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SA urgently needs a coherent competition strategy

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South Africa was first urged by the OECD to introduce a comprehensive strategy to increase competition in 2008 but nearly 20 years later, our product markets remain overregulated and deeply uncompetitive

The successful allocation of 11 slots on the freight rail network to private operators is rare positive news. This long-awaited development, achieved after the initial process failed, revitalises the prospect of achieving a more efficient freight logistics network through greater private sector participation.

That this outcome has been long awaited is an understatement – the need for an efficient, competitive logistics network was evident back in 2008 when a team of international economists gave input into the Accelerated and Shared Growth Initiative for South Africa (Asgisa). One of the international papers noted at the time that “South Africa has not invested in its logistics sector since the 1970s. And it shows”.

That today’s reform agenda is yesterday’s ignored problem-turned-major-crisis was illustrated a few months ago, when the OECD released its latest assessment of the South African economy.

The OECD’s first assessment took place almost 20 years ago, in 2008. It’s astounding how little has changed in its recommendations. Then, it advised that South Africa could benefit from a comprehensive strategy to increase competition.

At the time, in the OECD’s product market regulation assessment, South Africa performed below the OECD average on nearly every metric. Our overall score of 2,6 - against an OECD average of 1,5 - reflected our much higher regulatory burden and high barriers to domestic and foreign entry.

This matters because empirical evidence shows that markets with a high degree of regulation tend to be less dynamic and efficient, yielding more expensive products and discouraging the entry of new firms. This fuels higher prices across the economy and stifles innovation.

When this occurs in network industries it has negative spillover effects for the rest of the economy. We can see this domestically in both in the high rate of administered prices and the disastrous impact that the dysfunctional electricity and freight logistics sectors have had on overall economic growth.

In contrast, competitive product markets are associated with higher innovation and productivity, which in turn yield higher employment and living standards. Given South Africa's distance from key foreign markets, both low inflation and efficient logistics are key to our ambition for an export-led growth path.

However, in the most recent product market regulation survey (2023), we still scored worse than the OECD average on 13 of the 15 sub-indicators. We fared particularly badly on the administrative and regulatory burden faced by companies with a score of 5.5 out of six, with six being the least competition-friendly end of the scale.

On licences and permits, South Africa's score was six. The OECD average was just above two. We scored better on the combined measure of barriers to entry (2.9) and barriers to competition in network industries (1.88) but were still more restrictive than the OECD and emerging market average on both these metrics.

So, not only did we fare poorly in the last survey, but the results showed no improvement from 2018. In some respects, like licences and permits, the results were largely unchanged from 2008!

Imagine if South Africa had introduced a comprehensive strategy to increase competition in 2008? And what a tragedy it would be if in another ten years' time we look back and ask why we still failed to do so in 2025.

It would require South Africa to develop a broad, systematic approach to regulation to allow synergies to develop between different product market reforms to amplify their overall impact – as opposed to our current approach which is characterised by a fragmented array of initiatives across government. And let's be honest, so much of our time is just spent fixing what has been broken.

This is not to say that steps haven't been taken – various reforms such as the strengthening of competition authorities and amendments to competition law have occurred over the years - but these disparate initiatives were not conceptualised or implemented in a cohesive way and have had little impact.

Government initially thought that subjecting all new legislation to regulatory or socio-economic impact assessments might do the trick, but without a regulatory body to oversee quality or implementation, they have often been reduced to tick-box exercises that have done little to stem the tide of ever-increasing regulation or improve its quality.

In the absence of a comprehensive pro-competitive strategy, we've ended up with several independent sector regulators and a multitude of initiatives to reduce red tape and make licensing processes more efficient.

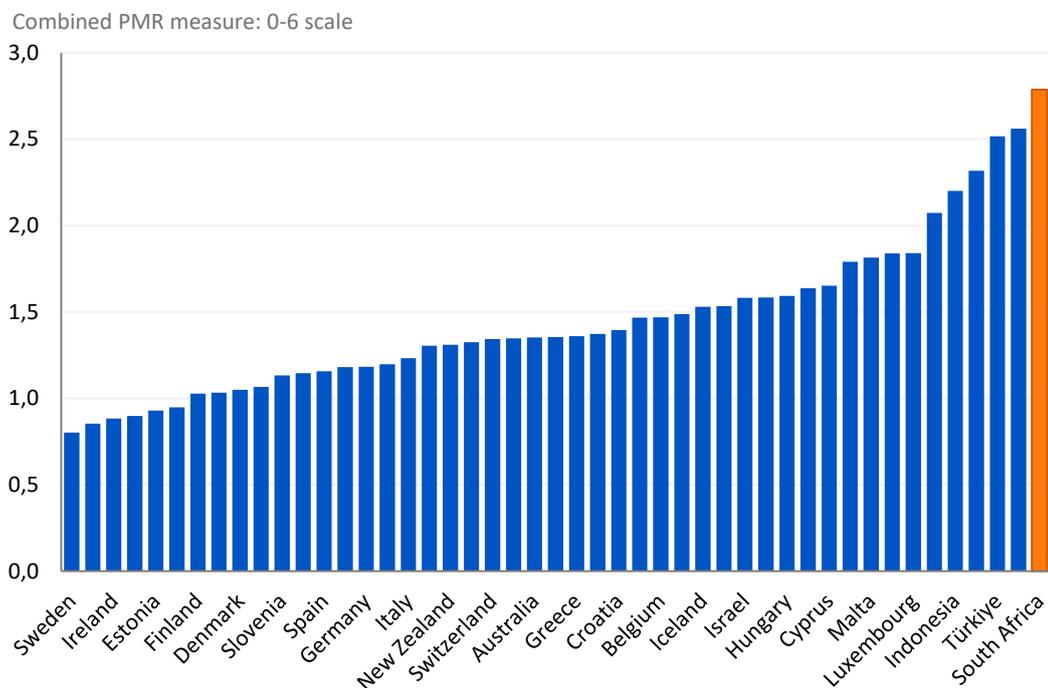
This is a missed opportunity because if ever there was a low-hanging fruit that could be plucked to improve the economy's performance it would be to reduce red tape. This would be relatively easy and inexpensive to do.

To be fair, there are some potentially positive steps underway – the soon to be established Single Transport Economic Regulator is the culmination of years of effort to improve regulation in network industries by consolidating a number of sectoral regulators into one (eventual) permanent structure.

The Red Tape Office in the Presidency is also working quietly to coordinate the various red tape initiatives across government. And, of course, Operation Vulindlela continues to drive reforms that are aimed at reducing barriers to entry and enhancing competition, though this is not the full gamut of what is needed.

But, still, with it having taken nearly 20 years to introduce private sector participation in rail one wonders how different our growth trajectory may have been if we'd just taken the advice we were given at the start.

Figure 1: South Africa's heavy regulatory burden



PMR = product market regulation

Source: OECD PMR Survey, 2023.

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