

Could Covid-19 be a catalyst for SA's structural reform and long-term economic recovery?

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While the impact of Covid-19 is first and foremost a healthcare and humanitarian crisis, the disastrous effect it has had, and will continue to have, on economies, markets, businesses and personal finances is now patently clear. And the mergers and acquisitions sector certainly hasn't escaped the negative effects. In fact, it's safe to say that M&A activity across the globe has all but ground to a halt as most organisations adopt a 'wait-and-see' attitude, and many prioritise cash and liquidity over investment.



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But while Covid-19 has undoubtedly given rise to a global economic crisis, which has been amplified in South Africa by the recent downgrade by both Moody's and Fitch, the coronavirus pandemic also presents an opportunity, and indeed an imperative, for our country to focus more acutely on building for the future.

That building undoubtedly begins with a renewed commitment to implementing a number of vital structural reforms and changes in the months and years after coronavirus has been dealt with. These structural changes are nothing new, but renewed impetus on working with each other, instead of against one another, is essential in achieving them - and could be possible post-Covid-19.

For one, our country urgently needs meaningful labour market reform by finding a better balance between the needs of the labour market and business. There also needs to be a concerted drive towards greater policy clarity, particularly when it comes to the National Health Insurance, land reforms, energy solutions and BEE. These are structural reform requirements that national government has long been aware of, and for which numerous plans and strategies have already been developed. The hope, however, is that in the aftermath of Covid-19, the value of a unified approach to implementing them can finally be achieved.

Another glaring development opportunity that Covid-19 and the accompanying lockdown response has revealed is the potential for online businesses to thrive. The innovation that has been shown by those in areas like education, entertainment and retail makes a very compelling case for the continued development of these into predominantly online business sectors. And if such focus is accompanied by a parallel commitment to providing the support to SMMEs that has so long been promised, digital could easily become the new mainstream economy in this country, or at least a very significant

component of it. This is being complimented by moves to reduce data costs; enabling more South African's to participate in digital businesses.

Global investment destination

Finally, the impact of Covid-19 has served as a stark reminder of the important need for SA to continue to grow its manufacturing sector. It has also shown the risk of overreliance on China and the impact this has on supply of goods globally. With the correct policies in place, there is an opportunity for South Africa to become a competitive global manufacturing alternative to China. This can be achieved by capitalising on our unique geographical location, skills, knowledge and our underutilised labour force.

Of course, the implementation of these post-Covid-19 structural reforms, and capitalising on the opportunities that are created as a result, will also have a significant positive domino effect on our markets, and hopefully restore SA's appeal as a viable international investment destination. In the short term however, companies who have weak balance sheets and experience excessive downward margin pressure as the global economy slows, may become vulnerable resulting in the up-tick in M&A as businesses with strong balance sheets provide consolidation.

While nobody could ever view Covid-19 and its consequences as positive, the outbreak has demonstrated that SA has the ability to come together and take decisive action. The hope is that in years to come, we can all look back on this horrific situation and see that the silver lining to all of it was that it catalysed our leaders, businesses and people to work together and realise a shared vision of a better, more prosperous and economically strong future.

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