

Paving the way for South Africa’s (re)industrialisation, including the ‘local content’ vs. the ‘local spend’ debate

As South Africa’s socio-economic challenges have escalated in recent years, so the need for more vigorous economic diversification and job creation has come into sharper focus on the national agenda. The revitalisation of the manufacturing sector is one of the cornerstones of the government’s various economic policy and strategy documents, of which two of the most influential are the National Development Plan (NDP) and the Industrial Policy Action Plan (IPAP). With manufacturing’s contribution to GDP having fallen from about 20% in 1994 to some 11% today, South Africa is in fact ‘de-industrialising’. This does not bode well for the country’s export performance (particularly given waning global demand for primary commodities) or its prospects of participating meaningfully in global and regional value chains.

“Finance, insurance and wholesale trade constitute about 60% of South Africa’s GDP, but these are not exportable sectors,” said **Dr Tebogo Makube** from the Industrial Procurement Chief Directorate at the Department of Trade and Industry (the dti). Speaking at the **third WTO-TRADE roundtable** event convened by the **North-West University’s TRADE research entity** on the Potchefstroom Campus on 15 March 2016, Dr Makube continued, “At the dti, we have elevated manufacturing as a sector and are addressing the ‘manufacturing leakage’ that the country is experiencing (an excess of manufactured imports over manufactured exports) through our local content programme.”

Whether a country should promote local content over (often less expensive and better quality) imports is a subject of much debate, particularly as a local procurement programme can be likened to import substitution. However, according to Dr Makube, there are several compelling reasons why local procurement should feature strongly in South Africa’s (re)industrialisation drive, e.g. it can help to minimise or even reverse the country’s trade deficit, it eliminates currency fluctuation concerns among buyers of manufacturing inputs, it encourages quicker delivery of products to local customers, and it marshalls public funds into infrastructural improvements for specified sectors, which in turn benefit the country as a whole. Becoming too dependent on imports, asserted Dr Makube, weakens the country’s productive capacity, dulls its entrepreneurial spirit and cramps its export potential well into the future.

Under South Africa’s Preferential Procurement Policy Framework Act and Regulations (the latest revision having been released in December 2015), the government has ‘designated’ certain manufactured goods. In other words, the goods in question must reach a certain minimum threshold of local production and content if they are to be acceptable for use in government-initiated projects. For example, rail rolling stock carries a 65% minimum local content requirement, while textiles, clothing, leather and footwear carry a 100% local content requirement. Regarding the latter, all uniforms and other clothing purchased by the government must be fully produced in South Africa.

Dr Makube described the shifting emphasis towards local content in manufacturing as a “game changer” which is intended to irrigate South Africa’s industrialisation landscape, and deliver a rich harvest of value-added and competitive outputs, and easier access into global and regional value chains.

The second speaker at the roundtable, **Mr Martin Cameron**, who was speaking on behalf of the Energy Independent Power Producers Procurement Programme (EIPPPP), built on Dr Makube's discussion and examined the concept of local content and procurement from a renewable energy perspective. He spoke about the challenges of arriving at a clear local content policy for the power sector, which takes the necessary cross-cutting issues into account, because different stakeholders (e.g. the Department of Energy, the dti, the Treasury and others) have different objectives and expectations when it comes to building up a viable local supply base. A complicating factor is that local procurement legislation in South Africa applies to government procurement practices only; the private sector is not bound by it.

Martin also raised the interesting, and somewhat controversial, question of whether 'localisation' does in fact lead to much-coveted industrialisation. In this regard, he explained that 'local content' is not necessarily the same as 'local spend'. The latter could refer to an attempt to portray a production process as local when in fact it makes liberal use of imported components, and the local identity is added towards the end during the final finishing and packaging (like a thin veneer). Such an approach runs contrary to the spirit of a true industrialisation-through-localisation drive, and might even defer the acquisition of knowledge and expertise locally and erode the country's competitiveness.

Clearly, there needs to be consensus on the precise meanings of 'local content', 'localisation' and other potentially ambiguous terms that come up regularly in conversation. This will reduce the risk of the public and private sectors working at unhelpful cross purposes with one another. In this regard, a working group comprising representatives from a number of key departments engaged in an initiative to improve the effectiveness of South Africa's localisation drive through (i) a more precise definition of what needs to be achieved, i.e. localised industrialisation as opposed to the broader local content concept, and (ii) a more focused approach to realising economic benefits, using the EIPPPP as a test case. Industry stakeholder engagements and concepts testing are part and parcel of this initiative, which should ensure that the approach adopted is properly informed, understood, and supported by the relevant industry stakeholders.

For more information about the work of North-West University's TRADE research entity and the WTO Chairs Programme, contact Prof Wilma Viviers on: wilma.viviers@nwu.ac.za.