Helping new entrepreneurs is key to job creation targets

By Humphrey Borkum, Chairman of JSE Limited

How quickly we forget. In October 2008 global banking and financial systems collapsed as a result of the US mortgage crisis. Stock exchanges around the world lived through terrifying times of financial paralysis. Globally we faced an economic depression on a scale greater than that of the early 1930's. The grim expectation was that apart from the banks that collapsed, many other leading international companies would go bankcrupt. Many thousands of families could lose their savings and pensions.

Thankfully the US authorities avoided the mistakes that were made in the thirties depression i.e. lack of liquidity in financial markets and trade protectionism. The US Federal Reserve stepped in, bailed out the US banks and poured buckets of dollars into the global financial system thus averting a full blown depression.

However the US economy has not shown robust growth and job creation remains a major problem for President Obama. With this in mind the US Central Bank has announced it will inject a further $600 billion (R4,1 trillion) into its economy to encourage growth and lower unemployment. This is commonly referred to as 'quantitative easing' and aims to make borrowing cheaper so more companies and people can access cash, spend it and thus stimulate the economy.

Looking for yield much of this money has found its way into the financial markets of developing countries. The JSE and our bond market have both benefited.

This infusion of money has had the effect of strengthening the currencies of many of these developing countries including our own. It is, however, a doubled edged sword – imports and particularly oil are cheaper but exports are more expensive.

In my opinion we should all be eternally grateful to the US authorities for the way they handled the financial crisis. A devastating depression would have been far more ghastly for emerging countries to handle than strong currencies. Exporters will simply have to be more productive and competitive until equilibrium returns to the markets. Equilibrium will, I fear, only be achieved when the US market, the engine of world growth, is back on its feet.

What happens when the US economy starts to improve? Money will leave the emerging markets as fast as it came in! I have a concern that this is something we have all lost sight of. I firmly believe that a large percentage of the money that has been invested in real interest rates will be withdrawn and invested into businesses in developed countries which tend to be seen as safer havens than, for example, Russia or Brazil.

I am, however, convinced that a certain percentage of the money that has flown into South Africa over the past few months will remain here. Africa and particularly South Africa have great potential for the future but I do not believe that any sane fund managers will be happy with a high percentage of their investment funds sitting permanently in emerging markets. When this happens we could well see a correction in SA equity markets.

Job Creation

Just as President Obama has a problem with job creation so does South Africa. Jobs played an important part in the recent medium term budget policy statement from Finance Minister Pravin Gordham. He is genuinely one of the voices in government that realises that politicians cannot create jobs – only the private sector can do this and business decides where it wishes to operate.

In his policy statement Gordham acknowledged the role that small and micro businesses play in creating new jobs. He pointed out that small and micro businesses faced "an onerous regulatory burden with limited access to finance." He noted that 60% of employees came from small and micro enterprises with less than 50 workers. In his resolve to remove the red tape for starting these entities he said: "Rules friendly to small businesses are needed across all regulations – tax, company registrations, labour and zoning – to minimise compliance burdens and costs".

Political leadership can however provide the enabling framework for business of democracy, peace and stability. The countries with good ratings on economic standards such as monetary and fiscal policy will make themselves attractive to the rest of the world. Those who do not will simply be left behind.

The latest World Bank Report places South Africa at 34th out of 183 countries for 'Ease of doing Business' and 67th for 'Starting a Business'. Therefore the sooner we see action on helping entrepreneurs create new businesses the better for the job creation targets. It's worth remembering that all of today's top companies on the JSE were once small entities.

Spire Awards

Our bond market has benefited from the wave of liquidity in world markets. By the end of October the spot market volumes were 25% ahead of 2009 and the net investment by foreigners had increased by R70 billion, an all time high.

Since the JSE took ownership of the Bond Exchange of South Africa (BESA) a year ago it has been our intention to improve efficiencies by introducing a more centralised trading system driven by technology. In early November the JSE Spire Awards ceremony took place with the aim of recognising excellence in the South African interest rate and bond markets. The awards recognise a number of services offered by market participants ranging from the quoting of prices, the structuring and financing of transactions through the provision of research, debt origination and broking services.

I'm sure with the JSE's strong backing, the awards will grow in stature as it is the only opportunity for bond traders to be rewarded for outstanding performance. My congratulations to all the winners.

New Listings

New listings are the life blood of the JSE and as the year comes to an end it might be a good idea to review our new listings to date. In an extremely volatile market we have had 10 new listings with eight on the Main Board, one on our African Board and one on AltX. A number on the Main Board have considerable market capitalisations – these include Optimum Coal, Life Healthcare, Capital & Counties Properties and Royal Bafokeng Platinum. The recent successful listing of Royal Bafokeng Platinum was pleasing as the profits from this endeavour will be used for the sustainable economic development of the Bafokeng people. Its parent, Royal Bafokeng Holdings, provides a good example of how mining can be utilised for empowering local communities with regard to education, housing and health care. On a positive note we look forward to welcoming Clover onto the bourse in the first quarter next year.

As this is my last column for the year I would like to wish readers health and happiness over the festive season plus strong markets in 2011.

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