

ADDRESS BY PATRICE MOTSEPE, PRESIDENT OF BUSA, AT THE 12th NEDLAC
SUMMIT HELD ON 01 SEPTEMBER 2007, EMPERORS PALACE

**THEME: "THE ECONOMICS OF DEVELOPMENT: KEY ACHIEVEMENTS
AND CHALLENGES FOR SOUTH AFRICA"**

Her Excellency, Phumzile Mlambo Ngcuka, Deputy President of the Republic of
South Africa

His Excellency, Membathisi Mdladlana, Minister of Labour

His Excellency, Mandisi Mpahlwa, Minister of Trade and Industry

Leaders of business, government, labour and community

Excellencies, Distinguished Guests

Ladies and Gentlemen

Only this week, it was reported that the recently elected President of the Republic of France, Nicolas Sarkozy, put forward South Africa's name for inclusion into the extended G8 together with India, China, Brazil and Mexico (G13). This invitation is testament to the stability and vibrancy of our democracy, as well as the great progress that our economy has made since 1994. But more significantly, it expresses international confidence and recognition of the economic and political future of South Africa as she matures and grows.

In July this year, the prestigious Fitch Ratings revised the outlook on South Africa's sovereign ratings from stable to positive, attributing the change to improved growth performance, increased investments and sound public finances. South Africa's ratings for long- and short-term foreign currency issuer default (IDR) were affirmed at "BBB+" and "F3" respectively. The country's long-term local currency IDR was affirmed at "A", as was the country ceiling.

Reporting to the country on the occasion of the State of the Nation Address in February 2007, President Thabo Mbeki stated that " At an average of over 4,5%, the rate of growth of our economy over the past two and half years has been at its highest since we attained our democracy in 1994. Investment in the economy, by both the public and private sectors has been increasing at about 11%, with overall public sector infrastructure spending increasing by an annual average of 15,8%. Today, fixed investment as a percentage of Gross Domestic Product – at about 18,4% – is at its highest since 1991" (Since the President spoke fixed investment as a percent of GDP has risen to 20.5%. ASGISA sees 25% by 2014 as needed to support a 6% growth rate and the business sector will provide the largest proportion thereof).

He, moreover, reported that the number of employed people has been increasing at about half-a-million a year in the past 3 years.

It is quite clear looking at these numbers that South Africa is indeed a country on the move. As Business Unity South Africa (BUSA) we are excited about these positive features, for we are convinced that they present South Africa with a major opportunity to grow her economy while consciously dealing with challenges of unemployment, poverty and social equity.

While celebrating these phenomenal achievements, BUSA is conscious of the challenges still faced by our country, such as skills development and our inability to sufficiently produce capital goods. We are furthermore conscious of the social ills still faced by our country such as the scourge of HIV and AIDS, unemployment and persistent poverty.

The business community welcomes the launch of the HIV and AIDS and STI Strategic Plan for South Africa: 2007-2011, by the Deputy President on 14 March 2007. The target of reducing infections by 50% is one that business supports, and the initiatives in pursuit of this objective will find ready support and leadership from business. We furthermore call on the restructuring of the

South African National Aids Council so that it is further capacitated to better co-ordinate, monitor and evaluate the actions as mentioned in the National Strategic Plan. Business wishes to express its warmest appreciation to the excellent leadership of the Deputy President on this national issue.

The unemployment challenge needs our renewed effort. Currently South Africa's official unemployment rate is 25.5%, and despite our consistent growth levels, and the jobs we have been creating over the last few years, it is apparent that we need to increase our growth patterns in order to deal with the challenge of unemployment. BUSA welcomes the R372 billion infrastructure capital investment by the government, and are confident that it will serve as catalyst for major private sector investment, resulting in new jobs. The newly endorsed Industrial Policy Action Plan correctly focuses on stimulation of labour-intensive sectors.

The Social Partners, at the Growth and Development Summit in June 2003, committed to huge investments and initiatives towards job creation, under the themed "More jobs, better jobs, decent work for all". It is quite clear, from the report presented by the Nedlac Executive Director to the State President on 17 July 2007, that the Extended Public Works Programme, the vast capital investment by the State-Owned-Enterprises and the growth of business opportunities in the private sector have created job opportunities in both the private and public sectors. While these targets have been surpassed, it is our view that the GDS review process should result in new, bold targets both in terms of number of jobs created as well as the quality of the jobs themselves.

There are also challenges in terms of deracialising patterns of economic ownership in South Africa. On 3 August 2007, the Presidential Black Business Working Group presented a report to the President that painted a dim picture that showed slow movement in terms of the seven areas in the BBBEE Codes of Good Practice. BUSA is distressed by the findings of this report, and

consequently calls for greater and renewed commitment in rectifying this untenable situation. It is our considered view that the deracialisation of patterns of economic ownership, as well as the employment and visible participation by Blacks at all levels of management, especially at senior management level, is essential going forward.

The Commission for Employment Equity Report has presented an equally troubling picture, which clearly depicts slow progress with regard to the implementation of the Employment Equity Act. The implementation of the Employment Equity principles is a country and business imperative, without which, the country will not achieve long term growth, stability and unity.

BUSA takes these reports very seriously, and for our part, will continue to appraise and mobilise the business community on the national and strategic importance of building a truly non-racial society. A special Council has been convened for September to look at better ways of dealing with the challenges posed in both reports. BUSA believes that business can only prosper and thrive if all our people participated and benefited from the growth and prosperity of our economy.

The adoption of the National Industrial Policy Framework by Cabinet in January 2007, and the subsequent endorsement of the Industrial Policy Action Plan, in July 2007, is a momentous development in the evolution of our democratic dispensation. While previously the government undertook several sectoral initiatives, such as the Motor Industry Development Programme (MIDP), it, however, did not have a consolidated industrial strategy covering the totality of the key industries in the South African economy.

BUSA welcomes the finalisation of the Action Plan, and wishes to express its unequivocal support, and commits to full support from the business community. Well crafted and implemented industrial policies have proven a success in many countries, as the Japanese example testifies. Japan has been

the most successful economy in the region and pioneer in the use of industrial policies. The pattern of industrial policies has evolved according to the evolution of growth in Japan: the post WWII reconstruction period until 1960, the rapid growth era until the oil crisis, and the period until the economic slowdown in the 90s. After the end of the American occupation in 1952, industrial policy focused on the reconstruction and expansion of large-scale industries. Pre-war high levels of human capital and knowledge networks, and US procurement during the Korea War facilitated the reconstruction of heavy industries.

The government promoted steel, shipbuilding, automobiles and aluminium refining based on their potential for economic growth. During the rapid growth era starting in the late 50s, the government intervened with the goal to strengthen the international competitiveness of Japanese firms, and in the 70s, the focus shifted to developing knowledge-intensive sectors such as electronics and semiconductors. During these decades, Japan's comparative advantage moved to Research & Development intensive activities.

As business, we would like South Africa to leverage on current growth and consumption patterns to develop high-potential national industries. In this regard, we wish to make the following points of emphases in relation to the Framework and attendant Action Plan as we go forward.

Trade policy has been identified as one of the tools that can be used to encourage industrial development and the growth of industrial capacity in South Africa. This is reflected in the National Industrial Policy Framework and the Industrial Policy Action Plan. For example, import duties will be reviewed for the lead sectors and market access opportunities explored. We wish to see more trade measures elevated in terms of the role it should play in South Africa's industrial development.

What is required is a more comprehensive consideration of the relationship between trade and industrial policies. We were pleased to learn that work in this area is now getting underway in the Department of Trade and Industry and hope that there will be engagement with the social partners as it progresses.

Business would like to see a more integrated approach between that taken in trade negotiations and the industrial development objectives of South Africa. This will require consideration of the sequencing of policy development and its implementation.

We would also like to see the regional dimension taken into account in further work in this area. The SADC Heads of State recently reiterated their commitment to the regional economic integration agenda. If this initiative is to succeed, then cooperation and coordination of strategies for industrial capacity building is imperative.

Honourable Deputy President, the ASGI-SA initiative has identified skills shortage as one of the factors hampering growth in South Africa. This has led to the creation of JIPSA with the mandate to assist in unblocking the logjams in the education and training systems in our country. As we know, the challenge of skills shortages is a global phenomenon. Only last month, Richard Lambert, Director-General of the Confederation of British Industry, in response to the A Level results, lamented the low numbers of students studying physics and chemistry in the context of a rapidly growing shortage of scientists and engineers in the United Kingdom.

BUSA agrees with the view expressed by the Department of Trade and Industry that one of the constraints identified in the industrialisation process is skills development and training, which in South Africa's case, has contributed to low manufacturing profitability. This situation has obviously led

to low investment, low output and poor export and employment performance particularly in low and medium skill industries.

BUSA concedes that changing the skills profile of a country is riddled with challenges which can be achieved in a progressive manner with the right leadership. The coordination between the demand and supply of skills into the economy is of fundamental importance; and BUSA calls for a unified and integrated approach to address skills shortage and scarce skills in the country. The interventions should straddle both immediate and long term measures, touching on such areas as vocational training, on-the-job training, academic training, etc. It is critical to integrate skills within the broader government policies, strategies and projects to ensure synergy between supply and demand. The business community will play its role in ensuring that the JIPSA and related skills development initiatives succeed.

The Skills Development Act and the Skills Development Levies Act were designed to assist in delivering the skills required by the economy, by increasing the level of investment by employers into training. The National Skills Development Strategy (NSDS) 2005-2010 ' was formulated to contribute to sustainable development of skills growth, development and equity of skills development institutions by aligning their work and resources to the skills needs for effective delivery and implementation.' BUSA urges social partners to re-energise their roles in assessing the contribution of the NSDS institutions and resources to the nationally agreed strategies for growth, development and equity.

SETAs have come under recent scrutiny with regards to their role in the country's skills development agenda. BUSA encourages the alignment of SETAs within the ambit of the National Industrial Policy Framework. BUSA is of the view that sector skills plans should include an integrated approach on the re-skilling of workers.

In dealing with long term skills demands of our economy, it is very important that we emphasize the role of education, both in terms of quantity and quality. The business community supports initiatives to enhance education at primary, secondary and tertiary levels. Every effort must be made to ensure that no capable child is denied quality education on the basis of their economic situation. The business community will provide inputs and make available business in the modernisation and strengthening of governance and curricula in schools. In addition, BUSA will continue to encourage business leaders and companies to contribute towards scholarships and research and development funding towards our tertiary institutions.

Madam Deputy President, in your first Annual Report on AsGI-SA, you expressed disappointment in terms of our impact on the "Second Economy". BUSA shares your concerns as many examples point to the dominant role that the SMME sector plays in economies of both the developing and developed worlds, which, unfortunately is not the case in SA. The BUSA SMME Task Team is busy crafting ideas and action plans on how to intervene at this level. BUSA applauds and supports the Enterprise Development and Preferential Procurement elements of the BBBEE Codes, for they are crucial in building the SMME sector in South Africa. It is very important that big companies should look at innovative ways of supporting the SMME sector in terms of their procurement and enterprise development policies and initiatives.

We are encouraged that the Industrial Policy Framework sets targets towards the development of suppliers. This programme can be used to stimulate SMME development and also to fast-track the participation of black individuals in the main stream economy. The interventions, in our view, must also focus on reducing the regulatory burdens faced by business, especially small businesses. In this regard, BUSA welcomes the imminent introduction of Regulatory Impact Assessments – which should assist with formulating clear interventions to reduce regulatory burdens.

BUSA also welcomes the Corporate Law Reform process, and believes that it would reduce the regulatory burdens faced by business in registering companies, encourage innovation and provide for flexibility in capital formation. Most importantly, the new regulations move towards decriminalisation where appropriate, and the establishment of appropriate bodies and institutions for the effective enforcement of the proposed legislation.

Ladies and gentleman, the achievements mentioned above could not have been achieved without the involvement and commitment of the social partners gathered here today. Similarly the socio-economic opportunities and challenges faced by country demand that we show the same energy and commitment for the betterment of our nation.

In BUSA's view, the challenge to the economy is not the rheumatics of old age but growth pains, which are positive phenomena if we tackle them sensibly. It means that we can do better if we find the right solutions to promote a high level of catch-up growth in the years ahead. Growth is a cumulative, self-reinforcing process, of which the hardest part is the beginning. This emphasizes the importance of making a success of the National Industrial Policy Framework, and other important interventions such as ASGI-SA and JIPSA. BUSA remains strongly committed to these objectives.'

BUSA, on behalf of the business community, will continue to engage our social partners, especially at the Trade and Industry Chamber as we fine-tune and implement the Industrial Policy Action Plan.

In conclusion, it is worth restating:

"Since the popular mandate of 2004, we have made welcome progress in further changing South Africa for the better. We should not and do not underplay the many difficulties we still confront.

But the message that our collective experience communicates to all of us is that, working together, we can and shall succeed in meeting the common

objective we have set ourselves as a nation - to build a better life for all, in a country that no longer contains within it and represent much that is ugly and repulsive in human society" President Thabo Mbeki: State of the Nation Address, 2007.

Thank you

Patrice Motsepe: President, Business Unity South Africa