



# AFRICA INDUSTRIALISATION DAY

14 NOVEMBER 2023

## *Renewed Commitment towards an Inclusive and Sustainable Industrialisation and Economic Diversification Plan for South Africa*

### INCLUSIVE AND SUSTAINABLE INDUSTRIALISATION

“There is not a single country in the world that has reached a high stage of economic and social development without having developed an advanced industrial sector”. - LI Yong

Industrialisation has long been identified as critical for any country’s development. This has been demonstrated by countries such as the United States, Japan, South Korea and China in the 20th century. Industrialisation is key for development because it addresses challenges such as low economic growth and unemployment, which consequently reduce poverty. This is evident from industrialised countries who were able to reduce poverty.

Similarly, African countries including South Africa have also identified industrialisation as one of the strongest tools to lift people out of poverty. In this regard, central to industrialisation is the adoption and implementation of clear industrial policies for all African countries. South Africa is faced with several challenges, but low economic growth hampers the livelihoods of people which consequently leads to high unemployment and is a hindrance to addressing income inequality. South Africa like other countries aim to develop and have also identified industrialisation as critical to addressing the country’s challenges. The National Industrial Policy Framework sets out a vision for industrialisation as the:

- diversification away from traditional commodities and non-tradable services to increased value-addition production;
- long-term intensification of South Africa’s industrialisation;
- promotion of more labour-absorbing industrialisation; and
- promotion of a broader-based industrialisation path characterised by greater levels of participation of historically disadvantaged people and marginalised regions in the mainstream of the industrial economy.<sup>1</sup>

The National Industrial Policy Framework laid a foundation for the country’s industrialisation and the subsequent implementing tools including the Industrial Action and the Master Plans which are currently being implemented in various sectors. However, the country continues to pursue industrialisation, notwithstanding that manufacturing continues its downward trajectory.

<sup>1</sup> Department of Trade and Industry (2006)



3% decline in the manufacturing sector's contribution to GDP between 2005 and 2022.

2005:  
Manufacturing share to GDP – 14,2%



2022:  
Manufacturing share to GDP – 11,2%



2008:  
Manufacturing share to GDP – 14,4%

2022:  
Manufacturing share of employment – 10,4%

Furthermore, the world is faced with the challenges of climate change, environmental degradation and resource depletion, which are challenges that impinge on the country's ability to grow sustainably and reduce poverty.<sup>2</sup> Therefore, countries globally including South Africa are required to ensure sustainable industrialisation. The United Nations Sustainable Development Goals (SDGs) call for these to be considered in the development of industrialisation policy and implementation thereof. SDG 9: calls on countries to **Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**. More specifically, target 9.2: **Promote inclusive and sustainable industrialization**.<sup>3</sup>

*“Inclusive and sustainable industrial development is a tool for creating higher-skilled jobs, for building more equitable societies, and for safeguarding the environment, while sustaining economic growth”.*<sup>4</sup>

### SOUTH AFRICA'S INDUSTRIALISATION

South Africa's industrialisation has not yielded the expected results as can be measured by manufacturing share of gross domestic product (GDP) and manufacturing sector employment as a share of total employment. Both these measures of industrialisation, the GDP and employment have been declining. The share of the manufacturing sector to total GDP declined by 3 per cent between 2005 and 2022 (figure 1). In 2005, the country's manufacturing sector accounted for 14 per cent of the GDP, however, it had declined to 11,2 per cent in 2022. On the other hand, as shown in figure 2, the manufacturing sector employment as a share of total employment declined by 4 per cent from 14,4 per cent in 2008 to 10,4 per cent in 2022.

Table 1: Manufacturing sector's share of total GDP

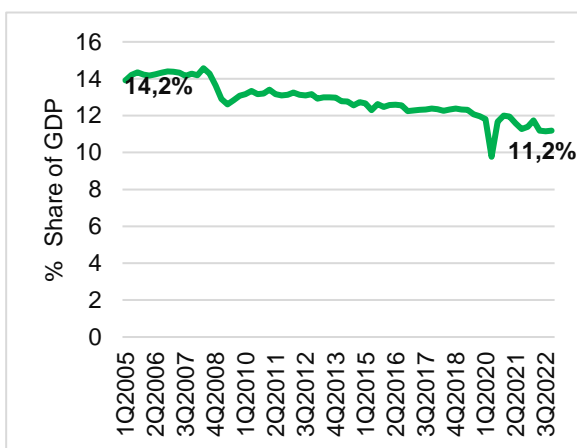
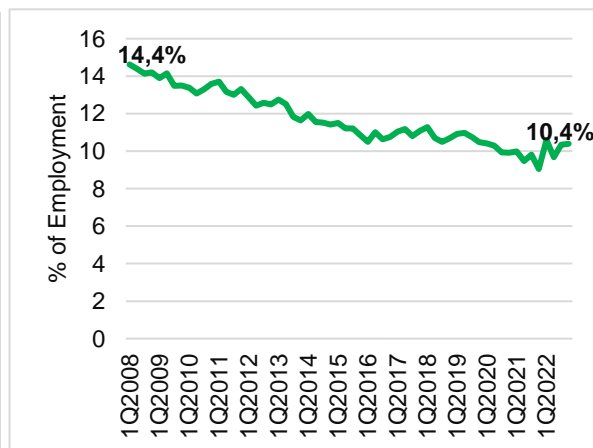


Table 2: Manufacturing sector's share of total employment



Source: Department of Trade Industry and Competition's data (2023), author's graphs

<sup>2</sup> United Nations Development Organisation (2020)

<sup>3</sup> United Nations (2015)

<sup>4</sup> United Nations industrial Development Organisation (2014)



Economic growth in 6 of the 9 provinces is below the national average

Eastern Cape Province has the highest unemployment rate at 40,0 per cent.

Unemployment is highest in the age group 15-24 years at 62,1 per cent.

Unemployment is higher for black females at 35,4 per cent (above the country's unemployment average)

Evident from the graphs above, industrialisation remains a challenge for the country. The sector when growing economically and creating employment has a spill-over effect into other sectors, meaning that its growth leads to the growth of other sectors such as the services sector. However, the decline of the sector makes it difficult for a country to address its challenges including unemployment.

### DISPARITIES/ CHALLENGES FOR INCLUSIVE INDUSTRIALISATION

Several disparities warrant inclusive industrialisation in South Africa. These disparities can be addressed by ensuring inclusive industrialisation and economic diversification, which can lead to higher economic growth and employment creation.

**Low levels of economic growth:** South Africa's economy grew by merely 1,9 per cent in 2022.

**Economic disparities among provinces:** Provincial contribution to GDP with Gauteng (33,6 per cent), Kwa-Zulu Natal (16,3 per cent), Western Cape (13,8 per cent), Eastern Cape (7,8 per cent), Mpumalanga (7,7 per cent), Limpopo (7,4 per cent), North West (6,2 per cent), Free State (4,9 per cent), and Northern Cape (2,1 per cent).

**Economic growth disparities among provinces:** Higher economic growth in Gauteng, Western Cape and Eastern Cape respectively (above the national average) while it is lower in Northern Cape, Mpumalanga and North West respectively.<sup>5</sup>

The manufacturing sector tends to create a large number of employment opportunities<sup>6</sup>, therefore, inclusive industrialisation may address the following challenges:

**High unemployment:** 7,9 million South Africans are unemployed (approximately 32,9 per cent unemployment rate)

**Disparities in unemployment among provinces:** The highest provincial unemployment rates are within the Eastern Cape (40,0 per cent), Mpumalanga (38,5 per cent), North West (38,0 per cent), Free State (34,4 per cent) and Gauteng (34,3 per cent).

**High unemployment among the youth:** An unemployment rate of 62,1 per cent among 15-24 years and 40,7 per cent among 25-34 years.

**High unemployment for certain race groups:** Black African (37,2 per cent), Coloured (22,4 per cent), Indian/Asian (14,3 per cent) and White (7,5 per cent).

**High unemployment among females:** Female (35,4 per cent) and Male (30,7 per cent) compared to 39,9 per cent for black males.<sup>7</sup>

Furthermore, currently, manufacturing is concentrated in a few areas and cities in the country, with manufacturing jobs concentrated in only 10 districts (shown in figure 3)<sup>8</sup>. Inclusive industrialisation would facilitate a spread of the manufacturing sector throughout the country to ensure that benefits accrue to all the provinces.

<sup>5</sup> Statistics South Africa (2022)

<sup>6</sup> Luke, D., Macleod, J., & Ogunkola, O. (2023)

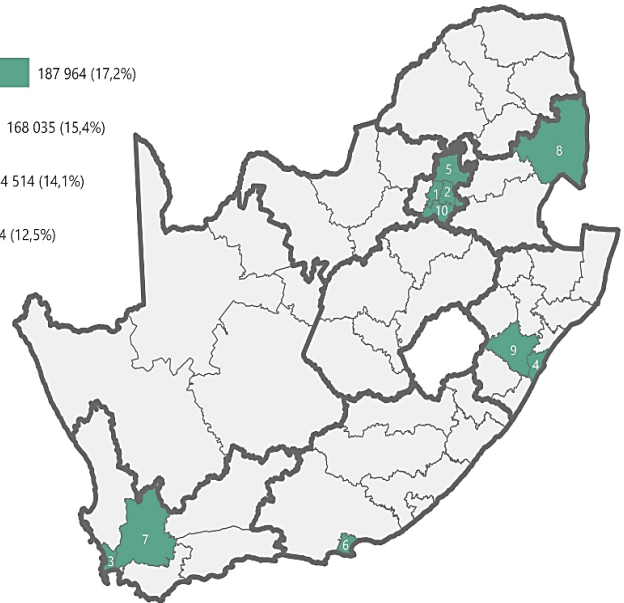
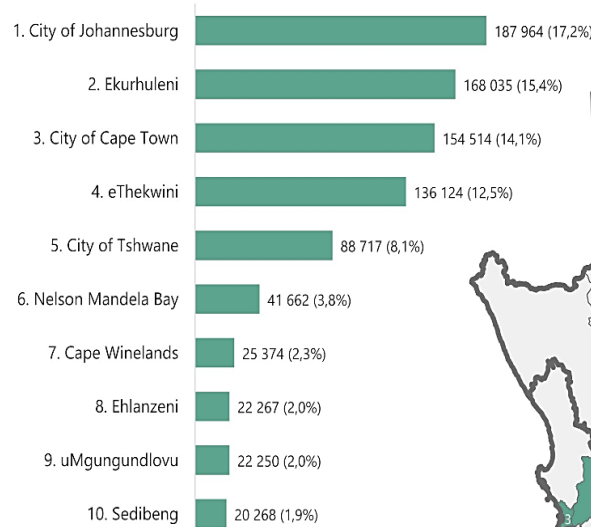
<sup>7</sup> Statistics South Africa (2023)

<sup>8</sup> Statistics South Africa (2021)



**Figure 3: Highest Number of Manufacturing Jobs – top ten districts**

Number of jobs and percentage contribution to the national total  
 Together, these districts account for 79% of manufacturing jobs nationwide



Source: Manufacturing industry: Financial, Report No.: 30-02-03 (2021), Table 27

Source: Statistics South Africa (2021)

**79 per cent of manufacturing jobs are concentrated in 10 districts**

## POLICY/ INITIATIVES FOR INCLUSIVE INDUSTRIALISATION AND ECONOMIC DIVERSIFICATION

A number of initiatives are being implemented to expand economic opportunities beyond the cities and the three main provinces in the country. Additionally, the aim of these initiatives/ policies is to ensure that all South Africans have opportunities to participate in economic activity without having to relocate to another province or city, thereby creating inclusive economic growth.

- **Special Economic Zones (SEZs):** Special Economic Zones are a tool for long-term industrial development and they are used to create an enabling and sustainable environment for foreign and domestic direct investment to thrive, therefore, **attracting investment into the country and the regions in which the SEZs are located.**<sup>9</sup> The country has designated twelve (12) SEZs across different provinces. These include the Coega and East London SEZs in the Eastern Cape, Maluti-A-Phofung SEZ in Free State, Saldanha Bay and Atlantis SEZs in the Western Cape, Dube Trade Port and Richards Bay SEZs in KwaZulu Natal, Musina-Makhado in Limpopo, and the OR Tambo and Tshwane Automotive SEZs in Gauteng. A further five SEZs are planned for designation in the Eastern Cape, Northern Cape, Limpopo, North West and Gauteng.<sup>10</sup>

<sup>9</sup> Department of Trade and Industry (2012)

<sup>10</sup> Department of Trade, Industry and Competition (2022)

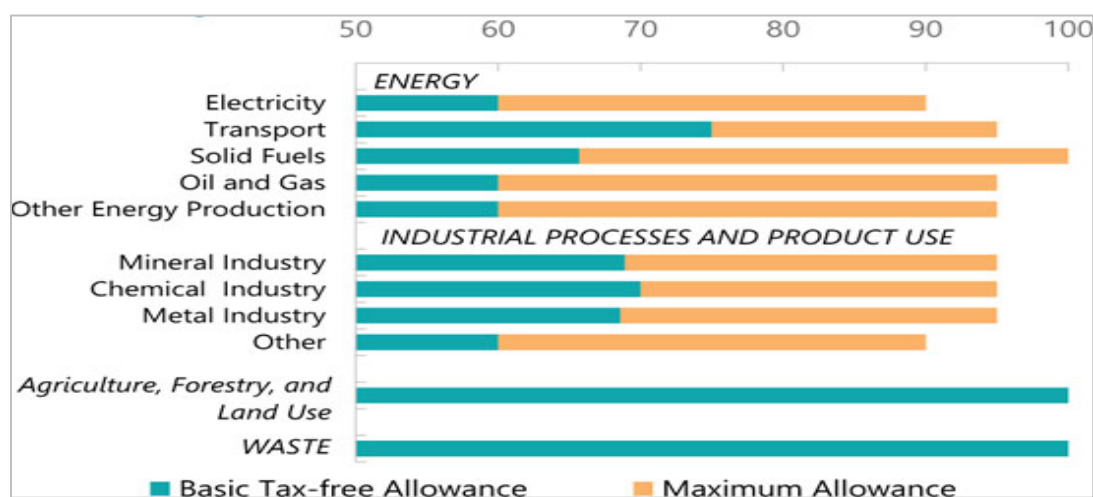


- **Revitalisation of Industrial Parks:** The Industrial Parks Revitalisation Programme (IPRP) was initiated in 2015 with the aim of reviving Industrial Parks that existed prior to 1994 and **bring some economic activities closer to townships and rural areas**, therefore, creating employment opportunities. The IPRP aims to **facilitate broader economic and industrial development in townships and rural areas** where the Industrial Parks are located.<sup>11</sup>
- **Black Industrialists Programme:** provides financial and non-financial support to black owned and managed businesses in the value adding sectors.
- **Localisation:** The use of public procurement to support re-industrialisation by ensuring that government procures locally produced goods. In this regard, the DTIC, in conjunction with National Treasury, has designated a number of products and/or sectors that have been prioritised for this purpose.
- **Access to finance:** funding is provided to companies in the manufacturing sector with the aim of expanding their manufacturing capacity by the Industrial Development Cooperation. While the National Empowerment Fund provides finance to black owned and managed enterprises in the manufacturing sector through the Black Business Manufacturing Fund.

## POLICY INITIATIVES FOR SUSTAINABLE INDUSTRIALISATION

In its efforts to mitigate the impact of climate change, South Africa implemented the Carbon Tax in 2019. The Carbon Tax is one of the mitigation measures that South Africa introduced in line with Nationally Determined Contributions under the Paris Agreement<sup>12</sup>. It is imposed on carbon emissions on most sectors (approximately 90 per cent of the country's total greenhouse gas (GHG) emissions, excluding only agriculture, forestry, land use, and waste.<sup>13</sup> The tax allowances vary by industry as shown in figure 4.

**Figure 4: Emission Tax-Free Thresholds for Selected Industries**



Source: International Monetary Fund (2023)

<sup>11</sup> Madalane, Z. (2022)

<sup>12</sup> Deloitte (2023)

<sup>13</sup> International Monetary Fund (2023)



The Carbon Tax contributes to sustainable industrialisation while it is not fully implemented. However, other challenges exist for sustainable industrialisation in South Africa. For example, in May 2023, the European Union's Carbon Border Adjustment Mechanism (CBAM) regulations came into force following an approval by the European Parliament in June 2022. According to the European Commission, the CBAM is a tool for addressing climate change by putting a price on carbon emitted in the production of certain products which are exported to the European Union (EU). It is said that the purpose of the CBAM is to "encourage cleaner industrial production in non-EU countries".<sup>14</sup> The EU intends to use environmental and sustainability requirements to limit other markets' (including South Africa) access to its market through setting carbon emission standards. These carbon border adjustment measures are anticipated to pose threats to the export market of South Africa's energy-intensive materials and products as they would no longer be price competitive when a carbon tax has been included in their price. Therefore, South Africa should consider its manufacturing processes and how it would mitigate challenges such as the CBAM.

Notwithstanding this, South Africa has other programmes and initiatives including the National Cleaner Production Centre of South Africa (NCPC-SA). The NCPC was established to promote the implementation of resource efficiency and cleaner production (RECP) methodologies to assist industry (mainly the manufacturing sector) to lower costs by reducing energy, water and materials usage, and waste management. The Centre is hosted by the Council for Scientific and Industrial Research (CSIR) and funded by the Department of Trade, Industry and Competition (DTIC). According to the CSIR, the NCPC-SA is a member of the United Nations Industrial Development Organisation (UNIDO) and the United Nations Environmental Programme's global Network for Resource Efficient and Cleaner Production (RECPnet) and the African Roundtable on Sustainable Production and Consumption.<sup>15</sup>

## CONCLUSION

South Africa has a wide range of policies to promote inclusive and sustainable industrialisation, however, greater emphasis should be placed on the further implementation of those policies as well as resolving the bottlenecks that exists in the implementation thereof. Therefore, industrial policy focus should be on:

- Fully implementing the existing policies;
- Ensuring cooperation between various government departments and spheres of government (national, provincial and local governments; and
- Regularly monitoring the impact of the programmes and review existing ones when necessary.

<sup>14</sup> European Commission (2023)

<sup>15</sup> Centre for Scientific and Industrial Research



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