

South Africa: The debate on reforms is slowly starting



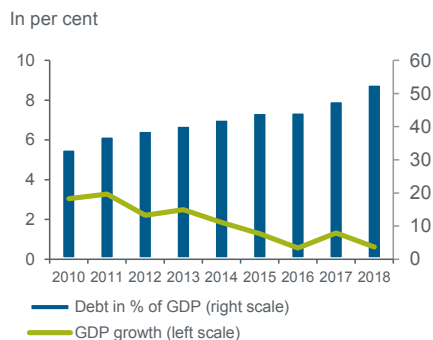
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Waiting for the Ramaphosa effect

The economy of South Africa – the most important location for German companies on the African continent – has been affected by pronounced structural weakness for a number of years. Government debt has risen and growth has slowed as a result (Figure 1). The transfer of power from Jacob Zuma (in office from 2008 to 2018) to Cyril Ramaphosa brought hope that the new president would re-energise the economy through reforms but this hope has not yet been fulfilled. Instead Ramaphosa is exploring avenues for reforms in agreement with the unions, which helped him get elected party chairman, his party, the ANC, and its coalition partner, the South African Communist Party (SACP) – a tedious process.

Figure 1: Economic problems are mounting



Sources: Eikon, Reuters, own calculations

Surprisingly, the Ministry of Finance has now presented a substantive reform plan which it believes has the potential to raise economic growth to 3.7% in the medium term and so reduce the high unemployment rate of currently 37% and the high debt level. The key points are the modernisation of state-owned enterprises and network industries (energy, railroads, seaports, telecommunications), cuts in bureaucracy for small and medium-sized enterprises, particularly with regard to the Black Empowerment Programme, and public procurement. Further goals

include promoting labour-intensive industries, such as tourism and agriculture, and strengthening the export sector. The proposed plan ticks all the right boxes by providing solutions to the country's most pressing problems. It could indeed push economic growth and lower the debt level as well as the high unemployment.

From populism to technocracy

The plan is highly political without being a product of policymakers. It shows how the Minister of Finance and his technocrats are working to speed up and shape the reform process. Contrary to previous practice, the plan is not a paper from the ANC that was approved by internal committees. The document is written in a neutral language and in a scientific tone. It is an attempt at uncovering deficits and offering workable solutions based on scientific evidence after years of populism in South Africa. The cabinet was not involved in preparing the reform plan either so as not to water it down. It also deliberately bypasses the governing party and the unions. The plan addresses the people at large and invites everyone to discuss and submit proposals of their own. Thus, it actively brings new actors into the political discourse. Business associations and the Democratic Alliance, the largest opposition party, have already declared their support.

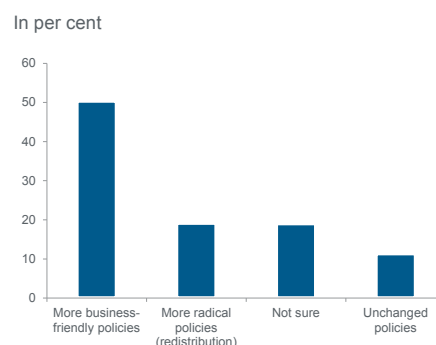
South Africans want more business-friendly policies

The Ministry's reform plan comes at a time when the population wants the ANC to make more business-friendly policies (Figure 2). The publication is a conscious move to capitalise on this sentiment and thereby exert pressure on Ramaphosa and the consensus.

The question is to what extent the trade unions in particular can distance themselves from this general sentiment,

especially since some parts of the reform plan explicitly refer to the current National Development Plan 2030, which acts as the main framework for policy making in South Africa. The plan was adopted by the governing parties 7 years ago and was supported by the unions. Therefore it will be difficult to oppose the reform plan as it contains elements that were already approved.

Figure 2: What agenda should the ANC pursue?



Sources: Marketdata, IRR

Successful reforms need an independent judiciary

The ANC responded to the proposal surprisingly positively. Nevertheless, it is uncertain whether it has the full backing of the party. Much depends on whether the old Zuma supporters within the ANC – who are seen as not so reform-minded – will first have to leave their posts due to increasingly compelling corruption allegations. Restoring an independent judiciary – the focus of the new government so far – is important for this and partly explains the reluctance to proceed with economic reforms. Given the developments of the past weeks, it is safe to say that things have started to move forward in the process. The mid-term budget speech on 24 October could deliver further indications on how the reforms will progress.