South Africa can still put itself on a path to sustainable trade and economic growth

24 June 2021: Covid-19 placed enormous strain on trade activity around the world, as global supply chains have been disrupted, economies have all but collapsed and demand for imported goods and services has plummeted.

Add to these socio-economic challenges, increased restrictions and trade barriers and the move to so-called ‘trade war’ scenarios by a number of the world’s largest economies, and the path to global trade recovery post-Covid-19 is likely to be a very slow one.

That’s according to Bobby Madhav, Head of Trade and Structured Trade and Commodity Finance at FNB who cautions that even if global trade continues to return to normal – pre-Covid-19 levels, it is highly unlikely that this will be enough, on its own, to fuel South Africa’s long-term economic recovery.

“If our country faced a Kairos moment, this has to be it,” Madhav says, “and it’s leaders, and indeed all stakeholders in its economic future, must act with clear, unambiguous and decisive action to deliberately move the country onto a path of re-industrialisation and, ultimately, export-led trade and economic growth.”

Madhav points out, however, that this path will not be an easy one, because it is not enough to return to doing things they have always been done in the past. He contends that the focus needs to now be on creating new industries, prioritising manufacturing and increasing productivity through effective skills development, while continuing to leverage the abundance of raw materials available in South Africa, including agricultural production.

“While South Africa’s exports have rebounded well as global markets like Asia have begun to recover, without significant intervention, they are unlikely to grow above what they were in the years before Covid-19,” he explains, “so, if we want global trade to become the significant economic driver of the country’s recovery and growth that it could be, we need to be creating an ideal environment for that to happen.”

Madhav emphasises that this environment will only be possible if all South Africa’s economic stakeholders, including government, business and labour, work together to put the necessary building blocks in place. And he argues that the most essential of those building blocks are sustainable re-industrialisation, increased competitiveness, ease of doing business and a coherent trade and industrial policy.

“In the mid-1940s, South Africa entered a massive industrialisation drive that accelerated through the following few decades,” he explains, “but a lack of global competitiveness and a fast-changing
international trade environment meant our manufacturing capability got steadily eroded. It is imperative that we get back on the path of re-industrialisation, especially since that it is where substantial and sustainable jobs can be created, where value can be added to the economy and where exports earnings can be generated.”

And Madhav points out that this return to industrialisation will only be effective if it is based on real global competitiveness, without subsidies and high tariff walls. To support this argument, he points to the latest World Competitiveness Report released by the World Economic Forum that ranks South Africa in 60th position out of 141 countries. “The report highlights a number of key challenges that must be addressed to move South Africa up the rankings,” he says, “including labour market policies, crime, skills, education, health and a lack of infrastructure, especially electricity provision.”

He also emphasises that ease of doing business in South Africa needs to be drastically improved. Currently, the country is ranked 84th out of 190 countries by a World Bank study and Madhav points out that improving this performance is a pre-requisite for well-functioning enterprise and to attract vital foreign investment.

And the final cornerstone on which South Africa needs to rebuild its global trade effectiveness, according to Madhav, is developing a coherent trade and industrial policy. “In addition to cultivating a macro-economic climate that is appropriate for growth, urgent attention needs to be given to ensure that labour law and skills development supports growth, and that overall industrial policy favours the attraction, development and expansion of new industries,” he says.

“Ultimately, the fall-out in global trade will continue to be seen in the months and years to come as the so-called ‘new normal’ global trade environment is steadily carved out,” Madhav concludes, “and while this will present challenges, it is also a unique opportunity for South Africa to re-direct itself onto a path of sustainable trade and economic growth. All that’s needed is the sincere desire to do so.”

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