

2020 – What a year

15 December 2020

On our domestic shores and internationally, it has been quite a year. I review some of the most important developments.

Covid-19

Covid-19 naturally stands out as THE development of the year. It dealt South Africa the most serious economic blow since the 1920s. Two million people lost their jobs. Many small (and some big) business had to close doors. In general terms, it worsened South Africa's triple curse of poverty, inequality and unemployment.

On the other hand, Covid-19 unleashed a powerful backlash against corruption. Politically, it strengthened the hand of President Ramaphosa and weakened his opponents. It focused the attention on the urgency of structural reform. It also triggered generous support from South Africans to their fellow citizens.

As we approach 2021, the biggest uncertainty facing the country is how serious the second Covid-19 wave will be. At the time of writing, we simply do not know what the impact will be.

Growth

Economists are projecting -8% for 2020 – a very serious contraction. Both the Reuters and Netwerk24/BER polls of economists (38 economists participate in the latter) forecast on average growth for 2021 of 3,5% to 4,0%. They clearly expect a V-shaped recovery or a dead-cat bounce.

Beyond 2021 growth will fully depend on how much structural reform we undertake, a topic we touch on below and will certainly return to next year.

Corruption

2020 will be remembered for the powerful public backlash against corruption, particularly relating to Covid-19.

The backlash was reinforced by ongoing revelations at the Zondo Commission, the arrest and charging of nine VBS Mutual Bank accused in June and the arrest of seven Free State asbestos project accused in September (including Ace Magashule).

In total, 402 people were arrested and charged for corruption this year. R3,3 billion was recovered by the Special Investigating Unit (SIU) and the Asset Forfeiture Unit from various perpetrators (largely for Eskom's and Transnet's benefit). Another R10 billion is in the process of being reclaimed. Nearly R5 billion has been frozen by the authorities. The VBS accused were also sequestered in their personal capacities and the proceeds paid over to the executor of the failed bank.

The year also underscored the involvement of private sector companies and employees in corruption. Luminaries that had to pay up included McKinsey, Deloitte and ABB. Markus Jooste was fined R121 million for Steinhoff shenanigans. Apparently, a group of Stellenbosch citizens have voluntarily teamed up and prepared a case on Steinhoff for use by the National Prosecuting Authority (NPA), complete with affidavits. It will be interesting to see what happens with that.

The ANC is still struggling to catch up with the changing public mood, manifested by the refusal of some accused to stand down. This issue is far from over. Political parties cannot ignore public opinion indefinitely, even when the opposition is weak. In the Namibian election in November there was a strong swing away from SWAPO to a plethora of smaller parties and independents. An observer there noted 'people are tired of corruption'. In South Africa the state is proceeding with actions against various perpetrators and the state's actions will only increase, not decrease. Evidence at the Zondo Commission both shame and anger citizens. The general mood in the country is not helping those in the ANC that want to hold out on corruption.

Interestingly, in Gauteng, the ANC structures demanded that the former health MEC be fired after the premier only suspended him on corruption allegations. And he was duly fired. Gauteng is going in a different direction than other ANC provinces and that could be a harbinger of what is to come. (We will again do a corruption update in the new year.)

Structural reform

The year saw some underrated but very fundamental structural reforms. The progress with the unbundling of Eskom, the procurement of 2 000 MW of 'emergency power' (likely gas), and the commencement of procurement for 14 000 MW renewable energy constitute the biggest structural reform of energy in 100 years. Many observers justifiably lament the slow pace of this process, but the progress is undeniable. Even the slowest ox gets into the kraal. The outstanding issue is Eskom's debt and we should see progress on that middle next year.

After years of delay, spectrum release also progressed. The spectrum available for auction was released in November

and the auction will take place before the end of March 2021. The regulator has set reserve prices for the various auction parcels, totalling about R8 billion. The Finance Minister will welcome this windfall and telecommunications companies will happily grab the extra spectrum to expand their businesses.

Google is building a new undersea cable to South Africa, to be completed in 2021, with 20 times more network capacity than the last cable installed. A consortium of nine companies (including Facebook, MTN and China Mobile) is building an undersea cable that will circle the African continent, doubling the capacity of all sea cables currently servicing Africa. The completion date is 2024. Enhanced internet connectivity is clearly on the way.

Many are correctly and justifiably upset, but unfortunately also blinded, by government's horrific decision to put R10,5 billion into bankrupt South African Airways (SAA). They equate that with no political will to do structural reform. As I wrote previously, the SAA decision was a really bad decision; but SAA is not the bellwether of structural reform. Energy and spectrum are actually more important – and will involve many billions more than SAA. Some perspective is in order.

Where will the money come from?

This raises the question, who will pay for the many hundreds of billions of rands to be invested in energy and spectrum? The answer is simple – the private sector, as they do with the undersea cables. The taxpayer does not have to contribute anything, so the government's budget constraints are not a hindrance in this respect.

The next regular question is, who will invest? In South Africa's previous round of renewable energy for 6 000 MW, more than R200 billion was invested, of which 42% came from foreigners. For the 2 000 MW emergency power now in process, more than 482 companies expressed interest. There is clearly a huge appetite for energy and more internet connectivity, also among foreigners. Investors respond to profitable opportunities.

Restoring a sensible budget

Part of structural reform is to fix the government's budget. Established expenditure patterns have already been cut significantly due to Covid-19. The big remaining item is civil service salaries.

In February, government said it will not pay the increases for the third year of a three-year wage agreement. In April, the regular increase date, no increases were indeed paid. The unions were of course unhappy and took the matter to court. The case was heard in early December and judgement reserved.

In October, government announced that salaries will effectively be frozen for the next three years (0,9% per year is budgeted for the next three years). This may or may not result in civil service strikes next year, but the gauntlet is down. These salary decisions affect the very people who support government, the Cosatu unions. While it is indicative of something, it does not indicate a lack of political will to tackle the issue.

In passing, I should note that the year was characterised by Covid-19-appropriate, but still very prudent, fiscal and monetary policies (much to the chagrin of the left). If ever there was a year for modern monetary theory and quantitative easing, this was it – yet government chose not to go that route.

Prescribed assets

The same prudence manifested itself in the decision not to introduce prescribed assets. It is a major area of concern for many people and the uncertainty around this has now been lifted. The country's savings will indeed be tapped to finance infrastructure, but in co-operation with the savings industry and not through coercion.

Critical policy arguments won

It is no small political victory for the Ramaphosa faction that they got the ANC body politic to accept the restructuring of Eskom, more renewable energy, no prescribed assets and spectrum release – all matters of controversy that stalled in the Zuma years.

These developments follow the clear victory Ramaphosa achieved in June 2019 on the South African Reserve Bank (SARB) when the ANC top 6 (including Magashule) unambiguously repudiated Magashule's earlier call for 'quantity easing' and nationalisation of the SARB.

As far as policy goes, the score is Ramaphosa 5, Magashule 0 – literally!

Those who argue that Magashule determines policy should perhaps reconsider.

South Africa and the world

For me, the most important international event of the year, apart from the dismissal of Trump, was the bursting out into the open of ostensible US/China rivalry. In fact, it is not about their rivalry; it is about much more, a classic example of the Thucydides trap.

Greek historian Thucydides warned that when a dominant power meets an aspiring dominant power, it means trouble. Irrespective of who the leaders are and what the politics is, tensions will escalate. As the African proverb goes, when the elephants fight, the small animals must get out of the grass. South Africa's diplomatic positioning over the next few years will require exceptional subtlety.

The battle of the Thucydides trap must be seen against the background of the Regional Comprehensive Economic Partnership (RCEP) agreed in November 2020 between 15 South East Asian countries, including China. Combined,

RCEP covers one-third of the global economy. It will synchronise trade regulations and further enhance growth in the region.

In a sign that the world does not stop when the US gets off, 11 countries in the region also concluded a deeper and more comprehensive trade deal. It is a successor to the Trans-Pacific Partnership Agreement from which Trump pulled the US on his first day in office. After a period of hesitancy, the remaining countries found their feet and agreed a successor agreement with the impossible acronym of CPATPP (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership). It is now probably the gold standard of trade agreements. China is not part of it, neither is India. The UK is keen to join after Brexit. The Pacific is becoming more and more important, also for South Africa.

So what?

- Covid-19 left hardship and a lot of collateral damage in its wake. It will take several years to recover from it.
- All things being equal, economic growth in 2021 should be well above population growth, breaking a six-year trend of declining per capita incomes.
- 2021 will see action on the ground with energy and spectrum, unlocking investment and growth. New undersea cables to South Africa will enhance internet capacity and connectivity.
- The faction fights in the ANC will continue in 2021, but Ramaphosa's power will rise further (as it has consistently done since 2017) and his opponents' power will wane. This is good for political stability.
- Ramaphosa is firmly in control of the policies and levers of state, so the largely sensible policies seen to date (fiscal, monetary and structural reform) will continue. This is good for policy consistency.
- Covid-19 has interrupted many supply lines, but for those not caught in the Thucydides battle, more integration is inching forward.

I wish you a happy and safe festive season.