

SOUTH AFRICA WILL SURVIVE THE CURRENT CRISIS

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Ever since the historic unbanning of the ANC in 1989 (shortly after the collapse of the Berlin Wall and the demise of communism in Eastern Europe), fears have existed over socio-political instability in South Africa.

Less than five years later, despite sporadic elements of political violence, especially in KwaZulu/Natal, South Africa proved to the world that intense dialogue amongst leaders from a mosaic of dominant cultural and political groupings could stave off the lingering threat of conflict by producing a Constitution resembling the United Nations' Charter on Human Rights.

It was fitting that South Africa's third winner of the Nobel Peace Prize, Nelson Mandela, was elected the country's first democratically elected head of state, with the co-holder of this award, Mr F W de Klerk, becoming deputy president.

The democratic journey has not been without incident, with political assassinations occurring from time to time and the priority afforded to ideological objectives by the ANC government systematically eroding productivity in the economy. The latter nevertheless performed reasonably well until two decisive moments in the country's recent history.

The first was the global financial crisis of 2008/09, which resulted in the first recession during the democratic era. The second occurred shortly afterwards when Jacob Zuma, whose business partner had been found guilty of corruption on a grand scale, was elected president.

The Zuma legacy

It did not take Mr Zuma long to start eroding business confidence via corrupt relationships with prominent Indian businessmen and the appointment of political allies to senior positions in state-owned enterprises and the cabinet. Apart from being the architect of state capture, which has wreaked havoc with the state of the country's infrastructure, he also engineered appointments at the National Prosecuting Agency, designed to have corruption charges against him dropped.

Subsequent to his retirement, he is at last being prosecuted on corruption charges, but has now been jailed for a relatively minor misdemeanour, namely contempt of court. Unfortunately, this provided the spark for his allies to start protests that initially seemed insignificant, but ultimately resulted in the worst social unrest in several decades.

Over the past couple of days, the overwhelming majority of South Africa's citizens have been horrified by stark visuals of rioting and looting of shops, mainly in KwaZulu/Natal and Gauteng. The human and economic cost is severe and will only be fully assessed after calm has returned.

The costs of socio-political violence

South Africa is not alone in having to cope with protests that turn violent and lead to extensive damage and reduced economic output, with a number of other countries suffering much worse economic damage. Examples of the costs of rioting and looting in other parts of the world include:

- France, where the so-called "yellow vest" protests between 2018 and 2020 cost the economy \$4.4-billion
- Ecuador, where 11 days of protests in 2019 resulted in economic losses of \$1.3-billion

- Chile experienced a series of mass demonstrations between late 2019 and March 2020 after the Santiago Metro's subway fare was raised, adding to discontent with evidence of public sector corruption. It cost the economy an estimated \$4-billion, with 128 of Walmart's 400 supermarkets looted.
- The on-going spate of political protests in Hong Kong has cost the country at least \$2.3-billion lost retail sales

Recipe for social unrest

According to the latest Verisk Maplecroft Political Risk Outlook, 88 of the 130 countries covered by its research are expected to experience an increase in socio-political instability between 2021 and 2023, at least.

Violence has also returned to the top 10 of the Allianz Risk Barometer for the first time since 2018, reflecting the fact that incidents of civil unrest are now challenging terrorism as the main political risk exposure for companies.

The Covid pandemic has exacerbated the global risk of socio-economic and political instability, with many anti-lockdown demonstrations turning violent in post-industrial countries. In analysing the current state of the world, it is clear that a number of factors have conspired to produce a dangerous cocktail of simmering unrest unprecedented in the post-World War 2 era.

They include the following:

- The sharp economic downturn of 2020
- Rising unemployment
- A decline in the fiscal resources that are required for maintaining service delivery
- The declining influence of multi-lateral interventions
- An erosion of democratic core values
- Distrust between China and the West
- The rise of nationalism and authoritarianism in several countries

In addition to these fairly obvious catalysts for social unrest, social psychology research has identified several other reasons why gatherings and seemingly peaceful protests can take a turn for the worse. One of them is the concept of social contagion, where inappropriate behaviour is fuelled by members of a crowd that initially engage in violent activities, such as throwing rocks through a store window. Others see this as a perverse form of legitimizing the violence.

A second explanation is related to the issue of anonymity. Wearing a mask or being part of a large crowd often conceals identification, which removes the fear of being held accountable for violent and unlawful actions.

Positive developments

Actions taken by the police and the defence force have resulted in swift progress with restoring calm to the two provinces most affected by the riots (KwaZulu/Natal and Gauteng). Other positive developments over the past few days include:

- Unprecedented cooperation amongst law-abiding members of communities to protect their properties and also identify people suspected of being looters. This occurred across the full spectrum of household income levels.

- Evidence exists that several people have been responsible for instigating the violence, with the police having identified at least a dozen people suspected of provoking the riots. No doubt exists over the fact that Zuma loyalists, many of whom have also been implicated in acts of corruption and theft, have been trying to thwart Pres Ramaphosa's campaign to redress the disastrous effects of state capture that were the hallmark of Mr Zuma's administration. It is also evident that the overwhelming majority of South Africans have been appalled by the tactics of the Zuma loyalists and other radical political groupings, which will ultimately strengthen the position of Pres Ramaphosa within the ANC's National Executive Council (NEC).
- Cedric Masondo, head of the state-owned South African Special Risks Insurance Association (Sasria) has been quoted as confirming that claims related to the riots qualify for payments under standard Sasria insurance policies. He has assured affected businesses that payments would be made promptly. A standard Sasria insurance policy pays up to R500-million. Sasria has reserves valued at more than R8.5-billion.

Job creation – the long-term solution

All of the above and also several other reasons help to explain the occurrence of the current unrest situation in the country, but the high rate of unemployment amongst the youth is certainly of overriding importance. It should be borne in mind that South Africa is classified as an upper-middle income country, with real national income per capita having increased from R63,000 in 1994 to R86,000 in 2019. Furthermore, the fiscal base remains strong enough to pay more than 18 million people welfare grants every month.

Short-term solutions to quelling the unrest are in the process of being implemented and involves an element of force via the involvement of the police and the military forces.

In the longer term, the solution simply lies in the elevation of employment creation as the number one economic priority. Every single job that is created has a three-pronged positive effect: it reduces poverty, broadens the tax base and acts as a disincentive to engage in socially unacceptable behaviour.

Only the private sector can create jobs that add significant value to the economy at scale, but government has the power to incentivise the expansion of business activity via its control over legislation and the regulatory environment.

One of the pillars of the new approach towards economic policy adopted by Pres Cyril Ramaphosa and Finance Minister Tito Mboweni is to remove obstacles to business development. This objective needs to be pursued as a matter of extreme urgency and should ideally include a moratorium on BEE charters.

The private sector should be allowed to employ any person that meets the skills requirements for the rapid expansion of economic activity and job creation. Another hurdle in dire need of removal is the country's onerous labour legislation. South Africa is by no means a post-industrial economy and should have labour laws that make it easy for employers to create as many jobs as possible.

Hopefully, a combination of appropriate short term and longer term interventions will eventually succeed in defusing the potential for civil unrest and pave the way for further economic recovery and growth.