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Economy still vulnerable despite big plans

COMMENT
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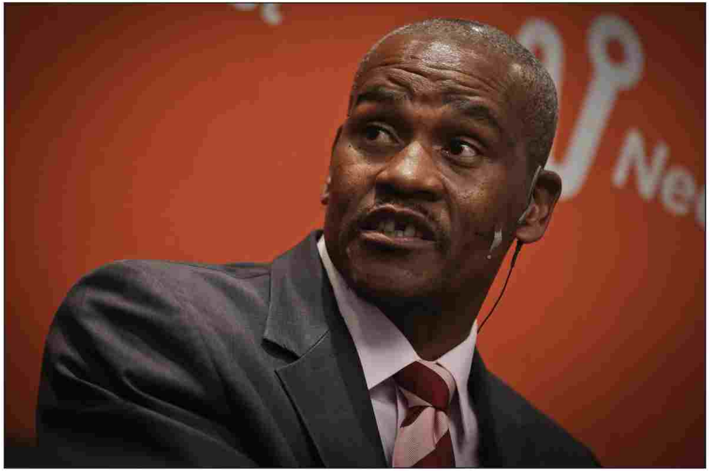
The 2013 national budget underscores the vulnerability of the South African economy. The budget shows a deficit of 5.2%, reminiscent of the apartheid-era deficits, and a 7.2% balance of payment deficit on the country's current account.

This emphasises the vulnerability of the South African economy if net sales by foreigners of South African securities accelerate at a faster rate. This could happen because of a sudden speculative attack on the currency in response to a political event (such as the attack of the ANC and the minister of mineral affairs on the mining sector's potential retrenchments in the platinum sector).

Of major concern is President Jacob Zuma's statement in an interview with a European financial newspaper this week that Europe's perception of Africa has swayed South Africa to the Brics grouping in search of long-term investors and political partners in the face of the global economic and financial crisis.

The president's views on the worst economic conditions in Europe (miles apart from the African possibility) indicate that he fails to appreciate that European fund managers are also among the biggest investors in South African securities.



Lumkile Mondi does not believe that the 2013 Budget lays a foundation for shared economic growth. Photo: Lisa Skinner

They could continue selling South African securities and trigger a downwards slide of the South African rand last seen in 2001.

South Africa's ambitious infrastructure investment programme of over R870-billion means the country needs Europe as a partner.

Projects that would require such partnerships include the two Eskom power stations and the recapitalisation of Transnet, the Passenger Rail Agency of South Africa and possibly South African Airways.

A weaker currency would delay the programme or, at worst, grind it to a halt. The economic policy stance of adopting the national development plan (NDP) and the overwhelming support of all South Africans could allay some of the concerns raised by the rating agencies. However, the state's implementation plans, capabilities and competencies remain questionable, as witnessed in the Medupi construction programme.

The positive stance of the private sector as a partner in the implementation of the NDP is encouraging, though.

President Zuma, Minister of Finance Pravin Gordhan and the ANC have also welcomed this commitment.

This is evident in the 2013 budget, particularly in the youth employment subsidy and the incentive and support programmes for small and medium businesses as critical players in job creation.

The acceptance of export processing zones (EPZs) after 20 years of deliberation is a cherry on top. EPZs were mooted in the 1993/94 democratic South Africa economy debates. However, labour unions and parties to the left saw them as centres of exploitation, because of potentially poor wages and the undermining of workers' rights, as is the case with Chinese EPZs.

It is a major policy shift by the ANC-led government to provide corporate tax incentives of 15% and no tax for workers who earn less than R60 000 a year.

Is this a shift in government toward centre-right policies? Yes, it is. In the 18 years of South Africa's democracy, discussions on lowering taxes for business were seen as toxic by both the unions and the left.

It might be early to claim an easy victory on EPZ, though, because the implementation of economic policy is South Africa's Achilles's heel.

However, the energy exhibited by the East London industrial development zone (IDZ), Coega IDZ and Wesgrow in the Western Cape confirms that provinces are determined to make them work. Only time will tell.

Does the budget lay a foundation for shared economic growth? No! There are just too many uncertainties. These range from global economic challenges to the inconsistencies of South Africa's communications with the rest of the world and a bureaucracy with a very poor record of implementation (despite some successes at the South African Revenue Service, the national treasury and the department of home affairs).

Shared economic growth is dependent on European economic revival, strong and coherent leadership, the private sector as a key driver of economic growth, a bureaucracy that cares for its people and accountability.

Without these, all South Africa's initiatives in the NDP and the 2013 budget will just be cheap talk; South Africa will repeat the African history of potential that is not exploited.

Lumkile Mondi is the chief economist of the Industrial Development Corporation. He is a member of the state-owned enterprises presidential review committee and was a member of then-president Thabo Mbeki's economic advisory panel. He serves on the boards of ArcelorMittal South Africa and Yard Capital