

What is the matter with South Africa?

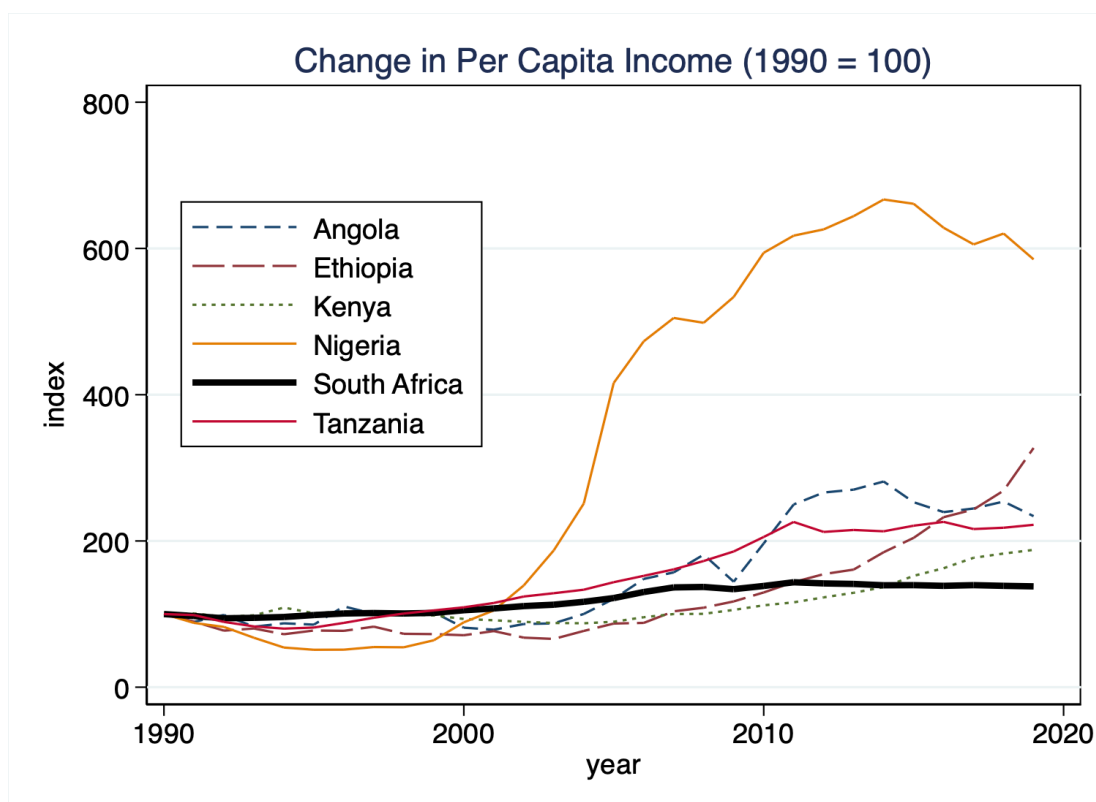
Ken Opalo is an Assistant Professor at Georgetown University's School of Foreign Service. Ken writes a wonderful Substack - An Africanist Perspective - and recently posted on a topic of importance to Our Long Walk: What is the matter with South Africa?

The promised fruits of ending apartheid have not materialized and there appears to be no clear path out of generalized political and economic malaise.

KEN OPALO

I: The sick man of Southern Africa

It is fair to say that South African democracy has not lived up to the dreams of the 1994 transition that ousted the abhorrent apartheid regime. Next year's 30th anniversary of the end of apartheid will come at a time of generalized economic and political malaise. Growth has stagnated (see comparative trends below), hobbled by [failing infrastructure](#), [wasted human capital](#) (in a moribund education system), [entrenched inequality](#) (worse today than in 1994), and [the dearth of new policy ideas](#). The current global inflationary pressures are further depressing real incomes.



Source: Author's calculations based on data from [Penn World Table](#)

The human toll of economic stagnation is evident in [high unemployment rates](#) (32.9%, much higher for youth), a deceleration of improvements in life expectancy, increasing [political polarization](#), and [a tattered social fabric](#).

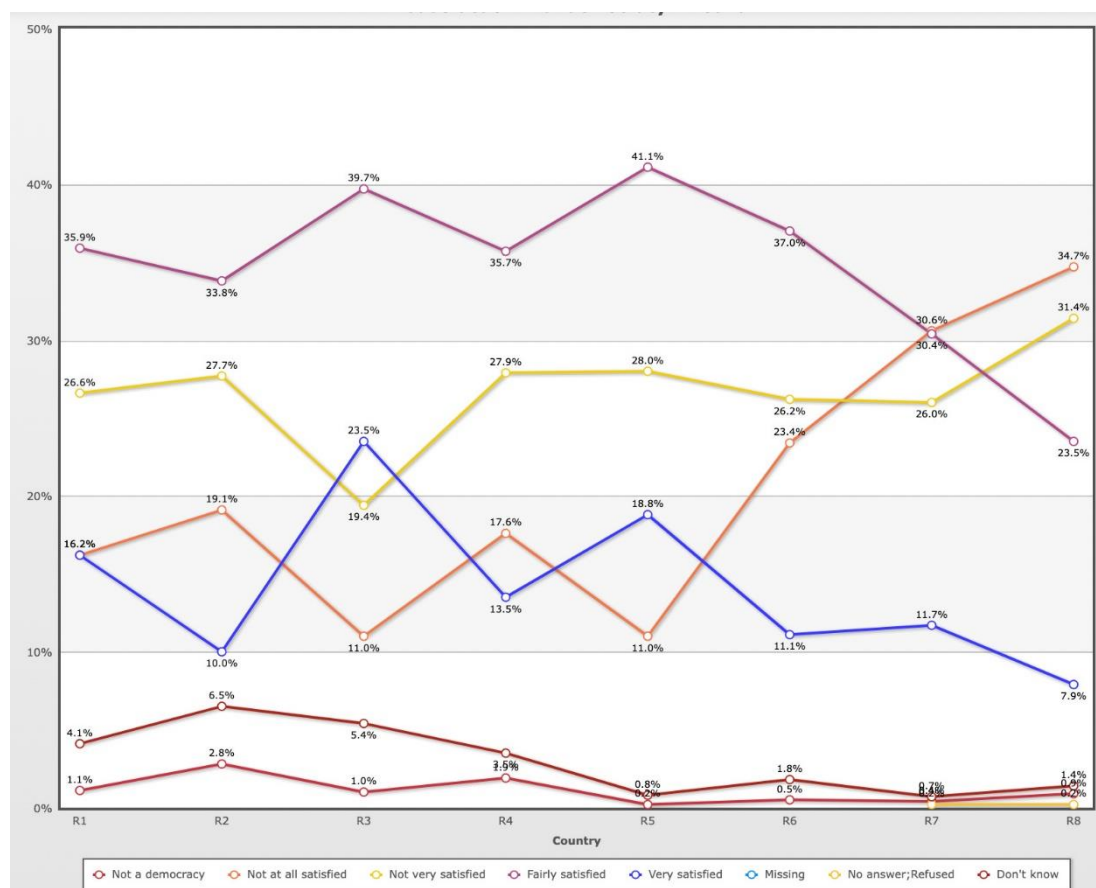
Meanwhile, the people in charge seem to be out of ideas. The country's political decay has exacerbated the myriad problems associated with economic stagnation. The once illustrious African National Congress (ANC) has lost its shine. [The party of Madiba is now synonymous with the worst forms of corruption and ineptitude](#).

Eskom, [the public utility that supplies 90% of the country's power](#), is perhaps the best illustration of the economic consequences of political decay under ANC. To deliver on its mandate, Eskom needs to invest in power generation, regularly maintain power plants and the grid system, and ensure that it recovers enough revenue to stay in the black. All three goals are currently being hampered by politics. Intra-ANC fights over kickbacks [have stalled the process of adding 3000MW in new capacity](#). Poor cash management [limits Eskom to only half of its maintenance budget](#). And just last week President Cyril Ramaphosa [urged Eskom to suspend tariff hikes](#), while addressing an ANC provincial conference.

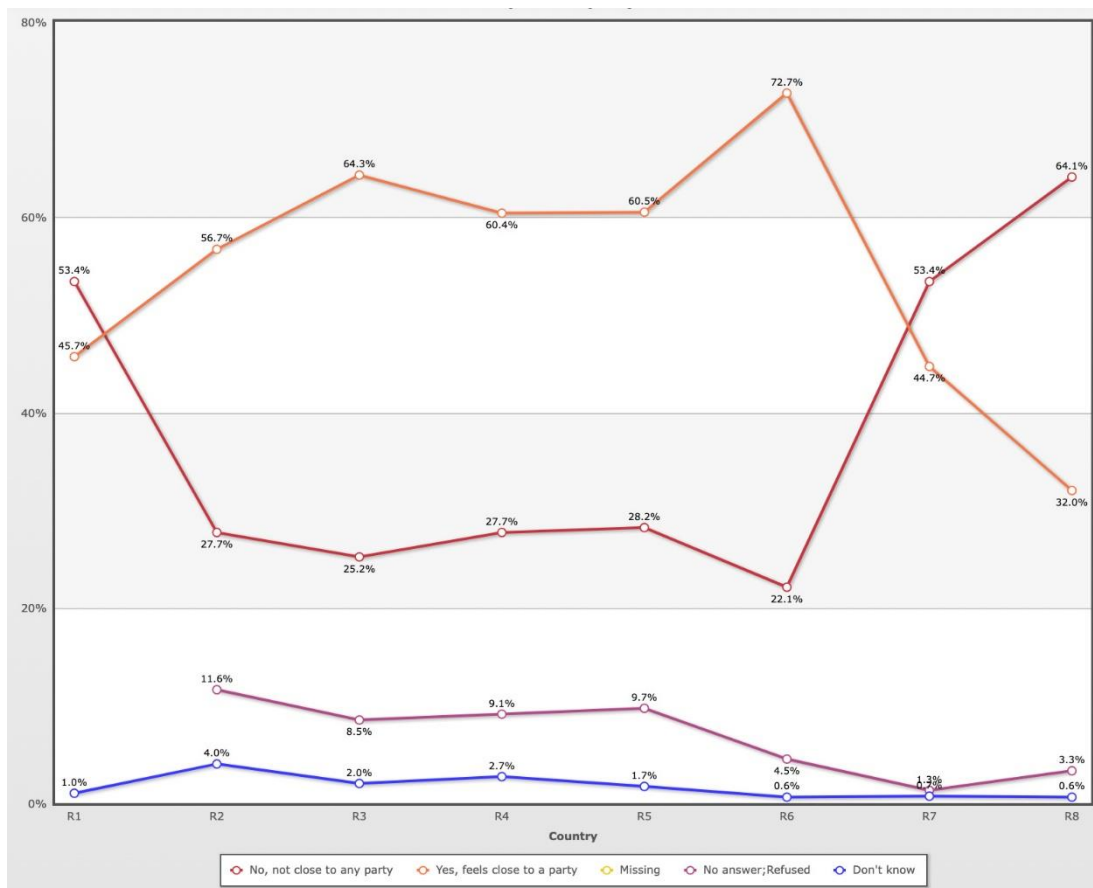
The economy and regular South Africans [are paying dearly](#) for these political failures:

Rolling power cuts in South Africa are severely impacting the country's growth and increasing the risk of recession. The economic costs associated with electricity outages—known as load-shedding—have reduced GDP by 1 to 1.3 percent annually since 2007, estimates Quinten Bertenshaw, executive director of ETM Analytics. Had load-shedding never occurred, he estimates the country's economy could be 17 percent larger than it is today. Economists have estimated losses of [between](#) 1.5 billion rand and 4 billion rand (about \$87 million to \$232 million) per day.

It is no wonder that South Africans are generally dissatisfied with both the ANC and their system of government. Whether at the national, provincial, or local levels, political institutions are simply not delivering. More than 66% of respondents surveyed in 2021 indicated a lack of satisfaction with democracy. Party affiliation has declined precipitously as well — largely reflecting the toxicity of the ANC brand (see figures below).



Satisfaction with South African democracy is at an all time low. Source: [Afrobarometer](#).



These trends suggest ongoing erosion of both regime legitimacy and the associational foundations of democratic government. They are also most likely to worsen. [While the ANC is broken beyond repair and has lost the ability to effectively govern](#), it still has “liberation” momentum and will likely keep winning majorities in the national legislature or serve as the senior partner in coalition governments. That means South Africans are condemned to endure many more years of a slow-burning political decay and degradation of ever more sectors of public life and institutions.

The lumbering presidency of Cyril Ramaphosa (once touted as the astute businessman with the ideas and connections to implement real structural economic reforms) is proof positive that the ANC cannot reform itself. [Nearly every party insider that can rise to power is tainted](#), while strong barriers exist against fast-rising outsiders. [The party is also divided and includes a cacophony of interest groups](#) that gum up any chance of decisive policymaking.

The claim here is not that things have gotten worse since the end of apartheid. They have not. Rather, it is that the end of apartheid has yet to deliver on its promises. [Everyone knows that the abhorrent apartheid regime was as corrupt as they come](#). Furthermore, it is relatively easier for an autocratic government regime to look “efficient” when it coerces more than 80% of the population and labor force in the service of a tiny racial minority. The ANC’s job is much harder since it has to attend not only to the pressing economic and social needs of the country, but also the demands of mass politics.

II: Is redistribution the answer?

As noted above, one of the challenges to growth in South Africa is entrenched (racial) inequality, much of it due to the twin legacies of colonialism and apartheid. Understandably, there have been calls since 1994 for a structural reorganization of the economy - including through redistribution - in order to expand the menu

of economic opportunities available to Black South Africans. Prominent examples of such efforts include the Broad-based Black Economic Empowerment (BEE) and land redistribution programs.

Both programs have largely failed. [BEE created Black millionaires without expanding the Black middle class](#). It also fueled the inefficient corruption that continues to plague sector procurement. Land redistribution also failed. Most reasonable people would agree that South Africa must redistribute its land. For symbolic, political, and economic reasons, it is unconscionable that a small minority that historically acquired land through violent dispossession should own nearly three quarters of agricultural land ([forget the standard racist scaremongering](#)). Yet government efforts to redistribute land have been excruciatingly slow ([democracies are bad at redistribution, even in highly unequal societies](#)).

It is also not clear whether land redistribution to households is the answer. [There is little to show for the US\\$706m spend purchasing land for redistribution](#) — with the effort creating just over 7000 permanent jobs. The results from the land redistribution efforts give reason to reconsider the merits of ruralization of the workforce via household land allocation. South Africa is already 68% urban (and growing), which makes urban mass job creation a more promising channel through which to improve welfare. In any case, [despite publishing elaborate plans for agricultural reforms as a mechanism for broad-based poverty reduction, the ANC has yet to walk the walk](#). According to a 2019 evaluation of the ANC's 2006 [Proactive Land Acquisition Strategy](#) (PLAS):

The majority (54%) of PLAS beneficiaries did not produce anything substantial during the previous financial year, indicating that PLAS has not been having the desired impact. A shortcoming in beneficiary selection is therefore evident. More than half (±54%) of all beneficiaries were judged as having a limited chance of achieving commercial success. Only about 4% of beneficiaries selected to date were scored as having a good capability rating, or a high chance of achieving commercial success, whilst approximately 7% of PLAS farms are currently operating at a commercial scale, by beneficiaries with a fair or a good capability rating.

III: Potential options for economic rejuvenation

The structural challenges weighing down South Africa's economy and politics are almost insurmountable. It is hard to imagine any paths to real change as long as the ANC is in power. As currently organized, the party serves as a well-oiled agent of complacency that is very adept at propping up the largely unreconstructed apartheid economy (albeit with newly ascendant Black elites) while also placating specific organized interest groups and vote-getting machines.

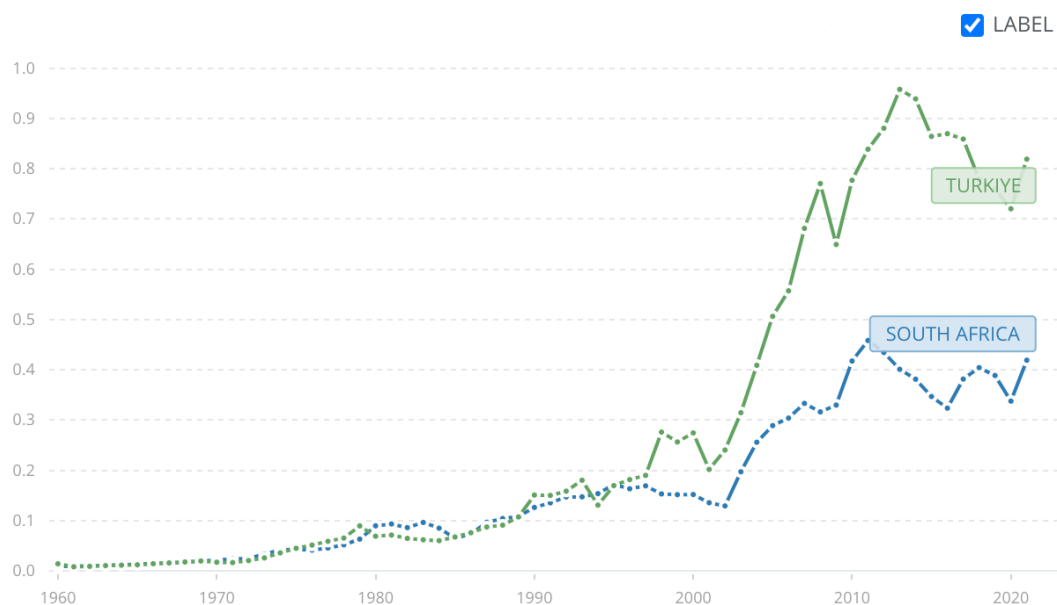
Two potential opportunities might help rejuvenate the South African economy before the ANC loses power. The promise in these two options is that, by growing the economic pie, they would attract few distributive fights among the entrenched interest groups within the ANC.

1. **Becoming the gateway to Africa:**

After succeeding Madiba, Thabo Mbeki had the grand idea ("[African Renaissance](#)") of making the South African economy the gateway to Africa. While Mbeki failed, South Africa still has the chance to become a bigger economic actor across Africa. From *finance to engineering and construction to trade facilitation to value addition for critical minerals* to being *a source of manufactured goods*, the South African economy still has the chance to establish itself as the economic leader of the region. Positioning the economy as the gateway to Africa would necessarily require an aggressive industrial policy that forces South African firms to serve foreign markets. Serving the African market (and beyond) would create more jobs and help arrest [the steady decline of labor share in industry](#).

However, becoming a bigger economic player in Africa will require less navel-gazing by Pretoria and more willingness to step up and act like a regional hegemon that can be relied on not just within SADC, but the

entire region. From the perspective of South Africans, it is a travesty that the country sat on its hands as peer economies moved into the region to establish trade ties.



Source: [The World Bank](#)

Consider Türkiye, an economy that not long ago was the same size as South Africa. Over the last decade, Turkish firms have muscled their way into African markets with the support of their government which helped establish joint business councils with at least 45 countries. [Between 2003 and 2021 trade increased almost sevenfold to \\$34.5b — more than twice the level of South Africa’s trade with the rest of the Continent.](#) Türkiye can now boast of almost \$78b in projects, the most prominent of which include a section of Tanzania’s new railway and much of Somalia’s reconstruction.

South Africa should challenge itself to take on Türkiye and China in competing for markets and projects across the region.

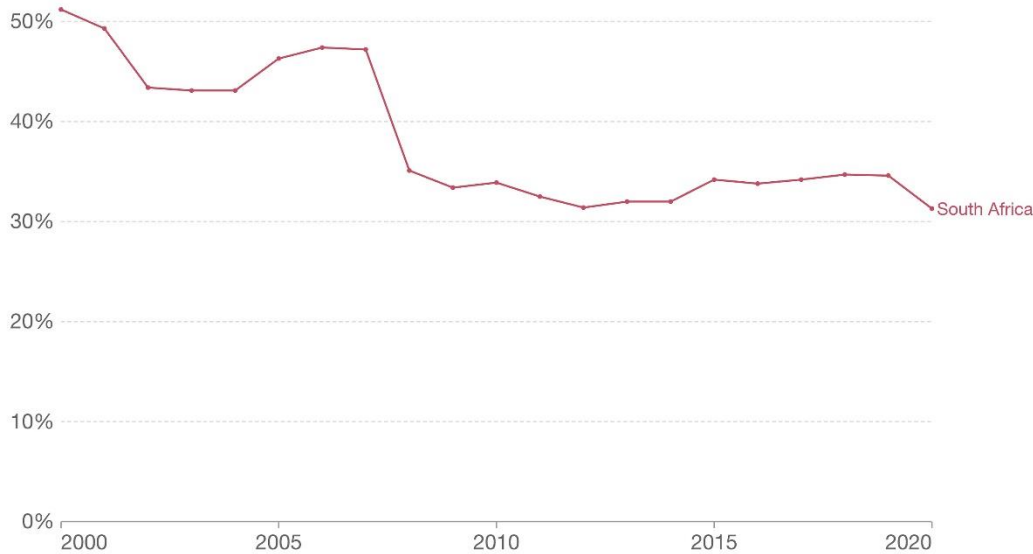
2. Deregulating the informal economy

Joining the “formal” sector of the economy comes with regulation and taxes. In South Africa, [the regulatory regime tends to be quite onerous and targeted at firms with big margins and large compliance departments](#) (with good reason). However, the same regulation stifles the informal sector — especially considering the yawning gap (productivity, scale, profits, etc) between the “formal” and “informal” sectors in South Africa. It is therefore worrying that the labor share of the informal sector has been declining even as unemployment/under-employment increases. To give those who cannot be part of the “formal” economy a chance, Pretoria should deregulate the “informal” sector and see it as a laboratory for growing future “formal” firms and a safety valve in the face of an ever more sclerotic “formal” sector.

Informal employment, 2000 to 2020

Our World
in Data

Employment in the informal economy as a percentage of total non-agricultural employment. This includes all jobs in unregistered and/or small-scale private unincorporated enterprises that produce goods or services meant for sale or barter. Self-employed street vendors, taxi drivers and home-base workers, regardless of size, are all considered enterprises.



Source: Data from multiple sources compiled by the UN

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As long as the government provides sufficient protections for workers and consumers, there is not reason to fetishize *formalization-as-regulation-and-taxation* as an end in itself. Comparable economies like Brazil, Bangladesh, and Nigeria have larger “informal” sectors while exhibiting a lot more dynamism than South Africa. Instead of expecting the entire economy to operate as one, the government should accept that it is at best running two completely different economies — one high-income and another lower middle-income. The former economy can afford much of the regulatory burden, while the latter requires maximum regulatory flexibility and innovation in order to grow and absorb the share of the labor force not in the formal sector.

IV: Conclusion

To a non-cynical observer, Cyril Ramaphosa’s elevation to the presidency was supposed to be the beginning of South Africa’s structural transformation. He was not Jacob Zuma. He was a wealthy businessman who, having the trust of the economic elite and markets, would midwife real change without unnecessary degradation of property rights. He was not a flamethrower and would actually be interested in the business of governing.

Yet as he prepares for reelection next year, Ramaphosa has so far not met expectations. He lacks the political skills needed to amass and spend power within the ANC. Instead of changing the party, it has made him in its image. His victory at party elections last year notwithstanding, there is little indication that his second term will be any different from the first. Many people around him (including within the apex National Executive Committee) continue to be stalked by accusations of corruption.

Given the ANC’s inability to elevate outsider leaders, there is a very narrow chance that it can reform itself let alone the country’s economy. Which is to say that the South African economy and its politics will continue to deteriorate unless the ANC loses power or is forced to form a coalition government with an evenly matched minority party. That is, of course, unless it can somehow see the wisdom of robustly trading with African economies (and beyond) and deregulating its “informal” sector to spur job creation.

