

Analysis of the emerging country south africa economics essay



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In the following pages we will analyze the place of South Africa in International Trade. In order to do so we will analyze the background of the country, develop PESTLE analysis, look at the balance of payments as well as trade balance, examine exchange trade policy and growth rate of the economy. In conclusion we will provide forecast for country's development.

Today South Africa's trade and industrial policy is moving away from a highly protected, inward looking economy towards an internationally competitive economy, capitalizing on its competitive and comparative advantages.

From the period of apartheid, it has made great progress in dismantling its old economic system, which was based on import substitution, high tariffs and subsidies, anticompetitive behavior, and extensive government intervention in the economy. The leadership has moved to reduce the government's role in the economy and to promote private sector investment and competition. It has significantly reduced tariffs and exports subsidies, loosened exchange controls, cut the secondary tax on corporate dividends, and improved enforcement of intellectual property laws.

The macro-economic policy includes 5 macro objectives:

Economic growth

Increasing employment

A positive trade balance (increasing exports above imports)

Combating inflation

Equity

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The achievement of these objectives is very much important to the South African economy, the effects of the failure to achieve these objectives will lead to social, politically and economically instabilities. Over the past years the South African government and the reserve bank SARB have managed to achieve the five macro objectives effectively thus why it is ranked among the fast developing nations.

South Africa is the largest economy in the African continent. South African economy is projected to grow over the next decade at around 4%. Based on these projections, South Africa's is supposed to add approximately 0, 7% of global demand in the next 10 years.

South Africa is an attractive economy with various prospects in the future, however it is far from being a member of BRIC group. The main concerns are the development of its current account and the difficulties in demographic and labor market situation. Therefore, the process of including South Africa in the BRIC must focus on the geopolitical rather than on economic reasons.

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Introduction

The purpose of this project is to analyze the place of South Africa in International Trade. In order to do so we analyzed the background of the country, developed PESTLE analysis, looked at the balance of payments as well as trade balance, examined exchange trade policy and growth rate of the economy. In conclusion we provided the possible forecast for country's development.

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Country background and Importance of South Africa

The Portuguese explorer, Bartolomeu Dias, first found South Africa in 1487. He renamed the most southern point of Africa “ the cape of storm”, but the king realized that this cape is of much more value than just a storm, since it would lead to the treasures of India. The Portuguese King, John the second, therefore renamed it to “ the cape of good hope”. Since that point on it was the trading route stop between Europe and Asia. Even today South Africa has a similar role in the world. It is seen as the leader in Africa due to its economic success and stability in combination with sophisticated infrastructure, making South Africa the bridge between the industrialized and developing world.

Further ahead in the history of South Africa, the British took over Cape and made it their colony in 1806. This was mainly due to that, the Dutch went bankrupt and that the British wanted to prevent the French from gaining too much power, who already invaded the Dutch and started with that claimed control over India and Australia. The cape of Hope, today known as Cape Town, was the major attraction for foreigners at that point due to the necessary stop for water and food when traveling from Europe to Asia. In 19th century on the other hand The Agor-Boer war broke out, where the Boers (Dutch, Flemish, German and French settlers) fought against the British for the control of a new valuable aspect of South Africa being, minerals such as diamond and later gold were discovered. It is these minerals that make up a great part of South Africa’ economic wealth today, serving as reserves and exports.

Due to the fact that the European settlers started to settle more north and east within the country in 1820's, disputes in terms of land ownership arose between the Xhosa, Zulu and Afrikaner. It resulted in the British pushing their forces north and overwhelming the natives. These were the first steps towards what we know today as apartheid. Although the Slave Trade Act in 1807 and the Slavery Abolition Act in 1833 helped to form more equality, racial discrimination and other inequalities still existed, which led to the National Party being elected in 1948, since the white was the one deciding upon this matter, leaving the rest of the population with no other choice than to adapt. It was not until 1990 where the movement towards racial equality was formed by the National's, after years of government supported assassination and corruption. The economic side of the matter will be later described in the balance of payments, with foreign countries refusing to trade with South Africa. In 1994, the ANC (African National Congress) was through a first national election voted with Nelson Mandela as the country's leader (n. a., 2010).

Today South Africa's trade and industrial policy is moving away from a highly protected, inward looking economy towards an internationally competitive economy, capitalizing on its competitive and comparative advantages. It is the world's largest producer and exporter of gold and platinum and also exports a significant amount of coal. The value added processing of minerals to produce ferro alloys, a stainless steel is a major industry and an important growth area. The country's diverse manufacturing industry is a world leader in several specialized sectors, including motor vehicles and parts, railway rolling stock, synthetic fuels, mining equipment and machinery.

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PESTLE analysis

Political Environment

South Africa is a multiparty parliamentary democracy in which constitutional power is shared between the president and the Parliament. The Parliament includes two parts, the National Assembly and the National Council of Provinces. They are in charge for creating the laws of and taking care of bills involving monetary issues. The third governmental division is an autonomous judiciary. The Constitutional Court is the highest court for interpreting and deciding constitutional issues, while the Supreme Court of Appeal is the highest court for nonconstitutional matters (Bureau of African Affairs, 2010).

South Africa achieved independence from Britain on 31 May, 1910 and the official Independence Day is 27th April. In 1994, there was first all-race multiparty election making it the formal end of apartheid. In 2009, the ruling African National Congress (ANC) won its third consecutive election and Jacob Zuma was elected President.

There has been a concern that the dominance of the ANC has made South Africa a de-facto one-party state with other parties, such as Democratic Alliance (DA) and Congress of the People (COPE) being in the opposition. President Zuma's rise to power has been divisive. Zuma's reputation has been stained by several issues, such as accusations for corruption and sexual abuse, which provoked his discharge as Deputy President in 2005. There are still issues concerning Zuma which include his setback in declaring his commercial interests and extra-marital affairs.

Zuma was brought to power with a support of two ruling partners - powerful Congress of South African Trade Unions (COSATU) and the South African Communist Party. The Zuma administration has mainly remained to the previous administration's economic policies. Nevertheless, there are still ideological tensions within the ANC and among the ANC and its ruling partners. South Africa continues to have broad economic and political relations with the regional and international community that will likely offer a degree of stability. South Africa's successful hosting of the World Cup of soccer in June-July was viewed as a coming-out party of sorts for South Africa on the international stage (Whelan, n. d.).

Based on the recent political situation in South Africa there are certain challenges ahead. There have been notable transformations in the country after the apartheid period such as programs to develop necessary social services, wide spreading the right to use improved chances in education and business. However, the process of transformation of South Africa is long and requires the persistent dedication of the leaders and people.

One of the main contributors in the reconciliation process is The Truth and Reconciliation Commission (TRC) that is taking care of abuses of human rights during apartheid era, provide victims with compensation and gives amnesty to those who committed politically motivated crimes. TRC often conflicts with political, economic and cultural interests of different groups of South Africa's people. The challenge for the government to balance these confrontations and manage agreements on the basic questions will remain a critical challenge (Bureau of African Affairs, 2010).

Even though South African economy is in many areas highly developed, the nature of apartheid caused the country's international isolation until the 1990s that has left major disadvantages. The economy is in a course of change as the government attempts to manage the inequities of apartheid, encourage growth, and create employment opportunities. Nowadays business in the country is becoming more integrated internationally, and foreign investments have increased. However, the economic inconsistency among population groups is projected to continue for many years, making it a main concern for the government.

Economic Environment

The economy of South Africa has two sides: one is developed and the other one with most basic infrastructure. Country's economy has many characteristics of the economies in developing countries, such as separation of labor among formal and informal sectors, irregular distribution of wealth and income.

South African government has demonstrated its dedication to open markets, privatization, and a favorable investment climate through the release of a Growth, Employment and Redistribution (GEAR) strategy that took place in the period from 1996 to 2000. The results were with various successes. First of all, it achieved greater financial discipline and macroeconomic stability; however it failed to deliver these achievements in main areas.

Unemployment continued to rise even after continuing programs of black empowerment. Country's wealth still remains unequally distributed among racial lines. Second, several budgetary reforms that aimed to provide better reporting, auditing and accountability, and changes in monetary policy in terms of inflation targeting, allowed South Africa to have transparency and predictability that are highly-praised. Third, the process of trade liberalization has progressed significantly since the early 1990s, which together with implementation of World Trade Organization (WTO) obligations and initiation of the Doha Development Round shows South Africa's recognition of free market values.

Today, economic recovery is on track. The fiscal position remains challenging, the forecasts for 2011 include sizable but manageable deficit. The government expects these shortfalls to gradually narrow due to a rebound in growth and slowdown in expenditure growth. International investors remain cautious of emerging markets due to events in Europe (Greece) and South Africa could fall out of favor should perceptions shift. So far, unemployment remains stuck at 25%, with employment gains only being registered in the public sector. The recovery is expected to remain on course and private sector demand should gradually gain force, thus replacing

government as a growth driver. A stronger recovery will likely only take hold in 2012.

Regardless of the various optimistic economic achievements since 1994, South Africa has had difficulties in attracting significant foreign direct investment. However, the situation started to change, in 2005 South Africa had the largest single FDI when Barclays acquired a majority share in local bank Absa Group Limited. In 2006, the deals between the British Vodafone and South Africa's Vodacom were formed. Later on, in 2010, two multibillion dollar deals took place, when HSBC acquired Nedbank and Walmart acquired Shoprite Holdings (Wikipedia, 2010). For international and domestic investors, there are several investment opportunities existing in South Africa since the country is the world leader in several specialized manufacturing areas and it has fast growing service industry, tourism construction that will significant foreign investment over the next few years.

On May 15, 2004, South Africa was honored a chance to hold the 2010 FIFA World Cup.

That was the biggest event that was ever held in Africa. South Africa made a big effort on improving the infrastructure and security in the country. The economic impact of the World Cup is great for the country, since it will increase the GDP, create numerous jobs and attract foreign investments.

South Africa's longer-term prospects center on the government's ability to manage a country through a transitional period. Economic policy is generally business friendly, while FDI is welcomed. Success depends on the capability of the government to address the power issue.

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Social Environment

Today there are 49, 109, 107 people living in the country. More or less half of the population lives in urban areas, and many live in rural areas with insufficient housing. In both rural and urban centers, a lot of people do not have access to water supply and sanitation, electricity, and other services. Due to the fact that population is more mobile today and there are more employment opportunities in the urban areas, the immigration among the citizens is growing rapidly. Poverty is the highest among the Black population, reaching over 60%. There have been several reforms in the education sector and now all inhabitants have access to education, however still around 13, 6% of population are illiterate.

Even though majority of people have access to health services, public establishments are usually lacking necessary resources and not capable to meet demands. South Africa has one of the highest rates of HIV occurrence in the world. Overall, 18, 1% of the population is infected by this disease. Every day there are 1, 000 new infections occurred, and around 350, 000 people die annually from AIDS-related diseases. A 2007-2011 strategic plan offered the arrangement for a widespread reaction to HIV and AIDS, counting a national compress of antiretroviral therapy. Overall, 30% of infected people are currently on antiretroviral therapy.

From the time when apartheid was abolished, political violence in South Africa has went down noticeably, however today violent crime is still a major concern in South Africa and these acts are increasingly economically rather than racially motivated. Therefore, there are many robberies targeting

upper-class citizens. In 2008, due to the national dissatisfaction with high
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unemployment rates and illegal immigration, people from other African countries who came to urban cities of South Africa were often targeted by local citizens. In April 2010, Eugene Terre'Blanche, a disreputable pro-Apartheid person, was killed by two of his black employees. This event raised concerns of inter-racial violence, however it did not happen.

While South African society is experiencing a rapid change, some prejudice against women and people infected by HIV/AIDS continues (Bureau of African Affairs, 2010).

Technological Environment

In rural areas of South Africa telecommunications are limited and quite costly, but in general telecommunications infrastructure is developing in the main regions of South Africa. Country made some efficient steps towards liberalization of its telecommunication market by releasing Electronic Communications Act in 2005. SEACOM - African cable system is first private venture made towards under-sea cable infrastructure, that provides affordable bandwidth via volume discounts and large bandwidth growth. SEACOM is based on satellite-based technology.

There are 130 radio stations in SA, only in Johannesburg the amount of radio stations reaches 40 with its market leader Durban with over 2, 2 million listeners. Majority of radio stations are in English, the industry is regulated by ICASA, the Independent Communications Authority in South Africa which is responsible for the regulation of broadcasting, postal and telecommunications services, it ensures reasonable services of high quality,

develops regulations, rules and policies, protects customers from frauds and poor quality services, thus controls and manages the frequency spectrum.

In South Africa there are 150 internet providers, thus there is internet access is everywhere. South Africa has 19 different airports, three international, seven domestic and nine are military. Existence of these facilities makes travelling easy, fast and cheap for people. South Africa's major ports and harbors are Cape Town, Durban, East London, Mossel Bay, Port Elizabeth, Richards Bay and Saldanha Bay. In 2006 the new port is to open: Ngqura, at Coega, which is 20 km northeast of Port Elizabeth.

Legal Environment

TRALAC-Trade Law Center in South Africa – is a not-for-profit organization, building trade law capacity in the southern Africa region; in governments, the private sector and civil society. Trade Laws – Sanitary and phytosanitary measures, standards and technical regulations on trade, anti-dumping measures, and elimination of import/export duties, non-tariff barriers, and quantitative import/export restrictions.

Environmental Area

The current issues that are of a concern are:

Lack of important rivers/ lakes requires extensive water conservation

Growth in water usage is more than supply

Pollution of rivers from agriculture and urbanization

Air pollution from acid rains

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Soil erosion

Desertification

Natural resources

Another issue which affects SA agriculture is environmental damage caused by misuse of land and global climate change. South Africa is defenseless towards climate changes and results in reduction of surface waters. Some predictions state that water supply might decrease by 60% by the year 2070 in some parts of Western Cape. To reduce the damage caused by mismanagement, the government has supported a scheme which promotes sustainable development and the use of natural resources.

A warmer temperature in South Africa is another upcoming issue that may lead to:

Fluctuations in bio geographic distributions and loss of biodiversity

Increase in human deaths, especially among the elderly, due directly to heat waves

Serious risk of epidemic infectious illnesses, for example malaria (due to an expansion of suitable habitat for mosquitoes which transmit malaria)

Macro-economic policy

Macro-economic policy is the major driving force behind economic activity and consequent environmental impacts. Currently, in South Africa, macro-economic policy aims at:

Economic growth

Increasing employment

A positive trade balance (increasing exports above imports)

Combating inflation

Equity

Economic growth

Between all the Sub-Saharan African countries, the Republic of South Africa is the most developed in both aspects: economically and politically. The Gross domestic product (GDP) of South Africa represents one third of the total sum of the GDP's of that region and one fifth of the collective gross domestic products of Africa. From the point of international trade, South Africa is considerable due to its geographical position, natural resources and well developing economical structure. South Africa is regarded to be a leading nation in Africa, thus the economy of South Africa is divided in many aspects. One part of it is modernized and based on high technology; on the other hand a significant part of South Africa has low education and is poor, living at survival level. Main cause for such division is the extended apartheid era, when the inhabitants were separated due to race.

Apartheid had a great influence on trade relations, due to the fact that Republic of South Africa was in trade restriction by UN decision. During that time, growth of foreign trade was modest and that also reflected on the whole economic expansion in the country. Apartheid came to an end in

1994, followed by liberalization progress of foreign trade. South Africa entered WTO in 1995 and four years later created a new trade relation with EU. From the first quarter of 1994 to the second quarter of 2008, the country had uninterrupted economic growth. During 1995-2003 economic growth was moderate. In 2004-2006, the economic growth in South Africa became more rapid and the annual growth rate climbed up over 5%, therefore the biggest boost to economic growth in South Africa was the progress in economy, due to which the raw materials in international trade became considerably higher. Metals and minerals and their factory products have a central position in South Africa.

Until the global economic crisis hit worldwide economic growth in South Africa was stable and exceptional. Corresponding to statistics South African GDP rose by 2, 7% in 2001, 3, 7% in 2002, 3, 1% in 2003, 4, 9% in 2004, 5% in 2005, 5, 4 in 2006, 5, 1% in 2007 and 3, 1% in 2008. In the third and fourth quarters of 2008, economy set off into recession. This downturn continued into the first and second quarters of 2009, with GDP growth at -6, 4 % and -3% respectively.

Since 1994 macroeconomic reforms have boosted competitiveness, growing the economy, generating employment and opening South Africa up to globe markets. These aforesaid policies have build a concrete macroeconomic structure, leading to peaceful exchange controls, taxation cut, tariffs dropped, the fiscal deficit reined in and inflation restrained. C:

UsersDELLDesktopUntitled. png

Fig. 1. South Africa GDP Growth Rate

As well as there was a dramatic drop in budget deficit, from 5, 1 % of GDP in 1993/94 to 0, 5% in 2005/06 – the second-lowest fiscal deficit in the country's history after the 0, 1% reached during the gold boom in 1980, thus in the same year South Africa posted its first ever budget surplus being 0, 3%. In the end of apartheid inflation composed at the level of 9, 8%. From 2004 all the way through 2006 consumer inflation came in at below 5%, before global prices pressed it up to 6, 5 % in 2007. With low taxes across the borders, the optimistic economy, improved tax compliance and a progressively improving tax and customs administration have seen government rising and falling, hitting R475. 8 billion (nearly \$72 billion) in 2006/07, three times more than in 1996/97.

FIFA World Cup 2010 boosted country's economy by R3, 6 billion \$525 million and attracted more than 360000 visitors and estimated around 695000 jobs. Thus there is another positive note: a successful World Cup will facilitate the perceptions that a large number of foreign investors hold of Africa.

The results show the event will have a lasting legacy in terms of the South African tourism industry, according to Minister Marthinus van Schalkwyk. He said: “ Based on the results of our survey of the tourism impact of the World Cup, the success of the event will reverberate for many years to come. The World Cup was never about the hosting of a tournament, but rather about building a legacy for our country and our continent – a legacy in terms of infrastructure development, economic growth, skills development, job

creation, nation building and brand awareness” (n. a., Media Statement by the office of Mr. Marthinus Van Schalkwyk , 2010) .

Increasing employment

South Africa’s unemployment rate is 23. 3% (2010 est.). The costs of unemployment can be very destructive to country’s economy since the production decreases, GDP dropping and inflation rises. South Africa’s fundamental difficulty is fast population growth and the measures that can be taken to limit population growth can be a part of the strategy to decrease unemployment. The control over migration must be enforced in the country since it limits the amount of jobs for local people, especially for unskilled workers which form the largest group of unemployed citizens (Department of home Affairs, n. d.). There is a shortage in skilled workers, therefore certain measures should be taken in education and training programs. Government of South Africa initiated special employment programs in order to employ as many people as possible to build roads, dams and clean the environment. Another possible way to increase employment is to offer tax incentives for employers such as tax benefits or subsidies if they hire more people. However, a policy like this must be highly monitored since there is a high possibility of its abuse.

Trade balance

The trade balance is a part of the balance of payments. The difference is that the trade balance only outlines the balance between exports and imports in order to determine a surplus or a deficit. According to the graph below, South Africa’s trade balance from the point where the ANC where elected till the point where we stand today. The largest surplus of R9 billion was <https://assignbuster.com/analysis-of-the-emerging-country-south-africa-economics-essay/>

achieved in 2001 and the biggest deficit of more than R17 billion occurred in the beginning of 2009 (Trading Economics, 2010).

Fig. 2. South Africa Balance of trade

The reason for these outcomes is that in the end of 2000, the merchandise exports rose by 15%. This was due to the devaluation of the rand, which made all exports more attractive for the rest of the world. The reason for the large deficit faced in 2009 was a combination of the world cup and the financial crisis. Imports were needed for the event to take place, but also an economical recovery was in progress. Once again history repeats itself, just in more dynamic deficits. As the South African economy won the battle against the R50 billion in net capital 1994, the domestic demand for imports boosted towards the sky. The same scenario is found here, there was a feeling towards more economic security, therefore the demand boosted once again.

Based on the graphs below, Asia and Europe play the biggest role in terms of South Africa's imports and exports and it is also in these two continents where the biggest deficit is found. This is mainly due to the exchange rate differences of the Euro and the Yuan versus the Rand.

Fig. 3. Trade Balance

Fig. 4. Exports and Imports data

As the forecast of appendix 1 indicates that a continued deficit in the current account will occur up to 2015, mainly due to the economic plan of the country. South Africa is still facing issues related to the apartheid period including poverty, lack of public transportation, unemployment being at

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approximately 25% and rising and economic empowerment. The ANC addressed these issues at the 99th Anniversary, in January 2011, and will take measures upon increasing income and employment opportunities for low-income families, decrease inflation rate and boost GDP by 2015. Due to these plans undertaken by the government, a further deficit will be seen in the current account and with that, a further exceeding of imports compared to exports will be present in the next coming years (South African Reserve Bank, 2010).

Inflation

The historical trends of inflation in South Africa show that it has a strong economy with a stable economic growth. According to CIA Fact book, inflation in 2010 was 4, 5%. The South African inflation is mainly caused by the production costs and the demand within the economy. The consequences of inflation can be destructive to the economy since the increase in production costs will drive the increase in the prices for the products and shortages of manufacturing products can happen in the manufacturing industry as well in the economy. Inflation can also result in banks not offering credit facilities to investors and it can cause instabilities in the economy as it depresses saving and influences the balance of payments. Today, one of the major elements of South African fiscal and monetary policy is targeting and fighting inflation. According to the reserve Bank Governor, Mr T T Mboweni, the use of the monetary instruments by SARB to fight inflation is essential to decrease the destructive impacts of inflation in the economy.

Equity

South Africa is ranked in the top 10 countries in the world for income inequality (Wikipedia, 2010). Inequality among urban and rural areas is changing: at the same time as rural poverty rates remain considerably higher than those in urban areas, urban poverty rates are increasing.

Incomes have been increasing for all race groups, however blacks still live in poverty. At any poverty line, blacks are very much poorer than coloureds, who are very much poorer than Indians and Asians, who are poorer than whites.

The abolishment of apartheid in 1994 left a twisted racial economic hierarchy that positioned whites firmly at the top, followed by Indians, coloureds, and then blacks. Even the initiation of the Black Economic Empowerment policy failed to improve the living of black citizens and inequality still remains a big issue in the country.

The achievement of the 5 macro objectives is very much important to the South African economy, the effects of the failure to achieve these objectives will lead to social, politically and economically instabilities. Over the past years the South African government and the reserve bank SARB have managed to achieve the five macro objectives effectively thus why it is ranked among the fast developing nations.

Balance of payments

Balance of payments helps to evaluate the wealth of a country by looking at its exports in comparison to imports. A country would have been classified as

successful one if there was a surplus. The process of evaluating the success of the country has developed with the help of the balance of payments manual established by the IMF (International Monetary Fund) in 1948, which was then revised until 1976 to become what it is today. South Africa started to implement the recording of balance of payments in the late 1940's and it was the Reserve Bank (SARB) which took that incentive. Upon that move, the IMF published the first recordings of South Africa's balance of payments in 1949 and the Reserve Bank further after became officially responsible for the recording of this data in 1956 combined with the government. It was the first steps towards re