WORLD BANK GROUP

Unlocking South Africa's Potential:
Leveraging Trade for Inclusive Growth and Resilience

Public Disclosure Authorized

Public Disclosure Authorized

1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

Photo Credits:
Shutterstock and Unsplash.

Acknowledgements

The project was implemented by a World Bank team led by Jakob Engel and Bénédicte Baduel and comprising Mila Malavoloneque and Alexandra Soininen. The report builds on background contributions from Besart Avdiu, Andre Barbe, Paulo Bastos, Daniel Brink, Jing Chien, Masud Cader, Lawrence Edwards, Catherine Grant, Maryla Maliszewska, Regina Seri, Ivan Turok, and Justin Visagie. Overall guidance throughout the project was provided by Marie Francoise Marie-Nelly, Asad Alam, Mathew Verghis, Marco Hernandez, Antonio Nucifora, Sébastien Dessus, Paul Brenton and Jacques Morisset. Section 5 draws on work conducted by Ernani Checcucci and Charles Kunaka.

The team is particularly grateful for the close cooperation of the Agriculture, FCI, Transport and IFC teams working in South Africa. Administrative and logistical assistance throughout the project was provided by Nani Makonnen, Victoria Fofanah, Tanya Cubbins, and Erika Odendaal. The report was edited by Peter Kjaer Milne and designed by Cybil Maradza. The report has benefited from comments, advice, guidance, and technical discussions from Thomas Farole, Ian Gillson, Lolette Kritzinger van Niekerk, Jean-Christophe Maur, Sara Nyman, Erik von Uexkull, and Gonzalo Varela, as well as numerous WBG colleagues and external experts who provided input at various stages. It has also benefited from frequent and productive engagement with officials from the South African Department for Trade, Industry and Competition, the National Treasury, as well as the participants of numerous WBG consultative events, external seminars, and presentations.

Abbreviations and Acronyms

AEO	Authorized Economic Operator
AfCFTA	African Continental Free Trade Area
B-BBEE	Broad-Based Black Economic Empowerment
BMA	Border Management Authority
BOP	Balance of Payment
BRIC	Brazil, Russia, India, China
CGE	Computable General Equilibrium
COVID-19	Coronavirus Disease 2019
DALRRD	Department of Agriculture, Land Reform and Rural Development
DIRCO	Department of International Relations and Cooperation
DTIC	Department of Trade, Industry and Competition
EG	Environmental Good
EM	Emerging Market
EMAA	Environmental Monitoring, Analysis and Assessment
EPA	Economic Partnership Agreement
EPP	Environmentally Preferable Product
ERRP	Economic Recovery and Reconstruction Plan
EU	European Union
EV	Equivalent Variation
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GoSA	Government of South Africa
GVC	Global Value Chain
HS	Harmonized System
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IoF	Industries of the Future
IFC	International Finance Corporation
IFS	International Financial Statistics
IMF	International Monetary Fund
IT	Information Technology
IV	Instrumental Variables

ITAC	International Trade Administration Commission
LCR	Local Content Requirement
LPI	Logistics Performance Index
MFN	Most-Favored Nation
NDC	Nationally Determined Contribution
NEDLAC	National Economic Development and Labour Council
NDP	National Development Plan
NRM	Natural Risk Management
NT	National Treasury
NTFC	National Trade Facilitation Committee
OECD	Organization for Economic Co-operation and Development
PPP	Purchasing Power Parity
PPPFA	Preferential Procurement Policy Framework Act
R&D	Research and Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARS	South African Revenue Service
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprises
TESA	Team Export South Africa
Teselico	Technical Sectoral Liaison Committee
TFA	Trade Facilitation Agreement
TF	Trade Facilitation
TFP	Total Factor Productivity
TISA	Trade and Investment South Africa
TIPS	Trade and Industrial Policy and Strategy
US	United States
US$	United States Dollar
VAT	Value Added Tax
WBG	World Bank Group
WMM	Wastewater Management and Potable Water Treatment
WTO	World Trade Organization

Contents

Figures

Tables

Boxes

Executive Summary

International trade can be a powerful force for economic growth and poverty reduction. This report aims to support policy dialogue with the Government of South Africa on trade. It explores reforms to promote trade that can support robust, inclusive, and green economic growth following years of unprecedented supply-chain disruptions during the COVID-19 pandemic and ongoing uncertainties related to increasing geopolitical tensions and climate change. This was done by synthesizing a series of analyses carried out by a World Bank team in collaboration with South African academics and other stakeholders. It complements the existing and extensive literature on improving trade and investment outcomes in South Africa and strengthening private sector competitiveness.

The report provides an overview of South Africa's export performance over the past decade for both goods and services by using a wide variety of data sources and analytical tools. It also proposes a series of recommendations on how the country can improve its trade competitiveness, with a focus on using new trade agreements and other opportunities for diversification; improving trade facilitation and addressing non-tariff barriers; and increasing the capabilities of local firms to become exporters and diversify products and markets. Institutional changes to effectively implement these reforms are also discussed.

South Africa's economic growth has been constrained by several structural challenges over the past decades

Over the past 15 years, South Africa has lost its economic growth momentum, systematically underperforming other middle-income economies. External shocks such as the COVID-19 pandemic and the war in Ukraine have compounded a growth and development trajectory driven by weakening productivity growth and capital accumulation. Hausmann et al. (2022) conclude that South Africa's current macroeconomic challenges can be traced back to structural changes to productivity and investment dynamics which were triggered by microeconomic policy failures, political factors related to the role of state capture and governance, and declining quality

at key state-owned enterprises (SOEs). The investment slowdown has been triggered by structural constraints, productivity declines in network industries and increasing economic policy and regulatory uncertainty, and declining governance. The subdued performance of the domestic private sector and loss in trade competitiveness also translated into weak export performance.

At the same time, global changes and uncertainties (including megatrends such as climate change, technological disruption, demographic shifts, geopolitical realignment, and social instability) have created a more challenging environment for economic growth. One resultant shift that has gained particular policy momentum since the COVID-19 pandemic and the war in Ukraine is a growing skepticism around trade integration. International trade trends have been marked by a renewed drive toward industrial policies to promote "strategic" sectors, often resulting in complex and distortive subsidies, trade conflicts among major trading partners and reshoring of some production to high-income countries (Brenton et al. 2022, IMF et al. 2022). The COVID-19 pandemic and the war in Ukraine accelerated this trend, with significant negative impacts on countries with very concentrated exports. Worldwide, pandemic-induced shortages of critical supplies, from surgical masks to semiconductors, reinforced calls for the reshoring of production and economic self-sufficiency resulting in the reshaping of global value chains (GVCs). As a result, government trade policy responses have proliferated, particularly for medical goods and food, including restrictive measures on exports. Many of these however, do not appear to have been removed as conditions improved.

In this challenging global and domestic context, promoting inclusive growth and development in South Africa requires bold microeconomic reforms to adapt to global changes and address domestic constraints. Among others, the South Africa Economic Recovery and Reconstruction Plan (ERRP) released in 2020 considered greening the economy as one of the eight priorities in the post-pandemic recovery (GoSA 2020). It envisages that economic growth and employment come partly from new investments, new industries and new tradeable products and services emerging from the country's transition to low-carbon energy, while using trade and investment opportunities compatible with external shifts in demand. The ERRP also called for reducing South Africa's import dependence on external partners over the next five years.

An export-oriented strategy can enhance economic growth and job creation in South Africa, while strengthening the economy's resilience to shocks

However, international experience and economic theory have demonstrated that trade integration, as part of an integrated economic strategy prioritizing productive development can play a key role in supporting economic growth and poverty reduction. International trade has contributed significantly to prosperity in many developing countries by supporting the development of new, higher-paying jobs and increasing the efficiency of firms, as well as by providing consumers with cheaper and better products. Increased participation in regional and global value chains has facilitated access to intermediate goods, helped attract strategic foreign direct investment (FDI), and built the

International trade has contributed significantly to prosperity in many developing countries

capabilities of local suppliers and, hence, promoted industrialization and productivity growth. Evidence also shows that in the absence of supportive conditions for competitiveness improvements, trade integration can lead to deindustrialization and lock economies into low value production and exports. These vulnerabilities were evident during the COVID-19 pandemic when several developing and emerging countries such as South Africa experienced disruptions in global supply chains of pharmaceuticals, medical goods and equipment, and specialized food and chemicals.

Higher exports associated with greater global and regional integration could bring substantial gains for South Africa, boosting growth and employment. Traditional drivers of growth—household and government consumption—are hampered by a depressed labor market and tighter fiscal policy, constraining the Government of South Africa's (GoSA) ability to boost aggregate domestic demand, while the potential of the current mining sector to create significantly more jobs is limited. South Africa has underperformed in terms of exports relative to its peers, such as the BRIC countries (Brazil, Russia, India and China), Turkey, Thailand and Malaysia over the past two decades. Greater outward orientation could help increase competition in domestic markets. It could also support the adoption of productivity-enhancing technology through imported intermediate goods, which have not yet widely penetrated South African markets. This could also enable increased scale economies and specialization, leading to job creation, inclusive growth, and poverty reduction.

Export diversification in terms of both products and markets can also help South Africa to mitigate the impact of downside exogenous shocks. For example, implementation of the African Continental Free Trade Area (AfCFTA), through increased regional trade and new or strengthened value chains, can help cushion the negative effects on economic growth of external shocks such as the COVID-19 pandemic and international conflicts. This report shows that full implementation of the AfCFTA could increase South Africa's income by 3.8 percent relative to the baseline by 2035. In the long run, it would increase the resilience of the South African economy, making it better prepared to face shocks. South Africa can also take advantage of the rising demand for products from low-carbon technologies in the context of global climate commitments and further develop its exports in these areas.

These benefits are also recognized by the South African Government. It has emphasized the centrality of trade policy reforms in the economic recovery during the COVID-19 crisis. For example, the ERRP includes as a key priority: "re-orienting trade policies and pursuing greater regional integration to boost exports, employment and innovation". Many reform proposals in this report are also policies that have been identified as important and that have been pursued to various degrees by the South African Government over the years.

Full implementation of the AfCFTA could increase South Africa's income by 3.8 percent relative to the baseline by 2035

Seven key findings help explain South Africa's weak export performance

Finding 1: **South Africa's exports have expanded more slowly than the rest of the economy and remained highly concentrated in a few products and markets.**

Total merchandise exports have stagnated in the years preceding the pandemic with all major product groups except food products declining during the decade from 2010 to 2019. They have also continued to be dominated by minerals and agricultural products, while manufactured exports have become increasingly concentrated in resource-based products, with the exception of the automotive sector. Overall, after the 1990s, the growth of manufacturing exports has been insufficient to enable a manufacturing export-led growth path. The economic contraction during the global financial crisis, followed by a tepid economic growth, which coincided with the continuous decline in electricity supply, growing governance and policy uncertainties, and continued fierce import competition during the remainder of the decade and a half, contributed to the exit of firms and the hollowing-out of the productive base in manufacturing, including that of exporters.

Finding 2: **While South Africa's exports to African markets have expanded faster than to other destinations, they have remained constrained by tariffs and logistics barriers.**

While China has been South Africa's single largest export market since 2009, regional exports have expanded from 19 percent of all non-mineral exports in 2000 to 31 percent in 2019, with Southern African Customs Union (SACU) countries making up 44 percent of this share. Small firms are more likely to export to nearby markets, especially SACU. However, while the African market is an attractive destination due to its relative proximity and rapid population growth, trade barriers both in South Africa (such as port and transport infrastructure) and in destination countries (including tariffs and weak trade facilitation) present significant obstacles. Tariffs imposed on South African exports in the rest of Africa have a significant negative effect on South African exports of manufactures and food products. This arises from a combination of high tariffs on products exported, combined with relatively high negative tariff elasticities. This highlights considerable potential gains for South African exporters from the implementation of the AfCFTA due to both entry of South African exporters into African markets, an increase in the number of products by exporters, and rising values of exports per product. In negotiating the AfCFTA, South African policymakers may want to aim to locate the commitments to reduce tariffs across the continent in a wider developmental program to incentivize industrialization and investment, promoting a virtuous cycle.[1]

---

1 South Africa is following a developmental regionalism approach in Africa, advocating for regional integration, led by the AfCFTA, to be built on a framework based on four parallel and interconnected pillars: a) cooperation on building mutually beneficial trade integration (fair trade integration); b) cooperation on industrial development and upgrading in regional value chains (transformative industrialization); c) cooperation on investment in cross-border infrastructure and trade facilitation; and d) cooperation on building democracy, good governance, and peace and security.

Finding 3: Exports in services have underperformed merchandise exports contrary to the global trend, but there is significant growth among knowledge-intensive services.

Tradable services play an increasingly significant role in the global economy, both in meeting consumer demand and in providing inputs for producers. They contribute to economies both through new activities and new jobs, and indirectly by raising the productivity and performance of existing industries and activities. As a result, services exports from middle-income countries increased three-fold between 2005 and 2019. However, South Africa's services exports have not followed this global trend, with exports largely stagnating since 2005, and the share of services trade in GDP declining from 8.5 percent in 2011 to 5.2 percent in 2021. Travel and transport services have dominated, making up almost two thirds of all services exports. However, there have been positive developments in this sector, such as the emergence of exports in knowledge-intensive industries such as financial services and ICT, which have grown more rapidly than other services sub-sectors. Government and the private sector identified the global business services sector as a growth opportunity some time ago. A sector strategy was developed, supported by a customized and carefully calibrated financial incentives. As with many countries, a serious constraint to evidence-based policy making to support services exports has been the dearth of accurate, precise data at disaggregated sectoral levels.

Finding 4: Export have been dominated by a few firms, in a context of declining entry rates and few new entrants surviving and growing over time.

South African goods exports are dominated by a few firms. Export participation, which is measured by the number of exporters and export transactions, appears to be a key factor explaining South Africa's post-2010 aggregate export performance. South Africa's export structure is highly concentrated with firms' export concentration levels rising within most industries in recent years. The very high concentration of exports in most industries also points to the absence of small and medium-sized exporting firms, and the presence of barriers inhibiting their growth. This indicates that South Africa faces challenges, as it becomes more difficult for exporting firms to succeed. Firms that enter and survive grow fast and diversify, but for the majority, entry is difficult and tends to require relatively high levels of productivity, as well as global value chain (GVC) linkages.

Finding 5: **Increasing transport and logistical costs have penalized the competitiveness of South African exports.**

Despite longstanding efforts to address transport and logistics constraints, these remain significant impediments to South Africa's competitive advantage. The country already faces a significant disadvantage in terms of distance to major trading markets, in turn negatively impacting the net returns to exporting. This has been exacerbated by other factors, including the inefficiency of South Africa's ports, poor and deteriorating quality rail infrastructure services, a lack of intermodal facilities, and high road freight and pipeline transport costs. Trade facilitation bottlenecks are an additional challenge across all sectors in South Africa and the pandemic has aggravated the situation. South African ports and rail have also suffered from aging infrastructure, under-investment, theft, and weak management in recent years. The ports of Gqeberha, Durban, and Cape Town were ranked between 291st and 344th out of 348 for container port efficiency in the 2022 Container Port Performance Index. The result is serious delays in ships berthing at the ports and global shipping lines deliberately bypassing South African ports, consequently adding extra costs for exporters, importers, and other firms across the port logistics supply chain. As a result, many firms are not able to export, and those who do are often limited to regional markets.

Finding 6: **Although South Africa failed to significantly increase its total exports over the past decade, higher exports at the firm level have been associated with improvements in wages, especially for low earners.**

The analysis presented in this report on the effect of export shocks on firm performance shows that for exporting firms in the manufacturing, mining, and agriculture sectors over 2013-18, an increase in firms' export growth leads to an increase in firms' sales, real capital stock, and total payroll growth. The labor market impacts of export growth have a greater positive impact on those who are not at the top of the wage distribution. Moreover, the positive effects of export growth on firms' performance, jobs, and wages are driven mainly by small and medium-sized enterprises (SMEs) and firms located in the Western Cape. This supports the conclusions of the 2022 World Bank report *Inequality in Southern Africa: An Assessment of the Southern African Customs Union*, which highlights the importance of strengthening access to, and the availability of, private sector jobs.

Finding 7: **South Africa's current policy focus on promoting local industries can come at the expense of competitiveness, penalizing export performance and consumers.**

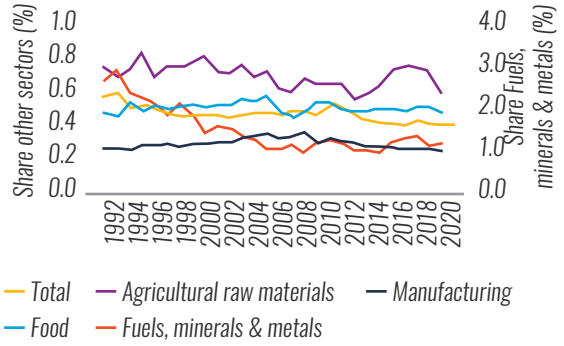
In recent years, South Africa has moved increasingly toward localization as a key objective of its trade and industrial policies. One key dimension of this, as stated in the ERRP released in October 2020, has been the target of reducing non-oil imports by 20 percent over five years. Globally, a range of localization measures are applied across countries, including local content requirements (LCRs); tax incentives and tariffs; import licensing procedures; and local ownership and employment requirements. Evidence suggests that such policies can contribute to making targeted industries less innovative and competitive over time (e.g., OECD 2019). In South Africa, various studies on its localization policies raise concerns about the impacts of localization-driven trade policy on certain industries, including the impacts they may have on industries that could offer diversification opportunities for South African manufacturing and exports. A full review of the economics of South Africa's localization approach and an impact analysis of various combinations of possible measures on economic growth, sectoral structure, exports, and employment are beyond the scope of this report. However, for illustrative purposes, the report shows some of the risks to growth, exports, and regional integration objectives of taking a very sweeping approach to localization based on the 20 percent target. Nevertheless, the government has shown pragmatism in its approach to implementing the localization objective, taking into account characteristics of the sectors, but a few initiatives pertaining to public sector procurement have still shown significant price distortions and resulted in bottlenecks (e.g., solar panels).

The findings and illustrative charts are presented in the following Figure E1.

Figure E1. Key Findings

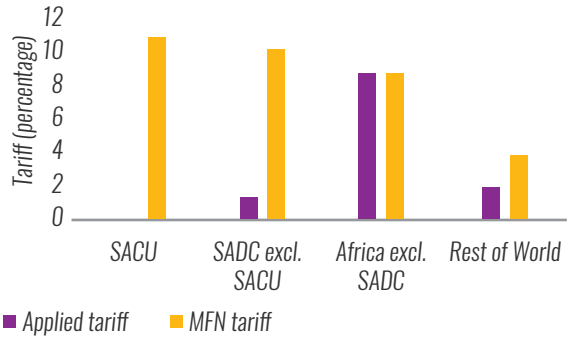
a. South Africa's share in world exports has been on a declining trend

South Africa's share of world export value



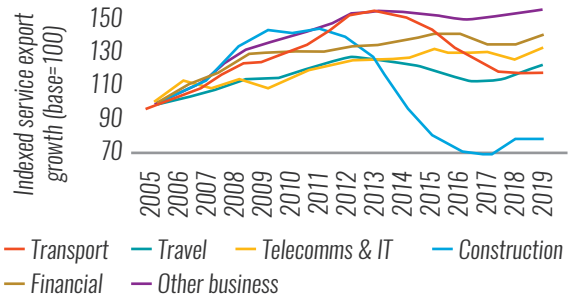
b. Exports to Africa are a major source of demand for South African manufactured goods but remain constrained by high barriers

Weighted average MFN and statutory applied tariffs on South African exports, 2018



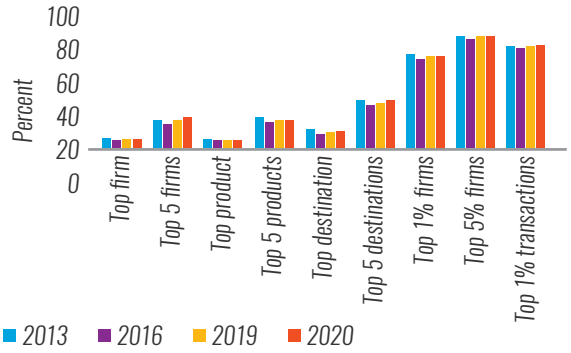
c. Knowledge-intensive services exports have grown rapidly over the last 15 years, outpacing traditional services like transport, tourism, and construction

Growth of services exports by sector, 2005–19



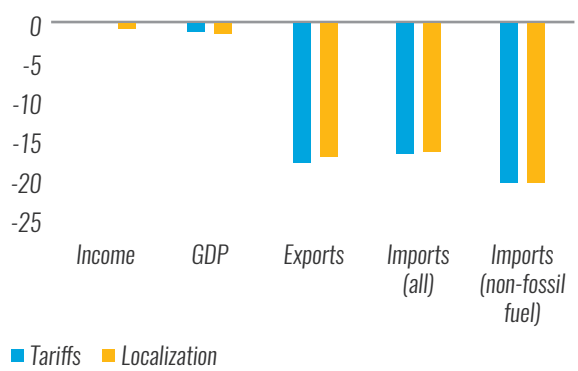
d. Exports are highly concentrated among a small share of firms, as medium-sized exporters struggle to grow

Measure of export concentration



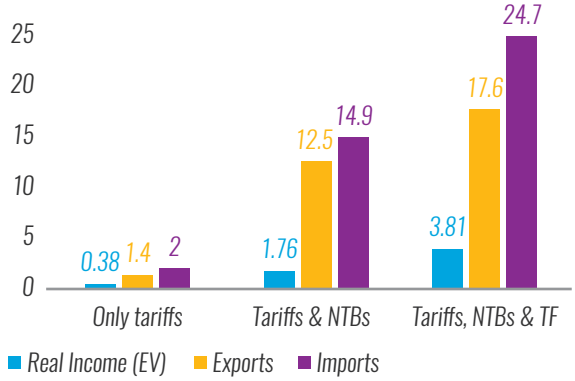
e. South Africa's export performance could be negatively affected further by requirements to localize 20 percent of imports

Impacts of reducing imports by 20% through different policy options on macroeconomic variables (% change)



f. Removing tariff and non-tariff barriers to trade in the context of the AFCFTA could increase South Africa's gains from external trade

Increase in income, exports, and imports by 2035 as percentage deviations from baseline from AFCFTA implementation



Source: World Bank, OECD-WTO BaTIS database.

What will it take for South Africa to see broad-based gains from trade?

Adopting an export-oriented strategy and making the most of it for South Africa's economy will require policy changes in at least three key areas. These are (i) structural reforms to promote further competition in product and factor markets; (ii) trade and industrial policies that support export competitiveness; (iii) reforms in trade policy and facilitation. This report focuses on trade policies and trade facilitation. The success of this strategy will also hinge on supportive global demand conditions and continued access to global markets.

Firstly, a more dynamic export performance requires addressing long-standing structural constraints related to input markets that have continuously eroded private sector competitiveness and profitability over the past decade. Continuing macro-fiscal and structural reforms (especially addressing infrastructure bottlenecks, the most urgent being electricity supply) to restore business confidence and stimulate private sector investment, including FDI, is essential to restart growth, especially as public finances are expected to remain constrained. Among social policy priorities, it will be important to ensure that social safety nets and labor market policies are supporting labor mobility into dynamic sectors and that education systems equip the future labor force with the skills required by sectors with high export potential. These policies need to be coordinated across government agencies to achieve South Africa's ambitions for faster, greener, and more inclusive growth. Although structural reforms take time, the signaling effect of reforms to improve competition, increase investment and boost trade can help to improve confidence immediately.

Strengthening South Africa's resilience to climate change is critical. South Africa is vulnerable to climate shocks as the devastating floods in the KwaZulu-Natal province in April 2022 showed, resulting in a 0.7 percent gross domestic product (GDP) contraction in that quarter. South Africa's exports of goods also remain concentrated in products that are considerably more carbon intensive than those of competitors. A recent World Bank study estimated that nationally determined contributions (NDCs), the European Green Deal and carbon tax adjustments would reduce South Africa's income, output, exports and trade by 1 percentage point of GDP by 2030, driven by a decline in coal and metals exports. As a result, about one-third of South Africa's exports are at risk, as importing countries and buyers in GVCs implement policies that shift demand toward "carbon-competitive" suppliers of a particular product and away from carbon-intensive products towards low-carbon goods. Hence, policies that promote diversification, notably in green goods and services, will be important. It will also be important to ensure that implementation of border taxes by trading partners are non-discriminatory, transparent, and meet the requirements of World Trade Organization (WTO) rules.

The second area for reform is to align trade and industrial policies towards the objective of improving export competitiveness. This encompasses taking a multi-dimensional lens when analyzing specific policy reforms and their implications at the level of the firm, industry and macroeconomy. If localization policies can, under certain circumstances, support growth and job creation, they also need to be assessed in view of their potential costs throughout value chains and on consumers. Ensuring a sound analysis of these proposals, as well as stating clearly the objectives and concrete plans to achieve them, developed in consultation with the private sector and other social partners, will be essential to avoid creating policy uncertainty, further deterring already weak investment, as well as to avoid weakening private sector competitiveness and hampering firms' export capabilities.

The third area for reforms, which is the focus of this report, is to reform trade policy and trade facilitation to help further maximize South

Africa's export potential. This report proposes the following three lines of actions (summarized in Table E1):

- ***Making the most of new trade agreements and other opportunities for diversification:*** Modernizing South Africa's trade policy and market access framework, in particular new trade agreements and regulations, would help the country to make the most of current trade opportunities. The recently ratified AfCFTA offers an opportunity to develop and update regulatory assessments for trade negotiations. This report identifies digital services as a sector where South Africa has a potential comparative advantage and which could become a successful export sector, provided that there is a supportive regulatory framework and strategy. South Africa also has many of the essential inputs required for diversification into new green sectors and low-carbon exports. Diversifying the country's focus on investment and export promotion activities toward new markets, especially in advanced countries and East Asia, could also support competitive firms to expand beyond the region. In time, an overhaul of South Africa's trade policy would help the country respond to changes in international conditions and help it position itself to take full advantage of trade opportunities where it is competitive.

- ***Improving trade facilitation and addressing non-tariff barriers:*** Lowering the cost of trade through trade facilitation reforms and investments is critical to promote a competitive export sector and support more broad-based and inclusive gains from trade. The government of South Africa has pursued efforts to strengthen trade facilitation and address non-tariff measures over the years. Additional reforms are needed to lower the cost of trade at and beyond the border. Notably investment in ports, road and freight infrastructure is needed, which will require bringing in private sector investment. Gradually introducing more competition into the transport and logistics chains and improving the economic and financial situation of the relevant state-owned enterprises will be necessary. Beyond continued efforts by the South Africa Revenue Service (SARS) to streamline processes and procedures to assist exporters and importers, developing a National Single Window for trade-related processes would also facilitate a reduction in red-tape costs for exporters and importers. In the short term, strengthening trade facilitation, notably by revisiting the mandate and composition of the National Committee on Trade Facilitation would help address persistent bottlenecks and non-tariff barriers. Addressing women traders' specific constraints would also ensure that the opportunities and benefits of external trade are shared more equally across society. In the long term, developing smart borders and one-stop border posts, and enabling efficient corridor management between the main economic centers and key land crossings and ports, and streamlining SACU processes (for example, by adopting a single customs declaration and implementing automated VAT refunds) would further reduce the cost of trade.

- ***Supporting firms' capabilities to become exporters and survive:*** Consistent with the mandate of South Africa's export and investment promotion agencies at the national and provincial levels, strengthening the promotion of exports and increasing firms' capabilities to export would ensure that competitive firms are able to access trade opportunities. Quick wins can be achieved by improving access to information on trade regulations and opportunities. These include centralizing information on import and export regulations and procedures and improving awareness of export opportunities to reduce

firms' search costs and facilitate access to new markets, including by supporting the development of export promotion agencies, foreign offices, and others. Improving access to trade finance of SMEs is critical for the external sector to contribute to employment. Promoting more FDI into key input-supplying sectors would contribute to a better integration into value chains, the adoption of technology and, hence, higher productivity and competitiveness of exporting sectors. Measures to support exporting firms that have opportunities to be competitive in a low-carbon environment are also likely to support overseas market access. Such measures would include improving access to environmental technologies, such as renewable energy and knowledge and equipment for carbon monitoring, by reducing barriers to trade in environmental goods and services.

Complementary policies accompanying the three areas of action above would help mitigate potential negative impacts from trade and make sure that a more dynamic external sector contributes to higher and more inclusive growth. Although this report highlights that increasing South Africa's trade integration would offer significant gains in terms of growth and job creation, it also recognizes that some sectors and individuals may face adverse impacts. In this context, and to ensure that trade openness contributes to the government's overarching objective of higher and more inclusive growth, economic policies can help mitigate these negative impacts. Social, education and labor market policies can ensure that South Africans are equipped with the skills required by promising export sectors and that individuals whose jobs may be impacted by increased openness have some income protection in the short term and are supported in moving to more dynamic sectors through encouraged mobility and reskilling.

Table E1: A roadmap for increasing South Africa's export competitiveness

Time horizon	*Trade policy and trade agreements*	*Improving trade facilitation and addressing NTBs*	*Increasing firm capabilities to export*	*Complementary policies*
Sprints	*Develop an updated digital trade regulatory assessment to contribute to a negotiating position for the AfCFTA and assess the role of the AfCFTA in developing regional value chains to promote sustainable and resilient development.*	*Strengthen a coordination structure for trade facilitation and improve and centralize access to information on official border regulations.*	*Continue to strengthen a targeted export promotion strategy to reduce search costs for firms, improve awareness of export opportunities and facilitate certification of exporters to access new markets.*	*Preserve macroeconomic stability to promote business confidence and increase investment.*
	Continue to pursue a trade diplomacy strategy that prioritizes trade opportunities with advanced and emerging economies, including in East Asia.	*Address specific challenges of women traders at border crossings through improved safety procedures, ensuring consistent application of border processes and increased use of technology.*	*Strengthen shared approach between government and the private sector on localization policies to ensure that these are consistent with the goals of increasing and diversifying exports.*	*Deliver on the Government's structural reform agenda, in particular the key measures prioritized by Operation Vulindlela.*

Time horizon	Trade policy and trade agreements	Improving trade facilitation and addressing NTBs	Increasing firm capabilities to export	Complementary policies
Medium distance runs	Improve decision times and the transparency of the tariff-setting process (bearing in mind confidentiality requirements), continue to assess implications of tariff adjustments on the value chain, and consider economy-wide impacts where required.	Develop a National Single Window to integrate government agencies (SARS, DTIC, Home Affairs, DALRRD, among others).	Resolve hurdles that SMEs face in accessing affordable trade finance and continue to strengthen export promotion support.	Improve the business environment and competitiveness through product and labor market reforms.
	Update South Africa's trade policy to address emerging trade issues and the impact of changing global conditions.	Introduce more competition into key components of the transport logistics chain.	Continue to strengthen FDI promotion to attract investment into key input-supplying sectors.	Ensure that social safety nets and labor market policies are supporting labor mobility into dynamic sectors.
Marathons	Implement the AfCFTA agreements, ensuring access to regional or national adjustment support for displaced workers.	Develop smart borders at the key land crossings.	Ensure that Special Economic Zones (SEZs) have the necessary infrastructure based on an analysis of comparative SEZ performance.	Ensure that the education system equips the future labor force with the skills required by sectors with high export potential.
	Promote trade in environmental goods and technologies to support South Africa's firms to take advantage of trade opportunities associated with the global climate transition.	Develop the SACU area Authorized Economic Operator (AEO) program and single customs declaration process.	Assist exporters to enter green industries and seek to ensure carbon taxes and other planned taxes under, for example, the European carbon border adjustment mechanism are transparent, are non-discriminatory, and meet WTO requirements.	Deliver on South Africa's climate commitments to support adaptation and ensure that exports are not hampered by trade partners' carbon border taxes in the future.

Source: World Bank.

Note: *Sprints are stroke-of-the-pen reforms implementable within 1–3 months or less at minimal cost, given the political will. Medium distance runs are programs implementable within 18 months with tangible benefits for millions of South Africans. Marathons are longer-term structural initiatives and institutional reforms that can be initiated and put on a firm footing in the next three years but will take longer to complete.

To implement this reform agenda and ensure that proposed policy reforms lead to tangible improvements, institutional bottlenecks need to be addressed. While the appropriate institutions exist to advance policy development and implementation on trade, in the past, coordination challenges, capacity constraints and policy disagreements have contributed to slowing the implementation of trade policy reforms. In order to advance implementation, progress along three dimensions is required, with each dimension informing the following ones: (i) modernizing the trade policy framework and strengthening the export focus in industry master plans; (ii) reviewing the coherence and effectiveness of the current institutional structure in line with the new trade and industrial policy focus; and (iii) identifying cross-government short- and medium-term priorities and integrating them into Operation Vulindlela. This will require a cross-government implementation process consisting of four key dimensions, with a clear mandate from the Presidency and led by the Department of Trade, Industry and Competition (DTIC). It will also require the National Treasury, the South African Revenue Service (SARS), the Department of Agriculture, Land Reform and Rural Development (DALRRD), the Department of International Relations and Cooperation (DIRCO) and the National Economic Development and Labor Council (NEDLAC) trade subcommittee (Technical Sectoral Liaison Committee, Teselico) to bring in social partners. Technical and analytical support and guidance can further be provided by the Presidential Economic Advisory Council. Furthermore, it will be important to encourage participation at the provincial and municipal levels, especially given their involvement in trade and investment promotion activities.

Finally, the report highlights areas for future work to continue to strengthen the analytical foundation to support trade policy in South Africa. This includes analysis on (i) how to make tariff and industrial policy more effective and (ii) how obstacles to exporting can be overcome. With respect to the former, key issues include the distributional costs of protection and openness, and the institutional processes on tariff-setting and remedies, how to best engage in AfCFTA negotiations and maximize the benefits from the agreement, how to best address new climate-related trade regulations and take advantage of the demand for green goods, and how special economic zones can be used to enhance intra-African and global trade. Regarding the latter, more analysis is needed on the obstacles faced by non-exporters or SACU-only exporters to enter export markets, targeted sectoral analysis on the key constraints faced by services exporters, how export promotion polices can be enhanced, and on the soft and hard infrastructure constraints to effectively develop regional value chains in priority sectors.

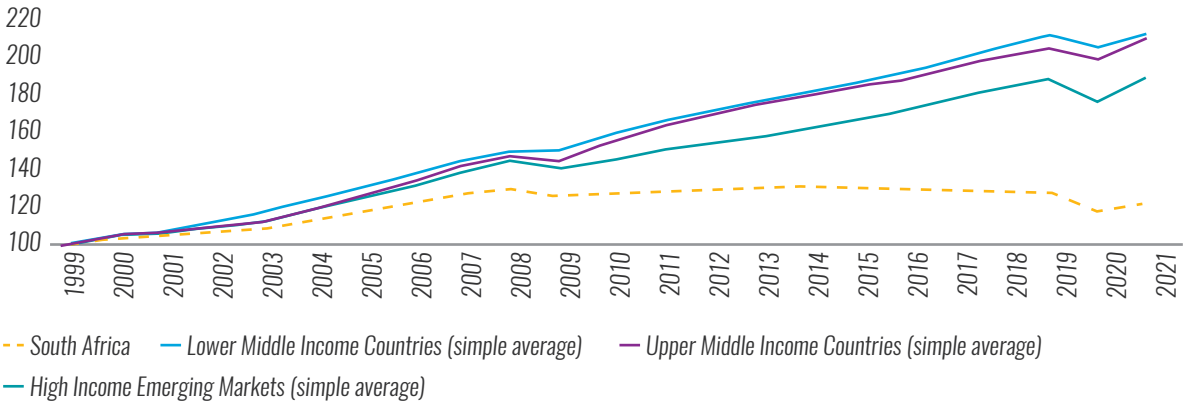
As shown in this report, the foundations for trade to drive inclusive growth are in place. South Africa has enormous potential to drive forward Africa's integration and industrialization. However, the cost of inaction is high. Realizing this potential will require a shared and coordinated effort by the country's leadership, government departments and agencies, the private sector, and workers.

I. Setting the Stage: More Trade Can Support South Africa's Resilience and Drive Job Creation

Despite its enormous potential, the South African economy has stagnated over the past decade

The South African economy has been characterized by low growth and high unemployment since the 2008/09 global financial crisis. After the gross domestic product (GDP) increased by an annual 4 percent on average between 1999 and 2008, annual growth declined to 1.7 percent over 2010–19. With the population increasing by about 1.5 percent annually, per capita GDP contracted in real terms over 2015–19. This contrasts with South Africa's middle-income peers. While these were also heavily impacted by the global financial crisis, most recovered afterwards and continued to see growth in real GDP per capita over the past decade (Figure 1).

Figure 1: South Africa GDP per capita before and after the global financial crisis (real terms, index)



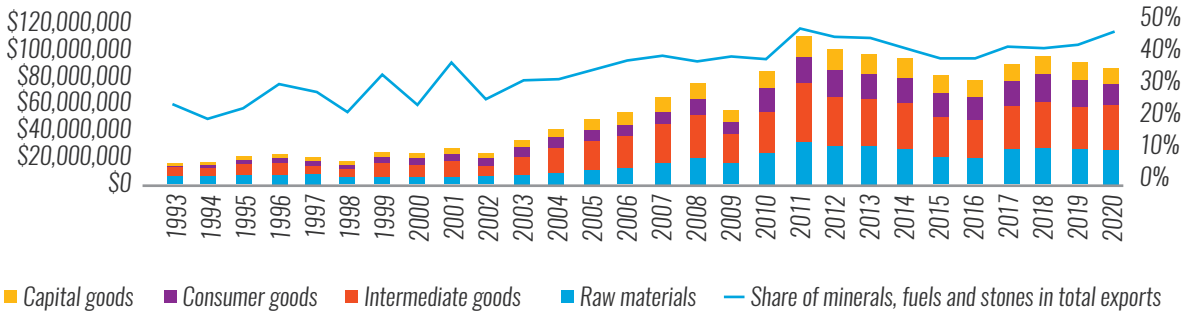
Source: World Bank World Development Indicators.

The end of the commodity boom of the early 2000s contributed to the growth slowdown. While South Africa has a significant manufacturing base and some dynamic services sub-sectors, it is also one of the world's leading exporters of gold, platinum, and diamonds. Iron ore, coal, chromium, and manganese are also important exports. In turn, fuels, metals and minerals have increased significantly over time and now account for between 40 and 50 percent of the country's total gross exports (and an even larger share of its value-added exports). They are an important driver of economic activity through linkages, and exports of these goods are an important source of foreign exchange. During the 2000–13 commodity super-cycle, minerals and fuel exports helped drive the increase in total exports. As commodity prices attenuated, total exports declined from their peak, but commodities continued to account for close to half of South Africa's export basket, as its capital and consumer goods exports remained stagnant. (Figure 2)

But structural constraints predominantly drove the country's economic stagnation, leading to declining investment and productivity growth that resulted in a less dynamic private sector. Real gross fixed capital formation by the private sector failed to exceed its 2008 peak through 2021. The International Monetary Fund (IMF, 2020) finds that private investment contribution to growth was about half that of the median emerging market (EM) over the period 1994–2018 and its contribution to total factor productivity (TFP) gains was less than half that of the median EM. Analysis from the 2020 World Bank Enterprise Survey also finds that South Africa has lagged peers in terms of labor productivity and TFP.

Numerous factors have constrained public investment and resulted in an inefficient allocation of production factors. This includes policy uncertainty and state capture, as well as a business climate characterized by weak product and labor market competition, high costs for non-tradable inputs such as electricity and transport, skills scarcity and labor market rigidities (World Bank, 2018).[2] Public corporations also recorded a sharp fall in

Figure 2: The dominance of commodities in South Africa's export basket accelerated during the commodities boom and persisted even as prices declined



Source: UN Comtrade.
Note: Raw materials, intermediate, consumer and capital goods based on UNCTAD SoP classification; share of minerals, fuel and stone exports in total exports based on HS classification (Chapters 25–27, 68–71).

---

2 Specifically, the core structural constraints identified in World Bank (2018) include: (i) *skills scarcity in the labor force*, driven by the legacy of "bantu education" and the emigration of skilled workers leaving due to weak economic prospects. In turn, immigration regulations have hampered the inflow of skilled migrants; (ii) *skewed distribution of land and productive assets*, with high concentration of wealth and land ownership, weak property titling and concerns about property rights driven by calls for land expropriation without compensation; (iii) *high costs of non-tradable inputs*, due to the dominance of inefficient SOEs in the energy, ICT and transport sectors; (iv) *limited competition in product markets*, as ownership is skewed toward a few large firms with conglomerate style structures, resulting in high barriers to entry; and (v) *policy uncertainty and deteriorating state capacity*, with increased corruption contributing to uncertainty and declining business confidence.

investment after 2008. Investment spending by SOEs was also affected by weak management, a deteriorating financial situation, and slow completion of major infrastructure projects.

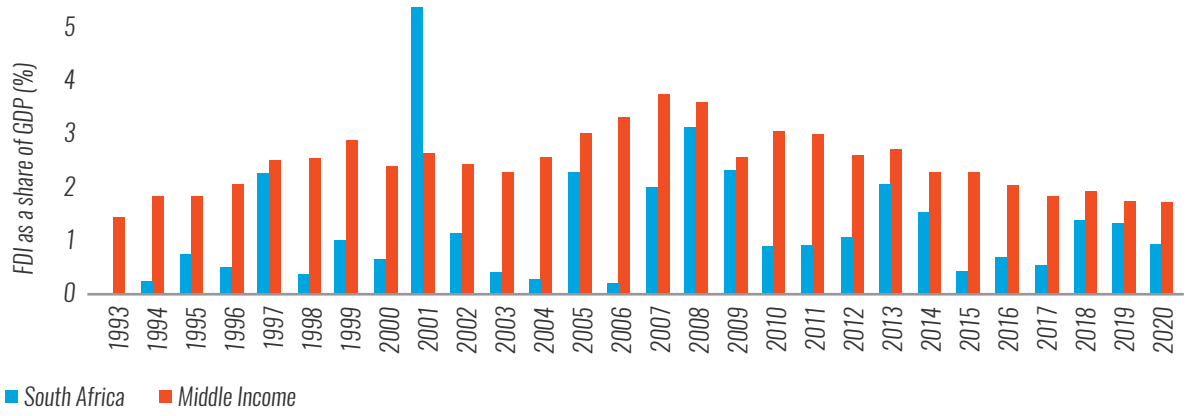
Weaker investment in turn precipitated the decline in economic capacity—a key lever for future growth. As a result, the economy saw a persistent decline in productivity and competitiveness that affected private sector dynamism. The manufacturing sector's growth decreased from 3.8 percent annually over 1999–2008 to just 0.3 percent over 2009–18, while its contribution to GDP growth over the past decade has been negligible. Across relevant performance indicators in the 2020 World Bank Enterprise Survey, South Africa is underperforming relative to comparators. For example, the share of firms investing in fixed assets is very low and capacity utilization high, indicating large investment needs.

As a result of these structural constraints, South Africa has also been losing trade competitiveness. Although South Africa continues to have a significant manufacturing base, exports and inward FDI have lagged compared with other middle- income economies (Figure 3). This loss in trade competitiveness over time was amplified by two exogenous shocks: (i) the emergence of China in the early 2000s as the world's leading manufacturer; and (ii) the global financial crisis that started in 2008 (Edwards and Jenkins, 2015). Exports currently play a relatively small role in the South African economy compared with higher performing middle income countries in Asia. Exports comprise 27 percent of GDP in South Africa compared with 60 percent in Thailand, 65 percent in Malaysia and over 100 percent in Vietnam. In 2019, South Africa generated about US$1,800 of exports per capita, which is considerably below the US$3,400 of exports per capita in Thailand and almost $7,800 of exports per capita in Malaysia. Inward FDI declined from 2.9 percent of GDP in 2008 to 1.3 percent of GDP in 2019. Even modest steps toward improving the export performance of countries that have been successful in leveraging trade to drive growth would have profound positive impacts on the South African economy.

Exports have also not responded significantly to the depreciation of the South African rand in the past decade.[3] This has mostly been attributed to electricity bottlenecks, limited product market competition, and labor market constraints that have reduced the responsiveness of firms' exports to the rand's depreciation. Thus, despite the opportunity to expand exports that the depreciation of the rand offered, these rigidities have held back firms' capacity to benefit from the competitiveness boost.

[3] Draper et al. (2018, p. 17) also review potential causes and focus on three additional factors: (i) the simultaneous decline in demand for South Africa's leading commodity exports; (ii) the growing significance of GVCs and, in turn, a lower elasticity of exports to exchange rates as GVC firms tend to be more price-inelastic due to customization and longer-term contractual relationships; and (iii) balance sheet effects (i.e., if firms are indebted in foreign currency, currency depreciations increase their export competitiveness on the one hand, but on the other hand also increase the domestic-currency value of their liabilities).

Figure 3: FDI as a share of GDP for South Africa and the middle-income country average



Source: IMF BoP Yearbook from World Bank World Development Indicators.

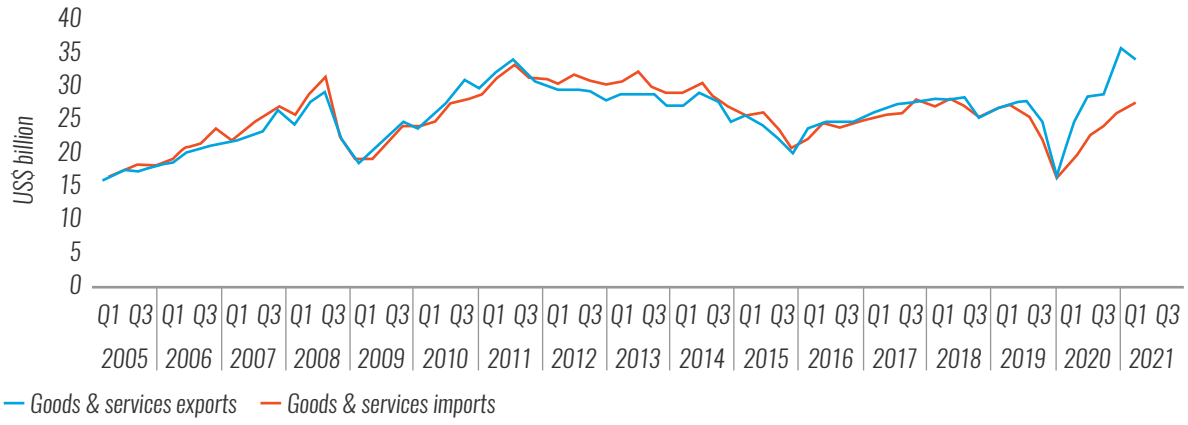
The COVID-19 pandemic further worsened the economic situation

Many of these challenges were intensified by the COVID-19 pandemic. The pandemic represented yet another exogenous shock to South Africa's economy, and particularly to its export industries. Global demand for raw materials and commodities temporarily declined, while access to industrial components and manufactured goods from the region was hampered. Exports to countries in the region, which had been flourishing, were constrained by border closures and challenges in the logistics sector. As a result, GDP contracted by 6 percent in 2020, hitting the poorest most severely. The pandemic also weakened an already anemic labor market even more. A record 2.2 million jobs had been lost by mid-2020, with less than 40 percent of these recovered by the end of the year. Net jobs have continued to contract throughout 2021 and the unemployment rate reached a peak of 35.3 percent in December 2021. Consequently, poverty rates have climbed to levels last seen more than a decade ago, undoing years of progress.

South Africa experienced dramatic changes in its aggregate exports and imports in the context of the COVID-19 pandemic, and related global and local demand and supply shocks. The onset of the COVID-19 pandemic in early 2020 led to the global imposition of control measures to contain the spread of the virus. In April 2020, South Africa's merchandise exports fell to half their April 2019 values, as the most stringent level 5 restrictions were implemented (Figure 4).[4] Aggregate exports fell by 37 percent in the second quarter of 2020 relative to 2019 values. Such large declines in trade values were last experienced during the first half of 2009, when aggregate trade fell by 25 percent. The decline in South African exports and imports of goods and services in 2020 exceeded that of comparator countries. However, in contrast to the global financial crisis, exports recovered rapidly as lockdown restrictions were eased in May and then June of 2020. By the third quarter of 2020, quarterly export values had recovered to pre-pandemic levels.

[4] Under the level 5 restrictions, South Africans were only allowed to leave their homes to purchase or produce essential goods, no travel was allowed, and sale of alcohol, tobacco and non-essential goods was prohibited.

Figure 4: Value of South African goods and services exports and imports (US$ billion)



Source: South African Reserve Bank (SARB).

Following the initial negative shock, the external sector, which traditionally contributed negatively to growth, supported GDP growth in 2020. This was driven by rising commodity prices and a contraction in imports relative to exports. Weak domestic demand meant that import volumes contracted by 16.6 percent. The fall in exports was less severe (10.3 percent), as external demand started to recover in the second half of the year.

The primary source of growth in export value in 2020 was price increases, not rising export volumes. Rising commodity prices, including coal, platinum, and gold, played an important role in aiding the recovery in merchandise export values in late 2020. Commodity price increases continued to boost export values into 2021, accounting for 85 percentage points of the 47 percent increase in export values of fuels, and metals and minerals. Agriculture, which was more insulated from COVID-19-related trade disruptions than other sectors, also contributed to the export recovery. As a result, net exports contributed 2.1 percentage points to growth. Buoyed by favorable global demand and prices, the mining sector grew by 11.8 percent. Terms of trade continued to improve through 2021 and the merchandise trade balance recorded a surplus of 7.2 percent of GDP in 2021. However, for most industries, the recovery in export volumes in 2021 was insufficient to offset the losses that had occurred in 2020.[5]

South Africa has returned to a low growth–low employment trajectory and the medium-term growth outlook is insufficient to improve economic and social outcomes without bold structural reforms. After a short-lived post-pandemic rebound in 2021 and early 2022, economic activity in South Africa has slowed. The growth in GDP fell from 4.7 percent in 2021 to 1.9 percent in 2022 and 0.9 percent in the first half of 2023. The unemployment rate stood at 32.6 percent in June 2023, and at 42.1 percent when discouraged job seekers are included. Poverty remains very high, at 62.6 percent in 2022, based on the upper-middle-income country poverty line ($6.85 per day at 2017 international prices). The World Bank projects real GDP growth of 1.6 percent over the medium term, driven by persistent and broad-based structural constraints, in particular the electricity crisis and transport

5 Despite the recovery in export values, only animals & vegetables (24 percent), wood products (20 percent), chemicals (9 percent) and clothing, textiles & footwear (6 percent) experienced net positive increases in export volumes in 2021 compared with 2019.

bottlenecks. Such moderate growth will not be enough to reverse the impact of the pandemic on the labor market, and the unemployment rate is projected to stay at around 32 percent in the medium term. Moreover, this will do little to change South Africa's status as the world's most unequal country according to the Gini coefficient. Additional global and domestic shocks, including increased geopolitical tensions, rising energy and food prices, and the increased frequency and severity of climate-related disasters represent further downside risks to South Africa's growth outlook.

Trade can be a key driver of growth, job creation, and increased resilience

Skepticism around trade integration has been growing over the last decade. The general decline in tariffs globally, during the early 2000s, was accompanied by increased use of regulatory measures and non-tariff barriers such as export subsidies, restrictions on licensing or FDI and domestic clauses in public procurements (Niu et al 2018). International trade trends were marked by a renewed drive toward industrial policies to promote "strategic" sectors, often resulting in complex and distortive subsidies, trade conflicts among major trading partners and reshoring of some production to high-income countries (Brenton et al. 2022, IMF et al. 2022).

The COVID-19 pandemic and the war in Ukraine accelerated this trend. The pandemic had significant negative impacts on countries with very concentrated exports. Garment factories in Bangladesh, Vietnam, and elsewhere shut down as retailers based in the European Union and United States canceled orders. In wealthier nations, pandemic-induced shortages of critical supplies, from surgical masks to semiconductors, reinforced calls for reshoring of production and economic self-sufficiency. As a result, government trade policy responses have proliferated, particularly for medical goods and food, including restrictive measures on exports. Many of these however, do not appear to have been removed as conditions improved. For example, the cumulative number of restrictions on exports climbed rapidly in the early months of the war in Ukraine. Some 89 restrictions remained in place at the end of September 2022 – suggesting that, contrary to WTO principles, the export limits have not all been temporary.

Trade integration offers more opportunities than costs. The pandemic has highlighted the need to keep critical goods flowing through borders. Nevertheless, countries such as those in East Asia that are deeply integrated into GVCs have recovered more quickly, especially those whose trading partners were also recovering rapidly and where COVID-19 infection rates were lower. In contrast, countries and regions that were less integrated in the global economy have lagged (Brenton et al. 2022). This suggests that, although participation in GVCs increases exporters' vulnerability to foreign shocks, it also reduces their exposure to domestic shocks and provides resilience. At the same time, estimations show that a shift toward global reshoring to high-income countries and China could have devastating consequences, driving an additional 52 million people into extreme poverty, most of them in Sub-Saharan Africa (Brenton et al. 2022). Public support may be needed to respond to market failures or external shocks (IMF et al. 2022).

Implementing reforms to improve business confidence and increase private investment is paramount to creating an enabling environment for a competitive export sector. Stimulating private investment will be essential to boost growth, especially as public finances are constrained. Addressing South Africa's longstanding electricity

supply crisis is a priority. Making progress on the structural reforms laid out in the ERRP and supported by Operation Vulindlela in the areas of transport, logistics, and digital networks, would all go a long way toward stimulating private investment and job creation by removing constraints to private sector productivity, competitiveness, and ultimately profitability. Higher investment associated with increased innovation and technology adoption would in turn also support TFP gains and competitiveness.

Increased trade and investment can play a vital role in supporting economic development and poverty reduction. Trade has contributed significantly to prosperity across countries by supporting the development of new, higher-paying jobs and increasing the efficiency of firms, as well as by providing consumers with cheaper and better products. A 1- percentage-point increase in trade is found to increase per-capita incomes by 0.5 percent (Feyrer, 2019). Industrialization and productivity growth are supported by increased participation in regional and global value chains, which enables access to intermediate goods, helps attract strategic FDI, and builds capabilities within firms. This is especially true in the context of the COVID-19 pandemic and its after-effects: trade contributed to improved access to essential food and medical supplies and was integral to help the global economic recovery and limit the negative impacts on jobs and poverty.

Tackling domestic constraints to improve trade competitiveness and fostering greater global and regional integration could bring substantial gains for South Africa. Greater outward orientation could also help raise competition in domestic markets. It could support the adoption of productivity-enhancing technology through imported intermediate goods, which have not yet penetrated South African markets. This could enable increased scale economies and specialization, leading to job creation, inclusive growth, and poverty reduction. A larger role for trade in driving economic growth would be especially important in the context of South Africa's weak growth potential. Traditional drivers of growth (household and government consumption) are hampered by a depressed labor market and tighter fiscal policy, limiting the Government of South Africa's (GoSA) ability to boost aggregate domestic demand.

Addressing South Africa's lagging trade competitiveness is also a key objective of the Government. The National Treasury's 2019 paper "Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa" (National Treasury, 2019) identified six structural reform areas, the estimated impact of which would be to increase GDP by 2–3 percentage points over a 10-year period. These include the need to improve implementation of industrial and trade policy, export competitiveness and "harnessing regional growth opportunities."[6] The GoSA continued to emphasize the centrality of trade policy reforms in the economic recovery during the COVID-19 crisis. This is captured in the ERRP, which includes "re-orienting trade policies and pursuing greater regional integration to boost exports, employment and innovation" as one of its key structural reforms.

[6] Priority reforms in the area of industrial and trade policy reform included better assessing industrial policy interventions, leveraging public procurement to support industrialization, improving the capacity of the *International Trade Administration Commission* and addressing current biases in trade policy. To promote export competitiveness and harness regional growth opportunities, the focus is on removing infrastructure constraints, negotiating trade agreements with growing markets, export promotion, setting up an automated licensing system for key export documentation; and reviewing border control procedures for plant and animal health standards.

Objective of this report

Trade integration can help mitigate downside exogenous risks for the South African economy. For example, the AfCFTA can help cushion the negative effects of the COVID-19 pandemic and the war in Ukraine on economic growth by supporting regional trade and value chains. In the long run, it will increase the resilience of African economies, making them better prepared in the face of future shocks. South Africa can also take advantage of the rising demand for low-carbon technologies in the context of global climate commitments and further develop its exports in these areas.

This report provides a comprehensive, data-driven analysis providing new evidence to help shape reforms within a dynamic international trading context. It seeks to highlight potential opportunities for the GoSA and other stakeholders to pursue harnessing the trade potential of the South African economy. It is intended to support discussion on potential pathways toward faster job creation and more inclusive growth in South Africa. The report focuses particularly on improving the understanding of the role of trade in a robust, inclusive and green economic recovery from the COVID-19 pandemic in South Africa. It synthesizes work carried out by a team of World Bank Group and South African experts across a broad range of issues and utilizing a wide variety of data sources, to provide an overview of South Africa's trade performance over the past decade for both goods and services.

Seizing the potential of trade for growth will require changes in South Africa's approach to trade and industrial policy. As such, the report also provides an overview of broad policy areas to be considered for improving the country's trade competitiveness. It builds upon past work by the World Bank[7] and others[8] on South Africa's trade competitiveness and seeks to provide the most comprehensive and timely analysis of these issues to date.

The report is structured in three parts. Following the introduction (Section 1), Section 2 provides a diagnostic analysis of South Africa's trade competitiveness, structured around seven key empirical findings. Section 3 then provides a roadmap of key policy reforms that could be instrumental in helping to unlock this potential, as well as how these could be implemented. It focuses in depth on constraints impacting three policy areas to discuss how these could be drivers of export-led growth. These are: (i) lowering trade costs both at the border and behind the border; (ii) making the most of new trade agreements and other opportunities for diversification; and (iii) increasing the capabilities of firms to become exporters and survive, with active export promotion strategies.[9]

---

7 Key relevant publications in this regard include the report Factory Southern Africa: SACU in Global Value Chains (Farole, 2016), Between Gatekeeper and Gateway (Draper et al., 2018), and Creating Markets in South Africa: Country Private Sector Diagnostic (IFC, 2019).

8 There has also been a breadth of firm-level analysis, most notably through the data made available through the SATIED project carried out in collaboration between UNU-WIDER, IFPRI and particularly the National Treasury. In addition, South Africa research institutions, notably Trade and Industrial Policy and Strategy (TIPS), a wealth of sectoral analyses and value chain studies have been produced.

9 These areas of focus build on the findings from the diagnostic analysis, and an extensive consultation process with government, the private sector and academia.

II. A Decade of (Mostly) Stagnation: Seven Findings about South Africa's Trade Competitiveness since 2010

1. South Africa's export market share declined, as diversification has stalled[10]

From 1994 and the end of apartheid-era sanctions, South Africa significantly opened up to international trade. This included multilateral tariff reductions under the Uruguay Round of the GATT/WTO, and the implementation of several preferential trade agreements. Concurrently, its participation in international trade increased, with exports and imports of goods rising as a share of GDP, especially between 2002 and 2008 in response to the global commodity boom. As in the rest of the world, the global financial crisis led to a dramatic decrease in exports and imports, both in values and as a share of domestic production and consumption. The real value of goods exports fell by 18.5 percent between 2008 and 2009.

Raising and diversifying South Africa's exports has been a central policy objective of the GoSA over the past decade. This was articulated in the National Development Plan (NDP) 2030 and successive Industrial Policy Action Plans. The NDP, for example, targeted an increase in exports volumes by 6 percent annually by 2030, with non-traditional exports growing by 10 percent annually.

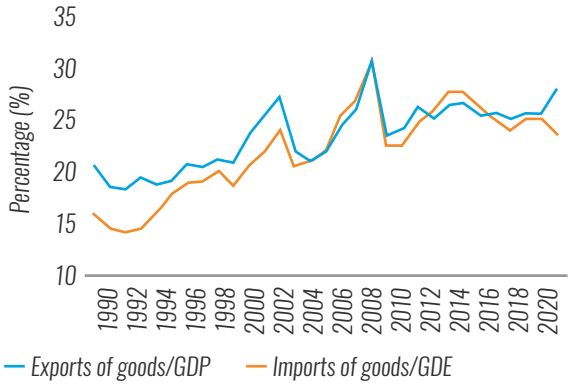
Despite some successes, South Africa's exports have weakened over the last decade. There have been some bright spots, underpinned by supportive government policies, especially in the automotive and selected agro-food sub-sectors. However, overall, the NDP's export growth and diversification targets are unlikely to be met. This is in large part because South Africa's export performance has progressively worsened since the Global Financial Crisis (GFC). While exports recovered briefly over 2010–14, during the waning years of the commodity boom, these growth rates were not sustained. By 2019,

10 This section draws on background work on the evolution of South African export competitiveness by Lawrence Edwards and Jing Chien, Benedicte Baduel and Jakob Engel. It uses exporter level customs transaction data for South Africa that cover the period 2010 to 2019 made available through the World Bank Exporter Dynamics Database.

exports as a share of GDP have not recovered to their pre-GFC levels (Figure 5). Goods imports have followed a similar trend. In real terms, they grew by 6.2 percent per year during 2010–15, but only averaged 0.4 percent per year during 2015–19 (Figure 6).

South Africa's exports also underperformed relative to peers. Exports values grew less dynamically than in the BRIC countries, Turkey, Thailand and Malaysia (Figure 7). This is reflected across broad industry categories, except food products, which grew in value by 20 percent during 2010–19. Performance was particularly weak in manufacturing (with some exceptions such as automotive and mineral-based products), which has consistently lagged that of the rest of the world from 2010, leading to a drop in South Africa's share in world trade by about a quarter (Figure 8).

Figure 5: Exports of goods to GDP and imports of goods to gross domestic expenditure

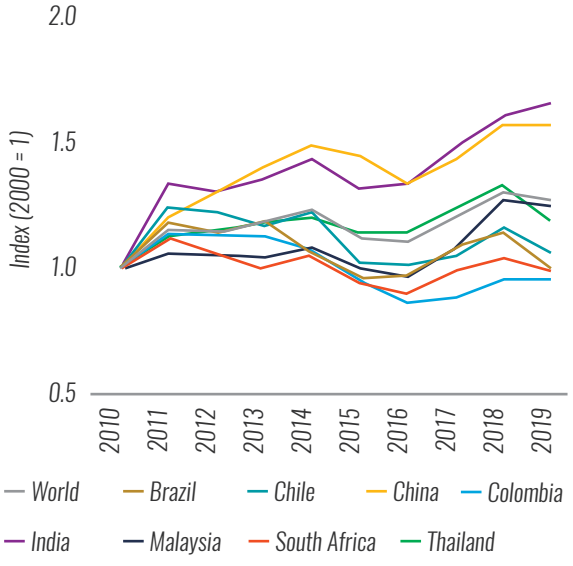


Source: Own calculations using data from the South African Reserve Bank. GDP and GDE are measured in market prices.

Figure 6: Growth in the real value of exports and imports of goods

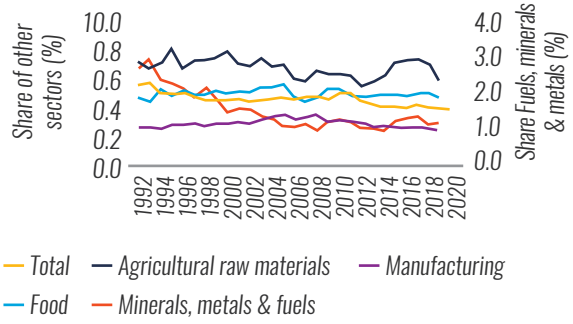
Source: Own calculations using data from the South African Reserve Bank.

Figure 7: South African export value in comparative perspective



Source: WTO data (https://data.wto.org/) and UN Comtrade. Data exclude exports to Botswana, Eswatini, Lesotho and Namibia.

Figure 8: South Africa's share of world export value



Source: World Bank research. Calculations using world export values obtained from WTO. Note: South African export data are obtained from UN Comtrade, but are adjusted for missing or irregular data for several products (gold, platinum, diamonds) during the 1990s. The data exclude South African exports to the other SACU members, as these data are only reported from 2010. Agriculture covers SITC sections 0, 1, 4, and 2 minus divisions 27 and 28; fuels, minerals & metals covers SITC sections/divisions 3, 27, 28, 68; and manufacturing covers SITC sections 5, 6, 7, 8 minus division 68 and group 891.

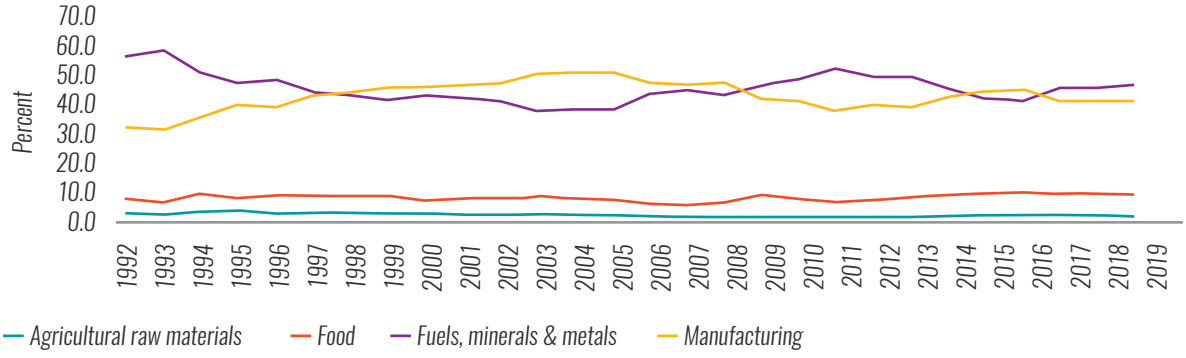
One key outcome of the 2010–19 export growth process has been that minerals and metals remained the most salient feature of South Africa's export bundle. While historically South African exports have been dominated by minerals and metals, and gold in particular, South Africa's export bundle diversified, with manufacturing goods rising as a share of total exports from 1992 to 2004. The reversal of this trend during the commodity boom of the early 2000s was sustained even as commodity prices declined and, in recent years, manufacturing export growth has lagged other sectors. The implication is that the post-2010 period appears to be characterized by diminishing diversification of manufactured exports, with exports increasingly dominated by resource-based manufactured and automotive products (Figure 9).

A similar picture emerges on the import side. Imports of manufactured goods as a share of consumption rose strongly from the 1990s as economic growth recovered following the recession in the late 1980s/early 1990s, and tariff barriers fell. Driven by China's rapid export- led growth following the country's entry into the WTO in 2001, import penetration in manufacturing continued to rise strongly. Imports by South Africa of manufactured goods from China increased rapidly, and in 2009 China surpassed Germany to become the country's main source of imports. Exports to China also rose strongly, with China becoming South Africa's dominant export destination by 2009, though these exports were primarily comprised of metal and mineral products.

Exports have been an important source of demand for South African manufactured goods, but the net contribution to output after considering import penetration has diminished over the past decade. Overall increased domestic demand has been the dominant driver of changes in output growth, raising manufacturing output by 54.6 percent over the 1992–2019 period (Table 1). The contribution of net exports to output growth turned consistently negative from 2001, driven by weaker growth in export orientation, and sharp increases in import penetration. This in turn was largely driven by imports from China, with the re-orientation of manufacturing toward an export-led growth path that was seen as reversing in the 1990s. Moreover, manufacturing production has become more capital-intensive, with production in labor-intensive manufacturing declining, especially in recent years.

Overall, apart from the 1990s, manufacturing export growth has been insufficient to lead South Africa onto a manufacturing export-led growth path. The economic contraction during the global financial crisis, followed by tepid economic growth, a decline in income per capita and thus local demand and continued import competition during the remainder of the decade, contributed to the exit of firms, and the hollowing out of the productive base in manufacturing, including that of exporters.

Figure 9: Share composition of South African exports



Source: World Bank. Calculations using adjusted UN Comtrade data.

Table 1: Decomposition of South African manufacturing output growth (share of initial output)

	1992–2001	2001–2010	2010–2019	1992–2019
Growth of domestic demand	19.8	17.1	9.4	54.6
Increased exports	17.0	3.4	6.8	30.8
(of which exports to China)	0.3	0.6	0.3	1.4
Increased import penetration	-10.2	-9.4	-6.9	-31.9
(of which imports from China)	-1.2	-5.5	-4.4	-14.3
Net trade	6.8	-6.0	-0.2	-1.1
% Change in output	26.5	11.1	9.2	53.5
Change in output (R billion)	142.1	74.9	69.6	286.6

Source: World Bank research extending Edwards (2021). Trade data are obtained from UN Comtrade via World Integrated Trade Systems, while employment and output data are obtained from Statistics South Africa.
Note: Based on 44 manufacturing industries at the 3-digit level of the SIC. The calculations assume common deflators for output and trade values within each industry.

2. South Africa's exports to African markets have expanded faster than to other regions, but remain constrained by tariffs and logistics barriers[11]

South Africa's exports vary enormously across destinations in terms of levels, exporter numbers and product composition. However, it is important to understand the sources of this variation. Analysis using a gravity model (following Bernard et al., 2007; 2009) and focusing only on non-commodity exports shows that higher export values are driven by a combination of more exporters, higher average export values per firm, higher average number of products exported by firms, and higher values of exports per product. For example, the high export values to China, the United Kingdom, and the United States largely originate from the high number of firms exporting to these countries. Larger export destinations (in terms of export value) are also characterized by firms of higher average size.

Unsurprisingly, key determinants shaping the geographical composition of South Africa's exports of food products and manufactured goods are destination GDP and distance. A 10-percent increase in destination GDP is associated with a 10.6-percent higher export value to that destination. Higher aggregate export values to high GDP countries are driven by a combination of more exporters, that export more products with higher export values to these countries. The distance of trade partners also makes a significant difference, with a 10-percent increase in distance resulting in a 21.9-percent decline in exports, driven almost entirely through reductions in the number of exporters and, to a lesser extent, by reductions in the average number of products exported by firms. This illustrates the challenge that South African firms face in accessing international markets given South Africa's geographic remoteness.

Distance to destination markets does not affect all firms equally, with trade costs constraining

11 This section draws on background work on the evolution of South African export competitiveness by Lawrence Edwards and Jing Chien, Benedicte Baduel and Jakob Engel. It uses exporter level customs transaction data for South Africa that cover the period 2010 to 2019 made available through the World Bank Exporter Dynamics Database.

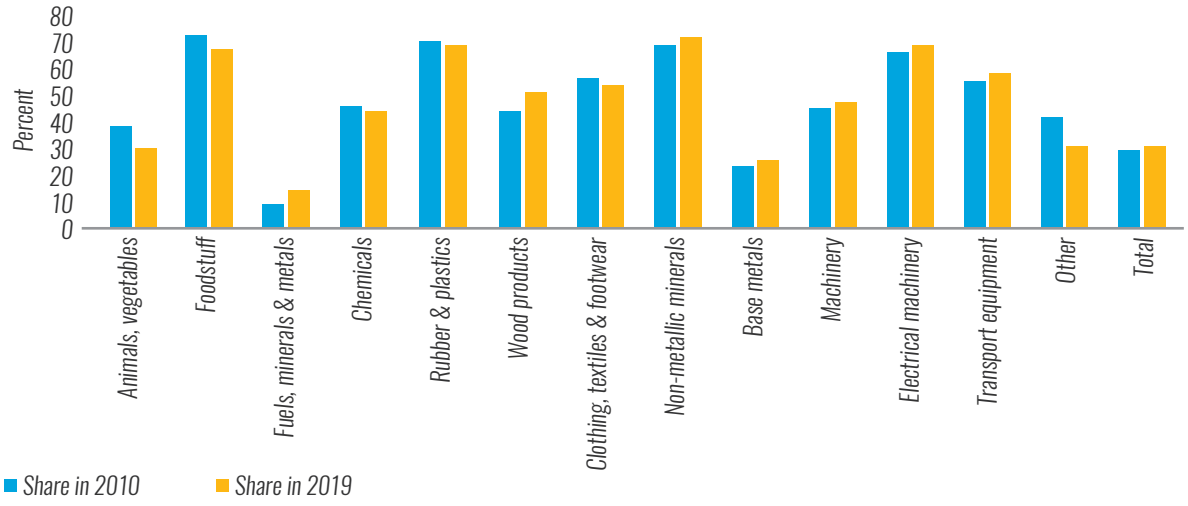
smaller and less efficient firms more. For example, small firms are more likely to export to closer markets, and particularly to SACU members. This is because transport costs and fixed export costs are lower for these countries. In turn, trade costs influence aggregate exports through multiple channels. First, high trade costs to destination markets reduce numbers of exporters to these markets. Second, for exporters that continue to export, high trade costs to a destination reduce the value of the firm's exports to that destination, by lowering both the number of products exported, as well as the value of exports per product.

In this context, exports to regional markets have grown in significance, with exports to Africa serving as a major source of demand for South African manufactured goods (Figure 10). During 2000–12, Africa's share of South African exports of non-mineral goods (excluding those to the SACU) rose from 19 percent to almost 29 percent, thus surpassing the European Union (EU) as the country's major destination for these products. These prior trends have continued including food and beverages, rubber and plastics, non-metallic minerals and electrical machinery (Figure 10).

However, while the African market is attractive as a destination in terms of its relative proximity and future growth potential, trade barriers present a significant obstacle. When looking outside of the Southern African Development Community (SADC), South African firms face substantial tariff barriers on several of their key products. Improved market access through lower tariffs should expand South African exports to these countries through a combination of increased export participation and increases in the range of products by existing exporters. Equally, if not more important, however, is to utilize the AfCFTA to coordinate the implementation of the WTO Trade Facilitation Agreement. Logistics costs are very high on the African continent relative to the rest of the world.[12] World Bank analysis shows that reducing barriers in Africa could stimulate growth in exports mainly through rising numbers of exporters.

South African exports to Africa are particularly

Figure 10: Africa's share in South African goods exports, 2010 and 2019



Source: World Bank research. Calculations using the SACU transaction data.

[12] Simulations of the impact of the AfCFTA predict increases in intra-African exports range of 14.6 percent if only bilateral tariffs are removed, to a high of 133 percent if other complementary policy changes, including the trade facilitation agreement, are implemented (African Development Bank, 2019). For South Africa, the World Bank (2020) simulations predict that exports will rise by 1.4 percent with AfCFTA tariff reductions but will increase by 17.6 percent if non-tariff barriers are reduced and customs procedures improved.

constrained by high tariff barriers on the continent. While South Africa has negotiated a free trade agreement with SADC, tariffs on South African exports still remain for several of these countries. Some countries, such as Angola and the Democratic Republic of Congo, for example, have not yet implemented tariff reductions, while others such as Zimbabwe and Malawi have fallen behind in the implementation of the tariff phase-down schedules. Nevertheless, the weighted average applied rate to SADC (excluding SACU) countries is low, at 1.37 percent (2018 data). Weighted average applied rates on South African exports of goods to the rest of the world are also relatively low, at 1.9 percent in 2018, reflecting a combination of generally low tariffs applied by advanced economies, together with preferential access into the European market in accordance with the Trade, Development and Cooperation Agreement between South Africa and the EU. In contrast, Africa (excluding SADC and SACU) imposes relatively high tariff barriers on South African goods exports, averaging 8.6 percent in 2018.

SACU is a major market, but dependency of many South African exporters on the SACU market has also contributed to a more subdued aggregate export performance. The decline in the total number of exporters is disproportionately driven by low net entry into the SACU market. Gravity model analysis shows that this may in part be attributed to the relatively low GDP growth in the rest of SACU countries over the period. For example, the (lagged) trade weighted average log growth in the SACU market was 1.6 percent per year in 2015–19, compared with 3.1 percent in the rest of Africa, and 3.2 percent in the rest of the world. Our results suggest that this weaker growth will also result in diminished export growth through reducing the range of products by firms that continued to export to SACU countries, as well as through lower values of exports per product.

South Africa's proximity to and membership in a customs union has resulted in high aggregate trade values, firm numbers and product range destined for the SACU market. High entry rates into SACU signal that many firms use the market in experimenting with exporting. This is aided by lower export barriers associated with contiguity of borders and common external tariffs and institutions of the customs union. This provides access to entry into exporting by smaller firms. Most of these firms export manufactured goods and processed food products, which can assist in realizing the GoSA's industrialization objectives, and growth of small firms that are relatively labor-intensive.

Many new entrants only compete on the basis of preference margins and are unable to transition into international markets. Exit rates are also very high. However, there are exceptions. New entrants into SACU that do survive, grow fast and diversify the product and destination composition of their exports. The data suggest that there are considerable gains in learning from exporting. However, these exporters remain small relative to successful entrants into other regions and other established exporters. Therefore, continued high dependence on the small SACU market may constrain growth.

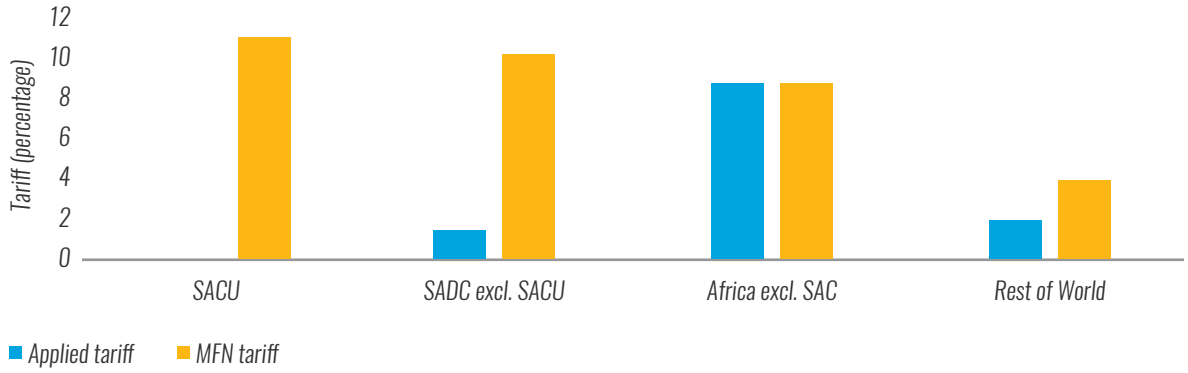
Tariffs in the rest of Africa disproportionately affect South African exports of manufactured goods and food products (Figure 11). This is expected given the manufacturing and food intensity of South African exports to the region.

While South Africa has negotiated a free trade agreement with SADC, tariffs on South African exports still remain for several of these countries.

Nevertheless, a 10- percentage-point increase in Most-Favored Nation (MFN) tariff rates in the rest of Africa are associated with negative 1.8 percent impact on South Africa's aggregate exports. The overall implications of these results are that tariffs imposed on South African exports in the rest of Africa have a significant negative effect on South African exports of manufactured goods and food products. This arises from a combination of high tariffs on products exported, plus relatively strong negative tariff elasticities. The results therefore signify considerable potential gains for South African exporters from the implementation of the AfCFTA. According to the results, exports can be expected to increase through a combination of increased entry of South African exporters into African markets, together with increases in the number of products by exporters and rising values of exports per product. The potential gains from the AfCFTA, as well as policy priorities for realizing these, are discussed in more depth in Section III.

The product composition of South Africa's exports to SACU (and SADC) are shaped by preference margins. This is evidenced by the extent to which SACU member imports from South Africa are biased toward products with high external MFN rates and consequently high preference margins (Figure 11, Table 2). This has several implications. First, preferences to South African exporters under the customs union help explain the relatively high number of exporters and the extensive range of products exported to the SACU market. Second, the high preference margins help explain the presence of small exporters with wide product portfolios, but low values per product, exporting to the SACU market. Preferences enable smaller, less efficient firms to overcome the costs of exporting and provide protection against foreign competitors. Finally, preference margins have also influenced the product composition of South Africa's exports to the rest of SACU, with exports oriented toward products with higher external tariffs. To the extent that South African firms exporting these products only compete on the basis of protection, their scope to expand and grow exports into other markets is limited. The consequence is that the exporter base to SACU does not necessarily provide a platform for expansion into the more competitive global market.

Figure 11: Weighted average MFN and statutory applied tariffs on South African exports, 2018



Source: World Bank research using tariff data obtained from TRAINS.
Note: The values reflect the weighted average tariff across countries in each group using South African 2018 export values as weights. For countries not reporting tariff data, the nearest prior year tariff rate is used. Data for 127 countries are used (4 SACU, 8 Rest of SADC, 21 Rest of Africa and 94 Rest of World).

Table 2: SACU (excl. South Africa) tariffs on imports from South Africa, the rest of SADC, the rest of Africa and the rest of the world, 2018

	MFN	Applied	Preference margin
SACU	9.18	0.00	9.18
SADC excl. SACU	1.27	0.29	0.99
Africa excl. SADC	3.57	3.57	0.00
Rest of the world	4.57	3.92	0.65

Source: World Bank research using export transaction data obtained from SARS.
Note: Based on HS6-digit tariff and import data for 2018 obtained from TRAINS.

High barriers within Africa represent a substantial problem for South African firms. A 50-percent reduction in African countries' LPI gap from the global mean results in a 26.5- percent increase in the value of South African exports. These gains accord with general equilibrium model simulations of the potential impact on intra-African trade arising from improvements in trade facilitation under the AfCFTA.

Finally, South African exports have a positive relationship to trade facilitation, as measured by the cost and efficiency of destination logistical services. An improvement in logistics in a destination from the median to the 75th percentile is associated with about an 84 percent increase in South Africa's export value to this destination. Higher levels of logistics performance, however, reduce destination-level measures of the mean number of exported products per firm, and within-firms, and the mean value of exports per product. This is because the composition of exporting firms and products shifts in response to improved logistical services. With lower logistics costs smaller firms with fewer product ranges are able to enter into these export markets, reducing the average size composition of firms to these destinations.

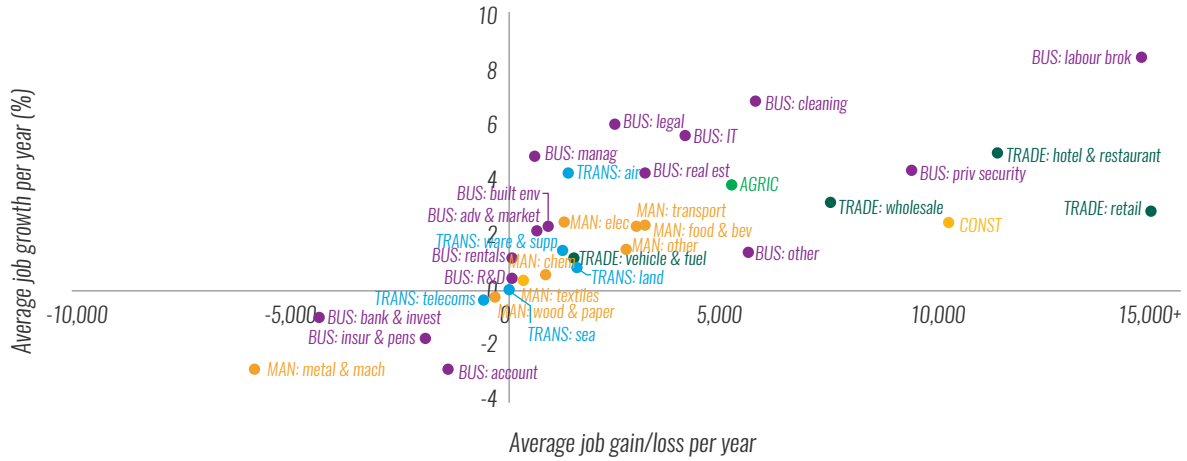
3. Services exports have underperformed and are heavily concentrated, but there is significant growth among knowledge-intensive services[13]

The services sector is the leading source of employment in South Africa. The overwhelming share (76.6 percent) of jobs within South Africa's metropolitan municipalities in 2018 was in service-related industries, led by business and financial services (33.6 percent), retail and wholesale trade (26.9 percent), transport and communications (8.2 percent) and construction (7.9 percent).[14] Manufacturing accounted for only two out of 10 (19.3 percent) private sector jobs in metropolitan areas. However, much of this job creation came from services activities with low value added and weak export potential (Figure 12).

13 This section draws on Visagie and Turok (2023) "Recognising the role of tradable service exports in the South African economy–An untapped resource?" It uses WTO/OECD balance of payments data and firm-level evidence from the 2020 South Africa Enterprise Survey.

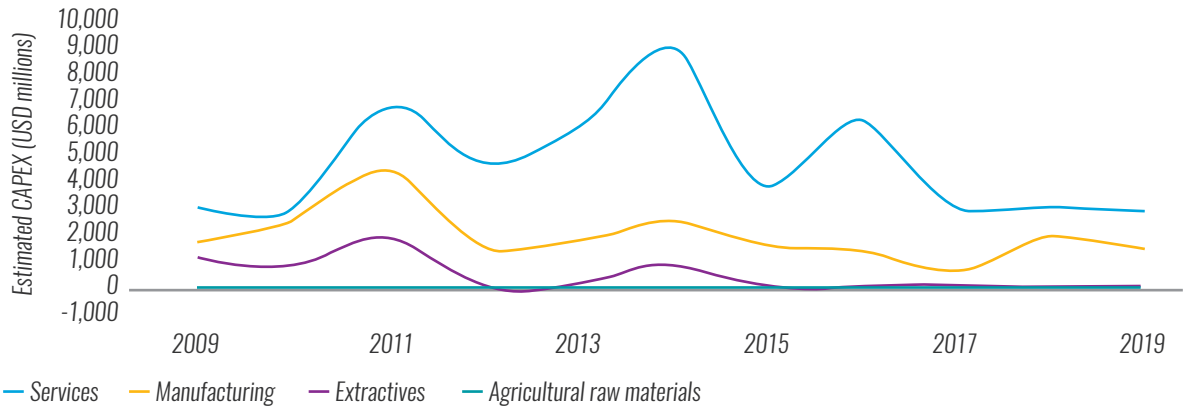
14 This excludes largely non-tradable private households, government, utilities and community services.

Figure 12: Detailed industry job growth in South Africa's metro areas, 2014–18



Source: Metro spatialized administrative tax panel, 2013/14–2017/18. Note: The data cover the tax-year period 2014/15–2017/18 and apply a two-year rolling average. TRADE: retail contributed more than 85,000 jobs but was cut at 15,000+ for visibility.

Figure 13: Greenfield FDI by sector for South Africa, 2009–19



Source: Financial Times FDI Markets.
Note: Data are based on announced greenfield projects over the time period. Capex numbers are estimates and should be treated with caution.

FDI inflows over the past decade have also been predominantly in the services sectors. Greenfield investments into services sub-sectors were consistently two or three times larger than in manufacturing between 2009 and 2019 (Figure 13). While there was significant volatility in foreign investment flows over time, the general trajectory for both services and manufacturing was downward, particularly over the past five years.

Tradable services play an increasingly significant role in the global economy, both in meeting consumer demand and in providing inputs for producers. They contribute to economies both directly through new activities and new jobs, and indirectly by raising the productivity and performance of existing industries and activities. South Africa has struggled to diversify and upgrade its industrial base beyond the export of basic commodities, while business and financial services have been relatively successful. This begs the question as to whether tradable services could make a greater contribution to international trade and, if so, what the opportunities and obstacles are.

Services can also make an important indirect contribution to exports as they are embedded within the value chains of manufactured goods. For instance, according to the OECD's Trade in Value-Added Database, services comprised more than one-third (35.4 percent) of the value added of manufactured goods exported from South Africa in 2018. A brief review of the structure and trajectory of South Africa's economy helps to highlight the importance and potential of services within the domestic economy, sometimes in contrast to the trajectory of manufactured trade. It follows that the contribution of services to domestic trade might be a precursor to opportunities for international expansion, either embedded in manufactured goods or as a direct export.

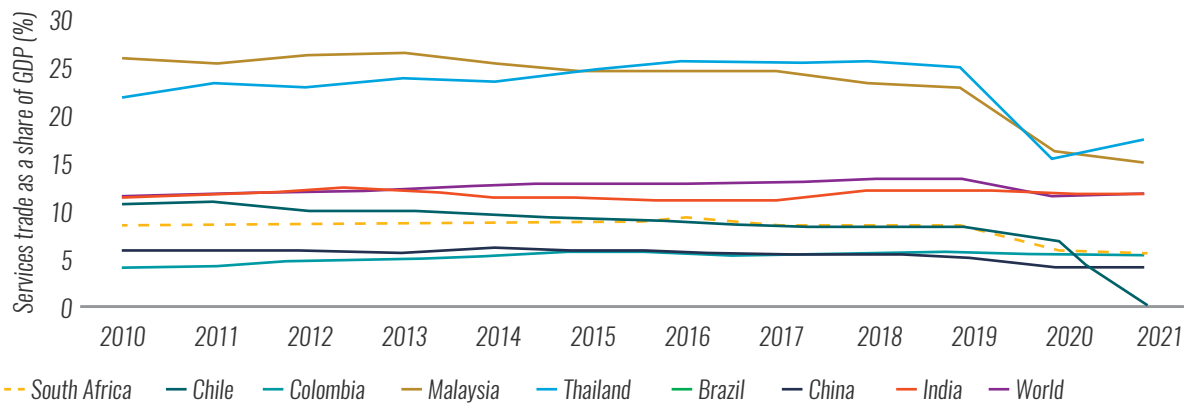
Services exports have been far smaller in comparison to total merchandise trade, fluctuating between 10 and 20 percent of merchandise trade. In 2019 services exports accounted for US$13.7 billion compared with US$83.9 billion for merchandise exports. That said, the value of direct services exports was still substantial.

South Africa's overall services trade has remained stagnant relative to GDP since 2010 and in recent years has even declined. In 2010, services trade as a share of GDP was 8.5 percent and this declined to 5.2 percent in 2021, especially in the context of the COVID-19 pandemic, which had a substantial impact on some of South Africa's leading services sub-sectors such as tourism. In this regard, South Africa lags both the global average and many of its comparators (Figure 14). For example, the share of services trade in GDP of Southeast Asian countries such as Malaysia and Thailand in 2021 was three times that of South Africa's.

The trend for service exports over the past two decades was volatile and tended to correspond with movements in merchandise trade, and hence to the commodity cycle. Both services and merchandise trade experienced a dramatic rise during the commodity boom of 2002 to 2008, but severely contracted in response to the global financial crisis of 2008/09. Both were quick to recover, rising to a period peak in 2011 but then eroded over the rest of the period. By 2019, the level of services and merchandise exports had fallen to levels comparable to the mid-2000s. The volatility of South African services and merchandise exports is clearly of concern, as is the downward trend in recent years.

This co-movement between services and merchandise trade can be explained partly by the significance of travel and transport services (65.8 percent of services exports in 2019) in South Africa's services export basket. Indeed, when

Figure 14: South Africa lags comparators in trade in services as a share of GDP



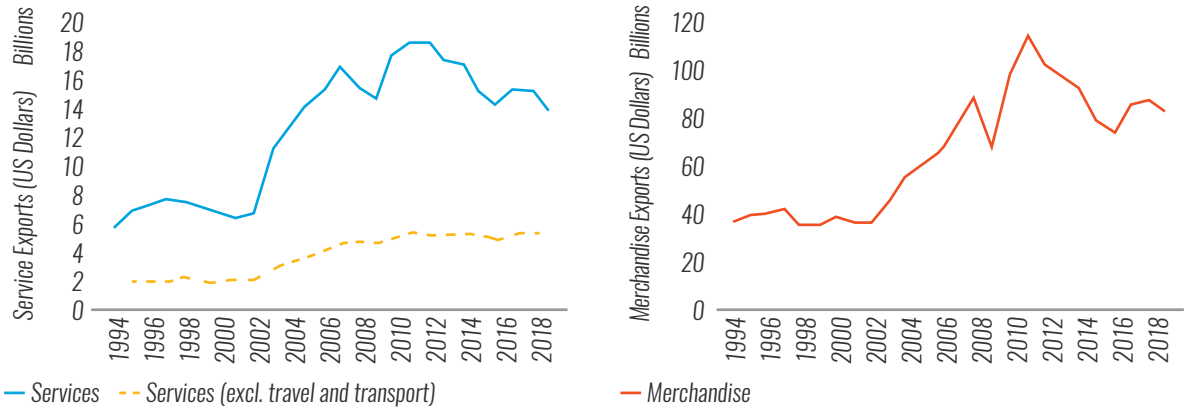
Source: IMF Balance of Payments statistics.

excluding transport and travel from total services exports it shows that total services exports were less volatile and dependent on the level of merchandise trade (Figure 15). Non-transport and travel-related services rose significantly from 2000 onward—although from a low base—increasing from US$1.9 billion in 2000 to US$5.3 billion by 2019, or by about 180 percent.

Between 2005 and 2019, knowledge-intensive services such as financial services, IT and telecommunications performed best among services sub-sectors recorded in balance of payment (BoP) data (Figure 16). The sector classifications are still highly aggregated but give some sense of what lies behind aggregated services export trends. Construction was the only services sub-sector to see declining total exports over this period, confirming the struggles faced by the South African construction sub-sector. Unfortunately, the category 'other business services', which showed the strongest growth overall, is too aggregated to discern specific types of services activities which show significant promise.

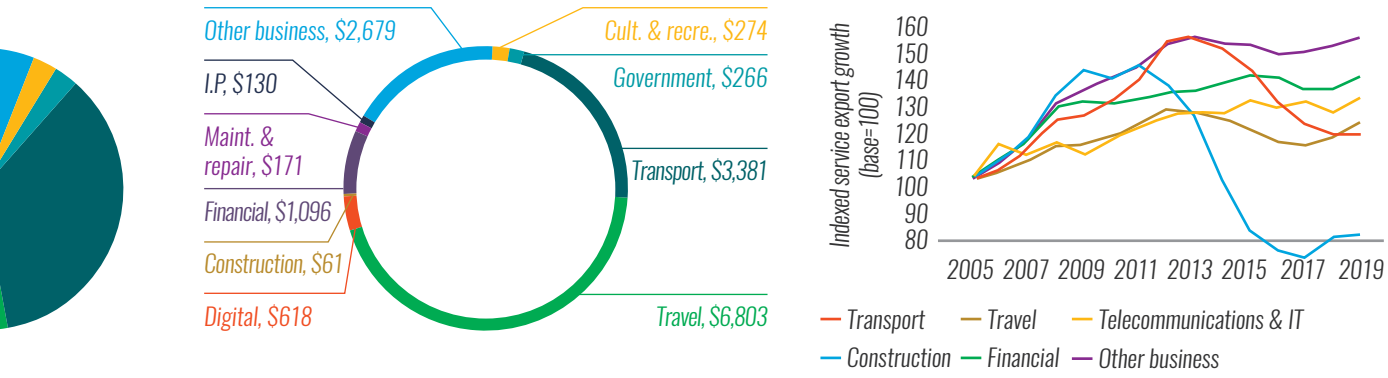
South African services exports made up a small share of total African services imports, and countries nearest to South Africa were the

Figure 15: Merchandise and services exports, 1994–2019



Source: IMF Balance of Payments Statistics Yearbook, OECD-WTO BaTIS database 2018 and 2021.
Note: BaTIS was used to calculate the contribution of services excluding travel and transport. Prices are in constant 2015 US dollars.

Figure 16: Relative size and growth of services exports by sector, 2005–19



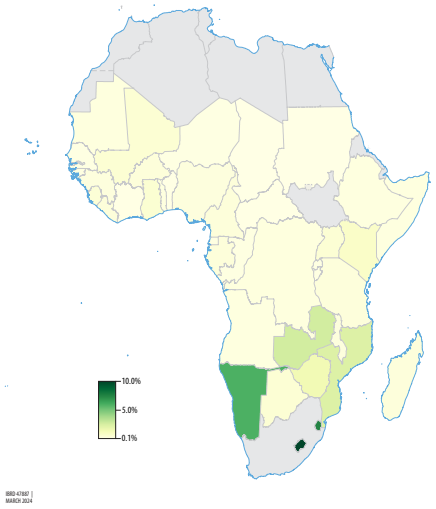
Source: OECD-WTO BaTIS database, 2021.
Note: Constant 2015 US dollar prices. Indexed in 2005, three-year rolling average.

largest importers (Figure 17). Transport and travel have been excluded to focus on higher value-added services that promote diversification away from commodity-based trade. The results should be treated with caution, because of a high degree of modeling and imputation for partner-related balance-of-payments data. Nevertheless, they do suggest that almost all countries in the region imported less than 10 percent of total services imports from South Africa. As such, South African services firms have ample scope to expand and deepen their reach and penetration on the continent, especially given their geographic advantage and the regulatory benefits of belonging to the same regional trade area.

As for many other countries, the dearth of accurate, precise data at disaggregated sectoral levels limits evidence-based policy making to support services exports. South African services data is also highly aggregated and largely drawn from SARB balance of payment statistics. More disaggregated data is needed, relevant to services trade for modes of supply (cross border, consumption abroad, commercial presence, and movement of natural persons), classified at detailed sectoral levels and specifying services export destinations. Another major limitation of balance-of-payments data is that it omits instances where firms establish a commercial presence abroad to service foreign markets. This almost certainly means that balance-of-payments data underestimate the true size and potential of services exports.

Based on the World Bank 2020 Enterprise Survey in South Africa, one in 12 services firms (8 percent) reported exporting their services to a foreign market, compared to one in five manufacturing firms (20 percent) that self-identified as exporters (Figure 18).[15] This confirms the traditional contrast in tradability between services and manufacturing. However, the picture changes dramatically when considering whether firms had set up a branch or subsidiary. For manufacturing, 31 percent of firms had an African branch or subsidiary, and this was 27 percent for firms in services. In this context, South African services firms appear to have much greater foreign penetration than is currently understood or acknowledged. While the survey did not go further to ask about the extent of sales through foreign subsidiaries, this at least gives some sense of the potential tradability of services from South Africa.

Figure 17: South Africa's share of African services imports (excluding travel and transport), 2019

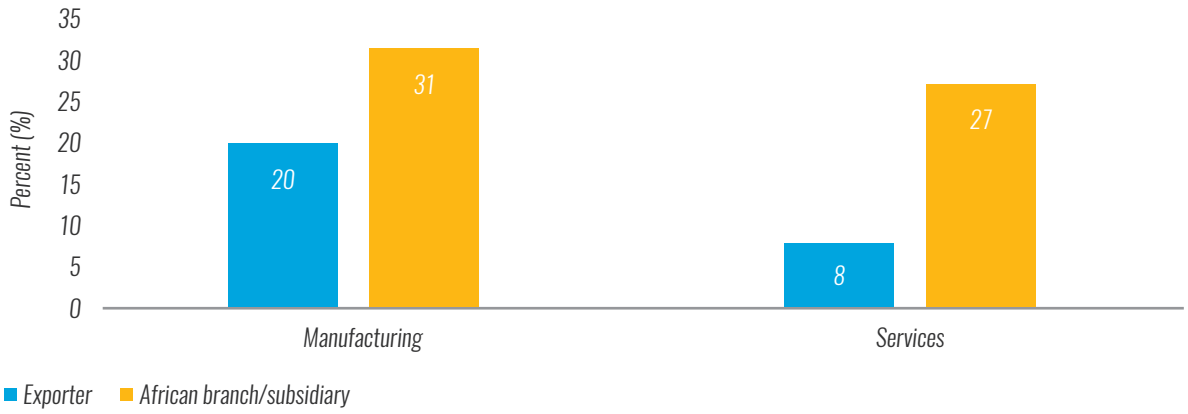


Source: OECD-WTO BaTIS database, 2021.
Note: Export partner sectoral flows for services have a high degree of imputation and should be treated with caution.

[15] This survey covers 1097 firms in the non-agricultural, formal, private economy, and can be compared with more than 174,000 firms in 151 countries that have also completed the survey. Services sub-sectors in the survey include: construction, retail (incl. wholesale), hospitality (incl. hotels and restaurants), logistics (incl. transport, storage and telecoms) and ICT (incl. computer and software services).

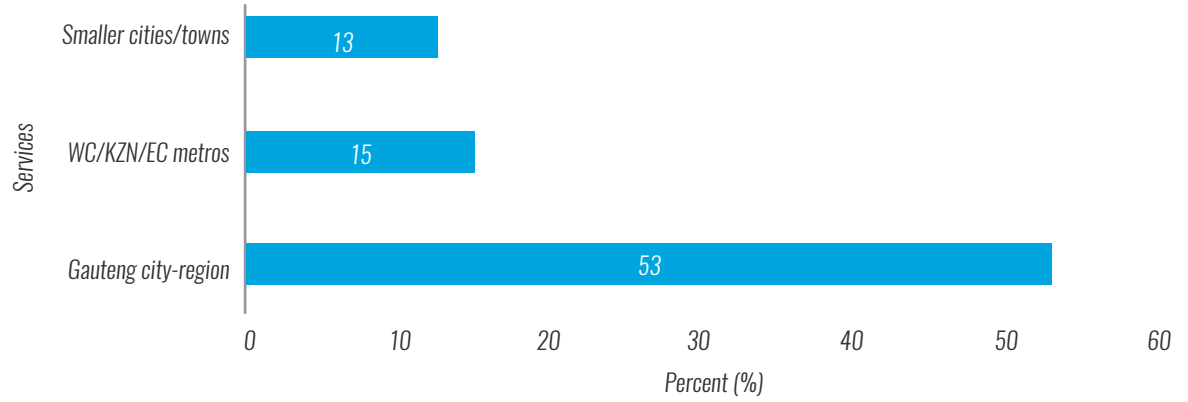
A further interesting dimension to the tradability of services is the high concentration of firms reporting an international presence based in the Gauteng metropolitan areas (Figure 19). Service firms in Gauteng were over three times more likely than those based elsewhere to report being an exporter, or otherwise having a branch or subsidiary on the rest of the continent. This points to the potential role of agglomeration for firms in services in helping to raise competitiveness and promote international trade. The international literature similarly suggests that sector clustering is relatively more important for knowledge-intensive industries.

Figure 18: Percentage of firms with an international presence, either as exporters directly or through a branch/subsidiary in another sub-Saharan African country*



Source: World Bank South Africa Enterprise Survey 2020; World Bank staff estimates.
Note: *The Enterprise Survey asks "does this establishment have foreign affiliates, such as subsidiaries or branches in: SADC member countries or other sub-Saharan African countries".

Figure 19: Firms with an international presence, by region



Source: World Bank South Africa Enterprise Survey 2020; World Bank staff estimates.
Note: Foreign presence includes firms that were either exporters or otherwise had a branch or subsidiary elsewhere on the continent. Only four provinces were included in the sample frame: Gauteng, KwaZulu-Natal (KZN), Western Cape (WC) and the Eastern Cape (EC). Firms were further sorted into urban agglomerations based upon geo-coordinates matched to the Global Human Settlements Layer.

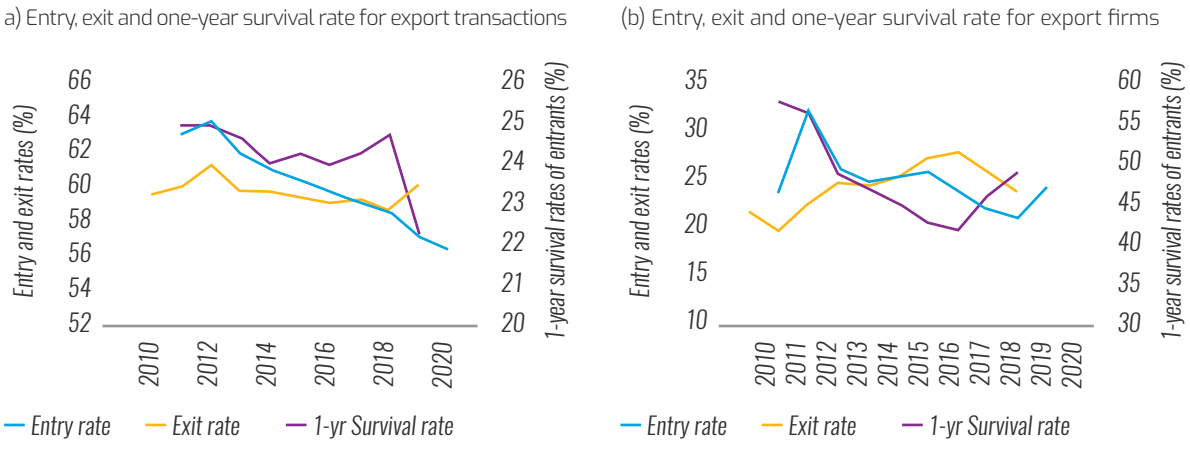
4. Exports have been dominated by a few firms, with relatively few entrants that have seen their survival rate decline over time[16]

Export participation, as measured by exporter numbers and transactions, appears to be a key factor explaining South Africa's disappointing post-2010 aggregate export performance. After initially rising quickly following the global financial crisis, growth in the number of exporters and transactions tapered off, with levels falling from 2016. Exporter characteristics vary enormously across industries. On average, 38,526 firms exported each year in the period 2010–19 and manufacturing by far dominates in terms of the number of exporters per year (close to 35,000), products (3,197), destinations (216) and transactions (914,000). Each firm that exports manufactured goods exports 18.4 products on average, compared with between 2 and 2.5 products for firms exporting raw agricultural materials and fuels, metals and minerals. However, the average value of exports per firm is greatest for firms exporting fuels, metals and minerals at US$5.7 million per year, compared with US$923,00 per firm exporting manufactured goods.

Most exporters, and particularly smaller exporters, are highly dependent on the domestic market for the bulk of their sales. For many exporters, sales to the domestic market provide the platform from which they can access international markets. The empirical evidence also shows that a firm's size is a critical determinant of a firm's entry into exporting. However, South African industry is highly concentrated, suggesting considerable barriers to entry and success for small firms in the domestic market. The high concentration of South Africa's industries contributes toward the very high concentration of South Africa's exports (World Bank, 2018). Anti-competitive practices, and policies that raise the costs of doing business for new and smaller firms, inhibit the diversification of the manufacturing industrial base, and thus the export base.

This weak growth in exporter firm numbers is associated with declining net-entry driven

Figure 20: Entry, exit and net entry rates for firms and transactions



Source: World Bank research using export transaction data obtained from SARS.
Note: Entry rates for firms are calculated as Number of $Entrants_t$/Number of $Exporters_t$, Exit rates are calculated as Number of $Exiters_t$/ Number of $Exporters_{t-1}$, and Survival rates are calculated as Number of $Survivors_t$/Number of $Entrants_t$ where $Survivors_t$ are entrants in t that export in t+1.

16 This section draws on background work on the evolution of South African export competitiveness by Lawrence Edwards and Jing Chien, Benedicte Baduel and Jakob Engel. It uses exporter level customs transaction data for South Africa that cover the period 2010 to 2019 made available through the World Bank Exporter Dynamics Database.

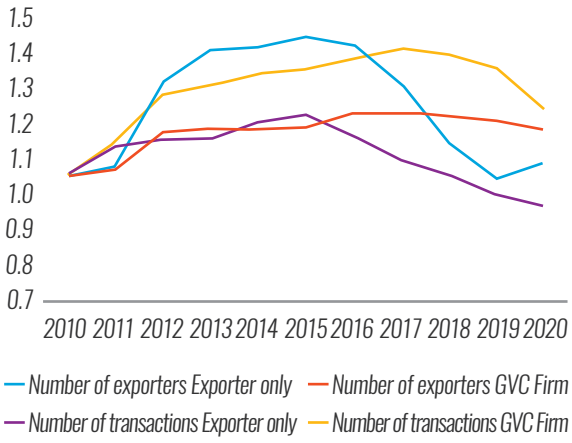
by declining entry rates and rising exit rates. These trends were compounded by diminishing survival rates of new entrants and new export transactions: in 2011/12, the average one-year survival rate for new entrants was 57 percent. By 2018, this had fallen to 46 percent (Figure 20). This is also reflected in a contraction in the range of export products and destinations. The implication is that South Africa was failing to replenish its stock of exporters and transactions through declining net entry and survival of exporters and export transactions. This decline was broad-based covering most industries and firm types.

Firms operating in GVCs are more resilient, with much of the downturn in exporter numbers from 2016 being driven by exporter-only firms (Figure 21). The number of GVC firms rose from 2010, albeit initially more slowly than exporter-only firms. But in contrast to exporter-only firms, their number continued to increase from 2015/16, whereas exporter-only firms exited sharply. GVC firms are also found to have lower entry and exit rates, have much higher survival rates of new entrants (59 vs. 43 percent), and less churning. The pervasiveness of these changes across industries suggests that common supply factors are driving outcomes.

While in most countries, a small number of 'superstar' firms drive export performance, this is significantly more pronounced in South Africa. Figure 22 shows South Africa's top 5 percent firm share of exports by HS Chapter heading (2-digit level) against the mean of a sample of 48 countries in 2012. Most points in the figure are above the 45-degree line indicating that South Africa has a more concentrated firm export structure than the average in most of the HS chapters. Of the 94 HS chapters analyzed, South Africa falls in the top five countries in terms of concentration in one-third of the chapters.

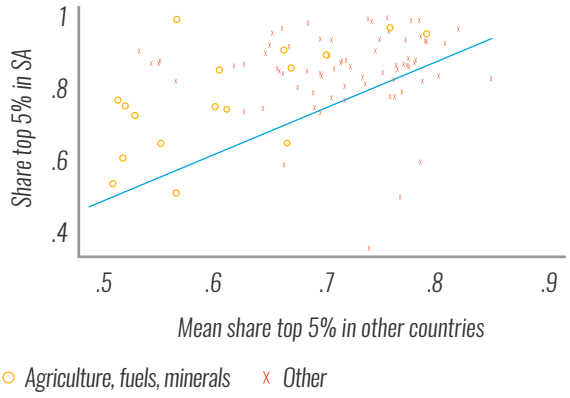
Lower export performance has been associated with growing concentration. Earlier research by the World Bank (2014) covering the period up to 2012 revealed that exports continued to be dominated by minerals and metals, although substantial success had been achieved in incentivizing exports of motor vehicles and other transport equipment. To assess whether export concentration has changed from this time,

Figure 21: Index of number of exporters and export transactions by GVC firm status (2010=1)



Source: World Bank research using export transaction data obtained from SARS.
Note: GVC firms are those that import capital and intermediate inputs (as per the End-Use classification) in that year. A transaction is measured at the export-product-destination level using annual data.

Figure 22: South Africa's firm export concentration by HS chapter from a comparative perspective, 2012



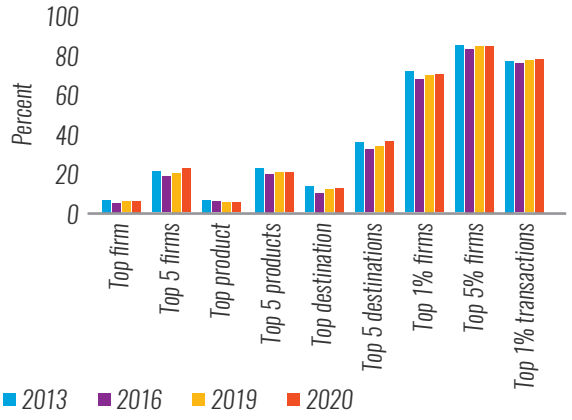
Source: World Bank research using Exporter Dynamic Database data for 2012 covering 49 countries. The category Agriculture, fuels and minerals covers HS 01-15 (Live animals, vegetable products (incl. fats & oils), Animal fats and oils), HS 25-27 (Fuels and mineral products) & HS71 (Precious metals).

Figure 23 presents several measures of export concentration from 2013 to 2019. The data reveal two trends in export concentration. From 2013 to 2016, a period in which exports grew as a percentage of GDP, firm export concentration fell, whether measured in terms of the share of the top firms or as a percentage of firms. For example, the export share of the top 1 percent (5 percent) of firms fell from 77 percent (92 percent) to 73 percent (90 percent) over the period. The geographic and product concentration of exports also fell, reflecting a diversification of South Africa's export bundle. However, from 2016 to 2019, as exports as a percentage of GDP fell, export concentration levels rose, with the export share of the top 5 percent of firms rising back close to 2013 levels of 92 percent.

Similar trends in concentration are found across most industries. Figure 24 plots the share of the top 5 percent of firms in total exports by industry for 2013, 2016, 2019 and 2020. As shown in the figure, firms' export structure is most concentrated in the primary and commodity-based industries (animals & vegetable products, fuels, minerals and metals, base metals) where the export share of the top 5 percent of firms exceeds 95 percent.[17] Concentration levels are generally lower (below 90 percent) in the manufacturing industries such as electrical machinery (80–82 percent), non-metallic minerals (72–75 percent), rubber & plastics (82–86 percent), wood products, and clothing & textiles, but still exceed 90 percent in processed foods, chemicals and transport equipment.

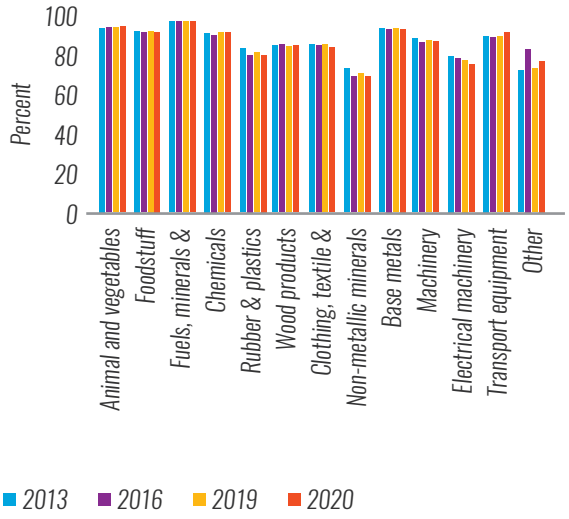
The very high concentration of exports in most industries also points to a "missing-middle" of exporting firms, and the presence of barriers inhibiting growth of medium-sized firms. This is indicative of a stagnant export structure with very low transition of firms from small- to large-firm status, thus perpetuating high levels of concentration (Figure 25). There is also little transition by firms from low quintiles to the highest quintile over time, driven by a combination of high exit rates, and insufficient export growth relative to larger firms. The low entry and exit rates and high survival rates are consistent with

Figure 23: Measures of export concentration



Source: World Bank research using South African export transaction data. The data exclude gold exports, the inclusion of which raises the level of concentration, but has no effect on the trend. Export concentration across products is calculated based on data at the HS 6-digit level.

Figure 24: Share of top 5% of firms in exports by industry



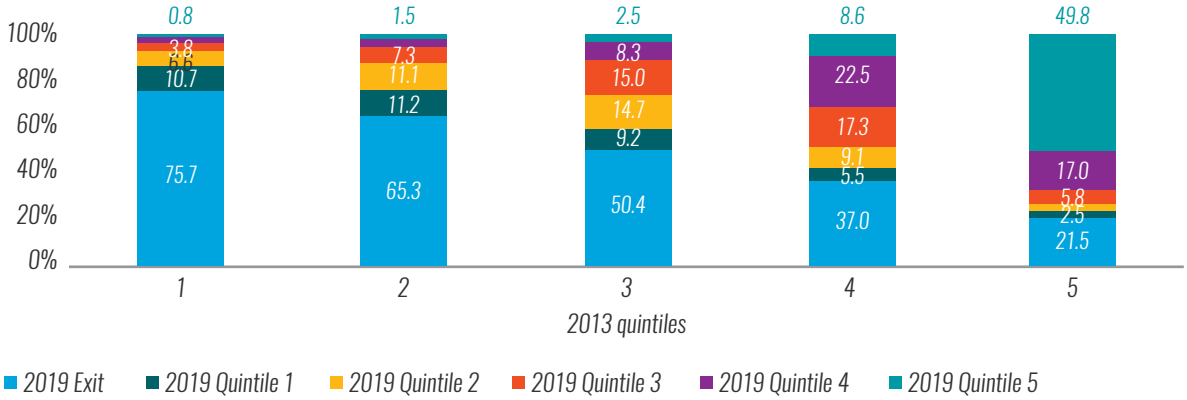
Source: World Bank research using South African export transaction data. The data exclude gold exports.

[17] Concentration levels rise the more disaggregated the product category. This explains the high levels of firm export concentration for the industry groups relative to that of total trade& plastics (82–86 percent), wood products, and clothing & textiles, but still exceed 90 percent in processed foods, chemicals and transport equipment.

an environment of high sunken costs of entry together with less uncertainty about export success at the firm level (Fernandes et al., 2016). But the high firm export concentration in South Africa is also reflective of more pervasive barriers to entry leading to high levels of firm concentration and markups across South African manufacturing industries (Fedderke et al., 2018). Resolving South Africa's manufacturing export predicament may therefore require policies to resolve South Africa's concentrated domestic market structure.

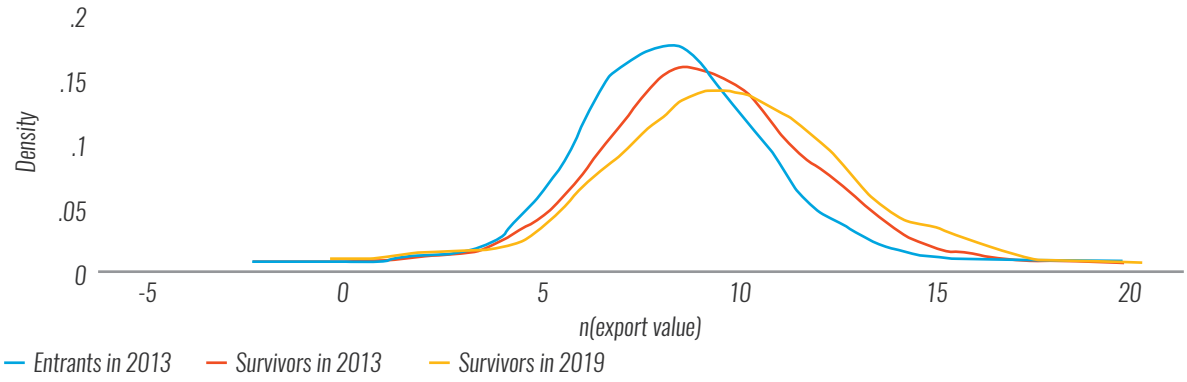
Selection and relatively strong export growth are associated with the survival success of new exporting firms. Firms that have traded for many years are substantially larger than younger firms that have traded for fewer years. One reason is that new entrants that survive are already larger at entry than those firms that subsequently exit. This is shown in Figure 26 where the cohort of 2013 entrants that survive are much larger than the size of the average entrant. Entrants that survive are also very different from non-survivors even at the year of entry: they export more products, are larger, more likely to be GVC firms and less likely to only export manufactures. However, growth from experience also contributes, as shown by the rightward shift of the size distribution of the 1,786 entrants that survived from 2013 and 2019. Sustaining export participation by new entrants

Figure 25: Quintile transition matrix, 2013–19 (all firms)



Source: World Bank research using export transaction data obtained from SARS.

Figure 26: The exporter size distribution of the 2013 cohort of entrants



Source: World Bank research using export transaction data obtained from SARS.
Note: Based on a sample of 8,375 exporters that entered in 2013 and 1,786 of these entrants that survived to 2019. The legend 'Entrants in 2013' denotes all entrants in 2013 that had not exported in either 2010, 2011 or 2012. 'Survivors in 2013' presents the firm size distribution in 2013 of entrants in 2013 that survived to 2019. 'Survivors in 2019' presents the firm size distribution in 2019 of entrants 2013 that survived to 2019.

can thus make a substantive contribution toward a recovery in export growth.

Exporting to other SACU countries does not appear to provide a strong platform for diversification and entry into global markets. SACU-exporting firms share a few key characteristics. First, they are more numerous, and export a wider range of products, but are smaller as measured by export value, with substantially lower export values per product. Second, exports to SACU are shaped by the preference margins, and target relatively protected products. These exports therefore do not necessarily arise from a globally competitive production base. Third, SACU represents a major source of demand for South African exports of manufactured goods and food products but not for much else, with the contribution of SACU to export growth diminishing over time. Finally, they have lower survival rates. For some firms, SACU does appear to provide a platform for some exporters to grow and diversify their product range and export destinations. But numbers are few, suggesting that this is the exception rather than the rule.

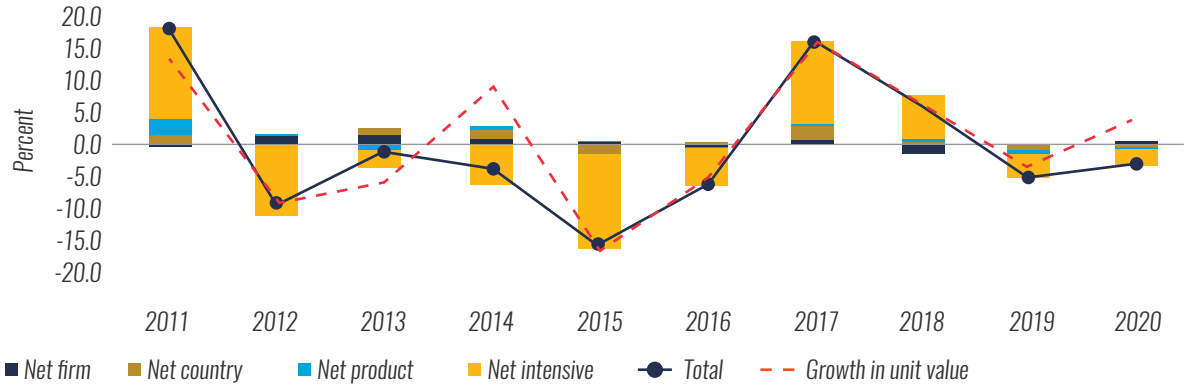
All of this indicates that South Africa faces challenges, as it becomes more difficult for exporting firms to succeed. Firms that enter and survive grow fast and diversify, but for the majority entry is difficult and tends to require relatively high levels of productivity, as well as GVC linkages. The absence of more wide-spread "learning-by-exporting" effects and the "missing middle", in terms of firms' size, may suggest that many firms are unable to enter the domestic market and grow, and thus expand into the international market.

Finally, when examining the impact of these firm dynamics on aggregate export growth, it becomes evident that South Africa's annual export growth between 2011 and 2020 was dominated by the intensive margin (Figure 27).[18] Of the extensive margin, net entry of firms and net entry of existing firms into new countries are the major contributors, with net entry of products by continuing firms into existing markets playing a very small role. A further feature is the prominent role that price movements play in the contribution of the intensive margin, accounting for 76 percent of annual growth in the intensive margin across the period 2011–19, excluding 2014, which was an outlier. The net contribution of changes in export quantities to growth in the value of continuing export transaction is very low and falls below that of the contribution of the extensive margin in many years. The contribution to aggregate growth is moreover driven by the top 1 percent, GVC firms, exporters to the rest of the world, and commodity-based exporters, given their dominant shares in total export value.

Post-Covid, it is notable that the recovery in aggregate exports of small firms was more rapid than for large firms. This reflects a persistent negative intensive margin effect for large firms, and rapid extensive margin adjustments for small firms. While the extensive margin had a dramatic negative impact on export values in April 2020, its negative impact on exports was temporary, as firms re-entered the market from May 2020 and continuing firms re-established linkages with markets and re-introduced export products. However, whereas by July 2020 the extensive and intensive margins had proportionate effects on aggregate export growth of small firms, a relatively large negative intensive margin continued to depress export growth of large firms until October of 2020. From late 2020, growth in exports of both large and small firms raised aggregate export values, but the margin contributions continued to differ. Growth in exports of large firms was mostly driven by the intensive margin, while growth in exports of small firms was driven by the extensive margin, and firms' entry in particular.

[18] Export growth along the intensive margin refers to increasing exports of existing exports and to existing partners. Export growth along the extensive margin related to increasing the number of exported products and export partners.

Figure 27: Net margin's contribution to mid-point growth of aggregate exports



Source: World Bank research using export transaction data obtained from SARS.
Note: Based on approach by Bricongne et al. (2012).

Firms' export response to the COVID-19 crisis differed from that of the global financial crisis in some important respects. Matthee et al. (2016: 183) find that the intensive margin contracted significantly during the global financial crisis of 2008/09, but then bounced back to pre-crisis levels quickly. However, they find that the negative impacts on the extensive margin persisted after the crisis, with lower levels of entry of firms, new products and new destinations, particularly to African markets. The decompositions using annual data for 2020 and 2021 also show a recovery of the intensive margin in 2021, although to levels higher than the pre-crisis period. However, the monthly decompositions reveal a much slower recovery of the intensive margin compared with the extensive margin in 2020. Furthermore, the extensive margin recovered very quickly, such that it only had a small negative impact on export growth in 2020, despite the collapse in trade in April 2020. Unlike the global financial crisis, the recovery in firms' entry was particularly quick and continued throughout 2021, boosting overall exporter numbers, with Africa a major export destination for these firms.

Overall, the analysis of the COVID-19 shock reveals substantial differences in the adjustments by firms according to their size, industry and GVC status. Smaller firms, for example, were far more likely to exit in response to the lockdown level 5, but were also quick to re-enter the export market. Entry of new relatively small firms also occurred resulting in an increase in the total number of exporters of manufactured goods to levels above pre-pandemic levels. Larger firms, and GVC firms in particular, continued exporting during lockdown level 5, but adjusted by exiting destinations and reducing the value of exports of products in those markets that they continued to export to. The recovery in value of manufactured exports by these large firms was slower than small firms, mainly because of a slow recovery in exports along the intensive margin. One reason, as shown in the econometric estimates, is that COVID-19 controls in destination markets impeded firms' export growth. GVC firms were also affected by restrictive COVID-19 controls in markets where they sourced their imported intermediate and capital goods. Exports by GVC firms were thus disproportionately negatively affected by the rapid imposition of relatively severe mobility restrictions in many countries in the first part of 2020. GVC exports, however, then recovered more quickly as COVID-19 controls were relaxed. The net effect was that GVC firms outperformed other firms, after controlling for firms' size and other characteristics, in terms of growth in export value between the fourth quarter of 2019 and the fourth quarter of 2020.

5. Increasing transport and logistics costs have penalized the competitiveness of South African exports

Good access to international markets through exports and access to imported intermediate inputs are critical for trade and GVC integration. High costs and delays associated with cumbersome border procedures impede the participation of firms in trade, as they raise the cost of accessing intermediate inputs and reduce the net price received for exports. Furthermore, they discourage the entry of smaller firms into exporting, and contribute toward the rising capital and skill composition of the South African export bundle.

Despite longstanding efforts to address transport and logistics constraints, these remain significant impediments to South Africa's competitive advantage. Given its location, South Africa already faces a significant disadvantage with respect to the distance to major trading markets, in turn negatively impacting the price of goods (Draper et al., 2018). This is exacerbated by several additional factors, including the inefficiency of South Africa's ports, poor quality rail infrastructure, a lack of intermodal facilities, and high road freight and pipeline transport costs (Havenga et al., 2017). This is borne out by numerous indicators, in particular the World Bank Logistics Performance Index (LPI) which shows that South Africa performance has stagnated over recent years (Table 3).

South Africa's ports and rail systems have been deteriorating fast, because of mismanagement, underinvestment, theft and lack of competition. Historical factors have also played a role. South Africa's trade infrastructure was primarily designed for minerals trade rather than for general goods trading (Pieterse et al., 2016; World Bank, 2018). Several powerful transport SOEs have historically played an important role in integrating the South African economy. Transnet has origins dating back to the late-19th century with the creation of a government railway corporation. It subsequently developed and managed a variety of harbors to facilitate the exporting of gold, minerals, and agricultural produce. It built a strong international reputation for technological leadership and engineering expertise (Visagie and Turok, 2023).

However, the capabilities of many transport SOEs have been badly eroded over the past decade, because of poor executive appointments, governance failures and mismanagement. There have been far-reaching effects on the efficiency, cost, reliability, and responsiveness of state-owned transport systems. The railway network has suffered serious damage, disruption, theft and vandalism, resulting in business customers diverting their cargo freight onto the roads.

Table 3: South Africa's ranking and scores on the LPI, 2010–23

Year	LPI Score	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
2010	3.46	3.22	3.42	3.26	3.59	3.73	3.57
2012	3.67	3.35	3.79	3.50	3.56	3.83	4.03
2014	3.43	3.11	3.20	3.45	3.62	3.30	3.88
2016	3.78	3.60	3.78	3.62	3.75	3.92	4.02
2018	3.38	3.17	3.19	3.51	3.19	3.41	3.74
2023	3.70	3.30	3.60	3.60	3.80	3.80	3.80

Source: World Bank.

South African ports have also suffered from aging infrastructure, under-investment, and poor decision-making in recent years. A recent study found that the four main South African container ports are among the five worst performing of 351 container ports in the world (World Bank and S&P, 2021). The result is serious delays in ships berthing at the ports, global shipping lines deliberately bypassing South African ports increasing costs for exporters, importers and other firms across the port logistics supply chain.

The decision to reform Transnet could help address some of these constraints. The Transnet Corporate plan, approved by the Board in March 2021, envisions the separation of business units to increase the private sector's role in container terminal operation and management, and in the freight rail sector (Transnet, 2021). Supported by Operation Vulindlela, Transnet has appointed an international terminal operator to develop a partnership for the operation of Durban Pier 2 container terminal in order to crowd-in private investment and improve its operational performance. Steps have also been taken to establish the National Ports Authority as an independent entity.

While the freight sector does not face the same historical issues, border delays still constitute a significant competitive disadvantage. While there is increasing recognition among customs and border agencies that the land borders require improved cooperation and coordinated border management with neighboring countries (in particular, Mozambique at Lebombo and Zimbabwe at Beitbridge), these efforts are only proceeding slowly. This will, in particular, require improving customs procedures and fully implementing the WTO Trade Facilitation Agreement, as well as targeted measures along key corridors.[19] Recent progress in this area has included the implementation of numerous key pieces of legislation[20] but among many other issues, the lack of a trade single window restricts the overall levels of facilitation provided. Similarly, South Africa remains constrained by inadequate and insufficiently coordinated trade facilitation governance. These in turn limit effective engagement of key stakeholders, coordination, and leadership for advancing priority projects to improve customs and border management procedures.

In turn, addressing these non-tariff and trade facilitation barriers in South Africa and the SADC region is essential. Trade facilitation bottlenecks are a challenge across all sectors in South Africa and the pandemic has aggravated the situation (Zutari, 2022). Shipping lines avoided South Africa during the pandemic-aggravated congestion by diverting to Walvis Bay and Mozambique, and in some cases did not return to South African ports. The port of Maputo offers comparable costs and efficiency to the port of Durban, for example.

---

19 For example, a recent report on the Maputo Corridor, which has seen significant investment and increased demand from South African firms in the context of high levels of congestion in Durban, is in need of support to function as a useful trade corridor (Mommen, 2022). Key problems include: (i) limited operating hours, which exacerbate congestion; (ii) cumbersome and fraught border crossing facilities; (iii) high levels of crime and lack of effective policing and traffic management; (iv) lack of transparency and high levels of corruption; (v) poor cooperation between South African and Mozambican authorities; and (vi) lack of a corridor management institutional framework on the corridor.

20 This includes (i) the Customs Control Act, 2014 and The Customs Duty Act, 2014 which were promulgated into law in July 2014 to replace the Customs and Excise Act, 1964; and (ii) the Border Management Authority (BMA) Act, 2020 that designated the BMA as the lead agency to integrate border controls performed by other state agencies, with the exception of customs controls, which remain performed by the South African Revenue Service (SARS).

6. Increased exports have led to significant improvements in wages, but have mixed distributional impacts[21]

To better support job creation and increases in wages and inclusive growth through trade, it is important to understand its distributional impacts. Past work on South Africa has highlighted both broad-based gains from export growth and diversification (e.g., Edwards and Lawrence, 2006; Thurlow, 2007; Feddersen, Nel and Botha, 2017), as well as some of the negative impacts from increased import competition, especially from China.[22] Despite this growing body of literature, there is a dearth of empirical evidence on the effects of exports on firms' performance and wage inequality in Africa. Research has been limited by the lack of administrative panel datasets at the firm and worker-firm levels.

At the same time, there have been growing concerns about the feasibility of export-led industrialization in African economies, including South Africa, motivating an increased focus on import substitution policies. Many of these economies are characterized by a disproportionate importance of commodity exports and a limited number of successful exporters in manufacturing. For instance, Rodrik (2018) argues that the advent of new production technologies, such as industrial robots, will make it less likely that manufacturing exporters, even if successful, will eventually absorb a meaningful share of the large pool of low skill labor in Africa.

New World Bank research analyzes the causal effect of export shocks on firms' performance and labor market outcomes in South Africa. It draws on rich panel data combining firm and worker-firm administrative records with customs data on trade transactions from the South African Revenue Service and National Treasury (SARS-NT) over the period 2013–18.[23] These data are supplemented with macroeconomic variables on GDP growth and bilateral real exchange rates from the IMF's International Financial Statistics (IMF-IFS) dataset over the same period. The analysis utilizes an instrumental variables strategy exploiting initial heterogeneity in the composition of export destinations across firms, and differential movements in real exchange rates and GDP growth across those destinations. It relies on the variation of GDP growth and bilateral real exchange rates across the main export destinations of South Africa[24] to examine the causal effects of export shocks on firm performance, employment, earnings, and demand for skills of firms. The heterogeneity in the relative importance of different destinations

---

21 This section draws on background work on the impact of exports on labor market outcomes by Paulo Bastos, Daniel Brink and Regina S. Seri. It uses the SARS-NT panel database.

22 For example, Edwards and Jenkins (2015) find that increased import penetration from China caused South African manufacturing employment to be 8 percent lower than it would have been otherwise, with imports displacing output in labor-intensive sectors. Erten, Leight and Tregenna (2019) find that districts where tariff cuts where highest, saw the largest declines in tradable sector employment relative to other districts. Bastos and Santos (2021) find that a reduction in tariffs lead to those living in former homelands to experience slower growth in employment and income per capita than those living in the rest of the country. Between 1996 and 2011, a 10 percent reduction in employment-weighted tariffs led to a fall in income per capita of 1.4 percent outside the former homelands and a 3.7 percent reduction in income per capita in municipalities that included at least one former homeland.

23 The SARS-NT database is an unbalanced firm-level panel data compiled from several sources of administrative tax data, including (i) the company income tax data from registered firms submitting tax forms, (ii) employee data from employee income tax certificates submitted by employers; (iii) value-added tax data from registered firms; and (iv) customs records from traders (Pieterse et al., 2018). The coverage period is 2008–18, but the focus is narrowed to the 2013–18 period due to lack of completeness in earlier years.

24 The top destinations include both developed countries, such as the Netherlands, Germany, the United States, Spain, and Japan, and emerging markets, including India, China, Brazil, Turkey, the United Arab Emirates, Namibia, and the Republic of Korea. These figures unveil considerable variation in real exchange rates and GDP growth across the main export destinations of South Africa over the period of analysis.

at the firm level is important for identification and makes it possible to construct firm-specific movements in foreign GDP and real exchange rates, in turn allowing for the estimation of how the resulting differential export shocks impact firms' performance and within-firm inequality (see Box 1).

The outcomes of regressions using the preferred instrumental variable specification show that an increase in firms' export growth causes an increase in firms' sales, real capital stock, and total payroll growth. The effects on employment and wage growth are positive but non-significant. A 10-percent increase in firms' export growth leads to a 1.01 percent increase in sales growth, 0.17 percent in real capital stocks growth, and 0.20 percent in total payroll growth. This evidence suggests that policies aiming at creating suitable conditions to boost exports play a key role in maintaining firms' growth, with ambiguous results on wages and employment growth. This supports the conclusions of the recent World Bank (2022) report *Inequality in South Africa*, which highlights the importance of strengthening access to and availability of private sector jobs.

However, the labor market impacts of export growth have a greater positive impact on those who are not at the top of the wage distribution. For the top 1 percent of firms, a 10-percent increase in export growth induces a 0.06-percent decrease in employment growth, but leads to a 0.16-percent increase in growth of average wages. For the bottom 99 percent, the estimates show that export growth leads to an improvement of all firm-level variables, including employment, payroll, and average wages growth, with a more pronounced significant effect on payroll growth. For example, a 10-percent increase in export growth induces a 0.22-percent increase in payroll growth.

There is significant heterogeneity of effects with regard to firms' size, industrial sector and region. This includes the following:

- The positive effects of export growth on firms' performance, jobs, and wages are driven mainly by SMEs. In contrast, the impacts of firms' export growth on all dependent variables are not significant for large firms. This suggests that large firms have already saturated export markets, limiting the scope for future growth via new products and markets. Thus, the most significant potential for future export growth would not come from the leading exporters but rather the "missing middle" discussed under Finding 3.

- Export growth is positively associated with sales growth for both manufacturing and mining firms. At the same time, increases in export growth led to higher total payroll growth for manufacturing firms, and higher growth in the real capital stock for mining firms.

- Results are mostly driven by firms located in the Western Cape. In this region, an increase in export growth causes improvements in both firms' performance and labor market outcomes through an increase in growth of sales, capital accumulation, employment, and total payroll. For other regions, these effects are less clear. We find a positive causal effect of export growth on firm performance in Gauteng, KwaZulu-Natal and the Northern Cape. A positive impact of export growth on wage growth is observed in Free State and Limpopo. An increase in export growth is associated with higher sales growth in Gauteng, KwaZulu-Natal, with higher payroll growth in Free State, with wage growth in Limpopo, and real capital stock growth in the Northern Cape.

Box 1: Overview of empirical approach

To examine the causal effects of export growth on firms' performance and labor market outcomes for manufacturing, mining and agricultural firms, several firm-level outcome variables are considered. These include sales, real capital stock, wage bill, and average wages, as well as within-firm inequality. The empirical approach entails a two-step process where first a simple OLS specification regresses the yearly change in log of exports on the log of the firm-level outcome. Industry-period effects and firm-fixed effects absorb, respectively, common shocks to all firms in an industry in each period and common shocks across all firms. In contrast, the region-period effects capture the impacts of common shocks across firms operating in the same region in a given period.

Second, an Instrumental Variables (IV) strategy is adopted in light of endogeneity concerns as changes in exports are unlikely to be exogenous to firm-level outcomes. Here export growth is instrumented using average firm-level, destination-weighted real exchange rates and actual GDP growth in destinations. This strategy exploits the fact that movements in the real exchange rate or GDP growth in a destination country will affect the South African exporter firms differently depending on their initial exposure to that destination.

An IV model with the following first stage is estimated:

$$\Delta Exports_{it} = \alpha + \beta \Delta WGDP_{it} + \delta \Delta WRER_{it} + \mu_{rt} + \omega_{jt} + \varepsilon_{it} \quad (2)$$

where $\Delta Exports_{it}$ is the predicted growth of exports in firm i in year t, $\Delta WGDP_{it}$ is the yearly change in log of destination-weighted GDP growth, $\Delta WRER$ is the yearly change in log of destination- weighted real exchange rate; μ_{rt} is a region-year effect, ω_{jt} is an industry-year fixed-effect, ε_{it} is an error term. The Δ operator denotes the linear change of a variable between each year t and year t- 1.

The bilateral real exchange rate is defined as

$$re_{jht} = e_{jh} / (CPI_{ht} / CPI_{jt}) \quad (3)$$

where re_{jht} is the bilateral real exchange rate of rand (South African currency) per LCU; e_{jh} is the bilateral nominal exchange rate of rand per LCU; j, h, and t are, respectively, indexes of destinations, home (South Africa) and years. According to this definition, an increase of the bilateral real exchange rate reflects a depreciation of the rand relative to the other currencies.

7. Broad-based localization requirements could negatively affect export performance[25]

South Africa's focus on localization policies to promote industrialization has accelerated in recent years. Most notable in this regard has been the GoSA's target of reducing South Africa's non-oil import bill by 20 percent over five years, which was announced by South African President Cyril Ramaphosa in the October 2020 COVID-19 ERRP. This strategy focuses on strategic value chains, including through the promotion of localization and sector masterplans to ensure that more South Africans benefit directly from the industrialization process through employment and broad-based ownership of businesses as well as to increase trade within Africa through the AfCFTA. The Reimagined Industrial Strategy incorporates key aspects of national policy documents such as the National Development Plan, New Growth Path framework, Industrial Policy Action Plans and the ERRP.

The program to drive industrialization through localization is aimed at: reducing the proportion of imported intermediate and finished goods, improve the efficiency of local producers and develop export competitive sectors that can expand the sales of South Africa products on the continent and beyond. For this purpose, the policy levers include public procurement (leveraging both capital and operational expenditure of all spheres of government and state-owned enterprises), the national industrial participation program, the defense industrial participation program, the renewable energy independent power producer procurement program, the local procurement accord and designation of products for local sourcing. Since 2012, 28 intermediate or final products with local content threshold requirements ranging from 30-100 percent have been designated for local sourcing. The Preferential Procurement Policy Framework Act (Act 5 of 2000) (PPPFA) draft Preferential Procurement Regulations of 2022, in combination with elements of the Broad-Based Black Economic Empowerment (B-BBEE) Act prescribe the framework within which the preferential procurement policies are being implemented. Insofar as some state-owned entities, including Eskom and Transnet, have been exempted from the PPPFA, nonetheless, they have to use their Supply Chain Management policies to drive localization and industrialization.

In contrast to public procurement, government has limited policy levers to influence localization in private sector procurement. Hence, the ERRP emphasized the need for social compacts in key sectors of the economy, finding expression in nine sectoral masterplans. These social compacts are the outcome of intensive negotiations amongst social partners (business, labor and government) and thus co-created and co-owned by social partners. The masterplans include ambitious goals and targets for local production and employment, in addition to local content requirements in private sector procurements, though they do not have explicit export targets. The local content targets are based on what the social partners (particularly business and labor) in a sector regard as being reasonable and feasible. Targets are flexible and can be revised based on market developments and changes in economic circumstances.

The ERRP emphasized the need for social compacts in key sectors of the economy, finding expression in nine sectoral masterplans.

[25] This section draws on background work on the potential economic impact of South Africa localization plans by Andre Barbe.

Localization measures have been complemented by trade policy measures. Overall, South Africa's trade policy aims to support industrial development, sustainable economic growth, decent work and economic inclusion and seeks to improve the country's trade performance by increasing exports of higher value-added manufactured goods. There has been an increasing willingness by the International Trade Administration Commission (ITAC) to support industry requests for more protection. ITAC is one of the key institutional structures supporting the DTIC, and supports policy implementation for South Africa and, in some cases, for SACU in the areas of tariff investigations, trade remedies, and import and export controls. While overall the number of investigations has remained relatively consistent between 2014 and 2020, the Commission has been increasingly willing to support greater protection for South African industries. Tariff investigations cover more than 50 percent of total investigations (Figure 28). During 2019/20 and 2020/21, no applications for an increase of duty were rejected by the Commission, in line with recent amendments to ITAC's legislation and administrative procedures to allow for what the institution defines as "prompter and more comprehensive interventions." The two most significant industries experiencing direct interventions were the steel industry (2015–17) and the consumer goods and poultry industry, which won duty increases in 2013 and 2020, and several trade remedies. The implications of these measures on downstream industries and consumers have not been robustly assessed although in both the steel and poultry sectors the tariff investigations revealed substantial job losses and reduction in production prior to the tariff increases. Nevertheless, the number of tariff increases year on year has been comparatively small and there were also instances of tariff reductions and rebates. The WTO has been tracking trade measures by G20 members since 2009. Comparatively, South Africa is ranking low on the number of trade restrictive measures implemented in most years.

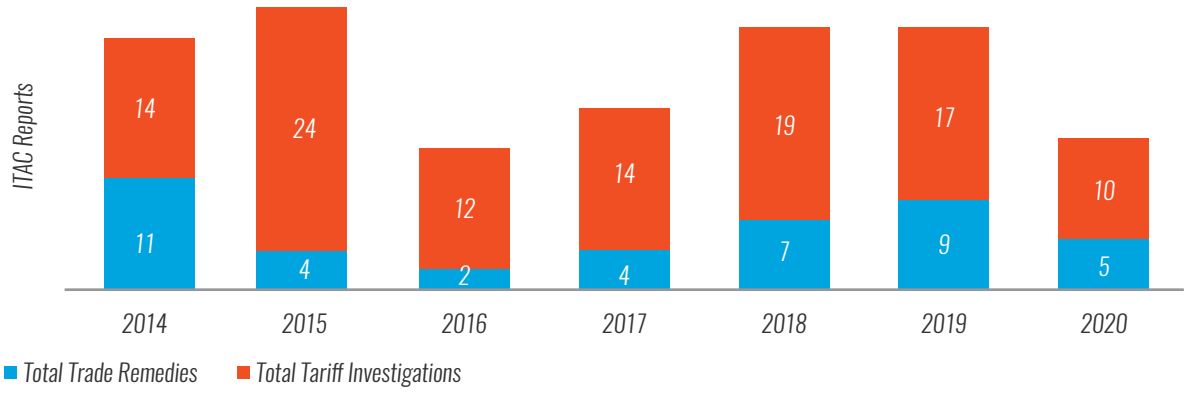
All trade barriers impose inefficiencies, but LCRs can be particularly problematic. They often impose barriers on imports of intermediate inputs, but not final goods. LCRs also increase production costs for domestic producers, leading to lower exports and increased imports in non-protected sectors.[26] As a result, LCRs

[26] Stone, S., J. Messent and D. Flaig (2015-05-01), "Emerging Policy Issues: Localization Barriers to Trade", OECD Trade Policy Papers, No. 180, OECD Publishing, Paris.

can reduce local production, when downstream impacts are considered. Furthermore, LCRs impose requirements on final goods produced domestically, though they generally do not constrain the import of final goods. As a result, they can incentivize retailers to import goods, instead of producing them domestically. Kaziboni and Stern (2021) discuss the example of the South African firefighting vehicle industry: if a firm wishes to sell fire trucks to the GoSA, the firm is required to purchase at least 30 percent of the auto parts from other South African firms. However, as no local assembler can meet these LCRs, the public procurer could seek exemptions from designations. Finally, LCRs also are quantity-based and in turn do not impose a price cap on achievement, unlike an ad valorem tariff. This is particularly problematic in concentrated domestic industries, where access to alternative or substitute products is limited. The cost to meet the requirements can therefore be very high.

Estimating the potential impact of widespread use of LCRs and/or a combination of LCRs and tariffs is empirically challenging. For illustrative purposes a computable general equilibrium modelling analysis exercise applied to data shows South Africa some of the risks of an approach to localization based on a full-scale implementation of the 20 percent target across sectors and beyond government procurement programs – which would represent a more extreme interpretation of the policy target than the way localization initiatives have been pursued by government so far. It is, however, illustrative of the potential negative impact of an undiscriminated approach across sectors that would not consider industry capacity limitations as well as price effects. To assess these potential economy-wide impacts of reducing imports through broad-based LCRs or tariffs, the dynamic, global, computable general equilibrium (CGE) model ENVISAGE is used.[27] To describe the impact of each of these scenarios, they are compared with a baseline where no policies are implemented. In all cases, the policies are in effect only during 2022–25 (inclusive). In scenario 1, South Africa increases tariffs on imports of all non-fossil fuel commodities. In scenario 2, South Africa imposes LCRs on all sectors of its economy and mandates that they increase the share of their non-fossil fuel material inputs that come

Figure 28: Summary of ITAC investigations



Source: World bank research.

[27] The full details of the ENVISAGE model are presented in van der Mensbrugghe (2019). The present analysis builds on an earlier study by Maliszewska et al. (2020), which adapted ENVISAGE to focus on Africa. Notably, we update the Social Account Matrix used for South Africa from 2002 to 2017. We also follow the methodology for modeling content requirements in CGE models developed by Barbe (2017).

from domestic sources. This imposes a quantity constraint on the firm's demand function, increasing the shadow price of imports by each activity, as well as decreasing the shadow price of the domestic inputs used by each activity (Barbe, 2017).

Results from the CGE analysis show that reaching the 20 percent localization target through tariffs or LCRs would have a significant negative impact on South Africa's economy, lowering GDP by over 1 percentage point relative to the baseline (Table 5). In the case of tariffs, the increased cost of imports makes domestic production more expensive, which reduces it directly, and GDP declines. The increased cost of domestic production reduces the competitiveness of exports, which reduces these as well. National income increases slightly. This is because the tax burden of the tariff is only partially borne domestically, with another part of it borne by the foreign supplier. The efficiency costs that the tariffs impose on household income are smaller than the foreign transfer to household income. In the LCR scenario, the situation is similar as for the tariffs: LCRs increase the cost of domestic production, which lowers GDP and exports for the same reason as in the tariff scenario (and by similar magnitude). The one exception is that since there is no direct increase in tax revenue, there is no income transfer.[28]

The scale of the negative impact on exports is worth noting: 17.6 percent for tariffs and 16.8 percent for LCRs relative to the baseline. Such an approach to localization would not be compatible with strengthening export competitiveness. It is worth noting that LCRs have worse impacts on national income than tariffs, as more of the distortion is on intermediate goods, rather than final goods. Despite their opaque nature, which makes them appear to be a costless way of promoting the domestic economy, the costs are significant, and larger than those of tariffs.

Results show that reaching the 20 percent localization target through tariffs or LCRs would have a significant negative impact on South Africa's economy

Table 4: Impacts of reducing imports, by different policy methods, on macroeconomic variables (% change)

Sector	Tariffs	Localization
Income	0.0	-0.7
GDP	-1.2	-1.3
Exports	-17.6	-16.8
Imports (all)	-16.4	-16.3
Imports (non-fossil fuel)	-20.0	-20.0

Source: World Bank research.

[28] Finally, in a fast changing technology development environment, indirect costs also include costs related to the foregone use of new foreign technologies which South Africa may not be at the technology frontier, such as renewable energy technologies. These are in addition to costs captured in the modelling.

The decline in imports is concentrated in a few sectors. At the sectoral level, both policies increase gross production of intermediate goods (light manufacturing) at the expense of industries that use them as inputs, such as fossil fuels or energy intensive manufacturing (Table 6). This is because import declines are largest in sectors that had large amounts of imports in the baseline, or which are used as inputs by other sectors. LCRs have a larger impact than tariffs do, as these are similar to providing both a tariff and a subsidy for the sector.

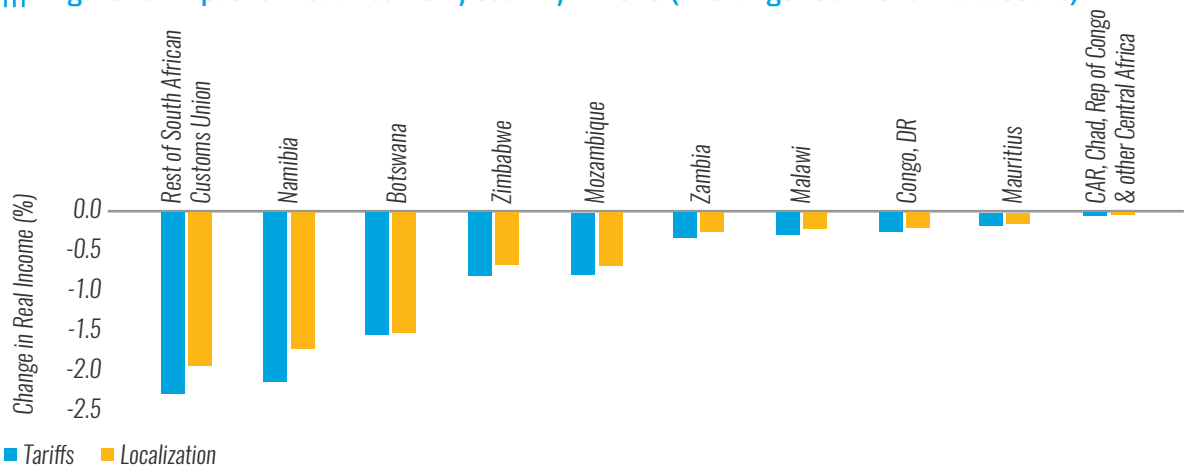
South Africa's trade and industrial policy also does not occur in a vacuum and would result in large income losses for countries where South Africa is a significant trade partner. These include, in particular, SACU member states, which would see income losses ranging from 1.5 to 2 percent of national income (Figure 29). Other neighbors, such as Zimbabwe and Mozambique, would also be impacted. This is because the higher price of South Africa's exports and its lower demand for imports would reduce trade between South Africa and its main trading partners.

Table 5: Impacts of reducing imports, by different policy methods, on sectoral gross output

Sector	Baseline Value	Absolute Change		Percent Change		Absolute Change / Baseline Grand Total Value of All Sectors (%)	
		Tariffs	Localization	Tariffs	Localization	Tariffs	Localization
Agriculture	21,206	-355	-484	-2	-2	0.0	0.0
Fossil fuels	36,780	-3,351	-3,403	-9	-9	-0.3	-0.3
Minerals n.e.s.	18,718	-937	-796	-5	-4	-0.1	-0.1
Processed foods	60,683	43	-552	0	-1	0.0	0.0
Wood and paper products	24,925	430	455	2	2	0.0	0.0
Textiles and wearing apparel	27,903	1,444	1,374	5	5	0.1	0.1
Energy intensive manufacturing	74,851	-6,673	-7,047	-9	-9	-0.5	-0.6
Petroleum, coal products	33,922	721	936	2	3	0.1	0.1
Chemical, rubber, plastic products	66,675	2,621	4,989	4	7	0.2	0.4
Light Manufacturing	159,225	6,033	12,986	4	8	0.5	1.1
Construction	67,746	391	272	1	0	0.0	0.0
Trade services	122,019	1,887	3,045	2	2	0.2	0.2
Road and rail transport services	26,752	-373	-201	-1	-1	0.0	0.0
Water transport services	3,922	-86	-72	-2	-2	0.0	0.0
Air transports services	7,276	-101	163	-1	2	0.0	0.0
Communication services	51,203	305	54	1	0	0.0	0.0
Other financial services	15,591	109	-177	1	-1	0.0	0.0
Insurance, real estate services	49,979	402	-391	1	-1	0.0	0.0
Other business services	82,332	381	-41	0	0	0.0	0.0
Hospitality services	40,987	-530	-824	-1	-2	0.0	-0.1
Other services	228,632	-374	-1,545	0	-1	0.0	-0.1
Grand Total	1,221,327	1,986	8,740	0	1	0.2	0.7

Source: World Bank research.

Figure 29: Impact on real income by country in 2025 (% change relative to the baseline)



Source: World Bank research.

The challenges of a localization policy based on very ambitious targets to be achieved over a short period of time are highlighted by other analyses. Intellidex (2021), for example, assessed the realism of a 20 percent target in South Africa through a quantitative study of import, manufacturing and capacity data, as well as a survey of 125 firms across sectors. It finds that, while there is considerable variation across industries, in the short to medium term the target is most likely not realistic. However, with a longer timeframe and broader reforms in place to stimulate domestic demand and competitiveness, and by resolving market and government failures rather than distorting production and trade, such a target could be achievable.

This points to the need for a nuanced and less prescriptive approach to localization and to find a balance between different trade and industrial policy objectives. Various studies by the OECD, IMF and Peterson Institute for International Economics suggest alternative measures to LCRs to address barriers to industrial and technological development and employment growth. Instead of distorting industry's purchasing decisions, focusing on the capabilities and competitiveness of domestic industries, both as exporters and to support domestic demand for inputs, is a more promising path forward. South Africa has several industries where capabilities are improving and primed for growth (see Box 2). These opportunities would benefit from a more integrated regional market where South Africa already has a competitive advantage (especially within the context of the AfCFTA), and if core binding constraints to private sector growth could be addressed.

Instead of distorting industry's purchasing decisions, focusing on the capabilities and competitiveness of domestic industries, both as exporters and to support domestic demand for inputs, is a more promising path forward.

Box 2: South Africa's capability formation is slowing but numerous opportunities with spillover and upgrading potential still exist

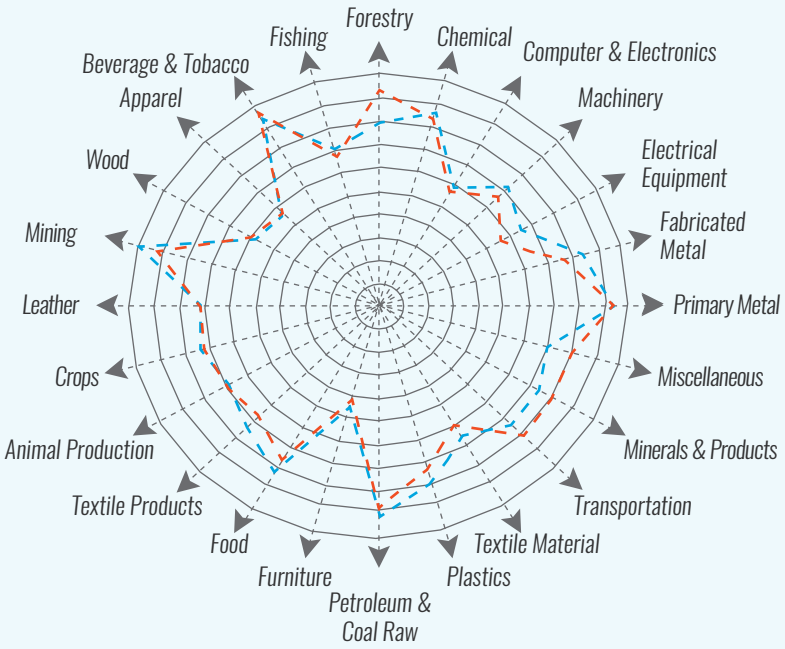
South Africa has experienced an erosion of its overall competitiveness. According to the IFC's "fitness" indicator—a measure of complexity-weighted diversification—competitiveness erosion is taking root in the more complex sectors of machinery, electrical equipment, and fabricated metals, while the largest increase in capability was in forestry, the simplest sector. While still the fittest African country, South Africa dropped 16 places since 2013, and the country is currently ranked 48th.

Fitness losses in complex sectors such as chemicals, computer and electronics, fabricated metals, and food, drive an overall loss in country-level fitness (Figure B.2.1). However, in other areas the GoSA's focus on building capabilities in the transportation equipment sector (automotive, boat building, rail niches), as well as in mining, has resulted in increased competitiveness to within the top 20 percent of countries globally.

South Africa is better positioned for Industries of the Future (IoF) than most African countries, and even some other OECD countries. South Africa has a chance of becoming competitive in several IoFs, including Industrial Development Corporation (IDC) funding priorities of green industries (new energy), beneficiation (e.g., energy conservation technology), and the biomedical industry. In contrast, frequent comparator countries (Chile and Brazil) have lower chances of becoming world-class competitors in those industries. These sectors are scored by the likely progress that a country can make toward becoming a global leader in the industry based on current capabilities such as human capital and FDI.

Among top imports, South Africa is poised to increase feasibility—to develop productive capabilities—in several complex industries, including electrical machinery. Electrical machinery imports of US$3.8 billion (2019) were in products with increasing feasibility, suggesting that global competitiveness could be achieved in the medium term. Feasibility increases indicate that much of the existing support has improved capabilities but those are yet to be deployed for increased competitiveness.

Figure B.2.1: South Africa remains highly diversified but its complexity in 2019 (blue) is eroding relative to 2014 (red)



Source: World Bank research.
Note: Figure shows country sector fitness, with proximity to perimeter denoting the diversity, complexity and competitiveness frontier.

III. What Will It Take for South Africa to See Broad-based Gains from Trade?

1. New trade agreements and climate-related trade requirements present opportunities for diversification

Seizing the benefits from the AfCFTA and other free trade agreements

As discussed in the previous section, the AfCFTA provides an opportunity to take a comprehensive approach toward developing regional value chains and new export industries. Once finalized, the AfCFTA will be the largest free trade area in the world— comprising 55 nations, 1.3 billion people and an economic area with a GDP valued at US$3.4 trillion. The policy and regulatory scope of the AfCFTA is large: it covers tariffs, trade facilitation, trade in services, sanitary and phytosanitary, standards and technical barriers to trade, and many other issues. South Africa is central to realizing the potential of the continental agreement. It can be an anchor for increased regional trade, with many investors and foreign firms basing themselves in South Africa to access both the South African market and the wider region.

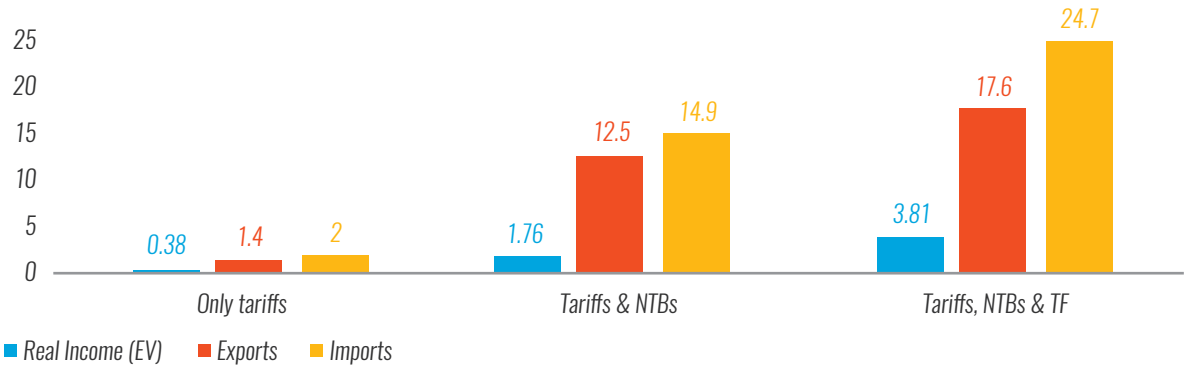
The AfCFTA has been the main focus of South Africa's trade policy. The AfCFTA is the trade agreement mentioned most frequently referenced in DTIC strategy documents. This is reflected not only in terms of the resources being devoted to the negotiations, but also the political commitment it has received from the highest levels. South Africa is also playing a leadership role in the AfCFTA, having assumed the chair during the negotiations on trade in goods and services as well as the Phase 2 working groups on investment and intellectual property, and the dispute settlement body. A former South African trade negotiator, Wamkele Mene, heads the AfCFTA Secretariat in Accra. However, it would also be important to consider signing and deepening trade agreements with other emerging economies, especially those that currently impose significant barriers on South Africa.

The African market is attractive as a destination in terms of its relative proximity and relatively strong growth rates and future growth potential. However, the immediate gains from reductions in tariffs from the AfCFTA may be

low. South Africa already has duty free access into SADC and South African firms are already disproportionately participating in exporting to the region. Nevertheless, when looking outside of SADC, South African firms face substantial tariff barriers on several of their key products. Improved market access through lower tariffs could expand South African exports to these countries through a combination of increased export participation and increases in the range of products by existing exporters. Equally, if not more important, however, is to utilize the AfCFTA to co-ordinate the implementation of the trade facilitation agreement included as Annex 4 of the AfCFTA protocol on trade in goods, as logistics costs are very high on the African continent relative to the rest of the world.[29]

While South Africa has low tariffs, the condition of the country's trade infrastructure is a significant obstacle to increased trade competitiveness. The AfCFTA provides an opportunity for wide-reaching reforms in this area. As shown in recent World Bank work, the most significant gains from the AfCFTA will come from reductions in non-tariff barriers (NTBs) and improvements in trade facilitation. As such, addressing trade costs will be central. According to World Bank (2020) analysis, South Africa's income could increase by 3.8 percent relative to the baseline[30] by 2035 (Figure 30). This would mean that moderate poverty (PPP US$5.50/day) would decline by 3.7 percentage points relative to where it would have otherwise been in 2035. These outcomes assume the implementation of three key dimensions of the AfCFTA: (i) progressive reduction of tariffs on intra-continental trade; (ii) NTBs on both goods and services are reduced on an MFN basis;[31] and (iii) implementation of trade facilitation measures in line with the Trade Facilitation Agreement (TFA) leading to a halving of trade costs. As South Africa has already reduced tariffs to SADC members (its main trading partners besides Nigeria), the most significant gains would come from addressing NTBs and improving trade facilitation.

Figure 30: South Africa's increase in income, exports, and imports by 2035 as percentage deviations from baseline



Source: World Bank (2020).

[29] Simulations of the impact of the AFCFTA predict increases in intra-African exports between 14.6 percent if only bilateral tariffs are removed, and 133 percent if other complementary policy changes, including the trade facilitation agreement, are implemented (African Development Bank, 2019). For South Africa, the World Bank (2020) simulations predict that exports would rise by 1.4 percent with AfCFTA tariff reductions, but would increase by 17.6 percent if NTBs were also reduced and customs procedures improved.

[30] Baseline scenario entails a continuation of past trends simulated over 2014–35, though not incorporating the COVID-19 shocks.

[31] It is assumed that 50 percent of the NTBs are actionable within the context of AfCFTA—with a cap of 50 percentage points. These are implemented as ad valorem tariff equivalents. It is assumed that reduction of NTBs also benefits African exporters on non-AfCFTA markets with an additional reduction of NTBs by 20 percent.

South Africa also has scope to modernize or develop trade agreements with OECD countries and other emerging economies. However, the GoSA has taken a cautious approach in terms of its economic diplomacy, based on its perspectives of the suitability of such trade agreements for addressing South Africa's developmental policy needs. Its trade negotiations strategy remains largely confined to tariffs and to the African continent, limiting options for deeper integration with more advanced trading partners. However, there may be benefits in a shift toward prioritizing trade and investment promotion efforts with advanced economies to secure inputs of high technology goods and services, while opening those markets to South African goods and services.

Seizing opportunities in the trade of environmental goods

Finally, climate change and related global agreements represent an enormous challenge for South Africa's policy makers. South Africa's exports of goods remain concentrated in products that are carbon intensive and considerably more carbon intensive than those exported by many competitors. Hence, these key exports are at risk as importing countries and buyers in GVCs implement policies that shift demand toward "carbon competitive" suppliers of a particular product and from carbon-intensive to low-carbon products.

There are also trading opportunities by taking advantage of the export potential in some environmental products. Although the compound annual export growth of these goods was only 0.3 percent between 2016 and 2020, 22 out of 54 products experienced growth during this period. The largest export growth (68 percent) was for furnaces and ovens (HS 851420, MSHW) that are used to destroy solid and hazardous wastes (Figure 31). Catalytic incinerators are designed for the destruction of pollutants by heating polluted air and oxidation of organic components. These are followed by parts for auxiliary plants for boilers and condensers for steam and vapor power units (41.5 percent growth) and wind-powered generator sets (40.8 percent growth). Although the export volume of these products is small, the CAGR signals growing foreign demand for South African products. In this context, measures to support exporting firms that have opportunities to be carbon competitive are likely to support overseas market access. Such measures would include improving access to environmental technologies, such as renewable energy and knowledge and equipment for carbon monitoring.

South Africa applies lower tariff rates on environmental goods (EG) than on other products (Figure 31). MFN tariffs by product level for clothing are the highest (41 percent), while average applied MFN tariffs on EG are at the low end of the spectrum. This creates a better tariff environment to promote green trade. Compared with regional countries competing in the EU market, South Africa's average applied tariffs on EGs are among the lowest (Figure 32). Morocco—a key competitor in the European market—imposes 1.6 percent average applied tariffs. As such, South Africa's EG production is less burdensome on importers. By product category, environmental monitoring, analysis and assessment (EMAA) equipment and natural risk management (NRM) have zero average applied tariffs, while wastewater management and potable water treatment (WMM) faces a 2.8-percent tariff in South Africa.

Figure 31: EG export by category (US$ billion)

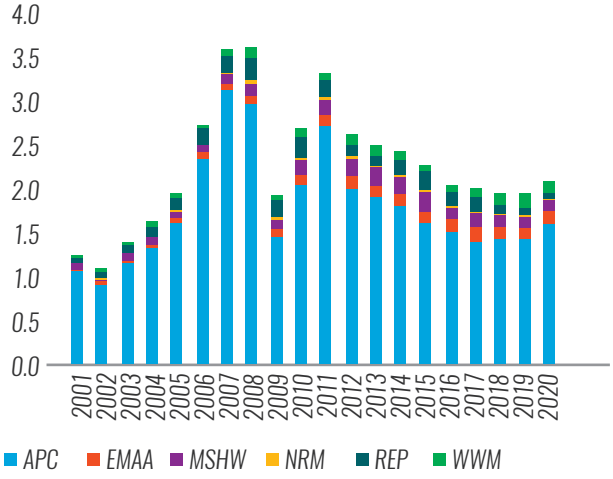
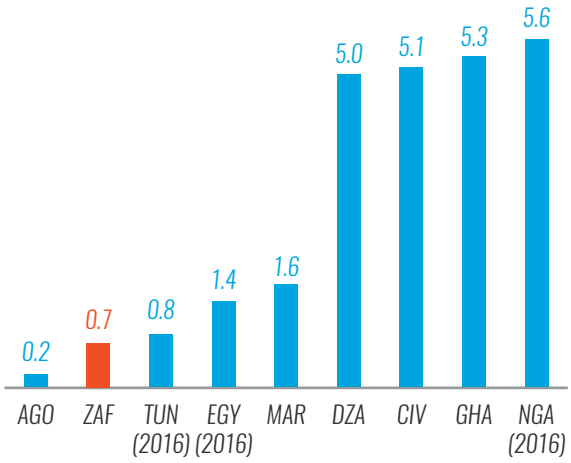


Figure 32: Average applied tariffs on EG in 2019 by country (%)



Source: WITS and WTO Statistics.

Note: APC=Air Pollution Control; EMAA= Environmental Monitoring, Analysis and Assessment Equipment; EPP= Environmentally Preferable Products; MSHW= Management of Solid and Hazardous Waste and Recycling Systems; NRM= Natural Risk Management; REP= Renewable Energy Plant; WWM= Wastewater Management and Potable Water Treatment.

Although South Africa's trade agreements do not fully address environmental protection and climate change, a few of them have the potential for improvement. The Southern African Development Community (SADC)-EU Economic Partnership Agreement (EPA), signed in June 2016, is the only agreement that establishes provisions for environmental protection in the trade and sustainable development section of Chapter II. Both parties confirm that any new or modified legislation on labor conditions or environmental practices would adopt the internationally recognized standards and cannot weaken labor or environmental protection to encourage trade or investment.[32] The Agreement provisionally came into force in October 2016. In addition, the AfCFTA does not currently feature a Protocol on Environment and Sustainable Development. As the AfCFTA negotiations are ongoing, it would still be possible for the AfCFTA parties to consider the costs and benefits of such a protocol. Southern Africa has many of the essential inputs required for the development of new green sectors and for decarbonizing traditional exports. These value chains are more likely to develop in an integrated Southern African market where inputs, knowledge and final products (goods and services) flow freely within the region and from outside and opportunities to produce at scale can be exploited. The SADC trade agreement and the AfCFTA provide opportunities for South Africa and its regional partners to identify and implement mutual reforms that reduce barriers segmenting the regional market.

Supporting those who may lose from trade agreements

There is a pervasive skepticism about further trade integration in South Africa, especially after the impact on some manufacturing industries of China's entry into the WTO. Both Erten et al. (2019) and Bastos and Santos (2021) find at least partial negative labor market impacts from past liberalization reforms during the 1990s and early 2000s. Memories of the

[32] European Commission, "Economic Partnership Agreement (EPA) between the European Union and the Southern African Development Community (SADC) EPA Group: Key Advantages," June 2016.

decline of the textile and apparel industry has contributed to a strong bias toward import substitution and localization policies, rather than trade opening. At the time, many displaced workers did not find jobs in expanding sectors but instead exited the labor force. Erten et al. (2019) attribute this to distinctive features of the South African labor market, including high base levels of unemployment, a small informal sector, high barriers to entry, rigid wages and an underdeveloped manufacturing sector.

In the context of considering new trade negotiations, especially the AfCFTA, it will be important for the GoSA to enable broad-based gains from further integration. This may also include providing time-bound, targeted adjustment mechanism to support workers likely to lose out from new import competition. This could be, for example, through the new Afrexim AfCFTA Adjustment Facility to support countries that may suffer revenue losses during the implementation process of the AfCFTA, bearing in mind the availability of funds, and terms and conditions for such support. South Africa already has a large and highly fragmented system of labor market and social assistance support so the benefits of creating an additional program are questionable. However, focusing existing programs toward potential trade-related risks of displacement may be advisable.

Improving the overall structure of labor market programs and labor mobility would benefit workers potentially losing out from further integration. Recent analysis (World Bank, 2021) has highlighted the need to strengthen labor market linkages of temporary government programs, especially for young people and women, relaxing constraints on entrepreneurship and self-employment, and improving the governance of labor market programs. Lessons from global experiences (see, for example, Engel et al. 2021) have focused in particular on speeding up labor market adjustment by facilitating labor mobility and reducing constraints to international skills and domestic migration as part of a comprehensive approach that also incorporates broader reforms to the business environment and investments in core infrastructure and labor-intensive value chains, especially in lagging regions.

2. Improving trade facilitation and addressing non-tariff barriers is essential to help firms benefit from trade

As discussed in the previous section, the most significant gains from the AfCFTA will come from reductions in NTBs and improvements in trade facilitation (see Section III.1). Trade facilitation bottlenecks are a challenge across all sectors in South Africa and the situation has worsened since the pandemic.

At the level of trade facilitation and border management, recent work by the World Bank[33] has identified several key priorities. These include, among other issues, establishing a more effective and inclusive governance structure (also including the private sector) to develop and implement a robust trade facilitation strategy. South Africa still lacks a comprehensive governance framework to coordinate the regulatory agencies in trade facilitation reforms. The National Committee on Trade Facilitation has a narrow mandate and lacks private sector engagement. The weak collaborative structures are further challenged by the embryonic form of the Border Management Authority (BMA). While its designation as the lead agency to integrate border controls performed by other state agencies, except for Customs, is a relevant development and has the potential to improve and transform the land border posts environment, the slow pace of building

[33] This section draws in particular on work conducted under the World Bank's "South Africa Trade Facilitation Support Project" led by Ernani Checcucci and Charles Kunaka.

the BMA's institutional capacity and its current exclusion from the National Committee on Trade Facilitation remain problematic. As such, there is an urgent need to increase the capacity and scope of these institutions. These reforms should be supplemented through additional analysis, in particular through time release studies and cross-border coordination and connectivity studies.[34]

Other key trade facilitation reforms could significantly reduce trade costs. The development of a National Single Window would help integrate government agencies and provide a holistic digital process for traders. SARS is streamlining processes and procedures to assist exporters and importers, through its Customs Modernization Program, working in partnership with entities such as the Freight Association, the Technical Services Providers Association, Transnet, the Cross-Border Road Transport Agency and the South Africa Reserve Bank. The expansion of the Authorized Economic Operator (AEO) program across government agencies would support the alignment of risk management processes to improve trade facilitation initiatives—including strengthening the development of SACU- and SADC-wide AEO programs encompassing mutual recognition and reciprocation of benefits across countries. At the SACU level, there is a need for a single SACU customs declaration process to align import and export declarations, supported by Customs-to-Customs connectivity that will enable simplified clearance, and automated VAT refunds for intra-SACU trade. The implementation of the One-Stop Border Post Policy and implementation strategy, approved by the Cabinet on March 22, 2022, will need to be advanced through negotiations with neighboring countries. In many cases there will also be a need to focus specifically on the needs of female traders (Box 3). Finally, there is also a need to align current measures under the WTO Trade Facilitation Agreement with best practices.[35]

To improve the efficiency of South Africa's port and rail systems, it will be important to continue advancing the GoSA's recently initiated plans for introducing more competition into this sector.[36] The GoSA has acknowledged the poor state of harbors and railways. The National Infrastructure Plan explains that "high port tariffs and relatively low efficiency … harm South Africa's competitive positioning and hamper further diversification in South Africa's trade" (DPWI, 2022, p.27). The GoSA is in the process of providing concessions to leading international companies to operate the container terminals at Durban and Ngqura Ports (Derby, 2022). This can bring both much-needed investment into the sector and support efforts to improve efficiencies at container ports, especially in relation to container dwell-time and ship turnaround time. Bringing global operators in could support far-reaching improvements in efficiency and quality standards, and much

---

[34] This includes, for example, monitoring time to trade across key borders and corridors and assessing key trade-related infrastructure in the region through cross-border coordination and connectivity studies. The latter would focus on an assessment of the legal, procedural, process, data sharing, information technology, connectivity, human capital, and physical infrastructure architectures required to optimally support border management cooperation between agencies and between the neighboring countries, including one-stop border post infrastructures.

[35] For instance, South Africa reported compliance with the provisions related to publication and availability of information; nevertheless, it has not consolidated all relevant trade information in a single website or a trade information portal. Similarly, the WTO TFA Article 8, about Border Agency Coordination, requests neighboring Members, to the extent possible and practicable, to cooperate with a view to coordinating procedures at border crossings to facilitate cross-border trade, which may include the establishment of one stop border post control. Nevertheless, the South African Cabinet has only recently approved the One-Stop Border Post Policy and implementation strategy, which will still demand significant investments and bilateral engagement with neighboring countries for full and effective implementation.

[36] The South African government has recently sought to encourage increased private investment, in part through the establishment of the Transnet National Ports Authority as an independent subsidiary.

needed investment in infrastructure and logistics systems, though this is unlikely to be a panacea.

The road freight sector on the whole is more efficient and agile and does not suffer from many of the shortcomings of the rail and port networks. However, many freight providers still experience significant hurdles exporting to the rest of Africa, including infrastructure challenges, institutional obstacles such as slow and bureaucratic customs, and inefficient immigration procedures. The AfCFTA is intended to address many of these issues and should facilitate the monitoring and resolution of such NTBs. The private sector has participated in the NTB monitoring project at the continental level and the newly established DTIC reporting process,[37] but these systems have only proven partially effective to date.

Box 3: New evidence on gender and trade facilitation in South Africa

Trade facilitation is often assumed to be non-discriminatory and to apply to all traders in its design. However, trade facilitation measures may not necessarily impact or benefit all traders in similar ways. A World Bank study (2022) has sought to identify specific challenges that men and women face in cross-border trade and determine where further reforms can be made. The research team interviewed 204 trader firms and 78 customs agents from across South Africa to better understand whether women traders and customs agents experience different challenges to border processes and procedures than their male counterparts.

The survey found that women traders and customs agents experience greater challenges compared with their male counterparts. This includes greater difficulty for traders in understanding official regulations and processes, more limited use of relevant websites by customs agents, and more limitations in access to finance for traders. Among customs agents that regularly visit the border, 100 percent of women respondents felt unsafe at some stage compared with 38 percent of men respondents.

This informed several recommendations. These include: (i) improving access to and understanding of official border regulations and procedures; (ii) introducing/strengthening formal trade consultations between the GoSA and the private sector; (iii) promoting the National Trade Facilitation Committee (NTFC) and increasing its effectiveness, accountability and inclusiveness; (iv) streamlining the consistency of border processes and procedures; (v) identifying and addressing reasons for delayed release of goods; (vi) increasing the use of technology (including through the implementation of a National Single Window); (vii) publicizing official grievance procedures; and (viii) improving safety and security at borders.

Source: World Bank (2022).

[37] See http://www.thedtic.gov.za/new-support-system-is-key-in-addressing-sas-export-barriers/.

3. Policy reforms and investments are needed to help firms increase their capabilities and become successful exporters

South African firms, especially SMEs, struggle to become successful exporters

Private sector dynamism is a prerequisite for a buoyant export sector. The evidence presented in Sections I and II shows that the performance of South Africa's private sector has been weakening over the past decade, with stagnating activity and job creation, and declining productivity and external competitiveness. Addressing longstanding structural constraints to growth and private sector activity are key to improving South Africa's external competitiveness and trade performance. This includes improving the business environment by supporting reforms across competition, and business regulations to foster an enabling environment for the private sector. It also includes reducing the costs and reliability of input factors such as electricity, digital services, transport and logistics, and labor. These are resonating with findings pertaining to common cross-cutting constraints that impact on the dynamism of an industry or hold back growth emerging from analyzing a number of South Africa Industry Masterplans. These cross-cutting constraints include: *'aggregate demand; imports; electricity; input or raw material costs and availability; rate of investment, technology upgrading, research and development (R&D) and supply chains; labour-related factors and human capital; collaboration; and industrial finance.'* High priority areas encompass: (i) addressing South Africa's longstanding electricity crisis; (ii) benchmarking labor legislation and its enforcement; and (iii) supporting SOE reform. Many of these are highlighted in government programs such as Operation Vulindlela, but faster progress is needed.

Firms' entry into exporting is a key long-term driver of aggregate export growth. The analysis in Section II shows that SMEs are often especially unable to expand and become exporters. Moreover, many of those firms that can export have low survival rates. This begs the question: what can be done to help firms become more efficient exporters? The previous two sections focused on the role of new trade agreements and lowering trade costs as key areas where policy reforms can support export-led growth. However, there are also numerous measures at the firm- and industry-level that can be taken to support export-led growth.

One of the key problems that South Africa has faced is a declining number of exporters, associated with declining entry rates and rising exit rates. Regression decomposition results presented earlier indicate that the lack of entry into exporting contributed to South Africa's weak export performance from 2010. This contrasts with other countries where the rising number of firms has made a positive contribution toward aggregate export growth. Trends in destination markets help explain some of these trends, but a closer look at supply constraints is also merited.

Many of the exporting firms primarily export to other SACU members, where they benefit from preferential margins and proximity benefits. High entry rates into SACU signal that many firms use the market to experiment with exporting. This is aided by lower export barriers associated with the contiguity of borders, and common external tariffs and institutions of the customs union. Most of these firms export manufactured goods and processed-food products, which can assist in realizing the industrialization objectives of the GoSA, and growth of small firms that are relatively labor-intensive. However, those new entrants into SACU that do survive tend to grow fast and diversify the product and destination composition of their exports. The data suggest that there are considerable gains in learning from exporting, as growth in exports of the cohort of new entrants is not just driven by selection, but also by relatively strong growth of survivors.

In turn, a key question will be how to assist these firms to expand beyond the SACU (and SADC) markets. The AfCFTA is one clear initiative that can support this effort, especially if accompanied by trade facilitation reforms and robust efforts to address NTBs. However, beyond this there may be a need to also look more broadly at the capacity and effectiveness of the country's national and provincial export promotion agencies.

Maximizing the potential of services firms

Services exports have significant growth potential, but emerging sub-sectors will require support to reduce search costs. New research informing this report examines digital services as a case study of a high-skill services sub-sector with untapped export potential. Advancing exports in this area will require more engagement between the business community and government, including practical cooperation on skills and early-stage financing, as well as a more targeted focus on trade promotion and commercial diplomacy. In the past, there has been a significant fragmentation in this area with a lack of clarity on the mandate and capacity of the South African Export Council, Team Export South Africa (TESA), Trade and Investment South Africa (TISA), and InvestSA, with firms often feeling inadequately supported abroad (Draper et al., 2018).

The performance of firms is strongly affected by the local ecosystem, including the quality of the infrastructure, institutions and skillsets in the area, and the relationships with other firms in the vicinity. As such, the potential for developing regional high-tech value chains remains a long-term aspiration, as exporting these services regionally is perceived as high-risk due to the volatility of exchange rates, frequent late payments, political and policy instability, and stringent requirements on local shareholding and/or local content. Furthermore, South Africa's current immigration policies are a constraint to sourcing critical expertise from abroad. Such expertise includes tacit knowledge from foreign nationals about their home markets.

Services exporters may also benefit from the reshaping of consumer and labor markets following the COVID-19 pandemic. The shift toward online shopping provides firms with new avenues to access local and foreign consumers, in particular benefiting smaller companies. This can reduce costs of accessing international markets, thus facilitating the entry of smaller firms into exporting. The ability of firms to participate, however, depends on the quality and cost of digital connectivity, logistics and postal services, as well as the efficiency of border procedures in dealing with parcel trade (OECD, 2020). South Africa performs relatively poorly (ranked 45 out of 50 OECD and other countries in 2021) in terms of the restrictiveness of policies affecting courier services.[38]

Beyond this, a key imperative for policy makers is the post-COVID-19 revitalization of the travel and hospitality industry, which was instrumental in the collapse of services exports during the pandemic. These industries are intensive in the use of labor and have strong linkages with other sectors of the economy.

A more strategic approach to services trade also requires adequate data. Poor services trade data constrains evidence-based policy making. More disaggregated data relevant to services trade for modes of supply (cross border, consumption abroad, commercial presence, and movement of natural persons), classified at detailed sectoral levels and specifying services export destinations would support policy-making in that area.

---

[38] Based on data from the OECD Services Trade Restrictiveness Index (https://www.oecd.org/trade/topics/services-trade/).

Addressing domestic market distortions inhibiting the entry of firms

Most exporters, and particularly smaller exporters, are highly dependent on the domestic market for the bulk of their sales. For many exporters, sales to the domestic market provide the platform from which they are able to access international markets. The empirical evidence also shows that firms' size is a critical determinant of their entry into exporting. However, South African industry is highly concentrated, suggesting considerable barriers to entry for small firms in the domestic market. The high concentration of South Africa's industries is inextricably linked to the very high concentration of South Africa's exports.

Weak competition and policies that raise the costs of doing business for new and smaller firms inhibit the diversification of the manufacturing industrial base and thus the export base. Discussing these in detail goes beyond the scope of this report, but needs to be addressed in order to enable non-incumbent firms to succeed (see World Bank, 2018; National Treasury 2019; Andreoni et al., 2021, for an overview). This has been recognized by the GoSA which has prioritized lowering barriers to entry and addressing distorted patterns of ownership through increased competition and small business growth. In turn, key reforms in this area, including reform of the digital spectrum and improving competition in the transport sector, have been brought under Operation Vulindlela.

The high concentration of South Africa's industries is inextricably linked to the very high concentration of South Africa's exports.

4. Looking Ahead: A Roadmap for Reform

The "what": Overview of key policy reforms

As South Africa needs to raise its economic potential, trade can play a key role in supporting higher and more inclusive growth. This report seeks to stimulate dialogue with the GoSA and other stakeholders to harness the trade potential of South Africa's private sector while promoting faster job-creation and more inclusive growth in the country.

Seven key findings have emerged from the analysis of the wide range of issues covered, including South Africa's export performance and areas for increased export potential:

First, South African exports have declined in value relative to comparators, becoming less diversified and more focused on regional markets. The post-2010 period has been characterized by declining diversification of manufactured exports, with exports increasingly being dominated by resource-based manufactures and automotive products.

Second, exports to the African markets have grown in significance, but remain constrained by high barriers. While the African market is attractive as a destination in terms of its relative proximity and future growth potential, trade barriers present a significant obstacle. Reducing barriers in Africa through the AfCFTA therefore has significant potential to increase South Africa's exports.

Third, while the services sector is the leading source of employment, services exports have been relatively stagnant and are still heavily concentrated in traditional transport and tourism sectors. South Africa's services exports have been far smaller relative to total merchandise trade, fluctuating between 10 and 20 percent. Between 2005 and 2019, knowledge-intensive services such as financial services, IT and telecommunications, grew most rapidly among services sub-sectors, signaling their potential.

Fourth, exporter entry and survival rates have deteriorated, while firms' concentration levels have increased, pointing to a "missing middle". South African goods exports are dominated by a few firms. Export participation, which is measured by the number of exporters and export transactions, appears to be a key factor explaining South Africa's post-2010 aggregate export performance.

Fifth, trade costs have increased, hurting the competitiveness of South African firms. Despite longstanding efforts to address transport and logistics constraints, these remain significant impediments to South Africa's competitive advantage.

Sixth, export growth can lead to significant improvements in jobs and wages but has mixed distributional impacts. An increase in firms' export growth causes an increase in firms' sales, real capital stock, and total payroll growth.

Finally, the economy-wide impact analysis of LCRs and import tariffs on South Africa's GDP and trade, as well as on that of its close trading partners in the region cautions against using these instruments as first best options. Instead of distorting industry purchasing decisions, focusing on the capabilities and competitiveness of domestic industries, both as exporters and to support domestic demand for inputs, is likely to be a more promising path forward.

The report has focused on three specific trade and industrial policy reform areas that can further help maximize South Africa's trade potential. These are:

- Making the most of new trade agreements and other opportunities for diversification;
- Improving trade facilitation and addressing non-tariff barriers; and
- Supporting the promotion of firms' capabilities to become exporters and survive.

Sequencing reforms is essential for successful implementation. All the proposed actions are critical to realizing South Africa's potential. However, not all actions can be implemented immediately and yield results in the short term. Against this background, "sprints" are stroke-of-the-pen reforms or targeted analyses implementable within three months at very low cost, given the political will. "*Medium-distance runs*" are programs implementable within 18 months with substantial tangible benefits. "*Marathons*" are long-term structural initiatives that can be initiated and put on a firm footing in the next three years. Table 7 charts a path for the authorities to start a process of trade and trade-related reform that would put South Africa on a faster and more sustainable growth trajectory, if adequately implemented. It also focuses on complementary non-trade policies beyond the specific issues under the three main reform areas.

In particular, it is important to emphasize that many of the critical reforms needed to restore private sector productivity and promote a competitive export sector are beyond the realm of trade policy. In this context, trade and industrial policies discussed in this report cannot be seen in isolation. They must be part of a broad-based systemic reform effort aimed at enabling private sector development more generally and fostering structural change. These include a continued focus on macroeconomic stability to support economic growth and promote business confidence and investment, including in concentrated markets. It will also be important to deliver on the GoSA's priorities as laid out in Operation Vulindlela, to accelerate the implementation of structural reforms in the areas of energy, water and transport and logistics. Among social policy priorities, it will be important to ensure that both social safety net and labor market policies are supporting labor mobility into dynamic sectors and that education systems and migration policies are conducive to equipping South Africa's labor force with the skills required by sectors with high export potential.

Table 6: A roadmap for increasing South Africa's export competitiveness

Time horizon	Trade policy and trade agreements	Improving trade facilitation and addressing NTBs	Increasing firm capabilities to export	Complementary policies
Sprints	Develop an updated digital trade regulatory assessment to contribute to a negotiating position for the AfCFTA and assess the role of the AfCFTA in developing regional value chains to promote sustainable and resilient development.	Strengthen a coordination structure for trade facilitation and improve and centralize access to information on official border regulations.	Continue to strengthen a targeted export promotion strategy to reduce search costs for firms, improve awareness of export opportunities and facilitate certification of exporters to access new markets.	Preserve macroeconomic stability to promote business confidence and increase investment.
	Continue to pursue a trade diplomacy strategy that prioritizes trade opportunities with advanced and emerging economies, including in East Asia.	Address specific challenges of women traders at border crossings through improved safety procedures, ensuring consistent application of border processes and increased use of technology.	Strengthen shared approach between government and the private sector on localization policies to ensure that these are consistent with the goals of increasing and diversifying exports.	Deliver on the Government's structural reform agenda, in particular the key measures prioritized by Operation Vulindlela.
Medium distance runs	Improve decision times and the transparency of the tariff-setting process (bearing in mind confidentiality requirements), continue to assess implications of tariff adjustments on the value chain, and consider economy-wide impacts where required.	Develop a National Single Window to integrate government agencies (SARS, DTIC, Home Affairs, DALRRD, among others).	Resolve hurdles that SMEs face in accessing affordable trade finance and continue to strengthen export promotion support.	Improve the business environment and competitiveness through product and labor market reforms.
	Update South Africa's trade policy to address emerging trade issues and the impact of changing global conditions.	Introduce more competition into key components of the transport logistics chain.	Continue to strengthen FDI promotion to attract investment into key input-supplying sectors.	Ensure that social safety nets and labor market policies are supporting labor mobility into dynamic sectors.
Marathons	Implement the AfCFTA agreements, ensuring access to regional or national adjustment support for displaced workers.	Develop smart borders at the key land crossings.	Ensure that Special Economic Zones (SEZs) have the necessary infrastructure based on an analysis of comparative SEZ performance.	Ensure that the education system equips the future labor force with the skills required by sectors with high export potential.

Time horizon	Trade policy and trade agreements	Improving trade facilitation and addressing NTBs	Increasing firm capabilities to export	Complementary policies
	Promote trade in environmental goods and technologies to support South Africa's firms to take advantage of trade opportunities associated with the global climate transition.	*Develop the SACU area Authorized Economic Operator (AEO) program and single customs declaration process.*	*Assist exporters to enter green industries and seek to ensure carbon taxes and other planned taxes under, for example, the European carbon border adjustment mechanism are transparent, are non-discriminatory, and meet WTO requirements.*	*Deliver on South Africa's climate commitments to support adaptation and ensure that exports are not hampered by trade partners' carbon border taxes in the future.*

Source: World Bank.
Note: *Sprints are stroke-of-the-pen reforms implementable within 1–3 months or less at minimal cost, given the political will. Medium distance runs are programs implementable within 18 months with tangible benefits for millions of South Africans. Marathons are longer-term structural initiatives and institutional reforms that can be initiated and put on a firm footing in the next three years but will take longer to complete.

The "how": Implementing an ambitious reform agenda

Achieving better results than in the past decade will require a willingness to do things differently and support experimentation. In recent years, the DTIC (and, in turn, trade policy) has increasingly focused on localization and increased domestic value addition. As shown in this report and in other recent studies, the potential net gains from localization remain limited in a context of low growth and especially constrained domestic demand over the medium term in South Africa and other SACU members, and of the costs on consumers associated with restricting competitive imports. As such, it will be important to also look at how to increase regional and global exports, following the roadmap laid out above.

This has three key components, which link to and incorporate the specific roadmap recommendations in Table 7:

1. ***Modernizing the trade policy framework:*** Building on the growing body of high-quality research, there is an urgent need to review the overall trade policy framework dating from 2010, incorporating the state of the art in evidence, analysis, and international best practices. The global political, economic and trade landscape has changed significantly in the past 4 years and needs an anchoring document to inform policies. For example, the current trade policy hardly touches upon trade in services, let alone issues such as climate change. Moreover, most policy-making has taken place through sectoral master plans. However, export constraints are often not sector-specific and require an institutional framework to address cross-cutting issues that affect firms.

2. ***Reviewing the appropriateness of the current institutional structure:*** The definition of priorities through a new trade strategy in turn can inform an assessment of potential institutional changes and reforms that could improve outcomes. For example, there may be merit in broadening the National Trade Facilitation Committee, and more actively integrating the private sector. Another example is to strengthen the DTIC export promotion division and the industry export councils to identify market access

opportunities and to identify and mobilize to remove export constraints.

3. ***Identifying cross-government priorities for integration into Operation Vulindlela:*** Finally, major targeted interventions could be spearheaded within the context of Operation Vulindlela, which would provide additional visibility and ensure a cross-government mechanism with top-level government support.

Finally, there are several areas where additional analytical work could strengthen the foundations for improved trade policy outcomes in South Africa. This includes analysis on:

i. The coherence between broader conditions and measures for industrial development (e.g. network industries, human capital) and trade and traditional industrial instruments and how to make tariff and industrial policy more effective. Key issues include the distributional costs of protection and the institutional processes for tariff-setting and remedies, how to best engage in AfCFTA negotiations and maximize the benefits from the agreement, how to best address new climate-related trade regulations and take advantage of the demand for green goods, and how special economic zones can be used to enhance intra-African and global trade; and

ii. More analysis is needed on the obstacles faced by non-exporters or SACU-only exporters to enter new markets, targeted sectoral analysis on the key constraints faced by services exporters, how export promotion polices can best be enhanced, and on the soft and hard infrastructure constraints to effectively develop regional value chains in priority sectors.

As shown in this report, the foundations for trade to drive inclusive growth are in place. South Africa has enormous potential to drive forward Africa's integration and industrialization. However, the cost of inaction is high. Realizing this potential will require a shared and coordinated effort by the country's leadership, government departments and agencies, the private sector, and workers.

References

African Development Bank. 2019. "African Economic Outlook 2019." African Development Bank publication.

Andreoni, Antonio, Pamela Mondliwa, Simon Roberts, and Fiona Tregenna. 2021. "Framing structural transformation in South Africa and beyond." *Structural transformation in South Africa: The challenges of inclusive Industrial Development in a middle-income country.* Oxford, UK: Oxford University Press.

Barbe, Andre. 2017. "The Effects of Restricting Coal Consumption on Coal Exports and Greenhouse Gas Emissions." U.S.I.T.C Working Paper 2017-05-A.

Bastos, Paulo and Nicolas Santos. 2021. "The Long-Run Effects of Trade Liberalization on Local Labor Markets: Evidence from South Africa." World Bank Policy Research Working Paper No. 9686.

Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott. 2009." The Margins of U.S. Trade." NBER Working Paper No. 14662.

Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott. 2007." Firms in International Trade." *Journal of Economic Perspectives* 21(3): 105–130.

Brenton, Paul, Michael J. Ferrantino, and Maryla Maliszewska. 2022." Reshaping Global Value Chains in Light of COVID-19: Implications for Trade and Poverty Reduction in Developing Countries." Washington, DC: World Bank.

Bricongne, Jean-Charles, Lionel Fontagne, Guillaume Gaulier, Daria Taglioni, and Vincent Vicard. 2012. "Firms and the global crisis: French exports in the turmoil." *Journal of International Economics* 87: 134–146.

Derby, Portia. 2022." How we are getting Transnet back on track." *Business Day,* March 21, 2022.

DPWI (Department of Public Works and Infrastructure). 2022." National Infrastructure Plan 2050." Government Gazette No 46033, 11 March 2022.

Draper, Peter, Jakob Engel, Heinrich Krogman, Anna Ngarachu, and Lesley Wentworth. 2018. "Between Gatekeeper and Gateway: Taking Advantage of Regional and Global Value Chains by Addressing Barriers to South Africa's Trade Competitiveness". World Bank, MTI, Technical Paper.

Edwards, Lawrence. 2021. "South Africa's International Trade" in the *Oxford Handbook of the South African Economy,* edited by Arkebe Oqubay, Fiona Tregenna and Imraan Valodia.

Edwards, Lawrence, and Rhys Jenkins. 2015." The Impact of Chinese Import Penetration on the South African Manufacturing Sector." *The Journal of Development Studies* 51(4): 447-463.

Edwards, Lawrence and Robert Lawrence. 2006." South African Trade Policy Matters: Trade Performance & Trade Policy". *CID Faculty Working Paper* No. 135. Harvard University.

Engel, Jakob, Deeksha Kokas, Gladys Lopez-Acevedo, and Maryla Maliszewska. 2021." The Distributional Impacts of Trade: Empirical Innovations, Analytical Tools, and Policy Responses." Washington, DC: World Bank.

Erten, Bilge. Jessica Leight and Fiona Tregenna. 2019. "Trade liberalization and local labor market adjustment in South Africa." *Journal of International Economics* 118(C): 448-467.

European Commission. 2016. "Economic Partnership Agreement (EPA) between the European Union and the Southern African Development Community (SADC) EPA Group: Key Advantages."

Farole, Thomas. 2016. "Factory Southern Africa: SACU in Global Value Chains." Washington, DC: World Bank.

Fedderke, Johannes, Nonso Obikili, and Nicola Viegi. 2018." Markups and Concentration in South African Manufacturing Sectors: An Analysis with Administrative Data." *South African Journal of Economics* 86(S1): 120-140.

Feddersen, Maura, Hugo Nel and Ferdi Botha. 2017. "Exports, capital formation and economic growth in South Africa." *African Review of Economics and Finance* 9(1).

Fernandes, Ana M., Caroline Freund, and Martha Denisse Pierola. 2016. "Exporter behavior, country size and stage of development: Evidence from the exporter dynamics database." *Journal of Development Economics* 119: 121-137.

Feyrer, James. 2019. "Trade and income—exploiting time series in geography." *American Economic Journal: Applied Economics*, 11(4): 1-35.

GoSA (Government of South Africa). 2020. "South African Economic Reconstruction and Recovery Plan."

Hausmann, Ricardo, Federico Sturzenegger, Patricio Goldstein, Frank Muci and Douglas Barrios. 2022." Macroeconomic risks after a decade of microeconomic turbulence." *CID Faculty Working Paper* No. 404.

Havenga, Jan, Zane Simpson, and Leila L. Goedhals-Gerber. 2017. "International trade logistics costs in South Africa: Informing the port reform agenda." *Research in Transportation Business & Management* 22: 263-275.

IFC (International Finance Corporation). 2019. "Creating Markets in South Africa: Country Private Sector Diagnostic." Washington, DC: World Bank.

IMF (International Monetary Fund), OECD (Organisation for Economic Co-operation and Development), World Bank, WTO (World Trade Organization). 2022." Subsidies, trade, and international cooperation." Washington, DC: International Monetary Fund.

IMF. 2020." South Africa: Selected Issues." *IMF Country Report* No. 20/34.

Intellidex. 2021." Localization. What is realistic?" Independent Research Report supported by Business Unity South Africa (BUSA) in conjunction with Business Leadership South Africa (BLSA).

Kaziboni, Lauralyn and Matthew Stern. 2021." The impact of local content policies on South Africa: Drawing lessons from foreign investors' experience of the PPPFA and REIP4." Paper for the *TIPS Forum 2021, 2-3 August 2021.*

Maliszewska, Maryla, Dominique van der Mensbrugghe, Maria F. S. Pereira, Israel Osorio Rodarte, and Michele Ruta. 2020. "African Continental Free Trade Area: Economic and Distributional Effects." Conference papers 333178, Purdue University, Center for Global Trade Analysis, Global Trade Analysis Project.

Matthee, Marianne, Thomas Farole, Tasha Naughtin, and Neil Rankin. 2016." South African Exporters and the Global Crisis: Intensive Margin Shock, Extensive Margin Hangover." *South African Journal of Economics* 84(2): 183– 198.

National Treasury. 2019. "Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa."

Niu, Zhaohui, Chang Liu, Saileshsing Gubessee, and Chris Milner. 2018. "Non-Tariff and Overall Protection: Evidence Across Countries and Over Time." *Review of World Economics* 154(4): 675-703.

OECD. 2021. Services Trade Restrictiveness Index: South Africa 2021. https://stats.oecd.org/Index.aspx?DataSetCode=STRI

OECD. 2020. "Services Trade Restrictiveness Index." https://www.oecd.org/trade/topics/services-trade/

OECD. 2019." Local Content Requirements." https://www.oecd.org/trade/topics/local-content-requirements/

Pieterse, Duncan, Elizabeth Gavin, and Carl Kreuser. 2018. "Introduction to the South African Revenue Service and National Treasury Firm-Level Panel." *South African Journal of Economics*, 86(S1): 6–39.

Pieterse, Duncan, Elizabeth Gavin, and Friedrich Kreuser. 2018. "Introduction to the South African Revenue Service and National Treasury Firm-Level Panel." *South African Journal of Economics* 86: 6-39.

Rodrik, Dani. 2018. "New Technologies, Global Value Chains, and Developing Economies." NBER Working Paper 25164.

Stone, Susan, James Messent and Dorothee Flaig. 2015. "Emerging Policy Issues: Localization Barriers to Trade." *OECD Trade Policy Papers* No. 180. Paris: OECD Publishing.

The Financial Times. 2024. "Financial Times FDI Markets." https://www.fdimarkets.com/

Thurlow, James. 2007. "Trade liberalization and pro-poor growth in South Africa." *Studies in Economics and Econometrics* 31(2): 161-179.

Transnet. 2021." Transnet Corporate and Strategic Plan."

van der Mensbrugghe, Dominique. 2019. "The Environmental Impact and Sustainability Applied General Equilibrium (Envisage) Model. Version 10.01." The Center for Global Trade Analysis, Purdue University.

Visagie, Justin and Ivan Turok. 2023. "Recognising the role of tradable service exports in the South African economy–An untapped resource?". *South African Journal of International Affairs.*

World Bank. 2014. "South Africa Economic Update. Focus on Export Competitiveness." Washington, DC: World Bank.

World Bank. 2018. "South Africa Systematic Country Diagnostic: An Incomplete Transition." Washington, DC: World Bank.

World Bank. 2020. "Enterprise Surveys: What Businesses Experience: South Africa 2020 Country Profile." https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/South-Africa-2020.pdf

World Bank. 2021. "South Africa Economic Update, Edition 13: Building Back Better from COVID-19 with a Special Focus on Jobs." Washington, DC: World Bank.

World Bank and S&P. 2021. "The Container Port Performance Index 2020: A Comparable Assessment of Container Port Performance." Washington, DC: World Bank.

World Bank. 2022. "Inequality in Southern Africa: An Assessment of the Southern African Customs Union." Washington, DC: World Bank.


EDDS JAT