

THURSDAY, 05 MAY 2010

**ADDRESS BY THE MEC FOR ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM, MR J.L (JABU) MAHLANGU, MPL AT THE NAFCOG POLICY CONFERENCE IN NELSPRUIT, MBOMBELA LOCAL MUNICIPALITY - ON BEHALF OF HONOURABLE PREMIER MR DD MABUZA**

*Excellent and opportune timing for the NAFCOG Policy Conference*

It is indeed a deeply valued privilege and honour for me to deliver an address on behalf of the Honourable Premier of the Province Mr DD Mabuza, at this important Policy Conference of the National African Federated Chamber of Commerce (NAFCOC). This conference is held at an opportune time when latest economic and market related data suggests that our economy is firming up recovery from recent recessionary conditions. It is encouraging that as the mend to the domestic economy gathers momentum and moves beyond the lower turning point, business confidence has been steadier and at a higher level than the same time last year. This positive outlook is corroborated by the South African Chamber of Commerce and Industry (SACCI), with the recent Business Confidence Index that is now 4.3 points higher than a year ago. Importantly, this is the first time since December 2007 that the Business Confidence Index is higher than the corresponding month a year ago. There are also strong signs that South Africa's international trade prospects have turned as both export volumes have changed positively.

*The 2010 World Economic Forum on Africa*

The NAFCOG Policy Conference takes place at along the 2010 World Economic Forum on Africa, hosted in Dar es Salaam, Tanzania, from 5 – 7 May 2010. We are aware that the World Economic Forum meeting in Dar es Salaam started with an interactive brainstorming session to identify opportunities that can unlock Africa's growth potential. The brainstorming session sought to examine the barriers to social and economic progress in the coming year. The three-day meeting in Dar es Salaam

will provide participants that include 1,000 delegates from 85 countries with a platform to deliberate how best they are facing up to the challenges brought about by the economic crisis, and how they are using the crisis as an opportunity to redesign a sustainable roadmap for Africa's future.

Key issues for deliberation at the World Economic Forum on Africa include access to education, healthcare and affordable capital. Discussions will address how a more conducive business climate and regulatory reforms can encourage both local and international investment. Most importantly, how can low-carbon and sustainable development plans be designed for Africa's economic drivers including its natural resources, agriculture and tourism?

Other important topics for discussion include competitiveness, infrastructure, natural resources, energy, SME's, ICT, science and technology, climate change, agriculture, regional integration and equity. These are all topics we are either facing on a daily basis or planning to venture into more vigorously in our own economic space in the Province and in South Africa at large. Let us therefore use this Policy Conference of NAFCOC to look at our own scenario in perspective to the global economy around us. The need for such comparative outlook becomes ever so critical as Africa joins India and China in crossing the billion person mark in population size. In this regard, Africa's young population, together with its natural resources and market potential are important catalysts for significant future growth and development. These catalysts further provide an opportunity to strengthen the increasing trend towards greater South-South cooperation.

### *International perspective*

The recent global economic crisis has led to a reassessment of the systems that govern global cooperation, financial architecture and policies linked to trade and climate change. It also served as a wake-up call to speed up implementation of long-discussed reforms. It is interesting that in this complex and evolving global economic

landscape, emerging markets, including those from Africa, have been among the first to show signs of a recovery and are undoubtedly forecast to increasingly contribute to global growth in the next decade. Now, the question is “how are we as leaders rising to the challenge and using the recent global economic crisis as an opportunity to redesign a sustainable roadmap for Africa’s future within the new global economy?” Indeed, it is important gatherings such as this Policy Conference of NAFCOC that are used as mechanisms to address questions such as the one I have posed above.

### *International Trade and Commodity Prices*

International trade is pivotal to the South African economic recovery and promoting local business confidence. For instance, the strengthening of the rand by 26% year-on-year in the first quarter of 2010 against a weighted basket of the three main trading currencies of the world constrained exports and promoted imports. Therefore, the balance on the trade account deteriorated substantially in the first two months of 2010. Fortunately, the dollar price of platinum and gold increased by 34% year on year in the first quarter of 2010. This probably softened the impact on the current account of the balance of payment in the first quarter of 2010.

Exports as percentage of GDP increased from 25.8% to 27.3% in the fourth quarter of 2009. The deficit on the current account improved to 3.1% of GDP in the fourth quarter of 2009. The average current account deficit for 2009 amounted to 4.0% of GDP. Net financial inflows into South Africa however slowed down from 4.8% in the third quarter of 2009 to 3.4% of GDP in the fourth quarter of 2009. However, there are indications that substantial net foreign financial inflows occurred in the first quarter of 2010 as reflected by an increase of 34% year-on-year in the all share price index of the JSE. Non-residents were net buyers of bonds and equity.

South African exports and imports turned in the third quarter of 2009. Exports

declined by only 16.4% in the fourth quarter 2009 after being 24.4% year-on-year down in the second quarter of 2009. Import volumes declined by 23% in the second quarter of 2009 and only 12.3% y/y lower in the fourth quarter of 2009. The improvement in imports expressed as percentage of gross domestic expenditure increased from 25.8% in the third quarter of 2009 to 27.3% in the fourth quarter of 2009 – again moving to a higher import propensity.

### *Domestic Financial Conditions*

The recent lowering of the repo rate by the Reserve Bank has further eased the conditions for debt burdened households and small and medium sized businesses. The subdued household consumption expenditure bears testimony to depressed conditions for many households.

Liquidations in the first two months of 2010 were 38% higher than in the corresponding period of 2009 and reflect on trying conditions for many businesses. Although manufacturing production started to recover towards the end of 2009, it was still 3.4% below the level of the fourth quarter 2009. The January 2010 level of production was however 3.6% higher a year ago.

The housing market and the construction sector for buildings were amongst the hardest hit sectors and data on building plans passed suggests that building construction that was still about 10% below the depressed level already prevailing at the end of 2008. The figure for January 2010 indicates that the position even worsened compared to a year ago. Real retail sales in the fourth quarter of 2009 were 5.6% below the fourth quarter of 2008 and although the January 2010 figure suggest a possible turnaround, retail sales could remain under pressure given that household debt to disposable income remains at a high level of about 80%. Therefore the lowering of interest rates recently should assist the turnover in some consumer goods sectors. Although households has increased their borrowing by 3.5% year-on-year in February 2010, total borrowing by the private sector declined by 0.5% year-on-year in

February 2010. This could imply that real activity financed by credit is decreasing at a rate of about 5% at present.

## **Mpumalanga perspective**

### *Inflation: Consumer Price Index (CPI) and Producer Price Index (PPI)*

The year-on-year CPI for Mpumalanga for March 2010 has dropped to 4.5% thus moving below the national figure of 5.1%. This was influenced mainly by the drop in food inflation as food contributes just over 20% to the inflation basket of products. Water, energy services as well as insurance are still a challenge as they showed significant rises of over 10% each.

The more urbanised areas of the Province, Mbombela and Emalahleni experienced a higher inflation rate of 5.7%.

The March PPI for domestic output rose 3.7% y-o-y, which was an increase of +0.2 on the February PPI.

Global export demand has strengthened, boosting manufacturing output, which accounts for 15% of the South African economy.

### *Market Potential*

According to a recently completed report by The Bureau of Market Research (BMR) entitled Market potentials for South Africa by province, municipality and population group, 2008 (BMR Report 388), market potentials for a specific product and/or service will be higher in the more affluent provinces, where a large number of affluent people (potential customers) are living in affluent areas (municipalities). Conversely, market potentials will be lower in the poorer provinces where there are many poor people (potential customers) residing in poor areas (municipalities).

The results of the study show that in South Africa, the White population, although only 10.8 % of the total South African population in 2008 contributed 40.2 % of household consumption expenditure. The contribution of the White population group to total household consumption expenditure decreased from 48.1 % in 1993 to 40.2 % in 2008 while the contribution of the African population to total household consumption expenditure increased from 38.6 % in 1993 to 47.1 % in 2008.

Household consumption expenditure in Mpumalanga is more equally distributed than in some other provinces due to the absence of a metropolitan municipality in this province. The greatest concentrations regarding household consumption expenditure were found in respect of three more urban municipalities, namely the Govan Mbeki, Emalahleni and Mbombela municipalities where larger towns such as Secunda, Bethal, Leandra, Witbank, Middelburg, Nelspruit, Hazyview and White River are situated.

### *Employment*

From the first quarter labour force survey figures released by Statistics South Africa on Monday, compared to Q1:2009, there was an annual decrease of 6,1% (833 000) in South Africa's employment, an increase of 126 000 in the number of unemployed persons, and an increase of 1 071 000 in the number of persons who are not economically active - 624 000 being discouraged work-seekers. These figures are higher than what was forecast.

Mpumalanga lost 29 000 jobs compared to the fourth quarter of 2009 and lost 84 000 jobs since the same period last year. Gauteng, North West and KwaZulu-Natal were the hardest hit provinces in terms of job losses, with Gauteng recording 327 000 job losses, North West recording 108 000 job losses and KwaZulu-Natal accounting for 96 000 of the 833 000 job losses in South Africa on a year on year basis.

The result of these job losses have put Mpumalanga as the second highest in terms of unemployment rate which now stands at 29.3%.

To address the alarming rates of unemployment, the Province is looking at key strategic interventions, one of which includes the Maputo Development Corridor among others.

### *Maputo Development Corridor as a strategic intervention*

The strategic focus of our cooperation with Mozambique has been technical development assistance, investment promotion and opportunities seeking economic cooperation anchored on the implementation of projects in the Maputo Development Corridor Flagship. The projects include the (i) One Stop Border Post (OSBP); (ii) the Komati Dryport and Industrial Park; and (iii) the Komatipoort Train Station.

The One Stop Border Post project is implemented by the Department of Public Works primarily for SARS and Home Affairs Department and the Mozambican counterparts, through a bilateral implementation agreement between the two countries.

The Komati Dryport is positioned as the economic hub to support an expanded border with increased exports and imports. A full concept and preliminary design has been completed with a 1:50000 models. The Dryport will serve as Commercial Customs Facility (SARS, Export Agencies, Truck Stop, Overnight Facility, HIV Clinic, Duty Vehicle Maintained Centre etc) and Freight Logistics hub. It has strong support from NEPAD Business Foundation, Industrial Development Corporation and the Department of Trade and Industry.

Komatipoort Train Station is a port of Entry extension of the One Stop Border Post to address rail passengers. The Passenger Rail and Agency of South Africa (PRASA) has committed to the refurbishment of the Komatipoort Station at a total cost of R12m as part of its expansion strategy. The province will be required to match the funding with project management estimated at R3m. The user departments (SARS, Health, SAPS, and DHA) have committed to operationalise the clearance facility, and in this regard agreements are being drafted for concurrence of the Mozambique authorities. The facility dramatically reduces the road border crossing and increase train travel.

As part of the strategic focus of our cooperation with Mozambique, the Maputo Corridor Project has also been providing economic forecasting of opportunities to key players in South Africa. The South African Foreign Mission has committed to series of investment opportunities briefings and roundtables to maximise the opportunities for South African companies intending expanding to Mozambique.

Identified opportunities were in the following strategic projects in Mozambique:-

1. Infrastructure and Preparations for the 2011 All Africa Games (to be held in Mozambique in September 2011)
2. ICT Hub and Internet Connectivity for Various Mozambican Government Departments
3. Housing and Sustainable Human Settlement
4. Tourism and Hospitality for new tourism nodes in Mozambique

## 5. Commercial Opportunities in Ressano Garcia /Lebombo Border Post Commercial Clarence Facilities

The role of the Province through MEGA and other agencies is the facilitation of development finance, business support and commendation of Mpumalanga based companies which may have expansion intentions.

### *Conclusion*

In conclusion honoured guests and ladies and gentlemen, I wish to point out that the year-on-year positive changes suggest a more solid and reliable trend. The financial environment is more positive on both a short term as well as a longer term outlook. However, business confidence has remained steady over the last few months, but fails to be robust. This is a situation that indeed requires concerted effort to turn-around.

We also observe that local economic support for recovery remains constrained from the consumer side while the fixed investment cycle is currently slowing down. The muted economic recovery, however, is also reflected in subdued private sector borrowing from the banking sector.

Caution needs to be exercised though as the economy is moving ever towards skill intensive activities but has an over endowment of unskilled persons. There is therefore a need to step up initiatives to improve the skills levels of those that are employed and those that are unemployed, especially the youth.

Furthermore, enhanced participation in international trade is crucial for economic

growth. South Africa needs to manage its global trade participation beyond being a mainstay commodity producer.

With these remarks, I wish you very fruitful deliberations and discussions at this important conference.

I thank you.