2025 EDITION

The IRR's Blueprint for Growth:

"Open(ing) for business":

South Africa's investment malaise and how to escape it

October 2025

Terence Corrigan

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October 2025

Published by the South African Institute of Race Relations

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This paper was made possible with the generous support of the Konrad-Adenauer-Stiftung

Introduction

Addressing a conference at the New York Stock Exchange in September 2024, President Cyril Ramaphosa affirmed – as he and colleagues and predecessors in government had done for decades – that a foremost concern for South Africa was its economic progress. "We are prioritising inclusive growth and job creation, reducing poverty and tackling the high cost of living, and building a capable, ethical and developmental state," he remarked, "South Africa intends to stay the course on the structural economic reform process, on scaling up investment in key infrastructure, and on improving the business operating environment."

Prominent in the President's remarks was the country's new government configuration; this was a time during which sentiment about South Africa and its prospects were positive. A new coalition government – the Government of National Unity (GNU) – seemed to offer a window of opportunity to reset a range of policy choices, and reengage with business and with the governments of its major trade and investment partners, and to set the country on a high-growth path. Indeed, as PT, an executive in a business organisation interviwed for this study, commented: "The market likes the GNU. The fact that it exists in positive. It provides much needed stability. Its outcomes could be a lot better."

President Ramaphosa's tone was bullish: "The far-reaching structural reforms we have implemented over the past six years have opened up the country to increased levels of investment that continues to grow."

These words misstate South Africa's realities: reforms have been limited in scope and ambition, and investment has lagged chronically behind that of its middle-income peers, its own stated goals, and most concerningly, what it needs to achieve – by any objective measure – for its own long-term economic success.

Investment is the key driver of economic dynamism. It signifies the commitment of wealth to activities in the expectation that this will yield benefits over time. In brief, it is the commitment of wealth to an activity that will produce more wealth in the future. This is the concept of "capital", the use of wealth or the assets it procures to generate wealth.

This is a matter of importance not just to South Africa's future, as reflected in its macro-economic indicators. With unemployment, by official reckoning, at around a third of the workforce, millions of South Africans lack the elementary means of social mobility. More than that, South Africa's long-term economic stagnation suggests there is little hope of attaining it. Given the long-standing problems afflicting South Africa, many will see little prospect for their children either. This is a set of circumstances that stands to breed desperation, resentment and societal antagonism. Such an environment is also ripe for exploitation by malign actors or populist politicians, elements of which phenomena the country has already experienced. This would be profoundly destabilising and would make durable solutions ever more difficult.

Increasing the flow of investment is therefore a matter of existential importance. Investment is indispensable in opening up opportunities for those who have been excluded from the economic mainstream, and diffusing South Africa's tensions, existing and potential.

This study restates and develops the analysis presented in the *Blueprint for Growth* paper, *"Open(ing) for business": South Africa's investment malaise and how to escape it,* published last year. (Readers are encouraged to revisit that paper, particularly for the foundational trend analysis it presents). It examines South Africa's record on investment, looks at the reasons this has been indifferent, and explores what might be done to change direction.

The South African economy in perspective

Investment is the primary driver of the headline economic indicator, economic growth. Specifically, investment enhances the capacity of a jurisdiction to increase economic activity from one year to another. Invariably, annual Gross Domestic Product (GDP) growth is the reference point for discussing South Africa's economic challenges.

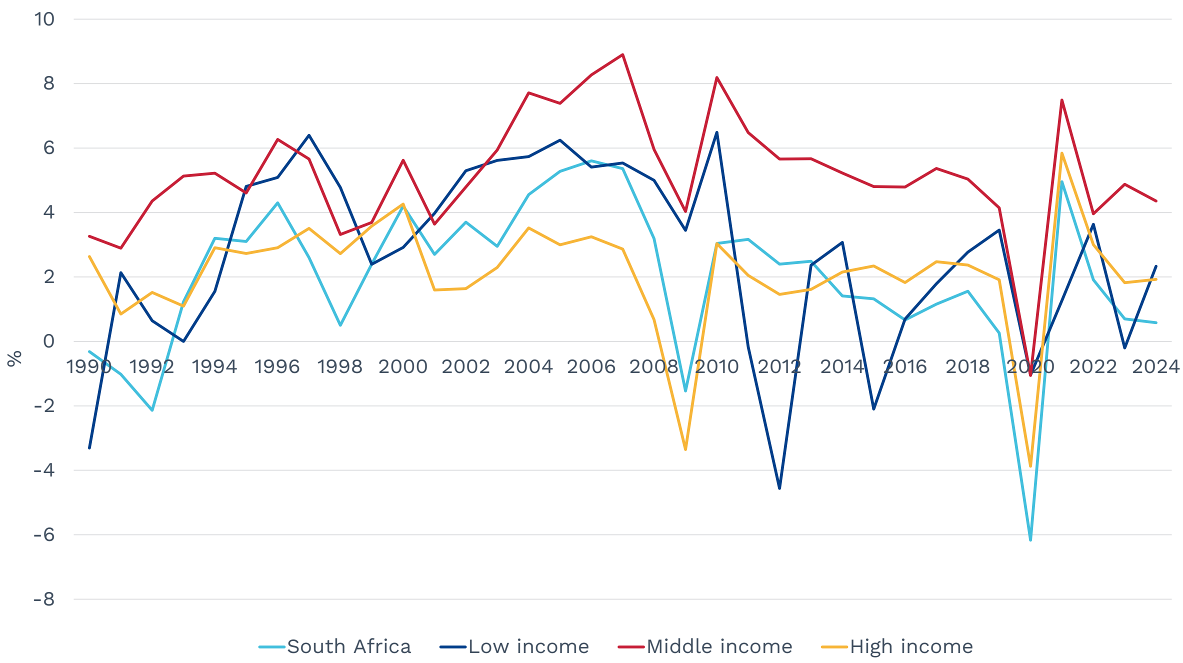
As a baseline for analysis, the 2012 National Development Plan (NDP) envisaged real GDP growth of 5.4% per annum over a sustained period. In the post-1994 era, this has been achieved in only two years, and in only one other has it managed growth of above 5%.[1] This helps to frame South Africa's macro-level problem: the economy is not growing at anything like the level required to meet the needs of the population and the state's official ambitions.

To understand the dynamics contributing to this, it is useful to examine South Africa's place in the global economy. In international terms, South Africa has a sizeable but modestly proportioned economy. World Bank data – useful for comparisons across the world – classifies South Africa as an upper-middle-income country and put its GDP at US$377.8 billion in 2023. In these terms, it is 40th in the world, not dissimilar in size from jurisdictions like Hong Kong, Colombia and Nigeria. (The figure for the world economy, by the way, stood at US$105 trillion.)[2] On a per capita basis, South Africa's Gross National Income (GNI) was US$6,100 in 2024, well below the average for comparable economies and roughly 26% lower than its 2012 peak.[3]

South Africa's economy and its economic challenges cannot be separated from the global environment, or what is termed globalisation.

The biggest winners over the past three decades have been middle-income countries (see previous version for a brief explanation of why poorer countries tend to grow faster). With a combination of favourably priced and adequately skilled labour and satisfactory infrastructure, they have benefited mightily from the offshoring of manufacturing and increasingly of service industries from the more affluent parts of the world. It's a simple cost-benefit analysis. This is illustrated below.

Figure 1: Annual GDP growth, 1990-2024



Source: World Bank[4]

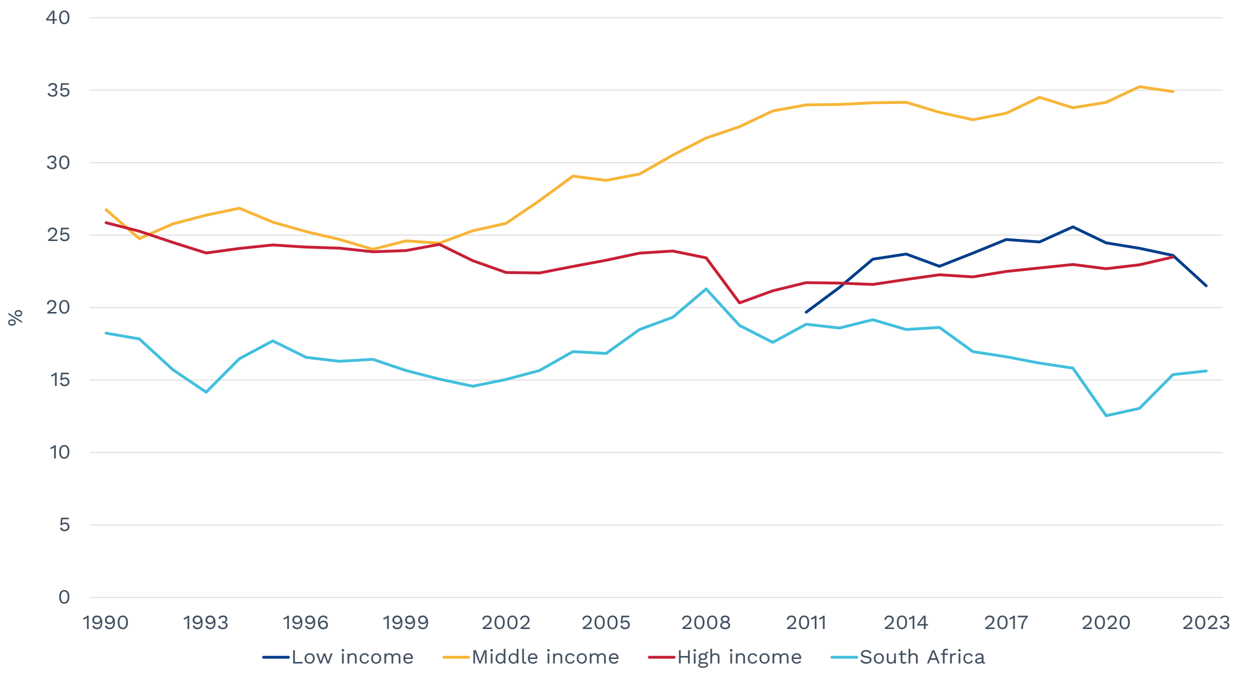
Concerningly, South Africa's record has been distinctly sub-par. It has tracked at around half – if not less – that of other middle-income countries. In that last decade, it has even fallen below that of high-income countries, which it would be expected to exceed given its own level of investment. Its middle-income peers have consistently outperformed all their competitors; South Africa's performance makes it an underperforming outlier.

Behind this lies the level of investment. This is the funds sunk into factories, supermarkets, roads, railways and so on.

Viewed in a global context, World Bank data over the past three decades demonstrate how investment patterns have shifted among countries in different income-group classifications. Middle- and high-income countries entered the 1990s with near identical rates of investment, a little above 25% of GDP. By the start of the millennium, a clear divergence was taking place, and the middle-income group went on strongly to outperform their high-income peers. Middle-income economies have managed investment rates in excess of 30% for well over a decade. Data for the low-income group is patchy, but it lagged behind the middle-income group. (This probably reflects the better economic growth and widening circles of opportunities in middle-income economies, as well as an increasing capacity for endogenous investment in them.)

South Africa, however, invariably fell short of each of these groups. It entered the 1990s with an indifferent level of 18% – unsurprising, given the prevailing instability and uncertainty – and has never been able to gain the traction that would elevate growth sustainably. The NDP envisaged getting an investment rate of 30% of GDP per annum, to drive its envisioned growth agenda. Yet, it has only managed a level of investment of over 20% in one year since the 1990s. In 2024, investment was less than 15% of GDP.

Figure 2: Gross fixed capital formation, comparative, 1990-2024



Source: World Bank[5]

South Africa remains stuck on a low-growth path, fundamentally because of a failure to secure the investment that would drive it. As long as this persists, it might well see not only its chance at rapid gains eroded, but so too its status as a middle-income country, as its peers become ever more prosperous and today's less affluent societies position themselves to step into opportunities that these economic shifts create.

One consideration in the latter respect is the complexity of its economy: how adept and competitive a given jurisdiction is in multiple areas of activity. Complex economies are able to leverage diverse opportunities and, crucially, to engage in innovative and higher-value adding activity. The latter is critical for competitiveness in today's global economy. Here too, South Africa's standing had fallen (a fuller discussion of South Africa's declining economic complexity can be found in the previous version of this paper).

The sum of all this is reflected in the direction that the economy has travelled over recent decades, in other words. South Africa's economic performance has been distinctly sub-par, and it shows evidence of regression relative to its peers.

However, before proceeding, an important caveat must be noted. While the broad picture shown above is of a country in severe economic distress, one element remains imperfectly understood. This is what is variously described as its "informal economy" and its "township economy". These are activities that carried on outside the full regulatory reach of the state. Since at the least the 1980s this has been recognised as a significant contributor to South Africans' livelihoods[6] (this is not uncommon around the world).[7]

A significant degree of economic activity takes place in this space and may not appropriately be captured by official data. Indeed, in a 1998 study, it was argued that around a fifth or more of those officially defined as unemployed were in fact active in the informal economy.[8] More recently, this theme has been taken up by the work of GG Alcock, a business advisor and expert on this part of the economy – which he popularised through his book *Kasinomics*. He has argued, for example, that while official statistics put South Africa's unemployment rate at around a third of the workforce (or over 40% if the "expanded" definition is used), the real rate is closer to 15%, if one accounts for various informal activities and income streams.[9] The "informal sector" or "township economy" is hardly incidental to understanding South Africa's economy; but it is an analytical wild card. This study has attempted to factor the dynamics of this part of the economy into the overall analysis.

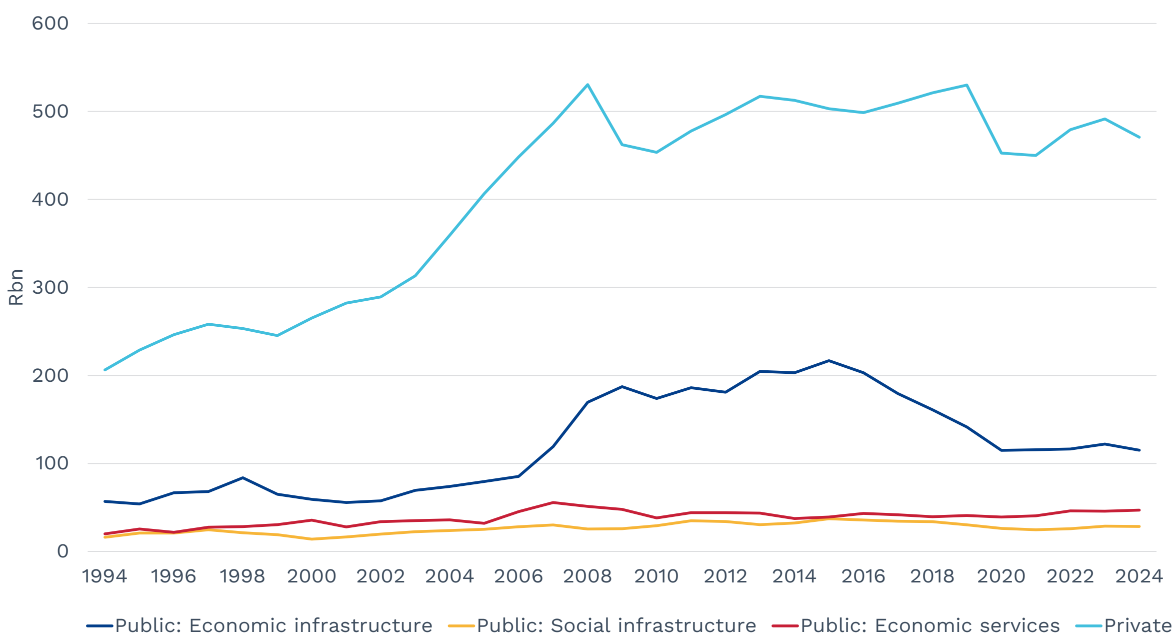
South Africa's investment malaise

Investment needs to be understood properly. Too often, investment is read to mean foreign investment; but in reality, local businesses make a larger contribution. South Africa's investment failings are as much a matter of a lack of domestic investment as of a failure to attract foreign capital. As Dr Mark Mobius, then of Franklin Templeton Investments, commented on South Africa a few years ago: "They've got to make South Africa a much more attractive place for investment... I'm not only talking about foreign investment. I'm talking about local investment."[10] International evidence shows that countries which raise investment succeed by creating conditions where private firms see reliable returns and competent governance (for a fuller discussion on these global lessons and why South Africa makes for a poor comparison, see the 2024 version of this paper).

South Africa's investment profile

Before examining the factors that have influenced the investment environment in South Africa, it is useful to set out some of the key trends.

Figure 3: Investment by type of investment, 1994-2024



Source: South African Reserve Bank, Centre for Risk Analysis[11]

Investment in public economic infrastructure increased steadily after the transition to democracy in 1994, continuing through the late 1990s. However, public economic infrastructure investments took a back seat after 1998, likely caused by a combination of internal and external factors, amongst which is the 1997-98 Asian financial crisis. The crisis hit developing countries hard, including South Africa. In response to the crisis, the South African Reserve Bank (SARB) raised interest rates to protect the value of the Rand, which made it costly to invest. In the early 2000s, investments levelled off. Slight fluctuations in investment can be seen until 2006, when there was a rapid increase in investment by the government in economic infrastructure, likely reflecting the preparation for the 2010 FIFA World Cup and a general public investment drive by the Mbeki-administration with Trevor Manuel as Minister of Finance. This continued until the 2008 financial crisis caused a slowdown and investments levelled off, again with fluctuations throughout the following decade. 2018 marked the supposed end to an era of state corruption and, as a result, the start of a decline in public economic infrastructure investments.

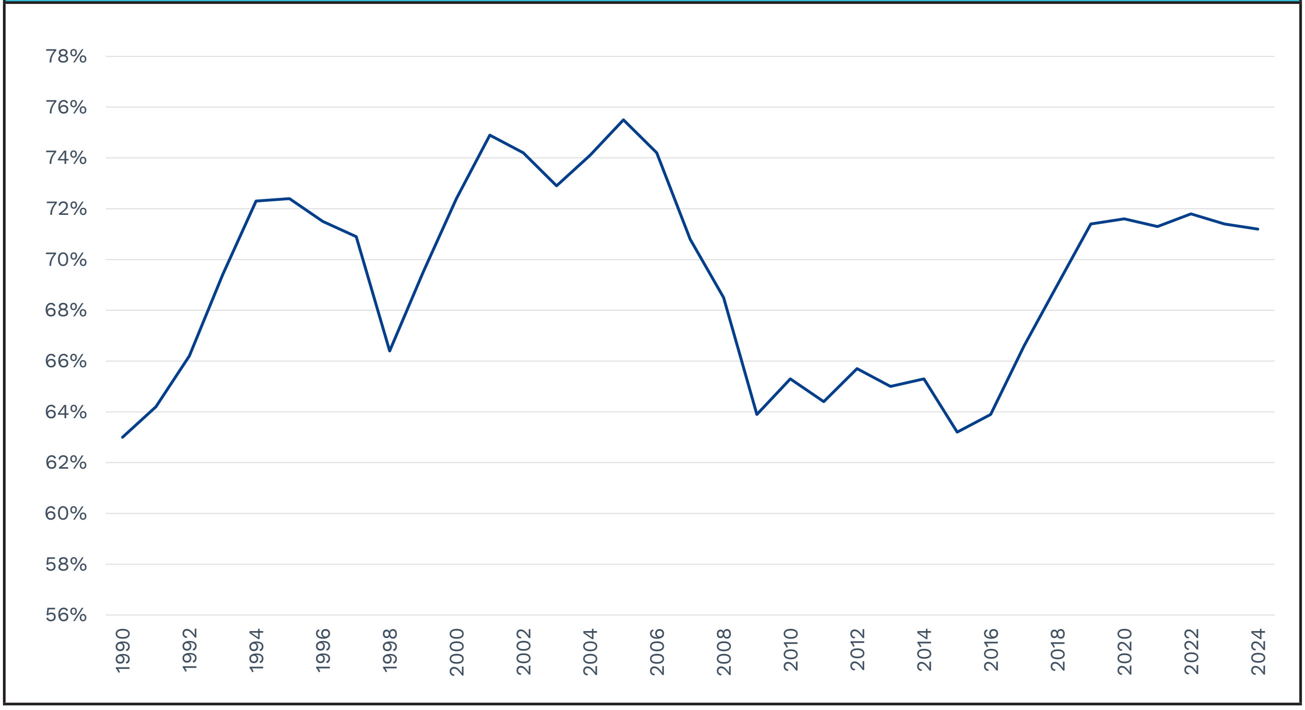
Private investment showed rapid growth after 1994, and it continued into the mid-2010s. As a result of the financial crisis, it also plateaued after 2008. Noteworthy here is that while public economic infrastructure only levelled off in 2008, private investment decreased substantially. It showed no real recovery afterward (which was during the Zuma administration, and likely reflects the private sector's low confidence in the administration) and dropped further in 2020 with the Covid-19 pandemic, as lockdowns hit businesses hard.

Note that private investment – contrary to the narrative of an “investment strike” – has consistently outperformed that of the public sector.

There is a clear disconnect between public investment goals and private sector investor confidence.

To illustrate this, disconnect further, the following graph shows the proportion of private investment as a percentage of total investment from 1990 to 2024.

Figure 4: Private investment as % of total, 1990-2024

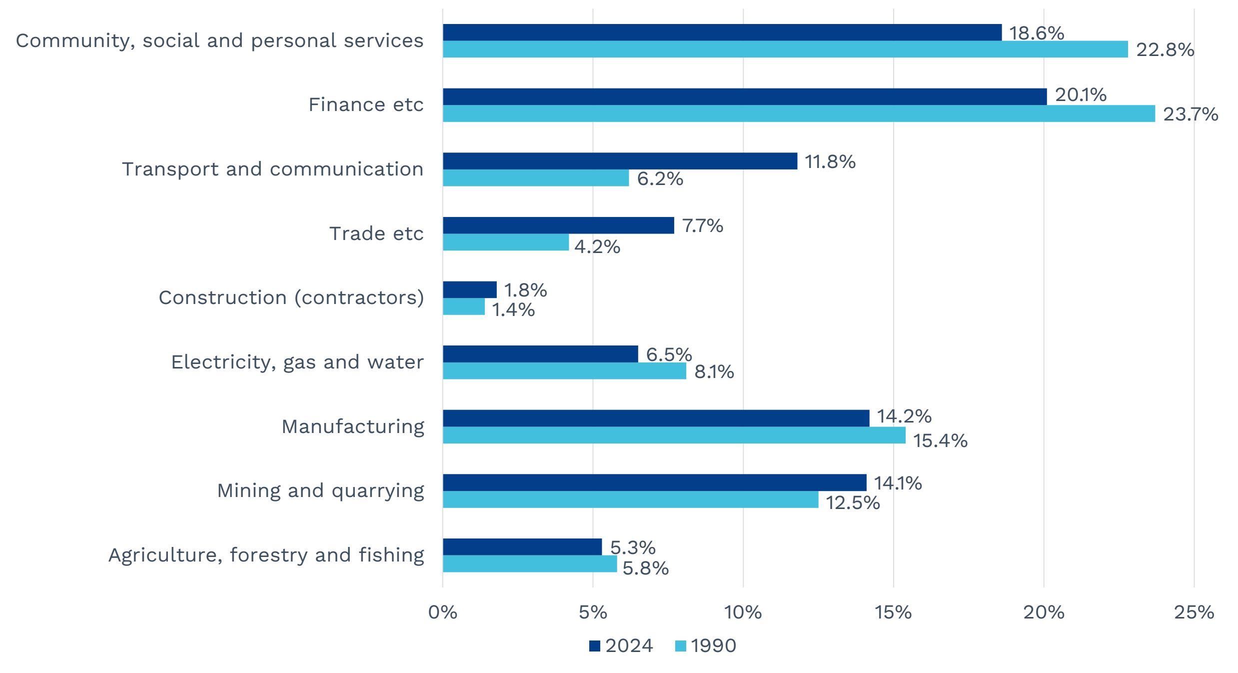


Source: South African Reserve Bank, Centre for Risk Analysis[12]

Throughout the entire period, the private sector contributed something in the region of two thirds of investment. It underwent a particular surge during the commodities boom, and fell as the global financial crisis hit. Interestingly, during the early state capture period, state spending took up a larger proportion of investment.

Figure 5 shows the proportion of GFCF allocated to different economic sectors in SA from 1990 to 2024. GFCF represents investment in fixed assets, such as infrastructure, machinery, and buildings.

Figure 5: Gross fixed capital formation by activity, 1990-2024

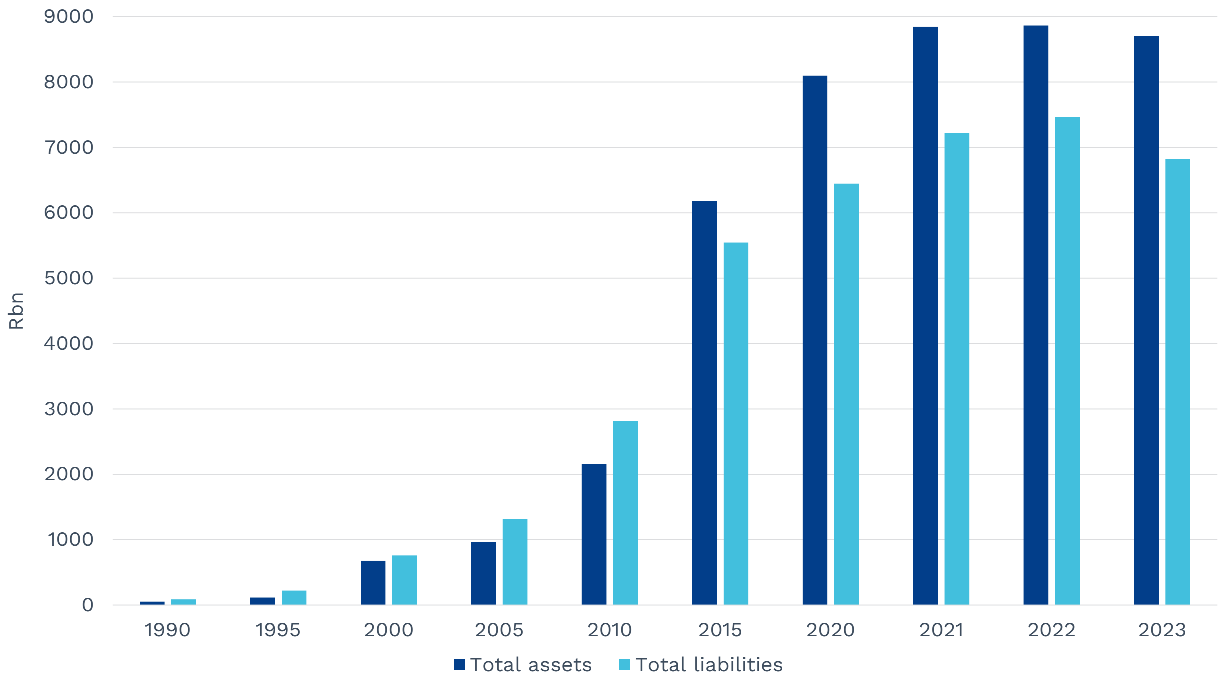


Source: South African Reserve Bank, Centre for Risk Analysis[13]

GFCF expenditure on transport and communication, trade, and mining and quarrying (in order of magnitude) increased between 1990 and 2023. GFCF on all other activities decreased, most notably GFCF for community, social, and personal services.

Figure 6 illustrates the growth of South Africa's total foreign investment in terms of all types of assets and liabilities across a broad range of investment categories (direct, portfolio, and other investments) from 1992 to 2022. Foreign assets are investments South African companies, banks, or government bodies, hold abroad. Foreign liabilities are investments in South African businesses, government bonds, or real estate that foreigners hold.

Figure 6: Total foreign investment, assets and liabilities, 1992-2023



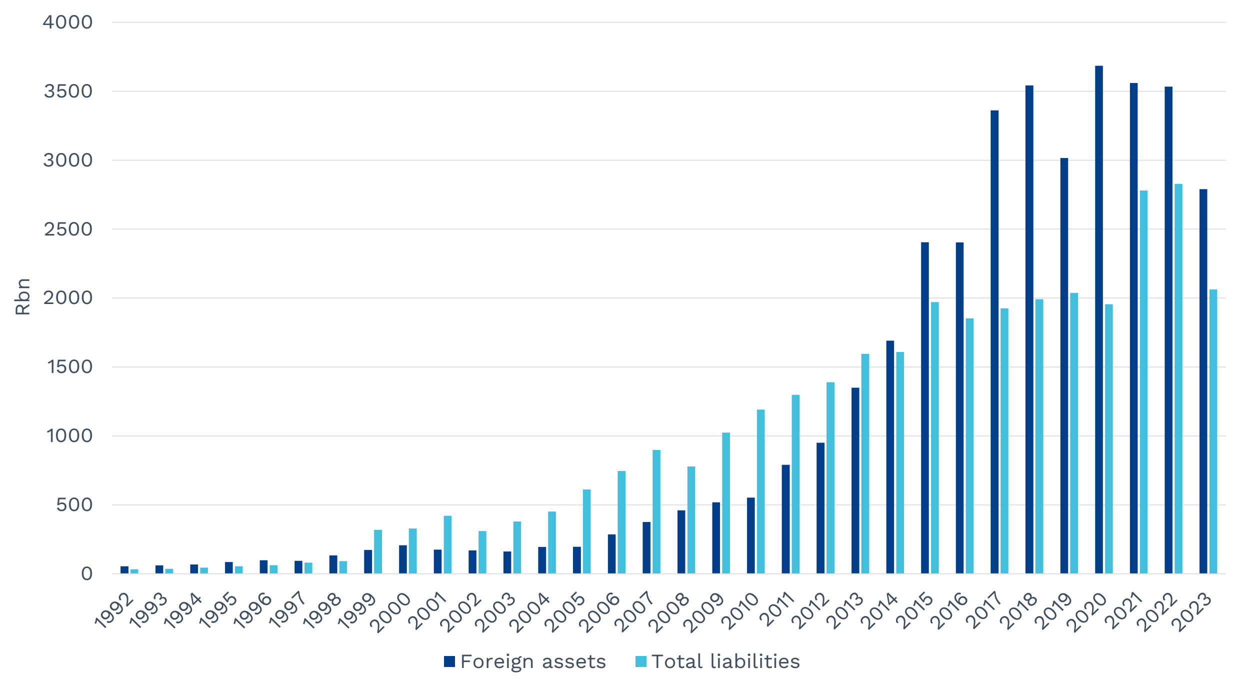
Source: South African Reserve Bank, Centre for Risk Analysis[14]

Both foreign assets and liabilities have shown substantial growth over the period. After apartheid ended, investment levels showed signs of improvement going into the late 1990s. Liabilities still slightly exceeded assets (meaning that more foreign investment flowed into the country than investments were made abroad.)

The 2008 financial crisis barely slowed growth in investment. It only slightly slowed foreign asset growth, but growth in both foreign assets and liabilities resumed afterward, and assets began to close the gap on liabilities between 2010 and 2014. Since 2015, assets increased by more than liabilities, and nearly reached R9 trillion in 2021/2022. (This means that South African entities are investing abroad at a faster pace than foreigners are investing in South Africa. This speaks volumes of the low investor confidence from foreigners.)

Figure 7 on total direct foreign investment shows the evolution of South Africa's long-term foreign investments, specifically on investments focused on strategic, long-term stakes in businesses and infrastructure. These types of investments are generally more sensitive to economic and political shifts.

Figure 7: Total direct foreign investment, assets and liabilities, 1992-2023



Source: South African Reserve Bank, Centre for Risk Analysis[15]

In the early 1990s, direct foreign investment levels were low, but by the mid-2000s, they had increased sharply. This trend continued through the global financial crisis of 2008 (again not slowing down growth). The high levels of foreign liabilities, which peaked between 2015 and 2019, indicate a strong foreign presence in the economy.

Since 2014 and more so in recent years, there has been a convergence between foreign assets and liabilities. This signals a cautious approach from foreign investors following ongoing economic and political challenges, including regulatory uncertainties, the energy crises, corruption, currency volatility and low growth.

South Africa's economic "transformation": the intersection between governance and the economy

The preceding discussion illustrates that bountiful opportunities exist – at least in principle – for middle income countries in the current global economy. It also demonstrates that governance is a key variable in making this possible. Governance here should be understood to mean the continuum from policy to legislation to administration, the worldviews animating action, and how they are acted upon.

In 1994, South Africa's economy was in a parlous state, having experienced several years of stagnation, and a fiscus under severe stress – as shown above, investment as a proportion of GDP had fallen from 18% in 1990 to 14% in 1993. The African National Congress (ANC) had long been committed to a programme of aggressive redistribution through state control. Its lodestar document, the Freedom Charter, had called for widespread nationalisation, a posture fortified by its association with the South African Communist Party (SACP), as well as the patronage it had received from the erstwhile Soviet Union. It also came to power amid expectations of rapid socio-economic upliftment. The parlous state of the economy had, however, become apparent to it. The failings of socialism globally – and hence the palatability of a platform advocating the seizure of private assets – as well as the lobbying efforts of business and diplomats moderated the ANC's position on this matter, reducing it to a question of the "balance of evidence".[16]

In power, the approach that the ANC took towards the overall management of the economy under the presidencies of Nelson Mandela and Thabo Mbeki was cautious. Alan Hirsch, who headed economic policy in the Presidency between 2002 and 2012, described it as follows:[17]

> The ANC government followed a consistent economic philosophy that had the following elements: at the centre is a social democratic approach to social reform – it is the state's job to underwrite the improvement in the quality of life of the poor and to reduce inequalities, but with a firmly entrenched fear of the risks of personal dependency on the state and of the emergence of entitlement attitudes. The state exists within a market economy that depends on private investment, and therefore a successful state creates an environment that supports high levels of private investment. This does not require the state simply to step aside for business, but rather that it should work with business and labour to develop growth-oriented strategies. The expectation was that because of the limitations of the domestic and regional markets, much of the growth would be driven by exports to major foreign markets. This required both measured trade liberalisation and effective industrial development strategies. Welfare initiatives were to consist mainly of the extension of infrastructure services such as transport, housing and communication, and on the expansion and improvement of social services such as health and education. All this would take place within a responsible macroeconomic policy, as the ANC did not wish to entrust international financial institutions or international banks with the country's future.

Hirsch further notes the attractions that many in the ANC found in European-style social democracy with a strong emphasis on welfare provision, and the East Asian model of state-supported, though fundamentally market-driven, growth and industrialisation.[18] These approaches were a satisfactory normative substitute for those who may have hoped for a socialist order in South Africa, and offered the prospect of rapidly improved quality of life to its constituency along with what the ANC viewed as politically essential reforms to the economy.

As time went on, the interventionist impulse asserted itself. The ANC's 2007 *Strategy and Tactics* document declared that the party intended to build a "developmental state" – a concept that owed much to the East Asian record – which would power the economic direction of the country:[19]

> It seeks to build a developmental state shaped by the history and socio-economic dynamics of South African society. Such a state will guide national economic development and mobilise domestic and foreign capital and other social partners to achieve this goal. It will have attributes that include:
>
> - capacity to intervene in the economy in the interest of higher rates of growth and sustainable development;
> - effecting sustainable programmes that address challenges of unemployment, poverty and underdevelopment with requisite emphasis on vulnerable groups; and
> - mobilising the people as a whole, especially the poor, to act as their own liberators through participatory and representative democracy.

Having won a handsome majority in the 1994 election, the ANC embarked on an ambitious programme to reform and restructure the economy. This included the creation of the National Economic Development and Labour Council – the relevant legislation was passed in 1994 – to establish a forum for cooperation between business, labour and the government. Remarkably, South Africa lacked a proper economic policy after the transition – the Reconstruction and Development Programme was rather a broad vision for social welfare, which was expressed in such things as the construction of "RDP houses", the provision of free school meals and the expansion of access to medical services. The introduction of the Growth, Employment and Redistribution (GEAR) strategy was intended to position South Africa for growth. It would address negative trends in South Africa's public finances, rein in inflation, stimulate trade and encourage investment by both the public and private sectors. The intention was to see this produce a growth rate of 6% along with 400,000 jobs per year. It would see investment reach the equivalent of 26% of GDP by 2000. Particular stress was put on enticing foreign capital. "The integrity of this growth strategy is therefore dependent on maintaining a favourable investment climate, in order to attract foreign investment," it stated.[20]

GEAR was arguably most successful in addressing the country's public finances. The fiscal deficit, for example, went from 4.1% of GDP in 1994/95 to 1.9% in 1999/2000, and to a small surplus in 2006/07.

On investment, however, the achievements were unimpressive. Although clearly influenced by the 1997-98 Asian financial crisis – a "black swan" event – investment as a proportion of GDP actually fell slightly between 1996 and 2000. GEAR was also something of a political liability for the ANC, as its allies in the SACP, the Congress of South African Trade Unions (Cosatu) and many in civil society attacked it as "neo-liberal" (a term that signified abuse rather than analysis, but denoted undue deference to business), and for having failed to produce the employment and socio-economic upliftment they demanded.[21]

While economic policy in the macro-sphere may have been regarded as business friendly, in other areas, it deferred to key constituencies represented by the ANC. The ANC's leadership was firmly focused on delivering legislative wins, its take on the economy refracted through a political lens. Arguably the most far-reaching of these was in the labour sphere, predictably given the ANC's historically left-wing orientation and its alliance with the SACP and Cosatu. In short order, a new dispensation was introduced for labour management (the Labour Relations Act, 1995), for labour standards (the Basic Conditions of Employment Act, 1997), for mandatory contributions for training (the Skills Development Act, 1998), for racial preferencing in employment and promotion (the Employment Equity Act, 1998) as well as the establishment of such institutions as the Commission for Conciliation, Mediation and Arbitration (CCMA) and a system of bargaining councils which could set conditions for the entire sector. All of these imposed burdens on a business community operating in an uncertain environment, with a workforce in which skills were often lacking. GEAR had, incidentally, raised concerns about the labour regime, although little was done to accommodate this concern.

Perhaps more important, for the investment climate over the long term was the social engineering of the country, the so-called "transformation" agenda. The 1996 Constitution had made provision for restitutionary measures for people or groups of people who had been disadvantaged by past policy. In practice, this came to mean black people – broadly defined as Africans, coloured people and Indians, with South Africans of Chinese ancestry being added later – as well as women. The Employment Equity Act established this principle in employment in both the public and private sector (small firms excepted). The public service was to be brought into line with the country's racial and gender profile (reflecting the "major characteristics of South African demography") and imbued with new values and competencies.[22] In business, the intention was to ensure the "empowerment" of black people – this became known as "Black Economic Empowerment" (BEE) and subsequently "Broad-Based Black Economic Empowerment" (B-BBEE). The latter was legislated through the Broad-based Black Economic Empowerment Act of 2003, as well as a number of sector specific charters which sought to ensure that particular benefits flowed to particular groups. In state tendering, for example, advantages would accrue to firms owned by black people (and perhaps more so to those owned by black women) or to "white" firms that could demonstrate sufficient achievement in empowerment. The sector charters set goals for ownership, management, supply chain development and so on. This imposed another responsibility and complication on doing business.

Parallel to the foregoing, the ANC introduced a programme to secure its "hegemony" over the state and society. Known as cadre deployment, this entailed placing party activists in positions of power across the state and society. This would be necessary to exercise control over "all levers of power". While the operation of this system remains opaque, there now exists a general recognition that it enabled the effective capture of large parts of the state and of the country's state-owned enterprises (SOEs). To an extent this reflected a drive to exert political and ideological control over these institutions, and was clearly also associated with the distribution of political and pecuniary spoils to the great detriment of public ethics and state efficacy, particularly at municipal level.[23] It was condemned by the Zondo Commission into State Capture as lacking a constitutional or legal basis, and being integral to the systemic corruption the commission was investigating.[24]

Cumulatively, these political and policy orientations – in the state and party – constituted an approach to the economy in which the private sector was viewed as the default engine of growth, although under the scrutiny of an intrusive state and "hegemonic" party. From this followed the idea that the economy was largely to be viewed in socio-political terms. Economic of business rationales ("profit") were often of secondary interest to policy makers. Investment has often been viewed from the vantage point of opportunities for empowerment deals or for driving particular industrial policy imperatives.

Moreover, despite the acceptance of a "capitalist" economy, there remains a very notable strain of suspicion towards private enterprise on the part of the ANC, which at times finds its way into the state. ANC documents speak in such terms as a relationship of "cooperation and contestation", and warn of the dangers of political leadership being seduced by business.[2] Senior politicians have at times been given to intemperate attacks on sectors like mining[26] and private medical care,[27] or accusing businesses of being "unpatriotic".[28]

Such attitudes bespeak a lack of understanding as to business operations, and help to explain the lacklustre investment performance that has characterised South Africa's economy for decades.

South Africa's Three Ages

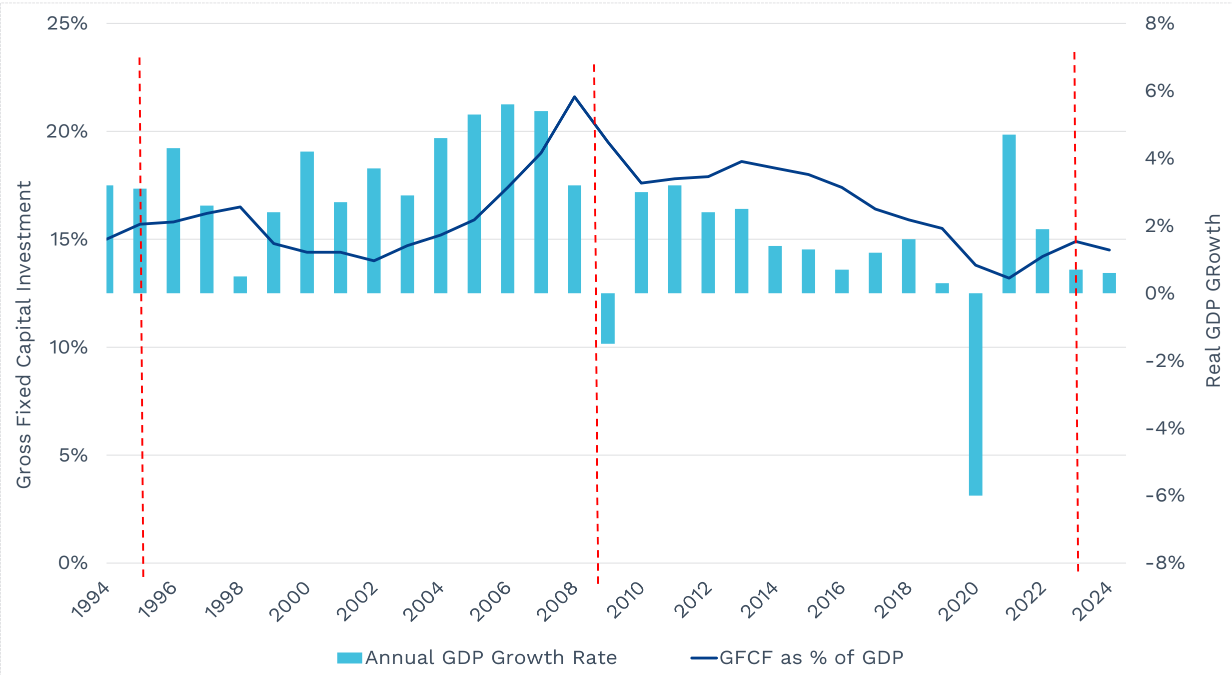
The Institute of Race Relations has argued that conceptually, South Africa's post-1994 history can be divided into three broad periods, or "Ages".[29] The First Age corresponds to the incumbencies of Nelson Mandela and Thabo Mbeki, from 1994 to 2007. This was a time of fiscal consolidation, reform of the revenue authorities, and the gradual uptick of real GDP growth rate. This in turn made the expansion of South Africa's welfare grant system possible. All told, this was a fairly good time for the country; the role of the state could be considered "developmental", albeit imperfectly so.

The Second Age began in 2008 with the takeover of the ANC by Jacob Zuma and his associates, and of the state the following year. It continued through his presidency and its tail has extended into the presidency of Cyril Ramaphosa. This opened up parallel to the Global Financial Crisis, and it could be argued that the country never really recovered.

It was also a period in which the country nominally switched over into more state-centric economic models: the New Growth Path, which aimed to foster industrialisation, employment creation and greater equality in economic rewards,[30] and the National Development Plan,[31] which set out a long-term vision which relied on the contributions of a capable state (which it recognised needed to be built) as an enabler. Growth declined over time, infrastructure failings became apparent, and concerns were increasingly voiced about the state of the country's public finances and the regular reshuffling of the executive. Corruption scandals, while hardly a new phenomenon, took on grim proportions and delivered the evocative phrase "State Capture". The state had lost the capacity reliably to perform large areas of its responsibilities, even as it continued to make regulatory demands. At this point, it could best be described as "detrimental".

This is illustrated from an investment perspective over the post-transition period.

Figure 8: South Africa's trajectory across Three Ages, 1994-2024



Source: Centre for Risk Analysis[32]

What is notable is that in the initial years following the transition there was very little improvement in the level of investment. Indeed, a Reserve Bank Report from 1994 called attention to the fact that capital stock had been ageing, and that investment at this time was committed to addressing this.[33] Much of what followed in the years thereafter represented a "reset" as the country adjusted to the new political order and to its opening to the global economy. There was no rush to invest, and the posture adopted by both domestic and foreign businesses seems to have been to "wait and see". It bears noting that some of the jumps in inward foreign investment in 1999 and 2000 reflected the listing of South African firms abroad and therefore did not signal the commitment of funds and assets to South Africa. However, as confidence in the direction the country was taking set in, there was a steady increase in investment. It rose across the following decade, peaking at 21.6% in 2008. Had this been sustained, South Africa would be in a much more robust position today.

The "Second Age" sustained a surprisingly high level of investment during its early years. This was, however, buoyed by generous spending by the country's state-owned enterprises. This accorded with the ANC's commitment to the "developmental state", which envisaged using the country's SOEs to drive this agenda. The SOEs, however, frequently spent funds imprudently or corruptly, and were beholden to policy agendas such as B-BBEE (which ultimately mitigated against value-for-money spending) and were penetrated by criminal interests. The outcome was that much of the investment made over this period was ultimately unproductive.

The case of the power station builds at Medupi and Kusile serves as an illustration. Originally conceived in 2007 to address the energy crisis in the country, the costs were initially put at some R163 billion, with completion envisaged in 2015. But by 2019, estimates presented to Parliament indicated that Kusile alone would cost close to this amount (R160 billion), while Medupi would come in at another R146 billion. Chris Yelland, one of South Africa's foremost energy experts, described this as an underestimate: adding additional construction processes, unauthorised expenditure and capitalised interest, he estimated Kusile's costs at R226 billion, and Medupi's at R234 billion.[34]

Despite pledges by President Cyril Ramaphosa to turn the situation around – the "New Dawn" following the "nine wasted years" – many of these pathologies persist. The nominally reformist orientation of President Ramaphosa's administration (now the Government of National Unity) has made limited headway. Its initiatives have been directed at administrative bottlenecks (through Operation Vulindlela) [the official programme to remove technical hindrances to business] rather than on significant policy change. It has also sought to retain a central role for the state in economic decision making, such as through industrial policy, through amendments to employment equity legislation that impose harsher penalties, and in seeking to create a social compact between business, labour and itself – though the latter failed to gain traction, arguably because the state has lost credibility.

The National Planning Commission remarked in a review of the NDP: "A significant challenge and contradiction that goes against the developmental state aspiration of South Africa identified is the rejection of meritocracy in the country's public service. Persons are appointed to jobs in State-Owned Entities and the public service without the requisite experience, skills or gravitas as a result of inappropriate political involvement in selection and performance management."[35] In an oblique acknowledgement of the severity of the problem, the government has committed to a turnaround strategy for the public service, revealingly entitled *A National Framework towards the Professionalisation of the Public Sector.*[36] The admission that the public sector must be "professionalised" – not "upskilled" or even "reprofessionalised" – raises awkward questions as to how a government that was vocally committed to using the state in an activist and developmental mode could allow the current situation to develop over three decades of constitutional rule, and around the damage that it would have inflicted on state capacity.

This has led South Africa to the "Third Age". Its nature will be revealed in time, but indications are that the state might now be described as having been "emasculated". In other words, it lacks the ability to make its authority felt. This is of course not complete across society, but there are prominent examples of it. In July 2021 the state effectively lost control of parts of the country as rioting broke out following the incarceration of Jacob Zuma. "Mafias" have emerged to extort rents from businesses.

The widespread failure of local government has come at huge cost to the liveability of communities, and has forced residents to undertake tasks for which they are already taxed.
One revealing measure of the failure of the investment environment in South Africa has been the contraction of the construction sector. This is an important gauge of the willingness of business to expand operations (investment in plant and machinery may represent replacing worn equipment or modernising existing operations). Yet according to STANLIB chief economist Kevin Lings, it has been in decline for some nine years.[37] South Africa was becoming increasingly reliant for the limited economic growth it was experiencing on consumption and consumer spending.

Furthermore, the slowdown in investment embodies both the public and private sectors. Contrary to accusations that business has been on a prolonged "investment strike", the private sector has in fact constituted the lion's share of investment capital. The initial fall-off was attributable largely to the public sector, but this is now seen in the private sector. AJ, a prominent economist and investment analyst, comments: "A trend that I am starting to see, and that concerns me very much is that in the past we've seen public sector investment decline. The public fiscus has been ravaged by successive corruptors and now there just isn't much left. Now we are seeing private sector investment under pressure."

Engaging with this reality poses questions about South Africa's potential as an attractive emerging market and thus about its attractiveness as an investment destination. It provides a framework for understanding the hindrances that confront South Africa in appealing to investors, and the choices that might be made to address them – and perhaps most importantly, the limitations attending the options available.

What this brief survey of South Africa's trajectory illustrates is that the state of governance – the complex of policy, its implementation and the administration of the state – is central to the malaise. The blunt reality is that the South African state is simply not up to the task of managing the economy, although it has not surrendered the ambition to do so. Much of what has brought South Africa to this point can be attributed to choices that have consciously been made, as a result of what one commentator once described as "ideological overreach".[38] Or, as one investment analyst said in the previous iteration of this study: "It all starts with policy."

"Uncertainty", "certainty" and their consequences

The combination of ideological impulses, an interventionist policy stance, along with often weak and compromised institutions create a difficult business environment. This is typically rendered as "uncertainty". This is an issue that is at times acknowledged by the state. Establishing "certainty" around a range of policy issues, for example, was flagged in the NDP as a necessity for investment.[39] *A National Policy Development Framework,* approved by Cabinet in late 2020, likewise noted the importance of policy certainty.[40]

For PT, an executive at a business organisation interviewed for the previous iteration of this study, this is the country's macro-conundrum: "It is trite to say that one invests when there is a reasonable prospect of a return," he said in last year's iteration of the study," A socialist may say this is a terrible thing, until you factor in what this produces – jobs, wages, pension funds et cetera. The reality is that South Africa is a very unstable place to do business.

There are serious social cleavages. There is huge complexity in the regulatory environment, along with wide latitude to policy administrators to interfere and set their own terms. Think about competition policy ... So, there is standard commercial risk in making an investment, and the sense that one is making a bet on the direction of what future policy will look like. Some of it is downright anti-investment, like the National Health Insurance."

He added that this comes on top of growing weaknesses in the economic foundations, in terms of infrastructure, crime and so on (these are discussed briefly below). There is a real concern about future failures in these areas given the country's record thus far. Cumulatively, this amplifies both the risks and costs of doing business in South Africa and weighs against a willingness to commit funds to the country. All of this functions as an additional "tax" on business. This makes South Africa a hard sell for investors, particularly those contemplating direct investments. Foreign investors tend to be restrained in their enthusiasm for South Africa, and to keep it as a minor item on their portfolios, despite considerable opportunities in fields like mining. Local investors too are seeking foreign opportunities. This is a respectable strategy for growing investors' holdings, but it seems increasingly now to be driven less by the outsized rewards of new markets than by concerns about South Africa's subdued prospects.

PT commented further that there is a disjunction between what the state (and other stakeholders, such as the labour movement) assumes to be true about business operations and their realities. There is a widespread assumption that profits constitute a large (and morally unconscionable) part of business turnover. This is incorrect: "Take into account the costs of operating a business, spending to make up for a lot of what the public sector doesn't get right (like having back-up power), as well as the social contributions: wages, other staff costs, taxes, and so on. Profits are not great. They're often not particularly competitive, and remember that it's out of that that you will get the funds for further investment." Indeed, this is a key consideration for those concerned about economic inclusion and social cohesion: without the economic resources to underwrite that inclusion, some of the worst features of South Africa's economy will be perpetuated.

Larger and more complex investments – ironically, the sort of value-adding operations that official industrial policy seeks to promote – might offer greater returns, but require large outlays and long lead times. Where the direction of policy is unclear, or where policy makers seem oblivious to the realities of business operations, these are commitments that investors are reluctant to make.

EH, a prominent economist and investment advisor, in last year's iteration attributed South Africa's poor investment performance to the state of governance. Wealth creation, he said, has three preconditions: security of property rights; freedom to trade; and sound money. However, the state is unable to protect property (even the lives of its citizens) and threatens the security of assets through such measures as the custodial taking of mineral rights and the Expropriation without Compensation (EWC) agenda. The freedom to trade is compromised through intrusive labour legislation, licensing (often inefficiently implemented) and empowerment demands. The value of money is undermined – the best efforts of the SA Reserve Bank notwithstanding – by the rise of administered prices. Interestingly, however, he argues that South Africa is not subject to policy uncertainty, but to policy certainty: the counterproductive and interventionist policies have arisen from the ANC's ideological beliefs. This makes reform a very difficult prospect.

However one may evaluate the competing perspectives, the inescapable conclusion of the foregoing discussions is that improving the flow of investment into the country demands a serious recalibration of the role of the state. Governance is simply not up to the task of driving anything like the ambitious agenda that it has tried to set for itself. Attempts to do so have not produced the desired results, and have arguably achieved the opposite.

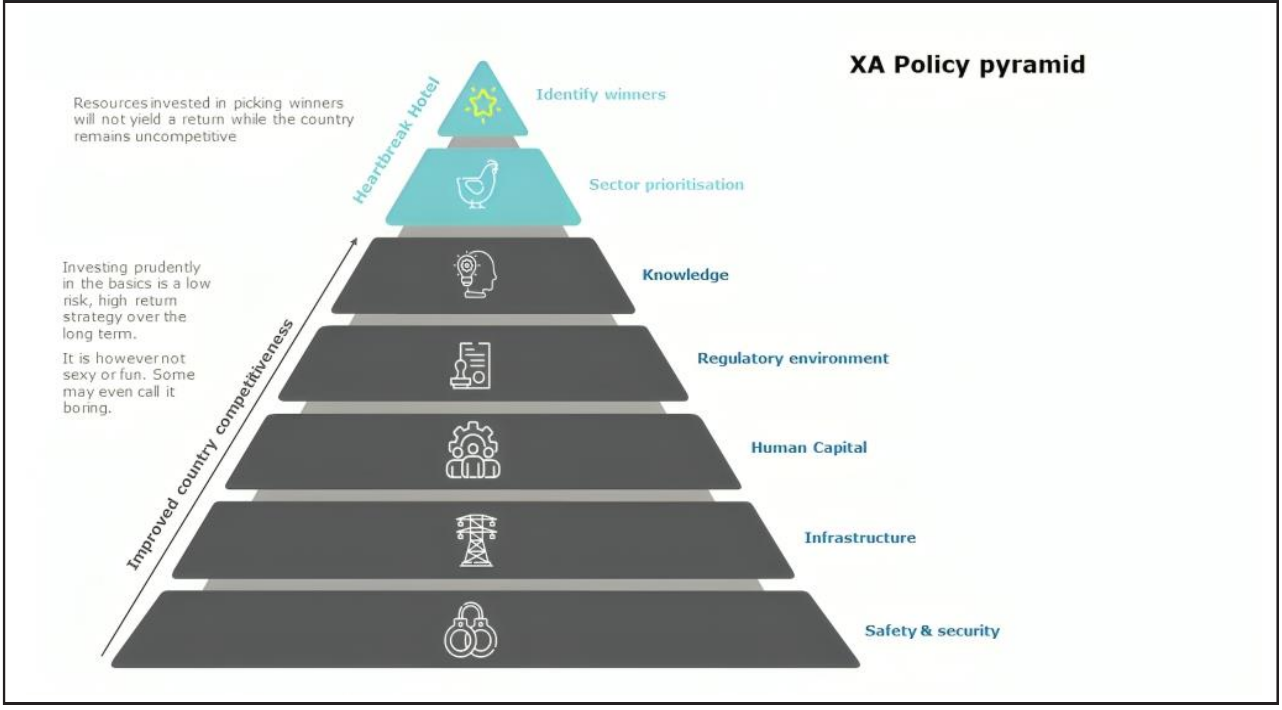
Indeed, an important recent contribution on South Africa's growth possibilities places the issue of failing state capacity under scrutiny. This study, *Growth through Inclusion in South Africa,*[41] was produced by The Growth Lab at Harvard University, and identifies two generic brakes on growth as the failings in state capacity, and the country's extreme spatial exclusion. The first of these refers largely to the state of power, water, logistics and security, public goods for which the state is responsible, and which it has long resisted relinquishing control over. The second is a function of South Africa's history, which sought to keep communities apart, and resulted in large populations being located far from economic opportunities. Building state capacity will demand a new approach to the management of the state, and will clearly entail some tough choices to achieve this – some being antithetical to the prevailing ideological preferences of the country's political and administrative leaders. Taking action to overcome spatial exclusion will be impossible without a skilled and effective state to oversee it.

This means that in some sense, the state must be "fixed". (The IRR's study of and recommendations for administrative reform, *In Service of the Public: Reforming South Africa's Public Administration,*[42] proposes a way forward.) This is, in turn, certain to be a long-term project. It will need to be undertaken alongside measures to improve South Africa's investment attractiveness, since the latter is critical to South Africa's future economic viability. What follows is intended to provide a discussion of some of the key hindrances to investment – or, better said, to the creation of a propitious investment environment – as well as possible solutions, taking into account the limitations inherent in South Africa's current governance.

South Africa’s investment challenges

To conceptualise South Africa’s investment challenges, a schematic developed by XA Global Trade Advisors is a useful tool. While intended to explain the workings and failings of trade policy – the firm’s chief concern – it is broadly applicable to the workings of all economic systems. The basic preconditions for success are those common to social organisation, such as security and the infrastructure. More complex activities, demanding more advanced public sector capacity act as accelerators.

Figure 9: XA Policy Pyramid



Source: XA Global Trade Advisors

With the pyramid as a guide, the challenges to investment in South Africa may be seen in terms of three sets of factors. The first set is the **foundations,** the basic conditions for economic activity, namely safety and security and infrastructure. This can be termed the area of “good enough governance”, where the basics of an economy are satisfied. The second set is the **value-adders**, the outcomes of policy that enhance the overall investment environment and make it attractive to more complex activities. In the pyramid, these are represented by human capital, the quality of the regulatory environment and the understanding of the operations of the economy on the part of policy makers and officials – which enables them to intervene prudently and constructively in the economy. This is the realm of “good governance”. The third set is the **drivers**, which relate to interventionist policy intended to promote particular sectors and industries. It presupposes a particular level of understanding and skill among the state officials responsible, as well as a good working relationship with the business community concerned. Such activities are reminiscent of the East Asian “developmental states” and their rapid industrialisation, and so this is broadly the terrain of “developmental governance”.

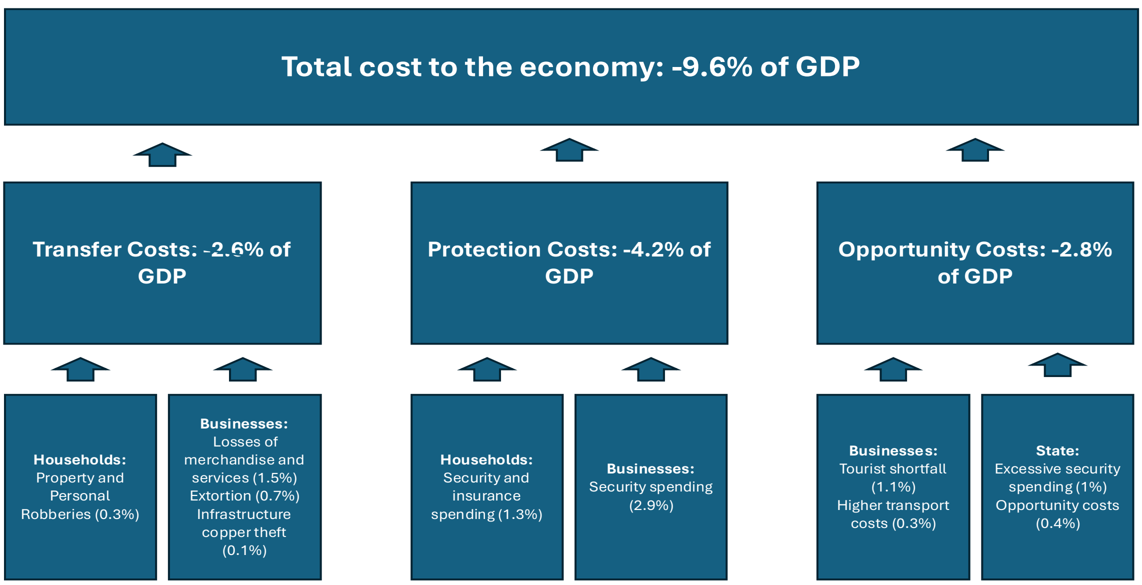
It describes the ability to leverage state support and policy, and to coordinate with (or indeed to direct) business to act in a manner that promotes the broader national interest – in investment terms, not only encouraging and attracting it, but ensuring that it is directed at particular outcomes.

Foundations: “good enough governance”

There is little debate that South Africa suffers from a number of weaknesses in its foundations. One of the more obvious is the failure of **physical security**. Security underwrites the predictability that makes an investment possible, and also the psychological assurance that one will be around to enjoy its fruits. Conflict has been a major brake on economic activity, especially in Africa.[43]

Much the same is true for crime. For South Africa, crime – both against persons and property – has come with severe economic implications. In terms of raw costs, a 2023 World Bank report put the costs of crime in South Africa at the equivalent of around 9.6% of the country’s GDP. Direct losses come in at 2.6% of GDP, expenditures such as security and insurance at 4.2%, and opportunity costs at 2.8%.[44] This is distributed thus:

Figure 10: Costs of Crime



Source: World Bank[45]

South Africa is afflicted by a particularly severe incidence of violent crime. The World Bank's database (an incomplete record, but an illustrative one), puts South Africa's homicide rate for 2021 – the latest in the database – at 41.9 per 100 000. This was an especially high figure, although over the preceding decade, it was consistently above 30. By contrast, the rate for Sub-Saharan Africa was 13.9 in 2021, and at similar levels in previous years. Brazil, another significant emerging market with a reputation for violent crime, recorded rates below 30 per 100,000 – with the exception of 2017 – over this period.[4]

Violent crime comes with a distinct economic impact. Safeguarding persons and property comes with costs. There is considerable anecdotal evidence about an aversion to investing and doing business in South Africa because of the risks associated with it. A study using 2019 data estimated that the tangible costs of violent crime in South Africa (such as healthcare costs, absenteeism, spending in the criminal justice system and so on) amounted to 2.3% of GDP. Intangible costs. This excludes such costs as those associated with emigration and the impact on investor sentiment, which were deemed unmeasurable. In addition, intangible costs (the cost of injuries, depressive and anxiety disorder and so on) were estimated at 7.1% of GDP.[47]

The growth of organised crime has become a significant burden on the business environment and on South Africa's attractiveness as an investment destination. This is captured in the Global Organised Crime Index, a measure and ranking of the state of organised crime across the world. South Africa had an overall "Criminality" score of 7.18 out of 10 (higher scores denote greater criminality) in 2023.[48] South Africa was ranked seventh globally, third among its African peers, and first in Southern Africa. It is also ranked lower than many jurisdictions battling with crime syndicates such as Colombia, Nigeria and Mexico.

Its "Resilience" score — the quality of its institutions, leadership and other factors that make it possible to withstand criminality — stood at 5.63 (higher scores denote better resilience). South Africa is ranked 50th globally, fourth among African countries, and first in Southern Africa. In sum, South Africa exhibits great vulnerability to organised crime, but a limited capacity to deal with it, although it performs better than most of its peers on the continent. Its favourable regional rankings should not be overstated, since South Africa has a highly sophisticated economy, with the need for resilience being consonantly greater than its peers.

Of particular concern is that organised criminal networks have been able to penetrate the state and exert influence over legitimate business value chains.[49] These include:

- Procurement fraud, which one estimate puts at having cost the country some R700 billion since 1994.[50]
- Trafficking in narcotics, firearms and people, sometimes with the collusion of people within the state.[51]
- "Mafias" extorting payments from businesses, most prominently in the form of the "construction mafia". Interestingly, these have phrased their demands in terms of state "empowerment" policy.[52] Similar practices have been reported in relation to the mining industry and the provision of water (the latter made possible by the failure of municipal supply systems).[53]
- Kidnapping for ransom.[54]

- A growing problem with cybercrime (much of it originating abroad), costing the country some R2.2 billion annually, according to the Council on Scientific and Industrial Research.[55]
- The assassination of whistleblowers and investigators probing corrupt activities.[56] These include the murder of Babita Deokaran, who had identified corrupt extraction connected to funds at a public hospital;[57] and insolvency practitioners Murray Cloete, Thomas Murray and Bouwer Van Niekerk.[58]

South Africa's struggles with crime are matched by widespread, frequent protest and a disregard for the law. Police statistics show 7,861 protest incidents, of which 2,234 were classified as "unrest-related", or involving violence between April 2023 and March 2024.[59] This may be an underestimate. South Africa was also rocked by protracted rioting KwaZulu-Natal and to a lesser extent other jurisdictions in the country in July 2021. Costs to the economy were estimated at R50 billion, along with several hundred deaths.[60] The state largely lost control of parts of the country, with the vacuum being filled by neighbourhood watch groups, private security and commercial interests such as the taxi industry, An official enquiry drew attention to the catastrophic failures of the law enforcement agencies, and how political factions had undermined their effectiveness.[61] There have been warnings of a repeat of this, given public frustration at socio-economic conditions, reckless politics and an incapacitated state.[62]

Cumulatively, this has proven a significant disincentive to investment. Crime harms the country's reputation globally (some observers noted that that the country's delegation to the US scored an own goal by attempting to refute claims of violence against white farmers by pointing the general state of violent lawlessness) and pushes up the costs of doing business by investors of all types. SDC remarked: "We spend about a million and a half rand every year on security. This is a huge outlay. Every rand is one rand less we can put into hiring or into new machinery or into chasing a new market lead."

South Africa has a sophisticated economy, and has developed over generations the **infrastructure** to enable it. This was universally recognised as an invaluable asset at the time of the transition to democracy. The focus in the coming years was on expanding it to underserved areas and communities. However, infrastructural decline has been recognised as a significant burden on the economy. An earlier *Blueprint* paper – *Reinforcing South Africa's Growth through Infrastructure* – has discussed the matter at length. In brief, this study examined three of South Africa's most critical infrastructural systems:[63]

- **Electricity:** Poor decisions, bad management and corruption have reduced the ability of the state power utility to cater for demand. This has been accompanied by rising electricity tariffs, eroding the competitiveness it had once enjoyed. This has imposed steep costs on business, in both lost activity and mitigation measures. In respect of the latter, increasing self-sufficiency has diverted investment from possible expansion and productivity to merely compensating for state failings.
- **Water:** Maladministration, a failure to maintain infrastructure assets and a policy environment that has discouraged private investment has created a growing crisis in water provision. The *Blue Drop Report* shows an overall decline in water quality over time, such that by 2023, Around a third of water supply systems in South Africa are regarded as being in a "critical condition", and another 18% as "poor". Regular outages are a regular and growing occurrence, while leakages are endemic, with some 41% of water input lost.

- **Road, rail and ports:** By all measures, South Africa's logistics network is under strain. Rail has seen substantial drops in the volume of cargo transported – Transnet moved 226 million tonnes of goods by train in 2017, a figure that had declined to 154 million tonnes by 2022. This has seen road traffic rising, with consequences for the cost of transport, emissions, and also deterioration of roads. Trucking also faces severe security challenges, particularly from hijacking. South Africa's ports remain congested and score poorly in international rankings. S&P Global's 2023 Container Port Performance Index listed 405 ports, with Port Elizabeth coming in at 391st position, Durban at 498th, and Cape Town at 405th.

A recent study by the Organisation for Economic Co-operation and Development (OECD) has made a similar argument, stating in summary: "Persistent insufficient access to electricity, and rail and port bottlenecks have weighed on activity, investment, exports and living standards over recent years."[64]

This reflects not just the inherent difficulties of managing an extensive infrastructure system, but governance incapacity in doing so. The most accessible summary of this can be found in the reports of the Auditor General, particularly as they relate to local government. Local government is responsible for an extensive portfolio of infrastructural assets and systems, which impact directly on everyday life and on the business environment. The latest iteration, covering the 2022-23 period, pointed to extensive management deficiencies. Funding provided to municipalities by the national fiscus was often not fully spent. Projects were often not completed on time. The report noted that municipalities were required to maintain some R518.4 billion worth of assets; they cumulatively spent some R17.1 billion on maintenance, around 3% of asset value. Over a third spent 1% or less, against a National Treasury Guideline of 8%. Of the country's metros, only the City of Cape Town approached this level.

In explaining this, the report noted a lack of skills in municipalities, unclear or poorly understood administrative systems, a failure to hold underperforming contractors to account, deficient procurement practices, and a failure to budget satisfactorily for maintenance purposes.[65]

Much the same is reflected in a report published by the Bureau for Economic Research at the University of Stellenbosch. It identified a number of themes in the local government malaise. First, the country's municipalities faced a range of challenges, though not all of these were common. Second, different types of municipalities have different economic potential – the country's urban centres being the loci of this potential – and so a "one size fits all approach" was inappropriate. Third, the financing and intergovernmental transfer systems do not support good governance, because many of the country's most deprived areas lack a rates base, and do not have the administrative capacity to spend the funds they receive from the fiscus. Fourth, many municipalities face crippling debt problems, but unless the underlying financial issues are addressed, any efforts to assist with addressing debt will fail. Fifth, not enough is committed to investment in infrastructure. Sixth, municipalities do not have the necessary technical skills to fulfil their mandates. Seventh, the organisation of local government, specifically, the intermediate tier structures (the District Municipalities) do not promote cooperative development, but rather fragment responsibilities. Eighth, data about service provision performance is poor.[66]

The outcome of this is seen in decaying towns, undermined quality of life, and consequent additional expenses to maintain living standards, for those who can afford to do so. Invariably, it undermines the case for doing business and for making any investments.[67] At times, the consequences are spectacular. In the case of poultry processer Astral Foods, the Lekwa municipality in Mpumalanga was taken to court over the latter's failure to provide the services that the plant needed. Astral obtained a licence to draw raw water from the Vaal River itself, a case of a business having to supply its own infrastructure.[68] Astral at least remained. Dairy firm Clover, by contrast, closed its largest cheese plant, in Lichtenburg in the North West, over "ongoing poor service delivery", relocating to Durban.[69]

In a similar manner, policy choices and management pathologies have inflicted severe damage on the larger infrastructural institutions, such as Eskom (the country's electricity utility), and Transnet (the state rail company). Both featured prominently in the so-called State Capture project – the commandeering of the state by a nexus of officials, politicians and businesspeople to corruptly extract resources. Being state-owned, they disposed of enormous budgets, and were susceptible to political influence. Given their centrality to the country's economy that would also not be "allowed" to collapse. Besides this, their procurement spends were intended to drive state empowerment policy – B-BBEE – which provided a convenient cover for extraction.[70] The consequences of this have been severe. In 2023, it was estimated by the GAIN Group that Transnet inefficiencies were costing the country around R1 billion a day, equivalent to nearly 5% of GDP.[71]

VM, a US-based trade and investment analyst with a focus on African markets, put this in context: "The logistics sector is of variable importance, depending on the sector. It's particularly important for minerals and agriculture, and also to an extent for manufacturing. The rail network is largely unusable, the roads are getting worse, and there are terrible delays at the ports. In the case of minerals, you have to plan for the long-term: you need to be able to move large, heavy loads reliably and regularly into the future. It's much the same for agriculture. For manufacturing, it's a bit different, since factories in the Eastern Cape are right near a port."

He adds the country's power crisis – so prominent over the past decade – has receded in intensity, in large part through expensive mitigation measures (part of the investment that firms in South Africa have been making). But concerns exist about the long-term future of the power supply, and this exercises a powerful dissuasive effect on prospective investors: "Companies that are already invested [in South Africa] deal with it, provided they can still make enough of a return to justify the costs. Companies not in South Africa will see the issue as a reason to avoid the country. They just don't go in."

It is important to reiterate that much of this has arisen out of policy choices and the institutional culture that has been fostered over decades. The National Planning Commission has referred to a long-term "rejection of meritocracy" in both the public service and State-Owned Enterprises.[72] CF, an economic analyst and advisor, concurred, expressing frustration at the manner in which South Africa's infrastructural system has undermined even those economic sectors that the state has prioritised. He adds: "Stable, dependable infrastructure is critical. South Africa's problem is not so much that it has underinvested, but that it has relied on the wrong people to keep its infrastructure intact."

And as AJ comments: “Particularly at municipal level, the skills needed are not there. BEE, affirmative action, cadre deployment – non-meritorious appointments and the use of resources – have emasculated the state.”

In sum, the foundational conditions for investment, the “good enough governance”, represent major hindrances.

WD, a European business journalist with long-term experience of South Africa, points to the deleterious impact of South Africa’s deficient foundations on foreign investment even though companies have tried to work around them: “All of these issues represent further and significant barriers to investment because they dramatically increase the cost of doing business in SA. The electricity problems have been particularly discouraging for investors, of course, because they have necessitated massive investments in generators and the like. Many companies have come to terms with crime. However, the temporary closure of Rio Tinto’s titanium mine in northern KwaZulu-Natal shows that there are limits. The increasing emergence of syndicates outside the construction industry, for example, in the mines, is extremely dangerous and extremely deterrent to investment. Not to mention the persistently high level of corruption.”

LM, an executive in the mining industry, addresses these matters as they pertain to his industry “There has been a period of abandonment by government, and a lack of strategic thinking. The industry and the economy face stark challenges. Operation Vulindlela has helped but a lot more needs to be done. We need to move with speed. Get the private sector into rail transport and water provision, for example.”

Adds DL, another mining executive: “It’s a difficult operating environment. South African companies have to contend with unreliable and costly electricity and must look at mitigation by spending heavily on renewable energy projects. This capital could have been invested in their mining operations and projects. Rail services are inadequate, forcing companies to use road transport. This costs more than rail. Crime imposes further costs; we estimate that this runs to about R2.5 billion annually across the sector. That is a large sum of money. Then, to the extent that there is no service delivery in places that mines operate, it’s the mines that have to step in. This is an indirect tax on mining companies because of the nature of our activities.”

PT noted in the previous iteration of this paper that it is on these issues – crime, electricity and logistics – that business has focused its attempts to cooperate with the state. They are existential and resolving them promise outsized rewards. (These are also issues where ideology is likely less in evidence – at least since the principle of private participation and provisions has been conceded – and so offer the possibility of forward momentum.)

Value-adders: “good governance”

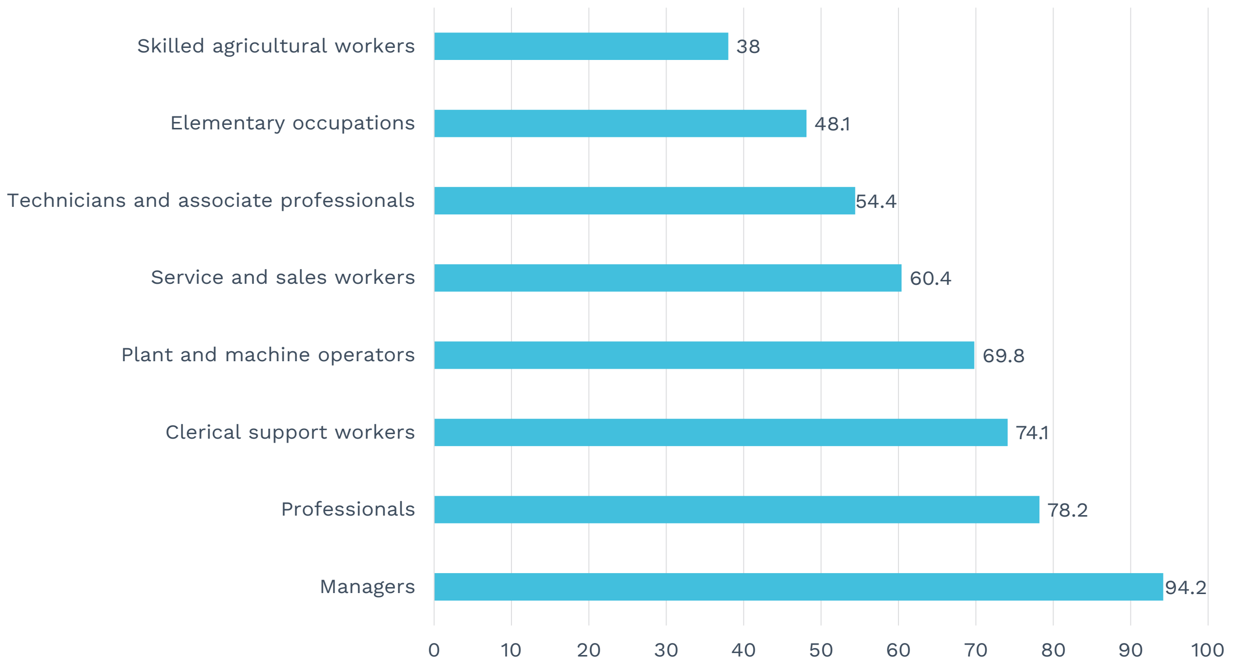
To move an economy beyond factor-dependent activities, a more sophisticated set of economic enablers is necessary. **Human capital** – a skilled and productive workforce – is the key driver of innovation, enabling challenges and new ideas to be developed into opportunities. For this reason, education is regarded universally as a necessary service to be provided to a population’s young people.

Indeed, the imperative of imparting skills matching the demands and opportunities of contemporary economies has been recognised for decades. But equally, the deficient standard of preparation that many of South Africa’s young people receive has long been a choke on development, even though it has been acknowledged, and declared a nominal priority, by successive governments.

The state of education and skills development in South Africa represents a profound crisis. Two international benchmarking exercises, the *Progress on International Reading Literacy Study* (PIRLS) and the *Trends in International Mathematics and Science Study* (TIMMS), illustrate the magnitude of the problem. In the 2021 PIRLS study, 81% of Grade 4 pupils and 56% of Grade 6 pupils in South Africa could not read for meaning.[73] In the 2023 TIMMS study just 40% of mathematics pupils in Grade 5 and 35% in Grade 9 could not attain the lowest benchmarks in the study; in science, this was true for 47% of both Grade 5 and Grade 9 pupils. South Africa’s results were among the poorest in the world.[74]

In South Africa’s workforce, a 2022 study by the Labour Market Intelligence Partnership (LMIP) looked at occupational shortages. It used the Occupational Shortage Index – a composite measure of wage pressure, employment pressure, and talent pressure – to estimate skills shortages in South Africa. The Index is expressed in scores over a range of -100 (indicating a surplus) to +100 (indicating a shortage); 0 represents equilibrium for a given occupation. This is shown in the table below.

Figure 11: Shortages per occupational category, 2020

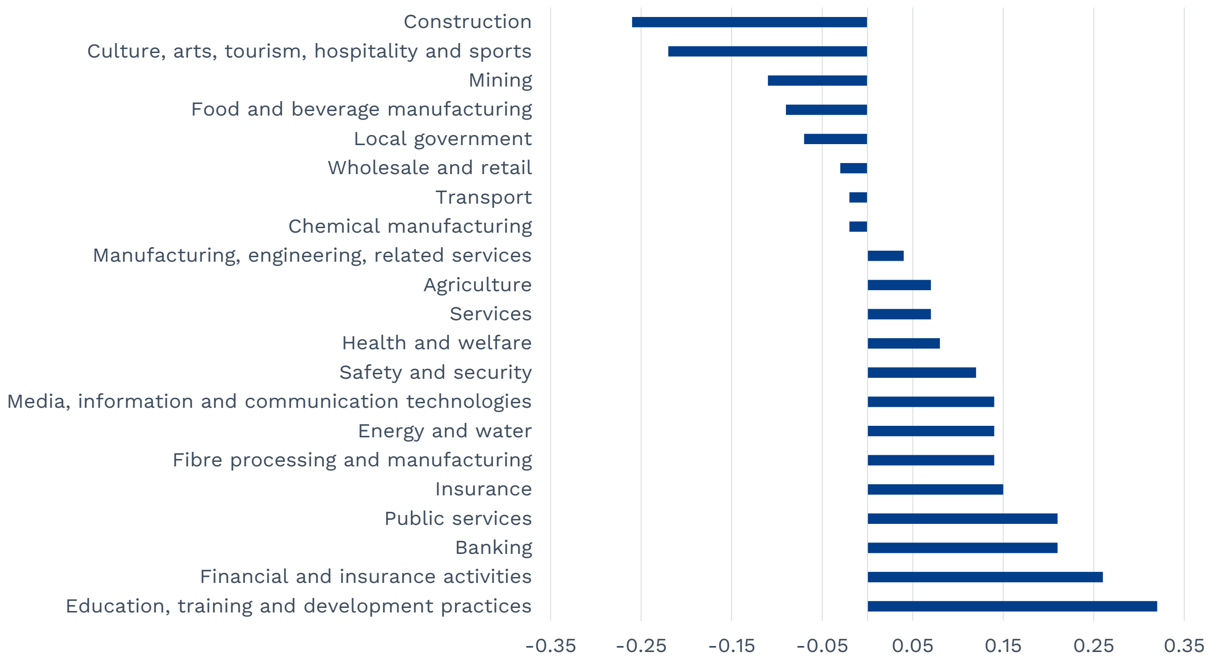


Source: Labour Market Intelligence Research Programme[75]

The findings revealed significant shortages in managerial and professional occupations, with rates of 94.2 and 78.2 respectively. This points to the considerable dearth in higher-end talent. But even in the capacity for mid-level tasks, extensive shortages existed. The score for clerical support workers was 74.1, for plant and machine operators was 69.8, and service and sales workers was 60.4.

LMIP further examined the scale of skills shortages, plotting the state of various sectors on a scale between -1 and 1, with lower scores representing a surplus, and higher scores a shortage.

Figure 12: Skills surpluses and shortages, 2020



Source: Labour Market Intelligence Research Programme[76]

It should also be noted that skills requirements evolve as industries develop. Where investment in new ventures lags, available expertise may disappear (through retirement or emigration) or become dated. In last year's iteration, LM described this as a strategic issue for the mining industry. "We've been mining for over 150 years in South Africa. The industry has shed a lot of its skills and capacity, and some of what remains is now obsolete. This hits exploration, and it hits investment in new projects."

It is above all in the higher-level shortages are most acute. It should be noted that it is in these areas – sophisticated service industries, high value-added manufacturing and so on – that other middle-income countries are finding their opportunities. South African policy since the transition has attempted to do likewise. The response to global exposure and competition in the wake of the transition was to seek competitiveness by expanding productivity; the low wage, "sweatshop" option was explicitly rejected. From this came not only a raft of labour legislation that did much to disincentivise such low wage, unskilled employment, but also several initiatives to generate the skills needed for the economy that has been envisaged. These included the "skills revolution" attempted under the aegis of the first post-1994 minister of labour, Tito Mboweni, out of which came the Skills Development Act of 1998, and with it, the system of Sector Education and Training Authorities (SETAs); the Joint Initiative for Propriety Skills Acquisition in 2006; and skills-based immigration. These initiatives have been less than successful and have been canvassed in a recent IRR study *Generating Jobs and Skills.*[77]

The upshot has been that a dearth of necessary skills has impacted both on individuals' employment prospects, and on the environment for investment. This has recently been highlighted in two international reports. Allianz Commercial's latest Risk Barometer saw skills shortages entering the top ten identified risks for South African firms, and since the sample is biased towards larger firms – which are better positioned to attract talent – this may understate the scale of the issue.[78] The World Economic Forum's *Future of Jobs* study, reports that 63% of South African firms have identified skills shortages as a barrier towards workplace adaptation to a changing economic environment.[79]

A concrete example of this is adaptation of South Africa to reflect environmental imperatives, "greening" the economy. This opens avenues for potential investment. Dr Sean Kruger of the University of Pretoria's Centre for the Future of Work, however, has noted the numerous skills deficits that hinder the uptake of these opportunities in South Africa: technicians and engineers to set up and run production facilities; hydrogen specialists for work on green hydrogen; data scientists for all facets of the associated digital economy; environmental specialists; and builders, technicians and designers able to produce environmentally efficient buildings.[80] This is, of course, a partial list, but it illustrates the substantive disadvantages that South Africa will face in competing for investment in this area.

This assessment is reiterated by the International Institute for Management Development's IMD Talent Ranking for 2025. This is a measure of the "talent competitiveness" (generating, attracting and retaining skills) in 69 countries. South Africa came in at a dismal 62nd position, The individual measures constituting the Index demonstrate the contours of the problem: South Africa has a growing workforce, is receptive to female participation in the economy, has a reasonable cost of living, and spends generously on education; but education delivery and outcomes are dire, apprenticeships are not implemented and health infrastructure is poor. It scores indifferently on a range of other issues, such as quality of life, attractiveness for retaining talent and worker motivation.[81]

"Without a doubt, skills shortages are playing an important role in constraining south Africa's economic growth," says AJ, "Many of these skills shortages have been artificially brought about through the policy of BEE and affirmative action especially, in regard to municipal decisions on infrastructural investment. There is a dearth of quality engineering and accounting skills and instead we are confronted with a situation where many in decision-making capacities are there not because of their competence or qualifications, but because of their proximity to political leaders and people of influence. So long as this kind of situation – the opposite of meritocracy – is pursued within government, the county will not attract the kind of investment needed to uplift the economic growth rate from the 1% or less levels to which we are currently subjected."

A **regulatory environment** is intended to safeguard public wellbeing, pursuing what might loosely (and often controversially) be termed "the public good". South Africa has taken a regulation-heavy path, and one in which the benefits are doubtful and the capacity of the official systems to implement them is questionable to say the least. It is even more questionable whether the benefits they might offer compensate for the burdens they impose.

One of the few attempts to quantify this was produced in 2004 by SBP (formerly known as the Small Business Project). The study put the cost of regulations and compliance at some R79bn or 6.5% of GDP. While this is dated, it is unlikely that much has been done to reduce the regulatory burden. Quite the contrary in fact.

SBP's later research – its SME Growth Index – found that small business owners perceived the business climate as difficult if not hostile, and that the regulatory burden was a significant factor inhibiting their growth (some of which was bound up with the state of municipal governance, discussed above).[83]

The Small Business Initiative (SBI) subsequently took this up, particularly in a 2021 report entitled *Tackling the "Disabling Environment" to boost Economic Growth, Small Business and Jobs*.[84] (The report was itself researched and written by SBP.) It noted that there had been decades of commitment to reforming the environment to reduce unnecessary hindrances to business activity, without much action. Indeed, the report noted that global studies pointed to the deterioration of the business environment, a function both of the regulatory system and state incapacity to manage it. The impact of this was felt particularly in smaller businesses. The report also noted that regulation was driven by "ambiguous motivations"; it is not always clear what they are intended to achieve. "South Africa", it commented, "finds itself in the paradoxical position of being overregulated and under governed by diminished and unproductive state capability."[85]

AJ, who has had a long-term interest in the small business sector, summarises the challenges: "I think we should also recognise that the environment leaves no room for small business. Too many rules, regulations and circumstances overall that make it very difficult for them to succeed."

Academic analyses have reached similar conclusions, with an article by Cecile Nieuwenhuizen noting:[86]

> The results of the primary research study confirmed [that] most businesses experience problems with regulations and compliance issues especially with regard to labour laws (HR and IR), SARS, tax-related issues and skills development. The businesses perceived regulations and compliance issues to be burdensome, both in terms of time and cost. The business owners also found that there was insufficient knowledge in their businesses to keep up with ever-changing regulations and to personally attend to all compliance issues.

Perhaps most revealingly, SBI remarked on the conduct of Socio-Economic Impact Assessments. Replacing the pre-existing Regulatory Impact Assessments, they are nominally geared towards understanding and anticipating the consequences of proposed policy. In practice, they seem less intended to analyse proposed interventions than to justify them. Economic and investment outcomes are one of several objectives, and not necessarily the most important one (on the list of four objectives in the official guidelines, "economic growth and investment" comes in third). Indeed, departing from the principle of "first do no harm", the official guidelines explicitly recognise that policy will be to the detriment of some and the advantage of others.

Larger industries are not immune either, although typically their problems relate less to the quantum of implementation than its management. Says DL: “The process of getting prospecting or mining rights can take months or years. There are delays to almost all permissions from the regulator and other departments dealing with water and environment. If you must wait for years to get your project underway, investment withers.”

Another area in which a counterproductive regulatory burden is evident concerns racial “transformation”. This has been an ongoing theme across the economy, and prompts intense acrimony as well as an element of pretence: given the sensitivities around these policies, and their centrality to the ANC’s worldview, business often speaks about them without much sincerity.[87]

Racial regulation in the economy takes two basic forms. The first is in labour and employment matters, governed largely by the Employment Equity Act and the associated regulations, with a state commission to enforce it. In the broader business environment, it is meant to conform to the overall B-BBEE policy ideal, which is overseen by the Broad-Based Black Economic Empowerment Act, and various other pieces of legislation, such as the Public Procurement Act.

The risks inherent in B-BBEE were clear from the beginning. Experience elsewhere had shown that preferential policies can be captured by elites, or disproportionately benefit a small group of people placed to capitalise on them to the detriment of society as a whole.

The Zondo Commission pointed to the abuse of preferential procurement provisions as a prime means of corrupt extraction during the State Capture period. The Commission’s report pointed out that procurement could legitimately be used to advance empowerment goals, but that this needed to be done with due consideration for the prudent stewardship of public resources and the provision of public goods to society as a whole.[88]

South Africa’s Public Procurement Act, similarly, was hailed as a remedial measure against the abuse of procurement. But it makes provision for “set-asides” which stand to fortify the procurement practices that were used to provide a veneer of respectability for State Capture in the first place. According to Treasury, the existing system of premiums was “too limited”, raising the prospect that BEE spending will be ramped up. Treasury has declined to indicate just what the effective BEE premium is that is being funded through procurement spending (in other words, money paid for contracts as opposed to the possible costs if value-for-money was the only criterion). For this reason, IRR policy fellow Gabriel Crouse has warned that the new Act could herald State Capture 2.0.[89]

Recent amendments to the Employment Equity Act, meanwhile, seek to introduce effective quotas into the workforce, with crippling fines for failing to comply. The former minister of employment and labour, Thulas Nxesi expressed his department’s intention to be “harsh” to enforce workplace transformation.[90] Concerns about the failure of workplaces to adequately “transform” have been expressed repeatedly by the Employment Equity Commission, but it is notable that the latter body seldom attempts to understand or explain this meaningfully. Given the absence of mature debate around it, a discourse has developed that attributes the failure to achieve greater representivity to active resistance if not outright racism.

The Department of Employment and Labour has announced plans to employ some 18,000 inspectors to monitor compliance with labour legislation, particularly employment equity, and that there is no intention to step back from racial policy.[91]

If business has navigated these issues cautiously, there is a vocal community of concern about the economic damage it is inflicting. William Gumede, Associate Professor in the Public and Development Management Department at the Graduate School of Business Administration at Wits University, has argued that empowerment deals have transferred some R1 trillion. But this, he said, had been to the benefit of "a handful of politically connected politicians, trade unionists, and public servants." Far from expanding the economy, this "had crowded out genuine black entrepreneurs and killed the development of a mass entrepreneurial spirit in black society."[92]

In a sharply worded analysis on the state of South Africa's economy, the Centre for Development and Enterprise has commented:[93]

> There is no need here to review all the criticism of B-BBEE, most of which revolves around the fact that empowerment has been too narrow and that it has been pursued at the expense of policies that would have led to more inclusion and less poverty. Our focus, instead, is on the impact of BB-BEE on economic growth. There are, essentially, three ways in which B-BBEE has impacted on South Africa's growth:
>
> - It has diverted resources and energy away from building businesses by both established business and emerging entrepreneurs;
> - It has generally raised the costs of doing business;
> - It has introduced new uncertainties that affect investment plans.

In investment terms specifically, foreign-based organised business has raised concerns about the impact of BEE on their operations – most seriously demands for the ceding of equity to "empowerment" partners.[94] This has come into focus recently in relation to Elon Musk's Starlink satellite internet service. Despite the fact that deficient connectivity is acknowledged as a brake on development, the Starlink service is not available in South Africa, even as it is operating in the country's neighbours. This has been attributed largely to a refusal by Starlink to give up equity to satisfy empowerment demands; it has indicated a willingness to participate in upliftment schemes ("equity equivalents"), and official sources have signalled a willingness to go this route.[95] Note though that even though such an option may be preferable to transferring a share of the company, it will nevertheless denote a heavy cost, which must be measured against the declining attractiveness of South Africa as an investment destination.

The theme of racial policy as a barrier to investment was reiterated by several of those who commented for this study, both in the previous iteration and in this one.

MG, a US-based analyst remarked: "I would say the single biggest issue is a lack of assurance in the long-term viability of one's investment in South Africa. What I mean by this is that as the South African government continues to shoot itself in the foot over and over - whether through counterproductive regulations, BEE, corruption, or making enemies with the countries that might be a source of investment - it becomes extremely difficult to make large investments with, for example, a 5-10 year ROI.

Such an investment becomes very hard to justify if profit comes 5 years later, but the government is threatening to expropriate your property next year."

Adds WD, from a European perspective: "European companies are now accustomed to overregulation in their home markets, which toughens them up somewhat. However, they usually have to deal with at least a halfway functioning administration back home, which makes some things more bearable. In South Africa, the mix of overregulation, racial quotas, and incompetent administration/bureaucracy is a particularly bad one. It all often starts with work permits. Especially since one often gets the feeling that the ANC doesn't want Western investment because foreigners supposedly steal jobs from locals."

JM, a financial journalist, commented: "The Employment Equity Amendment Act is a big hassle and a gross interference in operations and a considerable expense. It will require companies with more than 50 employees to meet ministerial racial quotas in hiring. It makes hiring difficult and subject to the possible changing whims of the government. Similarly, requirements for BEE stakes are also a significant impediment. Starlink and many others have a policy that does not allow them to give away equity partnerships. That is not the way they do business. Besides, why should they hand out equity to entities that do not contribute to success. In the mining industry, there was a 26% BEE ownership requirement. It is now 30%. The BEE must be financed by the investors – that is a giveaway. That means the payback time of the investor takes 30 percent longer than it otherwise would. Returns are lowered for the investors. For the BEE partners there is no downside risk and only upside potential."

LM notes something similar in respect of mining: "The government's transformation agenda has become a moving goalpost. What was agreed at the outset should be respected moving forward so that the sector can work from established foundations. If you keep on changing demands, that results in value destruction."

This raises the question of **knowledge** – how government and other actors understand the realities and bring their insights to bear on effective policy and economic management. This can be considered the integration systems of good economic governance. Unlike ordinary markets, where information inputs constantly update information which is reflected in the setting of prices, policy makers must deal with imperfect and partial insights, which are often distorted by their preconceptions and by conscious lobbying. As noted earlier, it was a willingness to take experience and evidence and to change course accordingly that made economic progress possible in a number of South Africa's peer countries.

South Africa has been resistant to making such adjustments. A deeply ideological view of the world, and the imperatives of mollifying particular interests, has meant a dogged refusal to act on experience, even where it has been negative. The official stances on labour legislation, racial empowerment and mining policy are testimony to this (this has been explored above, and is dealt with again in the following section).

Key to the deployment of knowledge in an economic setting is understanding the difference between what is desirable and what is feasible. A common refrain is that South Africa has good policies but poor implementation, although that mistakes the fact that policy designed for an administrative apparatus that does not exist is not good policy. This is often lost in South Africa's authorities. Not only has there been a reluctance to learn from and adapt to evidence, but in such matters as the prioritisation of political control over managerial and technical capacity in the public service, choices have proceeded from a severely distorted view of priorities.

Thus, despite the intention to professionalise the public service, the ANC has not disavowed cadre deployment – and actively defended it prior to the 2024 election.[96] This has had far-reaching consequences in each of the foundational factors underwriting economic success, and has undermined the value-adders. Currently, the ANC – if not all its partners in the government – is committed to introducing a system of comprehensive state control of medical funding in the envisaged National Health Insurance. This is despite the implausibility of its successful implementation, and the consequences for the country's health-care system.[97]

Equally important is the capacity for problem solving. In broad terms, this reflects the research and innovation system, the protection of intellectual property and so on. Here, the picture is mixed. South Africa has some excellent research and development institutions, and high-quality scientific and commercial thinkers. Although many have decamped abroad, the nature of the global economy and communications system means that their expertise need not necessarily be irrevocably lost.

There have also been instances in which expert advice has been wilfully disregarded. A current concern in South Africa is the state of its water infrastructure and consequent water supply. Yet precisely this issue was flagged by Prof Anthony Turton in 2008, probably South Africa's foremost water scientist, when he was affiliated with the Council for Scientific and Industrial Research (CSIR). Among his concerns was the state of the infrastructure and the declining availability of water expertise – and also the lack of engineering experience in many municipalities. In response, probably because of the awkward questions that this would have raised about the priorities of government, he was effectively forced out of the CSIR.[98]

CF observes that the inherent knowledge problem for South Africa's government has been that it bears no cost for being wrong. The costs that a government faces is the loss of political control from a discontented electorate. Financial and operational burdens generally fall on businesses, consumers and households; and until recently, the political costs of failure have been limited, with the ANC being returned to office despite lacklustre economic performance.

The summary consequence of these trends is that South Africa has failed to foster the good governance that would make it a desirable investment destination that is hospitable and nurturing to higher value-adding activities.

Interestingly, it is in this sphere that the GNU held out – notionally – the greatest potential for change. The ANC's electoral setbacks and its turn to the DA for support suggested that a recognition of the deficiencies of past policies, and their reassessment, was possible. In the event, this has not been the case. President Ramaphosa has defended the GNU as a strategy to advance its highly ideological (and party-centric) master-vision for the country, the National Democratic Revolution.[99] Specifically, the ANC has retained control of the entire economic portfolio in the cabinet (with the exception of agriculture, and a deputy position in trade and industry), and – as outlined above – pushed ahead with a highly contentious economic policy agenda, at times pointedly acting to emphasise its dominance over the DA. (President Ramaphosa signed and announced the signature of the Expropriation Act without informing the minister responsible for it – a DA member – that he had done so.)

This in turn underlines the ideological impulses behind economic governance and policy. PT comments that receptiveness to change tracks the ideological significance of any given measure. Reform of the visa system was relatively uncontroversial, and so could be piloted through with ease. Labour legislation, or empowerment demands are integral to the ANC's worldview, and so will not easily be abandoned. He comments: "Reforms are complex, and they have been resisted for so long. Historically, getting them done takes years. We've seen some successes, with visas, and there is work on addressing the greylisting [warnings issued about deficiencies in the finanical system by the Financial Action Task Force, concerning controls of things like terrorist financing]. But we need much more. A key problem is that successful reform takes skill and coordination. We've lost a lot of this over the years. Reform also takes political capital and capacity. Leaders have to get buy-in and coax followers along."

JM adds that there has been a general refusal on the part of the government to recognise the nature of the problems, repeatedly "changing rules and thinking that investors are lining up to invest here. Out of touch with reality."

VM argues that what differentiates South Africa from many of its peers on the continent – also difficult business environments – is that the hindrances confronting businesses in their interactions with the state are "ideological not transactional". Businesses are not faced just with corrupt rent-seeking (as much as this is a problem) but with principled sceptics and objections to their activities. Effectively, the knowledge base has been strongly mediated through a particular belief system, and this has not thus far been tempered by any adverse political consequences for the failure of the policy that has been followed.

Drivers: "developmental governance"

The experience of the East Asian rapid industrialisers demonstrated to the ANC that political power could be leveraged for economic results and offered the possibility of importing political solutions (with which the ANC was very comfortable) into the economic sphere (which it failed properly to comprehend). This is the terrain of Industrial Policy Action Plans, investment conferences and social compacting.

XA Global Trade Advisors' schematic groups two streams of activity here: **prioritising sectors** and **picking champions**. These are described as "Heartbreak Hotel".

In essence, these are interventions that act as multipliers for a business environment already in place. The basic premise has always been that the application of government power and resources could be a significant accelerator for the economy as well as an important mediator of the distribution of benefits. This has taken the moniker of the "developmental state" and latterly the "capable state".

It would, in other words, help to drive growth while ensuring development, in the sense of economic resilience and rising living standards. Developmental governance is unlikely without first being "good enough" and "good". Given the deficiencies outlined above, there is some irony that it's at this level that a great deal of public attention to economic policy takes place.

This background is essential to understanding the course that the business environment has taken. As Dr Neva Makgetla, economist at Trade and Industrial Policy Strategies, has put it: "Industrial policy presumes a mixed economy, where government has to manage private actors to achieve socially desirable aims, not simply seek to replace them with government agencies. An effective industrial policy thus requires a functional paradigm for dealing with business, as well as capacity to understand and respond to domestic and global economic developments that lie outside government control."[100]

Industrial policy has attempted to stimulate and support local value-addition. There is in fact a long history of doing this in South Africa: in the early part of the 20th Century it was geared at establishing domestic industries to service the local market, rather than relying on imported products. Isolated internationally, these measures were important in enabling South Africa to deal with embargos – as in the case of armaments, in which field South Africa became an exporter.

Following the political transition in 1994, South African industry was shaken by exposure to foreign competition. While industrial policy always had some role in economic thinking, it gained particular traction with the National Industrial Policy Framework, adopted by cabinet in 2007. The overall goal subsequently has been to try and claw back some of the ground that South Africa lost when its partly isolated economy re-entered the global mainstream: "reindustrialisation". Such industries are believed to offer better jobs and benefits (the "decent work" agenda that appeals to the ANC and to its trade union allies). To support this process, the government has employed a range of preferments to try and encourage selected business sectors, and particular participants within them.

The case of steel is illustrative. Steel is a foundational input for an industrial economy, and South African production has its roots in the early 20th Century. Indeed, this was a product of industrial policy for the young country. The South African Iron and Steel Industrial Corporation (Iscor) was established as a state-owned enterprise, although it was privatised after the erstwhile National Party government began to take on free market ideas in the 1980s.

But steel is a product that can be sourced from numerous producers globally, and South Africa's contribution is modest. Of the estimated 1.9 billion tonnes produced globally, South Africa produces 4.9 million, or around a quarter of 1%. The World Steel Association ranks South Africa at position 32.[101]

Government policy has been to preserve the existing industry from competition but also to expand the industry to new entrants. To assist new entrants, the Industrial Development Corporation has invested extensively in smaller steel mills (so-called "mini mills"). These reprocess scrap metal, and to supply them, regulations demand that recyclers offer the scrap at preferential prices – the Price Preference System (PPS) – which are set below global rates. Only if there is no interest from this sector can scrap metal be exported, but then only with an export duty. As this was happening, ArcelorMittal, the successor to Iscor and producer of some 50% of South Africa's steel was struggling to compete with Chinese steel imports. To deal with this, stiff tariffs were introduced to shield it from competition.

But with the subsidies paid to the mini mills, they were able to produce steel at prices that undercut even Chinese imports. The funds that have been sunk into this are large and reflect the perverse incentives. The IDC's exposure to mini mills stands at some R14 billion – while the market capitalisation of ArcelorMittal is only R1.4 billion.[102]

Moreover, Donald MacKay of XA Global Trade Advisors argues that in attempting to push agendas in trade and business promotion, South African industrial policy has undermined the entire basis of efficient market operations. It is no longer merely the case that certain firms or sectors are beneficiaries of preference, but that the incentives have been skewed, so that a focus on competitiveness is giving way to one of rent seeking. It is increasingly difficult in some areas to determine what an accurate price should be. South Africa, he said in an interview for last year's paper, is becoming a "subsidy economy".[103]

A key element of this is the effective capture of policy. In the steel industry, this has been pushed by a "working group" within the Steel Masterplan Committee. Their identities were kept secret until being revealed in litigation in 2021. (They were a mixture of state officials, businesspeople connected with mini mill sector and organised labour; representatives of the scrap metal industry were not included.) The working group successfully ensured the longevity of the PPS measures, as well as an export ban on certain products. and even managed to bring products other than steel within the remit of the policy.[104]

For its part, the protection afforded ArcelorMittal has not resolved its challenges. Demand for its products is below what it would need to make its integrated operations (those producing steel from iron ore to precise specifications) viable, while the country's infrastructural deficiencies contribute to pushing up its costs further.

The viability of its largest plant at Newcastle, with its 3 500 jobs, was a matter of particular concern. And despite receiving close to R1.7bn in support from the Industrial Development Corporation to stave off closure,[105] this was ultimately the plant's fate.

For SDC, whose manufacturing processes rely on high-quality steel, the state of the steel market was the "final straw" that saw him looking to set up foreign operations. Steel tariffs introduced from 2015 largely at the behest of ArcelorMittal had ramped up the price of imported inputs, which coincided – in his observation – with a precipitous decline in the quality of locally produced products. He recounts having to send staff to inspect orders piece by piece to ensure that they were of satisfactory quality. The upshot is that the local value chain is increasingly unable to fulfil the requirements of his company. Indeed, other manufacturers have spoken out publicly in terms similar to SDC's.[106]

The overall outcome is that one part of the value chain is effectively subsidising the inefficiencies of another, with state patronage. A range of participants have lost out. These include the lowliest "pickers", through to scrap merchants and downstream industries. With supreme irony, the latter includes manufacturers whose contributions represent genuine, market-capable activities. ArcelorMittal has benefited to an extent, although not enough to provide an enduring solution – it is in any event now invested offshore, and its South African assets may not be of great importance to it. The mini mills have individually gained, and to the extent that they have been able to supply clients with cost-effective products, the latter have gained too. But all indications are that this is a highly inefficient commitment of resources that is playing a distortionate rather than a developmental role.

Investment has been incentivised into areas where it is inherently unproductive, and even counterproductive. CF argues that this not only undermines the efficiency of the entire economy, but perpetuates economic exclusion. Lobbying, protection and subsidisation has helped to sustain uncompetitive winners and has contributed to maintaining problematic features of the pre-1994 economy. "The economy is still highly concentrated. This is not, emphasis on that, not without government support. Monopolies have used various legislation to keep themselves entrenched to the detriment of all of us."

Similar themes have been noted in other areas of the economy. Measures to protect the domestic chicken industry have had adverse consequences for consumers, particularly low-income households for whom chicken is a primary protein.[107] The possibility of the innovative Starlink satellite internet system being introduced into South Africa–broadband access being another perennial weakness in the business environment–has been held up by demands that it would need to comply with empowerment criteria.[108] State policy is committed to fostering "black industrialists", but as PT has observed, there has been virtually no transparency around where specifically the resources are directed, nor are there public assessments of the initiative's efficacy.

In addition, initiatives such as EWC drive, suggestions for prescribed assets to fund mismanaged state-owned enterprises, and the pending introduction of the National Health Insurance – the latter an uncosted mega project with profound implications for every South African and for the economy, and in respect of which input from business has largely been disregarded – all point to the enduring nature of this approach.

There is little interest in turning away from an unproductive course of action where ideology or vested interests are involved., When confronted with concerns from European investors about empowerment and localisation demands that were acting as a disincentive to investment, former Minister of Trade and Industry Dr Rob Davies replied: “Localisation is not something we will be able to renounce. Nor are we going to be able to renounce BEE.”[109] The reality behind these comments is a refusal to contemplate change.

WD pointed out in last year’s iteration s to the reliance on investment conferences and measures to attract business from abroad. The thinking is that by showcasing some of the country’s advantages, making a pitch to businesspeople and explaining the rationale behind investment-hostile policies, along with some personal bonding, will produce investment. This assumes that an argument can overcome the hard realities of doing business in the country. This is, he says, “nonsense”.

All of the above raises a serious conceptual issue for South Africa’s aspirations (or pretentions) to be a developmental state: the relationship between the state and business. A productive relationship between business and the government can be a useful developmental asset, helping each party to understand the other and to find points of mutual interest and vulnerability. This allows them to recognise the inevitable tensions in their relationship, but to act in a manner that is of benefit to both – and if the state has a suitably developmental orientation, the action can be structured to serve the interests of society as a whole.

In a 2016 contribution, the late Michael Spicer described relations between the state and business as having been inherently strained by completely different worldviews, by strong anti-business sentiment by some within the ANC, and then by the collapse into patronage that attended the Zuma years. The state was happy to play divide-and-rule with business (by effectively extending patronage to a racially exclusive breakaway organisation (many of whose members were actually public servants and not businesspeople), and was increasingly disinterested in policy. Business, for its part, was generally prepared to play along, though without conviction.[110]

As the case study of the steel industry suggests, what has emerged is a collusive relationship between the state and particular business interests, as well as politically connected insiders and rent-seekers. The intersection between politics and money has been central to many of the scandals that have rocked the country and undermined the state.[111]

AJ described this – in the previous iteration of this paper – as one of the most serious shortcomings afflicting South Africa’s economy. “The simple fact is that the relationship from the ANC’s side was driven by ideology. A market economy versus a control economy, and they couldn’t get beyond the idea that the market was all about profits and that there was a need for the government to take care of society. If government and business had been able to find each, the potential for a different path would have been massive. Massive. I wouldn’t know how to quantify it. A productive relationship would have meant more rational regulations and a better investment environment, more private investment and the resources for more public investment. It’s a tantalising case of what could have been. But the reality is that relationship became extremely polemical and government has been extremely suspicious of anything to do with the private sector.”

The reality is that the government simply lacks expertise and ideological flexibility, and confronts a complex system with deep structural problems. Hence the term "Heartbreak Hotel". Lofty aspirations are crippled by the implausibility of the conditions in which they are being implemented and by the conflicting objectives and inabilities of those who hold them – or indeed, where policy is designed so as to be inimical to business activity.

As SDC said in last year's iteration: "You can do something about individual problems. Security, infrastructure, all of that. You just can't do much when policy is deliberately arranged to act as a truncheon against you."

Opening South Africa for investment

How could South Africa be pivoted from the realities described above to one in which investment is coming in with growing momentum, and driving up the growth rate to the 5%-plus that the country direly needs?

This begins with accepting some key premises.

- Investment is necessary, from the public sector and the private sector, in large amounts and in modest amounts;
- Investment will be attracted to an environment in which there are reasonable and realisable prospects for returns;
- South Africa is at present not an attractive option for investors;
- Not everything can be achieved at once, making prioritisation the key; and
- There is no substitute for evidence in policy making, and this applies without qualification to attracting investment.

SDC puts it in these terms: "South Africa hasn't been investable for many years, for reasons that are both internal and external to the country. There are three big disincentives: Employment Equity; BEE; and the overall labour law environment. Employment equity and BEE need to be repealed, totally. Labour legislation needs to be radically revised."

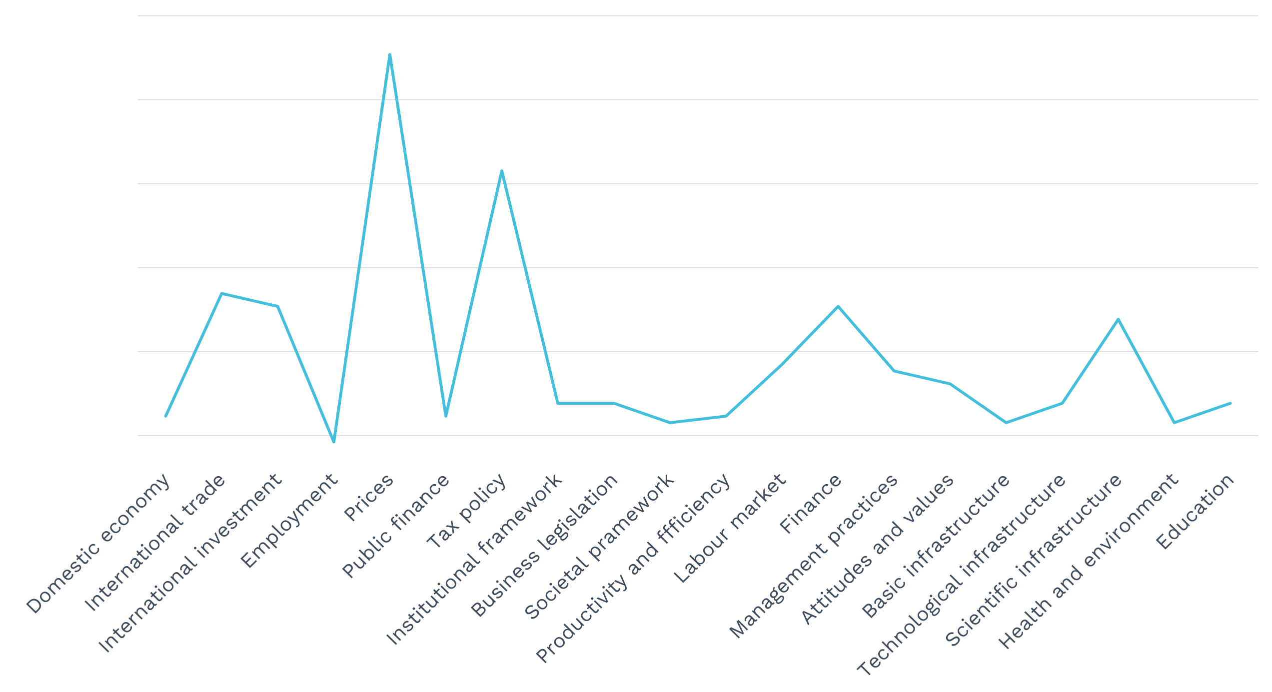
Others expressed similar perspectives. VM argues that South Africa has missed numerous opportunities, and that its pathologies have become hardwired into its investment environment. Moreover, South Africa needs to be seen in relation to peer economies, which offer investors – domestic and foreign – better prospects. "In isolation, [each of its problems] could be overcome, if South Africa were the only game in town. But there are countries like Colombia, Thailand, Peru, Chile. Similar opportunities, but with more promising growth prospects."

For businesses operating in or looking at investing in South Africa, he adds, there is an "exhaustion factor".

These sentiments were echoed by others. South Africa's inherent offerings, such as its market size or location, do not make it a competitive environment.

This combination of factors is further underlined in the latest World Competitiveness Index compiled by the International Institute for Management Development. Of the 69 countries covered, South Africa ranked 64th. This represented a decline of four places from the previous year, part of a longer-term decline since the beginning of the decade. In almost every sub-category used to compile the Index, South Africa ranked poorly or near the bottom.

Figure 13: South Africa's ratings, World Competitiveness Index, 2025



Source: International Institute for Management Development[112]

The difficulties created by its various pathologies and policy choices have made it a decidedly unattractive one.

The GNU and the political questions

The first year of the GNU has proved disappointing for those hoping for a turnaround. As has been noted above, the cumulative impact of entrenched policy positions, corruption and ideology have proven a powerful blockage to reform. The failure of reform to materialise and tensions between the ANC and DA have been paired with concerns about the GNU's durability and also what would follow it. A reform-shy ANC might find a willing partnership with some of the reform-rejectionists on the left of the political spectrum.

WD thinks the GNU an idea that was necessary, but which has underperformed, and needs to demonstrate concrete economic wins to generate economic momentum. "The coalition government has been a mixed bag so far," he argues, "but far better than all alternatives. It has made clear progress in some areas, such as expedited visa issuance. There also appears to be more calm in agriculture, which is important for food security. However, the GNU has undertaken far too few genuine reforms, such as easing labor market restrictions, and has therefore only been able to increase economic growth imperceptibly to 0.8% recently.

Far too little for an industrialized country with arguably the highest unemployment rate in the world. What South Africa needs—even for the GNU to survive—is a minimum of 3-5% per year. Otherwise, acceptance of the GNU risks eroding if too little concrete economic progress is made."

And while some of the reforms introduced have been useful to for the business environment, these have tended to be limited to technical matters. EH sardonically remarks: "The reforms we've seen have been positive, but nowhere near enough. We're stuck on very, very low, but a little bit better than very, very, very low."

Others express similar frustration, largely because of what is perceived to be the ANC's continued dominance and its refusal to countenance extensive policy reform. "It was expected that the GNU would drive reform, but the ANC has doubled down on almost everything: NHI, expropriation, and so on. Part of me can't believe it," says EH. He adds: "What we've seen over the past year is how influential politics is on the economy. We've seen the on-off GNU relationship, the budget, the tariffs. The rand and South African bonds reacted with more volatility to political than to economic developments. There is a lot of worry about a possible coalition of the left."

AJ makes a related point: "There has been an intensification of enmity and antagonism in our politics. There was a lot of celebration when the GNU was inaugurated. But the ANC has pushed on as if it's still running government. The DA has had a lot of very constructive proposals, but the ANC has bulldozed over them. There has been some pushback, and this has prevented more damage. But there hasn't been the restructuring in Eskom or in Transnet that we need."

PT concurs: "An essential problem is that there is a lack of confidence in the political economy, for example, in whether the GNU will hold. Or rather, whether the DA remains in the GNU, or whether there is an arrangement that brings the EFF and MK in. But the continuation of the GNU as it is, is not going to drive growth. It's a necessary but not sufficient condition for getting the economy moving."

CF, meanwhile, expressed concern that what South Africa is seeing is a desperate gambit by the ANC to push some of the more ideological (and economically counterproductive) elements of its policy agenda as it feels power slipping away. This would suggest that the coming few years will likely not see extensive reform; if anything, quite the opposite.

A political development with potentially severe repercussions is the rising tension between South Africa and the US. It is important to note that the relationship has been under strain for some time, but this has not seen noticeable economic consequences. President Donald Trump's reset of trade relations globally, his administration's aversion to South Africa, and the failure to conclude a trade deal (the state of South Africa's diplomatic service mirrors much of the wider state dysfunction) has seen steep tariffs introduced on South African imports to the US. At present, this is a trade rather than an investment issue, but in reducing South Africa's competitiveness in a key market, it compounds the country's generally parlous position.

Indeed, VM observes: “Companies in the US are not yet basing investment decisions in tariffs or the antagonisms between the US and South Africa. US investors are seeing greener pastures elsewhere. Making money in South Africa is a case of the juice not being worth the squeeze. They are confronted by numerous obstacles and hassle factors, rules and regulations, logistical issues, power supply problems, the non-transparent awarding of government contracts. It makes South Africa uninteresting.”

That being said, further deterioration in relations with the US risks undermining the already fragile investment climate. Most concerningly, the mooted prospect of South Africa being expelled from the SWIFT system or of US investors being barred from buying South African bonds would deal severe blows to the country.[113] Success, above all, markets itself; long-term damage to South Africa’s trade relations with the US would have an impact on its overall economy.

The upside

Despite the numerous challenges that beset the economy, it is important to state that South Africa’s manifold challenges should not overshadow some of its underlying strengths.

South Africa remains the most sophisticated economy in Africa. Its infrastructure, though badly maintained and often failing, is extensive and could be refurbished. It has relatively strong institutions. And amid the dysfunction, there are centres of global excellence in academia and the private sector.

South African business also disposes of significant cash reserves, totalling some R1.5 trillion.[114] Given the correct environment and incentives, this is a solid foundation for an investment recovery.

VM is upbeat: “South Africa’s big advantage is that it doesn’t need anything more than what it has. It has resources, reasonable human capital, a strong judiciary and legal system, particularly by African standards. It doesn’t need to create anything fundamentally new. The government just needs to get out of its own way. Review the labour laws, for example. And if Transnet can’t maintain the rail lines, then let a private contractor do it, maybe a US company. There are great possibilities with the right regulatory environment. Right now, there is too much resistance to doing what needs to be done, and even minor changes – like private concessioning in ports – get gummed up.”

SDC regards the fundamentals of South Africa’s economy as still potentially favourable, but constantly undermined by state action, often deliberately. “South Africa has natural resources in abundance, a great climate, even human resources. What’s holding it back is the constant government interference.”

MG concurs: “From a logistical perspective, South Africa is at the mid-point between Europe and the Americas on one side, and Asia on the other. It is equipped with multiple deep-water ports, an extensive highway and airport system (though railways have taken a backseat these days) and thus is in a highly prized location for shipping, especially given the continued security risks in the Red Sea and around the Somali coast. SA also has a developed financial sector, and a population with both a skilled and semi-skilled workforce at a relatively cheap price working in the same time zone as Europe (and just 6 hours ahead of the US east coast). The country also has a moderate climate without frost formation on the coast, allowing for construction to take place all year round.”

Cultural factors, such as the widespread use of English, and long-established relations with markets in Europe and America (and increasingly in Asia), make it a simpler environment for foreign businesspeople to operate in than those of some of its peers. Demographically, South Africa is at a point where its labour force comprises some two thirds of the population. This means its dependency ratio – the economically productive in relation to those out of the workforce – is positioned for accelerated economic growth.

Indeed, on the latter point, while Africa suffers from a litany of its own problems and shortcomings, there are enormous opportunities for South African firms, which a properly actualised African Continental Free Trade Area would unlock.

Of critical importance, South Africa’s institutions – often abused – have remained functional. Despite enormous socio-economic stress, its democracy has endured, and its legal system is respected.

In addition to this, GG Alcock has noted the enormous potential of the country’s informal sector and its “township economy”. This, he emphasises, is far larger than is commonly supposed, and far more dynamic than is commonly accepted. He expresses frustration at hearing from policy makers that entrepreneurs need to be enticed into South Africa’s townships – ignoring the vibrant entrepreneurial culture that already exists. “We have systems that actually work,” he said last year, “the challenge is to stimulate them, make them more efficient, help them to contribute to the tax base.”

These are factors that can be leveraged, if a properly pro-investment policy and governance agenda is to be carried out.

Opening the investment door

South Africa has for some time put forward an unattractive investment case. Fortunately, this can be remedied. This will require as a first step a willingness to accept that much of South Africa's policy direction has failed if it is measured in its economic output. Initiating the necessary reset would begin with making different sets of choices. This, at least, is eminently within the purview of the state, and offers the rudiments of a turnaround.

Get governance in order

The Harvard Growth Lab's contentions about the economic implications of poor state capacity has been supported and illustrated by the material presented in this study. The basis of South Africa's recovery will be addressing this, and without doing so robustly, there is no realistic possibility to lifting South Africa out of the current low-investment path.

Regardless of any ideological predisposition, a country like South Africa needs a functioning state. This demands a commitment to and operationalisation of three broad principles for policy and government action.

- The first principle is **realism:** what can reasonably be achieved at any time with the extant advantages and challenges. South Africa is not a developmental state, and to attempt to structure growth around industrial policy or state guidance will only compound the malaise.
- The second principle is a focus on **outcomes:** policy and action must be geared to achieving particular, defined goals. This demands that competing objectives be ordered and prioritised. Not everything is possible (or indeed desirable) and it is critical to decide where the greatest benefits are to be had, where resources are to be committed, and how different policy options will fit together.
- The third principle is **merit:** South Africa's governance environment has been strained by its long-term "rejection of meritocracy". The overt politicisation of the public service, as well as a drive for demographic representativity as an overriding (official) priority have undermined this and contributed to widespread incapacity. Where merit – skills, qualifications, experience, and so on – is relegated to a secondary place in governance thinking, efficacy will invariably suffer, and pathologies will be enabled, sometimes unwittingly, sometimes deliberately.

A state committed to fostering an environment conducive to investment is one that would provide stable, predictable governance, and be able reliably to provide the foundations of societal activity. This is particularly the case at local government level, which is where responsibility for the management of most day-to-day interactions between citizens and the state resides.

SDC describes what is needed as "de-parasitisation", an end to taxes for very limited services, extraction for ideological or political reasons, and a failure to understand that wealth does not happen by accident, but needs to be created and incentivised.

As the IRR has argued in a recent paper on public service reform, this requires changing the manner in which the public service is run, both in its organisational conception and in its general management. These would include an enhanced role for the Public Service Commission, dispensing with demographic considerations in recruitment and promotion, requiring managers to lead and maintain discipline among their subordinates, and ultimately developing a distinct, non-partisan organisational culture.

This is a long-term project, but quick wins are possible – if only by signalling that changes are afoot – provided they are politically supported. Something that would likely have an outsized impact on governance and on business sentiment that things are moving in the right direction would be firm action on crime and corruption. Despite repeated rhetorical commitments to clean governance and to countering corruption, action has been limited and often desultory. Bringing some high-profile accused to trial, with political support of the country's leadership and without major public fallout (as was the case in July 2021 in the wake of former President Zuma's sentencing), would introduce a significant boost to business confidence in the future.

Rebuild and fortify South Africa's economic foundations

The two foundational enablers of economic activity – safety and security, and infrastructure – are in some ways South Africa's most important encumbrances. Each arises from profound governance failings and will take time and concerted effort to deal with.

In the security field, the country suffers from deficient professionalism in its policing and prosecutorial (and to an extent, its judicial) processes, as well as its correctional systems. Perhaps more than anything, rewards for criminal activity are not countered by the risk of suffering their consequences. There is cold rationality at work here.

The solution to this is complex and will require changes to institutional staffing and management – similar to what is set out regarding the public service, above. One innovation would be decentralised police management, to link policing more closely with the communities that individual stations serve. Recruitment and career progression must reflect a steadfast commitment to merit. And rooting our corruption in the security systems must be a priority: nothing undermines security more fatally than compromised agencies meant to ensure it.

Specifically, better investigative and forensic capabilities, as well as dedicated teams for investigating and prosecuting organised crime would be needed to deal with the growing hold of organised crime.

Infrastructure needs funding, for its expansion, maintenance and rehabilitation. Substantial sums could be found in using the existing resources better. This can be supplemented by borrowing and issuing bonds. But increased input from the private sector is critical: in the rehabilitation, maintenance and operation of existing assets, as well as the construction of new ones.

There is a long history of resistance to this, although recently the government has begun to see the imperative of doing so. The rollout of solar power is an example of what is possible in this regard. And, given the need for infrastructural investment, capital should be welcome from abroad.

A particular mention must be made of digital technology. This is now indispensable to a modern economy, and access needs to be expanded. The idea that something like the Starlink system might be excluded from South Africa because of empowerment demands is self-defeating in the extreme. It is also important that the reality of a substantively post-cash economy be realised. The possibilities in the use of electronic devices for payment in the informal sector need to be encouraged; something that demands inputs from both government and financial institutions.

Of course, sorting out the infrastructural shortcomings will be impossible if projects intended to do this are also attempting to deal with subsidiary issues. Using road building or the refurbishment of power stations to advance race-based empowerment will likely open the door to extraction – a good part of what produced the crisis in the first place.

Importantly, successfully tackling infrastructure will rest on effective law enforcement. The plundering and vandalism of the country's infrastructure, in all its forms, calls for proper protection of its assets, and combating the syndicates that profit from undermining it.

With some progress to show on these issues, key hindrances to investment would be removed, or at least mitigated.

Enhance the stock and pipelines of human capital

South Africa's economy requires a level of expertise that it is struggling to meet. If it hopes to advance along the value chain and make a compelling argument for higher-end activities, it will need to up the skills of its workforce. The education and training sector is in a dire state, and simply not fit for purpose. This is despite reasonable levels of spending.

It is unlikely in the extreme that simply funnelling more resources into a failing system will be of much effect, at least not unless issues relating to professionalism and leadership are resolved.

Getting this right demands taking on aggressive entrenched interests, particularly the South African Democratic Teachers' Union, which has effectively taken charge of large parts of the country's education landscape and contested most efforts at accountability or improving the standards of schooling.

The IRR has proposed expanding choice in education through a voucher system.[115] This would enable families to choose better-performing options for their children and offer a way out of dysfunctional schools. Teaching would not be able to function as a sort of sheltered employment, but a competitive one where outcomes are measured and valued.

This will not be an easy process, or one with quick wins, but it is one that could in principle be achieved without significantly greater outlays: it would function on the basis of redirecting existing resources, rather than requiring more.

Training for workplace skills, meanwhile, needs a new approach – or rather, perhaps, to revitalise an old one. Greater use of vocational and technical training at school level is one approach; the use of a greatly expanded apprenticeship system is another. At a minimum, it is the private sector that should take the lead here. As Brian Pottinger commented in *The Mbeki Legacy*, the academics and bureaucrats have had their chance and failed at it.[116]

Finally, South Africa needs to join the worldwide competition for skills. As PT noted for the previous iteration: "Skills don't have to be autochthonous: in fact, all countries compete for global talent. Until recently, our immigration policy effectively prevented us from attracting foreign talent, hobbling our firms and economy."

Reform the policy and regulatory environment

A highly regulated environment need not be a barrier to investment, provided the regulations serve a rational purpose – one that enhances the environment for investment – and provided that it is competently overseen. This is transparently not the case in South Africa.

South Africa needs to conduct a thorough review of its policy and regulatory environment, and ensure that demands on business do only what is necessary to protect clear and legitimate public interests – nothing more. Environmental protection, for example, is a reasonable ground (as long as it can be properly enforced – which is only possible with a skilled inspectorate), but there is a strong case to be made against a raft of labour and "empowerment" regulation.

Thus, a productive and investment-capacitating regulatory environment would be structured around:

- **Prioritising regulation** that is strictly necessary, for example, in relation to monitoring and protecting South Africa's scarce water resources, and deregulating where possible;
- Ensuring that wherever regulations are imposed they can, as a matter of practicality, be **implemented efficiently** and that necessary permissions can be processed and issued expeditiously to firms meeting regulatory requirements;
- **Recognising that B-BBEE has failed** and should be abolished in its current form. While it has benefited a small cadre of people – not infrequently those with political cache rather that business acumen – it has added to the costs and complexities of doing business. Demands that equity be surrendered as a condition for operating fully in the South African economy is wholly counter-productive. The IRR has proposed an alternative approach, Economic Empowerment for the Disadvantaged, which would incentivise investment and promote enhancing the living standards of the country's poorest people;[117]
- **Reorienting policy on the informal sector**, to enable it to thrive and maximise its contribution to the economy. This means understanding it on its own terms and recognising that it is a multifaceted phenomenon. The informal economy comprises both survivalist activities as well as scalable, profit-oriented operations.

- The former are a necessary part of the system providing livelihoods, and many engaged in these activities would be open to stable, wage-based employment. The latter present a real opportunity for investment and growth. They could benefit from targeted support for premises, access to capital and integration into corporate value chains (some of which is already happening). For Alcock, this is encapsulated in the idea of hybridity, accepting that multiple solutions are necessary for multiple areas of the economy; different types of enterprises demand different levels of regulation, for example. This would demand policy makers and public servants with sufficient understanding of the informal economy – and the associated ideological flexibility – to design and implement suitable policy solutions;
- **Reforming labour legislation.** Business activity in South Africa is weighed down by agreements negotiated between large firms, organised labour, and the government. This is invariably to the exclusion – and to the detriment of the interests – of those not party to such bargaining: unemployed people, the unskilled, small businesses, and so on. FC, a business investor and public analyst remarks that the regulation of the labour market is misaligned with the skills available. This has in particular been a disincentive to labour intensive investment, and has compounded the unemployment crisis. This system needs to be abolished, and either limited strictly to those who actively participate in it, or who choose to be covered by it, or replaced by the principle of free association and competition;
- **Providing stability and certainty for investors.** Threats to property rights or the dilution of the value of assets – as in the campaign waged for EWC, or in the demands made through industry charters – must be done away with. They signal that investments are not secure, and "radical" changes to policy are a real future possibility. This remains a permanent damper on investment,[118] and
- **Ensuring that each regulation and piece of legislation is properly vetted.** South Africa should require assessments to probe impacts of such measures on growth and investment. While a variant of this exists (the so-called Socio-Economic Impact Assessment), these are often pro forma exercises intended to legitimate rather than to interrogate a proposal. If the country is serious about investment, this needs to be done properly. It also speaks to the need for capacity in the state: people able to apply their minds to the consequences of policy, rather than its political utility or its alignment to ideology.

As one interviewee, an international banker said in last year's iteration: "Anything can be turned around if the problem was caused by people in the first place. This needs strong, able leadership and big, decisive choices – don't tinker with policy, catapult it!"

Reset the government-business relationship

The adversarial approach towards business that dominates much thinking within the state has played a central role in degrading thinking and debate around the role that business can and should play in South Africa's development. This, unfortunately, follows from the ANC's ideological worldview, and has been consolidated by the extent to which patronage, rent-seeking and corruption has grown.

Here, a mindset shift is critical. For the ANC, it will mean stepping away from some of what has made it the organisation that it is; many of its leading lights will not be able to do this. But it is a necessary part of the modernisation process that is essential to South Africa's progress.

For business, too, some reorientation is in order. Large firms have tended to dominate organised business and to participate in setting up an economic management system that has worked against smaller operators. There has also been a degree of timidity when confronted with destructive policy and governance choices. This has meant that business has been complicit in fostering environments which it does not regard as optimal for investment. It has also deprived reformers in the state of critical support: former finance minister and head of the National Planning Commission Trevor Manuel once memorably described business as "cowards" for failing adequately to contest union demands. "If we're going to have cowards in business, we're not going to get very far either. You must have that counterweight if you want that progress," he said in a debate in 2009.[119] The same logic applies to relationship between business and the state.

One area where business might fruitfully invest some effort is in resuscitating the local-level business chamber movement. Since much of South Africa's failures are most acutely visible in its municipalities, a strong voice for business is critical. Given the dysfunctionality of much of the municipal sphere, though, business would need to go beyond attempting to interact with the municipal leadership. Rather, business would need to explore creative options for partnerships with interlocutors in civil society and at other levels of government.

Business is hardly without influence, and nor would the positions it might take with regard to policy positions necessarily be unpopular. This was suggested by the evident blowback that followed President Ramaphosa's signing of the NHI Bill into law.[120]

Indeed, there are signs that as the limits of the GNU's appetite for reform have become apparent, business has become less inclined to accept the regulatory burdens than was the case in the past. There has been a great deal of media comment on the failings of BEE[121] – in the past, a sensitive topic that businesses and analysts were reluctant to criticise – as well as heightened focus on policy matters highlighted by US President Trump.

Says VM of BEE: "I find that there has been a change in this recently. It used to be taken as a given. Now, with Trump having raised the matter, there is real anticipation that something might change. This probably makes it more of a barrier to investment than it used to be. In the past, companies made their peace with it, and adapted as best they could. Others avoided it by avoiding South Africa. There is a momentum building that might make US business more amenable to pushback."

Thus far, there has not been much receptivity on the part of the government to making changes. If a productive relationship is not possible, business should be frankly transactional in its approach.

Concluding thoughts

Looking back, AJ comments that, despite the initial hopes invested in the GNU, “There has been very little joy in the economy over the past year.” This mirrors a trend that has persisted for nearly two decades.

South Africa’s economic failings are fundamentally failings of investment. The dismal performance across most of its economic indicators have their origins in a lack of capital commitment to sustain economic expansion by both the public and private sectors. Current investment rates are barely sufficient to maintain the country’s economy as it is. It cannot drive the expansion that is needed.

Concerningly. South Africa’s economy has become dependent on consumption for the expansion it has experienced. This is not a durable long-term strategy, least of all if South Africa hopes to provide the employment and better-earning opportunities that will drive the inclusion that South African society requires.

A rising investment rate is, in other words, a precondition for growth and employment creation. It is also a the most effective guarantor of societal stability in the long-term.

It is apparent that achieving this will not be possible without new thinking and reoriented action on thinking about governance and policy.

The South African state has run policy on the basis of extensive intervention in the hope of multiplying developmental outcomes. It has typically justified its interventions on the basis of what should optimally be the outcome. Simultaneously, it has rejected some of the core tenets of truly developmental governance, and tolerated – even encouraged – practices that have ran directly counter to it.

WD puts it well: “To become attractive, South Africa would simply have to achieve what has led to success in Southeast Asia, for example. Top priority would be the import of urgently needed skilled workers, such as those from Japan or Singapore, who recruited them from the West after the Second World War and from the 1960s onwards in order to grow. Instead, South Africa is imposing racial quotas in favor of (often inadequately educated) Black people, thus only shooting itself in the foot. Take Eskom, for example. Another role model is the business-friendly Western Cape, where effective local government coupled with first-class infrastructure has created by far the best conditions for investment throughout the country. If South Africa were to govern its other major metropolises with similar success, a radical recovery of this now severely degraded country might still be possible within a generation.”

At a bare minimum, the country – and specifically the ANC – must step away from the latter. Meritocratic appointments to and management of the state and a thorough rethinking of race-based legislation are a foundational condition for building investment dynamism.

This means moving beyond words and commitments that are invariably paired with such conditions as to render them meaningless in practice. Such an approach not only ignores the realities that dog the investment environment but obscure these realities. This approach is actively harmful to crafting solutions.

Words can, however, be revealing. President Ramaphosa recently addressed a meeting of ANC councillors and made the following comment: “And therefore, comrades, wherever you are, look at your municipality as an investment opportunity. And ask yourself whether any businessperson, any major business could ever come and invest there. And ask yourself as councils: what do we need to do to attract businesses to come and invest and create jobs? Because in the end, comrades, it is the business community that has the money. They control 75% of our economy. And let’s crowd them in as we have always said. But we can only do so by having clean streets. We can only do so if water reticulation works. We can only do so if there are no potholes in the town. We can only do so if we give good services and the billing system works. And where they have a sense that there is no underhand activities. That there are no corrupt activities that are being executed by any of our councillors or our officials. This, comrades, is the issue I spoke about. It’s that or we die.”[122]

This speaks to various themes: competent governance; probity; appreciating the role played by business. So far, this has tended to be observed more in the breach than in actuality. South Africa’s economic future depends on changing this.

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