



Covid-19
**Are we
asking
the right
questions
about...**

**Unlocking the
economy?**

A rapidly changing situation

CDE held a webinar on Friday 8 May 2020 about unlocking South Africa's economy in the most effective way possible. The discussion took place in a context of rising anxiety about the economic impact of lockdown and the need to move faster through the government's proposed lockdown levels.

Business for SA (B4SA), the private-sector umbrella group formed to fight Covid-19, has urged government to move quickly to lockdown level two. At that level, physical distancing and restrictions on social activities will remain in place, but most services and sectors will open up or return to full operations, including retail, mining, and construction sectors, as well as all government services, while domestic air travel and the free movement of people across provinces will also be allowed.

B4SA proposed that companies, in partnership with labour, can implement stringent health and safety controls and monitoring in the workplace to ensure the spread of the virus is controlled. On 11 May, Martin Kingston, the leader of the B4SA economic intervention workgroup said: "We are advocating a very accelerated transition to level two and beyond because that is the only way we can return the economy, as damaged as it is, to full productivity as quickly as possible and limit the impact on society. ... Health and safety protocols need to be in place and that often depends upon the sector concerned. ... We need to make sure that public transportation is better controlled. And we have to deal with people who, in general, are not social distancing and they are not wearing masks, they are observing none of the protocols."



May 2020

During the Covid-19 pandemic, CDE will release a new series of publications titled: 'Are we asking the right questions about...'. These will be short reports that contribute to public discussion about the crisis and how the country is responding.

Rethinking the transition from lockdown to economic recovery

Thinking hard about the right way to unlock the economy was the theme of CDE's webinar. CDE executive director, Ann Bernstein, set out the challenges at the beginning of the discussion: "Nobody knows how best to deal with the complex set of issues around Covid-19 and the health, economic and social consequences of this. There is no playbook." She argued that it is important to acknowledge that knowing what to do is difficult to discover, and that is especially the case in a country like South Africa, with our relatively weak state, enormous poverty, informal settlements, and millions of people with compromised immune systems. There is a lot of uncertainty about the current impact of the virus, but what is clear is that our economy is being devastated. GDP predictions range from minus six per cent to minus 12 per cent this year, and we expect that our horrifyingly high unemployment levels will increase by significantly more than one million people. The situation for most South Africans is increasingly desperate.

Restarting the economy is therefore the most vital issue facing South Africa today. It is not a question of saving lives versus economic restarting. We know that this pandemic will take more lives, and we know that economic devastation will not only destroy livelihoods but lives as well.

Bernstein posed these questions to the panel of speakers:

- Has South Africa been right to adopt a highly bureaucratic, rigid approach to unlocking our economy? Do we have the capacity and the time to do this?
- Is there another approach for SA? One that is based far more on trust in our big companies, our entrepreneurs, our small firms, our service providers. This could be a very different approach – one that says everyone can re-open, demonstrate their safety measures and get going, except for identified firms, sectors or areas because of exceptionally high risks.

Michael Jordaan, CEO Montegray Capital

An entrepreneur's perspective

Michael Jordaan's main insight was that in a context where uncertainty about both the present and the future is unbelievably high it is imperative that everyone, especially those making the decisions, adopt "strong views that are weakly held". We should have strong views, he explained, because we are dealing with people dying. But, as we learn more about the unfolding crisis every day we have to be ready, in light of new information, to change our position without too much fuss. At the same time, as business leaders who confront an uncertain investment environment well know, decisions in such contexts must be based, not on a whim or a gut feeling, but on a consideration of all the facts and extensive consultations with the best experts in the field.

Jordaan went on to argue that it is especially crucial to think very carefully about trade-offs. Each action has benefits and costs, and those need to be weighed up against each other, on an ongoing basis as situations evolve. From that point of view, the lockdown, while initially necessary, seems like a very blunt instrument. A lockdown will protect people from getting infected, but when thinking about how long to maintain it we have to consider, among other things, the costs on people's livelihoods: "If people don't earn anything they can't eat; at the extreme, poverty kills."

Jordaan believes there is potential to adopt a different approach. We could, for example, maintain a tight lockdown on older people, but open up schooling where the threat of the virus spreading seems lower. We should allow businesses to take much more of the initiative. If any business can prove they have safety measures in place, which would be very easy for a sole trader or proprietor, there should be no reason why they could not be allowed to do business.

Lastly, Jordaan advised: "businesses should go back to basics and look after themselves. If they don't they can't help others. Cut costs. Turn fixed costs into variable costs. Reduce prices, because demand is lower, and focus on supporting staff. If as a business you can survive the next 12-18 months, you will emerge much stronger."

Stephan Malherbe, CEO, Genesis Analytics

A view from the trenches

Stephan Malherbe has been involved in advising government on how to unlock the economy. "The unknowns about our situation are extraordinary and I get frustrated about people claiming to be experts about situations they know very little about. We need to plot the way forward on the basis of good logical thinking.

Our economy and society aren't strong enough to survive a much longer lockdown. We need to consider a faster reopening, but need to take into the account the World Health Organization's (WHO) criteria for reopening. Reopening can happen, the WHO has said, when transmission is controlled, health systems can manage, the risks of importing new cases are well managed and all parts of society are fully engaged in mitigating the effects of the virus.

We know that we do not yet have sufficient health capacity to detect and isolate all cases, and that the spread of the virus is continuing, demonstrated most dramatically by the rise in numbers in parts of the Western Cape. I am also not entirely convinced that workplace preventative measures have been established across the economy. But we cannot stay closed until we are perfect and I would like to see a quick move to level three in the very near future. We should also have a much more differentiated approach. Some places could go to level two right now, where virtually all activity is allowed, but stringent controls regulating how people behave and interact are firmly in place. The most important issue is that we must have the ability quickly to identify and isolate cases of disease spread, and lock down those areas. Unless we have that in place, no general reopening is possible."

Neva Makgetla, Chief Economist, Trade and Industry Policy Strategies

Lessons from other countries

Neva Makgetla offered critical insights on the basis of her review of global experience. Countries that are dealing most effectively with the virus have:

- Viewed the lockdown and other public health measures as an investment in sustainable economic growth, not a static trade-off between the economy and contagion.
- Continued to restrict public facing industries. Recreational activities and personal services are all still mostly closed.
- Discovered that the areas where the virus has spread the most has been within homes and on public transport. In contrast, most workplaces can more easily introduce measures to avoid spreading the virus, unless they are working directly with the public.

The implications for South Africa, Makgetla argued, are that we should vary our approach for different areas. Tighter restrictions should apply in areas where there appear to be outbreaks of the virus, as seems to be occurring in parts of the Western Cape at the moment. At the same time we should allow all safe forms of economic activity, especially e-commerce. In general, businesses that comply with our occupational health and safety standards should be allowed to operate, except that those who deal directly with the public should remain highly restricted for now. Two major issues on which we should be focussing in South Africa are:

- How we can make public transport and social interactions in places like taxi ranks much safer;
- How to support tourism and service-oriented sectors like events management during the long period that they will probably have to stay shut down.

Ayanda Mngadi, Group Executive, Corporate Affairs, Hulamini

A call for business to take the lead

Ayanda Mngadi emphasised the importance of business leaders and their representatives taking responsibility for demonstrating their readiness to open up while keeping workers and the public relatively safe. She argued that the level of granularity needed for a feasible opening-up approach would require individual firms to be "proactively accountable" by demonstrating that they are capable of implementing the health and safety measures necessary to protect workers and customers alike, and then to elevate that information up to an industry level. They would also have to report on how much relief they need, which steps they have taken to secure it, and whether they have been successful. The onus is thus on firms to group together and to better inform decision makers.

Mngadi explained that Hulamini took the decision to test employees very early, which would allow the firm to quickly isolate those workers who are found to have Covid-19. While this may not be possible for all firms, other decisions, such as doing a regular deep cleanse in communal areas, conducting temperature screening, or shifting as much as possible to a virtual setup, could well work.

Industrial associations should equally play an active role. According to Mngadi, "in the absence of a sector-driven compliance accountability programme, it will be difficult for government to open the economy more aggressively. Our responsiveness as industry will give government confidence." The main purpose of this exercise would be for industry associations to figure out how many firms can implement the necessary safety measures, and how rapidly, so that an industry-level risk assessment can be presented to government. It is also important to present an estimate of what the severity of the economic impact of the lockdown will be on the industry as a whole (ranging from best-case to worst-case scenarios). That will require looking at supply chains and identifying possible chinks in the industry's armour, from international blockages to local disruptions.

This should all be fed into industry recovery plans, such as the tourism industry has been working on. These bottom-up plans will then allow government to adopt appropriate measures. Thinking about how sectors and subsectors can add value and employment will give us a roadmap to unlocking the economy, Mngadi said.

Theuns de Wet, Macro Strategist, FirstRand

A banking perspective

Theuns De Wet agreed with the panellists who argued that business needs to be given a central role in shaping the opening up strategy. He pointed out that "South Africa has an extremely capable and strong business sector, which can help government deal with the critical imperative of creating as many jobs as possible in the current, economically depressed environment." He calculated that, at level four, about 60 per cent of the economy will be able to work, but forecast scenarios predict that if we run at level four for the rest of the year, GDP will contract by more than 30 per cent. It is undeniable that, whatever strategy we choose, there will be significant costs that all South Africans will have to bear. Some will suffer more than others.

At the same time, he argued, it is important to recognise that there will be opportunities. "As we sit in the eye of the storm, we should realise that China is reviving and opening up, and that the rand is weak. There will be opportunities for South African businesses ready to get into those export markets and to expand their activities as much as possible. We see future opportunities in renewable energy, food manufacturing and medical manufacturing. A lot of how we get out of the crisis will depend on whether we can accelerate economic reforms. In many ways the crisis has created a golden opportunity to take that process forward."

The importance of building better business-government relationships

CDE sees many indications that the Covid-19 crisis has created a conducive environment for adopting a better, consultative approach to unlocking the economy. As Stephan Malherbe observed during the webinar, "The fact that the Solidarity Relief Fund was instituted and the evidence of the work being done by large associations, such as the Manufacturing Circle and the mega-association B4SA (consisting of Business Unity South Africa and the Black Business Council), shows that the collective response to the coronavirus crisis is the best cooperation between business and government on a technical level that I have ever seen." This sentiment was echoed by Mngadi, who has also been working "in the trenches" on the South African response to Covid-19. It is noteworthy that in CDE's webinar discussion with several CEOs in April, many of them expressed a similar positive opinion about their experiences of collaborating with government during this crisis.

This level of cooperation must be taken to the next level. Now is the time to re-think business-government relations and to cement a new approach. As CDE has long maintained, a new approach to how markets and business are perceived is essential for faster growth and mass employment. Government and business must engage each other constructively in the interests of creating more open, competitive business environments in which regulatory constraints are minimised. As de Wet said, South Africa "shouldn't lose this opportunity as a country". Mngadi concurred, stating that we "should use this opportunity of agreement not only to fine-tune solutions to Covid-19, but also to figure out how to move forward together."

Concluding thoughts

Constructing the approach best suited for unlocking SA's economy in the midst of this crisis will require a lot of learning by doing. The cone of uncertainty is too great and mistakes will be made and decisions revised. This requires humility, as Jordaan emphasised when he called on South Africans to have "strong opinions, weakly held". Everyone should be ready to adjust their beliefs and approaches as we learn more about what works and what doesn't in this unprecedented crisis. We cannot, however, afford to wait any longer. We need urgently to move the opening of the economy forward, without being unnecessarily reckless. Businesses should act with speed to get ready to demonstrate to government that they have in place clear, well-informed strategies for opening up in a safe way. Government, in turn, must work with business in an even-handed and transparent way, and demonstrate capacity to review what is not working very quickly.

South Africa needs to move through the lock down levels as fast as we possibly can. A more collaborative approach between established business leaders and governments, at national, provincial, and metro levels, will be crucial in enabling the country to move through this crisis, and beyond. However, it is important to remember that most business organisations represent the larger companies. We should not forget about or underestimate the economic harm suffered by small and especially informal businesses as a result of the lockdown and measures to reopen the economy. It is not clear how the businesses on the margins of the economy will participate in the kinds of strategies outlined by the panellists at CDE's webinar. This is an issue that requires much more thought and urgent attention.



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