

## **Address by President Thabo Mbeki at the SA-USA Business and Finance Forum**

Roosevelt Hotel, New York, 23 September 1999

Chairperson,  
Mr Al Gore, US Vice President,  
Mr Jim Wolfensohn, President of the World Bank,  
Ministers here Present,  
Excellencies Ambassadors,  
Business Leaders,  
Distinguished Guests,  
Ladies and Gentlemen.

A little over three months ago our people once again reaffirmed their commitment to democracy by turning out in their millions to cast their votes. They voted for the continuation of the reconstruction and development of our society by returning the African National Congress to power, with a substantially increased majority.

The continuing stability of our political democracy affirms the fundamental correctness of our approach to the development of democracy, peace and prosperity. Our approach is based, as you know, on a sound and progressive constitution with its attended institutions, from an independent judiciary, rule of law, a system of proportional representation, non-racial and non-sexist principles to the entrenchment of human rights.

It is our view that a democratic state needs to be predicated on the rule of law and the protection of the fundamental and inalienable human and other rights of the citizenry.

The promotion and protection of fundamental rights is an essential condition for providing a stable democratic system for the advancement of the development aspirations of the people. The virtues of transparency and accountability, intrinsic to democracy, lie in enhancing the participation of the citizenry in governance, in maintaining vigilance against the abuse of power and the scourge of corruption, and as owners of the development process.

Accordingly, over the past five years we have sought to entrench democratic, non-racial and non-sexist norms throughout our society.

Perhaps the creation of a democratic social order, the restoration of our people's dignity and the establishment of a human rights culture remains one of the most significant gains of our young democracy. And this has given an added vigilance and energy in our people as they seek to protect these gains.

Our commitment to democratic governance, peace and stability stems from our unwavering belief that these are preconditions for sustainable social development and economic growth.

South Africa has successfully entered its second term of democratic governance. Over the last five years we have put in place an array of policy initiatives, which have launched us on the road to reconstruction and development. We believe that we have in place the necessary policies, which will enable us to begin to deliver a better life for all our people.

It is in this context that the second democratic government has committed itself to be a 'a nation at work'. By this we mean that we are a government that is prepared to implement with much more determination all the policies which were developed during the first term of governance. And as a government we will undertake such

implementation in partnership with all the relevant stakeholders - business, labour, and communities.

As we implement our policies we seek to build on the success we have scored over the past five years. Today millions of our people, especially in the deep rural areas and in the urban periphery have gained access to health care, education, clean water, housing, and electricity. The task of the second democratic government is to accelerate delivery of these basic services to our people.

The basic policy framework within which we seek to deliver development and growth remains the Reconstruction and Development Programme. Basing ourselves on the RDP vision, we elaborated a macro-economic strategy, the Growth, Employment and Redistribution (GEAR) in 1996. GEAR remains our guiding macro framework.

GEAR sets out a number of macro principles and targets to which we remain committed. These include: fiscal discipline, achieved through deficit reduction; continued liberalisation of exchange controls; accelerated reduction in tariffs; tax incentives to fund training; accelerated delivery on the backlog of social infrastructure; maintenance of a stable and competitive exchange rate; labour market reform to increase the absorptive capacity of the economy; and the privatisation and restructuring of state assets.

The rationale behind our macro policy is based on the simple reason that we believe that macro-economic stability is a precondition for economic growth and development. Fiscal discipline and curtailing inflation are necessary to restore confidence and create the basic environment within which growth can occur.

As a result of these policies inflation in 1998 was 6,9%, the lowest annual level since 1972. GDP growth averaged 2,7% from 1994 to 1998, despite the Asian contagion, and is expected to return to a growth path in excess of 3% per annum.

We have managed to maintain the macroeconomic targets we set ourselves in GEAR without sacrificing our commitment to increase expenditure directed at basic services for the deprived majority. We have done so through a significant reprioritisation of the budget. Now over 60% of expenditure goes to social services and to meeting the needs of the poor. Expenditure on social services, comprising education, health and welfare, increased by an average rate of 12% from 1995 to 1998, way above the average rate of inflation.

On the revenue side the Revenue Service has continued to improve its collection capacity over the years. Indeed the Service has exceeded its budgeted collection for two years in succession. In line with the spirit of a nation at work, the revenue service will continue to improve on its delivery, building on the efficiencies of the last few years.

More importantly the Service will deal more decisively with tax avoidance and fraud as it continues to widen the tax base by bringing unregistered businesses and individuals within the net.

On the industrial and trade side, our policies are predicated on the twin requirement to achieve sustainable employment creation and economic activity by improving the international competitiveness of industrial output. The imperative is not only to maintain existing manufacturing and industrial capacity, but also to expand it by consolidating upstream competitive production, increasing beneficiation to strengthen export of value-added output. The goal is to facilitate, support and guide private sector investments in a manner that deepens profound structural change in the economy. Evidence suggests that we are beginning to record positive gains on the trade side. Our real export growth averaged 8% from 1994 to 1998, rising from 14% to 18% of GDP

over this period. We are convinced that the implementation of the EU free trade agreement, SADC trade protocols and the upturn in the commodity cycle will substantially improve our export performance. The SADC trade ministers have been instructed by the SADC Summit to finalise the protocol by January 2000, and we do not believe that this deadline should be missed.

We also await with anticipation the outcome of the processes in the US legislatures that seek to improve trade and investment access by African countries.

As you are aware the structural reform process in the economic field extends to the restructuring of state-owned enterprises. The rollout of electricity and telephony to the poor and marginalised sections of our population depends largely on these enterprises. We are committed to continue the restructuring and privatisation process in order to improve the effectiveness and efficiency of these enterprises as well as ensuring that they have access to cutting edge technologies. This we will do, as in the past, through selling strategic stakes to international players.

Accordingly, we shall be finalising the privatisation of the state-owned forestry company, SAFCOL, in the few weeks. This follows on the successful sale of a 20% stake in South African airways to the SwissAir Group.

Although the positive gains made through the macro stabilisation program and on the trade and industrial development side have not translated into massive job creation, we remain convinced that these have laid a strong basis for sustainable economic growth and development. Creating millions of jobs for our people remains therefore the biggest challenge for our government and people. At our Job Summit held last year, government, business, labour as well as the community constituencies entered into a partnership to jointly tackle the problem of unemployment.

Of significance is that a number of concrete projects and programmes were agreed upon by the social partners. Government committed to fund the Job Creation and Poverty Relief Fund, trade unions mobilised their members to contribute to a Job Creation Fund, and the business sector committed to a Fund to promote investment in tourism, human resource development and skills training. On the latter, government has proceeded with the establishment of the Skills Development Fund through the training levy.

All these initiatives are being implemented and government continues to monitor their progress on an ongoing basis.

The challenge of job creation also demands that we continue to seek partners in the private sector to jointly exploit the business and investment opportunities that are abound in our country and region.

In the context of fiscal constraints, the state's ability to undertake major investments projects geared towards job creation is severely limited nor is it a desired option in the current environment.

It is in this context that government decided to reduce the corporate tax rate from 35% to 30% in this fiscal year. This reduction will place more investible surplus in the hands of corporations and businesses and we hope that these surpluses will be invested to further expand production, develop markets and thus begin to impact positively on unemployment.

As we seek ways of dealing with the unemployment problem, we have begun to increasingly focus on agriculture as an important sector for both job creation and food security. The apartheid legacy has left us with a somewhat distorted agricultural sector. Despite the fact that half our population is rural, agriculture accounts for less than 5 percent of GDP and a correspondingly small share of employment. In an attempt to

deal with this structural deficiency, we are finalising an integrated rural development strategy. The strategy will leverage government delivery of social infrastructure (health, education) and services (welfare) and economic infrastructure (roads, electricity, telephones) to enhance the capacity of the rural economy to employ more people and to contribute significantly to our growth prospects.

Although South Africa has a relatively well developed infrastructure in certain areas, the bulk of our rural areas and black areas still lack some of the basic infrastructure. Indeed one of the major structural impediments to the development of an integrated economy is the underdeveloped and weakly integrated rural and township infrastructure.

The challenge now is to provide an integrated, multi-modal transport networks, rollout electricity and telephony to the majority as well as connecting businesses and homes to the information superhighway thus enhancing peoples productive capacity with leading-edge communications technology systems.

In the past it could be argued that the provision of infrastructure is the classical role of the state. Private investors are generally reluctant to invest in infrastructure since the rate of return is usually low and the associated risk considerably higher. Yet, in conditions of fiscal constraints, the state is limited in this role as it risks the deterioration of its debt exposure and contingent liabilities in the short-to-medium term if it were to finance major provision of infrastructure from its coffers.

Recognising these limitations, South Africa has sought to link infrastructure provision directly to related economic activity to increase the rate of return and to provide for a much broader economic base for the effective and efficient use of the infrastructure so provided. This has enabled us to leverage in private sector investments in the development of our much-needed infrastructure.

Thus Public-Private sector partnerships have emerged as one of the most efficient form of financial engineering to facilitate the provision of infrastructure. The key to these partnerships lies in the sharing of risks and rewards and the generation of density of investment projects and their rapid delivery, thereby increasing both their profitability and the desired social impact.

In this context we have several Spatial Development Initiatives (SDI), which you will hear about during the course of the conference, which rely on these partnerships. The most advanced of these is the Maputo Development Corridor.

The early success of the initial investments in the Corridor have improved considerably the investment prospects for Mozambique in particular, and opened significant economic opportunities within South Africa. The linkage of the multi-billion aluminium smelter project to the rehabilitation of the port and the concessioning of the rail and road transport routes has created an agglomeration of investments that has further leveraged investments along the corridor, impacting on the development of communities that were hitherto marginalised.

What is more important is that the increased economic activity along the corridor has had a positive impact on the development of small and medium businesses. We will continue to use developments such as these to strengthen and develop the SMME sector, which is critical in absorbing the army of the unemployed into formal employment.

Building on these early successes we have since initiated similar cross-border projects with Mozambique and Swaziland, the so-called Lubombo SDI and the Beira Development Corridor with Mozambique and Zimbabwe.

The Lubombo SDI has an array of eco-tourism projects that will deepen economic activity in the region and will greatly benefit local communities.

In line with our strategy to use public funding to determine the viability of projects, government has injected R30m into the Lubombo SDI. We have now established that a number of projects ranging from beach resorts, up-market bush lodges and hotels, middle-income safari camps to a private game park are viable. I'm sure the Minister of Tourism will say more about other tourism-related projects.

We are also working with both Mozambique and Namibia on the development of both the Pande and Kudu gas-fields. We believe there will be substantial investment opportunities arising out of the development of these fields.

These cross-border or regional initiatives have affirmed the correctness of our approach to development, an approach that is regional in perspective.

South Africa's development and success depends on the simultaneous development of the SADC region.

Our sustained development initiatives in the SADC region continue to be threatened by the instability in parts of the region. We are determined as a region to ensure that stability returns to both the Democratic Republic of the Congo and to Angola.

Our efforts of the last few months with regard to DRC are guided by our resolve and determination to ensure that peace, stability and democracy returns to the Congo. We will continue to engage with the Congo situation to ensure that progress made so far is not reversed.

I have tried to sketch out some of the key challenges we face as well as the strategies we have employed to deal with them. Some of our ministers are amongst you today and will no doubt give you more

details on the various aspects of our economic programme. You will also hear from both South African and international investors about the multitude of business opportunities in South Africa and the region of Southern Africa. I hope that you will be in a position to explore ways of strengthening the flow of private direct investments into our economies. Let's build a partnership that will engender a more vibrant and developed Southern Africa. We have rolled our sleeves and we mean business.

I Thank You

Issued by Nazeem Mahatey  
Director Research and Speechwriting  
Communications Unit  
The Presidency  
Pretoria