# Fundamentals in Economics

IS 1115

Group Project

# Macro-Economic Influencer Analysis.

(South African Economy)

*University of Colombo School of Computing.*

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# Contribution.

Uvini De Silva was contributing with regard to Imports and how it affects the economy.

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# Content



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# Macroeconomy – Introduction.

## Macroeconomic policy.

Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. Focuses on 4 main areas.

1.Economic growth.

2.Inflation.

3.Unemployment.

4.Balance of payment.

Market economy bases on main two perspectives. They are the individuals(consumers) and the firms(producers). There is a relationship between individuals and firms when transactions occur. Firms provide goods and services and the individuals consume it and the firm obtain a revenue. So, following three macroeconomic roles moderate the above two perspectives.

**We can identify three sectors in the macroeconomy.**

1.Government sector.

2.Financial sector.

3.International sector.

The macroeconomics roles of the financial sector, the government and the international sector are in utmost important in reaching macroeconomic equilibrium of any country.

In this report, we are going to analyze:

- Type : Developing country.
- Country : South Africa
- Moderator : International sector.

## South Africa.

South Africa is a country which is located in the base of the continent of Africa. South Africa has a diverse mix of people, culture faith and languages. South Africa has a population of 49 billion. This country has a multi party system where the president is the head of the government.

**Economy of South Africa.**

South Africa is one of the most stable economies in the African continent. South Africa is the 34 th largest exporting economy in the world. It is a middle income country. It has an emerging market with rich supply of natural resources.

As a regional manufacturing hub, it is the most industrialized and diversified economy on the continent. South Africas Gross Domestic Product almost tripled to peak at  $400 million in 2011. But declined to roughly $385 in 2019.

**Main export goods of South Africa.**

1. Coal
2. Platinum
3. Diamond
4. Gold
5. Iron ore
6. Motor cars
7. Ground and Air military hardware
8. Platinum and other minerals

**Main import goods of South Africa.**

1. Machinery and equipment
2. Chemicals
3. Petroleum products
4. Scientific instruments

**Main import partners.**

1. China
2. Germany
3. India
4. Saudi Arabia

| | |
|---|---|
| **GDP** (PPP) | 2019 estimate |
| Total | $813.100 billion (30th) |
| Per capita | $13,865 (89th) |
| **GDP** (nominal) | 2019 estimate |
| Total | $371.298 billion (33rd) |
| Per capita | $6,331 (86th) |

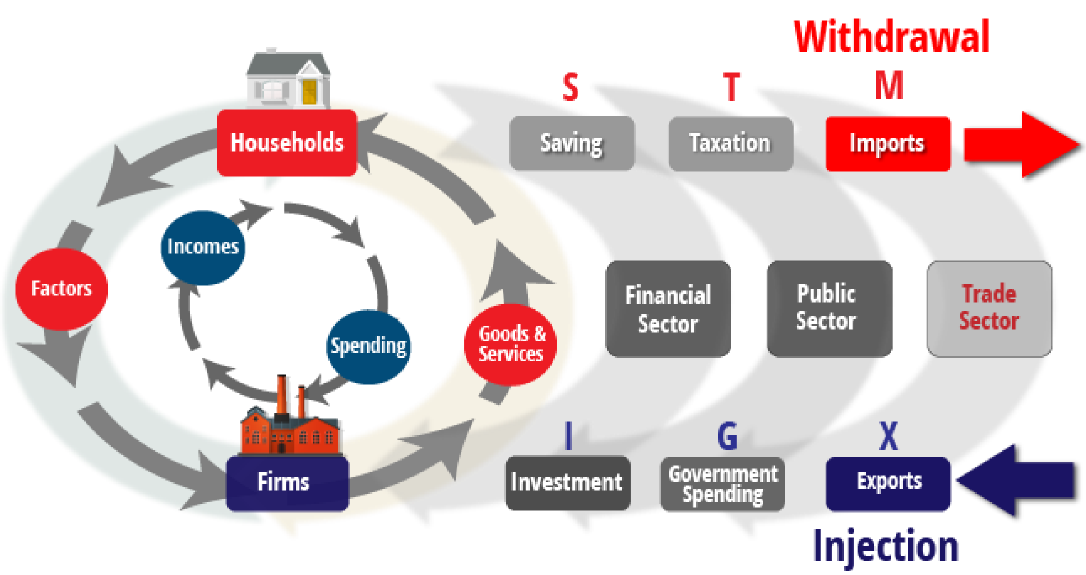
## Impact of International Sector in The Economy.

International trade is one of the leading discussions taken worldwide on daily basis. The purpose of this study is to examine the impact of foreign trade on economic growth of a country. The findings of this study will determine the effects of international trade on economic growth to the policymakers.

International trade allows countries to expand their markets for both goods and services that may not have been available in their own country. Because of international trade, the market contains more competition, and therefore more competitive prices, which brings a cheaper product to the consumer.

Inflation rate, export and exchange rates are positively related to GDP whilst import is negatively related to GDP these are the factors of international factor. The international sector includes exports (X), which add to the value of aggregate demand, and are an injection into the circular flow of income, and imports (M), which reduce aggregate demand, and are a withdrawal from flow circular.

The transection process is shown in below,




We can explain this scenario based on the example. Here I have taken South Africa as an example. The purpose of this study is to investigate the impact of foreign trade on the economic growth of South Africa. The importance of trade is vital for any modern economy because it is very crucial for the competitiveness of the economy.

It is also the third largest global exporter of coal. Although, mining only accounts for 3% of GDP. South Africa also has a large agricultural sector and is a net exporter of agricultural products.

Principal international trading partners of South Africa.

1) **Other African Countries**
2) **United States**
3) **China**
4) **Japan**
5) **United Kingdom**
6) **Spain**

Most exported products are corn, gold, diamonds, fruits, sugar, wool, metals and minerals. Machines and means of transport represent more than 1/3 of the value of the country's imports. Another important import is chemical products and manufactured products.

Almost 90% of exports from South Africa to the rest of Africa go to the SADC economies. In 2018, South Africa exported and imported goods to and from the rest of Africa with a value of US $ 25 billion and US $ 11.5 billion respectively.

These are some trade agreements made by South Africa with other Countries.

1) The African Growth and Opportunity Act (AGOA)
2) Trade Agreement between the European Union (EU) and South Africa
3) The Southern Africa Development Community (SADC) Trade Agreement
4) Trade Agreement between Zimbabwe and South Africa
5) Trade Agreement between Southern African Customs Union (SACU) and European Free Trade Association (EFTA) states
6) Rules of Origin Guides / Trade Agreements

## Exports and how it affects the Economy.

Exports can be identified as one of the main components for country's growth of the economy. Exports can be benefited in many ways to many sides. With the increasement of that item that export, it would make that item will be having a higher demand of the market therefor will have a higher impact on the related service industries as well. For example, if one garment which exports clothes are having a higher demand it can end helping the whole industry, since that particular object is having a higher demand. For example, mineral products were the ones who were with the highest percentage of the total exports in South African economy, around 17.5% of the total exports. Mining have able to turn a largely pastoral economy in South Africa into a Industrial economy. Also, it has been able attract vast number of foreign capitals as well.

Here are the Percentage of share each export category represents in terms of overall exports from South Africa.

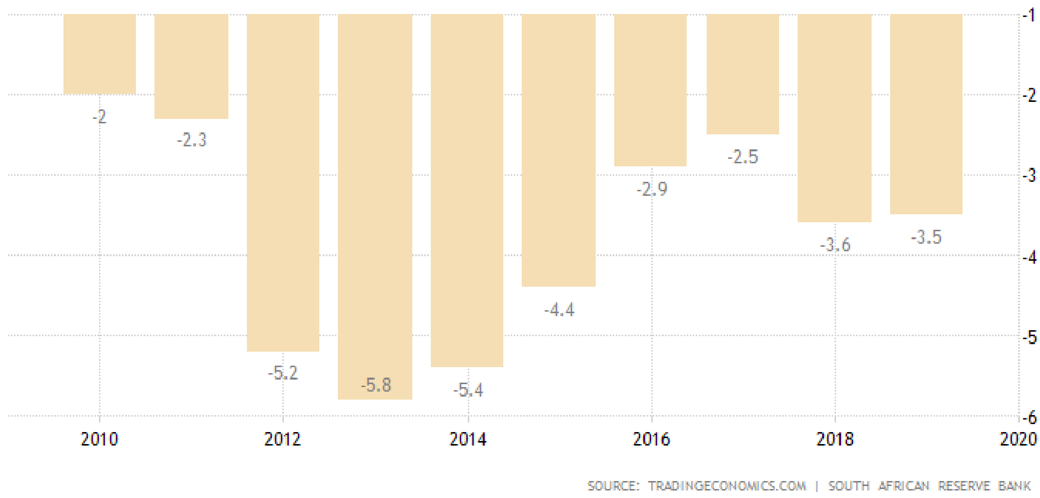
1. Gems, precious metals: US$16.6 billion (17.5% of total exports)
2. Ores, slag, ash: $11.8 billion (12.5%)
3. Vehicles: $10.8 billion (11.4%)
4. Mineral fuels including oil: $10 billion (10.6%)
5. Iron, steel: $6.3 billion (6.7%)

Main export partners of South Africa are as follows:

| Country | % out of total exports |
|---|---|
| 1.China | 9.7% |
| 2.United States | 7.5% |
| 3.Germany | 7.1% |
| 4.India & Germany | 4.7% |

With the growth of the exports it can help to create more & more employment as well. So the job opportunities would be there if you are capable of that particular sector. In South Africa mining have able to turn most of workers who are in neighboring state into the paid employment. Because of this evolution mining account for almost a half a million workforce in South Africa. Even though it's almost a 5% of the country's working force. It has help many of the younger generation who does not been employed. Mining have also turned Johannesburg & Kimberly which are two of the most the attractive cities in South Africa into a globally recognizable town & have helped to attract tourists to the country as well.

Exports also helps you to decrease the Current Account Deficit. Strength of export mainly recognize & determined the current account deficit of a country. Since the South Africa have taken necessary steps to minimize the imports and to maximize the exports as much as they can Current Deficit has decreased significantly. In 2019 according to stats, deficit on the current account was around -3.5% from the Gross Domestic Product(GDP), even though it has increased from the last year which was around -2.5% from GDP, South Africa has been able to keep on a consistent rate when it comes to the deficit. Since South Africa is having a minus percentage when it comes to Comes to current account deficit, it solidifies the fact the country's exports are higher compared to the imports. Below stats amplifies those facts & it shows that South Africa as a country does not require to depend on other countries to expand their economy.




Even though exports help Countries in many ways it's also can have a negative influence on it as well. For example, South Africa's main exported are mainly using the natural resources of their country, so it has prompted environmental damage & diseases among the people. According to reports around 150 dies due per year do various activities that involves mining. It also resulted with Lung issues & many other health issues as well.
So as we discussed earlier Exports can have both good & bad side as well but it weighs way more to good sides compared to little minor bad things as well.

## Imports and how it affects the economy

South Africa is a country Who tend to import more from the rest of the world. If we look at the recent statistics, South Africa has become the $38^{th}$ largest importer in the world by importing \$81.9B. However, as a betterment, the imports of the South Africa has decreased by a 7% annual rate. Crade Petrolium is the organization which leads the imports in South Africa (approximately 7.83% from the total imports) and the second is Refined petroleum which accounts for 6.06% of the total imports.

Imports and exports can be categorized as the staples of international trade. As at now, consumers have the access to use plenty of products from their local markets or online stores. As a result, these items provide thousands of choices to the customer and discourage the sales of local products.

Because if there is a situation of excess imports coming into the country than exports, this led to some deviations in balance of trade and currency deviations. (Balance of trade = The difference between imports and exports in a country for a given period)

Where GDD = C + I + G + ( X – M )

| Condition | Net exports figure |
|---|---|
| X > I | Positive |
| I > X | Negative |

However, a higher domestic demand and a growing economy can be resulted by a high level of imports. Because a healthy economy is defined where both imports and exports are growing.

The import process of South Africa is somewhat complex when comparing to other countries. Customs South Africa (CSA) is a division of South African Revenue Service handle a process called an importer register where they get a relevant code to each and every importer from Soth Frican Revenue Service (SARS). This may result in delaying of clearance of goods.

There is an act called “Single Administrative Document” which is required by SARS to make the customs clearance process easy. This is eligible for all cross-border trades, importers and exporters.

There are few main conditions which should be satisfied when shipments are happening to South Africa,

1. If it is a customs purpose, they require two non-negotiable copies and one negotiable copy of the 'Bill of lading'.

2. Three copies of packing list.

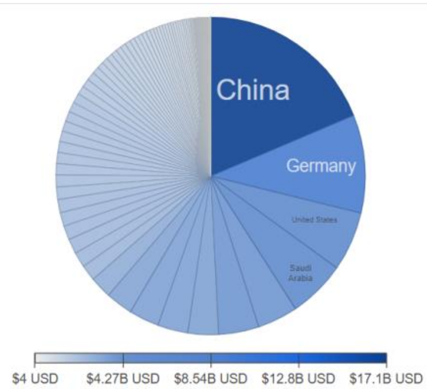
3. One copy of insurance certificate. (This is only required for sea freight)

4.Original commercial invoice

However, all of the data inserted in these documents should be completely agree with the data in other documents.

The institute which is responsible for these import inquiries is the Import Control of International trade administration commission. (ITAC)

Before the conclusion, we must notice that imports are a higher requirement for any country. But it should not exceed a certain limit where it become a disadvantage to the overall economy of the country.





**Top five manufactured imports in 2011[5]**

| Product | Value (millions of Rands) | Percentage of total |
|---|---|---|
| Motor vehicle parts | 55,864 | 9.46% |
| Motor vehicles | 51,513 | 8.73% |
| Refined petroleum products | 43,657 | 7.4% |
| Televisions and radios | 23,252 | 3.94% |
| Computers and office equipment | 18,927 | 3.21% |
| All other exports | 360,938 | 67.27% |

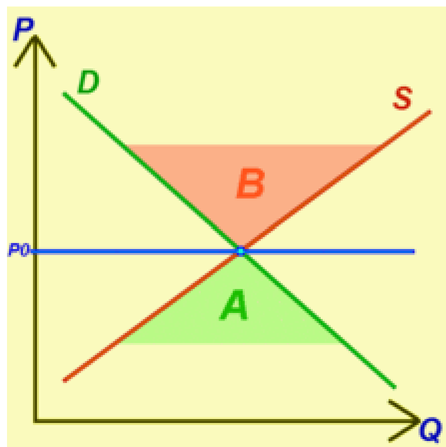
**Top five import source countries in 2011[5]**

| Country | Value (millions of Rands) | Value in US$ (millions of Dollars) |
|---|---|---|
| China | 100,186 | 14,914[6] |
| Germany | 76,165 | 11,338 |
| United States | 53,941 | 8,030 |
| Japan | 34,358 | 5,115 |
| India | 28,486 | 4,240 |

## Economical Equilibrium

Economic equilibrium is a condition in which economic forces are balanced, until the external forces react on the economic variables remain unchanged. This is also known as the market equilibrium. Commonly price and quantity are known as the economic variables, the act of these on the normal economic processes such as supply and demand drives the economy. Interest rate, aggregate consumption spending can be also considered as the economic variables. Simply it can be said that, the theoretical rest state of variables whose initial state has already occurred.

The equilibrium is considered In between the demand and the supply curve. The demand curve is a graph that shows the relationship between the price and the quantity of a certain commodity, the supply curve is the graphical representation between the price of a good and the quantity supplied.




Here D denotes the demand curve and S denotes the supply curve, the point P0 is the point where the both the demand curve and the supply curve are in equilibrium. The shaded area A shows the excess demand and the shaded area B shows the excess supply of the economic state. In A the amount of demand is higher when compared to the amount of products available and in B the enough there is so much of products available but less demand from the users

We'll be discussing about the economic equilibrium of South Africa in the following context.

South Africa's improvement in the rankings comes as a result of advancements in these areas:

- Property rights – which is up a fraction from 67.6 to 67.7;
- Judicial effectiveness increased from 59.7 to 65.9;
- Fiscal health sees an improvement of +4.6 from 70.7;
- Business freedom advanced by +3.1 points from 62.0;
- Labor freedom improved by +1.2 in 2018 from 58.9; and
- Investment freedom significantly improved by +10.0 from 40.0.

"South Africa's economic growth has decelerated because of declining global competitiveness, growing political instability, and weakened rule of law that in 2017 caused the country’s investment-grade credit rating to be downgraded to junk status, denting investor confidence,” the researchers said.

So, to maintain the equilibrium,

- The government should maintain the macro- stability
- Tacking the rising dept. of the public
- Deal with no-efficient state owned enterprises
- Spending pressure controlling
- Safeguard the vulnerable judicial system from the political influence.

## How the International trading affects the Developing Countries.

**South Africa** is a developing country which we selected to analyze for our group project. International sector plays a main role in the macro economy as it is mentioned above in the previous part of this report. When considering the international sector, we have to consider the exports as well as imports. When we consider developing countries, they should always export the goods and services to developing countries. Then they are able to get a high return on the exports they make. At the same time those countries should try to reduce the amount of imports which will affect to a out flow of cash form the country.

Developing countries always should try to minimize the amount of importing, then they should save an amount of money in their country which is flowing out of the country. They should always try to import only the things they can’t build or develop in their country.

South Africa has a mixed economy and it has a relatively high GDP compared to other countries in the African continent. Burt yet still it is a developing country and have big issues with poverty and unemployment and has big issues with income inequalities. Yet South Africa doesn’t have a big informal economy compared to other poor countries of the world. So, to over come those difficulties they should reduce the **unemployment** of the country which is a big topic when it comes to the **macro economy**. For that they must develop new industries and give jobs to the unemployed. At the moment their economy mainly depends on service industry just as Sri Lanka. But this country too has many natural resources just as our country.

| Industry | Value added (R billion, 2004 prices) |
|---|---|
| Finance, real estate and business services | 422.850 |
| Manufacturing | 296.586 |
| General government services | 271.209 |
| Wholesale and retail trade, hotels and restaurants | 246.584 |
| Taxes less subsidies on products | 215.668 |
| Transport, storage and communication | 178.591 |
| Personal services | 107.690 |
| Mining and quarrying | 97.096 |
| Construction | 59.943 |
| Agriculture, forestry and fishing | 43.382 |
| Electricity, gas and water | 33.951 |
| **GDP at market prices** | **1,973.552** |

These values are at added 2013

As a developing country we should always try to maximize the exports and minimize the imports of the country economy. Then only a developing country can reach the full development. When considering the macro economy, we should try to make the equilibrium as much as possible.

$$Y = C + I + G + NX$$

So when getting this equilibrium we should make this NX more exports and less imports and finally we can balance it by the Government expenses and by the investments we make.

When considering the exports Africa mainly exports Chromium, Magnesium, Platinum, precious metal like Gold and Diamonds etc. They import Machinery, Chemicals, etc.

They mainly import from China, Germany, India, Saudi Arabia etc. If they produce all the things they need in their country and if they can make all the things we have to make to some extent then they can reduce the amount of importing which will help to develop the country by reducing the unemployment and all other barriers of the macro economy.

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