Address to the National Assembly Budget Vote Session: Ebrahim Patel, Minister of Trade, Industry and Competition, 24 July 2020**.**

House Chairperson
Honourable Members
Fellow South Africans.

These are the toughest and most painful of times for many fellow citizens. And so I wish to extend my sincere condolences to the thousands of families who have lost loved ones in the past 4 months; and to the many citizens who are Covid-positive, I wish them strength and a speedy recovery in their fight against the virus.

We extend condolences too to the family of uBab'Mlangeni.

Thank you for the opportunity to introduce the debate on behalf of the Ministry. I will focus on three areas:

- The accomplishments and challenges of the past year
- The impact of Covid-19 on the economy and how the Department responded; and finally
- Our action plan for the future.

We are guided by the principle of Building Resilience in everything we do.

Plans and delivery to date.

During the first Budget Vote under the new Administration in July last year, Deputy Ministers Gina, Majola and I laid out a six-point programme of work for the **dtic** over the next five years.

Before the onset of the Covid-19 pandemic, we had made solid progress in each of these areas, despite significant economic headwinds.

First, we undertook to support improved industrial performance, dynamism and competitiveness of local companies, through a series of sectoral masterplans designed to build resilience in the domestic economy.

To date, together with the leaders of business and labour, we have forged consensus on the masterplans to grow jobs and production in four sectors: Auto production, clothing and textiles, poultry, and sugar.

But not only talk, action too, as implementation is happening:

- From July last year, SARS seized 550 shipping containers of illegally-imported and undervalued clothing and footwear, to protect local industries and entrepreneurs.

- In February this year, we increased tariff protection for poultry farmers against unfair foreign competition, protecting the local industry and local jobs.

- In March, local retailers committed to buy 80% of their sugar locally over the next year, *growing further in future years,* whilst local farmers and millers agreed to price restraint in this period.

Second, we committed last year to expand markets for our products and facilitate entry to those markets through trade measures that will build our resilience in relation to global economic shocks.

To illustrate progress:

- We concluded an agreement with the UK to maintain access for SA-made goods in their market following Brexit; and
- We reached a new record of almost 390 000 locally-made cars that we exported to the rest of the world. Thousands of jobs were sustained in the making of those cars in factories in Uitenhage, Nelson Mandela Bay, eThekwini, Buffalo City and Pretoria.

In addition, we have worked hard to build the African Continental Free Trade Area as the foundation for our long-term growth: Deputy Ministers Majola, Gina and I met with fellow African Union Ministers to consider terms of this vast new market; to set up the new Secretariat in Ghana headed by a South African Wamkele Mene, and to propose a switch-on date for the new Agreement.

Third, last year we aimed to significantly increase levels of investment in the economy.

In November at the Investment Conference, 71 investors pledged more than R364 billion in fresh investment.

- Amazon announced they will create 3 000 new jobs through moving back-office work to SA;
- we opened a new half a billion rand localised process at Toyota and the new cellphone factory at Dube trade Port; and
- Pepsico committed at least R5,5 billion in investment in the food sector with 3000 additional jobs planned.

Commitments by the IDC in projects for the year amounted to almost R12 billion, creating or sustaining more than 12 000 jobs.

To improve the ease of doing business, we launched the BizPortal that enables a young entrepreneur to go to one website, register her company, register for tax, get her BBBEE certificate, register for UIF, get her domain name, and even open a bank account. All in a few hours, no queuing.

Fourth, we undertook to promote economic inclusion and transformation.

The black industrialist programme received a boost through the R6 billion transformation fund announced by the auto industry as part of their commitment to government.

A draft report which will be released this coming week will show that approximately R100 billion has been mobilised for investment in black-empowered enterprises in the past 10 years through the work of the **dtic** and its agencies.

These efforts have been complemented by giving more meat to the 'broad-based' part of transformation, and I cite two examples:

- To boost worker empowerment in companies, a major deal was agreed between Pepsico and **dtic** in February this year. This was part of the conditions for competition approval for the purchase of Pioneer Foods. The company will finance a Workers Trust that will hold 13% equity or shareholding for 10 000 workers and have a worker representative on the board of in the new company that combines Simba and Pioneer Foods.
- To boost community access, I requested the Competition Commission to undertake a Market Inquiry into data prices, which resulted in prices of prepaid data bundles coming down more than 30% with savings of more than R5 billion annually to customers of Vodacom, MTN and Cell-C. This will provide broad-based access to data by all South Africans; students, youth and communities, providing greater access to digital platforms like e-commerce.

Transformation also means bringing more women into the economy as owners of their own businesses. In the last five years, the IDC has invested nearly R12 billion in more than 165 women-empowered businesses. In addition, the construction settlement agreement pioneered by government fostered the growth of emerging women-owned firms in the sector like Motheo Construction, founded by the late Dr. Thandi Ndlovu.

Fifth, we committed to promote more equitable spatial and industrial development through SEZs.

In November, we launched the Tshwane SEZ with commitments by 9 manufacturers.

The projected investment amounts to approximately R3,6 billion, with a potential 6 700 direct jobs – the first buildings will be completed next year and the first firms are expected to start operations in early 2022.

Sixth, we committed to take steps to enhance the capability of the state and its impact, including through partnerships.

Since then, we have used expertise from the private sector to drive different master plan processes, worked with business and labour to launch the Solidarity Fund, coordinated a common database for medical supplies, and developed joint Covid-19 response plans in many sectors. We have used Ministerial panels to bring the knowledge and expertise available across society to help develop smart solutions.

Covid-19 period and impact

All of those actions had at a time of slowing growth and global trade tensions, increased the resilience of our economy by rebuilding our industrial base and restoring our trade position.

And then Covid-19 struck.

Today's session thus takes place in very different circumstances from last year's Budget Vote, here and elsewhere in the world. The pandemic and its economic fallout have been described by leading economists as unprecedented in our generation. Projections are that it may result in

- the worst global recession since WWII (World Bank, 8 June 2020)
- the worst UK recession in 300 years (Bank of England, May 2020)
- China experiencing its slowest annual growth since the death of Mao Zedong in 1976 (IMF April 2020 data; Bloomberg April 2020, dtic calculation)
- the highest US unemployment since the Great Depression (US Bureau of Labor Statistics, May 2020).

South Africa is now in the grip of the pandemic, with a surge in cases and a devastating impact on communities, firms and workers. Both lives and livelihoods are being lost.

In the weeks before our lockdown started, some businesses were already closing because their global supply-chains were disrupted. As the scale of the pandemic became clearer and governments across the world introduced lockdowns to limit movement and save lives and flatten the curve of infection, demand for goods and services dramatically decreased, creating a toxic cocktail that is devastating people's lives across the world.

But South Africans are resilient and in spite of the difficult hand we have been dealt, citizens, firms and government have responded in a way that has mitigated the risks and protected those vulnerable to the impact of the Coronavirus.

When global supply-chains broke down and we could not buy ventilators and PPEs elsewhere in the world, we needed to show our resilience by falling back on our own enterprise and innovation.

We scaled up the local manufacture of basic covid-19 supplies, quickly ramping up production of medical-grade masks from 6m to 13m units a month. These companies included locally-owned ones and local workers produced the masks.

This week, the first units of a locally-made ventilator machine, a CPAP, is being assembled at factories, with 20 000 units that will be produced in record time, led by capable teams drawing in some of South Africa's best science capabilities.

I previously briefed the Portfolio Committee on the wide range of measures we have taken to deal with the crisis, from support to businesses through funding, to securing scarce medical goods.

As an example, we issued regulations and directions to fight price hikes during the pandemic and thus far the Competition Commission has levied stiff penalties on 28 firms to a value of more than R16 million. Our intention was to ensure that no-one was able to exploit the crisis to profit from other people's pain and suffering and add to further pressure to domestic budgets.

The lesson is that when confronted with a challenge, we found the will, the innovation and the industrial capacity to do the job. We proved as South Africans that we can be resilient.

Now we must recognise the historical moment and the opportunity it provide. We must build even greater resilience by making "strategic localisation" a major domestic policy goal.

The way ahead and commitments

As a result of the impact of COVID19 we must carry out our responsibilities within an even more constrained environment and faced with a triple whammy:

- The **dtic** Budget has been cut quite substantially with R1,8 billion taken off as a result of the need by the state to reprioritise resources; and
- agencies who rely in part on income from the public or their investment holdings have had sharp reductions in their income and resources;
- While at the same time the needs of firms and workers have grown as a result of the damage caused by the pandemic.

There are no easy answers and we are faced by what some call a 'perfect storm'. Yet it is precisely in this most difficult moment that we as South Africans will need to find our resilient core.

To repair the damage of Covid-19 and reconstruct the economy to create more jobs, bring more young people into entrepreneurship and increase economic inclusion, we need to think boldly and implement smartly.

It requires better coordination, fresh thinking and a different way of working, which is why I have engaged talented persons inside and outside the public sector to enrich our thinking; one team is looking at ideas on the just-transition to a greener economy; and proposals to leverage local procurement and advance regional integration; another is looking at enhancing worker empowerment at company level.

President Ramaphosa spoke about the wider economic recovery and reconstruction plan that is being developed, within which the DTIC will play its role.

This wider plan includes investment in infrastructure-driven growth, through building of bridges and roads and clinics and renewable energy plants will bring more young people into jobs; and greater use of locally-made inputs of steel, cement and machinery can enable that infrastructure investment stimulates the growth of manufacturing.

Township and rural enterprises must be scaled up. For example, our Digital Hubs programme, working with the private-sector (including Microsoft) seeks to take entrepreneurship and skills development into townships, given challenges that many unemployed youth have in traveling to metro areas to apply for jobs or attend skills development courses.

Our film and TV production provide pathways for young people to enter the workplace and to let us tell our story, as Africans, of our struggles for freedom and our efforts at development and growth.

At the same time, the tectonic shifts in economies towards greener industries provide opportunities. For example, Toyota's announcement that they will build Africa's first hybrid vehicle in SA within 18 months is a step towards that; as can be investing more on battery-storage technologies and components used in renewable energy. This provides an opportunity for the beneficiation of key mineral resources like vanadium.

The industrial age is not over, but it will be profoundly re-shaped by digital technologies, greener industries and industrial agility. South Africa must find its niche in this new environment.

There can be no return to the 'old normal'. And nor should there be. It was not fit for future purpose. Established industries, though critical in our economy, will not be able to create the millions of jobs required.

To prepare for the post-covid world, we will strengthen efforts around reconstruction and recovery, including broader pacts with workers and businesses, focused on saving as many firms and jobs; identifying new opportunities; embracing digital technologies to recover and change; addressing economic inclusion with greater urgency.

As a first step, every directorate of the **dtic** and every agency will prioritise **saving firms and jobs**, and report on a monthly basis on their impact. Wherever possible, the **dtic** institutions will be asked to reallocate resources to this goal. Work will be reorganised to support the District Development Model, to get more bang for each rand we spend. We will streamline approval processes for funding from IDC, NEF and DTIC so that we avoid duplication; and consider a common back-office for smaller dtic agencies, covering some finance, ICT and human resource functions. With a smaller budget, we must draw on resources of social partners and use non-fiscal means to achieve public goals, such as competition market inquiries and the equity equivalent programme.

Building on the solid progress of last year, but adapting our strategy in light of the historical moment created by the pandemic, each of the 6 priority programme areas will now be re-calibrated to save lives and protect livelihoods:

First, to strengthen economic dynamism, we will complete two new Master plans: one for furniture which employs 65 000 people in SA with potential for many more small-scale artisans; plus another for the steel industry, the foundation of our industrialisation, employing nearly 250 000 people. But the Department's mandate is not only to produce new Masterplans; more importantly is to ensure implementation, which will be the focus of masterplans for autos, clothing, sugar and poultry.

Second, to help pivot the economy from its reliance on imports, to greater levels of local manufacture, we will finalise at least three new agreements on localisation and supplier development, following discussions with CEOs at:

- Fast food producers
- Hardware stores
- Grocery retailers
- Food and consumer goods manufacturers
- CTFL retailers and manufacturers.

This is partnership in action.

Third in the area of trade: to provide trade support to local firms, both in the domestic market and for exports, we will complete talks with the EU on trade access; strengthen the actions against illegal imports - Smugglers beware – we will crack down further on customs fraud on imported goods, building on early successes by SARS; and seek agreement to enable the AfCFTA to commence trade by the start of 2021.

South Africa is well-positioned to become a major supplier of industrial goods and value-added services to the continent. A combined push from the IDC and ECIC can contribute to this. We will develop tangible targets to guide the work of South Africa's Foreign Economic Representatives stationed at embassies, focused on export promotion and investment enhancement. Economic diplomacy is essential to building resilience.

Fourth, on investment: we will focus on consolidating the presence of firms who have existing operations and help those who made investment pledges, to bring projects to fruition. New areas for investment include deepening our production of PPEs, medical equipment and pharmaceuticals.

Fifth, on transformation: our efforts will go to providing non-financial support to black industrialists to complement the funding; and over the next 5 years, we will mobilise or commit very large sums in funding for Black industrialists and firms. Women-empowered businesses and worker empowerment must become a stronger focus. Transformation includes addressing high levels of economic concentration and helping to build stronger, agile small and medium businesses.

Sixth, on SEZs: national government will play a stronger role in improved governance, advocacy and mobilising investment. The special unit at the IDC and DBSA will assist provinces to use the R4 billion budget over the next three years more effectively on SEZs and industrial parks. We must nurture township and rural enterprises, and diversify the economic centres across our country.

To improve the capacity of the state, we will review the performance of the 17 public entities falling under the **dtic**, identify opportunities to consolidate and merge some entities, address underperformance and in the case of the NLC promote greater transparency and improved governance.

We must find new ways to protect public resources so as to reassure the public that corruption will not get in the way of effective delivery – words and good intentions not enough.

Accordingly, I have asked the Department to consider the establishment of a strong forensic and internal audit team that can undertake the required investigations of transactions by agencies where these are warranted.

Conclusion

Covid-19 has exposed the fragility in the global economy.

The quest for competitiveness must be balanced with the need to nurture economic resilience, the ability of economies to respond to risks that an open and integrated world present: be they to digital systems, or from climate change, or to food security or the spillover of trade wars raging elsewhere, or indeed from pandemics.

Africa must grasp this opportunity to redefine its role in the world – to break from the post-colonial history as simply a supplier of raw materials and this crisis must provide the jolt for our efforts to industrialise.

A profound re-boot is now possible, as well as necessary.

History suggests that from the greatest human crises, the greatest human advances can be made. So, in the darkest hour, we must prepare for a brighter future – at the heart of which must lie a new economy – fit for future purpose, fair and just, sustainable and resilient so that future shocks can be absorbed. We must lift our heads above the dark clouds to see this future, and work hard together to get it done. The achievements of the past year show what is possible. Now we must do more and act fast to seize the moment.

On behalf of Deputy Ministers Gina, Majola and myself, we wish to thank those who drive so much of our work: the Chairperson and Members of the Portfolio Committee, DG October and the dedicated DTIC staff complement; the leadership and staff of the 17 agencies which make up the **dtic**-family; facilitators of Master Plans Harald Harvey and Lael Bethlehem; and our social partners, the business leaders and union representatives.

Honourable Chairperson, I wish to table the budget of just over R9,3 billion for the consideration of this House.