

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

DEPARTMENT OF TRADE AND INDUSTRY (DTI),
THE REPUBLIC OF SOUTH AFRICA

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM (DEDT),
KWAZULU-NATAL PROVINCE

**STUDY
ON
DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES
IN
KWAZULU-NATAL PROVINCE
THE REPUBLIC OF SOUTH AFRICA**

MARCH 2002

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Preface

In response to a request from the Government of the Republic of South Africa, the Government of Japan decided to conduct the Development Study on the Development of Small and Medium Enterprises in KwaZulu-Natal Province, the Republic of South Africa and entrusted the study to the Japan International Cooperation Agency (JICA).

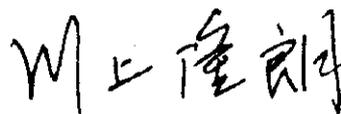
JICA sent a study team, led by Mr. Tetsuo Inooka, UNICO International Corporation to the Republic of South Africa four times from March 2001 to March 2002.

The team held discussions with the officials concerned of the Government of the Republic of South Africa, conducted field surveys in the study area. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope that this report will contribute to the development of small and medium enterprises as well as economic development in the Republic of South Africa and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned of the Government of South Africa for their close cooperation throughout the study.

March 2002



Takao Kawakami
President
Japan International Cooperation Agency

March 2002

Mr. Takao Kawakami
President
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Kawakami

Letter of Transmittal

We are pleased to submit the final report on the Study on Development of Small and Medium Enterprises in KwaZulu-Natal Province, the Republic of South Africa. The report reaffirms the importance of SME promotion in the country, and recommends policies and measures for the promotion. We believe that SME promotion in the country is justified from three standpoints: to enable SMEs to play their expected social and economic roles, particularly by contributing to improvement of industrial competitiveness and correction of social and economic disparities including reduction of the income gap between the rich and the poor; to assist SMEs in their efforts at coping with their difficult business situation; and to promote business startups by people who were disadvantaged under the past apartheid policy, which is one of the most important social and economic issues in the country.

The study included the diagnoses of enterprises, and provision of technical guidance to SMEs, with the objective of assisting in the improvement of competitiveness of them. It also included interview and questionnaire surveys of relevant companies and organizations. The diagnoses and guidance were well received by the companies involved in the program, and helped to convince them that the learning and on-site application of production management technology by SMEs is essential for improving competitiveness of the entire industry to which they belong. At the same time, it has enabled us to clearly understand the situation of SMEs that form supporting industries in the country, including their current conditions and limitations, while it also enabled us to verify our policy recommendations.

Based on the results of the study, the report concludes that the upgrading of SMEs that serve as supporting industries should be given highest priority, on the basis of the recognition that the country's most important policy agenda regarding its industrial economy is to build up internationally competitive industries as an engine for overall

economy expansion. The report also addresses the importance of proper distribution of benefits obtained from economic expansion to all population groups, especially the PDIs, by proposing a master plan that focuses on support for business startups by them.

In fact, the national government, the KwaZulu-Natal provincial government, and relevant industries, have shown strong interest in putting these recommendations into practice, and industry has already acted on some of the recommendations. I believe, however, your further support for their actions will very useful as a prerequisite for their successful implementation, complementing their dedicated and strong efforts.

Finally, on behalf of the Study Team, I wish to take this opportunity to express my sincere gratitude to your Agency, the Ministry of Foreign Affairs, and the Ministry of Economy, Trade and Industry of Japan for their valuable advice and support provided. Also, we wish to express our deep gratitude to the Department of Trade and Industry, the Department of Economic Development and Tourism of KwaZulu-Natal Province, and other organizations in South Africa for their close cooperation and substantial assistance rendered to us during the performance of this study.

Very truly yours,



Tetsuo Inooka

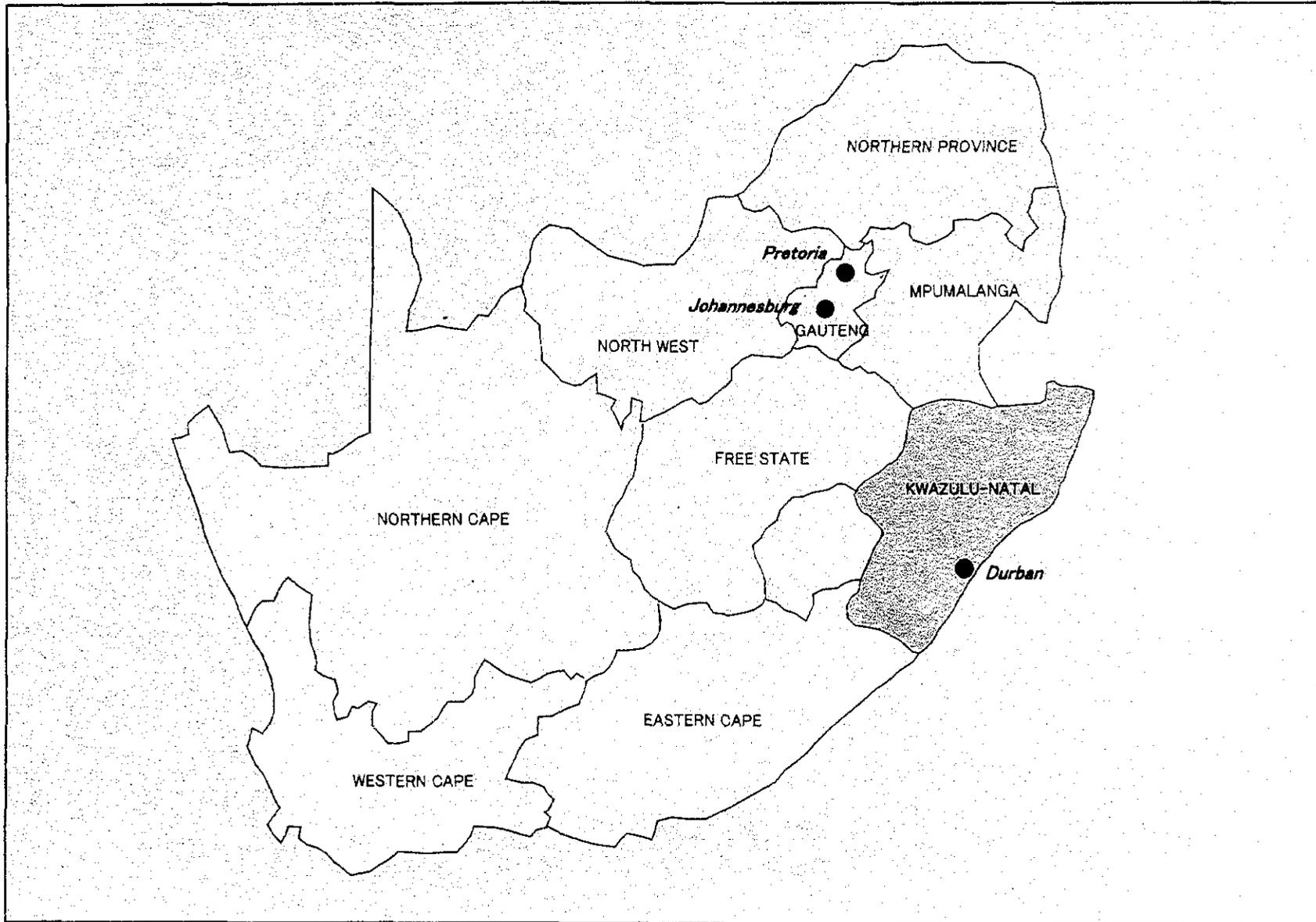
Team Leader,

Study on Development of Small and Medium

Enterprises in KwaZulu-Natal Province

The Republic of South Africa

MAP OF REPUBLIC OF SOUTH AFRICA



Abbreviations

ABET	Adult Basic Education and Training
AIDC	Automotive Industry Development Centre
ANC	African National Congress
BEBP	Bureau of Economic and Policy Analysis, DTI
CBU	Completely Built-Up
CKD	Completely Knocked Down
CQD	Cost, quality, and delivery
CSBP	Centre for Small Business Promotion, DTI
CSIR	Council for Scientific and Industrial Research
DEDT	Department of Economic Development and Tourism (KwaZulu-Natal Province)
DTI	Department of Trade and Industries
DUMAC	Durban Manufacturing Advisory Centre
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross National Products
GEAR	Growth, Employment and Redistribution Strategy
GEIS	General Export Incentive Scheme
GGP	<i>Gross Geographical Product</i>
IDC	Industrial Development Corporation
IEC	Import-Export Complementation Scheme
JIT	Just-in-time
JV	Joint Venture
KHULA	Khula Enterprise Finance Limited
KMI	KwaZulu-Natal Marketing Initiative
KZN	KwaZulu-Natal (Province)
LBSC	Local Business Service Centre
LC	Local contents
LCP	Local Contents Program
LCR	Local Contents Regulations
MAC	Manufacturing Advisory Centre
MERSETA	Metal, Engineering and Related Industrial Sector Educational Training Authority
MIDP	Motor Industry Development Programme
NAACAM	National Association of Automotive Component and Allied Manufacturers
NAAMSA	National Association of Automotive Manufacturers of South Africa
NGO	Non-Governmental Organization
NPI	National Productivity Institute
NQF	National Qualification Framework
NSDS	The National Skills Development Strategy
NTSIKA	Ntsika Enterprise Promotion Agency
OEM	Original Equipment Manufacturer
OJT	On the job training
PDI	Previously Disadvantaged Individual

RDP	Reconstruction and Development Programme
REM	Replacement Equipment Manufacturing
RFI	Retail Financial Intermediary
SABS	South African Bureau of Standards
SADC	Southern African Development Community
SAQA	South African Qualification Authority
SETA	Sector Educational Training Authority
SME(s)	Small and medium enterprise(s)
SMME(s)	Small, medium and microenterprises
SPF	Service Providers Forum
Stats SA	Statistics South Africa
TAC	Tender Advice Centre

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Part I: Outline of the Study

1 Objective and Scope of the Study

1.1 Background of the Study

Significance of small and medium enterprise promotion

In 1994, South Africa entered a new era as the national reconciliation government was established after the first general election with participation by all population groups. The new government promptly launched new social and economic policies. At present, major policy objectives are to reinforce economic growth and to ensure social and economic development that helps achieve fair distribution of income and opportunities.

The government also has adopted a long-term industrial and economic policy based on market liberalization and free competition, which necessitate domestic industries to attain international competitiveness as they have been virtually protected from imports by the economic sanctions imposed by the international community.

Under these circumstances, promotion of small and medium enterprises (SMEs) has significance from two viewpoints. Firstly, it helps build supporting industries having competitiveness in order to form a strong supplier base that can help ensure that large manufacturers improve and maintain competitiveness. Secondly, SME promotion is an effective means to correct economic disparities among different population groups, especially by focusing on job creation and income growth among those people who have been suffering from unfavorable conditions (PDIs).

Current state of SME promotion

The strategic direction of the new SME promotion policy is set forth in the "National Strategy for Small Businesses," which points out that SMEs worldwide have been playing an important role in employment, penetration of new markets, and creative and innovative economic growth and expansion. And it sets forth the strategic basis for SME promotion in the country, namely to leverage such characteristics of SMEs and facilitate their contribution to diversification of the South African economy, productivity improvement, investment promotion, and the stimulation of entrepreneurship.

At the same time, the strategy sets forth a desirable role for the government sector in SME promotion, namely that the government will make maximum efforts to improve the business environment, while sustainable and balanced growth is promoted at the initiative of the private sector.

In line with the direction set forth in the National Small Business Strategy, the Department of Trade and Industry (DTI) in the central government is responsible for general coordination of SME promotion policy. In accordance with this, two organizations were established to plan and implement promotion programs. Ntsika Enterprise Promotion Agency is responsible for non-financial programs and Khula Enterprise Finance Ltd. financial programs. In practice, however, all programs are implemented by organizations that understand the actual conditions of industries and individual enterprises, including local NGOs and private consultants.

Despite such efforts, little by way of visible results has been achieved in the area of job creation through SME promotion.

In KwaZulu-Natal Province, the black population holds a dominant share of 83%, compared to the whites' 7% and the Asians' 9%, and promotion of black-owned businesses is considered to be the key point in job creation. However, as black people were long restricted from conducting business in urban areas, they do not have knowledge, experience and other resources required to start businesses, and new business startups are rarely observed (with exception of a few successful cases).

1.2 The Sequences of the Study

Against the background described above, JICA started to search for ways to provide assistance for South Africa in promotion of SMEs. It first conducted a special training course for South Africa and accepted a number of trainees. Then, to identify opportunities for further cooperation, it conducted reconnaissance surveys, followed by project formation surveys. In the process, discussions were held on a program-based cooperation plan, which includes dispatch of a policy advisor, personnel training in Japan, and development and welfare support, that would focus on KZN where manufacturing industries are concentrated. In particular, it was confirmed that JICA would conduct a development study on SMEs with an emphasis on supporting industries.

This series of studies and discussions has led to a final decision in January 2000, to conduct the development study. In March 2000, JICA sent a preparatory study team to the country. Then in March 2001, the Scope of Work to define the content of the development study was agreed with DTI and the Department of Economic Development and Tourism (DEDT) of KZN.

1.3 Cooperation by the Japanese Government, and the Study

As described above, JICA has been providing extensive assistance and support for promotion of SMEs in South Africa, which is broadly divided into the following three components:

- 1) Assistance and support focusing on micro enterprises;
- 2) Assistance and support for SMEs; and
- 3) General advice on SME / SMME policy, and coordination among the above two components.

The present study has been conducted as part of the component 2 to provide support for SMEs.

1.4 Objective of the Study

Understanding the long-term objective that policy and institutional support for the SMEs to be recommended in the Study are to contribute to the reduction of unemployment in KwaZulu-Natal, the objectives of the Study are:

- 1) To formulate a SMEs development plan including concrete strategy and action plans/projects, especially for the existing and potential component suppliers to specific manufacturing industries (supporting industries),
- 2) To offer venues and opportunities where people in KwaZulu-Natal could share a common vision and direction and where government officials and people from the private sector could exchange their opinions and views regarding SMEs development through workshops to be organized in the course of the Study, and
- 3) To promote the transfer of knowledge and methods to the counterpart's personnel.

Scope of the Study

The nature and scope of the study, as agreed by the two governments¹ in the Scope of Work (S/W), is outlined below.

Study items

- (1) Review of the present economic situation of the Republic of South Africa in general and KwaZulu-Natal Province in particular.
- (2) Review and analysis of current institutional arrangements for SME development, policy framework, and supporting measures available for SMEs including that offered

¹ Signed on March 10, 2001.

- by the private sector.
- (3) Analysis of the machine industry including the automobile and its supporting industries such as metal, plastic, and aluminum processing,² to understand the current situation and relevant development issues.
 - (4) Survey on assemblers and foreign suppliers in KwaZulu-Natal, and screening and analysis of existing and potential SMEs in strategic sub-sectors through the interviews at and diagnosis of selected enterprises.
 - (5) Hold workshops with participants from various organizations and enterprises in order to
 - 1) Identify existing problems and constraints which the existing and potential enterprises particularly in strategic sub-sectors are experiencing,
 - 2) Discuss the SME development plan to be drafted by the Study Team.
 - (6) Formulate the promotion plan, including promotion strategy of SMEs, and the action plan/programs for existing and potential SMEs, which are supplying parts to specific manufacturing industries.

Industries to be studied

Supporting industry for the machinery industries, which includes the automotive industry, primarily emphasizing the following industries as strategic subsectors:

1. Metal pressing
2. Other metalworking
3. Plastics molding

² At the start of Study, the strategic subsectors were agreed to be revised to metal pressing, other metalworking, and plastics molding.

2 General Outline of the Study and Organization of the Final Report

2.1 General Outline of the Study

The study covers the following items.

- (1) Research and study to understand the current state of SMEs and development of SME promotion plans
 - 1) Surveys of selected enterprises to understand general profiles of SMEs and the machinery industry
 - 2) Detailed analysis of problems through enterprise diagnosis and guidance, and assessment of effectiveness of development plans to be proposed
 - 3) Delineation of problems through workshops and sector-based discussions, promotion of understanding of the SME promotion plan development process, and assessment of effectiveness of development plans to be proposed
- (2) Technology transfer to improve competitiveness of SMEs
 - 1) Transfer of knowledge and expertise to SMEs through enterprise diagnosis and seminars
 - 2) Transfer of management consulting techniques to the local counterpart and consultants through enterprise diagnosis and seminars

2.2 Field Surveys and Technology Transfer Program

Starting from the first field survey (Part 1), which was conducted with the objectives of agreement and finalization of the study plan, collection of general information on corporate *management in the country and promotion of participation in each program*; three field surveys (the second part of the first field survey, and the second and third surveys) were carried out in the present study. Further, the fourth field survey was conducted to discuss the survey results and make them known to all the parties concerned.

General outlines of the field surveys, enterprise diagnosis activities, workshops and seminars are given below.

(1) First field survey (Part 1)

The first part of the first field survey was conducted for 19 days between March 11 and March 29, and included the following activities:

- 1) Presentation of the inception report to the steering committee and agreement on the content, methodology and other details of the present study;
- 2) Collection of data and information, including statistics and reports, on the current

state of economies in South Africa and KwaZulu-Natal Province (KZN), the current state of industries to be studied, and an outline of SME promotion policy in KZN; and

- 3) Preparation for key activities, including workshops, seminars and enterprise surveys and diagnosis.

(2) First field survey (Part 2)

The second part of the first field survey was conducted for 27 days between May 20 and June 15, and included the following activities:

- 1) Surveys of selected enterprises

Enterprises surveyed by type of operation and industry

- Assembly manufacturers (to study the current state of the machinery sector)
 - Automobile assemblers
 - Other machinery assemblers
 - Other manufacturers
- Parts suppliers in the following sub-sectors (to study the current state of local suppliers that serve assemblers and would-be suppliers)
 - Metal pressing
 - Other metalworking
 - Plastics molding

- 2) Surveys of SME related information, systems, institutions and organizations

1. Economic conditions in South Africa and KZN (Macroeconomy, inter-industrial relations, and industrial development plan)
2. SME laws and regulations in South Africa
3. General profiles and functions of organizations related to SME support and promotion in South Africa
4. Systems and institutions to support SMEs in KZN, including those accessible to SMEs, promotion programs, and commercial services (financial system, taxation and accounting systems, trade and investment promotion, management advisory service, technological development support, information service, other related programs, and available assistance from donor organizations)

(3) Second field survey

The second field survey was conducted for 50 days between July 8 and August 26, and included the following activities:

- 1) Examination and analysis of the results of the enterprise survey conducted after the

first field survey

- 2) Workshop I (to identify problems facing local suppliers and potential suppliers, extract factors impeding growth, and develop a common understanding of SME promotion among participants)
- 3) Brief enterprise diagnosis and guidance
 - Metal pressing
 - Other metalworking
 - Plastics molding
- 4) Preparation and submission of the progress report

(4) Third field survey

The third field survey was conducted for 44 days between October 17 and November 29, and included the following activities:

- 1) Presentation of and discussion on the interim report (primarily to discuss the strategic direction of the SME promotion plan with related organizations and industries)
- 2) Workshop II (to examine the effectiveness of the draft SME promotion plan proposed in the Interim Report)
- 3) Follow-up activities to the simplified enterprise diagnosis
- 4) Detailed enterprise diagnosis
 - Metal pressing
 - Other metalworking
 - Plastics molding

(5) Fourth field survey

The fourth field survey was conducted for 16 days between February 20 and March 7, and will include the following activities:

- 1) Follow-up activities to the detailed enterprise diagnosis
- 2) Workshop III (presentation of and discussion on the Draft Final Report in Durban)
- 3) Seminar (presentation of and discussion on the Draft Final Report in Pretoria)
- 4) Participation in the Steering Committee

2.3 Organization of the Final Report

The final report compiles the results of researches, surveys, analyses, and other activities conducted in the present survey, including those contained in the progress and interim reports that have been already prepared and submitted.

Figure I-2-1 Organization of Final Report

- Summary
 - Executive Summary
 - Summary
- Main Report
 - I Outline of the Study
 - II Analysis of Current State
 - III Conclusion and Recommendations
 - Annexes
- Case Studies of Enterprise Diagnosis and Guidance

The report is divided into three parts, “Executive Summary,” “Main Report” and “Case Studies of Enterprise Diagnosis and Guidance.”

“Main Report” consists of “Outline of the Study,” “Analysis of Current State,” “Conclusion and Recommendations” and Annexes.

“Outline of the Study” discusses the objective and scope of the study, and the results. “Analysis of Current State” reviews the current state of the industrial sector, automobile and automotive parts industries, SMEs, and promotion policies and programs in KZN, and analyze major issues. “Conclusion and Recommendations” sets forth the strategic direction of SME promotion, examine an optimum promotion system and institutional setup, and proposes implementation strategies. Further, the master plan for SME promotion is recommended and developed into action plans, which contains actual programs and projects to be implemented.

Annexes contain detailed survey results of the machinery and supporting industries, especially the automotive industry, details of the enterprise diagnosis program and its implementation results, and findings from each program.

Finally, “Case Studies of Enterprise Diagnosis and Guidance” comprises the results of enterprise diagnosis and guidance, which can be used as reference for the future enterprise diagnosis program and similar activities in the country.

Part II: Analysis of Current State

1 Socioeconomic Conditions in South Africa and KwaZulu-Natal, and Economic and Industrial Development Plans

1.1 Socioeconomic Conditions of South Africa and KwaZulu-Natal

1.1.1 Country in general

Major socioeconomic indicators concerning South Africa and KwaZulu-Natal (KZN) are presented in Table II-1-1. In addition, data on Gauteng and Eastern Cape are shown for reference because automobile assembly plants are concentrated in these two states.

South Africa has land area of approximately 1.2 million km², making it close to Peru and Angora in size. The national population is approximately 40.6 million and its population density is relatively low at 33 persons/km². The country is multiracial. Africans account for a dominant share of 77%, followed by whites with 10.9%, colored 8.9%, and Indian/Asian 2.6%. Africans are further divided into a number of population groups, of which Nguni people accounts for two-thirds. The diversity in population groups is also reflected in the fact that there are eleven official languages, including Afrikaans and English.

GDP amounts to R728 billion (US\$130 billion), the same level as that of Indonesia. GDP per capita is US\$3,000 on average, more or less the same level as Malaysia. However, there is a very large difference in income levels between the high income segment and the poverty segment, and there seems to be few people in the average income group. GGP in KZN amounts to R94 billion, accounting for 13% of GDP. GGP per capita is R11,000, which is equivalent to a third of that in Gauteng and is higher than that of Eastern Cape.

By sector, the manufacturing sector is largest and contributes 20% of total output, followed by finance, 18%; government, 15%; commerce, 14%; and transportation, 11%. Each sector has been growing year after year on a real basis.

A major problem for South Africa is the high unemployment rate that reached 23% in 1999. The unemployment rate is highest among Africans, 29%. The situation is worse in KwaZulu-Natal, where the overall rate reaches 26%, and Africans who have an unemployment rate of 30%.

Birth of the new government

In April 1994 South Africa held its first democratic election, under an Interim Constitution. The ANC emerged with a 62% majority. The ANC-led Government then

**Table II-1-1 Major Social / Economic Indices of South Africa
and KZN Province**

	South Africa	KZN Province	(For reference)	
			Gauteng	Eastern Cape
Land areas (km ²)	1,219,090	92,100	17,010	169,580
Total population	40,583,573	8,417,021	7,348,423	6,302,525
African	31,127,631	6,880,652	5,147,444	5,448,495
White	4,434,697	558,182	1,702,343	330,294
Colored	3,600,446	117,951	278,692	468,532
Indian / Asian	1,045,596	790,813	161,289	19,356
Other	375,204	69,423	58,654	35,849
Population density	33.3	91.4	432.0	37.2
GDP / GGP (R mil.)	728,055	93,851	267,973	51,760
(Per capita, R)	17,940	11,150	36,467	8,213
GDP distribution (%)				
Agriculture	3.3	2.8	0.6	5.3
Mining	5.9	0.5	4.1	0.4
Manufacturing	16.6	28.8	19.4	20.2
Electricity & water	3.0	2.3	2.2	1.6
Construction	2.6	3.0	3.1	2.8
Trade	11.9	12.2	13.6	13.3
Transport	9.1	11.9	11.5	7.8
Finance	26.7	14.1	25.7	11.8
Community services	21.0	24.3	19.6	36.8
Unemployment ratio (%)	23.3	25.9	20.6	29.8

Sources: Statistics South Africa, "South African Statistics 2000"

IMF, "International Financial Statistics 2000"

WEFA, "Regional Economic Focus 1999"

embarked on a program to promote the reconstruction and development of the country and its institutions. This called for the simultaneous pursuit of democratization and socio-economic change, as well as reconciliation and the building of a consensus founded on commitment to improving the lives of all the South Africans, but that of the poor in particular. The current government has maintained the direction of this policy.

Governmental structure

Government is structured at national, provincial and local levels. There are nine provinces. Provinces may have legislative and executive powers over certain jurisdictions, including:

- Education at all levels, excluding university and technikon education
- Environment
- Regional planning and development
- Tourism
- Trade and industrial promotion

These powers can be exercised to the extent that provinces have the administrative capacity to assume effective responsibilities.

KwaZulu-Natal Province accounts for 7.6% of total South Africa in terms of land area, and 20.7% (or 8,420,000) in population.

Regarding the local level governments, the constitution provides for three categories of municipalities; Category A municipality (Metropolitan Municipalities), Category B (District Municipalities) or Category C (Local Area or Municipalities). In the case of KwaZulu-Natal Province, Durban is the metropolitan area. A Metropolitan Council has a single metropolitan budget, a unified property rating and service tariffs system and a unified civil service organization.

1.1.2 Economic overview of KwaZulu-Natal Province

KwaZulu-Natal is second only to the province of Gauteng in terms of percentage contribution to South Africa's GDP.

Economic activities in KwaZulu-Natal are mainly centered in the Durban - Pinetown/ eThekweni metropole and Pietermaritzburg, with significant contributions in the Richards Bay / Empangeni area, the Ladysmith/ Ezakheni area, the Newcastle / Mdedeni regions as well as the KwaZulu-Natal South Coast regions.

The Gross Domestic Product of KwaZulu-Natal was R55 billion in 1996 with the manufacturing sector, at 36%, contributing the largest share, followed by commerce and tourism.

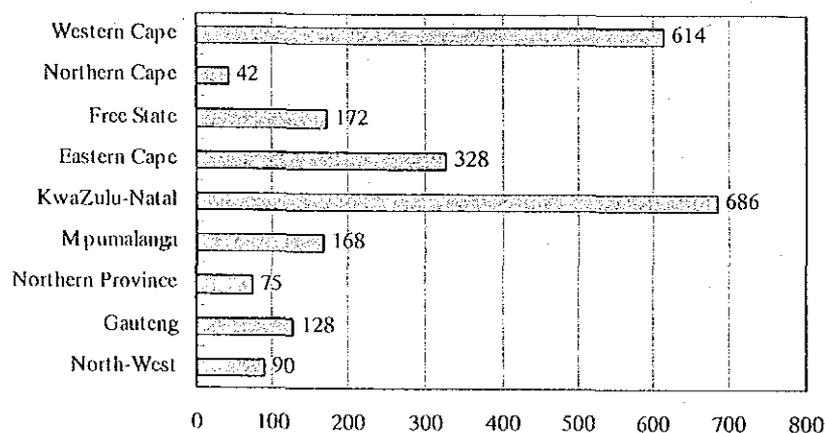
The manufacturing sector is the largest employer in the private sector.

The manufacturing sector has an export bias and nearly a third of South Africa's manufactured exports originate in KwaZulu-Natal.

Within the growth of exports, significant growth rates are evident in non-ferrous basic metal products with aluminum accounting for the bulk of the growth.

For the period August 1991 to June 1998 KwaZulu-Natal has attracted significant investment as shown in Figure II-1-1.

**Figure II-1-1 Total Number of Projects Approved (including Withdrawals)
- August 1991 to June 1998 -**



1.2 Economic Structure and Growth

1.2.1 General

The ongoing liberalization of the South African financial and trade markets has increasingly exposed domestic markets to foreign competition. Mature industries have been restructured and many new ones have developed in reaction to the opening-up of the economy.

South Africa has enjoyed a modest upturn in economic activity since late 1998. The economy experienced five quarters of progressively stronger growth with real GDP of over

4 percent (at an annualized rate) in the final quarter of 1999. Despite some adverse shocks during the first half of 2000, the pace of activity has regained momentum and, led by a healthy expansion in private investment, real GDP grew by over 3 percent in 2000.

1.2.2 GDP by industry, and its growth

Structure of GDP

Table II-1-2 shows the GDP by industry.

The agricultural sector contributes only 4% of the GDP. The mining sector played an important role in the development of the South African economy, but its importance has declined in the last decade and currently accounts for about 6% of GDP. The manufacturing sector accounts for approximately one-fifth of South Africa's GDP. The contribution of financial services and non-financial services increased from about 12% to nearly 18% during the 1990s. Tourism is also expanding.

Economic growth trend

The country's real GDP growth trend is shown in Table II-1-3. In the 1990s, the average annual growth rate was 1.26%. After negative growth in the three consecutive years up to 1992, moderate growth was sustained after 1993, followed by some deceleration in 1997 and early 1998. Then, as mentioned earlier, an upward trend has set in since late 1998.

The economic recovery has been underpinned by sound financial policies¹. In particular, continued strength in the public finances has helped sustain a highly competitive exchange rate and ease pressure on long-term interest rates, while monetary policy has contained inflationary pressures. In 1999/2000, the national government registered a budget deficit of 2.0 percent of GDP (well under the original target of 2.8 percent of GDP) as a result of strengthened tax administration, effective spending controls, and underspending on certain projects. The public sector borrowing requirement fell to just over 1 percent of GDP in 1999/2000, from well above 3 percent the previous year. For 2000/01, the deficit of the national government is estimated to be 2.4 percent of GDP.

1.2.3 National savings and capital formation

Gross national savings and capital formation trends (nominal) are shown in Table II-1-4. Between 1992 and 1999, personal savings declined significantly and fixed capital consumption grew rapidly. The overall value doubled during the period. As for foreign

¹ Source: Article IV concluded by IMF in March 2001.

Table II-1-2 Gross Domestic Product by Economic Activity (at Constant 1995 Prices) (1988 - 2000)

	1988		1989		1990		1991		1992		1993		1994		1995		1996		1997		1998		1999		2000	
	R million	%																								
13 Agriculture, forestry and fishing	22,283	4.7	25,559	5.3	23,735	4.9	24,795	5.2	18,036	3.9	22,366	4.7	24,125	5.0	19,317	3.9	23,950	4.6	24,313	4.6	22,539	4.2	23,304	4.2	24,200	4.3
14 Mining and quarrying	35,827	7.6	35,451	7.3	35,171	7.3	34,397	7.2	34,978	7.5	35,782	7.6	35,946	7.4	34,830	7.0	34,542	6.6	35,118	6.6	34,846	6.5	34,499	6.3	33,875	6.0
15 Manufacturing	105,851	22.4	107,828	22.2	105,405	21.9	100,590	21.1	97,291	20.9	97,114	20.6	99,706	20.5	106,180	21.2	107,648	20.7	110,249	20.7	108,447	20.2	108,282	19.7	112,198	19.8
16 Electricity, gas and water	14,350	3.0	14,881	3.1	15,141	3.1	15,436	3.2	15,520	3.3	16,133	3.4	17,069	3.5	17,408	3.5	18,403	3.5	19,206	3.6	19,317	3.6	19,688	3.6	20,598	3.6
17 Construction	16,242	3.4	17,611	3.6	17,774	3.7	16,942	3.6	15,889	3.4	14,804	3.1	15,233	3.1	15,774	3.2	16,092	3.1	16,572	3.1	16,777	3.1	16,135	2.9	15,987	2.8
18 Wholesale and retail trade, catering and accommodation	67,754	14.3	68,031	14.0	68,580	14.3	67,349	14.2	65,768	14.1	66,121	14.0	67,780	14.0	71,768	14.3	74,415	14.3	74,748	14.0	73,704	13.7	74,676	13.6	78,499	13.9
19 Transport, storage and communication	36,157	7.6	37,732	7.8	37,745	7.8	36,919	7.8	37,620	8.1	38,507	8.2	40,281	8.3	44,538	8.9	47,368	9.1	50,884	9.5	54,443	10.1	58,558	10.7	62,355	11.0
20 Financial intermediation, insurance, real estate and business services	73,172	15.5	74,546	15.4	74,720	15.5	75,875	16.0	76,199	16.4	76,580	16.2	79,378	16.3	82,162	16.4	87,668	16.8	91,454	17.1	96,602	18.0	102,721	18.7	107,679	19.0
21 General government services	73,537	15.5	75,337	15.5	76,552	15.9	78,286	16.5	79,161	17.0	79,366	16.8	80,157	16.5	80,832	16.2	82,422	15.8	82,860	15.5	82,458	15.3	81,879	14.9	80,930	14.3
22 Other services	10,521	2.2	10,728	2.2	10,880	2.3	11,035	2.3	11,198	2.4	11,341	2.4	12,420	2.6	13,690	2.7	14,210	2.7	13,971	2.6	13,902	2.6	14,186	2.6	14,517	2.6
23 Other producers	12,858	2.7	13,318	2.7	13,553	2.8	13,432	2.8	13,499	2.9	13,556	2.9	13,687	2.8	13,855	2.8	14,066	2.7	14,298	2.7	14,626	2.7	14,918	2.7	15,281	2.7
24 Gross value added at basic prices	473,121		484,728		481,077		475,697		465,159		471,670		485,782		500,354		520,785		533,673		537,662		548,846		566,119	
47 Gross domestic product per capita	15,128		15,167		14,806		14,357		13,749		13,621		13,759		13,884		14,150		14,196		13,979		13,847		n.a.	

Source: Statistics South Africa, "South African Statistics 2001"

Table II-1-3 Real Growth of GDP

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP at Constant 1995 prices (R billion)					531.5	548.1	570.9	585.1	589.1	600.2	618.7
%	-0.3	-1.0	-2.1	1.2	3.2	3.1	4.2	2.5	0.7	1.9	3.1

Source: 1990-1994; IMF, International Financial Statistics, 1995-2000; South African Statistics 2001.

Table II-1-4 Gross Saving and Gross Capital Formation (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Saving by households ¹⁾	13,226	12,434	8,478	6,213	6,975	6,569	3,417	1,358	2,386
Corporate savings ¹⁾	20,283	27,656	36,750	35,656	42,448	37,712	32,452	32,679	33,390
Saving of general government ¹⁾	-27,249	-28,593	-28,330	-23,128	-30,613	-32,362	-25,635	-20,811	-15,868
Consumption of fixed capital ²⁾	54,227	58,575	64,500	71,827	78,923	87,155	94,781	103,272	112,633
Gross saving ³⁾	60,487	70,072	81,398	90,568	97,733	98,074	105,015	116,498	132,541
Foreign investment	-5,551	-4,868	-340	7,991	8,125	10,427	12,867	3,398	3,050
Net capital inflow from the rest of the world	-4,179	-6,355	2,137	11,270	3,017	29,377	13,377	29,198	6,242
Change in gold and other foreign reserves ⁴⁾	-1,372	1,487	-2,477	-3,279	5,108	-18,950	-510	-25,800	-3,192
Gross capital formation	54,936	65,204	81,058	98,559	105,858	109,501	117,882	119,896	135,591

Notes: 1) After consumption of fixed capital and after inventory valuation adjustment.

2) At replacement value.

3) After inventory valuation adjustment.

4) Increase -: Decrease +.

Source: Statistics South Africa, "South African Statistics 2001"

investment, capital inflow exceeded outflow in 1994 and afterwards. As a result, gross capital formation exceeded gross savings after 1995.

While domestic savings have been on the steady rise, household savings account for a relatively small percentage and have been declining year after year. Similarly, government savings experienced gradual declines, while corporate savings stagnated. Thus, domestic sources for capital formation were mainly reinvestment by individual companies. Foreign investment has generally been volatile, except for 1997 and 1999 when inflow exceeded outflow significantly.

Foreign direct investment

South Africa welcomes foreign direct investment. There is no restriction on foreign investment in terms of method and amount, and no government approval is required.

The recent foreign direct investment trends are shown in Table II-1-5. Foreign direct investment represents over 15% of total capital formation since 1997 and has been clearly on the rise.

Given the high level of competition for foreign direct investment among emerging markets, South Africa has placed greater importance on forming strong economic trading blocs to gain access to key markets. Government has actively pursued negotiations for an agreement on trade, development and co-operation with the European Union (EU). This agreement will pave the way for developing secure markets for South African-based businesses in the EU.

Similarly, the country attempts to establish close ties with India, MERCOSUR in South America through a free trade agreement with Brazil, and the Southern African Development Community consisting of 14 sub-Saharan countries.

Regarding the restrictions on foreign exchange for non-residents, a gradual but systematic dismantling of all controls are intended, and it has shown a steady progress so far. Most of controls undertaken by the Reserve Bank have been transferred to commercial banks, and applications involving matters outside the authority given to the commercial bank for approval must be submitted to the Exchange Control through a commercial bank.

**Table II-1-5 Foreign Direct Investment
in South Africa**

Year	FDI (R million)	% increase
1994	6,101	
1995	5,712	-6.4
1996	8,711	52.5
1997	15,721	80.5
1998	17,949	14.2
1999	24,292	35.3

Source: Business Map

The matters required application to the Exchange Control are as follows:

- 1) Introduction of non-resident loans
- 2) *Conclusion of Royalty or Licensing Agreement*
- 3) Issues of shares to non-residents for a consideration other than cash
- 4) Pre-shipment payments for import
- 5) Temporary relaxation on local borrowing restriction
- 6) Payment of dividends out of capital projects
- 7) Payment of service fees to related parties

1.2.4 Balance of trade and service and current account

Yearly changes in the country's balance of trade and service and current account balance are shown in Table II-1-6. Between 1992 and 1999, the trade balance continued to register surpluses while the income balance and current transfer balance recorded deficits. The deficits continued to expand and current account balance turned into a deficit in 1995 and deficits continued afterwards.

The stance of financial policies has also helped sustain gains in external competitiveness, which has provided a boost to export performance. As a result, and despite the impact of higher fuel payments and weak gold prices, the current account deficit fell from 0.4 percent of GDP in 1999 to 0.3 percent of GDP in 2000.

Imports and exports have been basically liberalized in South Africa, except for the following:

(1) Import permits

The importation of certain goods specified by government notice is permitted only subject to the issuance of an import permit. All second-hand goods, including waste and scrap of whatever nature, require an import permit.

(2) Export permits

A number of products are currently subject to export control and licensing. Currently restrictions exist on strategic goods (exhaustible resources), agricultural products administered by control boards, metal waste and scrap.

The following measures have been applied for promotion of exports.

(1) Duty drawback scheme

A duty drawback scheme provides refunds for import duties paid on materials used in the production of an export. Manufacturers may apply for refunds upon export of the final product.

Table II-1-6 Balance on Current Account (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Trade Balance	14,995	15,659	11,095	4,777	8,455	7,696	9,121	21,851	25,886
Exports	79,398	91,578	106,842	125,869	151,795	168,415	190,189	205,883	253,804
Imports	64,403	75,919	95,747	121,092	143,340	160,719	181,068	184,032	227,918
Income balance	-8,401	-8,700	-8,599	-10,426	-13,378	-14,797	-17,331	-19,587	-22,514
Current transfers	-1,042	-2,092	-2,160	-2,340	-3,206	-3,328	-4,093	-5,662	-6,422
Balance on current account	5,552	4,867	336	-7,989	-8,128	-10,426	-12,867	-3,398	-3,050

Source: Statistics South Africa, "South African Statistics 2001"

(2) Manufacturing under rebate program

South African Customs and Excise also administers a program for manufacturing under rebate, whereby manufacturers may claim a rebate on imported materials used in the production of exports. Imported materials must be used within 12 months.

This facility is exclusively export driven, and to qualify manufacturers must have secure facilities on their premises for the storage of dutiable materials.

1.2.5 Employment

Employment trends except for agriculture and domestic services are shown in Figure II-1-2. Total employment peaked in 1988 and declined until 1993. It grew between 1994 and 1996, and it has been on the decline since 1997. Total employment in 1999 was approximately 4.9 million.

Table II-1-7 shows the working employed population (workers between 15 and 65 years old) including the agriculture and domestic service sectors, in 1996. Of 9,110,000 persons in employment, the manufacturing sector accounts for 12.3%, 1,120,000 persons. Notably, the number of male workers in the sector is double that of female workers. The unemployed population (including underemployed) amounted to 4,670,000 in 1996.

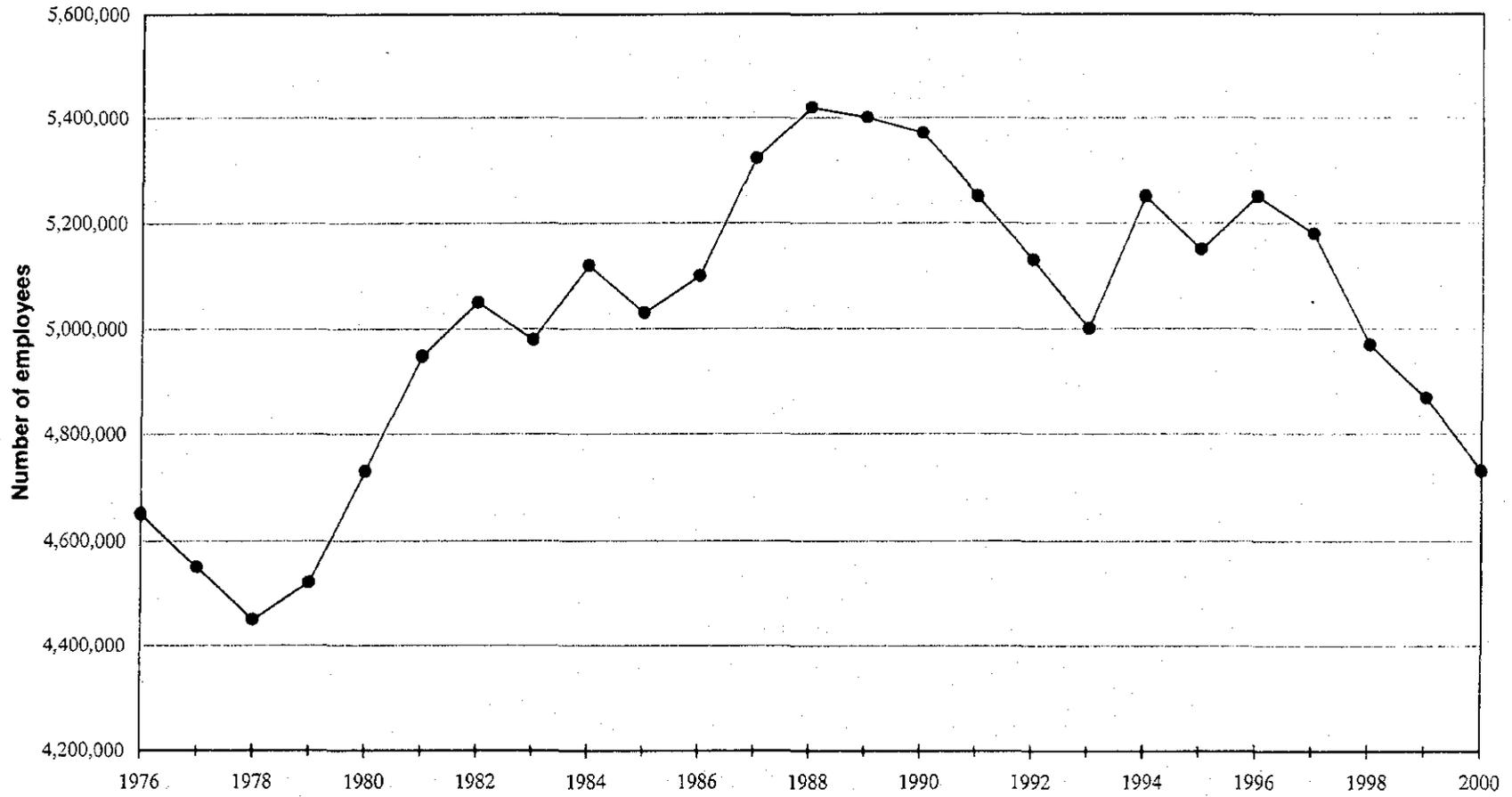
1.2.6 Government finance

Recent trends in revenues and expenditures of the central government are shown in Table II-1-8. Revenues (income tax, VAT, tariff and etc.) and government bonds were more or less at the same level in the 1980s. Then in the 1990s, the latter grew rapidly and exceeded R900 million in 1997, accounting for 86% of total revenues.

The breakdown of revenues in 1997 was income tax 56%, VAT 24%, customs duties (net) 13%, and others 7%. Between 1987 and 1997, customs duties gained share (7% in 1987) while income tax and VAT showed no significant change.

Yearly changes in government bonds and public debt are shown in Figure II-1-3. The public debt grew steadily between 1987 and 1997 and reached R290 billion in 1997. Domestic bonds account for 97% of the total.

Figure II-1-2 Employment (excluding agricultural sector and domestic services)



II - 1 - 14

Source: Statistics South Africa, "South African Statistics 2001"

**Table II-1-7 Economically Active Population
Aged 15 - 65 Years (1996)**

Industry divisions	Total		
	Male	Female	Total
Employed			
Agriculture, hunting, forestry and fishing	573,082	241,267	814,350
Mining and quarrying	521,003	20,544	541,546
Manufacturing	742,900	377,073	1,119,973
Electricity, gas and water	94,320	15,014	109,334
Construction	517,441	37,688	555,129
Wholesale and retail trade	621,314	476,737	1,098,051
Transport, storage and communication	412,788	70,864	483,652
Financial, insurance, real estate and business services	390,448	289,707	680,156
Community, social and personal services	731,259	849,425	1,580,684
Private households	204,276	848,826	1,053,103
Unspecified	673,071	404,797	1,077,868
Total	5,481,903	3,631,944	9,113,847
Unemployed	2,039,917	2,631,729	4,671,647

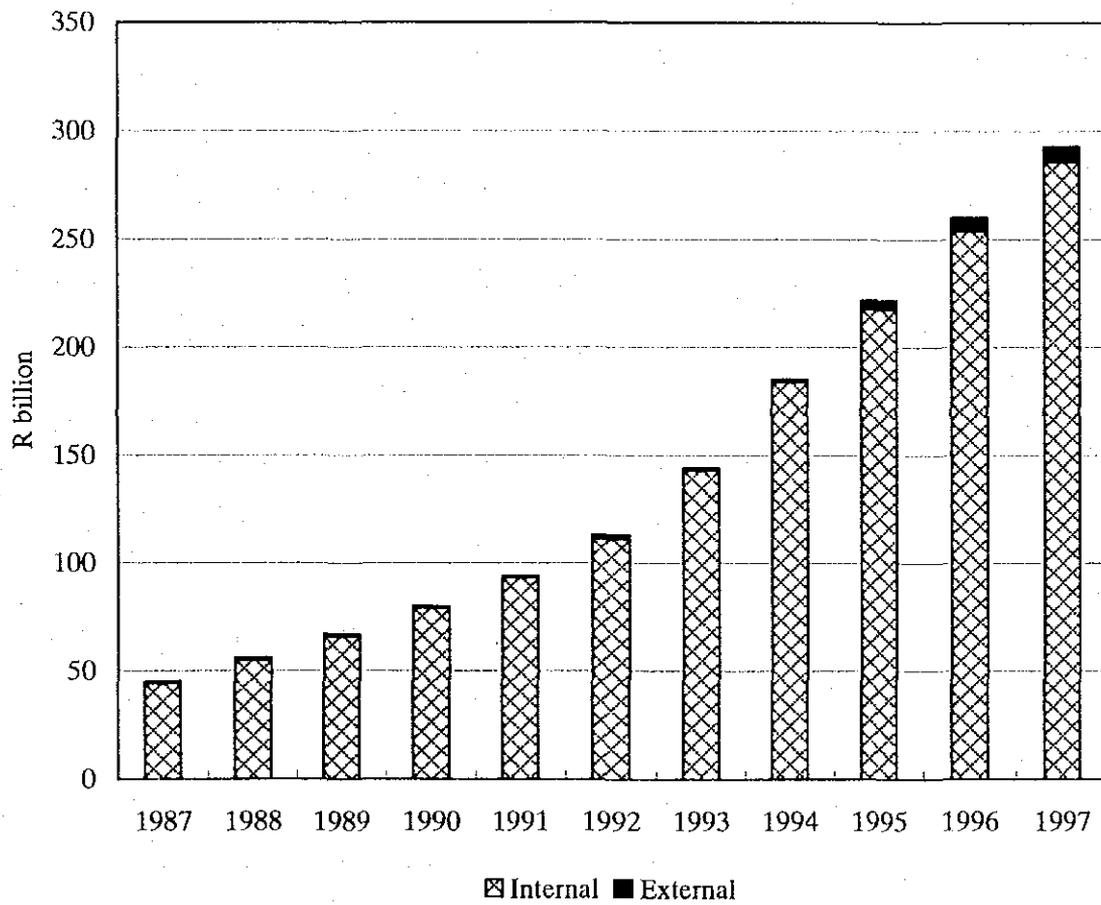
Source: Statistics South Africa, "South African Statistics 2001"

**Table II-1-8 State Revenue Accounts and other
Revenue Accounts**

Year ending March	Revenue	Loans raised	Total
1980	10,577,287	10,798,886	21,376,173
1981	13,758,334	13,264,496	27,022,830
1982	14,893,458	20,178,316	35,071,774
1983	17,656,614	15,564,041	33,220,655
1984	20,477,862	19,504,183	39,982,045
1985	24,223,350	19,785,663	44,009,013
1986	29,871,431	24,229,704	54,101,135
1987	34,744,819	34,882,535	69,627,354
1988	39,641,983	39,814,068	79,456,051
1989	49,587,227	33,063,574	82,650,801
1990	65,877,131	94,403,971	160,281,102
1991	68,029,915	51,633,397	119,663,311
1992	73,993,456	103,920,915	177,914,371
1993	77,689,879	109,989,091	187,678,970
1994	92,488,759	318,051,896	410,540,655
1995	110,425,278	487,866,367	598,291,045
1996	127,742,621	541,462,073	669,204,694
1997	149,055,891	935,717,015	1,084,772,906

Source: Statistics South Africa, "South African Statistics 2000"

Figure II-1-3 Gross Public Debt



Source: Statistics South Africa, "South African Statistics 2000"

Tax revenue

The largest contribution to tax revenue in South Africa comes from individuals (43.2%), whereas the share of taxes raised from companies fell to around 10% during the 1990s. Tax on the gold-mining industry peaked in the early 1980s at about 8.9%, but has since then fallen to 0.1%.

The contribution of indirect taxes is about 40.2%, comprising value-added taxes (23.7% of total tax revenue), excise duties (4.3% of total tax revenue), the fuel levy (7.4% of total tax revenue) and stamp duties and fees (0.8% of total tax revenue).

1.3 Economic Policy

Economic policy is directed at reinforcing the economic growth that South Africa is experiencing and ensuring that social and economic development contribute to an improved distribution of income and opportunities.

Some of the key areas of structural reform targeted by the Government are monetary policy, privatization, international trade and labor market reform.

Monetary policy

The Government and the Reserve Bank have agreed to set an inflation target as part of new approach to monetary policy and price stabilization. The aim is to reduce inflation expectations, thereby contributing to greater economic certainty, reduced risk and lower interest rates.

Price inflation fell from about 15% in 1991 to 5.2% in 1999. Inflation target is to reduce the annual average CPI to between 3% and 6% within two years.

Restructuring of State assets

The Government is engaged in the restructuring and privatization of State enterprises.

Most State-owned enterprises, especially in the energy, telecommunications and transportation sectors, have now been corporatized, allowing for management reform and increased transparency in the allocation of financial resources. The Government is committed to the further restructuring over time of the four largest State-owned enterprises, namely Telkom, Eskom, Transnet and Denel.

A more open economy

Since 1990, the South African economy has become substantially more open towards the rest of the world. Tariff protection, as reflected in the simple average import tariff, dropped from 30% in 1990 to just above 14% by 1998. Free trade arrangements with the

European Union (EU) and the SADC are expected to enhance the opening-up of the South African economy, through exposure of domestic industries to competition from imports and through improved market access for South African exporters.

Exports and imports have grown substantially and South Africa's trade relations have diversified, leading to a rapid growth of exports to sub-Saharan Africa and a significant expansion into Asian and American markets.

Foreign investment is a crucial complement to the low level of domestic savings and to obtain improvement in industrial capacity.

The relaxation of exchange controls, made possible by the strength of current capital inflows. Capital inflow increased significantly in 1999, from R60 billion in 1998 to more than R58 billion in the first three quarters of 1999, as foreign investors bought shares in the South African market. Portfolio inflows are expected to increase further as a result of the third investment grade rating awarded to South Africa.

Foreign direct investment is also expected to strengthen, stimulated by new export-linked investment prospects created by the EU and SADC trade agreements.

Labor market

Unemployment remains a serious problem in South Africa, particularly affecting school leavers and young work-seekers. Since 1994, the normally positive impact of economic growth or labor demand has been outweighed by a weakening in the capacity of the productive structure of the economy to absorb labor, while the labor supply continues to grow.

The Government is of the opinion that by simultaneously reinforcing economic growth, better regulation of the labor market and training the work-force to provide them with the skills necessary for the modern economy, labor absorption should improve in time. These efforts could be supplemented by further increases in labor productivity, which will help to reduce the growth in unit labor cost to a rate of about 5% per year.

1.4 Economic and Industrial Development Plan

1.4.1 General

A wide array of economic and social policies have been adopted by the South African Government since 1994 to ensure the international reintegration of the country's economy, and the creation of an environment for sustained export growth, healthy net capital inflows

and improved investor confidence.

The South African Government's macro-economic policy is outlined in the Growth Employment and Redistribution (GEAR) strategy. The major goal set in the strategy is increased growth and employment, while strengthening the long-term competitive performance of the economy, through fiscal deficit reduction, trade and foreign exchange liberalization, restructuring state assets and promoting skills development.

These include:

- Significant reduction in tariff barriers, ahead of the WTO timetable, resulting in the lowest trade-weighted average rate of protection in the SADC region;
- A market-related and competitive exchange rate;
- No restrictions on the type or extent of investments available to foreigners, and no governmental approval is required;
- The strengthening of competition and the development of industrial cluster support programs;
- The abolition of exchange controls on non-residents and the substantial reduction of controls on residents;
- A proactive strategy to attract foreign strategic equity partners into the process of restructuring state assets and infrastructure;
- The introduction of greater labor market flexibility; and
- The availability of attractive investment incentives to enhance international competitiveness, technology transfer and foreign direct investment.

1.4.2 Historical change in industrial development planning

The apartheid regime's industrial policy was defined by import-substitution industrialization. Import protection combined with high levels of concentration of economic ownership resulted in high and distorted domestic prices. The manufacturing sector was inward focused and its relations with government were frequently characterized by rent-seeking behavior.

The redirection of the above policy was the first step towards the new economic development, and the following were worked out.

- 1) Liberalize imports and encourage exports via export marketing assistance and other measures.
- 2) Shift from demand side measures (import controls, tariffs, subsidies, GEIS) to supply side measures.

It was pointed out that certain input prices, principally the wages of unskilled and semi-skilled labor, were seen to be high (by comparison with many of South Africa's

competitors) in relation to productivity and the structure of the wage system reflected past economic and political distortions. As a countermeasure against it, a non-targeted approach was adopted. Supply-side policies were generally applied to most manufacturing firms. However, for the auto assembly and components and the clothing, textiles and footwear industries, sector specific measures were applied.

In relation to trade, a formal program of phased tariff reductions and tariff harmonization commenced in 1995 in terms of an offer presented to the WTO in 1993. Negotiation of a Free Trade Agreement (FTA) with Europe was completed in early 1999. As trade liberalization proceeded, the DTI developed a large number of supports to firms on the supply side.

1.4.3 Goal and policy framework of the current development plan

The need to create employment and a better life for the people is the central objective of the economic policy. The Reconstruction and Development Program (RDP) remains the basic policy framework to achieve this objective. The Growth, Employment and Redistribution (GEAR) program is the associated macroeconomic strategy used. Further, an Action Plan to Accelerate Growth was announced recently. This action plan marked an increased emphasis on microeconomic reform to further increase investment.

In order to make the industrial strategy more explicit and accessible and to deal with changing conditions, the Discussion Document; "Driving Competitiveness: An integrated industrial strategy for sustainable employment and growth" was drafted in May 2001.

Basic stances of the industrial strategy

The above discussion document pointed out the following as the basic stance of the industrial strategy.

(1) Don't rely on the old ways

A considerable share of manufactured production, and more particularly exports, are raw material- and energy-intensive. However, with access to cheap raw materials being of declining significance, this is not a firm foundation for a competitive position.

(2) Don't bank on cheap labor

The trajectory of industrial development does not suggest that cheap and flexible unskilled and semi-skilled labor could be the basis of a sustainable industrial policy. Rather as globalization proceeds, it would appear that a combination of factors are raising the demand for skilled labor and lowering the demand for unskilled and semi-skilled

labor. Lowering the cost and increasing flexibility in relation to the unskilled and semi-skilled labor, leaving aside other considerations, will not provide a sustainable basis for the very large part of South African manufacturing industry.

(3) Forget protection

The government is committed to the further liberalization of trade. Manufacturers will be faced with ever more competitive markets, both domestically and internationally.

(4) Pay attention to innovation

With a very few exceptions, the development of proprietary technology has not been a feature of South African manufacturing industry. South African manufacturing firms are generally characterized by low spending on innovation. While increasing innovation activities will be an important feature of policy, the major source of new technology will continue to be transfers from abroad.

(5) Enhance knowledge capacities

There is a structural shift in the pattern of world trade away from commodity production and raw material-intensive simple manufactured goods and towards increasingly knowledge-intensive goods and services.

II-1 Attachment Tables

(Macro-economic Data)

Attachment Table 1 Gross Domestic Product by Economic Activity (at Current Prices) (1987 - 2000)

(Unit: R million)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1 Agriculture, forestry and fishing	8,994	11,149	12,332	12,184	13,825	13,056	16,284	20,252	19,317	23,721	25,325	24,452	24,555	25,375
2 Mining and quarrying	19,127	21,441	22,891	24,107	25,542	26,575	30,052	32,111	34,830	38,768	40,524	43,445	44,187	51,563
3 Manufacturing	35,962	43,782	53,471	62,208	69,398	75,102	82,642	92,068	106,180	114,127	124,604	129,057	135,952	148,875
4 Electricity, gas and water	6,653	7,918	9,020	10,563	11,681	12,479	13,930	15,975	17,408	18,128	20,387	20,964	21,408	22,995
5 Construction	5,181	6,177	7,276	8,638	9,764	10,979	12,318	13,797	15,774	17,631	19,386	20,682	21,262	22,152
6 Wholesale and retail trade, catering and accommodation	20,274	24,216	30,564	37,650	42,376	49,726	56,468	62,474	71,768	79,463	85,858	89,222	95,159	103,923
7 Transport, storage and communication	14,462	17,179	18,999	21,575	25,501	31,634	33,972	38,296	44,538	51,787	57,765	63,499	71,340	80,063
8 Financial intermediation, insurance, real estate and business services	20,688	25,069	30,265	36,039	44,945	53,265	62,861	70,491	82,162	94,116	109,601	123,370	141,929	160,954
9 General government services	21,803	24,739	31,432	37,684	46,005	54,516	62,375	71,279	80,832	97,197	106,792	116,443	123,809	129,735
10 Other services	2,893	3,310	3,971	4,775	5,847	7,088	9,435	11,349	13,690	15,368	17,374	19,094	21,119	23,532
11 Other producers	5,242	6,135	7,167	7,834	8,642	9,583	10,505	12,054	13,855	15,671	17,803	20,154	22,527	24,826
12 Gross value added at basic prices	163,786	194,192	231,012	266,783	307,089	344,003	390,841	440,144	500,354	565,978	625,418	670,383	723,247	793,993
26 Taxes on products	16,141	20,936	26,505	29,153	31,096	33,190	41,611	48,374	53,644	58,185	63,713	70,656	77,000	84,453
27 Less subsidies on products	2,146	2,241	2,375	2,488	2,523	4,519	6,321	6,400	5,898	5,746	5,387	5,953	4,672	4,809
28 Gross domestic product at market prices	174,647	209,613	251,676	289,816	331,980	372,227	426,132	482,119	548,100	618,417	683,744	735,086	795,575	873,637
46 Gross domestic product at market prices (per capita R)	5,244	6,164	7,247	8,172	9,171	10,062	11,273	12,480	13,884	15,329	16,583	17,578	18,607	n.a.

Source: Statistics South Africa, "South African Statistics 2001"

Note: n.a. - Not available.

Attachment Table 2 Gross Domestic Product by Economic Activity (at Constant 1995 Prices) (1987 - 2000)

(Unit: R million)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
13 Agriculture, forestry and fishing	21,675	22,283	25,559	23,735	24,795	18,036	22,366	24,125	19,317	23,950	24,313	22,539	23,304	24,200
14 Mining and quarrying	35,213	35,827	35,451	35,171	34,397	34,978	35,782	35,946	34,830	34,542	35,118	34,846	34,499	33,875
15 Manufacturing	99,384	105,851	107,828	105,405	100,590	97,291	97,114	99,706	106,180	107,648	110,249	108,447	108,282	112,198
16 Electricity, gas and water	13,613	14,350	14,881	15,141	15,436	15,520	16,133	17,069	17,408	18,403	19,206	19,317	19,688	20,598
17 Construction	15,733	16,242	17,611	17,774	16,942	15,889	14,804	15,233	15,774	16,092	16,572	16,777	16,135	15,987
18 Wholesale and retail trade, catering and accommodation	65,042	67,754	68,031	68,580	67,349	65,768	66,121	67,780	71,768	74,415	74,748	73,704	74,676	78,499
19 Transport, storage and communication	34,507	36,157	37,732	37,745	36,919	37,620	38,507	40,281	44,538	47,368	50,884	54,443	58,558	62,355
20 Financial intermediation, insurance, real estate and business services	71,750	73,172	74,546	74,720	75,875	76,199	76,580	79,378	82,162	87,668	91,454	96,602	102,721	107,679
21 General government services	71,349	73,537	75,337	76,552	78,286	79,161	79,366	80,157	80,832	82,422	82,860	82,458	81,879	80,930
22 Other services	10,243	10,521	10,728	10,880	11,035	11,198	11,341	12,420	13,690	14,210	13,971	13,902	14,186	14,517
23 Other producers	12,392	12,858	13,318	13,353	13,432	13,499	13,556	13,687	13,855	14,066	14,298	14,626	14,918	15,281
24 Gross value added at basic prices	445,810	473,121	484,728	481,077	475,697	465,159	471,670	485,782	500,354	520,785	533,673	537,662	548,846	566,119
47 Gross domestic product per capita	14,825	15,128	15,167	14,806	14,357	13,749	13,621	13,759	13,884	14,150	14,196	13,979	13,847	n.a.

Source: Statistics South Africa, "South African Statistics 2001"

Note: n.a. - Not available.

Attachment Table 3 Expenditure on Gross Domestic Product (at Current Prices) (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Final consumption expenditure	312,447	350,943	396,044	443,461	505,419	566,671	612,480	657,568	716,458
by households ¹⁾	237,190	265,392	299,541	343,037	385,280	431,072	465,680	503,502	555,818
by general government ²⁾	75,257	85,551	96,503	100,424	120,139	135,599	146,800	154,066	160,640
Gross capital formation	54,936	65,204	81,058	98,559	105,858	109,501	117,882	119,896	135,591
Gross fixed capital formation	58,255	62,601	73,045	87,042	99,381	111,279	123,209	121,242	130,320
Change in inventories ³⁾	-3,319	2,603	8,013	11,517	6,477	-1,778	-5,327	-1,346	5,271
Residual item	-10,153	-5,675	-6,079	1,304	-1,315	-124	-3,833	-3,740	-4,298
Gross domestic expenditure	357,230	410,472	471,023	543,324	609,962	676,048	726,529	773,724	847,751
Exports of goods and services	79,399	91,578	106,844	125,867	151,795	168,415	190,189	205,883	253,804
Exports of goods	69,837	80,877	93,537	109,117	130,206	143,830	161,121	174,883	218,507
Exports of services	9,562	10,701	13,307	16,750	21,589	24,585	29,127	31,000	35,297
Less: Imports of goods and services	64,404	75,917	95,747	121,091	143,340	160,719	181,068	184,032	227,918
Import of goods	51,976	60,512	77,675	99,425	118,659	133,061	150,705	149,540	189,012
Import of services	12,428	15,405	18,072	21,666	24,681	27,658	30,927	34,492	38,907
Expenditure on gross domestic product	372,225	426,133	482,120	548,100	618,417	683,744	735,086	795,575	873,637

Notes: 1) Including non-profit institutions serving households.

2) Current expenditure on salaries and wages and on goods and other services of a non-capital nature by the service departments (non business enterprises) of general government. General government includes central government, provincial governments, local authorities and extra-budgetary institutions.

3) After inventory valuation adjustment.

Source: Statistics South Africa, "South African Statistics 2001"

Attachment Table 4 Expenditure on Gross Domestic Product (at 1995 Constant Prices) (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Final consumption expenditure	413,585	419,706	432,326	443,461	465,233	479,901	484,205	486,325	495,923
by households ¹⁾	308,826	313,719	325,482	343,037	360,046	369,930	374,793	379,010	391,262
by general government ²⁾	104,759	105,987	106,844	100,424	105,187	109,971	109,412	107,315	104,661
Gross capital formation	69,660	74,491	87,272	98,559	99,050	97,026	99,432	96,614	103,161
Gross fixed capital formation	73,049	72,644	78,635	87,042	93,551	98,452	104,203	97,982	99,288
Change in inventories ³⁾	-3,389	1,847	8,637	11,517	5,499	-1,426	-4,771	-1,368	3,873
Residual item	4,946	590	1,458	1,304	699	1,807	-2,434	-3,020	-3,443
Gross domestic expenditure	488,192	494,787	521,056	543,324	564,982	578,734	581,203	579,919	595,641
Exports of goods and services	104,276	109,324	114,061	125,867	137,514	145,097	148,262	150,145	162,500
Exports of goods	92,209	96,679	99,577	109,117	117,250	123,624	125,007	126,767	137,400
Exports of services	12,067	12,645	14,484	16,750	20,264	21,473	23,255	23,378	25,100
Less: Imports of goods and services	82,523	89,224	103,579	121,091	131,641	138,729	141,345	129,902	139,475
Import of goods	65,505	70,432	83,477	99,425	110,554	117,006	118,179	108,314	118,496
Import of services	17,018	18,792	20,102	21,666	21,087	21,723	22,166	21,588	20,979
Expenditure on gross domestic product	508,613	514,887	531,538	548,100	570,854	585,102	589,120	600,162	618,666

Notes: 1) Including non-profit institutions serving households.

2) Current expenditure on salaries and wages and on goods and other services of a non-capital nature by the service departments (non business enterprises) of general government. General government includes central government, provincial governments, local authorities and extra-budgetary institutions.

3) After inventory valuation adjustment.

Source: Statistics South Africa, "South African Statistics 2001"

Attachment Table 5 Gross and Net Capital Formation by Type of Organization (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross capital formation ¹⁾	54,936	65,204	81,058	98,559	105,858	109,501	117,882	119,896	135,591
General government	10,592	10,606	11,314	13,113	14,909	16,725	17,805	17,919	19,071
Public corporations	8,983	7,806	6,712	10,086	11,535	14,106	23,798	18,564	17,259
Private business enterprises	35,361	46,792	63,032	75,360	79,414	78,670	76,279	83,413	99,261
Consumption of fixed capital ²⁾	54,227	58,575	64,500	71,827	78,923	87,155	94,781	103,272	112,633
General government	7,910	8,664	9,516	10,631	11,877	13,090	14,129	15,299	16,790
Public corporations	13,013	13,543	14,193	14,829	15,385	16,100	16,986	18,121	18,844
Private business enterprises	33,304	36,368	40,791	46,367	51,661	57,965	63,666	69,852	76,999
Net capital formation	709	6,629	16,558	26,732	26,935	22,346	23,101	16,624	22,958
General government	2,682	1,942	1,798	2,482	3,032	3,635	3,676	2,620	2,281
Public corporations	-4,030	-5,737	-7,481	-4,743	-3,850	-1,994	6,812	443	-1,585
Private business enterprises	2,057	10,424	22,241	28,993	27,753	20,705	12,613	13,561	22,262

Notes: 1) After inventory valuation adjustment.

2) At replacement value.

Source: Statistics South Africa, "South African Statistics 2001"

Attachment Table 6 Balance of Payments ¹⁾ (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Current account									
Merchandise export, f.o.b. ²⁾	50,446	58,428	69,866	86,580	103,906	118,012	135,214	150,604	135,054
Net gold exports ³⁾	19,391	22,449	23,670	22,538	26,300	25,818	25,907	24,279	27,162
Service receipts	9,561	10,701	13,306	16,751	21,589	24,587	29,068	31,000	35,297
Income receipts	2,649	2,286	3,455	4,128	4,663	6,011	7,193	9,424	15,124
Less: Merchandise imports f.o.b. ²⁾	51,976	60,512	77,675	99,425	118,658	133,061	150,705	149,540	189,012
Less: Payments for services	12,427	15,407	18,072	21,667	24,681	27,657	30,927	34,492	38,906
Less: Income payments	11,050	10,986	12,054	14,554	18,041	20,808	24,524	29,011	37,638
Current transfers (net receipts +)	-1,042	-2,092	-2,160	-2,340	-3,206	-3,328	-4,093	-5,662	-6,422
Balance on current account	5,552	4,867	336	-7,989	-8,128	-10,426	-12,867	-3,398	-3,050
Capital transfer account (net receipts +)	-120	-188	-236	-145	-203	-892	-309	-260	-363
Financial account									
Direct investment	-5,514	-941	-3,040	-4,557	-970	6,756	-6,737	-2,730	2,170
Portfolio investments	4,950	2,417	10,008	9,020	9,576	30,580	20,375	52,346	-13,835
Other investments	-927	-7,145	-2,609	15,318	4,788	-10,287	3,662	-27,266	2,111
Balance on financial account	-1,491	-5,669	4,359	19,781	13,394	27,049	17,300	22,350	-9,554
Change in gross gold and other foreign reserves	1,698	123	2,818	3,596	-1,864	19,208	6,677	26,943	15,111
Memo item:									
Change in capital transfer and financial accounts, including unrecorded transactions	-4,988	-13,780	2,551	16,576	3,025	21,288	8,848	29,263	8,164

Notes: 1) Data for the last four years are preliminary and subject to revision.

2) Published customs figures adjusted for balance of payments purposes.

3) Net foreign sales of gold plus changes in gold holdings of the SA Reserve Bank and other banking institutions.

Source: Statistics South Africa, "South African Statistics 2001"

Attachment Table 7 Current Income and Expenditure of General Government (1992 - 2000)

(Unit: R million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Income from property ¹⁾	4,022	4,397	4,997	5,357	7,562	7,102	7,550	8,110	8,439
Taxes on production and imports	40,643	50,249	57,990	64,161	69,829	76,084	84,217	91,393	100,476
Current income ²⁾	91,395	105,630	123,701	139,427	162,033	179,587	203,174	220,101	237,163
Current taxes on income and wealth	46,013	50,178	59,845	67,911	83,032	94,256	109,399	118,426	125,510
Interest on public debt	19,021	22,157	26,631	32,551	39,152	41,455	46,534	49,137	51,337
Subsidies	7,820	9,453	8,998	8,250	8,592	8,138	8,498	6,827	7,176
Current expenditure	118,644	134,223	152,031	162,555	192,646	211,949	228,809	240,912	253,031
Savings ²⁾	-27,249	-28,593	-28,330	-23,128	-30,613	-32,362	-25,635	-20,811	-15,868

Notes: 1) Income from property by general government consists of interest, dividend and rent receipts by general government and the surpluses/ deficits of general government business enterprises.

2) After consumption of fixed capital and after inventory valuation adjustment.

Source: Statistics South Africa, "South African Statistics 2001"

Attachment Table 8 Value of Sales in Manufacturing Sector (1993 - 2000)

(Unit: R '000)

	1993	1994	1995	1996	1997	1998	1999	2000
Manufacturing - Total	232,442,277	259,366,761	308,790,007	339,096,803	368,283,280	373,568,657	398,640,599	448,253,737
Food	36,237,104	39,260,553	43,129,483	49,582,693	52,677,086	54,944,819	57,230,629	59,836,880
Textiles	7,065,907	7,895,555	8,913,256	9,293,150	10,332,502	9,764,976	9,770,275	10,164,459
Wearing apparel	7,207,280	8,176,302	9,857,058	9,774,489	10,923,363	10,640,609	10,994,539	10,523,645
Wood and wood products	4,204,630	5,015,719	5,923,525	6,751,896	7,812,151	7,661,759	8,386,436	9,073,197
Paper and paper products	10,599,291	12,076,190	15,981,900	16,215,891	17,522,541	18,347,044	20,400,594	23,434,546
Publishing and printing	7,063,486	7,923,322	9,310,264	9,996,628	10,876,140	11,150,070	11,664,938	11,678,548
Coke, refined petroleum products and nuclear fuel	14,305,180	13,280,093	14,513,422	16,388,763	18,017,284	17,726,058	20,999,687	31,823,682
Basic chemicals	9,395,767	10,756,353	13,062,185	15,480,771	17,139,195	17,756,594	19,872,911	21,571,212
Other chemical products	14,354,585	15,848,151	18,700,900	20,782,826	22,920,816	23,774,566	25,490,045	26,327,958
Rubber products	2,902,127	3,147,059	3,635,334	3,755,667	3,979,494	4,096,126	4,167,229	4,645,737
Plastic products	5,809,667	6,941,489	8,481,252	9,159,628	9,540,184	9,539,465	9,723,276	10,669,187
Glass	1,605,521	1,962,923	2,188,679	2,177,299	2,206,996	2,177,817	2,140,820	2,280,493
Non-metallic mineral products	6,183,466	6,733,760	7,947,731	8,722,642	9,460,882	9,395,700	9,257,131	10,249,683
Basic iron and steel products	15,041,200	17,051,820	21,479,443	22,638,731	25,108,228	25,819,013	26,056,845	33,529,317
Basic precious and non-ferrous metal products	4,540,558	5,362,627	7,039,301	10,409,168	11,516,740	11,659,371	13,107,160	15,542,665
Fabricated metal products	14,574,396	16,926,342	19,887,845	22,236,105	25,249,466	24,615,193	23,450,896	24,753,734

Source: Statistics South Africa, "South African Statistics 2001"

2 The Manufacturing Sector; Machinery Industries, and Their Supporting Industries in South Africa and KwaZulu-Natal Province

2.1 Manufacturing Sector

2.1.1 Manufacturing sector in South Africa

Position of the manufacturing sector in the national economy

The manufacturing sector accounted for approximately 20% of the country's GDP in 1999 (Table II-2-1, constant prices; baseline year, 1999) and is the largest industrial sector. Its GDP share, after 1987, reached a peak of 22.4% in 1988 and declined gradually afterwards. The sector's output (value basis) has fluctuated since the mid-1980s and recorded its high of R110,249 million in 1997. Then it declined for two years, then recovered to R112,198 million in 2000.

Major subsectors

Table II-2-2 shows Gross Geographic Product (GGP) by subsector and state. The largest subsector in the manufacturing sector is metallic products, machinery and household appliances, accounting for approximately 25% of the total, followed by fuel, petroleum products and chemicals. The transportation equipment subsector, including automobiles, has an approximately 8% share¹.

Industrial production by state

Gauteng has the largest share, 39%, followed by KZN with 20% and Western Cape with 16.5%. These states have a combined share of 75.5%. Every subsector performs major portions of its production in these states. Two subsectors - fuel, petroleum products and chemicals, and furniture and other products - have their highest share in Mpumalanga, and the highest state's share for transportation equipment is that of Eastern Cape.

Manufactured exports

Manufactured exports have consistently increased in importance. Exports have risen at more than double the rate of increase of the pre-1994 period and stronger export growth post-1994 has prevailed across almost all manufacturing sectors (The fastest growing sectors include chemicals, metals and metal products, machinery and motor vehicles and

¹ Among automotive parts, plastics parts are classified in chemical products and metallic parts in metallic products, and not included in transportation equipment.

Table II-2-1 Gross Domestic Product by Economic Activity (at Constant 1995 Prices) (1988 - 2000)

	1988		1989		1990		1991		1992		1993		1994		1995		1996		1997		1998		1999		2000	
	R million	%																								
13 Agriculture, forestry and fishing	22,283	4.7	25,559	5.3	23,735	4.9	24,795	5.2	18,036	3.9	22,366	4.7	24,125	5.0	19,317	3.9	23,950	4.6	24,313	4.6	22,539	4.2	23,504	4.2	24,200	4.3
14 Mining and quarrying	35,827	7.6	35,451	7.3	35,171	7.3	34,397	7.2	34,978	7.5	35,782	7.6	35,946	7.4	34,830	7.0	34,542	6.6	35,118	6.6	34,846	6.5	34,499	6.3	33,875	6.0
15 Manufacturing	105,851	22.4	107,828	22.2	105,405	21.9	100,590	21.1	97,291	20.9	97,114	20.6	99,706	20.5	106,180	21.2	107,648	20.7	110,249	20.7	108,447	20.2	108,282	19.7	112,198	19.8
16 Electricity, gas and water	14,350	3.0	14,881	3.1	15,141	3.1	15,436	3.2	15,520	3.3	16,133	3.4	17,069	3.5	17,408	3.5	18,403	3.5	19,206	3.6	19,317	3.6	19,688	3.6	20,598	3.6
17 Construction	16,242	3.4	17,611	3.6	17,774	3.7	16,942	3.6	15,889	3.4	14,804	3.1	15,233	3.1	15,774	3.2	16,092	3.1	16,572	3.1	16,777	3.1	16,135	2.9	15,987	2.8
18 Wholesale and retail trade, catering and accommodation	67,754	14.3	68,031	14.0	68,580	14.3	67,349	14.2	65,768	14.1	66,121	14.0	67,780	14.0	71,768	14.3	74,415	14.3	74,748	14.0	73,704	13.7	74,676	13.6	78,499	13.9
19 Transport, storage and communication	36,157	7.6	37,732	7.8	37,745	7.8	36,919	7.8	37,620	8.1	38,507	8.2	40,281	8.3	44,538	8.9	47,368	9.1	50,884	9.5	54,443	10.1	58,558	10.7	62,355	11.0
20 Financial intermediation, insurance, real estate and business services	73,172	15.5	74,546	15.4	74,720	15.5	75,875	16.0	76,199	16.4	76,580	16.2	79,378	16.3	82,162	16.4	87,668	16.8	91,454	17.1	96,602	18.0	102,721	18.7	107,679	19.0
21 General government services	73,537	15.5	75,337	15.5	76,552	15.9	78,286	16.5	79,161	17.0	79,366	16.8	80,157	16.5	80,832	16.2	82,422	15.8	82,860	15.5	82,458	15.3	81,879	14.9	80,930	14.3
22 Other services	10,521	2.2	10,728	2.2	10,880	2.3	11,035	2.3	11,198	2.4	11,341	2.4	12,420	2.6	13,690	2.7	14,210	2.7	13,971	2.6	13,902	2.6	14,186	2.6	14,517	2.6
23 Other producers	12,858	2.7	13,318	2.7	13,353	2.8	13,432	2.8	13,499	2.9	13,556	2.9	13,687	2.8	13,855	2.8	14,066	2.7	14,298	2.7	14,626	2.7	14,918	2.7	15,281	2.7
24 Gross value added at basic prices	473,121		484,728		481,077		475,697		465,159		471,670		485,782		500,354		520,785		533,673		537,662		548,846		566,119	
47 Gross domestic product per capita	15,128		15,167		14,806		14,357		13,749		13,621		13,759		13,884		14,150		14,196		13,979		13,847		n.a.	

Source: Statistics South Africa, "South African Statistics 2001"

Table II-2-2 Detailed Gross Geographic Product per Province in 1999

Sector	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	North-West	Free State	Northern Province	Northern Cape	SA Total
Agriculture	1,486.9	6,191.9	2,650.7	2,725.3	2,732.7	2,843.4	3,653.7	2,360.3	1,989.2	26,634.1
Mining	11,941.4	492.5	492.2	217.7	8,418.1	13,779.3	7,273.7	3,376.3	1,147.5	47,138.7
Mining of coal and lignite	74.3	22.0	156.2	130.3	5,295.3	65.2	118.3	181.8	1.2	6,044.6
Extraction of crude petroleum and natural gas	53.5	143.7	6.6	1.5	252.0	2.4	18.1	22.9	0.0	500.7
Mining of gold and uranium ore	10,859.2	32.3	101.3	62.9	2,262.8	5,463.0	7,006.4	411.6	29.4	26,228.9
Mining of metal ores	293.7	27.1	105.6	6.5	175.5	7,779.5	5.7	2,041.4	494.7	10,929.7
Other mining and quarrying	511.9	239.8	104.9	11.4	354.1	386.1	111.3	692.6	567.6	2,979.7
Service activities incidental to mining	148.8	27.6	17.6	5.1	78.4	83.1	13.9	26.0	54.6	455.1
Manufacturing	51,910.5	21,929.0	27,062.9	10,431.6	11,368.6	3,583.2	4,107.2	1,506.1	741.2	132,640.3
Food, beverages and tobacco products	5,782.8	4,658.0	3,965.9	1,419.2	719.3	598.0	832.5	679.2	170.7	18,825.6
Textiles, clothing and leather goods	1,104.3	4,132.2	3,823.4	1,223.9	178.9	30.8	209.1	26.7	57.4	10,786.7
Wood and wood products	4,371.3	2,845.6	4,390.4	608.9	1,012.5	71.5	135.6	189.2	23.3	13,648.3
Fuel, petroleum, chemical and rubber products	7,547.1	4,213.1	4,213.7	1,787.7	4,868.4	555.0	2,281.2	181.4	16.0	25,663.6
Other non-metallic mineral products	4,612.9	1,464.2	902.0	484.7	191.8	1,084.7	179.3	162.5	360.1	9,442.2
Metal products, machinery and hold appliances	18,135.7	2,518.5	7,503.4	807.8	2,885.8	961.8	278.0	89.4	71.2	33,251.6
Electrical machinery and apparatus	1,259.7	148.1	98.6	284.8	25.4	133.7	7.0	5.7	1.8	1,964.8
Electronic, sound/vision, medical & other appliances	2,806.6	710.4	428.4	150.0	173.3	13.0	43.1	83.8	1.0	4,409.6
Transport equipment	4,934.0	465.0	1,479.6	3,592.9	51.2	82.1	97.1	55.5	28.5	10,785.9
Furniture and other items NEC and recycling	1,356.1	773.9	257.5	71.7	1,262.0	52.6	44.3	32.7	11.2	3,862.0
Electricity & water	5,912.9	1,987.3	2,141.8	810.7	8,609.4	491.4	2,150.5	1,377.9	303.2	23,785.1
Construction	8,227.3	4,329.1	2,852.8	1,443.1	1,053.2	763.3	824.7	1,103.3	321.2	20,918.0
Trade	36,443.8	21,576.4	11,445.3	6,905.8	4,499.0	4,635.4	4,058.9	3,915.2	1,731.1	95,210.9
Transport	30,822.1	15,311.9	11,194.1	4,052.2	2,686.0	2,367.4	3,166.6	1,982.7	1,563.1	73,146.1
Land transport	15,798.8	7,131.6	6,629.9	2,386.2	2,025.3	1,753.0	2,303.5	1,334.6	1,084.5	40,447.4
Water transport	449.9	1,236.9	1,411.6	152.6	49.8	13.3	20.9	27.1	3.1	3,365.2
Air transport	3,755.4	772.1	328.7	88.2	27.1	15.0	57.8	144.9	6.9	5,196.1
Supporting transport activities (inc. storage)	1,987.5	1,886.1	752.5	190.1	109.1	37.5	52.2	107.0	36.2	5,158.2
Post and telecommunication	8,830.5	4,285.2	2,071.4	1,235.1	474.7	548.6	732.2	369.1	432.4	18,979.2
Finance	68,797.2	39,802.5	13,198.5	6,100.9	2,520.5	2,676.9	3,911.7	2,345.9	1,278.4	140,632.5
Community services	52,431.0	27,778.4	22,812.5	19,072.4	9,228.1	10,720.4	10,883.9	11,471.9	3,551.1	167,949.7

Source: WEFA, Regional Economic Focus, 1999

components. Food, clothing and footwear saw a decline in exports). Whereas in 1994, 15% of the output of the manufacturing sector was exported, in 2000 this had almost doubled to 28%.

The unit value of exports has been rising, suggesting that there has been significant movement up the value chain on the part of exporting firms. Since 1994 there has been a steady rise in labor productivity – labor productivity increased by 30% since 1994.

Investment potentials of industrial sector

Investment in some sectors of manufacturing has been rising rapidly (e.g. in glass and glass products and basic non-ferrous metal products). However, on the negative side, aggregate manufacturing investment peaked in 1996 and, apart from a limited rise from the end of 1999, has been on a declining trend since then.

Employment

Employment has declined steadily. Between 1994 and 1996, there was a marginal increase in employment, but over the last five years employment in manufacturing has declined by 11.5%.

2.1.2 Position of manufacturing sector in KwaZulu-Natal Province, among South African manufacturing

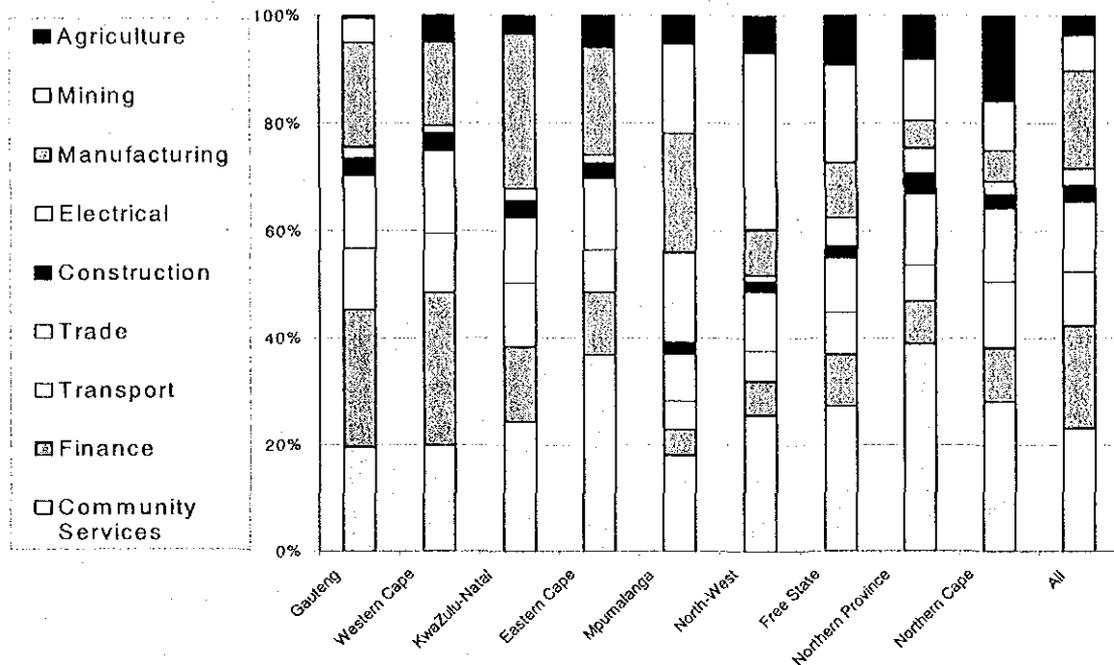
Table II-2-3 and Figure II-2-1 provide the Gross Geographic Product by province according to various economic sectors.

Table II-2-3 GGP per Sector per Province

Sector	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	North-West	Free State	Northern Province	Northern Cape
Agriculture	1,486.9	6,191.9	2,650.7	2,725.2	2,732.7	2,843.3	3,653.7	2,360.3	1,989.3
Mining	11,941.6	492.5	492.3	217.8	8,417.9	13,779.3	7,273.7	3,376.4	1,147.6
Manufacturing	51,910.4	21,928.8	27,063.0	10,431.5	11,368.8	3,583.3	4,107.2	1,506.0	741.1
Electricity & water	5,912.9	1,987.2	2,141.8	810.7	8,609.4	491.4	2,150.5	1,378.0	303.2
Construction	8,227.3	4,329.1	2,852.8	1,443.1	1,053.2	763.3	824.7	1,103.3	321.2
Trade	36,443.8	21,576.5	11,445.4	6,905.8	4,499.0	4,635.3	4,059.0	3,915.3	1,731.0
Transport	30,822.1	15,311.9	11,193.9	4,052.3	2,686.0	2,367.4	3,166.6	1,982.7	1,563.1
Finance	68,797.2	39,802.4	13,198.4	6,100.9	2,520.4	2,676.9	3,911.6	2,345.9	1,278.3
Community services	52,431.1	27,778.3	22,812.6	19,072.4	9,228.1	10,720.5	10,884.1	11,471.9	3,551.1
Total	267,973.3	139,398.6	93,850.6	51,759.7	51,115.6	41,860.6	40,031.0	29,439.7	12,625.9

Source: WFFA, Regional Economic Focus, 1999

Figure II-2-1 Distribution of GGP Between Various Sectors for Each Province (Ordered according to descending total GGP)



The province of KwaZulu-Natal is the most manufacturing-intensive. KZN is one of only two provinces where manufacturing is the dominant sector, the other province being Mpumalanga which has a far smaller manufacturing sector in absolute terms. Whereas the average proportion of GGP taken up by the manufacturing sector is 17%, 29% of KwaZulu-Natal's GGP is related to the manufacturing sector.

According to the 1996 manufacturing census, there were 25,839 manufacturing establishments in South Africa employing 1,432,884 employees producing an output of R334,416 million. Table II-2-4 indicates that the province of KwaZulu-Natal accounted for around one-fifth of manufacturing in South Africa. The largest concentration of the manufacturing is in Gauteng, which had the greatest number of establishments and employers, and greatest levels of output (Figure II-2-2). KwaZulu-Natal has the second largest share of manufacturing followed by the Western Cape.

Table II-2-4 KZN Manufacturing Sectors as a Percentage of SA Totals

(Unit: %)

	Establishments	Employees	Output	Value Added	Salaries & Wages
1 Food & food products	16.7	20.1	22.8	24.7	22.1
2 Beverages	11.4	14.4	15.0	19.1	14.7
3 Textiles, clothing, leather goods	37.2	42.3	41.8	39.9	41.1
4 Wood & wood products, paper & paper products, publishing & printing	18.9	26.9	34.9	35.0	28.3
5 Coke, refined petroleum products, chemicals, rubber & plastic products	19.2	19.6	20.9	17.8	17.1
6 Other non-metallic mineral products	16.6	12.0	11.6	10.0	9.7
7 Basic metals, fabricated metal products, machinery & equipment	15.9	16.5	19.0	21.5	16.7
8 Electrical machinery & apparatus	10.9	6.5	6.1	5.4	5.5
9 Radio, TV & communication equipment; medical, precision & optical instruments	12.2	14.5	10.9	8.1	8.2
10 Transport equipment	18.9	17.4	19.1	14.8	16.9
11 Furniture & other industries not elsewhere classified	20.9	17.5	12.8	10.9	16.3
Total	19.4	22.5	22.0	21.6	20.0

Figure II-2-2 Distribution of Manufacturing Output Between Provinces

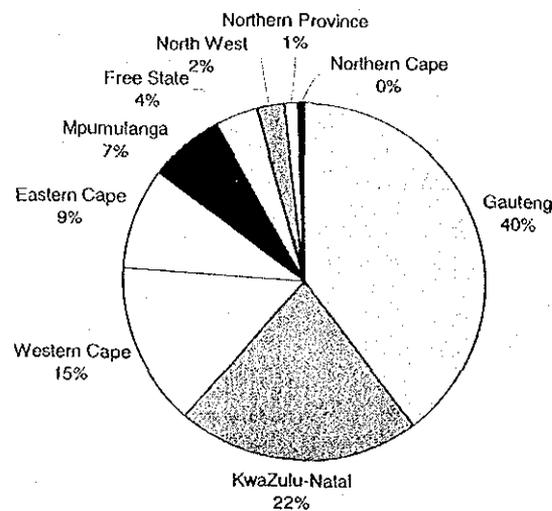


Table II-2-4 shows that sectors that were over-represented in terms of output were 3 - Textiles, clothing, leather goods, and 4 - Wood & wood products, paper & paper products, publishing and printing. The province does not have a large capacity in terms of sectors 8 and 9 - Electrical machinery and apparatus, and Radio, TV & communication equipment; medical, precision and optical instruments.

2.1.3 Overview of manufacturing sector in KwaZulu-Natal Province

Output

As shown in Table II-2-5, the two sectors with the largest output, each with slightly more than 18% of the total output², were 5 - Coke, refined petroleum products, chemicals, rubber & plastic products and 7 - Basic metals, fabricated metal products, machinery and equipment. Other major sectors in the province were 4 - Wood and wood products, paper & paper products, publishing and printing, 1 - Food and food products and 3 - Textiles, clothing, leather goods.

² Output is the aggregate value of goods produced and work done. Output is calculated as a combination of 'intermediate consumption' and 'value added'. Intermediate consumption is the value of all expenses not directly related to value adding such as the purchase of raw materials, rent, royalties, advertising, insurance, secretarial and administrative fees. 'Value added' represents the direct value added during the process of manufacturing to the cost of materials.

Table II-2-5 Output per Sector (Thousands of Rands)

	Total output		Intermediate consumption	Value added	Value added as % of output
1 Food & food products	10,785,390	14.7%	8,196,348	2,589,042	24.0%
2 Beverages	2,191,369	3.0%	1,332,753	858,616	39.2%
3 Textiles, clothing, leather goods	10,062,351	13.7%	6,999,737	3,062,614	30.4%
4 Wood & wood products, paper & paper products, publishing & printing	11,731,383	15.9%	7,853,857	3,877,526	33.1%
5 Coke, refined petroleum products, chemicals, rubber & plastic products	13,835,443	18.8%	10,468,153	3,367,290	24.3%
6 Other non-metallic mineral products	1,266,479	1.7%	825,013	441,466	34.9%
7 Basic metals, fabricated metal products, machinery & equipment	13,595,641	18.5%	8,622,758	4,972,883	36.6%
8 Electrical machinery & apparatus	630,025	0.9%	445,345	184,680	29.3%
9 Radio, TV & communication equipment; medical, precision & optical instruments	476,777	0.6%	359,275	117,502	24.6%
10 Transport equipment	7,382,112	10.0%	6,070,074	1,312,038	17.8%
11 Furniture & other industries not elsewhere classified	1,629,359	2.2%	1,183,528	445,831	27.4%
Total	73,586,329	100.0%	52,356,841	21,229,488	24.0%

Employment and establishments

Within the province of KwaZulu-Natal, the sector that had the greatest number of establishments was 7 - Basic metals, fabricated metal products, machinery & equipment, accounting for almost a quarter of manufacturing establishments (Table II-2-6). Within this category, the largest component was other fabricated metal products; metalwork service activities. The next largest was 3 - Textiles, clothing and leather goods which accounted for around a fifth of all establishments. Sector 4 - Wood, paper and printing had 720 establishments.

Although 7 - Basic metals, fabricated metal products, machinery and equipment had the largest number of establishments, it was only the second greatest employer, accounting only for 14.6% of total employment. The average number of employees per establishment in this category was 40.6, which is below the overall average of 64.4 employees per establishment. The largest employer was, in fact, 3 - textiles, clothing and leather goods, which accounted for a third of total employment and employed an average of 103 employees per establishment. Within this category, the most important component

was clothing manufacturers, employing 54,410 people.

The category with the largest number of employees per establishment was 2 - Beverages. It should be noted however, that this category has the lowest number of establishments. By contrast, the 584 firms captured under 11 - Furniture & other industries not elsewhere classified only employ an average of 23 people each.

Table II-2-6 Establishments, Employees, Average Employees per Establishment by Sector

	Establishments		Paid employees		Average employees
1 Food & food products	333	6.6%	38,627	12.0%	116.0
2 Beverages	26	0.5%	5,200	1.6%	200.0
3 Textiles, clothing, leather goods	1,033	20.6%	106,438	33.0%	103.0
4 Wood & wood products, paper & paper products, publishing & printing	720	14.4%	43,521	13.5%	60.4
5 Coke, refined petroleum products, chemicals, rubber & plastic products	466	9.3%	33,887	10.5%	72.7
6 Other non-metallic mineral products	229	4.6%	9,012	2.8%	39.4
7 Basic metals, fabricated metal products, machinery & equipment	1,164	23.2%	47,219	14.6%	40.6
8 Electrical machinery & apparatus	121	2.4%	3,120	1.0%	25.8
9 Radio, TV & communication equipment; medical, precision & optical instruments	71	1.4%	3,070	1.0%	43.2
10 Transport equipment	270	5.4%	19,719	6.1%	73.0
11 Furniture & other industries not elsewhere classified	584	11.6%	13,166	4.1%	22.5
Total	5,017	100.0%	322,979	100.0%	64.4

Investment opportunities and target industrial sectors

During 1997/98, the province identified nine prime targets for inward investment. These are textiles, clothing, plastic products, chemicals, fabricated metal products, automotive components, wood and wood products, footwear, machinery and appliances. Of these, primary and processed aluminum at world competitive prices from local suppliers, offers opportunities for investors.

According to a study conducted by the Brussels-based international investment advisers, Plant Location International, the following was identified with respect to the investment opportunities in KwaZulu-Natal Province³.

Firstly, that KwaZulu-Natal is a competitive region for the attraction of foreign investment, particularly in relation to re-export opportunities through the Port of Durban.

Secondly, that based on considerations of cost, certain selected industrial undertakings can be operated more profitably in KwaZulu-Natal than in competing investment regions in the world.

For instance, a recent study conducted by the KwaZulu-Natal Marketing Initiative compared the return on investment between a hypothetical clothing manufacturer based in Nottingham, England and an identical operation in Durban, KwaZulu-Natal. It was theorized that both undertakings were producing two million high quality men's shirts annually. Garment for garment, the production costs of the factory in Durban were 60% less than the identical operation in Nottingham.

According to a report by the KMI, during the three year period from 1 April 1996 to 31 March 1999, the KMI facilitated the actual establishment of 128 foreign companies in KwaZulu-Natal. The companies established manufacture goods primarily in three sectors, namely, textiles and clothing (24.2%), chemicals and plastics (19.5%) and fabricated metal products and machinery (21.1%).

³ Source: KwaZulu-Natal Marketing Initiative (KMI). Using a matrix of social and economic factors - which are typically considered by a businessman when considering the location of a plant, and based on a survey of 4,000 business undertakings in Europe, the United States of America and the Pacific Rim.

**Table II-2-7 Actual Establishment of Projects Facilitated
by KMI by Sector Financial Years:
1996, 1997, 1998 & 1999**

Sector	No.	Investment Rmil	Employment
Textiles	11	274	1,420
Clothing	20	62	3,672
Fabricated metal	18	248	1,363
Electrical / Mechanical	9	23	371
Plastic products	21	42	460
Chemicals	5	48	213
Paper	5	23	226
Other	39	218	1,627
Total	128	938	9,352

2.2 Non-Automotive Machinery Industry and Its Supporting Industries

2.2.1 Non-automobile machinery sector in South Africa

Under DTI's industrial classification, the machinery industry in South Africa is classified into the following categories.

- Motor vehicle assembly and component industries
- Machinery and allied industries
- Electrical, electronics and allied industries

In statistics, however, the above industries are classified in the following categories:

- Metal products, machinery and household appliances
- Electrical machinery and apparatus
- Electronic, sound/vision, medical and other appliances
- Transport equipment

Size and other aspects of each industry need to be estimated from these statistics. However, as metal products are classified in the same category, and iron and steel and aluminum products account for large portions of metal products, it is very difficult to estimate the size of the machinery industry. Also, the parts industry is classified according to type of product, e.g., metal and plastics, and its production data are difficult to estimate.

The industrial structure in South Africa has undergone major changes after the policy shift in 1994. Before that, the government intended to have within national borders all industries, in order to cope with economic sanctions. Extensive protectionist policy was adopted and all basic industries established themselves in the country.

The machinery industry was no exception to this. Manufacturers of mining equipment (to support diamond, gold and coal mining operations), sugar refinery equipment, shipbuilding and repair, automobile, and agricultural machinery emerged, together with parts industries and metal engineering. These industries established the heavy machinery and engineering industry.

Then, the policy shift in 1994 resulted in the lifting of economic sanctions, and at the same time, economic policy focused on market opening and deregulation. Many industries that were founded upon the protectionist policy were exposed to direct competition with imports and were forced to move swiftly in order to gain international competitiveness.

As a result, the machinery industry is in a process of rapid restructuring. In heavy machinery engineering and foundry industries, many companies have gone out of business.

2.2.2 Industrial subsector relating to machinery industries in South Africa

(1) Metal industry

South African metal industry is large, sophisticated and extremely versatile. It represents roughly a third of all manufacturing, encompassing more than 9,000 companies and employing 320,000 people. In 1998 the industry's total production exceeded R98 billion and sales of basic iron and steel products amounted to R25 billion.

A diverse range of products is manufactured, from stainless steel to electric toasters, catalytic converters, pipes, tubes, car bodies, engine blocks, alloy wheels, cable and wire, sheet metal and plate, cutlery and hollowware.

Carbon steel

SA steel producers have modernized and upgraded existing plants to the point where the industry is now more modern and more technologically advanced than most in the industrialized world.

Isacor is a 50% shareholder in Saldanha Steel, which produces Ultra Thin Hot Rolled Coil (UTHRC), a niche product. It is currently producing about 800,000 tons per annum (tpa), against a capacity of 1.2 million tpa.

Stainless steel

Columbus Stainless Steel in Middelburg, Mpumalanga Province, is the only producer in the country, with capacity of around 500,000 tpa. More than 70% of this is exported. Total stainless steel production grew from 150,000 tons in 1993 to 400,000 tons in 1999; this was a growth rate exceeding 18% per annum. Domestic fabrication and usage has grown from 49,000 tons in 1992 to 119,000 tons in 1999, a growth rate of some 13% per annum. Exports of fabricated products have shown growth rates in excess of 40% per annum, and now exceed domestic consumption. South Africa currently produces over 10% (8 million) of the world's stainless steel catalytic converters, supplied to most of the leading automotive companies. This is projected to grow to over 20% in the next three to four years, and will consume in excess of 80,000 tpa of stainless steel.

Aluminum

South Africa's only producer of primary aluminum is Alusaf, which is owned by Billiton. Alusaf's Hillside and Bayside smelters have a combined capacity of around 690,000 tpa and currently produce about 650,000 tpa. This represents 3.1% of the world's primary aluminum supply. The South African primary aluminum capacity is currently about five times domestic demand. The smelting capacity in Southern Africa will be increased by the startup of the new Mozal smelter in Mozambique, with a capacity of 233,000 tpa. Hulett Aluminum dominates the 60,000 tpa rolled products market. It is currently engaged in a R2.4 billion expansion project at its Pietermaritzburg plant, which will more than treble its capacity for rolled products from 50,000 to 185,000 tpa. Presently in the start-up phase, the company expects to reach full capacity by the end of 2003.

(2) Plastics industry

The SA plastics industry is dominated by the packaging sector. It consists of numerous small to medium size businesses producing moldings for a wide variety of end-uses. Manufacture of pipe and cable, irrigation fittings, crates, sheet and film, beverage and other containers and numerous injection molded items, is characterized by a high level of competition.

Currently there are approximately 1,018 companies in the industry, based mainly around Johannesburg, Durban and Cape Town.

The industry has shown consistently good growth in recent years. Figures supplied by the Plastics Federation show that consumption in 1996 added to 875,000 tons, an increase of just over 9% on 1995 (1997 data not yet available). Of this, polyethylene (LD, LLD and HD) accounted for 353,000 tons; polypropylene 125,000 and PVC 143,000 - almost

three-quarters of total consumption, evidencing the predominance of packaging interests.

The recent growth in the automobile manufacturing industry in South Africa also implicates an opportunity for local production of engineering plastics. At present however, the automotive industry sources them from Europe due to local unavailability.

Per capita consumption of plastics in South Africa remains low by international standards; it has hovered around the 16kg per capita per annum figure for several years. This figure should increase gradually, based on assessments that consumption will pass 18kg per capita in 1998.

Import and export of plastic products, as elsewhere in the world, is virtually limited to the value-added area, due to the lightweight nature of commodity plastic items, with transport costs having a disproportionate influence on their costing.

2.2.3 Non-automobile machinery industry in KwaZulu-Natal

The above statistics indicate that, in the machinery-related industries in KwaZulu-Natal, metal products, machinery, and household appliances, including aluminum production, hold a dominant share. However, if aluminum production is excluded, the transport equipment industry has a larger share. Then, if production of automotive parts is added, importance of the automobile and automotive parts industries in KwaZulu-Natal is clearly seen.

The machinery industry in KwaZulu-Natal has been following more or less the same historical pattern as that in the country as a whole. While the mining equipment industry as seen in Gauteng is not found, a number of machinery and engineering industries have emerged, including ship repairing (to serve ships entering the port of Durban), and the manufacture of industrial equipment, including equipment for sugar refining, forestry, and textile production, including auxiliary equipment, and machine engineering service to incorporate machinery into various systems for export. These manufacturers were supported by metalworking companies, including companies in the foundry, forging, plating, and machining fields.

The chamber of commerce and industry in Durban registers 65 machinery assemblers as members, of which 45 companies are classified as follows:

Agricultural machinery:	45
Hydraulic equipment:	15
Mechanical engineering:	11
Hoists, winches, and lifting equipment:	6
Boilers and heating equipment:	9

Manufacturers in the hydraulic equipment industry make hydraulic equipment for construction machinery on a contract basis, and those in the mechanical engineering sector make tanks and auxiliary machinery and equipment. Those in the lifting equipment industry make chain blocks, special chains and safety harnesses.

Many manufacturers in the machinery industry are capable of meeting diverse engineering service demands, but ship repairing and mechanical engineering demand is on the steady decline. While some manufacturers have successfully converted to automotive parts production, many have gone out of business.

Leading companies in the machinery industry excluding automobiles and automotive parts are *Bell Equipment (agricultural machinery and construction equipment)* and *Defy Appliances (household appliances)*.

Bell Equipment is based in Richards Bay, has 1,850 employees, and manufactures dump trucks, front end wheel loaders, sugar cane loaders, and forest loaders. It purchases raw materials and parts from 268 companies in and outside the country, of which 80 companies are located in KwaZulu-Natal, including Richards Bay and Newcastle.

DEFY Appliances is a leading manufacturer of household appliances in South Africa, with approximately 3,000 employees. It mainly produces microwave ovens, washing machines, refrigerators and air-conditioners, and has 30% of the domestic market. It has a press shop to make most of the stamping parts it needs. It imports key parts and components, such as compressors, motors and friction dampers, while it purchases plastics parts from local suppliers, other than those using special materials.

Other than DEFY, there are several household appliance manufacturers that make small products.