The DA's Plan to Unleash Enterprise, Grow the Economy and Create Jobs, 2024

Federal Policy Unit


Rescue SA
Vote
DA
I AM A
DA
VOTER
DA

Table of Contents

1. How the DA Will Enable the Creation of 2 Million New Jobs 7
2. Launching a Start-Up Nation: Where Business Dreams Take Flight 10
3. Saving and Spending Better 17
4. Stop Interfering with the Reserve Bank 26
5. Getting South Africans Working 33
6. Creating Growth. Not Oligopolies 38
7. Enhancing South Africa's Global Competitiveness 48
8. Be Pro-Market, Not Pro-Business 58
9. Conclusion 64

OUR ECONOMIC
KEY
PRIORITIES

1. **Launching a Start-Up Nation: Where Small Business Takes Flight**
2. **Saving and Spending Better**
3. **Stopping Interference with the Reserve Bank**
4. **Getting South Africans Working**
5. **Creating Growth. Not Oligopolies**
6. **Enhancing South Africa's Global Competitiveness**
7. **Being Pro-Market, Not Pro-Business**

A message from John Steenhuisen

I am delighted to present the DA's plan to create two million new jobs in South Africa during the 2024-2029 term. Its wide-ranging recommendations have been modelled and costed, so when we say we can create two million new jobs, we have the calculations to back it up. Our track record in the DA-led Western Cape, where broad unemployment is 15.5 percentage points lower than the national average, proves that our approach to job creation works. Thank you to the DA's Policy Unit, and the many experts who helped develop this plan.

John Steenhuisen
DA Leader

A message from Mat Cuthbert, DA Head of Policy

I am incredibly excited to present to you the DA's plan to unleash enterprise, grow the economy, and create jobs. This policy is the culmination of a year-long project in which we worked with some of the top experts in various fields to ensure that we had a credible plan to address South Africa's economic crisis. We have to graduate from the low-growth trap we currently find ourselves in, and I believe that this policy is the first step we need to take to achieve this goal.

How the DA Will Enable the Creation of 2 Million New Jobs

South Africa faces a deepening unemployment crisis. The youth are worst affected, with **70 percent of young people aged 15 to 24 unable to get jobs.** The government's failure to create the conditions for businesses to grow has led to our unemployment rate increasing from 20.0 percent in 1994 to 32.9 percent in 2023. **The unemployment rate rises to 42.4 percent when you include discouraged work-seekers.**

To make matters worse, the ANC is shifting the consequences of their mistakes onto an already shrinking tax base. Due to slow economic growth, **our tax-to-GDP ratio stands at 25.5 percent, one of the highest rates in the world.** Therefore, we pay far higher taxes than the average of 15.3 percent in high-income countries and 10.7 percent in comparable middle-income nations.

The government's inability to control public debt has left South Africa in a fiscal crisis. 20 percent of government revenue goes towards paying off debt. **For every R5 collected from taxpayers, R1 is used to pay down South Africa's increasing debt,** which currently stands at more than R5.2 trillion and is fast approaching R1 billion per day. South Africa's high level of indebtedness means we have to spend more money paying it off, leaving less money for investment in growth-enhancing infrastructure and the delivery of critical basic services.

> ***The ANC has made countless employment promises but failed to deliver on them. Its flawed approach to small business creation has impeded job creation rather than facilitated it.***

The causes of South Africa's unemployment crisis can be found in the government's failing policies. The government's industrial policy is based on picking winners and losers, increasing centralised control of the economy, and mindlessly pursuing localisation policies. However, there is no evidence that this has worked. The manufacturing sector's loss of almost 309,000 jobs over the past 16 years and the economys rapid de-industrialisation exemplify the governments industrial policy failure.

For decades, **the ANC has protected uncompetitive local industries** by imposing high tariffs on imported goods at the expense of international trade. While these trade policies were meant to protect local industries and create employment, they have limited domestic innovation and compromised our competitiveness in global markets. The country's ineffective trade policies are best illustrated by **the decline in our current account balance as a percentage of GDP from 2 percent in 2020 to negative 1.6 percent in 2023.**

Furthermore, **the ANC has repeatedly advocated for nationalising the South African Reserve Bank (SARB).** It believes the SARB should employ monetary policy tools to grow the economy and create jobs. However, this compromises the SARB's independence and places the vast majority of South Africans at significant financial risk. It **could lead to currency devaluation and a spike in inflation, which would be felt most severely by the poor.**

The ANC has made countless employment promises but failed to deliver on them. Its flawed approach to small business creation has impeded job creation rather than facilitated it.

The DA will begin by **enhancing the ease of doing business, which can create between 350,000 and 400,000 new jobs** in the first full year after implementation. These initiatives involve setting up a comprehensive Business Starter Toolkit and increasing entrepreneurs' access to finance through mechanisms such as promoting micro-lending by banks to support small businesses.

Our **fiscal policy reforms** can create between **350,000 and 450,000 jobs**. We aim to stimulate economic expansion by incorporating measures such as introducing a fiscal rule within our current expenditure framework, eliminating regressive race-based policies, and transforming the Social Relief of Distress (SRD) into a Job Seekers Grant. These policy reforms aim to **attract essential investment and foster a labour-friendly environment that promotes job creation.**

For the DA, **labour policy reform** forms an integral part of our policy package, and we are confident that our growth-enhancing policies will translate into jobs. We can only create employment by generating labour-absorptive economic growth, which emphasises creating a high number of employment opportunities relative to investment. It is not just about expanding the economy but also about maximising the labour force's participation.

A DA-led government aims to create more jobs for our youth by introducing a Youth Employment Opportunity Certificate as a part of our **labour policy reforms.** The certificate will empower young people to break free from the constraints of the minimum wage, giving them better chances of finding jobs. As a part of our labour reforms, we aim to leave the existing minimum wage in place without increasing it further. South Africa's minimum wage is 148 percent of our median wage, the highest of the 30 countries reviewed in our policy paper. A minimum wage of this size serves as a deterrent to employment.

Furthermore, **we aim to broaden the collective bargaining system** to enhance the representation of bargaining parties and exempt small, medium and micro enterprises (SMMEs) from the administrative extension of bargaining council agreements. These agreements frequently overlook the financial viability of smaller entities. Exempting SMMEs from these obligations will make it cheaper and easier for them to hire people while allowing for company-level flexibility. Implementing these labour reforms will result in the creation of between **700 000** and **1 000 000 jobs.**

A DA-led government aims to create a better balance between the unions and employers. Holding unions accountable when their members threaten other workers or destroy property will increase investment. Productivity will increase, driving up demand for labour.

Our industrial policy reforms can create between **400,000 and 500,000 jobs.** We aim to achieve this by addressing the foundational elements of the policy pyramid—including safety and security, infrastructure, human capital, and the regulatory environment—rather than prioritising specific sectors at the top of the pyramid.

Implementing our **trade policy reforms** will create **100,000 and 150,000 jobs.** For example, implementing preferential trade agreements (PTAs) focused only on agricultural goods with the Far East would dramatically increase exports to those regions. South Africa is already a competitive producer of fruit, nuts, and berries. Signing PTAs focusing on these goods would result in significant gains in a very labour-intensive sector of the economy.

Improving the use of our existing trade agreements, such as the African Growth and Opportunity Act (AGOA) and SACU-EU Economic Partnership Agreement (SACU-EU EPA), will help attract more companies into the export net, which will consequently help them grow. As the rest of the world's economic growth occurs, these companies will experience even further growth.

Policy Area	Number of Jobs Created Over a 5-Year Period
Ease of Doing Business	350 000 – 400 000
Fiscal Policy	350 000 – 450 000
Labour Policy	700 000 – 1 000 000
Industrial Policy	400 000 – 500 000
Trade Policy	100 000 - 150 000
Total	**1 900 000 – 2 500 000**

Launching a Start-Up Nation: Where Small Business Takes Flight

The DA's values make the difference

The ANC's failure to foster a favourable environment for business and enterprise to flourish has not only resulted in **economic stagnation** but also **hindered job creation** and the development of a vibrant and competitive business landscape for South Africa. With their **burdensome regulatory policies**, the ANC has created a business environment plagued with **red tape, restrictive regulations, and a lack of adequate support** for both existing and aspiring entrepreneurs.

The DA recognises the **vital importance of small businesses and entrepreneurship** in driving economic growth and development in South Africa. Small businesses are the backbone of an economy and play a significant role in driving innovation, fostering growth, and creating jobs. Global experience shows that job growth depends on a strong and growing SMME sector. The DA, therefore, aims **to create optimal business conditions for launching new businesses** by ensuring that the state minimises barriers to entry for SMMEs and that the regulatory environment supports small business creation and growth.

The DA believes in **building a capable state** that recognises its role is to provide **an enabling business environment** where entrepreneurship is encouraged and supported, resulting in the creation of new businesses, new job opportunities, and economic growth. The state's role is to create an inclusive environment where every individual, regardless of their background, can start a business with ease, enabling them to access economic prosperity and thus move up the social mobility ladder. South Africa needs to become a country of entrepreneurs, not simply employees.

How government's failures affect you

Increasingly, **entrepreneurs in South Africa are reluctant to start new businesses**, limiting the creation of desperately needed jobs in our country, with unemployment rates reaching a high of 32.9 percent in 2023. According to the 2023 Global Entrepreneurship Monitor South Africa (GEM SA), South Africa's total early-stage entrepreneurial activity (TEA)[1] has dropped below pre-pandemic levels, mainly due to the **country's weak economy and insufficient enabling environment for businesses.** In 2023, the percentage of individuals aged 16 to 64 planning to start a new business within the next 3 years fell to 10 percent, which marks the lowest point in the last two decades, and follows the highest peak of 20 percent in 2021/22. The report also pointed out that whereas in 2019, 3 out of 10 new business owners anticipated hiring an extra 6 people or more in the subsequent five years, this figure dropped to just 2 out of 10 in 2022. This means that **fewer jobs are being created.**

Moreover, based on studies conducted by the Small Business Project over six years tracking a cohort of 500 SMEs (including micro-businesses), **small businesses spend, on average, between four and six percent of their turnover on compliance with regulatory requirements.** This means that capital is inefficiently allocated, hindering investment and job creation.

The informal sector is not exempt from these challenges. Despite having immense potential to help address the country's unemployment crisis, it remains excluded from adequate support and faces punitive government policies. Despite constituting approximately 17 percent of total employment and contributing around 6 percent to the GDP, the **sector struggles with growth and productivity** under these adverse conditions.

[1] The Total Early-stage Entrepreneurial Activity (TEA) is the percentage of people aged 18 to 64 who are either new entrepreneurs or who are owner-managers of new businesses.

The **government's failure to create a conducive business environment** is further illustrated in South Africa's declining global rankings, highlighting the nation's deteriorating state under the ANC's governance. According to the latest World Competitiveness Yearbook (WCY) by the Swiss-based Institute of Management Development (IMD), South Africa is ranked down 6 places from 53rd in 2022 to 59th in 2023 (out of 64 countries) in terms of the **regulatory burden of starting a business.**

The **ANC's failure to support business growth** and opportunities impedes economic growth and business development opportunities and undermines the people's well-being and livelihoods, exacerbating the nation's socio-economic challenges.

How the DA will rescue South Africans from unemployment and foster a conducive business environment

The DA has multiple proposals aimed towards enabling a conducive business environment. We aim to strengthen South Africa's start-up ecosystem, make it easier to start a business and help foster entrepreneurship and business growth. To support small businesses, we will start by removing import duties on selected business tools.

OUR BOLD SOLUTION

Removing Import Duties on Selected Business Tools for Small Business Support

Removing import duties on essential business tools, such as single-cab bakkies (pickup trucks), can significantly support small businesses, entrepreneurship, and economic activity, especially in rural areas. Despite South Africa's strong automotive manufacturing sector, locally-made models are still more expensive than imported alternatives, However, current automotive industrial policies inflate cheaper imported alternatives through import duties of 25 percent, resulting in higher prices for consumers and widening the affordability gap for small businesses, especially in underserved communities. Furthermore, the cessation of production for some locally made bakkies, such as Nissan's NP200 half-ton bakkie, a key player in the affordability market, further compounds this issue, limiting options for businesses.

As such, the DA proposes removing import duties on cheaper bakkies. This move can encourage entrepreneurship and foster growth and prosperity within rural communities. The DA will also explore the possibility of lifting bans on second-hand vehicles to increase market competition, lower prices, and improve access to vehicles, especially for commercial purposes.

The DA further aims to support small business creation and growth by:

- **Accelerating the roll-out of 'One-Stop-Shops' across the country** to reduce the time and cost of opening a business. These 'opportunity centres' will assist entrepreneurs in registering a company name, lodging their documentation with the Companies Commission, and registering with SARS and the Department of Labour - all with a single online form and with a single registration fee. Applicants will be able to follow their registration through an online tracking system. Opportunity centres will also be used as portals to access small business support initiatives and disseminate information on government business tendering. To enhance effectiveness, a toll-free national call centre and advanced chatbot service will provide comprehensive assistance to small businesses, minimising the need for physical presence in most cases.

- **Developing a comprehensive Business Starter Toolkit,** which will serve as a valuable resource for aspiring entrepreneurs. The Toolkit aims to streamline the business start-up process and provide essential guidance and support. Inspired by the Small Business Administration's (SBA) "Business Smart Toolkit" in the United States, the DA will collaborate with industry experts and local business growth organisations to develop an extensive toolkit for local entrepreneurs. These toolkits will offer checklists, guides, templates, and tools for all stages of business, including a start-up checklist, legal and regulatory step-by-step navigators, business planning templates, finance resources, networking services, and digital tools such as accounting software and e-commerce platforms.

- **Developing municipal guidelines on business investment, which will support low-capacity municipalities in attracting and promoting local business investment.** These guidelines will take into account available resources, infrastructure, and local economic conditions. To support low-capacity municipalities in attracting business investment, the guidelines will include recommendations on investing in infrastructure, streamlining permitting processes, offering financial incentives, providing business support services, revitalising commercial areas, and supporting entrepreneurship. Developing national guidelines will ensure that by-laws and regulations conform to national business development and economic growth policies and strategies.

- **Increasing access to funding for entrepreneurs to start or scale their businesses.** Drawing from the success of existing models such as the United Kingdom's "Startup Loans" and South Korea's credit guarantee schemes, these initiatives provide entrepreneurs with funding through low-interest loans, mentorship, and government-backed guarantees to reduce risk. The DA will explore similar approaches and seek funding avenues to support such efforts through public-private partnerships and development finance institutions.

- **Facilitating microfinance opportunities to support and promote the creation of small businesses.** Microfinance[2] (microloans or microcredit) is a proven model for promoting inclusive economic growth (benefiting all segments of society) and poverty alleviation. By providing people with loans to start trades or businesses and offering savings accounts with accruing interest, microfinance empowers individuals to improve their financial standing.

Promoting Microfinance to Enhancing Small Business Growth

The Grameen Bank in Bangladesh epitomises the success of microfinance in alleviating poverty and empowering the marginalised poor. They offer small loans to impoverished individuals, particularly women, who lack access to traditional banking services. The loans are to support income-generating activities such as small businesses and agricultural ventures. Up to February 2024, the cumulative amount of loan disbursement by the bank since inception stood at US$ 38,189.18 million to 10.52 million borrower members. This model has now been adopted by other countries, including Nepal, the Philippines, Indonesia, Kenya, India, and China, and has even made inroads in the United States, illustrating its potential.

[2] Microfinance is financial services provided to low-income individuals or groups typically excluded from traditional banking.

Incentivising commercial banks and credit unions to expand their reach into underserved communities through targeted microfinance programmes supported by regulatory reforms and capacity-building initiatives. These incentives would include subsidies to offset operational costs, tax incentives for portfolio expansion, and credit guarantee schemes to mitigate lending risks.

Supporting SMEs in securing alternative funding, outside traditional sources like bank loans or venture capital, to leverage the Johannesburg Stock Exchange (JSE) for business growth and job creation. Listing SMEs on stock exchanges can create jobs by creating access to capital for expansion, fostering growth, and stimulating demand for services, thereby contributing to economic development.

Empowering SME Growth by:

Leveraging Alternative Funding for JSE Access and Business Expansion

Leveraging the stock exchange for business growth and job creation has been proven successful, as demonstrated by Sweden. In Sweden, stock exchanges such as Nasdaq Stockholm provide platforms, such as the Nasdaq First North, for SMEs to list and raise capital through Initial Public Offerings (IPOs).[1] The ecosystem includes expert advisers streamlining the listing process and diverse investor support spanning from retail to institutional capital, all of which enable companies to grow, scale, and prosper. This is a model South Africa can definitely learn from. Such a platform undoubtedly presents valuable lessons for South Africa to embrace and implement.

The DA aims to learn from the Swedish model and implement proposals aimed at enhancing access to alternative financing for small businesses. As an extension of this approach, alternative financing, such as crowdfunding and angel investments, can support SMEs in leveraging the JSE by providing initial funding or investment capital for start-ups and SMEs seeking to list on the exchange. These alternative funding sources can help businesses meet the requirements for listing, such as regulatory compliance and financial stability. Moreover, it can validate businesses seeking to scale up, enhancing credibility for potential JSE investors. This, in turn, can attract more investors and contribute to the success of IPOs, leading to business growth and job creation.

The DA will support access by:

- **Creating support platforms** (e.g., an online funding marketplace, SME investment forums, and opportunity awareness through the One-Stop-Shops and the Business Starter Toolkit) that connect SMEs with alternative funding sources.

- **Leveraging existing financial institutions and fintech platforms to deliver microfinance service** opportunities for JSE listings.

- **Introducing entrepreneurial education programmes in schools** to instil an entrepreneurial mindset in our youth and also give them the right skills to succeed. This initiative will be a joint effort by various line departments, including the Department of Basic Education (DBE),

[3] Initial Public Offerings (IPOs) are a private company's first sale of stock to the public, enabling it to raise capital from external investors.

the Department of Small Business Development (DSBD) and the Department of Trade and Industry and Competition (DTIC). The blueprint of the curriculum will consist of various key business areas, such as business planning, financial literacy, market research, innovation, and ethics entrepreneurship. A DA government will also work with industry partners, incubators and successful entrepreneurs to provide opportunities for students to apply what they have learned to real life by giving them industry exposure and mentoring opportunities. This initiative will first be piloted in select high schools nationwide to test its efficacy, with the long-term goal of extending it into the national high school curriculum.

The DA will further create a conducive business environment by:

- **Transitioning industrial policy towards a policy pyramid model.** The policy pyramid prioritises growth over oligopolies and creates a supportive business environment with clear regulations, vital infrastructure, and a culture of innovation. The industrial policy section of this paper provides more details on the policy pyramid.

- **Reforming the restrictive labour market that hinders small business growth and job creation.** The labour policy section of this paper provides more details on our labour reforms proposal.

Embracing the informal economy can drive inclusive growth, create jobs, and benefit the economy and society. The DA acknowledges the occurrence of organic economic activity in a country where such activity is relatively scarce. The goal is to nurture and enhance its potential for creating jobs by:

- **Rolling out e-registration for informal trading permits to simplify applications.** In the City of Cape Town, the DA has simplified applications for informal trading permits through an e-registration system that makes it easy for small entrepreneurs to register their businesses and gain access to trading sites. This model would be replicable in other municipalities.

- **Establishing a system of differentiated tariffs to address issues relating to tariffs and 'rents' paid by informal traders,** reducing burdens on survivalists while levying reasonable charges on higher-economic-level enterprises.

- **Identifying trading spaces in middle-income and affluent areas where there is often a larger market.** These spaces include parking areas, streets, and pavements to be used at designated hours.

- **Providing functional trading spaces for informal entrepreneurs close to foot traffic.** These spaces should have access to water, sanitation, Wi-Fi, and other enabling infrastructure.

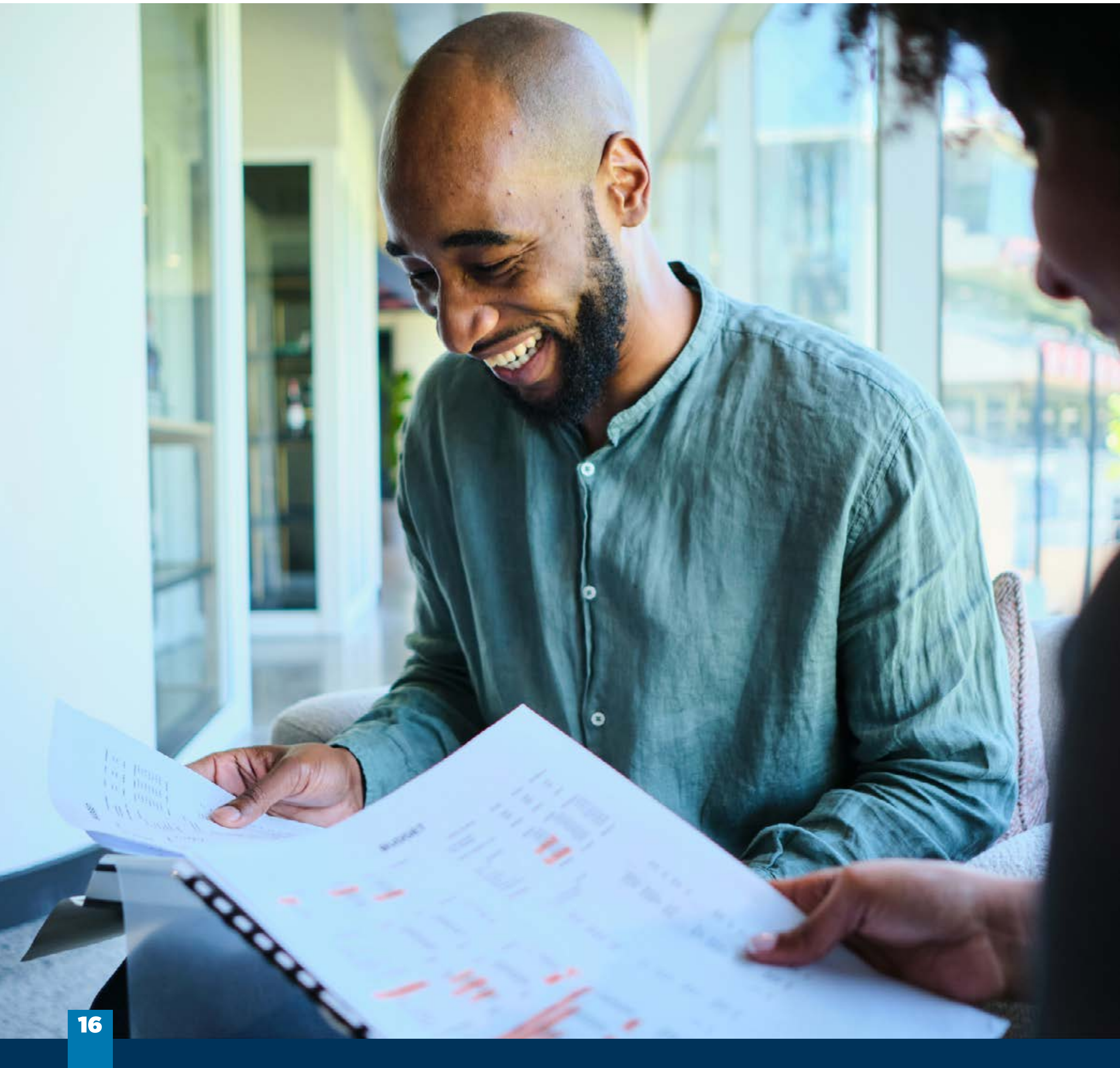
- **Ensuring that the impounding of the property of informal traders is a last resort as a sanction for serious offences,** as it can be fatal for micro and informal enterprises due to associated fines and recovery costs.

- **Encouraging entrepreneurs in the informal economy to formalise and increase the growth potential of their businesses by reducing costs and administrative burdens** associated with formalisation. Additionally, it raises awareness about tax amnesty for small businesses below a certain asset level and offers a simplified tax system where turnover tax replaces other taxes. This will involve launching information campaigns to inform informal entrepreneurs about tax amnesties available for small businesses and the benefits of formalisation.

- **Actively engage in and support small business incubation and development projects** that will enable small businesses to gain access to business infrastructure, enterprise supplier development links, and investor connections, such as the township-based tech hub, the Khayelitsha Bandwidth Barn. The hub not only provides office space for people to run their businesses, but it also provides a computer lab for the local community and teaches them technology and business skills. This is an example of an enabler for inclusive innovation.

The DA will also safeguard the unemployed and provide further business opportunities by:

- **Converting the Social Relief of Distress Grant (SRD Grant) into a Job Seekers Grant (JSG).** Its purpose would be to assist recipients in actively seeking work opportunities and starting small businesses (e.g. selling fruits and vegetables). Such a venture could stimulate the local economy and would be especially helpful to rural areas and townships. Recipients of the JSG must provide evidence of their active job search activities to the Department of Social Development if they continue receiving the grant. The grant's continuation will only remain viable if there is economic growth and sufficient tax revenue to fund it. The DA opposes any tax increases to fund this expenditure and will identify savings and spending efficiencies in the public service sector to accommodate this expenditure.



Saving and Spending Better

The DA's values make the difference

South Africa's fiscal situation is deteriorating. The national government has **failed to reduce debt levels** due to increasing expenditure and borrowing. This can be seen in South Africa's debt-to-GDP ratio, which increased from 26 percent in 2009 to 73.9 percent in 2023. South Africa's high level of debt has led to **escalating interest payments** on our national debt, which reduces the budget available for frontline service delivery. Compounding this deteriorating financial situation is a low level of domestic savings, which reduces the ability of the state to borrow from domestic sources.

A DA government would seek to reduce the national debt by **introducing a fiscal rule** that limits the amount of debt the government is able to leverage to cover its expenses and begin to place South Africa's finances on a sustainable trajectory. Additionally, the DA aims to enhance South Africa's savings levels to replicate the successes of other developing countries.

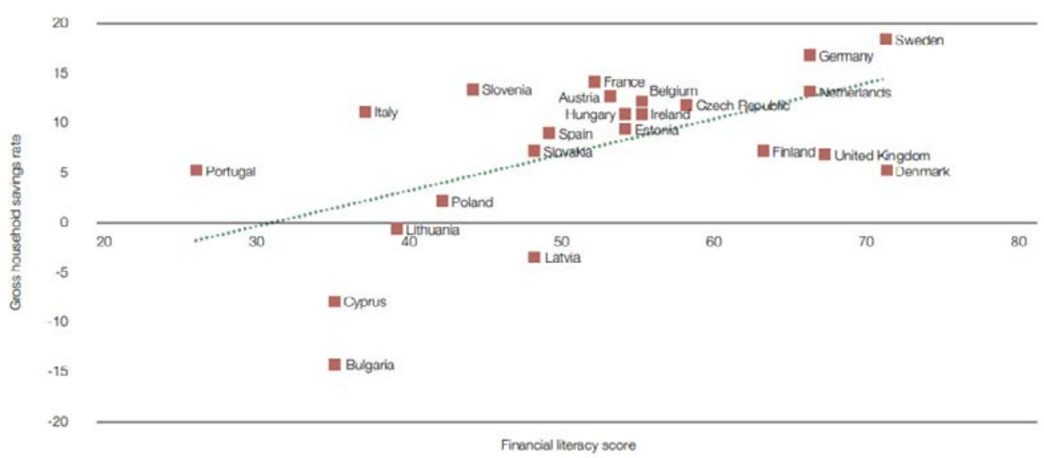
Finally, the DA will continue to prioritise South Africa's government grant system within the national budget, as it serves an important social safety net role for society's most vulnerable. This is demonstrated by the DA's commitment to increasing the Child Support Grant from R530 to R760, which is the same level as the official food poverty line.

How government's failures affect you

Increasingly high debt levels are crowding out South Africa's national budget. The poor are bearing the cost of fewer funds being available for essential government services such as healthcare, education, and policing as interest payments increasingly crowd out expenditure on other priorities.

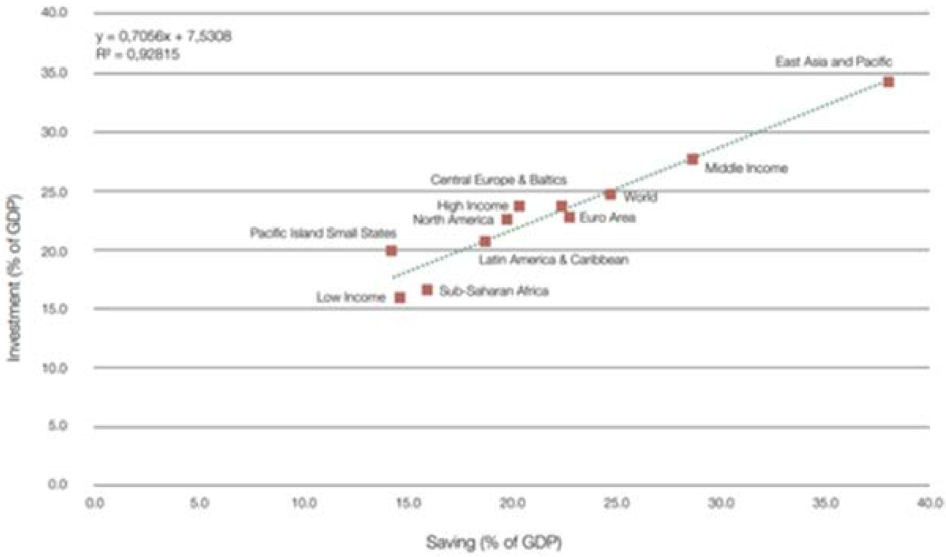
South Africa's savings rate has been deteriorating since 2008, with a modest uptick in 2010. A decline in savings, as shown in the Investec GIBS Savings Index below, tracks the decline in South Africa's economic fortunes in general. Low savings rates have a direct impact on future economic growth. The chart below outlines the national savings rates and economic growth.

Figure 1: The Effects of Financial Literacy on Savings Rates



South Africa will need to increase its savings rates to create the conditions for future economic growth. It may be argued that South Africa simply does not have the money to save. However, nations such as Chile (discussed later on in this paper) have successfully made this important transition to high-savings economies through policies that create an environment where people are willing and able to start saving.

Figure 2: Savings and Investment Rates: 1960 – 2019



Financial literacy must be recognised as a core component of any programme designed to boost household savings and investments. Figure 2 shows that the higher a country's financial literacy, the higher its savings rates.

South Africa's deteriorating financial situation has led to one of the highest tax-to-GDP ratios in the world. This would not necessarily be a bad thing if taxpayers received good value for money in terms of government services. However, in South Africa, service delivery is typically of poor quality, which makes high tax levels a significant burden on a narrow tax base of approximately 5.5 million taxpayers above the tax-free threshold.

South Africa has a narrow tax system. For example, the progressive tax system results in roughly 110,000 taxpayers (or 0.7 percent of taxpayers) earning over R1.5 million, contributing over 23 percent of personal income tax. In addition, around 1.2 million taxpayers earn over R500 000 per year, yet they account for approximately 65 percent of total personal income tax liability. Corporate tax rates are also highly concentrated. Companies with taxable income over R100 million, representing only 0.7 percent of taxpaying companies, paid over 65 percent of assessed tax in 2020.

Our narrow tax base means that raising tax levels is increasingly risky and counterproductive, as the risk of driving away our most productive people and businesses is significant. As revenues raised from taxes are derived from productive private activities, the government's utilisation of these revenues should also be productive to be justifiable. Government spending should ideally result in a positive fiscal multiplier (the effect that an increase in fiscal spending will have on a nation's economic output or GDP). However, in South Africa, our expenditure is highly inefficient and wasteful. For every Rand of current additional government consumption spending, we can expect significantly less than R1 to be added to GDP. This is due to new research showing that South Africa's fiscal multipliers are either negative or very low. Therefore, increasing taxes is an inherently counterproductive activity under current circumstances.

[4] National Treasury. (2023). MTBPS. treasury.gov.za/documents/mtbps/2023/mtbps/FullMTBPS.pdf

[5] Austerity without consolidation: Fiscal policy and spending choices in Budget 2023. SCIS Working Paper, Number 60.

The national government is borrowing increasing amounts of money, which attracts significant interest rates. The cost of borrowing money has further increased due to rating downgrades from agencies such as S&P, Fitch, and Moody's. From 2008 to 2023, gross loan debt has surged by 47 percent, outpacing economic growth. This rapid debt accumulation has driven up borrowing costs for new debt, which diverts funds away from critical expenditures in healthcare, economic development, and other vital sectors[3].

There is also a growing gap between budget plans and execution. Over the past 3 years, annual government spending has exceeded budgeted amounts by a considerable margin of between R20 and R60 billion.[4] This can be partly attributed to external shocks (pandemic and floods) and internal mismanagement (load-shedding and deteriorating transport infrastructure).

Even more concerning is the growing disconnect between policy and budget efforts. For example, there is a lack of clarity in policy frameworks. Evidence is found in examples like education, where funding was made available for teacher assistants while funding for teachers and textbooks was cut. In health, National Health Insurance funding is focused on the construction of new hospitals, while spending on healthcare workers, medical equipment, and operational budgets is cut.

The current government's commitment to race-based economic policies, such as Broad-Based Black Economic Empowerment (BBBEE), contributes to South Africa's deteriorating economic situation. These policies have failed to uplift the vast majority of South Africans and instead only enrich a small group of politically connected elites.

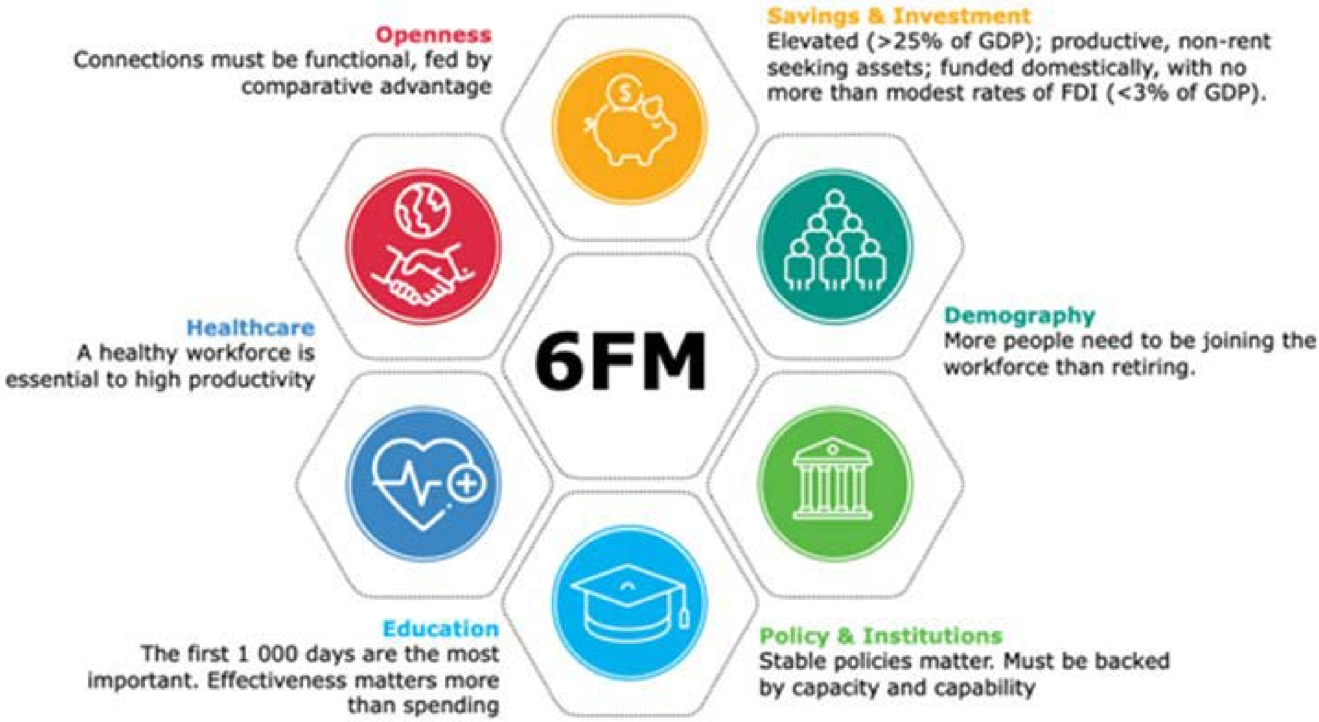
Finally, the national government has continued to commit large amounts of government funds towards bailing out our failing State-Owned Entities (SOEs), with little tangible return on this investment for the public. National Treasury has estimated that in the past three years, approximately R281 billion has been allocated by the government for SOE bailouts, with these funds primarily going to Eskom, Transnet and South African Airways. This creates an intolerable degree of moral hazard as SOEs know they will be bailed out when they run into financial problems. This Safety net of bail-outs encourages continued poor budgetary management and reckless decision-making. Should fiscal discipline not be established within SOEs, they will continue to drain the South African budget and crowd out spending on social and development priorities.

How the DA will rescue South Africans from the fiscal cliff

The DA will build its fiscal bedrock on the Six Factor model (6FM), which was developed by the University of Pretoria's Gordon Institute of Business Science (GIBS) and the business school's Centre for African Management and Markets (CAMM). The model seeks to answer the question, "How do nations generate prosperity?"

The model outlines six factors which have been shown to steadily and reliably foster prosperity. The six factors are openness, savings and investments, demography, policy and institutions, education, and healthcare.

Figure 3: The 6 Factor Model

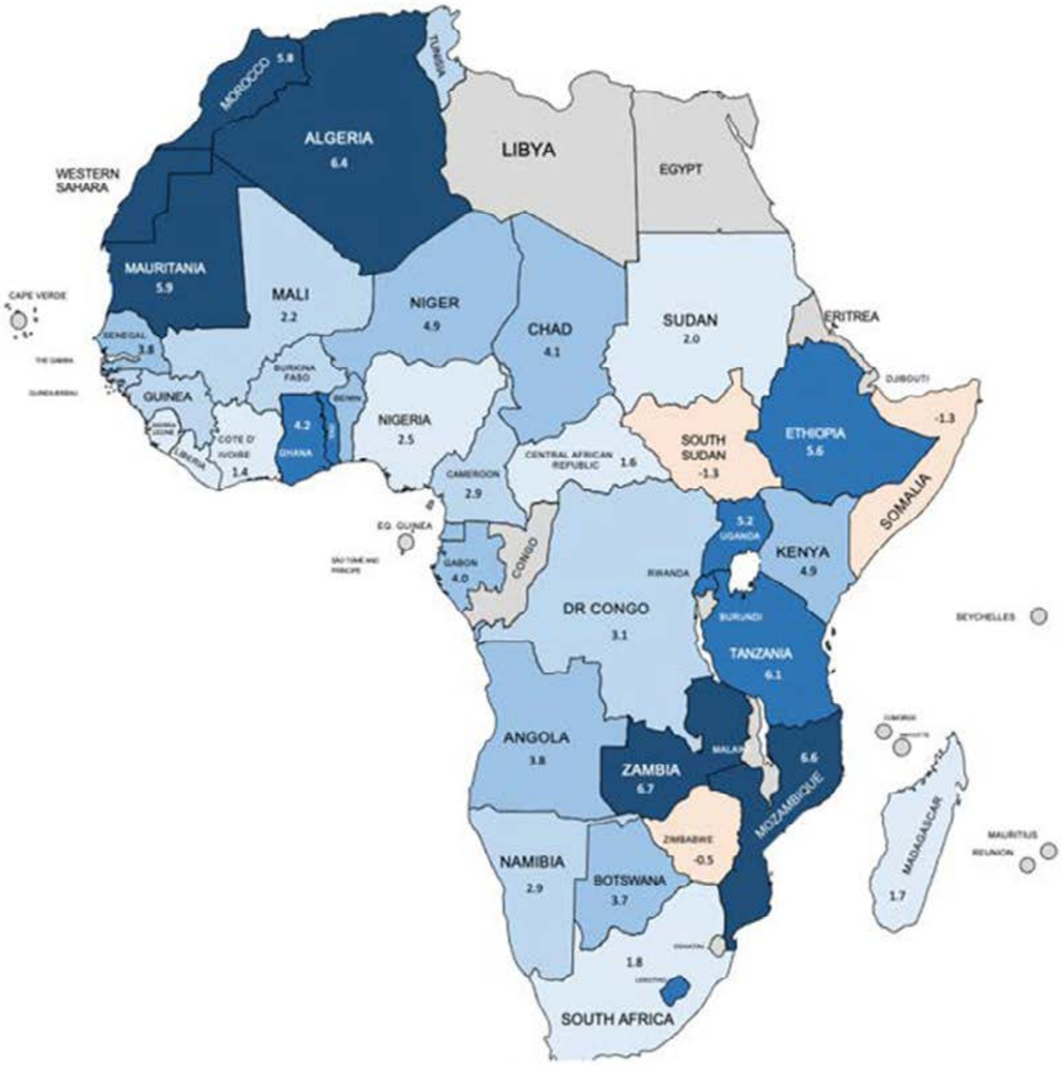


While government resources can be **allocated to factors outside** of this model and subsequently may produce some benefits, resources allocated to these six areas will significantly shift the needs in terms of a nation's future prosperity.

These six factors are all within the control of policymakers and are areas of focus that will deliver the greatest impact for a nation, therefore, small improvements in these areas will deliver outsized benefits.

Every country with sufficient data can be given a Six Factor score, which captures the totality of the model into a number that represents how well the economy is set up to prosper in the years to come. The higher the number, the better that society is positioned to thrive. South Africa has a score of 1.8, which makes it one of the lowest performers in Africa. This means that South Africa is likely to continue experiencing economic hardship in the future. Image 1 below illustrates how South Africa is performing compared to other African countries. Unfortunately, the country lags far behind countries such as Chad, Sudan and even Mali.

Image 1: African Countries 6 Factor Scores



The 6FM factor of "Policy and Institutions" will be a key component of improving South Africa's fiscal situation. The fundamentals of this factor include international best practices in the fields of macroeconomic management, robustness of public institutions, ease of doing business, transparency and accountability, and control of corruption.

The DA has a bold plan to **stabilise South Africa's budget and bring South Africa's increasing national debt under control** through a national debt rule.

OUR BOLD SOLUTION

Introducing a Fiscal Rule into the Expenditure Framework

The DA will introduce a strategic shift in fiscal policy by integrating a fiscal rule into the existing expenditure framework. Such a fiscal anchor will require that the debt figure equals the figure in the last budget, thereby establishing no net increase in debt.

The DA will target locking in the previous debt figure as the ceiling. While determining an optimal debt-to-GDP ratio is dependent on a multitude of factors, international experience demonstrates that tells us that 60 percent is a sensible maximum for developed economies and 40 percent for developing economies. As South Africa's current figure is over 70 percent, a feasible target may be to reduce this by 1 percent per year for a decade.

This approach is designed to ensure that increases in government spending do not exceed the economy's ability to sustainably support such spending. It will stabilise our fiscal environment, incentivise growth-friendly spending, and encourage a more forward-thinking approach to budget planning.

Bailouts have been a major drain on the fiscus, costing the taxpayer R281 billion over the past three years and crowding out fiscal space for government priorities. The DA will improve the state's fiscal position by:

- **Ending bailouts for SOEs.** Bailouts amount to massive subsidies for failing institutions, are a deep well of funding for corruption and serve as an incentive to run these enterprises badly. While there may be some economic pain associated with ending these bailouts, this will force the necessary reforms for failing SOEs and allow for the much-needed privatisation.

The DA will ensure that tax collection is optimised by:

- **Prioritising spending within the South African Revenue Service on resources such as improved ICT capacity** will enable better compliance levels and enhance the efficiency of dispute resolution processes.

The DA will continue the payment of social grants in a fiscally responsible manner by:

- **Converting the Social Relief of Distress Grant (SRD Grant) into a Job Seekers Grant.** The conversion of these grants would require recipients to actively seek work opportunities or show evidence of intention to start a small business and provide evidence to the Department of Social Development to continue receiving the grant. The purpose of the grant would, therefore, be to assist recipients in their job searches, starting small businesses (e.g. selling fruits and vegetables), and meeting their basic needs.

The grant's continuation will only remain viable if there is economic growth and sufficient tax revenue to fund it. The DA opposes any tax increases to fund this expenditure and will instead identify savings and spending efficiencies in the public service sector to accommodate this expenditure.

- **Increasing the Child Support Grant from R530 to R760**, the same level as the official food poverty line.

Social grants play an important safety net role in the lives of South Africa's most vulnerable citizens.

South Africa's long-term prosperity will require increasing our national savings levels. The DA will increase national savings levels by:

- **Making government bond offerings available on mobile phones to increase their accessibility to the public,** as done in Kenya's M-Akiba programme. To ensure credibility, these funds will be ring-fenced from the National Treasury and administered by the SARB. Infrastructure projects will be funded from these investments, and investors will be regularly updated on their progress.

- **Exploring privately administered pension options with a government-mandated saving rate for all employees.** This system would entail requiring all formally employed workers to save a predetermined percentage of their pre-tax income. This was done in Chile where employed workers were required by law to save 10 percent of their pre-tax income, which was automatically deducted by employers from payrolls.

- **Implementing widespread financial education and enabling programmes**, with an emphasis on campaigns targeted at the youth and unbanked.

- **Piloting a savings commitment device programme with selected government employees.** This will allow these employees to commit in advance to contributing a percentage of any future salary increases towards a savings programme. This would ensure that participating employees increase their savings levels alongside receiving higher salaries.

- **Ensuring financial literacy campaigns accompany all programmes or pilots.**

Chile: A Savings Success Story, the Pay-As-You-Go Security System

A 1981 Chilean law privatised the pay-as-you-go social security system, which established a fully funded, defined-contribution individual accounts system, where all formally employed workers were required by law to save 10 per cent of their pre-tax income.

Due to the newly established security system, Chile's savings rate grew from a disastrous 2.1% of GDP in 1982 to 26.4% of GDP in 1995. This resulted in Chile's income per person overtaking South Africa's in the mid-1990s not long after their savings rate overtook ours.

Chile is not special compared to South Africa; however, it made this important transition to a high-savings rate economy through decisions that created an environment where people were willing and able to begin saving.

Figure 4: Chile's GDP Per Capita, 1960-2022

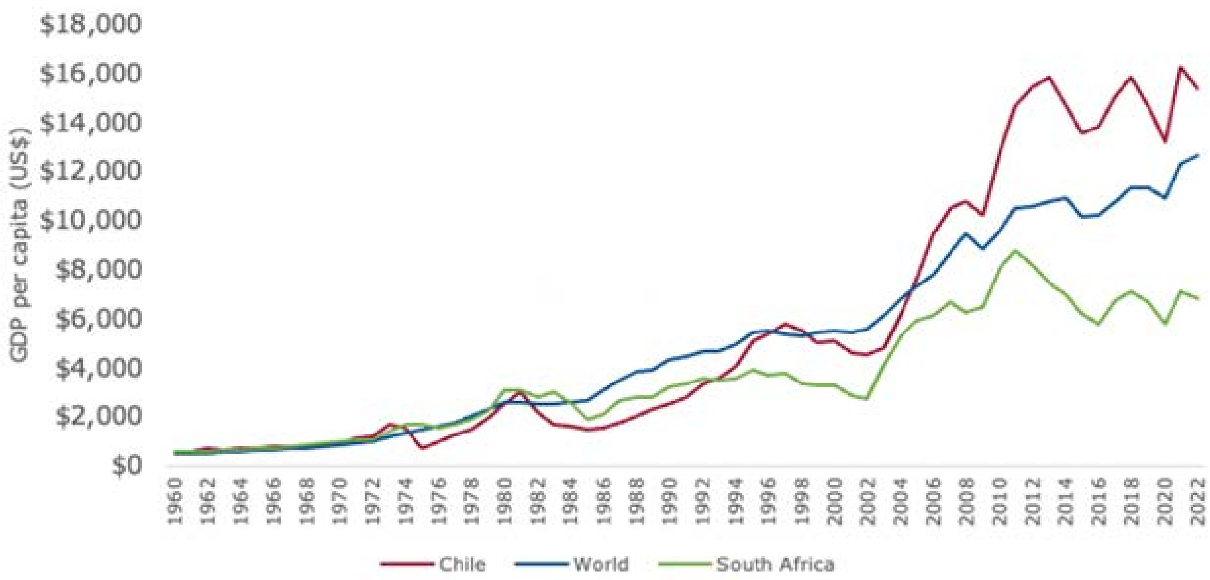
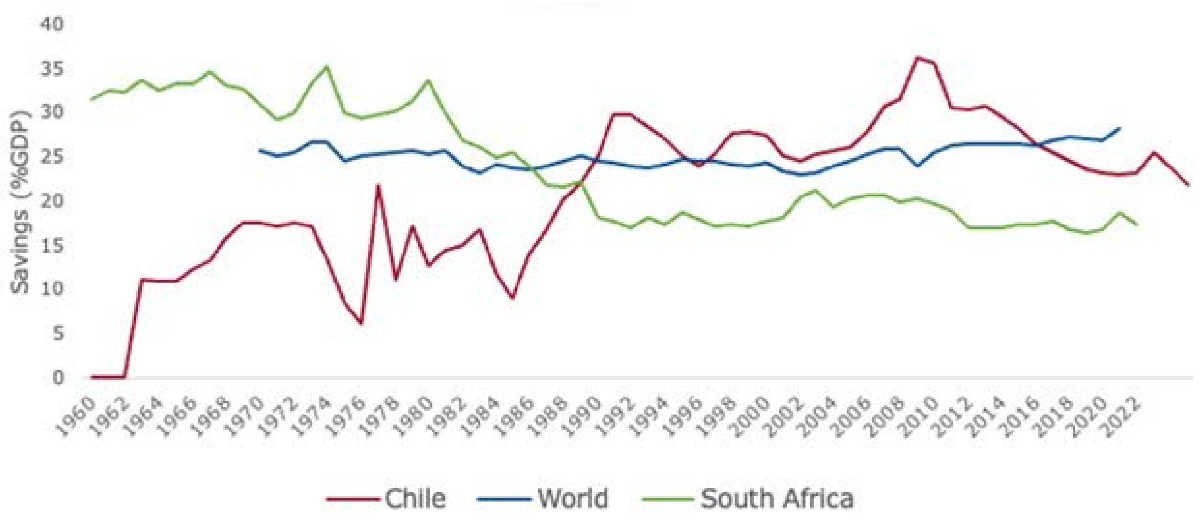


Figure 5: Chile's Gross Domestic Savings (%GDP)



As illustrated in Figures 4 and 5, Chile has successfully enhanced the savings levels within the country.

Kenya: A Savings Success Story, the M-Akiba Programme

Kenya has also made strides in using technology and behavioural economics to increase savings rates. In 2017, the M-Akiba programme was the world's first mobile phone-based bond. It required an investment of only Sh3,000 (US$30), and the bonds were purchased through a commonly used mobile payments platform on a cell phone. The use of cell phones as a payment platform made purchasing a treasury bond, which was previously a complicated and arduous process, into a simple and accessible action. The programme was successful in bringing a new broad-based investor group into the market for bonds, with 85 percent of customers being first-time bond purchasers.

The DA recognises that race-based policies have no established positive outcome for economic prosperity under the 6FM and instead have led to the continual enrichment of a small group of politically connected elites. The DA will replace all race-based policies by:

- **Implementing a non-racial alternative to the BBBEE procurement system.** Our alternative to the existing BBBEE model will utilise the internationally recognised SDGs and reward businesses that contribute positively to the SDGs. We will achieve this by removing BBBEE from all procurement legislation and replacing it with a point system which recognises a business's contributions to the SDGs. These contributions will directly address the key drivers of poverty and inequality, which ensures that the benefits of this policy reach those who genuinely need it. More detail on this policy proposal can be found in the DA's Economic Justice Policy.

Stop Interfering with the Reserve Bank

The DA's values make the difference

The **ANC's failure to implement effective economic policies has resulted in stagnant economic growth, widening fiscal deficits, and persistently high unemployment rates in South Africa**. These issues have contributed towards reduced investor confidence, insufficient funds for essential public services, and increased social tensions stemming from widespread joblessness and poverty.

The **ANC strongly believes that addressing the country's economic challenges involves expanding the SARB's mandate**. The demands by the ANC that the SARB must use monetary tools to support the economy and create jobs not only infringes on the bank's independent decision-making, which is constitutionally protected, but also puts the financial safety and well-being of millions of South Africans at risk. Demands made on the bank, such as managing inflation without raising interest rates, risk currency devaluation and inflation spikes, can further burden the most vulnerable members of our society—the poor.

The DA is committed to upholding the SARB's independence. The DA recognises that the state's role should be to support the reserve bank in its efforts to maintain macroeconomic stability, foster sustainable economic growth, and ensure the smooth functioning of the country's monetary system. Unlike the ANC, the DA advocates for **fiscally responsible policies** to stimulate economic growth, uplift vulnerable populations, and position South Africa on the global stage competitively.

How government failures affect you

The ANC's push to expand the SARB's mandate threatens to undermine its independence and jeopardise the nation's economic stability. Government interference risks fuelling higher inflation and financial turmoil by prioritising short-term political gains over long-term prosperity, eroding public trust and damaging South Africa's international standing. Therefore, preserving the SARB's autonomy is paramount to safeguarding the country's economic future and ensuring sustainable growth for all South Africans.

Instead of supporting the SARB, the government has created a challenging economic environment that hinders the efficacy of monetary policies. The government's inability to address the country's stagnant economic growth, deteriorating infrastructure, high unemployment, and income inequality limits the effectiveness of monetary policy measures. It constrains the transmission mechanism of monetary policy, impeding its ability to stimulate demand, encourage investment, and foster sustainable economic expansion. This challenging economic environment burdens individuals with limited opportunities, stifles business growth, and hampers economic resilience and prosperity. In essence, it perpetuates a cycle of stagnation and exacerbates socioeconomic disparities.

The government has also failed in preventing and combatting money laundering and the financing of terrorism. These failures are illustrated by the greylisting of South Africa by the Financial Action Task Force (FATF) - the global financial crime watchdog. The government's inability to uphold financial integrity and compliance with international standards has placed the country under increased scrutiny by the FATF. Greylisting can have severe implications for a country's financial sector, international trade, and access to global funding. The increased scrutiny and compliance requirements disrupt the flow of capital and access to global financing, as it raises the country's risk profile abroad – increasing the cost of doing business in South Africa and jeopardising business relationships with offshore stakeholders.

Furthermore, the effective implementation of monetary policy by SARB is hampered by the deteriorating fiscal environment, another consequence of the government's poor decision-making. Fiscal deficits and high debt levels render active or aggressive monetary easing[5] **highly risky. When both fiscal and monetary policies aim for growth, it often leads to currency depreciation and inflation. Consequently, we end up with more money, but its purchasing power diminishes (it buys less)—the opposite of wealth creation. Ordinary South Africans, especially those with lower incomes, bear the brunt of inflation as prices soar, rendering necessities increasingly unaffordable.**

The government's plan to tap into the Gold & Foreign Exchange Contingency Reserve Account (GFECRA) risks further destabilising the economy. The government plans to draw R150 billion from the GFECRA, currently valued at over R500 billion, to reduce its self-inflicted high debt level, mitigate fiscal risks and decrease borrowing. However, using reserves to fill budgetary gaps disregards sound fiscal discipline,[6] potentially tarnishing South Africa's reputation with international investors. Moreover, selling forex reserves to access these funds would diminish the country's reserves, which have not yet reached a level that is deemed sufficient. Rushing to exploit short-term fixes threatens long-term economic stability and growth and fails to address underlying issues contributing to high debt accumulation or other economic challenges.

The GFECRA should not be viewed as a quick fix but rather as Pandora's Box, representing a departure from the principles of sound financial management. It is imperative to uphold these principles and resist short-sighted attempts to raid reserves for temporary relief.

A pivotal decision facing the SARB is whether to adopt a specific point target or maintain the inflation targeting range. Determining the appropriate inflation target[7] is challenging because it involves balancing the objectives of price stability and economic growth. While the current target range is 3 percent to 6 percent, discussions to lower it to around 3 percent persist. According to the SARB Governor, Lesetja Kganyago, a lower target of around 3 percent:

> ***...would help dampen exchange rate volatility and sovereign risk, reduce the potential for upward drift in the real exchange rate, and materially lower debt service costs, primarily for the now over-indebted public sector.***

The United Nations University (UNU) supports this view, and advocates for a point inflation target below the mid-point of the current 3–6 percent range, arguing that the current target lacks ambition and hampers the potential benefits of inflation targeting. A paper by UNU World Institute for Development Economics Research (WIDER) concludes that a point target of 3 percent would better promote growth and currency stability. They highlight the wide 3 percent range, which allows the SARB to remain inactive during significant inflation swings, leading to uncertainty and high inflation risk premiums. The authors caution against the plan (lowering the target point), emphasising the need for a credible commitment from fiscal authorities to align budgetary policies with the chosen inflation rate. Unfortunately, this fiscal commitment is lacking in South Africa due to political volatility and economic challenges caused by the government.

[6] Monetary easing is when central banks use various measures to increase the money supply in the economy, aiming to lower borrowing costs, encourage spending, and stimulate economic growth.
[7] Fiscal discipline requires that governments responsibly manage and maintain fiscal positions that are consistent with macroeconomics to ensure sustainable economic growth and stability.
[8] Inflation targeting is a monetary policy strategy in which central banks adjust interest rates and other monetary tools to keep inflation within a specific target range.

Balancing Act: The Inflation vs Growth Compromise

In managing monetary policy, central banks must strike a delicate balance between controlling inflation and stimulating economic growth. Lower interest rates encourage investment and expansion, driving economic growth but fuelling inflationary pressures. Conversely, raising interest rates can help curb inflation but may stifle economic activity by reducing investment and project viability. Research by the International Monetary Fund (IMF) underscores the necessity of striking a delicate compromise between these objectives, recognising that the impact of monetary policy on economic growth is multifaceted and contingent upon various factors.

In South Africa, economic growth has been impeded by structural constraints rather than solely by high interest rates. Issues such as state dominance in critical industries, labour market rigidities, and human capital limitations have hampered meaningful job creation and private sector investment.

Persistent challenges like subdued business confidence and risk-averse lending practices have exacerbated the situation, contributing to a low-growth environment. Additionally, inflation dynamics in South Africa are influenced by external factors, such as fluctuating prices of imported goods, which can exacerbate inflationary pressures. Although the SARB no longer intervenes in the foreign exchange market, currency volatility persists, albeit with a reduced impact on inflation due to enhanced central bank credibility. Moreover, administered price inflation and wage pressures, exacerbated by trade unions' wage-setting practices, further complicate inflation dynamics.

Therefore, the effectiveness of monetary policy in driving economic growth has evolved over time. While it played a more pronounced role pre-2008, structural constraints and supply-side limitations have since weakened its impact. This highlights the need for broader economic reforms to address the underlying structural challenges and promote sustainable growth in South Africa.

Rand volatility[8] presents a significant challenge for South Africa's economy due to its unpredictable fluctuations in value. Since 2003, the SARB has opted for a hands-off approach in the foreign exchange markets, allowing market forces to determine the rand's external value. While this approach has bolstered foreign reserves, it has also led to increased rand volatility.

Numerous factors contribute to the rand's volatility. Mainly, the rand is traded in large volumes. It is also traded as an emerging market proxy[9] – when global speculators change their minds about emerging markets in general, the rand is traded accordingly, making it susceptible to global sentiment shifts. Moreover, substantial non-resident holdings of local assets and active foreign investment in South African bonds based on global conditions add to the volatility. Despite these factors, mitigating factors exist. South Africa's robust financial sector limited foreign currency-denominated debt, and the adaptability of local corporates to currency fluctuations play their role in achieving this. However, Rand volatility prevents companies, particularly small and medium-sized enterprises (SMMEs), from embarking on long-term investments.

[9] Rand volatility refers to fluctuations or instability in the value of the South African currency, the rand, relative to other currencies.

The government's failure to diversify the economy and reduce reliance on export commodities has also left the country vulnerable to economic volatility via fluctuations in global commodity prices. Being a small, open economy increases our tendency to follow the tide of the commodities cycle. It limits the effectiveness of monetary policy in managing inflation and promoting economic stability, as the country's economic performance becomes heavily dependent on external factors beyond the control of monetary authorities. As a result, citizens are left at the mercy of fluctuating commodity prices, with little recourse for stability or economic security.

Rand volatility significantly affects private investment and foreign portfolio inflows, adversely affecting job creation, economic growth, and individual opportunities. The uncertainty and sovereign risk premium[10] associated with Rand volatility discourage firms from investing, particularly impacting small and medium-sized enterprises (SMMEs) due to their financial constraints and limited access to hedging currency risk.[11,]Survey responses underline Rand volatility as a key deterrent to foreign direct investment (FDI), reducing available resources for investment. Global portfolio inflows, crucial for financing our current account deficit, have stagnated since 2014, driven mainly by declining equity and bond inflows,[12] highlighting the detrimental impact of Rand volatility on the economy.

While tempting, using foreign reserves to stabilise the rand is costly and ineffective. The SARB faced this dilemma during the 1998 emerging market crisis when the Rand depreciated by 28 percent against the US dollar. Then, SARB Governor Chris Stals aggressively purchased forward foreign exchange contracts[13] using the country's modest foreign reserves of $5 billion to bolster the currency, but to no avail. The Economist aptly summarised this effort as a waste of resources. The failure of this method underscores the challenges faced by a small, open, commodity-based economy like South Africa's. Attempting to manipulate global demand for the rand through massive expenditure yields minimal impact and burdens the country with debt for years to come.

[10] An emerging market proxy refers to using a particular currency or asset, such as the rand, to gauge or speculate on emerging markets' overall performance and sentiment.
[11] The sovereign risk premium refers to the additional return investors demand for holding government debt relative to safer investments, reflecting the perceived risk of default by the government.
[12] Hedging currency risk involves using financial instruments to mitigate or protect against potential losses from currency exchange rate fluctuations.
[13] Equity and bond inflows represent the flow of investment capital into a country's equity and bond markets, respectively, typically from foreign investors.

Monetary Policy and Economic Growth: Challenges and Constraints

It has been widely debated whether monetary policy is effective in boosting long-term economic growth. Some experts believe that monetary strategies (e.g., raising inflation targets) can spur growth without causing significant inflation. However, real-world evidence suggests that the situation is more complicated than theoretical models predict.

The Phillips curve, a fundamental concept in economics, suggests a trade-off between inflation and unemployment. That is, higher inflation is associated with lower unemployment and vice versa. However, studies show that this relationship can be complicated. It tends to change over time, challenging the idea of a reliable trade-off between the two. Lesetja Kganyago, the Governor of the SARB, has pointed out that while economic growth creates jobs, inflation does not necessarily have the same effect, revealing the limitations of using monetary policy alone to tackle unemployment.

In reality, sustainable economic growth depends on various factors, including advancements in technology, increases in productivity, changes in demographics, and the accumulation of human capital. While monetary policy can help maintain low and stable inflation, its ability to drive long-term economic expansion is limited.

Looking at South Africa's monetary history, we see that despite pressure to adopt policies encouraging growth, the SARB has focused mainly on stabilising prices. This cautious approach and external pressures have made it difficult to use monetary policy independently to promote growth. Additionally, the relationship between monetary and fiscal policy further complicates the situation. Poor management of government finances undermines the effectiveness of monetary policy, making it harder for the central bank to control inflation. The increased public debt levels worsen this problem, threatening the delicate balance between fiscal and monetary policies.

Therefore, the complex interplay between monetary policy, fiscal policy, and external factors underscores the challenges of using monetary policy alone to promote economic

Despite efforts by the SARB to maintain price stability, administered prices have risen significantly since 1994, more than non-administered prices, which is exacerbating inflationary pressures. Administered prices refer to charges for services rendered by SOEs or those regulated by governmental entities which are not subject to market forces. These prices tend to rise faster than those determined by market forces, impacting inflation by contributing to higher overall price levels and exacerbating inflationary pressures. Examples of administrative prices include water and electricity tariffs, fuel prices, public transportation fares and public healthcare services. According to National Treasury's 2018 report on the topic, administered prices have increased by an average of 7.8 percent per year since 1994. Non-administered prices have increased by an average of 5.5 percent per year.

This means that administered prices have increased by approximately 150 percent since 1994, while non-administered prices have increased by approximately 75 percent during that period. The high administered prices translate to people facing significantly higher costs for essential goods and services which are offered by government entities, which can squeeze profit margins for businesses and reduce purchasing power for consumers. It also discourages investment and perpetuates a cycle of poverty among the most vulnerable segments of society.

[14] Forward foreign exchange contracts are agreements to buy or sell currencies at a predetermined future date and price.

[15] The Phillips curve is a graphical representation showing the inverse relationship between unemployment and inflation in an economy.

One of the primary reasons for the difference between administered and non-administered prices lies in the regulatory oversight and the nature of these markets. While regulation aims to mimic competition and ensure fair pricing, poorly managed government regulations have resulted in inefficient pricing structures.

A notable surge in administered prices is observed in South Africa's electricity sector. Electricity price inflation roughly doubled by 2023, increasing to 15 percent in August 2023. This continues a trend where the electricity price index has more than quadrupled since 2009 compared with a doubling in the headline consumer price index (CPI) over the same period. From 2007 to 2022, electricity tariffs increased by 653 percent. Part of the sharp increase in tariffs reflects the attempt to move to a more cost-reflective electricity tariff regime after decades of uneconomically low electricity prices. The trend of above inflation electricity price rises is expected to continue over the medium term. Risks to electricity price inflation are to the upside, particularly considering that Eskom has been running its diesel generators well above the NERSA-approved load factor, and its unbundling is taking place at a pace slower than continental drift.

How the DA will restore stability and resilience to South Africa's monetary policy landscape and economic environment

A DA government will **support the SARB** by providing a clear policy framework, fiscal discipline, and regulatory support to facilitate its effective functioning in maintaining monetary stability and fostering sustainable economic growth. One of the priorities of a DA government will be to reduce the number of sectors where prices are administered.

OUR BOLD SOLUTION

Reducing the Number of Sectors Where Prices Are Administered.

The DA recognises the significant impact of administered prices on inflation dynamics and the effectiveness of monetary policy. Therefore, we will undertake a comprehensive review of regulatory frameworks governing administered prices, focusing on ensuring that prices align with economic fundamentals and promote efficiency. The review will include measures to transition to more cost-reflective tariffs, particularly in essential sectors such as electricity, transport, and telecommunications. We will work closely with relevant stakeholders, including SOEs and regulatory bodies, to implement necessary reforms to mitigate inflationary pressures and support price stability.

The DA will further support the monetary landscape to ensure economic stability and growth by:

- **Solidifying the SARB's independence from political influence.** We will steadfastly resist all attempts to expand the bank's mandate through legislative amendments that could compromise its independence or dilute its focus on monetary policy objectives. We will further ensure ongoing transparency in SARB decision-making processes and regular communication with the public. We will also build strong relationships with foreign and domestic stakeholders to cultivate understanding and support for the SARB's autonomy.

[16] Non-administered prices are those determined by market forces rather than government regulation or intervention.

[17] Consumer price index (CPI) is the main measure of inflation used to track changes in the prices of goods and services.

- **Supporting a low-point inflation target on the condition of restored fiscal discipline**. The DA recognised the benefits of a low-point inflation target. However, any discussion on this should be postponed until fiscal trust is restored, as there is a need for credible commitment from fiscal authorities. Transitioning to a new inflation target could entail significant risks and uncertainties without such commitment. Therefore, it is essential to await a more stable fiscal environment before considering such a move.

- **Promoting broader economic reforms.** The DA will collaborate with other government agencies to promote policy certainty and fiscal discipline, especially regarding administered prices and inflation targeting. Furthermore, we will support initiatives that enhance productivity, competitiveness, and investment attractiveness and advocate reforms that strengthen trust in the South African economy, fostering long-term stability. These reforms span labour, industrial, fiscal, and trade policy, as discussed throughout this document.

- **Avoiding repeated foreign exchange interventions,** such as aggressively purchasing forward foreign exchange contracts using foreign reserves to protect the rand. It will involve developing clear communications to explain the limitations of central bank foreign exchange interventions in stabilising the rand. It includes establishing transparent guidelines for foreign exchange interventions and outlining specific economic triggers and expected outcomes. Moreover, we will focus efforts on long-term solutions to combat currency depreciation, like lower inflation differentials with our major capital trading partners.

- **Embracing controlled flexibility and managing volatility.** This means allowing the rand to remain a free-floating currency for our small but highly open economy and developing communication plans to manage public expectations regarding rand fluctuations.

Getting South Africans Working

The DA's values make the difference

The ANC's inability to reduce South Africa's **high unemployment rate** has left almost one-third of South Africans without the dignity and self-sufficiency that a job provides. The persistence of South Africa's unemployment levels results from **job-killing labour policies** and associated laws.

The government has pursued a **dogmatic commitment to minimum wage policies** and laws which lock South Africans out of the labour market, prioritise the interests of unions above the unemployed, and protect uncompetitive local industries. If these harmful policies remain in place, unemployment will remain unacceptably high.

The ANC's relationship with COSATU means that certain groupings can lobby government officials directly in a manner that the unemployed and small businesses cannot. This has locked in place **unproductive policies,** which **prioritise the interests of the unionised** and already employed over many struggling and voiceless unemployed citizens. This currently occurs in sectoral determinations, transmitted through bargaining councils, which effectively allows for those already employed and politically connected to determine the fate of the masses of unemployed individuals. These unions are also able to call strikes while being non-tax compliant, and these strikes often cause significant damage to property without sufficient consequences being felt by the responsible striking union.

The DA believes that our **labour policies must focus on growing jobs** to provide unemployed South Africans with a pathway out of poverty. A job provides vastly more dignity and financial security to a person than a government grant. In addition, increased employment results in lower overall grant spending, which frees up the budget for funds to be allocated to critical services to the public and improve infrastructure. The DA recognises that the key goal of economic policy should, therefore, be to increase employment levels by **making it easier for businesses to hire** more individuals. The DA also notes that our excessively burdensome labour regulatory regime has resulted in lower levels of employment across the country.

How government failures affect you

The national government has demonstrated that it prefers **keeping South Africans unemployed** and **dependent on the state for support** instead of adopting policies that would create employment opportunities for more South Africans.

South Africa has one of **the highest unemployment rates in the world**, leaving millions of South Africans **dependent on social grants.** This denies these individuals the dignity and self-sufficiency that work provides, as well as the opportunities to increase their skillset and productivity through work experience. High levels of grant payments further reduce the amount of public funds available for providing critical public services and upgrading essential infrastructure.

One of the major government policies which keep people unemployed is **the minimum wage.** Minimum wages provide security to those already employed while simultaneously **raising the barriers to employment for the unemployed.** A minimum wage is the least amount of money a person or business can legally pay someone to work in each sector. It also represents the minimum skill level required by someone to be employed in each sector, as companies cannot afford to pay people more than their productive value.

South Africa's current minimum wage policy attempts to reduce inequality by keeping the market price of labour artificially high. The supply and demand for labour follow the same market forces as other goods. When the supply of labour exceeds its demand, as is the case in South Africa, the price of labour will fall. While the intentions of South Africa's labour laws may be good, their outcomes are ultimately bad, as **fewer businesses are prepared to hire,** resulting in increased levels of unemployment, poverty, and inequality.

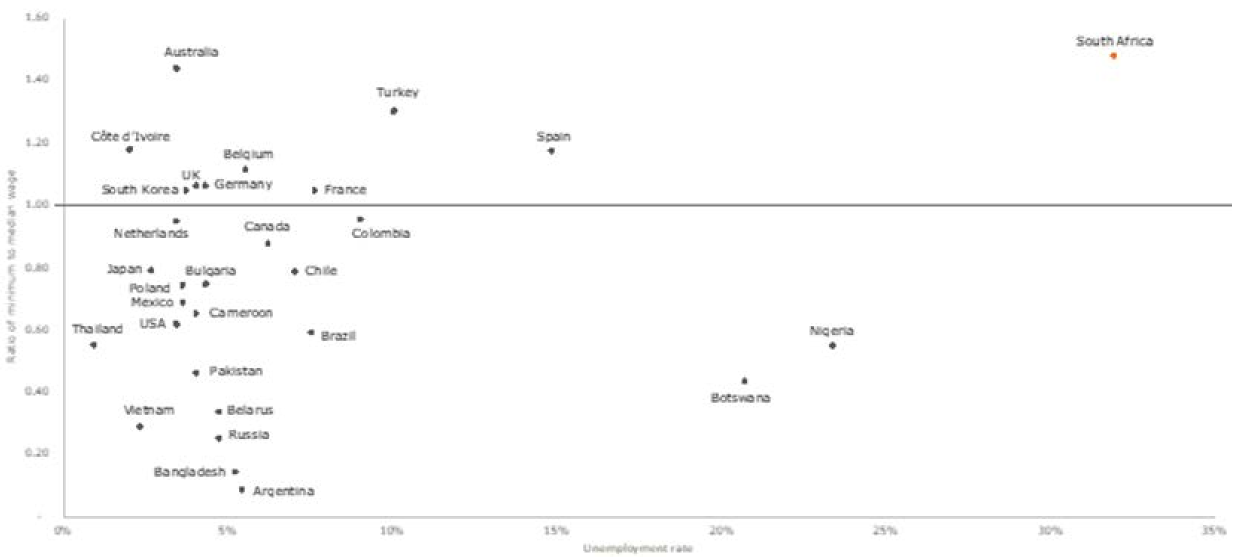
To be employed, you need to add more than R 4 412.80 in value to a company, or it is not worth employing you. According to Stats SA, 50 percent of South Africans live below the upper-bound poverty line of R1 417 per month. The minimum wage is R 4 412.80 per month, more than double the upper-bound poverty line. Many unemployed persons would be willing to work for less than the minimum wage; however, with this minimum in place, an employer will only hire a person if they believe they will receive more value than what they must pay the employee.

The minimum wage thus **hinders hiring** and results in a situation where **new jobs are not created.** Decent work is therefore afforded only to those who are currently employed. South Africa's **stringent labour policies** thereby deprive the unemployed of the dignity which work could provide. Someone earning R2 000 a month has five times the spending power of someone on the Social Relief of Distress Grant (SRD). This is enormous. Not only can they buy more, but they have the potential to learn new skills, be promoted, and earn more as their careers progress. Ultimately, the well-intentioned but misguided minimum wage policy denies individuals the opportunity to improve their lives by accepting a wage higher than a social grant, which would enable them to improve their skills through work experience.

Once a person has received their first job, they are more likely to be employed in the future, whereas someone who is not employed is likely to remain unemployed in the future. This is because employment allows an individual to gain new skills and, therefore, improves their employability.

A comparison of 30 countries demonstrates how South Africa's minimum wage levels are out of step with the rest of the world. South Africa's minimum wage is 148 percent of our median wage, which is significantly higher than 30 other reviewed countries. These 30 countries simultaneously have significantly lower unemployment rates than South Africa. This large gap between South Africa's minimum wage and the median wage makes reducing unemployment much more difficult.

Figure 6: South Africa has the Highest Unemployment Rate and the Highest Ratio of Minimum to Median Wage out of 30 Countries



Meet Sipho, a Victim of the Minimum Wage

Sipho matriculated last year. He did not gain entrance to university and looks for 'piece work' at the traffic lights. He receives a government grant of R350 per month, but there is a clothing factory up the road which apparently pays R2 000 per month for a trainee worker.

If the minimum wage for clothing factories is R3 896 per month,by law, Sipho is not allowed to take that job, and the factory offering it is doing so illegally. Sipho believes he is better off earning R2 000 than R350 and so applies for the job. Mostly it involves cleaning up and then some training on how to use the sewing machines.

After a year, Sipho and the other 500 colleagues working in the factory find the sheriff of the court outside the factory. The South African Clothing and Textiles Worker's Union (SACTWU) arrived with the sheriff to have the equipment in the factory sold on auction. This money will be used to pay the workers in the factory the difference between the wage they were paid and the minimum wage for that sector (R1 896 per month x 500 x 12 months = R11 376 000). They will have no further work, but finally they would have earned a minimum wage, if only for a short while.

No further clothing is made in that factory, and the factory owner, Mr Chong moves back to Taiwan, after losing everything. He does not set up another factory in South Africa. Mr Chong tells his friend Ms Yao about what happened. She was thinking of opening a clothing factory in South Africa but instead puts that factory in Lesotho and exports the clothing from there to South Africa.

Sipho is back at the traffic light looking for a 'piece job'. He still only receives R350 per month from the State.

If you were Sipho, would you rather have R350 per month or R2 000 per month?

The alternative to a minimum wage is R350 per month, not a higher wage as the government seems to assume.

Another issue within South Africa's labour environment is the **national government's close relationship with COSATU,** which has given unions an outsized influence over the policies of the government. At least five current ministers, including the president, were trade unionists before entering politics. This results in policies such as the minimum wage, which benefits those already employed, becoming non-negotiable within the government's policy suite.

Violent union action has also become concerningly frequen**t.** The economic costs of destroyed property during strikes have harmed South Africa's economy, with one example being the 2019 municipal workers strike in Durban, which caused R3.5 million in damages to infrastructure alone. Destructive strikes such as this have created strong disincentives for private companies to increase employment levels.

How the DA will assist South Africans to rescue themselves from unemployment

The DA will adopt labour policies that will increase employment for all South Africans. This includes recognising that the minimum wage is a significant contributor to South Africa's unacceptably high unemployment rates.

The DA has a bold plan to address the unemployment crisis and assist more South Africans to gain entry into the job market through our innovative Youth Employment Opportunity Certificate:

OUR BOLD SOLUTION

The DA's Youth Employment Opportunity Certificate

A DA government will introduce a Youth Employment Opportunity Certificate. This certificate will empower young people to break free from the constraints of the minimum wage, giving them better chances of finding jobs. The goal is to make it easier for young people aged 18 to 35 to move from not having a job to having one by offering flexible employment terms.

The certificate will be valid for two years and will be implemented to give unemployed individuals who have not been employed for 12 months or more the right to exempt themselves from sectoral wage agreements. This policy will make it easier for employers to hire those who have been out of work for long periods of time.

The DA will address the harmful effects of the minimum wage on job creation and empower the unemployed by:

- **Leaving the existing minimum wage in place without increasing it further.** This will allow inflation to gradually erode its value, thereby progressively providing more opportunities for individuals to enter the labour market at wages they find acceptable.

- **Amending the National Economic Development and Labour Council Act to explicitly include job creation and poverty reduction as one of the council's objectives will ensure that these factors are appropriately considered** in decisions concerning labour legislation and policy.

Additional space should also be created at NEDLAC for other bodies to enter and expand the number and diversity of voices heard, including new trade unions and business bodies. A lack of physical space should not be considered an impediment to the expansion of representative bodies at NEDLAC, as online platforms can be utilised, and information can easily be distributed online to anyone who is interested.

The DA will promote the principle of non-racialism in the labour market and implement policies which uplift those who are currently disadvantaged by:

- **Removing racial targets or quotas in the Employment Equity and Preferential Procurement Acts** and instead measuring progress towards achieving the SDG as an indicator of redress and development instead of race.

The DA will improve the accountability of unions and improve collective bargaining by:

- **Broadening the collective bargaining system** so that it is more representative of bargaining parties and exempting Small, Medium and Micro Enterprises (SMMEs) from the administrative extension of bargaining council agreements. Collective agreements extended throughout an entire industry, including small businesses, compel these enterprises to implement the conditions contained in these agreements. This poses a financial challenge for small businesses as they struggle to match the economies of scale enjoyed by larger counterparts.

Additionally, these agreements frequently overlook the financial viability of smaller entities. Exempting SMMEs from these obligations will make it cheaper and easier for them to hire people while allowing for company-level flexibility.

- **Requiring unions to make a deposit to an appropriate independent body before embarking on a legal strike action.** Any damage caused during a strike must first be reimbursed out of the deposits, and unions which repeatedly engage in destructive strikes must be required to deposit larger sums of money.

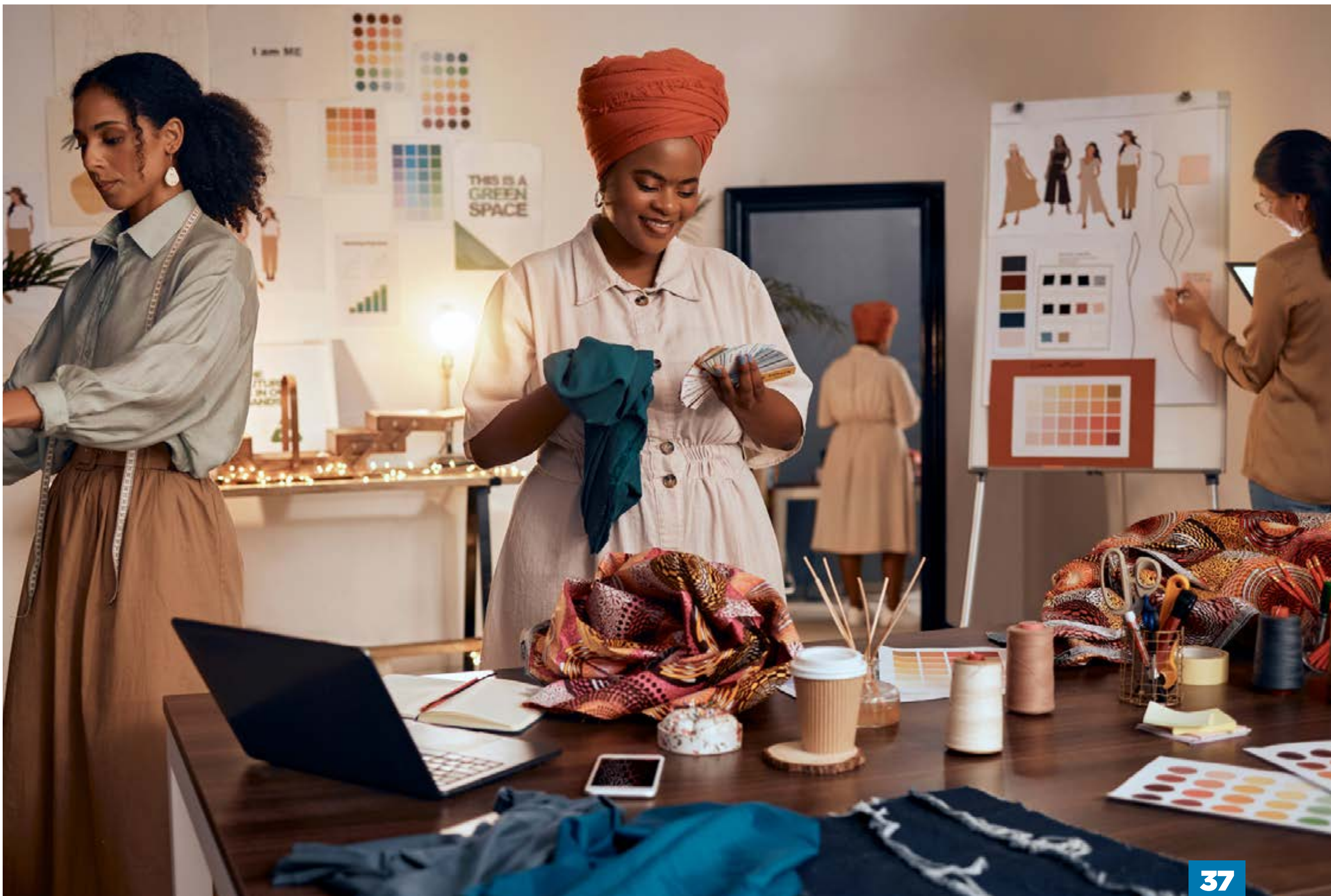
- **Requiring unions to publish their audited financial statements** each year for public scrutiny.

- **Requiring union officials to disclose their earnings** in their annual reports.

- **Preventing non-tax-compliant unions from calling a strike.**

Before implementing national changes in labour policy, the DA will:

Use Special Economic Zones (SEZs) to test labour policy changes, such as modification of tax and labour law policies within these zones. This will be done to determine whether policy changes are effective or if any unintended consequences may arise prior to being rolled out to the wider economy.



Creating Growth. Not Oligopolies

The DA's values make the difference

The current government's industrial policy is based **on picking winners and losers**. However, there is **no evidence that it has worked.** The national government's approach involves a belief that **more centralised control and enforcement is the solution** to industrialising our rapidly de-industrialising economy.

South Africa's existing industrial policy is more closely **linked to ideology than economics,** with little consideration given to the economic implications of policy decisions. Current industrial policy is characterised by a closed-shop approach that brings together competitors and rent-seekers. This results in policy outcomes being chosen by a **select few**, with no data or reports detailing the successes and failures of these industrial policy goals.

This policy approach also **fails to prioritise areas of focus** correctly, as demonstrated by the electricity crisis, water shortages, poor healthcare levels and rampant crime. A greater policy focus on the delivery of essential services, rather than trying to select particular industries to support, would improve our nation's business environment and international competitiveness to a greater degree than through current **misguided industrial policies.**

The DA recognises that unemployment and poverty can only be addressed if there is economic growth. This entails **getting the basics right,** including ensuring stable electricity and water supplies and effectively tackling crime. The DA will ensure its industrial policies target activities that promote or enhance infrastructure and innovation rather than specific sectors.

The DA further acknowledges that in a highly concentrated economy like South Africa, our industrial policies can create monopolies, reducing competition across the economy. **Policies must, therefore, balance the need to enhance competition** while also acknowledging the need for large companies that benefit from economies of scale.

The DA believes that localisation policies, while well-intentioned, have produced nominal benefits and, in some instances, are harmful. They create significant opportunities for rent-seeking and corruption while also introducing inefficiencies into an already unproductive economy.

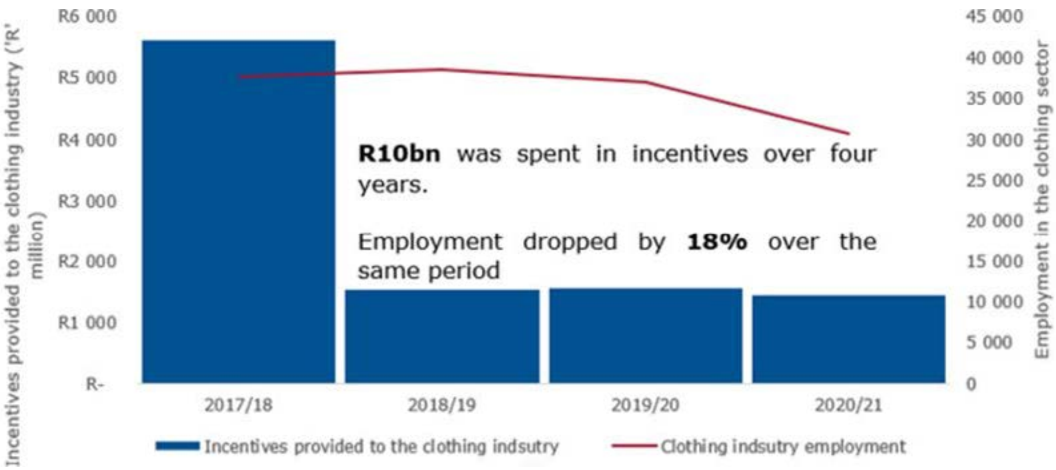
Finally, the DA will ensure that all industrial policy remains consistent over time. This will create a predictable business environment that encourages the private sector to increase its investment in the South African economy.

How government failures affect you

The current government's industrial policy broadly consists of localisation and import replacement. Trade interventions, therefore, directly target imports alongside interventions that seek to alter domestic behaviour in the private sector.

However, these policies have **failed to work and, in many instances, have caused significant harm.** One example is the textile industry, which benefits from an import duty of 45 percent and has approximately R10 million in subsidies provided to it between 2018 and 2021. However, employment in the sector still dropped by 18 percent over the same period, while the import duties on clothing have artificially elevated the cost for consumers. See Figure 7 below.

Figure 7: Clothing Incentives and Employment in South Africa, 2017 - 2021



The primary problem with the current government's industrial policy is that it **incorrectly assumes the government has access to better information than the market.** It also fails to recognise the threat of **rent-seeking private sector actors influencing policy decisions** in order to further their own interests.

The government has further demonstrated a **tendency to continuously change its policies, which creates uncertainty and discourages business investment.** This has contributed to low levels of economic growth, with forecasts of only 1.6 percent of GDP growth projected between 2024 and 2026. These low growth levels will be inadequate to address South Africa's unemployment crisis meaningfully.

It is also common for government support to have **no set time limit**, thereby becoming embedded in the business models of the beneficiaries. This is illustrated by the fact that 94 percent of tariff codes that attract duties have not been reviewed in over 20 years. Many of the sectors which receive support have **no natural competitive advantage** compared to foreign producers. This leads to many of these industries **being unable to survive without this support**, and their continued existence becomes dependent on the subsidies and import duties they receive. This forces taxpayers to support these sectors perpetually so that they can survive. As South Africa's budget becomes increasingly constrained, the continued support of these industries will become increasingly difficult to maintain.

The current government has been **unable to insulate itself from forces that prefer to invest money in lobbying the government** to benefit from industrial policies rather than invest in their operations to increase their competitiveness. As a result, our policies have, in many instances, created a **small number of very large winners** while impoverishing the rest of society. This has reduced South Africa's ability to innovate, which is keeping our economy uncompetitive with the rest of the world.

Many of the government's industrial policies have resulted in **legalised cartels**, as the parties to the master plans[14] do not represent all industry players. This has entrenched the beneficiaries of these master plans and created barriers that prevent competitors from partaking in the policy-making process.

Localisation policies also reduce competition in the market, which reduces the competitiveness of South African businesses against their international counterparts. Localisation policies also impose a price on exports, thereby forcing South Africa to become **increasingly inward-focused.**

[18] Master plans are social compacts with each sector of society, business, government and organised labour, which work towards improving their industrial capacities and sophistication, focusing more on export orientation, skills development, greening the economy and reclaiming domestic market space lost to imports.

As South Africa has a small domestic market, we are heavily dependent on global markets. However, an inward focus within this small economy makes it **difficult to generate growth** as there are simply too few businesses to supply goods and services competitively without the pressure of global competition.

South Africa's attempts to grow exports would be better served by improving productivity rather than focusing on localisation, which ultimately hampers our ability to compete in global markets. The government's binary view that exports are good while imports are bad fails to appreciate the crucial role that imports play in improving our own competitiveness and, by extension, our export levels.

Subsidies are also an important part of South Africa's industrial policy arsenal and can be broken down into two broad categories:

1. Once-off subsidies to incentivise a particular activity.

2. Perpetual subsidies, which provide benefits based on ongoing operational behaviour.

Perpetual subsidies can become difficult to reduce as they eventually form part of the operational budget of beneficiary companies. These types of subsidies are aimed at creating or retaining industries that would not ordinarily reside in South Africa were it not for the subsidy. An example of these types of subsidies includes our automotive and clothing industries, which would unlikely continue operations within South Africa if subsidies were reduced.

However, it is **not clear that these industries produce benefits** to South Africa that justify their high levels of subsidisation. If the subsidies are not yielding an economic benefit larger than the support provided, then their continued provision should be reconsidered.

One example is the number of subsidies provided to the automotive industry, with only 9 out of 42 national departments receiving a budget larger than the R31 billion in automotive subsidies provided in 2021. Furthermore, from 2009 to 2021, subsidies to the automotive industry grew by 130 percent, while employment grew by 15 percent.

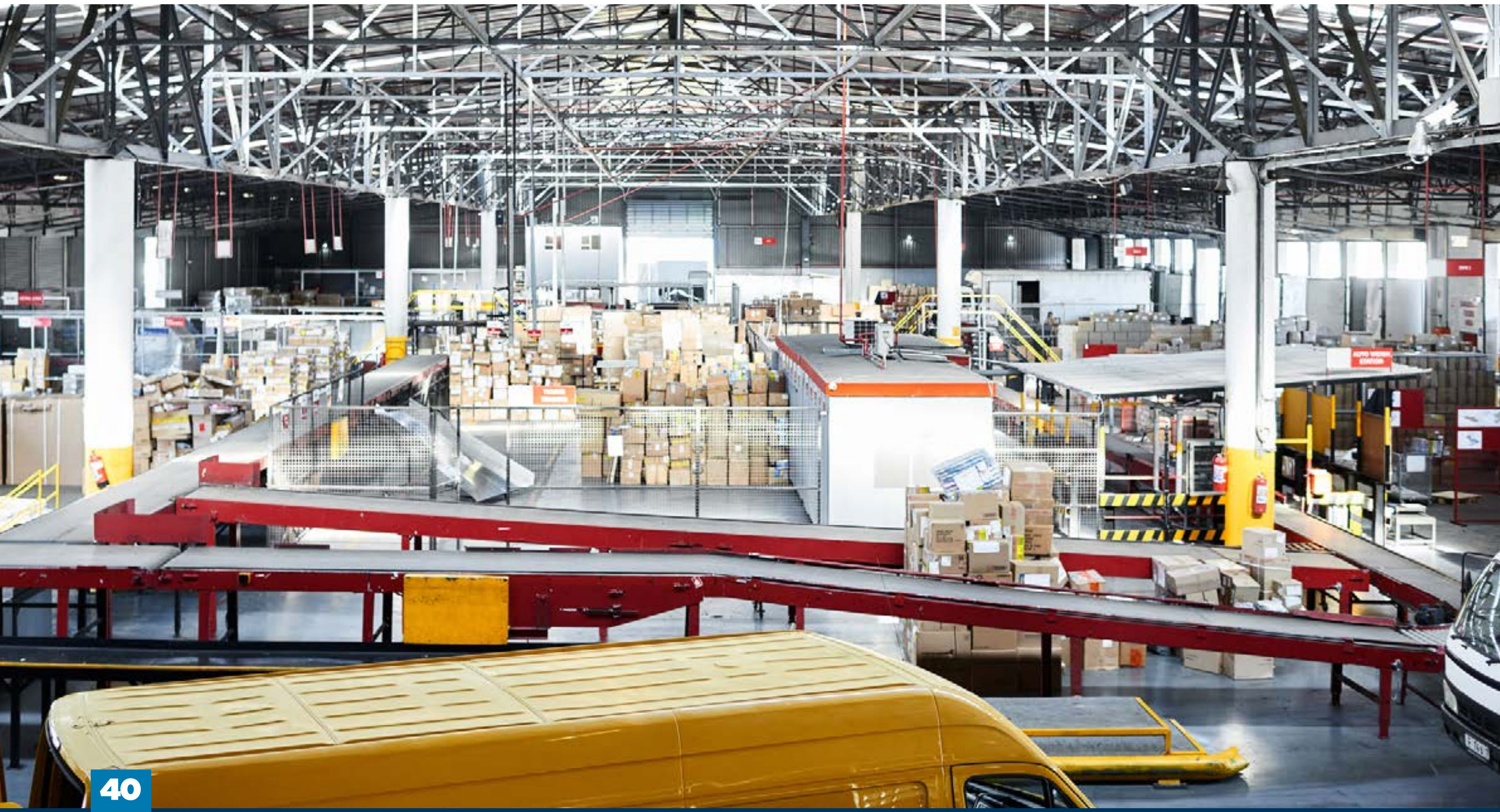


Table 1: Automotive Subsidies Compared to Departmental Budgets

Department	2021 Budget (R millions)	Auto subsidies as percentage of department budget
National Treasury	692,373	5%
Social Development	172,902	18%
Police	91,834	35%
Higher Education and Training	89,950	35%
Cooperative Governance and Traditional Affairs	83,652	38%
Transport	59,808	53%
Defence and Military Veterans	47,950	66%
Health	47,143	68%
Human Settlements	32,356	98%
Automotive subsidies (not really a separate item)	**31 840**	
Correctional Services	23,849	134%
Basic Education	22,722	140%
Justice and Constitutional Development	19,265	165%
Water and Sanitation	15,572	204%
Rural Development and Land Reform	10,425	305%
Trade and Industry	9,463	336%
Home Affairs	7,915	402%
Science and Technology	7,790	409%
Public Works	7,453	427%
Agriculture, Forestry and Fisheries	7,165	444%
Environmental Affairs	7,113	448%
Energy	7,045	452%
International Relations and Cooperation	6,553	486%
Arts and Culture	4,372	728%
Labour	3,295	966%
Parliament	2,365	1 346%
Statistics South Africa	2,272	1 401%
Tourism	2,262	1 408%
Office of the Chief Justice and Judicial Administration	2,142	1 486%
Mineral Resources	1,891	1 684%
Communications	1,513	2 104%
Small Business Development	1,488	2 140%
Sport and Recreation South Africa	1,091	2 918%
Economic Development	1,073	2 967%
Public Service and Administration	957	3 327%
Planning, Monitoring and Evaluation	927	3 435%
Telecommunications and Postal Services	923	3 450%
The Presidency	512	6 219%
Independent Police Investigative Directorate	315	10 108%
Public Enterprises	274	11 620%
Women	230	13 843%
Total	**1,498,200**	

In total, R335 million was provided in automotive subsidies in 12 years. The effective subsidy per employee has risen from R206 474 in 2009 to R320 670 in 2021, up 45 percent in that period.

This is a significant expenditure for a South African budget that is under severe strain. The South African government will need to evaluate the benefits of these subsidies closely, considering other pressing service delivery needs.

Electricity Subsidies During an Energy Crisis

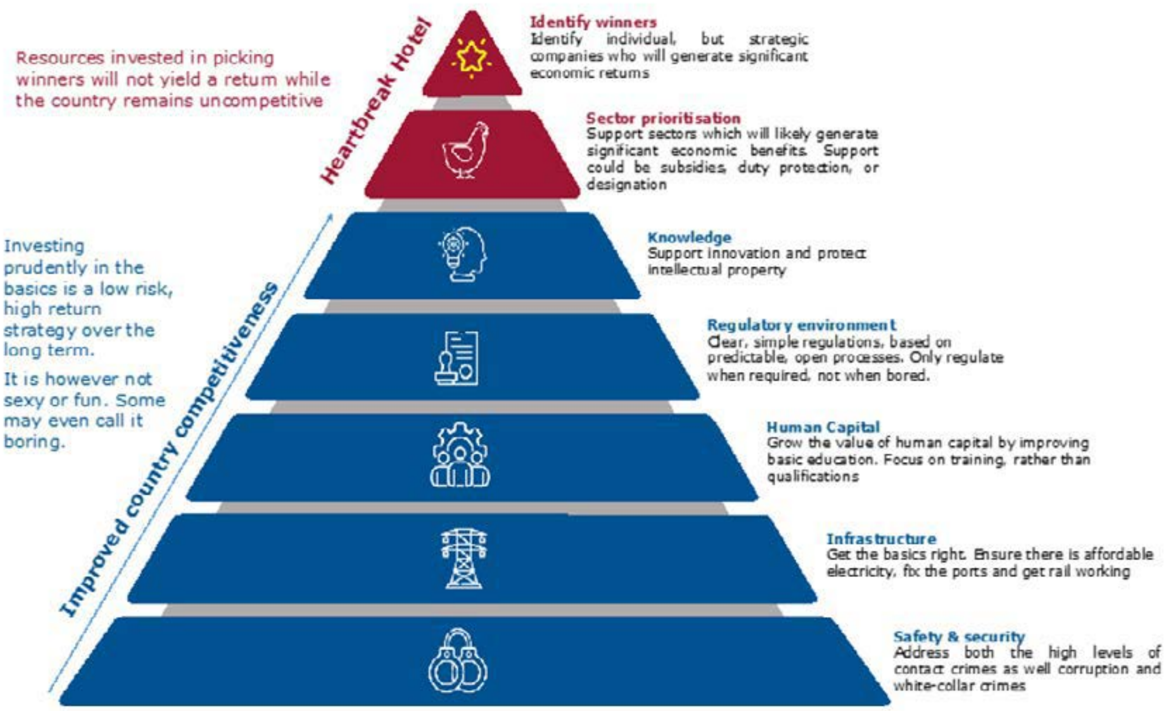
South Africa provides significantly discounted electricity to its unwrought aluminium producer. This amounts to an electricity subsidy by a nation currently undergoing an energy crisis. A substantial part of the cost of producing aluminium is electricity, thereby making this incentive highly material to the broader economy. As most of our aluminium is exported to the rest of the world, this amounts to an export of South Africa's electricity supplies at a time when there is a need for energy to be deployed across the rest of the economy. Ironically, South Africa now has mineral bounty being beneficiated. Almost all the raw materials used in this energy-intensive production process are imported.

It makes no sense to subsidise companies which are heavy energy users when we have a shortage of electricity. These policies create overconsumption of a scarce resource, and because the price is controlled, it cannot be adjusted upwards to reflect South Africa's energy shortage.

How the DA will improve South Africa's industrial policy

The DA has adopted XA Trade Advisors' policy pyramid, which considers the hierarchy of priorities when formulating industrial policy. Figure 8 below:

Figure 8: The DA's Industrial Policy Pyramid



Aligned with the XA Trade Advisors pyramid, we propose that by investing in safety and security, building and maintaining infrastructure, and ensuring quality education and training for citizens, South Africa's competitiveness will be improved, which will assist in making our exports more competitive in the global markets. The bottom steps of the policy pyramid are the most important and must be where the government focuses its attention

South Africa's industrial policy is usually focused on the top two tiers of the pyramid. The DA believes that government resources are better spent on getting the basics at the bottom of the pyramid functioning. While there may be theoretical arguments for interventionist industrial policy, it is unable to yield results while the bottom of the pyramid is not functioning.

Any money sunk into the top of the pyramid while the bottom is not functional is destined to fail as it will be spent on compensating for the failures on the levels below. When resources are expended at the top steps of the pyramid without the bottom steps being sufficiently developed, the resources flow downhill to the bottom steps where it is required. This is seen in South Africa when private companies utilise funds to secure their own electricity, water and security, as the state is not providing adequate provision of these essential services.

The support received from the government at the top of the pyramid is, therefore, better spent on fixing basic service provision while allowing private companies to focus on their core business activities, which will improve their competitiveness in the global economy.

The DA will, therefore, focus on getting the basics right in the policy pyramid by ensuring that laws are enforced, crime is reduced, infrastructure is built and repaired, and our education system is improved. To achieve these goals, the DA will utilise recommendations found within our Crime Prevention and Criminal Justice, Education, and Energy and Electricity Policies, amongst others.

While the DA believes that a focus on the bottom levels of the policy pyramid will yield better results than South Africa's existing industrial policy, the DA will still seek to reform existing industrial policy as follows:

National Government Failures: The Tourism Sector

Tourism in South Africa has the potential to create many jobs, notably in regions suffering from high unemployment rates. However, the industry has consistently been hampered by ineffective political leadership across different administrations. Additionally, it has been severely impacted by crime, which serves as a major deterrent to tourists. This combination of challenges undermines the sector's ability to capitalise on its job creation potential, especially in areas most in need of employment opportunities.

Examples of poor policy choices include Minister Malusi Gigaba's visa rules, which failed to assist the sector, and Minister Sisulu's R1 billion proposed sponsorship of an English Premier League football team. However, South Africa's tourism sector is still brimming with potential. Our nation possesses almost perfect weather and beautiful scenery. Few places in the world can match the experience South Africa offers at comparable prices.

South Africa's high crime rates have tarnished its reputation as a safe destination, deterring potential tourists. Furthermore, government policies have neglected safety and security, which are foundational to the tourism industry. Misguided regulations, such as stringent visa requirements, have further hindered the sector. Instead of implementing policies that undermine the industry, a focus on improving basic services could significantly enhance its attractiveness and growth.

OUR BOLD SOLUTION

Scrap Master Plans and Stop Interfering with Businesses

The DA will **end all master plans** and **cancel reciprocal agreements.** Instead, the private sector will be empowered to operate on its own terms by removing unhelpful and unnecessary government interventions. The DA recognises that master plans amount to central planning, where the government decides what the private sector should do. They also open the policymaking process to the influence of lobbying by large industry players.

When these master plans are coupled with reciprocal agreements, they only contract private businesses into behaviours that the government wants. There is little economic data to support that any of these plans are producing their intended positive outcomes.

The DA would seek to reduce industrial policy's control over the private sector and unleash businesses' ability to make their own decisions. Instead, the DA would focus its resources on improving service delivery issues at the bottom of the policy pyramid and not dictate how private industries should conduct their affairs.

The DA will improve the effectiveness of industrial policy interventions by:

- **Focusing its interventions on those which grow exports** rather than import replacement and localisation.

- **Targeting activities such as investment infrastructure and innovation**, and not specific sectors such as poultry, steel or textiles.

The DA will improve the development of new industrial policy by:

- **Focusing intently on the process, which will increase the chances of good outcomes and rapidly identify bad outcomes.** This will involve basing our industrial policy on evidenced-based research, monitoring, and evaluation. The DA will ensure that the economic implications of policy decisions are studied prior to implementation and that the outcomes after implementation are examined to determine if the intended goals are being met.

- **Ensuring open and transparent engagement with the private sector.** Engagement will ensure that all voices and interests are heard in the policy-making process rather than a select few representatives. This will form part of the iterative policy-making process.

The DA will ensure effective incentives and support for new industries by:

- **Defining cut-off dates for any programme**, as no incentive or protectionist policy should be implemented in perpetuity. This will prevent these interventions from becoming baked into the operational model of certain industries.

- **Ensuring all industrial policy remains consistent over time**, as this will create a predictable business environment that encourages the private sector to increase its investment in the South African economy.

- **Reviewing all incentive programmes every five years** and ending poorly performing programmes quickly to avoid further losses.

The DA will improve the utilisation of subsidy and import/export duties by:

- **Reviewing all import duties every three years** to ensure that duties do not become part of the business model of the protected industry. The DA will further remove all import duties on tariff codes which do not protect any local industry and only subsidise activities which have a clear potential of providing spillovers.

- **Removing all export duties,** which have been widely condemned by economists as they serve to discourage exporting activity. Duties such as those placed on uncut diamonds and scrap metal have failed to achieve their desired outcomes and have proven to be economically inefficient.

- **Removing electricity subsidies** while South Africa continues to experience electricity shortages. Subsidising electricity during a national energy crisis makes no sense, as these subsidies distort the true value of this scarce resource and encourage its overconsumption.

- **Providing incentives only to emerging industries rather than established industries** which have benefitted from support over a prolonged period.

The DA will investigate and adjust the interventions within the automotive sector by:

- **Reviewing all existing subsidies to determine whether they remain relevant to the sector and the broader economy.** This review will also examine whether the support is producing the desired economic outcomes.

- **Exploring a lift on the ban on importing second-hand vehicles** while considering the establishment of an age limit on imported used vehicles. This would produce significantly more economic activity through the introduction of cheaper cars than the maintenance of expensive local production facilities. To minimise disruption to the market, import duties on second-hand cars will be kept at the same level as those on new vehicles.

- **Removing import duties on selected business tools**, such as single-cab bakkies, will support small businesses, entrepreneurship, and economic activity, especially in rural areas.

- **Removing import duties on electric vehicles,** as they are slowing the uptake of this technology in South Africa. The DA will also consider introducing consumer subsidies to encourage the greater adoption of electric vehicles in our market.

- **Placing a greater policy focus on the retail arm of the automotive sector,** as it absorbs 77 percent of the labour in the sector. The retail sector has a greater ability to absorb unemployed individuals due to the lower skill levels it requires. Greater support provided to the automotive retail sector would result in increased employment levels across a wider range of skills than that of the manufacturing sector.

Enhancing South Africa's Global Competitiveness

The DA's values make the difference

For decades, the ANC has pursued **protectionist policies** aimed at protecting uncompetitive local industries by imposing high tariffs on imported goods. While these policies were initially intended to nurture domestic industries and create employment, they ultimately **stifled competition, innovation, and efficiency** within the economy. In practice, South Africa's objective to grow exports has been directly hampered by its focus on localisation rather than productivity.

Under the ANC government, trade policy has been superseded by industrial policy, which focuses on transformation and localisation instead of creating an export-orientated economy that boosts trade, generates growth, and creates jobs.

Black Economic Empowerment (BEE), political interference, and **preferential procurement** have resulted in the country lagging on the competitiveness barometer.[15] These measures restrict access to competitively priced goods and **limit international market opportunities** for South African businesses.

The DA's trade policy is based on the reality that South Africa's global competitiveness will be secured by focusing **on growing exports and strengthening our relationships with trading partners**. The DA will, therefore, eliminate distortive localisation policies that raise costs for consumers unfairly, enhance naturally competitive local industries, and develop an export-orientated economy that prioritises competitiveness, innovation, and generating economic growth. By focusing on these crucial aspects, South Africa can better position itself to thrive in the global economy.

An undue obsession with **localisation and restricting imports** will weaken South Africa's export capabilities, as such policies might limit access to essential materials and machinery needed to produce competitive products for international markets.

The Centre for Development Enterprise (CDE) concludes that **import substitution and industrialisation through localisation are unsuccessful,** whereas an export-orientated approach has been crucial to the success of global economic prosperity. Therefore, South Africa's future growth relies on growing exports—particularly non-traditional exports.

The ANC's obsession with **beneficiation and terrible mining policies** have put our mining industry at risk. Mining remains South Africa's largest exports, and its potential would be even more significant it not for **infrastructure collapse and the ruinous mining charters.** Moreover, beneficiation[16] is a poor allocation of resources which could better be invested into sectors likely to generate a positive economic outcome.

Despite efforts to protect domestic industries through import duties and other measures, the unintended consequences have led to an increased **reliance on imports, diminished industrial capacity, and a decline in investment**, with the share of manufacturing declining from 19.2 percent in 1994 to 11.8 percent in 2020.

[20] A competitiveness barometer is a tool used to measure and evaluate the competitive performance of countries globally.

Moving forward, the **DA will develop an export-orientated economy** that prioritises enhancing competitiveness, fostering innovation, and generating economic growth. By focusing on these crucial aspects, South Africa can better position itself to thrive in the global economy.

How government's failures affect you

Conceptually, localisation introduces a rather serious problem to the system. By its nature, **localisation reduces market competition, which reduces South African businesses' competitiveness**. Localisation policies thus **impose a price on exports**, forcing South Africa to become more inwardly focused.

Due to our **small domestic market** and a relatively poor population, we **depend heavily on global markets.** An inward focus in a small economy makes it very difficult to achieve economic development. This approach leads to **higher consumer prices** in South African industries, potentially **hindering economic growth** and **limiting job creation** in the long run. This is particularly evident in the automotive industry, where the duties on cars stand at 25 percent, meaning that South Africans pay 25 percent more for their vehicles than the same car sold elsewhere in the world, if there were no duties.

The government's trade policy has not created jobs. For example, despite the protection and subsidies given to the clothing industry, employment has halved since 2009, and clothing is 45 percent more expensive because of the duties. Over four years, between 2018 and 2021, the South African government allocated more than R10 billion in incentives towards clothing manufacturers, yet employment within the sector continues to decline.

In recent years, efforts to adopt more liberal trade policies, including the signing of regional and bilateral trade agreements, such as the South African Customs Union and the European Union Economic Partnership Agreement (SACUM-EU EPA), have been limited by challenges such as poor implementation and bureaucratic hurdles and have ultimately been ineffective. **Overall, South Africa's trade agreement utilisation is poor,** with only 14 percent of imports utilising trade agreement preferences. Because the government wants to export and never import, our trade agreements are often viewed as a threat rather than an opportunity.

The DA recognises that **importing goods can be advantageous**, especially when they offer better **affordability for consumers and when local production capacity is insufficient.** This underscores the need for a balanced trade policy approach that acknowledges the advantages of imports while also supporting domestic production and export efforts.

The International Trade Administration Commission (ITAC) **has failed to conduct thorough reviews and adjustments to protectionist measures**. Companies are increasingly opting out of using duty change instruments precisely when their use should be expanding. 94 percent of all products which attract a duty have not had their duty reviewed in over 20 years. This lack of proactive assessment and adaptation undermines the effectiveness of our trade policies and hampers the competitiveness of South African industries.

The government's **inability to increase its competitiveness and production at a global scale** has led to import patterns moving in the wrong direction. South Africa imports more finished goods, fewer intermediate goods and less capital equipment. This has led to a process of de-industrialisation, which has cost the South African economy an estimated 25 percent of its national wealth.

[21] Beneficiation is the process of improving the economic value of mined ore by removing impurities or enhancing its properties.

South Africa's disproportionate reliance on imports can be attributed to a combination of factors. These challenges include **inadequately formulated labour laws, deteriorating infrastructure, and systemic corruption.** The resulting lack of competitiveness has hindered domestic production and compelled South Africa to depend heavily on imports to meet its consumption needs. To address this issue effectively, it is imperative to undertake measures aimed at enhancing competitiveness in the South African economy.

One viable approach to achieving this goal is to negotiate and implement strategic trade agreements. By forging mutually beneficial trade agreements with other countries and economic blocs, South Africa can leverage its strengths, access new markets, and stimulate economic growth.

Trade agreements offer several advantages in this regard. They **provide opportunities for South African businesses to expand their export markets**, increasing the demand for locally produced goods and services. This expansion can revitalise domestic industries and contribute to the recovery of the industrial sector. Part of the role of government around trade agreements is to educate the business sector on the benefits of trade agreements and ensure the affected sectors use the agreements to the best effect. South Africa's anti-import bias often misses imports' critical role in a competitive manufacturing sector.

When tariffs or duties are embedded for long periods, they foster an uncompetitive environment. Duties are no longer about supporting infant industries; instead, they have become part of the business model of local producers. Businesses simply budget for the duties and stop focusing on competitiveness. Instead, they build a business entirely dependent on the government.

The sectors in South Africa that have received the most government support are **predominantly those lacking a natural competitive advantage within the country.** These sectors include steel production (ArcelorMittal and mini-mills), aluminium manufacturing (South 32 and Hulamin), and the automotive industry. Moreover, none of these industries are significant employers, further exacerbating the economic inefficiency of the support provided.

If trade policy were liberalised, South Africa would have a competitive steel fabricating sector. 37 002 steel sector jobs were lost from September 2009 to September 2023, and although not all of the jobs were lost because of the protectionist policies, they certainly played a factor. To gain these back and grow even more, it will require reversing the current stance on protecting the upstream industry.

Consequently, **unemployment rates remain high**, intensifying poverty and inequality. Focusing on protecting domestic markets instead of fostering export-oriented industries has limited **opportunities for businesses to expand into international markets**, stunting overall economic growth and prosperity for South Africans.

How the DA will rescue the economy by developing an export-orientated economy

The DA will enhance economic competition, increase employment and unleash enterprise by promoting an export-focused trade policy.

An export-focused trade policy offers compelling long-term economic benefits primarily because it necessitates competitiveness on a global scale. When companies engage in exporting activities, they must meet international standards and compete effectively in global markets. An export-oriented approach fosters a natural environment where businesses must continuously innovate and improve to succeed globally. To achieve this objective, the DA will implement measures to boost the competitiveness of domestic industries in global markets, streamline export processes, lower trade barriers, offer financial and technical assistance to exporters, and cultivate beneficial trade alliances with other nations. Through these initiatives, the DA will seek to maximise opportunities for South African businesses to thrive internationally, thereby fostering economic growth and prosperity within the country.

The main objective of an export-focused trade policy is to expand the country's export base, increase export volumes, diversify export products and markets, and ultimately improve the balance of trade. By prioritising exports, South Africa will leverage its comparative advantages, generate foreign exchange earnings, create jobs, attract investment, and stimulate overall economic activity.

OUR BOLD SOLUTION

Removing Designated Goods And Industries From Our Trade Policy Approach

The DA government would remove designated goods and industries from South Africa's trade policy approach to foster economic growth and job creation.

Transitioning away from import substitution priorities in trade policy is crucial for promoting a more diverse and competitive economic landscape. However, the government's current policy is to 'localise' the manufacturing sector by designating multiple products, such as processed vegetables, furniture, and solar photovoltaic components, for 100% local content.[1] These plans harm the economy, hamper international trade relations, and ultimately impact the cost that consumers have to pay for manufactured goods. The focus should be on removing barriers to market entry and encouraging innovation and entrepreneurship. By prioritising the removal of designated goods and industries, South Africa can unlock potential for economic development across various sectors, supporting SMMEs and enhancing overall economic competitiveness.

Furthermore, the DA will reform trade policy to ensure that South Africa can compete in global markets by:

- **Streamlining International Trade Administration Commission of South Africa (ITAC)[17] investigation processes** and supporting industries in leveraging rebates to bolster their international competitiveness and expand export markets. The DA will address the shortcomings of the ITAC by ensuring thorough reviews and adjustments to protectionist measures. Currently, there is a concerning trend where companies choose not to utilise duty change instruments when their use should be expanding.

- **Ensuring effective duty protection principles of competitiveness, innovation, and efficiency.** Duty protection should promote competitiveness, innovation, and efficiency rather than propping up inefficient monopolies. Favouring the downstream manufacturing sector over upstream industries can have significant benefits, particularly regarding job creation and economic value generated. For example, while the primary iron and steel sector employs fewer than 20, 000 people in South Africa, the downstream metal fabricating industry employs over 200,000 individuals. This underscores the importance of prioritising downstream industries, which contribute more significantly to job creation and economic output.

- **Rectifying duty-free mechanisms**, which will encompass:

  - **Clearly articulating the tariff protection mechanisms.** The rules around what will and will not be protected must be clearly articulated so companies know where they stand.

  - **Ensuring that the process of assessing the merits of a duty change is non-political.** The greater the level of political interference, the greater the chances of a corrupted process.

  - **Ensuring the application process for a tariff or duty is transparent and predictable.** An applicant should know how long it will take to arrive at a decision and have access to the records making it.

[22] The designated list includes sectors and products chosen by the government for special treatment in its 'localisation' plans, requiring some products to be 100% locally produced.

- ◦ **Providing duty protection for new activities and investments** (infant industries), where required for limited periods.

- **Allowing businesses to be subject to market mechanisms for their survival and sustainability rather than permanent protection.** Do not provide protection for permanent infants. Business failures are an important part of the market system. If we keep protecting businesses that will never be competitive, we are diverting resources away from more productive activities.

- **Focusing on being more competitive and growing exports.** Protection, when given, should be provided for limited periods and should focus on finished goods, not intermediate or capital goods. A focus on exports is a focus on competitiveness because there is no protection outside South Africa's borders. Companies have to be good at what they do rather than spending their equity on lobbying politicians for ever-increasing amounts of protection.

- **Allowing export rebates and drawbacks to function as they should to help exporters be more competitive.** To bolster exporters' competitiveness, it is imperative to enable export rebates and drawbacks to operate unhindered, facilitating the claiming of refunds or exemptions on taxes, duties, or fees paid on inputs used in production. This measure reduces production costs and enhances the price competitiveness of exported products. By providing financial relief to exporters, governments can foster increased participation in international trade, resulting in higher export volumes and improved trade balances.

- **Removing all export duties.** Export duties, widely condemned by economists, discourage exporting activities and hindering the competitiveness of local industries in the global market. For example, South Africa's imposition of such duties on uncut diamonds and scrap metal failed to achieve the desired outcomes and proved economically inefficient. The imposition of export duties on scrap metal, along with challenges faced in attempting to impose similar duties on iron ore and chrome ore, has led to economic losses, closure of manufacturing operations by companies like ArcelorMittal, and concerns over negative impacts on mining sector competitiveness and resource allocation.

- **Reviewing all import duties every three years** to ensure that they do not become part of the protected industry's business model. Most of ITAC's reports in the last decade note that increased duties should be reviewed after three years. This is only done by exception, meaning duties become embedded into the system. When this happens, beneficiary companies depend on tariff support and reduce investment in the business. When duties become embedded for long periods, they foster an uncompetitive environment.

- **Removing all import duties on products not made locally.** If the goal is to replace imports, protecting local manufacturing may seem logical, but it often leads to low innovation and competitiveness. Protecting monopolies like ArcelorMittal South Africa can be counterproductive; importing cheaper steel might benefit South Africa and foster downstream[18] competitiveness.

- **Cancelling all reciprocal agreements relating to import duties and ceasing the requirement for such agreements in future tariff investigations.** Reciprocal agreements compel an applicant for a duty change to commit to specific behaviour over the three years after the duty has changed, such as job creation or requiring the applicant to commit to increasing capital expenditure, attracting foreign investment, or supporting the growth of small and medium-sized enterprises and other examples like infrastructure development projects or adopting new technologies. If they refuse to sign, the concession will not be given.

[23] The International Trade Administration Commission of South Africa (ITAC) is a regulatory body responsible for administering trade remedies, promoting fair trade practices, and facilitating international trade in South Africa. ITAC plays a crucial role in safeguarding domestic industries, enforcing trade regulations, and promoting economic development through trade policy measures.

The DA will strengthen South Africa's position in international trade by:

- **Identifying intermediate goods which could make our manufacturers more competitive** and find the countries producing those. Sourcing these goods competitively can optimise production costs, improving our price competitiveness in the global market. This will also assist in fostering strategic partnerships with producers of key intermediate goods, which can lead to knowledge sharing and innovation and further propel our manufacturing sector forward.

- **Identifying the products we produce competitively and the markets that consume those products** in large and/or growing volumes is important. It is also important to identify products produced competitively by South Africa and the markets where these products are currently in high demand. By leveraging the strengths and competitive advantages of South Africa's domestic industries, the DA aims to facilitate increased export opportunities and promote international trade relations.

The DA will leverage trade agreements to the benefit of South Africa by:

- **Expanding economic cooperation and integration between the Southern African region and the European Union.** The Southern African Customs Union and European Union Economic Partnership Agreement (SACU-EU EPA) represents a pivotal trade agreement between the SACU member states (Botswana, Eswatini, Lesotho, Namibia, and South Africa) and the European Union (EU). Signed in 2016, this agreement aims to promote trade and development between the two regions by facilitating market access, enhancing cooperation, and fostering economic growth. The EPA seeks to modernise and deepen this relationship by addressing contemporary trade challenges and opportunities. The SACU-EU EPA presents significant economic opportunities for South Africa, particularly through preferential access to the European market. By championing this agreement, the DA will harness these opportunities to stimulate export growth, attract investment, and foster job creation, thereby driving economic development within the country.

- **Working with our trade partners to ensure trade agreements are beneficial to both parties.** For example, we will work with the United States of America (USA) to replace the African Growth Opportunity Act (AGOA) with a free trade agreement with the USA. An FTA will reduce or eliminate tariffs and other trade barriers on South African exports to the US market. This expanded access would translate to increased sales and profits for South African businesses, boosting economic growth and job creation and attracting more foreign investment from the US.

- **Ensuring adequate dispute resolution rules in the agreement and comfort that they will reliably be enforced.** Agreements like the Southern African Development Community (SADC) have yielded suboptimal outcomes, in large part because there is no mechanism to resolve disputes.

- **Avoiding agreements where the counterparty does not have a market economy.** Agreements with China, for example, are fraught with risk because of the massive subsidies they provide to their industries. These subsidies distort market competition and can disadvantage businesses operating in countries with market-based economies. Therefore, caution should be exercised to mitigate potential adverse effects on domestic industries and ensure fair and equitable trade relations.

- **Giving preference to preferential trade agreements (PTAs)** rather than free trade agreements (FTA), where the overlapping opportunities are limited. This approach is beneficial for enhancing exports because PTAs offer tailored benefits and market access advantages to

[24] Downstream refers to industries or sectors that are further along in the production process or value chain.

member countries, thus providing a more focused and targeted platform for promoting exports. By prioritising PTAs, countries can capitalise on specific market opportunities and gain competitive advantages in key sectors, ultimately facilitating export growth and boosting economic prosperity. For instance, The Far East[19] is a good market for our agricultural products. South Africa is already a competitive producer of subtropical fruits, citrus, nuts, and berries. PTAs within this space could significantly boost a labour-intensive segment of the economy.

The DA will **unlock the potential of mining** as a pillar of South Africa's Export Strategy. **Mining is a crucial sector in the export basket of goods** and the DA will ensure that mining exports continue to increase. 52 percent of all South Africa's exports are minerals, precious metals, and stones, up from 44 percent in 2010. It should have been considerably higher; however, poor mining policy and inefficient ports have impeded its growth. Despite these challenges, the mining sector remains the fastest-growing export category, doubling its contribution to GDP over 14 years since 2010.

The DA will improve our mining output by:

- **Removing BBBEE equity requirements from mining policy would boost investment in the sector,** which currently falls short of its potential despite abundant mineral wealth underground. BBBEE policies contribute to the underutilisation of this strategic advantage. By removing barriers to entry, such as rigid equity ownership structures, the mining sector could become more agile and responsive to market dynamics, enabling it to capitalise on emerging opportunities and navigate challenges more effectively.

- **Ending the destructive debate around land expropriation without compensation through constructive dialogue and consensus-building among stakeholders**. Mining investors need policy certainty for decades into the future. If this is not forthcoming, investor appetite will continue to decline.

- **Improving chieftaincy-community[20] relations within mining communities.** The rules which allow mining companies to give the community proceeds to the Chiefs in the region need to be amended. The DA recommends that these benefits should be placed into a trust and professionally managed. The distribution of proceeds from mining activities in chieftaincy-community relations is a complex issue, especially regarding equitable resource allocation and community empowerment. Traditionally, mining companies have directly provided benefits to local chiefs in some African regions, who then decide how to allocate them within their communities. However, this system has faced criticism for fostering corruption and neglecting the broader community's interests. The lack of transparency in managing these funds raises concerns about accountability, corruption, and the lack of economic benefit derived by communities.

- **Improving the mining sector's efficiency requires urgent attention to the mining cadastre system.** South Africa's current system, SAMRAD, established 16 years ago, faces significant inefficiencies, with a backlog of over 5,000 applications. A functional and transparent cadastre system is essential for monitoring exploration activities and attracting investment. Off-the-shelf cadastre systems are readily available solutions to streamline the application process and improve transparency, thus unlocking the full potential of the country's mineral resources.

The DA will optimise Special Economic Zones (SEZs) performance to generate economic growth and create jobs. A SEZ is a designated geographic area that provides tax incentives

[25] China, Japan, North Korea, South Korea, Mongolia, and Taiwan
[26] Chieftaincy-community refers to a traditional leadership system within a local community, often headed by a chief or tribal leader.

and allowances to businesses within it. The SEZ Act states that the Minister of Trade, Industry and Competition (DTIC) may determine and implement support measures for operators and businesses operating within SEZs, including incentive schemes. The SEZ Act also allows any government organ to create other incentive schemes to support companies located in an SEZ.

Our SEZs should be used as laboratories to test new economic ideas, but instead, they have become industrial parks, often poorly occupied.

The DA will ensure the sustainability and continuity of beneficial SEZs by:

- **Evaluating all existing SEZs.** Specific SEZs generating a net economic profit will be continued, and the lessons from those SEZs will be adopted as broader policy. The ones that deliver little value will be closed, and the assets will be sold off to defray costs. Special Economic Zones (SEZs) have the potential to provide economic benefits while the rest of the economy remains restricted by rules and regulations.

The following are opportunities that the DA will explore in government:

Example 1: A clothing manufacturing SEZ

Considering the significant loss of clothing companies and jobs in the textile industry, setting up a SEZ focused on the clothing sector makes sense. Such an SEZ will allow only producers of clothing and textiles into the area and would offer the following benefits:

- A phasing down of the import duties on textiles;
- A minimum wage which is locked in at the level it is now and cannot be raised;
- An exemption from bargaining council sectoral determinations unless the company is a member of the bargaining council; and
- Automatic work permits for any foreign owners and management of the clothing factories.

To limit the risk of every company wanting to relocate into the clothing SEZ, this SEZ would require all tenants to export at least 50 percent of their production outside of SACU to qualify for the benefits. It could also require a minimum level of new investment to qualify.

Example 2: A steel fabricating SEZ

Given the importance of our steel fabrication sector and the impact of the upstream protection on these companies, this could be an attractive option. Such an SEZ will be close to a functioning port and would be export-focused. In this SEZ, all tenants would:

- Pay no customs duties on imported steel;
- As with clothing, the minimum wage would be locked in at its current level;
- Receive an exemption from the bargaining council sectoral determinations;
- Access subsidised port dues to compensate for the rent-seeking by the Portnet monopoly if/until the port is privatised; and
- Receive automatic work permits for any foreign owners and management of the clothing factories.

Be Pro-Market, Not Pro-Business

The DA's values make the difference

The ANC's **inability to ensure market efficiency and effectively regulate monopolies** has resulted in **anti-competitive behaviour being tolerated and actively encouraged.** The ANC has conflated the purpose of competition policy with its broader industrial policy objectives. The primary aim of competition policy should be to ensure market functionality; however, this goal has been overshadowed by the ANC's additional socio-economic aims, such as localisation and black economic empowerment (BEE). Consequently, sectors have become concentrated,[21] with the dominance of state-owned enterprises (SOEs), which is exacerbating economic inequality and stifling competition.

The DA believes that **competition policy should solely focus on competition issues** such as market concentration, market power, and protecting consumers' interests, while **socio-economic or public interest goals should be left to industrial policy.** This separation is necessary to ensure clarity, coherence, and effectiveness in addressing both competition and socio-economic goals without compromising on either.

The DA aims to lead South Africa towards a more competitive and dynamic economy by **getting competition policy back on track** by ensuring markets work well and competition policy benefits everyone.

How government failures affect you

The government's shift in competition policy towards industrial goals has led to **highly concentrated sectors, hindering competition, business growth, and economic growth in South Africa.** This shift has led to a lack of focus on addressing anti-competitive behaviour, creating highly concentrated sectors. This is illustrated in the South African Economic Concentration Report by the Competition Commission (the Commission). The report highlighted that certain industries, including ICT, energy, financial services, food and agro-processing, mining, pharmaceuticals and transport, were highly concentrated. For instance, in energy, the top three firms generate 50 percent of wind and solar power, and the top three refineries and Liquefied petroleum gas (LPG) suppliers have a market share of more than 65 percent. The concentration in these sectors limits competition and consumer choices, potentially leading to higher prices and fewer opportunities for smaller businesses to enter the market, thus limiting economic opportunities for South Africans.

Moreover, the government's creation of a **complex regulatory landscape** within its competition policy further undermines the competitiveness of businesses, resulting in increased barriers to entry, reduced market efficiency, and hampered economic growth. The inclusion of public interest considerations in South Africa's Competition Act (No. 89 of 1998) (the Act) creates regulatory challenges by combining traditional competition objectives with broader industrial policy aims. This dual emphasis creates inconsistency and unpredictability, particularly in assessing mergers based on both public interest and competitive impact. Consequently, this framework impedes competition, business expansion, and economic progress by sustaining market concentration.

Regulatory complexities stem mainly from the application of Section 12A of the Competition Act,

[27] Concentration within industries or sectors of the economy refers to the tendency for a smaller number of large companies to dominate the market, often resulting in increased market power for those few companies.

which creates **uncertainty for businesses regarding merger regulation.** Section 12A mandates the Commission to evaluate mergers not only based on their potential impact on competition but also on broader public interest considerations. These considerations include various socio-economic factors, such as their effects on specific industrial sectors, regional employment levels, and the ability of small and medium-sized enterprises (SMEs) and entities owned by historically disadvantaged persons to participate in the market.

Integrating these public interest considerations into the competition policy framework creates coherency and predictability issues, as it requires the Commission to navigate between two potentially conflicting sets of objectives: promoting competition and addressing broader socio-economic goals. This dual mandate introduces ambiguity and subjectivity into the merger evaluation process, making it challenging for businesses to anticipate regulatory outcomes and plan accordingly. Consequently, businesses face increased uncertainty regarding merger approvals, hindering investment opportunities and potentially stifling economic growth.

The Burger King and Grand Parade Investments merger debacle illustrates the challenges surrounding the application of public interest considerations. The Commission rejected the merger on the grounds that it would not advance the transformation objectives outlined in the Act, particularly regarding BEE initiatives.

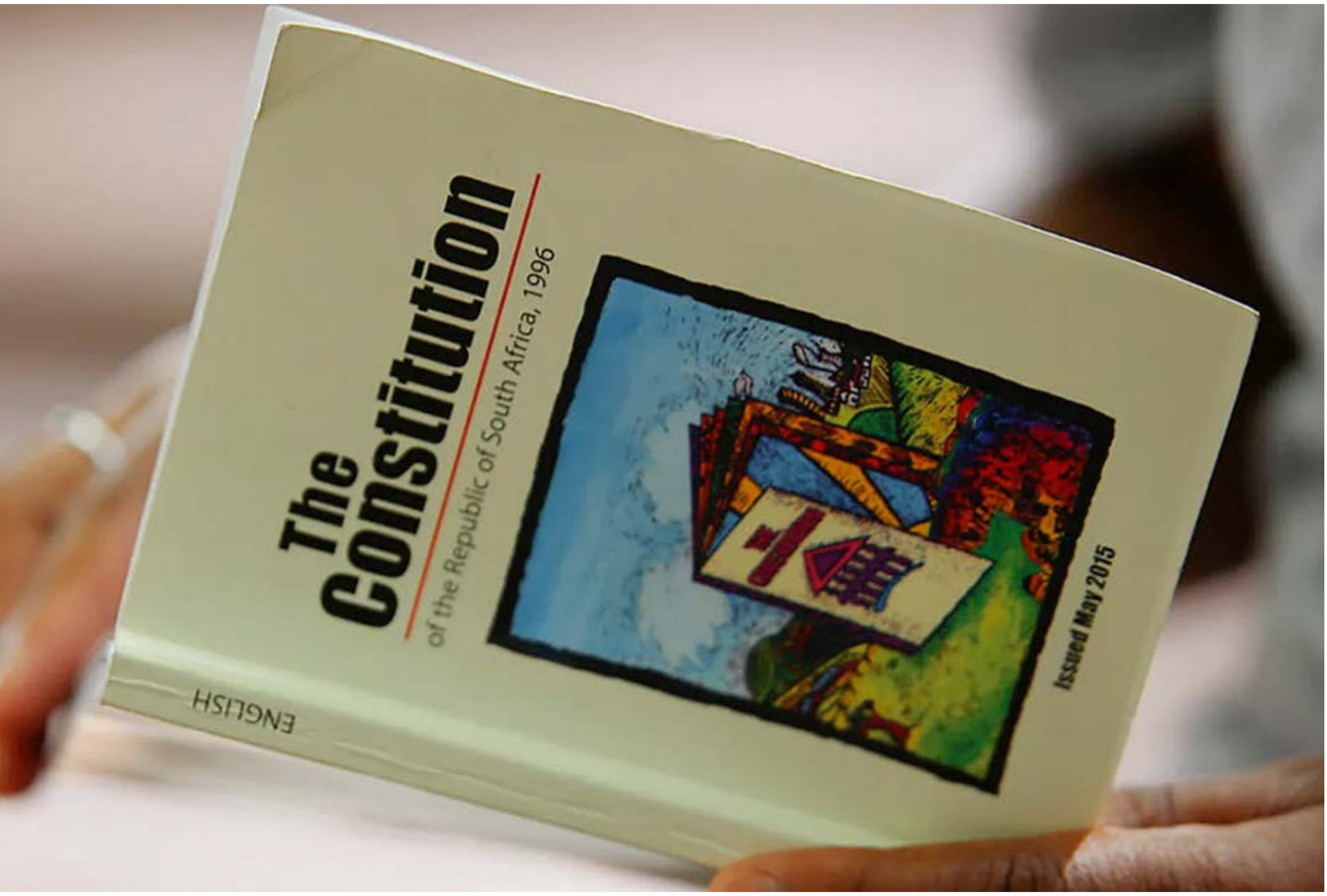
The Burger King, Grand Parade Investments Debacle

Emerging Capital Partners (ECP) Africa aimed to acquire Burger King (South Africa) (BKSA) and Grand Foods Meat Plant (Pty) Ltd (Grand Foods) from Grand Parade Investments (GPI). GPI, a black-controlled entity, owned the target firms (BKSA & Grand Foods), with historically disadvantaged persons (HDPs) holding over 68 percent ownership. However, ECP had no HDP ownership, which led to the Commission rejecting the acquisition. The decision was based on the violation of the transformation goal outlined in section 12A (3) of the Act, deemed not in the public interest.

The decision sparked a wave of controversy and criticism from various stakeholders. Business Unity South Africa (BUSA) questioned the use of merger regulation as a tool to advance transformation goals, suggesting it encroached on the domain of the BBBEE Commissioner. The Helen Suzman Foundation criticised the decision's logic, warning that it would continue to lock in HDP investors and deter future investments, ultimately impeding economic transformation.

The Government's 'public interest' considerations directly punished the shareholders of GPI for being black.

[28] Minister of Trade, Industry and Competition



Furthermore, **political meddling by politicians in merger approvals creates unnecessary red tape and uncertainty.** For example, under the guise of public interest considerations in section 12A of the Act, the conditions from the Minister's[22] office introduces uncertainties in the merger approval process. These uncertainties stem from the lack of clarity regarding the specific criteria used to assess public interest and the extent to which they should influence merger decisions. This lack of clarity leads to inconsistent interpretation and application of public interest factors, contributing to unpredictable decision-making and undermining the Commission's autonomy as an independent regulatory body. Furthermore, large mergers needing approval from both the Tribunal and the Minister, as per section 14A, reinforce Ministerial influence, possibly compromising efficiency and impartiality by subjecting merger decisions to additional layers of scrutiny and potential political considerations.

The introduction of **additional regulatory layers,** such as the proposed national security requirements under section 18A, further complicates the merger approval process. The expansion of regulatory oversight by involving the President and his appointed committee to investigate mergers involving a foreign acquiring firm and determine whether such a merger would threaten "national security interests" adds additional **layers of bureaucracy**. It also grants excessive power to the President in the merger approval process. While the protection of national security interests is imperative, it is not the goal of competition policy to regulate broader national security policy. The government has failed to consider amending existing legislation to include these measures, such as the Protection of Investment Act or introducing standalone legislation, to ensure clarity and transparency on merger regulation, thus maintaining South

[29] Price gouging is where the prices for goods, services, or commodities are raised beyond what is deemed reasonable or fair.
[30] Collusion occurs when entities or individuals collaborate to manipulate a market or pricing to benefit themselves.
[31] Purchasing power refers to the ability of households to buy goods and services with their available income or resources.
[32] Price controls refer to government-mandated minimum or maximum prices set for specific goods and services.

Africa's attractiveness as a foreign investment destination. If enacted, Section 18A will introduce more uncertainty and delays in the merger process, which pose significant deterrents to foreign investment and undermine the overall efficiency of the competition policy framework.

In addition to the hurdles encountered in merger regulation, the merger process also grapples with **prolonged approval timelines.** Despite a 60-day timeframe stipulated by the Act and Commission Rules, large mergers now average 24 months for approval. For instance, the Heineken Distell deal took 18 months for final approval, and the ongoing Vodacom Community Investment Ventures Holdings (CIVH) merger, which started in November 2021, is still awaiting approval. Ideally, this process should take no more than 6 months for approval. Globally, approvals typically range from 1 to 6 months. The European Commission (European Union) Merger Regulation allows for decisions within 1 to 3 months, while major jurisdictions like the US, Australia, and Canada typically take 2 to 3 months., Kenya and Nigeria have potential approval periods of 2 to 4 months and 2 to 6 months, respectively.

The complex regulatory landscape surrounding merger approvals, exemplified by cases like the Burger King and Grand Parade Investments debacle, alongside the involvement of multiple decision-makers and prolonged approval timelines, is **eroding business confidence** in South Africa. Businesses find it challenging to comply with regulatory requirements, resulting in **frustration and inefficiency**. Moreover, the protracted delays in securing approvals are dissuading potential investors from entering South Africa's market. This reluctance among investors stems from uncertainties regarding regulatory compliance and the unpredictability of approval timelines. Consequently, South Africa is missing out on vital business investment opportunities that could stimulate economic activities and address the pressing need for job creation.

The government's **localisation policies pose significant barriers to addressing and combating anti-competitive behaviour** within concentrated markets. A major reason for this market concentration and the resultant anti-competitiveness is the direct result of trade and industrial policy decisions taken by the minister and implemented through the International Trade Administration Commission (ITAC). These misguided decisions, aimed at reducing imports and promoting local products without considering the economic effects, create a market where few players dominate. Consequently, market concentration facilitates the opportunity for pricing abuse (such as gouging[23] and collusion[24]), which is particularly evident in sectors like steel and glass production, where government policies protect monopolies.

Intimidation tactics employed by certain sectors frequently undermine the Commission's actions in curbing anti-competitive practices. The ineffective enforcement of anti-competitive regulations has led to unfair market practices that impact consumers. For instance, the South African taxi industry has been accused of employing violence and intimidation directed at competitors like Intercape, a long-distance bus company, to maintain its market dominance, which is restricting consumer choice and undermining consumer rights.

Despite regulations such as Section 8(1) (a) of the Act and the Consumer Protection Act (No. 68 of 2008), which is aimed at preventing pricing abuse by dominant firms, **the government fails to uphold fair competition and protect consumer interests.** Unfortunately, consumers bear the brunt of uncompetitive behaviour. When businesses engage in practices like price gouging and collusion, it leads to limited competition, resulting in higher prices for essential goods and services. Consequently, households' purchasing power diminishes,[25] making it harder for them to afford basic necessities. This situation exacerbates poverty and inequality within communities, as the vulnerable are hit the hardest.

Furthermore, **price controls[26] by the government distorts the market equilibrium.** While price controls aim to protect consumers from high prices or ensure affordability, they can lead to distortions in the market equilibrium, causing shortages and inefficiencies. For instance, during the COVID-19 pandemic, companies were penalised for charging higher prices on masks. These penalties can deter suppliers from producing more masks, leading to shortages during emergencies, such as a pandemic. In addition, price controls can result in inefficient allocation of resources as artificially low prices fail to reflect the true cost of production or scarcity. This is illustrated with Eskom, where the government keeps the price of electricity below its production cost, forcing the utility to borrow significant amounts of money to make up costs, ultimately burdening taxpayers and hindering economic sustainability. These distortions discourage investment and innovation, diminishing competition and consumer choice in affected industries.

How the DA will restore market fairness and protect consumer interest

The DA's objective is to uphold market integrity and promote consumer welfare. Our objective will be achieved by streamlining the regulatory processes, enhancing transparency, and fostering a more competitive business environment through effective enforcement mechanisms and clearer delineation of competition objectives from broader socio-economic goals.

One of the first priorities of a DA government will be repealing the public interest provisions from the Competition Act.

OUR BOLD SOLUTION

Repealing the Public Interest Provisions From the Competition Act

The DA will remove the public interest provision from the Competition Act, as it is a political tool used by the ANC government to achieve industrial policy goals. The Commission best serves the public's interest if they are focused on addressing market concentration and its impact on pricing. The current inclusion of public interest considerations has led to a blurred focus, allowing subjective factors unrelated to competition to influence merger decisions. This not only undermines the fundamental purpose of competition policy but also introduces unpredictability and inefficiency into the regulatory process. By eliminating the public interest provision, competition policy can refocus on its core objective of ensuring competitive markets, fostering innovation, and protecting consumer interests (fair pricing and access to choices). This shift will enhance transparency, certainty, and coherence in competition regulation, ultimately benefiting businesses, consumers, and the economy.

The DA will further streamline the regulatory framework by:

- **Removing the Tribunal, Minister, and President from the merger approval process.** This would not only create certainty and predictability for businesses by eliminating unnecessary layers of review, promoting clarity in decision-making, enhancing efficiency, and boosting investor confidence but would also mitigate the risk of political patronage influencing decisions. Such streamlining would facilitate smoother merger approval processes.

- **Setting a time limit for the merger approval regime.** The maximum timeframe should be 6 months, after which the merger will be deemed to be approved. If more time is required, the relevant party should motivate for this at least a month before the expiry date.

- **Repealing the impending section 18A of the Act.** The national security test introduced through the yet-to-be-promulgated section 18A is dangerous since it confers excessive power on the President and his Committee. The added test of national security politicises foreign direct investments, thereby frustrating our goal of economic growth.

- **Resolving any conflicting goals of the Act.** To improve effectiveness, a review process is necessary to clearly separate competition objectives from broader socio-economic goals, ensuring the Act prioritises consumer welfare and market efficiency.

The DA will ensure fair market competition and prevent price distortions by:

- **Identifying and mitigating price abuses,** especially where big companies dominate markets and use their power to unfairly control prices or limit competition. We acknowledge that prices in markets often result from supply-demand imbalances and not necessarily unfair competitive practices. Moreover, the DA in government will refrain from interfering in pricing to prevent distorting market signals and causing inefficiencies.

- **Abolishing the localisation guidelines that legalise cartel-like conduct in localisation initiatives**, as they impose higher prices on consumers, remains an important objective of the Act. The industrial policy section of this paper provides more details.

- **Focusing on keeping the market free rather than using the Commission to alter its structure.** The Commission's mandate must be narrowed to consumer welfare, and all pricing provisions must be repealed.

- **Dismantling state monopolies** on electricity, rail, water and ports to ensure that prices normalise. The most problematic administered prices are within the State, often because SOEs are protected monopolies.

- **Refraining from offering duty protection or subsidies to monopolies,** as such measures only exacerbate existing issues within monopolistic industries (such as lack of competition, higher prices, and barriers to entry), which hinder competition and impede market efficiency.

- **Refrain from implementing price controls**, as they consistently lead to supply shortages. The case of Eskom exemplifies this phenomenon, where the inability to recover costs through pricing, coupled with long-standing protection from competition, has perpetuated long-standing market inefficiencies.

Conclusion

South Africa's economy is in terminal decline. Only a clear alternative can change the trajectory. The DA's economic rescue plan focuses on the areas that will produce growth and jobs, namely: prioritising labour reform, stabilising the fiscus, creating competitive industries, boosting trade, and making it easier to start a business. The DA's plan aims to unleash enterprise, grow the economy, and create jobs.

Our track record in the Western Cape demonstrates that the DA is the party of jobs and growth. Unemployment is more than 10 percentage points lower than the national average unemployment rate, and over the last five years, four out of every five jobs in South Africa were created in the Western Cape. This can be replicated across the country, but this is only possible if citizens vote for the DA to implement its economic plan in government.

End notes

1 Statistics South Africa (2024). Quarterly Labour Force Survey (QLFS) – Q4:2023 | Statistics South Africa. [Online] Available at: https://www.statssa.gov.za/publications/P0211/P02114thQuarter2023.pdf [Accessed 25 March 2024]

2 Bowmaker-Falconer, A., Meyer, N. & Samsami, M. (2023). Entrepreneurial Resilience during Economic Turbulence 2022/2023. Stellenbosch University: Stellenbosch, South Africa.

3 Small Business Institute (2021). Tackling the "Disabling Environment" to boost Economic Growth, Small Business and Jobs [Online] Available at: https://www.smallbusinessinstitute.co.za/wp-content/uploads/2019/02/TacklingTheDisenablingEnvironmentToBoostEconomicGrowthSmallBusinessAndJobs.pdf [Accessed 24 March 2024].

4 Investec. (2021). Thriving township economy vital to SA's economic revival. [Online] Available at: https://www.investec.com/en_za/focus/economy/thriving-township-economy-vital-to-sas-economic-revival.html [Accessed 24 March 2024].

5 Institute of Management Development (IMD) (2023). World Competitiveness Yearbook 2023. Country Profile: South Africa [Online] Available at: https://imd.widen.net/view/pdf/7swwxumfxi/ZA.pdf [Accessed 24 March 2024].

6 U.S. Small Business Administration. (n.d.). Business Smart Toolkit [Online] Available at: https://www.sba.gov/partners/counselors/instructional-materials-trainers/business-smart-toolkit [Accessed 24 March 2024].

7 British Business Bank (2023). How to apply for a Start Up Loan | Start Up Loans. [Online] Available at: https://www.startuploans.co.uk/how-to-apply/?gclid=Cj0KCQjw-_mvBhDwARIsAA-Q0Q75-YxKoOZDBAmwLxQj_qiVspENtHe1wRBQq010T8OwkkvPLJB3hAlaAscOEALw_wcB&gclsrc=aw.ds [Accessed 24 March 2024].

8 World Bank (2016). Learning from Korea: The Story of Korea's Credit Guarantee Agency. [Online] Available at: https://blogs.worldbank.org/en/psd/learning-korea-story-korea-s-credit-guarantee-agency#:~:text=A%20main%20policy%20tool%20for [Accessed 24 March 2024].

9 Grameen Bank (n.d.). Introduction – Grameen Bank. [Online] Available at: https://grameenbank.org.bd/about/introduction. [Accessed 06 April 2024].

10 Clydesdale, H. & Shah, K. (n.d.). Microfinance: Seeds of Change | Asia Society. [Online] Available at: https://asiasociety.org/education/microfinance-seeds-change. [Accessed 06 April 2024].

11 Nasdaq. (2021). Listings: Nasdaq First North Growth and Premier Markets. [Online] Available at: https://www.nasdaq.com/solu ons/lis ngs/markets/nordic/first-north [Accessed 12 April 2024].

12 van Nieuwenhuyzen, H., Pahwa, S., Bester, J., Dawood, G., Pieterse, D., Kane, K., Schlemmer, L., Bot, M., Hamilton, G., Madel, C. and van Eeden, R. (2006). Impact of Municipal Regulations on SMMEs. SSRN Electronic Journal. doi:10.2139/ssrn.967624.

13 CITI. (n.d.). Bandwidth Barn Khayelitsha. [Online] Available at: https://www.citi.org.za/spaces/bandwidth-barn-khayelitsha/ [Accessed 24 March 2024].

14 BIG Financing Reference Group (2004). Breaking the Poverty Trap: Financing a Basic Income Grant in South Africa [Online] Available at: https://static.pmg.org.za/docs/0410BIG.PDF [Accessed 24 March 2024].

15 Central Banking. (2023). Kganyago calls for lower inflation target and tighter policy - Central Banking. [Online] Available at: https://www.centralbanking.com/central-banks/monetary-policy/7958486/kganyago-calls-for-lower-inflation-target-and-tighter-policy [Accessed 06 April 2024]

16 Honohan, P. and Orphanides, A. (2022). Monetary policy in South Africa, 2007–21. WIDER Working Paper. [Online] doi:https://doi.org/10.35188/unu-wider/2022/160-0.

17 Ibid.

18 International Monetary Fund. (2020). IMF Country Report No. 20/34. South Africa. [Online] Available at: https://www.imf.org/-/media/Files/Publications/CR/2020/English/1ZAFEA2020002.ashx [Accessed 06 April 2024]

19 International Monetary Fund. (2020). IMF Country Report No. 20/34. South Africa. [Online] Available at: https://www.imf.org/-/media/Files/Publications/CR/2020/English/1ZAFEA2020002.ashx [Accessed 06 April 2024]

20 RMB Global Market Research and National Treasury (2015).

21 Ibid.

22 Hanusch, M., Nguyen, H. and Algu, Y. (2018). "Exchange rate volatility and FDI inflows: Evidence from cross-country panel data," World Bank Macroeconomics, Trade, and Investment (MTI) Discussion Paper 2. [Online] Available at: https://documents1.worldbank.org/curated/en/534841528724321585/pdf/Exchange-rate-volatility-and-FDI-inflows-evidence-from-cross-country-panel-data.pdf. [Accessed 26 March 2024]; RMB Global Markets Research and National Treasury. (2015). Currency risk and risk management in South Africa.

23 Nowak, M. & Ricci, L. The Rand Crises of 1998 and 2001: What Have We Learned? In M Nowak and Luca Antonio Ricci (2005). Post-apartheid South Africa: the first ten years. [online] Washington, D.C.: International Monetary Fund. Available at: https://www.elibrary.imf.org/view/IMF071/05353-9781589064706/05353-9781589064706/ch05.xml?lang=en. [Accessed 26 March 2024]

24 The Economist. (2000). Running the rand. [Online] Available at: https://www.economist.com/business/2000/02/03/running-the-rand [Accessed 26 March 2024]

25 Kganyago, L. Keeping it simple: monetary policy, growth and jobs in South Africa (2022) wits.ac.za/news/sources/wsg-news/2022/keeping-it-simple-monetary-policy-growth-and-jobs-in-south-africa.html

26 Storer, D. & Teljeur, E. (2018). Administered Prices: A report for National Treasury, 2018. [Online] Available at: https://www.treasury.gov.za/publications/other/epir/summary%20of%20sector%20reports.pdf [Accessed 26 March 2024]

27 South African Reserve Bank. (2023). Monetary Policy Review. October 2023. [Online] Available at: https://www.resbank.co.za/content/dam/sarb/publications/monetary-policy-review/2023/MPROCT23Internet.pdf. [Accessed 26 March 2024]

28 Moolman, S. (2021). 2021 update: Eskom tariff increases vs inflation since 1988 (with projections to 2023) - PowerOptimal - the Future of Energy. - Power Optimal. [Online] Available at: https://poweroptimal.com/2021-update-eskom-tariff-increases-vs-inflation-since-1988/. [Accessed 05 April 2024]

29 South African Reserve Bank. (2023). Monetary Policy Review. October 2023. [Online] Available at: https://www.resbank.co.za/content/dam/sarb/publications/monetary-policy-review/2023/MPROCT23Internet.pdf. [Accessed 26 March 2024]

30 Ibid.

31 Ibid.

32 Singh, Orrin. (2019). Durban municipal worker's illegal strike caused R3.5m in damage – Premier. [Online] Available at: https://www.timeslive.co.za/news/south-africa/2019-05-03-durban-municipal-workers-illegal-strike-caused-r35m-in-damage-premier/ [12 March 2024]

33 Na onal Treasury and Stats SA Quarterly Labour Force Survey

34 XA Trade Advisors. [Online]. Available at: htps://www.xagta.com/company/. [Accessed: 16 April 2024].

35 Centre for Development and Enterprise (CDE) (2021). The Siren Song of Localisation: Why localisation policy will not lead to industrialisation. [Online] Available at: https://www.cde.org.za/the-siren-song-of-localisation-why-localisation-policy-will-not-lead-to-industrialisation-3/ [Accessed 20 March 2024]

36 Stats SA, Quarterly Labour Force Survey

37 Competition Commission (2021). Measuring Concentration and Participation in the South African Economy: Levels and Trends. Summary Report of Findings and Recommendations. November 2021. [Online] Available at https://insightplus.bakermckenzie.com/bm/attachment_

38 Tavuyanago, S. (2021). An Analysis of the 'National Security Interest' Provision in terms of Section 18A of the Competition Act 89 of 1998. Potchefstroom Electronic Law Journal, 24, pp.1–34. doi:https://doi.org/10.17159/1727-3781/2021/v24i0a6031.

39 European Commission (n.d.). Procedures - European Commission. [online] Available at: https://competition-policy.ec.europa.eu/mergers/procedures_en#:~:text=After%20notification%2C%20the%20Commission%20has,Phase%20I%2C%20generally%20without%20remedies. [Accessed 08 April 2024]

40 Australian Government (2023). Merger Reform Consultation paper -Appendices. [Online] Available at: https://treasury.gov.au/sites/default/files/2023-11/c2023-463361-cp-app.pdf [Accessed 8 April 2024].

41 Regulation 4.1 of Consumer and Customer Protection and National Disaster Management Regulations and Directions (GNR.350 of 19 March 2020 in GG No. 43116)

Democratic Alliance Our_DA our_da

Democratic Alliance da.org.za