



TRADE & INDUSTRIAL POLICY STRATEGIES

TIPS
TRACKER



Tracking trends and analysing the COVID-19 pandemic and responses

THE ECONOMY AND THE PANDEMIC

27 JULY – 9 AUGUST 2020

KEY FINDINGS

On the pandemic

- South Africa appears to have succeeded in cutting the transmission of COVID-19 sharply over the past month, although reported new cases per 100 000 are still far higher than in early June. Known active cases declined 45% from their peak in mid-July through 9 August.
- The reasons for the decline are not obvious. The critical factor has likely been the willingness of millions to wear masks and socially distance as far as possible, reinforced by government action to discourage high-risk activities in mid-July.
- Despite the improvement, six out of nine provinces still reported more than 10 new cases per 100 000 residents as of 8 August. According to recommendations by the Harvard Global Health Institute and the Safra Centre for Ethics, that means they should maintain strict limits on social and recreational gatherings. An OECD study found that if South Africa permits another peak in infections this year, it will shave 2% off the GDP forecast for 2020 and 2021.

On the economy

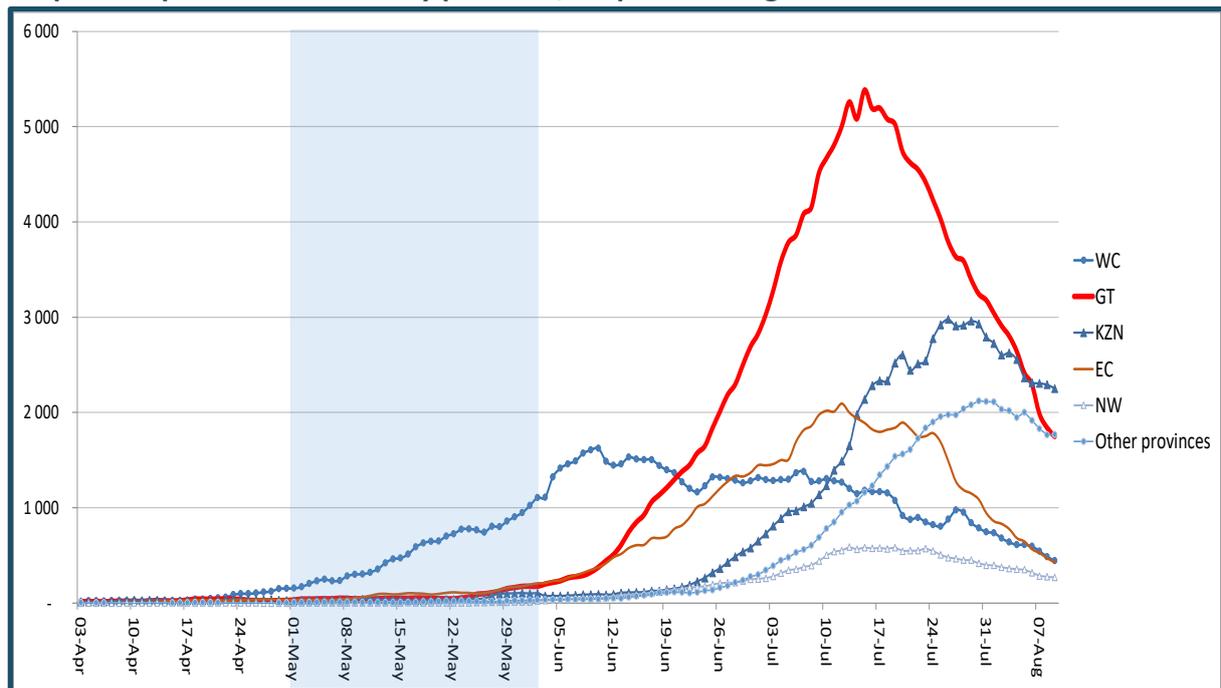
- The available data suggest that economic growth is still recovering slowly.
- The pandemic has had a particularly harsh impact on women in South Africa, as internationally. They are more likely to work in jobs that directly serve the public, where the risks of both infection and job losses are highest. They are also less likely to have paid work at all, and so benefit less from relief efforts tied to employment and income. And they face increased domestic violence during the lockdown. The increase in social grants goes only a small way to offsetting these disadvantages.
- The social and political stresses resulting from the long-running pandemic have begun to emerge in rising protests as well as the corrosive discourse on corruption in procurement. Nonetheless, proposals for recovery from economists and business organisations continue to focus on long-run demands rather than ways to cushion the immediate economic impacts of the pandemic. Opportunities include setting up systems to limit workplace outbreaks; developing a just transition for industries that cannot open safely in the short run (notably entertainment venues, tourism and liquor stores) while identifying new opportunities; expanding public employment and other programmes to relieve the devastation wrought on poor communities; and finding more progressive ways to fund state programmes.

THE TIPS TRACKER: THE ECONOMY AND THE PANDEMIC
IS PUBLISHED EVERY TWO WEEKS

TRENDS IN THE PANDEMIC

Reported new cases continued their downward trend in the past two weeks. As of 9 August, they were over 40% lower than at their peak in mid-July. The national figures obscure substantial differences in regional trends. Still, every province has seen some decline in diagnoses in the past week. The numbers are dominated by Gauteng, as reflected in Graph 1. Using seven-day rolling averages, new cases there climbed slowly to around 50 a day in mid-May; escalated to over 5 000 daily in mid-July, starting a few weeks after the move to Level 4; but then fell to under 2 000 on 9 August.

Graph 1. Reported new cases by province, 3 April to 9 August



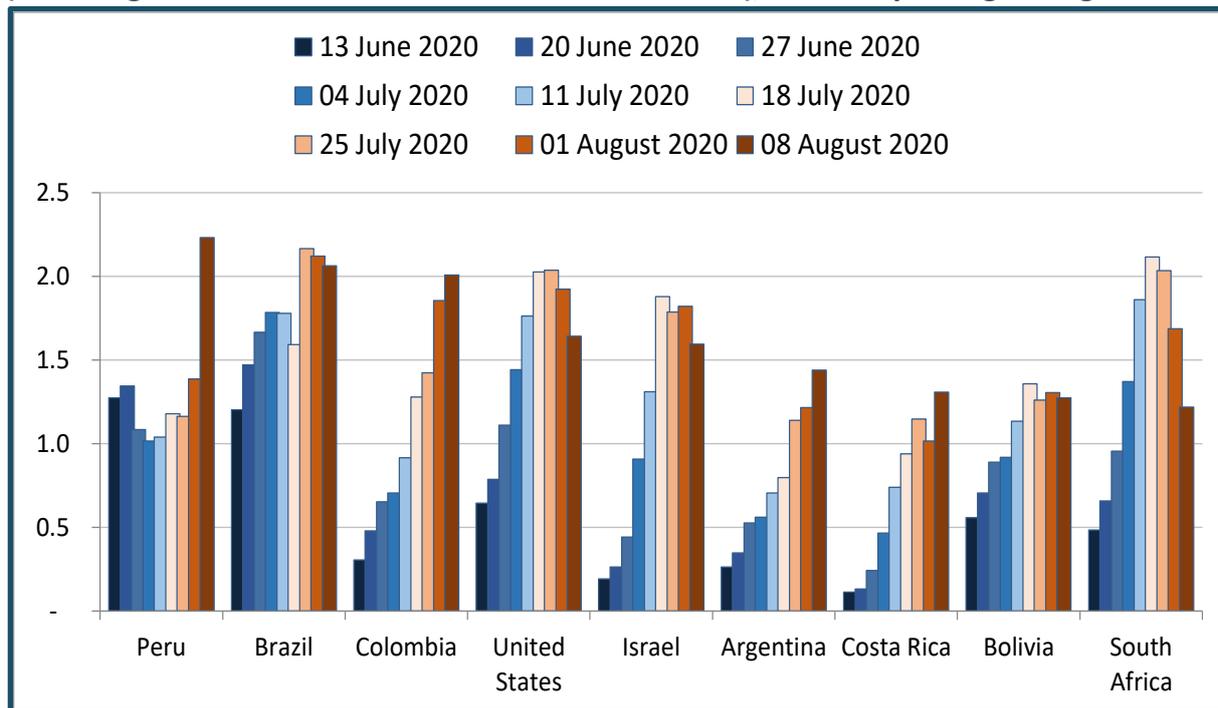
Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

The sharp fall in cases meant that the incidence per person of new cases fell fairly sharply, although it remained far higher than during the Level 5 lockdown.

As Graph 2 shows, South Africa saw a sharper rise than most other countries for much of July, but then a faster fall. Three weeks ago, it ranked fifth in the world in new cases per 100 000 people.

In the week to 8 August, in contrast, it ranked 16th. Moreover, of the nine countries with the highest levels of transmission (excluding those with under five million population), South Africa saw the steepest decline in new diagnoses per 100 000 people over the past four weeks.

Graph 2. Reported new cases per 100 000 people for countries with highest contagion levels (excluding countries with under five million inhabitants), seven-day rolling averages



Source: Calculated from COVID-19 Data Repository by the Center for Systems Science and Engineering at Johns Hopkins University, accessed at <https://github.com/CSSEGISandData/COVID-19> in August 2020.

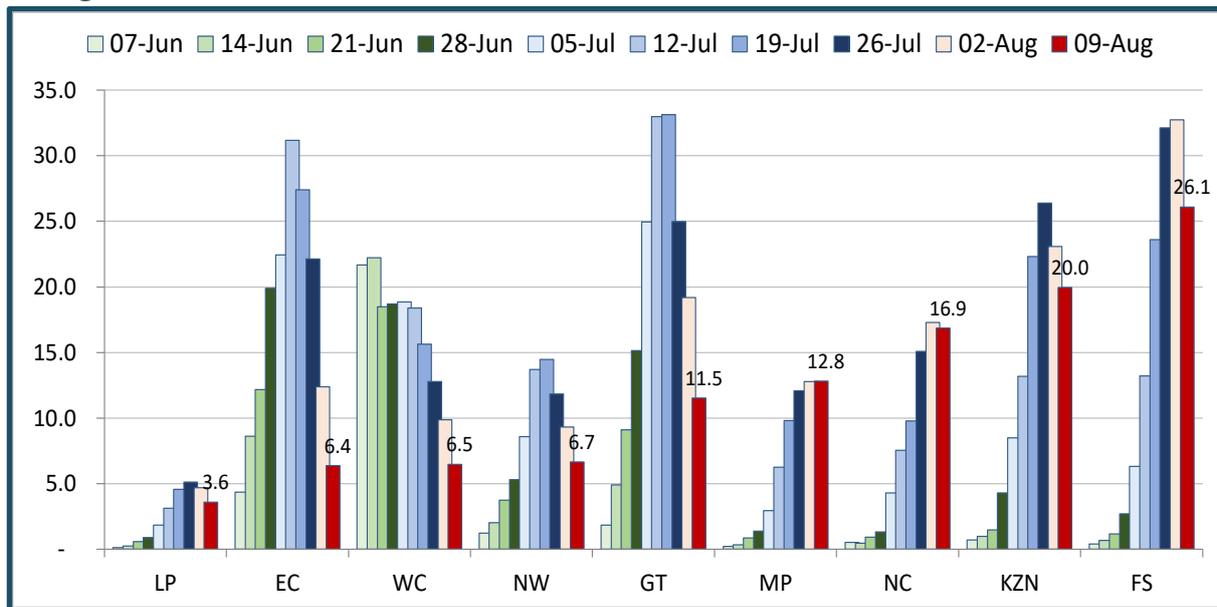
Although the number of new diagnoses dropped, the incidence remained high overall. That raised the risk that the contagion could again surge out of control.

As Graph 3 shows, on August 8 the incidence of new cases per 100 000 exceeded 10 in five provinces that hold three fifths of the population. According to a dashboard developed by the Harvard Global Health Institute and the Safra Centre for Ethics,¹ this level of new infections indicates that community spread is at “dangerous levels.” They advise that regions with 10 to 25 new cases per 100 000 residents consider “stay-at-home orders” unless they have strong testing and tracing capacity. They do not, however, define stay-at-home orders, which internationally vary from a full lockdown to permitting economic activity while requiring people to avoid gatherings for social or entertainment purposes.

The Harvard dashboard suggests that areas like the Free State, with over 25 new cases per 100 000 residents, have no alternative to stay-at-home orders because they have such a high level of community spread. It argues that areas with under 10 new cases per 100 000 should focus on behavioural changes but do not need stay-at-home requirements.

¹ Harvard Global Health Institute and Edmond J. Safra Centre for Ethics. “Key Metrics for COVID Suppression: A Framework for policy makers and the public.” July 1, 2020. Downloaded from https://globalepidemics.org/wp-content/uploads/2020/06/key_metrics_and_indicators_v4.pdf in August 2020.

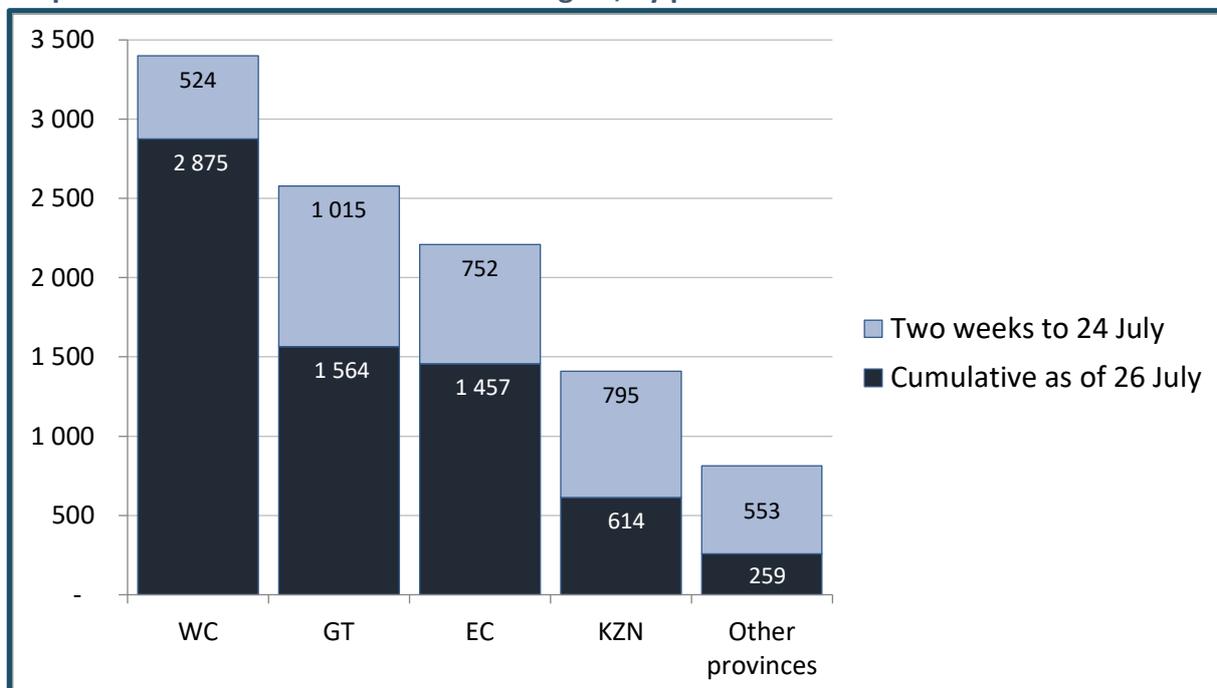
Graph 3. Number of new cases per 100 000 residents by province, seven-day rolling averages



Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

Because deaths lag new cases by around three weeks, they continued to climb rapidly. Nationally, deaths increased by over 50% in the past two weeks, reaching 10 408, and they more than doubled in KwaZulu-Natal. Still, according to the Minister of Health, a new study has found that the introduction of dexamethasone as a treatment on 16 June (following successful randomised tests in the UK) led to a 25% decline in mortality in intensive care units.

Graph 4. Deaths in the two weeks to 9 August, by province

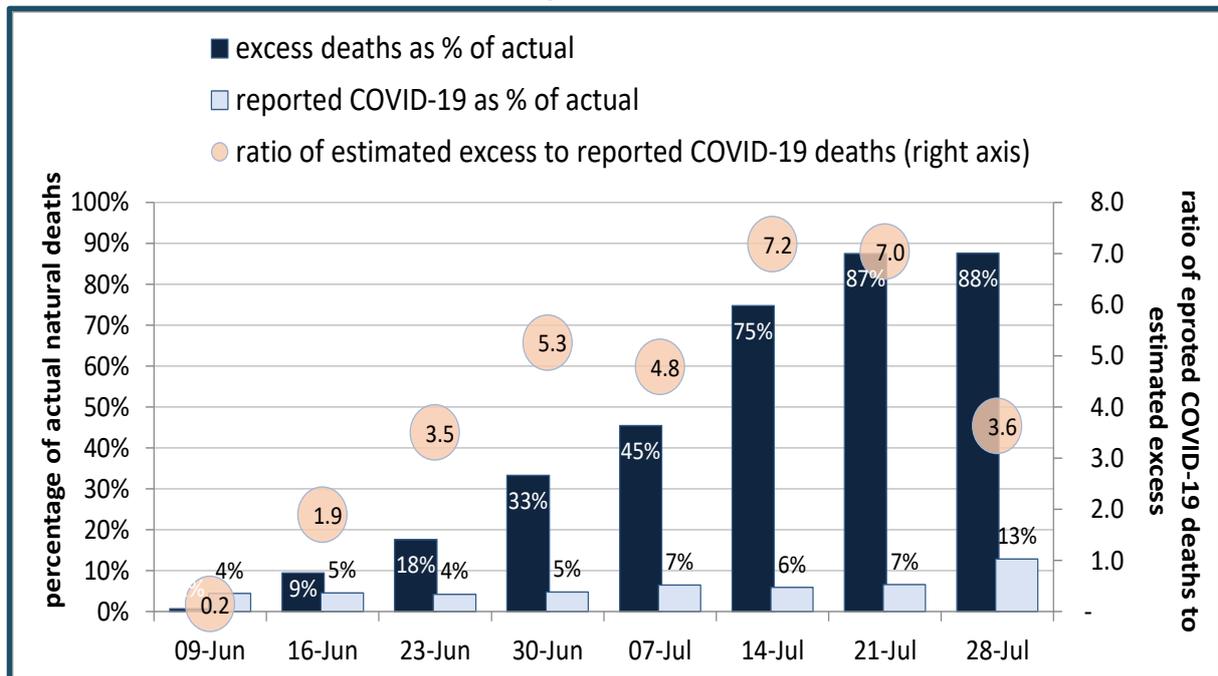


Source: Calculated from data accessed at www.sacoronavirus.co.za on relevant dates.

The South African Medical Research Council (SAMRC) report on excess deaths continues to find that actual fatalities far outstrip both anticipated numbers and the reported deaths from COVID-19. For the week to 28 July, the estimated excess death figure was twice the forecast

norm (which is based on past years but reduced to account for lower flu deaths) and four times the reported deaths from COVID-19. Not all countries have adequate death reporting to provide estimates of excess deaths, and most of those are in the high-income group. Of the countries that do estimate the figure, virtually all find that when transmission is high excess deaths significantly exceed reported COVID-19 deaths. Still, in most cases excess deaths are only twice as high as COVID-19 deaths at peak transmission. That said, most countries that provide data are higher income, which means they have better access to COVID-19 tests. The National Department of Health is trying to check the actual extent of deaths by requiring tests for COVID-19 in sudden deaths and those that occur at home.

Graph 5. Reported COVID-19 deaths and SAMRC estimates of excess deaths as percentage of historic norm, and reported COVID-19 deaths as percentage of SAMRC excess death estimates, week to date, 9 June to 28 July



Source: Calculated from SAMRC. Report on weekly deaths in South Africa. Accessed on 10 August 2020 at <https://www.samrc.ac.za/reports/report-weekly-deaths-south-africa>.

According to news reports, funeral parlours (which are disproportionately located in cities, many of which have unusually high contagion rates) have seen a significant increase in demand. Avbob said funerals climbed by 60% in July. Funeral parlour owners in Soweto and Pietermaritzburg told reporters they had seen numbers more than double in June and July.

The reason for the decline in new cases over the past month is not obvious. It does not appear to be related to changes in the number of tests or how they were allocated. The number of new tests plateaued at a daily average of just over 30 000 in the month to 9 August, while the number of positive results fell. As a result, the share of tests coming back positive dropped from an average of 29% in mid-July to 22% on 9 August. For comparison, the World Health Organization considers the contagion is under control when this positivity rate is under 5%.

If the fall in new cases does not result from changes in testing, then it must follow from behavioural changes. There is no consistent measure to track how behaviour is changing, however, or why. That said, on 13 July the government introduced new restrictions on social behaviour, and the incidence of new cases began to drop a week later.

The effect of the new restrictions may be as much about signalling as about direct effects on behaviour. The new regulations were fairly modest – a renewed ban on alcohol and a curfew – but they communicated clearly that the government saw rising risks. Internationally, a challenge in reopening the economy has been to avoid signalling, inadvertently and wrongly, that the risk of contagion had become negligible. The renewed tightening of regulations may have been sufficient to encourage stronger behavioural changes, especially around wearing masks and avoiding unnecessary contact with people. It is noteworthy that similar moderate restrictions by US states, mostly to close down bars and gyms, have also been followed by falling transmission.

Despite the apparent coincidence with falling case numbers, the high-risk industries still facing restrictions are lobbying fiercely for their removal, as discussed in more detail below. If new measures lead to a reversion to risky behaviour and, by extension, faster spread of COVID-19, however, the economic costs seem likely to far outweigh the benefits promised by lobby groups. The Organisation for Economic Co-operation and Development (OECD) estimates that a second wave of contagion will reduce economic growth by almost a full percentage point. Under its forecasts, if the contagion continues to decline, the South African economy will shrink by 7,5%. If there is a second spike, however, it will shrink by 8,2%. Even more worryingly, the OECD projects that it would cut the growth rate for 2021 from 2,5% to only 0,6%.

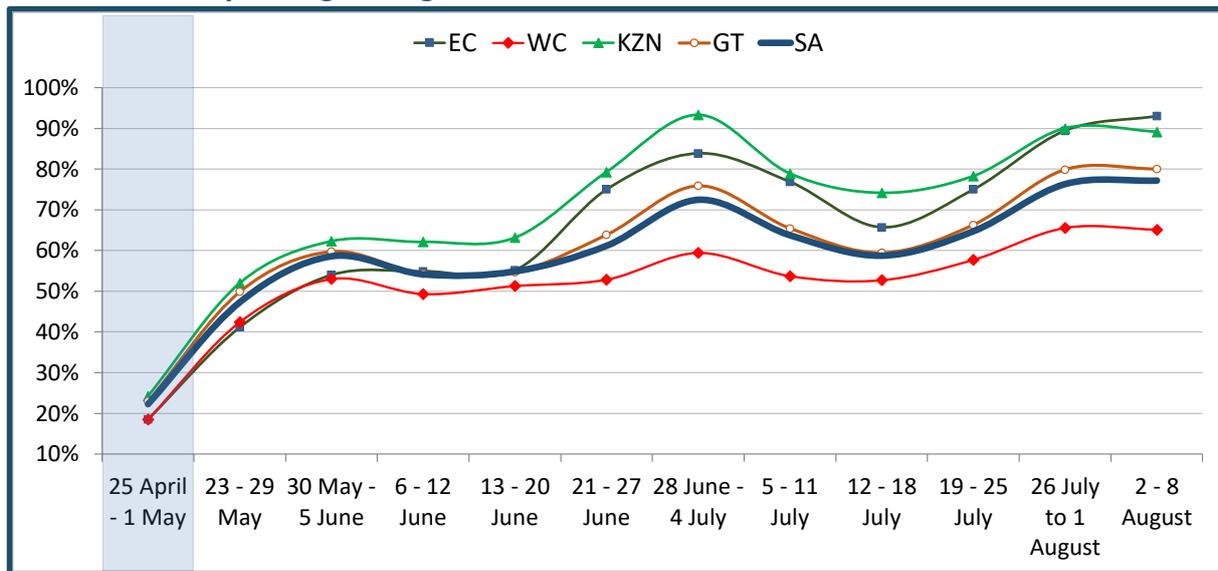
Over the past two weeks, the government has strengthened its emphasis on the need for behavioural change. There has been a visible increase in the amount of information available on how to prevent infections. A digital tracing system, COVIDConnect, has been activated, and 16 400 participants in public employment schemes were deployed as part of the Department of Health Promotion of Hygiene Strategy interventions.

TRENDS IN THE ECONOMY

The available indicators suggest that economic recovery remained slow over the past two weeks, although they are affected by the regular uptick for the end of the month, when most people are paid. By most measures, economic activity gained only a few percentage points on last month. Internationally, most studies show that high transmission levels are associated with slower growth. For the economy, the key questions now are whether transmission will continue to decline, and if that in turn will bolster its recovery despite continued global headwinds.

The Yoco small business turnover index suggest that economic activity barely improved over the end of July. By this measure, economic activity remained more than 20% lower than before the lockdown. The Western Cape remained the hardest hit, but saw greater improvement than the rest of the country over the past month. The index also recovered relatively strongly in KwaZulu-Natal.

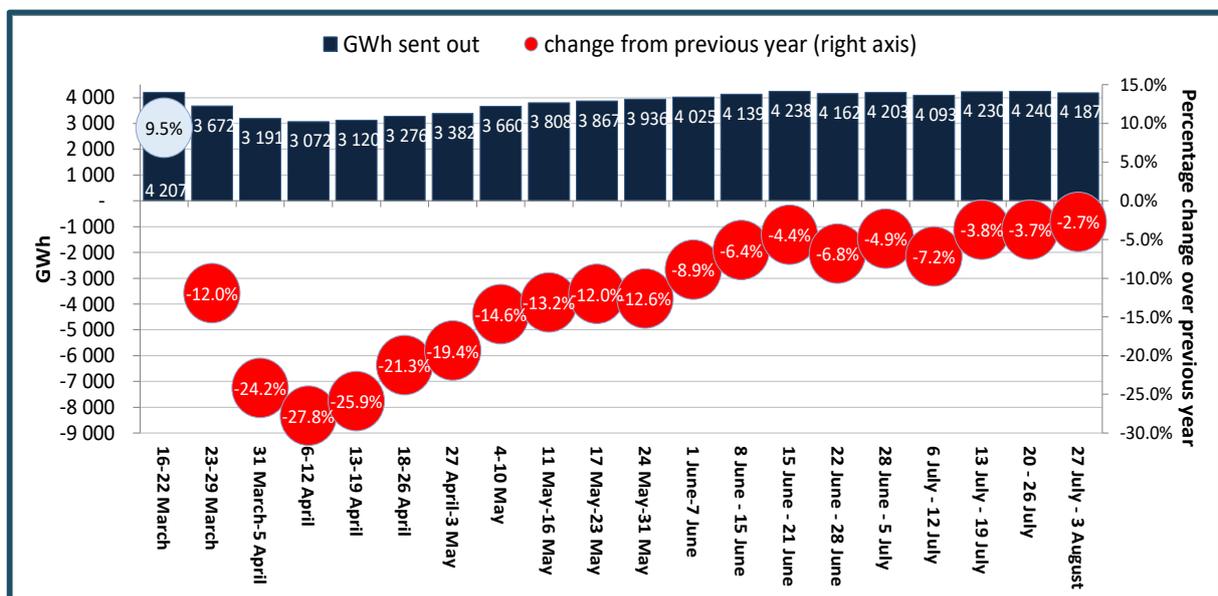
Graph 6. Small business turnover relative to the first two weeks of January, average for week to Saturday through 8 August



Source: Calculated from Yoco Small Business Recovery Monitor. Downloaded at www.yoco.co.za on relevant dates.

In late July, electricity use rose to just 2% below 2019 levels, pointing to a recovery especially in the metals value chain.

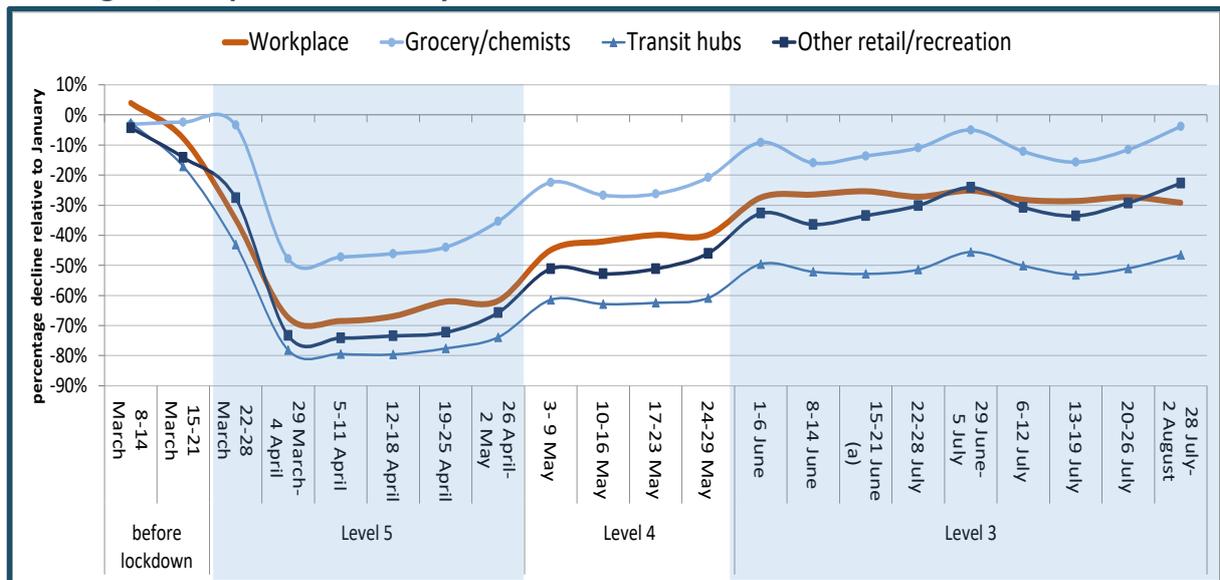
Graph 7. Electricity sent out in GWh, weekly, 24 March to 3 August, and percentage difference from the same week in 2019



Source: Calculated from Eskom System Adequacy Reports for relevant weeks. Accessed at <http://www.eskom.co.za/Whatweredoing/SupplyStatus/Pages/SupplyStatusT.aspx>

Figures for travel by type of destination suggest that consumer demand was recovering more rapidly than travel to work. Travel to workplaces has declined since mid-June, and in the last week of July was 30% below pre-lockdown figures. Public transport also showed a relatively slow recovery, with virtually no improvement over the past month. In contrast, both essential and non-essential retail and recreation showed a modest recovery, with an uptick at the end of each month as with the Yoco data.

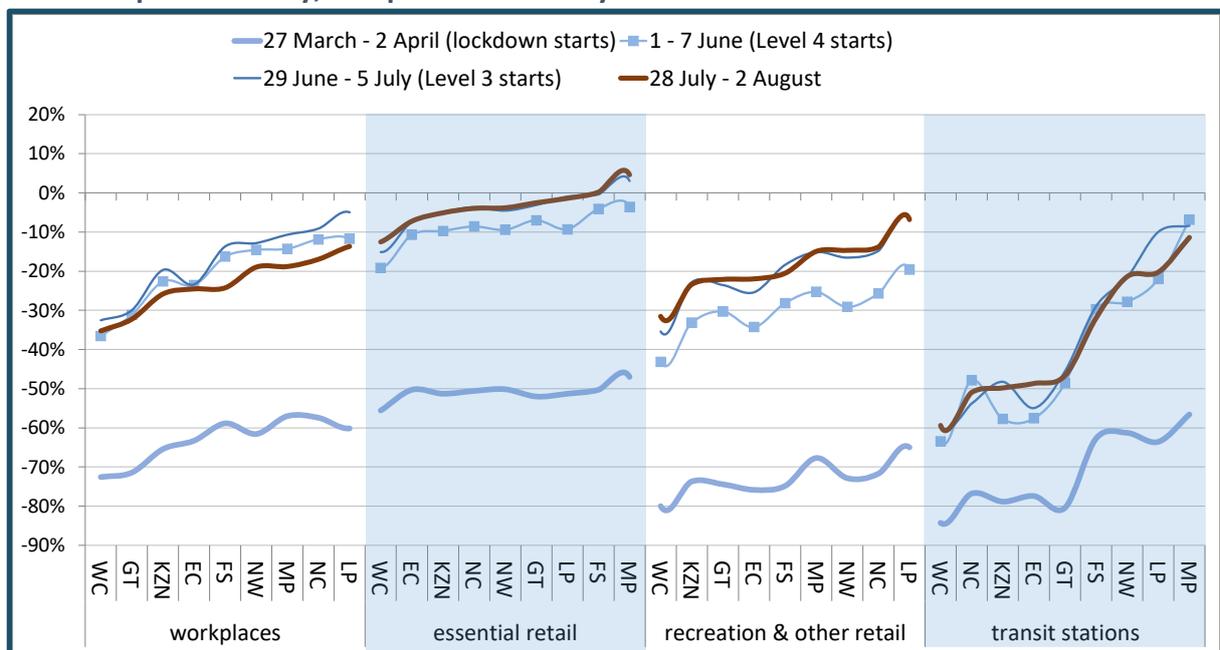
Graph 8. Percentage change in travel by type of destination, weekly average from 8 March to 3 August, compared to January 2020



Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed on 25 June 2020 at <https://www.google.com/covid19/mobility/>.

By province, the travel data also show the weakest recovery relative to pre-lockdown days in the Western Cape, with Gauteng in second-worst place for travel to work. Still, the recovery in retail and recreation in the past month was centred on the Western Cape.

Graph 9. Percentage change in travel by type of destination, by province, weekly average from 26 April to 19 July, compared to January 2020



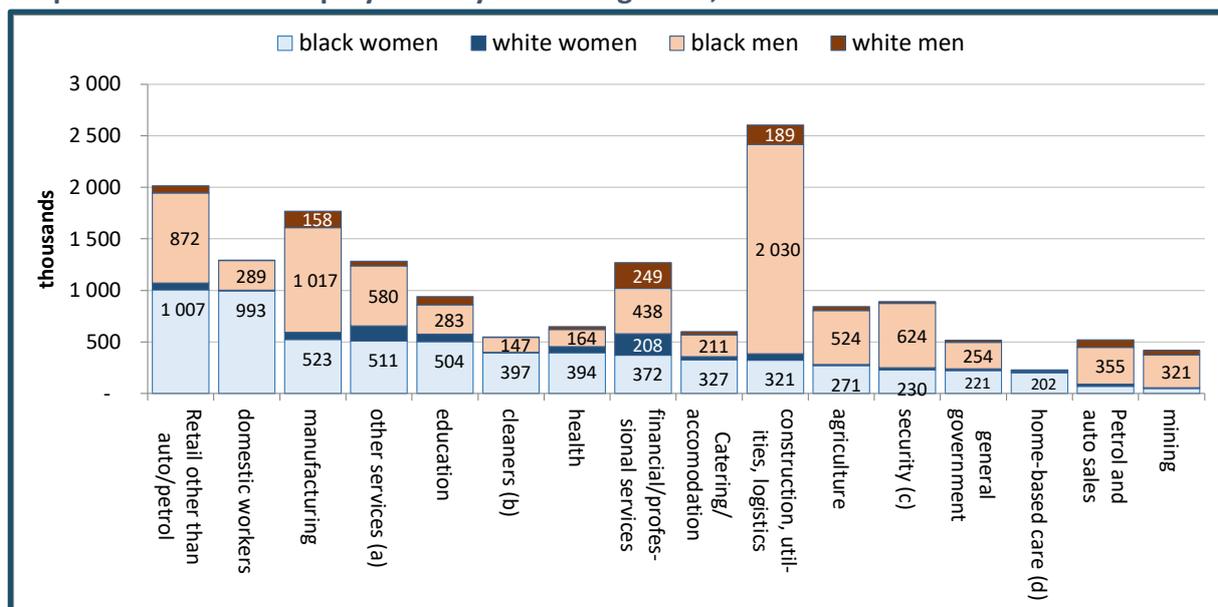
Source: Calculated from Google COVID-19 Community Mobility Reports. Accessed at <https://www.google.com/covid19/mobility/> on relevant dates.

The economic effects of the pandemic on women

The economic impacts of the pandemic weigh particularly heavily on women, and especially black women. They are more likely to have lost their jobs, be in risky occupations, and end up with childcare responsibilities. Women are far less likely to benefit from the employment-dependent COVID-19 temporary employee/employer relief scheme (TERS) programme, which pays far more than social grants. Domestic violence reportedly increased during the pandemic, and women without their own source of income find it hardest to escape.

The biggest employment and income losses from the pandemic have been in personal services, non-essential retail, and some cleaning jobs. The highest health risks for essential workers have emerged in healthcare (especially for nurses), retail and mining. As Graph 10 shows, except for mining, these occupations are all disproportionately filled by women, and particularly black women, often at lower pay than for occupations with similar education and skills levels that traditionally go to men. In effect, that means many women have lost their jobs, while the ones who have been able to remain at work have often been more likely to catch COVID-19.

Graph 10. Women’s employment by race and gender, 2018



Notes: (a) Includes managers and auxiliary workers in cleaning and security. (b) Data do not separate out commercial cleaning as an industry; figures here are for cleaners and “sweepers” in non-professional business, community and personal services. (c) Both private security guards and public security services. Data do not separate out private security as an industry; figures for private sector relate only to security guards in non-professional business services. (d) Includes childcare. Figures distinguish between domestic workers, who are presumably employed directly by a family, and childcare and home-based care workers in community and personal services. *Source:* Calculated from Statistics South Africa. Labour Market Dynamics 2018. Downloaded from Nesstar site at www.statssa.gov.za in February 2020.

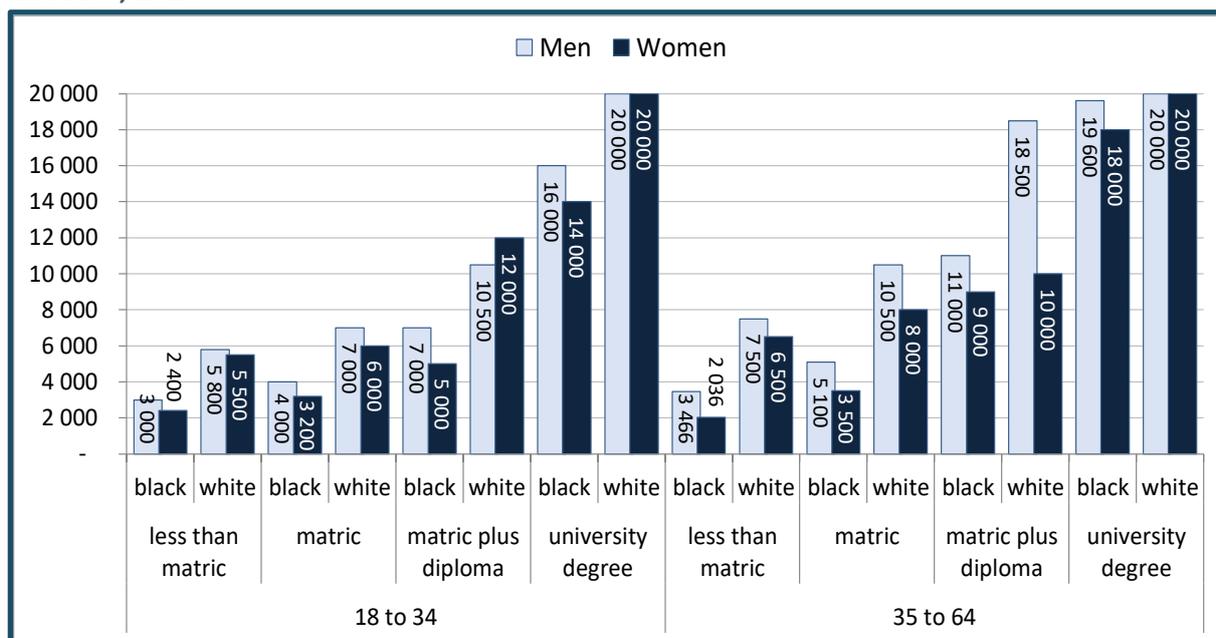
On the plus side, 8% of black women and 3% of white women were educators, so they have mostly kept their jobs, and until schools reopen face relatively limited risk of contagion. That said, a quarter of all women with paid employment work in the public sector, compared to between a seventh and a tenth of men and white women – and National Treasury plans to reduce the pay of all public servants, including healthcare workers and educators, over the next few years in real terms.

Figures for workplace transmission of COVID-19 by gender are not available. As of 2 August, 24 100 healthcare workers had been infected, with 181 fatalities. That gives a rate of over 3 500 infected per 100 000 healthcare workers in both the public and private sector, or more than three times the national average. In mining, as discussed below, there were 2 400 cases per 100 000 as of 7 August. In 2018, of the 650 000 healthcare workers, 60% were black women and 9% were white women.

As Graph 10 shows, white women were also disproportionately employed in finance and in private professional business services, especially as lawyers. That means they were more likely able to work from home during the pandemic.

Given the current government programmes, black women will receive less financial support than other groups during the pandemic. The reason is that they are far less likely to be employed for pay than other groups. In 2018, 38% of African women had paid employment (up from 26% in 2003), compared to 50% of African men, 57% of white women, and 76% of white men. When black women have paid jobs, their wages are generally substantially lower than for men or for white women, even if controlled for education and age, as the following graph shows. The gaps tend to be larger for older people with lower formal qualifications.

Graph 11. Median earnings from employment and self-employment by gender, education and race, 2018



Source: Calculated from Statistics South Africa. Labour Market Dynamics 2018. Downloaded from Nesstar site at www.statssa.gov.za in February 2020.

The main source of relief during the pandemic has been the Unemployment Insurance Fund (UIF) COVID-19 TERS programme, which by the end of July had paid over R35 billion to cushion workers against job losses. The average COVID-19 TERS payment is around R3 500 a month. But only one in seven black women is employed in the formal private sector, compared to just over a quarter of black men, a third of white women and half of white men.

In theory, domestic workers are eligible for the COVID-19 TERS programme. But they are less likely to be registered for UIF and to receive the COVID-19 TERS grant. In 2018, a million black women, or one black woman in 20, was a domestic worker, but only 35 000 domestic workers, or about 3%, received COVID-TERS relief, compared to around a third of other formal workers.

While it is not clear how many domestic workers lost their jobs and incomes during the pandemic, they were only allowed to return to work in Level 3.

In contrast to the COVID-19 TERS grant, women are more likely to benefit from social grants than men, mostly because they are more likely to be primary caregivers for children. The child support grant, however, is only R440 a month, or approximately half the Statistics South Africa poverty line for a single person. Until September, to provide relief during the pandemic, it will be increased by R500 per caregiver (not child), which raises the amount for a single child to the lower poverty line. In addition, for six months women who do not have paid work and do not receive any other social grant or UIF support are eligible for the special COVID-19 grant. It is worth only R350 a month, however, or a tenth of the average for COVID-19 TERS.

Women who have retained paid jobs have had to figure out childcare without much social support. The situation was hardest during lockdown, as childcare workers were not allowed to commute to private homes and schools were closed. In contrast to some other countries, childcare was shut down even for essential workers, who had to go to work. Schools will remain largely closed for on-site learning until the end of August.

Finally, the police have reported an increase in gender-based violence in recent months as economic and healthcare stresses have piled up. Women with little or no income of their own find it particularly difficult to escape abusive situations.

In short, the measures to cushion households and workers against the economic impacts of the pandemic have generally not done much to overcome the disadvantages faced by women, especially black women. Unless more tailored solutions are found, women will likely end up losing more from the pandemic in economic terms than men.

Company developments

Infections

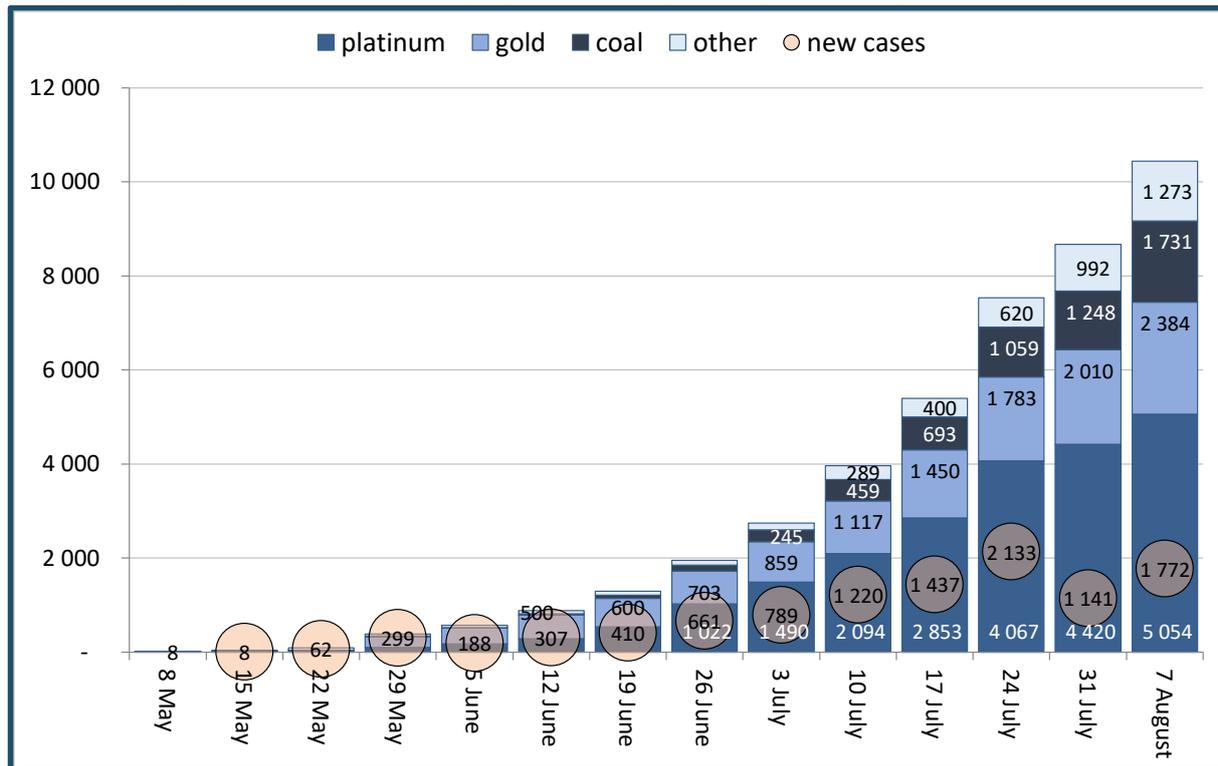
Reports on workplace infections in the private sector, outside of mining, remain sparse.

The National Union of Metalworkers (NUMSA) said that 120 workers have been infected at Volkswagen South Africa, of whom one died. On 17 July, workers walked out on the grounds that the employer was not abiding to COVID-19 safety regulations. In response, Volkswagen suspended 14 shopstewards. Over the past few months, it has publicised its efforts to introduce infection-prevention measures. Still, under the regulations, workers are allowed to stop work if they think conditions are unsafe.

The chemicals company AECI reported that 183 of its workers in South Africa tested positive as of the end of July. Three of these workers died.

Mining remains the only industry to publish consolidated figures on infections. The industry continues to report a relatively rapid increase in cases. Gold and platinum, which have the largest underground mines remain at most risk, but more cases are emerging in coal and other mining.

Graph 12. Reported cases in mining by commodity, 8 May to 24 July



Source: Minerals Council. COVID-19 Dashboard. Downloaded on relevant dates from <https://www.mineralscouncil.org.za/minerals-council-position-on-covid-19>.

As of 7 August, the mines reported over 10 000 cases, or 2 370 per 100 000 miners. That was more than twice the national incidence. They had tested 35 000 employees, or nearly 9 000 for every 100 000 employed, compared to a national average of 5 300. Nonetheless, they had a higher rate of positive cases than the national average. As of 7 August, according to their weekly dashboard, 27% of all tests conducted on the mines had returned positive, compared to 17% for the country as a whole.

The Mine Health and Safety Agency told the portfolio committee that it had conducted 1 681 safety audits for COVID-19 on the 385 mines at the end of June. It did not, however, report on its findings.

The public sector reports occasionally on infections for its main frontline services – that is, healthcare, education and policing.

As noted, as of 2 August 24 100 healthcare workers had been infected, accounting for 5% of all cases. In response to protests from the healthworkers’ unions, the Minister said he would require every hospital to set up an Occupational Health and Safety Committee, which should meet weekly, by the middle of August. Establishing this kind of committee was, however, already agreed in April. The media reported stoppages in healthcare facilities in KwaZulu-Natal, the North West and the Free State in the past 10 days because of workers’ concerns about inadequate cleaning or protective equipment.

Residential facilities are particularly high risk. At Witrand psychiatric hospital in the North West, which has space for almost 900 patients, 100 tested positive in July, as did six staff members. In correction centres, through 26 July there were almost 5 000 confirmed cases, but two thirds were corrections officers. Some 18 inmates and 37 officers had died.

In Gauteng, as of 5 August, 2 099 schools were affected by Covid-19. Some 714 learners and 1 671 educators had tested positive. On 3 August, the Minister of Basic Education told Parliament that over 10 000 recent graduates and fourth-year education students were available to substitute for educators who have COVID-19 or comorbidities that raise the risk of infection. The national department estimated that would be sufficient. A few days later, however, Gauteng said it needed to replace 6 750 teachers who had comorbidities, which was substantially higher than the national department had estimated. Substitutes are, however, only provided if departments cannot deploy their existing capacity to cover for absent teachers.

Industry and company developments

Mining

The Minerals Council now expects a 15% to 20% decline in output for the year, compared to its estimate of around 10% a few months ago. The industry now has 440 000 employees back at work. However, the Council still expects to lose jobs until 2024, mostly due to stagnant international prices combined with relatively high costs by international standards for some commodities. In this context, the diamond-mining companies reported unprecedented low sales in the second quarter of 2020.

The Council argues that South Africa mining has seen a structural decline over the past decade, and that government should provide support by improving its infrastructure and licensing rules. Arguably, however, mining is not suffering primarily from domestic shortcomings. In 2011, the international metals price boom that began in the early 2000s ended, with an abrupt fall of around 50% in the international prices of South Africa's main minerals exports.

Chemicals

Sasol was facing headwinds before the pandemic as a result of problems with its huge investment in new plants in the US. It now estimates that COVID-19 has cost it R1 billion in revenue and R500 million in profits. As a result, its dividends will be down by a third from last year.

Sasol has committed to disposing non-core assets to improve its liquidity in the face of the crisis. As part of the process, it has contracted to outsource its oxygen production capacity to another company, which promises to reduce emissions there by 30% by 2030. Overall, as noted below, Sasol plans to reduce its emissions by 10% over the coming decade. It will, however, remain one of the most emissions-intensive companies in the world, since its core coal-to-liquid-fuels process emits extraordinary levels of greenhouse gases.

South Africa's other major basic chemicals plant, AECL, says COVID-19 reduced its revenues by just 6%, but its profits are down by a third. Of its 7 600 workers, 90% are at work on site or at home, but its production has been slowed by lower demand for many products, although it has increased production of disinfectants.

Energy

On 28 July, a high court judgement required the National Energy Regulator of South Africa (Nersa) to allow Eskom to increase its tariffs by the full amount of its reported costs even though it received a subsidy from the state. The result could be an additional 10% increase in

the electricity tariff above inflation. A week later, Nersa announced that it would appeal the judgment.

The process underscores the unwieldy and often unclear nature of the price-setting processes for Eskom. In particular, the law says that Nersa should ensure it has a reasonable rate of return after taking only necessary costs into account. It does not, however, define the required rate of return or how far Nersa can go in challenging Eskom's costs. For its part, Eskom historically claimed that all of its costs are immutable at least in the medium term. In the past decade, whenever Nersa has granted Eskom an increase that does not match up to its claims, it simply ran up a loss, putting pressure on the rest of society to accept another above-inflation price hike. At the same time, technical faults in its plants, both newly built and old, have led it to repeatedly ration supply.

That said, the new Eskom CEO has admitted that its costs had increased by 30% a year for the past five years. At the end of July, the company cancelled a five-year R14-billion contract for oil and diesel that was awarded in 2019, on the grounds that it involved inflated prices.

The combination of soaring prices and unreliability have led major companies to go off grid as far as they can, as well as shifting away from electricity-intensive production processes. Electricity demand fell by 10% over the past 10 years, and the rate is likely to accelerate as government has made it easier for big plants to generate their own power. In May, Sasol issued a request for information for 600 MW, and based on the responses it expects to issue requests for proposals totalling up to 300 MW. In the past two weeks, it issued a request for proposals for two solar plants to provide 10 MW each at Secunda and Sasolburg. For its part, AMSA now says that, given low steel demand, it will delay plans to develop its own generation, but will seek to improve efficiency in electricity use. Over the past decade it already closed its electric-arc furnaces because of the rising cost of electricity.

According to news agency Bloomberg, an agreement on how to cut Eskom's debts has been reached in principle, but not signed as of Friday despite an original commitment to 3 August. Government guarantees to Eskom equal almost a tenth of the national debt. Apparently the new agreement will not mandate loans from retirement funds.

Auto

The National Association of Automobile Manufacturers of South Africa now expects a decline of almost a third in production compared to 2020. It expects South Africa to produce 435 500 vehicles, down from a record 630 000 units in 2019. Production dropped almost two thirds in the second quarter of 2020, largely due to the lockdowns in South Africa and in the auto companies' home countries (mostly Germany, Japan and the US). That means it fell twice as fast as in the worst quarter of the 2008/9 global financial crisis. In the longer run, the very low interest rates in South Africa and abroad should help boost demand, but will largely be offset by the anticipated fall in GDP and household incomes.

New vehicle sales in July climbed by over 500 units, or 1,7%, compared to June, reaching 32 400. That means they were down by 29,6% compared to July 2019; in June, they were down 30,7% on the previous year.

Tourism

The Department of Tourism published a recovery plan for the sector on 4 August, following extensive consultation with (and lobbying by) the industry. Unfortunately, it relies on forecasts for the industry that were mostly completed in May. As a result, it explicitly projects that South Africa would control the contagion like South Korea, Australia and Singapore, that cases would plateau in the US, and that Europe would not face a second wave. In practice, after May cases climbed extraordinarily steeply in South Africa; Australia and Singapore have seen substantial outbreaks; the US returned to relatively rapid spread; and many European countries have seen at least isolated outbreaks.

Based on its forecasts, the recovery plan suggests that opening up to international flights would lay the basis for a full recovery in South African tourism by 2022. It argues that “The priority for tourism is to resume operations as early as it is safe to do so”, and that “Tourism recovery depends on early, responsible resumption”. Its proposals explicitly rely on its most optimistic projections for international recovery, which would see travel from most of Europe, the US and India resuming in the second half of 2020.

This approach represents something of a triumph of hope over realism. In practice, the high levels of contagion in South Africa, the US and India – which admittedly emerged largely after the plan was drafted – make a recovery in international tourism unlikely at least for the rest of 2020. A particular challenge is that, as a long-haul destination, travel to South Africa is expensive and requires a willingness to sit in a crowded venue for many hours. That has become a significant deterrent given an economic decline in overseas markets as well as fears of the pandemic. In this context, it is noteworthy that the plan was consulted widely with local and foreign suppliers of tourism services, but apparently did not include an effort to evaluate how travellers would respond to higher levels of contagion in South Africa.

A second area of optimism relates to resourcing for the plan. It estimates that the industry will require R15,4 billion in “blended finance” to maintain capacity despite the lockdown. That equals two months’ working capital. The (anonymous) authors recognise that government funds on that scale are unlikely to be available, but hope that the state will assist in accessing other sources, including the national credit-guarantee scheme, multilateral funds, resources from global conservation non-profits, and private investment. In this context, the plan requests that government explore tax incentives and assist in pressuring insurance companies to pay out on business-interruption policies. It also implies that government should privatise public tourism assets like accommodation at the national parks as a way to mobilise investment.

As a reality check, last week the Department of Arts and Culture announced a second wave of relief for cultural workers worth R77 million. It will provide R2 200 apiece for around 12 000 beneficiaries between September and November. It will only provide support to people who did not benefit from the earlier round.

The recovery plan does not discuss the impact on profitability of measures to prevent infection in entertainment, accommodation and recreational venues. For instance, restaurants internationally find that they often cannot return to profitability as long as they have to operate at low capacity. Many cultural events have been unable to reopen at all, in large part because demand remains suppressed as potential participants fear getting infected. Last week, the events industry organised to ask for more financial support from government, since it recognised that it cannot open safely under the current circumstances.

Finally, the plan identifies the problems facing the local aviation industry, especially South African Airways (SAA), as a crucial challenge. In response, it proposes that the tourism industry partner with foreign airlines to maintain adequate flights.

The overall outlook for air travel remains bleak. The International Air Transport Association (IATA) expects that air travel in Africa will be 50% down for the year, and recover fully only in 2023. At its lowest point, in April, air travel was at 4% of January levels; in the first half of July, it had recovered to around 25%. International flights were reopened or planned to reopen only in Benin, Ethiopia, Ghana, Kenya, Rwanda, Senegal and Tanzania, which account for a fifth of the continent's flights. Internationally, half of all airlines have downsized, and the remainder have mostly avoided it only thanks to government support. More downsizing is expected in the rest of the year as a result of continued depressed demand.

In this context, SAA's financial position remains unclear. On 28 July, the business rescue practitioners said it had fulfilled all the conditions required to avoid liquidation, and put off an anticipated creditors' meeting. As of 5 August, however, the government had not announced how it would fund the rescue plan. The business rescue practitioners hope to finalise planned retrenchments for around 2 500 employees by 18 August, while another 1 000 will go into a training lay-off scheme (at reduced pay) and 1 000 will remain with the airline in hopes that it will be revived in some form.

Liquor

In the past two weeks, the liquor industry intensified lobbying to be allowed to restart sales. As noted above, however, the renewed ban in mid-July likely helped contain the spread of the contagion, although it is not clear if it worked mostly by reducing liquor consumption or by signalling that the risk of contagion was severe. Internationally, bars and restaurants have repeatedly been sites for super-spreader events for COVID-19. Given the persistence of a relatively high level of new cases and the OECD's estimates of the cost of letting the contagion get out of control again, the risk of reversing the ban now seems disproportionate to the benefits.

Still, the major players in the industry have initiated what seems to be a coordinated campaign to argue that the ban on liquor sales, including in bars, will lead to a fall in investments. They have even said they will not undertake planned maintenance and upgrades. South African Breweries said it will cut its capital expenditure by R2,5 billion for the coming year. Heineken cancelled a planned R6 billion expansion in Durban, which it said would create 400 jobs at R5 million apiece. Consol announced it would delay a R1,5 billion expansion at its factory in Nigel, which would have replaced imported containers for some major beverage producers. It also says it will halt R800 million in planned maintenance. Consol argues that alcohol accounts for 85% of glass container sales, and that 55% of liquor is consumed on site. It expects that the South African glass industry will shrink by 15% as of mid-2021.

SOCIO-ECONOMIC STRAINS

The combination of an economic decline and the risk of infection inevitably leads to rising tensions and conflict, especially given South Africa's profound economic inequalities and social divisions. In the past two weeks, these tensions have emerged in rising protests as well as anger at corruption in procurement of healthcare inputs.

A study by Lizette Lancaster and Godfrey Mulaudzi at the Institute for Strategies Studies reported a startling increase in protest action in the past few weeks. In July, they

identified 232 demonstrations, for an average of eight a day, up from six a day in June and the highest number recorded since the Institute began keeping track in 2013. For most of the past seven years, the number of protests has fluctuated around two a day. A third of the protests were in the Western Cape, although it accounts for only around a tenth of the national population. A quarter took place in Gauteng, which is in line with its population size, while KwaZulu-Natal and the Eastern Cape each saw a seventh of the total. Protesters gave a variety of reasons for taking action, with issues mainly around workplace concerns (including about failure to protect them against COVID-19), municipal services and electricity shut offs, and the need for housing.

Given growing economic need, the use of state power to protect property rights seems doomed to provoke conflict. This has emerged around both urban housing and electricity.

Cape Town saw 90 protest actions from mid-July to 5 August, largely linked to land invasions for informal settlements. Cape Town's government has noted that the pressure on land has grown because informal landlords push out renters when they can't pay, despite the legal ban on evictions during the lockdown. In effect, an asymmetry has emerged, where the state does not prevent illegal evictions of renters from informal housing, but does use its power to prevent the newly homeless people from taking over land. Moreover, the cities say they mostly tear down residences that are empty or new, even though the owners claim otherwise. They argue that the owners can lay a case if they feel the law has been broken, but of course few informal residents have the resources, time or knowhow to pursue legal remedies. Meanwhile, the Western Cape housing department has a waiting list of 600 000 and the average wait is 15 years.

Evictions happened in other metros. A report in June said that eThekweni had evicted 900 people in 18 actions during the lockdown. In early August, the spokesperson for the municipality told New Frame that the city had to control "land invaders" who were taking advantage of the crisis. As usual, the city said it was only knocking down unoccupied shacks, which residents disputed. At the end of July, 200 residents were evicted from an informal settlement near the East London airport.

While it strongly resisted land invasions, from the start of the pandemic the government said it would seek to fast-track new housing for people in informal settlements to reduce density, which makes it harder to prevent outbreaks. In practice, the process has proven very slow and reached only hundreds out of the 1,2 million households living in informal housing. In the North West, for instance, a settlement of 40 tin shacks was built at a cost of R64 000 apiece. Other provinces and municipalities plan prefab houses, but so far few have been constructed.

Again, the pandemic has brought to a head the long-standing housing problems in South Africa's urban areas. They in turn are rooted in apartheid policies that for decades prevented most Africans from building homes in urban areas, requiring many to live in impoverished and underserved labour-sending regions. The elimination of these restrictions with the creation of a unitary country from 1994 let loose the pent-up demand to move, or often to return, to the country's economic centres. In the late 1980s, around half of the population officially lived in the so-called "homeland" areas; today, the figure is about a quarter. As a result, Quantec estimates that while the population as a whole has climbed some 45% since the early 1990s, Johannesburg has seen its population grow by 125%, and Cape Town by 80%. In both cities, a fifth of the households lives in informal housing, split between self-standing and backyard shacks. The latter are mostly rentals.

Electricity has been another source of protests, especially in Gauteng. During the lockdown, Eskom adopted a policy of shutting off electricity for densely populated areas that it serves directly and that have many illegal connections – in effect, historically black townships and informal settlements. Eskom claimed that the aim was to avoid overloading its substations, but the effect was that people faced hours without electricity even if they had paid their electricity bills, in mid-winter, during a lockdown. On 6 August, protestors shut down the main roads leading out of Mamelodi in protest against the electricity shut offs. They were particularly angry because turning off the electricity makes cable theft possible, which in turn leads to more prolonged outages. Tembisa has seen repeated cut offs of electricity and protests against them. At the end of July, protests over electricity cuts reportedly sparked xenophobic attacks in Phola Park.

Again, the situation underscores the contradictory role of the state. As a state-owned company, Eskom is trying to shift the burden of ending illegal connections to communities. It could have found other solutions – for instance, investing in security guards for its stations or setting up units to track down illegal connections. Instead, it has externalised the cost onto communities that have little power to stop people from tapping into power lines, and so end up turning to protest action.

Corruption in the procurement of protective equipment for healthcare workers has also led to rising conflict. Among others:

- The Western Cape paid R32 million to a construction company that charged R2 300 for a thermometer, although the price had been benchmarked by the National Treasury at just under R1 000, and R16 per pair for gloves that the Treasury had benchmarked at R11,50.
- In Gauteng, the MEC for health stepped aside because his wife was friends with the owner of a company that reportedly got an irregular tender for protective equipment. The province is instituting action against two high-level public servants and is instituting lifestyle audits for the entire executive council. The Special Investigating Unit is investigating 90 companies that allegedly benefited from Gauteng tenders related to the pandemic.
- The KwaZulu-Natal department of social development has opened criminal cases around the corrupt procurement of R30 million worth of protective equipment and blankets. The department procured 50 000 blankets at an excessively high price. Then it distributed only 5 000, with the remainder left in a warehouse.

Large sums are involved in the COVID-19 response. As of July, the National Treasury reported that total expenditure on the effort came to R7 billion, with R3,5 billion by the provincial departments of health. Almost half of the provincial health spend was by Gauteng. Furthermore, to fast-track procurement as the pandemic hit, Treasury relaxed some reporting requirements. As the scandals began to emerge, it announced that departments would be required to return to normal practice. It will also publish the names of all suppliers and analyse procurement data across the provinces. More broadly, the national government announced that it would set up an inter-departmental committee to co-ordinate anti-corruption work, arguing that an effective effort required greater co-ordination especially within the criminal justice system.

In the event, virtually every country that has been hard hit by COVID-19 has suffered substantial inefficiencies in procurement, and in some cases outright corruption. The nature

of emergencies is that procuring the required inputs often seems more important than getting the paperwork right and quality assuring suppliers. That often opens the door to corrupt officials and businesses. In South Africa, however, public anger runs particularly deep because of the recent history of state capture.

The social, political and economic strains arising from the pandemic and the associated economic downturn point to the need for stronger measures to reduce the impacts on households, communities and working people. The discourse on recovery and reconstruction has tended to focus on rebuilding the economy when the pandemic is over. More work is needed, however, on how to moderate its impacts before then – that is, in practice, during the coming year.

In this period, economic activities will continue to be limited by the need to prevent infections. Still, opportunities to minimise the economic impact of COVID-19 even in the short run arise in four areas:

- Setting up learning systems at industry level that can continually improve measures to prevent workplace transmission;
- Identifying projects to meet new requirements to prevent infection (for instance digital platforms to provide services and entertainment, more extensive e-delivery services, and personal transport to enable people to avoid the risk of taxis), and to replace imports that have become more expensive or unavailable;
- Ensuring that unemployment support is provided promptly to people who lose their jobs and that the COVID-19 TERS programme is extended for people with comorbidities, which should help sustain household demand, while fast-tracking the establishment of community-based public employment schemes and plans to cushion workers and small businesses in industries that will recovery only slowly, such as entertainment and catering; and
- Redirecting the stock of financial savings across the economy toward more targeted and active expenditure to maintain economic growth as well as to provide relief for low-income households.

*See TIPS policy brief **Towards a reconstruction programme***

TIPS TRACKERS

TIPS Tracker: The economy and the pandemic highlights important trends in the COVID-19 pandemic in South Africa, and how they affect the economy.

TIPS FDI Tracker monitors inward foreign direct investment projects. It reports on new FDI projects, analyses these, and adds them to an ongoing list of investment projects.

TIPS Export Tracker provides updates on export trends and identifies sectors and products that are performing well and those that are lagging.

TIPS Import Tracker provides an overview of import patterns and looks at the causes of surges in imports, and their likely impact on industry.

Trade & Industrial Policy Strategies (TIPS)

info@tips.org.za | +27 12 433 9340 | www.tips.org.za