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THE DYNAMICS OF SOUTH AFRICAN INVESTMENT IN THE REST OF AFRICA

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EXECUTIVE SUMMARY

Historically South Africa has been one of the largest investors in Africa. Yet in recent years it has been facing growing competition from other investors – both from outside Africa (notably, China) and from other African countries. South African policy makers need to respond to the changing investment climate on the continent from an informed base. Yet there have been few (especially recent) studies on South Africa's investment presence or performance in other African countries. To address this gap, an extensive 'scoping analysis' was conducted to probe the investment activities of South Africa's largest publicly listed companies in other African countries. This policy brief summarises the main findings from the analysis, supported by a review of foreign direct investment (FDI) and trade data.

The bulk of South African investment going into Africa comes from the private sector, yet policy makers can still play an important facilitative role by engaging regularly with private sector stakeholders and leveraging available financial resources in mutually beneficial ways. In addition, the South African government should strengthen its regional integration efforts and project a holistic ('team SA') attitude, which also reflects an understanding of regional concerns and priorities.

POLICY RECOMMENDATIONS

1. To counter the investment competition on the African continent, South Africa needs to build on its reputation as a source of skills and capital, and as a regional distribution hub, which can be leveraged by the rest of the continent.

2. Policy makers in South Africa should use existing integration initiatives in Africa to advocate for deeper liberalisation of both goods and services, thereby giving South African firms preferential access into increasingly competitive regional markets. This will require that South African negotiators make greater concessions in liberalising South Africa's domestic market to the rest of Africa.

3. Public and private sector stakeholders in South Africa need to foster stronger relations to enhance their ability to finance investments in Africa (including cross-border infrastructure) and compete against strong players like China, while also leveraging bilateral government ties to address investor concerns.

INTRODUCTION

Historically South Africa has been one of the largest country investors in Africa, but this status is being threatened by increasing investment activity by developed and developing countries across the globe. At the same time, South African policy makers have positioned the country as a 'gateway' to Africa for investors from outside the continent and acknowledge the importance of deepening regional integration for South Africa's economic performance.

However, recent studies probing the depth and breadth of South African investment in Africa are relatively limited and outdated. This policy brief summarises the key findings from an extensive 'scoping analysis'[2] of the presence of South Africa's largest publicly-listed companies in the rest of Africa. It also summarises the main findings from a review of FDI (notwithstanding some of the drawbacks of FDI statistics)[3] and trade data over the last decade.

SOUTH AFRICA'S INVESTMENT HAS EXPANDED BEYOND SOUTHERN AFRICA

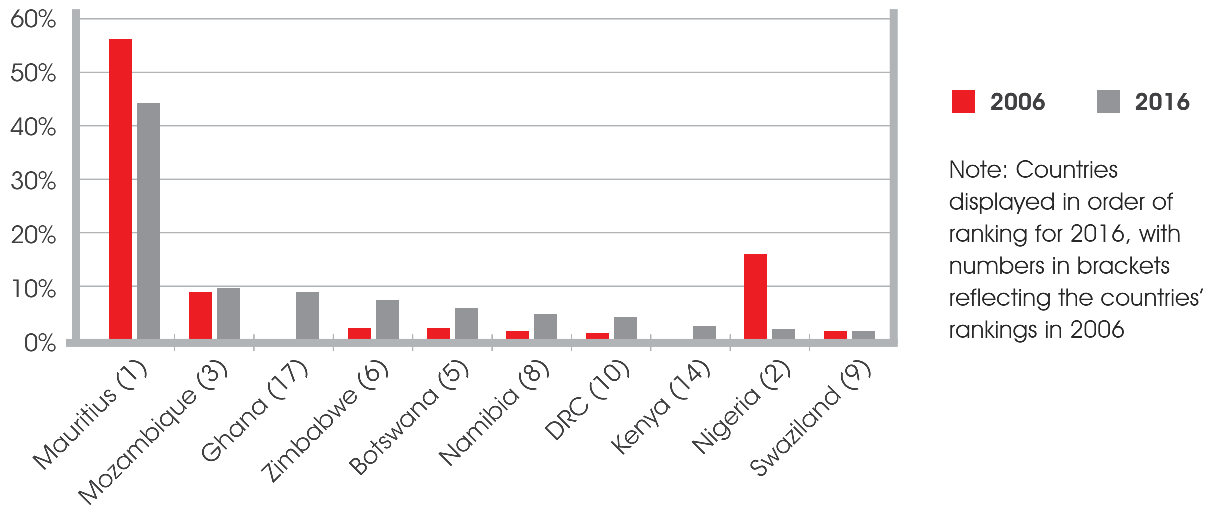
As shown in Figure 1, South African investment has traditionally been close to home, based on geographical proximity or linked to countries that have strong cultural and historical connections. More recently, however, South Africa has increased its investment in key East and West African markets.

Mauritius is a particular outlier, attracting a significant share of South Africa's outward FDI stock in Africa. This is strongly influenced by this island nation's strategic positioning as an international financial centre. With Mauritius marketing itself as an attractive investment destination (with particular drawcards being a favourable tax framework, political stability, legal certainty, a highly skilled and bilingual workforce, and limited reporting requirements for investing companies), many South African companies use Mauritius as a base to invest into the rest of Africa.

Leveraging its relative economic size and strong links to developed markets, South Africa has also set out to position itself as an investment 'gateway to Africa'.[4] Over the last decade, there has been a clear increase in South African investment beyond the Southern African region. This is reflected in Figure 2, which shows that a number of African countries beyond Southern Africa are now among the largest destinations for South African investment.

There has also been strong growth in South Africa's investment in countries such as Ghana, the Democratic

FIGURE 1 SOUTH AFRICA'S TOP 10 INVESTMENT DESTINATIONS IN AFRICA (AS A % OF TOTAL OUTWARD FDI STOCK IN AFRICA)

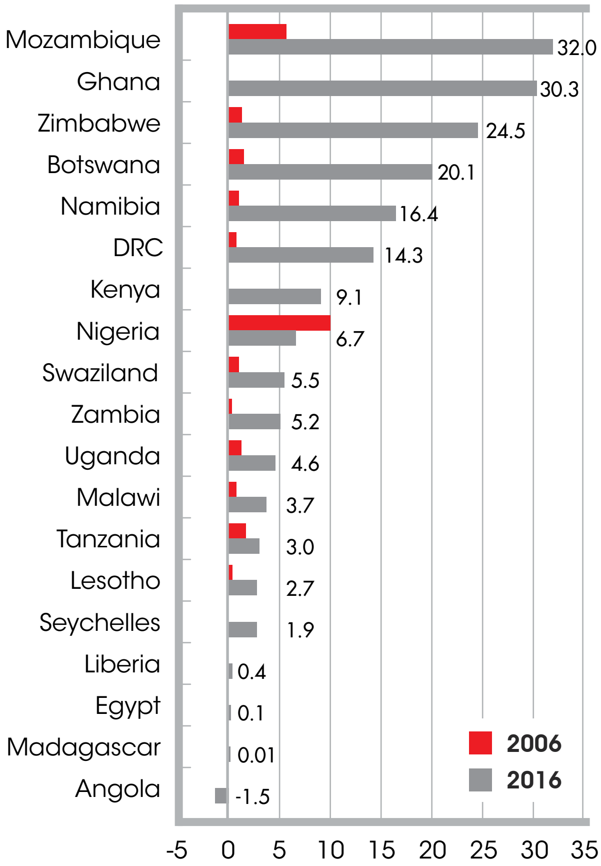


Note: Countries displayed in order of ranking for 2016, with numbers in brackets reflecting the countries' rankings in 2006

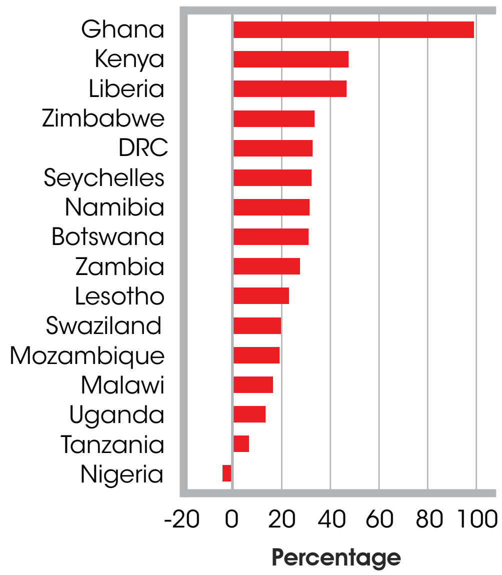
Source: DNA Economics based on data provided by the South African Reserve Bank

FIGURE 2 SOUTH AFRICA'S FDI STOCK IN AFRICA

SA'S OUTWARD FDI STOCK, 2006 & 2016 (ZAR BILLIONS)



ANNUAL GROWTH IN OUTWARD FDI STOCK, 2006–2016



Note: For illustrative purposes, Mauritius is not shown in the graphs

Source: DNA Economics based on data provided by the South African Reserve Bank

Republic of Congo (DRC), Liberia (though from a comparatively low, 2006 investment base) and Kenya.

SOUTH AFRICAN INVESTMENT IS TYPICALLY MARKET-SEEKING

South African investment into the rest of the continent is seen as overtly market- (and profit-) seeking. That is, South African investors are motivated to invest in African economies in order to diversify or expand their markets, or to improve their profit margins. This is in contrast to investment that is resource-seeking in nature, which aims to secure resources for extraction.

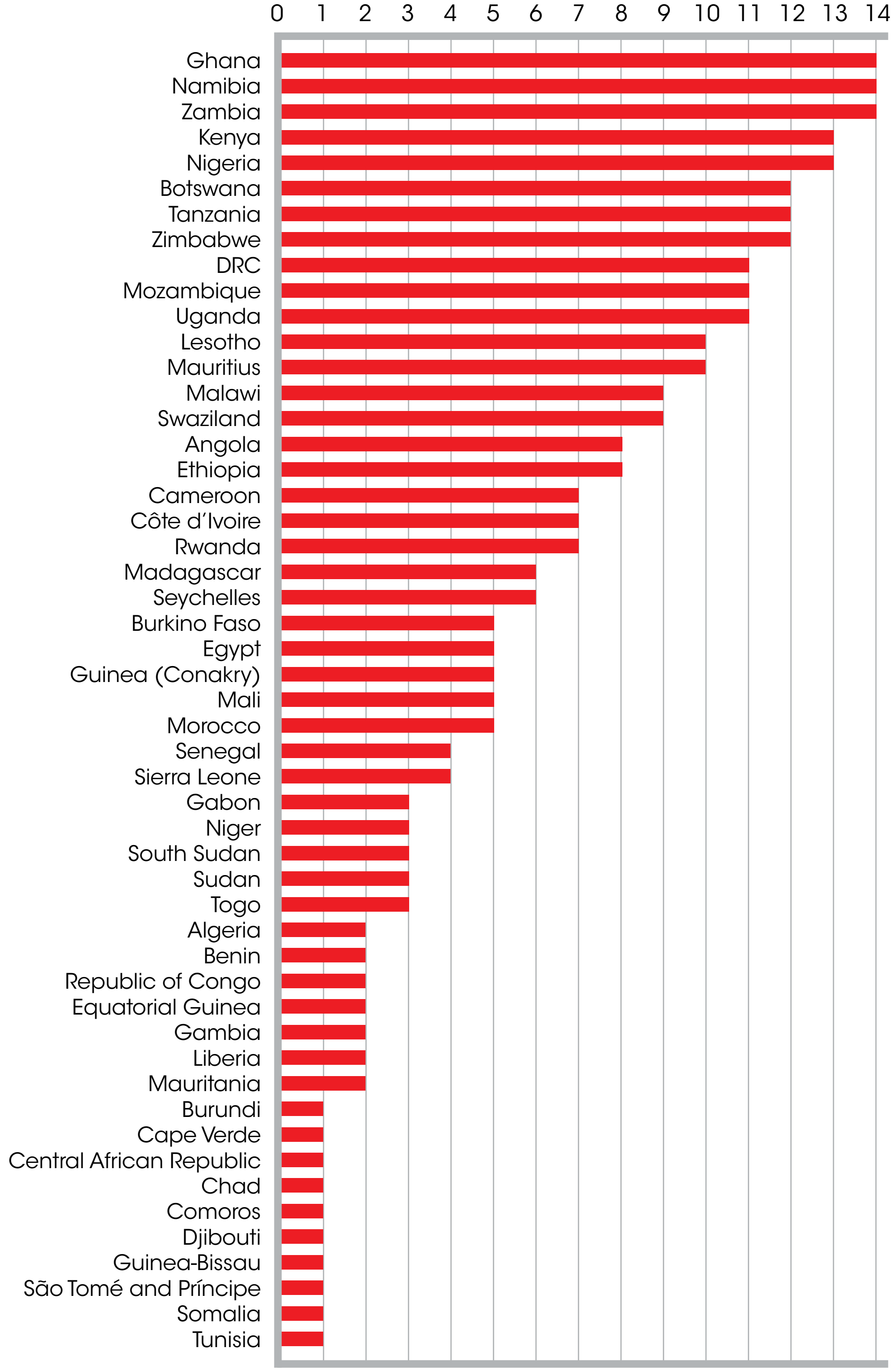
Based on an analysis of the largest firms listed on the Johannesburg Stock Exchange (JSE)[5], Figures 3 and 4 highlight the wide range of sectors in which South African firms operate. Figure 3 summarises the identified operational presence of these firms in each sector.

There are a number of countries in which there is a significant sectoral representation of South African firms. For example, the scoping exercise revealed that in Ghana, Namibia and Zambia, there are South African companies from 14 different 'supersectors'[6] operating in those countries. Overall, there are 13 countries in which there is a company presence from 10 or more different sectors.

Figure 4 indicates that the total number of identified investments[7] by the largest companies listed on the JSE is dominated by the telecommunications and chemical sectors, which have invested in over 24 and 23 African countries respectively. Furthermore, producers of industrial goods and services, banks and retailers have invested in over 15 different countries across Africa. It is clear that service-oriented (and secondary/manufacturing) sectors, rather than resource-based sectors, have attracted South African investment to the rest of the continent.

South African FDI into Africa has also been driven primarily by the private sector. This is highlighted in Figure 5, which shows that South African public corporations' FDI stock into Africa accounted for only 7% (ZAR 4.1 billion) of South Africa's total African FDI stock in 2006. This share fell to 1% in 2016, or just under ZAR 5 billion in total, as investment into the rest of Africa by the private sector outpaced that by public corporations.[8]

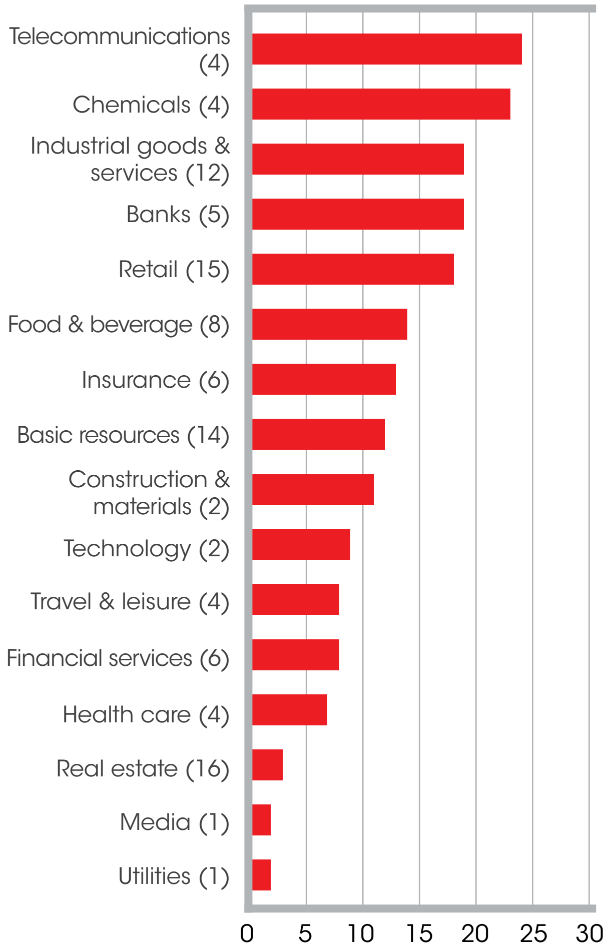
FIGURE 3 NUMBER OF SUPERSECTORS REPRESENTED IN EACH COUNTRY, BASED ON OPERATIONAL PRESENCE, 2017–18



Note: In total, 16 Industry Classification Benchmark supersectors are included in the analysis. The analysis excludes the utility sectors, where no presence in other African countries was identified for the single firm included in the analysis. The analysis also excludes countries in which there is no sectoral representation.

Source: DNA Economics based on company annual financial and integrated reports, websites and other public information

FIGURE 4 NUMBER OF AFRICAN COUNTRIES WITH COMPANY INVESTMENT PRESENCE, BY SUPERSECTOR, 2017–18



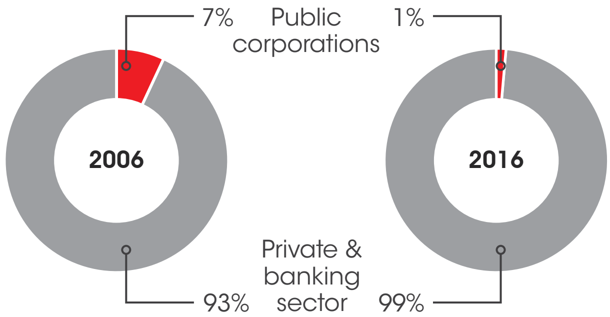
Note: Investment presence reflects the number of joint ventures, subsidiaries and associate companies identified for each company.

Numbers in brackets reflect the number of companies represented in each sector

Source: DNA Economics based on company annual financial and integrated reports, websites and other public information

The slowing of investment by public corporations in the rest of Africa over this period (compared with that of the private sector) may be attributed to dwindling financing and investment resources. This, in turn, may be due to governance and profitability challenges which many of South Africa's public corporations have been facing.

FIGURE 5 SOUTH AFRICA'S FDI STOCK INTO AFRICA BY TYPE OF ORGANISATION



Source: DNA Economics based on data provided by the South African Reserve Bank

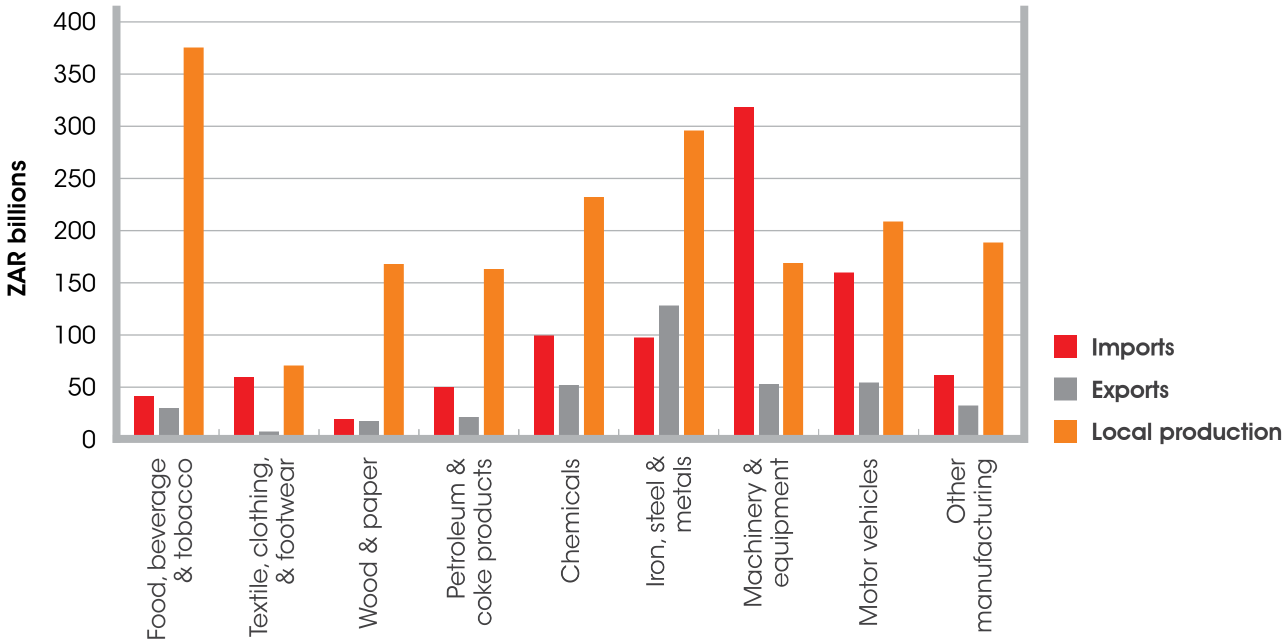
It may also be attributed to strategic (or government-mandated) shifts in focus towards the South African market.

In line with the market-seeking nature of South African investment, South Africa acts as a regional distribution hub for goods imported from across the globe. This is due to the country's relatively well-developed logistics infrastructure and the land-locked nature of many Southern and Central African countries. South Africa's role in this regard is illustrated in Figure 6 and Figure 7.

As is evident in Figure 6, in 2014 South Africa was (in a global context) a net importer of manufactured goods, with the exception of iron, steel and metal products. In addition, for certain manufacturing sectors, such as the textiles, clothing and footwear and motor vehicle sectors, the value of imports was comparable to that of domestic production. For the machinery and equipment sector, however, the value of imports was roughly double that of local production, and almost six times the value of exports in 2014.

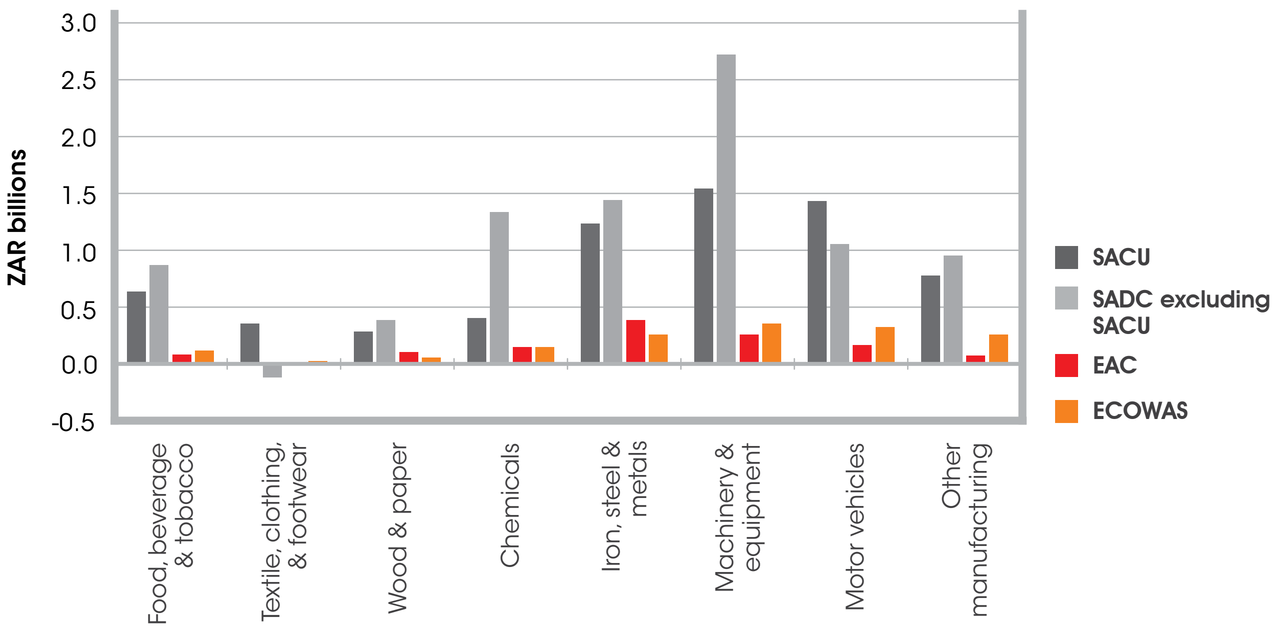
Despite South Africa being a net importer of manufactured goods (in a global context), it is a net exporter of manufactured goods to the different economic regions in the rest of Africa, as shown in Figure 7. While this may to some extent reflect South Africa's comparative advantage relative to other African economies (or its focus on exporting niche manufactured goods to these regions[9]), it also highlights South Africa's role as a hub

FIGURE 6 SOUTH AFRICA'S MANUFACTURING PRODUCTION AND TRADE, 2014



Source: DNA Economics based on data from Statistics South Africa, http://www.statssa.gov.za/?page_id=1854&PPN=Report-04-04-02, accessed 20 August 2018

FIGURE 7 SOUTH AFRICA'S MANUFACTURED NET EXPORTS TO REGIONS IN THE REST OF AFRICA, 2014



Source: DNA Economics based on data from the International Trade Centre's Trade Map database, https://www.trademap.org/Index.aspx, last accessed 20 August 2018 for assembly and redistribution of goods from the rest of the world to the rest of Africa.

An outcome of the predominantly market-seeking nature of South African investment in the continent has been the positive contribution of investing firms to African economies. This includes employment creation, generation of taxes, supply chain development, and technology and skills spill-overs.

However, from a broader sustainable development perspective, it is difficult to judge the performance of South African firms. This may partly be due to the generally poor reporting by firms on their sustainability and corporate social responsibility (CSR) activities outside of South Africa. Furthermore, a number of studies have suggested that South African investors do not implement CSR programmes with the same long-term vision as in their home country. Instead, such activities are short term, limited to charity, and are often intended to build the company's brand rather than have a significant influence on the economies of the countries concerned.[10]

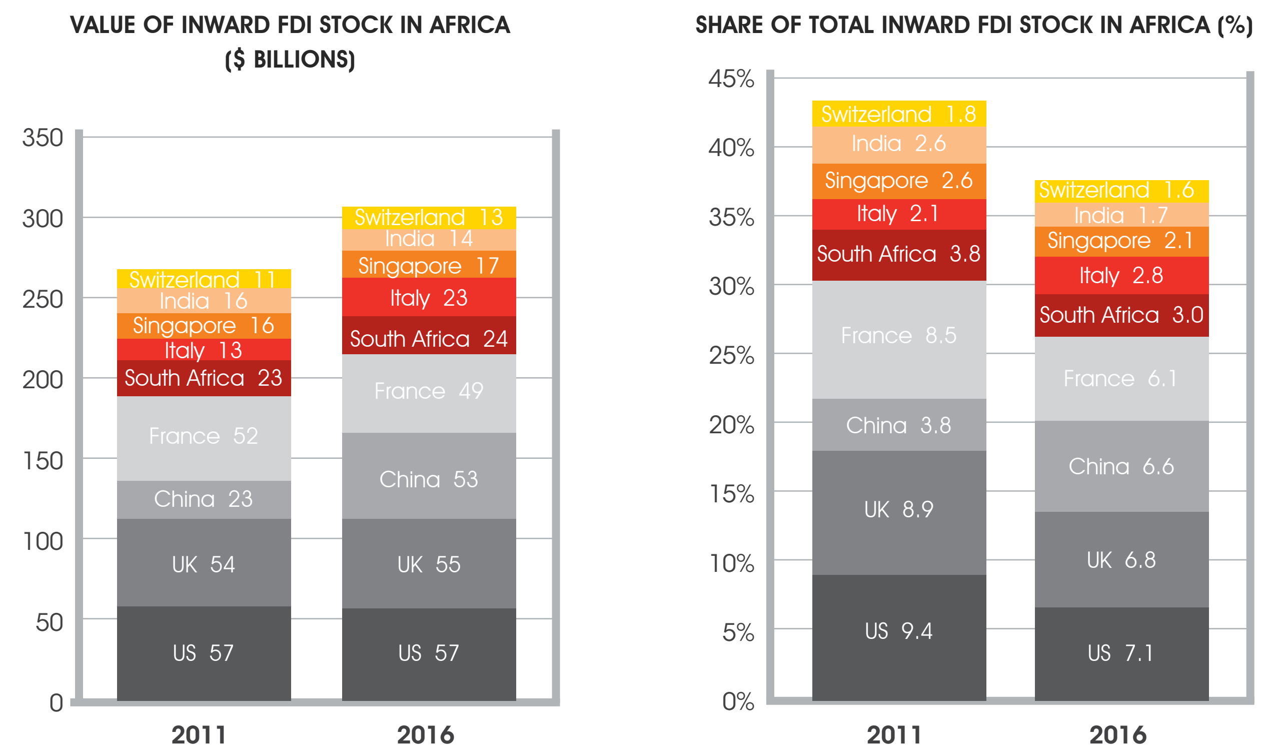
INCREASING INVESTMENT COMPETITION WILL ERODE SOUTH AFRICA'S INFLUENCE

Figure 8 offers a snapshot of the major investors in Africa, based on FDI stock. They are primarily developed countries, largely due to historical FDI inflows into the continent. The US remains the largest investor in Africa by FDI stock, followed by the UK.

However, Figure 8 highlights three further issues. First, in 2016, South Africa was the fifth largest investor in Africa, accounting for 3% of investment into the continent, measured by FDI stock.

Second, South Africa's share of investment into Africa (along with that of a number of other major investors in the continent) fell significantly between 2011 and 2016. This is partly due to the significant rise in investment by China. In the space of five years, China more than doubled its FDI stock in Africa, from $ 23 billion in 2011 to $ 53 billion in 2016, while (in dollar terms) South Africa's FDI stock in Africa grew by only $ 1 billion in that period.

FIGURE 8 MAJOR INVESTORS IN AFRICA BY FDI STOCK, 2011 AND 2016



Source: DNA Economics based on data from UNCTAD's World Investment Report 2018

Third, despite China's strong investment performance in the continent, in 2016 the combined share of FDI stock in Africa held by the nine largest investors was smaller than the combined share in 2011. This suggests that there is increasing investment competition from beyond the traditional country investors as well as from other African countries. An example of this is the increasing investment by North African countries, with Morocco identified as the largest intra-African investor in greenfield projects in 2015–16.[11]

Beyond Africa, countries such as Japan have also increased their investment in Africa, partly in response to China's investment surge. During the period 2008–2012, Japan's cumulative investment into Africa stood at just $ 9 billion. Since then, the country has pledged to contribute a further $ 32 billion in both direct investment and donor aid, $ 10 billion of which will be used to develop infrastructure to advance energy generation, agriculture and transport capacity within Africa.[12]

Increasing investment competition is also likely to affect the trade dynamics between South Africa and the rest of the continent – particularly where other foreign investors into Africa implement stricter procurement policies that direct trade towards specific regions and away from South Africa. Heightened investment competition may even weaken South Africa's traditional role as a source of manufactured goods and as a regional distribution hub for the rest of the continent. Where investment and financing are directed at the overhaul and expansion of transport infrastructure, the logistics costs of sourcing goods and services from other regions will fall. This with further impact South Africa's role in regional supply chains.

HOW SOUTH AFRICAN POLICY MAKERS CAN INFLUENCE THE INVESTMENT DYNAMIC

Options available to policy makers to directly influence investment from South Africa into the rest of the continent may be limited given that much of the investment is undertaken by the private sector. This differs from other investor countries (such as China) where historically much of the direct investment into Africa has been undertaken by public sector and state-owned entities, with explicit (or implicit) investment mandates determined by the government. However, there are a number of areas in which South African policy makers can play a supportive and facilitative role.

First, they can improve consultations with the private sector on both trade and investment issues. This will help policy makers to better understand the challenges firms face when investing in the rest of Africa. Better dialogue between the South African private and public sectors can help to ensure that technical and political engagements between South African and other African governments address issues of concern to South African businesses. Furthermore, creating better platforms for discussions between policy makers and the private sector can enhance mutual engagement on various trade and investment integration initiatives. These include the ongoing negotiations on services liberalisation within SADC and the more recent negotiations on the African Continental Free Trade Area .

Second, some stakeholders have suggested that South African policy makers can better facilitate investment through regular bilateral engagement between South African and partner governments. In this way, the South African government can ensure that a 'team South Africa' approach is adopted, and that the concerns and views of South African firms are heard and, where appropriate, addressed. Alongside this, South African firms can demonstrate a stronger commitment to contributing to the African economies in which they operate. This can be done by undertaking a more holistic, dedicated approach to CSR activities and actively supporting initiatives like the UN Global Compact.

Third, recognising that it may not be able to compete with the scale of investment from other regions, South Africa could leverage existing private sector (and pension) funds by using its development finance institutions to bring infrastructure (and other) projects to an investment-ready stage. This would require much closer collaboration between private and concessional financiers.

Finally, South Africa should aim for a more expansive approach to regional integration. Deeper regional integration in goods, services and investment would be to South Africa's benefit as it would give South African firms preferential access into increasingly competitive markets. However, in order to achieve this, South African policy makers may need to agree to greater liberalisation of its own market within the context of various regional integration initiatives.

ENDNOTES

1. Yash Ramkolowan, Stephanie Craig and Samantha Munro are Economists at DNA Economics. Their respective research interests are trade and industrial policy; environmental economics; and governance, economic development and public policy.
2. This analysis adopts a similar approach to an early earlier study commissioned by the National Economic Development and Labour Council (NEDLAC) in 2012. Using company annual reports, integrated reports and website information, the scoping analysis aimed to identify where South Africa's largest publicly -listed companies have a presence in Africa. The analysis covers 2017 and 2018 information for these companies. See Berkowitz B, *et al*., 'The role of South African business in Africa: South African outward investment', NEDLAC Fund for Research into Industrial Development, Growth and Equity (FRIDGE), 2012.
3. FDI as an indicator aims to capture cross-border investment that is long term in nature and where the investor acquires a level of influence in the investment. In this way FDI differs from portfolio investment, which is often short term in nature and fluctuates widely. Despite its extensive use, FDI is not without issues. First, while there is a guiding definition provided by the IMF and OECD (see https://www.oecd.org/corporate/mne/fdibenchmarkdefinition.htm and https://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm), country definitions of FDI may vary. Second, FDI statistics may be 'lumpy' in nature, especially for smaller economies, where a single large investment can significantly influence the reported statistics. Finally, in some cases the FDI stock is re-measured at market value. In these cases, while the initial level of investment might not have changed (or little repatriation of profits or investment has occurred), the level of measured FDI stock may have changed due to changes in its market valuation. Nevertheless, FDI data remains the most widely (publicly) available indicator of cross-border investment.
4. Games D, 'South Africa's Economic Engagement in Sub-Saharan Africa. Drivers, Constraints and Future Prospects'. Research Paper. London: Chatham House, 2017.
5. 104 of the JSE's largest (by market capitalisation as of March 2018) South African-domiciled companies were included in the analysis.
6. The JSE uses the FTSE's Industry Classification Benchmark. The classification system breaks down 10 aggregate industries into supersectors, sectors and subsectors. The analysis in this report is undertaken at the supersector level, unless otherwise specified.
7. This refers to the number of joint ventures, subsidiaries and associate companies identified for each JSE-listed company included in the analysis.
8. The South African Reserve Bank defines public corporations in this context as 'organisations controlled by the South African Government by way of shareholding, voting rights, special legislation or the appointment of the majority of the members on the board of directors'. Examples of public corporations noted by the South African Reserve Bank include Eskom, Telkom SA Limited, the South African Post Office Limited and Transnet Limited.
9. Some companies, for example, have highlighted the shift to higher value-added/higher-quality products given an inability to compete with Asian manufacturers on a pure cost/price basis.
10. See, for example, Sanchez, D. 'From South Africa With Love – Exporting Corporate Social Investment,' *HSRC Review*, 9, 2, 2011, http://www.ngopulse.org/article/south-africa-love-exporting-corporate-social-investment
11. See African Development Bank, 2017, African Economic Outlook 2017, http://dx.doi.org/10.1787/aeo-2017-en.
12. Jennings, R. 'Japan Slowly Challenges China's Dominance As An Investor In Africa,' Forbes, 2018, https://www.forbes.com/sites/ralphjennings/2018/03/25/japan-slowly-challenges-chinas-dominance-as-an-investor-in-africa/#5d54ba1b3435.

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