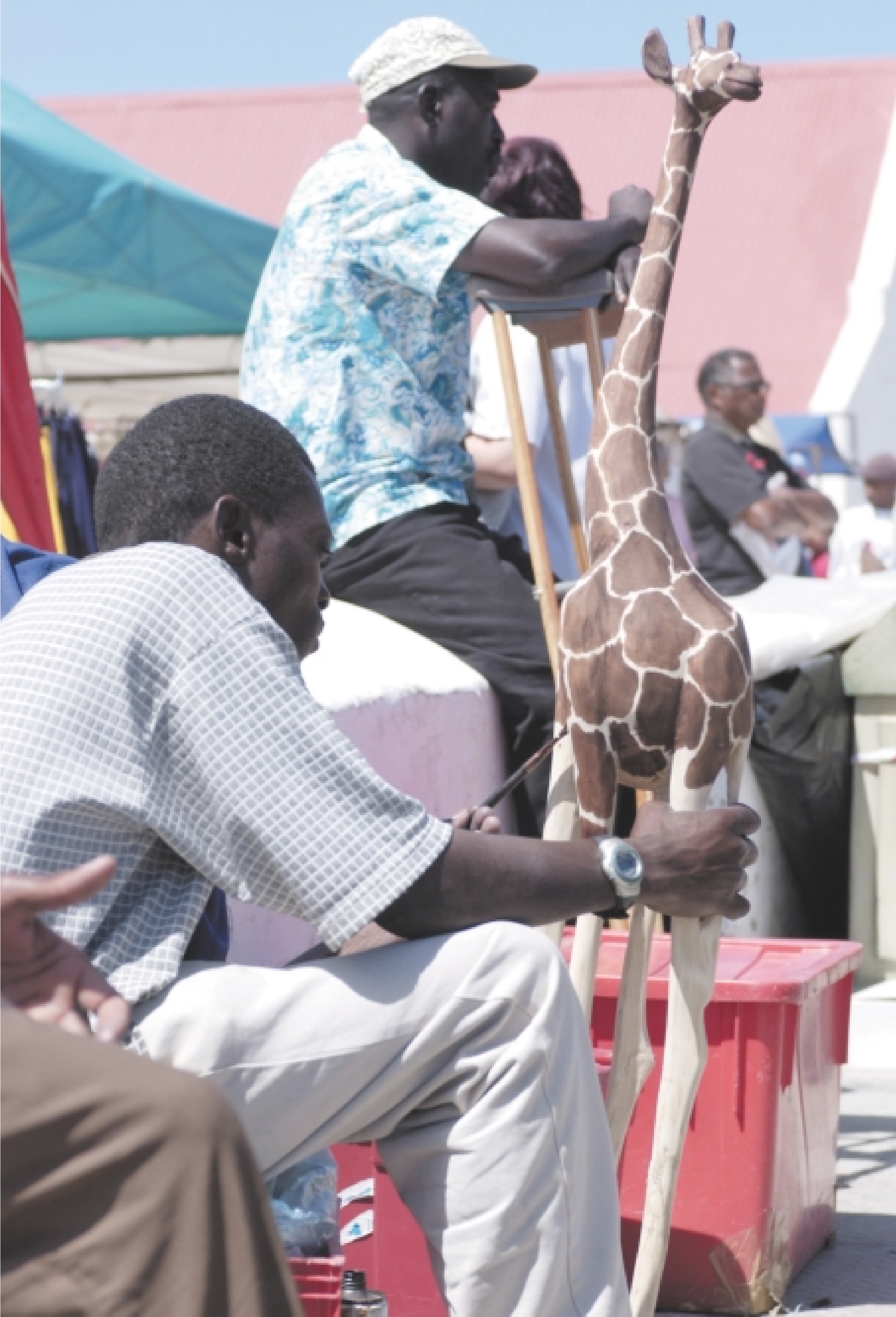

Chapter 7

Economy

South Africa has the most advanced economy on the African continent. Blessed with a wealth of natural resources, the country contains wide disparities of wealth, with obvious implications for broader socio-political policy directions. Given its history of inequalities and its location as an African country whose fate is linked to that of its neighbours, South Africa shares a strong set of interests with the developing economies of the world. It occasionally takes a leadership role in this regard.

South Africa's economy displays many world-class features. These include a sophisticated financial and physical infrastructure, good telecommunications and energy supply networks and one of the top 10 stock exchanges in the world. At their best, South African companies are competitive with the world's biggest and best. The challenge is to translate this into levels of investment high enough to promote economic growth large enough to reduce the country's substantial unemployment levels.

An open economy trading aggressively within the world economy, South Africa's concerns centre on increasing access to the markets of the developed world and being allowed to compete freely on equal terms. South Africa, like other developing economies, is highly susceptible to trends in the economies of its major trading partners (the United States [US], United Kingdom [UK], Europe and the Far East). Regional political instabilities sometimes negatively affect investor perceptions. South Africa, however, has been highly commended for its successful macro-economic policies. Among emerging markets world-wide, South Africa is a leader and a competitive producer of not just raw commodity exports but also high value-added goods, such as motor vehicles.

Small businesses in South Africa absorb more than half of the people formally employed in the private sector and contribute about 42% of the country's gross domestic product.

Domestic output

Growth in total real gross domestic product (GDP) accelerated from 0,8% in 1998 to 2,1% and 3,4% during 1999 and 2000 respectively. The weakening of the international economy was reflected in a slowdown of growth during 2001 to 2,2%. This was a reflection of quarter-to-quarter growth in total real production, which was on average lower in 2001 than in 2000. Growth slowed down from a seasonally-adjusted and annualised rate of 3,2% in the last quarter of 2000 to 1,2% in the third quarter of 2001 followed by an acceleration of 2,5% in the fourth quarter of 2001. The slowdown in real economic growth in 2001 can be attributed to a decline in growth recorded by the primary sector and a slowdown in the secondary and tertiary sectors of the economy. In addition, growth in real value added by the agricultural sector was negative during 2001 for the year as a whole.

The real value added by the primary sectors declined by 1,3% for 2001 as a whole compared to an increase of 1,9% in 2000. This was

Real GDP

Percentage change at seasonally adjusted and annualised rates

Sector	**2000**					**2001**				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Primary sectors	2,2	1,9	0,4	-0,5	1,9	-3,8	-0,4	-1,3	-2,4	-1,3
Agriculture	10,8	9,5	13,5	-2,2	7,3	-10,2	-3,9	-1,5	-2,4	-3,1
Mining	-3,6	3,4	-1,8	0,7	1,9	1,3	2,3	-1,2	-2,4	0,1
Secondary sectors	3,2	3,4	5,6	6,1	3,8	0,7	1,0	-0,6	4,1	2,6
Manufacturing	5,1	4,1	6,7	7,4	5,1	0,5	0,8	-1,1	5,6	2,9
Tertiary sectors	3,0	3,4	3,0	2,6	3,5	2,6	2,4	2,4	2,7	2,6
Non-agricultural sectors	2,7	2,9	3,4	3,4	3,2	2,0	2,0	1,3	2,8	2,5
Total	3,1	3,2	3,4	3,2	3,4	1,5	1,8	1,2	2,5	2,2

Source: South African Reserve Bank
Quarterly Bulletin, March 2002

the net result of a decline in growth in the real value added of the agricultural sector and growth of only 0,1% in mining.

The real value added by the secondary sectors slowed down from 3,8% in 2000 to 2,6% in 2001. This can mainly be attributed to a slowdown in the real value added by the manufacturing sector from 5,1% in 2000 to 2,9% in 2001. Quarter-to-quarter growth rates in the secondary sector increased at annualised rates of 0,7% in the first quarter of 2001 to 4,1% in the fourth quarter of 2001.

The growth in the real value added by the tertiary sectors slowed down to 3,5% in 2001 from 2,6% in 2000. Notwithstanding this, the share of the tertiary sectors as a percentage of total value added increased marginally from 65,2% in 2000 to 65,3% in 2001. Sturdy quarter-to-quarter growth rates of between 2,4% and 2,7% were, however, recorded during 2001.

Domestic expenditure

Real gross domestic expenditure slowed down to 1,8% in 2001 following an increase of 2,9% in 2000. Although domestic final demand accelerated slightly from 2,3% in 2000 to 2,6% in 2001, a smaller build-up of inventories that took place during 2001 resulted in slower growth in real gross domestic expenditure. Aggregate real gross domestic expenditure increased in the first quarter of 2001 and even further in the third quarter to a seasonally adjusted and annualised rate of 6,2%. The growth in the fourth quarter was still relatively strong at an annualised rate of 3,2%.

Growth in real final consumption expenditure by households slowed down from 3,3% in 2000 to 2,8% in 2001. The highest seasonally adjusted and annualised quarter-to-quarter growth of 3,4% was recorded during the fourth quarter of 2001. This can mainly be attributed to buoyant growth in expenditure on durable goods, especially personal transport equipment. The increased expenditure was brought about by some pre-emptive buying as the depreciation of the Rand towards the end of 2001 fuelled fears of steep increases in the prices of goods with a high import content as well as motor vehicles.

Real final consumption expenditure by general government accelerated from 0,5% in 2000 to 1,4% in 2001. Growth at seasonally adjusted and annualised rates fluctuated between 1,5% and 2,8% for the fourth quarter of 2001. This was the net result of an increase in intermediate consumption, which outweighed declines in the compensation of employees. The ratio of final consumption expenditure by general government to GDP has, notwithstanding these developments, remained at 18% for 2000 and 2001.

The upward momentum in real gross fixed

Real gross domestic expenditure

Percentage change at seasonally adjusted and annualised rates

Components	2000					2001				
	1st qr	2nd qr	3rd qr	4th qr	Year	1st qr	2nd qr	3rd qr	4th qr	Year
Final consumption expenditure by households	3,3	2,5	2,9	3,3	3,3	2,7	2,3	2,6	3,4	2,8
Final consumption expenditure by general government	-0,1	-0,2	0,1	0,6	0,5	1,5	2,3	2,6	2,8	1,4
Gross fixed capital formation	1,8	2,0	2,0	2,2	0,3	4,9	3,1	3,0	5,7	3,3
Domestic final demand	2,5	2,0	2,3	2,7	2,3	2,8	2,4	2,7	3,7	2,6
Change in inventories (R billion)	8,9	7,0	8,7	3,2	6,9	2,6	-2,3	5,3	6,2	2,9
Gross domestic expenditure	7,4	0,8	3,6	-2,1	2,9	2,7	0,1	6,2	3,2	1,8

Source: South African Reserve Bank
Quarterly Bulletin, March 2002

GDP by type of economic activity at current prices and at basic prices (R million), 1998 – 2001

Period	Agriculture, forestry and fishing	Mining and quarrying	Manufac-turing	Construction	Electricity, gas and water	Transport and communi-cations	Trade	Other	Total (GDP at basic prices)
1998	24 286	43 440	129 016	21 687	22 535	63 277	89 813	280 400	674 454
1999	24 995	47 882	136 016	22 325	21 740	70 867	95 595	311 164	730 584
2000	25 876	59 109	149 380	23 906	22 739	79 938	105 645	341 424	808 017
2001	27 293	66 808	163 880	25 538	23915	88 384	115 756	375 519	887 093

Source: South African Reserve Bank

capital formation since the fourth quarter of 1999 was sustained throughout 2000 and 2001 with quarterly growth rates fluctuating between 3% and 5,7% during the four quarters of 2001. The result of this strong growth during 2001 was that this spending aggregate accelerated from 0,3% growth in 2000 to 3,3% in 2001. This stronger growth can mainly be attributed to private sector and general government increased fixed capital formation throughout 2001.

A slower rate of inventory investment was recorded in 2001 than in 2000. The level of inventories, at constant 1995 prices, increased by R3 billion in 2001, compared with about R7 billion in 2000. The lower rate of inventory accumulation can be attributed to the relatively stronger growth in demand, which was not fully met by the growth in production and imports. An analysis by the economic sector for 2001 shows that industrial and commercial investment slowed down significantly and that the inventories in the other sectors declined absolutely. Despite these developments, the ratio of industrial and commercial inventories to non-agricultural GDP came to 15,5% for 2001, up from 15,3% in 2000.

Financial account of the balance of payments (R million), 1995 – 2001							
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Financial account							
Direct investment							
Liabilities	4 502	3 515	17 587	3 104	9 184	6 158	57 234
Assets	9 059	-4 485	-10 831	-9 841	-9 659	-1 878	28 687
Net direct investment	-4 557	-970	6 756	-6 737	-475	4 280	85 921
Portfolio investment							
Liabilities	10 651	17 983	51 563	50 452	83 883	11 793	-24 000
Assets	-1 631	-8 407	-20 983	-30 077	-31 537	-25 628	- 43 626
Net portfolio investment	9 020	9 576	30 580	20 375	52 346	-13 835	-67 626
Other investment							
Liabilities	17 217	7 492	-1 330	6 534	-9 322	10 828	-18 121
Assets	-1 899	-2 704	-8 957	-2 872	-10 034	947	- 11 184
Net other investment	15 318	4 788	-10 287	3 662	-19 356	11 775	- 29 305
Balance on financial account	19 781	13 394	27 049	17 300	32 513	2 220	- 11 010

Source: South African Reserve Bank

Price inflation

Consumer price inflation (CPI) fell from 15,3% in 1991 to 5,3% in 2000, rising to 8% in April 2002. This steady decline of CPI during the nineties was the result of sound monetary and fiscal policies and the opening of the economy to international trade and capital flows. In more recent years, movements in the CPI have been determined mainly by changes in mortgage interest costs, in petrol and food prices and import and export parity pricing.

Consumer price inflation excluding mortgage rates (CPIX) accelerated gradually from 6,9% in 1999 to 7,8% in 2000, and reached 8,8% in April 2002. According to Reserve Bank models, there was a 60% chance that the inflation target, aimed at reducing the annual average CPIX to between 3% and 6%, would be reached in 2002. Independent surveys and the yield differential between conventional 10-year government bonds and inflation-linked debt show that inflation expectations are falling. Lower oil prices and a slowdown in the US economy are helping to reduce external pressure on domestic inflation.

Production price inflation has risen sharply in recent years. The annual increase in the all-goods production price index accelerated from 3,5% in 1998 to 5,8% in 1999, 9,2% in 2000, 8,4% in 2001, reaching an all-time high of 14,8% in April 2002.

Factors underlying the recent acceleration in production price inflation include the rise in the prices of energy and food over the past two years, the depreciation of the Rand against a basket of currencies, and the somewhat faster increases than before in the production prices of South Africa's major trading partners. The production price inflation and CPI moved in opposite directions in the second half of 2000. This distorted the long-established relationship between movements in the production price index and the consumer price index. According to this relationship, changes in the production price index usually foreshadow consumer price changes with a lead time of two or three months. It is not certain if the relationship will be re-established in coming months, but there is a real risk that consumer price increases may accelerate in response to prior increases in

Production and consumer price indices, 1995 – 2001

	Production prices of goods for domestic use (June 2000 = 100)			Consumer prices (2000 = 100)			
				Goods			
Period	Goods produced in South Africa	Imported goods	All goods	Food	All goods	Services	All items
1995	73,9	71,1	73,0	71,7	71,8	72,7	72,4
1996	79,4	75,0	78,1	76,1	76,2	79,6	77,7
1997	85,5	78,7	83,6	83,3	82,4	86,9	84,4
1998	88,6	81,1	86,6	88,4	87,3	93,8	90,2
1999	93,2	87,4	91,6	92,7	97,7	94,9	94,9
2000	100,0	100,0	100,0	100,0	100,0	100,0	100,0
2001	107,8	110,0	108,4	105,4	105,6	105,5	105,7

Source: South African Reserve Bank

production prices. A number of reasons can be listed for the current breakdown in the relationship between changes in production prices and consumer prices:

- Changes in the general level of interest rates automatically have a strong impact on the consumer price index.
- Consumer services have a weighting of 45% in the overall consumer price index, whereas the production price index deals only with goods prices.
- Imported goods have a weighting of 27% in the production price index, whereas it is estimated that the weighting of imported goods in the consumer price index amounts to roughly 5%.
- The consumer price index takes account of changes in indirect taxes such as value-added tax and customs and excise duties, whereas changes in these areas are not reflected in changes in the production price index.
- The rise in the international price of crude petroleum had a greater impact on the production price index than on the consumer price index. Changes in international crude oil prices are directly reflected in the imported component of the all-goods production price index. By contrast, the consumer prices of petrol and diesel are partially disconnected from the full changes in international petroleum prices because indirect taxes drive a large wedge between the price of crude petroleum and the pump price of petrol and diesel. All taxes levied on petrol and diesel are specified as an absolute fixed amount, which does not change in line with the international petroleum price. The higher these taxes as a portion of the final price of petrol and diesel, the smaller will be the percentage increase in the petrol and diesel price for a given increase in the international oil price.

Foreign trade and payments

A strong improvement in South Africa's trade balance with the rest of the world cancelled out the higher deficit on the services and income account. This contributed towards a narrowing of the deficit on the current account in 2001. The surplus on the trade account increased from R30,2 billion in 2000 to R41,9 billion in 2001. Overall, the deficit on the current account declined from 0,4% of GDP in 2000 to 0,2% of GDP in 2001.

In 2001, the value of merchandise exports increased by 20,3%. Export volumes rose by just 1,5%, mainly due to the slowdown in the global economy, which dampened the international demand for goods produced in South Africa. Export prices increased by 19% in 2001, essentially because of a depreciation of 14,5% in the average trade-weighted exchange rate of the Rand.

The value of net gold exports increased from R26,8 billion in 2000 to R29,4 billion in 2001. The higher value of gold exports in 2001 resulted entirely from an increase in the Rand price of gold.

In 2001, merchandise import volumes declined by 1,5% and volumes rose by about 16%. The unit cost of imported goods therefore increased by 17,5% in 2001. The volume of imports declined especially in the third quarter of 2001. Most categories of capital goods imported declined, but the fall was particularly large in the categories for transport and electrical equipment and machinery. This occurred in a period when recorded fixed-capital formation was still growing, indicating that an increasing share of investment in equipment was sourced from domestic supplies. Oil import volumes declined too, largely reflecting the weaker domestic economic conditions and expectations of continued weak economic activity.

The deficit on the services account with the rest of the world widened considerably from the first to the second quarter of 2001 and remained at a high level in the third quarter. This higher deficit on the services and income account was related to inward movements of foreign direct equity investment into the economy in recent years, giving rise to dividend payments on non-resident shareholdings. The seasonally-adjusted and annualised balance on the services account of the balance of payments declined again in the fourth quarter of 2001. A decline in divided payments to offshore shareholders and a sizeable increase in travel expenditure by foreign visitors to the country contributed most towards this improvement in the balance on the services account. Despite this fourth-quarter improvement, the deficit on the services account deteriorated from R33,9 billion in 2000 to R43,6 billion in 2001.

Capital moved into the economy from offshore sources during the second and third quarters of 2001, but a deficit of R1,5 billion was recorded on the financial account of the balance of payments in the fourth quarter of 2001. In 2001, the financial account registered a surplus of R7,2 billion, compared with R9,1 billion in 2000.

Foreign direct investment (FDI) flows into South Africa, which had been positive in the first three quarters of 2001, turned negative to the value of R1,9 billion in the fourth quarter. Direct outward investment recorded an inflow of R28,7 billion in 2001, compared to an outflow of R1,9 billion in 2000. In 2001, there was a net inflow of direct investment capital of R85,9 billion, concentrated in the second quarter of the year when the corporate relationship between Anglo American Corporation and the De Beers mining companywas restructured.

The net outward movement of portfolio capital increased from R13,8 billion in 2000 to R67,6 billion in 2001. The substantial outflows in 2001 were also mainly related to the buying out of the minority shareholders in the De Beers mining company.

Other foreign investment into South Africa, consisting mainly of loans, trade finance and bank deposits, changed from an inflow of R10,8 billion in 2000 to an outflow of R18,1 billion in 2001. South African entities reduced their other foreign investment assets by R11,2 billion over the same period.

The country's international reserves increased by R5,2 billion during 2001 as a whole, mainly as a result of healthy surpluses on the external accounts in the first half of the year. Total gross gold and other foreign exchange reserves increased from R84,2 billion at the end of December 2000 to R150,7 billion at the end of December 2001. In US Dollar terms, South Africa's total international reserves rose from US $11,1 billion to US $12,4 billion over the same period. Aggregate import cover, i.e. the value of gross international reserves expressed as a ratio of the value of imports of goods and services, improved from 15 weeks at the end of 2000 to 24 weeks at the end of 2001.

Capital inflows in the second quarter of 2001 contributed significantly to the virtual stability of the nominal effective exchange rate of the Rand from the end of December 2000 to the end of June 2001.

From the end of June 2001 to the end of December 2001, the exchange value of the Rand depreciated by 36,1% against the Euro, 33,3% against the US Dollar, 35,3% against the British Pound and by 29,5% against the Japanese Yen. The deficit on the overall balance of payments and the growing preference of international investors for investments in mature markets rather than emerging markets put downward pressure on the exchange value of the Rand in the fourth quarter of the year.

Department of Trade and Industry

The aim of the Department is to facilitate sustainable economic activity and employment for all South Africans through higher levels of investment and of exports, increased access for South African products in international markets, to grow enterprises and help define economic policies, and to create a fair, transparent, competitive and efficient market-place for domestic and foreign businesses, as well as for consumers. The key objectives of the Department are to:

- grow investments and exports
- grow markets for South African products abroad
- grow small, medium and micro enterprises (SMMEs)
- grow women-owned enterprises
- redress inequities in the economy, through bringing the previously disadvantaged into the mainstream.
- grow the Southern African Development Community (SADC) region and assist with the New Partnership for Africa's Development (NEPAD)
- reduce geographic/spatial development inequalities by spreading investments over the provinces
- create a fair and efficient market-place for business and consumers alike.

International trade and economic development

The International Trade and Economic Development (ITED) Division of the Department has as its central brief increasing South Africa's access to markets world-wide, by negotiating international trade agreements, if possible on preferential terms. At the same time, ITED seeks to ensure that the country's commitments are honoured in the multilateral, rules-based trading system underpinned by the World Trade Organisation (WTO).

Internationally, open economies with an export base fare much better in terms of economic growth than closed economies. Production is more and more globally integrated, and South Africa forms a vital part of international supply chains. Therefore, dismantling barriers to trade, especially those barriers faced by South African exporters, is a critical component of any economic strategy that promotes sustainable growth. ITED's global economic strategy considers sustainable growth as its departure point. It is not developed in isolation but is part of South Africa's broad industrial strategy. It was formulated in light of the country's relations with the SADC, the rest of Africa, NEPAD and economic relations with developed and developing trading partners in the North and the South.

Since 1994, the (Rand) value of both South Africa's exports and imports in manufactured goods has grown steadily. Even accounting for inflation and the depreciation in the Rand since 1994, exports, and importantly, exports in manufactured goods, have exhibited strong upward trends. South Africa's export base is diversifying rapidly with success having been achieved most notably in processed agricultural goods, automobiles and a number of categories of industrial machinery.

South Africa is situated on the southern tip of a continent whose exports as a percentage of world imports constituted just 2,1% in 1998. Moreover, Africa's export base is limited, and attempts to expand it too quickly will be thwarted by what may be termed, in a number of cases, severe supply-side constraints. As with all other economies, South Africa's success is intimately tied to that of the region and the continent of which it is a part. ITED is committed to the pursuit of market access for South Africa, more effective efforts at subregional and continental integration, and the strategic and positive engagement of the region and the continent in the WTO.

Policy and programme developments in international trade development include:

- continued negotiations with India, Brazil, and Nigeria. In the case of India, this has already been successful with a 25% rise in South Africa's exports there.
- continued negotiations with Mercosur, a trading bloc of six Latin American countries, namely Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay.
- the administration of various binational commissions (BNCs) with other governments.
- the implementation of the new Southern African Customs Union (SACU) agreement concluded in September 2001, in which ITED played a pivotal role.
- strengthening the trade capacity of the SADC.
- preparing for and participating in a new trade round under the auspices of the WTO. A breakthrough was the agreement on a new development round, achieved at Doha, Qatar in late 2001, to which ITED, led by the Minister of Trade and Industry, Mr Alec Erwin, made a vital contribution.
- ongoing analysis of trade threats and opportunities.
- replacing the Board of Tariffs and Trade (BTT) with the new Commission for International Trade Administration (CITA), an independent regulatory agency. CITA will take over BTT's function of administering the tariff regime and is set to play a central role within SACU on tariff and related issues.

Trade relations

Africa and the Middle East

Africa forms the focus of South Africa's global economic strategy, within which government pursues a strong developmental agenda. Partnerships with countries on the continent are therefore considered vital and strategic. The view is that South Africa's own success is inextricably linked to the economic recovery of the continent. The developmental challenges must be viewed in light of the mutually beneficial economic and developmental impact on South Africa and Africa's self-enforcing and economic existence.

Africa is an important market for South African exports. In 1999, approximately 30% of South Africa's exports were destined for the continent. Unfortunately, this was not mirrored by imports from the continent, accounting for only 30% of South Africa's total imports.

This trade imbalance has largely been offset by South Africa's investment on the continent, aimed at infrastructural projects designed to enhance the productive capacities of African economies. In addition to bilateral trade relations and the normal aspects involved in forging economic relationships, the Department of Trade and Industry is committed to increasing South Africa's involvement in large capital projects on the continent. The following areas have been prioritised:

- power generation, transmission and distribution
- telecommunications
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agro-processing
- mining.

During meetings of the World Economic Forum (WEF) for southern Africa, the formation of a Business Forum for southern Africa was announced – a joint initiative between the Department and the private sector, established to take advantage of investment opportunities in the region. The Department, through Trade and Investment South Africa (TISA), has established trade and investment promotion offices on the continent for the purpose of facilitating trade and investment flows. The offices are located in Egypt, Nigeria, Ghana, Uganda, Kenya, Ethiopia, Tanzania, Zimbabwe, Mauritius, the United Arab Emirates, Saudi Arabia, Israel and Iran.

The Department has been mandated with the task of providing supportive services to the establishment of NEPAD, set to become an increasingly important focus in the years ahead.

In southern Africa, South Africa seeks to restructure regional arrangements promoting industrialisation. The Department supports a process whereby interested manufacturing platforms are the basis for an integrated regional industrial strategy. This entails using southern Africa as an integral part of supply chains for globally competitive manufacturing processes. Through a combination of sectoral co-operation, policy co-ordination and trade integration, South Africa's regional policy aims to achieve a dynamic regional economy capable of competing effectively in the global economy. For instance, South Africa works closely with its neighbours in engaging effectively with multilateral international institutions and agreements, from the WTO to the African-Caribbean-Pacific (ACP) Declaration recently announced.

Southern African Development Community

The centre-piece of South Africa's foreign economic policy is the SADC, comprising Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Within the SADC, a smaller group of countries – South Africa, Botswana, Lesotho, Namibia and Swaziland – operate the SACU.

Trade with SADC countries has increased significantly from R16 billion to R22 billion during the period 1998 – 2000. Imports amounted to R2,6 billion, giving an overall export-import ratio of 7:1. While there is an acceptance due to the structural nature of the economies, that South Africa's imports from the region are not (in the foreseeable future) going to equal its exports to the region, the potential for further trade has certainly not been fully realised. The trade profile itself is heavily weighted in terms of beneficiated and manufactured goods, while primary products dominate imports. A disaggregation of South Africa's exports to SADC countries reveals that Zimbabwe is by far the most important market, followed by Mozambique, Zambia, Mauritius, Malawi, Tanzania and Angola. In the past few years, trade with Zimbabwe has been reduced as internal conditions in that country continue to deteriorate. Balanced against this are much-improved prospects for peace in Angola and the DRC, and Lesotho's peaceful democratic elections in May 2002.

The order of importance of these markets change from year to year as internal conditions in these countries affect their ability to import. Despite internal problems in Angola and the DRC, they have remained in South Africa's top 10 export markets in Africa in the past eight years. As is the case with exports, South Africa's imports from the region are focused on a few countries, with the top 10 countries accounting for between 80% and 90% of total imports from Africa. Zimbabwe is again South Africa's top supplier in Africa, followed by Mozambique, Malawi, Zambia and Angola.

Strong linkages guide South Africa's interests and objectives in the southern African region between the domestic and regional economy. As the market for a large proportion of South Africa's high value-added exports, the growth of these domestic industries is inextricably linked to the growth of the region's economies. Growth in South African manufactured exports to SADC countries in

South African manufacturing exports by region (Thousands of Rands, current prices)

Manufacturing trade regions		Proportion 2001	Annual Growth	
Name	**2001**	**% Total**	**Cum**	**2000 – 2001**
1. European Union	47 726 461	32,5%	32,5%	19,8%
2. SADC	23 724 721	16,2%	48,7%	13,9%
3. North American Free Trade Agreement (NAFTA)	19 009 840	13%	61,7%	16,6%
4. North-east Asia	11 472 541	7,8%	69,5%	5,2%
5. Chinas	7 768 796	5,3%	74,8%	20,8%
6. Association of South-east Asian Nations (ASEAN)	5 688 254	3,9%	78,7%	19%
7. Middle East	5 069 882	3,5%	82,1%	20,9%
8. Pacific Continent	4 017 199	2,7%	84,8%	20,7%
9. South Middle Asia	3 284 931	2,2%	87%	29,3%
10. West Africa	3 260 239	2,2%	89,2%	53,6%
Unallocated	4 854 599	3,3%	92,5%	16,8%
Other regions	10 780 068	7,4%	99, 9%	44,5%
Total manufacturing	146 657 531	100%	100%	19,4%

Source: The Department of Trade and Industry

2001/02 grew at 13,9%, despite regional setbacks.

SADC Free Trade Agreement

Tremendous progress has been achieved in negotiations, including the implementation phase of the SADC Protocol on Trade on 1 September 2000, which encompasses the establishment of a SADC Free Trade Area (FTA) by 2008. A Trade Implemen-tation Unit was set up at the SADC Secretariat to co-ordinate the day-to-day implementation of the Protocol. Furthermore, the Cut, Make and Trim unit (relating to agreements in clothing and textiles) reiterated its decision to eliminate core non-tariff barriers that have led to cumbersome procedures and that have, in turn, tended to impede intra-SADC trade. These developments are expected to enhance the SADC's capacity to participate in regional and international trade.

South African Customs Union

The new SACU agreement is in place. It is a considerable achievement that further opens the door to a SACU FTA. New institutional features include the Council of Ministers, responsible for taking decisions on all matters pertaining to the SACU agreement, a SACU tariff body responsible for making recommendations on tariff and trade remedies to the Council, a small SACU Secretariat responsible for rendering administrative and support services to SACU structures, and a dispute settlement mechanism similar to the one already in place in the SADC. SACU members also agreed on the establishment of national bodies responsible for receiving tariff applications from each member state. Importantly, consensus was also reached on a new revenue-sharing formula.

Trade with Europe

Europe is the largest source of investment for South Africa and accounts for almost half of South Africa's total foreign trade. Seven of South Africa's top 10 trading partners are European countries. In 2001/02, South African manufactured exports to Europe grew by 19,8%.

Both bilateral development co-operation and multilateral development programmes through the European Union (EU) form a substantial element of South Africa's reconstruction and development. Relations with Europe, with the EU as the pivot, are economically crucial.

The UK, with its historic links to South Africa, is South Africa's third-largest trading partner and the largest foreign investor in South Africa. Germany is South Africa's second-largest trading partner and an influential member of the EU. The Germany-South Africa BNC intends expanding on the strong commercial links that already exist between the two countries. South Africa is the Netherlands' main trading partner in Africa and is seen as a gateway to inter-action with the rest of the continent. Likewise, the Netherlands is one of South Africa's top 10 trading partners and offers prospects of increased involvement in the EU, especially in light of the Trade, Development and Co-operation Agreement (TDCA) signed with the EU. In 2001/02, South Africa's manufactured exports to the Netherlands increased by 33,5%.

European Union

The historic TDCA provisionally implemented on 1 January 2000, established a FTA between South Africa and the EU. South Africa will grant duty-free access to 86% of EU imports over a period of 12 years, while the EU will liberalise 95% of South Africa's imports over a 10-year period. The Agreement is a key component of South Africa's trade policy since the EU is the country's largest trade and investment partner, accounting for about 40% of South Africa's total world trade. The expected impact on trade and investment flows between South Africa and the 15 EU member states will contribute towards the restructuring of the South African economy and its long-term economic growth potential. The Agreement covers trade and related issues, and co-operation in the economic, social and political fields. It also provides a legal framework for ongoing EU financial assistance in grants and loans for development co-operation, which amounts to some R900 million per annum.

Statistics compiled by the South African Revenue Service show that increasing use is being made of the tariff preferences in the Agreement and more so on the export side. South African exports under the FTA exceed imports from the EU.

The long-awaited wine and spirits agreements between South Africa and the European Community were signed in February 2002, concluding the TDCA, and firmly establishing South African wines and spirits exports in its major market.

At the same time, the negotiators achieved precedent-setting agreements on extremely contested areas relating to geographic indicators and intellectual property and trademark protection.

Cotonou Agreement

South Africa is a member state of the ACP Group but a qualified member of the Cotonou Agreement (signed on 23 June 2000 in Cotonou, Benin) in the sense that in the case of trade and development co-operation, the TDCA takes precedence over the Cotonou Agreement. The Cotonou Agreement is a trade and aid framework between the EU and 77 members of the ACP countries, and its main aim is to reverse the economic and technological marginalisation of ACP countries in the global trade and investment arena.

The Agreement states that future EU-ACP relations will be characterised by the following:

- a stronger political partnership between the EU and the ACP
- decentralised co-operation, which involves the active participation of civil society and the private sector in the planning of national development strategies
- reformed financial co-operation programmes of the European Development Fund's financial resources amounting to 24 billion Euro
- WTO-compatible Regional Economic Partnership Agreements (REPAs), covering essentially all trade, and implemented over 10 to 12 years as of 1 January 2008.

South Africa participated in the ACP Declaration of 2001.

South Africa, SACU and SADC in REPAs

As a region, SADC has complex political, institutional and economic issues that render an SADC-EU REPA in the time frame suggested in the Cotonou Agreement very difficult, even though a region-wide FTA is envisaged in 2008. With the Everything But Arms initiative for least developed countries (LDCs) only three non-LDCs, i.e. Mauritius, Seychelles and Zimbabwe, which are outside SACU will, in the immediate future, be outside any existing arrangement in the post-Cotonou era. There are several issues that South Africa should carefully study and assess, especially the possible negative effect of REPAs on the process of regional integration. The ACP Group was to embark on negotiations with the EU on REPAs in September 2002. By mid-2002, six regions or geographical configurations were identified, which included SADC as a possible regional grouping to negotiate a REPA – essentially FTA with the EU.

The Americas

North America

The US is one of South Africa's key trade partners. The relationship between the two countries has been deepening steadily since 1994. The Rand value of South African exports to the US has increased markedly. In 2001/02, South African manufactured exports to the North America Free Trade Agreement (NAFTA) grew by 16,6%. Furthermore, South Africa recorded a trade surplus of approximately R3,4 billion in 2000, following a number of years during which South Africa persistently ran a deficit. However, the structure of trade between the two countries remains very similar. The US tends to export higher value-added products to South Africa while South African exports to the US consist largely of unprocessed and semi-processed materials. Nevertheless, export opportunities for South African products do exist in the fields of auto components, footwear and leather, wine, machinery, chemicals, jewellery and cut flowers.

South Africa is a beneficiary of the US' Generalised System of Preferences (GSP), which grants duty-free treatment for more than 4 650 products. South Africa is also a beneficiary of the Africa Growth and Opportunity Act (AGOA), which permits duty-free entry of clothing and selected textiles into the US until 30 September 2008, subject to certain strictly defined criteria and policy reforms. Under AGOA, South Africa receives additional GSP (duty-free) treatment for 1 897 products until 2008. AGOA was proclaimed on 2 October 2000 and originally designated 34 countries in sub-Saharan Africa as eligible for the trade benefits of AGOA. In 2001, Swaziland was designated as the 35th AGOA-eligible country.

The South African-US Bilateral Co-operation Forum has replaced the BNC between the two countries.

A sign of the healthy relationship between South Africa and the US was South Africa's exemption from new US steel tariffs imposed in 2002.

Canada is South Africa's second-largest trade partner in North America. Since the lifting of sanctions in 1994, bilateral trade between the two countries has been on the increase, from R756 million in 1993 to R3,3 billion in 2000. Export opportunities for South Africa exist in:

- capital equipment (mining and machinery supplies)
- plastics
- clothing and textiles
- agro-processing.

South Africa is a beneficiary of Canada's General Preferential Tariff (GPT). GPT rates range from duty-free to reductions in the most favoured nation rates. South Africa has a Memorandum of Understanding with Canada relating to the export of clothing and textile products to Canada.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Chile, Mexico and Peru. South Africa and Mercosur signed a Framework Agreement in December 2000 in

Brazil. It commits both parties to negotiate and conclude a FTA. However, as the first step towards achieving this goal, the parties agreed to exchange preferences in certain sectors in the early stages of the negotiation process. Talks towards achieving this goal are progressing well.

Trade between South Africa and Mercosur grew substantially from R2,7 billion in 1994 to R6 billion in 2000. Both South Africa and Brazil regard each other as strategic partners (the launching of the Joint Commission in December 2000 bears testimony to this) with co-operation taking place in multilateral forums such as the WTO. Notwithstanding South Africa's strong ties with Mercosur, Chile is increasingly becoming an important partner for South Africa. South African mining companies are heavily involved in mining activities in Chile. There is great potential for the export of capital equipment and steel products.

Trade between South Africa and Mexico grew from R922 million in 1999 to R1,4 billion in 2000. The balance of trade has been in favour of South Africa for a number of years. There is potential to increase South African exports to Mexico, particularly in the areas of electronics and arts and craft.

Bilateral trade between South Africa and the Andean Community (Peru, Ecuador, Bolivia, Colombia and Venezuela) has been growing at a relatively slow pace since 1994. The Andean Community, more specifically Colombia and Peru, offers great potential for South African companies participating in the mining industry.

Asia

South and south-east Asia and Australasia

South Africa is a member of the Indian Ocean Rim Association for Regional Co-operation (IOR-ARC), a project-based regional economic grouping of 19 countries washed by the Indian Ocean. This group covers the eastern coastline of Africa, the Arabian peninsula, southern Asia and Singapore, Indonesia and Australia.

The IOR-ARC member countries account for about 10% of world trade. Currently, South Africa is involved in three main projects:

- development, upgrading and management of seaports, maritime transport, insurance and re-insurance
- study on cross-border financial services in the IOC-ARC
- technology co-operation in the Indian Ocean Rim.

Total trade with India has been increasing rapidly since 1994. Manufactured exports from South Africa increased by 25% over the last year. According to the latest figures, total two-way trade between the two countries stands at over US$2 billion, with the trade balance in favour of South Africa. South Africa and India have an Indo-South African Commercial Alliance that meets under the auspices of the Joint Ministerial Commission (JMC). The two countries are exploring the possibility of a FTA.

Relations with Australia have also been cemented via the JMC. Total trade with Australia amounted to R8,2 billion in 2000. South African manufactured exports to Australia grew by 17,3% in 2001/02. Bilateral trade with south-east Asia increased rapidly off a low base from 1990. This trade is more or less evenly spread between Singapore, Malaysia, Indonesia and Thailand. The percentage of total south-east Asian trade that any one country captures ranges between 19% and 28%.

South Africa has built its strongest ties in south-east Asia with Malaysia. This is evident in Malaysia being the second-largest investor on a cumulative basis in South Africa since 1994. This investment totalled approximately R6,67 billion and was concentrated in telecommunications, energy and oil, and property. Notwithstanding South Africa's strong ties with Malaysia, Thailand is increasingly coming into focus as a key partner for South Africa.

North-east Asia

Japan is South Africa's largest trading partner in Asia and its fourth-largest overall trading partner. It also became South Africa's third-largest export destination during 2000. At the end of 2000, total trade between the two countries stood at R31,7 billion. The Partnership Forum, designed to strengthen bilateral ties between Japan and South Africa, meets regularly. Investment from Japan has to date totalled in excess of US$500 million, of which the most recent was in the South African auto industry.

South Korea is South Africa's fourth-largest bilateral trading partner in Asia. Total bilateral trade in 2000 amounted to R7,6 billion. Investment from South Korea has to date totalled around US$55 million.

Economic and trade relations between South Africa and the People's Republic of China have grown rapidly since the formal establishment of diplomatic relations. Total trade with China amounted to R9,34 billion in 2000. This represented an increase of 40% in the Rand value of trade on the previous year.

South African exports to Taiwan amounted to R3,69 billion in 2000. Imports amounted to R4,22 billion in the same period.

Trade with the Chinas in 2001/02 reflected a rise of 63% in manufactured exports from South Africa.

Multilateral economic relations

The WTO, in partnership with the Bretton Woods Institutions, the World Bank and the International Monetary Fund (IMF), have been setting the parameters for and directing the economic policies for governments around the world. This has had serious implications for the content, evolution and trajectory of economic development strategies being pursued by the developing countries, including South Africa. As the process of globalisation is being questioned, it is imperative for South Africa to influence and shape the configurations of the emerging system of global governance. This is best done by participating actively and effectively in all multilateral forums to ensure that its particular economic interests and developmental objectives, as well as those of the continent, are taken into account.

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD is an important resource organisation for South Africa and the continent. The main goals of the organisation are to:

- maximise the trade, investment and development opportunities of developing countries
- help them face challenges arising from globalisation and integration into the world economy on an equitable basis.

This is pursued through research and policy analysis, intergovernmental deliberations, technical co-operation and interaction with civil society and the business sector. UNCTAD is focusing much of its energy on assisting developing countries to prepare for mandated and possible future negotiations in the WTO.

World Trade Organisation

South Africa regards its membership of the WTO as very important because of the enhanced security and certainty in the multilateral trading system provided by WTO rules. South Africa is an active participant and contributor towards a strengthened multilateral trading system whose benefits are equitably distributed across the world community. South Africa wants to participate in the shaping of global governance to ensure beneficial and full integration of its economy into the global trading system.

South Africa is seeking to build an alliance of developing countries within the WTO, based on a common approach and consensus on key issues. This bore fruit in late 2001, with the agreement reached to launch a new round of trade negotiations, this time with a developmental agenda.

Cairns Group

The Cairns Group is an association of countries exporting agricultural products with the objective of free and fair trade in the global agricultural market. It negotiates as a group in WTO agricultural negotiations. The Group consists of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

World Economic Forum

The WEF, an annual meeting of world economic leaders, held in Davos, Switzerland, has become the world's global business summit. South Africa is well represented at the Forum.

Export and investment promotion

A central task of the Department of Trade and Industry is to promote value-added exports and to attract investment. The vision is one of a restructured and adaptive South African economy, characterised by growth, employment and equity (regional, spatial, gender and racial).

The Department is continuing to shift its focus from demand-driven to supply-side driven measures, and to increase its focus on SMME development. The emphasis is also on customer-defined assistance. The new suite of incentives also relies on private-sector interventions, and affects a wider range of sectors, such as tourism, agribusiness, biotechnology, cultural industries and other priorities identified by government.

Old manufacturing support schemes, such as the Tax Holiday Scheme, the Small, Medium Manufacturing Development Programme, the Regional Industrial Development Programme and the Simplified Regional Industrial Development Programme are being replaced with a suite of six incentives, some of which are still being finalised. The components of the suite are:

- Small Medium Manufacturing Enterprise Development Programme
- Skills Support Programme
- Critical Infrastructure Facility
- Industrial Development Zones (IDZs)
- Foreign Investment Grant
- Strategic Investment Programme.

More attention will be paid to the neglected and hard to reach, but numerically significant, micro-enterprise sector. A Micro Investor Programme is under way, as well as the South African Women Entrepreneurs' Network, which caters more broadly for women in business in all sectors, alongside the Technology for Women in Business (TWIB) Programme. Schemes such as the Competitiveness Fund allocate 48% of their spending to SMME projects, while the revised Export Marketing and Investment Assistance (EMIA) Programme also focuses on SMMEs, with 68% of its funds going to this sector.

Trade and Investment South Africa

TISA is the premier agency for marketing South Africa internationally. The core business of TISA is the growth of South Africa's exports and the attraction of investment to this country. To do this as part of South Africa's national economy strategy, requires a focused approach, identifying longer-term scenarios and targeting key growth sectors for high-growth and value-added sectors. TISA operates a number of units dedicated to specific aspects of what is essentially a business process rather than a once-off event. Sector specialists and strategic analysts work together to oversee targeted export incentives. By mid-2002, there were seven sector marketing strategies in place.

Logistics specialists identify and take steps to eliminate bottle-necks in the supply chain for both exporters and investors. This is an increasingly important part of TISA's work. Export growth sectors identified for special attention in South Africa include auto and auto components, and knowledge-economy integrated communication technology sectors. World-wide, South Africa is now the sole producer of all the 3-Series BMW right-hand drive vehicles.

Once up and running within South Africa, exporters and investors receive specialised after-care from TISA to ensure they thrive and grow. TISA integrates South Africa as a pivotal part of global supply networks ranging from textiles to motor vehicles. Central to this process is promoting South Africa as a brand and packaging the South African product for sales and marketing. In this, TISA plays a key role alongside other government agencies, led by the Presidency. TISA has 55 staff members located in 43 regional offices within South Africa's diplomatic centres world-wide. They provide core market intelligence, identify opportunities, target key investors in priority growth sectors and bring specific sectoral expertise into the equation. The regional managers operate on the lines of international best practice as pioneered by leading trading nations such as Singapore and Ireland.

TISA carefully monitors its successes and is a flexible, customer-led organisation in terms of the services it delivers and the financial incentives it oversees. There are, for example, the TISA-funded sector-specific export councils and the EMIA export incentive scheme. In 2001, the sectors prioritised by TISA realised R4,4 billion in trade growth and R1 billion in investment per annum globally. Recently, TISA launched its *TISAGLOBAL.com* website to advance this progress.

The EMIA consists of export marketing research, FDI research, outward-selling missions, inward-buying missions, inward-investment missions, outward investment recruitment missions and foreign exhibitions. The EMIA also offers assistance to industry-specific sectors and includes a special dispensation for small and medium enterprise (SME) exporters. The Export Credit Finance Guarantee Scheme for SMEs has been introduced. The Scheme facilitates finance for SMEs that lack working capital to procure material and services for the execution of an export order and/or financing export trade debtors for a period of up to 180 days. Pre and post-shipment finance can be obtained for export orders. Finance is provided by banks and can constitute up to 90% of export orders. Guarantees are issued by the Credit Guarantee Insurance Corporation (CGIC) and are reinsured by the Department. The exporter has to be an independently-owned business whose total assets do not exceed R5 million or whose labour force does not exceed 200. The loan application should not exceed R1 million and not be less than R50 000.

The Export Finance Scheme for Capital Projects is becoming more popular among financial institutions and contractors. Through this Scheme, exporters of capital projects are able to compete internationally by offering prospective overseas buyers competitive repayment rates denominated in US Dollar. Such credit facilities are available over a maximum repayment period of 10 years.

Africa, and southern Africa in particular, has proved to be a popular market for South African exporters of capital projects. There has also been an increase in insurance cover extended to South African short-term exports. Export credit insurance provides an exporter with insurance protection against financial loss owing to non-receipt of payment of a legally enforceable debt due and payable by a non-South African importer to the exporter for goods and services delivered. Insurance is available through the CGIC with reinsurance provided by the Department of Trade and Industry.

Businesses wishing to import or export goods that are subject to control may obtain permits from the Director of Imports and Exports, Private Bag X192, Pretoria, 0001, or phone 0861 843 384. Permits must be renewed annually. Registration with the local Controller of Customs and Excise is required of all factories subject to excise duties, as well as all enterprises that import on a regular basis. Information regarding specifications for existing or new products and guidance on quality control is available from the South African Bureau of Standards. Excise duty is levied on certain locally-produced goods, of which potable spirits, beer, cigarettes, tobacco, motor vehicles and certain petroleum products yield the highest revenue.

Enterprise development and competitiveness

The Department of Trade and Industry's Enterprise and Industry Development Division (EIDD) has as its particular concern moving trade and industrial policy in South Africa towards an internationally competitive status, capitalising on the country's competitive and comparative advantages. The emphasis is also on the world-wide trend towards knowledge-intensive economies, and on creating an environment for vigorous enterprise development through the development of suitable policies and strategies. Special attention is also given, as in the case of exports and investment, towards black economic empowerment (BEE) and regional growth within the SADC.

By mid-2002, the Department had approved 78 applications to the amount of R53,7 million as part of the Support Programme for Industrial Promotion (SPIP). Some 39 projects to the tune of R28 million had been completed. The SPIP is designed to promote technology development in manufacturing industries in South Africa through support for innovation of competitive products and/or processes. The SPIP, funded by the Department and administered by the Industrial Development Corporation (IDC), offers two schemes, namely the Matching Scheme and the Feasibility Scheme. The Matching Scheme gives a grant of 50% of the actual direct costs incurred in development activity, up to a maximum grant amount of R1,5 million per project. The Feasibility Scheme supports the preparation of a feasibility study for potentially innovative projects by means of a grant of 50% of the costs of a consultant. The grant is limited to R30 000 and only SMMEs qualify for support.

As an integral part of the Government's Micro-economic Reform Strategy, industrial policy strives to achieve a balance between greater openness and improvement in local competitiveness, while pursuing a process of industrial restructuring aimed at expanding employment opportunities and productive capacity. South Africa has made strides in opening the domestic economy to international competition, which include:

- a market-related and competitive exchange rate
- no restrictions on the type or extent of foreign investments
- strengthening of the competition policy
- abolishing exchange control for non-residents and substantial reduction in that applicable to residents
- a significant reduction in tariff barriers, ahead of the WTO timetable, resulting in the lowest (trade-weighted) average rate of protection in the SADC region
- a proactive strategy to attract foreign strategic equity partners into the process of restructuring State assets
- the availability of attractive investment incentives to enhance international competitiveness and technology transfer with the means to facilitate FDI.

One of South Africa's key industrial policies remains its commitment to fostering sustainable industrial development in areas where poverty and unemployment are at their highest. This objective is implemented through the Spatial Development Initiatives (SDIs), which focus high-level support on areas

Information

The Department of Trade and Industry has managed to reduce the time it takes to register a new company or a closed corporation from 21 to three days.

In 2001/02, the Department registered over 30 000 new companies and almost 90 000 closed corporations.

In terms of trade regulations, approximately 20 000 import and export permits, 3 000 import rebate certificates and 2 500 rebate permits were issued.

The Department also conducted more than 1 000 tariff investigations.

where socio-economic conditions require concentrated government assistance, and where inherent economic potential exists. The SDI programmes focus government attention on the various national, provincial and local government spheres with the goal to fast-track investments and maximise synergies between various types of investments.

South Africa's approach to SDIs is based on the objective of operationalising South Africa's commitment to the African Renaissance. As a result, SDIs are increasingly focused on the southern African region, with the Maputo Development Corridor leading to substantial investments in South Africa and Mozambique. The rationale for economic integration in southern Africa is based on the premise that economic integration can yield greater developmental benefits through the collective use of economic policies. The following issues can also be attended to far more effectively through the adoption of a regional approach:

- SADC countries' attempts to achieve self-sufficiency
- industrialisation and modernisation of their economies
- obtaining increased bargaining power for SADC countries in international markets
- facilitating and mobilising investment from both local and foreign sources.

The SDI programme consists of 11 local SDIs and four IDZs at varying stages of delivery. They are the following:

- SDIs: Maputo Development Corridor; Lubombo SDI; Richards Bay SDI, including the Durban and Pietermaritzburg nodes; Wild Coast SDI; Fish River SDI; West Coast Investment Initiative; Platinum SDI; Phalaborwa SDI; and Coast 2 Coast Corridor.
- IDZs: Gauteng, Coega, East London, Saldanha and Richards Bay.

The SDI concept may have a variety of focuses, such as:

- Industrial – KwaZulu-Natal and Fish River SDIs
- Agro-tourism – Lubombo and Wild Coast SDIs
- Sectoral mix – Maputo Development Corridor
- IDZs – Coega, Saldanha and East London.
  In 2001, work started on the long-awaited Coega Deep Water Harbour and industrial development near Port Elizabeth in the Eastern Cape. It is expected that 10 000 jobs will be created during the construction phase of the Harbour and industrial zone. In January 2002, the Minister of Trade and Industry awarded a provisional operator's licence to the Coega Development Corporation, which enables it to operate the Coega IDZ outside Port Elizabeth. The Critical Infrastructure Committee of the Department of Trade and Industry will provide a grant of R58,2 million for the construction of key infrastructure in the IDZ.
- Second-generation SDI – The Gauteng Special Economic Zone focuses on high-technology manufacturing, information technology, telecommunications, food processing and cultural activities. The SDI programme consists of 11 local SDIs and four IDZs at varying stages of delivery. They are the following:
  - SDIs: Maputo Development Corridor; Lubombo SDI; Richards Bay SDI, including the Durban and Pietermaritzburg nodes; Wild Coast SDI; Fish River SDI; West Coast Investment Initiative; Platinum SDI; Phalaborwa SDI; and Coast 2 Coast Corridor.
  - IDZs: Gauteng, Coega, East London, Saldanha and Richards Bay.

The Government's IDZ policy is designed to boost exports and employment. A National Development Zone Authority (NDZA) is responsible for the regulation, facilitation and administration of IDZs. It is also envisaged that each IDZ will have a local NDZA to carry out the regulatory and approval process. The development and the management of zones will be done by the private sector.

National Industrial Participation Programme (NIPP)

A number of large government contracts may be awarded to foreign suppliers on the basis of competitiveness and appropriate technology, which could act as a drain on foreign reserves, with a reduction in local industrial and commercial activities. The NIPP of the Department of Trade and Industry is designed to address these issues. In terms of the Industrial Participation (IP) Policy and Guidelines, all State and parastatal purchase and lease contracts (goods and services) signed after 1997, and exceeding a certain level of imported content, are subject to an IP obligation. No contract can be awarded to a tenderer if the latter has not satisfied the IP requirements.

The IP obligation is bench-marked on the imported content of the contract. Any contract having an imported content equal to or exceeding US$10 million has an IP obligation. The obligation amounts to 30% of the imported content. IP arrangements to satisfy the obligation include investments, subcontracting, export promotion, licensor production, supply arrangements, and research and development collaboration. These economic activities have to be generated in seven years.

The results of the NIPP are impressive, with over 60 projects under way. These range from silicate-mines to mohair textiles and gold jewellery factories, and entirely new products for export. They have brought in new capital goods, skills and technology, with concomitant skills transfers. The NIPP programme has since 2000 been further substantially boosted through the IP implications of South Africa's arms deal.

Manufacturing

Manufacturing is increasingly at the heart of the South African economy as it learns to compete effectively in a global context.

The Department's Integrated Manufacturing Strategy sets out the framework for South Africa's economic strategies. It takes a systematic approach towards eliminating constraints on the South African economy and improving its efficiency. At the core of this is knowledge intensity, which is increasingly becoming the centre of international competitiveness.

The sectors to watch include information communication technology (ICT), agro-processing, biotechnology, chemicals, textiles with value added, tourism, craft and cultural industries, and the service sectors in general.

In terms of South Africa's Micro-economic Reform Strategy, launched by President Thabo Mbeki in early 2001, and refined by the Department, a new set of aims is emerging:

- a sustainable and growth-oriented economy
- continued expansion of global trade
- capacity within the economy to meet basic needs and expand exports
- increased levels of savings and investment
- capacity in the State to lead and act effectively.

This in turn implies a number of strategic choices with regard to encouraging technology and innovation, access to finance, an integrated human resources development strategy, and attention to the efficiency of input sectors to the economy, with an eye on lowering the costs of doing business.

South Africa's manufacturing sector growth has averaged 4% per annum every year since 1994 in terms of production volumes. By late 2001, it was growing at over 5%.

Key functions of the Department of Trade and Industry in manufacturing are:

- supporting increased investment in the manufacturing sector
- enhancing the establishment of new manufacturing entities
- supporting new sustainable and profitable manufacturing entities.

Competition policy

The Competition Act, 1998 (Act 89 of 1998), which came into effect on 1 September 1999, is aimed at anti-competition practices, eliminating abuse of dominant positions and the strengthening of merger control. The Act provides for the establishment of a Competition Commission, Competition Tribunal and Competition Appeal Court to replace the former Competition Board. The Act aims to outlaw the following main areas of business practice:

- restrictive practices between businesses, or between businesses, their supplier(s) and customers, which hinder competition. These include price-fixing, collusive tendering, restricting output, investment and market sharing.
- the abuse of a dominant position, which, according to the Act, is defined as a market share of 35% or more.

The Competition Second Amendment Act, 2000, (Act 39 of 2000), is a direct response to the accumulated experience of the first year of the Competition Act, 1998. The Competition Second Amendment Act, 2000 effected a number of changes, the most important being the deletion of Section 3(1)(d), as well as an amendment to provisions which allowed the Minister to change the thresholds in relation to merger control and abuse of dominance only every five years. Section 3(1)(d) was amended to cater for concurrent jurisdiction over competition matters between competition authorities and sector regulators. Furthermore, the Minister can now change the thresholds for merger controls and abuse of dominance whenever the need arises.

In addition to the Act, new Rules for the Proceedings in the Competition Commission and the Competition Tribunal, new thresholds for the notification of mergers and acquisitions, as well as new forms became effective. In terms of the new regulations, the lower threshold for mergers has been raised from R50 million for combined annual turnover/asset value to R200 million, while the value of the primary target firm/asset value has been raised from R5 million to R30 million. Furthermore, the fees for merger notification have been significantly reduced and simplified. A single fee for intermediate mergers of R75 000 has been introduced. Prior to the amendments, fees for intermediate mergers ranged from R5 000 to R250 000. The fee for large mergers has been halved from R500 000 to R250 000.

The Competition Commission has an obligation to evaluate, among other things, the impact of mergers and acquisition activity on employment. In 2001/02, the Commission dealt with 350 evaluations of mergers.

Merger activity in competitive industries with low levels of concentration contributed to only 18% of the overall job losses. An almost equal number of cases in concentrated industries and more competitive industries led to almost four times more job losses in the concentrated industries. One hundred percent of the overall employment gains were within the low and medium concentrated industries.

In 2001, the Commission initiated a Consultative Forum with unions. The primary objective was to foster a good relation with labour on merger issues affecting employment. This goes some way to making competition law and policy accessible to workers.

BEE is important for the South African economy and this is a matter that the competition authorities have had to consider. A policy brief was prepared on the effects of mergers on small and black business. Presentations were held with black business to discuss and share information on issues affecting them in the economy, in particular those issues that inhibit their ability to acquire ownership of business. In 2000 and 2001, the Commission approved 11 and 13 BEE cases respectively. As a result, historically disadvantaged individuals (HDIs) are now securing business opportunities and participating at board and management level to influence strategy.

Small, medium and micro enterprises

The Enterprise, Commerce and Industry Development Division of the Department of Trade and Industry is responsible for policy and strategy development, programme development, monitoring and evaluation, consultation and relationship-building in the areas of BEE and enterprise development, SMMEs, co-operatives, business regulation, consumer protection and sector development.

The central focus is on the Department's approach to the issues of BEE, gender equity (women-owned enterprises), and an emerging focus on co-operatives as an alternative mechanism for addressing the need for emerging entrepreneurs to pool resources to compete effectively. The Department has new ventures in each one of these areas, including TWIB, attention to legislative and regulatory reform, and a new BEE strategy cross-cutting all the Department's programmes.

Small businesses in South Africa absorb more than half the people formally employed in the private sector and contribute about 42% of the country's GDP. There are an estimated three million micro enterprises in the country.

The key objectives of government's National Strategy for Small Business are to:

- create an enabling environment for small enterprises
- level the playing fields between bigger and small businesses, as well as between rural and urban businesses
- facilitate greater equalisation of income, wealth and earning opportunities, and to address the legacy of apartheid-based disempowerment of black business
- support the advancement of women in all business sectors
- create long-term jobs
- stimulate sector-focused economic growth
- strengthen cohesion between small enterprises
- prepare small business to meet the challenges of an internationally competitive economy.

In a media briefing in February 2002, the Minister of Trade and Industry said that a more sectoral approach to small business development would be adopted in accordance with the Department's decision to work specifically on the development of sectoral strategies. Amendments to the National Small Business Act, 1996 (Act 102 of 1996), were expected to be introduced into Parliament in 2002. These amendments will provide for the establishment of a voice for small business and a revision of the current definition of a small business and of the mandates of the institutions established to support the small business sector.

Other initiatives to support small business include the consolidation of existing successful programmes such as Ntsika's Mentorship Programme, assistance with entering export markets and the expansion of local infrastructure and support for the provision of business development services.

The highly successful Manufacturing Advisory centres have been expanded in partnership with provinces.

Institutional support framework

Ntsika Enterprise Promotion Agency

Ntsika's mission is to render non-financial support services to the SMME sector through a broad range of intermediaries. This is achieved through initiatives in the areas of management and entrepreneurship development, marketing and business linkages, research and business development services and targeted assistance. The achievements of Ntsika can be categorised into capacity-building of the retail distribution network and direct services to SMMEs through these retailers.

According to Ntsika's annual report, the total number of Local Business Service centres accredited is 72. A total of 3 979 SMMEs were established through various Ntsika programmes. Ntsika also has assisted 797 445 SMMEs since its launch, and provided training to over 100 074 entrepreneurs.

The Trade and Investment Development Programme is a three-track programme that assists a potential exporter to eventually become a competitive and fully fledged exporter. Ntsika also has an active Small Exporter Development Programme in place.

Khula Enterprise Finance

Khula is a wholesale agency, which provides financial support for small businesses through intermediaries. Its financial products include loans, a national credit guarantee scheme, grants, institutional capacity-building, equity funds and mentorship schemes. The achievements of Khula can be categorised into support to financial intermediaries as retail distribution networks and direct services to SMMEs.

Under the first category, some 2 800 bank branches have access to the Standard and Emerging Credit Guarantee schemes. Credit guarantees have been issued to the value of R141 million. In addition, Khula is targeting micro business through 30 Micro Credit Offices in all nine provinces. Khula also participates in the provincial equity funds and has spent R5 million to partly fund joint ventures, expansion and recapitalisation.

The Thuso Mentorship Network provides entrepreneurs with pre-loan business plans and post-loan support in the form of technical expertise management.

National Co-ordinating Office of the Manufacturing Advisory Office (NAMAC)

NAMAC's role is to supply high-quality advisory and information services to new and existing SMMEs to ensure improvement in their quality, competitiveness and productivity. NAMAC has offices in all nine provinces, and in 2001/02 alone assisted 315 enterprises.

Technology for Women in Business

This Department-initiated project aims to enhance the use of technology by women in business, promote and nurture innovation among women, create role models for other women, and encourage young girls and women to choose careers in science and technology.

NEF Trust (formerly National Empowerment Fund)

The NEF Trust was established to facilitate the redressing of economic inequality from past unfair discrimination against HDIs. The NEF Trust is primarily capitalised through receiving shares of State-owned enterprises (SOEs) undergoing restructuring. It is envisaged that the Trust will promote black empowerment through the following: an investment trust that will market investment units to HDIs; a portfolio trust that will warehouse the shares of SOEs, which will thereafter be sold to HDIs; and an equity management fund to provide venture capital among HDIs. The Fund buys shares in privatisation utilities from government at a discount of up to 20% to resell to previously disadvantaged people.

One of the NEF's functions is investor education to ensure awareness of the economic environment and basic economic literacy. The Fund operates at three levels, initially targeting low-income individual earners and progressing towards savings clubs and equity finance agreements for SMMEs.

The IDC also plays an increasingly important role in both supporting and assisting with venture capital in the formation of new SMEs, with tourism being just one of the latest sectors targeted.

Business Partners Ltd

Business Partners Ltd is a specialist investment group, providing customised and integrated investment, mentorship and property management services for SMEs in South Africa.

The group has been investing in entrepreneurs for over 20 years, providing private equity of up to R15 million for viable start-ups, expansions, outright purchases, management buy-outs, management buy-ins, franchises, tenders and contracts. It also provides a range of value-added services including property broking, property management, consulting and mentorship.

As at 31 March 2002, Business Partners' assets totalled R1,4 billion. Of this, R1,2 billion was directly invested in entrepreneurial enterprises across the country. A budget of R700 million has been allocated for investment during the 2002/03 financial year, 40% of which has been earmarked for investment in individuals from previously disadvantaged communities.

Business Partners' property portfolio, which provides for the premises needs of entrepreneurs, consists of 331 properties across South Africa.

These are occupied by 4 148 tenants employing a staff complement of 27 000 people. The group's dedicated mentorship division also provides invaluable value-added services, including counselling, specialist management consulting, turn-around and sectoral assistance.

Business Partners is an unlisted public company and its major shareholders include the Department of Trade and Industry (through Ernani Investments), Remgro, the Business Partners Employee Share Trust, Sanlam, Billiton, ABSA, Nedcor, FirstRand, Old Mutual Nominees, Standard Bank Investment Corporation of South Africa, Anglo American Corporation of South Africa, De Beers Holdings and Standard Bank Nominees.

The group is easily accessible, operating through 25 offices nation-wide. It offers free initial consultations to existing or potential entrepreneurs with a viable business plan. It also offers a user-friendly business planning model on its website at *www.businessparners.co.za*. Enquiries may also be addressed to *enquiries@businesspartners.co.za*.

Restructuring of State assets

The Department of Public Enterprises has been tasked with redressing the imbalances created by apartheid through the accelerated restructuring of SOEs in an integrated and coherent manner to promote economic growth and socio-economic development. The Department manages and directs the restructuring of SOEs in such a way that they:

- perform optimally in a globally competitive market
- maximise the distribution of wealth across South Africa
- facilitate investment in underdeveloped areas
- promote equity for black people in skills, assets and income.

The Department's Restructuring Programme has been designed around a multiple array of strategies, or mixes of options to foster the maximisation of shareholder interest, defined in multidimensional terms. Restructuring therefore refers to the matrix of options that includes:

- redesign of business management principles within enterprises
- attraction of strategic equity partners (SEPs) or concessionaires
- the divestment of equity either in whole or in part where appropriate
- employment of various turn-around strategies.

At the enterprise and sector level, restructuring involves:

- improving the efficiency and effectiveness of the entity
- accessing globally competitive technologies
- mobilising private-sector capital and expertise
- creating effective market structures in sectors.

At the macro-economic level, restructuring aims to:

- attract foreign investment
- reduce public borrowing requirements
- assist in the development of an economic context that promotes industrial competitiveness and fuels economic growth.

In order to guide the SOEs in achieving the above, the Department will actively promote and institute:

- sound corporate governance, ethics and probity
- rigorous performance monitoring
- a comprehensive approach to promote a range of alternative service-delivery options as a means of restructuring and transforming SOEs.

Progress of restructuring process

Between 1997 and March 2001, government undertook approximately 18 restructuring initiatives, including outright sale to BEE groups, the sale of minority shares to SEPs or BEE groups, and acquired dividends through the South African Special Risks Insurance Association's creation. The National Revenue Fund received just over R20 billion out of total proceeds of R26,79 billion. Despite the decision not to proceed with the Telkom Initial Public Offering (IPO) in 2001, the Treasury received R7,5 billion out of a total of just over R8 billion.

The Telkom IPO will proceed before the end of 2002/03. Pending compliance with conditions of the US Securities and Exchange Commission, the transfer of 2% of Telkom – with a nominal value of over R376 million, on an equal basis to all employees employed by Telkom between 1999 and the present – will also go ahead.

There are nine other proposals in the pipeline that will also work towards the target of R12 billion set by government. These include the 100% disposal of Rotek Vehicle Services, Roshprop and Transmed; the phased disposal of portions of Roshcon; the sale of three remaining South African Forestry Company Ltd (SAFCOL) packages; the sale of 51% of Apron Services and Alexkor; and further income from the M-Cell transaction.

Forestry

Forestry transactions involve complex issues such as land conversion, the introduction of more suitable wood types, integration of community interests and the establishment of down-stream industry and activity. All the disposals contain compulsory three-year worker retention agreements, include the community through the establishment of trusts, and secure current jobs. They involve hundreds of communities in deep rural areas. The north-eastern Cape (Singisi), and KwaZulu-Natal (Siyaqhubeka) disposals secured a temporary 25% SAFCOL stake in each package. This will be reduced to 6%, once finalisation is reached on an employee share option of 9% and a community share of 10%. Furthermore, rental of R5,3 million per annum will be paid into a Siyaqhubeka community trust, and similar amounts into all the other SAFCOL packages.

A land dispute in Amatola has been resolved and finalisation of that transaction was expected in the second half of 2002. The western/southern Cape plan to secure an SEP is well advanced.

For the first time, black people, and particularly rural black communities living adjacent to these forests, will have direct access to the sustainable resources of the forestry industry.

Hospitality industry

By the end of 2002, Aventura resorts will no longer be part of the Government's asset stable.

The emphasis is on encouraging black participation in the hospitality and tourism sectors.

Transnet's hospitality asset, the Blue Train, will be concessioned to a private-sector operator in 2002/03.

Alexkor

The community will benefit directly from restructuring plans for Alexkor diamond-mine operations. After discussions with the Northern Cape Government, the Namaqualand community, the employees of Alexkor and other stakeholders to ensure that each has a defined role to play and benefit to secure, a 10% equity transfer to the community was planned. On offer is a 51% share to an SEP to provide the necessary investment for exploration and sound management direction.

Denel

In March 2002, government and organised labour signed a Memorandum of Understanding on the introduction of SEPs into Denel. It identifies a common vision for Denel and the key principles to guide restructuring. Denel's Social Plan includes the establishment of the Denel Development Agency that will retain a database of all retrenched employees and act as the premium labour pool for the company as a whole. It will also act as a procurement vehicle to assist retrenched employees to form SMMEs to access opportunities in the company. A R10 million development fund will assist affected employees and retraining, financial and personal counselling services will be provided.

In May 2002, the formation of Turbomeca-Africa was announced. The company specialises in the manufacture, repair, maintenance and overhaul of a range of military and civil helicopter engines and components. This is a partnership drawn from a 49% contribution of assets from Denel Airmotive and 51% from Turbomeca in France. All employees of Denel Airmotive, including a specially designated number of black employees earmarked for specialist engineering training, will transfer to the new company.

Turbomeca-Africa is designed specifically to cater for impressive all-African and southern hemisphere markets. Technology transfer and an expansion of manufacturing capabilities in South Africa are central elements of the agreement.

Cabinet approved the acquisition by BAE Systems of 30% of Denel Aerospace and Ordnance for R375 million. The Government will retain its 70% share while options are explored for an employee incentive scheme, for future BEE partners and other SEPs inclusive of partners for the commercial asset portfolio. There are considerations of a possible IPO in future.

Government will hold a 'golden share' in respect of certain clearly defined issues that pertain to national security. The size and extent of future shareholding and the nationality of the Chairperson and Chief Executive Officer are also reserved by government.

BAE Systems has undertaken to add value to Denel through marketing and order book support, co-operation in research and development, technology transfer, management assistance and skills transfer in support of Denel's employment equity objectives, and assistance to enhance Denel's manufacturing capability to extract greater value for the company from Defence Industrial Participation orders. By mid-2002, the transaction was being finalised.

Eskom

The Department of Minerals and Energy's December 1998 White Paper included a vision for electricity supply and referred to government's commitment to a competitive multi-market model. Within this framework, Eskom's generation, supply and transmission would be incorporated as separate divisions. Subsequently, Cabinet approved proposals for the limited disposal of some of Eskom's generating capacity. That included the disposal of 10% of Eskom's existing generation capacity to suitable BEE operators and a further 20% to other private-sector operators, subject to an appropriate regulatory framework.

Transnet

Transnet is an integrated logistics company where each component 'talks' to the other to secure a seamless, uninterrupted transfer of goods, service and people to and from places of work, production and markets. There are two examples of how this process can work. The first relates to a proposal to speed up the concessioning of the Durban Container Terminal as a pilot project to inform further port reforms. The other relates to the participation of the National Ports Authority (NPA) in the development of the Coega Port and the East London IDZ.

The concessioning of port operations, fast-tracked in the Durban case, must take full account of other port development strategies, including comprehensive long-term strategies for container facilities, dry-dock terminals, fruit terminals, the automotive sector and others. Specific ports in South Africa can be designated for more specialised activities. Plans are therefore in place to extend the recently completed motor vehicle loading facility at East London because of increased demand. The East London Harbour will benefit from a R10 million investment to deepen the Port to ease access for larger vessels. The Port at Coega is designed to facilitate the development of particular industrial and employment activity in the Eastern Cape.

The NPA is set to invest R1,7 billion in the construction of the Port and Harbour infrastructure. Eskom will invest R1,2 billion to strengthen the transmission grid to support the intensive energy needs of Coega's factories and facilities. Spoornet will provide rail transport access to the Port at competitive prices.

The developmental role of SOEs

South Africa's key SOEs perform development functions beyond South Africa's borders through partnership agreements, joint ventures, infrastructure development and business transactions. Their activities in Africa provide a solid platform upon which much of NEPAD's development agenda can be based.

Eskom Enterprises invested about R325 million in 2001 in a range of telecommunications, electricity supply, consultancy, infrastructure and hydroelectric projects in 30 African countries.

Spoornet has expanded its contribution to African countries. In September 2001, Spoornet and CFM Mozambique reached agreement on a concession for the extensive rehabilitation of the line between Maputo and South Africa. It plans to invest about R200 million over five years to rehabilitate and overhaul many of the 110 locomotives that are on lease to South African mines and African countries, including Swaziland, the DRC, Tanzania, Sudan, Cameroon, Botswana, Zimbabwe and Kenya.

Information

The South African Utility Regulators' Association (SAURA) was formed in October 2002 as part of a move to establish a platform for co-operation between the growing number of utility regulators in South Africa.

SAURA was founded by the National Electricity Regulator, the Competition Commission and the National Nuclear Regulator.

The Department of Water Affairs and Forestry joined SAURA as an observer, while the Independent Communications Authority of South Africa and the postal regulator are considering joining in the near future.

It was realised and decided in 2001 that such a forum for public utilities was necessary as many industries dominated by a State enterprise would soon face competition.

South Africa's commitment to Africa's security needs is processed through the National Conventional Arms Control Committee and Denel supplies more than 15 countries with primarily law enforcement equipment, material and training for internal policing operations.

Consumer and corporate regulation

The Consumer and Corporate Regulation Division within the Department of Trade and Industry is responsible for administering the regulation of the liquor, gambling and lottery industries, as well as commercial, competition and consumer protection policies. Key highlights in 2001/02 included the establishment of the South African Advisory Council on Responsible Gambling.

The South African Company Registration Office and the South African Patents and Trademarks Office, funded from this programme, have been merged into the Companies and Intellectual Property Registration Office (CIPRO), which is in the process of becoming a self-funding and stand-alone agency.

The overall objective is to ensure that the market is fair, efficient and transparent. This is in the material interest of investors and consumers.

Corporate and consumer regulation has become a creative endeavour that no longer primarily emphasises a policing role. Instead, it seeks to serve the interests of both business and consumers, and to create a modern and globally-competitive national economy. A corporate law reform project and making amendments to the intellectual property rights regime are ongoing activities. CIPRO was expected to function as a trading entity from mid-2002.

Public works programmes

Since 1994, public works programmes have been harnassed to contribute directly to the process of reconstruction and development in South Africa.

This followed the establishment of the National Public Works Programme (NPWP) as a framework through which public works programmes can be aligned to the social and economic development of the country, including rural poverty alleviation and construction industry transformation.

The Community-based Public Works Programme (CBPWP) and the Construction Industry Development Programme constitute the NPWP.

Community-based Public Works Programme

The CBPWP is an essential component of the Government's Integrated Rural Sustainable Development Programme. The International Labour Organisation (ILO) in 1997 judged it to be the leading public works programme in over 30 developing countries.

The Programme is geared to achieve poverty relief and infrastructure investment by:

- targeting identified poverty pockets within rural areas
- capacity-building within local communities and local governments
- maximising job creation during implementation
- targeting rural women, in particular female-headed households with dependants
- incorporating operation and maintenance to ensure sustainability of assets
- constructing useful infrastructure to improve access to trade opportunities
- skills training appropriate to project requirements.

In line with the African spirit of co-operation, the CBPWP was renamed *Ilima/Letsima*, which means planning and building together with communities.

For two consecutive financial years, the Department of Public Works fully expended their poverty-relief allocations for the benefit of the poorest of the poor in the rural areas.

In 2001/02, the Department succeeded in creating 25 124 short-term employment opportunities with 10 627 of those awarded to women, 10 300 to youth and 527 to people with disabilities.

These figures exclude the contribution to BEE where 85% of all the contractors participating are emerging and historically disadvantaged entrepreneurs.

A group of concerned professional people from around the country has embraced the call to lend a hand and established Operation Plough-back.

At Umzimkhulu, KwaZulu-Natal, Plough-back has resulted in a group of professionals using their diverse skills and knowledge to build capacity for the local government. These professionals adopted wards for voluntary work within the community to improve the quality of life.

Government, through the establishment of Multi-purpose Community Centres (MPCCs), has offered hope to millions of rural people by bringing government closer to them. These one-stop centres house various government services such as home affairs, social development, labour and communication-related functions.

In 2001/02, the Department of Public Works allocated R10 million for the establishment of MPCCs as part of government's roll-out strategy to build at least one MPCC in all of the country's 61 district councils by the end of 2003/04.

When it comes to social cohesion-related projects, MPCCs play a crucial role in addressing the needs of the people, together with Community Production Centres (CPCs), which are established together with the Department of Agriculture to promote sustainable, commercially driven and market-oriented communal agricultural ventures.

Since President Thabo Mbeki officially opened the first CPC at Lambasi near Lusikisiki in November 2000, more centres have been established in other provinces. On 3 July 2001, the first 500 ha of maize were harvested at Lambasi. The sugar-bean yield amounted to 100 t. Thirty-three people were employed on a permanent basis while people from seven villages are the direct beneficiaries.

The CPCs at Elandskraal in Limpopo (formerly the Northern Province) and Cairn Lemon in Mpumalanga are ready and fully functional, also awaiting their first harvest of maize and lemon oil. Negotiations are at an advanced stage to sell the lemon oil to a big multinational beverage-producing company in the US.

In KwaZulu-Natal, the Makhatini Flats CPC mainly produces fruit, vegetables, cotton and sugar-cane. The upgrading of infrastructure has been completed, allowing the farming and productivity phase to commence.

The Ndaya CPC, also in KwaZulu-Natal, is the only CPC that is mostly run by women. The upgrading of an irrigation system, a tree-planting project and an access bridge have been completed.

Many other CBPWP projects continue to commercially benefit communities and create sustainable jobs. Ithunzi Lodge at Port Dunford near Empangeni in KwaZulu-Natal is a theme-park complete with sea-facing tourist accommodation in beautiful thatched chalets as well as modern-day brick chalets. Part of the Umlalazi Poverty Alleviation Cluster, this accommodation is constantly sold-out, particularly in peak season.

Construction Industry Development Board (CIDB)

The CIDB legislation was passed in November 2000 and the Board was launched in April 2001. The Board's mandate is to:

- drive an integrated industrial development strategy
- provide strategic leadership to construction industry stakeholders to stimulate growth, reform and improvement of the construction sector for effective delivery and the industry's enhanced role in the country's economy.

Projects that are being prioritised and developed include:

- socio-economic benefits of infrastructure investment and the impact of underspending
- roll-out of procurement and public-sector delivery best practice to address improved spending of the infrastructure budget
- a *Know Your Rights and Responsibilities* campaign
- developing the registers of contractors and projects to be fully operational by the end of 2003
- establishing a body of knowledge and a website as a resource to the industry
- developing CIDB governance procedures
- taking forward important work flowing from the Department's commissioned reports on the *Status Quo of the Industry, Investment Review* and *Construction Industry Indicators*.

As per stipulation of the Act, the CIDB must constitute a construction industry stakeholder forum. The forum's main objective will be to inform the CIDB on matters that affect the development of the construction industry. The forum's first meeting took place on 21 June 2002.

Together with departmental officials, the CIDB visited Singapore in April 2002 to develop in-depth understanding of the relationship between government and the Building Control Authority, the equivalent of the CIDB in Singapore. Recent policy shifts were explored, including the merging of industry development with the functions of building regulations and control, legislation to drive best practice and improvements to the contractor registration system. Singapore will facilitate a capacity-building programme for the CIDB.

Council for the Built Environment (CBE)

The CBE was launched in April 2002. It will ensure proper co-ordination between government and the built environment professions and proper application of policies by the respective councils. The CBE will also promote a range of new priorities and act as an appeal body for affected professionals and members of the public.

Built environment professions

Six professional councils were appointed in July 2001. The Council for Project and Construction Management was launched and the inaugural meeting held in September 2001.

The Department commissioned the writing of a book entitled *Blueprints in Black and White – The Built Environment Professions in South Africa – An Outline History* by John Bizzell. This book traces the evolution of the professions and how they have responded to various world events and government policies. The fundamental theme emerging from the book is the challenge of the professions to take a proactive stance in their development and shaping of the built environment. The book was launched in conjunction with the launch of the CBE.

Emerging Contractor Development Programme (ECDP)

In 2001/02, the number of contractors registering on the ECDP database continued to rise. The numbers have increased to over 3 257 compared to 2 153 in the previous year. As these are emerging contractors, it is challen-ging to access them, validate their credentials and manage their development and growth. This also makes the number of viable opportunities difficult and the sustainability of these contractors challenging. The ECDP is exploring a practical development strategy. This strategy will be to incubate targeted emerging contractors for a set period, which will ensure a sustainable award of contracts and provision of capacity-building interventions.

Access to finance

Access to finance remains the single major problem facing black contractors, but efforts to promote access to finance are beginning to show positive results. Within the Strategic Empowerment Programme, the Department of Public Works has succeeded in mobilising the support of Standard Bank, Khula and the IDC to provide access to bridging finance for working capital and performance guarantees to all qualifying contractors awarded contracts within the Strategic Projects Initiative (SPI) Programme. Contractors requiring financing of R1 million and less are referred to Standard Bank and Khula, while those requiring more than R1 million are catered for by the IDC. In 2002, the IDC made available R20 million for SPIs. By mid-2002, projects to the value of R36 636 211 were being funded through the IDC scheme to the loan value of R6 773 462. The loans covered 10% guarantees and bridging finance between 7% and 17%. With this assistance, contractors were able to satisfy their contractual requirements, pay for their material and thus develop a track record with material suppliers.

The Department is still exploring mechanisms to broaden this finance facility. Further relief to emerging contractors has been brought by the waiver of guarantees for projects up to R2 million, and by the intensified campaign to shorten payment cycles.

Women in construction

Women have won and executed significant public works contracts in virtually all the provinces. The number of registered women-owned business enterprises (WBEs) has increased from about 120 in 1999 to about 275 in 2001.

On 9 August 2001, Women's Day, the Strategic Empowerment Programme for Women in Construction was launched.

At the launch, 58 projects to the total value of R128 million were identified. Nineteen projects, totalling almost R30 million in value, were awarded to WBEs.

Black economic empowerment

In its efforts to promote BEE, the Department has allocated R908 million for capital works to black contractors.

The Department has succeeded in awarding 100% of all construction and maintenance projects in accordance with targeted procurement policies. This demonstrates the commitment to BEE and the transformation of the construction industry.

In recognition, the Department has won at least four awards for BEE in the construction industry.

Strategic asset management

The Department of Public Works is faced with the challenge of managing the Government's property portfolio in order to maximise returns and reduce costs. Until recently, the Department did not have adequate capacity to properly fulfill the Asset Management function. Consequently, the Department employed a Strategic Asset Management Partner, made up of a consortium of six local and international companies. The Department is now in a position to propose to government a Strategic Asset Management Framework, which will guide the whole of government, including provincial government, on the management of State properties.

The Strategic Asset Management Partner is busy with a detailed analysis of the portfolios of the various government departments.

In total, the Department has disposed of 63 properties for commercial purposes, constituting 88 740,3 ha that brought in revenue of more than R156 million. The Department has advanced plans for an increased number of property disposals in 2002/03.

The Department is working on legislation for the envisaged State Property Management Agency.

Non-commercial property disposals

Land reform on State land

The Department of Public Works has actively supported land reform initiatives of the Department of Land Affairs by prioritising and expediting the release of land under its control. A dedicated subdirectorate to focus on land reform was created. Some of the properties that were part of the land reform projects that were successfully concluded in 2001/02, include:

- Bethlehem and Harrismith Redistribution Project, Free State (six farms, totalling 1 793 ha)
- Ellison and Steynberg Restitution Claim, Gauteng (113 agricultural holdings in Pretoria, totalling 431 ha)
- Kameelkop Restitution Claim, District of Glencoe, KwaZulu-Natal (43 residential erven in Wasbank Township, totalling 57 ha)
- Peeha Restitution Claim, District of Soutpansberg, Limpopo (five farms, totalling 5 096 ha)
- Lebanon Fruit Farm Trust Redistribution Project, Western Cape (four farms in the District of Caledon, totalling 119 ha)
- Algeria Redistribution Project, District of Clanwilliam, Western Cape (former forestry land, totalling 443 ha)
- Ndabeni Land Restitution Claim, Cape Town, Western Cape (Portion of Wingfield Military Base and adjacent State land, totalling 54 ha).

In 2001/02, the Department released 176 properties (in extent of 7 997 ha) with an estimated market value of R24 million, for land reform purposes.

The Department is also actively providing land to support the development of low-cost housing, mainly at no cost, to local governments and provincial administrations. In 2001/02, the Department released 19 properties (in extent of 600 ha) with an estimated market value of R8,6 million, for the provision of low-cost housing and related municipal infrastructure.

Employment and skills development

During 2001, skills development was clearly recognised as a national priority. The tone was set by the President's State of the Nation Address in February 2001, in which human resource development was given special attention. During 2001, both the Government's HRD Strategy as well as the Department of

Labour's National Skills Development Strategy (NSDS) were launched. The skills levy and the 25 Sector Education and Training Authorities (SETAs) entered their third year of operation. A review of the National Qualifications Framework (NQF) was initiated by the Ministers of Labour and of Education to ensure that the NQF supports the mentioned strategies.

The year also saw a heightened awareness of the skills constraints that exist at many levels of the labour market and the importance of redressing skills gaps in sections of the workforce. The importance of SMMEs and informal economic activity for growth and development required targeted skills development.

The NSDS is made up of five objectives, 12 success indicators and three equity targets. It identifies priorities for skills development and provides a mechanism for measuring progress. It also charts the way forward for the Department, SETAs and other key institutions.

National Skills Authority (NSA)

The NSA and its Executive Committee have overseen the preparation of the Learnership and Funding Regulations and instituted a review of the skills development legislation to address anomalies and technical issues to improve the operation of the Skills Development Act, 1998 (Act 97 of 1998), and the Skills Development Levies Act, 1999 (Act 9 of 1999).

The NSA advises the Director-General on the operation of the National Skills Fund, including recommending the allocation categories and criteria for the allocation of grants.

The NSA continues to monitor the implementation of the NSDS. Its members have taken an active role in the marketing skills development initiatives and the work of the SETA Forum, established to review emerging policy issues and operational matters. They also played a role in resolving SETA demarcation disputes.

Members of the Authority visited the UK to review the Investors in People Programme and approved the organisations that are taking part in the pilot to test the standard in South Africa.

SETA performance

The Department of Labour entered into a MoU with each SETA, which set out specific targets that should have been achieved in 2002.

Over 87% of the funds allocated to the 25 SETAs established in 2000 has either been paid out or allocated to firms and projects.

Dedicated capacity has also been provided to SETAs to address their institutional challenges and to achieve their objectives.

In May 2002, the Minister of Labour launched 18 projects to be funded by the National Skills Fund. A sum of about R1,1 billion was allocated to these projects, which seek to fund various skills development initiatives linked to existing or planned jobs or income-generating opportunities aligned to government's national employment and growth goals.

National Skills Fund

The purpose of the MoU between the Department of Labour and SETAs is to define their relationship and mutual obligations. Among other things, the MoU sets out the annual performance targets for each SETA and describes the contribution that each will make to the achievement of the NSDS. It also describes the reporting requirements of SETAs. The MoU process is a significant development and while the quarterly reporting arrangement has not been free of problems it is a comprehensive way of assessing progress and it is also a significant new source of labour market data.

A stakeholder capacity-building programme was launched during 2002. This is intended to assist key groups to understand the NSDS so that they can take an appropriate part in its implementation. The key target groups include members of SETA boards, trade unions, employers, business associations, community groups and education and training-providers, for whom a number of modules have been developed.

National Skills Fund projects

Various SETAs have been launched since 2000 through government and donor funding from Germany, Ireland, Denmark, Australia, the Netherlands, Sweden, Korea and Chile. The EU also provided financial assistance for the implementation of the SETAs, which include the following:

- The Services SETA submitted a project, which plans to train some 13 500 domestic workers to provide more quality services, as well as a wider range of services.
- The Primary Agriculture SETA has a split project, with one section focusing on adult basic education and training for current farm workers as well as new emerging farmers, and the other targeting skills development in areas where opportunities exist for export promotion.

This SETA has also co-ordinated its efforts with the Secondary Agriculture and Food and Beverage SETA to support the upstream processing and export by new producers.

- The Tourism, Hospitality and Sport SETA has presented a project, which aims to help 6 500 previously unemployed individuals to take up employment opportunities in the Transfrontier Conservation Areas and the expanding parks and tourism routes across South Africa. They are also planning to support and help improve existing SMMEs in this sector.
- The Bank SETA has submitted a project focusing on the Micro-finance Skills Transfer. It aims to increase professionalism among micro-finance institutions registered with the Bank SETA and the Micro-finance Regulatory Council, as well as to enhance the capacity of micro-enterprises and individuals to manage the loans they secure. The Association of Micro-lenders and the Micro-enterprise Alliance are partners in this initiative.
- The Creative Industries Project of the Media, Advertising, Publishing, Printing and Packaging SETA is directly linked with the Department of Arts and Culture's Creative Industries Growth Strategy. This sector consists of a relatively formalised, structured section concerned with the production of creative products (music, film, multimedia and more formal dimensions of visual and performing arts) and a relatively unstructured section, lacking in industry infrastructure, which falls outside of professional and legislative frameworks, such as craft and cultural tourism and aspects of the visual and performing arts. The purpose of this Project is to oversee the development and implementation of quality and demand-driven learnerships and skills programmes for all the creative industries.

Occupational health and safety

The Department of Labour administers and enforces the Occupational Health and Safety (OHS) Act, 1993 (Act 85 of 1993). Good progress was made with the amendment of regulations to:

- align them with the OHS Act, 1993, changes in technology and international standards
- ensure that they meet the needs of workers and employers.

The following regulations were expected to be promulgated during the second half of 2002:

- General Administrative Regulations
- Noise-induced Hearing Loss Regulations
- Explosives Regulations
- Construction Regulations
- Electrical Installation Regulations.

OHS' functions are fragmented, with responsibilities located in various government departments.

Cabinet has approved the integration and consolidation of the OHS and compensation competencies. In order to give effect to its implementation, a national overarching policy on OHS and compensation has been developed.

A preventative strategy focusing on an OHS awareness campaign and systematic training was launched in March 2001. Co-operation with stakeholders was further strengthened by the establishment of the National Stakeholders' Forum, which allows the social partners to jointly drive the OHS campaigns. This was followed by the creation of similar campaigns for the electrical, mechanical and civil engineering sectors. This process will be enhanced during 2002/03 by the creation of provincial fora and workplace health and safety committees.

Directorate: Explosives and Civil Engineering

Explosives

Eight new explosive factories were licensed during 2001 and two closed down. A total of 858 licenses were scrutinised and issued during 2001, and 117 drawings and 22 special rules were approved. A total of 198 new explosive formulations, 483 changes to explosive buildings and 177 changes to non-explosive buildings were licensed for the various factories.

During 2001, 16 inspections were conducted at explosive factories and 104 consultations took place. Four training workshops were held in the industrial sector to inform stakeholders on explosives safety matters, legislation and procedures.

Four explosive-related accidents occurred in explosives factories during 2001. Thirteen workers were injured, three of them fatally. Formal inquiries are still in progress. Two notices were served on employers where the whole workplace was closed down to enforce safer work environments.

Civil engineering

A total of 146 persons were reported injured during 2001, 20 of them fatally. This represents a decrease of 43% in incidents in the building and construction industry. Incident records show a 47% decrease in injuries and a 29% decrease in fatalities.

The sudden spate of unstable South African building structures, either during or after construction, is alarming. The Department has drafted proposals to address the issue.

A committee has been formed for all stakeholders in the construction industry. The committee will provide a conducive environment where all stakeholders, government, industry and labour can offer support and assistance to one another to ensure a safe working environment on construction sites.

A total of 60 inspectors were trained in conducting inspections on construction sites.

Support to the industry has been improved by attending promptly to queries and providing approximately 15 workshops on issues relating to health and safety in construction.

Directorate: Electrical and Mechanical Engineering

In 2001, a total of 27 prosecutions were recommended under the Electrical and Mechanical Regulations. As many as 1 695 notices were served under the Regulations.

Only 1,59% of the notices served against employers were recommended to the Office of the Director of Public Prosecutions for prosecution.

Directorate: Health and Hygiene

The number of occupational diseases reported to the Compensation Commissioner showed an increase from 3 146 cases in 2000 to 3 456 in 2001.

The highest three occupational diseases reported were hearing loss (1 952 cases), tuberculosis (500 cases) and dermatitis (203 cases).

Labour relations

In 2001/02, the focus was on the passing of amendments to the Labour Relations Act, 1995 (Act 66 of 1995), and the Basic Conditions of Employment Act (BCEA), 1997 (Act 75 of 1997), in Parliament. The first report of the Commission for Employment Equity (CEE) with data on the extent of employment equity implementation at the workplace was also published and launched by the Minister and the Chairperson of the CEE in August 2001.

Parliament approved amendments to the Labour Relations Act, 1995 and the BCEA, 1997. These amendments seek to improve the application of the Acts, align them with labour market realities and to increase the sensitivity of the legal framework.

Code of Good Practice

The Minister released the Draft Code of Good Practice on Key Aspects of Disability in the Workplace for public comment in April 2001.

Public hearings, chaired by members of the CEE, were held in various provinces to discuss the Draft Code. Written input was also received from the public and considered by the Department and the CEE. With regard to HIV/AIDS, funding has been secured for the development of technical assistance guidelines on managing HIV/AIDS in the workplace.

Directorate: Collective Bargaining

The Directorate's role is to:
- administer the Labour Relations Act, 1995
- register trade unions, employer organisations and bargaining and statutory councils
- publish bargaining council agreements and the extension of agreements to non-parties
- promote and monitor collective bargaining.

Dispute resolution by bargaining councils

A total of 22,2% of disputes referred to bargaining councils were settled. Where councils were not yet accredited, unresolved disputes were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) or settled by the parties themselves.

Commission for Conciliation, Mediation and Arbitration

The CCMA improved its settlement rate for conciliations to 73% of cases heard. Between April and September 2001, the daily average number of referrals was 477. A total of 67% of cases conciliated within the statutory time frames were finalised, and there were on average 212 arbitrations per day.

Bargaining Council Strategy Committee

Task teams were set up to investigate:
- infrastructure and information technology
- enforcement of collective agreements
- benefits offered by councils
- dispute resolution.

These task teams reported in October 2001 to councils in the three major metro cities. In each city, committees were elected to look at ways of implementing the task teams' recommendations.

Directorate: Employment Equity

The Directorate: Employment Equity is responsible for:
- administering the Employment Equity Act, 1998 (Act 55 of 1998),
- promoting employment equity and eliminating unfair discrimination
- disseminating codes of good practice and regulations to eliminate discrimination and promote employment equity in the workplace
- monitoring the implementation of employment equity in the workplace through the collection and analysis of employment equity reports from employers
- supporting the CEE to fulfil its statutory functions.

A public register is maintained in terms of Section 41 of the Employment Equity Act, 1998. The second such register was published in the *Government Gazette* on 23 August 2001. This register lists all designated employers who reported during the June and December 2000 reporting periods.

Employers, including organs of State, that did not comply with the reporting provisions of the Act, are investigated.

International co-operation

The US Department of Labour hosted and sponsored a delegation of six people to Washington. The delegation consisted of three members of the CEE and three staff members of the Directorate.

An agreement was also signed between the South African Department of Labour and the US Department of Labour to further technical co-operation.

Directorate: Employment Standards

The Directorate's role is to implement the BCEA, 1997. It also assists the ECC to fulfil its statutory functions. This includes conducting investigations into working conditions and advising the Minister on the establishment of sectoral determinations. Sectoral determinations and BCEA regulations were promulgated during 2001.

Sectoral determinations

- Agricultural sector
  A report on the investigation into agriculture was launched and published for public comment on 13 September 2001.
- Domestic workers
  A report on the investigation into domestic workers was launched and published on 10 July 2001. Subsequent public comments were consolidated and submitted to the ECC for advice to the Minister.
- Retail sector
  Public hearings were held in Gauteng, KwaZulu-Natal and the North West. A report was submitted to the ECC in March 2002 for consideration and advice to the Minister.
- Taxi industry
  A draft report has been compiled on the outcome of the investigation but had not yet been released by July 2002.
- Private security sector
  A sectoral determination was published on 30 November 2001, amending the minimum wages for the sector as well as conditions of employment. An interim management board was established as required by the Pension Funds Act, 1956 (Act 24 of 1956). The administrator (Fedsure), however, withdrew from the process. The management board is busy with the process to approve a new administrator and to finalise the rules of the fund.
- Contract cleaning sector
  Amendments to the wage schedule were published in May 2001. A notice to announce the Minister's intention to amend wages for 2002 was published in March 2002. A Provident Fund was established for the sector on 1 December 2001.
- Fishing industry
  A notice was published in the *Government Gazette* in July 2001, announcing the investigation. Role-players were consulted on issues around the scope of the investigation. The sector is also busy with the establishment of a bargaining council.
- Forestry sector
  A notice was published in the *Government Gazette* in November 2001, announcing the commencement of the investigation into the forestry sector. Role-players were consulted on issues around the outsourcing arrangements within the sector and the roles of the various stakeholders.

Information

In September 2002, it was announced that according to the Labour Force Survey conducted in February 2002, 11,4 million people were employed compared to 10,6 million six months earlier. At the same time, the economically active population had increased from 15,4 million to 16,1 million.

Ministerial determinations

In terms of Section 50(1), the Minister may make determinations for a sector or area.

- Workers in public works programmes
  A ministerial determination and Code of Good Practice for Special Public Works Programmes was published on 25 January 2002 after consultation with the National Economic Development and Labour Council and the ECC.

- Youth employment
  Section 18(4) of the Skills Development Act, 1998 makes provision for the Minister to establish a sectoral determination for learners in learnerships in terms of Chapter 8 and 9 of the BCEA, 1997. A sectoral determination for unemployed learners entering learnerships was promulgated on 15 June 2001 and launched by the Ministers of Labour and Education on 26 June 2001.
- Variations
  Section 50 of the BCEA, 1997 makes provision for the Minister to replace or exclude any basic condition of employment provided for in the Act in respect of any category of workers or employers, or any employer or worker. The total number of workers affected by variations was 5 303 302.
- Earnings threshold
  In terms of Section 6(3) of the BCEA, 1997, the Minister may, on the advice of the ECC, make a determination that excludes the application of Chapter 2 of the Act to employees earning in excess of the earnings threshold. A notice announcing the review of the earnings threshold was published in the *Government Gazette* of 2 March 2001.
- Small business
  Arrangements were made with *Big News for Small Business* to have a regular page in this publication to promote legislation among small businesses.
- Eradication of child labour
  An enforcement policy was developed for child labour contraventions arising out of the results of the Survey on the Activities of Young People and in line with the BCEA, 1997. The consultation process regarding children in the performing arts was completed in February 2002 and the Directorate is compiling a report in this regard.

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