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Investment Managers



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Restarting the economy

While South Africa's current challenge is to navigate the Covid-19 storm, its gravest task will be crafting a new economic and employment order in a post-coronavirus world.

 Simnikiwe Mzekandaba

When President Cyril Ramaphosa stated that 'the storm is upon us' on 12 July 2020, South Africans were well aware which storm the head of state was referring to.

Since March, the dark Covid-19 cloud has been hanging over South Africa, with the country facing rising unemployment and poverty, livelihoods crippled and businesses closing shop.

The economy, which was already in the doldrums before the pandemic, has taken a further beating.

Economic rebounds

According to Statistics South Africa (Stats SA), in the first quarter of 2020, the South African economy recorded its third consecutive quarter of economic decline, falling by 2.0%. This followed a contraction of 1.4% and 0.8% in the fourth and third quarters of 2019, respectively.

With businesses shutting down, the joblessness rate is at an all-time high. And with a majority youth population, the country's youth unemployment remains its greatest challenge. The coronavirus pandemic has only exacerbated an already dire situation.

So how does the country rebound from the gravest crisis in the history of its democracy, as Ramaphosa puts it, and get people to work?

Top of the priority list should be strengthening the tax base to support the

economy, advises Lulama Qongqo, an investment analyst at Mergence Investment Managers.

Says Qongqo: "We need to enable sectors that generally contribute to the tax base by providing an environment that is conducive for them to trade and we have to improve our tax collection. By doing so, we will have more money to service our debt and spend on fixing and growing our economy."

She believes quality education for the country's youth should also be a priority as the country charts economic growth.

It's an open secret that South Africa suffers from a critical skills shortage, with sectors like information technology, engineering, health and finance facing the most pressure.

Findings in the 10th edition of *ITWeb's* South African ICT Skills Survey released in September 2019 highlight a widening ICT skills gap, with core digital skills evolving at a much slower pace than the technology buzzwords often used.

"We have a large unemployed and unskilled youth population that could be more productive and contribute to tax revenues that the country desperately needs, but in order for our youth to become a population of highly skilled economic participants, we cannot avoid the fact that quality education is necessary to enable the youth."

For Craig Parker, research director for Frost & Sullivan Africa, it's necessary to al-

low growth in sectors that have the highest value chain impacts on the economy and those that boost SMME growth again. "Not only must the economy generate income for citizens, but vital tax revenue will be needed to alleviate the significant debt burden the government now has after implementing the relief funds."

In the wake of the Covid-19 economic challenges, the South African government responded through an economic and social assistance package worth R500 billion.

Parker adds: "SMMEs, formal and informal traders and service providers should be prioritised as they provide significant job creation potential for the country. E-commerce platforms are a major way to increase market penetration for small business, especially now that Covid-19 has increased the willingness of consumers to shop and browse online. There is most definitely space in the market for more last-mile delivery options that can provide quick and relatively cheap delivery."

Employing the unemployed

A successful economy requires its citizens to work. According to Stats SA, unemployment in the country rose to 30.1% in the first quarter of 2020. It points out that in the quarter, employment decreased by 38 000 to 16.4 million. The number of unemployed persons increased by 344 000 to 7.1 million.

Ramaphosa has touted resetting the economy, and while this plan has been



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Craig Parker, Frost & Sullivan

scarce on details in the past, the President recently shed some light into where SA's fortunes may lie.

He highlighted how businesses in the townships and rural areas came into their own during the lockdown, resulting in the employ of residents in their own communities.

He also stressed that it's not enough to simply urge individuals to take advantage of opportunities or to encourage an entrepreneurial spirit among the youth; rather, there needs to be deliberate action to build township and rural economies.

Like Ramaphosa, Qongqo believes that helping SMMEs get back on their feet will go a long way in the country's employment efforts.

“Directing resources towards encouraging innovation by SMMEs and inactive potential entrepreneurs who can provide

us with many startups gives us a decent chance at patching up some of the damage done by the pandemic and damage from macroeconomic weaknesses that existed before Covid-19.

“Large companies have cut salaries in large quantities and they will continue to be cautious while waiting for clear signs that it's safe to spend on growth again. So a near-term fix from a private sector perspective would probably come from entrepreneurship.”

She points out that during tough economic times, companies look to become efficient through multiple strategies; one of those strategies is automation, which does not bode well for the country's largely unskilled population.

As the country moves into this new world of 4IR, it must strengthen the basic education foundation, she reiterates. “This is so

that our school leavers obtain the ability to learn programming languages such as Python and to understand complex concepts that we cannot avoid, such as artificial neural networks, because these are among the important things that are key to determining our ability to participate in the new 4IR world.”

Parker believes South Africa can become the manufacturing hub for the continent, but government has to create an enabling environment.

The recent lockdowns globally have significantly altered many companies' perceptions on the use of automation and artificial intelligence to keep value chains operational, says Parker.

“The logistics industry will most likely see the greatest disruption with the use of automation, but even greater than that will be the trend of near-shoring. Many companies are looking to decrease their dependence on global supply chains or multi-country supply chains.

“This gives South Africa a renewed comparative advantage of becoming the manufacturing hub for Africa. Security of supply is an important consideration in the future global economy and this pertains to many products, but especially to pharmaceuticals, food and basic goods.”

In order for South Africa to take advantage of this and become a manufacturing hub, Parker notes government needs to keep input supply costs at competitive levels for local manufacturers.

“This will include electricity, fuel and transportation costs in the country. Industry 4.0 has the potential to improve efficiency and reduce manufacturing costs, but it is also necessary that government support the fundamentals that are necessary for a competitive and lucrative manufacturing environment,” he concludes. ■