ICT INFRASTRUCTURE 2019 Conference and Expo

What's needed to reignite growth in South Africa?

by Dennis Dykes, Nedbank

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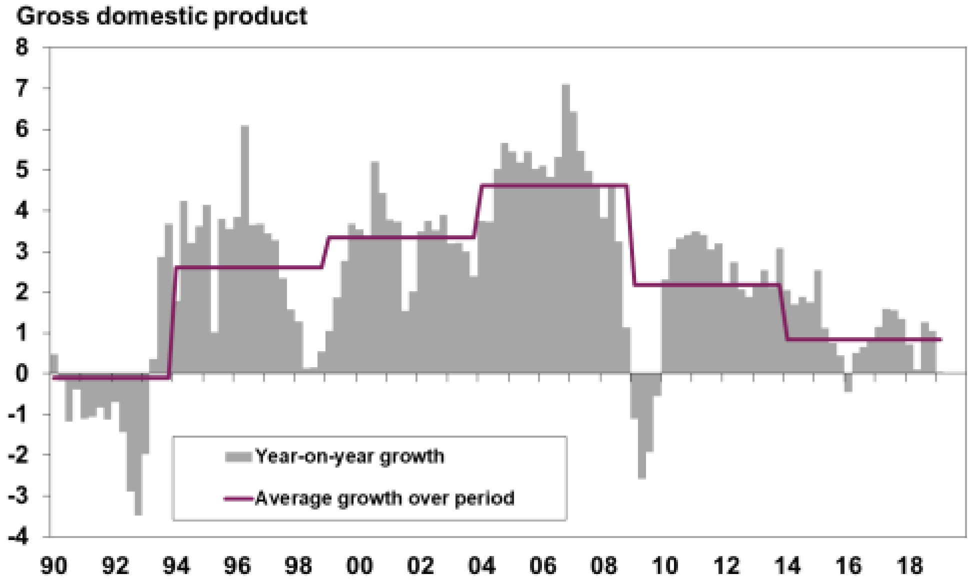
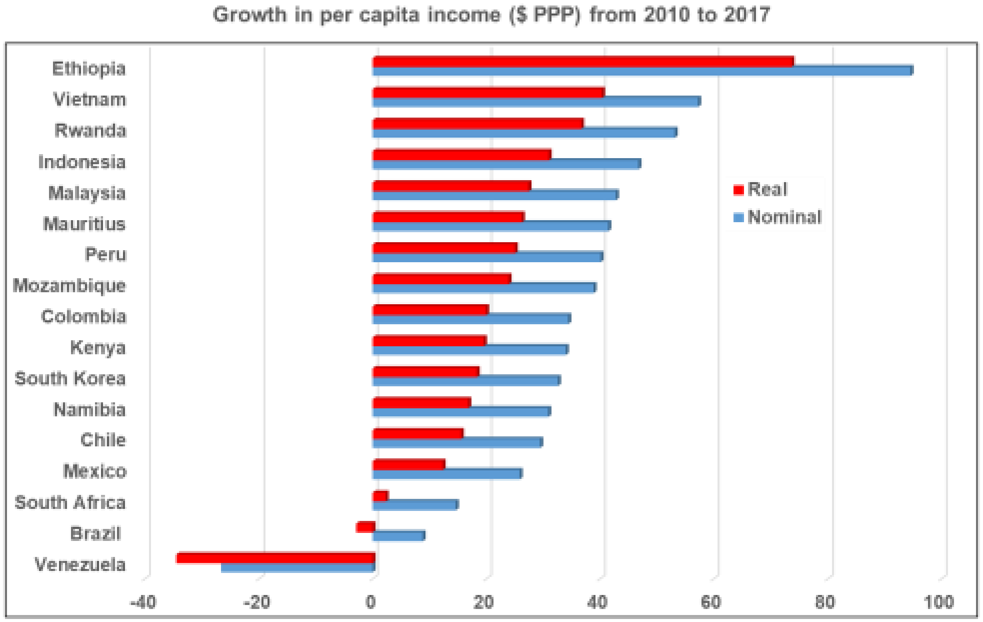
The economy has performed exceptionally poorly since 2010





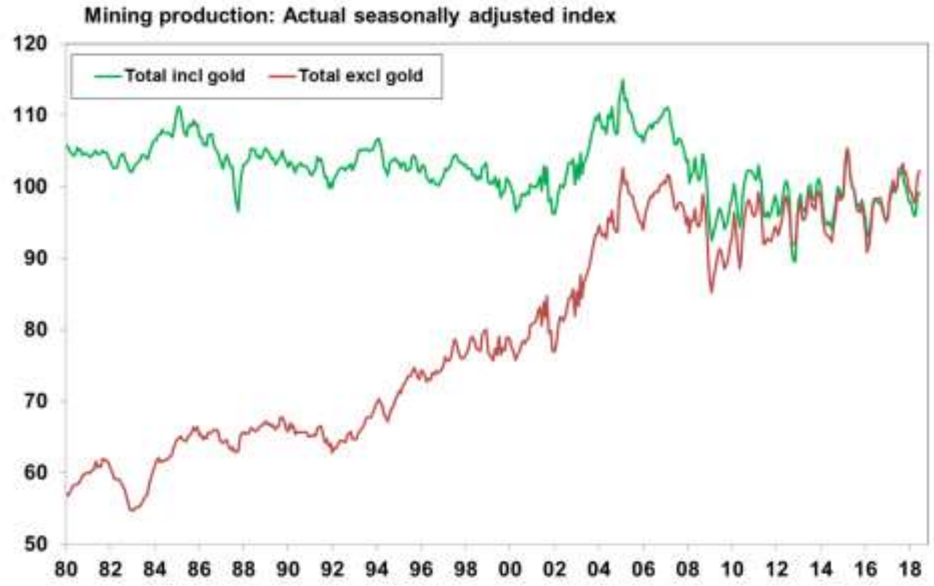
Growth underperformance has been both cyclical and structural

- The past 10 years have been by far the worst since democracy.
- The past five years are the second worst since reliable data commenced, including the sanctions and debt standstill years post 1985.
- So-called potential growth has come down consistently and is now just above 1% versus over 3% during the period up to 2012.

The global environment has played some part but we have performed badly compared with peer countries as well

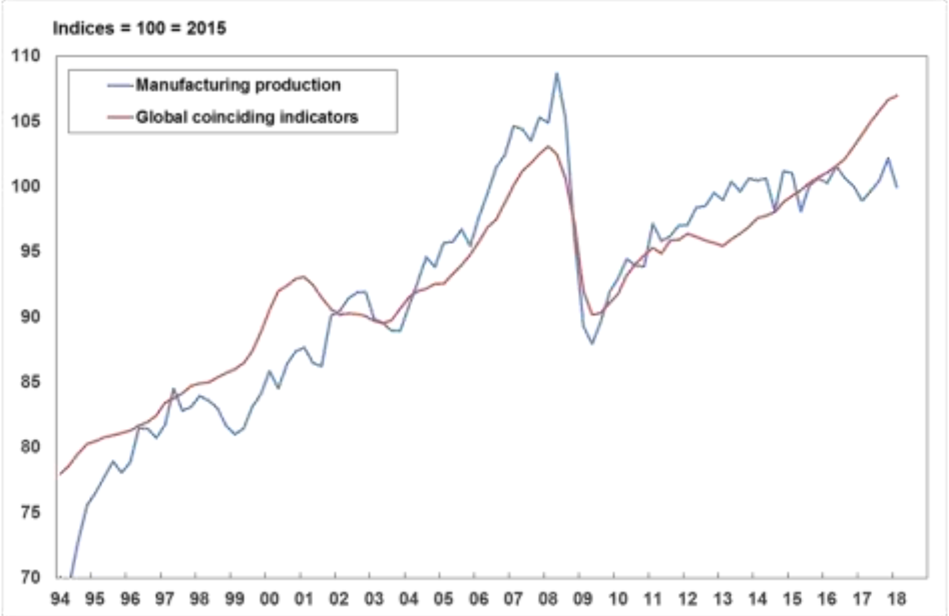
- Since 2010 growth in per capita income after inflation has been close to zero. Among peer countries (emerging market economies, commodity exporters, and other sub-Saharan economies), this is very low.
- In the list opposite only Brazil and Venezuela – spectacularly – have done worse.

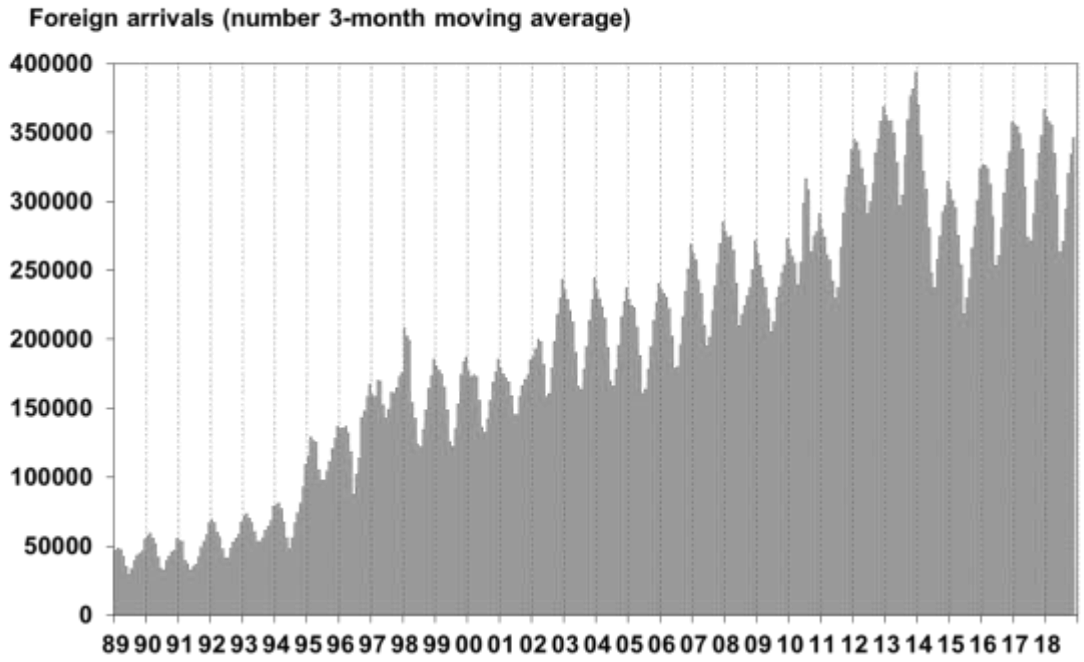
Key sectors of the economy have stalled



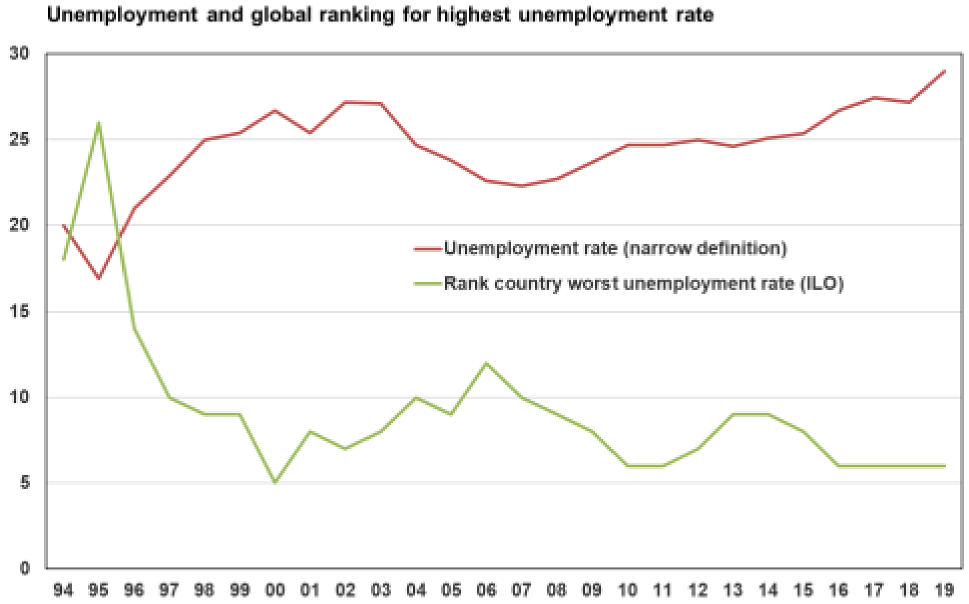
Mining, manufacturing and tourism have all flatlined in recent years

- Mining activity has been exceptionally poor post 2008
- Manufacturing activity failed to respond to a general pickup in global conditions in the post 2009 global economy.
- Tourism has also moved against more positive international trends prevailing up to 2018.



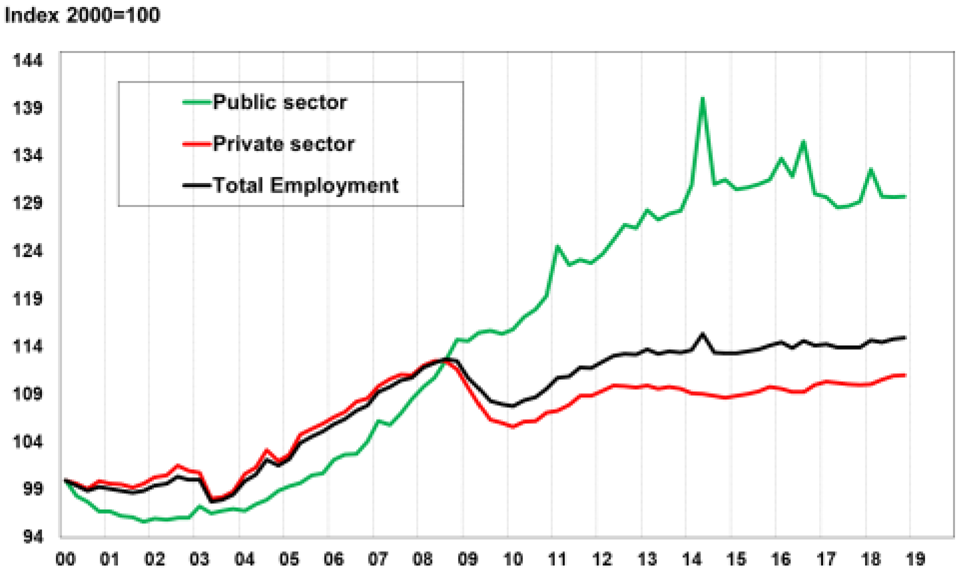


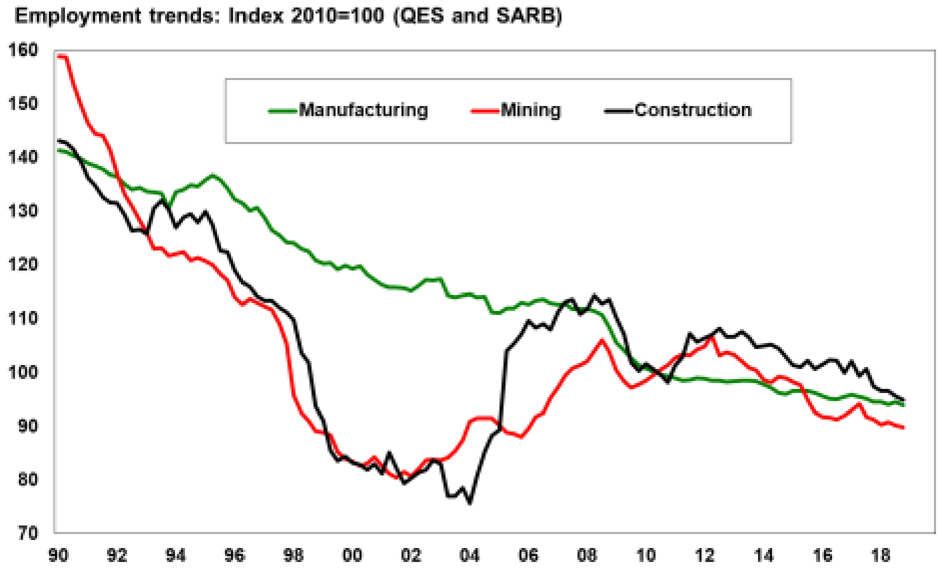
Unemployment is exceptionally high, with no private sector job creation



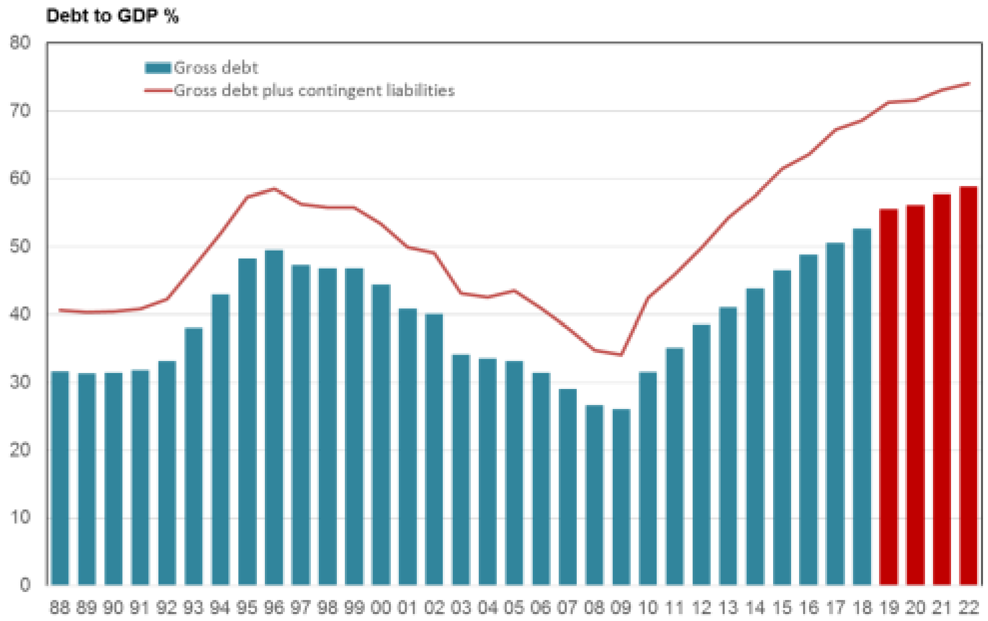
Unemployment has risen to long-term records

- Unemployment has risen significantly. This was due to stagnant employment rather than a rapidly increasing workforce in the post-democracy years.
- The country has consistently had among the highest unemployment in the world since the late 1990s.
- Youth unemployment is at catastrophic levels of over 50%.
- This poor record is unprecedented in a non-war economy and suggests that there are significant structural problems in the labour market.
- All employment growth since 2008 has been in the public sector
- After the financial crisis the public sector wage bill exploded before stabilising in recent years.
- Private sector employment fell after the GFC, and has barely recovered to 2008 levels.
- Key primary and secondary sectors have shown long-term declines in employment.



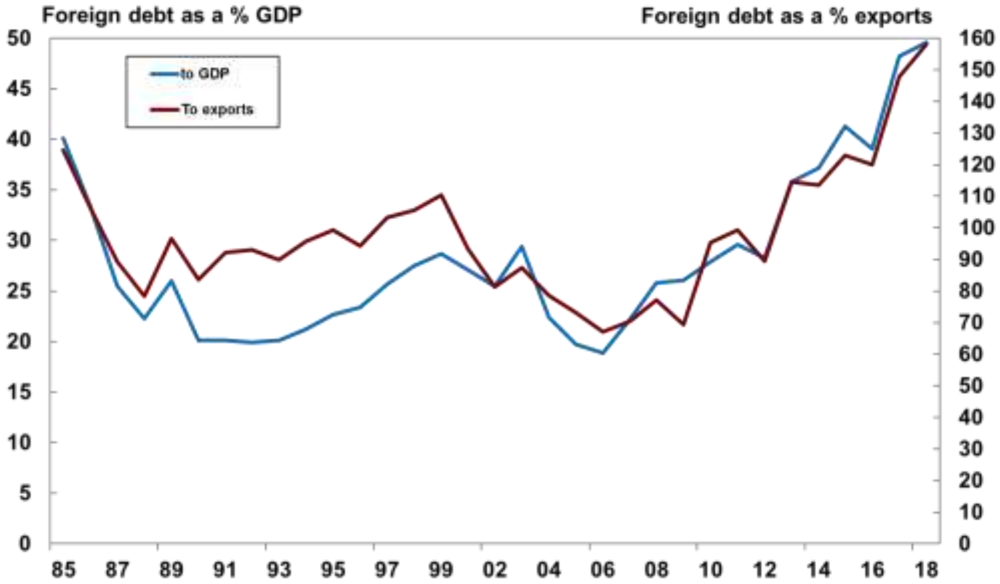


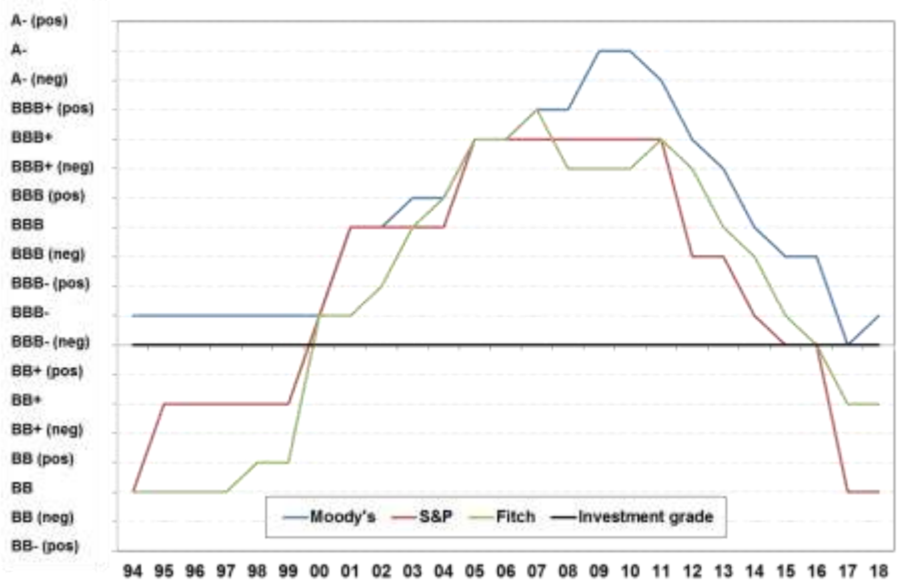
Weak growth has worsened government finances and led to downgrades



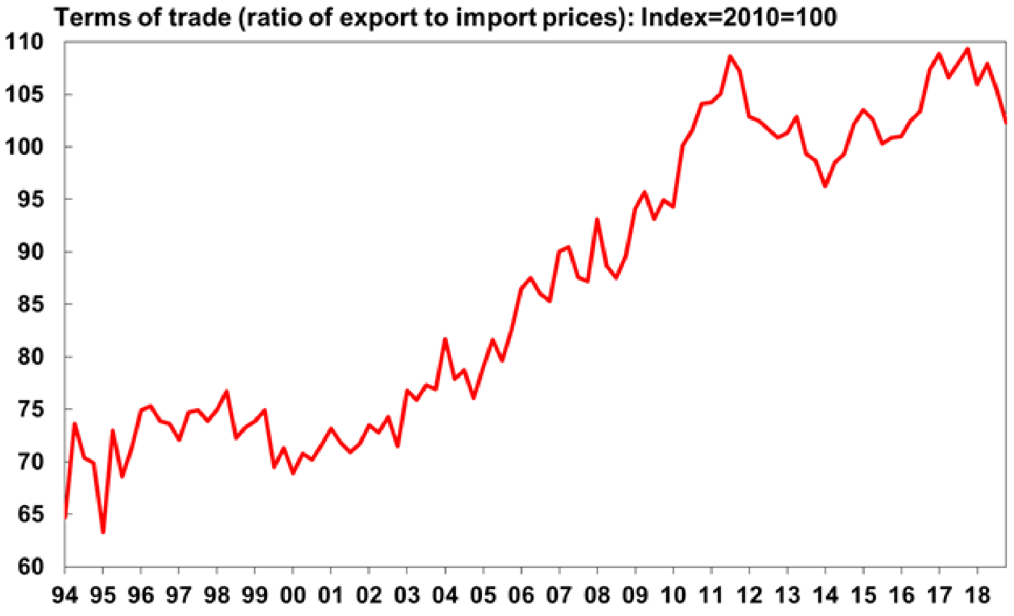
Government finances have become less sustainable and debt metrics have worsened

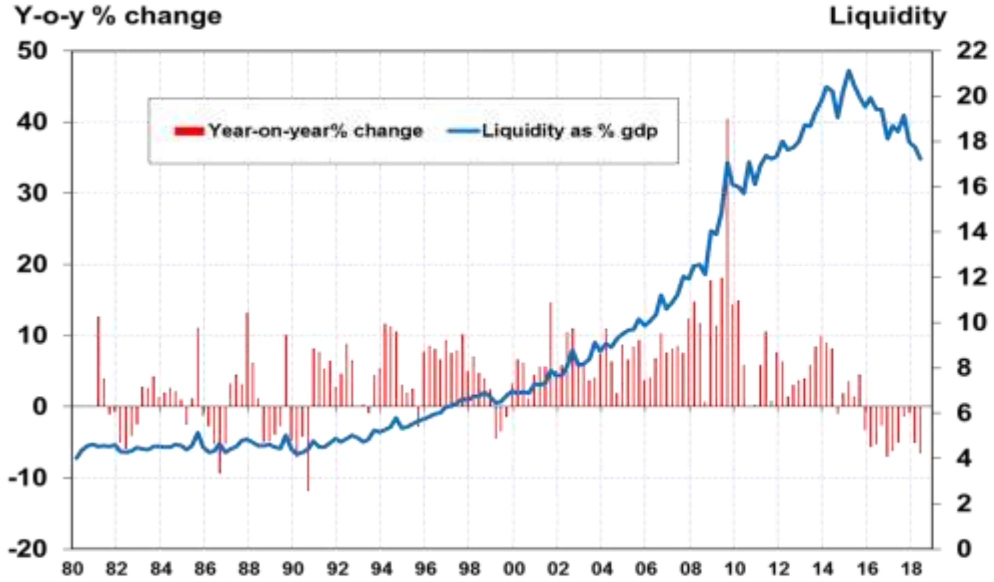
- Government debt has more than doubled since 2009 in GDP-adjusted terms.
- Largely as a result of government dissaving, foreign debt has exploded to levels much higher than those at the time of the debt standstill in 1985, again in real terms.
- Ratings agencies have therefore consistently downgraded the country’s rating since 2012, with just one – Moody’s – that still has us on investment grade.





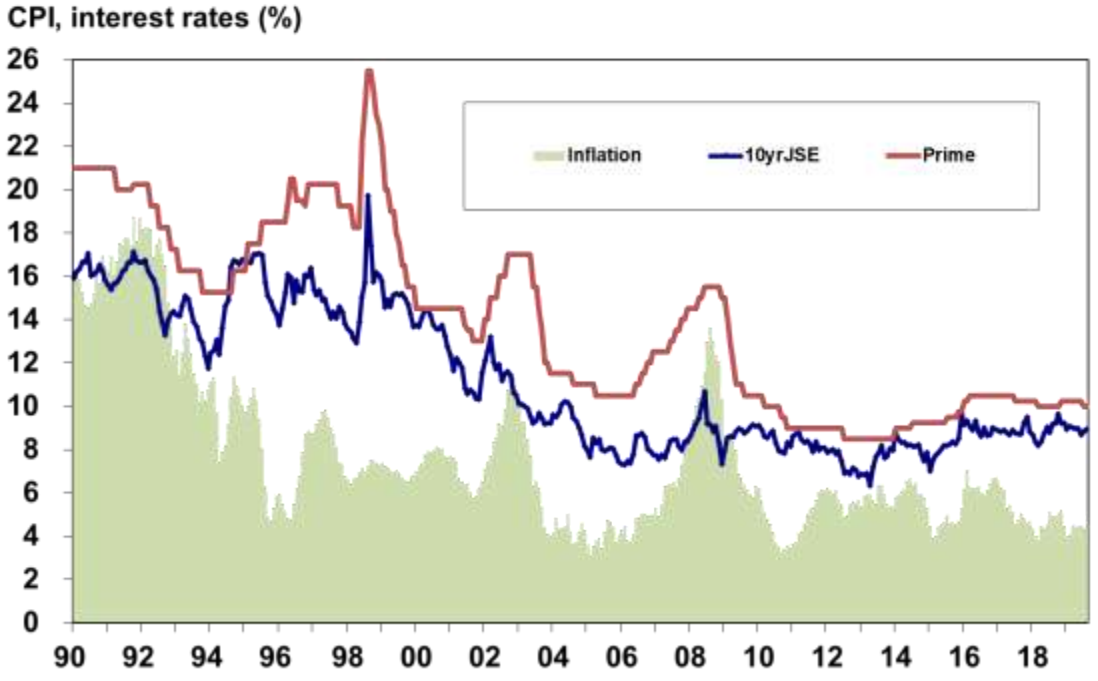
All this despite a benign global climate for much of the period



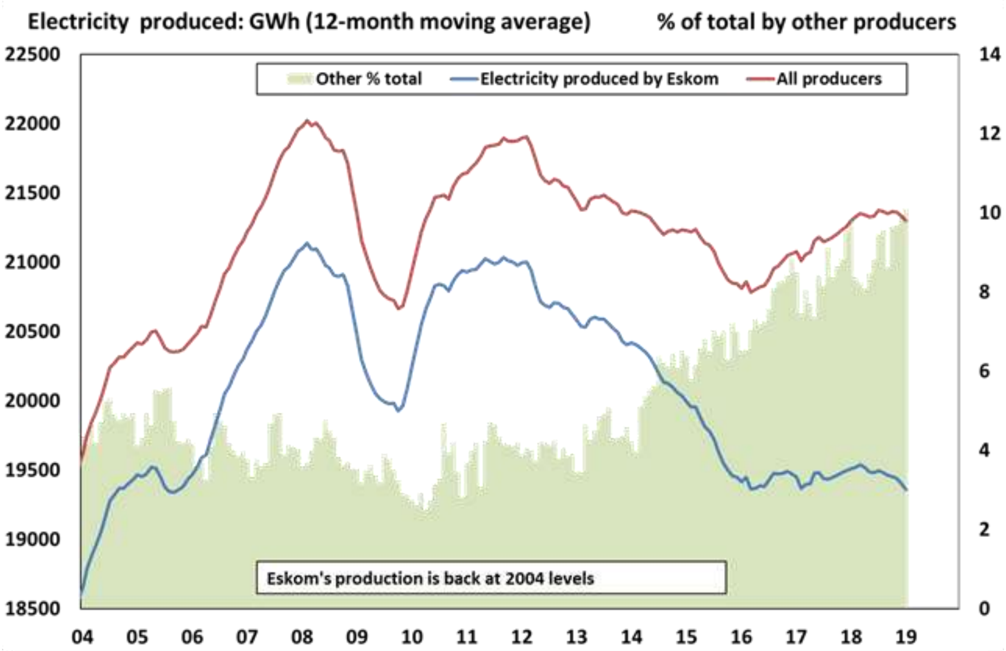


The export and global capital climate has been mostly favourable

- Commodity prices have been mostly high, although they have eased off a very high base in 2012.
- Consequently, the terms of trade – the ratio of export to import prices – have been very favourable as import prices have been held back by low inflation internationally.
- Plentiful and cheap capital enabled us to run up foreign debt (rand and dollar denominated) while keeping interest rates relatively low.

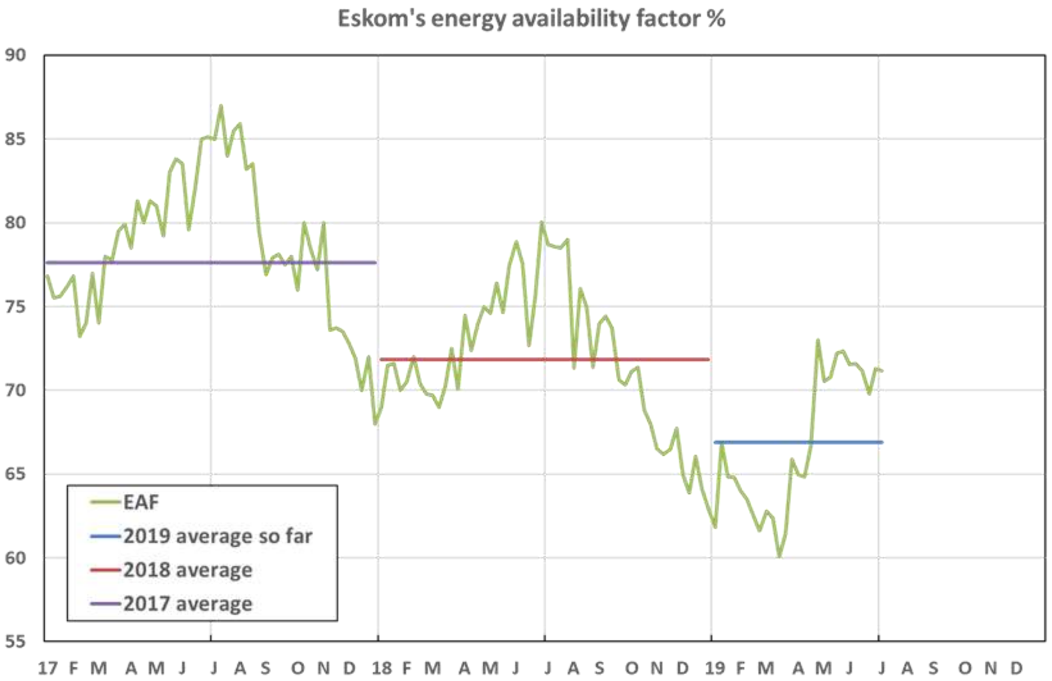


So what has gone wrong? - 1



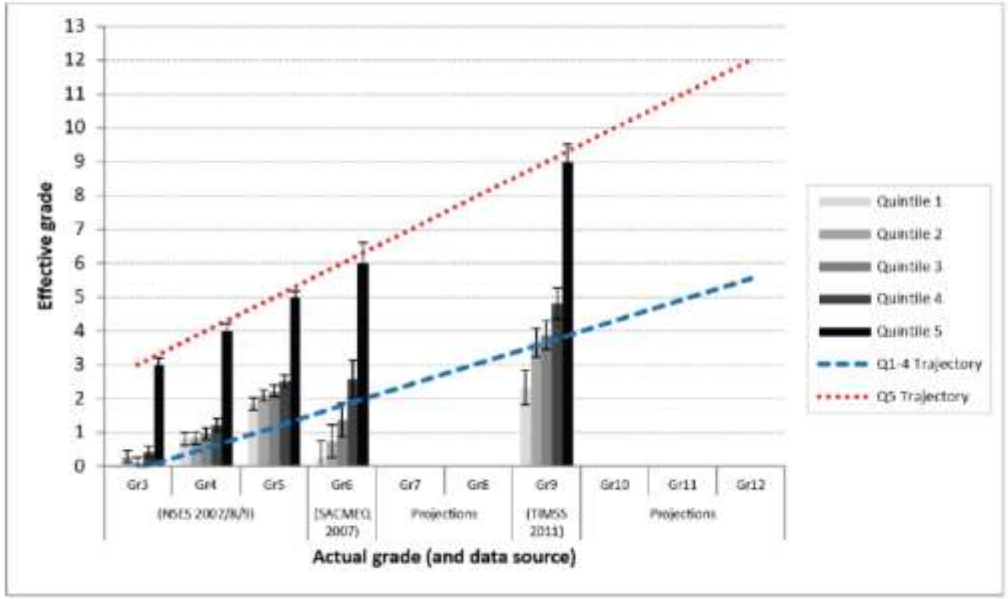
Unclear and punitive policies have hurt certain sectors very badly

- Mining regulation has been unpredictable and business and investment unfriendly. Consequently, investment in new exploration has collapsed, especially with the last two iterations of the Mining Charter. The latest version consists of 100% compliance at all times otherwise rights can be suspended or fines and prison sentences imposed.
- Tourism has been decimated by the visa and biometric testing regime debacle.
- Eskom's woes have pushed up costs for industry and will lead to a major deterioration in public finances going forward. Operationally the problems are far from over, with the energy availability factor at critical levels and about to worsen further.



So what has gone wrong? - 2

Figure 5: South African mathematics learning trajectories by national socioeconomic quintiles using a variable standard deviation for a year of learning (0.28 in grade 3 to 0.2 in grade 8 with interpolated values for in-between grades (Based on NSES 2007/8/9 for grades 3/4/5, SACMEQ 2007 for grade 6 and TIMSS 2011 for grade 9, including 95% confidence interval (See Spaull & Kotze, 2015: p.21)

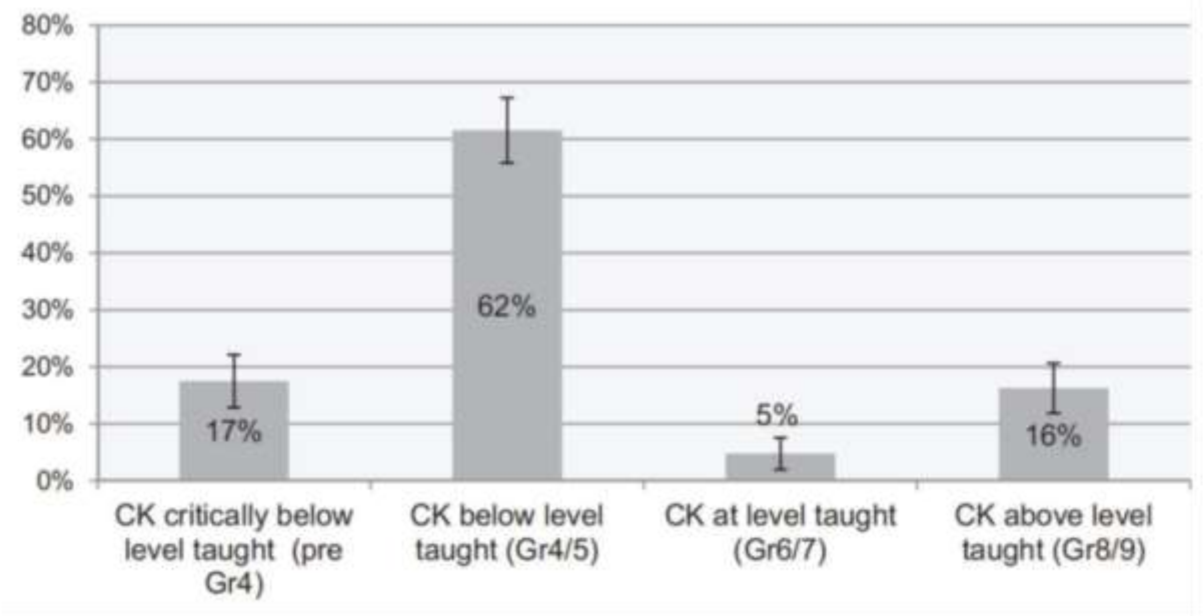


Another example is education, that has failed the majority of learners

- Education is a major reason why inequality, slow transformation and poverty persist.
- Studies show that many teachers are hopelessly unqualified.
- The standard of learning is highly dependent on the level of income, which then limits opportunities for the already poor.

Graph sources: Priorities for Education Reform in South Africa – Dr Nic Spaull 2019

Figure 3: Proportion of South African grade 6 mathematics teachers by content knowledge (CK) group – SACMEQ 2007 (with 95% confidence interval) (Venkat & Spaull, 2015: p.127).



What needs to be done?

Problem statement:

- Shortage of skills/ know-how.
- Shortage of capital (the country is dissaving).
- Shortage of investment
- Rundown SoEs, collapsing and/or inadequate infrastructure
- Shortage of jobs, particularly less skilled
- Massive inequality

Solutions tried so far:

- The developmental state. SoEs the driver of economic development
- Massive government spending, huge deficits and an attempt at demand-led growth
- Coercing business to meet government conditions
- Interventionist demands
- Policies that favour trade unions
- Long list of requirements to do business here

Recent problematic proposals with unintended consequences or unnecessary inertia:

- Expropriation without compensation – constitutional change
- SARB nationalisation/ mandate change
- Competition Amendment Act
- Energy policy – new delays to the IRP and confusion on coal/ nuclear, deviation from least-cost option
- Mining Charter III
- Visa regime / Immigration policy
- National Credit Amendment Act
- National Health Insurance: government single purchaser and provider model

Growth ingredients:

Growth Commission (Spence)

Study of 13 countries that grew by over 7% over a period of 25 years or longer

1 Good leadership and effective government

Capable, committed, credible, stable, honest
Strong leadership
Good market and regulatory institutions
Effective delivery mechanisms
Investment in infrastructure, education, health
Must afford equality of opportunity
Try to limit inequalities where possible
Must protect people, not industries, firms or jobs
Intervention can help, but must be temporary

2 Fully exploited the world economy

Openness
Low input costs
Internal competition
Import knowledge - easier to learn than invent
Exploit global demand
Economies of scale

3 Maintained macroeconomic stability

Modest inflation
Sustainable public finances

4 High rates of saving and investment

Future orientation, present sacrifice

5 Market allocation

Functioning market system
Prices guide resources, resources follow prices
Property rights so that investment takes place
Liberalise product and labour markets

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Needed broad approach:

- Only the private sector can create growth, investment and jobs
- Policies therefore have to be business friendly
    - It is inconceivable that you can treat business as the enemy and as your friend at the same time.
    - We don't even know what businesses have been frightened away
    - Businesses work out risk-adjusted returns. If these do not clear hurdles investment does not take place.
- Win-win strategies with business
- Have to make SA an attractive investment destination for direct and indirect capital
- Have to address skills issue.
- Have to address infrastructure issues – spectrum, electricity, transport, water
- Have to avoid vested interests and act for the greater good.

Some specifics:

- Have to relook some policies such as BEE to see if can be better structured to suit both government and business and also to revert to broad-based benefits
- Release spectrum as soon as possible
- Let business provide more services, inevitably at less cost
- Relax requirements for skilled immigration and tourist VISAs
- Release IRP asap, with least cost option as key and implement new renewables
- Adjust NHI to allow for a more win-win strategy that involves the private sector as a partner
- Adjust Mining Charter away from ad-hoc and retrospective changes
- Reskill or redeploy teachers who fail basic requirements urgently

Some thoughts on ICT

ICT leads directly and indirectly to increased jobs

- Studies in other countries show a direct multiplier effect between the sector's performance and the overall economy

ICT boosts productivity

- Economic growth is a function of resources and productivity growth.
- ICT increases information flows and aids the working of a price-based economy.
- ICT inherently boosts productivity and reduces the costs of doing business.
- Examples in different sectors are countless from medical AI diagnosis to improved logistics and delivery through proper use of big data.
- Energy efficiency and water leak detection are infrastructure examples.
- Even better economic forecasting for some of my counterparts.

ICT creates new industries

- Need to be fully in the game to participate in new services industries.

ICT can directly help narrow the education and skills deficit

- Best practice education can be delivered with great effect and cheaply to disadvantaged communities through ICT.
    - Intelligent tutoring systems, open education, AI learning analysis, life-long learning