TRADE & INDUSTRIAL POLICY STRATEGIES

PUBLISHED MASTER PLANS: FOUR CASE STUDIES

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1 AIMS AND METHODOLOGY

This document provides an in-depth review of four of the published master plans – auto; poultry; clothing, textiles, footwear and leather; and steel. The analysis provides in-depth case studies of the achievements of the master plan project as well as areas where it could be improved. It also sheds light on the evolving economic dynamics in the industries covered, which in some cases suggest the need for additional or revised policy approaches.

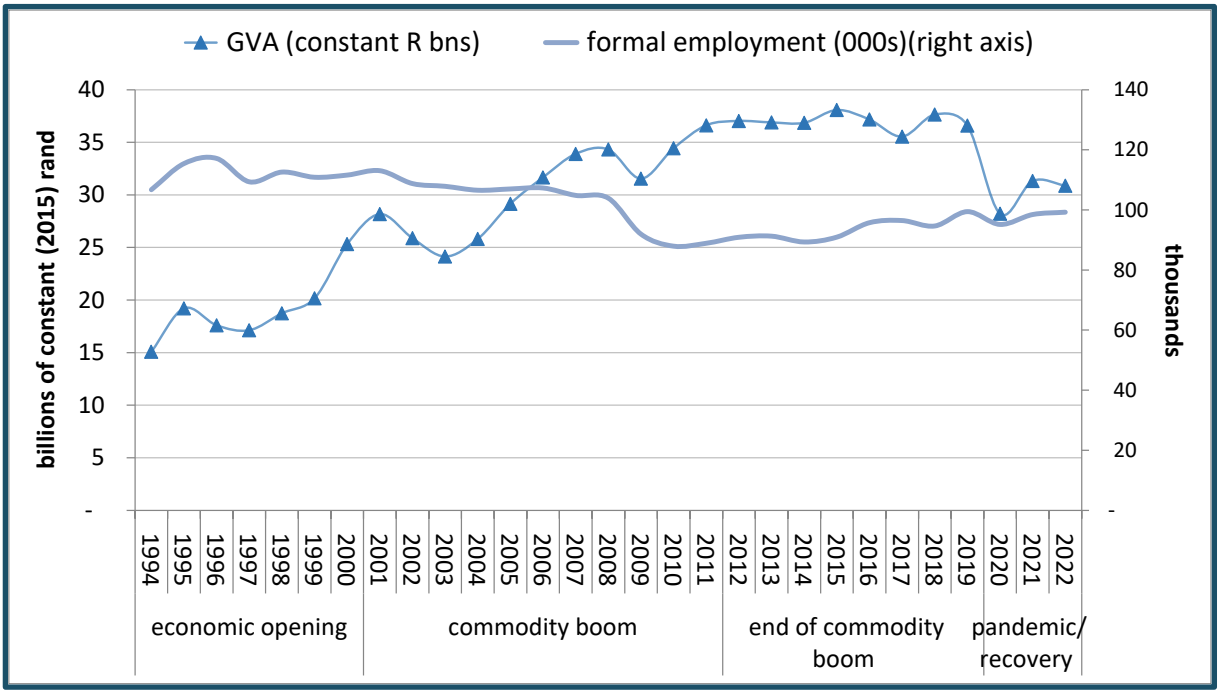
For each master plan, the report starts by outlining the long-term economic trends in the industry. It then reviews the process adopted to draw up the plan and the core interests involved. This section is followed by a description of the main targets and the systems proposed to achieve them. The strategic narrative is then analysed. This narrative is the explicit or, more often, implicit analysis of the main challenges and constraints facing the industry that provides the basis for the master plan's theory of change. The subsequent section indicates progress in terms of implementation and key trends in the industry. An evaluation of the socio-economic benefits, costs and risks for major stakeholders follows, drawing on the methodology used in the socio-economic impact assessment system (SEIAS). A final section points to some learnings for the overall master plan project.

2 THE AUTO INDUSTRY

2.1 Economic background

In 2022, the auto industry accounted for 0.7% of value added in South Africa, 0.8% of formal employment, 12% of exports and 16% of imports (including components for re-export in assembled vehicles). After rapid production growth from 1994 to the early 2010s, value added in the industry plateaued for most of the past decade. Formal employment declined until 2010, with a particularly sharp fall during the 2008/9 global financial crisis, then drifted up. Graph 1 shows value added and employment in the auto industry from 1994.

Graph 1. Auto industry formal employment in thousands and value added in billions of constant (2015) rand, 1994 to 2022



Source: Calculated from Quantec. EasyData. Interactive dataset. Standardised industry series. Accessed at www.quantec.co.za in February 2024.

2.2 Process

The South African Automotive Master Plan (SAAM) can be understood on two levels, as a strategic document published in 2018 and as a platform for engagement with organised business and labour in the industry. The reimagined industrial policy, adopted in 2019, presented it as a model for later master plans. In practice, however, later processes diverged substantially from the auto experience.

The master plan document, entitled "Geared for Growth: South Africa's Automotive Industry Master Plan to 2035" (the dtic 2018), aimed to inform policy development after the end of the first phase of the Automotive Production Development Programme (APDP) in 2020. It was prepared by a consultancy, B&M Analysts, which had long provided research support for the auto industry. It was ultimately signed off by the dtic as well as the main business associations and unions in the auto industry.

In contrast to later master plans, the auto master plan document was neither a compact between government, business and labour nor a list of specific measures. Instead, it laid out a core target for growth and then outlined the economic outcomes required to achieve it. The researchers consulted extensively with stakeholders on the targets, but also drew on extensive economic analysis and experience of the auto industry in South Africa and internationally. The document explicitly excluded discussion of specific policies or measures required to achieve the economic outcomes.

Tripartite engagements in the auto industry had unique foundations. Close cooperation between manufacturers and government in the industry stretched back to the 1950s. It long pursued two central aims: growing local auto production and increasing local content. These aims were captured by the APDP. From this standpoint, the auto master plan took forward existing initiatives in the industry.

2.3 Aims

The auto master plan effectively set targets on two levels. On the one hand, it outlined the core economic outcomes needed grow the industry in the next 25 years. On the other, it proposed a set of tripartite institutions to oversee implementation.

2.3.1 Targets

The auto master plan document adopts a vision of "A globally competitive and transformed industry that actively contributes to the sustainable development of South Africa's productive economy…" (the dtic 2018:16) It lays out a set of quantifiable indicators to evaluate progress toward this vision through 2035. (See the dtic 2018:21)

The plan adopts two core targets. First, it aims to achieve 60% local content in South African assembled vehicles by 2035, up from 38% in the latter 2010s. An expansion in the local components industry was expected both to generate technological spillovers and to enable exports. It argued that achieving that aim depends above all on increasing South African vehicle production to 1% of global output (from 0.68% in 2016). This target reflected long-standing objectives. It also featured in the Industrial Policy Action Plan (IPAP) through the 2010s.

The master plan document argued that larger scale production is critical to incentivise local production of more advanced components. It would mean producing between 1.3 and 1.5 million vehicles by 2035, more than double the level in the late 2010s. Output would have to climb at 4.5% a year. The increased production and rising local content would double total employment in the auto value chain to over 200 000 by 2035.

The proposed increase in local content also required stronger competitiveness, plus expanded and more targeted research and development. The master plan document argued that local producers had to reduce costs to international levels to attract the investment required to scale up. In addition, a vastly expanded role for research and development would enable production of more sophisticated components. Currently, South African inputs are mostly structural product such as bumpers and mirrors, rather than higher-end engineering and digital components. To move up the value chain, the master plan document proposed that government and industry agree to identify and support components where South African suppliers could compete internationally on three major product capabilities.

Finally, the plan called for improved representivity in the industry. Specifically, it targeted 25% of value added of (less advanced) Tier 2 and 3 components to be supplied by Black-owned companies. It reasoned that rapid growth in output would facilitate this objective. Even then, in its view South African ownership of assembly plants or higher level (Tier 1) component production was not possible. The document did not estimate the existing share of Black ownership in Tiers 2 and 3, although it noted that in the late 2010s there were only 14 Black-owned components firms. The plan also proposed that the industry encourage more Black-owned dealerships and recognised repair shops as well as promoting Black technicians, professionals and managers. It did not, however, set targets in these areas.

2.3.2 Institutional aims

The master plan document emphasised the importance of industry-level institutions to bolster cooperation and learning between industry stakeholders. To achieve that aim, it proposed "establishment of an authoritative SAAM support institution that is responsible for leading its implementation." (the dtic 2018:29) The document proposed a high-level tripartite structure containing both business associations and union leadership from the industry, and chaired by the Minister or Director General of Trade, Industry and Competition.

The master plan document argued that cooperation and learning was more important than having a perfect plan at the start. For this reason, the oversight structure should develop a framework for monitoring and evaluation that could deal with blockages and changing conditions as well as ensuring stakeholder accountability. Monitoring should cover both the targeted outcomes and the measures to achieve them.

The proposed structures built on existing systems to support tripartite cooperation in the auto industry. In particular, the government had long consulted with business and union leaders around the large incentives granted the auto industry. In 2013, industry stakeholders established the Automotive Supply Chain Competitiveness Initiative (ASCCI) as a tripartite initiative to promote localisation and competitiveness.

In this context, the master plan document laid out responsibilities for developing more detailed plans to achieve the outcomes identified in the master plan. In every case, the dtic was expected to take the lead. The document proposed:

1. The dtic and National Treasury to develop a policy to expand sales to local market and to promote localisation.
2. The dtic to lead a process to develop a regional value chain in exchange for limits on imports of second-hand cars by neighbouring countries.
3. The dtic to work with state-owned companies and municipalities to develop an automotive infrastructure roadmap.

4. The dtic with the Industrial Development Corporation (IDC) and ASCCI to establish an industry transformation baseline, presumably meaning to determine the existing share of Black ownership especially in Tiers 2 and 3.
5. The dtic with ASCCI and the Departments of Employment and Labour and the Department of Education (presumably meaning Higher Education) to develop a Technology and Skills Development Roadmap for the industry.

2.4 Strategic narrative

The master plan document does not provide a summary of the main challenges facing the auto industry. Instead, it indicates the core pillars of the strategy going forward, effectively weaving its analysis into the justification for its proposals. As noted, in contrast to later plans, it focused exclusively on high-level economic imperatives, explicitly avoiding a discussion of the measures to respond to them.

The core challenge facing the South African auto industry in the mid-2010s was the slowdown in growth, following very strong significant expansion over the previous 15 years. As a result, South Africa's share in world auto production fell from a peak of 0.8% in 2006 to between 0.6% and 0.7% through the 2010s. In addition, local content plateaued at around 40%.

The auto master plan document suggested five core causal mechanisms behind stagnant growth in the auto industry in the late 2010s.

First, exports had reached a ceiling, while slow economic growth and high levels of imports limited domestic and regional sales. That in itself largely ruled out higher levels of localisation, because South African components producers could not get up to scale.

The document stressed that, while it was important to maintain preferential access to export markets, the industry required higher domestic and regional sales to remain sustainable.

> "The demise of the Australian industry is a clear lesson in the implications of losing a domestic market to imports and then forcing an export focus on local OEMs [original equipment manufacturers] to compensate for lost volumes. South Africa should not follow this route, particularly when the domestic market still has so much potential. At 6.3 people per vehicle in operation, South Africa is far from having a mature market (typically reached between 2.0 and 1.3 people per vehicle in operation)." (the dtic 2018:23)

Boosting overall growth is obviously beyond the scope of policies on the auto industry. The document also did not discuss the implications for the existing incentive scheme. In the event, the APDP encourages exports by providing rebates on import tariffs. Increasing protection for the local market would require a fundamental change in that approach.

The document stressed that imports of retooled second-hand cars by other African countries limited South African sales. It estimated that sales to Sub-Saharan Africa could rise to 800 000 a year if second-hand imports could be cut.

Second, the South African auto industry had a limited technological base, with inadequate research and development and skills to produce more advanced components. This was particularly important because technologies were likely to advance rapidly around safety equipment, material composites, entertainment and information, nano-tech, additive manufacturing and recycling as well as reducing emissions. More advanced production could build on South African strengths in platinum and special steels.

Third, South Africa faced comparatively high costs for labour, municipal rates, infrastructure and "overheads". The document does not define what it means by overheads.

Fourth, local infrastructure for cars had not adapted to international innovations designed to reduce emissions. That made it more difficult to keep up with international trends, which ultimately posed a risk to exports. In particular, the industry had not kept up with the introduction of cleaner petroleum grades and more recently the move to electric vehicles.

Finally, Black ownership in the auto industry was limited, in part because foreign brands dominate auto assembly and production of Tier 1 components. Moreover, the industry had not adequately prioritised development of Black technicians, professionals, managers and distributors.

The document's theory of change responded to this analysis. Specifically, it proposed the following.

- The next phase of the APDP should provide incentives to grow local and regional sales, which in turn would lay the basis for greater localisation. The document did not indicate measures to grow local sales. To incentivise the region to limit second-hand imports, the document proposed that South Africa champion a regional production system.
- Upgrading competitiveness is also critical to expand localisation and especially production of more sophisticated components. The industry should develop strategies on technology and skills development, an infrastructure roadmap for the auto industry (including for liquid fuels and electric vehicles), and targets for Black employment and business ownership across the value chain.
- In reforming the APDP, the stakeholders should as far as possible ensure continuity, as stability is needed to promote long-run investment.

Table 1 lays out the theory of change in the master plan document. For each step, it indicates the prerequisites for success.

Table 1. The theory of change in the auto master plan document

STEP	PREREQUISITES
Agreement to target 1.3 million vehicles per year, with almost all new production going to domestic and regional market and 60% local content	Get stakeholders, including exporters, to agree on targets. Increasing domestic and regional sales requires changes in trade policies, but they are not specified in the master plan document.
Establish institutions to drive implementation including policy development to achieve targets	Stakeholders prioritise the plan and mobilise the requisite resources and capacity to develop the various roadmaps and sub-strategies required to implement it.
Government departments work with stakeholders to develop policies to implement the strategy	Government puts in the capacity and time to develop meaningful policies, even if disruptive. Stakeholders able to reach agreement or government willing to push through policies even if significant factions amongst stakeholders disagree. In particular, they find a way to increase domestic sales without deterring investment by exporters.
New policies implemented effectively	Stakeholders and government willing to pay for policy implementation (especially infrastructure, technology and skills, and restructured incentives). Changes to trade protection and production incentives introduced. Other countries in region willing to engage on regional production plan and limit imported second-hand cars. Stakeholders and government able to modify and improve measures as conditions change.

STEP	PREREQUISITES
Increase in domestic and regional sales at required rate of 4.5% p.a. through 2035 with increased Black participation in the value chain	Adequate growth in South Africa and internationally support demand for autos. New incentive regime encourages increased production for local market without disincentivising exports. South African exporters keep up with international technology trends, including to reduce emissions Cooperation with region limits imports of second-hand cars in return for mutually beneficial division of labour. Adequate support for Black suppliers and skilled employees
Rapid growth in sales and production enables accelerated local content, transformation and employment	Growth in domestic and regional sales. Development of technological and skills base. Assembly plants increase procurement from local suppliers. Black industrialists and skilled employees take advantage of new opportunities.

2.5 Implementation

This section first outlines and reviews to the extent to which the measures adopted in the auto industry after 2019, and especially the extension of the APDP in 2020, built on the master plan document. It then considers the institutions established to implement the master plan. A final part reviews trends in auto production and trade since the master plan was adopted. The targets have not been achieved, but policy impacts were swamped by slow economic growth from 2015 and the COVID-19 pandemic from 2020.

2.5.1 Measures to achieve priority outcomes

In the event, the 2021 updates to the APDP prioritised stability for investors over the more disruptive measures required to limit imports. The incentive scheme continued to incentivise exports through rebates, but was reformed to encourage larger scale production units, more local inputs and broad-based Black economic empowerment. The new measures included a review of the 2035 targets in 2026, which might be accelerated to take into account the effects of the COVID-19 pandemic. (NAAMSA 2023:37)

The KPIs for the APDP relate exclusively to exports and job creation (the dtic 2023:132), and the dtic's annual performance plan for 2023/4 argues that the APDP "underpins South Africa's successful export of Autos to demanding markets in the US and EU." (the dtic 2023:52) According to the National Association of Automobile Manufacturers of South Africa (NAAMSA):

> Vehicles manufactured in South Africa are mainly for the export market in order to obtain higher production volumes but also to generate rebate credits so that the imported vehicles and growing choices demanded by a consumer-driven market can be offered at more favourable prices by rebating the relevant import duties. (NAAMSA 2023:25)

New steps were taken to accelerate Black ownership in this context. According to NAAMSA, in 2023 the seven foreign car producers in South Africa set up a R6 billion fund to promote Black ownership in the auto supply chain in line with the master-plan targets for 2035. It estimated that the number of Black-owned suppliers would have to increase around tenfold to 130 to meet this target. The new fund, the Automotive Industry Transformation Fund, would support Black-owned suppliers with finance, access to markets and capacity development. (NAAMSA 2023:86-7) In late 2023, the Fund

reported approval of R54 million in loans to two companies, in logistics and lubricants, that together employed 140 people. (Portfolio Committee on Trade, Industry and Competition 2023:6)

2.5.2 Institutionalisation

The initial Executive Oversight Committee was held in 2019. It established seven workstreams, on growing domestic sales; regional sales; localisation; infrastructure development; transformation; technology; and skills. The workstreams were chaired by the chief executives of the foreign auto companies present in South Africa. (NAACAM 2023:35)

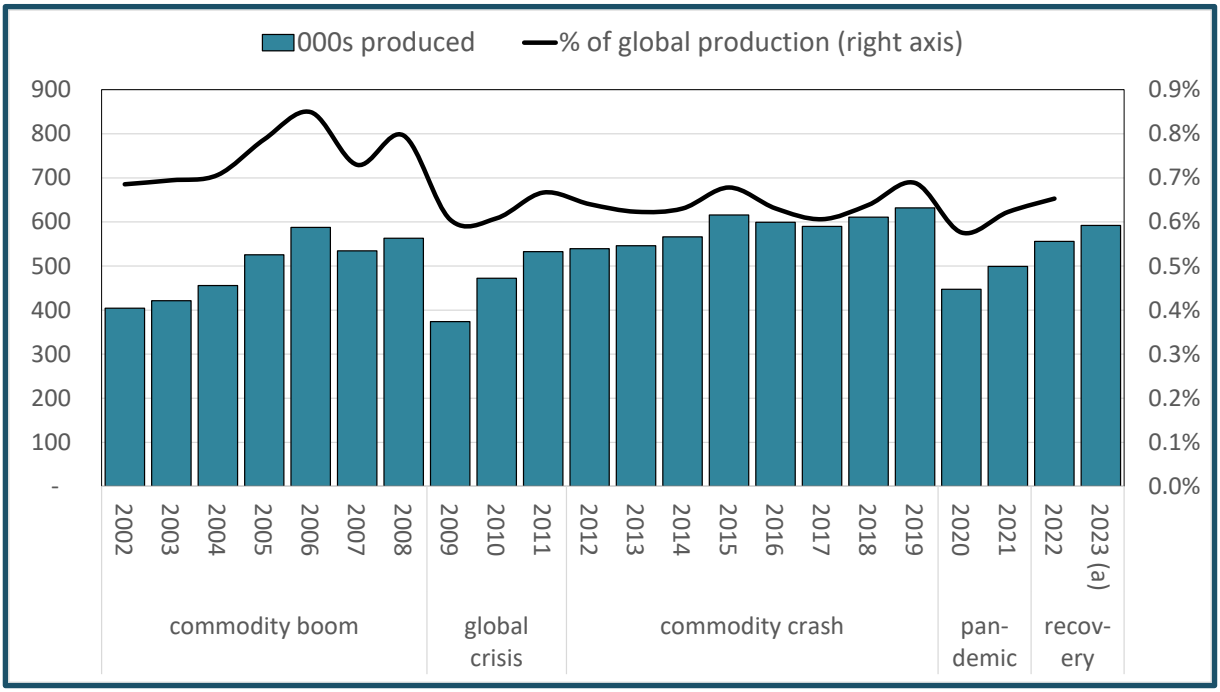
2.5.3 Outcomes

The pandemic downturn, followed by an intensification of loadshedding and then challenges at Transnet, obviously affected growth across manufacturing. In auto, the extraordinary downturn in 2020 swamped any positive effects from the 2020 APDP reforms.

A critical element of the auto master plan process was to strengthen tripartite platforms at industry level. The parties generally agreed that the new structures enabled better communication and engagement on the issues between government, business and labour in the auto industry.

Less progress was made in increasing production and promoting local sales. The master plan aimed at increase output to 1% of global production in numeric terms, or over a million cars a year. That would double the growth in output from the average of 2% a year through the 2010s. As Graph 2 shows, the pandemic instead brought a sharp fall in output. In 2023 production was still around 6% below 2019 levels despite a rapid recovery. The share of South African production in global car output dropped below 0,5% during the pandemic in 2020, then climbed back to an estimated 0.6% in 2023.

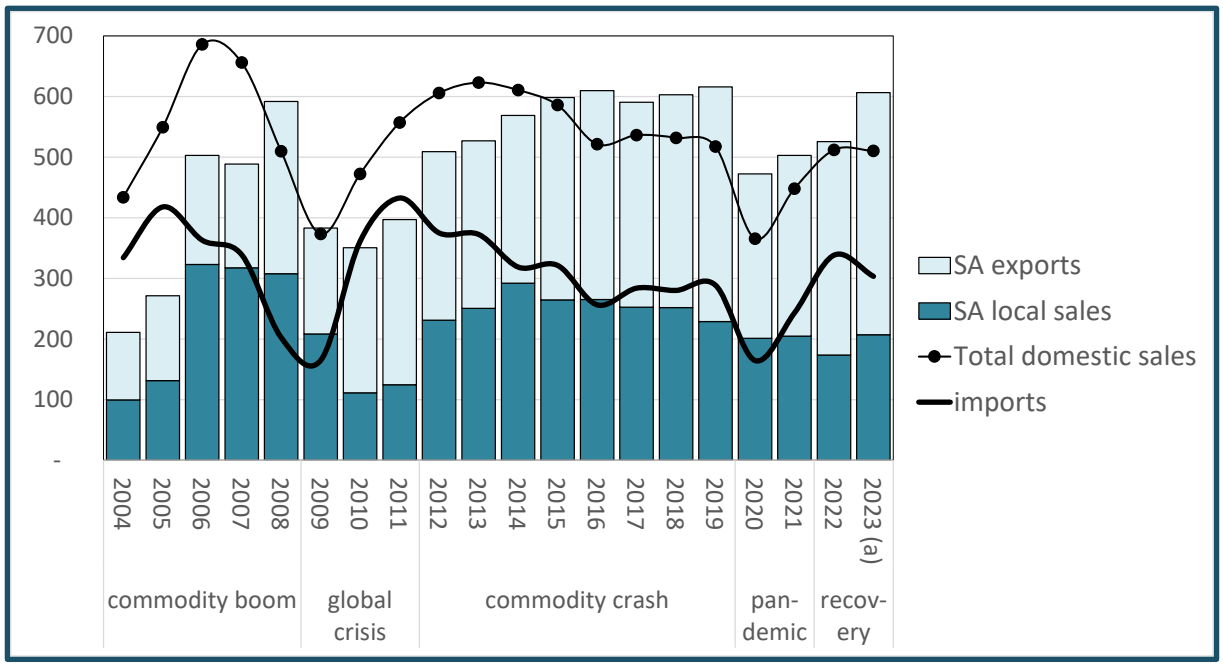
Graph 2. Production of cars in South Africa and share in global production, 2002 to 2023 (a)



Note: (a) Figures for 2023 estimated using data for growth in physical volume of car production from Statistics South Africa for January to November 2023. *Source:* International Organisation of Motor Vehicle Manufacturers. Data on national production for relevant years. Accessed at https://www.oica.net/category/production-statistics/2022-statistics/ in January 2024; and Statistics South Africa. Manufacturing: Production and Sales (202311). Excel spreadsheet. Accessed at www.statssa.gov.za in January 2024.

Targets for local sales also fell short. In 2023, local sales remained well below their peaks 15 years earlier; exports climbed to almost 70% of production in 2023, up from 50% a decade before; and imports continued to contribute over half of car sales in South Africa (Graph 3).

Graph 3. South African production for exports and local sales, imports and total domestic sales of cars, in thousands, 2004 to 2023 (a)



Note: (a) Extrapolated from January to November. *Source:* Calculated from Quantec. EasyData. Interactive data set. NAAMSA data on local and export sales, and SARS data on imports. Accessed at www.quantec.co.za in January 2024.

2.6 Impacts on socio-economic groups

Evaluating the impact of the master plan on different socio-economic groups is complicated because of the divergence between the analytical document and the reforms actually adopted through the extension of the APDP. This section assesses the likely costs, benefits and risks based on the master plan document.

The main costs of the master plan fall on stakeholders outside of the industry because of significant expenditure on schemes to advance the auto industry. The amount is estimated by the National Treasury at around R30 billion a year, although that figure is contested. In effect, these resources were not available to improve government services or support more labour-intensive production processes, for instance in services or light industry. If the auto industry grows as hoped, however, even people outside of the industry will enjoy some benefits. These would take the form, among others, of increased government revenue from the auto industry; economic growth, notably in the otherwise slow-growing Eastern Cape; and increased industrial capacity, which may support growth in more labour-intensive industries.

The main beneficiaries of the master plan project in auto are producers and workers in the auto value chain. They gain a stronger platform for direct engagement with the government, which should help in addressing issues as they arise. The risk is that, unless the government has a well-defined vision for the industry, stronger engagement with established actors may reinforce path dependency. In practice, industry stakeholders rejected the inherently disruptive proposals on growing local and regional sales in the original masterplan document. A similar risk emerges around measures to reduce emissions, which impose significant upfront costs but are critical for sustaining exports in the medium term, especially to Europe.

Table 2. Costs, benefits and risks of the auto master plan by constituency

GROUP	COSTS	BENEFITS	RISKS
OEMs and their employees	Change in business model to meet local and regional demand, with less reliance on tariff rebate for imports Investment and research to upgrade technologies and skills New systems to support local suppliers plus Black suppliers and employees Negotiations on programmes and leadership of workstreams Calculation of local value added	Increased domestic and regional sales so can scale up local production. Continued subsidies in a different form (not clear what it would be) plus improved infrastructure. Maintain value of historic investments, both tangible and intangible. Higher employment as production grows.	Sales do not grow as anticipated due to slow GDP growth at home or abroad; APDP incentives that effectively reduce import costs; and regional resistance to limits on second-hand imports. Loadshedding, protest actions, climate change and problems at Tansnet affect production. Local industry remains unable to compete with imports and cannot expand exports as hoped. Government and producers do not invest to keep up with technological trajectory and therefore lose export markets.
Component suppliers and their employees	Investment in technological development, skills and production capacity Negotiations on policy details Calculation of local value added For established suppliers, costs of transformation (new partners, more competition)	Increased demand and support from OEMs. Increased scale improves competitiveness so able to export more. Better infrastructure and expanded skills pool. Higher employment as production grows. Increased opportunities for Black entrepreneurs.	Plan not implemented, so do not get anticipated benefits; may even lose investments in technologies and production capacity Loadshedding, protest actions and climate change mean OEMs start to withdraw, reducing demand. Unable to compete on international markets, so lose sunk costs. Electric vehicles reduce demand for some components.
Other businesses and their employees	Higher effective tariffs on imported autos (but not implemented) Continued high subsidies to auto production, albeit in a different form, effectively mean less	Increased demand for suppliers of services to auto value chain (e.g. finance, cleaning, sites, etc.) and to their workers (retailers and other businesses in communities near clusters).	SAAM fails to achieve aims, so do not get benefits but still bear costs.

GROUP	COSTS	BENEFITS	RISKS
	funds to support other industries (arguably not a real trade off since incentives mostly in the form of a tax rebate, so not under the dtic control)	Increased employment in auto improves workers' leverage in other industries (but likely insignificant as only around 1% increase in total employment if achieve SAAM target for direct employment in auto).	
Historically marginalised constituencies (jobless, informal)	Financial support and tariff rebates reduce resources available for projects to upgrade living standards and/or create employment on a large scale	Growth in auto and spillovers from it drive industrialisation, creating more decent work although only a fairly small scale. Auto industry continues to support Eastern Cape metros.	Auto industry unable to expand due to exogenous or internal factors, so costs materialise but not the anticipated benefits.
The dtic, International Trade Administration Commission of South Africa (ITAC), South African Revenue Services (SARS)	Time and resources for development of new policies and proposed implementation agency Dealing with resistance from exporters and importers to incentives change (which not implemented) Monitoring and evaluation, including development of appropriate KPIs for own work	Growth in auto industry improves overall economic growth and promotes industrialisation.	Contestation with National Treasury if change to incentive system moved to on-budget spending rather than tax incentives. Slow GDP growth at home or abroad means sales stagnate despite new measures.

2.7 Conclusions

The reinvented industrial policy put forward the master plan for the auto industry as a model for other priority industries. In particular, establishing a platform for engagement through the Executive Oversight Committee, with task teams on key dimensions, set the paradigm for governance in the other published master plans.

In practice, the auto master plan diverged from the other published plans in both context and process.

- The auto industry master plan was backed by more than 50 times as much in government funds as the average in the other master plans. It built on a long history of government and industry collaboration. The dominant foreign companies were used to tripartite arrangements in their home countries. For government, despite contestation over the scale of support for the industry, no one questioned that it was critical for industrialisation. That unanimity contrasted with some of the much smaller industries with a published master plan.
- The auto master plan document was an expert analysis rather than a detailed agreement. The stakeholders effectively rejected a central pillar in this initial strategy, which was to drive growth by producing for the domestic and regional market rather than overseas exports. They effectively adopted the rest of the plan, but implementation has been affected by the COVID-19 downturn and subsequent infrastructure crises.

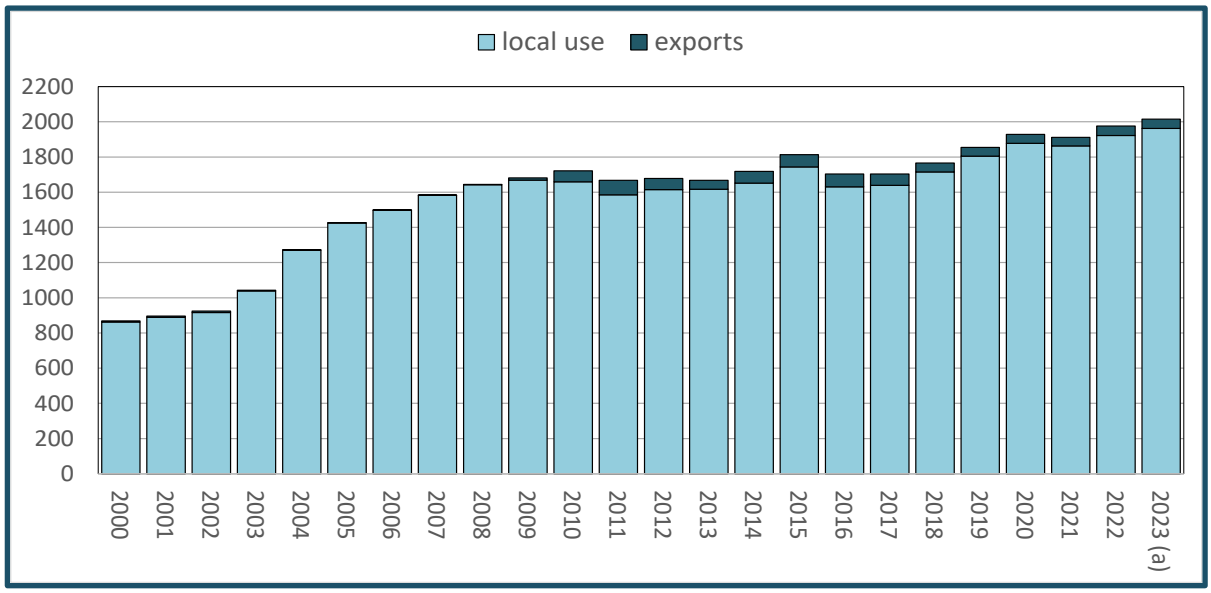
3 POULTRY

3.1 Economic background

The poultry industry is too small to be included in national economic statistics except for trade data. The available information on production and employment comes from data published by the Department of Agriculture, Land Reform and Rural Development (DALRRD), business associations and research agencies.

The South African Poultry Association (SAPA) estimated employment in poultry production at around 60 000, or about 0.5% of total formal employment. According to DALRRD, production in 2023/4 was around two million tonnes, almost three times as high as in 1994. (DALRRD 2023:69) The gross value of slaughtered poultry came to R54 billion in 2022. (DALRRD 2023:79) As with the auto industry, production climbed sharply until the early 2010s, then plateaued until the late 2010s. It then climbed gradually except for setback during the pandemic downturn in 2020. (Graph 4)

Graph 4. Production for local use and exports in thousands of tonnes, 2000 to 2023 (a)



Note: (a) Figures for production and imports are not available for 2023, and are estimated based on 2% forecast growth.
Source: Calculated from DALRRD. Abstract of Agricultural Statistics 2023. Accessed at http://www.old.dalrrd.gov.za/Portals/0/Statistics%20and%20Economic%20Analysis/Statistical%20Information/Abstract%202023.pdf in January 2024. Growth in production in 2023 from Poultry World. South Africa's chicken meat production to increase in 2023. 3 March 2023. Accessed at https://www.poultryworld.net/the-industrymarkets/market-trends-analysis-the-industrymarkets-2/south-africas-chicken-meat-production-to-increase-in-2023/ in January 2024.

3.2 Process

The poultry process was initiated in response to a push from the three dominant producers. They argued that absent a tariff hike, imports would undermine employment and growth in the local poultry industry. The parties agreed to develop a master plan in response to the crisis, not because the industry had the potential to significantly accelerate industrialisation or job creation.

From 2013, South Africa imposed significant safeguard tariffs to protect producers from cheap inputs, primarily from Brazil and the United States. That policy effectively bolstered the price of chicken, the staple protein in working-class communities. (See Makgetla 2019) According to the Department of Agricultural, Land Reform and Rural Development, "the key objective of Poultry Master Plan was to manage and balance the import of poultry meat." (PMG 2023a) In this context, the poultry master plan aimed to identify ways to ensure a more competitive industry in the longer run, which should

ultimately diminish the dependence on tariffs, reduce the cost of living for working-class households, and increase exports.

The poultry master plan started with extensive research. The dtic then engaged with representatives of the major producers, led by the South African Poultry Association; labour; contract poultry producers; processors; associations of Black-owned import companies; and a range of government departments and agencies (but not consumers). The master plan itself was framed as a set of commitments by the parties to build "a strong competitive industry." (the dtic 2019:2)

3.3 Aims

As with the auto master plan, the poultry plan included both a set of targets for outcomes and commitments to set up structures that promote industry-level engagement.

3.3.1 Targets

The poultry master plan's targets centred largely on growing demand. It aimed to increase domestic consumption per person while reducing the share of imports, initially through maintenance of trade barriers. In addition, it sought to grow exports, focusing on the rest of Africa, the European Union and the Middle East. Over time, the master plan expected increased demand to leverage investment, employment and value added across the value chain, from feed production to final processing. Finally, the poultry master plan sought to increase black and worker ownership as well as employment. (the dtic 2019:6)

The quantified targets in the master plan were:

- To increase production of broilers by 1.7 million birds per week, for a 9% increase over three years. That would require some combination of higher consumption per person and lower imports. It was expected to generate 3600 new jobs.
- To expand consumption of poultry feed by 300 000 tons a year. This would reflect greater localisation as chicken output increased. It was not, however, clear if the higher production was linked to efforts to de-link local prices from import prices.
- SAPA members would invest R1.5 bn by 2020 to achieve the production targets.
- The major integrated producers would establish 50 new commercial-scale contract farmers, for a 70% rise from the 70 contract farmers in 2019. The new farms would cost around R35 million each, or R1.7 billion, and would create around a thousand new jobs.
- The strategic objectives include expanding exports from 2% of production in 2019 to between 3% and 5% of production in 2023, and between 7% and 10% in 2028.

The dtic and SAPA are expected to track investment and production against these targets.

The poultry master plan also included some unquantified commitments. These included controlling costs and prices along the value chain; accelerating Black economic empowerment, employment equity and worker ownership; supporting independent poultry farmers; and improving enforcement of regulations on imports.

3.3.2 Institutions

The master plan's main practical step was to establish a Poultry Sector Council, led by the Ministers of Trade, Industry and Competition and of Agriculture. The Council was expected to develop action plans to achieve the master plan targets, and to monitor implementation. The master plan allocated responsibility for developing practical proposals for its main pillars to government, business and labour. The stakeholders were expected to report to the Council on progress in developing and implementing specific measures.

3.4 Strategic narrative

The poultry master plan started with a paradox: it argued that South Africa has a large and efficient poultry industry, but could not compete with imports or break into export markets. The master plan also noted limited Black ownership in the poultry industry.

The plan blamed the industry's inability to compete with imports on a combination of domestic and international practices. On the one hand, the relatively small scale of production and international pricing for feed raised unit costs in South Africa. In addition, the industry did not adopt some technologies required to boost exports. In particular, it slaughtered birds at a lower weight than the international norm, and the government had not instituted the phytosanitary and marketing systems required to expand exports. On the other hand, the master plan pointed to a range of advantages enjoyed by foreign producers. Some get significant subsidies, including on feed. Moreover, because Europe and the United States prefer high-priced breast meat, they price the brown meat sold in South Africa as a by-product. (the dtic 2019:4 ff)

In response, the master plan aimed to stabilise and ultimately reduce imports without increasing prices to consumers while growing exports. It also sought to advance black ownership, especially through the expansion in contract farms, and employment equity. The Poultry Sector Master Plan Council was expected to oversee efforts to achieve these aims. Specific areas of work included the following:

- To limit imports, ITAC would continue its scheduled review of tariffs with a view to extending them. In addition, the dtic would investigate the viability of designating chicken for local procurement by government agencies. It would also engage with SARS to strengthen enforcement of standards for imported chicken, and set up a channel for industry associations to submit complaints.
- To ensure that limits on imports did not increase prices for the low-income group, the dtic would monitor chicken prices and work with retailers on the pricing of brown meat.
- To facilitate exports, the dtic would identify markets and requirements for poultry exports, including cooked and Halal products. DALRRD and the dtic would consult on phytosanitary plan and ensure it is funded, implemented and monitored.
- The IDC would work with Grain SA and SAPA to explore ways to increase feed production by 300 000 tonnes a year. The master plan did not specify whether the price would be delinked from import prices.
- To strengthen Black ownership in the value chain, DALRRD and the dtic would improve support for independent farmers, including through IDC and Land Bank financing. In addition, the IDC and Land Bank would support the proposed new contract farmers. The parties also agreed to promote worker share ownership schemes, particularly at the dominant integrated producers.

Table 3 outlines the theory of change that underpinned the poultry master plan.

Table 3. The theory of change in the poultry master plan

STEP	PREREQUISITES
Agreement on master plan with main stakeholders	Government agrees to review trade protection and support for poultry producers in exchange for increased production and investment, price restraint and expanded Black ownership. Poultry producers agree to maintain investment and employment and support Black ownership in exchange for government support. Stakeholders and government agencies agree to work together to come up with practical measures to achieve the desired ends.

STEP	PREREQUISITES
Establishment of Council	Council and stakeholders allocate capacity to the Council, including the working groups.
Council establishes actions plans for each pillar.	Council can get stakeholders to deliver action plans, which may entail costs for some (e.g. to grow larger birds and moderate prices at least on brown meat). Stakeholders do not deadlock on specifics.
Council monitors and enforces implementation of action plans	Action plans are clear enough about outcomes and activities to enable a monitoring framework. Council has capacity and political will to identify shortcomings and come up with appropriate responses.
Local production and exports expand without higher prices to consumers	Action plans are effective including in holding down costs, with timely corrections when they are not achieving the desired aims. Domestic and global growth are sufficient to sustain chicken sales.
Employment and Black and worker ownership in poultry production increase without higher prices to consumers.	Action plans help hold down costs. Growth in the industry makes it relatively easy to promote Black suppliers and establish worker share schemes. Efficiency gains do not mean that production rises without increased job creation.

3.5 Implementation

3.5.1 Institutionalisation

The Poultry Sector Master Plan Council operates with the dtic providing the secretariat. While the Council is chaired by the dtic, it works closely with DALRRD, which in early 2023 was developing a database of black poultry farmers. (PMG 2023a)

3.5.2 Measures to achieve priority outcomes

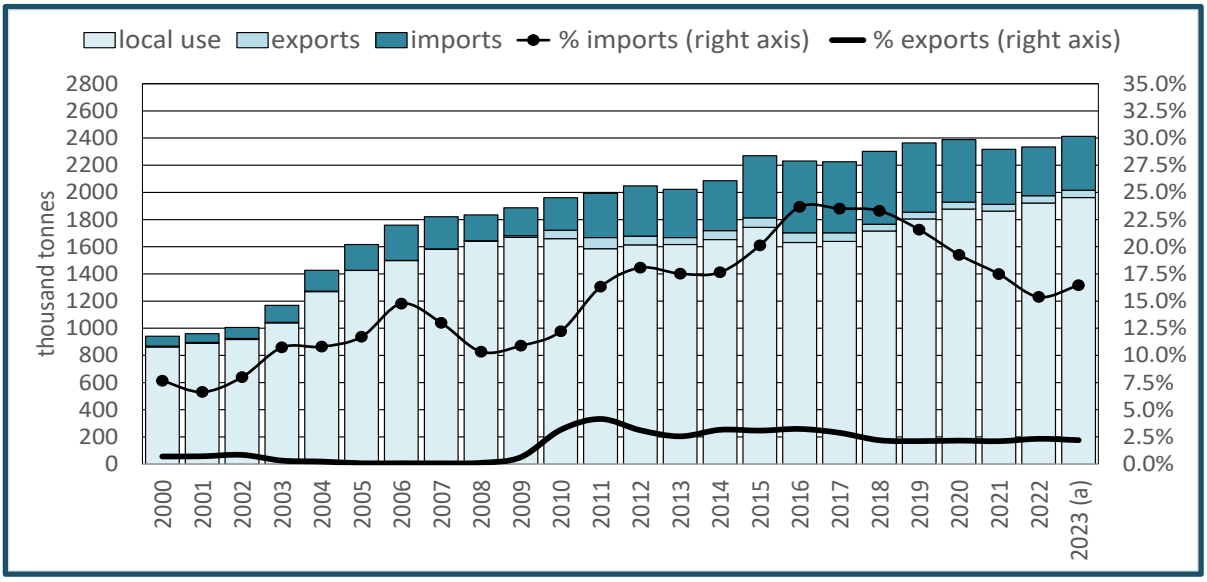
The IDC has developed programmes to support poultry farmers, with nine of the 21 farms supported through its new blended finance fund for agriculture going to the industry as of 2021. By March 2023, it had committed R272 million for poultry farmers, compared to its own target of R150 million. (IDC 2023:11)

The implementation process experienced on-going contestation over tariffs, with an increasingly overt standoff between importers and producers. Both sides used the media to lobby the public. The dominant producers argued that the tariffs were a prerequisite for increased investment and for production. Nonetheless, the government provided consumers with temporary or partial relief from the tariffs during the spike in food inflation in 2022 and the avian flu outbreak in 2023.

3.5.3 Outcomes

The stakeholders reported that production of birds and feed, and new investment, exceeded the master plan targets by early 2023. The dominant firms supported 21 new Black contract farmers toward the target of 50 at the end of 2024. Employment climbed by almost 2000, or more than 3%. (SAPA 2023) Imports fell sharply, and exports were flat. (Graph 5) At the same time, prices escalated for both chicken and feed, and consumption of chicken per person dropped.

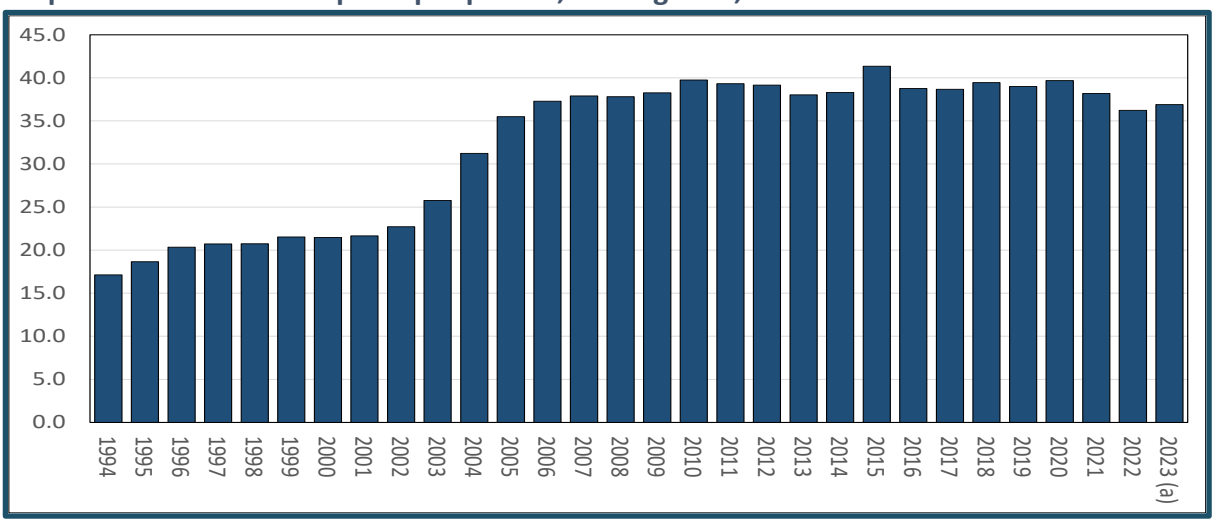
Graph 5. Production for local use and exports and imports in thousands of tonnes, and imports and exports as percentage of local production, 2000 to 2023 (a)



Note: (a) Figures for production and imports are not available for 2023, and are estimated based on 2% forecast growth. *Source:* Production and import data calculated from DALRRD. Abstract of Agricultural Statistics 2023. Accessed at http://www.old.dalrrd.gov.za/Portals/0/Statistics%20and%20Economic%20Analysis/Statistical%20Information/Abstract%202023.pdf January 2024. Export data and growth in imports in 2023 calculated from Quantec. National trade data. Interactive data set. Accessed at www.quantec.co.za January 2024. Growth in production in 2023 from Poultry World. South Africa's chicken meat production to increase in 2023. March 2023. Accessed at https://www.poultryworld.net/the-industrymarkets/market-trends-analysis-the-industrymarkets-2/south-africas-chicken-meat-production-to-increase-in-2023/ January 2024.

While production increased after 2020, with projected record output in 2023, the amount of chicken consumed per person in South Africa stagnated at levels well below its peak in 2015 (Graph 6). This fall formed part of a broader fall in meat consumption. That said, chicken was the staple protein for working-class families. The poorest 60% of households accounted for just 30% of beef consumption in 2014/5 (the latest available data), compared to 55% of chicken. (Calculated from Statistics South Africa 2015) The spike in chicken consumption in 2015 correlated with the initial surge in chicken imports.

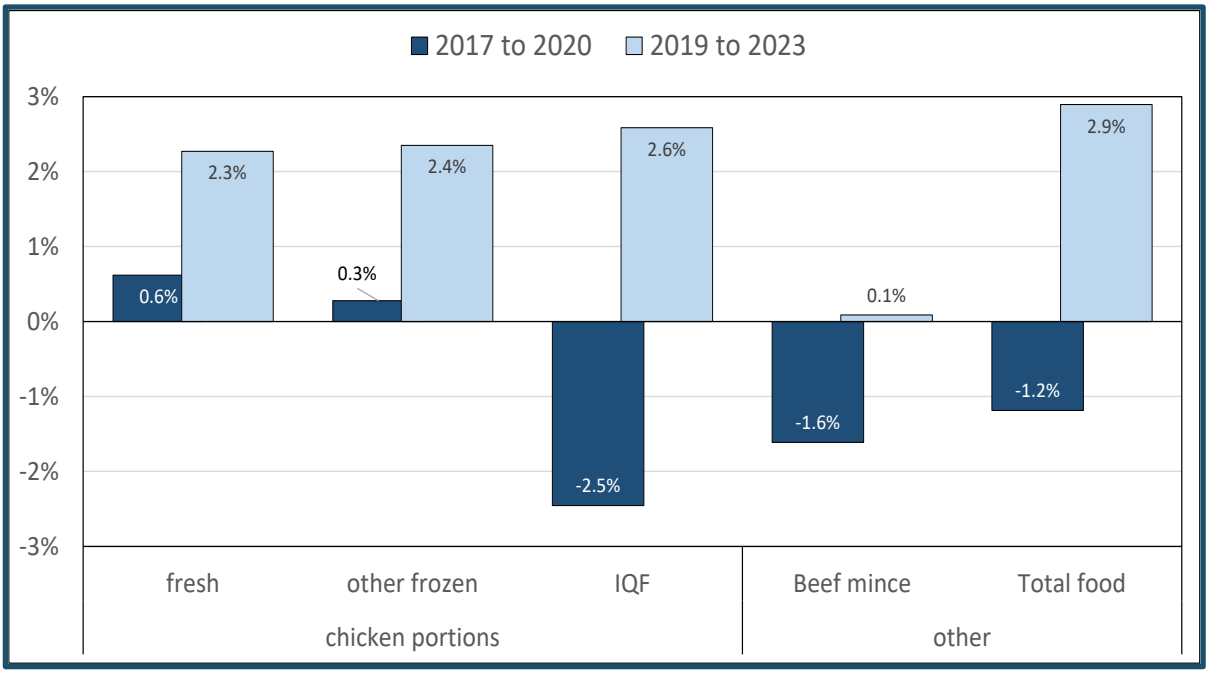
Graph 6. Chicken consumption per person, in kilograms, 1990 to 2023



Note: (a) Figures for production per person and imports are not available for 2023, and are estimated based on 2% forecast growth in output and 1% growth in the population. *Source:* Calculated from DALRRD. Abstract of Agricultural Statistics 2023. Accessed at http://www.old.dalrrd.gov.za/Portals/0/Statistics%20and%20Economic%20Analysis/Statistical%20Information Abstract%202023.pdf in January 2024. Growth in production in 2023 from Poultry World. South Africa's chicken meat production to increase in 2023. 3 March 2023. Accessed at https://www.poultryworld.net/the-industrymarkets/market-trends-analysis-the-industrymarkets-2/south-africas-chicken-meat-production-to-increase-in-2023/ in January 2024.

While chicken consumption generally tracks the per capita GDP, it was accelerated by unusually high real price increases from 2020. As Graph 7 shows, the price of individually quick frozen chicken, a staple in many working-class households, climbed particularly rapidly in this period in real terms, in line with other food prices. The impact on working-class households was exacerbated by the large-scale loss of jobs during the pandemic, which had a disproportionate impact on ordinary workers while barely affecting professionals and managers. (See TIPS 2023:10)

Graph 7. Average annual price increases for chicken portions, beef mince and all foods, in real terms (a), December to December, 2017 to 2020 and 2020 to 2023

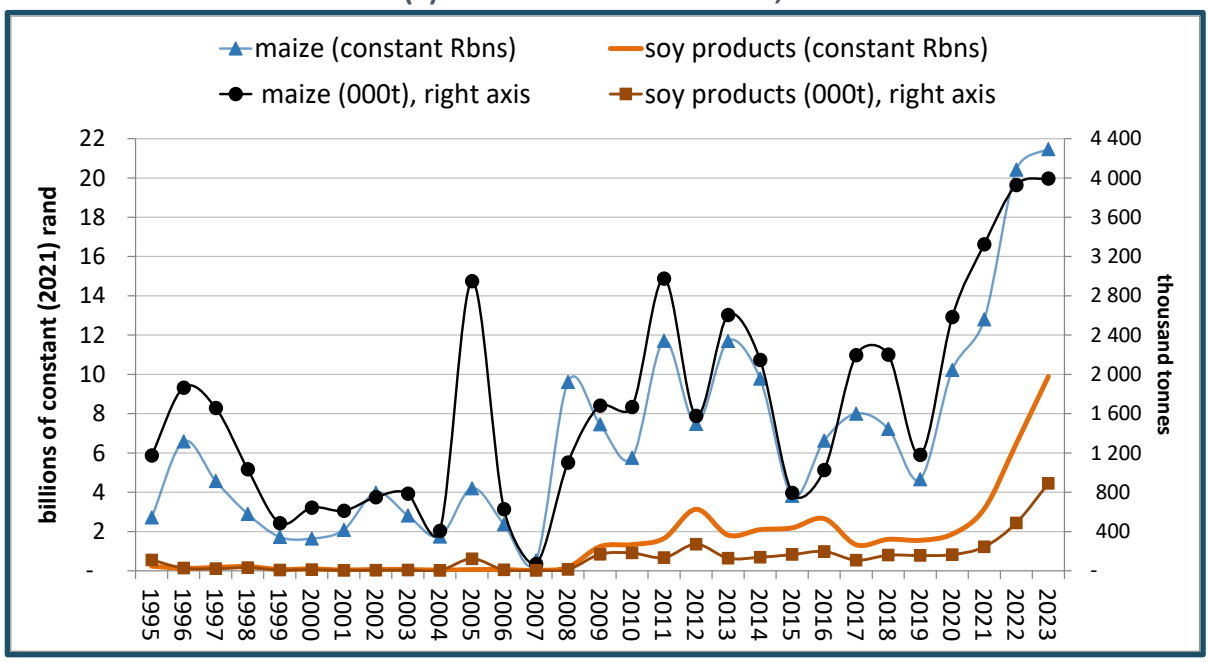


Note: (a) Figures show change after deducting overall inflation as reflected in the CPI. *Source:* Calculated from Statistics South Africa. CPI (5 and 8 digit) from January 2017 (202312), and CPI (COICOP) from Jan 2008 (202312). Excel spreadsheets. Accessed at www.statssa.gov.za in February 2024.

Poultry producers argued that price increases resulted largely from soaring global feed prices in the early 2020s, since feed accounts for around 70% of their costs. Those prices in turn resulted primarily from higher South African exports of maize and soy, the main inputs. From 2020, the Russian invasion of Ukraine brought a speculative spike in prices for these commodities. In response, exports of soy products (beans, oil and oilcake) jumped to almost 800 000 tonnes in 2023, five times as high as the average from 2010 to 2020. Exports of soybeans alone were almost 20 times as high as the average over the previous decade. Maize exports were twice as high as the historic average. (Graph 8)

In effect, the master plan stakeholders agreed to increase uptake of local feed as poultry production increased without effective measures to encourage cost-plus pricing. In consequence, when international prices for maize and soy soared, South African poultry producers and consumers did not benefit from comparatively low-cost national production. Instead, the farmers of these commodities captured substantial rents.

Graph 8. Exports of maize and soy products (beans, oil and cake) from 1995 to 2023, in billions of constant 2021 rand (a) and thousands of tonnes, 1995 to 2023



Note: (a) Deflated with average annual CPI. *Source:* Quantec. EasyData. RSA Trade HS 8-digit. Interactive dataset. Accessed at www.quantec.co.za in February 2024.

Farmers' production costs were also pushed up by loadshedding, with poultry particularly dependent on electricity. (BFAP 2023:9-10) In addition, the avian flu outbreak in late 2023 led to the culling of seven million birds, equal to more than two weeks' production. Producers took advantage of the shortfall to increase the price of the remaining birds.

3.6 Impacts on socio-economic groups

The impact of the master plan varied significantly between industry stakeholders and consumers. For consumers, the main cost was higher prices at least in the short run as a result of substantial tariffs. The impact was particularly severe for working-class households, many of which faced lower incomes in the wake of COVID-19 layoffs. For producers in the poultry industry, the master plan helped justify higher tariffs in return for higher investment and output, increased used of local feed, and support for Black contract farmers. They also faced risks from higher prices, however, as per-capita demand for chicken stagnated.

Table 4. Costs, benefits and risks of the poultry master plan by constituency

GROUP	COSTS	BENEFITS	RISKS
Dominant producers	Capacity to help develop action plans. Resources to reduce production costs and increase size of birds; to promote exports; to develop new contract farmers; to invest to expand production; and to intensify employment equity.	Coalition of industry stakeholders to support high tariffs on chicken despite the cost to consumers. Improved competitiveness enables growth on both domestic and export markets even if tariffs wind down. Government support for export drive.	Unable to maintain coalition for tariffs if domestic prices increase. Costs of raising competitiveness exceed benefits. Falling per capita consumption as prices rise and incomes stagnate, leading to lower demand.

GROUP	COSTS	BENEFITS	RISKS
	Establishing and financing worker ownership schemes.		
Feed producers	None.	Increased demand leading to higher production and/or possibly higher prices.	Rising prices for maize and soy when world prices rise as farmers increase exports.
Emerging black farmers	Investment in new contract farms, including payment for financing over time.	Access to value chain means stable off-take and technical support. IDC and Land Bank financing.	Demand does not grow sufficiently to support rapid increase in production, so end up losing money.
Other businesses and their employees	Higher price for chicken at least in the short run as tariffs kick in.	More moderate chicken prices in long run as local producers become more competitive. Multiplier effects of growth in poultry value chain (more jobs, contracts).	Tariffs just lead to higher prices on chicken without leading to increased domestic production. Master plan does not address price spikes for other reasons, e.g. rising feed prices or avian flu.
Government departments and agencies	Engagement with stakeholders to agree on master plan, set up Council, develop action plans and monitor them. Support for new contract farmers. More stringent administration of tariffs and standards so as to limit imports. Support for export drive.	Growth in poultry production, processing and exports with more price moderation over time, as the industry becomes more competitive.	Master plan does not succeed in improving competitiveness but raises consumer prices, leading to pushback. Poultry is small and has limited linkages, so master plan does not accelerate inclusive industrialisation.

3.7 Conclusions

At the core of the poultry master plan lay a trade-off: that the government would maintain high tariffs on chicken, even though it is a staple food, if in return producers committed to increasing production with the associated growth in jobs, and expand Black ownership. From this standpoint, the plan addressed a twofold problem: on the one hand, virtually all growth in chicken consumption since the early 2010s had come from imports; on the other, it is politically and socially difficult to maintain tariffs on a staple food indefinitely, especially where a handful of large, integrated companies dominate production and Black ownership is very limited.

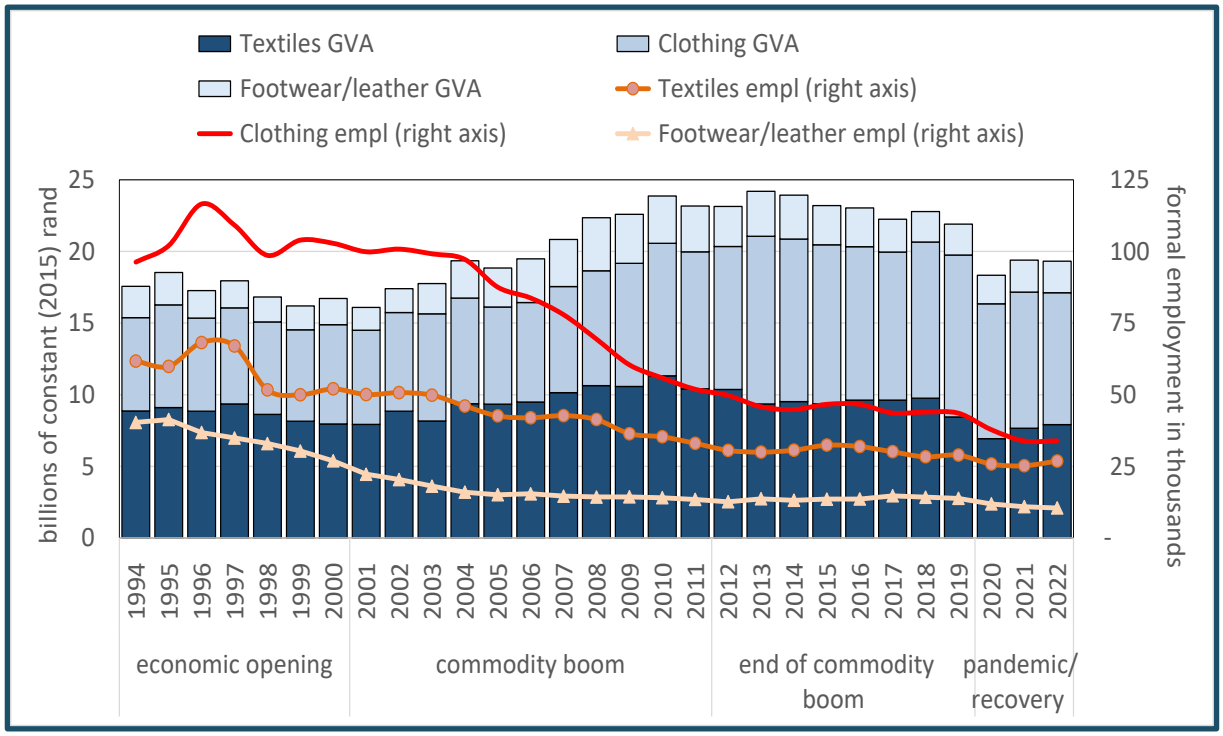
In this context, significant increases in chicken prices in real terms in the early 2020s led to significant pressure on the underlying pact. The prices reflected, in large part, the soaring global price of soy and maize. Stakeholders did not develop mechanisms to ensure that the resulting rents went to improve the competitiveness of poultry producers and the wellbeing of their consumers. In these circumstances, contestation emerged over tariffs, with repeated government efforts to mitigate the impact on consumers. For their part, producers expressed concern that, absent tariffs, they would face stagnant sales despite significant investments to expand production.

4 RETAIL, CLOTHING, TEXTILE, FOOTWEAR AND LEATHER (R-CTFL)

4.1 Economic background

Clothing, textiles and footwear saw declining production after the economy opened with the transition to democracy, but grew strongly during the commodity boom. The industry's output shrank again in the 2010s, with a sharp fall in the pandemic downturn followed by partial recovery through 2020. In contrast, employment fell steeply from the late 1990s, although it plateaued in the late 2010s and saw a modest uptick in 2023. In 2022, CTFL accounted for 0.5% of national value added, down from 0.8% in the mid-1990s. It generated 0.6% of formal employment, compared to 2% thirty years earlier. In terms of imports, CTFL fluctuated between 3% and 6% of the total, with a tendency to climb through the 2010s.Exports however saw a consistent downward trend, falling from 2.5% of total goods exports in the mid-1990s to under 1.5% in the early 2020s. In 2022, they were split almost equally between textiles, clothing, furnishings and leather products.

Graph 9. CTFL value added in billions of constant (2015) rand and formal employment in thousands, 1994 to 2022



Source: Calculated from Quantec. EasyData. Interactive dataset. Standardised industry series. Accessed at www.quantec.co.za in February 2024.

4.2 Process

The R-CTFL master plan aimed to "deliver significant new jobs along the value chain behind a clear set of commitments from retailers to buy local" based on a limited, focused set of strategic plans with measurable outcomes and clear timeframes. A major innovation for the industry was the inclusion of retailers in the industry platforms on promoting domestic production. In that context, the major retailers agreed to support local producers as part of the effort to reduce the reliance on imports and boost domestic manufacturing.

4.3 Aims

4.3.1 Targets

The R-CTFL master plan's vision was:

> A competitive, sustainable, and dynamic R-CTFL value chain that provides its customers with compelling products and that is invested in growing employment and advancing inclusion and transformation. (the dtic 2020a:8)

The main quantified targets for 2035 were the following:

- Employment in CTFL production should grow from 90 000 in 2016 to 160 000 in 2035, and in the rest of the value chain, mostly in retail, from 120 000 to 170 000.
- The share of domestic production in sales should rise from 44% in 2016 to 65%, with the value of procurement from local producers doubling to R69 billion in constant 2016 rand.
- Gross value added per employee in CTFL production should grow to R205 000 from R169 000 in 2016.

Other targets were not quantified. They included improving competitiveness in both product and production processes; improving financial returns to encourage investment; upgrading management and production skills; transformation in the sense of more Black and women managers plus worker and Black ownership; and elimination of import fraud and "illegal local production activities." (the dtic 2020:8)

Table 5 gives more detail on the master plan's production and employment goals. The employment growth in retail is not necessarily a function of local production, since it would occur even if the products sold were imported.

Table 5. Summary of key R-CTFL master plan indicators

KPI	BASELINE	2030 OBJECTIVE	% CHANGE	AVERAGE ANNUAL GROWTH
South African CTFL retailer sales (R millions)	165 119	249 757	51.3%	3.0%
CTFL manufacturing gross value added (GVA) (R millions)	15 562	32 931	111.6%	5.5%
Retailers purchases of CTFL items: total (R millions)	69 900	105 730	51.3%	3.0%
Retailer purchases from SA CTFL manufacturers (R millions)	31 252	67 725	119.9%	5.8%
South Africa as a portion of South African retailer purchases (%)	44.7%	65.0%	45.4%	-
Imported CTFL items (R millions)	38 648	37 006	-4.2%	-0.3%
Imports as a share of South African retailer purchases (%)	55.3%	35.0%	-36.7%	-
R-CTFL value chain employment (total)	212 146	333 162	57.0%	3.3%
R-CTFL manufacturing employment	92 146	165 695	79.8%	4.3%
R-CTFL retail employment	120 000	167 467	39.6%	2.4%
CTFL manufacturing GVA per employee (Rands)	168 885	206 376	22.2%	1.4%

Source: The dtic. 2020. *South African R-CTFL Value Chain Master Plan to 2030.* Page 10. Accessed at http://www.thedtic.gov.za/wp-content/uploads/Masterplan-CTFL_Value_Chain.pdf in July 2023.

4.3.2 Institutionalisation

As with the other master plans, establishing a platform to facilitate industry-level engagement was central in CTFL. As noted, it emphasised the importance of including retail chains, which have a crucial

impact on decisions around imports as opposed to local procurement. As in the other master plans, the R-CTFL master plan structures were headed by an Executive Oversight Council, with a project management unit acting as secretariat and task teams to finalise longer-term measures.

4.4 Strategic narrative

The strategic narrative in the R-CTFL master plan centred on ways to limit imports in order to enable local producers to expand sales and, on that basis, decent work. Comparatively little space was given to understanding the cost drivers that limited the industry's competitiveness.

From the early 2010s, clothing and footwear production stagnated in both output and employment. (the dtic 2020:5) According to Quantec estimates, formal employment in CTFL dropped by over half from 1994 to 2012, then stabilised at around 90 000. Value added climbed 44% from 1994 to 2012, but shrank by 20% through 2022.

The master plan blames this "turbulent period" mainly on two factors:

- Soaring imports after the economy was opened in 1994, with the transition to democracy. The situation was aggravated as China began large-scale exports from the early 2000s. In the early 2020s, clothing imports accounted for over half of all final sales of clothing and footwear in South Africa, up from around a tenth in the mid-1990s.
- Stagnant domestic demand for clothing and footwear as overall economic growth slowed in the 2010s. (the dtic 2020:5)

The master plan did not explicitly explain the surge in imports from 1994. Its proposals however suggest that the main causes were inadequate protection for local producers due to poor enforcement of existing tariffs, combined with retailers' preference for cheap foreign products. They also point to lagging investment and skills in domestic production. Finally, they suggested that tariffs on imported textiles increased costs for local manufacturing, although they protected jobs in the textiles industry (which accounted for around a third of formal employment in CTFL production). These factors meant local producers had a shrinking market share, although in theory their proximity to retailers should give them an advantage in fast fashion and seasonal products.

In response to these challenges, the R-CTFL master plan prioritised increasing demand through a combination of better tariff enforcement and a commitment to local procurement by retailers and government agencies. It includes commitments to upgrading production and skills, but these proposals are comparatively vague. It also agreed to reduce tariffs on textiles that are critical for local manufacturing, but only subject to "strict conditionality" that included demonstrable net employment benefits across the value chain. (the dtic 2020:13)

Specifically, the plan's seven action commitments were:

> "1. Grow the local market for local CTFL products
> "2. Increase local CTFL procurement
> "3. Stem the flow of illegal imports
> "4. Employ strategic tariff and rebates measures
> "5. Extend the Competitiveness Improvement Programme (CIP) and Production Incentive (PI) and the Companies and Intellectual Properties Commission (CIPC) [which are supply-side incentives] in an appropriate format for three years
> "6. Align production capacity to sales cycles, and
> "7. Transform the value chain." (the dtic 2020:11)

The master plan proposed the following actions for each industry stakeholder.

1. Retailers should each develop and market their own local labels. They should also commit generally to increasing procurement of local clothing and footwear products. In that context, they should set targets for incorporating Black-owned suppliers. Retailers should also take action to limit the sale of under-invoiced imports, and to expand Black and worker ownership.
2. Government should strengthen existing trade measures to protect final goods with more effective rebates on inputs for clothing and footwear. It should increase SARS resourcing and capacity especially to stop underinvoicing and illegal imports of secondhand clothing. In addition, the government should designate clothing for local procurement by state agencies. It should extend existing supply-side incentives for three years, and consider establishing a Special Economic Zone for CTFL producers. These zones, which historically emerged around the auto industry, aim to provide better infrastructure and administration as well as financial incentives, especially for exports.
3. CTFL manufacturers will invest to improve design and production to meet growing local demand. They will eliminate the abuse of tariff rebates on textiles and other inputs. Like the retailers, they would promote Black and worker ownership as well as setting targets for Black suppliers.
4. Labour in the industry would help achieve higher productivity with supporting training. They would also accept more adaptable work organisation and workplace partnerships based on formal agreements with employers.

In line with the master plan methodology, the establishment of new platforms to promote coordination and partnerships around implementation was central to the CTFL project. It followed the standard model of an Executive Oversight Committee chaired by the Minister of Trade, Industry and Competition and meeting twice a year. It was expected to comprise business leaders from both retailers and manufacturers as well as organised labour and relevant government agencies. The dtic would ensure a strong secretariat through a programme management office supported by experts seconded by the stakeholders. The dtic would lead a variety of task teams with stakeholders and key government agencies, but not consumers representatives. These task teams would aim:

1. To limit illegal imports and review tariffs (with SARS and other players where relevant).
2. To explore making retail licences contingent on master plan commitments. The group would also encourage foreign retailers in South Africa to procure local clothing and footwear products.
3. To review supply-side incentives and support; training; export promotion; and niche products (workwear and crafts); as well as state procurement (with relevant industry stakeholders and government agencies).

Table 6 lays out the theory of change in the R-CTFL master plan.

Table 6. The theory of change in the R-CTFL master plan

STEP	PREREQUISITES
Agreement on master plan with main stakeholders	Retailers agree to target higher local procurement and support local suppliers. Relevant government agencies agree to increase resourcing to limit illegal imports and to maintain and possibly expand incentives and trade protection for CTFL in exchange for job retention and creation; investment; and increased Black participation. Textile sector agrees to tariff rebates that permit imports of cloth that manufacturers see as critical for growth and job creation. Stakeholders and government agencies agree to work together to develop practical measures to achieve targets.

STEP	PREREQUISITES
Establishment of Council and Programme Management Office (PMO)	The dtic puts in time and, with other stakeholders, the resources required to staff and run PMO and convene the Council.
Development of practical measures by task teams	PMO convenes task teams. Government agencies (SARS, IDC, the dtic and other departments) and stakeholders see participation in relevant task teams as worthwhile and put in the time and capacity needed to hash out strong measures. Task teams are able to agree on specific measures.
Measures are implemented effectively	Relevant government agencies and other stakeholders implement measures as agreed. SARS has the resources and capacity to reduce under-invoiced imports and smuggling. PMO is able to monitor targets, including share of local products in retail sales, and encourage stronger action where progress is inadequate. Funding is provided when required (for incentives, training, customs enforcement, and, if agreed, for trading licence enforcement)
Local production increases while costs fall	Sales of local products increase as expected. Producers have easy access to a wide range of affordable, quality textiles and skills. Productivity and quantity gradually improve, which in the long run helps hold down consumer prices.
Employment and investment increase	Employment and investment in production increase as sales grow. Household incomes grow enough to sustain CTFL sales.

4.5 Implementation

4.5.1 Institutionalisation

The master plan structures were established in line with the original proposals. In addition, the programme management office convened regular town halls to report back to and hear from stakeholders who were not directly involved in the task teams. The institutions for the master plan played an important role in developing the industry's response to the COVID-19 pandemic in 2020 and to the unrest in KwaZulu-Natal and Gauteng a year later.

4.5.2 Measures to achieve priority outcomes

CTFL sales were hit hard by restrictions on retail that aimed to limit the spread of COVID-19. Stakeholders used the master plan platforms to collaborate on protocols for reopening stores. They also helped employers access UIF support to avoid retrenchments. The industry received a total of over R1 billion from the Temporary Employer/Employee Relief Scheme. (the dtic 2022a:13) In addition, the government provided resources through the IDC to reduce manufacturers' interest payments during the pandemic (the dtic 2022a:13) Similarly, the parties were able to cooperate to support manufacturers affected by the unrest in 2021.

For longer-term measures, the government worked with stakeholders to introduce a reference price system for imports in order to limit under-invoicing. According to the dtic, the new system "dramatically" improved compliance. In addition, it reported that SARS stepped up enforcement,

leading to higher effective tariffs and the seizure of some containers with clothing and shoes that had been mislabelled as duty-free products. (the dtic 2022a:20-21)

In 2021, ITAC approved a rebate on woven fabric where there was no local producer. It did not specify if local production had to be competitive in price and quality. The dtic estimated that this measure reduced the cost per garment by R7.40 and increased local value add by 329% (the dtic 2022a:16)

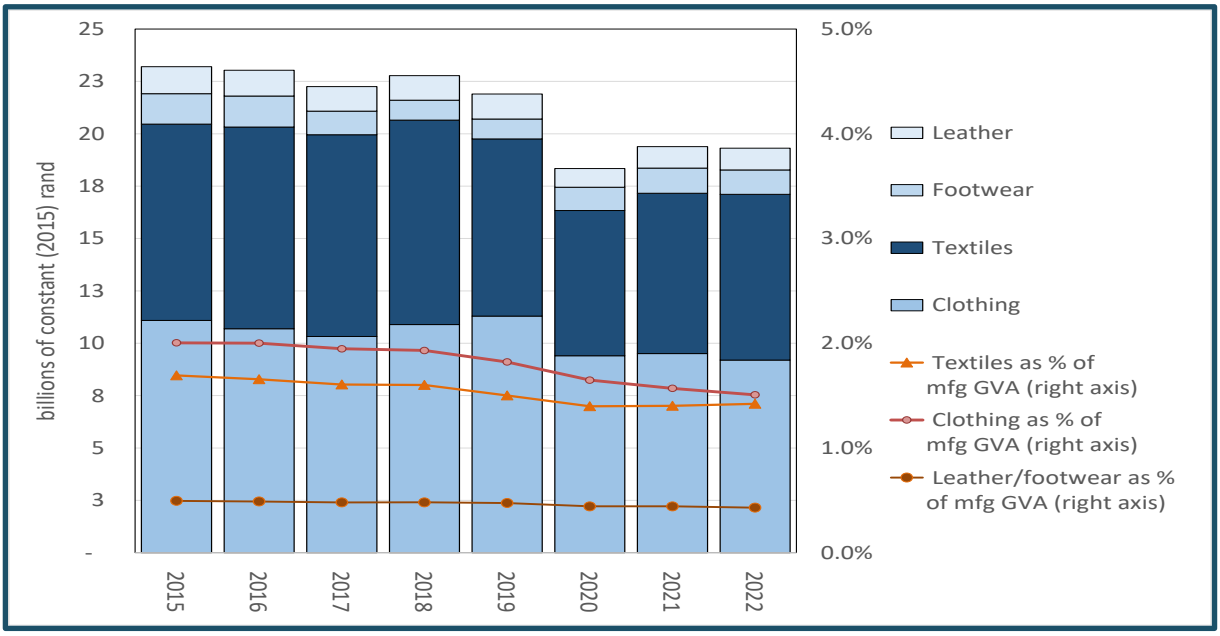
The dtic also redesigned incentives for CTFL in 2021 to encourage increased competitiveness and promote Black industrialists. The IDC managed the funds, which combined grant and soft financing for new investments. From April 2020 to March 2022, it supported 32 companies (of which a third were Black owned) for R403 million, leading to production worth R2 billion. (the dtic 2022a:19) In 2023, the IDC reported the programme had doubled in size, supporting 84 businesses with over R1 billion in the year to March. (IDC 2023b:59) The dtic expected to assist 300 clothing and textile firms in the subsequent three years with a budget of R1.8 billion (out of total a three-year total of R15 billion in dtic incentives). (Treasury 2023:3) In 2023, the IDC reported that it had committed R2.2 billion to support the R-CTFL master plan, far outstripping its target of R700 million. (IDC 2023a:11)

Despite these initiatives, limited progress had been made around proposals geared principally to enhancing competitiveness. As of early 2024, the parties had not developed the anticipated plans for workwear and school uniforms. The proposed export drive and the skills development plan had made little progress. Clothing and textile producers had not finalised an extension of the tariff rebate to knitted textiles and yarn, although they had used the master plan platforms to engage on the subject.

4.5.3 Outcomes

CTFL was hit hard by the COVID-19 downturn, and its slow recovery was further dragged down by the 2021 unrest. Sales finally rose above 2019 levels in 2023, which also brought a decline in the share of imports. Still, the economic headwinds over the past few years make it difficult to evaluate the outcomes of the master plan. Where the master plan anticipated 5.5% growth a year through 2030, in fact CTFL shrank by 4% a year from 2019 to 2022.

Graph 10. CTFL value add by industry and as percentage of total manufacturing value add, 2015 to 2022



Source: Calculated from Quantec. EasyData. Industry series. Interactive dataset. Accessed at www.quantec.co.za in February 2024.

Error! Reference source not found. shows the sharp decline in 2020 as the pandemic lockdown d evastated retail sales. In 2022, value add in the industry remained well below pre-pandemic levels. The 2020 fall capped a gradual decline in value added in CTFL from 2015, although clothing saw an uptick in 2018 and 2019. As a result of these trends, CTFL fell from 9% of manufacturing value added in 1994 to 3% in 2022.

According to the Quarterly Labour Force Survey, formal employment in CTFL fluctuated in the late 2010s but inched upward, mostly due to steady growth in clothing jobs. In 2020, with the pandemic, CTFL as a whole lost 35 000 jobs or 15%. In contrast to other manufacturing industries, it only began to recover in 2023. (Graph 11)

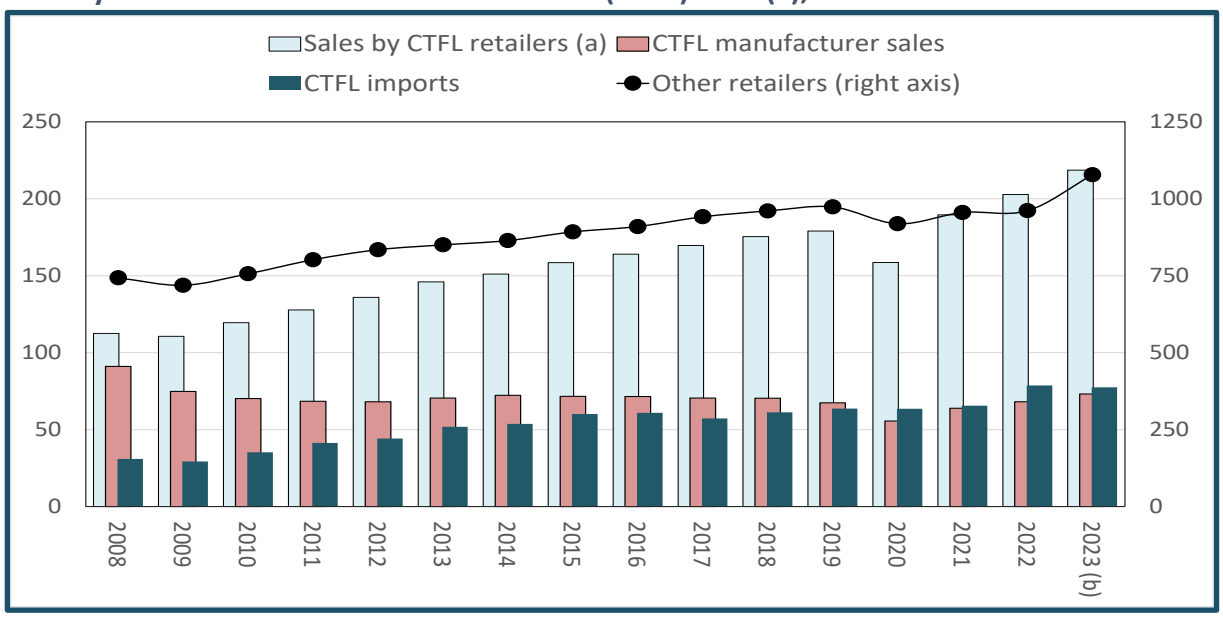
The result was higher productivity per worker but at the cost of missing the employment target. Employment was supposed to grow 4% a year through 2030, but declined; gross value added per worker was expected to climb 1% a year, but grew 2% a year from 2019 to 2022.

Graph 11. Employment in CTFL by industry, 2015 to third quarter 2023

Note: (a) Extrapolated from first half as figures for second half marred by very low response rates. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics, 2015 to 2020; Quarterly Labour Force Survey, 2021 to third quarter 2023. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za.

In contrast to CTFL production, retail sales recovered rapidly from the 2020 pandemic downturn. In 2023, sales by CTFL retailers were 22% higher than in 2019. Imports increased at the same rate, while sales by local CTFL manufacturers climbed 8%. Imports fell slightly in 2023, however, which meant that reported import intensity declined somewhat in that year.

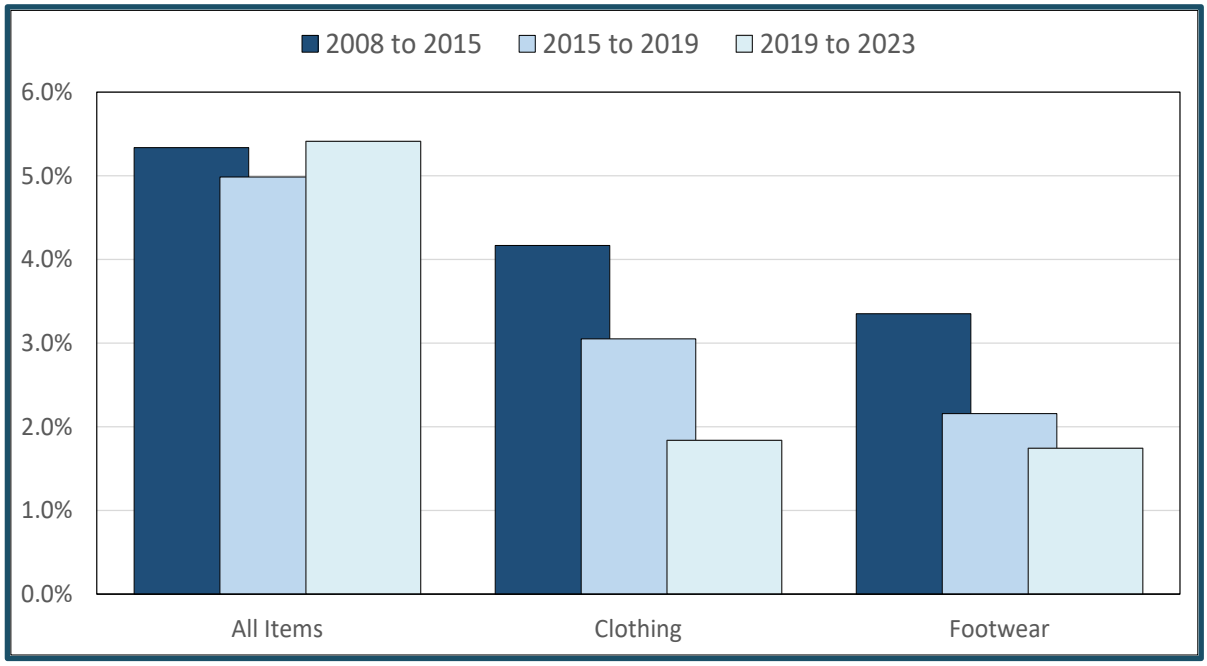
Graph 12. Sales by CTFL retailers and manufacturers, CTFL imports and, for comparison, sales by other retailers in billions of constant (2020) rand (a), 2008 to 2023



Notes: (a) Sales by CTFL manufacturers and CTFL imports deflated with deflator provided for CTFL retailers. (b) Excludes sales of clothing and textiles by general retailers and specialists in other products. (c) Data for retail sales were available to November 2023. Figures for the year were extrapolated by adding the average increase for December over the previous years, which was stable for both CTFL and other retailers. *Source:* Retail sales calculated from Statistics South Africa. Retail trade sales from 2002. Excel spreadsheet. Accessed at www.statssa.gov.za in February 2024. CTFL sales and imports calculated from Quantec. EasyData. Interactive dataset. Macroeconomic series (StatsSA data on manufacturing production and sales) and national trade data at HS-6 level. Accessed at www.quantec.co.za in February 2024.

For the past 15 years, price increases for clothing and footwear have been well below the overall CPI. The gap grew from 2019 to 2023, as Graph 12 shows. The poorest 60% of households accounted for a third of clothing purchases in 2014/5, and the richest 10% for a quarter.

Graph 12. Average year-on-year price increase for clothing and footwear compared to overall CPI, December 2008 to December 2023



Source: Calculated from Statistics South Africa. CPI (COICOP) from Jan 2008 (202312). Excel spreadsheet. Accessed at www.statssa.gov.za in February 2024.

4.6 Impacts on socio-economic groups

The R-CTFL master plan promised significant benefits to local producers, especially in clothing, mostly by improving protection from imports. Textiles manufacturers, which accounted for around 40% of value add and formal employment in the value chain, might in theory lose some revenues due to the proposed rebate on imported cloth and yarn. In practice, implementation was significantly delayed for most textile products, and manufacturers complained that the burdensome process of getting a rebate might affect take up.

In theory, higher tariffs on clothing could lead to higher prices, which would be a cost to consumers. In practice, as noted in Graph 12, prices for clothing remained depressed from 2019 to 2023.

For government departments, the master plan's focus on limiting imports and encouraging existing producers meant that it posed limited direct costs and risks. Government's financial support for CTFL remained fairly modest. That said, this approach posed some risks, since it meant that even if successful, the clothing industry would not generate substantial employment or space for smaller producers. That contrasted with the industry's role in other industrialising economies, where it was a critical contributor to job creation.

Table 7. Costs, benefits and risks of the R-CTFL master plan by constituency

GROUP	COSTS	BENEFITS	RISKS
Retail chains	Disruption to existing procurement systems. Support for local producers (identification, marketing, standard setting). Support for worker and Black ownership. Tracking share of local production in total sales. Training staff to identify under-invoiced imports. Participation in task teams.	Avoid threat to trading licences. Shorter supply chains and more responsive production. Platform to engage on tariff evasion by e-retailers. Reduced workplace and social conflict, if broader ownership has desired impacts.	May lose sales if local producers cannot compete with imports on price or variety or if costs of imports go up as underinvoicing goes down. Task teams do not deliver as hoped. Conflict over figures on local sales vs imports.
CTFL manufacturers	Investment in improving technology, design and training. Export marketing. Improving responsiveness to local retailers' demands as part of their supply chain. Participation in task teams.	Increased demand and stronger supply-side support programmes, leading to improved sales and profitability.	May invest to upgrade production but still lose out to imports, leading to losses.
Textiles and leather producers	Participation in task teams.	Increased demand as local industry grows.	Local manufacturers insist on more access to imported inputs so as to cut costs and increase diversity, so upstream producers do not benefit from growth in local manufacturing of clothing and footwear.

GROUP	COSTS	BENEFITS	RISKS
Other businesses and their employees and communities	Increased incentives to CTFL reduces funds for other industries.	Growth in competitive domestic CTFL boosts overall growth.	Prices of clothing and footwear may rise and diversity decline as imports are restricted.
Government departments and agencies	Engagement with stakeholders to agree on master plan, manage Oversight Committee and PMO, and participate in task teams. Establish systems to monitor imports relative to total sales. More stringent administration of tariffs so as to limit imports. Maintenance and possible expansion of incentives and supply-side support for clothing and footwear. Disruption of procurement systems to ensure government agencies buy local clothing, textiles and footwear. Support for export drive.	Growth in CTFL leads to more rapid overall growth in the economy as well as higher employment.	Master plan does not succeed in improving competitiveness but raises consumer prices, leading to pushback. Unable to set up effective systems to monitor share of local production in sales by individual retailers. Measures are not adequate to grow CTFL to play its usual role as a critical element in export-oriented job-creating industrialisation. The limited benefits in terms of job creation contributed to the difficulties of sustaining an effective coalition to support industrial policy.

4.7 Conclusions

The R-CTFL master plan defined a predominantly inward-looking strategy. Its core measures protected existing producers by increasing support from local retail chains and improving enforcement of existing tariffs. Proposals to build on existing export strengths, mostly protective clothing and household goods, remained underdeveloped.

An inward-looking approach meant that CTFL would not drive manufacturing exports and employment, in contrast to other industrialising economies. It reflected the long trajectory of South African clothing production, which historically centred on meeting local and regional needs. It also took into account the real difficulties of breaking into international clothing markets as a latecomer that is distant from major markets and trade routes.

A more expansive strategy would require significant new investments, vastly scaled-up state support, and substantial disruption to the existing value chain, including faster decisions on textile imports for clothing manufacturers. That would obviously entail substantial risks as well as harder decisions around the allocation of returns between textiles and clothing producers.

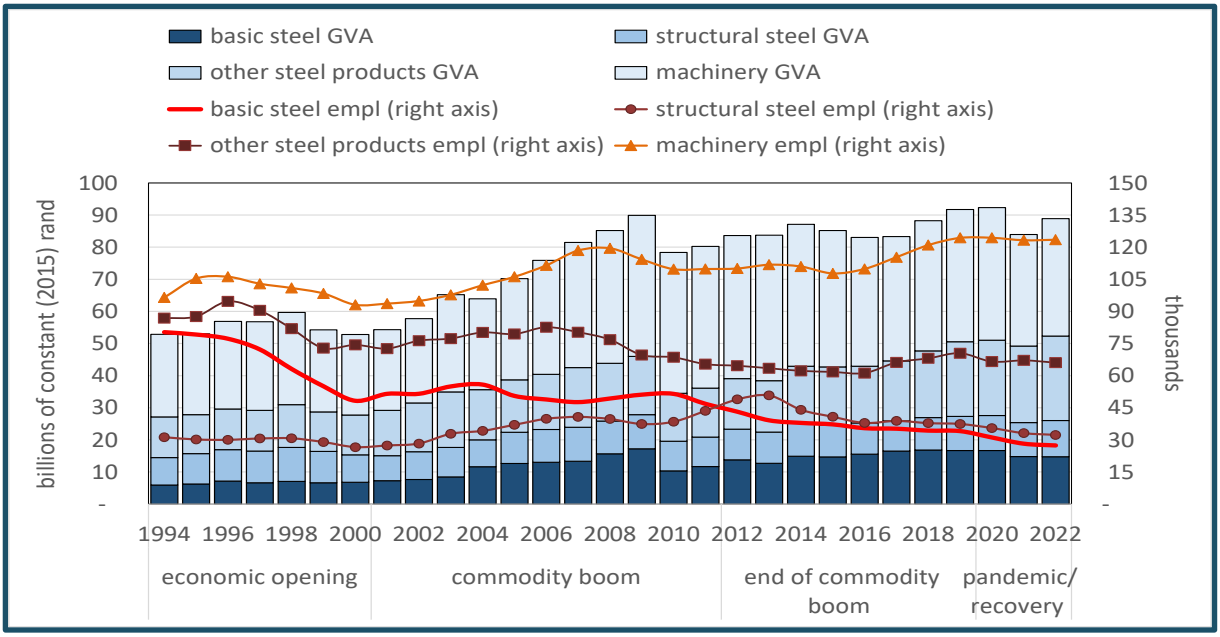
5 STEEL AND FABRICATED METALS

5.1 Economic background

In 2022, basic steel contributed 0.4% of national value added, while downstream industries – structural steel, other basic metal products and machinery – generated 1.7%. Machinery production was also an important technological centre for South Africa, rooted in the provision of equipment for mining and, on that basis, construction. Production had been flat for the value chain as a whole. Modest growth in the late 2010s, mostly in downstream fabrication, was cut short by the pandemic

downturn. Employment also climbed in the late 2010s outside of basic steel production, which shed jobs almost continuously from the mid-1990s. (Graph 13)

Graph 13. Steel value added in billions of constant (2015) rand and formal employment in thousands, 1994 to 2022



Source: Calculated from Quantec. EasyData. Interactive dataset. Standardised industry series. Accessed at www.quantec.co.za in February 2024.

Basic steel production climbed from 0.3% of national value added in 1994 to a high of 0,4% in the late 2010s, then fell back to 0.3% in the pandemic. In contrast, its share in total formal employment fell from almost 1% in 1994 to 0.2% in 2022. In part, the decline resulted from the privatisation of Iscor in 1989; many observers argued that until then, Iscor historically maximised jobs for non-Africans. Exports of basic steel contributed 6% of total goods exports in 2023, down from over 10% in the 2000s. Basic steel imports climbed from 1.5% of total goods imports in 1994 to 1.8% in 2023.

As a group, the downstream industries – structural steel products such as beams and tanks; other steel manufactures; machinery and equipment – accounted for the bulk of production in the steel value chain excluding iron ore. Their share in national value added fell from 2.1% in 1994 to 1.8% in 2022, while their share in formal employment dropped from 2.3% to 1.9%. In contrast, their share in exports rose from 4% in the mid-1990s to over 6% from 2015 to 2019 and again in 2022 and 2023, following a drop to 5% during the pandemic. The downstream steel industries accounted for a much larger share of imports, mostly dominated by machinery and equipment. In the mid-1990s, imports of basic steel products and machinery accounted for over 20% of all South African goods imports, but the figure fell to 17% in the late 2010s and to 15% in 2023.

5.2 Process

The government has long sought to foster a steel industry in South Africa, starting with the state-owned Iscor in the 1920s. Iscor was privatised in 1989. After that, government faced two somewhat contradictory tasks. On the one hand, it sought to protect the Iscor successor, AMSA (a subsidiary of the global giant ArcelorMittal) from imports and from import-parity prices on iron ore, since Iscor's mines had been sold separately to Anglo American. On the other, it wanted to protect and grow downstream manufacturing, which provided most of the jobs and value added in the value chain.

The trade-offs between basic steel and downstream manufacturing became more difficult in the 2010s. South African imports of basic steel products – increasingly from China - climbed from 8% of total steel sales in the late 1990s to over 15% in the 2010s, and reached 19% in 2023. (Calculated from Quantec 2024) Downstream manufacturing grew only slowly through the 2010s, with almost no increase in value added or employment. In the early 2020s the industry faced renewed pressure from escalating loadshedding and electricity tariffs.

The Steel and Fabricated Metals Mmaster Plan explicitly built on earlier targeted interventions to support the steel value chain. (the dtic 2021a:12ff) These measures and agreements included:

- Tariffs on primary steel and downstream products, with some anti-dumping duties, offset by rebates on goods that were not produced locally in order to mitigate the impact on downstream manufacturers.
- A pricing agreement for long steel in 2017 established a basket of prices from major exporting countries, excluding China and Russia and South African tariffs, in an effort to ensure a fair and competitive balance for upstream and downstream producers.
- SARS had set up task teams to deal with underinvoicing and undeclared imports.
- The government designated major steel products for local procurement by all government agencies.
- A National Economic Development and Labour Council (NEDLAC) localisation agreement included targets for several steel products used in construction, other industries and households, and generally for capital equipment.
- The dtic introduced measures to limit exports of scrap steel so as to reduce the cost to local users. Scrap steel is an important input to raw steel production, and some new mini mills use almost exclusively scrap.
- The IDC established the Downstream Steel Industry Competitiveness Fund to support producers in the steel value chain.
- The IDC actively worked to avoid the loss of capacity in the value chain through the 2010s, notably by working with Scaw Metals and Highveld Steel after they went into business rescue.

Institutionally, the master plan also drew on earlier efforts, especially a tripartite task team established in 2016 to support the industry. Even before the master plan was published, the process provided a framework for the parties to monitor implementation of measures developed by the task team, notably the restrictions on scrap exports and tariffs. (the dtic 2021:6)

The first Steel Oversight Council meeting adopted the master plan as a draft, but expected to change it if required by developments. The initial document, as published, did not seek to provide a coherent strategic narrative or draw on commissioned research. Instead, it listed proposals from the consultation process without visible prioritisation, some repetition, and sometimes contradictory implications. It was signed by various business executives and union leaders who agreed to take on the role of workstream leads to finalise proposals in collaboration with all stakeholders.

5.3 Targets

The master plan aimed to “establish a stable and predictable trajectory for the industry, so that businesses and investors can invest with confidence in building up production capacity, innovation, skills and expertise.” (the dtic 2021:3) It did not set any quantified targets.

The master plan process was to be overseen a tripartite Steel Oversight Council chaired by the Minister or their nominee. It started with 12 workstreams with project leaders delegated by business as well

as a champion from government, business or labour. The dtic would investigate establishing a specialised Project Management Support Unit tasked specifically to ensure effective implementation of government commitments.

5.4 Strategic narrative

As noted, the master plan did not present a single coherent narrative to identify and analyse the challenges facing the steel value chain. This section effectively derives the underlying theory of change from various observations in the document as well as the proposals.

The document argued that, with some exceptions (notably the production of stainless steel and wire), the value chain stagnated through the 2010s. It did not include a separate, coherent section on why, although the text mentions a variety of causal mechanisms. They include inadequate public infrastructure expenditure in the late 2010s and a failure to enforce designations adequately; increased imports from China combined with rising tariffs in the Global North; the rising price of electricity and constraints on rail and ports; import-parity pricing for iron and chrome ore and for coking coal, although the document also argues that margins vary along the value chain and do not always going to mines or primary steel producers; the high price of capital even from the IDC; foreign and domestic regulations that require reduced emissions; a lack of customer financing, after-market service and R&D in machinery production; and weak industry associations that make pacting and strategic approaches generally more difficult. The document also notes that basic steel production has not expanded Black ownership, so that downstream producers, even if empowered, cannot claim BBBEE points. As a result, government departments sometimes prefer to buy from empowered importers.

A golden thread running through the document was the need to increase demand for steel. Again, a variety of ideas were floated. The main ones were:

- To meet the need for specific kinds of steel for the auto, mining and construction equipment industries.
- To promote localisation, especially in the context of the infrastructure drive and the transition to cleaner energy as well as in mining.
- To lobby for bigger expenditure on infrastructure.
- To expand exports to the rest of Africa, with appropriate financial support.
- To maintain exports despite carbon border taxes, as proposed notably by Europe, by reducing carbon intensity, for instance by using gas as well as renewable power and increased recycling.

The document summarised the focus areas for the Oversight Committee as follows.

- Monitoring implementation of the master plan document, with adjustments as required;
- Improving the effectiveness of trade measures and incentives, while identifying reciprocal commitments from business and labour;
- Helping to identify opportunities to boost demand and stimulate local production;
- Promoting collaboration between industry stakeholders as well as improved alignment within the state. (the dtic 2021:15-16)

Specific programmes and projects would be driven by the 12 workstreams, some of which seemed to overlap. Under supply-side measures, workstreams were established on the costs and availability of inputs; establishing standards; innovation and technological progress; resource mobilisation for investment; carbon and stainless steel pricing; and training and

mentoring. On the demand side, the focus was on infrastructure and localisation; import replacement; product value chains; and exports. Finally, cross-cutting workstreams covered the steel development fund and transformation.

The master plan included a host of policy ideas in no particular order. Among others, they included the following:

- The Steel Oversight Council would establish a Steel Industry Development Fund based on a levy on primary steel sales in South Africa, with the dtic as part of steering committee. In addition, the IDC would establish a R1.5 billion Downstream Steel Development Fund to provide low-cost financing. The dtic would develop proposals for a metal fabrication fund.
- The Steel Oversight Council would engage with ITAC on limits extending and better enforcing limits on scrap exports, and with the state-owned corporations (SOCs) on obtaining scrap directly from them.
- The Council would push for an expansion in export credit insurance either through the existing national body or through a new sectoral agency.
- The Council would support the infrastructure drive, with an emphasis on "two or three mega-projects" that need a lot of steel. (the dtic 2021:16)
- The Council would engage with Transnet and Eskom on improving services and tariffs.
- In two separate places, the document mentioned interventions to identify and manage rents along the value chain. Neither, however, is concretised. One idea was that the dtic discuss a developmental price for iron ore and steel with the relevant government departments and mining companies. Another was that the Steel Oversight Council undertake a price study along the value chain to see where excess margins arise.
- The Oversight Council and unions would collaborate to moderate the unit labour price in return for, among others, employee stock ownership plans and upskilling.
- The Council would finalise a subsector master plan for stainless steel.
- The dtic would work with stakeholders and the IDC to develop a concept plan for manufacturing mining equipment in Southern African Development Community region, prioritising mining construction vehicles with a leasing plan through the IDC; designation; and a 10% tariff. (the dtic 2021:33 ff)

The following table lays out the theory of change that emerges from the steel master plan. The lack of a coherent narrative means, however, that the analysis requires an assessment of priorities based on the extent to which ideas are concretised in the document as well as subsequent implementation efforts.

Table 8. The theory of change implied in the steel master plan

STEP	PREREQUISITES
Agreement on master plan 1.0 with main stakeholders, and Oversight Council and workstreams set up.	Stakeholders as represented by workstream leaders able to agree on document as a first draft subject to review.

STEP	PREREQUISITES
Workstreams finalise sustainable and effective plans based on master plan framework, and Development Fund established.	Secretariat ensures workstreams are convened. Stakeholders willing to commit capacity and time for Oversight Committee and workstreams. Development Fund levy introduced and collected, and management systems established.
Implementation of plans leads to higher domestic and export sales and reduced unit costs especially for inputs, electricity, logistics and labour.	Agreement on measures to stimulate domestic and export demand, especially import substitution by the public and private sector and financing for exports. Agreement with SOCs on cost and quality of infrastructure and with unions on remuneration strategy. Suppliers are willing and able to reduce key input costs, including for iron ore, electricity, logistics and labour. Efforts to promote new producers and downstream manufacturing do not lead to downsizing of basic steel producers; and measures to protect basic steel production do not stunt downstream production or block emerging new production technologies such as mini mills.
Investment increases as industry recovers.	Industry offers increasingly profitable and secure opportunities for domestic and foreign investors. Investors know about opportunities and can easily take advantage of them.
Employment increases.	Growth centres on fabrication so it generates relatively large numbers of jobs.

5.5 Implementation

5.5.1 Institutionalisation

The Steel Oversight Council was established with a project management unit as secretariat. The unit convened regular meetings of the workstreams. Still, the training and transformation workstreams apparently did not convene regularly. A problem emerged where workstream members could not agree, as the Oversight Council did not meet frequently to resolve disputes and provide guidance on the way forward.

As with the other master plans, the steel master plan did not set up a platform for engagement within government. In practice, intergovernmental engagements often ran into delays.

5.5.2 Measures to achieve priority outcomes

The challenges facing implementation of the steel master plan emerged from an announcement by AMSA that it was closing down production of long steel products, around a third of its output. After engagement with the Minister of Trade, Industry and Competition and other stakeholders, AMSA agreed to defer closure subject to accelerated support in the following areas:

- Improved Transnet services;
- Stronger measures to expand demand despite slow overall growth, including localisation as proposed in the master plan and longer-term volume commitments from major customers;
- Stronger enforcement of tariffs;
- Reduced costs for the long steel business, including remuneration and inputs; and
- Elimination of measures to hold down the cost of scrap to local users;

In fact, the steel master plan included all of these measures except for the regulation of scrap, where AMSA's position reversed the master plan commitment. The AMSA experience suggests that the measures were not implemented or, alternatively, that they were inadequate to achieve the desired aims. That said, AMSA's reports for 2023 blamed its emerging losses largely on the fall in international steel prices from their historic 2022 highs, with domestic prices following suit. It had moved from a profit of R2,6 billion in 2022 to a loss of R1,9 billion in 2023. (AMSA 2023:5)

The steel master plan structures remained active as of late 2023. New funding sources were established as foreseen, with a focus on support for downstream producers. The IDC continued to manage the Downstream Steel Industry Competitiveness Fund. As of March 2023, it had approved R138 million in new projects, which would support over 350 existing jobs and 50 new ones, and disbursed R40 million. In addition, the Steel Fund had been established under the South African Iron and Steel Institute (SAISI), with funding expected from a R2 levy a tonne on local steel. (Portfolio Committee on Trade, Industry and Competition 2023)

The workstreams held a number of meetings with government agencies, including the B-BBEE Commission and South African Bureau of Standards (SABS), to discuss measures in the master plan. In many cases, however, the meetings did not lead to improvements in government services for the steel value chain.

Other measures were already initiated before the master plan, and continued after it established platforms. In particular, ITAC continued to introduce new anti-dumping measures and tariffs on upstream and downstream products such as garden tools and coated steel coil.

5.5.3 Outcomes

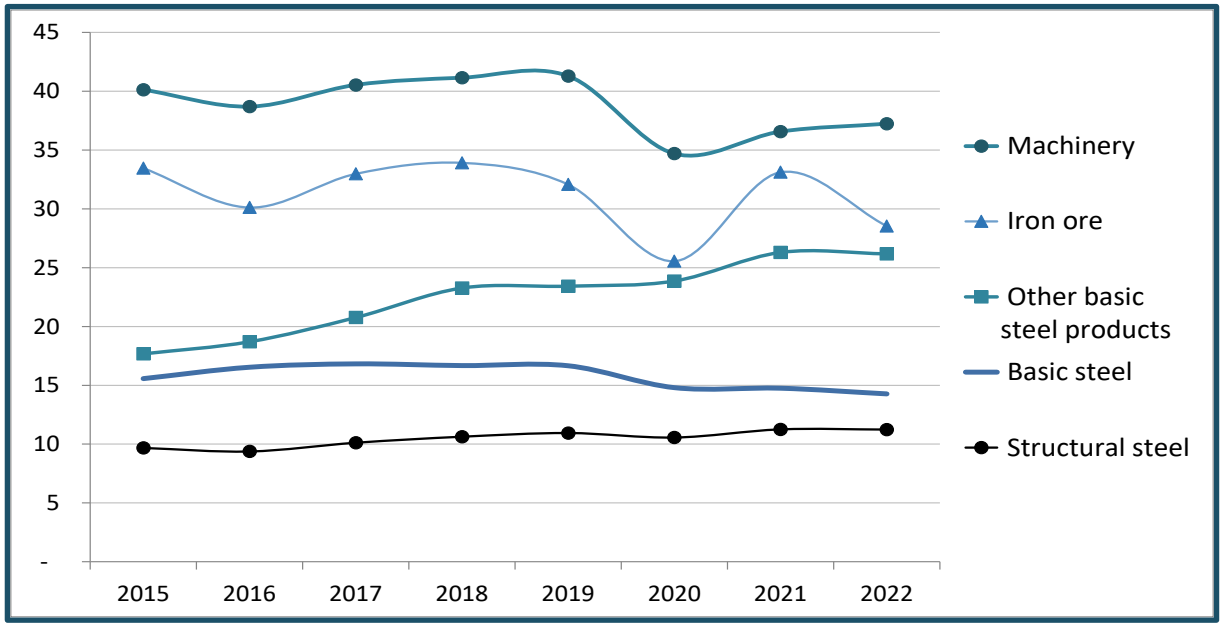
The available data suggest that while value added in basic steel fell from 2019 to 2022, in machinery and other steel products it performed much better. Still, employment remained below pre-pandemic levels in 2022, and the share of imports in crude steel sales and machinery climbed in from 2020 to 2022, but it continued a longer-term decline for other steel products.

As the AMSA case shows, cyclical and speculative swings in global metals prices make it particularly difficult to analyse the effects of the steel master plan. The world steel price has fluctuated since the metals price boom ended abruptly in 2011, when steel prices exceeded R5000 a tonne. They fell gradually to below US$2000 in 2015 before recovering to US$4000 in 2018 and 2019. In 2021, the Russian invasion of Ukraine brought a brief spike around US$6000 a speculative trades, but from the end of the year the price fell back to move around US$4000 through early 2024.[1]

As Graph 14 shows, value added in in basic steel production did not recover from its sharp fall in 2020, when the pandemic hit. In contrast, machinery and other steel products – which are far larger in terms of value added – saw a significant recovery, although machinery remains well below 2019 levels.

[1] Figures for steel rebar from Trading Economics. Interactive database. Accessed at https://tradingeconomics.com/commodity/steel in February 2024.

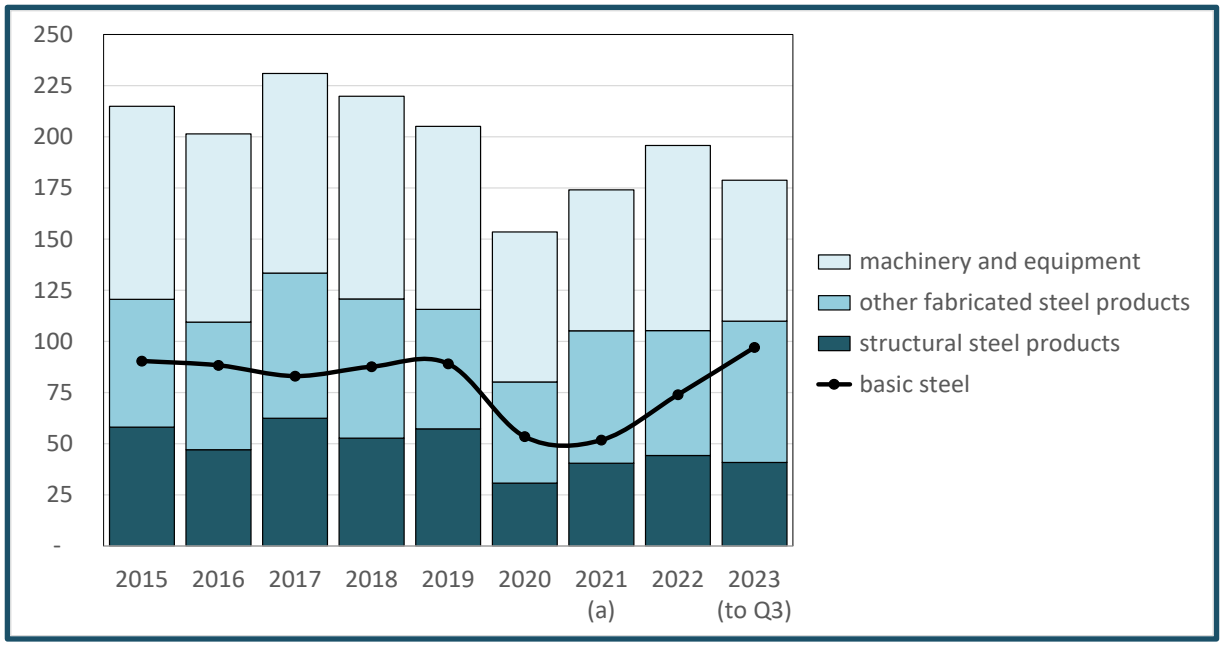
Graph 14. Value added by industry in the steel value chain in billions of constant (2015) rand (a), 2015 to 2022



Note: (a) The value here reflect the volume of production, irrespective of price swings. If deflated with CPI rather than the specific price of each good produced, the value iron ore and raw steel would fluctuate far more. *Source:* Calculated from Quantec. EasyData. Interactive dataset. Standardised industry series. Accessed at www.quantec.co.za in February 2024.

All of the industries in the steel value chain downsized sharply in the pandemic downturn, with some recovery from 2021 to 2022. In 2023, however, only production of basic steel and fabricated steel products increased formal employment. Machinery reportedly shed over 20 000 jobs, or a quarter of the total, while employment in structural steel also shrank. It is not clear if these figures reflect a trend or indeed how reliable they are, since data for 2023 only reflect the first three quarters and all of the employment data are based on surveys without seasonal adjustment.

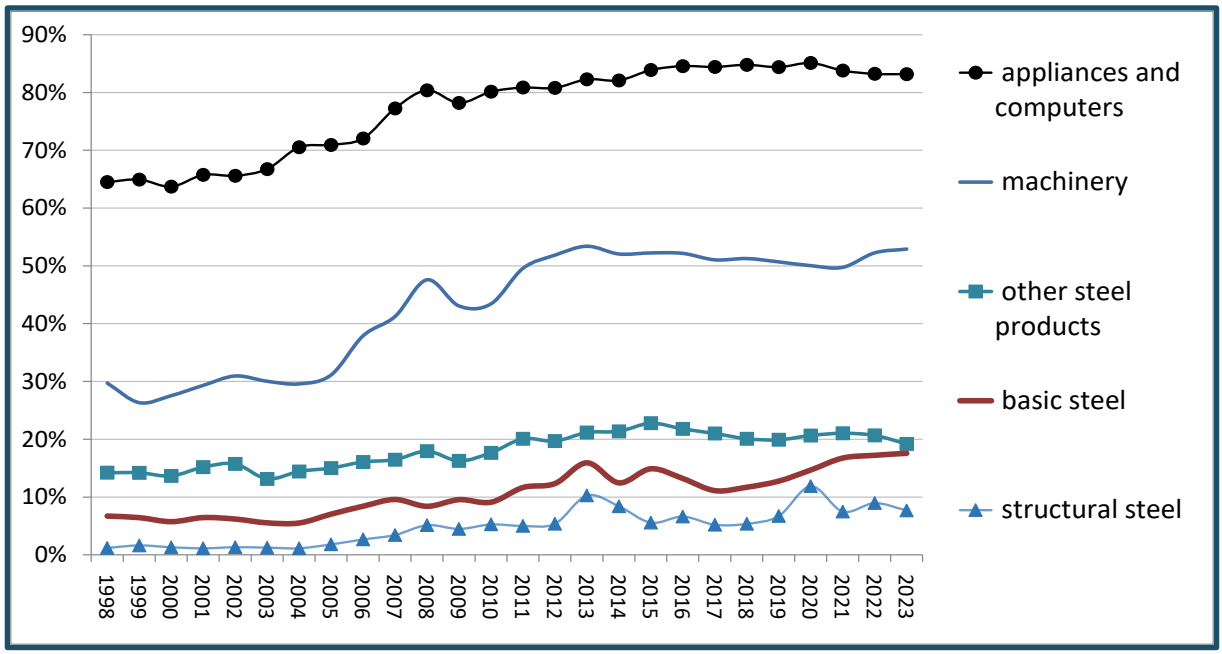
Graph 15. Formal employment in iron ore, basic steel, structural steel, other steel products and machinery and equipment production, 2015 to 2023



Note: (a) Extrapolated from first half as figures for second half marred by very low response rates. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics, 2015 to 2020; Quarterly Labour Force Survey, 2021 to third quarter 2023. Electronic datasets. Downloaded from Nesstar facility at www.statssa.gov.za.

From 2021, the share of imports in steel products varied by industry. It climbed in basic steel, continuing a trend from 2017, and also in machinery and equipment. But it declined in structural steel, other steel products and electronics. (Graph 16)

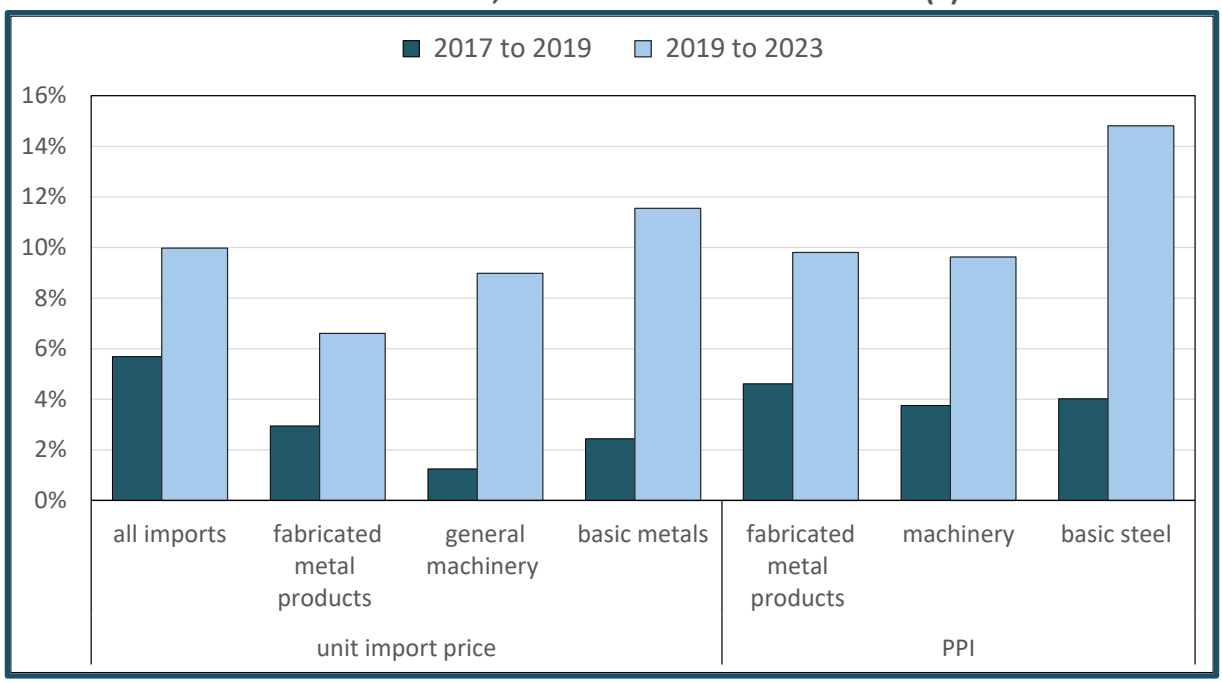
Graph 16. Imports as percentage of imports plus sales in the steel value chain, 1998 to 2023



Source: Calculated from Quantec. EasyData. Interactive dataset. Macroeconomic series (StatsSA data on manufacturing production and sales) and national trade data at HS-6 level. Accessed at www.quantec.co.za in February 2024.

Generally, the domestic producer price index for products in the steel value chain outstripped the index for the unit price of imports, as Graph 17 shows. The producer price for basic steel also increased much faster than the price for machinery and fabricated steel products.

Graph 17. Average annual nominal increase in unit import price and in producer price index for industries in the steel value chain, 2017 to 2019 and 2019 to 2023 (a)



Notes: (a) Annual figures are average of monthly figures for the year. For 2023, year to November. *Source:* Calculated from Statistics South Africa. Export and Import Unit Value Indices; and Producer Price Index. Accessed via Quantec EasyData. Interactive dataset. Macroeconomic series. Accessed at www.quantec.co.za in February 2024.

5.6 Impacts on socio-economic groups

The steel master plan had to grapple with a set of trade-offs along the value chain. Fundamentally, reducing costs in order to expand downstream manufacturing inevitably reduced profits for upstream iron ore suppliers and basic steel mills. Increasingly, too, the established steel mills faced competition, not only from imports, but also from mini-mills that used recycled steel and benefited from the limits on scrap exports.

In theory, measures to increase competitiveness along the value chain could alleviate these trade-offs. In practice, that would require effective and rapid action to upgrade Eskom and Transnet services for the steel value chain, as well as significant improvements in technology.

Table 9. Costs, benefits and risks of the steel master plan by constituency

GROUP	COSTS	BENEFITS	RISKS
Downstream fabricators and their workers	Time for engagement on workstreams and Oversight Council. Continued tariffs on primary steel, with only limited and hard-to-access rebates.	Growth in demand. Improved training, electricity and logistics. Access to additional financing. Reduced tariffs on components and higher tariffs on imported capital goods. Lower cost mini mill production emerges due to lower scrap prices, reducing price of local steel.	Tariffs on primary steel raise costs without anticipated gains in terms of improved infrastructure, training and localisation, expanded rebates or new financing. Government unable to reduce loadshedding or improve transport, so unable to operate profitably. Upstream producers pull out in the face of increasing competition from imports and recyclers, disrupting supply chains.
Primary steel and iron ore producers and their workers	Time for engagement on workstreams and Oversight Council. Levy for Development Fund (0.1% of sales)	Growth in demand including exports. Improved training, electricity and logistics. Access to financing.	If measures are taken to promote developmental pricing, may lose rents, which could outweigh benefits from increased domestic and export demand. Lower prices for scrap cut costs disproportionately for mini mills, which can outcompete older, larger plants. Government unable to reduce loadshedding or improve transport, so unable to operate profitably.
State infrastructure providers	Time for engagement with steel workstreams on infrastructure and localisation.	More efficient and adaptable supply chains. Higher revenues as steel value chain grows.	Local products may cost more or be less suitable than imports.

GROUP	COSTS	BENEFITS	RISKS
	Modify procurement systems to promote localisation. Investment to improve services for steel value chain.		
Households	Tariffs lead to higher prices on products using steel.	Higher employment levels as growth in steel supports overall economic growth.	
The dtic	Master plan lists at least 20 initiatives that the dtic has to lead or support strongly. Resources to rebuild SABS (with business help) and establish Project Management Unit. Time for engagement on workstreams and Oversight Council. Engagement with other government departments and agencies to get them to implement commitments.	Growth in steel value chain stimulates overall economic growth.	Unable to deliver on multiple commitments or reach agreement on how to manage input costs along the value chain, leading to anger and withdrawal by stakeholders. Unable to offset tariffs on primary steel in order to promote growth in downstream production.
IDC	Shift in financing systems for steel to promote more sustainable and value-adding growth.	Returns on investments. Growth in the economy provides better conditions for other investments.	Increased funding for steel value chain does not lead to recovery and ends up with losses.
SARS	Increased resourcing to prevent underinvoicing and mislabelling of steel imports and scrap exports.	Additional resources from business to support enforcement.	
SABS	More standards set and overseen for steel value chain, including localisation and standards for various products. Pressure from importers and producers of substandard products to pass them or to relax standards.	Revenue from services. Additional resources from business.	

5.7 Conclusions

The steel master plan diverged markedly from the approach modelled in the auto industry, which leaned heavily into commissioned research by trusted professionals. Instead, it effectively listed proposals from stakeholders, without ensuring agreement on a basic strategy before publication.

In this context, the master plan fell back on the relatively easy task of seeking government measures to boost demand and improve infrastructure provision. But it did not provide a narrative on how to

make the industry more competitive. Absent a strategy to achieve that aim, however, the long-term stagnation in the industry seemed likely to persist.

As in the poultry and R-CTFL master plans, the pricing of locally produced raw materials for downstream manufacturing remained largely unresolved. In addition, the steel master plan did not discuss
the emergence of new technologies, notably the mini mills that added to pressure on established, large-scale steel plants.

The master plan project originally called for stepped up coordination across the state to support industry-level interventions. As in the other industries, the published master plan for the steel industry identified demands on state agencies, but did not set up new platforms to engage on them. As a result, the master plan process did not in itself improve communication around industry-level concerns within the government. Moreover, it did not have a mechanism to assist key state agencies, notably Eskom, Transnet and SARS, in prioritising demands from the industries involved in the master plan project.

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