PROMOTING INVESTMENT FOR DEVELOPMENT: BUILDING A SHARED STRATEGY TOWARDS A SHARED GOAL

Address

by

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to the

OECD Global Forum on International Investment

MONDAY, 17 NOVEMBER 2003

Ladies and Gentlemen,

It is indeed a privilege for the government of South Africa to host this forum, where we have assembled some key international role players with regard to investment and development.

We are enjoined in a shared responsibility to ensure that the respective resources of South Africa, Africa and the rest of the developing world are deployed in ensuring a better outcome, that is, development for our fellow citizens. Acceleration of growth and development requires rapid expansion of investment spending.

In his book called the Mystery of Capital, Hernando de Soto[1] reminds us that growth in developing countries depends on bringing to life dead capital. While he speaks directly of physical

[1] De Soto, 2000. *The Mystery of Capital*. Black Swan, London.

capital that is embodied in the assets of the poor, developing countries must also bring to life their human capital.

South Africa is the perfect choice as the host of such a conference. In our inequities, we are a microcosm of the global disparities in investment and development.

Sophisticated businessmen develop long-term strategies only a stone's throw away from the woman developing a daily survival strategy for herself and her children.

Our banking halls glisten invitingly while the vast majority of our population remains unbanked.

Our investment markets stand shoulder to shoulder with the best in the world. Yet, many of our people rely on the vagaries of informal markets for their livelihoods.

Last week, I presented our mini-budget which precedes the formal main budget in February. Investment in our people, our infrastructure, our private sector to achieve more rapid growth and rising incomes lies at the heart of our policies.

Despite stagnant global demand, total investment in South Africa expanded by over 8 per cent in the first half of the year, continuing the momentum from the 9% in the second half of last year. Private investment expanded by 7 per cent in the first half of this year.

We have achieved 15 quarters of uninterrupted growth in investment spending and 18 quarters of uninterrupted growth in gross domestic product.

Gradual liberalisation of the financial account of the balance of payments has enabled South Africans to diversify their savings and earnings, at the same time opening access to a global pool of capital to fund investment in the domestic economy. Net private capital flows are expected to be US$110 billion in 2003, the highest level since the mid 1990s. We are well-placed to capture a substantial share of this to channel into economic growth and development.

Nonetheless, we still have a number of challenges to overcome in increasing the pace of investment.

Sustained growth, job creation and poverty alleviation demands that we invest more. The investment rate must rise from the current levels of around 16 per cent of GDP to propel us into more rapid growth, development and poverty reduction.

We cannot say that we do not have savings to pursue investment. We have access to the global savings pool. We can invest more. Our credit rating puts us in good stead to attract sufficient foreign savings to meet our investment requirements. But we also know that the vast majority of our saving for investment must come from our own citizens and corporations. Our recently announced Financial Sector Charter will contribute to a sustainable increase in access to financial services to our large “unbanked” population –

thereby providing regulated and less expensive vehicles for saving to many more people. Bringing more saving into the formal financial markets, in turn, will increase the pool for allocation to productive investments, greater employment and growth.

The Growth and Development Summit and the recently released financial sector charter demonstrate a long-term commitment, a shared vision from the South African government and its social partners to realise our aims.

In the spirit of the Growth and Development Summit, the Medium Term Budget Policy Statement released last week sets out our agenda for fostering higher levels of investment, faster growth and lower unemployment. Our agenda includes the improvement of the regulatory environment and the minimisation of constraints to small business development. We also intend to enhance public infrastructure capacity and reinforce investment in support of employment creation.

Our ambitions, as reflected in this conference, are not limited however to South Africa. We recognize that South Africa's future economic development is linked inextricably to that of the rest of our region and Africa as a whole. Growth in the region, growth in Africa, growth in the rest of the developing world will become increasingly important to South Africa – market development and creation, public institution building and infrastructure, public expenditure management, more effective donor aid, increased debt relief through HIPC – all feature prominently in South Africa's national interest.

Increased investment for development is the shared goal of both African governments and the international community. This shared objective is reflected in the New Partnership for Africa's Development (NEPAD), the Tokyo Agenda for Action in TICAD (Tokyo International Conference on African Development) and the G8 African Action Plan.

The promotion of investment is crucial to achieving sustainable economic growth, poverty reduction and long-term development in Africa. The Tokyo International Conference on Investment to Africa concluded that sustainable development in Africa is only possible if domestic resources, foreign aid, trade and investment are used efficiently and investment is revitalised.

Governments should provide appropriate enterprise development policies and an environment conducive for business. This will help the African private sector to develop and stimulate growth, which would in turn lure foreign investment. Achieving price stability complements other policies that lower uncertainty in the investment environment, thereby encouraging higher levels of investment and improving the effectiveness of other policy measures to promote investment.

Many developing countries have an abundance of natural resources and large supplies of labour. Some of them enjoy preferential market access to developed country markets under laws and agreements such as the AGOA in the US, EBA in the EU and the GSP scheme towards LDCs in Japan. Developing countries also have huge populations that could potentially become very lucrative markets for investment by developed countries.

In order to utilise this investment potential, developing countries should encourage active investment promotion policies that are linked to the national development and poverty reduction strategies of these countries.

However, as the recent closure of Supreme Furniture operations in Zambia has shown, governments should be cautious not to implement investment policies, such as certain tax incentives, that encourage huge investment in the short term but are detrimental in medium to long term. These could lead to abrupt investment withdrawal and disruption in the form of job losses and reduced growth.

These lessons and others reflect the importance of sharing information to efficiently connect supply and demand for investment in African countries. In the SADC region, communication between investment promotion organisations in recipient countries and investment and trade promotion agencies in investing countries is being promoted through, among other means, an agreed common investment protocol among member states. Additional ways of reducing information asymmetries would be the utilisation of information and communication technologies – NEPAD is active in this area, identifying telecommunications infrastructure needs across the continent.

Many more tools for increasing investment exist, with tried and tested results in many countries around the world. The OECD provides one of the larger microcosms available for developing countries to learn from about their experiences, what works, and what does not. I am especially pleased, therefore, to have the opportunity to host this OECD conference here for the benefit of the whole region.

I thank you.