

Briefing Note: Brexit and South African trade

The current disarray in British politics centres on the nature of Brexit, with no consensus in sight either on how it should be achieved, or on the UK's future relationship with the EU. The new Prime Minister has faced strong resistance to a no-deal exit, but it is not clear what proposals could achieve a majority in Parliament, much less support from most British citizens.

Because the UK is still one of South Africa's major trading partners, the final outcome will have significant implications for our own economy. As detailed in the following section of this note, the UK buys around 5% of all South African exports, and supplies 2% of its imports (down from almost 10% in the early 2000s). The UK is also a major investor into the South African economy, and increasingly South African firms have invested heavily in the UK. Stability in the relationship will therefore be beneficial to both countries.

Brexit was sold to the UK public as a way to make Britain great again. Yet the political uncertainty around it has already had a negative economic impact. There are reports of industrial firms closing down or relocating their operations. There are ongoing concerns of supply chain disruptions and even, in the case of no deal, food and medicine shortages. Supporters argue that these negatives will ultimately be offset by end to austerity budgets and new trade deals.

How does all of this impact on the UK's other trading partners, particularly in a post-Brexit world where the UK is seeking to re-establish itself politically and economically? We could see an increasingly aggressive Britain striving to re-assert its power in the world and advance its mercantilist interests, including in South Africa and Africa. Alternatively, the world could see a Britain seeking to increase co-operation in its own region and the world, re-building multilateral governance based on the values and principles of inclusivity, equity and sustainable development. The former is more likely.

The risks are visible in the US approach to "making America great", which has included threats to the rules-based trade regime globally as well as bullying of some developing economies. The US has clearly signalled that it prefers to drop multilateral arrangements in exchange for bilateral treaties – an approach that inherently disadvantages smaller economies.

With the SA-UK trade arrangements currently falling under the broader EU agreement – the SADC Economic Partnership Agreement (EPA) – that was concluded with a regional grouping of South Africa and its neighbouring countries, work has been done to extract the terms of the agreement to ensure continuity in the trade relationship. However, a no-deal Brexit would mean that transitional approach cannot be used, and the UK would apply a common set of tariffs until trade agreements can be concluded with individual countries and regions. That approach would impact negatively on South African trade with the UK.

A UK separate from the EU has different needs and trade interests. More detailed work is required in the conclusion of an updated or new agreement, which is increasingly becoming more urgent. The bilateral negotiations with a more powerful trading partner that is increasingly sounding like the US is of concern. However, there are clear opportunities for improved trade on a number of products between South Africa and the UK as they move away from EU preferences.

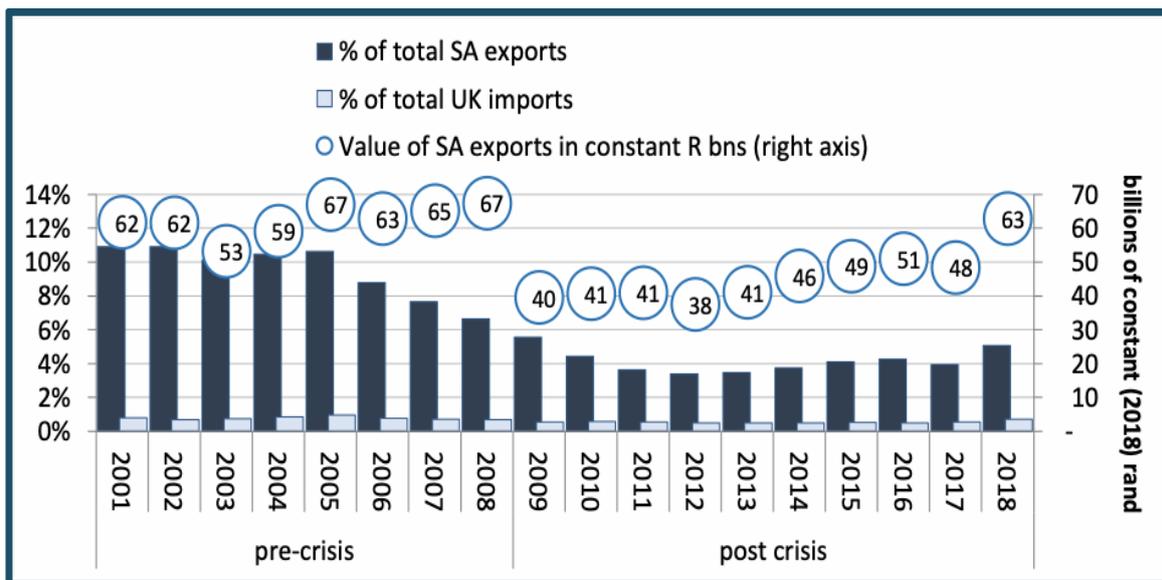
Trade agreements aside, the risk of a recession in the UK as a result of Brexit would have implications for the already fragile South African economy. A particular challenge could arise from trends in the UK auto industry, which is a key market for South African platinum for catalytic converters.

South African trade with the UK

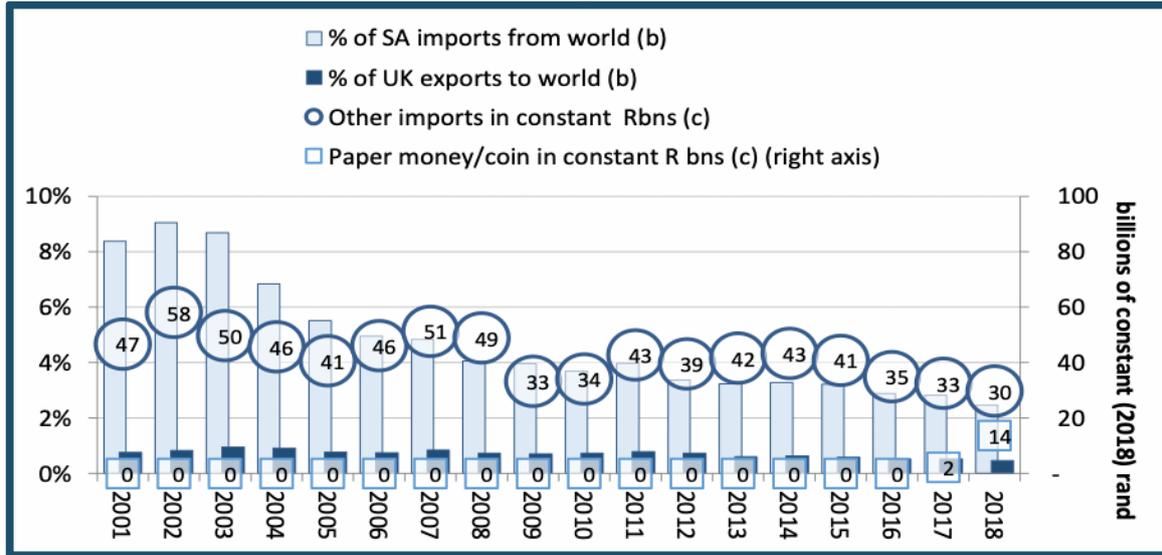
South African trade with the UK has stagnated in the past five years, with flat exports and declining imports, as the following graphs show. The import data for 2018 are affected by SARS reports of substantial imports of bank notes and coin from the UK. It is concerning that, in contrast to the South African figures on imports, the UK trade data for 2018 do not report large exports of bank notes to South Africa.

Graph 1. Bilateral exports and imports as a percentage of total UK and South African trade and in billions of constant (2018) rand (a)

A. Exports



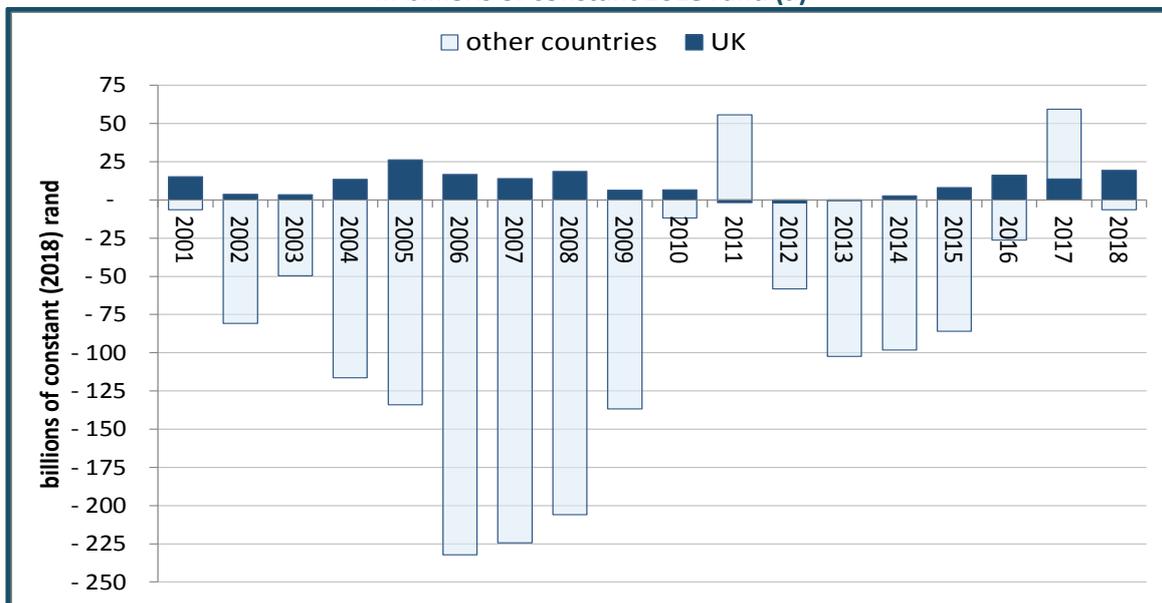
B. Imports



Notes: (a) Refflated with South African CPI rebased to 2018. (b) Excluding reported imports of bank notes and coin. (c) These imports are in South African, but not UK, trade data. Source: TradeMap.

South Africa generally runs a balance of trade surplus with the UK, which helps to offset its tendency to have a trade deficit with the rest of the world. The trade surplus in 2018 was entirely due to a surplus with the UK.

Graph 2. South Africa's balance of trade with the UK and with all other countries in billions of constant 2018 rand (a)

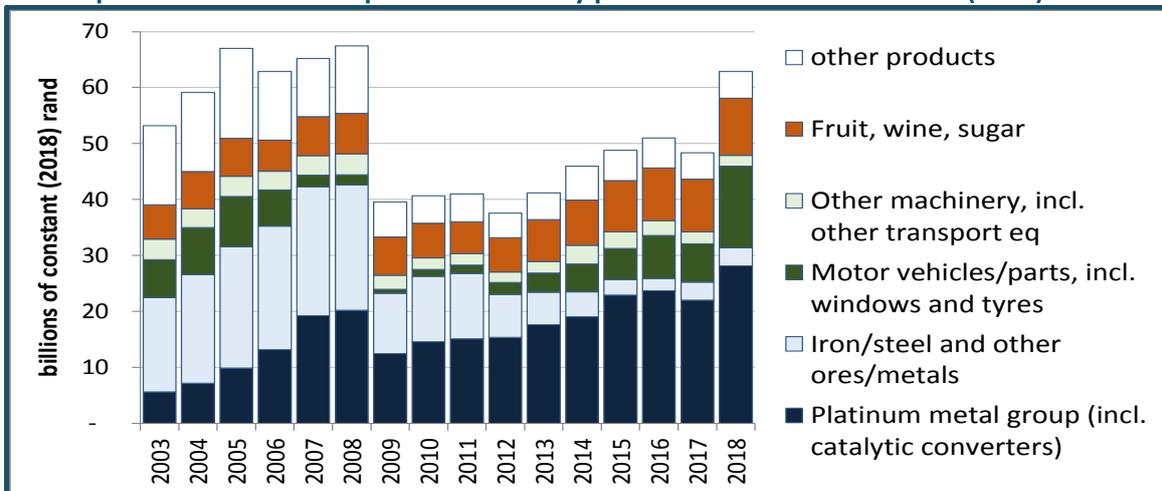


Notes: (a) Refflated with South African CPI rebased to 2018. Source: TradeMap.

South Africa's exports to the UK were dominated by a relatively small number of products. Platinum, both raw and incorporated in catalytic converters, made up 45% of the total in 2018. Platinum sales to the UK equalled a quarter of South African total platinum sales. Before the global financial crisis in 2008/9, steel was the major export to the UK, but it fell to near zero thereafter. Cars and car parts and fruit, wine and sugar effectively replaced steel in South African

exports to the UK, accounting for almost 40% of the total in 2018. The UK bought between 5% and 10% of South African car exports in the past five years, and 14% of fruit, wine and sugar exports.

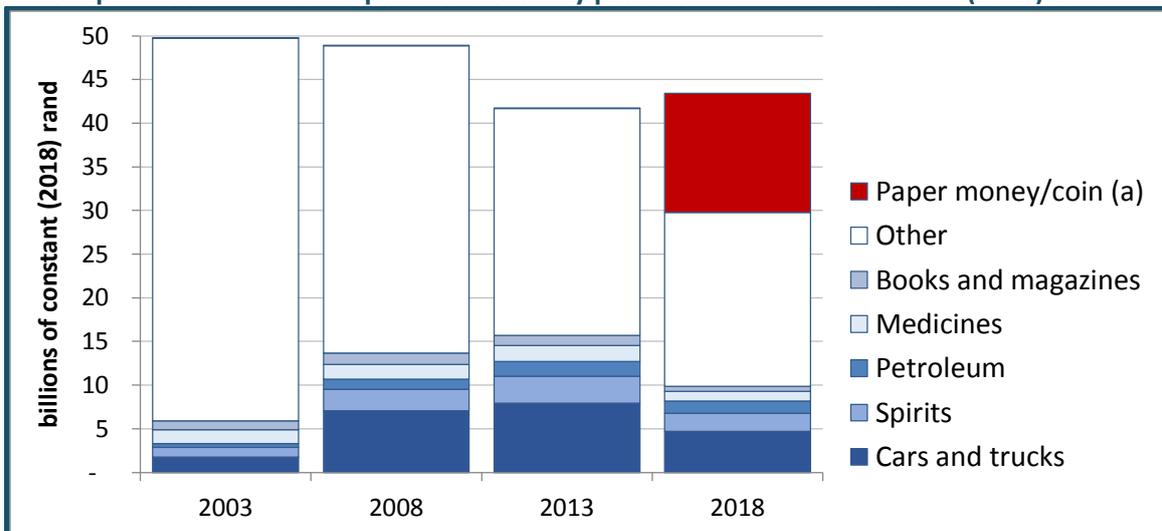
Graph 3. South African exports to the UK by product in billions of constant (2018) rand



Notes: (a) Refflated with South African CPI rebased to 2018. Source: TradeMap.

South African imports from the UK were more diverse. Excluding the reported import of notes and coin in 2018, over the past five years cars made up around a seventh of South African imports from the UK; spirits a 15th; petroleum and medicines, about a twentieth each.

Graph 4. South African exports to the UK by product in billions of constant (2018) rand



Notes: (a) Refflated with South African CPI rebased to 2018. Source: TradeMap.