

South Africa's economy is in the doldrums but one of its leading industrialists points to key factors that give rise to a more optimistic point of view.

South Africa: Still the jewel in Africa's crown?

South Africa's "good story to tell" has come under increasing pressure in recent times. Being an open economy exposed to global trends and events, there was no way South Africa could avoid the consequences of the commodity downturn and financial crisis of 2008. Domestic political infighting has hampered the evolution of coherent economic policies and led to heightened racial tensions, a ratings downgrade to junk status, and fears that the country's decline could become irreversible.

But beneath the daily headlines lies a remarkably stable country, with energetic and capable people going about their daily lives, building for the future. Despite South Africa's rambunctious version of democratic expression, its Constitution and Bill of Rights remain robust and widely respected.

The institutions of governance, transparency and accountability, and the rule of law are deeply ingrained in the exercise of government authority. Strong political parties, civil society formations, NGOs, and faith-based organisations combine with a free and diverse media landscape to create an environment in which freedom of expression is given full voice.

Strains in the economy, and the social consequences, have led to calls for nationalisation of some sectors, and greater state control in others, but they have not gained traction at the ballot box. Private property rights are enshrined in the Constitution, and the private sector continues to be the major employer and creator of the country's wealth. Thousands of foreign-owned companies operate in South Africa, many listed on the Johannesburg Stock Exchange, often serving as the African headquarters of major multinationals.

None of this has changed, and while government talk of "radical economic transformation" and a more equitable demographic representation in the economy



“South Africa will continue to reward those who have confidence in its future.”

has spooked some business sectors, government has also assured domestic and foreign investors that the country's basic policy orientation will not change. This might appear contradictory, but it essentially means that any interventions will have to be within the existing constitutional, legislative, and regulatory framework. Democratic nations are generally more stable, more resistant to external shocks, and more adaptable to change, and on that basis South Africa is well positioned to make the transition to faster economic growth.

Revitalising the economy

So how does South Africa revitalise a sluggish economy and edge closer to the 5% growth rate it aspires to? New investment in the country's traditional strengths, primarily agriculture, mining, manufacturing, and services; investment in new technologies; modernisation of infrastructure; building a skilled and innovative workforce; encouraging entrepreneurship, and creating a more business-friendly environment. That much is generally agreed. But where will this new investment come from?

Foreign direct investment has always been the primary engine of South Africa's economic and industrial development, and while currently constrained, this is probably a good time to look at the investment opportunities South Africa has to offer. Much is made of China's rise as the major investor in South Africa, raising concerns that traditional (Western) investors cannot compete with the terms that China can offer. But it should be remembered that Chinese companies have the same preoccupations as anyone else – that is managing the risks inherent in African investments – and South Africa's track record is better than any other country on the continent.

The same applies to quality of institutions of governance, local skills base, sophistication of financial services, transport infrastructure and the many other considerations that investors have to bear in mind. While China's investment model may be different, the decision-making criteria in South Africa's case remain pretty much the same.

Commentators often look to East Asia, and seek to draw comparisons with Africa. It is true that at the time of independence from colonial rule in the 1960s, many African countries were significantly better off than their East Asian counterparts. The Asian Tigers invested heavily in education and training, a merit-based public service, building strong domestic institutions, reduced focus on ethnicity, diversification of the



Creating high-tech jobs: a computer controlled cutting machine is used to cut aluminum aircraft components for the global aerospace industry.

economy, a competitive spirit and a shared national objective to achieve development goals.

East Asian countries that failed spectacularly took a different path; they adopted some form of socialism, central planning, and top-down control, but once they realised their mistake and started opening up their economies and liberating their people to engage in private-sector activities, their economic performance grew exponentially.

If there is a lesson for South Africa to draw from these experiences it is that vacuous ideological slogans are no substitute for sound economic policy. Government interference and overreach can quickly suck the value and creativity out of any economy and condemn entire populations to poverty. Democracy, good governance, the rule of law, and human rights are ultimately the best guarantor of development and prosperity.

Fortunately for South Africa, with all of its imperfections, these key factors are embedded in its political and economic system. Industrialists, such as myself, believe in South Africa's long-term future. We believe in its people, its institutions, and its ability to rise above the current sluggish economy, and that is why

we continue to invest and position ourselves for the return to better growth that, in our view, is at hand.

Confidence in the future

Speaking for Paramount Group which I lead, the largest privately owned aerospace and defence manufacturer in Africa, we have invested very substantial resources in the past few years in a vehicle factory near Johannesburg; an innovation and training centre; an advanced technologies and aerospace campus in Midrand; a new aircraft factory north of Pretoria; and shipbuilding facilities in Cape Town and Durban. These are private-sector initiatives, operating in the global market, competing and partnering with the best companies in the world of high-tech manufacturing.

We do this in South Africa because we live and work in this country, this is our home, and as our history of growth as an industrial group has shown, South Africa is still the jewel in Africa's crown and will continue to reward those who have confidence in its future.

Ivor Ichikowitz is founder and executive chairman of Paramount Group