ECONOMIC TRANSFORMATION

POLICY DISCUSSION DOCUMENT

March 2012

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1 INTRODUCTION

1.1 The ANC celebrates its 100 year anniversary this year. The centenary is a more powerful motivation for us to overcome structural challenges that result in poverty and unemployment. We have an opportunity and an obligation to deliberate on actions which could best enable the economic emancipation of our people.

1.2 The pathway of economic transformation necessitates an energised, coherent and effective approach by all South Africans, working together in partnership in order to free our people of poverty and unemployment. We will therefore need a major up-scaling of our efforts towards economic emancipation, consistent with our vision of a better life for all. Of importance for the movement is that our founding led to a structural shift in the domestic political landscape, we have a clear opportunity to consolidate and put economic emancipation at the centre of development.

1.3 Our approach to economic issues is informed by the historical principles, which are espoused in the Freedom Charter, Ready to Govern and the Reconstruction and Development Programme and further elaborated in Conference resolutions. We approach economic transformation guided by the following pillars[1]:

a) Creating decent employment for all South Africans,
b) Eliminating poverty and dealing decisively with the extreme inequalities in our society.
c) Democratizing ownership and control of the economy by empowering the historically oppressed, Africans and the working class in particular, to play a leading role in decision-making.
d) Restructuring the economy so that it meets the basic needs of all South Africans and the people of the region, especially the poor.
e) Ensuring equitable and mutually beneficial regional development in Southern Africa, thereby fostering the progressive integration of the region.
f) Limiting the negative environmental impact of our economic transformation programme.

1.4 An important part of our vision is to build an economy in which “the state, private capital, co-operative and other forms of social ownership complement each other in an integrated way to eliminate poverty and to foster economic growth”[2]. In order to simultaneously grow and transform the

[1] Ready to Govern—ANC Policy Guidelines for a Democratic South Africa, 1992.

[2] 52nd Conference Resolution on Economic Transformation.

economy we require an effective, democratic and developmental state "that is able to lead in the definition of a common national agenda, mobilise society to take part in the implementation of that agenda and direct resources towards realizing these objectives".

1.5 We re-affirm our 52nd Conference understanding of a developmental state is that "it is located at the centre of a mixed economy. It is a state which leads and guides that economy and which intervenes in the interest of the people as a whole".

1.6 A mixed economy involves a range of different kinds of ownership.

1.7 A thriving private sector is necessary for our economy to grow and must be protected. We recognize however that apartheid entrenched very inequitable ownership of the economy which in turn leads to deep divisions in our society as well as high joblessness. The apartheid system tended to foster investment in capital-intensive industries that cannot provide employment for many of our people. In many industries, especially but not only in agriculture, it encouraged concentrated, even monopolistic ownership, and limited smaller enterprises. The challenge for the democratic government is to address these problems while encouraging investment and growth. That requires a careful approach to tough questions, understanding the unintended consequences of our decisions, and effective social dialogue with economic stakeholders.

1.8 We can ensure more equitable ownership and innovative investment in part by also supporting accountable public ownership and investment and the social economy, especially co-ops, and SMMEs. The challenge is to identify when these forms of ownership are appropriate and how they can be supported more effectively while continuing to grow the private sector.

1.9 Our policies must provide the most enabling conditions for the flourishing of the talents of all our people, to harness and develop their productive potential, to ensure that they play a leading role in the allocation of national resources and that they get their due in the country's wealth.

1.10 This policy paper starts by reviewing the international context for our economic policies. We then consider specific economic policy issues for our movement.

2 THE GLOBAL ECONOMY

2.1 Since late 2008, the world economy has experienced the worst economic crisis since the Great Depression of the 1930s. The crisis reflected deep imbalances in trade and the financialisation of the advanced economies. These structural problems had a deep effect on South Africa.

2.2 Fundamentally, the global economic crisis reflected the structural shift in production from the US and Europe to the global South and especially East Asia led by China. In the advanced economies, this shift in production and trade was associated with rising inequalities on the one hand and increasing financialisation on the other. Financialisation refers to a growing dependence on financial services and on financial returns rather than production of new value through agriculture, mining, manufacturing and value added services. It fosters speculation and asset bubbles.

2.3 In the US, financialisation of the economy led to an over-extension of credit to families, especially for housing. In Europe, it led to high government borrowing in a few countries, including for infrastructure as well as consumption. To some extent, these problems also emerged in South Africa. The financial sector grew 8,5% a year between 1994 and 2008 while the rest of the economy grew just 3,5% a year. The growth in the financial sector in South Africa was associated with large short-term foreign investments in stocks and bonds, which in turn strengthened the value of the rand, reducing competitiveness across the economy, and led to a very large balance-of-trade deficit.

2.4 When the bubbles burst late in 2008, there was a tremendous negative shock to firms and workers around the world, with the worst effects in the advanced economies. Global unemployment soared to an all-time high.

2.5 In South Africa, the economy shrank by over 2% in 2008/9 before growth recovered from the middle of 2009. Even worse, the country lost a million jobs. Employment has started to grow again, with just under 350 000 new jobs created in the year to the third quarter 2011. Still, fewer people have jobs today than in late 2008 before the crisis.

2.6 In response to the 2008/9 crisis, most countries increased their borrowing both to stimulate the economy and to bail out financial institutions faced with large-scale bankruptcies. A risk now is that the governments of Europe and the US are trying to reduce these debts very rapidly, which in turn can lead to a further economic slowdown. A particular risk is that Europe is likely to go into a recession in the coming year, which could lead to a second global slowdown.

2.7 These changes that are taking place in the global economy are structural and deep. Thus, our actions must be built on a thorough understanding of our interdependence and integration in the global macro-international economic framework. This global crisis has provided clear evidence that South Africa cannot be dependent on our traditional trading partners in the North. Rather, we must intensify our efforts to increase economic development in our region, to expand our benefits from trade with China, and to enhance trade with other developing economies.

3. THE SHIFT IN GLOBAL PRODUCTION POLES

3.1 The slowdown in the BRIC countries – Brazil, Russia, India and China - and most of East Asia was far less harsh than in the advanced economies. India and China, in particular, sustained growth rates of over 8%. Today, the BRIC countries account for almost 20% of global manufacturing production, which is equivalent to that of the US. China has become the second largest economy in the world.

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3.2 A feature of accumulation in the BRIC countries, and especially China, India and Brazil, is a responsive state with a strong role in shaping their economies. In particular, in all the BRIC countries the State has substantial interests in the financial sector and plays an active role in managing the exchange rate. These capacities meant that when the 2008 global financial crisis led to a sharp fall in lending by private institutions internationally, in BRIC countries the State could boost lending to industry.

The growth in the BRIC economies poses both opportunities and challenges for South Africa. In particular, China represents a major new market, a source of capital, and a growing focus of investment by South African companies. Currently, however, South Africa mostly exports minerals to China while importing light manufactures. This has the potential of harming our industrial base – something we have seen clearly in appliances, plastics and clothing – which would in turn slow employment growth and economic diversification. Moreover, the BRIC countries are proving strong competitors for export and investment opportunities across Africa. We need to develop a strategic approach that channels the upsurge in the BRIC economies to increase the benefits for Africa as a whole.

4 AFRICA – OUR CORE ECONOMIC PARTNER FOR THE FUTURE

4.1 No economy has developed as an enclave within its region. Already, the rest of Africa is a major market for South African manufactures and services. We can only grow if we do much more to support growth across our continent and especially in our region. That requires a clear strategy, the commitment of adequate resources, and willingness to take on tough and innovative challenges.

4.2 Africa’s growth has strengthened over the past two decades, driven by a more constructive political environment and booming commodity prices. Sub-Sahara’s Africa’s growth is expected to average more than 5% in 2011, in line with the trend in recent years.

4.3 The starting point is to support increased trade and investment based on improved infrastructure, a reduction in non-tariff barriers to trade, and strategic investment partnerships. South African investors pursuing opportunities in the rest of Africa should be supported through comprehensive ‘package deals’ including financing construction, operations, technology, logistics and market access.

4.4 Ultimately, integrated regional development depends on regional value chains. Opportunities include food production, petro-chemicals, mining, textiles and clothing, in various regional groupings and across regional blocks. This will require pro-active planning and collaboration. The establishment of free trade areas or even customs unions does not guarantee that strong and competitive regional value chains will be developed, as the experience of SACU and SADC show. Rather, the governments of the region must work together with private investors to identify long-term opportunities and secure sufficient infrastructure, market institutions and skills.

5 DEVELOPMENTS IN SOUTH AFRICA

5.1 From the late 1970s through 1994, the South African economy was in crisis, mostly as a result of the crisis of the apartheid system. Employment fell steadily, so that by 1994 only two out of five adults had a job compared to an international norm of three out of five. Economic growth was just over 1% a year, about half the average for other middle-income economies excluding China and India. Investment was below 15% of the GDP, far below levels generally seen as necessary for sustained growth. Moreover, South Africa was one of the most unequal economies in the entire world, and 51% of the population lived in poverty.

5.2 Since the achievement of democracy in 1994, these problems have been addressed with some success, but deep challenges remain. Economic growth averaged 3,5% between 1994 and 2010, virtually the same as other middle-income economies if we exclude China and India, which grew much faster. Investment rose to 25% in 2008, before dropping to just below 20% with the economic slowdown that followed.

5.3 The share of adults with employment climbed from 40% in 2000 to 45% in 2008, before falling back to 41% as a result of the job losses due to the global economic crisis. In 2007 the poverty rate had declined to 39%,[3] mostly as a result of state intervention in the form of grants although rising employment also contributed.

5.4 These are real achievements that lay the basis for future development. But major challenges remain. Above all, South Africa remains amongst the most unequal economies in the world. The evidence suggests that inequality has not improved since 1994. Moreover, the growth in employment after 1994 was not sufficient to overcome the high levels of joblessness left by apartheid. South Africa remains amongst the countries with the lowest employment rates in the world.

5.5 The main sources of inequality lie in:

[3] Development Indicators, The Presidency, 2009, p.26.

5.5.1 High unemployment. In the poorest 60% of households, only one household in two has anyone employed. These families depend primarily on social grants and remittances. But social grants only go to children, the elderly and disabled. Moreover, while the old-age and disabled pensions are just over R1000 a month, the child support grant is under R300 a month. In contrast, the richest 10% of households typically have two people earning an income.

5.5.2 Inequalities in pay. According to ILO data, South Africa has one of the most unequal pay scales in the world. These inequalities largely reflect how work is organized. Since apartheid days most companies have relied on a few highly skilled people while most workers are relegated to unskilled jobs with virtually no career prospects.

5.5.3 Inequalities in ownership of productive assets and access to finance. A relatively small number of people still control the bulk of capital and land. The richest 10% of households gets around two thirds of all investment income and profits.

5.5.4 Inequalities in education. While all schools have been desegregated, most schools in the poorest communities – especially the former Bantustans and near informal settlements – continue to provide low-quality eduation. Moreover, despite improvements in loan programmes and fellowships, many poor families cannot afford to continue education after secondary school. Even in 2011, less than half of all university students were African.

5.5.5 Unequal access to infrastructure and market institutions. Under apartheid, roads and communications, banks and retail outlets focused on serving the core formal economy. People in the former Bantustans and the townships were largely excluded and underserved. Some progress has been made in remedying these deficits, but inequalities still remain. They make it harder for people in these areas to commute to jobs or to start new enterprises. For instance, 95% of food sold in the formal retail chains comes from commercial farms, with only 5% from smallholders.

5.6 In view of these challenges, the Polokwane resolutions stress that employment creation must be the main criterion for economic policy. They also emphasized measures to support more equitable access to economic opportunities, particularly through agrarian reform, support for small and micro enterprise, support for co-ops, expanded skills development and more equal access to education.

5.7 The challenge for our movement since 1995 has been to sustain growth in the economy while addressing the economic roots of inequality, poverty and joblessness. As we have long stressed, that means we must find a new growth path. Above all, we need to support overall growth while ensuring rising investment in activities that can generate employment. In addition, while continuing to support the private sector, we need to find ways to give more of our people access to ownership and a voice in economic decision making. Finally, we must do more to encourage solidarity and collective action as the basis for a more equitable and cohesive economy and society.

6 TOWARDS A MORE LABOUR ABSORBING ECONOMY

6.1 In response to the resolutions of the 52nd Conference, the government has adopted the New Growth Path as a policy framework. The New Growth Path sets a target of five million new jobs by 2020. It sets out three core strategies to achieve this aim:

6.1.1 Broad measures to ensure a more competitive, productive and equitable economy overall, amongst others by improving infrastructure and skills development; seeking to achieve a more competitive and stable currency; reducing unnecessary regulatory uncertainty and obstacles to investment; supporting SMMEs and the co-ops movement; expanding skills development; and increasing industrial financing.

6.1.2 Targeted measures to support employment creation. The New Growth Path identifies areas where job creation is possible – which it terms “jobs drivers.” Specifically, it points to employment opportunities in infrastructure, the agricultural and mining value chains, manufacturing, tourism and other value-added services, the social economy, the public services, rural development, the knowledge economy and African regional development. It proposes a range of programmes to support growth in employment-creating activities in these areas.

6.1.3 Social dialogue and solidarity, which are needed to mobilise our people around our economic programmes.

6.2 In defining our new growth path, four challenges stand out.

6.3 First, as the National Development Plan points out, sectors that are necessary for long-term growth and economic diversification are often not able to generate employment on a large scale. In particular, advanced manufacturing is critical for long-term development but does not directly create much employment. We need more decisive action to identify what sectors we will support and ensure that taken together, our interventions to diversify the economy will indeed achieve our aims for both growth and employment creation.

6.4 Second, since 1994, our economy has been characterized by large-scale short-run capital inflows into equity and bond markets. These inflows are larger relative to GDP in South Africa than in any other middle-income economy. They have supported very rapid growth in the financial sector. They have made it easier and cheaper for government and state-owned enterprise to borrow money for investment, especially in infrastructure. They have reduced the price of imports, which holds down inflation. But they have also strengthened the value of the rand, which in turn makes it harder for South Africa producers to export and to compete with imports. Moreover, many of the imports have been relative luxuries, since the very rich dominate consumption because incomes are so unequal. The question becomes whether and how we can manage this situation better.

6.5 Third, we need to restructure the economy without undermining its current strengths. This involves difficult choices. For instance, should we invest more in core economic infrastructure, such as roads and rail from the coast to Gauteng or maintaining roads and electricity in the metros – or should we invest to improve living standards in the former Bantustans? Should we look for new investors in mining in order to open new opportunities for black entrepreneurs, or should we go with more experienced existing companies? Should we cut down on pollution even when it means closing companies? All too often, this kind of decision has been made without clearly understanding the consequences.

6.6 Finally, past inequalities in education, training and experience continue to dog decisions into the future. While improving education and training will certainly support employment creation and equality, they are not sufficient in themselves and in any case will not deliver soon enough for most of our people. Rather, we need to find ways to improve economic opportunities for the labour force we have. Most workers today have some secondary education, although relatively few have university degrees. We need to expand production that can use their skills even as we develop systems to ensure all South Africans have opportunities for life-long learning.

6.7 The rest of this paper considers some important areas for economic policy.

7 EDUCATION AND TRAINING

7.1 An efficient, pragmatic and future-oriented educational system, from the basic through to the higher levels of education, complemented by robust skills development initiatives, are imperative to enable large numbers of present and future participants in the labour force to secure employment, as well as to address in a dynamic manner the enormous mismatch between the skills requirements (current, emerging and future) of the economy and their availability.

7.2 Currently, 95% of the unemployed do not have tertiary education, 62% have less than secondary education, and 60% have been unemployed for more than 5 years[4]. Unemployment affects young people the most; 40% of the unemployed are new entrants to the labour market, which are most likely to be young people; 72% of the unemployed are young people. The major challenge with youth unemployment is lack of a structured process that links successive stages of the

[4] Quarterly Labour Force Survey, Quarter 2, 2009.

education system and the link between the education system and the private sector. This places the process of expanding the FET sector at the centre of addressing unskilled youth unemployment.

7.3 Therefore, as part of the package to address unemployment and to promote decent work, the State must:

a) Improve education outcomes through amongst other things increasing the retention rate of the schooling and tertiary education system. ANC members must study the Green Paper on Post-Secondary Education and Training and develop a response.

b) Position SOEs, state departments and other agencies to assist graduates from the tertiary education system, in cases where the private sector is unable to do so. This will require a focused planning and co-ordination function within the Economic Cluster, which should link with social partners at Nedlac, to deal specifically with national human resource flow planning.

c) In addition, we must strengthen its labour market information systems, which should interface with the projected outputs by the Department of Higher Education and Training.

8 INFRASTRUCTURE BUILD PROGRAMME

8.1 There are major infrastructure gaps in the country both from the standpoint of spatial distribution of infrastructure access, the level of infrastructure within local communities and maintenance of infrastructure, especially electricity, water, logistics and sanitation. These gaps to a large extent influence the flow of private sector investment. The inefficiencies in some of the network infrastructure industries exacerbate the problem.

8.2 The Presidential Infrastructure Co-ordinating Commission aims to develop a ten-year pipeline of priority infrastructure investments, ensure that public investment stays close to 10% over the coming years, and increase capacity for infrastructure development at local and provincial level.

8.3 We need to almost double the scale of the current infrastructure:

- The country needs to double its capacity to generate electricity by 2028, we need to take a view on how to achieve this, especially when we want to use infrastructure expansion as a basis for domestic industrial development.
- It is estimated that 58% of South African roads are gravel, and 70% of existing roads require urgent repair. Improving the quality of roads is important to lower the costs of living and production in rural areas, improves access to basic services, especially public transport.

- Almost half of South Africa's rail network is being neglected, or has low levels of activity. Government has planned to spend R19.5 billion a year for the next four years to upgrade the rail network and ports.
- Water infrastructure also needs urgent attention, especially the renewal of canals and tunnels, which are important for the irrigation system. Over the next 30 years, R4 billion per annum will be required to address these backlogs, and R6 billion will be required to maintain existing functioning infrastructure.

8.4 A massive programme to upgrade and maintain physical infrastructure is important not only as a source of permanent job creation, but also as the basis for government to stimulate industrial activity. Government investment in infrastructure is critical for enabling the competitiveness of the economy.

8.5 This is only possible if continuity of capital expenditure is ensured over the very long-term, thereby encouraging investment in existing and potential supplier industries. Continuity in public sector capex investment is critical to the long-term sustainability of such industries.

8.6 Regulatory and licensing systems have also slowed down investments- such systems need to be more transparent and properly co-ordinated across departments.

8.7 Our economic transformation programme seeks to promote a geographically inclusive economy. This will require that infrastructure development be rolled out in targeted areas in a phased manner, especially in former Bantustans. In this connection, we must optimise the investments that have already been made in the establishment of Industrial Development Zones through special determinations relating to incentives, access to adequate and affordable basic inputs such as electricity and water.

8.8 We must promote prioritisation based on the need to unlock the latent economic potential of specific areas, in conjunction with the need to create employment opportunities in relatively densely populated localities.

8.9 We should start to identify nodes that will be the basis of connecting the outlying areas to the major industrial hubs, and also enable more rural development. Specific transformative infrastructure programmes should be identified in these nodes, and included in the budget programmes.

8.10 Composition of expenditure should be changed in favour of infrastructure development. It is going to be difficult to finance infrastructure initiatives from the fiscus only, thus, the question of funding infrastructure and appropriate pricing of infrastructure is key. It would be important for employment creation and for long-term economic growth prospects that infrastructure expenditure be clearly funded through a combination of fiscal allocations, borrowing and user fees.

8.11 Overall, it is critical that infrastructure investment should not just be seen as a technical process, but an opportunity to mobilise our people to create a new society and expand economic opportunities. The labour-intensive programmes, appropriately led, have the capacity to contribute to this. In this regard, mechanisms should be put in place to monitor the implementation of the infrastructure programmes of the State Owned Enterprises and the various spheres of government.

9 INDUSTRIAL TRANSFORMATION

9.1 There is continued pressure on labour-intensive industries from foreign competition, both in the domestic and export markets, which either promotes improved productivity or leads to de-industrialisation. However, the preservation and expansion of the manufacturing sector is critical due to its relatively large employment multiplier.

9.2 At the 52nd Conference, we resolved that we need to develop an active and well-resourced industrial and trade strategy aimed at creating decent work[5]. We have moved forward in this regard. We now have an Industrial Policy Action Plan 2 and a developmental Trade Policy Strategy Framework. These two policy documents are at the centre of the New Growth and Development Path. Whilst the Industrial Policy Action Plan identifies sectors that should be supported, a major challenge that it confronts is to prioritise catalytic sectors, to build and broaden industrial linkages between these sectors.

9.3 Sectors with clear comparative and/or competitive advantages should be identified and supported as far as possible, whilst difficultdecisions should be made in instances where particular industries are clearly unable to perform competitively on a sustainable basis without continued state support. It is however important to provide adjustment support for workers, including training to minimize the costs of job losses and to facilitate employability as the economy adjusts.

9.4 Several industries exhibit potential from an employment creation perspective and must be supported in an effective manner to ensure their success and proliferation, but others require policy support to ensure employment preservation. An emphasis on new growth sectors worldwide, such as green industries or cleaner technologies, is almost certain to pay off.

9.5 Perhaps more important than sector-specific support measures are critical cross-cutting issues that, if duly addressed, would result in substantial sectoral development and job creation. These include: developing technical and

[5] Polokwane Resolution 2.3 On Transforming the Structures of Production and Ownership.

managerial skills; reducing the cost of doing business by addressing infrastructural bottlenecks, service efficiency and cost to customer; reducing barriers to entry through competition policy; streamlining of regulatory requirements; improving overall public sector delivery; ensuring safety and security; enforcing standards; controlling illegal imports; and, among others, addressing the excessive exchange rate volatility. Crucial choices should be made in terms of industrial and trade policies to better align the economy with trends elsewhere in the world.

9.6 Localisation and the role of the private sector: Localisation provides certainty to the private sector. Without localisation, the private sector will be severely limited in its ability to retain and create more jobs. The import penetration that weakens job creation, leads to a less than proportionate increase in demand and economic growth, provides insufficient expansion in the tax base and worsens the public sector's budget balance. It is therefore important that procurement processes be strict when it comes to the localisation aspect. This is a policy matter that requires close cooperation between Government and the private sector.

9.7 In pursuing policies for localization, it is important to ensure low cost firms remain competitive. In addition, support for localization should not be at the expense of consumer welfare. Practices such as monopoly pricing should be discouraged, and firms engaging in such practices should not be supported using tax payers' money. In addition local firms should not be allowed to overinflate prices for Government tenders.

9.8 We have to have a strategy to follow through our R&D activities. We need to embrace the R&D value chain. Our target is to spend 1.5% of GDP by 2014. This means that, in the coming years we have to spend an additional 0.6% of GDP in order to meet our target. In the year 2008-09, the state spent an additional R2.4 billion on research and development compared to 2007. This took expenditure on R&D to 0.93% of GDP.

9.9 We should upscale the support for Research and Development, and build partnerships with firms, which have significant capacity to conduct in-house research and development of new technologies. This will require a review of existing institutions that make up the national innovation system, an assessment of the extent to which they are complementary, and an evaluation of their contribution towards supporting the trajectory of development that we seek to pursue.

9.10 As we promote industrial transformation, it is also important that we do not ignore important industries such as mining and agriculture that have created jobs for South Africa in the past and still have significant job creation potential. In this regard, Government should try to have a clearer and more transparent policy regarding mineral rights, land reform and support for the agricultural sector. In particular, programmes to support farmers, such as revamping farm roads and financing for agriculture, have to be strengthened. Policy certainty improves investment prospects in these sectors, thus supporting job creation.

9.11 We need to support downstream and upstream, high value-added and growth sectors that can absorb labour. In addition, strengthening the technological capacity of these sectors will go a long way in resolving our balance of payments difficulties, and will position our economy to play an important role in the Southern African regional market.

9.12 Emphasis should also be placed on fostering stronger linkages amongst local business enterprises along the value chain in order to maximise the benefits economy in terms of higher rates of economic growth, the expansion of the productive base, as well as in terms of employment opportunities.

9.13 South Africa requires foreign direct investment to stimulate economic growth and to create jobs, particularly since we have a very low savings and low-investments rates. However, the current framework for foreign investments is not transparent, and is fragmented as different sectors (e.g. mining, communications, finance) all have their own specific regulatory frameworks. It is also clear that a more transparent and harmonised policy framework is required to reduce the costs of foreign investments, and that we need a coherent and uniform approach around investments that might be regarded as "strategic", i.e. affecting the "national interest".

9.14 Furthermore, it is critical to realise that in seeking greater investments, South African companies should also be allowed to invest more freely into Africa and elsewhere, subject only to prudential framework. Proposals to enable South African companies to be active participants in emerging market growth and investment opportunities while positioning South Africa as a gateway into Africa have been made in recent budget announcements.

9.15 In the recent past the ANC adopted various policies that seek to address ownership and control. Broad Based Black Economic Empowerment is one of them. Lately within the democratic movement there have been concerns about the unintended consequences of this policy in particular. This has left a confusing space in society and the ANC has to re-assert the objective of transforming the racial character of South African capital.

9.16 The SMME sector plays an increasingly important role as an engine for economic growth SMMEs are a critical source of innovation. They have a higher degree of labour intensity, and tend to adapt more rapidly to changing conditions than larger organisations. They also provide opportunities for aspiring entrepreneurs, especially those who are unemployed. However, SMME's continue to face challenges of access to finance, markets, support and information. We should target the creation of new firms, especially black owned SMME's if we are to achieve our employment creation goals.

9.17 The absence of institutional integration and cohesion is a major obstacle to addressing the obstacles facing SMME's.

10 TRADE POLICY

10.1 In order to build domestic linkages, special attention must be given to the following interventions:

a) Trade Policy Reform: The global system requires that we work on managing global interdependencies and strengthen cooperation in order to overcome common challenges related to development, climate change, energy security, and trade and finance. The question is: have we found an excellent platform to address these issues.

b) In the 52nd Conference, we resolved that trade policy must play a supporting role to industrial policy and must be sensitive to employment outcomes. Since then, we have formulated a new developmental Trade Policy Strategy Framework to accompany the IPAP 2. A key feature of this new framework is that it calls for adjustments so that trade policy is aligned to industrial strategy, and that the creation of decent work occupies an overriding focus. The strategy calls for a "case-by-case" analysis of tariff setting, i.e. each sector must be considered in its own right and in relation to its strategic role in the linkages of the economic structure. In this context, it is important that concrete trade policy instruments be urgently applied to support the domestic production of the types of goods that we have agreed to support through IPAP and to foster linkages between our growth sectors.

c) The highly concentrated manufactured export basket needs to be substantially diversified, as should be the regional destination of exports, thereby reducing its vulnerability to cyclical trends. Emphasis should be placed on entering into highly beneficial bilateral trade agreements with non-traditional trading partners so as to tap into the potential presented in emerging markets such as China, India, Brazil and many African economies. Relations with traditional trading partners must be strengthened.

d) Effective regional integration initiatives, specifically SADC and the Tripartite Free Trade Agreement, beyond the good intentions of formal agreements, would unleash a chain of demand- and supply-side side opportunities, luring regional and foreign direct investment that is either resource or market-seeking, leading to the beneficiation of natural resources, to the development of regional value chains, as well as import replacement and export opportunities. The impact on regional employment and labour flows would be enormous.

e) In order to make available critical inputs for downstream and upstream industries, we must consider putting in place both in a balanced way penalties and incentives if necessary to ensure security of supply of our commodities and appropriate pricing.

11 CLIMATE CHANGE

11.1 Climate change has profound socio-economic effects. The drying up of water sources and the gradual desertification which eats away pastoral lands have led to struggles over a shrinking base of natural resources

11.2 In light of its carbon-intensive economy and export sectors, South Africa is particularly vulnerable to response measures potentially taken by developed economies under the banner of mitigation commitments. Such response measures could have seriously economic and social consequences for the SA economy and population.

11.3 It is important that we contribute towards the global shift to a low carbon development path. In the course of this transition, we must be guided by the overarching principle of sustainability and a "Just Transition".

11.4 In the 52nd we adopted a comprehensive resolution on climate change, we have forward in relation to some of these issues:

a) On setting targets: As a part of its Long Term Mitigation Strategy (LTMS), by 2020, South Africa has committed to moving into a phase in which relative emissions per capita start to decline. By 2025, we have further committed to begin reducing our absolute emissions. All commitments we make as a country are currently voluntary. We currently do not have any obligation to reduce emissions, and are only obliged to report our emission levels. That said, South Africa has gained global credibility by committing to these targets.

b) On improving energy efficiency: government has adopted a power conservation programme for all government buildings, there is a long-term energy efficiency target of reducing energy consumption by 12% by 2015[6], in their approval of business plans municipalities are expected to take into account that building structures should preserve energy.

c) In terms of the energy mix, the Integrated Resource Plan 2010-2030 has been finalized. It forecasts electricity demand for the next 20 years, sets out a plan to meet this demand and it identifies ways in which we can reduce greenhouse gas emissions.

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[6] National Energy Efficiency Strategy for South Africa, Notice 580 of 2009, Government Gazette, 22 May 2009.

11.5 Further issues that we must also focus on in relation to climate change are that:

a) Regulatory standards need to be set for products, to ensure that there are minimum standards established aimed to lower emissions.
b) Technologies to facilitate a transition towards a low carbon path need to be made available to developing countries, subsidized by the international pool of funds
c) Intellectual property rights on low carbon technologies need to managed in such a way that they do not hinder the application of global best-practices
d) Production of low carbon equipment needs to be conducted locally in order to support the creation of green jobs
e) Research and development funds need to be ring-fenced and be targeted towards activities that are aimed at producing environmentally friendly products.
f) Pricing carbon where appropriate via fiscal measures to induce behavioral change could be considered.

11.6 We must be cautious about putting in place penalties to force industries and households to reduce carbon emissions without making information, affordable technologies and appropriate infrastructure available. Our interventions must at all times protect our right to industrialize and develop our economy and region, and must protect employment.

11.7 Climate change and the green economy provide significant opportunities for growth and job creation. However, these opportunities may come at the expense of some of our traditional industries. This recognition is important as the move to a green economy may result in the restructuring of production and redundancies in some cases. There is a role for the state to facilitate such adjustment and to cushion the vulnerable. It is critical to provide adjustment support for workers, including training, to minimize the costs of job losses and to facilitate employability as the economy adjusts.

11.8 Financing issues are important, particularly access to financial resources and the offer of innovative financing mechanisms locally, as well as accessing global funds specifically allocated for climate change related activities, both of an adaptation and mitigation nature.

12 THE ROLE OF THE STATE IN ECONOMIC TRANSFORMATION

12.1 Observers of all persuasions, from left to right, have at least one point of coalescence: the state has a role to play in the economic development and transformation. However the question that confronts us as South Africans is how to ensure that the state is properly capacitated to occupy its leading role in leading other social actors towards economic transformation.

12.2 The building of a "*democratic developmental state*" became the centre pin of our economic strategy at our 52nd National Conference, we thus resolved to build the strategic, organisational and technical capacities of government. There is however a perception that our state is to an extent impotent. In a country as unequal as ours, where a strong and capable state is needed to respond such perceptions are not helpful and need to be addressed.

12.3 Where the state is weak, the entire development agenda is inadvertently skewed.

12.4 While we are increasing the capacity of the state, we should realise the limitations and act in a more targeted way, so we need fewer and clearer priorities. The state has a huge array of instruments, from the fiscus, taxation, spending, regulation, licensing, procurement, DFIs, SOEs. We should use all these instruments, but recognising that multiple objectives blunts the effectiveness of these institutions. For example, in the past, the IDC had in its mandate, BEE, SMMEs, promoting exports, promoting employment, promoting industrialisation, promoting regional development, green economy and economic diversification. With a mandate this broad, the entity is likely to be ineffective and they cannot be held to account.

12.5 The bureaucracy needs to be embedded enough to understand the developmental needs of the masses but autonomous enough to be insulated from political interference.

Four critical problems need to be dealt with:

a) First is the political and administrative interface. This must strike the balance between being able to infuse a developmental agenda while protecting the bureaucracy from short term interests.
b) Secondly, instability in the public service, especially in frontline service delivery areas, is having a devastating effect on the effectiveness of the public service. This may be caused by a phenomenon of changing senior bureaucrats too often.
c) Thirdly, policy instability is equally disruptive. For example, every change of ministries there is policy review. While in many cases, policy has to change, more often, we need what the Japanese call Keizen, incremental improvement.
d) Fourthly, the public service faces a critical skills shortage in what can be called mid-level professionals-doctors, engineers, IT professionals, senior prosecutors, accountants, specialist teachers, social workers etc. While a long term approach to skills development is needed, a strategy to remunerate these people better without having to pay the entire public service more is critical. This is especially true in local government level.

13 THE CHALLENGE OF IMPLEMENTATION

13.1 The key to achieving our vision is implementation of ANC resolutions. Implementation has a decisive influence on economic performance, while we can adopt good policies, we must also be guided by the spirit of excellence in the rollout of our programmes.

13.2 Where the crisis in economic outcomes is in fact partially a crisis of implementation and fragmentation we need to act by strengthening the link between ANC resolutions and our actual actions on the ground, at the same time we should have early warning systems on weak implementation.

13.3 Effective implementation is about the ability to direct power and resources towards development and it is connected to improving the daily experiences of the people. This not only talks to the channeling of resources towards development, it also talks to the type of state machinery that helps the ANC to deliver on its mandate.

13.4 We must constantly examine the factors that hamper implementation and eliminate them.

13.5 The following elements remain important to address:

(1) Re-align the state machinery and thinking with the vision of a developmental state.

(2) Balance the aspirations of our movement with the constraints of fiscal management.

(3) We have to be careful not to be arrested in the mould of not altering the fundamentals in fear destabilising the status quo if the current chanels of implementation do not yield beneficial outcomes.

(4) Evaluate to what extent the role of being a policy maker shadows the drive to speed up the rollout of the ideals of our movement as contained in the Freedom Charter, Ready to Govern and Many Conference Resolutions.

13.6 Clearly this requires a state that possesses sufficient capacity to mobilize all resources behind a common national vision of economic transformation. We also need to acknowledge that the sub-obtimal patterns of management will not recede automatically unless we act consciously.

13.7 Acknowledging that implementation of ANC resolutions is a critical conduit of development. It must augment and expand the capabilities of our country in a manner that represents a shift in outcomes such as poverty reduction, employment creation, equity and social cohesion. Our administrative process must posit the negation of social ills and extend elements of what is good. We need change and not just to re-affirm all that exists where necessary. As we highlight possible solutions for the economy we need to link them to the underlying implementation challenges that partially define the current South African economic problems.

13.8 Good implementation will require that we build state capacity, establishing high standards of employment in the public service, raise the levels of professionalism, discipline and a commitment to serve. This means that the state must:

a) Conduct regular, systematic and standardised skills audits across all spheres of government, in line with the demands placed on the state by our economic transformation programme.

b) Conduct assessments of the degree of misallocation of skills in the public service, as part of the broader initiative to improve the efficiency of the public service.

c) Institutionalise skills development and training by requiring that each and every public servant undergoes some level of training on an annual basis.

d) Find innovative ways of attracting and retaining the best technical skills through means which should include:
   - Improving the reputation of the state as the employer of choice; and
   - Improving the remuneration structure, conditions of employment and career-pathing in the public service.

SECTION 2: ISSUES FOR DISCUSSION

As we approach policy conference during our centenary year it would be important for ANC members at all levels to discuss the economic and development challenges that face us. Each section of this document could be discussed in greater details, for example as follows:

a) How do developments in the global economy impact on our economic transformation programme?
b) What are the benefits and risks associated with our open economy strategy, i.e., promoting exports and imports and financial inflows and outflows?
c) How much potential should we see in our African Agenda, for example, in promoting intra-Africa trade and solidarity?
d) Our economy has shown the potential to create employment since 1994, but not at the sufficient rate to reduce unemployment, how can job creation be accelerated?
e) Should the manufacturing sector be the engine of job creation or should we also rely on job creation in the services industry and public works?
f) BEE is an important strategy for de-racialising South African Capital, why is it unpopular and how can it be improved?
g) Why economic growth sometimes is associated with increased income inequality? And what strategies can we adopt to improve income inequality in South Africa?
h) With our vision of a mixed economy, how should the state encourage private sector investment and activity?
i) Expansion and maintenance of infrastructure is key to our growth and employment plans, how do we finance such infrastructure spending?
j) What are the main impediments to land reform and agricultural development? How do we overcome these?
k) Why is it important to move towards a lower carbon development path?
l) What will be the potential benefits and risks of subsidizing youth employment and on the-job training? Should we proceed with this policy? How do we

balance the need for SOE's to pursue the Agenda of the developmental state against the need for these complex entities to be independently managed?

m) How do we balance the mandate of DFI's such as the IDC with regards to promoting industrial investments vs social development goals?
n) What is the connection between SOE/DFI's investments and their development goals?
o) Investments by SOE's and DFI's may be long term investments that can encourage growth and development. How do we prioritise the most important long-term investments given the country's financial constraints?
p) What should guide the ANC's policy towards the remuneration of executives who are responsible for managing our SOE's and DFI's, given the need for appropriate skills?
q) SOE's and DFI's should be the source of technical skills for thousands of young South African's, how can their record in this regard be improved?
r) What mechanisms should be put in place to ensure that SOE's achieve government's 70% local procurement target as this is key to job creation?