

# BUSA PRESENTATION TO THE 2018 NEDLAC TRADE & INDUSTRY CHAMBER STRATEGIC SESSION

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# Background: Overview of the economy

- Forecast GDP growth for 2018 (latest Treasury forecast) is 0.7%.
- At over 27% (narrow definition), unemployment remains shockingly high.
- Current growth levels, significantly lagging Global GDP growth of 3.7% (and especially emerging market peers at 4.7% forecast growth), are insufficient to reduce unemployment or meaningfully impact over the long term on poverty levels.
- Central challenge we confront is raising economic growth and creating jobs.



## Overview of the economy (2)

- SA is currently in a technical recession: with population growth at 1.55% per annum, South Africans are on average becoming poorer.
- Income levels are deteriorating – largely due to the high unemployment figures.
- On the demand side, consumers are under significant pressure with the recent VAT increase, excise increases and increases in administered prices.
- To compound matters, serious fiscal pressures exist with continued worry about ratings downgrades and outflows of capital. Fiscal relief is not possible for the foreseeable future.



# Overview of the economy (3)

- In the current context, economic growth is essential: Growth-enhancing reforms to encourage investment and job creation are urgently required.
- Industrial and trade policy have critical roles to play in contributing to growth.
- In light of this, recent wide-ranging Jobs Summit agreements are welcomed.
- Also welcomed is the real (above inflation) increases allocated to economic development, including industrialisation and exports in the recent MTBPS.
- In the context of a constrained fiscus, government will need to resist the temptation to reduce allocations to incentives and other critical support to the economy.



# DTI Interventions emanating from MTBPS

- Business is encouraged by the statement in recent MTBPS that the DTI will improve capacity of SABS to certify local content and consider simplifying the registration process.
- This has been a focus of the Technical Infrastructure Agencies Task Team at Nedlac (on hold during Jobs Summit process). Business encouraged by responsiveness of government in task team work.
- Business looks forward to frank feedback from DTI on state of SABS following appointment of administrators and Acting CEO.



# DTI Interventions Emanating from Jobs Summit: Black Industrialists

- The financial sector has committed to invest R100 billion over five years in black industrial enterprises and firms.
- The Financial Sector Transformation Council is working with the Department of Trade and Industry to finalise guidelines for the disbursement of this funding.
- This constitutes a critical DTI intervention and business looks forward to working with the DTI in this regard.



# DTI Interventions Emanating from Jobs Summit

- A number of other PJSA outcomes relate to the work of the DTI and the Nedlac TIC:
  - Procurement Interventions
  - Growing & Deepening SA exports
  - Focusing Industrial Financing to Transform & Upgrade the Economy
  - Various Sectoral Interventions (e.g. agricultural value chain)
  - Addressing Customs Fraud & Illegal Imports
- To avoid duplication and unnecessary overlap, mechanisms may need to be established to establish appropriate divisions of labour between various structures.



# Designation

- Business has previously articulated the view that Designation as a policy instrument should primarily be guided by one rule: that if the product can be made locally, it should be designated for procurement by the State and the broader public sector.
- However, our members note that designation is not always implemented by the municipalities and the SOCs. Consequently, the success story on the Competitive Supplier Development Programme (CSDP) by Eskom and Transnet is limited.





## Designation (2)

- We acknowledge that there may be instances where domestic capacity may be less than stated demand, owing to the contraction or closure of some sectors or in the event of new product ranges.
- In these instances, allowance for imports into state procurement in designated sectors may be granted, after full utilisation of domestic capacity, with the knowledge that the supply deficit would undoubtedly induce expansion investment. It would also ensure competitiveness, given reduced input costs on the back of higher capacity utilisation.
- In many instances, infrastructure investment without designation of products that can be sourced locally will be futile.



# Government communication on matters impacting industry

- The opacity of information and inadequate communication of Government's intentions (per signed memoranda) with investment partners from China (e.g. re plans to build a \$10 billion metallurgical complex (including a stainless steel plant) based in Musina-Makhado SEZ difficult for local industry. All indications are that construction is set to start next year.



# Recommendations for signed memoranda with foreign governments

- Structure all such investments into the manufacturing and other industrial sectors in South Africa and stipulate collaboration or partnership with local businesses. Ensure that there is a documented collaborative process in place between SA and foreign partners, perhaps through a signed Memorandum of Understanding which explicitly prioritises the use of local skills, contractors and engineers and complies with designation of inputs in local projects.
- Develop a verifiable skills transfer arrangement in place and, where the requisite skills are available locally, these should be given preference. Foreign skills should only be sought in case of local shortages of the required skills.



# Recommendations for signed memoranda with foreign governments (2)

- Prioritise local businesses in all construction projects, including Black Economic Empowerment partners to comply with South African rules designed to address racial disparities more than two decades after the end of apartheid.
- The details of the signed memoranda should be made available and project implementation should be transparent and discussed with all stakeholders in the industry with the aim of providing jobs for all South Africans.
- All SA legislation – particularly labour, Broad-Based Black Economic Empowerment (B-BBEE) and Occupational Health and Safety (OHS) regulations – must apply to all construction projects.



# Trade

- Whilst we note the afternoon session on trade, a few remarks are warranted given the impact of uncertainty, particularly vis-à-vis the USA on particular sectors
- While we applaud the efforts of the DTI in securing the tariff exemptions on 161 aluminium and 36 steel products, a challenge remains on how to alert clients in the US to this fact: many clients in the US are unaware of exemptions and may adjust decisions as a result.
- At some point, SA will need to confront the question of what trading relationship will govern post-AGOA.
- Inadequate Nedlac funding to seriously tackle the question.
- Are we making progress on e-commerce, as raised last year?
- Revision of our Trade and Tariff Framework Policy?



# Market access for South African products



**SACU:** Southern African Customs Union

**GSTP:** Global System of Trade Preferences among developing countries

**PTN:** Protocol on Trade Negotiation

Source: SHAFPE, 2018

	South Africa	Australia	New Zealand	Peru	Chile	Argentina	Uruguay
China		Bilateral	Bilateral	Bilateral	Bilateral		
Hong Kong (China)					Bilateral		
India	SACU (Plurilateral)			GSTP	Bilateral GSTP	GSTP Mercosur-India Bilateral	GSTP Mercosur-India Bilateral
Indonesia		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
Japan		Bilateral		Bilateral	Bilateral		
South Korea		Bilateral		Bilateral GSTP PTN	Bilateral GSTP PTN	GSTP	PTN
Malaysia		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral GSTP	GSTP	
Philippines		ASEAN-Australia-New Zealand	ASEAN-Australia-New Zealand	GSTP PTN	GSTP PTN	GSTP	PTN
Thailand		Bilateral ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	GSTP	GSTP	
Vietnam		ASEAN-Australia-New Zealand	Bilateral ASEAN-Australia-New Zealand	GSTP	Bilateral	GSTP	



THANK YOU



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