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THE DISASTROUS CONSEQUENCE OF FAILING TO INVEST IN FIXED CAPITAL GOODS

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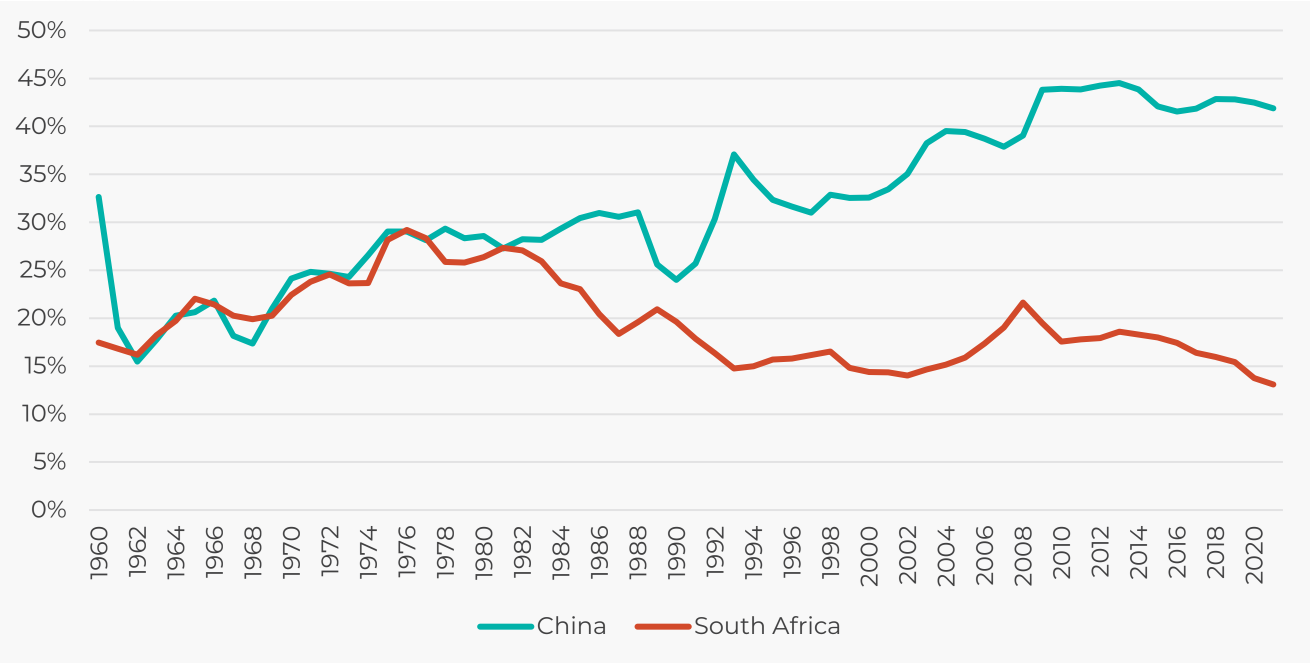
Gross fixed capital formation (GFCF) is the net increase in fixed assets used in the production of goods and services. This includes investments in public infrastructure, roads, bridges, power plants, water and sewage systems, and other similar projects. It is an important aspect of a country's economy since it increases productivity, raises living standards, and produces and maintains jobs.

A stark contrast in infrastructure investment

Since South Africa's return to democracy in 1994, the rate of investment in GFCF has been declining, contributing to sluggish economic growth, and impeding our country's capacity to address poverty and inequality. South Africa’s share of GFCF to Gross Domestic Product (GDP) in 2021 was a modest 13%, relative to the exceptional 42% contribution of GFCF to China’s GDP over the same period. The reasons for the lowly annual growth rate in GFCF are multifaceted, including political and economic instability, low business confidence and a lack of foreign direct investment.

The growth in China's GFCF, on the other hand, has followed a markedly different pattern to South Africa's. In China, GFCF has grown incredibly fast over the past few decades, contributing to the country's economic growth and development, despite us being on a similar path up to the early 80s. Since the early 1980s, this has resulted in an average GDP rate of 9.23% for China and 2.10% for South Africa, demonstrating the importance of infrastructure investment.

Figure 1: China leading the race in terms of GFCF as a % of GDP



Source: World Bank national accounts data

What has gone wrong in SA?

One of the key reasons for the absence of GFCF growth in South Africa is a lack of private investment, despite recent rays of light, such as investment in the Renewable Energy IPP Procurement Programme (REIPPPP). If it wasn't for renewable energy, it is likely that we would have endured much higher levels of loadshedding. Continued investment is essential for growing and modernising existing assets as well as establishing new ones. However, private investment in South Africa has been declining for several years, leading to the fact that actual GFCF has been barely adequate to even outpace the depreciation of existing assets.

Another element contributing to South Africa's lack of GFCF is the state of public infrastructure which is critical for economic growth and development. However, in recent years, South Africa's public infrastructure has been neglected, with little investment in maintenance and new construction. This has led to a reduction in the quality and dependability of public infrastructure, making it more difficult for the economy and residents of the country to function, as well as inhibiting real investment by business. Eskom and Transnet are unfortunate examples of how the inability of these two state-owned entities to fulfill their constitutionally mandated responsibilities has harmed economic activity and growth.

Vandalism and theft between the Durban and Johannesburg railway corridor is continuing to impede growth

Source: Blomberg/Dean Hutton

The high degree of corruption and lack of accountability in the public sector in South Africa remains a concern, fostering a climate of uncertainty, and making long-term investments more challenging for corporations despite the existence of several anti-corruption bodies, such as the Public Protector, the Special Investigating Unit, and the Anti-Corruption Task Team. Some good has been done in terms of prosecutions, but we cannot continue to prosecute indefinitely; these cases must eventually result in convictions and actual prison time for those involved.

What has worked in China?

One of the main reasons for China's strong GFCF growth is the government's commitment to investing in infrastructure. The Chinese government has made substantial investments in public infrastructure, such as roads, bridges, power plants, and water and sewage systems, which have improved the quality of the country's infrastructure and have attracted private investment. The government has also implemented policies to encourage private investment, such as tax incentives and subsidies, which have helped to stimulate GFCF growth.

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In contrast to South Africa, China has benefited from a stable political and economic environment, which has encouraged investment. The government has implemented policies to reduce corruption and improve accountability, which has helped to create a more favourable investment climate. In addition, China's access to finance is deeper than South Africa’s, with a more developed financial sector. However, it must be said that China's handling of the COVID-19 pandemic was problematic. The economic shutdown had substantial financial and social effects, creating widespread economic suffering, and emphasising the need for better government openness and responsibility in crisis circumstances.

Where are we now?

South Africa's high levels of poverty and inequality, coupled with a significant debt burden that attracts significant debt-service costs, have contributed to the marginalisation of public investment in infrastructure and developmental assets. The scourge of poverty and inequality has increasingly hindered the government's capacity to invest in public infrastructure, given the diversion of scarce resources towards these escalating social challenges. This is evidenced by consolidated sovereign expenditure on social protection, which totalled R356 billion in the 2021/2022 fiscal year, accounting for 17.7% of consolidated expenditure. The R210 billion, or 10.5%, of consolidated expenditure spent on Economic Affairs pales in comparison and highlights the insufficiency of capital investment in the economy – the supposed bedrock of economic growth for a developing economy.

In conclusion, the lack of GFCF investment in South Africa in the past decade has had serious implications for the country's economic growth and development. The low level of private investment, poor maintenance of public infrastructure, high levels of corruption, and high levels of poverty and inequality have all contributed to this trend. While our administration has worked to address these difficulties via different reforms, their implementation has been delayed and hampered by a variety of hurdles, as well as a general lack of ability to execute. The consequence will undoubtedly be devastating for all South Africans unless our government takes urgent action and implements its various bold plans to solve these challenges and we see some discernible outcomes.