destea
department of
economic, small business development
tourism and environmental affairs
FREE STATE PROVINCE

The Efficacy of the Manufacturing Incentives in Growing the Economy of the Free State

December 2016

By

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1. Introduction

One of the key objectives of the Free State Growth and Development Strategy (FSGDS) is to ensure that the provincial economic growth rate increases by 7% in 2030 from the low of 2.5% in 2011. To achieve this, among other things, the contribution of the manufacturing sector to the provincial economy would have to increase from 14% in 2010 to 28% in 2030 with the contribution of non-petro-chemicals subsectors to the manufacturing sector increasing from 25% in 2010 to 50% in 2030. Accordingly, the manufacturing sector is one of the five priority sectors of the FSGDS.

The importance of the manufacturing sector stems from its ability to stimulate growth in other sectors of the economy; hence the sector has been regarded as an engine of growth in development economics literature. The big economies of the world developed on the back of the manufacturing sector. However, the contribution of the services sector in the Gross Value Added (GVA) and employment has been growing in many countries, including the BRICS countries, to the point that “the engine of growth hypothesis” is getting questioned. The recent literature in this regard still regard manufacturing as an engine of growth in both developing and developed countries, although the services sector, particularly the information technology, is becoming important in countries advanced countries whose income is closer to that of the United States (US).

To the extent that the manufacturing sector is still regarded as an engine of growth, there is a justification for it to be supported through government incentives. While the Department of Trade and Industry has a suit of industrial incentives meant to grow the manufacturing sector, the extent to which the sector does benefit in the Free State Province is not clear.

This paper deals with the role of manufacturing sector in economic growth and the incentives to support the sector. It is divided into eight sections. Section 1 is introduction; section two deals with the background to the research project; section three with the research objectives and research question; section four with research methodology and limitations to the study; section five with a theoretical framework on the manufacturing sector as an engine of growth; section six with empirical validation

of the manufacturing as an engine of growth hypothesis; section seven with the role of incentives and section eight concludes.

2. Background Information and the Stimulus to the Study

The Free State Growth and Development Strategy (FSGDS) aims at improving the quality of life of Free State people through inclusive economic growth, human development and social cohesion. The attainment of this vision is predicated on the following four pillars:

- economic restructuring, growth and employment creation;
- education, innovation and skills development;
- improved quality of life;
- sustainable rural development; and
- social cohesion.

The first pillar, “economic restructuring, growth and employment creation”, is based on the following assumptions:

- that the provincial economic growth rate would increase from 2.5% in 2011 to 7% in 2030;
- that the contribution of non-petro-chemicals subsectors to the manufacturing sector would increase from 25% in 2010 to 50% in 2030;
- that the contribution of the manufacturing sector would increase from 14% in 2010 to 28% in 2030;
- that the contribution of the agricultural sector would increase from 3.8% in 2010 to 10%;
- that the provincial contribution to the South African economy would increase from 5% in 2010 to 15% in 2030;
- that the GDP per capita income per person would increase from R32 304 in 2010 to R110 000 in 2030;
- that the unemployment rate would be reduced from 32% in the third quarter of 2012 to 6% by 2030; and

- that the availability, affordability and speed of broad band would increase from the 256 kilobytes per second in 2011 to at least 2 megabytes per second in 2030.

The FSGDS further identifies five drivers for the inclusive growth and sustainable job creation pillar; namely:

- agriculture;
- mining;
- manufacturing;
- transport; and
- tourism.

The Department of Economic, Small Business Development, Tourism and Environmental Affairs' (DESTEA) Provincial Economic Development Strategy (PEDS) places a high premium on productive sectors of the economy to attain the objective of inclusive economic growth. PEDS (2016: 11) asserts that investing in the productive sectors of the economy will stimulate growth in the services sectors such as tourism, finance, trade, government and household services and ultimately in whole economy. This postulation by PEDS is line with the "manufacturing as an engine of growth hypothesis" from Development Economics literature.

This paper aims at determining whether the empirical evidence does support this approach as postulated by PEDS by surveying the Economic Development literature in this regard. This is particularly important in the context of growing in importance of the tertiary sector. The tertiary sector's contribution in Gross Value Added (GVA) and job creation has grown exponentially in the last twenty years or so while that of the productive sectors as supported by PEDS and the FSGDS has either stagnated or declined.

Table 1 below shows that tertiary sector contributed more than 60% to the GVA within the Free State Province, followed by the primary and the secondary sectors at 17% and 6.5% respectively (IHS Information & Insight, 2015).

Table 1. Gross Value Added (GVA) by Broad Economic Sector – Free State Province, 2005, 2010 and 2015 (R Billions, 2010 Constant Prices)

	2005	2010	2015
Agriculture	5.8	6.7	6.4
Mining	22.2	18.9	19.5
Manufacturing	13.1	14.6	15.3
Electricity	4.5	4.5	4.5
Construction	2.7	3.8	4.1
Trade	20.1	22.6	26.0
Transport	10.1	11.6	12.6
Finance	17.0	20.5	22.5
Community services	26.0	30.5	34.3
Total Industries	121.6	133.6	145.2

Source: IHS Global Insight Regional eXplorer version 993

Table 2 shows that most of the jobs in the BRICS countries are increasingly to be found in the services sector between 1980 and 2008 while the contribution of the manufacturing sector in this regard is not impressive.

Table 2: Sectoral shares of Employment. BRICS, 1980-2008 (in %)

	Brazil		Russia		India		China		SA	
	1980	**2008**	**1995**	**2008**	**1980**	**2008**	**1987**	**2008**	**1980**	**2008**
Agriculture	38.4%	17.8%	27.7%	21.5%	69.9%	54.0%	59.2%	40.2%	12.6%	5.7%
Mining	0.5%	0.3%	1.4%	1.2%	0.5%	0.6%	1.8%	1.3%	11.1%	2.4%
Manufacturing	12.8%	13.0%	17.3%	13.7%	10.3%	12.3%	16.0%	18.5%	15.0%	14.3%
Utilities	0.8%	0.4%	1.9%	2.3%	0.3%	0.3%	0.3%	0.5%	1.6%	0.7%
Construction	8.9%	7.2%	7.7%	7.3%	1.9%	6.7%	4.5%	6.7%	7.8%	8.3%
Services	38.6%	61.3%	44.0%	54.0%	17.1%	26.0%	18.3%	32.8%	51.8%	68.6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source. Institute for the Study of Labour

Table 3 below further shows that the contribution of the manufacturing sector in terms of GVA and employment has been in a decline in the BRICS countries except in China and India. In fact China's manufacturing sector's contribution to the GVA has grown by more than 22% between 1987 and 2008. In contrast, the manufacturing sector's contribution to the GVA in South Africa decreased by almost 4% between 1980 and 2008.

Table 3: Changes in sectoral shares of Value Added (VA) and Employment (N). BRICS, 1980-2008 (in percentage points)

	Brazil (1980-2008)		Russia (1995-2008)		India (1980-2008)		China (1987-2008)		SA (1980-2008)	
	VA	**N**	**VA**	**N**	**VA**	**N**	**VA**	**N**	**VA**	**N**
Agriculture	1.54	-20.63	-2.99	-6.18	-21.13	-15.89	-20.70	-18.96	-0.90	-6.99
Mining	0.46	-0.20	-1.31	-0.18	-0.11	0.15	-1.31	-0.51	-7.66	-8.72
Manufacturing	-1.66	0.24	-2.94	-3.58	1.51	2.08	22.45	2.52	-3.55	-0.67
Utilities	1.10	-0.34	-1.63	0.36	0.37	0.04	0.11	0.22	0.27	-0.96
Construction	-2.76	-1.76	0.56	-0.45	0.45	4.81	-1.39	2.23	-0.84	0.55
Services	1.32	22.69	8.31	18.90	18.90	8.82	0.84	14.50	6.72	16.79

Source. Institute for the Study of Labour

The manufacturing sector is comprised of some of the following industries as per the Standard Industrial Classification (SIC):

- Basic metals, fabricated metal products, machinery and equipment and office, accounting and computing machinery;
- Coke, refined petroleum products and nuclear fuel, chemicals and chemical products; rubber and plastic products;
- Electrical machinery and apparatus not elsewhere classified;
- Food products, beverages and tobacco products;
- Furniture, manufacturing not elsewhere classified;
- Recycling;
- Other non-metallic mineral products;
- Textiles, clothing and leather goods;
- Transport equipment; and
- Wood and wood products and cork, expect furniture; articles of straw and painting materials; paper and paper products; publishing, printing and reproduction of recorded media.

In the Free State Province, the majority of industries in the manufacturing sector in the early 1990s were food, fabricated metals, non-metallic minerals and machinery, with the food industry in pole position at more than 30%. This picture had changed by 2003 with the food industry still leading the pack but with significantly reduced proportion of 18%, followed by the fabricated metals and the clothing and textiles industry in third

place. Other industries included small jewellery producers, oil/petro-chemicals and furniture (Nel, Rogerson & Marais: 2006).

Fezile Dabi District was contributing 70% of the manufacturing output in the Free State due to the dominance of the chemical and petroleum industry in the Sasolburg region; while in spatial terms the district was home to a mere 4% of the Free State's manufacturing establishments and contributed only 17% of the employment in manufacturing in the Free State. This picture is informed by the capital intensity of the petro-chemical industry and the lack of integration of Sasolburg (whose market and linkages are in Gauteng) with the rest of the province's economy. The other manufacturing areas in the Free State are Bloemfontein, Harrismith-Phuthaditjhaba and goldfields areas (Nel et al, 2006).

Whilst the contribution of the manufacturing sector to the GVA and job creation in the province has declined, the number of manufacturing establishments has increased post-1994. This paradoxical picture is explained by the fact that large manufacturing plants, like South African Breweries, have closed shop in the province; but more Small Medium and Micro-Enterprises (SMMEs) have been established. While in 1994 there were 461 manufacturing establishments in the Free State Province, in 2003 that number had increased to 1014 and majority (83%) were SMMEs. Various factors account to the closure of big manufacturing establishments in the province. The first reason lies in the historical structure of the South African economy which Fine and Rustomjee (1996) had defined as Minerals-Energy-Complex (MEC). Because the FS province was endowed with minerals, particularly gold, it attracted manufacturing companies that were servicing the mining sector. So proximity to raw materials was one of the key determining factors that attracted the manufacturing firms to the province. Furthermore, the national economy used to rely on the province's other key primary products like maize and the province's centrality was added advantage. This attracted industries processing these products to the province around the 19th century.

The decline in gold mining, and scaling down of mining operations as a result, has had a negative effect on the manufacturing industries that were linked to the mines. The poor performance of the agricultural sector also resulted in the closure of the agro-processing industries. The other factor that has exacerbated problems in the

manufacturing sector is the fact that the province's largest industries are branch plants of firms head-quartered elsewhere which reduces the long-term commitment of the company to the area and reduces their ability and willingness to involve themselves in local development issues. The other factors that have contributed to the decline in the proportion of the big industries in the province besides the exhaustion of the gold mines include the attraction of export orientated industries to the coastal cities, centralisation of domestically focussed manufacturing operations in Gauteng and the importation of cheap foreign products, particularly clothing. Furthermore, manufacturers complain about poor access to markets, poor skills levels, poor transport infrastructure, failure of municipalities to maintain infrastructure, provincial political in-fighting, union activity, foreign competition, the prevailing exchange rate and government interference (Nel et al, 2006).

Given the picture painted above, does the "manufacturing as an engine of growth" hypothesis still hold true? If the hypothesis still holds true then it is justifiable for government to support the sector through measures like investment incentives. It would be important therefore to determine the extent to which Free State manufacturing enterprises benefit from a suit of **the dti** manufacturing incentives. Related to this is whether those manufacturing enterprises that are benefiting from these incentives are helping to grow the economy of the Free State Province.

3. Project Objectives and the Research Question

This study is aimed at achieving two interrelated objectives. The first objective seeks to provide a justification for the prioritisation of the manufacturing sector in the light of data showing stagnation and decrease in its contribution to the GVA and employment, respectively, in the province. The second objective is related to the first objective in the sense that if a case is made for the prioritisation, then the sector should get more support in the form of incentives.

In a nutshell, the research project answers two key questions:

- Is the manufacturing sector still an engine of growth?

- Is government support in the form of incentives helping in growing the manufacturing sector?

4. Research methodology and the limitations of the study

The research design of this study is descriptive because it shows the capacity of the manufacturing sector to stimulate other sectors of the economy using existing literature. The existing theories have been used in this study as a point of departure to answer the first research question: is the manufacturing sector still an engine of growth? The second question has been responded to using the dti's 2013/14 report on manufacturing incentives.

The limitations of this study is that the secondary data sources have been used because the Department does not have internal capacity to gather primary data. The data used to describe the state of the manufacturing sector in the Free State is dated; there is no recent research done in this regard. However, it is still providing valuable information on the state of manufacturing sector in the province.

5. The Manufacturing Sector as an Engine of Growth: A Theoretical Overview

In order to grow the economy of the FS Province, the PEDS supports the five strategic sectors prioritised by the FSGDS; viz., agriculture, mining, manufacturing, tourism and transport. The strategy also contends that the policy interventions by the FS government aimed at growing the economy should be informed by the Province's competitive and comparative advantages. This contention is in keeping with the competitive advantage theory of development economics which posits that countries should specialise in those industries in which they are able to produce at lower costs than competitors. On the other hand the prioritisation of the five strategic sectors is based on the post-Keynesian and evolutionary economics which hold that countries can attain faster economic growth if their policy interventions target strategic sectors that have the capacity to catalyse productivity and innovation in the entire economy (Cantore, Clara and Soare, 2014: 1).

As it has been indicated already, the focus of this research is on a strategic sector prioritised by FSGDS and thus PEDS, the manufacturing sector. To this extent, it is predicated on the second theory which argues for a focus on strategic sectors that can stimulate growth in the economy as a whole. Due to its ability to create backward and forward linkages, spread technological know-how and the possibility of training on the job, the manufacturing sector can stimulate growth in the entire economy (Cantore, et. al: 2014: 1). In this regard, the comparative advantage may not be a prerequisite because the manufacturing sector can grow due to *"economies of scale, internal market demand opportunities and productivity improvements and consequently generate positive effects on the entire economy given that appropriate infant industry strategies are in place* (Cantore, et. al: 2014).

The ability of the manufacturing sector to stimulate growth in the economy as a whole was first postulated by Kaldor (1960). He asserted that the expansion of *an industrial sector tends to absorb a growing amount of goods and services produced outside the industrial sector. These may be the products of agriculture or mining (food and industrial materials), or manufactures which it does not provide itself, or not in sufficient quantities, and which have to be imported… Further industrial growth generates demand for many kinds of services – banking, insurance and professional services of various kinds – and is thus partly responsible for a fast expansion of the "tertiary sector"* (Kaldor, 1960: 33). Kaldor's theory in this regard is broken into several laws.

The first law states that the growth of the Gross Domestic Product (GDP) is positively related to the growth of the manufacturing sector. Accordingly, if the manufacturing output grows at the faster rate, the GDP will also grow at a faster rate. This suggest that the causality runs from the expansion of the manufacturing sector to GDP growth. Thus the first law is called "the engine of growth hypothesis" (Jeon, 2006).

The second law Kaldor called "Verdoorn's Law"[1] and asserts that the growth of productivity in the manufacturing sector is positively associated with the growth of production (Jeon, 2006).

[1] This law is named after the Dutch economist, Petrus Johannes Verdoorn. The Verdoorn's Law states that in the long run productivity generally grows proportionally to the square root of output. In economics, this law pertains to the relationship between the growth of output and the growth of productivity.

The third law postulates a correlation between the growth of productivity in the entire economy and the growth of output in the manufacturing sector due to the labour transferences to the manufacturing sector from the other sectors, including agriculture and service (Jeon, 2006).

6. Validation of manufacturing as an engine of growth hypothesis: Literature Review

With the services sector growing in importance as outlined before, the "*manufacturing sector as an engine of growth"* paradigm is becoming a contested terrain. Therefore the latest empirical evidence to validate this hypothesis in recent times is critical. Just to recap, the "*manufacturing sector as an engine of growth"* paradigm is based on Kaldor's theory which argues for the strengthening of the sectors, particularly the manufacturing sector, with the highest potential to spread positive externalities to the rest of the economy. We now proceed to discuss findings by various researchers that validated this paradigm in recent times.

Using econometric techniques and dataset from 130 countries for the period 1960 to 2011, Cantore et. al (2014: 20) found that when the manufacturing value added growth rate increases by 1 percent, the GDP growth rate increases within the range of 0.47 and 0.87%. This finding reaffirms the validity of Kaldor's Law that manufacturing is an engine of growth. In line with this approach, it is important to help the manufacturing sector to grow, even if manufacturing is not competitive in the initial stages of development. Economies of scale can help the manufacturing sector in low income countries to become more competitive over time and spread positive externalities to other important complementary sectors such as agriculture and services.

The relevance of this hypothesis for the so-called middle-income economies, which South Africa is regarded as part of, is important. Szirmai and Verspagen (2010) analysed a dataset of 90 countries, comprised of 21 advanced economies and 69 developing countries, for a period 1950 to 2005. They found that the manufacturing sector continues to be important in the advanced economies, but its effect decreases as countries come closer to the US income levels, while the effect of service increases.

They further found that ("tentatively") the manufacturing sector is especially important in periods of accelerated growth. Services also play a role, but are less important than manufacturing during this period of accelerated growth. While the share of manufacturing is positively related to economic growth, particularly in the poorer countries, they did not find this correlation with regard to services.

It is also important to consider the BRICS[2] countries in so far as this hypothesis is concerned. In this regard, Dasgupta and Singh (2005) having noted a faster growth of services than that of manufacturing industry in many low and middle-income countries contrary to historical experience and the emergence of de-industrialisation in a number of developing countries at low levels of *per capita* income, they investigated, among others, the question whether services would be the engine of economic growth in India.

In their paper they contend that the structural analysis of economic growth's assertion that the growth of services depends largely on the growth of manufacturing may be applicable for certain services such as retailing and transportation but not to all the services. They single out the Information Technology (IT) and posit that it causes the expansion of manufacturing rather than the other way round. They accordingly recommend that India should take advantage of its strength in IT and use it extensively in all areas of the economy in order to upgrade manufacturing, agriculture as well as services. This however did not suggest that manufacturing may not be the primary engine of growth, but its significance should not be exaggerated (Dasgupta and Singh: 2005).

In same breath, Tregenna (2007) researched the following questions, among others, in relation to South Africa:

- "Does manufacturing 'pull along' services, or the other way around?
- Does manufacturing in South Africa – or sectors of manufacturing – have the 'special qualities' that are typically associated with it and that accord to it a special

[2] A group of countries comprised of Brazil, Russia, India, China and South Africa.

place in the growth process? Are there service sectors that share in some of these properties?

- In what ways can growth in a particular sector induce or support net growth in the overall economy, over and above the actual growth in the sector?
- Is South Africa experiencing premature deindustrialisation?
- In sectoral terms, where should we look to for sustainable future growth and employment creation?"

Tregenna (2007) concludes that the growth and increasing sophistication and specialisation of manufacturing may generate increased demand for service inputs into manufacturing. Accordingly, the growth of services as a result and their increasing share in the composition of the economy should not be interpreted as services "replacing manufacturing as it is associated with an increased demand arising from manufacturing itself". She further contends that "a rise in services associated with increasing per capita income is less directly connected with manufacturing" (Tregenna: 2007).

7. The Role of Industrial Incentives

An incentive may be defined as any quantifiable advantage given to specific enterprises or categories of enterprises by government or its agencies (UNCTAD: 2003). Neo-classical economic theory discourages the use of targeted tax incentives in the sense that this violates horizontal equity, which is one of the key principles of good tax system. The theory contends that incentives distort the price signals faced by potential investors with the result that capital can be allocated inefficiently. However, the usage of incentives is regarded as important because of market failures in the decision to invest in certain sectors and/or locations. Thus government intervention through incentives corrects market failures which result in either too much or too little investment in certain sectors or locations (Jordaan: 2012). Table 4 below summarises different categories of incentives.

Table 4. Summary of categories of incentives

Direct incentives:	Indirect (tax) incentives	Other, non-fiscal, incentives include
• Cash payments • Payments-in-kind (such as the provision of land or infrastructure to specific firms)	• Reductions in the rate of direct taxation, either permanent or temporary. These can be in the form of tax holidays with reduced Corporate Income Tax (CIT) rates, accelerated depreciation allowances, investment tax credits, investment tax allowances or deductions of qualifying expenses. • Reductions in indirect taxation either permanently or temporarily (e.g. reduced import tariffs or VAT on inputs or capital equipment). These can either be upfront reductions in import duties, or administered via duty drawbacks. • Protection against competition from rival firms through tariff increases.	• Special deals on input prices from parastatals (e.g. electricity, oil). • Streamlined administrative procedures or exemptions from certain pieces of legislation. • Export Processing Zones (EPZs) which offer a combination of fiscal and non-fiscal incentives within a particular geographical area, normally near a port. • Legislation and/or policies that promote investment into certain sectors, or by certain investors. • Subsidised financing through parastatal lending or equity.

Source. Jordaan

While access to labour and proximity to raw materials have played a significant role in determining the location of manufacturing establishments in the Free State, centrality, government incentives, infrastructure and proximity to home have also been taken into account. The fact that some of the manufacturing establishments chose to locate in former Homeland areas either because of previous regional support or current Free State Development Corporation assistance shows that state intervention does play a role in determining location of firms in the province. The Sasolburg industrial complex is itself a creature of state intervention (Nel et al., 2006).

The dti incentive programmes meant to attract and promote manufacturing investment are the Section 12I Tax Allowance Incentive, the Automotive Investment Scheme (AIS), Aquaculture Development and Enhancement Programme (ADEP) and the Manufacturing Incentive Programme (MIP), which has since been stopped in 2014. Table 5 provides an overview of these incentives.

Table 5. Summary of manufacturing incentives

Scheme	Benefits	Eligibility Criteria
Automotive Investment Scheme (AIS) Strengthen and diversify the sector through investment in new and/or replacement models and components. • Increase plant production volumes. • Sustain employment and/or strengthen the automotive value chain	• The AIS provides for a non-taxable cash grant of 25% of the value of qualifying investment in productive assets, as approved by the dti. • An additional non-taxable cash grant of 5% to 10% may be made available for projects that significantly contribute to the development of the automotive sector.	Light motor vehicle manufacturers that have achieved, or can demonstrate that they will achieve, a minimum of 50 000 annual units of production per plant within a period of three years; or Component or deemed component manufacturers that are part of the Original Equipment Manufacturer (OEM) supply chain and will achieve at least 25% of a total entity turnover or R10 million by the end of the first full year of commercial production as part of a light motor vehicle manufacturer supply chain, locally and/or internationally.
Section 12I Tax Allowance Incentive (12I) The 12I Tax Incentive is designed to support Greenfield investments (i.e. new industrial projects that utilise only new and unused manufacturing assets), as well as Brownfield investments (i.e. expansions or upgrades of existing industrial projects). The new incentive offers support for both capital investment and training. The objectives of the incentive programme are to support the following: • Investment in manufacturing assets to improve the productivity of the South African manufacturing sector; and • Training of personnel to improve labour productivity and the skills profile of the labour force.	The incentive offers: R900 million additional investment allowance in the case of any Greenfield project with a preferred status. R550 million additional investment allowance in the case of any other Greenfield project. R550 million additional investment allowance in the case of any Brownfield project with a preferred status. R350 million additional investment allowance in the case of any other Brownfield project. An additional training allowance of R36 000 per employee may be deducted from taxable income. A maximum total additional training allowance per project, amounting to R20 million, in the case of a qualifying project and R30 million in the case of a preferred project. According to the points system, an industrial policy project will achieve 'qualifying status' if it achieves at least five of the total 10 points and a 'preferred status' if it achieves at least eight of the total 10 points.	A Greenfield project (new); A Brownfield project (expansion or upgrade); or Classified under 'Major Division 3: Manufacturing in the SIC codes'. Upgrade an industry within South Africa (via an innovative process, cleaner production technology or improved energy efficiency); Provide general business linkages within South Africa; Acquire goods and services from SMMEs; Create direct employment within South Africa; Provide skills development in South Africa; and In the case of a Greenfield project, be located within an Industrial Development Zone (IDZ).

Aquaculture Development and Enhancement Programme (ADEP) This programme is meant to increase production, encourage geographical spread and broaden participation	Reimbursable cost sharing incentives (60:40 for projects under R5m; 70:30 for projects between R5m and R30m; and 80:20 for projects between R30m and R200m) of up to a maximum of R40m for investment in machinery, equipment, bulk infrastructure, owned land and/or buildings, leasehold improvements, and competitiveness improvement activities	• Applicant must be registered to a legal entity in South Africa in terms of the Companies Act (Act No. 71 of 2008), as amended, and Close Corporations Act (Act No. 69 of 1984), as amended • Project must be a registered higher or further education institution and a licensed and/or registered research

Source, the dti

In its report to the Portfolio Committee on Trade and Industry, the dti indicates that over the past 20 years, the IDC has approved funding of projects in excess of R128 billion (R204 billion in 2013 prices) with an impact of 360 000 direct jobs created and an additional 43 000 jobs saved. Between April 2014 and 31 March 2015, IDC approved projects to the value of R10.1 billion, resulting in 20 260 jobs created. The following IPAP sectors benefitted from the funding:

- R 1.7 billion in Mining and Minerals Beneficiation;
- R 1.2 billion in Green Industries;
- R 1.2 billion in Shipbuilding;
- R 1.3 billion in Chemical & Allied Industries;
- R 523 million in Textiles;
- R 1.4 billion in Forestry and Wood Products;
- R 1.4 billion in Metals, Transport & Machinery Products;
- R 358 million in Agro-industries;
- R 294 million in Healthcare;
- R 100 million in Media & Motion Pictures;
- R 178 million in Tourism; and
- R 109 million in Venture Capital

In terms of the geographic spread 36% of approvals were in Gauteng, followed by Western Cape with 31%, then KwaZulu-Natal at 16% and Eastern Cape at 8%. With regards to other incentives provided by the dti, between April 2014 and March 2015, 16 projects under 12i Tax incentive programme with an investment value of R 9.2

billion were approved. These are expected to create 533 direct and 4 047 indirect jobs. Under the Technology for Human Resource in Industry Programme (THRIP), 1602 projects to the value of R 873 million and supported 9,750 students have been approved since 2009 (up to December 2014). Government support for manufacturing played a critical role in retaining both strategic industrial capabilities and the diversity of manufacturing capacity in the domestic economy (the dti: 2014).

The performance of the manufacturing incentives is summarised in the following table. The picture painted is not rosy for the Free State Province. These tables indicate that Free State is not benefiting as it should, given the low manufacturing base it has.

Table 6. Performance of Section 12I Tax Allowance Incentive per province (2014/15)

	Number of projects approved	Projected investment	Tax allowance approved	Training allowance approved
EC	1	R319741060	R239805795	R720000
GP	6	R1953941789	R668421910	R17603900
KZN	3	R661669329	R231584265	R5585836
LP	1	R548912735	R192119457	R2952000
MPL	1	R2201000000	R550000000	R576000
WC	2	R1361115110	R367675000	R8908324
NW	2	R1230526981	R405079990	R10944739
Total	16	R8276907004	R2654686417	R47290798

In table 7 we outlines the subsectors that benefitted from the Section 12I incentives.

Table 7. Section 12I Tax Allowance Incentive performance per manufacturing sub-sector

	Projects approved	Training allowance	Tax allowance	Projected investment
Agro-processing	2	R3.7m	R153.9m	R439.6m
Chemicals	4	R10.4m	R1.1bn	R3.1bn
Plastics	2	R3.7m	R72.8m	R207.9m
Recycling	1	R2.9m	R100m	R285.6m
Construction	1	R2.04m	R17.53m	R31.87m
Metal Products	5	R15.6m	R889.1m	R3.1bn
Non-metalic and mineral products	1	R8.9m	R350m	R1.1bn
Total	16	R47.3m	R2.7bn	R8.3bn

Again, when it comes to the ADEP, the Free State Province did not feature in the 2014/15 disbursements as table 8 indicates.

Table 8. New and expansion ADEP projects (2014/15)

	New projects (67%)	Expansion projects (33%)
EC	2	-
GP	1	-

KZN	-	1
MPL	1	-
WC	-	4
NW	2	-
Total	6	5

Table 9 shows the number of ADEP projects approved in 2013 and 2014. Given the fact that the Free State Province has many dams, some of them being the biggest in South Africa (e.g. Gariep Dam), there ought to be some benefits accruing to the province in so far as this programme is concerned; but that is not the case.

Table 9. ADEP projects approved per province (2013/14 and 2014/15)

	2013/14	**2014/15**
EC	2	2
GP	2	1
KZN	1	1
LP	2	0
MPL	1	1
WC	11	4
NW	1	2

In table 10 we just show the value of the approved amounts for ADEP projects in 2013 and 2014.

Table 10. ADEP grant amounts per approved per province (2013/14 and 2014/15)

	2013/14	**2014/15**
EC	R24508231	R5118284
GP	R3049200	R1141523
KZN	R1635631	R5665405
LP	R6474815	R0
MPL	R1216815	R2749849
WC	R55158036	R10466972
NW	R734600	R3198090

8. Conclusion and Recommendations

The manufacturing sector is still an engine of growth, particularly for developing countries like South Africa. The manufacturing sector, through its forward and backward linkages has the capacity to grow other sectors of the economy. The position of PEDS in relation to the important role played by the productive sectors of the economy and the manufacturing sector in particular is important. It is therefore important that the manufacturing sector should be supported by government. It is also clear that the composition of the manufacturing sector in the Free State Province is the SMMEs. The support to these SMMEs should be informed by the understanding of the capacity of the manufacturing sector to pull other sectors towards growth in the

economy. It should also be understood that the impact of the manufacturing sector in the whole economy of the Free State cannot happen overnight.

Incentives are an important tool in this regard. Incentives are regarded as important because of market failures in the decision to invest in certain sectors and/or locations as is the case in relation to the Free State. There is a need for further research on why there is a low uptake of incentives in the province. Furthermore, the manufacturing sector should be helped to access markets beyond the borders of South Africa.

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