THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

THIRD QUARTER 2020

The Real Economy Bulletin is a TIPS review of quarterly trends, developments and data in the real economy, together with a comprehensive analysis of the main manufacturing industries and key data in Excel format.*

Gross domestic product

In the third quarter of 2020, the GDP recovered 13.5% after the extraordinary downturn in April that led to an overall decline of 16% in the second quarter. As a result, although quarterly output was still at levels last seen in 2016, it was on track to do better than most forecasts. The biggest risk to the recovery in the short run remains a second wave of COVID-19 as a result of socialising and travel over the holiday season.

In the third quarter of 2020, the GDP grew by 13.5% over the second quarter, in seasonally adjusted terms. It regained three quarters of the losses suffered in the second quarter, when the GDP shrank by 16%. Still, the economy was 8% smaller than in the final quarter of 2019, before the pandemic began to affect the national and the global economy. Graph 1 underscores the extraordinary swings in production as a result of the pandemic.

*Available at www.tips.org.za/the-real-economy-bulletin

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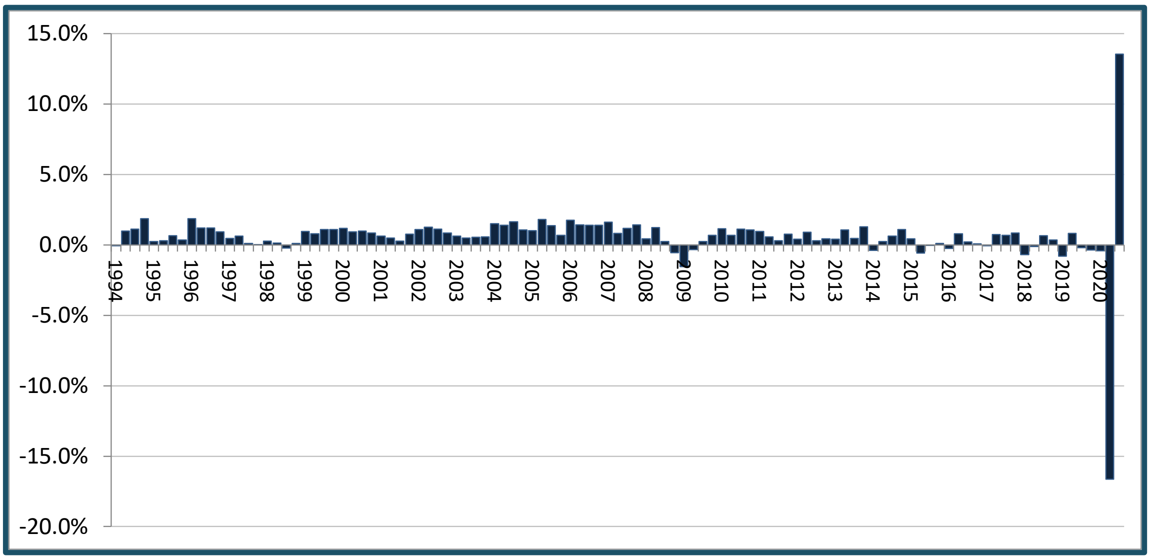
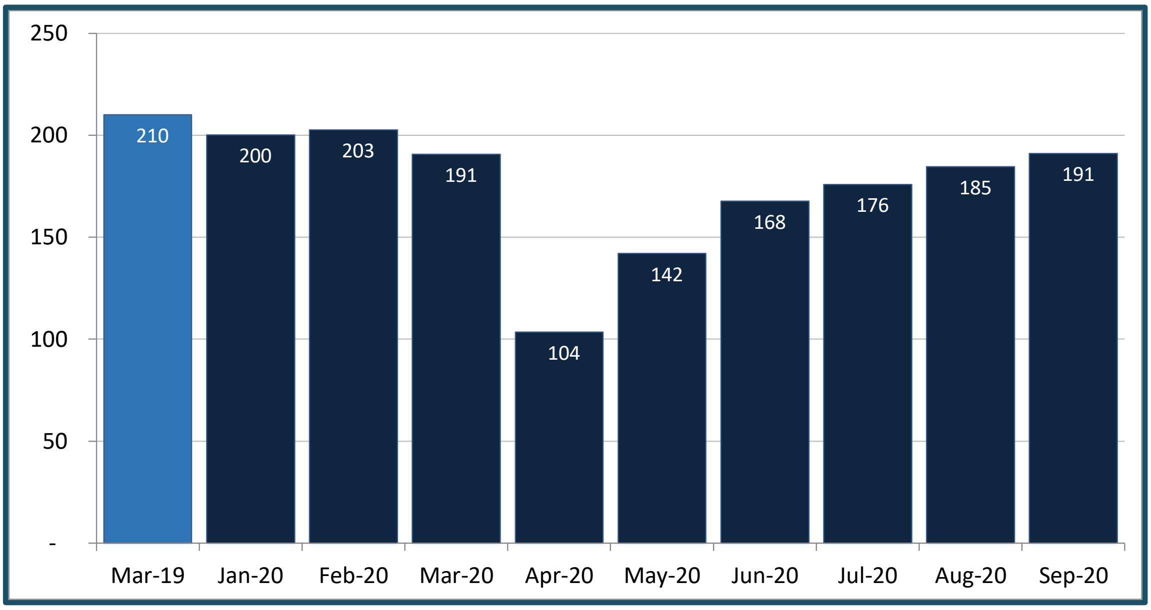
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to third quarter 2020



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

The quarterly GDP data conceal large month-on-month changes that result from the pandemic. The extent of these changes can be seen in monthly and weekly indices. For instance, monthly manufacturing sales in constant rand fell 46% in April compared to March; recovered by 62% in June; and grew 14% through September. As a result, they returned to March 2020 levels in September – but that was 10% below March 2019. That is, manufacturing growth appeared to be levelling out below 2019 levels, despite the significant rebound from April to September.

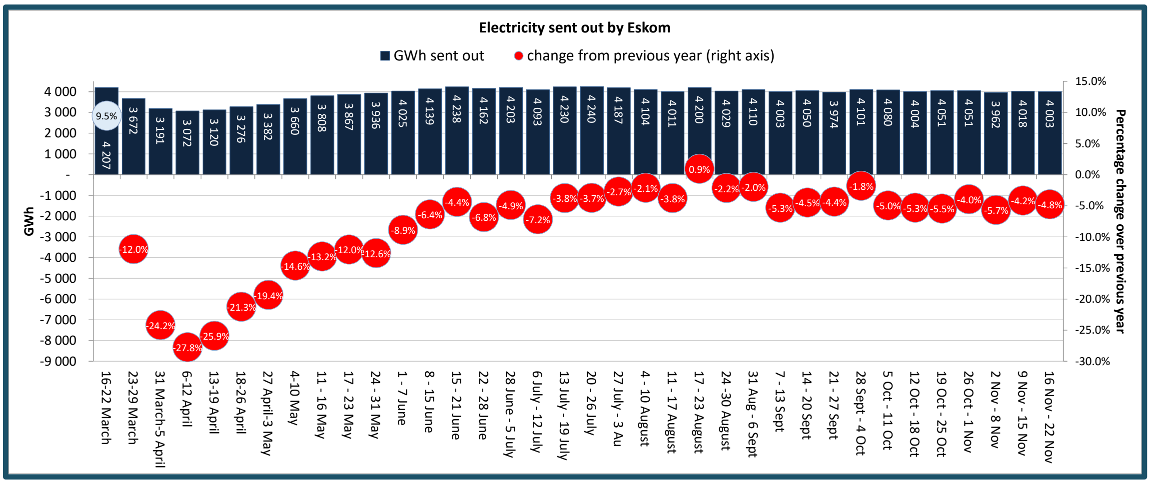
Graph 2. Monthly manufacturing sales in billions of constant (2020) rand (a), seasonally adjusted



Note: Deflated with CPI rebased to September 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Eskom's weekly data on its electricity sales show a similar pattern. They fell 25% in April, followed by a significant rebound to 5% below 2019 levels at the end of June, but then stagnated.

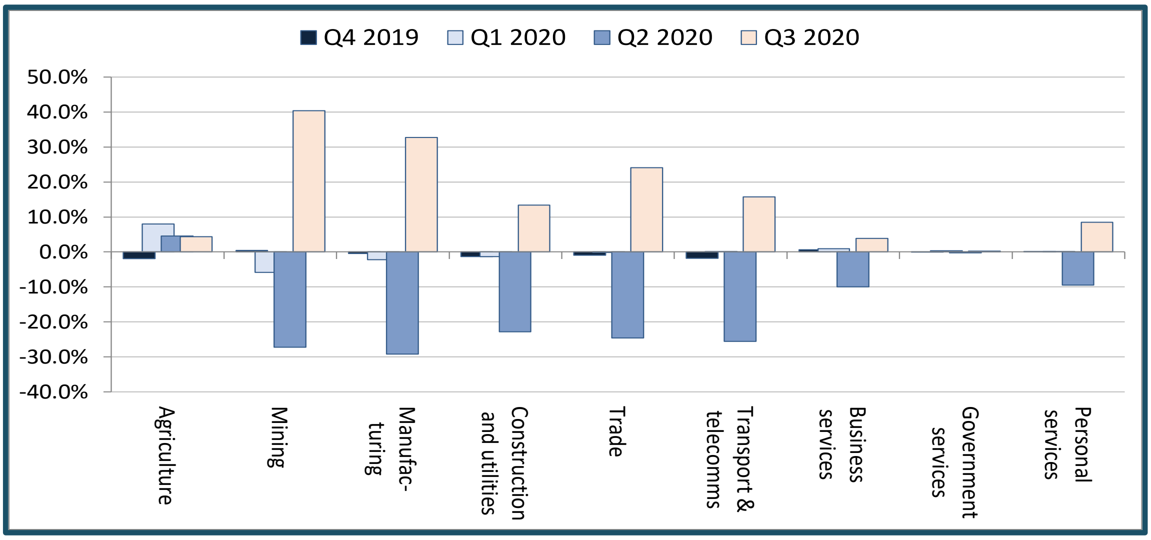
Graph 3. Electricity sent out by Eskom in GWh and compared to the same period in 2019, mid-March to mid-November



Source: Calculated from Eskom. Weekly System Status Reports. Downloaded at www.eskom.co.za.

In sectoral terms, only agriculture had higher value added in the third quarter than a year earlier. Mining and manufacturing declined sharply in the second quarter, but rebounded 40% and 33% respectively in the third quarter. Construction saw a weak 14% recovery, following on a 23% contraction in the second quarter and a much longer but more gradual decline that started in 2015. In contrast, services outside of logistics proved relatively resilient. These figures obscure substantial differences between industries. Accommodation and catering saw a sharp decline, as discussed below, but other services fared better. Professional services appear to have weathered the storm relatively easily because they can usually be managed from home; security and commercial cleaning counted as essential; and the public services saw a substantial redistribution toward health and security, but essentially remained stable throughout the past year.

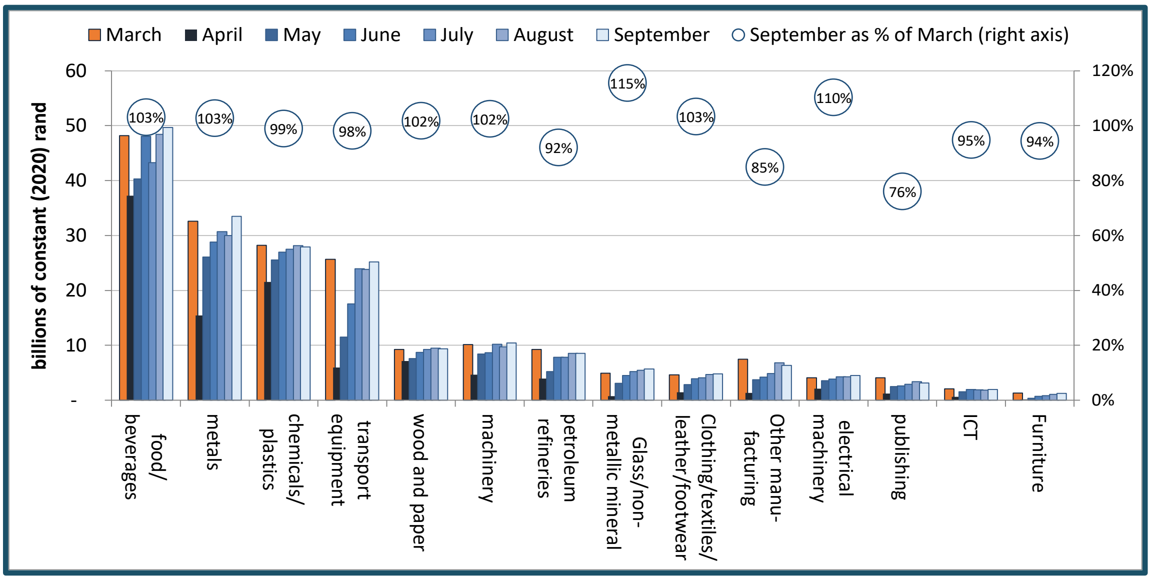
Graph 4. Quarterly growth by sector, fourth quarter 2019 to third quarter 2020



Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Within manufacturing, the largest industries had all returned to March sales levels by September. For most, however, sales essentially stabilised in the third quarter after a sharp rebound in May and June.

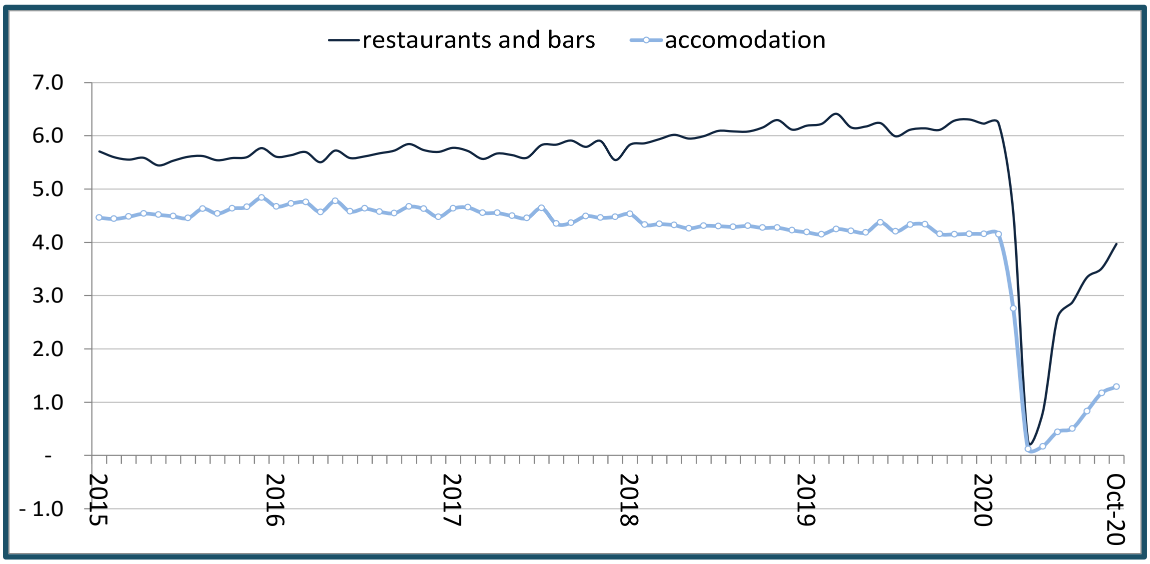
Graph 5. Monthly sales by manufacturing industry in billions of constant (2020) rand (a), seasonally adjusted and September sales as percentage of March sales



Note: Deflated with CPI rebased to September 2020. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales. Excel spreadsheet downloaded from www.statssa.gov.za.

Within the services sectors, the pandemic had an extraordinary impact on high-risk entertainment activities, including bars, restaurants and clubs, which form part of the much larger trade and personal services sectors. Monthly figures on accommodation and catering illuminate trends in two of the hardest-hit industries. Together, they directly contributed around 1.5% of the GDP and close to 3% of formal employment in 2019, according to Quantec estimates. Both industries saw their aggregate income fall to near zero in April. The decline started in March when people began to stay home voluntarily to avoid the contagion. The industries recovered significantly through October, but remained far behind January levels. Restaurant income was still 35% lower in September than in January; bars 60% lower; and accommodation 70% lower.

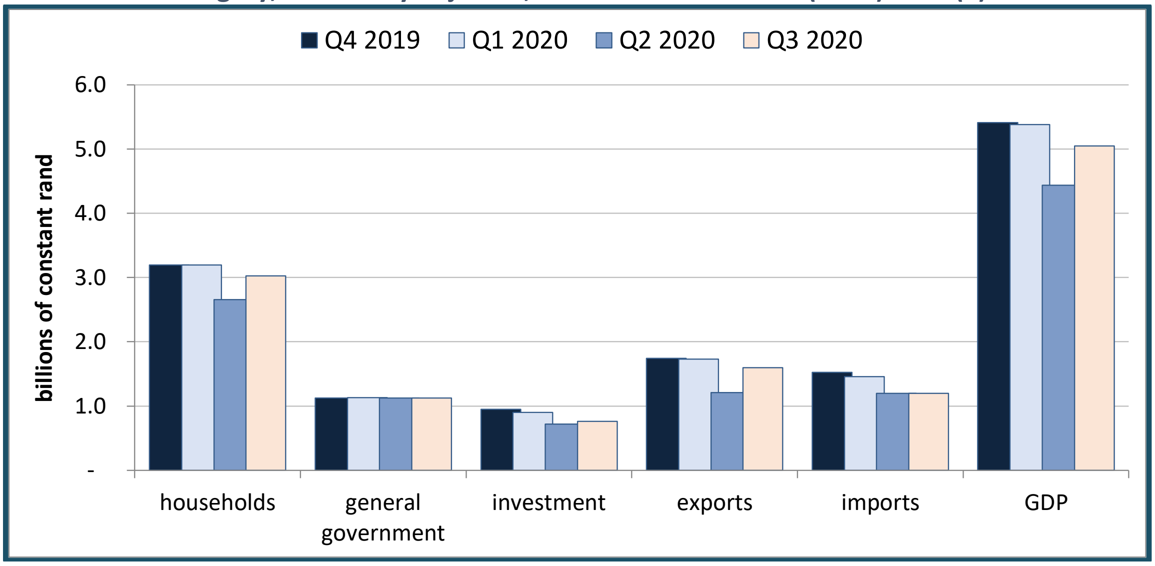
Graph 6. Income from accommodation and from restaurants and bars, monthly, from 2015 to October 2020 in billions of constant (2020) rand (a)



Note: (a) Reflated with CPI rebased to October 2020. *Source:* Calculated from Statistics South Africa, Food and Beverages, and Tourist Accommodation. Excel spreadsheets downloaded from www.statssa.gov.za.

On the expenditure side, the recovery was driven by household consumption and a surge in exports. Household consumption, which accounts for two thirds of spending on the GDP, dropped to 83% of its first quarter total in the second quarter, but recovered to 92% in the third. Exports fell 30% in the second quarter, then grew by a third off the much lower second quarter base. As a result, despite the rebound, household consumption in the third quarter was 5% below first quarter levels, and exports 8% lower. In contrast, investment fell by 20% in the second quarter and grew only 6% in the third quarter. It ended up 18% below its first-quarter level. Government consumption was essentially flat, which meant it did not provide a significant stimulus in this period.

Graph 7. Quarterly expenditure on GDP, fourth quarter 2019 to third quarter 2020, by category, seasonally adjusted, in billions of constant (2020) rand (a)

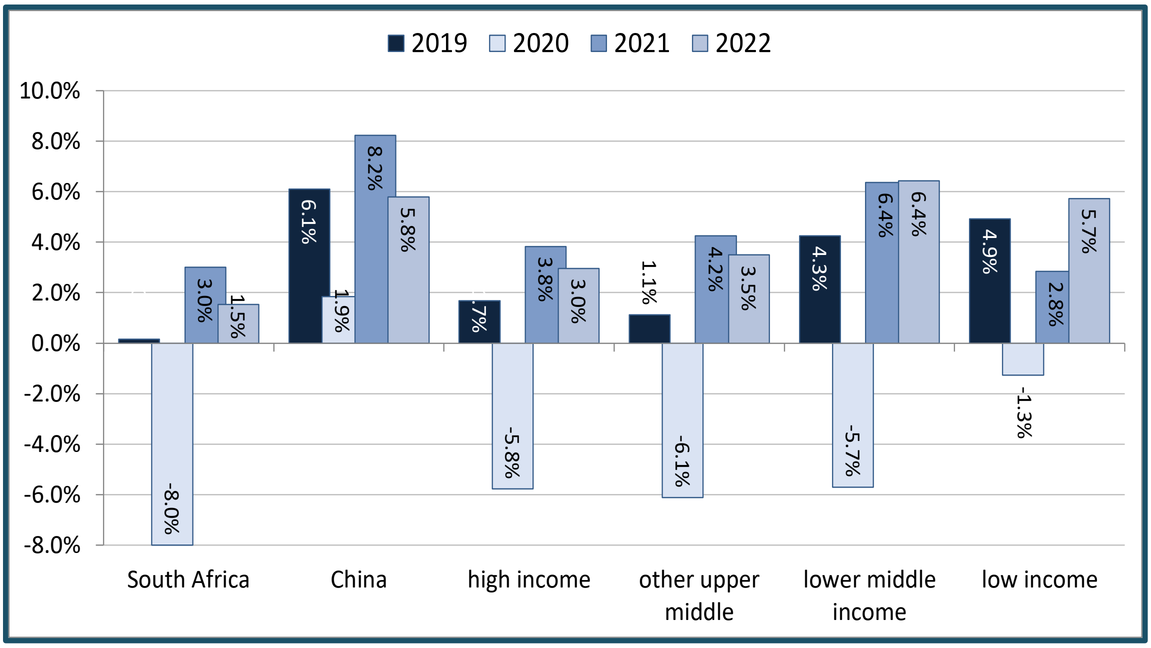


Note: Reflated using implicit deflator rebased to third quarter 2020. Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

As of October, the International Monetary Fund (IMF) forecast that South Africa's GDP would shrink by 8%, compared to a 6% decline in other upper-middle-income countries excluding China. In the year to the third quarter, however, South Africa out-performed this forecast, with a year-on-year decline of 5.8%. Of all major economies, only China was expected to expand in 2020.

More worryingly, the IMF projected that the South African economy would only expand by 4,5% through 2022, making up only just over half of the loss in 2020. In contrast, other upper-middle-income economies, outside of China, were expected to grow some 8% by 2022, climbing to 2% above their pre-pandemic size. Obviously, the forecast for South Africa depended on a range of assumptions around global and national trends as well as the impact of policy decisions.

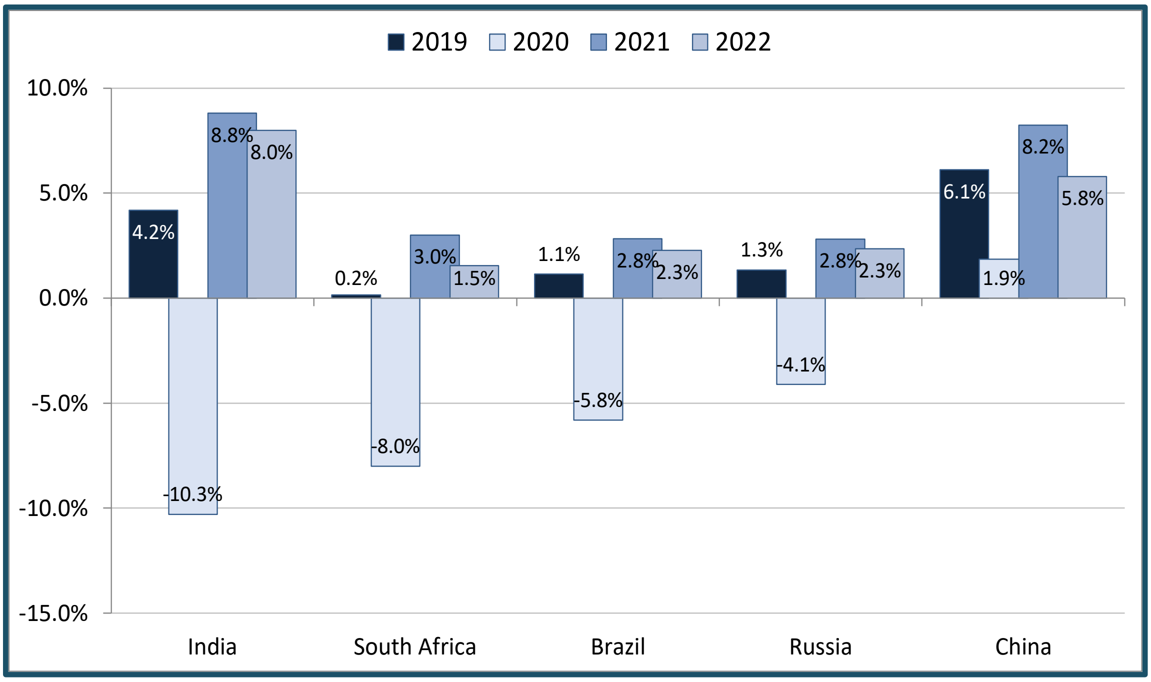
Graph 8. IMF forecasts for growth by World Bank country income group through 2022 (a)



Note: (a) Calculated by weighting country projections by the share of each country's GDP in current US dollars for the year. *Source:* Calculated from IMF. World Economic Outlook Database October 2020. Downloaded from www.imf.org.

A comparison with the other BRICS countries underscores the relatively slow recovery expected for South Africa. The IMF forecasts an even sharper decline for India than for South Africa, but a much faster rebound. Brazil and Russia look more like South Africa. (see Graph 9).

Graph 9. IMF forecasts for the BRICS economies through 2022

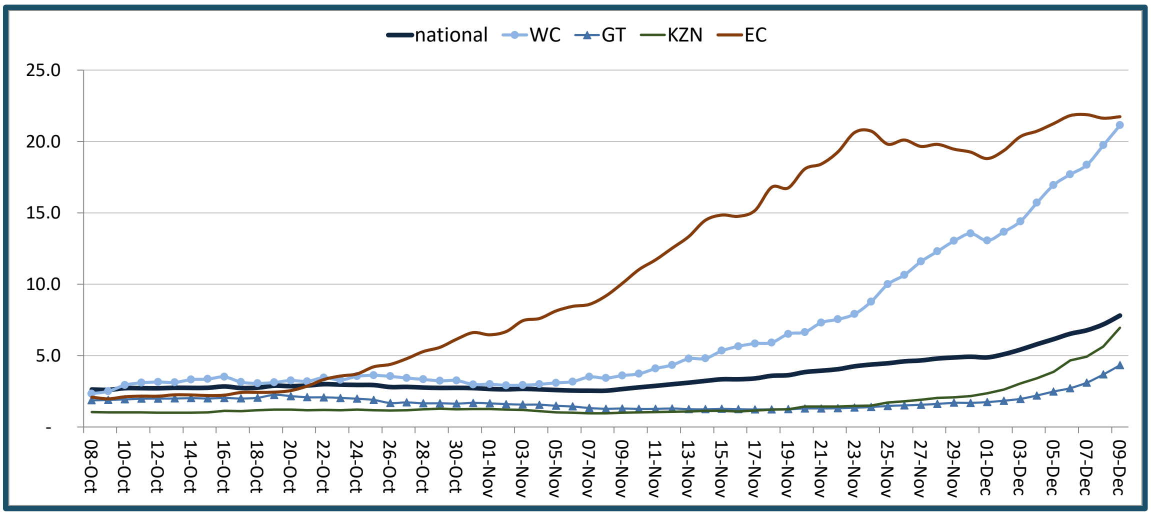


Source: Calculated from IMF. World Economic Outlook Database October 2020. Downloaded from www.imf.org

The main threat to recovery in South Africa is the effect of the second wave of COVID-19. The country officially entered a second wave on December 9 as new reported cases breached 6 000. Unless behavioural changes limit the contagion, the number is expected to grow rapidly over the Christmas and New Year holiday season.

In the global North, socialising and travel over their summer holidays fuelled a surge that has resulted in an economic slowdown. In the case of the United States and the United Kingdom, it appears that growth over the past quarter has been partially reversed. In South Africa, as the following graph shows, cases began to surge especially in the coastal provinces after the move to Level 2 of the disaster regulations in mid-August. They have also begun to rise exponentially in Gauteng. In this context, efforts to avoid further restraints on tourist facilities and inter-provincial travel risk setting back the rebound in the rest of the economy in the first half of 2021.

Graph 10. New COVID-19 cases per 100 000 residents by province, 8 October to 7 December



Source: Calculated from SACoronavirus. Updates on COVID-19 for relevant dates. Accessed at www.sacoronavirus.org.za

Employment

The rebound in employment lagged behind the recovery in production in the third quarter. Job losses have been highest for the working poor outside of agriculture – that is, lower paid formal workers, informal entrepreneurs and employees, and domestic workers. In contrast, formal managers and professionals have seen only marginal job losses, in part because they can more easily work from home. Employment in manufacturing saw a sharper decline in the second quarter and a slower recovery than the rest of the economy.

According to the Quarterly Labour Force Survey (QLFS), total employment climbed by 540 000 in the third quarter of 2020 compared to the second quarter. That is, of the 2.2 million jobs lost in the second quarter, the survey estimates that one in four returned in the third quarter. In percentage terms, total employment reportedly fell 14% over the second quarter and recovered 4% in the third quarter. The second-quarter figures likely understate the full impact of the pandemic, because the lockdown made it impossible to collect data in April.

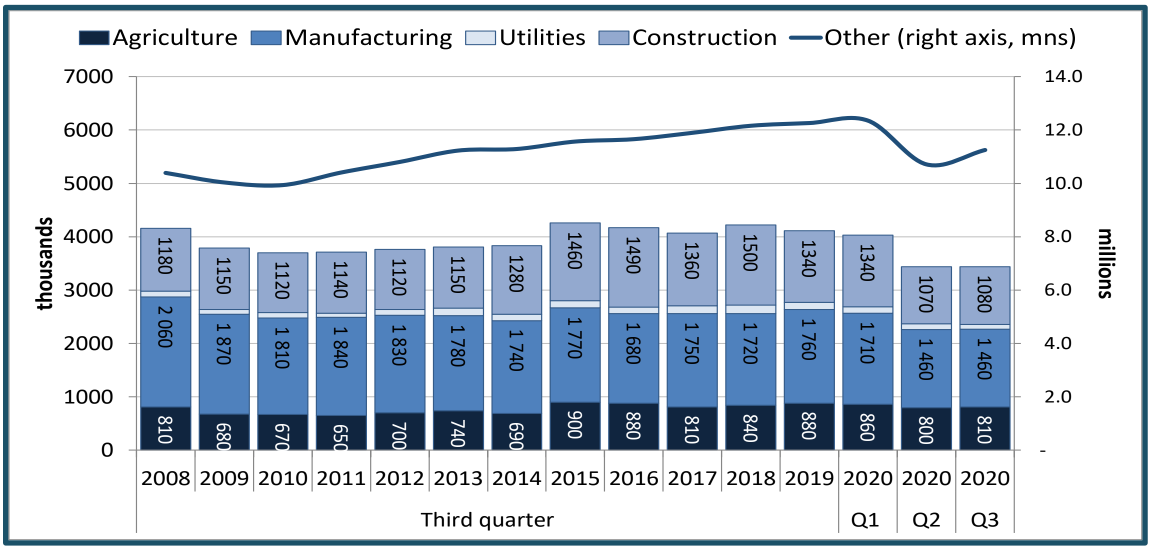
Job losses hit hardest at the lowest paid and least secure workers. Compared to the first quarter of 2020, third quarter employment for formal-sector managers and professionals, who held almost a third of all formal jobs, fell just 1% or around 35 000. In contrast, for other formal workers, employment shrank 12%, or around a million. Lower job losses for professionals and managers reflected both their greater ability to work from home and the high share of professionals employed in the relatively unscathed public sector, mostly in healthcare and education.

A similar picture emerges from a comparison of formal and informal workers. Formal employment fell 11% from the first to the second quarter, then recovered 2% in the third quarter, for a net loss of around a million jobs. Informal workers, in contrast, saw a 22% decline in employment in the second quarter, and regained 8% in the third quarter. As a result, they suffered a net loss of over 450 000 positions. That equalled almost a third of total job losses, although the informal sector contributes less than a fifth of total employment. Domestic workers were also hard hit, with losses of 24% in the second quarter offset by gains of 11% in the third, for a net fall in employment of 200 000. Overall, while formal employment was down by around a tenth in the third quarter compared to the first, informal and domestic workers had lost one job in seven. As an essential service, agriculture was the least affected sector, losing just 7% of employment, or around 60 000 jobs, from the first to the third quarter.

Significant differences also emerged by industry:

- Construction was the hardest hit, losing a fifth of its jobs in the second quarter and regaining only 1% in the third.
- Manufacturing lost 15% of employment in the second quarter, or 250 000 jobs. Despite the relatively strong recovery in sales through September, it regained almost no jobs from the second to the third quarter.
- In contrast to construction and manufacturing, mining employment more than recovered by November, according to figures from the Minerals Council (see Graph 14).
- Business services, which comprise mostly cleaning and security, also recovered relatively strongly. The industry lost 280 000 jobs from the first to the second quarter, but regained 200 000 in the third quarter.
- Retail and catering saw the largest job losses, as some 370 000 employment opportunities disappeared in the second quarter; of that, 200 000 were informal traders. In the third quarter, the sector gained back only 60 000 jobs, again mostly in the informal sector. The slow recovery in retail and catering reflected in large part the difficulties afflicting activities that directly serve the public as long as the pandemic is not fully under control, even though legal restrictions have been lifted.

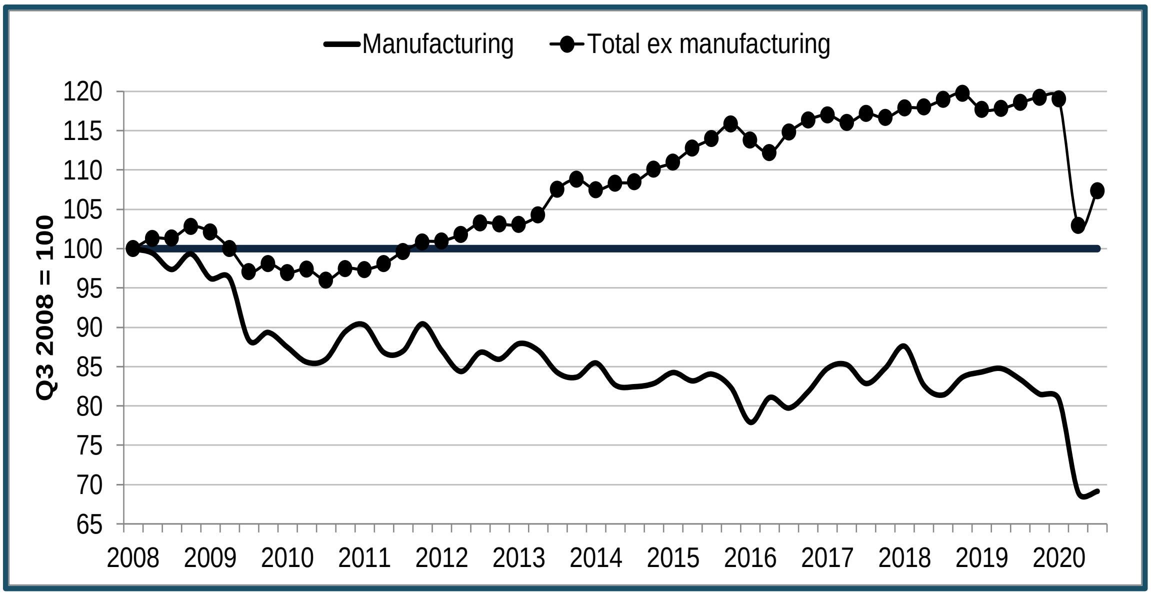
Graph 11. Employment by sector, not seasonally adjusted, third quarter 2008 to 2019 and first to third quarter, 2020



Source: Calculated from Statistics South Africa. QLFS 2008-2020 Q3. Excel spreadsheet. Downloaded from www.statssa.gov.za.

Generally, manufacturing employment saw a sharper downturn than the rest of the economy and a slower recovery.

Graph 12. Indices of employment in manufacturing compared to the rest of the economy (first quarter 2008 = 100), third quarter 2008 to 2019 and first to third quarter 2020

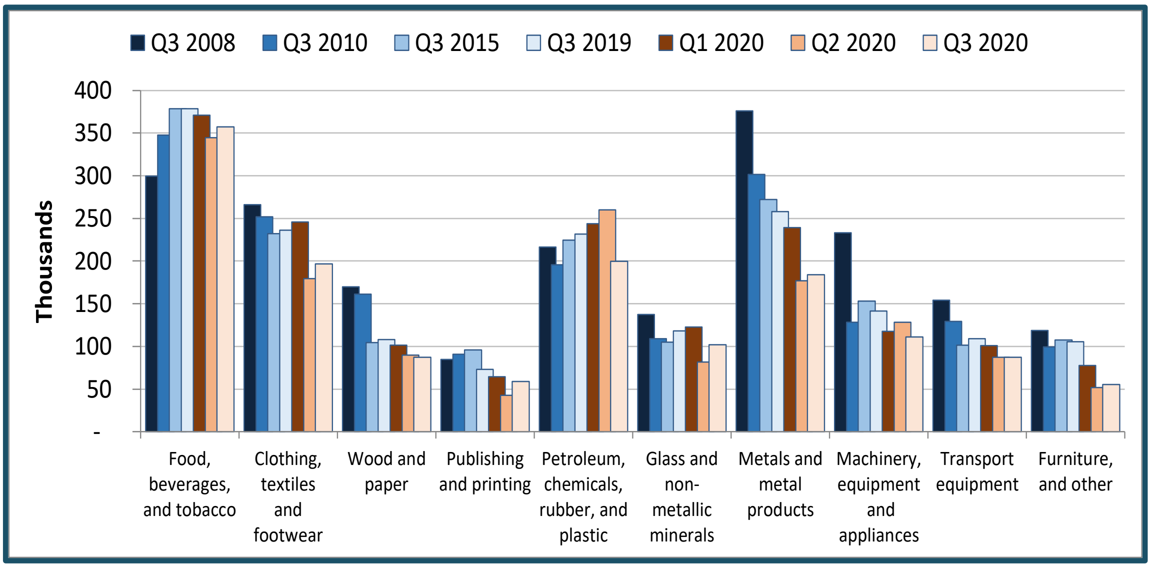


Source: Calculated from Statistics South Africa. QLFS 2008-2020 Q3. Excel spreadsheet. Downloaded from www.statssa.gov.za.

Within manufacturing, the sharpest declines from the first to the second quarter were in clothing and textiles and metals and metal products. These sectors both saw some recovery in the third quarter, although employment remained significantly lower than in the first quarter. Food processing was comparatively stable, reflecting its position as an essential industry. The data for chemicals and plastics are anomalous, with an increase from the first to the second quarter and a sharp fall in the third quarter.

Statistics South Africa's survey of large formal employers, the Quarterly Employment Survey, found a small fall in chemicals and plastics employment in the second quarter but has not yet released third-quarter findings.

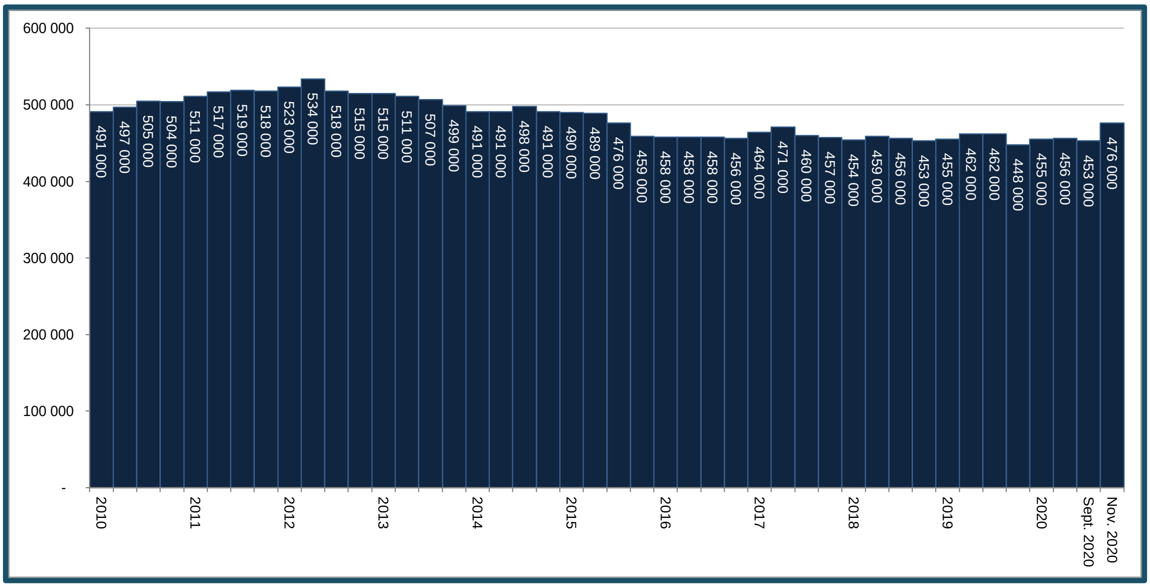
Graph 13. Employment by manufacturing industry, third quarter of 2008, 2010, 2015, 2018 and 2019 and 2020.



Source: Calculated from Statistics South Africa. QLFS for relevant quarter. Electronic databases. Downloaded from Nesstar facility at www.statssa.gov.za.

Mining employment was essentially flat from the first to the third quarter 2020. It climbed to 476 000 in November, however, its highest level since 2015.

Graph 14. Mining employment, quarterly, 2010 to 2020 and as of 30 November 2020 (a)



Source: To second quarter 2020, Statistics South Africa. Quarterly Employment Survey. Excel spreadsheet. Downloaded from www.Statistics South Africa.gov.za. For September and November, Minerals Council. Weekly COVID-19 dashboard for 28 September and 30 November 2020. Accessed at www.mineralscouncil.org.za.

Young workers were particularly hard hit by the loss of employment, in part because they are generally in lower-level jobs and in part because most employers follow the principle of last in, first out. Workers aged between 18 and 29 lost one in five of their paid jobs from the first to the third quarter 2020; for workers from 30 to 64 years old, the figure was one in ten. As a result, younger workers fell from 20% of all workers with an income in the first quarter to just 18% in the third quarter of 2020.

By race, African and Coloured workers fared worst, losing around a tenth of their total paid employment, compared to about a twentieth for Whites. These differences largely reflected the concentration of White workers in management and professional positions, which saw relatively few job losses.

Employment losses were not much differentiated by gender, with women and men losing around the same share of paid employment. That said, women hold only around a third of formal jobs, compared to half of informal and domestic employment and most unpaid work.

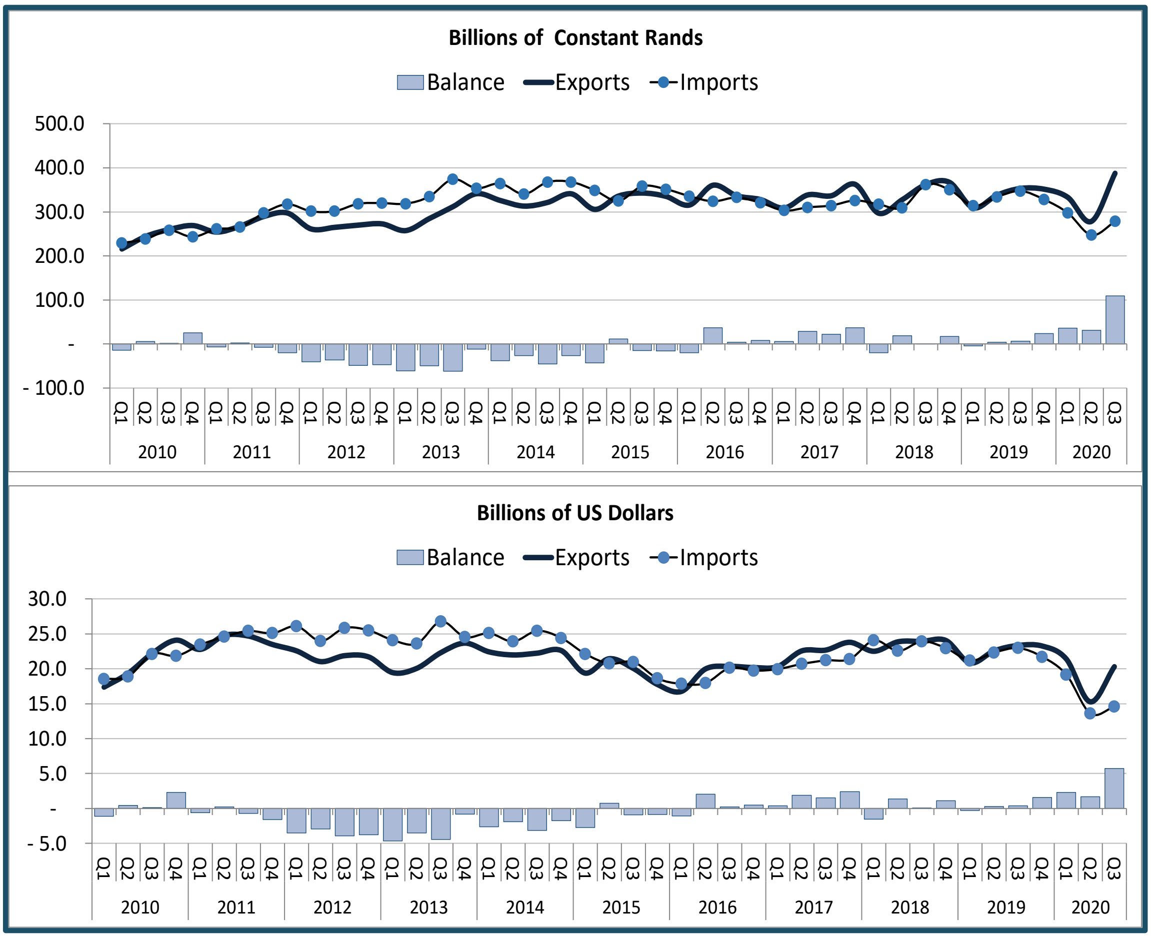
While the broad contours of the changes in employment are clear, the QLFS findings should be treated with caution. First, as noted above, month-to-month changes are significant, but the QLFS figures are averages of three months at a time. Second, because of the pandemic, the survey for the past two quarters has been conducted only by phone, with no survey at all in April. Phone calls lead both to an under-sampling of lower-income households and to a smaller response rate. The number of responses fell from 67 000 in the first quarter to 47 000 in the second and third quarters.

International trade

South Africa saw a strong recovery in its exports, especially gold, platinum and autos, in the third quarter. In contrast, imports remained subdued, mostly because of a combination of low petroleum prices and demand. These trends resulted in the highest balance-of-trade surplus since the transition to democracy.

Both exports and imports recovered strongly from the second quarter, but exports outstripped imports. As a result, the balance of payments climbed sharply, reaching 8,5% of the GDP. For comparison, since 1994 the balance of payments has been in surplus in 60% of quarters, but it never before exceeded 4% of the GDP.

Graph 15. Exports, imports and balance of trade in billions of constant rand and current US dollars, monthly from January 2019 to quarter 3 2020 (a)

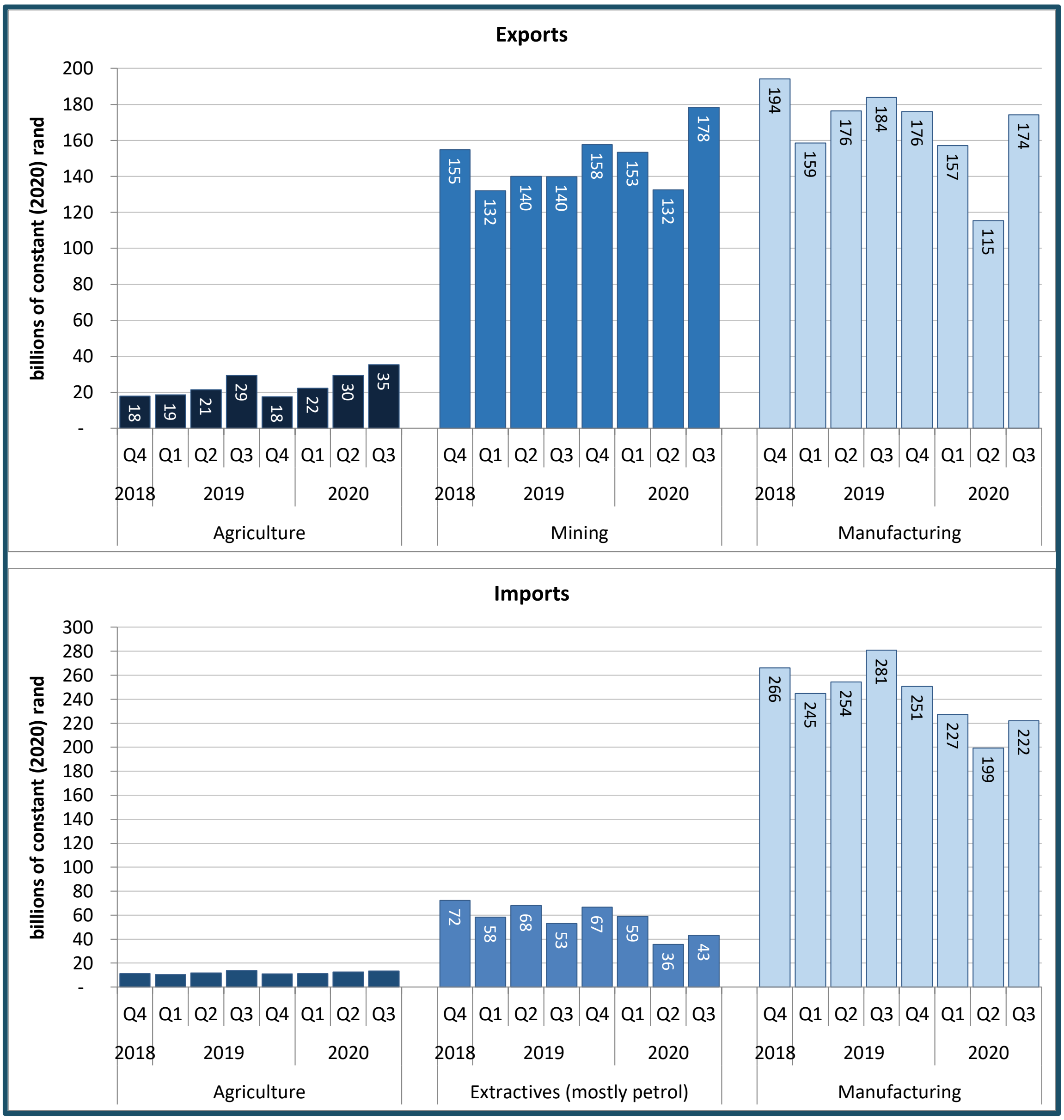


Note: (a) Constant rand values reflated using CPI rebased to September 2020; US dollar values calculated with trade-weighted exchange rate from the Reserve Bank. *Source*: Calculated from South African Revenue Service data.

The slow recovery in imports was largely due to lower petroleum prices combined with depressed demand, both for aviation and road transport. In addition, imports of machinery were lower than a year earlier as a result of falling investment. In terms of exports, instability in international markets led to a marked increase in gold and diamond prices, while auto exports recovered very rapidly.

Agricultural exports grew 17% year on year, thanks to a good harvest following adequate rain in most of the country. The following graphs show exports and imports by sector from the fourth quarter of 2019 in constant rand.

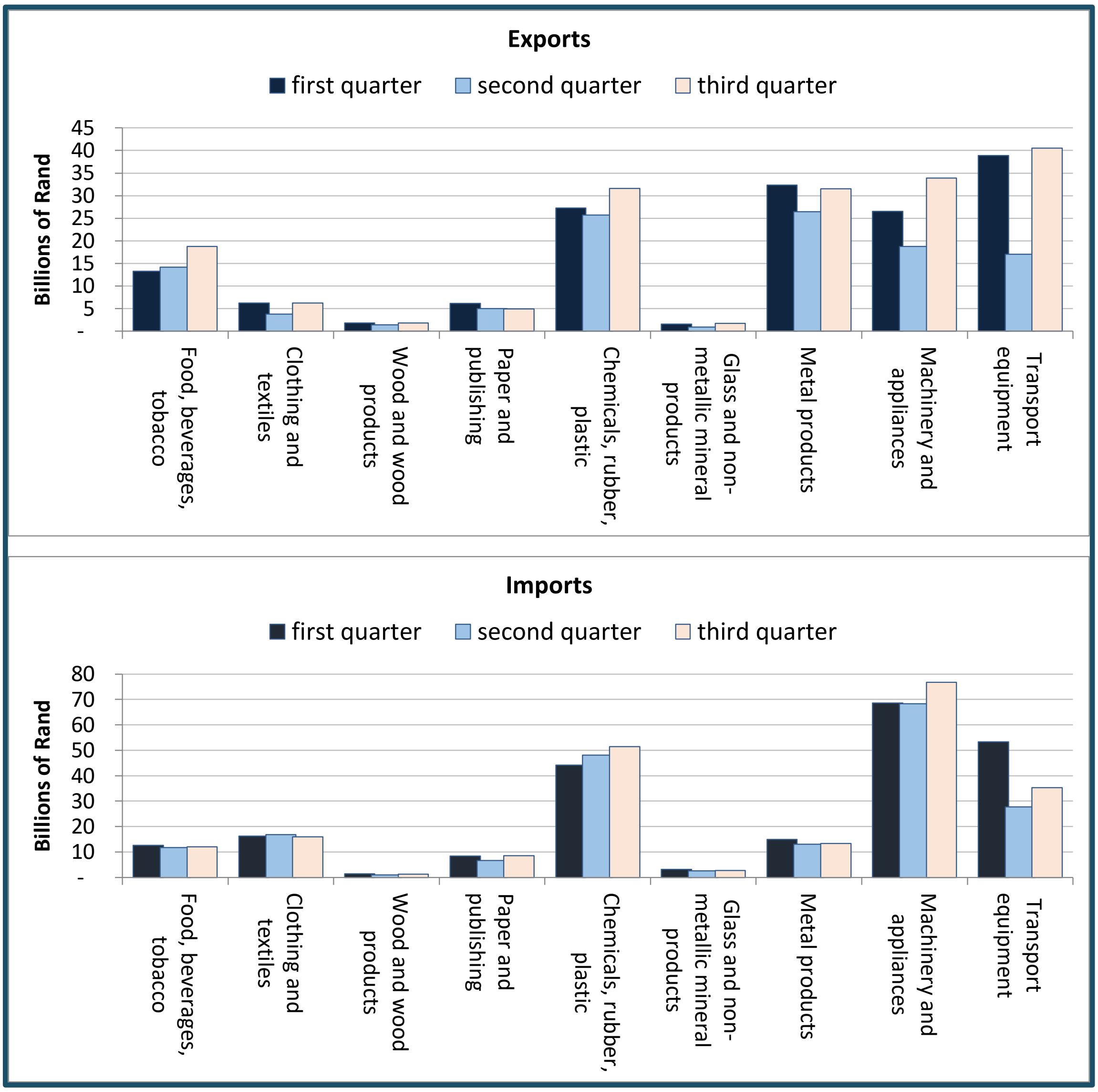
Graph 16. Exports and imports by quarter from the fourth quarter of 2019 in billions of constant (2020) rand (a), not seasonally adjusted



Note: (a) Reflated using CPI rebased to September 2020. *Source:* Calculated from South African Revenue Service data.

Within manufacturing, the largest rebound in exports was in transport equipment and machinery. In terms of imports, transport equipment, including components for re-export in assembled cars, also saw a strong recovery. Machinery did not fall much in the second quarter, but in both the second and third quarter remained below 2019 levels in constant rand terms.

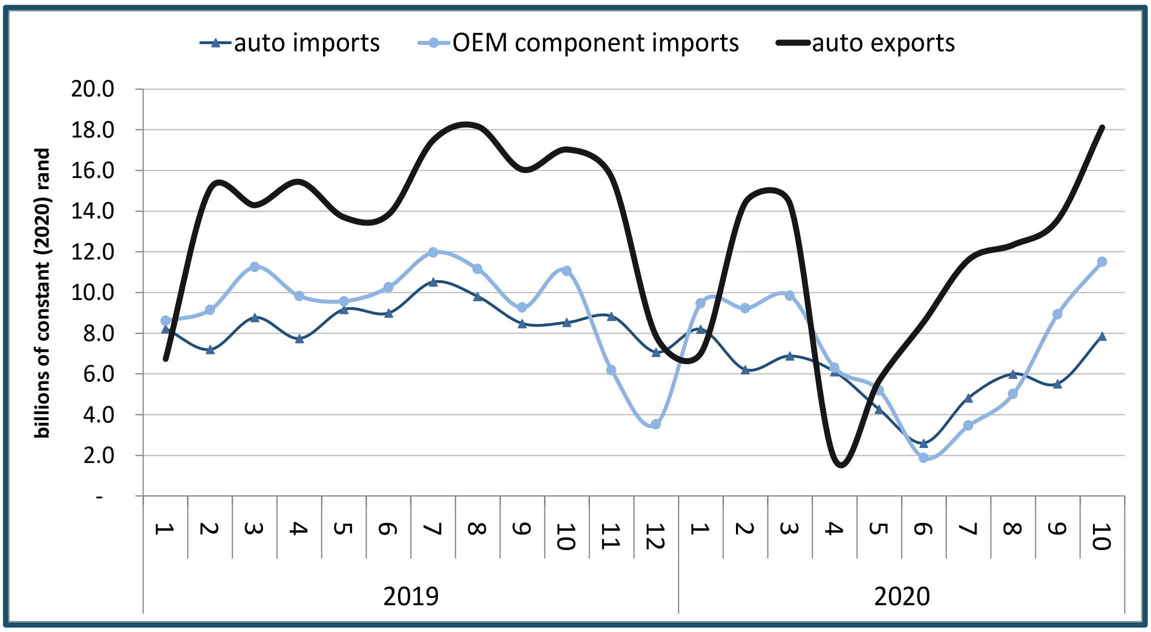
Graph 17. Quarterly exports and imports by manufacturing industry, in billions of constant (2020) rand (a), third quarter 2018 to third quarter 2020



Note: (a) Reflated using CPI rebased to September 2020. *Source:* Calculated from South African Revenue Service data.

Exports and imports by month underscore the strength of the recovery of the auto industry in the third quarter. After auto exports fell over 75% in April, they hit a record high in constant terms in October. Imports of components and assembled vehicles also rebounded strongly, although not as dramatically as exports.

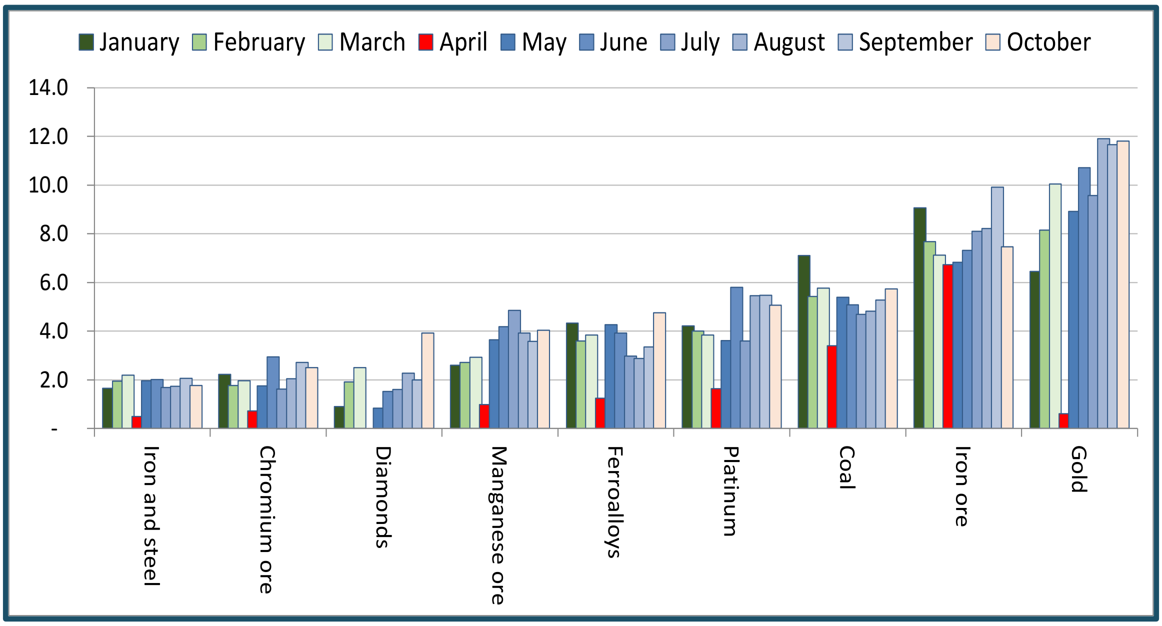
Graph 18. Imports of assembled vehicles and components and exports of vehicles, monthly, January 2019 to October 2020, in billions of constant (2020) rand (a)



Note: Reflated with CPI rebased to October 2020. *Source:* Calculated from Quantec EasyData, RSA Trade data series. Accessed at www.quantec.co.za

In mining, gold took over as the largest single export as a result of soaring global prices. Diamond exports also saw a steady increase in value. Most other mineral exports returned to pre-pandemic levels after exports virtually dried up in April.

Graph 19. Mining and metals exports by commodity in billions of constant (2020) rand, monthly from January to October 2020



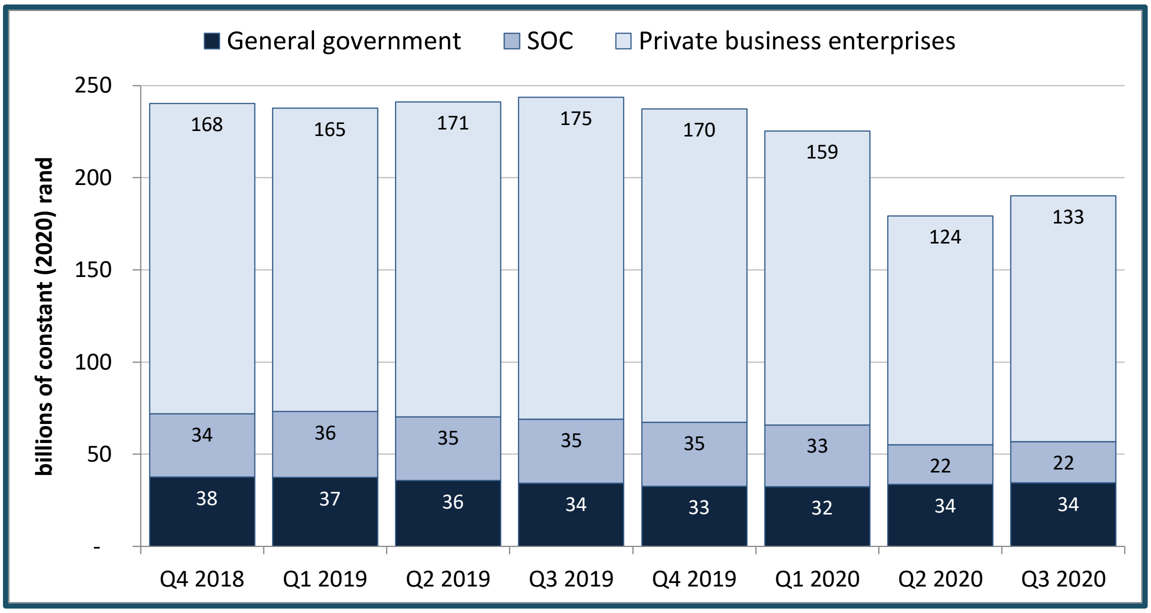
Note: Reflated with CPI rebased to October 2020. *Source:* Calculated from Quantec EasyData, RSA Trade data series. Accessed at www.quantec.co.za.

Investment

The slowdown and uncertainty from the pandemic led to a near stand-still in investment by both private and state-owned companies (SOCs). Since production recovered more strongly, investment fell to 16% of the GDP in the third quarter of 2020, its lowest level in almost 20 years. The latest available data on profitability suggest that manufacturing returns sank to almost zero in the second quarter, although other sectors did somewhat better.

Although investment by private companies and SOCs recovered slightly in the third quarter, it remained far below pre-pandemic levels. Private investment plummeted by a fifth and investment by SOCs by a third in the second quarter. In the third quarter, private investment recovered only 7%, leaving it 16% lower than in the first quarter of 2020. SOC investment increased by only 4% in the third quarter, so it remained 33% below pre-pandemic levels. General government investment, which is relatively small, climbed 4% in the second quarter but only 2% in the third quarter. These trends meant that investment in the third quarter of 2020 was R40 billion lower than a year earlier in constant rand terms.

Graph 20. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to third quarter 2020, in billions of constant (2020) rand (a)

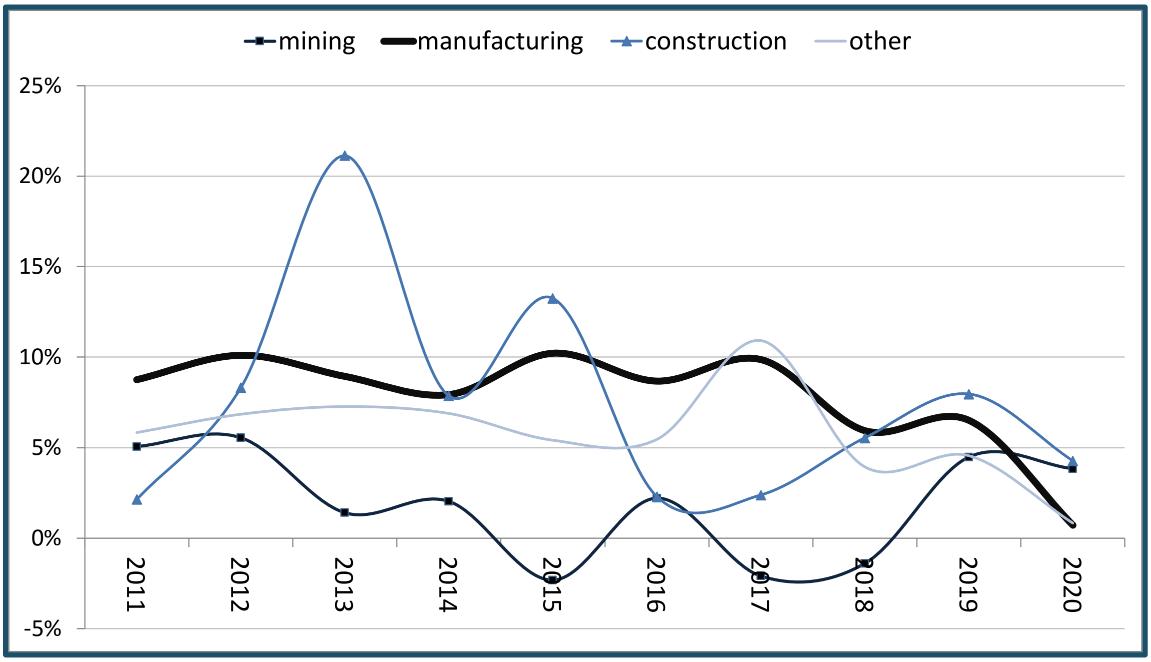


Note: Reflated with implicit deflator rebased to third quarter 2020. Source: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet downloaded from www.statssa.gov.za.

Because investment did not recover as quickly as production, it fell to 16% of the GDP, a level not seen since 2003. For most of the past decade, the share of investment in the GDP has hovered around 20%, which is the minimum generally considered adequate to secure growth.

The April crash brought a sharp fall in the return on assets across the economy, with a particularly steep decline in manufacturing. In contrast, mining saw a fairly modest fall in profitability as output and international prices recovered fairly rapidly in May and June. Data are not available for the third quarter, so the extent of the rebound since the second quarter is not clear.

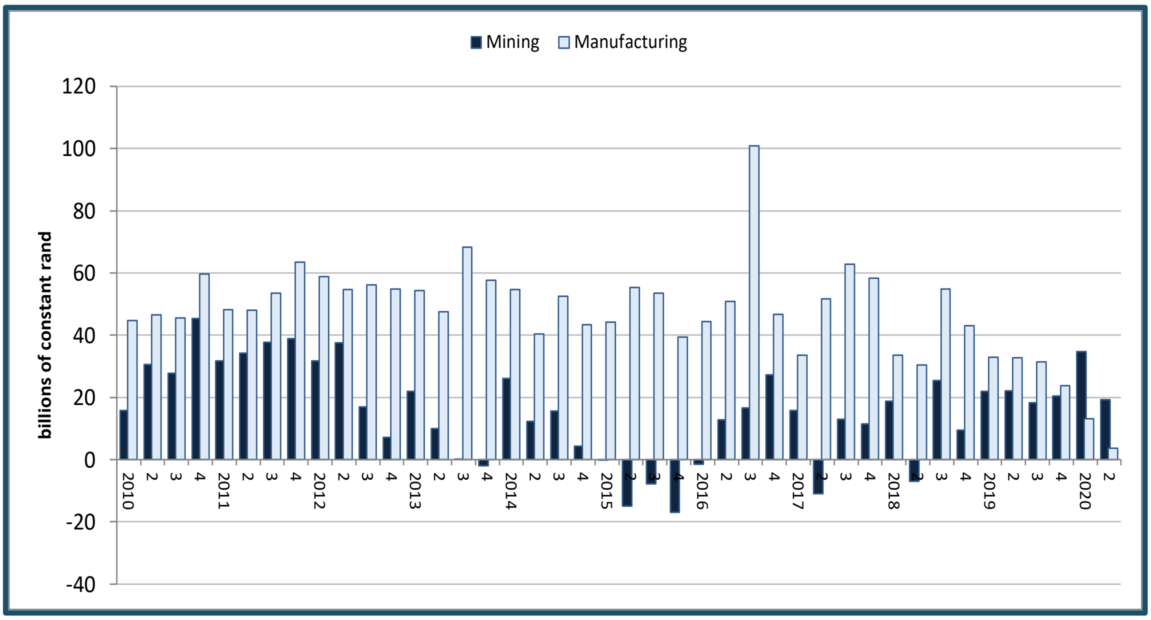
Graph 21. Return on assets (a), 2010 to June 2020



Note: Defined as pre-tax profits over carrying value of assets. Source: Calculated from Statistics South Africa. Quarterly Financial Statistics. Excel spreadsheet downloaded from www.statssa.gov.za.

In constant rand, profits in manufacturing fell almost 50% from the first to the second quarter, dropping from R35 billion to R20 billion. A year earlier, they had been around R100 billion. Mining profits recovered largely because of soaring gold and diamond prices.

Graph 22. Quarterly profits in manufacturing and mining in billions of constant 2020 rand (a)



Note: Deflated with CPI rebased to June 2020. *Source:* Statistics South Africa, Quarterly Financial Statistics. Excel spreadsheet downloaded from www.statssa.gov.za.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors FDI projects, on a quarterly basis, using published information. Eleven projects were recorded this quarter, and the status and activities of four companies were updated. The total value of new investments recorded was approximately R6.2 billion from seven projects that reported a figure.

Compared to the second quarter, the third quarter had more activity as lockdown regulations eased. Some companies have changed their plans as a result of the pandemic, however.

Table 1. FDI projects captured in Q3, 2020

	ANNOUNCED	CONSTRUCTION/ IMPLEMENTATION	COMPLETE
Number of projects	2	5	4
Value (R bns)	0.017	5.5	0.57
Industries	Construction Mining	2 Mining 2 Manufacturing Services	Construction Manufacturing Wholesale and retail trade Research and Development
Type	Greenfield Upgrade	2 Greenfield 2 Brownfield	2 Expansion Brownfield Greenfield
Company	Radisson Hospitality Pan African Resources	Tharisa Mining Ford Motor Company of Southern Africa and South African government Sundale Schreiber JV Sitatunga Resources (Menar)	Radisson Hospitality Chem Energy South Africa Crosscall German and South African governments

New projects

Construction of the Tshwane Automotive Special Economic Zone (SEZ) has commenced in Gauteng. National government is spending R3.4 billion on infrastructure with about R4.3 billion anticipated from private investment. Government stakeholders comprise the Department of Trade, Industry and Competition (DTIC), the Gauteng provincial government and the Tshwane Economic Development Agency and the City of Tshwane. Ford Motor Company of Southern Africa leads a group of – currently – 12 Ford component suppliers and related service companies that committed to establishing operations in the SEZ. It will be located adjacent to Ford's Silverton assembly plant on land owned by the City of Tshwane. The partners expect suppliers to start occupying facilities in the first half of 2021. They expect to create about 2 100 permanent jobs, with 8 700 jobs during construction through the project.

Sitanunga Resources is developing a new mining operation, East Manganese, in the Northern Cape, worth R250 million. East Manganese is estimated to hold a million tonnes of ore, and will produce approximately 30 000 tonnes a month. It will be an open-cast mine, powered by solar energy, with a single mining pit and a three-year lifeline. The company expects to reach the first ore in seven or eight months and to create 70 to 80 jobs.

Pan African Resources will install a R150-million 10MW solar photovoltaic plant at its Elikhulu gold tailings retreatment plant. The solar plant will provide 30% of its power needs at the complex, reducing its carbon footprint and reliance on the grid. It should be completed in 12 months.

Sundale Schreiber is a joint venture between Schreiber, a US processed cheese company, and Sundale Dairy, a local producer of cheese, cream and butter. The project involves an investment of R70 million in a cheese-processing plant at the East London Industrial Development Zone. The investment will allow Sundale to supply Burger King and McDonalds South Africa with locally manufactured cheese slices that it currently imports. The project aims to produce 7 000 tons of cheese slices annually for African markets, creating 100 employment opportunities.

Radisson Hotels announced plans to build the 168-room Park Inn by Radisson at King Shaka International Airport. This will be the first hotel in the Dube Trade Port Special Economic Zone. The company did not report a value for the investment.

Existing projects

Chem Energy South Africa completed a R170 million manufacturing facility in the Dube Trade Port Special Economic Zone in KwaZulu-Natal. It manufactures fuel cell products and technology for backup and off-grid telecommunications power solutions as an alternative to generators. The facility will provide local support including remote monitoring, diagnostics, repairs and refurbishment services.

Tharisa is investing US$54.2 million (R880 million) to construct a concentrator plant at its mine in the North West. When commissioned at the end of this year, the project should increase chrome recoveries from 65% to 82%. The project is a part of Tharisa's broader Vision 2020 strategy targeting annual production of two million tonnes of chrome concentrate and 200 000 ounces of platinum group metals by 2021.

The German and South African governments are investing R800 million towards the expansion of the MeerKat radio telescope. Each country is investing R400 million to add 20 satellite dishes as part of the Square Kilometre Array.

Radisson Hotels has opened the 289-room Radisson Hotel and Convention Centre Johannesburg in Gauteng. The value of the investment was not reported.

Unfortunately, the pandemic has led to cancellation or delays in major projects. The big alcohol companies in particular reacted to limits on their sales that aim to help control the contagion. International evidence suggests a close link between drinking and risky behaviour, with bars contributing between 20% and 30% of new cases in some countries. Heineken has suspended plans for a R6 billion brewery near the Dube Trade Port in KwaZulu Natal. SAB is cancelling R2.5 billion in capital and infrastructure upgrades in the current financial year, and reviewing investment plans for the 2021 financial year.

Briefing Note: The global climate change regime and its impacts on South Africa’s trade and competitiveness

Overall, the rise of the global climate change regime has deep implications for South Africa’s exports. On the one hand, South African sales are at risk from measures aimed at curbing trade in carbon-intensive goods as well as imports from carbon-intensive jurisdictions. On the other, with the rise of the international climate change regime, greenhouse gas (GHG) emissions have emerged as a new commodity. They can effectively be traded between countries through the import and export of products and services, when emissions are “embodied” within products.

South Africa’s goods exports are focused on a few destinations (China, Europe, the United States, Japan, Korea, India and Southern Africa). They are also heavily concentrated around a limited number of commodities plus auto. These characteristics make South Africa particularly vulnerable to changes in trade patterns arising from measures aimed at transiting to low-carbon pathways.

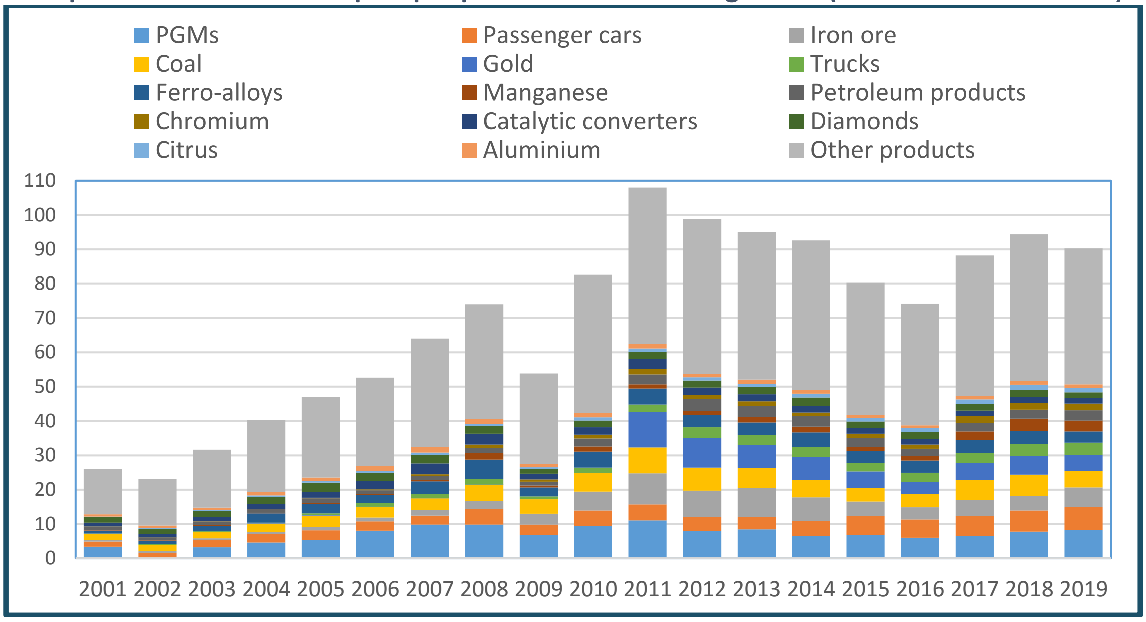
First, a material share of importers (such as the European Union, the US, Unitec Kingdom and Japan) are rapidly moving away from carbon-intensive activities and may introduce border carbon taxes in the near future. The EU has announced the implementation of a border carbon tax from 2023. In the US, a border carbon tax is widely supported as a quid pro quo for the country playing an active role in the climate change regime. Already, South Africa’s exported GHG emissions have shifted over the past two decades. China’s imports (in carbon terms) have increased rapidly, compensating a material decline in the EU’s and Japan’s absolute and relative share.

Second, some of South Africa’s key exports will face significant changes as a result of the transition to a low-carbon economy. Automotive-related exports, i.e. passenger cars, trucks, catalytic converters and platinum group metals, feature among the top South African exports. South Africa’s key export markets (the EU and the US) are aggressively shifting to electric vehicles. Yet South Africa’s exports of transport equipment are heavily linked to petroleum-based vehicles.

In addition, fossil fuels, namely coal and coal-based petrochemicals, account for substantial export shares. These are set to experience dramatic shifts in the coming years. In the third quarter of 2020, coal equalled 4% of South African exports, down from 6% at the start of the year mostly due to lower global fuel prices given the slowing economy. Petrochemicals added another 1.,5% to export sales.

Other key exports rely on the country’s mineral resources and are exported in raw or beneficiated form. Such exports are less at risk and may, under certain circumstances, even benefit from the transition to a low-carbon world. The case of aluminium is peculiar though, as South Africa does not host deposits of bauxite (which it imports from Australia). Aluminium production, which requires a large amount of reliable, cheap electricity, was historically attracted to South Africa by cheap coal-fuelled electricity, effectively forming part of a coal beneficiation strategy that is no longer viable.

Graph 23. South Africa's export per product at the four-digit level (in billions of US dollars)



Source: Calculated from Quantec EasyData. RSA Trade data series. Accessed at www.quantec.co.za.

Overall, South Africa's exports are relatively carbon intensive. The country is a global outlier for numerous products, such as metals, transport equipment and agricultural products. In other cases, South Africa forms part of a group of high carbon-intensity countries (mining and quarrying, chemicals and pharmaceutical products, rubber and plastics products). With 2 243 tCO_2e per US$ million, South Africa is the only country with a carbon intensity over 2 000 tCO_2e per US$ million for manufacturing exports. Even other outliers, such as Kazakhstan (1 814), India (1 495) and Russia (1 381) do much better.

In sum, while a small country in overall embodied emissions, South Africa is one of the leading exporters of embodied GHG emissions. In fact, exported emissions represent a large share of South Africa's total GHG emissions (about a quarter in 2015). South Africa also has a relatively high share of exported emissions originating domestically, highlighting once more the role of domestic factors, such as energy supply and use. This situation is largely a function of: a) the country's carbon-intensive energy system; b) a poor (although improving) energy efficiency performance; and c) the key role played by energy-intensive industries in South Africa's economy. The country's vulnerability is also reinforced by the absence of an ambitious climate change framework, South Africa's relatively long distance to its trading partners and the status of emerging economy.

Encouragingly, South African exports have nevertheless increased faster in US dollar terms than in embodied carbon terms, indicating a relative decoupling of GHG emissions with exports over the 2005-2015 period. Looking ahead, this situation calls for decisive action to reduce the carbon intensity of the South African economy as well as diversify the structure of exports to low(er)-carbon products. This is essential to maintain South Africa's competitiveness and market access going forward. Despite some progress (for instance, in grid decarbonisation and energy efficiency efforts), much more is required to reduce South Africa's vulnerability to climate change regulations and set the country on a sustainable pathway.

The report, which forms the basis for this briefing note, can be found on the TIPS website here.