

**THE ROLE OF A COUNTRY EXPORT STRATEGY TO ACHIEVE
BLACK ECONOMIC EMPOWERMENT AND POVERTY REDUCTION**

**A paper contributed by the
South Africa National Strategy Team**

SECTION A: POVERTY AND BROAD-BASED BLACK ECONOMIC EMPOWERMENT

1. INTRODUCTION

With the advent of democracy the new government in South Africa in 1995 inherited a domestic economy that was highly protected, subsidised, inefficient and uncompetitive mainly as a result of import substitution policies. On a global level the deepening integration of financial, technological, service and commodity markets had intensified and changed the nature of international competition, also profoundly impacting on the dynamics of international production and its division of labour. Since then the South African government has adopted a number of policies and programmes to restructure our economy in order to make it a globally competitive and integrated manufacturing nation able to confront the rapid changes in the world economy from which no society can remain immune, whilst also addressing the country's socio-economic needs through sustainable economic activity.

It is within this global economic environment that the South African Government is working towards an adaptive economy characterized by growth, employment and equity, and built on the full potential of all persons and geographic areas. One of the key Government Departments to deliver on this is the Department of Trade and Industry (**the dti**). The aim of **the dti** is to lead and facilitate access to sustainable economic activity and employment for all South Africans through higher levels of investment and increased access for South African products and services in international markets; and to create a fair, competitive and efficient marketplace for domestic and foreign business as well as for consumers. In this way, **the dti** contributes towards accelerated and shared economic growth in South Africa, and the attainment of government's vision 2014 for the economy.

2. POVERTY IN SOUTH AFRICA

2.1 South Africa's economic trajectory

The past decade has witnessed significant changes in South Africa's economic landscape. Since 1994, the country has become a new global model of political process management, peaceful and constructive conflict resolution. These political developments, together with a sound macroeconomic policy have been essential to ensure sustainable economic growth.

Furthermore, in recent years the South African economy has been through a process of restructuring whereby the manufacturing and services have replaced primary commodities as being the most important drivers of economic growth. The country's economy is, similar to the experience of other dynamic developing economies, diversifying towards higher value-added activities.

2.2 The nature of poverty in South Africa

Notwithstanding progress made on the economic frontier, South Africa still has relatively high rates of unemployment, poverty and income inequality. The effects of past apartheid policies are still evident when examining the disparities in income distribution and expenditure patterns.

Data from the UNDP Human Development Report 2005 (see Table 1.) shows that South Africa compares relatively well against other developing countries, where poverty using an income measure is concerned. However, South Africa's performance viewed in terms of 'social poverty' (i.e. social (public) services support in terms of health, education and infrastructure) is rather weak. Furthermore, the country has one of the highest rates of income inequality in the world (as measured by the Gini index).

Table 1. Poverty and Trade Indicators for Selected Developing Countries

	GDP per capita (PPP US\$) - 2003	Population below income poverty line (%) US\$1 a day 1990-2003 ^a	Population below income poverty line (%) US\$2 a day 1990-2003 ^b	UNDP Human Poverty Index ranking for 175 developing countries ^c	Gini index ^d	Exports of goods and services (as % of GDP) - 2003
Singapore	24,481	-	-	6	42.5	20
Chile	10,274	<2	9.6	2	57.1	36
Mexico	9,168	9.91	26.3	13	54.6	28
Brazil	7,790	8.2	22.4	20	59.3	17
Turkey	6,772	<2	10.3	19	40.0	28
Thailand	7,595	<2	32.5	28	43.2	66
Philippines	4,321	14.6	46.4	35	46.1	48
Indonesia	3,361	7.5	52.4	41	34.3	31
South Africa	10,346	10.7	34.1	56	57.8	28
India	2,892	34.7	79.9	58	32.5	14
Namibia	6,180	34.9	55.8	60	70.7	39
Botswana	8,714	23.5	50.1	94	63.0	44

Source: UNDP, Human Development Report 2005

a Poverty line is equivalent to US\$ 1.08 (1993 PPP US\$).

b Poverty line is equivalent to US\$ 2.15 (1993 PPP US\$).

c The UNDP Human Poverty Index is calculated using the following indicators (i) Probability at birth of not surviving to the age of 40; (ii) Adult illiteracy rate; and (iii) Population without sustainable access to improved water sources. Poverty rankings are done according to the derived index values. Countries with ranking values closer to zero have lower levels of poverty and vice versa.

d The Gini index measures inequality over the entire distribution of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality.

Broad characteristics of poverty in South Africa can be highlighted as shown from the studies on the nature of poverty:

- More than 70% of the total population who are poor in South Africa lives in the country's rural areas;
- The poverty rate (i.e. the proportion of people in a particular group or area falling below the national poverty line) is the highest in South Africa's rural areas.
- Poverty is distributed unevenly among South Africa's nine provinces. Provinces with a high level of industrialisation such as Gauteng and the Western Cape have the lowest poverty rates.
- Blacks have the highest share of poverty viewed by race group (more than 60%) followed by Coloureds (more than 30%). Indians and Whites have a very small share in poverty;
- The poverty rate among female-headed households (about 60%) is significantly higher compared to male-headed households (about 30%);
- Poverty and education in South Africa are closely correlated. People with no or primary education have a poverty rate of more than 60%
- Poverty and unemployment are also closely correlated; the majority of people from poor households are unemployed.

2.3 Socio-economic challenges for South Africa – The role for exports in alleviating poverty

The key challenge for the South African economy currently is to increase its economic growth rate; to be aligned with the global trend of moving the industrial base towards higher-value added production; whilst at the same time addressing job-creation amongst the unskilled/semi-skilled workers. Many medium- to long-term measures exist to address this socio-economic challenge i.e. increased levels of public expenditure directed at skills development, education, etc.

However important these measures are to a sustainable economic future for South Africa, there is an urgent need for more short-term solutions to South Africa's challenge to reduce poverty.

Export development and promotion could play an instrumental role towards alleviating poverty in South Africa over the short to medium term. Depending on the nature of the project, it could benefit the poor directly, for example by using cooperatives as a business medium to export the products of the poor; or alternatively the poor can benefit through backward linkages. The latter occurs where the inputs for export production are sourced locally, which in turn creates local economic benefits/spillovers.

Currently, factors such as access to finance, business skills, infrastructure supply, knowledge of international trade processes, access to market intelligence, distance from domestic urban centres to obtain competitive inputs; etc act as constraints to the poor to benefit from global trade. There is a range of areas where government can intervene in order to put in place the 'development gear' of South Africa's export drive. These include, for example, (i) Assistance with the formation of export cooperatives in areas such as agriculture, cultural industries; tourism; and (ii) Exporter training programmes; (iii) Financing programmes, which provide for communal collateral.

Of critical importance is that a pro-poor export strategy should be based on clearly defined target (poor) group(s) where the overall poverty reduction impact would be the greatest. Hence decisions need to be made regarding the levels of poverty which will be focused on. Should the focus be on (i) the 'absolute poor'; (ii) underpaid/unemployed semi-skilled workers; and/or (iii) female-headed households in rural areas.

2.4 Defining Broad Based Black Economic Empowerment (BBBEE)

Under apartheid race was used to control access to South Africa's productive resources and access to skills. South Africa's economy still excludes the vast majority of its people from ownership of productive assets and the possession of advanced skills. South Africa's economy performs below its potential because of the low level of income earned and generated by the majority of its people, unless further steps are taken to increase the effective participation of the majority of South Africans in the economy, the stability and prosperity of the economy in the future may be undermined to the detriment of all South Africans, irrespective of race.

The impact of this systematic disempowerment not only resulted in a landless black majority with restricted access to skills development, but also deliberately prohibited black people from generating self-employment and entrepreneurship.

2.5 Definitions

2.5.1 "black people" is a generic term which means Africans, Coloureds and Indians.

2.5.2 "broad-based black economic empowerment" means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies.

The Broad-Black Economic Empowerment strategy is a necessary government intervention to address the systematic exclusion of the majority of South Africans from full participation in the economy. The defining feature of Apartheid was the use of race to restrict and severely control access to the economy by black persons. The accumulation process was one of restricted wealth creation and imposed underdevelopment on black communities to ensure that they were, in the main, suppliers of cheap labour. The underdevelopment of black South Africans took the form of a progressive destruction of productive assets; deliberate denial of access to skills and jobs; and, the undermining of self-employment and entrepreneurship. In combination these policies restricted and suppressed wealth and skill endowments in black communities, thereby structurally inhibiting their participation in a legislatively race-based economy. The fact that black communities had little access to technical and scientific teaching and learning further exacerbated the obstacles in our rapidly developing industrialisation process. It is a testimony to the vitality of black society that so much has been achieved in so short a space of time.

SECTION B: SOUTH AFRICA'S EXPORT STRATEGY

3 Designing South Africa's Export Strategy

3.1 Introduction

The Export Strategy covers a range of issues that are important to fulfilling **the dti's** mandate of increasing the value of South African exports and the number of exporters, with a specific focus on SMMES and BEE enterprises. The document is designed to describe the current situation in regard to the components of the NES as well as to provide a firm roadmap of the key innovations that **the dti** will be embarking on. All stakeholders involved in the field of export promotion and development should use the document.

3.2 Creating Stakeholder Alignment and Synergies

Trade and Investment South Africa is a Division of **the dti** and forms part of part of a larger **dti** value chain and a larger public service that incorporates other national, provincial and local government departments and relevant agencies all involved in interlocking responsibilities. Trade and Investment South Africa's activities also include a strong interface and leverage with business. Trade and Investment South Africa has made progress towards alignment but needs to develop closer relationships with prioritised **dti** divisions and external institutions (public and private). The ES acts as a strategic alignment enabler between **the dti** (especially Trade and Investment South Africa) and public and private stakeholders involved in exports and export promotion and development.

3.3 Competitiveness

The ES does not take South African competitiveness for granted. The ES therefore starts from the perspective that South African export performance is fundamentally a function of the underlying competitiveness issues in the economy. **The dti** has prioritised interventions aimed at increasing South Africa's national competitiveness through an Industrial Strategy that will be implemented in 2007.

3.4 Customised Sector Programmes (CSPs)

The CSP is a relatively new methodology adopted by **the dti**. The methodology is directed at the development of the 11 priority sectors that have been identified as key to the transformation of the South African economy. Trade and Investment South Africa is the responsible division within **the dti**. The CSP process support the ES through two mechanisms:

- The identification and pursuit of high impact interventions, typically of an overarching nature, that will positively contribute to the overall sector development (this will indirectly improve the competitiveness and capacity of the priority sectors to export)
- The identification of high impact export supporting interventions that will serve the whole sector or significant parts of the sector

The CSP forms an integral part of **the dti's** service offering value chain and of the ES.

3.5 Logistics

An efficient national logistics system plays an important role in the overall competitiveness of a country. South Africa's national logistics system has come under criticism for not keeping up with the growth in exports, both at an overall and sectoral level. Criticism has also been levelled at the system for being expensive, unreliable and time inefficient. **The dti** has developed an innovative methodology for positively impacting on the national logistics system. This innovation, the National Corridor Performance Management System (NCPM), will be rolled out over the next two years.

3.6 Prioritising Markets

As the capacity for government to participate in the international economy is inherently limited, choices amongst a range of markets and the instruments employed must be made. In this regard the selection process needs to consider dynamics in the global trading environment at bilateral, regional and multilateral levels and the opportunities and challenges which flow from the deepening integration of global financial, technological, service and commodity markets. This requires a multi-faceted approach to market prioritisation in order to capture both strategic economic engagements within this environment, as well as selecting market opportunities at a generic commercial level. These focussed and comprehensive interactions are supported by market access and export development initiatives and as such constitute a first tier of market prioritisation.

Beyond engagement with these key economies, government is faced with an array of existing and potential markets offering commercial export opportunities. The challenge therefore lies on how to select and prioritise markets from a global list of prospects. Therefore, in line with global best practices, **the dti** has included the use of an integrated data based scientific decision-making mechanism in the ES to sift through these export markets. This integrated model will produce a priority opportunity matrix comprised of countries and products. The model will be used within **the dti** for its ability to inform strategy in areas like focus and resource allocation. **The dti** will also share this information on a real-time basis with industry and strategic stakeholders through the National Trade Information System. The ES will facilitate an interaction between this model and the insights produced through CSP process, with Export Councils, the Foreign Offices and other relevant stakeholders.

3.7 Market Access

Negotiated market access is one of the key determinants of market penetration and consequently of export success. The International Trade and Economic Development Division (ITED), of the dti, represent South Africa in the arena of market access negotiation. ITED's work is informed by a combination of factors including economic and political at a national, regional and global level in consultation with a number of stakeholders. ITED has a number of focus areas in its market access mandate. These include:

- Expansion of market access for South Africa's exports through the conclusion of trade agreements
- To promote South Africa's interests in the rules-based multilateral trade system
- To support economic development in Africa through the advancement of NEPAD initiatives, regional integration, increased intra-Africa trade, technical assistance and capacity building in the SACU, SADC and AU institutions
- To effectively manage South Africa's tariff regime
- Leveraging off RSA expatriates in targeted foreign markets

3.8 National Trade Information System (NTIS)

The trade information system forms an important part of the ES. The NTIS serves as the information support link between domestic suppliers and international buyers, and as a source of information for government stakeholders involved in trade promotion. It will function both proactively and reactively, obtaining and disseminating important trade-related information, as well as passing trade leads on to domestic suppliers and assisting them with market information and other support services required to make informed and effective export decisions. The NTIS consists of the following specific service offerings:

- Information Resource Development mandate (including the creation of purchasing consortia to secure optimal expenditure on trade resources within South Africa)
- Information dissemination services (reactive and user determined)
- Information awareness services (proactive and driven by the NTIS protocols, and includes the selective dissemination of specific information on new information resources, important data, and opportunity alerts)
- Designing and maintenance of a National exporter database
- Designing and maintenance of a National trade portal

3.9 Exporter Development

The ES is focussed on exporter development. The target customer group are SMMEs, both generally and those drawn from the ranks of the previously disadvantaged. The exporter development programme is both modular and programmatic. The customer can elect specific components or the entire value chain of products and services. The programme consists of five modules: training, export readiness assessment, product quality improvement, enterprise productivity enhancement, product and process standards and accreditation. The programme will be delivered through the Small Enterprise Development Agency (SEDA), as the overall programme manager, and other relevant Council of Trade and Industry Institutions (COTII) agencies in their respective areas of expertise. Trade and Investment South Africa will develop relevant policy and strategies. TEO will administer the financial incentive programmes that form a part of the initiative. Section C of this paper addresses this issue in detail.

3.10 Export Promotion Mechanisms

The ES is designed to utilise the resources and expertise of **the dti** as a whole (including the COTII agencies), as well as other government departments (national, provincial and local), and the private sector. The core components of the ES will be executed through the activities of three central mechanisms: Trade and Investment South Africa Export Promotion Cluster Desks, Export Councils, and Foreign Offices. These three mechanisms form sequential promotional value chains that are highly dependant on each other. Each of these will be fully resourced and their activities designed to effectively implement the ES.

The Cluster Desks will be fully staffed with appropriately recruited and trained staff. Their activities will be aligned with the objectives of the ES.

Export Councils represent international best practice in the organisation of a collaborative partnership between government and industry in pursuit of export promotion within priority sectors. Trade and Investment South Africa has identified a number of interventions that will improve the operation of the Export Councils. The strategy to improve performance will consist of the following initiatives: aligning the objectives between Trade and Investment South Africa and the Export Councils, restructuring the funding process, developing and implementing a training and development strategy, using information technology strategically, and monitoring and measuring performance.

The resources associated with the foreign offices are an invaluable component of the Export Promotion and Development value chain. In view of the this the Cluster Desks are highly dependant on the support and assistance of the Foreign Offices with regards to the following key activities; market research and intelligence, international marketing and promotional activities and targeting.

3.11 Export Incentives and Financing Products

Financial incentives, trade finance and insurance products form an integral part of the ES. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. In many instances, these instruments are the deciding factor in the successful conclusion of an otherwise fundamentally sound export transaction. This comes into play most often in the case of Small and Medium Sized Enterprises (SMMEs) and will likely have significant impact in the case of BEE enterprises as well. The ES is mandated to increase the number of black exporters participating in these schemes. The ES therefore consists of targeted export incentives and financing instruments offered by **the dti**, the Industrial Development Corporation (IDC), and the Export Credit Insurance Corporation (ECIC), a COTII agency. The ES will also pursue the establishment of World Bank Consultancy Trust Funds. These offerings address the need to assist exporters in their quest for export support from government in fundamentally sound transactions.

3.12 Monitoring and Evaluation

The ES is a strategic initiative of **the dti**. The ES will require substantial human, financial resources from within **the dti**, its COTII agencies and private sector partners. The ES must succeed in its stated objectives. The ES is a statement of strategic intent that binds **the dti** to its various stakeholders. **The dti** therefore commits itself to a monitoring and evaluation framework around the ES to ensure an appropriate return on investment, effort, accountability and transparency.

SECTION C: ESTABLISHMENT OF A NATIONAL SMALL EXPORTER DEVELOPMENT PROGRAMME TO COMBAT POVERTY AND ENHANCE BLACK ECONOMIC EMPOWERMENT

4. The Small Exporters Development Programme

4.1 Introduction

The ES emphasises an alignment between **the dti's** export promotion activities and the national objectives of Growth, Employment and Equity. An important component of these national objectives are the development of new exporters in general and specifically those drawn from the ranks of the previously disadvantaged. An important mechanism for achieving this alignment is through the ES focus on a programme of 'exporter development'.

The dti is mandated with increasing the volume and value of exports. Importantly the organisation is also responsible for increasing the number of practising exporters, with a focus on assisting and developing exporters from previously disadvantaged backgrounds (including disabled-, female- and black persons and companies). Trade and Investment South Africa has therefore developed a series of interventions aimed at exporter development in an integrated programme or value chain approach.

4.2 Overarching Challenge: Improving the ability of small and medium sized enterprises to become successful and sustainable exporters

A number of surveys examining export performance within South Africa have highlighted weaknesses amongst small and medium enterprises wanting to evolve into exporters. These weaknesses include poor understanding on the part of the small entities of the following issues: Export readiness, required product quality, required productivity and competitiveness levels, the export sequence, market intelligence and required export logistics.

In addition, many exporters (actual and prospective) lack export commitment. Others are not aware of (or do not take advantage of) the range of export training courses on offer in South Africa. Several of these export-training courses also fall short of market expectations.

4.3 Finding the right partner to manage the National Small Exporter Development Programme

The creation of the Small Enterprise Development Agency (SEDA), a Council of Trade and Industry Institution (COTII), which is an agency of **the dti**, has created a unique opportunity to house a SMME exporter development programme. SEDA is mandated to develop SMME capacity. Exporter development is a natural fit within this overarching mandate. SEDA, as the successor to Ntsika, is already actively involved in exporter development and Tradepoint programmes. SEDA possesses institutional knowledge and experience in exporter development and dealing effectively with SMMEs. The ES therefore assigns a key role to SEDA in exporter development.

The ES proposes the development of an integrated programme of exporter development for those SMMEs wishing to graduate as exporters. These potential exporters will have access to a development programme comprised of the following key interventions: Enterprise export readiness assessment, product improvement, enterprise productivity improvement, quality management systems, e.g. ISO 9000, export training and marketing support. Figure 1 demonstrates the developmental cycle.

The programme is designed to have both a modular as well as integrated architecture. Prospective exporters will be able to take advantage of individual components of the offering or proceed through an entire programme comprised of each of the individual modules with a "handover" between phases.

The main objectives of the exporter development initiative are to:

- Stimulate a culture of learning amongst prospective exporters
- Provide best practice exporter training and education programmes
- Provide targeted assistance programmes as well as an integrated service offering

- Provide accessible services through the use of technology (especially the internet) and the use of relevant COTII agencies and accredited service providers
- Assist prospective exporters to improve competitiveness. (Product, enterprise productivity, standards and accreditation)
- Assist prospective exporters in their understanding and penetration of foreign markets

4.4 The development and implementation of an integrated Small Exporter Development Programme

The integrated programme offering is targeted towards developing small and medium exporters by channelling the various resources of **the dti**, and related institutions and COTII agencies towards this goal. Trade and Investment South Africa is responsible for overall policy and strategy. SEDA will be responsible for the management of the programme. Various components of the programme will be delivered by COTII agencies and accredited service providers in their individual areas of expertise. To facilitate accessibility, the programme will operate at national, provincial and local levels. SEDA will endeavour to customize programmes to address the specific challenges posed by the different priority sectors.

4.5 Graduates of the programme

Prospective exporters who have proceeded through the integrated programme, or specific modules thereof and are then considered export ready, can make use of the export promotion mechanisms such as: Export marketing and finance incentives and support from relevant Export Councils

4.6 Linking up with the Export Councils

The Export Councils are in the forefront of the export movement in South Africa, and they have a lot to offer to the small business sector. The Councils are expected to submit plans showing how they would integrate the small exporters into their export development initiatives. A continuous dialogue between Trade and Investment South Africa and the various Export Councils will provide direction in terms of priority markets and help to conclude the export opportunities into real deals.

FIGURE 1: THE SMALL EXPORTERS DEVELOPMENT CYCLE

