

Address by the MEC for Economic Development and Tourism, Mr Michael Mabuyakhulu, on the occasion of the launch of RheemSA's New Drum Line in Prospecton, Durban

27 February 2014

Programme Director;

Dignitaries Present;

Ladies and Gentlemen;

All protocol observed.

We are more than delighted to join you today as we witness the commissioning of a new production line for Rheem, a hall mark for the manufacturing industry in South Africa and more so for KwaZulu-Natal province.

This event comes just a day after the Minister of Finance, the Honourable Pravin Gordhan, tabled a R1.1 trillion budget for the 2014/15 financial year; two days after the release of official statistics that reveal South Africa grew by 3.8% from a quarter ago; and almost two weeks after the release of official estimates that indicate a total of 15 million individuals of the working age adults are employed in the country. All these estimates underscore a growing importance of the manufacturing industry in the country.

For example, the fourth quarter of the 2013 Gross Domestic Product (GDP) figures indicate that manufacturing grew by 12.3 % accounting for about 1.8 percentage points of the 3.8% growth in overall GDP. As a result, manufacturing is the fourth largest sector in the country contributing 11.7%, behind Finance, Real Estate and Business Activities (21.2%), Wholesale and Retail Trade (18.3%); and General Government Services (17.3%).

Similarly, manufacturing is the key sector in our province contributing an average 18% to the provincial output, and generating a solid 14% of the

provincial employment. KwaZulu-Natal's manufacturing sector is also the second largest in the country with 22% of South Africa's manufacturing gross value addition based here in KwaZulu-Natal.

Why manufacturing is key to development?

Despite the uncontested dominance of the tertiary sector in most economies in terms of output and employment contribution, figures corroborate that these economies were built from a strong manufacturing base. Manufacturing is thus a wealth-producing or wealth creating sector in the economy, where the service sector tends to be wealth consuming. It is an indisputable fact that part of the reason for the economies in developing countries to lag behind their counterparts in the developed world has been as a result of the concentration of these economies almost exclusively on primary production rather than manufacturing.

However, economists argue that the late entry of developing economies into manufacturing and generally industrialisation was a blessing in disguise because among other things, it meant that they benefitted from a concept called "advantages of backwardness". This means that those who join a bit late benefit from the experiences of those who preceded them and are better able, or completely avoid, dealing with challenges experienced by the pioneers and trendsetters. As such, the South African situation until 1994, means that, while a section of our population was barred by law from participating in manufacturing, they now enter the terrain wiser because of the lessons learned by others. This obviously is not an advantage because the state of affairs also meant that they are not able to compete on an equal footing with their peers because of late entry.

Therefore, a sizeable portion of our society, the majority of whom were sidelined from the country's industrialisation, can be regarded as latecomers. RheemSA, we argue, falls within this group. Again economists argue that, with late industrialisation, governments and financial institutions invested directly in industries and transport infrastructure. Governments also played a crucial role

in the mobilisation of resources for investment and they were very active in education and technology acquisition. They also set themselves the task of eliminating historical obstacles to industrialisation and challenging the economic, political and military dominance of the early industrialisers. As you can see, programme director, no programme of industrialisation can succeed without government and the private sector playing their respective roles. We contend that through various schemes and interventions, the South African government has, and continues to play, the expected role of fostering industrialisation and beefing up manufacturing.

We further believe that it is not by chance that the dominant economies in the world are those which boast robust manufacturing sectors. To date the US remains the largest manufacturer in the world, with a share of 20.2% of the world's manufacturing, closely followed by China at 18.9%. Japan is third with 11.1% of manufacturing and Germany fourth with 6.4%. The top 10 countries in the world manufacture 72.3% of the world's manufacturing.

South African manufacturing has increased from R233 billion in 2003 to R300 billion in 2013 (in constant 2005 prices), but the country's share of world manufacturing output has decreased from 0.61% to 0.5% over the same period. Over the same period, countries that are faring well economically are exploiting the manufacturing sector. The resurgence of China as a global economic powerbase is testimony of how a country can use manufacturing activity to turn around the economy eventually attaining a share of 43.1% of manufacturing as a percentage of gross value addition in 2012. The Republic of Korea also has a high manufacturing share of 30.4% in 2012 (up from 27% 2004). Germany and Japan have manufacturing shares of GVA of above 20%. South Africa and Mexico are below 18%. This highlights the need for domestic policy to improve the domestic economy to further promote the manufacturing sector.

Collaboration to Achieve a Globally Competitive of Manufacturing Industry

Globalisation, outsourcing and international supply chains, along with completion from low cost producers and rising global demand for services mean that our companies need to invent business models that allow them to compete globally. One way is to upgrade and restructure our industry. However, on their own, companies may be small and lack the economies of scale to innovate and invest in new technology. This has an effect of limiting productivity across the value chain. This limitation underscores the importance of collaboration in improving productivity, and staying competitive and relevant to the world.

Productivity outcomes will clearly depend not only on the choices and actions of the government, but also the private sector, individuals, businesses, and the community at large. As government, our overarching role is to get underlying policy settings 'right', both on spending and regulation or the policy mix in general.

One way of thinking about the role of policy is to consider where South Africa's productivity levels are relative to world's best practice – the global technology frontier. The global stock of technology obviously determines what is possible to produce with given resources, and how.

Where we are relative to the global frontier depends on our domestic policy choices, the quantity and quality of our labour and capital, as well as environmental and historical factors that determine the extent to which resources are used as efficiently as technically feasible. Maximising our productivity growth prospects for the future will depend on our capacity to move with advances in technology.

As a small economy, South Africa has historically been more of an adaptor and user, rather than generator, of advances in technology. This implies that it is important that policy facilitates an environment in which firms can nimbly absorb technological progress from overseas.

Governments can also act to help close the gap between South Africa and the best practice frontier by ensuring we have well-functioning, competitive and open markets, including being open to ideas and technology from abroad; and removing impediments to the flexibility, responsiveness and dynamism of firms. This, however, we have to do within the context of putting the interests of our country first and not jettisoning our role to help build African economies that can hold their own among the economies of the world. If there is one challenge we are awake to, it is the threat of re-colonisation of Africa by stealth.

In order to bolster manufacturing promote industrialisation, as the government of KwaZulu-Natal, we have been actively participating in the Special Economic Zones initiative, which has the objective of reducing the bureaucratic processes in setting up businesses as well as incentivising potential investors. We are also in the process of setting up industrial hubs across all the districts in the province. To this end we had commissioned a study by experts to tell us exactly which sectors would become industrial hubs in which districts. It is for this reason that during the past financial year we had announced a sum of R90 million towards the establishment of these industrial hubs.

Programme director, you will, no doubt, be pleased to note that in yesterday's budget policy speech, the national finance minister made provision for R3.8 billion to fund the SEZ initiative. As you know, over and above the industrial hubs, our province boasts two SEZs in the form of the Richards Bay IDZ as well as the Dube Trade Port.

Sharing Facilities to Achieve Economies of Scale and Cost Savings

Through industrial hubs, the provincial government will provide bulky communal infrastructure and set up conditions that allow companies to collaborate on a hub and spoke framework. This will help us transform for higher productivity. We see three areas for such collaboration – product development, sharing facilities, and internationalisation. Through sharing facilities, smaller companies with less investment capital are able to spread the high costs and risks while benefitting from the use of such infrastructure.

Regional Integration for Scale

Our small domestic market makes internationalisation a necessary strategy for our local companies to grow and remain competitive. The government remains committed to support companies in their overseas and regional ventures through its various frameworks which help companies build internal capabilities, facilitate new market entry and enhance their market presence. The current exchange rate is quite competitive in incentivising local exporters, so we would like to encourage our companies to take advantages of such macroeconomic conditions to generate export revenue.

Infrastructural Development

Government has put in place a coordinated infrastructural programme to catalyse key sectors of the economy including manufacturing. In KwaZulu-Natal for example, planning is underway to expand the road network, upgrade the rail network, develop a dug out port with a view to ease congestion at the ports and eliminate any freight movement bottlenecks.

RheemSA

Programme director, in line with the government's drive to bolster manufacturing in order to, among others, address the challenge of unemployment and grow the economy of our province, we welcome the R50 million investment made by RheemSA into the new drum line. We are particularly pleased by the vision of expansion into Africa that the company has invested in this new state-of-the-art technology. Indeed, regional integration is the future and it is those companies who make the necessary plans today who will benefit when this becomes a reality.

Programme director, we are also pleased to note that the acquisition of this new technology by RheemSA did not result in any losses of permanent jobs within this company. Often times we observe situations where the introduction of new technologies signal retrenchments for workers.

We further want to commend your forward-looking decision to keep your head offices in Prospecton, here in the province of KwaZulu-Natal. The faith that you show in the province's potential as the right location for your company's future growth is not misplaced. Indeed, our government pledges to stand with you in your future endeavours to grow the company and extend its footprint into the continent, thereby making our economy globally-competitive and addressing the challenges of unemployment and poverty that we are still grappling with.

Conclusion

As we conclude, ladies and gentleman, we contend that it is imperative for government, the private sector and all our stakeholders continue to work together for a better KwaZulu-Natal provincial economy. Anything less than a vigorous commitment by all stakeholders to the attraction of significant investment that will make KZN industries more globally competitive will only invite a sad indictment on all of us who are patrons in growing and developing this economy. We dare not fail in making KZN the preferred

investment destination in South Africa and the region. We share a common objective of making KwaZulu-Natal the manufacturing capital of our country and the entire SADC region. If we work together, we do not doubt that our efforts will only yield success.

I thank you.