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REPUBLIC OF SOUTH AFRICA

The New Growth Path

Economic Development Parliamentary Committee

27 January 2011

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A starting point

“It is my pleasure and honour to highlight the key elements of our programme of action. The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job creation initiatives. In line with our undertakings, we have to forge ahead to promote a more inclusive economy.”

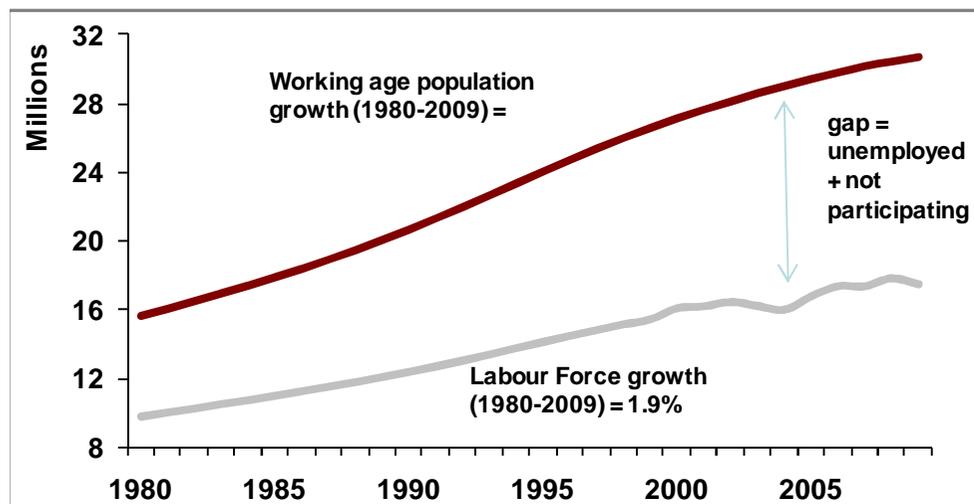
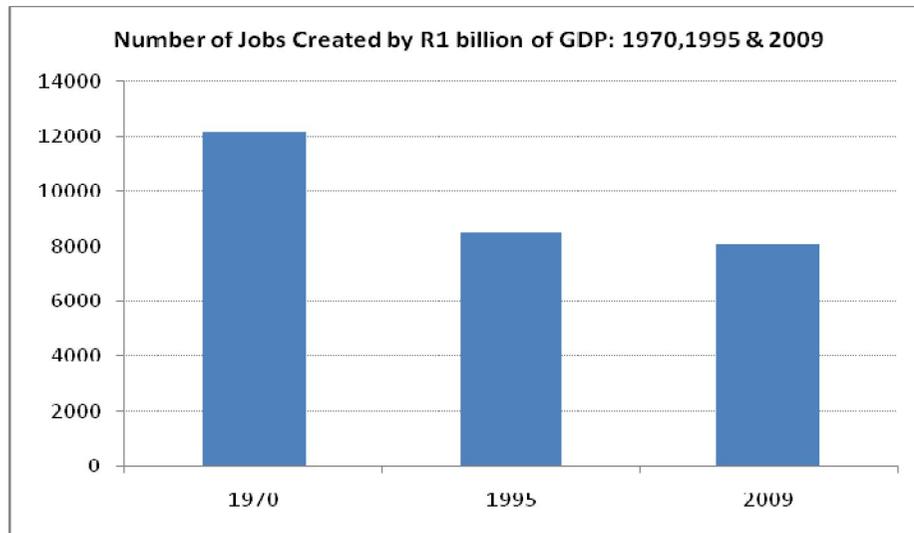
President Zuma, Inaugural
State of the Nation Address

We here identify:

- Where employment creation is possible on a large scale given new conditions globally and in South Africa.
- A policy package to support employment creation in these areas, above all by
 - Macro-economic measures
 - Competitiveness through micro-economic measures
 - Using a social pact to develop a common vision and bring key stakeholders in
- This is not a conventional growth strategy but rather identifies key actions for sustainable development and employment



The jobs challenge



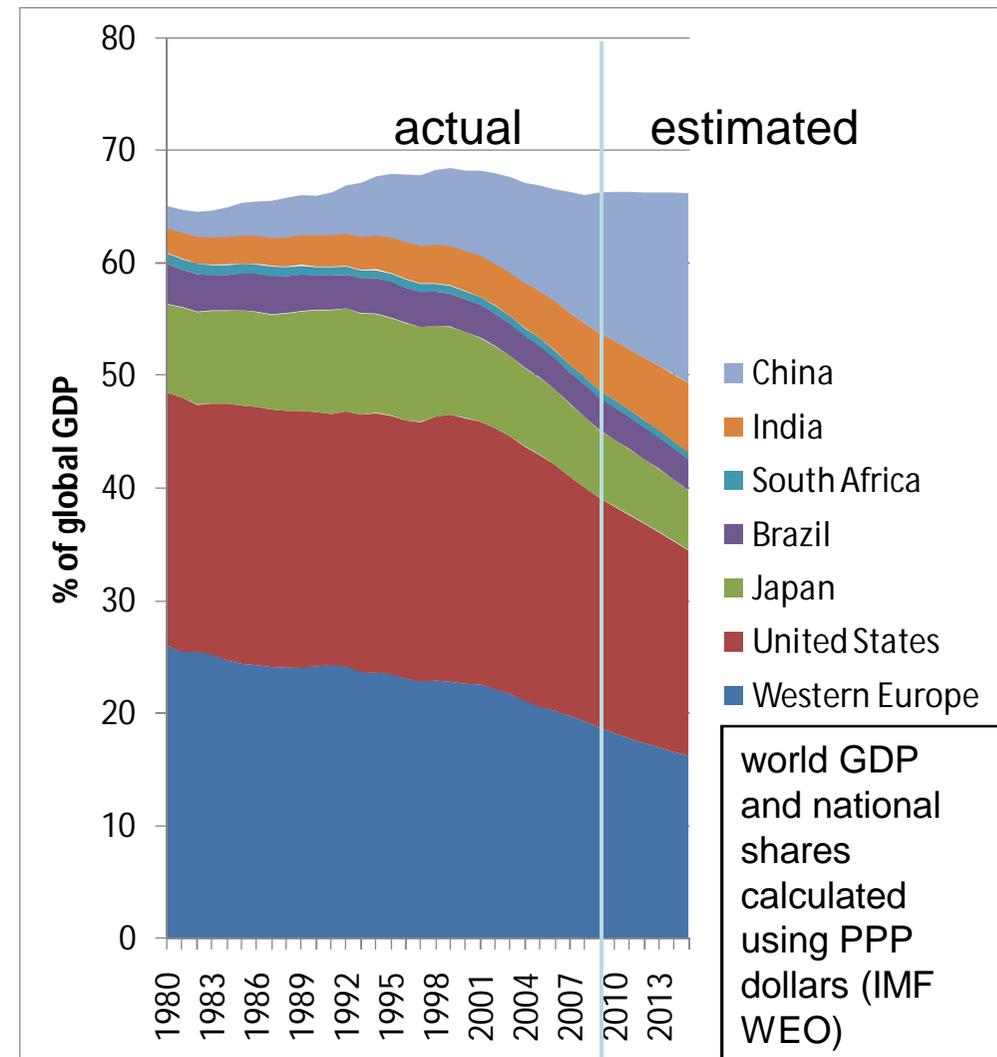
Labour absorption

South Africa	41,3%
Egypt	43,2%
India	55,6%
Argentina	56,5%
South Korea	58,1%
Malaysia	60,5%
Brazil	63,9%
China	71,0%



New global context

- The rise of new economic powers
 - Shift in the geo-politics and economics:
China, India, Brazil
 - Scramble for Africa's resources
- Economic fragility
 - Imbalances and systemic weakness remain
 - Slow recovery in global North
 - Policy space opened
- Climate change – and new massive green industrialisation wave
- Technological innovation – jobs for the future





China – an example

What we sell:

Top 10 Exports

1. Iron ore
2. Ferro-Alloys
3. Chromium ores
4. Manganese ores
5. Platinum
6. Flat-rolled steel
7. Wool (raw)
8. Copper waste and scrap
9. Zirconium and vanadium ores
10. Nickel plates, sheets and foil

What we buy:

Top 10 Imports

1. Cell-phones and phones
2. Computers
3. Printing machines
4. Plastic and rubber boots
5. Televisions and monitors
6. Kettles, microwave ovens and toasters
7. Dresses and women's jackets
8. Suitcases and bags
9. Sports shoes
10. Computer and cash register parts and accessories

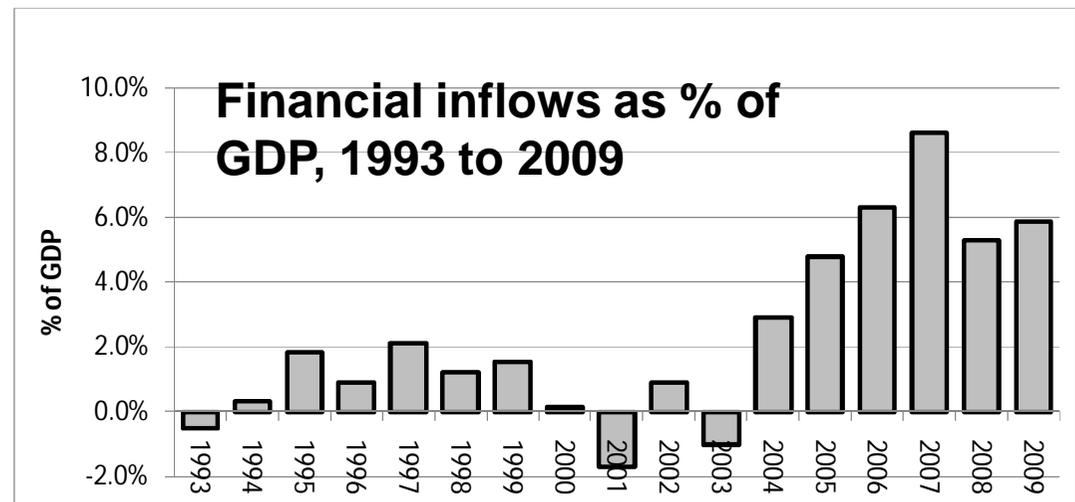


And in South Africa ...

- Recession led to 3% drop in GDP, mostly in commodity exporting sectors and auto, with 6% fall in employment
- More than a million jobs lost since September 2008
- Reflected underlying structural problems
 - Depended on exports of commodities
 - Consumption-led growth internally
 - 80% of credit extended to households went to richest 10%
 - Short-term capital inflows inflating the rand and making the economy less competitive overall

Other structural problems:

- Energy intensity of growth
- Investment at only 22% of GDP (up from 14% in 1994), with sharp drop in private investment in 2008/9
- Low and volatile private savings
- Backlogs and bottlenecks in logistics, energy and skills
- Highly concentrated ownership raising costs and inefficiency





New opportunities

- Manifesto prioritises decent work
- Build on earlier work
 - RDP pointing to core link between development and growth
 - GDS Summit on integrated approach to employment
 - AsgiSA identified major constraints and kick-started build programme
 - Framework on recession: industrial focus on jobs
- Chance to step up implementation
- What: Address poverty and inequality through how the economy performs rather than managing outcomes through welfare
- Growth follows employment targets, instead of employment as residual outcome of growth
- Integration of macro and micro policies with actions of market actors: development package
- Alignment of state
- Mobilise society behind new vision



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In other words...

... new job-absorbing greener growth path

The approach:

Identify key jobs drivers where employment is possible

Identify what is needed to achieve the jobs and investment

5 million new jobs by 2020

Key steps by the state: directly and in facilitating broader growth

Private sector: how to align outcomes with jobs goals

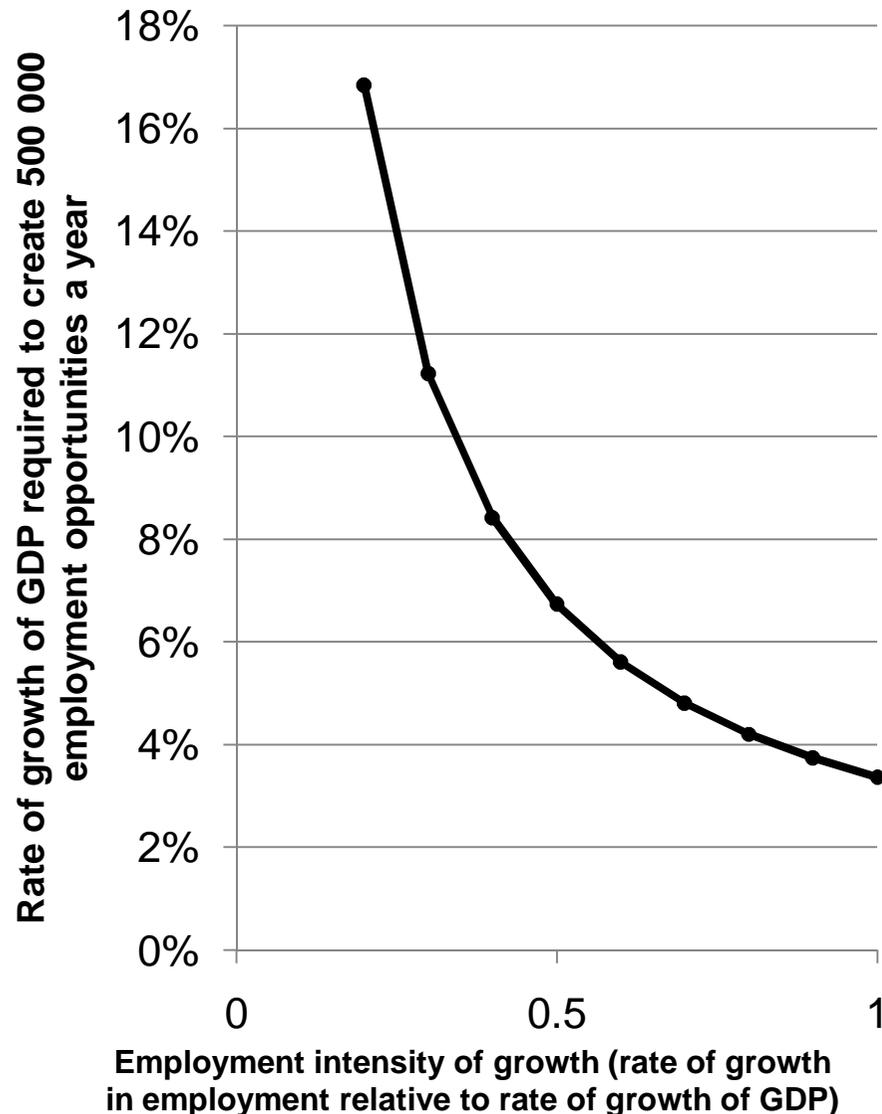
New opportunities in changing regional & global environment

Employment intensity and growth



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- To achieve jobs target requires growth AND greater employment intensity of growth (employment increase relative to GDP growth)
- Employment intensity of 0,2% would require a growth rate of over 15%; employment intensity of 0,8 would require a growth rate of 4%
- Debates about historic intensity of growth: 0.8 from 1996 (Census data) to the second quarter of 2010 (QLFS data); 0.5 from 2001 (LFS data) to the second quarter of 2010 (QLFS data); and .67 from 2002 (LFS data) to the second quarter of 2009 (QLFS data).

Jobs drivers

Infrastructure
Energy, transport,
communications,
water,
housing.

Main economic sectors:
Agriculture &
agroprocessing
Mining and beneficiation
Manufacturing (IPAP2)
Tourism/other services

**Look for employment opportunities in
“jobs drivers” and implement policies
to take advantage of them**

New economies:
Green economy
Knowledge
economy

Social capital:
The social economy
The public sector

Spatial opportunities:
Rural
development
African regional
development

Jobs driver 1: Infrastructure



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- Planned public investment could create 250 000 jobs
- Jobs in construction, operation, maintenance and supplier industries in energy, transport, water, housing and ICT
- Also crucial for overall competitiveness and overcoming spatial legacy of apartheid
- Key policies: Maintain expenditure; improved planning/budgeting; stronger local procurement; leverage private and international funding; incentivise labour-intensive construction models; address market power in construction industry



Jobs driver 2: Sectors

Agriculture, agro-processing

- Aim to place 300 000 households in smallholder schemes by 2015; 145 000 jobs in agro processing by 2020; upgrade employment on commercial farms (currently around 660 000 farmworkers)
- Where the jobs are: Smallholder schemes in industrial products and forestry; export of wine and fruit; extension services
- Key policies: Link smallholder schemes to land reform and provide integrated support; address high cost of inputs (fertiliser, seeds, tractors, silos); support farmworker organisation; exchange rate

Mining value chain

- 140 000 jobs potential in mining alone by 2020
- Jobs potential in upscaling mining output and fourth-stage beneficiation (fabrication of final products)
- Key policies: infrastructure and skills, regulatory reform and incentives, strategic use of state-owned mining company, export taxes, exchange rate



Jobs driver 2: Sectors

Broad-based manufacturing

- IPAP2 foresees 350 000 jobs outside agricultural value chain and services
- Manufacturing is central to long-term growth
- IPAP2 sets clear sectoral plans and targets
- Key policies: IPAP2, procurement, industrial financing, skills, social pacts, exchange rate

Tourism and other high-level services

- Tourism can create 225 000 jobs by 2015, business services 50 000 by 2020, plus huge scope in cultural industries and knowledge economy
- Target youth employment and SMEs
- Key policies: cutting costs of travel (airlines, hotels), skills development, marketing, infrastructure, worker conditions, exchange rate

Jobs driver 3: The new economies



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The green economy

- 300 000 additional direct jobs by 2020, and 400 000 by 2030
- Jobs in biofuels, solar, wind, manufacturing of inputs, construction, environmental management and public works
- Key policies: feed-in tariffs, procurement, SME policies, building regulations, R&D, skills and resource management

The knowledge economy

- Target 100 000 jobs by 2020
- Where the jobs are: ICT, higher education, healthcare, new technologies, mining-related technologies, pharmaceuticals, biotechnology
- Main policy supports: R&D financing, broadband policies, technology diffusion systems targeting SMEs, rural development and new industries, link to niche tourism, higher education hub of Africa

Jobs driver 4: Investing in social capital



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The social economy

- Potential of 260 000 new jobs
- Not-for-profit producers like co-ops and social investment vehicles
- Build social cohesion and collective action as well as providing employment
- Main policy supports: Co-op Development Agency, Training Academy, incentives and targeted procurement, business development services, access to finance and credit

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The public sector

- Target 10% growth in the public service by 2020; EPWP and within that Community Works Programmes; new youth scheme to reach up to one million young people
- Public employment schemes should mobilise communities and give youth opportunities for service
- Key sector policies: Finance for priority areas, expanded community works and youth programmes, filling of public sector vacancies

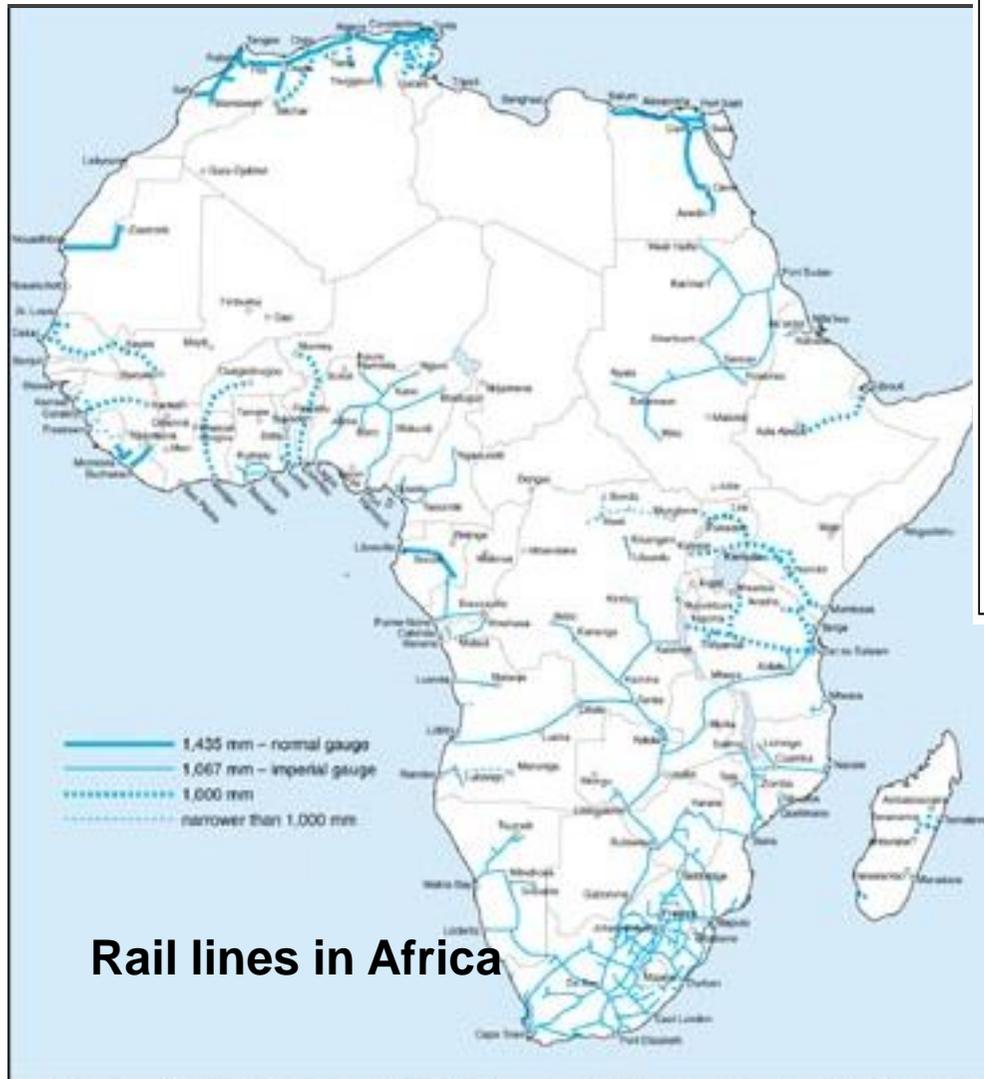
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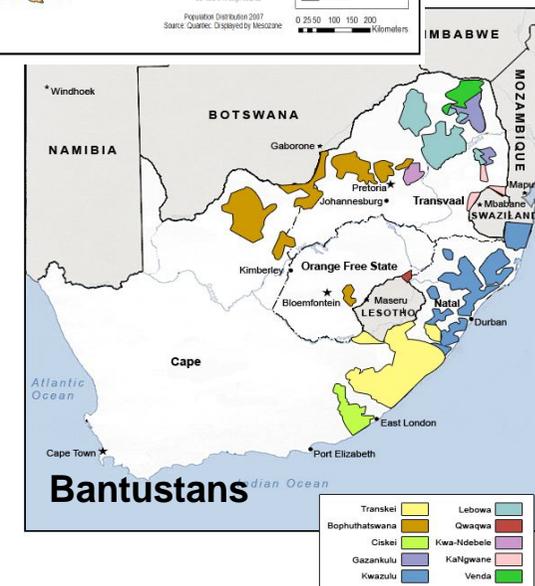
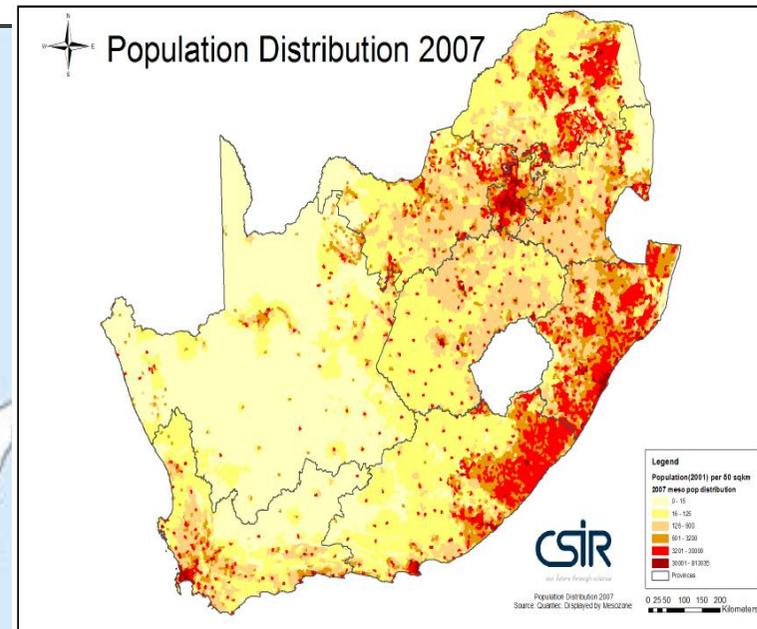
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Spatial imbalances



Sources: Fusion Energy Foundation, *The Industrialization of Africa*, Wiesbaden: Campagner Publications, 1980; *The Times Atlas of the World*, New York: Times Books, 1990.



Jobs driver 5: Spatial development



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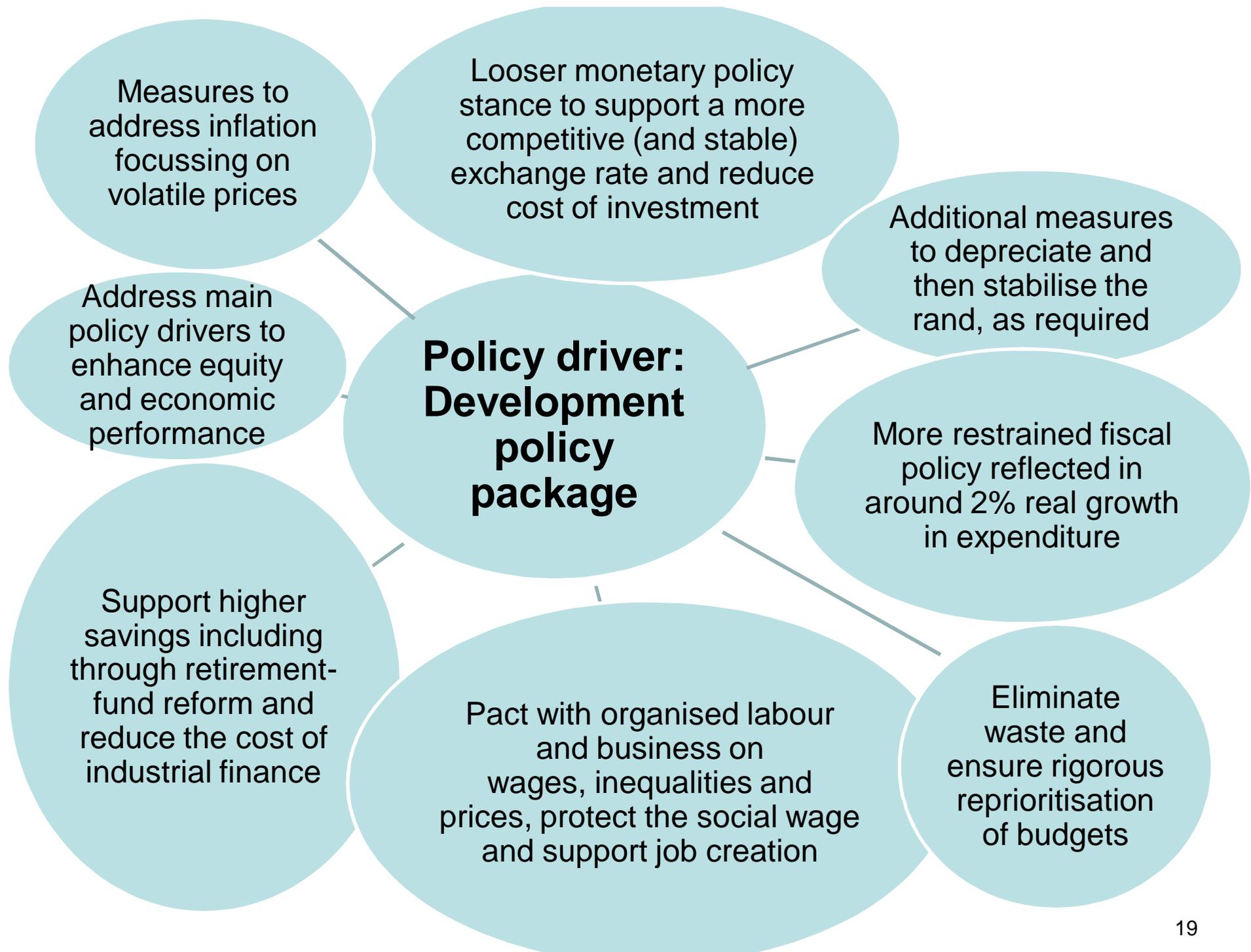
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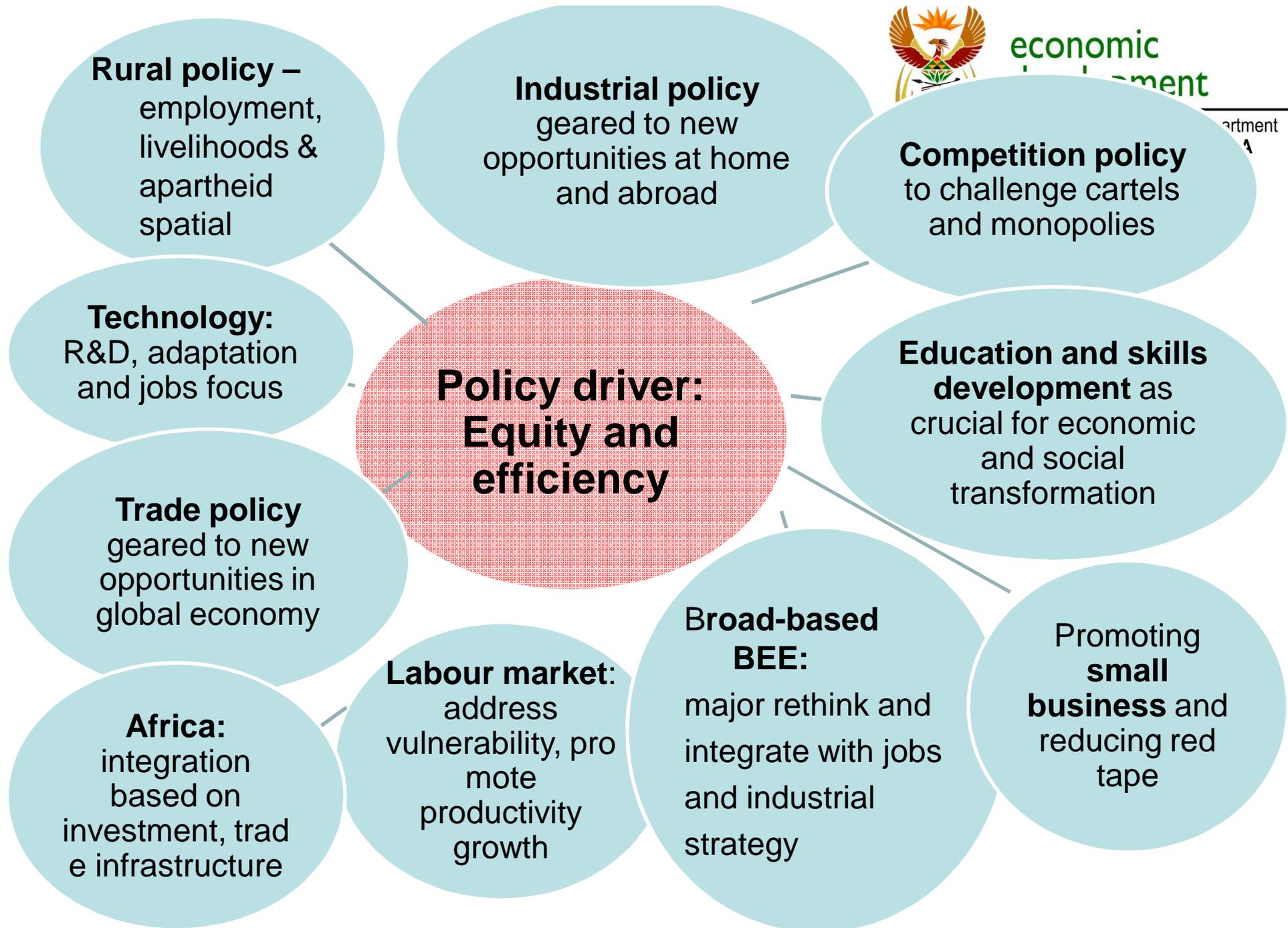
African regional development

- 150 000 additional direct jobs by 2015 just from exports of goods within continent
- More opportunities from business and logistics services, supply of infrastructure inputs, integrated supply-chains
- Failure to support regional development will make sustained growth impossible in South Africa
- Key policies: Regional development, infrastructure “connectivity” and improvement, common regulatory systems, ‘smart ports’, food production policies

Rural development

- Measurable improvement in livelihoods for 500 000 households by 2015 plus opportunities in improved services
- Need to link to realistic understanding of long-term trends and economic conditions by region
- Key policies: Targeted provision of infrastructure, marketing institutions, education and skills, active support for farming, eco-tourism and other sustainable rural enterprise







Mobilising behind the vision

1. Social pact as one part of the overall development package: everyone must contribute to the creation of jobs
2. We propose it embraces wages, prices, jobs and the social wage
3. On wages, must address income inequalities
4. Proposal involves four income bands in broad commitment
 - Under R3000 p/m: no specific limit is proposed, steps to address vulnerable worker conditions
 - R3000-20 000 p/m: inflation PLUS modest real increase
 - R20 000-45 000 p/m: inflation ONLY
 - Over R45 000 p/m: LESS than inflation or pay capping
5. Price moderation – especially in basic consumer goods and industrial inputs
6. Jobs commitments by business
7. Social wage: improve for working class communities (housing, healthcare, education)
8. Savings: universal retirement funding for all workers, coupled with rules reviews



Resource drivers

Actions:

- Develop systems and incentives to increase personal, community and private savings and investment
- Target developmental investment through DFIs and development bonds
- Reprioritising Budgets and state spending
- Address high levels of personal debt
- Work to align all the resource drivers

Resource drivers:

- state budgets (national, provincial and local)
- the resources of SOEs and DFIs
- Universities and science council resources
- retirement funds
- the domestic private sector
- international investment
- donor funding
- community-owned financial institutions such as stokvels and co-ops.



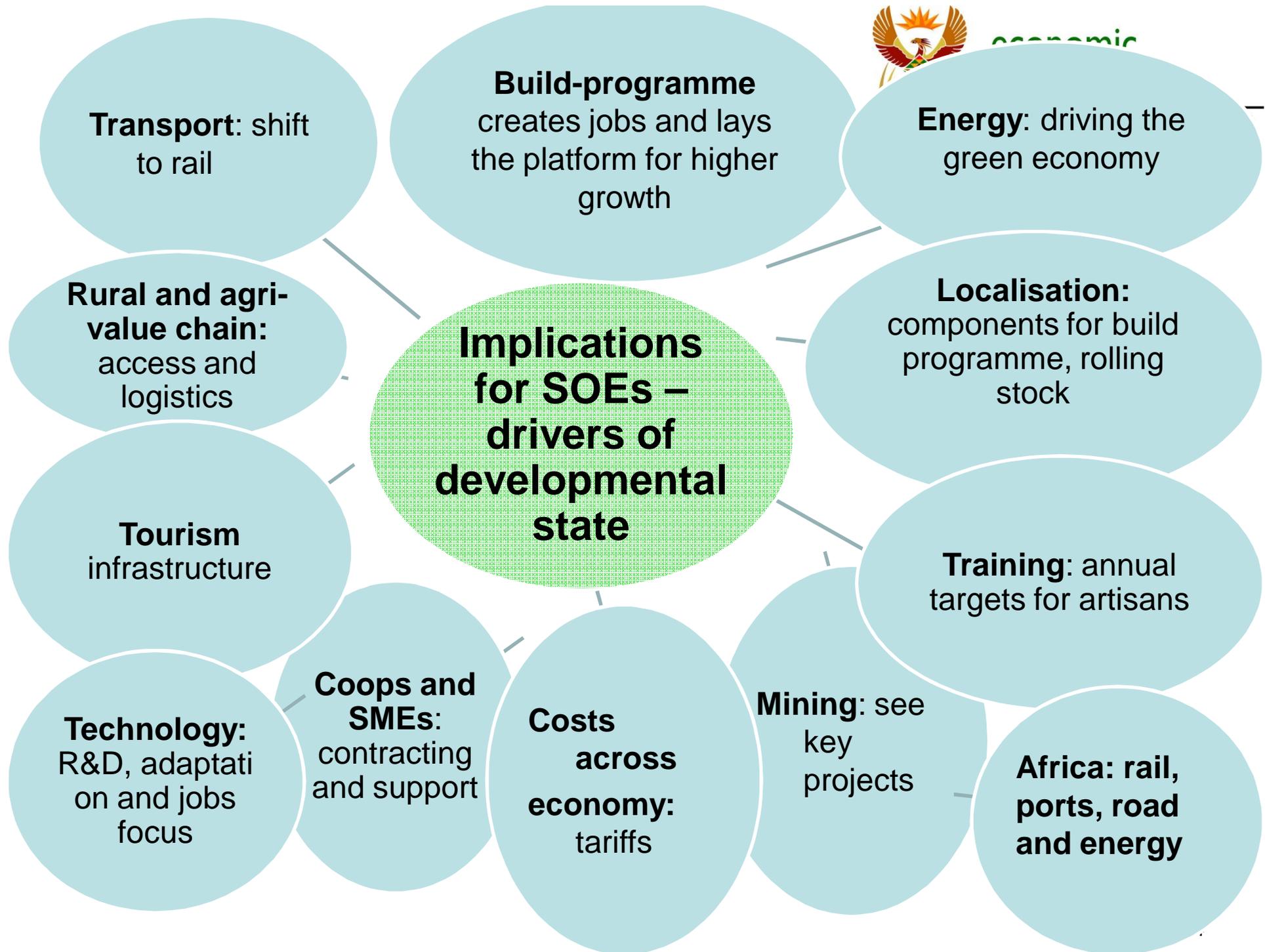
Institutional drivers

The developmental state

- Agile, responsive, learning
 - Profound shift in culture – from compliance/process to delivery/outcomes
 - Alignment around growth path – review budgets, programmes and procurement policies
1. The DFIs (IDC, DBSA, Land Bank, Khula, SAMAF, NEF)
 2. The GEPF and the PIC, as crucial investment drivers
 3. The SARB, within its Constitutional mandate.
 4. The infrastructure SOEs (Transnet and Eskom)
 5. ITAC and Customs & Excise
 6. The Competition Commission/Tribunal and other regulatory, standard-setting and accreditation bodies
 7. The science councils, universities and Mintek



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Institutional drivers

BUSINESS

- Business and markets vital – jobs, investment, entrepreneurship, technology
- Large companies linked to national-base
- Developmental state not simply hostage to market forces and vested interests: through careful alliances, clear purpose and leveraging its resource and regulatory capacity, can align market outcomes more clearly with development needs

LABOUR

- Resources include skills commitments, productivity-agreements, retirement funds, union investment vehicles, wage agreements, public service delivery
- Without a common vision and strategic unity, not possible to make real progress and the society will simply exhaust itself on policy polarisation, while the extent of the developmental crisis grows

SOCIAL DIALOGUE

- Messy, time-consuming – but crucial
- Deepen dialogue at sector and workplace
- Strengthen institutions from constituencies to NEDLAC
- Mobilise South Africans behind a vision



The risks

- Others seize the opportunities if we are slow (in Africa, green economy, supplier industries)
- Weak consensus with business and labour means ‘business as usual’ in economy
- Double dip recession worldwide or in global North slows export demand
- Capacity in the state not actively built
- Failure to implement package coherently leads to unintended consequences
- State institutions do not redirect programmes to support new growth path – need to identify trade offs frankly and manage them



Going forward...

- Government has had many policy documents with good aims, but often not implemented
- Why?
 - Failure to ensure clear prioritisation across the state
 - Proposals require more capacity than available
 - Resourcing not aligned with policies
 - Lack of feedback to ensure problems are dealt with as they arise
- New methodology of setting clear outcomes, then planning and reporting around them, is crucial
- Role of NPC in ensuring alignment with broader plan (health, demographics, migration)
- Departmental and agency commitment to measuring own programmes against impact on employment and equity in both short and long run



Toward a new path

- Developmental growth path is not a once-off event or document – develops step-by-step as policy redirected to goals of decent work and growing the green economy
- Learn by doing, not talking – a state that adjusts policy to conditions
- Need quick wins but there are no silver bullets – it will take time and require complex choices and trade offs to restructure the economy
- If implemented effectively and responsively, core policies can fundamentally shift society to new developmental growth path
- Urgency to make a concrete impact on the triple crises of employment, poverty and inequality
- Focus our collective energies as a nation, mobilising government but also all our people behind the vision and the practical steps required to achieve it



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Political leadership

- Political leadership, oversight and mobilisation central to success
- Not a bureaucratic programme but a mobilising vision
- Involve communities, mobilise at workplaces.
- Build broad support – implementing the Electoral Mandate
- Structural monitoring and political oversight
- Communication strategy



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