CHAPTER 4

ECONOMIC STATUS

4.1 Introduction

Both the NDP 2030 and the NATMAP 2050 recognise the need for South Africa to maintain and expand its transport infrastructure to continue supporting its economic growth and social development goals (National Planning Commision, 2012). The World Bank emphasises the centrality of transport to social and economic development. Without physical access to jobs, health, education and other amenities, quality of life suffers; and without physical access to resources and markets, growth stagnates and poverty reduction cannot be sustained (The World Bank Group, 1996).

This chapter provides an overview of the state of the economy, economic analyses and forecasting, the role of transport in the economy, the impact of the economy on transport planning, and the required interventions in the alignment of these aspects with the NATMAP 2050 vision. The national economic profile is sketched and recent performance reflected upon. The economic outlook and trends are discussed and supplemented with views on sub-Saharan Africa and global economic outlooks.

4.2 Economic Performance and Profile

The economic growth rate (**Figure 4-1**), as measured by the annual change in Gross Domestic Product (GDP), has moderated over the past decade. This is partly due to the global economic contraction experienced in the aftermath of the financial crisis during 2008, as well as domestic constraints.

The long-term potential growth rate for South Africa under the current policy environment has been estimated at 3.5% (The World Bank Group, 2012). National government has the ambition of reaching a growth target of 5% by 2019.

The composition of economic activity by industry (value added by industry (2010 prices)) is shown in **Figure 4-2**.

Figure 4-3 illustrates that economic activity by industry is dominated by tertiary industries, specifically business services, general government services and trade sectors. Secondary and primary industries constitute 31.1% of the economic activity as measured by gross value added. Manufacturing is the fourth greatest contributor to national economic activity.

The bulk of economic activity is concentrated in Gauteng, as well as the coastal provinces of KwaZulu-Natal and the Western Cape, accounting for 64.2% of national value added (see **Figure 4-4**).

Economic data indicate that the transport, storage and communication sector contributes 9.3% to South Africa's GDP, whilst transport alone contributes about 6.5%.

Transportation and the mobility it confers are linked to a level of output, employment and income within a national economy. In many developed countries, transportation accounts for between 6% and 12% of the GDP. South Africa's transport sector's contribution to the GDP features at the lower end of this spectrum.

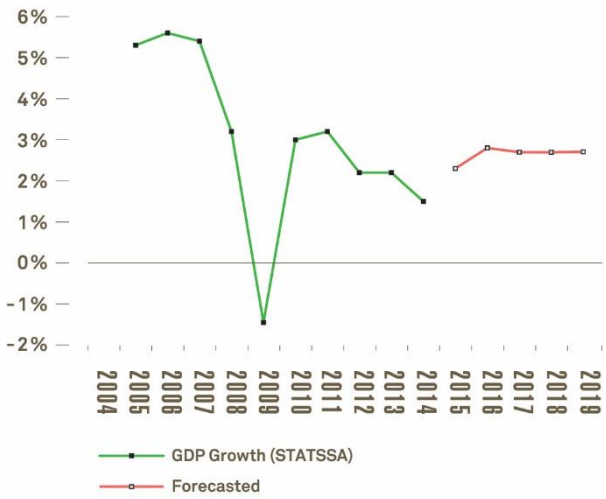


FIGURE 4-1: **GDP GROWTH RATE PROFILE (2005–2014) AND FORECAST (2015–2019)** (Source: STATSSA, IMF)

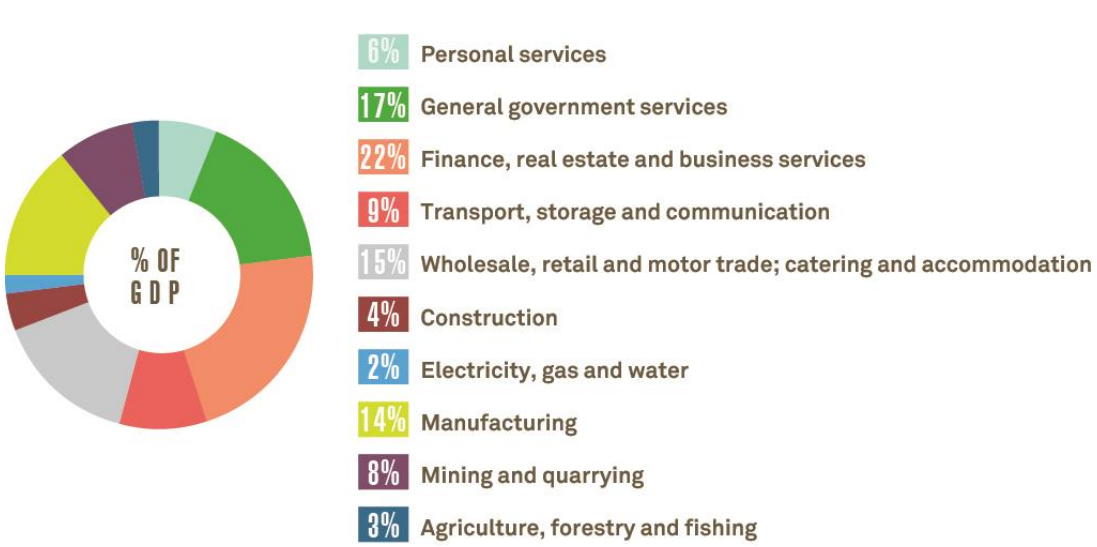
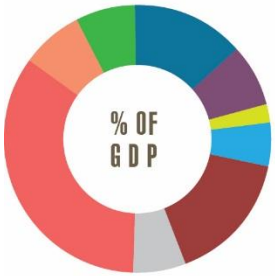


FIGURE 4-2: **ECONOMIC ACTIVITY BY INDUSTRY IN 2013 (% OF TOTAL GDP)** (Source: STATSSA, 2015)

FIGURE 4-3: **VALUE ADDED BY INDUSTRY 2013 (CONSTANT 2010 PRICES – RAND MILLION)** (Source: STATSSA, 2015)



		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
13.7%	WC	297 354	315 018	333 645	354 512	368 376	363 271	372 787	386 497	397 191	406 409
7.6%	EC	174 097	182 582	192 168	202 387	208 772	206 749	211 600	219 228	223 675	226 071
2.2%	NC	53 270	55 163	57 886	59 838	60 914	58 634	60 090	61 213	63 221	64 555
5.3%	FS	126 338	131 596	138 160	143 420	146 770	143 544	147 189	150 088	154 521	157 152
15.9%	KZN	345 694	365 606	384 865	408 681	425 096	419 444	433 846	449 202	460 677	470 341
6.2%	NW	156 210	164 242	171 646	178 525	180 254	175 018	180 222	184 340	180 577	185 052
34.6%	GP	742 843	783 682	833 540	883 329	918 507	905 981	937 178	971 492	998 703	1 024 516
7.3%	MP	173 409	181 349	189 815	197 628	200 180	197 503	202 901	207 320	211 548	215 131
7.2%	LP	173 407	180 842	189 571	196 521	199 732	196 796	202 195	206 907	209 134	214 161

FIGURE 4-4: **VALUE ADDED BY PROVINCE – 2013 (CONSTANT 2010 PRICES – RAND MILLION)** (Source: STATSSA, 2014)

4.3 Economic Outlook and Trends

The National Treasury projects a GDP growth rate of 2% in 2015, rising to 3% by 2017 (National Treasury, 2015). The moderately improving growth outlook is expected to be supported by continued economic growth in much of sub-Saharan Africa and, over the short term, better terms of trade and lower inflation associated with the oil price decline. Inadequate electricity supply, however, will impose a constraint on outputs and exports.

4.3.1 Trends in the real economy

Tertiary industry value addition experienced a robust average annual growth rate of 3.9% during the period of 2004–2014. An average growth rate of 3.12% was reached for secondary industries, albeit from a lower base. Primary industry average value addition per year is 0.12% over the comparable period. The indication is that South Africa is migrating up the economic value chain in terms of production and value addition.

Provincial economic growth performance, as measured by the average economic growth rates of 2003–2013, is dominated by the largest producers, the Western Cape, Gauteng and KwaZulu-Natal. The economies of the Eastern Cape, the Free State and Mpumalanga grew around 3% over the period. The trend is that the larger provincial economies continue to grow at higher rates relative to those with less economic activity. It is apparent that the provinces that see the highest economic growth rates are those served by better transport corridors/linkages to help sustain higher economic performance.

The robust economic performance has been supported by growth in provincial populations as a percentage of the national population, except in the case of KwaZulu-Natal, which share has shrunk by 1.2% (see Chapter 3).

Recent strong growth in agriculture and improved performance in construction were offset by contractions in the mining and electricity sectors. Supply shocks and flagging demand weighted on the performance of manufacturing, where growth was flat.

4.3.2 Employment

The unemployment rate was 24.3% at the end of 2014, or 34.6%, including discouraged job seekers. Among the unemployed, long-term joblessness is 66%, underlining how lengthy exclusion from the labour market erodes skills and reduces employability. Unemployment for those between 15 and 24 years old remains extremely high at 48.8%.

The labour intensity of production continues to decline. While this boosts unit labour productivity and can enhance competitiveness, the total output is not growing fast enough to absorb existing job seekers or new workforce entrants. Reducing unemployment and inequality will require a large increase in job creation in the private sector.

FIGURE 4-5: **AVERAGE REAL ANNUAL ECONOMIC GROWTH RATE BY PROVINCE: 2003–2013** (Source: STATSSA, 2014)

4.3.3 Budget framework

A budget deficit of 3.9% of the GDP is expected for 2015/16, narrowing to 2.6 % in 2016/17 and to 2.5% in 2017/18. The lowering is expected to be obtained through a combination of a lower expenditure ceiling and higher taxes.

4.3.4 Domestic expenditure

Tighter financial conditions have reduced overall consumer debt levels to 78.3% of disposable income, down from a high of 89.3% in 2008, but consumer confidence remains subdued.
Economic infrastructure accounted for nearly 60% of investment spending by general government in 2013.

4.3.5 Balance of payments

South Africa is running an elevated current account deficit of 5.8% of the GDP. Negative terms of trade have worsened the trade balance since 2012, but the sharp decline in oil prices is expected to reverse this trend and narrow the current account deficit.
The weaker rand raises import costs. Imports of machinery and equipment are expected to moderate in line with the reduced investment by state-owned companies. Large infrastructure projects tend to rely on a higher proportion of imported capital equipment than general government infrastructure investments.

4.3.6 Exchange rate and competitiveness

The US dollar continues to strengthen against both developing and developed market currencies on expectations of higher growth and interest rates. Further sharp depreciation of the rand is not anticipated. The currency is likely to remain susceptible to bouts of volatility in response to shifts in global capital flows, commodity price fluctuations, the borrowing levels of state-owned enterprises and domestic growth constraints.

4.3.7 Trade value and trade patterns

The dollar value of exports has experienced a compound annual growth rate of 7.3% for the period 2005 to 2014. The dollar value of imports has grown at a rate of 5.5% for the corresponding period.

The composition of trade by region is illustrated in **Figure 4-6** and **Figure 4-7** for exports and imports. The share of national trade with Europe and the Americas had decreased in the preceding decade. Exports to African countries have increased significantly during the past decade to a level of 30% of total exports by dollar value.

4.3.8 Inflation

Headline inflation rose from 5.8% in 2013 to a peak of 6.6% in June 2014, but subsequently declined to 5.3% in December 2014. The inflation-targeting regime is robust. Inflation is expected to decline to 4.3 % in 2015 from 6.1 % in 2014.

4.3.9 Sub-Saharan Africa

Economies in the Sub-Saharan region have diversified over the past decade, attracting increased foreign direct investment and benefitting from rising investment in ports, electricity capacity and transportation. The outlook for Sub-Saharan Africa (SSA) looks robust and is dominated by the following themes:

- **Strong growth expected**: A robust growth rate of 5.8% over the next 5 years is expected.
- **Low commodity prices:** A major risk for SSA is a moderation in commodity prices from prevailing levels, the oil price slump being a prime example of resource-rich countries coming under pressure.
- **Tight monetary policy:** SSA's monetary policy mix will be dictated by each country's inflation and growth profiles. Rapid credit-fuelled growth, coupled with elevated levels of inflation, could necessitate tighter monetary conditions.
- **Fiscal restraint:** State budgets are at risk of being overextended due to expeditious growth in recurrent spending at the expense of capital development.
- **Exchange rate depreciation:** Subdued commodity prices and concerns over deficits are likely to exert pressure on various currencies.

4.3.10 BRICS outlook

The outlook for emerging markets has deteriorated in recent times, with notably slower growth expected in Brazil, Russia and China.

Economic growth till 2019 for Brazil, Russia and China is expected to average at 2.5%, 6.6% and 1.6%. Anticipated growth is moderately lower than the corresponding actual figures of 2.8%, 8.5% and 2.7% for the preceding 5-year period.

Average annual growth in India is expected to remain at the 6.5% level of the preceding 5-year period until 2019.

4.3.11 Global outlook

The world economy faces a protracted period of slow growth. Over the next 3 years, the United States is the only major developed country expected to grow by more than 3% annually, with economic activity remaining depressed in Europe and Japan.

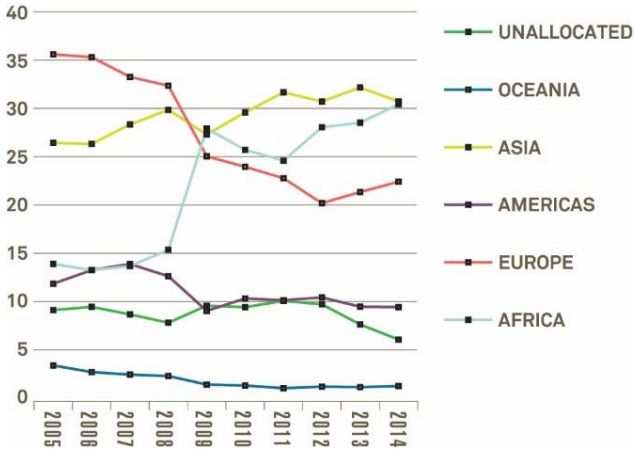


FIGURE 4-6: **COMPOSITION OF EXPORT DESTINATIONS BY USD VALUE**
(Source: DTI)

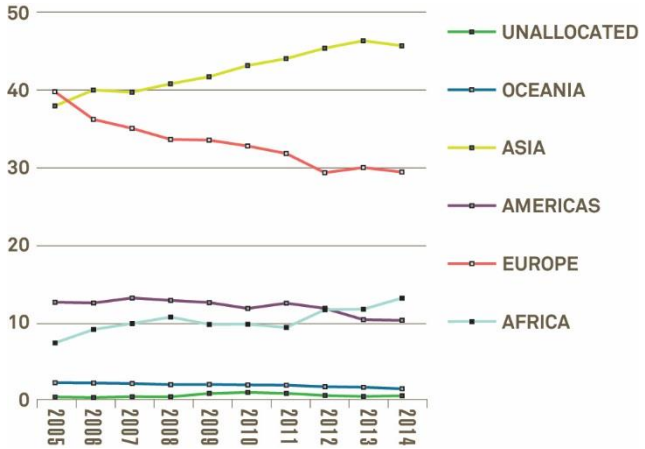


FIGURE 4-7: **COMPOSITION OF IMPORT ORIGINS BY USD VALUE**
(Source: DTI)

4.4 National Development Themes and Progress

The government's growth initiative, as outlined in the National Development Plan, will shape economic policy over the medium term.

The NDP 2030 has an overarching objective to eliminate poverty and reduce inequality. It seeks to do so by providing a supporting environment for growth and development, while promoting a more labour-absorptive economy.

NDP 2030 proposals to increase employment and growth include the following:

- Raising exports by focusing on industries with comparative advantages
- Increasing the size and effectiveness of the innovation system
- Improving the functioning of the labour market
- Supporting small businesses through improved coordination of activities
- Improving the skills base through better education and vocational training
- Increasing investment in social and economic infrastructure to lower costs and raise productivity
- Reducing the regulatory burden in sectors where the private sector is the main investor
- Improving the capacity of the state to implement economic policy effectively.

4.4.1 Raising growth potential

According to the NDP 2030, faster economic growth and job creation are required to enable a broad shift from consumption to investment in South Africa. This investment should be in dynamic sectors that transform ownership and the economic structure and draw in a larger proportion of the economically inactive population.

As the government, business and labour work towards realising the NDP 2030 vision, the economy faces several domestic constraints that are particularly binding over the medium term – inadequate and unreliable electricity supply, skills constraints, regulatory uncertainty, and concentrated markets that discourage new entrants. The government's MTSF outlines programmes intended to improve productivity and competitiveness across the economy.

- **Building critical infrastructure and raising productivity:** The public sector infrastructure programme has begun to lift constraints to growth.
- **Reducing energy consumption and promoting energy efficiency:** Enhanced tax incentives will promote greater energy efficiency.
- **Employment creation and building skills:** Various incentives and programmes have been introduced to assist job seekers and build skills.
- **Regulatory and business environment:** Several regulatory reforms and administrative improvements have been completed to enhance business conditions and confidence.
- **Incentives, new sectors and new business:** The establishment of special economic zones, various tax incentives and grant funding for upgrading equipment and processes should help local firms to become more competitive.

4.5 Economic Benefits of Transport

Efficient transport is a critical component of national and global economic development. Transport availability affects development patterns and can be a boost or a barrier to economic growth. Transportation investments link factors of production together in a web of relationships between producers and consumers to create a more efficient division of production, leverage geographical comparative advantage, and provide the means to expand economies of scale and scope.

Transportation projects can lead directly to benefits beyond the traditional measures of traveller or freight impact, as based on average travel time and cost. The wider benefits are mainly the effects on business productivity, the factors that enable businesses to gain efficiency by reorganising their operations or by changing the mix of inputs used to generate products and services (Transportation Research Board, 2014).

Transport's direct contribution/benefits to economic development include the following:

- **Network effects: L**inking more locations exponentially increases the value and effectiveness of transport. Some transport projects have the effect of enhancing the frequency of services and reducing total run time between origin and destination by taking advantage of the economies of scale benefits introduced by intermodal terminals such as airports, marine ports, rail terminals and intermodal facilities.
- **Intermodal connectivity**: Projects may enhance the frequency of air, marine, or rail services, or breadth of origins and destinations directly accessible from those terminals. The result is faster intermodal travel between origin and destination.

  In bringing about the benefits associated with intermodal connectivity, it is possible to reduce travel cost for existing movements and to enable new movements between origin

and destination that were previously not practical or economically feasible.

- **Performance improvements:** Reducing cost and time for existing passenger and freight movement's increases transport's contribution to economic growth.
- **Reliability:** Reliability improves time performance and reduces loss and damage, reduces inventories, centralises warehousing and delivery processes, leading to a gain in supply chain benefits, thus reducing economic drag and contributing to improvement in overall system resilience.
- **Market size:** Access to wider markets adds to economies of scale in production, distribution, and consumption, thereby increasing economic growth. Some transportation projects have the effect of expanding the reach of destinations that can be served by same-day deliveries from a business location, or the breadth or reach of areas from which a business could reasonably expect to draw customers and workers.

  These effects are often represented as changes in the effective size or density of the customer market and labour market available to the firm. Expansion of the customer delivery market can enable scale economies in production and delivery processes. Similarly, expansion of the labour market can enable scale economies through better matching of specialised business needs and worker skills.
- **Productivity:** Transport increases productivity gained from access to a larger and more diverse base of inputs such as raw materials, parts, energy, and labour, and broader markets for more diverse outputs.

- **Table 4-1** illustrates the effects of a transportation improvement project on the expanded effective market area for vehicular access to an employment activity centre.

TABLE 4-1: **EFFECT OF TRANSPORT CHANGES**

TRANSPORTATION CHANGE	EFFECT ON BUSINESS REORGANISATION/BUSINESS OPERATION CHANGE
Improved reliability: Freight delivery	Improved delivery schedule More daily delivery per vehicle Fewer vehicles and trips required Less fuel used Less staff driver time required Less overtime required at loading dock Less warehouse inventory safety stock More centralised dispatch and distribution
Improved reliability: Workers	Fewer late worker arrivals and earlier start of full operation More hours of full operation per day Potential for less overtime and extra workers kept on hand
Enhanced intermodal connectivity: Freight delivery	More origins and destinations for per delivery type Larger scale warehouse and more centralised distribution Economies of scale
Enhanced intermodal connectivity: Workers	Same-day business interaction with more firms in more markets Improved innovation through worker interaction with complementary firms
Expanded access: Freight delivery	Reconfiguration of delivery routes for broader scale service area Larger scale warehouse and more centralised distribution Longer average trip distance
Expanded access: Workers	Broader scale of labour market available to firms Improved matching of specialised business needs and worker skills More innovation through interaction with complementary firms Longer average trip distance

4.6 Implications for Transport Planning

The government's spending plans are focused on achieving the objective of the MTSF, which has been derived from the NDP 2030, is aligned to the Budget Speech 2015 and supports the aspirations of the NATMAP 2050.

The national budget allocates resources to South Africa's core social and economic priorities while containing aggregate expenditure growth. Spending plans give effect to the priorities of the NDP 2030 and the government's MTSF. The current budget prioritises spending on economic infrastructure with a specific focus on passenger and freight rail as well as roads.

Over the medium term (2015–2018), the government and state-owned enterprises have budgeted R339.2 billion for transport and logistics. This accounts for 42% of the total public sector infrastructure budget over this period. It continues funding for programmes to improve the quality of infrastructure spending and the government's capacity to plan and implement infrastructure projects.

The investment will improve the national transport infrastructure network, facilitate improved mobility of people and services, and facilitate regional trade. Revenues from services provided by state-owned enterprises will help fund infrastructure investment, complemented by national and provincial allocations for road construction and maintenance.

4.6.1 Funding provinces

Provincial government is responsible for implementing national policies. Transfers to provinces are made up of the provincial equitable share and conditional grants. The provincial equitable share will grow at an average annual rate of 6% over the Medium-Term Expenditure Framework (MTEF) period. The rate of growth varies across provinces, because the equitable share formula factors in differences in demand for services. Gauteng, for example, which has experienced significant in-migration, has the fastest growing equitable share. The Free State has the slowest growing equitable share due to its slow-growing population.

Grants for provincial road maintenance and public transport operations constitute 17.3% of the total direct conditional grants for 2015/16.

4.6.2 Funding local government

The National Treasury, together with relevant departments, government associations and commissions, is conducting a review of the local government infrastructure grant system. The first phase has identified two necessary reforms:

- Allow funds to be used for the refurbishment and replacement of infrastructure, but only if municipalities can demonstrate that assets have been maintained on a regular basis
- Reduce the number of conditional grants to ease the burden of grant reporting.

Additional consolidation of infrastructure grants to municipalities is likely to follow.

4.6.3 Shaping urban development to support growth in cities

Budgeting at national level begins a process of realigning public expenditure to support spatial restructuring in urban areas. A new fiscal package is to be introduced to help large cities mobilise the resources necessary to implement strategic investment projects. The new package includes:

- Modifying the infrastructure grant system to support the development of mixed-use, mixed-income precincts
- Refocusing the Neighbourhood Development Partnership Programme to support the development of economic hubs in large urban townships
- Reforming the system of development charges to improve fairness and transparency and reduce delays in infrastructure provision for private land developments
- Expanding opportunities for private investment in municipal infrastructure
- Reviewing the sustainability of existing own-revenue sources for metropolitan municipalities, particularly in light of their expanding responsibilities in public transport and human settlements.

4.6.4 Special Economic Zones (SEZs)

An SEZ is an economic development tool to promote economic growth and export by using support measures to attract targeted domestic and foreign direct investment and technology.
The objectives broadly are to increase trade and investment as well as sustainable job creation and effective administration.
The existing forms of SEZs in South Africa are the previously established Industrial Development Zones (IDZs) in Saldanha Bay, Richards Bay, Coega and East London.
The SEZ programme, being implemented by the Department of Trade and Industry, is at various stages of project development and application for designation. Proposed SEZs are listed in **Table 4-2**.

The existing IDZs are all located at close proximity to a marine port. The proposed SEZs, albeit with similar objects, diverge from the proximity to marine ports and are close to regional economic centrums on road corridors or around airports.

Product beneficiation could be done at either terminal of the inland evacuation corridor, whereas the previous focus was on the interface between land and marine transport systems.

Sustained economic growth is important to achieve the vision of the NATMAP 2050 as well as the NDP 2030. As described above, the government's spending plans aim to give effect to the priorities of the NDP 2030 and the government's MTSF in relation to transport.

PROVINCE	CITY	ECONOMIC ACTIVITY
Eastern Cape	Mthatha	Agro-processing and tourism
Free State	Harrismith	Agro-processing and logistics
Gauteng	Gauteng	ICT
KwaZulu-Natal	Durban	Dube trade port
Limpopo	Tubatse	Platinum hub
Limpopo	Musina	Agro-processing and logistics
Mpumalanga	Nkomazi	Agro-processing and logistics
Northern Cape	Upington	Solar corridor
North West	Rustenburg	Platinum hub
Western Cape	Atlantis	Renewable energy hub

TABLE 4-2: **PROPOSED NEW SPECIAL ECONOMIC ZONES**

4.7 Conclusions

The relationship between transport infrastructure, transportation services and economic performance is mutually dependent. Transport infrastructure could serve to accelerate economic growth and development; a lack thereof could constrain expansion.

The composition and performance of the national economy have a specific demand for transport infrastructure and transportation services.

Cognisance of local, regional and global economic structures and macro-trends will allow for the adjustment of the supply of transport infrastructure and services to meet the demand required by economic activities.

Salient economic themes have been identified in this chapter:

1. **The tertiary sector has experienced significant growth in the preceding decade**. The indication is that the economic activities that constitute this fast-growing sector grouping have a specific transport requirement that is likely to be different to that of the primary and secondary industries.
2. **Provincial growth profiles** further indicate that there might be a divergent mix and levels of transport infrastructure and transportation services required by the respective provinces to support individual growth paths.
3. **National trade patterns** indicate a greater share of trade in value with African countries, specifically SADC members (**Figure 4-6; Figure 4-7**). The implication is a renewed emphasis on regional corridors and border post efficiency improvements.

The economic framework is the context in which transport planning takes place. Due to the dynamic nature of national and global economics, the demands from transport infrastructure and services vary over time. It is imperative to update the views regarding anticipated economic performance and macro-themes.

Economic forecasting and macro-trends are important in determining the timing and quantum of large-scale transport planning interventions. Forecasts should be updated at intervals that allow for an honest reflection of current and anticipated realities. It will enable the timely planning and development of infrastructure solutions and services to allow for the support and improvement of national economic performance.

Transportation also has a broader role in shaping development and the environment. Policy concerns in the next few decades will increasingly focus on the effects of transportation on where people live and on where businesses are located and on the effects that these location decisions have on land use patterns, the congestion of urban transportation systems, the use of natural resources, air and water quality, and the overall quality of life.

To effectively achieve South Africa's growth trajectory, special cognisance needs to be taken of the geographic distribution of the projected economic activity. Spatial development and planning are, therefore, important considerations for any integrated forward planning activities.