INCLUSIVE SOCIETY
INSTITUTE

Op-ed

SA's Jekyll and Hyde economy has investors second guessing
By Daryl Swanepoel

South Africa urgently needs to find a cure for the Jekyll and Hyde syndrome that so often leaves the economy reeling from the effects of its more troublesome personality. Like the fictional characters of the well-known tale where the likeable Dr Jekyll is transformed into the evil creature that is Mr Hyde, South Africa's strengths that potentially make the country a desirable investment destination often hide some darker realities that leave investors anxious and second guessing.

Investors seeking competitive returns linked to some of South Africa's comparatively superior fundamentals, become rattled by worrisome factors such as policy uncertainty, corruption, failing infrastructure, and the country's security situation, at a time when increased investment is sorely needed to spur a new wave of economic growth and aid recovery from the effects of the Covid pandemic.

Foreign direct investment (FDI) into the country has decreased in recent years. Before the global financial crisis of 2008-09, annual FDI inflow was about $9-billion. This fell to $5.1-billion in 2019 and $3.1-billion in 2020.

Since the dawning of democracy in 1994, South Africa has positioned itself as a 'gateway' for expanded foreign investment on the African continent. But in the past decade this has been undermined by falling confidence, linked to endemic corruption, weakened State capacity and deteriorating service delivery.

Despite a long history of injustice which has resulted in high levels of unemployment and racialised inequality and exclusion, South Africa's strong manufacturing base, world-class financial system and relatively skilled workforce have helped the country overcome its geographic disadvantage of being situated far from major trading partners.

In recent years these advantages have come to be eroded. Despite a population of nearly 60-million, the country experiences a shortage of human capital and companies find it difficult to conduct their business. Education system failures are to blame, but so is emigration. With a steady exodus of professionals leaving the country, the skills gap is not easily filled.

A major problem for foreign investors is that they have difficulty in bringing in foreign managers and skilled workers to run their enterprises. The application processes for permits and visas is cumbersome, time consuming and bureaucratic.

Black economic empowerment (BEE) is also viewed by many as a barrier to entry and a disincentive to foreign investment, with the shifting of BEE goalposts resulting in much uncertainty for investors.

The relative volatility of the rand is another factor that causes uncertainty for those looking to invest in South Africa.

Against this background, South Africa must identify strategies to position itself as an attractive and compelling investment destination in a highly competitive world. Serious investors take a long-term view, and that any uncertainties make their calculation of the reward needed to make investment viable, that much higher. These calculations are informed by the actual strengths and weaknesses of the South African economy and not by the promises contained in policy planning documents, of which there are many.

The Inclusive Society Institute has recently met with foreign investors to canvass their views on the investment climate and to come up with implementable ideas that will place the economy on a higher FDI and growth trajectory.

These foreign investors advise South Africa to build on the country's strengths. Bolster the industries where it has a competitive advantage, rather than entertaining those in which it is unlikely to have the upper hand. Money flows to where there is a competitive advantage. For instance, efforts should be directed at ensuring that the automotive industry and supply base are even more internationally competitive, especially as the shift to electric mobility gets under way.

Pruning ambitions to focus on a smaller number of deliverables will also help ensure that plans are implemented more effectively. Policy success in three to five key areas will go further than casting the net too wide without the means or capacity to implement overly-ambitious plans.

The country, for instance, is in a prime position to pursue sustainable energy investments and invest locally in 'green' hydrogen in a big way, with key resources readily available. Interest in such investment comes at a time when there is a global shift in mindset toward delivering advanced environmental, social and governance outcomes.

Should South Africa manage to deliver cheap, sustainable energy, it could attract industries that are no longer viable in the West, owing to space constraints or the higher cost of electricity. Sustainable energy investments will also help the country deal with its serious electricity supply issue, and such a shift would also make the transition to widespread electric mobility feasible.

South Africa should also establish itself, geopolitically, as an alternative base for manufacturing, should supply chains or trade routes be disrupted in other jurisdictions, as has been experienced in the wake of the Covid pandemic and by the closure of the Suez Canal earlier this year.

Since South Africa lacks the volumes required for multinationals to view the country's domestic market as a clincher, investors must be encouraged in other ways to feel there is a 'reward' justifying the 'risk' that they take investing in a country. This could be in the form of concrete action linked to the African Continental Free Trade Area which aims to open the African market to greater trade opportunities, as well as greater diplomatic focus on the trade agreements which the country is party to with the EU, China, India, the US and other parts of the world.

However, there is currently a trust deficit between government and business, specifically long-term investors. Persistent weaknesses are proving that government is long on rhetoric but less astute at clinching the deal. A concerted effort is needed to build trust between government, authorities, and businesses. Unless trust is restored, opportunities for growth and employment will be lost as business will view South Africa as being too risky.

Government must acknowledge that improved investor confidence will be the cheapest and most effective stimulus for the economy. Investors, both foreign and domestic, need to see government putting its words into action in order to regain confidence in the future of South Africa. It is time to bury 'Mr Hyde' and rediscover our African potential.

Daryl Swanepoel is Chief Executive Officer of the Inclusive Society Institute, an autonomous and independent research institute. This article captures the essence of the foreign direct investing sector's contribution towards the development of the institutes blueprint for the rejuvenation of the South African economy.

2 November 2021