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II We need to reï\201ne our approach to total investment in the economy. What is particularly needed is better quality policy information on investment. This matter is now being addressed in a major study. In an open economy the extent to which there is value added and the actual net export capacity of industries and sectors is important. This was a point touched on when looking at infra structural investment earlier in this report. We are presently unable to assess this accurately enough. We have poor quality information on all forms of investment. This means that we are not using sufficiently reï\201ned facilitation measures for investment and we are not able to monitor changes.

III The fundamental question at the end of this is that of job creation. Why are we not creating enough jobs and more important can we change this. There are a number of points to be made here. Firstly, we need to address the complexity of what is actually happening .

The structural changes in the economy mean it is difficult to be precise on the exact question of the extent of job creation. It is very likely that the extent of job creation is being under estimated but not to the degree that the problem of unemployment is not serious. However, new jobs are being created in new sectors and ways. As indicated in the clothing industry the new enterprises are often outside the existing formal structures of the Industrial Councils and employer organisations. This must not be automatically equated with our usual conception of the informal sector. However, this does pose questions for labour market policy and new challenges to the unions to reorganise these enterprises.

The next issue is a crucial one and that is that much of our industrial strategy in this phase has been defensive in that it is aimed at defending industrial capacity. A very clear example is the auto industry. If this industry had collapsed as a result of its inefficiency the effects on the economy and employment would have been very severe. Accordingly in many of these sectors it is only now that we can contemplate employment growth and stability.

However, the key to job creation now is to focus on the problem areas identified in this discussion paper and set out in the President's address to Parliament. The main areas are: increasing the growth rate through higher levels of investment and saving; increasing the level of public Sector investment through restructuring and public/private partnerships; intensifying basic infrastructure expenditure and community based programs; dealing with the constraints on SMMEs; expanding high employment sectors such as tourism and agro-industry and to work for growth and development in SADC and Africa.

Finally and not to be underestimated is the need for the Alliance to show a clear and confident sense of direction and leadership. This does not mean the suppression of differences but it does mean a clarity of purpose. At present we are failing on the latter and the result is that we in South Africa are the weakest ambassadors for our cause of growth

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This presentation will not deal with the reforms made and the work that still needs to be done. Neither will it cover monetary policy. The focus is on the macro factors that will have an impact on the investment process in the short to medium term.

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- > the interest rate remains high and it will take some time to manage this down. This also relates to monetary policy, the level of reserves, the perceived risk and the international financial position. It is not a problem that is capable of simple corrective steps. It is an area that will have to be carefully addressed by the economic ministries and the Reserve Bank.

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There are certain inflexibilities in the SA labour market and they may have an impact on SMMEs. However, it is most unlikely that they are the decisive inhibitor of growth in the

sector. They can be dealt with through a careful dialogue.

However, the more fundamental issue is that raised in the Job Summit and now being examined by a very low key group from business and labour. This is the more fundamental management of growth and development in the economy through a mutual understanding of the most effective utilisation of the rights of employers and workers and the better definition of their separate and mutual obligations.

It was agreed that this fundamental dialogue would be pursued after the Job Summit and that government would enter the dialogue at an appropriate time. The Minister of Labour recently announced a 15 point program of action that will further address the labour market etc.

a The developments in the SMME sector are both considerable and complex. Detailed reports on developments in this sector are available. The implications of this will not be repeated here. The centrality of this sector to growth and development needs to be stressed once again. The following key areas need to be addressed:

> more accessible financing for the SMME sector. This is dealt with in detail in three reports that were submitted by DTI. This problem also is of relevance to the housing sector as the problems are related. The thrust of the argument is that the failure to finance this sector is more than high interest rates, inability, reluctance or incapacity on the part of the Banks. It is a structural problem that is emerging in the banking sector that needs a different policy approach.

> more effective outreach by the new institutions to the potential beneficiaries. However, this should be linked to a greater focus on local and community based development.

II! The developments in the area of empowerment are not well recorded or understood. A more detailed policy discussion document is being prepared for the Economic Transition Committee. This deals with the overall problem and important initiatives such as the National Empowerment Fund (NEF). This area along with the developments in the SMME sector should become the subject of a more structured dialogue with other stakeholders. The initiative on empowerment that is chaired by Cyril Ramaphosa must be engaged in this regard.

III The Job Summit projects are crucial. The structural nature of the changes in the economy take time but this is not to say that we cannot achieve any on-the-ground delivery as these structural changes take place. This can be done by better coordination of our efforts. This is an important achievement in the Job Summit process. The agreements in the Job Summit constitute both a counter cyclical package and a bridging program during structural change. We have lost some momentum however, and need to revive it in the post-election period. We will also have to put more effort into explaining the changes as they take place.

supporting an inadequate growth rate. To be dependent on even higher levels of foreign direct investment has a range of other macroeconomic and strategic problems associated with it. We need to get on top of the policy issues associated with this structural problem. Thus far the state has made good progress toward removing its own dis-saving through the Ficus. However, the low level of saving is more complex and relates to the wealth inequality, the cycle of household consumption, the form of saving and other institutional and taxation matters. We will now have to address this as a structural constraint on higher growth.

. the contribution of all levels of government to capital formation, investment and job creation is still limited. This is highlighted in a report on capital expenditure in the government sector. This report has been considered in the Cabinet Investment Cluster and whilst there is a need for more work the implications are potentially very serious. It is clear that the quality of capital expenditure by government is poor. In the provinces there is clear evidence that they have responded to the fiscal discipline and the high salary bill by reducing capital expenditure. This includes maintenance. This compounds a tendency of the old regime to divert expenditure away from maintenance. The problem is cumulative but not simple and will require us to do a very much more careful analysis of the state's assets. This information is available.

The Investment study that is referred to later will also address this. We must, however, evolve a concrete response to this problem. A positive development in the Provinces is the generation of a surplus in some cases. This allows the removal of debt and plans to expand infrastructure. In both Gauteng and the Eastern Cape there are now funds available for growth and development as opposed to crisis management only.

The Municipal Infrastructure Program (MIP) is now beginning to progress and there are detailed reports and monitoring available. However, to increase the momentum requires improvements in local government financial management. It also requires improved processes for fiscally sound and sustainable public/private partnerships. The effective and well regulated use of the PPPs is the only way open to us to structurally achieve higher levels of basic infrastructure.

We need to remind ourselves that the estimated backlog of infrastructure made in 1995 was in the region of R130 billion. This is quite clearly out of the reach of the state's resources. If we had attempted to finance this on our budget then the effects could have been devastating in the recent fiscal crisis.

11 As indicated earlier the main objective of the restructuring of state assets is to increase the level of investment in both economic and social infrastructure. It is not possible to deal with the full complexity of this process here. The stress is on the most urgent requirements in the next period.

C1 So far it is the telecommunication sector restructuring that has made the greatest

science and technology.

We are very close to being able to say that this structural turn around has been achieved

The performance of manufactured exports is one litmus test of this. Advanced manufactured products (excluding metals) rose from 5% of total exports in 1988 to 28% in 1998. If all the metals are added back then manufactured products as opposed to agricultural and mineral products is above 60%. This has and will shape the quality of investment toward more sustainable and competitive investment.

By showing that the South African economy is capable of manufacturing on a world competitive basis we attract a different quality of investment. By increasing the value added

in the South African economy we are structurally adding employment opportunities.

However, the employment coefficient of each single investment may be lower than in the past

This raises an important issue of whether we must encourage labour intensive investment in order to reduce unemployment. The growth path based on structural change and international competitiveness involves a particular approach to the question of the labour

intensiveness of investment. The approach taken has been to focus on a spectrum of investment that ranges across the factor intensity profile. If we are to defend and then grow

our manufacturing capacity then we must encourage the production methods and factor mixes that meet the more varied needs - quality, flexibility and speed of delivery - of current global competition.

The state must intervene to ensure that there is spread of investment in terms of factor utilisation and geographic location that will structurally alter the employment coefficient of

the economy as a whole. The intervention should not be to alter the production method through altering the factor prices.

Training and good work organisation methods can, however, be used to influence the factor

utilisation. This latter is very important since evidence in advanced economies is that considerable productivity gains can be made without going to excessive mechanisation. The Workplace Challenge Program is seeking to encourage this.

The size of the domestic market is not large enough to attract world competitive manufacturing investment if production is to be predominantly consumed in the domestic market. Accordingly, the thrust in all investment promotion is to ensure that there would be

a significant level of exports. This should not be seen as an exclusively export led growth

strategy. It is wider than this as it requires that virtually all economic activity should be world

competitive in order to prevent de-industrialisation through importation replacing significant

segments of domestic activity. These days there are very few sectors of the economy that are fully non-traded.

However, the importance of exports in the South African economy makes us vulnerable to changes in the world economy. The strategic response to this must be to focus on development in the world economy. It is only this process that can provide a new and

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ECONOMIC

TRANSFORMATION COMMITTEE

PRESENTATION

NEC MEETING

Cedar Park, Johannesburg ,

1st & 2nd October 1999

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DISCUSSION PAPER FOR THE NATIONAL EXECUTIVE ON THE ANC.

2ND OCTOBER 1999.

INTRODUCTION.

The purpose of this presentation is to focus on the level of investment, the means of promoting this and the job creation that must flow from higher levels of investment. A brief assessment of the structural changes over the last 15 years is provided in order to identify the challenges we face.

This paper is based on a report to the Cabinet in June and on more detailed studies and reports that are available. However, one of the priorities in this period is to improve the quality of our information and analysis that will allow us to more effectively assess the impact of our policy. Various actions are in place to deal with this.

POLICY OBJECTIVES AND STRUCTURAL CHANGE IN THE ECONOMY.

Given an analysis of the state of the South African economy and the developments in the global economy the core thrust of the economic policy program was to achieve deep structural change in the economy and in the socioeconomic delivery systems. Such structural change was necessary in order to achieve sustainable growth, development and improved standards of living.

There are important implications to such a strategic choice. Such a growth path, based on deep and extensive structural change in all dimensions of the economy and its socioeconomic delivery systems, will mean a slower and less easily measured growth rate in the early stages.

The growth rate will be slower since old activities will end and new ones will start. The net result is a small incremental change at the outset of the process. The result is a series of incremental changes across a wide front of the economy. The growth rate in output is then low but the important changes are qualitative and designed to allow for rising and sustainable growth over a longer time period.

Measuring growth is more difficult as the structural change is both destroying and creating jobs, services and output at the same time. This impacts on the statistical methods that are used to measure the great complexity of production in a modern economy. These methods are based on samples of the total universe of activities and each sample has a particular weighting of the different types of activity, enterprise or output. It is these weights and the composition of the output that change in periods of structural change. The recent changes in the GDP is a very concrete example of this.

Structural change makes it inevitable that the results of policy changes will not be immediate. This is crucial to the understanding of economic policy over the last 15 years.

Having completed the first phase of tariff reduction and now making adjustments as a result of the trade agreements we have run to the end of our initial policy perspective and will need to set new objectives in the context of our own economy's needs and within the next round of WTO negotiations. It is therefore proposed to commence a new round of consultations to define the next policy phase.

The reform of the incentives has been completed and we need now to give them time to assess their effect.

Interaction with the private sector has been relatively successful. However, the process is slower than we envisaged. This is particularly true of the cluster approach. However, it would seem that there is a growing confidence in the benefits of working together. We are particularly seeing this in the export councils and the more targeted cluster work - mohair and the Eastern Cape auto cluster being two examples. Important new projects such as gold and jewelry are developing well.

A new area has developed in the course of this work. This is a more detailed interaction with the private sector - often with specific companies - and state corporations. The purpose of this interaction is to bring about specific corporate changes in order to strengthen sectoral objectives.

There are a number of key areas that we are now dealing with. The steel industry is in need of corporate change. This is a result of weaknesses in ISCOR, the excessive exposure of LDC to steel and the potential of the industry in the subcontinent. The National Industrial Participation Program (NIP) component of the defence procurement has also raised this. The other examples are in the logistics, defence, gas and petrochemical industries.

CI The reason for focusing on the competitiveness of the economy was to revive investment and prevent de-industrialisation. Investment in both the public and private sectors had stagnated for nearly a decade prior to 1994. This was due to the high cost structures and the resultant inability to expand either the domestic or export markets. The high cost structures were mainly due to short production runs, relatively high tariffs, poor work process methods and weak management in many areas.

Domestic demand was stagnant as a result of severe wealth inequality, stagnant real incomes (inflation was historically high despite low growth) and a dangerous level of fiscal deficit. Public corporations were over geared (borrowing to turnover to state it simply), often subsidised and badly managed. This combination of factors was not only the cause of a structurally stagnant economy but even more dangerous was that it made the economy very vulnerable to the highly competitive international environment.

In these circumstances to offer further protection and subsidies would be to deepen the structural inefficiency of the economy and too very quickly destroy the manufacturing capacity of the economy. This would have been a fundamental error. Available resources needed to go into the underlying social infrastructure of education, health, housing and

disadvantaged by the apartheid system.

There is an important and fundamental requirement for the above policy program to be implemented. There are in fact quite clear tensions between the above objectives in the ordinary working of the market forces. Accordingly, the existence of the Alliance is crucial in order to deal with these tensions through political and social processes. It is from this perspective that the actual workings of the Alliance become crucial.

In each of the above areas of structural change there has been substantial progress made and the priority is to now build on this and urgently complete some of the work. Before reviewing both the progress made and the work to be completed and what this will allow us to do in terms of investment and job creation various more direct investment promoting activities need to be noted.

I: These structural changes are fundamental to generating investment and thereby job creation. The focus has been on certain qualities in the investment process that will achieve

our structural objectives. Within this macro framework there have been a range of other promotion measures used. These are : trade and investment missions; the formation of Investment South Africa (ISA) and its coordinated work with the Provincial agencies; 16 sectoral programs e.g. auto and clothing and textile; the Spatial Development Initiatives (SDIs), including cross border initiatives; Industrial Development Zones (IDZs); the National

Industrial Participation Program; the formation of sectoral export and investment promotion

councils and various forms of investment incentives.

II The restructuring of the real economy has been complex. The first phase of the tariff

reform process has been completed. This has been the managed reduction of some 70% of the tariff lines in a process announced in schedules in 1995 and 1996. The balance of the lines were altered after more specific investigations. This latter process is also virtually

complete. Tariffs have not always been reduced and where a degree of protection will allow

production to proceed on a basis that will be reasonably sustainable over time the tariffs

have been increased. The guideline is that production is possible with protection levels that

approximate the maximum for that type of product (0-5% for capital goods, 5-10% for intermediate goods and 10-20% for consumer goods).

C] There has been considerable debate about the employment effects of this reform. Given the structural changes that have taken place as indicated above it is very difficult to

accurately assess this. We are now commencing a more detailed analysis of the effects and are involving unions in this process. This work will feed into the sectoral summits. Some of

the initial findings of the DTI are attached.

C] The next phase of reform in the area of tariffs now lies in the area of trade agreements.

The adjustments required by the European Agreement will start to phase in from the beginning of 2000 on a limited scale. This will probably coincide with unilateral tariff reductions as part of the SADC agreement.

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However, we also have to accept that we underestimated the time it would take to turn the economy around and we did not bargain on an international financial crisis in the fourth year of government.

In this presentation the focus is mainly on the economic rather than the socioeconomic delivery systems. The main objective was to make the real economy more competitive in the global economy in order to ensure sustainable growth, development and employment creation.

The concept of competitive needs to be understood carefully. Examination of industrial development and the ability to trade, in the last two decades in particular, shows that success in these areas comes from the efficiency of the socioeconomic dimensions of the economy and not from simplistic macroeconomic policies and actions. This arises from the more dynamic processes of production that have emerged as a product of the changes in information technology and computerisation. What is at issue is the competitiveness of all activity whether for export or domestic consumption.

The RDP was intended to achieve a range of structural changes. The main ones were :

- > reducing the level of protection, focusing on supply side rather than demand side industrial strategies and restructuring and developing economic institutions. This is part of a broader industrial strategy that is designed to maintain and then expand industrial and manufacturing capacity (value adding production).

- > stabilising the macroeconomic, - financial and budgetary situation through a wide range of reforms of the financial and budgeting structure, capital markets and through strict financial discipline.

- > restructuring state assets in order to get them to undertake new investment in infrastructure and where appropriate to reduce debt.

- > restructuring the inherited agricultural support system to remove subsidy and price support mechanisms. This has improved the price stability and competitiveness in agriculture.

- > reforming the labour market in order to establish basic rights and obligations and allow for effective industrial relations and dispute resolution between capital and

labour

- > introducing more institutional support for small, medium and micro enterprises (SMMEs). This is necessary in order to improve the employment coefficient and the redistributive effects of growth. The sector also plays a central role in the empowerment process.

- > developing a process of substantial empowerment for those previously

and development. We must beware that the immense goodwill we enjoy does not lose hope and patience with us.
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II This presentation will not deal in depth with the labour market. This is being dealt with in work done by the Department of Labour. The matter was also dealt with in the Job Summit. A number of assumptions are made in the media purportedly as a reflection of the views of business. These assume that SA does not have a flexible labour market and that this along with artificially high wage rates generated by union activity are causes of unemployment.

There are certain inflexibilities in the SA labour market and they may have an impact on SMMEs. However, it is most unlikely that they are the decisive inhibitor of growth in the

disadvantaged by the apartheid system.

There is an important and fundamental requirement for the above policy program to be implemented. There are in fact quite clear tensions between the above objectives in the ordinary working of the market forces. Accordingly, the existence of the Alliance is crucial in order to deal with these tensions through political and social processes. It is from this perspective that the actual workings of the Alliance become crucial.

In each of the above areas of structural change there has been substantial progress made and the priority is to now build on this and urgently complete some of the work. Before reviewing both the progress made and the work to be completed and what this will allow us to do in terms of investment and job creation various more direct investment promoting activities need to be noted.

I: These structural changes are fundamental to generating investment and thereby job creation. The focus has been on certain qualities in the investment process that will achieve

our structural objectives. Within this macro framework there have been a range of other promotion measures used. These are : trade and investment missions; the formation of Investment South Africa (ISA) and its coordinated work with the Provincial agencies; 16 sectoral programs e.g. auto and clothing and textile; the Spatial Development Initiatives (SDIs), including cross border initiatives; Industrial Development Zones (IDZs); the National

Industrial Participation Program; the formation of sectoral export and investment promotion

councils and various forms of investment incentives.

II The restructuring of the real economy has been complex. The first phase of the tariff

reform process has been completed. This has been the managed reduction of some 70% of the tariff lines in a process announced in schedules in 1995 and 1996. The balance of the lines were altered after more specific investigations. This latter process is also virtually

complete. Tariffs have not always been reduced and where a degree of protection will allow

production to proceed on a basis that will be reasonably sustainable over time the tariffs

have been increased. The guideline is that production is possible with protection levels that

approximate the maximum for that type of product (0-5% for capital goods, 5-10% for intermediate goods and 10-20% for consumer goods).

C] There has been considerable debate about the employment effects of this reform. Given the structural changes that have taken place as indicated above it is very difficult to

accurately assess this. We are now commencing a more detailed analysis of the effects and are involving unions in this process. This work will feed into the sectoral summits. Some of

the initial findings of the DTI are attached.

C] The next phase of reform in the area of tariffs now lies in the area of trade agreements.

The adjustments required by the European Agreement will start to phase in from the beginning of 2000 on a limited scale. This will probably coincide with unilateral tariff reductions as part of the SADC agreement.

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However, we also have to accept that we underestimated the time it would take to turn the economy around and we did not bargain on an international financial crisis in the fourth year of government.

In this presentation the focus is mainly on the economic rather than the socioeconomic delivery systems. The main objective was to make the real economy more competitive in the global economy in order to ensure sustainable growth, development and employment creation.

The concept of competitive needs to be understood carefully. Examination of industrial development and the ability to trade, in the last two decades in particular, shows that success in these areas comes from the efficiency of the socioeconomic dimensions of the economy and not from simplistic macroeconomic policies and actions. This arises from the more dynamic processes of production that have emerged as a product of the changes in information technology and computerisation. What is at issue is the competitiveness of all activity whether for export or domestic consumption.

The RDP was intended to achieve a range of structural changes. The main ones were :

- > reducing the level of protection, focusing on supply side rather than demand side industrial strategies and restructuring and developing economic institutions. This is part of a broader industrial strategy that is designed to maintain and then expand industrial and manufacturing capacity (value adding production).

- > stabilising the macroeconomic, - financial and budgetary situation through a wide range of reforms of the financial and budgeting structure, capital markets and through strict financial discipline.

- > restructuring state assets in order to get them to undertake new investment in infrastructure and where appropriate to reduce debt.

- > restructuring the inherited agricultural support system to remove subsidy and price support mechanisms. This has improved the price stability and competitiveness in agriculture.

- > reforming the labour market in order to establish basic rights and obligations and allow for effective industrial relations and dispute resolution between capital and

labour

- > introducing more institutional support for small, medium and micro enterprises (SMMEs). This is necessary in order to improve the employment coefficient and the redistributive effects of growth. The sector also plays a central role in the empowerment process.

- > developing a process of substantial empowerment for those previously

and development. We must beware that the immense goodwill we enjoy does not lose hope and patience with us.
End.

DISCUSSION PAPER FOR THE NATIONAL EXECUTIVE ON THE ANC.

2ND OCTOBER 1999.

INTRODUCTION.

The purpose of this presentation is to focus on the level of investment, the means of promoting this and the job creation that must flow from higher levels of investment. A brief assessment of the structural changes over the last 15 years is provided in order to identify the challenges we face.

This paper is based on a report to the Cabinet in June and on more detailed studies and reports that are available. However, one of the priorities in this period is to improve the quality of our information and analysis that will allow us to more effectively assess the impact of our policy. Various actions are in place to deal with this.

POLICY OBJECTIVES AND STRUCTURAL CHANGE IN THE ECONOMY.

Given an analysis of the state of the South African economy and the developments in the global economy the core thrust of the economic policy program was to achieve deep structural change in the economy and in the socioeconomic delivery systems. Such structural change was necessary in order to achieve sustainable growth, development and improved standards of living.

There are important implications to such a strategic choice. Such a growth path, based on deep and extensive structural change in all dimensions of the economy and its socioeconomic delivery systems, will mean a slower and less easily measured growth rate in the early stages.

The growth rate will be slower since old activities will end and new ones will start. The net result is a small incremental change at the outset of the process. The result is a series of incremental changes across a wide front of the economy. The growth rate in output is then low but the important changes are qualitative and designed to allow for rising and sustainable growth over a longer time period.

Measuring growth is more difficult as the structural change is both destroying and creating jobs, services and output at the same time. This impacts on the statistical methods that are used to measure the great complexity of production in a modern economy. These methods are based on samples of the total universe of activities and each sample has a particular weighting of the different types of activity, enterprise or output. It is these weights and the composition of the output that change in periods of structural change. The recent changes in the GDP is a very concrete example of this.

Structural change makes it inevitable that the results of policy changes will not be immediate. This is crucial to the understanding of economic policy over the last 15 years.

Having completed the first phase of tariff reduction and now making adjustments as a result of the trade agreements we have run to the end of our initial policy perspective and will need to set new objectives in the context of our own economy's needs and within the next round of WTO negotiations. It is therefore proposed to commence a new round of consultations to define the next policy phase.

The reform of the incentives has been completed and we need now to give them time to assess their effect.

Interaction with the private sector has been relatively successful. However, the process is slower than we envisaged. This is particularly true of the cluster approach. However, it would seem that there is a growing confidence in the benefits of working together. We are particularly seeing this in the export councils and the more targeted cluster work - mohair and the Eastern Cape auto cluster being two examples. Important new projects such as gold and jewelry are developing well.

A new area has developed in the course of this work. This is a more detailed interaction with the private sector - often with specific companies - and state corporations. The purpose of this interaction is to bring about specific corporate changes in order to strengthen sectoral objectives.

There are a number of key areas that we are now dealing with. The steel industry is in need of corporate change. This is a result of weaknesses in ISCOR, the excessive exposure of IDC to steel and the potential of the industry in the subcontinent. The National Industrial Participation Program (NIP) component of the defence procurement has also raised this. The other examples are in the logistics, defence, gas and petrochemical industries.

CI The reason for focusing on the competitiveness of the economy was to revive investment and prevent de-industrialisation. Investment in both the public and private sectors had stagnated for nearly a decade prior to 1994. This was due to the high cost structures and the resultant inability to expand either the domestic or export markets. The high cost structures were mainly due to short production runs, relatively high tariffs, poor work process methods and weak management in many areas.

Domestic demand was stagnant as a result of severe wealth inequality, stagnant real incomes (inflation was historically high despite low growth) and a dangerous level of fiscal deficit. Public corporations were over geared (borrowing to turnover to state it simply), often subsidised and badly managed. This combination of factors was not only the cause of a structurally stagnant economy but even more dangerous was that it made the economy very vulnerable to the highly competitive international environment.

In these circumstances to offer further protection and subsidies would be to deepen the structural inefficiency of the economy and too very quickly destroy the manufacturing capacity of the economy. This would have been a fundamental error. Available resources needed to go into the underlying social infrastructure of education, health, housing and

sector. They can be dealt with through a careful dialogue.

However, the more fundamental issue is that raised in the Job Summit and now being examined by a very low key group from business and labour. This is the more fundamental management of growth and development in the economy through a mutual understanding of the most effective utilisation of the rights of employers and workers and the better definition of their separate and mutual obligations.

It was agreed that this fundamental dialogue would be pursued after the Job Summit and that government would enter the dialogue at an appropriate time. The Minister of Labour recently announced a 15 point program of action that will further address the labour market etc.

a The developments in the SMME sector are both considerable and complex. Detailed reports on developments in this sector are available. The implications of this will not be repeated here. The centrality of this sector to growth and development needs to be stressed once again. The following key areas need to be addressed:

> more accessible financing for the SMME sector. This is dealt with in detail in three reports that were submitted by DTI. This problem also is of relevance to the housing sector as the problems are related. The thrust of the argument is that the failure to finance this sector is more than high interest rates, inability, reluctance or incapacity on the part of the Banks. It is a structural problem that is emerging in the banking sector that needs a different policy approach.

> more effective outreach by the new institutions to the potential beneficiaries. However, this should be linked to a greater focus on local and community based development.

II! The developments in the area of empowerment are not well recorded or understood. A more detailed policy discussion document is being prepared for the Economic Transition Committee. This deals with the overall problem and important initiatives such as the National Empowerment Fund (NEF). This area along with the developments in the SMME sector should become the subject of a more structured dialogue with other stakeholders. The initiative on empowerment that is chaired by Cyril Ramaphosa must be engaged in this regard.

II The Job Summit projects are crucial. The structural nature of the changes in the economy take time but this is not to say that we cannot achieve any on-the-ground delivery as these structural changes take place. This can be done by better coordination of our efforts. This is an important achievement in the Job Summit process. The agreements in the Job Summit constitute both a counter cyclical package and a bridging program during structural change. We have lost some momentum however, and need to revive it in the post-election period. We will also have to put more effort into explaining the changes as they take place.

supporting an inadequate growth rate. To be dependent on even higher levels of foreign direct investment has a range of other macroeconomic and strategic problems associated with it. We need to get on top of the policy issues associated with this structural problem. Thus far the state has made good progress toward removing its own dis-saving through the Ficus. However, the low level of saving is more complex and relates to the wealth inequality, the cycle of household consumption, the form of saving and other institutional and taxation matters. We will now have to address this as a structural constraint on higher growth.

. the contribution of all levels of government to capital formation, investment and job creation is still limited. This is highlighted in a report on capital expenditure in the government sector. This report has been considered in the Cabinet Investment Cluster and whilst there is a need for more work the implications are potentially very serious. It is clear that the quality of capital expenditure by government is poor. In the provinces there is clear evidence that they have responded to the fiscal discipline and the high salary bill by reducing capital expenditure. This includes maintenance. This compounds a tendency of the old regime to divert expenditure away from maintenance. The problem is cumulative but not simple and will require us to do a very much more careful analysis of the state's assets. This information is available.

The Investment study that is referred to later will also address this. We must, however, evolve a concrete response to this problem. A positive development in the Provinces is the generation of a surplus in some cases. This allows the removal of debt and plans to expand infrastructure. In both Gauteng and the Eastern Cape there are now funds available for growth and development as opposed to crisis management only.

The Municipal Infrastructure Program (MIP) is now beginning to progress and there are detailed reports and monitoring available. However, to increase the momentum requires improvements in local government financial management. It also requires improved processes for fiscally sound and sustainable public/private partnerships. The effective and well regulated use of the PPPs is the only way open to us to structurally achieve higher levels of basic infrastructure.

We need to remind ourselves that the estimated backlog of infrastructure made in 1995 was in the region of R130 billion. This is quite clearly out of the reach of the state's resources. If we had attempted to finance this on our budget then the effects could have been devastating in the recent fiscal crisis.

11 As indicated earlier the main objective of the restructuring of state assets is to increase the level of investment in both economic and social infrastructure. It is not possible to deal with the full complexity of this process here. The stress is on the most urgent requirements in the next period.

C1 So far it is the telecommunication sector restructuring that has made the greatest