Budget Vote Speech by Minister of Economic Development, Ebrahim Patel, on 22 July 2014. Check against delivery

Chairperson

Honourable Members and Colleagues

MECs, agency heads and Invited guests.

Today's Budget Vote, at the start of the new administration, provides an opportunity to look forward to the next five years in the context of the mandate of the Economic Development Department and the National Development Plan as the country vision for overall economic and social development, integrating policies, demographic shifts, governance and state-capacity issues into a coherent framework.

EDD was formed five years ago to facilitate integration of economic programmes across the state and promote inclusive growth. It developed the New Growth Path, which sets out ten jobs drivers to lift the rate of jobs growth and that now forms the economic implementation strategy of the NDP.

EDD promotes public and private investment by directly facilitating projects and improving the regulatory and policy environment.

The Department provides strategic direction to the competition authorities' efforts to break up cartels and guide competition and merger cases to encourage job creation and development. It supervises the International Trade Administration Commission to ensure trade policy supports industrialisation and employment.

The Department provides the technical secretariat for the National Infrastructure Plan and the Presidential Infrastructure Coordinating Commission (the PICC), develops its strategic frameworks and unblocks obstacles to infrastructure implementation.

It oversees the work of two leading development finance institutions, namely the IDC and sefa, and ensures increased levels of industrial financing in the economy, including small business funding.

It led the dialogue with social partners on six major social accords, including on youth employment, the green economy, local procurement and skills development.

Honourable members,

I will also highlight some successes of the past five years which show what we can do as a society. These successes stake out the platform we have laid for radical economic transformation and for the capable and responsive state envisaged in the NDP.

Radical economic transformation requires that we do things differently and that we achieve greater outcomes. It means changing the economy to the benefit of ordinary South Africans, stimulating job-rich and more equitable growth, and tackling the systemic features that lock so many people out of productive jobs, entrepreneurship and economic benefits.

To achieve this, we need to focus on six "i"s:

- Infrastructure
- Industrialisation, investment and innovation
- Inclusion, and
- Integration.

These six "i"s work together, to achieve radical economic transformation.

The first "i" is infrastructure.

In the past five years, government lifted investment in public infrastructure from R610 billion to R1,1 trillion. That is the biggest five-year spend in the past 50 years, turning vast stretches of the country into construction sites. The new Infrastructure Development Act was passed to coordinate and drive infrastructure development.

Our initiatives include the largest electricity construction programme in Africa and in our history. In the next five years, we will add 15 000 MW of energy from coal, solar and wind. This is equal to the output of eight new Koeberg nuclear power stations.

We completed two major new dams and are building more, ensuring clean water for our homes, our factories and our farms into the future.

We are building hundreds of schools and expanding university and college infrastructure to improve the lives of our children.

We are constructing new rail-lines to protect our roads, move goods cheaply and reduce emissions.

We are building public transport systems so that workers will have safe, reliable and comfortable commutes to work.

Infrastructure is central to economic transformation.

It provides inputs for both existing and emerging enterprises, from the coalfields and power plants of the Northern mining belt to the rural areas of the Eastern Cape.

With the localisation drive, it generates markets for manufacturers, deepening industrialisation and supporting good jobs.

Finally, it provides employment directly, with 200 000 workers currently employed.

The formation of the PICC in 2011 vastly strengthened our build programme.

Our state agencies are coordinating around the PICC's work, with the IDC investing in companies supplying infrastructure inputs, ITAC issuing a scrap-metal pricing mechanism that supports infrastructure-driven beneficiation and the competition authorities acting firmly against construction cartels.

In the next 5 years:

- We will scale up state and private investment in public infrastructure to provide a strong platform for inclusive growth and job creation, with planned spending of at least R1,5 trillion.
- Job creation will be a priority: at least 250 000 jobs will be sustained in PICC-led construction and operations, with at least 60% of all new workers being youth.

- We will issue guidelines under the Infrastructure Development Act to ensure the build programme drives economic and social transformation, turning infrastructure sites into training spaces and opening the door to real participation by black- and women-owned enterprises and co-ops.
- We will complete the work of breaking open the construction market and breaking up the cartels and monopolies.

The next "i" is industrialisation, which goes together with investment and innovation.

Honourable Members

Employment, growth and investment have fully recovered from the 2008 global downturn.

Employment is at 15,1 million, the highest ever. It has risen by 1,4 million workers since the adoption of the New Growth Path in October 2010. In spite of the damaging global recession in 2008/9, the economy gained 700 000 jobs over the course of the 4^{th} Administration.

In the year to March 2014, the GDP reached R3,5 trillion, an 11% growth in real terms over the period of the last administration. For comparison, by 2013 the UK, Denmark and Holland had not reached their 2008 GDP levels.

While the GDP recovery is a good story, we need to turn South Africa from a nation of importers into a nation of manufacturers.

In the past administration, we adopted a manufacturing-led industrialisation strategy to achieve this aim, based on processing minerals and agricultural resources and making capital goods for infrastructure.

An effective industrialisation strategy requires more than vision. It needs hard, nitty-gritty work to address the many constraints that face innovative projects and investors.

Over the past few years, we worked with foreign and domestic investors to facilitate new investment in, among others, soya products, televisions and film-making. In Atlantis, not far from where we are now meeting, national government facilitated two new electronic factories and maintained jobs in a number of textile companies.

In 2009, all mini-bus taxis and metro buses were imported.

My Department worked closely with Toyota and Beijing Auto Works. They set up new South African assembly facilities that have already produced almost 24 000 taxis.

National government specified that metro buses for the new BRT lines must be assembled locally. To date, 400 buses have come off production lines in Cape Town and Germiston.

When you see the new buses in BRT lanes or the new taxis on our freeways, now you can know they were assembled by South African workers.

The IDC has dramatically lifted its funding. Its five-year total funding approvals reached R59 billion, close to twice as high as the previous five years. Last year alone, it disbursed R11,2 billion.

Since 2011, IDC funding of R40 billion attracted a further R82 billion in co-funding. This shows its central role in mobilising private and public investment. It has become a leading source of financing for green energy projects.

Honourable Members who are fans of the medical drama series Grey's Anatomy will have seen a full body scanner used in their trauma units to give immediate digital images of injured patients. That scanner is exported from South Africa to medical facilities across the world. It was developed and produced by a company called Lodox, financed by the IDC.

The competition authorities are central to our strategies to promote industrialisation and to combat the pernicious impact of price-fixing and market abuse on industrial development. Recently, the Competition Tribunal issued a ground-breaking judgement that imposed a pricing remedy on Sasol for abuse of market dominance in the poly-propylene industry. It is regrettable that Sasol has appealed this decision, which can facilitate local production of plastic products.

In the next five years:

- We will support the President's dialogue with business to build a partnership on inclusive growth and job creation and unlock productive investment.

- IDC funding will focus more on industrial diversification, job creation, localisation and mineral and agricultural beneficiation.
- EDD will work with metros to create simpler processes for investors and accelerate regulatory approvals.
- Government will leverage localisation opportunities from infrastructure, including with the new train-manufacturing programme that will ultimately supply the entire continent.
- We will strengthen the capacity of the competition authorities to impose remedies on dominant players and monopolies, to benefit consumers and industries. Government will take steps to secure more competitively-priced steel as an input in infrastructure and industrialisation. I will bring relevant amendments to the Competition Act to Parliament next year
- Economic regulators, DFIs and other state agencies will strengthen coordination around industrialisation. EDD will put together a training programme for economic regulators to improve capabilities across the state.
- Finally, learning from the success of the PICC, we will coordinate, closely monitor and unblock more jobs drivers to expand employment and decisively shift our growth path in favour of jobs and development.

The next "i" is inclusion.

Inequality is at the root of many of our social divisions and industrial relations problems, as workers see the benefits of economic growth are unfairly shared. We must use every economic programme and engagement to build a more inclusive economy.

Let me give an example.

Last year I met with a foreign investor who wanted to buy AFGRI, a large local company active in grain storage, poultry and equipment leasing. Ultimately, we reached an agreement in line with the Competition Act's public interest requirements. The new owners will provide R90 million to support small-holder farmers with training, mentoring and loans, plus give a 40% discount on storage rates to producers with under ten tonnes of grain.

This means families struggling to make a living on the land now have support, mentoring and finance to enter the mainstream economy.

Together with the funds set up by settlements with Pioneer Foods and Walmart, it means large companies will provide R580 million to support smaller producers and local suppliers.

We are now in discussion with the construction industry on a similar restitution package as redress for their collusion and price-fixing.

The competition authorities acted strongly against cartels and monopolies during the 4th administration, with R5,7 billion in fines, penalties or mandatory development funds, dealing with construction, cement, the food sector, retail, telecommunications, fertilizers and scrap metal. That represented growth of almost 900%, demonstrating our commitment to shaping a more inclusive economy.

The Competition Commission has launched a market enquiry into the private medical industry, headed by former Chief Justice Ngcobo, and on liquefied natural gas, which many poor families use as fuel for cooking and heating.

Sefa has vastly expanded its lending to smaller and emerging enterprises. In the past year, it more than doubled its disbursements to R549 million, reaching a reported 46 000 enterprises or individuals.

IDC investments created or saved 156 000 jobs in the economy, of which 11 500 were in the informal economy. IDC lending to black-empowered companies was R25,7 billion in the past five years.

Our work on infrastructure exemplifies transformation. We are addressing apartheid's infrastructure backlogs in black communities, bringing black entrepreneurs into train-refurbishing projects, supporting women entrepreneurs to break into mining, and providing work experience to a new generation of young engineers and artisans.

These examples show what the state can do. But the private sector and unions must step up their contribution to transformation, including through better industrial relations. We must build on the existing social accords to reach wider compacts that address equity, jobs and growth more directly, including dealing with the factors behind workplace conflict.

The success of Scandinavia in the early 20th century, Germany and Japan after the Second World War, and much of Asia in the past few decades was founded on measures to promote social and economic equality.

Reducing inequality and ending poverty promotes growth by increasing our people's spending and saving power, improving conditions for productivity and co-operation in our workplaces and cities, deepening our markets and stimulating aggregate demand.

It is an economic and indeed commercial necessity, not only a moral and human imperative.

In the next 5 years:

- The IDC will focus more on job creation, supporting hands-on black industrialists and coops and building a fairer economy.
- EDD will emphasise youth employment and entrepreneurship. The IDC and sefa have set aside R2,7 billion for this purpose. We will deepen our work with business and labour on the Youth Employment and Skills Development Accords.
- The competition authorities will be asked to focus more on jobs, industrialisation, small business development and economic transformation, not as a by-product but an explicit objective of competition policy.
- Government will vigorously pursue cartels, price-fixing and abuse of market dominance, including through criminal sanctions, and conduct market enquiries to open up business practices to proper scrutiny and appropriate corrective action.
- The Department and its agencies will work closely with the new Small Business Ministry to develop new entrepreneurs, expand township enterprises and strengthen small businesses.
- Finally, we will facilitate workplace and national accords to address the root causes of shop-floor conflict and raise living standards and productivity.

The final "i" is integration of the region and the developing world.

African regional integration is the best way to widen our markets.

A cruel legacy of colonialism is that Africa's infrastructure and industries were shaped mainly to provide raw materials to Europe and the Americas. In the past 20 years, Africa largely just exported raw materials to more countries without changing the underlying structure of trade.

We are addressing this challenge through increased trade within the continent, more work on intra-regional infrastructure, and a sharper focus on industrialisation.

Africa has become South Africa's largest market for industrial products.

Our manufactured exports to the rest of Africa rose by about R21 billion or 16% in this past year. They now generate about 167 000 jobs in South Africa.

We are partnering in infrastructure development on the continent and the IDC and DBSA are expanding their African investment footprint.

Integration also requires that we diversify trade and investment. We are building deeper partnerships with the BRICS countries while maintaining strong relationships with the EU and USA.

The BRICS Summit last week made excellent progress in converting a discussion Forum into durable economic institutions that benefit citizens.

The BRICS New Development Bank will mobilise savings that, in part, can finance substantial investments in African infrastructure and industrialisation. The Bank's regional headquarters will be in South Africa.

The new Contingency Reserve Arrangement will provide a pool of roughly R1 trillion to shield BRICS economies from speculators and market panic. South Africa will commit roughly R50 billion but will be able to draw up to R100 billion if required.

In the next five years:

- Government will finalise the African Free Trade Agreement to create an integrated market of 26 countries with 600 million consumers.
- We will focus more resources on African infrastructure and industrialisation, particularly energy, transport water and ICT as well as in the productive sectors.
- We will deepen efforts in BRICS to attract investment and export manufactured goods, and next year we will host a BRICS Conference on competition policy; and finally
- We will work with traditional partners including through a new Economic Partnership Agreement with the European Union, and extension of the Africa Growth and Opportunities Act with the United States.

Honourable Members,

The budget allocation for this financial year amounts to R696,9 million, of which:

- R243 million is for the IDC's subsidiary sefa,
- R206 million is for the competition authorities
- R85 million is for trade administration.
- R163 million is for the Department's operations and capital spending.

I now table the Economic Development Department Budget for consideration by this august House and thank my colleagues, the portfolio committee, the department and agencies as well as social partners for their work over the past five years.