IRR

Live free. Prosper.

#WhatSACanBe

100 DAYS TO UNLEASH ECONOMIC GROWTH AND GET SA BACK ON TRACK

INVESTMENT: ELIMINATE BARRIERS, EMPOWER JOB CREATORS

Table of Contents

August 2024

Published by the South African Institute of Race Relations

222 Smit Street (Virtual office),
Braamfontein Johannesburg, 2000, South Africa
PO Box 291722, Melville, Johannesburg, 2109, South Africa
Telephone: (011) 482–7221

Editor: **Hermann Pretorius and Michael Morris** Typesetting: **Mbali Mayisela**

Cover Design: **Bonginkosi Tekane**

Introduction

For the first time in three quarters of a century, South Africa has ceased being a one-party-dominant state. The era of predictable and inflexible government power is over. In its stead, South Africans now find themselves in a new era of politics – one that must be defined by pragmatic, pro-growth policy. It is in this spirit that the South African Institute of Race Relations (IRR) has decided to publish *#WhatSACanBe: 100 days to get SA back on track,* a series of nine short papers each focusing on a different key policy area. Taken together, these papers offer a dynamic programme of action for the Government of National Unity (GNU) as it sets out its aims and gets to work earning the trust of South Africans.

The 2024 elections drew a fundamental dividing line in our politics between the country's pro-growth coalition – in the main represented in the GNU – and the pro-poverty parties, which have been denied access to the levers of government power.

But this arrangement is precarious. For democratic consolidation to succeed, the GNU must record notable governance wins in the short term. The policy proposals in this publication series show how a GNU can initiate crucial reform, quickly.

Embarking on a 100-day period of catalysing reform will make maximum political capital available to the GNU and its members. Public sentiment tracks upwards in the slipstream of economic improvements. A period of one hundred days following the first full meeting of the new GNU forms a natural timeframe within which pragmatic, constructive and meaningful government action will ensure an environment of good faith towards the GNU.

The responsibility to make the most of this moment by adopting a proactive, pragmatic plan of government lies heaviest on the leaders of political parties that find common cause in constitutional democracy, the rule of law, and good faith to remedy past failures and build on past successes. If the GNU is willing to do more together to rescue South Africa, this historic moment will be the rebirth of a hopeful rainbow nation.

Parties that occupy the pro-growth mainstream of South African politics based on the common ground of an economic system built on thriving businesses and job creators of all sizes able to operate in a fair, free and responsibly regulated economy; that believe in the ability of individuals and communities to find solutions; that acknowledge the fundamental role and dignity of secure ownership of property and the repudiation of historical crimes against South African property owners; that seek to protect and promote the rule of law; and that hold true to the non-racialism of our Constitution – these parties, as a single constellation, hold between them the capacity to give South Africans hope again. At the core of these convictions lies the critical matter of economic growth – the catalyst for upward social mobility through jobs and a reliable welfare system. Achieving economic growth is the primary challenge and opportunity for the GNU.

Five tests for any reform proposal

The GNU needs a set of policy solutions that satisfies at least five key criteria:

1. Multiple GNU partners will have to support the proposed policies;
2. Labour interests, workers, entrepreneurs, businesses, markets, and investors should be left in no doubt that fundamental and positive changes are being made in the policy environment;
3. External stakeholders will have to be brought on board, or ways will have to be found to address their opposition;
4. The policy solutions will have to make a substantive, tangible change in the lives of ordinary South Africans in the short, medium, and long term; and
5. The outcomes of policy solutions have to be popular with the electorate, with the goals being clearly communicated by the GNU.

Every #WhatSACanBe policy reform is therefore scored on the basis of five simple questions:

1. Will voters support it?
2. Will economic stakeholders welcome it?
3. Will GNU partners buy into it?
4. Will the media support it?
5. Will opponents derail it?

Context of crises

Amidst the euphoria of taking office, the new administration must be under no illusions about the scale of the challenge. Some of the crises the GNU faces are, in no particular order:

1. An ineffective, bloated, and politicised civil service;
2. An overburdened judicial system that risks losing public trust;
3. A decline in the general standing, independence, and fairness of judicial officers;
4. An ineffective police force likely antagonistic to reform;
5. A small and shrinking tax base under immense strain;
6. Increasing water shortages across the country;
7. Violent crime, especially against the most vulnerable, running rampant in sub-middle-class areas;
8. A local currency of fluctuating reliability;
9. High levels of government debt;
10. Consistently high unemployment and youth unemployment rates;
11. Failing and unreliable road, rail, and port infrastructure;
12. Mass blackouts of power in large parts of the country due to a national power grid functioning at close to 60% capacity; and
13. Child malnutrition in rural and inner-city areas.

With the above as the context, proper consideration can be given to setting out a viable and successful path forward.

Great as these challenges would be to any incoming government, a pragmatic and outcomes-focused programme of government will ensure a vigorous turnaround and the introduction of pro-growth policy consensus.

Priorities of the people

Polling by the IRR over the past decade has repeatedly emphasised the key priorities of South Africans, revealing surprising unity across demographic divisions. The most recent survey indicated the following priority problem areas:

- Unemployment and job creation
- The abuse of women or children
- Corruption
- Electricity or load-shedding
- Housing
- Water and sanitation
- Education
- Poverty
- Inequality, including gender and racial inequality
- Health care

Economic growth forms the foundation of all solutions in these priority areas. To earn maximum political capital from their initial policy actions and announcements, it is advisable that policymakers focus on economic growth as the key to meeting public demands on these priorities, ensuring that the government's agenda is unambiguously pro-growth.

From the above, it is clear that one of the policy categories in which positive change will most likely generate political capital for the new government is investment. Therefore, this third paper in the *#WhatSACanBe* series focuses on eliminating barriers to investment and empowering job creators.

Investment: Eliminate barriers, empower job creators

What should the GNU do?

The GNU should open up South Africa to trade and investment. The government wants to create prosperity at home; to do that, it needs to take the South African economy into the world. To serve that broader goal, localisation master plans must be scrapped, along with current efforts to undermine property rights.

Why should the GNU make this change?

Localisation and expropriation deter investment.

Localisation, expressed through a series of master plans, will be attained through two broad paths: subsidising local businesses and products, and imposing higher tariffs on imported goods and materials. At present, 42 products have been designated for localisation support.

In the short term, cancelling initiatives such as expropriation without compensation (EWC) and the National Health Insurance (NHI) will signal to investors that their investments in South Africa are safe. Axeing localisation will show local businesses that the government will not artificially boost "local champions" or designated products. This will also help to normalise prices of inputs, enable participants across supply chains to make more accurate predictions and therefore set up their operations more effectively – ensuring that they will be in a stronger and more confident position to employ more people over the longer term.

The benefits will include, most notably, the organic growth of robust, integrated supply and value chains across sub-Saharan Africa. By cancelling localisation – and at the very least keeping tariffs and other import duties at current levels – the GNU will further encourage local confidence in the business environment, and thereby more business and other investment will take place.

How should the GNU make this change in terms of laws, regulations, etc.?

Through the Presidency, or alternatively through the Department of Trade and Industry and Competition (DTIC) itself, the master plans should be declared null and void. Localisation as such is not part of any law; it was simply pushed by the former Minister of the DTIC, Ebrahim Patel. Its continuation remains a big part of the problem.

Policies such as EWC and the NHI can be killed by simply abandoning efforts to introduce them.

Will it fly?

Will voters support it?

Freer trade is often difficult to sell to voters; the benefits are many but accrue over a longer period of time. This is especially true when politicians can win points by being seen to "protect" local business and industry – while in truth, protectionism simply punishes local consumers, and artificially boosts some businesses over others.

The benefits to under-pressure consumers, not least in the form of lots of cheaper products, must be the central focus of messaging and of "selling" the idea.

In the area of property rights, polls show that most South Africans want to be able to own property securely and want to be able to choose their health care.

Will economic stakeholders welcome it?

When there are fewer barriers to trade, investment (in various forms) is much more likely to occur. Capital will flow along the path of least resistance; if South Africa can remove major barriers to investment and capital formation, namely localisation plans and threats to property rights, investors will be much more inclined to invest in the country.

Will GNU partners buy into it?

GNU partners who understand the importance of fair and growth-focused economic policies will agree that excessive and unaffordable government intervention, failed policies that are hostile to property ownership, and economic barriers related to localisation, will harm the country's investment prospects. However, the message on localisation may be difficult to sell to business owners and workers exposed to foreign competition; this difficulty must not be dismissed out of hand, but can be countered effectively with sound data and case studies showing that localisation would not actually answer the concerns of local workers and businesses.

Will the news media support it?

It appears that more and more voices and analysts in the media are beginning to recognise that current policies are not producing growth. This means they could be enlisted in the push against localisation plans as well as threats to property rights. These engagements should be couched in language that helps to make the connection between investment and wealth generation, most crucially for lower-to-middle income consumers and workers.

What's the downside?

Will opponents derail it?

It is likely that vested interests and the civil service will be most vociferous in opposing this proposal. In the case of localisation, companies that have been designated "champions" – beneficiaries of subsidies, protection and other forms of state support – won't want to let go as they will become more exposed to both local and global competition. In the case of threats to property rights, civil servants and government cronies who were hoping to cash in on EWC and NHI will resist having to let those opportunities go.

The intersection of government, labour and big business, for example at NEDLAC, must be influenced and if possible, pivoted towards better outcomes/incentives. If not, those players will continue to use their clout and resources to push for policies that protect them.

Additional measures:

- Repeal the Public Procurement Act;
- Open up rail networks to private investment and management;
- Open up the ports to private investment and management;

- Restore Bilateral Investment Treaties (signal to Western countries that the South African government is serious about attracting investment, signal to China that it will have to up its game if it wants to retain its influence), and
- Strengthen Special Economic Zones (ease restrictive labour laws, suspend the application of BEE, reduce taxes).

Conclusion

The GNU has the opportunity of a generation to unlock South Africa's growth potential.

Yet, for reasons both within and beyond our control, much could happen to spoil this opportunity. To maximise our chances of success, it is our duty to prepare as comprehensively as possible. Let no-one say that the opportunity was lost because of laziness, a lack of preparation or the failure to focus on the task ahead.

The 2025 State of the Nation Address (SONA) will give the GNU the chance to fully implement the democratic promises of its electoral mandate and act on the collaborative commitments outlined in its framework. It will usher in the beginning of the implementation of the goals established at the National Dialogue.

#WhatSACanBe: 100 days to get SA back on track, therefore, sets out a series of reform policies to encourage dialogue on the concrete actions and policy proposals that must emerge from the upcoming National Dialogue if South Africa is to change course and avoid an irreversibly bitter future. A firm and clear programme of government must come out of the National Dialogue – it will allow the GNU to seize the initiative and build on the momentum of the pragmatism of the multi-party effort. This paper contributes to mapping out the governance agenda for the first 100 days and influencing the governance agenda for day 101 and thereafter.

This policy programme offers a transformative blueprint designed to fundamentally reframe South Africa's investment climate and to ensure a stable and attractive economy for future sustained investor confidence. We must open South Africa to trade if we are to attract any investment at all.

To this end, the GNU must:
- Scrap localisation master plans that raise unnecessary barriers to investment;
- Secure property rights for all South Africans;
- Ease pressures on local business by cutting onerous and damaging regulations; and
- Encourage and engage in competitive global trade.

The measures proposed here cover only a fraction of potential reforms, but they target the most pressing issues. Should the GNU be able to effectively set these reforms in motion during the 100 days following SONA 2025, these early victories would have the potential of altering the current negative perception many domestic and foreign investors have of the country and successfully turning the risk of creating an investor desert into the prospect of seeding a flourishing economic oasis.

IRR

South African Institute of Race Relations

www.irr.org.za

info@irr.org.za

(011) 482 7221