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5 key reasons for SA's frustrating low-growth dilemma

ARTICLE SUMMARY

In this Q&A, Sandile Malinga, Portfolio Manager at Prudential Investment Managers, explains some of the key reasons behind SA's low growth environment.

Q: Historically, what have been the main factors detracting from South Africa's growth potential?

A: The causes of our low-growth problem are structural in nature, and largely stem from our past and the way apartheid shaped the economy and our society. This is obvious from the 2018 World Bank report, which identified five key factors in our inability to achieve faster growth.

The first of these is insufficient skills. Before we can lift our growth rate and employment levels, we must improve our skills base. Too many people lack the appropriate skills necessary for the types of jobs available in our economy. Far too many are without any skills, and others need to be retrained.

The second cause is the skewed ownership of land and productive assets. The benefits of asset ownership are shared among only a small number of people and companies, making for fewer efficiencies, less spending and much lower growth than if most people were able to participate fully in the economy. There is a much lower “multiplier effect”, in which people with income spend money on goods, which in turn employs other people and gives other people income.

The third factor is low competition and low integration with regional and global value chains. Because South Africa was isolated during apartheid, this led to the development of massive conglomerates which dominated various sectors of the economy. Although these conglomerates have dissolved to a large extent, their remaining operations continue to exercise significant power in their industries, leaving high barriers to entry for new players. As such, there are only a few large companies in most sectors and little competition, leading to higher costs and inefficiencies than in many other countries. And because of our geographic location far away from most of the world’s large markets, and our historic isolation, it has not been easy for local companies to source cheaper inputs beyond our borders.

The fourth factor detracting from our growth potential is spatial inequality. Low income earners live very far away from where they work. This causes them to spend an inordinate amount of two precious resources, time and money, on transportation getting to and from work. This is key because it means they spend proportionately more on transport compared to higher income households, and they often do not have any income left over for improving their standard of living.

The fifth and final cause is that South Africa is susceptible to climate shocks. The most recent examples of these are the flooding in KwaZulu-Natal, which resulted in the loss of life and property, the fires in Knysna and Cape Town, and the drought. As a water-scarce country, we are very susceptible to climate change, and shocks from this are already having - and will continue to have - a negative impact on economic growth.

Q: What are we doing to address these factors? Do we have plans in place?

A: South Africa doesn't suffer from a lack of plans – the government has had a number of plans over the years to address these structural issues like GEAR, and most recently the National Development Plan (NDP). The NDP identifies many developmental goals, the achievement of which would go a long way to correcting these problems. In fact, if the government were able to implement and achieve only 2 or 3 of these goals over the next 3-5 years, we could potentially add at least 1 percentage point to our growth rate and help remove structural constraints. However, implementation has proved to be exceptionally difficult, due partly to a lack of political will, partly to insufficient funds and partly to the negative consequences and costs they could have in the short- to medium term. Countries undergoing structural reform will always suffer some short-term pain before they see the longer-term gains. We can only hope that Cyril Ramaphosa's new government makes economic reform a priority, as he has pledged.

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