SOUTH AFRICA
Geared for Growth
2008

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SOUTH AFRICA
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Economic Highlights of South Africa

- Following the introduction of inflation targeting, CPIX (as annual average) was maintained within the range in 2004, 2005 and 2006. In 2007, it breached the upper level of the target range. However, this was a result primarily of high global food and crude oil prices and inflation is expected to decline in 2009.
- Government debt, as a percentage of GDP, declined from 44.4% in 2000, to 25.5% in the first quarter of 2008.
- Manufactured goods, as at March 2008, represent well over 50% of exports, up from 25% since 1994.
- Private sector investment has grown at an average of 5.4% a year over the past decade.
- During the course of 2005, Black Economic Empowerment (BEE) transactions soared to about R55 billion worth, comprising 350 deals.
- Growth is accelerating. Gross Domestic Product (GDP) growth at constant market prices (seasonally adjusted and annualised) was 5.2% for 2007.
- In 2005, Moody's Investors Service raised South Africa's sovereign rating one notch higher, to Baa1. Moody's rating agency was complimentary about the first decade of the 'new South Africa'.
- There has been increasing investment interest in South Africa as a base for accessing the continent's potential as an almost untapped source of raw materials. In 2007, over R40 billion worth of Foreign Direct Investment (FDI) entered South Africa.
- In 2008, the World Economic Forum's Global Competitiveness Index ranked South Africa 45th out of 134 global nations.
- In 2007, South Africa attracted 67 international association meetings and was ranked 35th in the International Congress and Convention Association's (ICCA's) country ranking for international association meetings. Cape Town attracted 40 of these meetings and achieved 37th place on the ICCA's global city ranking.
- According to the Society of Incentive and Travel Executives (SITE), in 2007 South Africa was the second most popular long haul incentive travel destination after the USA, in terms of both the number of incentive groups and delegate nights. In the category of long haul city destinations for incentive travel, Cape Town topped the list in the number of incentive groups (New York was second). Cape Town also reached 6th place in terms of delegate nights.

Contents

Abbreviations and Acronyms

AGOA	Africa Growth and Opportunity Act
ART	Anti-Retroviral Treatment
ARV	Anti-Retroviral
AsgiSA	Accelerated Shared Growth Initiative of South Africa
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BESA	Bond Exchange of South Africa
BPO&O	Business Process Outsourcing and Offshoring
CITES	Convention on International Trade in Endangered Species
EDU	Enterprise Development Unit
EE	Employment Equity
EFTA	European Free Trade Association
EIP	Enterprise Investment Programme
EMIA	Export Marketing and Investment Assistance
EU	European Union
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
GDP	Gross Domestic Product
GSP	Generalised System of Preference
ICCA	International Congress and Convention Association
IDZs	Industrial Development Zones
IPAP	Industrial Policy Action Plan
IT	Information Technology
JSE	Johannesburg Securities Exchange Ltd.
Khula	Khula Enterprise Finance Ltd.
MEA	Middle East and Africa
Mercosur	*Mercado Común del Sur* or Southern Common Market
MERS	Micro-Economic Reform Strategy
MFN	Most-Favoured Nation

MIDP	Motor Industry Development Programme
MRO	Maintenance, Repair and Overhaul
Nepad	New Partnership for Africa's Development
NIPF	National Industrial Policy Framework
PDIs	Previously Disadvantaged Individuals
PGMs	Platinum Group of Metals
RDP	Reconstruction and Development Programme
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAFEX	South African Futures Exchange
SAP	Systems Application Protocol
SAPS	South African Police Service
SARS	South African Revenue Service
SAWEN	South African Women Entrepreneurs' Network
seda	Small Enterprise Development Agency
SETAs	Sector Education and Training Authorities
SET	Science, Engineering and Technology
SITE	Society of Incentive and Travel Executives
SMEs	Small and Medium Enterprises
SMME	Small, Micro and Medium Enterprise
UAVs	Unmanned Arial Vehicles
WTO	World Trade Organization

South Africa: A Major African Player

South Africa is one of the most sophisticated and promising emerging markets in the world. The unique combination of a well-developed first-world economic infrastructure, and a rapidly emerging market economy, has given rise to an entrepreneurial and dynamic investment environment with many global competitive advantages and opportunities.

Known as the gateway to Africa, South Africa is home to 6% of Africa's population, and accounts for approximately 25% of the continent's Gross Domestic Product (GDP). It also boasts 45% of Africa's mineral production, and 50% of the continent's purchasing power. South Africa has played a major role in the formation of the New Partnership for Africa's Development (Nepad), plotting a course of economic growth and poverty alleviation.

It is not only in the business sector that government is striving to provide for all South Africans – major progress has been made in improving the nation's quality of life. The estimated number of households with access to electricity has increased from 4.4 million (m) households in 1994, to 8.8m in 2007. Close to half of all consumers of electricity services from municipalities receive free basic electricity, with a large percentage of users in the Gauteng and Free State provinces benefiting from free basic electricity.

Over the past 10 years, the South African population increased from 44.5m to 48.5m, while at the same time, the number of households increased from 9m to 12.5m. The increase in new households outpaced that of the population, as a large number of citizens have chosen to form new households and live in smaller households.

It is, perhaps, because government is addressing the needs of its people that South Africa has managed to maintain a stable political environment. For example, great care has been taken to ensure that South Africa's land reform programme sidesteps the challenges facing countries that also emerged from colonial regimes. This is, inter-alia, supported by the Land Restitution Act, to compensate citizens who were dispossessed of land that was rightfully theirs, during the Apartheid years and beyond.

Furthermore, while South Africa has been subject to negative publicity regarding the country's crime rate, initiatives such as 'Business Against Crime', are endeavouring to make South Africa's streets safe, with contact crimes already being on the decline, as per the accepted levels of such crimes among Interpol member-nations. The South African Police Service (SAPS) has been allocated an additional R600m for the 2010 FIFA World Cup to safeguard soccer fans and tourists alike.

A Sound Environment

A significant milestone in the democratisation of South Africa was the exemplary constitution-making process, which, in 1996, delivered a document that has evoked world-wide admiration. South Africa is a constitutional democracy with a three-tier system of government, comprising national, provincial, and local spheres, and an independent judiciary.

The integration of South Africa into the global political, economic and social system has been a priority for democratic South Africa. As a country isolated during the Apartheid era, an African country, a developing country, and a country whose liberation was achieved with the support of the international community, it has been of critical importance to build political and economic links with countries and regions of the world, and to work with national and regional partners, to make an international environment more favourable to development across the globe, and in Africa and South Africa in particular.

South Africa has a world-class, progressive legal framework. Legislation pertaining to commerce, labour and maritime issues is particularly well-developed, while laws relating to competition policy, copyright, patents, trademarks and disputes conform to international norms and conventions. Sanctity of contract is protected under common law, and independent courts ensure respect for commercial rights and obligations. The independence of the judiciary is guaranteed by the Constitution. Furthermore, South Africa's financial systems are robust and well regulated. Seventy-seven (77) banks operate or are represented in the country, 20 of which are locally controlled, 14 being under foreign control, and two being mutual banks. Forty-three (43) are representative offices of mainly foreign banking institutions. Four of South Africa's banks are rated amongst the world's top 500 financial institutions. Global confidence in South Africa's banks is further evidenced by the World Economic Forum's Global Competitiveness Report 2008/09 ranking of the country's banks as the 15th most secure, out of 134 countries reviewed, scoring considerably higher than Switzerland, Germany, the US and the UK.

In addition, the Johannesburg Securities Exchange Ltd. (JSE) rates among the top 20 stock exchanges in the world by market capitalisation. The JSE's rules and their enforcement are based on global best practice, while the JSE's automated trading, settlement, transfer and registration systems are on par with those of leading stock exchanges in the world. The South African stock exchange also boasts a Futures Exchange (SAFEX) and Bond Exchange (BESA). South Africa's securities exchange regulations rank 5th globally, in the 2008/09 World Economic Forum's Global Competitiveness Index, ahead of Switzerland, Germany, the US, and the UK.

Further to this, South Africa boasts the most modern and extensive infrastructure in Africa:

- South Africa's total road network extends over 754,000 kilometres (km), 9,600km of which are surfaced national roads.
- South Africa has an extensive rail network – the 10th lengthiest in the world – connecting with networks in the sub-Saharan region.
- Portnet is the largest port authority in Southern Africa, with the best-equipped and most efficient network of ports on the continent. South Africa's main ports are located in Cape Town, Durban, Port Elizabeth, and East London. Other ports are located in Richards Bay, Saldanha Bay, and Mossel Bay. The Port of Ngqura is being developed off the coast of Port Elizabeth in the Eastern Cape, with the first commercial ships expected to dock by 2009. Ngqura is set to be the deepest container terminal in Africa. Ngqura is a crucial component of Coega, one of South Africa's strategic IDZs.

- More than 50 airlines, making around 230,000 aircraft landings, and carrying about 33m passengers a year, move through South Africa's 10 principal airports. Johannesburg's OR Tambo International Airport is Africa's busiest airport, with about 8.9m departing passengers a year. It was named the continent's top performing airport by the Airports Council International in 2007.

The South African telecommunications market is the largest in Africa, both in terms of customers and revenues. The market is growing consistently and substantially. The estimated revenue generated in the telecommunications sector during 2007 was US$14bn (ZAR 103bn), and telecommunications (hardware and software) contributed an estimated additional US$3bn. Fixed line penetration was estimated at 10%, while mobile penetration was significantly higher, at around 93%.

South Africa is the fourth-fastest growing mobile communications market in the world. In 2007, the country recorded more than 44m subscribers. Rapid growth is expected to continue in the medium-term, driven by further penetration and increased innovation and competitive activity in the markets. South Africa is also the largest Internet market in Africa, with an estimated 3.5m Internet users, resulting in a penetration rate of approximately 8%. Some 1.4m dial-up accounts were recorded in 2007. According to the Economist Intelligence Unit's Information Technology (IT) Industry Competitiveness Index 2008, South Africa ranks 37th in the world out of 66 countries reviewed, owing to well-established business and legal sectors, representing 76.9 and 63.5% of the South African IT industry environments respectively. While the country's ranking remained unchanged since 2007, at 37th positioning, it came second after Israel in terms of MEA (Middle East and Africa) countries: Israel (56.7%); South Africa (32.6%); Turkey (32.4%); Saudi Arabia (32.3%), and Egypt (25.3%).

Table 1: IT Industry Competitiveness Index, 2008 Overall Scores and Ranks

Country	Score	2008 Rank	2007 Rank	Country	Score	2008 Rank	2007 Rank
USA	74.6	1	1	Latvia	38.1	34	34
Taiwan	69.2	2	6	Lithuania	37.1	35	35
UK	67.2	3	4	Malaysia	34.2	36	36
Sweden	66.0	4	7	**South Africa**	**32.6**	**37**	**37**
Denmark	65.2	5	8	Turkey	32.4	38	39
Canada	64.4	6	9	Romania	32.3	39	40
Australia	64.1	7	5	Saudi Arabia	32.3	40	38
South Korea	64.1	8	3	Croatia*	31.6	41	--
Singapore	63.4	9	11	Thailand	31.5	42	41
Netherlands	62.7	10	12	Brazil	31.0	43	43
Switzerland	62.3	11	10	Mexico	30.7	44	44
Japan	62.2	12	2	Bulgaria	30.2	45	42
Finland	61.5	13	13	Argentina	30.1	46	45
Norway	59.7	14	14	Philippines	29.8	47	47
Ireland	59.4	15	15	India	28.9	48	46
Israel	56.7	16	20	Russia	27.7	49	48
New Zealand	56.6	17	17	China	27.6	50	49
Austria	56.1	18	19	Venezuela	25.7	51	52
Germany	55.4	19	16	Colombia	25.4	52	51
France	54.3	20	18	Egypt	25.3	53	55
Hong Kong	54.1	21	21	Sri Lanka	24.9	54	50
Belgium	53.4	22	22	Peru	24.8	55	54
Spain	46.3	23	24	Ecuador	24.5	56	53
Estonia	45.7	24	25	Ukraine	24.3	57	56
Italy	45.6	25	23	Indonesia	23.1	58	57
Slovenia	45.5	26	27	Kazakhstan	22.9	59	58
Portugal	42.2	27	25	Bangladesh*	22.4	60	--
Hungary	40.6	28	28	Vietnam	21.4	61	61
Czech Rep	40.4	29	29	Pakistan	20.9	62	60
Chile	39.6	30	31	Azerbaijan	19.5	63	62
Slovakia	39.5	31	31	Nigeria	19.0	64	63
Poland	39.0	32	30	Algeria	18.5	65	59
Greece	38.2	33	33	Iran	16.5	66	64

*New to the Index in 2008. Countries are scored on a scale of 1 to 100.
Source: Economist Intelligence Unit, 2008.

The South African IT spend during 2007 was estimated at US$8.7bn. The local IT market size dominated the Middle East Africa region, with Turkey being the closest country in market size, with a 2007 spend of $5.1bn. Software, hardware, and services accounted for $1.8bn, $3.3bn and $3.6bn 2007 spend, respectively. In respect of software, it is estimated that by 2011, packaged applications will account for 41.8% of the software market, application development and deployment, represent 24.8%, and systems and infrastructure software, 33.4% of the market.

Several international corporates, recognised as leaders in the IT sector, operate subsidiaries from South Africa, including IBM, Unisys, Microsoft, Intel, Systems Application Protocol (SAP), Dell, Novell and Compaq.

A Nation on the Rise

South Africa's vibrant people are undoubtedly the driving force behind the nation's development. Thus, while government recognises the necessity of legislation, which nurtures business and the economy, policies that foster social development are viewed as equally important.

Sadly, Apartheid's legacy is one of unequal opportunities and unevenly distributed resources. Government has embarked on a programme to redress these past imbalances, with initiatives affecting all aspects of South African life, from the workplace to domestic households.

Economic Empowerment Policies

Economic empowerment policies, for example, have been instrumental in ensuring South Africa's transformation, and the redistribution of wealth and opportunities for Previously Disadvantaged Individuals (PDIs), namely black people, women, and those living with disabilities. Although much work remains to be done, transformation is evident at all levels across South African industries. It is particularly heartening to note that black ownership is on the increase, owing largely to government equity and transformation initiatives, such as Black Economic Empowerment (BEE) and Employment Equity (EE), to ensure adequate representivity of the black population, women and disabled persons.

Table 2 depicts the total BEE transactions over the last 13 years, and these transactions, as a percentage of total mergers and acquisitions. After a rapid start in 1995, the total value of BEE transactions, as a percentage of total mergers, declined between 1996 and 2002 and then picked up sharply in 2003. In February 2007, government gazetted the Codes of Good Practice on Broad-Based Black Economic Empowerment (B-BBEE), following the passing of the B-BBEE Act in 2003.

Table 2: BEE Transactions

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total BEE transactions (R bn)	12	7	8	21	23	28	25	12	42	50	56	56	96
Total Mergers & Acquisitions (M&A) transactions (R bn)	43	52	166	314	236	371	502	242	150	166	269	284	514
BEE as a % of all M&A transactions	28.8%	13.5%	5%	6.8%	9.8%	7.5%	5%	5.1%	28.1%	30.1%	20.9%	19.7%	18.7%

Of course, while it is important to increase black representation in companies at executive levels, improving the basic skills of the entire labour force is also a priority of government.

Skills Development

Skills development has come sharply into focus with the introduction of the Skills Development Act, in 1998. The Act aims to increase the skills of the nation by creating a "skills revolution". Further legislation was passed to encourage investment in skills development, namely the Skills Development Levies Act, No. 97 of 1998, which makes it compulsory for all employers to pay 1% of their payroll to the South African Revenue Service (SARS). The money is administered by the Department of Labour, where 20% is set aside for the National Skills Fund. The remaining funds are distributed amongst various Sector Education and Training Authorities (SETAs), and are repaid to employers in the form of grants, which are utilised for training purposes. Despite the novelty of the system, it has resulted in immensely successful apprenticeships.

By fine-tuning their skills, many entrepreneurs have found opportunities in self-employment. The Small, Micro and Medium Enterprise (SMME) sector is growing rapidly, accounting for 97,5% of all establishments in the formal or registered sectors. To further stimulate this growth, **the dti** has earmarked a substantial part of its budget to enterprise and industry development. SMME owners are also encouraged to seek assistance from the several supportive structures introduced by the National Small Business Act of 1996. These include the Enterprise Development Unit (EDU), the Small Enterprise Development Agency (**seda**), Khula Enterprise Finance Ltd. (Khula), and the South African Women's Entrepreneurs' Network (SAWEN). An online service, known as BRAIN (www.brain.org.za), has been launched to provide information about government incentives and SMME support agencies.

Science, Engineering and Technology (SET) graduates are key skilled workers who are critical in supporting economic growth and investment in social infrastructure. The current rate of graduation in this sector is a signpost for future prospects for the economy and society. Trends began to improve in 2002, and should be seen against massive expansions in enrolment numbers.

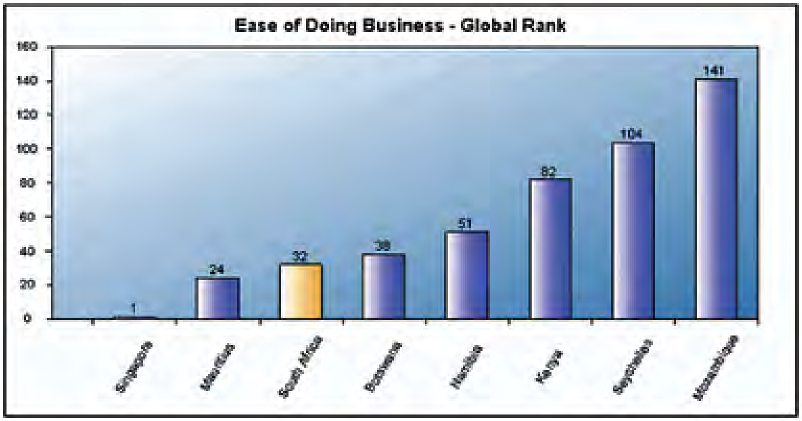
In the fight against HIV/Aids, it is worth noting that South Africa has the world's largest Anti-Retroviral Treatment (ART) programme in the world. Government first announced South Africa's Anti-Retroviral (ARV) treatment programme in 2006. At the time, over 130,000 people were receiving ARV treatment through government programmes, above more than 80,000 people receiving ARV treatment from the private healthcare sector. By the end of June 2007, an estimated 300,000 patients were receiving ARVs. At least 342 public health facilities had been accredited to provide this service, including nine correctional service centres. More facilities were being accredited to further expand access.

Investment Environment

A number of industrial support measures have been implemented to enhance the competitiveness of South Africa's industrial base. These include placing more emphasis on supply-side measures than those on the demand-side, such as tariffs and expensive export support programmes. To this end, government has set in place incentives for value-added manufacturing projects, support for industrial innovation, improved access to finance, the creation of an enabling environment for SMME development, Industrial Development Zones (IDZs), and competition and consumer protection measures.

The World Bank Group's *Doing Business 2009: Country Profile for South Africa* compared global regulation in 181 economies. Out of these global economies, South Africa ranked 32nd for ease of doing business, a three-point increase from its 35th position in the 2008 report of the same name.

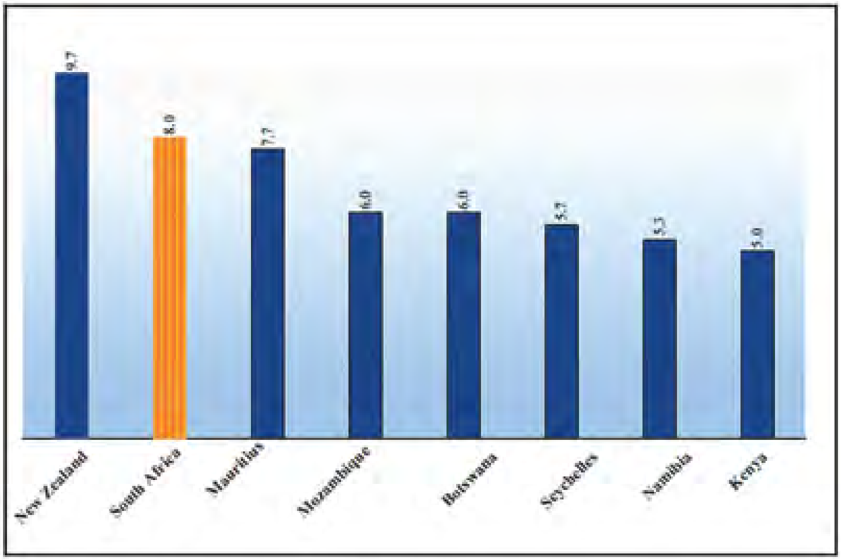
Figure 1: South Africa – Compared to Global Good Practice Economy as well as Selected Economies



Source: The World Bank Group, Doing Business 2009: Country Profile for South Africa.

South Africa also ranked ninth (9th) as regards the protection of investors in the country. The World Economic Forum's Global Competitiveness Report 2008/2009 ranked South Africa 45th in terms of overall competitiveness, ahead of countries such as Poland, India and Mexico. South Africa was also ranked the 18th most attractive FDI destination world-wide, according to the 2007 Foreign Direct Investment Confidence Index compiled by the global management consulting firm, AT Kearney.

Figure 2: Protecting Investors Index in South Africa, Compared to Best Practice and Selected Economies

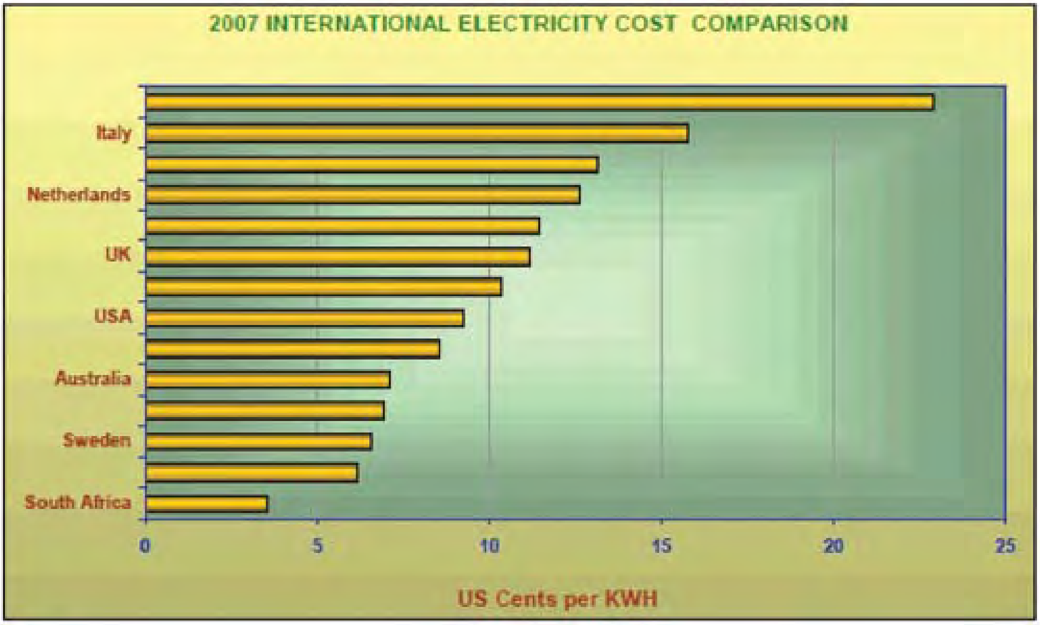


Note: The higher the score, the greater the investor protection.

Source: The World Bank Group, Doing Business 2009: Country Profile for South Africa.

South Africa has one of the cheapest electricity prices in the world – even doubling the price would keep the country's rates at a globally competitive level.

Figure 3: 2007 International Electricity Cost Comparison



Source: NUS Consulting Group, International Electricity Report, 2007.

South Africa also compares favourably in terms of petroleum prices. Private sector and multinational oil companies refine and market nearly all imported petroleum products in Southern Africa.

Telecommunications is becoming increasingly competitive, with the partial privatisation of Telkom driving down the cost of international phone calls. A second network operator, Neotel, started operations in 2008 in South Africa, with the aim of increasing competitive pressure in the sector, thereby further reducing costs and encouraging innovation.

The past few years have also seen a surge in South African labour productivity. A joint investment climate survey conducted by the World Bank and **the dti**, found South African firms to be more productive than those in other countries surveyed by the Bank. South Africa's labour productivity also compared favourably with other middle-income countries. At 28%, the corporate tax rate in South Africa ranks favourably against a number of developing countries, whose tax rates were higher than 30%.

Investment Incentives

South Africa offers various attractive investment incentives, targeted at specific sectors or types of business activities. These are:

The Enterprise Investment Programme (EIP) Manufacturing Programme

- The EIP (manufacturing) is a cash grant for locally-based manufacturers who wish to establish a new production facility, expand an existing facility, or upgrade an existing facility in manufacturing industries.

The Enterprise Investment Programme (EIP) Tourism Support Programme

- The EIP (tourism) is an investment incentive grant, payable over a period of two to three years, to support the development of tourism enterprises, and in so doing, stimulate job creation and encourage the geographical spread of tourism investment country-wide. Tourism-related activities supported by the grant include the following:
    - accommodation services
    - passenger transport services
    - tour operators
    - cultural services; and
    - recreational and entertainment services.

Foreign Investment Grant

- The Grant seeks to compensate qualifying foreign investors for the cost of moving qualifying new machinery and equipment from abroad to South Africa.

Critical Infrastructure

The critical infrastructure fund is a cash grant for projects designed to improve critical infrastructure in South Africa, including the following:

- Transport systems – road and rail systems
- Electricity transmission and distribution systems – power flow and regulation systems
- Telecommunications networks – cabling and signal transmission systems
- Sewage systems – network and purification
- Waste storage, disposal and treatment systems; and
- Fuel supply systems – piping for liquid, gas, and solid fuel conveyer transportation.

Industrial Development Zones (IDZs)

IDZs are purpose-built industrial estates linked to international ports that leverage fixed direct investments in value-added and export-oriented manufacturing industries. These Zones provide the following benefits:

- Quality infrastructure
- Expedited customs procedures; and
- Duty-free operating environments.

The Location Film and Television Production Incentive

This Incentive programme consists of a Large Budget Film and Television Production Rebate Scheme, whereby foreign-owned qualifying producers are rebated a maximum sum of R10m for the production of large budget films and television productions.

The South African Film and Television Production and Co-Production Incentive

Financial assistance to South African feature films, tele-movies, television drama series, documentaries and animation. The objective is to contribute to the local film industry. Production budgets are required to be over R10m, with the rebate being 35%, capped at R10m.

Export Marketing and Investment Assistance (EMIA)

The EMIA scheme partially compensates exporters in respect of activities aimed at developing export markets for South African products and services, and to recruit new FDI into South Africa. The scheme provides assistance in the form of:

- Air travel expenses;
- Subsistence allowances;
- Freight-forwarding of display materials; and
- Exhibition space and booth rental costs.

The Business Process Outsourcing and Offshoring (BPO&O) Investment Incentive

The BPO&O Investment Incentive comprises an Investment Grant, and a Training Support Grant, towards costs of company-specific training. The incentive is offered to local and foreign investors establishing projects that aim primarily to serve offshore clients.

Automotive Production and Development Programme

This Programme has four key elements:

- Tariff reduction freeze from 2013 until 2020;
- Local assembly allowance;
- Production incentives; and
- Automotive investment allowance

Economic Development

The country has achieved stable growth rates since 1994, of approximately 5% over the last three years (2005, 2006, and 2007). This stable macro-economic environment has laid the foundation for a positive growth trajectory, driven by strong demand, attributed to the boom in the resources sector. This upsurge arose in response to a sustained increase in commodity prices, and due to the implementation of the Accelerated Shared Growth Initiative of South Africa (AsgiSA) infrastructure programmes. South Africa launched its National Industrial Policy Framework (NIPF) and its associated industrial policy action plan in January 2007. This policy aims to provide strategic direction for industrial development in the country, with the Framework encompassing a logical evolution of existing government policies, beginning with the Reconstruction and Development Programme (RDP), the Micro-Economic Reform Strategy (MERS) and most recently, AsgiSA), the latter of which has, as its goal, accelerating GDP growth to over 6% per annum by 2010, to help halve unemployment and poverty in South Africa by 2014.

In order to contribute towards the achievement of these goals by 2014 and beyond, the NIPF adopted the following vision:

- An economy that is diversified beyond its traditional reliance on commodities and non-tradable services. This requires the promotion of increased value-addition per capita characterised, particularly, by movement into non-traditional tradable goods and services, which are competitive in both export markets, as well as the domestic economy.
- A long-term intensification of South Africa's industrialisation process, and movement towards a 21 st century knowledge economy.
- A more labour-absorptive industrialisation path, with particular emphasis on tradable labour-intensive goods and services, and economic linkages, which catalyse employment creation.

- disadvantaged economic citizens and marginalised regions in the mainstream of the industrial economy.
- An economy that contributes to industrial development in Africa, with a strong emphasis on building regional productive capabilities.

The Industrial Policy Action Plan (IPAP), adopted by the Cabinet *Lekgotla* ('Meeting Place' in the Tswana language) in July 2007, following the introduction of the NIPF in January 2007, consists of both sectoral and cross-cutting actions and relevant timeframes for their implementation. The sectoral actions category covers a wide range of sectors, with particular focus on fast-tracking the implementation of four lead sectors, which emerged from research and intensive interactions with stakeholders, namely:

- Metal fabrication, capital and transport equipment;
- Automotives and components;
- Chemicals, plastic fabrication, and pharmaceuticals; and
- Forestry, pulp and paper, and furniture.

The IPAP also outlines the need to stabilise the clothing and textiles industries to preserve capabilities and employment, and also places emphasis on maintaining the momentum of AsgiSA sector priorities, namely tourism, business process outsourcing, and biofuels. In addition to the aforementioned sectoral actions, some sectoral projects have been drawn from those sectors of the economy, which are important but do not form part of lead sectors, nor that of AsgiSA sectors, and include agro-processing, crafts, film and TV productions, and mineral beneficiation.

Cross-cutting interventions include targeted industrial financing. Government aims to support key sectors by improving access to finance, particularly in higher-risk areas, but such support will not be unconditional. Industrial financing from the state will be customised to addressing specific constraints and opportunities within the discipline of World Trade Organization (WTO) rules. These interventions will, in general, focus on five streams:

- Investment (including sector-specific programmes);
- Industrial upgrading (including industrial infrastructure);
- Innovation and technology;
- Trade facilitation; and
- Small and Medium Enterprises (SMEs), including co-operatives.

Other cross-cutting interventions include state support for Intellectual Property (IP) protection, and industrial clustering to distribute benefits more widely across the country (e.g. outside Johannesburg, Durban, Cape Town – IDZs such as Coega). A comprehensive range of state support systems for SMME and BEE development also exists, although more work needs to be done, for instance, on regulatory burdens.

Economic Sectors

Manufacturing remains a significant sector in the South African economy, accounting for approximately 18% of GDP, and as much as 50% of exports. Certain sub-sectors within manufacturing have enjoyed considerable government support. Most notable of these is the automotive sector, which has exhibited significant growth under the Motor Industry Development Programme (MIDP). Government also made substantial tax allowances and favourable restructuring arrangements for capital-intensive resource-processing industries such as steel, chemicals, aluminium, and paper and pulp.

Value-added growth has not been confined to the automotive sector only. Since 2000, growth has been experienced across a diverse range of manufacturing sectors, despite difficult trading conditions (such as an appreciation of the Rand and external inflationary pressures on the economy). South Africa has relatively well-developed industries, which have emerged since the 19th century, in support of the mining industry. South Africa is the world's largest producer of platinum, gold, and chromium. Other main contributors to the economy include industries such as automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilisers, foodstuffs, commercial ship repair, to mention just a few. In 2007, industry as a whole contributed approximately 31.3% to South Africa's GDP, which bodes well for government's aim of achieving a diversified economy.

The manufacturing sector is experiencing the highest rates of production capacity utilisation over the past 35 years. Strong growth of the domestic economy resulted in many sectors operating near full capacity. The relatively low levels of investment in manufacturing in recent years are perhaps an indication that business did not anticipate the sustainability of the country's strong economic growth over a prolonged period.

The manufacturing sector is expected to see a rapid increase in fixed investment activity over the next five years, with many sub-sectors operating close to, or at full capacity. Government's multi-billion Rand spending on public infrastructure over the forthcoming five years, with the State-Owned Enterprises' Capex Programme, the 2010 FIFA Soccer World Cup and Gautrain, amongst others, will provide a major stimulus to fixed investment and higher rates of economic growth. Rapid fixed investment growth of 10% per annum on average, over the period 2006 to 2010, will result in the investment-to-GDP ratio rising from 17.2% in 2005, to 21.4% by 2010.

The South African economy is increasingly dominated by the services-related sectors, which is in line with international trends. The primary sectors – agriculture and mining – have seen their share being reduced substantially over the past five decades. The share of the manufacturing sector – the second-largest sub-sector of the economy – decreased sharply since the early 1990s in light of globalisation, increased trade liberalisation, and an increasingly challenging global trading environment.

Trade Regime

As a founding member of the WTO, South Africa is an active participant in the multilateral rules-based trading system. The Doha Development Agenda negotiations provide an opportunity to place further emphasis on South Africa's particular economic interests and development goals, as well as its objectives to ensure increased integration into the world economy.

Since 1994, South Africa has made substantial progress in simplifying its tariff structure. The number of tariff lines has been reduced from over 11,200 in 1994, to fewer than 6,700 lines in 2006. Complex duties have since been eliminated. The number of HS8-digit lines bearing non-ad valorem (formula, mixed or specific) duties was reduced from 3,524 in 1994, to 208 in 2006. Non-ad valorem tariff lines are still imposed on some food stuffs and beverages, tobacco, and coke and petroleum products.

The number of tariff categories was reduced from over a 100 in 1994, to seven (7) in 2006, which consist of duties at levels of 0, 10, 15, 20, 25, 30 and 40%. The simple average Most-Favoured Nation (MFN) status applied duty was 8%, and the trade weighted average, 6.1% in 2006. Of the 54% of tariff lines, the duty stood at zero in 2006. The WTO-binding coverage of South Africa stood at 96,4%, in the same year. Only three (3) sectors remain unbound, namely:

- Fish and crustaceans, molluscs, and other aquatic invertebrates;
- Mineral fuels, mineral oils, and products of their distillation;
- Bituminous substances, and mineral waxes; and
- Arms and ammunition, parts and accessories thereof.

Quantitative import control measures only remain on goods subject to other international agreements like the Montreal Protocol, Convention on International Trade in Endangered Species (CITES), etc.

South Africa's global economic strategy focuses on improving the country's export performance by dismantling barriers to trade, and gaining increased market access. Several Free Trade Agreements (FTAs) have been signed, and the country is also seeking to develop bilateral trade relations with markets in Africa, Latin America, and Asia.

In order to maintain and expand South Africa's trade relationships with established markets, as well as new developing markets, the country enjoys the following market access conditions:

- **South Africa – European Union (EU) FTA**

  The Free Trade Agreement between South Africa and the European Union came into force in January 2000. Under the agreement, the EU is expected to liberalise 95% of its duties on South African imports over 10 years from inception. In turn, South Africa intends to liberalise 86% of its duties on EU imports over a 12-year period at commencement of the agreement. On average, more than 90% of all trade between the two will be free of customs duties. The FTA not only covers trade, but includes a wide area of co-operation, including trade-related issues, economic co-operation, social and cultural co-operation, and political dialogue. The scope of the agreement deals with both industrial and agricultural products, although both categories cover sensitive products excluded from the FTA, such as some steel products, high-value textile and clothing articles, aluminium, fish, some dairy products, fresh and preserved fruit, cereals, rice, cut flowers, and some meat and fish. Industrial products benefited substantially from the agreement in comparison with agricultural products.

- **Southern African Development Community (SADC) FTA**

  The SADC Protocol on Trade was launched in September 2000, with important progress having been made towards the achievement of an FTA by 2008.This FTA is expected to play a key role in fostering regional prosperity among SADC member-nations, as it encourages intra-regional trade and promotes investment and technology transfers. Since January 2008, imports of all products into SACU, barring sugar and used clothing, have been duty-free. It is envisaged that by 2012, almost all exports from South Africa to SADC member-states, will be duty-free.

- **Southern African Customs Union (SACU) – European Free Trade Association (EFTA) FTA**

  The first FTA negotiated under the common negotiating mechanism of the SACU agreement, the SACU-EFTA Agreement came into effect in May 2008. The free trade area comprises Iceland, Liechtenstein, Norway and Switzerland. The EFTA offers SACU full duty- and quota-free access on industrial products, with rules of origin equivalent to or better than those contained in the EU FTA. The EFTA's industrial markets in most products are open to SACU through low tariffs (MFN and Generalised System of Preference (GSP)), but the agreement provides preferential access that is "locked in" for items such as textiles and clothing.

- **Africa Growth and Opportunity Act (AGOA)**

  AGOA is a unilateral assistance measure of the United States (US) government, which supplements existing US programmes aiming to increase trade and investment between the US and developing countries. AGOA extended the duty-free treatment under the Generalised System of Preference (GSP) programme to September 2008. This eliminated most of the limitations of the GSP programme for sub-Saharan African countries, and expanded the product coverage of the GSP programme exclusively for products of sub-Saharan Africa. It also made way for duty-free and quota-free access to the US market for apparel manufactured in sub-Saharan countries, of which the fabric, yarn, and thread, were of US origin.

- **SACU – Southern Common Market (Mercosur) Preferential Trade Agreement**

  A preferential trade agreement, covering around 1,500 products, was concluded in December 2004 between SACU and South American Mercosur group of countries. The agreement was expected to be signed by the end of 2008, with the date of entry into force not yet finalised at the date of publication of this report.

- **SACU – India Preferential Trade Agreement**

  The terms of reference of this agreement were agreed to in October 2007, and negotiations launched.

Areas of Investment Opportunities in South Africa

Agro-Processing

- Fisheries and aquaculture, i.e. freshwater aquaculture, and marine culture;
- Floriculture, i.e. traditional flowers, and cut flowers;
- Fruit and vegetable processing plants, i.e. processing of baby vegetables, nuts, and indigenous fruit;
- Processing of fruit for juices;
- Meat processing;
- Wine production;
- Confectionary;
- Indigenous teas; and
- Natural fibres.

Automotive Industry

- Engine parts/components;
- Vehicle interiors, i.e. natural fibre, interior trim;
- Electronic drive chain components;
- Body parts, i.e. lights, painted plastic components, airbags, glass, wire products, and outer mirrors;
- Diesel particulate filters;
- Electronic power assisted steering wheels;
- Catalytic converters;
- Leather products, i.e. seats and interior; and
- Aluminium forgings and castings.

Chemicals and Allied Industries

- Production of titanium dioxide pigment;
- Beneficiation of fluorspar; and
- Beneficiation of polypropylene, used in automotive components building, and construction industries.

Electro-Technical Industries

- Software applications;
- Mobile applications;
- Smart metering;
- Embedded software;
- Radio frequency identification;
- Process control, measurement, and instrumentation;
- Security, and monitoring solutions; and
- Financial software.

Metal Industries


- Downstream processing and value-addition of iron, steel, aluminium, stainless steel, ferro-alloys, the Platinum Group of Metals (PGM), and diamonds; and
- Conversion processes of metal products, i.e. metal fabrication, pipe and tube, foundry products, wire and jewellery.

Capital Equipment and Allied Services

- Manufacture and assembly of mining, agricultural, and construction equipment;
- Utilities, i.e. reticulation plants, and pipe lines;
- Machine tools and tooling (auto, packaging, mining and aerospace industries);
- Electrical motors; and
- Services in the engineering and construction sectors.

Transport Equipment

- Rolling stock, i.e. locomotives, wagons and coaches;
- Production of permanent ways, i.e. railway lines, signalling equipment, electrification, bridges and stations;
- Harbour construction and equipment; and
- Ship- and oil-platform building and maintenance.

Clothing and Textiles

- Cotton spinning, weaving, and knitting;
- Large-scale manufacture of industrial textiles using polyester;
- Manufacture of synthetic textiles for the apparel sector;
- Middle to high-end apparel – production of other natural fibre textiles such as flax;
- Wool and mohair production – downstream opportunities for yarns, knitwear, and fabric; and
- Technical textiles.

BPO&O and IT-Enabled Services

- Call centres;
- Back-office processing;
- Shared corporate services;
- Enterprise solutions, e.g. fleet management, knowledge management, and asset management; and
- Legal process outsourcing.

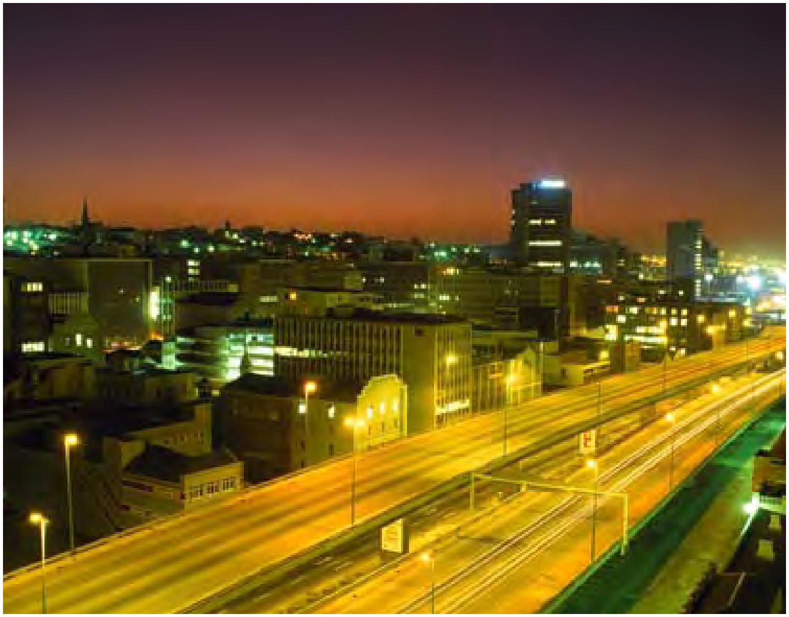
Aerospace

- Aviation related services, including Maintenance, Repair and Overhaul (MRO);
- Rotary and fixed wing components;
- Aviation training services;
- Specialised manufacturing of avionics, including health usage monitoring systems;
- Aerostructure components, specifically composites and sheet metal (aluminium and titanium);
- Small and micro-satellite capability including sensor platforms;
- Satellite-related services (including tracking and control and applications development);
- Specialised design expertise (systems-level as well as first-tier level); and
- Unmanned Arial Vehicles (UAVs).

Tourism

- Hotels and self-catering holiday resorts;
- Adventure-, eco-, sport-, conference-, and cultural tourism;
- Infrastructure development;
- Leisure complexes, and world-class golf courses;
- Harbour, and waterfront developments;
- Transfrontier conservation areas; and
- Cruise liners, and transportation.

Energy

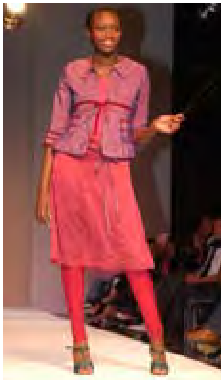


- Power generation;
- Energy infrastructure; and
- Alternative energy.

Film and Media

- Film studios;
- Treaty film co-production ventures;
- Distribution infrastructure;
- Servicing of foreign productions; and
- Production of film and documentaries, commercials, stills photography, and multimedia.

Design



- Jewellery manufacture and design; and
- Fashion design.

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