

# Localisation is the key to expansion, security and survival for specific industries, study shows



By Katja Hamilton

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Localisation has the potential to boost economic activity, but the manufacturing sector is underperforming and it isn't having the impact that it otherwise could be having.



Source: Dambisa Mqogga, Top economist and leader of the Pan-African Investment and Research Services team, Dr Iraj Adedjian and chief marketing officer of Proudly SA, Happy Makhumalo Ngidi.

These are the key findings that have been released by a 60-page study - [Revitalising SA's Manufacturing Sector](#) - commissioned by Proudly SA.

The study is the third in a series of research papers that both highlight the sector's notable contribution to the South African economy and the need to effectively support the sector, so as to unlock the sector's potential.

It covers the industries of agro-processing, the automotive industry and pharmaceuticals, among others.

"The manufacturing industry is under stress and mostly neglected," said Dr Iraj Abedian, who led the Pan-African Investment & Research Services team in producing the report.

He was speaking at Proudly SA's national roadshow presentation, hosted by the Cape Town International Convention

Centre on Wednesday, 19 October.

Abedian said South Africa's lack of reliable energy was a major reason for the manufacturing sector's decline over the last 15 years, as were job losses spurred on by the automation of jobs.

## The need for data-based decision-making

"We found that people were willing to support buying local if they understood the economic impact they had when purchasing locally made products, but the sentiment wasn't enough.

"It came to a point where we needed to find scientific data that proves localisation works. As a result, we reached out to Dr Iraj Abedian a few months ago to conduct this research," said the chief marketing officer of Proudly SA, Happy MaKhumalo Ngidi.

"It's important to note that this study is not a survey of players. It's a quantification based on Stats SA's social accounting model. So we did not survey anybody; we looked at the structure of the South African economy as captured in the social accounting matrix of Stats SA," said Abedian.



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"The social accounting matrix (Sam) quantifies the structure of the economy in terms of different sectors such as agriculture, mining, manufacturing, and energy. There are nine sectors that each command sub-sectors and Sam quantifies the relationships that exist among these sectors.

"Take agriculture, for example, which depends on manufacturing for all shipment of tractors; it relies on the energy sector for power and fuel, and requires funding, hence the interplay of the finance industry.

## Turning crisis into opportunity

"As part of our report, we wanted to technically make an attempt at quantifying what, for example, a 10% increase in investment in this sector would lead to in terms of output in jobs and what the resultant tax-contribution outcomes would be, and what this framework would bring about in terms of social development."

The report's investment scenario shows that a mere 10% increase in investment spending in the manufacturing sector could lead, in the medium term, to:

- 13% GDP growth
- 8% more jobs created
- 8.3% overall boost to investment across the economy, and a
- 9% jump in tax revenues

"These are the latest and only actual quantifiable statistics that Stats SA has produced, which gives us the relationship between different sectors and different sub-sectors," Abedian said.

"This translates into the creation of an estimated 73,000 jobs."

The findings show that a process of de-globalisation is at play, partly driven by ongoing global supply-chain disruptions; highlighting the need for increased localisation as a means of expansion, security and survival for specific industries.

## From research to policy implementation

If ever there were a time to bring together government, the private sector and labour unions to make this a reality, now would be it.

A masterplan is what is needed.

"The next steps would be implementation, and based on the existing asset class, classifying the masterplan as a policy framework," Abedian said.

"We would need to be intentional with our timelines, and we would need to systematically monitor and track our success, and sometimes our failures so we can learn from them."



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Ultimately South Africa does have the potential to turn this crisis in the manufacturing sector around, Abedian said.

"We do have the opportunities. We just need to maximise them. We need to improve our ports. Our private sector needs to invest and we need to invite the labour unions to roundtable discussions.

"More importantly SMEs need to be integrated into the value chain."

"Manufacturing in South Africa has huge potential, availability, socio-economic impact, and environmental impact," said the chief executive officer of Proudly SA Eustace Mashimbye.

"SMEs are at the centre of this as the creators of jobs and opportunities. If the government listens and engages more with SMEs, sector by sector, region by region, we can get manufacturing revitalised."

"We do have the capacity," said Abedian. "We do have what it takes.

"We have done it before."

## ABOUT KATJA HAMILTON

Katja is the Finance, Property and Healthcare Editor at Bizcommunity.

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