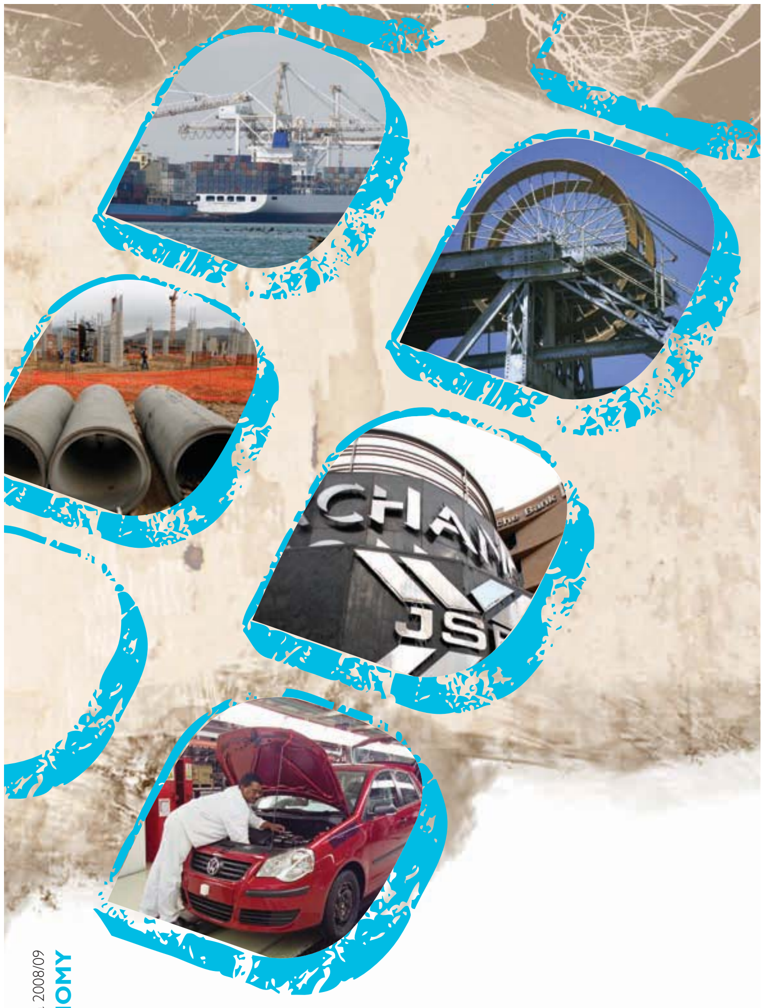


South Africa's economy has been growing at almost 5% a year for the past several years – 32 consecutive quarters of positive growth. Following the global economic recession, this figure was expected to drop in 2008/09, but will accelerate moderately in 2010 and beyond.

Accelerated and Shared Growth Initiative for South Africa (AsgiSA)

Government's AsgiSA aims to ensure that economic growth is accelerated to at least 4,5% between 2005 and 2009 and about 6% between 2010 and 2014. This will assist in halving unemployment and poverty by 2014.

AsgiSA includes developing infrastructure to upgrade and build railway lines, harbours, ports and roads.

With South Africa's unemployment rate at 23% by March 2008, the infrastructure programme is geared towards creating and sustaining jobs.

The initiative entails an expansionary R482-billion infrastructure expenditure for the 2008 to 2011 period.

AsgiSA has also identified particular sectors of the economy for accelerated growth, such as:

- chemicals
- metals beneficiation, including the capital-goods sector
- creative industries (crafts, film, content and music)
- clothing and textiles
- durable consumer goods
- wood, pulp and paper.

Joint Initiative for Priority Skills Acquisition (Jipsa)

Jipsa is the skills empowerment arm of AsgiSA.

AsgiSA has identified six factors that constrain economic growth. One of these is the shortage of skilled labour.

Jipsa is a two-tiered structure comprising a joint task team and a technical working group. The joint task team is responsible for unblocking the acquisition of targeted skills, overseeing the work of Jipsa and ensuring that it delivers on its mandate of acquiring scarce and priority skills in the shortest possible time, building partnerships with different institutions and ensuring that Jipsa initiatives are sustainable.

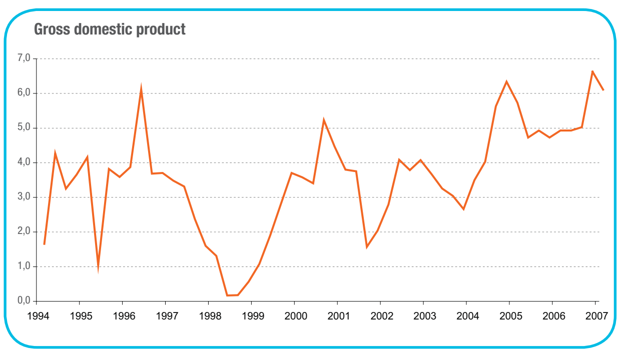
On the basis of AsgiSA's priorities, Jipsa's work areas are:

- high-level world-class engineering and planning skills for the network, transport, communications and energy industries

- city, urban and regional planning and engineering skills desperately needed by South African municipalities
- artisan and technical skills, with those needed for infrastructure development enjoying priority
- management and planning skills in education, health and in municipalities
- teacher training in Mathematics, Science, information and communications technology (ICT) and language competence
- specific skills needed by priority AsgiSA sectors, starting with tourism- and business-process outsourcing and cross-cutting skills needed by all sectors, especially financial and project managers
- skills relevant to the local economic development needs of municipalities, especially developmental economists.

Jipsa supports citizens who are trapped in the Second Economy, giving them a chance to participate in the First Economy and in growing the South African economy in general. Jipsa aims to boost empowerment through education.

In 2008, Department of Labour figures reflected an increase in the number of artisans in training. The 2007/08 service-level agreements (SLAs) signed between the various sector education and training authorities (Setas) and the Department of Labour reflected a total of 18 879 artisans to be registered.



Source: *Development Indicators, 2008*

By mid-2008, provisional Seta SLAs indicated that an additional 20 000 learners were registered for 2008/09. The Department of Education forecasted that the number of engineers graduating from universities would increase from about 1 500 per year to 2 000 per year by 2010.

Domestic output

According to the South African Reserve Bank's (September 2008), South Africa's real gross domestic product rebounded in the second quarter of 2008 and expanded at an annualised rate of 4,9%, following growth at a rate of 2,1% in the first quarter.

This improvement in growth in the second quarter of 2008 reflected strong increases in the real value added by the primary and secondary sectors, which comfortably offset a further moderation in real output growth of the tertiary sector over the period.

Domestic expenditure

In contrast to the rebound in growth in real domestic production in the second quarter of 2008, aggregate real gross domestic expenditure contracted at a rate of 4,2% over the same period.

This reversal in growth was brought about by substantially slower growth in all components of domestic final demand. In addition, real inventories were depleted over the period.

Growth in final consumption expenditure by households continued on a downward trend from its quarter-to-quarter peak registered in the first quarter of 2007. Having increased at an annualised rate of 3,3% in the first quarter of 2008, growth in household spending slowed to 1,2% in the second quarter, led by a sharp decline in the demand for durable goods.

Price inflation

Year-on-year CPIX inflation (consumer price index less mortgage interest rate) rose from 6,3% in April 2007 to 8,9% in January 2008 and 10,1% in March 2008.

In March 2008, South Africa's rating of 63,2% ranked it 52nd globally on the Heritage Foundation 2008 Index of Economic Freedom.

According to Century 21 South Africa — the local chapter of the world's largest real estate brand — the index, which covers 162 countries, took 10 specific freedoms into account.

These were business, trade, fiscal, freedom from government, monetary, investment, property, rights, labour and freedom from corruption.

In a country-by-country analysis, South Africa was rated above average in seven of the 10 areas and its overall score was much higher than the regional average.

South Africa ranked third-highest on the continent, behind Botswana and Mauritius, which placed it in the "mostly free" category.

According to the index, the country's financial system was the most advanced in Africa. Government had been working to increase the transparency of commercial regulations.

The annual rate of increase in CPIX food prices stood at 13,6% in January 2008 compared to 8,3% in January 2007. During the course of 2007, food prices increased by more than 10%. The prices of basic foodstuffs such as maize, wheat, soya beans and rice increased as a result of changing climatic conditions and rising demand.

Year-on-year headline inflation or the CPI stood at 10,6% in March 2008. Statistics South Africa ascribed the higher rate partly to a rise in the year-on-year CPI for food, from 7,7% in March 2007 to 15,3% in March 2008.

Exchange rates

After declining notably during the first quarter of 2008, the nominal effective exchange rate of the Rand recovered some of its losses during the second quarter. On balance, the weighted average exchange rate of the Rand increased by 3,6% from the end of March 2008 to the end of June 2008.

The strengthening of the domestic currency mainly occurred during April and May and was probably supported by the further tightening of the country's monetary policy. In addition, the continuation of the international credit-market turmoil during the second quarter probably helped to attract investors' excess funds to South Africa's financial markets in search of higher yields.

During June 2008, the exchange value of the Rand declined in response to a lower-than-anticipated interest rate increase by the Monetary Policy Committee and the announcement of a larger-than-expected current-account deficit in the first quarter of 2008.

The depreciation of the nominal effective exchange rate of the Rand in June 2008 was further aggravated by a ratings agency's decision to change the outlook for South Africa's long-term issuer default rating from positive to stable. Despite lower international prices of certain commodities, and partly supported by the rebound in domestic output during the second quarter 2008, the exchange rate of the Rand strengthened by 7,8% from June 2008 to August.

Following a decline of 15,4% during the first quarter of 2008, the real effective exchange rate of the Rand increased by 7,5% in the second quarter. On balance, the inflation-adjusted effective exchange rate of the Rand declined by 9% in the first half of 2008.

Foreign trade and payments

The deterioration in the current-account deficit was mainly attributed to continued strong import demand, which coincided with relatively weak growth of merchandise exports. The trade deficit consequently widened from R26,7 billion in the fourth quarter of 2007 to R61,4 billion or 2,8% of gross domestic product (GDP) in the first quarter of 2008.

Net service, income and current transfer payments to the rest of the world continued to grow in the first quarter of 2008.

Having increased by 4,8% in the fourth quarter of 2007, the volume of merchandise exports shrank by 7,2% in the first quarter of 2008. Despite the general slowdown in global economic activity, the international demand for South African mining products such as coal, platinum, base metals and gold remained strong.

The volume of manufactured exports advanced further in the first quarter of 2008, mainly due to the exportation of motor vehicles made possible by ongoing investment spending in the motor manufacturing industry.

Notable increases in the international prices of certain South African export commodities, alongside the depreciation of the Rand, raised rand prices of merchandise exports by 16% from the fourth quarter of 2007 to the first quarter of 2008. The turmoil in global financial markets and lower production volumes led to an increase of almost 20% in international commodity prices. The value of merchandise exports consequently advanced by 7,7% in the first quarter of 2008, following an increase of 6,8% in the final quarter of 2007.

Trade relations

Internationally, open economies with an export base perform much better in terms of economic growth than do closed economies. Increasingly, production is becoming globally integrated, and South Africa forms a vital part of international supply chains.

Therefore, dismantling barriers to trade, especially those faced by South African exporters, is a critical component of any economic strategy that promotes sustainable growth.

Africa's economic development

South Africa's global economic strategy focuses on Africa and a strong development agenda. Partnerships with countries on the continent are therefore considered vital and strategic. South Africa's economy is inextricably connected to that of the southern African region, and its success is linked to the economic recovery of the continent through the New Partnership for Africa's Development (Nepad).

At continental level, South African investment and trade with African countries has increased dramatically since 1994. Africa is now South Africa's fourth-largest export destination. Trade with the rest of Africa totalled about R50 billion in 2001 and increased to R108 billion in 2007, with exports amounting to R68 billion and imports to about R40 billion. In the same year, South Africa's trade in the Southern African Development Community (SADC) region totalled some R68 billion, with exports reaching R44 billion and imports R24 billion.

Besides forging bilateral trade and economic relations, the Department of Trade and Industry is committed to increasing South Africa's involvement in large capital projects on the continent. The following areas have been prioritised:

- infrastructure and logistics (roads, ports, etc.)
- energy and ICT
- water and waste management
- transport
- construction
- oil and gas infrastructure
- agribusiness
- mining
- human-resource development.

New Partnership for Africa's Development

The Department of Trade and Industry provides supportive services to Nepad, which has a critical role in accelerating trade and economic development on the continent to realise its primary objectives, namely alleviating poverty.

The Department of Trade and Development aims to contribute to the Nepad agenda by mobilising the necessary support from relevant stakeholders internally and externally, and providing leadership and strategic guidance on trade and economic issues. It also contributes to the national project co-ordinated through the African Renaissance Cluster on the formulation of a national response to Nepad through the Nepad Implementation Strategy of South Africa.

Southern African Development Community

The SADC comprises Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Since attaining democracy in 1994, South Africa has put regional integration by SADC member states on the top of its foreign economic agenda. This approach follows from the belief in the economic benefits that can be brought to all member states by closer economic co-operation in the region. To support this approach, South Africa has reviewed its trade relationship with other SADC members, adopted the SADC Trade Protocol, promoted investment by South African firms in the SADC and helped to facilitate greater volumes of trade by South Africa and other SADC members.

South Africa took over the chair of the SADC in August 2008. During the SADC Summit, the Free Trade Agreement (FTA) was launched. The theme of the SADC FTA is: *SADC FTA for Growth and Wealth Creation*.

The FTA provides preferential space towards regional business and its citizens by opening up opportunities for investment through reducing market risk and transaction costs, and creating a network of regional businesses interconnection.

The FTA is a vital stepping stone towards a SADC Common Market, where the movement of people would be unrestricted and free.

Freeing trade in the region will create a larger market, releasing the potential for trade, economic growth and employment creation.

Europe

Trade relations with Europe, particularly with the European Union (EU), are pivotal to South Africa's economic development. The Trade, Development and Co-operation Agreement with the EU forms a substantial element of South Africa's reconstruction and development efforts.

By August 2008, the United Kingdom (UK), Germany, the Netherlands, Spain and Belgium were among South Africa's top 10 export destinations. Germany, the UK, Italy and France are among the top 10 countries from which South Africa's imports originate.

Since 2001, Germany has been South Africa's largest source of imports, showing annual growth of 18,5% between 2007 and 2008. In 2008, South Africa's biggest trade partner was the Netherlands.

United States of America (USA)

The USA is one of South Africa's leading trade partners. The country ranks second after Japan as a destination of South African exports and is third – after Germany and China – as a source of South African imports.

The trade balance with the USA changed from a deficit of R0,7 billion to a surplus of R1,1 billion in June 2008. Exports increased from R5,5 billion to R7,7 billion and imports increased from R6,2 billion to R6,6 billion.

South Africa is a beneficiary of the USA's Generalised System of Preferances (GSP), which grants duty-free treatment to over 4 650 products. At the same time, South Africa is one of 38 beneficiaries of the Africa Growth and Opportunity Act (AGOA), which was promulgated in May 2000. In terms of the AGOA, 1 783 more products were added to the existing GSP products for duty-free treatment.

In terms of the AGOA, 1 783 more products were added to the existing GSP product list.

Although the AGOA was initially due to lapse in 2008, the USA Government met African countries' requests for it to run until 2015 under what is called the "AGOA III amendments".

The AGOA also allows duty-free entry of clothing and selected textiles into the USA, subject to certain criteria and policy reforms.

Canada

Another significant trading partner in the Americas is Canada. Since the lifting of sanctions in 1994, bilateral trade between South Africa and Canada increased from R904 million in 1993 to R6,6 billion in 2006. South Africa is a beneficiary of Canada's General Preferential Tariff (GPT). GPT rates range from duty-free to reductions in the Most Favoured Nation rates.

Latin America

South Africa's major trading partners in Latin America are Brazil, Argentina, Chile, Mexico, Colombia and Peru. Most trade is with Brazil and Argentina, which are members of the Mercosur trade bloc.

A framework agreement, committing South Africa and Mercosur to an FTA, was signed in 2000. However, as a first step towards achieving this goal, the parties signed a preferential trade agreement (PTA) in December 2004. Upon ratification by all signatories, the PTA will offer businesses from both sides preferential access to a broad range of product lines.

South and south-east Asia and Australasia

Bilateral trade with south-east Asia, particularly the Association of South-east Asian Nations (Asean) members, increased rapidly from a low base in 1990. Asean presents South Africa with a potential market in excess of 520 million people.

Within the region, key partners for South Africa include Singapore, Thailand, Indonesia, Malaysia, Vietnam and the Philippines.

Between 2007 and 2008, exports grew by 39,8% and imports by 9,1%.

South Africa co-operates with India in areas of common interest in the World Trade Organisation and other forums, and works closely in the India-Brazil-South Africa (IBSA) Forum. IBSA is not only an economic initiative, but also an undertaking by countries with shared interests in a multilateral system that equitably addresses political, social and economic matters. South Africa and India co-operate in the G20, a grouping of developing countries that seeks to address developmental challenges in the global economic system.

Australia has always featured as a well-known partner for South Africa in the region.

North-east Asia

In 2008, South Africa and the People's Republic of China (PRC) celebrated 10 years of diplomatic relations.

South Africa is China's key trade partner in Africa, accounting for 20,8% of the total volume of China-Africa trade in 2007. Total trade between South Africa and the PRC amounted to about R88 billion (about US$13 billion if the Rand/Dollar exchange rate for end of December 2007 is taken into account) for the year 2007.

Total trade between the PRC and South Africa increased from about R60,7 billion in 2006 to R88,3 billion in 2007. This represents an overall increase of about 45% if the total value of trade for the 2006 and 2007 years is compared.

Japan is South Africa's largest trading partner in Asia and is among South Africa's top overall trading partners. The South Africa-Japan Partnership Forum is designed to strengthen bilateral ties between the two countries. The forum meets regularly and explores new initiatives aimed at expanding relations.

Economic transformation

Government aims to boost small enterprises, equalise income and wealth and create long-term jobs. Fostering entrepreneurship among women is a particular focus.

Developing small, medium and micro-enterprises (SMMEs) has attracted increasing attention in South Africa in recent years, as an engine for general economic growth, and for employment creation and equity acceleration.

The Small Enterprise Development Agency (Seda), which provides non-financial support to small and medium enterprises (SMEs), was formed by merging the Ntsika Enterprise Promotion Agency and the National Manufacturing Advisory Centre. It aims to:

- improve geographic outreach
- achieve the desired impact on small enterprises
- provide a single access point for small enterprises
- be inclusive of all relevant stakeholders
- leverage resources in service delivery
- optimise resource usage
- align government's service-delivery strategy coherently.

Seda also manages the Seda Technology Programme, with an infrastructure of 26 centres in different industrial sectors countrywide to support SMMEs. Over the last three years, this has led to the creation of 154 SMMEs and extended support to 283 SMMEs.

By way of reaching out to enterprises not located in these incubation centres, the Technology Transfer Programme has over the past two years supported 56 technology-transfer interventions to the value of R29,8 million. All these transfers were to second-economy participants, of whom 39% were women-owned.

Within the South African Micro-Finance Apex Fund's (Samaf) two-year existence from inception to March 2008, it approved R96 million (R55 million for on-lending and R41 million for capacity-building). In this period, 40 financial intermediaries across the country provided lending windows for Samaf funds, which created a loan book of R22,5 million.

With 5 500 borrowers, 65% being women, the number of borrower members reached 28 000. By May 2008, Samaf had 31 loan-application access points across the country.

Khula's budget allocations increased from R34,1 million in 2006/07 to R69 932 million in 2008/09. The Khula Credit Indemnity Scheme has also been successfully revised with commercial banks, to emphasise developmental imperatives associated with small business support.

Khula has also launched the first-ever South African Start-Up Fund, with an initial capital amount of R150 million, specifically for the benefit of new black entrepreneurs.

Industrial Development Corporation (IDC)

The IDC provides financing to entrepreneurs engaged in competitive industries. Its primary objectives are to contribute to balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens of the African continent.

The IDC's highlights for 2008 include:

- funding approvals amounting to R8,5 billion
- R2,1 billion allocated for developments in the rest of Africa
- funding activities that will assist in the creation and retention

of more than 33 200 direct new jobs in South Africa and 1 900 in the rest of Africa
- more than 40% of the direct new jobs created in South African rural areas
- R5,2 billion for Black Economic Empowerment enterprises (61% of the total)
- significant investment in SMEs (56% of the total number of projects funded)
- Foskor doubled its operational income to over R1 billion.

Business Partners Limited

Business Partners Ltd is a specialist investment group, providing customised investment, mentorship and property-management services to SMEs in South Africa.

In March 2006, Business Partners Ltd launched two new specialist investment funds, the Business Partners Empowerment Fund and the Business Partners Tourism Fund. Business Partners Ltd will be investing R6,6 billion in entrepreneurial enterprises over the next five years.

State-owned enterprises (SOEs)

The Department of Public Enterprises is the shareholder representative for government with oversight responsibility for the following SOEs: Alexkor, Broadband Infraco, Denel, Eskom and the Pebble-Bed Modular Reactor, South African Airways, South African Express Airways, South African Forestry Company and Transnet.

SOEs have a critical role to play in advancing economic growth, since they are responsible for the development of key infrastructure and manufacturing capacity. Infrastructure investments are a core part of the accelerated growth strategy, and SOEs are implementing comprehensive investment programmes to ensure that significant and sustained opportunities for investment are created in supplier industries.

Expanded Public Works Programme (EPWP)

The EPWP is the largest job-creating initiative to be undertaken by government.

The EPWP is operational in all nine provinces. Projects include the construction of rural or low-volume roads, water and sanitation trenches and sidewalks.

In addition, government will increase spending on the maintenance of schools, clinics and other government buildings. EPWP projects have also been launched in the area of home-based care for people affected by HIV and AIDS, childcare projects, and in environmental projects like LandCare and clearing alien vegetation from river banks.

When the programme was launched in May 2004, it aimed to draw significant numbers of the unemployed into productive work, with an objective of creating a million job opportunities by 2009.

By the end of April 2008, the programme had already created 1 077 801 job opportunities, ahead of its scheduled 31 March 2009 time limit.