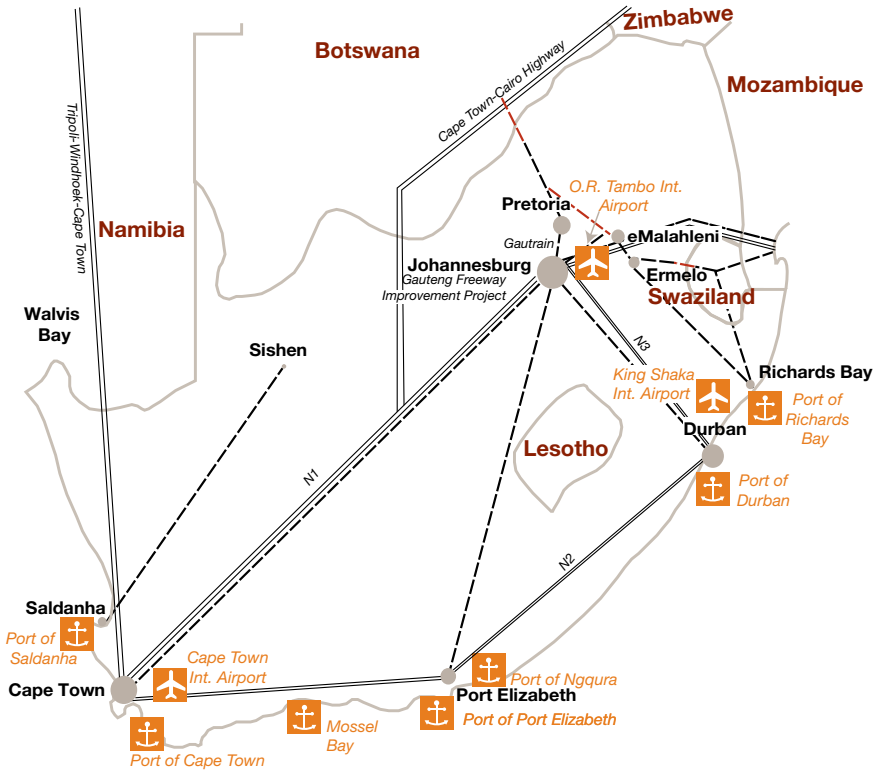
South Africa

Best performer in Africa for trade facilitation logistics

South Africa has the largest economy in Africa and is the most developed in sub-Saharan Africa. As a member of the BRICS countries, an association of five major emerging market economies, South Africa is recognised as a key emerging market along with other members of the group Brazil, Russia, India and China.[i]

Key factors supporting South Africa's position are its well-developed financial, legal, communications and transport sectors, as well as an open trade policy and a comparatively strong domestic market. South Africa is the best performer in Africa when it comes to trade facilitation logistics and among the best in terms of transport infrastructure. However, there are some obstacles, including rigid labour policies that diminish growth prospects to a mediocre level. Furthermore, South Africa faces the triple challenge of poverty, unemployment and income inequality.

To address these weaknesses cabinet has officially endorsed a programme of action, the National Development Plan (NDP). This plan represents the most comprehensive and constructive attempt at providing recommendations for redressing structural imbalances in the economy. However, there has been a loss of momentum with the implementation of the NDP due to political developments and industrial unrest.



These bubbles represent the cities of South Africa and the size of the bubbles indicates the population size of the city

Airport | Port | Future Airport | Future Port | Future Railway | Future Road | Railway | Road

Relatively low tariff rates are supportive of trade activity

More than 75% of manufacturing firms export to African countries

Average GDP growth lagging peers and projected at 3% annually until 2017

Provided it can get to grips with fundamental issues undermining business confidence, notably policy uncertainty, South Africa has the potential to establish itself as a top investment destination. As an important gateway to the African continent, it stands to benefit vastly from the extraordinary economic growth in neighbouring countries.

Economic performance

South Africa's economic growth correlates with the global economy.

South Africa has an open economy, with trade activity making up a significant component of domestic economic activity. Exports and imports accounting for 29% and 30% of domestic GDP respectively.

Exports are dominated by minerals, but there has also been an increase in manufacturing exports in recent years.[ii] There has been much debate focused on recent losses in exports as a result of more intense competition from the east and the impact of high labour costs in South Africa. South African imports, on the other hand, consist mainly of capital and intermediate goods. Tariff liberalisation undertaken since the early 1990s has been a major contributor to South Africa's strong economic growth. **Today relatively low tariff rates are supportive of trade activity**.

Trade policy is underpinned by deepening functional integration in the region, on the continent, and with emerging economies, particularly the BRIC nations. South Africa is a member of the Southern African Development Community (SADC) and Southern African Customs Union (SACU). This provides significant regional trade opportunities.

The rest of Africa is a prime export destination for South African manufacturers, according to the latest survey by the Manufacturing Circle, which showed that more than 75% of manufacturing firms were exporting to Africa.[iii]

South Africa is endowed with abundant natural resources. It is the world's largest producer and exporter of gold, chromium and platinum – 90% of the world's global platinum mineral resources are estimated to be in South Africa's Bushveld Complex.[iv]

Structural constraints have weighed on South Africa's growth momentum. Average GDP growth between 2010 and 2012 registered a tepid 3.0%, which compares unfavourably with that of its sub-Saharan African peers. The economy appears incapable of extricating itself from a rut of suboptimal growth which is projected to be around 3% annually between 2012 and 2017.

Business environment

A fairly favourable business environment supports South Africa's status as a regional economic powerhouse.

South Africa has one of the most sophisticated business environments in sub-Saharan Africa and strong state institutions, which are key to its status as a regional economic powerhouse. Importantly, the low cost of starting a business, estimated at 0.3% of per capita income, means that entrepreneurs can respond quickly to developing opportunities.

The country is acknowledged for its resilient and stable banking sector. The private business regulatory climate is also regarded as one of the most conducive in Africa.

While the general governance environment is robust, corruption is an issue, though not endemic. There are a number of initiatives and structures in place to fight it. This means that the situation is better than in most other African countries.

The tax and financial regulatory climate is robust, while the tax regime is progressive and includes a number of incentives for non-South Africans.

South Africa has long been struggling with very high crime rates, which not only pose a threat to individuals, but also impose considerable costs on business operations in the country. The impact of high levels of crime on business is clear, with 'crime and theft' frequently cited as one of the most problematic issues facing business in South Africa.

Labour

An inadequate education system, skills shortages and high unemployment are significant challenges.

The literacy rate in South Africa is fairly high at 89%, and the percentage of the population with at least a secondary education is also very robust at 70.4%. Yet, the quality of South Africa's education system rates poorly by global standards and remains a considerable obstacle to the country's attractiveness as an investment destination. South Africa's labour force is fairly well-educated and skilled in comparison to many other sub-Saharan countries.

The ratio of minimum wage to value added is 3x the average for other BRICS countries

State-owned power utility is expanding capacity that will add 17GW by 2019

Services and manufacturing have overtaken agriculture and mining in contribution to GDP

Energy

One of the biggest obstacles to growth in the country is putting its human capital to work. The labour market is relatively inflexible and lacks a robust labour relations framework. According to the World Economic Forum, although South Africa has very low non-wage labour costs (such as social insurance expenditure), the country has some of the most excessively rigid hiring and firing practices, as well as very low flexibility with regard to wage determination. **The ratio of minimum wage to value added is almost three times the average for other BRICS countries.**[v]

Energy capacity has become a government priority following the power crisis that began in late 2007.

After years of underfunding, South Africa's power sector reached a crisis point at the beginning of 2008. Power shortages and steep tariff increases have seriously damaged South Africa's economy, as well as its appeal to foreign investors.[vi]

Despite there being two large-scale 4 800MW coal-fired power stations currently under construction as well as a number of renewable energy projects, energy supply remains a major risk factor in South Africa.

Energy and utilities infrastructure has historically accounted for a small portion of total infrastructure industry value. However, this has changed since the power crisis, with energy and utilities having accounted for the largest portion since 2008.

The state-owned power utility, Eskom, is busy with a capacity expansion programme that will cost 337 billion Rand (about US$33 billion) and add 17GW of new generating capacity to the national grid by 2019.

Consumer market

Growth in purchasing power opens new opportunities in the consumer market.

South Africa's economy was originally based on agriculture and mining. But this has changed over the years with services and manufacturing now contributing the greatest share to GDP. The country's economy is reasonably diversified with key economic sectors including mining, agriculture and fishery, vehicle manufacturing and assembly, food processing, clothing and textiles, telecommunication, energy, financial and business services, real estate, tourism, transportation, and wholesale and retail trade.

South Africa's per capita GDP is high due to the sizeable and developed nature of its economy. Per capita GDP (based on purchasing power parity) is US$11 375, compared to the average of US$2 476 for sub-Saharan Africa. Real GDP per capita is expected to more than double in US-dollar terms over the coming 10 years, which will further increase

Key indicators

Population size (million, 2012)	51.2
Population growth (2012-2020, avg p.a.)	0.3%
GDP (US$ billion, 2012)	384.3
GDP growth forecast 2012-2017 (avg, y/y rate)	3.0%
GDP per capita (US$, 2012)	7 525
Global competitiveness index 2012 (global rank/144 (score 1-7))	52 (4.37)
Corp. Income Tax (CIT) rate	28.0%
Top exports	Platinum unwrought or in powder form (7.6%); Gold (incl. gold plated with platinum), in unwrought forms (excl. powder) (6.9%); Iron ores & concentrates, non-agglomerated
Logistics Performance Index 2012 (global rank/155 (score 1-5))	23 (3.67)
Global Competitiveness Index 2012 – Infrastructure (global rank/144 (score 1-7))	63 (4.13)

Physical infrastructure received substantial boost hosting 2010 FIFA World Cup

Government has budgeted expenditure of US$80bn over 3 years to boost infrastructure

the purchasing power of consumers and drive forward sectors such as wholesale and retail. Additionally, South Africa's rising black middle class will play a determining role in further shifting the country's economy from an export-oriented to a more consumption-based one.

Logistics

Logistics Performance Index

Source: World Bank

South Africa's logistics performance outperforms that of its regional peers.

The efficiency of South Africa's customs clearance procedures (i.e. speed, simplicity and predictability of formalities) is generally considerably better than its neighbours' and is amongst the best in the region.

Globally, South Africa's logistics performance is also very good with an overall ranking of 23rd out of 155 countries in the 2012 Logistics Performance Index. South Africa made progress between 2010 and 2012, improving by five ranks and now ranks between Norway and Italy.

On the African continent, South Africa is by far the best performer, followed by Tunisia (41st) and Morocco (50th).

Transport

The need to move goods to inland centres of commerce has created a transport-intensive domestic economy.

The transport sector is a key contributor to South Africa's competitiveness in global markets. The country's transport infrastructure is modern and among the most developed in Africa. **Its physical infrastructure received a substantial boost from projects associated with the 2010 FIFA World Cup**.

The air and rail networks are the largest on the continent, and the major roads are in good condition. South African port efficiency has improved considerably as a result of investment in new assets such as ship-to-shore cranes and other supporting handling equipment.

However, tariffs have remained high in comparison to global benchmarks. A re-positioning of South African ports and a reduction in tariffs could attract further transshipment traffic to and from Europe, the Americas, Asia, Australasia and both coasts of Africa.

Some 35.6% of the country's GDP is concentrated in Gauteng, which lies 1 400m above sea level and more than 500km from the nearest local port at Durban. This has resulted in very long freight corridors.

Despite its impressive credentials, South Africa's transport infrastructure also faces some challenges and it is no longer the only gateway to Africa. Because of increasing infrastructure bottlenecks hampering growth, investment has begun to bypass South Africa.

The continued absence of an intermodal solution – which usually provides the most efficient transport solution – has led to a significant increase in South Africa's truck fleet in an attempt to address freight owners' door-to-door needs for reliability and performance.

Infrastructure funding for roads is largely provided by South Africa's national government. Parastatal companies have provided funding for freight rail and port infrastructure and they also undertake infrastructure development in other sectors, while other initiatives include the government's Expanded Public Works Programme, and public-private partnerships.

For the 2012/2013 fiscal year and subsequent three fiscal years, the South African Government has adopted an aggressive new National Infrastructure Plan. **It has a budgeted expenditure of R827 billion (about US$80 billion) over the three years, beginning in the 2013/2014 fiscal year, to boost both existing and new major infrastructure projects.**[vii]

96% *of exports are conveyed by sea*

Port of Durban is Africa's busiest – making it a suitable candidate for establishing a mega port

No. 1 *South African Airways, the national flag carrier was voted best airline in Africa for 10th year in a row*

Ports

Africa's busiest port, Durban, will be extended by the area of an old airport.

South African ports are generally considered to be the gateway to southern Africa. **Approximately 96% of the country's exports are conveyed by sea**, and its commercial ports are the conduits for trade between South Africa and its southern African neighbours as well as hubs for traffic to and from Europe, Asia, the Americas and the east and west coasts of Africa.

South Africa has eight main commercial ports. Some focus almost exclusively on bulk commodities, while others serve one major industry only, such as the offshore oil industry in the case of Mossel Bay. Richards Bay has the world's largest bulk coal terminal. Durban was previously the largest container handling facility in the southern hemisphere (overtaken in recent years by Jakarta, Indonesia). Ngqura, which opened in 2009 near Port Elizabeth in the Eastern Cape, is the deepest container terminal in Africa.

Durban is Africa's busiest port. More than three out of every five containers entering or leaving the country go through this port. Durban's position in relation to the N3 highway and its high throughput volumes make it a suitable candidate for the establishment of a mega port to attract world trade.

Constraints at the Port of Durban have, however, resulted in some importers and exporters bypassing Durban in favour of ports such as Port Elizabeth, Walvis Bay in Namibia and Maputo in Mozambique. While there has been significant investment in ship-to-shore cranes and straddle carriers at Durban, South Africa remains behind its global competitors regarding port productivity.

Comparatively high tariffs payable by vessels calling at South African ports have also contributed to lower volumes and shorter port stay times. Although port capacity is not the biggest constraint in operations, operational efficiencies, port charges, customs procedures and inland linkages all serve to constrain port performance.

Port infrastructure development is currently being prioritised, although investment is also required to enhance performance and efficiencies. Transnet – South Africa's state-owned transport company and main operator of ports, railway and pipelines – is focused on expanding handling capacity at the main container ports of Durban, Cape Town and Ngqura.

With regard to long-term growth in container terminal capacity, Transnet is looking beyond current investment programmes. A comprehensive container strategy is being developed, including both port capacity and inland terminals.

Expansion of the Port of Durban will include the conversion of an 800-hectare site, including the old Durban International Airport, into a dig-out port with a planned handling capacity of approximately 9.5 million TEU. The first phase is expected to be operational by 2019, with the project scheduled for completion by 2050.[viii]

Air transport

South Africa has an excellent infrastructure of airports, with airports in all major cities. These include the three main international gateways of OR Tambo in Johannesburg with a capacity of 21 million passengers a year, Cape Town International Airport (14.5 million) and King Shaka International Airport in Durban (7.5 million).

Capacity is not a major issue within the South African air transport system and the state of infrastructure and associated services is good. In fact, over-capacity in the airport sector has resulted in airlines paying higher airport charges. Airports have been significantly upgraded in recent years, mainly in preparation for the 2010 FIFA World Cup.

South African Airways (SAA) is the national flag-carrier which continues to hold considerable aviation market share in Southern Africa and has considerably expanded the number of African destinations to which it now flies. In 2012, it was voted the best airline in Africa for the 10th year in a row by UK global aviation research organisation Skytrax.

Rail infrastructure represents **80%** *of Africa's total*

89% *of freight relies on the road network*

Rail

Progress in the rail sector has been impeded by decades of under-investment.

The country's rail infrastructure, which connects the ports with the rest of South Africa, represents about 80% of Africa's total. The country's rail system is significantly more developed than those in the majority of other emerging markets and more than two million people travel by train every day within South African cities.

South Africa's extensive rail network – the 14th longest in the world – connects with other networks in the sub-Saharan region and neighbouring Namibia, Botswana, Mozambique, Zimbabwe and Swaziland.

The Gautrain, Africa's only high-speed train, was opened just days before the start of the 2010 FIFA World Cup. Connecting Johannesburg, Pretoria and OR Tambo International Airport, it transports about 40 000 people every day.

In terms of freight rail, South Africa's rail network developed historically in support of the growth of the mining sector and other heavy industries, as well as large-scale agriculture and forestry.

South Africa is currently feeling the effects of almost 30 years of under-investment in its rail system. The average age of the fleet is 30 to 40 years (with a maximum life span being 46 years) and 51% of the fleet soon due to be retired.

There has been significant investment in the rail sector and infrastructure has considerably improved, although freight densities and performance still require attention. There are, however, already major limitations on the network.

In the next ten years, system limitations will become more serious, especially on key corridors, including the coal line to Richards Bay. The network is already experiencing major operational, institutional and technical constraints. Rolling stock failures, signalling failures, security and power outages (including power outages as a result of cable theft) are major issues. The South African rail industry will only become a cost-effective alternative to road transport if the operational efficiencies of freight rail are increased to deliver a predictable and reliable service at lower cost than competing road freight offerings.

Improving the country's rail network is one of the government's top priorities, with projects aiming to increase freight rail volumes and increase market share of container traffic. Significant investment is being made in rolling stock as well as other equipment such as signalling equipment, infrastructure, processes and improving efficiencies.

Road

Long-term failure to maintain roads has resulted in the network becoming increasingly unable to cope with rising demand.

South Africa's road network is the longest of any African country and about 89% of the country's freight relies on this mode of transport.[ix] About 19% of the national roads are toll roads. While 90% of the national network is in good to excellent condition, and metropolitan roads are in satisfactory condition, the paved provincial road network has deteriorated significantly over time.

The major challenge for South Africa's road network is that 78% is estimated to be older than its original 20-year design life. There is a massive backlog in road maintenance and rehabilitation. Despite increased funding for roads, resources allocated to roads infrastructure remain inadequate for eliminating the huge backlogs in maintenance over the next five to ten years.

Recognising the constraints and imbalances in the existing transport system, in 2007 the Government initiated a project to develop the National Transport Master Plan 2050 to guide the development of a multimodal transportation system to meet South Africa's long-term transport needs. Amongst other initiatives, the plan will prioritise a major shift from road to rail transport for both passenger and freight traffic.[x]

Conclusion

Based on our analysis, we've assessed the investment potential for South Africa's transportation and logistics sector as shown in the graphic below.

South Africa – Investment potential assessment

1. Demographics and resources
2. Economics
3. Business environment
4. Trade and logistics
5. Transport and infrastructure

Key:

- Attractive
- Average
- Unattractive

- Strong improvement expected
- Some improvement expected
- Stagnation/marginal change expected

End notes

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