Medium-Term Strategic Plan

2007 - 2010

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA


VOLVO

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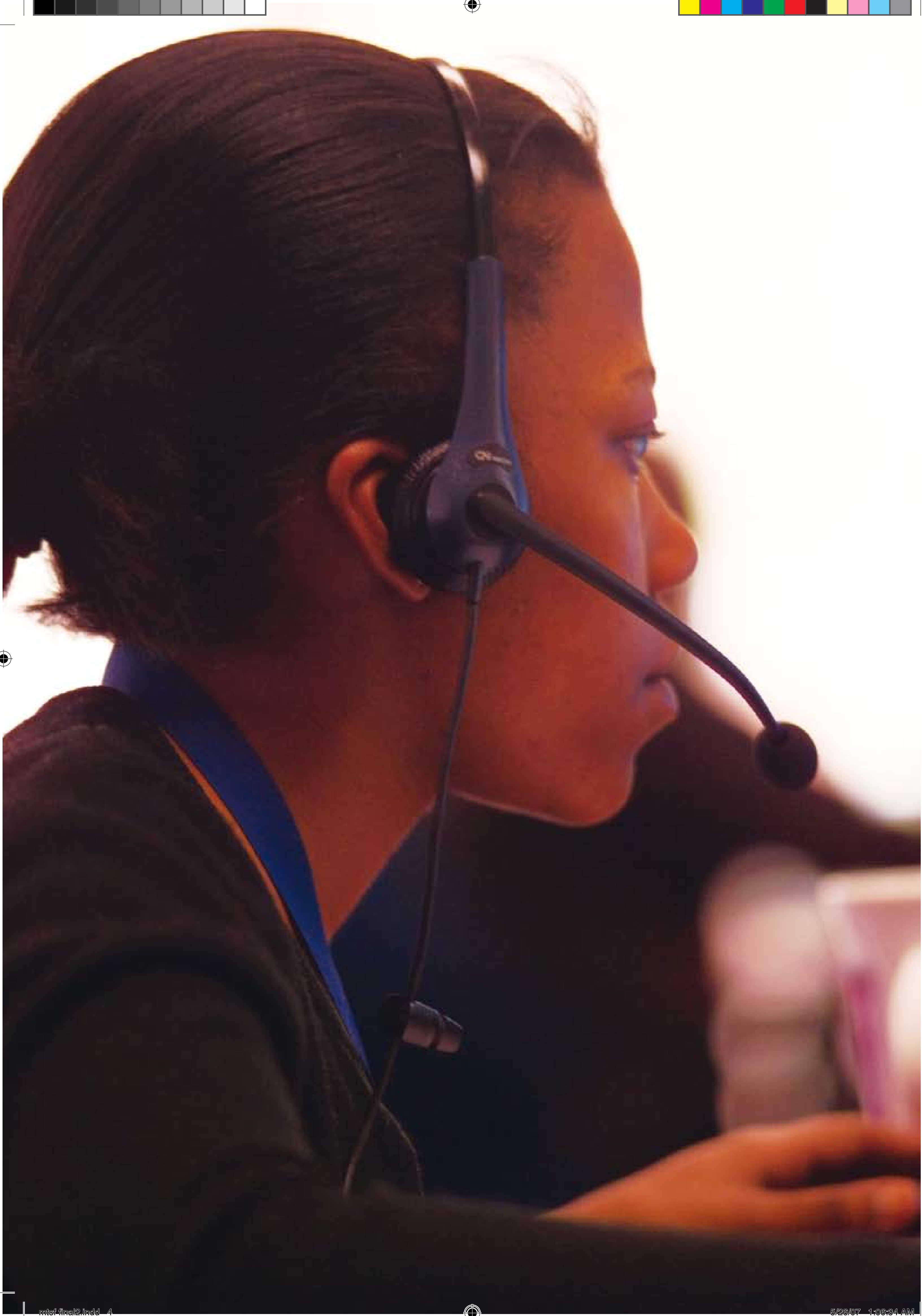

Introduction

The South African economy has experienced the longest upswing in history. This is widely acknowledged to be the product of South Africa's transition to democracy, government's economic policies and favourable global economic conditions. While average GDP growth was less than 1% per annum between 1994 and 2003, it has accelerated from 4.8% in 2004 to 5% in 2006. Clearly, government's objective of growing the economy by at least 6% beyond 2010 is attainable. While strong economic fundamentals exist and growth is on an upswing, there is a need to develop new strategies to sustain this trend and employment creation.

Besides accelerating growth to levels above 6% from 2010, the Accelerated and Shared Growth Initiative of South Africa (ASGISA) also includes as its goals the halving of unemployment to a level of 15% and the reduction of poverty within the population of our country from one third to one sixth by 2014. A recent assessment of ASGISA has identified the areas of industrial, sector and Second Economy strategies and efforts to improve state capacity as areas requiring increased effort. This assessment informs the renewed efforts of the Department going forward.

The aim of the Department of Trade and Industry (**the dti**) is to lead and facilitate access to sustainable economic activity and employment for all South Africans through its understanding of the economy, its ability to identify economic opportunities and potential, and its anticipation of the future. The department also aims to catalyse economic transformation and development, and to provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens. In this way, the department will contribute to achieving government's vision of an adaptive and restructured economy, characterised by accelerated and shared economic growth, employment creation and greater equity by 2014.

To achieve its aim the department has identified, amongst others the raising of investment levels, increasing exports, increasing labour-absorption, broadening economic participation and increasing competitiveness as key areas of intervention in the economy where the department can make a positive impact. **the dti** further believes that effective strategies to create employment in the formal economy will be the key contribution to addressing the economic marginalisation of the second economy. These economic imperatives have informed the Medium-Term Strategic Framework for the period 2007/08 to 2009/10.

The strategic context within which the dti operates

The South African economy has shown significant signs of growth since the beginning of the new millennium. This has seen the deepening of structural changes such as the emergence of the services sector, low inflation levels and real interest rates, increased Gross Fixed Capital Formation and changes in consumer consumption patterns. These structural changes have had a positive impact on growth. The growth in the economy can be attributed to a positive political transition, sound macro economic policies and favourable global economic conditions. The economy grew from 4,8% to 5% in 2006.

While strong economic fundamentals exist there is a need for a more focused approach to support continued economic growth and employment creation in order to achieve the 2014 goals of government.   Raising investment levels, increasing labour-absorption, broadening economic participation and increasing competitiveness have been identified as key areas of intervention in the economy where **the dti** can have a positive impact.

To address these challenges, **the dti** has contributed to the coordinated implementation of the Accelerated and Shared Growth Initiative for South Africa (ASGISA). The purpose of ASGISA is to accelerate the rate of economic growth, substantially increase the employment rate, and broaden the impact of economic development so that South Africa can meet its developmental goals. From its conception, ASGISA made a strong call for a robust Industrial Policy as an important tool in the pursuit of employment growth and sustainable gross domestic product (GDP) growth.   **the dti** has been engaged in the development of a National Industrial Policy Framework (NIPF). The NIPF is designed to address the binding constraints identified in ASGI-SA, particularly regarding sector development strategies including the development of new industries and new businesses. Six binding constraints were identified in ASGISA as constraints to sustainable growth:

[1] The volatility of the currency

In spite of major improvements in the administration of fiscal and monetary policy, the Rand remains volatile. The volatility of the Rand deters investors in tradable goods and services outside of the commodity sector.

[2] The cost, efficiency and capacity of the national logistics system

The national logistics system suffers from backlogs in infrastructure, lack of investment, inadequate planning, and in some cases market structures that do not encourage competition. Consequently, the backbone required for moving goods and conveying services over distance is not as extensive, reliable or reasonably priced as it should be.

[3] The shortage of suitably skilled labour amplified by the cost effects on labour of apartheid spatial patterns

Sustainable employment creation and the ability of the economy to grow depend significantly on there being sufficient production of "human capital".

[4] Barriers to entry, limits to competition and limited new investment opportunities

The South African economy remains relatively concentrated, particularly in strategic sectors such as upstream production industries like steel and chemicals and utilities like telecommunications and energy.

[5] The regulatory environment and the burden on small and medium businesses

The mediocre performance of the small, medium and micro business sector in terms of contribution to GDP and employment partly arises from the sub-optimal regulatory environment.

[6] Deficiencies in state organisation, capacity and leadership

Failure to implement policy efficiently and effectively undermines the policy decisions taken by government.

Dealing with these constraints entails a series of decisive interventions. In terms of industrial policy, the emphasis of the NIPF will be on non-commodity tradable sectors, mainly in manufacturing and tradable services. This does not exclude industries linked to the commodity sector such as the processing of agricultural and forestry products and the transformation of metals and minerals, which could well comprise some important sector strategies. **the dti** will use the NIPF as a framework for the implementation of sector strategies. This framework will also be utilised as the mechanism to develop further competitive sectors beyond the current focus. In addition, implementation of the NIPF will seek to identify opportunities to leverage government expenditure over the MTEF to create sustainable industries.

It must be recognised that the NIPF is by no means the totality of government's economic policies. For industrial and sector strategies to work effectively they require a range of supporting policies and institutions to be aligned around government's industrial policy objectives. The six binding constraints are all significant areas of policy development and implementation in their own right. In addition, there is a range of specific interventions aimed more immediately at poverty alleviation and responding to the challenges of the second economy.

the dti also seeks to respond more effectively and sustainably to the challenges faced by small enterprises. Some of the interventions identified in this regard include targeted procurement options, a retail strategy for small and micro enterprises, investigating support for marketing cooperatives and strengthening the state's financial and non-financial support for small enterprises, amongst other measures. In short, **the dti** is to focus on improved, streamlined and integrated service delivery to small enterprises.

the dti will use the NIPF as a vital point of reference for other programmes and interventions initiated by **the dti**, as well as those emanating from the Economic Cluster of which **the dti** is the lead coordinator. The Economic Cluster will focus on three key areas, namely:

- Increasing economic efficiencies; such as amending competition policy to support effective regulation.
- Promoting dynamic growth sectors as part of applying our National Industrial Policy Framework, including the leveraging of public investment and spending as well as ensuring the effective implementation of finalised sector strategies.
- Implementing programmes aimed at the successful integration of small and micro-enterprises, including the reduction of regulatory burdens.

In addition the cluster will pursue interventions with considerable potential to change the structure of the economy focusing on three sectors;

- ICT Infrastructure - especially broadband, which is critical to a successful transition to a knowledge economy and integration of marginalised households into the economy.
- Public transport - where a fundamentally new system will be introduced in three phases up until 2020 that will see a shift from the current operator controlled, commuter-based, uni-modal system to a fully integrated rapid public transport network based on 24-hour service and accessibility.
- Energy - where focus will be on investment in energy and related infrastructure to address security of supply in electricity and petrochemicals and developing our local nuclear industry as an affordable and environmentally sound alternative.