



edtea

Department :

Economic Development, Tourism and
Environmental Affairs

PROVINCE OF KWAZULU-NATAL

ECONOMIC DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS

**Growth Coalition – Provincial Government's
Priorities Over the Next 5 Years**

22 November 2018

ECONOMIC OUTLOOK TO 2023

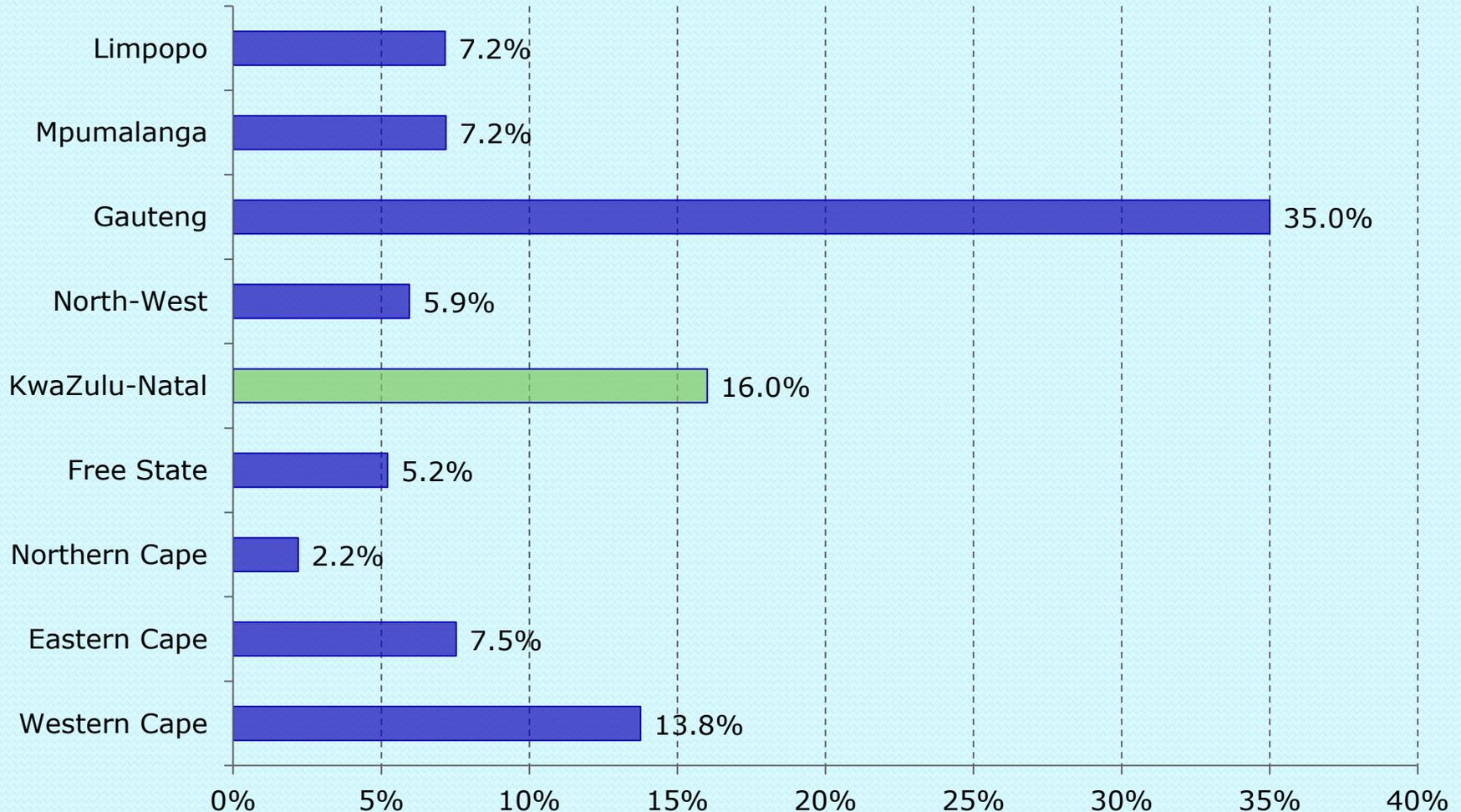
- In contrast to domestic trends, aggregate **global economic conditions** remain strong.
- The short-term prospects for the SA economy have weakened significantly, however, at this stage, it is not clear to what extent the short-term weakness will have long-lasting effects. Both SARB, Treasury and IMF in recent times have cut our domestic growth forecast for 2018 and 2019 which has downgraded the outer years looking towards 2023 wherein growth is expected to be around 2%.
- Going into 2019, attention may be shifted towards **National elections** and campaigning which may lead to increased tensions and market disruption- **Need to manage Investor sentiments.**
- The **Rand exchange rate** has been on a sustained weakening trend before December 2017 and January 2018 despite some respite so far in October. A stable rand and a lower oil price should put a lid on the increase of import prices over the medium term. There are two forces at play here, one, the increase in US interest rates has sparked investor demand for the green back, secondly, the dumping of US dollar by China, Russia, Japan and Turkey could keep the dollar in check.
- SA's combined budget and **current account deficit** is forecast to rise from 6% of GDP in 2017 to 8% during 2023. The deterioration is set to be fuelled by a larger shortfall on the current account.
- Any interest rate reduction(s) over the medium term is unlikely. Headline CPI **inflation** is expected to average 5.1% between 2020-23

OUTLOOK TO 2023

- After a tough 2018 and 2019, the growth in real **consumer spending** is expected to accelerate from 2020 onwards. Because of weak demand prospects, retailers in especially the non-durable sector are unable to pass on high input costs to the consumer in the form of higher selling prices
- Amid a weaker GDP growth outlook, **job growth prospects** have been scaled back. Private sector employment growth is forecast to average just 1% over the next five years
- Public sector employment is forecast to decline marginally over the next few years. This comes after the public sector wage agreement for the next three years exceeded the February budget estimate by R30 billion.
- Given the bleak outlook for job growth, the **unemployment rate** is expected to tick up further during the forecast period. Based on the narrow definition that excludes discouraged work seekers, the unemployment rate is forecast to average just below 30% by 2023.
- The uncertainty created by the **land debate** may not only impede fixed investment in agriculture, but also in other sectors of the economy.
- There is a urge and big drive to root out corruption and recapture key institutions.
- It is yet to be seen if Presidential Infrastructure re-prioritisation programme will come to filtration.

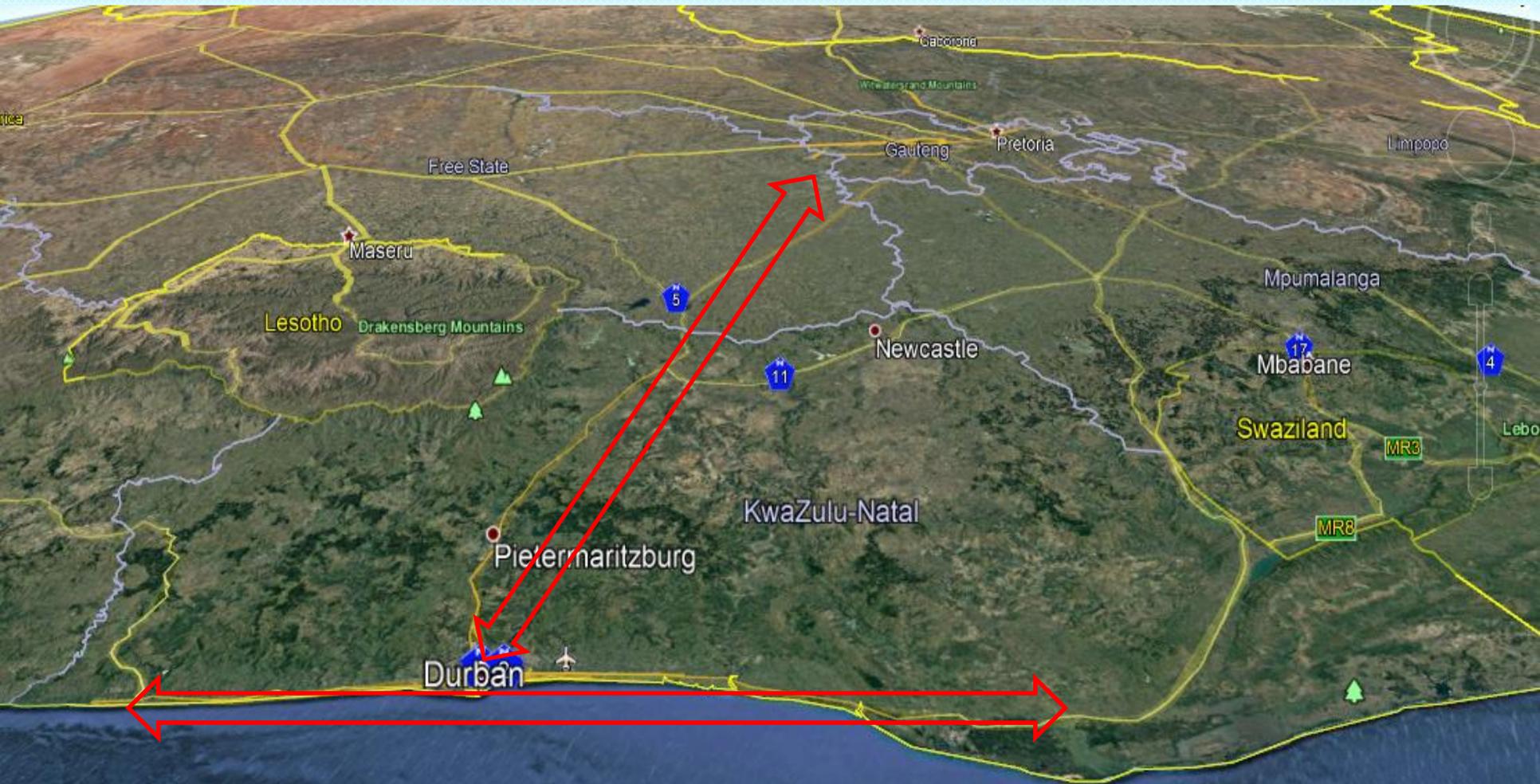
PROVINCIAL GDP CONTRIBUTION

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



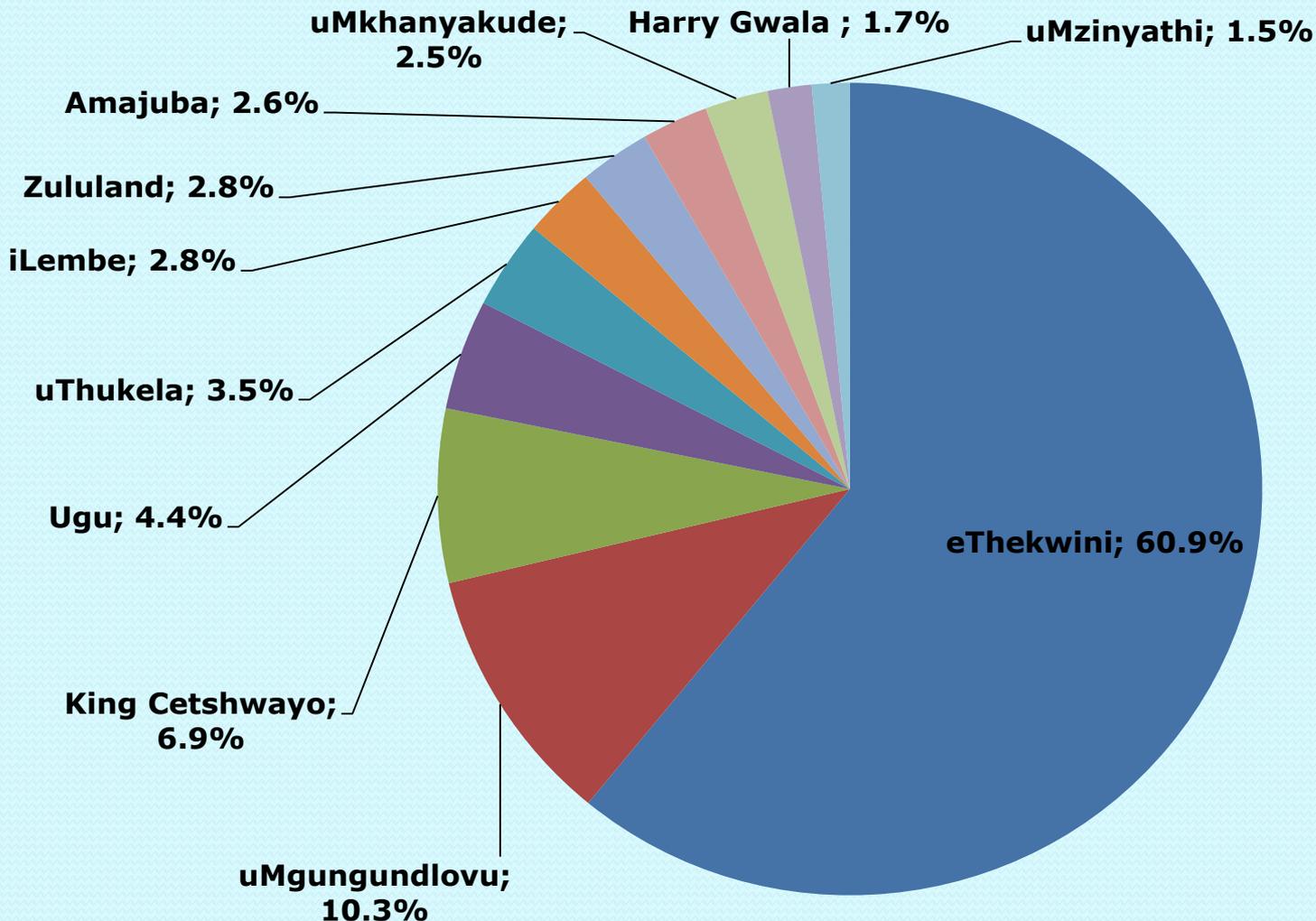
SHAPE OF KZN ECONOMY

KZN has a T-shaped Economy. Globally, economies tend to grow faster along the coast.



MUNICIPAL ECONOMIC CONTRIBUTION

- KZN Economy is dominated by three areas (unequal levels of economic development) – EThekwini, uMgungundlovu & King Cetshwayo (2017)



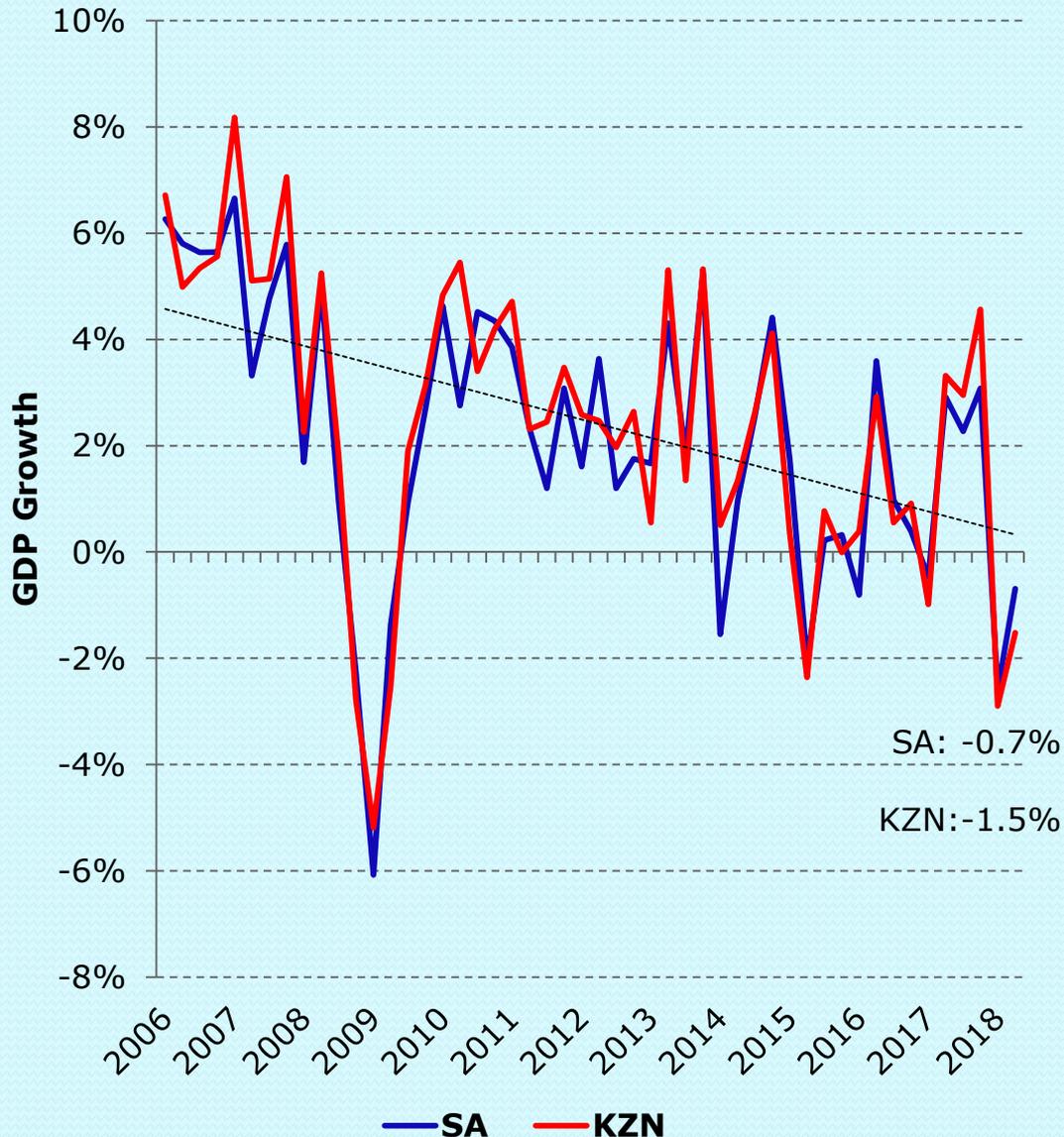
SUB-SAHARAN AFRICA GLOBAL INDICES

How does the world view us and how do we feature through various global report comparisons?

What lessons can be learnt from these indices?

	Rank / 137 Countries	Global Competitiveness Report	Rank / 159 Countries	World Economic Freedom Report	Rank / 85 Countries	Global Entrepreneurship Index	Rank / 190 Countries	Ease of Doing Business
Top 10 in Africa	45	Mauritius	7	Mauritius	42	Namibia	49	Mauritius
	58	Rwanda	31	Rwanda	43	Rwanda	56	Rwanda
	61	South Africa	47	Seychelles	44	Botswana	68	Morocco
	63	Botswana	50	Botswana	46	South Africa	71	Botswana
	71	Morocco	60	Uganda	55	Zambia	74	South Africa
	90	Namibia	61	Gambia	56	Morocco	77	Tunisia
	91	Kenya	70	Kenya	57	Tunisia	92	Kenya
	95	Tunisia	77	Tanzania	60	Kenya	93	Seychelles
	100	Egypt	82	Liberia	61	Senegal	98	Zambia
	106	Senegal	84	Swaziland	62	Ghana	100	Lesotho
SA does well in terms of Financial Market and Banking development and Business sophistication and Innovation			86	Namibia	SA Falls out of the Top 10 based on sub-indices "Size of Government" and "Business Regulations"			
			88	Zambia				
			93	Cape Verde				
			95	South Africa				

SA & KZN GROWTH TRENDS IN GROSS DOMESTIC PRODUCT (GDP)



- Subdued economic growth for both KwaZulu-Natal and South Africa caused mainly by:
 - Increased production costs (energy, transport costs)
 - Low commodity prices;
 - Decreased investments in agriculture;
 - Low investor sentiments;
- SA and KZN entered into a technical recession following two consecutive GDP growth contractions in the first and second quarter of 2018. KZN contracted by 2.9% in first Quarter and by 1.5% in second Quarter. The Annual rate for 2017 for SA was 1.3% and for KZN was 1.4%.

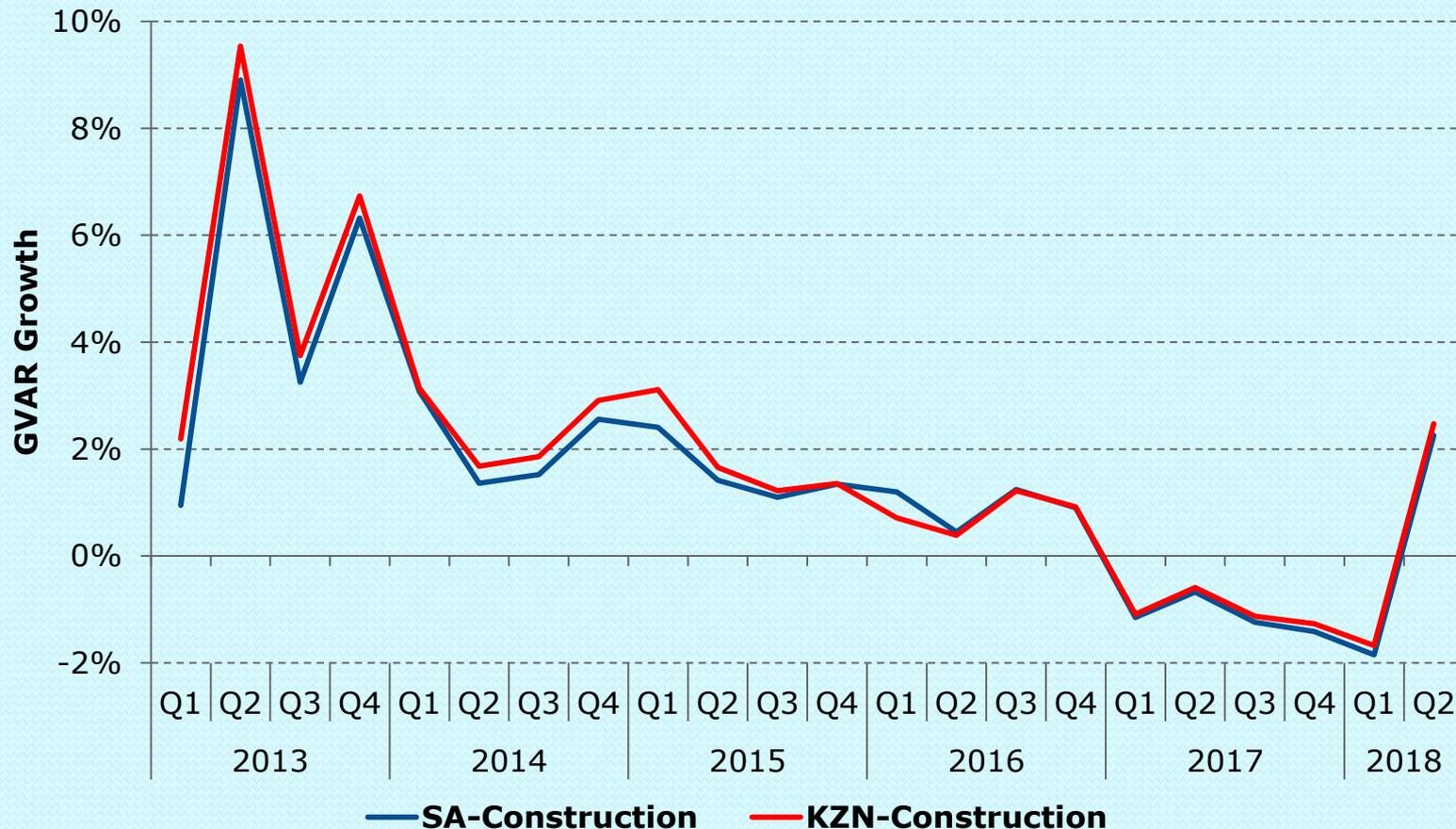
SA & KZN SECTORAL ECONOMIC PERFORMANCE

	South Africa					KwaZulu-Natal				
	2017:Q2	2017:Q3	2017:Q4	2018:Q1	2018:Q2	2017:Q2	2017:Q3	2017:Q4	2018:Q1	2018:Q2
Agriculture, forestry & fishing	36.9	41.7	39.0	-33.6	-29.2	41.2	47.8	46.6	-29.0	-23.0
Mining & quarrying	7.8	6.2	-4.4	-10.3	4.9	8.2	6.3	-4.5	-10.5	4.4
Manufacturing	2.9	3.7	4.3	-6.7	-0.3	2.9	3.7	4.3	-6.7	-0.2
Electricity & water	8.1	-6.1	3.3	0.2	2.1	8.0	-6.3	3.0	-0.1	1.7
Construction	-0.7	-1.2	-1.4	-1.9	2.3	-0.6	-1.1	-1.3	-1.7	2.5
Wholesale & retail trade; hotels & restaurants	0.9	-0.1	4.8	-3.1	-1.9	0.9	0.0	5.0	-2.9	-1.6
Transport & communication	2.6	0.8	2.8	0.9	-4.9	2.5	0.7	2.7	0.8	-5.0
Finance, real estate & business services	3.1	1.9	2.5	1.1	1.9	3.1	1.9	2.5	1.1	1.9
Community, social & other personal services	1.7	1.2	1.0	1.2	0.8	1.7	1.3	1.0	1.2	0.8
General government services	-1.9	1.1	1.4	1.9	-0.5	-1.9	1.1	1.4	1.9	-0.5
All industries at basic prices	2.8	2.5	3.0	-2.8	-0.8	3.2	3.2	4.6	-3.1	-1.7
Taxes less subsidies on products	4.1	0.1	3.8	-0.9	0.2	4.4	0.3	3.9	-0.9	0.1
GDPR at market prices	2.9	2.3	3.1	-2.6	-0.7	3.3	3.0	4.6	-2.9	-1.5

- Agriculture sector rebounded; drought recovery was halted in the first and second quarter of 2018 after expanding significantly in 2017.
- The manufacturing industry contracted by -6.7% and -0.2% in the first and second quarter of 2018 after experiencing an expansion of 4.3% in the fourth quarter of 2017.
- Of concern is the construction sector, contracting throughout 2017 and continuing in first quarter of 2018 only to expand in second quarter of 2018.

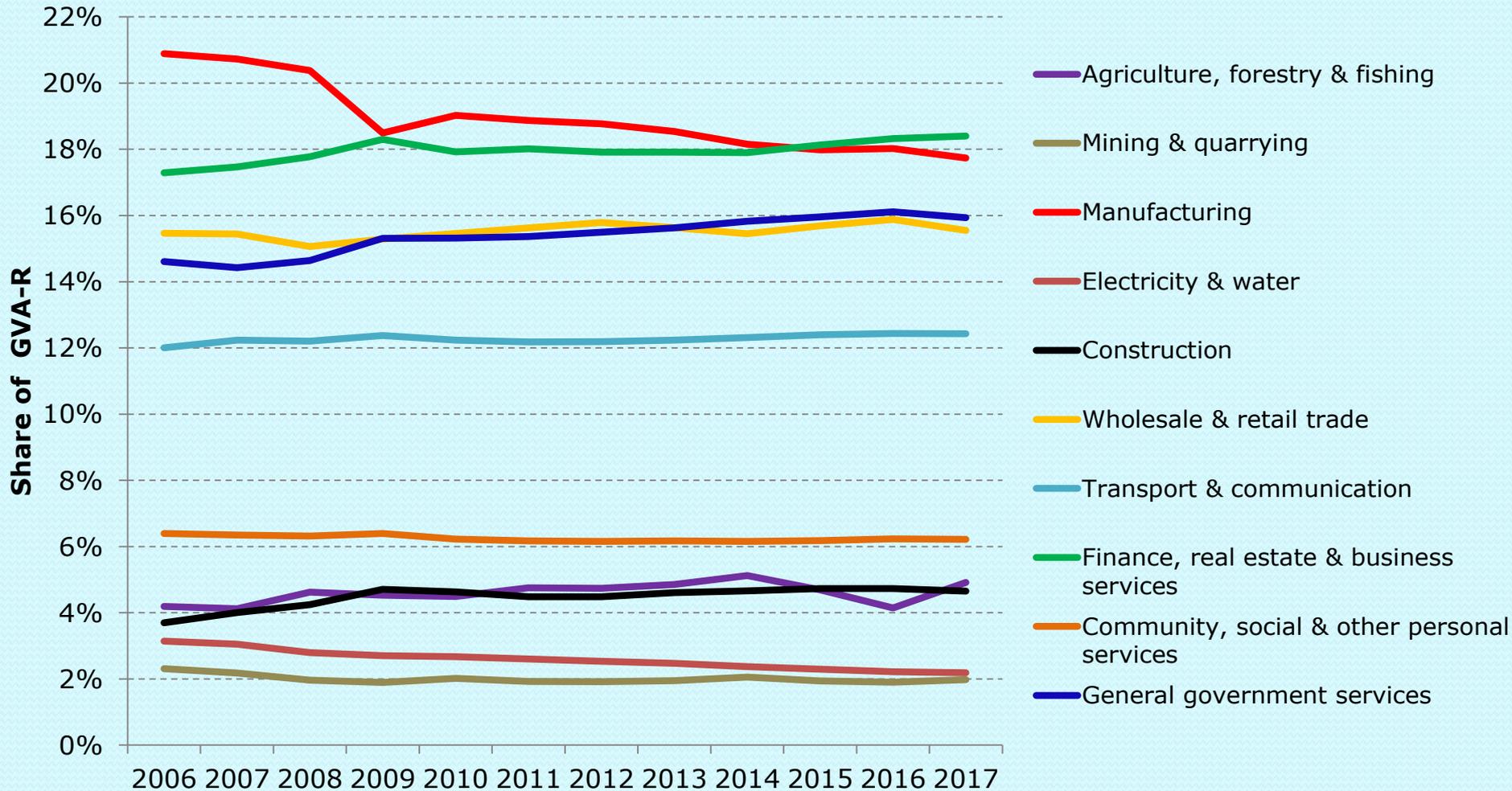
INFRASTRUCTURE

Gross Value Added in the Construction Sector is experiencing difficult times with little growth and for 5 consecutive quarters contracted (2017:Q1-2018:Q2). Infrastructure is critical as a catalytic enabler to higher economic growth and serious interventions are required to support this industry.



KZN BROAD SECTORAL SHARE

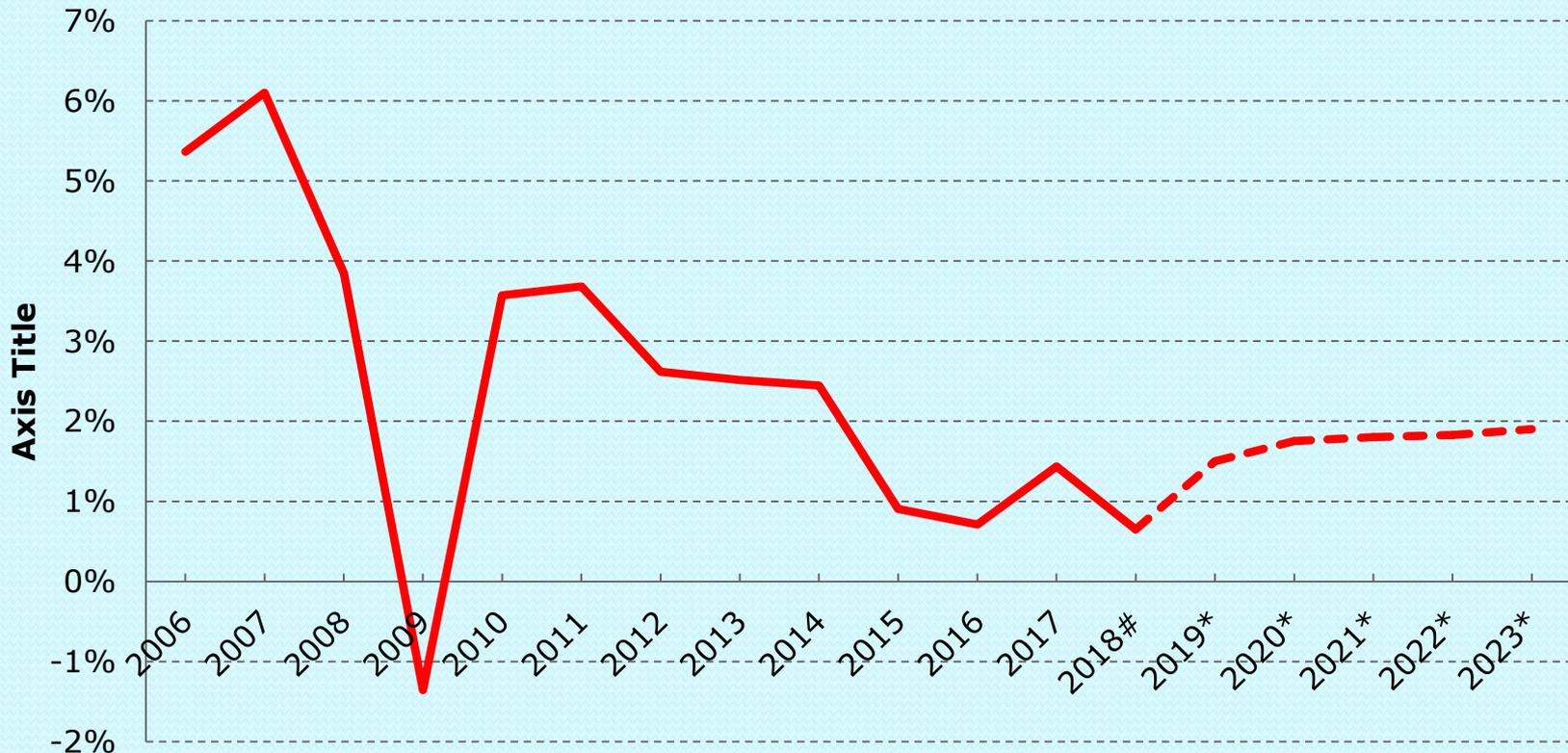
- Share of Manufacturing has declined, Overall, Manufacturing has grown, it just hasn't grown as fast as the other sectors. Need to re-industrialise KZN economy.
- General upward trend in Wholesale & Retail Trade and General Government services



KZN GDP PROJECTIONS

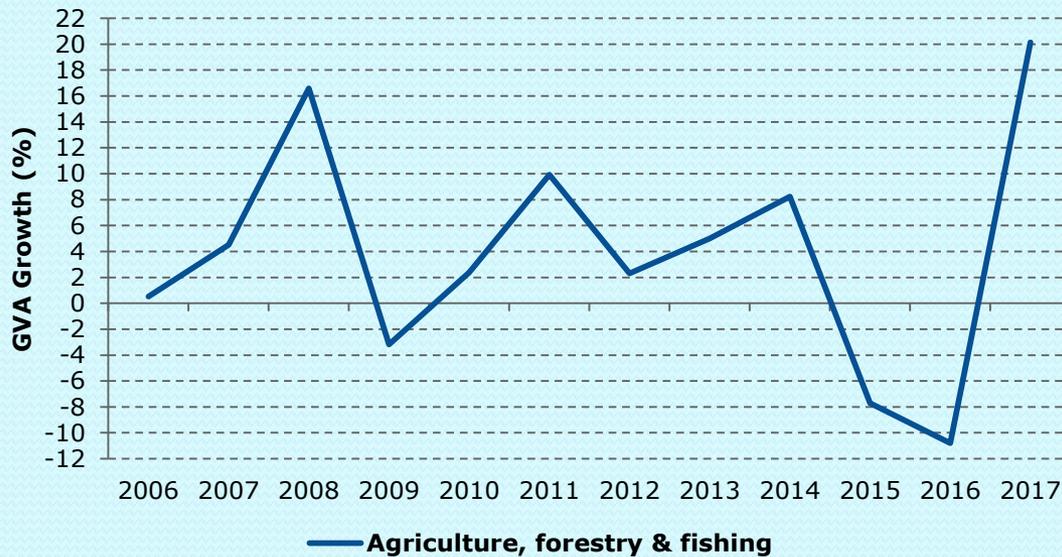
- KZN GDP Projections 2018*-2023*
- Risks include:
 - Global Risks – US/China Trade Wars, Sell off of US Debt and Geo Political Tensions in Middle East
 - Tight Fiscal and Monetary Policy Environment
 - Unsustainable Debt Levels
 - Disruptive Technologies
 - Climate Change

KZN Annual GDP Growth

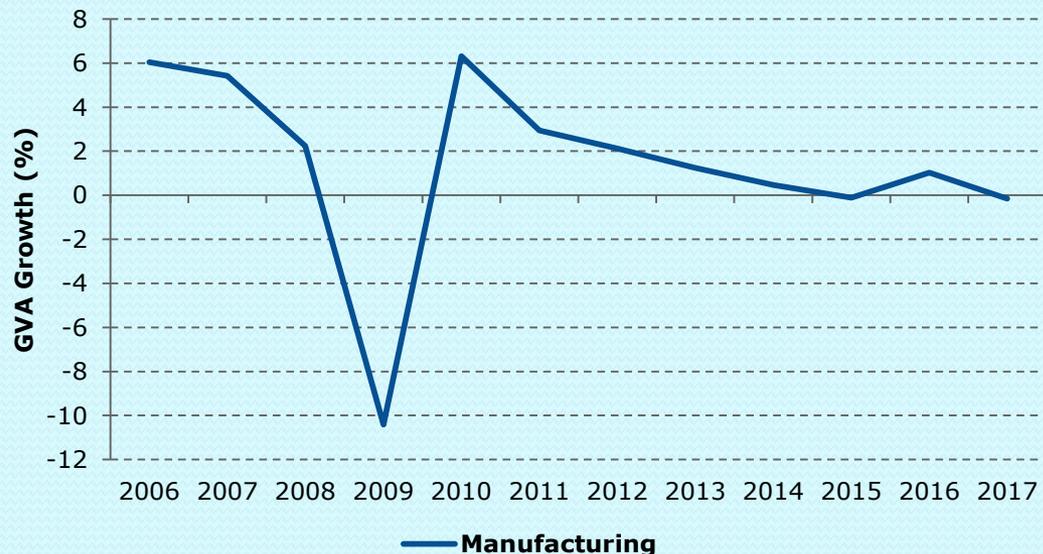


KEY LEAD SECTORS OF KZN ECONOMY

Agriculture, forestry & fishing



Manufacturing



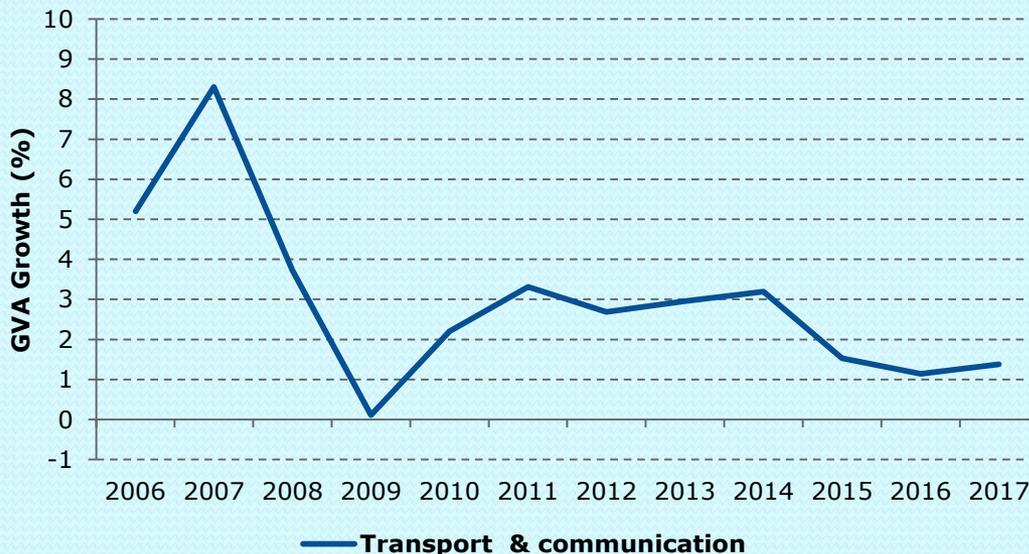
- Although the **Agriculture** sector has a relatively low direct contribution to GDP at 4%, it still remains a key growth sector with significant employment creation and radical socio economic transformation opportunities and food security.
- The sector suffered during the 2015 & 2016 drought and is in process of recovering, however the land debate might put on hold new capital investment.
- Currently unclear how review of Section 25 of Constitution will play out and land debate impact on economy.
- Manufacturing has a number of strong linkages with Agricultural sector such as 'food, beverages and tobacco', and 'wood and paper' industries that are very important for the provincial economy through employment and export activities.
- The share of manufacturing contributing to provincial economy has declined over time. In 2006 the share of Manufacturing was 20.9%, in 2017 it was 17.8%.
- Need for re-industrialisation and create industry support measures for sector

KEY LEAD SECTORS OF KZN ECONOMY

Wholesale & retail trade; hotels & restaurants



Transport & communication



- High household debt to disposable income and low consumer confidence has put pressure on consumerism.
- The sector plays pivotal role in Tourism sub-sector.
- A number of traditionally strong manufacturing areas in KZN have transitioned into retail hubs as well such as Newcastle servicing neighbouring southern Mpumalanga.
- There is need for supporting purchase of local products.
- Public transportation, and in particular its predominant reliance on taxi services, remains an area of concern. This trend is placing enormous pressure on road networks and traffic congestions.
- Sea Port throughput and greater route connectivity at King Shaka International Airport is paramount to supporting this sector.
- The completion of the new bridge and tarring of road in Mozambique near Kosi Bay Border offers a new and more efficient opportunity to trade with the country and other southern African countries.
- The under sea cables and broadband roll out in province provide opportunity to ride 4th Industrial revolution and develop

KEY LEAD SECTORS OF KZN ECONOMY

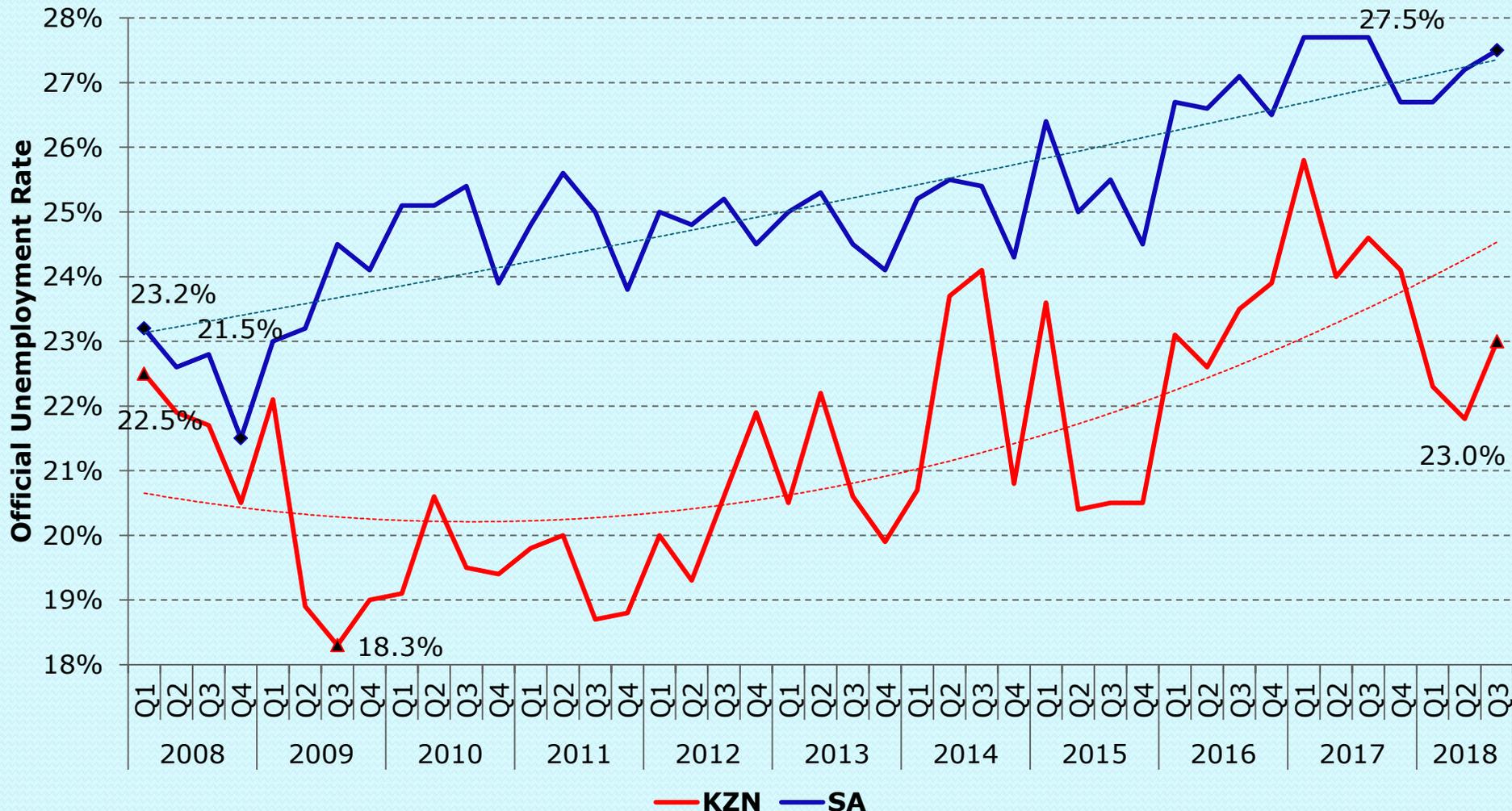
Finance, real estate & business services



- The sector share has gradually increased over time.
- White Collar occupations in particular have become attractive to new graduates over the Blue Collar profession.
- Sector offers new access to finance, markets, trading facilities and infrastructure with linked services.
- Big drive to develop SMME, Cooperatives and Entrepreneurship to support absorption of youth and women.
- Need to greater support available to priority groups who want to participate in the work and business sphere.

COMPARISON OF UNEMPLOYMENT RATES BETWEEN KZN AND SA

- The provincial unemployment rate for the third quarter of 2018 was 23.0%; is below the national rate of 27.5%, but the trend in the gap is converging between SA and KZN



DISCOURAGED WORK SEEKERS

- The official unemployment rate does not take into consideration discouraged work seekers whose trend is in an upward trajectory. These individuals have given up hope of seeking employment and their profile shows little education attainment



PRIORITIES

Agro-Processing

2017 – GVA-R	R Million	Share
Western Cape	16 558	22.02%
Eastern Cape	3 536	4.70%
Northern Cape	4 896	6.51%
Free state	5 165	6.87%
KwaZulu-Natal	22 396	29.79%
North West	3 941	5.24%
Gauteng	4 401	5.85%
Mpumalanga	7 006	9.32%
Limpopo	7 286	9.69%
South Africa	75 185	100.00%

- KZN has the highest contribution by Agriculture in Country and presents a number of opportunities and a comparative advantage for agro-processing.
- Products include likes of Fish Farming (Mozambique tilapia), vegetables (English cucumber), fresh horticultural products and fresh cut flowers produced and delivered to local and international markets and essential oils.
- Drive Radical Economic Transformation Programme (RASET)



PRIORITIES

Maritime



- KwaZulu-Natal Province has the unique value offering of two of the busiest ports in Africa; kilometres of unspoilt coastline and inland waterways. Importantly, the maritime sector is already well entrenched with extensive integrated value chains reaching throughout the province in freight and logistics, tourism and leisure, marine energy, fishing, boatbuilding, aquaculture, small craft harbours and mariculture,.
- The region is focusing on the oceans economy, which also involves **offshore oil and gas exploration**.
- The Richards Bay Industrial Development Zones which is located in the Port of Richards Bay is being developed as a site and an anchor for energy infrastructure – especially gas

PRIORITIES

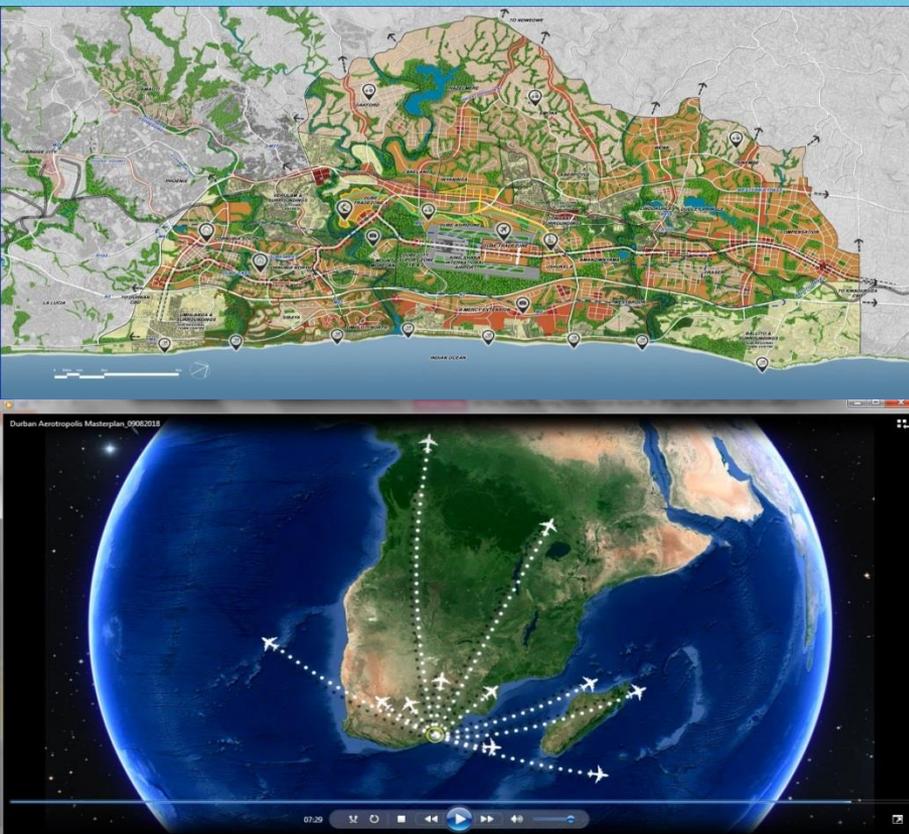


Automotive Industry

- The establishment of KZN Automotive Supplier Parks (ASPs) has become a national strategic imperative in order to reduce high logistics costs and create an enabling environment for the automotive sector
- ASP activities will be supported by both the Special Economic Zones and Industrial Economic Hub policy as well as a range of appropriate and applicable manufacturing and industry orientated incentives.
- Leverage off existing automotive value and supply chains and increase competitiveness close to Port of Durban by placing both automotive manufacturers and suppliers in a single park and support current industrial growth.
- **Design and innovation-** There is a great need to support the development of a home grown KZN car



AEROTROPOLIS / AVIATION



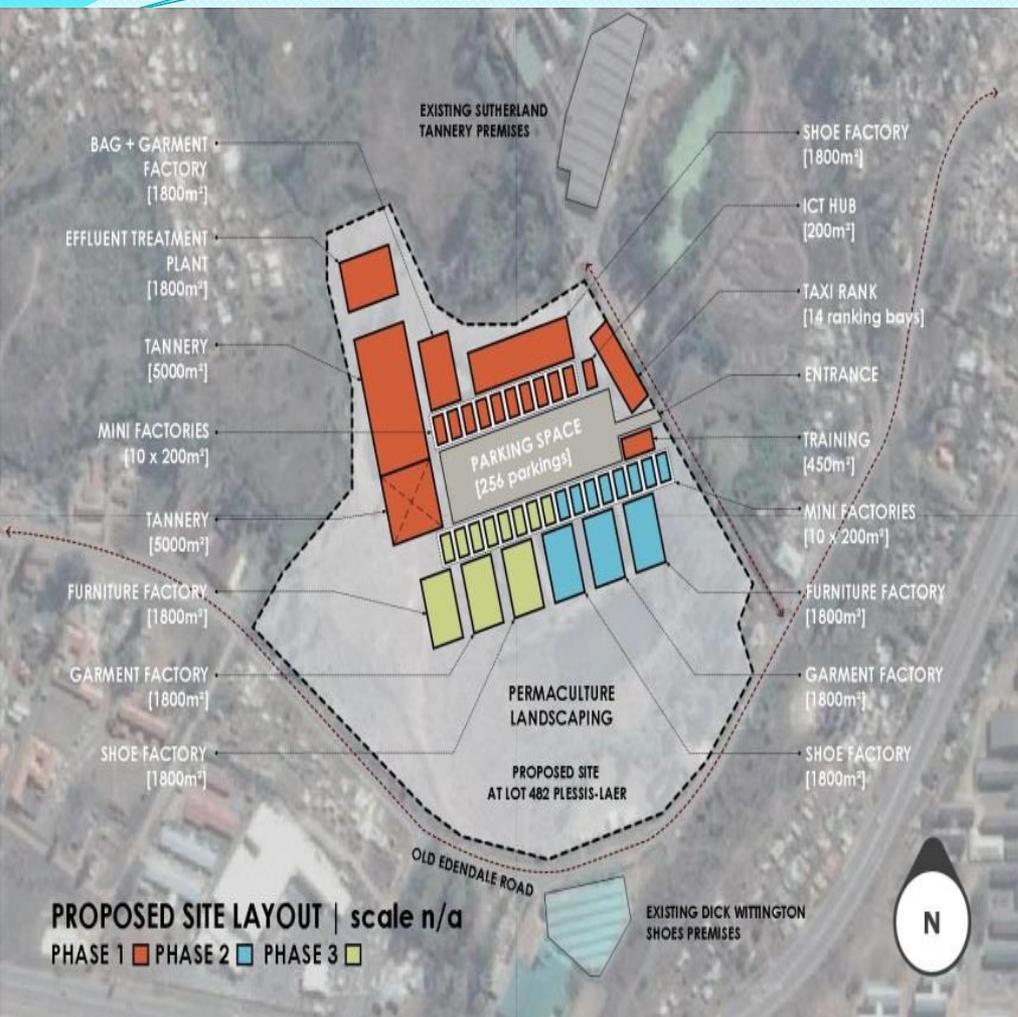
- Anchored by KSIA, the Durban Aerotropolis will enhance urban and national competitiveness through improved multi-modal transport access and planned, coordinated, aviation-linked commercial development.
- The Durban Aerotropolis will make the airport, surrounding areas, and the entire province more economically efficient, attractive and sustainable
- 50 year implementation horizon leveraging Existing Assets: Airport, Seaport, SEZ, Land, Environment, People, Culture, Climate, Broadband...
- Aerotropolis Institute Africa (AIA) - develop a skills base for the development of the Aerotropolis and Aviation sector- EDTEA offering 6 Aeronautical Engineering bursaries from 2019.
- Priorities include growing Route Development and critical infrastructure such as Water & Sanitation and Public Transportation.
- Prioritise the development of **Maintenance, repair and Overhaul (MRO)** facility at Dube Trade Port

Regional Airports

- There are a number of KZN Regional Airports that can support King Shaka International Airport.
- The Regional Airports can support many other sectors of economy including tourism sector, high value light cargo, services sector, pilot & maintenance training and Fire and rescue services.
- Many of airports have developable land available for non-aviation activities.

PRIORITIES

Leather Processing

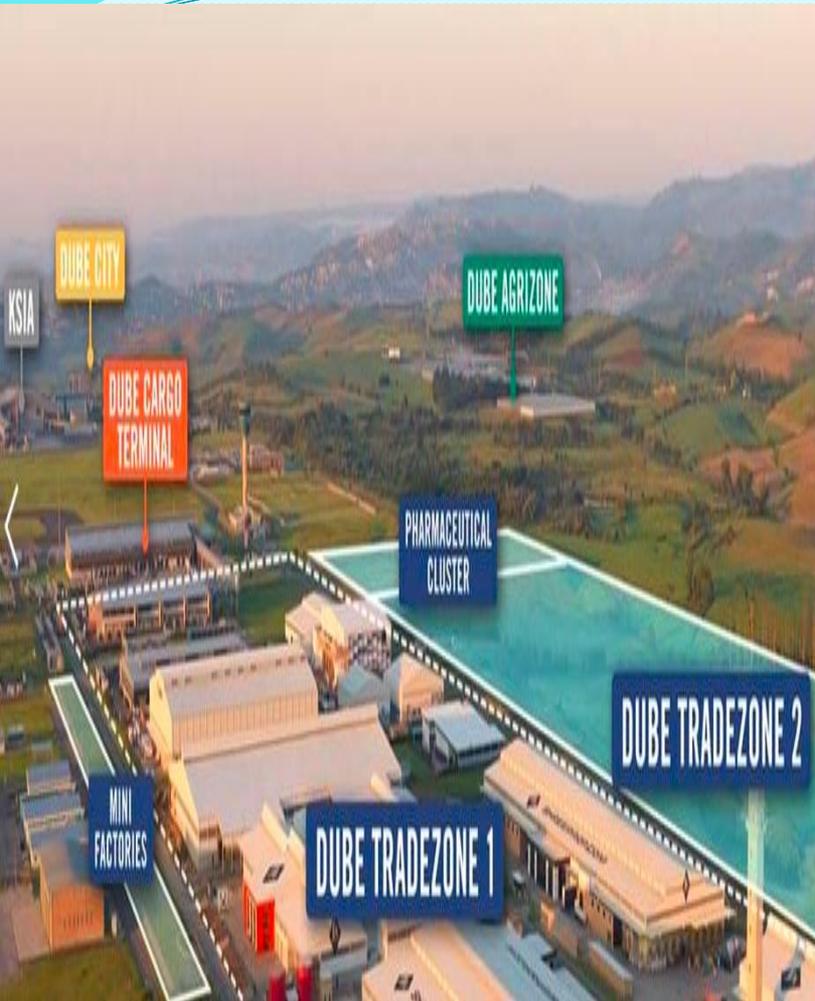


- Leather goods such as shoes, bags, gloves, garments, harnesses, technical items, safety products, furniture, automotive furniture, decorative items etc. are produced in industrial factories.
- Partnership with IThala for Leather Processing Hub.
- Aimed to develop small enterprises and skills.
- Modernization and technology improvements will help the industry to compete globally in terms of improved design, quality of products produced, manufacturing efficiencies and environmental issues.
- Opportunity to export via King Shaka International Airport.

CLOTHING & TEXTILE

- The Textile and Clothing Industry in South Africa, particularly KwaZulu-Natal has been challenged with several issues recently. These have adversely impacted the employment potential leading to social implications;
- Work with the DTI and the Industrial development Cooperation to fund recapitalisation programmes within the sector;
- KZN and the Amajuba District in particular have a large base of small businesses within the clothing sector;
- These businesses employ a substantial workforce but many of them are informal and even home based;
- An Industrial Economic Hub (IEH) is a strategically planned concentration of industrial activity and economic linkages. The industrial activity is typically manifested in a community of manufacturing businesses seeking enhanced economic performance through collectively managed resources like energy, water, sewer reticulation services among others .

PHARMACEUTICALS



- KZN has potential to become a Pharmaceuticals hub in Southern Africa;
- Dube Trade Port SEZ is developing pharmaceuticals cluster
- To date R1.4 billion worth of investment in the Pharmaceutical sector has been secured
- Catalyse the 9 South African pharmaceutical investments in the pipeline valued at approximately R4.5 billion, 4 of which are Black Industrialists;

ELECTRONICS

- Potential to turn KZN into an Electronics hub for South Africa bolstered by the:
- R584 million investment in the electronics & communication sectors are currently operational within DTPC; and
- A further R1.5 billion investment secured for DTPC SEZs phase
- Promote innovation amongst youth in the sector as part of the fourth industrial revolution

MINERAL BENEFICIATION



- Despite the huge mineral endowments in South Africa, Only around 11% of minerals produced in the country are beneficiated (DMR, 2017)
- The following 4 mineral groups are relevant to KZN: **Mineral Sands;**
- **Ferroalloys; Iron & Steel; Aluminium; Phosphorous; Coal; Gold;** Dimension stone; Clay & brick; Refractories; and Sand& aggregate
- KZN Government is finalising a Provincial Minerals Beneficiation strategy that focuses on mineral endowments and value chain opportunities abundant in KZN.

INNOVATION

- The Fourth Industrial Revolution is synonymous with uncharted growth in digitisation and internet connectivity.
- It has the potential to drive Africa forward like never before, enabling innovation, spurring new business models and improving the delivery of public services.
- In KZN, EDTEA runs a Technology Transfer (Innovation Fund) to support development of innovative technologies
- There are pipeline partnerships with other organs of state like Technology Innovation Agency, Innovate Durban to even offer more support to our techpreneuers

4IR IS DISRUPTIVE & AFFECTS EVERYTHING

All industries are being impacted by this disruption

We have to consider:



Focus on **developing skills**



Based on **partnerships** across all stakeholders.

CRITICAL SKILLS NEEDED

Influence curriculum

Influence approaches to teaching & learning

New skills and competencies required

Critical thinking
Communication
Collaboration and teamwork
Complex problem solving
Creativity
Emotional intelligence
Global awareness
Financial, economic, business and entrepreneurial literacy
Civic literacy
Health literacy
Environmental literacy
Computational thinking
Judgement and decision making
Service orientation
Negotiating
Cognitive flexibility

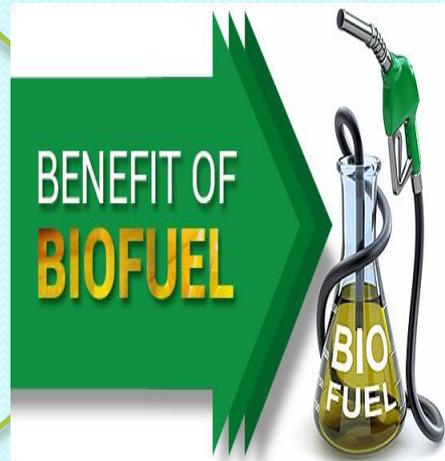
RENEWABLE ENERGY

- South African sugar industry has been facing viability challenges for a long time
- A lot of people derive their livelihoods from the sugar industry particularly small scale farmers and unskilled workers in rural communities
- Given viability challenges of sugar industry diversifying into biofuels present a good opportunity to utilise the surplus sugar cane.
- EDTEA is exploring renewable energy opportunities such Bioethanol, Biodiesel, Biogas
- Value Added Products: Animal Feed, Fertilizer, Glycerine
- The Government is finalising a policy on mandatory fuel blending policy, a draft is expected to be presented to parliament in March 2019

BIOFUEL VALUE PROPOSITION

- Opportunity to diversify revenue streams for the industry
- By products e.g. animal feed, fertilizer, glycerine

- Increased jobs and improved livelihood



- Enhanced energy security
- Improved balance of trade position through foreign currency savings

Enhanced rural agriculture development particularly small scale farmers

TOURISM

- Tourism is regarded as a modern-day engine of growth and is one of the largest industries globally
- The need to increase KZN tourism competitiveness through technological innovation
- Priorities in the next five years include the following:
 - Attract Investment for Tourism Resorts
 - Cultural Tourism
 - Increase innovation in Gastronomic/ Food tourism as a quick win for job creation;
 - Thrive for Blue status on KZN beaches;
 - Medical tourism
 - Drakensberg cable car;
- New Cruise Ship Terminal – opportunity to offer offshore activities to the proposed new cruise ship terminal at Port of Durban
- Increase connectivity to KZN Tourism sites
- KZN North has highest concentration of Game Reserves in Country

KEY INTERVENTIONS

The following are some of the immediate results driven interventions to stimulate the province's economy:

SECTOR/CATALYTIC INITIATIVE	DESCRIPTION & TASKS	TIMEFRAME
<i>Investment Attraction & Industrialisation Efforts</i>		
Improve the Functioning of One Stop Shop	Establishing co-ordination between One Stop Shop & municipalities	February 2019 and thereafter meet quarterly
	Monitoring One Stop Shop & policies relating to income tax & assess to incentives	February 2019 – EDTEA & TIKZN to work on Terms of Reference
Ensure Ease of doing Business	Establishing multi-departmental Crack Team to fast-track project implementation	EDTEA through ESID Cluster finalising Terms of Reference for constitution of the Crack Teams
Fast-track the Implementation of Catalytic Projects	Appointment of infrastructure development officer	ESID Cluster & Office of The Premier
Promotion of Investment Attraction	Convene a major investment conference aimed at boosting investor confidence	Hosted annually by EDTEA & TIKZN in April 2019

KEY INTERVENTIONS

SECTOR/CATALYTIC INITIATIVE	DESCRIPTION & TASKS	TIMEFRAME
<i>Maritime Industry</i>		
Oil and Gas Exploration	The feasibility study has been commissioned through RIDZ & government is committed to project speedy implementation	To be completed as soon as possible
Development of the Aquaculture & Fisheries Special Economic Zones	Conduct feasibility study for Mega Aquaculture and Fisheries projects to initiate Aquaculture & Special Economic Zone	To commence the feasibility study by February 2018, while in the meantime implementing small scale projects.
Boat & Ship Manufacturing	To continue supporting initiative of Boat and Ship Manufacturing	As and when required and these are private sector driven projects with government providing support

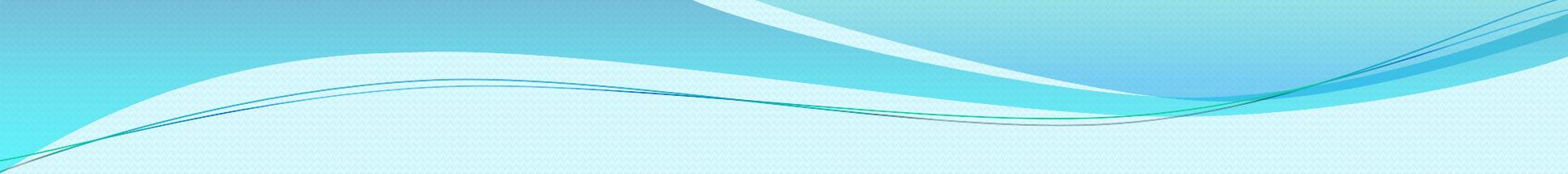
WAYFORWARD IN BRIEF

To turn the economy of our province around we have to:

- Enhance collaboration of government, private sector, labour & civil society to jointly commit and work on a common vision;
- Continue improving the ease of doing business and further align our policies to reduce investment impediments;
- Reduce & have a manageable and highly efficient government;
- Increase positioning & marketing of KZN as a destination of choice for tourism & investment;

WAYFORWARD IN BRIEF

- Ensure short-term interventions are linked to long-term planning for sustainability;
- Mount rigorous efforts towards manufacturing & agricultural development;
- Continuously invest in infrastructure development by both government & private sector;
- Ensure stability & fight crime in all areas, especially in cities.



Thank You