THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

THIRD QUARTER 2018

The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.*

GDP growth

The third quarter of 2018 reversed two quarters of GDP decline as the economy grew 0.6%, equal to 2.2% in annualised terms (see Graph 1). Revisions to the GDP reduced the fall in the second quarter to 0.1% (that is, 0.4% in annualised terms, compared to the original estimate of 0.7%). Still, the growth reflected the persistence of significant volatility as well as slower growth from 2015. Overall, the GDP grew an average of 0.9% a year (based on years to the third quarter) from 2015 to 2018, compared to 2.0% a year from 2012 to 2015.

In the third quarter 2018, manufacturing expanded some 1.8% (see Graph 2). Manufacturing value add has been essentially flat for five years; growth this quarter meant that, for the first time, it surpassed an earlier spike in the fourth quarter of 2013. In this quarter agriculture grew 1.6% after a reported plunge of more than 9% in the previous quarter. In contrast, mining fell sharply, by 2.3%, while construction declined 0.7%.

*Available at www.tips.org.za/the-real-economy-bulletin

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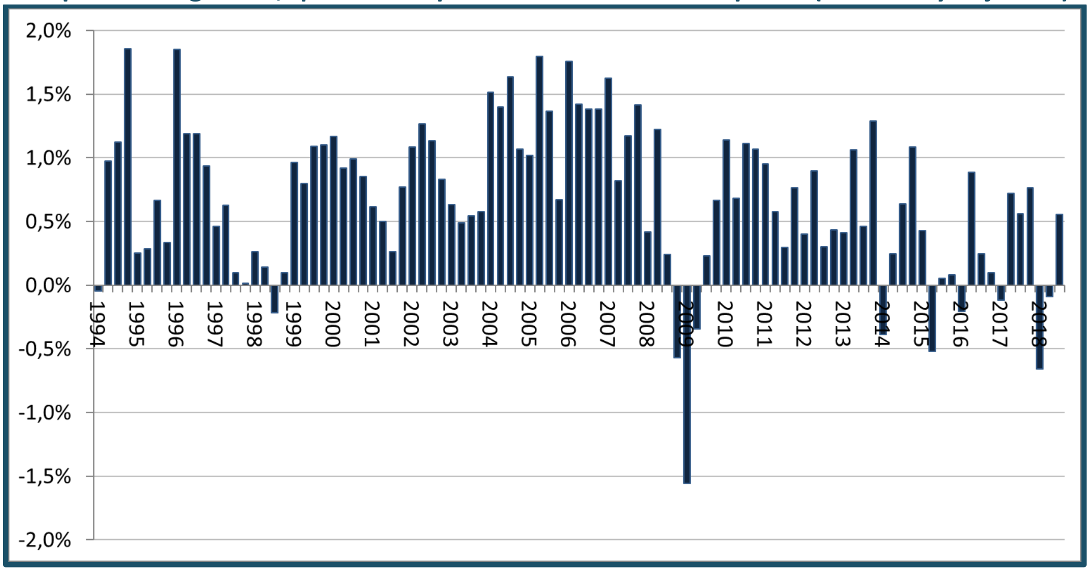
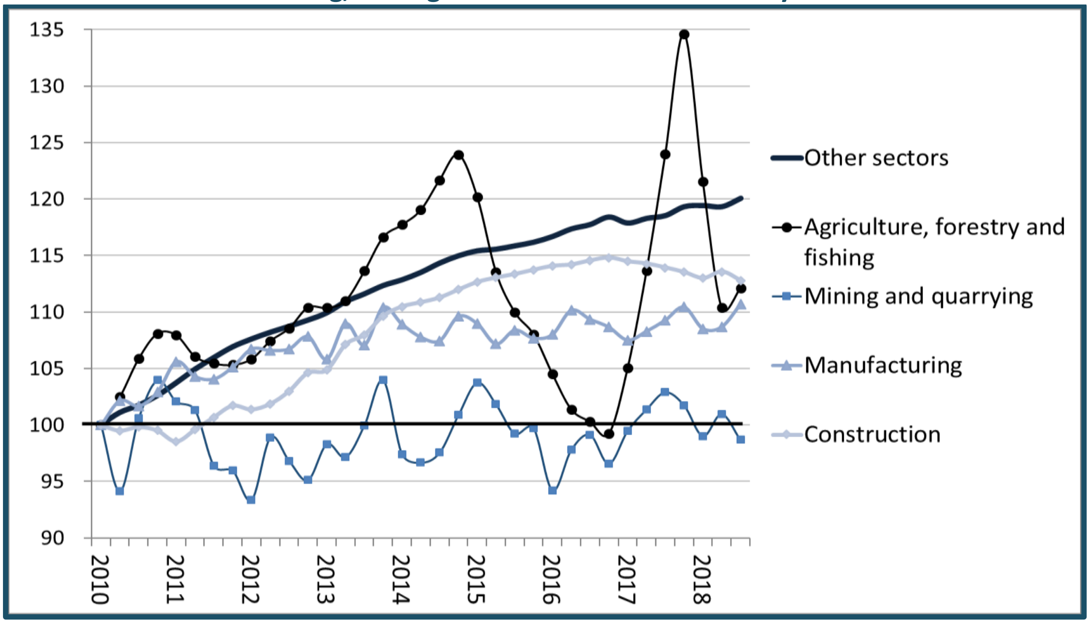
Graph 1: GDP growth, quarter on quarter in constant 2010 prices (seasonally adjusted)



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2018.

Graph 2: Indices of quarterly seasonally adjusted economic growth for agriculture, manufacturing, mining and the rest of the economy from 2010

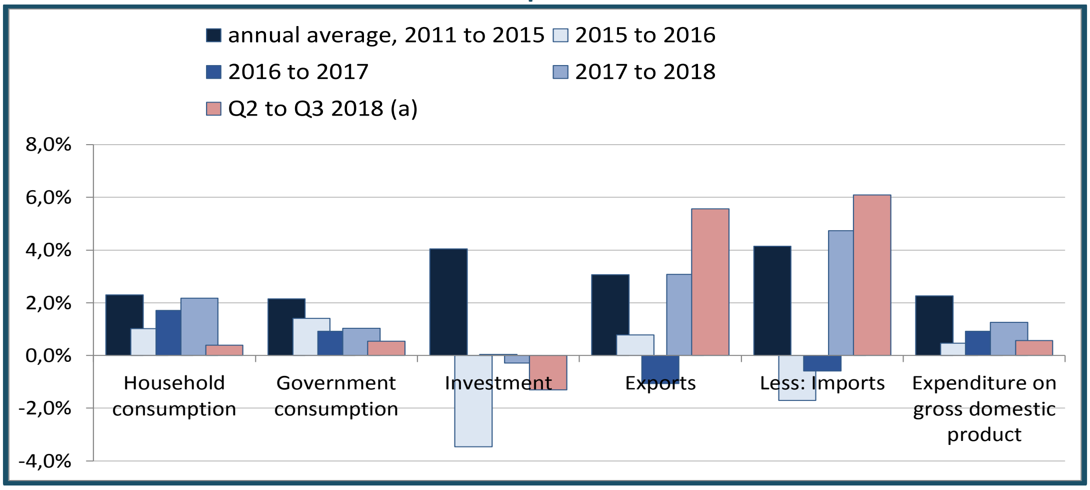


Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2018.

From the expenditure standpoint, exports were the main driver of GDP growth, with a sharp increase at 5.6% for the quarter. That said, imports grew even faster, at over 6%, resulting in a widening balance of trade deficit. In contrast, investment continued to contract, dropping by 1.3%, as discussed in more detail in the section on investment. Growth in government and household consumption remained positive but slowed compared to earlier in the year.

For the quarter, government consumption climbed 0.5%, while household consumption rose 0.4% (see Graph 3).

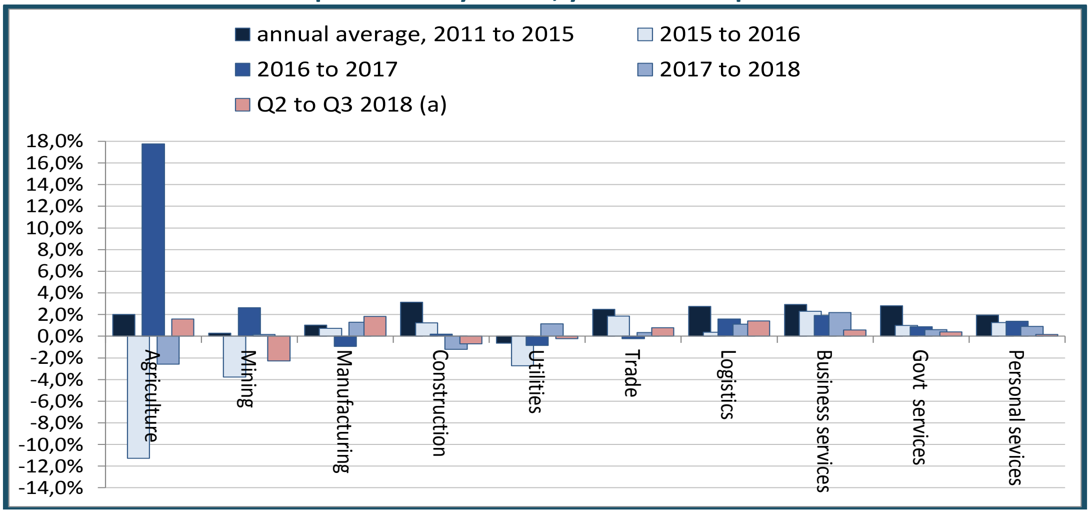
Graph 3: Change in expenditure on the GDP, year to third quarter and second quarter to third quarter 2018



Note: (a) seasonally adjusted. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2018.

As noted, growth rates diverged significantly at sectoral level, with manufacturing performing unusually well over the year to the third quarter largely due to the boost in the third quarter of 2018 (see Graph 4). In contrast, from the standpoint of the year to the third quarter, construction continued to struggle, and mining only barely eked out growth, with a decline from the second to the third quarter. Agriculture saw a significant annual contraction over the year, mostly due to the reported fall in the second quarter driven by the drought in the Western Cape, with a slight increase over the past quarter. In the services, business saw the fastest growth, while infrastructure – that is, electricity, gas and water plus transport, communications and storage – also expanded more rapidly than the rest of the GDP.

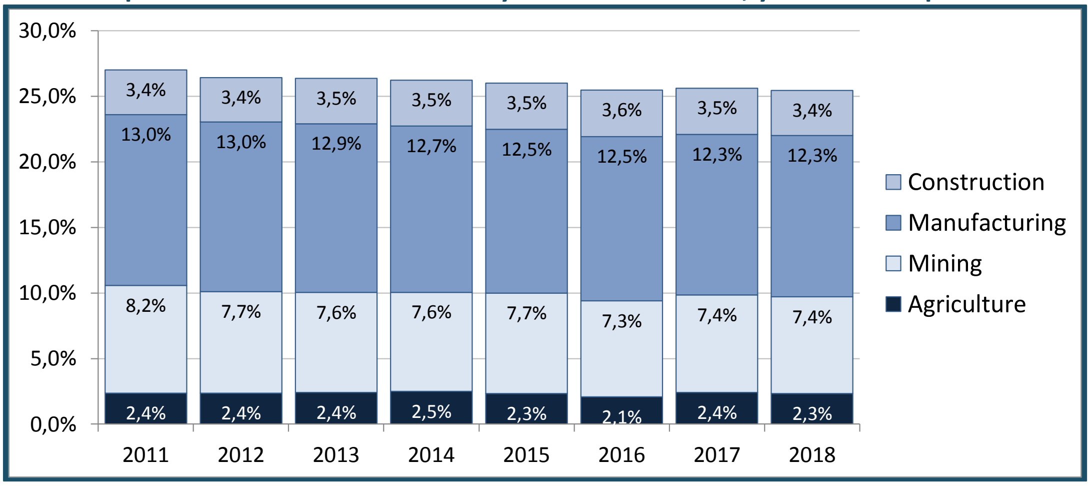
Graph 4: GDP by sector, year to third quarter



Note: (a) seasonally adjusted. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded www.statssa.gov.za in December 2018.

The decline over the year in construction and agriculture saw a fall in the share of the real economy in the GDP from 25.6% in the year to the third quarter 2017 to 25.4% in the following year (Graph 5). Still, manufacturing stabilised at 12.3% and mining at 7.4%.

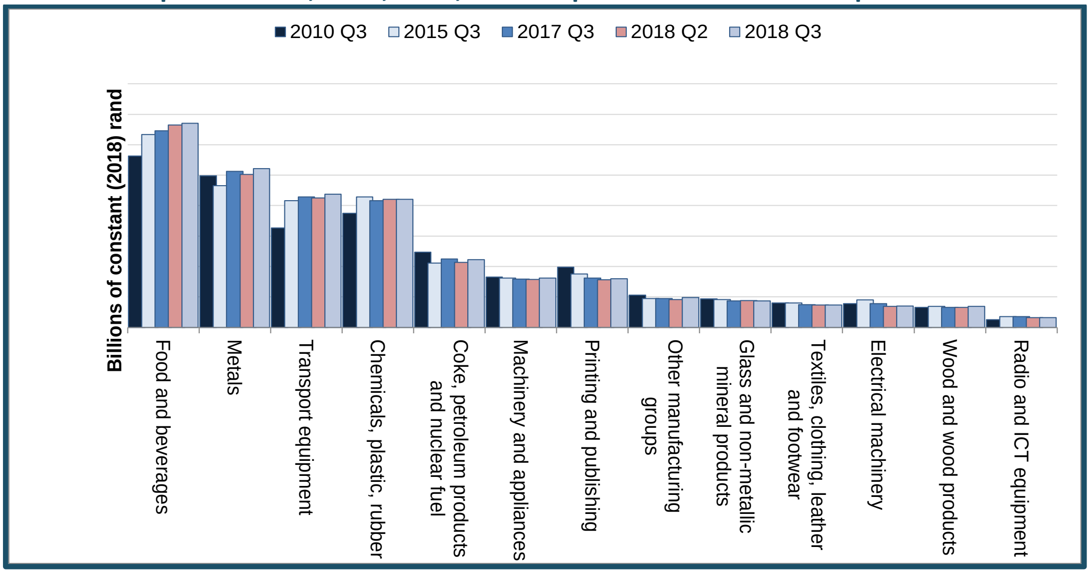
Graph 5: Share of the real economy sectors in the GDP, year to third quarter



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2018.

Manufacturing sales increased 1% year-on-year to the third quarter of 2018, with a 2% increase in the third quarter alone. Food and beverages continued to drive manufacturing sales over the year, increasing by 4%, with significant growth also seen in wood products, metals, transport equipment, chemicals and machinery sales. In contrast, sales of electrical and communications equipment fell, with more modest falls in furniture, clothing, publishing and printing, and petroleum refining (see Graph 6).

Graph 6: Manufacturing sales in constant (2018) rand (a), third quarter 2010, 2015, 2017, second quarter 2018 and third quarter 2018



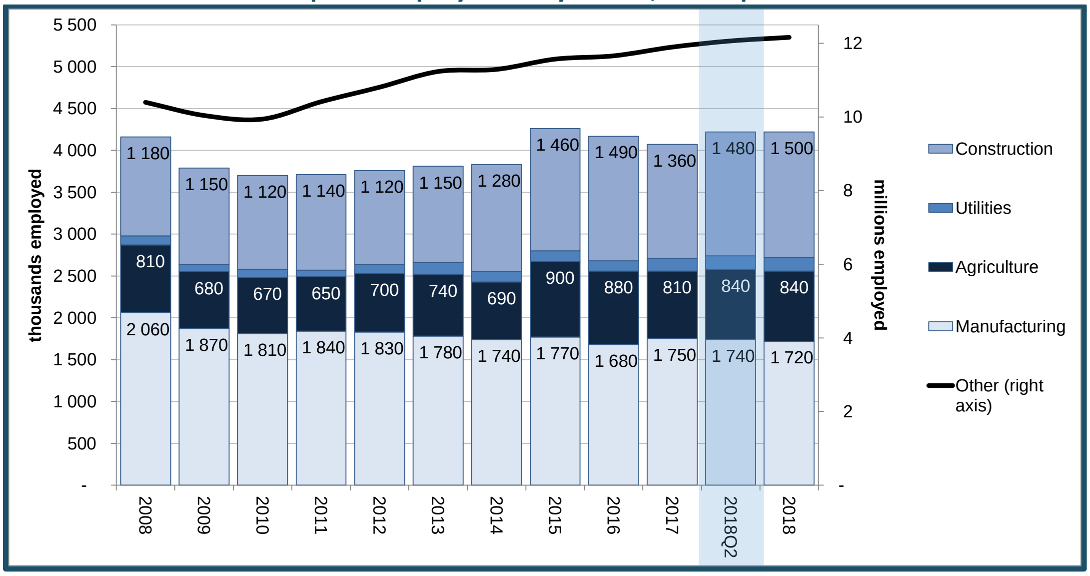
Note: (a) Deflated with CPI rebased to third quarter 2018. Source: StatsSA. Manufacturing volume and sales. Excel spreadsheet. Downloaded in November 2018.

Employment

Total employment reportedly increased by 190 000 or 1.3% from the third quarter of 2017 to the third quarter of 2018, despite the erratic growth in the GDP. Still, manufacturing lost over 20 000 jobs in the year, continuing a trend of stagnant employment since the 2008/9 global financial crisis. In contrast, construction reportedly gained 140 000 jobs over the year, despite the continued decline in its output. Most other new jobs emerged in business and social services.

As Graph 7 shows, construction dominated employment growth in the year to the third quarter 2018. Virtually all the reported jobs growth in the industry were in the formal sector, with over half in Gauteng alone. A significant disconnect has emerged between employment and GDP trends for construction. In contrast, manufacturing reported continued job losses despite the growth in output for the quarter. It has reportedly lost 150 000 positions since the third quarter of 2009, following very large job losses in the global financial crisis of 2008/9. The rest of the economy generally saw net employment gains, with particularly substantial growth in business services (mostly cleaning and security workers) as well as social, personal and community services, principally in the public sector.

Graph 7: Employment by sector, third quarter

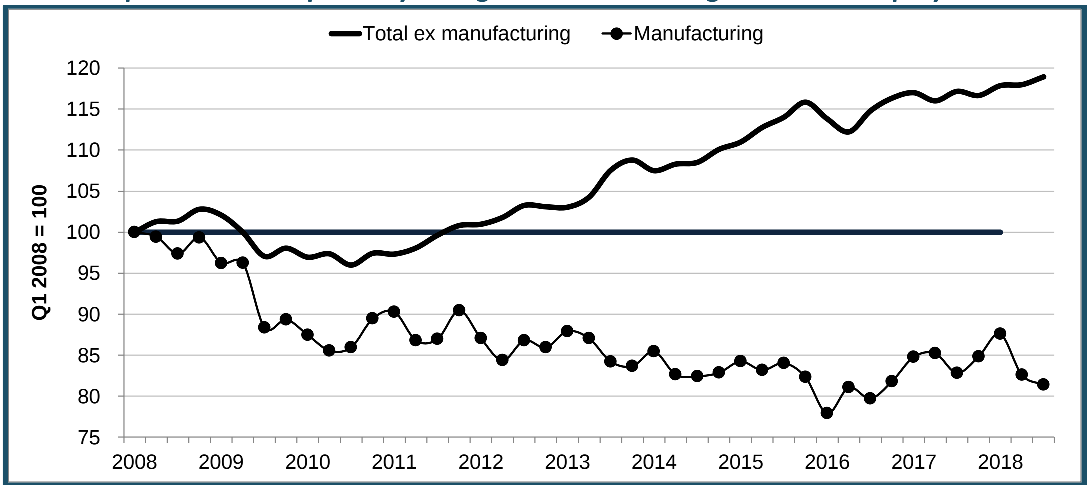


Source: StatsSA. QLFS trends 2008 - 2018Q3. Downloaded from www.statssa.gov.za in October 2018.

Graph 8 provides an index of the change in net employment in manufacturing compared to the rest of the economy.

The loss of jobs in the past two quarters reverses an increase in employment from the first quarter of 2016 to the first quarter of 2018. The decline in the past quarter emerged despite the reported strong growth in manufacturing production.

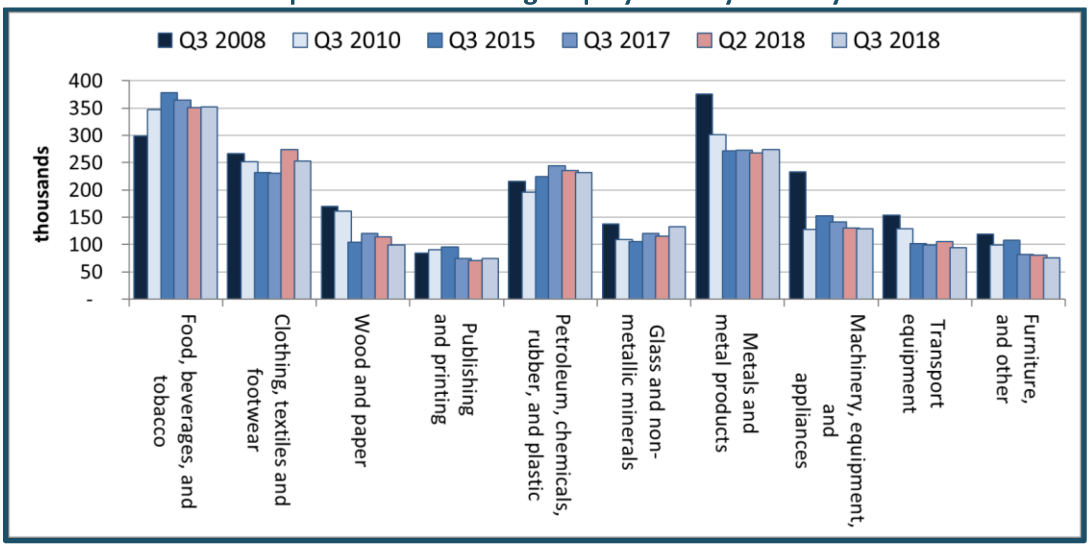
Graph 8: Index of quarterly change in manufacturing and other employment



Source: StatsSA. QLFS trends 2008 - 2018Q2. Downloaded from www.statssa.gov.za in October 2018.

Within manufacturing, most industries saw some job losses over the year to the third quarter 2018, with the notable exception of clothing and textiles, and to a lesser extent glass and non-metallic minerals (mostly building materials). The largest job losses were in wood paper, food, chemicals and machinery and appliances. In contrast, clothing and textiles reported gains of 23 000 (or 10%) over the year, despite the decline between the second and third quarters (Graph 9).

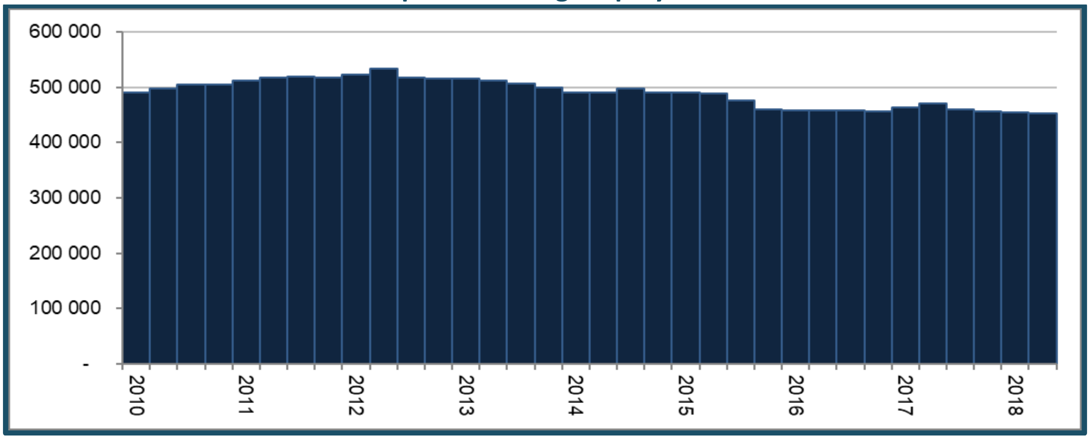
Graph 9: Manufacturing employment by industry



Source: StatsSA. QLFS trends. Electronic database. Downloaded from www.statssa.gov.za in October 2018.

Data for mining are only available through the second quarter of 2018. Employment in the sector has declined since the third quarter of 2012, except for some improvements in the first half of 2017. Mining lost almost 20 000 jobs in the year to the second quarter of 2018, as shown in Graph 10.

Graph 10: Mining employment



Source StatsSA. Quarterly Employment Statistics. October 2018.

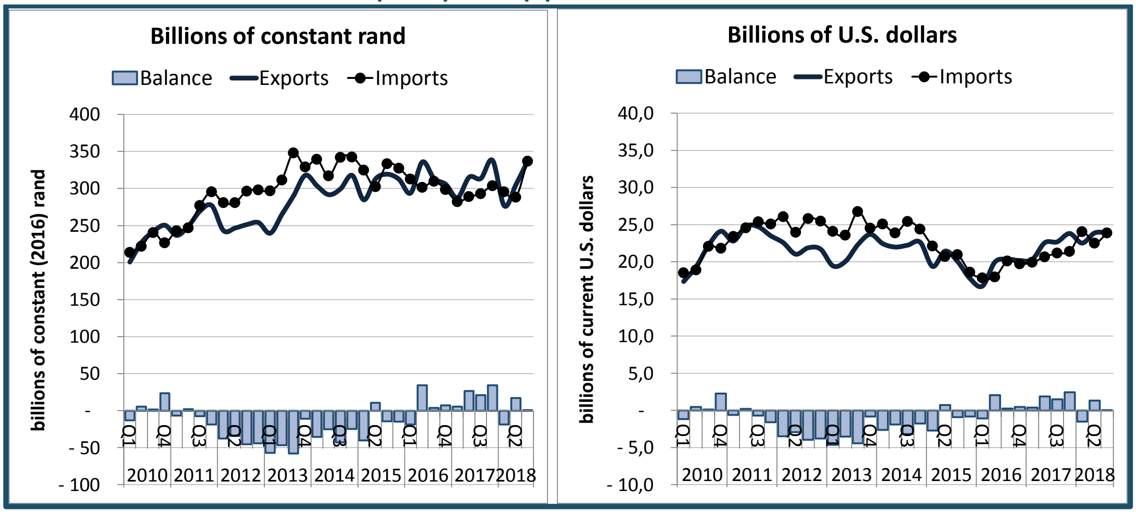
International trade

Both exports and imports surged from the third quarter of 2017 to the third quarter of 2018 in rand terms, largely reflecting the stronger US dollar and, in the case of imports, the increase in the global oil price. As a result of these factors, the trade surplus fell sharply.

In US dollars, the oil price climbed by 50% between the third quarter of 2017 and the first quarter of January 2018, then levelled out (and fell in the fourth quarter of 2018). As a result, imports climbed swiftly in dollar terms. In addition, the rand depreciated over 10% against the dollar between June and September 2018 in nominal terms. As a result, both exports and imports spiked in rand terms in the past quarter, but imports grew much more quickly in both rand and dollars.

These trends led to a sharp fall in the trade surplus, from R17 billion in the second quarter to R0.5 billion in the third quarter of 2018 (see Graph 11). In dollar terms, the trade balance for third quarter 2018 amounted to US$0.04 billion, down from US$1.3 billion in the second quarter.

Graph 11. Exports, imports and balance of trade in constant (2018) rand (a) and current US dollars

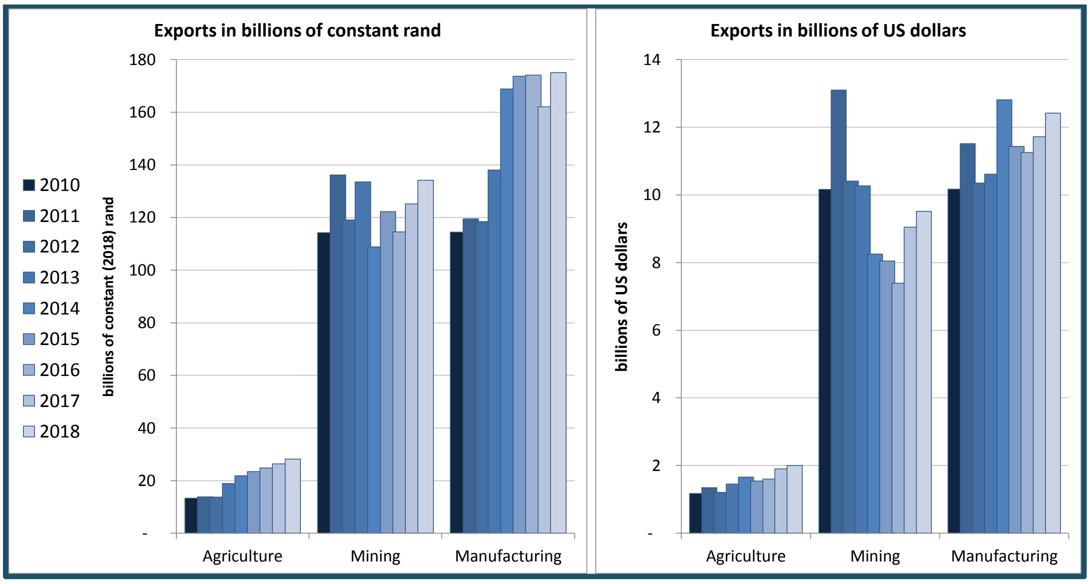


Note: (a) Deflated with CPI rebased to third quarter 2018. Source: SARS monthly trade data.

Graph 12 shows exports in both constant rand and current US dollar terms for the third quarter from 2010 to 2018 for agriculture, mining and manufacturing. Exports in the third quarter of 2018 rose in all the three sectors compared to the third quarter 2017 in both constant rand and dollar terms. Manufacturing exports climbed from R162 billion in 2017 to R175 billion in Q3 2018; in dollar terms they rose by US$700 million.

Mining exports increased from R125 billion to R134 billion in constant rand terms. Still, in dollar terms they remained lower than during the commodity price boom that ended in 2011, resulting in a sharp fall in the dollar value of mineral exports through 2016. Agricultural exports increased by R1.8 billion from 2017 to 2018.

Graph 12: Third quarter exports in billions of constant (2018) rand (a) and current US dollars

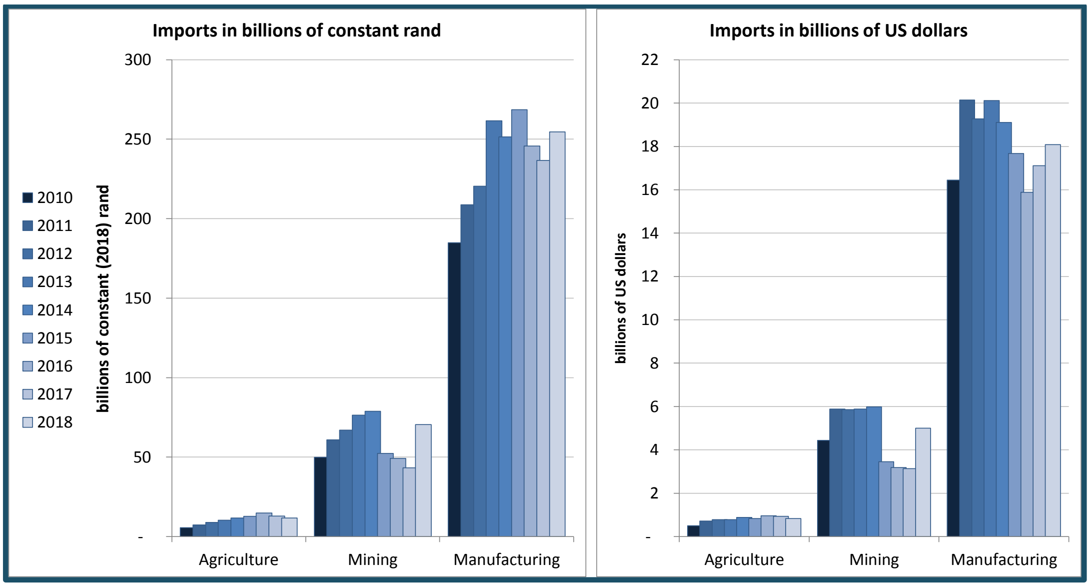


Note: (a) Deflated with CPI rebased to third quarter 2018. Source: SARS monthly trade data.

Because of the higher oil price internationally, mining imports saw the highest increase, rising from R43 billion to R70 billion in constant rand terms.

Manufacturing imports also climbed, but more modestly. In contrast, agriculture imports decreased by R1.2 billion. In US dollars, mining imports increased by US$1.9 billion to US$4.9 billion in the third quarter of 2018, while manufacturing imports increased by 6% to US$18 billion. Agriculture imports saw a decline in US dollar terms between the third quarters of 2017 and 2018, decreasing by 9% to US$0.8 billion (see Graph 13).

Graph 13: Third quarter imports in billions of constant (2018) rand (a) and current US dollars



Note: (a) Deflated with CPI rebased to third quarter 2018. Source: SARS monthly trade data.

Table 1 disaggregates exports and imports by manufacturing subsector. South Africa's two dominant manufactured exports – metal products and transport equipment – both expanded in constant rand and current dollar terms from the third quarter of 2017 to the third quarter of 2018. Food and beverages and clothing, however, saw modest declines.

Table 1: Trade by manufacturing subsectors

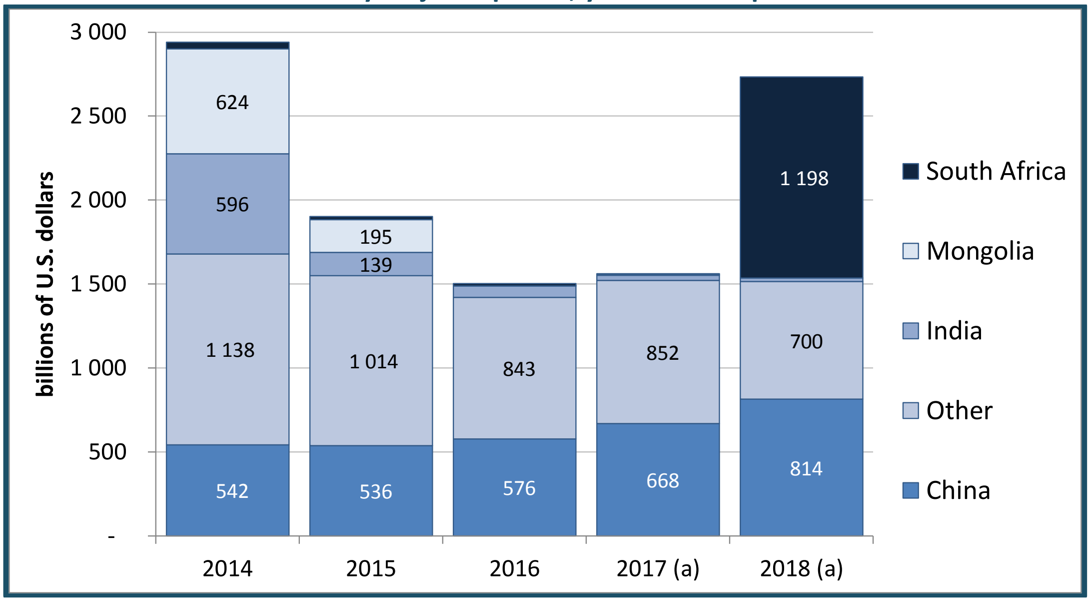
	Value (billions)		% change from Q3 2017		Change in millions	
Industry	**US$**	**Rand**	**US$**	**Rand**	**US$**	**Rand**
Exports						
Food and beverages	1.1	14.8	-0,4%	1%	-4.4	196.4
Clothing and footwear	0.4	6.1	-0,4%	2%	-1.6	107.7
Wood products	0.1	2.1	6%	8%	8.2	149.0
Paper and publishing	0.5	6.5	16%	19%	64.7	1 038.1
Chemicals, rubber, plastic	1.9	26.6	3%	5%	58.7	1 294.0
Glass and non-metallic mineral products	0.1	1.7	5%	7%	5.4	105.8
Metals and metal products	2.8	39.9	13%	15%	324.8	5 174.8
Machinery and appliances	2.1	29.0	3%	5%	57.6	1 280.7
Transport equipment	3.1	44.5	7%	9%	206.6	3 787.0
Imports						
Food and beverages	0.9	12.2	-8%	-6%	-77.8	-839.9
Clothing and footwear	1.2	17.4	3%	5%	33.2	769.1
Wood products	0.1	1.3	-1%	0.4%	-1.4	4.7
Paper and publishing	0.6	8.9	108%	111%	328.3	4 698.1
Chemicals, rubber, plastic	3.6	50.5	8%	10%	272.4	4 662.5

Industry	Value (billions)		% change from Q3 2017		Change in millions	
	US$	Rand	US$	Rand	US$	Rand
Glass and non-metallic mineral products	0.3	4.0	10%	12%	25.8	426.4
Metals and metal products	1.2	16.5	5%	7%	59.2	1 111.3
Machinery and appliances	5.6	78.7	2%	4%	135.8	3 371.2
Transport equipment	4.2	58.6	4%	6%	157.1	3 131.3

Note: (a) Deflated with CPI rebased to third quarter of 2018. Source: SARS monthly trade data.

In terms of imports, paper and publishing continued to be an outlier, with growth in dollar terms climbing from almost nothing to US$1.2 billion from the year to third quarter 2017 to the year to third quarter 2018. The growth occurred almost exclusively in the subcategory of unused postage and revenue stamps (HS 4907), possible reasons for it are discussed in detail in the TIPS Import Tracker. This phenomenon meant that South Africa's share in global trade in this category climbed from virtually zero in the year to third quarter 2017 to 44% a year later (See Graph 14).

Graph 14. Imports of unused postage and revenue stamps (HS 4907) in billions of US dollars by major importer, year to third quarter



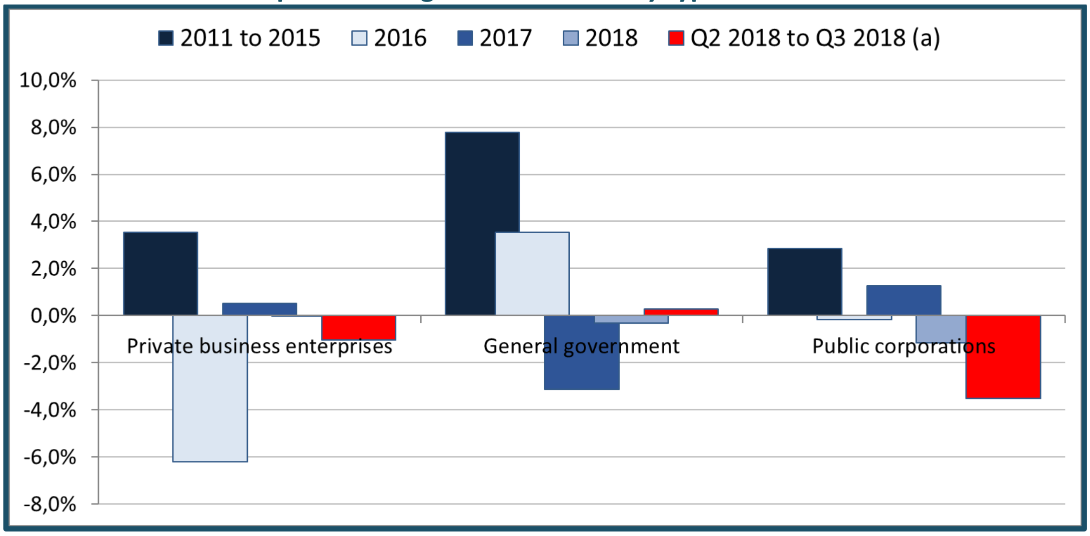
Note: (a) No data available for Mongolia for 2018; for China, extrapolated from fourth quarter 2017 and first quarter 2018. Source: Calculated from ITC. Trade Map.

Investment and profitability

In the year to the third quarter 2018, both private investment and general government investment remained essentially flat. State-Owned Corporation (SOC) investment, however, fell by 1.1%, with a decline of 3.5% in the third quarter alone.

Private investment, which accounts for two thirds of the total, dropped sharply in 2016 and since then has remained essentially unchanged (see Graph 15). General government and SOCs essentially split the remaining investment. Government investment remained essentially unchanged over the past two years, but SOC investment fell by 1.1% in the year to the third quarter of 2018, with a 3.5% fall in the third quarter of the year.

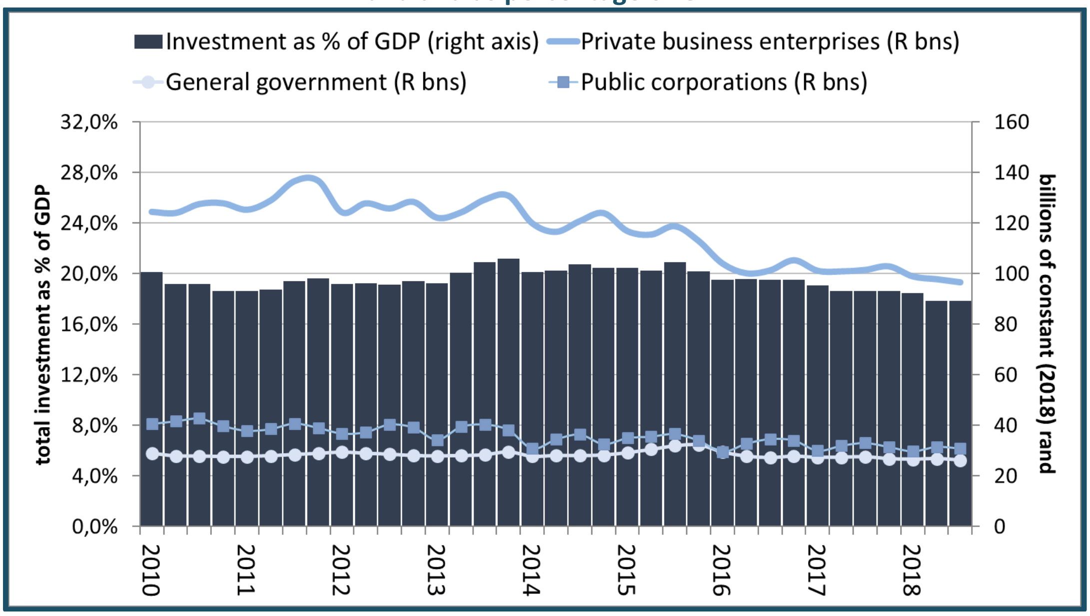
Graph 15: Change in investment by type of investor



Note: (a) seasonally adjusted. Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in December 2018.

As a percentage of GDP, investment has fallen steadily since the fourth quarter of 2015 (Graph 16.) In seasonally adjusted terms, the value of private investment fell steadily from the fourth quarter of 2017, reversing a slight increase in the year to the third quarter 2017. Both SOC and general government investment also fell over this period.

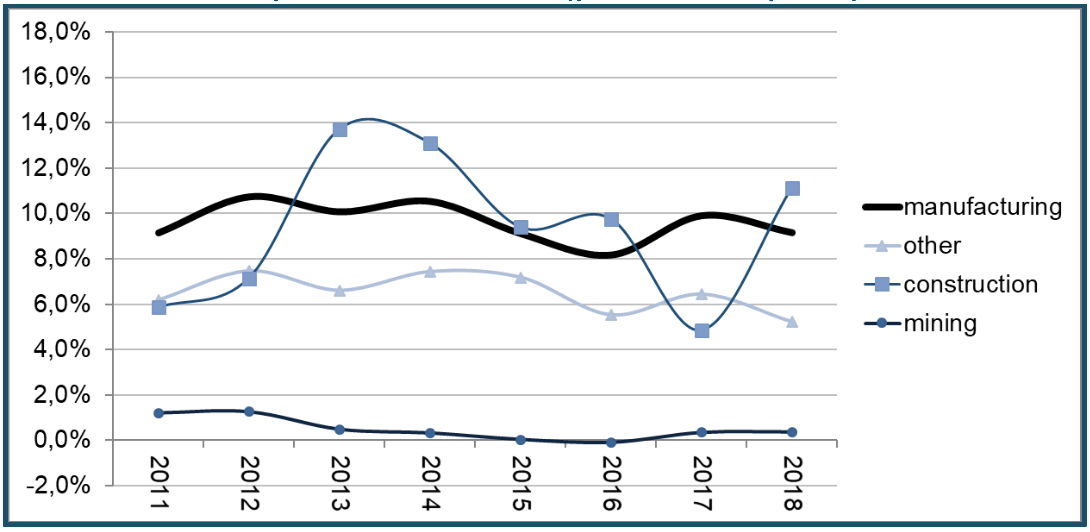
Graph 16: Quarterly seasonally adjusted investment by type of organisation in constant rand and as percentage of GDP



Source: StatsSA GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za in June 2018.

Data on profitability by sector are only available through the second quarter of 2018. As Graph 17 shows, return on assets for construction climbed sharply to 11.1% in 2018 after a sharp fall from 2013. In contrast, for manufacturing the indicator declined from 2017 to 2018, and while mining remained higher than in 2016 it was still very low.

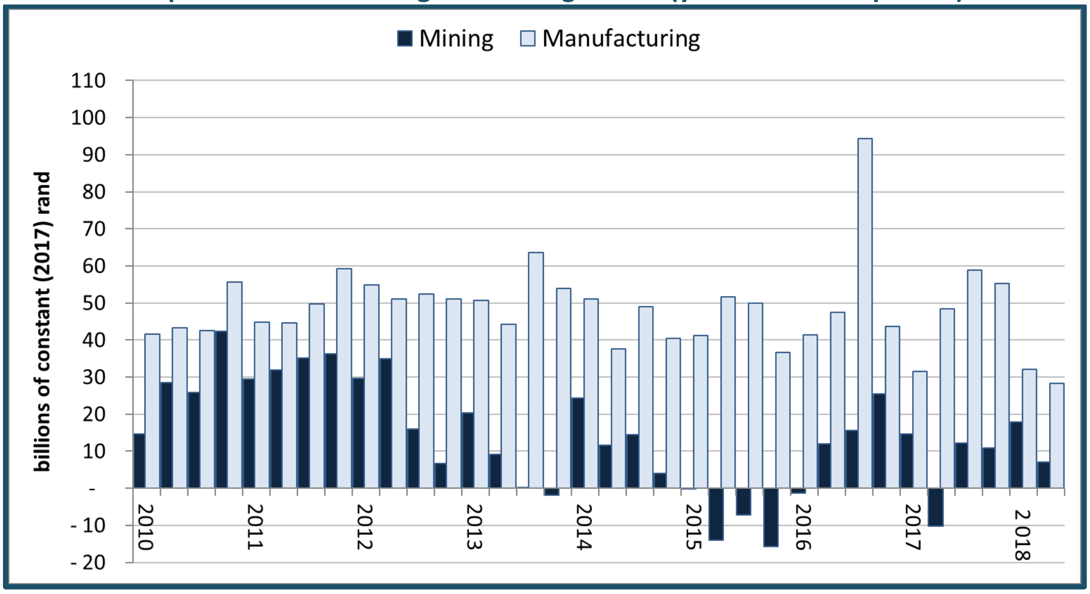
Graph 17: Return on assets (year to second quarter)



Source: StatsSA, Quarterly Financial Statistics.

Manufacturing saw a sharp fall in profits in the first quarter of 2018, with a more modest decline in the second quarter (see Graph 18). Mining continued to experience very low profits despite some improvement in the first quarter of 2018, which was followed by a steep fall.

Graph 18: Manufacturing and Mining Profits (year to second quarter)



Source: StatsSA. Quarterly Financial Statistics.

Foreign Direct Investment projects

Eleven projects were added to the [TIPS Foreign Direct Investment (FDI) Tracker](), while five existing projects had major updates. The total value of announced investments this quarter was R47.7 billion, over twice as high as the total for the first half of the year. The increase was due to contracting under the fourth round of the Renewable Energy Independent Power Producer Programme (REIPPP), which contributed about R34 billion to the investment value, as well as announcements linked to the South African Investment Conference in October 2018. The Investment Conference outcomes are discussed in the briefing note Evaluating the Pledges.

Table 2: New FDI Projects Captured in Quarter 3 2018

	Announced	**Complete**	**Pre-Feasibility**
Number of projects	6	4	1
Value (R' billion)	35,2	1,2	11,2
Industries	Utilities (3 Projects) Manufacturing (2 Projects) Services (1 Project)	Manufacturing (3 Projects) Services (1 Projects)	Mining
Type	3 Greenfield 2 Upgrades 1 Expansion	1 Greenfield 2 Upgrades 1 Expansion	1 Expansion
Company	ACWA Power and others juwi Renewable Energies KLT Automotive & Tubular Products ASSA ABLOY (SA) Pty Ltd Opel International Enel Green Power	Nissan South Africa (Nissan) UD Trucks Southern Africa (UD Trucks) VE Commercial Vehicles (VECV)	Vedanta Zinc International

In addition to projects in renewable energy, manufacturing projects in the automotive and related sectors featured prominently this quarter. They included three projects by Nissan and by Volvo through its UD Trucks and VE Commercial Vehicles subsidiaries.

Though Nissan South Africa's upgrade of its Rosslyn facility was completed last year December, the company's investment is a new entry into the tracker. The company has invested about R1 billion over the past three years, of which R500 million went towards improving efficiency and renovating its production facilities, and R150 million towards employee skills and training.

The overhaul sees the facility utilise one production line instead of two, with the facility now able to produce 200 vehicles a shift. While not targeting a specific model, production will also continue to focus on the NP200 half-tonne bakkie and NP300 (Hardbody) one-tonne bakkie. Nissan South Africa is now the sole manufacturer of the Hardbody model, reflecting stable demand in Africa. The Hardbody is Nissan South Africa's main export to the rest of Africa. The NP200 is the only high-volume small bakkie left in the local market following the termination of the Ford Bantam and the Chevrolet Utility.

Two investments by UD Trucks were added to the tracker. First, the company recently completed the first phase of its investment to modernise its facility in Rosslyn with a R30 million upgrade. Improvements include the acquisition of new fixtures, jigs and implementing a new material supply system. The facility currently produces trucks that are also exported across several SADC countries. Second, in partnership with South Africa's Billson Group, UD Trucks established a Billson Trucks dealership in Port Elizabeth valued at R110 million. The dealership is one of few service investments identified by the tracker, but the size of the investment warrants its inclusion.

Another new entry initiated in 2017 is the VE Commercial Vehicles assembly of the Eicher truck range at the UD Trucks facility in Rosslyn. The investment is a joint venture with the India-based Eicher Motors. The introduction of the brand is valued at R 100 million. Models assembled are the Eicher Pro Series comprising the medium-duty Pro 3000 Series introduced in 2017 and the heavy duty Pro 6000 Series launched this quarter. The Pro 3000 comprises an 8.5-tonne vehicle mass haulage truck range while the Pro 6000 Series will be available as freight carrier with different wheel bases, a tipper, garbage compacter and cement mixer variant. The Eicher brand is available in 14 outlets in South Africa through partnerships with dealerships including Imperial and BB Motors.

Feeding into the automotive sector is an investment by KLT Automotives. The India-headquartered firm supplies chassis frames for Ford SA's Ranger. It will invest R20 million to increase the production of chassis frames at its Hammanskraal factory from 500 to 630 a day.

The outlier in manufacturing this quarter is represented by ASSA ABLOY South Africa, a subsidiary of the Sweden-based global specialist manufacturer of entrance solutions. It has invested R10 million in automation, including the installation of six robots with the goal of expanding to more than 10 before the end of 2018. The company has introduced collaborative robotics that work alongside people, aiming to maintain product quality and production volumes while reducing costs.

In renewable energy, the German firm juwi Renewable Energies has concluded engineering, procurement and construction plus operation and maintenance contracts for three solar photovoltaic projects with a combined value of R3 billion. The agreement is with African Infrastructure Investment Managers (AIIM) which has 50.1% ownership in the three projects. The Droogfontein 2 Solar Park, located in the North West, will be the first to be constructed this quarter. It is to be followed by Bokamoso Solar Park in the fourth quarter and Waterloo in the first quarter of 2019, both in the North West. The solar parks will generate a combined 250 MW of electricity.

The Central Energy Fund and Saudi-based ACWA are co-investing in a set of renewable projects, starting with the Redstone concentrated solar thermal power plant in the Northern Cape. The value of the project is R11.2 billion. Redstone will have central salt receiver technology with 12 hours of thermal storage. It will use dry-cooling options to minimise water use. The project will be owned by ACWA Power Solar Reserve Redstone CSP, comprising ACWA Power Redstone Holdings (50%) and SolarReserve (10%); GEPF Renewable Energy Investment 1 (13.5%), which is managed by the Public Investment Corporation; the Redstone Community Trust (6.5%), a broad-based black economic-empowerment entity; Old Mutual Life Assurance Company of South Africa 10%; and Pele Green Energy (10%). It will be built adjacent to the Lesedi and Jasper solar power plants.

Finally, Italian firm Enel Green Power has reached financial closure on five new renewable wind farms valued at R19.8 billion. They will have approximately 700MW in capacity. Two projects – Oyster and Nxuba – are in the Eastern Cape, while the other three, Garob, Karusa and Soetwater, are in the Northern Cape. Nxuba will start construction towards the end of 2018 with the expectation of being operational by the end of 2020. Construction will start on the other four in the course of 2019, and become operational in 2021.

In mining, Vedanta Zinc International announced that it is undertaking a feasibility study into a zinc smelter and refinery complex at its Gamsberg open-pit mine in the Northern Cape. The complex would cost about R11.4 billion to develop. The study will determine the method of refinery, whether to roast or pressure the concentrate and how best to accommodate the expansion of Gamsberg and potentially other zinc producers in the area. If constructed, it will generate 250 000 tonnes a year of zinc metal, require 200MW of power and a water allocation that requires significant large-scale investment. The concentrator and associated infrastructure would form part of Vedanta's broader expansion Gamsberg-Skorpion Integrated Zinc project, described below, making it possible to handle a higher volume of ore from the Gamsberg mine while extending the life of the Skorpion zinc operation in Namibia.

Updated Projects in the Tracker

Volkswagen SA completed its R6.1 billion investment programme in new models and facility upgrades at its Uitenhage plant. Most of the investment went to infrastructure, local content tooling, quality assurance, and high tech manufacturing equipment and information-technology upgrades. It has also introduced the "one-line concept" for the first time, which allows the plant to build two different models on one production line.

BMW South Africa's investment projects saw three developments in the past quarter. It launched its new training academy following an investment of R73 million, with capability to host 300 apprentices a year, in support of the new BMW X3. Following R6.1-billion investment over the past three years in its the Rosslyn facility, it exported over 100 of the first units of the BMW X3 to Europe. Finally, it officially unveiled its R260-million regional parts distribution centre. The centre will hold 600 000 motor parts for delivery to 56 dealers across Southern Africa.

Sumitomo Rubber South Africa has officially started production at its truck and bus radial tyre manufacturing facility in Ladysmith after a four-year, R2-billion investment. The upgrade and expansion introduced new technology and equipment to increase tyre production for cars and SUVs. Sumitomo also purchased land adjacent to the facility to start manufacturing bus tyres, with sales starting in the fourth quarter of 2018. An additional 193 employees were added to the workforce, which now totals 1 060 people.

When GM left South Africa, Isuzu purchased its Struansdale manufacturing facility and its 30% shareholding in Isuzu Trucks South Africa, making this Isuzu's first fully-owned first operation outside Japan. It moved its truck operations in Port Elizabeth from Kempston Road to the Struandale plant, launching this quarter. It has announced it will also invest in the Propella Business Centre, a partnership between Nelson Mandela Bay University and the Industrial Development Corporation with a focus on renewable energy, energy efficiency, and advanced manufacturing. The Isuzu Industrial Hub will support technology and innovation in the advanced manufacturing sector in the Eastern Cape. Current participants or beneficiaries include the Rhino Group, manufacturing green products such as light-weight concrete out from recycled polystyrene.

Osho Cement, a joint venture between Dubai-based Osho Ventures and Germanys' Heidelberg Cement, has commenced construction on a cement grinding facility. It expects to complete construction by the end of 2018 with commercial production starting shortly thereafter. It will import its primary raw material, manufacture and sell its products locally and in the region. When complete, it will be the seventh cement producer in South Africa.

The Gamsberg-Skorpion Integrated Zinc project has completed the first phase of the Gamsberg mines development. After four years and R5.5 billion investment, the mine was officially commissioned with production underway from early July 2018.

Briefing Note: Investment Conference 2018 – Evaluating the pledges

The South Africa Investment Conference 2018, held between the 26th and 27th of October, was headlined by the announcement of R290 billion in new pledged investment. Achieving that target would contribute almost a third to President Cyril Ramaphosa's five-year US$100 billion target for new investment. Understanding what lies behind this figure is, however, more of a challenge. Pledged investment can be unreliable as plans and values change, commitments are made at a political level rather than by companies, and potential investors often overstate their commitments.

A useful starting point for assessing the investment pledges is the 10 largest projects announced at the conference, which are listed is the table below.

Three questions should be asked of each investment: is the pledge credible, is it new, and what role did the government play in securing the project.

Table 3: 10 largest projects announced at the conference

Project	Company	Value (R billion)
Extending and sustaining lifecycle of mines	Anglo American	75.1
Two zinc mines	Vedanta Resources	21.4
East London plant expansion	Mercedes Benz	10
Export capacity investments	Mondi	8
Dissolving wood pulp capacity	Sappi	7.7
Tech start-up fund	Naspers	6
Platinum mines	Ivanplats	4.5
Vanadium mines	Bushveld Minerals	2.5
Smartphone production	Mara corporation	1.5
Telecomms base stations	Rain	1

Almost all these investments are broadly credible. They are being undertaken by companies with established South African operations, in sectors that tend to be among the most active for investors in the country. Clear project plans seem to be in place for many of the projects. The only concerns arise around Mara's pledge to develop a cellphone production centre. While the phone, the Mara X, has been widely publicised, it remains a new and highly complex undertaking, and a radical departure for a group with a traditional focus on finance and real estate. Despite an advertised launch date of second quarter 2018, no reliable information is available on the development of production infrastructure in Africa, outside of broad pledges to build the phone in facilities in South Africa and Rwanda. While the project seems exciting, it should be treated with caution until further information emerges.

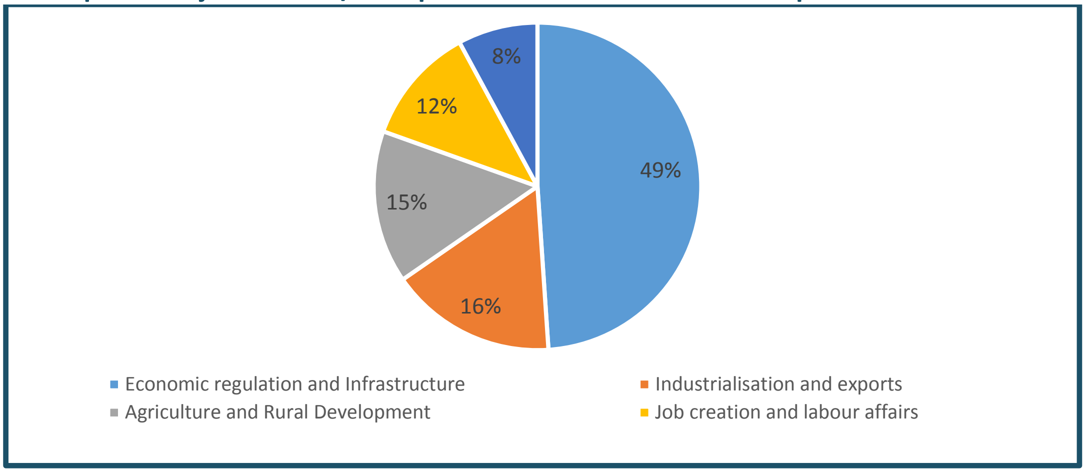
That said, many of the projects are not entirely new pledges, and while important and a welcome signal of confidence in the South African economy due to the willingness of these companies to continue and expand operations, they may not boost investment as much as hoped. The four largest pledged investments all represent reinvestments or expansions in existing projects. This is a normal pattern for investment, in which reinvestment is almost always larger than greenfields investment. Still, some of the projects – notably Mondi's multi-year restructuring and Mercedes-Benz's long-running expansion plans – can be traced back to well before the investment drive. Similarly, Vedanta's pledge equals the total value of all initiatives related to the company's existing Gamsberg zinc mine and smelter. While this project is a landmark for the company and certainly represents an important investment, it builds on plans that began in 2015, and that always seemed likely to include iterative development of the mines and infrastructure at the Gamsberg site.

Would the investments have happened even without new government encouragement through the conference? The conference should be seen as a milestone in a broader effort to support increased investment, and with the slowing rate of private sector investment, a surge in investor confidence is much needed. President Ramaphosa has prioritised increased investment and played a direct role in convincing potential investors to move ahead with their plans. The conference was therefore an important public commitment to an improved investment environment – for both domestic firms and international companies. In addition, specific policy changes brought about by the current administration have facilitated some of the investments – with Mercedes-Benz's pledge underpinned by the dti's auto programme, and the mining investments supported by the agreement on the Mining Charter. Clearly companies are seeing the broader environment as supportive and are committing to the country.

Briefing Note: Medium Term Budget Policy Statement (MTBPS): Implications for industrial development

In the 2018/19 financial year, the South African state plans R1.67 trillion in expenditure. Of this, R200 billion (or 12%) of the budget is earmarked for supporting economic development. Of this, the lion's share goes for infrastructure, mostly transport, with the rest supporting industrialisation and exports, agriculture and rural development, job creation and labour affairs, innovation, science and technology (see Graph 19). As evidenced by the large swathe of functions that are covered by "economic development", a number of ministries and departments therefore support this mandate.

Graph 19: Adjusted 2018/19 Expenditure for Economic Development – R200 billion



Source: National Treasury, 2018. National Budget Review 2018 –Chapter 5 Consolidated Spending Plans.

The dti is most directly responsible for catalysing economic transformation and development in South Africa through striving for a restructured economy. This is characterised by accelerated economic growth and inclusive industrialisation that creates employment and greater equity. The dti accounts for just under 5% of planned spending on "economic development", or around 0.6% of total expenditure by the state.

Overall the dti budget has increased by 12% in real terms since 2014/15, or an average of around 3% a year above inflation. The biggest real budget increases were in 2015 and 2016, with increases of 11% and 7% in real terms respectively. In contrast, the 2017/18 year saw a drastic reduction in the dti budget, with a 9% drop from the previous year (see Table 4).

Table 4: Budget trends – the dti 2014-2018

	2014/15	2015/16	2016/17	2017/18	2018/19 (a)
R millions	8 660	9 472	10 349	9 343	9 532
Nominal growth	4%	9%	9%	-10%	2%
Real growth	4%	11%	7%	-9%	3%

Notes: (a) Adjusted appropriation based on MTBPS 2018. Source: Compiled by Author based on National Treasury, 2018. Estimates on National Expenditure 2018 – Vote 34 Trade and Industry; National Treasury, 2018. Adjusted Estimate of National Expenditure – Vote 34 Trade and Industry.

The adjusted 2018 MTBPS, published in November 2018, increased the dti budget by R69 million to R9.5 billion for the 2018/19 financial year. The nominal increase is primarily directed towards strengthening the corporate services of the department through the "administration" budget line which covers the office of the Director General. Two key programmes within the dti account for the bulk of funds, namely the Industrial Development Division (IDD) and the Incentive Development and Administration Division (IDAD). IDAD alone accounts for almost 60% of the dti's budget.

A closer look highlights some interesting budget reallocations. Within the IDD budget line, virements and budget transfers of R407 million occurred to direct more resources towards *Industrial Competitiveness* (increased by just under R118 million) and *Customised Sector Programmes* (increased by R289 million). The main source of the increase in funds available to IDD was a substantial reduction in IDAD spending. *Manufacturing incentives* were reduced by R102 million and *Infrastructure Investment Support* incentives were reduced by R439 million (impacting on infrastructure development in special economic zones, and in government-owned industrial and critical infrastructure projects). In contrast, services incentives grew by R100 million. These changes, however, do not affect the total amount available for incentives.

As part of these changes, an additional allocation of R100 million was made to the South African Bureau of Standards (SABS) to revamp aging infrastructure. The additional allocation will support improvements at this key institution.

Although the low growth environment and pressing social demands place immense pressure on spending priorities, and for the dti to meaningfully "lead and facilitate access to sustainable economic activity and employment for all South Africans…and catalyse economic transformation and development", much greater resources are required to support inclusive industrialisation.

Briefing Note: The Job Summit and inclusive industrialisation

The Presidential Job Summit, which took place under the auspices of NEDLAC on 4 October 2018, included several initiatives that potentially have substantial implications for inclusive industrialisation and potential for much-needed job creation in South Africa.

The Job Summit initiatives take four main forms: the establishment of forums for stakeholder engagement on key areas crucial for economic development; efforts to bring about systemic changes to improve the environment for inclusive growth; commitments to sector strategies; and specific projects.

The Job Summit agreement includes the following commitments for forums and systemic interventions.

- The NEDLAC parties committed to ongoing, high-level, consistent and structured collaboration to support implementation of commitments, including joint action to unblock projects when required, as well as reviewing and improving agreements where experience shows it is warranted.
- The parties agreed to work together on improving technical and vocational education and training, in particular through collaboration to capacitate students to work in modern manufacturing. A crucial commitment is to ensure that the TVET colleges are more responsive to business needs, and that businesses enters into partnerships with TVET colleges to help strengthen their programmes and make them more relevant.
- The parties agreed that government should establish a statutory Presidential Climate Change Coordinating Commission, with stakeholder representation, to ensure a just transition, so that the cost of reducing emissions and adapting to climate change does not fall principally on working people and poor communities.
- Government will establish a joint task team to mobilise resources and expertise to address shortcomings in electricity supply at municipal level. The task team will also address the threat of Eskom disruptions resulting from the failure of some local governments to pay for bulk electricity supplies.
- The social partners agreed to explore ways to build more inclusive and cooperative workplace engagements between workers and management. This kind of project aims both to create more cohesive work environments and to find joint solutions to productivity and quality challenges. In this context, the parties committed to upgrading the Training Layoff Scheme and the Distressed Fund, which assist employers and workers needing time to restructure. They also agreed that the wage gap is a crucial factor in overall economic inequality, and that they would work together to develop key indicators to improve transparency and set targets at company level.
- To improve financing for industrialisation, the financial sector committed to providing R100 billion over five years in financing for the industrial sector. The guidelines will be developed jointly by the Financial Sector Transformation Council and the dti. In addition, government will upgrade and expand the Small Enterprise Finance Agency (SEFA) run credit-guarantee scheme for small business.

- Government will establish a fund to support schemes for township and rural enterprise. The resources will go to agencies that can establish holistic institutional support for new enterprises, in collaboration with local governments, to provide for instance serviced sites, production support, assistance with marketing, and so on.
- The parties agreed to explore areas where local production and procurement could be expanded.

The Job Summit agreement included a commitment to sectoral collaboration in a number of industries. The aim is to develop master plans that enable more coherent actions to address core constraints on growth and promote the development of clusters. The sectors included are capital goods for mining and construction; downstream metals fabrication; agriculture, particularly horticulture and the grain/livestock value chain; clothing; business process services; and processing mine waste on a large scale.

The Job Summit also includes a project, which arose out of the 2015 Mining Phakisa, that aims to leverage assets made available by Sibanye-Stillwater to build a large-scale agri-industrial cluster in the West Rand. The project will mobilise a combination of public and private stakeholders. It could leverage up to R30 billion and generate 50 000 permanent jobs over the coming decade.

The Job Summit agreement also includes smaller initiatives, which range from upgrading placement services for school leavers, to developing new commercial farms and establishing a clothing factory in the Eastern Cape.

These Job Summit initiatives were extensively negotiated in NEDLAC and the job creation goals are not unrealistic. The next steps will see government, labour, business and community taking forward their agreements and initiatives, with a collaborative monitoring and reporting process under NEDLAC's auspices.