

## **Remarks by Minister of Economic Development, Ebrahim Patel in the Debate of the State of the Nation Address, 17 February 2016.**

Madame Speaker

Honourable President, Deputy President and Members

Fellow South Africans who are following the proceedings

The State of the Nation Address and yesterday's debate rightly focused on the state of the economy.

The new global economic context impacts deeply on South Africa.

It requires that we step up efforts with the private sector and with organised labour to create jobs, reduce fractious, conflictual relationships and build a deeper partnership.

We need to do this with greater urgency because we are confronted with big headwinds that can slow progress to our goals:

- the deepest and most devastating drought in many generations
- a global economy that is volatile, with lower growth, countries in recession and less demand for our platinum, iron-ore and gold.

Fellow South Africans, even with these headwinds and the real challenges we face, the past year has seen real concrete progress. The economy created 712 000 new jobs in 12 months, in tough, difficult conditions.

We should not and will not succumb to a narrative of anger, despair, hopelessness and blame.

*There was a lot of that yesterday from sections of the Opposition. They make good prophets of doom and gloom at a time when we need collective leadership and closing of ranks as South Africans. It is the ANC that is seeking to unite South Africans, talking to business leaders and trade unionists, stepping up actions to deal with challenges.*

We are not a people who curse against the darkness; instead, we light a lamp, roll up our sleeves and get to work – to create hope and optimism.

South Africans want a steady navigation through stormy times, a nation acting as one.

I want to use this opportunity to give some facts so that we can

- see what more we can do together
- address the structural problems in the economy
- weather the global and local storms.

We need to create more jobs through: infrastructure, industrialisation, innovation, investment, inclusion and integration and work more effectively through the institution-building and implementation.

This is how we implement the NDP and the nine-point plan announced last year.

## **Infrastructure**

To create jobs through **infrastructure**, we invested R290 bn as a nation for the past calendar year - more than R1 billion every working day.

The money helped us to

- build 160 new schools
- provide new higher education housing accommodation for an additional 3 100 students
- start construction on three new technical college campuses and two new universities
- build about 100 000 new houses
- connect 265 000 homes to electricity - that is more than 1 000 houses connected every day to the grid, from Monday to Friday, 52 weeks a year. That is delivery.

The R1 billion a day enabled us to

- erect more than 300 kms of transmission lines to bring power closer to the people

- connect 1 700 Megawatts of energy to the grid, almost equal to a new Koeberg power station.
- Complete ten renewable energy plants, generating clean, green energy.

We switched on one unit of the Medupi power station that brought more energy to the grid than the electricity use of residents of two big cities combined - Nelson Mandela Bay and Mangaung.

The R1 billion a day helped us to

- improve or repair more than 24 000 kms of roads and start to develop a modern urban public transport system
- install solar water heaters, bringing the total to date to more than half a million units
- build 100 kms of water pipelines that can convey billions of litres of water a week to communities and businesses
- Expand and modernize port capacity across the country's coastline
- Build 29 new medical clinics and open one new hospital
- Support new fibre-optic cables and free wifi hotspots

Behind these numbers are South Africans whose lives were improved.

The R1 billion a day supported more than 200 000 workers now employed on the public infrastructure programme, as engineers, metal workers, plumbers, electricians, bricklayers, road-builders and construction workers.

The investment helped millions of citizens in townships and suburbs to experience change in their lives.

Thobekile Maziwa is a young learner from Lusikisiki who moved last year from a mud school to a new school with a computer lab, library and laboratory and whose life can be better through the power of education. *It is not a headline in a newspaper but it transforms lives.*

Matlakala Monageng from Soweto and Hickson Thulare from Burgersfort had no electricity and used paraffin for many years previously but were

connected to the electricity-grid in the past ten weeks. They join four million South Africans living in more than a million homes who over the past five years were connected to electricity for the first time, bringing power, light and heat to our people. *This is a remarkable achievement.*

The new TVET campuses being built in the Waterberg, Umfolozi and the Bhambanana areas will help with our focus on technical education. It will provide access to the many more students matriculating from high school. A further nine campuses will be built and we are now in the procurement stage with these.

The past year saw a further rollout of new public transport in key cities, through the bus rapid transport system. More urban areas are providing free wifi hotspots where South Africans can connect to the Internet for work, for study and for recreation.

Ntsetse-Ielo Mbhalati is a 22 year old UNISA student in Tshwane who is studying Security Management. She uses the free wifi of the city's A Re Yeng transport system. Tshwane is now leading our efforts with 717 active wifi hotspots that are free to residents.

We want to scale up infrastructure further so that more of our people benefit. We are not happy with the pace of new project approvals so we want to speed up action in the state. I want to highlight three steps we will take:

1<sup>st</sup> . We will fast-track twenty infrastructure projects identified by Cabinet two weeks ago and work hard to bring a number of these to construction, including:

- the Clanwilliam and Mzimvubu dams
- the new N2 Wildcoast highway from East London to eThekweni that will cut travel time by up to three hours
- a large water pipeline to the Lephalale/Waterberg area
- the N3 De Beers pass for traffic on South Africa's busiest road from Durban to Joburg and
- 28 additional renewable energy plants.

We have done work on design of these projects, making good progress on establishing the technical specifications and engineering requirements, securing part-funding, approving environmental assessments and inviting contractors to bid for the projects.

Now we want to get them construction ready within the next 6 to 15 months, so that shovels can hit ground and workers can go onto site.

Some of these projects will be catalytic.

The Mzimvubu Dam can change the economic development of the E Cape and bring development to an area condemned as a labour reserve under apartheid.

The water pipeline to Lephalale can create the conditions for our first post-apartheid city to develop in the north.

2<sup>nd</sup> . We will identify further opportunities for private sector and multilateral funding and partnerships. These include an announcement on new solar plants, wind farms and a new coal-fired power station. The private sector has proposed that we issue an Infrastructure Bond.

We have submitted and will monitor progress with our first application for \$250 million funding to the BRICS New Development Bank, mainly for cheaper finance for transmission lines to connect future solar and wind energy to the national grid.

3<sup>rd</sup> . We will crack down on cable and metal theft from trains, electricity sub-stations and communities.

I am pleased to say that parliament late last year passed the Criminal Matters Amendment Act in record time, with support from all political parties.

We will now implement the law, which create a special category of offence for theft from public infrastructure, with tougher bail conditions, minimum jail

sentences when you are found guilty, sentences of up to 30 years for theft from essential facilities and fines of up to R100 million for companies who collude with thieves and greater onus on the accused to explain where they obtained copper cables and scrap metal.

## **Industrialisation, investment and innovation**

To create jobs, we have focused on **industrialisation, investment and innovation** to strengthen the economy.

Instead of a number, let me start with a person, Patience Majola, a 25-year old young black engineer who works in the paint-shop at Toyota in Durban. She is part of a team that produces minibus taxis - taxis we imported previously.

In the past 12 months, 10 200 new minibus taxis were assembled locally, creating jobs for 700 workers.

This is how we respond to the need of unemployed citizens for jobs, in 100s of industrial, agricultural, infrastructure and tourism projects.

As a result of localization policies, more than 200 additional buses were made for the new urban transport system in 2015. One large bus manufacturer Busmark, is now almost wholly-owned by a black industrialist, Pat Nodada. I think it is worth noting that bus factories contracted with a township enterprise owned by group of young previously-unemployed persons in Mohlakeng to refurbish bus seats and windows. This is what development is and we need to do more of it.

None of this is by accident, they are the result of strong partnerships between government and investors, us listening to the needs of industrialists.

To create and save jobs through **investment**, the IDC committed R14 billion of its capital in 2015 to South African and continental projects with private sector investors which included footwear factories, food-processing, wire and cable manufacturing, film-making and many others.

Even as we dip into our own savings, we need to attract more capital to South Africa. Eleven weeks ago, we signed multi-billion rand agreements for potential new investment and funding during the state visit by the Chinese President.

One notable project is to build a new large auto assembly plant that could produce more than 50 000 cars, trucks and sports vehicles a year. If we can get this project approved through a full feasibility study, it can create thousands of jobs for unemployed South Africans.

To support jobs through innovation, government is co-investing in a number of South African innovations, helping them to get to market.

One example: South African technology that combines x-ray and ultrasound in one machine to detect breast cancer among women, a world-first which if it passes the next testing stage, will improve access for women in South Africa to testing, bring down medical costs and potentially tap into a big global market where we can export our technologies.

This is how we create jobs, addressing the challenges of the unemployed.

But the new headwinds and storms that we face mean we need to do more.

I want to point to a few interventions we are implementing.

1<sup>st</sup>, to support industries in distress:

We are working with the steel industry to stabilize production and reduce job losses through tariff measures, new investment commitments to improve competitiveness and a drive to deepen partnerships on the shopfloor. This is important because steel-making is the foundation of industrialisation.

We are setting up a new R5 billion Fund supported by the UIF to assist companies affected by the global and local slowdown.

2<sup>nd</sup>, to attract new investment:

We are implementing the one-stop shop for investors announced in SONA, through InvestSA

We are supporting greater localization of the auto supply-chain and will undertake the feasibility study on a new auto plant by Chinese investors.

We are identifying projects for consideration by the Joint Fund with the IDC and the China Construction Bank and the teams are now meeting every two weeks.

3<sup>rd</sup> , to improve competitiveness, job-creation and transformation:

We will finalise and impose substantial penalties for price-fixing in the steel industry, so that we build more competitive, dynamic businesses.

We will support labour-intensive sectors of the economy more strongly, including agro-processing, clothing and textiles and tourism so that we create more jobs.

We are implementing the R23 billion black industrialist programme announced last year to widen the base of manufacturing and drive transformation.

## **Integration**

To support jobs through regional **integration**, we are focusing on markets on the continent. Last year for the first time other African countries became our single biggest regional market, overtaking Asia.

We exported R 303 billion worth of goods to other African countries.

These supported roughly 250 000 South African jobs.

For example, half of the trucks we export, go to the rest of Africa and 60% of fruit juice exports is to our own continent.



We will now work on deeper regional integration by private and public sector co-investment in other parts of the continent and support for a big infrastructure push in the continent, covering key projects such as the North South corridor that links the continent by road and rail; the big water and energy projects such as the Lesotho Highlands Water Project and working on Grand Inga with the DRC.

## **Inclusion**

Honourable Members

Through job creation, we seek to address social and economic **inclusion**, The most significant pressure we face is to increase the number of South Africans who have jobs and to address income inequalities.

Last year in the SONA debate, I advised Honourable Members that there were 15,3 million people employed in South Africa. There are now 15,8 million people employed.

If we take the figures for a full 12 months, it shows 712 000 more jobs were created in the economy.

Most of the new jobs came from agriculture, the construction industry and business services.

The province with the strongest employment creation over the 12 months was Gauteng with 191 000 more jobs, followed by KwaZulu Natal and Limpopo.

Employment for the year as a whole grew by 4,7 percent, significantly outperforming GDP growth.

But there are challenges: too many of our people remain unemployed. And last year, while the economy created almost three quarter of a million new jobs, the number of work-seekers grew by almost a million, increasing the ranks of eight million South Africans who are ready to work but are unemployed.

This is our challenge. This is what we need to address as we upscale our efforts on economic growth and make it more inclusive.

Honourable Members

Yes, we made real progress on jobs and yes, we maintained growth last year when others have gone into recession. But we need to do even better, in even tougher circumstances than what we have faced.

To promote greater levels of inclusion:

1<sup>st</sup>, we are completing the measures to increase support for SMEs

2<sup>nd</sup>, we will promote youth entrepreneurship and youth jobs through a regulation to require national infrastructure projects to employ up to 60% of new staff from young professionals and young workers.

We set aside loan-funding of R4,5 billion for youth empowered businesses.

3<sup>RD</sup>, to support rural and agricultural inclusion, we have prepared a first package of support just short of a billion rand, to farmers affected by the drought.

4<sup>th</sup>, we will act against corruption and collusion in the economy.

Last year government announced we were considering criminal sanctions for collusion and price-fixing. We commissioned legal and technical work to ensure this could be implemented properly. We will now introduce measures shortly to make it a criminal offence in any industry to collude and fix-prices. It will send a message to everyone that we mean business on stamping out corruption and collusion. We must build competitive strengths through innovation, not through sitting in rooms somewhere fixing tenders, prices and contracts.

## **Institutions and implementation**

Honourable Members

Our work on the six 'I's of infrastructure, industrialisation, investment, inclusion, innovation and integration are dependent on two other 'I's, namely effective **institutions** and effective **implementation**.

We look forward to building strong partnerships with the two engines of our economy: the private sector entrepreneurs and workers.

For business managers, trade unions, government officials and shareholders, we must get to the uncomfortable issues.

If we all simply see the solutions coming from what others must do, we will not weather the economic storms very well.

It is clear we need a broader social compact that addresses issues of wages, job security, investment, industrial stability and dealing with inequalities in the society. Some in the debate yesterday referred to an Economic Indaba. We are now engaging through an indaba with business leaders and trade unionists.

The challenge to business and labour is to achieve inclusive growth through actions at the workplaces that addresses these areas.

These involve tough issues that we must frankly discuss:

- How to combine rising wages with better economic performance
- Trade-offs between wage levels and job security for companies and industries in distress so we can save jobs
- Real action on skills development so we can prepare workers for the challenges of the global economy.
- Unlocking private sector investment so that money moves from bank accounts to real economy activity
- Partnerships to build dynamic companies that produce quality goods and services at competitive prices; and ensure equitable sharing of the wealth created.

- This includes reopening the conversation on executive pay in the private and public sectors.
- Reducing workplace conflict and the need to resort to strikes or lockouts through deeper effective partnerships.

Government too will need to act decisively against corruption that diverts resources but also skews decision-making.

For state-owned companies, we will need to strengthen governance, restore their balance sheets and enhance operational management.

We will act against public entities who do not pay small suppliers on time and deepen our partnerships with the private sector and labour.

State capacity will need to be sharpened with trained qualified staff in key positions. Cabinet has agreed that the PICC develops a dashboard of projects to be speeded up, with reports to Cabinet every six weeks.

To address perceptions of waste in the public sector, we need to introduce new measures, reprioritise spending, direct resources to growth and job-enhancing actions and ensure that the costs of adjustment does not fall either on the poor or through cutting infrastructure investment.

## **Conclusion:**

In conclusion, Honourable Members and fellow South Africans.

These are difficult times, yet much has been achieved. With partnerships, we can do more. Indeed, we must do more if we are to turn the economy around.

We have many centres of excellence in the private sector, examples of strategic thinking by labour and business leaders, a caring government and a resilient people.

We need to be bold, rebuild social cohesion and address issues of public confidence. We need to focus relentlessly on our key areas: infrastructure,

industrialisation, innovation, investment, inclusion and integration as well as institution-building and implementation.

We are ready with fresh ideas based on our experience, the strong positive lessons from successes as well as where we made mistakes. We have concrete plans and above all actions in order to stimulate inclusive growth, job creation and reduction in inequalities.

We call on South Africans to join us - to partner with your government, to create jobs, to strengthen the economy, to improve lives.

Thank you.