

# ECONOMIC TRANSFORMATION

## FOR A NATIONAL DEMOCRATIC SOCIETY



### INTRODUCTION

1. The 52nd National Conference of the ANC will provide an important opportunity for our movement to engage with the challenges of economic transformation. The conference will adopt a resolution on the economy, which must constitute a broad framework, giving our movement clear strategic direction for the remaining years of the second decade of freedom. The resolution should provide enduring and useful guidance for the ANC as a whole, but in particular for those cadres we deploy in government to implement policy and develop tactical responses to a dynamic and constantly evolving economic situation.
2. The conclusions we reach in December must therefore be informed by the widest possible input from our people. Members of the ANC – through open discussion in their branches, regions and provinces – as well as the structures of the Alliance and the broad democratic movement must all make a contribution to this important debate. By building a broad consensus on economic strategy we can confront the challenges we face with confidence, as a united movement with a clear vision of the road ahead.
3. This document intends to provide a basis for these discussions. The first section reviews the ANC's strategic perspectives on the economy. The next section considers the role of the developmental state in economic transformation. The third section identifies some of the constraints to accelerated growth and discusses the industrial strategies we require to transform our economy. The last section looks at the campaign against poverty and unemployment.

### A STRATEGIC PERSPECTIVE ON ECONOMIC TRANSFORMATION

4. The achievement of democracy in 1994 provided South Africans with the opportunity to pursue economic growth, development and redistribution so as to achieve a better life for all. Yet we are only at the beginning of a long journey towards a truly united and democratic country. Likewise, we are only

at the start of an historic transformation of the South African economy; a transformation which aims to realise the Freedom Charter's vision of a society in which the *People Shall Share in the Country's Wealth!*

5. Our vision of the economic base of a National Democratic Society is characterised by:
  - a) A thriving and integrated economy that draws on the creativity and skills that our whole population can offer, building on South Africa's economic endowments to create employment opportunities for the benefit of all.
  - b) An economy in which increasing social equality and economic growth form a virtuous cycle of development, which progressively improves the quality of life of all citizens, rolls back the frontiers of poverty and frees the potential of each person.
  - c) An economy in which national prosperity is ensured through innovation and cutting-edge technology, labour-absorbing industrial development that creates decent work for all, a thriving small business and cooperative sector, the utilisation of information and communication technologies and efficient forms of production and management.
  - d) An economy in which the socio-economic rights of all are progressively realised, including through fair labour practices, social security for the poor, the realisation of universal access to basic services and ongoing anti-poverty campaigns that promote the economic integration of all communities.
  - e) A mixed economy, where state, cooperative and other forms of social ownership exist together with private capital in a constructive relationship, and where democracy and participation lead to growing economic empowerment.
  - f) An economy that is connected to the world, benefiting from vibrant trade with North and South, in a fair and equitable global trade regime, and which is an integral part of a balanced regional

economy that contributes to the growing prosperity of Africa.

- g) A sustainable economy where all South Africans, present and future, realise their right to an environment that is not harmful to their health or well-being.
6. Economic transformation in pursuit of this vision forms the fundamental basis upon which the National Democratic Revolution (NDR) depends. The symbiosis between political oppression and the apartheid capitalist system was so strong that, if decisive action is not taken to deal with economic subjugation and exclusion, the essence of the apartheid system will remain, with a few black men and women incorporated into the courtyard of privilege. The old fault lines will persist, and social stability will be threatened. Without a fundamental transformation of economic relations the very democracy for which so many sacrificed could be placed in jeopardy.

#### **Economic policy in the first decade of freedom**

7. In overall terms the ANC's economic policy stances are both comprehensive and correct, and these perspectives have remained consistent throughout the era of liberation. At the same time, our tactical approach has evolved in response to changing and dynamic economic conditions.
8. The document *Ready to Govern* – adopted at a National Policy Conference in 1992 – provided the foundation for the economic policy agenda of the ANC-led government. *Ready to Govern* framed economic policy around the need for a new path of growth and development aimed at building a strong, dynamic and balanced economy. Some of the key elements of the programme were:
- Redistribution to meet the basic needs of our people, giving priority to basic services (such as water and electricity), access to land, affordable housing and other social infrastructure and health, education and basic social security, and redirecting government expenditure towards meeting these social needs.
  - Coordinating fiscal, monetary and exchange rate policy so as to provide a stable macro-economic framework to foster sustainable growth. Amongst other things, the document called on the democratic state to exercise fiscal discipline in order to avoid inflation.
  - The reintegration of South Africa into the world economy through the enhancement of trade and investment relations, including a trade policy aimed at raising

the level of productivity and improving the competitiveness of producers.

- The adoption of international conventions and recommendations on labour market policy as a basis for a stable, equitable and effective collective bargaining system.
  - The introduction of anti-monopoly, anti-trust and mergers policies in accordance with international norms and practices to curb the continued domination of the economy by a minority within the white minority and promote greater efficiency in the private sector.
  - A rural development policy giving emphasis to generating a viable and productive rural economy through activities such as agro-industry.
  - The restructuring of financial institutions in order to transform power relations, build the capacity of oppressed communities, and channel resources towards productive investment.
9. These perspectives were further elaborated in the Reconstruction and Development Programme (RDP). The central and most fundamental message of the RDP was that economic strategy cannot be seen in isolation from an overarching development framework, and that growth and redistribution should form part of a single integrated programme:
- “The RDP is based on reconstruction and development being parts of an integrated process. This is in contrast to a commonly held view that growth and development, or growth and redistribution are processes that contradict each other. Growth – the measurable increase in the output of the modern industrial economy – is commonly seen as the priority that must precede development. Development is portrayed as a marginal effort of redistribution to areas of urban and rural poverty. In this view, development is a deduction from growth.
- The RDP breaks decisively with this approach. If growth is defined as an increase in output, then it is of course a basic goal. However, where that growth occurs, how sustainable it is, how it is distributed, the degree to which it contributes to building long term productive capacity and human resource development, and what impact it has on the environment, are crucial questions when considering reconstruction and development. The RDP integrates growth, development, reconstruction and redistribution into a unified programme.” [Clause 1.3.6]
10. Both the RDP and *Ready to Govern*, which were adopted at the 49th National Conference of the ANC (held in Bloemfontein in 1994), elaborated a clear framework for macro-economic policy. The RDP argued

that:

“... government policy and mechanisms of raising finance are crucial to the success of the RDP. If they were to cause excessive inflation or serious balance of payments problems they would worsen the position of the poor, curtail growth and cause the RDP to fail. Government contributions to the financing of the RDP must, therefore, avoid undue inflation and balance of payments difficulties. *In the long run, the RDP will redirect government spending, rather than increasing it as a proportion of GDP.*” [Clauses 6.5.3, emphasis added]

11. Whilst the ANC had elaborated a clear strategic perspective on macro-economic policy, the details of our tactical positions were – correctly – left to those deployed in government, who had to respond to an evolving and complex environment. In February 1996, a large and unplanned exchange-rate depreciation threw macro-economic policy into the spotlight. It was concluded that an uncoordinated response would cause further crisis, leading to a contraction of the economy, loss of jobs and possibly threatening to destabilise our programme of reconstruction and development. In response, government developed the Growth, Employment and Redistribution strategy (GEAR), which was made public in June 1996.

12. The 50th National Conference of the ANC (Mafikeng, December 1997) pronounced as follows in respect of the macro-economic framework:

“Conference reaffirms that our macroeconomic framework policies must be directed to advancing the RDP. We are not pursuing macro balances for their own sake, but to create the conditions for sustainable growth, development and reconstruction. The strategy for Growth, Employment and Redistribution (GEAR) is aimed at giving effect to the realisation of the RDP through the maintenance of macro balances and elaborates a set of mutually reinforcing policy instruments.

Conference confirms that taken together these packages of policies are designed to build the economy in the manner envisaged in the RDP, and generate the levels of sustainable growth and job creation which is the key to the transformation project which the ANC has embarked on.

The Conference endorses the basic objective of macro-economic stability. The GEAR provides a basis for achieving such stability. Like other policies it will be reviewed, monitored and adjusted as required by analysis through the policy processes adopted in this conference and in the Alliance Summit.”

13. At the National General Council (NGC) held in Port Elizabeth in the year 2000, it was noted that significant progress had been made in the economy since the Mafikeng Conference. The report of the NGC says

that, “in the area of macro-economics the ANC government faced some difficult choices in its first six years and was bold enough to make tough decisions. As a result we have stabilised the macro-economy”. However, the NGC concluded that “although macro-economic stability remains a necessary condition for growth, it is not a sufficient condition for growth, development and job creation. Other more targeted strategies are necessary.”

14. The 51st National Conference (Stellenbosch, December 2002) reiterated the details of these strategies and called on our movement “to assume a collective responsibility to advance and strengthen the interdependent and mutually reinforcing pillars of sustainable development – economic growth, social development and environmental protection – a local, national, regional and global level”
15. The NGC of 2005 held extensive discussions on the problems of development and underdevelopment. The NGC concluded that: “The central challenge our movement faces in the Second Decade of Freedom is to defeat poverty and substantially reduce the level of unemployment. This means that the ANC and Government must produce a coherent development strategy. Elements of this would involve identifying where we need to move to and what strategic leaps we need to get there.”

#### **A programme for the second decade of freedom**

16. Our 2004 election manifesto recommitted our movement to the objectives of a better life for all and outlined a concrete set of economic policy objectives for the Second Decade of Freedom. The manifesto identified a number of important targets and objectives making up a vision for 2014, including:
  - Reduce unemployment by half through new jobs, skills development, assistance to small businesses, opportunities for self-employment and sustainable community livelihoods.
  - Reduce poverty by half through economic development, comprehensive social security, land reform and improved household and community assets.
  - Provide the skills required by the economy, build capacity and provide resources across society to encourage self-employment with an education system that is geared for productive work, good citizenship and a caring society.
  - Ensure that all South Africans, including especially the poor and those at risk – children, youth, women, the aged, and

people with disabilities – are fully able to exercise their constitutional rights and enjoy the full dignity of freedom...

- Position South Africa strategically as an effective force in global relations, with vibrant and balanced trade and other relations with countries of the South and the North, and in an Africa that is growing, prospering and benefiting all Africans, especially the poor.”

17. In 2006 government announced the Accelerated and Shared Growth Initiative (Asgi-SA), which constituted a programmatic response to the Manifesto’s objectives. Asgi-SA consists of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth. The programme states that:

“Government’s investigations, supported by some independent research, indicate that the growth rate needed for us to achieve our social objectives is around 5% on average between 2004 and 2014. Realistically assessing the capabilities of the economy and the international environment, we have set a two-phase target. In the first phase, between 2005 and 2009, we seek an annual growth rate that averages 4.5% or higher. In the second phase, between 2010 and 2014, we seek an average growth rate of at least 6% of GDP.

“In addition to these growth rates, our social objectives require us to improve the environment and opportunities for more labour-absorbing economic activities. More broadly, we need to ensure that the fruits of growth are shared in such a way that poverty comes as close as possible to being eliminated, and that the severe inequalities that still plague our country are further reduced.”

### **Successes and challenges in the era of liberation**

18. While the ANC’s approach to economic policy has been remarkably clear, comprehensive and consistent, economic outcomes in the era of liberation paint a mixed picture. Obviously, we have not approached our goals in conditions of our own making and the outcomes we see are partly the consequence of objective factors, beyond our control. The apartheid growth path could not be wished away or changed in an instant and the challenges posed by the global conjuncture could not but have important consequences for the pace and content of transformation.
19. Nevertheless, where positive or negative outcomes are clearly the result of our policy choices, these should be clearly identified so that we can build on our strengths and address our weaknesses. In other words, it is important that we develop a common perspective on the achievements and challenges of economic policy in the era of liberation.

Such a debate will enable us to reach agreement on which aspects of economic strategy we wish to reinforce and where we would like to see change.

20. Looking back over the period since 1994, we can be justly proud of the following achievements:
- a) We have created conditions for the longest expansion of the South African economy in recorded history. There have been eight years of consistent economic growth, even in the context of an ambitious programme of economic, political and social transformation as well as global economic turbulence. Whilst the rate of growth was disappointing the first years of freedom, since 2004 it has picked up, averaging over 4.5%, with predictions of even higher growth in the coming years.
  - b) Whilst still unacceptably high, unemployment has begun to decline. The first years of freedom saw a continuation of employment shedding in the formal sector, which had begun in the 1970s and gathered pace in the 1980s. However, since 2004 the number of employed people has been increasing by about half a million each year. Consequently, the unemployment rate has declined from over 30% of work seekers to 25%.
  - c) Declining unemployment levels, the extension of social security and basic infrastructure (including water and electricity) and the distribution of assets to the poor (such as land and housing) have led to a significant reduction in the level of severe poverty and improvements in the quality of life for millions of our people.
  - d) We have achieved a level of macro-economic stability not seen in four decades. Government debt is down from over 40 per cent of GDP to about 28 per cent. This means that greater resources are available for our social and investment programmes. Both inflation and nominal interest rates are at their lowest levels since the early 1970s.
  - e) The rate of investment has climbed from 14% of GDP in 1994 to 19% today, and further growth is expected in the coming years. This is due to increases in both public sector and private sector investment, and will generate new cycles of economic growth and job creation into the future.
  - f) Millions of formerly oppressed black South Africans have broken through the glass ceiling of apartheid. The strong

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and sustained growth of the black middle strata is driving a sustained boom in the economy and also lessening the degree of economic inequality in South Africa.

21. However, we also continue to face significant challenges:

- a) Of those seeking work, 25% are unable to find a job. By this measure, South Africa's rate of unemployment is much higher than in similar economies in other parts of the world. If we include discouraged workers, who have stopped looking for work, the proportion of our people without jobs is higher than 35%.
- b) About one third of our people live in poverty, which is concentrated in townships, informal settlements and former Bantustans. At the moment we have no official poverty line, and by some measures poverty is even greater.
- c) Our economy still generates unacceptable levels of inequality – including unequal incomes, unequal ownership of assets and unequal access to services – which will pose ongoing challenges to social cohesion and the sustainability of our growth path.
- d) Our cities and urban spaces remain scarred by the legacy of residential segregation, with the poor living far from the economic centres. Poor public transport further isolates people inside dormitory townships with little prospect of employment.
- e) Crime impacts on the lives of all South Africans with the biggest victims remaining those who live in poor, dense urban settlements. In addition it has a direct impact of the growth of businesses, particularly small and medium enterprises. The negative perceptions associated with crime also deter investment.
- f) In some areas, government continues to deliver services that are of a poor quality. In particular, the challenge of fully developing the potential of our people and broadening the opportunities available to them continues to confront us.
- g) In some areas, the private sector has responded sluggishly to the opportunities presented by economic transformation. Supply shortages in important sectors, points to a market which is failing to realise its full potential to grow the economy and create employment.

22. Looking back, we can conclude that major

improvements had been registered at the turn of the Second Decade of Freedom in terms of the economy's rate of labour-absorption and the generation of self employment. But these have not yet matched the needs of society. The era of liberation witnessed an historically unprecedented expansion of the South African labour force. New freedoms – including freedom of movement, access to education, growing gender equality and the rapid erosion of all manner of legal and customary impediments – led millions of the formally excluded to seek work. Over the era of liberation, therefore, participation in the labour force by Africans, particularly African women, grew much faster than the number of jobs created by the economy.

23. On the one hand the restructuring of the economy has resulted in higher levels of competitiveness and better access to world markets. However, a tendency has also developed in the period since 1994 for the informalisation of jobs, casualisation and contracting out; a significant minority of workers now have such 'atypical employment'. While the achievement of democracy has resulted in a better regime for workers rights and created growing momentum towards the creation of employment, these tendencies towards atypical employment have somewhat undermined the quality of jobs, job security and union organisation. At the same time, while the achievement of macro-economic balance has released huge resources for social and economic expenditure by government, this has not translated into rates and quality of investment needed to deal with the legacy of apartheid.
24. The progress made since the attainment of democracy is such that we are still some way from our vision of the economic base of a national democratic society. The ownership and control of wealth and income, the poverty trap, access to opportunity and so on are, are all in the main defined, as under apartheid, on the basis of race and gender.
25. Reviewing these achievements and challenges reinforces the view that the basic economic tasks of the NDR must remain the same – the eradication of the socio-economic legacy of apartheid, the creation of employment and the defeat of poverty. This will require all South Africans to work together in a united effort. Nevertheless, the state – led by the ANC – has a critical role to lead economic development, and we now turn to the challenge of building a developmental state as an instrument of economic liberation.

## SUMMARY OF KEY POINTS

1. The achievement of democracy in 1994 provided South Africans with the opportunity to pursue economic growth, development and redistribution so as to achieve a better life for all. Yet we are only at the beginning of an historic transformation of the South African economy; a transformation which aims to realise the Freedom Charter's vision of a society in which the People Shall Share in the Country's Wealth!
2. The symbiosis between political oppression and the apartheid capitalist system was so strong that, if decisive action is not taken to deal with economic subjugation and exclusion, the essence of the apartheid growth path will remain.
3. The ANC's economic policy stances are both comprehensive and correct, and have remained consistent throughout the era of liberation. The critical challenge we now face is not the elaboration of an entirely new policy paradigm, but the identification of critical interventions that will enable us to accelerate implementation. Nevertheless, there must always be room to refine and improve our policy stances on the basis of a clear analysis of the lessons learnt and challenges posed in the course of past implementation.
4. The economic outcomes of the era of liberation paint a mixed picture. Major improvements had been registered at the turn of the Second Decade of Freedom. But these have not matched the needs of society. In part, these outcomes are a result of objective factors, beyond our control. On the other hand, where positive and negative outcomes are clearly the result of our policy choices, these should be clearly identified so that we can reach consensus on which aspects of economic strategy we wish to reinforce and where we would like to see change.
5. We are still some way from our vision of the economic base of a national democratic society. The ownership and control of wealth and income, the poverty trap, access to opportunity and so on are, in the main defined, as under apartheid, on the basis of race and gender. The basic economic tasks of the NDR must remain the same – the eradication of the socio-economic legacy of apartheid, the creation of employment, the defeat of poverty and the drastic reduction of inequality.

## QUESTIONS FOR DISCUSSION

- a) What are the main economic successes in the era of liberation?
- b) What are the most important challenges that face us today?
- c) Do the ANC's strategic perspectives on economic transformation remain correct? Are the policy stances and resolutions of our past conferences appropriate for the challenges we now face?
- d) Which aspects of economic strategy do we wish to reinforce and where we would like to see change?
- e) What are the most important interventions that will enable us to accelerate implementation and realise our objectives?

## BUILDING A DEVELOPMENTAL STATE AS AN INSTRUMENT OF ECONOMIC LIBERATION

### The developmental state and the market economy

26. The economics of the public and private sectors and their interaction is not a simple matter that can be resolved by fixed ideological schemes. At each stage of development, new challenges and problems are encountered; unfamiliar choices and policy considerations must be addressed. The questions posed by the current development of the economy, particularly in the context of economic globalisation, cannot necessarily be answered by the lessons of past experience.
27. Nevertheless, it remains true that throughout history and in all societies the state has played a fundamental and decisive, albeit

changing role in shaping the structure and output of the economy. To do so, states have used a wide variety of instruments and policies to, including the regulation of industry and trade, the redistribution of incomes and assets, the use of fiscal and monetary policies and direct state ownership of the means of production. In the twentieth century, the developing countries that succeeded in promoting industrialisation, sustained growth and development have all had in common developmental states that played a leading role in infrastructure development programmes and which had an active industrial strategy.

28. The national democratic society that we envisage requires a market that is as efficient as possible; a market that is shorn of the racial and gender exclusions that characterised apartheid colonialism and freed from

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the barriers to entry and competition that the economy endured under colonial capitalism.

29. But our approach to economic transformation proceeds from the understanding that the changes we seek will not emerge spontaneously from the 'invisible hand' of the market. People acting collectively in the spirit of human solidarity must shape the contours of economic development. In this process the state must play a central and strategic role.
30. Therefore, a national democratic society requires a state that is able to use a variety of strategic capacities to shape the development of the economy. The NDR seeks to build on the best traditions of a developmental state, represented by an efficient state that guides national economic development by mobilising the resources of society and directing them toward the realisation of common goals. It also seeks to build on the best traditions of social democracy, represented by popular democracy which places the needs of the poor and social issues such as decent work, social solidarity, health care, education and a social safety net at the top of the national agenda.
31. Building a state which can act in a truly developmental way, which can play a leading and strategic role in shaping the economy, is not an easy or simple task. It requires hard work and ongoing assessment of the attributes and capabilities that we need, and adjustments to the institutional arrangements that will help build them. In other words, we cannot simply proclaim the existence of a developmental state: it must be painstakingly constructed. Building on the democratic state that we have constructed over the last ten years and more, our movement must pay particular attention to building the strategic, organisational and technical attributes of our national democratic state.

#### **Strategic capacity of the developmental state**

32. The strategic capacity of the developmental state is its ability to lead in the definition of a common national agenda, mobilise all of society to take part in the implementation of this agenda and direct society's resources – including those of the state and private and social capital – towards this shared programme.
33. In many international cases, the developmental state's strategic capacity has been fostered in the context of a high degree of integration between business and government, a relatively homogenous society (without strong religious, racial or ethnic) and a powerful and dominating state apparatus,

where democratic rights are often sacrificed at the altar of developmental priorities.

34. The South African developmental state has different advantages and challenges. While we seek to engage private capital strategically, in South Africa the developmental state must be buttressed and guided by a mass-based, democratic liberation movement in a context in which the economy is still dominated by a developed, but largely white, capitalist class. We are also operating in a complex and heterogeneous society, in which building social cohesion is both an end in itself and a necessary condition for economic development.
35. In this context our commitment to a democratic approach in shaping economic development is both a fundamental principle of our movement and a necessary condition for accelerated and shared growth. Indeed, the starting point of the state's strategic capacity is its ability to build on popular legitimacy, deriving from the state's democratic nature.
36. As a multi-class movement, the ANC is required to master the science and art of crafting long and short term common platforms to ensure that all the motive forces of the NDR move in the same direction. We do acknowledge that, at times, the narrow self interest of a particular class and stratum or group may not necessarily coincide with that of other classes and may, in some instances, even be contradictory. Based on this perspective, it is the role and duty of the ANC to formulate a common national vision for development, which is biased towards the needs of the poor.
37. The realisation of our developmental objectives requires us to build a people's contract around which various social forces can unite. A social compact of this nature would be led by the developmental state, but require compromises from all sides. It is a partnership that must be built around united action: the mobilisation of resources and energy in support of clearly defined implementation programmes, rather than abstract ideological unity that is, in any case, likely to be elusive.
38. The maturity of the developmental state's strategic capacity will be evident in how we approach these democratic challenges. We must conduct a thorough assessment of the lessons of the various summits and institutions that aim to build the people's contract. A number of high level discussion and forums have resulted in strategic agreement, but we have not been able to ensure the consistent implementation of detailed programmes. The developmental state must begin to play a much stronger role in estab-

lishing clear, measurable and time-bound targets for common programmes, and monitoring their implementation.

### **Organisational and technical capacity of the developmental state**

39. The second attribute of the developmental state is its organisational capacity: ensuring that the structures and systems of the state do facilitate the realisation of the agenda we have set. In order to realise its leadership role the developmental state must have internal cohesion and integrity.
40. In this regard, the issues of macro-organisation of the state must continue to receive attention, including the allocation of responsibilities across the spheres of government. As part of the debate about the appropriate governance model for provincial and local government, issues around the ability of the state to lead economic development must come to the fore.
41. A strengthened role for the central organs of state will be an important part of building the organisational capacity of the developmental state. Further work is required to create an institutional centre for government-wide economic planning. Such a centre should have the necessary resources and authority to ensure that long and medium term economic planning is conducted and implemented. In other words, within the context of a democratic mandate giving rise to a people's contract, it is vital that we build the capacity of the centre to determine the direction of transformation (as part of a harmonised inter-governmental plan) as well as the pace of transformation (as part of a synchronised programme of implementation).
42. Another area that requires further work is the macro-structure of ministries, portfolios and departments, which have not been fundamentally altered during the era of liberation. The question needs to be posed as to whether portfolios are structured in the best way to deliver the results we need.
43. The developmental state's technical capacity concerns its ability to translate broad objectives into programmes and projects and to ensure their implementation. Economic growth and development require an improvement in the overall quality and reliability of government services, from sewerage and waste disposal, to electricity generation, to spatial planning. Effective capacity to carry out the core functions of the state, including the provision of economic and social services will be an important determinant of the implementation of our transformation programme.
44. Another important part of technical capacity is the state's capacity to plan and monitor the implementation of its programmes. The creation of a common framework for government planning across all three spheres is an important task. Whilst the legislative and policy instruments are in place (including the Municipal Integrated Development Plans), far more work is needed to align and harmonise planning and implementation through effective and well-managed inter-governmental relations.
45. All of these tasks require a stronger emphasis on the state's human capacity to carry out its work. Amongst the critical factors that should be considered are:
  - Establishing uniform and high entrance requirements and standards of employment in the public service.
  - Ensuring better training of currently employed public servants.
  - Developing better recruitment and retention strategies for the public sector, and reducing the extent of 'job-hopping'.
  - Emphasising professional skills, rather than political connections in the appointment of public servants.
  - A special focus on building the technical capacity of the state to engage with and understand the dynamic economic and institutional developments within critical sectors of the economy.
  - Ensuring adequate numbers of personnel to ensure delivery, particularly in the case of front line staff in areas such as health, education and policing.
46. Whilst building the requisite technical capacity amongst the managers and other state professionals we should also pay attention to the mobilisation of state workers as a cadre for development. In part this concerns the mindset and values of both public representatives and appointed officials, which should clearly take on board the principles of *Batho Pele*. It also concerns the ability of the state to mobilise this cadre around a common programme.
47. Another critical aspect of the state's organisational and technical capacity will be our ability to ensure consistency and continuity of policy regardless of the personnel deployed to implement decisions in a particular portfolio or sphere. In this regard, the ANC must have the ability to ensure that its policies – and not the whims or pet projects of individuals – are the determining factor in a transparent, reliable and predictable policy framework.

### The role of state-owned enterprises

48. As we noted above, the state has a variety of instruments and strategies to influence the shape of economic development. One of these is state ownership and control of public enterprises. The RDP called for the 'balance of evidence' to guide economic policy decisions, including on the increase of the public sector in some areas to give effect to strategic goals through appropriate institutions, or its reduction in other areas to enhance efficiency or other objectives.
49. Given South Africa's current challenges, the developmental state should maintain its strategic role in shaping the development of a number of key economic sectors, including through continued ownership of State Owned Enterprises (SOE's). These sectors include the energy complex and the national transport and logistics system, where an ongoing strategic role is envisaged for Eskom and Transnet. We should consider the best means to enhance the strategic role of these and other public enterprises, utilities and agencies across all spheres of government.
50. Public sector institutions which control and allocate capital also contribute directly to the economic and social objectives of the developmental state. These include the state's development finance institutions (such as the IDC or Umsobomvu), social investment institutions (such as the PIC and union-based pension funds) and regulatory agencies. These need to act in concert to back our overarching developmental approach, particularly as it relates to employment creation, the transfer of resources from the first to the second economy, the objectives of broad-based BEE, as well as the industrial strategy objectives we set in relation to particular economic sectors.
51. Whilst playing a strategic public role, SOE's must continue to be dynamic, adaptable, commercially viable and financially sustainable. Indeed, their ability to raise capital on global markets is central to their strategic public role, and this depends on their adherence to well-established financial and accounting norms.
52. However, although SOE's must operate efficiently within the market, the rules they follow are not determined by the logic of the market place alone. The public enterprise cannot act solely in order to maximise profit: if this were the case it would be indistinguishable from a private enterprise. On the contrary, the SOE should have a clear public strategic purpose. This requires active and effective regulation on the part of the government and SOE participation in the formulation and implementation of economic and

industrial policies.

### Infrastructure investment programme

53. The most immediate challenge facing the developmental state is the implementation of our ambitious infrastructure investment programme, which will test its organisational, technical and strategic capabilities. Our ability to ensure that the infrastructure programme acts as a catalyst towards the broader development of the economy will be a critical marker of the progress we are making in building a developmental state that can truly act as an instrument of economic liberation.
54. Amongst the key elements of the investment programme are:
  - Upgrading bulk **water** supply infrastructure and further rollout of basic water and sanitation facilities to the poorest communities.
  - Increasing **electricity** capacity by building coal, hydro and nuclear power stations, and the expansion of transmission capacity.
  - Large investments to upgrade our **transport** infrastructure, including roads, rail and ports.
  - Investments in our **communications** infrastructure, including through measures to improve broadband connectivity
  - Broadening the scope of our **housing** programme, including through the enhancement of the housing subsidy and other measures to improve the quality of social housing and the building of integrated human settlements.
  - Improvements in the infrastructure related to the **2010** soccer world cup.
55. Investments such as these, as well as the work of ongoing maintenance and upgrade of our infrastructure are not a once-off event. At the conclusion of the current investment programme, we will need to develop a further set of investments between 2009 and the conclusion of the second decade of freedom. As such it is critical that we constantly assess the lessons of the current programme and simultaneously develop strategies to improve our implementation in the next phase.
56. The main questions to be asked is whether the roll-out of infrastructure programmes and projects will be integrated, whether there will be a mutually reinforcing relationship between these programmes and other policies, such as skills development, industrial strategy and macro-economic management, so that infrastructure investment acts as a catalyst for broader economic transforma-

tion objectives. In this endeavour industrial strategy must play a central role to unblock constraints and facilitate policy responses to build the capacity of local suppliers of semi-processed materials, capital goods and other inputs needed to meet the demands of this and future cycles of investment.

57. We also need to focus our attention on the direct and indirect contribution of the investment programme towards our goals of halving unemployment and poverty. Where possible – and without compromising the primary objectives of each investment - we should ensure that the programme contributes to the development of labour intensive technologies and that opportunities for employment creation are strengthened. It may be the case that critical skills cannot be developed fast enough to supply the full demand in this round of the investment programmes, we must focus on building our capacity to supply the required artisans, engineers and project managers.

#### **The role of the private sector**

58. The approach of the liberation movement to the private sector is informed by our understanding of the national democratic society as including a market based system that encourages competition and promotes labour-absorbing activity. Whilst the state plays a decisive role in shaping economic development, the private sector is the main engine of investment, growth and employment creation. Since the democratic breakthrough, the ANC-led government has created excellent conditions for it to fulfil this role.
59. South Africa's private sector, perhaps more than during any previous era, operates in a globally defined terrain: technological advancement has created a global economic system that increasingly works as 'a unit in real time on a planetary scale'. The advantages of this are limitless.
60. On the other hand, these opportunities can be abused through financial systems in which paper money begets paper money: with new ingenious ways found to extract so-called shareholder value that has little bearing on actual production. This also creates an environment for a pervasive short-termism that can hold back the development of productive forces. Related to this is the growing tendency to sustain and justify staggering packages and astonishing lifestyles of corporate executives and so-called celebrities, with levels of inequality that are reminiscent of the eras of slavery and feudalism.
61. In some areas, markets have responded well to the new potential thrown up by economic and social transformation in the era of lib-

eration. In other areas, the response of the private sector has been less effective:

- a) The debate over investible capital allocated towards social and economic infrastructure (initiated at the 2003 Growth and Development Summit) remains unresolved. The conclusion of a comprehensive approach to the provision of low cost housing, and the construction of mixed income neighbourhoods, suffers from a similar inertia.
  - b) In many instances, markets have not responded efficiently to the opportunities presented by government's infrastructure investments. South African firms took too long to start ramping up their capacity with the result that the country is now importing many inputs and materials required – for example cement for use in our construction projects – thereby exporting jobs unnecessarily.
  - c) A range of temporary supply bottlenecks have arisen over the last few years, also pointing to poor planning and inadequate responses on the part of the private sector, and a general failure to anticipate the impact of the growth of the black middle strata. Examples, range from basic consumer goods (such as foodstuffs and carbonated soft drinks) to important economic inputs, such as refined petroleum or household gas.
  - d) In some cases, the private sector's response to skills development and black economic empowerment policies appear unenthusiastic at best, showing an unwillingness to accept that these policies are in the long-term interest of business itself.
62. With the attainment of peace and the launch of programmes of reconstruction and development in most of sub-Saharan Africa, similar trends – in terms of infrastructure development and changes in social structure leading to higher aggregate demand – should be expected. And the challenge in this regard is whether the private sector in our country is sufficiently geared, from the point of view of commercial self-interest, to plan for and utilise these opportunities.
63. In responding to these challenges, the ANC and the democratic state must ask how we act more effectively to mobilise the private sector behind the objectives of economic transformation. On its part, the private sector needs to ask itself whether it has not been somewhat lethargic and perhaps even pessimistic in its assessment of the trajectory of growth in our country and the rest of the sub-continent, thus falling short when major positive changes start to manifest.

## SUMMARY OF KEY POINTS

1. Our approach to economic transformation proceeds from the understanding that the changes we seek cannot emerge spontaneously from the 'invisible hand' of the market. The state must play a strategic role in shaping the contours of economic development. The developmental state is one that is capable of leading in the definition of a common national agenda, mobilising all of society to take part in its implementation and directing society's resources towards this common programme.
2. The maturity of the developmental state's strategic capacity will be evident in how we build a broad front around a common vision of economic transformation.
3. A strengthened role for the central organs of state will be an important part of building the organisational capacity of the developmental state. The ability of the centre to determine the direction of transformation (as part of a harmonised inter-governmental plan) as well as the pace of transformation (as part of a synchronised programme of implementation) are key.
4. The developmental state should maintain its strategic role in shaping the development of a number of key economic sectors, including through continued ownership of State Owned Enterprises (SOE's). These sectors include the energy complex and the national transport and logistics system, where an ongoing strategic role is envisaged for publicly owned entities such as Eskom and Transnet.
5. Our capacity to ensure that the infrastructure programme acts as a catalyst towards the broader development of the economy will be a critical marker of the progress we are making in building a developmental state. The key factor here is our ability to ensure that the programmes we implement are mutually reinforcing.
6. The ANC and the democratic state must ask how we act more effectively to mobilise the private sector behind the objectives of economic transformation. On its part, the private sector needs to ask itself whether it has not been somewhat lethargic and perhaps even pessimistic in its assessment of the trajectory of growth in our country and the rest of the sub-continent, thus falling short when major positive changes start to manifest.

## QUESTIONS FOR DISCUSSION

- a) What are the most important challenges we must address to build a developmental state?
- b) How can we improve our ability to build social partnerships between government, labour and business? Why have the Jobs Summits not been very successful in terms of implementation and how can we strengthen social partnerships, for example through NEDLAC, Growth and Development Summits etc.
- c) How can we strengthen the way national, provincial and local government are structured to build harmonisation and alignment around a common national programme of economic transformation?
- d) What is the role of the ANC, including ANC branches, in building a developmental state including at local level?

## ACCELERATED SHARED GROWTH AND INDUSTRIAL STRATEGY

### The post-apartheid growth path

64. The 'growth path' describes the overall trajectory of economic development. This relates to how fast the economy grows, as well as the quality of that growth. The quality of growth concerns questions such as: what outputs are produced and the technologies used to produce them; how the wealth so generated is distributed across society; how sustainable growth is and what impact it has on the environment; and the degree to which growth contributes to building long term productive capacity, human resource development and social cohesion.
65. The apartheid growth path was character-

ised by super-exploitation of black workers, racial segregation, growing inequality and the marginalization of large numbers of people in the second economy, increasing levels of capital intensity, deepening dependence on mineral and energy sectors and isolation from the regional and global economy. Whilst initially successful in creating high levels of growth and drawing in large quantities of foreign direct investment, the apartheid growth path generated a series of inter-connected crises in the last decades of white rule. In the early 1990s South Africa faced falling levels of GDP and investment. All sectors of the economy continued to shed jobs at an alarming rate, even as the racist state increased its expenditure and took on debt 'as if there was no tomorrow'.

66. Since the democratic breakthrough of 1994,

the ANC has sought to forge a new growth path that transcends the constraints engineered by apartheid, and which is able to progressively roll back the frontiers of poverty, drawing more and more of our people into employment. The historically unprecedented period of continuous economic growth over the last eight years points to an economy which is beginning to break free of apartheid's limitations. Critical elements of a new growth path have begun to emerge, underpinned by the building of a democratic and redistributive state, the progressive erosion of apartheid spatial patterns, growing integration with the regional and global economy and the strong growth of the black middle strata.

67. Nevertheless, constraints and challenges remain. The contemporary division of our society into a first and second economy represents the enduring legacy of Colonialism of a Special Type. Globalisation and technological change have reinforced inequality and structural divisions in many societies – particularly in the developing world – and South Africa is no exception. Whilst globally integrated economic sectors have grown, people in the second economy remain trapped in low income, low quality activities, and are marginalized from beneficial interactions with dynamic sectors. The super-exploitation associated with colonialism of a special type has, for many of our people, given way to marginalisation and exclusion from the economy.
68. Concerns have been raised as to whether the present trajectory will enable us to realize our goals of 6% growth, and a 50% reduction of unemployment and poverty. Growth trends are partly driven by the global boom in commodity prices (which may not be sustained) and the domestic boom in consumption expenditure (which is highly import-intensive). Whilst the massive and sustained increase in consumer demand reflects a healthy growth in levels of prosperity across the population; the major infrastructure projects that we are embarking on demand massive input of supplies and machinery. But our international trade balance shows that we have not succeeded in building the capacity to produce the consumer and capital goods that our country needs.
69. Consequently, a number of strategies are required to strengthen and sustain the shift towards the post apartheid growth path:
- The targets we have defined for 2014 – reducing unemployment and poverty by half – require decisive and bold action to remove the most important constraints on accelerated economic growth.

- In the longer term, South Africa's continued prosperity will depend on a diversification of our industrial base, which is the main objective of our industrial strategy.
- We must also ensure the progressive de-racialisation of the economy, so that we build the economic base of a national democratic society and broaden the ownership of capital and assets.
- The spatial dimensions of economic transformation are also a critical feature of the new growth path, and are an essential component of accelerating and sharing the rise in prosperity.
- To succeed, all of these strategies require a stable and supportive macro-economic environment.

### Addressing the Binding Constraints

70. One approach to achieving higher rates of growth is to identify and attempt to address all the problems that the economy faces simultaneously. However, to attempt such wholesale reform is a difficult task: it requires that we know all of the problems, and that we have the ability to address them all at the same time. Given that government has limited capacity, attempting to do everything at once can often result in failure to do even one thing effectively.
71. An important characteristic of the developmental state is its ability to prioritise. In respect of accelerated and shared growth this means identifying and addressing the most significant obstacles that prevent us from realising our objectives. These 'binding constraints' are judged to be those which, if addressed, would make the largest contribution to accelerated and shared growth.
72. As a basis for debate, the following binding constraints to accelerated and shared economic growth are identified:
- a) The level and volatility of the currency. Where the value of the currency is too high, the competitiveness of domestic exports is eroded, as is our capacity to produce capital and intermediate goods, which withers in the face of cheap imports. An overvalued currency also has a direct and negative effect on the most labour intensive sectors of the economy, since these are the sectors that are most vulnerable to import competition, which are made cheaper by a strong currency. Whatever the level of the currency, exchange rate volatility deters private investment especially in export sectors, since it is difficult to know what the value of those exports or the costs of production will be in international terms.

- b) Inefficiency of the logistics system. The transport and logistics system is the backbone required for moving goods and services over distances. It also links the country to our export markets and consequently has a major impact on the competitiveness of our export sector. In South Africa, which is a fairly large country, with considerable concentration of production inland, and which is some distance from all major industrial markets, deficiencies in logistics are keenly felt.
- c) Apartheid spatial patterns and weak public transport systems: The workers cost of living and the price of labour is pushed up by the fact that many live a great distance from their places of work, a factor that is made worse by the absence of a strong and subsidized public transport system. Apartheid spatial patterns also mean that the poor are marginalised from the centres of growth and are constrained in the pursuit of their full entrepreneurial potential. Therefore, apartheid spatial patterns and weak public transport systems have a severe and detrimental effect on both accelerated and shared growth.
- d) Shortages of skilled labour: Those parts of the legacy of apartheid most difficult to unwind are the deliberately inferior system of education. In a period of growth it is evident that we lack sufficient skilled professionals, managers and artisans take full advantage of the opportunities that exist.
- e) Limits to competition: The South African economy remains relatively concentrated, particularly in strategic sectors such as steel and chemicals. In some cases this means that competition and new entry into related markets is severely limited. Other consequences included the fact that monopoly prices have a negative impact on downstream sectors of the economy and that the development of new industries is constrained.
- f) Deficiencies in state organisation: Certain weaknesses in the way government is organised, in the capacity of key institutions, including some of those providing economic services – for example small business support, agricultural extension or local economic development – and insufficiently decisive leadership in policy development and implementation all negatively impact on the country's growth potential. The developmental state can act to accelerate growth, but where?
- g) The regulatory 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 (although limits to competition and spatial distortions also have an important impact). Inefficiencies and excessive red tape in the administration of tax, the planning system, municipal regulation, the administration of labour law, and sectoral regulatory environments can hamper the development of businesses.
73. Whilst the ANC cannot prescribe the details of interventions that will overcome these obstacles, it is incumbent on the movement to give strategic policy leadership; to achieve the greatest degree of consensus within the alliance, and to define the broad mandate which governs the work of comrades deployed in government. Decisive action is required. Hard choices must be made. The ANC must give guidance on the determination of these choices.

#### **Our approach to industrial strategy**

74. Accelerating the rate of growth is essential to meet our 2014 targets. In the longer term, South Africa's economic prosperity and sustainability must rest upon a diversified and dynamic industrial base. South Africa has been historically dependent on mineral and mining sectors of the economy, the products of which are sometimes referred to as 'commodities'. Whilst these commodity sectors employ dwindling numbers of people, and are increasingly capital intensive, they continue to dominate the export profile of the South African economy. Given the huge abundance of mineral wealth beneath our soil, it is likely that the mineral sectors will continue to be an important part of our economic profile for decades to come.
75. Whilst continuing to benefit from the exploitation of our handsome mineral endowments, we need act decisively to build the tradable non-commodity sectors, which include manufactured and services exports, as well as import replacement sectors.
76. The emergence of new economic sectors and the realisation of the full potential latent within existing sectors will not happen automatically. It requires conscious action by social actors. One characteristic of successful developmental states has been their capacity to guide the establishment of new economic sectors and manage the challenges facing declining sectors of the economy, through a set of micro-economic interventions and poli-

cies known as industrial strategy.

77. The objective of our industrial strategy is to build a diversified and competitive economy that can sustain higher levels of labour absorption by ensuring sufficient levels of industry upgrading and moving our manufacturing sectors (as well as primary and service sectors) towards higher value activities.
78. Each sector that we identify has different challenges, constraints and opportunities. Effective intervention must rest on the capacity of government to understand these specifics in the dynamic and fast moving conditions that characterise modern global capitalism. Our ability to coordinate strategies across government departments is also key since industrial strategy interventions will require a combination of inputs including finance, skills, incentives and trade policy.
79. But the state cannot succeed in these policies alone. Industrial strategy is about government, business, labour and other stakeholders coming together and agreeing on the basis of high quality research, experience and intuition on sector strategies that will support our broad economic goals. The ingredients of these strategies include a combination of actions by government, organised labour and the private sector. Government must be willing to act on a scale that is capable of bringing about decisive change at a sectoral level. The state must also provide benefits to industry on a more conditional basis, which insists on reciprocal action by the private sector in return for any benefit provided.
80. Industrial strategy must involve greater prioritisation of sectors, so that government's efforts are not too dispersed. As noted above, acting in a developmental way requires an ability to prioritise a limited set of interventions. The criteria we use to prioritise sectors must be based on clear developmental objectives.
81. Moreover, industrial strategy should also not be seen only in terms of the proclamation of a single, overarching 'policy' or 'framework' document. Rather, it is characterised by a variety of approaches that are customised and specific to particular sectors of the economy. Since these sectors are constantly evolving in the context of rapidly changing domestic and global conditions our industrial strategies will need to be regularly reviewed and our tactical positions constantly updated.

### **Critical Economic Sectors**

#### *Non-commodity Tradables*

82. At the heart of our industrial strategy is di-

versifying our economic base by building our capabilities to export value-added manufactured products and modern services, and also develop sectors that can effectively compete with imports in the supply of producer and consumer goods. The production of such goods for a domestic and Southern African market will have important benefits, not only terms to the current account; but also for developing a more labour intensive production structure. This will be the key to diversifying our economic base and sustaining a new growth path towards rising levels of productivity and prosperity.

83. Many of the non-commodity tradable sectors also have the capacity to absorb significant quantities of semi-skilled workers, whilst the growth of competitive export and capital-goods producing sectors have a dynamic effect on the rest of the economy, promoting the growth of productivity and labour absorption in general.
84. Government has identified a number of these sectors for concerted action. These include tourism, the automotive sector, business process outsourcing, chemicals, metals and engineering, clothing and textiles, forestry and paper and bio-fuels. A particular focus will be on capital goods industries capable of providing inputs for the infrastructure development programme.

#### *Minerals and Mining*

85. South Africa has the largest reserves in the world of a number of critical minerals, including platinum, chromium, vanadium and gold. We are also a major producer of a range of other minerals. Through linkages to other sectors of the economy, including chemicals, energy and manufacturing, the mining sector continues to drive the expansion of the economy as a whole. The spatial location of mineral production is largely dependent on geological rather than economic conditions, and will therefore be the main driver of economic development in some of the poorest regions of the country, including the Limpopo and North West provinces.
86. Whilst the minerals sector continues to become more capital intensive – and will therefore present few opportunities for additional direct employment – the potential to build upstream linkages, in the form of capital goods production and mining services, must be fully realised. This means that a key element of our industrial strategy should be directed at diversifying on the basis of our strong comparative advantage in the production of commodities.
87. A second industrial strategy objective will

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be to strengthen the manufacturing sectors downstream of mining, including the refining, processing and beneficiation of minerals into more value added products, through a comprehensive strategy supported by legislation.

#### *Energy and the Environment*

88. A critical component of South Africa's economic strength and competitive advantage is our large, efficient and cost competitive energy system, which is based on massive coal reserves and well-developed generation and grid technology. However, the system is aging and as the economy enters a second decade of sustained growth is now reaching the limits of its existing capacity. This means that we have to expand and upgrade the current system, as well as develop new energy sources
89. The new growth path that is emerging must take account of the reality that climate change is imposing new imperatives on governments throughout the world. At present, South Africa is one of the largest emitters of greenhouse gases per capita, and from the beginning of the next decade South Africa will be held accountable to a global regime that limits greenhouse gas emissions. Therefore significant action will need to be taken to alter the trajectory of growth of our energy mix.
90. The best way to reduce our emissions is to save energy, and government is currently spearheading an energy efficiency campaign. This campaign must be developed on a much wider scale, so that issues of energy efficiency become a top priority. Furthermore, we must intensify the implementation of our renewable energy strategies.
91. At the same time, the acceleration of growth will require SA to double electricity capacity in the next twenty-five years. Given our environmental obligations, a significant portion of this new capacity will have to be in the form of nuclear energy. Far more effort and research will have to go into the harnessing of clean and renewable energy sources, such as solar and wind energy. At the same time, our programme to expand coal-fire energy production must take advantage of the latest and cleanest innovations in plant design.
92. All these developments in the energy sector will have important implications for our industrial strategy. The growth of a nuclear industry, as well as other renewables, alone constitutes a massive opportunity for the growth of non-commodity tradable sectors aimed at supply an industry on the cutting edge of innovation, research and development. Also, building a bio-fuels sector has

the potential to contribute towards a number of industrial policy objectives, including environmental sustainability, employment creation and industrial diversification.

#### *Information and communications technology*

93. The modernization of our information and communications technology (ICT) infrastructure is essential to achieving higher rates of investment in our economy, and ensuring a competitive platform for our tradable goods and services sectors. Not only is ICT a critical input sector, with important effects on the cost of doing business, but in itself has the capacity to create high quality jobs.
94. Affordable access to broadband is also crucial for achieving socio-economic development goals including the provision of public services such as e-learning, e-health and e-government. Increasing the competitiveness of the South African economy involves, amongst others, lowering the cost of communication. The cost of communication and access to modern ICT infrastructure is a critical determinant of economic inclusion or marginalisation. The 'second economy' divide is sustained and deepened by the 'digital divide'. Therefore, the most critical immediate infrastructure interventions must be to improve access to affordable bandwidth, and to reduce the cost of telecommunications overall, for both the first and the second economy.
95. A number of industrial strategy challenges arise from these infrastructure developments. The question of developing and maintaining creative capacities linked to scientific and technical skills in the ICT sector will be central. This includes highly specialised skills, but also artisanal skills and generalised knowledge of how to interact with computer and communication systems amongst all our people. Moreover, actively promoting the proliferation of ICT capabilities throughout our economy will be central in building the long term competitive potential of a range of sectors.
96. An additional challenge is to ensure that the policy and regulatory environment is capable of responding to the emergence of 'Next Generation Networks', that allow integrated data, voice and video services to be delivered across broadband networks. This convergence of broadcasting, traditional 'land-line' telecommunications, mobile telecommunications, the internet and emerging networking technologies offers great opportunities for more effectively harnessing ICT to improve economic growth and social development.

### *Transport*

97. As we have noted above, inefficiencies in our transport and logistics systems are amongst the most important binding constraints to accelerated growth. The efficiency of our transport system has a direct and immediate impact on the cost of doing business, the competitiveness of our exports, the cost of living for ordinary people and the cost of labour.
98. Therefore, significant resources should be deployed over the next few years aimed at the following objectives:
- Improving our capacity to transport freight by rail and continue to upgrade the capacity of our ports to hand trade.
  - Within the major urban centres, establishing efficient, subsidized and integrated public transport systems that operate around the clock. This will require investments to improve rail, bus and taxi systems, as well as an ongoing commitment to operational expenditure to sustain an affordable system.
  - Improving the public transport links between major urban centres in the country. In particular, passenger rail links between metro's and other major centres must be improved, with attention also directed at the growing role of mass air transport.
  - In rural areas the work of upgrading roads must proceed with urgency, and greater attention given to maintenance. In this process the potential to use labour intensive methods through public works programmes should be maximised.
99. Once again, the development of this critical input sector, and the roll out of our ambitious infrastructure programmes, raises a number of important industrial strategy challenges. Our interventions must build the capability to the domestic economy to supply both raw materials and capital goods that are required for the expansion of the transport sector.

### *Agriculture and Rural Development*

100. The agricultural sector is important for three reasons. First, it is potentially one of the most labour absorbing sectors of the economy. Second, it provides important outputs, in the form of high value exports as well as critical inputs to other sectors of the economy. Third, it is central to the achievement of household food security: the price of agricultural products has a direct bearing on the cost of living of the poorest communities. All three of these factors need to be taken into account in our programme of agrarian reform.

101. We have set ourselves the target of redistributing 30% of agricultural land by the year 2014. However, based on our experience over the last 13 years, it is unlikely that we will achieve this target in the next 7 years without a significant acceleration. With a view to ensuring that our targets are met, there is a need to discuss a detailed strategy re-formulation, major institutional reform and significant budget adjustments.
102. Aside from accelerating the pace of land redistribution (and concluding the restitution process), it is vital that we re-emphasise the linkage between the land redistribution and agrarian reform. In particular, the role of research, extension services and training needs to be stressed. The institutional support provided to small-scale and emerging farmers remains weak and inappropriately designed. The role of academic institutions and the deployment of necessary resources to sustain and build agricultural colleges must also be given the requisite attention.
103. Questions of land tenure and the protection of farm-dwellers rights are also important. Despite progressive advances in the legal architecture, there is still much to do. The broad democratic movement must play a much stronger role in sustaining farm-dweller organisations that are able to ensure that legal rights are realised in practice. Additional resources will also be required to implement the Communal Land Rights Act as an important component of rural development.

### **De-racialising the economy and broadening capital ownership**

104. Apartheid colonialism visited such devastating consequences on black communities because it structured the ownership and control of wealth in such a manner that these communities were deliberately excluded and neglected. No society in which wealth is defined in terms of ethnic or racial divisions can expect to maintain social or political cohesion. Therefore, an essential part of a national democratic society is the thorough de-racialisation of ownership and control of wealth (including land), management and the professions.
105. The aim of broad based black economic empowerment (BBBEE) is to create a new generation of value adders, drawn from the historically oppressed communities, who are able to create new wealth by tapping into the entrepreneurial genius that was so long suppressed. BBBEE is not a cost, subtracting from the overall growth of the economy, but a necessary condition for long term success, directly linked to the expansion and diversification of our economic base. Therefore, not

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only are affirmative action and BBBEE important social and political imperatives, they are fundamental to addressing the social maladies constrain economic growth.

106. Approaching BBBEE as an integral part of the growth process involves using industrial policies to build the participation of historically excluded people in the formal economy. As we build new economic sectors, our ability to deploy people – and to guide and discipline their development – will be critical. This means that we must consciously design our industrial policy interventions in a manner that integrates BBBEE objectives, while simultaneously building economic efficiency and competitiveness over the long run, as opposed to promoting rent-seeking activity and protecting inefficient, uncompetitive and ultimately unsustainable activities.
107. As well as ensuring that the ownership and control of capital is de-racialised, we must also seek to broaden the base of such ownership. Therefore, BBBEE must embrace elements of skills development, procurement, the promotion of small businesses and cooperatives, the affirmation of black professionals and management. Moreover, a broad based approach to BEE must be supportive of collective ownership programmes by working people and communities in the form of collective enterprises and cooperatives, and the accumulation of assets by the poor and focus on the development of rural economies.

### **Spatial Development**

108. One of the most significant constraints to accelerated and shared growth remains the spatial distortions created by apartheid. On the one hand, it is common in all capitalist societies for growth and development to be highly uneven, skewed and concentrated in a small geographic space. On the other hand, apartheid spatial planning deliberately exacerbated these tendencies, ensuring that people were located far from social and economic opportunities, denying many people access to opportunities for employment, wealth creation and social progress.
109. Since 1994 South Africa has witnessed a massive migration to the areas of economic opportunity, leading to sprawls of informal settlements in the major towns. Although poverty continues to be highly concentrated in rural areas, today the greatest numbers of poor people reside in and around the urban centres. Nevertheless, the enduring legacy of apartheid planning means that spatial marginalisation from economic opportunities and social amenities continues to be a

significant feature of our economy, and must be addressed in order to reduce poverty and inequality and ensure shared growth.

110. In order to overcome the spatial distortions of apartheid, future settlement and economic development opportunities should take place as close as possible to main growth centres. This means that social investments, including housing, must be located within the midst of centres of economic opportunities – we must act decisively to reverse the pattern of spatial marginalisation in housing delivery. It also means government should target its social and economic investments in localities that will become major centres of growth in South Africa.
111. This does not mean that areas where economic potential is low should be left to fester. Government has a constitutional obligation to provide basic services to all citizens, no matter where they reside, and we should continue to focus on social transfers, human resource development and labour market intelligence which would enable people, if they so chose, to become more mobile and migrate to areas that are more likely to provide economic opportunities. In addition, we must intensify our efforts to ensure sound rural development programmes, accelerated land and agrarian reform and expand agricultural extension services.

### **Supportive Macro-economic policy**

112. Economic transformation requires a stable macro-economic environment. Run away inflation, a volatile exchange rate, high interest rates and economic uncertainty are – as we can see from examples both close to home and further away – conditions which undermine social gains, eat away at the incomes of the poorest and jeopardise the very basis of growing prosperity and development.
113. Recognising the importance of macro-stability, there is considerable room to debate the appropriate framework for macro-economic policy and how it can support the objectives of halving unemployment and poverty through accelerated growth and industrial diversification along a sustained and strengthened post-apartheid growth path. Whilst the tactical management of macro-economic balances cannot be determined by conference resolutions, it is important that the ANC establish a broad strategic framework within which our cadres deployed to government can operate. Therefore, we must review our experience of the relationship between a number of macro-economic indicators, including the exchange rate, inflation and interest rates in order to refine

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and develop our strategic perspectives on macro-economic policy.

114. A key role of macro-economic strategy is to create an enabling environment for long term private investment in the economy. The inflation targeting regime is an initiative that aims to create the kind of stable environment we need to build a positive investment climate. However, if the interest rate is the only instrument we use to control inflation it may defeat the purpose of the exercise, since high or volatile interest rates are also a significant deterrent to fixed investment. In many other countries there are a range of other tools that are used (for example relating to the cash reserves of banks) to restrain the extension of credit without directly targeting the cost of capital.
115. As we have already stated the level and volatility of the exchange rate remains an important strategic question, and further discussion is required around the measures we could use to counter the uncompetitive appreciation and volatility of the currency, including but not confined to the accumulation of reserves.
116. Our macroeconomic stance must take account of the fact that the current global environment is unusually favourable for South Africa's commodity exports. At some point, the prices of our commodities will fall and

our terms of trade will worsen. It is therefore important that we do not make commitments now that we are unable to sustain in the face of such an external shock.

117. Against this backdrop one approach which could contribute to sustaining the appropriate macroeconomic ratios (including the interest rate and the exchange rate) and improve the long-run rate of growth would be a more counter-cyclical fiscal policy. As growth accelerates, government could maintain a fiscal surplus, which would act as a counter-balance to the growth of private consumption and imports. This would reduce upward pressure on both the interest rate and the exchange rate. In this regard we should note that a fiscal surplus does not necessarily imply a reduction in government's social expenditure. Rather, it could be achieved by limiting the growth of consumption expenditure, maintaining the requisite levels of taxation or both.
118. Another important fiscal policy task will be to continue the programme of redirecting government expenditure. A thorough review is required as to whether we have completed the process of reversing the fiscal discrimination that was established by the apartheid state. Where we have not done so, decisive and bold action must be taken.

#### **SUMMARY OF KEY POINTS**

1. The continuous growth we have witnessed over the last eight years points to an economy which is beginning to transcend apartheid's limitations. Critical elements of a new growth path have begun to emerge. Nevertheless, constraints and challenges remain. Concerns have been raised as to whether the present trajectory of growth will enable us to realize our goals of 6% growth, and a 50% reduction of unemployment and poverty.
2. A number of strategies are required to accelerate the pace of shared growth, and transform the structure of production, so that the move towards a new, post-apartheid growth path is sustained. Decisive and bold action is required to remove the most important constraints on faster economic growth, in order to achieve our 2014 goals. In the longer term, South Africa's continued prosperity will depend on a diversification of our industrial base, which is the main objective of our industrial strategy.
3. BEE should be linked directly to the expansion and diversification of our economic base. As well as ensuring that the ownership and control of capital is de-racialised, we must also seek to broaden the base of such ownership.
4. In order to overcome the spatial distortions of apartheid, future settlement and economic development opportunities should take place as close as possible to main growth centres. This means that social investments, including social housing, must be located within the midst of centres of economic opportunities. It also means government should target its social and economic investments in localities that will become major centres of growth.
5. Our macroeconomic policy framework must aim to sustain growth over the long term.

## QUESTIONS FOR DISCUSSION

- a) What are the most important constraints to accelerated and shared growth?
- b) What are the constraints to growth in your locality, and how can local economic development play a role in supporting shared and accelerated growth?
- c) What role can the alliance play in supporting the implementation of industrial strategy? What is the role of individual unions in particular sectors of the economy? How can local or regional summits on growth and development bring together the motive forces behind shared and accelerated growth?
- d) How can we improve the implementation of broad based black economic empowerment?
- e) How should South Africa respond to the challenge of global warming? Will nuclear power be the right answer? How can we save energy and grow the renewable energy sector?
- f) What strategies can improve mineral beneficiation, and also grow upstream industries on the basis of our comparative advantage in minerals?
- g) What is the most appropriate macro-economic stance over the coming period? Should we run a fiscal surplus when high rates of growth are driven by high commodity prices?

## THE CAMPAIGN TO DEFEAT UNEMPLOYMENT AND POVERTY

119. Our 2004 Election Manifesto established the target of halving unemployment and poverty by the year 2014. The poorest households are those without anyone in full-time employment, who depend solely on grants. Therefore, the campaign against poverty is in the first instance a campaign to create employment.
120. The work we have outlined in the previous section – unblocking the binding constraints to accelerated growth and transforming the structure of production – are central to our long term programme to combat unemployment and poverty. Unless we can significantly accelerate growth, increase productivity and ensure a more equitable distribution of wealth, it is unlikely that any campaign to defeat unemployment and poverty can be sustained in the long run.
121. Nevertheless, whilst new jobs are being created, the problem of the absorption of unskilled labour and the creation of quality jobs will remain pressing. Specific, targeted and direct interventions are required both to absorb the unemployed and to build an integrated programme to defeat poverty.

### Absorbing the Unemployed

122. The vast majority of the unemployed are black youth and women, many of whom have never held full time employment and who lack the skills to gain entry into fast growing sectors of the economy. Our key challenge is to address the mismatch between the supply of largely unskilled and semi-skilled labour that our history has bequeathed, and the demand for skilled labour that the economy is now generating. This will require direct interventions, includ-

ing through the massive extension of public works programmes, the promotion of labour intensive technologies and intensive programmes of skills transfer.

123. Part of the solution will be provided by the growth of service sectors such as tourism, government services (including education, health, policing etc), utilities, household services, retail, finance and business services, construction and so on. Whilst these sectors may not contribute directly to our objectives of industrial diversification and productivity growth, their capacity to absorb the unemployed will remain of great significance. Our economic strategy must aim to fully realise this potential.
124. There are strong indications that there is an objective trade-off between the quantity and the quality of employment that is created. The fast growing service sectors tend to be those in which unions are weak and working conditions poor. Whilst remaining committed to fair labour practices and decent working conditions, the manner in which we intervene should not undermine the job-creating potential of these sectors. How we respond to this reality is a matter that we must debate further within the alliance, particularly with the progressive trade union movement.
125. Market failures and other institutional weaknesses mean that many of those with higher than average skills are also unable to find employment. The large number of unemployed graduates is a case in point. Active labour market policies are required to overcome these market failures.
126. Improving the quality and extent of youth community service programmes, learnerships and internships will be an urgent priority. Programmes for the youth should seek primarily to give them training and experi-

ence to access the formal economy. In this regard, a significant and sustained expansion of the national youth service is required over the next decade.

127. The Expanded Public Works Programme will be a vital part of our infrastructure investments. In the longer term the bulk of EPWP employment opportunities are expected to come from the social sector, in the form of home-based care, early childhood development and similar programmes. More broadly, government should promote labour intensive technologies to deliver as many of its own services as is feasible, whilst also ensuring that the quality of services is not compromised. Public works employment must be linked to training.

### **Defeating Poverty and Second Economy Interventions**

128. Sharing the benefits of growth is as important as achieving the growth. The objective of the ANC is to eradicate poverty. This means that we aim to realise, within our lifetimes, a society in which the indignity of extreme poverty is completely removed from South African soil. Our attack on poverty must aim to empower people to take themselves out of poverty, whilst creating adequate social safety nets to protect the most vulnerable. This means that we must develop an integrated anti-poverty strategy that overcomes the marginalisation of the second economy. The challenge we face is to coordinate and align all our anti-poverty programmes, and unite with civil society organisations, in a common strategy to make poverty history in South Africa.
129. The most significant vehicle for sharing growth would be to eliminate the second economy. The concept of two economies does not propose the existence of two socio-economic formations in one country, but describes different circumstances in the lives of South Africans. Two economies do not occupy two distinct geographic spaces, in many ways they interconnect in both urban and rural areas. Many poor citizens, especially the working poor, straddle the two economies on a daily basis.
130. Our intervention in the second economy must benefit the third of our people, mostly young, who are trapped in poverty and who need to be taken out of that trap and assisted to be economically and sustainably self-reliant. To end the recurrence of this economic duality and intergenerational poverty, our interventions must change destiny. The most significant indicator of shared growth would be the substantial elimination of poverty amongst youth and women.
131. The aim of our second economy interventions is to enable the poor to exit from poverty. Critical interventions to eliminate dualism must include:
- Public education and critical skills development.
  - Access to basic services and basic infrastructure, such as public transport.
  - Comprehensive economic support for SMMEs and support for key sectors through industrial strategy. The industrial strategy must aim to eliminate the second economy directly.
  - Deal with the effects of spatial challenges that are historical and avoid the repeat in the future.
  - Facilitated and subsidised entry into the labour market by first entrants. Many would not have had a job until their 35th birthdays or even older.
  - Enhance capacity and efficiency of the state and its institutions to serve the poorest in the first instance.
132. A number of developing economies have succeeded in drawing people involved in 'sustainable livelihood' activities into mutually beneficial relations with larger firms. Many of the fast growing service activities we identified above take place in the second economy. Our key challenge here is to raise the quality and income earning capacity of these activities, while simultaneously seeking to overcome the divisions that isolate people from the potential benefits of greater integration with a growing first economy. This will require addressing more effectively resource, skills, knowledge, spatial and other constraints that hamper development of second economy activities, while also seeking to forge more beneficial, symbiotic relations with activities in the first economy.
133. Whilst continuing to provide income support, our focus will be to improve conditions for micro-enterprises to emerge and grow and to enhance social integration for the unemployed, particularly women and youth. Micro-enterprises have significantly different needs from small and medium enterprise. Often, they need a package of support measures that ranges from developing proposals for income generation to establishing basic infrastructure, assisting in accessing markets and obtaining supplies, and providing training. Marketing co-operatives can be critical in this regard, but initially most require substantial support and education for participants. Another critical set of interventions concerns the extension of capital in the form of micro-finance for the development

and growth of micro-enterprises.

134. Whilst intensifying these interventions to lift the poorest out of poverty, we must maintain and increase the social wage: This includes universal access to a package of basic infrastructure services, such as water and electricity, provided at subsidized rates to the poor, the extension of social grants, and improving access to free health and education. Further work and discussion will be required around the completion of a comprehensive social security system. Recent proposals for a universal system for retirement benefits, supported by a wage subsidy for the lowest paid workers, are a welcome step forward in this regard.
135. Our movement must also work much harder to build the organisational resources available to the poor to support sustainable livelihoods, including through supporting a vibrant cooperative movement. Whilst government has acted to put in place a legislative framework to support and encourage such a movement, the organisational resources of civil society have not yet responded in sufficient scale.

### **Skills Development and Education**

136. In the long run, our most effective weapon in the campaign against poverty and unemployment is education. Significant progress has been made in improving the skills profile of our people. We need a clear assessment of the progress we have made and the challenges that remain.
137. The most immediate skills related challenge for accelerated growth is the demand a number of critical technical skills, including:
- **Engineering:** This is critical both for the major infrastructure projects as well as for the wider economy. The country requires at least an additional 1000 registered practicing engineers each year in the next four years
  - **Artisans:** The economy is experiencing a

severe shortage of well qualified, competent and experienced artisans, such as welders, boilermakers and automotive electricians. Currently the economy produces approximately 5 000 artisans per annum, although it is estimated that we need at least 12 500 artisans every year.

- **Planning and project management:** Town and regional planning is central to the country's spatial development. The quality and efficiency of planning have long-term impact on society and the economy.
138. Mechanisms should be found to fast-track and intensify the development of skills, particularly for unemployed youth, in these and other areas where there are critical shortages. Whilst in the short term it may be necessary to import critical skills to ensure growth, we must ensure that such programmes are always linked to skills transfer.
139. We must continue to build and strengthen the institutions that promote skills development and labour absorption, including the SETA's. FET colleges must be recapitalised and strengthened, whilst ongoing work should re-orientate curricula, particularly at tertiary level, towards the needs of economic development. Science and mathematics capabilities must also be emphasised at the secondary school level.
140. Responding to the immediate demands, and building an appropriate skills profile for country over the longer term, requires a people's contract for skills development, which works to build a common programme of action between business, unions, academic and training institutions, and the government.
141. Also important to our response will be closer cooperation and coordination between the two Departments responsible for education and training, namely Departments of Education and Labour.

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## SUMMARY OF KEY POINTS

1. The poorest households are those without anyone in full-time employment, who depend solely on grants. Therefore, the campaign against poverty is in the first instance a campaign to create employment. Our strategy to transform the economy and accelerate shared growth is central to our long term programme to combat unemployment and poverty.
2. Whilst new jobs are being created, the problem of the absorption of unskilled labour will remain pressing. The key challenge is to address the mismatch between the supply of largely unskilled and semi-skilled labour that our history has bequeathed, and the demand for skilled labour that the economy is now generating.
3. There is an objective trade-off between the quantity and quality of employment that is created. Whilst remaining committed to the protection of worker-rights and fair labour practices, the manner in which we intervene in the economy must be ensure that we do not undermine the potential of key sectors to generate employment.
4. The vast majority of the unemployed are black youth and women, many of whom have never held full time employment in the formal sector. Direct interventions are required to absorb this surplus of unskilled and semi-skilled workers, including through of public works programmes, the promotion of labour intensive technologies and intensive programmes of skills transfer.
5. Market failures and other institutional weaknesses mean that many of those with skills are also unable to find employment, such as the large number of unemployed graduates. Active labour market policies are required to overcome these market failures.
6. The aims of our second economy are to provide income support, ensure improved conditions for micro-enterprises to emerge and grow and enhance social integration for the unemployed, particularly women and youth. These programmes include youth community service programmes, expanded public works programmes, support for micro enterprise and maintaining the social wage.
7. In the long run, our most effective weapon in the campaign against poverty and unemployment is education.

## QUESTIONS FOR DISCUSSION

- a) What are the main constraints on the absorption of labour into the formal sector
- b) Should we make compromises in the labour market in order to maximise the absorption of unskilled labour?
- c) How can we mobilise unemployed graduates?
- d) What can we do to improve the functioning of the SETA's?

## CONCLUSION

142. We stated at the outset that the 52nd National Conference of the ANC will provide an important opportunity for our movement to engage with the challenges of economic transformation. To provide a basis for this national debate, this document has attempted to identify some of the critical issues that need to be addressed. Throughout, we have raised a number of questions that should guide our discussion.
143. In overall terms the ANC's economic policy stances are both comprehensive and correct, and these perspectives have remained consistent throughout the era of liberation. Nevertheless, as new conditions emerge, there is always room for improvement on the

basis of collective assessment and debate. By building a broad consensus around the answers to these questions, we can confront the challenges we face with confidence, as a united movement with a clear vision of the path forward.

144. Throughout 2007, these debates must build up to a resolution to be adopted by our movement in December. Such a resolution must constitute a broad framework, giving our movement clear strategic direction for the remaining years of the second decade of freedom. The resolution should provide enduring and useful guidance for the ANC as a whole, but in particular for those cadres we deploy in government to implement policy and develop tactical responses to a dynamic and constantly evolving economic situation.