THE REAL ECONOMY BULLETIN

TRENDS, DEVELOPMENTS AND DATA FIRST QUARTER 2022

*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.**

GDP growth

The GDP expanded almost 2% in the first quarter of 2022, bringing the GDP back to pre-pandemic levels. GDP growth has become far more volatile since the pandemic, however. Moreover, significant differences persist between sectors, with agriculture showing the strongest recovery and construction by far the weakest.

Comparatively rapid GDP growth continued in the first quarter of 2022, with expansion at 1.9% from the fourth quarter of 2021. In the year to the first quarter of 2022, the economy grew 2.9%. As a result, the GDP returned to levels last seen before the pandemic. That still means it remains 2% lower in per-person terms, however, since the population has grown since COVID-19 first struck in early 2020. (Graph 1)

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

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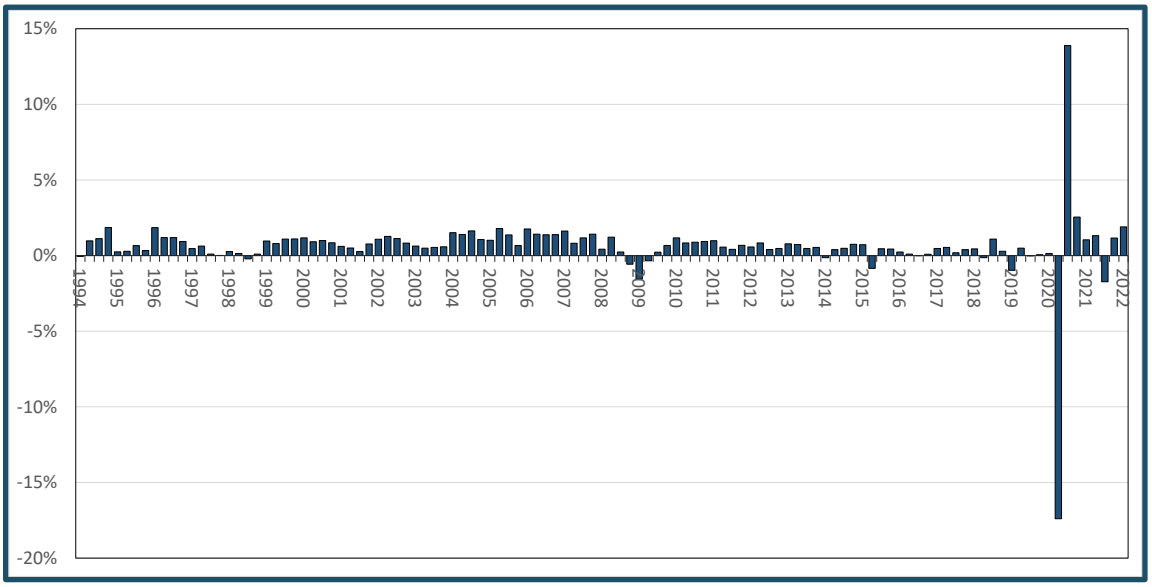
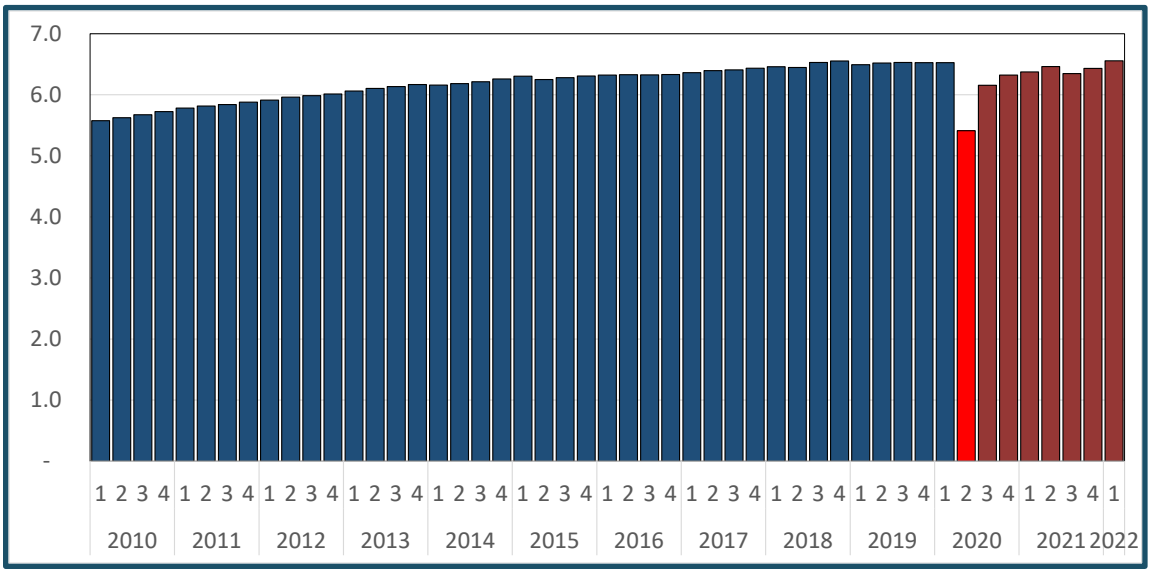
Graph 1. Quarterly change in GDP, seasonally adjusted, 1994 to first quarter 2022



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

The recovery has been extraordinarily bumpy, as Graph 2 shows. The volatility of growth in the past seven quarters has been almost 10 times as large as the average for the rest of the democratic era. The standard deviation for quarterly GDP growth was 0.6% from 1993 to the first quarter of 2020. Even excluding the extraordinary decline in the lockdown in the second quarter of 2020, it was 5% from the third quarter of 2020 to the first quarter of 2022.

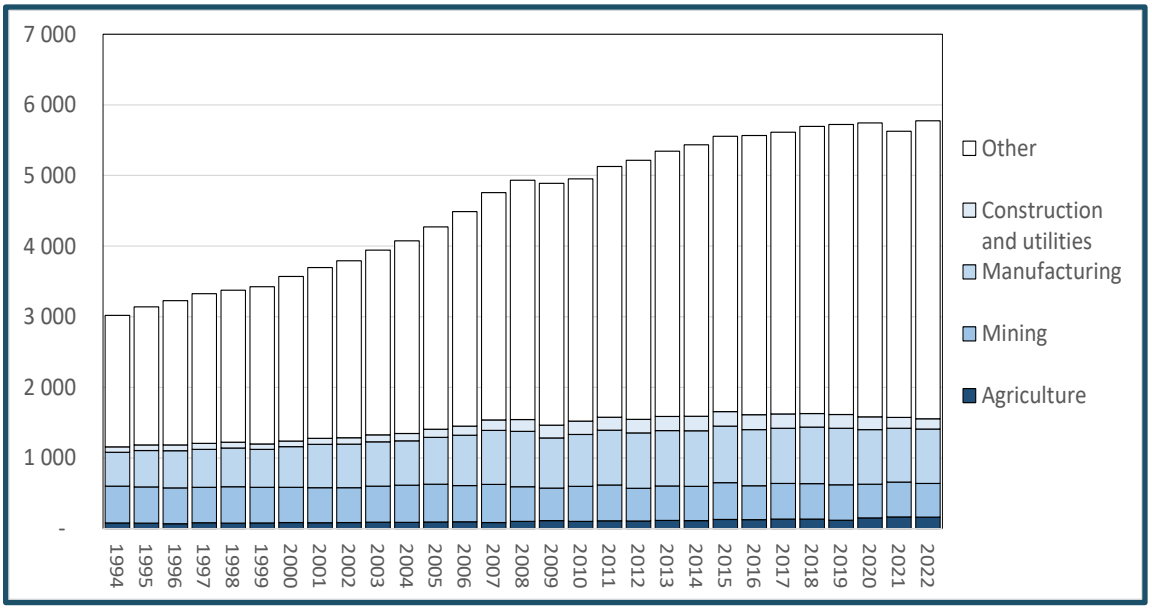
Graph 2. Quarterly GDP in trillions of constant (2022) rand (a) from 1994



Note: Reflated using implicit GDP deflator rebased to 2022. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

Personal, business and government services generated virtually all of South Africa's economic growth year on year. Agriculture, mining and construction all shrank in this period. Manufacturing grew 1%, largely due to a growth spurt in the first quarter of 2022.

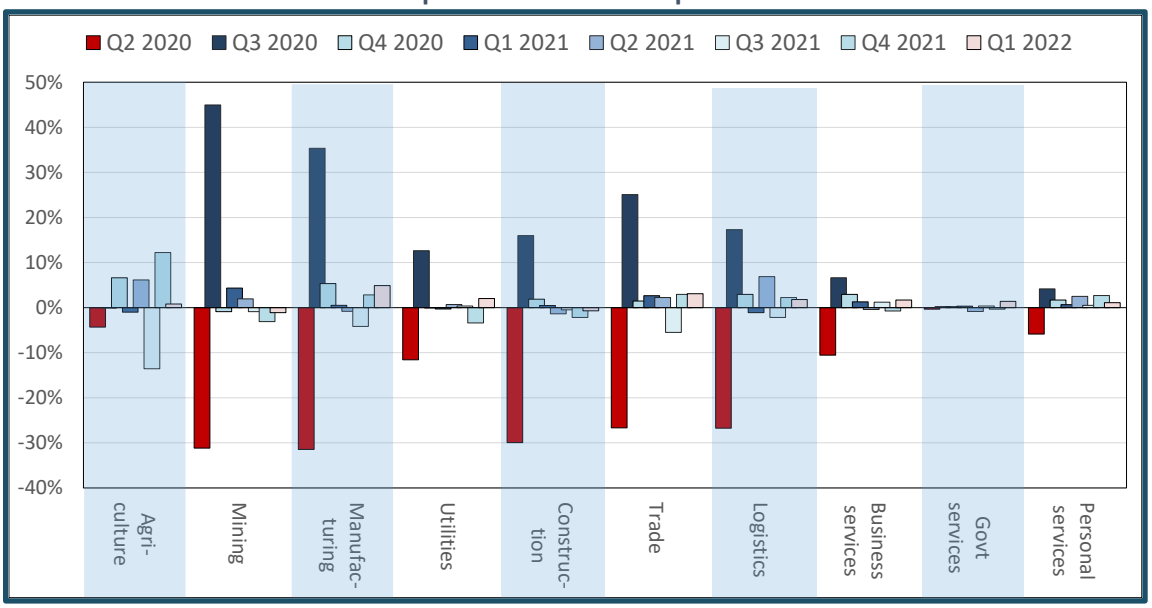
Graph 3. First-quarter value added by sector in billions of constant (2022) rand (a), 1994 to 2022



Note: (a) Reflated using implicit deflator for GDP rebased to first quarter 2022. *Source*: Calculated from Statistics South Africa. GDP annual current and constant figures. GDP P0441 – 2021Q2.

Manufacturing expanded faster than any other sector in the first quarter of 2022, climbing by 4.9% over the previous quarter in seasonally adjusted terms. In contrast, construction and mining shrank and agriculture grew only 0.8%.

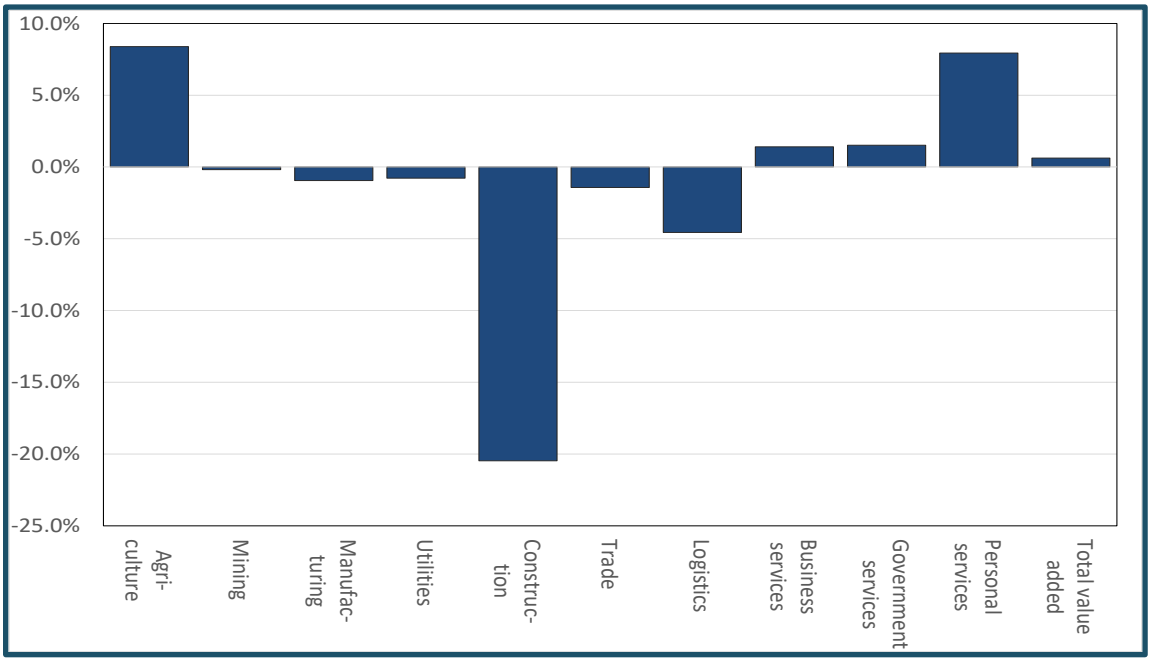
Graph 4. Quarterly change in contribution to GDP by sector, second quarter 2020 to first quarter 2022



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet.

The divergence in growth rates across sectors brought a pronounced difference in the recovery from the pandemic. Value added was still 20% lower than before the pandemic in construction, and it was 2% lower in manufacturing. In contrast, agriculture substantially increased its contribution to the GDP.

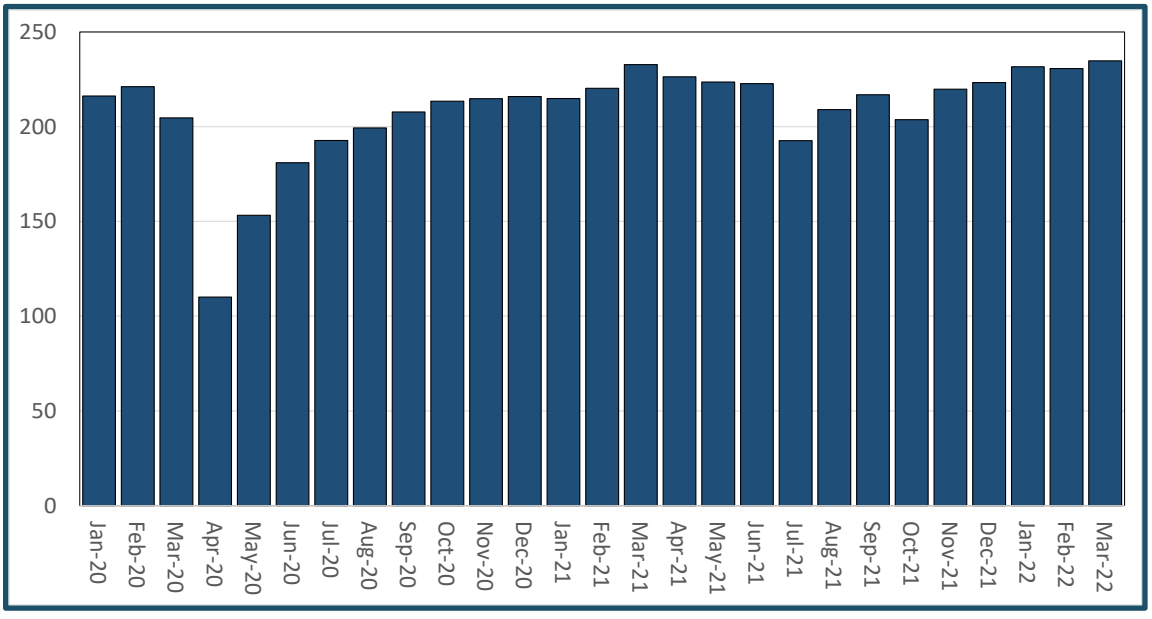
Graph 5. Change in GDP from first quarter of 2020 (pre-pandemic) to third quarter 2021 by sector



Source: Calculated from Statistics South Africa. GDP quarterly figures. GDP P0441 – 2021Q2. Excel spreadsheet

Manufacturing sales in the second quarter of 2022 were 4% above the previous quarter, and 5% higher than two years ago, before the pandemic downturn. That said, they mirrored the volatility in national and domestic markets, with sharp falls in July and October 2021 followed by strong recoveries and then slow growth.

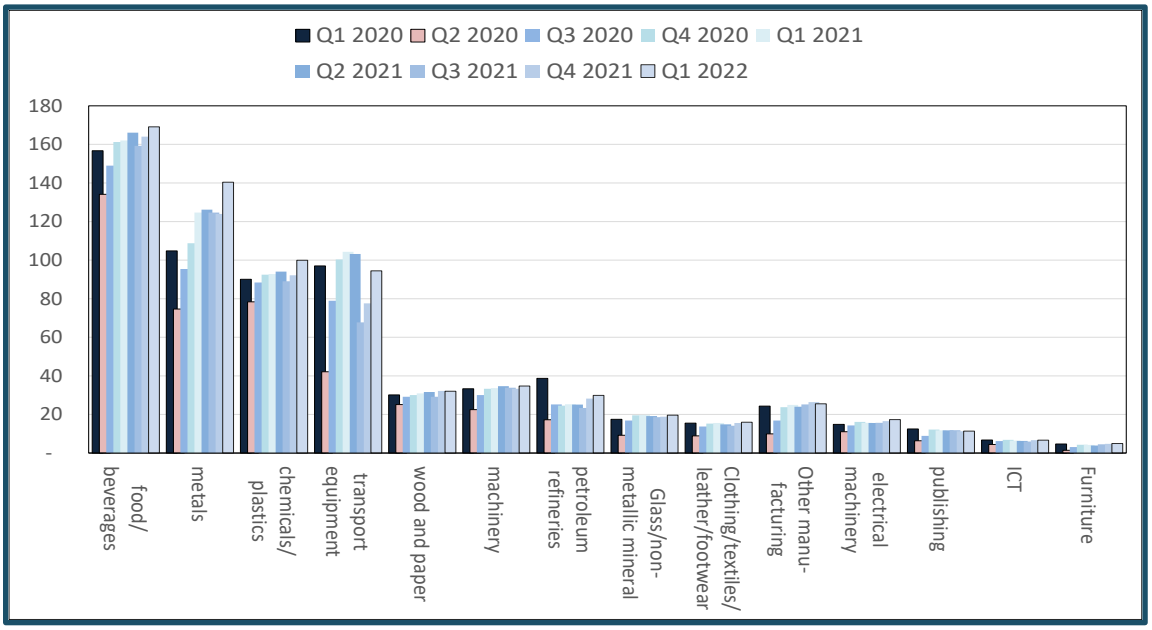
Graph 6. Monthly manufacturing sales in billions of constant (2021) rand (a), January 2020 to March 2022



Note: (a) Figures revalued with CPI. *Source*: Calculated from Statistics South Africa. Manufacturing: Production and sales, December 2021. P3041.2. Excel spreadsheet (202112).

Metals and the auto industry drove manufacturing sales in the first quarter of 2022. (Graph 7). Chemicals and food also saw substantial gains, but sales were flat in most other industries.

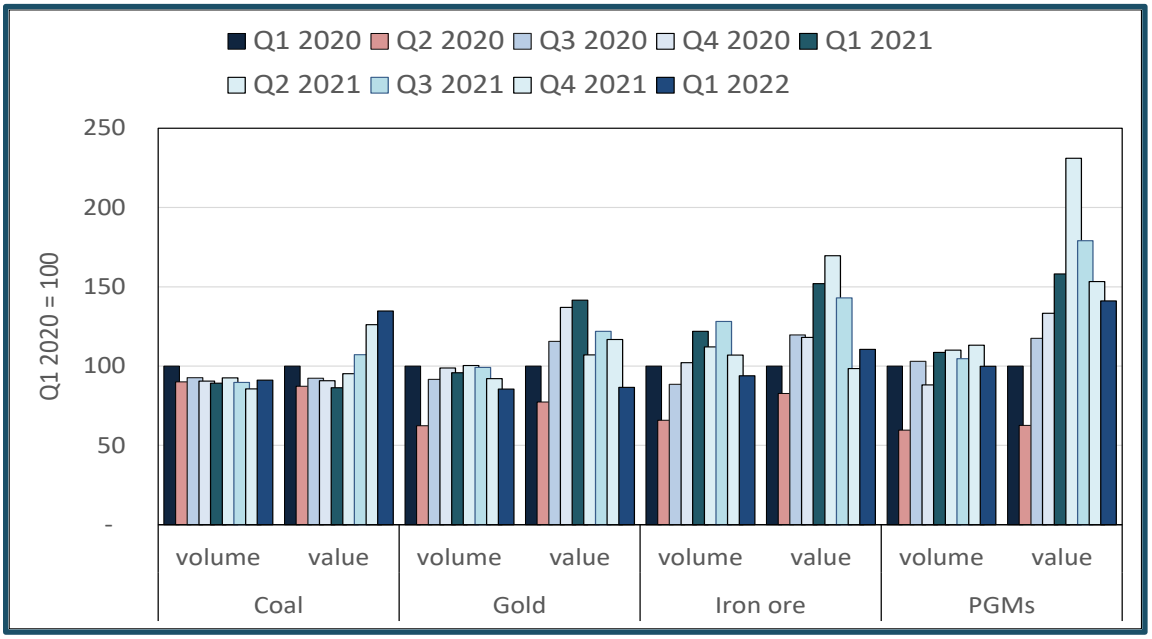
Graph 7. Quarterly sales by manufacturing industry in billions of constant (2022) rand (a), seasonally adjusted



Note: Reflated with CPI. *Source:* Calculated from Statistics South Africa. Manufacturing: Production and Sales, March 2022 (202203).

Over the past two years, production in mining has remained essentially flat (with the partial exception of iron ore). In the first quarter of 2022, all of these products except gold still enjoyed fairly high prices, however, which boosted their revenues despite limited growth in output. (Graph 8)

Graph 8. Indices of seasonally adjusted quarterly production and sales (in constant rand) in mining (Q1 2020 = 100)(a)

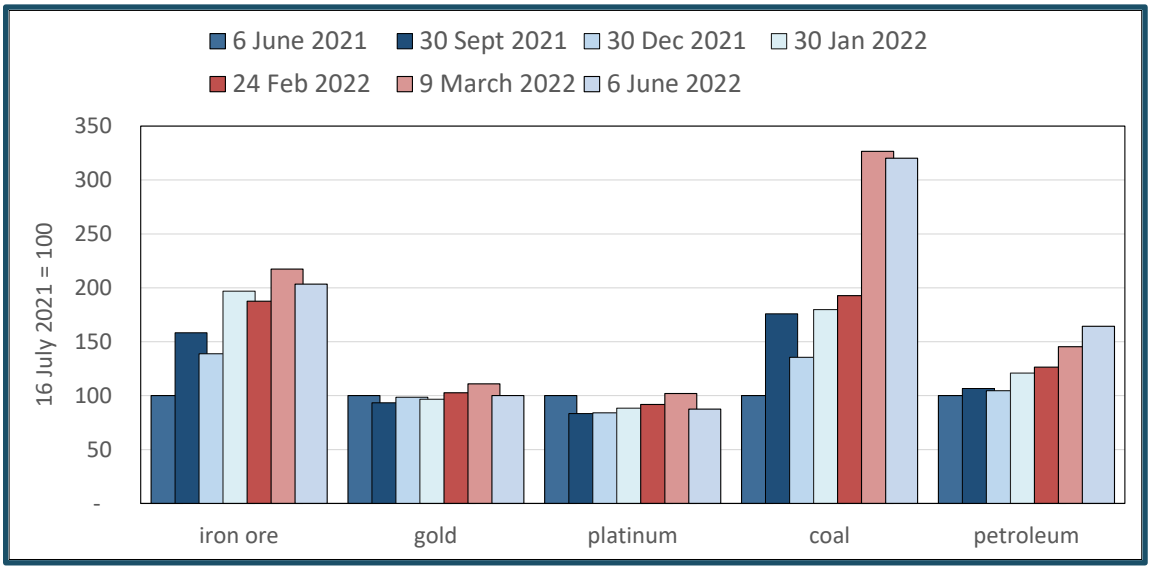


Note: (a) Production volume indices rebased to first quarter of 2020; sales are deflated with CPI. *Source:* Calculated from Statistics South Africa. Mining Production and Sales. Excel spreadsheet.

The Russian invasion of Ukraine, which started on 24 February, brought only a short-lived revival in metals prices, with a more durable increase for fossil fuels. (Graph 9). In the second week of

March, prices for coal, petroleum and precious metals climbed to near-historic highs. Coal and oil continued to enjoy record prices in the second quarter of 2022. In contrast, the boom for platinum, gold and iron ore did not last, and by June 2022 they had lost almost all of their gains.

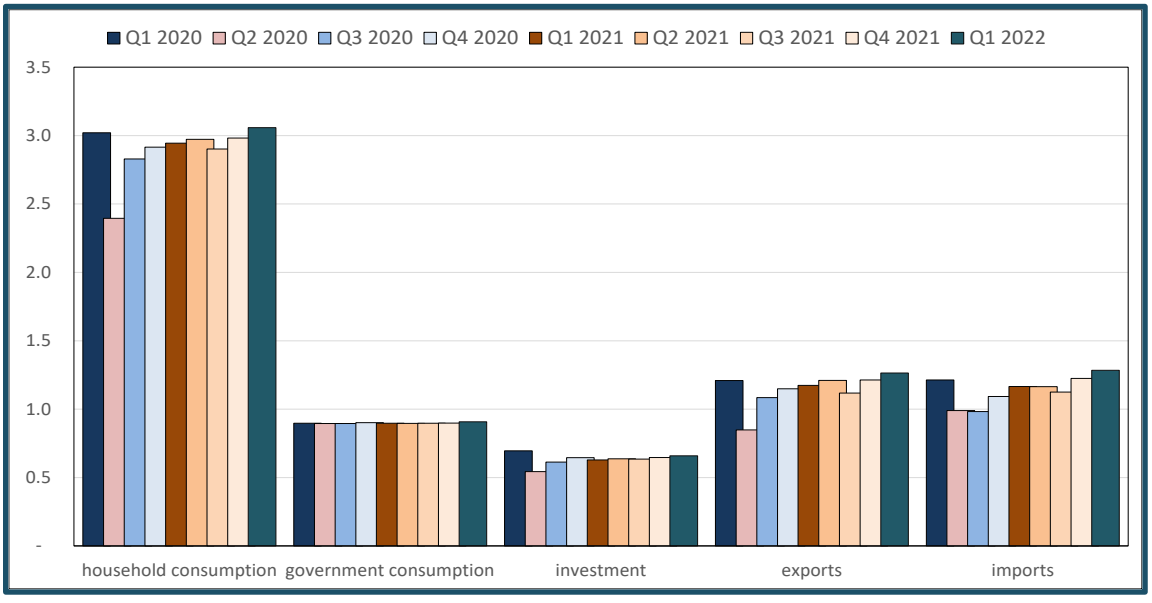
Graph 9. Index of global US dollar prices for South Africa's major mining exports from June 2021 to February, March and early June 2022



Source: Calculated from Trading Economics. Commodity prices. Interactive dataset. Accessed on 9 March 2022 at https://tradingeconomics.com/commodities.

In expenditure terms, a recovery in investment and expanded household spending boosted GDP growth in the first quarter of 2022. Gross fixed capital formation rose by 3.6%. As discussed in the section on investment below, private investment climbed rapidly, and general government investment reversed its downward trend. Household consumption, mostly by the richest 20% of households, rose by 1.4%, and government consumption by 1.0%.

Graph 10. Quarterly expenditure on GDP, first quarter 2020 to fourth quarter 2021, seasonally adjusted, in trillions of constant (2015) rand



Source: Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

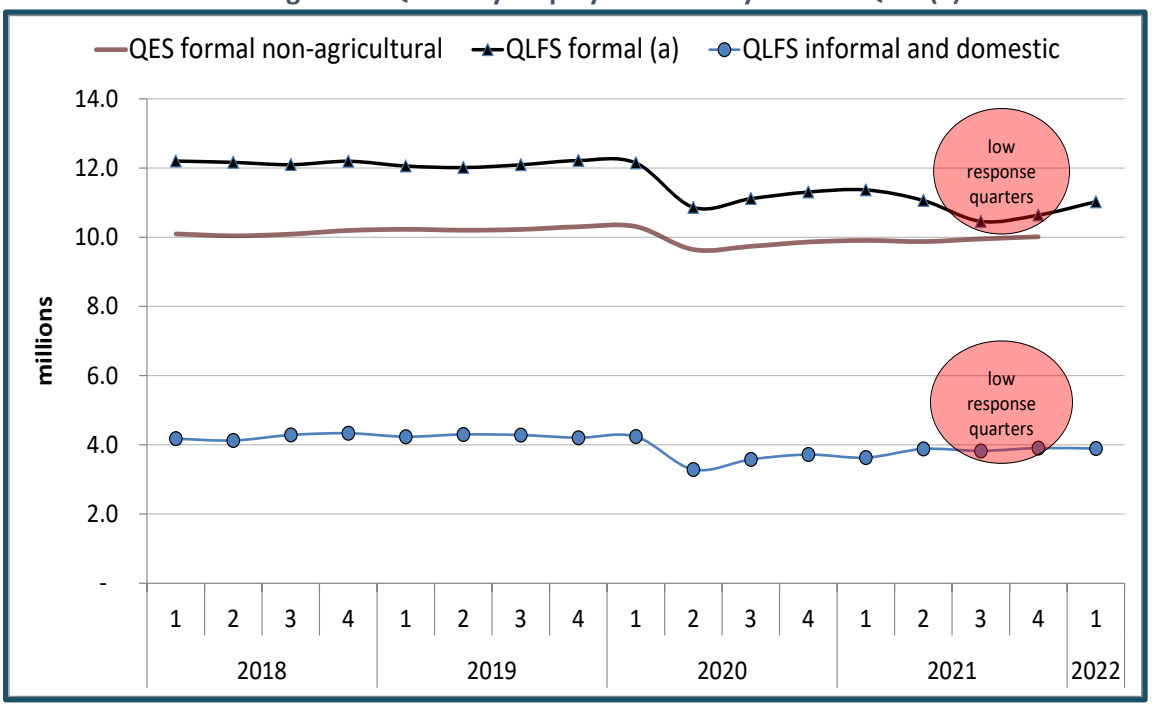
Employment

The available employment data suggest that the jobs recovery has lagged well behind the GDP, especially for lower-level formal employees and domestic workers. The number of employers and self-employed people has also dropped sharply. The employment data became significantly less reliable during the pandemic, however, because public-health concerns affected labour force surveys.

Official surveys of both employers and households find that employment is still between 3% and 9% below pre-pandemic levels, despite some improvement since the second quarter of 2020. That is, the recovery in employment still lags far behind the rebound in the GDP.

The government publishes two quarterly studies of employment: the Quarterly Employment Statistics report, which relies on inputs from 20 000 formal non-agricultural employers, and the Quarterly Labour Force Survey (QLFS) of around 30 000 households. According to the Quarterly Employment Statistics, in the fourth quarter of 2021 – the latest available version – the number of formal non-agricultural jobs was 290 000 lower than two years earlier. That represented a decline of 2.8% over this period. The QLFS found that all formal and informal employment in the first quarter of 2022 had shrunk by 1.5 million jobs, or 9%, from two years earlier. For non-agricultural formal employment alone, the QLFS indicated a million lost jobs.

Graph 11. Formal and other employment from first quarter 2018 to first quarter 2022 according to the Quarterly Employment Survey and the QLFS (a)

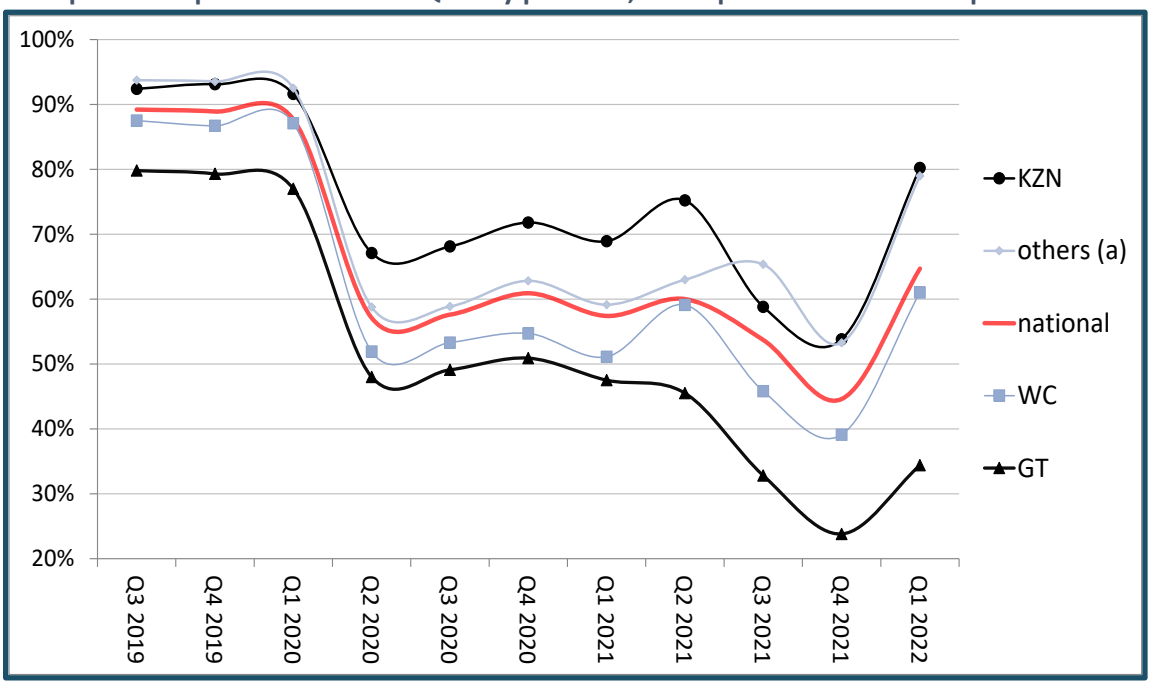


Note: (a) The formal employment figures for the QLFS presented here include agriculture, which was fairly stable throughout the period, plus formal enterprises with turnover of under R300 000, which are both excluded from the Quarterly Employment Statistics. The quarters with a very low response rate generated much less reliable figures, as discussed in the text. *Source:* Calculated from Statistics South Africa. QES details breakdown and QLFS Trends 2008-2022Q1. Excel spreadsheets.

During the pandemic, the QLFS figures became much less reliable, mostly because the lockdown forced a shift from in-person to telephonic interviews. The telephone interviews had a far lower response rate, however, especially in Gauteng, which accounts for around a third of total employment although only a quarter of the population. Overall response rates dropped from 90% before the pandemic to 60% in the lockdown, with a further dip to 45% in the fourth quarter of 2021. Moreover, international experience during the pandemic showed that telephone interviews tend to bias returns toward higher-level workers, who often have more time and better technology.[1]

Statistics South Africa began to reinstate in-person interviews in the first quarter of 2022. It will take time for the system of in-person surveys to stabilise, however, given the size of the survey. In the first quarter of 2022, the initial post-pandemic round of in-person interviews still saw much lower response rates than before the pandemic. The rate was only just above 60% overall, and around 35% in Gauteng. (Graph 12)

Graph 12. Response rates in the QLFS by province, third quarter 2019 to first quarter 2022

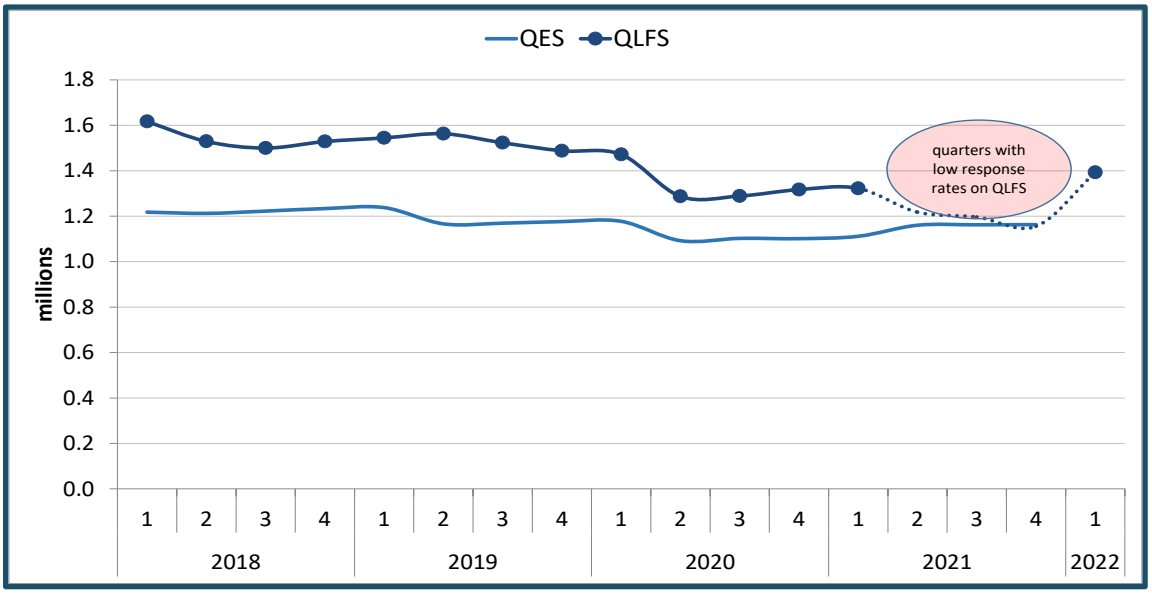


Note: (a) Unweighted average of response rate for other provinces. *Source:* Calculated from Statistics South Africa. Quarterly Labour Force Survey statistical releases for relevant quarters.

The Quarterly Employment Statistics and the QLFS both find that manufacturing employment remains well below pre-pandemic levels. They suggest a modest recovery since the second quarter of 2021, but only if the quarters with very low response rates in the QLFS are dropped.

[1] We are grateful to Professor Gay W. Seidman, Martindale Bascom Professor of Sociology at the University of Wisconsin at Madison, for information on the international experience with telephone surveys during the pandemic.

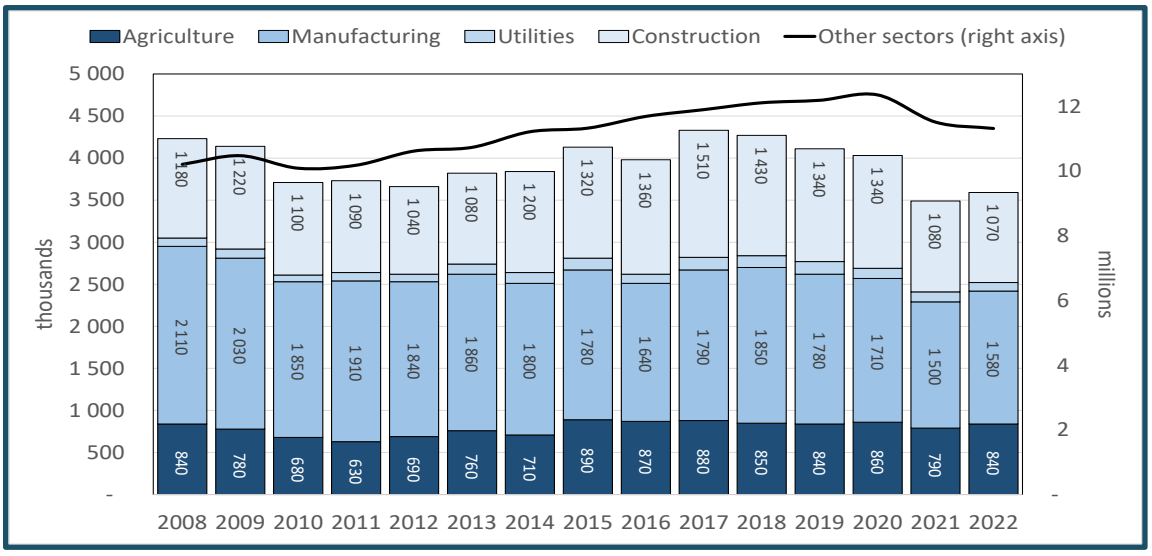
Graph 13. Quarterly Employment Survey and QLFS findings on formal employment, first quarter 2018 to first quarter 2022



Source: Calculated from Statistics South Africa. QES details breakdown and QLFS Trends 2008-2022Q1. Excel spreadsheets.

At the sectoral level, the first quarter of 2022 saw higher employment in manufacturing and agriculture than a year earlier. Construction accounted for most of the fall in employment in the real economy sectors in the pandemic, and the QLFS found that it generated almost no new jobs in the year to the first quarter 2022. The QLFS also reported continued job losses in the rest of the economy over the period.

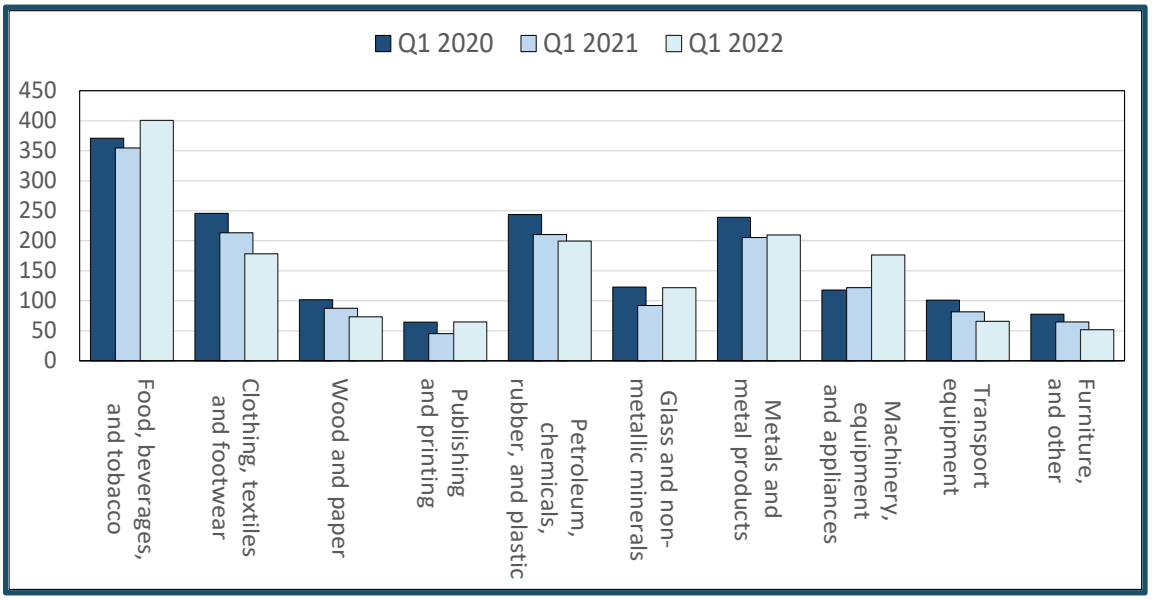
Graph 14. First-quarter employment in agriculture, manufacturing, utilities, construction and the rest of the economy, 2008 to 2022



Source: Calculated from Statistics South Africa. QLFS Trends 2008-2022Q1. Excel spreadsheet.

By industry, the QLFS finds a sharp jump in employment in food and machinery in the first quarter of 2022 compared to a year earlier, but a long-term decline in employment in most other manufacturing. (Graph 15). Again, these findings should be treated with caution as in-person interviews have only just resumed and response rates remain low.

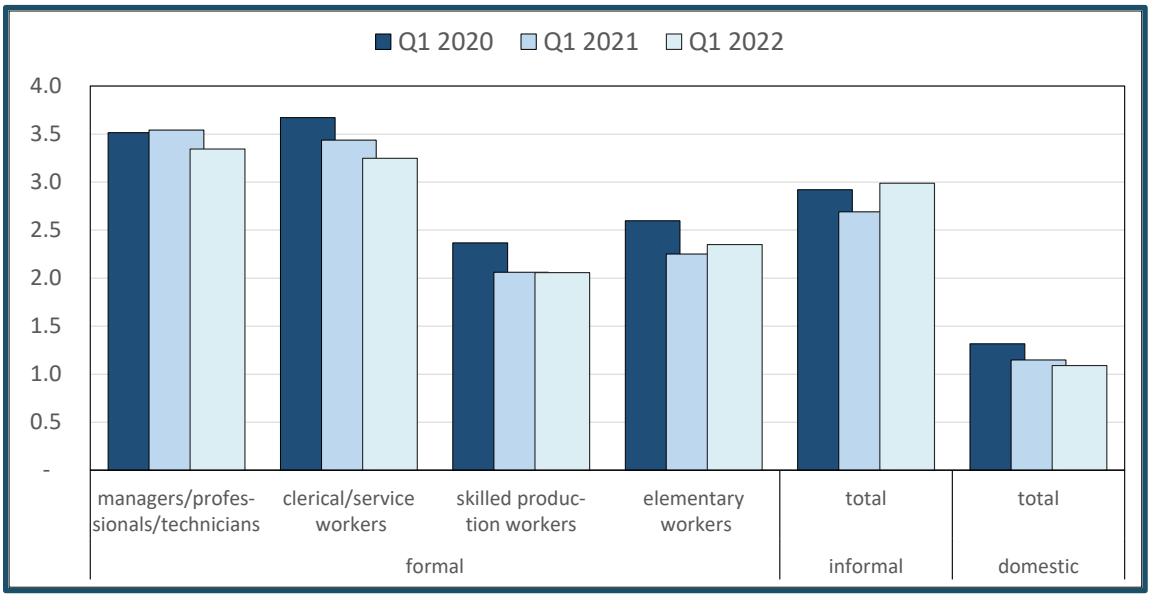
Graph 15. Employment in manufacturing industries, first quarter 2000, 2021 and 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

The QLFS data underscore that less skilled formal workers bore the brunt of the job losses, especially in the real economy. In contrast, managers and professionals saw relatively little impact on employment levels, despite a drop in the year to March 2022. Informal employment reportedly recovered fully from the pandemic in the first quarter of 2022, but domestic employment continued to shrink.

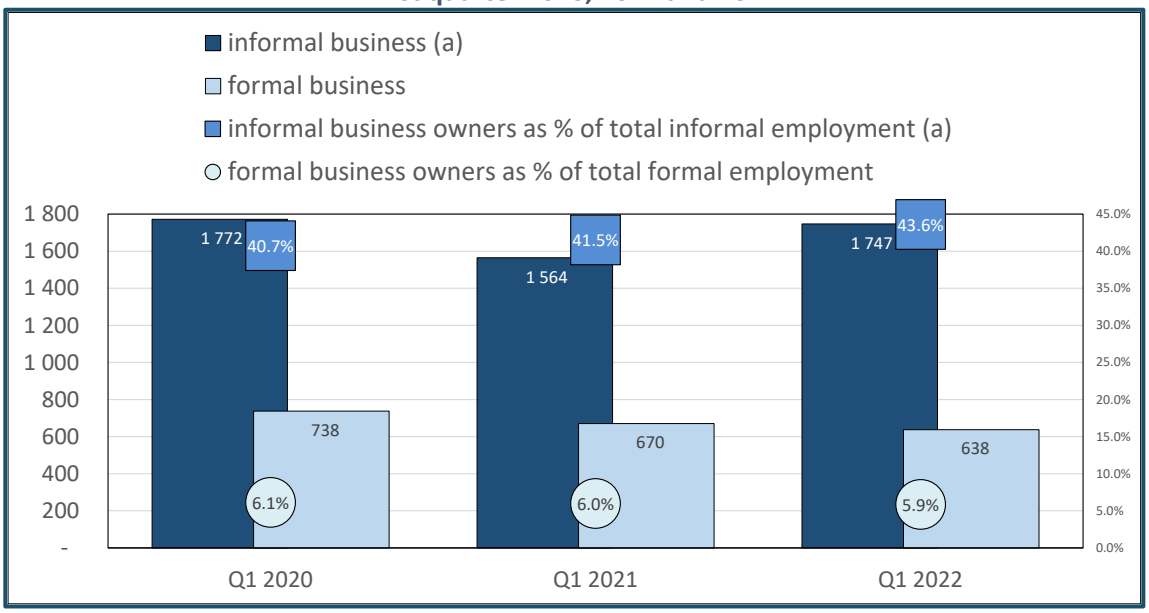
Graph 16. Employment by occupational level, first quarter 2020, 2021 and 2022



Source: Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

The QLFS data help to understand the impact of the pandemic on small formal business. The number of employers and self-employed people fell steadily from 740 000 in the formal sector in the first quarter of 2020 to 640 000 two years later. In contrast, after an initial sharp decline in numbers, informal businesses have almost entirely recovered, presumably because participants have virtually no other option.

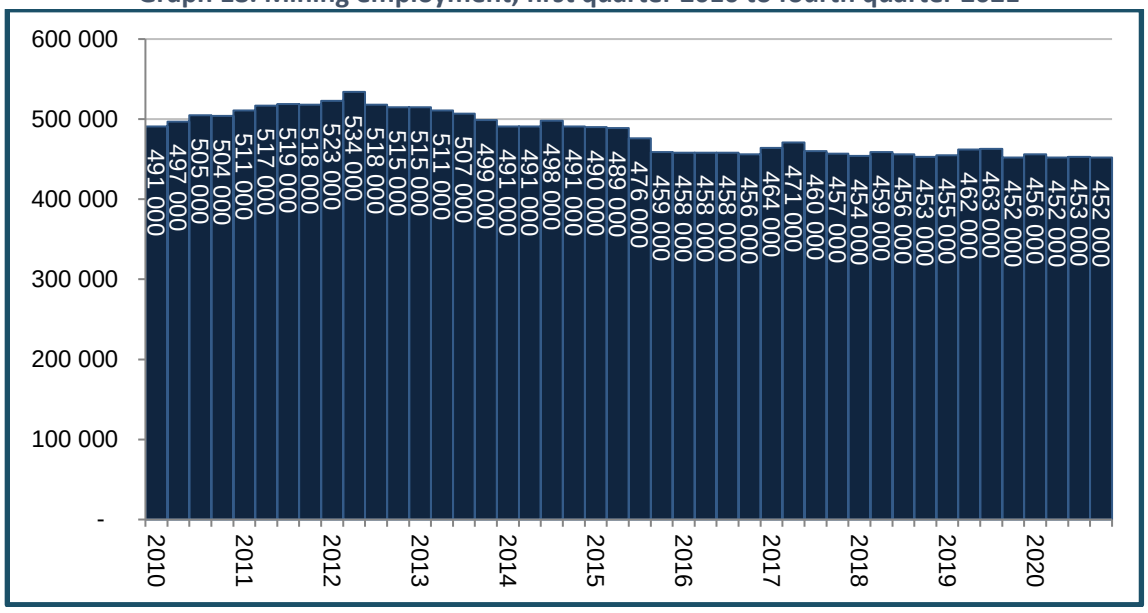
Graph 17. Business owners in the formal and informal (a) sectors, first quarter 2020, 2021 and 2022



Note: (a) Includes domestic work. *Source:* Calculated from Statistics South Africa. QLFS for relevant quarters. Electronic databases.

Mining employment has been essentially flat since 2020. The data are collected from the companies, separately from the main employment surveys.

Graph 18. Mining employment, first quarter 2010 to fourth quarter 2021



Source: Statistics South Africa. Quarterly Employment Statistics. Detailed breakdown. First quarter 2022. Excel spreadsheet.

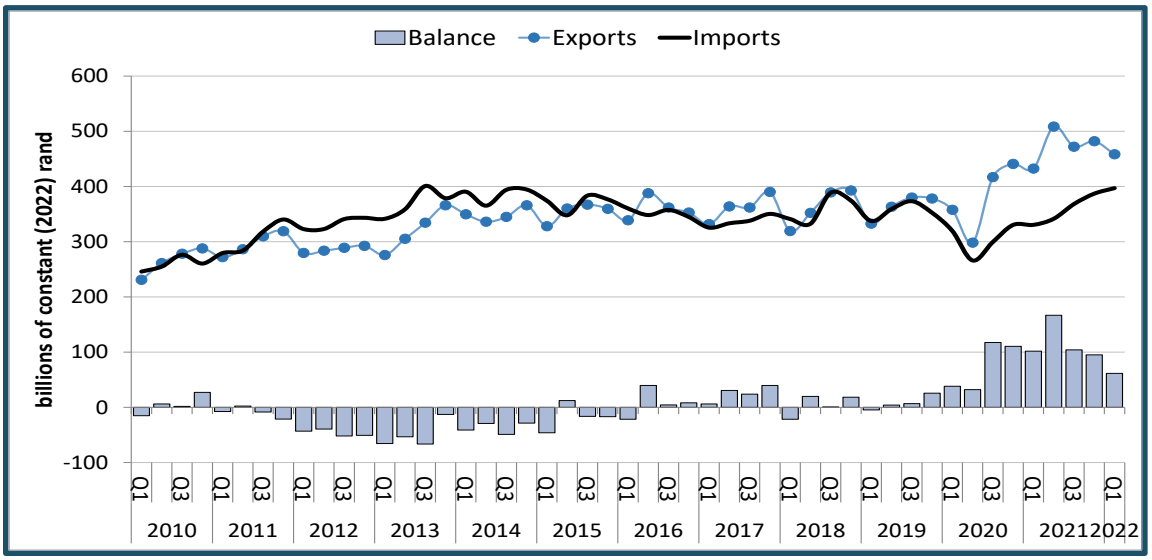
International trade

In the first quarter of 2022, the balance of trade remained positive but declined by almost half compared to the previous quarter. The fall mostly resulted from the spike in petroleum prices internationally, despite strength in the prices of South Africa's main mining exports over most of the quarter.

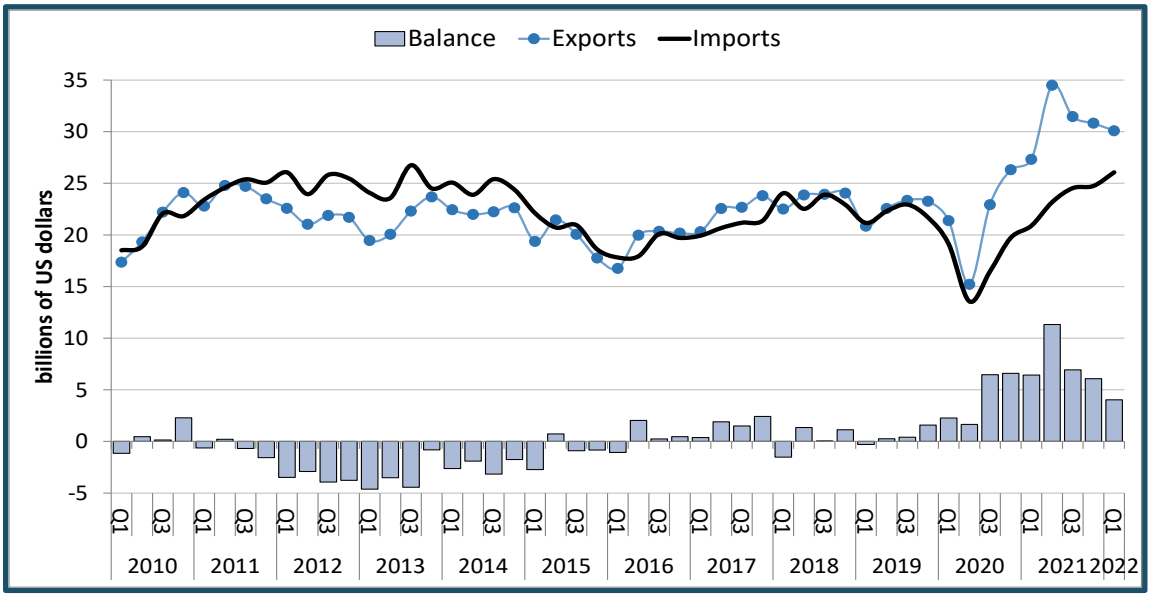
In the first quarter of 2022, exports reached R460 billion in constant 2022 Rands, while imports totalled almost R400 billion.[2] The pandemic improved South Africa's international trade position by boosting the prices of its mining exports, while slow growth and disruptions to international supply chains suppressed imports. That provided a critical cushion for the economy, especially in light of constrained public spending and investment since 2021. The sharp increase in petroleum prices from the end of 2021, aggravated by the Russian invasion of Ukraine, reduced the trade surplus substantially, however. It fell by R33 billion compared to the fourth quarter of 2021, to R61 billion. A year earlier, it was just over R100 billion. The surplus remains far higher than at any time over the previous decade.

Graph 19. Exports, imports and balance of trade in billions of constant rand and current US dollars

A. Billions of constant (2022) rand (a)



B. Billions of current US dollars

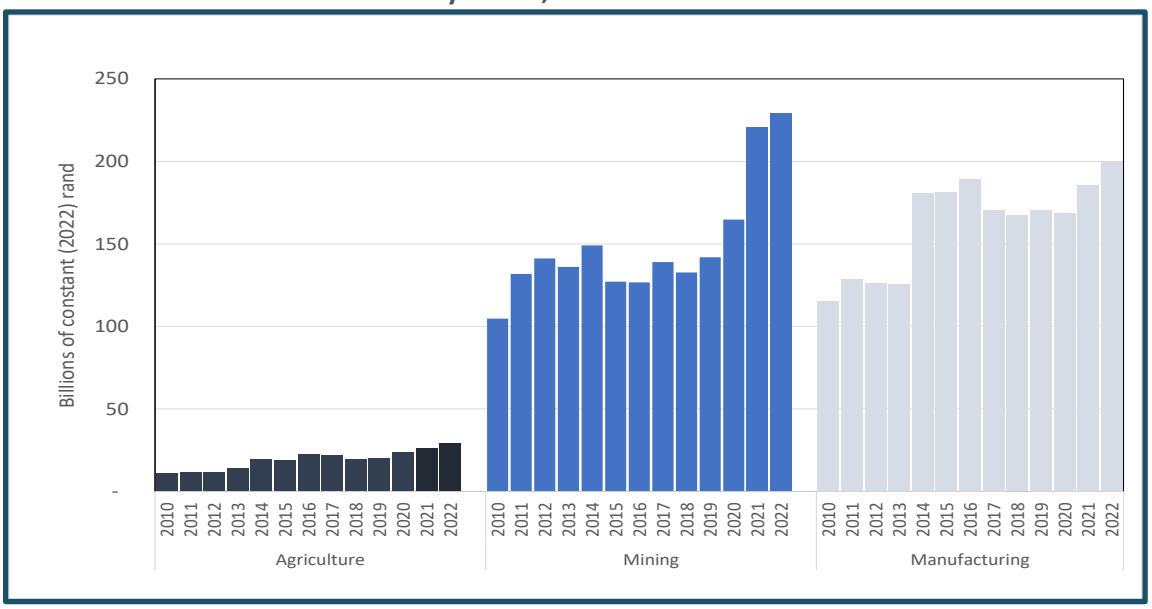


Source: Calculated from South African Revenue Service data.

[2] Note: (a) Constant rand values reflated using CPI rebased to December 2022; US dollar values calculated with the trade-weighted exchange rate from the Reserve Bank.

Mining prices remained high, boosting the value of both mining products and refined metals and metal products. The increase in mining exports was, however, subdued compared to the extraordinary jump in the first quarter of 2021. Mining exports increased by 3.4% in constant rand in the first quarter of 2022. The price decline for virtually all of South Africa's major mining exports except for coal in the second quarter of 2022 will likely see significantly weaker results going forward. Agricultural exports increased 10% and manufacturing exports 7%. (Graph 20)

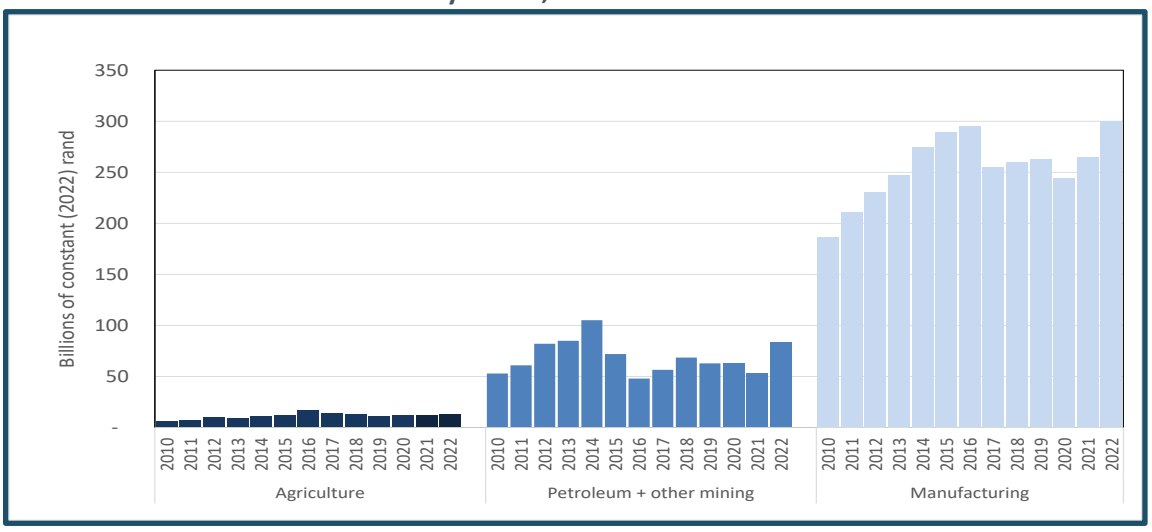
Graph 20. First-quarter goods exports in billions of constant (2022) rand (a), by sector, 2010 to 2022



Note: (a) Deflated with CPI. *Source:* Calculated from South African Revenue Service data.

In the same period, imports climbed 2.5%. The higher cost of petroleum accounted for around half of the increase, as shown in Graph 21. Extractive imports spiked 35% as oil prices escalated. Manufacturing imports also rose sharply in constant rand terms, by 12% off a much higher base. As a result, manufactured imports exceeded the previous peak in 2016. Total imports have begun to approach pre-pandemic levels in constant rand terms.

Graph 21. First-quarter goods imports in billions of constant (2021) rand (a), by sector, 2010 to 2022



*Note: (*a) Deflated with CPI. *Source:* Calculated from South African Revenue Service data.

As Table 1 shows, the spurt in manufactured imports mostly reflected the recovery in the domestic economy, with machinery accounting for 40% of the growth and petrochemicals for 14%. For manufactured exports, the increase resulted almost exclusively from the metals industry, which contributed 80% of the total increase. Petrochemicals and paper products also benefited from the commodity boom. Still, machinery exports rose by 4.2% and auto by 2.3%. In contrast, glass and non-metallic mineral products fell by 11.7%, food and beverages by 7.8% and clothing and footwear by 4.1%.

Table 1. Trade by manufacturing subsector

	VALUE (BILLIONS)		% CHANGE FROM Q1 2021		CHANGE IN BILLIONS	
Industry	**USD**	**Rand**	**USD**	**Rand**	**USD**	**Rand**
EXPORTS						
Food and beverages	1.04	15.9	-4.0%	-7.8%	-0.04	-1.34
Clothing and footwear	0.44	6.7	-0.3%	-4.1%	-0.00	-0.29
Wood products	0.15	2.2	14.4%	10.0%	0.02	0.20
Paper and publishing	0.38	5.7	15.1%	10.8%	0.05	0.56
Chemicals, rubber, plastic	2.36	35.9	7.8%	3.7%	0.17	1.29
Glass and non-metallic mineral products	0.10	1.6	-8.2%	-11.7%	-0.01	-0.21
Metals and metal products	3.28	49.8	31.7%	26.8%	0.79	10.52
Machinery and appliances	2.22	33.7	8.3%	4.2%	0.17	1.35
Transport equipment	2.93	44.5	6.4%	2.3%	0.18	0.98
IMPORTS						
Food and beverages	1.03	15.7	23.6%	19.1%	0.20	2.52
Clothing and footwear	1.30	19.8	13.2%	9.1%	0.15	1.64
Wood products	0.12	1.9	18.4%	13.9%	0.02	0.23
Paper and publishing	0.98	15.0	56.8%	50.9%	0.36	5.05
Chemicals, rubber, plastic	3.94	60.1	13.2%	8.9%	0.46	4.93
Glass and non-metallic mineral products	0.25	3.8	-3.8%	-7.4%	-0.01	-0.30
Metals and metal products	1.55	23.6	23.4%	18.6%	0.29	3.70
Machinery and appliances	6.20	94.4	22.9%	18.2%	1.15	14.56
Transport equipment	3.96	60.4	9.1%	5.0%	0.33	2.87

Source: SARS monthly data.

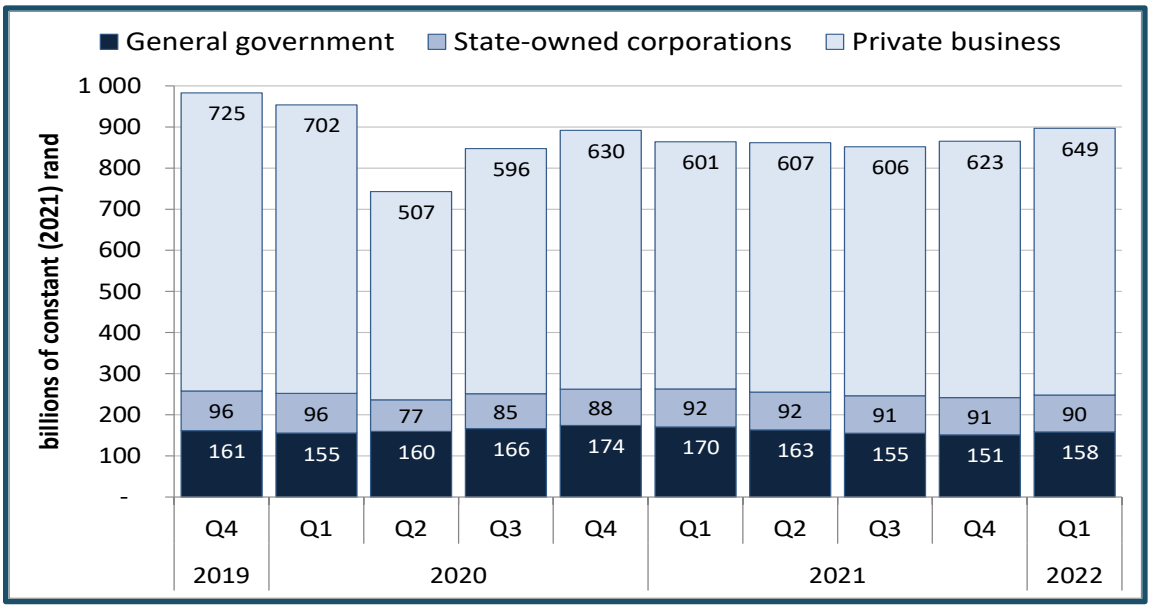
Investment

Investment remained 6% below pre-pandemic levels, despite some recovery from the middle of 2021. It rose 4.1% in the first quarter of 2022, with a 4.9% increase in government investment and 4.1% in private investment, which is far larger. State-owned corporations cut their investment by 1.1%, however. In mining, profits fell with global prices but were still much higher than in the late 2010s. Manufacturing returns remained strong.

Growth in total investment revived in the six months to March 2022, after plateauing in the first half of 2021. Private investment grew 4,1% in the first quarter of 2022, around the same as in the fourth quarter of 2021 (in seasonally adjusted terms). Despite the relatively rapid growth over these two quarters, it remains 7% lower than before the pandemic due to the exceptionally steep decline in the second quarter of 2020. General government investment increased by 5%, partially reversing the 7% fall in the previous quarter. As a result, general government investment

exceeded its pre-pandemic levels in the first quarter of 2022. Investment by state-owned companies continued to stagnate, however, and now lags 7% behind pre-pandemic levels. (Graph 22)

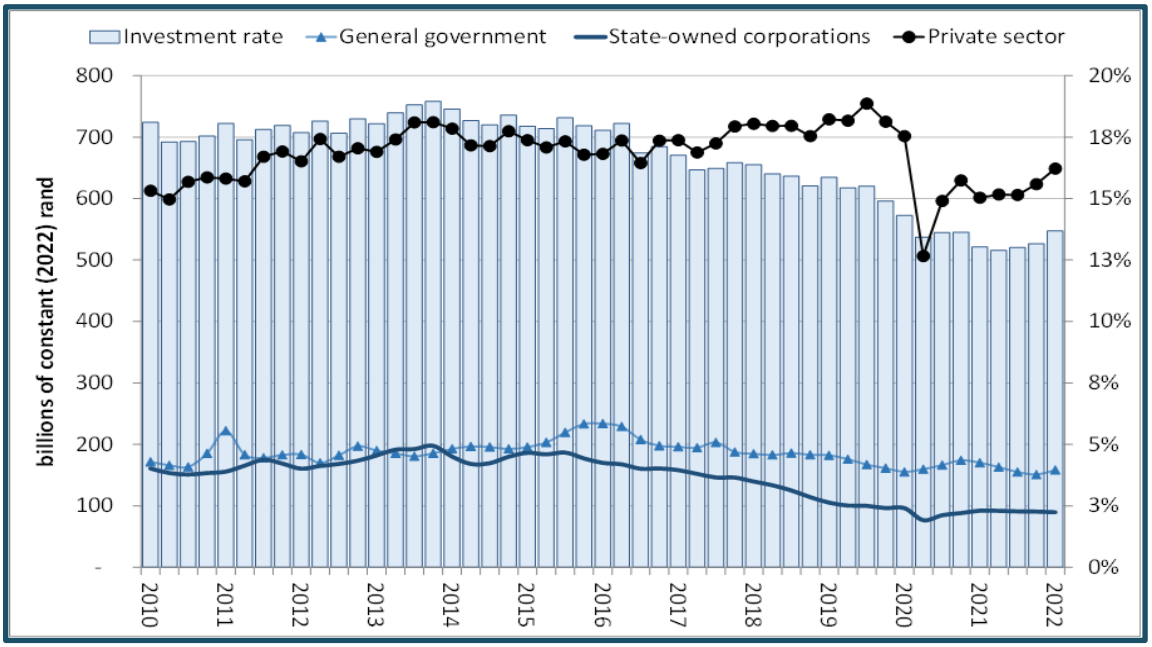
Graph *22*. Quarterly seasonally adjusted investment by type of organisation, fourth quarter 2018 to fourth quarter 2021, in billions of constant (2021) rand (a)



Note: Reflated with implicit deflator rebased to first quarter 2022. *Source*: Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Investment climbed from 13.0% of the GDP in mid-2021 to 13.7% in the first quarter of 2022, mostly because of the uptick in private investment. It remains far below the level required to drive rapid growth and industrialisation, however.

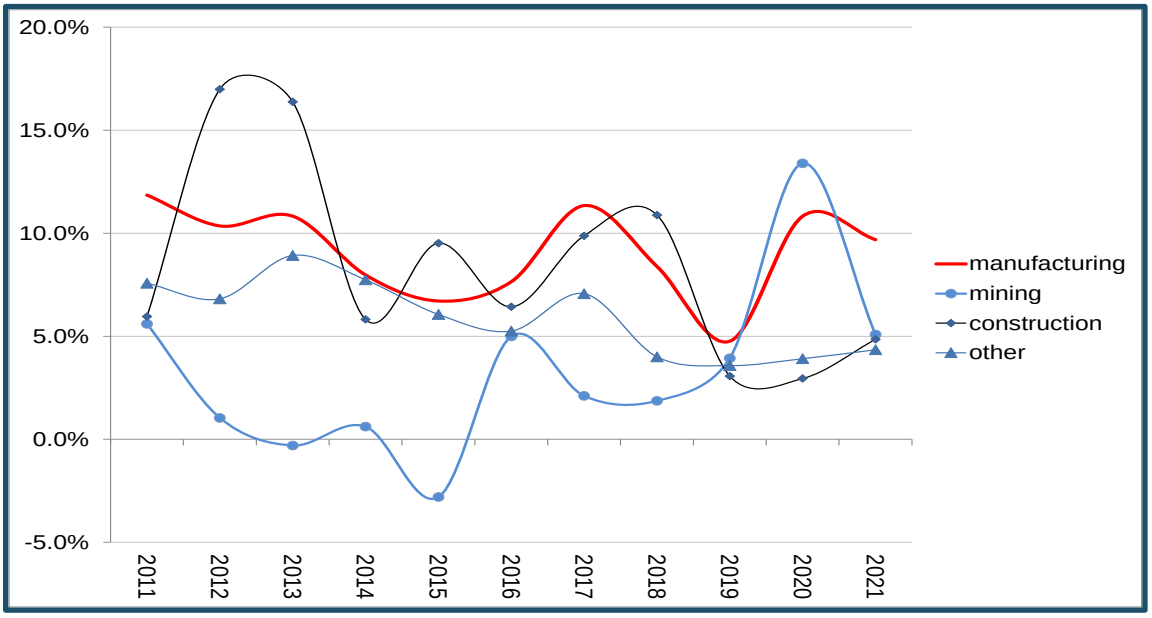
Graph 23. Quarterly investment by type of organisation in billions of constant (2021) rand, and total investment as a percentage of GDP, 2010 to fourth quarter 2021



Note: Reflated with implicit deflator rebased to first quarter of 2022. *Source:* Calculated from Statistics South Africa. GDP quarterly figures. Excel spreadsheet.

Data on profitability by sector are available only through the fourth quarter of 2021 (Graph 24). Although the return on capital plunged in mining, it remained high compared to the previous decade.

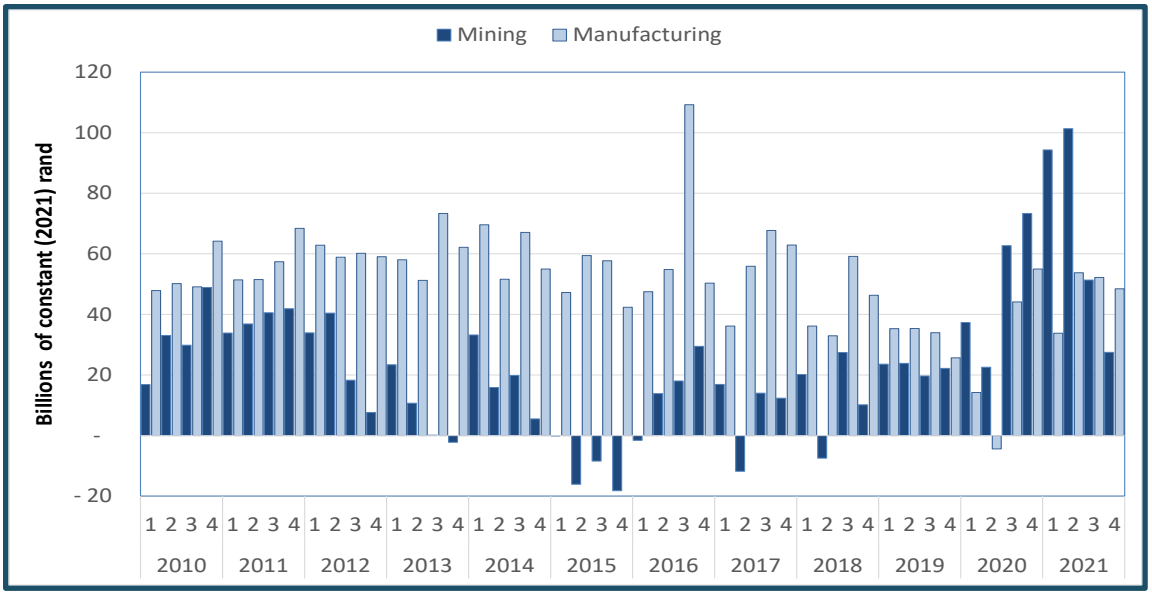
Graph 24. Return on assets by sector, first quarter, 2010 to 2022



Source: Stats SA, Quarterly Financial Statistics adjusted to constant rand. Excel spreadsheet downloaded www.statssa.gov.za. July 2021.

Graph 25 shows profits for mining and manufacturing in constant rand. In the fourth quarter of 2021 mining prices fell to their lowest level in six quarters. They remained high by historic standards, however, and likely received a boost as the Russian invasion of Ukraine led to a renewed spike in the first quarter of 2022. Manufacturing profits were lower than 10 years ago, but higher than in the slow years just before the pandemic.

Graph 25. Quarterly profits in manufacturing and mining in billions of constant 2021 rand (a), 2010 to 2021.



Note: (a) Deflated with CPI. *Source:* Calculated from Statistics SA, Quarterly Financial Statistics. Excel spreadsheet downloaded www.statssa.gov.za.

Foreign direct investment projects

The TIPS Foreign Direct Investment Tracker monitors major projects on a quarterly basis, using published information. The total investment value from projects captured this quarter was R96.1 billion. Some of the projects captured in this quarter were announced at the 2022 South African Investment Conference.

Note on FDI projects announced at the 2022 Investment Conference

The fourth South African Investment Conference took place in March 2022, having been postponed in 2021. It garnered 80 pledges from foreign and local companies, totalling approximately R332 billion. Foreign investments were identified from 34 companies with commitments valued at just over R95 billion, as reflected in Table 2. As usual with this kind of investment conference, some of the pledges represent projects already in the pipeline, others are updates of existing projects, or they blend new and existing commitments. The full FDI Tracker will provide more detail.

Table 2. Investments announced by foreign companies at the 2022 Investment Conference

PROJECTS	COMPANY	VALUE (R BNS)	LOCATION	NATIONALITY	INDUSTRY
Manufacture of solar PV cells and modules	Seraphim New Energy	0.44	Eastern Cape	China	Manufacturing
Manufacturing facility (lithium battery modules)	Polarium	0.03	Western Cape	Sweden	Manufacturing
Textile manufacturing facility	Compagnie Mauricienne de Textile	0.39	KwaZulu-Natal	Mauritius	Manufacturing
Brewery production capacity expansion	South African Breweries	4.50	Eastern Cape	Belgium	Manufacturing
Burger King outlets	ECP Private Equity	0.50	Various	US	Retail
Food and confectionary manufacturing facility	Lotus Bakeries	0.17	Western Cape	Belgium	Manufacturing
Manufacturing expansion	BMW	0.80	Gauteng	Germany	Manufacturing
Daimler Trucks & Buses Southern Africa new headquarters	Daimler Trucks & Buses Southern Africa	0.19	Gauteng	Germany	Construction
Automotive components supply	Fromex Industries	0.10	Eastern Cape	Mexico	Services
Manufacturing expansion	Volkswagen	0.35	Eastern Cape	Germany	Manufacturing
Local operations capacity expansion	Anglo American	10	Various	UK	Mining
Platreef mine expansion	Ivanhoe Mines New Horizons	2.8	Limpopo	Canada	Mining
Triple Crown production expansion	Sedibelo Platinum Mines Kell Process	9.4	North West	Guernsey	Mining
Pharmaceuticals manufacturing	Cipla	0.15	KwaZulu-Natal	India	Manufacturing
Vaccine manufacturing	Pfizer	0.26	Western Cape	US	Manufacturing

PROJECTS	COMPANY	VALUE (R BNS)	LOCATION	NATIONALITY	INDUSTRY
Vaccine production campus	NantSA	3	Western Cape; Gauteng	US	Manufacturing
Healthcare educational software development	Siemens	0.48	Not reported	Germany	Services
Television production	Warner Media	0.35	Western Cape	US	Services
Television and film production	Netflix	0.93	Western Cape; Gauteng	US	Services
Manufacturing facility upgrade	PFNonwovens	0.65	Western Cape	Czechia	Manufacturing
Consolidated logistics facilities	DSV	2.2	Gauteng; Western Cape KwaZulu-Natal	Denmark	Services
Capital expenditure	Imperial Logistics	2.1	Not reported	Dubai	Services
Market expansion	DiDi	1.2	Not reported	China	Services
E-commerce service delivery	Airlift	0.30	Gauteng; Western Cape	Pakistan	Services
Data centre and power generation infrastructure	Teraco Data Environments	1.1	Various	US; UK	Services
Expanding business services	Sigma Connected	0.27	Western Cape	UK	Services
Manufacturing plant expansion	Procter & Gamble	0.45	Gauteng	US	Manufacturing
Packaging supplies manufacturing facility expansion	Huhtamaki	0.15	KwaZulu-Natal	Finland	Manufacturing
Glass container manufacturing facility	Ardagh Group (Consol)	1.5	Gauteng	Ireland	Manufacturing
Appliances and electronics production plant expansion	Defy	0.32	KwaZulu-Natal	Turkey	Manufacturing
Porcelain tile manufacturing plant	Rayal	0.28	Gauteng	China	Manufacturing
Steel manufacturing facility	Hangda	0.30	Free State	China	Manufacturing
Aluminium and steel manufacturing	Velocity Ventures	0.47	Gauteng	UAE	Manufacturing
Collective French Investment (2022)	Various companies	50	Gauteng	France	Various
Tshwane Automotive SEZ	Tshwane Automotive SEZ	1.8	Gauteng	Various	Manufacturing

Source: Adapted from South Africa Investment Conference Announcements

Table 3 presents additional foreign investment projects that were not announced at the 2022 conference. The Tracker captured three such projects, but no values were disclosed. All the projects represent greenfield investment in the utilities and services industries. The Tracker also updates eight previously captured projects.

Table 3. FDI projects captured in Q1, 2022

	ANNOUNCED	PROGRESS
NUMBER OF PROJECTS	2	1
VALUE (R BNS)	Not reported	Not reported
INDUSTRY	2 Utilities	1 Services
TYPE	2 Greenfield	1 Greenfield
COMPANY	Total Eren/ Chariot Transitional Energy/ Tharisa Sedibelo Platinum Mines/ Juwi/ Sturdee Energy	Audi/ GridCars

Source: TIPS FDI Tracker database.

New and existing projects

Power

Pilanesberg Platinum Mines, a subsidiary of Sedibelo Platinum, plans to implement a renewable energy programme for the North West-based mine. The initiative comprises two projects. The first combines solar photovoltaic (PV) and wind systems to power the 40MW mine load through a wheeling arrangement from two separate sites, with the energy acquired through a Power Purchase Agreement (PPA). The second involves on-site construction of a 35MW solar plant for the direct provision of power. Sturdee Energy and Juwi will be joint developers on the project. Sturdee will act as the independent power producer while Juwi will be the engineering procurement construction contractor and the operations and management contractor.

Total Eren of France and UK-based Chariot Transitional Energy announced the signing of a memorandum of understanding with Tharisa Minerals to develop a solar PV power plant. The energy companies will develop, finance, build, own, operate and maintain the facility at Tharisa mine. The project is initially anticipated to be 40MW, with demand expected to increase over the life of the Tharisa mine in the North West. In the long term, the partners plan to implement a PPA for the supply of electricity.

Services

Audi has partnered with South Africa's GridCars to install ultra-fast charging station infrastructure across the country. Audi intends to invest in 70 new electric vehicle charge connectors across 33 sites. The facilities will be publically accessible. The charge points are expected to provide up to 150kW of direct current charge to electric vehicles. The partners have been installing the infrastructure since the end of 2021.

Updates

Total, Alston, Limagrain and Airliquide have completed a R20-billion combined investment announced at the 2019 South African Investment conference.

Ford has completed upgrades of the Silverton Assembly plant and key supplier facilities, modernising and expanding the facility for the production of the new Ford Ranger model. The estimated project value is US$1.05 billion (R15.8 billion). Once the updated facility reaches full operation it will have the capacity to produce 200 000 vehicles annually, up from 168 000 before the upgrades.

Following a R1.2 billion investment announced in 2019, Isuzu has launched the seventh generation D-Max bakkie. Isuzu modernised the Eastern Cape Struandale plant, adding new

machinery and equipment, among other improvements, to manufacture the D-Max model. The plant also has new body shop and chassis assembly line.

Anglo American Platinum has started developing the Mototolo/Der Brochen expansion project in Limpopo. The investment aims to extend the life-of-mine by over 30 years. It will leverage existing Mototolo infrastructure and extend mining to the Der Brochen resource. The estimated investment value is R3.9 billion over six years.

Kumba Iron Ore, a subsidiary of Anglo American, is preparing to develop the Sishen ultrahigh dense-media separation project, valued at approximately R3.6 billion. The specialised technology separates ore and waste to improve beneficiation, extending the life of Kumba's Sishen mine, in the Northern Cape, to 2039.

Tharisa Minerals is commissioning the Vulcan chrome plant, which produces chrome concentrates from chrome ultrafines on large-scale. The technology will raise the level of chrome recovery at Tharisa from 65% to 82%. The value of the investment is US$54.2 million (R882 million). Tharisa plans to start commercial production in the second quarter of 2022.

In 2020 Anglo American announced that Kumba will invest R7 billion in developing a new iron ore pit, the Kapstevel South pit. The project is underway at the Kolomela mine. Construction of workshops and other infrastructure is also in progress.

The first phase of expansion of Diamcor's Krone-Edora at Venetia mine has already been completed. This initial stage aims to increase processing volumes in the near-term, with new equipment and the expansion and upgrade of the diamond concentration system. Diamcor is rolling-out the project for an undisclosed sum.

Briefing Note 1: The European Union's Carbon Border Adjustment Mechanism (CBAM) and its impact on South African exports

The CBAM is a headline policy initiative of the European Green Deal. It levies a tax on greenhouse gases embedded in products imported into the EU to stop industries from shifting production to jurisdictions with weaker carbon pricing and regulation. It will function in parallel with and mirror the EU's Emission Trading Scheme (ETS). The CBAM will gradually replace the current mechanisms used to address carbon leakage, specifically free allocations (Monaisa, 2021[3]).

The first draft of the CBAM was announced in July 2021. It only covered direct emissions from electricity and 29 product categories from the cement, fertiliser, steel and aluminium industries. Since then the EU's Committee on the Environment, Public Health and Food Safety proposed and voted on amendments to the CBAM (Committee on the Environment, Public Health and Food Safety, 2021). The amendments include the following:

- Extending the scope to include organic chemicals, plastics, hydrogen and ammonia as well as indirect emissions (notably emissions from electricity use).

[3] Monaisa, L. 2021 European Green Deal: The Carbon Border Adjustment Mechanism and implications for South African and European Union trade. Policy Brief. Trade & Industrial Policy Strategies. Available at: https://www.tips.org.za/policy-briefs/item/4293-european-green-deal-the-carbon-border-adjustment-mechanism-and-implications-for-south-african-and-european-union-trade

- The transitional period will be shortened to apply from 1 January 2023 to the end of 2024. During the transitional period, the burden will be administrative rather than financial. After the transitional period, exporters will have to buy digital CBAM certificates at a rate corresponding to the carbon price paid under the ETS.
- CBAM will be implemented for all sectors of the EU ETS by 2030, five years earlier than proposed by the Commission.
- Free allowances will be fully phased out by 2030.
- The revenues from the CBAM should be used to support least-developed countries decarbonisation efforts
- A centralised EU CBAM authority should be created, to make implementation efficient, transparent and cost effective. This would also help to combat forum shopping from importers.

The proposed CBAM has an extended scope and tighter timelines, meaning that the number of products and the extent of the exposure has increased. South Africa's main vulnerable sectors are iron and steel, aluminium, plastics, organic fertilizers and hydrogen. This is because these sectors rely on coal-powered electricity or coal feedstock for production.

The South African government and exporters need to pay close attention to the developments as the legislative process for CBAM continues – particularly the vote at the plenary session on 6-9 June 2022 and negotiations by the EU Member States. Exporters should embrace and prepare by assessing CBAM's impact on business, looking at mitigation measures, and by aligning their business model to fit a low-carbon future. South Africa should also fast-track its journey towards a low-carbon economy, as other countries could follow the EU in introducing border carbon taxes.

Briefing Note 2: Understanding localisation

Localisation has become a buzzword in industrial policy in South Africa, appearing in departmental strategies, Parliamentary debates, and National Economic Development and Labour Council (NEDLAC) agreements. For most people, however, it remains poorly defined, although the Department of Trade, Industry and Competition (the dtic) has published some useful guidelines.[4]

The policy of localisation effectively uses trends in imports to signal when demand would justify local production if it can become competitive. Demand could be from export industries, with localisation applying to inputs of all kinds, from commodities to semi-manufactures. It could also be from final consumption regionally or locally.

In this understanding, localisation supersedes the often unnecessarily rigid distinction between export-oriented and import-substitution industrialisation. Both these strategies have core weaknesses. On the one hand, import-substitution industrialisation historically focused on final

[4] See the dtic. Policy Statement on Localisation for Jobs and Industrial Growth. 18 May 2021. Accessed at: http://www.thedtic.gov.za/wp-content/uploads/Policy_Statement.pdf in June 2022.

consumer goods, such as clothing and cars, rather than capital equipment and intermediate inputs. As a result, local manufacturing could end up just assembling imported inputs, with only limited local value add, technological sophistication, and job creation. On the other hand, export-oriented manufacturing strategies often ignored the need to build competitiveness by initially supplying local and regional markets. Typically, developing economies can only enter direct competition with long-established international companies in commodities. An initial focus on closer markets, where local companies have a built-in advantage, can lay the basis for greater competitiveness over time.

Effective localisation strategies must start by identifying the constraints on local producers that make it harder for them to compete with foreign suppliers. These constraints may include, for instance, inadequate information about market opportunities; high-cost or poor-quality infrastructure, inputs and/or skills; lack of access to markets at home and abroad, for instance because they cannot get into the relevant retail chains; and prohibitive initial investment costs. In all these areas, the government can promote competitiveness and build local markets, including through local procurement, without raising prices for domestic consumers. That said, in the case of luxuries and semi-luxuries, tariffs may be appropriate to build local capacity and create jobs.

A core challenge to the localisation strategy, then, is to identify opportunities, based on analysis of import data (see the TIPS Import Tracker and Import Localisation and Supply Chain Disruption studies for examples), and to find ways to take advantage of them without unduly burdening especially working-class households and smaller businesses. Ideally, the process should centre on cutting input and logistics costs and improving efficiency, not on protecting domestic markets or raising procurement burdens on government agencies.

While localisation is a valuable tool for inclusive industrialisation, it is not a panacea. Basing industrialisation on import trends alone may lead policymakers to miss opportunities to innovate, especially to meet the needs of working-class households and to address environmental imperatives. For instance, South Africa does not import e-bikes or motorcycles on a mass scale, but local production of low-cost versions could go far in improving mobility for lower-income families. Similarly, the mass roll-out of solar heaters for township homes in the early 2010s brought hot water to many for the first time – but they did not displace imports at all.