

## Weekly Risk Alert



Frans Cronje

*This week's Risk Alert highlights the risks associated with the United States' ongoing review of its trade relationship with South Africa.*

*We argue that last week's State of the Nation Address (SONA) failed to put forward a coherent plan to deal with SA's deep economic problems.*

*Two such problems include SA's stubbornly high unemployment and lower manufacturing production output, both of which are discussed here in some detail.*

### *US reviewing SA's trade standing*

This issue is becoming a major risk. Two reviews are now in progress – one relates to **intellectual property (IP) rights protections** and the second to South Africa's status as a developing nation under the **General System of Preferences (GSP)**. Appreciate the context of SA's voting record at the United Nations, diplomatic support for Iran, backing China on trade disputes, instigating anti-IP moves globally, and the recent tripartite alliance march to the US embassy, where protestors chanted '**death to America**'.

Our advice, regardless of the assurances of diplomats in Pretoria, is that aspects of SA's **preferential trade access to the US may in time be revoked** if the SA government does not move to correct its property rights and diplomatic trajectories. Consider that **6.9% of SA total exports** (R89.5 billion) went to the US in 2019.

### *Unemployment*

Data released last week left SA's official unemployment rate unchanged at **29.1%**. Developing economies average an unemployment rate of 8.1%. The y/y figures revealed an increase in unemployment numbers of 587 000 to **6,7 million**. Among people **under the age of 24** the effective rate of unemployment continued to be **over 50%**. We expect these figures to increase. Growing joblessness will likely translate into greater levels of populist politicking and protest action.

### *Deindustrialization*

Data released last week showed a **1.3% reduction in annual manufacturing production volume** for 2019 compared to 2018. This followed a decrease of 2.1% in 2018. The dip was expected given load shedding, policy uncertainty, general production cost increases, union intransigence, and weak domestic demand. The dip is also in line with the **longer-term deindustrialisation** trend that has seen manufacturing contribute half as much to GDP today as was the case 20 years ago. Expect that trend to continue with far-reaching implications: from rising unemployment, and declining technological competitiveness, to depressed exports and balance of payments numbers.

*Property funds/ developers' exposure to EWC:* The extent to which **local property developers and funds are exposed to EWC** is becoming more apparent. Such funds/developers run the risk both of **direct expropriations and indirect custodial and regulatory takings** (please contact us for an explanation of the difference). We sense an appetite within the government and the ANC for such takings. Many in the local industry seem unaware and poorly prepared. The industry may find itself horribly squeezed between populist politicians on the one side and investors on the other.

*SONA overall:* Once the fluff is cleared away, the only significant, firm, and ready-to-action policy positions taken were in favour of **EWC** and **NHI**, both of which will undermine competitiveness and investment. The **lack of an overarching recovery strategy in the SONA** is extraordinary given the social and economic position of the country and inclines us further to the view that **no workable economic recovery plan exists in the ANC** or the government. Our considerable backchannel efforts at discovering such a plan have come up empty.

*SONA IPPs:* Proposals made on more room for IPPs are sensible in theory but must still pass through **considerable policy, legislative, and regulatory hurdles**. There also remains **ideological hostility to IPPs** in influential corners of the Cabinet and the ANC. We urge caution on thinking that IPPs will be presented with the space and support to resolve SA's energy supply constraints.

#### Talk to us

Audio commentary expanding on the points raised in this note is available via our WhatsApp service and for download on the CRA website. Please be in touch with us directly if you wish to discuss these or any other points.

**Frans Cronje**, *Director, Centre For Risk Analysis*

**Bheki Mahlobo**, *Research Assistant, Centre For Risk Analysis* | [bheki@cra-sa.com](mailto:bheki@cra-sa.com)