From political support to business confidence

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One of several challenges the Ramaphosa administration faces is how to convert the president's political capital and support into business confidence. The numbers speak for themselves.

Political Support

In the second quarter of this year, President Ramaphosa's approval ratings sat at 73% countrywide, according to the IPSOS poll. This was corroborated by the regular Citizens Surveys polls, which recorded 68% support for the president countrywide. However, by the third quarter, the surveys showed that the president's approval rating has declined to 56%. According to the surveys, the main reasons for the decline were a weakening economy and deteriorating personal living conditions. As Bill Clinton, who also happened to be in town this week, used to say: 'It's the economy, stupid'.

Ramaphosa, however, remains the most popular political leader in the country – more than 25 points ahead of his closest rivals (Maimane and Malema). He is also much more popular than the ANC. The latter has registered a decline in its partisanship, favourability and preference scores amongst voters. According to Citizens Surveys only 40% of voters now 'like and prefer' the party, down from 51% in 2015.

I have no doubt that developments in October bolstered the president's approval ratings and detracted from those of his opponents. These developments include the VBS Mutual Bank scandal, the dismissal of Tom Moyane, the appointment of Tito Mboweni, the disgrace of once-Zuma-acolyte Malusi Gigaba, the successes of the Job and Investment Summits, and the DA ructions in the Cape.

Nkosazana Dlamini-Zuma, Ramaphosa's opponent at NASREC, has an approval rating that is 20 points lower than the president's. The NASREC election results were 52/48 … no longer. As for former president Zuma, even in his home province of KwaZulu-Natal he enjoyed an approval rating of only 59% against 63% for Ramaphosa, while in the rest of the country he did not feature in the polls. So much for the Zuma omnipotence people feared after his recall in February. (Is it really only nine months ago that Zuma was still president?)

There is no doubt that President Ramaphosa is much stronger politically than when he won at NASREC, both in- and outside of the ANC.

Business Confidence

The regular CEO confidence measure by Merchantec Capital recorded a 7,65% increase in CEO confidence in the third quarter of 2018, with a score of 51. This takes CEO confidence above the neutral scoreline of 50 points, and just marginally below the highest score of the last five years – 51,4. It looks as if the CEOs are recovering their confidence. (The largest contribution to this increase came from CEOs in the consumer goods sector.)

However, the regular RMB/BER Business Confidence Index was not nearly as robust and recorded a reading of only 38 in the third quarter – way down from the neutral line of 50 and lower than the 45 reading in the first quarter of this year. Not one of the five sectors covered (manufacturers, wholesalers, retailers, new vehicle trade and building & construction) registered a reading above 50. CEOs may feel better, but business conditions remain tight.

It was no surprise then that National Treasury lowered the projected growth rate for this year from 1,5% to 0,7% in February. Perhaps more disconcerting is that Treasury now expects growth in 2019 to be 1,7% – only marginally ahead of population growth of 1,55%. The economy is still in the doldrums.

Enter Investment

How then can the president capitalise on his political support, improve confidence, and lift economic growth decisively above population growth? Enter his investment drive.

The story is well known. Seven months ago (yes, only seven months ago) the president announced the appointment of four investment envoys and set a target of investments worth $100 billion (R1,4 trillion) over five years.

At the inaugural Investment Summit held in Johannesburg in October, local and foreign companies pledged more than R290 billion in investment over the next five years. At this rate, the R1,4 trillion target over five years can be reached. The investment summit secretariat classifies less than half as already published investments – most of the pledges are previously unpublished investments. Only projects bigger than R50 million, which have reached the 'bankable feasibility stage', are counted.

Furthermore, not all investments planned by South African companies were pledged at the summit. One week after the summit, Discovery announced plans to invest R13 billion over the next five years, even though the company did not pledge anything at the summit itself. This must be the case for other companies as well. At the summit, one of the four investment envoys told me that the envoys will now write to all the big South African companies to request details of their capital expenditure spending plans, which should push up the R290 billion number.

More investment is clearly the president's strategy to get the economy going.

Some Perspective

The pledges made at the summit – if spread out over five years – come to just over 1% of annual GDP. How much is that?

R871 billion was invested in South Africa in 2017 – equal to 18,7% of the year's GDP. The average for the last 70 years was 21,7%, and for the period since democracy it is 18,3%. Although these may not seem like big differences, because of compounding, they are significant.

Add the 1% from the investment summit to the 2017 number and investment can rise above the average since democracy.

Sustain the investment drive for five years and investment can rise higher than the average for the last 70 years.

While all these blue-sky possibilities are fine, it is trite to say that the land issue will have to be resolved before South Africa will see investment rising higher than our 70-year and since-democracy averages. So far so good, but land must be resolved.

Real Benefits are Intangible

The real benefits of the president's investment drive may well be a 'crowding-in' effect – pushing other companies over the line to make investment decisions. When business people see others investing, it is easier to follow suit.

A benefit of the summit was building confidence by showcasing entrepreneurs who are happy and keen to invest in South Africa. There was Amazon announcing that they will expand their South African activities and establish a cloud computing hub in the country; the head of Huawei saying how well they are doing in South Africa; the East African entrepreneur Ashish Takkhar choosing South Africa to build Africa's first smartphone manufacturing plant; the Zimbabwean telecoms billionaire Strive Masiyiwa explained why he settled in this country ('a good place to raise a family' with 'lots of skills'); and the three 'new-SA' mining companies announced new mining investments worth several billion rand. (Listening to them the thought did cross my mind: which one of these three will be the new Gencor or Anglo American?)

I am an avid consumer of news, particularly business news, yet I was taken aback by the extent and diversity of the investment pledges. I did not know there was so much going on. One certainly does not get that view from the general news flow.

Changing the Political Discourse

One impact of the Investment Summit is that President Ramaphosa has changed the political discourse from 'white monopoly capital' and 'radical economic transformation' to the importance of investment in job creation and growth. He spoke about de-risking the economy to attract more investment; he declared that entrepreneurs are not enemies; and he professed his belief in the importance of 'the three e's: education, entrepreneurship and efficiency of the state'. Ramaphosa not only set the tone for the country, but also the line for his ministers and the ANC. Next to ethical leadership and fighting corruption, the economy has taken its place as one of the president's main thrusts.

So What?

- It is becoming more and more evident that Ramaphosa's position in the ANC is getting stronger and the erstwhile Zuma allies' positions are getting worse. The pendulum has swung convincingly.
- However, the president's continued support is dependent on an economic turnaround, and for that he must

increase business confidence. “It’s the economy, stupid”.

- With National Treasury predicting only 1,7% growth in 2019, we risk a fifth year of stagnant per capita incomes. This makes progress with the economy all that more important.
- The president has chosen investment as the preferred tool for stimulating the economy.
- The Investment Summit was a good start. For consistent progress, the land issue will have to be resolved.
- In the process, he is changing the political rhetoric. Progress will come from making the pie bigger, not just redistributing it.