

**Debate on the Trade & Industry Vote 32  
30 June 2009**

**Speech by Minister of Economic Development**

**Ebrahim Patel**

Honourable Chairperson/Speaker  
Honourable Members

On 10 May this year President Zuma, announced his new Cabinet including the establishment of a Ministry of Economic Development. I am honoured to take up the position as Minister.

I wish to address briefly the context and rationale that gave rise to the need for the new Ministry and the mandate of the Ministry before turning to some immediate challenges and the work plan to get the Ministry and Department fully established. Honourable members recall that the electorate resoundingly endorsed the ANC's election Manifesto, thereby giving this government a clear mandate for the next 5 years. Central to this mandate is a programme of economic development, aimed at putting our economy onto a employment-led growth trajectory.

This mandate was developed in the context of the global economic crisis and the need to address deep structural problems that preceded the crisis.

The global economic crisis started in the financial sector but has rapidly become a real economy crisis. The loss of jobs is now the biggest cost that societies are paying for serious policy and design flaws in the global economy.

The crisis has resulted in a global and local recession and it now threatens South Africa's industrial base. We have experienced the worst quarterly economic performance in 25 years, with a 21,6% drop in manufacturing production in April and a 12,8% drop in mining production in March 2009. Company insolvencies have increased and employment has been severely affected. Claims to the UIF are up by 21% and unemployment is rising. According to the Quarterly

Employment Survey of StatsSA, 179,000 jobs were lost in the formal non-agricultural sector during the first quarter of 2009. Given that employment is a lagging indicator, the recession will cause further damage to job numbers and we have not seen the bottom of the employment losses. To counter these serious economic challenges, we have negotiated an important framework agreement on responses to this crisis.

Despite a record period of economic growth preceding the economic downturn, we continue to face long-term employment and social deficits. Our challenges go thus beyond the immediate effects of the global economic crisis.

There are a number of structural challenges we must address. The economy has grown in recent years but its employment performance is well below the levels required, and remains excessively dependent on imports of capital goods and finished products, and export of commodities. Our unemployment rate is one of the highest in the industrial world and much of the employment we do have is precarious and low-paid, or what we might call 'sub-prime' jobs. These are closely linked to high levels of inequality and weak industrial performance with evidence of de-industrialisation in the local economy. The composition of trade has contributed to a persistent problem with the current account deficit on our balance of payments, which has remained unsustainably high.

These are indeed formidable economic and employment challenges and the structure and composition of Cabinet is designed to address these. To clarify the Ministry's focus and mandate, I shall draw on three policy statements made by the President.

In motivating the new Cabinet structure, President Zuma stated on 10 May that

“Cabinet... has been reorganised to achieve better alignment between the structure, our electoral mandate... and the developmental challenges that need to receive immediate attention from government”.

In line with this, the President announced that

“A new department of Economic Development has been established to focus on economic policy making”.

In his State of the Nation address on 3 June, President Zuma stated:

“The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job-creation initiatives. In line with our undertakings, we have to forge ahead to promote a more inclusive economy.”

During the Presidency Vote on 24 June, the President stated

“Some people are wondering why we have both the Department of Trade and Industry and that of Economic Development. Trade matters will require a strong focus to have a direct impact on industrial organisation and output.

“The Economic Development portfolio will have a strong domestic focus and will address, amongst others, matters of macro and micro-economic development planning. We say this very much aware that in terms of legislation, the National Treasury co-ordinates macro-economic policy. The affected Ministries are working together to align work and detailed responsibilities.”

The new Department is thus part of a new configuration of government that centres on the four inter-connected areas of policy-development, planning, effective implementation and continuous monitoring and evaluation.

The mandate is clear – the Department will be responsible to develop economic policy with a broad, cross-cutting focus so that macro and micro-economic policy reinforce each other and are both aligned to the election mandate. The Department will also be responsible for economic development planning and will work collegially within Cabinet to ensure coordination around a programme that places decent work at the centre of our economic policies in order to secure better employment outcomes. Decent work embraces both the number of jobs as well as the quality of the jobs.

The fundamental departure point of this mandate is that employment should not be the residual outcome of other policies but the overarching goal of economic policies. Rising employment and living standards also have positive economic outcomes and is a vital source for growth in domestic demand.

To achieve government's decent work outcomes, the labour-absorption rate, the composition of economic activities and the sustainability of the growth path are as important as the quantum of growth. In other words, we are talking about an employment-led and developmental growth-path.

This growth path will be promoted through carefully-considered policy initiatives as well as better implementation of economic programmes. It requires a strong, effective, responsive and democratic developmental state that works closely with both business and organised labour, drawing the resources and talents of our people into a national consensus. The entrepreneurial energy of the business community is a vital component of our vision and a key source for jobs in our economy.

Government too has a critical role to play. Government will make maximum use of all the means at its disposal and will ensure the decent work objective is reflected in the orientation and programme of development finance institutions and regulatory bodies, through government procurement and public incentive rules, in industrial, trade, competition, labour market, macro-economic and other policies. This commitment derives from our electoral mandate and is a common goal of the Executive.

We will work closely with Ministers Gordhan and Davies and their departments in giving effect to this mandate.

What then is the role of Economic Development? The activities of the Economic Development Department will promote economic policy development, coordination and coherence (alignment)

1<sup>st</sup>, on national policy challenges and programmes. We will work together with relevant Departments and Clusters to achieve this. We

will also begin a policy engagement to elaborate a national framework on economic development and decent work.

2<sup>nd</sup>, through spatial economic development that embraces local, provincial, rural and national economic development dimensions

3<sup>rd</sup>, through the mandates and work of public entities responsible for economic regulation and financing of economic development.

4<sup>th</sup>, in interactions with business and organised labour to develop social consensus on economic and development challenges, policies and responses, including strengthening Nedlac's work on economic development

5<sup>th</sup>, in the interface of the domestic economy with the global economy.

The power of this approach to economic development can be illustrated with two examples, one domestic and one international.

The building a 21<sup>st</sup> century infrastructure as the backbone of growth and social delivery gives us an opportunity to stimulate both manufacturing and service jobs, to secure technology transfers and to take economic development to the rural hinterlands of the nation. But these outcomes do not flow automatically from the spending of R787b. They result from careful policy design that reflects government priorities, proper implementation and thorough monitoring.

The same approach applies to international trade. As we engage with the powerful economies of China, India, Brazil, the EU and the United States, we need to leverage more jobs from these economic relationships and ensure trade and investment is structured to maximize the local jobs dividend. These again do not automatically flow from the normal market transactions that make up our trade relations but require the same careful thought and execution.

Our African agenda, some details of which I spoke to during the debate on the Presidency Vote last week, provide opportunities to

grow the South African and regional economies and their employment.

There are many invaluable sources of policy ideas and information which we can draw on. We will work in close cooperation across government and with the private sector and organised labour. We will tap into the rich sources of information in the development finance institutions, government departments, the provinces and local government and they will be key internal partners. We will also draw on local and international expertise outside government.

We will work with Cabinet colleagues to promote integration, and so give effect to the common commitment in government to avoid “silo”-based programmes.

The Department will have economic development planning functions, whose outcomes will be fed into the long-range and overall planning that will be coordinated by the National Planning Commission. Coherence will thus be promoted not only through the policy work of the Department but through the vital and complementary work of both the Planning Ministry and the Ministry responsible for Monitoring and Evaluation. I thus look forward to close cooperation with Ministers Manuel and Chabane.

Coherence will be enhanced through linking macro and micro economic policies within a coherent, pro-employment framework.

The Department will assume both new policy and co-ordination functions, as well as receive certain existing functions from other Departments as part of the reorganisation of the State. This is achieved in the context of an evolving model of co-operative and effective governance, which ensures both horizontal co-operation and integration of policy across national institutions of government and state, as well as vertical co-operation between different spheres of government, at national, provincial and local levels.

We look to build a lean, effective Department with a high-level policy and technical capacity, with a critical mass of analytical skills and the capacity to synthesise the data, the ideas and experiences locally and internationally into effective policies and programmes that goes

into the policy-making machinery of the state. In addition, we will secure the necessary coordination and economic development planning skills in the Department to implement programmes derived from the mandate.

The agreements in the Framework for South Africa's response to the global economic crisis will guide some immediate actions. In this context, we call for a National Jobs Pact that places employment at the centre of the actions by business, labour and government. Such a National Jobs Pact would use the key agreements in the Framework and translate it into sector agreements, workplace pacts and further national consensus on ways of saving jobs during the recession. This will lay the basis for further social pacts on our country's major challenges. One of South Africa's comparative advantages is our tradition of social dialogue. We will strengthen it on matters of economic development to achieve national cohesion and bring together the resources of key economic players, and mobilise the energies of society.

As a new Ministry in the reconfigured Cabinet, the Economic Development Department has not inherited an existing infrastructure. Many of its core functions are new functions not previously performed within the state. Nevertheless, with the support of our Cabinet colleagues, and the President, we are striving to shorten the normal timeframes required to set up such a Department, so we can get down to work with the urgency these tasks require.

The steps to bring the Economic Development function to full strength require the formal and legal establishment of the Economic Development Department by way of Presidential Proclamation due shortly. It is agreed that the deadlines that applies to established departments must be applied more flexibly for a new Department like Economic Development. To facilitate this, interim arrangements have been put in place, with the assistance of **the dti** and Treasury.

The Establishment Team for the Department is now working on an organisational organogram and a Budget in three parts:

One, an interim Budget from 10 May until 30 September this year which provides for establishment costs and some capacity to

commence policy work. This will be accommodated via a ring-fenced item in **dti's** budget until the Appropriation Adjustment in October

Two, a six-month transition Budget from 1 October this year to 31 March 2010 which will provide for a more substantial work programme, for which a Budget Vote will be created in October's Appropriation Adjustment Bill; and

Three, a Strategic Plan and Budget from 1 April 2010 that will provide the full work plan for the Department and incorporate same into the MTEF. This will be finalised and presented to the Portfolio Committee in September.

The fulfilment of these legal and organisation requirements lays the basis for the effective implementation of the Department's mandate.

I look forward to work with the Deputy Minister Gwen Mahlangu-Nkabinde and parliament in giving effect to it.