



the dti

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Department:  
Trade and Industry  
**REPUBLIC OF SOUTH AFRICA**

# Draft Export Strategy

## 2006-2009

Pretoria

March 2006

**DIVISION: TRADE AND INVESTMENT SOUTH AFRICA  
CHIEF DIRECTORATE: EXPORT DEVELOPMENT AND PROMOTION**

It is hereby notified that **the dti** has approved the ES, which is hereby published for general information.

'From Local to Global'  
**Export Strategy**

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## Executive Summary

With the advent of democracy the new government inherited a domestic economy that was highly protected, subsidised, inefficient and uncompetitive mainly as a result of import substitution policies. On a global level the deepening integration of financial, technological, service and commodity markets had intensified and changed the nature of international competition, also profoundly impacting on the dynamics of international production and its division of labour. Since then the government has adopted a number of policies and programmes to restructure our economy in order to make it a globally competitive and integrated manufacturing nation able to confront the rapid changes in the world economy from which no society can remain immune, whilst also addressing the country's socio-economic needs through sustainable economic activity.

It is within this global economic environment that Government is working towards an adaptive economy characterized by growth, employment and equity, and built on the full potential of all persons and geographic areas. The aim of **the dti** is to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of investment, and increased access for South African products and services in international markets; and to create a fair, competitive and efficient marketplace for domestic and foreign business as well as for consumers. In this way, **the dti** contributes towards accelerated shared economic growth in South Africa, and the attainment of government's vision 2014 for the economy.

South Africa has committed itself to an outward-oriented growth strategy as part of its 2014 vision. The Export Strategy (ES) is an important part of the overall strategy to transform the South African economy. The ES is the responsibility of **the dti**. The division within **the dti** responsible for the core components of the ES is Trade and Investment South Africa. Important contributions are also made by other divisions of **the dti**, including the Enterprise and Industry Development Division (EIDD) on competitiveness, the International Trade and Economic Development Division (ITED) on trade policy and market access and the Enterprise Organisation (TEO) on the administration of certain incentive schemes.

## **Creating Stakeholder Alignment and Synergies**

Trade and Investment South Africa is part of a larger **dti** value chain, and a larger public service that incorporates other national, provincial and local government departments and relevant agencies all involved in interlocking responsibilities. Trade and Investment South Africa's activities also include a strong interface and leverage with business. Trade and Investment South Africa has made progress towards alignment but needs to develop closer relationships with prioritised **dti** divisions and external institutions (public and private). The ES acts as a strategic alignment enabler between **the dti** (especially Trade and Investment South Africa) and public and private stakeholders involved in exports and export promotion and development.

## **Competitiveness**

The ES does not take South African competitiveness for granted. The ES therefore starts from the perspective that South African export performance is fundamentally a function of the underlying competitiveness issues in the economy. **The dti** has prioritised interventions aimed at increasing South Africa's national competitiveness. These interventions, championed by EIDD within **the dti**, are an integral part of the ES. National competitiveness is a necessary, but not sufficient condition for increased export performance. The ES therefore starts with the foundation created by EIDD, in particular the design of the National Industrial Policy and progresses through a range of additional measures to increase South African export performance.

## **Prioritising Markets**

As the capacity for government to participate in the international economy is inherently limited, choices amongst a range of markets and the instruments employed must be made. In this regard the selection process needs to consider dynamics in the global trading environment at bilateral, regional and multilateral levels and the opportunities and challenges which flow from the deepening integration of global financial, technological, service and commodity markets. This requires a multi-faceted approach to market prioritisation in order to capture both strategic economic engagements within this environment, as well as selecting market opportunities at a generic commercial level. At a strategic level **the dti** in its Global Economic Strategy, based on a set of criterion, identifies a limited number of key markets with which targeted engagements

should be undertaken. These focussed and comprehensive interactions are supported by market access and export development initiatives and as such constitute a first tier of market prioritisation.

Beyond engagement with these key economies, government is faced with an array of existing and potential markets offering commercial export opportunities. The challenge therefore lies on how to select and prioritise markets from a global list of prospects. Therefore, in line with global best practices, **the dti** has included the use of an integrated data based scientific decision-making mechanism in the ES to sift through these export markets. This integrated model (the product of a combined Gravity and Cuyvers model) will produce a priority opportunity matrix comprised of countries and products. The model will be used within **the dti** for its ability to inform strategy in areas like focus and resource allocation. **The dti** will also share this information on a real-time basis with industry and strategic stakeholders through the National Trade Information System. The ES will facilitate an interaction between this model and the insights produced through CSP process, with Export Councils, the Foreign Offices and other relevant stakeholders.

### **Market Access**

Negotiated market access is one of the key determinants of market penetration and consequently of export success. South Africa is represented in the arena of market access negotiation by ITED, a division of **the dti**. ITED's work is informed by a combination of factors including economic and political at a national, regional and global level in consultation with a number of stakeholders. ITED has a number of focus areas in its market access mandate. These include:

- Expansion of market access for South Africa's exports through the conclusion of trade agreements
- To promote South Africa's interests in the rules-based multilateral trade system
- To support economic development in Africa through the advancement of NEPAD initiatives, regional integration, increased intra-Africa trade, technical assistance and capacity building in the SACU, SADC and AU institutions
- To effectively manage South Africa's tariff regime

## **National Trade Information System (NTIS)**

The trade information system forms an important part of the ES. The NTIS serves as the information support link between domestic suppliers and international buyers, and as a source of information for government stakeholders involved in trade promotion. It will function both proactively and reactively, obtaining and disseminating important trade-related information, as well as passing trade leads on to domestic suppliers and assisting them with market information and other support services required to make informed and effective export decisions. The NTIS consists of the following specific service offerings:

- Information Resource Development mandate (including the creation of purchasing consortia to secure optimal expenditure on trade resources within South Africa)
- Information dissemination services (reactive and user determined)
- Information awareness services (proactive and driven by the NTIS protocols, and includes the selective dissemination of specific information on new information resources, important data, and opportunity alerts)
- Designing and maintenance of a National exporter database
- Designing and maintenance of a National trade portal

## **Exporter Development**

The ES also focuses on exporter development. The target customer group are SMMEs, both generally and those drawn from the ranks of the previously disadvantaged. The exporter development programme is both modular and programmatic. The customer can elect specific components or the entire value chain of products and services. The programme consists of five modules: training, export readiness assessment, product quality improvement, enterprise productivity enhancement, product and process standards and accreditation. The programme will be delivered through the Small Enterprise Development Agency (SEDA), as the overall programme manager, and other relevant Council of Trade and Industry Institutions (COTII) agencies in their respective areas of expertise. Trade and Investment South Africa will develop relevant policy and strategies. TEO will administer the financial incentive programmes that form a part of the initiative.

## **Export Promotion Mechanisms**

The ES is designed to utilise the resources and expertise of **the dti** as a whole (including the COTII agencies), as well as other government departments (national, provincial and local), and the private sector. The core components of the ES will, however, be executed through the activities of three central mechanisms: Trade and Investment South Africa Export Promotion Cluster Desks, Export Councils, and Foreign Offices. These three mechanisms form sequential promotional value chains that are highly dependant on each other. Each of these will be fully resourced and their activities designed to effectively implement the ES.

The Cluster Desks will be fully staffed with appropriately recruited and trained staff. Their activities will be aligned with the objectives of the ES.

Export Councils represent international best practice in the organisation of a collaborative partnership between government and industry in pursuit of export promotion within priority sectors. Trade and Investment South Africa has identified a number of interventions that will improve the operation of the Export Councils. The strategy to improve performance will consist of the following initiatives: aligning the objectives between Trade and Investment South Africa and the Export Councils, restructuring the funding process, developing and implementing a training and development strategy, using information technology strategically, and monitoring and measuring performance.

The resources associated with the foreign offices are an invaluable component of the Export Promotion and Development value chain. In view of the this the Cluster Desks are highly dependant on the support and assistance of the Foreign Offices with regards to the following key activities; market research and intelligence, international marketing and promotional activities and targeting. The ES highlights a number of interventions that are designed to optimise the operation of these resources, including changing the overarching management structure, targeting the resource deployment in line with strategic objectives/requirements, choosing and retaining the right people as foreign officers, optimising the working relationship with the Department of Foreign Affairs (DFA)

and Heads of Mission (HOMs), supporting the Foreign Economic Representatives (FERs), DFA and HOMs (in export and investment activities).

### **Export Incentives and Financing Products**

Financial incentives, trade finance and insurance products form an integral part of the ES. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. In many instances, these instruments are the deciding factor in the successful conclusion of an otherwise fundamentally sound export transaction. This comes into play most often in the case of Small and Medium Sized Enterprises (SMMEs) and will likely have significant impact in the case of BEE enterprises as well. The ES is mandated to increase the number of black exporters participating in these schemes. The ES therefore consists of targeted export incentives and financing instruments offered by **the dti**, the Industrial Development Corporation (IDC), and the Export Credit Insurance Corporation (ECIC), a COTII agency. The ES will also pursue the establishment of World Bank Consultancy Trust Funds. These offerings address the need to assist exporters in their quest for export support from government in fundamentally sound transactions.

### **Monitoring and Evaluation**

The ES is a strategic initiative of **the dti**. The ES will require substantial human, financial resources from within **the dti**, its COTII agencies and private sector partners. The ES must succeed in its stated objectives. The ES is a statement of strategic intent that binds **the dti** to its various stakeholders. **The dti** therefore commits itself to a monitoring and evaluation framework around the ES to ensure an appropriate return on investment, effort, accountability and transparency.

### **Conclusion**

The ES covers a range of issues that are important to fulfilling **the dti's** mandate of increasing the value of South African exports and the number of exporters, with a specific focus on SMMES and BEE enterprises. The document is designed to describe the current situation in regard to the components of the ES as well as to provide a firm roadmap of the key innovations that **the dti** will be embarking on. All stakeholders involved in the field of export promotion and development should use the document.

## Chapter 1: Introduction

### Background

1. Government is working towards an adaptive economy characterized by growth, employment and equity, and built on the full potential of all persons and geographic areas. The aim of **the dti** is to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of public and private investment, and increased access for South African products and services in international markets; and to create a fair, competitive and efficient marketplace for domestic and foreign business as well as for consumers. In this way, **the dti** contributes towards accelerated shared economic growth in South Africa, and the attainment of government's vision 2014 for the economy.
2. The ES is consistent with the mission and objectives of **the dti** and is intended to support achievement of the goals set by industrial policy in general and the CSPs and other sectoral priorities.

### The Role and Purpose of an Export Strategy

3. The ES serves a number of functions and a range of stakeholders in the following manner:
  - Align the relevant divisions of **the dti** (Trade and Investment South Africa, International Trade and Economic Development, Enterprise and Industry Development and the Enterprise Organisation) around the key objectives and strategic interventions
  - Ensure policy coherence within **the dti** and between **the dti** and the rest of government, especially those departments represented in the economic cluster
  - Build consensus amongst external stakeholders within government on the implementation of the ES
  - Build export awareness and create an export culture within the private sector and the government
  - Provide clients with a clear understanding of the strategic interventions of **the dti**, including priorities within export promotion and development

- Provide clients with a clear understanding of **the dti** service offerings available to exporters and prospective exporters
- Ultimately, to increase exports and to increase the number of exporters, with specific focus on SMMEs and BEE enterprises

### **Vision**

4. It is envisaged that by 2014, that South Africa, from a globally competitive base directed by best practice industrial policy and sector development strategies, will be able to maintain market share in traditional markets and substantially increase its market share in prioritised, new high growth markets through aggressive marketing and a larger exporter community that includes black exporters from marginalised and depressed areas in South Africa

### **Mission**

5. The ES mission is comprised of the following components:
  - Select and focus export development and promotion activities in terms of a opportunity matrix comprised of priority countries and products
  - Create optimal market access for South African exporters
  - Establish a national trade information system that collects and disseminates important trade related information to relevant stakeholders
  - Optimise and coordinate export promotion mechanisms in the private sector, Government and the Foreign Offices
  - Grow the exporter base with a focus on SMMEs and BEE enterprises
  - Provide best practice export incentives, trade finance and insurance products in an efficient customer-friendly manner
  - Establish a monitoring and evaluation framework that ties the ES to individual performance
  
6. **The dti** believes that stakeholders will embrace a well-conceived and executed ES. The critical task for **the dti** is therefore to ensure the successful implementation of the ES.

## **Promoting the ES**

7. International best practice in ES development points to the need for a promotional strategy to ensure that all relevant stakeholders are informed and buy-in to the strategy and implementation process. In this regard, three elements are important:

- Securing prominent political endorsement and commitment
- Conceiving a vision
- Creating and promoting a slogan

## **Securing prominent political endorsement and commitment**

8. Following international best practice, and reflecting the strategic importance of the ES, the ultimate champion of the ES will reside with the Minister of Trade and Industry. The Minister will delegate executive responsibility to the Director General: Trade and Industry and the Deputy Director General: Trade and Investment South Africa.

## **Creating and promoting a slogan**

9. Marketing and promotion encapsulate imaginative slogans that capture the overarching thinking behind an initiative. After consultation with stakeholders the ES slogan is: "From Local to Global".

## **Global trading context and challenges**

10. As a result of South Africa's multilateral commitments under the Uruguay Round of 1994, as well as various regional and bilateral trade agreements, the country has experienced substantial trade liberalisation over the last decade. This is consistent with global trends. Global liberalisation trends are 'selective' in that they exclude or limit liberalisation in sectors considered sensitive by developed countries, including agriculture and clothing and textiles. Similarly, tariffs on manufactured products escalate in proportion to the extent of value-addition. In addition, imports have been subject to other barriers to trade such as various forms of non-tariff barriers and contingent protection, e.g. anti-dumping duties. Notwithstanding these barriers, there has been a broad increase in market access of many developing countries, to developed country markets in most manufactured goods, sometimes through some form of trade concessions, e.g. the Africa Growth and Opportunity Act (AGOA).

11. There is a high and growing proportion of world production and trade accounted for by production networks controlled by Trans-National Companies (TNCs). The volume of trade accounted for by these networks is estimated by UNCTAD to account for 30 per cent of world exports. Such control takes the form of a leading role in value chains, either as producers or buyers. The manner in which developing economies manage to insert themselves into these value chains has therefore become a major determinant of their income growth.

12. An additional development of importance in the global trading system has been the relatively recent entry of two very large developing economies into the world trading system: China and India. The former's commitment to cementing its place in the mainstream of world trade has been its recent accession to the WTO. These economies, with their competitive wage structures provide an additional competitiveness challenge for other developing countries.

### **South Africa's post-1994 export performance**

13. Total South African exports have grown by 47% in real value terms since 1990. Most of this occurred after 1994. Exports have become diversified. Reliance on gold and diamonds has been reduced to half in favour of 'newcomer sectors' such as vehicles and beverages.

14. There has been a significant increase in the export share of human capital and technology-intensive sectors. However, the dominance of natural resources (gold, coal, diamonds, ferrous and non-ferrous ore) exports is still evident.

15. Manufacturing has evolved into the largest broad export sector, overtaking mining and quarrying in the mid 1990's. All manufacturing sub-sectors except basic non-ferrous metals and textiles experienced positive export growth over the past decade.

16. The top 15 manufacturing sub-sectors in South Africa are predominantly capital intensive and grew by an annual average of 19% between 1990 and 2003 in real terms. The export-intensity of manufacturing has increased, and manufactured exports reflect a

growing share of high-tech export products, resulting in highly skilled to skilled intensive sectors dominating the skill usage in South Africa's export sector. Motor vehicles and related exports have also boosted the technological composition of SA exports, and exporting has now become a permanent feature of the manufacturing sector (in particular capital-intensive sub-sectors).

17. Increased geographic concentration of South Africa's top 10 trade partners has emerged, creating an opportunity for trade diversification at country level.

### **South Africa's post-1994 trade-related policy developments**

18. A significant amount of work has been concluded in pursuit of an export-oriented growth strategy. The following provides a list of key trade-related policy developments in the post-1994 environment.

#### **Period 1994-1999**

1994 - WTO accession and tariff phase down

1995 - Removal of import surcharge

1995 - Motor Industry Development Programme (MIDP)

1995 - Export Guarantees for small businesses

1995 - World Player Scheme

1997 - Phase-out of Generalised Export Incentive Scheme (GEIS)

1997 - Export Marketing and Investment Assistance (EMIA)

1999 - EU-SA Trade, Development & Cooperation Agreement (TDCA)

#### **Period 2000 to 2005**

2000 - Establishment of Trade and Investment South Africa

2000 - Export Councils

2000 - Microeconomic Reform Strategy (MRS)

2000 - Protocol on Trade in SADC

2000 - African Growth and Opportunity Act (AGOA)

2001 - Export Credit Insurance Corporation (ECIC)

2002 - Export Credit and Foreign Investments Re-insurance Amendment Act

2002 - Integrated Manufacturing Strategy (IMS)

2002 - Sector-Specific Assistance Scheme (SSAS)

2003 - Customised Sector Programmes (CSP's)

2003 - International Trade Administration Commission (ITAC)

2005 - Pursuit of numerous bilateral-based and regional-based FTAs

### **The importance of a critically directed export growth strategy**

19. With global trade increasing faster than global production, TNCs are taking advantage of locating different parts of their production in various parts of the world to take advantage of greater competitiveness from different locations.

20. Manufacturers and manufactured exports are considered to be particularly important for developing countries as they can provide an escape route from the declining terms of trade, price instability and low income elasticity's of demand that face exports of primary and semi-processed commodities. In addition to the general growth of manufactured exports, many developing countries have reflected a growth in technology-intensive manufactured exports, which is the fastest growing element of world trade.

21. Trade statistics need to be treated with caution, because much of the production related to technology-intensive exports comprises low-skill assembly operations with limited value-added, outsourced from advanced countries. Only a narrow band of middle-income industrialising countries, among developing countries, have managed to successfully locate themselves at the critical points along value chains, which ensure that they appropriate a large share of the gains from the production of these technology intensive products.

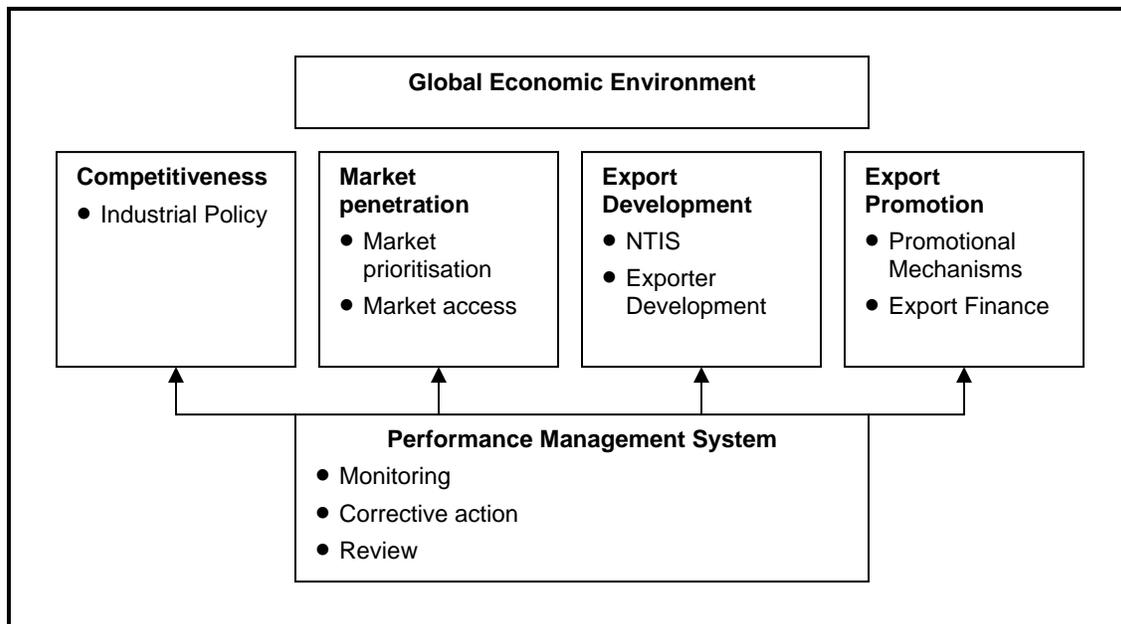
22. This demonstrates that export statistics alone are a limited indicator of the gains from trade. A more important indicator is value-added, and in particular manufacturing value-added, given the potential welfare-enhancing role of manufacturing.

23. Developing countries have certainly achieved gains through closer integration in the world economy. However, mere involvement in the global trading system does not guarantee the types of income-enhancing gains developing countries required for economic development.

## Generic export value chain

24. The following diagram represents a schematic overview of the ES value chain.

**Figure 1: The ES Value Chain**



## Delivering on the dti's expectations

25. The ES has been designed to be consistent with the strategic themes of **the dti**. The ES has addressed key new strategic themes of **the dti** including African economic development, market access and the Second Economy. Additionally, the ES incorporates **the dti's** objective of enhanced organisational performance. In particular, this refers to the operations of Trade and Investment South Africa.

## Vote 32

26. Vote 32 represents a public commitment by **the dti** to its stakeholders and clients in terms of outputs and impact. The goals are measurable and Trade and Investment South Africa has a sub-set (programme 6) of objectives within the broader Vote 32 goals, including the following:

- "Purpose: Provide strategic vision and direction to key growth sectors in the economy, increase the level of direct investment flow, and develop South Africa's capacity to export to various markets

- Measurable objective: Increased levels of direct investment and exports in aggregate and in government's priority sectors." (Vote 32, 2006)
- The ES is an overarching statement of key interventions aimed at delivering on the commitments made by **the dti** in terms of vote 32.

### **Strategy Parameters**

27. In development of the ES a number of parameters were taken into account to guide the development and prioritisation of specific interventions. The following list represents the principle design parameters that were taken into account:

- The NIPF and the Industrial Policy Implementation Programme (IPAP) as the foundation and departure point of the ES.
- The challenge of new **dti** strategic themes, i.e., African economic development, the Second Economy, market access and investment
- The Accelerated and Shared Growth Initiative (Asgi-SA)
- Products and methodologies
- The challenges of new sectors (especially services sectors)
- The outputs of CSPs (Investment Promotion outputs, Export Development and Promotion outputs, and intervention instrument identification, description and action programmes)
- The challenges of market selection and prioritisation
- Existing and new staff resources

### **Trade and Investment South Africa and the ES**

28. Trade and Investment South Africa is the lead division within **the dti** for the development and promotion of the ES. Trade and Investment South Africa, as the responsible division within **the dti**, has a long history and experience in Export Promotion and Development. There is an accumulated set of methodologies based on international best practices within the division.

29. Trade and Investment South Africa is well placed to execute on its core mandate since it has the appropriate instruments, institutional history and skilled staff in Export Promotion and Development, albeit with key staff shortages.

30. With specific reference to the ES, Trade and Investment South Africa's objectives include:

- To identify, research, and promote market access opportunities for South African exporters in collaboration with ITED
- To facilitate exports by matching potential exporters with foreign buyers
- To develop South African exporters through the provision of financial and non-financial support

31. The recent rapid appreciation of the Rand has highlighted the issue of South African export competitiveness. Trade and Investment South Africa believes that the following strategic interventions outlined in the ES, in conjunction with related activities within **the dti**, are designed to respond to this challenge.

### **Three-year Strategy Update**

32. The ES is designed to be consistent with **the dti's** strategy framework of 2005 and its revision in 2006. The strategy framework is applicable for the 2006-2009 period. **The dti** strategy framework requires divisions to update their strategy documents annually. The ES is the responsibility of Trade and Investment South Africa and will therefore be revised annually, at the same time as the Trade and Investment South Africa divisional strategy revision. This document encapsulates **the dti's** strategic themes (both substantive and organisational) for the period from 2006 to 2009.

### **Rest of Document**

33. The ES consists of seven (7) strategic themes. Each of these themes is detailed in a separate chapter. Each chapter is organised as follows:

- Strategic theme, which is a key component of the ES
- Overarching challenge relating to the specific strategic theme
- Action Initiatives (one or more) that address the overarching challenge
- Action steps that collectively constitute the work programme for implementing the Action Initiatives

**The rest of this document contains the following chapters:**

34. **Chapter 3** contains a description of the major overarching competitiveness issues facing the South African economy and by implication the ES. The key challenges and proposed interventions that are planned to enhance the competitiveness of South Africa are set out in terms of the National Industrial Policy.

35. **Chapter 4** describes the use of data based models to generate priority opportunity sets for SA exporters. The opportunity matrix is described in terms of a product-for-market format. The data will be updated regularly and be set against anecdotal insights from the various export promotion and development mechanisms, including the sector desks, Export Councils and Foreign Offices as well as the CSP process. The data will be available in an accessible format as part of the ES to all stakeholders.

36. **Chapter 5** details the work being done within the arena of 'market access'. South Africa's outward focussed growth strategy and the consequent requirements for export penetration of foreign markets are located within a discussion of increasing market access for South African goods and services. The activities of ITED, a division within **the dti**, are described. Their programme along with key milestones and dates are set out.

37. **Chapter 6** describes the National Trade Information System (NTIS). The system will procure relevant information and make these available electronically. The system will also enhance the procurement expenditure by the South African government on relevant trade-related data and sources of information. The NTIS will make information timeously available to all stakeholders via best practice electronic distribution systems.

38. **Chapter 7** explains the development of an Exporter Development Programme aimed at broadening the export base, with specific reference to BEE and SMME exporters.

39. **Chapter 8** gives an overview of the export mechanisms in **the dti**, the Export Promotion Cluster Desk and Foreign Offices. The Export Councils outside **the dti** are to be coordinated in a harmonious value chain of export development and promotion activities.

40. **Chapter 9** gives an overview of export incentives, trade finance and insurance products that are available to the export community.

41. **Chapter 10** discusses the monitoring and evaluation programme that has been established as an integral part of the ES. Key dates and milestones are provided.

## Chapter 2: The ES and the dti

### The dti's goals

42. Government is working towards an adaptive economy characterized by growth, employment and equity, and built on the full potential of all persons and geographic areas.

43. The aim of **the dti** is to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of domestic and foreign investment and increased access for South African products and services in international markets and to create a fair, competitive and efficient marketplace for domestic and foreign business as well as for consumers. In this way, **the dti** contributes towards accelerated shared economic growth in South Africa, and the attainment of government's vision 2014 for the economy.

### The dti's objectives

44. The purpose of **the dti** is to:

- Provide leadership to the South African economy through its understanding of the economy, its knowledge of economic opportunities and potential, and its contribution to ASGISA.
- Act as a catalyst for the transformation and development of the economy and respond to the challenges and opportunities of the economic citizens, in order to support the government's economic goals of growth, employment and equity.
- Respond to the challenges and opportunities in the economy and society.
- Provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade.

45. **The dti** has identified the following objectives, which will contribute towards accelerated shared economic growth in South Africa:

- Promote coordinated implementation of the accelerated and shared growth initiative;

- Promote direct investment and growth in the industrial and services economy, with particular focus on employment creation;
- Contribute towards the development and regional integration of the African continent within the Nepad framework;
- Promote broader participation, equity and redress in the economy; and
- Raise the level of exports and promote equitable global trade.

46. These 5 strategic objectives will be achieved through the collective effort of **the dti**'s divisions and agencies, which are linked through a value chain to generate public value for economic citizens and to deliver products and services for their clients and stakeholders. These products and services include policy, legislation and regulation, finance and incentives, information and advice, and partnerships. **the dti** will also achieve its objectives through the pursuit of a more targeted investment strategy; improved competitiveness of the economy; broadened economic participation of previously disadvantaged individuals to the mainstream economy; and, policy coherence.

#### **Divisional breakdown of the dti**

47. **The dti** is broken down into a number of divisions that each has a core area of focus within **the dti's** value chain of services and delivery to its customers and stakeholders. The diagram below represents a value chain representation of **the dti** by division.

**Figure 2: the dti Value Chain**

		International Trade and Economic Development		
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Executive Management	Economic Research and Policy Coordination	Enterprise and Industry Development Division	Trade and Investment South Africa	Marketing
		Consumer and Corporate Regulatory Division	The Enterprise Organisation	
Group Support Systems and Services Division				

48. The divisions of **the dti** contribute to the effective execution of ES in the following ways:

- Executive Management Unit: strategic guidance and input
- Trade and Investment South Africa: overall responsibility for ES, core functions include export promotion and development and priority sector development strategies
- GSSD: recruitment, induction and skills development
- EIDD: competitiveness and logistics issues
- ITED: trade policy formulation, market access negotiations and international engagements
- TEO: incentive development and administration
- Marketing: publications, branding and events
- EPRC: target setting; ensure coherency on broad investment and economic policy

## **Chapter 3: Strategic Theme 1 - Global Competitiveness**

### **Creating a domestic economic environment that enables enhanced global competitiveness of South African Exporters**

#### **Introduction**

49. The ES cannot take the competitiveness of the South African economy for granted. Indeed, **the dti** is concerned about key impediments that reduce the global competitiveness of the South African economy. Consistent with the value chain approach to **the dti's** flagship projects (strategic interventions); the ES incorporates an analysis of the key obstacles to greater national competitiveness. While the programmes described below are the direct responsibility of EIDD, they have been incorporated as a cornerstone of the ES.

50. EIDD, a division within **the dti**, is responsible for positively impacting on and removing obstacles to greater national competitiveness. This chapter of the ES describes the issues that have been identified by EIDD and the strategic interventions that this division has adopted to positively change the current situation. It also covers some aspects of the Customised Sector Programmes (CSPs) that describes Trade and Investment South Africa's orientation towards the removal of structural impediments inhibiting competitiveness within priority sectors. These impediments and the associated remedial strategies are the product of an analytical and consultative process between **the dti** and industry stakeholders.

51. Government has set broad economic targets of increasing economic growth to above 6 percent by 2009, and halving unemployment and poverty by 2014. Manufacturing remains the engine of our economy, as a major sector in its own right as well as with substantial linkages to primary and tertiary sectors. However, an industrial policy must increasingly be broader than manufacturing, to include particular activities in services and agriculture.

52. The Industrial Policy vision for 2014 is an economy characterised by a higher value adding and broad based industrial development trajectory. The Industrial Policy document is based a three to five year outlook, which allows for planning by economic actors. Because conditions change, the Industrial Policy will be revised every second year. Implementation of the Industrial issues will be based on an Industrial Policy Programme, which will be revised on an annual basis. The Programme will inform the annual strategic and business planning, and budgeting cycle of the department and its three year Medium Term Expenditure Framework (MTEF). The Industrial Policy is aimed at synchronising with existing policy initiatives, both of **the dti** as well as of government departments, such as the Customised Sector Programmes (CSPs) and Government's Capital Expenditure (CAPEX) Programme.

53. The Industrial Policy is constructed in the light of Government's response to the economic crisis it inherited in 1994 as well as the first ten years of post-apartheid industrial policy. Prior to 1994 manufacturing was characterised by declining growth and investment, and exports concentrated around minerals. Trade and industrial policy protection was uncritical and not very coherent. The immediate post-1994 policy response was aimed at reversing this situation. It entailed firstly high level macroeconomic restructuring of the economy, notably the stabilisation of the fiscal deficit and inflation in particular, as well as trade liberalisation. This was coupled with a range of functional 'supply-side' measures aimed at restructuring the production side of the economy to deal with higher levels of international competition. There were two major sector-specific programmes: for the Automotive, and Clothing and Textile industries. Subsequent policy development dealt with issues such as of Competition, Small Business, and Black Economic Empowerment (BEE) policies.

54. Economic performance since 1994 has been mixed. The manufacturing sector has grown more or less in line with Gross Domestic Product (GDP) growth, while tertiary sectors have raised their share in the economy and primary sectors have declined. The fastest growing sectors in the economy have generally been relatively skill-intensive services sectors and capital-intensive mineral-processing sectors. However, a number of more value-adding and labour-intensive sectors have also demonstrated strong growth

such as automotives, furniture and plastics. There has been an overall decline in formal manufacturing employment, with some jobs shifting to services. Exports have diversified, based largely on the automotive sector success, but remain dominated by resources. Geographic disparities in economic activity continue and BEE has proceeded slowly in the manufacturing sector.

55. There have been a number of industrial policy successes since 1994. Most notable has been the Motor Industry Development Programme (MIDP), which effectively secured the survival of the South African automotive industry and generated significant linkages into other sectors. Various technology programmes have also functioned well and the Industrial Development Corporation (IDC) has had a number of success stories, with investments in more labour intensive sectors and in the support of BEE. However, a high level review of post-apartheid supply side measures indicates a range of areas for improvement. This includes issues of scale, focus, additionality and reciprocity in the design and dispensing of industrial financing. Despite more robust competition legislation, industrial concentration and un-competitive outcomes continue to prevail in a number of strategic sectors. There has also been insufficient coordination between trade and industrial policy. Firm level evidence indicates that in medium-technology and labour intensive firms strategies to improve competitiveness also tend to result in improvements in employment levels.

56. These domestic changes have taken place in a rapidly changing global environment. Trade and investment liberalisation and lower transport and ICT costs, coupled with the entry of China and India into the global trading system have generated much higher levels of international competition for products, services and investment. Technological advances have increased the skill and technological intensity of production, requiring that companies master increasingly sophisticated production techniques in order to remain competitive. Growing (but unequally distributed) global income, technological advance and the splitting up of production chains across countries, has meant that high technology products have shown the fastest growth in manufactured exports, with medium technology products retaining a high but steady share and low technology and resource-based products declining in world trade.

57. There has also been a rapid growth in services, both within economies and in world trade. Although global merchandise trade still dwarfs services trade, services trade has been growing somewhat faster than goods. Some developing countries have managed to increase their share of non-traditional services such as ICT, telecommunications and business services.

58. A number of domestic and international considerations condition the outlook for the design and implementation of industrial policy over the next three to five years. Higher levels of economic growth as seen recently look set to continue. Growth over the coming years is expected to be driven by a combination of continued domestic expenditure, investment by parastatals and government, and large private sector projects. Commodity prices, including oil, are expected to remain high. This will place upward pressure on the exchange rate. Therefore firms need to plan on the basis of a relatively strong exchange rate and upgrade efficiencies accordingly in order to compete. Competition from large manufacturing economies such as China and India will also add to the need for firms to be competitive. A more accommodative macroeconomic policy would greatly support the Industrial Policy, but cannot be assumed.

59. A large body of international evidence is now available to assess what does and does not work with respect to industrial policy. Evidence from the 'structural adjustment' era of the 1980's and 1990's indicates that one-size-fits-all policy prescriptions have proved disappointing in a range of developing countries that have implemented adjustment policies in good faith. Conversely, it is the group of countries that have implemented well-designed and robust industrial policies, which have experienced the most rapid growth rates of per capita income. This indicates the risk of *not* developing a robust industrial policy. Industrial policy is necessary because the process of industrial development is beset with market and production failures. Developing productive capabilities does not occur automatically but requires a cumulative learning process. Industrial policy involves 'getting the prices wrong' at particular stages and in certain circumstances of development and 'getting the prices right' under other conditions.

60. Various principles emerge from both successful and relatively unsuccessful experiences of industrial policy, as well as recent theoretical work. Due to limited

resources, governments are obliged to prioritise interventions. To have impact, programmes and projects must be of the minimum effective scale to induce structural change in the economy. Deciding which sectors or activities to target runs the risk of incorrect choices. However, these can be mitigated through various mechanisms.

- Industrial financing must be dispensed on the basis of reciprocal developmental behaviour by the recipients, with credible monitoring and enforcement.
- The risk of choosing the wrong activity can be mitigated by intensive research and stakeholder interaction as well as targeting quantitatively new activities.
- Interventions should be designed around the strengths of existing institutions rather than setting up new institutions. An active industrial policy requires that the state socialise risks the private sector does not, but also display adaptability in recognising when certain interventions are not working. It must also take into account the constraints of global trading rules. However, there is still substantial scope for industrial policy interventions.

61. The global experience of high growth developing countries indicates that developing countries are not restricted to their inherited *comparative* advantage but can strategise to build *competitive* advantage, taking into account both their developmental needs and actual or potential costs and capabilities. Experience, particularly in South Africa, has indicated that three essential dimensions of industrial growth and development do not emerge automatically and require purposive interventions: a low cost production base; a sophisticated set of industrial capabilities; and increasing inclusion in the mainstream of the economy. These dimensions need to be tackled at the national, spatial, sector and firm level. In addition certain elements of the demand side must be paid attention to such as building domestic demand and economies of scale for exports.

62. In unlocking industrial growth and development, it is necessary to deal with a set of challenges and opportunities facing the industrial economy. South Africa has a relatively small domestic market, and is a long distance from wealthy markets. The volatility and recent appreciation of the exchange rate poses problems for both export and import competition. Both pricing and quality of transport and telecommunications infrastructure raises the costs of doing business. An historic legacy of underdevelopment

in skills and technology implies a disadvantage in increasingly sophisticated global production. High levels of industrial concentration, associated with large price mark-ups persist in the economy, particularly with respect to intermediate products. The issue of labour costs and productivity is more complex and requires a sophisticated response: the exchange rate and investment in machinery and skills are all interlinked with the cost and productivity of labour. Fixed investment by both the public and private sector has been too low to sustain high growth and employment rates.

63. However, there is also a range of opportunities. South Africa has an established and relatively diversified industrial economy, based on a long history of industrialisation. Within this are pockets of technological leadership, related to our resource base and areas such as energy and aerospace. Downstream beneficiation of our natural resource base is a logical progression in a range of industries. Despite problems, our transport, ICT and financial infrastructure are relatively sophisticated. Increased public expenditure over the next decade will provide the major source of fixed investment and will unleash direct and indirect production opportunities. Growing domestic demand is an additional source of growth opportunities. South Africa also has a 'first mover' advantage with respect to the rest of the continent.

64. A range of crosscutting interventions is necessary. Most important is a review and re-design of industrial financing based on the key principles for industrial policy interventions: minimum effective scale, focus on quantitatively new activities, monitorable and enforced reciprocity. Industrial policy must lead trade policy more explicitly and require CSPs to identify negotiating positions.

65. Ongoing multilateral participation will focus on alliances to level the global playing field. A more strategic approach will be adopted towards bi-lateral trade negotiations considering a broader range of bi-lateral agreements types. A critical review of the tariff structure will be undertaken, focusing particularly on tariffs on intermediate inputs.

66. Government's capital expenditure programme will be the major source of fixed investment in coming years and requires a coordinated approach in leveraging domestic opportunities arising from it.

67. BEE and WE need to be accelerated and tied more closely to growth and employment. Support for productivity and upgrading is essential to keep pace with global developments and will require support for world class manufacturing; process and product development; a more coherent standards, quality assurance, accreditation and metrology system; and commercialisation of domestic intellectual property.

68. Competition policy will be strengthened to deal with un-competitive outcomes in key concentrated sectors. Small business support will focus on improving the effectiveness of small business institutions. Regional industrialisation requires a sophisticated approach based on identification of areas where high need coincides with high levels of economic potential.

69. Finally, a robust industrial policy requires well-functioning supportive policies. Most important amongst these are: appropriate traditional and modern infrastructure; functioning skills development and technology systems; and an accommodative macro-economic policy.

70. Various sectors have been identified for development via the CSP process. Although the development of CSPs is already underway, this process requires more coherence. Therefore, greater prioritisation and focusing of the CSPs will be an iterative and incremental process. Increased coherence and synergies can be achieved by grouping sectoral interventions according to common challenges and opportunities. Four sectoral groupings emerge. The promotion of downstream beneficiation of raw materials is a logical progression to complete truncated value chains in the SA economy. Common issues include pricing of raw materials, skills development and technology support.

71. The predominance of medium and high-technology products in world trade implies the need to promote advanced manufacturing. Industries such as automotives, aerospace and electronics face similar needs related to integration into global value chains, and technological upgrading. There are a range of labour intensive sectors which are more diverse and require two main types of strategies: growth strategies for those sectors which have genuine potential for competitive advantage, and restructuring

strategies for key sectors which employ large numbers of people and are under competitive threat.

72. While much of services are demand driven, certain services require intervention to realise their potential. Business process outsourcing is a new sector, which has the potential to be a major employer. Project management services (engineering, construction, and mining) have strong linkages into manufacturing and can be used to leverage projects on the continent.

73. In addition there are two new areas of emphasis. The first is to investigate opportunities for greater labour intensity in existing sectors and to develop CSPs for labour absorption service sectors, particularly non-tradable services. The second is a process of identifying new high potential sectors in terms of value addition and employment opportunities.

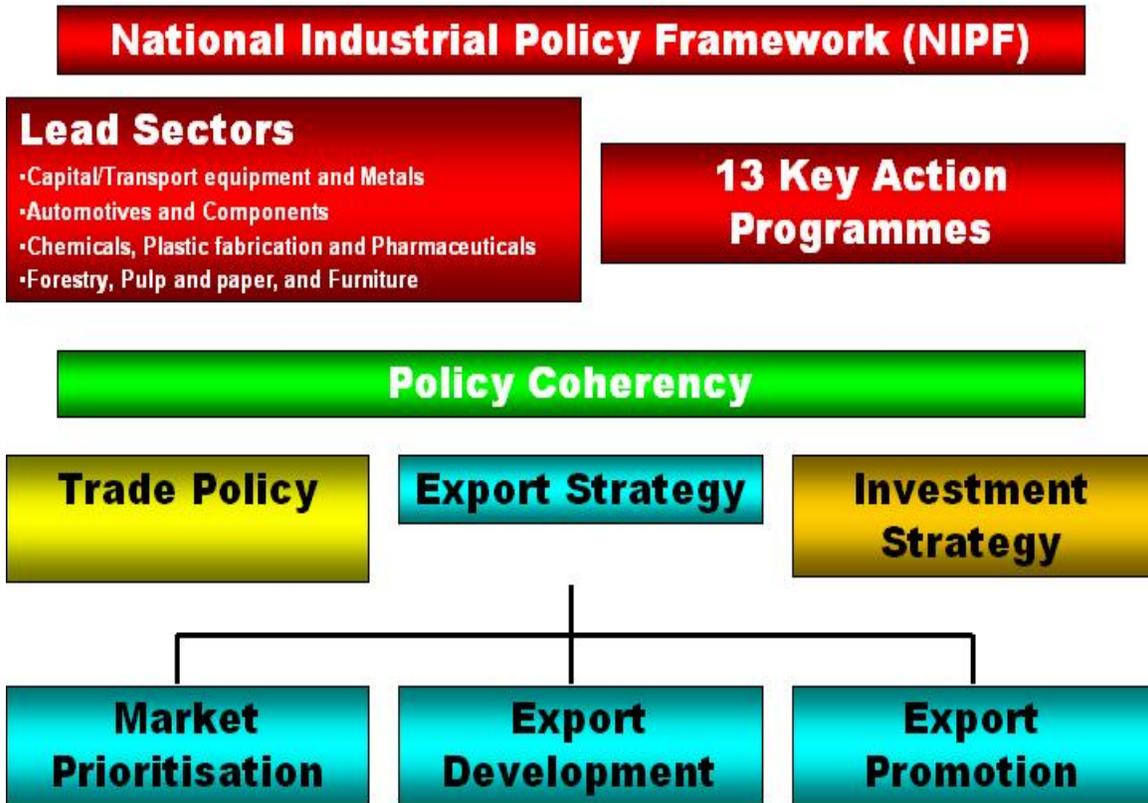
74. The development and implementation of these interventions is going to require greater capacity in both the short and medium term. Fairly immediate synergies can be gained through improved use of existing staff. There is significant sectoral capacity within the IDC as well as universities, which can be harnessed. In the medium term, one or more Industrial Policy Centres of Excellence will be established, focussing on research related to industrial policy issues as well as training a cadre of, predominantly black and female, post-graduate students that can be recruited into **the dti**.

75. There is also a need for much greater intergovernmental coordination. Therefore forums will be established to ensure greater coherence with respect to the link between industrial policy and: infrastructure and capital expenditure programmes, skills, technology and macroeconomic policy.

### **The NIPF as policy cornerstone of the ES**

76. The following figure outlines the critical relationship between the NIPF and ES. It furthermore demonstrates the policy coherency necessary to create a strategic environment conducive to higher export growth.

Figure 3: the policy environment of the Export Strategy



**Conclusion**

77. The ES starts from the perspective that South African export performance is fundamentally a function of underlying competitiveness issues in the economy. **The dti** has prioritised interventions aimed at increasing South Africa’s national competitiveness. These interventions, championed by EIDD within **the dti**, are an integral part of the ES. National competitiveness is a necessary, but not sufficient condition for increased export performance.

## Chapter 4: Strategic Theme 2 - Market Access

### Creating a country and product information system matrix that provides input to the dti strategy, resource deployment and activities within export promotion and development

#### Introduction

78. **The dti's** resources and activities in terms of its export-oriented growth strategy should be focussed and provides a clear understanding of key export market opportunities. The discipline of having a clearly defined opportunity mix of opportunities is an important building block in creating focus, which in turn is a pre-requisite for strategic effectiveness especially in a resource-constrained environment. This is important in achieving **the dti's** goal of optimal organisational effectiveness. This understanding of product-for-market opportunities will provide a ***priority opportunity matrix*** that creates the background to **the dti** strategy, resource deployment and activities.

79. As the capacity for government to participate in the international economy is inherently limited, choices of markets and the selection of instruments employed must be made. In this regard the selection process needs to consider dynamics in the global trading environment at bilateral, regional and multilateral levels and the opportunities and challenges which flow from the deepening integration of global financial, technological, service and commodity markets. This requires a multi-faceted partnership approach to market prioritisation in order to capture both strategic economic engagements within this environment, as well as selecting market opportunities at a generic commercial level.

80. In its Global Economic Strategy, **the dti** will base its strategy on a set of criterion and will identify a limited number of key markets with which targeted engagements should be undertaken. These focussed and comprehensive interactions are supported by market access and export development initiatives and as such constitute a first tier of market prioritisation.

81. In order to select from a range of potential markets, a methodology for selecting key partners has been developed and involves the following criteria:

- The extent of competition
- The long term market potential of the country concerned
- The scope and nature of market access problems in developing that potential
- The country's importance, relative to others, as a source of investment
- The country's development strategy, and its "fit" with ours (i.e. do we share common developmental concerns?)
- The degree of fit between the country's multilateral strategy and ours
- The country's geopolitical strategy, with respect to its region and the world, and whether this meshes with ours
- The interest of the South African private sector in that market
- South Africa's ability to compete effectively in this market

82. Once key countries have been identified, a range of instruments can be utilised to deepen trade and investment links with those countries. They include inter alia:

- Government to Government Mechanisms such as Bi-national Commissions (BNCs), Joint Ministerial Commissions (JMCs) and Joint Trade Committees (JTCs)
- Negotiating General Trade Agreements and Investment Protection and Protection Agreements (IPPAs)
- Negotiating Preferential Trade Arrangements
- Missions and Visits
- Seminars
- Export and Investment Promotion
- Inter-country export skills development and clustering

83. Beyond engagement with these key economies, government is faced with an array of existing and potential markets offering commercial export opportunities. The challenge therefore lies on how to select and prioritise markets from a global list of

prospects. In line with global best practices, **the dti** has included the use of an integrated data based scientific decision-making mechanism to filter through these export markets. This decision-making mechanism should lead to the development of a priority opportunity matrix that requires a pro-active scientifically based decision-making model that will indicate key export markets for prioritised South African products. South Africa's current export promotion activities have relied on historical export performance trends. Current performance does not therefore take consideration of new market opportunities in unexploited markets or opportunities for new products in existing markets.

84. Taking full advantage of market opportunities that have arisen from South Africa's work on competitiveness, securing market access and developing sectoral growth strategies must then be commercially explored by industry. **the dti** has an important role to play in facilitating this market entry process. The relevant innovation adopted, as part of the ES is to determine key export markets for South Africa using insights gained through scientific data based methods.

#### **Benefits of a scientific approach to market prioritisation**

85. The ES includes an important role in the development of a scientific data based process for the determination of priority product-for-market matrices. **The dti** believes that the effectiveness of the strategy will be enhanced by the incorporation of this component. The following direct benefits are expected from the integrated decision-making model developed by **the dti**:

- The optimal use of financial and human resources in Government to promote exports
- The development of a deployment decision-making tool for **the dti's** Foreign Economic Representatives
- The production of a list of priority markets for South African products that can be pro-actively applied to Government financing schemes and foreign promotional strategies
- Alignment between **the dti** and its strategic partners, including Provincial Departments of Economic Affairs, Provincial Investment Promotion Agencies,

Chambers of Commerce, Industry Associations and Export Councils, to enable the formulation of informed strategies towards specific export opportunities

86. Additionally, feedback from Customised Sector Programme (CSP) research will enhance the implementation of this programme. This process will involve the exchange of data based model-generated insights with local, real-time intelligence and market experience of industry leaders and stakeholders.

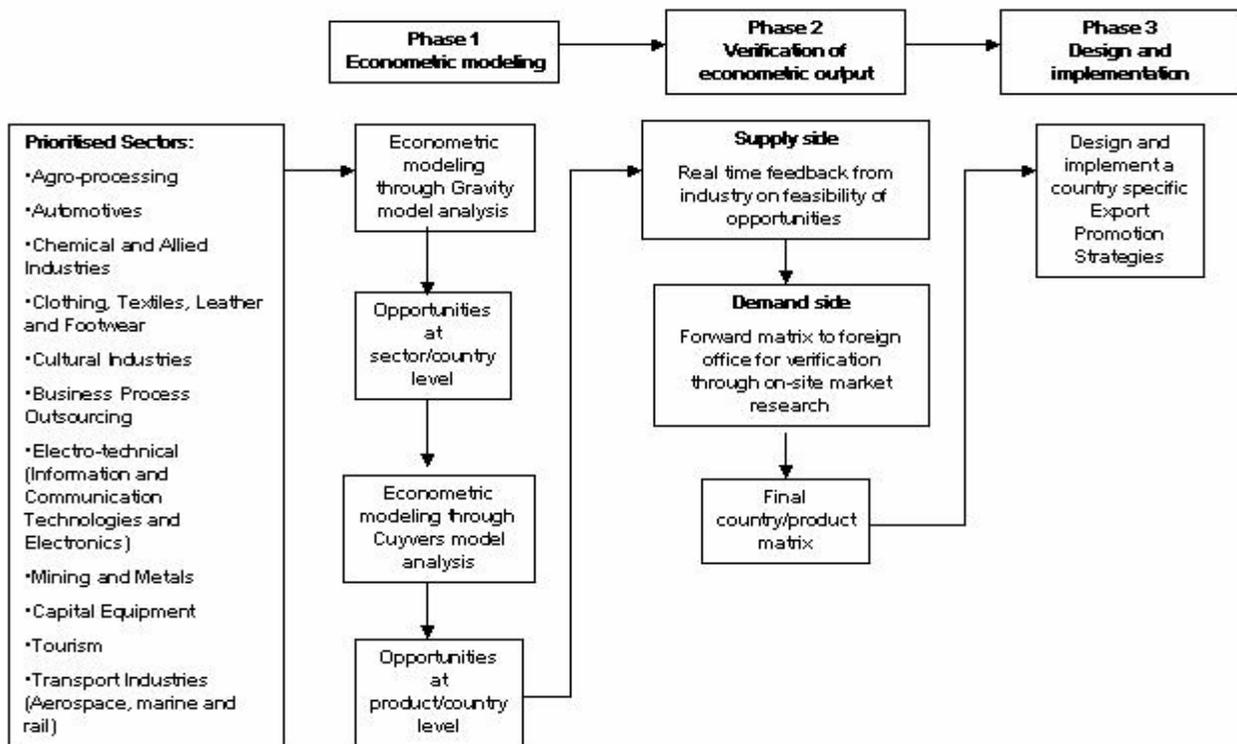
### **A Scientific Approach to Determining Priority Markets**

87. In developing a methodology for determining priority markets, **the dti** has explored a number of critical questions:

- What decision support models could be used to determine key markets for South African products?
- Which model or models would best reflect the challenges South Africa face in global markets?
- What are the best possible data sources that could be used to apply the model to optimal effect?
- How would **the dti** obtain the most relevant and up-to-date global data?
- What interventions could be informed by the model's predictions?

88. The outcome of this process is a data based methodology for determining priority markets for South African products.

**Figure 4: Integrated Model for Determining Priority Country-Product Matrices**



89. The Gravity-model and the Cuyvers-model generate an analysis of the macro-economic potential of countries including, in the case of the latter, a product-for market analysis. These analyses will be informed and reinforced by real-time intelligence analysis gathered by the various organs of **the dti** but based on input collated from the private sector. This entails market and trade intelligence gathering by **the dti** and its strategic partners. These would include foreign economic representatives, investment and export agencies, industry associations, research bodies and other public and private organisations.

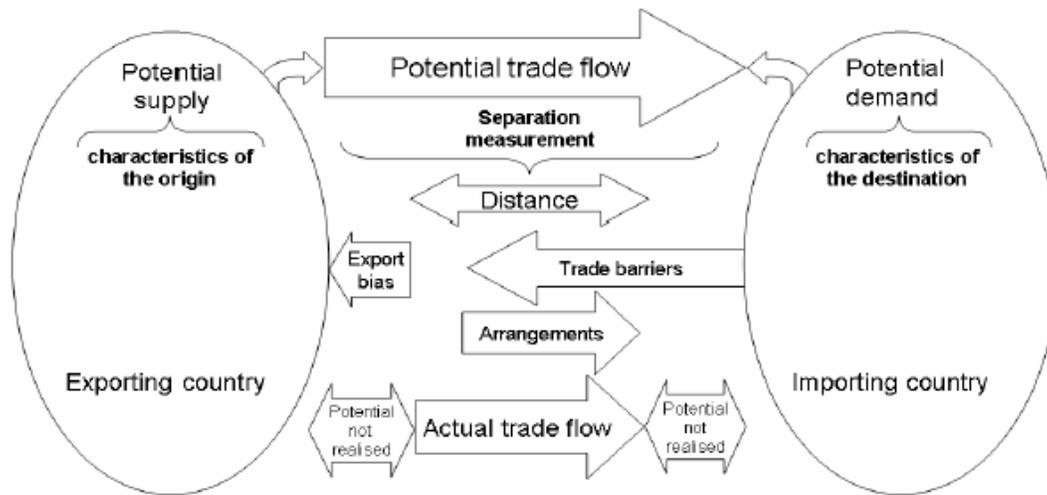
**Overarching Challenge:** To increase the understanding of South African export priorities, product and country opportunities mix, through the use of econometric models.

**Key action initiative 1:** The development of a decision support model that integrates econometric outputs with real time export-related intelligence.

**Action Step1: Gravity-model analysis**

90. The gravity-model analyses the size of countries’ economies, and simulates the potential trade flows possible. It then compares these to actual trade flows in order to highlight opportunities to increase trade. Factors taken into account are transport costs and times between countries, import tariffs, border controls and other factors impacting on trade flows.

**Figure 5: Overview of the Gravity Model**



Source: [www.thedti.gov.za](http://www.thedti.gov.za)

91. The objective of the Gravity-model is to produce an econometric analysis of the trade potential of South Africa as a whole and at a sectoral level. The model output is a prediction of an optimal trade flow scenario for South Africa relative to the rest of the world, broken down by country. This output will produce a list of priority markets as

determined by the measure of South Africa's export underperformance in relation to the model-generated level of export performance potential. The University of Pretoria (UP) in collaboration with the ERPC, a division of **the dti**, developed the Gravity-model. The UP is responsible for the maintenance and output of the model.

### **Action Step 2: Cuyvers-model analysis**

92. The Cuyvers model engages in a more detailed examination of markets and products, providing a substantial filter to identify potential trading partners, and narrow down the list of global opportunities in terms of both countries and products. The model examines political and commercial risks, and correlates these with economic size and growth. The second filter examines trade flows of product groupings between countries, looking at both short- and medium-term growth rates. It also examines the respective import market sizes. The third filter is more product- and market-specific, and examines market opportunities, barriers-to-entry, and other market access issues related specifically to particular product groupings. The output of the Cuyvers-model is a priority product-for-market opportunity matrix.

93. The University of the North West (UNW) in collaboration with the ERPC, a division of **the dti**, developed the Cuyvers-model. The UNW is responsible for the maintenance and output of the model.

### **Action Step 3: Develop an integrated country and product matrix**

94. The combined outputs of the Gravity and Cuyvers models, produces an integrated model, which is supported by real-time intelligence. This forms a key part of the NES.

95. The integrated model cements the relationship between the priority sector development programme described in the CSPs with the "sustain and maintain" programme in EIDD

96. The real time intelligence will be sourced from 2 distinct communities:

- The members of the Export Councils

- The Export Councils will research the products at HS-code level 6 that will identify the products that are globally competitive and the countries where these respective products have the maximum penetration potential. This data will be transformed into a country product matrix
- The Foreign Economic Offices
- The abovementioned matrix will then be forwarded to all the relevant foreign offices. The FER's will then conduct market research in the countries under their responsibility to test the validity of the private sector intelligence. The research from the foreign office will then be adapted into an integrated country product matrix.

97. As a final step, the outcomes of the econometric models will be combined with the integrated intelligence-based model. The final country and product matrix will then be used as the platform to design and implement targeted export promotion drives either by-product, country or a combination of the both. This final selection of countries and product combinations will then allow the Export Promotion Directorate to commission a range of targeting studies to support the market penetration strategy for these combinations.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the process, **the dti strategy, resource deployment and activities**

Key Action Initiatives The development of a decision support model that integrates econometric outputs with real time intelligence	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Action Step 1: Finalization of the Gravity Model Outputs for the 11 Priority Sectors	ERPC University of Pretoria (UP)	Trade and Investment South Africa		■		■		■		■		■		
Action Step 2: Finalisation of the Cuyvers-model <ul style="list-style-type: none"> <li>• Customise model for SA conditions</li> <li>• Data mining</li> <li>• Draft Country Product Matrix</li> <li>• Final Country Matrix</li> </ul>	University of the Northwest (UNW) ERPC	Trade and Investment South Africa			■	■	■	■	■					
Action Step 3: Real time data from the Export Councils and Foreign Economic Offices <ul style="list-style-type: none"> <li>• Questionnaires to Export Councils and FER's</li> </ul>	Trade and Investment South Africa	ERPC UNW					■							

Key Action Initiatives The development of a decision support model that integrates econometric outputs with real time intelligence	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<ul style="list-style-type: none"> <li>Data mining on data received</li> <li>Draft Country Product matrix</li> <li>Final Country Product Matrix</li> </ul>								■	■	■				
Final country matrix <ul style="list-style-type: none"> <li>Merging of data gleaned from all sources</li> <li>Final Country Product Matrix to all stakeholders</li> </ul>	Trade and Investment South Africa ERPC	UP UNW UP UNW								■				
Review and update of Country Product Matrix	ERPC Trade and Investment South Africa	ITED											■	

## Conclusion

98. In the Global Economic Strategy a set of key countries are identified for focused and targeted engagement, which includes a focus on export development, serving as a first tier of prioritisation. Beyond these select markets and in line with global best practices, **the dti** has included the use of an integrated databased scientific decision-making mechanism in the ES to select countries for generic export promotion. This model will be used within **the dti** for its ability to inform strategy in areas like focus and resource allocation. **The dti** will also share this information on a real-time basis with industry and strategic stakeholders through the national trade information system (NTIS). The ES will facilitate an interaction between this model and the insights produced through the CSP process, with Export Councils, Foreign Offices and other relevant stakeholders.

## **Chapter 5: Strategic Theme 3 - Prioritising Markets**

**To ensure that South Africa gains maximum access to foreign markets through a sustained and pro-active market access programme and to integrate the South African economy in to the global economy**

### **Globalisation**

99. The world economy in recent decades has been characterised by deepening integration based on unprecedented growth of cross-border trade and investment, as a result of technological change and the reduction of barriers to the movement goods, services and capital. This deepening integration of global financial, technological, service and commodity markets (globalisation) has intensified and changed the nature of international competition, profoundly impacting on the dynamics of international production and its division of labour.

100. Within these changing dynamics developing economies, such as South Africa, can derive benefits from participating in the global economy. A basic motivation for the beneficial integration into international markets is informed by the reality of inherited economic challenges. Empirical evidence supports the view that international trade delivers increased growth and investment. This serves as a catalyst for economic development, irrespective of economic size and level of development. More specifically, South Africa's interests, and those of other developing countries, coalesce around market access for the sale of goods and services and the accompanying economic development it contributes to.

102. However, there has simultaneously been a tendency for some countries, particularly least developed countries (LDCs) and those in Africa, to be marginalised from this process. Furthermore, countries that are seeking to integrate into the global economy confront the reality of a complex and multi-tiered global trade system, marked by a proliferation of regional formations and free trade agreements (FTAs), with the multilateral trading system being centred on the WTO.

103. This dynamic environment presents economies with considered choices to be made with regards to their international economic relations. In light of this, it is necessary

to develop a coherent international trade strategy, with the aim of achieving strategic integration into the global economy. In this regard, our strategy needs to respond to a wide array of challenges: from participation in the multilateral trading system and addressing the marginalisation of our African partners, to selecting key bilateral partners for investment and market access.

### **Overarching Challenge: Engaging the Global Economy**

104. In response to the domestic imperatives and international dynamics mentioned above, the International Trade and Economic Development division (ITED) has developed the following strategic objectives which are defined within the Global Economic Strategy (GES):

- Expansion of market access for South Africa's exports and facilitation of investment through the conclusion of trade and investment agreements
- Support economic development in Africa through regional integration, increased Intra Africa trade and capacity building, and strengthened SADC, SACU, NEPAD and AU institutions
- Promote South Africa's interests in the rules-based multilateral trade system
- Ensure compliance with international non-proliferation treaties
- Conduct world class global trade and economic analysis
- Manage South Africa's tariff regime

105. Build a competent and effective institution to execute ITED's mandate, in cooperation with government, private sector, and civil society.

### **Key action initiative 1: Market Access**

106. ITED's mission is to develop trade and investment links with key economies and promote economic development, through negotiated preferential trade agreements. It is also supporting a strong, equitable multi trading system and is fostering economic integration with the African continent within the NEPAD framework. In line with its mission, ITED's strategic purpose is to negotiate international trade agreements on a bilateral and multilateral basis within the context of a global trading environment in support of market access.

107. ITED's activities focus on establishing conditions that are more supportive of trade by targeting some of the following trade issues:

- Tariffs (Agricultural and Industrial)
- Standards (Sanitary and Phyto-sanitary, Technical Barriers)
- Non - Tariff Measures (Quotas, Rules of Origin, Customs Procedures)
- Remedies (Safeguards, Anti-Dumping Measures, Countervailing Measures)

108. ITED also engages on matters such as intellectual property rights, trade in services as well as policies around investment, government procurement, competition, environment and labour.

109. Government interacts with global markets in three interrelated areas, namely the multilateral arena, the African continent and lastly the bilateral and regional trade environment.

### **Key action initiative 2: Multi-lateral Trade**

150. The globalisation of markets for goods, finance, investment, services, and technology has intensified competition, and increased the impact of global markets on national economies, including on their financial stability, the location of investment, and the competitiveness of manufacturing. Competitiveness can no longer be sustained by comparative advantages in cheap labour, primary exports or preferential market access. The ability to compete now turns on technology, innovation capacity and trade in high value added products. Not all economies are positioned to compete in the new environment and, as trade and investment flows have accelerated, many countries are being marginalised.

151. In establishing a strengthened rules-based trade system, the WTO is central to the evolving system of global economic governance. Nevertheless, the outcome of earlier negotiations largely reflected the interests of developed countries and, for developing countries; current negotiations should address imbalances that prejudice their development interests. While multilateralism is the institutional response to managing globalisation and the deepening interdependence of national economies, a

key challenge remains coherent multilateral policy-making to establish mutually supportive systems governing international trade, monetary and financial relations.

152. A more equitable distribution of the benefits from trade and globalisation requires an integrated treatment of trade, development and finance. Indeed, interdependence extends beyond the mutual dependence of economies to include an integrated consideration of policies. Moreover, policies for trade in goods and services interact with policies on investment, competition, intellectual property and environment, amongst others. This partly explains the fact that new generation trade-related issues are now firmly on the international trade agenda.

153. South Africa has evolved an extensive trade negotiating strategy manifest at multilateral and regional levels. Multilaterally, the WTO is understood as a site for engagement to define and re-define global rules in ways that promote development. A positive outcome from the current negotiations, identified as the Doha Development Round, would also offer new access to global markets. The current focus is on the scope and ambition for global tariff reductions on industrial and agricultural goods. Negotiations are focused on methods to reduce/eliminate the trade distorting agricultural subsidies of industrial countries. A great deal of work remains and South Africa will need to dedicate greater resources to negotiation, as a positive developmental outcome is by no means assured.

154. Essentially through negotiations at multilateral level conditions in support of increased global market access and increased international trade is being established amongst the 148 WTO members.

### **Key action initiative 3: Africa**

155. Strengthening and formalizing trade and economic links with countries in Africa are priority in South Africa's policy and overall relations on the continent. South Africa's economic strategy in Africa – led by **the dti** - is premised on the following imperatives:

- South Africa's own economic development is linked with the economic development of the continent

- Being the leading economy in Africa presents South Africa both with unique trade and investment opportunities and with the challenge of systematically contributing to the continent's economic revival and development
- South Africa is increasingly contending with growing competition for markets and projects in Africa as major developed economies seek increased presence on the continent through various trade initiatives

156. Africa's capacity for intra-Africa and international trade is constrained by; amongst others supply-side impediments and a lack of export readiness of enterprises. **The dti's** NEPAD-related strategy therefore seeks to initiate market access and supply side programmes and projects aimed at the long-term development and exploitation of the continent's comparative advantages. This is underpinned by the need for diversified production and markets, the enhancement of competitiveness in new and value-added products and services, which are required to meet stringent and changing international technical, sanitary, environmental, and labour standards.

157. Africa faces huge challenges in terms of infrastructure development and cross-border development. It is in light of the above challenges that ITED's strategy for Africa incorporates the utilisation of the Spatial Development initiatives (SDIs) methodology to catalyse cross-border infrastructure development and the unlocking of economic potential along development corridors.

158. Strengthening and formalising trade and economic links with countries in Africa are a critical imperative in that it systematically contributes to the continent's economic revival and development. The New Partnership for the Economic Development of Africa (NEPAD) is therefore essential to a trade strategy for the continent. In this context, the free trade area pursued by the Southern African Development Community (SADC) is important as a key instrument for the economic development of the SADC region, and to that extent as a critical pillar of the NEPAD. Beyond SADC, expanding intra-African trade relations in pursuit of the broader vision of continental integration is essential. In this regard the possibility of preferential agreements with certain countries in Africa has emerged as potential important vehicles for establishing predictable trade conditions. It

will also serve to formalize trade links with these countries and also provide economic content to NEPAD.

#### **Key action initiative 4: Bilateral Trade**

159. Bilateral trade relations aim to negotiate increased market access for South African products in foreign markets and to deepen trade and investment links with key trading partners. As the capacity for government to participate in the international economy is inherently limited, choices amongst a range of possible partners and instruments must be made for engagement at multilateral, regional and bilateral levels. The key countries selected and the strategies adopted with regards to these countries are captured within the Global Economic Strategy (GES).

160. Within the global economic environment these key countries tend to be stratified within two categories of economies. Traditionally developed countries such as the USA, EU and Japan were the dominant poles of growth and market size, and engagements with these markets were focused on locking-in supplies of capital, technology and finance. Whilst these economies still play a dominant role and as such are necessary markets within a global economic strategy, over the last three decades or so, newly industrialised countries (the NICs) or emerging markets have assumed greater prominence in the global economy. Some, such as China and India, are major powers. Others are important, rapidly growing markets and sources of investments such as the Middle East.

161. In framing a global market access engagement it is important to pay attention to these countries, since these newer relationships offer vast export and investment opportunities to South Africa because they are growing rapidly and because the structure of our trade reflects a higher proportion of value-added exports. Furthermore, in light of the complementarities that emerge from comparable levels of industrial development, these economies also offer unique opportunities in terms of investment, joint ventures and technology transfer.

162. In support of these bilateral initiatives several preferential trade arrangements exist. Whilst our trade with the world takes place mainly on a 'most-favoured nation' basis, a priority objective is to secure even better access to key markets. In this light, the

unilateral preferences extended by major trade partners to SACU member countries, such as the Generalized System of Preferences (GSP) and the US's Africa Growth and Opportunity Act (AGOA) are important in that they have spurred increased trade and investment through the extension of preferential market access to SACU members. Notwithstanding these significant benefits, the epoch of depending solely on these unilateral preferences is coming to an end, in light of the increasing demands for reciprocal access made by countries that extend these preferences, as well as the unpredictable nature of them.

163. Preferential trade agreements offer SACU secure, predictable and long-term preferential market access advantage to key global markets on a negotiated basis, allowing for integration into the global economy on terms that contribute to its own developmental imperatives. In recent years a number of preferential negotiation opportunities have emerged for SACU. The USA and the EU collectively constitutes major poles of global economic growth and market size, and serve as important sources of investment and technology flows. The proposed Free Trade Agreement (FTA) with the USA allows for a strategic engagement with the current leading economy of the world. The FTA negotiations with the European Free Trade Area (EFTA) are close to finalisation and offers preferential access with Europe as a whole, by engaging those countries, which are not part of the preferential agreement with the EU and its associated eastward expansion.

164. Engagements with South America's MERCUSOR trade bloc, as well as India and China are informed by the rationale that there is greater potential for mutually beneficial economic linkages with these fellow developing countries. In light of the complementarities that emerge from comparable levels of industrial development, these economies also offer unique opportunities in terms of investment, joint ventures and technology transfer based on the reality that these emerging economies have assumed greater prominence in the global economy. In support of a broader engagement with developing countries, SACU-MERCOSUR negotiations have been undertaken and the fixed preference agreement is near to conclusion, whilst a similar arrangement is on the cards with India. Additionally, preferential negotiations with China have also been proposed and are being further discussed amongst stakeholders.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the key action initiatives for **Market Access**. These key action initiatives will be evaluated bi-annually by ITED and where necessary the NES will be adjusted to reflect the current realities.

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Key action initiative 1: Market Access	ITED	TISA	■		■		■			■		■		■
Key action initiative 2: Multi-lateral Trade	ITED	TISA	■		■		■			■		■		■
Key action initiative 3: Africa	ITED	TISA	■		■		■			■		■		■
Key action initiative 4: Bilateral Trade	ITED	TISA	■		■		■			■		■		■

## Conclusion

165. Negotiated market access is a key determinant of market penetration and consequently of export success. South Africa is represented in the arena of market access negotiation by ITED, a division of **the dti**. ITED's work is informed by a combination of factors including economic and political at a national, regional and global level. ITED's work is therefore informed by consultation with a number of stakeholders. ITED has a number of focus areas in its market access mandate. These include:

- Expansion of market access for South Africa's exports through the conclusion of trade agreements
- To promote South Africa's interests in the rules-based multilateral trade system
- To support economic development in Africa through the advancement of NEPAD initiatives, regional integration, increased intra-Africa trade, technical assistance and capacity building in the SACU, SADC and AU institutions
- To effectively manage South Africa's tariff regime
- To build a competent and effective institution

## **Chapter 6: Strategic Theme 4 - National Trade Information System**

### **The implementation of a National Trade Information System (NTIS) that serves as the information support link between domestic suppliers and international buyers**

#### **Introduction**

166. NTIS forms an important part of the ES, as it serves as the information support link between domestic suppliers and international buyers. It is envisaged to function both proactively and reactively, obtaining and disseminating important trade-related information, as well as passing trade leads on to domestic suppliers and assisting them with market information and to make informed and effective export decisions.

#### **Definition of Trade Information**

167. Trade information consists of all information that is required to prepare and conclude successful international trade transactions. Typically this would include:

- Information on the export process and the service providers that facilitate the process
- Government support (e.g. Export Incentives)
- Company information/Trade contacts
- Market information
- Market access information including non-tariff barriers
- Country information: Country profiles, Guides to doing business
- Trade policy: Trade negotiations, trade agreements and the multilateral trading system

**Overarching challenge: Systematic collection and dissemination of relevant trade information to the export community.**

#### **Key Action Initiative 1: Commissioning of an improved National Trade Information System (NTIS)**

168. The implementation of NTIS addresses a number of challenges faced in providing the South African export sector with quality and up-to-date information.

These have been:

- The uneven development of information services in South Africa
- The abundance or scarcity of information: market information on high-income markets is abundant but often complex and expensive, whilst market information on low-income countries is scarce and dispersed
- Developing co-operation and information exchange at national, regional and international levels
- Using technology to move from physical to virtual information bases

169. In order to address these challenges, Trade and Investment South Africa has developed a trade information strategy, which will form part of **the dti's** overall knowledge management and knowledge sharing infrastructure. The strategy is based on the following pillars:

- Building up the capacity of trade information services and networks and
- Bridging 'information gaps' whenever Trade and Investment South Africa is in a good position to do it

**Key Action Initiative 2: Training of Trade and Investment South Africa officials to implement and maintain NTIS**

170. A training program will be put in place in order to improve the skills of current staff. The programme will also be offered to information services staff of other business support organizations, such as Export Councils. The programme will cover the following areas:

- Information management
- Trade information sources
- Use of trade information

**Key Action Initiative 3: Establishment of a National Trade Information Network**

171. Strong collaboration and networking between the different trade promotion and trade information services in South Africa will be essential for the success of NTIS.

172. Trade and Investment South Africa will therefore take the lead in developing a strategy to create a synergy between all the organisations involved in trade promotion, in

order to standardise and organise information delivery, as well as to avoid duplication of resources.

173. With a view to Trade and Investment South Africa taking a lead role in establishing a national trade information network, the following initial steps are proposed:

- Liaison with the organisations involved in trade and investment promotion, with a view to eliciting their views and requirements for such a network and instigating the development of a national information network.
- Defining the scope and functions of the proposed network, with details of cost implications.

**Key Action Initiative 4: Establishment and maintenance of a Trade Enquiry/Reference Service at the dti.**

174. NTIS must be accessible to users from the South African private sector, public sector and **the dti** staff. It must be in a position to also handle requests from foreign companies seeking information on South African products, exporters, export sectors, etc. Customers should be able to access trade information either by:

- Visiting Trade and Investment South Africa, with the possibility of undertaking their own research using the different information resources available, under guidance of the staff if needed
- Submitting information requests to a central point via telephone, fax or e-mail. Trade and Investment South Africa staff will then provide the requested information.

175. In addition, a referral management system will be put in place to support the sourcing of external information. In instances where Trade and Investment South Africa lack capacity and resources to provide the required information, enquirers will be directed to an external information sources.

**Key Action Initiative 5: Development of a well-resourced pool of trade related publications for use by the export community**

176. In addition to the requirement for current business information, there is also a need for information relating to the export process and the support services that facilitate

the process. While several business support organisations have developed such guides, duplication can be avoided (and reduce costs) by coordinated production of such guides. Trade and Investment South Africa will take the lead in developing a range of practical guides and ensure the widest distribution of the material through relevant business support organizations. These guides will be published in hard copy and electronic format.

177. The following three practical guidebooks have been developed recently and will be developed and distributed to the business community. They are based on the International Trade Centres' (ITC) Trade Secrets series of guidebooks:

- The Export Answer Book
- E-Commerce for SMME's
- Quality & Standards for SMME's

**Key Action Initiative 6: The establishment and maintenance of a National Exporters Database**

178. Trade and Investment South Africa lack basic information about South African manufacturers, exporters, traders and service providers. It lacks information on potential and actual exporting companies.

179. The absence of an exporter's database is a major shortcoming for Trade and Investment South Africa. There is a dire need for a comprehensive exporter's database that can be provided online. An online trade directory can be the gateway that links South African firms with overseas buyers.

180. Information needed in the database must include contact details, lists of products/services, and a hyperlink to the firm's home page, a company profile, logo, and a visual and descriptive product catalogue (e.g. specifications and pictures).

181. The exporter's directory should be interactive enough to easily allow potential foreign business partners to find the information that they need with the following options:

- List of main industry clusters

- Selecting the desired industry must return a list of sub-sectors
- Selecting the desired sub-sector must return details of relevant firms operating in that sub-sector
- A search mechanism that returns details of relevant firms
- The search criterion must be by product. An internationally recognised classification system should be used (such as the HS nomenclature)

### **Key Action Initiative 7: The establishment and maintenance of a National Export Portal**

182. **The dti's** online communication channel (internet) must be enhanced to proactively deliver a constant flow of relevant information. Convenient and interactive systems are required to help South African exporters through their total trade, market and business information requirements. A national awareness of the value of information must also be developed, as many exporters still do not appreciate the value of information.

183. Providing companies with easily accessible and useable business information, through an organised platform (i.e. Export portal), can change this.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the process **the dti strategy, resource deployment and activities**

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Key Action Initiative 1: Training o Seminar/s aimed at staff of business support organizations focusing on trade information, in conjunction with the International Trade Centre (ITC).	Trade and Investment South Africa	Learning Centre		■		■		■		■		■		■
Key Action Initiative 2: Networking o Assess existing information networks (Business Referral & Information Network – Brain) o Organisation of a workshop with the information services of different organisations, with a view to eliciting their views of the strategy for such a network and instigating the development of a national information network.	Trade and Investment South Africa	SEDA		■				■				■		■
Key Action Initiative 3: Inquiry-Reply Service o An improved enquiry-reply and referral management service through the Internet.	Trade and Investment South Africa	Marketing			■									

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<p>Key Action Initiative 4: Standard Publications</p> <ul style="list-style-type: none"> <li>Adaptation and diffusion of ITC's Trade Secrets Series of guidebooks: The Export Answer Book (3750)</li> <li>E-Commerce (750)</li> <li>Quality&amp; Standards (500)</li> </ul>	Trade and Investment South Africa	EIDD/ SEDA/ Marketing		■										
<p>Key Action Initiative 5: Exporters Directory</p> <ul style="list-style-type: none"> <li>A directory of exporters with the following degree of exposure for each firm: basic contact details, a list of products/services, a hyperlink to the firm's home page, a full company profile.</li> </ul>	Trade and Investment South Africa	SEDA						■						
<p><b>Key Action Initiative 6: Export Portal</b></p> <ul style="list-style-type: none"> <li>An organised platform for trade information.</li> </ul>	Trade and Investment South Africa	SEDA/ Marketing						■						
<p><b>Key Action Initiative 7: Promotion Strategy</b></p> <ul style="list-style-type: none"> <li>Creating an awareness of the value of trade information</li> </ul>	Trade and Investment South Africa	Marketing						■						

## **Conclusion**

184. NTIS forms an important part of the ES. It serves as the information support link between domestic suppliers and international buyers, and as a source of information for government and private sector stakeholders involved in trade promotion. It will function both proactively and reactively. NTIS will obtain and disseminate important trade-related information, pass foreign trade leads on to South African suppliers and assist them with market information in order to make informed and effective export decisions.

## Chapter 7: Strategic Theme 5 - Exporter Development

### Establishment of a National Small Exporter Development Programme

#### Introduction

185. The ES emphasises an alignment between **the dti's** export promotion activities and the national objectives of Growth, Employment and Equity. An important component of these national objectives is the development of new exporters in general and specifically those drawn from the ranks of the previously disadvantaged. An important mechanism for achieving this alignment is through the ES focus on a programme of 'exporter development'.

186. **The dti** is mandated with increasing the volume and value of exports. Importantly the organisation is also responsible for increasing the number of practising exporters, with a focus on assisting and developing exporters from previously disadvantaged backgrounds (including disabled-, female- and black persons and companies). Trade and Investment South Africa has therefore developed a series of interventions aimed at exporter development in an integrated programme or value chain approach.

#### **Overarching Challenge: Improving the ability of small and medium sized enterprises to become successful and sustainable exporters.**

185. A number of surveys examining export performance within South Africa have highlighted weaknesses amongst small and medium enterprises wanting to evolve into exporters. These weaknesses include poor understanding on the part of the small entities of the following issues:

- Export readiness.
- Required product quality.
- Required productivity and competitiveness levels.
- The export sequence.
- Market intelligence.
- Required export logistics.

187. In addition, many exporters (actual and prospective) lack export commitment. Others are not aware of (or do not take advantage of) the range of export training courses on offer in South Africa. Several of these export-training courses also fall short of market expectations.

**Key action initiative 1: Mandating the SEDA with responsibility to execute the National Small Exporter Development Programme.**

188. The creation of the Small Enterprise Development Agency (SEDA), a Council of Trade and Industry Institution (COTII), which is an agency of **the dti**, has created a unique opportunity to house a SMME exporter development programme. SEDA is mandated to develop SMME capacity. Exporter development is a natural fit within this overarching mandate. SEDA, as the successor to Ntsika, is already actively involved in exporter development and Tradepoint programmes. SEDA possesses institutional knowledge and experience in exporter development and dealing effectively with SMMEs. The NES therefore assigns a key role to SEDA in exporter development. It will be carried out in partnership with Trade and Investment South Africa (TISA) with regards to programme design and implementation, and with The Enterprise Organisation (TEO) with regards to existing financial incentives for training and development.

189. The NES proposes the development of an integrated programme of exporter development for those SMMEs wishing to graduate as exporters. These potential exporters will have access to a development programme comprised of the following key interventions:

- Enterprise export readiness assessment
- Product improvement
- Enterprise productivity improvement
- Quality management systems, e.g. ISO 9000
- Export Training
- Marketing support

190. The programme is designed to have both a modular as well as integrated architecture. Prospective exporters will be able to take advantage of individual

components of the offering or proceed through an entire programme comprised of each of the individual modules with a “handover” between phases.

191. The main objectives of the exporter development initiative are to:

- Stimulate a culture of learning amongst prospective exporters
- Provide best practice exporter training and education programmes
- Provide targeted assistance programmes as well as an integrated service offering
- Provide accessible services through the use of technology (especially the internet) and the use of relevant COTII agencies and accredited service providers
- Assist prospective exporters to improve competitiveness. (Product, enterprise productivity, standards and accreditation)
- Assist prospective exporters in their understanding and penetration of foreign markets

**Action Initiative 2: The development and implementation of an integrated Small Exporter Development Programme managed by the SEDA**

192. The integrated programme offering is targeted towards developing small and medium exporters by channelling the various resources of **the dti**, and related institutions and COTII agencies towards this goal. Trade and Investment South Africa is responsible for overall policy and strategy. SEDA will be responsible for the management of the programme. Various components of the programme will be delivered by COTII agencies and accredited service providers in their individual areas of expertise. To facilitate accessibility, the programme will operate at national, provincial and local levels. SEDA will endeavour to customize programmes to address the specific challenges posed by the different priority sectors.

193. The elements (Action Steps) of the Small Exporter Development Programme include the following:

- Enterprise export readiness assessment
- Product improvement

- Enterprise productivity improvement
- Quality management systems, e.g. ISO 9000
- Export Training
- Marketing support

#### **Action Step 1: Enterprise Export Readiness Assessment**

- Objectives:
  - The provision of a standardised enterprise-level export readiness assessment service
  - The provision of a standardised product-level audit service to determine export suitability and competitiveness.
- Delivery Institution: Accredited service providers, appointed by SEDA
- Service Offering: Accessible assessments by accredited service providers

#### **Action Step 2: Product Improvement**

- Objective: The provision of a product improvement service to ensure suitability of the products as required by the targeted export market. For example, revised product packaging.
- Delivery Institution: Accredited service providers appointed by SEDA, Technology Stations and CSIR.
- Service Offering: Product improvement service through short-term technical assistance.

#### **Action Step 3: Enterprise productivity improvement.**

- Objective: The provision of an enterprise-level productivity assessment and improvement service to increase export competitiveness.
- Delivery Institution: Accredited service providers, appointed by SEDA, and NPI
- Service Offering: Enterprise-level productivity assessment and improvement.

#### **Action Step 4: Quality Management Systems**

- Objective: The provision of an organisational and/or product quality improvement service to improve product shortcomings in the targeted export market.

- Delivery Institution: Accredited service providers, appointed by SEDA, CSIR and SABS.
- Service Offering: Product quality improvement service through short-term technical assistance.

#### **Action Step 5: Export Training.**

- Objective: The provision of standardised best practice export training through accredited service providers
- Delivery Institution: Accredited service providers, appointed by SEDA
- Service Offering: Best practice export training programme to prepare and equip SMMEs for the international market.

#### **Action Step 6: Marketing Support**

- Objectives: The provision of marketing support to selected SMMEs to enable them to develop and gain marketing expertise and experience needed in the export market. The provision of linkage support utilizing selected export promotion mechanisms.
- Delivery Institution: Accredited Service Providers appointed by SEDA.
- Service Offerings: Marketing support by way of local and export marketing strategies and plans, marketing advice, marketing tools like brochures and websites and exposure to markets through participation at trade exhibitions.

#### **Graduates of the programme**

194. Prospective exporters who have proceeded through the integrated programme, or specific modules thereof and are then considered export ready, can make use of the export promotion mechanisms such as:

- Export marketing incentives through EMIA
- Export finance products
- Support from relevant Export Councils

### **Linking up with the Export Councils**

195. The Export Councils are in the forefront of the export movement in South Africa, and they have a lot to offer to the small business sector. The Councils are expected to submit plans showing how they would integrate the small exporters into their export development initiatives. A continuous dialogue between Trade and Investment South Africa and the various Export Councils will provide direction in terms of priority markets and help in realizing the export opportunities. Over and above that, small businesses will be helped to identify markets for their products.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the process **the dti** strategy, resource deployment and activities

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Key Action Initiative 1: Mandating the SEDA with responsibility for the national exporter development strategy	SEDA	Trade and Investment South Africa		■										
Key Action Initiative 2: The development and implementation of an integrated small exporter development programme managed by the SEDA	SEDA	Trade and Investment South Africa			■									
Action step 1: Export Readiness Assessment	SEDA	Trade and Investment South Africa				■								
Action step 2: Product Improvement	SEDA	Trade and Investment South Africa				■								
Action step 3: Productivity Improvement	SEDA	Trade and Investment South Africa				■								
Action step 4: Quality Management Systems	SEDA	Trade and Investment South Africa				■								
Action step 5: Export Training	SEDA	Trade and Investment South Africa				■								
Action step 6: Marketing Support	SEDA	Trade and Investment South Africa				■								

## **Conclusion**

195. Exporter development is a key component of the ES. The target customer group are SMMEs generally and specifically those drawn from the ranks of the previously disadvantaged. The exporter development programme is both modular and programmatic. The customer can elect specific components or the entire value chain of products and services. The programme consists of six modules: export readiness assessment, product improvement, enterprise productivity improvement, quality management systems, export training as well as marketing support. The programme will be delivered through the SEDA, as the overall programme manager. Other relevant COTII agencies and accredited service providers will also deliver certain components. TISA will develop relevant policy and strategies, while TEO will administer the financial incentive programmes that form part of the initiative.

## **Chapter 8: Strategic Theme 6 - Export Mechanisms**

### **Developing co-ordinated Export Promotion Mechanisms**

#### **Introduction**

196. In the mid-nineties the emphasis of the Industrial Development Programme of **the dti**, shifted to a sectoral approach and in particular on the development of eleven priority industrial sectors in South Africa. This approach lends itself ideally to domestic mobilisation and export promotion. International best practice studies confirmed that countries in the same developmental band as South Africa mobilise their public resources and public-private co-operation in the form of sectoral defined working groups and collaborative relationships. This logic applies to the issue of sector development in general and export promotion more specifically. The ES follows this approach.

#### **Overarching Challenge: Improved execution of core functions and business processes by existing Export Promotion Mechanisms**

197. This chapter deals with the following export structures that are responsible for export development and promotion with **the dti**:

- Export Promotion Cluster Desks (Cluster Desks)
- Foreign offices
- Export Councils

#### **Action Initiative 1: Ensuring increased efficiency and effectiveness of Trade and Investment South Africa's Export Promotion Cluster Desks**

198. Specialised Cluster Desks within the Directorate Export Promotion within Trade and Investment South Africa carry out the export promotion function for each of the eleven priority sectors. The Directorate is organised into three clusters, Resource-based (Agro-processing, Mining and Metals, Chemical and Allied Industries), Manufacturing (Automotive, Capital Equipment, Transport Industries, Clothing, Textiles, Leather and Footwear, Electro-technical, and Cultural Industries) and Services (Business Process Outsourcing, Tourism). The resourcing of these desks is insufficient currently and it is recommended that the staffing particularly be reviewed, particularly in view of the identification of new growth sectors and the concomitant workload that will entail.

199. The functions and activities of these desks include:

- Develop a promotional strategy for respective targeted industries and regions
- Develop export market penetration strategy for respective targeted industries in prioritised countries in close collaboration with the Foreign Offices on gathering of market intelligence and research, targeting and matchmaking activities.
- Manage **the dti's** export promotion instruments such as outward selling missions, inward buying missions, national pavilions, and specialised exhibitions
- Generic export promotion through country profiling and branding.

200. The Directorate forms the link between the CSP process and staff, and the export promotion function. The Directorate also links the public-private partnership represented by the Export Councils and JAGs with the rest of **the dti**. Export Councils, JAGS and Industry Associations are partners of Trade and Investment South Africa. These entities are mandated to promote their respective industries in consultation with Trade and Investment South Africa. This is managed through coordination with the respective Cluster Desks. These bodies derive benefits for their members through such instruments of **the dti** as EMIA. Within **the dti**, the Export Council Secretariat (ECS) assists these entities with applications, claims, and governance issues. To ensure policy and strategy alignment, the ECS co-ordinates the holding of quarterly meetings between these entities and **the dti**. The following key action steps will be followed to improve the efficiencies of the Cluster Desks.

**Action Step 1: Finalise an Export Promotion Value chain to align all promotional mechanisms**

201. A detailed value chain that will articulate the roles, responsibilities, functions and activities of all role players will be completed by the 4<sup>th</sup> Quarter 2005/06. This will clearly delineate the role of the Export Councils, Provincial Agencies, Cluster Desks and Foreign Offices.

**Action Step 2: Establishment of a management structure to institutionalise and manage the value chain.**

202. A Management Committee will be appointed by 3<sup>rd</sup> Quarter 2005/06 that will be chaired by the Director: Export Promotion. The other members will include the Director International Operations, Director Foreign Service Management, Director Export Development and 2 duly appointed members of the Export Councils. Members of the Provincial Agencies will be invited to attend these meetings on a quarterly basis. The key functions of this Committee will be:

- Management of the Export Promotion Strategy
- Defining the push and pull factors impacting on the Export Promotion Value Chain
- Ensure continuous alignment of business plans between Cluster Desks and Foreign Offices
- Project management and monitoring
- Overview and management of flagship projects
- Overview and management of ad hoc-projects
- Review of Export Council's Quarterly Reports
- Monitoring of promotional and targeting activities, in SA and abroad with regards to National Pavilions and Missions
- Performance measurement on an annual basis.

**Action Step 3: Inclusion of the Export Promotion activities in a Project Management System.**

203. The dti is in the process of implementing "Documentum" throughout the organisation. This will include a Project and Case Management System. The user specification for Export Promotion processes will be completed by the 1<sup>st</sup> Quarter 2006/07 and a pilot will be operation by the 1<sup>st</sup> Quarter 2006/07.

**Action Step 4: Implement a programme to obtain target studies on top 20 international markets**

204. A concerted effort will be launched from the 3<sup>rd</sup> Quarter 2005/06 to obtain professional targeting studies that will give precise insight into the exact strategies that will be required to penetrate these markets with the right mix of products. These studies

will be obtained at a rate of 3 studies a Quarter. The first studies should be available by the end of the 2<sup>nd</sup> Quarter 2006/07

## **Action Initiative 2: Ensuring increased efficiency and effectiveness of Export Councils**

### **Introduction**

205. Export Councils help ensure a successful collaboration between government and the private sector in pursuit of export development and promotion. These councils are the channel through which government and industry interact and collaborate towards the formulation of an export 'vision' for the various sub-sectors and assist in the identification and implementation of the most appropriate levers with which to realise these visions. An Export Council is a Section 21 (non-profit) company, with membership open to all manufacturers and exporters in a particular sector. Members must take "ownership" of the Export Council. Joint Action Groups (JAGS) are informal groupings of enterprises within an industry established to pursue a short-term export promotion action. A JAG is therefore not a legal entity but should be formally constituted. Export Councils, JAGS and Industry Associations are vehicles to promote the export of products and services. **the dti** provides strategic guidance and financial assistance.

### **Action Step 1: Aligning the objectives Of Export Councils and Joint Action Groups with Government**

206. Export Councils are expected to deliver on the following:

- Facilitate the growth of exports of their members
- Facilitate the development and the growth of the SA export base
- Facilitate and promote BEE exporter development
- Facilitate and promote SMME exporter development

### **Action Step 2: Defining the Responsibilities of Export Councils and JAGs**

207. Export Council responsibilities include the following within a particular sector:

- To provide relevant export information
- To deal with issues/queries, and facilitate trade missions, etc.
- To initiate closer interaction and liaison between Government and exporters
- To identify key export competitive products and market opportunities

- To increase export awareness and establish an export culture
- To increase knowledge of foreign marketing opportunities
- To provide a sector export development platform for government and industry
- To assist SMME's to enter and compete in export markets

### **Action Step 3: Ensuring Improved Export Council Performance**

208. **the dti** is committed to the Export Council model of export promotion. Export Councils must be subjected to a continuous process of enhancing their performance. The strategy to improve performance will consist of the following initiatives:

- Aligning the objectives between Trade and Investment South Africa and the Export Councils
- Restructuring the funding process
- Developing and implementing a training and development strategy
- Using information technology strategically
- Monitoring and measuring performance

### **Action Step 4: Alignment between the dti (Trade and Investment South Africa) and the Export Councils**

209. Export Councils will be required to submit their annual business plans for approval to **the dti**. The point of contact for this submission will be the Director: Export Promotion within Trade and Investment South Africa. Business plans will be lodged on the 28<sup>th</sup> February annually.

### **Action Step 5: Restructuring the funding process**

210. To improve the effectiveness of Export Councils, their funding process will be restructured. Key shortcomings include a lack of adequate funding, prioritised and effective disbursement of funds, and rewarding performance. An improved funding process rests with an annual budgeting process that identifies projects based on stakeholder priorities, and considers the performance of the various councils. Assisting them with increased funding with regards to strategic sector research will increase the Council's impact on the exporter community.

### **Action Step 6: The strategic use of information technology**

211. Export promotion is widely driven by technology in successful exporting countries. Trade and Investment South Africa intends improving the operation of the Councils through better use of information technology. Information technology will be employed to improve effectiveness of administrative processes, improve stakeholder interaction, improve access to services, and increase accessibility to training.

### **Action Step 7: Training and Development Strategy for Export Councils**

212. Export Councils will implement a training and development strategy that is specific to the individual needs of the Councils. Four key objectives have been agreed on:

- To make willing and viable export companies export ready
- To create sustainable international competitiveness
- To maintain and grow the number of SA global players
- To develop SMEs and BEEs

### **Action Step 8: Performance Monitoring and Measurement**

213. Trade and Investment South Africa has been unable to measure performance of the Export Councils primarily due to a lack of reliable data. Performance monitoring and measurement is a critical element to enable tracking of performance so that corrective measures can be employed to ensure alignment and the optimal deployment of resources. The Export Councils and Trade and Investment South Africa will jointly establish a performance monitoring and measurement system.

## **Action Initiative 3: Ensuring increased efficiency and effectiveness of Foreign Offices**

### **Introduction**

214. **The dti** deploys competent and dedicated officials in targeted countries/missions abroad who work under the oversight of Heads of Mission. These foreign economic representatives are tasked with delivering on the strategic objectives related to exports (including the NES), investment and market access.

215. Within **the dti**, the foreign economic representative system is most closely associated with the trade policy work of the International Trade and Economic Development division (ITED) and the sector-related export and investment promotion work of Trade and Investment South Africa. Government at national, provincial and local authority levels, and particularly the Department of Foreign Affairs, are key role players.

216. The role of the DFA in export and investment promotion is increasing. In many instances, the DFA has missions abroad where there is no representation from **the dti**. This means that a partnership in the area of foreign economic representation between **the dti** and DFA is important.

217. The foreign offices need to be effectively integrated into the CSP, export and investment value chains. In order to increase the efficiency and effectiveness of the foreign offices, various strategic interventions will be taken, as listed below.

#### **Action Step 1: Establishment of an overarching management structure**

218. The resources associated with the foreign offices are spread throughout the following two Trade and Investment South Africa units:

- Foreign Service Management (FSM) that manages the foreign offices
- International Operations Unit (IOU) that support the foreign offices

219. Trade and Investment South Africa wants to review the structure and operations of these units to form a coherent resource base. An overarching management structure and strategy, including a performance management model, needs to be developed.

#### **Action Step 2: Optimisation Of the dti's Foreign Offices**

220. The key role that FER's play in Export Promotion needs to be enhanced by obtaining greater leverage out of the FER resources. Specific improvements with regards to the Foreign Offices contribution to the Export Promotion Value Chain need to be done. Areas targeted for specific improvements are research, intelligence gathering, country marketing/promotion and targeting.

### **Action Step 3: Choosing and Retaining the Right People as Foreign Officers**

221. FER's are a key interface in the previously mentioned value chains both from a reactive and proactive perspective. The correct people need to be placed overseas (selection, training, career path all emerge as critical issues that need to be addressed in this regard). Actions include:

- Selection criteria: FER profile development
- Training, re-integration strategy, and career path development (ongoing)
- Co-ordinated return and replacement of FER's in critical foreign offices in cooperation with the IRC (ongoing)

### **Action Step 4: Optimisation of Working Relationship with DFA and HOMs**

222. International offices are a key part of the "proactive" export strategy value chain – they are able to secure access to key decision-makers within specific geographies in response to a well-designed and targeted Export Promotion drive. FERs are able to use the HOM (by directing them) to secure (either directly or indirectly) access to senior export decision-makers that would ordinarily be inaccessible to most **dti** staffers. DFA has a more extensive foreign office network (including exposure to more cities, e.g. California/Los Angeles) that can be utilised for Export Promotion activities. In prioritised targeted countries without a **dti** FER presence the DFA presence needs to be used for FDI and export promotion. The relationship between **the dti** and the DFA HOMs must be optimised. A practical working level agreement between **the dti** and DFA will be concluded.

### **Action Step 5: Supporting the FERs, DFA and HOMs (In Export and Investment Activities)**

223. In addition to the appropriate overarching management structure, the establishment of "back office" services are to be provided by the Investment Promotion and Export Development and Promotion units respectively. These activities abroad will be an important interface to be established as soon as possible. Key actions include the implementation of a Standard Operating Procedure Manual (SOP) for FERs, DFA and Trade and Investment South Africa HQ units.

### **Action Step 6: Creating Institutional Alignment and Synergies**

224. Trade and Investment South Africa is part of a larger **dti** value chain, and a larger public service that incorporates other national government departments (e.g. DFA), relevant agencies, and provincial and local government departments all involved in interlocking responsibilities. Trade and Investment South Africa's activities also include a strong interface and leverage with business (CSPs, Export Councils, chambers, associations, etc.) Trade and Investment South Africa has made progress towards alignment (especially exploiting **the dti** campus) but has identified the need to develop closer relationships with prioritised external institutions. The CSPs are a critical but not exhaustive part of delivering on this strategic objective. Additional working relationships need to be established and clarified – timing: ongoing, development of an “institutional and relationship matrix” document with prioritised relationships and engagement models defined.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the process **the dti strategy, resource deployment and activities**

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Key Action Initiative 1:</b> Increased efficiency and effectiveness of Trade And Investment South Africa's Export Promotion Cluster Desks	Trade and Investment South Africa		■											
Action Step 1: Finalise an Export Promotion Value chain to align all promotional mechanisms	Trade and Investment South Africa			■										
Action Step 2: Establishment of a management structure to institutionalise and manage the value chain.	Trade and Investment South Africa			■										
Action Step 3: Inclusion of the Export Promotion activities in a Project Management System.	Trade and Investment South Africa	OCIO			■									
Action Step 4: Implement a programme to obtain target studies on top 20 international markets (3 per Quarter)	Trade and Investment South Africa			■	■	■	■	■	■					

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Key Action Initiative 2:</b> Increased efficiency and effectiveness of Export Councils	Trade and Investment South Africa	Export Councils		■										
Action Step 1: Objectives Of Export Councils And Joint Action Groups	Trade and Investment South Africa	Export Councils	■											
Action Step 2: Responsibilities Of Export Councils And Joint Action Groups	Trade and Investment South Africa	Export Councils		■										
Action Step 3: Ensuring Improved Export Council Performance	Trade and Investment South Africa	Export Councils		■	■		■				■			
Action Step 4: Alignment between <b>the dti</b> (Trade And Investment South Africa) and the Export Councils	Trade and Investment South Africa	Export Councils	■											
Action Step 5: Restructuring The Funding Process	Trade and Investment South Africa	Export Councils		■										
Action Step 6: The Strategic Use Of Information Technology	Trade and Investment South Africa	Export Councils				■								
Action Step 7: Training And Development Strategy For Export Councils	Trade and Investment South Africa	Export Councils				■								

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Action Step 8: Performance Monitoring And Measurement	Trade and Investment South Africa	Export Councils			■									
<b>Key Action Initiative 3:</b> Increased Efficiency And Effectiveness Of Foreign Offices	Trade and Investment South Africa	ITED DFA												
Action Step 1: Overarching Management Structure	Trade and Investment South Africa	ITED DFA			■									
Action Step 2: Optimisation of <b>the dti's</b> Foreign Offices – Targeting Strategy	Trade and Investment South Africa	ITED DFA				■								
Action Step 3: Choosing And Retaining The Right People As Foreign Officers	Trade and Investment South Africa	ITED DFA				■								
Action Step 4: Optimisation Of Working Relationships With Department of Foreign Affairs (DFA) and Heads of Missions (HOMs)	Trade and Investment South Africa	ITED DFA						■						
Action Step 5: Supporting The FER's, DFA And HOMs (In Export And Investment Activities)	Trade and Investment South Africa	ITED DFA			■									
Action Step 6: Creating Institutional Alignment And Synergies	Trade and Investment South Africa	ITED DFA				■								

## Conclusion

225. The ES is designed to utilise the resources and expertise of **the dti** as a whole (including the COTII agencies), as well as other government departments (national, provincial and local), and the private sector. The core components of the ES will, however, be executed through the activities of three central delivery mechanisms: Trade and Investment South Africa Export Promotion sector desks, Export Councils, and Foreign Offices. Each of these will be fully resourced and their activities designed and managed to effectively implement the ES.

226. Trade and Investment South Africa Export promotion sector desks will be fully staffed with appropriately recruited and trained staff. Their activities will be aligned with the objectives of the ES.

227. Export Councils represent international best practice in the organisation of a collaborative partnership between government and industry in pursuit of export promotion within priority sectors. Trade and Investment South Africa has identified a number of interventions that will improve the operation of the export councils. The strategy to improve performance will consist of the following initiatives: aligning the objectives between Trade and Investment South Africa and the Export Councils, restructuring the funding process, developing and implementing a training and development strategy, using information technology strategically, and monitoring and measuring performance.

228. The resources associated with the foreign offices are an invaluable component of Trade and Investment South Africa's value chain in Export Promotion and Development. Trade and Investment South Africa has highlighted a number of interventions that are designed to optimise the operation of these resources, including changing the overarching management structure, targeting the resource deployment in line with strategic objectives/requirements, choosing and retaining the right people as foreign officers, optimising the working relationship with DFA and HOMs, supporting the FERs and DFA and HOMs (in export activities).

## **Chapter 9: Strategic Theme 7 - Export Incentives and Financing**

### **Appropriate Export Incentives and Financing Products as a component of an effective NES**

#### **Introduction**

229. Financial incentives and trade finance and insurance products form an integral part of the ES. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. The rationale behind the export incentive and financing instrument offering was the need to address the following:

- To assist exporters in their quest for enhanced competitiveness and successful entrance into foreign markets
- To increase the number of practising exporters, focusing on BEEs
- To increase the volume and value of exports

**Overarching Challenge: To increase the number of practicing exporters, particularly SMMEs and BEE Enterprises, and the geographic spread of these exporters using appropriate export-financial incentive schemes**

230. This chapter covers the following product offerings available to South African exporters:

- Export Marketing and Investment Assistance Scheme (EMIA)
- Industrial Development Corporation (IDC) export finance schemes
- Export Credit Insurance Corporation (ECIC) export insurance schemes
- Consultancy Trust Funds to the World Bank and the International Finance Corporation

**Action Initiative 1: Continuous improvement in the product offering and administration of the Export Marketing Incentive Assistance (EMIA)**

231. The purpose of assistance under the EMIA scheme is to partially compensate exporters for costs incurred in respect of activities aimed at developing export markets for South African products and services.

## **Relevant EMIA Products**

232. EMIA caters for both Exports and Investments. The products that are discussed in this document relate only to exports, however, and include the following:

- Primary Export Market Research
- National Pavilions
- Individual Exhibitions
- Outward Selling Trade Missions
- Inward Buying Trade Missions
- Sector Specific Assistance (SSAS)

## **Generic Qualifying Criteria and Other Requirements**

233. Trade and Investment South Africa considers the following eight (8) factors in the evaluation of EMIA applications:

- Export/production performance of the applicant
- Export/marketing competence of person visiting the foreign country
- Potential available/accessible production/export product capacity
- Extent of export market research and associated marketing planning
- Type of product for export and local sales performance
- Level of labour absorption, location and technological requirements
- Industry in which the venture operates or is planned; greater consideration is afforded priority industries
- Membership and/or opinion of an export council (not compulsory but preferable)

(Note: each component of the EMIA scheme has additional specific defined criteria)

234. Depending on the specific EMIA scheme being accessed, the following supplementary information is required, including a full market research report focussing on the export market, an analysis of the product, price, promotion strategies and distribution channels of the product. The report must specify how the research was conducted, the viability of the product sold, the expected competition and any barriers to trade. An Export Marketing Planning questionnaire must be completed. If relevant a detailed confirmed itinerary of persons to be visited must accompany the application form.

235. EMIA is designed to be an accessible export promotion instrument. Consequently, a broad approach to the range of suitable applicants was adopted, and include the following: South African manufacturers of products including SMME, PDI and other owned businesses, South African export trading houses, South African commission agents representing at least three SMME's or PDI owned businesses; and South African Export Councils, Industry Associations and Joint Action Groups representing at least five (5) South African entities.

236. Other requirements include standard company and exporter registration certification. Importantly Trade and Investment South Africa requires both an Export Readiness Assessment and an Export Marketing Plan.

## **EMIA Products**

### **Primary Export Marketing Research (PMR) Scheme**

237. Assistance is provided to partially compensate exporters for costs incurred in developing new export markets. Assistance is provided towards the foreign travel of a representative from a registered exporter. PMR is restricted to value-added products. PMR is confined to market research aimed at the establishment of new markets and not further development for a particular product in a specific country. PMR is not applicable for the attendance at trade shows, exhibitions or fairs.

238. The Registration of a product in a foreign market represents a sub-programme of PMR. The scheme is available to HDIs, SMMEs and other-sized businesses. The scheme covers 50% of the cost relating to registration of a product in a foreign market, such as patents, trademarks and quality marks. (E.g. ISO range) up to R100 000 per annum.

## **National Pavilions**

239. Trade and Investment South Africa participates in selected trade fairs and exhibitions abroad by means of a National Pavilion or Mini National Pavilion. National Pavilions are official country participation in major trade fairs or exhibitions abroad, which show cases the country, its industries, strengths, comparative advantages and individual companies. Assistance is provided to qualifying South African exporters to

introduce products into foreign markets by participating in suitable foreign exhibitions in a cost effective manner. Trade and Investment South Africa does not have to be the organiser for the pavilion for the event to qualify for EMIA funding.

### **Individual Exhibitions**

240. Assistance is granted to individual exporters to exhibit products at recognised exhibitions abroad where Trade and Investment South Africa do not provide for a National Pavilion. A maximum of four (4) exhibitions per calendar year, subject to the discretion of Trade and Investment South Africa, are allowed. A maximum of ten (10) exporters will be assisted for a particular exhibition. Assistance is provided for one representative per registered exporter per exhibition. Assistance is granted on the basis of actual expenditure.

### **Outward Selling Trade Missions**

241. Assistance is provided to South African exporters who wish to make contact with foreign buyers with a view to conclude new export orders. The organising body must be a qualifying applicant such as Chambers of Commerce, Industry Associations, Provincial Investment Promotion Agencies (PIPA's), Export Councils, Official Provincial and Local Government Trade Promotion offices (TPO's) or **the dti**. The mission must be aligned with Trade and Investment South Africa's sector strategy. Specialised missions (e.g. capital projects) may be comprised of a project team. Missions should be confined to small manageable groups.

### **Inward Buying Trade Missions (IBM)**

242. Assistance is provided to organisers of Inward Buying Trade missions (IBMs) to enable prospective buyers to make contact with South African exporters to conclude export orders. IBMs may be either organised by individual entrepreneurs or entities, or by qualifying organizations. The mission could be of a specialised or general nature. The invited businesses must have a large buying capacity and be represented by an appropriate decision-making officer. Missions should be comprised of focused groups.

### **Sector Specific Assistance Scheme**

243. Assistance is provided to specific industry sectors with the objective of:

- Developing new export markets

- Broadening the export base
- Stimulating the participation of SME's in the export sector, promoting black economic empowerment (BEE) and woman empowerment (WE), with the use of backward linkages as an instrument to achieve the above
- Increase job creation as a result of the above objectives

244. Qualifying Applicants include Export Councils that are formally approved by **the dti**, recognised Industry Associations and groups of three or more entities known as Joint Action Groups (JAGS) that amalgamate with the primary objective of embarking on a project/s that benefit an industry/industries as a whole. Two forms of assistance are provided.

#### **Assistance for Approved Export Councils**

245. A grant for the establishment of an Export Council of R 50 000, for the purpose of registering a Section 21 company and for attorneys' and business consultant's fees. A membership income matching grant. **The dti** will fund the Export Councils up to a maximum of R 500 000 per year matching membership income, for the purpose of operational costs.

#### **Project funding for all qualifying applicants**

246. The fund exists for specific projects proposed by qualifying applicants that will contribute to the development and promotion of an industry as a whole. **The dti** will partially contribute (between 50% and 80%) of the cost of project/s that has been approved in writing by **the dti**. **The dti** reserves the right to determine the percentage that will apply.

#### **Action Initiative 2: Continuous Improvement in the product offering and administration of the IDC's export-related Financial Products**

247. The Industrial Development Corporation Ltd (IDC) is a self-financing, National Development Finance Institution (DFI) focusing on contributing to economic growth, industrial development and economic empowerment through its financing activities. The following export finance products are offered by the IDC and are of direct relevance to the NES.

### **Bridging Finance**

248. The scheme is aimed at entrepreneurs who have secured firm contracts - except for construction contracts - with government and/or the private sector and who have short-term financing needs, and/or guarantees such as performance, suppliers, etc. Finance is short-term, for a maximum period of 18 months. Competitive, risk related interest rates are based on the prime bank overdraft rate. The scheme is available to entrepreneurs who have been awarded tenders by government, entrepreneurs who have secured contracts for providing services/products to established big, blue chip companies, entrepreneurs with an annual turnover greater than R1 million or entrepreneurs with a minimum financing requirement of R500 000.00

### **Export of Capital Goods**

249. The scheme is aimed at manufacturers and providers of exported capital goods or services. The aim is to provide competitive US Dollar and Rand financing to prospective foreign buyers of equipment. Credit facilities for capital goods and services exported from SA (enabling exporters to offer competitive terms to foreign purchasers). Payment terms are at market related interest rates for facilities denominated in US Dollars or Rand. Manufacturers of capital goods and providers of capital services are eligible.

### **International Finance: Short-Term Trade Finance Facilities**

250. The scheme is aimed at exporters looking for short term working capital facilities to help them facilitate export orders. Pre- and post-shipment working capital provided under a revolving credit facility to local industrialists, limited to six months pre-shipment and six months post-shipment. The scheme is available to all exporters who export at normal trade finance terms.

### **Action Initiative 3: Continuous Improvement in the product offering and administration of the Export Credit Re-insure Corporation (ECIC)**

251. The ECIC is an agency of **the dti** and provides a market need for political risk insurance (PRI) to South African exporters, contractors, investors and financial institutions involved in international transactions. This insurance covers political risks such as nationalisation, transfer risk which results from the deterioration in the investor's ability to convert profits, debt service and other investment returns from local currency

into U.S. dollars or to transfer U.S. dollars out of the host country but does not protect against devaluation of a country's currency, loss of assets or income due to war, revolution, insurrection or politically motivated civil strife, terrorism or sabotage, breach of contract, e.g. revocation of a license by the host government

252. ECIC supplies the following services to the South African export community:

#### **Supplier Credit Insurance**

253. Offers credit to foreign buyer with the following basic conditions:

- Maximum transaction period is 5 years
- Cover against non-payment up to 85% of outstanding amount.

#### **Financial Credit Insurance**

254. Utilised with more substantial contract values with the following requirements:

- SA financial institutions advance finance to foreign buyer
- Requires acceptable payment guarantee from buyer/third party

#### **Project Credit Insurance**

255. Export credit loan repaid from project cash flows with the following requirements:

- Completion guarantees from the sponsors
- Sufficient cash equity from the shareholders of the buyer
- Economic viability of the project
- Structured payment mechanism

**Action Initiative 4: Implementation of new export financial incentive schemes, especially the South African Consultancy Trust Funds (CTF's) at the relevant development finance institutions e.g. World Bank-group and the African Development Bank-group.**

256. World Bank donor countries have adopted a scheme to finance Consulting Trust Funds (CTF's) to provide access for their companies to World Bank business. CTF's are generalisable to other international development finance institutions like the IFC. European and North American success at accessing IDFI projects are based, at least in part, on CTF's significantly, non-donor countries have also established World Bank CTF's.

257. South Africa does not have a Consulting Trust Fund to facilitate business opportunities. South Africa has experienced a low penetration of the World Bank development business market. For example, in 2004 South African firms captured only 3.2% of World Bank projects in the Sub-Saharan African region. This contrasts with those countries that have established CTF's.

258. IDFI business opportunities for SA firms are significant, (estimated at \$50bn). South African firms can tender for any World Bank project globally, as well as for projects funded by other IDFI's. Providing a similar export assistance product to South African firms represents an important part of a sustainable export strategy. South African consultants will have a positive, multiplier effect on associated South African suppliers of equipment and other downstream services.

259. By introducing South African consulting firms to World Bank and IFC business opportunities through a South African CTF, the door is opened to additional opportunities not financed under the Trust Fund but under standard World Bank and IFC project financing. CTF availability increases South African firms' positioning thereby making them more successful to compete for general WB business and subsequent earners of foreign revenues for South Africa.

260. Within **the dti's** approach to monitoring and evaluating the ES, the following table serves to indicate the specific parameters of the **Export Incentives and Financing Products**.

## Summary of Key Action Initiatives

Within **the dti's** approach to monitoring and evaluating the NES, the following table serves to indicate the specific parameters of the process **the dti strategy, resource deployment and activities**

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Key action Initiative 1:</b> Continuous improvement in the product offering and administration of the Export Marketing Incentive Assistance (EMIA)	Trade and Investment South Africa	TEO/TISA	■		■		■		■		■			
<b>Key action Initiative 2:</b> Continuous improvement in the product offering and administration of the IDC's export-related Financial Products	Trade and Investment South Africa	IDC	■		■				■		■			
<b>Key action Initiative 3:</b> Continuous improvement in the product offering and administration of the Export Credit Re-insure Corporation (ECIC)	Trade and Investment South Africa	ECIC	■											
<b>Key action Initiative Key action Initiative 4:</b> Implementation of new export financial incentive schemes, especially the South African Consultancy Trust Funds (CTF's) at the World Bank and the International Finance Corporation	Trade and Investment South Africa	TEO	■											

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Export Strategy

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## **Conclusion**

261. Financial incentives, trade finance and insurance products form an integral part of the ES. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. In many instances, these instruments are the deciding factor in the successful conclusion of an otherwise fundamentally sound export transaction. This comes into play most often in the case of SMMEs and will likely have significant impact in the case of BEE enterprises as well. ES is mandated to increase the number of BEE exporters participating in these schemes. The ES therefore includes targeted export incentives and financing instruments offered by **the dti**, the IDC, and the ECIC (COTII agency). The ES will also pursue the establishment of World Bank Consultancy Trust Funds. These offerings address the need to assist exporters in their quest for export support from government in fundamentally sound transactions.

## **Chapter 10: - Monitoring and Evaluation**

### **Systematic Monitoring and Evaluation of the action initiatives serves to enhance the effectiveness of the NES**

#### **Introduction**

262. The ES is a strategic project of **the dti** comprised of a programme of interventions to increase the value of South African exports and the number of exporters, especially from the ranks of SMMEs and with emphasis on BEE. The systems that collectively constitute the NES must function optimally, and move **the dti** and the economy towards their stated objectives. The responsible divisions and individuals within **the dti**, **the dti's** COTII agencies and other related institutions must be accountable for the targets and due dates that constitute the ES. Towards this goal the ES includes a monitoring and evaluation system. Key individuals will have their performance agreements and appraisals linked to the implementation of the ES. The Chief Director: Export Development and Promotion, within Trade and Investment South Africa, is responsible for the overall leadership, formulation and implementation of the ES and the co-ordination between **the dti** divisions and the COTII agencies contributing to the strategy.

#### **Overarching Challenge: Increased monitoring and evaluation of the key action initiatives that collectively form the ES**

#### **Objectives of a monitoring and evaluation framework**

263. A carefully constructed monitoring and evaluation programme allows **the dti** to monitor the overall progress and implementation of the ES. This requires a framework that captures the following components:

- Assess the efficiency of the export development and promotion activities of the ES
- Assess the impact and efficiency of the relevant export promotion mechanisms
- Assess the impact and efficiency of the incentive schemes and finance and insurance products

- Evaluate the impact of the ES on policy priorities such as the number of new exporters and new exporter activity with emphasis on SMME and BEE
- Monitor the geographic spread of impact and participation in ES processes, to ensure that the ES has a positive impact on economically depressed or marginalised regions in South Africa

### **Measurement Parameters**

264. Commonly measured parameters in the export development and promotion performance measurement arena are:

- 'Inputs', 'through-puts', 'outputs' and 'outcomes'.
- 'Inputs' measured are management, strategies, and resources such as staff and funds.
- 'Through-puts' refers to implementation, examining timing, timeliness, and optimal usage of resources.
- 'Outputs' refers to services rendered, information provided, documentation issued etc.
- 'Outcomes' refers to impact measures, i.e. the quantifiable impact on economic factors such as aggregate exports, national income and the like.

265. **The dti's** monitoring and evaluation process for the ES recognizes the difficulties inherent in measuring national economic impacts or 'outcomes', which result specifically from **the dti's** export promotion activities. Macro-economic or 'outcomes' results of export development and promotion processes are not easily related back to the implementation of the strategy. Consequently 'outcomes' have been excluded from the measurement template. The proposed system therefore emphasizes inputs, throughputs and outputs.

### **Unique SA Policy Context**

266. The South African context also contains unique policy imperatives that need to be included in the measurement and evaluation process. These include a measurement of the impact of export promotion activities on:

- Small, medium and micro-enterprises

- Economically marginalized or depressed regions (to ensure a balanced geographic spread of impact)
- Previously disadvantaged persons and business organizations (including women and the disabled)

**Action Initiative 1: Aligning the ES Action Initiatives with the dti’s existing Performance Measurement system**

267. The monitoring and evaluation process takes account of the responsibilities that specific divisions units and officials within **the dti** undertake, to implement the ES. The ES therefore establishes output targets and delivery dates for specific deliverables within the ES. The monitoring and evaluation system has also been designed to coincide with **the dti’s** internal quarterly staff assessments, allowing for a continuous feedback loop between policy-makers and the client base. This allows **the dti** and the units responsible for implementation to continuously respond to the changing business environment, and modify, adjust or tailor the export promotion strategy and products accordingly.

**Action Initiative 2: Development and Implementation of an appropriate reporting mechanism**

268. Responsibility for development and overall implementation of the ES lies with the Chief Director: Export Development and Promotion, within Trade and Investment South Africa. The bulk of the implementation activities are the responsibility of this Chief Directorate. The ES contains roles for divisions of **the dti** other than Trade and Investment South Africa, and the COTII agencies. The monitoring and evaluation framework and process must take account of these distributed levels of responsibility. The reporting cycles will be consistent with **the dti’s** quarterly review process. This process feeds into performance evaluation for management at **the dti**. The following framework will therefore apply to the relevant Trade and Investment South Africa management:

**Chief Director: Export development and promotion:**

Overall implementation and execution of the ES

Interface with other lead divisions and agencies

Monitoring and evaluation framework as set out in this chapter (10)

**Director: Export Development**

Implementation of NTIS, with key deliverables as set out in chapter eight (8)

**Director: Export Promotion**

Implementation of key deliverables as set out in chapter ten (10), Export Mechanisms, and chapter eleven (11), Export Incentives and Financial products

**Director: Foreign Service Management**

Implementation of key deliverables as set out in chapter ten (10), Export Mechanisms

**Chief Director CSP**

Implementation of key deliverables set out in chapter three (3), Competitiveness

**Chief Directors: Competitiveness (within lead division, EIDD)**

Implementation of key deliverables set out in chapter three (3), Competitiveness

**Chief Directors: lead division, ITEDD**

Implementation of key deliverables set out in chapter three (3), Competitiveness

**Chief Directors: lead division, ERPC**

Implementation of key deliverables set out in chapter seven (7), Prioritised Markets

**Chief Directors: Logistics (within lead division, EIDD)**

Implementation of key deliverables set out in in chapter three (3), Competitiveness

**Chief Operating Officer: SEDA**

Implementation of key deliverables set out in chapter nine (9), Exporter Development

269. The reporting mechanism will meet quarterly and will be chaired by the Chief Director: Export Development and Promotion. His/her office will act as the Secretariat for the process. The results of each quarterly meeting will form the basis for the progress reports on ES implementation.

**Assessment Format for the NES**

270. Within **the dti's** approach to monitoring and evaluating the ES, the following table indicates the parameters of the process for each of the 'champions' listed above.

### Summary of Key Action Initiatives

Key Action Initiatives	Responsibility		By When											
			2006/07				2007/08				2008/09			
	Lead	Support	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Key action Initiative 1:</b> Aligning the NES Action Initiatives with the dti's existing Performance Measurement system	Trade and Investment South Africa	ERPC		■										
Key action Initiative 2: Development and Implementation of an appropriate reporting mechanism	Trade and Investment South Africa	ERPC		■										
<b>Key action Initiative 3: Quarterly review of strategy</b>	Trade and Investment South Africa	ERPC		■	■	■	■	■	■	■	■	■	■	

## **Conclusion**

271. The ES is a strategic initiative of **the dti**. The ES will require substantial human, financial resources from within **the dti**, its COTII agencies and private sector partners. The ES must succeed in its stated objectives. The NES is a statement of strategic intent that binds **the dti** to its various stakeholders. **The dti** therefore commits itself to a monitoring and evaluation framework around the ES to ensure an appropriate return on investment and effort.

## List of Acronyms

### B

BEE Black Economic Empowerment

BRIC Brazil, Russia, India & China

### C

CCRD Consumer & Corporate Regulatory Division

CFO Chief Financial Officer (of **the dti**)

CIF Critical Infrastructure Fund

CIO Chief Information Officer (of **the dti**)

COTII Council of Trade & Industry Institutions

CSIR Council for Scientific and Industrial Research

CSP Customised Sector Programme

### D

DEAT Department of Environmental Affairs & Tourism

DFA Department of Foreign Affairs

DG Director General

DME Department of Minerals & Energy

DoC Department of Communication

DoT Department of Transport

**DTI** Department of Trade & Industry

### E

EDA Economic Development Agency

ECIC Export Credit Insurance Corporation

EIDD Enterprise & Industry Development Division

EMIA Export Marketing & Investment Assistance Scheme

ERPC External Relations & Policy Coordination

EXBO Executive Board of **The dti**

### F

FDI Foreign Direct Investment

FERs Foreign Economic Representatives

FIG Foreign Investment Grant

FSM Foreign Service Management

### G

GDP Gross Domestic Product

GSSSD	Group Support Systems & Services Division
<b>H</b>	
HOM	Heads of Missions
HQ	Headquarters
<b>I</b>	
ICBE	Information Centre for Business Excellence
IDC	Industrial Development Corporation
IMC	International Marketing Council
IMS	Integrated Manufacturing Strategy
IOU	International Operations Unit
ITEDD	International Trade & Economic Development
<b>M</b>	
MTEF	Medium Term Expenditure Framework
<b>N</b>	
NDA	National Department of Agriculture
NEAB	National Export Advisory Board
NEDLAC	National Economic Development & Labour Council
NEPAD	New Partnership for Africa's Development
<b>P</b>	
PIPA	Provincial Investment Promotion Agencies
<b>S</b>	
SADC	Southern African Development Community
SIP	Strategic Investment Programme
SMEDP	Small and Medium Enterprise Development Programme
SMMEs	Small, Medium and Micro Enterprises
SSP	Skills Support Programme
SWOT	Strengths, Weaknesses, Opportunities & Threats
<b>T</b>	
TEO	The Enterprise Organisation
TOC	Trade Opportunities Centre
<b>Y</b>	
YIP	Youth Internship Programmes
<b>W</b>	
WWW	World Wide Web

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