

South African odyssey: Part 1

Emerging markets heavyweight, [Mark Mobius](#), visited South Africa recently and says, after a very rosy start, the country's economy has all but stalled.

By [Mark Mobius](#) 13 Mar 2017



A brief history lesson

I had just finished reading Roger Crowley's *Conquerors: How Portugal Forged the First Global Empire* which tells the story of the intrepid, ambitious and aggressive Portuguese explorers like Bartolomeu Dias who, after the deaths at sea of many of their compatriots, were finally able to reach and pass around the tip of South Africa in 1487. Portuguese King John II named that tip the Cape of Good Hope (which eventually became Cape Town) because of the fortunes they expected to find ahead in the East Indies.

By the start of the 1900s, Britain had won full control of the country, and South Africa's gold and diamonds created many fortunes. Travelling via train from Pretoria to Cape Town, I stopped at the historical De Beer diamond area, where millionaires were created almost overnight in the late 1880s for those lucky few who discovered large diamonds there.

My colleagues and I were able to see the Big Hole, an enormous crater in the ground that was dug out over the years by hand. Two brothers (Diederik Arnoldus de Beer and Johannes Nicolaas de Beer) had owned the land and rented out plots where diamond hunters could dig. Eventually, Cecil Rhodes (who became famous for the Rhodes scholarship, among other things) purchased and consolidated all the mines and became one of the world's richest men.

The promise of a rainbow future

There are, of course, many books and articles about South Africa's history and apartheid, a legacy the country still grapples with. The African National Congress (ANC) spearheaded the struggle to end apartheid and by the 1990s, apartheid laws were abolished and the ANC's most notable political prisoner, Nelson Mandela, was released from jail.

I had the opportunity to meet President FW de Klerk around that time and heard him describe the very difficult time he had reconciling his own party to the change.

The meeting with De Klerk was in his office in Cape Town and it was clear at that time that he and Mandela did not agree on a number of issues and he was quite frank about it. But his tolerance and patience shone through the challenges he was facing. His openness and strength of character made me confident that the political transition would work.

Since then, the country has become known as the Rainbow Nation, not only because of its multicultural diversity but also because of its tolerance. For example, South Africa was one of the first countries to legalise gay marriage.

The cracks begin to show

The ANC won by a massive majority in South Africa's first universal elections in 1994, and has continued to win subsequent elections. Unfortunately, the government change has not substantially improved the economic situation for the majority of people previously denied political and social freedoms; unemployment levels hit a 13-year high of 27% in 2016. Poverty remains prevalent, and in 2014, the United Nations Human Development Index of South Africa ranked the country 116 out of 188 countries and territories. The country has failed to significantly improve its standing since the 1990s.

The ANC's previous dominance is beginning to crack amid South Africa's lack of economic progress. The Economic Freedom Fighters (EFF), founded by the radical Julius Malema—former president of the ANC's Youth League who was thrown out of the ANC—has been rising in popularity.

If South Africa's economic situation doesn't improve, attracting the young and unemployed could make the EFF a more potent force. Opposition parties have been gaining control of key cities, and their strength has increased when they are able to better provide services such as water, power and public transport.

The Zuma effect

Since taking office in 2009, Jacob Zuma's administration has been plagued with scandals and allegations of nepotism. One political blunder was the appointment of a finance minister many saw as unqualified—who was then quickly replaced after a dramatic market reaction.

Despite setbacks, the ANC still supports Zuma, and it seems that he will be able to survive his second and final term, which ends in 2019. Some analysts say that over the next two years, the ANC will likely become increasingly subject to competing factions, resulting in government paralysis and potential for further downgrades in the country's credit ranking. The country's economic growth has also suffered, although we are seeing signs of improvement on the horizon.