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South Africa's 2018Q1 Economic Recession Report: Lessons for Nigeria

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Overview

- Like Nigeria, South Africa will hold its general elections in 2019. Available data on the performance of the South African economy showed that the country entered into recession in first quarter of 2018.
- Whereas a number of factor is responsible for this, it is important to examine whether or not policy summersaults and actions in the build up to the 2019 elections in South Africa contributed to the country's economic recess.
- Available data shows that, while poor performance in the agriculture, mining, manufacturing and trade sectors in 2018Q1 were the principal factors that dragged the South African economy into recession, the good performance of the government sector, helped to give cushion the speed in which the economy would have dipped into a recession.
- Poor coordination of the country's land reform which suggested that the South African President would not go through the parliament to effect constitutional alteration, was identified as a factor that signalled poor executive-legislature relations in South Africa, thus, serving a bad indicator for effective governance in a period when effective coordination of government institutions is needed to avoid a sense of no-governance.
- A critical observation from the situation in South Africa is that while the country is preparing towards the 2019 general elections, cordial coordination of governance institutions is needed to avert a situation that there is no governance.
- While it is important to recall the period of seemingly no-governance that characterised the first 8 months of the President Muhammdau Buhari administration which delayed the country's preparedness to cushion the effect of the 2016 economic recession in Nigeria, recommendations on how to a re-occurrence in Nigeria in the build up to the 2019 elections were made.
- The brief is organized into five sections. First is the introduction, which is followed by a section on how poor land reform led to recession in South Africa and other climes. In section three, stylized facts on how economic and governance related issues contributed in driving South Africa into economic recession few months before its 2019 general elections are further discussed. Finally, while the conclusion is contained in section four, section five presents the lessons for Nigeria and highlights issues for legislative action.

1.0 Introduction

1. For the first time since 2009 South Africa is experiencing a technical recession. The contractions have

been attributed to a fall in agricultural productivity and investor scepticism brought on by the contentious land reforms and

the poor performance of other emerging economies.

2. Others have noted that investment in manufacturing and development was also hampered in South Africa as a result of uncertainty regarding the mining charter and land redistribution contained in the countries land reform¹. The controversial land reform in South Africa created a restive investment climate in South Africa because President Ramaphosa bypassed a parliamentary consultation when he said the constitution should be amended during a television address.
3. Whereas, there could be several reasons for this action, it is not unlikely that President's decision to make the declaration without waiting for the Parliament work on it was due to the seemingly poor working relationship between the President and the Parliament, which is not uncommon in the periods building up before elections.
4. Nigeria and South Africa are two of the biggest economy in Africa. How external and internal factors affect the performance of both economies, has over the years, played a significant role on how both countries learn from the 'success' and 'failures' of each other. Whereas the Nigerian economy recently recovered from a recession in 2017, the slide of the South African Economy into recession in the first 2018Q1, raises some concern for how Nigeria should manage its economic situation

especially in the build up to the 2019 general elections.

2.0 How Poor Land Reform Led to Recession in South Africa and Other Climes

5. Land reform was one of the promises made by the ruling party African National Congress (ANC) when South Africa gained independence in 1994. The president and ANC decided to seek a change to the constitution to make it easier to expropriate land without compensation². The land reform seeks to redistribute farmland chiefly owned by the white population more evenly across the population. Currently the white population in South Africa which make up about 9% of the population own about 72% of the farmland. President Ramaphosa bypassed the parliamentary committee process reviewing the constitution to ratify the powers of the state to take property without money being paid for it, when he declared that the constitution should be amended to support his party's land reform³. Although this method of arbitrary redistribution without compensation has been met with widespread consensus amongst the South African population. It has been met with scepticism by the investment community because of the similar but failed land reforms in Venezuela and Zimbabwe⁴.
6. In 2000 Zimbabwe redistributed the 70% owned land by the minority

¹ Nkosi, M. (2018, August 10th). Is south Africa's land reform a gimmick? Retrieved September 9, 2018, from <https://www.google.com/amp/s/www.bbc.com/news/amp/world-africa-45099915>

² <https://www.reuters.com/article/us-safrica-politics-land/south-africas-anc-to-amend-constitution-to-allow-land-expropriation-idUSKBN1KL2VN>

³ <https://www.dw.com/en/south-africas-anc-to-try-to-change-constitution-to-allow-seizing-land/a-44903160>

⁴ <https://www.dw.com/en/south-africas-anc-to-try-to-change-constitution-to-allow-seizing-land/a-44903160>

white population of just 4000. Between 2000 and 2009 agricultural revenue declined by \$12 billion. Also in Venezuela a contentious land reform redistributed land from the rich to the poor. According to the confederation of association of agricultural producers, this has had negative effects on the Venezuelan economy. Venezuela has gone from exporting 70% of its agricultural produce to importing 70% of its agricultural produce.

7. The effects of the proposed land reform on the South African economy has been immediate with farm prices plunging since the decision to undertake reform. The average price of a hectare of agricultural land is 43% lower than April 2016 a (record high)⁵. With a history of negative results why would the president be willing to undertake such a precarious reform? Critics point to the burgeoning support the nascent opposition party EFF (economic freedom fighters) is enjoying as the reason behind the president's recent efforts at land reform. Land expropriation without compensation is one of the fundamental pillars of the fledgling party. A message which resonates with a large number of South Africans. With the elections coming up in 2019 some view the action of the South African President as means to manipulate policy tools to stimulate the

economy and garner public support in the run up to the election. Unfortunately, it contributed in some way to dragging the South African economy into a recession.

3.0 Stylized Facts on How Reforms/Governance led South Africa into Recession Months before its 2019 general elections

8. After growing by 3.1% in the fourth quarter of 2017, the South Africa economy in the first quarter of 2018, shrunk by 2.2%. Agriculture, mining and manufacturing were the main contributors to the slowdown, with the electricity, construction and trade industries also recording negative growth.
9. Table 1 presents data on the sectoral contribution to GDP in South Africa and Nigeria. Amongst the sectors that propelled South Africa into a recession, chief of them is the Agriculture sector with a declining contribution to gross domestic product of -24.2% in the first quarter of 2018, having contributed 37.5% to GDP in South in the fourth quarter of 2017. The sudden reversal of agriculture sector contribution to GDP in South Africa has been attributed to the handling of the proposed land reform in South Africa and likely effect of its implication if the reform goes through without recourse to the South African parliament.

⁵ <https://epdf.tips/gaining-ground-rights-and-property-in-south-african-land-reform.html>

Table 1: Sectoral Contribution to GDP in South Africa and Nigeria: 2017Q4 and 2018Q1

Countries	South Africa			Nigeria		
	2017Q4	2018Q1	% Change	2017Q4	2018Q1	% Change
Sectors						
Agriculture	37.5	-24.2	-1.65	26.13	21.65	-0.17
Mining	-4.4	-9.9	1.25	7.49	9.67	0.29
Manufacturing	4.3	-6.4	-2.49	8.86	9.91	0.12
Trade	4.8	-3.1	-1.65	16.72	17.06	0.02
Electricity	3.3	-0.5	-1.15	0.55	0.2	-0.64
Construction	-1.4	-1.9	0.36	3.72	4.04	0.09
Government Services	1.4	1.8	0.29	2.31	2.23	-0.03
Personnel Services	1	1.2	0.20	3.78	3.51	-0.07
Finance	2.5	1.1	-0.56	2.83	3.55	0.25
Transport	2.8	0.9	-0.68	1.36	1.5	0.10

Source: Statistics South Africa (STATS SA), Nigerian National Bureau of Statistics (NBS)

10. On the other hand, among the sectors that held the South African economy from diving too deep, government services sector was prominent (see Table 1). This implies that while economic sectors such as agriculture, mining, manufacturing and trade, have the potential to influence the performance of the overall economy, effective governance sector can be used to salvage the situation or at least cushion the effect of negative downturns.

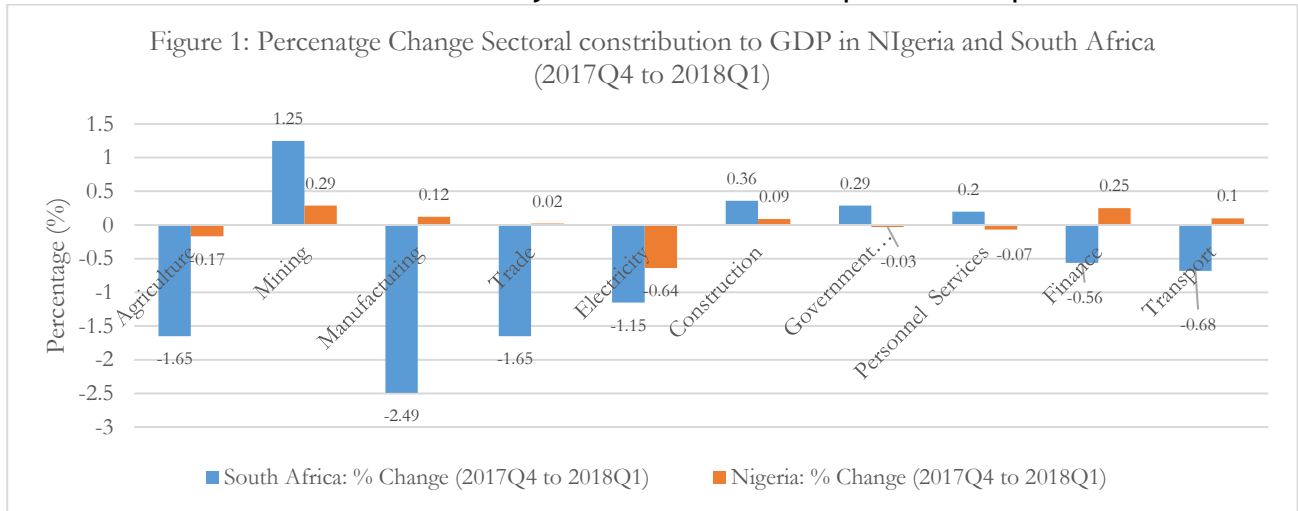
11. Effective institutions are needed to implement government policies and reforms. Whereas all laws are policies, not all policies are laws. As such, while some policies may be in place, their enforcement capacity can be weakened if there is no legislative framework to give teeth to the barking such government policies. While the South Africa prepares for the general elections in 2019, it is interesting to see that the performance of its government sector is still helping to provide the

enabling environment for businesses to strive. Table 1 showed that while the performance of the agricultural sector, mining sector, trade sector, power sector and construction sector in South Africa performed poorly from 2017Q4 to 2018Q1, the performance of the government services sector had the most impressive performance from 2017Q4 to 2018Q1.

12. Like South Africa, Nigeria is also preparing for general elections in 2019. Unlike South Africa, however, Nigeria is not in recession. Howbeit it is worrisome, that while the Nigerian economy recently recovered from recession, the change in percentage contribution of the government services to overall GDP in Nigeria from 2017Q4 to 2018Q2, is not impressive (see Figure 1). The deduction here is that, while Nigeria prepares for the 2019 general elections, government sector (which can be defined as the sustained commitment to service delivery and effective functioning of

all organs of government and their agencies), should remain positioned for efficient service delivery and

committed to work symbiotically within the context of rule of law and separation of powers.



Source: Analyst Estimation

13. Figure 2a and Figure 2b shows the performance of the Nigerian economy compared with that of South in period in which the South Africa entered into recession. Whereas the South African economy recorded a negative growth in six of the sectors, Nigerian economy

recorded relatively better performance in all sectors.

14. Further examination of the sectors for Nigeria for 2018Q1 and 2018Q2, showed a sustained positive performance these sectors as well (see Figure 3).

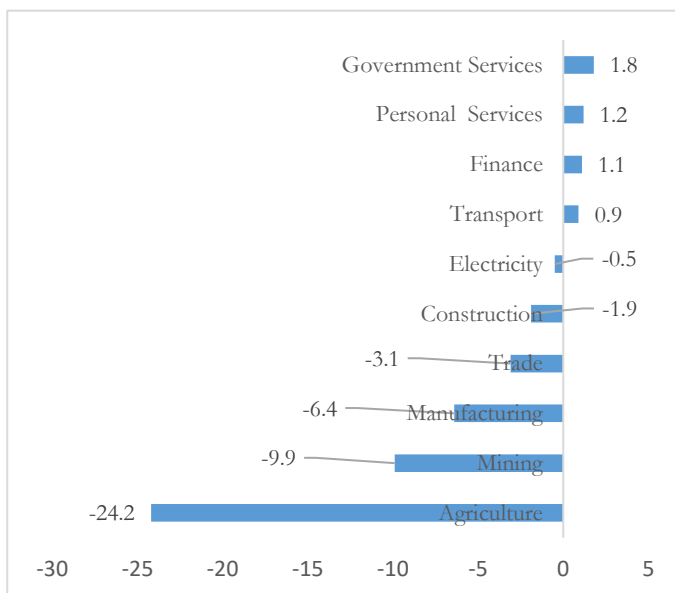


Figure 2a: GDP by Sector in S/Africa, 2018Q1 in Nigeria, 2018Q1

Source: Statistics South Africa (STATS SA) Bureau of Statistics (NBS)

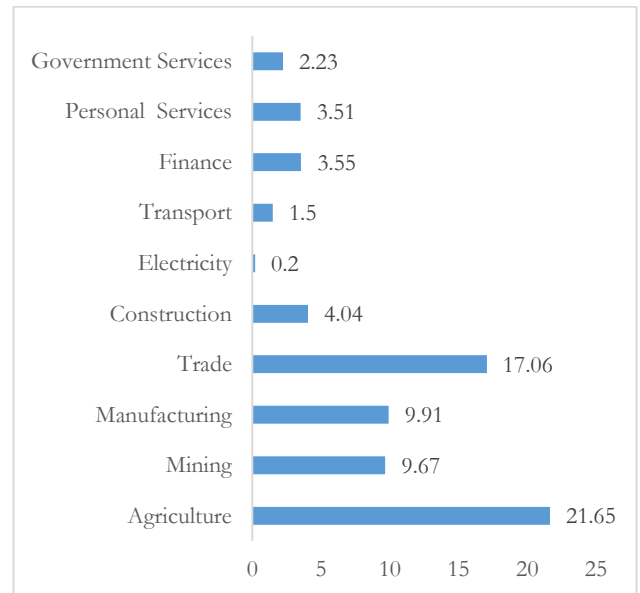
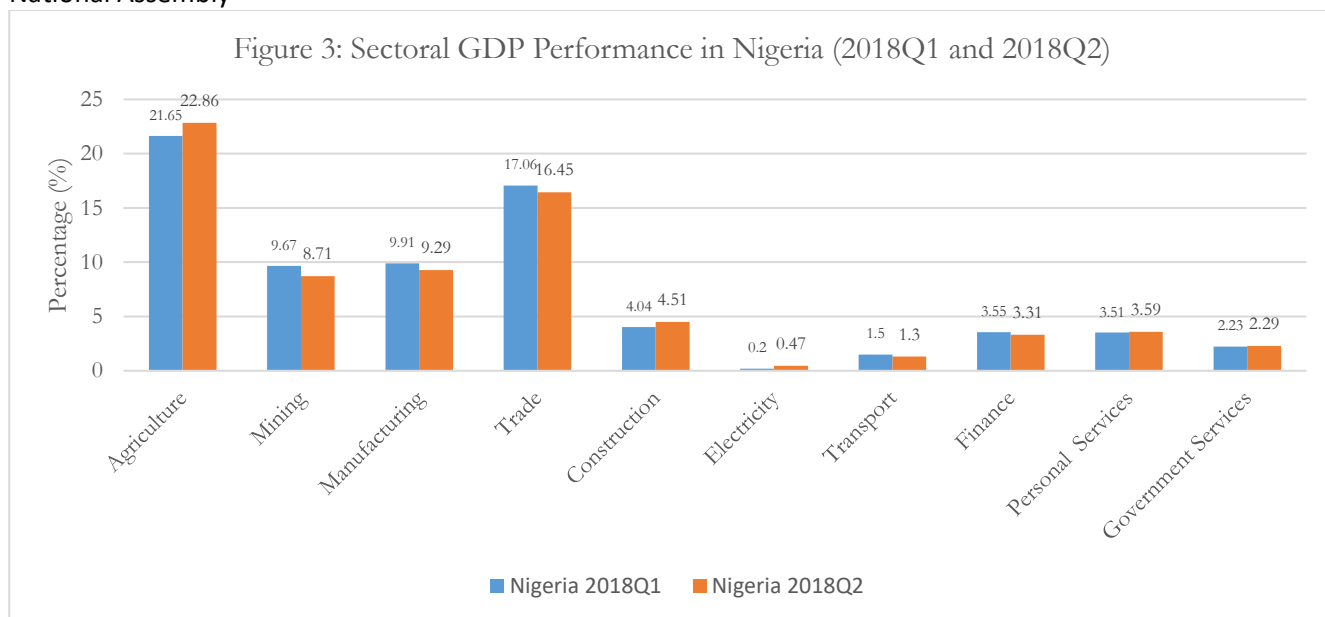


Figure 2b: GDP by Sector

Source: Nigerian National

Figure 3: Sectoral GDP Performance in Nigeria (2018Q1 and 2018Q2)



4.0 Conclusion

15. Like Nigeria, South Africa will hold its general elections in 2019. Available data on the performance of the South African economy showed that the country entered into recession in first quarter of 2018.

16. Whereas a number of factor is responsible for this, it is important to examine whether or not policy summersaults and actions in the build up to the 2019 elections in South Africa contributed to the country's economic recess.

17. Available data shows that, while poor performance in the agriculture, mining, manufacturing and trade sectors in 2018Q1 were the principal factors that dragged the South African economy into recession, the good performance of the government sector, helped to give cushion the speed in which the economy would have dipped into a recession.

18. Poor coordination of the country's land reform which suggested that the South African President would not go through the parliament to

effect constitutional alteration, was identified as a factor that signalled poor executive-legislature relations in South Africa, thus, serving a bad indicator for effective governance in a period when effective coordination of government institutions is needed to avoid a sense of no-governance.

19. On the other hand, among the sectors that held the South African economy from diving too deep, government services sector was prominent. This implies that while economic sectors such as agriculture, mining, manufacturing and trade, have the potential to influence the performance of the overall economy, an efficient governance sector can be used to salvage the situation or cushion the effect of negative cycles associate with economic or political activities.

5.0 Lessons for Nigeria and Action Points

20. There is need to institutionalize reforms in the build up to 2019 elections and beyond. Policies that

drive the wheel of economic growth and development are often passed into law. Since the Buhari administration, however, the country has seen more executive orders rather than translating these policies into law⁶.

21. As Nigeria warms up to the 2019 elections, it is also important to remember the factors that dragged the economy into recession in 2016. Crude oil prices dipped thus, affecting revenue flows to the federal government at a time when it was most needed to revamp an already bad situation. Presently, however, crude oil prices are on the rise in the international market. It is important to continue to work with the National Assembly to harmonize frameworks aimed at diversifying the nation's oil and gas space such as the Petroleum Industry Governance Bill (PIGB) as well as providing a framework to mandate savings from crude oil.

22. Although, the drop in crude oil price in the international market and the failure to save for the rainy days by the last administration played a crucial role in dragging the Nigerian economy into recession, the seemingly absence of governance created by nearly 8 months of not having heads of MDAs, was another factor that made the country to be unable to stop the economic wheel from sliding down. Not having heads of MDAs represented a form of absence of governance for which the economy needed to regulate itself. Thus, as the country warms up for the 2019 general elections, it would therefore be important to avoid a situation of no governance by

ensuring that all organs of government and their agencies continue to function without hitches.

23. More so, it would be important to restrain the Federal and state government from last minute external borrowing. This would lead to debt build up and poor utilization of such funds. Where such borrowings are deemed to be important, the National Assembly should be fully involved and all such excuses of national security being more important than the workings of the rule of law, avoided.

24. Nigeria's framework for sustainable economic growth is the Economic Recovery and Growth Plan, ERGP, (2017-2020). While the Ministry of Budget and National Planning should intensify effort towards ensuring that states remain committed to the blueprint, state legislatures and the National Assembly on the other hand should ensure that a framework to ensure that the nation returns to development planning and commit to project continuity, are in place.

25. Lastly, politicians should be more cognizant of the influence their actions on the confidence of investor behaviour in the build up to the 2019 elections. Whereas, there are many sides to the land reform statement made in South Africa by its president, it is not unlikely that the President's decision to make the declaration without waiting for the Parliament to work on it, served a negative news to investors in the agricultural and mining sector, thus, affecting the growth these sectors.

⁶ Adekunle. (2018, July). Breaking: president Buhari signs executive order to check corruption. Retrieved September 9, 2018, from <https://www.google.com/amp/s/www.vanguardngr.com/2018/>

[07/breaking-president-buhari-signs-executive-order-to-check-corruption/amp/](https://www.google.com/amp/s/www.vanguardngr.com/2018/07/breaking-president-buhari-signs-executive-order-to-check-corruption/amp/)

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It is not uncommon in the periods building up to elections for politicians to make utterance. It is important, however, that they are

mindful of the effect of such utterances on the performance of the economy.

The views expressed in this Research Issue Brief are those of the author(s) and do not necessarily represent the views of the Institute and its Management.

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