

# Will load shedding reignite an asset exodus for South Africa?

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The twin threats of asset drain and of declining foreign direct investment (FDI) are increasing with the return of load shedding and ongoing governance issues at several of South Africa's largest state-owned enterprises (SOEs). Both are potentially devastating to the local economy, especially if President Cyril Ramaphosa fails to implement much-needed reforms.



Image source: Getty/Gallo

There also hasn't been nearly enough attention paid to the reduced FDI volumes as well as the growing number of locally-owned assets which are being deployed outside the country. And, if steps aren't taken to support the inflow, long-term consequences could be untenable.

## Missing investments is a reality

The value of FDI is cause for concern. The ongoing governance and power struggles could reverse the massive surge in FDI South Africa experienced in 2018.

Exacerbating the situation is the high number of foreign investors ditching South African assets. In July, it was reported that overseas investors had sold a net \$4.8bn of South African equities and bonds in 2019, the most on a year-to-date basis in data going back to 1998.

If that trend continues, it could have a seriously detrimental effect on the growth perspectives of the country as well as total taxable income which is available to the fiscus as well as on local markets.

That, in turn, will impact pension funds, causing societal disruption.

South Africa's obvious economic challenges mean that local assets are appealing to fewer and fewer international investors. The latest bout of load-shedding would have only underlined these challenges and further dented investor confidence.

Frustratingly, this comes at a time when international powers are desperate to invest in Africa. In 2019, Angela Merkel and Emmanuel Macron both made African visits aimed at boosting relations, while Turkish prime Minister Recep Erdogan kicked off a tour in January 2019. Britain, meanwhile, has earmarked the continent as a trading partner post-Brexit. As Africa's most industrialised economy, South Africa should be well-placed to take advantage of this interest, but its battle to keep the lights on will deter investors.

That said, South Africa still has a lot going for it. Stability of law, a functioning banking system, and skilled labour mean that it could readily absorb and make good use of FDI, provided its governance issues can be turned around. That said, we feel South Africa is a relatively easy place for international investors to navigate and to do business.

Small wonder then that some are taking drastic action. The hedge fund industry, for example, is betting on new rules to help reverse a record drop in assets under management. The change in tax legislation whereby South African tax residents are no longer exempted from paying tax on income from foreign employment can also be seen as an attempt to disincentivise South Africans from taking assets abroad.

That may not, however, be enough.

## **Strong action needed**

This approach also tackles the problem from the wrong end. Investors around the globe are diversifying their investment holdings, this is just good portfolio management practice. The focus should lie on making South Africa more attractive to foreign funds. Foreign investors recognise that steps are being taken in the right direction but they're frustrated by the slow rate of progress.

While it's encouraging that the president has taken matters into his own hands, he must find a way to implement the structural forms needed to reignite growth and reduce the burden on the taxpayer.

And until that happens, missing investment remains a grave danger. Investments in the country's economy are vital to prevent growth from further slow-down, to create jobs and increase the number of taxpayers. This is the only way to get out of the vicious circle.

FDI drives cannot lead to broader success, as long as the basics such as electricity, basic infrastructure) haven't been fixed.

By doing their homework, fixing the infrastructure and creating an investor-friendly environment, the South African government could attract FDI which would create jobs, consequently increase consumption, create more jobs, and increase the taxpayer base. We both believe in South Africa - But in order to achieve this outcome, the country's leadership has to move away from the headlines that mark a malfunctioning country and market better what they have. A spirit of departure into a new era has to be created. With the right and decisive steps being taken, the best days of South Africa may still be ahead.

## ABOUT THE AUTHOR

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