



'POLITICS, ECONOMICS AND BUSINESS IN SOUTH AFRICA TODAY

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NWU BUSINESS SCHOOL WINTER SCHOOL

PRESTIGE DAY SESSION – 'ENTERING THE NEW AGE OF BUSINESS'

WEDNESDAY 25 JULY 2018

POTCHEFSTROOM



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INTRODUCTION.....(1)

- to preserve focus on *domestic* issues, this presentation is based on the premise that the more South Africa's house is kept in order, the stronger its ability to deal with any global economic headwinds
- politics, economics and business may have distinctive role in a nation but they are also *interdependent*....they shape a large part of the *policy environment* within which business decision-making takes place in 'mixed' economies
- this reality is global and especially in South Africa, given its acute political and economic history of conquest, discrimination and development
- in South Africa the mantra is: if we want to get the economics 'right', we have to get the politics 'right', as recent political events have again demonstrated
- the political change from the Zuma era (2009-2018) to the Ramaphosa one (2018-?) is the biggest watershed in South Africa's political economy since 1994
- South Africa is not at a crossroad but at a *T-junction*, at which crucial choices need to be made on whether to stay on a 'low road' or seek a 'high road' to build a bigger, stronger and better economy

INTRODUCTION.....(2)

Despite some achievements in recent years, in the past decade South Africa and its economy have been largely damaged by:

- poor economic decision-making and mismanagement in key policy areas affecting the economy
- widespread failure 'to stay on message' and *implement* agreed policies/projects, such as National Development Plan
- state capture as 'a weapon of mass corruption' and other forms of corruption.....weakening of key institutions e.g. NPA etc.
- a damaged moral compass in the public *and* private sectors - 'crony capitalism'
- deteriorating economic performance as measured by most conventional criteria
- The London *Economist* journal recently described it as 'the lost decade' for South Africa

SOME ECONOMIC COSTS OF A 'LOST DECADE'.....(1)

- In recent years economic growth has gradually drifted into a 'low growth trap'.....persistent average growth rates below population growth have made SA poorer
- the economy could have been about 25% bigger now if positive trends had continued – growth performance well below competing emerging markets
- unemployment, *especially among youth*, remains high, with about one in every three persons in South Africa without a job
- rising costs of doing business
- declining business and consumer confidence
- emergence of a substantial 'trust deficit' between government and private sector

SOME ECONOMIC COSTS OF A 'LOST DECADE'.....(2)

- cost of delivery and performance failures such as in key state-owned enterprises like Eskom e.g. financial mismanagement, load-shedding, excessive electricity tariffs.....impact of local government 'failures'
- total government debt (including state-owned enterprises' obligations) now about 70% of GDP (global maximum norm 50%) – danger of a 'debt trap'
- public sector wages have outpaced both private sector wages and inflation since 2015, yet state capacity remains weak
- a rising tax burden
- South Africa's investment rating reduced to *junk status* by two leading credit rating agencies
- a vulnerable currency

PERCEPTIONS OF SOUTH AFRICA IN A GLOBAL CONTEXT: WE ARE NO LONGER REGARDED AS “SPECIAL”

| Ranking Indicator | SA Ranking | | Trend |
|--|------------|------|-------|
| | 2008 | 2017 | |
| Global Competitiveness Report Ranking | 45 | 61 | ↓ |
| Corruption Perceptions Index | 54 | 64 | ↓ |
| Ease of Doing Business | 32 | 82 | ↓ |
| Quality of primary education | 104 | 116 | ↓ |
| Transparency of government policy making | 29 | 74 | ↓ |
| Favouritism in decisions of government officials | 50 | 127 | ↓ |
| Quality of overall infrastructure | 46 | 72 | ↓ |
| Time to start a business | 70 | 125 | ↓ |
| Country capacity to retain talent | 72 | 78 | ↓ |
| Domestic market size | 22 | 30 | ↓ |

Source: Keith Lockwood

THE TOUGH RAMAPHOSA AGENDA....SOME POSSIBLE NEGATIVE FACTORS.....(1)

- we must not underestimate the formidable agenda President Ramaphosa has inherited, with the systemic challenges more serious than originally envisaged and requiring more time to correct....it could take 5 - 10 years to implement all the necessary reforms and to *make certain changes irreversible*
- Ramaphosa is walking on a tightrope, having been elected on a razor thin majority at the ANC leadership conference in December 2017.....internal ANC factionalism weakens leadership, decision-making and Cabinet choices.....consolidation of Ramaphosa's power? Party politics vs good governance?
- key navigation of issues on which Ramaphosa did not campaign to become ANC leader but subsequently decided by ANC conference such as (a) expropriation of land without compensation (EWC) (b) 'free' higher education and (c) 'nationalization' of the Reserve Bank
- given the interplay between politics and reform there are also the dynamic uncertainties around the next general election presently scheduled for Q2 2019
- obstacles to rebuilding of investor confidence – Trevor Manuel now cites land issue as a 'hard sell' to investors

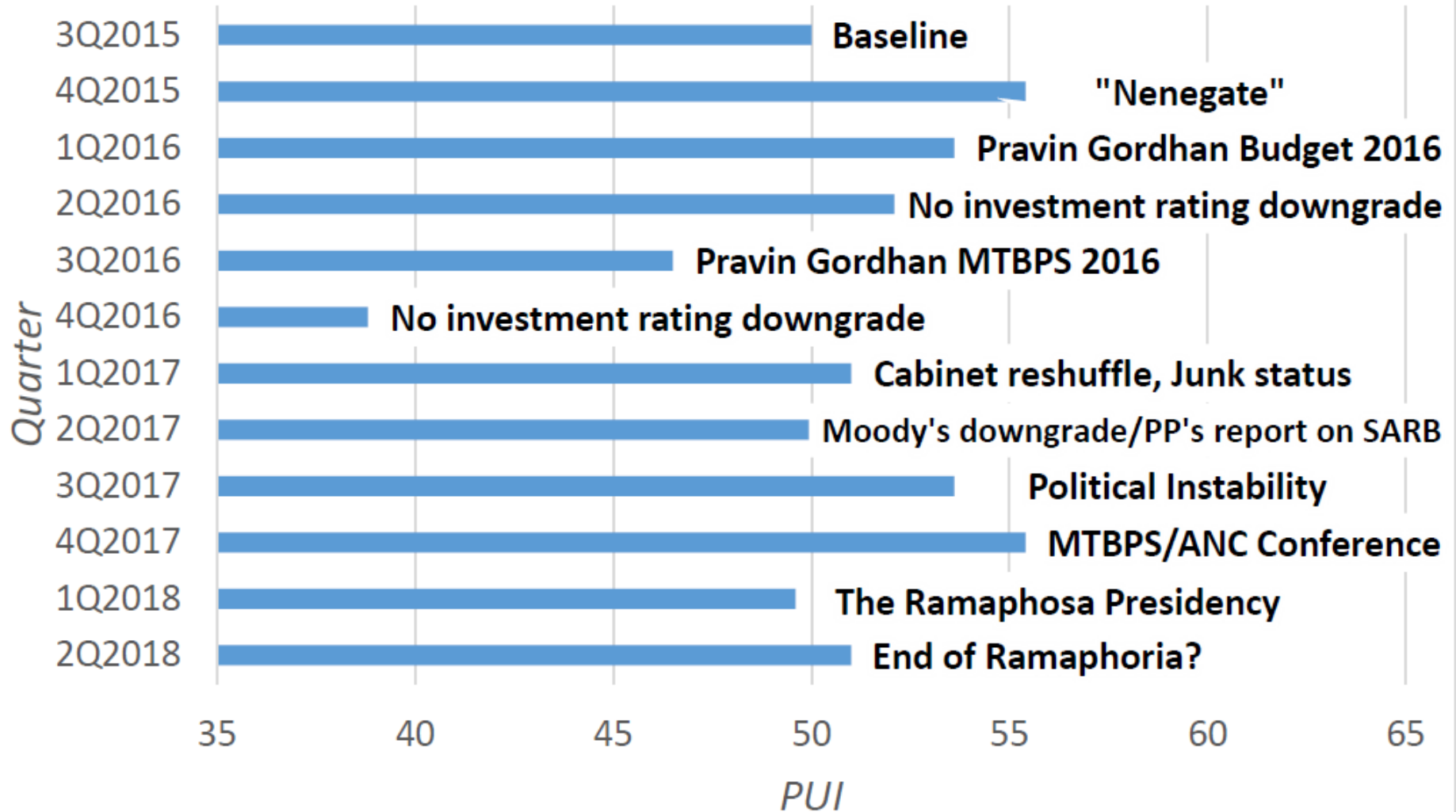
THE TOUGH RAMAPHOSA AGENDA....SOME POSSIBLE POSITIVE FACTORS.....(2)

- election of Ramaphosa as President of South Africa did immediately create a more favourable political environment and a better national mood, given his leadership ability, credibility and skills set
- various actions taken by Ramaphosa administration to address state capture and other corruption
- intention to streamline Cabinet and improve governance and accountability
- commitment to create an investor-friendly environment and wanting to raise \$100bn in investment over the next five years
- seeking to build constructive collaborative arrangements with business and labour
- emphasis on restoring business and investor confidence by strengthening *policy certainty*

HOW CAN WE CALIBRATE POLICY UNCERTAINTY?



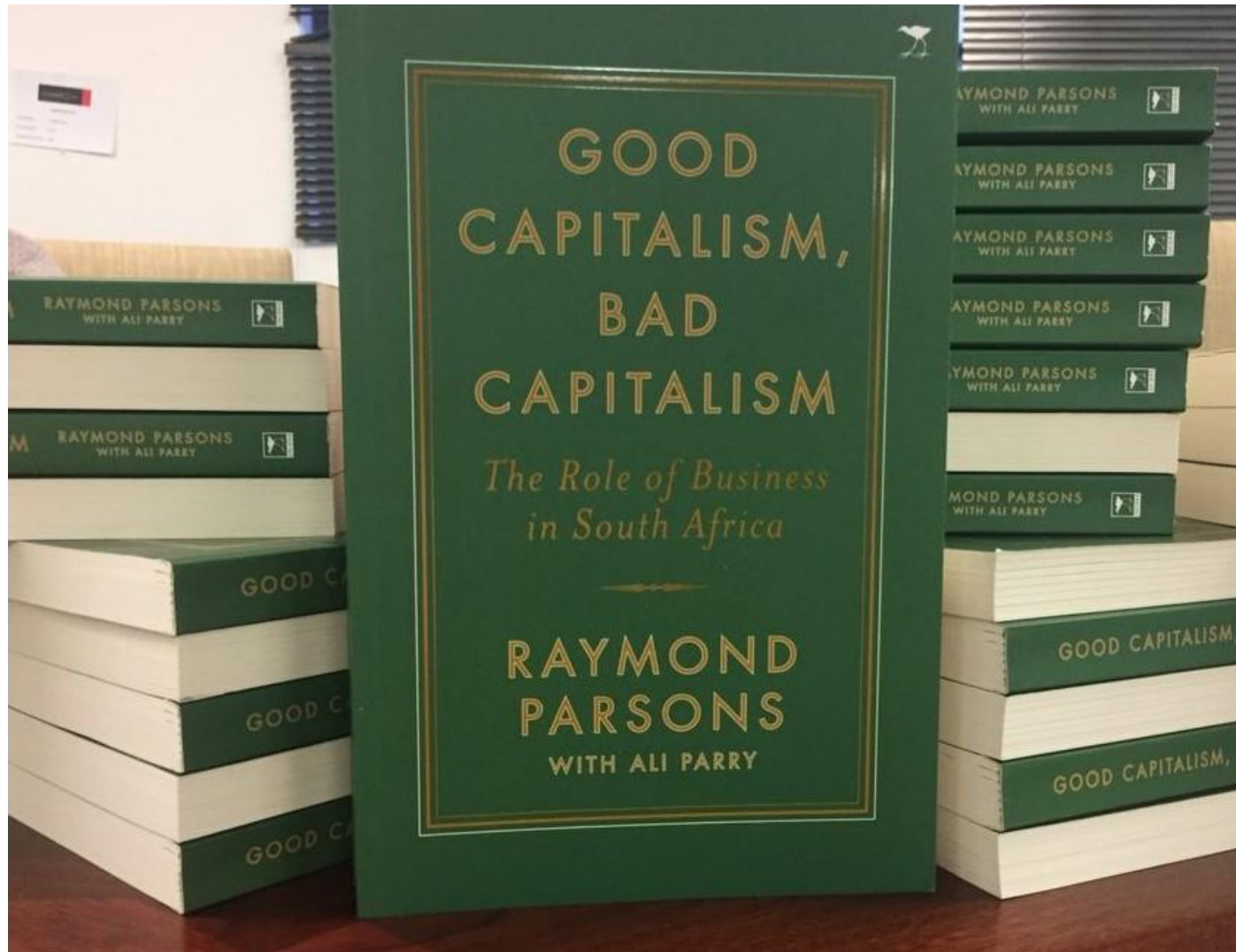
NWU Business School Policy Uncertainty Index



IMPLICATIONS FOR THE ECONOMY & BUSINESS OF CONTINUED POLICY UNCERTAINTY

- it is inevitable that a period of political and economic change will see an initial ebb and flow in the level of policy uncertainty but ideally this should be limited to a transitional phase
- while some recent policy developments are positive, several issues have also generated greater uncertainty....land reform *is* necessary but needs to be carefully managed
- uncertainties are thus the *cumulative* impact of factors like EWC, the revised mining charter, the NHI proposals, the continued Eskom saga, and political factionalism
- a sustained strengthening in investor confidence depends on more certainty emerging about economic recovery *and* structural reform
- latest GDP figures for South Africa, given that the SARB last week reduced its growth forecast for 2018 from a previous 1.7% to 1.2%, even lower than the revised growth expectations of private sector economists
- highlights formidable challenges being faced to turn the economy around...*no* magic wand

WHAT ABOUT BUSINESS AND FUTURE OF THE ECONOMIC SYSTEM IN SA-'INCLUSIVE CAPITALISM?'



IN A NUTSHELL, IT CAN NO LONGER BE 'BUSINESS AS USUAL' IN SOUTH AFRICA - THERE ARE OPPORTUNITIES AND RISKS.....(1)

- strong anti-business sentiment has developed, not only in South Africa, for various reasons, including recent bad corporate behaviour and financial scandals
- again raises serious questions as to how the economic order broadly relates to the moral order in a country like South Africa
- markets and business need *political* support, yet their very functioning often erodes that support....mixed messages in South Africa, partly because of its apartheid history e.g. 'white monopoly capitalism'
- if the economic system is not seen to be basically *competitive, rule-based, accountable* and *inclusive*, risk of backlash against business inevitably arises
- well-functioning markets in a *mixed* economy occupy middle ground between the absence of rules and presence of suffocating rules

IN A NUTSHELL, IT CAN NO LONGER BE 'BUSINESS AS USUAL' IN SOUTH AFRICA - THERE ARE OPPORTUNITIES AND RISKS.....(2)

- business therefore needs to take a *long term view* of its commitment to the South African economy...helps to shape the post-Zuma dispensation
- we need to *urgently* promote what might called *inclusive capitalism* by giving many more people in South Africa a much bigger stake in the economy to uphold and defend, whether it is in jobs or land
- socio-economic issues are not so much tangential to the 'business of business' as fundamental to it - unemployment, poverty and inequality
- the new mantra is 'doing well by doing good'....good corporate citizenship needs to be taken to the next level
- recognize that 'business should be good for society and society good for business'
- nonetheless there remain necessary but hard trade offs often to be made between *economic efficiency*, *equity* and *individual liberty* for all major stakeholders

THERE ARE HARD TRADE-OFFS THAT NEED TO BE MADE.....FOR GOVERNMENT, BUSINESS AND LABOUR



Source: Keith Lockwood

CONCLUSION

'In this world, the optimists have it, not because they are always right, but because they are positive. Even when wrong, they are positive. That is the way of achievement, correction, improvement, and success. Educated, eyes-open optimism pays; pessimism can only offer the empty consolation of being right'

David Landes, *The Wealth and Poverty of Nations*



THANK YOU



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