

## Reflections and Conclusions from a Week of Crisis in South Africa

By Robert Oellermann

As we reflect on the life of Nelson Mandela, and celebrate his birthday and his legacy of hope, peace and reconciliation, it is impossible to ignore the dramatic events of this past week in South Africa. The recent rioting and looting in KZN and Gauteng after former president Jacob Zuma's incarceration bears deeper scrutiny and analysis by the citizens of South Africa, as well as by the investment community. Any balanced analysis must dissect both the bad and the good elements of the situation in order to draw meaningful conclusions and guide our future actions.

### The unfolding events

For the vast majority of South Africans, the week's events came as a shocking and palpable reminder of the violence and anger pent-up within marginalised and vulnerable members of our society. The lawless behaviour and mob violence was fully captured on television screens and social media platforms and still sears the collective psyche of the nation. The behaviour was shocking and inexcusable.

Equally shocking to many observers was the completely inadequate and useless intervention from the state security cluster. SAPS officers, when they appeared on screen, looked hopeless and helpless. In the majority of cases young journalists were able to film long episodes of rampant looting while the local police were unable to act. The conclusions that were drawn from this inaction were troubling – and many observers believed that this indicated police complicity or incompetence. What is more likely is that the situation had so quickly spiralled out of control that their commanders ordered them to stay out of the frontline. It also became clear, from the subsequent analysis of the situation, that SAPS commanders may have been following high level instructions to avoid engaging the looters and rioters at any cost – thus avoiding another potential Marikana-type loss of life. When the SANDF was finally deployed in quite limited numbers, the situation hardly improved at all.

The initial political reaction also drew criticism. The first national address by President Ramaphosa last Monday was widely seen as out of touch with the intensity of the crisis. When eyes and ears turned to the leadership for urgent action, the President sounded passive and untroubled. If his intention was to restore a sense of calm, his message seemed to embolden the lawless and frighten the law-abiding.

What came out of this ostensible non-support, however, was heartening. The vast majority of law-abiding, and steadfast South Africans began to gather together to confront the mob. Small pockets of local resistance appeared via makeshift roadblocks, turning back looters on their way in to or out of target zones. These small units grew into larger and more organised ones, using neighbourhood and community social media to organise themselves and gather greater numbers. While some units would become guilty of vigilantism and more aggressive actions, the vast majority remained peaceful and restrained, and began to work co-operatively with the SAPS and SANDF, who belatedly showed an appetite for policing. Arrests followed, and by Friday this week calm had largely been



restored and the focus could shift to replenishing the food and petrol supply chains and cleaning up the mess and damage.

### **The political angle**

President Ramaphosa addressed the nation again on Friday evening, admitting poor security cluster readiness for the riotous behaviour. He also repeatedly stressed the angle that the uprising was co-ordinated “insurrection”, and that those individuals behind the co-ordination would be brought to justice. His tone was more decisive, more impassioned, perhaps more angry and in tune with the mood of the nation.

President Ramaphosa’s leadership has to date been characterised by a ‘soft’ and consensus-seeking political approach. It is a strategy that brought him to power, and that he has continued to employ. He has used a strengthened prosecuting authority, set free from political interference, and an independent judiciary as his frontline “soldiers”, slowly and incrementally pursuing those who have abused power and been guilty of corruption. While many observers have sympathised with the complexity of his battleground, clinging tenuously to power within a fractured ANC NEC while simultaneously prosecuting his political rivals, the events of this past week have exposed the fact that time is of the essence. The “good guys” within government face the very real possibility of taking the proverbial “knife into the gunfight” when it comes to the Zuma/Ace/RET/EFF faction, who will seemingly stop at nothing in their thirst for power – not even presiding over the complete destruction of the economic resources they stand to “inherit”. Ramaphosa’s cabinet has been shown up as weak in key areas, wearing a cloak of invisibility at a time of crisis. The country needs and deserves stronger and more capable leadership.

There is another, whispered, angle to the political dynamic. It is the ethnic nature of some of this conflict, whereby Zulu nationalism has been awakened as a tool for power. The recent passing of the Zulu monarch, the decline of the aging and disempowered IFP leader Mangosuthu Buthelezi, and the forceful personality of former President Jacob Zuma have combined to create a vacuum of responsible leadership, exploitable by populist rhetoric. The local KZN security cluster seemed extraordinarily passive during these recent events.

These observations invoke the question – what happens next? This crisis marks the opportunity for President Ramaphosa to “clean house” – to become more direct in calling out bad behaviour and more urgent and bold in his political appointments. At his current rate, his support base is crumbling from both ends of the political spectrum, and he needs to show quick wins from the political centre if he is to guide South Africa beyond 2024 (or even beyond the ANC leadership election in late 2022). South Africa has historically shown enormous resilience following such crisis points, many of which appeared hopeless. Just in recent times, think of the post-Rubicon era (Comm Rand and Fin Rand!), the Boipatong massacre and the Hani assassination. Sadly, there have been many more. Each flashpoint has been overcome by a “joining of hands”, and by politicians “doing the undoable”. The proud and enduring legacy of Nelson Mandela, a giant global symbol of hope for reconciliation and peace-making, remains fresh in our memory. South Africans will need more of his style of empathetic and inclusive but decisive leadership at this critical juncture. Until this new generation of leaders plays its hand (largely being the fight for power within the ANC NEC), political forecasting is nigh impossible.



### **The social angle**

A generation of young South Africans has grown up in the post-apartheid era, witnessing limited violent conduct. The events of this week will have introduced new fears and vulnerability to their psyche. In the older generation, the riotous scenes will have been a sharp reminder of anxieties long-forgotten. What is likely to follow is deep introspection and increased and instinctive “moat building”. Those with capital and passports may accelerate emigration plans. Those with less resources may embrace semigration. Those with no other options will “dig-in”.

It is these latter elements of our diverse society that have shown their strength and unity in this crisis, and that have raised their hands when “called for duty” this past week. South Africans, young and old, from across colour lines and ethnicities, pulled together in community groups for security and for food and sustenance. It is they who hold the key to unlock the next stage in the history of the Rainbow Nation. A large number of citizens who, with no desire or perhaps no ability to leave the country of their birth, will have to coalesce our society into a force for good.

### **The investment angle**

Political and social musings are not the domain of us investment analysts. We make our living from protecting and growing the savings of our clients. We are primarily concerned with the value of things, and the price of money (interest rates). Yet, we are tested at times like this to maintain our focus on these matters. Many of us have deep emotional ties to affected parties. Family and friends have been in the frontline of battles and fires, traumatised and saddened. It is impossible not to be drawn into the emotions of the day.

However, the Laurium team has this week continued to focus most intently on identifying the specific factors that can influence the mandates and funds under our care. Initially, the focus was on first-order impacts – loss of income, costs of damage. Insurance cover. These impacts, while important and certainly material to individuals and some companies, are more easily quantifiable and verifiable. We have taken some limited actions in our portfolios as a result of these calculations, but to be frank, these effects are not hugely material in valuing big listed companies.

What is now the bigger area of focus is assessing the longer-term economic impact of these events. Some impacts are still evolving and will continue to develop and evolve based on the political dynamic. Foreign direct investment into SA is always the most “nervous” element of the investment landscape and is sure to demand a higher rate of return when assessing investment opportunities within our borders. Likewise foreign portfolio flows – these have been fairly absent since the Nenegate crisis anyway, but there were signs of improved sentiment towards both SA bonds and domestic equities in recent times.

We would have expected that a quick and decisive leadership response, and certainty around the incarceration of former president Zuma may have catalysed some good foreign inflows into our market, as we see strong cyclical growth on the back of strong metal prices and record earnings in our mining economy (still the bulwark of the SA economy). All elements are still in place for this cyclical support save one – the political leadership has so far been lacking. As discussed earlier, this is now the “live” test of President Ramaphosa. Will he act at this time of crisis like Mandela did, emboldened and decisive? Or will he resort to the rubber gloves of state structures, seeking consensus above principle, and compromising justice for the lawless?



While we can never forecast the future, we remain alive to a range of domestic political and economic outcomes, and actively build these into our expectations and valuations. To date, our Laurium portfolios have reacted well to recent moves, and we are confident that our positioning is sound and well diversified, with a large number of independent and idiosyncratic investment drivers. We will continue to evaluate the situation in great detail, using our experience gained from previous episodes of crisis, as well as our strong local knowledge and perspectives on policy.