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Regional Workshop on Competitiveness in the South African Development Community

Focus on South Africa

Johannesburg, South Africa 7 April 2016

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Introduction

The Regional Workshop on Competitiveness in the South African Development Community (SADC), hosted by Brand South Africa in collaboration with the World Economic Forum, was the last of four regional workshops that were held between Q3/2015 and Q2/2016 to further the competitiveness agenda in sub-Saharan Africa and North Africa.

The purpose of the workshop was to:

1. Provide an interactive forum and allow deliberation and debate on key challenges facing SADC economies
2. Inform stakeholders on an agenda for advancing Africa's competitiveness, which will be presented at the World Economic Forum on Africa on 11-13 May 2016 in Kigali, Rwanda. A community event will also take place on 12 May to seek commitment by stakeholders to drive the agenda forward.

The workshop brought together policy-makers, business leaders, development practitioners and other key stakeholders from member countries to discuss and debate how competitiveness could be raised in South Africa and the SADC and how policies could be coordinated at a regional level. Discussions were based on key findings of the World Economic Forum's *Global Competitiveness Report 2015-2016* and the *Africa Competitiveness Report 2015*, the latter highlighting the bottlenecks to improving performance in the agricultural, manufacturing and services sectors.

The workshop was the last in a series of structured sub-regional workshops to discuss the findings of the *Africa Competitiveness Report 2015* published in partnership with the World Economic Forum, the World Bank, the African Development Bank and the OECD. Starting with EAC in October 2016 to North Africa and ECOWAS in March 2016, this workshop closed the competitiveness roadshow by focusing on SADC. The outcomes of the four workshops will feed into a 10-point action agenda to be shared and discussed in Kigali in May 2016.

Presentation of Competitiveness and Regional Integration in SADC

Caroline Galvan, Economist, Global Competitiveness and Risks, World Economic Forum, presented on key findings from the Forum's recently launched *Global Competitiveness Report 2015-2016* and the *Africa Competitiveness Report 2015* for SADC. The latter offers an in-depth analysis of the strengths and challenges related to competitiveness on the African continent.

Galvan defined competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country, emphasizing that competitiveness means productivity – a different notion from the otherwise conventional use of cost competitiveness.

She explained the report's Global Competitiveness Index, which is based on 12 pillars, grouped into three categories: basic requirements (4), efficiency enhancers (6), and innovation and sophistication factors (2). Depending on a country's stage of development – proxied by GDP per capita income – these factors receive different weights. More weight is placed on factor-driven pillars, such as institutions, infrastructure, macroeconomic stability, health and primary education for countries with low levels of income, while a higher weight is placed on the more complex areas of competitiveness, such as business sophistication and innovation for advanced economies.

South Africa currently ranks as an efficiency-driven economy, meaning that 40% weight is assigned to basic requirements, 50% to efficiency enhancers and 10% to innovation and sophistication factors. Galvan further explained that two datasets populate the 12 pillars of competitiveness: quantitative data sources from international organizations, such as the World Bank, UNESCO and the IMF, and qualitative data based on the World Economic Forum's Executive Opinion Survey conducted in over 140 economies. A detailed explanation of the methodology and survey process can be found [here](#).

According to the *Global Competitive Report's* rankings of 37 African economies, Mauritius (46) continues to lead as the most competitive economy ahead of South Africa (49), which re-entered the top-50 for the first time in four years. Rwanda (58) was the third most competitive economy in Africa. These top performers are, however, the notable exception on the continent, being the only ones to rank in the upper half of the ranking of 140 economies. African economies make up 16 out of the bottom 20 economies in the ranking, many of these being resource-rich economies, with Guinea coming in last at 140.

The ranking also reveals a large competitiveness divide in the SADC community, with Mauritius leading in SADC and on the continent (46th), followed by South Africa (49th) and closing with Malawi (135th). Raising SADC's competitiveness will, therefore, not only improve competitiveness at the national level, but also close the competitiveness gap.

Galvan said that the two reports showed that, despite high growth rates in the region over the past decade, productivity growth has been negative across economies, including South Africa. This is a concern as low productivity and levels of competitiveness threaten sustained long-term growth. Investments in productivity-enhancing reforms are therefore pivotal.

Looking at the competitiveness challenges of SADC, Galvan presented an overview of the community in comparison with more advanced economies such as ASEAN-5¹ and OECD economies. Compared to these economies, challenges in the SADC region pertain more prominently to the areas of infrastructure, human capital-related indicators (health and primary education, higher education and training), technological readiness (both the ability to absorb foreign technologies and the use of ICT) and market size. SADC economies perform, however, comparatively well with the ASEAN-5 in market efficiencies, especially in the labour and goods market.

Compared to the same comparators of ASEAN-5 and the OECD average, the picture for South Africa looks somewhat different. South Africa outperforms the ASEAN-5 in the areas of institutions, technological readiness, and financial market development, but the country trails in factors that help leverage its talent: health and primary education, higher education and training, and labour market efficiency.

Within the SADC region, three observations can be noted. First, disparities within the SADC economies are largest in the areas of infrastructure, the macroeconomic environment and market size. Second, most SADC economies perform poorly in the areas of infrastructure, technological readiness and market size, with the median being below 3 out of a score of 7, and that of higher education and training. Third, South Africa leads in the SADC and overall sub-Saharan African region in the more complex areas of competitiveness: financial market development, technological readiness, business sophistication and innovation.

Galvan discussed one of the key findings of the *Global Competitiveness Report 2015-2016*: The most competitive economies in the ranking, such as Switzerland, Singapore and the United States, are the ones that identify talent, nurture it, train and use their talent, and remain open to welcoming talent. In this aspect, the top three competitive economies globally do well across a number of indicators pertaining to human capital. These indicators range from education and labour-market flexibility – as a means to allow both employees and workers to re-allocate labour across the economy to people's most productive use – to the efficient use of talent.

Similarly, countries such as Germany, the Netherlands and Finland perform well in the areas of education but are facing labour market rigidities. Galvan presented South Africa's performance within the context of other upper-middle-income economies, where countries such as Malaysia perform similarly well across all indicators of human capital. South Africa exhibits a somewhat nuanced picture, underperforming in areas of the quality of education and facing labour market rigidities. But, on the positive side, the country does globally well in the areas of staff training (ranking 19th globally, showing that companies invest in training and development of their employees), reliance on professional management (24th), and the country's capacity to attract talent (46th).

Overall, restrictive labour regulations remain the most problematic factor for doing business in South Africa, followed by inefficient government bureaucracy and inadequate supply of infrastructure. South Africa, in this sense, deviates from the SADC average, where access to finance and corruption are cited as the most problematic factors.

In summary, the continent overall remains the least-competitive region in the Global Competitiveness Index, featuring wide disparities across the region. Yet, within the continent, pockets of excellence exist, including South Africa in the complex areas of competitiveness (financial market development, technological readiness, business sophistication and innovation). Likewise, South Africa globally has an excellent standing in strengths of private institutions (e.g. auditing and reporting standards, where the

¹ These are Indonesia, Malaysia, the Philippines, Thailand and Vietnam

country ranks first worldwide), judicial independence (24th) and the efficiency of the legal framework, as well as when it comes to the protection of property rights (24th).

Thus, South Africa benefits from strengths in a number of areas, such as financial market development, a strong rule of law and strong private institutions, which are propitious compared with many economies on the continent. Yet, to fully leverage technologies and move towards a diversified, knowledge-driven economy, talent will need to be at the heart of its efforts.

CNBC Live Debate: Improving Southern Africa's Competitiveness

As part of CNBC's Road to Davos 2016 series, this debate² centred on the following topics:

Does the story of "Africa Rising" still hold?

Achankeng Leke, Director, McKinsey & Company, South Africa, answered in the affirmative, although he noted that the story has become somewhat more nuanced, with strong growth performers on one hand (e.g. 12 countries exhibiting accelerated growth over the past five years, such as Côte d'Ivoire, Ethiopia and Kenya), and Northern African economies on the other.

Jackie Chimhanzi, Senior Strategist, Industrial Development Corporation of South Africa (IDC), put the current economic performance into context: We are seeing a perfect storm hitting the continent in the form of a strong US dollar and the commodity price slump – yet, this storm also serves as motivator for introspection and opportunities resulting from it. She urged moving away from the fixation on commodities to focusing on other opportunities.

Nicola Galombik, Executive Director, Yellowwoods, South Africa, credited the region's youth for her optimism and recommended using their entrepreneurial energy as a gateway to unlock their enormous potential. Kingsley Makhubela, Chief Executive Officer of Brand South Africa, said that he sees the potential for growth, but emphasized the need to answer how to achieve it. He pointed out commodities, the impact of El Niño and food supply challenges as key issues that will drive South Africa back, yet there are pockets of excellence of growth across SADC, with, for example, Mozambique registering strong growth forecasts.

Leke added that the continent means 54 economies. In fact, South Africa's productivity rivals that of China, and that a few individual economies, especially in Eastern Africa, are performing well. On the other hand, Nigeria as the largest economy on the continent, holds many unproductive sectors.

Sequencing economic development – a pragmatic approach is needed

Chimhanzi noted that good policies attract foreign direct investment (FDI), yet perhaps the region ought to be more pragmatic and embark on a range of policies in parallel. She noted the importance of political will. For example, Ethiopia is "fixing" policy and its manufacturing sector (i.e. industrial zones) at the same time.

Galombik said that, in South Africa, higher education needs to be pragmatic and "real time", and should offer fit-for-purpose solutions that address realities of young people and the current provision of higher education. In addition, there is a need for public-private partnership on the execution of processes and programmes in real time.

Leke added that the next five years will be more difficult for the continent than the last five years, pointing out that a sequential approach to policy-making would "take forever". At the moment, Africa has the second highest return on FDI globally – despite headwinds, now is the time to get policies right. He pointed to Rwanda as a country that is clear on both policies and their execution; Côte d'Ivoire's growth at 10%; and Ethiopia putting in place the right kind of policies while, simultaneously, providing the infrastructure. Beyond the surface, he also highlighted Nigeria's thriving technology and entertainment sector. This begs the question of what has allowed these economies/sectors to grow and how it can be replicated by others.

Regional policies – moving from policies to implementation

Chimhanzi discussed the disconnect in regional economic communities between planning and implementation. While planning takes place at the regional level, implementation can only happen at a

² See Annex for detailed list of panellists

country level, and a strong relationship between the RECs and economies is not evident. She stressed the need for economies to internalize regional plans and budget for them.

Makhubela supported the argument, noting that low growth is not attributed to the absence of policy, but to lack of implementation. He gave the example of the failed attempt to implement the uni-visa in SADC, which was originally conceived to encourage growth in the tourism industry but failed over disagreements on revenue. He also noted the need for strong talent in the public sector to oversee implementation.

Leke described advances in the free movement of people: Five years ago, just five countries on the continent allowed visa-free access; this number has since grown to 14. Five years ago, an African needed on average visas for 60% of economies on the continent; this number has gone down to 50%. There is, however, a need to understand why more economies do not allow visa-free access (e.g. security, visas as revenue income).

Economic diversification

Panellists pointed out the urgency to remove tariffs and non-tariff barriers. As long as it is cheaper to import from China, there is no incentive for African economies to become producers. Makhubela also noted the SADC trade protocol, which only a few member states have ratified to date. There is also the need to think more along regional value chains and economic complementarities – if Botswana is good in diamond beneficiation, for example, South Africa does not need to develop this part of the value chain.

Human capital

The panel discussed how 1 billion people on the continent can be employed efficiently and how the continent could reap its youth dividend. Galombik discussed key lessons from the Harambee employment accelerator, which provides access to the business environment. Once young people are part of the business environment, they are able to develop skills, will and confidence – all traits that are otherwise difficult to accumulate when locked out of the economy.

The number of young people in South Africa who are locked out has little to do with their potential; rather, it is dependent on their socio-economic circumstances. Galombik highlighted the need to transition young people from their households and called for a better understanding of the changing nature of work, which could help the country leapfrog globally. The linear pathway from school to university no longer exists, and the single most important attribute employers look for is ability to solve problems, learn and adapt. The changing nature of work could thus liberate South Africans from problems in its education system.

However, Makhubela emphasized need for South Africa to invest in knowledge in view of the Fourth Industrial Revolution. Chimhanzi recommended bringing stakeholders (business, educators, government) together to discuss and set curricula. Leke provided numbers on how well recent graduates were trained and pointed out that it needn't be "or" (knowledge or skills), but "and". Africa will have the biggest youth population and largest workforce in the next decade, yet there are only 4 million university places for 45 million students on the continent, requiring a fundamental shift in how to educate/skill young people.

Encouraging SMEs

Chimhanzi put the spotlight on SMEs, which beyond multinationals, can help further regional integration. To do so, however, the information asymmetry for SMEs has to be solved. Leke put forward the question of how to scale up SMEs (i.e. how to create 20 Dangotes) and noted that SMEs in general face similar sets of issues as large companies (e.g. energy).

Chimhanzi noted the need to incorporate local SMEs into the supply chains of large multinationals. For example, GE procures locally, while the Industry Development Center (IDC) funds SMEs that supply GE. In the context of the continent's overall manufacturing sector, Leke noted that 400 companies have an income exceeding \$1 billion, and half of these are local companies. Yet, not a single African company is listed among the Fortune 500, compared to Indian (7), Brazilian (9) and Chinese (100) companies.

Technology

Galombik recommended not overstating the power of technology but, instead, emphasizing the power of social networks and connecting people who do not usually interact with each other. Makhubela reminded participant about the 1991 US presidential debate on the information highway and how it has advanced the role of technology-driven innovations in the United States.

Breakout Discussion: Scenarios for the SADC Region

Workshop participants divided into six groups to discuss a scenario under which the SADC would be a highly competitive single market in 2025 and in which trade, investment and cross-border movement of people would lead to rapidly increasing prosperity. The groups were asked to discuss and identify the key policies and/or measures that were put in place since 2015 that led to this improved competitiveness in South Africa and at a regional level. Key factors positively affecting the development of a competitive and well-integrated SADC region were identified as follows:

At a South African level

- Leadership in real terms: South Africa becomes less complacent and takes on leadership in the region. At the same time, it will bring in the country's people, who currently do not understand their role in the implementation of policies. A deliberate agenda is needed.
- Hiring and firing becomes more pro-business.
- South Africa takes reputation management under control – anyone these days can take a mic and influence South Africa's standing in the global market.
- By 2026, education will be more relevant. The curriculum will be more diverse, less academic and geared towards business and technology, factoring in partnership with business.
- Departmental organization of education will be rationalized (currently, there is no agreement on money to be spent for education).
- The public sector runs like the private sector.
- Opportunities for tax evasion are closed, which is happening at the middle level: common knowledge of how to side-step the existing system of revenue collection, e.g., dentists taking cash rather than using card machines.
- Illicit money flows are closed and there is better regulation of anti-corruption legislation.

At a regional level

- Transport and infrastructure: Establish a regional integration plan for:
 - Power supply sharing across the region (e.g. leverage hydro power of DRC and Mozambique)
 - Establish a regional integration plan for roads, rails, ports and pipelines
 - Water supply: tremendous opportunities as Congo River, Zambezi river and Lake Malawi together constitute a significant portion of the world's freshwater supply. The integration of these resources could benefit the entire SADC region. Challenge: Zambezi flows through six countries, with no trans-boundary agreement on water usage at present.
- Connective trading of common resources: Create an independent trading platform. Rationale: Regional metals/resources exchange (metals, corn, tobacco). For example, South Africa and Zimbabwe hold two-thirds of the world's platinum resources (Russia is third).
- Close the "disconnect" between high-level agreements at a continental level (AU 2063 agenda is clear on objectives) and implement at a national level.
- Leverage the private sector for policy implementation: By 2026, industry has become more involved in integration of policy implementation across the region. Government would be a developer but, allow private business to be more active in implementation (e.g. Uni-Visa got stuck in policy discussion).
- Integration of security systems (police to allow for sharing of information and ease of movement)
- Financial integration of the region
 - Eliminate double taxation of capital flows
 - Establish a currency integration management process, which would help trade and services exchange

- Develop regional value chain: Promote internal diversification within the SADC region by leveraging complementarities. For example, Botswana leads on beneficiation of diamonds. How can value be added to commodities within the SADC region (rather than, e.g. beneficiation replicated in South Africa)?
- Harmonization of policies in the food industry. Currently, different standards prevail in different markets, making it difficult for food producers to trade produce across borders.
- Design human capital development to serves the regional picture more cleverly (not only the national).
 - Harmonize recognition of qualification between SADC economies
 - Insert entrepreneurship into curricula across SADC at a much earlier stage
- Stop the “stop-start dynamic” in the region, i.e. improve, streamline and transform existing institutions/assets to help regional integration rather than reinventing the wheel every 5-10 years. For example, why does SADC need its own regional development fund, when it has AfDB and IDC?
- As a region, develop better deals with international development partners. Skills development could be one area on which to focus.
- Develop the mindset level: Develop a mass communication agenda to drive the moral agenda in the region (SADC members are often hard on themselves in terms of perception).

Closing Remarks

Patrick McGee and Petrus De Kock thanked participants for displaying such a deep and broad commitment to the principles enriching competitiveness in SADC countries. They noted that the varied discussions uncovered ideas and relevant issues on the many challenges facing national governments, business leaders and representatives from civil society, upon which well-defined policies and strategies can be built to improve the region’s competitiveness.

Annex 1: Workshop Information Sheet

For the last eight years, the World Economic Forum, African Development Bank (AfDB) and the World Bank have been collaborating in the production of the biennially published *Africa Competitiveness Report*. The first report produced in collaboration by the three institutions was launched at the World Economic Forum on Africa in Cape Town in June 2007. The OECD joined these collaborative efforts for the 2015 edition of the report.

Besides the report launch, which generates high-level discussion and media attention, these reports have been received with significant interest by policy-makers, the international private sector and the donor community. Through the production of a unified report, rather than individual reports with similar continent-wide coverage, the partners have also harmonized policy recommendations and reduced the potential for differing advice to governments in Africa.

The 2015 report was launched in June at the World Economic Forum on Africa. Since then, partners have embarked on a series of workshops to further disseminate the findings of the report. The output from these workshops will feed into an action agenda to be presented at the World Economic Forum on Africa in Kigali, Rwanda on 11-13 May 2016.

Timeline

- Workshop on the Competitiveness of the EAC, 16 October 2015, Kigali, Rwanda ✓
- Workshop on the Competitiveness of North Africa, 9 March 2016, Tunis, Tunisia ✓
- Workshop on the Competitiveness of ECOWAS, 23 March 2016, Abidjan, Côte d'Ivoire ✓
- Workshop on the Competitiveness of SADC, 7 April 2016, Johannesburg, South Africa ✓
- World Economic Forum on Africa, 11-13 May 2016, Kigali, Rwanda

Annex 2: Workshop Programme

Previously, SADC was one of the fastest-growing blocs in Africa. As of late, however, the tide has been changing: Historically low commodity prices and less accommodating global financial conditions have been affecting the region's growth prospects, and growth for South Africa has been revised downward to 0.7% for 2016.³ In view of these challenges, we will be looking at how SADC could regain its growth momentum in a sustainable fashion by 2020. Fundamentals such as infrastructure, health and education and a higher uptake of new technologies will be necessary for sustained growth to occur.

This workshop brings together leaders from the business sector, policy-makers and development experts to discuss the best way forward for keeping the region on this path and integrating the countries' markets.

Time	Activity
08.00 - 08.30	Registration Registration and welcoming coffee
08.30 - 08.45	Opening Introduction and welcome by Patrick McGee , Community Lead, Africa, World Economic Forum Opening remarks by Petrus de Kock , General Manager: Research, Brand South Africa
08.45 - 09.15	Presentation: Competitiveness in the SADC Presented by Caroline Galvan , Lead Economist for Africa, World Economic Forum
09.15 - 10.30	Panel: Improving Southern Africa's Competitiveness Kingsley Makhubela , Chief Executive Officer, Brand South Africa Nicola Galombik , Executive Director, Yellowwoods Achankeng Leke , Director, McKinsey & Company Jackie Chimhanzi , Senior Strategist, Industrial Development Corporation of South Africa (IDC) Moderated by Gugulethu Cele , CNBC Africa Anchor
10.30 - 10.45	Community Break
10.45 - 11.45	Scenarios for the SADC Each table will have two sets of assignments, which will include an interactive brainstorm and identification of actions taken to improve competitiveness and regional integration in the SADC. Facilitated by Patrick McGee , Community Lead, Africa, World Economic Forum
11.45 - 12.15	Reporting Report back and group-wide discussion Facilitated by Patrick McGee , Community Lead, Africa, World Economic Forum
12.15 - 12.30	Closing Remarks Patrick McGee , Community Lead, Africa, World Economic Forum Petrus de Kock , General Manager: Research, Brand South Africa

³ IMF World Economic Outlook, January 2016 Update



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Annex 3: Press Coverage

List of interviews

Power FM/Power Lunch	Brand South Africa/WEF workshop on regional competitiveness	7 April	12h40 telephonic, live	Mr Kingsley Makhubela
SABC	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Mr Kingsley Makhubela
SABC	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Dr Achankeng Leke, Director, McKinsey & Company
CCTV	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Dr Achankeng Leke, Director, McKinsey & Company
CCTV	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Caroline Galvan
CCTV	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Mr Kingsley Makhubela
CCTV	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Dr Jacqueline Chimhanzi, Senior Strategist at IDC
ClassicFM/Classic Business	Brand South Africa/WEF workshop on regional competitiveness	12 April	Telephonic	Manusha Pillai Caroline Galvan
PowerFM	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Dr Petrus de Kock
PowerFM	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Ms Taweni Gondwe-Xaba, CEO: Ogojiii Magazine
PowerFM	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Caroline Galvan
Xinhua News Agency	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Caroline Galvan
PowerFM	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Ricky Marima
Xinhua News Agency	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	John Shangwa, Evolution Pre-

	competitiveness			School
Radio 702/Primedia	Brand South Africa/WEF workshop on regional competitiveness	7 April	On site	Caroline Galvan
Radio 702/Primedia	Brand South Africa/WEF workshop on regional competitiveness	7 April	Pre-recorded, telephonic	Mr Kingsley Makhubela







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<http://www.themarketingsite.com/news/43243/opportunities-exist-for-sadc-region-to-increase-competitiveness>

<http://www.themarketingsite.com/news/43206/brand-south-africa-in-collaboration-with-the-world-economic-forum>