# Will the New Deal be a new dawn or a lame duck?

Now that Cyril Ramaphosa has secured the ANC's top job, he and his team will have to roll up their sleeves to restore confidence and boost investment in the economy. But have they got the New Deal economic plan right? Leon Greyling, MD of Alexander Forbes Investments and Lesiba Mothata, executive chief economist of Alexander Forbes Investments, think that incorporating the two-tier city economic model will achieve 3% GDP growth.

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**Where to begin?**

The immediate challenge to the incoming ANC leadership is that the economy is facing cyclical and structural weakness, which requires decisive and swift action. President Jacob Zuma has committed the fiscus to an unsustainable free education plan, which requires urgent attention. Clearly South Africa cannot commit itself indefinitely to free education when it does not have sufficient capital to continue with its growth plans without the need to borrow. South African Airways and the Post Office were bailed out on borrowed funds. How does the country sustain free education without borrowing?

In the past three years, there has been a deliberate intent to change the budgeting process, which has left the National Treasury greatly weakened. The priority for the new leadership should be to restore confidence in and credibility of this institution.

## Revise the New Deal economic plan

The New Deal put forward is missing important dimensions — micro-economic reforms aimed at removing economic concentration. While it is admirable to focus on re-industrialising South Africa and boosting the economy via small- and medium-sized companies, Ramaphosa’s plan lacked detail of how he intends to shift the economy away from the four major cities. Even after 23 years of democracy, South Africa’s economic structure is little changed. Data from Statistics South Africa show that about 65% of the economy is generated in three provinces, which in turn suggests it comes from four cities — Pretoria, Johannesburg, Cape Town and Durban.

Martin Wolf, chief economics commentator at the *Financial Times*, wrote in November 2015 that South Africa should “turn parts of the country into free economic zones. In essence, South Africa would do what China did under Deng Xiaoping who built a new economy around the old one.”

## Develop a two-tier city economic model

Martin Wolf's suggestion means South African authorities should consider running a two-tier city economic development strategy by creating special economic zones (SEZs). The intention would be to improve tier-1 cities, as it currently is envisaged in the new deal, but also to nurture existing and build new tier-2 cities. Tier-1 cities are the traditional hubs — Pretoria, Johannesburg, Cape Town and Durban, while tier-2 cities are the smaller hubs, such as Nelspruit, Kimberley, Rustenburg, Port Elizabeth, Bloemfontein and Polokwane.

South Africa can easily come up with half a dozen economic themes that can be expressed in tier-2 cities, with the exception of one — an international finance centre that could be established in Hillbrow, Johannesburg.

In these zones, a favourable tax structure and reduced regulatory requirements should be implemented to attract investment.

During his inaugural speech as a professor of economics at the University of the Witwatersrand, former South African Reserve Bank governor, Tito Mboweni, suggested South Africa should pursue setting up an international finance centre in the Hillbrow area, to harness the country's deep financial market infrastructure and attract investment. Mauritius seems to have taken the pole position as a finance centre for doing business in Africa, and South Africa needs to challenge this. Since positioning itself as a financial services hub of Africa, Mauritius has achieved average GDP growth of 4% in the past 10 years.

## Benefits of a two-tier city model

Two-tier city development strategies will be transformative in nature. They will bring the economy 'to the people'. South Africa's wealth cannot indefinitely be hosted in the big cities, to the exclusion of the majority. Building mega-city projects in Nelspruit, Kimberley, Rustenburg, Port Elizabeth, Bloemfontein and Polokwane brings economic prosperity to where it is most needed.

In addition, a two-tier city strategy will accelerate collaboration between private and public funders. The blending of private and public capital to support infrastructure spending in mega-city projects will unlock opportunities for growth and development.

In a nutshell, if a Ramaphosa-led ANC were to augment the plans put down in the 'new deal' with a two-tier city strategy, the envisaged 3% GDP growth could be sustainably achieved.
However, the immediate issues to deal with are that of 'unity', balance of power in the National Executive Committee (NEC) and the appointment of the head of the National Director of Public Prosecutions (NDPP). It seems the ANC remains divided along ideological lines as represented by the make-up of personalities in the top six.

Furthermore, the balance of power within the NEC, whether pro-Ramaphosa or alternative, will be a key determinant of the resolve to introduce meaningful structural reforms. The individual he appoints as head of the NDPP will set the tone for the appetite the incoming leadership has in dealing with public sector corruption. From this, we will be able to tell whether it is a new dawn or a lame duck.