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THE DEPARTMENT  
OF TRADE AND INDUSTRY  
SOUTH AFRICA



# BUSINESS OPPORTUNITIES IN SOUTH AFRICA

*GINNY VERRAN, SOUTH AFRICAN EMBASSY*

*1 DECEMBER 2005*

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# Presentation Outline

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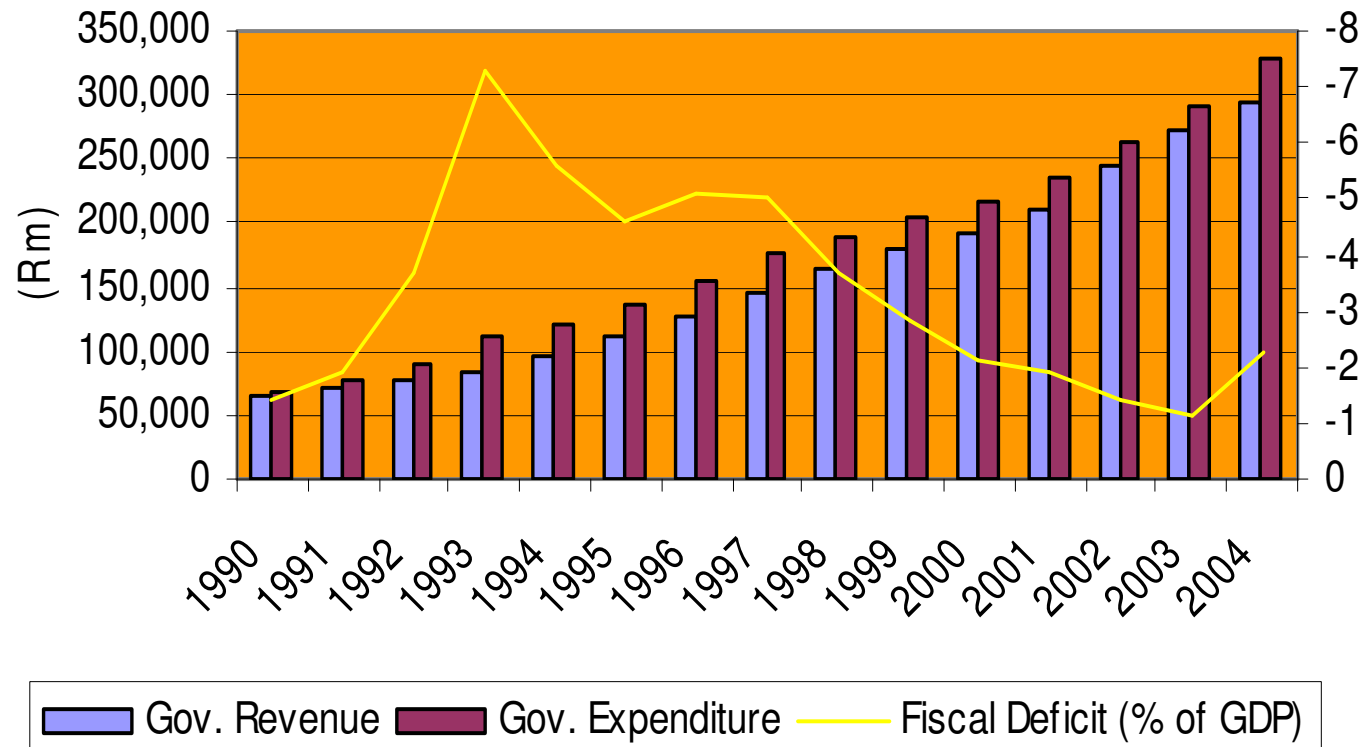
1. Macroeconomic stability – fiscal policy  
monetary policy
2. Macroeconomic performance
3. Policy environment – global and domestic
4. Prioritised growth sectors – investment opportunities
5. Investment in national infrastructure
6. Investment incentives

# Macroeconomic stability – fiscal policy



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### Government Expenditure, Revenue and Fiscal deficit



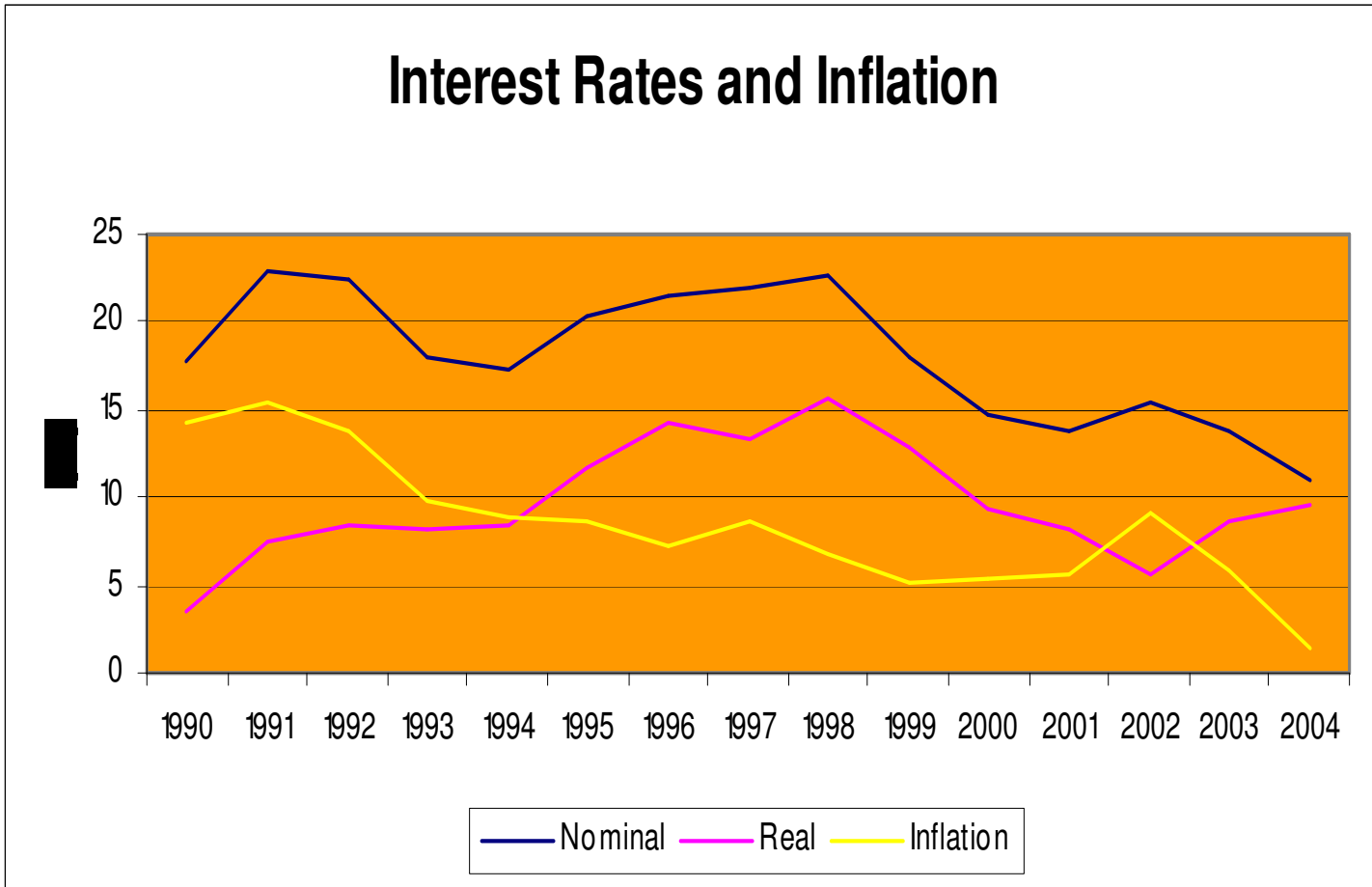
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# Macroeconomic stability – monetary policy



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### Interest Rates and Inflation



Source: SARB

# Macroeconomic performance

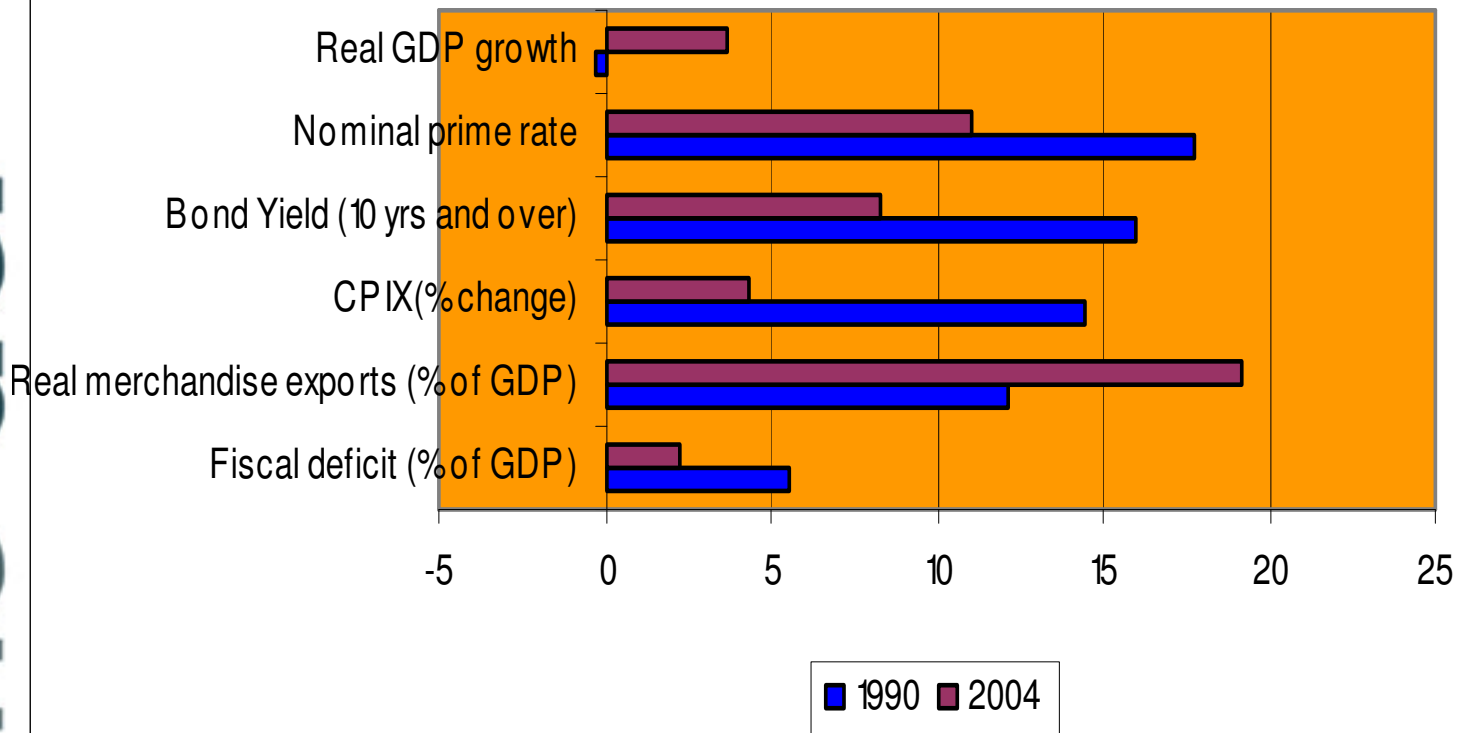
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## Key Macroeconomic Indicators



Source: SARB

# Macroeconomic performance

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Country	Moody's Sovereign Long-Term Debt Rating Foreign Currency (2004/5)	S&P's Sovereign Long-Term Debt Rating Foreign Currency (2004/5)
	Rating	Rating
Poland	A2	BBB+
Mexico	Baa2	BBB-
South Africa	Baa1	BBB+
Thailand	Baa1	BBB
Philippines	Ba2	BB
India	Baa3	BB
Turkey	B1	B+
Brazil	B2	B+

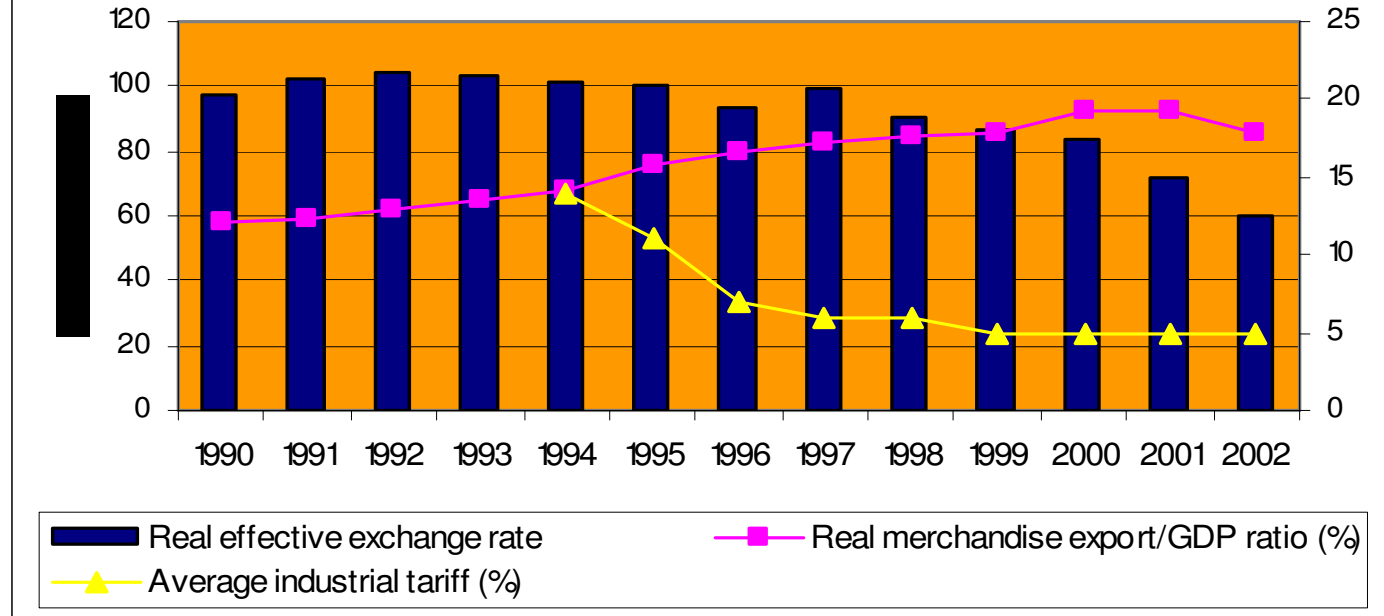
Source: SARB

# Policy Environment: Global and domestic competitiveness



- **Accession to the global trading system**
  - Joined the WTO in 1994
  - Tariff phase-down and simplification of tariff structure

**Real effective exchange rate, Real export/GDP ratio and  
Tariffs**

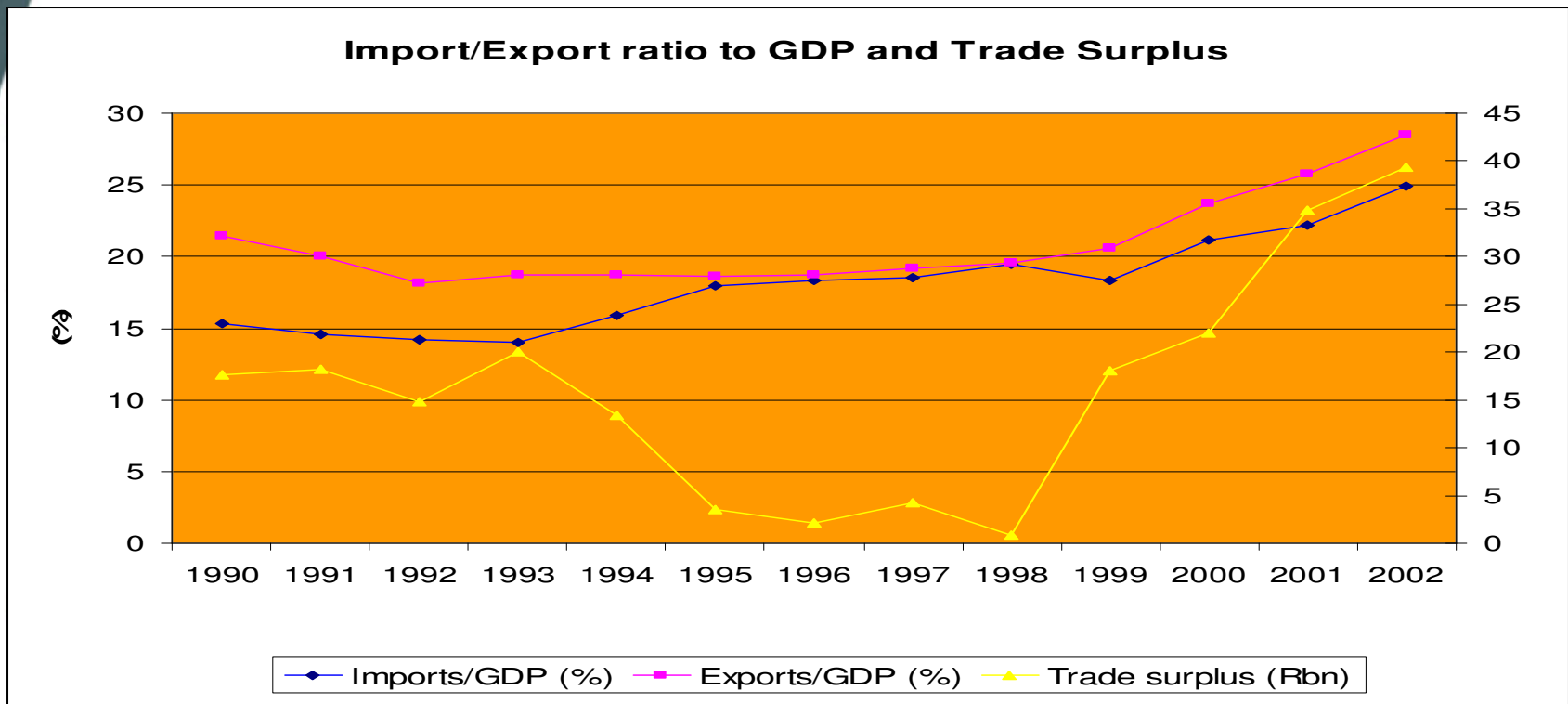


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# Policy Environment: Global and domestic competitiveness

- **Market Access**

- Trade Agreements signed with the European Union and SADC
- Africa, Growth and Opportunity Act
  - Unprecedented access to the US market across a range of products
- Further free trade agreements possible: USA, Mercosur, EFTA, India, China, Nigeria, Kenya



Source: SARB

# Policy Environment: Global and domestic competitiveness

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- **Macroeconomic reform**
- **Initial set of microeconomic reform measures**
  - The introduction of **new supply-side measures**;
  - Negotiation of a **new labour relations dispensation**;
  - Development of new legislation and an institutional framework for **skills development**; and
  - Development of a **new small business institutional framework** and **supporting legislation**.

# Policy Environment: Global and domestic competitiveness

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- **Microeconomic Reform**
- **Crosscutting Issues**
  - **Addressing key micro-economic enablers**
    - Technology
    - Human resource development
    - Access to finance
    - Infrastructure
  - **Creating competitive and sustainable input sectors**
    - **Transport, telecommunications and energy**
  - **Promoting equity with growth**
    - Black Economic Empowerment
    - Small Business Development
    - Employment
    - Geographic spread of economic activities

# Prioritised growth sectors – investment opportunities

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Sector	Sub-sector
<b>Agro-processing</b>	Fisheries and Aquaculture, Floriculture, Fruit and Vegetable Processing Plants, Juices, Meat Processing, Wine Production, Confectionery, Indigenous Teas and Natural Fibres
<b>Automotives</b>	Interiors, Engine Parts/Components, Electronic, Drive Train Components, Body Parts and Aluminium Components
<b>Chemicals and Allied Industries</b>	Fine and Specialty Chemicals, Inorganic and organic Chemicals and Pharmaceuticals, Consumer formulated chemicals and bulk formulated chemicals
<b>Business Process Outsourcing &amp; IT Enabled Services</b>	Call Centres, Back Office Processing and Shared Corporate Services
<b>Electro Technical</b>	Automotive Electronic Manufacturing, Upgrade of Micro Chip Plant, Contract Manufacturing
<b>Tourism</b>	Hotels and self-catering holiday resorts, Adventure-, Eco-, Sport- Conference- and Cultural tourism, Gaming, Infrastructure development, Leisure Complexes and World class golf courses

# Prioritised growth sectors – investment opportunities

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Sector	Sub-sector
<b>Clothing, Textiles, Leather and Footwear</b>	Cotton Spinning, Weaving and Knitting, Industrial Textiles, Middle- to high-end apparel wear, Production of other natural fibre textiles
<b>Mining and metal based industries</b>	Aluminum smelter capacity, Capital equipment: machine tool manufacturing and petrochemical equipment, Downstream processing and value-adding of iron, carbon steel, aluminum, diamonds, platinum group metals and gold, Ferro-alloys and stainless steel
<b>Aerospace, Rail and Marine</b>	<p><b>Aerospace:</b> Rotor and fixed wing aviation equipment and services, Helicopters and aircraft components, Aviation training services for African airlines, IDZ at Johannesburg International Airport, Warehousing for aircraft parts</p> <p><b>Rail:</b> Rolling stock and services for the domestic market, Estimated R7 billion Gautrain which includes infrastructure development and rolling stock, Rail infrastructure of the African continent through NEPAD and Rehabilitation of low density rail line</p> <p><b>Marine:</b> Development of boat yards and wet docks/floating docks, Joint ventures with local shipyards, Manufacture of boats, yachts and catamarans, fleet racing boats, Custom-made vessels (tugs) and Training schools</p>



# Potential Investments in National Infrastructure over the next 5 years

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- **Electricity: R95 billion (€12 billion)**
  - Rehabilitation of three power stations; plus the construction of two peaking plants (R15 billion/ € 1,8 billion)
- **Transport: R40,8 billion (€5 billion)**
  - In Durban Harbour, the expansion and redesign of Pier 1 and the widening of the entrance will cost R2,9 billion/ € 360 million
  - The container terminal at Ngqura and the expansion of the Cape Town Container Terminal will cost R2,6 (€325 million) and R1,4 (€175 million) billion respectively.
  - The new Multipurpose Pipeline from Durban to Gauteng will be a R3 billion(€375 million) investment.

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# Potential Investments in National Infrastructure over the next 5 years

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- In product terms Eskom's demand for steel and cement per annum in the next few years is 60 000 and 1 million tons respectively.
- The construction of the pipeline will require anywhere between 75 000 and 90 000 tons of steel.
- Spoornet will spend some R8 billion (€1 billion) on locomotives, wagons and equipment.

# Investment Incentives

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Incentive	Benefit	Main Conditions
<b>Small and Medium Enterprise Development Programme</b>	Cash grant of up to 10% of qualifying assets	Investments of less than R100m; benefit decreases with size of investment
<b>Support Programme for Industrial Innovation</b>	50% of the direct cost incurred in development	Development must be a significant technological advance and have commercial advantage over existing product
<b>Industrial Development Zones</b>	Exemption from VAT when sourcing goods and services from South African customs territory and duty-free imports of raw materials and inputs for export	Prospective IDZ operator companies must apply for permits to develop and operate an IDZ

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# Investment Incentives

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Incentive	Benefit	Main Conditions
<b>Foreign Investment Grant</b>	Foreign entities may qualify up to a maximum of R3m	Only new machinery, equipment acquired from abroad and required to establish a manufacturing project in SA will be considered
<b>Critical Infrastructure Fund</b>	Infrastructure projects intended to service IDZ, shall qualify for a grant of 30% of the qualifying infrastructure development cost	The minimum qualifying infrastructure development cost is R15m

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**Thank you for your attention**

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