

**ADDRESS BY THE MEC FOR ECONOMIC DEVELOPMENT AND
TOURISM, MR MICHAEL MABUYAKHULU, ON THE OCCASION OF
THE ILEMBE ANNUAL INVESTOR SUMMIT**

30-31 MARCH 2011

Protocol,

It is our singular honour to come before you and share our reflections on the importance of private sector investment to iLembe district and the provincial economy at large. Importantly, we wish to extend our gratitude to you for inviting us on this occasion of the iLembe Annual Investor Summit.

Programme director, when we delivered our budget policy speech last week Friday, we spoke of this current season as the “palpable season for shared economic growth”. We said this because we feel that at this moment, more than at any other time, we are well-positioned as a province to take advantage of opportunities, some created by ourselves and others resulting from the global economic developments, to grow our economy and ensure its global competitiveness.

Therefore, we view this Summit as a critical platform wherein all the stakeholders converge to seek ways in which they can take advantage of the opportunities to grow the economy of this district and, by extension, of our province. This, therefore, cannot afford to be a run of the mill conference but must be characterised by vigorous engagements, fruitful interactions among partners.

Arising out of the deliberations must be a roadmap on how the resolutions will be implemented. As delegates, therefore, you have a huge task ahead of you, a task that transcends your own areas and spheres of operation as individuals but looks at the economy of the district, province, country, region and the continent.

Programme director, this conference comes at a particularly opportune time when the provincial economy is emerging from the global economic recession which affected every economic sphere of our country.

Global economic activity increasingly gained momentum in 2010, with emerging markets and developing countries being the major drivers of growth. Compared with other emerging market economies, economic growth in South Africa was not pleasing. It averaged 2.8% compared to an average of 6.5% registered in emerging economies. The global economic recession taught us new economic lessons especially about the indispensable role of government in stimulating economic activity in times of economic downturns. As such, the global economy benefited largely from the enormous fiscal stimuli undertaken in most parts of the world.

Notwithstanding this, the private sector remains a crucial driver of economic activity in the country through its investment in the real economy to generate economic value and create jobs. It is a well-known fact that the private Sector in South Africa contributes more than 70% to GDP. This shows that our economy is driven to a large extent by the private sector. As such, government recognises the importance of the private sector in our productive economy. The government will continue to work with the private sector to grow the economy and for the betterment of our people.

Programme Director, iLembe district is an important part of the provincial economy. This district is the 5th largest district in terms of contribution to KwaZulu-Natal Gross Domestic Product (GDP). The district contributes about 3.7% to KZN GDP after eThekweni (63%), UMgungundlovu (10%), UThungulu (8.9%), and UGu (4.0%). iLembe's contribution improved from about 3.5% in 1996 to 3.7% in 2009. This growth made iLembe district to surpass Amajuba district which in 1996 was the 5th largest district in the province.

iLembe district is also one of the fastest growing districts in Kwazulu-Natal and South Africa at large. Economic Growth in iLembe averaged 3.6% between 1997 and 2009. This compares favourably to the 3.2% recorded for both KwaZulu-Natal and South Africa. In comparison to other districts, iLembe district was the second largest growing district after eThekweni, where economic growth rate averaged 3.7% during the same period.

As the provincial government, we have noted that more than 80% of economic activity in KwaZulu-Natal is concentrated in eThekweni Metro, UMgungundlovu and UThungulu district municipalities. Obviously, this is a challenge for this district but as a province we feel that accelerating economic growth in other districts is paramount to reduce poverty, unemployment and rural urban migration.

Programme Director, the high economic growth rate witnessed in iLembe during the past few years is encouraging and supports the provincial government's pursuit of spatial economic development initiatives in the province.

To achieve this status of being the 5th largest and fastest growing district in the province key economic drivers can be identified. Government investment in bulk infrastructural programmes such as the King Shaka International Airport and the Dube Trade Port is a critical driver of this growth. These two infrastructure projects inevitably position iLembe as a key investment destination in the province.

Programme Director, we have already witnessed increased economic activity around Ballito area. iLembe's comparative advantage also lies in its coastal location along the eThekweni-uMhlathuze Provincial Spatial Economic Development Strategy (PSEDS) primary corridor.

According to the PSEDS, eThekweni-uMhlathuze corridor is identified as having comparative advantage in industrial development, agriculture, services and tourism. This comparative advantage, if fully capitalised, will not only place the economy of iLembe on the national map but will also put it on a sustainable growth trajectory. The district economy has, therefore, a lot of potential in terms of economic development.

In comparison to other regional economies in South Africa, KwaZulu-Natal's competitive edge lies in its road and port infrastructure. iLembe's proximity to the Dube Trade Port, King Shaka international airport entails easy access to international markets. These bulk infrastructures, together with the Ports of Durban and Richards Bay position the District strategically in terms of development of sectors such as agro-processing,

horticulture, tourism and green economy especially ethanol production given the predominance of sugar cane farming.

The Dube Trade Port facility has, within the first few months of operation, proven to be a critical platform for our economic growth. The latest figures prove this beyond any doubt. The King Shaka International Airport, within the Dube Trade Port, has processed more than 4, 5 million passengers since opening and this is projected to grow in the year ahead by 7.5%. The cargo terminal handled more than 6 300 tons of cargo up to the end of February 2011 and 4 550 tons were imports valued in excess of R180 million and 1 750 tons were exports valued at approximately R60 million. At the same time more than 8000 tonnage of domestic baggage was also processed. The cargo terminal received its first full 747 Boeing flight in September 2009 – carrying 100 tons of special equipment for ship repairs.

We are also happy to announce that the airliner to declare its alliance with our airport, the Emirates Airlines will be introducing a double daily service in October. This means a flight in the morning and in the afternoon and this will be preceded by the Emirates and DTP hosting of the first World Air Cargo Africa Conference in Durban in which global airlines, local manufacturers and the logistics industry would share ideas on the improved role of airlines in the competitive global market. The event will also showcase the DTP's integrated cargo offerings to various airfreight companies whose business is dependent on the entire value chain of airfreight.

Clearly, the proximity of this district to this world-class facility, gives any investor who decides to set up operations within this district a clear competitive edge.

Programme Director, this conference also comes at a time when the provincial government is finalising an investment strategy for KwaZulu-Natal. The development of an investment strategy is a direct response to the 2009, KwaZulu-Natal Job Summit which instructed government to develop strategies to encourage export development and the attraction of investment into the province. The development of an investment strategy is critical given the need to embark on a sustainable growth path in terms of job

creation, poverty eradication and bridging the gap between the first and second economies.

The prime purpose of this strategy is to come up with policy packages to position KwaZulu-Natal as a preferred investment destination in the country and within the region. To achieve this, the strategy does not only focus on the attraction of new investments into our shores but it also emphasizes on expansionary investment. Expansionary investment is important to enhanced productive capacity and employment creation. The strategy also directs municipalities to be forceful in terms of investment attraction and promotion. Working with our public entity, Trade and Investment KwaZulu-Natal, responsible for investment promotion in the province, we are confident our municipalities will also put in place measures to attract domestic and foreign investment into their shores.

Programme Director, the investment strategy recognises a number of challenges that continue to bedevil the KwaZulu-Natal economy. These include, *inter-alia*, unemployment, poverty and high income inequality. In order to address these intractable challenges, the province must achieve, amongst other things, high levels of investment in the productive economy. Fostering a conducive investment climate has been identified as one of the most fundamental prerequisites for promoting investment growth.

As government we reaffirm our commitment to improving the investment climate in the province. Such a conducive environment includes a well established and extended physical infrastructure but also refers to a stable political environment, a strong growing economy, transparent policies, available and appropriately skilled personnel and cost effective services, comparable tax rates and issues of profit repatriation.

In this case, we have come up the groundbreaking KwaZulu-Natal Investment Protocol, a step-by-step guide for all prospective investors who want to take advantage of the investment opportunities that exist in our province. We are confident that, with this

Protocol in place, we will see less frustrations from investors and that the turn-around times in terms of getting the various approvals will be shortened.

Programme Director, the government is aware of the challenges facing the private sector in the province. These challenges include, *inter-alia*, among others inefficiency in physical infrastructure, congestion at ports, crime and cumbersome administrative procedures.

Fighting crime remains a focal point of South African government. The government continue to put in place measures to curb crime and its impact to the economy. Recent statistics by the National Minister of Police show a steep decline in crime statistics. The national budget tabled by Minister of Finance, Pravin Gordhan, provides R2.1 billion for the increase in police personnel to 202,260 in 2013/2014, from about 190,000 at present. As government, we reaffirm our commitment to the fight against crime and to make KwaZulu-Natal a safe tourist and investment destination.

Programme Director, we cannot overemphasize the benefits of private sector investment in the province. The Economic Report on Africa 2010, by the United Nations Economic Commission for Africa advocates that FDI is the key to solving Africa's economic challenges. In addition, according to the World Bank and IMF, for developing countries, attracting large inflows of FDI will result in economic development necessary to eradicate the twin economic woes of poverty and unemployment. The National Industrial Policy Framework (NIPF), again singles out lack of sufficient foreign direct Investment (FDI) as the binding constraint to South Africa's growth.

There is a strong correlation between investment and economic growth and development, and in order to ensure sustainable development, fixed capital formation is necessary. In particular, there is a strong relationship between FDI and capital formation. The resulting strong correlation between fixed capital formation and economic growth is illustrated in China. As one of the fastest-growing, developing and emerging nations, in 2009, capital formation contributed 92% of China's GDP growth-

according statistics released by the Chinese National Bureau of Statistics (NBS). For a developing country like South Africa, it is necessary to attract FDI, specifically in the form of capital formation from new investments, or towards expansion of existing investments which will build new infrastructure, employ new human capital, and create new value chains.

Programme Director, investment has a key role to play in our economy. It contributes to infrastructure development, technology transfers, skills and other capital development, employment creation and economic growth.

To attain high levels investment in the province, the government attaches greater value to a coordinated and focused approach to investment promotion and attraction. This approach includes targeting economic sectors and spatial preferences that maximise growth and development impact of investments. It also implies a targeted foreign investors' focus and an existing investment and business retention and expansion strategy. This will ensure that investment promotion and attraction initiatives of all the role players are best coordinated and optimally applied and aligned with national and local policies and strategies.

Our quest is to grow the provincial economy to achieve balanced and shared economic development. Program Director, sustainable economic development is realised when the over 600,000 unemployed people in KwaZulu-Natal gain access into our labour market and the over 50% poor people are well fed and cared for. The role of growing the economy to achieve this does not only lie in the hands of government. Increased private sector investment in our local economy is vital to create sustainable jobs and improve the livelihoods of our people.

The government will continue to invest in infrastructure in order to create a conducive environment for private sector investment to take off. The government will continue to foster Public Private Partnerships (PPPs) in areas such as infrastructure development, export development, skills development and education.

Programme director, as we all know, there have been a number of funds that have been announced by government to support and sustain economic growth, including the R9 billion Job Creation Fund and the R10 billion IDC fund which looks at, among other things, revitalization of the manufacturing sector. These funds are not earmarked funds. These are funds that, among other things should help to attract, even investors from outside our province to set up their factories in KwaZulu-Natal and foster expansionary growth. It is our intention to ensure that KwaZulu-Natal gets its fair share from these funds.

We will only succeed in this mission if we are adequately prepared with well-structured projects based on sound business principles of financial viability and significant potential for job growth. In this regard, we are in the process of establishing a highly-specialised unit made up of key experts to, among other things, advise on guidelines regarding accessing the funds; link people to business opportunities and generally ensure that our projects benefit from these funds.

The unit will also assist to identify, package and promote significant investment programmes for this province based on a thorough sector analysis which clearly demonstrate areas for potential growth linked to the corridors of the PSEDS. Without this direct intervention, we as a province, could potentially forfeit accessing funding for catalytic initiatives to drive economic growth above national norms.

The province has the capability with its advanced technology and infrastructure to achieve much higher levels of growth. This programme will only succeed with the partnership of the private sector who will be a key member in the team to be established. This highly-specialised team will be up and running by the 1st of May 2011.

The pursuit of an investment-led economic growth entails that a number of key policy decisions will have to be made today. In the spirit of the New Growth Path (NGP), the

economy will need to generate savings in excess of 20% of GDP to enable the economy to grow in a manner conducive for employment creation and poverty eradication. Programme Director, our current savings ratio expressed as a percentage of GDP of about 18% falls far too short of that of other emerging economies such as China whose savings ratio is above 40%. South African consumers will need to consume within their means and generate sufficient savings for investment to take place in our economy.

This Summit, therefore, has transcending significance to our collective objective of achieving excellence as a preferred investment destination but also to our economic development aspirations. It is, therefore, imperative that government, the private sector and all our stakeholders continue to work together for a better KwaZulu-Natal provincial economy. Anything less than vigorous application of all stakeholders to the task at hand will only invite a sad indictment on all of us who are stakeholders growing and developing the economy. We dare not fail in carrying the task at hand.

I THANK YOU