



the dti

Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

the dti Budget Vote Address delivered by

Dr Rob Davies, Minister of Trade and Industry, 30 June 2009

Speaker

Honourable Members

CEO's and Chairpersons of Cotii Institutions

Ladies and Gentleman

The Context – New Political Mandate

In this new term our work as **the dti** will be shaped by the mandate given to the governing party by the electorate in the recent elections.

This mandate calls for us to grow the economy at higher rates and in a manner that creates decent work and supports sustainable livelihoods.

Much was achieved over the last fifteen years of our democracy to promote growth and impart dynamism to the economy. However, no-one can dispute that the economy's performance, especially as regards the pace of job creation, the quality of jobs, and reduction of poverty and inequality, has fallen far short of our expectations and

aspirations. Our efforts have not sufficiently addressed severe structural imbalances and constraints that impede the economy from developing to its full potential. It is clear that these imbalances and constraints cannot be overcome by the market on its own, and requires an appropriate strategic role for the state.

Our economy remains insufficiently diversified and too largely dependent on mineral exports, and is thus vulnerable to shifts in the external environment. Manufacturing output has remained below potential, with the result that imports have filled gaps in the domestic market that ought to have been occupied by domestic products. The combination of these elements is a key factor underlying the widening current account deficit. In addition, dominant firms limit competition and restrict entry of small and medium enterprises, thus contributing to the skewed pattern of the economy's development, including in spatial and racial terms, resulting in the entrenchment of extreme levels of inequality and poverty.

The mandate from the electorate calls on us to overcome these structural shortcomings; to be bold, focused and decisive in our

approach to tackling the deep seated challenges facing us in placing our economy on a new growth path capable of delivering decent work and sustainable livelihoods on a scale that will enable us to achieve the target of halving unemployment by 2014. To achieve this objective will require us to substantially up our game in terms of the delivery of the range of services the dti is responsible for.

The Context – Global Economic Crisis and its Impact on SA

As we set about responding to the electoral mandate, we need to take cognizance of the current global economic crisis, which poses a real and direct challenge to our plans for growing and transforming the economy. The effects of the crisis saw a sharp reversal in the economy's longest period of growth in recent times, with as the quarterly GDP growth rate declining from 5.1% to -1.8% between the third to the fourth quarter of 2008. The economy contracted by a further annualised rate of 6.4% in the first quarter of 2009, the sharpest fall in 25 years, marking the onset of a clear recession.

While the crisis first became apparent in the financial sector of the developed world, it has now become in fact **a deep real economy**

and jobs crisis that threatens to severely damage economies in both the developing and developed world. In South Africa, the crisis is manifesting itself in a decline in economic growth with manufacturing and mining disproportionately affected. We have also seen a decline in export earnings; weakening business confidence; significant jobs shedding and reduced government revenue collection.

In formulating our response to the crisis, it is also important that we recognise that, as in all other periods of economic crisis, we are in the midst of a fierce competitive struggle to determine who will bear the brunt of the inevitable destruction of capital the crisis will bring about. In the current phase of globalisation this competitive struggle is taking place not just between different firms, but between different branches of the same transnational corporation located in the different parts of the world. In this context, we have seen governments of the major industrialized countries providing support involving the deployment of large bail out packages to vulnerable corporations in their own countries with the risk that decisions on plant closures or job layoffs are shifted to developing economies like South Africa.

It is also clear that the global economic crisis is putting into sharp relief the South African economy's longstanding structural imbalances, and is thereby a further reason why our policy responses need to be urgent, robust and sustainable.

The Risk of De-Industrialisation

The overriding risk the economy faces is that this crisis leads to de-industrialisation, with the consequential destruction of capacity to sustain and increase decent work. The impact on manufacturing and mining sectors has been particularly severe, in terms of both the extent of decline in activities and employment. Manufacturing production declined by 21.6 percent in April 2009 compared to the corresponding month in 2008, while mining production decreased by 12.8% in March 2009. 23 of 39 industrial sub sectors contracted in the first quarter of 2009. The unemployment rate, on the strict definition, increased from 21.9 % in the fourth quarter of 2008 to 23.5% in the first quarter of 2009. The current account deficit of the balance of payments has remained unsustainably high at R170bn which amounts to 7.4% of GDP in 2008 (compared to 1.8% in 1998).

The economic outlook for the next few quarters points to continuing sluggish performance across most sectors of the economy.

De-industrialisation is therefore the central challenge we must address frontally and arrest. Indeed, our performance will be measured by the extent to which we succeed in preventing the further erosion of the economy's strategic productive capacity in key industries and sectors.

As we do not command resources on the scale of those available to the advanced industrial economies, our response will have to involve a smart and strategic reprioritization of already allocated resources, the re-gearing and appropriate recapitalisation of development finance institutions and the use of non-financial resources where appropriate. We will also need progressively to lay the basis for upscaling our interventions to lay a basis for higher levels of employment generating growth.

The Framework for SA's Response to the Global Economic Crisis

This perspective is indeed shared between government, business, labour and community social partners, who adopted the ***Framework for South Africa's Response to the International Economic Crisis*** in February 2009. In his State of the Nation Address President Zuma reiterated that the Framework remains the central pillar of our joint efforts to respond to the crisis.

The Framework outlines bold, immediate and urgent interventions to defend the South African economy and society against the destructive impact of the global economic crisis, in particular as regards the industrial economy and jobs, while maintaining a strong focus on the imperative of addressing structural constraints that the economy faces.

The task is massive and complex, and challenges us to examine our approaches to ensure that our interventions are substantial, coordinated and coherent, to overcome the impact of the crisis and

reposition the economy onto a sustainable employment creating growth path.

The Need for Clear Economic Policy

The new structures in government, in particular the Economic Planning Commission in the Presidency and the Economic Development Department will be important in helping us achieve the greater coherence and united action across government that is critical in ensuring that we are strategic, focused and consistent in the implementation of our economic policy.

In embarking on this challenging task, we will clearly build on the good work government has been undertaking in the past, while acknowledging shortfalls and learning from them.

Industrial Policy as the Central Plank of our Response

The completion and publication of a comprehensive National Industrial Policy Framework (NIPF) and the first Industrial Policy Action Plan (IPAP) in 2007/2008 marked a significant achievement in our evolving efforts to advance industrial development in South

Africa. The NIPF was widely consulted with stakeholders and within government, and outlines our vision, approach and guiding principles to industrial policy. The NIPF emphasises the strategic objective of altering the trajectory of industrialisation and economic growth to ensure more sustained employment creation, to defend, diversify and upgrade the industrial base, and to shift to high value-added and knowledge-based activities, amongst others.

The NIPF also calls attention to the need for synergies and linkages between the various policies and programmes of different arms and agencies of government. Indeed it sees these as critical to effective industrial policy and calls for these to be harnessed through deliberate and enhanced coordination. This must also embrace both business and labour stakeholders through processes of “self-discovery” that identify measures each must take in our common effort to implement identified programmes. Achieving the necessary coordination and coherence is imperative if our efforts are to have the desired impact.

When we launched the first IPAP in 2008 we identified a number of lead sectors and also a number of “cross cutting” actions that were needed. We began, logically by choosing a number of the “easier to do” things both at sectoral and cross cutting level. In the capital goods and transport equipment sector we launched the Foundry and Tooling initiatives and began work on the Wood and Furniture Making projects identified in the first IPAP. We also introduced important Amendments to the Competition Act.

Key achievements of our first IPAP include the completion of work on a new programme for the automotive sector – the leading manufacturing sector with critical supply linkages to about a dozen other sub sectors. The Automotive Production and Development Programme will replace the current Motor Industry Development Programme. We have also developed a new programme for the leading labour-intensive sector in the form of the Clothing and Textile Competitiveness Programme.

We are now at the stage where we are preparing the next IPAP. This will be a three year rolling programme aligned to the MTEF. The next IPAP will be ready in January.

In preparing the next IPAP we have concluded that we can no longer simply choose the “easiest to do” things that are identified in sector strategies. The problem with choosing “easier to do” things is that we may miss things that we need to do. We are accordingly preparing for a higher impact IPAP.

Preparing for this has required that we address a number of critical capacity issues. I have been saying delivering higher impact industrial policy requires acting on “3Cs” and an “R”- cadre development, coordination, consultation and appropriate resourcing. We have recently appointed a Deputy Director-General for Industrial Development and are busy filling a number of critical posts in sector units. We will also be approaching higher education institutions to develop courses and training opportunities that can contribute to industrial policy cadre building.

Meantime, we will be undertaking a number of important initiatives. We will be working to broaden the Automotive Production and Development Programme to cover catalytic converters as well as heavy and commercial vehicles. We will also be redoubling our efforts to ensure that we must have an optimum Industrial Policy response to the infrastructure investment programmes that are underway to ensure that we maximise the opportunities they create for local industrial development. We will be developing a new model for industrial finance and continuing to work on all identified lead sectors as well as developing in conjunction with the Department of Agriculture , Forestry and Fisheries a comprehensive strategy for Agro industries.

The Need for Coherent and Coordinated Implementation

While scaling up the impact of Industrial Policy requires programmes to be, within affordability limits, properly resourced, it also requires us to be more strategic and ‘smart’ as regards aligning the general programmes and activities of government and public entities to the overarching objectives and priorities of industrial policy. Government needs to more actively use the instrument of public procurement to

advance industrial policy objectives. This includes procurement by 'state organs' governed by the Preferential Procurement Policy Framework Act. We will be exploring together with our colleagues in government how we can build in stronger mechanisms to support local industrial development while also promoting Broad-based Black Economic Empowerment. We will also seek to strengthen domestic procurement by SOEs. We must maximise the massive opportunities presented by procurement arising from the R787 billion infrastructure programme, and ensure that we meet the target of reducing the imported content of the programme from 40% to 30%. This will also help us reduce the high current account deficit and ensure the sustainability of the infrastructure build programme.

A More Strategic Role for DFIs and Public Entities

Equally, there is significant scope to make much more strategic use of public entities and Development Finance Institutions (DFIs), particularly those within the dti family such as the Industrial Development Corporation (IDC), to advance industrial development. As the 'special purpose vehicle' for industrial development, it is imperative that the IDC continues to reorientate its activities towards

a more developmental approach to investments in strategic sectors through the provision of finance at attractive rates accompanied by appropriate conditionalities for recipients of such financing. This will require that government pay serious attention to the IDC's balance sheet, and be prepared to consider options for the strengthening the Corporation's capital base.

The Standards, Quality Assurance and Metrology institutions also need to play a more strategic role in advancing industrial policy objectives: through "locking in" our exports to markets which require high standards, and "locking out" low quality and unsafe imports into the domestic market.

Likewise, while the Competition authorities have become more "activist" and even imposed quite sizeable fines for collusive price fixing, they have yet to act on a scale that compels compliance by large transgressors. Despite recent successes anticompetitive conduct in the economy remains disturbingly pervasive. The 2008 Competition Amendment Bill, which we hope will soon be enacted, will allow the authorities to proceed against individual directors or

managers taking decisions leading to anti-competitive conduct. This will be a strong signal that we intend to enforce real compliance.

Trade Policy Aligned to Industrial Policy

Trade policy, including tariff policy, is another key instrument that must be much more strongly and deliberately aligned with our industrial policy objectives and priorities. In this regard, our approach will combine both offensive initiatives to expand and lock-in access to key markets, and defensive measures, within the space allowed by World Trade Organisation (WTO) rules, to prevent the destruction of the economy's productive capacity by trade practices, such as subsidies and dumping. Thus far, the major tariff policy initiatives arising from industrial policy have been to lower tariffs from formerly protected upstream, capital intensive industries, producing inputs that are important cost items for the downstream industries we want to nurture. If on an evidence-based approach we conclude that it is necessary to reduce or even remove duties we will continue to do so. At the same time, where processes of "self-discovery" and the development of sector strategies lead to the conclusion that some particular industry or sector requires some increase in tariffs, and we

have the space to do so under WTO rules, we must have the courage to provide such support. We will also take steps to crack down on under-invoicing and illegal imports. There is growing evidence that this is becoming widespread and pervasive. The dti will be working with SARS and stakeholders to crack down on such practices. Make no mistake. We are looking to crack down on the big fish and will prosecute anyone we discover with the full force of the law.

Turning to trade negotiations, we continue to be engaged actively in the Doha Round negotiations. Our focus here will be to continue working with like-minded countries to ensure the Round is concluded on the basis of the developmental mandate on which it was launched. For us the content of an agreement is as important as the fact of conclusion and we insist that a successful conclusion can only be one in which the outcome is proportionate and significantly addresses the imbalances and inequities in the global trading system, most sharp in agriculture, that impede prospects for development in the developing world, including Africa. At the same time, we insist that South Africa cannot be expected to undertake disproportionate industrial tariff cuts

that will undermine our industrial policy and employment-creation objectives.

The global crisis has highlighted the importance of strengthening intra-regional cooperation and South Africa remains committed to deepening regional integration in Southern Africa in order to strengthen mutually beneficial intra regional trade and development. This, in our view requires an agenda that does not exclusively focus on unrealistic timetables for formal trade integration arrangements but on cooperative programmes to build regional productive capacities and promote regional infrastructure development which are, in fact, the vital prerequisites to further steps in trade integration in developing regions.

We remain concerned that the Interim Economic Partnership Agreements (EPAs) now signed between some members of the SADC –EPA configuration and the EU could undermine regional integration. With at least five different agreements being concluded between different members of SADC and the EU, there is a real danger of trade deflection that will have to be addressed. As the full

EPAs will require individual SADC members to take on obligations with the EU in new trade-related policy areas such as investment and services, before the region builds regional markets and rules in these areas, the EPA could impact on the future trajectory of integration. The Interim EPAs now signed also contains provisions that could impact negatively on the coherence of SACU. Managing conflicting legal obligations towards the EU among members of the world's oldest customs union could undermine the smooth functioning of SACU into future. South Africa will continue to work to minimize the negative impact of the interim EPAs on the region and we call on the EU in particular to refrain from implementing any provision in the interim EPAs that could strain SACU.

In light of the global crisis, the case for stronger South-South Trade and Cooperation is compelling. Brazil, Russia, India and China, the most dynamic emerging economies, are leading a structural shift in the global economy in which developing countries have been enjoying a rapidly growing share of world trade. The current global economic crisis has if anything accelerated the underlying trend which now appears irreversible. Building our trade and investment

relations with these new centres of global economic growth will require purposeful engagement. The dti will develop and implement a five-year work programme to strengthen economic relations with key dynamic economies of the South, as part of our efforts to diversify South Africa's trade and investment relations. We are also convinced that through purposeful engagement we can negotiate new types of mutually beneficial developmental agreements with key countries of the South.

Regulation Supportive of Industrial Policy

Industrial policy requires a supportive regulatory environment to foster more competitive and dynamic industries and businesses, and prevent harmful market domination and abuse, and the exploitation of consumers. Last year we finalized three pieces of legislation which were passed by Parliament and will be implemented in the immediate period ahead. These are the Consumer Protection Act, Companies Act, and the Competition Amendment Bill, (which must still be assented to by the President). These laws contain progressive reforms which establish enabling conditions for industrial policy and will contribute to mitigating some of the effects of the current

economic crisis. The new Companies Act introduces a framework to facilitate the rescue of businesses that are in financial distress to ensure that potentially viable concerns do not have to close if there is an alternative. The Consumer Protection Act provides safeguards for consumers, which will enhance consumer confidence in markets through redress mechanisms. The Competition Amendment Bill seeks to effectively address structural constraints in highly concentrated markets characterized by complex monopolies that inhibit the growth and competitiveness of industries. This will facilitate market entry by SMMEs and downstream firms supply whilst promoting competitive, fair and efficient markets. We will ensure that these new laws are effectively implemented to achieve their policy objectives.

The above regulatory interventions are critical in setting the framework for business efficiency and participation of citizens in the economic activities of the country. Furthermore, to advance efficient business regulation, the dti will facilitate the creation of a single business registry system. This will help to streamline the information

requirements of that of various regulators and help monitor the levels of business activity in the economy.

The effective governance of intellectual property is critical to advancing government's developmental objectives. In the period ahead, the dti will embark on a comprehensive review of the intellectual property policy framework, to help both to strengthen innovative incentives of intellectual property protection and promote affordable access to products of innovation, notably medicines and education and learning material. Furthermore, the dti will introduce legislation to protect and encourage commercialisation of indigenous knowledge, and broad based participation in the mainstream of the economy. Equally the dti is involved in regulating and monitoring major sporting events such as FIFA 2010 World Cup and British and Irish Lions Tours, in a manner that opens economic opportunities for SMMEs from previously disadvantaged communities.

Broadening Economic Participation

It is critical for sustainable growth that all citizens are able to participate meaningfully in the economy. Our interventions in this

regard will need to be intensified, especially in light of the impact of the decline in economic activity on the economically marginalised and the poor. The constraint of lack of access to finance remains a key impediment to the growth and development of SMMEs and decisively addressing it must be one of our leading priorities.

To this end, we have already established the necessary institutional framework for the promotion of a more inclusive economy, in the form of the Integrated Small Business Strategy and the agencies designed to deliver support and services to small, medium and micro enterprises (SMMEs), namely Khula Enterprise Finance to provide financial support to the under-serviced market of between R10 000 and R250 000; the Small Enterprise Development Agency (**seda**) for non-financial support; the South African Micro-Finance Apex Fund (SAMAF) for micro-finance of R10 000 and below; as well as the National Empowerment Fund for financing of Broadbased Black Economic Empowerment transactions.

This infrastructure will need to be consolidated and strengthened to meet the massive needs of SMMEs, the poor and economically

marginalised, and it is extremely necessary for the state to improve resourcing of this area, which is not effectively served commercial banks. In this regard, Cabinet's support in 2008 for expanding Khula's mandate to provide direct lending in its target market segment is a significant step forward. This decision must be implemented as soon as possible.

A key area where insufficient progress has been made is with regard to the promotion and development of Cooperatives. Cooperatives hold major promise to promote economic inclusion and an appropriate effective cooperatives model for South Africa needs to be urgently developed and implemented, drawing on the success of province such as KwaZulu-Natal. Again, for its socio-economic potential, this area deserves improved resourcing and will also be a key priority for the dti in the period ahead.

As regards BBBEE, the work on establishing an implementation and measurement framework for the policy and legislation is complete, and the remaining major step is the appointment by the President of the Advisory Council, as envisaged by the BBBEE Act. Preparatory

work has already been undertaken by the dti in this regard, and a decision will be taken the President in due course.

The BBEE Advisory Council will provide the needed strong monitoring of developments and compliance with the policy and law, and identify implementation challenges and 'unintended consequences' and recommend solutions. BBEE can contribute to accelerating transformation and decent work, and its outcomes as regards workers, youth, women, disabled, skills development and workplace equity, and enterprise development must be improved, as must its alignment with other government policies, notably industrial policy.

A Strong Capable dti with Strong Partnerships

The scale and depth of the work to be undertaken requires that we have the necessary strategic and technical capacities, as well as adequate financial resources to effectively discharge our mandate as **the dti**, having due regard to the challenging environment in which we operate. We have stepped up our efforts at filling key gaps in the leadership and management echelons of the department and will as a

matter of urgency design and implement a programme to attract and develop the appropriate professional cadreship to undertake the work I have outlined. We are looking to improve systems within the department. I do not believe that we need any major changes to structures or our organogram at this point, but we do need to act smarter, faster and more effectively. “Continuous improvement” is the motto I believe we need to follow as we move ahead. In addition we need to continue to strengthen coordination mechanisms to leverage linkages and synergies in the various streams of work within the dti and our agencies, and in the rest of government through relevant clusters of departments.

Finally, we will continue to work at fostering strong partnerships with social partners, in particular in NEDLAC, and in coordination with the Department of Economic Development, with which we co-chair the Economic Sectors and Employment Cluster in government.