

ECONOMIC TRANSFORMATION



POLICY DISCUSSION DOCUMENT

March 2012

shift in the domestic political landscape, we have a clear opportunity to consolidate and put economic emancipation at the centre of development.

1.3 Our approach to economic issues is informed by the historical principles, which are espoused in the Freedom Charter, Ready to Govern and the Reconstruction and Development Programme and further elaborated in Conference resolutions. We approach economic transformation guided by the following pillars¹:

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- a) Creating decent employment for all South Africans,
- b) Eliminating poverty and dealing decisively with the extreme inequalities in our society.
- c) Democratizing ownership and control of the economy by empowering the historically oppressed, Africans and the working class in particular, to play a leading role in decision-making.
- d) Restructuring the economy so that it meets the basic needs of all South Africans and the people of the region, especially the poor.
- e) Ensuring equitable and mutually beneficial regional development in Southern Africa, thereby fostering the progressive integration of the region.
- f) Limiting the negative environmental impact of our economic transformation programme.

1.5 An important part of our vision is to build an economy in which “the state, private capital, co-operative and other forms of social ownership complement each other in an integrated way to eliminate poverty and to foster economic growth”². In order to simultaneously grow and transform the economy we require an effective, democratic and developmental state “that is able to lead in the definition of a common national agenda, mobilise society to take part in the implementation of that agenda and direct resources towards realizing these objectives”.

1.6 We re-affirm our 52nd Conference understanding of a developmental state is that “it is located at the centre of a mixed economy. It is a state which leads and guides that economy and which intervenes in the interest of the people as a whole”. It is precisely from this “mixed economy” base,

¹ Ready to Govern—ANC Policy Guidelines for a Democratic South Africa, 1992.

² 52nd Conference Resolution on Economic Transformation.

characterized by different ownership patterns, that the character of our actions is to be sought.

- 1.7 A thriving private sector is part of the mix. It must be protected and must be strategically engaged to serve the broader developmental objectives. It is also important to highlight the point that in our perspectives, there is a special place for the complementary link between public ownership, co-operative and other forms of ownership.
- 1.8 The character of our economic transformation programme is directly linked to our understanding of the national democratic revolution and its main content. The central and most pressing challenges we face are unemployment, poverty and inequality.
- 1.9 The ANC seeks to bring solutions of development in the project of reconstruction and development. In this regard, the ANC is a source of hope for the majority of the citizens in its struggle to deliver housing, water, sanitation, education, health and social protection for our people.
- 1.10 Our policies must therefore provide the most enabling conditions for the flourishing of the talents of all our people, to harness and develop their productive potential, to ensure that they play a leading role in the allocation of national resources and that they get their due in the country's wealth.
- 1.11 We operate within a given macroeconomic context and it is important to understand it as it affects our strategies. South Africa is a small open economy – it trades with other countries internationally - being a small open economy makes South Africa vulnerable to any economic difficulties experienced globally, especially those experienced by its largest trading partners. It is therefore important that we begin by looking at the global economy, and how it affects our economic priorities and decisions as a country.
- 1.12 Furthermore, an account of the global economic developments is necessary for understanding subsequent developments, and the forces which dislodged South Africa from its earlier growth trajectory.

2.

THE GLOBAL ECONOMY

- 2.1 In the past 4 years the world economy has experienced the worst economic crisis since the Great Depression of the 1930s. A situation that initially appeared to be limited to the sub-prime mortgage -linked banking crisis in the United States rapidly spiraled into a full-blown global crisis, with sharp contraction in output, trade and investment. The nature of the crisis manifested itself in the form of contradictions between the

expansion of the financial sector on the one hand, and the relative decline of industrial capital (as seen for example, in the decline in the manufacturing sector) on the other.

- 2.2 This resulted in the creation of asset bubbles due to artificial interest rates resulting in over-leveraged households and banks, as well as failure to deal with global imbalances. There was a tremendous negative shock to firms and workers around the world. Global unemployment soared to an all-time high, with a particularly large rise in many developed economies.
- 2.3 The crisis prompted governments and central banks the world over to introduce an unprecedented array of fiscal and monetary stimulus measures. These measures exacerbated the problem of high budget deficits and unsustainable levels of government debt, a situation brought about because of sharply reduced tax receipts and therefore falling government revenues. Consequently, they have been ineffective in halting the global economic crisis and bringing about a sustainable recovery in economic growth. As a result, countries such as Greece, Italy, Spain and Portugal amongst others present high levels of uncertainty for the Euro Area and the global economy as a whole.
- 2.4 These changes that are taking place in the global economy are structural and deep. Thus, our actions must be built on a thorough understanding of our interdependence and integration in the global macro-international economic framework. This global crisis has provided clear evidence that South Africa cannot be dependent on our traditional trading partners in the North.
- 2.5 This changing geography of the world economy means that economic gravity is shifting towards the East. This shifting balance has been mirrored in the importance of China in our international trade. This reconfiguration of the world economy provides a significant opportunity for us to reposition ourselves. In the global shift of economic power to the South, South Africa must take its position as a leader in African Economic development and defining a South-to-South economic agenda for a long-term, sustainable economic development.

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3. **THE ASCENDANCE OF EMERGING MARKETS: THE SHIFT IN GLOBAL PRODUCTION POLES**

- 3.1 In today's context, an important development has been the manner in which the impact of the crisis has differed across economies. In East Asia, for example, the crisis appears to have been less severe. One important feature in these economies has been the rapid growth of industrial capital. Between 1990—2009 gross fixed capital formation (that is, investment in fixed assets) in East Asia grew by 70.5%, whereas

the Euro-Area grew by 21%. This reflects the extent to which industrial capital wealth creation has shifted to the East, especially China. This geographical shift in the global economy has been accompanied by the relative shrinkage in manufacturing in the West, and the compression of the global labour share.

- 3.2 During the crisis, the BRIC countries and most of East Asia did not experience a significant slowdown. The average growth rate of the BRIC economies during the crisis was 8%. Their average unemployment rate is 6%. BRIC countries account for almost 20% of global manufacturing production, which is equivalent to the share of US manufacturing production. These countries are engaged in highly sophisticated manufacturing exports and produce a range of products, from capital goods to consumer goods, especially electrical and electronic equipment, clothing and textiles. Between 1990—2009, gross fixed capital formation in China grew by 766%, India grew by 352% and Brazil by 78%.
- 3.3 The advanced capitalist economies in the West performed significantly lower than this. In the US, gross fixed capital formation over the same period grew by 56% and in the Euro-Area, it grew by 21%. This indicates the extent to which the industrial structure of production has geographically shifted on the global scale..
- 3.4 A key feature in the accumulation system of these BRIC countries has been, as noted above, their strong support for manufacturing growth and an outward focus on growth – major companies in China, India and Brazil are encouraged to grow off-shore from a domestic base. Another feature is the specific role of the State³ in their economies. As an example, in all the BRIC countries there is a significant role that is played by the State in the financial sector. When the private-sector driven financial system in the advanced capitalist economies halted credit all-round in 2007, in BRIC countries, the State boosted industries, and some went further to manage exchange rates in order to limit export contraction.
- 3.5 South Africa's membership of the BRICS presents a wide array of opportunities for SA in terms of global positioning, as well as in external trade and market access, inward and outward investment, technology transfer, technical cooperation and skills development etc. However, the road ahead will be fraught with challenges, as evidenced by the difficulties encountered to date in formalising and implementing bilateral agreements with all individual BRIC countries (as well as by the somewhat slow progress in the IBSA initiative).

³ The role of the state varies immensely across the BRIC countries: relatively centrally-controlled in China; an "oligarchy" prevalence in Russia; reasonably strong regulatory control in Brazil, as well as an overwhelming dominance/monopoly in long-term funding provision to the private sector and SOEs through its leading DFI.

- 3.6 The BRICS membership will also pose significant threats and expose some of SA's vulnerabilities, such as potential loss of domestic and/or regional share due to increased import competition and investment activity from other BRIC countries scrambling for Africa's markets and resources. However, it could be argued that the threats would have been ever present, with or without BRICS membership, while the spectrum of opportunities would have possibly diminished in its absence. The challenges, in turn, should be patiently and gradually overcome if backed by serious intent by all BRICS members.
- 3.7 South Africa should also maximise its historical-political relationships with other countries in the South, these include countries such as CUBA, Argentina, Peru, Chile, Malaysia, South Korea since trade with these countries can only go up.

AFRICA – THE EMERGING ECONOMY

- 3.8 Africa's growth has strengthened over the past two decades, driven by a more stable macroeconomic environment as well as higher foreign direct investment. Africa's growth, however, remains tied to the commodity cycle, as the continent attracts foreign direct investment into its resources sector. The continent attracted US\$55 billion in foreign direct investment flows in 2010.
- 3.9 Sub-Saharan Africa's growth is expected to average more than 5% in 2011, in line with the trend in recent years. Medium-term growth prospects remain promising due to continuing economic reform, combined with expected commodity price strength and foreign investor interest. On a regional basis, East Africa is forecast to be the best performing region, led by Kenya and Tanzania. Growth in Kenya will benefit from infrastructure spending and a recovery in the agricultural sector following last year's drought. Mining, construction and services will boost the Tanzanian economy. Growth in central and West Africa will slow modestly but remain generally strong, with some exceptions such as Ghana, where a major oil find will boost growth. Growth in southern Africa will be more modest in comparison, due to the large weighting of the South African economy in the region. Angola will be one of the best performing countries, growing by more than 6% on the back of investment in the oil sector. It is worth noting that Europe and the United States still take 50% of Africa's exports.
- 3.10 It is imperative to strengthen intra-African trade, which is currently very low. South Africa has advocated and actively supported regional economic integration. The creation of the Tripartite Free Trade

Agreement (T-FTA) will create conditions to broaden African economic integration thus widening trade opportunities and growing the internal market in Africa, unlocking the potential to increase inter-African trade.

- 3.11 South Africa must seek strategic partnerships for projects in manufacturing industries, minerals beneficiation, renewable energy, advanced technologies, agro-processing etc. in the rest of Africa. Investments in value adding, labour absorbing and export earnings generating activities are paramount. Other African countries share similar goals.
- 3.12 SA investors pursuing opportunities in the rest of Africa should be supported through comprehensive and attractive 'package deals' including financing construction, operations, technology, logistics and market access.
- 3.13 In 'rolling out the carpet' to some of its biggest competitors on the African investment landscape, South Africa must be wary of potentially eroding some of its competitive advantages in the form of geographical proximity, logistical support advantages. There are significant opportunities for South Africa to play an integrationist role for foreign and domestic investors.
- 3.14 Our development strategies must take account of the fact that we are located in the Southern African region. This means that our industrial policies in particular, must also build industries that can supply for the needs of the regional economy as a whole. On the other hand, we must develop concrete ways in which regional economies can supply our economy with goods and services on a fair and equitable basis.
- 3.15 An important strategic move would be the unlocking of the potential of regional development by means of regional infrastructure. We have committed to strengthen South-South cooperation and trade relations. This is important because South countries continue to see positive growth rates despite the economic crisis and recession in our traditional trading partners such the EU and US.
- 3.16 Our region faces major infrastructure challenges which inhibit industrial linkages, regional trade and integration of markets. Lack of infrastructure deepens poverty and creates forced migration, especially towards South Africa. Furthermore, lack of social infrastructure deprives the majority of people in the region access to basic goods and services.
- 3.17 There are 8 issues that must be prioritised for regional development. These are:
 - a) Infrastructure development

- b) Migration
- c) Industrial linkages
- d) Trade policies⁴ and relations with the world
- e) Management and optimal use of the region's natural resources
- f) Environmental sustainability
- g) Diffusion of research and development

3.18 The issue of “regional value chain development” should be highlighted. There are opportunities for the development of numerous value chains (e.g. petro-chemicals/chemicals, agriculture and food processing, minerals extraction & metals processing, textiles & clothing) in various regional groupings and across regional blocks. The establishment of free trade areas or even customs unions does not guarantee that strong and competitive regional value chains will be developed, as is evident in the lack of regional value chains in the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). In reality, regional producers often compete with each other in the global marketplace, further eroding any competitive advantages that the region as a whole might possess. The struggling clothing and textiles sector is a case in point, since significant imports from the Far East displace regional producers in local markets, while some of the regional exporters are able to compete in developed countries such as the USA. The development of regional value chains could result in improved producer competitiveness, not only in regional markets but also in the global marketplace

4 THE SOUTH AFRICAN CONTEXT

4.1 Economic growth in 2010 averaged 2.8%, but by the second quarter of 2011 GDP growth had dropped to 1.3% - a clear sign that the economy has been losing momentum. This resulted in a decrease in employment of about 500 000 jobs between the 4th quarter 2008 and the 3rd quarter of 2011.

⁴ The issue of non-tariff barriers (NTBs) as serious obstacles to effective regional integration needs to be tackled. The presence and, in certain instances, the proliferation of NTBs typically jeopardize efforts made to encourage intra-regional trade and investment flows through tariff reductions/removal.

- 4.2 The recent economic slowdown has occurred against the backdrop of a relatively successful growth period between 1994 and 2006 where the growth rate of the economy ranged between 3% and 6% per annum. This has been accompanied by changes in the structure of the South African economy and some increases in employment. After a decade of job losses the economy started creating employment in 2002. Between 2001 and 2007, the economy created 1.95 million jobs, 95% of which were created in the formal sector⁵ and over 85% by the private sector. The leading sectors in job creation were wholesale and retail trade, construction, community, social and personal services, finance, real estate and business services. The construction sector experienced a massive boost after 2004, because of the increase in public expenditure on infrastructure.
- 4.3 After the 52nd Conference, the global economy entered into a deep recession. Despite the stability of the financial sector, this crisis has seen a drastic increase in business bankruptcies, households default rates and a tightening in credit markets. This has put further pressure on the manufacturing sector. In 2010, the economy grew by a mere 2.8%. The manufacturing sector continued to decline from 19.5% of GDP in 2007 to 17.1% of GDP in 2010.
- 4.4 The manufacturing sector, which has the potential to be the mainstay of our economic transformation programme, declined from 20% of national income in 1995 to 17.1% in 2010. Labour-intensive sub-sectors within manufacturing such as clothing and textiles, electrical machinery and equipment have not fared well despite significant support from Government. The capacity of the economy to develop a vibrant capital and durable goods sector has been severely constrained by competition from imports, and the availability of critical inputs such as steel and other metals, and basic chemicals at affordable prices.
- 4.5 In 1994 the poverty rate was 51%, by 2007 the poverty rate had declined to 39%⁶. This has been driven mainly by state intervention in the form of grants but rising employment also contributed. It is estimated that in 1999 there were 2.5 million people in the grant system; by 2009 the number of people who benefitted from the grant system was just over 13 million⁷.
- 4.6 South African economy, as a result, lost more than 1 million jobs over one year. This amounts to more than 50% of the jobs that have been created over a decade. This was largely due to decreased demand for

⁵ Labour Force Survey September Series: Historical Revision 2000 to 2007, 23 March 2009.

⁶ Development Indicators, The Presidency, 2009, p.26.

⁷ Towards a 15-Year Review, The Presidency, 2009, p.19.

our exports by our traditional trading partners, US, Japan and the EU; increase in the labour force as a result of new entrants compounded the problem. As the pool of the unemployed rises because of the growth of the labour force, the unemployment rate remains stuck at a high level.

- 4.7 South Africa has also lost opportunities for creating jobs in mining and agriculture, where hundreds of thousands of low skilled jobs could have been created during the recent pricing boom in mining and agricultural products. The question does arise – why has South Africa missed out on this boom? Also to what extent the lack of certainty in rural land ownership has prevented development in these areas. It seems, however, that the problems of the South African economy, and the prospects for its recovery, cannot be seen simply in such South Africa-centred terms. Factors operating at a global level have contributed to the deterioration of South Africa’s growth performance and affected its growth trajectory. South Africa’s economy lost momentum in 2011 following a reasonable rebound from the 2007-2009 recession. On the consumption side, the drop in household consumption and subdued investment spending dragged growth lower.
- 4.8 Furthermore, the slow recovery in North America and the European debt crisis is putting pressure on our exports. These combined have created an aggregate demand problem. The production side of the economy is dragged lower by a slowdown in the key exporting sectors - mining and manufacturing. This display of export weakness, however, is a sign of deep seated problems affecting our productive sectors. The obstacles to significantly a faster growth of South African export sectors are formidable in the current global conditions. However, despite these challenges, we have maintained our commitment to boosting key industrial sectors. In addition, diversification of our trade portfolio to include BRICS will improve our future employment prospects.

5 TOWARDS A MORE LABOUR ABSORBING ECONOMY

- 5.1 The nature of unemployment we face is structural. It is rooted in the structure of production, skills profile, and weaknesses in institutional co-ordination and planning, e.g. weak linkages between the education

system, the State and the private sector in directing the quality of human resources and the direction of their flow.

- 5.2 An efficient, pragmatic and future-oriented educational system, from the basic through to the higher levels of education, complemented by robust skills development initiatives, are imperative to enable large numbers of present and future participants in the labour force to secure employment, as well as to address in a dynamic manner the enormous mismatch between the skills requirements (current, emerging and future) of the economy and their availability.
- 5.3 Currently, 95% of the unemployed do not have tertiary education, 62% have less than secondary education, and 60% have been unemployed for more than 5 years⁸. Unemployment affects young people the most; 40% of the unemployed are new entrants to the labour market, which are most likely to be young people; 72% of the unemployed are young people. The major challenge with youth unemployment is lack of a structured process that links successive stages of the education system and the link between the education system and the private sector. This places the process of expanding the FET sector at the centre of addressing unskilled youth unemployment.
- 5.4 Therefore, as a package to address unemployment and to promote decent work, the State must:
- 5.5
 - a) Through an infrastructure maintenance and provision programme, we can improve on the role of the state in public employment programmes (PEP's). This initiative will be crafted so that it is consistent with our public and community works programmes, which may need to be scaled-up significantly. The demand for goods and services that this will bring will go a long way in contributing towards growth that produces jobs. In the context of PEP's, the power of fiscal policy to moderate cycles in employment and output therefore is demonstrated in that it lies not only in the size of the injections, it also lies in the extent to which public employment policy has been properly formulated.
 - b) Furthermore, to provide appropriate skills into the South African economy it is important that we improve our education outcomes through amongst other things increasing the retention rate of the schooling and tertiary education system.
 - c) Position SOEs, state departments and other agencies to assist graduates from the tertiary education system, in cases where the private sector is unable to do so. This will require a focused planning and co-ordination function within the Economic Cluster, which should link with social partners at Nedlac, to deal specifically with national human resource flow planning.

⁸ Quarterly Labour Force Survey, Quarter 2, 2009.

- d) In addition, we must strengthen its labour market information systems, which should interface with the projected outputs by the Department of Higher Education and Training.
- e) The state must consider subsidizing on the job training. We must place the State, its enterprises and agencies at the centre of managing the outflows of young people from the education system. By being a reservoir of output from the tertiary education system, the State and the private sector would provide on-the-job training and working experience and thereby increase the quality of labour. It is from such a reservoir that the private sector can also tap in cases of rapid economic expansion, and to strengthen its global competitiveness
- f) Give priority attention to the National Youth Service, which can serve as a powerful tool to stabilise outflows from the tertiary education system by reducing the pace at which the education system releases graduates in excess of what is demanded at certain times.

5.6 A critical element in our development path is to reduce income inequality. The following interventions must be undertaken in relation to this issue:

- a) Improve skills development and training in both the public and private sectors and ensure that SETA funding is directed towards programmes with standardised quality and empower workers to move up the career ladder.
- b) Put in place measures that will compel firms to comply with employment equity.
- c) Improve the capacity of the State to enforce compliance with conditions of employment and agreed labour standards, including issues of occupational health and safety.
- d) Productivity improvement initiatives are deemed essential in order to raise domestic competitiveness and enhance the labour absorption or employment propensity of SA's economic sectors. The labour absorption capacity of the economy has fallen continuously over time, despite the imperative of having to provide sufficient new jobs for an expanding labour force. This trend has been reflected in a declining labour-intensity ratio, as fewer jobs have been created for each additional unit of output. There is an increasing tendency towards a more capital-intensive economy, with the subsequent replacement of labour by machinery - a trend that has become progressively entrenched and with serious repercussions on overall

employment. Hence the importance of focusing on labour productivity improvements.

6 INFRASTRUCTURE BUILD PROGRAMME

6.1 There are major infrastructure gaps in the country both from the standpoint of spatial distribution of infrastructure access, the level of infrastructure within local communities and maintenance of infrastructure, especially electricity, water, logistics and sanitation. These gaps to a large extent influence the flow of private sector investment. The inefficiencies in some of the network infrastructure industries exacerbate the problem.

6.2 We need to almost double the scale of the current infrastructure:

6.3

- The country needs to double its capacity to generate electricity by 2028, we need to take a view on how to achieve this, especially when we want to use infrastructure expansion as a basis for domestic industrial development.
- It is estimated that 58% of South African roads are gravel, and 70% of existing roads require urgent repair. Improving the quality of roads is important to lower the costs of living and production in rural areas, improves access to basic services, especially public transport.
- Almost half of South Africa's rail network is being neglected, or has low levels of activity. Government has planned to spend R19.5 billion a year for the next four years to upgrade the rail network and ports.
- Water infrastructure also needs urgent attention, especially the renewal of canals and tunnels, which are important for the irrigation system. Over the next 30 years, R4 billion per annum will be required to address these backlogs, and R6 billion will be required to maintain existing functioning infrastructure.

6.4 Alongside these backlogs over 25% of the labour force is unemployed. This means that part of the unemployment problem can be fixed by addressing lack of investment and maintenance of public infrastructure. A well-designed process of addressing backlogs can deliver massive job-creation and revitalise rural economies.

6.5 A massive programme to upgrade and maintain physical infrastructure is important not only as a source of permanent job creation, but also as the basis for government to stimulate industrial activity. Government investment in infrastructure is critical for enabling the competitiveness of

the economy.

- 6.6 This is only possible if continuity of capital expenditure is ensured over the very long-term, thereby encouraging investment in existing and potential supplier industries. Continuity in public sector capex investment is critical to the long-term sustainability of such industries.
- 6.7 In order to support continuity in capital expansion, regulatory reform in areas such as logistics and telecommunications will improve the competitiveness of South African firms. This for example could include having competitive prices at South African ports to ensure our manufactured goods and mining outputs can reach their destinations at competitive prices.
- 6.8 Regulatory and licensing systems have also slowed down investments- such systems need to be more transparent and properly co-ordinated across departments.
- 6.9 Our economic transformation programme seeks to promote a geographically inclusive economy. This will require that infrastructure development be rolled out in targeted areas in a phased manner, especially in former Bantustans. In this connection, we must optimise the investments that have already been made in the establishment of Industrial Development Zones through special determinations relating to incentives, access to adequate and affordable basic inputs such as electricity and water.
- 6.10 We must promote prioritisation based on the need to unlock the latent economic potential of specific areas, in conjunction with the need to create employment opportunities in relatively densely populated localities.
- 6.11 We should start to identify nodes that will be the basis of connecting the outlying areas to the major industrial hubs, and also enable more rural development. Specific transformative infrastructure programmes should be identified in these nodes, and included in the budget programmes.
- 6.12 Composition of expenditure should be changed in favour of infrastructure development. It is going to be difficult to finance infrastructure initiatives from the fiscus only, thus, the question of funding infrastructure and appropriate pricing of infrastructure is key. It would be important for employment creation and for long-term economic growth prospects that infrastructure expenditure be clearly funded through a combination of fiscal allocations, borrowing and user fees.
- 6.13 In the longer term, improved infrastructure will reduce the requirements

for dependency on the State, in the form of social grants⁹. It is thus important that an appropriate balance is struck between social transfers and spending on infrastructure. As part of this process we must use a range of instruments to support transition to entrepreneurship and the build of co-operatives.

6.14 Consideration has to be made to set up joint ventures with foreign investment and reap benefits in the form of transferred technology, skills and managerial techniques. This could take various forms including Public Private Partnerships and other forms of infrastructure funding.

6.15

6.16 Overall, it is critical that infrastructure investment should not just be seen as a technical process, but an opportunity to mobilise our people to create a new society and expand economic opportunities. The labour-intensive programmes, appropriately led, have the capacity to contribute to this. In this regard, mechanisms should be put in place to monitor the implementation of the infrastructure programmes of the State Owned Enterprises and the various spheres of government.

7 INDUSTRIAL TRANSFORMATION

7.1 There is continued pressure on labour-intensive industries from foreign competition, both in the domestic and export markets, which either promotes improved productivity or leads to de-industrialisation. However, the preservation and expansion of the manufacturing sector is critical due to its relatively large employment multiplier.

7.2 At the 52nd Conference, we resolved that we need to develop an active and well-resourced industrial and trade strategy aimed at creating decent work¹⁰. We have moved forward in this regard. We now have an Industrial Policy Action Plan 2 and a developmental Trade Policy Strategy Framework. These two policy documents are at the centre of the New Growth and Development Path. Whilst the Industrial Policy Action Plan identifies sectors that should be supported, a major challenge that it confronts is to prioritise catalytic sectors, to build and broaden industrial linkages between these sectors.

7.3 Sectors with clear comparative and/or competitive advantages should be identified and supported as far as possible, whilst difficult decisions should be made in instances where particular industries are clearly unable to perform competitively on a sustainable basis without continued state support. It is however important to provide adjustment support for

⁹ The assumption is that substantial infrastructural improvements will result in considerable job-creating growth and broad-based development.

¹⁰ Polokwane Resolution 2.3 On Transforming the Structures of Production and Ownership.

workers, including training to minimize the costs of job losses and to facilitate employability as the economy adjusts.

- 7.4 Several industries exhibit potential from an employment creation perspective and must be supported in an effective manner to ensure their success and proliferation, but others require policy support to ensure employment preservation. An emphasis on new growth sectors worldwide, such as green industries or cleaner technologies, is almost certain to pay off.
- 7.5 Perhaps more important than sector-specific support measures are critical cross-cutting issues that, if duly addressed, would result in substantial sectoral development and job creation. These include: developing technical and managerial skills; reducing the cost of doing business by addressing infrastructural bottlenecks, service efficiency and cost to customer; reducing barriers to entry through competition policy; streamlining of regulatory requirements; improving overall public sector delivery; ensuring safety and security; enforcing standards; controlling illegal imports; and, among others, addressing the excessive exchange rate volatility. Crucial choices should be made in terms of industrial and trade policies to better align the economy with trends elsewhere in the world.
- 7.6 Localisation and the role of the private sector: Localisation provides certainty to the private sector. Without localisation, the private sector will be severely limited in its ability to retain and create more jobs. The import penetration that weakens job creation, leads to a less than proportionate increase in demand and economic growth, provides insufficient expansion in the tax base and worsens the public sector's budget balance. It is therefore important that procurement processes be strict when it comes to the localisation aspect. This is a policy matter that requires close cooperation between Government and the private sector.
- 7.7 In pursuing policies for localization, it is important to ensure low cost firms remain competitive. In addition, support for localization should not be at the expense of consumer welfare. Practices such as monopoly pricing should be discouraged, and firms engaging in such practices should not be supported using tax payers' money. In addition local firms should not be allowed to overinflate prices for Government tenders.
- 7.8 We have to have a strategy to follow through our R&D activities. We need to embrace the R&D value chain. Our target is to spend 1.5% of GDP by 2014. This means that, in the coming years we have to spend an additional 0.6% of GDP in order to meet our target. In the year 2008-09, the state spent an additional R2.4 billion on research and development compared to 2007. This took expenditure on R&D to 0.93% of GDP.

- 7.9 We should upscale the support for Research and Development, and build partnerships with firms, which have significant capacity to conduct in-house research and development of new technologies. This will require a review of existing institutions that make up the national innovation system, an assessment of the extent to which they are complementary, and an evaluation of their contribution towards supporting the trajectory of development that we seek to pursue.
- 7.10 As we promote industrial transformation, it is also important that we do not ignore important industries such as mining and agriculture that have created jobs for South Africa in the past and still have significant job creation potential. In this regard, Government should try to have a clearer and more transparent policy regarding mineral rights, land reform and support for the agricultural sector. In particular, programmes to support farmers, such as revamping farm roads and financing for agriculture, have to be strengthened. Policy certainty improves investment prospects in these sectors, thus supporting job creation.
- 7.11 We need to support downstream and upstream, high value-added and growth sectors that can absorb labour. In addition, strengthening the technological capacity of these sectors will go a long way in resolving our balance of payments difficulties, and will position our economy to play an important role in the Southern African regional market.
- 7.12 Emphasis should also be placed on fostering stronger linkages amongst local business enterprises along the value chain in order to maximise the benefits economy in terms of higher rates of economic growth, the expansion of the productive base, as well as in terms of employment opportunities.
- 7.13 South Africa requires foreign direct investment to stimulate economic growth and to create jobs, particularly since we have a very low savings and low-investments rates. However, the current framework for foreign investments is not transparent, and is fragmented as different sectors (e.g. mining, communications, finance) all have their own specific regulatory frameworks. It is also clear that a more transparent and harmonised policy framework is required to reduce the costs of foreign investments, and that we need a coherent and uniform approach around investments that might be regarded as “strategic”, i.e. affecting the “national interest”.
- 7.14 Furthermore, it is critical to realise that in seeking greater investments, South African companies should also be allowed to invest more freely into Africa and elsewhere, subject only to prudential framework. Proposals to enable South African companies to be active participants in emerging market growth and investment opportunities while positioning South Africa as a gateway into Africa have been made in recent budget

announcements.

- 7.15 In the recent past the ANC adopted various policies that seek to address ownership and control. Broad Based Black Economic Empowerment is one of them. Lately within the democratic movement there have been concerns about the unintended consequences of this policy in particular. This has left a confusing space in society and the ANC has to re-assert the objective of transforming the racial character of South African capital.
- 7.16 The SMME sector plays an increasingly important role as an engine for economic growth SMMEs are a critical source of innovation. They have a higher degree of labour intensity, and tend to adapt more rapidly to changing conditions than larger organisations. They also provide opportunities for aspiring entrepreneurs, especially those who are unemployed. However, SMME's continue to face challenges of access to finance, markets, support and information. We should target the creation of new firms, especially black owned SMME's if we are to achieve our employment creation goals.
- 7.17 The absence of institutional integration and cohesion is a major obstacle to addressing the obstacles facing SMME's.

8 TRADE POLICY

- 8.1 In order to build domestic linkages, special attention must be given to the following interventions:
- 8.2
- a) Trade Policy Reform: The global system requires that we work on managing global interdependencies and strengthen cooperation in order to overcome common challenges related to development, climate change, energy security, and trade and finance. The question is: have we found an excellent platform to address these issues.
- b) In the 52nd Conference, we resolved that trade policy must play a supporting role to industrial policy and must be sensitive to employment outcomes. Since then, we have formulated a new developmental Trade Policy Strategy Framework to accompany the IPAP 2. A key feature of this new framework is that it calls for adjustments so that trade policy is aligned to industrial strategy, and that the creation of decent work occupies an overriding focus. The strategy calls for a "case-by-case" analysis of tariff setting, i.e. each sector must be considered in its own right and in relation to its strategic role in the linkages of the economic structure. In this context, it is important that concrete trade policy instruments be urgently applied to support the domestic production of the types of

goods that we have agreed to support through IPAP and to foster linkages between our growth sectors.

- c) The highly concentrated manufactured export basket needs to be substantially diversified, as should be the regional destination of exports, thereby reducing its vulnerability to cyclical trends. Emphasis should be placed on entering into highly beneficial bilateral trade agreements with non-traditional trading partners so as to tap into the potential presented in emerging markets such as China, India, Brazil and many African economies. Relations with traditional trading partners must be strengthened.
- d) Effective regional integration initiatives, specifically SADC and the Tripartite Free Trade Agreement, beyond the good intentions of formal agreements, would unleash a chain of demand- and supply-side opportunities, luring regional and foreign direct investment that is either resource or market-seeking, leading to the beneficiation of natural resources, to the development of regional value chains, as well as import replacement and export opportunities. The impact on regional employment and labour flows would be enormous.
- e) In order to make available critical inputs for downstream and upstream industries, we must consider putting in place both in a balanced way penalties and incentives if necessary to ensure security of supply of our commodities and appropriate pricing.

9 CLIMATE CHANGE

- 9.1 Climate change has profound socio-economic effects. The drying up of water sources and the gradual desertification which eats away pastoral lands have led to struggles over a shrinking base of natural resources
- 9.2 In light of its carbon-intensive economy and export sectors, South Africa is particularly vulnerable to response measures potentially taken by developed economies under the banner of mitigation commitments. Such response measures could have seriously economic and social consequences for the SA economy and population.
- 9.3 It is important that we contribute towards the global shift to a low carbon development path. In the course of this transition, we must be guided by the overarching principle of sustainability and a “Just Transition”.
- 9.4 In the 52nd we adopted a comprehensive resolution on climate change, we have forward in relation to some of these issues:

- a) On setting targets: As a part of its Long Term Mitigation Strategy (LTMS), by 2020, South Africa has committed to moving into a phase in which relative emissions per capita start to decline. By 2025, we have further committed to begin reducing our absolute emissions. All commitments we make as a country are currently voluntary. We currently do not have any obligation to reduce emissions, and are only obliged to report our emission levels. That said, South Africa has gained global credibility by committing to these targets.
- b) On improving energy efficiency: government has adopted a power conservation programme for all government buildings, there is a long-term energy efficiency target of reducing energy consumption by 12% by 2015¹¹, in their approval of business plans municipalities are expected to take into account that building structures should preserve energy.
- c) In terms of the energy mix, the Integrated Resource Plan 2010-2030 has been finalized. It forecasts electricity demand for the next 20 years, sets out a plan to meet this demand and it identifies ways in which we can reduce greenhouse gas emissions.

9.5 Further issues that we must also focus on in relation to climate change are that:

- a) Regulatory standards need to be set for products, to ensure that there are minimum standards established aimed to lower emissions.
- b) Technologies to facilitate a transition towards a low carbon path need to be made available to developing countries, subsidized by the international pool of funds.
- c) Intellectual property rights on low carbon technologies need to be managed in such a way that they do not hinder the application of global best-practices.
- d) Production of low carbon equipment needs to be conducted locally in order to support the creation of green jobs.
- e) Research and development funds need to be ring-fenced and be targeted towards activities that are aimed at producing environmentally friendly products.
- f) Pricing carbon where appropriate via fiscal measures to induce behavioral change could be considered.

¹¹ National Energy Efficiency Strategy for South Africa, Notice 580 of 2009, Government Gazette, 22 May 2009.

9.6 We must be cautious about putting in place penalties to force industries and households to reduce carbon emissions without making information, affordable technologies and appropriate infrastructure available. Our interventions must at all times protect our right to industrialize and develop our economy and region, and must protect employment.

9.7 Climate change and the green economy provide significant opportunities for growth and job creation. However, these opportunities may come at the expense of some of our traditional industries. This recognition is important as the move to a green economy may result in the restructuring of production and redundancies in some cases. There is a role for the state to facilitate such adjustment and to cushion the vulnerable. It is critical to provide adjustment support for workers, including training, to minimize the costs of job losses and to facilitate employability as the economy adjusts.

9.8 Financing issues are important, particularly access to financial resources and the offer of innovative financing mechanisms locally, as well as accessing global funds specifically allocated for climate change related activities, both of an adaptation and mitigation nature.

10 THE ROLE OF THE STATE IN ECONOMIC TRANSFORMATION

10.1 Observers of all persuasions, from left to right, have at least one point of coalescence: the state has a role to play in the economic development and transformation. However the question that confronts us as South Africans is how to ensure that the state is properly capacitated to occupy its leading role in leading other social actors towards economic transformation.

10.2 The building of a “*democratic developmental state*” became the centre pin of our economic strategy at our 52nd National Conference, we thus resolved to build the strategic, organisational and technical capacities of government. There is however a perception that our state is to an extent impotent. In a country as unequal as ours, where a strong and capable state is needed to respond such perceptions are not helpful and need to be addressed.

10.3 Where the state is weak, the entire development agenda is inadvertently skewed.

10.4 While we are increasing the capacity of the state, we should realise the limitations and act in a more targeted way, so we need fewer and clearer priorities. The state has a huge array of instruments, from the fiscus, taxation, spending, regulation, licensing, procurement, DFIs, SOEs. We should use all these instruments, but recognising that multiple objectives blunts the effectiveness of these institutions. For example, in the past, the

IDCs had in its mandate, BEE, SMMEs, promoting exports, promoting employment, promoting industrialisation, promoting regional development, green economy and economic diversification. With a mandate this broad, the entity is likely to be ineffective and they cannot be held to account.

- 10.5 The bureaucracy needs to be embedded enough to understand the developmental needs of the masses but autonomous enough to be insulated from political interference.

Four critical problems need to be dealt with:

- a) First is the political and administrative interface. This must strike the balance between being able to infuse a developmental agenda while protecting the bureaucracy from short-term interests.
- b) Secondly, instability in the public service, especially in frontline service delivery areas, is having a devastating effect on the effectiveness of the public service. This may be caused by a phenomenon of changing senior bureaucrats too often.
- c) Thirdly, policy instability is equally disruptive. For example, every change of ministries there is policy review. While in many cases, policy has to change, more often, we need what the Japanese call Keizen, incremental improvement.
- d) Fourthly, the public service faces a critical skills shortage in what can be called mid-level professionals-doctors, engineers, IT professionals, senior prosecutors, accountants, specialist teachers, social workers etc. While a long-term approach to skills development is needed, a strategy to remunerate these people better without having to pay the entire public service more is critical. This is especially true in local government level.

11 THE CHALLENGE OF IMPLEMENTATION

- 11.1 The key to achieving our vision is implementation of ANC resolutions. Implementation has a decisive influence on economic performance, while we can adopt good policies, we must also be guided by the spirit of excellence in the rollout of our programmes.
- 11.2 Where the crisis in economic outcomes is in fact partially a crisis of implementation and fragmentation we need to act by strengthening the link between ANC resolutions and our actual actions on the ground, at the same time we should have early warning systems on weak implementation.
- 11.3 Effective implementation is about the ability to direct power and resources towards development and it is connected to improving the daily

experiences of the people. This not only talks to the channeling of resources towards development, it also talks to the type of state machinery that helps the ANC to deliver on its mandate.

- 11.4 We must constantly examine the factors that hamper implementation and eliminate them.
- 11.5 The following elements remain important to address:
- (1) Re-align the state machinery and thinking with the vision of a developmental state.
 - (2) Balance the aspirations of our movement with the constraints of fiscal management.
 - (3) We have to be careful not to be arrested in the mould of not altering the fundamentals in fear destabilising the status quo if the current channels of implementation do not yield beneficial outcomes.
 - (4) Evaluate to what extent the role of being a policy maker shadows the drive to speed up the rollout of the ideals of our movement as contained in the Freedom Charter, Ready to Govern and Many Conference Resolutions.
 - (5)
- 11.6 Clearly this requires a state that possesses sufficient capacity to mobilize all resources behind a common national vision of economic transformation. We also need to acknowledge that the sub-optimal patterns of management will not recede automatically unless we act consciously.
- 11.7 Acknowledging that implementation of ANC resolutions is a critical conduit of development. It must augment and expand the capabilities of our country in a manner that represents a shift in outcomes such as poverty reduction, employment creation, equity and social cohesion. Our administrative process must posit the negation of social ills and extend elements of what is good. We need change and not just to re-affirm all that exists where necessary. As we highlight possible solutions for the economy we need to link them to the underlying implementation challenges that partially define the current South African economic problems.
- 11.8 Good implementation will require that we build state capacity, establishing high standards of employment in the public service, raise the

levels of professionalism, discipline and a commitment to serve. This means that the state must:

- a) Conduct regular, systematic and standardised skills audits across all spheres of government, in line with the demands placed on the state by our economic transformation programme.
- b) Conduct assessments of the degree of misallocation of skills in the public service, as part of the broader initiative to improve the efficiency of the public service.
- c) Institutionalise skills development and training by requiring that each and every public servant under-goes some level of training on an annual basis, through funding by the state.
- d) Find innovative ways of attracting and retaining the best technical skills through means which should include:
 - o Improving the reputation of the state as the employer of choice; and
 - o Improving the remuneration structure, conditions of employment and career-pathing in the public service.

SECTION 2: ISSUES FOR DISCUSSION

As we approach policy conference during our centenary year it would be important for ANC members at all levels to discuss the economic and development challenges that face us. Each section of this document could be discussed in greater details, for example as follows:

- a) How do developments in the global economy impact on our economic transformation programme?
- b) What are the benefits and risks associated with our open economy strategy, i.e., promoting exports and imports and financial inflows and outflows?
- c) How much potential should we see in our African Agenda, for example, in promoting intra-Africa trade and solidarity?
- d) Our economy has shown the potential to create employment since 1994, but not at the sufficient rate to reduce unemployment, how can job creation be accelerated?
- e) Should the manufacturing sector be the engine of job creation or should we also rely on job creation in the services industry and public works?
- f) BEE is an important strategy for de-racialising South African Capital, why is it unpopular and how can it be improved?
- g) Why economic growth sometimes is associated with increased income inequality? And what strategies can we adopt to improve income inequality in South Africa?
- h) With our vision of a mixed economy, how should the state encourage private sector investment and activity?
- i) Expansion and maintenance of infrastructure is key to our growth and employment plans, how do we finance such infrastructure spending?
- j) What are the main impediments to land reform and agricultural development? How do we overcome these?
- k) Why is it important to move towards a lower carbon development path?
- l) What will be the potential benefits and risks of subsidizing youth employment and on-the-job training? Should we proceed with this policy? How do we balance the need for SOE's to pursue the Agenda of the developmental state against the need for these complex entities to be independently managed?

- m) How do we balance the mandate of DFI's such as the IDC with regards to promoting industrial investments vs social development goals?
- n) What is the connection between SOE/DFI's investments and their development goals?
- o) Investments by SOE's and DFI's may be long term investments that can encourage growth and development. How do we prioritise the most important long-term investments given the country's financial constraints?
- p) What should guide the ANC's policy towards the remuneration of executives who are responsible for managing our SOE's and DFI's, given the need for appropriate skills?
- q) SOE's and DFI's should be the source of technical skills for thousands of young South African's, how can their record in this regard be improved?
- r) What mechanisms should be put in place to ensure that SOE's achieve government's 70% local procurement target as this is key to job creation?