

South Africa

Business Conditions Snapshot

- South Africa's economy remains under severe pressure. It has been in recession since late 2019 with the economy forecast to contract 7.8 per cent in 2020 as a result of COVID-19. 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, government debt increasing, unemployment rising and inequality persistently high. Electricity shortages and 'load shedding' can be expected to occur for the foreseeable future and businesses may need to ensure they have a reliable supply of energy. All major risk ratings agencies have rated South Africa at sub-investment grade.
- Policy reforms to boost growth in the short term—while also creating the conditions for higher long-term sustainable growth—are imperative. The October 2020 Economic Reconstruction and Recovery Plan (ERRP) seeks to provide greater clarity on the implementation of significant policy announcements and reforms, designed to promote economic transformation, support labour-intensive growth and create a globally competitive economy.
- Favourable policy developments of interest to Australian businesses include initiatives in the following sectors:
 - Mining – the Mining Charter III provides a framework for business operation with more business-friendly provisions around 'once empowered always empowered' now functioning to attract junior mining exploration in particular.
 - Energy – implementation of the Integrated Resource Plan is underway with the National Energy Regulator of South Africa enabling additional energy to be procured from independent power producers, including renewable energy, gas and storage.
 - Infrastructure and construction – the Sustainable Infrastructure Development Symposium held in June 2020 announced plans to develop a space hub, prioritise urban and rail development, and water management. Funding is yet to be finalised.

Key facts and figures

- Population: 57.9m (2018)
- GDP growth: 0.4 per cent (2019)
- GDP per capita: US\$6,100
- Political system: Parliamentary Republic
- Two-way trade: A\$3.8 billion (2018-19)
- Key exports: aluminium, coal
- Key imports: automobiles
- Two-way investment: A\$14 billion
- Aid relationship: Australian Volunteers, Australia Awards, recipient of Direct Aid Program and ANCP



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- Telecommunications and digital penetration – spectrum licences are expected to be auctioned in 2021.
- Healthcare – the future implementation of the national health insurance bill with centralised healthcare procurement may provide opportunities with a local partner.
- Education – South Africa is a growing source of international students, with over 500 commencements in Australian education institutions in 2019 (up from 400 in 2018). Students are also eligible for Australia Awards scholarships. The prioritisation of labour law reforms in the 20-year National Development Plan may create opportunities for education providers to address skilled labour.
- President Ramaphosa has prioritised economic diplomacy as a key pillar of government policy and a personal priority. He is seeking to attract investment to revive South Africa’s economy. His team of investment envoys continues to work towards the stated goal of securing US\$100bn in investment over five years, having achieved 64 per cent of the target by 2020. Annual November investment conferences provide a platform for government to announce policy reforms, and for businesses to pledge investment.
- South Africa is considered the gateway to Africa given its comparatively superior infrastructure, transport, telecommunications and highly developed financial and banking system. The 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.
 - South Africa has transformed into a sophisticated manufacturing and service-based economy, with services now comprising about two thirds of GDP. Mining and agriculture now contribute less than 10 per cent in total to GDP.
 - The financial and telecommunications sectors have shown strong growth in a difficult economic climate, and South African banks and mobile operators are expanding their operations into Africa.
 - The African Continental Free Trade Area (AfCFTA)—once implemented from 2021—may enable opportunities to use South Africa as a base for intra-African trade and investment.
- 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 historical relative stability and economic growth is acting 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.



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- South Africa initially implemented a very strict lockdown in response to COVID-19.
 - By November 2020, the lockdown had largely been lifted, though regulations are being regularly monitored in response to case forecasts.
 - All international travel – including for business and tourism – was permitted, and government support packages are gradually being rolled back. There is a trend to domestic production. Government incentives have been established to encourage foreign investment and support domestic manufacturing supply chains.

Trade and Investment Opportunities

- South Africa is a top 30 trading country for Australia.
 - The country is our largest trading partner in Africa.
- Two-way trade in goods and services in 2019 was worth almost \$4 billion.
- The trade relationship is fairly balanced.
 - Australia exports aluminium and coal, and imports passenger motor vehicles.
 - Australia's trade with South Africa makes up around 1 per cent of South Africa's total trade volumes.
 - Australian businesses ranked South Africa as a top 20, first international market in the 2019 Australian Business Survey (ABS), equal to Canada, Taiwan and Vietnam.
- The Australia–South Africa investment relationship is strong and broad, doubling since 2012 to over 14 billion in 2019. 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).
 - ASX listed companies collectively, are the largest investor in South Africa's mining sector, and the second largest in Global Business Processing.
- Mining leads the investment relationship, with Rio Tinto, South32, MC Mining and MRC having active operations, and Orion Minerals and Theta Gold active exploration projects.
 - Rio Tinto has announced a A\$685m investment in the next stage of the development of its Richards Bay Minerals mineral sands project in KwaZulu-Natal province. It will develop a new mine – Zulti South – though construction is yet to commence.
 - Orion Minerals is looking to commence mining in 2021 at its Prieska copper/zinc project in South Africa's Northern Cape Province, after it received the necessary mining rights.



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- The bilateral economic relationship is diversifying away from mining to services, including into the METS, civil engineering, retail, financial, ICT, tourism and property sectors.
- Australia's Cotton On has more than 170 stores in South Africa, including its largest store in the world.
 - Flight Centre is the largest travel agency in Africa.
 - Windlab has implemented renewable energy projects through the Western and Eastern Cape.
 - Osmoflo has partnered on a desalination plant project in Cape Town.
 - Worley and Aurecon provide infrastructure project management services.
 - In late 2020, Australia's OZblu blueberry producer, United Exports Group, pledged a A\$100m investment (double its current investment) in the agriculture sector.
- COVID-19 restrictions have highlighted digital opportunities in the education sector.
 - Australia's IDEA Digital Education has had success in creating virtual school solutions and digital curriculums for government departments.
 - In June 2020 it was awarded the UN Economic Commission for Africa (UNECA) award for Best Innovation for Government in Response to COVID-19.
- 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.
 - Outsurance owns Youi Insurance in Australia.
- In 2019 South Africa's Safika Holdings invested in Brisbane Valley Protein – its first Australian agricultural investment.
- The Foschini Group purchased Australia's Retail Apparel Group in Australia, including more than 500 stores.
- Murray & Roberts owns Australia's Clough, which is contracted to construct the Snowy 2.0 Project.
- Sea Harvest owns its subsidiary fishing business in Western Australia, and sells to Australian domestic food retailers and for export to Asia.
- South African affiliates of Australian businesses (more than 50 per cent Australian ownership) have significant investment in Australia.
 - A\$10 billion in industry value add.



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- A\$2 billion in capital expenditure to the South African economy.
- Employment for over 13,000 South Africans (2018–19).
- The relative importance of South Africa to Australian businesses, ex Australia, South Africa, has been ranked:
 - Fifth behind New Zealand, the US, UK and ASEAN for industry value add.
 - Fourth behind the US, UK and Canada for capital expenditure.
 - Seventh behind New Zealand, ASEAN, the US, UK, EU and Canada for employment.
- There are business chambers in Australia and South Africa, and businesses from both countries can leverage these to take advantage of their networks, advocacy and engagement opportunities.
- The increasing number of South Africans who have emigrated to Australia creates opportunities, as many still have commercial links to South Africa and an understanding of the business environment.
 - South Africans are the seventh largest migrant group in Australia comprising 194,000 people, or around 0.8 per cent of the entire Australian population in 2018–19).
- South Africa has promoted itself as a base for foreign companies to set up Global Business Services. Australian companies now make up 20 per cent of the market.
 - There are opportunities in the professional services, 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 availability.
- While Australia and South Africa are perceived as natural competitors in the agriculture sector, there are opportunities for research and development in agro-processing and agricultural services and technologies.
 - South Africa is a top 10 investor in Australian agricultural land.
- South Africa's state-owned enterprises are undergoing structural and management reform, and there may be opportunities for consultation on reform and potential privatisation.
- Reforms to electricity service provider Eskom may provide opportunities for renewable and independent energy providers.



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- The 2019 Integrated Resources Plan has commenced and provides a diversified energy mix including renewables, solar, wind, nuclear, gas, hydropower and cleaner coal.
- As a major source of Platinum Group metals, South Africa is developing its hydrogen strategy to take advantage of battery storage and related technologies.
- There will be research and investment opportunities for Australia as joint host countries for the Square Kilometre Array.
 - This includes potential promotions at the annual Science Expo and World Science Forum (South Africa is the forum host for 2021).
- Before COVID-19, South Africa was a growing global tourism destination and there may be opportunities to invest in infrastructure and tourism services as it adjusts to COVID-19 travel arrangements.
 - Qantas and South African Airways previously operated daily flights to Johannesburg from Sydney and Perth.
 - With no airline currently operating direct flights, there will be less opportunities for companies to undertake business development.
- South Africa hosts numerous continental and global conferences, including the Investing in African Mining Indaba (held annually in early February).
 - The Australian Government supports this initiative, 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.
 - 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 all provide opportunities for skills development and business engagement.
- Enhanced education exchanges such as the Australia Awards scholarships help promote skills development, especially vocational training in Australia.
 - As well as the Australia Awards, the Australian Government operates:
 - » The Australia Volunteers program.
 - » A small Direct Aid Program.
 - » The Australian NGO Cooperation Program.



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- Australian businesses have highlighted market entry concerns which were included in our bilateral Action Plan with the South African Government.
- The aim is to remove potential non-tariff barriers and identify trade and investment opportunities.
 - Non-tariff barriers on importing products into South Africa result from customs, quarantine and standards complications.
 - Greater cooperation between customs, agriculture and standards regulators and organisations would be beneficial.
 - Employment Equity and Broad-Based Black Economic Empowerment provisions have been implemented to address socio-economic inequality resulting from the apartheid era. Requirements for the legislation are complex and may be confusing.
 - Exchange control regulations complicate repatriation of finances to Australia.
- Crime and violence are serious issues in South Africa and have been raised by business as a concern. See <https://www.smartraveller.gov.au/destinations/africa/south-africa> for further information.

Trade Policy Focus

- Australia does not have an FTA or trade agreement with South Africa. There is a bilateral tax agreement.
- In the absence of an FTA, the economic engagement framework with the South African Government is based around biennial senior official talks (last held in 2018 in Canberra) and biennial trade and investment consultations (last held in November 2019 in Pretoria).
- At the 2TIC, South Africa and Australia developed an action plan to remove potential non-tariff barriers and identify opportunities to take the trade and investment relationship forward.
- South Africa is a member of multilateral organisations including the WTO, G20, Commonwealth and IORA (South Africa was host in 2018), and has a non-member working relationship with the OECD, which provide additional engagement opportunities.
- South Africa has trade agreements with a number of 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 the European Free Trade Association (EFTA).



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- EPA with the UK following Brexit, which largely replicates the existing EPA with the EU.
- Preferential Agreement with Mercosur.
- Non-reciprocal agreement with the United States – the African Growth and Opportunities Act (AGOA).
- South Africa is negotiating FTAs with:
 - India.
 - 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-five African states have signed, with 30 including South Africa having ratified it. It is expected to be implemented in 2021 so that trade can commence under the agreement.
- South Africa chaired 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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Insight current as at December 2020.



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