

South Africa – Country Overview

February 2011



General Overview

Population: 49.1 million (Economist Intelligence Unit, 2011) / 51.5 m (2012, IMF est.)
Land Size: 470,686 sq. miles (1,219,080 km)
Currency: 1 Rand = 100 cents – noted with “R”
Time: GMT + 2 hours
Languages: English (business, government, popular entertainment), Afrikaans, Zulu, Xhosa Sotho, Pedi, Tswana, Venda and Ndebele.

Economic Statistics

Economic Growth Rate: 3.7% (Economist Intelligence Unit 2011 forecast) / 4.8% in 2012
Stock Exchange: 27 500 (January 2011)
Consumer Inflation: 3.5% (December 2010)
Producer Inflation Rate: 5.8% (December 2010)
Gross Domestic Product: \$360.4 billion (est. 2010)
Purchasing Price Parity GDP \$522 billion (2010/Economist)
Rate of Exchange: US\$1 = R7.3 (Economist Intelligence Unit Average, 2011)

Executive Summary

Economy: South Africa’s economy looks robust going into 2011 with growth approximating 3.5% or more. As with the rest of the world, there has been a certain amount of peaks and troughs during the last three years. In 2007, South Africa encountered the fastest growth it had ever seen. Business and consumer confidence as well as the stock market were at record highs. The currency, the rand, was at highs versus the US dollar in purchasing parity terms. In December 2007, South Africa was hit by electricity shortages that caused a drop in all of these economic benchmarks. This has since reversed and by mid-2008 growth again reached 4.9% in real terms. The final quarter of 2008 saw South Africa visited by the global slowdown resulting in annual growth of 3.7% for 2008. The first quarter of 2009

illustrated that South Africa was in a recession with negative GDP at -6.4%. The negative figure was due primarily to a 33% decline in mining as commodity prices ruptured. South Africa then bounced back with positive growth in 2009. Final estimates for 2010 approximate 2.5 %. South Africa bounced back from the recessionary figures due to strong demand from China, India and other emerging markets for primary resources. This growth though, is hampered by political risk factors stemming from government insider dealing making business perceive South Africa as riskier – particularly when it comes to property rights for the mining sector. Regionally, growth in sub-Saharan Africa is approximately 6%, so the outlook is relatively prosperous. The rand has improved substantially and has been trading at close to its real high in recent months ending to February 2011.

Government and Politics

Government: The democratically elected government that came to power in 1994 inherited an economy suffering from long years of internal conflict and external sanctions. Against that environment, economic performance since 1994 has been impressive. In particular, the successive governments during that period have shown considerable prudence, refraining from resorting to economic populism in an effort to boost short-term growth. GDP has increased substantially during the post-Apartheid era, averaging close to 5% per annum.

South Africa has three capital cities: Cape Town, the largest of the three, is the legislative capital; Pretoria is the administrative capital; and Bloemfontein is the judicial capital.

South Africa has a vibrant multiparty political system, with 16 parties represented in parliament. The African National Congress is the majority party in the National Assembly and controls eight of the country's nine provinces. However, opposition parties remain robust and vocal.

The political structure of South Africa includes the Executive Branch, the Legislature (Parliament) and the Judiciary Council:

The Executive Head	Headed by the President Jacob Zuma. The President is both the chief of state and Head of Government; elected by the National Assembly for a five-year term (eligible for a second term); Last elections were held in April 2009.
The Legislature	Consists of the National Assembly (400 seats; members are elected by popular vote under a system of proportional representation to serve five-year terms) and the National Council of Provinces (90 seats, 10 members elected by each of the nine provincial legislatures for five-years). Next elections will be held on April 2009.
The Judicial Branch	Comprises a Supreme Court of Appeals, a Constitutional Court, High Courts and Magistrate Courts. The Judiciary is independent of the executive and the legislature.

Politics : There are issues which South Africa is coming to terms with: the historical legacy of Apartheid, HIV/AIDS and high crime. Critical issues are dealt with and managed, or at least recognised. South Africa has elements that define it as both a developing and developed market – a factor which benefits American companies coming into the market. Although still facing challenges such as crime and health constraints, the country has optimism for the future. South Africa has had a high degree of political stability since becoming democratic in April 1994. Constitutional freedoms are highly regarded as is the rule of law. Fiscal and monetary management in South Africa are the envy of much of the world. In many respects, South Africa is the best managed developing market in the world, if not the largest. Current changes underway inside the ruling African National Congress have put pressure on many national institutions to improve output. Criticisms levelled at the previous Mbeki Administration continue, but the current Zuma Administration has taken a more practical and pragmatic approach overall to most government management issues.

National and provincial elections April 2009 saw a divided ruling ANC again taking a majority of seats in the national parliament. A new breakaway challenger, the Congress of the People (COPE), took central stage as an opposition party but failed to become the official opposition which went to the Democratic Alliance. The ANC has had corruption challenges, many dealt with quickly in recent times, not least charges against the new President, Jacob Zuma, being implicated in a bribery and corruption case involving an arms deal. President Zuma has been absolved in all cases put against him and it looks as though those questions have been put firmly on the back burner even by most opposition critics in favour of more practical issue and governance. The ANC lost control over one province, Western Cape, and is under pressure in three others – Gauteng, Northern Cape and Eastern Cape in terms of electoral positioning. The new administration will have its work cut out to reformulate its political standing in the near future, although it looks safe at present.

Population and Demographics

South Africa’s population reached 48.7 million in 2008 according to the International Monetary Fund (IMF). The country’s population is expected to grow at a compounded average rate of 1% from 2009 to 2013 to reach 51.2 million.

Figure 1: RSA Population

In 2008, “Statistics South Africa” provided five racial categories by which people could classify themselves. Those categories are broken down in Figure 2 below.

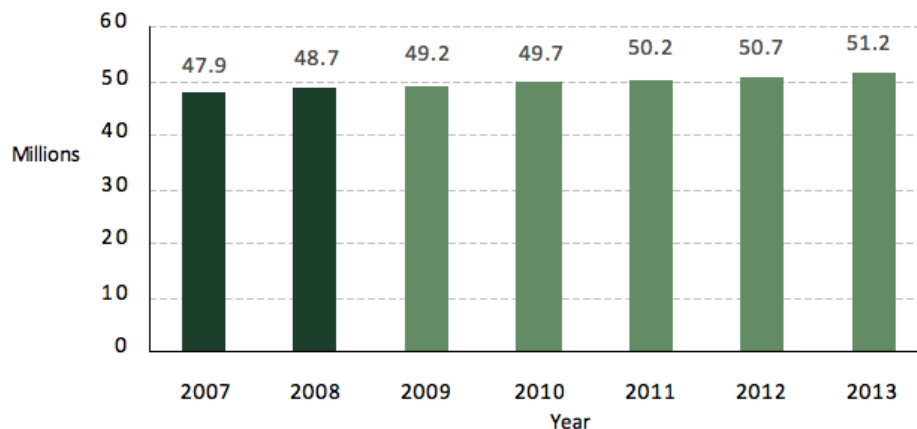


Figure 2: Population Breakdown in South Africa

Population Group	Male		Female		Total	
	Number (Million)	% of Total Population	Number (Million)	% of Total Population	Number (Million)	% of Total Population
African	18.5	79.0%	20.0	79.4%	38.56	79.2%
Coloured*	2.1	9.0%	2.3	9.0%	4.38	9.0%
Indian / Asian	0.610	2.6%	0.631	2.5%	1.27	2.6%
White	2.2	9.4%	2.3	9.1%	4.48	9.2%
Total	23.4	100.0%	25.2	100.0%	48.7	100.0%

* Coloured refers and referred to an ethnic group of people who possesses Sub-Saharan African ancestry but enough to be considered Black under the law of South Africa; they are technically mixed race

Source : www.statssa.gov – Statistics South Africa

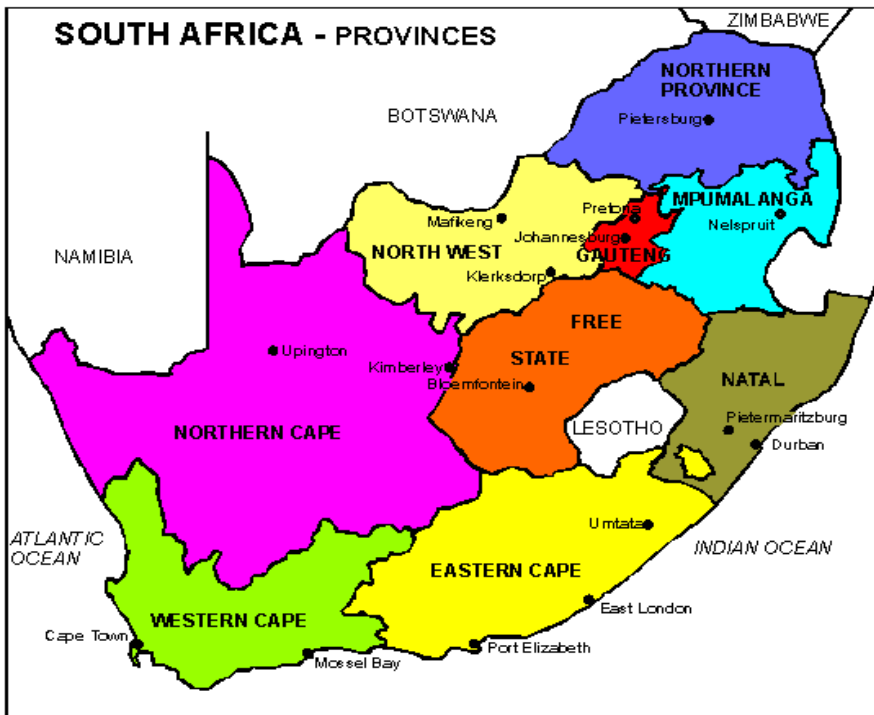
Society and Culture: Life expectancy at birth is estimated at approximately 50.3 years for males and 53.9 years for females. The Black population is divided into four major ethnic groups, namely Nguni, Sotho, Shangaan-Tsonga and Venda. There are numerous subgroups of which the Zulu and Xhosa (two subgroups of the Nguni) are the largest. The majority of the White population is of Afrikaans descent (60%), with many of the remaining 40% being of British descent. Most of the Colored population lives in the Northern and Western Cape provinces, whilst most of the Indian population lives in KwaZulu Natal. The Afrikaner population is concentrated in the Gauteng and Free State provinces and the English population in the Western and Eastern Cape and KwaZulu Natal.

Population Density South Africa has nine provinces of which Gauteng has the largest population. Approximately 10.48 million people (21.5 percent of the population) live in this province. KwaZulu-Natal is the province with the second largest population, with approximately 10.13 million people (20.8%) living in this province. With a population of approximately 1.12 million people (2.3%), the Northern Cape remains the province with the smallest share of the South African population. Nearly one-third (32% - 15.58 million) of the population is younger than 15 years and approximately 7% (3.41 million) is 60 years or older. Of those younger than 15, approximately 22% (3.43 million) live in KwaZulu-Natal and 19% (2.96 million) live in Gauteng.

Business Culture: South Africa is relatively easy for businesspeople working within accepted international convention. The lingua franca is English, the business environment is very similar to other Commonwealth countries or the USA. The region is a fast adopter of high tech imports. New and innovative products and a low USD allow US companies to compete favorably with domestic and international competition. South Africans generally prefer transparency in their business dealings, are very hospitable and are able entrepreneurs. They tend to be opportunistically generalist in nature relative to their European or American counterparts who are more niche oriented.

Geography

There are nine provinces – Gauteng, Western Cape, Kwazulu Natal, Eastern Cape, Northern Cape, Limpopo, Mpumalanga, Free State and the North West. Pretoria is the executive capital and Cape Town the legislative capital. Other major cities include Johannesburg, Durban, Port Elizabeth, Bloemfontein and East London.



South Africa borders on Namibia, Zimbabwe, Mozambique and Swaziland while Lesotho is enclaved by the country. The country is densely populated around the Cape Town, Durban and Gauteng areas while being relatively lightly populated in other regions. South Africa is roughly twice the size of Texas.

Climate

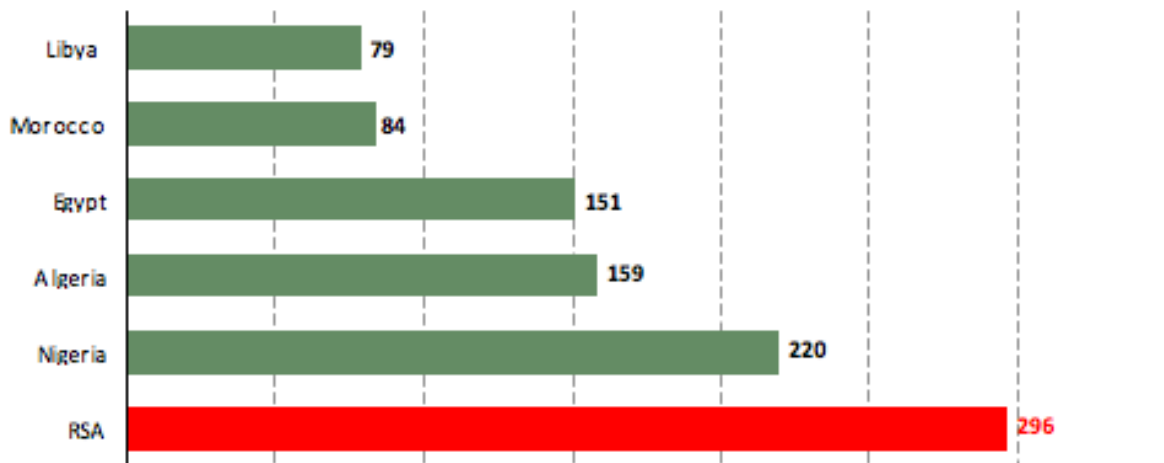
South Africa's climate varies from region to region. The Western Cape experiences a Mediterranean climate and the interior has a semi-desert climate with cool, dry winters and summer rainfall. Kwazulu Natal has a subtropical climate with humid conditions. Snow is uncommon and limited to the highest lying areas of the country.

The country's geo-climatic location ensures that it is well placed to produce a wide variety of fruits, vegetables and cereals and as such, it is a net food exporter across both temperate and tropical plant types.

South African Economic Overview

South Africa is the economic powerhouse of the African continent, with a gross domestic product (GDP) four times that of its Southern African neighbours, and comprising 35% of the entire GDP of Africa. South Africa is situated at the southern tip of Africa forming part of the Southern Africa region and is bordered by Namibia, Botswana, Zimbabwe, Mozambique and Swaziland. Lesotho is situated within South Africa's borders. Road, rail, airport and telecommunications infrastructure is world class and in some respects often surpasses qualities in many other "developed" countries of Europe or North America. South Africa boasts some of the highest quality drinking water in the world, ensuring healthy tap water for the population and visitors.

South Africa has the most advanced economy on the African continent. Since 1994, particularly, the country's economy has grown rapidly. Its geographical position provides an ideal gateway to Sub-Saharan Africa. The most important export contributors to the economy include the mining sector, manufacturing and agriculture. Services are a huge proportion of the nation's wealth. Over one third of South Africa's economic activity takes place in Gauteng (making the province 10% of Africa's total). The province is home to 10 million people and encompasses the country's financial and



industrial infrastructure, including the cities of Johannesburg, Pretoria and Ekulweni.

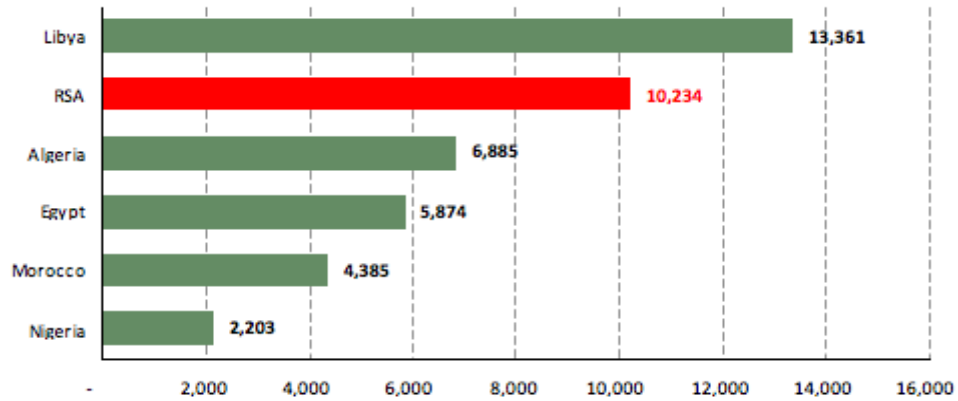
A comparison between South Africa and the other African countries demonstrates the sheer size of the country's economy and confirms its position as the continent's economic powerhouse. South Africa has the largest economy with a GDP of \$296 billion in 2008, followed by Nigeria with a GDP of \$220 billion for the same time period. According to IMF accounts, the South African GDP accounts for over 23 percent of Africa's GDP.

African GDP Comparison

Similarly, South Africa has the second highest GDP per Capita on the continent after oil rich Libya. Per Capita GDP in South Africa crossed of \$10,200 in 2008; whereas per Capita GDP in Libya stood at \$13,360 for the same time period.

African GDP per Capita Comparison

According to IMF figures, South Africa's real GDP growth has been slightly outperforming the average

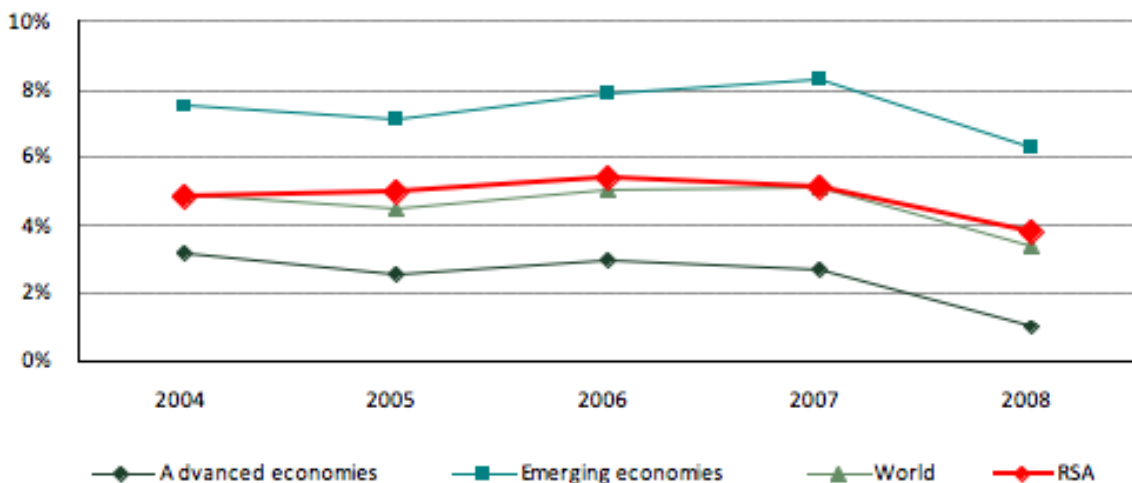


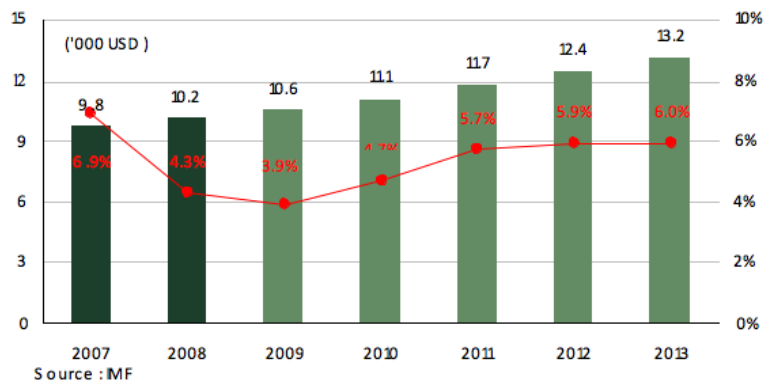
World GDP over the past five years. It has however; greatly surpassed real GDP growth rates witnessed in the advanced economies. Due to the current economic environment, South Africa's real GDP growth for 2008 slowed to 3.8%. However, on the medium term the economy is expected to rebound towards 5% growth starting 2012.

Real GDP Growth Rates Comparison

According to the IMF, South Africa's GDP/capita PPP in 2008 amounted to US\$ 10, 236, representing a growth of 4.3% from 2007. South Africa's GDP/capita will grow at a CAGR 5.09% during the period 2007-2013. The large part of the gap of GDP per capita with the most advanced economies is due to South Africa's very low labour utilization.

South Africa's Gross Domestic Product per Capita





Exchange Rate

The South African rand floats against other currencies. South Africa maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

With the abolition of the financial rand in 1995, all exchange controls on non-residents were eliminated. They are free to purchase shares, bonds, and other assets without restriction and to repatriate dividends, interest receipts, and current and capital profits, as well as the original investment capital. Foreign companies, governments and institutions may list on South Africa's bond and securities exchanges.

Since 1995, exchange controls on capital transaction by residents have also been relaxed. The South African Reserve Bank (SARB) reserves the right to stagger capital outflows relating to large foreign direct investments so as to manage any potential impact on the foreign exchange market.

In 2008, the authorities initiated a process of replacing direct exchange controls on local institutional investors with prudential regulations and relaxing their foreign exposure limits. The South African Foreign Exchange Market is the single biggest market, in terms of turnover, of all the South African financial markets. As the South African market is widely open to international investors, it became an extremely important one.

The South African Rand is a liquid currency; this is shown through the bulk of its onshore and offshore trading; taking place especially in London and to a lesser extent in New York. Contrarily to the other African markets excluding Nigeria, the South African market accounts for several foreign banks from New York, London and Europe. To satisfy the needs of their customers that have an interest in South Africa, those players trade actively in the Rand on their emerging market desks. Trading in the rand also became an integral alternative to diversify their sources of revenues. Among those players, international hedge funds heavily trade the Rand to manage their exposures to investments in South Africa.

South Africa's internal and external debt

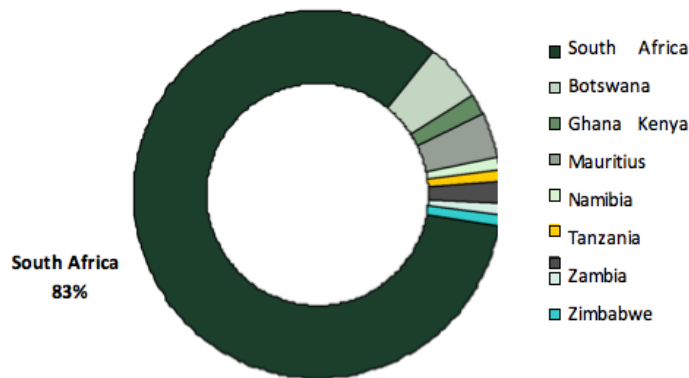
South Africa's public debt position remains sustainable. The ratio of government debt to GDP continues to fall sharply, from 35¼ percent in 2005 to 28½ percent at end-2007. Under the policies outlined in the 2008/2009 budgets and the medium-term expenditure framework, government debt should continue to decline to below 16 percent of GDP over the next five years.

The declining trend in the public debt-to-GDP ratio appears to be broadly robust to a variety of shocks, including weaker GDP growth, a lower primary balance, a 30 percent real depreciation of the exchange rate. South Africa's external debt is projected to rise in the

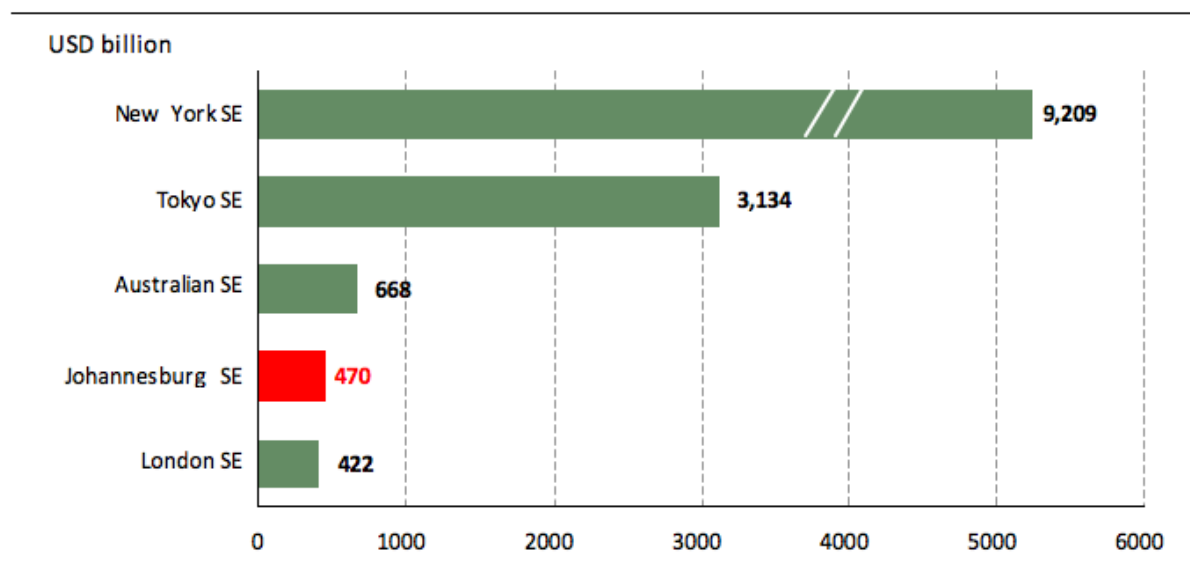
medium term. The current account deficit is projected to remain large reflecting deteriorating terms of trade and the pick up in public investment with high import content. The deficit will remain constant at 8% of GDP in 2009; however, as import growth subsides, the deficit is expected to lower by 2013. The deficit is envisaged to be financed by a mixture of debt and non-debt creating capital inflows.

The JSE Performance

The Johannesburg Stock Exchange ('JSE') provides a true gateway to Africa's economy. The JSE is the world's largest Single Stock Futures exchange. It is also Africa's largest exchange as well as one of the world's top 20 stock exchanges in terms of market capitalization, which stood at R4, 514 billion (~USD 470 billion) as of year-end 2008. The market capitalization of the entire African continent amounted to USD 800 billion in 2008, of which South African represented more than 58%. An average of 334 million shares was traded on the JSE in 2008 with annualized liquidity of above 50%.



Comparative Market Size of Selected African Countries (2008)



Comparison with Global Stock Exchanges (2008)

Only South Africa has domestic banks and a local capital market capable of consistently providing local currency financing for infrastructure projects on suitable terms and in significant amounts. In virtually all other African countries local long-term financing has been limited, and infrastructure projects have needed substantial credit enhancement (for example, through guarantees), provided mostly by official agencies, to attract local currency debt.

A statement issued by South Africa's finance minister Trevor Manuel, the country's banking system "remains relatively immune from the crisis." The stability in South Africa's banking sector can be largely attributed to prudent regulation by the supervision department of the South African Reserve Bank. This stability can also be attributed to exchange control regulations, which have ensured that the regulators hold a tight grip on South Africa's banking sector's exposure in foreign markets. Furthermore, South African banks had been cautious about their exposure to toxic assets. Foreign exchange controls and the National Credit Act had translated into financial prudence. Therefore, long-term local currency funding from the local market can be arranged despite current market conditions.

Foreign Investment

Foreign Direct Investment (FDI) has played a considerable role in the development of South Africa's economy, although in more recent years FDI has remained at relatively low levels compared with other emerging market countries. Despite an improvement in overall macroeconomic conditions and South Africa's advantages in terms of natural resources and market size, foreign investors have shown limited interest in acquiring, creating, or

expanding domestic enterprises; FDI represented US\$ 6.1 billion in 2008 compared to US\$ 5.7 billion last year, an increase of 6.2%.

Annual FDI inflows to South Africa averaged less than 1/2 percent of GDP during 1994–2002, compared with 2–5 percent in some comparable countries. It is generally considered that foreign investment can act as a catalyst for investment and economic development in South Africa. The significance of FDI for engendering growth was particularly stressed in the Growth, Employment and Redistribution Strategy (1996) and has been restated in official statements since then. As private investment has been inhibited by South Africa's low saving rates, foreign investment can help address the saving deficiency and promote economic growth.

Inflation: South Africa has not been immune to the inflationary pressure arising mainly from increases in global food and oil prices. During the late stages of 2009 and early 2010, inflation appears to have been leashed at below 6%, which puts it within the South African Reserve Bank's target of 3 to 6%.

Selected Industry Sector Overview

Mining is historically South Africa's largest industry sector followed by manufacturing, oil and gas, chemicals, agriculture and tourism. Due to developments in other sectors, it has recently been overtaken by manufacturing. South Africa has 80% of the world's platinum reserves and output is 65% of global total. South Africa's gold mines produce 15% of world output. Platinum is the largest single mineral export earner, having overtaken gold in 2003. By 2008, it was a \$22 billion industry. South Africa is a huge importer of mining exploration and development equipment.

South Africa is globally recognized as being a leading supplier of a variety of minerals and mineral products that are exported to as many as 87 countries. Each year, approximately 55 different minerals are produced from more than 700 mining facilities, with gold, Platinum Group Elements (PGE's), coal and diamonds dominating exports and revenue earnings. South Africa, through its private firms is one of the largest investors in mining concerns in other countries.

Manufacturing South Africa has developed an established, diversified manufacturing base that has shown its resilience and potential to compete in the global economy.

The manufacturing sector provides a locus for stimulating the growth of other activities, such as services, and achieving specific outcomes, such as employment creation and economic empowerment. This platform of manufacturing presents an opportunity to significantly accelerate the country's growth and development.

Manufacturing in South Africa is dominated by the following industries: Agriprocessing; Automotive; Chemicals; ICT and Electronics; Metals.

Automobile and parts manufacturing is now 7.5% of the total economy. All of the large American, Japanese and German OEMs are represented with vehicle assembly plants. By 2008, South Africa had over 900 component manufacturers, most of them small and medium-sized. South Africa imports about 40% of the components used in OEM assembly.

Chemicals are a large growth market. South Africa maintains the only large sustainable coal-to-liquid and coal-to-chemical industry in the world. Coal is transformed into over 330 marketable chemical streams. South Africa is the largest producer of inert gases. Xenon, krypton and others are separated

and exported for specialty uses such as fluorescent lights. Durban is the center of this industry in South Africa. South Africa is 40% self-sustaining in liquid petroleum although most of this comes from synthetic fuels. American sales of chemicals that compliment processes here are significant in terms of export numbers.

Agriculture contributes 4% to the country's GDP and consists largely of cattle and sheep farming with only 13% of land used for growing crops. Maize is most widely grown followed by wheat, oats, sugar cane and sunflowers. The government is working to develop small-scale farming in efforts to boost job creation. Citrus and deciduous fruits are exported, as are locally produced wines and flowers.

Information Technology (IT) is measuring huge growth. By 2008, it was a \$9 billion industry. US sales of software make up about 80% of the value of software sold. Mission critical systems for banks, insurance companies and other institutions provide some benefit for the sales of systems and design for American contractors. All areas of ICT can be considered a good area for prospecting as South Africa generally is an adopter nation in most of the these technologies.

Safety and Security continues to be a growth industry. Over 400,000 are employed in the commercial/private security sector, with a net worth of \$6 billion annually. As the country becomes wealthier, and crime levels remain relatively high there are many openings for companies to participate in this market. South African firms are often world-class leaders in their sector but system components, electronics and design are often purchased for integration into usage. South Africa is also a leader in some aspects of electronic security in areas such as banking.

Retail/Services have continued to show strong growth in recent years, but has been under pressure lately related to the global downturn. Even with raised interest rates, consumer spending trended upward at close to 10% growth in 2007. South Africa's domestic economy is approximately 70% service oriented, similar in that regard to the USA. Retail, food and restaurant, tourism, banking, security and a host of other sectors have had good results in the past decade. Interest rates have come down recently, allowing some breathing space for renewed growth in the future.

Tourism to South Africa has surged since the end of apartheid. In 1994, the year of South Africa's first democratic elections, only 3.9 million foreign visitors arrived in the country. By 2004, international arrivals had more than doubled to 6.7 million. And in 2007 a total of 9.07 million foreigners visited South Africa; an 8.3% increase over 2006. Tourism's estimated contribution to GDP increased from 4.6% in 1993 to 8.3% in 2006. It is expected to increase to 12% by 2014. The major goals going forward are targeting the creation 500,000 new jobs with an average 8.5 million international arrivals annually and a contribution to the GDP of at least R100 billion a year. The 2010 FIFA World Cup will have an even greater impact on the South African economy. The event is estimated to contribute at least R51.1-billion to the country's GDP; a direct injection to the economy.

Social Issues, Opportunities and National Development

Economic integration of the previously disadvantaged majority is considered one of the highest priorities of the African National Congress administration. Unemployment is high, with varying statistics that approximate 24% (ILO definition as used in the USA). During the ten years of democracy, South Africa's economic strategy has been to assist sectors providing employment through high-value added sales, typically benefiting the professional and technically skilled groups while hoping that the level of education would rise to meet the needs in the market. Although unemployment is high, there are a vast number of jobs that go unfilled due to a lack of skilled people in the marketplace.

The growth of the black middleclass and upperclass is one of the important themes of development in the country. *Recently, whites have been overtaken by Indians as the highest per capita ethnic group in five of South Africa's nine provinces.* Although indigenous Africans are still far behind based on average per capita incomes, indications are that they will make up more than half of the middleclass within the next three years. Black middleclass growth is one of the primary drivers in the domestic economy.

Public education has continued to have poor results under the ANC. Private schools, although only 10% of total student numbers, are now 70% black and are producing the future elite. Public education is not creating the levels of professionals and skilled young people as hoped for, of 700,000 teenagers writing matriculation (i.e. high school finals) annually in 2006, only about 3,000 are young blacks with an average pass in one or more maths or sciences. The numbers of qualified teachers entering the field have dropped significantly in the past ten years. Universities cannot locate enough young black students to fill technical departments quotas and competition among institutions for qualified students is fierce. South Africa does not lack for funding for education – most problems appear to be management related. However, there is a significant skills shortage. Only 11% of high school graduates are unemployed. Three percent of university graduates are unemployed. Forty percent of those who did not complete high school are unemployed. This indicates a high demand for professional and technically skilled workers while unskilled are not able to enter a globally competitive workplace. Wages for educated workers have gone up substantially in the past decade.

The government has placed much emphasis on the primary healthcare sector specifically in rural and poorer areas. The Department of Health is the government body responsible for the country's health facilities, which include well-equipped hospitals and primary healthcare clinics. Treatment for TB is available free of charge at all state clinics.

The threat of HIV/AIDS is a problem that serves to deter foreign investment. South Africa has an infection rate of approximately 18%. Infection rates affect business across all spheres of influence. Crime is also an issue but has appeared to have peaked and is now in decline, although from very high levels – one example is that car theft and hijackings are down 43% from 1999 levels. South Africa is indeed “normalizing” after an extended period of Apartheid as development issues are being taken seriously.

Black Economic Empowerment

Black Economic Empowerment (BEE): The history of South Africa relating to Apartheid (“keeping apart”) racial policies from 1948-93 created great social divisions that are only now being healed over. South Africa has made great strides, as growth in the black middle class is one of the most important dynamics of the economy. BEE is a large and all encompassing affirmative action program. It has been instituted partly in law and partly through recommendations that seeks to uplift the former disadvantaged peoples (FDPs). BEE should be viewed through the lens of a corrective measure where most of the population was denied the right to education, living and business standards that were afforded a minority.

BEE includes quotas on hiring of formerly disadvantaged people (indigenous Africans, Asians, women), training programs and legislation concerning the share of equity in larger companies. American companies exporting to South Africa will not likely see any differences in doing business through a newly empowered company except where government tenders are concerned. Government tender requirements state that BEE firms have a measured (20% grading on a sliding scale) benefit over non-compliant firms. Many larger firms have unilaterally instituted BEE supplier criteria to their suppliers as well. Overall, the atmosphere of social change is positive toward BEE and most transition is occurring through moral suasion rather than strict government legal enforcement.

Regional Leadership

South Africa has taken up many responsibilities as an economic and political leader both regionally and globally. It is a member of the Southern African Development Community (SADC), the Southern African Customs Union (SACU). It is a founding and active country in the following organisations: the Commonwealth of Nations, the African Union and the United Nations. It is a leader in developing new trade directions – free trade agreements exist with the European Union (EU) and the European Free Trade Area (EFTA). Free trade agreements are being worked on with the South American MERCUSOR group, India and the P.R. China. South Africa currently sits on the UN Security Council and projects itself as a leader for developing countries in relation to World Trade Organisation negotiations.



SACU is the oldest customs union in the world, founded in 1910. It comprises the countries of Botswana, Lesotho, Namibia, South Africa and Swaziland. There are no tariffs or duties between these trading partners and all income from outside imports is pooled. Value Added Tax is sometimes charged for consignments crossing borders but this is refundable, upon proof of resale, to the importer.

SADC is a developing free trade zone comprising fourteen countries in the southern cone of Africa. This will soon be fifteen with the admission of Madagascar. Progress is being made to create duty free access among member nations – at present seven countries have moved to implement this plan. Progress is slowed primarily due to lack of resources in some of the countries to make the transition possible.

Growth and the Future

Although 90% of South Africa's trade is with countries other than those in Africa, trade and investment with other African states has increased substantially since 1994. Economic growth is expected to average 3.5% a year in 2011-20, which is close to the level that the economy can sustain without generating imbalances. Positive factors include tourism and investment spin-offs from the World Cup, the start of new base-load electricity generation and trade liberalisation. Negative factors include the AIDS pandemic and skills shortages. Growth is forecast to accelerate to 4.4% a year in 2021-30 as the massive investments made in the previous decade

(in both physical and human capital) lead to a sustained improvement in economic efficiency and capacity.

Prudent fiscal management has meant that the national debt in foreign currency (the “forward book”) has, as of last year, been wiped off the books.

Analysts say the continued growth of the South African economy depends on several factors, amongst them the continued development of its abundant natural resources, continued private sector confidence, the productive management of labour relations, and political stability.

The country’s bustling informal economy, largely unmeasured and unregulated, has developed alongside the sophisticated industrial economy, and represents untapped potential for the country’s future economic development.

Best Prospects for Import Success

The following sectors are ones in which export oriented companies should find opportunities:

- Aerospace Manufacturing
- Agriculture (Processed & Consumer Oriented Products)
- Automotive Components and Assembly Technology
- Chemical Industry
- Electronic Commerce
- Environmental Engineering Services and Equipment
- Manufacturing Equipment & Technology
- Medical Equipment
- Power Generation and Supply
- Security & Safety Equipment
- Telecommunications/Information technology equipment, supplies and services

US Trade Prospects with Southern Africa

With the advent of AGOA and the continued buying power in the region, exports from the United States are expected to continue trending upward. From 2003 to 2008, exports from the US to SACU countries have more than doubled. Recent years have proven that figure to remain strong at 15 -20% growth per annum for the region. 2009 may provide a poorer showing due to decreased demand in the USA as well as South Africa with figures remaining static.

A free trade negotiation between the USA and SACU failed in 2006, some say for particular technical reasons around the “template” the US government was working from. The primary reasons, though, may be ideological within the “intelligentsia” and apathy in the SA business community. SA already has free trade access to the USA through the GSP and AGOA and had little to lose in the short term in negotiating open markets with the USA. Both countries would benefit substantially from an FTA in export/import and investment flows but the benefits appeared to be outweighed by short-term political considerations. The parties are expected to work on a memorandum of understanding in terms of trade and investment during 2007.

As these non-traditional trading partners come to develop a sense of opportunities in each others’ market, these fast growing trends will continue. One indication is that although the

traditional trading partners, United Kingdom and Germany, are only one-fifth and one-quarter of the size of the US economy, each is currently exporting about as much to Southern Africa as the United States. The European Union and the European Free Trade Association have FTAs with South Africa that allow a diminishing tariff schedule that will soon see almost all goods coming in duty free from Europe. This shows that the US has far to go in terms of observing opportunities in this market. Joined by the good regional growth prospects in SACU, potential will continue to be strong.

Southern Africa industrial sectors such as vehicles and vehicle components, machinery and equipment and chemicals are the largest import sectors from the Great Lakes states. These areas are competitive strengths in that region of the USA as well as having good growth in terms of buying potential in terms of SACU industrial expansion.

Exports to SACU, are becoming more important to American state economies relative to the size of the total export base and are outpacing other states. Thriving modernizing economies with increased buying power are tying more closely to export excellence in the Great Lakes region of the United States. Imports from Southern Africa to the US are mirroring this growth showing a burgeoning relationship that is presently moving positively in exponential figures.