CDE ROUND TABLE

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CDE Round Table is an occasional publication by the Centre for Development and Enterprise reflecting discussions held on key national issues

Going for growth: are AsgiSA and JIPSA bold enough?

In November 2006 CDE hosted a Round Table aimed at encouraging dialogue between the private sector and the government about the nature and scope of the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). Held nine months after AsgiSA's launch in February 2006, it also provided participants with an opportunity to review progress made with the programme, which underpins the government's ambitious plans to halve poverty and unemployment by 2015, and raise any concerns they might have about its design and implementation.

AsgiSA is aimed at accelerating economic growth, and distributing its benefits more widely. It is meant to achieve this through decisive and focused interventions, and therefore targets six specific constraints on growth. CDE welcomes this emphasis on growth, and agrees with much of the diagnosis of impediments, although questions remain about whether the list of blockages is inclusive enough, whether the method of targeting specific blockages is the most appropriate one, and whether the proposed interventions are bold enough.

A case in point is the Joint Initiative on Priority Skills Acquisition (JIPSA), a subsidiary AsgiSA programme, managed by a task team headed by Deputy President Phumzile Mlambo-Ngcuka. JIPSA addresses one of CDE's principal concerns, namely South Africa's inability to provide the skilled people required by its growing economy. Since 1995 CDE has advocated a migration policy that would help South Africa acquire the skilled people its economy needs, while the difficult task of improving our education and training system gains momentum. JIPSA is a step in the right direction, but does it go far enough in promoting the assertive acquisition of skills wherever we can find them?

The discussion centred on two keynote presentations: the first by Alan Hirsch, chief director: economic sector in the Policy Co-ordination and Advisory Services (PCAS) unit of the Presidency, and the second by Raisibe Morathi, economic adviser to the deputy president. Participants included senior business people, diplomats, and leading private sector economists. This report begins with summaries of the lead presentations, and then goes on to capture the main themes that emerged from the discussions.

> JIPSA is a step in the right direction, but does it go far enough in promoting the assertive acquisition of skills wherever we can find them?

List of participants

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Ann Bernstein, executive director, CDE
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Philip Green, high commissioner, Australian High Commission
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Alan Hirsch, chief director: economic sector, Policy Co-ordination and Advisory Services, The Presidency
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Jac Laubscher, group economist, Sanlam Investment Management
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Raisibe Morathi, economics advisor, The Presidency
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Shigeki Okada, deputy executive director, Japanese External Trade Commission
Shireen Omar, researcher, CDE
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Julian Pokroy, immigration attorney and member of the Law Society Immigration Committee
Simon Ridley, chief financial officer, Standard Bank Group
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Charles Simkins, Helen Suzman Professor of Political Economy, Wits University
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Mthobi Tyamzashe, group executive corporate affairs director, Vodacom
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Penny Vinjevold, deputy director-general: further education & training, Department of Education
Matthew Williams, counsellor, Australian High Commission
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Presentations

***Alan Hirsch**, chief director: economic sector, Policy Co-ordination and Advisory Services, The Presidency*

AsgiSA should be seen in the context of the pledge by the ruling party during the 2004 election to halve poverty and unemployment in South Africa by 2014.

Its contribution to policies aimed at making good this pledge is to identify constraints on shared growth, and encourage initiatives to remove these blockages. In this sense, AsgiSA determines priorities and becomes a process of communicating, monitoring, evaluating, reporting, and intervening where necessary to clear the blockages in the system.

When the government reviewed progress made with stimulating growth, it found two really significant imbalances in the economy. The first is structural: weaknesses emerged in manufacturing, tradable services, and value-added products of various kinds, both in our domestic markets and in our efforts to compete internationally. The strength and volatility of our currency have contributed to these weaknesses, but the absence of a strategic approach that would have supported those sectors effectively has also been significant. Addressing these weaknesses is part of AsgiSA.

The other major imbalance is the fact that South Africa has two economies. There is the modern industrial economy, which is increasingly successful; however, roughly one third of the population do not participate in this economy, and live in poverty. Many of those families and communities live in circumstances where it is difficult to imagine that they can break the chains of poverty on their own. They do not have networks, role models, or strong schooling systems, and interventions are needed to address that challenge. South Africa's ability to grow is constrained if one third of our population does not participate effectively in the modern economy.

AsgiSA identifies six binding constraints (see box, AsgiSA's binding constraints, page 4). It was extremely difficult for policy-makers to restrict those to six, but a key challenge was to guard against losing focus. The whole purpose of the project is to encourage the government and its partners in the private sector to concentrate on the most important issues. There may therefore be aspects that are not stated in a very obvious way, or are missing in the policy. Crime is missing, because it was thought to be such a major and important issue that it could not be dealt with as an adjunct to AsgiSA.

In summarising AsgiSA's progress thus far, we should note the following:

- We are confident that we will make steady progress towards reducing the volatility of our currency. We need to continue to accumulate reserves, and continue with the very high level of co-ordination between fiscal and monetary policy that we have seen this year, including what to do with the budget surplus.
- In infrastructure, we are making fairly good progress. The overall envelope for infrastructure investment has gone up from R370 billion in the last medium-term budget to a proposed R410 billion in the next one. Most of the investment is taking place. Some national departments, provincial departments, and municipalities do not have enough capacity to develop, implement, and maintain infrastructure projects, but despite this R80 billion was invested in infrastructure last year. Eskom, Transnet, and ACSA have announced major plans for expanding infrastructure which they are currently implementing.
- As regards sector strategies, the bio-fuels strategy is soon coming to cabinet and will be really exciting. We have made considerable progress and implemented most of the decisions in the area of business process outsourcing, which affects businesses active in such areas as call centres, human resources, accounting, and payroll outsourcing. In tourism, we have considerably increased the marketing budget. We are also reforming aviation policy; a new airlift strategy will bring in new flights and

> 'We are confident that we will make steady progress towards reducing the volatility of our currency'

carriers, which will support tourism. The question is whether we should continue to focus on the three areas that we originally identified, or whether we should also move on to other areas, such as manufacturing. This issue will be addressed in the industrial policy process.

- We have identified the introduction of a tax incentive for investment in research and development as a priority. The government is pleased about the positive response of the private sector.
- In the area of small business regulation and regulation generally, we have made some significant progress in the second economy initiatives around the Expanded Public Works Programme. We are on the point of making some important proposals and decisions around the delivery of services to small businesses. We have an additional Jobs for Growth programme (see box, The jobs for growth programme, page 5) that has emerged out of AsgiSA, and which seems to be very promising at this point, but there are problem areas.
- As regards the Regulatory Impact Assessment system, the cabinet has supported the idea of preventing overregulation and developing a comprehensive understanding of the costs and benefits that regulation imposes on various players, and the feedback from departments is generally very positive. It is going back to cabinet in November for an implementation strategy, and we hope and expect to begin implementation early next year.
- We have made progress in the governance area, both in terms of general government programmes and in targeted activities such as the establishment of a pool of project engineers and managers at the Development Bank of Southern Africa (DBSA) to help weaker municipalities develop and implement administrative systems.

> 'We have made some significant progress in the second economy initiatives around the Expanded Public Works Programme'

AsgiSA's binding constraints

The following are the 'binding constraints' set out in the AsgiSA base document,[1] followed by comments made by Alan Hirsch at the Round Table:

1. **Volatility and level of the currency**. 'This remains an Achilles heel and a wild card of the South African economy. When we now address this issue in public we usually talk about macroeconomic stability, because the Treasury doesn't like us to talk about the currency specifically, but it is about the currency — excessive currency volatility can discourage investments in export businesses. It's not a question of changing our macroeconomic regime; rather, we need to reduce this volatility through incremental improvements in policy and practice.'
2. **The cost, efficiency, and capacity of the national logistics system**. 'After 20 years of very low levels of investment, and possibly poor planning, we have fallen behind in electricity provision, and the railways and harbours have become very inefficient. The fact that we are not exporting as many manufactured products as we should is partly due to the weakness of the railway and harbour system in dealing with general freight.'
3. **The shortage of suitably skilled labour, amplified by the impact of apartheid spatial patterns on the cost of labour**. 'When the World Bank undertook its investment climate survey in South Africa, it found that the earnings wage gap between low-skilled workers on the one hand and managers and professionals on the other was bigger in South Africa than in any other country it had had ever measured. This clearly shows the premium on skills and experience.'
4. **Barriers to entry, limits to competition, and limited new investment opportunities**. 'In some sectors, some government-owned and some privately owned, there is just not enough competition, and therefore prices have been too high. In addition, a higher level of co-operation between government and business around the development of particular sectors is an opportunity that we have not exploited effectively. So the idea here is to address these broad industrial policy issues, even though there is a parallel process of developing an industrial policy document.'
5. **Regulatory environment and the burden on small and medium businesses**.
6. **Deficiencies in state organisation, capacity and leadership**.

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- We have a new Immigration Act, which came into force last year, and an Amendment Bill that improves it further. The outstanding issue is the Department of Home Affairs, which has not been performing as well as it should, and we have begun interventions to restructure and reorganise it so that it becomes a much more effective department.

As AsgiSA approaches the end of its first year of implementation, the government is satisfied that it has been effective, both in specific senses and as an effective label or concept for marketing South Africa as a growth destination. South Africa continues to attract very high levels of investment, particularly from foreign equity investors. The question at the end of the first year is: How do we reinvigorate the programme to ensure that it has an even greater impact in its second year? Do we introduce significant changes, or do we stick closely to its current design? Do we keep it simple, or do we try to be more sophisticated?

***Raisibe Morathi**, economic adviser to the Deputy President:*

The Joint Initiative on Priority Skills for South Africa (JIPSA) is a sub-set of AsgiSA. It identifies areas of skills shortages that are aligned with the implementation of AsgiSA, and works on the assumption that, as a result of critical shortages, the process to acquire skills needs to be shortened. JIPSA has identified shortages in areas such as engineering and high-level networking, both of which are needed for developing infrastructure. Other critical shortages exist in regional and town planning, particularly at the municipal level; health care; and education management – ie, teachers and nurses. JIPSA also talks about sector-specific skills in tourism and in business process outsourcing. It has also highlighted inadequate maths, science, and language competence in public schools. According to the Department of Provincial and Local Government, local governments lack about 4000 people with crucial technical skills. The DBSA is tackling this problem by trying to create a pool of people who will troubleshoot in those areas of need.

To achieve its goals, JIPSA has drawn in the departments of Education and Labour, which have developed particular expertise in the development of skills, as well as representatives of the private sector, research institutions, and education institutions. It is exploring various ways of ensuring that skills production within South Africa is improved. Challenges surrounding quality assurance have been identified, as has the need to make the education system as a whole more efficient. In addition, corporate CSI budgets could be directed more effectively towards developing high-priority skills.

JIPSA recognises that there are cases where you need to address the question of the migration of skills. Importing critical skills will allow people to make an economic contribution that we might not be able to make on our own. However, if you compare the cost of importing skills with that of employing local people, the former will be a last resort. JIPSA has therefore paid a lot of attention to ensuring that we

'JIPSA recognises that there are cases where you need to address the question of the migration of skills'

The jobs for growth programme

The following description of the Jobs for Growth programme has been drawn from the government publication Vuk'uzenzele:

Jobs for Growth will be run by the ministries of Land Affairs and Agriculture and Trade and Industry. It is aimed at creating about a million jobs over the next three to five years. The jobs created through this programme will be mostly for poor people in rural areas and semi-rural areas around the cities. It will support people who want to start small businesses, including co-operatives, in these areas. It will also help people to develop skills to do so. This will ensure that rural areas do not have to depend on big cities for employment. When stakeholders met in April 2006 to finalise the plans for Jobs for Growth, the deputy president said it would support people to produce quality products that could be sold at good prices in the marketplace. In this way, people will be able to do things for themselves rather than having things done for them. 'It must ensure that people come out of poverty for good,' she said. She also pointed out that there have been a number of plans in the past to fight poverty, but they have not focused enough on those with few opportunities, like farm workers and uneducated women. Jobs for Growth will ensure that many of those jobs go to poor women, who will also be encouraged to join self-help groups.[7]

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grow our own timber. It could also be helpful to encourage South Africans to work overseas, in order to acquire global experience. Some will come back; others will continue to make us proud wherever they are. For this reason JIPSA is finding ways to place black women in particular in overseas positions. At least 100 people have been placed overseas through this initiative.

A further central area of intervention is to promote the placement of people who have qualifications, but lack the experience to access employment. It has been found that many such people need to acquire some 'soft skills'. Unfortunately, may of these unemployed graduates are Africans.

JIPSA is looking towards building partnerships, and it has received very positive support from the private sector, although some institutions still see their support from a CSI perspective. It is unhelpful to steal skills from one another, and we all need to contribute towards the pool of skilled labour in South Africa.

'JIPSA is looking towards building partnerships, and it has received very positive support from the private sector'

Government statements on AsgiSA's scope

AsgiSA Base Document: The list of binding constraints emerging from analysis and consultation has been kept short enough and focused enough to allow for a coherent and consistent set of responses. Countering these constraints requires a series of decisive interventions. These interventions do not amount to a shift in economic policy so much as a set of initiatives to achieve our objectives more effectively.

Deputy President Phumzile Mlambo-Ngcuka (at an AsgiSA media briefing held on 6 February 2006): AsgiSA is not a new economic policy. It is mostly microeconomic reforms within a GEAR macroeconomic framework. It is about the efficiency of the state, better conditions for business, closing the skills gap in the short and long term, linking the first and second economies, clearing up on governance and red tape, and combating corruption – [factors which] impact on delivery at all levels of government. The role of AsgiSA is to listen to the challenges faced by government's private partners and to remove bottlenecks in order to attract foreign investment, which is expected to contribute to the country's envisaged six percent economic growth by 2014.'

President Thabo Mbeki (in his 2006 State of the Nation address): I must also take advantage of this occasion to explain that AsgiSA is not intended to cover all elements of a comprehensive development plan. Rather, it consists of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development. Otherwise we will continue to engage the nation and all social partners to address other elements of a comprehensive development plan to improve on our current programmes, and deal with other issues, such as the comprehensive industrial policy, keeping in mind the objective to halve poverty and unemployment by 2014.

COSATU (response to the President's 2006 State of the Nation address): 'We accept that AsgiSA is not a comprehensive development strategy centred in a coherent industrial strategy, which we have been calling for for many years. We understand that AsgiSA is a limited measure, designed to make targeted interventions to grow our economy to six percent while ensuring that the benefits are shared by all.'[8]

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Discussion

A wide-ranging discussion developed around the presentations. The key themes are summarised below.

Theme one: AsgiSA and economic growth

> AsgiSA is not intended to cover all elements of a comprehensive development plan. Rather it consists of a limited set of interventions that are intended to serve as catalysts. – President Thabo Mbeki

AsgiSA is not meant to be a comprehensive set of policies, and concentrates instead on certain selected priorities in the shape of the binding constraints. Is this a useful way to promote the kind of growth that will benefit all South Africans? Participants felt that crucial barriers to growth had been omitted, that the method of identifying constraints was not optimal, and that AsgiSA might be diverting attention away from the real determinants of and obstacles to growth.

Several participants pointed out that higher rates of economic growth could only be achieved if both local and foreign private sector investment increased significantly. Foreign investment would be particularly important, given the low savings rate in South Africa as well as the already large deficit on the current account of the balance of payments. Foreign direct investment also had the added benefit of facilitating technology and skills transfers, as multinational companies that set up branches here would bring in skilled people as well as knowledge of the latest production techniques. Some participants expressed concern that AsgiSA did not pay sufficient attention to these issues; others that, by focusing on the selected 'binding constraints', the government's attention might be diverted from other important challenges that needed to be addressed proactively. Also, the economy should be prepared to utilise the benefits that would hopefully come from AsgiSA.

One speaker argued that achieving competitiveness was the central issue in generating higher growth rates. Ensuring that South Africa had a policy framework conducive to increased investment, growth, and creativity was fundamental. Some major industrial sectors were not internationally competitive, or were not as competitive as they could be, because the government had not succeeded in creating a sufficiently supportive framework. As a result, companies had to incur additional costs arising from issues such as crime, costly and unreliable transport, and the high cost of telecommunications. He called for a policy that supported a competitive environment for South African industry.

Other participants suggested that issues such as crime and tax policy should be added to the list of constraints. The tax burden was much higher now than a few years previously, and the time was therefore ripe to re-examine tax reform. A focus on the manufacturing sector was also called for, although participants were worried about the capacity of the Department of Trade and Industry in this area.

Several speakers said AsgiSA was too limited in scope, and that crime in particular should have been listed as a 'binding constraint' in its own right. This runs counter to the government's clearly expressed preference for a strict and economical identification of priorities (see box, Government statements on AsgiSA's scope, page 6), but raises the question of how effective the initiative will be if it omits those elements that many people see as the biggest impediments to growth in South Africa.

Theme two: the role of the private sector

> The whole notion of the participation of the private sector in the investment process is something that needs to be followed up, to try to make the issues more concrete.
> – Alan Hirsch

Several participants expressed disappointment about the small role for the private sector on the fixed investment side of AsgiSA. A bigger role for the private sector would help to ease concerns about public sector capacity, and help to fund higher levels of fixed investment. For

> Participants felt that AsgiSA might be diverting attention away from the real determinants of and obstacles to growth

example, to the extent that new power stations were being built by foreign companies, they would provide the capital through foreign direct investment.

The more the private sector was involved, the more companies would generate their own savings to help fund investment. It was also not clear whether AsgiSA was doing enough to ensure that private sector investment would increase sufficiently. To meet the AsgiSA targets, private sector fixed investment as a share of GDP probably had to rise by 50 percent.

Numerous participants felt the impact of crime on growth and the economic prospects of all South Africans was far too large to ignore

Some participants acknowledged that there were challenges in respect of public–private partnerships, but there was a sense in the private sector that its ability to deliver was not sufficiently recognised. One speaker recounted that only 12 managers were responsible for the construction of Montecasino, yet the project was completed six months ahead of schedule and substantially below budget because they were very focused. That is what the private sector could bring to the table – the ability to leverage the delivery that government needed in many areas.

One participant said there was a communication problem between government and the private sector. Government spoke with a defensive tone, while the private sector spoke with an accusatory tone, and as a result nothing was resolved. There therefore needed to be greater clarity about what the private sector could do in the AsgiSA dialogue, and what individuals in society could do. According to another participant, the private sector was saying: 'Tell us what we should be doing in order to join the AsgiSA train, and don't leave us out.' There was a clear need for AsgiSA to be more inclusive of business and society rather than government on its own, taking it upon itself to define what role everybody else should play. AsgiSA should create a more comprehensive framework for dialogue between the key role players.

Theme three: crime

> It is incumbent on those departments represented at this Round Table to put pressure on those departments responsible for the criminal justice system to deliver solutions that work. – Round Table participant.

Numerous participants felt the impact of crime on growth and the economic prospects of all South Africans was far too large to ignore. One participant said the issue of crime had been 'swept over very quickly', but South Africa's prospects were being tarnished by crime. It affected whether people stayed here, moved here from elsewhere, or invested here, as well as many other aspects of daily life. So no matter how sophisticated micro and macro policies were, 'if we don't look at this crime factor very, very carefully we're not going to have anything else to talk about'. Speakers emphasised problems in policing as well as in the courts, where both criminal and commercial matters were becoming increasingly difficult to resolve. Other

Foreign expert highlights link between crime and economic growth

One of the contributors to the CID South Africa Growth Initiative (see box, Promoting exports and competitiveness: what the experts say, page 12), which is funded by the National Treasury and linked to AsgiSA, has stressed the benefits both to crime fighting and to growth of making crime part of the AsgiSA agenda. In a carefully argued working paper, Prof Christopher Stone of Harvard University has pointed to the positive consequences of a concerted and practical focus on reducing those criminal activities that inhibit growth. Such a linkage between promoting growth and reducing crime, he argues, will generate practical and innovative crime fighting strategies while also promoting accelerated and shared growth. He concludes that, 'despite the poor state of knowledge about the links between crime and growth, a focused program on these two issues could both loosen some of the restraints on growth in South Africa and contribute to the global understanding of this crucial relationship. In particular, the chance to focus on economic growth in some of the poorest communities, where crime can kill a household business, and to strengthen efforts to build confidence in the justice system as a whole could both provide benefits across South African society.'[9]

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factors that affected people's lives, including traffic and basic services such as electricity, were also mentioned as being below par.

It was suggested that, rather than ignoring crime, the government departments dealing with economic growth and employment should put pressure on those departments responsible for the criminal justice system to do something that would work. Crime fighting in South Africa was a shambles.

Theme four: the exchange rate and competitiveness

Stabilising the exchange rate and making it more competitive are central priorities of AsgiSA, but some participants expressed disappointment about progress made in this regard. The government had no capacity problems in this area, yet no new initiatives had been undertaken since mid-2005. No change in the policy regarding the accumulation of reserves had been detected – the National Treasury continued accumulating them on the same, very slow basis as in the past. Moreover, no progress had been made in respect of exchange controls. Abolishing exchange controls was an important factor in broadening and deepening the currency market, and thus reducing its volatility. The rand was a highly traded currency outside South Africa. Abolishing unnecessary controls would boost the confidence of foreign investors and make them less nervous, thus stabilising the market.

Tackling the rand's volatility was seen as crucial if South Africa wanted to improve its export performance. One participant said his company exported about 50 percent of the goods it produces, at an average gross margin of 18 percent. But the rand could vary against the dollar by as much as 6 percent within a matter of hours, which played havoc with the bottom line. More should be done to look at factors that affected the value of the rand. It was a highly traded currency. The value of the rand traded each year was 20 times GDP, and speculators loved playing with it. Traders climbed into it and wreaked havoc with it, which decimated the bottom lines of even large companies. Many platinum exporters, gold exporters, and manufactured goods exporters withdrew from export markets when the rand went to R5,50 to the dollar.

This was a particular problem for the mines. South Africa was traditionally a commodity-exporting country, and a significant commodities boom had been taking place globally for the last 60 months. Yet South Africa had almost entirely missed out on that boom. Over the previous five years South African exports had grown by 2,2 percent in real terms, and during the previous six months, on a year-on-year basis, by 1,4 percent. Something was clearly wrong.

Theme five: making growth and transformation simultaneous priorities

> There is a cost to transformation; there are trade-offs involved and at times that means constraints – what you can do and what you cannot do. – Participant in the Round Table

A number of speakers pointed out that, while AsgiSA was an attempt to create priorities in pursuit of shared growth, it did not deal with the issue of transformation. Transformation continued to be an equally, or even more important, government priority regardless of its impact on growth, shared or otherwise. Speakers stressed that they were not opposed to transformation, but that they wanted the contradictions and costs imposed by transformation to be part of the wider growth discussion.

> While AsgiSA was an attempt to create priorities in pursuit of shared growth, it did not deal with the issue of transformation

One speaker declared: 'There is a cost to transformation; there are trade-offs involved, and at times that means constraints – what you and cannot do. I'm not saying we should not have transformation in the economy, but I think we must be explicit about those costs and trade-offs. Skills development, that has come to the fore quite strongly, is a case in point.'

Other speakers concurred. One participant pointed out that the transformation process had only just begun. Because of this, every policy framework was a contested area. He argued that discussions and strategies were needed that would allow all role players and other interested parties to address these issues realistically, knowing the political dynamics that were involved.

Transformation had major implications for the cost of doing business in South Africa. It affected many aspects of business, from hiring practices through contracting to new forms of red tape, and working with various spheres of government. Many international firms preferred to invest in countries where they did not face such costs and uncertainties. If transformation was crucial for South Africa's future, the way in which it impacted on growth should be an integral part of AsgiSA. Only in this way could strategies be devised to minimise the impact of transformation on economic growth.

South Africa's immigration legislation and the implementation of controls were sharply criticised

Theme six: the necessity of importing skilled labour

> We are being perceived in the outside world as being obstructive towards skilled foreigners coming in, and we are losing massive opportunities. – Round Table participant

The need to import skilled people to overcome the skills shortage in South Africa was endorsed by both participants and speakers. However, delegates disagreed about how extensive such a strategy should be. Some participants expressed concern about large increases in the numbers of skilled immigrants, whereas others saw this as the ideal solution. Some expressed concern about current trade negotiations between African countries and China in the context of the failure of the Doha Round of trade talks under the World Trade Organisation system. They pointed out that when China committed itself to developing infrastructure in other countries, it brought in its own skilled and unskilled workers. South Africa should take the initiative and ensure that it understood what the impacts of skills importation would be.

Others pointed out that there was a severe shortage of highly skilled people, and that they were obviously not being produced quickly enough within the country. Therefore, they had to be found elsewhere. In addition, South Africans had to recognise that while there were massive shortages of skilled people such as engineers, many of them were being lost to the global pool from which growth points such as Dubai were recruiting. South Africa had to exploit this pool for its own purposes.

In this context, South Africa's immigration legislation and the implementation of controls were sharply criticised. As one participant put it:

'The Immigration Act 13 of 2002, which came into effect in April 2003, was a carefully crafted piece of legislation, and was perceived to be one of the more liberal and effective laws in a global context of how skills should be imported within a legislative framework. But then a new minister took over and undid much of the work that had been done during the previous eight years. In practice, the Department of Home Affairs is now placing every possible

Reserve Bank and National Treasury disagree about exchange controls

South African Reserve Bank (SARB) governor Tito Mboweni has declared that South Africa should scrap its remaining foreign exchange controls. He believes the National Treasury's gradual liberalisation of financial markets has proceeded far enough to leave the remaining controls without purpose, and that the inconvenience and costs of the remaining controls outweigh their benefits. He argues that most of the people who are still affected by the remaining regulations have 'already taken their money out of the country'. His other motivation for removing controls is to increase confidence in the economy. He believes this confidence may lead to inflows of capital into the economy, rather than outflows. [10]

Meanwhile, Finance Minister Trevor Manuel continues to reduce exchange controls in a very gradual way. The only two changes made to exchange controls in the 2006 budget were to increase the foreign currency allowance for individuals from R750 000 to R2 million, and to lower the percentage of company shareholdings that South African companies and parastatals have to buy if they want to invest elsewhere in Africa.

Standard Bank exchange control head Johan Joubert says that although there seems to be no particular reason why exchange controls cannot be lifted completely, it is government's stated policy to do so gradually – and it is sticking to that policy.[11]

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obstacle in the way of employers trying to bring in skilled foreigners. Besides this, there is a lack of capacity in the department at all levels, from the bottom right to the top. The act needs to be completely overhauled. We are being perceived in the outside world as being obstructive towards skilled foreigners coming in, and we are losing massive opportunities. When she assumed office, the minister actually said that the act would be entirely overhauled in 2007. Is this going to happen? Perhaps another green paper process or a new white paper with a very different dynamic to the 1996 green and white paper task groups needs to be considered.'

Policy-makers were urged to think as broadly as possible about skilled immigrants. Most of the conversation about immigration was about the needs of big companies; they were important, but did not constitute the entire private sector. New entrants into business were also required. What was therefore left out of these discussions was the opportunity and requirement to open South Africa's doors to entrepreneurs who could come in and help start new businesses which would them employ South Africans. Policy-makers and others should not only be thinking about importing people who already had a job.

More generally, South Africa needed to search more actively in the global marketplace for skills. South Africans were being hunted, but South Africa was not doing any hunting. This was a recipe for disaster, as was clearly evident in the health sector.

Theme seven: the private sector and educational outcomes

> When it comes to improving the education system, the private sector and the innovation which it can bring has a huge amount to offer. – Participant in the Round Table.

A major theme was the role that the private sector could play in improving the outcomes of the education system. There were areas of concern, and calls for improvements, but participants from both government and the private sector acknowledged that some progress had been made. For example, one participant said the construction industry was working closely with education officials and the Further Education and Training (FET) colleges. Industry representatives were helping to shape the curriculum to fit more closely with the industry's needs, and were obtaining representation in the colleges.

The lack of communication between the construction industry and government departments and institutions responsible for producing the skilled workers the industry needed had been a major problem; for example, the construction curriculum of the FET colleges had been hopelessly inadequate. But these problems had now been resolved. All the parties involved were collaborating more effectively, and were no longer working in isolation to the same degree.

Nevertheless, areas of disagreement remained. There were, for example, unrealistic expectations of what the construction industry could do, as some people believed that all those who registered at the Construction Industry Development Board (CIDB), Grade 1, 2 or 3, would automatically get a job. To resolve this, 'a lot of hard talking' had to take place.

One participant stated that, when it came to improving the education system, the private sector and the innovations it was capable of had a huge amount to offer. A participant from Eskom underlined this by pointing to the positive contributions her company had made to the Dinaledi project. It was currently producing its fourth batch of matriculants from schools that previously did not offer higher-grade maths and science. It had produced more than nine straight A's in 2006, which showed that 'anything is possible with very little effort and very few resources'.

> When it came to improving the education system, the private sector and the innovations it was capable of had a huge amount to offer

Theme eight: the weaknesses of local government

> The quality of administration and of the regulatory environment, particularly at the local government level and to some extent the provincial, is a major constraint. – Round Table participant.

One speaker focused strongly on the practical problems of doing business in South Africa. He urged that attention should be paid to the day-to-day frustrations of dealing with underresourced local governments and overregulated environments. He had been waiting for two years to find out whether a business opportunity he was hoping to access fell under the jurisdiction of Johannesburg or Mogale City, 'and yet no one can actually decide whose responsibility that is'. He added: 'Every time we talk about government policy, we have forgotten that there's a place called Umtata or Bisho that actually has to deal with all the minor things that relate to the actual operations.'

Small to medium-sized businesses, many of them black-owned, were hurt the most by dysfunctional municipalities. A code was needed to simplify these issues. There were still many laws on the statute book dating back to the early 20th century, and no one had taken the time to ask whether they were still relevant in the current context. As a result, the cost of setting up business was five times higher for small operators than for bigger entities.

Promoting exports and competitiveness: what the experts say

The National Treasury has commissioned an international study of the growth potential of the South African economy. Entitled the CID South Africa Growth Initiative, it is being co-ordinated by the Center for International Development at Harvard University in the United States. The CID has convened a panel of experts from Harvard, the Massachusetts Institute of Technology, the University of Michigan, and other institutions to work with South African economists on constraints on the South African economy, and its opportunities for accelerated growth. The study is meant to feed into the AsgiSA process.

Thus far, participants have produced seven working papers. hey contain many valuable insights, but their implications for the direction that AsgiSA and financial and economic policy in general should take are not entirely clear.

After reading some of the papers, Michael Power of Investec Asset Management believes the implications are clear. He urges: 'We should reorient our economy via a much more competitive exchange rate so as to lever our work-force – most especially our lowly skilled – into today's hypercompetitive global economy'.[13]

However, the paper that dealt most directly with promoting exports, by Lawrence Edwards of UCT and Robert Lawrence of Harvard University, does not support Powers's conclusion. The authors distinguish between nominal and real exchange rates. A real depreciation of the exchange rate occurs when a currency remains devalued once the differences in inflation rates between two trading countries has been taken into account. Exports do respond to real depreciations. But the kind of depreciation that Power calls for will only have a small effect on exports in the long run, as domestic price increases (inflation) erode the improved profitability of export supply. This is especially likely in South Africa as unions will demand higher wages if the purchasing power of the rand is suddenly reduced. Instead, Edwards and Lawrence make a case for lower tariffs, as they believe this will reduce domestic producer prices and thus improve export performance.

Jeffrey Frankel of Harvard, Ben Smit of the University of Stellenbosch, and Federico Sturzenegger of Harvard nevertheless believe monetary policy could be relaxed to allow for a weaker rand. They recommend that the South Afircan authorities should intervene more heavily in determining the value of the rand than is currently the case under its current inflation-targeting regime. One goal would be to prevent overvaluation, thereby preserving the non-commodity export sector. This can be done by building up South Africa's foreign exchange reserves, which are currently smaller than those of Asian countries. Another method would be to exclude oil prices from the CPI – ie, not to respond to high dollar oil prices by tightening monetary policy and appreciating the currency so as to keep rand oil prices unchanged.

Dani Rodrik of Harvard University also believes the rand may be overvalued. But he is more concerned with promoting better forms of government support for entrepreneurship in South Africa. He argues that 'the objective is to encourage private investment and entrepreneurship in new areas where South Africa can develop comparative advantage. Two things are needed to ensure that this strategy will become a success. First, greater discipline in targeting policy interventions on plausible, identified sources of market failures instead of on vague, and economically meaningless objectives (such as greater domestic 'beneficiation', or higher value added). Second, a better institutional structure to ensure (a) political leadership and co-ordination at the top, and (b) strategic collaboration at the bottom with business and other stakeholders.' From this perspective, AsgiSA may be a step in the right direction, but it has a long way to go.

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Another speaker said government policy was placing a heavy responsibility for economic growth on local government and businesses. Many municipalities were failing to meet their responsibilities in this field, due to poor capacity and meagre income generation. The government had recognised this by sending task teams to support 'failing municipalities', but the challenge was broader than this, and the response should not be restricted to crisis interventions in particularly beleaguered towns. What was needed was a national policy framework for urbanisation that provided municipalities with guidelines and support on how to maximise the economic potential of their towns, especially through local level partnerships with the private sector, and to deal with the rapid urbanisation that was overwhelming many small and medium-sized towns. Such a policy framework could be a powerful complement to AsgiSA's focus on national-level initiatives.

Responses from government

The responses of the government representatives to points raised by other participants are summarised below.

On the role of the private sector:

Alan Hirsch expressed surprise at the perceptions of exclusion expressed by private sector participants. Clearly, the private sector had to be involved in both direct and indirect ways. As regards direct involvement, tenders has been issued for several major projects, among them the tender for two large power stations.

As regards indirect involvement, a lot of the funding would come from the private sector, and it did not make a major difference whether it came in the form of bond or equity issues of one kind or another. There were no government construction companies or government factories; therefore, all the work would have to be done by the private sector. He asked whether the problem was that the private sector was coming too late to the AsgiSA process. He acknowledged that the government was involved in a very limited range of proper public–private partnerships; at the moment these only seemed to work for toll roads, and there were a limited number of roads the government wanted to subject to tolls. The whole notion of the participation of the private sector in the investment process had to be followed up, to try to make the issues more concrete.

On the exchange rate:

Alan Hirsch agreed that if the rand was less volatile, South Africa could compete more effectively in export markets. It could then use those investments in people and infrastructure to export more, pay for its investments, and reduce the deficits on the trade account. The CID South Africa Growth Initiative had pushed the government into looking for additional ways to support exports. On the positive side, he felt a lot of comfort could be drawn from the fact that levels of foreign debt were very low, and that South Africa had the capacity to adjust its spending portfolios should this become necessary in the period before it was sufficiently competitive to reduce the trade deficit.

On transformation as a priority:

Alan Hirsch said the government was being adversely affected by an enormous turnover of staff, particularly as a result of people moving to the private sector. This had some positive effects, as it provided foundation for the future of democracy. However, it also made building institutions in government a much bigger challenge than it should be. When he joined government he thought that rapid transformation was taking place, and that things would settle down within five to ten years. But things had not settled down, and would not do so for another ten to 15 years. He believed this was because the government was trying to grow rapidly at the same time as it was trying to build new institutions. However, he did not want to offer this as an excuse.

He added: 'We have to find ways to simplify things so that those [government] institutions can work more effectively. And most of these points are recognised; we just have to find a way to address them.'

The government was being adversely affected by an enormous turnover of staff, particularly as a result of people moving to the private sector

On transformation as a priority:
Raisibe Morathi said when government talked about 'accelerated and shared', the word 'shared' was partly meant to refer to transformation. She warned participants that, 'if you don't deal with the transformation part of it, you won't be able to achieve the goal you're looking for.' The government understood that transformation was a costly exercise, but 'it is a pain that we need to endure for the time being, and if we do a good job we will all be very happy people'.

The best thing that could be done for unemployed poor people was to educate them

On immigration:
Raisibe Morathi said that, before South Africa looked at the issue of bringing in foreign skills, it should first look at what it could do with its internal resources. The one million skilled positions identified as vacant could be filled by the four million South Africans who were not working who could potentially be working. There were employment equity laws that would help to bring in these four million people. These laws were relevant as there were increasing numbers of black people with qualifications who fell into this category of the underprivileged. The best thing that could be done for unemployed poor people was to educate them. 'In my view, education liberates.'

On local government:
Raisibe Morathi said everybody realised that there were huge capacity problems at the local government level. Poor or non-existent service delivery had to be rectified, and the government was trying its best to deploy the combinations of skills needed to do so. Some people perceived this approach to mean that, after the government had got rid of the previous people who had worked in local government, it was now bringing them back in desperation. However, this was not the case. Some retirees would be brought back, but this was closely linked to transformation. The government realised that it could not continue to have financial officers who did not understand what they were supposed to be doing. It could also not afford

Infrastructure inadequacies in telecoms and electricity supply

Tom Glocer (CEO of Reuters, whose chairman, Niall Fitzgerald, sits on President Thabo Mbeki's investment council): 'The high cost of telecommunications is an issue that has to be resolved if South Africa wants to create a growing economy. Telecom services are far more expensive in South Africa than in comparable developing countries, and the available bandwidth is flaky. Where the communication line is more expensive than the product itself, this makes the service prohibitive. In South Africa, certain services are beyond the price point of the buyer.'[2]

The South Africa Contact Centre Community (SACCCOM): 'South Africa could potentially lose 100 000 new call centre jobs because of the high costs of telecommunications, as global call centre companies choose to operate in countries where costs are lower, such as India and the Philippines.'[3]

AT&T: 'We do not plan to increase our South African investment because of high costs, primarily in telecommunications. While we use Telkom for 2 per cent of our local business, this represents 25 per cent of our total business costs in South Africa.'[4]

Stephan Dolk (South African general manager of the US-based utility cost management consulting firm NUS Consulting): 'We predict widespread outages in 2007. The question is not if, but when, blackouts will occur, and how frequently. Eskom has planned to invest R97 billion over the next four years in new generating capacity. It said its two new gas-fired power stations in Western Cape would come on stream next year. As a result, all the projections showed that this year's winter was going to be the worst it has ever been. If there are any weaknesses in the system, they will show this winter. This is because most new generation projects are coming on line only from 2008 onwards. Ten to 15 per cent is considered internationally as the minimum level of spare capacity. South Africa will only have 2 percent spare capacity, so if anything goes wrong, the knock-on effect will be substantial.'[5]

The Department of Minerals and Energy: Power cuts, caused largely by a lack of infrastructure maintenance, costs the economy R2,6 billion to R8 billion a year. The estimated backlog on power distribution infrastructure is about R5 billion.[6]

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to keep on older people who had been financial officers for many years and were not opening up opportunities for young people. 'Local government is a crucial area to start, because that's where each one of us, even an ordinary person in the rural areas, can actually feel non-service delivery. I don't think the situation at the national and provincial level is as serious as at the local government level.'

On enhancing the employability of school leavers:

Penny Vinjevold said the most important contribution identified by the Department of Education during the previous six months was not extra money, but an offer by the construction industry to give a working opportunity to every young person who came to a particular building site. This would make a major contribution to reducing unemployment, as it was well known that a person's chances of obtaining employment tripled if they have even six weeks of workplace experience. Also, by establishing the 400 Dinaledi schools, the department had achieved the potential to double the number of higher grade maths and science passes by 2008.

On the private sector contributing to educational outcomes:

Penny Vinjevold said the private sector had invested huge amounts in education and training, but there was an urgent need to evaluate this expenditure. What was needed was an analysis that showed what had worked and what had not worked, and to use it to effect improvements. In this way the public and private sector could ensure that public–private partnerships really had an impact. Some private sector demands could have a negative impact; for example, if it made too many demands for specialised education, this could crowd out reading and writing. More consultation and negotiation were required to deal with these issues. The best-case scenario was the close collaboration that had recently emerged between the government and the construction industry. 'It has been a hard and extremely rough set of conversations, but we are now saying, what can we do best as government, what can the construction industry do best, and I think we are starting to find some ways to deal with it.'

The private sector had invested huge amounts in education and training, but there was an urgent need to evaluate this expenditure

The achievability of AsgiSA's targets

An overarching theme of the Round Table was whether the targets AsgiSA had set itself could be achieved. Speakers addressed this theme implicitly when they criticised various aspects of the programme. Alan Hirsch was optimistic on this subject. He said:

'Actually, we're not doing badly. We are a middle-income country; our per capita income is six or seven times higher than those of China and India, and our economy is growing at 4,5 per cent to five per cent a year. This means that our per capita income increases more in monetary terms than in a lower-income country with the same growth rate. Our population growth is quite slow at the moment, so income per capita is improving very rapidly. We are even creating large numbers of jobs. In the last year we created about 544 000 jobs, and a similar number the year before. If we continue to grow and create jobs at this rate, we will meet the targets [of halving poverty and unemployment] we set ourselves for 2014. So we're not a basket case; we're not even doing badly. Its a question of how we move to the next level, and I think we don't have that far to go to get there. But there are some really big challenges.'

Of these challenges, the human resource constraint was probably the biggest. Others were issues of motivation, confidence in the future, and national purpose. 'Clearly, that's the most important thing about 2010 [the soccer world cup]. If we can achieve 2010, it can become a symbol of achievement and of our national pride.' He added: 'AsgiSA isn't far-fetched. We are already halfway down the road. It's really just a question of improving our systems, improving our relationships, reviewing our goals, and then achieving them.'

Concluding remarks

CDE asked two participants to make some concluding remarks. Both emphasised the need for greater co-operation and dialogue between business and government.

Charles Simkins: 'What we really need to push AsgiSA and JIPSA ahead are as many mechanisms for listening as possible. And if somebody says, 'I've got a contribution to South Africa's economic growth, but I find this or that or the other thing is frustrating me in the state', they should have a place to go and explain their case – to say, this is what I want to do, and this is what is frustrating it.

'The source of frustration might not always be removed, or entirely removed, but at least one would have a starting point of identifying where the problems lie. If one wants to adopt an approach of removing constraints, this is the kind of communication one wants to establish.'

'What we really need to push AsgiSA and JIPSA ahead are as many mechanisms for listening as possible'

Bongi Njobe: 'I am passionate about building quality relationships between business and government. But the dialogue that is supposed to happen doesn't really happen at the appropriate level. I think we need to examine the relationship between the private sector and government, and concretely question whether or not we need so many intermediaries between CEOs and government ministers.

'Who are the people who talk to government? It's not the CEOs of companies, it's the intermediaries, who do extremely good work in terms of facilitating business co-ordination, but actually operate like in-laws in a relationship where you have two lovers. The in-laws just can't just get to the crux of the relationship.

'So I think we must find ways in which the CEOs and government ministers talk openly about the key issues, because we are in this together. We need to work together on understanding the negative impact of the regulatory environment on business operations, and we need to work together to improve the quality of government services.'

Key questions

The Round Table helped to clarify a number of important issues surrounding AsgiSA. Most importantly, it highlighted the need for all the role players to continue listening and talking to each other, which will hopefully enable them to build new collaborative relationships. These could strengthen AsgiSA, help to improve its priorities, incorporate the perspectives of those most affected by higher demands for economic growth, and generate workable interventions. The following questions arose from the discussions.

1. If AsgiSA consists of only a limited set of interventions, when will discussions begin on the comprehensive development plan that President Thabo Mbeki spoke of in his 2006 State of the Nation speech which would, he said, 'engage the nation and all social partners'?
2. Some elements of AsgiSA are built on the notion that the private sector's role should be determined by the government. Why don't we look at a more consultative interactive approach – not only after problems arise, but right from the outset?
3. How can the private sector become a more integral part of the strategy to accelerate shared growth? Why can't we establish better lines of communication? Or one stop-processes for new investment, whether domestic or international?
4. Can AsgiSA work if it is isolated from other government priorities and attitudes? How does it relate to transformation, and can it be successful if it ignores the pervasive influence of crime?
5. Can AsgiSA's commitment to improving the business environment bear fruit if it does not energetically tackle the countertrend in government of unthinkingly adding to regulations and red tape whenever new laws are passed?
6. Why are we dragging our feet on abolish-

ing exchange controls? Why is uncertainty being allowed to continue?

7. What can we do to make our manufacturing sector more internationally competitive? How will AsgiSA work with the underresourced and hitherto unfocused Department of Trade and Industry?
8. And, given the shortage of skills and resources in DTI, should aspects of AsgiSA not be outsourced to the best resources available locally and internationally?
9. What is the government's position on crime, and what, in practical terms, can the SAPS in its present form do about it? If levels of crime have swamped aspects of the service, as many observers believe, is there not a role for targeted outsourcing or public–private partnerships?
10. Is our current approach to 'supporting' local government sufficient? Will it make a real difference when there are 4 000 vacancies in local government structures, and many more staff with insufficient experience? Why are we not vigorously considering using market processes and the capacity of the private sector at the local level?
11. Have those in charge of JIPSA really accepted the seriousness of the skills crisis? Do they understand the way in which an enhanced skills base feeds into a growing, dynamic economy, and how it will affect the prevailing levels of inequality? Or do they still harbour unjustified fears about skilled foreigners 'taking' jobs away from unemployed South Africans? Do they have unrealistic expectations about the ability of short-term training to transform unskilled into skilled resources? And what exactly is the strategy to overcome the capacity constraints and negative attitudes in the Department of Home Affairs?

Why are we dragging our feet on abolishing exchange controls?

Views on meeting AsgiSA's targets

President Thabo Mbeki (at a rally in Witbank, January 2007): 'Growing the country's economy remains high on the agenda for development and poverty eradication. We promise to press ahead with the steady implementation of government's multi-billion rand project, the Accelerated Shared Growth Initiative (AsgiSA). Improvement in South Africa's economy is driven by the increase in the rate of investment from both the public and private sector. The country's good economic policies have largely contributed to the continuous growth experienced over the past eight years, but, although many jobs have been created, unemployment remains a problem. People should be given the necessary skills to get jobs.'[14]

Deputy President Phumzile Mlambo-Ngcuka (in an address to The Economist Group in November 2006): If the first economy performs at the rate we expect, we will be two million jobs short in 2015. The government hopes the creation of informal jobs will plug the gap. The rate of economic growth had stepped up to a new level, and investment had risen from 14 percent to 18,5 percent of GDP. Last year, we received record levels of both direct and indirect foreign investment. The country is on target to meet or beat its 4,5 percent average growth rate target for 2004–9 – up from an average of 3 percent in the first 10 years of democracy. I believe the Bureau for Economic Research at the University of Stellenbosch is forecasting GDP growth more than 5 percent for 2009, 2010, and 2011.'[15]

Jac Laubscher, Sanlam economist (commenting on AsgiSA, August 2006): 'South Africa will not achieve a growth rate of 6 percent a year simply by boosting existing activities. Undertaking new ventures and exploiting new business opportunities are essential. Entrepreneurs play a crucial role in the growth process, and creating a culture that promotes and rewards entrepreneurship is therefore essential, especially for job creation.'[16]

Alan Hirsch (at a press briefing, May 2006): The South African government is confident of achieving its target of 6 percent economic growth by 2010, and halving unemployment and poverty by 2014. … We believe our goals are achievable, and that we can actually surpass many of them, because we are at the confluence of positive trends. … The government's growth strategy will also target the tourism sector, which accounts for about 8 percent of GDP. We think this can go to 12–13 percent of GDP, which will add another 400 000 jobs to the economy."'[17]

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The lack of focus on the investment climate and levels of fixed investment is difficult to understand

The Round Table was nevertheless encouraging in many ways. It demonstrated that the government is becoming more realistic, and is trying to achieve more concrete results with aspects of its industrial strategy. It also showed that it has a sound understanding of our complex economic challenge. Its analysis of South Africa's economic imbalances and the constraints covered by AsgiSA is clear and coherent; the most serious concerns arose around areas that AsgiSA does not cover.

Our questions cover many of the concerns raised about issues that are not dealt with in AsgiSA. But behind the specifics lies a broader concern that the government's new infrastructure investment drive, welcome though it is, is happening late in the day – perhaps too late to avoid some serious potholes in the path of AsgiSA, and resulting image problems for the investment climate at precisely the time when the country should be developing momentum and gaining in confidence.

The lack of focus on the investment climate and levels of fixed investment is difficult to understand. Consider the first of the two major 'imbalances' in the economy identified by government, namely a serious weakness in manufactured goods, tradable services, and value-added products of various kinds, reflected in our poor export performance. The problem is not that manufacturing is sitting on its laurels – capacity utilisation is at its highest level since 1970. We simply cannot produce and export much more without expanding the capacity of an economy that is starved of fixed investment. Since household savings no longer contribute meaningfully to capital formation, this investment has to come from South African business itself and from abroad. The level of savings and investment has improved slightly, but is still well below what it was before 1984, and almost half of what is typical in other growing economies. Given this, should AsgiSA not have paid greater attention to the investment climate?

AsgiSA does deal with numerous factors relevant to investment (skills, market concentration and barriers to entry, limits to competition, the regulatory environment, and currency volatility), but fails to address other major constraints on investment. Crime, tax rates, labour costs, corruption, trade regulation, the competing demands of financing black economic empowerment, and policy uncertainty cannot plausibly be omitted from any strategic growth equation.

What conclusion can one draw other than that these omissions are outside the cabinet's policy comfort zone? AsgiSA does not rock the political boat in ruling party circles – in fact, it takes no discernible political or organisational risks at all. Can we really claim to be serious about growth without being prepared to take some political risks, or to consider some incisive adjustments to the administration in respect of safety and security, trade and industry, labour, and human resource policy? Government representatives expressed surprise about the sharp reaction from private sector participants in the Round Table, but surely no one can believe that AsgiSA adequately addresses the second major imbalance: poverty, and the massive, marginalised, survival sector of our second economy.

The issue of our skills needs is even more cautiously approached in the presentation on JIPSA at the Round Table. This initiative is firmly linked to AsgiSA, but does not seem to acknowledge that if AsgiSA succeeds, skills

Investment trends in the mining sector

In November 2006 the president of the Chamber of Mines of South Africa, President, Lazarus Zim, pointed to the following trends and problems in the mining sector:[12]

- Investment in mining had dropped by almost a third between 2004 and 2006.
- Mining production had dropped by 6 per cent in the first half of 2006, and job numbers have fallen by 20 000 in 2005 and 2006.
- The benefit of the international commodities boom was muted by the strength of the rand in 2003 and 2004.
- The inordinate time taken to convert to new order mining licenses had significantly constrained investment in the industry. Only one mining company (AngloGold Ashanti) had succeeded in converting all of its mines to new order rights.
- Delays in processing water licences, environmental trusts, and red tape over mining charter empowerment requirements hindered the expansion of the industry.

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shortages will become an even greater constraint on growth. If this happens, the modestly helpful current initiatives by the Department of Education, the belated restructuring of FET colleges, and the cautious amendment to the Immigration Act will probably come to be seen as too little too late.

South Africa has to face the hard reality that it will have to move significantly further out of its comfort zone than AsgiSA does at the moment. Without this, many of our challenges will impede the higher economic growth rates that could provide the foundation for much greater poverty alleviation and national prosperity. The government has the largest political mandate in the country's history, and a larger margin of support than most democratic governments elsewhere. In this context the country needs greater political will, and a cabinet willing to take greater risks, and provide bolder economic leadership.

AsgiSA deals with numerous factors relevant to investment, but fails to address other major constraints on increased investment – crime, tax rates, labour costs, corruption, trade regulation, the competing demands of financing black economic empowerment, and the costs of transformation. All these cannot plausibly be omitted from any strategic growth equation

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