

MEDIA RELEASE

South Africa has the capability to rebuild its manufacturing sector

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Over the years, South Africa's manufacturing sector has undergone a significant decline. The sector's contribution to the country's GDP has dropped from a peak of 24% in 1981 to just under 14% (13.7%) in 2022 (Stats SA). The manufacturing sector's contribution has not recovered since the global economic crisis of 2008 when its contribution to GDP was 16%. To date, the sector contributes 13%, on average.

"South Africa had an established diversified manufacturing base which grew from 1940 and showed resilience and potential to compete in the global economy," says Thami Moatshe, Executive Head of the Localisation Support Fund (LSF). "Manufacturing has historically been the driver of economic growth and job creation. The continued decline in the sector's contribution to GDP can be attributed to several factors over a period of time, ranging from cheap imports from global players - mainly China - to competition due to price, to quality and specialised skills challenges. The current energy crisis is further compounding the problem."

South Africa's transition to democracy led to an open economy, which, in the absence of robust protective mechanisms for certain sectors, disadvantaged local manufacturing. This lack of protection, coupled with inherent scale-related challenges, made domestic production comparatively expensive and less competitive when compared to foreign manufacturers.

"It's not that South Africa doesn't have the capability or capacity to manufacture certain products, local demand consistency remains a challenge and we need to buy local first from sectors and sub-sectors where we have the capability and capacity to boost economic activity and create much-needed jobs," Moatshe says. She argues that a significant influx of substandard foreign products, often at lower costs, continues to undermine and affect local manufacturers who have the capability and capacity to manufacture.

The LSF is a non-profit company that was established in 2021 by private sector contributors committed to the localisation of manufacturing in South Africa. It promotes localisation by partnering with participants in the ecosystem, on both the supply and demand side, to deliver on its mandate. LSF funds industry research and deploys technical expert resources in an effort to accelerate or unblock opportunities for growth in the manufacturing sector.

"We want to play a fundamental role by being a key enabler in promoting import substitution and growing exports to improve the manufacturing sector's contribution to the GDP. The current energy crisis presents an opportunity to design and manufacture components that meet the demand emanating from the renewable energy programme as well as the anticipated transmission and distribution capital investment programme," says Moatshe.

"The challenge now is to provide local players and new entrants with the support they need to scale up and modernise production so that they can meet local demand and be globally competitive. In addition, we need a consistent demand from both the public and the private sector to ensure that local suppliers can adequately meet the demand. The partnership between the private sector, labour and government has seen success in the implementation of certain policies and masterplans such as the R-CTFL value chain and the Automotive Industry masterplan to promote localisation. Expansion of these initiatives into other sectors such as medical devices, energy and furniture has the potential to increase local manufacturing's contribution," says Moatshe.

She adds that robust funding mechanisms are needed to promote growth in the manufacturing sector. The substantial CAPEX that will be spent on energy will help the manufacturing industry to increase capacity which in turn can stimulate more competitive pricing due to increased scale.

“While we may not compete with China in terms of scale, we have an opportunity to increase our manufacturing base. The impact of disrupted value chains during Covid was a clear indication that local manufacturing is needed,” Moatshe says. “My view is that local buyers prefer to buy locally at competitive prices and at the right quality. South Africa should strive to become the best at what it can manufacture locally, while still being internationally competitive. We need to be able to clearly define where we want to play and how we intend to play.”

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About the Localisation Support Fund (LSF)

The LSF is a non-profit company (NPC) and public benefit organisation (PBO) that was established in 2021 by private sector contributors, in partnership with the South African Government, in support of strategic localisation of manufacturing in South Africa.

The LSF operates with a focused mandate: to identify and address barriers to industrialisation through evidence-based research, industry engagement, and strategic interventions. Our approach ensures that localisation is not merely about import substitution but about scaling South African firms into competitive, high-growth markets.