

Building the Domestic Economy as a catalyst for Global Competitiveness

Comments to the Nedlac Annual Summit Panel

Saturday 11 September 2010

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‘Our remedies oft in ourselves lie’

In a presentation of this nature it is important to identify some focal points around which some thoughts on this subject can briefly be offered. We are debating the theme of this Panel against the background of at least three relevant factors –

- ◆ At a time when the global economy continues to be characterized by significant uncertainty, with the risk of a ‘double dip’ recession in some economies.
- ◆ When we in South Africa are committed to finding a higher inclusive job-rich growth path, with an aspirational goal of perhaps 7% growth over the long term.
- ◆ The release this week of the Global Competitiveness Report for 2010-2011.

It is to the latter Report that I would like to devote the limited time at my disposal. The Report comes at a propitious time for this debate.

At the outset we need to remind ourselves that we define competitiveness as *the set of institutions, policies and factors that determine the level of productivity of a country*. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. A more competitive economy is therefore one that is likely to grow faster in the medium to long term. This is important for both developed and developing economies.

What is important to note here in the latest Report is that, while SA has dropped in rank since last year (from 45th to 54th), its performance has remained stable and the decline reflects improvements in other countries. This nonetheless matters because we want SA to become a leading investment destination for growth and employment in the years ahead. SA cannot afford to lag behind its peers in emerging markets in terms of competitiveness as it seeks to attract foreign investment. Although we

attract more than our fair share of portfolio and short term investment, SA is not attracting enough fixed direct investment (FDI) for growth purposes.

This is despite the fact that a more favourable UNCTAD survey this week ranked SA as a 'top 20' priority global investment destination. If this is indeed so, SA should be enjoying much higher levels of FDI. We certainly need to interrogate the differing perceptions reflected in the two documents. I suspect that answer may lie in the different preoccupations between the UNCTAD survey and Global Competitiveness Report around short-term and long-term investment prospects respectively.

In the meantime the latest Global Competitiveness report remains a wakeup call to all of us about what needs to be done if the domestic economy is to be a catalyst for international competitiveness. It injects greater urgency into our search for solutions. There is really unfinished business on the national agenda that needs to be actively addressed to ensure that we unlock the true potential of the SA economy.

We should all thus examine the findings of the latest Global Competitiveness Report to see what is relevant to our particular sector or interest. I would mention only three

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1. From a business perspective we should note that in respect of (a) the time required to start a business and (b) the number of procedures needed to start a business, SA's ranking has deteriorated. This has implications for small and emerging business.
2. Quality of Infrastructure is another sphere in which we have lost ground in the latest survey. We need to be pragmatic about how we are to find solutions here, including the greater use of public-private sector partnerships.
3. The burden of government regulation has increased significantly in the Report and we need to ask ourselves how we can do more to replace 'red tape' with 'smart tape' as a way of reducing the costs of doing business in SA.

So what is the good news? The fact remains that nothing is inevitable; 'rising tides' can be turned. Let me suggest the following perspectives in the light of what the latest Global Competitiveness Report is now telling us —

- ◆ The most important challenge would seem to lie not so much in the direction or funding of policies but to achieve successful implementation and delivery. Successful implementation is the name of the game. We need to talk more about the need for a *delivery state* to achieve those goals.
- ◆ There are several policies and projects in the pipeline — ranging from skills development to crime prevention — which if successfully executed

– can reverse SA’s declining global competitive ranking. We need to expedite their implementation in the light of what the Report is now conveying.

- ◆ We need to build stronger public-private sector relationships which assist in managing the weaknesses in our global competitive position and help to implement the necessary remedies. We must build on the positives and overcome the negatives. This must be the basis for problem-solving in the global competitiveness scenario.
- ◆ As we did in our handling of the global crisis last year, we were able to create consensus among the key stakeholders as to what needed to be done to steer SA through that difficult period. Looking ahead, we need to strengthen the ‘consensual stability’ needed to underpin the tough decisions needed in both the public and private sectors to enhance SA’s global competitiveness.

There is much more to be said but time does not permit. May I conclude with a quote from the 2008 Growth and Development Commission Report? :

Quote

‘In the fast-growing economies policymakers understood that successful development entails a decades-long commitment, and a fundamental bargain between the present and the future. Even at very high growth rates of 7-10% it takes decades for a country to make the leap from low to relatively high incomes. During this long period of transition, citizens must forgo consumption today in return for higher standards of living tomorrow. This bargain will be accepted only if the country’s policymakers communicate a credible vision of the future and a strategy for getting there. They must be trusted as stewards of the economy and their promises of future rewards must be believed (CGD, 2008:26.)’

Unquote

That is the collective challenge we face as we contemplate the findings of the latest Global Competitiveness Report on SA. Much will depend on the role of the National Planning Commission in helping to develop a shared economic vision of the future. We must not allow our capacity to deal with the challenges of unemployment and poverty to be weakened. Developing more consensus around the primacy of growth and employment in the hierarchy of policy objectives will assist us to better understand the role of global competitiveness in helping to achieve those goals. Whatever ambitious higher growth path SA eventually sets for itself, it will not be attainable

unless we can better address the gaps identified by the latest Global Competitiveness Report.

Ends.