

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

PROVINCIAL REVIEW 2022

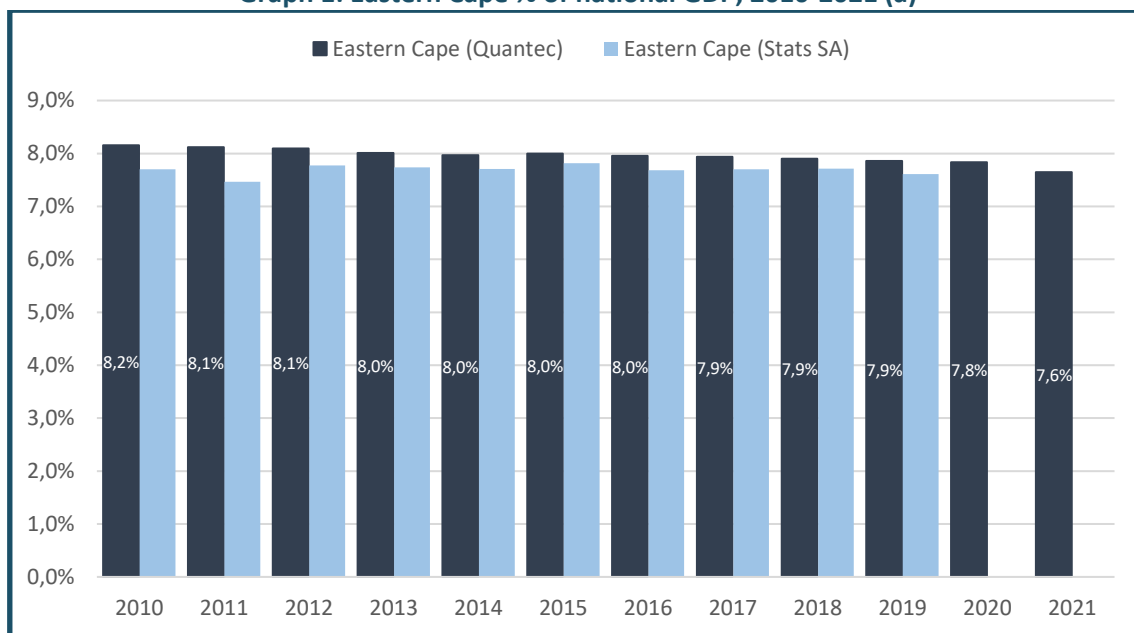
Provincial Review 2022: Eastern Cape

The Eastern Cape is the fourth most populous province in South Africa with a slow population growth rate. The Eastern Cape's contribution to the national GDP has been declining since 2011. Manufacturing is the largest real economic sector, followed by construction, with relatively small mining activities. The province has the highest level of unemployment in the country, and its absorption rate has declined over the past decade. The Eastern Cape has a relatively high share of non-urban areas, with two metros but no secondary cities. The province has seen improvements in piped water and electricity access.

The real economy in the Eastern Cape: structure and growth¹

With 6.5 million residents in 2020, Eastern Cape is the fourth most populous province in South Africa after Gauteng, KwaZulu-Natal, and Western Cape, accounting for 11% of the national population in 2020. The province's population has grown at a snail's pace, averaging 0.01% a year. The province accounted for 7.6% of the national GDP in 2021, down from 7.8% in 2020. This makes Eastern Cape the fifth-largest contributor to national GDP. Overall, data from Quantec indicates that the province's contribution to GDP has been steadily declining since 2011.

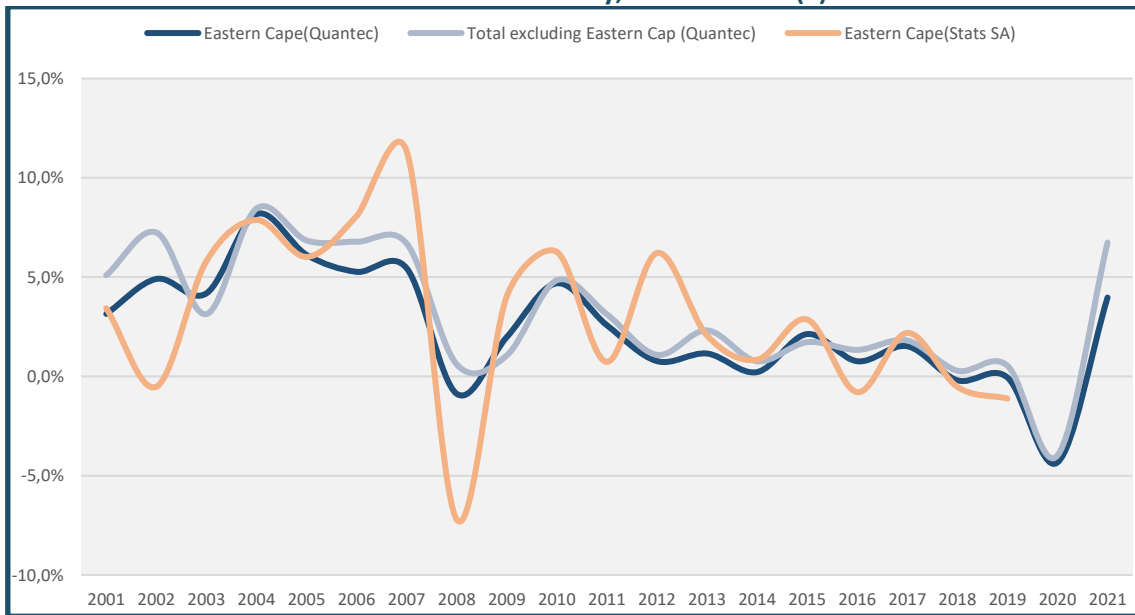
Graph 1: Eastern Cape % of national GDP, 2010-2021 (a)



Source: Statistics South Africa and Quantec. Note (a): % of national GDP is calculated at GVA basic prices at constant 2021 prices.

¹ Economic data for this review comes from Statistics South Africa and Quantec. Data from Quantec are estimates developed and based on Stats SA's regional employment and remuneration; national accounts ratio of remuneration to output; annual financial statistics; and national accounts provincial GVA. Given that Stats SA's regional GDP is available up to 2019, Quantec estimates are used to supplement the missing two years from the trends. This is important as it illustrates the impact of the COVID-19 pandemic at the regional level.

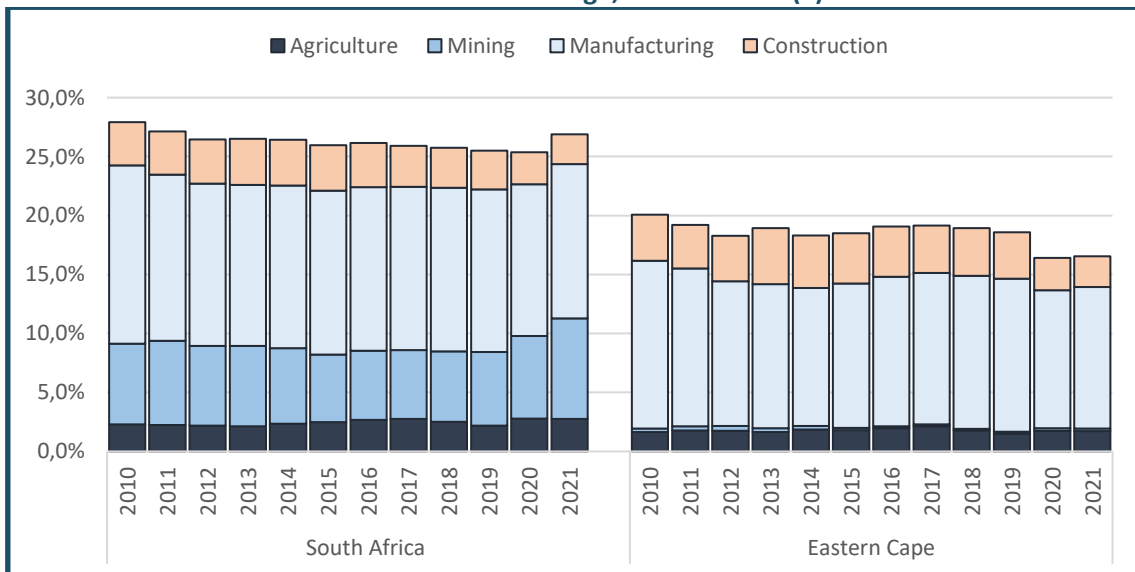
Graph 2: Eastern Cape economic growth compared to the rest of the economy, 2000 to 2021 (a)



Source: Calculated using Quantec and Stats SA data. Note (a): Growth rates are calculated at GVA basic prices at 2021 constant prices.

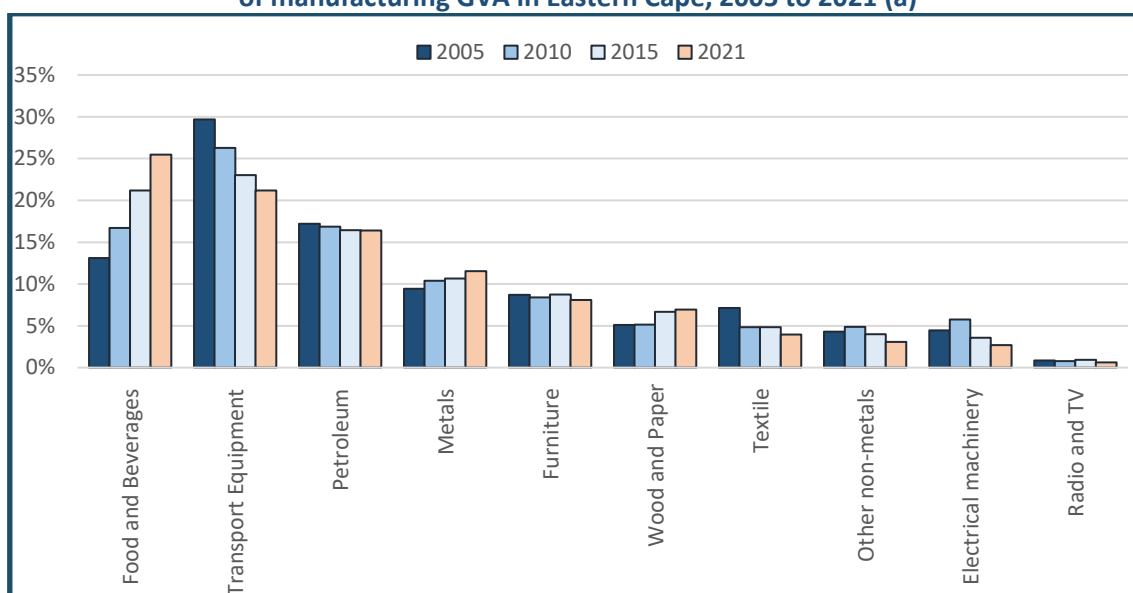
Eastern Cape's growth rate has been steadily declining since 2011 after a strong recovery from the 2008/9 global financial crisis, experiencing a negative growth rate of 0.2% in 2018. Although the province growth rate moderated in 2019, it plummeted by 4.3% in 2020 due to country-wide lockdown restrictions. Much like in other provinces, Eastern Cape recovered from the lockdown impact, recording a growth rate of 4% in 2021. Stats SA data show a much slower and more volatile growth rate for the Eastern Cape. According to Stats SA, Eastern Cape fell sharply in 2019, recording a negative growth rate of 1.1%.

Graph 3: Real sectors as a percentage of Eastern Cape GDP compared to the national average, 2010 to 2021 (a)



Source: Calculated using Quantec estimates and Stats SA data. Downloaded from www.easydata.co.za. Note (a): Calculation based on GVA at basic prices in constant 2021 prices.

Graph 4: Manufacturing subsectors as a percentage share of manufacturing GVA in Eastern Cape, 2005 to 2021 (a)



Source: Calculated using Quantec estimates. Downloaded from www.easydata.co.za.

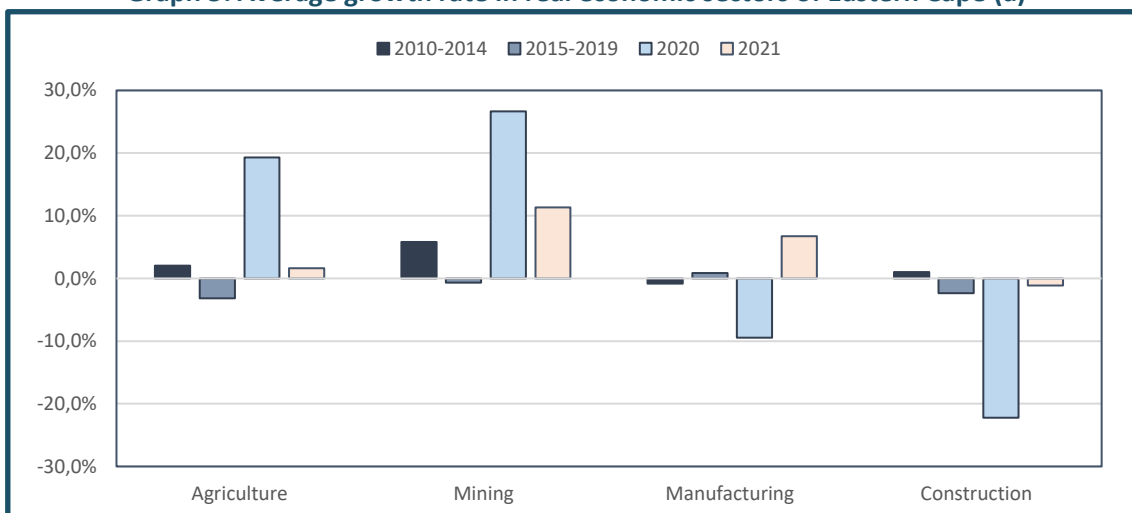
Note (a): Calculation based on GVA at basic prices in constant 2021 prices.

From 2021, the real economic sectors in Eastern Cape accounted for 17% of the provincial GDP compared to 27% at the national level. Manufacturing is the largest real economic sector, accounting for 12% of the provincial GDP. The manufacturing sector is dominated by the food and beverage industry making up 25% of the sector's output, followed by transport equipment and petroleum (see Graph 4). Notably, Graph 4 also shows that the share of food and beverage, metal, as well as wood and paper, have risen in the past decade. In contrast, the share of transport equipment, Petroleum and furniture has declined over the same period.

Construction is the second largest sector in the province, accounting for 2.6% of the total provincial GDP. Eastern Cape has relatively small mining activities, as the sector accounted for a modest 0.2% of the provincial GDP in 2021.

Between 2010 and 2014, mining was the fastest-growing sector in the Eastern Cape, recording an average growth of 5.8%. On the other hand, manufacturing was the worst performer among the real sectors over the same period as it recorded a negative average growth rate of 0.8%. Graph 5 shows that mining and agriculture fared relatively well during the pandemic, recording an increase of 26.7% and 19.3%, respectively. Construction and manufacturing experienced a steep decline in output, with construction declining by 22% and manufacturing by 9.5%. In 2021, manufacturing recovered from the effect of the pandemic, registering an increase of 6.7%. Construction still lagged behind in terms of recovery as it experienced a decline of 1.1% in the same period. All other real sectors continue to enjoy a modest increase in 2021.

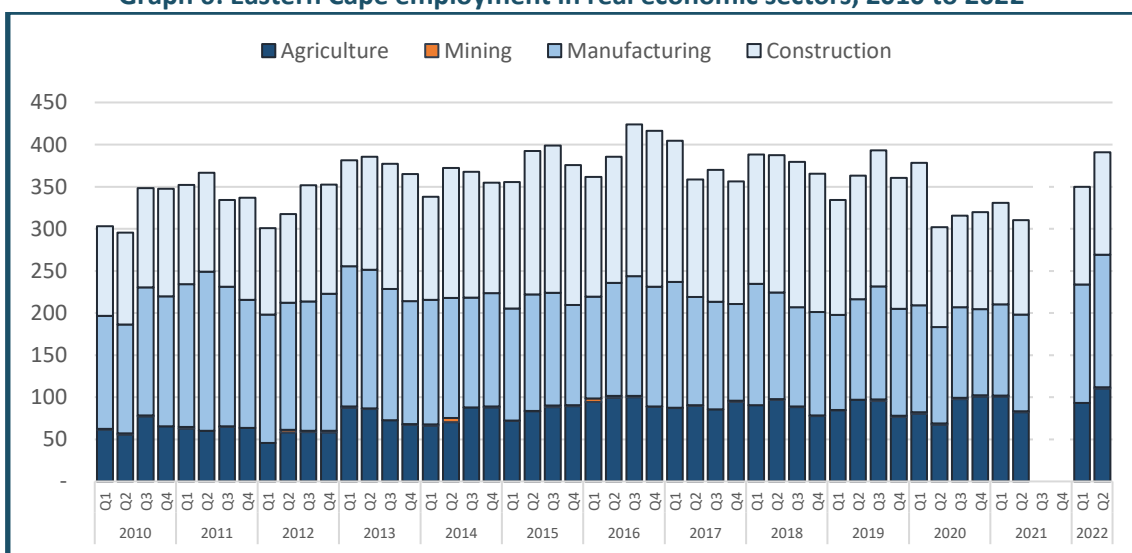
Graph 5: Average growth rate in real economic sectors of Eastern Cape (a)



Source: Calculated using Quantec data. Downloaded from www.easydata.co.za. Note (a): Calculation based on GVA at basic prices in constant 2021 prices

Employment in the real sectors of the Eastern Cape also sheds some light on the economic structure of the province. Eastern Cape accounted for 11.1% of national employment in 2021. Construction is the biggest employer of all real economic sectors, with 121 000 workers in 2021. However, this was not always the case, as manufacturing was leading in the real sector until it was overtaken by construction in 2015 (see graph 6). The manufacturing sector is the second largest employer in the province, with 116 000 workers over the same period, followed by agriculture with 100 000 workers. Furthermore, employment in the real economy of the Eastern Cape has recovered from the pandemic effects.

Graph 6: Eastern Cape employment in real economic sectors, 2010 to 2022²



Source: StatsSA Quarterly Labour Force Survey. Downloaded from www.statssa.gov.za

Table 1 shows large public and private real-economy projects in the Eastern Cape between 2010 and 2021.

² Q3 and Q4 2021 are excluded from the chart because During the pandemic Stats SA suspended the QLFS for those quarters due to low response rate.

Table 1: Large public and private real-economy projects in the Eastern Cape 2010-2021

| PROJECT NAME | COMPANY | VALUE | PROJECT INDUSTRY |
|---|--|--------------|------------------|
| Aegean Bunkering Ship | Aegean | R200 million | Utilities |
| Beijing Automobile International Corporation CKD Plant | Beijing Automobile International Corporation | R11 billion | Manufacturing |
| Mercedes-Benz expansion at East London plant | Mercedes-Benz | R500 million | Manufacturing |
| Somlolo Brokered Chinese Metals Project in Coega IDZ | Somlolo Investment | R580 million | Metals |
| Volkswagen SA Upgrading at Uitenhage plant | Volkswagen Group South Africa | R6 billion | Manufacturing |
| AGCO Tractor and agricultural implement manufacturing plant | AGCO South Africa | R108 million | Manufacturing |
| Mercedes Benz SA Additional AMG Models | Mercedes Benz South Africa | R200 million | Manufacturing |
| Cement Grinding Plant | Osho Ventures and Heidelberg Cement | R650 million | Manufacturing |
| Gas Cylinder Plant | Repkon and MM Engineering | R350 million | Manufacturing |
| Gibson Bay Wind Farm | Enel Green Power, Enel | R2.8 billion | Utilities |
| Uitenhage Tyre Manufacturing Plant Expansion and Upgrade | The Goodyear Tire and Rubber Company | R1 billion | Manufacturing |
| Mercedes-Benz East London Plant Expansion | Daimler AG | R9.5 billion | Manufacturing |
| UD Trucks Dealership (Billson Trucks) | UD Trucks | R110 million | Services |
| Agni-Steel SA expansion project | Agni Steel SA | R100 million | Manufacturing |
| Nxuba Wind Farm | Enel Green Power RSA | R3.1 billion | Manufacturing |
| Heavy Bay Foundry upgrades | Wier Minerals Africa | R30 million | Manufacturing |
| Heavy Bay Foundry upgrades | Wier Minerals Africa | R10 million | Manufacturing |
| Aberdare high voltage manufacturing plant | Aberdare Cables | R135 million | Manufacturing |
| Oyster Bay Wind Farm | Enel Green Power RSA | R2.9 billion | Utilities |
| VWSA Sustainability investment - Biogas Plant | Volkswagen Group South Africa (VWSA) | R3.5 billion | Utilities |
| Isuzu Stuansdale plant investment | Isuzu Motors South Africa | R1.2 billion | Manufacturing |

| | | | |
|---|--|---------------|---------------|
| MA Automotive Plant expansion | MA Automotive | R512 million | Manufacturing |
| ZF Lemförder axle assembly plant | ZF Lemförder | R240 million | Manufacturing |
| BioTherm Renewable Projects: GoldenValley Wind Facility | BioTherm/Actis | R939 million | Utilities |
| Sundale Schreiber JV | Sundale Dairy (SA) and Schreiber | R70 million | Manufacturing |
| Lactalis milk powder production plant | Lactalis | R100 million | Manufacturing |
| Sundale cheese and dairy production | Sundale and Schreiber | R101 million | Manufacturing |
| Eco-tourism development (Giant Flag Project) | Giant Flag consortium (Giant flag, Gigawatt Global and CT Worldwide) | R184 million | Services |
| RMIPPPP: Karpowership SA Coega | Karpowership SA/ Karadeniz Energy Group | R10.9 billion | Utilities |
| RMIPPPP: Mulilo Total Coega | Total Gaz/Mulilo | R4.8 billion | Utilities |
| Mercedes Benz manufacturing plant – extended investment | Mercedes Benz South Africa | R3 billion | Manufacturing |
| Aspen Pharmacare COVID vaccine production | Aspen Pharmacare, International Finance Corporation (IFC), Proparco, DEG, U.S. International Development Finance Corporation (DFC) | R10.8 billion | Manufacturing |

Source: Compiled by Kelello Mashiane, using FDI data. TIPS FDI Tracker available at <https://www.tips.org.za/manufacturing-data/fdi-tracker>

Employment

Eastern Cape has the highest level of unemployment in the country. In 2021, Eastern Cape's absorption rate – the proportion of the working-age population aged 15-65 years employed – was 28.5% compared to the national average of 37%. Unemployment in the province has risen over the past decade, with the absorption rate declining from 32.2% in 2010 to 28.5% in 2021.

Economic policy initiatives

This section outlined major industrial policy and development initiatives that had an impact in the Eastern Cape:

- In 2019/20 the dtic approved projects worth R669 million for the province. The projects are anticipated to generate an investment of R1.2 billion and produce 711 jobs. However, the dtic support for the region had declined considerably compared to 2016/17 when the department approved projects worth R1.5 billion.

- In 2017/18, the projected investment for the MCEP in the Eastern Cape amounted to R818 945 and retained 95 baseline jobs. This represents a decline compared to the 2016/17 investment worth R119.8 million for the programme.
- In 2021, the dtic invested R300 million in the Black Industrialists Scheme in the Eastern Cape. Similarly, IDC invested R854 million to for black industrialists in the Eastern Cape and the NEF contributed R184 million.
- Eastern Cape hosts two IDZs, namely COEGA and East London SEZ. COEGA is the largest SEZ in Southern Africa. There are no new proposed SEZs for the province.

Table 2: Major existing or planned infrastructure projects in Eastern Cape from 2016 to 2022

| PROJECT NAME | IMPLEMENTING AGENCY | PROJECT COST | PROJECT DESCRIPTION |
|-------------------------|--|---------------|--|
| Mzimvubu Water Project | Department of Water and Sanitation | R15 billion | The project involves the construction of two multi-purpose dams; Ntabelanga and Lalini Dams |
| Marine Tilapia Industry | Eastern Cape Rural Development Agency | R19.2 billion | The project involves the establishment of a Marine Tilapia industry Incubator, which will serve as support base for the development of Tilapia industry. |
| N2 Nodal Development | Nelson Mandela Bay Metropolitan Municipality | R44 billion | A mixed-use development that will be located around the Bay West Development precinct |

Eastern Cape's national spatial economy

The Eastern Cape has a relatively high share of former non-urban areas within its borders. In 2021, 44% of the population lived in non-urban areas, compared to the national average of 26%. Nearly over half of the province's population lived in urban areas. The Eastern Cape has two metros and no secondary cities. Moreover, 21% of adult population in the Eastern Cape had matric and only 10% had a degree. The share of people with matric and a degree in the Eastern Cape is lower than the national average, with 30% of the adult population in South Africa having a matric, and 13% have a degree.

Regarding infrastructure, 48% of households in the Eastern Cape had running water in their houses or yards combined in 2021, compared to 38% in 1996. The share of households with running water in the house alone was 24% in 2021. In addition, 93% of households had access to electricity, up from 38% in 1996.

Trade & industrial policy Strategies (TIPS) supports policy development through research and dialogue. Its areas of focus are industrial policy, trade and regional integration, sustainable growth, and a just transition to a sustainable inclusive economy.

info@tips.org.za | +27 12 433 9340 | www.tips.org.za