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Introduction

Thank you for this opportunity to speak at the Annual SACCI Gala Dinner. I would like to congratulate you on the topics chosen for the Convention; namely Leadership, Sustainability and Development. We are living through extremely challenging economic times, the post-recession recovery where leadership will be severely tested, with the sustainability of old models questioned and the focus on development sharpened.

Our morning coffee, as we open the papers, has been frequently disturbed by news of renewed market volatility and worsening financial and economic turmoil.

Recent international developments

The confluence of large fiscal and financial imbalances, high debt levels and slowing growth in advanced economies underpin the current sovereign debt crises, particularly in the EU, and weigh heavily on policy makers and business leaders across the world.

As captured in the IMF’s latest World Economic Outlook, the global economy is in a “dangerous new phase”. Global growth, which began to moderate in the second quarter this year following the earthquake in Japan and an oil price shock, has continued to lose momentum.

A world-wide slowdown is evident in disappointing Q2 growth across advanced economies while the JP Morgan Global Manufacturing purchasing managers index – an aggregate measure of confidence in the global manufacturing sector – has declined over the last six months to its lowest level in over two years in August.

A fortnight ago, the communiqué of the BRICS finance ministers argued that, "t*he immediate problem at hand is to get growth back on track in developed countries*."

Policy uncertainty appears pervasive, and policy space has been narrowed by the fiscal and stimulus measures of the past. The escalating debt crisis in the EU, and growing concerns over the ill-health of the US economy where the housing market is experiencing a double-dip and unemployment remains stubbornly high have started to impact on already fragile real activity in these regions. Confidence measures have fallen, together triggering rising global financial market volatility and bouts of risk aversion.

We went on to state in the BRICS communiqué that "*it is critical for advanced economies to adopt responsible macroeconomic and financial policies, avoid creating excessive global liquidity and undertake structural reforms to lift growth create jobs and reduce imbalances*."

We have learned that there is greater interconnectivity and that what happens at a global level with developed countries have a spill-over effect on developing and emerging economies as well.

Having just returned from G20 and IMF meetings in Washington, there is a developing collective will to act decisively in the best interests of the global economy and prevent any outcome reminiscent of that following the collapse of Lehman Brothers in 2008. From the IMF communiqué, I quote:

"Today we agreed to act decisively to tackle the dangers confronting the global economy. These include sovereign debt risks, financial system fragility, weakening economic growth and high unemployment. Our circumstances vary, but our economies and financial systems are closely inter-linked. We will therefore act collectively to restore confidence and financial stability, and rekindle global growth."

The shifting pattern of global growth

Against this backdrop, emerging economies have continued to grow strongly. Annual growth was 9.5 per cent in China and 7.7 per cent in India during the second quarter.

Emerging markets do not have the same debt or growth problems as many advanced economies. Government deficits and debt levels are much lower, and rates of growth faster. Emerging markets are expected to contribute 3.2 percentage points to total global GDP growth of 4 percent in 2011, and by 2015 the BRICS group, which includes Brazil, Russia, India, China and South Africa is expected to account for almost a quarter of global GDP, up from just 8 per cent in 2000.

The idea of a “two-speed” global economy is becoming entrenched and the traditional perception of emerging markets as a risky investment destination is changing. While this may be subject to sharp reversals in the short-term as a result of swings in investor appetite, we are likely to see large investment flows channeled South and East for years and decades to come.

This represents a huge opportunity that emerging markets can embrace if capital flows are channeled toward productive investments that raise the potential growth rate of the economy.

Domestic outlook

The South African economy has close ties with the global economy, particularly the G7, and our local economic performance tends to rise and fall with global trends. Following robust growth of 4.5 per cent during the first three months of the year, economic activity at home has mirrored developments in advanced economies, slowing sharply in the second quarter of this year. The economy grew by just 1.3 per cent between April and June this year as manufacturing, mining and agriculture contracted.

The weakening growth performance in developed markets and escalation in market volatility has cast a shadow over the domestic outlook. Business and consumer confidence readings have declined, highlighting growing pessimism regarding the health of the economy.

There are many channels through which sluggish growth and financial market turmoil in advanced economies affects South Africa. These include weakening global demand for South African exports and deteriorating sentiment, investor uncertainty and rising risk aversion, a more volatile exchange rate and commodity prices, and possible revenue under-performance. The turmoil may also impact international funding conditions, which are important to South Africa given that we intend to borrow almost R450 billion to fund our fiscal deficit over the medium-term.

Some of the weakening in our manufacturing performance reflects temporary factors; including supply chain disruption associated with the Japanese earthquake and pockets of industrial action. It still remains to be seen the extent to which global developments have hampered real activity in the third quarter, however, slowing global demand will put our tradable sectors under pressure.

While global demand has weakened, there are a number of factors that continue to support growth. High commodity prices as a result of demand from the fast growing emerging economies, strong gains in real disposable income, and a relatively low inflation and interest rate environment, which should be conducive for robust consumption and accelerating investment.

The Reserve Bank Quarterly Bulletin, released three weeks ago, shows a fledgling recovery of private sector investment led by mining and the transport and communications sector. Capacity utliisation rates have continued to rise suggesting there is further potential for strengthening fixed capital formation as spare capacity is slowly eroded. On-going public sector investment into infrastructure will also contribute to economic growth, and will help draw in further private investment.

The fundamental challenges facing the economy remain

Against the background of uncertain global conditions, we cannot lose sight of our fundamental socio-economic challenges – unemployment, poverty, and inequality.

The unemployment rate is currently 25.7 per cent with about half of all young people jobless. Income inequality remains high and the country's Gini coefficient, which is the typical measure of income inequality, was 0.7 in 2008, among the highest in the world. Poverty continues to affect millions, with about half the population (25 million people) in 2008 living on less than R524 per month – approximately two US dollars a day.

To confront these challenges the country needs to achieve higher rates of economic growth and stimulate much faster job creation. Our ambition, as I have stated on many previous occasions, should be achieve and sustain growth of 7 per cent. This is an appealing number, since at this pace the economy would double in size every ten years, bringing jobs and prosperity and lifting millions out of poverty.

And it has been done before in other countries.

At the moment, however, 7 per cent is not possible for South Africa. The speed limit of the economy is much lower. Our growth projections at the time of the Budget, and before the current market turmoil, were for the economy to grow by 4 per cent a year over the next three years. To make 7 per cent a reality will require a concerted effort to assess where the bottlenecks and binding constraints to growth exist, identify the reforms will release these constraints and make South Africa more competitive.

The business environment in South Africa

In the latest World Economic Forum (WEF) Global Competitiveness Report, South Africa gained four places in the rankings. As a country, we now rank 50th in the world, out of 142 countries, and second, behind China, among our BRICS counterparts,. We continue to hold top spot in Sub-Saharan Africa and the quality of our financial markets, so important given the current turmoil, are among the best in the world.

This is to be welcomed, but we should not rest on our laurels.

Competitiveness is a relative concept, and continuously evolving. As a country we must work together to improve the business climate and foster further gains in competitiveness. We should focus on those areas that are consistently identified as constraints to investment and growth.

These include our weak performance in basic health and education, and the considerable scope to improve infrastructure such as our ports, rail, electricity, and communications, logistics costs, government regulation, innovation and the efficiency of our labour market. These are cross-cutting factors that underpin the underlying cost structure, competitiveness and productivity of the economy

Government is aware of these constraints and is pursuing 12 key outcomes that target these very areas, with priorities encompassing education, health, skills, crime and safety, infrastructure, an efficient and effective public service and the need to create decent employment through inclusive growth.

Increasing exports

With the global recovery waning, tepid growth in advanced economies, and the re-orientation of the global economy towards rapidly expanding emerging markets and developing countries, only those countries, industries and firms that are most competitive will achieve success in exporting their goods and services. This new world is daunting, and raises a number of important questions, but also provides numerous opportunities:

- Given our economy is the most advanced in Africa, how do we create integrated regional value chains (a la Apple)?
- How do we access the opportunities to sell technology and advanced manufactures that are tailored to the African and other emerging markets?
- Together, can we discover and sustain dynamic export industries that are globally competitive?
- How can we exploit the export opportunities presented by the continent and take advantage of trade agreements such as the proposed SADC, ECA and COMESA free trade area?
- Together, can we identify the development needs of growing African economies, such as in infrastructure and mining related needs?
- What changes would make our industrial development zones become world class special export zones and result in fast growing, productive and job-creating export producers?
- Together, can we release the domestic constraints to exporting, whether this is transport infrastructure, logistics, or other inputs costs to production?

The role of the private sector

For us to make strides towards achieving our national priorities, we need to develop effective partnerships with all social partners. If the economy to achieve the growth rates needed to create the millions of jobs that will help reduce unemployment, poverty and inequality, private sector businesses have a critical role to play.

The importance of business and the private sector for growth and job creation cannot be understated. It currently accounts for more than 80 per cent of gross domestic product and a slightly higher share of employment.

We need effective partnership between government and business, to invest and grow, to develop the skills base needed to drive the economy forward, to innovate and foster technological progress. The Jobs Fund, introduced at this year's budget with its challenge fund approach, seeks to institutionalize these types of partnerships with the aim of creating viable and sustainable employment.

Government has a critical supporting role to play in growth and job creation through the economic policies it sets. These include sound macroeconomic management that provides certainty in the economy and the framework and foundations for strong, sustained and inclusive growth, but also the provision of efficient, effective and appropriately priced network infrastructure and promoting an environment that is conducive to private sector growth and investment, including appropriate regulation and microeconomic reform.

Increasing product market competition

One critical avenue for reform is to raise levels of product market competition in the economy.

Many of our major industries are characterised by high levels of concentration and low levels of competition. Shielded from the discipline imposed by market competition, businesses in these industries have been able to set large mark-ups that translate into high prices for consumers. In the case of primary and intermediate goods industries, high concentration reduces the competitiveness of downstream industries.

Lowering concentration and raising competition will increase efficiency in the economy, stimulating productivity and accelerating economic growth. This can work through a number of mechanisms. Higher competitive pressures force better company management, stimulate investment and capital deepening, and encourage innovation that together raise productivity levels and allow firms to fend off competition.

There are many ways to encourage greater competition. The IMF in its annual Article IV assessment of the South African economy argued that the accent should be on “broad based reforms to improve competition and competitiveness” through trade reform and attracting new entrants in to the key network industries (energy, telecommunications, and transport and logistics). This highlights an area that could provide a huge boost to growth and competitiveness through enabling significant efficiency improvements and lowering the costs of production in South Africa.

Supporting the activities of the Competition Commission and adopting measures which lower regulatory and administrative burdens, especially for small businesses, would also support new entrants, encourage new firm start-ups and the expansion of existing small businesses.

The importance of SMMEs

SMMEs are critical for overall employment and job creation.

Micro, small and medium sized firms (SMMEs) account for the majority of employment in the South African economy. Labour Force data shows that about 70 per cent of private employment is in firms with fewer than 50 workers. In addition, smaller firms account for a disproportionate share of gross job creation with almost 80% of all new jobs being created in firms with fewer than 50 workers.

Addressing the employment challenge facing our country will be difficult without a sustained upward shift in the number of firms operating in the country and the expansion of jobs created in smaller firms.

New firm entry stimulates enterprises and encourages productivity gains through pro-competition effects. New firm entry also engenders technological progress given that cutting-edge innovation often derives from new market entrants.

Since firms are smaller, regulatory burdens impose a disproportionately large cost. Smaller firms are unable to have dedicated teams to comply with the rules and regulations they may face related to labour issues, trade issues, licences and permits, and taxation. These act as effective barriers to entry for new firms, and discourage the expansion of existing firms, limiting their job creation potential.

Regulatory compliance cost as a percentage of turnover is much higher for smaller firms. The compliance cost is about 8 per cent of turnover for firms with turnover of below R1 million, but less than 1% for firms that have a turnover of more than R10 million (OECD, 2008).[1] Surveys of South Africa's investment climate also have shown that the delay in waiting for telephone, water and electrical connections, construction permits, and import and operating licenses are longer for smaller firms.

Working alongside small business in a process of discovery, government needs to ensure the regulatory and administrative burden is appropriate and does not unduly impinge on small firm creation, growth and expansion.

Fostering entrepreneurship

Critical to developing the SMME sector in South Africa is fostering greater entrepreneurial activity.

In 2010, South Africa ranked 27th out of 59 countries in terms of early-stage entrepreneurship. Total early-stage entrepreneurial activity rate grew from 5.9 per cent in 2009 to 8.9 per cent in 2010, partly reflecting the boost provided by hosting the 2010 World Cup. Despite this improvement, South Africa's entrepreneurship performance lags comparator economies including Argentina, Brazil, Chile, China, Columbia, Mexico and Peru.

This is perturbing and raises the following questions: where is this entrepreneurial dynamism in South Africa? And, how can we as government and as existing business help stimulate and support entrepreneurs to start businesses and create more jobs?

While early-stage entrepreneurial activity has improved, there is poor sustainability of start-ups. The Global Entrepreneurship Monitor for South Africa shows that the established ownership rate is just 2.1 per cent – that is, only 1 in 50 of those aged 18 to 64 own a business that has existed for 3 ½ years or longer. This is just a quarter of the average among South Africa's peers, where almost 8 per cent own existing businesses. This suggests there is a need for more effective interventions to allow greater competition and ensure that new start-ups translate into sustainable firm development.

[1] Strategic Business Partnership, Counting the cost of red tape for South Africa, 2005

Key constraints to entrepreneurial activity in South Africa include education and training, government policies to support entrepreneurs and SMMEs, and market openness. Providing appropriate support to allow new start-ups to develop into established firms will also be important. Government's decision to consolidate and strengthen small business financial and advisory support, drawing on both public and private sector capacity, should help contribute to more rapid growth and job creation in this sector.

Improving the quality of basic and further education is important, but more targeted reforms could assist in cultivating entrepreneurship. Early exposure to entrepreneurship in schools is essential through teaching business skills and encouraging entrepreneurial activities and helps create an awareness of entrepreneurship as a viable career option. Strengthening FET colleges and other institutions to foster enterprise development is also important.

Conclusion

In concluding, I must reiterate that South Africa needs to achieve and sustain strong and inclusive growth to deliver the millions of jobs we need and make progress on our focal challenges of unemployment, poverty, and inequality. The developments in the global economy, makes these challenge even harder, but we should not and cannot lose our focus and passion for creating a better South Africa.

I have spoken today about the need to create effective partnerships between Business, Labour and Government backed by a new social cohesion, a new single minded approach; an energetic work ethic; and Lastly a focus on "us" and not just me. The important role that the private sector has to play to help release the bottlenecks to growth; and the role of entrepreneurship and a flourishing small business sector to achieve growth and faster job creation.

The diagnostics and focal areas for policy are relatively clear. What we need now is to come together as a country, public and private sector, business and labour, to develop and implement the policies that start addressing these constraints and releasing the chains that currently restrain growth and employment.

Thank you