# SA needs to unlock potential by addressing obstacles to growth

## President Cyril Ramaphosa's new economic adviser, Trudi Makhaya, is at her desk from this month. She spoke to Ferial Haffajee

## What is your view of the economic outlook for South Africa?

Over the past few months, as sentiment has improved, the South African economy has enjoyed a favourable re-evaluation. Many institutions that produce growth forecasts, including public sector bodies such as the Reserve Bank, expect the economy to perform better than it has over the past few years. So far, this has seen moderate upward revisions in the short- to medium-term outlook. The aspiration, however, is to unlock the economy's potential by addressing some impediments to growth. This requires policy clarity, higher levels of investment and more efficient government at all levels.

#### Is South Africa able to attract R1-trillion in investment, as Ramaphosa has suggested?

It is important to note that this is a fiveyear target and includes both local and international investment, and investment by state-owned enterprises. This is meant to be a broad effort to marshal the resources that are needed to fundamentally alter and elevate the economy's trajectory.

South African investment projects have to stand out in a crowded and competitive global marketplace for limited capital. This

means sharpening our ability to package and promote investible large-scale projects, with compelling business models and talented business operators.

At the local level we have seen how investment has stalled, with corporates holding cash reserves or investing in basic maintenance activities, where there is uncertainty about the returns to investment in new productive activities.

There is a two-pronged challenge to stimulate the release of local cash and to attract foreign direct investment.

Our ability to raise this level of investment will depend on the resolution of some policy obstacles, which is well under way, and the emergence of consensus across business, labour, civil society and government on the most important economic measures to prioritise and implement over the medium term. Armed with evidence of policy clarity and an action plan for growth, we then need a broad-based effort to relentlessly pursue plausible investors.

A strong investor relations capability in government and the ability to troubleshoot blockages as they arise are also important areas to build on.

How would you characterise South Africa's economic policy?



President Cyril Ramaphosa's new economic adviser, Trudi Makhaya. Picture: Business Day

The principles that guide economic policy are those of inclusiveness and transformation. For over a decade now, institutions such as the World Bank and the OECD [the Organisation for Economic Co-operation and Development] have pointed to how deprivation is passed on from one generation to another, and how the economy excludes large sections of the population from meaningful participation.

Economic policy has to centre inclusive growth as it goal. When it comes to modalities, I think we are entering a

pragmatic phase where economic policy is driven by evidence and the need to achieve measurable results.

#### As we row in choppy waters, is growth to be state-led or private-sector led? The South African economy is a mixed

economy, with the private sector and the state both having a role to play. The public sector contributes to growth by making public investments in people, infrastructure and institutions. The work of economists such as Mariana Mazzucato, author of The Entrepreneurial State:

debunking private vs. public sector myths, has also shown the role that the state can play in derisking and making the foundational investments in important technologies such as the early internet and more recently innovations to address climate change. Public policymakers help society to set a mission, say, space exploration, or, closer to our reality, spatial integration or reindustrialisation; make some initial investments; and craft policy to galvanise the private sector to build businesses that create value that supports the mission. The private vs public sector debate is a distraction.

### Which sectors hold the greatest potential?

The focus of policy should be on high-value activities that generate employment. There has been interesting work coming out of the competition policy unit at the University of Johannesburg, which argues for the pursuit of activities that will push the country to upgrade its productive capabilities. It's not about narrowly picking sectors, but working with the private sector to identify those value chains — like fresh produce for export, for instance — that involve highly sophisticated activities.

#### A recent World Bank report says South Africa can halve poverty by 2030 by investing in relevant education to improve skills with other policy interventions. Do you concur?

The World Bank argues that South Africa needs to overcome a legacy of exclusion if its economy is to thrive. The package it identifies is sensible: upgrading skills; addressing the skewed distribution of land and productive assets; dealing with low competition and low integration in global and regional value chains; improving connectivity; transitioning to a low-carbon economy; and dealing with increasing water insecurity. One of the key messages is to explicitly focus on inclusion, rather than hoping that it will happen as a byproduct of something else. This is a useful input into policy deliberations.

## The president says deconcentration [more muscular competition policy] is a key imperative. What are necessary steps?

There is a process under way to strengthen the competition authorities through amendments to the Competition Act. Investment that supports the entry of new local and international players into the economy will also help with deconcentration.

The kinds of interventions identified by the World Bank would help to boost competition in the traditional sense but also disperse economic activity to townships and other marginalised areas.

The fine balance is to understand that deconcentration is not an attack on incumbents, but an effort to expand the scope and diversity of the economy. In fact, there is a role for incumbents in proactively identifying measures to level and to widen the playing field. As we've seen in many cases — fertiliser, milling, construction — the victims of concentration are often downstream businesses. The private sector as a whole would benefit from a more diverse, low-cost and resilient economy.