



## SOUTH AFRICA

### What's happening in this economy

South Africa's economy remains under severe pressure. It has escaped entering a technical recession but GDP growth in the order of 0.6 per cent is likely for 2019.

President Cyril Ramaphosa's administration has acknowledged the gravity of the situation and is seeking to foster an environment of improved regulatory and policy certainty, and to restore business confidence. The current economic trajectory is seen as unsustainable, with economic growth stagnant, unemployment rising and inequality persistently high.

Policy reforms to boost growth in the short term—while also creating the conditions for higher long-term sustainable growth—are imperative. These reforms should promote economic transformation, support labour-intensive growth and create a globally competitive economy.

After being judged the 67th most competitive economy in the World Economic Forum's annual Global Competitiveness Report in 2018, South Africa rose seven places to 60 in 2019. Domestic support for economic reforms, including to attract foreign investment, is gaining momentum but will take time to progress. Implementation of the African Continental Free Trade Area (AfCFTA) will be a significant priority with South Africa Chair of the African Union in 2020.

Ramaphosa in September 2019 announced the appointment of an Economic Advisory Council to ensure greater coherence and consistency in implementing economic policy. Finance Minister Tito Mboweni's economic strategy discussion document is currently under consideration within the governing African National Congress (ANC) and its alliance partners. Its release has raised hope of growth-enhancing policy and structural reforms.

The plan centres around several key policy outcomes – improving educational outcomes, lifting restrictions on skilled immigration, pushing for least-cost solutions to the electricity crisis, deregulating the energy market, selling off non-core state owned enterprises, reforming industrial policy, and supporting small business and the agriculture sector. In addition to tackling big-ticket items such as the Mining Charter (which has been finalised) and broadband spectrum policy, amendments to visa regulations are also expected to bring positive economic results.

Despite risk ratings downgrades by S&P and Fitch, high unemployment and growing fiscal debt, Moody's Investor Service has to date maintained South Africa's investment grade status, with a stable outlook. Moody's was scheduled to review South Africa's credit rating in November 2019.

Ramaphosa has prioritised economic diplomacy as a key pillar of government policy and a personal priority, and is seeking to attract investment to revive South Africa's economy. His team of investment envoys

#### Key facts and figures

- Population: 57.7 million (2018)
- GDP growth: 0.8% (2018)
- GDP per capita: USD 6,377
- Political system: parliamentary republic
- Two-way goods and services trade: AUD 3.9 billion. Main exports – aluminium, coal; Major imports – automobiles
- Two-way investment: AUD 13.3 billion
- Aid relationship: Australian Volunteers, Australia Awards and recipient of Direct Aid Program (DAP)AP



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continues to work towards the stated goal of securing USD 100bn in investment over five years. The second South Africa investment conference will take place in November 2019.

The South African population continues to grow, albeit at lower rates than other countries in sub-Saharan Africa. The birth rate has slowed and the once youthful population is gradually ageing. South Africa's relative stability and economic growth has however acted as a magnet for migrants, including refugees from neighbouring countries. There is a growing black middle class with two thirds of the population living in urban environments.

South Africa is considered the gateway into Africa given its comparatively superior infrastructure, transport, telecommunications and highly developed financial and banking system. South Africa's economy was built on the discovery of gold, minerals and base metals for export, and is well known for its dominance in resources and agricultural products. However South Africa has transformed into a sophisticated manufacturing and service based economy—services now comprise about two thirds of GDP while mining and agriculture now contribute less than 10 per cent in total to GDP. The financial and telecommunication sectors have shown strong growth in a difficult economic climate, with South African banks and mobile operators expanding their operations into Africa.

## Trade, investment, and commercial opportunities and activities

- South Africa is a top 30 trading country for Australia, and our largest trading partner in Africa. Two-way trade in goods and services in 2018 was worth almost \$4 billion. The trade relationship is balanced, with Australia exporting aluminium and coal, and importing passenger motor vehicles:
  - trade grew 12 per cent in 2018, with Australian exports of aluminium growing more than 60 per cent, and
  - Australia's trade with South Africa makes up around one per cent of South Africa's total trade volumes.
- Australian businesses ranked South Africa as a top 20 first international market in the 2018 Australian Business Survey (ABS).
- The Australia-South Africa investment relationship is strong and broad, doubling since 2012 to over 13 billion in 2018. It ranks above many of our Asian trading partners including Thailand, Indonesia and Vietnam:
  - Australia was the seventh largest single foreign country investor in South Africa in 2016 (SARB), and
  - Australia and ASX listed companies are the largest investors in South Africa's mining sector, and the second largest in Global Business Processing.
- Mining leads the investment relationship. Rio Tinto, South32, MC Mining and MRC have active operations in the market. Orion Minerals and Theta Gold have active exploration projects:
  - Rio Tinto in April 2019 announced a \$685 million investment for the next stage of the Richards Bay Minerals mineral sands project in KwaZulu-Natal province, and



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- Orion Minerals will commence mining around 2020 at its Prieska copper/zinc project in South Africa's Northern Cape province. The company was awarded a 24-year mining right in September 2019.
- The bilateral economic relationship is diversifying from mining to services, including into the METS, civil engineering, retail, financial, ICT, tourism and property sectors:
  - Australia's Cotton On has over 170 stores in South Africa, including its largest store in the world
  - Australia's Windlab has implemented renewable energy projects through the Western and Eastern Cape
  - Osmoflo partnered on a desalination plant project in Cape Town, and
  - Worley and Aurecon provide infrastructure project management services.
- There has been considerable South African investment into Australia:
  - Woolworths Holdings Limited purchased Australia's David Jones and Country Road stores in 2014, Growthpoint Properties is now one of the top five office and commercial leasing companies in Australia, and Outsurance owns Youi Insurance in Australia:
    - Outsurance in September 2019 announced it would sell its Youi New Zealand business to focus on Australia where it sees stronger growth, and
    - South Africa's Safika Holdings recently invested in Brisbane Valley Protein as its first Australian agricultural investment.
- South Africa has promoted itself as a base for foreign companies to set up Global Business Services (GBS), and Australian companies now make up 25 per cent of the market:
  - opportunities exist for technological developments in the finance, e-commerce and communications sectors.
- There are structural, environmental and seasonal similarities between the South African and Australian economies:
  - businesses in both countries have an understanding of mining and agricultural commodity boom and bust cycles, as well as critical inputs including water and energy.
- While Australia and South Africa are perceived as natural competitors in the agriculture sector, there are opportunities for research and development in agri-processing and agricultural services and technologies:
  - South Africa was the 10th largest investor in Australian agricultural land in 2017.
- South Africa's state owned enterprises are undergoing structural and management reform:
  - there may be opportunities to consult on reform and potential privatisation.
- Reforms to electricity service provider Eskom may provide opportunities for renewable and independent energy providers:
  - the recently gazetted Integrated Resources Plan 2019 provides for a diversified energy mix including renewables, solar, wind, gasification, nuclear, gas, hydropower and clean coal.



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- South Africa is a growing global tourism destination and there may be opportunities for investment in infrastructure and tourism services:
  - both Qantas and South African Airways operate daily flights to Johannesburg from Sydney and Perth respectively
  - Johannesburg remains the air access hub, however direct international air services have been increasing to Cape Town (in particular) and Durban
  - almost 90,000 Australian tourists visited South Africa in 2018, with Australia the sixth largest source of tourists to South Africa outside the African continent, and
  - almost 60,000 South Africans visited Australia in 2018.
- South Africa hosts numerous continental and global conferences, including the Investing in African Mining Indaba (held annually in early February) which the Australian Government supports, along with sectoral manufacturing, energy, food and agri-business, innovation and tourism indabas, amongst others:
  - these could provide additional opportunities to promote Australia and Australian businesses, and
  - South Africa is a key participant country in Africa Down Under and Australia–Africa Week activities held annually in Perth.
- South African government delegations have visited Australia to undertake study visits in the mining, health, water management, road safety and aquaculture sectors:
  - these provide opportunities for skills development and business engagement.
- Opportunities exist for enhanced education exchanges to promote skills development, especially vocational training in Australia including through Australia Awards scholarships:
  - as well as the Australia Awards, the Australian Government also operates the Australia Volunteers program and a small direct aid program for appropriate candidates.
- Australian businesses have the following market entry concerns:
  - Issues with non-tariff barriers in importing products into South Africa resulting from customs, quarantine and standards complications. Greater cooperation between customs, agriculture and standards regulators and organisations would be beneficial.
  - Employment Equity and Black Economic Empowerment provisions have been implemented to address socio-economic inequality resulting from the apartheid era. Requirements and legislation may be confusing, if not understood.
  - Exchange control regulations complicate repatriation of finances to Australia.

## Trade policy and negotiations

Australia does not have an FTA or trade agreement with South Africa. There is a bilateral tax agreement.

In the absence of an FTA, our economic engagement framework is based around biennial senior official talks (last held in 2018), and biennial trade and investment consultations, with the second of these scheduled for November 2019 in Pretoria. We have agreed to develop a plan of potential trade barriers and opportunities to take the relationship forward.



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South Africa is a member of multilateral organisations including the WTO, G20, Commonwealth and IORA (South Africa was host in 2018). It also has a non-member working relationship with the OECD, which provides additional engagement opportunities.

South Africa has trade agreements with the following countries and regional organisations:

- Southern African Customs Union (SACU)
- FTA with the Southern African Development Community (SADC)
- Economic Partnership Agreement (EPA) as SACUM (SACU plus Mozambique) with the EU and an FTA with EFTA
- EPA with the UK in the event of Brexit, which largely replicates the existing EPA with the EU
- Preferential Agreement with Mercosur, and
- non-reciprocal agreement with the United States – African Growth and Opportunities Act (AGOA)

South Africa is negotiating FTAs with:

- India, and
- regional organisations including SADC-EAC-COMESA through the Tripartite FTA.

The agreement establishing the African Continental Free Trade Area (AfCFTA) entered into force on 30 May 2019. Fifty-four African states have signed, while to date 28 have ratified the agreement, including South Africa.

- South Africa will Chair the African Union in 2020.
- South Africa is a member of BRICS and co-hosted the forum on China–Africa Cooperation (FOCAC) in Beijing in September 2018.

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