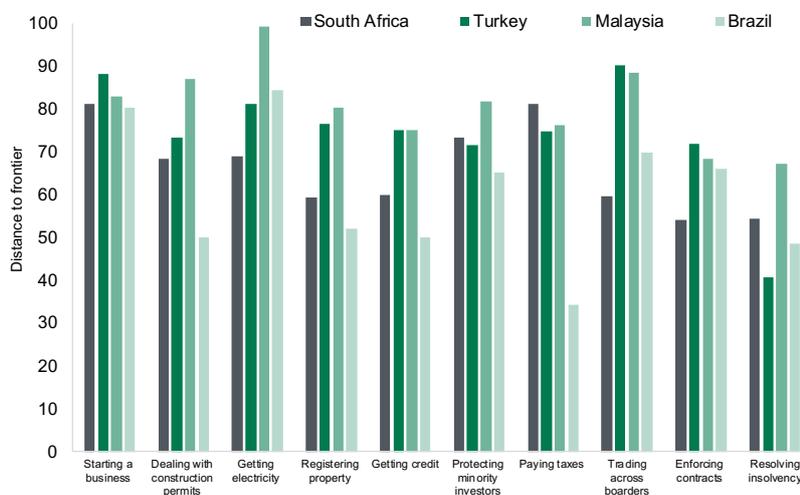
- South Africa offers an attractive investment proposition on the African continent, with an operating environment that is conducive to, and supportive of, business development.
- South Africa ranks 82<sup>nd</sup> out of 190 economies in the World Bank’s Doing Business 2019 report. In the State of the Nation Address on 7 February 2019, President Cyril Ramaphosa set a target for South Africa to be placed among the top 50 global performers within the next three years.

## SOUTH AFRICA OUTPERFORMS IN THE SUB-SAHARAN AFRICA REGION WITH REGARD TO THE OVERALL COST AND EASE OF DOING BUSINESS



## SOUTH AFRICA PERFORMS WELL RELATIVE TO SELECT PEER EMERGING MARKETS WITH REGARD TO SEVERAL CATEGORIES OF EASE OF DOING BUSINESS

DISTANCE TO FRONTIER\*: COUNTRY COMPARISONS ACROSS 10 KEY INDICATORS

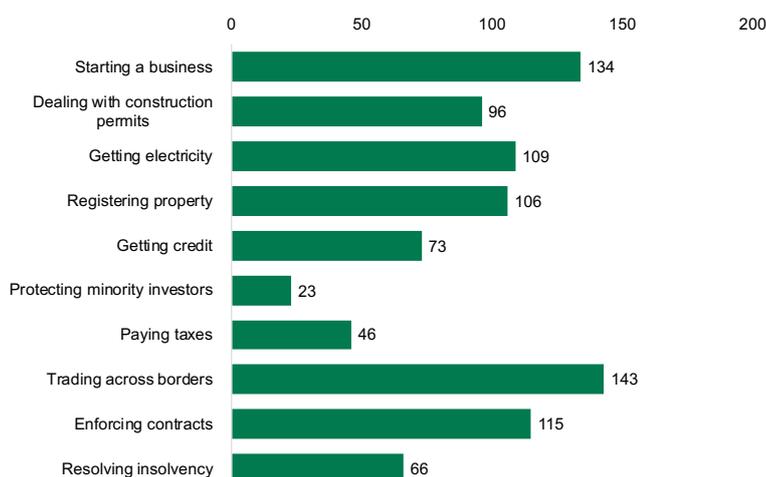


\*Frontier economy – represents the best-performing economy across each of 10 economic indicators as measured by the World Bank. Distance to frontier – represents the relative performance of individual economies against the frontier economy, which is benchmarked at 100 index value. The overall value is a simple arithmetic average of distance to frontier values across the 10 indicators.



## EASE OF DOING BUSINESS: SOUTH AFRICA FARES RELATIVELY WELL IN VARIOUS CATEGORIES

DOING BUSINESS IN SOUTH AFRICA METRIC (RANK OUT OF 190 COUNTRIES)



Source: World Bank Doing Business 2019 (data)



### Actions

#### Starting a business

- Expand the one-stop shop approach to ensure potential investors are not shunted between various departments.
- Register a company in a day using self-service terminals.
- Online search portal for company names.
- The Companies and Intellectual Property Commission (CIPC) has implemented mobile apps.
- South Africa is introducing a single platform for businesses to register for the Unemployment Insurance Fund and the Workmen's Compensation Fund.

#### Registering a property

- Move to online property registration, and electronic online checking for rates and clearance certificates.
- Work is under way to streamline processes, reducing information asymmetry and reducing costs for registering a property.

#### Trading across borders

- South Africa has implemented a Preferred Trader Programme and is working towards undertaking joint inspections and adopting new customs legislation.
- South Africa participates in the Global Coalition for Efficient Logistics as regional anchor that integrates domestic and other African small-, medium-, micro- and cooperative-enterprises into global markets through B2B digital trading tools.

#### Paying taxes

- Online e-filing system; improve the transparency of information and documentation required.
- Progress is being made towards reducing the time taken for VAT audits.

#### Contract enforcement

- Enforcing contracts has been made easier through the amendment of the monetary jurisdiction of lower courts and the introduction of voluntary mediation.

## EASE OF DOING BUSINESS: COMPARISON OF SELECT COSTS OF DOING BUSINESS IN SOUTH AFRICA VERSUS SELECT PEER ECONOMIES

The costs of doing business in South Africa are competitive against other emerging markets and are particularly well placed against other economies in the rest of the African continent.

Business cost indicator	South Africa	Brazil	Turkey	Malaysia	Sub-Saharan Africa
Price of electricity (US cents per kWh)	14.8	13.3	10.1	11.6	-
Business tax rate: % of total profit	29.1	64.7	40.9	39.2	46.8
Cost to export (USD): Total border plus documentary compliance costs	1 312	1 088	413	248	775
Cost to import (USD): Total border plus documentary compliance costs	749	482	126	273	968
Cost to enforce contracts: % of claim value	33.2	20.7	24.9	37.9	42.3
Cost of resolving insolvency: % of estate	18	12	14.5	10	22.7
Minimum wage: USD per month	282	373.5	584.7	231.7	-
Ratio of minimum wage-to-value added per worker	0.4	0.4	0.4	0.2	-

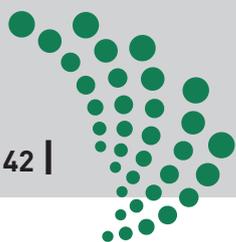
Source: World Bank Doing Business 2019 (data)

## CLUSTER OF INCENTIVE/SUPPORT SCHEMES

- South Africa’s Industrial Policy Framework aims to galvanise industrial development and economic growth in the country through various strategic incentive schemes targeted at the manufacturing and services sections of the economy.
- A comprehensive public sector support programme, including financial and other forms of business support, is in place to assist the development of small-, medium- and micro-enterprises (SMMEs) in various economic sectors.

Cluster	Incentive/support scheme
<b>Manufacturing investment</b>	<ul style="list-style-type: none"> <li>• 12i Tax Incentive</li> <li>• Automotive Incentive Scheme (AIS)</li> <li>• People-carrier Automotive Investment Scheme (P-AIS)</li> <li>• Aquaculture Development and Enhancement Programme (ADEP)</li> </ul>
<b>Competitiveness investment</b>	<ul style="list-style-type: none"> <li>• Manufacturing Competitiveness Enhancement Programme (MCEP)</li> <li>• Export Marketing and Investment Assistance (EMIA)</li> <li>• Capital Projects Feasibility Programme (CPFP)</li> </ul>
<b>Services investment</b>	<ul style="list-style-type: none"> <li>• Film and Television Production</li> <li>• Business Process Services (BPS)</li> </ul>
<b>Broadening participation</b>	<ul style="list-style-type: none"> <li>• Black Business Supplier Development Programme (BBDSP)</li> <li>• Black Industrialist Programme</li> <li>• Cooperative Incentive Scheme (CIS)</li> <li>• Incubator Support Programme (ISP)</li> <li>• National Gazelles programme</li> <li>• Enterprise Incubation Programme (EIP)</li> <li>• Amavulandlela Funding Scheme</li> </ul>
<b>Infrastructure investment</b>	<ul style="list-style-type: none"> <li>• Critical Infrastructure Programme (CIP)</li> <li>• Shared Economic Infrastructure Fund (SEIF)</li> </ul>

Source: Deloitte South Africa Taxation and Investment 2017



## ATTRACTIVE INCENTIVES TO SUPPORT INVESTMENT

The South African government offers a comprehensive suite of financial grants, tax incentives and other forms of business support to investors.

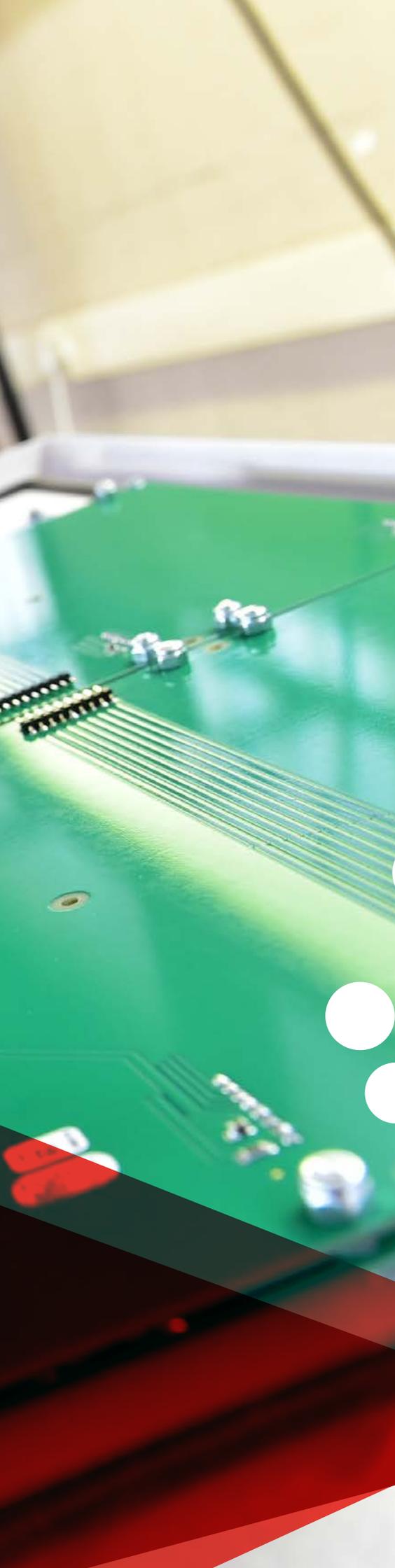
Incentive programme	Description
<b>Research and Development (R&amp;D)</b>	<p>A 150% deduction of R&amp;D expenditure when determining taxable income. Qualifying R&amp;D activities include:</p> <ul style="list-style-type: none"> <li>• Discovery of novel, practical and non-obvious information;</li> <li>• Development and/or creation of new inventions;</li> <li>• Developing or improving knowledge seen as essential for use in new inventions.</li> </ul> <p>Approvals for claiming R&amp;D tax incentives should be obtained from the Department of Science and Innovation.</p>
<b>Critical Infrastructure Programme (CIP)</b>	<p>A cost-sharing grant that lowers the cost of doing business by targeting industrial investment projects incurring costs in the development of bulk infrastructure. Grant covers 10% to 30% of total qualifying development costs.</p>
<b>Energy savings tax deduction</b>	<p>Tax deduction for energy savings, dependent on energy savings certificate issued by the South African National Energy Development Institute, priced at ZAR0.95/kWh.</p>
<b>Incentive for industrial policy projects</b>	<p>Income tax allowance for industrial projects – greenfield or brownfield. Allowance dependent on project classification as normal or preferred status. For normal status, tax allowance amounts to 35% of the cost of new and unused manufacturing assets, which can increase to 55% to 100% for preferred status projects.</p> <ul style="list-style-type: none"> <li>• Companies may make deductions for training costs to a maximum of ZAR36 000 per employee.</li> </ul>
<b>Agro-Processing Support Scheme (APSS)</b>	<p>APSS aims to stimulate investment in the agro-processing sub-sector, offering a grant of 20% to 30% of qualifying costs incurred for investments that increase capacity, generate employment, improve competitiveness and productivity, and support broad-based black economic empowerment. Costs include those incurred for machinery, equipment, commercial vehicles, buildings, systems automation and accreditation.</p>
<b>Automotive Investment Scheme (AIS)</b>	<p>Supports light, medium and heavy vehicles and components and tooling manufacturers in the automotive value chain. Covers 20% to 30% of qualifying investment costs.</p>
<b>National Gazelles programme</b>	<p>A publicly-funded high-growth accelerator for SMEs in each of the 10 priority industry sectors identified in the NDP. It facilitates access to finance, skills development and training, and access to business advisory services.</p>

Incentive programme	Description
<b>Black Industrialists Scheme (BIS)</b>	Aims to accelerate the economic participation of black industrialists in South Africa. A cash grant, amounting to 20% to 30% of qualifying costs but limited to ZAR50-million, is offered to 51% black-owned, -managed and -controlled businesses to invest in greenfield and brownfield manufacturing projects.
<b>Business Process Services (BPS)</b>	The BPS incentive aims to attract investment and generate employment in South Africa by offshoring business services, targeting business processing and outsourcing BPO projects that create at least 50 new jobs in South Africa. The incentive is granted per offshore job created and is granted over a period of five years.
<b>Film and television production</b>	<p>A package of incentives is available to promote film production and post-production activities in South Africa:</p> <ul style="list-style-type: none"> <li>• Foreign Film and Television Production Incentive: 20% of qualifying South African production expenditure (QSAPE);</li> <li>• South African Film and Television Production and Co-Production Incentive: 35% of the first ZAR6-million of QSAPE and 25% of the excess; and</li> <li>• South African Emerging Black Filmmakers Incentive: 50% of the first ZAR6-million of QSAPE and 25% of the excess.</li> </ul>

Source: Deloitte South Africa Taxation and Investment 2017



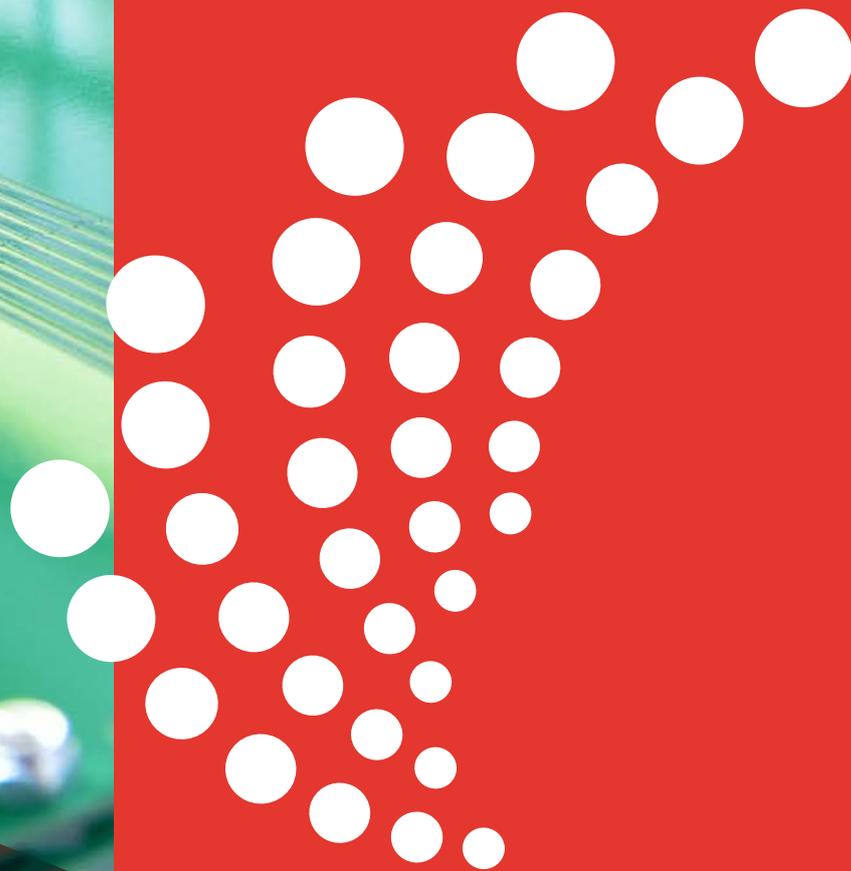




# 6.

## OPPORTUNITIES FOR INVESTORS

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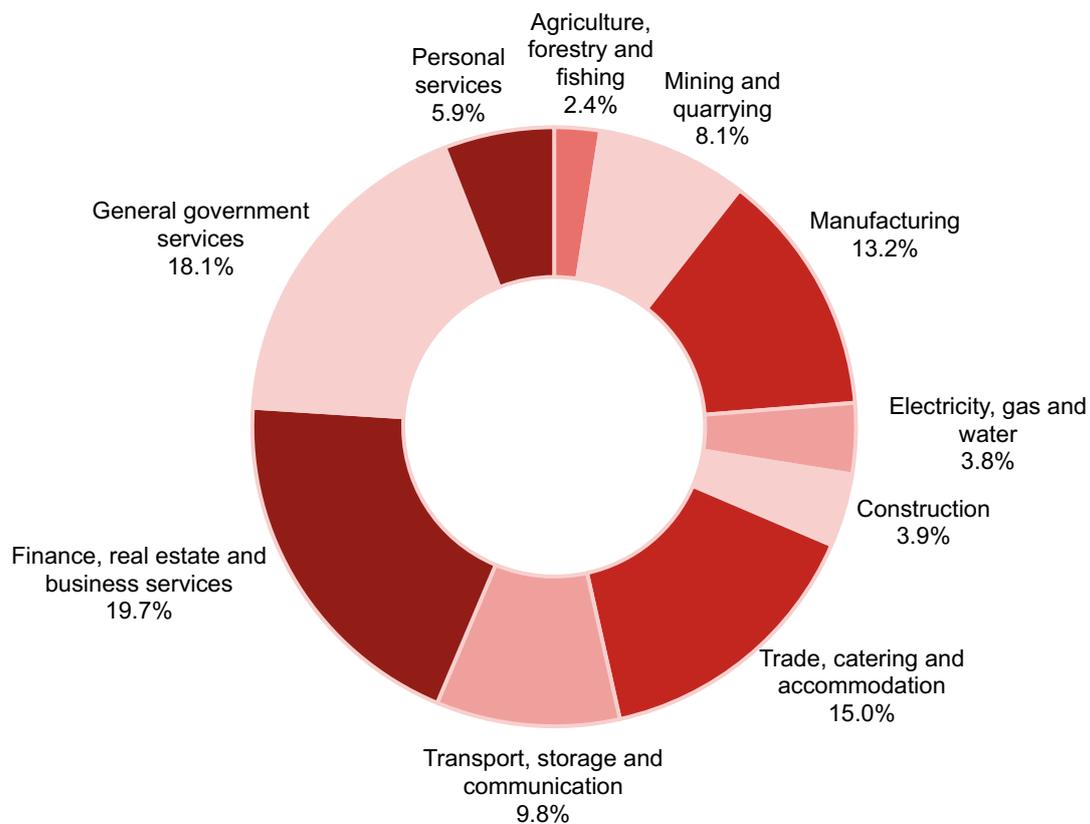




## SOUTH AFRICA'S DIVERSIFIED ECONOMY FORMS AN IMPORTANT BASIS FOR SUSTAINED GROWTH AND RETURNS ON INVESTED CAPITAL

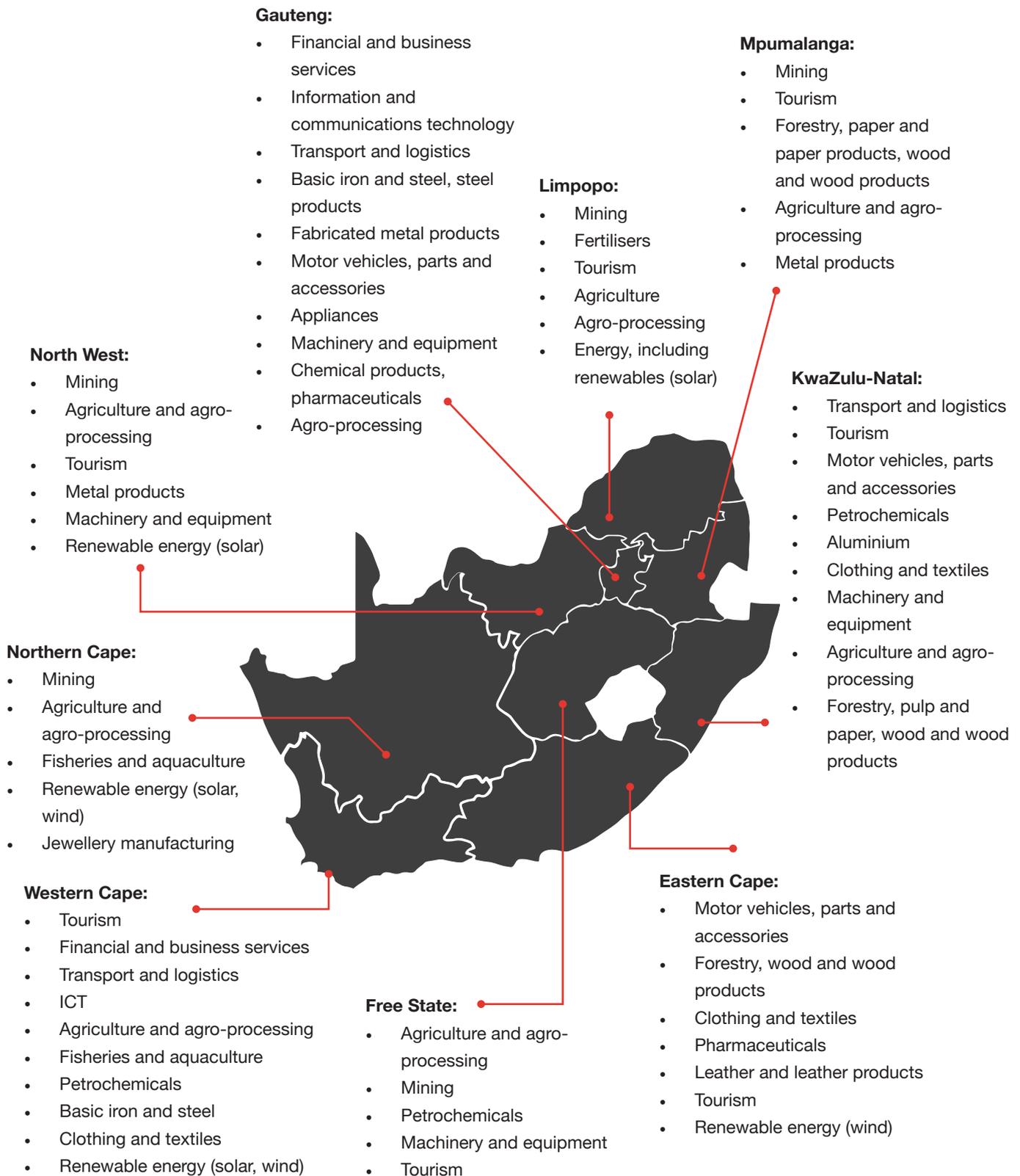
- South Africa's economy is highly diversified, with services and manufacturing as the dominant broad sectors.
- The top five sectors in the economy – finance and business services; general government services; trade, catering and accommodation services; manufacturing; and transport, storage and communication services – accounted for 75.8% of GDP in 2018.
- Although the mining sector's relative contribution to GDP is lower than those of the abovementioned sectors, it remains a significant contributor to overall economic growth and export earnings via its extensive backward linkages with other services and manufacturing industries.
- Regionally diversified sectors mean that South Africa is competitively positioned to leverage continental growth opportunities.
- The country's technological base, advanced manufacturing capabilities and economic infrastructure, supported by sophisticated and globally integrated capital markets, present value chain development opportunities.

**SECTORAL COMPOSITION OF GDP IN 2018**



Source: Statistics South Africa

## SECTORAL STRENGTHS OF SOUTH AFRICA'S PROVINCES



# ATTRACTIVE OPPORTUNITIES ACROSS SEVERAL SECTORS



## AGRICULTURE AND AGRO-PROCESSING

- Fruit and vegetable packaging & canning
- Fruit juice processing
- Processing of soy-based products
- Processing of organic, vegetarian, dehydrated foods
- Meat processing
- Aquaculture
- Expansion of dairy value chain
- High-value additives and nutraceuticals
- Non-edible oil processing
- Crop production for feedstock into biofuels processing
- Indigenous plant and flower growing



## MINING AND MINERALS BENEFICIATION

- Coal-bed methane: coal-to-liquid; coal ash utilisation to address acid mine drainage; carbon capture and storage
- Manganese value chain development
- Vanadium as a strategic input to energy storage
- Development of titanium value chain, especially titanium dioxide
- Ferrochrome production, revitalising chrome value chain
- PGMs beneficiation, development of fuel cell industry



## MANUFACTURING

- Motor vehicles, parts, accessories
- Other transport equipment (e.g. heavy vehicles, aircraft, vessels, rail equipment)
- Machinery and equipment
- Metals fabrication
- Chemicals, plastics
- Pharmaceuticals
- Footwear, leather industries
- Clothing, textiles
- Cosmetics
- Fast-moving consumer goods



## ADVANCED MANUFACTURING

- Fuel cells
- Energy storage
- Speciality materials
- Electronics
- Aerospace
- Defence industries
- Medical devices and emerging tele-medical instrumentation
- Speciality chemicals, including biochemicals
- Additive manufacturing, including 3D printing



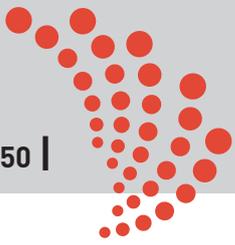
## SERVICES

- Tourism
- Business process outsourcing
- Financial and insurance services
- Internet of Things-related opportunities
- Film production and support services
- Oceans economy-related services (eg shipbuilding, repairs, maintenance)



## INFRASTRUCTURE

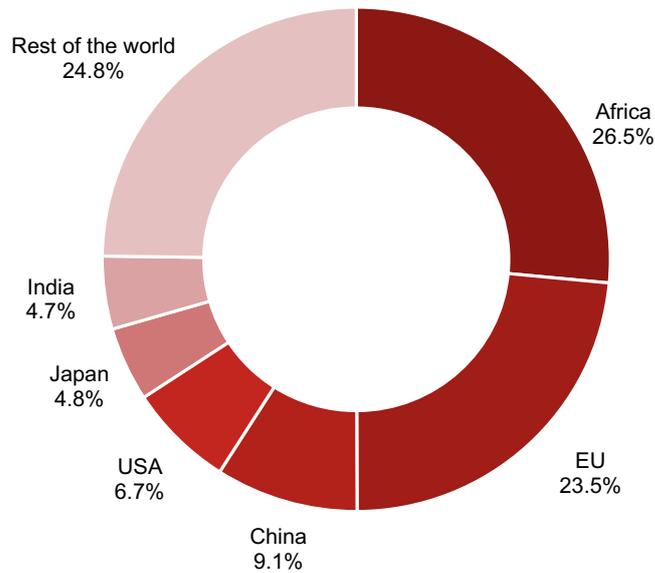
- Energy generation infrastructure, including renewables
- Energy efficiency
- Transportation and logistics infrastructure
- Water infrastructure
- Telecommunications infrastructure
- Agro-logistics and rural infrastructure
- Recycling



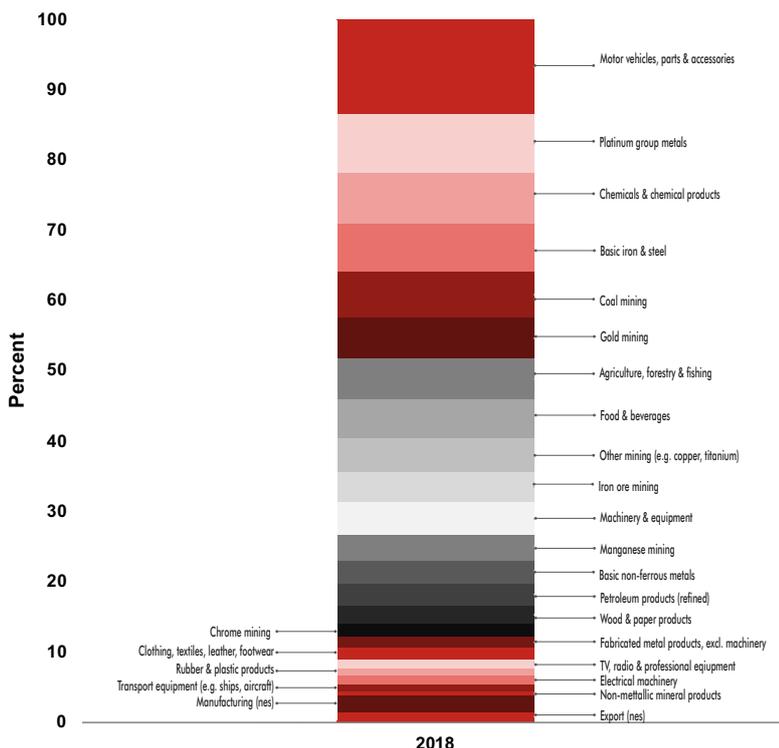
# EXPORT-ORIENTED SECTORAL OPPORTUNITIES

South Africa’s access to global markets is enhanced by its trade agreements (e.g. SADC Free Trade Area, EU-SADC Economic Partnership Agreement, preferential access to the US market under the African Growth and Opportunity Act (AGOA)). The African Continental Free Trade Area will lay the basis for a substantial increase in intra-African trade and fundamentally alter South Africa’s export sector in the years ahead.

**LEADING MARKETS FOR SOUTH AFRICAN EXPORTS, 2018  
(ZAR 1 246.2-BILLION)**



**COMPOSITION OF SOUTH AFRICA’S EXPORT BASKET IN 2018**



Note: nes = not elsewhere specified

## EXPORT-ORIENTED OPPORTUNITIES: SELECT NON-AFRICAN GLOBAL MARKETS

The following tables indicate the best-performing South African export sectors (in terms of nominal growth rates in exports) to the respective markets over the period 2017 to 2018:

### SELECT NON-AFRICAN MARKETS\*

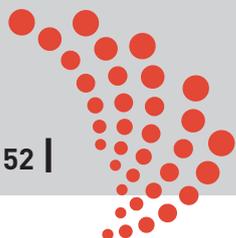
European Union	China	United States	Japan
• Motor vehicles, parts and accessories	• Mining (esp. non -ferrous metals)	• Platinum group metals mining	• Platinum group metals mining
• Agriculture (esp. cereals)	• Agriculture (esp. animal farming and cereals)	• Motor vehicles, parts and accessories	• Iron ore mining
• Platinum group metals mining	• Basic non-ferrous metal products	• Basic non-ferrous metal products	• Mining (esp. non-ferrous metals)
• Mining (esp. non-ferrous metals and diamonds)	• Manufacturing (esp. jewellery)	• Basic iron and steel products	• Wood and wood products
• Basic non-ferrous metal products	• Basic iron and steel products	• Manufacturing (esp. recycling of scrap metal waste)	• Basic iron and steel products
• Iron ore mining	• Metal products (excl machinery)	• Basic chemicals	• Chemicals (esp. soap, detergents, cleaning and polishing, perfumes)
• Basic chemicals	• Leather and leather products	• Agriculture	• Motor vehicles, parts and accessories
• Basic iron and steel products	• Machinery and equipment	• Mining (esp. non-ferrous metals and diamonds)	• Basic non-ferrous metal products
• Food	• Basic chemicals	• Machinery and equipment	• Agriculture (esp. cereals)
• Machinery and equipment	• Food	• Coal mining	• Beverages

\* Sectors ranked for each country/region are based on the top export categories (SA exports), with positive growth for 2017/18 and nominal value averaged over the five years to 2018

### SELECT AFRICAN MARKETS\*\*

Nigeria	Kenya	Angola	Ghana
• Motor vehicles, parts and accessories	• Basic iron and steel products	• Motor vehicles, parts and accessories	• Chemicals (esp. soap, detergents, cleaning and polishing, perfumes, etc.)
• Chemicals (esp. paints, varnishes, printing ink and mastics)	• Motor vehicles, parts and accessories	• Beverages	• Metal products (excl. machinery)
• Other chemicals and man-made fibres	• Coal mining	• Chemicals (esp. soap, detergents, cleaning and polishing, perfumes)	• Electrical machinery and equipment
• Machinery and equipment	• Agriculture (esp. cereals)	• Machinery and equipment	• Machinery and equipment
• Television, radio and communication equipment	• Chemicals (esp. paints, varnishes, printing ink and mastics)	• Television, radio and communication equipment	• Basic iron and steel products
• Transport equipment (esp. ship building and repairs)	• Food	• Food	• Food
• Electrical machinery and equipment	• Machinery and equipment	• Electrical machinery and equipment	• Plastic products
• Basic chemicals	• Professional and scientific equipment	• Basic chemicals	• Agriculture (esp. cereals and animal farming)
• Plastic products	• Basic chemicals	• Plastic products	• Basic chemicals
• Agriculture	• Metal products (excl. machinery)	• Agriculture (esp. cereals)	• Wearing apparel

\*\*Top four importing countries within the sub-Saharan region. Sectors ranked for each country/region are based on the top export categories (SA exports), with positive growth for 2017/18 and nominal value averaged over the five years to 2018



## SOUTH AFRICA AS A KEY REGIONAL GATEWAY: SECTORAL DESTINATION OF GREENFIELD FDI PROJECTS IN AFRICA

Announced greenfield FDI projects in Africa, by industry, 2017-2018 (USD million)

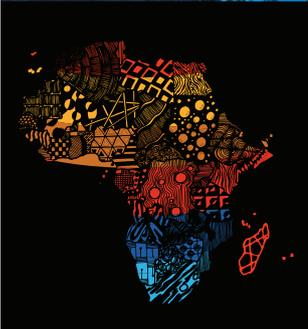
Sector/industry	Africa as a destination	
	2018	2017
<b>Total</b>	<b>75 722</b>	<b>83 044</b>
<b>Primary</b>	<b>16 795</b>	<b>10 587</b>
Mining, quarrying and petroleum	16 778	10 587
<b>Manufacturing</b>	<b>32 996</b>	<b>20 583</b>
Chemicals and chemical products	11 006	6 175
Coke and refined petroleum products	6 480	1 472
Food, beverages and tobacco	4 982	1 990
Metals and metal products	3 919	1 078
<b>Services</b>	<b>25 932</b>	<b>51 874</b>
Electricity, gas and water	5 697	37 073
Business services	5 291	2 539
Construction	4 789	5 667
Transport, storage and communications	4 243	3 656
Business services	22 734	3 733

- The manufacturing sector was the principal target of foreign investor interest for greenfield projects in Africa in 2018, with the share claimed by manufacturing projects accounting for a significantly higher 43.6% of the value of announced greenfield investments, from 24.8% in 2017.
- Notable investments were targeted at chemicals and chemical products, coke and refined petroleum products, food and beverages, as well as metals and metal products.
- In the primary sector (mainly mining, oil and gas), there was a substantial rise in greenfield FDI projects, benefiting from resource-seeking investments.
- Although still relatively strong, announced greenfield projects in the services sector have been declining over the years. Sharp declines in the electricity, gas and water sector as well as in the construction sector resulted in a 50% fall in greenfield investment inflows in the services sectors collectively.

Source (table): United Nations Trade and Development Conference (UNCTAD) World Investment Report 2019

## SOUTH AFRICA AS A REGIONAL GATEWAY: AFRICA OFFERS A MYRIAD OF OPPORTUNITIES ACROSS SEVERAL SECTORS

Sector	Opportunity
 <p><b>Agriculture and agro-processing</b></p>	<p>Africa has 60% of the world's uncultivated arable land, with value-adding opportunities in the food processing sector; it has abundant water resources for energy generation, irrigation and potable water.</p>
 <p><b>Mining and minerals beneficiation</b></p>	<p>Africa is a major player in producing various mineral resources such as platinum, chromium, diamonds, gold, bauxite, cobalt, copper, phosphate and uranium. The continent has almost 8% of the world's oil reserves. Its enviable resource endowment provides vast opportunities for investment in mining and minerals beneficiation.</p>

Sector	Opportunity
 <p><b>Hydrocarbons, particularly natural gas</b></p>	<p>Large offshore and onshore gas reserve discoveries in, for example, Mozambique and Tanzania present huge development opportunities for energy generation, among others.</p>
 <p><b>Manufacturing</b></p>	<p>There is a wide range of opportunities, including development of value chains such as petro-chemicals, food processing and beverages production, minerals beneficiation and metal products fabrication, forestry and wood processing, textiles and clothing, footwear, etc.</p>
 <p><b>Infrastructure</b></p>	<p>There are many development opportunities across the infrastructure spectrum, including input requirements associated with Africa's ongoing infrastructure and industrial development drive.</p>
 <p><b>Forestry and wood processing opportunities</b></p>	<p>There is substantial potential in commercial forestry and downstream development in the respective value chains.</p>
 <p><b>Consumer goods</b></p>	<p>Africa has approximately 1.3-billion consumers, a young population, rising disposable income, a growing middle class and increasingly sophisticated consumer segments. These factors are indicative of numerous opportunities for consumer-oriented industries.</p>
 <p><b>Banking sector/financial services</b></p>	<p>There has been rapid growth in the past decade, with financial sector reforms underpinning this momentum.</p>
 <p><b>Information and communications technology</b></p>	<p>This has been an important driver behind Africa's economic growth in recent years, underpinned by an already substantial and rapidly expanding subscriber base.</p>
 <p><b>Regional integration</b></p>	<p>Regional economic communities (for example, SADC, SACU, Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC)) are key drivers of economic growth, investment activity in infrastructure and productive activities, as well as intra-African trade. The African Continental Free Trade Area (AfCFTA) will bring together 54 African countries with a combined population of around 1.3-billion people.</p>





# 6.1

## AGRICULTURE AND AGRO-PROCESSING OPPORTUNITIES

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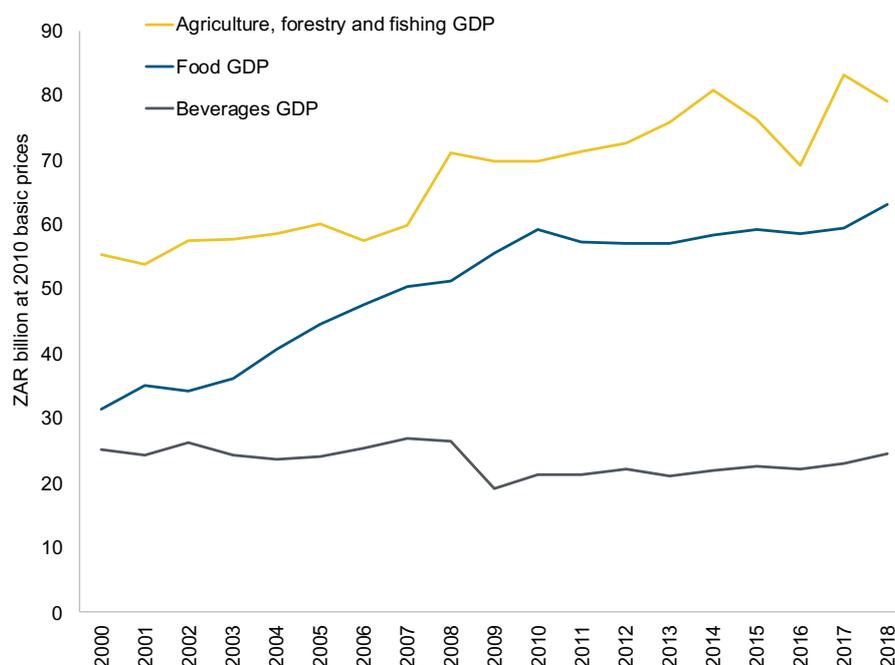




## AGRICULTURE AND AGRO-PROCESSING SECTORS

- South Africa has a well-developed commercial agriculture sector.
- The country's climatic diversity (including temperate, subtropical and semi-desert) has given rise to a range of soil types that support the exploitation of a wide array of opportunities across the agribusiness value chain.
- Biodiversity has segmented South Africa into various farming regions for intensive crop production in winter rainfall and high summer rainfall areas, cattle ranching in the bushveld, and sheep farming in arid regions.
- Approximately 69% of South Africa's land is suitable for grazing and other livestock farming.
- Key agricultural and related products include corn, wheat, sugarcane, fruits (e.g. apples, citrus fruits, table grapes, berries), vegetables, nuts (e.g. groundnuts, pecan nuts, macadamias), beef, poultry, mutton, wool, fish and seafood.
- The agro-processing sector, in turn, has grown rapidly and accounts for a sizeable share of total manufacturing output. It includes a wide range of food processing activities and beverages production (e.g. juices, wines and dairy products).
- After enduring drought-induced economic distress in 2015-16, South Africa's agriculture sector subsequently recorded robust growth across basically all of its sub-sectors (including field crops, horticulture and animal farming).
- The food processing sub-sector has maintained robust growth in recent years, exceeding growth in overall manufacturing sector output by 1.5 percentage points, on average, since 2008.

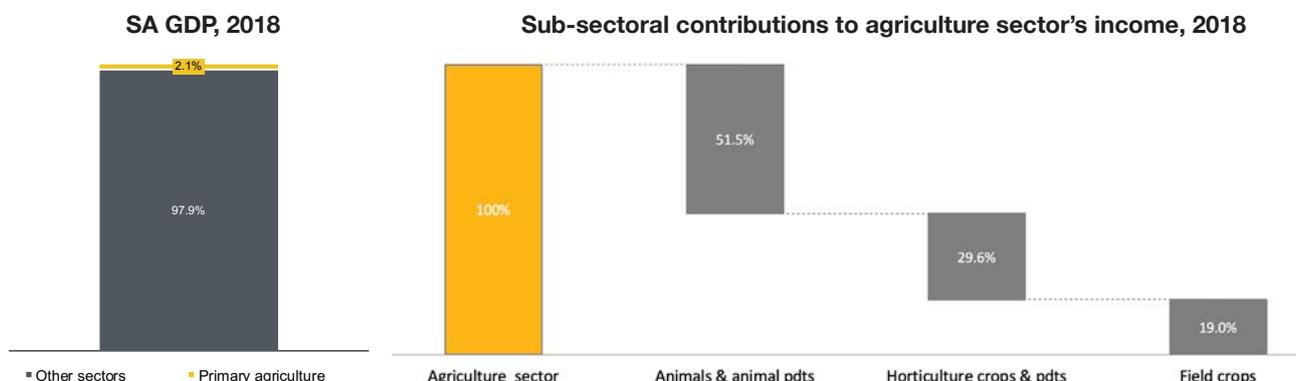
### FOOD PROCESSING INDUSTRY HAS OUTPERFORMED IN TERMS OF TOTAL VALUE-ADD INTO THE ECONOMY



Source (chart): IDC analysis, compiled using data from Statistics South Africa



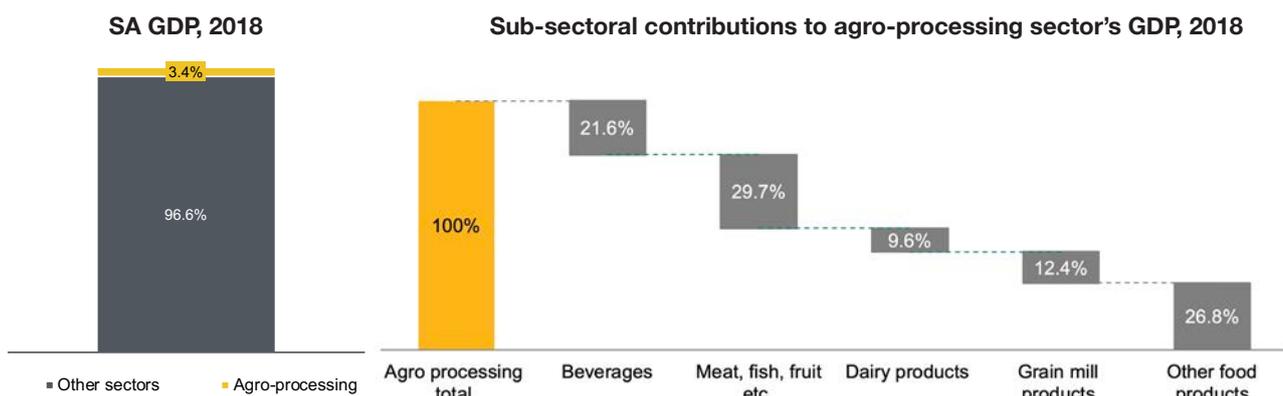
## WELL-ESTABLISHED, RESILIENT AGRICULTURE SECTOR



Source: IDC analysis, compiled using Quantec data

<b>Contribution to the economy</b>	The agriculture sector (i.e. primary agriculture only, excluding forestry and fishing) contributed 2.1% to South Africa's GDP in 2018 and accounted for 5.6% of total merchandise export earnings. The sector employs 842 000 people.
<b>Structure</b>	The sector has a well-developed commercial agriculture segment (some 40 000 commercial farmers) operating alongside about 200 000 smallholder farmers.
<b>Extensive sectoral linkages</b>	The agriculture sector has extensive backward and lateral linkages with the manufacturing and services sectors through the purchase of inputs and services, as well as forward linkages to manufacturing through the supply of raw materials into various processing industries.

## HIGHLY DIVERSIFIED AND COMPETITIVE AGRO-PROCESSING SECTORS

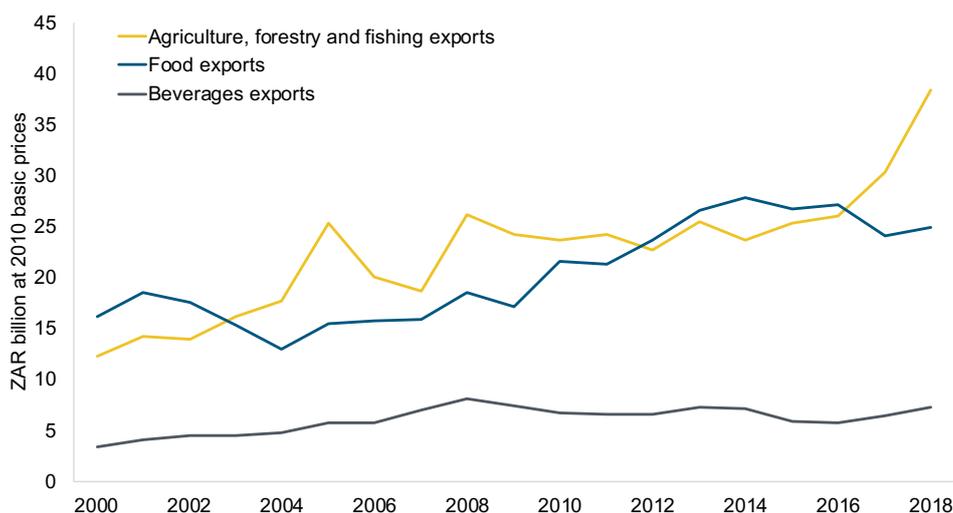


Source: IDC analysis, compiled using Quantec data

<b>Contribution to the economy</b>	The agro-processing sub-sectors (i.e. processed food and beverages) contributed 3.4% to South Africa's GDP and accounted for 5.7% of total merchandise export earnings in 2018. These sectors employ approximately 250 000 people.
<b>Structure</b>	Over 7 000 businesses are involved in the processing of food in South Africa, but the sector is dominated by large players.
<b>Extensive sectoral linkages</b>	The agro-processing sectors produce a wide range of products, from the basic but high-quality commodity types to the more high-end market/niche products. These sectors have extensive backward and lateral linkages with the agriculture, manufacturing and services sectors.

# EXPORT PERFORMANCE OF AGRICULTURE AND AGRO-PROCESSING SECTORS

## SIGNIFICANT EXPORT ORIENTATION AND COMPETITIVENESS



### TOP PRIMARY AGRICULTURE EXPORTS, 2018

Top primary agriculture exports, 2018	ZAR million	% of total SA merchandise exports
Citrus fruit, fresh or dried	20 273	1.6%
Grapes, fresh or dried	9 123	0.7%
Apples, pears and quinces, fresh	7 655	0.6%
Cereals	6 446	0.5%
Nuts except coconut, fresh/dried brazil & cashew	5 253	0.4%
Wool, animal hair, horsehair yarn and fabric thereof	5 181	0.4%
Oil seed, oleagic fruits, grain, seed, fruit, etc	2 812	0.2%
Edible vegetables and certain roots and tubers	2 481	0.2%
Dates, figs, pineapple, avocado, etc, fresh/ dried	1 927	0.2%
Other	10 241	0.8%
<b>Total exports (primary agriculture)</b>	<b>71 393</b>	<b>5.7%</b>

### TOP PROCESSED FOOD EXPORTS, 2018

Top processed food exports, 2018	ZAR million	% of total SA merchandise exports
Solid cane/ beet sugar & chemically pure sucrose	5 007	0.4%
Fruit and vegetable juices, not fermented/spirited	4 202	0.3%
Fruit, edible plant parts nes, prepared/preserved	2 517	0.2%
Food preparations, nes	2 414	0.2%
Animal feed preparations	2 233	0.2%
Molluscs	2 093	0.2%
Fish fillets, fish meat, mince except liver, roe	1 926	0.2%
Other	31 560	2.5%
<b>Total exports, 2018 R million (Food products)</b>	<b>51 953</b>	<b>4.2%</b>

### TOP BEVERAGES EXPORTS, 2018

Top beverages exports, 2018	ZAR million	% of total SA merchandise exports
Grape wines (including fortified), grape must	10 366	0.8%
Ethyl alcohol, undenatured and > 80%, / denatured	2 189	0.2%
Liqueur, spirits & undenatured ethyl alcohol <80%	2 078	0.2%
Waters, non-alcoholic flavoured beverages	2 006	0.2%
Beer made from malt	1 065	0.1%
Fermented beverages (eg cider, perry, mead)	932	0.1%
Malt	205	0.0%
Other	142	0.0%
<b>Total exports (beverages)</b>	<b>18 983</b>	<b>1.5%</b>



## AGRICULTURE AND AGRO-PROCESSING SECTORS PRESENT COMPELLING COMPARATIVE ADVANTAGES

Basis for comparative advantage	Select investment trends in these sectors
✓ Excellent climate and soils, and strong capabilities in the production of wine and citrus fruits.	<ul style="list-style-type: none"> <li>• Various investment opportunities exist across a broad spectrum of economic activities along entire value chains (e.g. farms or fisheries through to intermediate inputs for industrial applications, as well as final consumer products).</li> <li>• Global companies are investing in land, production and packing infrastructure in South Africa, including controlled-environment agriculture infrastructure, to diversify sources of supply.</li> <li>• Enterprises with scalable business models into fast-growing industries in sub-Saharan Africa have attracted private equity investment focused on the grain, dried fruit and livestock value chains.</li> </ul>
✓ Africa's most modern, productive and diverse agricultural sector.	
✓ Strong backward, forward and lateral linkages with other sectors of the economy.	
✓ Competitive input costs, world-class infrastructure.	
✓ Counter-seasonality to northern hemisphere, vast biodiversity and marine resources.	
✓ Processing capacity for a wide range of products, from high-quality commodity types to more niche market-specific products.	<p>Cabinet is considering the recommendations of the Presidential Advisory Panel on Land Reform and Agriculture. A process is under way in the National Assembly to initiate and introduce the necessary legislation, taking into consideration the work done and recommendations contained in the reports of the Constitutional Review Committee and the Ad Hoc Committee on Amendment of section 25 of the Constitution.</p>

## EMERGING GROWTH OPPORTUNITIES IN SUSTAINABLE AGRICULTURE

- Global climate change and the need for enhanced resource efficiency, particularly relating to water usage, as well as the need to improve production yields have led to the proliferation of controlled environment agriculture practices in South Africa.
- This trend has led to investment and manufacturing opportunities related to the green farming technology value chain, including advanced materials, specialised structures for use in greenhouse tunnels and precision farming digital technology manufacturing (e.g. soil content probes for moisture and mineral content optimisation).
- The advancement of technological applications in agriculture for the automation and remote monitoring of production processes has unlocked new market opportunities for drone and other mobile technologies, with numerous opportunities for software development and its related services clusters.
- The need for enhanced energy efficiency has given rise to the deployment of renewable energy sources in the agriculture sector, with the domestic agri-related solar photovoltaic market having grown substantially in recent years (GreenCape). This has generated opportunities for manufacturers and related input suppliers, including service providers.
- According to GreenCape, conservation agriculture is growing in South Africa and has unlocked opportunities for no-till manufacturers and distributors.

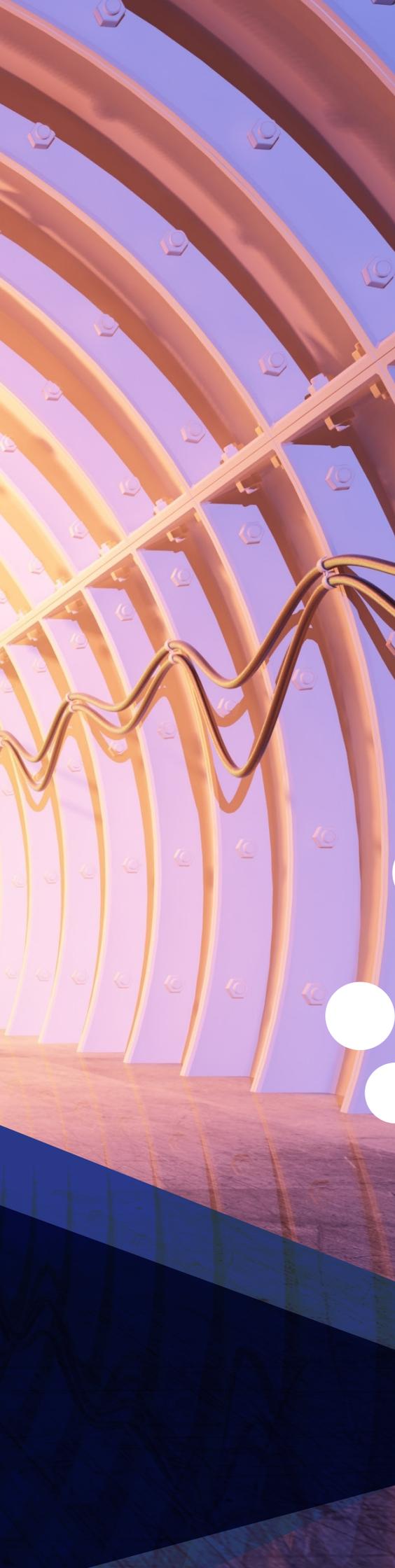
## INVESTMENT OPPORTUNITIES IN AGRICULTURE AND AGRO-PROCESSING

The agro-processing sector has strong upstream, downstream and lateral linkages. It is linked with primary agriculture via a variety of products, with both intermediate products and final products. The sector is critical for employment creation in South Africa.

Select food-based opportunities	Select non-food-based opportunities
<ul style="list-style-type: none"> <li>• Fruit and vegetable canning.</li> <li>• Sub-tropical and tropical fruit juice processing.</li> <li>• Oil seed production, edible oil processing, oilcake.</li> <li>• Processing of soya-based products.</li> <li>• Grain sorghum production, malt industry development.</li> <li>• Processing of organic, vegan/vegetarian products, dehydrated foods.</li> <li>• Walnut farming and processing.</li> <li>• Expansion of dairy, bakery, confectionery production.</li> <li>• Meat processing, including ostrich meat.</li> <li>• Indigenous plant growing on a commercial scale.</li> <li>• Expansion of aquaculture (abalone, mussels, trout).</li> <li>• Canning of freshwater fish.</li> </ul>	<ul style="list-style-type: none"> <li>• Medicinal extracts.</li> <li>• Aromatics, flavourants.</li> <li>• Extracting high-value additives, nutraceuticals.</li> <li>• Non-edible oil processing.</li> <li>• Commercial planting of indigenous flowers.</li> <li>• Production of crops for feedstock into biofuels production.</li> <li>• Wool production, and processing and manufacturing of wool-based textiles.</li> <li>• Artemisinin and respective ingredients for anti-malaria medicaments.</li> <li>• Flax production.</li> <li>• Rural forestry projects.</li> </ul>







# 6.2

## MINING AND MINERALS BENEFICIATION

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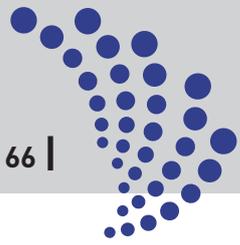
## MINING AND MINERALS BENEFICIATION

- South Africa is endowed with vast mineral reserves valued at USD2.5-trillion, the most valuable in the world. It hosts the world's largest reserves of platinum group metals (PGMs) and manganese, and some of the largest reserves of gold, diamonds, chromite ore and vanadium.
- The country's mineral wealth has attracted large capital investments over more than a century, resulting in the development of integrated industrial value chains that generate significant value-add for the economy to this day.
- South Africa is one of the world's top mining destinations, with its mining industry rated as the 5<sup>th</sup>-largest globally in terms of GDP. A high level of technical and production expertise, as well as comprehensive research and development capabilities, have collectively positioned its mining companies as key players in the global mining value chains.
- South Africa's mineral endowment supports a wide range of commercial mining production activities, including precious metals and stones, energy minerals (coal, uranium and thorium), ferrous and non-ferrous metals, as well as other industrial minerals (iron ore, vanadium, titanium, lime, kaolin, silica and granite).
- Downstream beneficiation of primary minerals contributes substantially to socio-economic development. The country's minerals beneficiation strategy seeks to optimise synergies and linkages between mineral value chains to promote economic diversification, focusing on industrial capacity development in energy commodities, the iron and steel value chain, the titanium value chain, beneficiation of PGMs and precious metals fabrication.
- The structure of the mining sector, measured in terms of mineral sales per sub-sector, has become progressively more diversified over time. Gold's share declined from 67% in 1980 to 14% by 2018.
- Productivity gains and relative competitive advantages have driven robust growth in mineral exports over the years. South Africa maintains an absolute advantage in the production of PGMs, manganese and chromite.

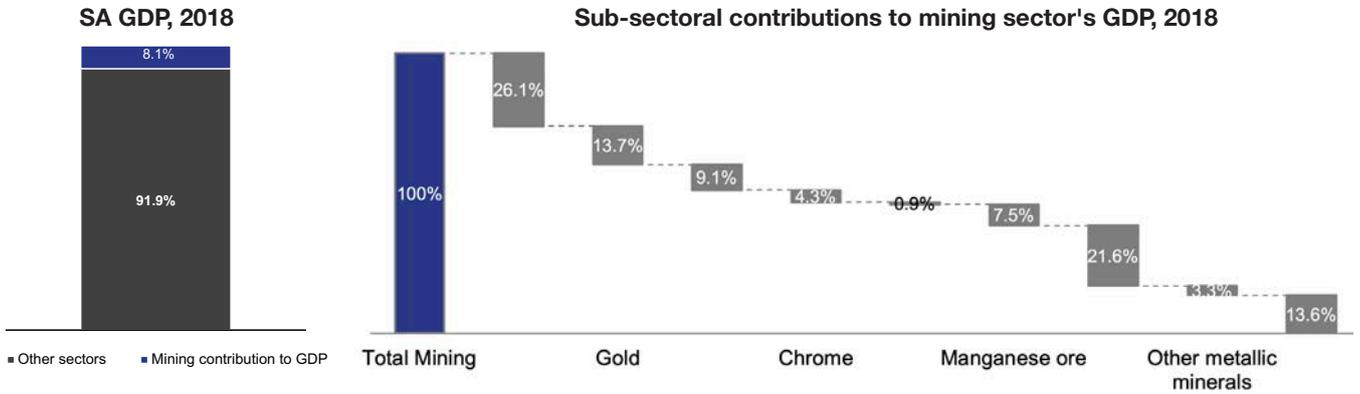
## PRODUCTION OF TOP MINERALS IN SOUTH AFRICA'S RESOURCES PORTFOLIO

Mineral product	Volumes			Reserves	SA's global ranking (reserves)
	1994	2018	Change	Volumes	
Coal (million tons)	196.5	253.3	28.9%	66 700	5 <sup>th</sup>
Platinum group metals (tons)	183.9	270.6	47.2%	63 000	1 <sup>st</sup>
Gold (tons)	580.2	117.1	-79.8%	6 000	2 <sup>nd</sup>
Iron ore (million tons)	30.5	74.3	143.6%	650	12 <sup>th</sup>
Manganese (million tons)	2.9	14.9	423.2%	150	1 <sup>st</sup>
Chromite (million tons)	3.6	17.9	370.2%	6 860	1 <sup>st</sup>

Source: IDC analysis, compiled using DMR data; Reserves according to the 2017/18 SAMI report



## A HIGHLY DEVELOPED AND DIVERSIFIED MINING SECTOR

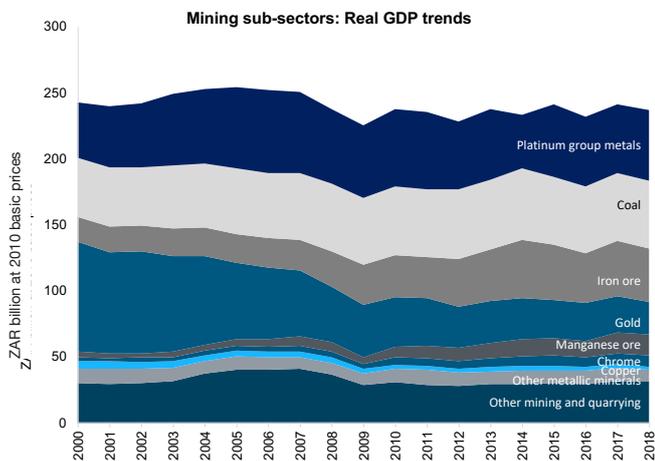


Source (chart): IDC analysis, compiled using Quantec data

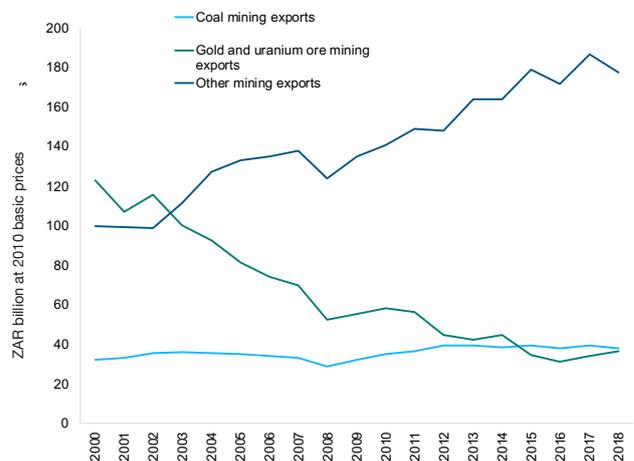
<b>Contribution to the economy</b>	The mining sector (including primary gold, coal and other mining activity) contributed 8.1% to South Africa's GDP and accounted for 35.5% of the country's total merchandise export earnings in 2018. Platinum exports dominate the mineral export basket, followed by coal and gold. The sector employs 454 000 people.
<b>Structure</b>	The mining sector is highly developed and hosts a number of mining conglomerates that account for the bulk of mining production. Emerging miners dominate exploration activity.
<b>Extensive sectoral linkages</b>	Mining has extensive backward and lateral linkages with the manufacturing and services sectors through the purchase of inputs and services, as well as forward linkages to manufacturing through the supply of raw materials into various metal fabrication industries.

## GROWTH AND EXPORT PERFORMANCE OF THE MINING SUB-SECTORS

### GROWTH PERFORMANCE OF SOUTH AFRICA'S MAJOR MINING SUB-SECTORS



### EXPORT TRENDS OF SA'S MAJOR MINING SUB-SECTORS



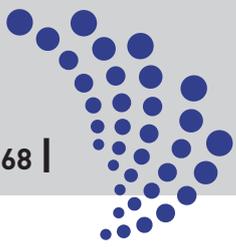
Source: IDC analysis, compiled using data from Statistics South Africa and the South African Revenue Service

## GROWTH AND EXPORT PERFORMANCE OF THE MINING SUB-SECTORS

Major mining export categories	ZAR million	% of total SA merchandise exports	Other mining export categories	ZAR million	% of total SA merchandise exports
<b>Gold mining:</b> Gold, unwrought, semi-manufactured, etc.	71 681	5.8%	Manganese ores, iron ores >20% Manganese	46 490	3.7%
<b>Iron ore mining:</b> Iron ores and concentrates, roasted iron pyrites	56 354	4.5%	Diamonds, not mounted or set	28 434	2.3%
<b>PGM mining:</b>			Chromium ores and concentrates	24 780	2.0%
Platinum, unwrought, semi-manufactured	103 933	8.3%	Titanium ores and concentrates	7 812	0.6%
Metals, clad with platinum, semi-manufactured	1	0.0%	Niobium tantalum vanadium zirconium ores, etc	6 453	0.5%
<i>Total PGM mining</i>	<i>103 934</i>	<i>8.3%</i>	Precious metal ores and concentrates	4 236	0.3%
<b>Coal mining:</b>			Copper ores and concentrates	2 765	0.2%
Coal, briquettes, ovoids etc, made from coal	82 047	6.6%	Others	7 918	0.6%
Peat (including peat litter)	5	0.0%	<b>Total other mining</b>	<b>128 889</b>	<b>10.3%</b>
Lignite, except jet	0	0.0%			
<i>Total coal mining</i>	<i>82 051</i>	<i>6.5%</i>			
<b>Total major mining segments (excl. other mining)</b>	<b>314 020</b>	<b>25.2%</b>	<b>Overall mining exports</b>	<b>442 909</b>	<b>35.5%</b>

## COMPARATIVE ADVANTAGES OF SOUTH AFRICA'S MINING SECTOR

Basis for comparative advantage	Select investment trends
✓ Significant and diverse mineral reserves portfolio supports the sector's long-term growth outlook.	<ul style="list-style-type: none"> <li>Capital investment in South Africa's mining sector is concentrated in brownfield project development.</li> </ul>
✓ Very high level of technical and production expertise.	<ul style="list-style-type: none"> <li>Several private equity and hedge funds have been attracted to the country's mining assets since the commodity price slump of 2016.</li> </ul>
✓ Strong backward and forward linkages with other sectors of the economy.	<ul style="list-style-type: none"> <li>New investment projects are heavily weighted towards PGMs mining.</li> </ul>
✓ Competitive cost-curve position in several key commodities.	<ul style="list-style-type: none"> <li>Declining mineral reserves and rates of production from the central coal basin have led to increased large-scale capital investments for new coal mine development in South Africa's Waterberg region.</li> </ul>
✓ Global leader in deep-level mining mineral recovery and technology.	<ul style="list-style-type: none"> <li>South Africa has been a key target for Indian FDI in the development and operation of coal assets.</li> </ul>
✓ Stable environment supports the sector's investment outlook.	<p>New Mining Charter gazetted in September 2018. Current Mineral and Petroleum Resources Development Act remains applicable, with the amendment Bill having been withdrawn so as to provide greater certainty for the mining sector.</p>



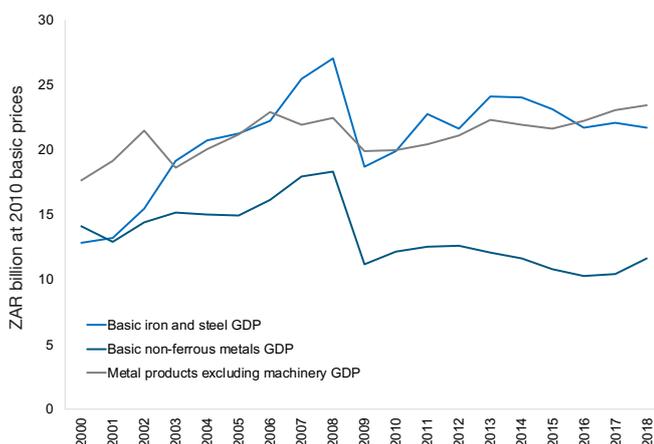
## BASE METALS AND METALS FABRICATION SECTORS

- South Africa has the most established metals sector in Africa, hosting major international, vertically-integrated mining firms such as Anglo American and South 32, as well as ArcelorMittal SA in the steel value chain.
- The country's non-ferrous metals production capacity includes:
  - Non-ferrous base metals from raw and recycled materials, including aluminium (South Africa is Africa's top producer of aluminium, accounting for about 1% of global production), lead, zinc and tin;
  - Unwrought non-ferrous base metals;
  - Production of mattes of nickel and copper; and
  - Semi-finished metal products via rolling, drawing and extruding to produce powders, flakes, foil, plates, sheets or strips, bars, rods or profiles, wire, tubes, pipes and pipe fittings.
- The basic non-ferrous metals industry accounted for about 3.3% of overall merchandise exports in 2018.
- The industry is supported by strategic policy support programmes targeting local components supply in the automotive value chain. This has enhanced its prospects and the scope for increasing local beneficiation.

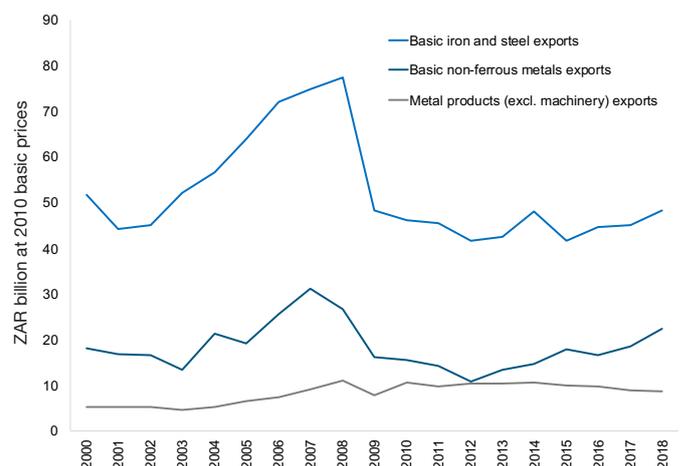
## GROWTH AND EXPORT PERFORMANCE OF THE BASE METALS AND METAL FABRICATION SECTORS

- The basic iron and steel sector has recorded an average annual growth rate of 2.4% since the 2009 recession year. Its GDP has returned to pre-Global Financial Crisis (GFC) levels in real terms.
- Sustained surpluses in the global steel market, protectionism and tension in the world's trading environment, alongside import penetration in the South African market, particularly from low-cost steel producers, have been posing significant threats to this recovery momentum.
- The value-add of the metal products sector, which has a high export propensity, has now exceeded pre-GFC levels in real terms.
- South Africa has developed a competitive advantage in primary aluminium fabrication, despite not being endowed with bauxite resources. The export orientation of the sector positions it well to leverage on regional market growth opportunities.
- Export competitiveness to be supported by South Africa's renewable energy and rail capacity expansion plans.

**BASE METALS AND METALS FABRICATION SECTORS:  
GDP TRENDS**



**BASE METALS AND METALS FABRICATION SECTORS:  
GDP TRENDS**



## EXPORT PERFORMANCE OF THE BASE METALS AND METALS FABRICATION SECTORS

### Export performance driven by ferro-alloys, unwrought aluminium & articles of iron & steel

Top basic iron and steel export products, 2018	ZAR million	% of total SA merchandise exports	Top non-ferrous metals export products, 2018	ZAR million	% of total SA merchandise exports
Ferro-alloys	49 928	4.0%	Unwrought aluminium	14 568	1.2%
Rolled stainless steel sheet, width > 600mm	9 080	0.7%	Aluminium plates, sheets&strip, thickness> 0.2 mm	7 275	0.6%
Hot-rolled products, iron/steel, width>600mm, etc	6 179	0.5%	Unwrought nickel	5 042	0.4%
Flat-rolled iron/steel, >600mm, clad, plated/coated	3 564	0.3%	Unrefined copper, copper anodes, etc	3 643	0.3%
Pig iron and spiegeleisen in primary forms	3 190	0.3%	Refined copper and copper alloys, unwrought	3 437	0.3%
Semi-finished products of iron or non-alloy steel	1 913	0.2%	Aluminium tubes and pipes	1 415	0.1%
Iron/steel bar, forged hot-rolled drawn, extruded	1 690	0.1%	Manganese, articles thereof, waste or scrap	909	0.1%
Other	10 904	0.9%	Other	4 696	0.4%
<b>Total basic iron &amp; steel</b>	<b>86 447</b>	<b>6.9%</b>	<b>Total non-ferrous metal products</b>	<b>40 984</b>	<b>3.3%</b>

Top basic metals export products, 2018	ZAR million	% of total SA merchandise exports
Structures, parts of structures of iron or steel	4 910	0.4%
Articles of iron or steel nes	3 361	0.3%
Interchangeable tools & dies for hand/power tools	1 417	0.1%
Screws, bolts, nuts, rivets, etc, iron or steel	1 105	0.1%
Iron/ steel cloth, grill, fencing and expanded metal	901	0.1%
Aluminium casks, drums, etc capacity <300l	707	0.1%
Stranded steel wire, etc, without electric insulation	635	0.1%
Other	6 569	0.5%
<b>Total basic metal products</b>	<b>19 605</b>	<b>1.6%</b>

## INVESTMENT OPPORTUNITIES IN MINING AND MINERALS BENEFICIATION

South Africa’s minerals beneficiation policy seeks to leverage the linkages between mineral value chains brought about by economic diversification. Investment opportunities across strategic value chains include:

<b>Coal value chain</b>	<ul style="list-style-type: none"> <li>• South Africa has committed to a socially just transition to a low-carbon economy. This is recognised in the Integrated Resource Plan (IRP) 2019, gazetted in October 2019. The IRP roadmap to 2030 outlines a progressively lower relative contribution by coal-based electricity generation to total energy supply over time, towards 58.8% by 2030.</li> <li>• There are substantial resource development opportunities, given the importance of developing coal resources in the Waterberg region.</li> <li>• Coal beneficiation opportunities include coal-bed methane, coal-to-liquid (Sasol is a global leader, producing petroleum as well as a range of other petro-chemical products), carbon capture and storage.</li> <li>• Coal ash beneficiation opportunities arise from the vast ash material produced in Eskom’s coal-fired power plants. Beneficiation of coal ash entails the production of cementitious input materials for the construction industry. Coal ash also provides an environmental sustainability solution for the mining industry through the neutralisation of acid mine drainage waste streams.</li> </ul>
<b>Uranium and thorium</b>	<ul style="list-style-type: none"> <li>• Beneficiation is primarily targeted at nuclear fuel manufacturing. There are long-term viable resource development opportunities.</li> <li>• Beneficiation opportunities abound for nuclear fuel fabrication to service growing export demand, particularly the US, Canada and China.</li> </ul>



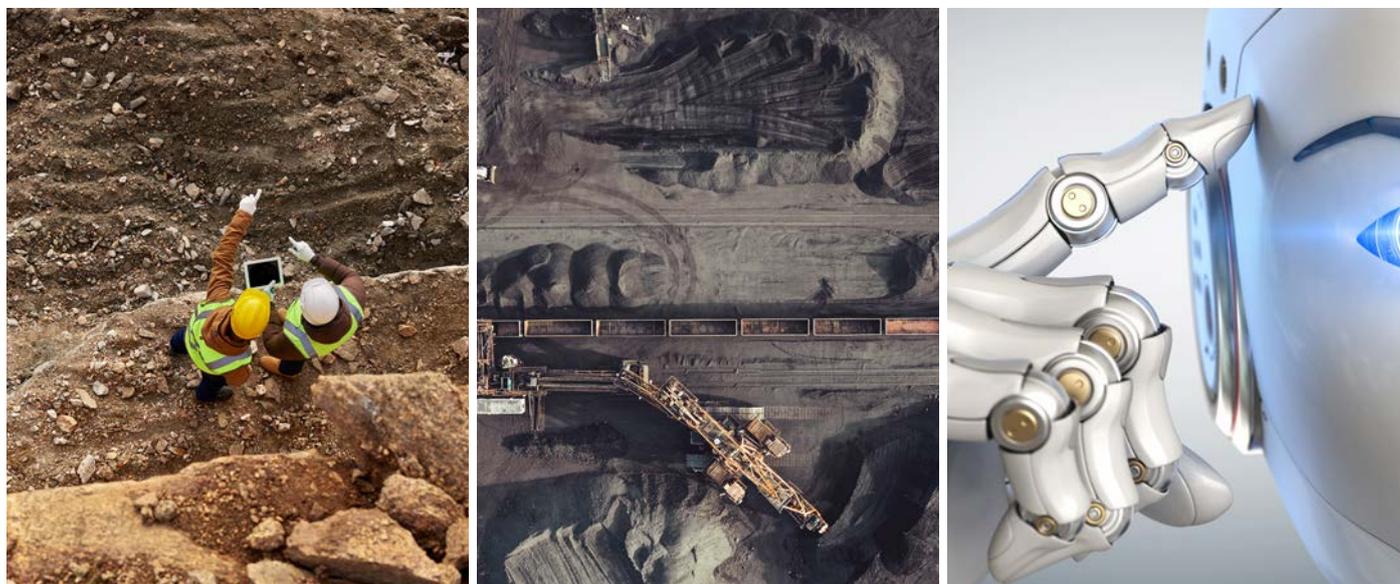
## INVESTMENT OPPORTUNITIES IN MINING AND MINERALS BENEFICIATION CONTINUED

<b>Iron and steel value chain</b>	<ul style="list-style-type: none"> <li>• There are opportunities to improve the competitiveness of the domestic steel industry so as to access growing regional markets.</li> <li>• There are also investment opportunities in revitalising downstream manufacturing capacity, such as in foundries and mini-mills, supported by government incentives.</li> <li>• Increased iron ore beneficiation is a strategic objective of the government.</li> </ul>
<b>Manganese</b>	<ul style="list-style-type: none"> <li>• South Africa's dominant supply-side position from a global perspective (about 29% of world reserves) and low-cost resources offer mining development opportunities.</li> <li>• Investment appeal is enhanced by value chain linkages with the global steel value chain. The favourable outlook for the world economy, as well as improved steel producer margins in China, are expected to keep global steel production growth elevated.</li> </ul>
<b>Vanadium</b>	<ul style="list-style-type: none"> <li>• South Africa is endowed with vast, largely untapped, vanadium resources.</li> <li>• Potential high growth opportunities exist linked with the global energy storage value chain, with significant market growth potential for energy storage solutions on the African continent.</li> </ul>
<b>Titanium value chain</b>	<ul style="list-style-type: none"> <li>• South Africa has the second-largest titanium reserves in the world. The development of the titanium value chain, including the establishment of a smelter and downstream production, is a strategic objective of the Industrial Policy Action Plan and national beneficiation strategy.</li> <li>• Substantial investment has been facilitated by the government towards value chain development, specifically for the production of titanium dioxide pigment as a key ingredient in paint manufacturing.</li> </ul>
<b>Platinum group metals (PGMs) and chrome value chains</b>	<ul style="list-style-type: none"> <li>• Primary resource development opportunities exist in the Bushveld Igneous Complex (BIC).</li> <li>• Value chain development opportunities include commercial beneficiation applications such as the use of PGMs as catalysts in fuel cell manufacturing.</li> <li>• South Africa produces chrome in the BIC as a by-product of PGM mining.</li> <li>• Domestic ferrochrome production and competitiveness have lagged, resulting in increased exports of unprocessed chrome. The government considers increased beneficiation of the country's chrome resources a strategic objective, with the aim of repositioning South Africa as a global leader in ferrochrome production.</li> </ul>
<b>Jewellery manufacturing</b>	<ul style="list-style-type: none"> <li>• South Africa's resource base supports commercial fabrication of gold, PGMs and diamonds. A suite of incentives is available to support the growth and development of export-oriented jewellery manufacturing.</li> </ul>



## EMERGING GROWTH OPPORTUNITIES IN SUSTAINABLE MINING IN SOUTH AFRICA

- Challenges associated with rising mining depths and declining mineral ore yields have created opportunities for the infiltration of next-generation digital technology applications into the local mining sector.
- This trend has led to the increasing deployment of large data analytics and digitisation to counteract sustainability challenges, particularly in the deep-level and labour-intensive gold and platinum mining sub-sectors.
- Urgency to improve the global competitiveness of local mining operations has placed South Africa at the forefront of technological developments in deep-level continuous and mechanised mining. This has attracted capital investment from various large global hard-rock capital equipment manufacturers such as Caterpillar and Komatsu.
- Increased focus on mine health and safety has led to growth in the deployment of new-generation Proximity Detection Systems (PDS), led locally by Booyco Electronics. These systems aid in the detection of pedestrians, as well as in the risk management of collisions, supporting the mining industry’s goal towards zero harm in mines.
- Notable commercial new-generation mining projects in South Africa include De Beers’s Venetia Underground Project in Limpopo province, Ivanhoe’s Platreef Project in Mokopane, Vedanta Zinc International’s Gamsberg Project, as well as the Waterberg Platinum Group Metals Project north of Mokopane.
- In general, mine digitisation and systems development have unlocked numerous investment opportunities for the development of next-generation mining equipment clusters locally. This will drive the exploitation of the country’s vast, untapped mineral resources and, by potentially increasing life of mine, also extend the socio-economic contribution of mining-related activities.



## DIGITAL MINING TECHNOLOGY

### Digital technology is advancing rapidly in South African mining:

- Artificial intelligence applications are helping in the development of driverless mining equipment to access hazardous mineral deposits.
- Technology applications are providing real-time feedback on equipment utilisation rates.
- Drone technology is replacing traditional surveying methods and assisting to provide more detailed information on resource geology, allowing for efficient resource development and management.
- Data analytics are finding increasing use for the analysis and optimisation of mine operational statistics.





# 6.3

## MANUFACTURING OPPORTUNITIES

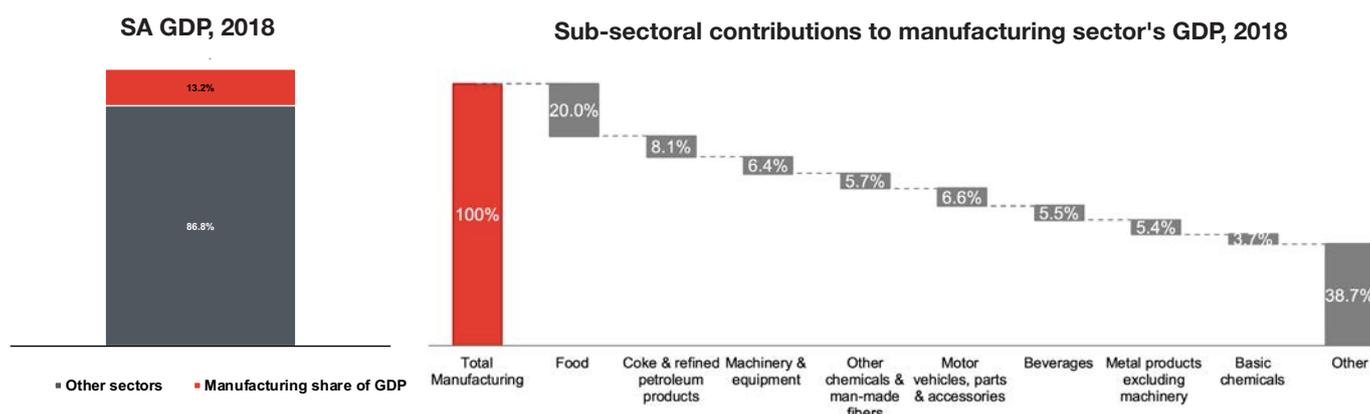
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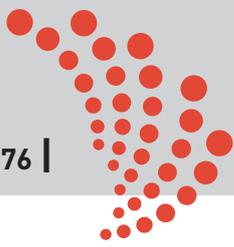
# MANUFACTURING SECTOR

- South Africa has a well-established, diversified and generally technologically-advanced manufacturing sector, which accounted for 13.2% of national GDP in 2018.
- South Africa ranked 27<sup>th</sup> in Deloitte’s 2016 Global Manufacturing Competitiveness Index, ahead of Italy, BRICS peers Brazil and Russia, as well as Ireland, Portugal and, among others, Egypt and Argentina. Deloitte expects the country will be positioned two spots higher, in 25<sup>th</sup> place, by 2020.
- The manufacturing sector ranks highly in the government’s economic development agenda and, as such, is strongly supported by national industrial strategy, action plans and associated incentives.
- South Africa’s reinvigorated industrial strategy aims to galvanise investment and development in specific manufacturing sub-sectors, among other economic sectors, based on their potential for growth, employment creation, export earnings generation and diversification.
- The manufacturing sector is one of the main beneficiaries of the public sector’s procurement requirements, including input supplies for the ongoing infrastructure development programme.



Source: IDC analysis, compiled using Quantec data

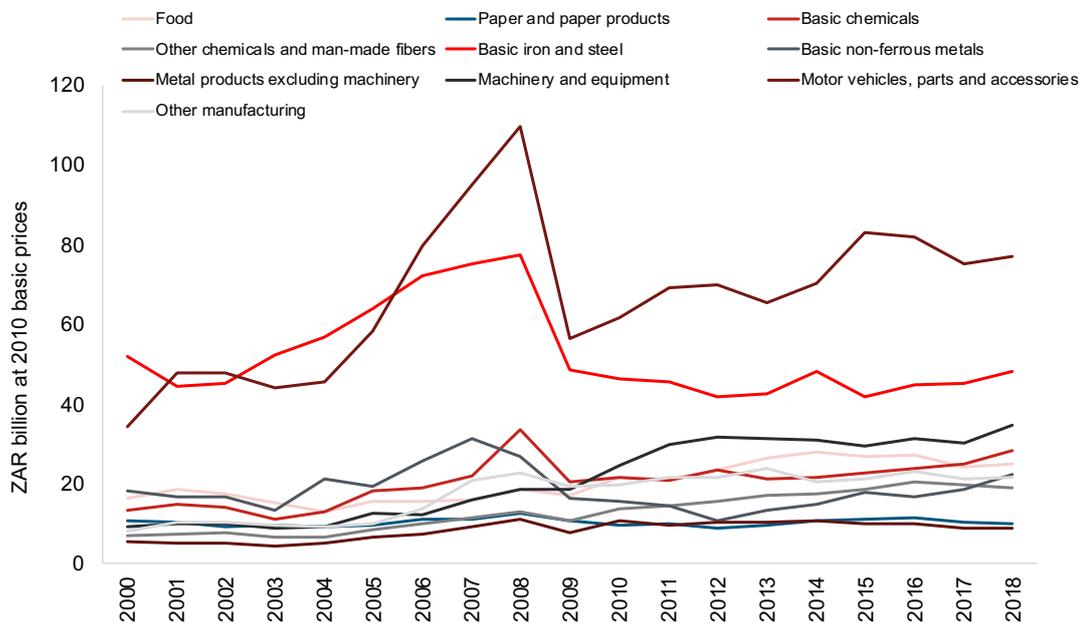
<b>Contribution to the economy</b>	The manufacturing sector contributed 13.2% to South Africa’s GDP and 57.2% to total merchandise export earnings in 2018. The sector employs 1.23-million people in its formal sector, or 12.1% of total employment in the country.
<b>Structure</b>	The largest manufacturing sub-sectors in terms of value-add (GDP) are those producing food products; chemicals; basic iron and steel; metals products; motor vehicles, parts and accessories; as well as machinery and equipment.
<b>Extensive sectoral linkages</b>	The sector has strong linkages with numerous other sectors of the economy through its procurement of goods and services, as well as with end-use markets for its own products.



## MANUFACTURING SECTOR'S EXPORT PERFORMANCE

- The manufacturing sector accounted for 57.2% of South Africa's total merchandise exports in 2018. The sector has a high export propensity, with the following sub-sectors being the most oriented towards export markets (average export propensities over the past five years indicated in parentheses): professional and scientific equipment (81.9%); motor vehicles, parts and accessories (57.8%); other transport equipment (56.1%); television, radio and communications equipment (52.2%); basic non-ferrous metals (51.9%).

**EXPORTS OF THE TOP 10 MANUFACTURING SUB-SECTORS  
(ZAR BILLION AT CONSTANT PRICES)**



Top manufactured export products, 2018	ZAR million	% of total SA merchandise exports
Motor vehicles, parts and accessories	143 903	11.5%
Iron and steel	83 255	6.7%
Machinery and equipment, mechanical appliances	76 959	6.2%
Coal, petroleum and petroleum products	41 901	3.4%
Aluminium and articles thereof	25 483	2.0%
Electrical machinery and electronic equipment	23 883	1.9%
Beverages, spirits and vinegar	18 836	1.5%
Other	298 999	24.0%
<b>Total manufacturing exports</b>	<b>713 219</b>	<b>57.2%</b>

Source (chart & table): IDC analysis, compiled using South African Revenue Service and Quantec data

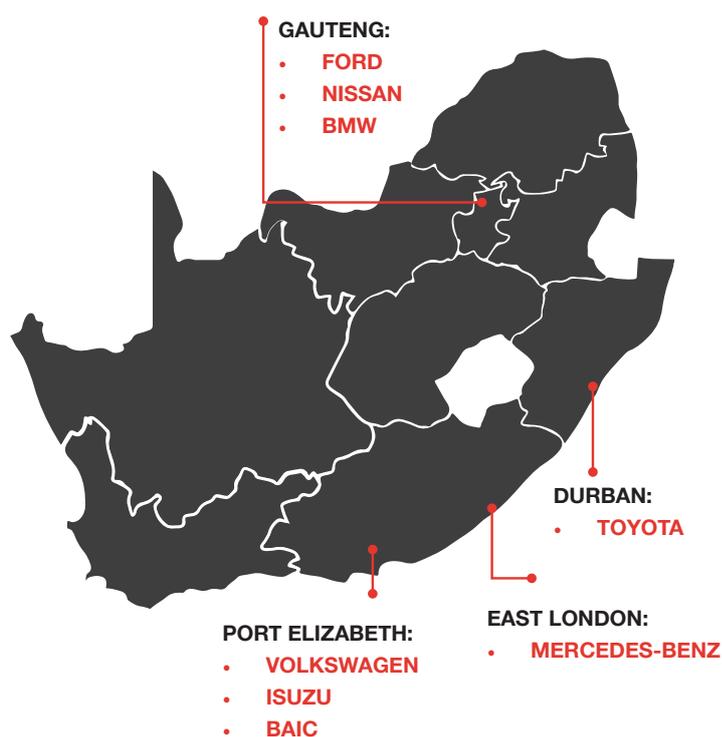
## COMPARATIVE ADVANTAGES OF SOUTH AFRICA'S MANUFACTURING SECTOR

Basis for comparative advantage	Select investment trends in these sectors
<ul style="list-style-type: none"> <li>Established manufacturing base that is generally technologically advanced.</li> </ul>	<ul style="list-style-type: none"> <li>Increased competitiveness and penetration by South African industry in global automotive chains have attracted higher investment by original equipment manufacturers (OEMs) in the country's automotive sector (e.g. Mercedes-Benz, BMW) as well as newcomers such as BAIC.</li> <li>Chinese investment in South African manufacturing has been facilitated by the China Africa Development Fund and focuses on electronics manufacturing (e.g. establishment of the Hisense industrial park).</li> <li>South Africa's world-class infrastructure and competitive position in accessing regional markets have attracted foreign investment into the textiles industry (e.g. Pegas Nonwovens, the largest producer of spunmelt nonwovens in Europe, the Middle East and Africa, is investing ZAR1.3-billion in Atlantis, Cape Town).</li> </ul>
<ul style="list-style-type: none"> <li>Sustainable performance owing to diversity in production capability and competitiveness.</li> </ul>	
<ul style="list-style-type: none"> <li>Strong linkages with other sectors of the economy.</li> </ul>	
<ul style="list-style-type: none"> <li>South Africa's world-class infrastructure is geared to support export-led growth.</li> </ul>	
<ul style="list-style-type: none"> <li>Innovation and strong research and development capabilities exist in South Africa's manufacturing sector.</li> </ul>	
<ul style="list-style-type: none"> <li>Positioned to continue benefiting from strategic industrial policy support measures due to the relatively high jobs-intensity of several manufacturing sub-sectors.</li> </ul>	

## AUTOMOTIVE INDUSTRY: WORLD-CLASS AND COMPETITIVE

- The manufacturing sub-sector producing motor vehicles as well as vehicle parts and accessories, including bodies and trailers, contributes 6.6% to the manufacturing sector's GDP and accounts for approximately 10.2% of the total value of its sales.
- South Africa is the biggest market for new vehicles in Africa, accounting for around 45% of new vehicle sales on the continent.
- Producing more than 610 000 vehicles annually, South Africa is the dominant vehicle producer on the African continent. The industry attracts high levels of FDI from the leading global OEMs as well as components manufacturers.
- The growing presence of several global OEMs in South Africa signals its increasing prominence as a manufacturing hub. These include Toyota, VW, Ford, Mercedes-Benz, BMW, Nissan/Renault and Isuzu, with China's BAIC as a newcomer. A number of heavy commercial and bus manufacturers assemble vehicles, such as Iveco, FAW and Tata.
- Supplier proximity and local content are key potential sources of competitive advantage for OEMs. South African-based OEMs are supported by about 500 firms split between Tier 1, Tier 2 and Tier 3 suppliers producing a wide range of parts.

### LOCATION OF OEM PLANTS IN SOUTH AFRICA

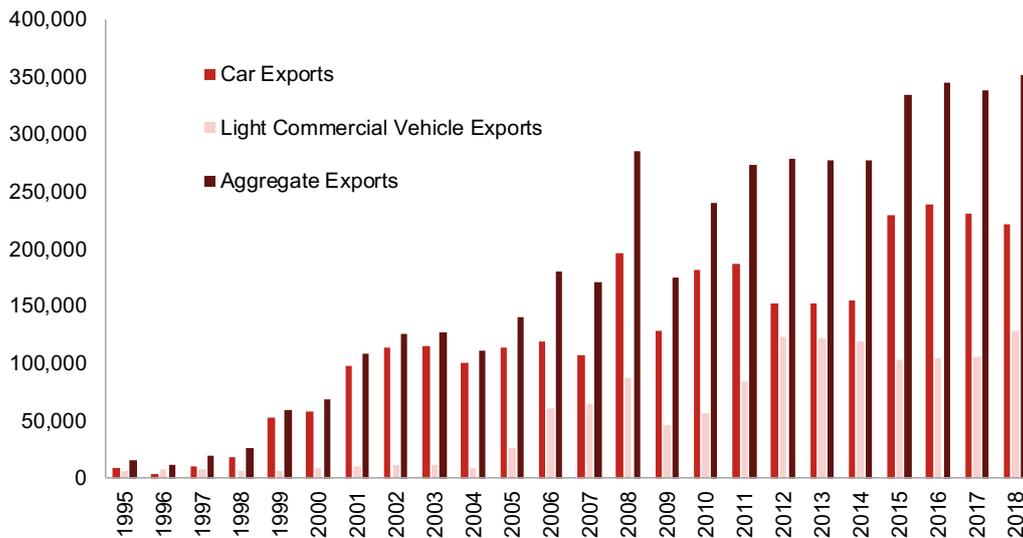


## AUTOMOTIVE INDUSTRY: EXPORT-ORIENTED, INCREASINGLY INTEGRATED IN GLOBAL VALUE CHAINS

- Supported by world-class export infrastructure, South Africa's automotive industry, including components manufacturers, is well integrated into the value and supply chains of global OEMs.
- Exports of motor vehicles, parts and accessories contributed 13.2% to the national merchandise export basket in 2018.
- The industry exports to more than 150 countries, benefiting from preferential market access such as:
  - Duty-free exports into the Southern African Development Community (SADC), a 16-country free trade area (FTA) with 300-million consumers;
  - Duty-free exports into the European Union through the SADC-EU Economic Partnership Agreement; and
  - Duty-free exports into the US due to preferential access under the African Growth and Opportunity Act (AGOA).

Exports of motor vehicles, parts and accessories have grown strongly over the last two and a half decades. The adoption by the government of export-oriented policies including the MIDP and APDP has been key to this growth.

**SOUTH AFRICA'S MOTOR VEHICLE EXPORTS (UNITS)**

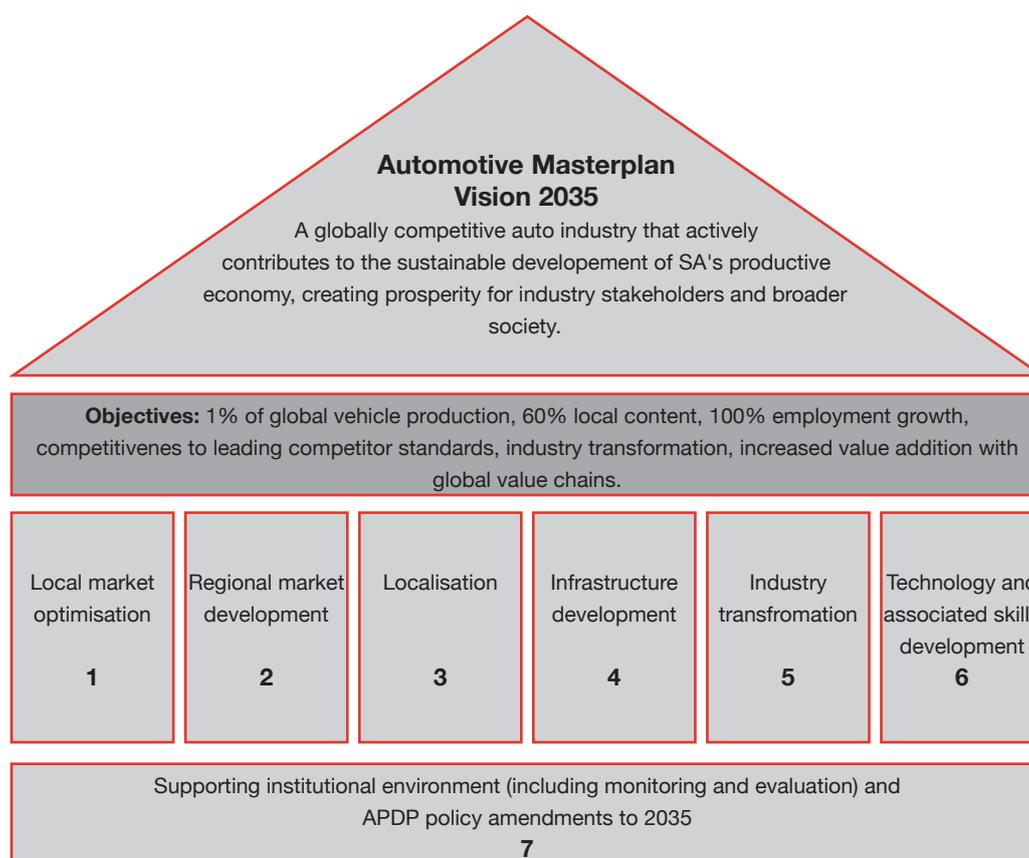


Top exports of motor vehicles, parts and accessories, 2018	ZAR million	% of total SA merchandise exports
Vehicles for transport of persons (except buses)	81 529	6.5%
Motor vehicles for the transport of goods	46 136	3.7%
Liquid, gas centrifuges, filtering, purifying machine	19 696	1.6%
Parts and accessories for motor vehicles	9 087	0.7%
Parts for internal combustion spark ignition engine	3 845	0.3%
Cargo containers designed for carriage of goods	2 086	0.2%
Trailers and non-mechanically propelled vehicles	1 983	0.2%
Other	3 451	0.3%
<b>Total motor vehicle, parts &amp; accessories exports</b>	<b>167 812</b>	<b>13.5%</b>

Source (chart & table): IDC analysis, compiled using NAAMSA and South African Revenue Service data

## SOUTH AFRICA'S AUTOMOTIVE MASTER PLAN: POLICY CERTAINTY UNTIL 2035

- The Automotive Production Development Programme (APDP) expires in 2020 and will be replaced by the Automotive Masterplan as the policy framework until 2035.
- The Master Plan aims to raise South Africa's share of motor vehicle production to 1% of global production (that is, 1.4-million units annually)
- Import tariffs under the plan will remain unchanged at 20% for components and 25% for motor vehicles.



### Policy adjustments from the APDP to the Automotive Masterplan

#### Volume Assembly Localisation Allowance (VALA)

- VALA will replace the Volume Assembly Allowance (VAA) from 2021.
- VALA is based on local value addition and not manufacturing sales value.
- VALA will be set at 35% of local value add for OEM volumes above 10 000 units annually from 2026. Transition set at 40% in 2021 and reducing annually.

#### Production Incentive (PI)

- PI benefit to increase by 25% for components (from 10% to 12.5% of value addition).
- Duty credits will be replaced by Production Rebate Credit Certificates (PRCCs) to ensure components earn one benefit value tied to local value addition.
- All production segments to have the same benefits.

#### Automotive Investment Scheme (AIS)

- Maintain cash grant for investment, but lower it by 5% in non-South African tooling/machinery.

## AUTOMOTIVE VALUE CHAIN: INVESTMENT OPPORTUNITIES



- Integration into the global supply chains of global OEMs located in, and operating from, South Africa can unlock significant export growth opportunities.
- The automotive industry's sales revenue is strongly correlated with overall economic growth. The industry is thus expected to benefit from the ongoing economic recovery and higher rates of expansion in the medium term, supporting the case for investment in new capacity.
- The automotive value chain offers opportunities for the expansion of existing production capacity and/or new capacity development, particularly in the components segments, to benefit from the strong linkages with OEMs.
- There is also wide scope for the introduction of new technologies across all tiers of the supply base.

### SELECT INVESTMENT OPPORTUNITIES IN THE AUTOMOTIVE VALUE CHAIN

- Engines, radiators, filters
- Air conditioning/climate control systems
- Alarms and tracking devices
- Axles and transmission shafts
- Body parts and panels
- Catalytic converters, silencers, exhaust systems and components
- Seats and related parts, seatbelts, leather covers
- Suspension and shock absorbers, springs and other related parts
- Steering wheels, columns and boxes
- Ignitions, starting equipment, gauges and instrument parts
- Lighting equipment
- Wiring harnesses, instrument panels, vehicle interiors, electronic drive components and parts

## AUTOMOTIVE VALUE CHAIN: EMERGING OPPORTUNITIES

- The proliferation of advanced technology and artificial intelligence is having a profound impact on components manufacturing, vehicle assembly and services provision in the automotive industry.
- Growth opportunities are fast emerging in alternative engine technologies (e.g. electric vehicle infrastructure and value-chain development, hydrogen fuel cell-based systems); driverless cars; development of new component materials due to green manufacturing requirements; and, among others, advanced robotics applications.
- The evolution and growth of artificial intelligence in the automotive sector is creating growth opportunities in advanced vehicle diagnoses (real-time) and servicing systems. Artificial intelligence systems to allow vehicle dealers to improve vehicle usage diagnosis and servicing systems are gaining global traction and are a potential growth opportunity in the South African business environment.
- Opportunities exist for systems developers in implementing predictive maintenance and data visualisation in on-board vehicle communications systems to reduce traffic jams, improve safety and improve the level of vehicle connectivity.
- Significant growth opportunities exist for applications' developers in the advancement of virtual reality car dealerships, and the deployment of big data analytics and robotics systems in manufacturing facilities.

## MACHINERY AND EQUIPMENT (NON-ELECTRICAL) INDUSTRY: SIGNIFICANT PRODUCTION CAPACITY DOMESTICALLY

- The machinery and equipment sub-sector, which contributes 6.4% to total manufacturing GDP, comprises a wide range of manufacturing operations. This includes the production of general purpose machinery, special purpose machinery and household appliances, as well as office, accounting and computing equipment.
- This sub-sector’s production value chain generally encompasses the sourcing of inputs from the upstream metal castings, engineering, electrical and electronics sectors. It supplies its products to downstream manufacturers, service providers, households and other machinery producers.
- South Africa has a well-developed and relatively competitive manufacturing capacity in durable goods production, particularly in larger household appliances.
- South African manufacturers of machinery and equipment have largely tended to focus on lower-end technology products, but linkages to the advanced electronics supply chain are strengthening, with innovation as a key driver.
- Relative comparative advantages and domestic technological and production expertise in certain segments (e.g. the mining and yellow metal equipment production industries) have supported export growth.

Top machinery and equipment exports, 2018	ZAR million	% of total SA merchandise exports
Parts for use with lifting, moving machinery	5 794	0.5%
Machinery to sort, screen, etc mineral products	5 105	0.5%
Pumps for liquids	4 660	0.4%
Self-propelled earth moving, road making machines	3 188	0.3%
Automatic data processing machines (computers)	2 582	0.2%
Liquid, gas centrifuges, filtering, purifying machine	2 564	0.2%
Shafts, cranks, gears, clutches, flywheel, pulleys, etc	2 278	0.2%
Other	29 299	2.4%
<b>Total machinery and equipment exports</b>	<b>55 469</b>	<b>4.5%</b>

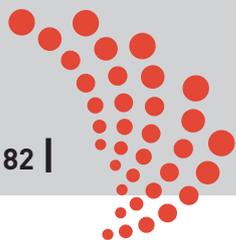
Source: IDC analysis, compiled using South African Revenue Service data

## MACHINERY AND EQUIPMENT (NON-ELECTRICAL) INDUSTRY: INVESTMENT OPPORTUNITIES

- The relatively high import intensity of fixed investment activity in South Africa points towards significant opportunities for import replacement. This is supported by localisation initiatives and by the government’s industrial policy framework.
- The infrastructure development programme, which has been rolled out by the public sector (i.e. national government, state-owned companies such as Eskom, Transnet and PRASA) in recent years, has been boosting demand for the machinery and equipment sector and thus contributing to the expansion of production capacity domestically.
- Local production of smaller household and kitchen appliances is generally characterised by assembly and focused on less specialised products. There is scope for the localisation of production of specialised and more technologically advanced items, including components.
- Other significant manufacturing import replacement opportunities in the machinery and equipment sector include steam turbines and other vapour turbines.

### SELECT OPPORTUNITIES IN MACHINERY AND EQUIPMENT PRODUCTION

- Mineral processing machinery
- Materials handling equipment (e.g. escalators, conveyor systems, rough-terrain forklifts, cranes, components of heavy-duty shovels/scoops)
- Pumps and valves used in agriculture, mining, water-works
- Industrial heating or cooling machinery
- Refrigeration equipment
- Air conditioning equipment and machinery
- Industrial lab furnaces, ovens and incinerators
- Weighing equipment
- Power transmission equipment
- Steam turbines
- Construction equipment



## ELECTRICAL MACHINERY AND EQUIPMENT INDUSTRY

- The electrical machinery sub-sector contributed 1.5% to South Africa's total manufacturing GDP in 2018. It is segmented into the manufacturing of equipment and components for electricity distribution, which accounts for the bulk of activity in the sector; components for the automotive sector; and the production of lighting equipment.
- Its key products include wires; electrical motors; generators; transformers; distribution equipment; components for the automotive sector (e.g. harnesses, ignition wire sets); lighting equipment and electrical insulators, including light bulbs, fittings and illuminated signs.
- The sub-sector is dominated by two players, namely the Altron Group and the Actom Group, which are integrated across entire supply chains through various operating entities.

Top electrical machinery and equipment exports, 2018	ZAR million	% of total SA merchandise exports
Insulated wire and cable, optical fibre cable	2 567	0.21%
Electrical switches, connectors, etc, for < 1kV	1 604	0.13%
Electric transformers,static converters & rectifiers	1 366	0.11%
Electrical power, etc, control & distribution boards	1 331	0.11%
Electrical machinery and apparatus	994	0.08%
Electric motors and generators, except generating sets	924	0.07%
Lamps and lighting fittings, illuminated signs, etc	883	0.07%
Other	4 826	0.39%
<b>Total top electrical machinery and equipment exports</b>	<b>14 495</b>	<b>1.16%</b>

Source: IDC analysis, compiled using South African Revenue Service data

## ELECTRICAL MACHINERY AND EQUIPMENT: INVESTMENT OPPORTUNITIES

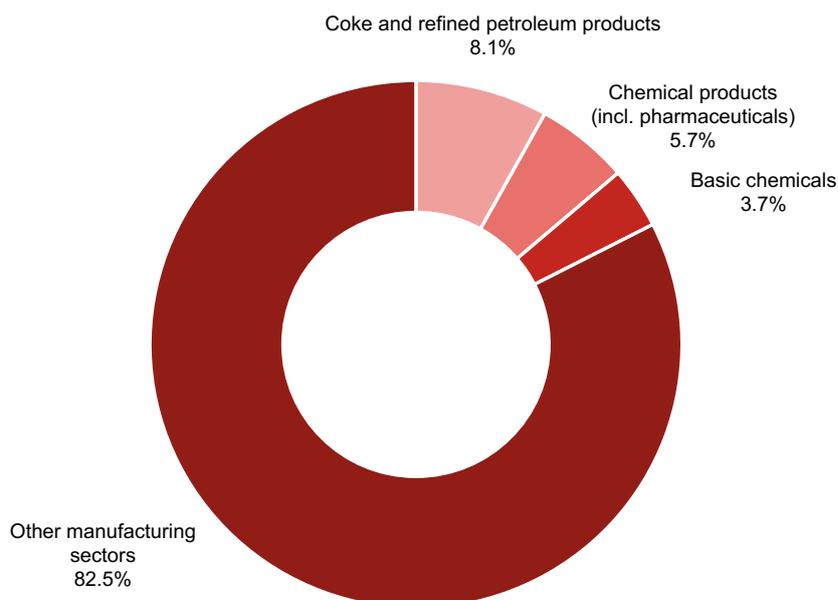
- There are significant opportunities for the manufacturing of automotive components as well as lighting equipment where the two dominant players do not have a major presence.
- Import replacement opportunities include the production of electric generating sets and rotary converters; parts for electric motors and generators; lamps and light fittings; and, among others, electrical switches and connectors.



# CHEMICALS AND CHEMICAL PRODUCTS INDUSTRIES: BASIC CHEMICALS PRODUCTION CAPACITY SERVICING VARIOUS KEY SECTORS

- The basic chemicals sub-sector, which contributes 3.7% to total manufacturing GDP, encompasses the production of:
  - Commodity or base chemicals, which are produced in high volumes from raw commodities (e.g. oil, gas, coal) and used as feedstock into other value chains;
  - Intermediate chemicals; and
  - Speciality chemicals, which are generally low volume, non-commodity (higher value-add) basic chemical products for more specialised applications.
- The basic chemicals sub-sector produces around 600 types of chemicals that are essential inputs into the supply chains of the agriculture, mining, manufacturing (e.g. plastics, food processing, cosmetics, pharmaceuticals, paper, printing), construction and transportation sectors.
- The basic chemicals sub-sector is supported by an abundance of raw materials, which form the basis of certain competitive advantages. The fertiliser industry, for example, leverages on domestically available raw material inputs such as phosphates, phosphoric acid, nitrogen, ammonia, sulphur and potassium.
- While the sub-sector is dominated by a few integrated, locally-based manufacturing companies, it has attracted multinational corporations as well. The sub-sector is also growing its strategic orientation towards speciality chemicals and intermediate and end products.

**CHEMICALS & CHEMICAL PRODUCTS SUB-SECTORS:  
SHARES OF MANUFACTURING GDP IN 2018 (AT CURRENT PRICES)**



Source: IDC analysis, compiled using Quantec data

## CHEMICALS AND CHEMICAL PRODUCTS INDUSTRIES: ESTABLISHED PRODUCTION CAPACITY IN VARIOUS CHEMICAL PRODUCT SEGMENTS

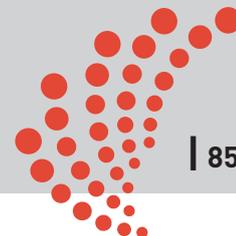
- The chemical products sub-sector, which contributes 5.7% to total manufacturing GDP, has installed capacity in a wide range of products.
- Its main segments include pesticides and other agro-chemical products; pharmaceuticals; paints, coatings, varnishes and printing inks; soaps, detergents, cleaning preparations, toilet preparations and perfumes; and other chemical products, dominated by the manufacturing of explosives.
- The production of pesticides, which is characterised by relatively high barriers to entry, is dominated by BASF SA, Syngenta SA, DOW Agrosiences Southern Africa, Plaaskem and Monsanto South Africa.
- South Africa's pharmaceuticals value chain is well established and mature, with local production capacity meeting close to 70% of domestic demand.
- The bulk of local pharmaceuticals manufacturing capacity comprises generic medicines, representing 50% of the overall pharmaceuticals market. Local companies Aspen and Adcock Ingram are major players in the industry.

### EXPORTS OF BASIC CHEMICALS AND CHEMICAL PRODUCTS CONTRIBUTED 7.2% OF SA'S EXPORT BASKET IN 2018

Top basic chemicals exports, 2018	ZAR million	% of total SA merchandise exports
Polymers of propylene, olefins in primary forms	5 222	0.42%
Acyclic hydrocarbons	5 175	0.42%
Sulphates, alums, peroxosulphates (persulphates)	3 719	0.30%
Hydrazine, hydroxylamine, metal oxides etc	3 425	0.27%
Mineral or chemical fertilizers, nitrogenous	2 902	0.23%
Carbides, whether or not chemically defined	2 666	0.21%
Acyclic alcohols and their derivatives	2 561	0.21%
Other	24 452	1.96%
<b>Total basic chemicals exports</b>	<b>50 122</b>	<b>4.02%</b>

Top chemical products exports, 2018	ZAR million	% of total SA merchandise exports
Medicaments, therapeutic, prophylactic use	4 132	0.33%
Reaction initiators, accelerators & catalysts	3 945	0.32%
Beauty, make-up and skin care preparations	3 734	0.30%
Insecticides, fungicides, herbicides etc (retail)	3 526	0.28%
Organic surface active agent, preparation, except soap	2 707	0.22%
Soaps	2 180	0.17%
Prepared binders for foundry moulds or cores	1 582	0.13%
Other	17 164	1.38%
	<b>38 969</b>	<b>3.13%</b>

Source: IDC analysis, compiled using South African Revenue Service data



## CHEMICALS AND CHEMICAL PRODUCTS INDUSTRIES: INVESTMENT OPPORTUNITIES

### Basic chemicals

- There are opportunities in the manufacturing of fertilisers and nitrogen compounds linked to the food production value chain, owing to higher farming production yields to meet growing demand for food.
- Investment opportunities exist in the plastics (polymers) sub-sector, on the back of domestic demand for polyethylenes, particularly those used in packaging, bags and other injection moulding applications.
- Increasing liquid fuels energy security presents opportunities.

### SELECT OPPORTUNITIES IN BASIC CHEMICALS PRODUCTION

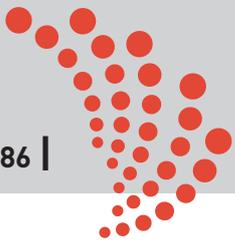
- Polypropylene and polyvinyl chloride beneficiation
- Composite materials, including bio-composites
- Fluorspar beneficiation
- Titanium oxide pigments
- Organic fertilisers
- Speciality and fine chemicals
- Primary polyacetals/polyethers
- Nitrites and nitrates
- Potassic mineral or chemical fertilisers

### Chemical products

- Import replacement opportunities abound, including in the production of automotive coatings; organic surface active agents; prepared binders for foundry moulds or cores; peptones and proteins.
- Macro-trends towards increased production yields on less farming land are expected to expand opportunities for agro-chemicals and pesticides manufacturers.
- There are opportunities associated with growing demand for paints and coatings (including automotive coatings) on the back of public sector procurement; expanding vehicle production supported by the APDP; and export potential in African and Middle Eastern markets.
- Emerging opportunities exist in the manufacture of organic personal care products.

### Pharmaceuticals

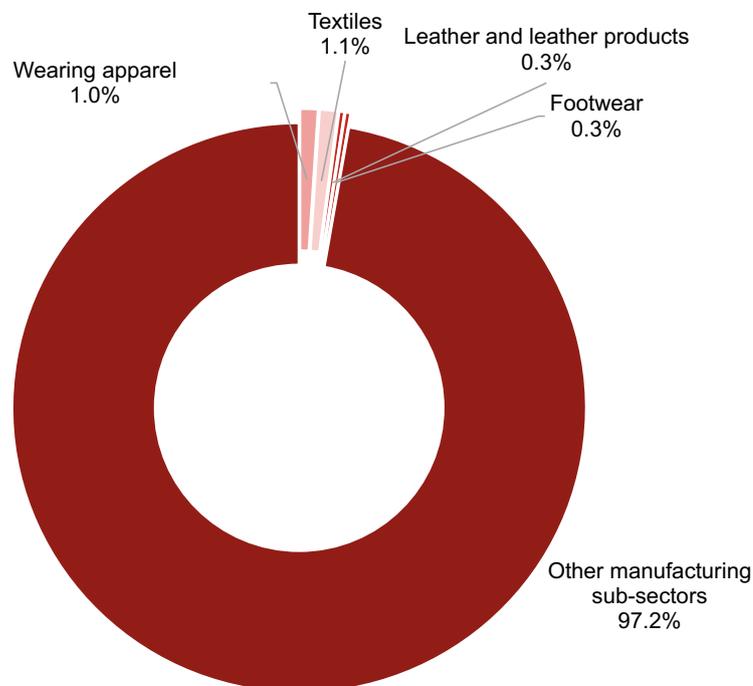
- South Africa is the only country in SADC that meets the World Health Organisation's Good Manufacturing Practice standards, thus positioning it as the regional manufacturing hub for pharmaceutical products. A new industry regulator – the South African Health Products Regulatory Authority – aims to accelerate product approval times, unlocking R&D investment opportunities.
- Trends towards healthier lifestyles, rising disposable household income and increased access to innovative products are driving the growth and expansion of the domestic pharmaceuticals value chain. The introduction of the National Health Insurance scheme will be a key influencing factor in unlocking growth opportunities for locally-based manufacturers of pharmaceutical products.
- Developing the active pharmaceutical ingredient manufacturing industry, expanding vaccine production and the establishment of production capacity for radiopharmaceuticals for nuclear imaging are specific investment opportunities.
- New technologies and the emergence of alternative healing methods are creating niche opportunities in the pharmaceuticals industry, while next-generation digital technologies are boosting both research capacity and healthcare delivery, creating investment opportunities in the process.
- Telemedical applications are expected to play an increasing role in the country's remote areas, generating manufacturing investment opportunities.
- New drug approvals are increasingly shifting from chemicals- to biological-based drugs, or bio-therapeutics. The latter entails the manufacturing of pharmaceutical drugs from a living (organic) system such as micro-organisms, plants or animal cells. The global proliferation of these products presents a potential high growth opportunity for manufacturing investment in South Africa.



## CLOTHING, TEXTILES, FOOTWEAR AND LEATHER INDUSTRIES: STRATEGIC INTERVENTIONS LEADING TO MODERNISATION AND COMPETITIVENESS

- The domestic clothing, textiles, footwear and leather (CTFL) sub-sectors have undergone substantial restructuring in the face of intense competition from foreign producers. Collectively, they currently contribute 2.8% of total manufacturing GDP.
- Important strategic interventions have been contributing to the stabilisation of the CTFL sub-sectors, their modernisation and their improved competitiveness. These include:
  - The introduction of various customised sector programmes, most notably the Clothing and Textiles Competitiveness Programme (CTCP), which includes the provision of financial grants to support competitiveness improvements;
  - Stronger tariff protection for the domestic industry within the rules of the World Trade Organisation;
  - Preferential public sector procurement, with the textiles, leather and footwear sectors having been designated 100% for local production;
  - Assistance in integrating domestic producers into the supply chain of retailers to enable the “fast response” retail model that is being pursued by the bulk of clothing retailers; and, among others,
  - A crackdown on illegal imports.

CTFL INDUSTRIES' SHARES OF MANUFACTURING GDP IN 2018



Source: IDC analysis, compiled from Quantec data

Source: IDC analysis, compiled from Quantec data

**CLOTHING, TEXTILES, FOOTWEAR AND LEATHER PRODUCTS ACCOUNT FOR ONLY 1.6% OF SOUTH AFRICA'S MERCHANDISE EXPORTS, BUT ARE KEY TO ACHIEVING SOCIO-ECONOMIC DEVELOPMENT OBJECTIVES**

<b>Top textiles export products, 2018</b>	<b>ZAR million</b>	<b>% of total SA merchandise exports</b>
Sanitary towels and tampons, napkins and napkin liners for babies	1 289	0.10%
Wool and animal hair, carded or combed	861	0.07%
Textile tarpaulin, sail, awning, tent, camping goods	595	0.05%
Sacks & bags of a kind used for packing of goods	508	0.04%
Woven synth filament yarn, monofilament >67dtex	411	0.03%
Nonwoven textiles, except felt	386	0.03%
Mattress supports, mattresses, bedding	339	0.03%
Other	3 372	0.27%
<b>Total textiles exports</b>	<b>7 761</b>	<b>0.62%</b>

<b>Top wearing apparel export products, 2018</b>	<b>ZAR million</b>	<b>% of total SA merchandise exports</b>
Mens or boys suits, jackets, trousers, etc., not knitted	832	0.07%
T-shirts, singlets and other vests, knitted or crocheted	603	0.05%
Woven female suits, jacket, dress, etc.	571	0.05%
Female suit, dress, skirt, etc, knitted or crocheted	464	0.04%
Mens, boys suits, jackets, trousers, etc., knitted/crocheted	349	0.03%
Panty hose, tights, hosiery n.e.s., knitted or crocheted	289	0.02%
Men's or boys' shirts	282	0.02%
Other	2 848	0.23%
<b>Total top wearing apparel export products</b>	<b>6 237</b>	<b>0.50%</b>

Source: IDC analysis, compiled using South African Revenue Service data

## **CLOTHING, TEXTILES, FOOTWEAR AND LEATHER INDUSTRIES: INVESTMENT OPPORTUNITIES**

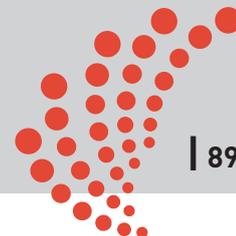
- Substantial opportunities exist for import replacement and export development on the back of highly preferential access to foreign markets, particularly the US (duty-free access under AGOA), the European Union (SADC-EU EPA), and other member states of SADC.
- Not only does the African continent present a market of around 1.3-billion consumers for African textiles and garments, but these products are also becoming increasingly popular in European and Eastern markets. Clothing brands from African designers are also making inroads in global markets. Significant opportunities exist for designers to adapt traditional African textiles for uses in clothing, household textiles and so on.
- Linkages with the automotive value chain have sustained demand for industrial textiles, particularly leather products for export-oriented leather seat cover manufacturing.

## ADVANCED MANUFACTURING

- The proliferation of advanced manufacturing technologies is a disruptive global phenomenon that is affecting all economic sectors at an exponential rate.
- Global digitisation trends and the adoption of the associated emerging technologies constitute key determinants of the future competitive positioning of many of South Africa's industrial sectors in the world economy.
- South Africa, with its well developed industrial base, is favourably positioned to benefit from the global transition process currently under way, which is unlocking a myriad of new manufacturing opportunities across industrial value chains.
- Significant strides in clean energy technology have created opportunities for the commercial development of renewable energy technologies. Specifically, the continued implementation of South Africa's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is opening up major opportunities for manufacturing capacity development in wind and solar energies, including components production.
- There are significant advanced manufacturing opportunities to drive the proliferation of digitisation and artificial intelligence through robotics and artificial intelligence across numerous manufacturing activities in South Africa.
- The current low adoption of Fourth Industrial Revolution (4IR) technologies in the rest of Africa provides significant opportunities to leverage on South Africa's industrial capital.

Factors supporting the development of advanced manufacturing industries in South Africa	Key growth nodes in advanced manufacturing
<p>✓ Strategic government support through the National Research and Development Strategy (NRDS) and Integrated Manufacturing Strategy (IMS) to boost the development of advanced technologies that will enhance competitiveness in the manufacturing sector.</p>	<ul style="list-style-type: none"> <li>• Expanding market opportunities in the Internet of Things (IoT) emerging technologies, including advanced mobile communication technology and interconnectivity.</li> <li>• Manufacturing of inter-connected devices.</li> <li>• Big data analytics (development of integrated citizen databases enabled by biometric technology and cloud computing).</li> <li>• Artificial intelligence, robotics and neural network technology applications across industrial and services sectors of the economy.</li> <li>• Manufacturing of autonomous vehicles.</li> <li>• New-generation mining equipment manufacturing clusters targeting deep-level, narrow-seam mining.</li> <li>• Additive manufacturing (3D printing).</li> <li>• Nano- and biotechnology.</li> <li>• Quantum computing.</li> <li>• Cybersecurity.</li> </ul>
<p>✓ Integrated, sector-driven innovation networks led by science councils, including advanced metals, advanced materials, ICT in manufacturing, aerospace, capital goods, chemicals, and advanced production innovation.</p>	
<p>✓ Technology Stations Programme (TSP) in partnership with leading local universities.</p>	
<p>✓ Research and development tax incentives, public sector product designation, competitive supplier development programmes and technology localisation programme.</p>	
<p>✓ Industry innovation programmes and sector innovation fund.</p>	





## ADVANCED MANUFACTURING: INVESTMENT OPPORTUNITIES

- Increased demand and/or regulatory pressure for sustainable manufacturing technologies has generated several new-generation manufacturing opportunities.
- South Africa is among the pioneers of technology in the global fuel cell industry. Although still at a relatively early stage, the promising fuel cell arena is progressing steadily. The competitive advantage emanating from being the largest platinum producer in the world presents substantial leverage for the commercialisation of fuel cells, with Anglo American Platinum spearheading this potential.
- Advanced materials consist of new materials and modifications to existing materials, including composites, to obtain superior performance and, among others, encourage the utilisation of waste materials. South Africa's resource base, well-developed industrial sectors and R&D capacity support the development of advanced materials production capacity. Investment opportunities in niche advanced materials exist in South Africa's petrochemicals and aerospace industries.
- South Africa is among the countries that have made good progress in developing additive manufacturing and commercialising university research related to 3D industries.

### SELECT OPPORTUNITIES IN ADVANCED MANUFACTURING:

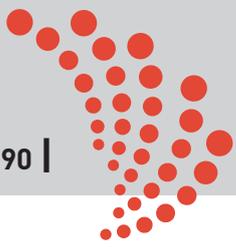
- Fuel cell industry (variety of applications, including motor vehicles, energy generation)
- Set-top boxes, digital televisions
- Additive manufacturing, including 3D printing (various applications)
- Speciality materials, niche composite materials
- Medical devices and emerging telemedical instrumentation
- Investment opportunities in research and product development in conjunction with South African universities and other research centres such as the Council for Scientific and Industrial Research (CSIR)

## ADVANCED MANUFACTURING: OPPORTUNITIES IN ADDITIVE MANUFACTURING

- South Africa's additive manufacturing capacity has expanded exponentially since around 2010, with the total number of additive manufacturing machines having increased from 200 in 2010 to more than 5 700 in 2018.
- Additive manufacturing technological and output capacity is most developed in the tooling and refurbishment, aerospace and research segments of the South African economy.
- Automotive, consumer goods, defence and safety and security applications are important growth nodes for additive manufacturing in South Africa.
- Project Aeroswift, a large-area powder-bed additive manufacturing system, aims to unlock significant commercial investment opportunities in metal products additive manufacturing in the country. Project Aeroswift's functional system development has been completed. Expansion of the functional system and development of a full-build working system are pending and require strategic investment participation.

### SELECT OPPORTUNITIES IN ADDITIVE MANUFACTURING:

- Production of medical devices and implants
- Manufacturing of parts and components for the aerospace industry
- Refurbishment of parts and tools for the automotive industry
- Tooling and prototyping in the footwear industry
- Development of low-cost 3D printers
- Development of high-end additive manufacturing systems
- Manufacturing of synthetic industrial materials, including sand, platinum, titanium metal powder



## ADVANCED MANUFACTURING: OPPORTUNITIES RELATED TO FINANCIAL TECHNOLOGY

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- Financial technology (fintech) innovation in South Africa's financial services industry is giving rise to manufacturing growth opportunities in mobile financial applications.
- South Africa's advanced ICT infrastructure, wide mobile network coverage and internet bandwidth are key enablers for the proliferation of advanced financial technologies, even if relatively high mobile services and data costs are a growth constraint. The country's sizeable banked population, sophisticated financial infrastructure and regulatory system are also important contributing factors.
- Robotics, artificial intelligence applications such as robo-advisors in the financial and investment management industry, and the development of algorithmic trading hardware and software, for use by both retail and institutional investors, are increasing in popularity in South Africa. This is consistent with global trends.
- The emergence of digital banks, which seek to conduct bank transactions solely on digital and mobile channels at far reduced cost levels, has disrupted traditional banking services, generating potential growth opportunities for advanced mobile application developers.

### SELECT OPPORTUNITIES IN FINTECH-RELATED ADVANCED MANUFACTURING:

- Manufacturing of contactless, near-field communication technology applications for processing payments
- Advanced cybersecurity systems and applications development
- Opportunities for big data analytics and neural network technology manufacturers in South Africa's financial services industry



- PEOPLE  
- FORUMS  
SALE

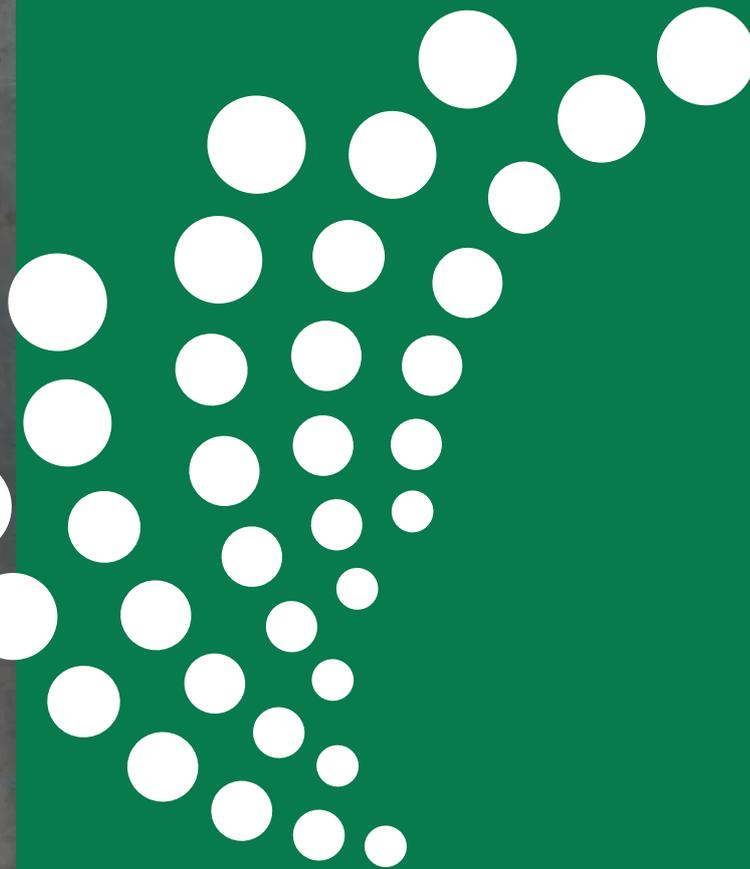




# 6.4

## SERVICES OPPORTUNITIES

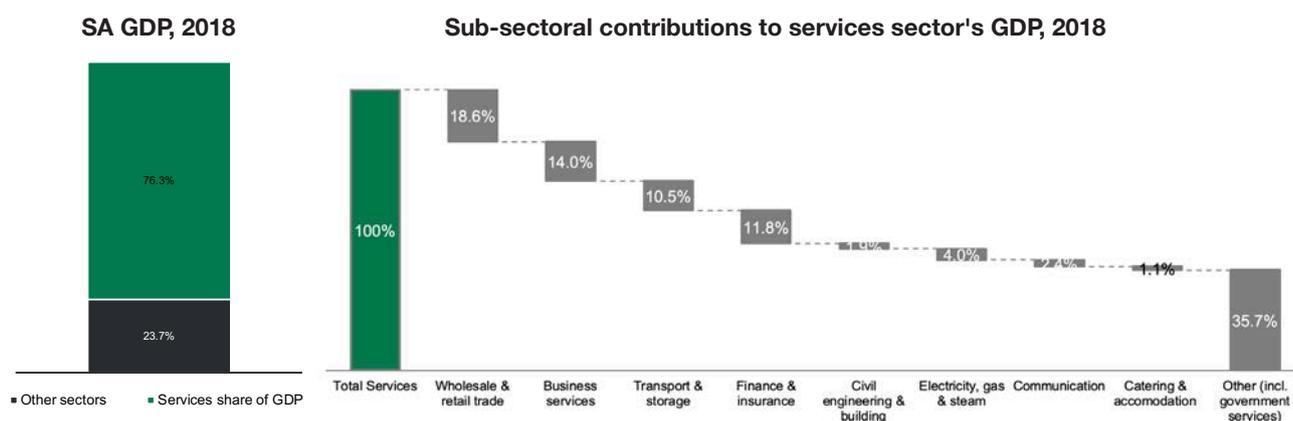
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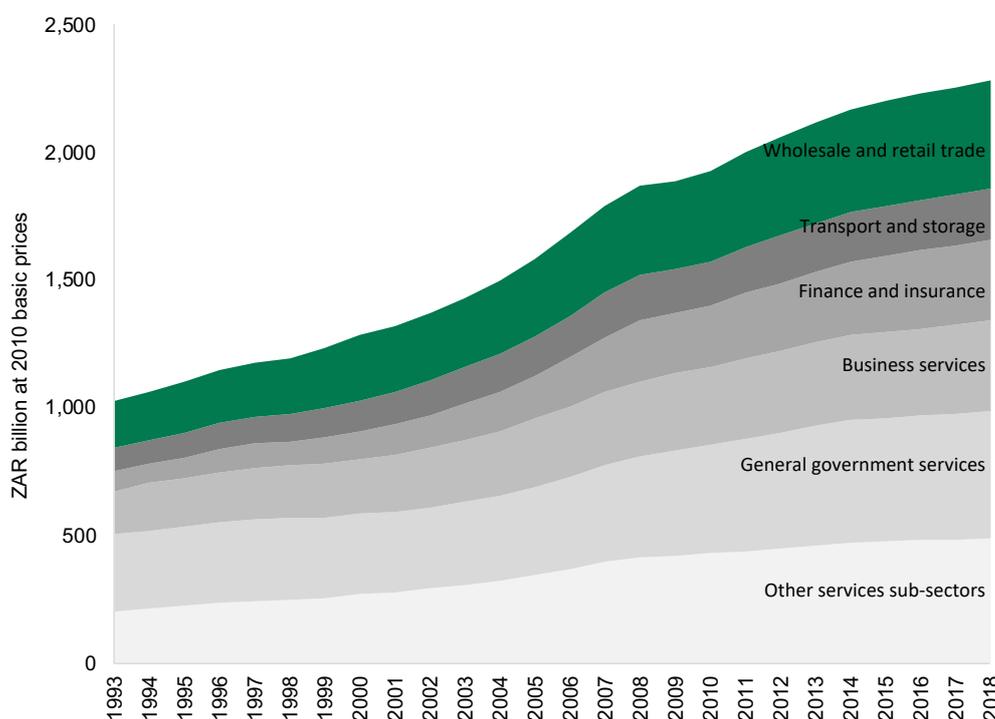
# SOUTH AFRICA'S SERVICES SECTOR

- The broad services sector is the largest in the South African economy. Its share of national GDP has expanded substantially over time, rising from just over 61% in 1970 to 76.3% by 2018.
- South Africa's well-developed services sector plays a crucial role in the economy. Its various segments – which include financial, logistics and distribution, business and travel services – provide important services (inputs) to the manufacturing, mining and agricultural sectors, as well as to the public and household sectors. As such, they are key determinants of the competitiveness of export-oriented sectors of the economy.
- Out of the five largest services sub-sectors, the finance and insurance sub-sector has significantly outperformed the others, recording a compound annual growth rate (CAGR) in GDP of 4.7% over the period from 2000 to 2018. This compares with a CAGR of 3.8% and 2.9%, respectively, in the business services and wholesale and retail trade sub-sectors. General government services recorded annual GDP growth of 2.5% over this period.
- The services sector is also a major employer and generator of job opportunities.



Source: IDC analysis, compiled using Quantec data

## GDP TRENDS OF THE TOP FIVE SERVICES SUB-SECTORS (ZAR BILLION AT CONSTANT PRICES)





<b>Contribution to the economy</b>	The broad services sector is the largest in the economy, accounting for 76.3% of overall GDP. The total employment complement of services-related sectors amounts to 9.7-million people, representing 79% of total employment in South Africa.
<b>Structure</b>	The degree of concentration varies widely, from a banking industry dominated by four large domestic banks to a business services sub-sector encompassing numerous players with varying degrees of market power, depending on the segment. The retail and wholesale trade sub-sector is dominated by large companies operating alongside numerous small- to medium-sized firms.
<b>Extensive sectoral linkages</b>	The services sector is central to the functioning of basically all industries in the economy due to its extensive linkages (backward, forward and lateral) with a multitude of input suppliers and producers, as well as end-user consumer markets.

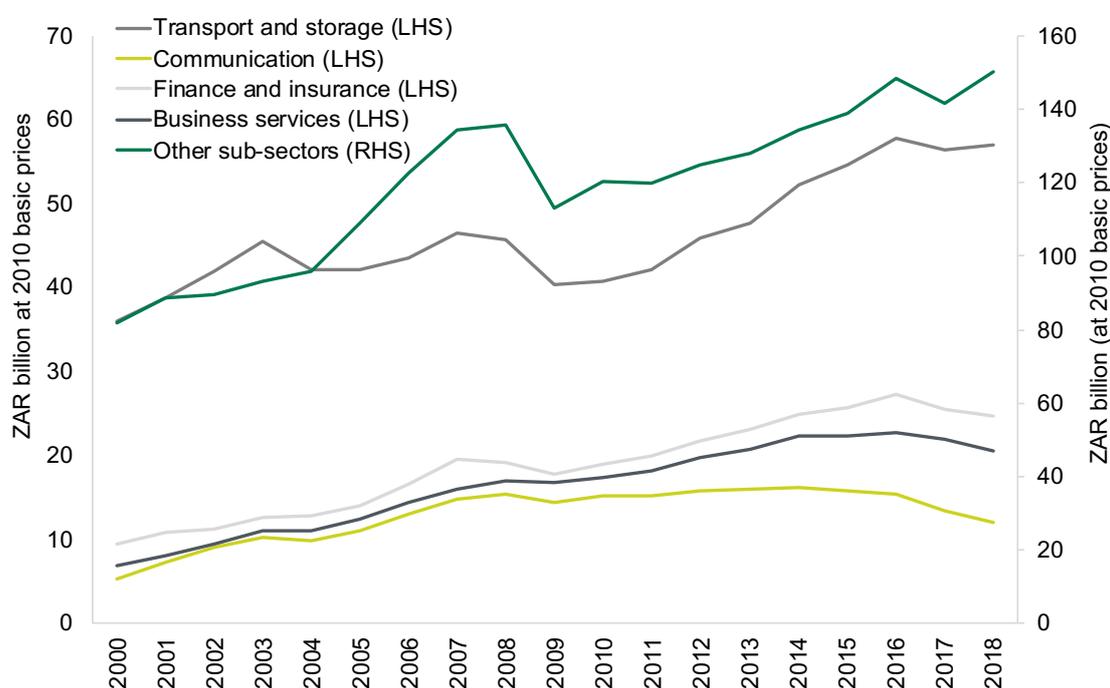
## ATTRACTIVENESS OF SOUTH AFRICA'S SERVICES SECTOR

Basis for comparative advantage	Select investment trends in these sectors
<ul style="list-style-type: none"> <li>✓ Sophisticated, world-class and well-regulated financial sector that has effectively withstood crises in global financial markets.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant investment has flowed into the development of South Africa's offshore business process outsourcing (BPO) sector, which has been experiencing robust, double-digit annual rates of growth.</li> <li>• Major Chinese investment has been made in South Africa's financial sector, accompanying the strengthening of bilateral ties and the rapid expansion of trade and investment between the two countries.</li> <li>• Some of the world's largest wholesale and retail corporates, such as Walmart, H&amp;M, Zara and Mango, have invested in South Africa in recent years.</li> </ul>
<ul style="list-style-type: none"> <li>✓ South Africa is sub-Saharan Africa's largest exporter of commercial services.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Strong backward, lateral and forward linkages with other sectors of the economy.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Competitive cost structure relative to global benchmarks.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ Certain segments, such as BPO and film and television production, draw significant public sector support, including incentives.</li> </ul>	
<ul style="list-style-type: none"> <li>✓ South Africa is recognised as one of the leading offshore destinations for the global outsourcing of business services.</li> </ul>	

## EXPORT PERFORMANCE OF THE SERVICES SECTOR

- Certain services are tradable. South Africa has increasingly become an exporter of services, particularly to other African countries but also globally, currently being the leading exporter and importer of commercial services on the continent.
- The broad services sector's share of overall exports (i.e. goods and services) rose steadily over the years to 28.7% in 2018, reflecting relative competitiveness.

**SERVICES SUB-SECTORS: STRONG EXPORT PERFORMANCES**



Services sub-sectors	Compound annual growth rate in exports, 2000 to 2018
Transport and storage	2.4%
Communication	4.3%
Finance and insurance	5.2%
Business services	5.9%
Other sub-sectors	3.2%

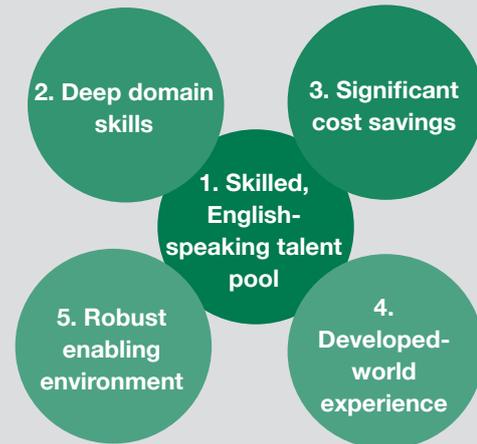
Sources: (chart and table) IDC analysis, compiled using Quantec data



## BUSINESS PROCESS OUTSOURCING (BPO) SERVICES

- Business process outsourcing unlocks business value by allowing entities to focus on core business functions and processes, and improve overall business processes and productivity.
- The business case for, and the economic merit of, outsourcing business process functions to South Africa have been demonstrated in many instances.
- The country has a mature market for BPO services that is supported by world-class telecommunications, financial and legal infrastructure. BPO services in South Africa are concentrated in the financial services industry, telecommunications and ICT.
- South Africa offers major BPO cost-saving alternatives compared to other destinations, such as the United Kingdom. It is also endowed with a large pool of experienced English-language talent.
- The BPO industry benefits from strategic government support through the Department of Trade and Industry's Business Process Services incentive scheme, which is aimed at improving South Africa's relative competitive position in such services vis-à-vis other major competing markets. The scheme contributes to lowering the cost basket further for foreign investors.
- South Africa's BPO industry has grown by approximately 22% per year since 2014 – three times faster than India and the Philippines as major offshore BPO services countries, according to the Everest Group. This has led many regional and global companies to set up or expand BPO services operations in South Africa.
- From a global perspective, South Africa is regarded as one of the most attractive countries for offshoring services provision, presenting a multitude of opportunities such as back-office hubs; knowledge process outsourcing; legal process outsourcing; ICT, software design and engineering; game development; and transcription services.
- The value proposition for BPO in South Africa is rooted in delivery point diversification, which allows outsourced business functions to be performed from all parts of the country, with Johannesburg, Durban as well as Pretoria joining Cape Town as BPO locations of choice.
- South Africa's regulatory environment as well as its commercial incentive programmes are positioned to support the growth of impact sourcing opportunities in the BPO industry. The country has a large talent pool with a proven record of reliable service delivery to support the growth of impact sourcing.

### FACTORS DRIVING SOUTH AFRICA'S ATTRACTIVENESS AS A BPO INVESTMENT DESTINATION



Source (graphic): Everest Consultancy

**The United Kingdom is the largest international market for BPO services based in South Africa, with this market constituting more than 60% of demand. Australia and the United States are important potential growth markets.**

### SELECT INVESTMENT OPPORTUNITIES IN BPO:

- Establishment of call centres
- Back-office processing facilities
- Provision of shared corporate services
- Enterprise solutions such as fleet and asset management services.
- Legal process outsourcing
- Evolution of the industry from voice-driven towards omni-channel delivery of services has expanded investment prospects
- Analytics solutions services enabled by South Africa's skills capability, including root cause analysis, predictive analytics, knowledge process outsourcing and digital investment platforms

## BUSINESS SERVICES

- South Africa is a major hub for business services on the African continent. Its highly diverse business services sector is one of the largest in the South African economy, accounting for 13.2% of GDP in 2018.
- The major segments of the business services sector include professional services such as legal, accounting, engineering and architectural services; real estate activities; renting of machinery, equipment, personal and household goods; business process outsourcing; computer and information technology services; advertising services; and, among others, business consulting services.
- The sector's growth has benefited from the structural trend towards the outsourcing of non-core activities by domestic companies.
- The business services sector is expected to sustain robust rates of growth in the years ahead. This will be anchored by:
  - Progressively higher rates of economic growth, particularly fixed investment activity;
  - The large public sector infrastructure development programme currently under way;
  - The proliferation of new-generation technologies across all sectors of the economy; and, among others,
  - Growing demand in external markets, particularly in other African countries.



## WHOLESALE AND RETAIL TRADE SERVICES

- The wholesale and retail trade sector contributed 14.2% to South Africa's GDP in 2018 and is a major contributor to overall employment.
- The sector offers attractive investment opportunities, anchored in rising customer spend that is supported by an expanding population with increasing purchasing power, a fast-growing middle class, and the high inflow of business and shopping tourists, particularly from numerous other African countries.
- Some of the world's largest corporations in the wholesale and retail services arena have recognised these opportunities, thus investing in South Africa in recent years (e.g. Walmart, H&M, Zara, Mango).
- Progressive consolidation in the sector has meant that a smaller number of companies are gaining increasing market share in their respective market segments. Many of the businesses in the sector are integrated in their supply chains and have well-established foundations for further expansion and investment to leverage on the emerging opportunities.
- Several of South Africa's major wholesale and retail corporates have, over the years, developed strong footprints across the African continent. These include warehousing, distribution and retailing operations sourcing goods and services not only in the host countries but also from the South African economy.



## FINANCE AND INSURANCE

- The finance and insurance sector, which accounts for 6.4% of overall GDP, is one of the largest and fastest growing. It recorded GDP growth of 4.7% per year over the period 2000 to 2018.
- The sector is well developed and comparable to those in developed economies. It encompasses all types of financial intermediation, including commercial and retail banking, investment asset management, insurance and pension fund management activities.
- South Africa has highly developed financial markets and a well-functioning, strongly regulated financial industry. The major banks are Standard Bank, Absa Group, FirstRand, Nedbank and Capitec, some of which provide commercial, retail and investment banking services throughout the continent. The proliferation of technological innovations has led to an increasing number of players offering value-adding competing services and products for both the mainstream and underserved segments of the population.
- The insurance segment accounts for around 80% of total direct premiums generated on the African continent. Life insurance is dominant, accounting for 75% of the insurance sector.

### SELECT INVESTMENT OPPORTUNITIES IN FINANCE AND INSURANCE:

- The financial services segment provides significant growth opportunities, particularly in the lower ends of the consumer market. Despite a highly concentrated banking industry structure, smaller banks have been taking advantage of this potential.
- Black economic empowerment legislation continues to drive demand for private equity funds, creating growth opportunities for investors in this area.
- Demand for asset management services is growing on the back of changes in tax legislation and an expanding middle class
- Increasing penetration rates of the non-life insurance sub-sector and enhanced life densities are expected to drive robust growth in South Africa's insurance sector, representing a significant investment opportunity.
- Insurance solutions such as pay-per-use insurance (for example, on car insurance), insurance combined with financing (for example, micro-loans to purchase solar panels).
- Specialised data provision and data management services.



## COMMUNICATIONS

- The communications sector accounts for 1.9% of GDP and is a key enabler of other business services sectors in the South African economy. It is also one of its fastest-growing sectors.
- The sector encompasses telecommunications (key players being fixed-line operator Telkom, and mobile ICT companies MTN, Vodacom, Cell C and Telkom), national postal services (predominantly state-led) and associated courier activities.
- The liberalisation of the domestic telecommunications market, particularly due to the Electronic Communications Act of 2005, facilitated the proliferation of new entrants and increased competition in the sector.
- The country's telecommunications sector is among the largest on the African continent. It is also deemed to be one of the most complex and technologically advanced telecommunications systems.
- Domestic telecommunications are at the forefront with respect to the adoption of technological innovations compared to regional peers, resulting in the local industry's growing penetration of regional markets.
- Saturation of the domestic mobile market and shifts from voice and SMS to data have created significant growth opportunities in 4G Long-Term Evolution (LTE) services.
- Release of high-demand broadband spectrum, aimed at reducing data costs and encouraging investment, is imminent.

### SELECT INVESTMENT OPPORTUNITIES IN COMMUNICATIONS:

- Commencement of the spectrum licensing process is imminent, opening up investment opportunities in the digital and telecommunications industries. Investment in advanced telecommunication applications: Internet of Things (IoT) applications such as telematics and smart devices; inter-device communications technology.
- Big data tools for reporting and analytics.
- Reselling of global cloud platforms.
- Business franchising opportunities in Voice over Internet Protocol (VoIP) solutions.
- e-Services across industries (e.g. technology/applications for e-government and e-health).
- Data centres, LTE-A data-only mobile network play.
- Opportunities for consolidation or investment in fibre internet service providers (ISPs).
- Frontier ICT technology skills development.



## FILM AND TELEVISION

- South Africa has a proven track record in the film, television and commercial service arenas.
- The direct contribution made by the film industry to the economy was estimated at ZAR4.4-billion in 2016/17, according to Urban-Econ. The industry has recorded rapid average growth, reflecting its vibrancy and expanding investment opportunity set.
- South Africa's film industry has made inroads internationally, but development opportunities exist in pre- and post-production facilities, as well as in other support services (e.g. special effects, design and making of costumes, décor or film sets, animation).
- Private equity constitutes the industry's main source of funding, reflecting its attractive investment credentials.
- The industry receives significant public sector support, including government incentives (e.g. Foreign Film and Television Production and Post-Production Incentive, SA Film Production and Co-production Incentive), development and production funding from the National Film and Video Foundation and the Industrial Development Corporation

### SELECT INVESTMENT OPPORTUNITIES IN THE FILM INDUSTRY:

- Development of feature films and documentaries (largest segment of local film industry, ca. 27%).
- Although animation is the smallest segment in the industry (ca. 3%), the proliferation of new technology and skills can unlock significant growth.
- Consultancy and training services provision for business and skills development programmes to support emerging filmmakers and fast-track transformation in the industry.
- Opportunities across value chain, incl. film concept development, film product packaging and distribution, private equity financing, pre- and post-production management companies and marketing services.
- Post production and VFX studios to enable E2E production in South Africa.
- Investing in new specialised studio space.
- Skills development and training across the industry.



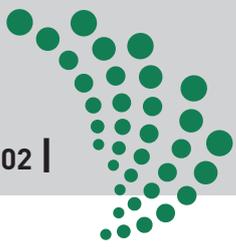
## TOURISM

- South Africa is one of the world's fastest-growing leisure and business travel destinations. Its scenic beauty and diversity, sunny climate, wildlife and cultural aspects constitute, among others, strong investment propositions for the tourism sector.
- South Africa was ranked 38<sup>th</sup> in the world in 2018 in terms of international tourist arrivals (10.3-million in 2017, 10.5-million in 2018) and 37<sup>th</sup> with regard to international tourist receipts in 2018 (USD8.9-billion, up from USD8.8-billion in 2017), according to the United Nations World Tourism Organisation (UNWTO). It is Africa's third-largest international tourist destination, after Morocco and Egypt.
- The tourism sector has developed into one of the major contributors to the economy. It has extensive linkages to several other sectors, benefiting from the supply of goods and services by a multitude of domestic producers and service providers.
- Due to its labour-intensity and sectoral linkages, it is a priority sector for the government, with rural tourism being a key area of focus for growth. The sector's growth and development are guided by the National Tourism Sector Strategy.

### SELECT INVESTMENT OPPORTUNITIES IN TOURISM:

- Business tourism: South Africa has over 1 000 high-quality conference and exhibition venues, with a National Convention Bureau assisting in revenue origination.
- Cultural tourism: Investment in existing and development of world-class tourism sites to commemorate South Africa's historical legacy.
- Investment in World Heritage Sites: South Africa hosts 10 World Heritage Sites.
- Eco-tourism: South Africa's diverse climate, varied wildlife and landscapes create a myriad of opportunities for eco-tourism commercial ventures. The country is leading the way in the development of trans-frontier parks.
- Adventure tourism: Marine tourism such as game fishing and shark cage diving.
- Other high-growth opportunities: Sports tourism, palaeo-tourism development, wine tourism, theme parks and medical tourism.



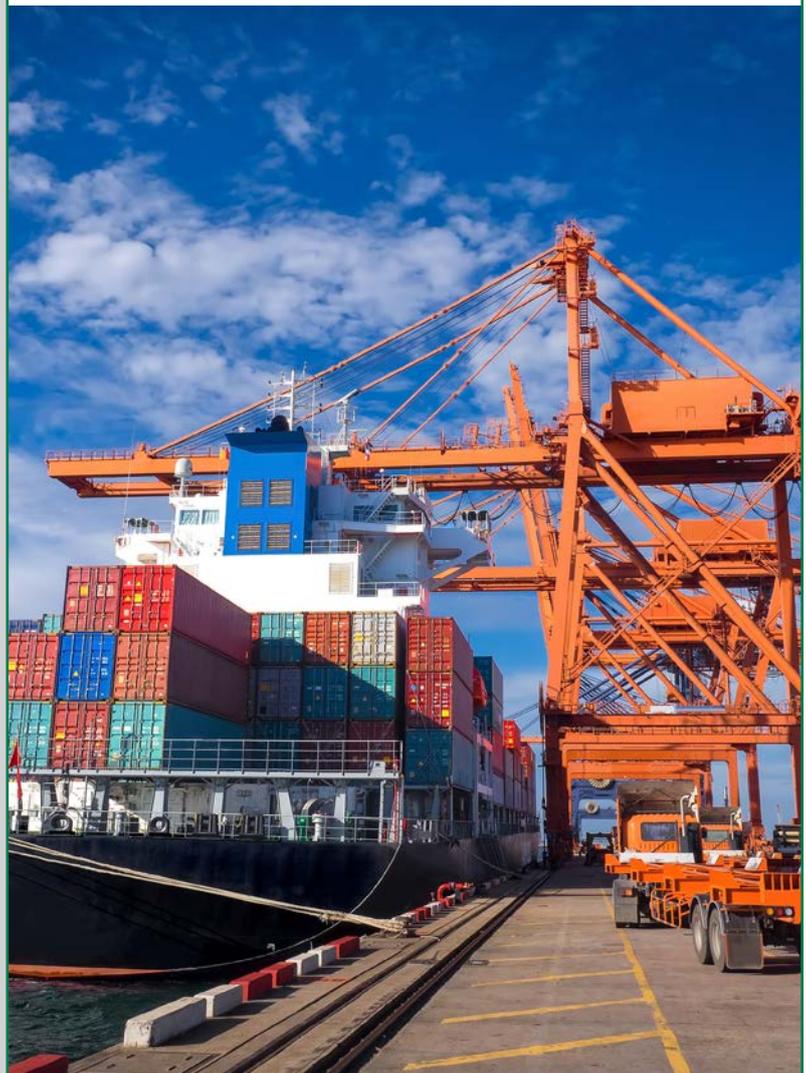


## OCEANS ECONOMY

- Several factors support South Africa's relative competitive advantage for the development and growth of maritime-related services industries. Importantly, South Africa is the strategic African hub for maritime operations in the South-South trade corridor from Asia to the eastern coast of South America and connector routes along the eastern and western coasts of Africa.
- South Africa's proximity to offshore and exploration sites around Africa, supported by sophisticated technology, skills and infrastructure, makes the country a compelling site for investment in maritime services.
- The country has eight major ports, including two of the world's top container ports and two of the world's biggest dry bulk ports, with capacity for Panamax, Capesize vessels and ultra-large container ships. Durban port and Saldanha Bay also have the capacity for offloading large crude carriers.
- A major opportunity pertains to ship/oil rig repair and maintenance services provided to ocean vessels travelling along one of the world's busiest shipping routes. Underpinned by significant skills locally, there are unique opportunities to service (maintain and repair) marine oil rigs along the west coast of Africa, as well as new natural resource extraction projects (e.g. gas in Mozambique).
- The government's strategic support programme, precipitated by the Operation Phakisa for the Oceans Economy, has set a target to grow its GDP contribution to ZAR177-billion by 2033, equivalent to 350% growth of its total value-add in 2016, according to the Department of Environment, Forestry and Fisheries. This will unlock significant investment opportunities.

### SELECT INVESTMENT OPPORTUNITIES IN THE OCEANS ECONOMY:

- Repair and maintenance of ships and drilling rigs, supported by extensive infrastructure and deep supply chains.
- Investment in next-generation ship- and boat-building technology services.
- Bunkering, re-supply and medical support services.
- Provision of storage and logistics services.
- Port operations consulting services.
- Provision of maritime training services.
- Opportunities for private equity investment in local and pan-African project development.









# 6.5

## INFRASTRUCTURE-RELATED INVESTMENT OPPORTUNITIES

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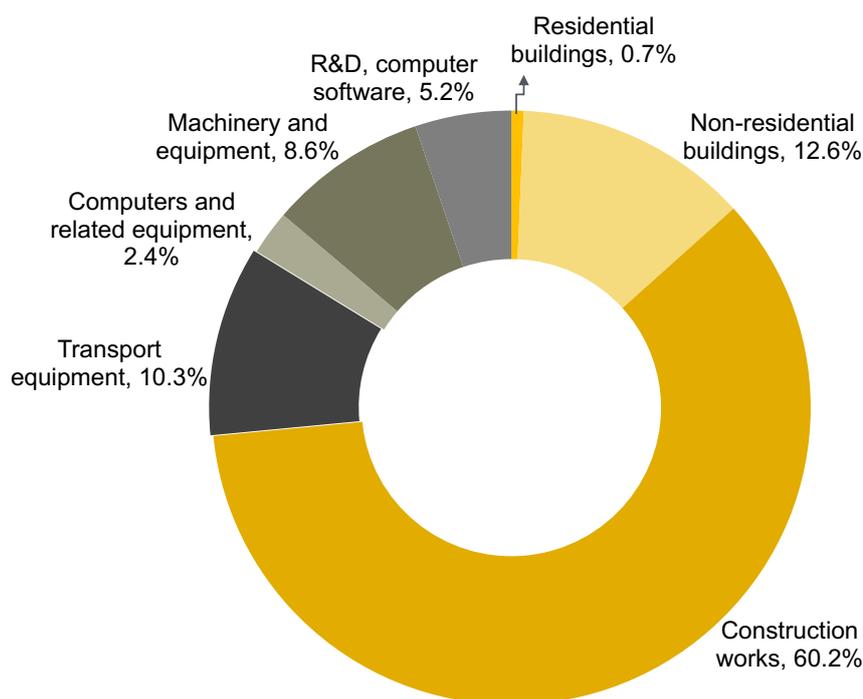




## AN EXTENSIVE INFRASTRUCTURE DEVELOPMENT PROGRAMME IS UNDER WAY

- South Africa's public sector has, for several years, been rolling out an extensive capital expenditure programme aimed at addressing backlogs and capacity constraints in the country's physical infrastructure.
- The ongoing and planned fixed investment programme will raise the economy's potential and permit a sustainable high-growth trajectory.
- This long-term strategic programme to build an efficient, competitive and responsive economic infrastructure network is captured in the National Infrastructure Plan (NIP).
- The energy, transport and water sectors represent the bulk of the infrastructure investment spending plans for the years ahead. The NIP also aims to support the integration of African economies and the development of intra-regional value chains.
- South Africa's public sector spent ZAR255.1-billion on infrastructure development in the 2018/19 fiscal year, according to National Treasury estimates. The bulk of public sector fixed investment expenditure is on construction works.

### COMPOSITION OF PUBLIC SECTOR FIXED INVESTMENT EXPENDITURE IN 2018



Source: IDC analysis, compiled using South African Reserve Bank data

## INFRASTRUCTURE DEVELOPMENT PLAN PRESENTS SUBSTANTIAL INVESTMENT OPPORTUNITIES

- A very large infrastructure development programme is being rolled out in South Africa, providing opportunities for investors to participate in specific projects, as well as for partnering with local suppliers of goods and services in order to benefit from the enormous procurement requirements.
- Public sector infrastructure expenditure is set to total ZAR864.9-billion over the three fiscal years from 2019/20 to 2021/22. Around 70% of the total public sector spending on infrastructure is directed towards transport, energy and water infrastructure, which should contribute to increased localised production capacity.
- President Ramaphosa announced the establishment of the Infrastructure Fund in September 2018. This Fund is reserved for blended finance (i.e. part government and part non-government) in infrastructure projects. The Fund will leverage much higher levels of private sector investment for public infrastructure development. ZAR100-billion has been earmarked for infrastructure development through this Fund over the next decade.

### KEY ELEMENTS OF THE NATIONAL INFRASTRUCTURE PLAN INCLUDE:



**TRANSPORT AND LOGISTICS**  
ZAR313.9-billion  
36.3% of total spending



**HUMAN SETTLEMENTS**  
ZAR57.5-billion  
6.6% of total spending



**ENERGY**  
ZAR158.1-billion  
18.3% of total spending



**EDUCATION**  
ZAR56.9-billion  
6.6% of total spending



**WATER AND SANITATION**  
ZAR132-billion  
15.3% of total spending



**HEALTH**  
ZAR34.3-billion  
4.0% of total spending

# INFRASTRUCTURE DEVELOPMENT PLAN PRESENTS SUBSTANTIAL INVESTMENT OPPORTUNITIES

- There is significant potential for greater private sector involvement in the design, financing, construction, operation and maintenance of public infrastructure.
- South Africa has well-established capital markets and technical capacity to conceive, plan, structure and implement large projects and programmes. If leveraged effectively, these financial resources and technical capacity could materially alter the momentum of infrastructure investment. A project pipeline that will complement the portfolio of the National Infrastructure Plan is being finalised.
- The Presidential Infrastructure Coordination Commission (PICC) has approved 18 strategic infrastructure projects (SIPs) to support economic development and service delivery in all of South Africa’s nine provinces.
- The SIPs are seen as having the ability to unlock opportunities, transform the economic landscape, create new employment, strengthen the delivery of basic services and support the integration of African economies.
- The government is committed to the roll-out of the SIPs, as illustrated by the ZAR420.9-billion capital allocation in the 2019 National Budget over the three-year period to 2021/22.
- The SIPs present opportunities for strategic investment partnerships and supplier/value chain development across the various project pipelines.

## SELECT OPPORTUNITIES IN INFRASTRUCTURE:

### Catalytic infrastructure projects

- Unlocking northern mineral belt
- Durban-Free State-Gauteng corridor development
- South-eastern node and corridor development
- Saldanha-Northern Cape corridor development

### Enabling socio-economic projects

- Greening the South African economy
- Electricity generation
- Electricity transmission and distribution
- Integrated municipal infrastructure
- Integrated urban space and public transportation
- Agro-logistics and rural infrastructure
- Regional integration

### Cross-cutting projects

- Access to communication technology
- Square Kilometre Array (SKA) and MeerKAT
- National school build
- Higher education
- Revitalisation of public hospitals
- Unlocking economic opportunities in the North West province





# GREEN INFRASTRUCTURE INVESTMENT OPPORTUNITIES

- South Africa is committed to investing in the greening of its economy, with a strategic focus on:
  - Renewable/alternative energy;
  - Improved energy efficiencies;
  - Emissions/pollution mitigation;
  - Natural resource management.
- The country is rolling out an Integrated Energy Plan (IEP) to address energy requirements going forward, including electricity and liquid fuels.
- The anticipated investment in renewable energy alone is estimated at ZAR209.7-billion, of which ZAR41.8-billion from foreign investors and financiers.
- Wind and solar technologies have been attracting the most interest due to their relatively mature stage of development and South Africa's plentiful solar and wind resources.
- Renewable energy projects added 3 976 MW of electricity generation capacity to the national grid, while a total of 6 422 MW has already been procured through seven bid rounds.
- The 62 projects operational for more than 12 months generated an estimated 10 648 GWh over the period April 2018 to March 2019, equal to 96% of the energy contribution projection from these projects for the period, with 28 projects exceeding their energy contribution projections.
- Since inception, renewable energy generation has avoided an estimated 36.2-million tons of carbon emissions and water savings of 42.8-million kiloliters.
- More renewable energy projects are expected to be rolled out, given government's intention to procure some 22 876 MW in South Africa's transition to a low-carbon economy.
- The roll-out of renewable energy and energy efficiency technologies is leading to increasing demand for numerous components. Although SA's industrial base can accommodate some of the procurement needs, new industries are being/will be established to cater for rising demand, including the production of associated items (e.g. solar/wind energy technologies and components).

## Procured vs determined

Capacity Per technology (MW)



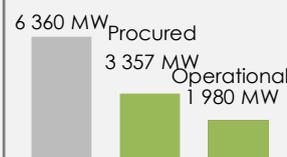
### Determined

### Procured



6 360 MW

53%



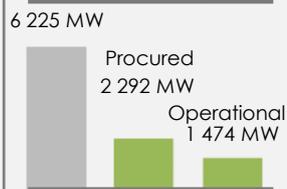
1 200 MW

50%



6 225 MW

37%



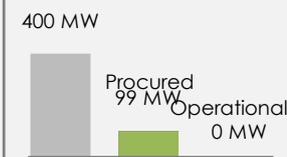
540 MW

14%



400 MW

25%



## SELECT INVESTMENT OPPORTUNITIES IN GREEN INFRASTRUCTURE AND RELATED VALUE CHAINS:

- Roll-out of renewable energy technologies.
- Adoption of energy efficiency technologies.
- Solar energy technologies and components (solar panels, solar water geysers, timers, etc.).
- Wind turbines and components.
- Recycling (plastics, paper, glass, e-waste, etc.).
- Electric vehicles and components.
- Green buildings-related materials & products.
- Desalination plants.
- Energy storage.





# 7.

## CONCLUDING REMARKS

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# SOUTH AFRICA: BUILDING PARTNERSHIPS, ACCELERATING GROWTH



South Africa has the **most developed, diversified, technologically advanced and industrially integrated economy** on the African continent.

The country remains one of the **preferred investment destinations** in Africa and is also an important gateway for markets and other business opportunities throughout the continent.

The South African economy has become increasingly diversified over the years, thereby reducing its sectoral concentration risks, particularly in mining. This has unlocked a **diverse range of high-yield investment opportunities**, predominantly but not exclusively in sectors with **high export propensities**.

The success of many domestic industries in export markets is indicative of **inherent global competitiveness**.

The economy boasts an extensive and **modern infrastructure network**, which is being expanded further as a massive investment programme is rolled out by the public sector. Together with various other forms of industrial support from the South African government and other public sector institutions, this provides an attractive pull factor for investors.

The South African economy has the potential to achieve a higher growth trajectory through the unlocking of competitive advantages in key sectors of the economy as well as **implementation of institutional and governance reforms** to support a sustained recovery in business and investor confidence.

Confidence in the South African government's ability to address structural impediments, including the achievement of greater policy coherence, consistency and certainty, as well as its **focus on entrenching a business-friendly and investment-supportive environment**, will attract investor interest and increase capital spending, from both domestic and foreign sources, in the domestic economy.

These developments, alongside anticipated recovery in global growth over the medium-term, augur well for **South Africa's very open economy**, with significant catalytic ramifications for long-term investment prospects across a wide variety of sectors.

**FOR FURTHER INFORMATION AND OTHER FORMS OF ASSISTANCE,  
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**SOUTH AFRICA  
INVESTMENT CONFERENCE**  
Accelerating Economic Growth by Building Partnerships

