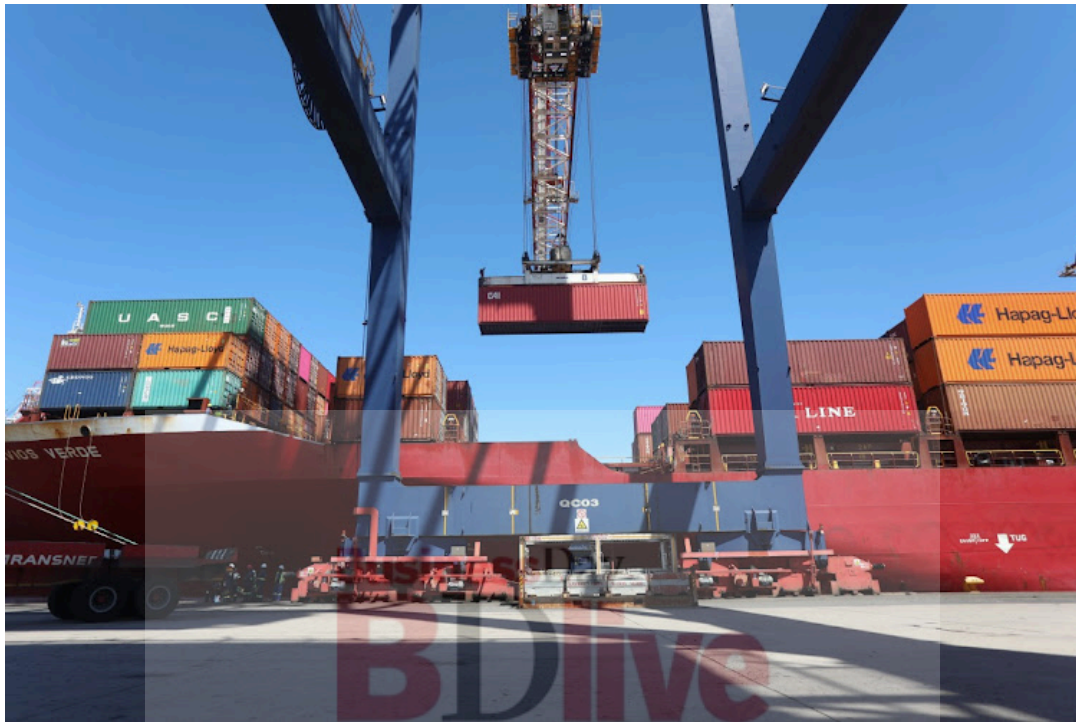


■ OPINION

JAMES MAPOSA: Overcoming SA's economic gloom requires targeted investment

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by JAMES MAPOSA



Picture: SANDILE NDLOVU

SA's economy remains under pressure, with the country's GDP growth forecast for 2024 set at 1%, and 1.4% between 2024 and 2026. This forecast is significantly lower than the World Bank's target of 4% for emerging and developing economies.

Below average GDP growth suggests the country will experience the same or worse in terms of reducing unemployment and job creation over the next three years. The country's youth are already disgruntled due to limited employment prospects and development opportunities. Households are also struggling financially due to shrinking incomes and growing inflation (5.1% year on year).

Due to the gloomy short- and medium-term outlook, substantial reform is required to enable the steps that are being taken in the right direction to turn the economy around. Most importantly, the building of an inclusive and diversified economy will be critical to gearing the country for better outcomes in the longer term.

The most urgent of priorities is addressing energy and logistics supply constraints. Because of increasing public debt, the government will not be able to commit substantial resources to plug the energy and logistics infrastructure gaps. Policy, however, can be reformed to enable the private sector to do more.

A first step was increasing the threshold of self-generation of electricity, which is expected to increase generation capacity by 11GW over the short term and provide some relief to the grid. However, more needs to be done, as illustrated by the contraction of the country's manufacturing, mining and construction sectors in the third quarter last year, with energy shortages cited as a major contributor to these sectors' contraction.

Facilitating public-private partnerships for larger scale projects that significantly reduce the energy supply-demand gap will be critical to addressing the shortfall during the short- to medium-term. This is not to say this is not already happening, but expediting such processes in the context of not only increasing supply but ensuring there is enough energy to enable economic growth and diversification, should be a core part of the narrative.

In addition, other avenues should be explored such as municipalities exploring waste-to-energy generation for municipal consumption through twinning support arrangements with countries such as Malaysia, which has reduced landfill waste [a growing problem in Gauteng and the Western Cape] by converting waste into electricity.

In terms of logistics, upgrades of port, road and rail infrastructure should be prioritised to facilitate increased export trade. In addition to trade agreements SA has with Asia [particularly China, India and Japan], Europe and the UK, North America [particularly the US] and Latin America and the Caribbean [particularly Brazil], the country should also leverage the African Continental Free Trade Area (AfCFTA) to increase continental exports.

Trade contracted in the third quarter last year due to mainly to port delays and rail infrastructure shortages, but can be turned around through both public and private sector investments aimed at plugging the gaps and progressing the infrastructure to facilitate further export trade growth.

Examples of sectors that will benefit from better logistics infrastructure include the country's export agriculture industry, whose citrus sub-industry exported 500,000 tonnes less in 2023 due to delays at the Cape Town. The sector also resorted to exporting some of its produce through Gqeberha, which created inefficiencies that could have been avoided if adequate and up-to-date infrastructure existed at the relevant ports.

Better economic outcomes

Longer-term gains can be facilitated by investment in diversifying the economy. Simply put, the more diversified the economy the better the economic outcomes. To diversify, initial evaluations need to explore local industries and the potential for them to be further developed from a downstream standpoint.

SA's economic diversification index stood at 108.1 in 2021, which is more than 30 points lower than the world's most diversified economies [US = 149.9, China = 144.0, and Germany = 136.8]. Based on this gap SA should invest more in growing its economy beyond its resources and services that cater to mostly the resources sector. Initially, diversification must be considered in terms of ease of expansion [downstream integration], aligned to domestic needs and wants [domestic population must be a key baseline customer base], and leverage available skills and resources.

Economic diversification can also be considered from an import substitution perspective. Evaluations should, again, be carried out considering the country's top 50 imports over the last five to 10 years, and from these commodities identify those that can be produced locally (based on available resources including human capital) and attract investment for their production locally.

From a sustainability standpoint, the selected goods should also be consumed extensively by large procurement customers such as the government. In addition, the locally produced goods should have significant regional export potential [Southern African Development Community and Sub-Saharan Africa], further contributing to them being commercially viable if they were to be locally produced.

A final consideration for longer-term GDP growth is greater adoption of technology and innovation across all economic sectors. Ensuring that the economy is run more efficiently and effectively through the

use of relevant technologies reduces leakage and contributes to resources being used more effectively, for example plugging gaps such as the country's growing debt deficit [forecast to reach 77.7% of GDP at the end of 2024].

Integration of technology also supports domestic human capital development and further economic diversification through businesses being developed around the newly adopted technologies. Integration of artificial intelligence (AI) across sectors such as healthcare, education, agriculture, financial services, retail, transport and logistics and entertainment is still in its infancy but offers significant potential.

Based on a recent announcement, local [Standard Bank] and global [Amazon Web Services] private sector companies are committing larger budgets to incorporate and leverage AI to better serve their customers. Relevant SA sectors should therefore invest in progressing the AI industry to take full advantage of these opportunities.

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