

Mining Capital Equipment Regional Value Chain South Africa-Zambia

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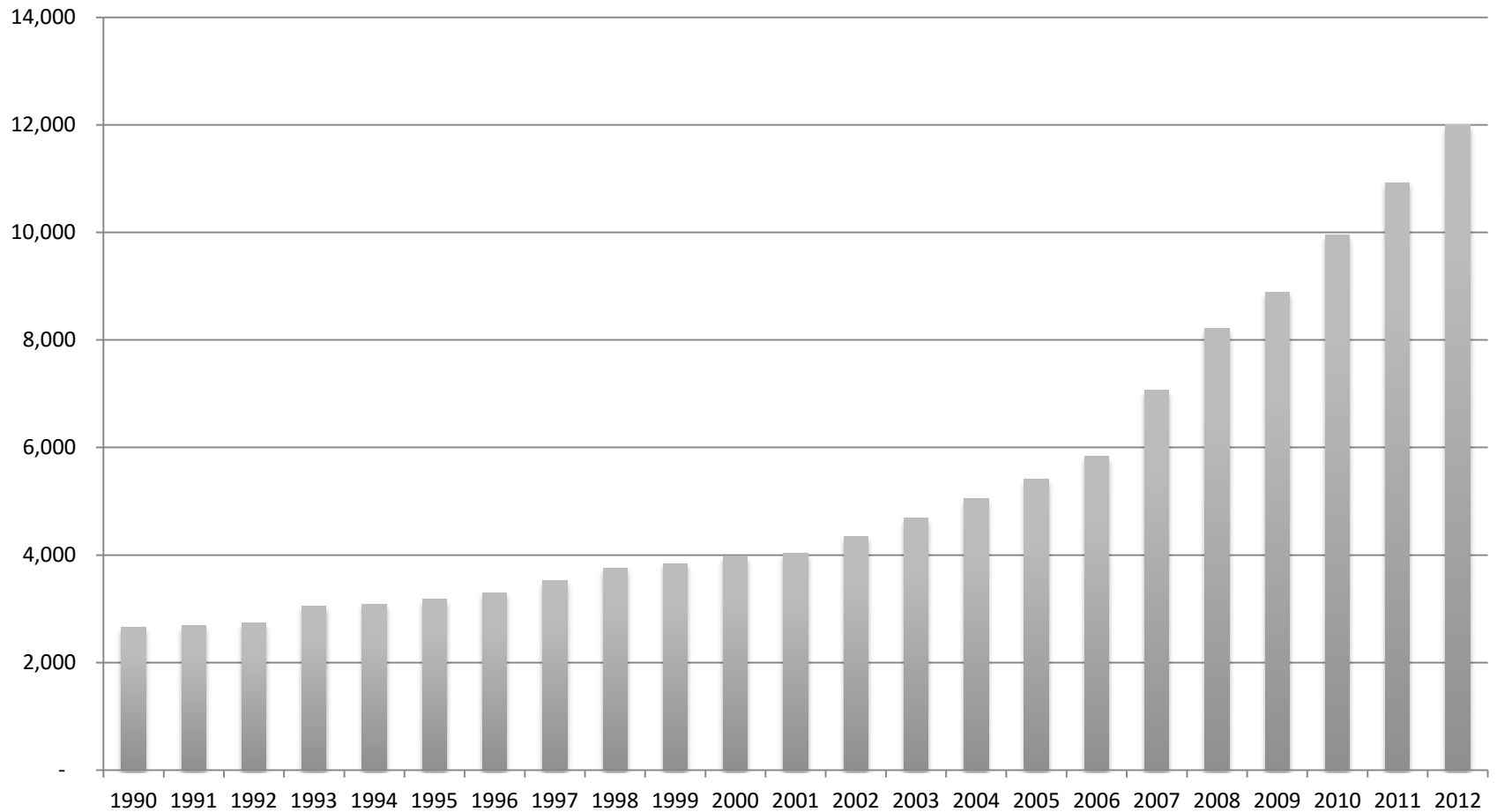
15 July 2015



Structure of the presentation

- Introduction
- Key market dynamics
- Mapping the regional VC
- Nature of regional linkages
- Policy implications at regional level

Zambia's inward FDI stock (million)



SA regional hub for mining inputs

- Mining capital equipment – most dynamic segment of SA capital goods export sector
- Exports grew from R10 billion in 2005 to R46.2 billion in 2014

- Top ten export markets for SA 2012-2014

	Cumulative (R million)	Average (R million)	% world exports
Zambia	16 751	5 584	15.5%
DRC	11 041	3 680	10.2%
Mozambique	10 428	3 476	9.6%
Zimbabwe	7 933	2 644	7.3%

Research Questions

- What is driving South African OEMs competitiveness in the Zambian market?
- Mapping regional linkages: how do South African and other foreign OEMs with a regional presence internationalise in Zambia? What is driving their strategies? What are the implications for Zambia?
- Is the regional supply chain supporting knowledge intensification and local value addition processes in Zambia?
- What are the opportunities to deepen and expand regional linkages?

Focus on 4 product clusters

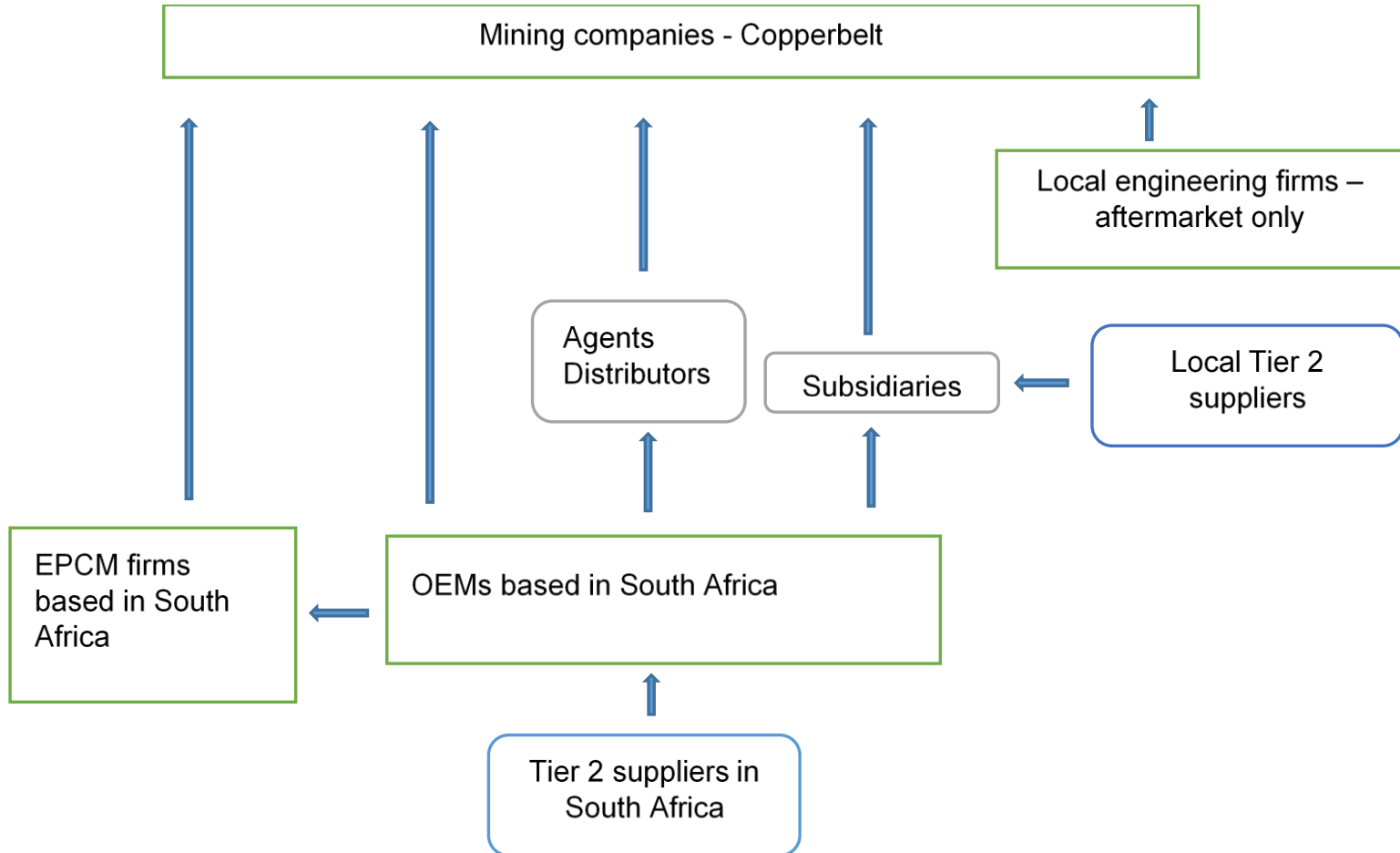
South Africa's share in Zambian imports for 4 clusters:

Product Cluster	2006	2007	2008	2009	2010	2011	2012	2013
Mineral Processing	14.7%	27.0%	52.4%	49.5%	44.5%	40.5%	50.1%	28.2%
Off-road special vehicles	60.6%	69.3%	63.3%	57.3%	68.0%	50.6%	61.3%	57.4%
Pumps and Valves	79.6%	79.0%	72.0%	79.0%	79.4%	73.3%	65.8%	58.0%
Conveyor systems	68.5%	65.2%	65.4%	63.3%	66.3%	59.2%	60.8%	70.0%

Market dynamics

- Mining houses under pressure to reduce total cost of ownership (TCO)
- Focus on core business and rationalised supply chains
- Two implications:
 - 1) OEMs = key source of innovation
 - 2) Aftermarket services are critical component of the mines' TCO/outourcing strategy
SA OEMs need regional presence for aftermarket segment

Mapping regional mining supply chain



SA OEMs Competitiveness

- SA OEMs engaged in incremental innovation, customisation
- Lateral migration of technologies
- SA-based OEMs compete on TCO
- Slower/delayed internationalisation compared to MNE OEMs
- EPCM firms move into the region with their suppliers. Zambian suppliers are excluded.
- SA OEMs - weak aftermarket capacity in the region:
 - Important for sustainability of the business
 - Large investment: rent, staff, stock

Regional linkages

- SA-OEMs increasingly projected towards the region, especially mineral processing OEMs (50 - 95% of their sales)
- SA as regional hub for SSA. SA OEMs are global exporters.
- Zambia as sub-regional hub for Central Africa
- SA OEMs entry into the Copperbelt:
 - Trial and errors
 - Progression from direct exports, distributorships and JVs, subsidiaries. Trade off between risks of externalizing/costs of internalisation aftermarket links
 - Struggle of Zambian and SA firms to find suitable partners

Nature of linkages

	Linkages					Local sub-contracting		
	Back up	Training	Credit	Joint product development	Joint promotion	Yes	Some	No
Subsidiaries	100%	100%	83%	0%	83%	0%	50%	50%
Others	33%	17%	0%	0%	17%	0%	17%	83%

Contribution to knowledge intensification

	Training for Zambian firms				Innovation in Zambia		
	In-house	In South Africa	Abroad	Support to local institutes	R&D budget	Product development	Local firm involved in OEM/mine collaboration
Subsidiaries	100%	100%	50%	17%	0%	17%	17%
Others	17%	0%	0%	0%	0%	0%	0%

Regional constraints

Conflicting local content policies in South Africa and Zambia

- DTI's ECIC local content requirements vs. localisation requirements set by Zambia

The DRC offered important market opportunities

- Burdensome export documentation and handling requirements to DRC
- DRC was characterised by a highly risky business environment which raised costs and reduced efficiency

Policy Implications

- **Build regional market SA-Zambia-DRC:**
 - FTA. Trade facilitation. Bonded warehouses.
- **Leveraging linkages between SA OEMs and Copperbelt suppliers:**
 - Harmonisation of local content measures
 - Incentives for SA OEMs to open subsidiaries in the Copperbelt – win win for SA OEMs more competitive/Zambia employment, skill development, knowledge transfer, sub-contracting
 - Local content part of a broader industrialisation strategy in Zambia
 - Employment localisation measures seem effective but need to be supported by investment in technical schools – part of SA engagement with region