

**MEETING BETWEEN THE
MULTI-PARTY NEGOTIATING PROCESS
PLANNING COMMITTEE
AND THE NEF PROCESS COMMITTEE**

**MONDAY, 2 AUGUST 1993, 08H30 - 09H15
WORLD TRADE CENTRE, KEMPTON PARK**

P R O P O S E D A G E N D A

1. WELCOME AND INTRODUCTION
2. NEF INPUT LED BY MR B GODSELL (10 minutes) COVERING :
 - 2.1 Background to the NEF
 - 2.2 NEF work programme
 - 2.3 Issues for discussion with Planning Committee
 - Constitutional proposals and interaction with technical committee
 - Transitional Executive Council, sub-councils on finance and foreign affairs, focussing on interaction with the technical committee and TEC (once established)
 - Fundamental Rights during transition
3. RESPONSE FROM PLANNING COMMITTEE AND DISCUSSION
4. WAY FORWARD

NATIONAL ECONOMIC FORUM

PROCESS COMMITTEE

**REPORT OF THE NEF PROCESS COMMITTEE TO THE NEF
PLENARY, 5 JULY 1993**

NATIONAL ECONOMIC FORUM

REPORT OF THE NEF PROCESS COMMITTEE TO THE 5 JULY 1993 NEF PLENARY

The NEF Process Committee is responsible for co-ordinating the overall NEF process, both in terms of the NEF work programme and in terms of the NEF's relationship with other bodies. This report provides a broad overview of activities since the inception of the NEF on 29 October 1992, as well as a brief history of the process leading up to the launch of the NEF.

1. HISTORICAL BACKGROUND

On 21 January 1992, 60 representatives of organised business and organised labour met in Johannesburg to consider the formation of an Economic Forum. This meeting represented the culmination of mounting calls from labour for a national forum to negotiate economic issues and motivations from within business of the need for consensus on economic issues. Two months later, business and labour agreed on a joint proposal for a National Economic Forum, comprising organised business, organised labour and the governing authority. After a period of consultation with the government, through Minister Keys, the National Economic Forum was launched on 29 October 1992 with organised business, organised labour and the governing authority as its principal participants.

The founding documents outline the objectives and modus operandi of the NEF. In essence, the NEF was established to provide a mechanism through which major economic stakeholders could address economic issues and seek consensus on their resolution primarily during transition and potentially thereafter. At its inception, the NEF recognised that there were other important players who were not directly involved in the process and committed itself to finding mechanisms for ensuring the input of these players into the NEF.

2. NEF STRUCTURES AND PROCESS

The NEF structures are comprised of a Plenary, two Working Groups, a Process Committee and a Secretariat.

2.1. Plenary

Today's session represents the first in a series of regular NEF Plenary sessions, convened to ensure that the NEF process is transparent to both

the constituencies of organised business, organised labour and the governing authority and also to wider interest groups. Plenaries provide a mechanism for reporting NEF progress and for reviewing the NEF process. It is intended to have at least one more plenary during the remainder of this year.

2.2. Process Committee

The Process Committee is the co-ordinating body of the NEF, comprising 15 members (addendum 2 lists Process Committee members).

2.3. Working Groups

The NEF has two working groups - the Short Term Working Group (STWG) and the Long Term Working Group (LTWG). The STWG focusses on issues requiring immediate attention and short term delivery, whilst the LTWG addresses longer term macro-economic and development policy issues. Co-ordination between the work programmes of the two working groups is a constant issue of attention, in acknowledgement of the fact that short term decisions need to be sustainable in the medium to long term. Business, labour and government are each entitled to five to ten representatives per working group.

2.4. Task groups

Increasingly, as the NEF work programme moves into specialist areas of investigation, task groups are being established under the auspices of the two working groups. At least nine such task groups have been established, or are due to be established, covering the following areas:

- Trade policy.
- The production and use of statistics in South Africa.
- The causes and effects of retrenchments.
- Review of current retrenchment mechanisms and possible future mechanisms.
- Targeted assistance programmes.
- Job Creation Programme.
- Public Tender system.
- Unemployment Insurance Fund.
- Small Business development.

2.5. Briefing sessions

To facilitate discussion on aspects of its work programme, the NEF has requested briefings on specific issues. At least thirteen such briefings have been held. Topics covered are outlined in Addendum 1.

2.6. Submissions and hearings

The NEF invites submissions from the public on aspects of its work programme and also holds oral hearings. This is an important mechanism for ensuring wider input into NEF deliberations. In developing NEF proposals on job creation programmes, submissions were called for. The NEF received over 70 such submissions and heard 16 oral presentations. Those proposals that dealt with projects will be presented to the technical committee of the NEF Job Creation Programme.

2.7. Secretariat

The secretariat is responsible for providing process and administrative support to the NEF. The NEF has commissioned the Consultative Business Movement to provide secretariat support on an interim basis.

3. COMMUNICATION AND TRANSPARENCY

Since its inception, the NEF has committed itself to the need for transparency in its deliberations. In order to more effectively achieve this goal, the NEF intends to do the following:

3.1. NEF relationship with the public and the media

3.1.1. The Process Committee has agreed that an important mechanism for ensuring transparency will be the convening of more regular plenary sessions, which will be open to the media. Whilst future plenary sessions will not necessarily be of the same scale as the first, they will provide an opportunity for regular progress reports and process reviews. Plenaries will be accompanied/followed by NEF Information Bulletins, which will be available to the constituencies of the NEF and the public.

3.1.2. Submissions and hearings

The NEF will continue the practice of inviting and receiving submissions and where appropriate, holding hearings.

3.2. NEF relationship with other initiatives/bodies

3.2.1 The NEF has noted the dramatic increase in the number of forums at regional level and on an issue-specific basis, and believes that this represents an important development in the input of civil society into determining the nature of a new South Africa, both during transition and beyond. The NEF acknowledges the need for effective communication and co-ordination between these various initiatives, and the call for the

NEF to play a role in this regard. Furthermore, there are other bodies whose work programme may be related to matters receiving consideration in the NEF. To ensure co-ordination, meetings have already been held with :

- PWV Economic and Development Forum
- VAT Co-ordinating Committee
- Food Logistics Forum
- National Consultative Forum on Drought
- National Housing Forum
- National Manpower Commission
- National Training Board
- National Productivity Institute

The NEF will in the course of the next month be developing a more systematic proposal for effecting co-ordination.

3.2.2 Budget and Functional committees

The government has invited business and labour in the NEF to participate in the functional committees and the budget committees. Business has indicated its willingness to participate and labour is still considering the invitation.

4. NEF AND THE POLITICAL TRANSITION PROCESS

4.1. Multi-Party Negotiating Process

At its inception, participants in the NEF agreed in the key founding document that "organised labour, organised business and the governing authority have a central role in developing strategies geared toward the generation of sustained economic growth, the addressing of distortions in the economy, stability and the addressing of social needs. These areas need to be addressed as a matter of urgency if the political transition is to succeed."

For this reason, the NEF Process Committee has recently requested a meeting with the Planning Committee of the Multi-Party Negotiating Process. Besides exchanging briefings on the respective processes, the NEF is particularly interested in discussing the terms of reference being developed for the proposed Transitional Executive Council, specifically its finance and foreign affairs sub-councils.

The NEF will also be convening a workshop on the fiscal, economic and developmental consequences of the division of powers between different levels of government and the delimitation of regions.

5. NEF FINANCING

The NEF is operating on a budget of R500 000 for 1993. This budget covers the costs of running the secretariat as well as meetings and joint research costs. The budget is currently funded by contributions from business and government and the Danish government has made a commitment to make a contribution. NEF participants are committed to seeking public funds for operating costs after this first year of operation. The NEF will publish an annual report and financial statements.

6. CONCLUSION

The last nine months of NEF activity have represented an important development of a new mechanism whereby three major economic stakeholders can interface on economic and development challenges. Whilst room for improving the process will always exist, the Process Committee is satisfied that the NEF is proving to be a worthwhile mechanism for addressing economic issues, particularly during transition.

Plenary sessions, such as today's, provide an important opportunity to not only report progress, but to constructively review and improve the NEF process. Views expressed in today's session will be recorded in a formal report and will be fed into ongoing NEF deliberations.

Addendum 1

BRIEFING SESSIONS HELD BY THE NEF

1. Briefing by Mr P van Huyssteen of the Office for Public Enterprises on current and planned restructuring of the public sector, parastatal institutions and state corporations.
2. Current and planned public work programmes - Mr J Kastner, Department of Manpower.
3. Trade policy and industrial policy - input by Dr S Naudè.
4. Briefing by Minister D Keys on the 1993/94 National Budget.
5. Public sector restructuring - briefing by Mr D Richter on financial relations between the South African government and the self-governing territories and TBVC states and briefing by the Commission for Administration.
6. Budget procedures and control systems - briefing by Department of State Expenditure.
7. ABACOR - briefing on proposed privatisation of ABACOR.
8. Trade and tariff policy - briefing by Dr S Naudè of Department of Trade and Industry on the GATT offer and rationalisation of tariff policy.
9. Small and medium enterprises - briefing on strategic perspectives on SME development by Mr P Pienaar, Department of Trade and Industry.
10. Monetary policy - briefing by Dr C Stals, governor of the South African Reserve Bank.
11. Normative Economic Model - briefing by Minister D Keys on the NEM prior to public release and subsequent detailed briefing by government officials.
12. Briefing by Mr J Page of the World Bank on Asian economic success.
13. Briefing by the parliamentary audit commission and the Auditor General.

Addendum 2

PROCESS COMMITTEE MEMBERSHIP

Business:

B Godsell (convenor)
D Brink
A du Plessis
D Ncube
R Parsons

Labour :

J Naidoo (convenor)
A Erwin
T Oliphant
E Patel
D van der Merwe

Government :

J Jacobs (convenor)
T Alant
J Kastner
D Keys
D Krogh
S Naudè

FORUM MEMBERS

Labour :

Congress of South African Trade Unions (COSATU)
Federation of South African Labour Unions (FEDSAL)
National Council of Trade Unions (NACTU)

Business :

Afrikaanse Handelsinstituut (AHI)
Building Industries Federation South Africa (BIFSA)
Chamber of Mines
Council of Southern African Bankers (COSAB)
Federated Hospitality Association of South African (FEDHASA)
Foundation for African Business and Consumer Services (FABCOS)
Institute of Retirement Funds (of Southern Africa)
Islamic Business Chamber
National African Federated Chamber of Commerce and Industry (NAFCOC)
South African Agricultural Union (SAAU)
South African Association of Consulting Engineers (SAACE)
South African Chamber of Business (SACOB)
South African Employers' Consultative Committee on Labour Affairs (SACCOLA)
South African Federation of Civil Engineering Contractors (SAFCEC)
South African Property Owners Association (SAPOA)
Steel Engineering Industries Federation of South Africa (SEIFSA)
The Life Offices' Association of South Africa (LOA)

Government :

Various representatives, drawn principally from a range of central government departments.

NATIONAL ECONOMIC FORUM
SHORT TERM WORKING GROUP

**REPORT OF THE NATIONAL ECONOMIC FORUM SHORT TERM
WORKING GROUP (STWG) TO THE NEF PLENARY, 5 JULY 1993**

NATIONAL ECONOMIC FORUM

SHORT TERM WORKING GROUP

REPORT OF THE NEF STWG TO THE 5 JULY 1993 NEF PLENARY

INTRODUCTION

The Short Term Working Group (STWG) is one of the three standing structures of the National Economic Forum (NEF). It was set up to focus on issues requiring immediate attention and to attempt to reach decisions on concrete actions in the shortest possible time.

The parties to the NEF agreed in October 1992, that the NEF should achieve a balance between a focus on short term challenges including those during the transition and the formulation of a long term economic framework. The Forum should attempt to reach short term decisions and solutions which are sustainable in the medium to long term.

In practice, organised labour, business and government have spent a large part of their time and resources in the NEF on issues requiring immediate attention, and this report sets out the progress of the Short Term Working Group.

Issues addressed

At the first STWG meeting of 23 November 1992 the following issues were identified as the work programme for the STWG:

- Job creation and retrenchments.
- Trade and tariff policy.
- Public sector restructuring.
- Training and human resource development.
- Industrial restructuring.
- VAT and taxation.
- Food prices and drought.
- Small and medium enterprises.
- Retirement and provident funds.
- Labour market institutions.

The STWG agreed to focus on a specific number of immediate issues being, job creation and retrenchments, trade and tariff policy, public sector restructuring and small and medium enterprises. Substantial agreements have been made in the

area of job creation and retrenchments, and some agreements have been made in the areas of trade and tariff policy, public sector restructuring and small and medium enterprises as shown in sections one, two and three below.

Method of work

In addressing the issues outlined above the following meetings were held: eight STWG meetings, three negotiating committee meetings, a series of bilateral meetings between labour and business and between labour and government and a number of convenor meetings.

Over and above the formal NEF meetings, the STWG has attempted to work in as open, informed and transparent a manner as possible. This has been done in a number of ways:

- Receiving written submissions from institutions, NGOs, forums and members of the general public.
 - Over 70 submissions were received on the issue of job creation.
- Holding workshops and establishing task force investigations with stakeholders outside the NEF.
 - The Unemployment Insurance Fund Board is involved with the NEF in a joint investigation into possible adaptations of the UIF.
- Expert presentations from individuals and organisations, outside the NEF to the STWG on a variety of topics.
 - Sixteen presentations were made to the STWG on the area of job creation.
- The establishment of task groups.
 - Task groups were established on the causes and extent of retrenchments, public sector restructuring and small business development.

Throughout the STWG's work, regular mandates were sought and received from the participants' constituencies.

In developing a more focused approach to the agenda outlined above business, government and labour put forward proposals on job creation in order to develop a common set of STWG proposals that begin to address the crisis of unemployment in South Africa.

The next section outlines the wide range of areas of agreement that have been reached by the STWG over the last three months and cover:

- Substantive agreements.
- Principled agreements.
- Facilitative agreements.

● These areas of agreement focus specifically on job creation and retrenchments, trade and tariff policy, public sector restructuring and small and medium enterprises. In addressing the areas, agreement was reached on each of the following issues as set out in sections one, two and three:

- The coordination of bargaining.
- Job security and work security funds.
- Unemployment Insurance Fund.
- Targeted assistance programmes.
- Cost cutting measures in the public sector.
- Labour based construction.
- Special job creation and small business development programmes.
- Public works programme.
- Customs and Excise.
- State tenders.
- Small business development.
- National development corps.
- ABACOR.
- Public sector restructuring.
- Export processing zones.

SHORT TERM WORKING GROUP AGREEMENTS

1. AGREEMENT ON THE COORDINATION OF BARGAINING

1.1 The economic and social challenges facing South Africa requires a new framework of relationships between organised labour and organised business. This new framework needs to adequately address the agreed objectives of economic growth, equity and participation. Areas of interaction which will be affected are the issues over which, and the levels at which bargaining between trade unions and employers take place.

1.2 Bargaining in South Africa currently occurs at a number of different levels. The issues over which the parties bargain range from industrial relations to economic and industrial policy. The following levels of bargaining are the primary ones which are utilised:

- macro, economy wide level (NEF, NMC)
- industry level (industrial councils, national bargaining outside the council system, industry restructuring task forces etc.)
- plant level.

From their experience in a number of industries the parties at the NEF have also recognised the value of industry level bargaining to address the economic challenges facing particular industries, and to develop a consensual social policy framework for industries.

1.3 Centralised bargaining is one of the tiers of our collective bargaining system and as a matter of policy the parties agree not to undermine this arrangement. The parties to the NEF further agree that they will not as a matter of policy oppose the establishment of new centralised bargaining arrangements.

1.4 The parties record their preference for a voluntarist approach to establishing and shaping bargaining institutions. Voluntarism remains important to the extent that it is able to foster workable and equitable bargaining arrangements. Voluntarism in this context does not preclude centrally bargained agreements being extended to non-parties.

1.5 Parties see the value of encouraging a rigorous discussion of appropriate bargaining levels in line with the above, and will seek as a matter of priority to facilitate meetings between business and labour in different industries to workshop these concepts.

2. AGREEMENTS ON JOB SECURITY

2.1 JOB SECURITY AND WORK SECURITY FUNDS

2.1.1 The objectives of the NEF are to achieve economic growth, equity and participation. To achieve this it is agreed that job creation is critical. This issue is being addressed directly and indirectly in both the LTWG and STWG. It is also in the interests of a growing and stable economy that serious attempts should be made to avoid retrenchments.

2.1.2 However, action needs to be taken now in two critical areas. These are current retrenchments and the effects of restructuring that our economy will have to go through.

2.1.3 The parties to the NEF record that to ensure transparent and protective measures for workers in relation to retrenchment the following principles have been agreed:

- Full disclosure of all relevant information by employers in respect to the proposal to retrench, alternatives to retrenchment and selection criteria for proposed retrenchments;
- The parties jointly considering alternatives to retrenchments and ways to minimise job losses;
- Fair notice period to retrenched workers;
- Fair severance packages;
- It is in the interests of a growing and stable economy, to protect permanent jobs as far as possible.

The above constitute basic and minimum principles and do not:

- Undermine existing or future more favourable agreements that improve upon these principles;
- Confer nor obstruct the parties' right to challenge decisions to retrench.

2.1.4 To address the social consequences of retrenchment and restructuring, the industries so affected should consider the establishment of Work Security Funds with the objectives of:

- Providing funding for workers during training and retraining periods;
- Setting up a data base of retrenched workers in the industry concerned, with skill levels and experience recorded, and to collect information on vacancies, in order to match retrenched workers with vacancies.

2.2 THE RESTRUCTURING OF THE UNEMPLOYMENT INSURANCE FUND

2.2.1 The parties agree that it is desirable to restructure the Unemployment Insurance Fund in order to:

- Provide benefits to workers who are temporarily laid off or on extended short time. This will ensure an effective alternative to retrenchment, in instances where cyclical fluctuations lead to short term job redundancies.
- Assist more actively with industry retraining programmes, through helping to finance earnings of workers on industry approved training over and above the provision in the Work Security Funds.
- Ensure compulsory state funding of the UIF, in addition to the current compulsory contributions from employees and employers.

2.2.2 To give practical effect to the above goals the parties agree:

- To set up a committee of three persons from the NEF and three persons from the UIF Board to investigate, on an urgent basis, the implications of implementing the above. The committee will have access, and make reference to NEF constituency studies on this matter.
- To forward the findings of the investigation to the parties of the NEF.
- To enter into negotiations with the intention of reaching agreement.

2.3 TARGETED ASSISTANCE PROGRAMMES

- 2.3.1 Targeted assistance programmes should be developed for declining industries and communities so affected, to manage the down-scaling of specific enterprises or mines. This would apply in instances where an entire community is dependent on a single enterprise or mine, or where a large employer of labour or a labour-intensive sector is involved and where accordingly the economic impact of job losses would be damaging to an entire region or economic sector. During the down-scaling period, alternative economic activities could be explored, and retraining of workers could be effected.
- 2.3.2 The details of such targeted assistance programmes would need to be carefully formulated and applied according to specific criteria, and accordingly it is agreed that an NEF task group be established to work out the proposed details and criteria of such a programme. The parties will thereafter enter into negotiations with the purpose of reaching agreement.

2.4 COST CUTTING MEASURES IN THE PUBLIC SECTOR AND THEIR IMPACT ON JOB SECURITY

The NEF agrees, on an urgent basis to find ways of addressing job security in the public sector in the context of restructuring.

3. ● AGREEMENTS ON JOB CREATION

3.1 LABOUR BASED CONSTRUCTION

- 3.1.1 The NEF agrees with the principle of labour-based work methods for civil engineering projects undertaken with public funds, along the lines spelt out in the finalised "Framework Agreement for Public Works using Labour Intensive Construction Systems" (signed on 22 June 1993) negotiated between organised labour and the civil engineering industry.
- 3.1.2 It is agreed to give priority to such projects in line with the criteria of the NEF's Job Creation Programme (see 3.2).
- 3.1.3 To ensure the rapid implementation of the agreed labour based work methods, it is agreed that government on an urgent basis facilitate meetings between the trade unions and civil engineering industry and the following government departments, and that reports on the outcome of such meetings be tabled at the NEF:
- The Department of Manpower, on ways of preventing the undermining of labour standards.
 - The Department of Transport, on changes required to contract documentation and specifications.
 - The Department of State Expenditure, on changes to tender regulations required.
 - The Department of Water Affairs.
 - The Department of Public Works.

3.2 FUNDING AND CO-ORDINATION OF SPECIAL JOB CREATION AND SMALL BUSINESS DEVELOPMENT PROJECTS

It is agreed that a national Job Creation Programme and Small Business Development Programme be set up, under the direction of the NEF.

3.2.1 Purpose of the Programmes

The purpose of the Job Creation Programme is to allocate funds to viable job creating projects in the provision and maintenance of urban and rural infrastructure such as roads, housing electrification, sewerage, water supply and schools, and the enhancing of skills such as training programmes for unemployed persons in skills required in the formal economy, and literacy training.

The purpose of the Small Business Development Programme is to develop small business enterprises in particular geographic areas, and to assist NGOs involved in small business development.

3.2.2 Sources of Funds for the Programmes.

The Job Creation-Programme's sources of funds are:

- R45 million allocated in the 1993/94 budget to the NEF for the stated purpose.
- An amount of R4 million from the funds allocated for the training of unemployed persons, will be earmarked by the Department of Manpower for the training of persons who will be utilised on the Job Creation Programme. Such training will be conducted by the Regional Training Centres.
- In addition to the above, efforts will also be made to finance the training out of funds already allocated to the Regional Training Centres.

The Small Business Development Programme's sources of funds are:

- R20 million for the development of small business enterprises in specific geographic areas.
- R10 million to assist NGOs involved in small business development.

3.2.3 Management of the Programmes

- The NEF will not in itself undertake any of the approved projects - its role is to consider the viability and usefulness of different job creation and small business development projects, and to select projects and allocate funds for such agreed projects.
- Accounting Officer: In the instance where monies are made available through the budget vote of a specific government department, the accounting officer shall be the Director General of that department. In the

instance of monies being obtained from non-government sources, the NEF shall appoint the accounting officer.

- Project Appraisal: A technical committee of six people for each of these programmes will be established by the NEF with the task of appraising proposed projects and monitoring implementation, with the DBSA acting as a professional secretariat.

3.2.4 Report on Job Creation Programmes

The DBSA should prepare a report on an urgent basis, setting out all planned and proposed short term public works and training programmes of the different issue based forums, government departments and regional forums in South Africa. Such report should contain the following details in respect of each project:

- The sponsoring forum or group.
- A short description of the project.
- The number of jobs envisaged, and the period of such employment.
- The direct costs of the project, to be borne by the Programme, and details of supplementary or matching funds available.
- The usefulness of the goods or services emanating from the project (asset creation).
- The envisaged management of the project.
- Audit and controls proposed, and required for a project of the type envisaged.
- Sustainability of the project, beyond the funding period.
- The training component in the project, and the value of the skills acquired.
- The envisaged labour standards in the project, and its comparison with general norms in industry.
- The nature of community involvement.
- The regional impact of the job creation project, in relation to undeveloped areas and areas of high unemployment and social tension.
- Its impact on economic growth (multiplier effect).

3.2.5 Small Business Development Programme

The NEF Technical Committee shall on an urgent basis develop a set of criteria to be applied in assessing applications for assistance under the programme.

The professional secretariat shall provide a report setting out the applications for assistance for each of the two components of this programme together with details in respect of compliance with such criteria.

3.3 AN INVESTIGATION INTO A MEDIUM TERM PUBLIC WORKS PROGRAMME

3.3.1 A more ambitious programme of public works, which addresses on a wide scale the provision and maintenance of infrastructure to communities historically deprived of these, is needed. The scale of such a programme, the funding required of it, and the need to maximise its impact on social service delivery and job creation, requires that a rigorous pre-investment investigation is undertaken.

3.3.2 The NEF shall set up a committee of seven persons nominated by government business and labour to finalise the following matters:

- Terms of reference for a study.
- Structures necessary for initiating and managing such an investigation.
- Extent of funding required for such an investigation.

The committee shall have reference to work already done on this issue by a number of organisations and shall coordinate such pre-investment investigation.

3.3.3 It is agreed that the funds budgeted on the vote of the Department of Finance shall be made available for the agreed pre-investment work, and this work should be undertaken as a matter of urgency.

3.4 THE SHORT TERM RESTRUCTURING OF THE CUSTOMS AND EXCISE FUNCTION IN SOUTH AFRICA

3.4.1 The parties note the deficiencies in South Africa's customs and excise infrastructure, which has led to a large quantity of manufactured articles being fraudulently brought into the country without being subject to the applicable tariffs. This has resulted in a number of jobs being lost in local industries. These leakages have been caused in part by staffing and infrastructural deficiencies and fraudulent behaviour. The parties thus affirm their commitment to prevent fraud through reforming customs and excise arrangements. These reforms should be made with due consideration to South Africa's international trade obligations and the cost effectiveness of new systems.

3.4.2 The following restructuring is accordingly agreed:

- Improving the technical resources at ports of entry.
- The setting up of manned border posts with the BLNS countries and having dedicated places of entry for goods.
- Speeding up computerisation of all ports of entry and providing information on a timely basis.
- Establishing the norm of a minimum of five percent of all consignments being checked and specifically applying this target to each employment sensitive sector.
- Increasing the number of inspectorate posts.
- Increasing the quantum and flexibility of remuneration packages for technically skilled customs staff.
- Rotating customs staff between different posts.
- Utilising private sector technical assistance for customs related activities.
- Publicising the identities of companies guilty of fraudulent customs clearance transactions.
- Improving and publicising the award system for information on customs fraud.
- Including labour intensive sectors of manufacturing in the invoice analysis audit.
- Providing an effective control over exports of goods subject to incentives.

3.4.3 It is agreed to develop proposals to solve the problem of the irregular importation through the TBVC and BLNS states, of a range of items including second hand clothes, tyres and engine blocks.

3.5 THE PUBLIC TENDER SYSTEM

3.5.1 The NEF endorse the principle that state procurement policy, as far as is possible, and within reasonable financial boundaries, ought to promote the purchase by the public sector of locally manufactured articles with a high local content, in order to maximise local job creation.

3.5.2 To give effect to this commitment, the following steps are agreed:

- The Minister of State Expenditure will restructure the State Tender Board, on the advice of the NEF, in the following way:
 - That representation be structured thus:
 - 25% state representatives
 - 25% technical experts (drawn from the public and private sector)
 - 25% business representatives
 - 25% labour representatives.
 - In terms of the above structure of representation, such restructuring will take place as vacancies emerge on the State Tender Board.
- The level of price preference for locally manufactured goods be reviewed, with a view to increasing the purchasing of locally manufactured articles in the labour intensive sectors of the economy.
- To consider how public procurement can be utilized to assist industries undergoing a restructuring process agreed at tripartite level, towards the goal of greater international competitiveness.
- A task group of the NEF be set up, with officials from the Department of Finance, Trade and Industry, the unions and business, to review the procurement policy taking the above two points into consideration, as well as to examine the wider issue of a possible future system of state procurement.

3.6 ● SMALL BUSINESS DEVELOPMENT

- 3.6.1 It is agreed that the NEF will formulate a national policy framework for small and medium business development.
- 3.6.2 It is agreed that where public funds are utilised by small business development organisations, such organisations ought to have representatives of all major economic stakeholders in their decision making body. Accordingly, the NEF will interact with existing institutions in order to implement this principle and will finalise this matter by the end of August 1993.

3.7 A NATIONAL DEVELOPMENT CORPS

3.7.1 The NEF recommends that a National Development Corps (NDC) be established which would provide a voluntary programme for young people with the following objectives:

- Training
- Community Service
- Development work.

3.7.2 The NEF shall initiate formal contact with the National Peace Secretariat and other initiatives and groupings to develop an integrated approach and programme that is in line with 3.7.1 above.

4. OTHER AGREEMENTS

In addition to the agreements listed above, the STWG has also agreed the following:

4.1 THE PRIVATISATION OF ABACOR

The NEF persuaded the government not to proceed with the privatisation of ABACOR.

4.2 EXPORT PROCESSING ZONES

It was agreed, prior to finalisation of a policy on Export Processing Zones, to place this matter on the agenda of the NEF.

4.3 PUBLIC SECTOR RESTRUCTURING

It was agreed that a committee of the NEF would be established to consider the parties' proposals on public sector restructuring.

5. ONGOING WORK PROGRAMME

The issues listed below will form the ongoing work programme of the STWG. They are:

- All the areas of agreement listed previously where task forces and technical investigations have been established and ongoing work has been identified.

The outstanding aspects of the original work programme will be reviewed. These are:

- Training and human resource development.
- Industrial restructuring.
- Food prices and drought.
- Retirement and provident funds.
- Labour market institutions.
- VAT and taxation.
- Trade and tariff policy.

- The Regional Industrial Development Programme and its relationship to job creation.

- Other issues raised by parties to the NEF.

6. CONCLUSION

In conclusion, we believe that the agreements reached between organised labour, organised business and government in the STWG constitute a major advance in addressing critical and immediate challenges and the needs of South Africa's people, and through both substantive agreement and institutional reform, it helps the NEF to achieve the goals for which it was established.

7. PARTICIPANTS IN THE NEF STWG

Business :

D Ncube (Convenor)
N Barnardt
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D Graham
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J Kastner (convenor)
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J Jacobs
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E van Rensburg
I van Zyl

NATIONAL ECONOMIC FORUM

LONG TERM WORKING GROUP

**REPORT OF THE NATIONAL ECONOMIC FORUM LONG TERM
WORKING GROUP (LTWG) TO THE NEF PLENARY, 5 JULY 1993**

NATIONAL ECONOMIC FORUM

REPORT OF THE NEF LTWG TO THE 5 JULY 1993 NEF PLENARY

1. INTRODUCTION

In keeping with the statement of intent of the NEF, the Long Term Working Group (LTWG) recognises the importance of sustainable economic growth, and the requirement to address social and development needs, to the success of the wider process of political transformation in South Africa.

The LTWG believes that improved economic performance cannot be separated from the matter of economic structure and external economic relationships. Particularly important in this regard are the distortions caused by large scale unemployment and severe inequality in incomes, skills, economic power and ownership in the country.

In recognition of the above challenges facing South Africa, we believe that major economic stakeholders need to develop co-operative mechanisms for addressing these challenges. These include:

- the generation of high and sustainable economic growth;
- social and developmental needs;
- improving the productive utilization of all South Africa's resources - human and capital;
- the linkage between internal economic developments and changes in the global economy, including changes in the Southern African region;
- distortions, imbalances and inequality in the economy;
- improving the participation of all major stakeholders in economic decision-making; and
- stability.

The NEF LTWG therefore has as its focus longer term macro-economic and development policy issues. In its first phase, the LTWG concerned itself with a preliminary assessment of business, labour and government views, in the process of developing a jointly agreed work programme. This included an initial consideration of the government's Normative Economic Model (NEM) as one important contribution to debate. The first phase culminated in the formulation of an initial work programme for the LTWG - the current focus of attention. This report details the work programme, outlining agreements already reached, as well as work-in-progress.

2. LTWG WORK PROGRAMME

2.1. Background

On 26 April 1993, the LTWG agreed an initial work programme which would focus on four critical areas :

- Investment Gap
- Finance Gap
- Foreign Trade Gap
- Labour markets, employment creation and productivity.

In each of the four areas, the intention is to address the current situation and identify the gap between this situation and what might be needed for the achievement of sustained growth, employment creation and socio-economic upliftment. The scope of investigation has been initially limited to manageable proportions, in order to facilitate early delivery. The work programme of the LTWG will nonetheless evolve over time with other critical issues being tabled for discussion and investigation. It is also accepted that, the issues, whilst examined separately, are interdependent and the broader macro-economic ambit is considered in the course of investigation.

2.2. Investment gap

LTWG investigation of investment issues is underpinned by a recognition of the need for higher levels of investment and the necessity to focus on both public sector and private sector investment, separately and in relation to each other in this regard. It is acknowledged that there is a need for a correct balance to be achieved between private and public sector investment.

2.2.1. Public sector investment in relation to private sector investment

Initial LTWG investigation is focussing on the level and nature of public sector investment that would be compatible with increased private sector investment. Specifically :

- The impact of general government expenditure, particularly capital expenditure, on private sector investment.
- The role of public and quasi-public sector institutions in facilitating private sector investment. The LTWG will be meeting with the IDC, SBDC and DBSA to deal specifically with their effectiveness in facilitating/promoting private sector investment, and their evaluation procedures in this regard. It is intended that the scope of investigation in this area will also be extended to a consideration of corporations operating in the TBVC states and self-governing territories.

2.2.2. Determinants of private sector investment

The range of factors determining private sector investment is broad and these matters are being addressed in the LTWG. At present, work is being done on developing a statement on one key factor - the impact of political circumstances on investor confidence and private sector investment decisions.

2.3. Finance Gap

2.3.1. Mobilisation and allocation of savings

Work is progressing into an examination of the role of financial institutions and instruments in both the mobilisation and allocation of savings. The examination includes a focus on existing institutions and instruments as well as consideration of the establishment of alternatives. Specific areas of focus include :

- The generation of savings from low income sectors.
- The mobilising and allocating of funds for socio-economic infrastructure.
- The potential for new financial institutions/instruments to facilitate the attraction of venture capital.
- The availability of finance for small and medium enterprise investment.
- Consideration of steps to encourage broader-based share ownership.

2.3.2. Personal savings and taxation affecting individuals

The LTWG will be examining the effect of the level and structure of taxation on personal savings.

2.3.3. Agreed framework in relation to foreign direct investment

Within the area relating to finance it has been possible to identify points of agreement that taken together constitute a framework within which to locate foreign direct investment (FDI).

What this could offer is two important starting points :

- A generally agreed policy framework toward FDI which is of value to both the domestic and foreign investor communities.
- An effective work programme to develop more detailed approaches to FDI on a tripartite basis.

To achieve this, the parties to the NEF will interact with other organisations and initiatives to develop a South African platform.

There is general agreement amongst analysts that foreign direct investment contributes to economic development, especially in a world of intensified global inter-dependence, though its effect on the quality of life of the population as a

whole, and especially the very poor, is crucially dependent on the domestic policy environment. In view of this, a tripartite approach to FDI inevitably involve balancing of the interests of the parties to the process. The document, being released today (addendum 1), is a synthesis of the input documents of labour, business and government. These input documents reflected the policy approach of the parties to FDI.

In the document, a brief synopsis of the different policy approaches is given for each of a number of issues relevant to FDI, and differences noted where they are relatively substantial. Agreed statements are then recorded. The document covers the following areas :

- The need for inward FDI.
- A current assessment of the prospects for inward FDI.
- Regional dimensions to FDI.
- The approach to incentives.
- Principles applicable to outward FDI.

In each of these sections, agreed statements are :

(i) The need for inward FDI

- ◆ The first step towards encouraging foreign investment is the creation of an economic climate which encourages and stimulates domestic investment.
- ◆ South African policy-makers should make a special effort to attract the kind of FDI that will strengthen the country's growth potential and competitiveness in the long-term. Policies should not be unduly motivated by short term balance of payments considerations.
- ◆ South Africa must create attractive conditions for Trans-National Corporations (TNCs) with technologies relevant to our growth strategy to invest in this country.
- ◆ Policy in South Africa should be designed to encourage technologically advanced TNCs to train South Africans to use new technologies, and also to transfer technologies in other ways. Similarly, these policies should encourage TNCs to locate some of their R and D activities in South Africa.

(ii) A current assessment of the prospects for inward FDI

This section contains agreed statements on policy priorities to address negative and positive factors relating to prospects for inward FDI.

- ◆ The chief policy priorities to counteract the negatives are :
 - a stable, democratic political settlement;
 - consistent, credible economic policies, rooted in a broad national consensus;

- a firm commitment to policies that will improve multi-factor productivity. This will include active labour market policies such as training and retraining.
- the conveyance of a clear message to foreign investors that South Africa will welcome foreign investment in terms of the framework set out in the document. The transitional political period will be an ideal opportunity for marketing South Africa.

- ◆ To build on positive factors, the physical infrastructure, prudent financial policies, the consumer market and the country's export potential should be nurtured and developed to encourage new foreign investment.

(iii) Regional dimensions to FDI

- ◆ South Africa should strive to strengthen its claims as a home for the regional bases of TNCs.
- ◆ South Africa should seek regional co-operation with a view to stabilisation of other economies in the region and the strengthening of the regional market as a whole.
- ◆ It will be necessary to consider the harmonisation of policies towards foreign investment as an integral part of the process of regional co-operation, and to formulate these in a manner which recognises the development needs of all countries in the region.

(iv) The approach to incentives

- ◆ South African policy-makers should not distinguish between foreign and domestic enterprises with respect to tax rates. Instead, the objective should be the equal application of reasonably low corporate tax rates which remain stable.
- ◆ South African policy-makers should not distinguish between foreign and domestic enterprises with respect to labour legislation. South Africa's labour legislation and labour standards should be equally applicable to foreign and domestic enterprises.
- ◆ During the transitional period, South Africa must provide foreign investors with assurances on : security of investment, foreign exchange policy, and the minimisation of bureaucratic obstacles to foreign investment.
- ◆ The broad range of incentives developed in terms of a coherent industrial restructuring programme should be made available to foreign and local investors.
- ◆ Trade policy must be designed to obtain the best possible access to foreign markets in order to attract export-oriented foreign, as well as domestic investors.

- ◆ Government policy should concern itself primarily with economic growth and political stability which will underwrite the domestic market, rather than sacrifice tax revenues that could be used for expenditures on the social and economic infrastructure. Appropriately prioritised expenditure of this nature would, of course, contribute to economic growth and political stability.

2.3.4. Government dissaving

The LTWG is addressing the question of how the current level of government dissaving can be reduced to an acceptable level. The related question of what would constitute an acceptable level is also being addressed.

2.4. Foreign trade gap

2.4.1. Task force on foreign trade policy

The NEF has agreed to urgently establish a task force on foreign trade policy. The task force will address all aspects of trade policy (including tariff policy, phasing/sequencing programmes and criteria, institutional roles and export incentives). The NEF has furthermore agreed on the terms of reference for the Trade Policy task force, aspects of which include :

- (i) The work of the task force on foreign trade policy should be divided into two phases. In the first phase, the focus should be on trade issues rather narrowly defined, while in the second the integral relationship between trade policy and policies for industrial development should be examined explicitly.
- (ii) Some of the specific first phase trade issues to be examined with a view to developing agreed policy proposals include :
 - The simplification of the existing tariff system.
 - Increasing real incentives for exporting.
 - The sequencing of tariff reductions.
 - The development of a set of strong and systematic anti-dumping measures.
 - The development of new trade relationships with SACU and other neighbouring economies.
 - The training and retraining requirements for relevant public sector departments.
 - The co-ordination of the work of the three existing industry taskforces with respect to trade policy matters.

For full details of the terms of reference, refer to addendum 2.

2.5. Labour markets, job creation and productivity

A wide range of issues will be addressed in this area, where appropriate in association with other institutions, such as the National Manpower Commission (NMC). Issues currently being addressed are the following:

2.5.1. Training

The LTWG has received a substantial report from the National Training Board (NTB) regarding its task force established to develop a national training strategy. The task force is committed to presenting a discussion paper to the NTB and the Minister of Manpower by 25 November 1993. The LTWG is satisfied that, in light of the progress of the NTB task force, it is not necessary to take any further steps on the training item in its work programme at this stage. It will continue to liaise closely with the NTB.

2.5.2. Promotion of job creation

Acknowledging the work of the STWG in this area, the LTWG will consider the macro-economic implications of job creation programmes.

2.5.3. Productivity

The NEF has interacted with the National Productivity Institute and intends conducting an examination of productivity issues and measures for improving productivity in the South African economy. The work programme is to address the issue of labour productivity in the wider context of labour market institutions, as well as factors affecting productivity of capital and multi-factor productivity.

2.6. Production and use of statistics in South Africa

Following detailed inputs from both labour and government, the NEF has agreed to establish a taskforce on the Production and Use of Statistics in South Africa. September 30, 1993 is the deadline for submission of its findings / recommendations. The terms of reference for the task force are outlined in addendum 3.

2.7. Technical committee on economic models

A technical committee of the LTWG has been established to consider econometric models underpinning policy perspectives of NEF constituencies and also to assist the LTWG by :

- Underpinning its work programme with macro-economic analysis.
- Providing a basis for determining the macro-economic consistency and efficacy of proposed policy measures.

2.8. Linking short term and long term imperatives

In the execution of the respective work programmes of the STWG and LTWG, a constant effort is made to ensure linkage, particularly from the perspective that actions taken in the short term, need to be consistent with long term imperatives.

3. PARTICIPANTS IN THE NEF LTWG

Government :

D Krogh (convenor)
E Calitz
J Dreyer
D Graaff
J Jacobs
F van Eeden

Business :

R Parsons (convenor)
R Bethlehem
J Buys
N Czypionka
RP Gouws
K Jenkins
H Langenhoven
K Mabusela
I Robinson
M Spicer
PH Swart

Labour :

A Erwin (convenor)
P Heymans
D Lewis
V Pillay
J Sender
H van Nieuwenhuizen
J Wilimiec

Participants in the technical committee on economic models are :

Labour :

S Gelb
B Gibson
L Loots
D van Seventer

Government :

JP Botha
J Dreyer

Business :

R Bethlehem
G Boyd
G Keeton
P Strydom

AN AGREED FRAMEWORK IN RELATION TO FOREIGN DIRECT INVESTMENT

1. INTRODUCTION

As indicated in the Report of the Long Term Working Group to the Plenary of the National Economic Forum, that Group is now involved in a work programme that deals with four main areas. Within the area relating to finance it has been possible to identify points of agreement that taken together constitute a framework within which to locate foreign direct investment (FDI)¹.

What this could offer is two important starting points :

- A generally agreed policy framework toward FDI which is of value to both the domestic and foreign investor communities, and
- An effective work programme to develop more detailed approaches to FDI on a tri-partite basis.

To achieve this, the parties to the NEF will interact with other organisations and initiatives to develop a South African platform.

There is general agreement amongst analysts that foreign investment contributes to economic development, especially in a world of intensified global inter-dependence, though its effect on the quality of life of the population as a whole, and especially the very poor, is crucially dependent on the domestic policy environment. In view of this, a tripartite approach to FDI inevitably involves a balancing of the interests of the parties to the process. This paper is a synthesis of the input documents of labour, business and government. These input documents reflected the policy approach of the parties to FDI.

In what follows, a brief synopsis of the different policy approaches is given for each of a number of issues relevant to FDI, and differences noted where they are relatively substantial. Agreed statements are then recorded.

2. THE NEED FOR INWARD FDI

2.1 Investment capital

All analysts agree that gross domestic fixed investment has been extremely low for at least a decade, though there are differences in emphasis with respect to

¹ See note on page 9

cause and effect. For example, the labour submission attaches little importance to an overall lack of funds, citing a surplus of domestic savings over investment in recent years. Others would argue that for some years domestic policies have perforce been applied in such a way as to generate a surplus of savings over investment to ensure that adequate domestic capital is available to repay foreign debt. Similarly, the labour submission notes that foreign investors do not necessarily bring in a great deal of investment capital, often raising a large proportion of their needs in the host country. What is of fundamental importance is that we encourage a high level of domestic saving; the role of FDI is important for the reasons set out in this document, but it is supplementary rather than prime.

Whatever differences exist, they need not detract from the conclusion that a main reason for low levels of investment in South Africa is that potential investors, domestic and foreign, lack confidence in the domestic economy. Moreover, in situations of political uncertainty foreign investors look to potential domestic investors for the signal to invest.

- ◆ Therefore the first step towards encouraging foreign investment is the creation of an economic climate which encourages and stimulates domestic investment.

2.2 Balance of payments

Another perspective on the above arguments with respect to the balance between domestic savings and domestic investment is provided by focusing on the balance of payments. South Africa's continued substantial dependence on imported capital goods becomes particularly evident during periods of growth in investment, and foreign exchange is required to fund such purchases. In past growth phases, increased imports typically resulted in a deficit on the current account of the balance of payments which was initially funded by net foreign capital inflows (including foreign borrowing), but eventually led to the need to constrain growth. As noted earlier, in more recent times the need to finance a net outflow on the capital account has led to a more severe and unusual growth constraint. The alleviation or removal of this constraint will require structural changes of both quantitative and qualitative dimensions in our trade patterns. However, net FDI could play an important role in allowing a transition.

Another important related consideration is that, to the extent that a country enjoys relatively high inflows of FDI (bearing in mind that these are primarily private sector inflows, directly related to fixed investments and largely in the form of equity - see note on p.9), this would reduce the need for indirect loan finance and thus diminish the danger of a foreign debt trap. Of course, this observation is not applicable to South Africa while the country has the financial rand mechanism in its current form.

However, it is widely recognised that the quality of FDI is crucially relevant to most developing countries, and policies should not be over-motivated by foreign exchange needs in quantity terms. FDI should be of a nature which supports structural adjustment, and its initial alleviation of balance of payments strains is a secondary benefit.

- ◆ South African policy-makers should make a special effort to attract the kind of FDI that will strengthen the country's growth potential and competitiveness in the long-term. Policies should not be unduly motivated by short term balance of payments considerations.

2.3 Technology

Probably the key reason for encouraging higher levels of FDI is that trans-national corporations (TNCs) are the dominant bearers of commercially useful technology. Technology, capital investment and productivity growth are very closely linked and now, even more than in the past, technology is seen as a principal driver of the growth process. However, the acquisition and mastering of commercially useful technology is a complex process. Although some technologies may simply be purchased from abroad, more often it is not a publicly available good to be purchased by the highest bidder. TNCs control much of this technology, and are often unwilling to licence the fruits of their research and development.

- ◆ For this reason, South Africa must create attractive conditions for TNCs with technologies relevant to our growth strategy to invest in this country.

One concern in this respect is that some development experts argue that TNCs located in developing countries usually transmit the results of innovation, and not the innovative process itself, and that a strong foreign presence with advanced technology can prevent local competitors from developing their own capabilities. Some developing economies have relatively little capacity to absorb technologies, while the evidence suggests that those developing countries with pro-active programmes to develop domestic technological capacity can strengthen their technological capacity through developing appropriate domestic institutions and encouraging appropriate TNC investment.

- ◆ Therefore policy in South Africa should be designed to encourage technologically advanced TNCs to train South Africans to use new technologies, and also to transfer technologies in other ways. Similarly, these policies should encourage TNCs to locate some of their R and D activities in South Africa.

2.4 Access to foreign markets

One of the most crucial elements of a long-term growth strategy for South Africa is the expansion of exports, particularly the export of higher value added products. The urgent need for structural adjustment in this direction is

predicated on the declining relative value of our traditional raw material exports, and their poor longer-term prospects.

The link between foreign investment and exports is twofold.

The first is obvious : South Africa needs the funds and technology that foreign investors can provide in order to be able to make more exportable products. The American experience of recent years serves as an example of the important role of transnational corporations in international trade. In 1988, 80 percent of US trade was undertaken by TNCs.

The second link is more subtle, and perhaps more crucial. A rapidly rising proportion of world trade now takes place within companies - as "intra-firm trade". For example, half of US trade and a third of Japanese and British trade is intra-TNC. TNCs also tend to have a higher export propensity than domestic firms in the same sector.

2.5 Competition for domestic oligopolies

An important reason for encouraging FDI is to provide enhanced competition for domestic firms. Indeed, global re-integration of the South African economy, in the context of a set of coherent and effective domestic policies embracing trade and industrial policies, exchange control policies and competition policy, would constitute a powerful re-invigoration of competitive forces in this country. Some of these policy dimensions will be dealt with specifically by the LTWG of the NEF as its work programme advances.

3. A CURRENT ASSESSMENT OF THE PROSPECTS FOR INWARD FDI

From the early 1980s the share of world FDI flows going to developing countries as a group declined, and turned negative between 1985 and 1990. Africa's share within that total declined even faster. In South Africa's case, flows actually turned negative in the late 1980s, having diminished to particularly low levels by world standards well before that. The biggest proportion of world FDI flows is between the developed nations. Increased competition for FDI has recently emanated from developments within Eastern and Central Europe, while amongst developing countries those in the South-East Asian areas have been most successful in attracting FDI. Heightened competition for global FDI flows makes it all the more imperative for South Africa to adopt policies which most appropriately attract FDI. An environment of sustained, rapid growth in domestic output and investment is perhaps the most important single factor in attracting FDI.

This position clearly does not apply at present. The reasons usually cited as keeping foreign firms away from South Africa are: political instability and violence, exchange controls, highly concentrated domestic markets, the uncertainty

about possible economic policies of a future government, and low productivity in South Africa associated with high unit costs.

- ◆ The chief policy priorities to counteract the negatives are therefore:
 - (i) a stable, democratic political settlement;
 - (ii) consistent, credible economic policies, rooted in a broad national consensus;
 - (iii) a firm commitment to policies that will improve multi-factor productivity. This will include active labour market policies such as training and retraining.
 - (iv) the conveyance of a clear message to foreign investors that South Africa will welcome foreign investment in terms of the framework set out in this document. The transitional political period will be an ideal opportunity for marketing South Africa.

These issues will have to be addressed before we can build on certain advantages we may have in locating ourselves near the front of the developing country queue for foreign investment. These advantages include the country's sound financial structures, low level of external debt, the excellent physical infrastructure in relation to production, and the size and potential of the consumer market as a basis for increased exports.

- ◆ Therefore, the physical infrastructure, prudent financial policies, the consumer market and the country's export potential, should be nurtured and developed to encourage new foreign investment.

4. REGIONAL DIMENSIONS TO FDI

FDI has several characteristics which are important for a recovery of investment in the medium-term. The international diffusion of innovative activity and of standardised technologies, combined with the regionalisation of markets, point to Southern Africa's potential to attract TNC activity. TNCs are, more than ever before, developing worldwide strategies on a regional basis, and are devolving more important activities to regional operations. Southern Africa would be the kind of region to attract the serious attention of TNCs with an eye for the local market, and to potential exports further afield. Or, South Africa could become part of "regional core networks" for TNCs based in Europe. Regional core networks are "rationally integrated, independently sustainable networks of overseas investments centred on a triad member". It is noticeable that Japanese firms investigating investment possibilities in South Africa today, often conduct their investigations out of their European offices.

The diffusion and reduced cost of communications has decreased the economic distance between countries making new kinds of overseas activities more feasible than before.

- ◆ Therefore, South Africa should strive to strengthen its claims as a home for the regional bases of TNCs.

The way that Southern African economic integration is approached, and the way trade relations between the region and the rest of the world, starting with the EC, are restructured, could have an important bearing on the regional prospects for FDI, and the regional rewards from the FDI. This is particularly important in a world where the competition for investment funds is tougher than ever before.

- ◆ Therefore, South Africa should seek regional co-operation with a view to the stabilisation of other economies in the region and the strengthening of the regional market as a whole.

A linked issue of importance to South Africa is how the countries of the Southern African region will address the issue of foreign investment policy. Clearly, the removal of trade barriers between South Africa and its neighbours (broadly defined), could help attract foreign investors to South Africa. However, it is equally likely that South Africa's partners in such a trade preference area or common market would attempt to attract foreign investors to take advantage of access to the South African market. Policies by individual countries in the region should be formulated in a manner which is sensitive to the development needs of the region as a whole. As the largest market in the region, South Africa will have to be particularly sensitive to the development needs of smaller countries in its own longer term interests.

- ◆ For this reason, it will be necessary to consider the harmonisation of policies towards foreign investment as an integral part of the process of regional co-operation, and to formulate these in a manner which recognises the development needs of all countries in the region.

Without harmonisation, the countries of the region will inevitably compete against each other by offering increasingly generous incentives to foreign investors, which may be to the detriment of the region as a whole. Clearly, South Africa should consult its neighbours at the earliest possible opportunity about foreign investment policies.

5. THE APPROACH TO INCENTIVES

The guiding principle on incentives is that there should be equal treatment for all potential investors, domestic or foreign. The principle of equal national treatment is considered to be fundamentally important. Within South Africa, foreign and domestic investors should be subject to the same tax regime, labour legislation, and labour standards etc. Special incentives applicable only to potential foreign investors should not be implemented.

There is a general consensus that South Africa should not introduce special tax incentives (eg tax holidays) to attract FDI. Nor should attempts be made to

attract foreign investment by offering special exemption from domestic labour legislation. It is widely accepted that such incentives only influence TNC locational decisions when the different locations under consideration are roughly equal in terms of other criteria. Moreover, special concessions may attract forms of FDI which have less of a commitment to the host country and its broader development aims (see earlier reference to quality considerations with respect to FDI).

On the question of taxes, it is equally widely accepted that corporate tax rates must both be reasonably low by international standards and stable over time in order to attract foreign investors (quite apart from the impact on domestic business entities).

- ◆ South African policy-makers should not distinguish between foreign and domestic enterprises with respect to tax rates. Instead, the objective should be the equal application of reasonably low corporate tax rates which remain stable.
- ◆ South African policy-makers should not distinguish between foreign and domestic enterprises with respect to labour legislation. South Africa's labour legislation and labour standards should be equally applicable to foreign and domestic enterprises.

For developing countries, it is now widely argued, assurances on security of investment, and on access to foreign exchange, are more efficient ways of attracting foreign investment than the more radical form of tax and other incentives applied by some countries.

Consistent with the principle of equal treatment, it is also beneficial to reduce administrative and regulatory barriers to foreign investment. There is also the need for legislation on the governance of intellectual property rights to conform to international standards.

- ◆ Therefore, during the transitional period, South Africa must provide foreign investors with assurances on : security of investment, foreign exchange policy, and the minimisation of bureaucratic obstacles to foreign investment.

Policy formulation should also not discriminate against domestic firms in other ways. The most obvious example here is in the realm of export incentives. Export-oriented foreign investors, rather than those oriented towards the local market, are particularly sensitive to the availability of such incentives. However, provided a neutral position has been adopted between domestic and foreign firms, this is quite acceptable.

- ◆ The broad range of incentives developed in terms of a coherent industrial restructuring programme should be made available to foreign and local investors.

- ◆ Trade policy must be designed to obtain the best possible access to foreign markets in order to attract export-oriented foreign, as well domestic investors.

It is not incentives in themselves that are problematic, but incentives that are simply designed to increase the quantity of foreign investment, and which are not located within a broader industrial strategy.

For firms that are interested in the home (and regional) market, the most important factors are the size and rate of growth of the domestic and regional markets and political and economic stability and predictability.

- ◆ Government policy should concern itself primarily with economic growth and political stability which will underwrite the domestic market, rather than sacrifice tax revenues that could be used for expenditures on the social and economic infrastructure. Appropriately prioritised expenditure of this nature would, of course, contribute to economic growth and political stability.

6. PRINCIPLES APPLICABLE TO OUTWARD FDI

While it is essential to create the conditions which will ensure that investment within South Africa remains a primary focus of domestic enterprises, it is equally necessary to recognise that those arguments which apply to the advantages of inward FDI might apply to outward FDI. Companies based in South Africa may need to consider foreign investments to facilitate acquisition of new technologies, ensure access to foreign markets (bearing in mind tendencies towards intra-firm trade), ensure cost-competitive access to trade credits and other forms of finance in the case of banking institutions etc. In a nutshell, if inward FDI is beneficial to the foreign host countries, there is no reason to believe that outward FDI is intrinsically detrimental to South Africa.

Of course, the debate on these issues in South Africa is subject to misinterpretation in some quarters. In particular, foreign investments by domestic enterprises are sometimes classified as "flight capital". Clearly the question of capital flight is a problem, but it needs to be addressed as such, and each case of FDI by South African based entities should be judged on its own merits and in relation to agreed, transparent foreign exchange criteria. This matter will have to be addressed by the LTWG of the NEF as it progresses with its work programme.

NOTE

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There is no standardised international definition of FDI beyond that of the IMF which describes it as "investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor". This distinguishes FDI from indirect loan finance. For South Africa the Reserve Bank takes this to mean a minimum equity stake of 25% (except where effective management control can be demonstrated at less than 25%). The FDI figure predominantly involves equity finance from abroad, but it includes, inter alia, enterprise retained earnings and locally raised long-term loan finance.

Johannesburg
June 30, 1993

TERMS OF REFERENCE FOR THE TASK FORCE ON FOREIGN TRADE POLICY

The NEF agrees that as part of the process of addressing issues related to the foreign trade gap, the LTWG will urgently establish a task force to address all aspects of trade policy (including tariff policy, phasing/sequencing programmes and criteria, institutional roles and export incentives). The terms of reference of the taskforce are as follows:

1. The work of the task force on foreign trade policy should be divided into two phases. In the first phase, the focus should be on trade issues rather narrowly defined, while in the second the integral relationship between trade policy and policies for industrial development should be examined explicitly.
2. The specific first phase trade issues to be examined with a view to developing agreed policy proposals include :
 - (a) The simplification of the existing tariff system (consider overlap with the STWG).
 - (b) Increasing real incentives for exporting:
 - Duty Drawback Schemes (scope and implementation problems).
 - Costs and benefits of GEIS and proposals for reformulation.
 - Incentives for the export of services.
 - Negotiating positions concerning South Africa's status as a "developing" country and the acquisition of preferential access to OECD, and especially EEC markets.
 - (c) The sequencing of tariff reductions:
 - Proposals to GATT for the general, economy-wide sequencing of tariff reductions.
 - Proposals for industry specific sequencing of changes in the levels of tariffs.
 - (d) The development of a set of strong and systematic anti-dumping measures, including the imposition of countervailing tariffs and other measures within the framework of GATT's Article 19.
 - (e) The development of new trade relationships with SACU and other neighbouring economies (consider overlap with STWG).
 - (f) The training and retraining requirements for DTI, Department of Customs and Excise and other public sector staff (consider overlap with STWG).
 - (g) The co-ordination of the work of the three existing task-forces (ie the Auto, Electronics and Clothing task-forces) with respect to trade policy matters.

**LTWG PROPOSAL FOR THE ESTABLISHMENT
OF AN NEF COMMITTEE ON THE PRODUCTION AND
USE OF STATISTICS IN SOUTH AFRICA**

1. Acknowledging the scope for improving the production and use of statistics in South Africa, the LTWG has agreed to propose the establishment of an NEF committee to examine the statistical process.
2. The proposed terms of reference for the committee are :
 - 2.1 To identify South Africa's major statistical shortcomings and methods for addressing these, within a framework of affordability and the needs of a changing South Africa.
 - 2.2 To interact with institutions responsible for the use and production of statistics, including the Statistical Council.
 - 2.3 To examine the structure of the Statistical Council.
 - 2.4 The committee shall have the power to co-opt and consult parties/individuals to assist in its workings.