Investors in SA need a long-term view

The social, political and economic situation in South Africa is likely to become more turbulent in the short term to medium, and investors in the country need to take a long-term view, says analyst Dr Frans Cronje.

The new government's 'New Dawn' vision is stillborn and will not be sufficient to overcome the challenges South Africa is facing, and investors in the country will need to be prepared to wait it out for years to see returns.

This is according to Dr. Frans Cronje, scenario planner, director of the Centre for Risk Analysis and author of the *Time Traveller's Guide to South Africa in 2030*, who was addressing a business briefing hosted by Enterprise Ireland and Business Ireland Southern Africa (BISA) in Johannesburg.

Delivering an analysis of the driving forces shaping South Africa today and their implications for the investment environment, Cronje said the government's past economic failures, policy uncertainty, poverty and unemployment, and the situation at Eskom were not being adequately addressed and that this was unlikely to change over the medium term. Describing the current situation, he quoted former US President Lyndon B. Johnson: "I feel like a jackrabbit caught outside in a Texas hailstorm, I cannot run. I cannot hide. And I cannot make it stop."

Cronje outlined four possible scenarios that could emerge in South Africa.

"The best case scenario is the Rise – the modernisation will occur, the New Dawn is imminent, the long game will come off and the ruling administration will understand the importance of devolving much of the responsibility for rebuilding the economy to the private sector and investors. We remain a free and open society, we become increasingly prosperous and a decade from now, things are actually looking pretty good." In this scenario, he said a strong showing in the election would allow the reformers to stamp their authority on the ANC, paving the way to structural reforms, the private sector central to the recovery efforts, empowerment policy is reworked to accelerate the progress of poor people into the economy, the labour market deregulated, authority over schools and policing is devolved into communities. "Confidence returns, employment begins to rise and the economy is averaging emerging market growth norms by 2030."

"Its polar opposite is the Fall – the stasis will set in: we will later learn that the ANC was incapable of reform or ideological modernisation. And as that occurs and the consequences for the ANC support become apparent, the party leadership will move swiftly to try and undermine the Constitutional order." In this scenario, while the ANC had a strong showing in the election, this strengthened not just Cyril Ramaphosa, but also the entire leadership framework of the ANC. Emboldened by this, they dismiss the need for reform and pursue instead a swift assault on property rights, which would trigger the erosion of civil rights. "When people realise that they've been duped, they attempt to rise against the system and get knocked back amidst growing levels of state violence. That accelerates capital and skills flight out of the country, the currency dives as government policies drive more wealth extraction than wealth creation and we slip into a decade deep recession, from which it will be very difficult to recover."

Two other scenarios are also possible, he said: "In the Takeover scenario, the ANC again proves incapable of internal ideological modernisation. However such modernisation later occurs driven by influences outside of the party in the form of an effective management takeover of the party. South Africa runs out of money and we have to go and borrow it from someone and whoever lends it to us says there are conditions and these conditions relate to structural reform. This outside influence might be either the IMF or the Chinese. In both cases, a lot of policy-making will be centralized outside of the country. If it's Chinese, South Africa may surrender some limited civil liberties but could become a far more prosperous society as South Africa emerges as the 'poster child' for Belt and Road expansion.

Cronje's fourth scenario is Fragmentation: "Stasis sets in and cannot be overcome, the state starts to run out of money, and as it does, its influence over society begins to shrink. This doesn't leave vacuums in its wake, it leaves enclaves where independent communities begin to appropriate for themselves what were previously the functions of the state." He notes that 20 years ago, there were 100,000 'boots on the ground' policemen on the ground in the country, and around the same number of security guards. There are now around 150,000 policemen on the ground, while private security guards number over 500 000. "This shows the extent to which the defining characteristic of the modern state – monopoly of violence in a society – has already been surrendered to the private sector, and we are far further down the Fragmentation road than we realise," he said.

Cronje said that he thought the fragmentation outcome was most likely to materialise.

Marc Corcoran, chairman of BISA Johannesburg, said: "Given the current state of the economy and the GDP numbers, the recent elections, confusing messaging from government, and US-China trade wars we can certainly say we are living in turbulent and uncertain times."

Fred Klinkenberg, director sub-Saharan Africa of Enterprise Ireland, noted that South Africa's situation mirrored Ireland's experience some years ago, when the country embarked on a highly successful economic turnaround. "There are similarities between where South Africa is today and where Ireland was," he said. "We were an export-led economy until the 90s, and then we discovered investment in property. We started borrowing and buying property around the world. Around the year 2000, the crash in Ireland happened, GDP went down around by around 10%, we had a budget deficit of 12%, which makes the budget deficit of 4% in this country look modest. In 2007, we were on our knees. We borrowed, unemployment rose to 15% and we had a financial crisis and needed a bailout. The bailout was done on the condition that we needed to develop a platform for economic growth, so partnerships were formed between government and corporations, trade unions, employers and education to develop the growth strategy.

We are a small country of 4.8 million people with no natural resources to speak of, but today Ireland has a surplus on the budget. We based the growth of the economy on two key areas - foreign direct investment and SMEs. These focuses are very similar to what is happening in this country. In the SME sector, which is where we play, we deal with 5,000 companies and they employ 300,000 people – for the first time, SMEs now employ more people than the large companies do. SMEs are core to a growth economy. Ireland now has a robust export economy and attracts more FDI than any other European country, with over $1 Trillion in US FDI alone."

In addition, he noted that 62% of Ireland's young people now go on to third level (tertiary) education, compared to 16% in South Africa. Klinkenberg said: "So there is hope – things can change, but you need to focus on a couple of things: there have to be partnerships and investment in education, the entrepreneurial environment must be developed, research and development must be stimulated, and fiscal management and growth are crucial."

Enterprise Ireland, with an African presence in South Africa, Kenya and Nigeria, is a bridge between businesses in Ireland and the world, spending over 300 million Euros a year on enterprise development through VC and preferential shareholding.

BISA is a voluntary association, primarily intended to create a platform for business and trade between Ireland and South Africa.