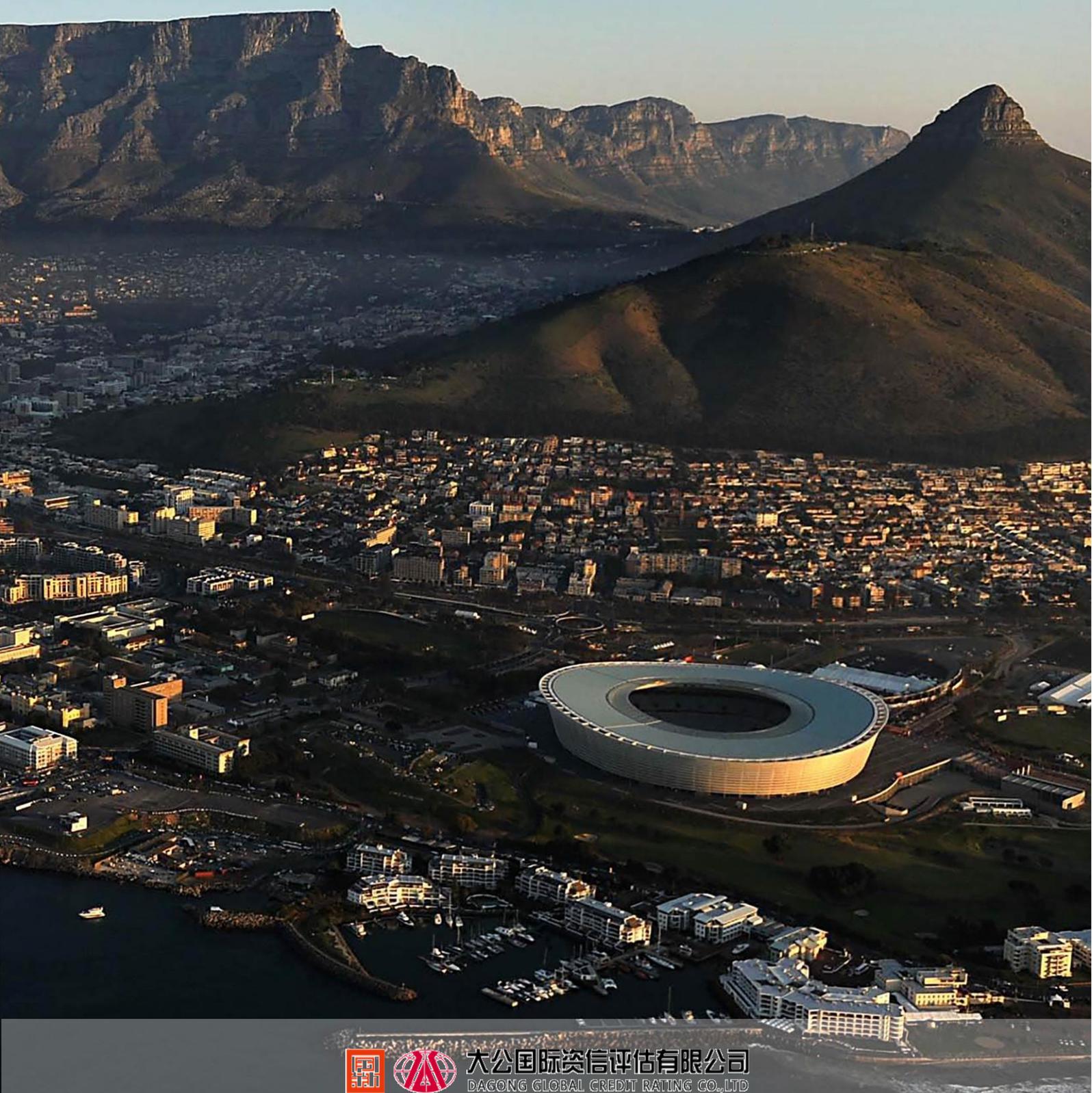


The Evaluation Report of South Africa's Investment Climate



大公国际资信评估有限公司
DAGONG GLOBAL CREDIT RATING CO.,LTD

Acknowledgement: Embassy of South Africa in China



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2020 Investment Climate Index

“The Belt and Road” in South Africa



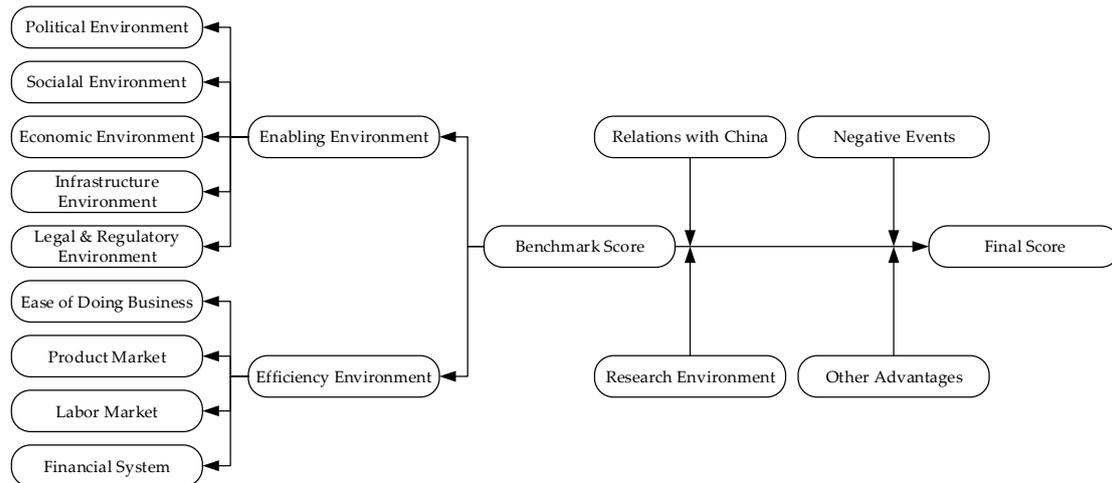
South Africa's Investment Climate 2020: Good

● Enabling Environment	Good	● Efficiency Environment	Good	Adjustments
○ Political Environment	Good	○ Ease of Doing Business	Good	↑ Investment Strengths
○ Social Environment	Medium	○ Product Market	Medium	↓ Covid-19 Effect
○ Economic Environment	Medium	○ Labor Market	Good	
○ Infrastructure Environment	Good	○ Financial System	Excellent	
○ Legal & Regulatory Environment	Good			

Schedule 1 Investment Climate Index Logic and Index Partition

The process of the National Investment Climate Index is summarized as follows:

1. Weighting the political environment, social environment, economic environment, infrastructure environment and legal supervision environment to obtain the basic environment index;
2. Weighting business convenience, commodity market efficiency, labor market efficiency and financial environment to obtain an efficiency environment index;
3. Weighting the above two indexes to get the benchmark score;
4. The benchmark score is adjusted by adjustment items to obtain the final score^[1].



[1] The 2020 Investment Climate Index has additionally increased the impact of the COVID-19 epidemic on the investment climate.

South Africa's Investment Climate

Political Environment[Good]

Strengths

- ✓ The Political situation is generally stable;
- ✓ The Policy continuity is strong, and National Reforms are accelerated;
- ✓ In deep cooperation and partnership with China, especially along “the Belt and Road Initiatives”.

Challenges

- Consolidate the ruling position among the ANC;
- Sustained economic growth in the long-run;
- State-owned enterprises and land reform.

Economic Environment[Medium]

Strengths

- ✓ Rich in Mineral Resources & Advanced Mining Techniques;
- ✓ Complete Industry Structure & Well developed Manufacturing Industry;
- ✓ Structural Transformation of the Economy.

Challenges

- Unemployment Rate stays high.;
- Affected by the epidemic, the economy fell into recession.;
- Financial difficulties & State-owned Enterprises dilemma.

Legal and Regulatory Environment[Good]

Strengths

- ✓ Complete Investment related Legal framework, comprehensive protection measures for minority investors.
- ✓ “Amendments to the Investment Promotion and Protection Act” put foreign and domestic capital under the same management framework.
- ✓ Complete Environmental law.

Challenges

- Specific Investment code has not yet been established.
- Investors have certain concerns about the amendments to the Investment Promotion and Protection Act.

Social Environment[Medium]

Strengths

- ✓ Younger Population Structure;
- ✓ Development on education equality due to higher spending on public education;
- ✓ Social diversity and tolerance, known as the “Rainbow Nation”.

Challenges

- Increasing social tensions lead to higher crime rate;
- High HIV infection rate;
- Quality of Education needs further improve;
- Exclusivism may leads to brain drain

Ease of Doing Business[Good]

Strengths

- ✓ Continuous improvement of business environment;
- ✓ Ranks 64th in the World Bank’s 2020 doing business ranking, achieved remarkable results in business environment reform.

Challenges

- The legal system needs to be improved;
- Bureaucracy and corruption;
- Infrastructure is in disrepair.

Financial System[Excellent]

Strengths

- ✓ Matured Financial System & Strict Regulations.
- ✓ Well-developed Financial Industry.
- ✓ Diversified Financing Channels.

Challenges

- Declined Profitability in Banking Industry and Bad debt risk is high.

Infrastructure Environment[Good]

Strengths

- ✓ Modernized Traffic System & High Road Connectivity;
- ✓ Well-developed in Marine Transport and Air Transport;
- ✓ Digitalized Communication Network;
- ✓ Extensive Fiber and Internet coverage.

Challenges

- Tight Power Supply;
- Infrastructure maintenance and support.

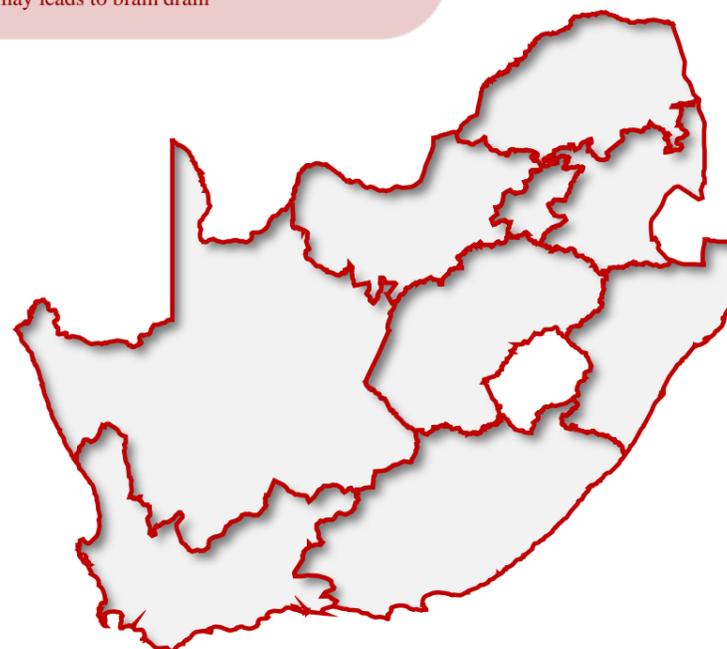
Product Market[Medium]

Strengths

- ✓ Complete Tax Structure.
- ✓ Reasonable Tax Settings.
- ✓ The tax burden of foreign companies investing in South Africa is at an international level.
- ✓ Relative High Market openness.

Challenges

- Water, Electricity and gas price go up every year.
- Tariff Protection on some domestic products.

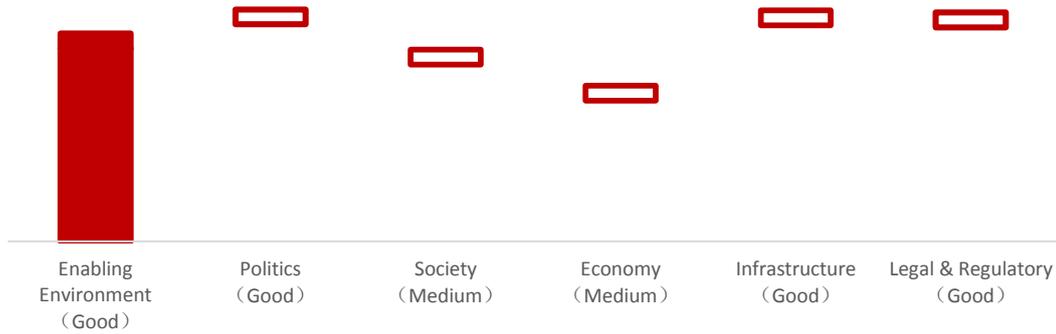




01

Enabling Environment

Figure 1-1 Enabling Environment South Africa 2020



Data Source: Dagong Global

Note: Politics, Society, Economy, Infrastructure, Legal and Regulatory are the sub indicators.

Chapter 1 Enabling Environment

Strengths	
✓	The political situation is generally stable;
✓	The policy continuity is strong, and National Reforms are accelerated;
✓	In deep cooperation and partnership with China, especially along “the Belt and Road Initiatives”.
Challenges	
✓	Consolidate the ruling position among the ANC;
✓	Sustained economic growth in the long-run;
✓	State-owned enterprises and land reform.

I. Political Environment

Political Situation

The African National Congress (referred to as the ANC) has a dominant position in South Africa’s political structure. President Matamela Cyril Ramaphosa was successfully re-elected, and South Africa’s political situation is basically stable. In May 2019, the ANC won 230 of the 400 seats in the South African National Assembly with a total vote rate of 57.5%, and the president was re-elected. The new South African government has adopted the policy of racial reconciliation and national unity, giving priority to improving the political, economic and social status of blacks, and taking into account the interests of all parties. Since the establishment of the new government, the political situation has been basically stable. In the future, the government will face challenges of consolidating the ruling position of the ANC, promoting sustained economic growth, and promoting the reform of state-owned enterprises and land reform on the basis of maintaining party unity.

Strategy and Policy

Ramaphosa’s position in the new South African cabinet has been firmly established, and its governance ties have weakened, which has allowed him to continue his policy propositions such as governance of corruption, reform of state-owned enterprises, attracting foreign investment, streamlining of institutions and land reform. Ramaphosa emphasized that the current government will focus on seven priorities when delivering the “South Africa’s 2019 State of the Union Address”: Firstly, achieving economic transformation and creating job opportunities; Secondly, to improve national education, skills and health; Thirdly, consolidating social wages via reliable and high-quality basic services; Fourthly improving people’s living environment and local government office conditions through spatial integration; Fifthly, enhancing social cohesion and create a safe community; Sixthly, striving to build a capable, ethical and developmental force country; Seventhly, building a better Africa and world. The government will continue to implement the strategy of socio-economic transformation and inclusive growth, and strive to achieve the five development goals of no hunger, faster economic growth than population growth, creation of more than 2 million jobs, improvement of education



quality, and halving of violent crimes in the next 10 years. Building South Africa into a country with advanced railway networks, modern agriculture, and high-tech industrial manufacturing centers.

China-South Africa Political Relationship

China and South Africa are each other's strategic partnership, and the senior leaders communicate and cooperate closely. China and South Africa formally established diplomatic relationship with each other on January 1, 1998. China respects South Africa's national sovereignty and territorial integrity, and the relationship between the two countries is rapidly heating up. In June 2006, the two countries signed the *China-South Africa Cooperation Outline on Deepening Strategic Partnership*. Later, when South Africa's then President Zuma visited China in 2010, the two countries signed the *Beijing Declaration*, which marks the official promotion of the bilateral relationship between the two countries to a comprehensive strategic partnership. After the establishment of the BRICS summit mechanism, communications of senior leaders between the two countries have become more frequent. In addition to the annual meeting of the leaders of the BRICS and major ministerial meetings, other important diplomatic activities of China and South Africa include: In September 2015, the then President of South Africa Zuma attended the 70th Anniversary Commemoration of the victory of Chinese People's Anti-Japanese War and the World Anti-Fascist War; In September 2016, the then President of South Africa Zuma went to Hangzhou to attend the G20 Summit; In September 2018, the President of South Africa Ramaphosa visited China. Chinese President Xi Jinping held talks with President Ramaphosa in the Great Hall of the People. After that, the two countries co-chaired the Beijing Summit of the Forum on China-Africa Cooperation.

On the issue of "the Belt and Road Initiatives", South Africa looks forward to participating in the "the Belt and Road Initiatives" construction. On one hand, China and South Africa signed the *Memorandum of Understanding on the Belt and Road Initiatives Cooperation* in December 2015, affirming that they will jointly build the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road". On the other hand, South Africa is very much looking forward to becoming a pioneering demonstration country for "the Belt and Road Initiatives" to connect with Africa, and believes that China is South Africa's best economic development partner. Full participation in "the Belt and Road Initiatives" process will bring significant economic benefits to South Africa. With the personal care and promotion of the leaders of China and South Africa, the two countries have always maintained good cooperation in the construction of "the Belt and Road Initiatives".

Strengths	
<ul style="list-style-type: none"> ✓ Younger Population Structure; ✓ Development on education equality due to higher spending on publication education; ✓ Social diversity and tolerance, known as the "Rainbow Nation". 	
Challenges	
<ul style="list-style-type: none"> ✓ Increasing social tensions lead to higher crime rate; ✓ High HIV infection rate; ✓ Quality of Education needs further improve; ✓ Exclusivism may leads to brain drain. 	

II. Social Environment

Social Security

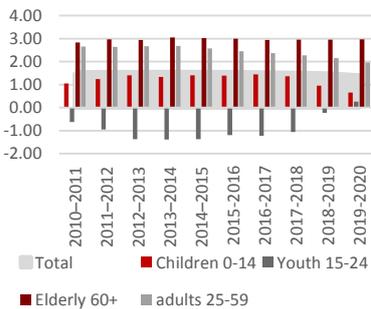
The severe social security situation and frequent protests and demonstrations put pressure on South Africa's social security. South Africa is one of the countries with a high crime rate in the world, and criminal crime is its most prominent social problem. In order to reduce the rate of social crime, the government has promulgated a series of bills such as the *Crime Prevention Law*, and has increased efforts to combat crime and the collection of illegal firearms. The crime rate has been curbed to a certain extent, but it is still at a relatively high level. At the same time, affected by the persistently high unemployment rate, the polarization between the rich and the poor, social class inequality, and corruption, protests and demonstrations broke out frequently in major cities in South Africa, and social tension in South Africa has expanded.

Population

South Africa's aging trend is accelerating, but the overall population structure



Figure1-2 South Africa's Population Increase Rate (%)



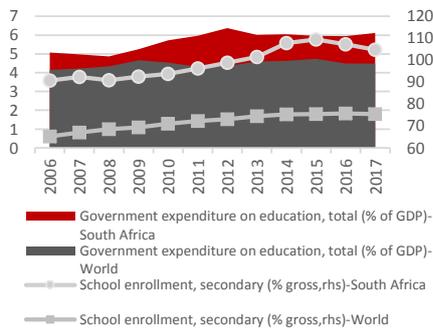
Data source: South Africa's Statistics Bureau, Dagong Global.

tends to be relatively young. In 2020, the total population of South Africa is approximately 59.62 million (Table 1-1), an increase of 1.4% year-on-year. Geographically, Gauteng has the most concentrated population, accounting for 26.0% of the total population of South Africa, followed by KwaZulu-Natal, with approximately 11.3 million people, accounting for approximately 19.7% of the total population of South Africa. Despite the accelerated aging trend, the population structure of South Africa is still relatively young. In 2020, the population aged 15-60 in South Africa will account for approximately 62.3% of the total population, and the proportion of the elderly population over 60 will be 9.1%. From 2010 to 2020, the average growth rate of South Africa's population is 1.5%, among which the average growth rates for the elderly, adults, children and youth are 3.0%, 2.4%, 1.2% and -0.9% respectively (Figure 1-2). The average life expectancy in South Africa is low due to diseases such as tuberculosis, malaria, measles and AIDS. In 2020, the life expectancy of South African males is 62.5 years and females is 68.5 years. South Africa is one of the countries with the highest HIV infection rate. According to the South African Bureau of Statistics, the total number of HIV infections in South Africa in 2020 is about 7.8 million, and the overall HIV prevalence rate in South Africa is about 13%. Under the assumption that it is not affected by AIDS, the life expectancy of the male population is 64.6 years, and that of the female population is 71.3 years.

Education

The "increment" of education in South Africa has achieved some results, however the country's education quality still has a long way to go. After the abolition of apartheid in 1994, South Africa's new democratic government took education as a major driving force for social development as well as a catalyst for promoting its ethnic integration, and an important starting point for social equity promoting. It has introduced measures to promote education equity, improve education quality, and promote education reforms. For that purpose, a series of policies, regulations and reform measures were introduced. For more than two decades, the government has increased its financial support for education and skills training, the country's education equity has greatly improved and the penetration rate of basic education has increased significantly (Figure 1-3 and Table 1-2), especially for higher education. The South Africa has also established a national qualification certification framework system to promote the effective connection of academic education and professional qualifications. In the meantime, the country is also facing challenges such as relatively low input and output in education, backward teaching standards, weak teaching staff, and the outflow of high-quality talents in education and medical fields.

Figure1-3 Secondary School Enrollment and Public Expenditure on Education (%)



Data Source: World Bank, Dagong Global

Table1-1 Estimates for South Africa by Population Group and Sex, 2020

Population group	Male		Female		Total	
	Number	Distribution of males,%	Number	Distribution of females,%	Number	Distribution of total,%
Black African	23,519,474	80.7	24,634,253	80.8	48,153,727	80.8
Coloured	2,555,204	8.8	2,692,536	8.8	5,247,740	8.8
Indian/Asian	787,662	2.7	753,451	2.5	1,541,113	2.6
White	2,266,535	7.8	2,413,235	7.9	4,679,770	7.8
Total	29,128,875	100	30,493,475	100	59,622,350	100

Table1-2 Overview of South Africa's Primary Education Situation

Number of School	25,762	Number of Teacher	433,320
Public School	23,796	Public School	399,156
Private School	1,966	Private School	34,164
Number of Student/million	12.9	Teacher teach student per head	29.8
Public School/million	12.5	Public School	31.3
Private School/million	0.4	Private School	11.8

Table1-3 Net International Migration

Period/Category	African	Indian/Asian	White	Net International Migration
1985-2000	632,633	36,908	-202,868	466,673
2001-2006	565,916	25,310	-99,574	491,652
2006-2011	815,780	43,222	-106,787	752,215
2011-2016	972,995	54,697	-111,346	916,346
2016-2021	867,860	44,921	-86,520	826,261

Social Culture

South Africa is a multi-racial, multi-lingual, and multi-religious country. New South Africa continues to promote the construction of an inclusive society and enjoys the reputation of "Rainbow Nation". In terms of language, there are 11 official languages in South Africa, which basically cover the main ethnic groups in South Africa, including Zulu, Xhosa, Afrikaans, and English-speaking whites. In terms of religion, 73.52% of the country's population believes in Christianity. Other major religions are Hinduism, Islam, Judaism and Buddhism. A few people believe in primitive religions. In terms of national autonomy, the South African government recognizes the institutions, status and role of the traditional leaders of African indigenous peoples in accordance with customary law. However, the long-term economic downturn and the high unemployment rate have led to the socialization of economic problems. A large number of white South Africans have immigrated to European and American countries, a large number of funds and technical personnel have also moved out of South Africa, and a large number of black foreigners have poured in (Table 1-3). This has led to the brain drain and xenophobia, which in turn brought negative effects such as a sharp decline in foreign investment and a decline in tourism.

III. Economic Environment

Economy Overview

South Africa is rich in mineral resources and has a relatively complete range of industries. The country is also known as the "Mineral Persian Gulf", South Africa is the world's fourth mineral producer and one of the world's top five producers of the world's 24 important minerals. Its deep-well mining technology is also in the top rank of the world. The output value of the country's manufacturing industry accounts for one-fifth of the GDP, which mainly includes steel, metal products, chemicals, transportation equipment, food processing, textiles, clothing, etc., among which metallurgy and machinery industries are the pillars of its manufacturing.

Strengths

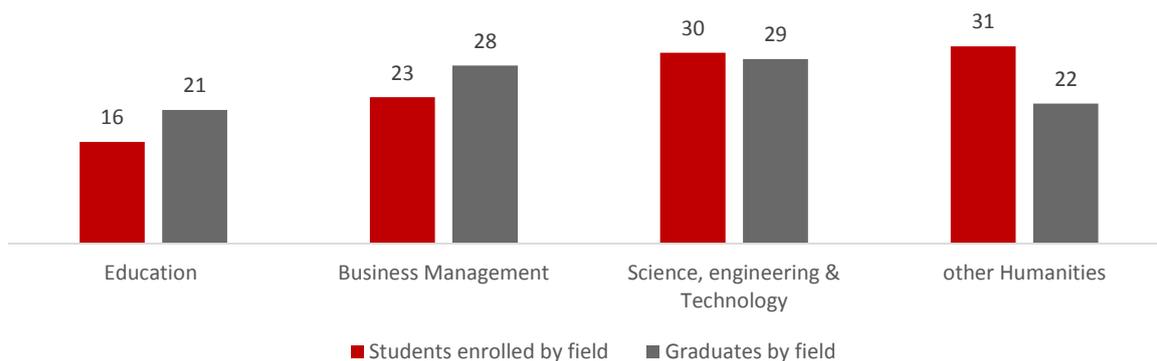
- ✓ Rich in Mineral Resources & Advanced Mining Techniques;
- ✓ Complete Industry Structure & Well developed Manufacturing Industry;
- ✓ Structural Transformation of the Economy.

Challenges

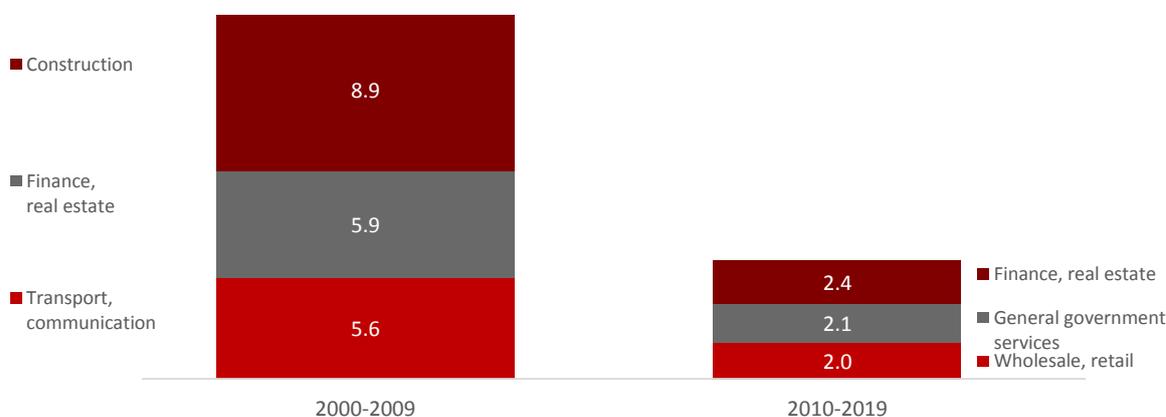
- ✓ Unemployment Rate stays high;
- ✓ Affected by the epidemic, the economy fell into recession;
- ✓ Financial difficulties & State-owned Enterprises dilemma.

Table1-4 South Africa's Key Economic Indicators

Project	Year	Amount	Project	Year	Amount
GDP (Billion USD)	2019	351.43	Inflation (%)	2019	4.12
	2018	368.29		2018	4.50
	2017	349.55		2017	5.18
GDP per person (USD)	2019	6001.40	Unemployment (%)	2019	28.47
	2018	6374.03		2018	26.91
	2017	6132.48		2017	27.04
Real Economic growth rate (%)	2019	0.15	Real Effective exchange rate	2019	77.94
	2018	0.79		2018	80.77
	2017	1.41		2017	79.40
Net foreign direct investment (billion ZAR)	2019	-1.51	Current account balance/GDP (%)	2019	0.15
	2018	-1.54		2018	0.79
	2017	5.39		2017	1.41
Import/GDP (%)	2019	29.35	Export/GDP (%)	2019	29.85
	2018	29.56		2018	29.91
	2017	28.35		2017	29.63

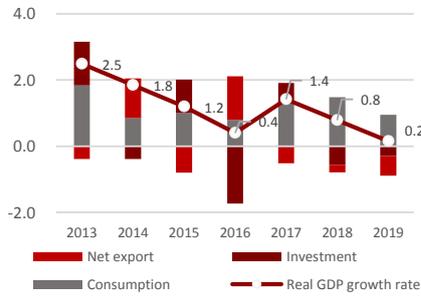
Figure1-4 Discipline Distribution in South Africa (%)


Data Source: The State Statistics Service of South Africa, Dagong Global

Figure1-5 Top Three Industries with 10-year Average Growth Rate 2000-2009/2010-2019 (%)


Data Source: South Africa's Statistics Bureau, Dagong Global.

Figure1-6 South Africa's Economic Growth Pulling Rate (%)



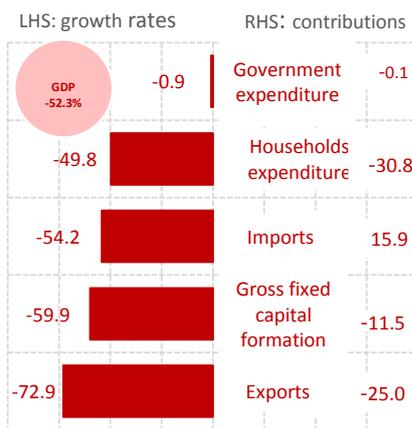
Data Source: South Africa's Statistics Bureau, Dagong Global.

South Africa's economic transformation has been relatively slow, and its long-term economic growth has been weak, accompanied by relatively serious unemployment situation. Before 1994, South Africa was dominated by labor-intensive industries such as mining, agriculture and so on. After 1994, South Africa integrated into the global economic system. The proportion of agriculture, mining and manufacturing in the national economy continued to decline, while the proportion of services such as finance and commerce rose rapidly (Table1-5). Insufficient elementary education and vocational education have caused labor skills to fail to meet the needs of economic and industrial development. The mismatch of labor skills has exacerbated the unemployment problem. By the result of that, South Africa has fallen into a dilemma between a shortage of talents in high-tech fields and a large number of unemployment in low-tech fields, resulting in a long-term unemployment rate of 24 % and the youth unemployment rate as high as 50%. On the other hand, frequent worker strikes, infrastructure and power supply bottlenecks have increased corporate costs, and the upgrading of production equipment has been delayed. In addition, the low domestic savings rate and the small net inflow of foreign direct investment have resulted in insufficient productive investment. South Africa's total factor productivity has been since 2010. After the year, the contribution rate to the potential economic growth rate is negative, and the potential economic growth rate declines. In addition, economic development is too dependent on the inflow of foreign capital, the slow improvement of the external environment after the global financial crisis in 2008, and the volatility of commodity prices have made it difficult for South Africa's economy to recover well after the shock. The economic growth rate can only maintain an annual average of 1.4% after the financial crisis (Figure 1-6).

Short-term Economy

During 2020, South Africa's economy fell into recession under the severe impact of the global pandemic (Figure 1-5). South Africa's GDP shrink 2.1% and 52.3% in the first and second quarter respectively. The restriction policy since this March has caused stagnation to South Africa's general economy, especially in the second quarter. In terms of consumption, economic blockade measures, high level of unemployment and income drop lead to 49.8% decline of the household consumption. In terms of investment, power cuts and sluggish business confidence have reduced total fixed capital formation by 59.9%. In terms of net export, South Africa experienced 72.9% drop in exports and 54.2% drop in imports due to overall shrinking of global trading activities. As a result, the current account balance as a proportion of GDP changed from a surplus of 1.2% in the first quarter to a deficit of 2.4% in the second quarter. In the short term, South Africa's economy is expected to decline by 8.0% by 2020, and the government began to gradually open-up the economy by May 1st with most business and domestic travel resumed. The quarterly index of consumer confidence rose from -33 in the second quarter to -23 in the third quarter, but it is still at a low point over the past 30 years. With gradual recovery of the manufacturing industry, the lifting of the tobacco ban, and the release of suppressed demand, the year-on-year contraction of the economy is expected to decrease. Setting minimum risk exposures for investment in domestic development projects such as infrastructure and green energy will also lay the foundation for investment recovery. However, the new crown epidemic social relief plan will expire in October, and it is expected that the number of unemployed will further increase in the next six months, and it may take longer for consumption to rebound. At the same time, the state-owned power company (Eskom) predicts that power restrictions will last at least until next year, load shedding may continue until 2022, and power curtailment will continue to trouble the South African economy for a period of time. In

Figure1-7 South Africa's Economic Growth and Major Indicators (%) by the Second Quarter of 2020



Data source: South Africa's Statistics Bureau, Dagong Global



addition, the economic downturn, the impact of the epidemic, high unemployment, and the plight of state-owned enterprises such as South African Airways and the state-owned power company will further increase South Africa's fiscal pressure.

China-South Africa Economic and Trading Relationship

Both South Africa and China are BRICS countries, with increasing economic and trade exchange, deepening investment and financial cooperation. The two nations have also signed various cooperation agreements in the meantime.

In the field of economy and trade, South Africa and China are important partners to each other. Based on statistics from China's Ministry of Finance, in 2019, the total bilateral trade between Africa and China reached 208.7 billion USD, of which the total trade between South Africa and China reached 42.46 billion USD, which accounted for 20.3% of the total trade amount. China has become South Africa's biggest trading partner for 11 consecutive years, and South Africa has also become China's largest trading partner in Africa for 10 years. From the product structure's perspective, South Africa-China bilateral trade tends to be more complementary, with China's export products mainly focusing on mechanical & electrical products, textile and South Africa mainly focuses on exporting mineral products. As South Africa is rich in mineral resources, and China has comparative advantages in production, processing, and manufacturing, it is expected that the bilateral trade between China and South Africa will still be dominated by inter-industry trade in the future. In addition to that, the two countries have signed a number of documents including the *Trade Economic and Technical Cooperation Agreement* as well as the *Memorandum of Understanding on Promoting Bilateral Trade and Economic and Technical Cooperation*.

In the field of investment, South Africa is one of China's key investing countries in Africa, Chinese companies also have various contracted labor projects here. In addition to that, many investment-related memorandums and agreements have also been signed between South Africa and China, including *Agreement on Mutual Encouragement and Protection of Investment*, *Agreement on Avoidance of Double Taxation and Evasion* and so on. By the end of 2018, the overall amount of Chinese direct investment in South Africa has exceeded 6.5 billion USD, including mining, textile and clothing, machinery manufacturing, home appliances and other industries. The main investment projects include Sinosteel Group's chrome project, Hisense Group Home Appliance Project, BAIC South Africa Automobile Factory projects, etc. During 2018, Chinese companies signed 84 new engineering contracts in South Africa, with a general value of more than 1.8 billion CNY, including Huawei Technologies Co., Ltd. contracted by South Africa Telecom and China Railway International Group Co., Ltd. contracted by South Africa's Africa Coal Industry's Mckador coal mine mining project.

Regarding the financial field, central banks of South Africa and China have shared close cooperation for years, the two parties have signed a three-year domestic currency swap agreement in April 2015, which can be extended upon mutual agreement. In July 2015, the People's Bank of China and the South African Reserve Bank signed a memorandum to establish a RMB clearing arrangement channel based in South Africa. On the other hand, China's direct financial investment in South Africa in 2019 was 6.49 billion USD, higher than that of other countries in Africa. Moreover, the Industrial and Commercial Bank of China invested 5.5 billion USD in 2008 to acquire 20% of the shares of South Africa's Standard Bank Group, which became the single largest shareholder of the latter. This is also China's largest financial direct investment project in South Africa.



Strengths	
✓	Modernized Traffic System & High Road Connectivity;
✓	Well-developed in Marine Transport and Air Transport;
✓	Digitalized Communication Network;
✓	Extensive Fiber and Internet coverage.
Challenges	
✓	Tight Power Supply;
✓	Infrastructure maintenance and support.

IV. Infrastructure Environment

Transportation

South Africa has a modern transportation system and the most complete transportation system in South Africa. The major industrial areas have been connected by railways, roads and air passages. The land transportation system is well connected with neighboring countries with relatively developed aviation and marine transportation at the same time. South Africa has the largest, most well equipped and efficient marine network in Africa, with 96% of its export by sea. Durban port is the busiest port in Africa with the largest container throughput, handling 1.2 million containers per year and 45 million tons of cargo throughput per year. In the meantime, Richards Bay port is the world's largest coal export port.

Electricity

The shortage of power supply tends to be a severe challenge for South Africa, and the government decide to promote some key reforms in the energy industry accordingly. Eskom is responsible for more than 95% of South Africa's electricity supply. However, problems such as heavy debt stress, shortage of coal supply and inadequate key maintenance work have caused the performance of Eskom power station to decline sharply, and South Africa's electricity restrictions will continue. The government aims to promote some key reforms in energy industry to ease the on-going shortage of power supply. First of all, the South African government has cancelled the licensing requirements for autonomous power generation projects under 1 MW, for power plants with a generating capacity of more than 1 MW, the South African National Energy Regulatory Agency is improving its licensing procedures to shorten the turnaround time. Secondly, a number of bidding procedures were launched to purchase electricity, including the renewable energy independent power producing program. Lastly, the government is working hard to restore Eskom's operational capabilities and reconstruct it to fundamentally change the way the government generates and transmits electricity.

Telecommunication

The communication infrastructure in South Africa stays relatively stable, and the telecommunication network has achieved digitalization in general. According to the Network Readiness Index released by 2016 World Economic Forum, South Africa is the second best performing African country, with its mobile download speed fastest on the African continent. South Africa also has the most extensive fiber optic network with approximately 200,000 kilometers of fiber deployed. Over the past decade, a large number of submarine cables have connected South Africa with the rest of the world, and South Africa's international bandwidth usage has achieved rapid growth accordingly.

Table1-5 South Africa's Infrastructure Condition

Information Overview	Highlights
<p>Transport and logistics</p> <ul style="list-style-type: none"> • 144 airports with paved runways • Railways: 34.1 thousands km • Roads: 755 thousands km • Eight ocean-economy seaports: <ul style="list-style-type: none"> • Durban • Richards Bay • East London • Ngqura • Port Elizabeth • Mossel Bay • Cape Town • Saldanha Bay 	<p>Airports</p> <ul style="list-style-type: none"> • Ranked 27th out of 141 countries for Efficiency of Air Transport Services and 39th for Airport Connectivity (WEF 2019) <p>Rail</p> <ul style="list-style-type: none"> • Ranked 47th globally for Railroad Density (WEF 2019) <p>Roads</p> <ul style="list-style-type: none"> • Ranked 47th for Quality of Roads Infrastructure (WEF 2019) • Ranked 7th for Road Connectivity (WEF 2019) <p>Ports</p> <ul style="list-style-type: none"> • Home to two of the world's top container ports and two of the world's biggest dry bulk ports • Durban is the largest port, with 2,770,000 TEU (2015) • Mossel Bay allows imports of LNG • Ranked 44th for Liner Shipping Connectivity (WEF 2019) • Overall, South Africa is ranked 1st in Africa on the World Bank's Logistics Performance Index
<p>Electricity</p> <ul style="list-style-type: none"> • Installed energy-generating capacity of 51.7 million kW (2018 estimate) • Mainly thermal power generation, accounting for 90% of total power generation • Annual power generation capacity of 255.1 billion kWh (2017) 	<p>Electricity</p> <ul style="list-style-type: none"> • Mainly coal-fired power stations • Deliberate move by government to utilise renewable energy sources (e.g. solar, wind) • Ranked 10th among the G20 countries for renewable energy investment conditions (2017)
<p>Telecommunications</p> <ul style="list-style-type: none"> • Internet usage per person: 56% • Fixed broadband subscriptions per 100 people: 2.4 • Mobile broadband subscriptions per 100 people: 76 • 2,760 post offices, 30 mail-sorting centers. 	<p>Telecommunications</p> <ul style="list-style-type: none"> • South Africa has the largest number of secure Internet servers in the region • Internet and personal computer penetration tends to be the highest in Africa. • Upload and download speeds are significantly higher than the other regions. • Ranked 3rd in Africa on the ICT Development Index. • Adopted by the South African Cabinet of a White Paper on ICT (ict) Policy (2016).

Strengths

- ✓ Complete Investment related Legal framework, comprehensive protection measures for minority investors;
- ✓ *Amendments to the Investment Promotion and Protection Act* put foreign and domestic capital under the same management framework;
- ✓ Complete Environmental law.

Challenges

- ✓ Specific Investment code has not yet been established;
- ✓ Investors have certain concerns about the amendments to the *Investment Promotion and Protection Act*.

V. Legal and Regulatory Environment

Investment related regulations

South Africa currently does not have a specific investment code, but an investment legal system formed by the integration of various special legislations and related separate laws, regulations and policies (Table 1-6). At the same time, relevant policy frameworks have been formulated in terms of foreign investment preferences, industry and region encouragement policies, as well as special economic zone/free zone policies.

Table1-6 South Africa's Investment Related Policies

Corporation Regulations	<i>Companies Act</i>	Mining Regulation	<i>Amendment to Mineral and Petroleum Resources Development</i>
	<i>Consumer Protection Act</i>		<i>Mining concessions</i>
	<i>Competition Act</i>		<i>Mine Health and Safety Act</i>
Labour Regulation	<i>Labour Relationship Act</i>	Environmental Regulations	<i>National Environmental Management Act</i>
	<i>Occupational Health and Safety Act</i>		<i>National Radioactive Waste Disposal Institute Act</i>
	<i>Basic conditions of Employment Act</i>		<i>Marine Living Resources Act</i>
	<i>Employment Equality Act</i>		<i>Environmental Conservation Act</i>
	<i>Skills Development Act</i>		<i>National Water Act</i>
Finance Regulations	<i>Banks Act</i>	Telecommunication Regulations	<i>Conservation of Agricultural Resources Act</i>
	<i>Prevention and Combating of Corruption Activities Act</i>		<i>Hazardous Substances Act</i>
	<i>Financial Intelligence Center Act</i>		<i>National Heritage Resources Act</i>
	<i>Currency and Exchange Act</i>		<i>Protection of Personal Information Act</i>
	<i>Prevention of Organized Crime Act</i>		<i>Regulation of Interception of communications and communication related information Act</i>
	<i>Protection of Investment Act</i>		<i>Electronic Communications Act</i>
Intellectual Property Regulation	<i>Patents Act</i>	Reformation Regulations	<i>Broad Black Economic Empowerment Act</i>
	<i>Copyright Act</i>		<i>Framework Act on preferential procurement policies</i>
	<i>Trade Marks Act</i>		<i>Amendment Act on Small Enterprises</i>
	<i>Counterfeit Goods Act</i>		<i>Restitution Act of land rights</i>
	<i>Plant Breeders' Rights Act</i>		

In 2015, the South African government launched an amendment to the Investment Promotion and Protection Act, which aims to bring foreign and domestic capital into the same management framework and eventually replace the Draft Bilateral Investment Treaty. Compared with the previously signed bilateral investment protection agreement, the Act has made great changes in the definition of "investment", investment treatment, expropriation, compensation, as well as investment dispute resolution. In terms of investment treatment, based on the previous bilateral investment agreements signed by South Africa, foreign investors generally enjoy fair and equitable treatment, national treatment, most-favored-nation treatment, and adequate security and protection in South Africa. However, considering the goal of the Investment Protection Act-to balance public interest and investor rights, the Act only provides for national treatment, but other types of protection standards. Specifically include: deleting the fair and just treatment clause and the most-favored-nation treatment clause; restricting the national treatment clause, adding fair administrative treatment and investment entity security clauses. Regarding investment dispute resolution, the Act does not allow investors to submit related investment disputes to international arbitration. Foreign investors can submit relevant investment disputes to the South African Ministry of Trade and Industry or other functional departments to resolve them through mediation, or submit such disputes to a competent court for settlement, and to the South African Arbitration Act of 1965 Submit to



arbitration for settlement.

Environmental legal policies and Mining

South Africa has a complete environmental legal system with a clear hierarchy of environmental legislation; a sound environmental management system and strict approvals; a complete and diverse environmental permit, authorization and guarantee system; a complete environmental impact assessment system and complex procedures; high environmental assessment standards, The punishment is more severe. To regulate domestic mining activities, South Africa has formulated a strict mining legal system, which has become an important branch of its environmental laws. At present, the main acts governing mining development and management in South Africa are the *Mining and Petroleum Resources Development Act* and its amendments, and the *Mining and Petroleum Resources Development Regulations*. In addition, there are related supporting separate regulations, such as *Mine Health and Safety Law*, *Mining Closed Pit Financial Appropriation Evaluation Guidelines*, *Mining Area Land Reclamation Guidelines*, *Diamond Law* and *Precious Metals Law*, etc. These laws provide for the application and issuance of mining rights, transfer and mortgage, pit closure certificates, employee protection, penalties for violations, and priority of community rights. In addition, relevant laws and regulations have also made strict regulations on environmental protection, mine safety, mineral processing and closure, land reclamation, black stock ownership, and working environment.

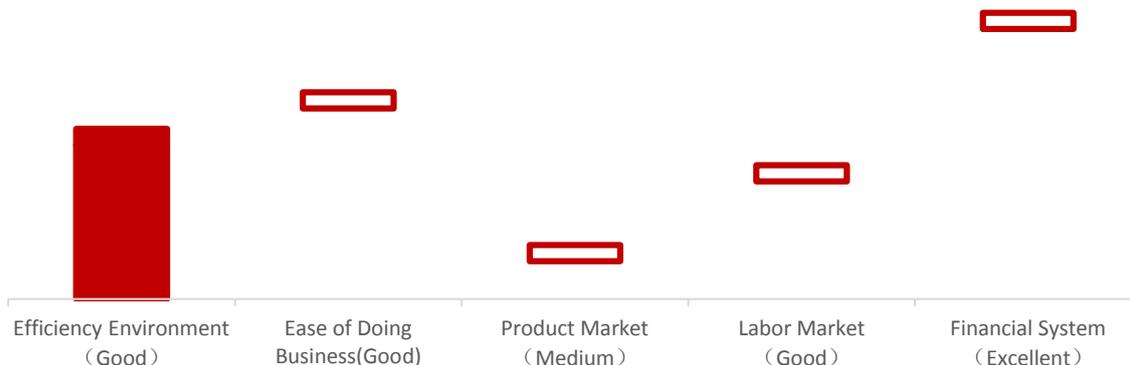


02

Efficiency

Environment

Figure 2-1 Efficiency Environment South Africa 2020



Data Source: Dagong Global

Note: Ease of Doing Business, Product Market, Labor Market and Financial System are the sub indicators.

Chapter 2 Efficiency Environment

I. Ease of Doing Business

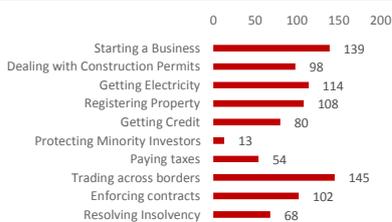
According to the World Bank's *Doing Business 2020 Report*, South Africa ranks 84th among 190 countries in terms of ease of doing business by the year 2020 (Figure 2-2), which is slightly lower than the previous year. Among them, South Africa has performed particularly well in protecting minority investors (13th) and paying taxes (54th), but needs improvement in starting businesses, connecting electricity and cross-border trade.

South Africa's level of ease of doing business is highly competitive in the African continent, especially in sub-Saharan African countries. The indicators involved in the whole cycle from start-up, construction permit to bankruptcy in South Africa are higher than the average level in sub-Saharan Africa. In terms of investment attractiveness, South Africa is more attractive to investors in terms of protecting minority investors and paying taxes. Thanks to sound laws and regulations, South Africa has implemented more comprehensive protection measures for minority investors, far higher than the average level of OECD high-income economies.

In terms of investment risk, South Africa has potential adverse effects on administrative efficiency and power supply. First of all, bureaucracy and government corruption lead to low administrative efficiency of the government. Investors are ranked after 110 in terms of starting enterprises and cross-border trade, and the relevant processing procedures and time are far higher than the average level of sub-Saharan Africa. For example, starting a business in South Africa takes 40 days, 18.5 days more than the average time in sub-Saharan Africa (21.5 days). In addition, corruption in infrastructure projects in South Africa, including unscientific evaluation, unreasonable pricing, low rate of return and long bid evaluation time, may make foreign enterprises face the risk of investment loss. South African President Ramaphosa has been committed to anti-corruption since he took office. With the continuous progress of the anti-corruption process, it is expected that the potential impact of corruption on investors will gradually weaken in the future. Secondly, the instability of power supply is also a negative factor affecting the business environment in South Africa. Large state-owned enterprises such as Eskom are facing problems such as old facilities, declining revenue, debt backlog and corruption scandals. Some state-owned enterprises

Strengths	
✓	Continuous improvement of business environment;
✓	Ranks 64th in the World Bank's 2020 doing business ranking, achieved remarkable results in business environment reform.
Challenges	
✓	The legal system needs to be improved;
✓	Bureaucracy and corruption;
✓	Infrastructure is in disrepair.

Figure 2-2 Ease of Doing Business- South Africa 2020



Data Source: World Bank, Dagong Global



The Evaluation Report of South Africa's Investment Climate 2020

have suffered serious losses. A large-scale power crisis has occurred in South Africa, which has affected the local power supply and other infrastructure services. Enterprises in South Africa need to go through five procedures on average, about 109 days before they can be connected to the power grid. Power shortage and plant maintenance delay lead to periodic blackouts, which also bring resistance to economic development.

Table 2-1 Ease of Doing Business- South Africa 2020

Topics	South Africa	Sub-Saharan Africa	OECD high income
Starting a business	81.2	80.1	91.3
Procedures (number)	7	7.4	4.9
Time (days)	40	21.5	9.2
Cost (% of income per capita)	0.2	36.3	3
Paid-in Minimum capital (% of income per capita)	0	9.3	7.6
Dealing with construction permits	68.3	58.5	75.6
Procedures (number)	20	15.1	12.7
Time (days)	155	145.4	152.3
Cost (% of Warehouse value)	1.9	8.9	1.5
Getting Electricity	68.8	50.4	85.9
Procedures (number)	5	5.2	4.4
Time (days)	109	109.6	74.8
Cost (% of income per capita)	158.4	3,187.5	61
Registering Property	59.5	53.6	77
Procedures (number)	7	6.1	4.7
Time (days)	23	51.6	23.6
Cost (% of property value)	8	7.3	4.2
Getting Credit	60	45.2	64.3
Credit Information Depth Index (0-8)	7	3.9	6.8
Protecting minority investors	80	38.5	68.2
Extent of disclosure index (0-10)	8	5.5	6.5
Paying Taxes	81.2	57.8	84.3
Time (hours per year)	210	280.6	158.8
Frequency (number)	7	36.6	10.3
Trading across Borders	59.6	53.6	94.3
Time to export days)	92	97.1	12.7
Time to import (days)	87	126.2	8.5
Cost to export (USD)	1,257	603.1	136.8
Cost to import (USD)	676	690.6	98.1
Enforcing contracts	56.9	49.6	67.8
Time (days)	600	654.9	589.6
Cost (% of claim)	33.2	41.6	21.5
Resolving Insolvency	54.6	31.3	74.9
Time (years)	2	2.9	1.7
Cost (% of estate)	18.0	22.8	9.3

Table 2-1 Ease of Doing Business- South Africa 2020

Topics	South Africa	Sub-Saharan Africa	OECD high income
Recovery rate (%)	34.7	20.5	70.2

Reforming Measures

Improving the business environment is one of the important development strategies of *National Development Plan of South Africa in 2030*, and the South African government has implemented many effective measures. In 2019, South Africa's president Ramaphosa, has set a goal for South Africa to become the world's top 50 business environment in the next three years.

Table 2-2 Business Environment Improvement Measures of South Africa

Item	Measures
Starting a business	<ul style="list-style-type: none"> Expand the one-stop shop approach to ensure potential investors are not shunted between various departments; Register a company in a day using self-service terminals; Online search portal for company names; The Companies and Intellectual Property Commission (CIPC)¹ has implemented mobile apps; South Africa is introducing a single platform for businesses to register for the Unemployment Insurance Fund and the Workmen's Compensation Fund.
Registering a property	<ul style="list-style-type: none"> Move to online property registration, and electronic online checking for rates and clearance certificates; Work is under way to streamline processes, reducing information asymmetry and reducing costs for registering a property.
Trading across borders	<ul style="list-style-type: none"> South Africa has implemented a Preferred Trader Programme and is working towards undertaking joint inspections and adopting new customs legislation; South Africa participates in the Global Coalition for Efficient Logistics as regional anchor that integrates domestic and other African small-, medium-, micro- and cooperative-enterprises into global markets through B2B digital trading tools.
Paying taxes	<ul style="list-style-type: none"> Online e-filing system; improve the transparency of information and documentation required; Progress is being made towards reducing the time taken for VAT audits.
Contract enforcement	<ul style="list-style-type: none"> Enforcing contracts has been made easier through the amendment of the monetary jurisdiction of lower courts and the introduction of voluntary mediation.

II. Product Market

Strengths

- ✓ Complete Tax Structure;
- ✓ Reasonable Tax Settings;
- ✓ The tax burden of foreign companies investing in South Africa is at an international level;
- ✓ Relative High Market openness.

Taxation System

South Africa has relatively complete tax system, reasonable tax type. The central and local governments have reasonable and stable main tax types, and the management authority of governments at all levels is clear. South Africa implements three levels of Taxation, central, provincial and local levels, and tax legislation and tax collection rights are mainly concentrated in the central government. The South African Revenue Service (SARS) is responsible for the collection and management of most taxes, while the local tax authorities (RSC)

¹ The Companies and Intellectual Property Commission (CIPC) is the department for intellectual property management in South Africa.



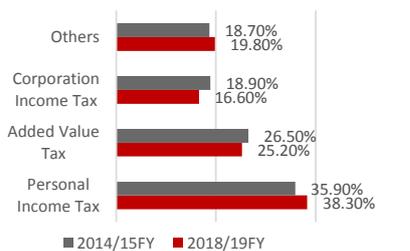
Challenges	
✓	Water, Electricity and gas price go up every year;
✓	Tariff Protection on some domestic products.

are responsible for the collection of business tax and salary tax. The tax revenue in South Africa is mainly direct tax. Direct tax includes income tax, capital income tax and other taxes, while indirect tax includes value-added tax, consumption tax and import tax. From the perspective of tax structure, compared with 2014/15 fiscal year, the proportion of personal income tax in total tax revenue in South Africa increased in 2018/19 fiscal year, while the proportion of enterprise income tax and value-added tax decreased. The tax burden borne by foreign enterprises on investment in South Africa is at the international middle level, accounting for 29.2% of profits, far lower than the average level of sub-Saharan Africa (47.3%) and OECD high-income economies (39.9%).

Table 2-3 Tax Policy of South Africa

Type	Tax Rate	Notes
Individual Income Tax	Progressive tax rate (18%-45%)	-
Corporate Income Tax	28%	The income tax for Mining companies, insurance companies is relatively special. gold mine company income tax, its tax rate is linked to the ratio of corporate tax and sales. Branches of foreign companies in South Africa are subject to 36.5% corporate tax, but are exempt from secondary corporate income tax. Funds (except for special funds) shall be taxed at the rate of 45%.
Vat	15%	The following suppliers are exempt from VAT: financial services, education services, rental housing, local passenger road and rail transport.
Other	The following tax is collected by the central government: corporate income tax, secondary corporate income tax, individual income tax, vat, inheritance and gift tax, resource tax, securities transfer tax.	
	The following tax is collected by the provincial and local government: Wage tax, unemployment insurance fund, land and property transfer tax, dividend tax.	

Figure 2-3 Taxation Structure of South Africa



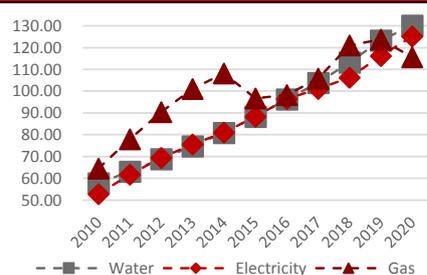
Source: World Bank, Dagong Global

Tax revenue is the main source of revenue in South Africa. In the past few years, the tax system reform in South Africa is mainly based on tax increase measures, with less tax reduction measures. In the 2019/20 fiscal year, in terms of tax increase, South Africa increase the consumption tax on alcohol and tobacco and increase the gasoline fuel tax and diesel fuel oil tax. In terms of tax reduction, individual income tax is raised, and the personal income tax rate is not changed. In addition, South Africa enacted the *Carbon Tax Act* in 2019, becoming the first African country to implement carbon tax. Currently, due to COVID-19 and other economic factors, South Africa is facing a serious tax gap, and the tax cost ratio has dropped from 0.97 in 2014/15 to 0.78 in 2019/20 fiscal year. South Africa is considering introducing a series of tax increases and reforms to increase revenue. Among them, South Africa is considering introducing a digital tax to tax consumption and income generated by digital economic activities.

The South African government has adopted a combination of cash subsidy scheme and tax incentives to encourage investment and job creation. For example, the SME development program (SMEDP) and the skills support program (SSP) provide enterprises with an income tax deduction equivalent to 50% of the cost of training new employees or a cash subsidy of 30% of salary expenses. Preferential corporate income tax policies will be supplied for investors in terms of industrial projects, special economic zones and investment in energy-saving equipment.

Table 2-4 Corporate Income Tax Incentives In South Africa

Term	Policies
Industrial Projects	The first tax year in which an enterprise uses assets shall be deducted according to the following circumstances 1) Industrial projects with preferential treatment. 55% of the cost of new manufacturing assets put into use; 100% of the cost of new manufacturing assets put into use for industrial projects located in industrial development zones and approved after January 1, 2012 2) General industrial projects. 35% of the cost of new manufacturing assets put into use; 75% of the cost of new manufacturing assets put into use for industrial projects located in industrial development zones and approved after January 1, 2012
Special Economic Zones	If certain conditions are met, the accelerated depreciation policy can be implemented and the tax rate will be reduced by 15%.
Investment In Energy-Saving Equipment	50% in the first year, 30% in the second year and 20% in the third year. For photovoltaic solar power plants with a power generation of no more than 1 MW, it can be fully deducted in the first year, but it must be certified by the energy management agency.

Figure 2-4 South Africa's Housing, Water, Electricity, Gas and Fuel Price Index Growth Rates (%)


Source: The State Statistics Service of South Africa, Dagong Global

Commodity Market Competitiveness

In recent years, the prices of water, electricity, gas and other public services in South Africa have shown an upward trend (Figure 2-4), and the competitiveness of the commodity market has declined year by year. South Africa has previously adopted low electricity price. Due to the lack of investment in electricity and the lag of production and management, South Africa is facing a nationwide power shortage. In addition, Eskom is facing losses, so the electricity price in South Africa has increased year by year in recent years. Over the past decade, the sharp rise in electricity prices has become a heavy burden on businesses, especially mines and households. At present, South Africa's electricity bill includes five parts: network demand charge, network capacity charge, Ancillary service charge, service and administration charge, and energy charge. The energy fees, ancillary service fees, and network demand fees are calculated based on actual costs, and service management fees and network capacity fees are charged on a daily basis.

In South Africa, the standard of water charge is different among the main river and industries, and the progressive charging system is adopted for domestic water use. Fuel prices in South Africa are affected by the supply and demand of the international market and fluctuate with the exchange rate of the USD and ZAR. From 2000 to 2007, South Africa's real estate prices experienced rapid rise. After 2008, the growth rate slowed down significantly, and the growth rate rebounded from 2013 to 2014. In recent years, South Africa's house price growth has slowed year by year, with nominal prices rising by 5%, 4.8% and 3.7% in 2015, 2016 and 2017, respectively.

Table 2-5 Residential Water Prices in Johannesburg, South Africa, 2018/2019 (ZAR/ Thousand liters)

Monthly Usage	Price	Monthly Usage	Price
0-6kl	Free	20-30kl	26.43
6-10kl	7.14	30-40kl	30.97
10-15kl	12.07	>40kl	41.95
15-20kl	17.65	-	-

Source: The State Statistics Service of South Africa, Dagong Global

Table 2-6 South African City Commercial Electricity Prices in Fiscal Year 2018/19

Type ²	Energy Fee(cent ZAR/kWh)	Auxiliary service fee(cent ZAR/kWh)	Network demand fee(cent ZAR/kWh)	Network capacity fee(ZAR/Day)	Network management fee(ZAR/Day)
1	114.76	0.45	28.67	30.65	25.45
2	114.76	0.45	28.67	47.12	25.45
3	114.76	0.45	28.67	75.33	25.45
4	247.86	0.45	28.67	24.4	-

Source: The State Statistics Service of South Africa, Dagong Global

Tariff Policy

South Africa is committed to expanding market access for its products in the world, and actively participates in bilateral economic cooperation, regional economic integration, global multilateral trade negotiations and the activities of the vast majority of international economic organizations. South Africa is a member of GATT, and its tariff is divided into two categories: MFN rate and ordinary tax rate. The MFN rate is mainly applied to the countries that have signed the GATT, while the ordinary tax rate is mainly applied to the countries that have not signed the MFN agreement. At present, South Africa applies MFN tax rates to more than 140 countries and ordinary tax rates to more than 40 countries. After the accession to the WTO, South Africa has greatly reduced its tariffs. At present, most of the ad valorem tax rates are 10-30%, and the tax rate rarely exceeds 40%.

To protect domestic goods, South Africa takes corresponding tariff protection measures. For example, South Africa's textile industry, clothing industry, automobile manufacturing industry and other industries, affected by manufacturing technology, production costs and other factors, market competitiveness is weak. In order to protect the development of domestic related industries, South Africa has implemented anti subsidy, anti-dumping and technical barriers to trade for China's export of clothing, shoes and hats, toys and auto parts. At present, the clothing import tariff in South Africa is 45%. There are 5000 national standards in South Africa, of which about 60 are compulsory standards, mainly involving electrical and electronic equipment and their components, motor vehicles and their parts, food, etc. South Africa maintains strict labeling requirements for textiles, clothing and footwear, and the regulations are too cumbersome, which increases the cost for foreign enterprises to enter the South African market.

III. Labor Market

Labor Resources

South Africa is rich in labor resources, but lack of high-tech talents. The labor gap is structural imbalance. Although many skilled workers in South Africa hold the graduation certificate issued by the Institute of education, they do not have the basic professional practice ability. In 2019, the total number of South Africa's labor force is more than 23.3 million, and the labor force participation rate is 55.97%. The labor force distribution is agriculture 5.09%, industry 22.91%, service industry 72.01%, unemployment rate 28.18%, youth unemployment rate 55.97% (Figure 2-5). The high unemployment rate and the lack of educational resources restrict the economic development of South Africa.

Strengths

- ✓ Rich Labor Resources;
- ✓ Low Labor Cost.

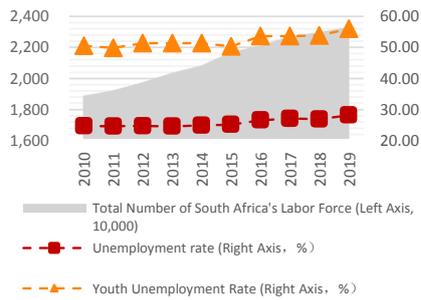
Challenges

- ✓ Labor structural imbalance;
- ✓ The labor quality is relatively low;
- ✓ Severe Xenophobic issues among black ethnics.

² South Africa's commercial electricity is divided into four categories according to different currents.

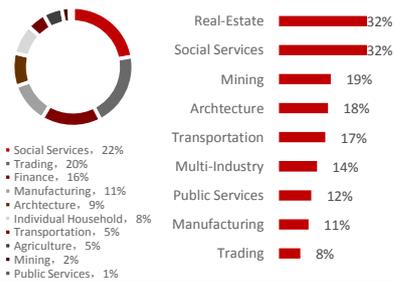


Figure 2-5 Total Number of Labor Force (million) & Unemployment Rate in South Africa (%)



Source: World Bank, Dagong Global

Figure 2-6 South Africa's Hiring Cost³ and Employment⁴ in 2018 (by industry)



Source: Ministry of Trade and Industry of South Africa, Dagong Global

South Africa's employment costs are at a low level in the world, especially in trade and manufacturing industries (Figure 2-6). However, the wage level in South Africa is relatively high among African countries, the average wage in South Africa has increased by more than 5% per year before 2016. Especially in the manufacturing industry, the minimum wage standard has been continuously increased. At present, the minimum wage in South Africa is 20 ZAR per hour or 3500 ZAR per month. Overall, at the same time, the lack of high-quality labor leads to insufficient production capacity, which may gradually increase the operating costs of enterprises.

South Africa's unemployment rate rose to 30.1% in the first quarter of 2020. To address the record youth unemployment rate in South Africa, South Africa has launched a strategic national plan, the presidential youth employment intervention. One of the interventions is to allocate 1% of the national budget to the youth employment program. The government will organize short-term professional courses on skills required by employers to address the long-term disconnect between existing education, training and development projects and economic needs.

In order to improve the status and living standards of black people and alleviate the pressure of unemployment, the South African government has implemented the black economic revitalization policy (BEE), which requires all enterprises in South Africa to employ a certain proportion of black people, and has certain requirements for the proportion of shares held by black people in companies. These measures have brought some obstacles to foreign investors to a certain extent. For example, the *Mining Charter* further strengthened the localization of mining. The old *Mining Charter* only required mining companies to transfer 26% of the company's share ownership to historically disadvantaged South Africans, but the new *Mining Charter* in 2018 stipulated that the proportion of mining share ownership transfer increased from 26% to 30% to achieve the goal of "nationalization". In terms of the proportion of black people, minimum percentage of black people and female black of the board of directors in mining companies should be 50% and 25% respectively. And the proportion of black people of the top management and bottom managers should be higher than 60% and 88% respectively. In addition, the BEE act also has a minimum share held by black for companies in casinos, communications and other industries.

Labor Relations

South Africa has strict labor laws. The government has formulated a set of labor laws to strengthen labor protection, including working hours, wages, holidays, dismissals, labor unions and strikes. The main laws and regulations include the *Labor Relations Law*, the *Basic Employment Conditions Law*, the *Skills Development Law*, the *Black Economic Revitalization Policy*, and the *Generalized Black Economic Revitalization Policy*. These regulations give labor unions great power, coupled with the tense labor relations in South Africa, which led to frequent strikes in South Africa. In recent years, in order to improve the wage level of employees, trade unions frequently organize large-scale strikes in mining, transportation, agriculture and other industries, which has caused many negative effects. For example, there were 122 strikes in 2016 and 132 strikes in 2017. The total number of strikes and the number of strikes reached a record high. One strike after another has affected the normal production and operation of enterprises.

The government has strictly restricted the introduction of foreign workers, and the black people have a serious anti foreign sentiment. In South Africa, in principle, employment opportunities that can find suitable local candidates cannot be provided to foreigners. However, the high unemployment rate and

³ Proportion of employment costs of the industries in South Africa to total industry expenditure in the second quarter of 2018.

⁴ Employment by sector as a share of total employment in South Africa in the first quarter of 2018.



the influx of illegal workers from neighboring countries have led to a serious anti foreign sentiment among black people. Since 2015, there have been a number of violent xenophobic incidents in South Africa. Therefore, the government has further strengthened border control and foreign labor management, strictly implemented the new visa rules, and made it more difficult for ordinary workers to obtain South African work visa. Since the second half of 2019, large-scale xenophobic incidents have occurred again in South Africa, mainly involving illegal immigrants from Nigeria, Zambia and other countries.

IV. Financial System

Strengths	
✓	Matured Financial System & Strict Regulations;
✓	Well-developed Financial Industry;
✓	Diversified Financing Channels.
Challenges	
✓	Declined Profitability in Banking Industry and Bad debt risk is high.

Financial system

South Africa has a mature financial system, developed financial industry and strict supervision. According to the Global Competitiveness Report 2019 issued by the World Economic Forum, South Africa's "financial system" index item ranks 19th in the world among 141 countries. There are three major financial regulators in South Africa: the Reserve Bank of South Africa (SARB), the National Credit Regulatory Authority (NCR) and the Financial Services Authority (FSB). As the central bank, the Reserve Bank of South Africa supervises banks, the National Credit Regulatory Authority supervises consumer credit institutions, while the Financial Services Authority mainly supervises non-bank financial institutions. As of May 2017, there were 10 domestic banks, 15 foreign bank branches, 31 foreign bank representative offices and 6 foreign holding banks registered in South Africa. In addition, there are about 30000 small loan institutions, more than 100 registered short-term insurance companies and more than 78 registered long-term insurance companies. South Africa's banking industry has a large scale of assets. In 2019, the total assets/GDP of South Africa's banking industry is 110.0% (Without central bank). Standard Bank, ABSA, First National Bank and Nedbank account for 84.6% of the total assets of private banks in South Africa. South Africa has the most complete capital market in Africa. The total market value of Johannesburg Stock Exchange (JSE) listed companies, which was established in 1888, ranks the top 20 in the world and is the largest securities market in Africa. In addition, the development of local private equity is also the most mature in Africa. From 2014 to 2019, South Africa accounted for more than 65% of the total private equity transactions in southern Africa, and maintained a good record of private equity exit. South Africa's financial market is open, allowing foreign banks to set up branches and offices in South Africa, Bank of China and China Construction Bank have branches in South Africa, and Industrial and Commercial Bank of China has entered the South African market through strategic shares hold in Standard Bank.

Funding channels and funding cost

The overall financing market in South Africa is relatively good with diversified financing channels. Financing channels include bank lending, bonds, stocks, private placement, venture capital and equity crowd funding. In November 2020, the benchmark interest rate of the Reserve Bank of South Africa was maintained at 6.25%, and the preferential loan rate was 7%. Foreign enterprises enjoy the same national treatment in terms of financing in local market. However, there are certain restrictions on the amount of loans for the following two forms of companies: Companies with more than 75% of funds, assets or income are benefited by South African companies that are not South African residents; Companies with more than 75% of voting rights, control rights, and more than 75% of capital assets or income are dominated or represented by non-South African residents. For a wholly foreign-owned company, the loan amount can be 100% of the company's effective assets. In addition, the financing tools of the South African special economic zone include SEZs funds and development bank financing institutions.



Financial Stability

During the ten years from 2009 to 2018, the asset quality, capital adequacy, profitability and liquidity assets of South Africa's banking industry were maintained in a good level, and the operation of South Africa's financial system was relatively stable. In 2018, affected by the international and domestic economic downturn, the asset quality of South Africa's banking industry began to deteriorate. The profitability of South Africa's banking industry declined slightly, and the non-performing loan ratio also increased. In 2020, because of the COVID-19, the earnings decline in the banking sector. The banking sector's overall profit fell by 65.5% during the same period, and some banks even suffered losses. At the same time, due to the COVID-19, measures of blockage taken led to a surge in bad debts in South Africa's banking sector. Thanks to the strong resilience of the banking sector in South Africa, it is expected that the profitability of banks will gradually improve as the economy recovers.

Table 2-7 South Africa's Banking Industry(%)

Time	Non-performing Loan Ratio	Leverage	Return on Asset	Current Ratio	Domestic Credit from Private Sector/GDP
2009	5.94	6.65	1.15	32.78	145.94
2010	5.79	7.05	1.26	32.67	148.98
2011	4.68	7.23	1.54	33.43	139.60
2012	4.04	7.79	1.52	33.03	146.48
2013	3.64	7.92	1.45	33.01	149.23
2014	3.24	7.58	1.43	33.52	150.97
2015	3.12	7.04	1.51	35.08	147.51
2016	2.86	8.20	1.71	30.92	143.82
2017	2.84	8.80	1.70	30.00	147.47
2018	3.73	8.42	1.68	31.14	147.47

03

Investment Opportunities Focus

Chapter 3 Investment Opportunities Focus

Strengths	
✓	Rich in mineral Resources;
✓	Deep mine mining technology;
✓	Sound legal system;
✓	Complementary resource endowments between China and South Africa.
Challenges	
✓	The adjustment of the Mining Charter 2018 to the share transfer ratio;
✓	Uncertainty of power supply;
✓	Rising mining costs.

I. Mining

Own Advantages

South Africa is one of the five largest mineral resources countries in the world, especially rich in precious metal mineral reserves. South Africa is famous for its abundant mineral resources, large reserves and high production. At present, there are more than 70 kinds of proven reserves and mined minerals in South Africa. Platinum group metals, platinum, chromium ores, chromium and manganese ores are not only rich in reserves, but also account for more than 70% of the world's total mineral reserves (table 3-1). In addition, the world's largest gold and diamond mines are located in South Africa.

Table 3-1 Proven Reserves and World Ranking of Major Mineral Resources of South Africa

Item	Reserves(10000 tons)	Proportion in the World (%)	Ranking in the World
Gold	3.1	29.7	1
Platinum group metals	7	87.7	1
platinum	6.3	95.5	1
Aluminosilicate	5,100	37.4	1
Chromium ore	5,500	72.4	1
chromium	310,000	85.0	1
Manganese ore	4,000	80.0	1
vanadium	1,200	32.0	2
Ilmenite	24,400	16.3	2
Vermiculite	8,000	40.0	2
Fluorspar	8,000	16.7	2

Mining is also one of the pillar industries of South Africa's national economy. First, in 2018, the added value of mining and mineral processing industry reached 230.5 billion ZAR, ranking the fifth in the world, and accounting for 7.3% of South Africa's national economy, of which platinum production ranked first in the world. Secondly, in 2018, South Africa's export of resource products accounted for 35.5% of the total value of export in South Africa, which was one of the most important export industries in South Africa. Thirdly, South Africa's mining industry provides important raw material input for the manufacturing industry, mainly including metal manufacturing, automobile and jewelry manufacturing, which also promotes the development of mining technology. At present, South Africa has a leading position in the field of deep mining in the world. Moreover, it is one of the industries that recovering from the COVID-19 in South Africa.

However, at present, the mining industry in South Africa is still facing some structural problems. On the one hand, the mining industry is highly dependent on power supply, but the power supply in South Africa is uncertain. On the other hand, with the increase of mining depth, South African mines are also facing pressure of rising mining costs.

Laws and Regulations

South Africa is one of the countries with relatively sound legal system. In the mining industry, there are not only environmental protection requirements, but also labor standards requirements. The first basic laws to guide and supervise the



mining industry in South Africa include *the Mineral And Petroleum Resources Development Law* and *the Mining Constitution*. Since 2000, the South African government has successively promulgated *the Black Economic Revitalization Act*, *the Mineral Technology Law*, *the Mining Constitution* and the new edition of *the Mineral And Petroleum Resources Development Law*.

In terms of environmental protection, South Africa's *National Environmental Management Act* stipulates that enterprises must carry out environmental impact assessment before carrying out projects, and obtain an environmental management plan, which includes many specific environmental protection requirements. In addition, before using water, the relevant permission should be obtained according to the national water law.

In terms of labor standards, in addition to strictly abide by the work and rest, salary, employment and dismissal and other provisions, enterprises are also required to include employees in the "social labor plan", and make appropriate arrangements for the employment of employees after mine closure.

As for the export of mineral products, South Africa's *International Trade Administration Regulations* also stipulates that some mineral resources can be exported only after obtaining the license according to the relevant provisions of the precious metals law or the diamond law, and the export tax shall be paid according to the diamond export tax law. In addition, the newly revised *Mining Constitution* in 2018 increases the proportion of foreign-funded enterprises that need to transfer equity to their own country from 26% to 30%, and requires that the board of directors, senior managers and bottom managers of mining companies have 50%, 60% and 88% black people respectively, which has potential risk of "nationalization".

China-South Africa Cooperation Potential

China and South Africa have great potential for cooperation in the mining industry. First of all, the export of South Africa's mining industry is mainly primary products, most of which rely on gold, diamonds, ores and ores for export earnings. Although gold and diamonds are expensive, the overall added value is low, and the proportion of manufactured products in the total export of mineral products is only about 20%. China has certain technical advantages in mineral processing and metal smelting, which can help South Africa improve Export added value. Secondly, South Africa's mining industry is highly dependent on power supply. At present, South Africa's largest power supply company, Eskom, is facing problems such as unstable power supply. China has rich experience in power infrastructure construction, so the two countries have a foundation for cooperation in power supply.

Thirdly, although China has a large territory and abundant resources, its per capita mineral resource reserves are low and its import demand for mineral resources is large. South Africa's abundant mineral resources endowment can form a good complementary with China. Thus this enhancing the cooperation potentials between the two countries.

II. Agriculture and Agro-processing Industry

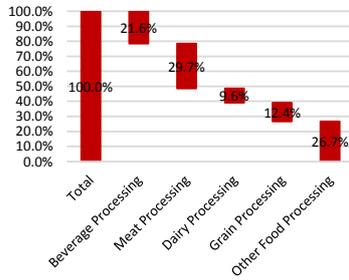
Strengths	
✓	Rich variety of agricultural products;
✓	Complete agricultural product value chain;
✓	Seasonal complementarity between China and South Africa.
Challenges	
✓	New version of the Land Holding Act;
✓	Sensitive to climate change.

Own advantages

The diversity of climate allows South Africa to have a variety of soil types, providing opportunities for the development of the entire agricultural industry value chain in South Africa, and the characteristics of product diversification are obvious. South Africa is located at the southernmost point of the African continent, which with subtropical, temperate, desert and oceanic climate types. Therefore, South Africa has large forests, grasslands and other resources. The government has divided the country into a number of agricultural regions based on the diversity of climate. Subtropical areas are densely forested for forestry development; grasslands are used for animal husbandry development; and plains are used for agriculture and forestry. South Africa's agriculture is generally relatively



Figure3-1 Percentage of Added Value about Sub-sectors of South Africa's Agricultural Product Processing Industry (%)



Data Source: Department of Trade, Industry, and Competition, Dagong Global

developed. In 2018, the number of agricultural workers accounted for about 6% of the total population, and the value added of agriculture accounted for about 2.3% of GDP. There are many types of agricultural products, mainly including corn, fruits⁵, nuts⁶, meat⁷ and wool, among which fruits and Grain are the main export products (Table 3-2). With the continuous development of agriculture in South Africa, the agricultural product processing sector has also developed rapidly, forming an agricultural product value chain with planting-production-processing. Since 2008, the average growth rate of South African food manufacturing industry has been 1.5 percentage points higher than the overall average growth rate of the manufacturing industry. In 2018, South Africa's agricultural product processing industry accounted for 3.4% of GDP, and the export income of agricultural product processing industry accounted for 5.7% of the total commodity export income that year. Meat processing and beverage processing (Figure 3-1) accounted for a relatively high proportion of it, and there are 250,000 population engaged in agricultural products processing jobs. The characteristics of product diversification are obvious, mainly including canned food, sugar, wine, fruit juice drinks and dairy products, among which wine, sugar and fruit juice are the main export products of the agricultural product processing industry (Table 3-3). However, South African agriculture is more sensitive to climate change. For example, due to drought, South Africa's total corn output in 2016 was only 7.78 million tons, a decrease of 21.8% from 2015.

Table3-2 The total Amount and Proportion of South Africa's Main Agricultural Exports

Products	Total Exports (million ZAR)	Percentage of total exports (%)
Citrus fruits	20,273	1.6
Fresh grapes or raisins	9,123	0.7
Fresh apples, pears and quinces	7,655	0.6
Cereals	6,446	0.5
Nuts (without coconut and Brazilian cashews)	5,253	0.4
Wool, animal hair, horsehair yarn and fabrics	5,181	0.4

Table3-3 The Total Amount and Proportion of the Main Export Products of South Africa's Agricultural Product Processing Industry

Products	Total Exports (million ZAR)	Percentage of total exports (%)
Wine and grape juice	10,366	0.8
Solid cane, sucrose and beet sugar	5,007	0.4
Fruit and vegetable juices	4,202	0.3

Laws and regulations

South African laws prohibit foreigners from owning land, and the agricultural activities must comply with environmental protection requirements. In terms of land acquisition, previously, foreign companies could acquire land through purchases and leases. However, in 2016, the *Land Holding Act* prohibits foreigners from owning land in South Africa and only allows long-term leases. However, the period of foreigners' ownership of acquired land will not change before the introduction of the bill. In addition, South Africa announced a new land acquisition bill in October 2020, stipulating that the state has the right to expropriate the land free of charge under conditions such as speculation on land

⁵ Mainly include sugar cane, apples, citrus, grapes, berries, etc.

⁶ Mainly include peanuts, pecans, macadamia nuts, etc.

⁷ Mainly include beef, lamb, poultry, fish and seafood.



prices and land occupied by state agencies but not serving its core functions. In terms of environmental protection, In addition to complying with the *National Environmental Protection Law*, *National Water Law*, *National Environmental Management: Air Quality Law*, *National Forest Law*, *Wetland Protection Act* and other related laws and regulations, the *Biodiversity Law* and *Agricultural Resources Protection Law* also have special regulations on agriculture, forestry, animal husbandry and fishery. The former stipulates that both breeding or import and export of genetically modified organisms need to be declared and approved. The latter stipulates the original cultivated land reclamation conditions and approval requirements, water and soil erosion, land salinization prevention and control measures, and the duties of related persons responsible.

China-South Africa Cooperation potential

The potential for cooperation between China and South Africa in agriculture and agro-products processing industries is mainly reflected in alleviating the contradiction between food supply and demand, increasing the content of agricultural science and technology, increasing the degree of intra-industry trade and seasonal complementarity. First of all, China's per capita arable land resources are scarce, but agricultural technology is strong. Cooperation between the two countries in the agricultural field will not only help alleviate the contradiction between China's food supply and demand, but also increase the technical content of South Africa's agricultural production. Secondly, at present, the degree of intra-industry trade between China and South Africa is not high enough, but China's agricultural product processing industry is more detailed, which divided into 12 sub-sectors. The cooperation between China and South Africa in the agricultural product processing industry is conducive to giving play to their respective comparative advantages and forming differentiated products, thereby increasing the degree of intra-industry trade between the two countries. Thirdly, China and South Africa are located in different hemispheres. The seasons of the two countries are complementary. Even if a country is in winter, it can still obtain grain and fresh fruits and vegetables through imports, thus ensuring an uninterrupted supply of agricultural products throughout the year.

III. Green Power Generation

Strengths	
✓	Perfect environmental protection legal system;
✓	Encourage clean power generation;
✓	Related project construction.
Challenges	
✓	Contradiction between power supply and demand;
✓	Shortage of funds;
✓	Relevant provisions of the <i>Black Economic Empowerment Act</i> .

Laws and Policies

The South African government attaches great importance to environmental protection, and the environmental protection legal system is very complete. The environmental laws of South Africa's constitutional level include *Environmental Basic Law*, *Environmental Individual Law* and *International Environmental Law*; departmental laws specifically include *National Environmental Management Law*, *National Water Law*, *Air Quality Law*, etc.; Environmental protection management system includes the environmental implementation plan, the environmental management plan, and the environmental impact assessment system, etc. Among them, the *National Environmental Management Law* which promulgated in 1998 is the most important environmental protection regulation and the basis of other environmental regulations. The provisions of the law mainly include: an environmental impact assessment must be carried out before any investment project in South Africa and the regulations to be followed in the assessment process; relevant provisions have been made for the treatment of environmental pollution, and the obligations of relevant persons' responsible and remedial measures after pollution. The law also has relevant provisions on environmental management cooperation. For example, all stakeholders of the project can join together to reach some provisions related to environmental management. The *National Water Law* has made relevant regulations on water use in production and life, mainly including: First, it stipulates the conditions of permitted and disallowed use of water for investment projects. In the case of permitted water use, it is necessary to apply for a permit and review regularly. The reviewing interval



does not exceed 5 years, and the validity period of the water permit does not exceed 40 years. Second, the law stipulates the prevention and control of water pollution caused or likely to cause water pollution caused by activities carried out on land, and clarifies the division of relevant responsibilities and the pollution treatment measures that the responsible persons can take. Third, the law stipulates the composition of the water price, the user's duty to pay taxes and fees, and the punishment measures for violating the duty.

Related Policies on Green Industry

The South African government strongly encourages the development of green industries, especially in the field of clean energy power generation. South Africa is a large power country in Africa, and its power generation exceeds 60% of the total power generation in Africa. In addition to precious metal minerals, South Africa also has relatively rich coal resources. Therefore, coal-fired thermal power generation accounts for about 90% of the total power generation in South Africa. This is contrary to the South African government's concept of environmental protection. In order to get rid of its dependence on coal resources, the South African government has been encouraging the development of clean energy such as solar, wind and nuclear energy, and encouraging the research and development of technologies such as photovoltaics. First, the Ministry of Mineral Resources and Energy of South Africa has allowed municipalities to develop their own power generation projects and encouraged major domestic cities (such as Johannesburg, Cape Town, etc.) to switch to sustainable energy sources, such as generating electricity through solar energy or using circular economy such as landfills. Second, the Ministry of Mineral Resources and Energy is formulating the *South Africa Solar Technology Roadmap* to encourage solar photovoltaic and solar heating and cooling technologies, encourage distributed power generation, and expand independent power production and power supply to the national grid, which aims to reduce energy consumption and carbon dioxide emissions. Third, South Africa's *Renewable Energy White Paper* is one of the policy documents formulated by the Ministry of Mineral Resources and Energy to promote the development of renewable energy technologies (solar, hydro, biomass, and wind energy). Its goal is to ensure that national resources are invested at a fair level in renewable technologies, public resources are used for the implementation of renewable energy technologies, appropriate financial incentives for renewable energy, and an investment environment for the development of the renewable energy industry is created. In addition, in the *Comprehensive Resource Plan* promulgated in May 2011, the Ministry of Mineral Resources and Energy set a goal of achieving 17,800 MW of renewable energy power generation by 2030. At present, the Eskom plans to invest 118 billion ZAR between 2021 and 2030 to expand the transmission network, give priority to supporting the grid connection of renewable energy, and renovate the aging transmission infrastructure. The new-built infrastructure mainly involves 5,650 kilometers of high-voltage lines and 41,595 MV of new transformer capacity, which will increase the power generation capacity of the power system by 30,000 MW, most of which will come from renewable energy (solar and wind) power generation. Specifically, the areas where the South African government encourages investment mainly include renewable energy technology, energy-saving technology, solar photovoltaic technology, wind power generation and waste recycling power generation.

China-South Africa Cooperation Potential

China and South Africa have a common need for the development of clean power generation, and cooperation between the two countries will not only help alleviate the contradiction between power supply and demand in South Africa, but also help the internationalization of Chinese power companies. First, the contradiction between power supply and demand in South Africa has become increasingly prominent. Although South Africa is the largest power country in Africa, for a long time, South Africa's electricity production and supply has been dominated by the



Eskom, supplemented by local and corporate-owned power. The Eskom, which has an absolute monopoly, supplies 95% of South Africa's electricity and 45% of Africa's. However, with the increasing demand for electricity in South Africa and the Eskom facing problems such as aging equipment and shortage of funds, South Africa's power supply gap has become more and more serious. In June 2008, there was a severe power crisis, resulting in a large area of mining and manufacturing stopped production. The shortage of power supply and funds in South Africa has created opportunities for Chinese power companies and Chinese banks to enter the South African market, which may break the monopoly of European and American power companies. Meanwhile, China also has strong R&D capabilities in solar photovoltaics, which is conducive to South Africa's upgrading of power supply equipment and the adoption of new technologies. Second, China and South Africa are currently facing the need for the development of new energy. The vigorous development of clean energy power generation will not only help China improve air quality and win the "Blue Sky Protection Campaign", but also help South Africa adjust its power supply structure based on thermal power generation. It conforms to the common interests and development direction of the two countries. Third, the cooperation between China and South Africa in the field of clean power generation will not only help alleviate the contradiction between power supply and demand in South Africa and boost South Africa's economic efficiency, but also help Chinese power companies to further accumulate overseas operation experience and become familiar with overseas power industry and international capital operation rules. It is also helpful to the export of related power equipment and services. However, South Africa pays more attention to corporate social responsibility. Among them, the *Black Economic Empowerment Act* has rigid requirements on the proportion of foreign-funded enterprises' equity and the creation of local employment opportunities. There is a certain "localization" tendency.

IV. Digital Economy

Strengths	
✓	South Africa's Sustainable Development Goals Investor Map;
✓	The government values digital economy;
✓	Digital economy growing rapidly;
✓	Digital economy has huge potential.
Challenges	
✓	The overall scale of digital economy is small;
✓	Underdeveloped communication infrastructure;
✓	Relatively insufficient talent pool.

Related Policies on Digital Economy

In recent years, the application of digital technology and new business models has become an important engine for promoting economic development in Africa, and the South African government has paid more and more attention to the development of digital economy. First, in April 2018, the World Bank launched the African Digital Economy Initiative, calling on African governments, related companies and international capital to participate in the construction of Africa's digital economy. South Africa, Kenya, Rwanda and other countries actively responded. Second, in October 2020, the UNDP South Africa Representative Office released the "South Africa's Sustainable Development Goals Investor Map", listing business opportunities related to South Africa's achievement of the Sustainable Development Goals, including 30 investments in four priority areas opportunity. In addition to basic industries such as infrastructure and agriculture, remote education, remote training and online medical platforms are mentioned in investment opportunities in education and healthcare. Third, due to the impact of the COVID-19 epidemic, the South African government is also encouraging the digitalization and platformization of commercial activities while taking ban measures. The areas currently encouraged by the South African government to invest mainly include big data tools, reselling of global cloud platforms, E-services across industries, data centers, and high-frequency Internet services.

Own Advantages

The development level of South Africa's digital economy is relatively lagging, but its potential is huge. In South Africa, the digital economy belongs to the communications industry. The scale of South Africa's digital economy in 2018 was about 59 billion ZAR, accounting for only about 2% of GDP, but it is one of the fastest growing industries in South Africa. The average growth rate of E-commerce



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in South Africa is as high as 30%. At the same time, South Africa's business services industry has maintained an average annual growth rate of about 22%, and is transforming towards contact centers and digital services. The sub-sectors that attract more investment are mainly communications and financial services that are closely related to digital economy. Overall, South Africa has huge potential for digital economy growth.

China-South Africa Cooperation Potential

China is in a leading position in the development of the global digital economy. The digital economy cooperation with South Africa is conducive to broadening the areas of bilateral cooperation and achieving a higher level of win-win development. First, South Africa's communication infrastructure is underdeveloped, the mobile communication networks are still dominated by 3G, 4G coverage is less than 50%, and China has entered the 5G era. At present, Huawei has participated in the construction of Africa's first 5G independent commercial network in South Africa. After the completion of this network, it will greatly promote the development of South Africa's information and communication technology and enter a new network era. Second, South Africa's digital economy applications mainly exist on the consumer side, such as shopping platforms. China has accumulated a wealth of remote office experience during the COVID-19 epidemic, such as teleconferencing, remote teaching, remote diagnosis and treatment, etc., which is in line with South Africa's investment needs in education and healthcare. Third, the talent pool of South Africa's digital economy is relatively insufficient, but the South African government attaches great importance to education and the enrollment rate is relatively high. China can use its own advantages to carry out remote training, which is conducive to turning South Africa's demographic dividend into a talent advantage. In addition, China also has obvious comparative advantages in terms of big data and cloud computing, which is conducive to driving the development of related fields in South Africa.

Special Column- the Impact of COVID-19 Epidemic on South Africa's Investment Climate

Special Column-the Impact of COVID-19 Epidemic on South Africa's Investment Climate

Figure Special-1 The Latest Cumulative and Newly Confirmed Cases in South Africa (case)



Resources: Baidu Fighting Pneumonia Column, Dagong Global

The COVID-19 epidemic in South Africa has shown signs of improvement. As of November 10, 2020, the total number of confirmed cases in South Africa is around 738,000, and the number of newly diagnosed cases in a single day is between 1,000 and 2,000, which is a significant drop from the previous daily increase of more than 10,000 cases from July to August (Figure Special-1).

The impact of the Epidemic on South Africa's Economy

The COVID-19 epidemic has reduced South Africa's economic activity and economic growth. First of all, South Africa is rich in mineral resources, which makes it a resource-based country, and has a heavy dependence on international commodity prices. The economic contraction caused by the epidemic has reduced the demand for commodities in various countries, which has an adverse impact on the South African economy. According to IMF statistics, in the first three quarters of 2020, except for the rebound in iron ore prices, the prices of other metal minerals have fallen to varying degrees. Secondly, the epidemic has had a severe negative impact on South Africa's employment and income level. The country has lost 2.2 million jobs in the second quarter of 2020, and layoffs occurred in almost all formal and non-agricultural industries. In addition to that, the total pre-tax income of workers in the second quarter of 2020 fell 82.2 billion ZAF, a drop of 11.3% month-on-month (9% year-on-year). Thirdly, the epidemic has caused many large companies, including South African breweries and glass manufacturers, to pause their expansion plans. Most state-owned enterprises are also facing a serious shortage of funds. At the same time, the land bank is facing liquidity restrictions and the uncertainty brought by the epidemic as financial institutions have also reduced their agricultural lending, it is difficult for South Africa to set off a large-scale investment boom. In summary, the COVID-19 epidemic will have negative impact towards South Africa's exports, consumption and investment.

The impact of the epidemic on South Africa's finance

In order to fight the current COVID-19 epidemic, the South African government has reduced its revenue sources and increased expenditures, which gives significant fiscal pressure in general. At the same time, the COVID-19 has caused a dramatic decline of the country's economy in 2020, the government tax sources have reduced. During the first four months of the 2020/21 fiscal year, South Africa's fiscal revenue shrank by 22.8% year-on-year. In addition to that, South African government had to increase relief expenditures as well as allocate special funds to cope with the up-going epidemic, which increased the scale of fiscal expenditures. Thus, to further revive the current sluggish economy, South African government intends to issue green bonds to raise funds to support infrastructure projects, some international organizations will also provide loans to South Africa but will increase the debt burden of the South African government and further increase financial pressure.

The impact of the epidemic on South Africa's Business Environment

The COVID-19 epidemic also have a negative impact towards the business environment in South Africa. It will also twist investors' expectation, confidence and increase social panic at the same time. Information asymmetry and information screening will increase the cost of information communication. Apart from that, the economic shutdown may also leads to delays in contracts' performing in the production and service sectors.

The South African Government's Response to the Epidemic

During the epidemic, the South African government adopted national restrictions and economic stimulus plan. Its government also announced that it will enter a 21-day lock-up period from March 26 to April 16. On April 17, as the epidemic was still spreading, South Africa continued to implement a level 4 (level 4 is the highest level)



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ban, and slowly downgrading the restriction level to 1 till September 20th, and opening up borders, ports respectively.

In terms of the economy stimulating, on the afternoon of October 15th, President Ramaphosa delivered a speech introducing his new plan with five fundamental goals, including increasing infrastructure investment to create jobs, promoting reindustrialization, accelerating economic reforms, fighting crime and corruption, and improving national governance ability.

The New Development Bank has issued 2 billion USD value bonds in the international capital market, and governments of various countries have also provided their financial support. South Africa has received 1 billion USD of emergency loans to address emergency its health needs and help alleviate the epidemic's vulnerability. On top of that, a loan of 4.3 billion USD from the International Monetary Fund (IMF) and a loan of 5 billion ZAR from the African Development Bank (AFDB) have also been injected to the country. Overall, the restriction have reduced the number of new cases in a single day in South Africa from more than 10,000 in July-August to 2,000, indicating that the domestic epidemic control has achieved phased results. The next phase of policies will prevent epidemics and boost economic development.