

**Budget Vote Speech Minister of Economic Development, Ebrahim Patel, 25 May 2017,  
National Assembly.**

**CHECK AGAINST DELIVERY.**

House Chairperson

Honourable Members

Judge Presidents of the Competition Appeal and Labour Appeal Courts

Workers, entrepreneurs and economic students in the public gallery

Fellow South Africans at home

It is my pleasure with Deputy Minister Masuku to table the Budget for Economic Development on Africa Day today.

The global and domestic economic context shapes the work of the Department and agencies that make up the economic development portfolio.

In its latest World Economic Outlook, the IMF projects global growth at 3,5% for this year and it devotes a detailed discussion on the decline in worker's share of national incomes across the world.

Political economy is taking centre-stage, with the rise of economic populism in parts of the developed world, the backlash against globalisation, the continued rise of China and the impact of the 4<sup>th</sup> industrial revolution, all which very directly affect the South African economy and jobs. We need a coherent strategy to deal with them.

Our economy is trade exposed, with exports accounting for almost R1 in every R3 of the wealth we create annually.

Technological innovation, dubbed the Fourth Industrial Revolution, is reshaping the future of work, industrial production and social interaction. The rise of robotics and artificial intelligence will have a profound impact on South Africa too.

At a domestic level, our rate of economic growth and job creation need to be enhanced.

Last year the economy grew by 0,3% and is projected to grow by 1% this year. The total income produced by the economy every year is now R 4,3 trillion. Net foreign direct investment worth R33bn flowed into South Africa, a growth of 50%.

But employment grew by only 51 000 over the past 12 months.

These modest gains are well below what South Africa needs to address the challenges of poverty, inequality and unemployment. But they **were** gains, made at a difficult time, when we faced a significant drought, weak economic performance in the rest of the continent, recessions in Nigeria, Russia and Brazil and sharply slower growth on the African continent. During 2016 we worked hard with business and labour to avoid a recession, and we succeeded.

Taking the long view, since the adoption of the New Growth Path in October 2010, the economy has created 2,4 million new jobs and total employment rose from 13,7 million to 16,1 million people.

I am pleased to note that the labour-intensity of growth improved: jobs grew faster than the economy as a whole, with employment growth of 1,5% for each 1% of GDP growth.

We need to build on this to deepen a jobs-rich growth path.

However, prospects in the year ahead for GDP growth and jobs are uncertain as a result of the recent ratings down-grade and slower growth on the rest of the continent.

The ratings downgrade is bad news for the economy and jobs.

It makes our borrowing more expensive and will impact on:

- The poor
- Workers
- The urban middle-class.

Owners of capital will expect a higher return to compensate for the perceived higher risk. It will cost the economy many billions of rands in additional costs and lost investment opportunities.

It is crucial that we stave off any further downgrades and regain our investment-grade as a country.

*We are vulnerable because we must continue to rely on global capital markets to fund some of the difference between our income and spending. In the long run we must address this by improving our domestic savings rate.*

The roadmap back to investment grade and crucially, to address the needs of our people requires that we develop a new “national deal” that includes the following:

- One, **develop a credible growth story**, that places emphasis on sectors and market-opportunities with high growth and job-creation potential, attracts investment and ensures effective implementation of the nine-point plan.
- Two, **transform the economy** to make it more inclusive, bringing black South Africans, young people, the rural poor and the urban unemployed into the economy

with speeded-up actions against high levels of economic concentration, inequality, social exclusion and joblessness

- Three, **ensure integrity in governance** and decision-making, manage our fiscal policies responsibly and sustainably, to inspire confidence among our people
- Four, **deepen partnerships**, with greater efforts to pursue a social compact between government, business and labour.

These actions will increase overall confidence in the economy and are the key to improving investment and demand and growth and inclusivity.

Honourable members, before elaborating on aspects of this roadmap, I want to highlight a few areas of progress made in the economic development portfolio.

**The Industrial Development Corporation, Africa's largest industrial bank showed strong performance in tough market conditions.**

It facilitated R47 billion of fresh investment, of which R15,3 billion is from its own funds and the rest from private investor partners. This is the largest yet in its history.

IDC approvals to 77 Black industrialists totalled R4,7 billion, a growth of 60% on the previous year.

Black-empowered companies approvals totalled R10,8\* billion for the year.

Funding for youth has almost doubled, to R2,4 billion.

Funding for women-empowered businesses grew sharply by 178% to R3,2 billion.

IDC investment will create or save 20 877 jobs.

This is **solid**, practical radical transformation.

Honourable Members

**The competition authorities had one of their busiest and most successful years.**

Last year, the competition authorities and government worked together on opening up markets and placing development at the top of their agenda.

Through these efforts,

- some 58 000 workers have been covered by job-protection commitments and 6 500\* new jobs will be created through merger proceedings;
- R4,8 billion has been raised to support small business development and job-creation through competition-linked measures and
- 120 000 spaza shops and retail outlets will have the freedom to open a part of their sponsored fridge space to products that compete with the near-monopoly large suppliers.

Appletiser now has significant black shareholding and has already been buying more local grapes for their Grapetiser product.

We are tackling cartels and price-fixing in a number of product markets. Last year the authorities fined Arcelor Mittal R1,5 billion for its abuse of dominance in the steel market.

We are busy with market Inquiries that will help to lift the lid off practices in private healthcare, the grocery retail sector, public transport and the liquid petroleum industry, whose report has been tabled in parliament.

We are developing new models of empowerment. The construction industry, through the seven largest companies, has embarked on a major transformation programme, with four major companies selling a large block of their shares to black South Africans. In all, the deal will place construction turnover of more than R130bn in the hands of black South Africans over the next seven years.

### **Turning to trade, Africa remains the key to our future progress.**

On Africa Day we note that the continent accounts for R320 bn worth of exports of SA-made goods, supporting about 250 000 direct jobs in our economy and about 900 000 jobs in total. We must deepen economic relations with the rest of the continent, in trade, infrastructure development and investment.

Africa's relationship with China will need to be managed carefully.

China is now Africa's largest economic partner country. A new research report by McKinsey ranks China as

- Africa's largest trade partner [*with more than \$188 billion in goods trade*],
- the biggest investor in infrastructure [*at \$21 billion*],
- the fastest growing source of FDI [*rising by 25% per annum with FDI stock of \$49billion, placing China at number four on the continent*]; and
- the 3<sup>rd</sup> biggest aid donor [*with \$6billion in grants*].

It estimates there are more than 10 000 Chinese-owned firms on the continent, ranging from small family-owned shops to large multi-national corporations.

Our job as government is to ensure we protect South Africa's national interest and sovereignty, that Chinese investment and market access is directed at creating local jobs, ensuring technology transfers and local supply-chains are built and exporting more manufactured goods and value-added products to China and global markets.

In other words, Africa is not only a market; it should be developed into a world-class manufacturing centre.

One example of our local relationship with China is the agreement to invest R4,3 billion in the setting up of a new car-making plant, involving the Beijing Auto Industrial Corporation and the IDC. We expect construction to start by July.

## **Infrastructure**

Investment in infrastructure has grown in the past year, with R300bn in investment in the National Infrastructure Plan by the public and private sector. This is more than R1 billion per working day spent to improve the foundations of the economy and service-delivery to our people.

The Presidential Infrastructure Coordinating Commission, whose technical work is done by the Department and the IDC, monitored build programmes across the state.

It reported progress for the year including:

- New energy generation that will add additional energy to the grid equal to the total electricity consumption of a city double the size of Joburg
- More than a million South Africans getting electricity for the first time last year
- 13 000 new taxis assembled in SA
- 90 000 new houses build under the RDP housing programme
- Accommodation with 3 700 new beds for university students

together with new schools, roads, bus lanes, rail lines, clinics, water pipelines and fibre-optic infrastructure built or refurbished.

However, we still have many challenges in the economy and I spoke earlier about the need for a roadmap to address these.

As South Africans, working together as investors, workers, communities and their democratic government, we can turn the national mood away from despair to one of hope,

optimism and action. This needs a capable, honest state and social partners who each bring important parts of what is needed for a broader deal involving all South African patriots.

The foundation of this is the South African constitution. It is an empowering framework, not a shoddy compromise as some would have it. The constitution is not a constraint to radical and bold actions. In fact, a purposive implementation of the constitutional vision and a bold use of the enormous legal and fiscal toolkit that we have available in the state, can truly drive the transformation of our society.

So what should we do?

**First, we must ignite the growth potential of the economy, increase job creation and deepen the impact of industrial funding**

In the year ahead, the IDC will target new investments of between R15bn and R18bn and bring in a further R30bn in private sector investment.

Infrastructure spending in the next year is expected to be R330 billion.

A R1,5 billion Steel Competitiveness Fund will be set up, with seed funding of R95 million in the EDD Budget over the next three years, and additional funds by the IDC, to provide support to smaller competitors and downstream players. The Fund will be available to foundries, valve and pump manufacturers, steel fabricators and capital equipment manufacturers including black industrialists, to help the core of our manufacturing industry to survive difficult global economic conditions.

SCAW Metals will have new private sector equity partners, including foreign investors and black South African investors.

To address obstacles to investment projects, the Department will target **22** investment and infrastructure projects it will help to unblock.

To enforce our trade policies, ITAC will do 1 000 inspections of import and export shipments, sites or documentation.

Honourable Members

The Economist newspaper recently ran a cover story that describes data as the world's most valuable resource, being 'to this century what oil was to the last one: a driver of growth and change'.

Yet the growth of this data-driven economy is constrained by high data costs, which affect users of cell-phones and laptops and businesses who require high volumes of data. **To promote the new data-driven economy and address high data costs, and following discussion with Minister Cwele, I will request the Competition Commission to conduct a**

**market inquiry into this sector and to work with other regulators to establish the facts, identify measures to reduce data costs and make recommendations to government.**

**Our 2<sup>nd</sup> focus is to make the economy more inclusive and transform it.**

Inclusion requires changes to the rate of job-creation, entrepreneurial opportunities for young people and socio-economic transformation that is bold, radical and brings millions of people into ownership and economic inclusion.

It means faster growth, more inclusive growth and jobs-rich growth.

Greater inclusion, like reducing unemployment and addressing poverty, is itself a source of growth, as more citizens enter markets as consumers and savers.

In the year ahead, we will explore better models for broad ownership in the economy.

We must build our own economic 'co-determination model' in which workers and investors cooperate in growing the economy, creating more jobs and ensuring that the wealth generated in the economy is more fairly and equitably distributed. Among the models to look at is greater opportunities for workers to participate as shareholders in companies and having worker representatives on company boards.

High levels of economic concentration and racially-skewed ownership profiles stunt economic growth, prevent entry of new players, reduce consumer choice, limit the levels of innovation and dynamism in the economy and feed a growing resentment among black South Africans of the failure to realise the vision of the constitution.

To address this, we will be finalising proposed changes to the Competition Act as announced during SONA. We released a framework earlier today and will work with a Panel of experts to complete recommendations within six weeks.

To deepen our information base on the extent of transformation, we will work with other departments to quantify the extent of black citizen participation in the economy.

To improve actions against collusion and corrupt corporate practices, the Commission will investigate about 100 cases of cartels behaviour in different sectors of the economy, including food, infrastructure, chemicals, financial services and car-parts.

To improve resources for the competition authorities, we will gazette an adjustment to the filing fees for mergers.

To improve African regional integration, the economic development agencies will explore ways of deepening industrialisation on the continent and we will work with Minister Rob

Davies on the trade integration and with Minister Radebe on infrastructure development on the continent.

To strengthen job creation, the IDC will target creating and saving between 24 000 and 30 000 jobs this year.

To bring more black South Africans in the productive economy and contribute to bold and radical socio-economic transformation, the IDC will target R7bn for black industrialists and R2,5bn for women and youth-empowered companies this year.

More than R4 billion will be put into localisation initiatives.

### **Our 3<sup>th</sup> focus is to address the rapid levels of urbanisation**

Urbanisation is a potentially transformative development for the economy, an opportunity for growth and a driver for infrastructure investment

Every year, roughly 400 000 new households are added to the nation's cities. In the short-term, this places enormous pressures on cities and large towns, to improve water, electricity, housing and schools and of course to create jobs to absorb the new entrants to our cities. In the long-run, this can energise the economy and deepen the level of development.

This year, through the PICC, we will focus on a country-response to urbanisation. This brings together work being done in a number of departments and cities. A number of actions will be taken to align planning, infrastructure provision, industrial development and human settlements to the rapid urban population growth. We will bring this presentation to Parliament and keep Members informed on progress with this exciting and important work being undertaken across government.

We are building a new Technical Project Management Unit for the PICC, with the first two engineers appointed and the first dedicated R10 million provided for in this budget.

### **Our 4<sup>th</sup> focus must be to ensure a more effective state, improved governance and deeper partnerships**

The National Development Plan identified the need for a capable developmental state as a centre-piece to achieve higher economic growth and deeper levels of social equity. We face the growing perception and reality of corruption and attempts to capture public institutions for the benefit of private individuals and families.

Public power in a constitutional democracy can only be effectively exercised for development through deeper levels of trust, collaboration and partnership.

When there are real and legitimate concerns about corruption and state capture, about the diversion of the people's money to improperly benefit individuals, our ability to forge a partnership between the state and the rest of society is seriously undermined.

Cabinet recognises that State-owned companies will have to improve governance and economic performance.

One of the institutions responsible to my portfolio is the Industrial Development Corporation. *It is responsible for the approval of large sums of money and must always be subject to high levels of probity in its decisions.* The IDC has extensive systems of corporate governance in place and its Board and management places a high priority on integrity in decision-making. To further enhance transparency and accountability, the IDC will from June this year, publish details of all the investors to whom it provides industrial funding.

As we build real, deep partnerships in the country, business will need to accept the need to work differently, create more jobs and invest more. Organised labour will be asked to bring resources of union investment companies and the sweat equity of workers. Communities can bring the creative spirit of youth. Government must bring an effective and capable machinery to the compact. In this way we can build confidence in the future of the country. And we can build on the number of successful efforts to forge unity.

## **CONCLUSION**

### **Honourable Member**

The Economic Development Budget of R797 million can make a major difference in the lives of ordinary people. It unlocks and guides about R20 billion

Many, many thousands of South Africans do in fact benefit from the work of the Economic Development entities. *We will release a social and jobs report later this year which provides more information of the South Africans who are empowered, supported and partnered by government.*

In the year ahead, we will step up efforts, working with colleagues in the Economic Cluster, to radically change the lives of our people; to ensure deep and meaningful socio-economic transformation.

I wish to thank the Deputy Minister, heads of agencies and staff for the work done to get South Africa working.

It is now my pleasure to table the Economic Development Budget before this august house.