Nervousness in Davos

An interview with Dr Rob Davies, Minister of Trade and Industry

Ben Turok spoke to Dr. Davies who attended the World Economic Forum in Davos, Switzerland in January 2017 as part of the South African delegation.

Rob Davies

BEN TUROK: Did anything particularly interesting come out of the recent World Economic Forum meeting in Davos? Quite a big delegation from South Africa attended.

ROB DAVIES: The World Economic Forum is a big gathering of the business and economic establishments of the world and there were many, many things going on, but there is never anything you could call a conclusion at these meetings. However, there were a number of rather important matters that arose. Firstly, there was a lot of talk about major technological developments, known by some as the 4th Industrial Revolution, and the likely outcomes. Secondly, there was considerable angst about the backlash against the global order established in the 1990s.

BT: I read a statement by Dr Schwab (founder and CEO of the WTF) setting out some questions about global capitalism. Did this feature at the meeting?

RD: Some of the debates I got involved in concerned technological changes such as the acceleration of digitization. The movement to 5G is imminent and will enlarge the volume and scope of data transfers and the advance of artificial intelligence linked to robotics which is moving fast. The introduction of these technologies will have a major impact on labour absorption. E-commerce will lead to a shift away from physical shops. The outcome is what some people call winner takes all markets. The innovators and leaders of these technologies will reap huge rewards but other people will be negatively affected.

BT: In fact Dr Schwab was talking about the challenges to the existence of capitalism which the technological revolution represents.

RD: It will bring very substantial changes to the social base. Firstly there could be millions of job losses worldwide but also the acceleration of inequality. Every year at the time of the WEF, Oxfam presents their study which shows how many people own as much wealth as the poorest half of the world and the number of owners shrinks each year. This is the picture we're getting. While everyone says there needs to be inclusive growth, the talk about technology is both disruptive and revolutionary. This is the contradiction. A person from the U.S. said that in the past you would expect that the next generation to have to absorb a technology that was significantly different to the previous one. Now people will have to absorb four to five different technologies in their working lives. With the new technology there is the potential to reduce working hours across the board. This could be the beginning of huge change.

There is a little discussion on income which suggested that something like a basic income grant would mean your income and consumption were not totally destroyed if you lost your job. This is one of the big social questions that cannot be solved at country level, only at a global level. If done at the country level, the first comer will lose » out competitively, especially if it is not one of the strongest economies in the world.

A further point is that a number of these technologies are likely to produce what they call "reshoring", that is bringing production closer to where consumers are. This could improve the chances of industrialisation in developing countries. Here in South Africa, we need to industrialise and increase jobs but manufacturing has had a patchy performance and does not have the traction it needs. Production output always exceeds job growth. Not just in South Africa, but around the world. If you go to factories in South Africa, as I do quite often, you will see that the number of people doing heavy lifting, wearing overalls, is declining whereas the number of people wearing white coats and pressing buttons is increasing. The good news it that our people, young people, women as well as men, are quite capable of leading these production systems. The challenge is that all of these people have got some kind of engineering ICT qualification.

BT: What was the reaction of African delegates to all this?

RD: Some countries are trying to innovate and adopt new technologies, Rwanda and Kenya, for example. Mauritius is setting themselves up as a major place for block chain technology. We have some of these technologies being adopted in South Africa but these are largely other people' technologies with a little bit of adaptation and driven largely by developments in the United States. We need to look at new technologies with a view to the niches we can occupy, the benefits we can gain by job creation and at how to minimize the negative impacts.

Some people say that these changes will come in a major way by the mid-2020s way and they will be disruptive.

> **"... what we need to do is pursue developmental integration across the continent.**

Others say: "we want to be disrupted, come and disrupt us, make us more competitive based on the introduction of all these technologies."Leading companies, many of them in the United States, are going to benefit from the major reindustrialization effort. They will be the global leaders once again, technologically speaking.

BT: Where does China's President Xi fit into all this? He came to the WEF meeting, according to reports, as the arbiter of globalisation, isn't that a strange contradiction?

RD: This is where the political backlash comes in. At trade ministers' meetings people have been gravely concerned because of the political backlash against globalization, regionalism and free trade, against what is called the Washington Consensus or neo-liberalism. It takes different forms in different parts of the world. In the developed world, for example, the IMF has pointed out that in the United States from the 1970s to the late 1990s, if you were in the middle class, which includes the better off parts of the working class, your expectation was that your sons and daughters would be better off than you were. That is the American dream. However, from the 1990s onwards, the opposite has been the case: less security, less chance to educate yourself out of it, borrowing money, taking two or three jobs. The jobs that were created were ICT technicians and burger flippers but not much in between. The backlash says: the past was better than the present, let's go back to the past, hence Trump, hence Brexit. On free trade there is the likelihood of some form of protectionism. It is no accident that Trump has highlighted China as the main adversary. China is the most competitive country, producing imports into the United States. The Chinese are gravely concerned that they will be at the receiving end of trade policy which will reduce their access. So President Xi comes in as a defender of open trade.

BT: Having emerged from protectionism. How did he go down politically?

RD: Very well among many of the people at the WTO meeting. This was a surprise.

BT: Did he replace the United States in terms of prominence?

RD: Well his was the first speech by a Chinese leader at Davos and he articulated what many people wanted. But the Davos meeting was before the election of Trump and the change of administration in the US. What happened subsequently, like the cancelation of the TPP was not evident at that point. President Xi spoke in favour of the globalised world and this is the discourse I sometimes have with the Chinese. I say, we are not where you are and we need to learn some of the lessons from what you did and how you got there.

A high degree of nervousness was evident in the trade policy community about what will happen under the new US administration. In my estimation it signals a shift away from free trade to mercantilism: what is good for me is what counts and you accommodate it or there will be consequences. They probably see the World Trade Organisation as creating barriers to their own trade remedies. The immediate targets of the US are evidently Mexico » and China, where they are looking for American industries that have relocated and trying them to come back and at goods coming from China. Already, in the WTO in Nairobi in 2015, a number of countries were no longer willing to pledge allegiance to the Doha round although the majority still think that the principles are valid.

BT: What does this do to your hopes of BEE based on relatively small industry and for industries in the rest of Africa? What impact will this have on your hopes of industrialisation and black empowerment?

RD: Africa has got to continue to pursue industrialisation. Empowerment is part of it. By empowerment we mean not shares in someone's company but actually real opportunities to be real players, real leaders in productive enterprises, black industrialists. Already things are more difficult in manufacturing. We have less jobs than we used to, even when we are doing well, and nobody is investing. I think the conclusion is that we need to pick out and target support for those sectors that are most labour-absorbing: agriculture, the agri-processing value chain, clothing and textiles and component manufacture. We need to deepen the level of industrialisation around components with small businesses coming in. We have to move forward and create policy space for ourselves as Africans against demands and pressures that will come from the world outside. I don't think that a world multilateral trading system will make a huge difference. It is not that we are going to advance our positions; it is to make sure that those processes don't complicate what we need to do. And what we need to do is pursue developmental integration across the continent. We have an informal group which is called KENSA, Kenya, Egypt, Nigeria and South Africa and we have been meeting and trying to coordinate our positions and to do things that will advance the agenda.

BT: Is this public?

RD: We have agreed that we will accelerate the work of the tariff schedule negotiations between SARCU and the East African Community. We have a framework agreement that we trumpet with a lot of fanfare and it is an important step forward. But the tariff schedules have not yet been concluded. If we start to crack a few of them like the East African Community and SARCU (Egypt is not far behind) this would make quite a difference. We've been talking with Nigeria about an Auto Agreement. At the same time we have to defend the integrity of this process against intrusions from the outside. We have to be very careful that, if markets from the United States or the European Union are to be less open, we don't become the place where all those final products end up. If we don't do this we will remain as we are producers and exporters of primary products.

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BT: Will tariffs help industrialisation? You have always argued that tariffs are a weak instrument? What about infrastructure?

RD: The main barrier to inter-regional trade (which is quite low in Africa, 12-14% at most) is not tariffs. It is more often productive capacity in hard and soft infrastructure. This is what development integration is about. In SADC we have to ensure we have a decent product. A special summit is planned in March this year where we are supposed to adopt the Regional Industrialisation Framework. Regional integration will allow for regional value chains. Already as the Department of Trade and Industry (dti), Africa is our critical market for value added products but we will not be putting finished products into the rest of Africa. As the continent industrialises, we will move into trade and intermediate products. We already have an institution called Invest and Trade Africa looking at investment led trade. If, for example, South Africa is designated for railway manufacture, there will be some components manufactured in other countries. We won't just put ready made railway locomotives on the boat and send them off.

BT: Presumably there will be capability in the host countries?

RD: Yes, regional value chains and opportunities will need to be identified and executed. This will be the case in Nigerian automotive project. South Africa can support them at least in developing their programme so that we get some advantage for kits manufactured in South Africa and assembled there. This comes with taking some of their products. Those are the kinds of agreements we want to put in place.

BT: As you know, we at IFAA are doing some research for TIPS and have been asked by the DBSA to do some work on continental infrastructure.

RD: That is extremely important. It is clear from the PICC that the » existing infrastructure programme saved South Africa from going into recession last year. Infrastructure is a driver of industrialisation and needs to become such on the continent. Continental industrialisation efforts are critical.

BT: Can you say something about the impact of this on BEE.

RD: For some years we have been saying that we need to accelerate BEE and address the concentration of ownership in the South African economy which offers too few opportunities to new companies and new entrants. What has passed as BEE has often only been a share transaction deal. New Legislation in 2013 put in place a BEE commissioner following up complaints. Many concern deals with conditions in small print that mean you don't even get any dividends. Even if you do get your dividends, you are not represented on the Board and you do not learn what business is all about. If you are in the leadership of a company you are likely to be in public relations. If you have a BEE company it's probably dealing with the financial flows around share deals. Too few newcomers are becoming involved in the real economy. We need to become much more assertive about this. Small enterprises have not grown as they should have. The 2013 BEE legislation no longer says organs of state must implement the codes "as far as is reasonably possible". Now BEE has become an imperative. In the dti, we say if you want a manufacturing competitive enhancement programme incentive, you need to hit BEE level 4. You need to address ownership but also supplier development and skills development. We need to do this on a much larger scale than we have. The dti's Black Industrialist Programme has 27 owners doing serious, quality manufacturing. The criterion is quite tight.

BT: Are these manufacturers owners?

RD: Yes, and another 50 are supported by the IDC. But we need to scale this up. It comes back to what we call radical economic transformation. It is about changing the productive base of the economy and creating a more inclusive economy.

BT: The media don't understand what you are doing. They write about the programme of black industrialists in a very negative way, giving the impression that it is some sort of subsidised hand-out to black people. Many people are getting the wrong impression.

RD: Yes they are. We should be pointing out that there are a lot of tax incentives going into white owned companies in South Africa. And a lot of incentives that go to multinationals.

BT: Are these incentives from DTI?

RD: Yes.Black industrialists are not getting something that others do not already have access to. In the course of this year we want to visit a few black owned companies and show case them. We did go to Gastro last year where we launched IPAP. It is a company which was taken over by a black industrialist who took some of our money and IDC money and has renovated the smelting facility and is making castings for railway locomotive wheels, also wagon wheels. Another gentleman is making filled syringes which is technologically advanced. The criteria for dti funding are quite tight. Someone who is a passive shareholder in a manufacturing company would not qualify. You actually have to be leading the company and as the phrase goes have 'skin in the game' i.e. be taking personal risk.

BT: Ivan was telling me about an NGO that is doing research on business in townships and he says that what

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is going on is a massive disincentive and discouragement of any small enterprise. If a black business man makes a bit of cash, he doesn't invest in his own business; he sends it out because he doesn't want to concentrate. Are dti and Lindiwe Zulu aware of this?

RD: I think they are.

BT: This means the foundation is not growing.

RD: Exactly, they have taken over the Informal Business Upliftment Strategy which starts off with infrastructure and eventually moves towards supporting enterprises but does not demand that they are formalised and registered but that they are in the process of getting there. The research shows that 70% of informal businesses in townships are in trade but there were a number of others, backyard mechanics and people like that. It is clear that a lot more is needed.

BT: Are they being regulated?

RD: One of the objectives is to reduce the regulatory red tape but also to increase the opportunities in terms of access to markets and finance. I think those three objectives will probably receive priority attention in the State of the Nation Address. NA