MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**"South Africa: Twenty Years of Economic Transformation"**

Mail and Guardian Gala Dinner

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*speech by*

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Good evening,

Thank you for inviting me to address this event. Reflection, debate and critique of our policy choices and their implementation are a vital part of improving what we do to fundamentally improve the lives of millions of South Africans. It is our collective responsibility to create the opportunities for our people to live productive, prosperous and dignified lives.

We live in both interesting and challenging times, when political and economic developments at home and abroad are dynamic and unpredictable. It is particularly pleasing that the media is at the forefront of creating platforms for engagement on questions such as the economic transformation of our country.

At the core of Apartheid was a noxious set of policies: the Bantustans, influx control and the migrant labour system, forced removals, Bantu education and the denial of the right to vote. Instead of resources being used to advance the interests of the people, they were squandered on the repressive security apparatus, the bloated apartheid bureaucracy, and corruption on a grand scale. The end of Apartheid provided the opportunity to dismantle this organised system of oppression and tyranny, and to begin the hard work of developing an equitable economic order.

The momentous changes that SA underwent in 1994 created a democratic political dispensation and provided the space and platforms for us to tackle the hard work of fundamentally transforming our society, economy, socio-economic conditions and national identity. In the first decade of freedom we dismantled the edifice of apartheid, replacing it with new constitutional institutions. We built our national pride and the beginnings of a new identity.

After 20 years of democracy, during which we began erasing the legacy of over 300 years of colonialism and apartheid, we begin the next step in our journey towards deeper transformation and further gains for the millions of citizens of this country. Political rights are meaningless if they are not followed by fundamental economic change and tangible changes in people’s lives.

We now face the challenge of effecting further changes in the economy and society, through the next or second phase of this profound historical transition, to a society premised on social and economic justice. We must judiciously use the powerful levers of the state, in partnership with communities, trade unions, with schools and tertiary education institutions, and importantly with the private sector, to prosecute the next set of changes.

## What we have achieved

What are some of our achievements over the past 20 years under ANC-led governments and with the participation of many other actors?

20 years ago when South Africa reintegrated into the global economy, the world was a different place. The United States was the number one economy, growing at levels of around 4 per cent, Europe was the second largest economy followed by Japan, and emerging markets contributed around 40 per cent to World economic growth. Twenty years later the balance of economic power has undergone a phenomenal shift. Emerging market economies now contribute more than half of current global growth, whilst the IMF estimates that the US would contribute around only 10 per cent to global growth, compared to 30 percent over the period 1995 to 2000. South Africa has been part this growth story, a success unleashed by our successful struggle against apartheid.

The ANC government under Nelson Mandela brought South Africa back into the international economy. Business confidence increased, sanctions ended and investment picked up. A recent Goldman Sachs study assessing the first two decades of freedom, made the following findings about SA:

- Government debt costs have trended lower and foreign reserves have risen;
- The cost of capital has declined;
- Corporate valuations have improved relative to that of global peers;
- Real asset ZAR returns have compared favourably;
- The disposable income of South Africans has risen and

- The rise of the black middle class has led to a boost in spending;
- Wage inflation and government grants have supported this trend, whilst
- Labour productivity has improved.

In other words, we saw increased economic growth, rising employment, greater investment, a healthier fiscus and the spread of social benefits to all South Africans. These trends, which the data show to be the overall pattern for the past twenty years, augur well for our economic transformation agenda. The challenge is how, in the face of the current downward cycle, we ensure that these trends are not reversed – but are in fact enhanced.

As you all know, the ANC recently had the opportunity to take stock of its achievements and challenges, not only of the past 5 years of the current administration, but the past 20 years as well. In his introduction to the ANC 2014 election manifesto President Jacob Zuma says:

"*Working together, we have defended and consolidated the social gains achieved since 1994, despite the negative global economic situation. More of our people have been lifted out of extreme poverty; we have created more jobs than before; expanded social grants, housing and basic services to our people; and further improved access to better education and health care".*

We know we still have challenges, and in the ANC Election Manifesto we pledge to address these through the following priorities:

- Creating more jobs, decent work and sustainable livelihoods for inclusive growth;
- Rural development, land reform and food security;

- Education;
- Health, and
- Fighting crime and corruption.

**Confronting changing global factors**

The recent World Economic Forum in Davos was a useful opportunity to assess and understand the current global dynamics. South Africans tend to be too inward-looking and have a very limited discourse on the geopolitical and geo-economic developments across the globe, and their implications for South Africa.

What was clear in Davos is that the global economy is in the throes of a transition: from fire-fighting mode in the middle of the global financial crisis, to stabilisation, and to a state that we don't fully understand as yet. Improvement in the growth outlook for advanced economies emanates from an increasingly healthier US economy. Growth in emerging and developing markets however, remains robust, in spite of negative perceptions. Emerging and developing markets as a whole are seen growing at 5.1 per cent in 2014 and accelerating to 5.4 per cent in 2015 (revised upwards from 5.3 per cent). The positive impact of improved developed country growth on emerging market exports is expected to be a key feature of the anticipated pick-up in global economic activity.

Expectations of growth in emerging markets are mixed: whilst some, like India are expected to enjoy acceleration in growth, the economies of other large emerging markets such as Brazil and Russia are seen to be going through difficulties. All of us should be very concerned about the unnecessarily negative narrative about emerging markets, especially because EM growth overall is far more robust than in developed economies! Unfortunately the media has been a key player – unwittingly I think, at times – in conveying particular sentiments and perceptions (rather than facts) about emerging markets.

Prior to May 2013, when the US Fed first announced its intention to withdraw monetary stimulus, emerging market currencies were broadly stable. Since then, however, global risk sentiment has risen markedly as emerging markets have fallen out of favour. We have to ask whether this is in response to actual economic fundamentals or reveals a lack of appreciation on the part of financial markets of the many differences across emerging markets. Given that economic fundamentals in many of these countries have not changed significantly since the initial tapering announcement, it is likely that these currency depreciations partly represent an overreaction by financial markets.

Emerging markets are not alone in facing growth challenges that require the need for structural reform. In both the US and Euro area, there is a need for on-going balance sheet repair, while Europe continues to face particular challenges in repairing and strengthening its banking system in order to restore confidence and boost investment.

By comparison, emerging markets have already made great strides. On the whole they have vastly improved balance sheets, lower inflation and better public finances. In addition, emerging market countries have a better record in implementing structural reforms than developed markets. Many emerging markets have lowered their dependence on foreign currency debt and built significant foreign reserves. South Africa is no exception. Our real GDP expanded by 83 per cent since 1994 and inflation has averaged 6.4 per cent over the 20 year period. Our public finances have stabilised: we are consistently ranked as one of the top countries for budget transparency and we currently have an investment grade sovereign rating, compared to 1994 when South Africa had junk bond status. Our foreign debt exposure is low and our financial sector remains robust, healthy and well regulated.

On the currency more specifically, I know that many have concerns. We are monitoring developments. We believe that while the currency may be trading below its fair value, it is behaving as one would expect of a floating currency by adjusting to various market perceptions. While a weaker currency implies a high cost of importing, it also provides an opportunity for exporters. Our challenge is whether we have a private sector that is agile enough to seize the opportunities presented by a weaker currency and use that to their advantage, which can improve our trade account.

**Some global faultlines**

One of the most significant challenges facing countries around the world is growing income inequality, the gap between the rich and the poor. This was one of the main issues that concerned us in our discussions in Davos.

The second is the creation of jobs – and the impact of changing work processes, including some technological developments, on job creation. Prof Michael Spence, writing for *Project Syndicate* said recently on the causes of this trend:

"*…In the US…labour saving technology is reducing white- and blue-collar employment across the economy, pushing employment towards non-routine manual or cognitive activities*. *This has undoubtedly contributed to downward pressure on household earnings in the middle-*

*income range of the economy's large non-tradable side. On the tradable side, automation and the shift of middle-range jobs…to developing countries have caused employment growth to stall, while value added per person and average incomes have grown rapidly"*.

The third is growing inequality within and between nations. Writing for the Financial Times recently, columnist Martin Wolf said:

*"In the past three decades we have seen the emergence of a globalised economic and financial elite. Its members have become ever more detached from the countries that produced them. In the process, the glue that binds any democracy – the notion of citizenship – has weakened. The narrow distribution of the gains of economic growth greatly enhances this development. This, then, is ever more a plutocracy. A degree of plutocracy is inevitable in democracies built, as they must be, on market economies. But it is always a matter of degree. If the mass of the people view their economic elite as richly rewarded for mediocre performance and interested only in themselves, yet expecting rescue when things go badly, the bonds snap. We may be just at the beginning of this long-term decay".*

**Relevance of these faultlines for South Africa**

These challenges speak to the need for inclusive growth solutions. Structural economic transformation with inclusive growth at its centre will be fundamental to ensuring that the lives of millions of people – particularly the youth, the unemployed and otherwise marginalised – are improved.

Economic transformation must overcome the legacy of the Apartheid economy – exclusion, marginalisation, oligopolistic practices, a very small SME sector, lack and cost of finance for black businesses, and inadequate training and skills development.

This raises the question of the content of economic transformation. We must ask: transformation for whom, and at whose expense? Those who occupy the commanding heights of the economy and those who would join them, have to ask themselves these questions. The lesson from around the world is that where the benefits are not spread, and where the gap is too wide, collapse, and sometimes even a reversal of the political gains, is the price that is paid.

That said, the negative narrative around South Africa gives us a skewed perspective of ourselves. That we have a stable democracy, free press, rule of law, strong and independent courts, a reliable banking system, entrenched property rights – all of which are factors that generate confidence in a country – are taken for granted. Yet it is precisely these factors that lead others to continue to be interested in investing in our country. The challenge is to ensure that we do not become complacent about the faultlines, and where necessary introduce the kind of reforms that will correct the economic imbalances.

**Continued structural reform will ensure South Africa can take advantage of the recovery in global growth**

While we have seen significant economic gains over the past 20 years, we cannot rest. South Africa cannot rely solely on external developments to alleviate domestic growth constraints. Neither are we doing ourselves any favours with our inadequate savings or an excessive reliance on foreign savings. The global discussion is about the return to natural growth – finding balance between monetary and fiscal interventions, the role of governments and the private sector as well as looking at the role of innovators and entrepreneurs in finding new sources of growth.

South Africa has to prepare itself for a new era in global economics where solutions are not one-dimensional. That is why we have articulated a clear structural reform agenda in the National Development Plan (NDP), which provides a strong platform for collaboration and partnership across society to address constraints to growth, create jobs and achieve a more inclusive economy.

The government is currently working on the NDP's first 5-year plan which will be incorporated in the 2014 Medium-Term Strategic Framework. The five-year plan will articulate our intent, outline concrete projects and action steps and ensure the alignment necessary for successful implementation. Ultimately we wish to enhance energy security, create a better schooling system, make progress towards a more equitable health system, build the state's capabilities and advance our export capability as a country. This year we started the process for the next fiscal year of aligning budgets and planning processes and so on to various aspects of the NDP. Over the next two years, what you will see is a) the alignment, b) the intent, and c) concrete projects and programmes.

For the past five to six years, both globally and in South Africa, governments have been leading the investment process. We have responded by introducing a number of government support programmes that aim to improve South Africa's competitiveness in domestic and international markets. The food and beverage sector, which was the strongest manufacturing sector performer in 2013, benefited from millions in grants from the Manufacturing Competitiveness Enhancement

Programme which funds equipment upgrades to raise the competiveness of South African firms. The employment tax incentive, aimed at tackling youth unemployment, has been signed into law and will be implemented from January 2014. It is estimated that this initiative should support up to 280 000 jobs, of which approximately 54 000 will be new jobs.

However, government incentives are only one part of the solution. The implementation of the NDP and associated structural reform agenda forces us to ask important and difficult questions. How do we ensure that we are sufficiently open to regional trade opportunities? Do we have productivity levels that are globally competitive? Have we made sufficient investments in road, rail and port infrastructure to ensure our goods reach our trading partners in a cost effective and efficient manner?

From the interaction with investors in Davos it is clear that there remains significant investor interest in South Africa. There were many questions about energy policy, the beneficiation process, biotechnology and biodiversity programmes, the pace of implementing various infrastructure projects as well as the general performance of the economy. There is still a very high regard for SA in the international space. It's something that South Africans should be proud of. It's something that Team South Africa should build on.

Investments in network infrastructure and capital equipment will ensure South African companies are able to compete in global value chains.

Our competition authorities have made significant progress towards creating more competitive product markets. This is reflected in the

2013/14 Global Competitiveness Report by the World Economic Forum, which ranks South Africa eighth in the effectiveness of its anti-monopoly policy. Greater competition in network industries is likely to reduce the cost of doing business and interventions in the food and agricultural value chains will contribute to lower food price inflation.

These reforms provide an opportunity for the private sector to create jobs and invest in new capacity. As I said earlier, our challenge is whether we have a private sector that is agile enough to seize the opportunities presented by a weaker currency and use that to their advantage, but also to the advantage of our trading account. So we will watch the situation carefully, but in the meantime focus on our strengths, make sure we build on them and respond appropriately to our own domestic challenges.

A major part of our attractiveness as an investment destination is due to the opportunities that exist as a gateway to the rest of the continent, a market of nearly 1 billion people. Growth in Sub-Saharan Africa has averaged 5.6 per cent over the last 13 years and the region is projected to remain one of the fastest growing regions in the world.

Making the shift to new pathways requires a sincere conversation between social partners, preparedness to embrace new ideas, and the boldness of leadership to go where we might not have gone before. In our search for new empowerment models, we will have to take this into account.

## Conclusion

In conclusion, it is clear that we have come a long way in transforming the South African economy. As government, we are doing all we can to create the conditions for continued expansion and growth and setting in place policies that allow all to participate and reap the rewards of inclusion. But just as the global economy is at a critical moment, so too are we at a crossroads where choices must be made. The investments that may come, will mean nothing if the working poor and unemployed do not benefit from them. And government, whilst it is committed to sustaining the social safety net, cannot expand it indefinitely. The challenge is to give people the opportunity to be actors in the economic value chain. The first challenge is for everyone to be in some form of employment. And as we improve access to skills, to education, to finance and the other tools needed to start a business, we hope that more and more people will be creators of employment opportunities – entrepreneurs. These may be small or even micro-businesses.

Transformation of ownership and management is under way through an orderly process governed by law and agreements between stakeholders. Over R600 billion in BEE transactions have been recorded since 1995; black people and women in senior management has increased from less than 10% in the 1990s to over 40% today – more progress is needed, but the trend is in the right direction.

On a larger scale, we now have the policy frameworks and some experience of heavy as well as light manufacturing, which must become more and more something that is part of our economic lifeblood. And there is no reason why entrepreneurs, as some South African and Africans are doing, do not take themselves in the halls of excellence, building brands that are sought the world over.

We have had twenty years of peace and nation building, reconstruction, development and growth. We have also seen twenty years of advancing workers' interests and aspirations, twenty years of championing the rights of the unemployed, opportunities for young people and the struggle for gender equality. And yet our task is not complete.

Michael Spence urges nations not to underestimate the task at hand. His view is that we may have to experiment with and design multi-pronged approaches to achieve the goals of redistribution in flexible and efficient economies. In taking our next strides towards economic transformation, the following words of Nelson Mandela are worth remembering:

*"I have walked that long road to freedom. I have tried not to falter; I have made missteps along the way, but I have discovered the secret that after climbing a great hill, one only finds that there are many more hills to climb. I have taken a moment here to rest, to steal a view of the glorious vista that surrounds me, to look back on the distance I have come. But I can rest only for a moment. For with freedom comes responsibilities, and I dare not linger, for my long walk is not yet ended".*

Let us take up the spear left by Tata Nelson Mandela and work together to make the next twenty years a period of even greater heights and of building a solid economic legacy for future generations.