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Economic Report South Africa 2020

Executive Summary:

During the year 2020, South Africa faced numerous challenges and was a recipient of International Monetary Fund (IMF) funding for the first time since 1994. The USD 4.3 billion loan will be used to fund corona virus interventions and not for the public finance budget, however it is a growing reality that South Africa's weak economic growth over the past years make it unable to build on reserves to respond in a crisis. The existence of inefficient reforms have led to declining social outcomes over the years. South Africa's fiscal crisis is at least as much a problem of slow growth as it is of over-spending. The disconnection between the slow rate at which the economy has grown and the fast rate at which public spending has grown over the last decade has itself helped slow down growth.

South Africa's economy contracted by 7%[1] in 2020. This is the largest contraction in nearly 90 years. Statistics South Africa has estimated that South Africa's gross domestic product shrank already 2% in the first three months of 2020, the third straight quarter of economic decline. The contraction for 2020 comes on the heels of contractions of 1.4% and 0.8% in the fourth and third quarters of 2019, respectively. The decision to seek IMF support was made decisively and although it divided many constituents it was a step in the right direction, notwithstanding the need for deeper and more meaningful reforms. Addressing structural impediments to growth is still proving challenging. Growth has been constrained by uncompetitive product and labour markets, governance weaknesses, rigid prices and wages, and inefficient state-owned industries. Some policies have aimed to increase competition, but lack of policy consensus has hindered overall progress.

Switzerland's economic cooperation and development in South Africa has gone from strength to strength during 2020, achieving positive results on many fronts. The immense pressure on the economic and financial stability of the country emphasised the value of Switzerland's economic development cooperation programmes. These include the start of new projects in areas such as skills development, intellectual property policy support, financial markets reform, municipal infrastructure development, greening the economy through increased resource efficiency in industrial parks and value chain development in fields ranging from natural oils to e-waste. The partnership between the two countries has been enhanced with the approval of a new Country Strategy for the period 2021-2024 which will avail CHF 55 million for development programmes in the country.

[1] http://www.statssa.gov.za/?cat=30

1. Economic problems and issues

It has become evident that to a certain degree, the coronavirus (Covid-19) pandemic disrupted economic activity in 2020. South Africa had not grown even before the pandemic started and when the pandemic hit, it was a significant step backwards. The South African Government therefore decided to respond to the pandemic in a phased manner. The first phase aimed to preserve the economy through a set of immediate, targeted and temporary responses; the second phase involved a plan to recover from the immediate effects of the crisis by supporting investment and employment; and finally the third phase aimed to position the economy for the faster growth needed to restore the country's long-term prosperity. The COVID-19 fiscal package identified ZAR 500 billion (CHF 32 billion) in economic relief. It included ZAR 190 billion in main budget spending (of which ZAR 145 billion was allocated immediately) to protect lives and support livelihoods, ZAR 70 billion was allocated in tax policy measures and this was followed by a ZAR 200 billion loan guarantee scheme to support short-term economic activity. In this last phase nearly ZAR 12 billion in debt relief was extended to over 124 000 small and medium-sized enterprises by the banking sector. Commercial banks participated by granting 90-day payment holidays to more than 2 million clients for relief totalling ZAR 16.5 billion.

In order to rectify the economic decline deemed to be as a result of the stringent lockdown measures which were introduced in the 1st quarter of 2020, President Ramaphosa introduced The South African Economic Reconstruction and Recovery Plan[2]. The economic recovery plan focuses mostly on job creation, infrastructure, energy and driving industrial growth. The President was seeking to unlock more than ZAR 1 trillion (CHF 65 billion) in infrastructure investment over the next four years, and ZAR 100 billion (CHF 6.5 billion) was committed over the next three years to create jobs through public and social employment as the labour market recovers. The infrastructure investment drive and the industrialisation-through-localisation strategy are its central pillars. Localisation will be pursued aggressively in industries with capacity and where South Africa has a comparative advantage. Industrialisation will prioritise small, micro and medium-sized enterprises, import-replacement activities, exporters, construction, agro-processing, healthcare, basic consumer goods, capital goods (including equipment and industrial inputs for infrastructure projects), automobiles, rolling stock, mineral beneficiation, special economic zones, township and rural enterprises, light and fast consumer goods manufacturing, and also in revitalising dormant production infrastructure.

In September 2020, Statistics South Africa (Stats SA) announced that the economy lost 2.2 million jobs in the second quarter of 2020 – during the first few months of lockdown amid the Covid-19 pandemic. The National Treasury also warned that the escalating debt of the country was superseding those of other countries in the emerging markets. Gross debt increased from 65.6 per cent to 80.3 per cent of GDP for the year 2020/21. The consolidated budget deficit was revised to a historic shortfall of 14 per cent of GDP in 2020/21. According to the National Treasury's assessment, based on current projections for gross domestic output (GDP), it is only expected to return to pre-pandemic levels in 2024. By mid-2024, the South African population will be approximately 6% larger than it was in 2019. Lower levels of employment mean that poverty will rise even more and that income inequality will rise yet further. It will also mean fewer people paying personal income tax, implying an even greater burden on the few who do. From this perspective, the collapse of governance in South Africa over the past 15 years represents a massive shock to the country's productive capacity. This is most evident in the state-owned companies. It is true that under President Cyril Ramaphosa, there has been some improvement in some dimensions. But this has been too limited where it has happened and it is offset by worsening uncertainty elsewhere (land reform, proposals to nationalise the Reserve Bank).

Employment

The South African government plans to roll-out an employment stimulus of ZAR 100 billion over the next three years, in order to create 800 000 fully-funded job opportunities. The post-lockdown recovery in the labour market continued in the fourth quarter of 2020 after 2.2 million jobs were lost during the strict lockdown in second quarter. More people re-entered the employment market in the fourth quarter which

[2] https://www.gov.za/sites/default/files/gcis_document/202010/south-african-economic-reconstruction-and-recovery-plan.pdf

meant that the labour force participation rate increased from 54.2% to 56.6%. The official unemployment rate consequently rose to a record 32.5% in Q4 2020[3]. Tensions with public sector workers also played out in 2020 as the South African government enforced a decision to renege on the final year (2020) of its 2018 wage agreement with unions, and effectively put in place a nominal public sector wage freeze over the next three years. One of the positive reforms outlined in the economic recovery plan however, was plans to revise the country's critical skills visa list[4], a key source for attracting foreign investment and growing the country's skills base. Growing the economic inclusion of women and young people is also a central tenet of growing the skills base, and was outlined in the economic recovery plan.

Trade and Investment

There is consensus that South Africa has battled low levels of investment. The various downgrades over time, and the increased cost of borrowing have negatively impacted the challenges of the South African economy. This has also affected investment plans and the affordability of projects. The infrastructure drive and the investment drive under President Ramaphosa remain crucial for attracting new investment into the country.

In his state of the nation address (SONA) earlier in 2020, President Ramaphosa outlined the following priorities for addressing policy uncertainty: expediting allocation of broadband spectrum to increase competition in telecommunications; finalizing the mining legislation (mining charter) to reduce investor uncertainty; providing clarity on land reform to allow for higher contribution of agriculture to growth, and encourage investments supporting a green recovery; injecting greater predictability as regards power availability and creating investment opportunities in the electricity sector by accelerating the implementation of Eskom's turnaround; opening the transport industry to the private sector; and increasing competition by supporting the introduction of SME's into the value chain.

At the end of 2020 over 50 companies made commitments (to the value of ZAR 110 billion) at the South African Investment Conference (SAIC), including the Swiss company- Nestlé, which announced further investments at three factories based in South Africa. These commitments constitute an important contribution to the South African Economic Reconstruction and Recovery Plan. The country is halfway to meeting its target of achieving ZAR 1.2 trillion (CHF 77.5 billion) in investments over 5 years, and the 2020 SAIC did not only push for more investment, but also took stock of the progress in implementation. There was also a greater regional focus at the SAIC 2020, with a session hosted by the Minister of Trade Industry and Competition, Ebrahim Patel, on the African Continental Free Trade Agreement (AfCFTA), which provided less of an emphasis on South Africa as an attractive investment destination but mainly as a gateway into Africa.

Sectorial and specific developments

For 2020 as a whole, many of the country's economic sectors experienced the worst overall annual contractions on record. In December 2020, mining production increased marginally by 0.1% year on year, this marked the first annual increase since February 2020. Manufacturing production increased 1.8% year on year in December as well, which was the first annual increase since May of 2019. For the full 2020, year manufacturing output was 11% lower than in 2019, a performance not seen since the height of the global financial crisis. There was no doubt that momentum was lost in 2020 however indications point to a marked improvement in 2021.

State Owned Enterprises (SOE's)

The South African government has continued to defend its transfers to state owned enterprises in order to keep their operations going, even as it faced some of its harshest fiscal challenges. The government communicated that it will maintain these budgeted transfers in the financial year 2020/21 in order to service their debt for which the government provides guarantees. The government has also maintained that it will continue to condition these transfers on improvements in revenue generation, cost reductions and improvement in governance processes.

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[3] http://www.statssa.gov.za/publications/P0211/P02114thQuarter2020.pdf
[4] https://www.gov.za/sites/default/files/gcis_document/202102/44164gon96.pdf

Rating agencies' assessments

In a decision that was generally expected, the credit ratings service Moody's downgraded South Africa's local and foreign currency debt one notch below investment grade from Baa3 to Ba1 (junk status) in March 2020, and on the first official day of the country's 21 day lockdown period following the Covid-19 measures. The anticipation of the Moody's decision, the issues with the power utility Eskom, and more recently the Covid-19 pandemic created the perfect storm and placed an unprecedented burden on the country not seen since the beginning of its democratic journey 25 years ago. Moments after the decision was announced, the SA finance minister, Tito Mboweni, issued a sober and concerned statement on behalf of the government expressing their regret at Moody's decision and also outlining what this means for South Africa. After having changed the outlook from stable to negative in November 2019, Moody's was now the last of the big three rating firms to downgrade South Africa to sub-investment grade. Standard and Poor as well as Fitch had already downgraded the country in 2017. The consequences of the Moody's downgrade meant that South Africa exited the FTSE World Government Bond Index (WGBI), and given that 37% of the owners of South Africa government bonds were non-residents at the time, the impact of no longer being investment grade led to investment outflows.

Following the Investment Conference (the day after) the ratings agencies announced their scheduled ratings. Both Fitch and Moody's, already had South Africa on a sub-investment grade credit rating and on a negative outlook. The decision then by rating agencies Fitch and Moody's to downgrade South Africa further into junk status was sobering. Moody's lowered the country's credit rating one notch to BA2 and maintained a negative outlook. It cited an expected weakening of South Africa's fiscal position as part of the reasons for its decision. Meanwhile, Fitch downgraded the country from BB to BB- with a negative outlook, highlighting high and rising government debt, coupled with weak growth and exceptionally high inequality. However, Standard & Poor Global kept its ratings unchanged at BB- for its foreign currency rating and BB for its local currency, both with a stable outlook.

Outlook for Switzerland

President Ramaphosa has introduced various policy reforms throughout 2020 to tackle South Africa's post pandemic recovery. South Africa continues in its quest to deliver economic growth similar to its peers whilst addressing the country's poverty, inequality and unemployment dynamics. This is no easy task. The President has appointed various advisory panels (investments envoys to attract investment, land reform advisory panel) to assist him in achieving this. This however has not lifted market sentiment to the levels one would have expected. For investors like Switzerland, South Africa is part of a mixed bag of opportunities on the African continent with countries like Mauritius, Kenya, Rwanda etc. all presenting compelling investment cases. Most fundamental for Swiss investors is the ideological backlog currently visible in South Africa on important issues such as investment protection, trade, intellectual property and the application of international law. While the South African Economic Reconstruction and Recovery Plan proposes great strides, the momentum has to be ongoing for its investment case to succeed in the global boardroom.

2. International Economic Relations/ Agreements

SACU - EFTA

The 6th round of SACU-EFTA negotiations were concluded in Botswana in December 2019. South Africa has been involved in negotiations in the revision of the SACU-EFTA Free Trade Agreement (FTA), while the first round of renegotiations took place at the end of January 2018. The SACU-EFTA FTA was the first agreement that the Customs Union had with an outside party. As a result, this agreement holds a special place within SACU. Imports from SACU have an average growth of 1.5% over the last five years with exports growing on average by 4.3% over the same period. The agreement distinguishes between Industrial Products, Processed Agricultural Products and Basic Agricultural Products. The recent discussions allowed important clarifications on these and other important areas, such as sustainability and labour provisions. The negotiations under review of the FTA are ongoing.

African Continental Free Trade Agreement (AfCFTA)

The Agreement establishing the African Continental Free Trade Agreement (AfCFTA) entered into force on 30 May 2019. The start of trading under the AfCFTA Agreement was scheduled for 1 July 2020 however was delayed due to the Covid-19 pandemic's disruption of government functions. Following a decision by the Heads of State and Government at the 13th Extraordinary Session of the Assembly of the African Union (AU), the AU Assembly decided on 5th of December 2020 to launch trade on 1 January 2021 with state parties under the AfCFTA. The decision on the 5th of December therefore allowed state parties (which refers to members that have ratified the agreement, currently only 35 African countries) to begin trade, although negotiations (on tariff concessions, rules of origin, trade in services, phases II and III of the AfCFTA) are still ongoing and the aim is to complete these negotiations by mid-2021.

South Africa is part of other regional trade blocs such as the Southern African Development Community (SADC), but because of its scope and scale the AfCFTA represents bigger opportunities for trade. South Africa is currently the largest intra-Africa exporter on the continent, accounting for 34% of the intra-continental exports and 20% of intra-African imported goods coming from the continent.[5] Its suppressed growth therefore stands to benefit from increased trade within Africa. Challenges that will still have to be addressed are not only technical (rules of origin, movement of goods across borders) but also include issues such as skills shortages, infrastructure development which cannot purely be solved by trade.

The African continent's growth story was closely watched prior to the pandemic with the continent recording significantly high growth levels. Since Covid-19 the dependence of Africa's largest economies on commodity prices has been affected and the various travel restrictions have all contributed to falling revenues. The drop in exports due to the disruption to global supply chains in 2020 will hit the continent even harder. African Union (AU) Member States have since called for international cooperation and support following an urgent need for medical supplies and equipment to fight the COVID-19 pandemic.

Over the Horizon Trade Relations (BRICS, G-20)

BRICS

Besides the regional economic relations South Africa has within its own neighbourhood, the country is a member of other geopolitically strategic forums. South Africa is a member of the BRICS grouping which comprises Brazil, Russia, India and China. In 2020, the BRICS Summit took place online and was hosted by Russia. South Africa continued to prioritize its relationship with the BRICS countries, sometimes at the expense of relations with its traditional partners (US and Europe). Economically, South Africa`s BRICS membership has not paid much dividends (see Annex 3) when compared with the relationship with the EU, for instance. South Africa along with India received support from other BRICS members in their quest for the waiver of patent protections for Covid-19 vaccines.

Group of 20

South Africa (the only African member in the group) has continued to promote its interests and that of the African continent at the G20. The G20 compact with Africa is a priority for South Africa as it looks to support the development of the least industrialized countries in Africa. The compact is aligned with the New Partnership for Africa's Development or NEPAD, more commonly seen as the economic development initiative of the African Union. From South Africa's perspective the G20 has evolved into a problem solving institution with crisis management at its centre. During South Africa's chairmanship of the African Union in 2020, fora such as the G20 provided a platform to advocate for the African continent, particularly amidst the global pandemic. President Ramaphosa also took the initiative to engage international partners and financial institutions such as the International Monetary Fund (IMF), World Bank, European Union (EU), G20 member states and others to support the issue of debt relief for African countries whose economies had been devastated by the pandemic.

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[5] Tralac, 2019

2.2 Outlook for Switzerland

South Africa's trade strategy prioritizes its development, industrialisation and integration into the African continent. It aims to maintain trade and investment relations with industrialised economies and pursue regional value chains. On the African continent, the priorities concern greater integration in SACU, SADC and the AfCFTA. On a global scale, South Africa's key focus is to shift the structure of trade with economies of the South, such as the BRICS countries and create a more diverse trade basket than the historically consumption and commodity driven trade it engaged in.

The EU as a block remains South Africa's largest trading and development partner. The SADC EU Economic Partnership Agreement (EPA) is therefore an important agreement in this context along with the recently concluded SACU,-UK EPA. The SACU EFTA review has yet to be concluded, along with various other SACU agreements. Being a much smaller market for South Africa's trade (EFTA represents approximately 1.2% of South Africa's total exports to the world and imports approximately 1.1%), the EFTA countries have a much smaller sphere of influence. South Africa will continue to seek improved market access in its future agreements while it seeks to increase and diversify its trade, and move away from exporting mainly raw materials.

3. Foreign Trade

3.1 Development and general outlook

South Africa's trade outlook in 2020 reflected stronger domestic demand and the impact of a decline in the oil price in 2020. In the fourth quarter of 2020, the current account surplus as a percentage of GDP narrowed to 3.7%, from 5.9% previously. For the year as a whole, the current account incurred a surplus of 2.2% of GDP compared to the deficit of -3.0% in 2019. This marks the first surplus since 2002 and was mainly driven by a sizeable trade surplus. The decline in the country's financial account also opened a gap in disbursements which could only be filled by multilateral institutions such as the IMF. China continued to be South Africa's biggest trade partner in 2020, both in terms of exports and imports. India however continues to grow in importance as a trade partner with a trade agreement between South Africa and India currently in the pipeline. Although South Africa has attempted to diversify its BRICS export basket, it mainly exports raw materials destined for both India and China.

3.2 Bilateral Trade

While South Africa, like most emerging market economies, has been at the receiving end of the low commodity prices, capital volatility and flight and China's subdued demand, ***the country remains one of Switzerland's key-trading partners on the African continent.*** Trade between the two countries totalled CHF 1.9 billion in 2020. Bilateral trade between Switzerland and South Africa still accounts for 16.5% of trade between Switzerland and Africa. In 2020, 90% of imports from South Africa to Switzerland were composed of precious metals, mainly gold, platinum and diamonds. A sectoral analysis of Swiss imports to South Africa reflects that the former has comparative and competitive advantage in the high skills and capital-intensive products that characterize the Swiss economy and export basket. The top exports in Switzerland's export basket to South Africa range from machinery, electrical equipment, pharmaceuticals, and watches among other high end products. Main imports are precious metals, general metals, agricultural products and vehicles. Overall, South Africa still offers trade opportunities for Swiss firms as indicated in the sectoral breakdown of trade. The opportunities abound in the traditional areas in which Switzerland has comparative and competitive advantages. ,These trade opportunities could also be enhanced in the area of processed agricultural (and some industrial) goods if the negotiations for the renewal of the Free Trade Agreement SACU-EFTA are successful, especially for the exports of chocolate.

4. Direct Investments

4.1 Development and general outlook

Following the declining investor appetite globally, South Africa experienced large capital outflows following the global market turmoil. Net-selling of local currency denominated bonds by non-residents occurred to a greater extent than other emerging markets throughout the world. In the first half of 2020, net capital outflows exceed two percent of GDP, while the South African rand depreciated by thirteen percent against the US Dollar. These events were further exacerbated by South Africa's removal from the World Government Bonds Index and also led to even tighter funding and liquidity conditions. These conditions were alleviated by the decision of the South African Reserve Bank (SARB) to ease liquidity pressure by announcing various drops in the repurchasing rates throughout 2020, as well as the decision by SARB to purchase South African government bonds in the secondary market. The main consequence of the monetary policy and banking measures was to provide a buffer for the large capital flows, and reduced direct investment whilst maintaining a degree of financial market stability.

Foreign Direct Investment was said to be negligible according to the SARB during 2020, whilst portfolio investments were negative. External financing such as the IMF's rapid financing instrument therefore filled the gap of the country's financial needs. The drawing down of existing buffers therefore helped cushion the shock of the recession experienced during the pandemic.

4.2 Bilateral investment

According to the Swiss National Bank, South Africa accounts for approximately 23% of total Swiss FDI stock in Africa[6]. Despite the difficult investment conditions, the fact that South Africa is a mainly services based economy is of significance for Switzerland. Switzerland also remains among the top foreign direct investors for South Africa, however the landscape is changing as Swiss investors seek opportunities all over Africa and many African countries are implementing reforms at a faster pace than in South Africa. Switzerland's priorities based on local market potential such as in skills and training, technology and innovation, capacity building and technical skills transfer make South Africa an attractive investment destination.

Investment opportunities in South Africa are also bound to be in training and skills development, as South Africa seeks to expand on its Technical and Vocational Education and Training (TVET) system with limited funding and capacity. The TVET system is crucial for addressing the mid-level skills the country is in short supply of, and for producing college graduates who are work ready. An interesting development under the Ramaphosa Presidency has been the introduction of a youth internship program referred to as the Youth Employment Services (YES). The YES program is a public private partnership between the South African government and business. It is aimed at affording unemployed graduates an opportunity to participate in the economy by offering them an internship with a firm for a year. The private sector subsidizes the stipend of the intern for a year while they gain much needed experience. In lieu of government subsidizing the internship, firms could gain B-BBEE points under the equity equivalence scheme. This is a window of opportunity for Swiss firms that cannot forego ownership requirements to rather lend a hand through the internship program.

5. Trade, economic and tourism promotion

5.1 Foreign economic promotion instruments

Switzerland's official representations in South Africa, i.e. its Embassy in Pretoria and its Consulate General in Cape Town, play a pivotal role in ensuring a favourable environment for Swiss businesses interested in or already actively doing business in South Africa and accredited countries i.e. Botswana, eSwatini, Lesotho, Mauritius and Namibia. The Embassy of Switzerland, together with the respective Swiss federal authorities, engages in a number of ***dialogues with Swiss companies and the South***

6 Swiss National Bank Website. 2019

African government, mainly the Department of Trade and Industry and Competition (DTIC) on issues such as B-BBEE, tender processes and investment protection.

The **Swiss Business Hub Southern Africa (SBHSA)** is the local representative office of Switzerland Global Enterprise (S-GE) and is part of the operations of the Embassy of Switzerland. The role of S-GE as a centre of excellence for internationalization is to ***foster exports and investments***. It also aims to assist Swiss companies develop new potential for their international businesses and strengthen Switzerland as an economic hub. In addition to the Embassy of Switzerland's accredited countries, the SBHSA supports an increasing number of Swiss companies in Eastern African countries as well as in Angola and Zambia. The main sectors of activities and resulting mandates ***in 2020*** were in medtech, fintech and luxury consumer goods. Under the 'Investment Promotion' mandate, South Africa remains a non-focus country for S-GE, in this regard the SBHSA concentrates most of its efforts on export promotion.

Inquiries from Swiss and Liechtenstein companies were in a vast array from life sciences, logistics, information and communications technology (ICT), agriculture, real estate and cleantech. The topic of infrastructure projects and the potential participation of Swiss and Liechtenstein companies in the ongoing roll-out of the economic stimuli packages from various governments were another focus topic – especially in the railway and the (green) energy sector. During the ongoing Covid-19 pandemic the Swiss Business Hub has been engaging with its clients via various digital channels and adjusted its product portfolio (virtual business trips, use of digital formats such as webinars, virtual conferences etc.) to maintain an active exchange with the clients.

During the pandemic, the opportunity to collaborate together with the local State Secretariat for Education, Research, and Innovation (SERI) office at the all virtual **Artificial Intelligence (AI)** Conference, with its organizers based in Cape Town was made use of. This topic is in line with the 5-tech approach of the investment promotion division in S-GE. A Swiss ePavilion with a total of 8 participating Swiss small and medium enterprises (SME's), research institutions and Start-Ups was successfully implemented. This approach allows SGE to further connect investment and export promotion better into one event, in order to allow for more added value to our networks.

The SwissCham Southern Africa – South Africa Chapter (SCSA-SAC) is an apolitical non-profit organization, which seeks to contribute to the expansion of economic, commercial and cultural relations between Switzerland and Southern Africa. SCSA-SAC network consists of approximately 100 members representing companies and individual members. It is a networking and information platform for both Swiss companies in South Africa and South African companies interested in Switzerland. SCSA-SAC plays an active role in representing Swiss interest to South African Government.

5.2 South Africa's interest in Switzerland: Tourism, education, other services

Switzerland remains an ***expensive travel destination for South Africans*** due to the strong Swiss Franc. For Swiss tourists however, trips to South Africa have become much more affordable due to a weakening ZAR and therefore Swiss tourists are among the top 10 European visitors to South Africa each year. According to Statistics South Africa[7], however, ***total foreign visits declined by 71% from just over 15.8 million in 2019 to less than 5 million visitors to South Africa in 2020 due to the Covid-19 pandemic*** and the international travel restrictions imposed as a result. ***Swiss visitors to South Africa decreased substantially by -72%,*** from 55'432 (2019) to 15'697 (2020), after previously having recorded the third highest average spending per trip[8] in 2019.

South Africa and Switzerland also work closely together in the field of research and innovation with two dedicated instruments: the ***Joint Research Programme*** and the Business Development Programme. Both these instruments are based on the principles of scientific excellence, equal co-funding, mutual interest, and – last but not least – strong and growing mutual trust. Since 2008, the scientific relations between Switzerland and South Africa have allowed to the two countries to jointly perform excellent science in areas of strategic importance for both countries. More than sixty joint research projects have

[7] Statistics South Africa foreign arrivals. 2020
[8] South African Tourism Annual Report. 2019

been supported since the inception of the Swiss South Africa Joint Research Programme in 2008, with a total value of CHF 25 million. The initial domains of collaboration include public health, biomedicine, nanotechnology, humanities, and social sciences. Keeping with frontier science was the inclusion of global challenges such as clean technology in the second phase and systems thinking in the third phase. Most interesting is that 41% of the joint research projects submitted the potential for innovation beyond the lifespan of their current joint research project. Also, 33% recorded that their joint research projects achieved an innovation status with an economic impact, whereas 23% of the projects achieved social impact innovation.

The ***Swiss South African Business Development Programme*** brings together young entrepreneurs from Switzerland and South Africa. The objective of the program is two-fold. On the South African side are the nurturing of an innovative spirit, the creation of business networks, and the introduction of these innovations into the Swiss innovation ecosystem. For the Swiss entrepreneurs is the opportunity for market access, business traction, and collaboration where relevant.

The Science and Technology Office (STO) at the Embassy of Switzerland responded to the South African government's invitation, during the Covid-19 pandemic, through strengthening the already existing collaboration. ***The Leady Agency Agreement***, signed in 2020 between the National Research Foundation and the ***Swiss National Science Foundation***, is a good example of such a collaboration. The established ***blockchain*** collaboration also provides great potential to further advance the partnership between the two countries on various levels in particular on: ***4IR and ICT research for social impact***, ***life sciences*** as well as building on existing work in ***public health and food security***. Aligned to South Africa's aim to localize the development and production of vaccines and drugs, connections between local Swiss pharmaceutical companies could be further advanced through ***collaborative Research and Development (R&D) efforts.***

The Swiss Import Promotion Programme (SIPPO)

Due to the COVID-19 pandemic and the resulting continuously changing economic and global trading conditions, SIPPO engaged with its Business Support Organisation (BSO) partners in South Africa, to obtain feedback on the challenges faced by the organisations and their member companies affected by the pandemic and to assess how best to support them. The need was identified for new skills and knowledge for the BSOs to support their companies with virtual market access activities, as physical trade fairs and other B2B matchmaking events were cancelled or postponed. To address this particular need, SIPPO developed knowledge content for the BSOs for virtual matchmaking events which included research and material on the most appropriate digital platforms in support of their export promotion services to their companies.

Further capacity development support for the BSOs included webinars conducted by the SIPPO international sector experts on adapting to the challenges resulting from the changing market conditions, changes in demand, trends and consumer behaviour.

In response to these needs, SIPPO was also able to develop a module on virtual matchmaking events for inclusion on the SIPPO/ITC Trade Promotion Academy e-Learning Platform, which had been launched during the second semester of 2020. In an effort to continue supporting the BSOs during the pandemic and beyond, a COVID-19 button was installed on SIPPO's homepage with information on new developments and trends in export promotion: https://www.sippo.ch/Covid-19-Special-Information

Positive developments observed during the year, have been the increased collaboration between the partner BSOs in South Africa to strengthen their collective service offerings by incorporating additional stakeholders in the implementation of activities. In its efforts to promote international exchange between SIPPO's BSO partners in the different SIPPO countries and to share experiences and lessons-learnt, a highly successful virtual exchange was facilitated by the SIPPO Country Representatives from South Africa and Colombia between the dtic, TIKZN, Wesgro and ProColombia.

5.3 Economic Cooperation and Development

The Swiss State Secretariat for Economic Affairs' (SECO) Economic Development and Cooperation division started its cooperation with South Africa in 1996. This cooperation was formalised through a cooperation strategy for South Africa from 2009 and a dedicated SECO programme team established in the Embassy of Switzerland based in Pretoria since 2010.

At present, Switzerland is the 5th largest bilateral donor country in South Africa and implements more than 30 projects to contribute to inclusive economic development. For the period 2021–2024, the newly approved Country Strategy for South Africa has as its overall objective the further deepening of Swiss-South African economic development cooperation in order to support a competitive economy that will enable sustainable growth. The Strategy has a financial envelope of CHF 55 million for the four year period. The Country Strategy will be officially launched during the fourth quarter of 2021, details of which appeared in the previous edition of this report.

SECO's contribution will focus on competitiveness, because it tackles several key impediments to South Africa's economic growth and job creation. A competitive economy based on sustainable growth will contribute to more equality and less poverty in the long run. South Africa remains a developing country in transition and a long-term approach is needed to increase the competitiveness of the economy with interventions at different levels (government/public, private, and individuals), to boost private and public investment and to create opportunities for its businesses and citizens. The cooperation will focus on promoting a more viable and resource-efficient private sector and reliable economic framework conditions, which will in turn contribute to the creation of investment opportunities, valuable skills, better jobs, and economic and climate resilience.

Key highlights of SECO's cooperation in 2020:

- SECOs continuous efforts to contribute to the Government's skills development agenda resulted in the start of several new initiatives including the new "Transition from Learning to Earning" Program together with Germany.

- SECOs support has significantly contributed to an improved business and investment enabling environment: the Multi Country Investment Climate Program (MCICP) continues to receive excellent visibility, with the South African Presidency requesting guidance on how to improve South Africa's Doing Business ranking.

- Subnational reforms will continue under phase 2 of the Cities Support Program, which was approved in 2020, and will focus not only on city economic development, but also city resilience, infrastructure planning and financial management. Agreements to establish the new INCA Municipal Debt Fund, in partnership with Agence Française de Développement (AFD) and INCA Portfolio Managers, have been signed, signalling SECO's involvement in mobilizing South Africa and foreign capital markets for municipal infrastructure investment.

The contribution to the resource efficiency agenda was supported through the first installation sites for the Energy Efficiency Street Lighting Retrofit program, also contributing to public safety and better informed procurement practices. Another important milestone is the activation of the global eco-industrial parks program (GEIPP) in the country. The sustainable value chain portfolio used synergies between the different projects successfully and is complemented by two new projects the Sustainable Recycling Initiative (SRI) and the Swiss – South African Intellectual Property Project implemented by the Swiss Federal Institute of Intellectual Property (IPI).

Various positive results from the Vuthela iLembe Local Economic Development Programme were achieved, with significant improvements in investment climate reforms, addressing non-revenue water, reforms of Enterprise iLembe (the local development agency), and municipal officials trained in supply chain management and new strategies on development charges compiled. The programme managed to leverage additional resources, i.e. to implement doing business reforms, water governance, upgrading strategies for waste water treatment and electricity monitoring.

Steady progress has been made in financial sector support. SECO has contributed to various policies published, including the country's "Fintech Vision", while Cabinet has approved the tabling of the Financial Sector Laws Amendment Bill in Parliament. A "Financing a Sustainable Economy" technical paper was released which incorporates a strong focus on developing an environmental and social risk management disclosure framework and taxonomy.

The **SECO programme adapted swiftly to the COVID-19** crisis which involved one of the harshest the lockdowns and the consecutive economic downturn in South Africa. SECO/WE has availed additional funding to support some COVID-19 mitigation projects in financial inclusion and stability as well as skills development.

Annex 1: Structure of South African Economy

GDP Percentage by Industry [9]

	2015[10]	2020
Distribution of GDP		
Primary sector	0.2%	0.5%
Manufacturing sector	0.3%	16.9%
Services	1.7%	3.3%
- of which public services	0.9%	0.7%

Percentage of Employees by Industry[11]

Rank	Sectors	2020
1	Community and social services	**23.6**
2	Trade (Retail & Wholesale)	**20.4**
3	Finance and other business services	**15.5**
4	Manufacturing	**9.9**
5	Construction	**8.0**
6	Private households	**7.8**
7	Transport	**6.3**
8	Agriculture	**5.4**
9	Mining	**2.8**
10	Utilities	**2.6**
11	Other[12]	**0.7**

[9] Statistics South Africa: http://www.statssa.gov.za/publications/P0441/P04414thQuarter2020.pdf (current prices)
[10] http://www.statssa.gov.za/publications/P0441/Press_statement_1_4q_2015.pdf
[11] Statistics South Africa: http://www.statssa.gov.za/publications/P0211/P02114thQuarter2020.pdf
[12] Statistics South Africa: Figures of previous year not available.

Annex 2: Economic Indicators for South Africa [13]

	2019	2020	2021
GDP Growth (%)	0.2	-8.0	3.0
GDP (USD Billions.)	351	283	317
GDP/Capita (USD)	5'978	4'736	5'236
Inflation Rate (%)	4.1	3.3	3.9
Unemployment Rate (%)	28.7	37.0	36.5
Budget Balance (% of GDP)	-6.3	-14.0	-11.1
Public Debt (% of GDP)	62.2	78.8	82.8
Current Account (% of GDP)	-3.0	-1.6	-1.8

= Estimate

[13] IMF, World Economic Outlook Database, October 2020

Annex 3: South Africa's Main Trade Partners 2020[14]

Percentage of Total Exports

Rank	Country	Exports	Share
1	China	9'909	**13**
2	USA	7'164	**9.3**
3	Germany	7'074	**8.3**
4	United Kingdom	4'225	**5.5**
5	Japan	3'816	**4.9**
6	Netherlands	3'339	**4.3**
7	Botswana	3'292	**4.3**
8	India	3'164	**4.2**
9	Mozambique	3'084	**4.0**
10	Namibia	2'680	**3.5**
20	Switzerland	849	**1.1**
	Total Volume (in Mio. USD)	**77'410**	**100%**

Percentage of Total Imports

Rank	Country	Imports	Share
1	China	15'132	**21**
2	Germany	6'665	**9.3**
3	USA	4'712	**6.6**
4	India	3'811	**5.3**
5	Saudi Arabia	2'853	**4.0**
6	Nigeria	2'327	**3.2**
7	Thailand	2'272	**3.2**
8	Japan	2'030	**2.8**
9	Italy	1'874	**2.6**
10	United Kingdom	1'807	**2.5**
17	Switzerland	1'014	**1.4**
	Total Volume (in Mio. USD)	**72'129**	**100%**

[14] IMF, Direction of Trade Statistics (DOTS), April 2021

Annex 4: Bilateral –Trade Switzerland – South Africa (excl. Gold)

*) Since 01 January 2012, the Directorate General of Customs (Oberzolldirektion) of Switzerland has used the system of the country of origin and no longer the country of manufacture for its trade statistics. The change is based on the corresponding agreement between Switzerland and the EU. As a result, trade flows before and after 2012 cannot be compared directly.

Trade Development (Total 2)[15]

	Exports (Mio. CHF)	**Change** (%)	**Imports** (Mio. CHF)	**Change** (%)	**Balance** (Mio. CHF)	**Trade Volume**
2013	750.0	1.9	1'728.1	-10.8	-978.1	2'478.1
2014	723.4	-3.5	2'175.2	25.9	-1'451.8	2'898.6
2015	675.6	-6.6	2'182.8	0.3	-1'507.2	2'854.4
2016	700.5	3.7	1'117.0	-48.8	-416.5	1'817.5
2017	729.4	4.1	1'233.5	10.4	-504.1	1'962.9
2018	**739.2** (738.5)	**1.3** (1.6)	**2'272.2** (300.7)	**84.2** (16.2)	**-1'533.0** (437.8)	**3'010.4** (1039.2)
2019 (Total 1)*	**673.4** (672.0)	**-8.9** (-9.0)	**2'813.5** (277.9)	**23.8** (-7.6)	**-2'140** (394.2)	**3'486.8** (949.9)
2020	**369**	**-29.4**	**1'519**	**-29.0**	**-1'150**	**1'888**

*) Total "economic outlook" (total 1): without gold in bars and other precious metals, coins, precious and gemstones, works of art and antiques.

Trade by Type of Goods (Total 2)

Imports	**2019** (in Mio. CHF)	***Proportion*** *(in %)*
Total	**2'813.5**	**100%**
Precious Stones, precious Metals Jewellery	2'533.1	90.0
Gold	2'190.1	77.8
Platinum	230.2	8.2
Diamonds	94.0	3.3
Base Metals and Goods made thereof	71.83	3.2
Raw Aluminium	54.3	2.4
Agricultural Products	63.6	2.3

Exports	**2019** (in Mio. CHF)	***Proportion*** *(in %)*
Total	**673.4**	**100%**
Electrical and Non-electrical Machines	108.6	16.1
Pharmaceutical Products	181.6	27.0
Agricultural Products	108.1	16.1
Cigars	82.1	12.2
Optical and Medical Instruments	66.4	10.0
Watchmaking Goods	48.5	7.2

[15] Federal Customs Administration FCA, total (total 2): with gold in bars and other precious metals, coins, precious and gemstones as well as works of art and antiques. The total 2 before 2012 does not contain gold, Silver and coins.

Annex 5: Main Investors in South Africa

Foreign Direct Investment 2019: ZAR Millions

Rank	Country	FDI Stock 2019	% Total
1	UK	638205	31.33
2	Netherlands	359263	17.64
3	Belgium	223563	10.97
4	USA	123194	6.05
5	Japan	123198	6.05
6	China	99427	4.88
7	Germany	91295	4.48
8	Luxembourg	45466	2.23
9	Australia	36280	1.78
10	Switzerland	31400	1.54
	Total	**2’037’161**	
Source: South African Reserve Bank[16]			

[16] https://www.resbank.co.za/content/dam/sarb/publications/quarterly-bulletins/quarterly-bulletin-publications/2020/qb-dec-2020/09%20Statistical%20tables%20External%20economic%20accounts.pdf