South Africa

Conclusion

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Conclusion

Chart 38: Recommendations

Chart 38 summarizes the policy recommendations.

South Africa is awash with plans and strategies - but does not apply best practices, not does it implement and enforce the mounds of compacts, agreements and statements of intent. At the University of Johannesburg on 26 July 2024, Deputy President Paul Mashatile admited to half the problem: ‘I firmly believe that our nation possesses sound policies, yet we struggle with their execution due to inter, among other things, a deficiency in accountability. … To deliver results, we must invest in preparation, devise a workable plan and be more meticulous in our implementation.’ The reality is that the numerous policies and plans lack focus, often pursue unachievable and contradictory objectives and not growth. The responsibility for improvements lies, in the first instance, at the door of the country’s political leadership which fails to set practical pro-growth policies. Thus, when the Johannesburg Centre for Development and Enterprise (CDE) published a series of reports in 2024 reflecting national priorities for growth, it started with the need to reorganise the Presidency and the cabinet.

It is only possible to reduce unemployment and inequality with an economy that grows rapidly and inclusively. Even in the Combined scenario, unemployment and inequality are likely to remain hallmarks of the country for the next generation despite the 17% improvement in employment compared to the Current Path forecast for 2043 and the 8% reduction in inequality, using Gini. More jobs require improvements to employment intensity, implying a more flexible labour market, actively working towards a more significant and dynamic informal sector, a partnership with the private sector to facilitate opportunities such as with growth in low-end manufacturing and for South Africans to do everything possible to unlock domestic and foreign investment. It also implies dealing with the problem of excessive market power - the concentration of ownership and control, inadequate restraints on anti-competitive trade policies, and restrictions on full and free participation in the economy.

Efforts to improve employment will succeed only if South Africa provides a clear and stable macroeconomic framework, including keeping inflation low while ensuring that public finances are sustainable. The result will be increased business confidence, better productivity and higher levels of foreign direct investment (FDI). To this end, the country must improve its low credit risk rating by agencies such as Standard & Poor, Moody's and Fitch and work hard to exit from its grey-listing categorisation by the Financial Action Task Force (FATF).

Sustainable public finances require action to restore the balance sheets of state companies and clarity with respect to network industries which will require that the country's elite and the public sector reign in consumption and raise their investment contribution such as through higher savings.

Because South Africa pursues a developmental economic model, the state's effectiveness is critical for the country's well-being. Most state institutions suffer from a massive deficit of competency, skills, and ethics, pointing to the need for a hard-nosed approach to the hundreds of state-owned enterprises, many of which could be closed or privatised.

South Africa must actively pursue an export-led growth path focussing on expanding its manufacturing and services sectors through improved competitiveness. It should exploit the market in Africa by investing in the benefits from the implementation of the AfCFTA and actively pursue its integration in global value chains. Exporting require an open trade policy as apposed to the protection of the country's small internal market. Instead, the intent of many of the master plans is to focus on import replacement that asks the consumer to pay a premium to compensate the local producer's lack of competitiveness.

Exporters require the ability to easily import intermediate goods and access to technology. Instead, South Africa's export performance has been declining, particularly in the diversity and value of its exports. The country needs to shift from protectionism to competiveness and from sectoral master plans to recognising the importance of value-chains, as recently argued by the CDE.

In addition to active support to reduce input costs, a manufacturing export-led growth path includes reducing the high costs of investment and trading across regional borders; reviewing the impact of existing industrial, localisation and sector-specific policies on export behaviour; implementing a comprehensive and well-targeted export promotion and export finance framework; and updating its trade policy approach to this effect. A first step in this regard would be to exploit the opportunities with the Pan-African Payment and Settlement System (PAPSS), which enables companies to transact in any African currency without needing a third-party currency like the US dollar. The second step must be to fix the connecting infrastructure and remove non-tariff barriers, the focus of the National Logistics Crisis Committee. Finally, the focus of the Department of Trade, Industry and Competition (DTIC) should be laser-like on improvement in the ease of doing business in South Africa.

South Africa should explore global market value chains to create opportunities for growth and need to learn to compete. Tariff reform is also important. South Africa spends a significant amount on subsidising its important automotive program (estimated at ZAR35 billion annually) and, when it was last reviewed in 2008, considered to be a net drain on the country. No subsequent review has been undertaken, while the global automative sector has undergone significant changes including the introduction of electric vehicles.

Amongst our eight sectoral scenarios, the growth of the manufacturing sector promises the most employment creation. Low levels of employment is South Africa's key challenge since it drives extreme inequality, poverty and disempowers. In the words of Professor Anthony Black, a leading proponent of labour-intensive light manufacturing, South Africa has the ingredients: a large pool of unskilled and semi-skilled labour, an advanced financial system, highly developed infrastructure and capable domestic firms that could attract large-scale domestic and foreign investment. Black lists three critical actions:

- Switch incentives to support employment, both directly and indirectly, such as through incentives for training rather than capital investment and energy.
- Review the regulations (including labour regulations) that hinder small manufacturing firms, particularly the extension of National Bargaining Council determinations to non-parties.
- Experiment using one or more special economic zones as light manufacturing zones.

Poor human capital (primarily due to the lingering effects of HIV/AIDS but also reflecting poor education returns and a weak healthcare sector) is the most significant structural constraint on South Africa's long-term growth. Fixing South Africa's poor human capital contribution to growth is a long-term undertaking, with appropriate education making the most significant contribution. South Africa's Human Resource Development Council has regularly revised and released a Human Resource Development Strategy (HDRS-SA). The most recent version was published in 2022 with a vision to 2030. The Master Skills Plan is then used by different sectors, industries, employers and Sector Education and Training Authorities (SETAs), serving as the implementation plan of the reconceptualised HRDS-SA.

During 2022 and 2023, CDE set out a comprehensive analysis of the challenges and the reforms required in education. The key recommendations in its reports focus on five areas for action to improve South Africa's education outcomes:

- Tackling corruption and State Capture in education by prohibiting cadre deployment and introducing measures that remove the South African Democratic Teachers Union's (Sadtu's) stranglehold on education departments.
- Raising accountability levels by bringing back the Annual National Assessment (ANA) tests for grades 1-9, reinvigorating an independent National Education Evaluation and Development Unit (NEEDU), and giving principals more power over the appointment and management of teachers in their schools.
- Improve teacher performance by introducing higher teacher training standards, providing more effective support for existing teachers, and urgently recruiting skilled foreign teachers in areas of shortage.
- Installing fresh leadership in the public education system. Some progress was made in this regard with the appointment of a member of the opposition Democratic Alliance as Minister of Basic Education

- Setting realistic national and provincial performance goals.

Looking to 2043, South Africa must also aspire to much better health outcomes if it is to change its current mediocre long-term growth forecast. Much work has been done to explore universal health coverage (UHC) in South Africa, although the focus in recent years has been on financing reform to the detriment of other issues. South Africa must pay attention to all six of the World Health Organization (WHO) 'building blocks' of the health system (financing, leadership/governance, service delivery, health workforce, health information systems, medical products and technology). Instead, the singular focus on National Health Insurance has stalled efforts to carry out the other reforms required to build and strengthen the health system and contributed to the neglect and deterioration of the overall health system. The necessary reforms include the need to review and equitably spread public resources across provinces, districts and levels of care, end corruption and irregular spending in the public sector, establish and roll out a national health information system and implement the recommendations in the private health care system as reflected in the 2019 Health Market Inquiry report.

Amongst the labour-intensive sectors, mining was historically the most important (note that in our modelling, mining is part of the materials sector). In 1980, mining contributed around 21% to GDP. It peaked at providing 760 000 jobs a few years later, mainly on the back of South Africa's enormous gold mining industry, which was its primary mining product. By 2023, that number had declined to 6.2% of GDP, and employment stood at 477 000 persons. Mining is particularly important in the poverty-stricken North West, Limpopo, Mpumalanga and the Northern Cape provinces but has declined and has given rise to a large criminal and illegal artisinal sector, so-called zama zama's. What remains of the mining sector is export-oriented due to the small domestic demand for most commodities, and it still has significant potential for the future. South Africa has the world's largest known reserves of gold, coal, platinum group metals (PGM), chrome ore and manganese ore and the second-largest reserves of zirconium, vanadium, and titanium.

Mining is tightly woven into the fabric of South Africa's history and provided the stepping stone upon which its industrial development occurred. Still, it has decayed in recent years due to government inefficiencies that have hobbled exploration, plodding progress in rolling out a new mining cadastre, now scheduled for completion in mid-2025. As a result, there is no pipeline for new projects (although some progress has been made with the establishment of an exploration fund), and the sector is subject to numerous and expensive social responsibility obligations and suffers the effects of organised crime syndicates. It was therefore unsurprising that, in 2023, Canada's Fraser Institute once again ranked South Africa near the bottom of its global mining survey, at number 57 (out of 62 jurisdictions assessed).

South Africa needs a coherent, efficient and stable regulatory environment for its mining sector that encourages exploration investments through transparent and expedited processes. This would lead to constructing new mines and expanding existing operations for longer lives and sustainable jobs.

South Africa urgently needs a determined effort to grow the agricultural sector, which our analysis indicates has significant potential. Growth in the agricultural sector is often more labour-intensive than other sectors, although much of that is created in agro-processing. Climate change will steadily impact the Western Cape, currently the province with the most significant agricultural sector, in terms of sales of goods and services, salaries and wages, and employment. The Eastern Cape province has the most potential where large productivity increases can be achieved with a transition away from subsistence agriculture and fixing poor rural economic infrastructure, such as roads and storage facilities, that have degraded, whilst the limited irrigation infrastructure is dilapidated. Some of the policies that could improve yields is to create a consolidated fund to crowd in resources from various government initiatives, private sector capital and donor partners to finance rural infrastructure and strengthen climate-smart agricultural practices.

Sustained change in agricultural yields will only come once South Africa grasps the nettle to move towards individual title holdings and steps away from the former homeland's legacy system of communal land ownership. Since most land here is registered in the state's name, which then holds this land in trust on behalf of the people who use and occupy it, reform is possible, although politically fraught. Meanwhile, South Africa needs deliberate government support and leveraging of the private sector, including the determined implementation of the Agricultural and Agro-Processing Master Plan (AAMP) adopted by the Department of Agriculture, Land Reform and Rural Development (DALRRD) in 2022.

Another sector with significant economic and employment potential is tourism. South Africa is already an international tourist destination, and with a total contribution of 8.2% to GDP in 2023, the sector contributes more to South Africa's GDP than mining, transport, and construction. It employed 1.46 million people based on 8.5 million international tourist arrivals and 38 million domestic trips that year. Annual growth is robust, and with its natural beauty and vast open spaces, South Africa has much to offer once it enables easier visa access, improves safety for tourists and invests in welcoming foreigners to the country. The 2024 GNU has now set a target to reach 15 million arrivals by 2030. Like all other sectors, there are many plans and strategies, including a Tourism Sector Masterplan and a National Tourism Sector Strategy, the latter for 2016-2026.

Eventually, rapid growth, low-end manufacturing, and growth in tourism, mining and agriculture will require additional measures to soak up unemployment, particularly by growing the informal sector. In addition to public education, three critical actions are to:

- Amend municipal by-laws to allow an expansion of informal activity and informal employment.
- Improve market access for informal enterprises.
- Prioritise regulatory reform to address regulatory barriers and exclusion for the informal economy.

South Africa needs to speed up the transition of its energy sector from coal to renewables. Solar, wind, other renewables and nuclear must eventually become the core of the country's energy strategy, utilising modern technology such as intelligent energy management whilst investing in energy storage. Still, given the current dependence on coal, it is set to remain an essential part of South Africa's energy mix, contributing 43% of total energy production in 2043, down from 95% in 2023. The country already introduced a carbon tax in 2019. Still, more is required to create an environment that supports rapid decarbonisation and provides clear incentives for green investments, including providing subsidies for green technologies and penalising carbon-intensive practices. The imperatives are particularly evident when considering the potential impact of the EU's Carbon Border Adjustment Mechanism (CBAM). Projections released in 2024 indicate the costs for steel and iron could rise by 20% and up to 225% for chemicals like ammonia. Our analysis also indicates that the demand gap that would be left by aggressive reductions with coal generation would indicate a need for gas, which does better than coal or oil in terms of carbon emissions but is not ideal. To that end the country should join the Global Methane Pledge under which more than 100 countries have promised to reduce their methane gas emissions by 30% by 2030 as well as join the Extractive Industries Transparency Initiative which promotes open and accountable management of oil, gas and minerals.

South Africa will not prosper if it does not turn around the rule of law and public safety by improving state security planning and co-ordination, professionalising the police, starting with the rejuvenation of its top management level, developing location- and context-specific, violence-reduction strategies, to be implemented by dedicated role-players, and fully supports the independence and capacity of the judiciary to hold criminals accountable.

Finally, given its divisive history of oppression and exploitation, the lack of national coherence on the future is a massive problem in South Africa, reflected in its racially determined politics and extreme levels of inequality. The country needs a government committed to an inclusive multi-racial vision and a forward-looking leadership ethos - a shift to a class-based rather than a race-based analysis that champions the cause of all poor and unemployed people (the vast majority of whom are black) and the advancement of investment and entrepreneurship of all South Africans while maintaining a focus on interventions that assist the previously disadvantaged groupings. South Africa needs to steadily shift its focus to empowerment and away from hand-outs where possible. None of this negates the importance of measures to address the legacy of apartheid - it is instead how all of society can be mobilised to that end that needs to change.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

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