The Trade and Industry Budget Vote Address Delivered by Minister Dr Rob Davies

22 July 2014

Chairperson

Minister Zulu

Deputy Ministers, Masina and Thabethe

Members of the Portfolio Committee

Director-General, Acting DG of Department of Small Business Development

And officials of these departments and the Council of Trade and Industry Institutions (COTII) Leaders of organised Business and Labour

Distinguished guests

Ladies and gentlemen.

It is indeed a privilege to participate in this dti budget vote, the first of the fifth administration of our democratic order.

At the outset I wish to welcome the new Minister. The new Ministry will give dedicated focus to small business and cooperative development; areas which are fundamental in bringing about economic transformation. As soon as the new Ministry was announced, we have worked very closely and have already transferred some parts of the dti and institutions in the dti family. We want to assure the Minister and Deputy Minister that this close cooperation between our sister departments will continue and undoubtedly, together we will do more.

Chairperson, in my first budget speech at the beginning of the last administration in 2009, I reflected on the unfolding great recession and our concern that the crisis posed a real and direct challenge to our plans for growing and transforming the economy.

At the time we characterised the challenge facing us as being structural in nature, meaning that the existing structural characteristics of our economy rendered us vulnerable to the effects of external shocks. The structural weaknesses derived from the reality of an economy that remained insufficiently diversified and too largely dependent on primary mineral exports.

We noted that growth in the pre-crisis period had largely been driven by consumption orientated, rather than productive sectors and that manufacturing output had remained

below potential, with the result that imports were filling gaps in the domestic market that ought to have been occupied by domestic products. The combination of these elements contributed to the skewed pattern of the economy's development, including in spatial and racial terms, resulting in the entrenchment of extreme levels of inequality and poverty.

One of the conclusions we drew was that we needed to implement a higher impact industrial policy that would respond to the imminent threat of de-industrialisation and lay a basis for the creation of a stronger industrial base.

More concretely, we introduced in 2009 the first of our annual Industrial Policy Action Plans (IPAP)covering actions to be undertaken in the financial year in question as well as the outer two financial years.

By 2014, the end of the term, we could report that the Industrial Policy Action Plan had become the centre piece of the dti's work with all our actions being coordinated or aligned to it. We could show that through our direct efforts we had stemmed the inexorable decline of the clothing and textile sector and witnessed significant investment and growth in the automotives industry. We could also show, amongst others, that our interventions transformed the Business Processing and Off-shoring sector and that the film industry was yielding significant investment and jobs, particularly for the youth.

Honourable Members, I have talked about achievements both past and present to illustrate that despite whatever the doomsayers say about industrialisation in our economy, the dti's role in facilitating industrial growth in South Africa, industrial policy, properly resourced and well planned, works. We also remain convinced that efforts to grow manufacturing in South Africa remain fundamental to placing our economy on a new path of sustainable growth.

Honourable Members will be aware; the President has indicated that the central task of the present administration will be to bring about radical economic transformation. This has a number of dimensions but requires, among other things, that our industrial policy impact is increased to the point that industrial development becomes a key driver of higher levels of growth along a qualitatively different new growth path.

I have shared with the Portfolio Committee some of our thinking on the elements of "Higher Impact Industrial Policy". They include building on and expanding the infrastructure development programme, implementation of a number of mineral beneficiation projects, pursuing active development integration on the African continent and re-positioning South African manufacturing in a continent that is itself seeking to industrialise, and creating a

platform for more granular engagements with dynamic and leading companies based on a higher level of support against greater conditionalities.

Honourable Members, allow me now to be more specific regarding some of our plans for the coming financial year.

Firstly, we see acceleration in the automotive sector where the Automotive Production Development Programme (APDP) has already supported significant new investment in the sector. Projected capital expenditure for 2014 is anticipated to reach a record level of R7,9 billion. As the National Association of Automobile Manufacturers of South Africa (NAAMSA) puts it "the relatively high levels of capital expenditure in recent years may be attributed in large part to Investment Projects by manufacturers as part of the APDP." Moreover, adjustments to the APDP and the designation of buses in terms of the Preferential Procurement Policy Framework Act (PPPFA) have resulted in Mercedes-Benz, Volvo and MAN winning tenders to provide locally assembled buses for Metros commuter bus expansions and for the production of the uniquely South African S'esfikile taxi.

In the coming year, the APDP will undergo an early review which will allow us to take stock of efforts and determine what more could be achieved in growing the industry in South Africa. In addition, the Automotive Supply Chain Competitiveness Initiative (ASCCI) launched in 2013 to enhance localisation, production and supplier capabilities is proving to be successful and we will continue to expand the programme.

Since introduction of the AIS in 2010/11 public sector approved incentives amounted to R6.3 billion and supported R23 billion investment by OEM's in our automotive sector. Given that automotives comprises 30% of our industrial sector with strong linkages to other manufacturing sub-sectors, the impact of such investment on our domestic economy is significant.

Also, the Automotive Export Manual Report 2014, shows that vehicle and component exports increased by 8.2% from R94.9 billion in 2012 to R102.7 billion in 2013. This is the first time the industry exceeded the R100 billion mark. Honourable Members this is a sector that employs in excess of 100 000 people in our country. It is an important sector and we will continue to support it.

Secondly, the Clothing, Textiles, Leather and Footwear sector is also an important labour absorbing sector and after having been written off, has been successfully stabilised through the introduction of a number of inter-related measures.

These include:

- improved monitoring of imports to ensure compliance with customs and excise regulations and to reduce unfair and illegal imports,
- the designation of the sector under the PPPFA, collaboration with key retailers to encourage local procurement,
- the introduction of the Clothing & Textile Competitiveness Programme (CTCP),
- and the creation of two new regional footwear clusters. These clusters have revitalised SA's moribund footwear sector in KwaZulu-Natal and the Southern Cape leading to new production of more than 150,000 pairs of shoes per month and the creation of 700 new and sustainable jobs.

In the coming year, the department will continue to roll out the CTCP to reach more companies within the sector and I will announce in the near future details of a significant programme to increase value addition in the exotic leather and animal hide industries through the National Exotic Leather Cluster.

Mr Speaker, the Metal Fabrication, Capital and Rail Transport Equipment sectors are the bedrock of a modern industrial economy. the dti has been active and instrumental in unlocking the sectors potential and we can now expect significant expansion to take place.

For example:

- the combination of the designation of locomotives in terms of the Preferential Procurement Policy Framework Act (PPPFA),and
- the work of the National Tooling Initiative and the Gauteng Foundry Training Centre
 have been pivotal in securing substantial local content commitments in Transnet and
 Passenger Rail Agency of South Africa (PRASA's) rail rolling stock investment plans.

Indeed, the localisation successes in renewable energy and buses and rail rolling stock will become the yardstick against which localisation of Government procurement is measured. To unlock the value of localisation for South Africa, further refinement of procurement legislation will be required – including a focus on compliance across all tiers of Government – and improving the transversal procurement processes. Utilisation of the multi-billion infrastructure build programme to support local manufacturing especially in the rail, electricity and construction sectors.

The dti will be playing its part in ensuring Government procures 75% of its goods and services from local companies.

Goods and services that have already been designated include:

- railing rolling stock
- power pylons
- buses
- canned and processed vegetable
- textiles, clothing, leather and footwear sector
- solar water heaters
- set top boxes
- pharmaceuticals
- furniture products
- power and telecoms cables and valve products and actuators.

I would like to take this opportunity to announce that the next designation of products for Government procurement includes:

- steel
- conveyance pipes
- transformers
- · building and construction materials
- and rail signalling and components.

To add to this momentum, the private sector needs to buy more from local companies and indeed made such an undertaking in the Local Procurement Accord signed a few years ago. It is therefore pleasing that within the President's Business/Government Working Group on Inclusive Growth, discussions are underway to secure the concrete commitment of the top 80 JSE-listed firms to purchase increasing proportions of their inputs from local companies.

Mr Speaker, the President assented to the Special Economic Zones (SEZ) Bill earlier this year. Simultaneously with processing the legislation we embarked on a process, together with the provinces, of conducting feasibility studies on potential SEZ's - some Industrial Development Zone (IDZs) and the other forms provided in the Act. Honourable Members will recall that in 2013 we proclaimed Saldanha Bay as an IDZ.

Now, subject to his schedule, President Zuma will in the very near future hand over the operator permit that will allow the Dube TradePort to become another IDZ. Public consultations are underway for the Harrismith trade port in the Free State to also become an IDZ. Work is also well advanced on industrial sector SEZs, including two potential platinum value chain based SEZs, one in the North West and another in Limpompo. We have no doubt that the combination of support available through the SEZ programme will lead to an increase in productive investment by the private sector.

We will also continue in the year ahead and in the course of this term to support investments in a number of ways:

- The Manufacturing Competitiveness Enhancement Programme (MCEP)
- the Automotive Incentive Scheme (AIS)
- the 12i Tax Allowance
- the Clothing and Textile Competitiveness Improvement Programme, and
- the Incubation Support Programme (ISP)

Are all incentives designed to support the competitiveness of labour-intensive and value-adding productive sectors. In addition and as the President noted in the State of the Nation Address (SONA), SA's Development Finance Institutions (DFIs) have an asset base of R230 billion. Over the coming year, we will work closely with the Industrial Development Corporation (IDC) and the Economic Development Department (EDD) to scale-up IDC support for industrialisation to achieve a greater cohesion with the deployment of the dti incentives.

Our aim, as I already indicated, is to seek stronger developmental conditionality's and reciprocal obligations from beneficiaries of state support in areas such as competitiveness upgrading; employment retention and creation, investment and so forth. In other words what we are looking at is a much more focussed, strengthened and integrated industrial financing and incentive system to support additionality and conditionality.

As we stated in the IPAP 2014, 'To achieve and consolidate the objectives we have been discussing, new platforms will need to be continuously built to strengthen existing stakeholder engagement and deepen trust and cooperation between government, the private sector and organised labour. We therefore warmly invite all stakeholders to join us in this project, in the spirit of active and open-minded collaboration that we are strongly advocating as the guiding thread for all our joint actions in 2014 and beyond.

Honourable Members, Government has spoken about the beneficiation of SAs mineral resources for a number of years but regrettably, this has remained elusive for many years. The effects on the SA economy are clear to see if we look at economic growth post the global economic crisis.

The commodity super-cycle at least for the medium-term is over, the extraordinary resource rents profits that were earned by companies during this period have not been adequately shared with society including workers, and the terms of trade for SA exports have declined substantially as weak international commodity prices have reduced the price of our key exports. Moreover, as the platinum strike so clearly demonstrated, our current account deficit and the exchange rate are directly impacted by volatile global commodity prices.

Mr Speaker, I am not suggesting that beneficiation is easy; however, if we fail to decisively pursue beneficiation we will relegate the SA economy to a place at the bottom end of the globalisation of labour with serious consequences for our ability to generate income and employment.

Our economy will remain undiversified and will be beholden to international commodity markets. We do not have the luxury of debating whether to beneficiate our mineral wealth, we must harness the collective industrial capabilities of SA firms to map how to beneficiate and what enabling policies or support measures are required to ensure this happens successfully and for the benefit of all South Africans. We will therefore this year, be developing a Minerals Beneficiation Action Plan as a component of the IPAP.

Honourable members, government is committed to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth. In order to facilitate broader economic participation, the department will begin implementing the Broad Based Black Economic Empowerment (B-BBEE) Amendment Act (Act No.46 of 2013), which was signed into law in January 2014. The B-BBEE Act and its accompanying Codes of Good Practice seek to increase alignment between B-BBEE activities and Government's objectives of, industrialisation, localisation, skills development and job creation.

Speaker, South Africa recognises the importance of foreign direct investment. We are - and will remain - open to Foreign direct investment (FDI). Openness is reflected in the stock of FDI in South Africa that now accounts for around 42% of our Gross domestic product (GDP). Inward flows also continue to grow, and over the last five years South Africa accounted for the bulk of new investment projects in Africa with investment arriving from the USA, some Member States of the EU and, increasingly, from China, India and other Asian countries.

The reasons are not hard to find: South Africa offers many opportunities not only for access to a growing domestic market but also as a platform to the dynamically growing markets of the African continent. Investors enjoy robust protection in South Africa, comparable to the highest international standards, and the Organisation for Economic Cooperation and Development (OECD) rates South Africa as among the least restrictive jurisdictions for investment.

Allow me to state some of the recent facts on investment in South Africa:

- Firstly; notwithstanding the very challenging global economic conditions, in August 2013, Global Financial Times Magazine of UK voted South Africa overall winner for best investment destination in Africa for 2013 and 2014.
- Secondly, the 2014 AT Kearney Foreign Direct Confidence Index ranks South Africa in position 13 amongst 25 leading economies moving up two places from 2013.
 South Africa ranks better than countries such as Switzerland, Sweden and Netherlands.
- Thirdly, International Investment Initiative director at the University of Bern's World Trade Institute Dr Stephen Gelb says if one looks at the number of firms investing in South Africa, and not just the number of US dollars flowing in, his research has shown over 130 foreign firms either entered South Africa or expanded their investments during 2013 that is about 2.5 foreign firms per week announced an investment in South Africa.

Finally, Tobacco Institute of Southern Africa (TISA) our investment team has developed an investment pipeline of R60.5 billion of potential investment projects for 2013/14.

Certainly, the draft Promotion and Protection of Investment Bill has generated some negative comment. The reality however is that this Bill will ensure that all investors domestic and foreign will be treated equally on the basis of the principle of non-discrimination and substantial protection of investor rights, based on the Constitution.

These are factors recognised by leading investors and as an example this year we welcome Samsung Electronics who will establish a manufacturing hub for Africa at the newly designated IDZ Dube Trade- Port for the production of televisions and monitors as part of phase 1 of their investment. Notably, Samsung is amongst the largest 3 companies in the world.

Honourable Members it is worth repeating that South Africa's economic development success is inextricably linked to that of the African continent. As Africa takes centre stage as the next growth frontier, the dti will continue to play a prominent role in advancing developmental integration in Africa. South Africa will continue to champion broader regional integration through Southern African Customs Union (SACU), Southern African Development Community (SADC) and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa.

We have taken the view that the priority for Africa's regional integration programme at this point should be to broaden integration at FTA level across existing regional economic communities within a developmental paradigm that gives priority to infrastructure development and cooperation to promote industrialisation. We believe that such a programme will enable us to diversify our export base, promote greater intra-African trade and investment, and support regional industrialisation. The conclusion of the T-FTA is critical for Africa's integration and development as well as providing the basis for the envisaged Continental (C-FTA).

The department will also work with other SADC member states to ensure full implementation of the SADC Trade Protocol. The National Regulator for Compulsory Specifications (NRCS) will continue to participate in the SADC structures to encourage and fast track harmonisation of technical regulations to allow for easy access of South African goods and easy regulation of products destined for Southern African markets. The National Regulator for Compulsory Specifications (NRCS) will promote sustainable local manufacturing industry by locking out non-compliant imported products, increased visibility at the Ports of Entry, greater cohesion and cooperation with SARS, border police, and other government departments and agencies.

We are confident that these measures will have an impact. As a matter of fact, since we started stepping up our efforts, close to R500 million worth of non-compliant goods have been destroyed.

Speaker, in 2013, South Africa hosted the 5th BRICS summit under the theme: "BRICS and Africa: Partnership for Development, Integration and Industrialisation." We have just returned from the 6th BRICS Summit in Fortaleza, Brazil where we reported on the work undertaken our term of leadership of BRICS. The BRICS Trade Ministers approved a new BRICS Trade and Investment Cooperation Framework to place the work programme on trade and investment cooperation in a longer-term strategic perspective. This included the adoption of

a work programme that will aim to promote more value-added exports among the BRICS Members.

South Africa will also ensure that it continues to deepen economic development, trade, and investment partnerships with the BRICS through the work of the BRICS Contact Group for Economic and Trade Issues.

Let me also acknowledge the important work undertaken by the BRICS Business Council, through the former inaugural chair, Mr Patrice Motsepe. The Heads of State of BRICS accepted the Business Council's report which identifies a number of opportunities for cooperation among the BRICS business communities.

Government is committed to creating an enabling environment that will facilitate investment, job creation and growth. Appropriately calibrated and enforced regulations provide business with certainty and a stable business environment. Regulations are also essential to reducing the harmful effects of illicit trade in many forms that is not only harmful to workers and consumers but also constitutes unfair competition to South African companies that are law abiding.

The dti is part of the Presidential Business/Government Working Group on Regulations, and will continue to advocate through this structure the need to improve the speed with which Government administers regulations and the reduction of unnecessary and bureaucratic requirements which do not add value.

For this financial year, the following legislative changes are planned:

- Companies Amendment Bill: One of the key interventions in the Companies Act is
 the business rescue provisions which reduced the figures relating to liquidations
 when introduced in 2011. The assessment of the practical application of the
 Companies Act by the Specialist Committee on Company Law, headed by Dr
 Michael Katz, highlighted the need to amend certain provisions in the regard for more
 certainty. Minor amendments will be proposed to Parliament to enhance the
 effectiveness of the Act.
- Gambling Amendment Bill: Following the recommendations of the Gambling Review
 Commission and the deliberations by Parliament, we will propose amendments to the
 Gambling Act to address the proliferation of gambling that has arisen due to piece
 meal treatment of new gambling activities, including online gambling, improve
 measures to curb addiction and to eradicate illegal gambling; and to improve the

- mandate and structure of the regulatory bodies. The Bill will also look at setting norms and standards to promote a sustainable and responsible gambling industry.
- Copyright Act: The existing intellectual property (IP) law regime requires a shift in order to take into account the trends and developments in the copyrights environment and address key challenges that have been raised by artists. The Copyright Review Commission which was headed by Judge Ian Farlam made important recommendations, which will improve access to education, regulate collecting societies effectively, and facilitate fair and speedy payment of royalties to rightful owners. We will propose amendments to the Copyright Act to bring an end to the plight of artists who continue to die as paupers. In this Bill, we will also propose measures to regulate fair use, and fair contract terms, given the challenges with contract negotiations within this industry.
- Liquor Act: The scourge of alcohol abuse, with World Health Organisation (WHO) statistics showing South Africa as one of the highest in alcohol consumption, necessitates a review of liquor trade and regulation throughout the value chain. We will propose improvements which will include a review of trading hours, age restrictions and issues of location. Amendments will also include improvement of the institutional framework for better enforcement and compliance, as well as alternative measures to curb liquor abuse and eradicate illegal trading.
- Business Act: the dti seeks to ensure that all businesses, especially small and
 emerging ones, receive appropriate government support to enhance their growth,
 profitability and efficiencies. This requires that appropriate governance rules are
 adhered to by businesses at minimal costs, and that they conduct legal and
 legitimate operations.

We will introduce propose amendments to the Business Act to set norms and standards and provide for a simplified registration processes. This will assist government to provide support to businesses, including informal ones, to stimulate sustainable inclusive growth and combat illegal business operations. Extensive consultation has taken place in this regard and a revised Bill will be published.

In order to ensure that legislation is in line with globally competitive practices and does not impose unnecessary barriers or raise costs of doing business, we will subject each proposal made to Parliament to a regulatory impact assessment (RIA). This process includes a cost benefit analysis which assists us in choosing the appropriate legislative tools to employ.

We will publish the regulations for the Lotteries Amendment Act, and introduce full time

distributing agencies to improve disbursement of funds.

• The National Credit Amendment Act will see introduction of affordability assessment

regulations.

With regards to the Intellectual Property Laws Amendment for protection of

indigenous knowledge, we will publish regulations and establish the trust fund, as

well as the Council which will comprise of experts in indigenous knowledge. We

continue to monitor other laws that are being implemented to assess if the objectives

are being achieved.

Finally, a special word to all staff of the dti, whose efforts have contributed to the success of

the department. I do not believe that we could have made these advances without the

support of the people in the dti and its family of institutions. As I said at the end of the last

term and I think it is worth repeating at the beginning of this term: I am proud that what we

have achieved, we have achieved with a staff that has a much more diverse profile than the

dti of 1994. This new profile, so much more reflective of the demographics of South Africa is

emerging as a strength that will lead us into the future.

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