

Jointly prepared by the New Zealand High Commission in Pretoria in collaboration with New Zealand Trade and Enterprise

Summary

- New Zealand's export figures to South Africa have held up well during South Africa's lockdown, registering a 7.4 percent increase in the first half of 2020 against the same period last year. This is despite the significant negative economic and social impacts of the pandemic, which come on top of only-just-positive pre-COVID growth figures.
- Two key success factors for New Zealand businesses have been high-tech and adaptable data solutions/equipment; and partnering with or employing local experts who have established contacts and are confident operating in the African business context.
- One of the top reasons in-market partners reach for New Zealand know-how is the integrity and the reliable expertise coming from Kiwi business. This reputation will continue to serve New Zealand business well during a period where domestic conditions mean that South African stakeholders may feel more confident with offshore ideas and products.

Report

The Business Environment in South Africa

South Africa is projected to suffer an eight percent GDP contraction in 2020. While economic activity is gradually resuming as of early September, the economic and social consequences of the pandemic will continue to be felt acutely in South Africa. According to one survey, approximately three million South Africans lost their jobs between February and April alone, with women accounting for two thirds of those job losses. Forty seven percent of respondents to that same survey said their household ran out of money to buy food in April, more than double the number prior to the lockdown.

How New Zealand exports are faring – COVID-related disruption

While South Africa will be fighting for some time to address the economic and social impacts of COVID-19, the story so far for New Zealand exports is cautiously more positive. These have so far remained healthy in the round, with some opportunities for diversification or scale-up across particular sectors in the medium to long term. New Zealand Trade and Enterprise (NZTE) is also still seeing a sustained and healthy level of interest from New Zealand businesses looking at sub-Saharan Africa.

COVID-related disruptions have not been uniform across our export sectors. For example, with an industry-wide COVID-enforced shutdown, aviation has been one of the most affected sectors. Commodities have remained steady, although some have observed a noticeable shift in product distribution and consumption patterns. The introduction of new COVID-related costs – such as PPE and other health compliance regulations – have created difficulties for some businesses. Others, particularly those able to offer services remotely or that fitted within the 'essential services' definition during lockdown, have been less affected.

Supply chains have largely remained intact, although the availability of transport vehicles in South Africa and the high cost of

freight continue to pose challenges for exporters. South African ports have generally been operating at only slightly reduced capacity, with slower processing times as a result of increased public health measures.

Bilateral trade in the time of COVID

As an export market, South Africa has remained solid. It was New Zealand's fourth-largest African export market in the first half of 2020, with exports increasing by 7.4 percent against the same period last year. Surprisingly, exports in the second quarter were up by more than 12 per cent against the same period last year, despite the huge lockdown hit to South Africa's economy (a 51 percent annualised GDP contraction for Q2). We have seen the continuation of healthy dairy export figures, plus growth in exports of fish (100 percent), machinery, medical equipment, textiles (6500 percent), and chemicals (2600 percent). The diversified nature of New Zealand's export profile to South Africa, which is much less reliant on dairy than most other African markets, means disruption to one or several export categories does not tend to dent the overall picture.

Market outlook for key export sectors

Our three most significant categories of export to South Africa in the first half of 2020 were dairy, machinery and fish. With COVID bringing renewed attention to food security, New Zealand, as a trusted and reliable source of food, seems poised to continue – or scale-up even – positive trends in the first and third categories. Anecdotally, it appears that New Zealand's success in combatting COVID may have bolstered in-market perceptions of New Zealand as a safe source of food. NZTE continues to work with food and beverage companies to try and tap the higher-end food market.

COVID has also precipitated a greater focus on the need for digital and technological advancement across Africa. As our ICT presence in the region continues to grow, a number of New Zealand tech companies are well positioned to tap into opportunities. With a number of businesses already based in South Africa, there has been interest from businesses (in sub-sectors such as oil and gas, and online high-value goods sales) in the country's IT potential, and especially in using Cape Town – "Africa's Silicon Valley" – as a hub. South Africa also remains a good base for operations elsewhere in the continent: a number of New Zealand businesses base their Africa-facing operations out of Cape Town or Johannesburg, often with local or foreign partners on the ground elsewhere.

Another potential growth area is agri-business – harnessing New Zealand's agricultural know-how to support overcoming African challenges. And for some New Zealand businesses, South Africa's high demand for security and back-up power solutions also present opportunities.

A 'dark cloud' is that more than a third of New Zealand exports to South Africa in the year to June 2019 were travel services, which will naturally be heavily impacted by New Zealand's border settings, South Africa's border closure since March and the downturn in international travel.

Risks/challenges

COVID will have a negative impact across the entire distribution of income in South Africa, as the economy shrinks, unemployment rises and incomes decline. This could lead to pressure on consumption and demand, although the effect on higher-end spending is more uncertain.

The strength of the South African rand has dropped sharply since March, and the New Zealand dollar has also strengthened to over 11:1 against the rand (from 9.50:1 a year ago), which could have a negative impact for New Zealand exporters.

As in many other parts of the world, strict border controls effectively preclude travel to South Africa currently. However, remote engagement with South African clients, distributors and partners is easier than with other parts of the region, and remains a key element of the South African 'hub' concept.

How can we help you?

The New Zealand government understands that the spread of COVID has brought uncertainty for New Zealand exporters, particularly for those with an interest in African markets which already presented a unique set of opportunities and challenges.

NZInc will continue to work together closely to seek the latest information and possible opportunities for New Zealand businesses. We have a network of posts who are working to assist New Zealand exporters by identifying and reporting on trends and market opportunities. These include the New Zealand Embassies in Cairo and Addis Ababa (which although temporarily closed is being run remotely), and the New Zealand High Commission in Pretoria. Morocco is accredited to the New Zealand Embassy in Spain. NZTE's Trade and Commercial adviser for Africa is based in Dubai.

Our network has been providing regular updates for markets around the world, including Africa on the New Zealand Trade and Enterprise (NZTE) website, see here for more information and for weekly podcasts.

[New Zealand Export Credit](#) (NZEC) has seen increasing demand for Trade Credit Insurance as exporters became more concerned about the payment risk from their buyers. As a response to this, NZEC has [streamlined](#) its 'top up cover' coinsurance in partnership with the four primary trade credit insurers in New Zealand. Businesses may also be eligible for the financial guarantees offered by NZEC.

We are also keen to hear from any business with questions related to Africa. If you wish to make contact with us, please email us on exports@mfat.net or phone us on 0800 824 605. You can also reach our in-market teams directly by emailing:

- New Zealand Embassy Cairo: enquiries@nzembassy.org.eg
- New Zealand Embassy Addis Ababa: aue@mfat.govt.nz
- New Zealand High Commission Pretoria: enquiries@nzhc.co.za
- New Zealand Embassy Spain: madrid@embajadanuevazelandia.com
- New Zealand Consulate Dubai: dubai@nzte.govt.nz

All trade statistics are sourced from Statistics New Zealand

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