**THE NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**Question 1894**

**Mr J A Esterhuizen (IFP) to ask the Minister of Trade and Industry:**

1. Whether he has found that the provision of incentives, such as subsidies and tariff protection, which remove competitiveness in the industry, has an impact on the weak levels of economic growth in the country?NW1894E

**Reply:**

It is an over-simplification to suggest that ‘subsidies and tariff protection remove competitiveness in the industry’.

1. **The dti’s** incentives are carefully designed so as to improve the competitiveness of the beneficiary company and – over time – the competitiveness of industries.

For example, the Manufacturing Competitiveness Enhancement Programme (MCEP) was designed to assist firms which, after the Global Financial Crisis, were facing declining demand in traditional export markets and heightened import competition in South Africa’s domestic market. **the dti** offered matching grant funding to qualifying companies intending to invest in *inter alia*:

* Buildings, machinery and equipment,
* Improving company-level electricity and water generation and/or usage,
* Undertaking specialised skills development, and
* Product development to access new export markets.

By providing incentives to firms undertaking *these* types of investments, **the dti** is precisely targeting support to those activities which it is widely agreed, will raise firm-level competitiveness.

Over time, those firms that received the incentive should see an improvement in their competitiveness and may begin to win additional market share in the domestic or export market.

Those firms which have **not** made these kinds of investment may lose market share and through competition will eventually be forced to consider making competitiveness improving investments of their own, accept the loss of market share/profits, or find other markets for their products.

In this way, **the dti** will have directly supported the competiveness improvement of Company A through the provision of a subsidy. In addition, **the dti’s** support to Company A may – over time – induce substantial new investments from Companies B, C, D, and E which represent the industry as a whole, and thereby the competitiveness of an industry may improve.

1. South Africa has adopted a developmental approach to tariffs and has ensured that tariffs are used as a policy tool to support industrial development. In addition, South Africa adopts a case-by-case approach to tariffs based on the needs of each sector.

Consider the case of South Africa’s Automotive sector. It is widely held that the industry and local firms are highly competitive and are regular recipients of global quality and productivity awards. This happens even though South Africa maintains modest tariff protection for the Automotive sector. In these specific circumstances, the domestic Automotive sector firms compete with one another vigorously and are constantly looking at ways to improve their competitiveness *even though* they benefit from tariff protection.

There are however cases where tariff protection can remove competitiveness from industry. Consider a product such as soybeans which is used to produce poultry feed. Imposition of, or maintenance of a tariff on soybeans while South Africa’s agricultural sector is unable to grow enough soybeans to satisfy local demand will indeed reduce the competitiveness of the downstream industry (in this case poultry).

To avoid such a situation arising, Government assesses tariff protection in a rigorous process and considers a wide range of socio-economic factors across stakeholders before deciding to reduce, increase or impose tariff protection. In addition, Government may decide to provide a rebate of a particular tariff for a specific amount of time. Such a rebate is designed to avoid the competitiveness-reducing effect of a tariff in the soybean example while not forfeiting Government’s policy space to impose a tariff at a later date when circumstances may necessitate such an intervention.

1. **the dti** has found that the provision of carefully designed incentives (including tariff protection) has substantially contributed to South Africa’s economic growth.

For example, for every R1 in investment incentives provided by **the dti**, approximately R4 in investment is provided by private-sector investors. Thus, in the 2017/18 Financial Year, **the dti**’s incentives encouraged 849 firms to commit R35bn in private-sector investment.

Put differently, Government’s economic policy which includes the provision of incentives and tariffs, creates an enabling business environment which sustains 1.4 million formal and informal jobs in the Manufacturing sector.

Consequently, the support afforded by **the dti** to industry has *supported* economic growth and job retention especially in the period after the Global Financial Crisis.