

THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA

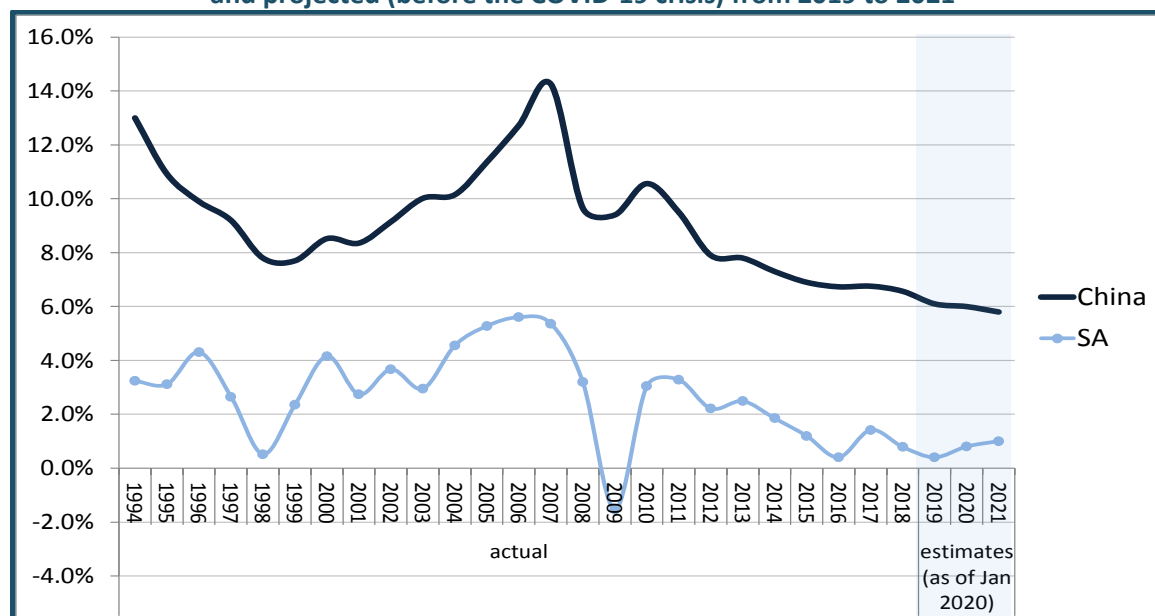
FOURTH QUARTER 2019

Briefing Note: Coronavirus – impact of an economic slowdown in China on the South African economy

The global economy is facing an economic slowdown as a result of the coronavirus disease (COVID-19) that began in China and had spread to at least 50 other countries by late February. China is now the world's second biggest economy, and South Africa's largest single trading export destination as well as its largest export market. With the situation changing rapidly, it is important that South Africa keep track of the developments and undertake contingency planning to prepare for the impacts on the economy and on jobs. (See TIPS Policy Brief *Coronavirus: impact of an economic slowdown in China on the South African economy*).

Analysts have projected a slowdown in Chinese growth as a result of the COVID-19, particularly for the first quarter of 2020. Latest estimates suggest China's economy could contract by 2.5% in the first quarter of 2020, and 2% year-on-year (Mjo, 2020¹). Graph 26 provides IMF growth estimates for 2020 and 2021, which suggested a slowdown in Chinese growth even before the COVID-19 outbreak. The graph shows that South Africa's economic growth has tended to track China's, mostly because of the importance of China as a market for South African commodity exports.

Graph 1. Economic growth in China and South Africa, actual from 1994 to 2018 and projected (before the COVID-19 crisis) from 2019 to 2021



Source: IMF, World Economic Outlook. October 2002 for 1994 to 2018, and January 2020 Update for 2019 to 2021.

¹ Mjo, O., 2020. Coronavirus to dent global growth for 2020. Business Day. Johannesburg.

Slower growth in China affects South African exports both because of lower demand and because it has led to lower global commodity prices. Of the top 10 South African exports to China, virtually all are commodities that are further fabricated in China, often for re-export to other countries. Although the extent of the impact on exports is not clear yet, analysts suggest that demand for iron ore and steel will decline. Kumba Iron Ore has raised concerns about impact on commodity prices as a result of decreased demand from China. Other industries facing challenges include wood pulp, greasy wool, and fisheries, particularly rock lobster.

Imports from China amounted to R235 billion in 2019, and consisted almost exclusively of consumer goods and intermediate inputs for manufacturing. The top 10 import items amounted to R53 billion for 2019, up from R15 billion in 2010. China is South Africa's largest supplier of eight of the top 10 import items, with consumer electronics such as cellphones and laptops exceeding 80%. This shows a concerning overdependence on China.

This initial overview points to the importance of stronger contingency planning to deal with the economic effects of the virus. In the absence of clear plans to support affected businesses, the likely result will be a further slowdown in growth as well as substantial job losses and closures especially of smaller, more informal businesses.