

Description : SOUTH AFRICA BEYOND 2000: THE SOUTH AFRICAN ECONOMY: CAN WE ESCAPE BEING MARGINALISED?

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Speaker : DEPUTY MINISTER GILL MARCUS

CONFERENCE OF THE INSTITUTE FOR STRATEGIC STUDIES AND THE GRADUATE SCHOOL OF MANAGEMENT, UNIVERSITY OF PRETORIA, 14 AUGUST, 1997

Distinguished Guests,

Ladies and Gentlemen,

May I begin by congratulating your conference organisers on a programme which brings together views on so many of the key issues we face in preparing for the 21st century. You have had the privilege of looking into the future in all its critical dimensions: political change, crime trends, demographic dynamics, industrial standards, monetary policy, tourism, trade and investment, labour matters. And as Mr Kluever will have told you, whether or not we escape being marginalised, we in government are certainly not going to escape the penetrating gaze of the Auditor General.

You have not asked me to speak today on economic forecasting or scenario plans - many of your speakers will have dealt with these matters more ably than I could. We are committed to a faster growing, more equitable economy, a streamlined and effective public service and a safe and secure environment for both homes and businesses. But we know that these goals will not be achieved overnight, that there is hard work to be done in improving social and economic performance, that there are pitfalls along the way. Nor can we anticipate all the challenges before us in advance.

Of course we can escape being marginalised. And we cannot be content merely to escape marginalisation. We have a great deal to contribute, areas of excellence where we need to be at the cutting edge of initiatives. There are spheres of industry and trade in which we have a leading role to play in our region and more widely; there are clusters of excellence in our universities and research institutions which must remain pre-eminent internationally; on the sports field we have clearly demonstrated our growing potential for excellence; there are cultural and social impulses in our sub-continent that must be strengthened as focal points of global co-operation.

The macro-economic strategy

You know that we have adopted a macro-economic framework that seeks to put the South African economy on a firm, growth-oriented and employment-generating development path into the 21st century. I do not propose to dwell on the details of this strategy now. Its main principles are clear:

- we are opening the economy up to international trade and investment;
- we have adopted a disciplined monetary and fiscal policy framework;
- we recognise the need for enhanced investment in education and national training;
- the state will sell, or seek private sector participation in, enterprises that do not belong in the public sector, or that need injections of skill and capital;
- we are embarking on budgetary and other public sector reforms aimed at more efficient service delivery;
- government spending is being reprioritised, targeting social needs and will shift in favour of infrastructural investment and employment creation.

It is just over a year since the macro-economic framework was introduced. In some respects, performance has matched or surpassed our expectations. Exports have continued to grow strongly, partly in response to the weakening of the rand last year. Public sector investment spending has increased, and several key public enterprise restructuring and re-financing agreements have been effected.

Foreign investment in the economy has been steady in 1997, contributing to a marked improvement in the reserve position and downward trends in capital market interest rates.

Employment creation appears to have responded sluggishly, if at all, to the economic expansion between 1994 and 1996. This is a major challenge, and the Minister of Labour has called a Summit on Jobs to be held later this year to give the unemployment problem the attention it deserves.

The economy has slowed over the past year, and some commentators expect growth in 1997 to be little more than 2%. We have hoped to do better than that. But it is worth stressing that for the first time in decades an economic expansion in South Africa has been driven mainly by private business investment and expanding export opportunities. This means, quite simply, that the next growth phase will build on the expanded industrial plant and the extended global market participation that have been won over the past business cycle. This is a sustainable and viable foundation for growth.

We have made it quite clear that do not believe the economy can grow for long on temporary injections of government consumption spending, or any other artificial energy stimulants or fiscal muscle relaxants. We have to build this economy on firm productive foundations.

Let me add something about the redistributive side of the Growth, Employment and Redistribution strategy, which is often neglected.

Drawing on the work of the Katz Commission and others, there are several aspects of tax reform - not least, improved administration and prosecution of offenders - that are aimed at greater fairness in the tax system.

But it is mainly on the expenditure side that government plays a role in redistributing incomes and opportunities. We have improved access to primary health services, we are addressing the backlogs in education and training, we have clean drinking water, electrification and

telecommunications programmes underway, that will in due course contribute to an improved distribution of opportunities.

Not all of these redistributive initiatives will contribute to improved growth in the short term. But the international evidence on long term economic performance is unambiguous. By ensuring that children have access to schools now, that homes are electrified and water supplies are safe, that houses are built and roads are repaired, we are investing in our children's livelihoods and our children's children prosperity.

Can we avoid marginalisation? Yes, but this is not just about looking after our own core needs; it is also about protecting the interests of generations ahead.

The very nature of the South African economy dictates that we meet the challenges of globalisation. This is because:

- South Africa's domestic savings are insufficient to provide the level of investment that is required if we are to reverse the decline in job creation. We need to attract further savings of between 3% and 4% of GDP each year to meet investment objectives;
- South Africa needs to increase its foreign exchange earnings through increased exports. This is a double-edged sword. To increase exports requires that imports, as inputs into an exporter's production process, are competitively priced, and that we have access to foreign markets.
- Ultimately, a healthy growth in manufactured exports will have a direct spin off in increased labour absorption.

We should, however, recognise that globalisation has certain disciplines. Companies faced with the choice of investing anywhere in the world compare the price and efficiency of the fixed factors of production, namely labour and infrastructure. If we are to attract investment, we need to ensure that our labour and infrastructure are competitively priced.

Investors also want to know, with a degree of certainty, that the prices of today are the prices that will prevail in the future. Thus firms compare macro-management across countries. Therefore, if we want foreign direct investment our fiscal management, taxation levels and exchange controls must be in line with other developing countries.

South Africa cannot achieve its developmental objectives without meeting the challenges of globalisation.

I now want to draw together three particular aspects of our work in the Ministry of Finance which represents modest beginnings in our journey towards stronger and more confident economic performance. In all these areas, we can draw to some extent on past strengths and capacity.

But for reasons which I will briefly touch on, these are also areas in which we have to do battle with a considerable starting deficit. Universities, the private sector, and certainly institutions such as your Graduate School of Management and the Institute for Strategic Studies, all have

vital roles to play in ensuring that we succeed in addressing these deficits, that we build the leadership capacity we need to take us confidently into the next century.

Enhanced financial management

We have agreed on a new Constitution, clearing the decks of the politically and economically bankrupt constellation of states envisaged by apartheid planners. We have established the constitutional framework for three spheres of government, but we face an immense challenge in developing the necessary financial management capacity and traditions of good governance necessary for the viability and effectiveness of a transformed public sector.

We inherit a highly centralised, may I say paternalistic, tradition in public sector management, designed to maximise control and disempower decentralised agencies. When we visit provinces in search of decision-making capacity, we are told that "these things always used to be done in Pretoria".

There is of course a role for good central administration and clear policy frameworks within which decentralised offices can operate. But throughout government, we need to build accountability and financial management capacity consistent with locating responsibilities where they belong and strengthening improved service delivery within the limits of the available resources.

If we are to escape being marginalised, this is a project that must succeed. Not just in government, but right across the economy, we need to strengthen financial literacy and expertise. For too long, the accounting profession and the financial services industry concerned themselves with standards and products tailored almost exclusively to the top end of the market. This is changing - we need to welcome the re-thinking of curricula, qualifications, the needs of the public sector, the needs of smaller businesses and the re-packaging of financial services aimed at broader markets that are in progress.

The Offices of the Accountant General and the Auditor General have key roles to play in building financial management capacity, as have provincial treasuries. The training division of the South African Revenue Service is embarking on a substantial upgrading of its programmes and activities. But this is a project which needs to draw more strongly on management and finance departments in our universities, technikons and colleges.

I hope that educational institutions and the private sector will recognise the importance of rapid progress in the developing and enhancing the quality of financial and accounting skills.

Budget reform

Closely allied to improved financial administration is the reform of the budget process. We have taken the first steps this year in introducing a medium-term expenditure planning framework. The incorporation of the RDP into departmental budgets reinforces the reprioritisation thrust of budgetary allocations. Provincial treasuries have prepared their first budgets and are having to

learn to take the tough choices required to live within their means. Other aspects of budget reform will be dealt with in a draft White Paper later this year.

You will appreciate that, faced with safety and security challenges, infrastructural development needs, a commitment to equitable health, education and welfare services, and many other pressures on the national and provincial treasuries, the budget process is not a cakewalk. Budgets are often unpopular, always somewhat contentious, and never easy to compile.

We are exploring many of the more difficult aspects of budgetary reform and public sector financial management, drawing in part on international experience. You will be aware of some of the new ventures in progress:

- Private-public partnerships in the financing of infrastructural projects, including several large correctional service facilities
- An enhanced cash and debt management framework
- Intensive discussions on public sector personnel management and remuneration issues
- Consolidation and more independent management of government pension funds
- Public sector procurement reform, including streamlining of tender procedures and improvement of opportunities for small business participation.

These are long term initiatives. They are fundamental to our vision of a sound and efficiently managed public services, consistent with accelerated social development and economic progress. Regional economic integration

Let me conclude with a few words about an even longer term vision. Together with 11 Southern African partner states, South Africa has signed a trade protocol which commits us to a programme of phasing out customs duties and other trade restricting measures with the aim of establishing a regional free trade area in the course of the next decade.

The SADC negotiations are not the only trade agreements under discussion. We have been in talks with the European Union since 1994, and there are various bilateral discussions underway.

Regional trade liberalisation enables members to take advantage of a wider market, and promotes convergence between member countries in economic performance. There are many aspects under review, including macro-economic and monetary issues, tax harmonisation, labour market issues and industrial policy. There is also scope for improved regional security and co-ordinated crime prevention strategies.

South Africa is the dominant regional economy, and we need to take care to ensure that regional integration is not frustrated by perceptions that we will be the only beneficiaries. There is abundant evidence that a well-managed integration programme will be to everyone's advantage. Our commitment to regional economic development, and to pursuing further integration into the global economy, is perhaps the single most important signal that we have no intention of being marginalised in an increasingly competitive world economy. There will be set-backs from time to time, and economic transformation will impact negatively on parts of the economy. But the

tough choices have been taken. We intend to build a competitive economy, with a leading role in Africa and a prominent place amongst industrialising nations in the global market.