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# Choices facing South Africa's Economic Policy in the face of global Secular Stagnation.

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May 2017

# Agenda



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1. Larry Summers and secular stagnation
2. Local fund manager survey
3. Radical economic transformation
4. The land issue
5. Competition and industrial policy

# Larry Summer's secular stagnation

- Central thesis:
  - Not over, until it is over. We need to think about how we manage an economy in which the zero-nominal interest rate is a chronic and systemic inhibitor of economic activity holding our economies back below potential.
  - *Summers at the IMF meeting, November 2013*



Fiscal policy response most important

# Lost decade to secular stagflation?

No need to be complacent

Nearly a lost decade

US Real GDP per 18-64 year old  
Great Recession and Great Depression



# Angst expressed by investors

Leftist policy shifts!?



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## What is your biggest domestic risk to SA equity performance?

	Apr'17	Mar'17	Feb'17
<b>A weak earnings backdrop</b>	8%	18%	0%
<b>A further de-rating</b>	15%	36%	42%
<b>Policy shifts to the left</b>	62%	18%	33%
<b>Sticky inflation and monetary policy</b>	0%	0%	8%
<b>A weaker consumer</b>	0%	18%	0%
<b>A volatile rand</b>	8%	0%	0%
<b>Lack of skills and high unemployment</b>	0%	0%	0%
<b>Don't know</b>	8%	9%	17%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Confusing policy communication problematic**

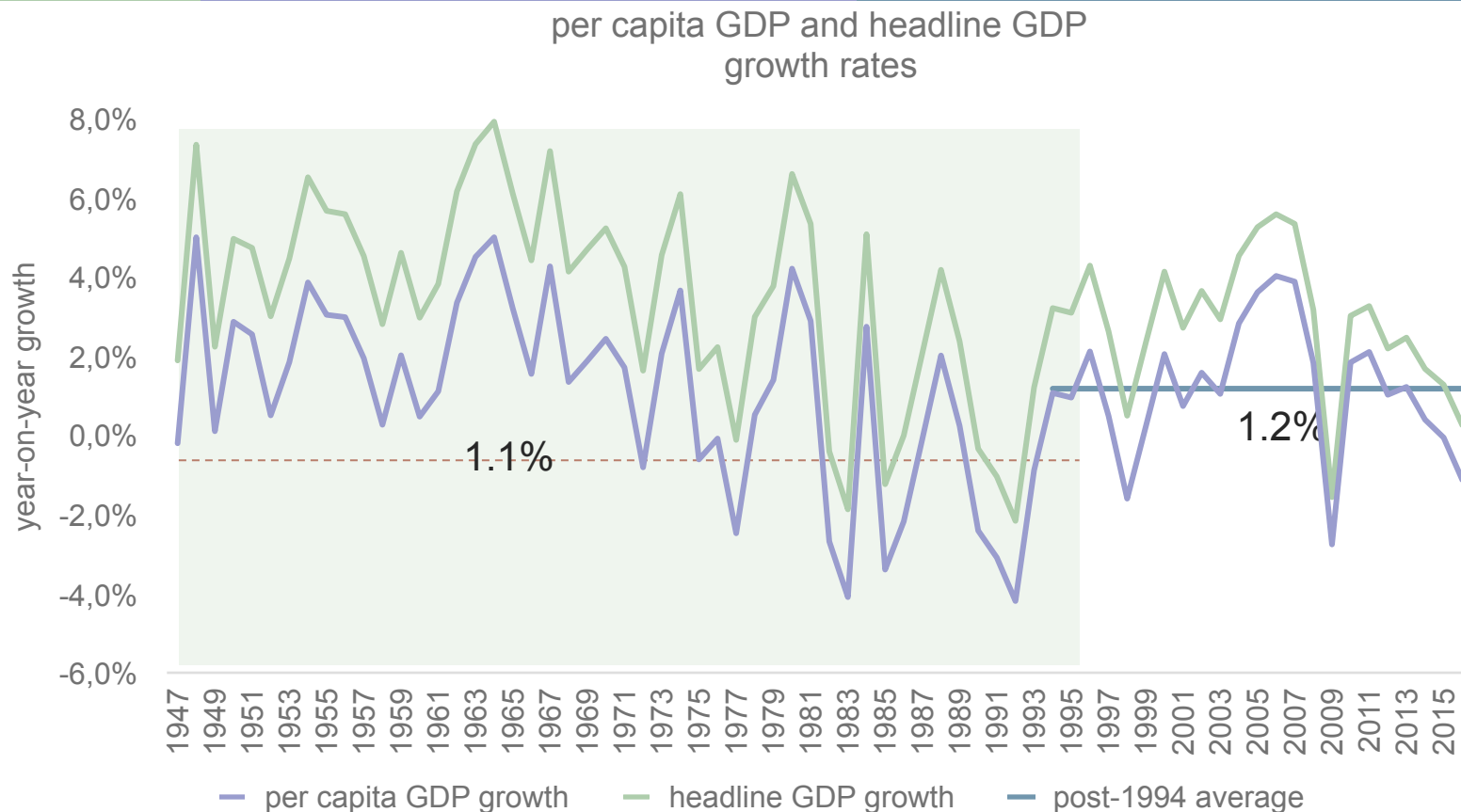
# Radical Economic Transformation

Quality of growth matters!



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**Exploitative, futureless, rootless and inclusive growth**

# Land issue in SA

Little discussion about urban land

- “The South African native found himself ... a pariah in the land of his birth”

Sol Plaatjie, ANC’s first secretary-general from 1912 to 1915

- As far back as 1992, the ANC, in its Ready to Govern document, **recognized the need for compensation**;
- Arguments against section 25 of South Africa’s Constitution, which protects and regulates property rights, **are plainly wrong**;
- “In 20 years, our court has **not resolved even one case of land expropriation** under the property clause by government for a public purpose”.

Retired Deputy Chief Justice Dikgang Moseneke



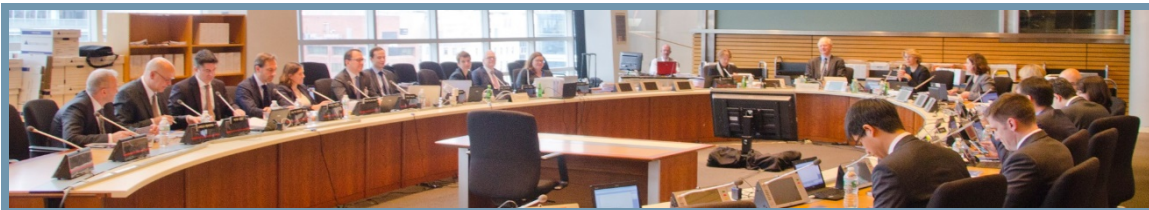
**Enoch Godongwana**  
Chair of the ANC's subcommittee  
on economic transformation

# International example on land

Venezuela has lost a lot cases

## INTERNATIONAL ARBITRATION

- Venezuela **nationalized without compensation** a number of companies in different sectors;
- Some of the companies took Venezuela to the **International Center for Settlement of Investment Disputes** and won;
- In SA, Cabinet had took a decision to terminate **all bilateral investment treaties**;
- In their place, Parliament has approved the **Protection of Investment Act**, of which was developed by the dti.





# China's urban housing windfall

Significant wealth injection for middle income earners



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1958

Mao Zedong's policies **expropriated private farms** (Great Leap Forward)

1979-1981

Deng Xiaoping experiments with housing policies to lift **home ownership**

1982-1985

Subsidized sales: buyer, employer and city government **all contributed 1/3 each**

1994 -1998

Full **property rights** to urban residents who had subsidies from **their employers**

2013

Reform of the **Hukou System**



# The World Bank on Competition Policy in SA

Competition policy to raise economic growth



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## Cartels in South Africa: 2005 -2015

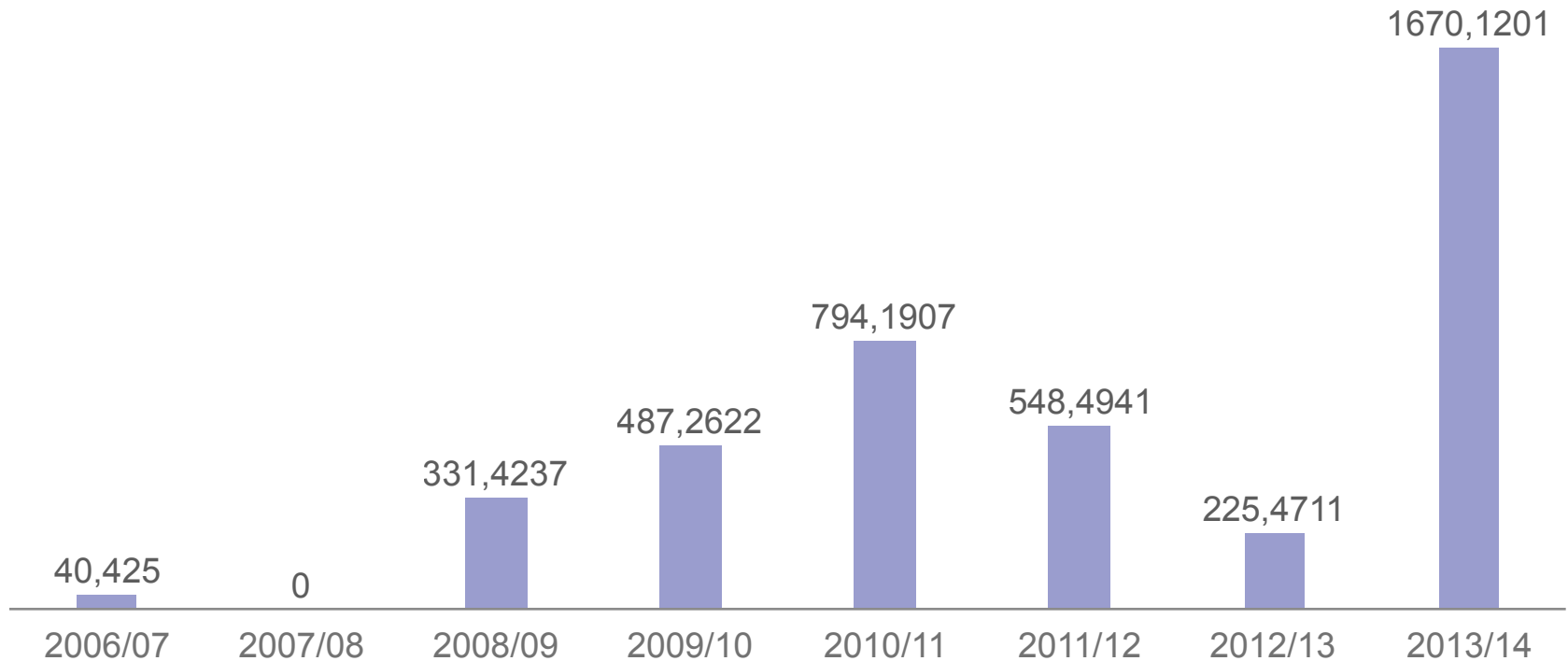
<b>76</b>	Cartels
<b>33</b>	Cases in which a leniency application was submitted
<b>32</b>	Cases in which leniency applications were accepted
<b>2</b>	Cases in which more than one firm was granted leniency

**International evidence shows that detected cases only represent 10-40% of total cartels**

# Competition policy

Top of mind in the new policy discourse

Total administrative penalties levied  
over an eight year period (in R millions)



**Fine of up to 10% of turnover for a first time offence**

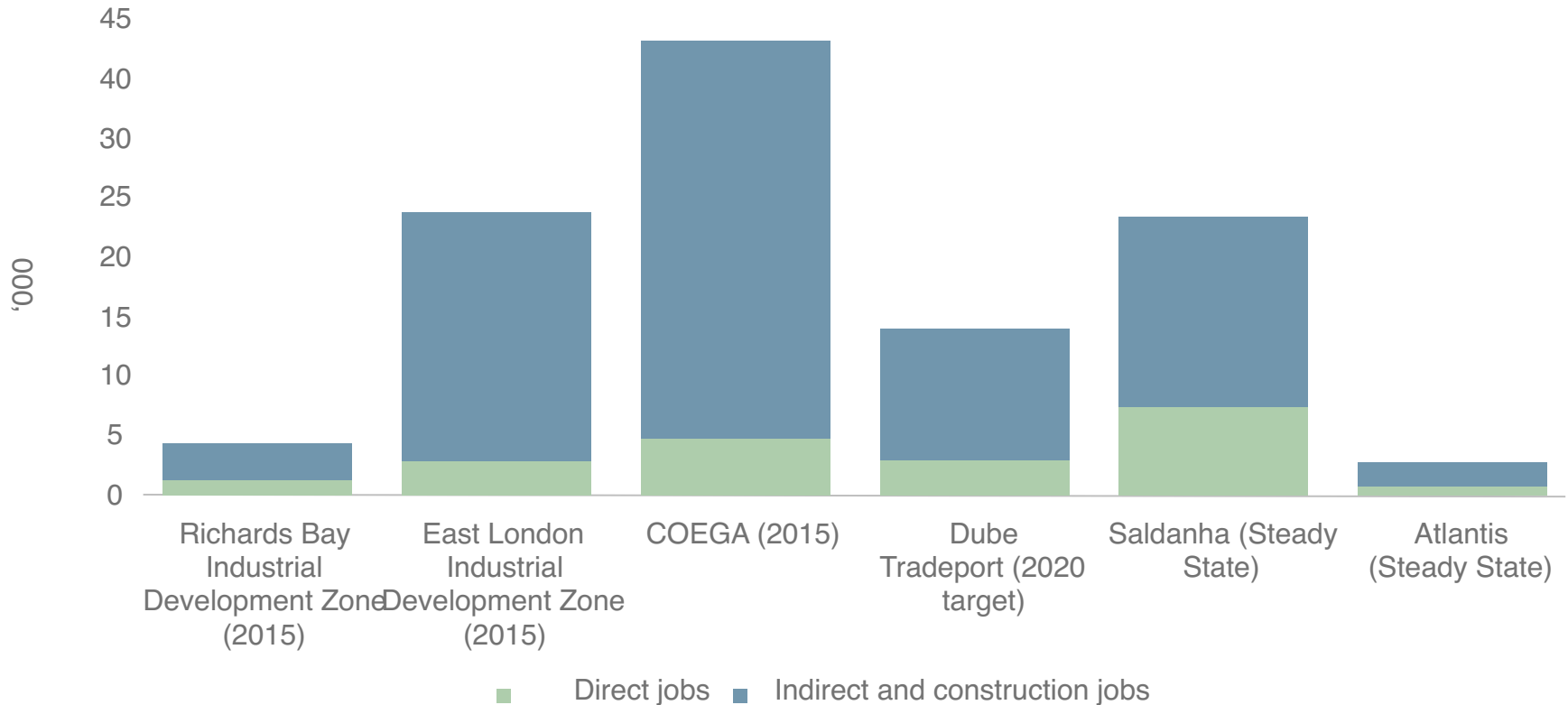
# Create special economic zones in the metros



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## Way forward

Number of jobs created by special economic zones



**“Locating SEZs in metropolitan areas, where most growth and job creation will likely occur, provides the best chance of unlocking the agglomeration forces that will make SEZs economically successful and better integrated in local economies”** (World Bank, South Africa Economic Update, Jan 2017, page 41)

# Conclusion

**“Confidence is the cheapest form of stimulus”**  
Larry Summers

**Education**

**Financial liability management**

**Cities as engines of growth**

**Rural development**

**Competition Policy**

**Energy**

**Financial stability and inclusion**

**Global and regional value chains**

**Innovation policy**

**Industrial Policy**