

Transformation constitutes an investment risk in South Africa. But we are less risky than the markets of Latin America and, with the necessary wisdom, we can pull even further ahead.

Transformation is a given – now to make it work

CURRENT risks in South Africa are clearly lower than those in Latin America. Several countries in that region are sending out similar signals: large budget deficits, too much debt and unstable currencies, eventually leading to critical cracks in their banking systems.

For instance, while the economic contraction of Zimbabwe will be worse than that of Argentina this year, it won't be by much.

But South Africa is subject to a different kind of risk: transformation, or how to get a larger share of the country's land and economy to black people. How do we go about transforming a mostly white economy and land regime into something with a better mix?

This is not an exclusively South African problem, the entire Sub-Saharan Africa had to contend with it.

In Uganda, Idi Amin drove his Indian citizens out of the country. In Zimbabwe, Robert Mugabe is driving most white farmers out. But not all responses were that destructive. In Kenya, the departing British authority spent billions of rands (in today's money) to buy land from whites for blacks. In Botswana, healthy economic growth is being maintained while transformation is taking place.

African transformation was characterised by socialism. It began in Ghana with Kwame Nkrumah's "first seek the political kingdom" and gained in intellectual standing with Julius Nyerere's African socialism. And the result was decades of suffering.

For instance, in the early Sixties a country such as Kenya had a *per capita* income similar to that of South Korea. Today's South Koreans are a hundred times better off.

In SA, black leaders are driving transformation with increased intensity. It is not particularly ANC driven – consider black business's criticism of the ANC government for insufficient transformation; or the differences between black and white on the mix between transformation and growth; or the questions from black voters at imbizos on when they will see the fruits of liberation.

Transformation is more than an ANC priority; it is a priority throughout Sub-Saharan Africa and a direct consequence of our past.

How is South Africa handling it?

It began with legislation on affirmative action, progressing to charters enforcing minimum levels of black ownership in various industries. The next step, probably by next year, is likely to be blanket legislation for the entire economy. Government apparently wishes to see 35% of the economy in black hands by 2014, twenty years after 1994.

Businesses will feel the pressure in a number of ways, for instance in their choice of suppliers. They will have to acquire a new nimbleness of foot in the next few years, and one wonders whether this reality has been discounted in their share prices.

In order to be successful, transformation will have to mean improved productivity. Are race quotas enough, or should we also develop skills and optimise talent? Are we going to see more competition or less? These are the questions requiring answers.

Transformation implies redistribution, but the real test is whether we can bake a bigger cake to redistribute. For me, the litmus test is whether we establish an open economy or not. In an open economy, more wealth can be created faster, creating a stronger base for redistribution.

And in this regard the signs are positive. Deregulation and privatisation are continuing. Whites lost their jobs at Telkom, but others are now working at Cell C or will be working at the new telephone company – both of them products of deregulation.

An open economy also means taxes have to come down and, indeed, we are paying considerably less than three years ago. More cuts are likely next year.

An open economy is the opposite of socialism. In South Africa, transformation is not characterised by socialism.

Government also appears to take cognisance of investor sentiment towards an open economy and to respond to it, at least in part. The final mining charter differs considerably from the original document.

If handled correctly, transformation can help to open up the economy. As more and more black people participate in the formal economy, the discipline of the market will expand and grow. As more and more people own shares, politicians will come under increasing pressure to act in a manner that will not drive the share market down.

Much still needs to be done. Transformation is an inescapable consequence of our past, but it won't be enough to ensure our future – we'll have to find the right balance between transformation and growth. Open minds are required from black as well as white South Africans.

If we achieve transformation with sufficient growth, South Africa will become an even better investment destination and an even stronger competitor to other emerging markets, such as Latin America.

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