KEYNOTE ADDRESS PROVINCIAL INVESTMENT CONFERENCE

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MEC Mabuyane and other political leadership from the province and city, Businesses and business leaders present here today, officials, and other distinguished guests, thank you for inviting me to address you here today.

We need an honest conversation about why South Africa has performed poorly in attracting investment, and why our economic growth and job creation languishes below our people's aspirations and needs. We need to change direction. Are we doing enough to attract investment and reduce barriers and costs to doing business in the province?

I will begin with some contextual points.

Global growth is fairly stable at 3.7%, but resulting from China's slowdown, we remain in a relatively weak commodity's demand cycle. De-globalization pressures (eg bring production home calls in the US) and threats of trade wars have also increased risk appetite for emerging markets.

Our own growth forecasts as SA have been downwardly revised from 1.5% to 0.7% for this year. Tax revenues have also been revised down. Gross debt has not yet stabilized, with debt only expected to stabilize at 59.6% of GDP by 2023/24. In short, the next few years will be tough and we remain in locked in a fiscal consolidation framework to avoid a ratings downgrade and IMF bail-out (structural adjustment programme).

Our weak growth is underpinned by deep and systemic structural constraints. South Africa has not diversified enough and remains locked-in to a capital intensive, energy intensive historic growth path that is too dependent on commodity booms. This makes our economy extremely vulnerable to global shocks; creates far too little new wealth in the productive economy; and excludes large numbers of South Africans from participating eithers as owners of capital or as employees. South Africa's unemployment rate stands at 27%, or 36% if those who have stopped looking for work are included.

We must diversify the economy through growing investment, output and jobs in sectors and industries where we could be more competitive:

- The mining and energy sector (including downstream industries, renewables and gas)
- The infrastructure value chain (leveraging off Africa's big build programme)
- The ocean economy value chain (including aquaculture, off-shore bunkering, ship building and repair)
- The agriculture value chain (particularly export-intensive and labour-intensive horticulture)
- Advanced export manufacturing (anchored in local supply chains, new technological capabilities, and new logistics capabilities)
- Light manufacturing, including the clothing and footwear industry, both for export and domestic consumption
- International tourism (including health tourism), leveraging off our exchange rate advantages and world-class heritage.

To diversify the economy and create jobs, we have to attract investment. The challenge is formidable. Africa received just three percent of the $1.7 trillion in global foreign direct investment (FDI) allocated in 2016. South Africa's share of this global store has fallen three-fold in ten years, to less than 0.1%.

There are political, policy and institutional dimensions to South Africa's poor performance. It reflects investor fears about the likely reward versus the perceived risk, constraints in terms of the ease of doing business, and policy attractiveness as well as predictability. It also relates to South Africa's ability to target investors and to package and sell the country abroad.

South Africa's attractiveness as an investment destination has been hurt by policy inconsistency, widespread corruption and state capture, together with the recent performance record of the country's SOEs. Any investment strategy has to acknowledge these upfront as the foremost priorities of the new government. Restoring integrity and efficiency to government, and therefore confidence to the economy, must be our overriding objective.

South Africa's government, led by President Cyril Ramaphosa, has committed to a 'New Dawn', at the heart of which is a commitment to restore integrity and efficiency to government, and confidence to the economy.

The vision of the new government is of an inclusive and prosperous economy, within a pro-business investment environment. Although I'd rather not admit it, this is part of the reason I am here today – to represent our ambitious five-year target of R1,2-trillion in fresh fixed investment!

Over the past year or so we have travelled widely, both locally and internationally, to listen to investors, to intervene where we can to unblock challenges, but most importantly to work to cement a coalition of support for the President's new economic agenda – while not denying the deep complexities and challenges at hand.

As President Ramaphosa announced in his State of the Nation address last week, the inaugural South Africa Investment Summit last October attracted about R300-billion in investment pledges from local and international investment. Obviously we still have work to do to convert the pledges to hard investment, but I believe we're on the right road – already projects to the value of R187-billion are being implemented, and projects worth another R26-billion are in pre-implementation phase.

Additionally, President Rampahosa has asked all nine provincial governments to identify investable projects, unique to their local economies, that can not only boost the micro environment, but also be scaled at a macro level. I repeat – investable projects – that clearly show return on investment.

Despite these advances – and we're certainly in a better place than we were a year ago – we all know that high-growth countries get their basics right – by understanding their weaknesses, strengths and then developing policies and taking action around these existing realities. Such introspection is difficult, but essential if we are to avoid falling further and further behind the global growth curve.

We realize that business requires predictability, especially for long term fixed investment (the type we need). We have clarified our positions on renewal energy, on mining, and on the land question.

On energy, we have recently concluded our Integrated Resource Plan 2018, which clarifies our position on expanding the renewable energy component to our energy mix going forward to 2050. On mining, we have concluded a revised Mining Charter with industry stakeholders, and withdrawn the Mineral and Petroleum Resources Development Amendment Bill. This has restored stability in the mining sector. On land expropriation without compensation, we have clarified our position that this should not include productive land where investment, food security and jobs will be at risk.

Confirming these policy positions was at the heart of the Investment Summit we held in October, in which the private sector, both domestic and foreign, committed USD20 billion on mining, manufacturing, ICT, agro-industrial, and services initiatives. The President is clear – we must address inequality and unemployment as our core problems as a country – but we must do this on the back of a growing economy. Without investment, we will not grow output and jobs. Also as part of this package, we are putting measures in place to improve our global competitiveness ranking and reduce the costs of doing business.

Importantly, we need to build practical partnerships with the private sector, through entering into industry-level compacts with business to increase levels of investment, output and jobs. Key here is for the state and private sector to learn from each other to understand growth constraints and how these can be jointly tackled. Often what investors wants are simple things – things we should take for granted – clean, safe environments, good schools, health facilities, clean beaches etc.

Turning to the Eastern Cape, it is our understanding that the EC invests about 17.5% of its GDP. This ratio is just over 19% for SA as a whole. Both figures are too low. We need to ramp up investment to over 30% of GDP to create the economic growth and jobs that we need.

What can we do in the EC to speed up our investment pipeline? The answer to this question must necessarily be based on an overarching investment strategy, which in turn must be based on an accurate understanding of the structural characteristics of the provincial economy.

Here, there are several inter-related characteristics that must be foregrounded:

First, our two relatively small metros are insufficiently dynamic. Our cities are not acting as engines of growth, although I have seen improvements of late in how BCM is beginning to focus on reducing costs of business? What must be done to make our cities more investment attractive?

Second, the EC has a relatively small private sector. Private business enterprises account for more than a half of total investment, but in the 2000s the private sector accounted for over 70% of total investment in SA. How can we entrench a more business-friendly and investor supportive environment, throughout the Province?

Third, our public sector is relatively large, particularly in the six rural Districts. The EC relies too much on public investment, which is problematic during a period of fiscal consolidation. There is also evidence that we have failed to get our fair share of investment from SOCs. We are a neglected province with regards our SOCs and we need to think how we turn this around.

Fourth, the majority of our people continue to reside in the former homelands, where conditions for investment are not enabling. In particular, colonialism and apartheid created total confusion around land tenure and clearly private sector land-based investments require long-term secure/legal tenure. Surely we need to quickly establish “investment precincts” to enable investment into the former homelands?

Fifth, agricultural accounts for only about 2% of investment, despite our favourable natural endowments of fertile land and water. Public sector investments in agriculture and agro-processing projects typically fail. How to we boost **private** investment in the sector?

Sixth, our 800km coastline is a clear provincial asset and the “ocean economy” initiative has been good at uncovering the investment opportunities. But how can we quickly move these government-led initiatives into sustainable community and industry/business ventures on the ground? Surely it is taking too long to make available coastal publicly-owned land parcels available to private investors on long-term leases?

In conclusion, I think your provincial strategy is correct: multi-sector; multi-scale; and tailored to regional assets and opportunities.

The problem is implementation. We have a huge investment pipeline of concepts and generalized business cases, but actual investment is too low.

We need an honest discussion on why your investment pipeline is too slow-moving. Are we doing enough to get opportunities investment ready for private investors? Are we looking after investors who have already invested, who could be our greatest ambassadors or greatest adversaries?

In this spirit, our success moving forward must be measured on delivery, rather than paper, projects, platforms, and summits. Our metrics must be measurable in terms of jobs, growth, and international profile.

Economic policy has to be focused on expanding the ability of the economy to produce, ensuring sufficient infrastructure is in place to support faster growth. To do so, government and business have to come together in a way that puts aside historical suspicions and ideologies. In the spirit of Thuma Mina, a group of South African business leaders have recently come together at a national level and initiated the Public-Private Growth Initiative to facilitate focused investment plans of leading companies across 19 sectors of the economy. Can we replicate such an initiative at the provincial and local level – here in East London and elsewhere in the province, obviously building in our idiosyncrasies as strengths?

Our reality of the structure of our economy is such that all our lofty growth aspirations are wholly dependent on the cogs in our economic engine – our provinces, municipalities and cities – running in-sync, remaining well-oiled (not in the backhand sense!), with ongoing support from a meritocratic and above-reproach maintenance team.

I end with a short good news story, unfortunately from the Western Cape. Two South African engineers working for Amazon in the US moved back home to Cape Town in 2004 and started working on what became “EC2”, the technology that now powers Amazon Web Services, the world’s leading cloud technology platform.

Because of this, Amazon continues today to develop this technology out of South Africa, and employs a large team of high-level engineers in the city.

Their experience of doing business in the Cape was good, so they decided to build a client service team in a major call centre to service their global operations. This has added “entry level” jobs, alongside the high end developer jobs. The growth in these two teams - cloud development and cell centres - have led to a rapid expansion of their offices in Cape Town where they today have thousands of employees.

Most recently, they have announced a major investment over three sites in Cape Town for their first base of data centres in Africa.

This story illustrates a few things. One – people who grew up here can be your best investors. I know for example that Andile Ngcaba who grew up in DV has huge plans for data centre development. Can we attract him to EL? Secondly, investors are attracted to a destination because it is a good place to live and play. It’s not just about the rands and cents of the investment – it is about the quality of life. Here municipal services and the quality of schools, for example, become important. Thirdly, it is about looking after existing investors. Their experience was good so they expanded. New investors talk to existing investors. If you are not servicing your current business community, you are simply not in the game.

Let me end by congratulating MEC Mabuyane and his team on this initiative. I thank you.