

Aim Low - a fresh look at inclusive economic growth for South Africa

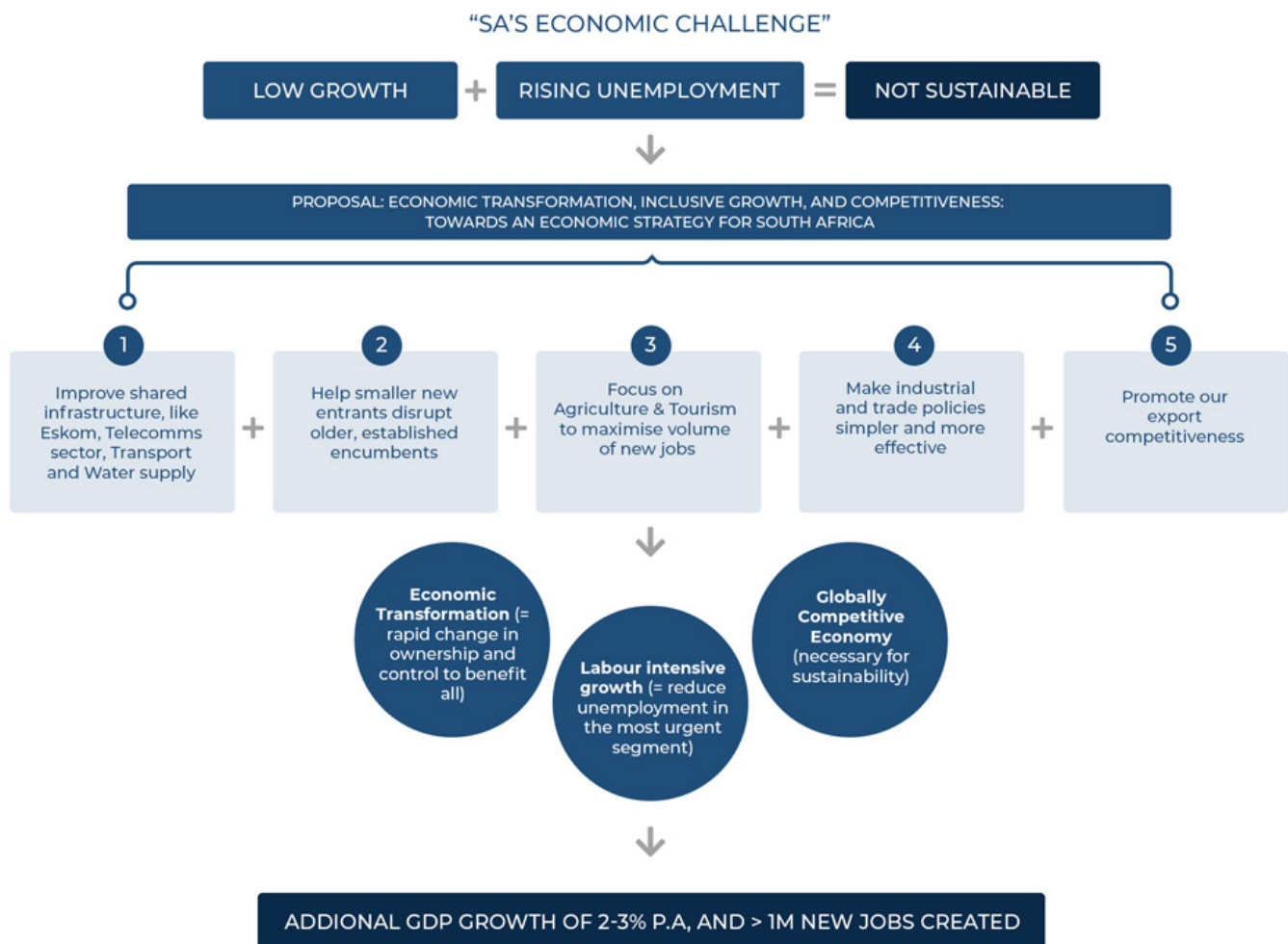
Finance Minister Tito Mboweni has recently put forward a new economic growth plan for South Africa. It comes at a difficult time, as the local economy has struggled both in terms of growth, but also governance. Successful execution of plans such as this are critical in the country's recovery. In this month's article, we try to convey the main themes guiding the plan and the intended benefits it will bring to the economy.

The most startling and perhaps most refreshing part of the proposal are the relatively modest targets set for itself. Our three most recent economic policies have promised:

- 6% GDP growth levels, and a halving of unemployment by 2014 (Accelerated and Shared Growth Initiative for South Africa - 2006),
- 5 million new jobs, and unemployment levels at 15% (New Growth Path, 2010),
- 11 million new jobs (National Development Plan, 2012) and full employment by 2030.

In this company, low ball figures of 'up to one million new jobs' and an additional '2-3%' GDP growth seem to lack the ambition of prior plans. Could it be though that the new proposal is achievable and realistic? Perhaps it's a small victory that is needed to correct the course for our economic recovery.

Below we outline the structure of the plan to simply convey the important parts (the published document is a relatively heavy 77 page read):



One of the main points highlighted by the Minister is that there is a virtuous circle possible if this approach is followed: economic transformation drives inclusive and sustainable growth, which in turn drives a higher growth rate and reduced inequality amongst the population. Coming full circle, this creates further rounds of economic transformation and so we go. Onwards and upwards.

While it is easy to get lost in the economics terminology and the intangible concepts, the reality of the proposal is straightforward: start now rather than undertake a protracted analysis process; get some quick victories; a 'give and take' approach by stakeholders is needed to avoid further stagnation; support the underdog rather than big business; but partner with big business to make significant steps forward in delivery. Level the playing fields and do some house-cleaning on service delivery and governance to make sure the positive steps are not derailed.

There are a few themes which rise out of the proposal put forward which aim to achieve this daunting objective. The various focus areas do seem to represent achievable goals, and this does appear to be a strategy taken by the Minister to start building momentum by starting small.

David vs Goliath

The first is that of supporting small business and the under skilled part of the labour force, who are also the least employed. Several of the initiatives, particularly lowering barriers to entry (#2 above in the diagram), speak to reducing red tape for new businesses to setup, evening out the playing fields against large established business who have the means to navigate bureaucracy. Assistance with funding and support for these new entrants is highlighted, including allocation of government directed projects to provide an initial boost. Aside from hopefully creating new market competitors, the hope is that they will also assist in driving down competitive prices for consumers, particularly amongst sectors which appear tightly held, such as banking and telecommunications.

The other benefit is a move to correct what are referred to as 'distortions in ownership' as a legacy of the past. There is a broad focus on ensuring that those at the lesser end of the skills spectrum are promoted and supported – this a clear counter to what seems to be a structural shift in industry (in SA and offshore) away from labour intensive industries as technology becomes more pervasive. This shift hasn't been helped by SA's tight labour laws which discourage adding to employee numbers, however there are plans to relax these laws for smaller businesses, which employ up to half of the labour force in aggregate.

A barrier frequently mentioned is that due to historical reasons, previously disadvantaged candidates live much further away from the larger work nodes, increasing their costs and reducing discretionary income substantially. Several initiatives are designed around reducing this indirect cost.

The concluding point is that this policy clearly outlines an approach to creating employment from the bottom up (i.e. through government assistance and regulation), rather than relying on existing larger businesses creating new employment in the private sector.

Improved governance and service delivery

The second theme is a clear acknowledgement that significant improvements need to be made within government to enable these policies to stand a chance. Areas such as the management of State-Owned Enterprises, execution of policies which have been agreed, financial governance and transparency are all identified as impediments to growth. This honesty is refreshing to see. The fact that certain divisions, such as rail, roads, ports and water don't have independent regulators has been specifically highlighted as an easy win with many precedents showing a direct benefit through independent regulation. This falls within the overall goal to “modernise the network”, which is to highlight that various growth objectives are impossible if the basic services are not robust. This includes the basics, like electricity, telecommunications, transport and water supply. Each of these industries is likely to undergo some form of change in future, should these policies be implemented.

Partnerships with the private sector

Thirdly, there is a desire expressed to work more closely with private business in areas which allow for the speedier delivery of some of the proposal objectives. One example is the potential to open the Transnet network to private operators, and to take lessons from

the Independent Power Producers project which raised almost R200bn in new investment through partnerships between the government and private sector. Bringing the private sector in to infrastructure projects has also been targeted as an objective, in addition to using these opportunities to upskill new entrants through sub-contracting arrangements. The private sector is seen as a short-term execution partner, a medium-term skills transfer mechanism, and a longer-term global competitor to help drive sustainable growth.

Target the low hanging fruit

The two key sectors identified as driving the highest number of jobs in the near term are agriculture and tourism. Both involve the inclusion of lesser skilled employees, particularly in more rural areas which are currently most exposed to the lack of growth prospects. In the case of agriculture, there is a commitment to assist at all levels of the value chain, from funding through to support services. This includes provision of specialist insurance to protect against the inherent variable nature of these businesses, as well as trade promotion and exposure, support via government contracts and ensuring there is adequate reliable water supply. Agriculture is one of the best placed sectors to contribute broad based wealth in the economy based on how many other areas of the economy it touches.

For tourism, there is recognition that the promotion of South Africa as a foreign tourist destination has been hugely inadequate and this is an area which can be improved on quite quickly (we currently rank 130th out of 136 countries on tourism marketing spend). This is also a sector which can add to employment in rural areas. There is additional focus now on reducing barriers for tourists, such as the visa requirements in place, and to improve the “perception” that SA is a high crime country.

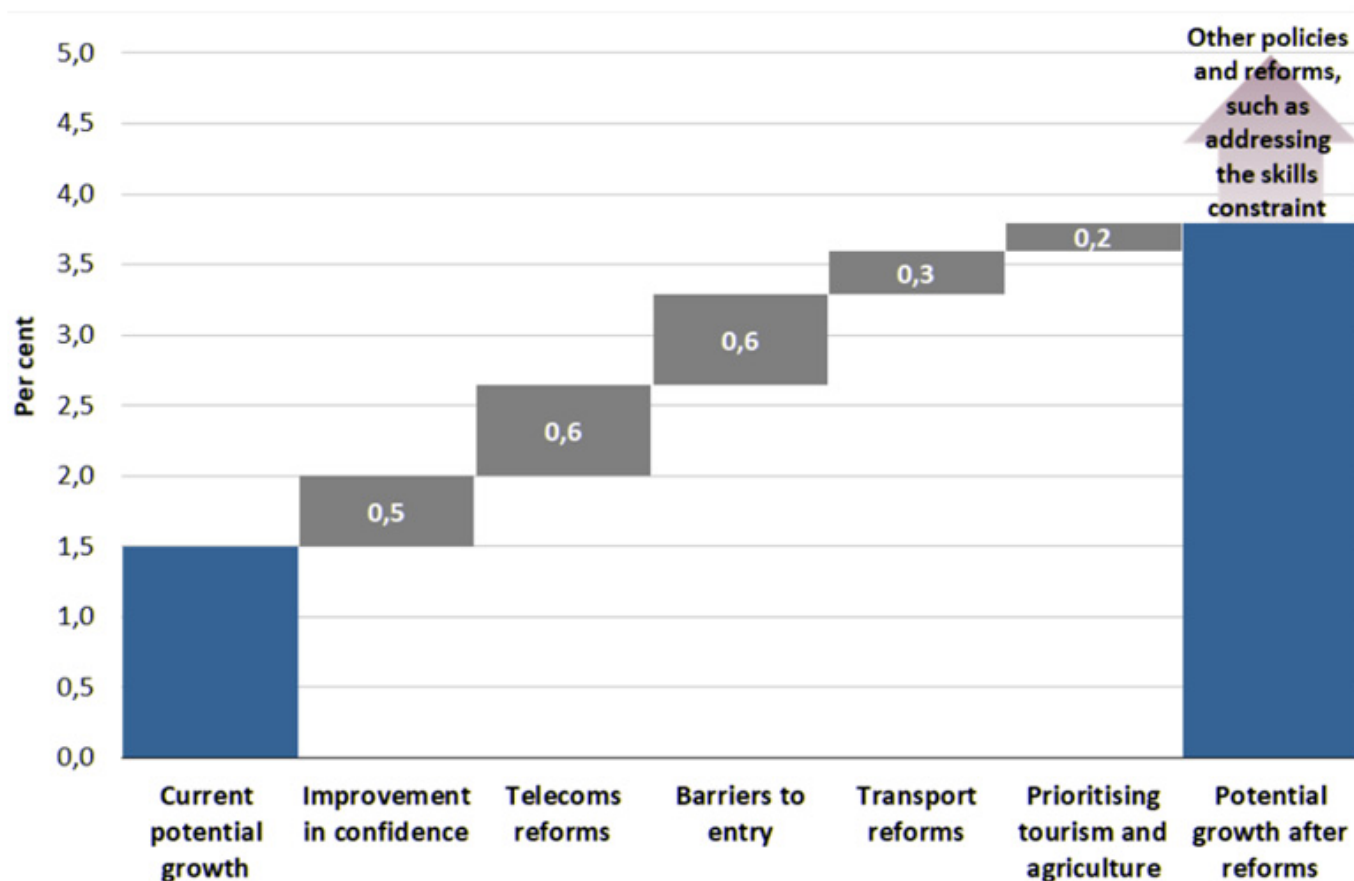
Box Smart

There are some easy wins across our borders, where trade within the SADC region can be prioritized and simplified through better trade agreements and focused marketing, and where growth from this region is already evident. This growth in trade provides a more compelling global trade ability which allows local businesses to expand exports offshore in a more competitive way as they increase their size and operating scale. This is a particularly attractive outcome for the economy as it makes SA less reliant on foreign imports over time, improving financial stability.

This new set of policies comes with a target goal in terms of economic growth and employment creation: over one million new jobs and a permanent addition of 2 to 3% GDP growth per year. To put this in context, SA's GDP growth currently skirts between 0 and 2% per annum, with no near-term prospect of any decent recovery. So, despite these objectives seeming unambitious, they are certainly material and will create a significant base from which to implement further steps.

The chart below shows the intended sources of value add to the economy, taking our GDP from 1.5% to 3.8% over the medium term (7 years plus).

Figure 2: Estimated impact of reforms on potential growth



Source: Based on estimates from the Modelling and Forecasting Unit's SAGE model

While the policies and objectives may seem like quick wins in some cases, and the growth targets quite moderate, this is set within an environment with a hugely daunting set of issues. Just reading through the policy document you start to get a sense of how vast and complex our country's issues are.

Aim Low, score some wins, and pave the way to success. It's a refreshing take on growth from our government and we look forward to seeing positive steps made.

The Fundhouse Team

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September 2019

data provided by Reuters and Datastream

30 September 2019

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
LOCAL MARKET INDICES									
FTSE/JSE All Share Index (ALSI)	ZAR	-4.6%	7.1%	1.9%	5.1%	5.3%	11.5%	11.3%	11.9%
FTSE/JSE SA Listed Property	ZAR	-4.4%	1.3%	-2.7%	-3.5%	3.2%	11.2%	13.8%	13.3%
SA All Bond Index (ALBI)	ZAR	0.8%	8.4%	11.5%	8.9%	8.3%	8.8%	7.6%	6.9%
SA Cash Index (SteFI)	ZAR	1.8%	5.5%	7.4%	7.4%	7.1%	6.5%	0.2%	0.3%
Balanced Benchmark	ZAR	-0.8%	9.5%	5.8%	6.8%	7.4%	11.6%	7.5%	7.5%
SA Inflation (1 month lag)	ZAR	1.0%	3.4%	4.3%	4.7%	4.9%	5.1%	1.3%	1.3%
GLOBAL MARKET INDICES									
Global Equity (Datastream World)	USD	0.7%	18.1%	2.4%	10.8%	7.8%	9.6%	11.6%	13.0%
Emerging Markets Equity (Datastream EM)	USD	-4.1%	6.2%	-1.6%	6.4%	2.7%	3.7%	15.6%	17.0%
Global Bonds (Barclays Global Bond Index)	USD	0.8%	6.3%	8.1%	1.2%	1.8%	1.7%	5.3%	5.6%
Global Cash	USD	0.6%	1.9%	2.5%	1.9%	1.3%	0.8%	0.3%	0.2%
MAJOR INDICES BASED TO RANDS									
FTSE/JSE All Share Index (ALSI)	ZAR	-4.6%	7.1%	1.9%	5.1%	5.3%	11.5%	11.3%	11.9%
Global Equity (Datastream World)	ZAR	8.2%	24.5%	9.7%	14.5%	14.3%	17.5%	15.6%	13.9%
Emerging Markets Equity (Datastream EM)	ZAR	3.1%	12.0%	5.4%	9.9%	8.9%	11.2%	13.6%	12.7%
SA All Bond Index (ALBI)	ZAR	0.8%	8.4%	11.5%	8.9%	8.3%	8.8%	7.6%	6.9%
Global Bonds (Citigroup)	ZAR	8.4%	12.0%	15.9%	4.5%	8.0%	9.0%	14.9%	14.0%
COMMODITIES									
Gold (US Dollars)	USD	4.4%	15.0%	23.7%	3.7%	4.0%	3.9%	13.2%	16.4%
Gold (Rands)	ZAR	12.2%	21.3%	32.6%	7.1%	10.3%	11.4%		
CURRENCIES									
Rand / Dollar	ZAR	-7.5%	-5.4%	-7.1%	-3.3%	-6.1%	-7.2%	15.7%	15.1%
Rand / GBP Pound	ZAR	-4.1%	-2.0%	-1.3%	-1.5%	-0.4%	-4.4%	16.6%	14.7%
Rand / Euro	ZAR	-2.9%	-0.5%	-0.6%	-2.3%	-3.0%	-4.1%	14.8%	13.5%

Spot Rates		30-Sep-19	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US\$	Rand	15.16	15.16	14.15	11.30	7.58	6.00
Rand/GBP	Rand	18.68	18.68	18.45	18.32	12.12	9.88
Rand/EUR	Rand	16.53	16.53	16.44	14.27	11.08	6.39
RATES							
Libor 6m \$	US\$	2.06	2.06	2.60	0.33	0.63	5.96
Repo Rate	Rand	6.50	6.50	6.50	5.75	7.00	12.40
Prime	Rand	10.00	10.00	10.00	9.25	10.50	16.50
All Bond Index Yield	Rand	9.47	9.47	9.65	8.50	8.86	N/a
COMMODITIES							
Gold (\$/oz)	US\$	1,473.85	1,473.85	1,191.49	1,212.83	1,002.00	301.00
Platinum	US\$	900.00	900.00	815.00	1,300.00	1,287.00	393.00
Oil (Brent Crude) \$	US\$	60.89	60.89	82.79	94.72	65.70	24.04
INFLATION							
SA Inflation	%	4.3	N/a	4.9	6.0	5.0	N/a

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