Budget Vote Speech: Trade and Industry and Economic Development, Minister Ebrahim Patel, 11 July 2019, National Assembly.

Honourable Speaker and Honourable Members
Workers, business representatives and agency heads in the public gallery
Fellow South Africans

It is an honour to present the budgets on Trade and Industry and Economic Development today.

This is the portfolio's first Budget Vote in the new Administration, and I will take a few minutes to highlight our approach for the next five years and for this year.

The two departments will be merged into the new, renamed Department of Trade, Industry and Competition.

The Departmental merger process will be completed by March next year, bringing together 17 agencies with the capacity to provide targeted industrial and transformation funding, regulate the consumer and corporate environment to foster a vibrant business ecosystem, and open up the economy for real, inclusive growth. The combined resources must be used to achieve the goals of the Freedom Charter, the governing party Manifesto and the National Development Plan.

Our debate takes place in a tough domestic economic environment and with increasingly uncertain and fragile global growth, which require us to do more to change our performance and outcomes.

The message from South Africans to all political representatives during the election campaign was: step up practical delivery, fix the slow implementation; and focus on jobs, growth and economic inclusion.

We will have to work very hard, as government, and as business and workers, to pull our economy out of its weaknesses and speed-up the journey to a strong, growing economy that creates decent work and entrepreneurial opportunities for many more South Africans, particularly young people. There are no quick fixes if we want to build a high-growth, high-employment, high-inclusion economy.

We must build confidence and trust, in government, and between government and our social partners, namely business and labour. Though this may be seen as a soft issue, without trust and confidence, we will not be able - simply through a series of hard policy announcements or administrative actions - to achieve our goals.

We will have to do the hard work ourselves, as we cannot rely on strong growth in the global economy and high mineral prices to pull us forward: the IMF recently revised down their forecasts for global growth in 2019 and there are economic challenges in a number of countries which may limit how much they buy from us, and what they pay for our goods.

We are faced with these challenges but also have many and considerable strengths we can build on and the support of South Africans to change our country narrative and to succeed in spite of the odds.

President Ramaphosa spoke in his SONA Address of a reimagined industrial strategy that will be one of the centre-pieces of rebuilding the economy.

An industrial strategy is the set of broad policies and measures undertaken to lift the rate of growth, stimulate specific economic activities including through promoting technology and innovation, to achieve what economist Dani Rodrik calls ‘structural change’.

The role of industrial policy is to unleash private investment and energise the state to boost economic growth and inclusion. This is an essential part of building investor confidence and the platform for job-creation.

We will refocus our industrial strategy as a central pillar of economic recovery, through doing things differently. It’s about good ideas but in our context it is also about good implementation.

Implementation will be more disciplined but also increasingly responsive and collaborative.

The merger of the two departments is part of building a capable state, able to do what it says it will do, focus on practical actions, break policy paralysis and coordinate across the state to ensure a good fit between incentives and outcomes such as jobs and youth opportunities.

We will speed up decision-making, create a more agile state and inject a sense of urgency in the work of government.

The forward-looking industrial strategy must be complemented by an appropriate macro-economic policy, other micro-economic interventions to ensure that we have the infrastructure – including affordable energy prices – and the skills to grow output and employment; and social pacts to ensure we address social inequalities and jobs.

I want to outline 6 areas we will focus on; and two cross-cutting themes that will define our approach.

First, we want to expand markets for our products and facilitate entry to those markets.

The single biggest initiative is the African Continental Free Trade Area (or AfCFTA as it is called) which will connect 1,2 billion people into a single bloc where local products will be traded between countries, with minimal tariffs. These agreements lay the basis for increased intra-African trade and can cement the continent's position as the next growth frontier.

The implementation phase was launched on Sunday, at a Special AU Summit meeting in Niger, after 54 countries signed the Agreement and 27 countries have now ratified it. It is intended to come into effect next year on 1 July 2020.

The Agreement will fundamentally change and reshape the South African economy. Already, exports to other African countries support about 250 000 South African jobs and it is the fastest-growing part of our manufactured exports.

For the period of this Administration, there is an enormous amount of work to bed down the detailed modalities and benefits of the AfCFTA. Deputy Minister Majola will provide more details while I will highlight a few features.

Starting immediately, we will finalise a tariff schedule, listing products covered to be by the AfCFTA; and the rules of origin which sets out what qualifies as a locally-manufactured article. The outstanding rules of origin include clothing and textiles, autos and sugar. We will engage business and labour at Nedlac on these areas and finalise agreements between all countries by the end of this year.

Over the period of this Administration, we will develop agreements:

- on expanded trade in services;
- on investment protections for African companies operating in each others' markets;
- on strengthened competition policy on the continent and
- on trade-related intellectual property rules.

This is the work of a generation, a truly historic mission, to realise the dream of generations of African leaders to build a single, prosperous and united Africa.

To realise the gains, we must address many challenges too, including building strong domestic and Africa-wide customs administrations; swift payment systems between countries; proper infrastructure connecting African countries; and getting South African industry to be AfCFTA-ready through competitiveness-enhancing support.

It will need a ‘Team SA’ approach between business, workers and government. We cannot afford to be distracted by small disagreements when the opportunity to positively transform our industrial landscape is in front of us.

Beyond the African continent, we seek to increase the volume and address the composition of our exports, to shift from simply selling raw materials to the rest of the world and importing finished goods.

As it is said, Africa does not produce what it consumes; and Africa does not consume what it produces.

We must correct this, and engage with large trading partners like China and the EU to change the patterns of trade, and work with local businesses and public agencies to promote beneficiation. I welcome the announcement by Minister Gwede Mantashe to allocate R850 million to a beneficiation programme and we will strongly partner with his Department and Science Councils.

Over the next few weeks, we will concentrate on finalising terms of an agreement between South Africa and the UK in case of a no-deal Brexit, to protect SA exports and jobs. We will engage the US around AGOA and point to the mutually beneficial impact of thereof.

The domestic market is important.

ITAC is currently investigating trade applications in a number of products like poultry, combined refrigerator-freezers, plastic resins and metal screws. We will refocus our trade policy so that tariff relief that is offered to domestic companies is accompanied by clear, enforceable commitments to invest more, expand output, create jobs and transform. In short, trade relief must be part of a package of reciprocal commitments to upgrade and improve industrial performance.

We must respond pro-actively to the threat of a global trade war and the slowdown in growth in most of our major trading partners. Building the African Continental Free Trade Area and making our trade-promotion efforts more effective and strategic are critical. We will work with other countries to sustain the rules-based trade order while maintaining policy space required for industrialisation.

The second focus is to support improved industrial performance, dynamism and competitiveness of local companies.

The President announced in SONA that we will develop a number of Master Plans to help create conducive conditions for industries to grow. This will include assisting companies to improve their industrial capacities and sophistication, focusing more on export orientation, and reclaiming domestic market space lost to imports. A key constraint to growth is electricity pricing. We are working with Ministers Mantashe and Gordhan to lower the cost structure of Eskom for more affordable electricity tariffs, particularly for priority sectors which need to be boosted to create jobs and inclusion. The Master Plans will be action-oriented, implemented through working with business and labour and implemented in stages, so that we can move immediately.

In the steel industry, we will this year launch a support programme for new plant and equipment in metal fabrication. We are meeting investors on the development of foundries and steel mini-mills, including measures to enable beneficiation of scrap metal. We will make the R1,5 billion Steel Industry Competitiveness Fund more attractive and easier to use.

The Clothing Textiles and Footwear sector has a support system in place that stabilized the industry over the past 8 years and saved thousands of jobs. To promote local fashion and jobs in the industry, we will finalise an industry Master Plan, containing proposals dealing with the future of the incentive scheme, trade measures to address illegal imports and value-chain competitiveness. We start discussions with the industry during July to build consensus on a sector social pact.

In the chemicals value-chain, as a first step of the Master Plan, we are mobilising South African companies to supply R8 billion worth of goods and services for the Golfinho Gas project in Mozambique, partly underwritten by our Export Credit Insurance Corporation (ECIC). In plastics, we will partner with domestic manufacturers to identify opportunities for import replacement.

The new Auto Masterplan aims by 2035 to increase local content sharply, from 39% to 60%, double its annual car-production, expand employment to 220 000 people and create a R2.5 billion fund to support black industrialists in the sector. We will now also engage the industry to bring next-generation car manufacturing to South Africa, such as electric or hybrid vehicles.

Agriculture and agro-processing provide enormous opportunities for growth. We are now the world's second largest citrus exporter and beef exports are rising. We are identifying impediments to greater output and prioritising export markets where we can grow, enabling new farmers and black small-scale farming to expand. A revamped agro-processing competitiveness fund will be launched.

For the poultry industry, we will work with industry and labour to develop stronger competitiveness in order to keep prices down and consider the recommendations that come from the trade authorities' investigation into unfair poultry trade practices. We will defend our domestic poultry industry, which is a significant job creator but they need to provide affordable sources of protein to the South African market.

Government will engage the sugar industry to address its challenges, related to a combination of imports and lower demand.

The third focus is to improve the levels of investment in the economy and help to achieve the target set by the President in SONA last year.

The Department will use its budget and resources to support the Investment Conference scheduled for 5-7 November this year.

We will send a number of export missions to other countries, showcasing South African made products and helping local companies to land new orders, including the Shanghai Expo in November this year; and the Dubai Expo in October next year.

Invest SA will be supported and upgraded to be a stronger one-stop shop to unblock obstacles to investment projects getting off the ground.

The IDC will be refocused to provide a greater level of investment promotion services, including support to break into new markets particularly for the AfCFTA, becoming the centre of industrial knowledge in government. The IDC has the capacity to be more than just a bank. The Corporation will be re-positioned to be an initiator and facilitator of industrial development opportunities, with a mandate to manage programmes, unlock investment and growth and use its deep industrial knowledge-base more actively.

The 4th focus is to promote economic inclusion.

This means opening up and changing our market structure, both through industrial funding to new groups and through competition policy.

From tomorrow, the following changes to the Competition Act will come into effect, when a Presidential Proclamation is gazetted:

- Consumers and customers will have better protection against excessive prices by dominant firms in a market, with the law setting out clear criteria that the courts can apply to determine if a price is excessive
- the regulators will have powers to investigate and address high levels of market concentration where these keep SMEs and black-owned enterprises out of the market
- worker ownership of shares of companies will be promoted through a criteria on expanded ownership during mergers

- Small and medium businesses will be given a special status in merger criteria, market inquiries and exemptions
- Larger businesses will have a more flexible exemptions regime in place to enable them to collaborate with each other to help expand South African production, grow our export markets, develop new technologies or expand jobs
- The competition authorities will have additional resources, which will facilitate more efficient operations.

By November this year, following publishing of draft regulations and public consultation, we intend promulgation of sections of the Act that provide small businesses with remedies against price discrimination by dominant firms; or when dominant buyers abuse their power by imposing unfair prices and other trading conditions.

We will process the outcomes of market inquiries.

The digital economy is vital to a rejuvenated economy. To ensure that data prices fall and, working with the Minister of Communications, we will consider and implement relevant recommendations by the Competition Market Inquiry into data services, which are expected by September this year. We anticipate that there will be negotiation with the large cell-phone companies this year, to bring prices down.

Many retail malls limit the opportunity for young new entrepreneurs and small businesses through high rental charges, blocking access to key opportunities. We will consider the recommendations from the Competition Market Inquiry on ways to ensure commercial centres provide space for small retailers and to facilitate buyer groups for spaza shops to source more affordable goods.

Starting from the next financial year, to open up priority sectors, the Commission plans to initiate one new market inquiry per year, complete more than 60 cartel investigations in the next five years, and initiate 10 investigations into abuse of market power by dominant firms. In the last five years, the work of the Commission resulted in R2.8 billion in fines and penalties imposed and the break-up of cartels in construction, automotive components and media.

An estimated R6 billion is expected to be raised in commitments from large companies to support development of small and medium suppliers and black entrepreneurs through merger conditions and the BBBEE equity-equivalence investment programme in the next five years.

To enhance the growth of black industrialists, we will combine the efforts of the Department, the IDC and the NEF into a seamless and coordinated programme. Over the next 5 years, we will support an additional 400 Black Industrialists' projects with financial support of R40 billion, through identifying sustainable businesses and promoting both industrialists, new enterprise formation and worker involvement in the enterprises.

The 5th focus is promoting more equitable spatial and industrial development.

A pillar of our industrial policy is to develop new investment clusters through special economic zones, revitalisation of industrial sites and business and digital hubs.

Deputy Minister Gina will outline in more detail the specific interventions we will make to develop high-growth nodes that can attract investment and progressively deepen the opportunities for South African investors, building partnerships over time with foreign investors and learning from how China and other countries developed their industrial capacity.

We will dedicate high-level human resources over the next few years to the SEZ programme. Attracting investment require that we also address lawlessness and the destruction of property and unlawful disruptions of sites. Communities must be critical partners, together with the work of the law-enforcement agencies.

The 6th focus area is to improve the capability of the state.

This means being more responsive to the needs of industry, moving faster in making decisions and carrying out functions, coordinating better between departments and agencies and creating a business-encouraging environment in which more investment and more job creation can take place.

The CIPC is an illustration of what can be done, speeding up the registration of companies from weeks to 1 day, and integrating systems across the Department of Home Affairs and SARS. Yesterday, the CIPC received the Global Award in London for the most innovative service delivery framework in Africa and the Middle East.

Part of a smart state is partnering with domestic businesses to invest more in innovation and R&D, as new techniques, new products and new distribution platforms can move South Africa up the value-chain and enhance job creation.

We will use private sector expertise to strengthen the implementation capability of government; in many cases we will look to the private sector to carry the costs of experts where possible.

The two departments propose legislative amendments covering gambling, liquor regulation, consumer credit, special economic zones and company governance. I am commissioning a review and will make an announcement on the final legislative programme by mid-September this year.

Honourable members, these 6 areas I listed areas are not separate initiatives or programme silos: they will need to be implemented in an integrated way, with one initiative reinforcing another. For example, increased African exports require competitive businesses and an effective state, higher levels of investment, the AfCFTA and opportunities from factories in Industrial Parks. We need to connect these.

There are two cross-cutting themes for all 6 initiatives:

- The first is greater partnership with the private sector and with workers; with joint-commitments and reciprocity; not a state that either dictates or simply gives, but one that sparingly use national resources to help unlock the energy and enterprise of our people.
- The second is to promote inclusion and transformation – opportunities for black and white youth; for women; for black industrialists. Inclusion also means making our government more accessible to communities, young entrepreneurs and new entrants.

The Departments and agencies will be asked to engage in community outreach programmes and roadshows to publicise our programmes and to make it easier for people to use them.

The centre-piece of inclusion is job creation. Every agency, regulator and programme will be directed to review their procedures, systems and goals within the next 60 days, to see how they can enhance job creation.

I spoke of partnership earlier.

The private sector is a key partner, not an opponent.

Our actions will support local companies to grow and become more dynamic. Big is not bad: large companies are an opportunity to build globally-active corporations headquartered in South Africa. But we will ask corporations to ensure more South Africans benefit through higher levels of investment in factories, technologies, new products and SME development; through promoting decent working conditions with skills enhancement; and through expanding exports and their presence on the African continent.

Workers too are key partners, not commodities, as our people are the very purpose of industrial development. We call on the business sector to avoid retrenchments and job losses wherever possible. We will support efforts working with Minister Nxesi, to improve the levels of worker skills and productivity, facilitate sufficiently flexible work arrangements to enable companies to grow and become bigger employers of labour, and build partnerships at workplace level that benefit workers and shareholders.

The role of the state is important in creating an enabling environment for entrepreneurs and workers to create wealth; in investing in sources of growth such as infrastructure, skills and technologies; and in ensuring that the fruits of economic activity is fairly distributed across society.

To implement this vision over the next five years, we have considerable resources that should be focussed sharply: our people, our budget, the capital base of the IDC and NEF, the capacity of regulators and the resources that can be unlocked through private sector commitments. These should be used in a coordinated, transparent, expeditious and effective way.

In the SONA debate in this august House a few weeks ago, I listed the immediate steps we will take in the first 100 days of this Administration and new investments that will be launched, starting from this month. We will carry these out, so that a sense of urgency is injected in our work.

Khawuleza.
Phuthuma.
Hatlisa.
Ons moet wikkel.

I wish to thank Rob Davies, my predecessor at T&I who laid a very strong policy basis that the new Administration can build on. I also wish to thank both Deputy Ministers Gina and Majola, and both Directors General October and Tom and their staff, the heads and boards of agencies and regulators; and the social partners for the work done to help achieve the goals of the portfolio.