Economic News Flash

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International Highlights

United Nations Conference on Trade and Development (UNCTAD) launched a new index for countries to measure economic potential better

UNCTAD launched on 20 June a new generation Productive Capacities Index (PCI) to help countries make more accurate diagnostics and measurements of their economic performance. The index aims to shape more effective policies and their implementation.

According to UNCTAD, the PCI measures countries' abilities to produce goods and deliver services, which are critical for international trade and global production value chains. The PCI is available through dedicated publications, manuals, resources and tools. It maps the productive capacities of 194 economies and provides a better measure of development than other traditional benchmarks such as gross domestic product (GDP). It's multidimensional and measures economic inputs and potential as opposed to outputs. UNCTAD defines productive capacities as "the productive resources, entrepreneurial capabilities and production linkages that together determine the capacity of a country to produce goods and services and enable it to grow and develop. The index maps over 42 indicators to measure variables such as Natural capital, human capital, energy (electricity), ICTs, structural change, transport, private sector and institutions, which are mapped using 42 indicators.

Why the new index matters

The PCI is a powerful and practical tool to measure productivity and economic output. Whilst GDP is a widely used measure of economic output, there is broad consensus on its shortfalls as a comprehensive measure. The PCI offers an improvement and provides a toolkit for policymakers to plug development gaps. The UN Secretary-General António Guterres noted that the index would assist policymakers to "move beyond GDP and measure the things that really matter to people and their communities. Productive capacities are key to long-term development by measuring the economy from an input perspective across eight core components of productive capacities." With the advent of big data and better computational capabilities, we predict rankings not aligned to GDP as more techniques that measure actual productive capacity are adopted.

FDI faces downward pressure in 2023: UNCTAD

Global foreign direct investment (FDI) will face downward pressure in 2023 amid a challenging business environment and following a slowdown in deals over the first months of the year, according to UNCTAD'S annual World Investment Report. Following last year's 12% drop in international investment flows - which encompasses greenfield FDI, mergers and acquisitions (M&A), and project finance - Unctad's director of investment and enterprise, James Zhan, expects 2023's volumes to be "either flat or see a slight decline" However, renewable energy has become the world's biggest sector for greenfield FDI, UNCTAD stresses that much of this growth has been concentrated in developed countries. The report notes that 30 developing countries have not registered a single utility-sized international investment project in renewables.

Why FDI trends are important

According to UNACTD, slowing economic and trade growth, combined with high-interest rates, inflation and debt levels, contributed to the decline in FDI globally, including in South Africa. Preliminary FDI Markets data from January to May shows that global greenfield FDI project numbers were down 26% compared to the same period in 2022, while capital expenditure was down 14%. Additionally, policy shifts noted in UNCTAD's report suggest an incentive-driven policy environment emerging. The number of government policies favouring FDI increased more than one-third last year to reach 102. These include investment facilitation initiatives, climate-related incentives and the opening of new sectors to FDI. As such, there is scope for all spheres of government to re-look at their incentive mechanisms as well as the regulatory environment to maintain South Africa's FDI competitiveness. The report also states that, 37 countries which have established stringent screening regimes account for 68% of FDI stock in 2022. Further, last year's number of M&A deals valued at more than $50m that were withdrawn because of regulatory or political concerns increased by a third (21 deals) and their total value increased by 69% to $70bn. We recommend the adoption of screening of FDI on national security grounds. Screening processes are important to eliminate unfavourable projects.

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Goldman Sachs publishes economic projections till 2075

By 2050, Goldman Sachs believes that the weight of global GDP will shift even more towards Asia. While this is partly due to Asia outperforming previous forecasts, it is also due to BRICS nations underperforming. Notably, Indonesia will become the fourth biggest economy by 2050, surpassing Brazil and Russia as the largest emerging market. Indonesia is the world's largest archipelagic state and currently has the fourth-largest population at 277 million.

Projecting further to 2075 reveals a drastically different world order, with Nigeria, Pakistan, and Egypt breaking into the top 10. A major consideration in these estimates is rapid population growth, which should result in a massive labour force across all three nations. Meanwhile, European economies will continue to slip further down the rankings. Germany, which was once the world's third-largest economy, will sit at ninth behind Brazil. It should also be noted that China, India, and the U.S. are expected to have similar GDPs by this time, suggesting somewhat equal economic power. As a result, how these nations choose to engage with one another is likely to shape the global landscape in ways that have far-reaching implications and are mapped using 42 indicators.

Why the focus on Goldman Sachs' economic projections

By 2075 the GDP of SA will be US$3.3 trillion; comparably, the GDP of Ethiopia will be US$6.6 trillion, Nigeria US $13.1 trillion, and Egypt US$10.4 trillion. Goldman Sachs states that with the appropriate policies and institutions, Nigeria(5) and Egypt (7) could be among the world's largest economies. The report projects SA's GDP to grow at its fastest pace, 3.9 % between 2030-2039. Over the estimated horizon SA will not grow above 2.5% per annum. There is a critical need to relook at SA's policy trajectory to mitigate against these projections.

Regional Highlights

The African Export-Import Bank and the UN Economic Commission Agree on Electric Vehicle Special Economic Zone in SADC.

The African Export-Import Bank and the UN Economic Commission for Africa signed an agreement with two SADC member states, the Democratic Republic of Congo (DRC) and Zambia to help establish special economic zones for the production of electric vehicles (EV) and related services. The two institutions will help set up an operating company, which will develop the free zones in both the DRC and Zambia. The planned zones will be dedicated to the production of battery precursors, batteries and EVs. The plan aims to exploit the two African countries' massive endowment of the natural resources used in batteries and other green technologies. The benefits of SEZs include upgrading the local industrial base as a vehicle for FDI, helping with the innovation agenda, knowledge creation and sharing.

Why the EV SEZ agreement is important

South Africa and the Gauteng City region have positioned themselves to be continental leaders in EV. The planned SEZ will exploit the resources offered by the two countries. The DRC accounts for about 70% of world cobalt mine production, according to the US geological survey. Collectively, Zambia and the DRC account for 11% of global copper supply Both Zambia and DRC are endowed with raw materials that are essential for green mobility. The setting up of an SEZ will deepen the value chain of Electric vehicle production while also spatially shifting production into Africa. Furthermore, if successful, this initiative spread manufacturing concentration of manufacturing across the continent. In turn, this will increase value-added intra-Africa trade in the continent. Notably, at the end of 2020, there were 237 SEZs in Africa in 38 of the continent's 54 countries. South Africa, with its advanced auto industry, should see this as a sector to increase economies of scale in the SADC region for auto manufacturing.

AFCFTA Related News

Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA) calls for establishing new monetary mechanisms to boost trade with Africa.

Head of Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA) Hossein Selahvarzi has called for forming innovative monetary mechanisms in order to expand trade ties with Africa. Selahvarzi made the remarks in a meeting with Nigeria's Ambassador to Tehran, Yakubu Santuraki Suleiman, the ICCIMA portal reported. Iran pointed out transportation and banking problems as the two main obstacles in the way of developing business relations between Iran and African countries. ICCIMA emphasised their interest in doing business with Nigeria and Africa as a whole.

Economic Commission For Africa Calls For Stronger Pipeline Of Bankable Infrastructure Projects.

Vera Songwe, UN Under-Secretary-General and Executive Secretary of the ECA, Economic Commission for Africa said the AfCFTA is "expected to significantly increase traffic flows on all transport modes: Road, Rail, Maritime, and Air," but that such gains will only be optimized if the AfCFTA is accompanied by the implementation of regional transport infrastructure projects. The ECA estimates that The African Continental Free Trade Area (AfCFTA) is expected to increase intra-African trade in transport services by nearly 50 per cent. According to ECA, roads currently carry the lion's share of freight in Africa. "AfCFTA provides an opportunity to build Africa's railway network. It would increase intra-Africa freight demand by 28 per cent; demand for maritime freight will increase the most." The research findings highlight that AfCFTA requires 1,844,000 trucks for bulk cargo and 248,000 trucks for container cargo by 2030. This increases to 1,945,000 and 268,000 trucks, respectively, if planned infrastructure projects are also implemented.

Why the AfCFTA matters

A unified monetary system will enable seamless trade across the AU. However, there is a need to attend to other constraints, such as weak infrastructure, restrictive non-tariff barriers, and increased value-added production on the continent. Additionally, it must be noted that rising geoeconomic and multidomain tensions have led to increased calls to move away from US-based monetary mechanisms to facilitate global trade.

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Domestic Highlights

Government and organised businesses agree on a partnership to remove obstacles to inclusive economic growth and job creation

The meeting saw CEOs of South Africa's largest companies committing to contributing considerable skills and resources and working through relevant partnership structures to address key priorities. The three immediate priority interventions agreed on are;

- Energy,
- Transport and logistics; and
- Crime and corruption

A joint statement by The Presidency, Business Unity South Africa (BUSA) and Business for South Africa (B4SA) said that various government departments, relevant state-owned enterprises and other appropriate structures will collaborate on clearly defined initiatives with organised businesses, represented by numerous CEOs under the oversight of B4SA, the implementation platform for BUSA. The work will be directed through the Government-led National Energy Crisis Committee (NECOM), National Logistics Crisis Committee (NLCC), and Joint Initiative to Fight Crime and Corruption (JICC).

Why this public-private collaboration is important

Business for South Africa (B4SA) has already established three priority workstreams to work closely with Government in implementing the urgent necessary actions. "B4SA's three priority workstreams are fully mobilised and, through joint collaboration and strategic partnerships with Government, are focused on articulating and delivering a critical path to recovery, building societal and business confidence.

Energy, transport and Logistics are priority sectors under **GGT2030**. Therefore, it's important that GGDA familiarise itself with the roles of the three joint committees. Notably:

- **Energy:** Advance collaboration, through the National Energy Crisis Committee (NECOM), to end load shedding and achieve energy security.

- **Transport and logistics:** Stabilise and improve operational performance on key trade corridors, mobilising private sector resources and accelerating the implementation of the **National Rail Policy** to close the capacity gap, align and integrate business efforts into the **Government's Freight Logistics Roadmap.**

- **Crime and corruption:** Safety and security is a priority for Gauteng provincial government as announced by the Premier in his SOPA as well as attendant initiatives that have been implemented since.

Draft Employment Equity Regulations: the proposed setting of sector EE targets by the Employment and Labour Minister

On 12 May, Employment and Labour Minister T.W Nxesi published a notice in which he invited the public to make submissions on the setting of the proposed sector EE targets in terms of the amended EE Act. The Draft EE Regulations 2023 for public comment was giving the public 30 days to comment.

In terms of Section 15A of the amended Employment Equity Act, 2023, the Minister may, after consulting the relevant sectors and with the advice of the Commission for Employment Equity (CEE), for the purpose of ensuring the equitable representation of suitably qualified people from designated groups at all occupational levels in the workforce, set numerical targets for any sector or part of a sector.

Why the proposed sector EE targets matter

The list of economic sectors to be subjected to new EE Regulations is grouped as follows:

Agriculture, forestry and fishing; manufacturing; mining and quarrying; construction; financial and insurance activities; transportation and storage; information and communication; water supply, sewerage, waste management and remediation activities; electricity, gas steam and air conditioning supply; human health and social work activities; arts, entertainment and recreation; real estate activities; professional, scientific and technical activities; wholesale and retail trade; repair of motor vehicles and motorcycles; accommodation and food service activities; public administration and defence; compulsory social security; education; administrative and support activities. **Whilst facilitating projects, the GGDA should be aware of the pending legislative changes.**

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Independent transmission system operator issued with a licence to operate.

The regulator has approved that the National Transmission Company of South Africa (SOC) Limited(`NTC') be issued a licence to operate a transmission system within the national boundaries of the Republic of South Africa. This announcement follows the 2019 State of the Nation Address, where President Cyril Ramaphosa announced that Eskom Holdings SOC Ltd would be unbundled into three wholly owned entities: Generation, Transmission and Distribution.

The NTC is envisioned to be an independent transmission system operator incorporating, inter alia, the currently non-licensable but integrated functions of network provision, system operation and system planning. According to NERSA, the NTC is responsible for ensuring grid stability, to this end, it is allowed to buy and sell power, but not for profit. The Energy Regulator approved and issued generation licence to 6 preferred bidders of the Department of Mineral Resources and Energy's (DMRE's) Renewable Energy Independent Power Producer Procurement Programme (REIPPPP); The six preferred bidders for all Solar Photovoltaic (PV) technology include:

- Doornhoek PV (Pty) Ltd;
- Boitumelo Solar Power Plant (RF) (Pty) Ltd;
- Kutlwano Solar Power Plant (RF) (Pty) Ltd;
- URSA Energy (RF) (Pty) Ltd;
- Antlia Energy (RF) (Pty) Ltd and
- Ngonyarna Solar (RF) (Pty) Ltd.

Why the NTC license matters

According to the 2023 UNCTAD World Investment Report, renewable energy has become the world's biggest sector for greenfield FDI. Unctad stresses that much of this growth has been concentrated in developed countries. The report notes that 30 developing countries have not registered a single utility-sized international investment project in renewables. This is an affirmation of South Africa's alignment with global FDI developments as it moves to address its energy challenges

Old Mutual making headway in building a bank into its infrastructure

The insurance and financial services company plans to build a bank and has already spent R1.2 billion towards this from the R1.75bn its board approved for the project. The company explained that their retail bank will be different as their concept is to build a "cloud-native bank" from the "ground-up", using software-as-a-service, artificial intelligence and machine learning technologies.

The technology would allow the group to do financial processes that they were not previously able to and would allow the bank to differentiate itself in the market by cost.

The bank would have a much lower operating cost than traditional banks. The target date for the launch of the bank is 2024

Why the Old Mutual bank is important to observe

South Africa's retail banking sector is dominated by five JSE-listed banking groups, however, the entry of new banks to the market is changing the banking landscape. Globally, the industry is increasingly competitive leading to decreasing bank charges, particularly on entry-level accounts. Banks are increasingly investing in fintech, digital banking and focusing on product customisation to retain and attract customers. As Gauteng moves forward with its resolution to form a State-owned bank there is an opportunity for the state to leap frog its ambitions by adopting these new business models in order to be competitive and market ready while keeping operating costs low.

New players do not have the geographical footprint of established banks, but their digital platforms allow them to meet consumers' demand for affordable bank services that are faster and more convenient than traditional banking". This is the market that Old Mutual is tapping into digital banking.

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Western Cape Announces New Economic Growth Strategy

On July 2024, the Western Cape government launched their economic growth strategy, titled the Western Cape Growth for Jobs (WCG4J). This is noted as a response to sluggish economic performance in the province and the country.

Why must we observe the WCG4J

The strategy unveiled by Western Cape Premier, Alan Winde, intends to decouple the province's growth trajectory from that of the rest of the country. The province aims to achieve this by enabling the private sector to be the engine of job creation.

The province believes that if the private sector has access to the energy, water, infrastructure, skills, and technology they need to grow and succeed, then their vision will be realised. If successful, by 2035, the Western Cape will be a trillion-rand economy from the current R650 billion and will increase the number of people employed by 600 000 from 2.7 million to 3.3 million. It must be noted that the Gauteng economy is currently R1.7 trillion and employs 5 million people. As such, based on WC4J, the Western Cape Government, contrary to popular opinion, does not project the economy of the western cape in 12 years' time to be larger than Gauteng's current economy; this must be understood if successful as a mechanism to greatly boost South Africa's global competitiveness and deepen our local labour market.

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