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Rāpopoto — Summary

- Re-opening of its economy after its first wave saw South Africa become New Zealand's second largest African export market, but the subsequent second wave at the end of 2020 has seen exports dip to its lowest levels since the pandemic began.
- Notwithstanding these fluctuations, New Zealand businesses have reported positive operations and sales. This is due to the large potential of the region (and South Africa's role as a hub for their operations) and the niche they serve across a diverse range of industries, as well as a strong New Zealand brand, an ability to be agile and the increase in digitalisation.
- Our virtual business event in May was a success, and we will continue to conduct virtual outreach in conjunction with NZTE in response to a desire from businesses to foster a stronger community in-country.

Pūrongo — Report

- We provide an update on New Zealand business confidence in South Africa, based on our informal survey of some New Zealand businesses operating in South Africa on their operations since our last report (September 2020). [link to [South Africa: Export Figures Remain Healthy During Lockdown - 4 September 2020](#)]

COVID-19 continues to loom over South Africa's business environment...

- Our previous update reported on a re-opened business environment recovering from the impacts of one of the world's strictest lockdowns. Since then, South Africa has suffered a second wave of infections, which saw another (albeit less strict) lockdown in December, and is currently in the throes of a third wave (poised to overtake previous waves).

...but the economy appears to be improving, albeit unevenly

- South Africa's economy appears to be gradually recovering. The country's gross domestic product (GDP), having declined by 7% last year (its steepest decline for over a century), increased at an annualised rate of 4.6% in the first quarter of 2021. This growth is uneven across sectors, with mining and quarrying increasing at a rate of 18.1% off the back of increased global demand and high commodity prices, while tourism and hospitality sectors continue to bear the brunt of the pandemic. The total income for the tourist accommodation industry decreased by 45.3% in March 2021 compared with March 2020. Household consumption expenditure is increasing at a rate of 4.7% as consumers are spending more on clothing, household equipment and food and non-alcoholic beverages.

A "wavy" bilateral trade picture

- Following New Zealand's global export patterns, our bilateral trade relationship with South Africa has been up and down. The year ending December 2020 saw South Africa becoming New Zealand's second largest African export market (behind Algeria), up from being fourth in our last report. Q4 of 2020, which recorded exports during South Africa's "COVID off-peak", saw overall exports increase by 20% to NZD65.08m following the COVID dip in Q3, with growth across most export categories.
- Q1 of 2021, which coincided with South Africa's second wave, paints a gloomier picture. Decreasing by 18% to NZD53.59m, exports to South Africa have dipped to its lowest levels during even the pandemic, reflected across

most of our top five export categories. Machinery, our second top export last quarter, decreased by 76%. This could affect the diversification of South Africa as an export market for New Zealand, as dairy increases its share of overall exports while travel (traditionally our top export) continues to be disproportionately impacted by the pandemic.

- The diversity of New Zealand businesses in South Africa has also been a strength and source of resilience to our bilateral trade relationship.

Some New Zealand companies are experiencing growth

- Notwithstanding the dip in exports, the New Zealand companies operating in South Africa we spoke to are mostly positive about their operations and the potential for expansion. We assess this to be partly because South Africa is a base for their operations across the wider continent, but also due to the niche services they provide to a diverse range of industries.

Challenges persist

- Dairy, currently our top export, saw a 16% drop this quarter (although at NZD \$27.92m still more than Q2 and Q3 of last year). The shift in product distribution and consumption patterns we previously reported on continue, with a shift in the retail space with consumers not spending as much or pooling to purchase products together. There has been more volatility in the ingredient space. Other challenges include South Africa's ban on certain containers on South African roads (an issue being challenged by a number of industry bodies) and ongoing issues pre-dating COVID.
- Global logistics and supply chain issues continue to impact delivery into the region from New Zealand. However, for some businesses the critical infrastructure status of their products means that it is easy for them to get through customs once they are in country.

Reflections on what works well for New Zealand companies

- Businesses that have invested in staking their brand in market have seen it pay off, even during troubling economic times. Similarly, the perception of New Zealand as a safe source of food continues in-market. The New Zealand way of doing business, where things are kept simple and red-tape is removed, gives companies a big advantage over their competitors.
- The willingness to adapt to a rapidly changing environment has also served some companies well. The small nature of our businesses means that they are more agile.
- The shift to digital operations and communications has also benefited New Zealand companies. The uptake for virtual communication has made New Zealand businesses more accessible and the difference in time zones between the two countries that was historically seen as a barrier is increasingly being perceived as a beneficial. Virtual engagement makes it now easier for NZ businesses interested in doing business in Africa to 'dip their toe in the water' – they can make introductory calls via zoom rather than the long physical trip.

PRE's business outreach

- In our conversations with New Zealand businesses in South Africa, it was clear that while they were appreciative of NZ Inc support (particularly highlighting the ongoing engagement by NZTE in Dubai), there is a strong desire for a greater sense of community with each other. They highlighted the appreciation for our pre-COVID annual business events (usually centred on an All Blacks game) and in particular the New Zealand trade mission to South Africa in October 2018 as invaluable opportunities to connect. While COVID-19 is currently the primary barrier to facilitating these physical networking events, the split across operations in Cape Town and Johannesburg has always meant hosting them all in the same place has been difficult.
 - On 20 May the New Zealand High Commission in Pretoria hosted a business event in conjunction with NZTE on the prospects for post-COVID economic growth in South Africa. Beachhead adviser Ronelle Dinsmore provided an update on South Africa's economy and trade post-COVID, and political experts Paternoster Consulting shared their thoughts on political economy challenges. Eight New Zealand businesses attended the webinar and were positive about the usefulness of such engagements, particularly given the inability to meet in person. NZTE is currently organising a sector-specific webinar on the tech landscape in South Africa, with representatives from the Silicon Cape community and WESGRO (the NZTE equivalent for the Western Cape). The focus on tech will build on the growth in digital services in South Africa and on Cape Town's recent ranking as one of the world's fastest-growing regions for foreign direct investment and first in Africa for economic potential, start-up status and business friendliness. There are existing success stories of New Zealand tech businesses working there.
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Tākupu — Comment

- South Africa and the region remains high-risk high-reward for New Zealand businesses, even during COVID. There is a clear willingness to share knowledge, experience and expertise with other New Zealand businesses looking to enter the market, including how to operate to ensure maximum exposure for least risk.
- The High Commission will continue to work with NZTE to foster these relationships, including through supporting NZTE in their tech webinar, and by exploring the potential to host virtual business networking events.

Mutu — Ends

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