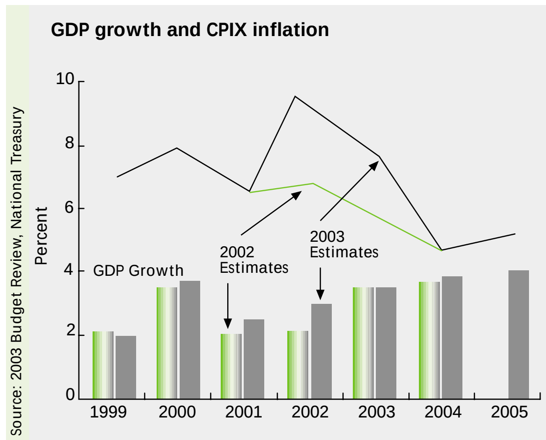
The Economy

South Africa has the most advanced economy on the African continent. Blessed with a wealth of natural resources, the country contains, however, wide disparities of wealth, with obvious implications for broader socio-political policy directions.

South Africa's economy displays many world-class features. These include a sophisticated financial and physical infrastructure, good telecommunications and energy supply networks and one of the top 10 stock exchanges in the world. Many South African companies are competitive with the world's biggest and best. The challenge is to translate this into levels of investment high enough to promote economic growth large enough to reduce the country's substantial unemployment levels.

An open economy trading aggressively within the world economy, South Africa is concerned with increasing access to the markets of the developed world and being allowed to compete freely on equal terms. South Africa, like other developing economies, is highly susceptible to trends in the economies of its major trading partners. Regional political instabilities some-



times negatively affect investor perceptions. South Africa, however, has been highly commended for its successful macro-economic policies. Among emerging markets worldwide, South Africa is a leader and a competitive producer of not just raw commodity exports but also high value-added goods, such as motor vehicles.

Growth in total real gross domestic product (GDP) accelerated from 0,8% in 1998 to 2,1% and 3,4% during 1999 and 2000 respectively.

The weakening of the international economy was reflected in a slowdown of growth during 2001 to 2,2%. However, in 2002 the resilience of the economy was demonstrated when GDP growth of 3% was achieved. Growth for 2003 is expected to be 3,3%, rising to 4% in 2005.

In 2002, manufacturing output rose 5,4% – the fastest annual increase since 1995. In the first three quarters, household consumption expenditure grew 3,2% on average and disposable income over 3,5%.

Aggregate real gross domestic expenditure increased in the first quarter of 2001 and even further in the third quarter to a seasonally adjusted and annualised rate of 6,2%. The growth in the fourth quarter was still relatively strong at an annualised rate of 3,2%.

The ratio of final consumption expenditure by general government to GDP remained at 18% for 2000 and 2001.

The upward momentum in real gross fixed capital formation since the fourth quarter of 1999 was sustained throughout 2000 and 2001 with quarterly growth rates fluctuating between 3% and 5,7% during the four quarters of 2001.

Consumer price inflation (CPI) fell from 15,3% in 1991 to 5,3% in 2000, rising to 10% in 2002, largely as a result of food price, housing and medical increases. A steady decline in CPI during the nineties was the result of sound monetary and fiscal policies and the opening of the economy to international trade and capital flows. During 2003, CPI is expected to drop to 7,7%, falling to within the target range of 3 to 6% in 2004.

In 2001, the value of merchandise exports increased by 20,3%. The surplus on South Africa's trade account rose from R30,2 billion in 2000 to R41,9 billion in 2001, and R53,7 billion in the second quarter of 2002. Overall, the deficit on the current account declined from 0,4% of GDP in 2000 to 0,2% of GDP in 2001.

In the first half of 2002, net foreign direct investment amounted to R8,3 billion.

The country's international reserves increased by R5,2 billion during 2001 as a whole, mainly as a result of healthy surpluses on the external accounts in the first half of the year.

Total gross gold and other foreign exchange reserves increased from R84,2 billion at the end of December 2000 to R151 billion in June 2002. In US Dollar terms, South Africa's total international reserves rose from US$11,1 billion to US$14,6 billion during the same period.

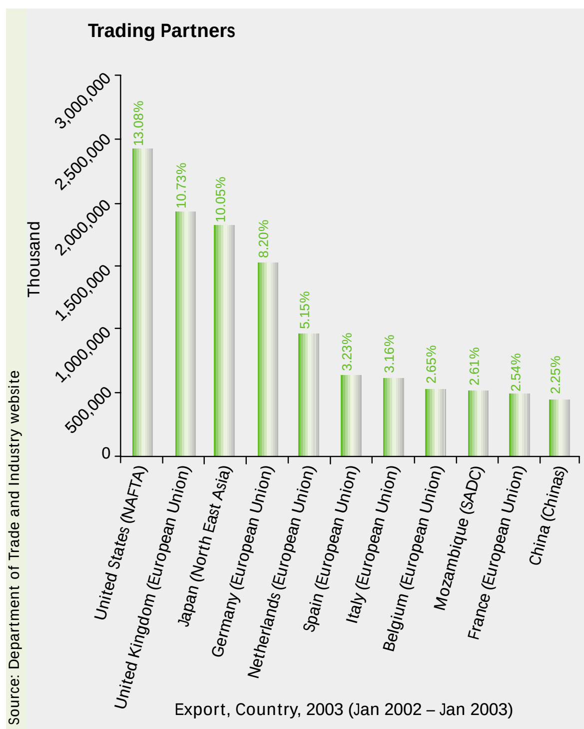
Between December 2001 and January 2003, South Africa's Net Open Forward Position was slashed from US$4,8 billion to just US$1,5 billion.

According to research published in September 2002, 11,4 million people were employed countrywide in February of that year, compared to 10,6 million people six months earlier.

Department of Trade and Industry

The Department aims to facilitate sustainable economic activity and employment by raising investment and exports. Statistics bear out the Department's success. Since 1994, the value of both exports and exports of manufactured goods has grown steadily. South Africa's export base is diversifying rapidly, with particular success being achieved in processed agricultural goods, automobiles and a number of categories of industrial machinery.

South Africa trades with the world, with its key partners being spread between Europe, North America, the Far East, and closer to home, with Africa, which



absorbs 30% of total exports. The centrepiece of South Africa's foreign economic policy is the Southern African Development Community, a grouping of 15 states, trade with which leapt from R16 billion to R22 billion between 1998 and 2000. A community free-trade area is envisaged by 2008.

Europe remains the largest source of investment for South Africa and accounts for almost half of the country's total foreign trade. The United Kingdom is South Africa's second largest trading partner, while the Netherlands and Germany are also in South Africa's 'Trade Top 10'.

Relations with the European Union (EU) are critical to continuing South Africa's excellent trade relations with Europe. In 2000, South Africa granted duty-free access to 86% of EU imports while the EU will liberalise 95% of South African imports.

South Africa's economic relations with the United States (US) and Canada are growing rapidly, with the Rand value of manufactured exports to the North American Free Trade Agreement area rising 16,6% in 2000. South Africa also benefits from US import concessions on several thousand products, including clothing and textiles.

In Asia, South Africa's relations are growing, especially with India, with total trade between the two countries now standing at over US$2 billion per annum. Malaysia has become the second largest investor on a cumulative basis in South Africa since 1994, with investors signalling their confidence in this country to the tune of R6,7 billion. However, Japan remains South Africa's largest trade partner in Asia and its fourth largest overall. Trade between South Africa and South Korea and China continues to grow.

Helping hands

In attracting investment and encouraging value-added exports, the Department of Trade and Industry is increasingly focusing on small, medium and micro-enterprises (SMMEs). Old manufacturing support schemes are being phased out to be replaced by a suite of six incentives. The components are:

- SMME development programme
- Skills support programme
- Critical infrastructure facility
- Industrial Development Zones (IDZs)
- Foreign Investment Grant
- Strategic Investment Programme.

While pursuing economic restructuring and reform, industrial policy in South Africa is now exceptionally investor-friendly. Apart from valuable incentives, there are, for example, no restrictions on the type or extent of foreign investments, no exchange control for non-residents, and a stronger, more equitable competition policy.

Trade and Investment South Africa (TISA) is the premier agency for marketing South Africa internationally. TISA logistics experts work to eliminate bottlenecks in the supply chain for both exporters and investors. TISA specialists take an active interest in ensuring that exporters and investors are equipped to grow their businesses. Specialist export financing is available, while insurance is available through the Credit Guarantee Insurance Corporation which is reinsured by the Department of Trade and Industry.

The Department's Enterprise and Industry Development division had, by mid-2002, approved 78 applications for assistance worth R53 million as part of the Support Programme for Industrial Promotion. Administered by the Industrial Development Corporation, the Programme supports technology development in manufacturing industries.

Fostering sustainable investments in areas where poverty and unemployment are at their highest remains a top national economic priority. This objective is being met through the Spatial Development Initiatives (SDIs), such as the Maputo Development Corridor which has led to substantial investments in both South Africa and Mozambique.

The SDI programme finds concrete form in 11 SDIs with varying focuses (industrial, agri-tourism or a mix of sectors) and IDZs, located in Gauteng, Coega and East London (both in the Eastern Cape), Saldanha and Richards Bay. Work is well under way on the development of an IDZ and the construction of a R3,2 billion deep-water harbour, at Coega outside Port Elizabeth.

Manufacturing

South Africa already has a sophisticated, extensive manufacturing sector, but, as it takes on the challenge of competing more effectively in a global context, manufacturing will become ever more important. Since 1994, the country's manufacturing sector has averaged 4% annual growth. By late 2001, it was growing at over 5%. Potential investors in manufacturing will find that the Department of Trade and Industry has a variety of programmes and expertise to assist.

Small is big

Small businesses in South Africa account for more than half of formal employment in the private sector and

Number of employees in selected industries

	2001		
	Full-time	**Part-time**	**Total**
Mining & quarrying	408 379	0	408 379
Gold	202 755	0	202 755
Non-gold	205 624	0	205 624
Manufacturing	1 176 102	74 812	1 250 914
Electricity, gas, & water supply	38 799	80	38 879
Construction	191 813	21 628	892 645
Wholesale, retail & motor trade & hotels	689 855	202 790	892 645
Transport, storage & communication	191 812	17 528	209 340
Government Institutions	137 374	8 691	146 065
Non-governmental institutions	54 438	8 837	63 275
Financial institutions	185 450	6 893	192 343
Community, social & personal services	1 357 820	84 970	1 442 790
Total	4 840 221	426 229	5 266 450

Source: Stats SA, Survey of Employment and Earnings in Selected Industries, December 2001

The Economy

contribute some 42% to GDP. There are estimated to be three million micro-enterprises in the country.

Encouraging small and medium enterprises is a key element of economic policy. In particular, government focuses on facilitating black economic empowerment and gender equity through fostering small business. Initiatives to encourage entrepreneurship include both financial and non-financial incentives and training.

Restructuring State assets

The Department of Public Enterprises is tasked with redressing the imbalances created by apartheid through the accelerated restructuring of State-owned Enterprises (SOEs) in an integrated and coherent manner to promote economic growth and socio-economic development.

The objectives of this privatisation process are to ensure that these enterprises:

- perform optimally in a globally competitive market
- maximise the distribution of wealth across South Africa
- facilitate investment in underdeveloped areas
- promote equity for black people in skills, assets and income.

While there are clearly laid-out objectives for this restructuring programme, its implementation is not guided by ideology but a pragmatic view of what is best for the entities concerned and the economy.

At the macro-economic level, restructuring aims to attract foreign investment, reduce public borrowing and promote industrial competitiveness.

Between 1997 and March 2001, government undertook approximately 18 restructuring initiatives, including outright sale to black empowerment groups, and the sale of minority shares to strategic equity partners or black empowerment groups. These initiatives were worth just over R20 billion. Among the entities subject to restructuring are government's forestry interests, resorts, the Alexkor diamond mine and Denel. In March 2003, 25% of telecoms parastatal Telkom was listed in Johannesburg and New York.

Eskom was recently incorporated as a public company ahead of government's sale of a 30% stake in the giant electricity utility in 2004. Of this 30%, 10% will be reserved for black empowerment companies.

Public Works Programme

A National Public Works Programme is the framework through which public works projects are aligned to the social and economic development of the country, including rural poverty alleviation and construction industry transformation.

The Community-based Public Works Programme is an essential component of the Government's Integrated Rural Sustainable Development Programme. In 1997, the International Labour Organisation judged it the best such programme in over 30 developing countries surveyed. (Some R908 million for capital works has been allocated to black contractors).

Targeting identified pockets of rural poverty, the Programme aims to build capacity, maximise job creation by building useful infrastructure, impart skills and ensure ongoing maintenance of assets.

In 2001/02, 25 124 short-term jobs were created, of which 10 627 were awarded to women, 10 300 to youth and 527 to people with disabilities. Eighty-five percent of contractors taking part in the Programme were black empowerment entities.

President Thabo Mbeki announced in February 2003 that an Expanded Public Works Programme would be established. It will draw significant numbers of the unemployed into productive work, ensuring that these workers gain skills while they work, thus taking an important step out of the pool of those who are economically marginalised.

For its part, government has established Multi-purpose Community Centres (MPCCs) to bring government closer to millions. They offer one-stop centres for the delivery of various government services such as home affairs, social development, labour and communication-related functions. It is intended that each of the country's 61 district councils will have at least one MPCC by the end of 2003/04.

Together with Community Production Centres, established by the Department of Agriculture, the MPCCs are vital to the promotion of sustainable communal agricultural ventures. Community Production Centres around the country are now producing maize, sugar-beans, fruit, vegetables, cotton, sugar-cane and even lemon oil.

Skills development

During 2001, skills development was clearly stated as a national priority. Twenty-five Sector Education and Training Authorities (SETAs) covering all aspects of economic activity are now entering their fifth year of existence. All SETAs are expected to make specific contributions to the National Skills Development Strategy. Specific projects initiated by different SETAs include training domestic workers to improve their levels of service, training people to work in national parks, and enhancing the skills of micro-lenders.

By the end of 2002, over 23 000 learners had participated or were participating in SETA training programmes ranging from entry-level programmes to professional level and post-professional training across the entire spectrum of occupations and sectors. To increase access to these programmes by the unemployed, government will take the lead in bringing more of these into its own training programmes, encouraging the private sector to do the same.