

## MEDIA STATEMENT

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# Localisation: What is Realistic?

**New research on localisation policy launched today by BUSA and BLSA**

- **Businesses surveyed are supportive and eager to localise their supply chains where possible, but under the right conditions.**
- **However, businesses are sceptical of existing localisation policy and worry about capacity, price and quality as well as the 'usual' constraints of electricity, regulations (including labour)**
- **Quantitative modelling shows large variation in capacity to localise and ability to do so in short to medium run**
- **Examples from other countries show the downsides of moving too fast and too rigidly and the importance of productivity enhancements and export competitiveness to drive sustainable localisation.**

Business Unity South Africa (BUSA) in conjunction with Business Leadership South Africa (BLSA) have launched an important research report into localisation policy.

This timely report was compiled by local consulting firm Intellidex and aims to contribute to policy on promoting local manufacturing in South Africa.

The report is particularly important as government has placed localisation as a central cog in the machinery of policy to best assist SA's economic recovery. Organised business in Nedlac has been asked to substitute 20% of non-petroleum goods imports for domestically produced goods within five years. This study assesses whether such a target is realistic or not.

On behalf of organised business, BLSA CEO Busi Mavuso and BUSA CEO Cas Coovadia state: *"We have been engaging with the Minister of Trade, Industry and Competition, Ebrahim Patel, on promoting local manufacturing and we have identified localisation as a critical deliverable in the Economic Recovery Action Plan (ERAP)."*

Commenting on the report findings, the pair emphasise the importance of creating a conducive environment to increase localisation in SA.

Requisite conditions include *an appropriate policy environment, the necessary capacity to ensure quality and that it must increase SA's competitiveness.*

*"We must also ensure localisation efforts create jobs and do not lead to increased prices in commodities manufactured locally," Mavuso and Coovadia say. "The localisation initiative cannot be considered in isolation of the broader imperative of fundamental economic reforms that attract investment and enhance growth."*

*The general sentiment among the 125 companies surveyed for the research is that they support attempts to improve localisation “under the right conditions”.*

The survey found that goods-producing companies can undertake substitution of 12.6% of imports “right away” under the right conditions. This rose to 32.3% of imports substituted after five years.

Service-producing companies saw possible substitution of 5.5% of imported inputs right away under the right conditions, rising slowly to 11.6% after five years.

Coovadia says BUSA *has been representing the business sector in engagements with government and other social partners on an economic growth strategy. “We remain committed to working with all social partners to attract investment and put the country onto a sustainable economic growth path. Localisation is certainly an element of this but must be considered in the context of critical reforms for investment and growth.”*

Mavuso points out that localisation is but one element of the policy mix that government is working on to drive an economic recovery. *“The study is a critical instrument to contextualise our localisation efforts and ensure these are informed by empirical data, so that we progress in a manner that ensures localisation is sustainable and creates employment, increases competitiveness and produces quality product at competitiveness prices.”*

Peter Attard Montalto, head of capital markets research at Intellidex and lead investigator on the project, says: “This is one of the first, top-down and cross-sector studies of localisation. It reflects the complexity and nuance required. Localisation maximisation is possible but only under the right conditions or it will have negative consequences for prices and recovery.”

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**About Business Unity South Africa:** As the apex organised business entity representing South African business, BUSA is the formally recognised representative of business at the National Economic Development and Labour Council (NEDLAC). BUSA also represents business on bilateral processes and in the Presidential Business Working Groups. BUSA serves as a social partner in the national policy development and social dialogue process and nominates representatives to sit on statutory and advisory bodies on behalf of business. BUSA’s work is focused around influencing policy and legislative development for an enabling environment for inclusive growth and employment. As a member-driven organisation, BUSA represents the cross-sectoral perspective of matters brought to its agenda by its members. BUSA is committed to building an enabling environment to achieve a vibrant, diverse and globally competitive economy that harnesses the full economic and human potential of South Africa.

**About Business Leadership South Africa:** BLSA is an independent association whose members include the leaders of some of South Africa’s biggest and most well-known businesses. Through this forum, South Africa’s business leaders engage key players in South African society, including government, civil society and labour, to exchange ideas in our national interest and to create effective dialogue. Business Leadership South Africa (BLSA) is the organisation through which members not only express this belief but take action to create a more prosperous and inclusive South Africa. BLSA’s purpose is to build an environment in

which globally competitive and national responsible companies can prosper. By so doing, BLSA contributes to building strong communities underpinned by job creation through sustained economic growth. As an organisation BLSA is focusing on three core activities, which combined with our contract with South Africa, will help to facilitate a better and inclusive South Africa.

**About Intellidex:** Intellidex was founded in 2008 by Stuart Theobald and is a leading research and consulting firm that specialises in financial services and capital markets as well as studying South Africa's political economy and policy environment. Its analysis is used by companies, investors, stockbrokers, regulators, lawyers, and companies in South Africa and around the world. It has offices in Johannesburg, London, and Boston. Intellidex is independent and not affiliated with any financial services company or media house. It takes pride in the integrity and independence of its research.

For media enquiries, please contact:

Sizwe Maswanganye | [sizwe.maswanganye@busa.org.za](mailto:sizwe.maswanganye@busa.org.za)