BUSA COMMENTS ON NATIONAL TREASURY'S POLICY PAPER ON ECONOMIC TRANSFORMATION, INCLUSIVE GROWTH, AND COMPETITIVENESS: TOWARDS AN ECONOMIC STRATEGY FOR SOUTH AFRICA

Introduction

BUSA is a confederation of business organisations, including chambers of commerce and industry, professional associations, corporate associations, and unisectoral organisations. It represents a cross-section of business, large and small, on macro-economic and cross-cutting policies and issues which affect business in all three spheres of government and at the international level. BUSA's function is to ensure business plays a constructive role in economic growth, development and transformation, and to ensure an environment in which business can thrive, expand and be competitive. As the principal representative of business in South Africa, BUSA conveys the views of its members in various national structures and bodies, both statutory and non-statutory.

BUSA welcomes the opportunity to comment on National Treasury's Economic Policy Paper entitled "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa", published for public comment on 27 August 2019. Given the nature of the document, this submission will be for the most part be limited to comments of a general nature, with BUSA's expectation that future policy pronouncements of a more specific nature will be subject to far more detailed engagements, particularly with the private sector.

General Comments

BUSA is encouraged by the tone of the Policy Paper and agrees with much of the diagnosis outlined, particularly that "South Africa's current economic trajectory is unsustainable". BUSA has argued for some time, and in multiple forums, that the central challenge confronting South Africa is inadequate economic growth, which renders the addressing of South Africa's myriad socio-economic challenges notoriously difficult. South Africa's economic growth rates in recent years have appreciably lagged global GDP growth (both emerging and developed economies), suggesting that the causes of low growth are largely domestic. BUSA views it as self-evident, in light of the above, that "the government should urgently implement a series of reforms that can boost South Africa's growth in the short term, while also creating the conditions for higher long-term sustainable growth". Clearly, something has to change in government's fundamental approach to the economy if South Africa's economic trajectory is to be rectified. For this reason, **BUSA applauds Treasury's innovative thinking and willingness to systematically, holistically and directly confront the policy inertia constraining economic growth, as well as the refreshingly pragmatic and unideological approach of the document. This signals to Business that government is escaping set paradigms to develop workable solutions for unlocking economic growth. BUSA is also encouraged that the National Development Plan (NDP) serves as a starting point to outline the key themes covered in the Policy Paper. BUSA has previously endorsed the NDP and has consistently called for its implementation.** The Policy Paper is therefore a useful starting point – following appropriate consultation with affected sectors on the specificities of the growth-enhancing reforms required – for a more detailed implementation plan. BUSA would therefore urge Treasury, and government more broadly, to prioritise further consultation with the private sector and the urgent actioning of reforms (i.e. implementation).

Specific comments

Timeframes for comment

Although BUSA welcomes the Policy Paper, we note the relatively short public comment period has constrained the ability of certain sectors (including those that would be directly impacted by certain of the Paper's proposals) to extensively comment. For this reason, more detailed engagements at a sectoral level will be required, which would ideally include both Treasury and relevant line departments.

Property Rights

In the context of the discussion on the role of agriculture in promoting labour-intensive growth (4.1. of the Policy Paper), BUSA supports Treasury's view (on page 39) that "to mitigate the uncertainty that may be generated by a comprehensive approach to land reform, it must be managed in a manner that is transparent, consultative, and within a broad framework to ensure that factors critical to ongoing investment in agriculture and food security, such as the security of private property rights, are respected throughout the reform process." BUSA has previously argued that the legacy of land and property ownership in South Africa continues to be an obstacle to transformation, economic growth and social development, and that our country's unique history of dispossession and current challenges of poverty, inequality and unemployment require a strengthening and spreading of ownership of property, including land, to address these structural imbalances. Furthering land reform whilst entrenching property rights is a critical challenge that will need to be successfully met to ensure economic growth. In view of this, policy certainty will be essential and interventions such as the Expropriation Bill, 2019 will need to tighten up areas (such as clause 12(3) outlining instances in which nil compensation may be paid) that inadvertently introduce policy uncertainty, thereby undermining investment and growth.

<u>The impact of criminality and governance failings</u>

The Policy Paper is silent (apart from a reference to the Tourism Safety Initiative) on an area that, as the widespread and widely reported spate of criminality and xenophobia this very month has demonstrated, significantly affects the day-to-day functioning of businesses, business confidence and South Africa's international reputation. According to reports from BUSA's members, the consequences of the aforementioned acts of illegality are – in light of the limited success of the criminal justice system thus far in addressing the matter – beginning to have a negative impact on the entirety of impacted value chains, leading to job losses, disinvestment in the local economy and long-term loss of capacity in affected sectors. Small businesses, a key contributor to the reform effort outlined in the Policy Paper, appear disproportionately affected. The recent experiences of corruption in both the public and private sector are another prominent manifestation of criminality that severely undermines the social compact. Without confidence in the ability of government to enforce the rule of law and provide a safe, secure and enabling environment for business to operate in, business and investor confidence will inevitably erode, with predictable consequences for the economy and social cohesion.

While not specifically the purview of Treasury, failure to address the underlying causes and manifestations of criminality may contribute to derailing Treasury's attempts to effect an economic turnaround. BUSA suggests that the Policy Paper acknowledge the risks associated with the impact of criminality and engage the criminal justice system on a credible plan to address the scourge of criminality.

The fundamental governance failings that have led to the above, although wider in origin and impact, need to be addressed as a matter of urgency. Transparency and accountability are essential for the rule of law as well as confidence in the future of the country. **Good governance must therefore become a key priority for government**. The restoration of confidence in government is not merely a political priority but increasingly an economic one in its own right.

Visas

BUSA wholeheartedly supports the Policy Paper's statement that "the process of reviewing and amending South Africa's visa regulations should be prioritized". BUSA has been disappointed at the slow pace of efforts to ease visa regulations whilst noting the change in rhetoric from government in recent months. In terms of easing regulations for skilled professionals, BUSA supports this as an important short-term measure to boost growth alongside longer-terms structural changes to South Africa's skills and education landscape. Multinational companies, in particular, compete not only with other companies but also internally to attract top talent, and South Africa's notoriously onerous visa regulations make it difficult for multinationals based in South Africa to compete in this respect.

Electricity: planning, pricing, and Eskom's sustainability

BUSA has for some time argued that the current model of a vertically integrated, state-owned monopoly electricity utility is increasingly out of step with global trends and arguably the major risk to South Africa's fiscal sustainability. Of the utmost importance in the initial stabilisation of the energy sector is the finalisation of a least-cost Integrated Resource Plan, currently at Nedlac. The restructuring of Eskom needs to be considered in the broader context of a holistic evaluation of the energy sector and electricity supply industry. A review of Eskom's capital model, operating structure and tariff regime where demand can be maximised and costs minimised is urgent. In this regard, BUSA is largely encouraged by Treasury's comments in the Policy Paper.

Generally, the focus of the paper on infrastructure services is important. Energy, water, transport and communications are inputs into virtually all business activities and therefore contribute to the foundations of competitiveness. Reliable supply at competitive prices of these inputs has to be a priority. If this is not the case, the Department of Trade, Industry and Competition's ambitions to reimagine industrial development cannot bear fruition. Addressing challenges in these sectors should be the first priority of a new industrial and agricultural policy. The Sector Master Plans currently in conceptualisation will not achieve their objectives or potential without this. **However, the Policy Paper is not clear on sequencing.** Although we face a myriad of interconnected challenges, prioritisation and sequencing is vital. **In this context, addressing the unique problems posed by Eskom is perhaps the priority industrial policy intervention for South Africa at the current juncture.** Addressing the financial challenges posed by other under-performing SOEs would need to follow soon thereafter, and given current fiscal constraints, transparent and public consideration needs to be given to the partial or full privatisation of SOEs, or indeed the outright disposal or closure of non-core, non-strategic assets by the State.

Macroeconomic policy

BUSA supports Treasury's view that "low and stable inflation and a more sustainable fiscal trajectory reduces uncertainty, lowers borrowing costs across the economy, anchors returns expectations for investments and increases business confidence—all of which boost productivity." Recent high-profile debates around related matters such as the independence of the Reserve Bank have not been helpful in reassuring the investment community of South Africa's commitment to macroeconomic stability; nor has South Africa's steadily increasing debt-to-GDP ratio. Although BUSA is encouraged by Treasury's comments in the Policy Paper, demonstration of South Africa's ability to deliver on fiscal consolidation and stand firm on pressures to undermine the Reserve Bank's independence will be critical for the success of the growth trajectory.

Trade policy

The Policy Paper's focus on trade and trade policy is important. The promotion of exports and increasing export capacity is critical, as is a smart import strategy. Appraising South Africa's current trade strategy (last updated in 2012), both in terms of its substantive scope and our strategic partnerships, should be a key priority for government. Although the links between trade and industrial policy are recognised, important gaps seemingly remain. An example of this is that South Africa does not yet have a trade in services strategy. This is alarming given that services are not only important as tradeable (evidenced by the commercial presence established by many South African services suppliers across the

African continent) but are also integral to the export of goods. The role of South Africa's logistics, wholesale and retail distribution suppliers across the continent in taking agricultural and industrial exports to these markets provides ample evidence of these linkages. Services are therefore essential to trade facilitation. Given that more than two-thirds of South Africa's GDP is accounted for by services, the lack of a trade in services strategy is incomprehensible. Furthermore, the services sectors in the domestic context offers significant opportunities for innovation, diversification and transformation, especially for youth. Services sector development and regulatory reform should therefore be correspondingly high on the agenda.

Red tape

Treasury's comments around the reduction of "red tape" and the possible reintroduction of the Red Tape Impact Assessment Bill are encouraging in view of the recognition that costs of compliance with unduly onerous, burdensome, unnecessary or counter-productive regulation is a significant constraint on businesses and therefore economic growth.
Any reduction of time consuming and costly compliance procedures will pave the way for greater productivity in companies, which in turn will provide an impetus for investment and job creation. The comments are therefore welcomed. BUSA believes "smart regulations" should meet the following criteria:

- Its object and purpose must be clear and unambiguous
- It must maximize efficiency and effectiveness
- It must reduce the cost of doing business
- It must minimize unnecessary burden, complexity and duplication

A key question that remains is whether the existing impact assessment system (the Socio-Economic Impact Assessment System (SEIAS)) can be adapted to satisfactorily address red tape.

Socio-Economic Impact Assessment (SEIAS)

A noteworthy shortcoming of the Policy Paper is the absence (excepting a cursory reference to the possibility of including competition issues in SEIAS) of any discussion on the potentially significant role to be played in positively impacting regulation by the SEIAS process. While BUSA acknowledges a number of shortcomings in the current SEIA system, the system has significant potential to serve as a check on policy and draft legislation in the crucial stage before public consultation and implementation. With the right amendments in terms of quality control and more stringent consultation requirements, BUSA believes that the SEIA system is an important and valuable addition to the regulatory process. At present, there is a large discrepancy in the quality of SEIAS produced by government departments (with an apparent tick-box approach frequently predominating) and the efforts invested in consulting key stakeholders, most notably business. A possible solution would be for an explicit requirement to formally and extensively engage the private sector in the SEIAS to be introduced. An implicit assumption in the policy paper, which BUSA would unequivocally endorse, is that (notwithstanding the importance of government in creating optimal conditions) the private sector is the engine of investment, innovation, revenue, growth and job creation. As such, the success of government policy in creating optimal conditions for the private sector to expand and be globally competitive is of central importance to South Africa's social priorities. The SEIAS could conceivably be adapted to serve these ends, and BUSA urges Treasury to more fully explore the possibilities presented by the SEIA system.

Conclusion

BUSA is encouraged by Treasury's Policy Paper and the important statement of intent therein. Following further consultation with specific sectors, the private sector generally and other key stakeholders, the Policy Paper holds significant potential to serve as a blueprint for a much-needed reform agenda. Of perennial concern to business however is the lack of alignment and consistency within government, as well as the lack of implementation of growth-enhancing reforms, even where these have widespread social acceptance. BUSA therefore urges government to collectively support and give impetus to Treasury's efforts to place South Africa on a sustainable economic trajectory that recognises the role of the private sector in generating the growth, revenue and employment required to deliver the socio-economic development required.

Yours Sincerely,

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