

**OPINION AND ANALYSIS**


## South Africa's localisation policy needs a nuanced approach

**POLICY PERSPECTIVE** by Theo Boshoff

With the elections now fixed for 29 May, we have come to the end of another five-year cycle in both politics and policymaking. Global disruptors such as the COVID-19 lockdown, geopolitical instability and soaring international freight rates make the past five years a bit difficult to assess.

These factors cannot be ignored. Many countries have had to become more self-reliant and perhaps these global disruptors played a big part towards deglobalisation. However, they coincided with a policy emphasis towards more localised production and procurement.

### LOCAL IS NOT ALWAYS LEKKER

Localisation, or the drive to produce and buy local products, has been a central policy objective of the Department of Trade, Industry and Competition over the past five years. When Agbiz and other business leaders recently met with the Minister of Trade, Industry and Competition, Ebrahim Patel, we were presented with a localisation policy framework to comment on.

On the face of it, few South Africans would argue with the sentiment of supporting local businesses, but once you dive a little deeper into the mechanics of localisation, it's not quite as simple.

First and foremost, localisation should not be pursued at the expense of exports. The agriculture sector in particular has benefitted greatly from liberalised trade as access to lucrative overseas markets does not come at the expense of local supply but rather pushes demand past what our own consumer base can ever do.

As a small, open economy, the agriculture sector has managed to double its size since deregulation and still maintain a positive trade balance. That is, we export more products than we import and we produce significantly more than

we can consume in several commodities. Agriculture is not the only sector that has achieved this. For instance, our export-orientated motor vehicle industry has reaped similar benefits.

The focus should therefore be on creating an enabling environment that supports our industrial sectors whether they produce for export or the local market.

Our argument was therefore that we should improve the competitiveness of our industrial sector so that it can compete on real terms with any international competition.

Some of these elements are self-explanatory: we cannot be competitive without energy security, service delivery and a functioning logistics system. Other areas are slightly more complex. For instance, it is possible to create artificial competitiveness by providing subsidies, but this creates challenges in their own right. Aside from the fact that our fiscus cannot support subsidies, we must guard against the classes of direct support that would allow other countries to retaliate by imposing duties on South African products.

Substantial debates have also emerged on how the state goes about achieving localisation. To date, government has sought to promote localisation by securing commitments from big businesses or sectors to buy local.

### STATE MECHANISMS

There are a few mechanisms that the state can use. For instance, when large-scale mergers or acquisitions are contemplated, consent is required under the Competition Act and conditions can be imposed. For example, a commitment to local procurement and supplier and enterprise development can be attached to approvals for large mergers.

The same can also be achieved as a condition for imposing import duties, but we must guard against replacing international competition with local monopolies.

Finally, company-level procurement commitments may play a significant role where it is economically viable to do so, but a different approach is needed when buyers are individual consumers. The Proudly South African movement has done great work to label local products and ensure that consumers are informed about the origin of all products found on supermarket shelves.

### IN A LOW-INCOME COUNTRY, CONSUMER CHOICES ARE DRIVEN BY COST CONSIDERATIONS AND LOCALISATION IS A TOUGH SELL

However, unlike for some developed countries, this is unlikely to be the greatest motivating factor for South African consumers. In a low-income country, consumer choices are driven largely by cost considerations, and where local products are not the cheapest options, localisation becomes a tough sell.

Ultimately, we need to ensure that South African companies can outcompete all international competitors on all factors, including price.

To this end, our economic policy and efforts should be directed towards improving public services and business confidence in the country. If we can achieve that, localisation will take care of itself.

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