

South Africa: Overcoming past and present burdens

South Africa seems entangled in a vicious circle of rent extraction rooted in the Apartheid era, with new elite agents and their business models having joined the fray. The African country comes in third to last in the EQx ranking, below Turkey and Nigeria, and followed by Argentina and Egypt. Interestingly, its scores in the EQx sub-indices reveal a peculiar political economy configuration. Reforms seem to have reduced wealth transfers and power concentration, helping the country reach the middle ranges of the Power sub-index: here, South Africa ranks 18th, suggesting that its elites are roughly as powerful as elites in China and Poland. However, these two countries take the 12th and 13th rank in the overall EQx ranking and are thus placed much higher.

Crucially, South Africa is being dragged down by the fact that rent seeking levels are among the world's highest, scoring last in the Political Value index area and second to last in Economic Value. Consequently, South African elites can be characterized as relatively powerful, yet they use their power to implement business models for value extraction, rather than value creation. The structural reforms implemented post-Apartheid fail to undermine the extractive economic and political institutions in place, characterized by revolving doors between business and politics which give rise to high levels of corruption (COR, i.1, rank 21st) and favorable rules encouraging extractive business models. As a result, economic growth fuels inequalities, making South Africa one of the – if not the - world's most unequal country as evidenced by its dreary score in *Top 10% share of pre-tax national income* (INE, iii.8) and bottom performance in *Social mobility* (MOB, i.1, rank 27th).

The low degrees of aggregate Economic Power (11th rank), fostered by a strong startup ecosystem and dynamic stock index turnover rate (TUL and TUS, ii.6, rank 9th and 2nd), is a bright spot, illustrated by South Africa's above average performance in the Creative Destruction pillar (ii.6, rank 8th). However, its Economic Power index-area score is dragged down by a lack of competition and above average corporate returns emerging as a result of favorable rules and private contracts, as evidenced by South Africa's bottom performance in *Top 10 firms profitability* (PRO, ii.5, rank 30th) and *Top 10 firms market cap as % of GDP* (FKG, ii.5, rank 30th).

Interestingly, the Index points to progress in the field of gender equality and women empowerment, with South Africa ranking exemplary in the *Women's Power Index* (WPI, i.1) and in the middle range of *Women, Power and the Law* (WBL, i.3). Whilst being careful not to overstate South Africa's performance in this area, it is in sharp contrast with its BRICS peers, all lagging behind in this area. On an environmental level however, South Africa trails the ranking (EPI, iii.9, rank 30th), alongside China (rank 28th) and India (rank 32nd). This poor environmental performance partly reflects South Africa entrenched water crisis caused by a multi-year drought and reinforced by resource mismanagement and failed policies. Although the emergency, culminating in early 2018 with the announce of the daunting "Day Zero", could be (at least temporarily) contained, this adds to the mounting challenges the country is bound to address in the coming years.

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Visual 1: South Africa performance overview by EQx Pillar vs overall distribution

