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The IRR's Blueprint for Growth:

"Open(ing) for business": South Africa's investment malaise and how to escape it



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Executive summary

South Africa's persistent economic underperformance is fundamentally an investment problem. The country has consistently invested at levels well below those of comparable middle-income economies. The National Development Plan envisaged investment reaching 30% of GDP; in 2024, it was below 15%. The result has been prolonged low growth, declining prosperity relative to international peers and a reliance on consumption rather than productive expansion. South Africa's economic difficulties reflect a combination of policy choices, weak institutions and declining state capacity.

Successive governments have sought to use the state to direct economic activity towards developmental and redistributive objectives. This approach increasingly placed political and ideological considerations ahead of economic realities. An expanding regulatory burden, restrictive labour legislation, employment equity and B-BBEE requirements, uncertainty over property rights and an often adversarial relationship with business have weakened investment incentives. These problems have been compounded by corruption, politically influenced appointments and the deterioration of public institutions.

Crime and organised extortion impose substantial costs on businesses and communities. Infrastructure have suffered from years of inadequate maintenance, mismanagement and underinvestment, although there have been some recent improvements, particularly in electricity generation and freight logistics. Municipal dysfunction has added more uncertainty, undermining services, infrastructure and the conditions in which local businesses operate.

Reversing this trajectory demands a fundamental reconsideration of the state's economic role and a sustained programme of practical reform. The priorities include restoring property rights and policy certainty; rationalising regulation and reforming labour-market arrangements; reconsidering empowerment policies that make economic participation more costly; and subjecting legislation to rigorous assessments of its likely effects on growth and investment.

The state must also rebuild its own capacity. Public appointments and promotions should be based on merit, administration should be professional and non-partisan, and political interference in operational matters should be curtailed. Law enforcement must be strengthened to tackle violent crime, corruption and organised criminal networks. Infrastructure needs sustained investment in expansion, maintenance and rehabilitation, with greater scope for private-sector participation. Education, vocational training and skills development must be better aligned with economic needs.

Local government is an immediate test of whether a different approach is possible. Municipalities must prioritise competent administration, reliable services and infrastructure, and conditions conducive to business and investment. The Government of National Unity will ultimately be judged by its willingness to undertake deeper structural reforms rather than settle for limited administrative adjustments.

Introduction

With municipal elections in mind, public dialogue in South Africa over the course of 2025 has been focused on local governance. The point of contention was not only what the polls might portend for the country's fractious politics, but what they would mean for a sphere of the South African state that has been wracked by crises since it was inaugurated.[1] The consequences extend beyond the provision of services. Municipalities help determine the conditions under which businesses operate and investment takes place. These failures have had serious implications for the economic and development trajectories of individual localities, and for the country as a whole.

Significant responsibilities have been placed on the shoulders of the elected councils, many of them split between contending parties and requiring coalition arrangements. They will often preside over jurisdictions where long-term administrative failure has corroded the functioning of society and the economic systems on which it depends.

As the Bureau for Economic Research put it: "All growth must take place somewhere".[2] South African local government has in large part failed to create a propitious environment for this to take place.

This is of course not a problem confined to local government, nor one confined to matters of governance. South Africa's economy has suffered a persistent failure to achieve the growth that it needs to underwrite an ambitious development agenda, and the rising prosperity craved by an aspirant society. This in turn denotes an ecosystem within which businesspeople and investors, large- and small-scale, are not committing the resources necessary to make it happen.

This study restates and develops the analyses presented in the *Blueprint for Growth* paper, *"Open(ing) for business": South Africa's investment malaise and how to escape it,* published over the past two years. (Readers are encouraged to revisit them, particularly for the foundational trend analysis they present.) 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.

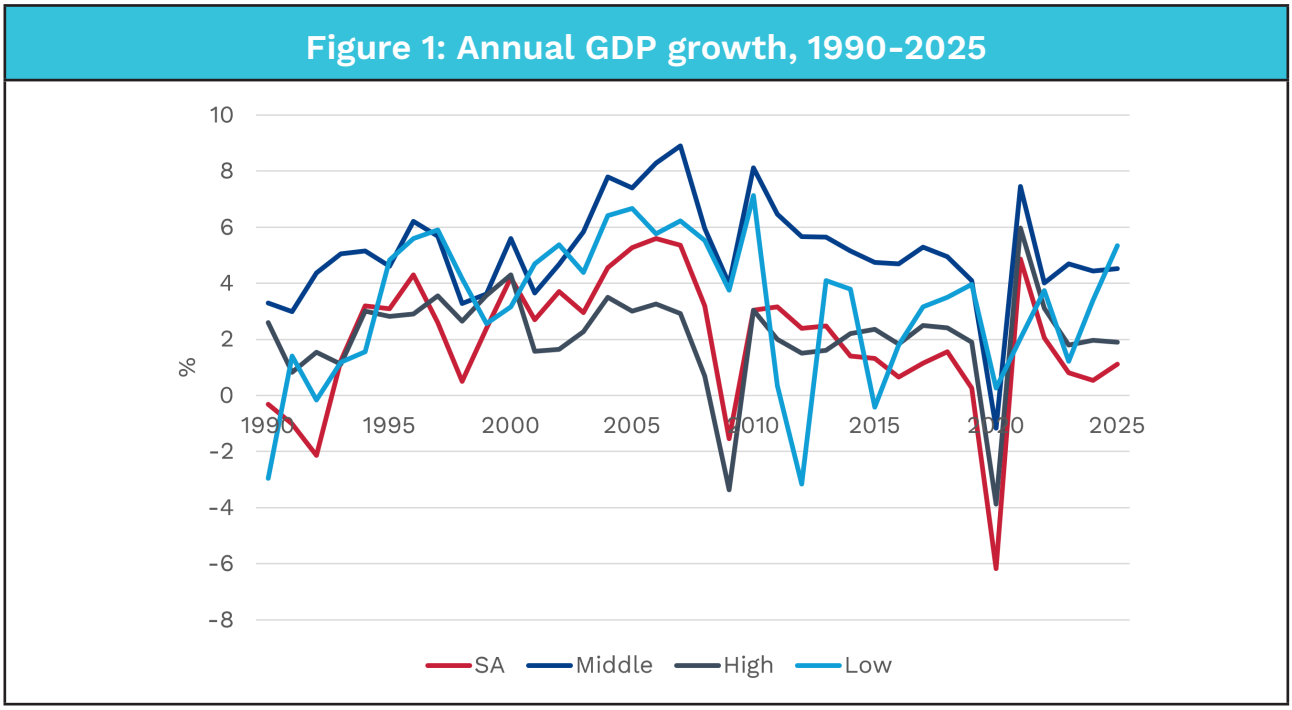
As a baseline for analysis, the 2012 National Development Plan (NDP) envisaged real GDP growth of 5.4% per annum over a sustained period.[3] In the post-1994 era, this has been achieved in only two years, and in only one other has it managed growth of above 5%. This helps to frame South Africa's macro-level 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. The World Bank – its data is useful for comparisons across the world – classifies South Africa as an upper-middle-income country and puts its GDP at US$427 billion in 2025. In terms of sheer size, it is 40th in the world, not dissimilar in size from jurisdictions like Hong Kong, Romania and Pakistan. (The figure for the world economy, by the way, stood at US$118 trillion.)[4] On a per capita basis, South Africa's Gross National Income (GNI) was US$6,270 in 2025, well below the average for other upper-middle-income economies at US$10,938 and roughly 24% lower than its 2012 peak.[5]

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, 1990-2025



Source: World Bank[6]

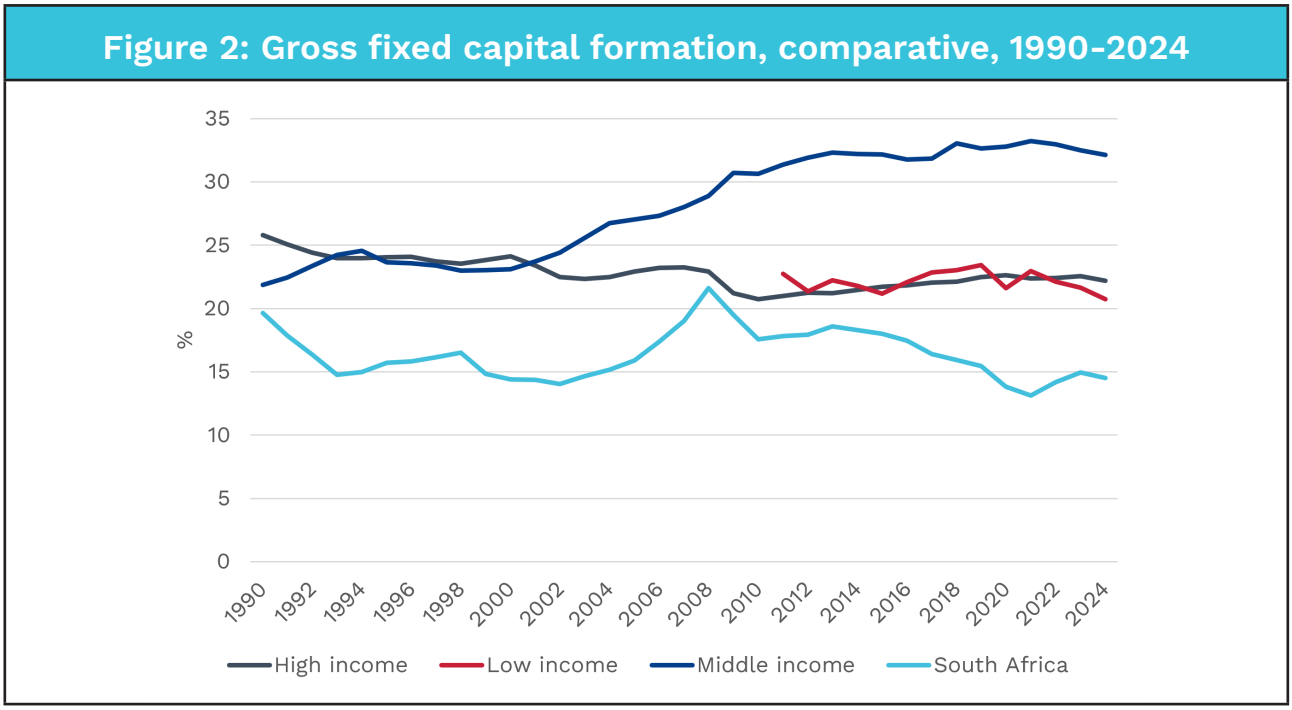
Concerningly, South Africa's record has been distinctly sub-par. It has tracked at around half – if not less – that of other middle-income countries. In the last decade, it has even fallen below that of high-income countries, which it would be expected to exceed given its own level of investment. Its 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[7]

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 sum of all this is reflected in the direction that the economy has travelled over recent decades. 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 are carried on outside the full regulatory reach of the state. Since at least the 1980s, this has been recognised as a significant contributor to South Africans' livelihoods[8] (this is not uncommon around the world[9]). 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 a fifth or more of those officially defined as unemployed were in fact active in the informal economy.[10] 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*.[11] 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.[12] The "informal sector" 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.

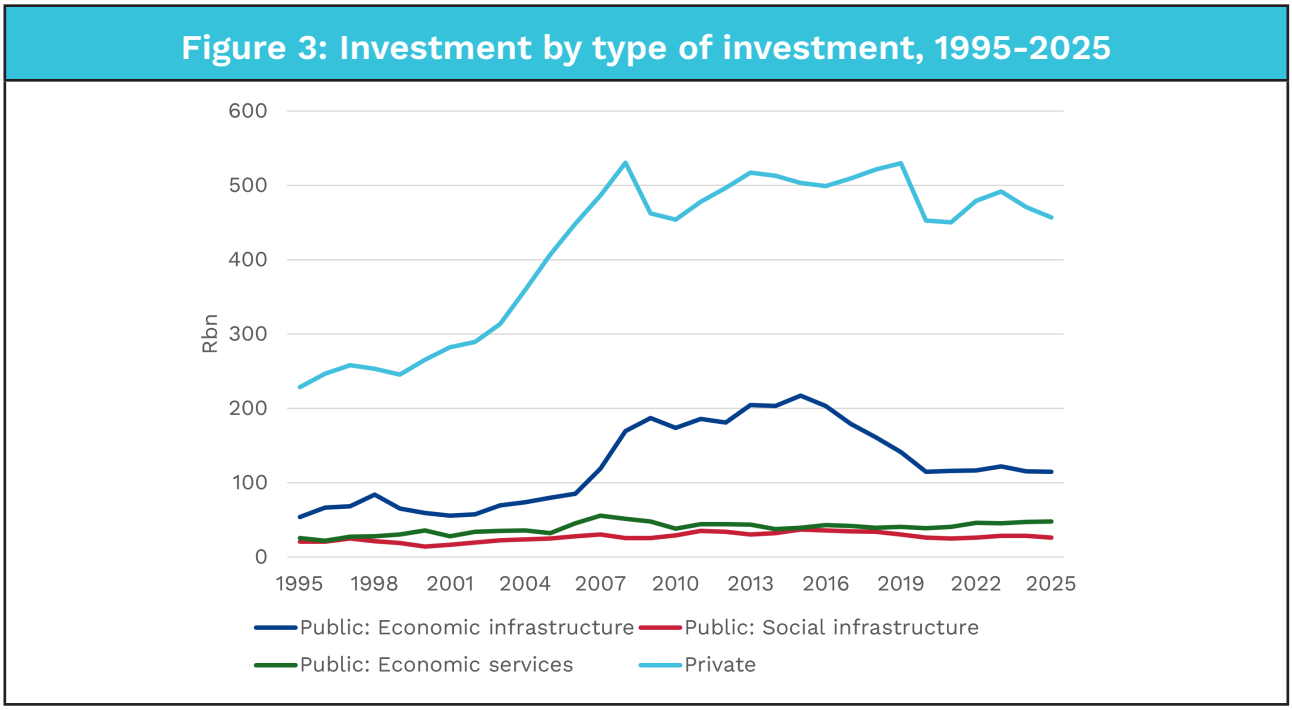
South Africa's investment malaise

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."[13] 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[14]

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, 1995-2025



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

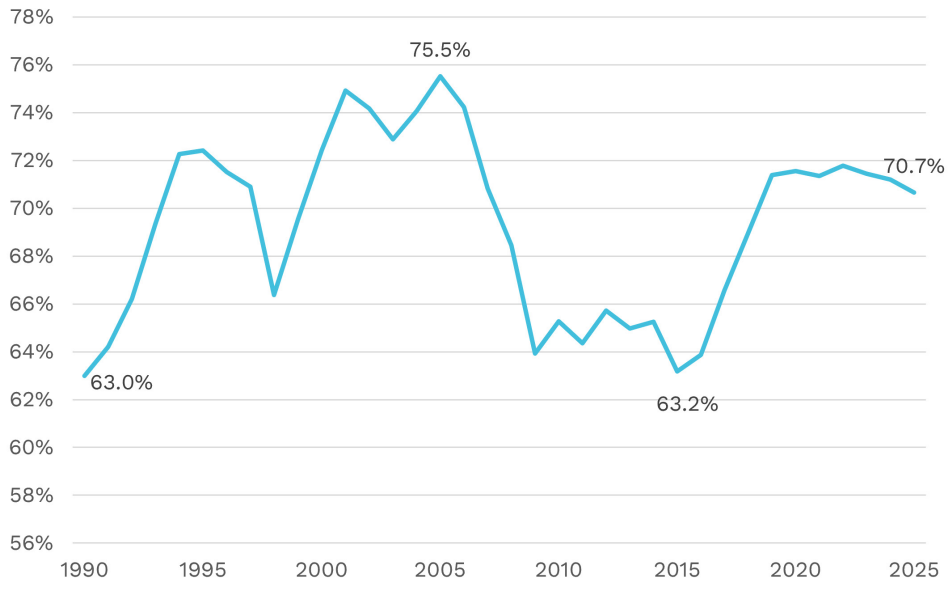
Investment in public economic infrastructure increased steadily after the transition to democracy in 1994, continuing through the late 1990s. However, these investments took a back seat after 1998, likely caused by a combination of internal and external factors, amongst which is the 1997-98 Asian financial 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 is 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 investment in economic infrastructure.

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 2025.

Figure 4: Private investment as % of total, 1990-2025

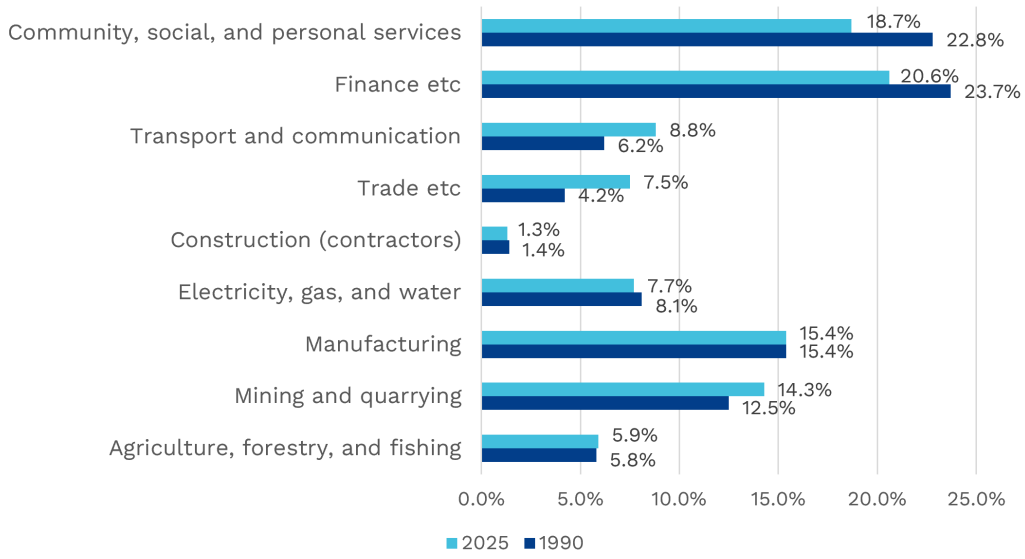


Source: South African Reserve Bank, Centre for Risk Analysis[16]

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 2025. GFCF represents investment in fixed assets, such as infrastructure, machinery, and buildings.

Figure 5: Gross fixed capital formation by activity, 1990-2025

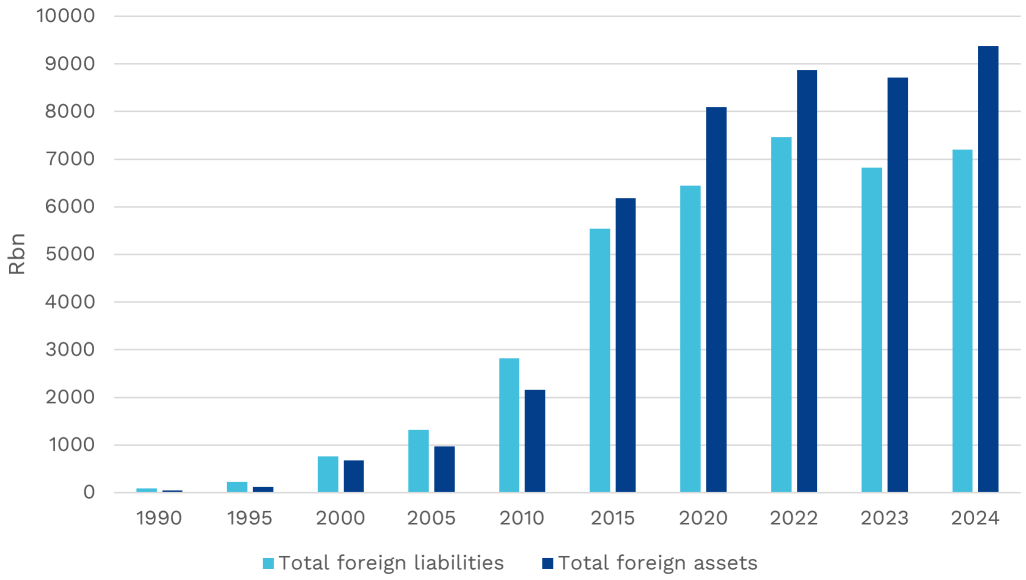


Source: South African Reserve Bank, Centre for Risk Analysis[17]

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 2024. Foreign assets are investments that 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, 1990-2024



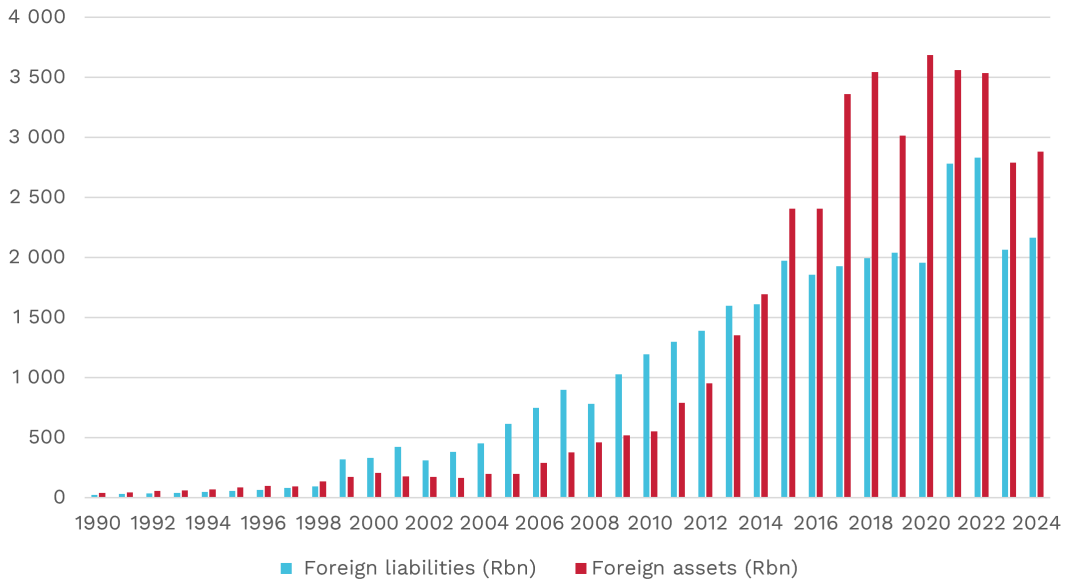
Source: South African Reserve Bank, Centre for Risk Analysis[18]

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 have increased by more than liabilities, and reached just under R9.4 trillion in 2024. (This means that South African entities are investing abroad at a faster pace than foreigners are investing in South Africa. This speaks volumes about the low level of foreign investor confidence.)

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, 1990-2024



Source: South African Reserve Bank, Centre for Risk Analysis[19]

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".[20]

Many in the ANC were attracted to European-style social democracy, with its strong emphasis on welfare provision, and to the East Asian model of state-supported, but fundamentally market-driven, growth and industrialisation.[21] 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.

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.[22]

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 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.[23]

Nevertheless, there was a latent interventionism inherent in the ANC's thinking. This found expression in the design of government, particularly local government, which was required to undertake extensive developmental interventions. As time went on, the interventionist impulse asserted itself more forcefully, and in 2007, 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.[24] This mindset has had important implications for South Africa's economic trajectory; the frequent difficulties in governance have undermined it.

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 was 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 importantly 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.[25] 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.

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 or 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.[26] Senior politicians have at times been given to intemperate attacks on sectors like mining[27] and private medical care,[28] or accusing businesses of being "unpatriotic".[29]

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.

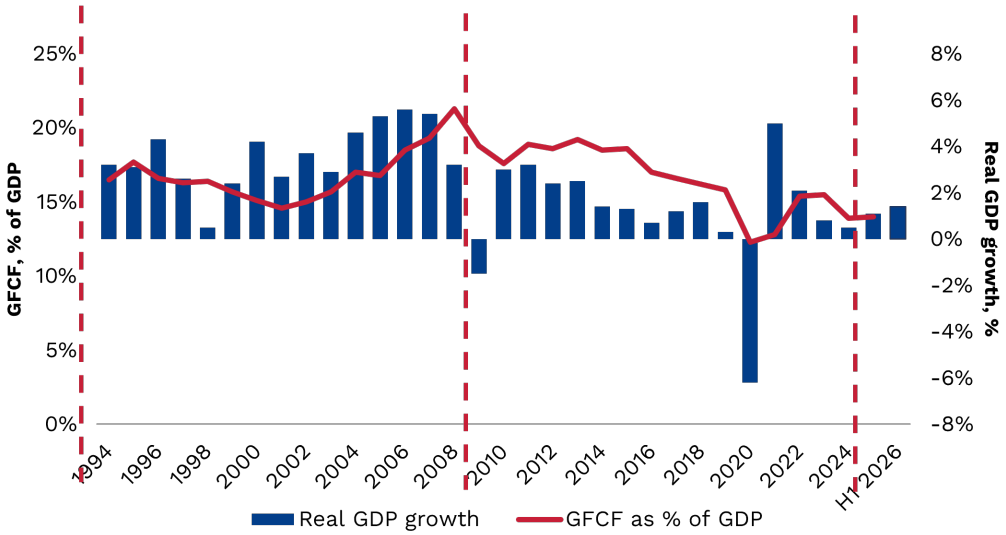
South Africa's Three Ages

The Institute of Race Relations has argued that conceptually, South Africa's post-1994 history can be divided into three broad periods, or "Ages".[30] 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 period began alongside 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,[31] and the National Development Plan,[32] 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, 1994-2026



Source: Centre for Risk Analysis[33]

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.[34] 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.[35]

Meanwhile, administrative deficiencies were dogging the state. These had long historical origins, and by the beginning of this period their scale and implications were becoming unavoidable. Attempts had been made in the 1990s and early 2000s to deal with various problems (invariably centring around financial distress, a lack of capacity to fulfil their responsibilities and corruption), and by 2009, an official review described them as systemic problems that had rendered formal accountability systems ineffective.[36] That NDP reiterated the imperative of making local government function, proposing a fresh round of support and interventions. Over this period the deterioration in the quality of governance (generally, though especially local government) was such that it was inflicting a serious economic cost. Iraj Abedian, an economist, drew attention not just to the adverse consequences, but to the evident lack of urgency in dealing with the underlying problems: "It appears as if [local governments] have no clue of how much damage they do to business and job creation and how much they contribute to job destruction."[37]

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) 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."[38] 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*.[39] 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. Claire Bisseker, a well-regarded journalist, commented: "Cities and towns across South Africa are failing after years of underspending on infrastructure and maintenance. If left unchecked, the country faces a growing risk of systemic municipal failure with profound social and economic consequences."[40]

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, by 2025 it had been in decline for close to a decade, and nothing suggests any substantive improvement in the period following.[41] 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.

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".[42] Or, as one investment analyst said in a 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 creates 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.[43] A *National Policy Development Framework*, approved by Cabinet in late 2020, likewise noted the importance of policy certainty.[44]

An executive at a business organisation interviewed for previous iterations of this study, pointed to this as 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.

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.

A prominent economist and investment advisor quoted in previous iterations of this study 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.

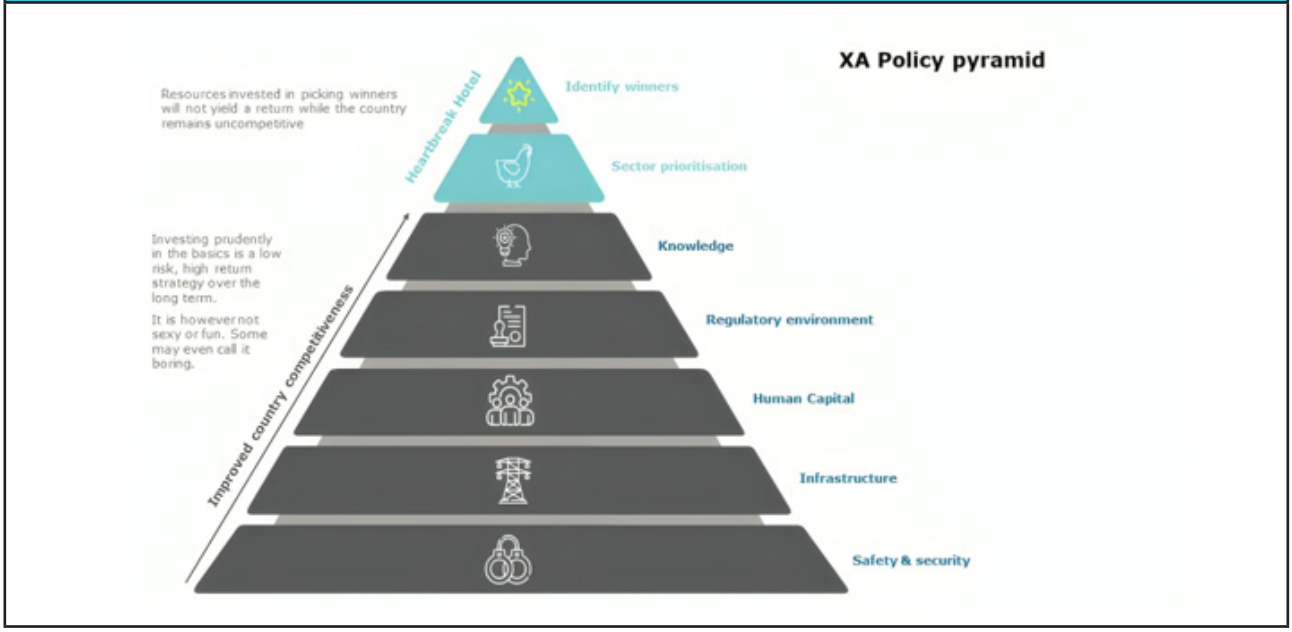
Indeed, an important recent contribution on South Africa's growth possibilities places the issue of failing state capacity under scrutiny. This study, *Growth through Inclusion in South Africa*,[45] was produced by The Growth Lab at Harvard University, and identifies two generic brakes on growth as the 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. The latter point places a particular responsibility on local government, as the custodian of local economies and the spatial planning associated with them.

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*,[46] 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 infrastructure. More complex activities, demanding more advanced public sector capacity act as accelerators.

Figure 9: XA Policy Pyramid



Source: XA Global Trade Advisors

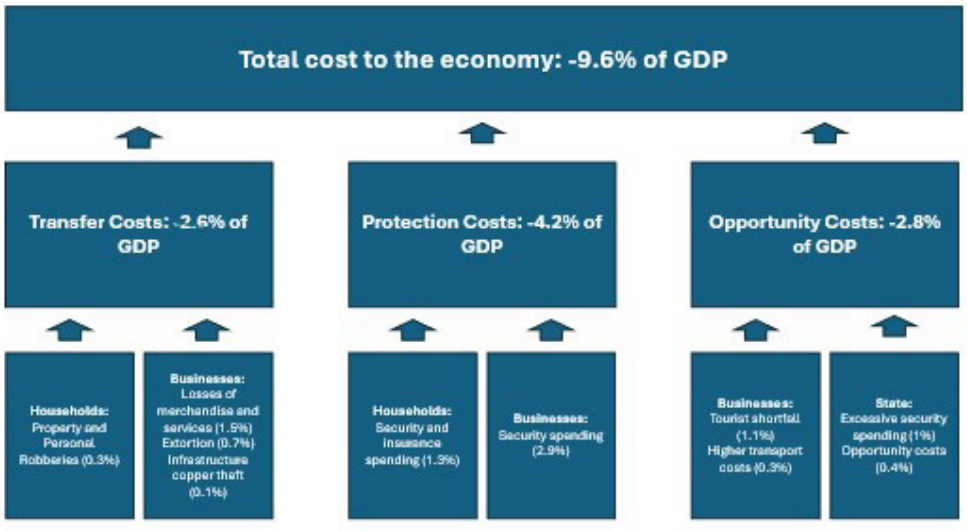
With the pyramid as a guide, the challenges to investment in South Africa may be seen in terms of three sets of factors. The first set is the **foundations**, the basic conditions for economic activity, namely safety and security and infrastructure. This can be termed the area of "good enough governance", 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 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.[47]

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%.[48] This is distributed thus:

Figure 10: Costs of Crime



Source: World Bank[49]

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. [50]

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 exclude costs such as those associated with emigration and the impact on investor sentiment, which were deemed unmeasurable; those that could (the cost of injuries, depressive and anxiety disorder and so on) were estimated at 7.1% of GDP.[51]

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 7.43 out of 10 (higher scores denote greater criminality) in 2025. This represented a steady increase since 2019, when its score was 6.16.[52] South Africa was ranked seventh globally, second among its African peers (its score exceeded that of Nigeria, and was in turn exceeded only by the Democratic Republic of Congo), 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 5.67 (higher scores denote better resilience). South Africa is ranked 44th globally, third among African countries, and first in Southern Africa. Its resilience represented marginal improvement for South Africa, but still denoted a serious crisis. 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.[53] These include:

- Procurement fraud, which one estimate puts at having cost the country some R700 billion since 1994.[54]
- Trafficking in narcotics, firearms and people, sometimes with the collusion of people within the state.[55]
- "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.[56] 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).[57]
- Kidnapping for ransom.[58]
- 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.[59]
- The assassination of whistleblowers and investigators probing corrupt activities.[60] These include the murder of Babita Deokaran, who had identified corrupt extraction connected to funds at a public hospital;[61] and insolvency practitioners Murray Cloete, Thomas Murray and Bouwer Van Niekerk.[62]

South Africa's struggles with crime are matched by widespread frequent protest and a disregard for the law. Police statistics show 6,749 protest incidents in 2025/26, of which 1,823 were classified as "unrest-related", or involving violence.[63] This does represent a decline on previous years (in the 2010s, the total number of incidents exceeded 12,000 in every year, with close to 16,000 being recorded in 2019/20) may be an underestimate. In a particularly severe instance, South Africa was rocked by protracted rioting KwaZulu-Natal and to a lesser extent other jurisdictions in the country in July 2021. The state effectively lost control of parts of its territory, and costs to the economy were estimated at R50 billion, along with several hundred deaths.[64] 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 inquiry drew attention to the catastrophic failures of the law enforcement agencies, and how political factions had undermined their effectiveness.[65] There have been warnings of a possible repeat of this, given public frustration at socio-economic conditions, reckless politics and an incapacitated state.[66]

Cumulatively, this has proven a significant disincentive to investment. Crime harms the country's reputation globally (some observers noted that the country's delegation to the US scored an own goal by attempting to refute claims of violence against white farmers by pointing to the general state of violent lawlessness) and pushes up the costs of doing business by investors of all types. A manufacturer 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:[67]

- **Electricity:** Poor decisions, bad management and corruption have reduced the ability of the state-owned 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, 30% of water supply systems in South Africa are regarded as being in a "critical condition", and another 18% as "poor". Regular outages are a rgrowing 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 improved slightly, to 169 million tonnes in 2026. Rail difficulties have seen road traffic rising, with consequences for the cost of transport, emissions, and also deterioration of the 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 2024 *Container Port Performance Index* listed 403 ports, with Port Elizabeth coming in at 395th position, Durban at 403rd, and Cape Town at 400th.

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."[68]

South Africa has recorded some measurable improvements in infrastructural performance, particularly in electricity and transport. The Electricity Availability Factor – the key measure of what Eskom is able to produce – stands at 68.1%.[69] This is a significant improvement on the 54.9% recorded across 2023. Taken together with the extensive installation of privately generated energy (made possible through regulatory amendments removing caps from generation), the country has had no scheduled loadshedding since May 2025. There have also been signs of recovery in freight logistics, particularly rail, which both the state and private sector have been keen to encourage. Private sector operators have been allocated slots on the country's rail network. The Ctrack Transport and Freight Index has reported a steady increase in rail freight payloads – while noting that South Africa is attempting to reverse years of neglect, corruption and underinvestment, and this will take time to bring to fruition.[70]

Port facilities, meanwhile, have recorded some of the most impressive improvements worldwide, government malaise in playing a comparable with Durban, for example, showing the largest efficiency improvement in the CPPI's 2025 assessment.[71] (Although, as noted above, South Africa's ports remain extremely inefficient by global comparisons.)

South Africa's local government faces a comparable malaise. As noted above, while performance varies between municipalities, as many as two-thirds have been marked by decades of systemic institutional, political and financial failure. Political interference in municipal administration, patronage, inappropriate appointments, corruption and inadequate accountability have undermined professional capacity, while unstable coalition arrangements have disrupted governance in many jurisdictions. A failure to collect revenue, to satisfactorily budget for capital expenditure and maintenance, and inadequate maintenance accelerates infrastructure decay. Deteriorating services erode public confidence and willingness to pay rates and service charges, further weakening municipal finances. These problems reinforce one another.[72]

The Auditor General has remarked on this in reference to municipal management of infrastructure: "The local economy is negatively affected, as unreliable infrastructure discourages investment, while businesses relocate to areas with better service delivery, further weakening municipalities' financial positions."[73]

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.[74] Businesses depend on reliable water and electricity, functioning roads, sanitation, effective planning and well-maintained infrastructure. Interruptions and failures increase operating costs, disrupt production, deter investment and constrain the ability of existing businesses to expand or new enterprises to establish themselves. As an increasing share of South Africa's population and economic activity becomes concentrated in towns and cities, the costs of municipal failure grow: poorly governed urban centres risk losing investment and economic opportunities instead of becoming engines of growth.

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, they would also not be 'allowed' to collapse. Besides this, their procurement spending was intended to drive state empowerment policy – B-BBEE – which provided a convenient cover for extraction.[75] 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.[76]

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.[77] An economic analyst and advisor interviewed for a past iteration of this study expressed frustration at the manner in which South Africa's infrastructural system has undermined even those economic sectors that the state has prioritised. "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," he said.

And as another economist commented: “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 – “good enough governance” – does not exist, and the resulting circumstances constitute major hindrances for South Africa.

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 to be addressed 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* (TIMSS), 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.[78] In the 2023 TIMSS study just 40% of Grade 5 pupils in mathematics 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.[79]

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[80]

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 of higher-end talent. But even in the capacity for mid-level tasks, extensive shortages existed. The scores were 74.1 for clerical support workers, 69.8 for plant and machine operators, and 60.4 for service and sales workers.

It is at the higher levels that 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 on 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*.[81]

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.[82] The World Economic Forum's *Future of Jobs* study reports that 63% of South African firms have identified skills shortages as a barrier to workplace adaptation to a changing economic environment.[83]

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.[84] 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.[85]

An economist quoted above has said: "Without a doubt, skills shortages are playing an important role in constraining South Africa's economic growth. 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.[86] 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).[87]

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*.[88] (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."[89]

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. Regulatory delays and inept implementation can delay major investments, raise costs and divert capital to countries where the rules are more predictable. For example, TotalEnergies' South African managing director, Magali Pailhé, highlighted the problem in offshore oil and gas exploration in dealing with administrative appeals, saying: "In Namibia, 25 wells have been drilled since 2022, while in South Africa, only three since 2014. The industry is here, but the appeals need to be addressed to allow investment to flow."[90]

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.[91]

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 would 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. [92]

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.[93]

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.[94] 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.[95]

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."[96]

In a sharply worded analysis on the state of South Africa's economy, the Centre for Development and Enterprise has commented:[97]

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 B-BBEE 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 businesses 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.[98] 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.[99] Note, however, that even though such an option may be preferable to transferring a share of the company, it will nevertheless impose a substantial 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.

A US-based analyst commented for a previous iteration of this study: "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 five-to-ten-year return on investment. 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."

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."

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.[100] This mindset has had far-reaching consequences in each of the foundational factors underwriting economic success and has undermined the value-adders.

More recently, however, there have been concrete moves to reduce (though not entirely to eliminate) political interference. President Ramaphosa has acknowledged that politicised appointments in local government have driven its failures, and that "we need administrations led and staffed by people appointed for their competence and commitment to public service".[101] While such rhetoric has been heard from time to time, it remains to be seen whether it will be acted upon.

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.[102]

One analyst consulted for this study observed that the inherent knowledge problem for South Africa's government has been that it bears no cost for being wrong. The cost 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 Government of National Unity (GNU) notionally offered the greatest potential for change. The ANC's electoral setback in 2024 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. 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 highly contentious economic policy agendas, at times pointedly acting to emphasise its dominance over the DA.

This in turn underlines the ideological impulses behind economic governance and policy. A representative of a business body has previously commented 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 [by the Financial Action Task Force]. 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."

The reform challenges are particularly important to local government, given its role in providing the immediate operating environment for business. It is also the area of governance that is most prone to failure, and most compromised by incapacity and criminality – and which has been the subject of repeated attempts at intervention and improvement. Currently, a new White Paper envisages extensive structural changes, but unless these are accompanied by a change in operating culture, a willingness to foreground merit and competence in appointments, and a determination to face malfeasance squarely, it is hard to imagine serious improvement.

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 to succeed unless the foundations of 'good enough' and 'good' governance are already in place. 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."[103]

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 embargoes – 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 its reintegration into the global economy. 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 preferences 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.[104]

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"). To supply them, regulations require recyclers to offer scrap metal at preferential prices under the Price Preference System (PPS), with prices 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),which produces 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.[105]

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 quoted in previous iteration of this paper, is becoming a "subsidy economy".[106]

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.[107]

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,[108] this was ultimately the plant's fate.

A manufacturing entrepreneur whose views have been captured in previous iterations has bemoaned the state of the steel market. 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 local production. He recounted 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 his.[109]

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 distortionary rather than a developmental role.

Investment has been incentivised into areas where it is inherently unproductive, and even counterproductive. One analyst contended that this not only undermines the efficiency of the entire economy, but perpetuates economic exclusion. Lobbying, protection and subsidisation have 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.[110] 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.[111]

In addition, initiatives such as the EWC drive, suggestions for prescribed assets to fund mismanaged state-owned enterprises, and the pending introduction of the National Health Insurance – the latter being an uncosted megaproject 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."[112] The reality behind these comments is a refusal to contemplate change.

A European business journalist argued that the reliance on investment conferences and measures to attract business from abroad was badly misplaced. 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.

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.[113]

The reality is that the state 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 the manufacturing interlocutor has previously been quoted: "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?

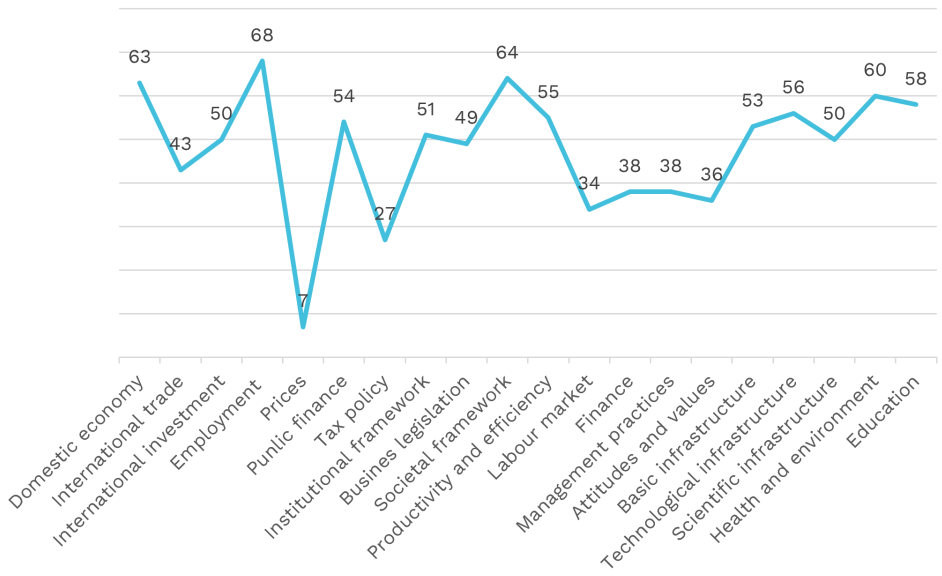
This begins with accepting some key premises:

- 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.

Business people and analysts who have been interviewed for this study have repeatedly delivered a common message: South Africa has become an increasingly unattractive investment destination, owing to entrenched domestic policy and regulatory problems that have undermined (and continue to undermine) its competitiveness. Employment equity and BEE requirements, together with a restrictive labour-law environment, are seen as major disincentives requiring fundamental reform. These difficulties are compounded by the country's failure to capitalise on past opportunities and by competition from other emerging markets that offer comparable opportunities but stronger growth prospects. There is also a growing sense of investor fatigue, with the cumulative burdens on doing business in South Africa having become increasingly difficult to justify when alternative markets are available. The country's inherent advantages, including its market size and geographical position, are no longer sufficient to compensate for these disadvantages or to make it a competitive destination for domestic and foreign investment.

This combination of factors is further underlined in the latest World Competitiveness Index compiled by the International Institute for Management Development. Of the 70 countries covered, South Africa ranked 54th. In almost every sub-category used to compile the Index, South Africa ranked poorly or indifferently. However, this did reflect an improvement – in the previous iteration of the Index, South Africa stood at position 64 of 69 jurisdictions. Much of the positive movement was seen in what the Index defines as business efficiency (productivity and efficiency, labour market, finance, management practices, attitudes and values) and infrastructure (basic infrastructure, technological infrastructure, scientific infrastructure, health and environment and education). This probably reflects increased optimism as a result of the GNU, and as a result, reforms undertaken to remove largely non-ideological and logistical hindrances to economic activity.

Figure 12: South Africa's competitiveness ratings, 2026



Source: International Institute for Management Development[114]

The difficulties created by its various pathologies and policy choices have made South Africa a decidedly unattractive investment destination.

The political questions

Last year's iteration of this study noted that the GNU had proven disappointing for those hoping for a turnaround. The cumulative impact of entrenched economic policy positions, corruption and ideology has hindered 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 political arrangement might follow it. A reform-shy ANC might find a willing partnership with some of the reform-rejectionists on the left of the political spectrum.

For the most part, analysts regard the GNU as a necessary and preferable alternative to the available political options. Some measures, including improvements to visa processing and other technical changes affecting the business environment, have been welcomed, but these are seen as limited gains against the imperative of larger structural reform. Growth remains far below what is required to address South Africa's unemployment and economic stagnation. The GNU's survival, and public acceptance of it, will depend on its ability to demonstrate tangible economic improvements rather than tinkering on the peripheries.

A central note of frustration is the perception that the ANC continues to govern as though it enjoys an outright mandate, resisting or overriding proposals for more extensive reform while pursuing economically damaging policies. The resulting political tensions and uncertainty over the GNU's durability, its internal balance of power and the possibility of alternative coalitions are seen as significant constraints on investment and growth, with financial markets often responding more sharply to political developments than to economic fundamentals. There is particular disappointment at the lack of deeper restructuring in key state-owned enterprises and other areas essential to economic performance. Some also fear that the ANC, feeling its political position weakening, may intensify rather than moderate its ideological policy agenda. The prevailing concern is therefore that, without a decisive shift towards substantive reform, the GNU may fail to deliver the economic gains expected of it, with further policy uncertainty compounding the country's existing difficulties.

On the municipal front, chronic administrative underperformance has been aggravated in various places by unstable and transactional coalitions. This has, for example, been a feature of the governance crisis in Johannesburg.[115] Following the election, an increasingly fractured mode of politics has increased the number of councils in which no overall majorities were attained – it remains to be seen whether this will propel further instability.

South Africa's relations with the US, meanwhile, have continued to deteriorate. The relationship has been under strain for a considerable time, but these tensions have 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. Latterly, the US communicated a list of demands for a reset of the relationship; these are a mix of political, governance and economic matters, such as prioritising farm murders and exempting US firms from particular B-BBEE demands. South Africa's authorities have not been receptive to this. Visa bans against some South Africans have been instituted (though it is not known against whom specifically). The current US ambassador has declared that the US has lost patience, and that further (unspecified) measures are pending.[116]

In early November, South Africa was excluded from participation in the Africa Growth and Opportunity Act. In the communication sent from US President Donald Trump to President Ramaphosa, this action was not explicitly linked to the punitive actions that the ambassador had referred to. The communication did refer to South Africa maintaining barriers to US trade and investment, to policy and practices that are inadmissible under AGOA, and to its cooperation with regimes of concern to the US.[117]

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. 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.[118] 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 as much as R1.9 trillion.[119] Given the correct environment and incentives, this is a solid foundation for an investment recovery.

Likewise, businesses and experts felt that the country retains substantial underlying advantages. These include abundant natural resources, a reasonably skilled workforce, a relatively well-developed financial and legal system, and an established economic and physical infrastructure. South Africa's geographical position also offers significant logistical advantages, linking major markets in Europe, the Americas and Asia. Its deep-water ports, road network, airports and financial services, together with its time zone, labour costs and moderate coastal climate, provide a potentially attractive basis for investment across several sectors.

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.

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 have 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 of 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 has 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. One manufacturer quoted previously 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 the paper in this series 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. Such changes 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.

A special mention must be made of the imperative of getting local government working. This is the level of government at which most day-to-day interactions between people, business and the state take place. In part, this will require better management, but as the IRR has recently argued, this will ultimately require a broader review of the local government system.[120] Local government in South Africa was designed under the assumption that across the country, they would be able to assume the considerable financial, managerial and developmental tasks implied in the system's design. This has proven not to have been the case, and much of the country simply lacks the economic foundation to make municipalities as they are currently understood viable. This suggests the need for a more fundamental restructuring.

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 provoking major political or public backlash (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 out 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 for using electronic devices for payment in the informal sector need to be encouraged; a process that requires input from both government and financial institutions.

Of course, sorting out the infrastructure 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 is 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.[121] This would enable families to choose better-performing options for their children and offer a way out of dysfunctional schools. Teaching would no longer function as a form of sheltered employment, but as a competitive profession in which 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.[122]

Finally, South Africa needs to join the worldwide competition for skills. As a representative of a business advocacy organisation has commented: "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 cachet 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 are wholly counterproductive. The IRR has proposed an alternative approach, Economic Empowerment for the Disadvantaged, which would incentivise investment and promote measures to improve the living standards of the country's poorest people;[123]
- **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 GG 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 invariably excludes, and works to the detriment of, those who are not party to such bargaining: unemployed people, the unskilled, small businesses, and so on. A business investor and public analyst remarked for this study 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 or limited strictly to those who actively participate in it or choose to be covered by it; alternatively, it should be replaced by the principles 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,[124] 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.

An international banker interviewed for a previous iteration of this study remarked: "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 have 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.[125] The same logic applies to the 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.[126]

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[127] – in the past, a sensitive topic that businesses and analysts were reluctant to criticise – as well as an intensified focus on policy matters accorded by US President Trump.

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

As the emerging administrations of South Africa's municipalities take up their responsibilities, they dare not forget that their conduct will impact directly on the livelihoods and economic fortunes of the communities under their authority.

South Africa's economic failings are fundamentally failings of investment. The underperformance of most of its economic indicators has its 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 the most effective guarantor of societal stability in the long-term. It is apparent that achieving this will not be possible without reoriented thinking and action on 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 run directly counter to it.

This is particularly the case at local level, where the mundane but essential business of maintaining the functions of everyday activity is conducted. Referring to the parlous state of municipal governance, Busisiwe Mavuso, chief executive of Business Leadership South Africa, commented earlier in the year that: "Capital is not sentimental. Investors allocate capital based on risk. They allocate capital based on stability, predictability, and returns."[128] Conditions in South Africa's municipalities are all too often unsuited to this.

The coming term of office will therefore require municipalities to reorient themselves with an understanding that the environment they offer is not just about liveability – important though that may be – but about its conduciveness to business of all types, and the proposition it is able to make to investors.

As a commentary immediately after the municipal election – specifically on the cluster of cities in Gauteng – remarked: "Their ability to attract investment, maintain infrastructure, provide reliable services and create an environment in which businesses can operate has consequences far beyond their municipal boundaries."[129]

This is true; equally, the current prominence of local governance issues should not detract from the far wider circles of reform that the country needs to sustain, to accelerate or to initiate. The policy choices over decades, and the abuse of the institutions that were meant to carry them out have had a profoundly negative effect on its prospects, even as its peer countries took advantage of the opportunities that have been on offer in the global economy.

Perhaps above all, this means major reform to policy, so as to stress investment as a precondition to growth, and growth as foundational to societal upliftment and redistribution.

The practical implications are considerable. South Africa needs to restore the security of property rights, rationalise its regulatory environment, address the rigidities of its labour market, and fundamentally reconsider the approach to empowerment. It needs a more competent and professional public service, effective law enforcement, reliable infrastructure and an education and training system capable of supplying the skills that a modern economy requires. None of these is a substitute for any of the others. Nor can they be achieved through another round of ambitious strategies and declarations.

“Capital goes where it is well-treated”, an international banker commented. An investment-rich future demands a reconsideration of the assumptions behind much thinking on South Africa’s economy. This means a willingness to step back from ideological certainties and embrace pragmatism; recognising that the primary economic responsibility of the state to be the creation of conditions in which productive activity can flourish.

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