THE POLITICAL ECONOMY OF THE TRANSITION – IMPLICATIONS FOR A JUST CLIMATE TRANSITION

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Introduction

Let me first greet dignitaries and esteemed participants, friends and colleagues, and thank the organisers from the Presidential Climate Commission Conference for inviting me to give the opening address at this, the first of six sessions in this colloquium series. I have been asked to talk about matters of political economy and how they might impact on the just transition. I will restrict my input to 6 points. Let me first begin by conceptually framing my input.

Conceptual approach

My conceptual approach to political economy is influenced by institutional economists such as Douglass North and Daron Acemoglu, who place emphasis on how institutions – in other words the rules of the game – are influenced by interests. Institutional economists also focus on how these interests are contested at the level of ideas, which now in the digitized world of social media takes on a new dimension altogether. Especially important are those ideas that inform the so-called "common interest", around which the state is organized in the case of sovereigns, and in a globalized world, around which the multilateral agenda is organized.

I am also increasingly drawn to futurist thinking, which I think complements the work of the institutional economists. Futurists suggest that 'society is at once pulled forward by its own magnetic images of an idealised future and pushed from behind by its realised past"[1]. Our transition was pulled forward by images of freedom and better future, but the structures and practices of the past continue to shape the kind of society we seek to build. We are prisoners of path dependency, which continues to shape the choices we make. In the context of today's topic, I would argue that we need to strategize about how to break with two main path dependencies that constrain the possibilities of a just transition in South Africa. Our economic model built around a carbon-heavy Minerals Energy Complex; and a political-economic governance model built around rent-seeking. This brings in questions of consciousness and agency, and reminds me of the good old days when we used to strategize about a class in itself becoming a class for itself. So what is the current balance of forces, and how is this likely to shape the choices that present? Do we have a magnetic image – to borrow from Fred Polak - of a green, just transition? Is this a shared vision across different interest groups in SA? Which interests are likely to be spoilers, and derail this vision? How do we neutralize these threats, and ensure our strategy accommodates the broadest coalition of interests? And what levers and agency do we need to muster to pull us forward towards this just transition?

With this in mind, I will now turn to my key points. I will start with some trends in global political economy and how these may shape the just transition.

[1] Fred Polak (1973) The image of the future. Elsevier Scientific Publishing. P 1

Point 1: The global neo-liberal growth model is in crisis, causing turbulence and disruptions

The global growth model that has existed since the 1980s based on globalization, liberalization of trade and capital flows, financial sector deregulation, monetarism and fiscal austerity, is in crisis, and was in crisis even before the onset of COVID-19. It is clear that the global economy is going through dramatic technological and economic disruption, accompanied by massive changes in production and consumption. The new techno-economic era – a global just transition - will be based on green energy and 4IR, and more anchored in solidarity and equality. But the transition is likely to be characterized by economic turmoil, unfavourable geo-politics, natural disasters driven by global warming and increased attacks on democracy by demagogues and populists.

The main global outcomes that characterized the global economy before COVID were rising inequality, deindustrialization, stagnant household incomes and increasing social discontent. The past 30-40 years of globalization has seen new winners and losers, with net gains in income growth occurring in the developing economies (mainly China and India) and among the super-rich one percenters in the western industrialized countries. Living standards for the middle class and working class in industrialized economies have generally declined, with consequent growth in levels of political disaffection and discontent.

The crisis of neo-liberalism has spilt over into a crisis of democracy. In the immediate period before COVID, the offshoring of production and jobs particularly to China and South Asia became an increasingly politicized issue in Europe and the US, leading to new tendencies of de-globalization. The US under Trump led this de-globalization charge, passing u-turn policies and legislation to encourage multi-nationals to return home, and embarking on trade wars, for example with China, to protect local industry. Prospects for a coherent multilateral response to climate change and other global developmental matters diminished, as borne out in the Paris Agreement set-back at COP 25 in Madrid. The jury is still out whether the COVID pandemic will ultimately advance or regress multilateralism. On the one hand, COVID-19 has necessitated a global response to manage the pandemic and economic recovery. On the other hand, rich countries have been very inward focused on issues of vaccine access, protecting jobs, and stimulating recovery.

Point 2: The COVID-19 pandemic has increased global inequality and fragility

National COVID stimulus packages have been unprecedented, in excess of 20% of GDP for countries like Japan, Italy, France, the UK and Germany, and around 15% of GDP in the US. To put it into perspective, the combined size of the stimulus across Western European countries was 30 times larger than the current value of the Marshal Plan. This allowed the developed economies to weather the COVID storm, aided by their capacity to negotiate and pay for country-wide vaccine programmes relatively early into the pandemic.

The same options have not presented for developing and underdeveloped countries which are bearing the brunt of the global economic fall-out. The COVID pandemic has increased global inequality. Vulnerable workers, women and those employed in the informal sector in the developing world have been worst affected. The ILO estimates 500 million jobs were lost worldwide in 2020, 1.4 million of which derive from South Africa. Poverty and food insecurity have deteriorated to levels not seen for 30 years. Some 150 million people have moved into extreme poverty, with almost 10% of the world’s population now living in extreme poverty.

Another 85 million jobs will be lost around the world through automation over the next 5 years. Digitization brings productivity and competitiveness benefits, but also brings risks of a growing digital underclass. Some 60% of the world's population could not work online or access online learning during lockdown, which will exacerbate social cleavages over the next generation.

So while the pandemic may have shifted global political sentiment away from populist extremes, evidenced for example through the Biden victory, the objective conditions for ant-democratic populist resurgence remain. This is something we need to closely monitor.

The other trend we need to closely monitor is the very divergent path to recovery different countries will take. Fragile economies with high public debt are particularly at risk for slower recovery. West and central Africa remains particularly vulnerable, but even countries like South Africa face significant risks linked to growing fiscal distress. The WEF's 2021 Global Risk Report identifies the existential threat of state collapse in highly indebted countries unable to trigger economic recovery. This will have huge implications for the just transition. Funding from international financial institutions and investment funds is unlikely to flow to poorly governed and highly indebted countries, some of which have a high carbon footprint. A high number of African countries now have debt servicing at above 20% of tax revenues (and many a lot higher), limiting own funding for climate change mitigation, adaptation and resilience. It also means less money for welfare, health, and policing, which brings instability risks. Strategies for effecting a just transition in Africa must simultaneously deal with debt and governance (especially for tax administration and energy entities), possibly through incentivising net zero 2050 measures and governance reforms through a combination of green infrastructure investment and debt service suspension.

The other big risk for the just transition in Africa is escalating conflict, for example in Burkino Faso, Mali, Niger, South Sudan, Ethiopia, Libya, Sudan, Somalia, the DRC, Northern Mozambique, Northern Nigeria and others. Peace is an obvious precondition for any just transition, and more must be done to de-escalate armed conflict in Africa through the UN and AU.

I will now turn to a few political economy trends in South Africa which impact on our just transition.

Point 3: South Africa has outlived its historic growth model centred around the Minerals-Energy-Complex and commodities exports

South Africa's high carbon footprint (14^{th} globally), and weak growth performance is strongly linked to its historic growth path centred on commodity exports driven by a handful of large mining conglomerates. Ours is a typical boom and bust economy dependent on global commodities upcycles for growth. This worked in our favour in the early nineties when China was powering forward at nearly double digit growth, but has resulted in sustained economic stagnation and revenue shortfalls since the commodities down-cycle in 2012. This is besides the environmental damage inflicted by

SA's mining industry, commodity booms as a core source of growth are unsustainable, bringing with it Dutch Disease risks of currency appreciation and manufacturing decline. Commodities down-cycles also bring job loss, estimated to be around 60 000 over the past cycle.

Various iterations of industrial policy have failed to diversify the economy and find new sources of growth and industrialization. Green industrialization through a renewable energy transition offers possibilities to break with our path dependent growth model. A build programme of 5GW per annum (which is not inconceivable) will see the creation of 55 000 direct jobs per year, and will create a R30 billion market for renewable local content (turbines, blades, panels, gadgets, repairs etc). There will be significant spill-over value adding in grid construction, and in related green industries, including electric vehicles, battery storage, green vehicles, green hydrogen etc. Obviously, industrial policy, innovation, skills and other supply side measures must enable the 60% local content requirements to be effected, especially for SMMEs (and black-owned SMMEs).

This means that the just transition is not only about reducing our carbon emissions to comply with global net zero targets; it is fundamentally about placing the country on a new green industrialization path which will simultaneously address growth, jobs and transformation outcomes if it is properly managed.

Point 4: Governance has steadily improved with the roll-back of state capture, but we should not let our guard down

The second major path dependency South Africa needs to break is rent-seeking and state capture. Failure to do this will render the just transition and the new green industrialization path unsustainable. State capture has its roots in the processes of black class formation started under Mbeki who was circumspect about the prospects of locking big capital into some kind of national project and instead used state-owned companies to create markets for an emergent black capitalist class. This process of black class formation got perverted under Zuma, who oversaw a centralized system of capture built around the GUPTAs, and a decentralized system of political-economic networks that rewarded political loyalty with tenders. Understanding the centralized system explains the looting and collapse of ESKOM; understanding the decentralized system explains the decline of sub-national government, especially municipalities, and the push-back against Ramaphosa's reforms. Besides state incapacity, the capture period also saw a serious decline in economic competitiveness (regressing from a high 35th out of 140 countries on the WEF's global competitiveness index in 2007 to a low of 67th in 2018) and fixed investment (down from USD21 billion in 2011 to USD R13 billion in 2016). Policy flick-flacking also saw implementation of the REIPP programme severely set-back, an unfortunate legacy we are still having to address.

Ramaphosa has made steady progress in rolling back state capture. He has strengthened the NPA, and has now started to move against in-fighting and incoherence in the security cluster. On the just transition front, there has been significant progress both with respect to policy and governance. On the policy front, the 2019 IRP fully recognizes the centrality and cost effectiveness of renewables in SA's energy mix going forward with ambitious targets now being set. This is more or less shared across government (including DMR&E), and by key interest groups like COSATU. ESKOM now has effective leadership in place, and there is general consensus on the need to unbundle. As things stand, however, there is still no decision on ESKOM's R450billion debt. This is accelerating its terminal death spiral, and if ESKOM goes down, so does the economy. The debt also precludes ESKOM from accessing finance for new generative assets in renewable energy, which is key to its business model and sustainability going forward. None of the options would be our first choice - debt write offs, PIC buy-outs, debt swops for future generative assets – but need to be considered based on well-considered and transparent cost benefit analysis.

There is the other matter of better now than later. The governance line-up – from the President to the DPE Minister to the ESKOM Board and CEO – is not likely to get any better any time sooner. This also brings into question bigger issues about how to sustain the just transition and net zero 2050 over the next 30 years. I am quite sure if we had been engaging on the just transition in the early 1990s, there would be a constitutional provision to bulwark the project against attack. Is this something to consider? We are particularly bad at executing plans over terms of government, never mind over 30 years. Our previous reneging on the renewable build is a case in point. And as favourable as governance arrangements are currently, we cannot guarantee their continuity and the possibilities of state capture 2.0. As Robinson and Acemoglu remind us, institutions are always under threat where rent-seeking remains a core source of wealth. So until our economy is driven by innovation rather than rent-seeking, we remain vulnerable. This also suggests that civil society must be vigilant, and we should think about the kind of civil society agency and alliances we need to defend the just transition. The last issue on this point – just like rent-seeking makes us vulnerable, so too does extreme race inequality. We cannot be comfortable as a society that black Africans only make up 20% of the country's elite. Our new path of green industrialization must correct this.

This does not mean we need more BEE, which for all intents and purposes has not worked, reinforcing political patronage and creating an overly thin credit-based class. Neither do we need rent-seeking or radical asset redistribution, as favoured by the RET populists, which in comparative international contexts has led to national impoverishment. We need a new model, with dynamic and innovative black-owned enterprises at the centre of new wealth creation, especially in tradable goods and services. We need the right policies and an eco-system of enterprise support, including skills, digital access, finance, professional practice support, product development, as well as trade and export support. Corporates, including our banks and investment funds, need to play an enabling role, and need to find practical mechanisms to constructively engage. The Just Transition provides precisely these opportunities if barriers to entry can be addressed.

Point 5: Progress on the just transition could change South Africa's pariah status

With its global best practice Constitution, its policy of reconciliation, and with Nelson Mandela at the helm, South Africa quickly became the poster child of democracy. This followed through into multilateral environmental networks, culminating in SA hosting the UN World Summit on Sustainable Development in 2002 in Johannesburg. South Africa's sweetheart status quickly declined after the 2002 Sustainable Development Summit, with growing concern about the slow pace of addressing our extremely 'carbon heavy' energy sector. At the Paris COP 21 in 2015, South Africa presented its 'nationally determined contribution' built around a "peak, plateau and decline" approach, whereby emissions would peak between 2020 and 2025, plateau for roughly a decade, and then start to fall. The modest target was linked to the perceived need for employment and development and the costs and challenges of de-carbonizing the economy and moving away from coal. Needless to say, the proposals were not well received internationally. South Africa is currently the 14th largest emitter of GHGs on the planet and the worst in Africa. The country is warming at almost double the global rate, and is now considered one of the 30th driest countries globally. South Africa's pariah status as a carbon dirty country was dealt a further blow with revelations of state capture, with the country now widely recognized as carbon heavy and corrupt.

South Africa has aligned its own CO2 emission targets – net zero 2050 - to the global targets, and is rapidly upscaling its renewable build programme. At 5000 MW to 6000MW per year over the next 10 years, South Africa will undoubtedly be one of the global front-runners in green industrialization. If done well – transparently and corrupt free – the country could regain its poster child status, this time of the just transition.

Point 6: Meeting new zero targets will be the new barrier to trade for the developing world

Failure to effect the just transition and meet carbon reduction targets will see South Africa lose markets and financing. Led by global asset managers and development finance institutions, companies and sovereigns are now being categorized on a risk scale, dependent on their carbon footprint. Compliance with net zero targets will become the new barrier to trade and investment. Global investment for fossil-fuel assets will become increasingly difficult to leverage, ultimately making them "stranded assets".

This becomes a huge challenge for carbon heavy developing economies, especially those with high debt and poor governance. These countries will struggle to secure financing for their low-carbon transitions, and will increasingly find themselves cut out of global trade. The current inadequacy of multilateral instruments for funding the just transition in the developing world must be a major focus of COP 26.

Conclusion

In conclusion, it is clear that South Africa's net zero 2050 strategy offers significant opportunities for a new growth path built on green industrialization. This is entirely feasible given the expansive planned renewable energy build programme over the next 10 years. Way more jobs will be created than those lost in the older coal generation plants, but importantly the planned Renewable Energy Development Zones must target the coal-producing areas to limit socio-economic collapse. These are also areas with relatively high levels of radiation and good grid capacity.

Strategies for climate resilience, mitigation and adaption may seem less important as we grapple with immediate crisis points of joblessness, rising crime and political unrest. This will amount to an historic mistake if we do not prioritize the just transition. It is key to putting SA on a new green growth path. Failure to realize net zero targets will see SA lose investment, and face mounting trade and export barriers. The just transition offers possibilities of new forms of collaboration between the state and private sector, which we can all agree have been far from optimal. In this sense, the just transition could be a way out not only of our carbon-heavy past, but also out of the other trust deficits that characterize our society. The just transition also holds out new opportunities for a reimagined multilateral politics, that prioritizes the redirection of global surplus to underdeveloped and developing countries, especially in Africa. Currently, we do not have a shared vision that binds us. The just transition towards net zero 2050 could be the anchor of this vision, and needs to be the subject of popular engagement and mobilization.

I thank you