



Sector Overview

Defence

The South African defence industry is one of the largest amongst developing countries. Its development and expansion have been influenced by strategic, political and economic factors. In the post-apartheid era, due to the decrease in the possibility of an external threat, the necessity of maintaining a strong defence industry has been questioned. Between 1989 and 1994, substantial cuts in defence expenditure were implemented by the government. As a result, the defence industry was forced to downsize and restructure. The strategy of rationalisation and restructuring after 1992 was based on the desire to remain in the market but to shrink to fit the declining domestic defence market.

However, South Africa's defence budget stood at US\$3.6 billion in 2019 and is anticipated to grow from US\$3.8 billion in 2020 to value US\$4.3 billion in 2024, registering a CAGR of 3.1% over the forecast period. The growth will primarily be fuelled by the country's participation in peacekeeping operations governed by the UN, African Union, and the Southern African Development Community (SADC)¹.

The defence industry developed and manufactured equipment for the purpose of generating export revenues, creating employment, and establishing skills, processes, and technologies, without relying on imports from foreign companies. In some respects, the defence industry has turned South Africa's economy into an industrial, high-tech manufacturing economy. However, the defence industry is today on a slippery slope, largely because of underfunding. Some argue that because it was built out of necessity, it should now be left to die, that there is no need for such capabilities².

On the other side, there are those who consider that the defence sector has moved beyond simply supplying the needs of the South African army, navy and air force, though

¹ <https://www.globenewswire.com/news-release/2019/11/01/1939398/0/en/South-Africa-Defense-Market-Outlook-Report-2019-2024-Military-Expenditure-Stands-at-3-6-Billion-in-2019-and-is-Anticipated-to-Reach-4-3-Billion-in-2024.html>

² <https://www.biznews.com/thought-leaders/2020/02/14/defence-arms-industry-helmoed-romer-heitman>

opportunities still exist in this area³. Considering South Africa's global relevance and competitiveness in the defence sector, the volume of both imports and exports has real relevance to the country's national economy.

In terms of imports, South Africa imported less in terms of arms, ammunition and other defence equipment during 2018 than in previous years. The total value of South African defence product imports totalled \$10-million. The NCACC (National Conventional Arms Control Committee) reports that 351 import permits were issued to 35 countries during the year.

South Africa's defence industry has exported various types of armaments, ammunition, and weapons to several countries. In terms of total value of exports, South Africa was fourth in the product 93 category- arms and ammunition; parts and accessories thereof – after the USA, Spain and South Korea. The total value of SA exports to the world for 2018 was over \$200-million.

In 2018, 137 armoured combat vehicles valued at more than a billion Rand were exported to 26 countries with the United Nations listed as a separate buyer; five countries – Egypt, Germany, France, Saudi Arabia and Thailand – are owners and operators of new South African made large caliber artillery; Malaysia has bought South African missiles and missile launchers; more than 1600 light South African weapons were sold to 14 countries, the biggest single buyer was Saudi Arabia followed by UAE; about 10000 manufactured bombs and rockets were sold to the Netherlands, UAE, Saudi Arabia and Sweden.

Nevertheless, this market is very unstable due to both variable political conditions and the regulatory environment. For instance, it is worth mentioning the inspections dispute between South African and Saudi Arabia and UAE in November 2019 that was endangering billions of dollars of business and thousands of jobs in the sector⁴.

Over the next five years, the SAAMDEC (South African Aerospace, Maritime and Defence Export Council) will oversee several big target markets for exports. The largest is Sub-Saharan Africa with a growth figure of 25%. The Middle East and the North Africa are projected to grow at 15%; BRIC countries at 5%, ASEAN countries at 5%, EU countries at 5% and North American Free Trade Agreement countries at 5% as well⁵.

If you are interested in more in-depth research into a particular sector please contact dsg@italcham.co.za

³ <http://www.investsa.gov.za/investment-opportunities/advanced-manufacturing/aerospace-defence/#:~:text=The%20aerospace%20industry%20in%20South,research%20and%20technology%2C%20including%20university%2D>

⁴ <https://www.reuters.com/article/safrica-defence-idUSL8N28253N>

⁵ <https://www.defenceweb.co.za/industry/industry-industry/saamdec-aiming-for-positive-growth-of-sa-defence-exports/>