‘THE SA ECONOMY AS A CATALYST OF GLOBAL COMPETITIVENESS’

KEYNOTE OPENING ADDRESS

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'Our remedies oft in ourselves lie'

1. INTRODUCTION

May I begin by thanking you for the privilege and honour of addressing this important Congress today. When Hans van der Merwe approached me with the invitation I pointed out that I am not an agricultural economist and therefore would not want to be here under false pretences. However, I was assured that, especially as the keynote speaker, I would be able to offer you broad brush strokes about major issues that are relevant to the environment in which you – as agriculture – need to operate. These general elements are factors which all sectors in the economy, to a greater or lesser extent, need to take into account.

You represent a very important sector of the SA economy and that was partly why I felt encouraged to respond positively to your invitation to be here today. Agri SA is also an active and valued member of BUSA. Agriculture remains a vital key to SA's development on issues around land reform and rural development – and as your programme demonstrates – you have a crucial role to play. The more important the sector, the more it is exposed to broad socio-economic trends.

My task is therefore to identify some of the overall factors that challenge both government and the private sector to engage constructively to create improved confidence, investment and growth in the agriculture sector. Agriculture remains an essential engine for growth and development. We need to provide safe and affordable food. Food security is a dominant theme in the growth and development scenario. This largely stems from the forward and backward linkages that exist between agriculture and secondary tertiary sectors – with agriculture supplying these sectors with raw materials and, in turn, providing a market for the goods and services generated.

Let me reinforce this approach by offering the following additional perspectives –

- In recent macro-economic studies, it was estimated that a 1% direct contribution to GDP by agriculture produces a 2% increase because of its interrelationships and linkages with the rest of the economy.
- Further estimates indicate that the potential of agriculture for direct and indirect employment creation is very significant: an investment of R1m in agriculture will generate twice as many jobs as an equivalent investment in the manufacturing sector, and nine out of ten of the country's top employment generators are involved in agri-business.
- Accelerating growth in agriculture will not only make the achievement of the Millennium Development Goals possible but also vital for sustained growth and industrial diversification of Africa.

To capitalize on the role of 'agricultural SA', agriculture will need to remain globally competitive. In the context of expanding markets and trade globally there are several challenges that the industry faces to fully realize its export potential. Globalization has made 'scale' and internal backward linkages of agriculture important factors in national economic competitiveness and success. Niché farming and small-scale production is possible – but it is specialized, differentiated, heavily skills-intensive and technology dependent. It is therefore necessary to find the right markets both nationally and internationally.

2. <u>GROWTH IN INTERNATIONAL TRADE</u>

It is fortunate that the strong growth in the international trade of goods and services in recent years has not depended entirely on the activities of the WTO. Yes, an agreement on a developmental Doha-round would, all have agreed, send a strong signal that the world was not going to repeat the mistakes of the 1930s. Never again would 'beggar-my-neighbour' or 'tit-for-tat tariff policies be allowed to worsen a global recession. It is fortunate that the apparent success of counter cyclical policies have made it possible to avoid a complete relapse into ‘neo-protectionism’ as might have been likely when the global recession first hit.

Perhaps the very existence of the rules-based WTO and regular meetings of the G20 during the critical period helped to avoid ‘neo-protectionism’ – and that lessons of the 1930s had indeed been absorbed. At least we seem to have avoided the panicked protectionism of the Depression years. In any case, the ability of anything in the Doha-round rapidly to affect global trade, especially for developing countries, is always going to be limited.

There is mounting evidence that, as important as it remains to reduce barriers to trade globally, developing countries need to concentrate equally on the quality of the infrastructure and the ease of doing business in ways which enable supply chains to lengthen and new trade routes to be established. This sometimes requires governments to intervene to ‘unblock’ a situation – or in other cases to simply get out of the way of entrepreneurial effort.

Nonetheless regarding the ongoing negotiations in the WTO in relation to agriculture, we are seeking reforms in mainly three areas, namely market access, domestic support and export competition:

- Market access: e.g. lowering tariff barriers wherever possible;
- Domestic support: e.g. removal of subsidies to the agricultural sector;
- Export competition: e.g. removal of export subsidies to the agricultural sector.

The successful conclusion of the DOHA-round of negotiations would help in growing our agricultural base and subsequently our exports. Whilst South Africa has liberalized its agricultural market to a great extent, the same cannot be said of other markets, especially the developed world. Reciprocity is needed from especially the developed countries in opening up their markets for our agricultural produce by removing tariffs and non-tariff barriers that prevent our exporters from entering their market on a competitive basis. SA has again made this clear in its current trade negotiations with the EU.

But the bottom line here remains that, unless SA can enlarge its share of global trade and investment, it will *not* be able to successfully tackle the challenges of growth, unemployment and poverty alleviation in the years ahead. Our economic outlook and performance hinges to a large extent on our economic relations with the outside world and how we best manage them. In the past few months President Jacob Zuma, supported by the business community, have made serious efforts to strengthen our links with key markets abroad in recognition of this reality. These economic linkages need to be strategically developed and strengthened.

3. THE ECONOMIC OUTLOOK

Now what about the economic outlook? Within what broad of economic contours might agriculture be working? Given present trends, how might the economic picture unfold over the next couple of years?

MACRO-ECONOMIC ‘GUESTIMATES’

	2010	2011	2012
Ø CPI	5.4%	5.7%	5.8%
Ø PPI	5.7%	6.3%	7.00%
Ø Oil Price ($ per barrel)	79	89.3	90.0
Ø Real GDP	3.0%	3.5%	4%
Ø Unemployment	25%	24%	23%
Ø Gross Fixed Investment	1.4%	3%	4%
Ø Interest Rates	10.%	11%	11.5%

These possible economic trajectories are positive – but not great. If this economic outlook is broadly correct, then we can understand the urgent need for SA to reach a more inclusive higher job-rich growth path. SA needs to do much better and unlock its true economic potential. The Government and the private sector are collectively applying their minds as to how this can best be achieved. The challenges of growth, job creation, poverty alleviation and less inequality are embedded in the search for a higher growth rate. Growth is not 'a cure for all diseases, an end to all distress' but it does make other aims easier to achieve and softens conflict among them. Growth needs transformation, but transformation also needs growth.

Then we also have to ask ourselves not only how we might reach a higher growth rate but what would be a credible and feasible growth rate to choose as the target? You will know that there is a strong proposal is that SA should have an aspirational growth target of 7% per annum in the long term. How feasible is this target? Can we reach it? What are some of the conditions for success?

In 2006 the SA Reserve Bank did just such a study to determine the growth potential of the SA economy. Four alternative scenarios were considered:

(a) *Status quo*: assuming the existence of structural unemployment given the current structure and growth impediments of the SA economy.
(b) *Utopia*: assuming full employment i.e. potential output is equal to the economically active population.
(c) *Government targets*: assuming that the quantified targets of the Government are achieved (halving unemployment in 10 years) and an FDI to GDP ratio of 1.3% and increasing the savings to GDP ratio to 22% (currently 15%).

(d) *International benchmark*: assuming the SA economy becomes more competitive in terms of the average performances of emerging markets, the unemployment rate falls to 12%, the FDI to GDP ratio rises to 4% and the savings to GDP ratio rises to 25%.

Summary of the results
Per cent

Scenario	Real potential output growth rate
Status quo……………………………………………… .	4.1
Utopia…………………………………………………..	6.9
Government targets……………………………..	5.1
International benchmark………………………..	6.5

(SARB Monetary Stability Survey, May 2006)

These results suggest that South Africa's current growth potential is about a rate of 4.1 per cent p.a. It is unlikely that these parameters have changed much in four years, especially given the changed global economic outlook. However it must be stressed these results should be viewed as *indicative* and not as immutable numbers to be applied in a mechanical fashion. They are, nonetheless, a useful profile of the growth possibilities.

At the extreme, adopting the utopia scenario, the simulations generate a potential output growth rate of 6.9 per cent, while in the intermediate cases, a growth rate of 5.1 per cent results when government meets its own targets and 6.5 per cent is possible if the South African economy's competitiveness rises to around the average level of other emerging economies. But these scenarios feed straight in to the recent WEF Global Competitiveness Report for 2010-2011 and its implications for SA.

4. IMPORTANCE OF GLOBAL COMPETITIVENESS

At the outset we need to remind ourselves that we define competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. A more competitive economy is therefore one that is likely to grow faster in the medium to long term. This is important for both developed and developing economies.

What is important to note in the latest Global Competitiveness Report is that, while SA has dropped in rank since last year (from 45th to 54th), its performance has remained stable and the decline reflects improvements in other countries. This nonetheless matters because we want SA to become a leading investment destination for growth and employment in the years ahead. SA cannot afford to lag behind its peers in emerging markets in terms of competitiveness as it seeks to attract foreign investment. Although we presently attract more than our fair share of portfolio and short term investment – hence the current strength of the rand – SA is not yet attracting enough fixed direct investment (FDI) for growth purposes. We should also recall that about five years ago we were ranked 34th in the world competitiveness assessment.

The latest Global Competitiveness report therefore remains a wakeup call to all of us about what needs to be done if the domestic economy is to be a catalyst for international competitiveness. It injects greater urgency into our search for solutions. There is really unfinished business on the national agenda that needs to be actively addressed to ensure that we unlock true potential of the SA economy if we eventually want to reach a *sustainable* 7% growth rate.

Against this background – and given the theme of your Congress – I would like to share a few thoughts on the contribution which land reform and rural development can make to national economic growth, and which you will be unpacking further during the course of this gathering.

5. LAND REFORM AND RURAL DEVELOPMENT IN THE GROWTH SCENARIO

The forthcoming Green Paper on Land Reform will be an invaluable tool for further debate and cooperation in this sphere. My own view is that so far, land reform & rural development have not been spectacularly successful as contributors to national economic growth, because:

- the first leg of land reform, restitution, has been largely for historical reasons, to restore ancestral land to those from who it was wrongfully taken either by law or force; and much of this has not been geared for commercial agricultural purposes;

- redistribution of land - the second leg of land reform (exceptions apart), has not been successful in significantly expanding the scale of agricultural productive output in recent years.

Indeed, the more successful developments had been more in relation to giving equity stakes to black agri-investors within existing enterprises, but most of these investors are often not involved at operational levels, with very little business skills transferred. In this sense, equity transfers have not been matched by transformation of the actual business enterprises. A key problem has been that these policy reforms have not been dynamically linked to food production, food security and food economics in a manner that allowed for meaningful agricultural economic growth to occur.

The emphasis has been primarily on land ownership, as opposed to land management, and use of land – whether owned or not – for purposes of driving up agricultural production. Whilst land restitution and redistribution for purposes of communal and subsistence production must still continue, a new approach is clearly required for social transformations to occur within the mainstream agricultural economy. This approach should be driven by explicit agricultural economic output goals, linking specific land reform initiatives to the former, ensuring internal integration of such initiatives so that they evolve within the mainstream sector, and thus draw on the energies, resources, networks and business momentum of that sector. It cannot succeed as something external to the mainstream agricultural economy.

For a skills-led land reform and rural development programme to work, it should be done in concert with the core agricultural economy – as extensions to the agricultural economic base via, for example, stimulating enterprises to develop in new areas of crop production and distribution, extending upstream and downstream beneficiation, particularly, secondary agriculture, ie. agri-business (canning, preserving, etc.), establishing niche markets for a new generation of specialized small-scale producers (eg. organic farming).

At a macro-planning level, I suspect one might require the agricultural equivalent of a national industrial strategy – getting agreement over the strategic expansionary development of key agricultural areas across South Africa with the view of boosting its long-term competitive export advantages; and developing a range of instruments to boost black participation within these defined sectors, and marshalling targeted educational and training interventions in support thereof.

Whilst Government clearly has to create an enabling framework for such strategy to work, it would be critical to strike creatively empowering partnerships with white commercial farming entities, such as for example, taking place in the dairy industry in the Eastern Cape (Tsitsikama Diary Producers) where they have begun a series of new dairy initiatives with black communities, which retains the skill of white commercial farming expertise in these businesses long after their establishment, and then gradually cede the business entity over to black entrepreneurs.

Black farmers and agri-entrepreneurs would have to be organized and have proper business, particularly financial support, to successfully collaborate. Individual risk taking is essential and policy should encourage individual and family-owned black businesses to successfully emerge. In addition, if the Cooperatives sector takes off, according to Minister Gugile Nkwinti, then they could be legal vehicles for driving partnerships in community-settings where this might present itself as more feasible alternatives. A major problem, however, is still the common land tenure systems in large parts of the country, preventing individual entrepreneurs from gaining access to bank capital for development.

A well established challenge in SA's development scenario is the link between the country's educational system and incomes. Clearly, there is an urgent challenge to getting a grip on the nation's basic and secondary educational system – fixing this in order to produce foundational skills; and rapidly expanding and re-gearing the FET sector to train both general and specialized agricultural production, technical and management skills to support a national agricultural economic development strategy. The existing Agricultural College sector needs to be giving high-level priority with proper capital funding (for labs, equipment) and operational funding, with bursary support to students linked to future absorption into the organized agricultural economy.

There is much evidence, over the last two decades or so, that many trained graduates end up working in government departments or outside of the agricultural economy – obviously not an optimal way to spending training resources. Agricultural extension officers are often not given proper support by Agricultural Departments to ensure effective scientific support for farmers, and parastatal corporations active in the agricultural economy are often not working in tandem with agricultural extension support strategies.

I suggest that perhaps the Agricultural College system needs to be expanded and internally-differentiated (like higher education) to specialize in different branches of agricultural crop production and development, and providing all-round training and education, particularly enterprise-level and production skills. Commercial and emerging farmers should advise College curriculum and experiential training boards to ensure better synchronicity between what is being taught and requirements of the sector, and various experiential learning partnership schemes developed.

6. AGRICULTURE IN AFRICA

What about looking beyond the borders of SA? Africa has 60% of the total uncultivated land in the world. This is indeed a significant opportunity for economic growth for the continent. The latest report by Mckinsey titled 'Lions on the move - progress with African Economies' suggests that agriculture will contribute more than 12% of Africa's GDP in the near future. Despite this, many governments within our continent continue to neglect this important sector. More troubling is the apparent lack of attention on addressing underlying competitiveness issues that continue to limit the agricultural sector's development.

This issue has become rather urgent, and must be addressed by governments in consultation with the private sector. The world is experiencing a 'grain rush'. With increasing frequency, wealthy, food-importing, and water-scarce countries– particularly the Arab Gulf states and the rich countries of East Asia– are investing in farmland overseas to meet food security needs. Similarly, the private sector is pursuing farmland deals abroad, with many investors perceiving land as a safe investment in an otherwise shaky financial climate. This run on agricultural land has been described as a new phase of the world food crisis. The International Food Policy Research Institute (IFPRI), a US government-backed think tank, released a report in April 2009 which made an initial estimate at how much land has been sold in land deals since 2006 – estimated at 20 million hectares – or twice the size of Germany's croplands.

These developments mean that South Africa needs to increase support to the agricultural sector to ensure that the sector can be globally competitive. Our farmers have historically invested significantly in the continent. They have continued to contribute towards improving food security in the African continent, and more importantly contributed to economic development.

Once again it must be emphasised that such support must be targeted at initiatives to address competitiveness challenges. This means that issues relating to water infrastructure must be addressed. Further, issues relating to skills and education of the workforce are critical and inefficiencies in the Agri-logistics must be addressed. Finally, the land reform green paper must be finalized. The debate on the Green Paper should help to create a more predictable and certain policy environment for decision-makers, as well as laying the foundation for future cooperation.

7. CONCLUSION

All key sectors will need to pull their weight if a 7% growth rate to be is the long term target. What we want to avoid in SA in the years ahead is a 'low-growth trap' – a level of growth that will not enable SA to fully meet its socio-economic challenges. 'Going for growth' is a good point of departure for the things we want to do as a nation. A higher, inclusive job-rich growth path will have to be a collaborative effort between government and the private sector, as no single stakeholder can tackle the challenges alone. In these challenges also lie opportunities to be unlocked which will help to absorb social deprivation and bring many more people into the mainstream of the economy.

There *is* a 'virtuous circle' of high growth, democratic governance and social development possible in South Africa. The transition to a high-skill, high-productivity and rising wage economy is both economically necessary and politically desirable. The forces of globalisation abroad, and the dynamics of transformation within, must meet in a faster 'catch-up' growth for South Africa, of the kind experienced by several other emerging economies.

Confidence is created by problem-solving attitudes which help to generate the solutions which the country needs. We need to build a 'consensual stability' around what needs to be done. This requires a collective commitment. Agri-SA – both in its own right and in working through BUSA – must help to enlarge the sphere of influence which the private sector needs exert on the course of events. President Jacob Zuma has more than once emphasised the importance of 'partnership' with the private sector. In that spirit I wish your congress well in its deliberations and hope it will have successful outcomes.

ENDS.