

**NATIONAL OFFICE**

First Floor, 3 Gwen Lane, Sandown, 2196  
P.O. Box 652807, Benmore, 2010  
Tel: +27 11 784-8000/1/2/3 | Fax: +27 (0) 86 609 8248  
E-mail: busa@busa.org.za | Website: www.busa.org.za

**PARLIAMENTARY OFFICE**

9 Church Square, 1st Floor Graaffs Trust Building  
Cape Town, 8001  
P.O. Box 3867, Cape Town, 8000  
Tel: +27 21 465 1633 | Fax: +27 21 461 5470

**MEDIA RELEASE**

**GLOBAL COMPETITIVENESS MUST UNDERPIN SOUTH AFRICA'S  
ECONOMIC GROWTH STRATEGY — A BUSA PERSPECTIVE**

**EMBARGOED UNTIL 11H00 ON FRIDAY 17 SEPTEMBER 2010**

1. Context

Today's press briefing is organised in the context of an ongoing public debate about the country's economic policy. BUSA is currently finalising its more detailed position paper on what we consider the appropriate approach to a higher economic growth path. We also take into account the important ANC National General Council (NGC) meeting being held next week.

Our views are premised on our understanding that long term economic growth and development requires a vibrant private sector. We reinforce our position that any discussion on economic growth paths must have the private sector at its epicentre.

Numerous studies from a wide variety of sources (from the Commission on Growth and Development to the OECD to the 'Harvard' International Advisory Group) over many years have detailed the key ingredients to a more prosperous future. The empirical evidence is overwhelming across a range of countries over all continents. The common features for quickly growing and developing countries include:

- A vibrant and efficient private sector, where the principal allocator of resources is the market system.
- An efficient, well run state that provides a positive enabling environment in which the private sector can operate within predictable and well defined rules.
- An open economy, where open trade reduces monopolistic tendencies and keeps input prices low, where knowledge transfer through foreign direct investment takes place and where capital inflows supplement domestic savings and keep interest rates as low as possible and other forms of capital as cheap as possible.
- Macroeconomic stability. Fiscal policies have to be sustainable over cycles and monetary policy has to ensure that inflation is low and stable.
- A common, long-term vision, where some short-term sacrifices are made to ensure a more prosperous long-term future for all.



The recent history has reinforced the truth of these observations. Countries that followed lax fiscal policies during the boom years such as Greece have been forced into fiscal stringency, countries that went back to failed state-dominated policies such as nationalisation in Venezuela have had to try and backtrack and are struggling to emerge from deep recessions. In contrast, countries as diverse as China, India, Poland and Brazil, which have increasingly opened their economies up and pursued market orientated policies, have continued to grow impressively. South Africa itself has been heralded for its responsible fiscal and monetary policies and its sound banking system, as evidenced by falling long bond yields and strong capital inflows in the aftermath of the 2009 recession

In this context, it is puzzling that the national debate has become so confused. This confusion makes a public debate difficult. Clearly, South Africa has its own unique challenges given its uneven starting point in 1994. Transformation of the economy, more inclusivity, greater labour absorption and less inequality must be key objectives and suggest a degree of state involvement that in more normal circumstances would be problematic. However, the basic ingredients of our future success must still be the same as those applied elsewhere in countries with similar economies.

As to the argument why we have not achieved quicker success already, the answer is that we have deviated widely and often from the known recipe. The regulatory environment has often been opaque and changing, preventing long-term investment decisions from being made, the provision of necessary infrastructure to support growth has been too little too late, again choking off necessary growth and investment.

The private sector has largely been excluded from areas where a major positive impact could have been achieved in a short space of time. One example is electricity generation. In many other areas state provision of services has fallen short, including basic education. Again, the answer is greater private sector participation through public private partnerships rather than increased state involvement elsewhere.

A vibrant private sector requires certain preconditions, primarily a competitive domestic environment. As such, we believe that addressing the country's underlying competitiveness challenges as outlined in the recently published WEF 2010/2011 Global Competitiveness Survey has to be part of our approach to develop a long term growth plan. Competitiveness is not a novel concept, but can be defined as "the set of institutions, policies and factors that determine the level of productivity of a country".

## 2. Diagnostics of the South African challenge

It is common cause that the South African economy is relatively small and accounts for less than 1% of global GDP. The lesson is for South Africa to expand its export base to include the leading emerging markets which are shifting to consumption driven growth as part of their response to the global economic crisis. For the country to effectively compete with such countries, total factor productivity will need to improve significantly.

South Africa's unemployment problem is well understood to be one of the biggest challenges facing the country. Apart from its social implications, the unemployment rate at over 25% represents underutilisation of human capital. Stubborn youth unemployment is perhaps the greatest risk to future social and economic stability and requires attention. The high rate of unemployment is one of the main causal factors of persistent poverty and inequality in SA.

We are all aware that to support higher economic and employment growth in South Africa we need high rates of fixed investment. It is estimated that over the longer-term, for any economy to grow sustainably at a rate of over 5% per annum that an investment rate of 25% of GDP is required. South Africa's investment rate is currently about 22% of GDP.

Due to the country's low savings rate of only 14% of GDP, South Africa has to borrow the balance from savings of rich countries, which is reflected in an 8% current account deficit (also known as our savings-investment gap). The *key* point here is that to attract foreign capital and to promote business and consumer confidence that there has to be stability and predictability in economic policy making.

It is clear that to sustain higher growth rates in future SA needs to attract more foreign direct investment (FDI). To attract FDI in the first place requires an upscaling of growth prospects and a favorable investment climate. Although SA is enjoying more than its fair share of portfolio and short-term investment, it is not attracting enough FDI for growth purposes.

### 3. BUSA'S VIEWS ON CERTAIN KEY MACRO-ECONOMIC ISSUES

#### 3.1. Independence of the central bank

Perhaps the most important component of any economic strategy has to be maintenance of a sound macroeconomic policy framework that is supportive of long term financial stability. In this regard, we reinforce our position that there is a need for a credible monetary anchor and an independent Central Bank. We also reject the notion that abandoning the current inflation targeting regime will lead to lower interest rates. Historically, interest rates have been at higher levels, despite the environment of higher inflation.

The experience of Zimbabwe, where the local economy has become dollarized is a perfect example of the dangers with a captured Central Bank. Low inflation is a desirable economic goal and inflation targeting is a valuable mechanism for ensuring it. Low inflation is also a valuable contribution to poverty alleviation. SA must maintain the credibility and integrity of its monetary policy.

#### 3.2. Exchange Rate Management

BUSA agrees that a volatile currency remains one of the constraints to economic growth. However, we maintain that a flexible exchange regime is the least costly policy. Further, we believe that attempts to target the nominal exchange rate rather than the real exchange rate will not necessarily make our exports and economy competitive.

BUSA emphasises that SA needs a stable and competitive real exchange rate, although there are limits to what can be achieved by a small open economy in this regard. BUSA supports

the view of the of the Minister of Finance expressed in the Budget Speech earlier this year that SA will continue to take whatever possible steps to counter the volatility of the exchange rate and to ‘lean against the wind’ during periods of rapid capital inflows, including reserve accumulation and further exchange control relaxation.

BUSA believes that long term efforts to buttress the competitiveness of the real exchange rate include lower wage inflation, lower budget deficits, larger reserves and a more flexible and dynamic economy. As the latest global competitive survey again demonstrates, there is no ‘silver bullet’ to achieve greater competitiveness but it is achieved through a right combination of policies.

### 3.3. Fiscal Policy

BUSA supports the notion that fiscal policy acts in concert with monetary policy to facilitate economic growth. We also believe that the appropriate fiscal policy should include the following elements:

- Higher government efficiency – maximise outcomes from each rand spent by the public sector.
- Must ensure that the fiscal balance remains sustainable in the long run – The experience of the Southern European countries esp. Greece is a useful reminder of challenges of fiscal stability and sovereign solvency. These countries have now been forced to adopt severe austerity measures to resolve their solvency challenges. Fiscal error leads to long-term costs such as painful cuts in social and investment spending.

### 3.4. Tax Policy

We believe that tax policy must ensure allocative efficiency. Further, we believe that broadening the tax base is a much more useful approach to raising government revenues and can be more efficient than introducing a range of additional taxes. The policy must also strike the right balance between encouraging investment and revenue raising. In this context, we believe that the tax burden remains high and that radical proposals for additional or new taxes will have a negative impact on the investment climate.

### 3.5. Nationalisation/Role of the private sector

BUSA believes that the debate on nationalisation must be placed in the context of greater state involvement in the economy. There are serious challenges in the capacity of the state to deal with even its basic functions. The debate should be about strengthening the capacity of the state to play its legitimate role, and not about nationalisation. BUSA believes that the correct approach is a healthy partnership between the state and the private sector to achieve service delivery goals. The private sector can do much to contribute to skills transfer and development. An enhanced role for public-private sector partnerships is essential.

### 3.6. Transformation & Inequality

While BUSA is deeply concerned about the slow rate of transformation in key sectors of the economy, we remain committed to ensuring that the private sector broadens and deepens economic participation in the SA economy. BUSA believes that a broad based approach to empowerment is the appropriate approach to transforming the South African society. In this context, we believe that poor outcomes from investment in both health and education remain the biggest threat to long term transformation of our society.

This is because underinvestment in human capital curtails the ability of people to participate in economic activity. Further, we believe that current tax policy already plays a redistributive role – with high earners already contributing more than 51% to government revenues. Transformation is needed for growth — and transformation needs growth.

While BUSA recognises that the issue of executive pay is a matter upon which further engagement is necessary, it believes that the discussion must also be linked to overall corporate governance. We encourage companies to develop transparent and accountable systems for structuring executive pay packages.

- Labour market flexibility

BUSA submits that labour market flexibility is integral to the absorption of the unemployed into the mainstream economy. We are cognisant that labour market flexibility must be combined with other measures to address structural issues in the domestic economy. This includes investment in human capital development.

### 3.8. Reducing costs of doing business

In the recent global competitive report SA's rankings on the time required to start a business and the number of procedures needed to start a business have significantly deteriorated. Business continues to incur significant and increasing costs as a result of a lack of streamlining of regulatory requirements and the unintended consequences of legislation which has not been subjected to any form of cost benefit analysis. It is critical to reduce regulatory and administrative burdens on businesses. It is important that the regulatory impact assessment approach be rolled out to all government departments. Such reforms help increase productivity, and strengthen competitiveness thus ensuring long-term economic growth.

### 3.9. Development of Small and Emerging business

If SA is to create a more favourable environment for entrepreneurship, support for small and emerging business needs to be strengthened by both the public and private sectors. Policy decisions should be subject to a litmus test as to their impact on small business and new enterprise. BUSA is also particularly concerned about the impact of crime on small business.

### 3.10. Infrastructure

Business is fully supportive of the need for government and parastatals to continue with investment programs designed to unblock supply-side constraints in the short and long term. However, it would be appropriate that all capital programs are evaluated and prioritised to ensure that scarce capital is effectively deployed. It is also crucial that the funding of large capital programs, like the Eskom electricity investment program, continue to be funded — as the short-term assistance has provided some breathing space to catch-up on capacity development.

However there is scope for appropriate sequencing of projects to minimise the ‘bunching up effect’ which could occur with huge infrastructure build programs. Overall the most important challenge would seem to lie not so much in the direction or funding of policies but successful implementation and delivery. We need to talk more about the need for a *delivery state* to achieve socio-economic goals.

The successful 2010 Soccer World Cup ‘dividend’ must be leveraged to get SA on to a higher growth path. In short, we must leverage the lessons we learnt in ‘walking the talk’ more effectively in planning, decision-making and implementation for the benefit of all South Africans, especially relating to the provisioning of infrastructure.

### 3.11. Governance

BUSA believes that more should be done to improve governance across sectors in the economy in order to strengthen SA’s economic performance.

The following aspects are crucial to supporting governance

- A competitive domestic environment within the private sector
- A sound and independent legal and judicial framework
- Credibility of institutions
- Transparency of licensing regimes
- Protection of investor rights
- Accountability across all sectors of society.

## 4. Conclusion

We call on the ruling party to consider international evidence as they deliberate on elements of economic policy. Whilst we are cognisant that the NGC is not a policy-making conference, we believe that the assessment of the state of South Africa must consider the role of the private sector. We must not damage the private sector that contributes so much to employment and overall development. We must learn from leading countries in the world and focus on addressing our competitiveness.



We caution against increasing state intervention in the economy, when the state has already demonstrated limited capacity to deliver on its existing mandate. A business- friendly regulatory environment is crucial to attracting long-term private capital needed to secure adequate, reliable infrastructure services and to getting social support for reforms. Regulation should clarify property rights, allocate them sensibly, and assure private investors that their investments will not be subject to regulatory opportunism.

Whatever ambitious higher growth path SA eventually sets for itself, it will not be attainable unless we can better address the gaps identified by the latest global competitiveness survey. It is a collective challenge. Each sector also must take responsibility for its role in our society. The debate which will eventually take place in Nedlac and elsewhere on the government's proposals for a higher inclusive job rich growth path for SA should be informed by cogent and relevant economic realities.

ENDS.