

THE DYNAMICS OF SOUTH AFRICAN INVESTMENT IN THE REST OF AFRICA

Yash Ramkolowan, Stephanie Craig & Samantha Munro



ABOUT GEGAFRICA

The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

The programme is expected to help create an international system of global economic governance that works better for the poor in Africa through:

- undertaking substantial research into critical policy areas and helping South African policymakers to prepare policy papers for the South African government to present at global economic governance platforms;
- ensuring that African views are considered, knowledge is shared and a shared perspective is developed through systematic engagement with African governments, regional organisations, think tanks, academic institutions, business organisations and civil society forums; and
- disseminating and communicating research and policy briefs to a wider audience via mass media and digital channels in order to create an informed and active policy community on the continent.

The programme will be focused on three thematic areas: development finance for infrastructure; trade and regional integration; and tax and transparency.

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Cover image: Shoppers stand outside the main entrance of the new South African retail giant Shoprite outlet in Kano, northern Nigeria, on March 20, 2014 © AMINU ABUBAKAR/AFP/Getty Images



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EXECUTIVE SUMMARY

Given South Africa's dominant economic role in the Southern African, and broader African, regions, it is important to understand the dynamics of investment from this country into the rest of Africa. This discussion paper aims to contribute to this understanding by reviewing the data on South African foreign direct investment (FDI) over the last decade. This is complemented by an extensive scoping analysis of the investment activities of South Africa's largest listed companies in the rest of Africa and a review of South Africa's trade with the rest of the continent.

The analysis highlights that while South Africa remains one of the largest investors on the continent (measured in terms of FDI stock), its rate of investment is slipping behind that of other investors. In particular, Chinese investment into Africa (measured in terms of FDI stock) has grown significantly and more than doubled in the five-year period between 2011 and 2016. Other countries in Africa have also increased their level of cross-border investment, with particularly strong investment activity recorded by some North African countries.

The analysis of South African firms' presence in the rest of Africa demonstrates that, while there is a concentration of operational and investment presence in Southern Africa, the reach of South African companies in Africa is extensive – both in terms of geographic and sectoral presence (particularly services-oriented sectors).

Furthermore, South African trade data with the rest of Africa reveals that while South Africa appears to mainly export manufactured goods (and largely import primary commodities), this may disguise South Africa's important role as a regional distribution hub for goods imported from the rest of the world. This, together with South Africa's traditionally market-seeking investment approach, highlights the importance of services sectors in South Africa's trade and investment dynamics with the rest of Africa.

However, increasing investment competition is likely to significantly impact this dynamic, eroding South Africa's influence as other foreign investors shift trade and value (and procurement) chains toward their own (and other) economies. To counter this, South Africa needs to build on its historical role as a source of skills and capital for the region, by ensuring deeper liberalisation of trade in goods and services in the continent. To achieve this, however, South African trade policy negotiators will need to show a strong willingness, in the various regional negotiating forums, to reciprocate and open South Africa's economy to the rest of Africa.

Furthermore, as South African investors (both private and public) cannot compete with the scale of financing available in other regions and countries for investment, a holistic approach to facilitating South African cross-border investment is required. To this end policy makers need to engage more effectively with the private sector, ensure that South African development finance is better used to leverage private financing for strategic projects in the rest of Africa, and undertake regular bilateral engagement (on investment-related issues) between South Africa and partner states.

South African companies can also better demonstrate their broader contribution to sustainable development in various regions in Africa by undertaking more deliberate corporate social responsibility activities, providing more effective reporting on these initiatives and participating in initiatives such as the UN Global Compact. It is in these ways that a stronger 'team SA' approach to investment in the rest of the continent can be fostered.

AUTHORS

Yash Ramkolowan is an Economist with experience in trade and industrial policy. As a manager at DNA Trade Practice he has been involved in a number of DNA's research and training activities – including CGE modelling work for different trade policy options; consultations and case studies across Southern Africa.

Stephanie Craig is an Economist at DNA Economics. Her research interests are governance, economic development and public policy. She graduated from the University of Cape Town (UCT) with a Business Science degree, specialising in Economics and Law. She completed her Masters in Economic Development at UCT in 2016.

Samantha Munro is an Economist at DNA Economics. She graduated from Rhodes University, Grahamstown with an Honours in Environmental Science followed by a Masters in Environmental Economics. She has worked as both an environmental and economic consultant across a number of sectors dealing with issues related to environmental and water resource management, green economy initiatives and climate change and energy.



INTRODUCTION

PURPOSE AND OBJECTIVES

Historically South Africa has been one of the largest country investors in Africa, but this status has been overshadowed in recent years by the investment activities of developed and developing countries across the globe. At the same time, South African policy makers have increasingly 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.

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Recent studies probing the depth and breadth of South African investment in Africa are relatively limited in number and outdated. Yet understanding and contextualising the extent of South African investment in the rest of Africa is important for two reasons.

First, it ensures that policy makers and trade and investment negotiators can advance South Africa's interests in regional negotiating forums. Second, it allows investors to understand their developmental role in areas such as value chain development, creation of local linkages, and corporate and social investment activities. The Southern African Development Community's (SADC's) Industrialisation Strategy Action Plan strongly advocates regional investment because of its many perceived benefits.

This discussion paper aims to enhance people's understanding of South African investment on the continent. In particular, it explores the dynamics of South African investment into the rest of Africa and analyses how such investment has changed over the last decade.

APPROACH

The discussion paper draws on two distinct components of analysis. The first component is a scoping analysis that was undertaken with the focus on publicly listed South African companies. The analysis used a similar approach to that of an earlier study commissioned by the National Economic Development and Labour Council (NEDLAC) in 2012.¹ Using company annual reports, integrated reports and website information, the scoping analysis was aimed at identifying where South Africa's largest publicly listed companies have a presence in Africa.²

The second component uses publicly available investment and trade data to measure the extent of South African investment into the continent. For this analysis, despite some drawbacks in its use³, foreign direct investment (FDI) was one of the primary indicators used to measure cross-border investments and the extent of investment

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- 1 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.
 - 2 The rationale for focusing on publicly listed companies stems from the fact that these companies are required to make financial information publicly available on an annual basis. As a result, publicly listed companies (in general) tend to have a much wider range of publicly available information than private (unlisted) companies. As a result, there is more likely to be information available on listed companies' presence and operations beyond South Africa.
 - 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/fdi/bench_markdefinition.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 such 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 might have changed due to changes in its market valuation. Nevertheless, FDI data remains the most widely (publicly) available indicator of cross-border investment.

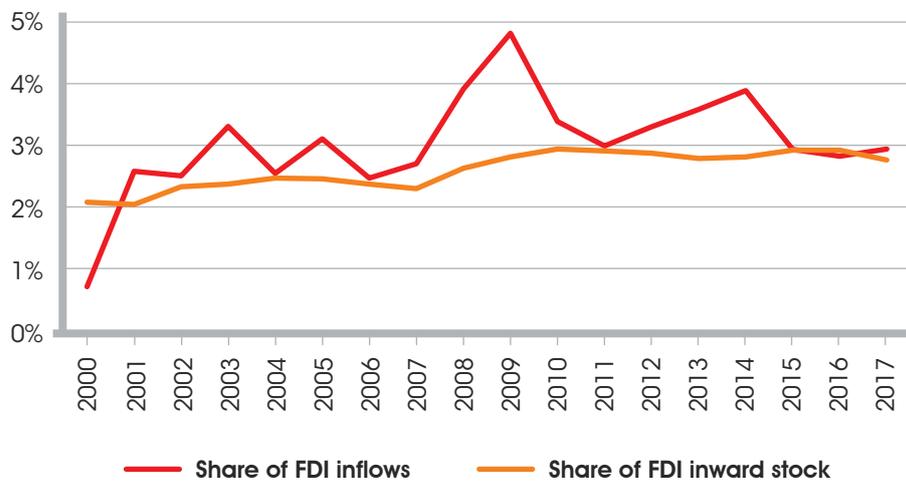
flows between countries. A brief qualitative literature review of South African investment in Africa and a limited number of interviews with stakeholders and companies provide additional insights into South African investment in the rest of the continent.⁴

THE DYNAMICS OF SOUTH AFRICAN INVESTMENT INTO THE REST OF AFRICA

GLOBAL INVESTMENT INTO THE CONTINENT

Figure 1 shows Africa’s share of both inward FDI flows and inward FDI stock (as a percentage of global inward investment). While Africa’s share of global FDI inflows has grown since the early 2000s, its share of global inward investment stock has remained relatively stagnant since 2010. In 2017, inward FDI flows into, and stock in, Africa constituted less than 3% of global inflows and stocks.

FIGURE 1 AFRICA’S SHARE OF INWARD FDI (% OF TOTAL GLOBAL FDI), 2000–2017



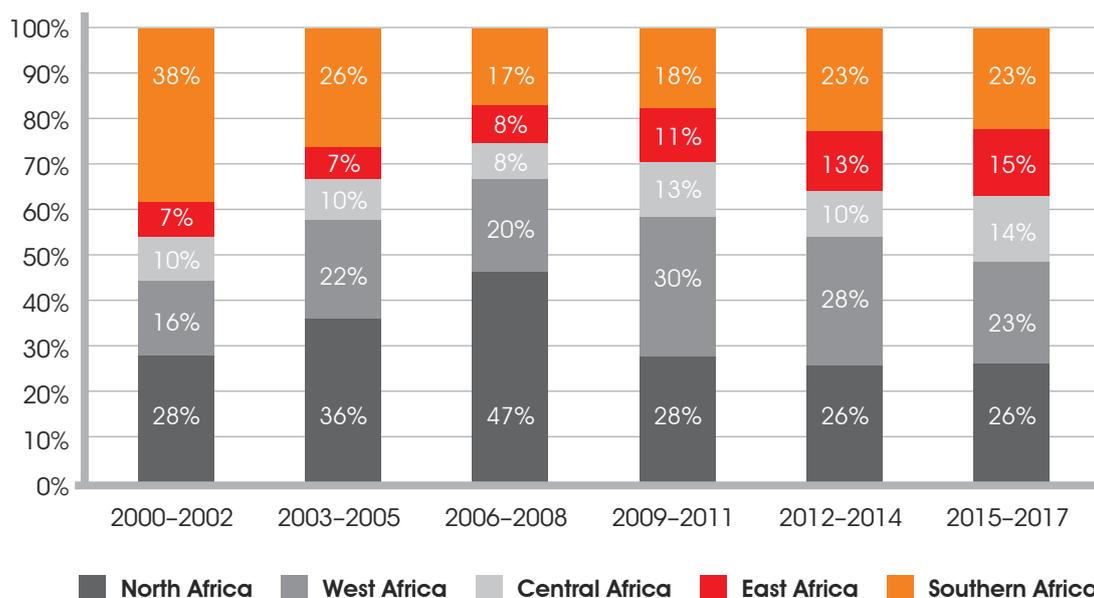
Source: DNA Economics based on UNCTAD data; [http://unctad.org/en/Pages/DIAE/FDI Statistics/FDI-Statistics.aspx](http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics.aspx), last accessed: 20 Aug 2018

In terms of FDI distribution across Africa, over the last 10 years North Africa has received the highest total share of FDI inflows with an average of 30%, followed by

4 Interviews were conducted with the Public Investment Corporation (PIC), the Industrial Development Corporation (IDC), Scamont Engineering, Nampak Ltd, Country Bird Holdings (CBH) and Omnia Fertilizer division (part of the Omnia Group).

West Africa (26%) and Southern Africa (19%) (Figure 2). Central Africa received an average of 13% and East Africa 11%.

FIGURE 2 SHARE OF FDI INFLOWS INTO AFRICA BY REGION (\$ MILLIONS), 2000–2017



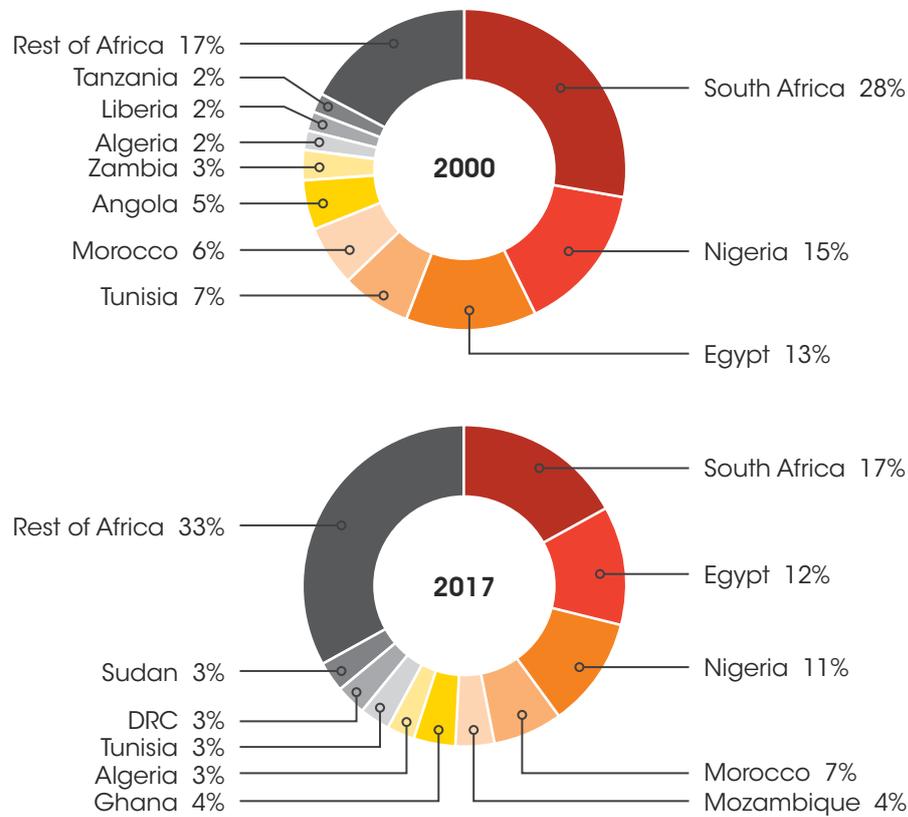
Source: DNA Economics based on UNCTAD data; [http://unctad.org/en/Pages/DIAE/FDI Statistics/FDI-Statistics.aspx](http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics.aspx), last accessed 20 Aug 2018

However, as shown in Figure 3, a small number of countries attract most of Africa's inward investment, when measured in stock terms. The top nine countries accounted for two-thirds of Africa's total inward FDI stock in 2017. Among these were the largest economies in Africa, including South Africa, Egypt, Nigeria and Morocco. Nevertheless, a comparison between 2000 and 2017 shows that investment into Africa has not become more geographically diverse.

THE SIZE OF SOUTH AFRICAN INVESTMENT IN THE REST OF AFRICA

In addition to being a major recipient of global investment, South Africa has historically been the biggest intra-African investor on the continent. Government-led measures, such as relaxed exchange controls, have helped to drive this growth. On the whole, South African businesses have been responsible for the largest

FIGURE 3 SHARE OF AFRICA'S INWARD FDI STOCKS, 2000 AND 2017



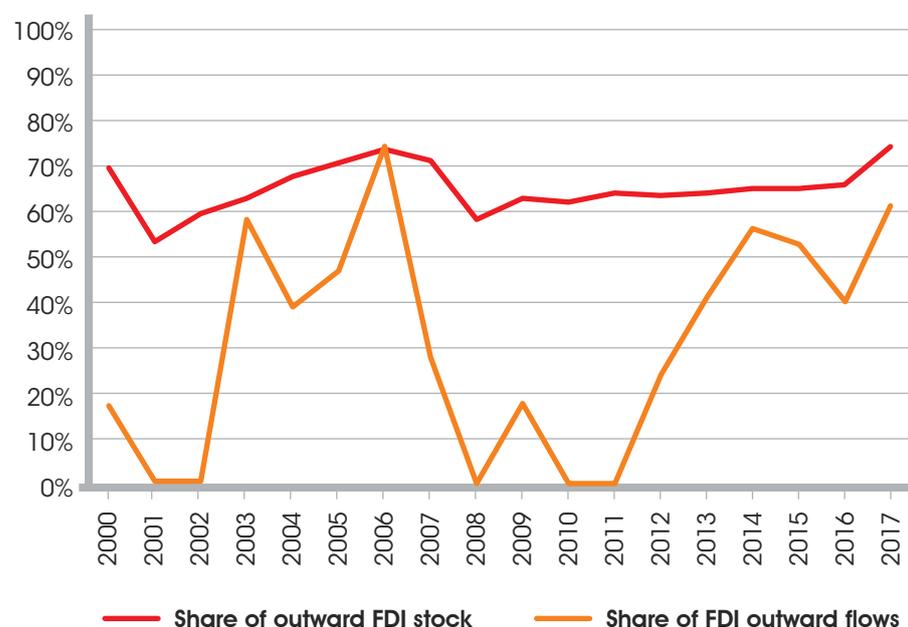
Note: The charts depict only those African countries for which FDI data was available

Source: DNA Economics based on data from [UNCTAD's World Investment Report 2018](#)

amount of intra-African cross-border activity since the early 1990s, predominately through mergers and acquisitions.⁵

As reflected in Figure 4, South Africa remains the largest outward investor among African countries, regularly accounting for between 60% and 75% of Africa's outward FDI stock and up to 60% of African outward FDI flows.

5 Verhoef, G. 'Latecomer Challenge: African Multinationals from the periphery', Research Working Paper. South Africa: ERSA, 2016.

FIGURE 4 SOUTH AFRICA'S SHARE OF AFRICAN OUTWARD FDI (% OF TOTAL)

Note: The charts depict only those African countries for which FDI data was available

Source: DNA Economics based on data from [UNCTAD's World Investment Report 2018](#)

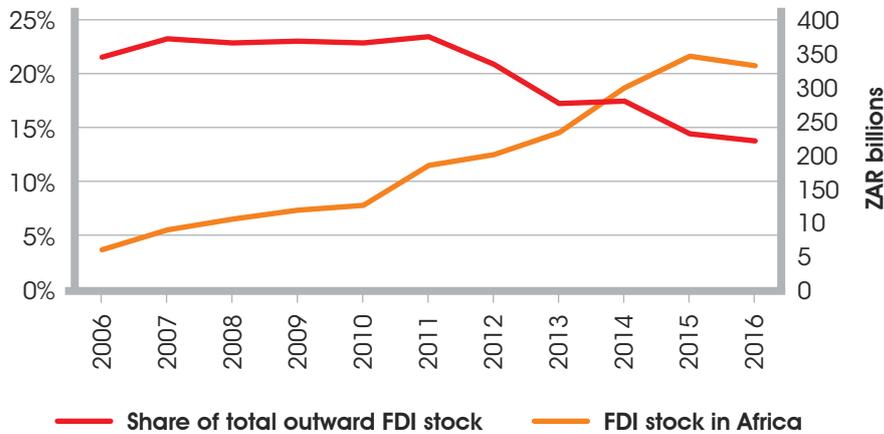
South Africa's share of Africa's outward FDI stock increased gradually from just over 60% in 2009 to roughly 75% in 2017. While dipping between 2009 and 2011 (possibly due to the impact of the global financial crisis), South Africa's share of Africa's outward FDI flows was on an upward trajectory between 2011 and 2017.

Despite accounting for a large share of Africa's outward FDI stock, most of South Africa's FDI outflows have historically been to countries outside Africa. This is

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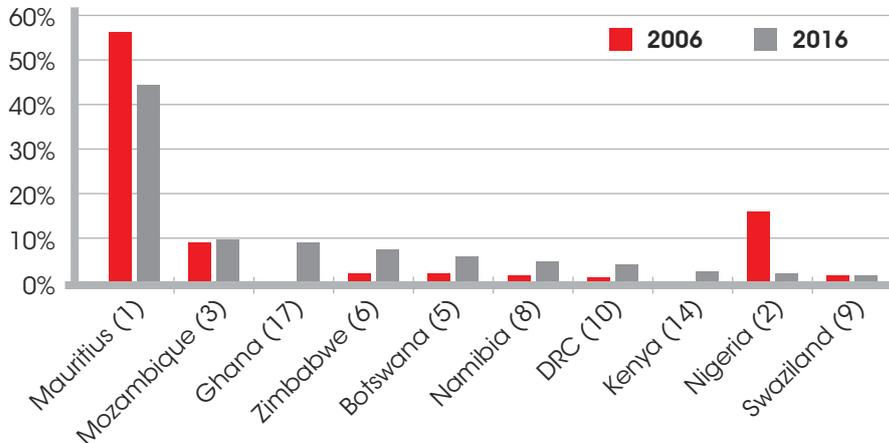
reflected in Figure 5 which shows that the share of South Africa's FDI stock in Africa (as a proportion of South Africa's total outward FDI stock) fell from roughly 23% in 2011 to less than 15% in 2016. However, South Africa's overall FDI stock in Africa increased substantially (in South African Rand terms) between 2006 and 2016.

FIGURE 5 SOUTH AFRICA'S FDI STOCK IN AFRICA, 2006–2016



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

FIGURE 6 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 rankings in 2006

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

THE DESTINATION OF INVESTMENT

As shown in Figure 6, South African investment has traditionally tended to stick close to home, based on geographic proximity or linked to countries that have strong cultural and historical connections. More recently, it has also increased in key East and West African markets.

A particular outlier is Mauritius, which accounts for a significant share of South Africa's outward FDI stock in Africa. This is strongly influenced by the island nation's strategic position as an international financial centre. Box 1 explores this further.

BOX 1 MAURITIUS AS AN INTERNATIONAL FINANCIAL CENTRE

Mauritius has established itself as an international financial centre, offering multinational corporations an attractive package of financial and non-financial incentives to locate on the island. The IMF provides a definition of international financial centre as a type of offshore financial centre, typically referred to as:

- a jurisdiction with large numbers of financial institutions engaged primarily in business with non-residents;
- a centre where external assets and liabilities are out of proportion to the domestic economy; and
- a centre providing some or all of the following: low or zero taxation, moderate or light financial regulation, banking secrecy and anonymity.

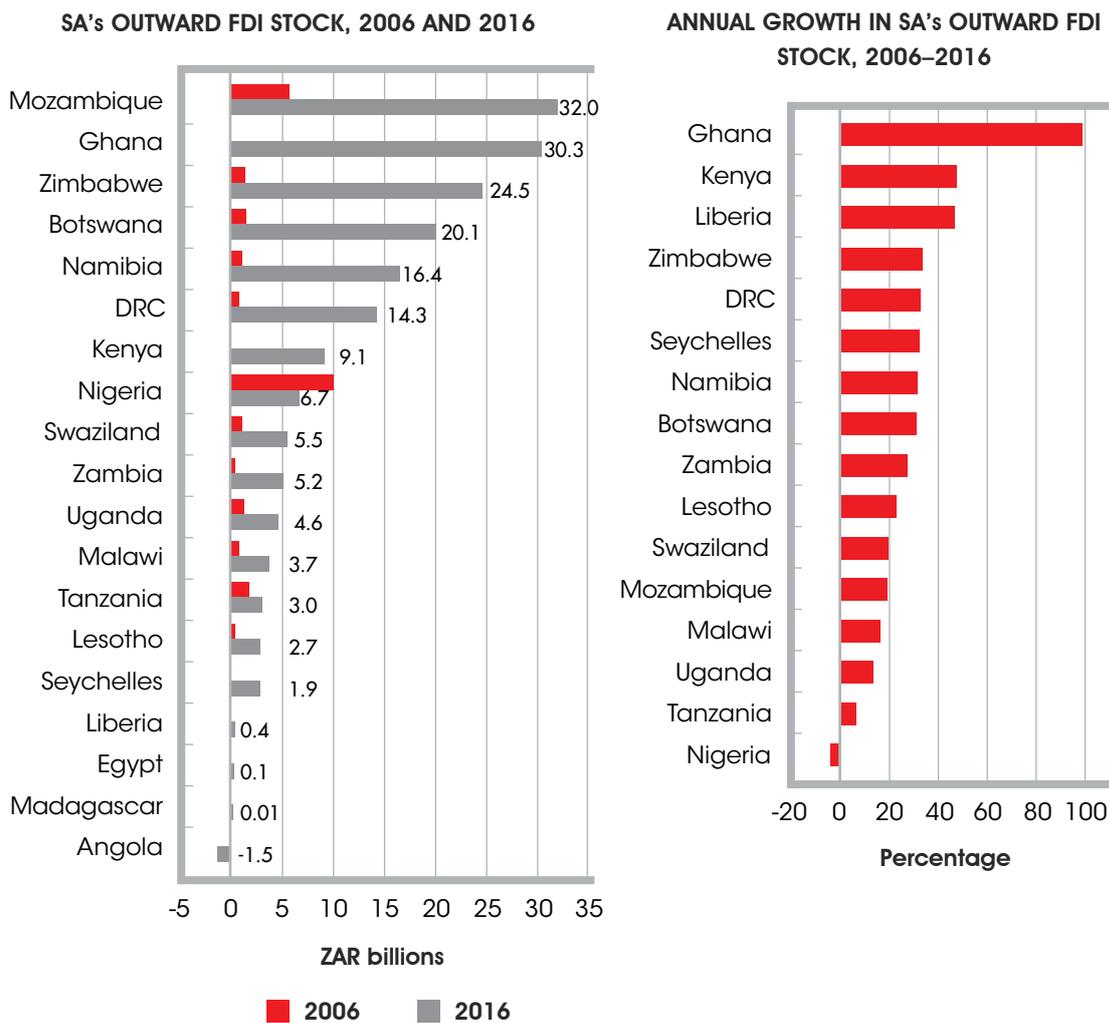
Mauritius has established a two-tier global business company (GBC) regime, used to channel investment into emerging markets, for trust and estate planning and for marketing purposes. Through this regime, by the end of 2015, Mauritius had attracted GBCs with total assets worth close to \$ 600 billion (roughly 50 times the country's GDP). Factors considered to have contributed to Mauritius' success as an offshore financial sector include a favourable tax framework, political stability, legal certainty, a highly skilled and bilingual workforce and limited reporting requirements for GBCs.

However, increasing scrutiny of tax avoidance strategies globally has meant that some of Mauritius' tax offerings and frameworks are being challenged, especially given the stronger focus on transfer pricing, base erosion and profit shifting. Research by advocacy group Action Aid has highlighted a number of case studies that infer the use of Mauritius' financial and tax regime for abusive transfer pricing purposes. Nevertheless, as clearly highlighted in the statistics presented in this paper, South African companies make extensive use of Mauritius as an offshore financial centre.

Source: IMF (International Monetary Fund), 2000, Offshore Financial Centers, IMF Background Paper, Monetary and Exchange Affairs Department, June 23. IMF (International Monetary Fund), 2017, IMF Country Report No. 17/363, Selected Issues, Washington, DC.; Nicolaou-Manias, K and Y Wu, ' Illicit Financial Flows, Estimating Trade Mispricing and Trade-based Money Laundering for Five African Countries', GEG Africa, Discussion Paper, October 2016

Over the last decade, there has been a clear increase in South African investment beyond the Southern African region. This is reflected in Figure 7 which shows that a number of countries in other parts of Africa are now among the largest destinations for South African investment on the continent.

FIGURE 7 SOUTH AFRICA'S FDI STOCK IN AFRICA, BY COUNTRY



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

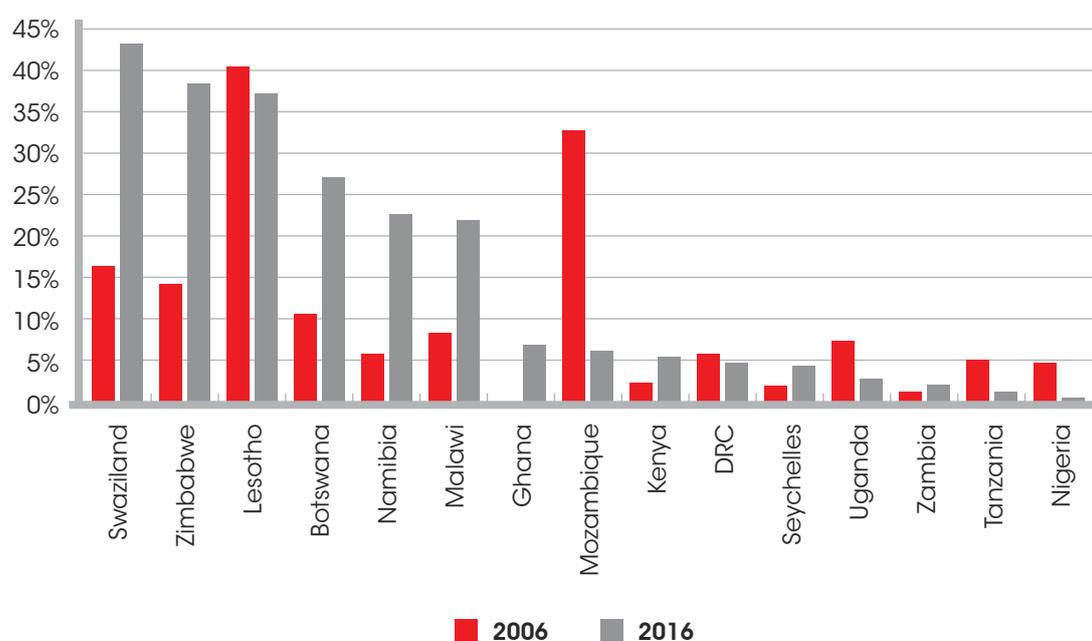
Source: DNA Economics based on data provided by South African Reserve Bank

Figure 7 also shows that there has been strong growth in South Africa's investment in countries such as Ghana, the Democratic Republic of Congo (DRC), Liberia (though from a low, 2006 base) and Kenya. South Africa's relatively well-developed logistics infrastructure and the land-locked nature of many Southern and Central

African countries mean that South Africa has also acted as a distribution hub for goods imported from across the globe.

As seen in Figure 8, South Africa has also consolidated its role as a primary investor in its neighbouring countries. For example, South Africa's share of total inward FDI stock in Swaziland is estimated to have increased from just over 15% in 2006 to just under 45% in 2016. Similarly, South Africa's share of inward FDI stock in Zimbabwe is estimated to have more than doubled from just under 15% in 2006 to close to 40% in 2016. In the broader SADC region, South Africa is estimated, between 2006 and 2016, to have increased its share of inward FDI stock in Swaziland, Zimbabwe, Botswana, Namibia, Malawi, Seychelles and Zambia.

FIGURE 8 SOUTH AFRICA'S SHARE OF TOTAL INWARD FDI STOCK IN SELECTED COUNTRIES, 2006 AND 2016



Source: DNA Economics calculations based on data from [UNCTAD's World Investment Report 2018](#) and data provided by the South African Reserve Bank

South Africa is estimated to have also significantly increased its share of inward FDI stock in Ghana (to nearly 7% in 2016) and Kenya (roughly 6% in 2016). However, there are a number of countries where South Africa's share of inward FDI stock is estimated to have fallen between 2006 and 2016, including Mozambique, the DRC, Uganda, Tanzania and Nigeria.

Despite South Africa experiencing strong investment growth in some countries, such as the DRC, South Africa's share of total inward FDI stock has nevertheless

fallen. This suggests that investment into these countries from other, regional and global investors has shown even more significant growth, highlighting the increased investment competition faced by South African firms.

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FACTORS INFLUENCING SOUTH AFRICAN INVESTMENT

Historically, the motivation for foreign investment by firms has been classified into four broad themes:⁶

- Natural resource seekers (motivated by the need to acquire specific resources available in a foreign economy);
- Market seekers (motivated to invest in an economy in order to diversify and expand the market for their goods and services);
- Efficiency seekers (motivated to enhance cost and production efficiencies by investing in a particular economy or region); and
- Strategic asset or capability seekers (motivated to invest in order to promote long-term strategic objectives or advance the company's global competitiveness).

The potential for and willingness of investors to invest are also deemed to be heavily influenced by perceptions of a country's political situation and levels of risk, the investment climate, and the wide range of policy and institutional settings that characterise a country's political economy and processes.⁷

Resource-seeking FDI has been shown to have limited spill-over effects for an economy and creates fewer jobs than other types of investments.⁸ Market- and efficiency-seeking investment is arguably considered to be more growth enhancing for the host economy. This is due to the perceived benefits of such investment,

6 This framework is generally attributed to John Dunning; see: Dunning, J & S Lundan, *Multinational Enterprises and the Global Economy*, Second Edition. UK: Edward Elgar Cheltenham, 2008.

7 Zheng, Y, 'China's Aid and Investment in Africa: A viable solution to international development', Fudan University, August 15 2016.

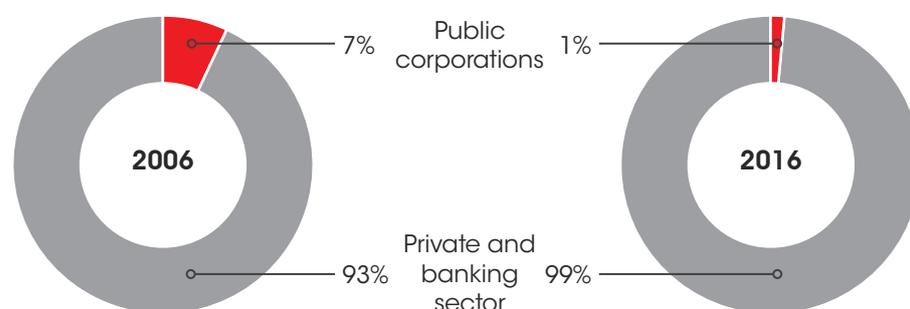
8 Chen *et al.*, 'Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants and Impact', Research Report. Washington: World Bank, 2015.

including increased market competition and the introduction of new products and services for consumers. In addition, it is argued that this form of FDI transfers both knowledge and technology, which local suppliers can then use to improve their operations through 'adaption and imitation'.⁹

The impact of FDI also varies according to whether the investment flows are into resource-based or services-based activities. Spill-over effects from investors engaging in resource-driven industries tend to involve the development of infrastructure which facilitates the extraction and trade of primary commodities, but which can also benefit local communities. Conversely, spill-over effects from consumer-oriented investments typically entail job creation and skills/knowledge transfer.¹⁰

The slowing of investment into the rest of Africa by public corporations over the period in question (compared with private sector investment) may be attributed to declining availability of 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. It may also be attributed to strategic (or government-mandated) shifts in focus towards the South African market.

FIGURE 9 SOUTH AFRICA'S FDI STOCK INTO AFRICA BY TYPE OF ORGANISATION



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

Box 2 reflects further on the factors motivating South African investment into the rest of Africa, providing a summary of the main findings from a case study on South African investment in three Kenyan companies.

9 Chen *et al.*, 'Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants and Impact'. Research Report. Washington: World Bank, 2015.

10 Kappel *et al.*, 'Compact with Africa – Fostering Private Long-Term Investment in Africa', Discussion Paper. South Africa: German Development Institute, 2017.

BOX 2 A CASE STUDY ON SOUTH AFRICAN INVESTMENT IN KENYA

GEG Africa commissioned a case study on South African investment in Kenya in order to better understand the dynamics of South African investment in the East African region. Kenyan firms were identified either as those that are direct subsidiaries of a South African firm or in which a South African firm has a significant investment. Three companies participated in in-depth discussions:

- A pharmaceutical manufacturing company located in Nairobi, Kenya with branches in Uganda and Tanzania. The company is a subsidiary of a South African pharmaceutical manufacturer.
- Liberty Kenya Holdings Plc (LKH): A financial services (insurance) company with headquarters in Nairobi, Kenya. The company is a subsidiary of Liberty Holdings Limited, South Africa.
- Weetabix East Africa Limited (WEA): A food manufacturer and distributor located in Nairobi, Kenya. The company is partially owned by Pioneer Food Group Limited, South Africa.

A number of common themes emerged from the case studies. For all three companies there was a historical relationship with the South African parent company, prior to investment. All investments undertaken by the South African companies were brownfield in nature, with the three Kenyan companies having a significant operational track record prior to investment by the South African firms. The Kenyan firms noted that the South African parent companies have undertaken little further financial investment in the Kenyan operations, beyond the initial purchase.

The motivation and rationale for all three investments were similar, with the South African firms seeking to further penetrate the African market, backed by the view that the higher-growth Kenyan (and East African) market would provide greater profit-generating opportunities.

For all three Kenyan firms, South African companies had a high degree of ownership and influence (or outright control). However, it appears that the South African parent companies had adopted a relatively 'light touch' in their strategic and operational approaches.

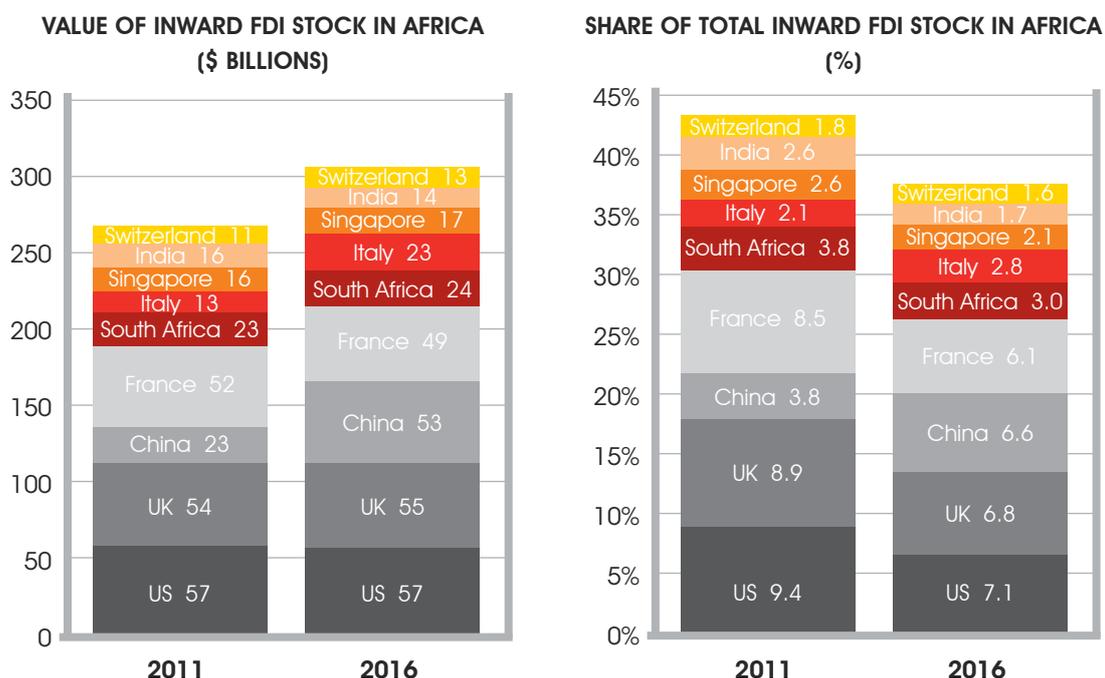
All three Kenyan companies indicated that they were operationally independent from the South African parent company. In addition, their operational management comprised local staff, with no South Africans employed by the companies. However, it appears that in some cases, the Kenyan firms had been required to adopt specific parent company operational and corporate governance policies and procedures.

From a trade perspective, the two manufacturing companies noted that they were not tied to specific suppliers, nor required to procure goods and services from South African companies. In fact, for one of the companies, China was a major source of goods. This reflected the independence of the companies and the profit motive of the South African investors, with the Kenyan investee companies sourcing their products primarily on the basis of cost and quality.

The Kenyan firms also noted that they had derived a number of benefits through the link with the South African firms. These included access to a wider range of suppliers (given the expanded network and ability to leverage off a larger company), the transfer of skills and knowledge, and the application of better operational practices and systems – all of which had led to better operational outcomes and product quality.

Source: Based on case study undertaken by Alternative Prosperity Kenya, led by Michael Waweru

FIGURE 10 MAJOR INVESTORS IN AFRICA BY FDI STOCK, 2011 AND 2016



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

INCREASING INVESTMENT COMPETITION ON THE CONTINENT

Figure 10 summarises the major investors in Africa, based on FDI stock. It shows that these are primarily developed countries, largely because of historical FDI inflow

patterns on the continent. The US has remained the largest investor in Africa, by FDI stock, since 2011, followed by the UK.

Figure 10 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. China's growing prominence as an investor in Africa is highlighted in Box 3.

BOX 3 CHINA'S EVOLVING INVESTMENT ROLE IN AFRICA

China is one of the largest investors in Africa and over the last few years has been rapidly catching up with its Western counterparts in terms of size of investments. In addition to direct investment, China has also focused on infrastructure development, having financed more than 3000 large infrastructure projects on the continent. China is also now Africa's largest creditor, providing \$ 86 billion in commercial loans between 2000 and 2014, with another \$ 60 billion pledged in 2015 under the Forum on China-Africa Cooperation (FOCAC) Action Plan. The most recent FOCAC Action Plan – ie, for the period 2019–2021, which was adopted in September 2018 – spells out further investment and financing commitments by China. Under this action plan, China has committed, by 2021, to:

- encourage Chinese companies to invest at least \$ 10 billion in African countries;
- support the establishment of a \$5 billion special fund for financing imports from Africa;
- extend \$ 20 billion in credit lines and support the establishment of a \$ 10 billion special fund for development financing as part of its 'Belt and Road' cooperation and industrial capacity cooperation initiatives; and
- extend \$ 15 billion in grants, interest-free, and concessional loans to African countries as part of its development cooperation activities.

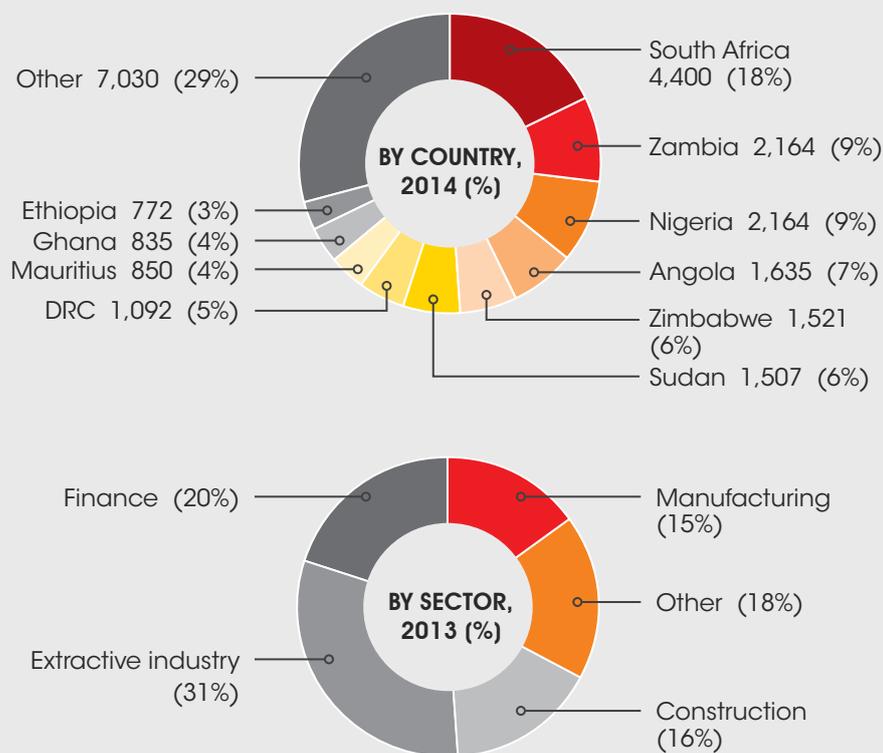
While China has historically been portrayed as an 'extractive' investor, offering countries affordable credit facilities in exchange for long-term agreements relating to resource rights, Chinese investment is becoming increasingly diversified, both in terms of sectors and regions. Similarly, whereas historically investment in Africa was state-led, conducted through state-owned industrial and financial entities, an increasing number of private Chinese investors have become involved in Africa's small, medium

and micro enterprise sector. This has been a consequence of relaxed outward FDI regulations by China and the need for new market space as domestic Chinese markets become increasingly saturated.

These changes have resulted in Chinese investment moving beyond its historical geographic areas of focus – Sudan, Zambia, South Africa and Nigeria – to new horizons, such as Tanzania and Ethiopia.

As shown in Figure 11, a significant proportion of China’s FDI in sub-Saharan Africa in 2014 was outside of the extractive industry and beyond the major resource-rich countries in Africa.

FIGURE 11 CHINESE FDI IN SUB-SAHARAN AFRICA (SSA)



Trade and investment competition between Africa’s traditional partners (including South Africa) and China is also likely to increase as China begins to gear up for the implementation of its Belt and Road initiative. Also called the ‘One Belt, One Road’ or Silk Road initiative, China aims to develop six economic corridors connecting China to Europe, the Middle East, East Africa and South Asia. It is estimated that in total \$ 900 billion of infrastructure project finance has been pledged towards the initiative. The potential implications of this initiative can be discerned from plans to convert a Tanzanian fishing village into the largest port in Africa.

Development on this scale, along the East African coast, will not only increase investment competition in the rest of Africa, but will potentially alter trade and logistics dynamics as countries in East, Southern and Central Africa are greeted by a wider range of options to move goods between their economies and the rest of the world.

Sources: Schneidman W & J Wiegert, 'Competing in Africa: China, the European Union and the United States', Brookings, 2018, <https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/>; Pigato M & W Tang, 'China and Africa: Expanding Economic Ties in an Evolving Global Context', Policy Research Report. Addis Ababa: Investing in Africa Forum, 2015; Knight Frank, 'New Frontiers, Prospects for Real Estate Along the Belt and Road Initiative', 2018 Report, First Edition; Van Mead, N, 'China in Africa: win-win development, or a new colonialism?', News Article, available online: <https://www.theguardian.com/cities/2018/jul/31/china-in-africa-win-win-development-or-a-new-colonialism>, accessed 15 August 2018; Forum on China-Africa Cooperation Beijing Action Plan (2019–2021), available online: https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1593683.shtml, accessed 24 September 2018

The third issue highlighted in Figure 10 is that, despite strong growth in China's FDI stock in Africa, in 2016 the combined share of FDI stock in Africa held by the nine largest investors was lower than the combined share in 2011. This suggests that there is increasing investment competition from beyond the traditional country investors, including from other parts of Africa. An example of this is the accelerating investment momentum from 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 been turning their attention to Africa as an investment destination, partly in response to China's investment surge. During the period 2008–2012, Japan's cumulative investment into Africa amounted to just \$ 9 billion. Since then, the country has pledged to provide 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

A COMPANY PERSPECTIVE ON SOUTH AFRICAN INVESTMENT

SCOPING THE INVESTMENT BY SOUTH AFRICA'S LARGEST PUBLICLY LISTED COMPANIES

The scoping analysis was undertaken acknowledging a number of caveats. First, the results from the analysis provide only a snapshot of company operations, based on

11 See African Development Bank, African Economic Outlook 2017, available online: <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>.

information derived primarily from annual reports. Second, the analysis focused on companies' 2017 annual and integrated reports and company presentations. Where information on African operations was not particularly detailed in these reports, it was supplemented by information taken from company websites, accessed between June 2018 and July 2018. The scoping analysis therefore provides insights on the presence of South African listed companies in Africa in the period 2017–18.

Third, while publicly listed companies typically disclose more information on company operations than private firms, their depth and breadth of reporting vary widely. Because companies are typically required to disclose only financially material information, not all operational and investment information is readily available in the public domain. The analysis therefore aimed to distinguish the type of company presence in two ways:

- Operational presence – a company was identified as having an operational presence in an African country if (1) there was clear evidence of a physical operation (such as a store, factory or office), or (2) it was part of a clearly identifiable franchise network or management agreement in that country.
- Investment presence – a company was identified as having an investment presence in a country if an investment was listed in the company's annual financial statements. An investment could be identified as a joint venture, subsidiary entity or associate investment. It is important to note that for many of the companies reviewed, their annual financial statements listed only principal or material investments. In some instances, company reports simply listed direct investments, with these direct subsidiaries possibly having further subsidiaries that were not listed in the parent company's financial statements. Thus, while 'investment presence' does not provide a full list of all investments into the rest of Africa by the companies reviewed, it at least provides a comprehensive assessment of the most significant investments for each company. Given that not all companies provide the 'value' of these investments in their financial reports, the analysis focused on the number of investments identified.

The analysis focused on the largest firms (by market capitalisation as of March 2018) listed on the Johannesburg Stock Exchange's (JSE's) main equities board. The firms included in the analysis were filtered on the basis of:

- Their country of incorporation. The JSE's main board includes companies that may have a South African origin, but which have since relocated their headquarters to other country jurisdictions. Similarly, a number of companies have dual listings, with a primary listing on a foreign stock exchange and a secondary listing on the JSE. Given the focus on 'South African' companies, only firms that were incorporated (domiciled) in South Africa (as of March 2018) were included in the analysis.¹³

13 Santigie Kargbo, *Foreign Direct Investment and Economic Growth in Africa*, unpublished PhD thesis, University of Cape Town, Cape Town, 2017. 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

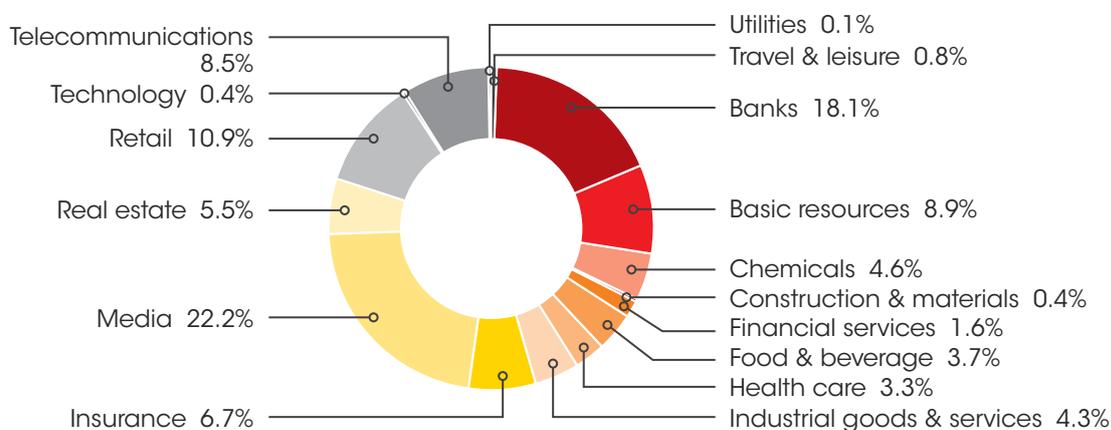
- Their status on the JSE and the nature of their operation. Companies that were suspended from the JSE were excluded from the final list of shortlisted companies. Special-purpose acquisition companies and pyramid companies were also excluded. Finally, a number of investment holding companies were excluded from the analysis on the basis that these companies' assets mainly consisted of shares in listed companies included in the analysis.

In total, 104 companies were included in the analysis. These companies accounted for approximately 45% of the JSE's total market capitalisation and 90% of the market capitalisation of South African-incorporated equity instruments listed on the JSE.

SECTOR REPRESENTATION IN THE SCOPING ANALYSIS

The sector representation of firms included in the scoping analysis is summarised in Figure 12 and Figure 13. Companies were classified by sector using the JSE's classification system, which in turn uses the Industry Classification Benchmark (ICB).¹⁴ In terms of market capitalisation (Figure 12), companies in service sectors were strongly represented, such as those in financial services, banking, insurance and media.

FIGURE 12 SECTOR REPRESENTATION OF FIRMS BY MARKET CAPITALISATION



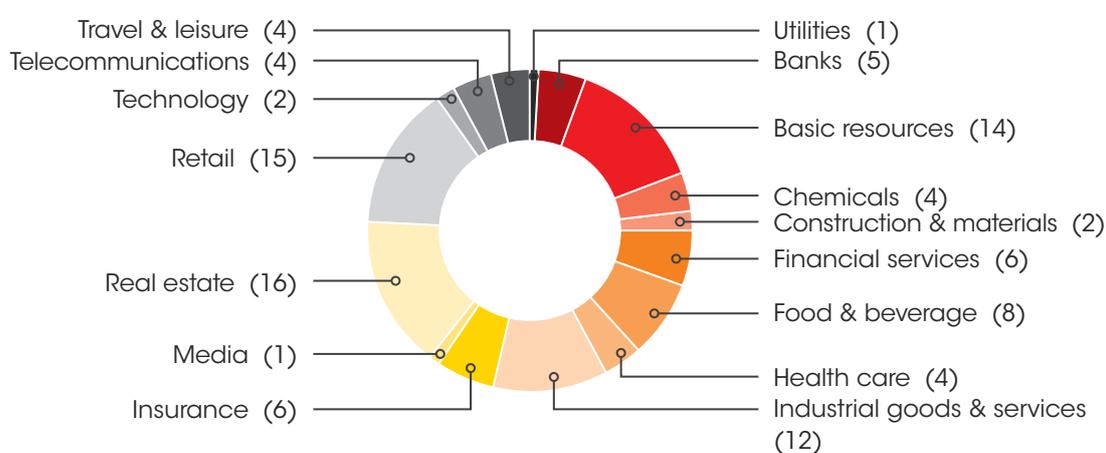
Source: DNA Economics based on data from Johannesburg Stock Exchange Market Review, March 2018, <https://www.jse.co.za/services/market-data/indices/ftse-jse-africa-index-series>, last access 16 April 2018

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. A number of large, historically South African-domiciled companies, which are still listed on the JSE but are now domiciled outside of South Africa, are thus excluded from the analysis. While this does not affect the current analysis, it makes a comparison against earlier studies more difficult.

14 The JSE uses the FTSE's Industry Classification Benchmark (ICB). This classification system breaks down 10 aggregate industries into supersectors, sectors and subsectors. The analysis in this paper is undertaken at the supersector level, unless otherwise specified.

However, in terms of the number of companies (Figure 13), there was a much wider representation across both service sectors and ‘productive industries’, including basic resources, industrial goods and services, chemicals, food and beverages, and construction and materials industries. It is nevertheless important to highlight that for some sectors the number of companies included in the analysis was low. Specifically, for the utilities and media sectors, only one company was included in the scoping exercise, while for the technology and construction and materials sectors, only two companies were included.

FIGURE 13 SECTOR REPRESENTATION OF FIRMS BY NUMBER OF COMPANIES



Source: DNA Economics based on data from Johannesburg Stock Exchange Market Review, March 2018, <https://www.jse.co.za/services/market-data/indices/ftse-jse-africa-index-series>, last access 16 April 2018

OVERALL COMPANY FOOTPRINT

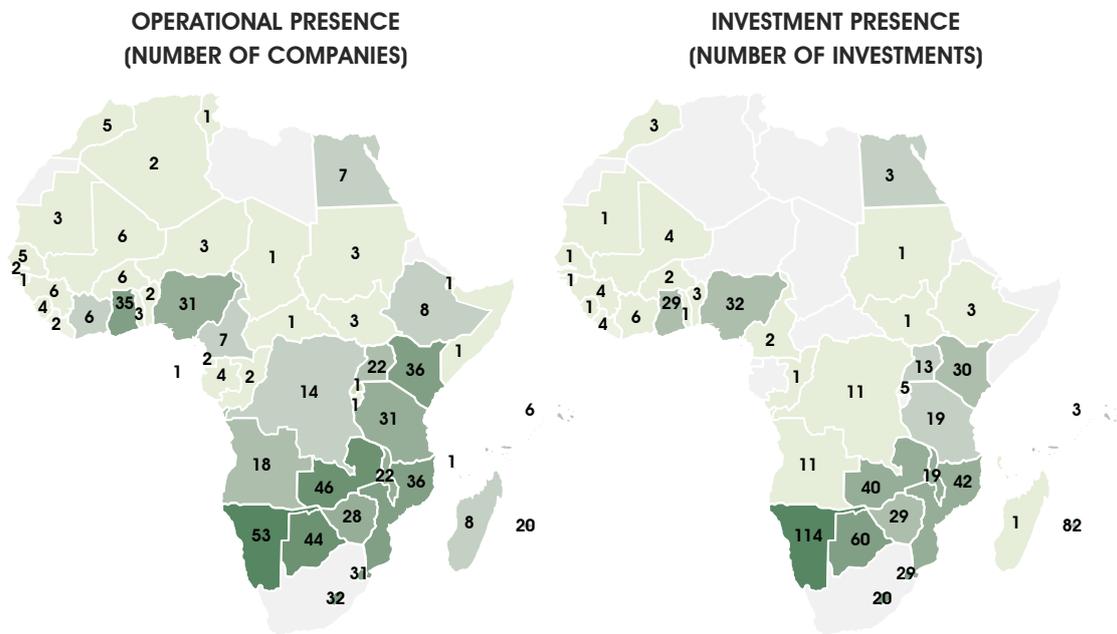
Figure 14 summarises the operational and investment footprint of South Africa’s largest publicly listed companies in Africa. The Southern African Customs Union (SACU) is a distinct focus market for South African firms, while the broader Southern African Development Community (SADC) is also a key market.

Namibia had the highest number of target companies operating in the country, with more than half having an operational presence there. This was followed by Zambia and Botswana. While there was also a significant operational presence by South African companies in key West and East African markets (in terms of the number of companies present), it is clear from Figure 14 that company operations were concentrated in Southern and Central Africa, with the overall operational presence far more sparse north of the equator. Overall, there was evidence of an operational

presence of at least one company across all 54 African countries¹⁵, except for Eritrea and Libya.

Figure 14 and Figure 15 also show the number of principal joint ventures (JVs), and subsidiary and associate investments identified for the companies included in the scoping analysis. In terms of investment presence, Namibia (114), Mauritius (82), Botswana (60) and Mozambique (42) had the highest number of identified investments by these companies.

FIGURE 14 OPERATIONAL AND INVESTMENT FOOTPRINT OF SA COMPANIES IN AFRICA, 2017–18



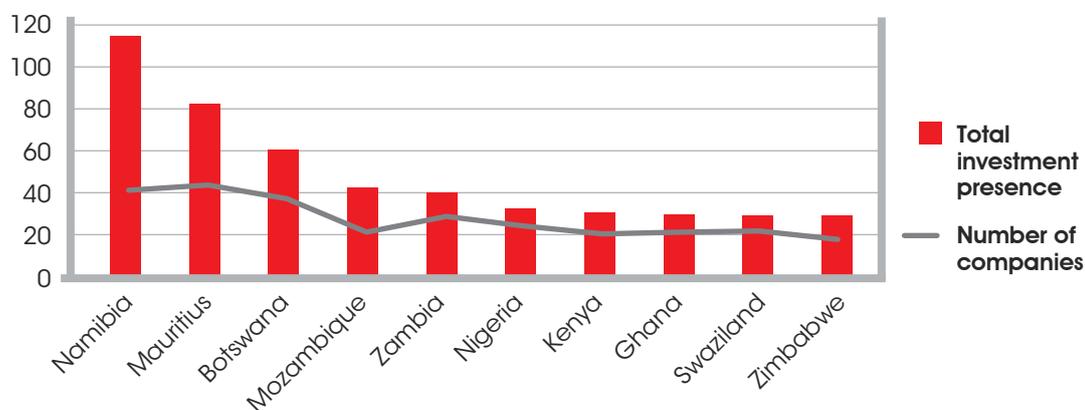
Note: Cape Verde is not shown on the map

Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

For Mauritius specifically, it is likely that many of the identified investments were holding companies and offshore investments through which further investment into the continent (and elsewhere outside of South Africa) was made. This was reflected on earlier in Box 1.

15 The analysis is based on the 54 African sovereign countries that are members of both the UN and the AU.

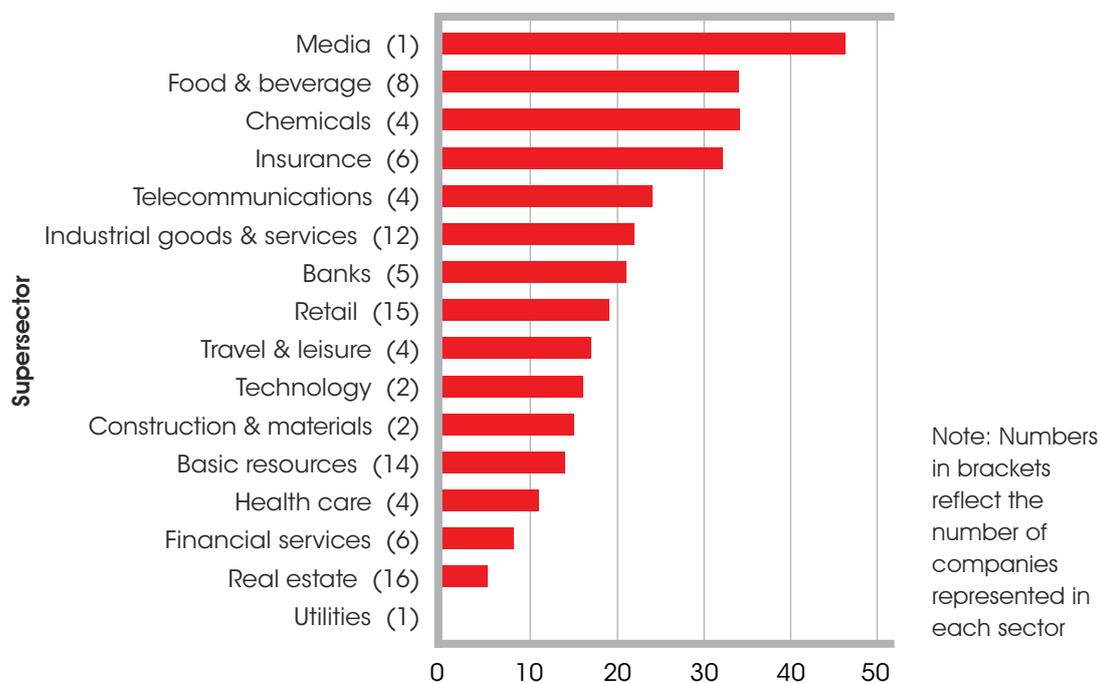
FIGURE 15 TOP 10 INVESTMENT COUNTRIES BASED ON THE NUMBER OF COMPANIES AND THEIR INVESTMENT PRESENCE



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

Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

FIGURE 16 NUMBER OF AFRICAN COUNTRIES WITH COMPANY OPERATIONAL PRESENCE, BY SUPERSECTOR, 2017-18



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

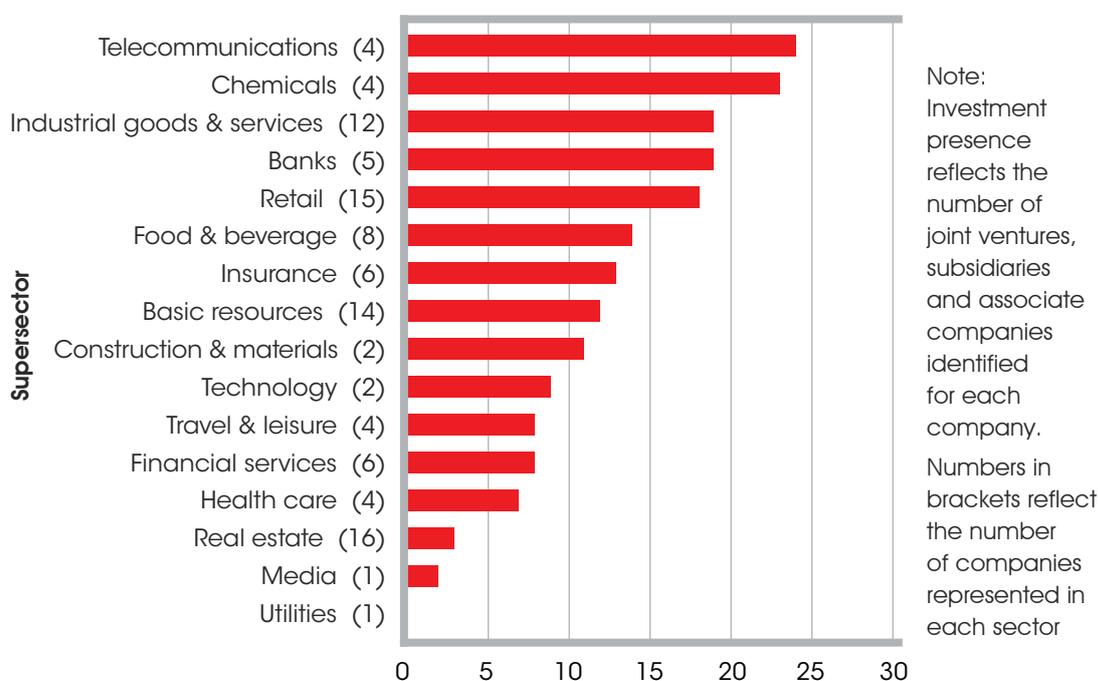
Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

Comparing the operational presence with the investment presence also highlights a number of countries in which South African firms may have operations but no material investments. These include countries such as the DRC and Tanzania, where a number of companies have an operational presence but there is a much lower investment presence. Notably, 16 African countries (predominantly in North and West Africa) were identified in which the companies included in the scoping analysis did not have principal or material investments.

In terms of an operational presence in African countries by sector, as shown in Figure 16, the media sector had the highest coverage and was present in 46 out of 53 African countries. However, this represented only one company – Naspers Ltd, which has a vast operational presence through various pay-television, digital and related media subsidiaries. Other industries with coverage in more than 50% of African countries include chemicals, food and beverages, and services.

Figure 17 shows that the total identified investment in the form of JVs, subsidiaries and associate companies is dominated by the telecommunications and chemical sectors, which have invested in more than 24 and 23 African countries respectively.

FIGURE 17 NUMBER OF AFRICAN COUNTRIES WITH A COMPANY INVESTMENT PRESENCE, BY SUPERSECTOR, 2017–18



Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

Industrial goods and services, banks and retailers have also invested in more than 15 different countries across the rest of the continent.

SECTORAL LINKAGES

As can be seen from the above, the presence of South African firms in the rest of Africa varies widely in terms of sectors and regional footprint. Figure 18 summarises the identified operational presence for each sector (based on whether at least one firm in each sector had an operational presence in that country) in the rest of Africa. There are a number of countries with a large sectoral representation of South African firms. For example, in Ghana, Namibia and Zambia, the scoping exercise revealed that there were South African companies from 14 different supersectors operating in those countries. In total, there were 13 countries with a company presence from 10 or more sectors.

An important question is whether there is evidence of specific linkages between sectors and regional footprint, ie, do sectors appear to cluster? For example, the presence of South African financial services firms in a specific region may encourage firms in the productive sector to locate in those regions, or vice versa. Similarly, retailers may choose to open operations in a country based on the footprint of South African firms in other sectors.

An initial analysis of the extent of co-location by firms from different sectors is provided in Table 1. For each 'primary' sector the extent of co-location by a 'secondary' sector is shown in percentage terms. For example, at least one South African bank was located in 70% of the countries where there was a South African basic resources operational presence. Similarly, in all of the countries where there was at least one South African bank there was also at least one South African insurance firm. Based on this analysis, six key sectors stand out: banks, industrial goods and services, insurance, media, retail and technology.

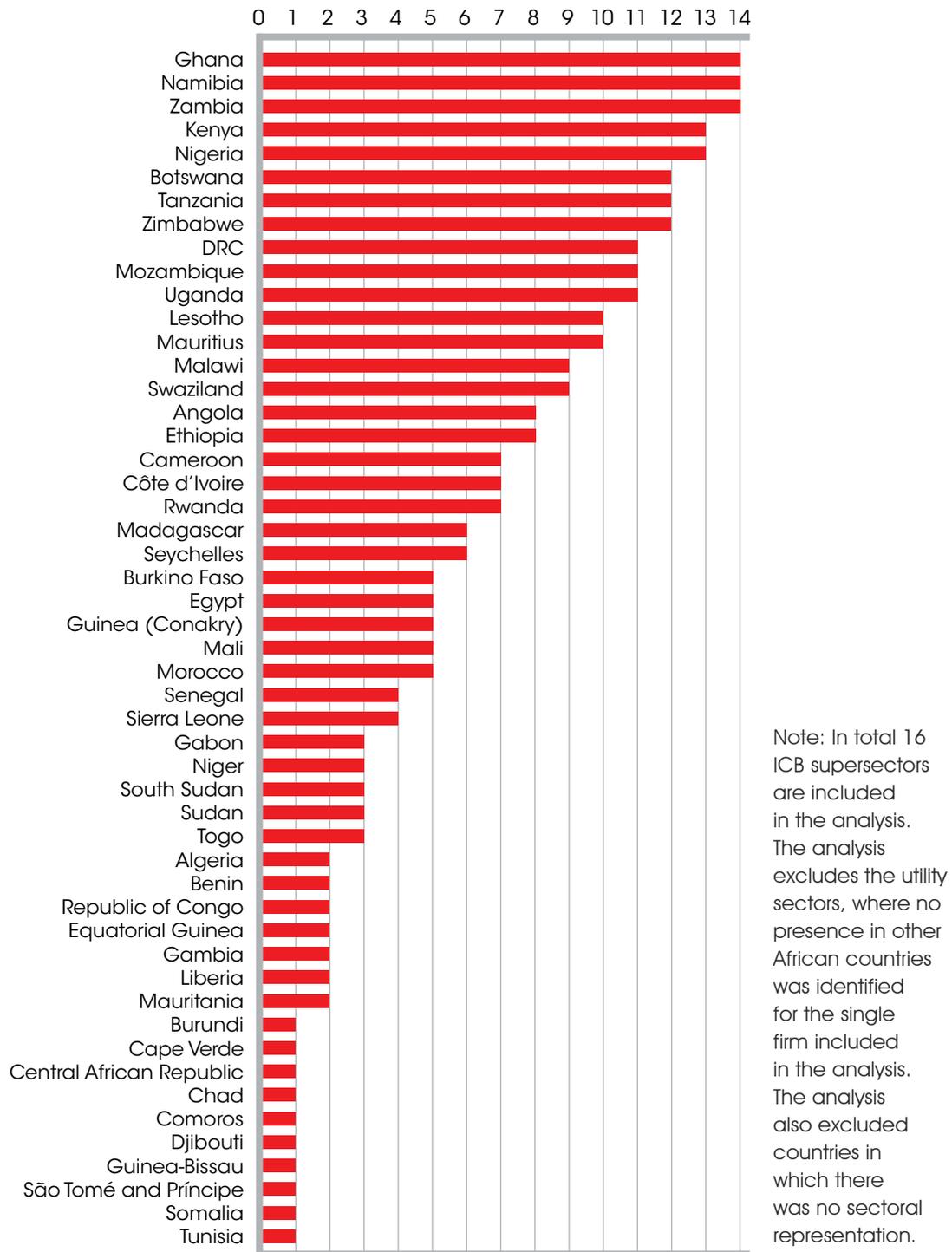
For these sectors there is a high degree of co-location with another sector. That is, in a country where a firm from one of these sectors is present, there is a strong likelihood that a firm from another sector will also be present.

Qualitative discussions with a small number of South African companies with operations in the rest of Africa highlighted that the cross-sectoral presence of South African firms is important for a number of reasons. This is explored in Box 4.

SOCIAL INVESTMENT AND SUSTAINABLE DEVELOPMENT

Through their investment South African companies have made a significant economic contribution to the local country economies in which they operate. This includes local employment, generation of tax revenues for governments and the development of local value chains. The broader economic impact of South African firms in Africa is considered in Box 5.

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



Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

TABLE 1 EVIDENCE (AS A %) OF CO-LOCATION BY FIRMS IN DIFFERENT ICB SUPERSECTORS ACROSS THE REST OF AFRICA, BASED ON OPERATIONAL PRESENCE

		SECONDARY SECTOR														
		Banks	Basic Resources	Chemicals	Construction & Materials	Financial Services	Food & Beverage	Health Care	Industrial Goods & Services	Insurance	Media	Real Estate	Retail	Technology	Telecommunications	Travel & Leisure
PRIMARY SECTOR	Banks	–	35	95	50	35	100	55	90	85	100	20	85	60	55	70
	Basic Resources	70	–	100	50	20	80	40	60	100	100	20	60	70	60	50
	Chemicals	58	30	–	42	21	79	33	67	79	94	12	58	48	36	45
	Construction & Materials	71	36	100	–	21	86	43	86	86	93	21	71	57	43	57
	Financial Services	100	29	100	43	–	100	86	100	100	100	43	100	86	71	86
	Food & Beverage	59	24	76	35	21	–	32	62	79	91	12	56	44	35	47
	Health Care	100	36	100	55	55	100	–	100	91	100	27	91	73	64	82
	Industrial Goods & Services	82	27	100	55	32	95	50	–	86	95	18	86	64	50	64
	Insurance	53	31	81	38	22	84	31	59	–	88	13	56	47	38	41
	Media	43	22	67	28	15	67	24	46	61	–	9	39	33	26	35
	Real Estate	100	50	100	75	75	100	75	100	100	100	–	100	100	100	100
	Retail	89	32	100	53	37	100	53	100	95	95	21	–	68	53	68
	Technology	75	44	100	50	38	94	50	88	94	94	25	81	–	63	69
	Telecommunications	92	50	100	50	42	100	58	92	100	100	33	83	83	–	58
	Travel & Leisure	88	31	94	50	38	100	56	88	81	100	25	81	69	44	–

Note: Numbers highlighted in orange reflect the top two percentages for each row. The analysis excluded the utility and media supersectors, given that only one firm in each of these sectors was included in the analysis.

Source: DNA Economics based on review of 104 companies' annual financial and integrated reports, websites and other public information

BOX 4 HOW THE PRESENCE OF FIRMS FROM DIFFERENT SECTORS SUPPORTS INVESTMENT IN THE REST OF AFRICA

Discussions with firms highlighted a common factor contributing to a firm's decision-making when evaluating potential investments. First, firms noted that when seeking investment targets, the network of customers, suppliers, service providers and strategic partners plays an important role. While this network may include South African, African and international organisations, relationships that have been built in the South African market often continue beyond the border.

Second, firms indicated a clear preference for the use of the same service provider where that service provider has a footprint across multiple jurisdictions. Firms noted that this eases the administrative burden and simplifies reporting and communication lines. This was most commonly associated with banking services, where firms noted that they favoured a South African-domiciled bank, even if it was not their primary bank in South Africa.

Third, the presence of South African firms from different sectors is often used as a benchmark to determine the 'ease' with which a company would be able to invest and operate in a country. Firms noted that they tended to view a country's risk more favourably where there was a South African presence from multiple sectors.

Finally, some firms noted that the presence of South African firms from other sectors provided them with a 'market' in African countries beyond the border. Thus, firms were unlikely to be present in another African country unless they had market security in the form of an anchor client, with this client often being a South African firm from a different sector.

BOX 5 IMPACT OF SOUTH AFRICAN INVESTMENT IN THE REST OF AFRICA

In addition to employment creation, generation of tax revenues for government and associated multiplier effects, South African firms investing in the rest of Africa may contribute to host economies through technology transfer, supplier development and broader CSR initiatives.

A number of South African companies have exported skills and technology into other African countries. Gold Fields, one of South Africa's largest gold mining companies, leveraged its human capital and advanced cyanide technology in gold mining to spread its operations not only to West Africa but to Latin America, Western Australia and the Philippines. It is now one of the largest mining companies in the world and has introduced its cyanide technology in all of its gold mines the world over. Likewise, Sasol, a South African synthetic fuel producer,

has developed cutting-edge Slurry Phase Distillate (SPD) and Gas-to-Liquid (GTL) technology, through which the company has expanded its operations globally. This includes the construction of a GTL plant in Nigeria.

In terms of supplier development, retailers operating in the rest of Africa demonstrate the potential of supply chain development by South African companies. These retail chains are important routes to the market for local suppliers and help them attain economies of scale for improved production efficiency. For example, the South African company, Shoprite, has a company policy to source its products from local suppliers; its Zambian and Nigerian stores, for example, stock 80% and 60% locally produced goods respectively.

While there are a number of positive attributes to South African investment into the rest of Africa, a number of studies also suggest that South African investment serves to increase the sectoral concentration across regional blocs. This weakens the ability of local firms to compete against South African multinationals, while also entrenching South African company practices that could be perceived to be anti-competitive at a regional level. The potential anti-competitive nature of some South African investment may therefore counter other positive contributions made.

Note: The Centre for Competition, Regulation and Economic Development (CCRED) has undertaken a number of studies on anti-competitive practices of South African multinationals. See <https://www.competition.org.za/>

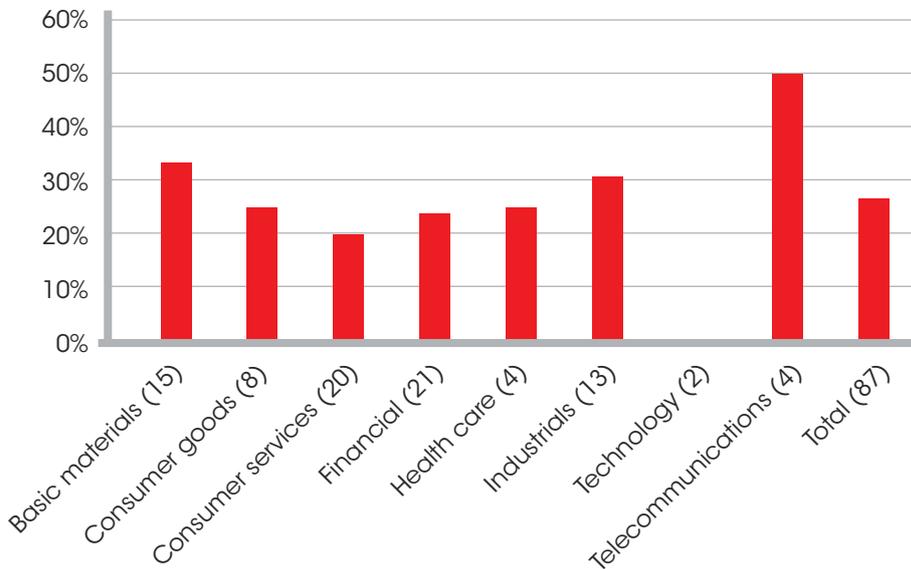
Sources: Verhoef, G. 'Latecomer Challenge: African Multinationals from the periphery'. Research Working Paper. South Africa: ERSA, 2016. Sanchez, D. 'From South Africa With Love – Exporting Corporate Social Investment', HSRC Review, 9, 2, 2011, <http://www.ngopulse.org/article/south-africa-love-exporting-corporate-social-investment>

However, from a corporate social responsibility (CSR) perspective, the performance of South African companies in the rest of Africa appears to be mixed. Existing studies suggest that South African investors do not implement CSR programmes with the same long-term vision as they do in their home country. Instead, these activities are short term, limited to charity, and are often intended to build the company's brand rather than have any significant economic impact. Furthermore, South African investors appear to be motivated by legal regulations – in other words, if a host country does not have rules that require companies to conduct CSR activities, it is unlikely the South African investors will do so of their own accord.¹⁶

16 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>.

In terms of reporting on CSR activities, there also appears to be limited focus on the rest of Africa. A review of companies' (ie, those included in the scoping analysis) annual, integrated and CSR reports for 2017 is summarised in Figure 19. Overall, roughly 25% of firms with a presence in the rest of Africa reported specifically on CSR activities conducted by South Africa in 2017. This may be due to limited attention being given to reporting on activities outside of South Africa or few CSR programmes being undertaken beyond South Africa.

FIGURE 19 PROPORTION OF FIRMS WITH AN AFRICAN PRESENCE WHERE SPECIFIC REPORTING ON CSR ACTIVITIES/ PROJECTS IN THE REST OF AFRICA WAS IDENTIFIED



Note: Numbers in brackets reflect the number of companies in that industry

Source: DNA Economics based on review of 104 companies' annual, CSR and integrated reports for 2017

Where companies have reported on CSR activities in the rest of Africa, these have generally related to education, healthcare, enterprise development and community development initiatives. Table 2 provides an illustration of the types of CSR initiatives that South African companies have reported on in the rest of Africa.

TABLE 2 EXAMPLES OF CSR ACTIVITIES OF SOUTH AFRICAN COMPANIES IN OTHER AFRICAN COUNTRIES

THEMATIC AREA OF INVESTMENT	TYPES OF ACTIVITIES AND REPORTING BY SOUTH AFRICAN COMPANIES
Education and Skills Development	<p>The company invested ZAR 22.2 million in employee development in South Africa and Namibia, building critical skills in the areas of marine science, vessel crewing, artisan work, engineering, supply chain, food safety, food quality and processing, IT and finance.</p> <p>The first phase of the company's Maritime Academy was launched, aimed at developing skills and building a talent pipeline of local sea-going employees. The academy will be developing maritime skills at all levels, from factory and deck hands, through to junior and senior officers, and skippers. The company started this year with the introduction of 10 unemployed fishing operation learnerships to aid in creating a pool of factory-hand employees; each of these learners completed four months of theory prior to going onto the vessel for their practical training.</p> <p>(Oceana Group)</p>
Community Healthcare	<p>The company spent over ZAR 30 million on increasing access to healthcare in fence-line communities in South Africa and Mozambique.</p> <p>(Sasol Ltd)</p>
Small Businesses, Supplier Development, Entrepreneurship & Job Creation	<p>The company has a proactive national supplier programme for its two mines in Ghana, which sees these operations procure about 85% of their goods and services from companies registered in Ghana. Their total procurement spend during 2017 was \$ 560 million. Host community procurement spend for 2017 was \$ 71 million, against a target of \$ 61 million or 13% for the year.</p> <p>(Gold Fields Ltd)</p>
Sports, Arts & Culture	<p>The company invested ZAR 15.9 million in sports, arts and culture initiatives during the year. In Zimbabwe and Mozambique, soccer plays a significant role in communities and the company sponsors various teams as part of its sports initiatives.</p> <p>(Tongaat Hulett)</p>

Source: Companies' annual, integrated and CSR reports for 2017

More broadly, it appears that not many South African companies have demonstrated a strong commitment to aligning their practices and investments to sustainable development. This is reflected, for example, in the fact that of the 104 publicly listed

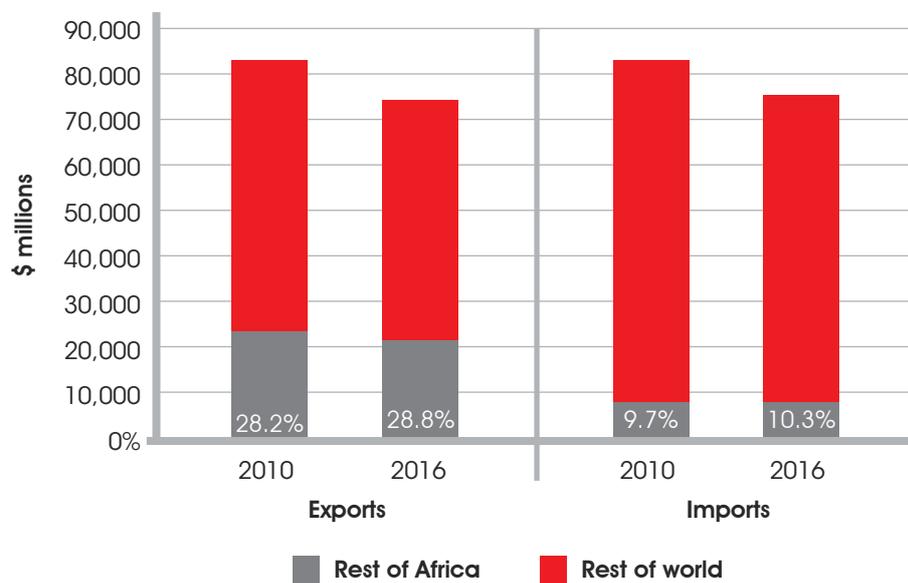
companies included in the scoping analysis, only 20 companies were signed up to the UN Global Compact.¹⁷

THE INFLUENCE OF SOUTH AFRICAN INVESTMENT ON TRADE

SOUTH AFRICA'S TRADE WITH THE REST OF AFRICA

A comparison of South Africa's exports and imports with the rest of Africa between 2010 and 2016 is provided in Figure 20. While in US dollar terms South Africa's overall trade and trade with the rest of Africa fell between 2010 and 2016, the share of the country's trade with the rest of Africa increased over the period, albeit only slightly. In 2016, exports to the rest of Africa made up just under 29% of South Africa's total exports, while imports from the rest of Africa made up just over 10% of total imports.

FIGURE 20 SOUTH AFRICA'S TRADE BY BROAD REGION, 2010 & 2016

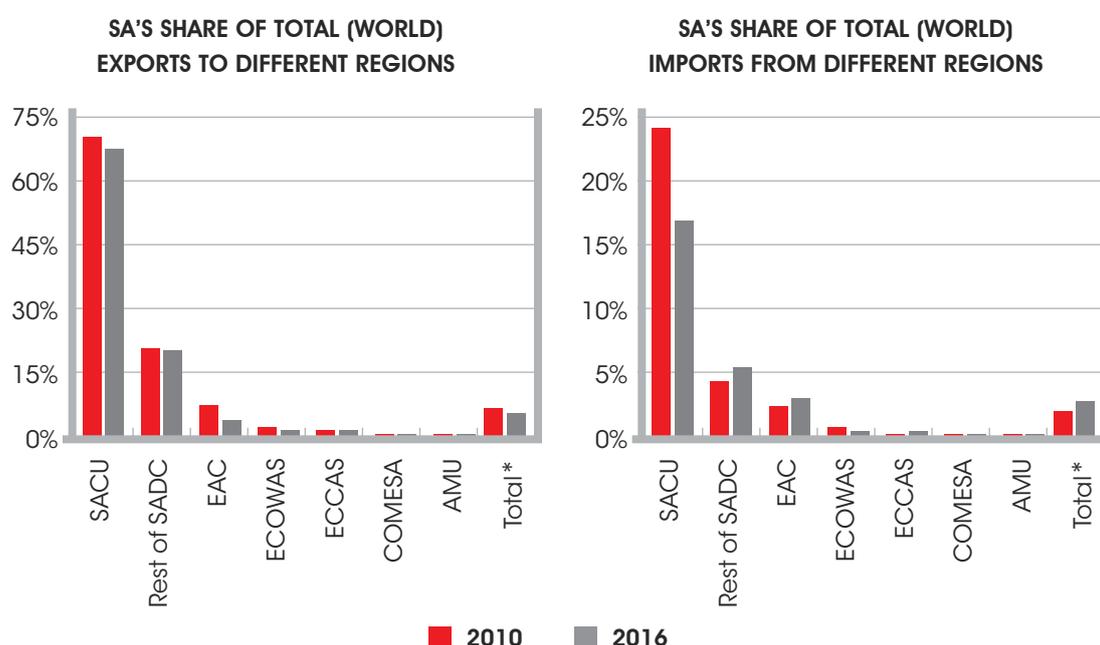


Source: DNA Economics based on data from WITS TRAINS database, <https://www.trademap.org/index.aspx>, last accessed 20 August 2018

17 Figures as of August 2018. The UN Global Compact is a voluntary initiative, acknowledged by UN member states, that aims to increase private sector commitment to the achievement of the Sustainable Development Goals (SDGs). More broadly, the Compact also seeks to align private sector activities and operations with sustainable development practices.

There is a similar regional trade dynamic, as seen in South Africa's direct investment into the rest of Africa. Figure 21 shows South Africa's share of each region's total exports and imports. South Africa accounted for close to 70% of world exports to the rest of SACU in 2016, and roughly 17% of world imports from the rest of SACU. This dynamic changes dramatically beyond the SADC region, with South Africa's share of trade being practically negligible in the North African region, represented by the Arab Maghreb Union (AMU).

FIGURE 21 SOUTH AFRICA'S SHARE OF TRADE BY REGION IN AFRICA, 2010 & 2016



Note: * Reflects SA's share of total exports and imports to and from the rest of Africa

SACU = Southern African Customs Union; SADC = Southern African Development Community;

EAC = East African Community; ECOWAS = Economic Community of West African States;

ECCAS = Economic Community of Central African States;

COMESA = Common Market for Eastern & Southern Africa; AMU = Arab Maghreb Union

Where a country is a member of more than one region, it was included in only one

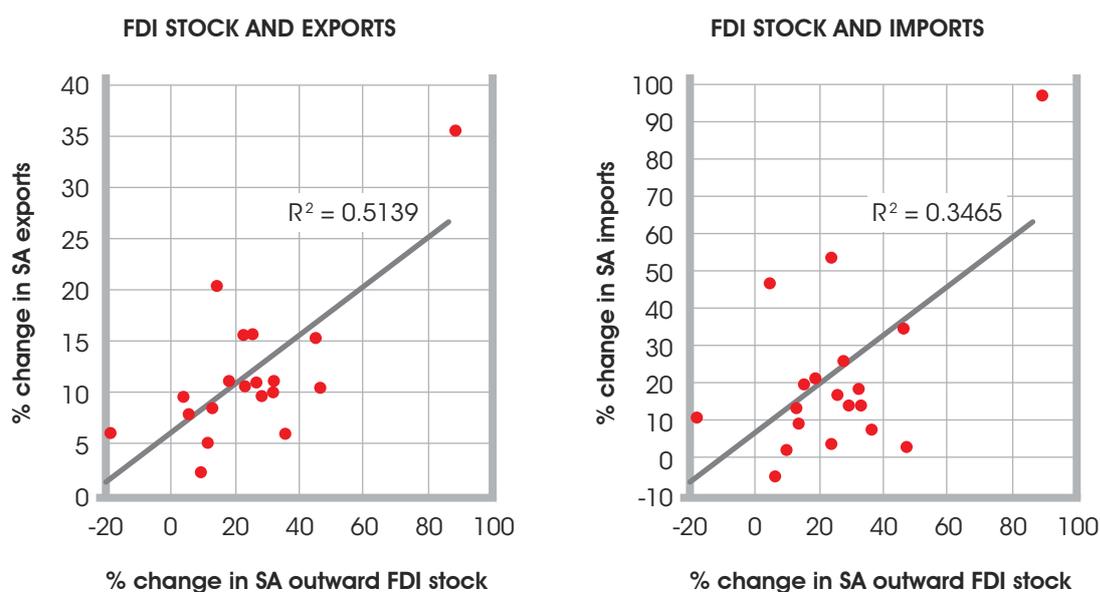
Source: DNA Economics based on data from WITS TRAINS database, <https://www.trademap.org/Index.aspx>, last accessed 20 August 2018

TRADE AND INVESTMENT LINKAGES

There has been extensive literature dedicated to understanding the link between direct investment and trade. In general, it is accepted that trade and investment are complementary, although the causal nature of the relationship is not always clear.¹⁸

Figure 22 compares changes in South Africa's outward FDI stock with changes in South African trade with countries where disaggregated FDI stock data was available. The analysis did not provide any conclusive link between growth in FDI and growth in trade, ie, there was no clear correlation between changes in investment and changes in trade.¹⁹

FIGURE 22 SOUTH AFRICA'S GROWTH IN TRADE AND FDI STOCK WITH SELECTED AFRICAN COUNTRIES, 2010 TO 2016, ANNUALISED CHANGE



Note: Shows data for 19 countries, based on data availability

Source: DNA Economics based on data WITS TRAINS database (<https://www.trademap.org/Index.aspx>, last accessed 20 August 2018) and data provided by South African Reserve Bank

18 See, for example, Chaisrisawatsuk, S & W Chaisrisawatsuk, 'Imports, exports and foreign direct investment interactions and their effects', 2007, pp. 97–115, Chapter IV in ESCAP, *Towards coherent policy frameworks: understanding trade and investment linkages – A study by the Asia-Pacific Research and Training Network on Trade* (United Nations, New York).

19 An analysis of different trade and investment variables, with available data (such as South Africa's share of FDI in and trade with a country, and the absolute value of trade and FDI), produced similarly weak correlation results.

However, it should be highlighted that multiple, context-specific factors are likely to influence the link between trade and investment, and this does not imply that there is no link at all. In addition, much of South Africa's investment in the rest of South Africa has occurred in services-related sectors, and such trade flows would not be captured by this data.

Anecdotal evidence from interviews with selected companies also highlighted that where the rationale for investing in a country is primarily profit-driven (and where the investee companies have significant independence), the destination and origin of inputs are less of a concern than their relative cost and quality (see also Box 2). Some companies also noted the geographic dimension as influencing the sourcing of inputs: where investee companies were located further away from South Africa, they were also more likely to procure goods from other regions.

This suggests that while South African investment into Africa may not strongly influence trade dynamics, increased investment competition on the continent may serve to further weaken the link. This is especially true where infrastructure and logistics challenges impede intra-African trade and where investors from other regions exert greater control over the source of goods and services procured by investee companies.

SOUTH AFRICA AS A REGIONAL DISTRIBUTION HUB

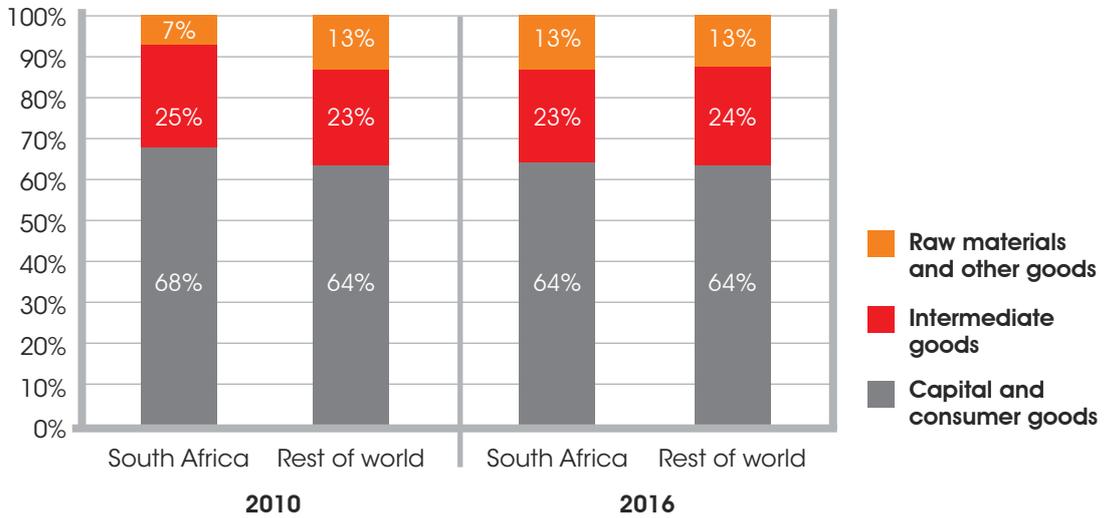
When comparing South Africa with the rest of the world, the dynamics of their trade with the rest of Africa appear somewhat similar, as shown in Figure 23 and Figure 24. South Africa appears to mostly export capital and consumer goods to the rest of Africa, with these goods accounting for just under two-thirds of South Africa's exports to the rest of Africa in 2016.

By contrast, South Africa's imports from the rest of Africa were primarily made up of raw materials, as shown in Figure 24. Despite a slight increase between 2010 and 2016 in the share of consumer and capital goods imported by South Africa, more than 50% of South Africa's imports from the rest of Africa were made up of raw materials.

While the broad trade data suggests that South Africa is a significant source of manufactured goods for the rest of Africa, it masks, to some extent, South Africa's role as a regional distribution (and assembly) hub for goods manufactured outside of Africa and destined for markets in the rest of Africa

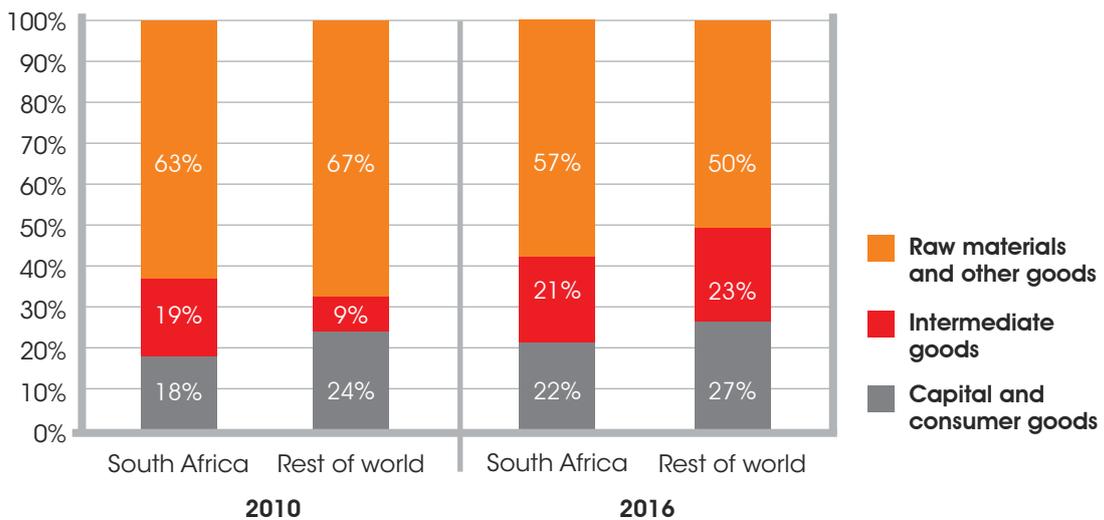
While the broad trade data suggests that South Africa is a significant source of manufactured goods for the rest of Africa, it masks, to some extent, South Africa's role as a regional distribution (and assembly) hub for goods manufactured outside of Africa and destined for markets in the rest of Africa. Because of the nature of

FIGURE 23 EXPORTS BY SOUTH AFRICA AND THE REST OF THE WORLD, TO THE REST OF AFRICA, BY TYPE OF GOOD, 2010 & 2016



Source: DNA Economics based on data WITS TRAINS database, <https://www.trademap.org/Index.aspx>, last accessed 20 August 2018

FIGURE 24 IMPORTS BY SOUTH AFRICA AND THE REST OF THE WORLD, TO THE REST OF AFRICA, BY TYPE OF GOOD, 2010 & 2016

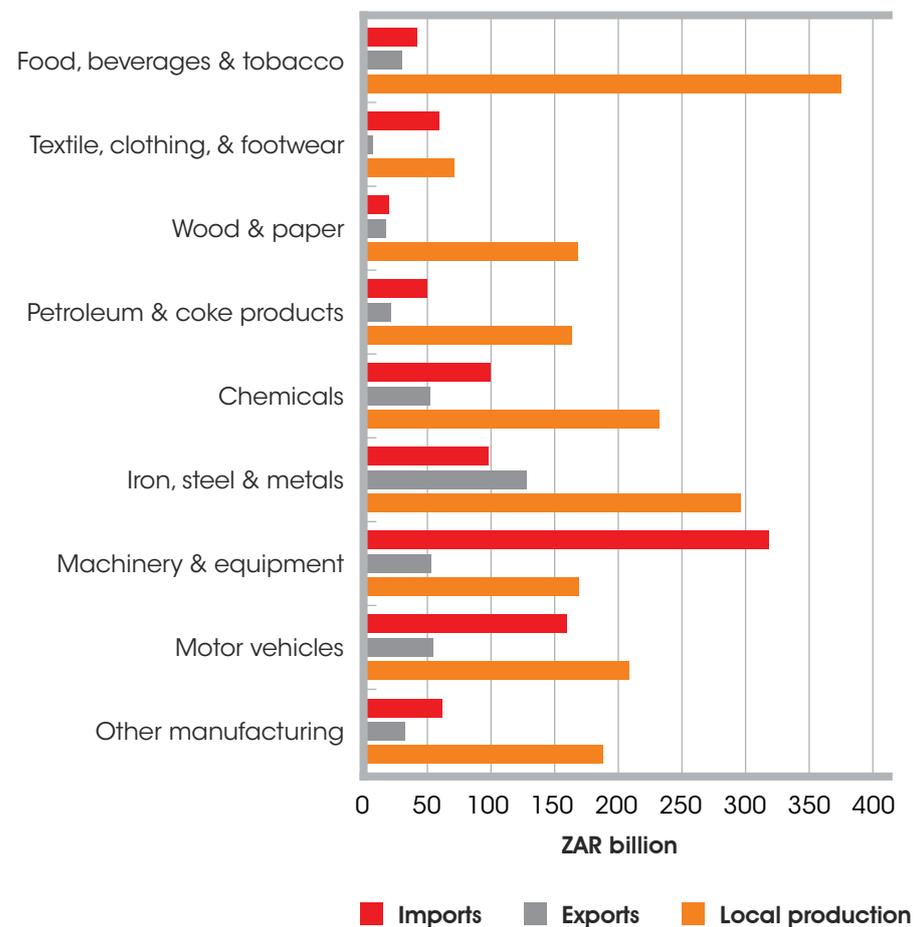


Source: DNA Economics based on data WITS TRAINS database, <https://www.trademap.org/Index.aspx>, last accessed 20 August 2018

trade data records (and the distribution/assembly value chain), it is difficult to fully dissect the extent of this type of trade.

However, as shown in Figure 25, in 2014 South Africa was a net importer (in global terms) 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, the value of imports was roughly double the value of local production, and almost six times the value of exports in 2014.

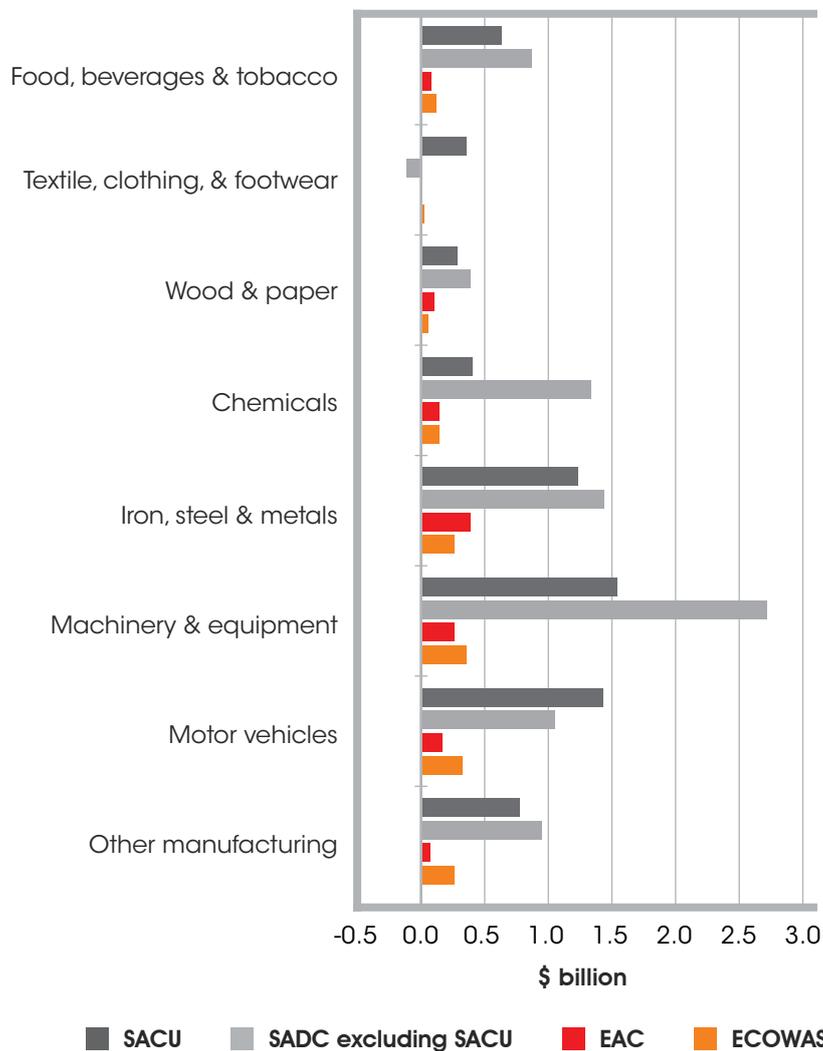
FIGURE 25 SOUTH AFRICA'S MANUFACTURING PRODUCTION AND TRADE, 2014



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

Despite South Africa being a net importer of manufactured goods in global terms, it is a net exporter of manufactured goods to the different economic regions in the rest of Africa, as shown in Figure 26. While this may reflect, to some extent, South Africa's comparative advantage relative to other African economies (or the focus on exporting niche manufactured goods to these regions²⁰), it also highlights South Africa's role as a hub for assembly and redistribution of goods from the rest of the world to the rest of Africa.

FIGURE 26 SOUTH AFRICA'S MANUFACTURED NET EXPORTS TO REGIONS IN THE REST OF AFRICA, 2014



Source: DNA Economics based on data from ITC Trade Map, <https://www.trademap.org/Index.aspx>, last accessed 20 August 2018

20 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.

This may be particularly true for a sector such as machinery and equipment manufacturing, where South Africa's imports dwarf local production but the sector makes up a significant proportion of South Africa's net exports to the rest of Africa. South Africa's role as an assembly hub was to some extent confirmed by the companies interviewed, which noted that South African distributors are often used to import machinery and equipment, and then export these goods to, and assemble them in, other African countries and undertake maintenance and repair activities where necessary.

SUMMARY AND POLICY IMPLICATIONS

South Africa remains one of the largest investors in the African continent while continuing to have a strong sphere of influence in the Southern African region. This is partly due to its relatively advanced (and much larger) economy and well-developed links to global finance. There is also clear evidence that South African investment has expanded well beyond neighbouring markets, with significant growth in FDI in countries such as Ghana and Kenya. However, investment by South African firms in the North African region remains limited.

South Africa is also seen as a largely market-seeking investor in the rest of Africa. Historically, a large proportion of this investment has been motivated by a desire to expand markets and achieve higher profit margins, rather than extract resources or reduce operating costs. This is reflected both in the broad range of South African services and manufacturing sectors that have invested in the continent and the broader contribution that some South African firms have made to local development in these markets.

South Africa has positioned itself as an investment gateway to the rest of Africa, evidenced in the country acting as a regional services and distribution hub, with South African distributors importing manufactured goods from global locations for re-export into the rest of Africa. This role as a gateway and distribution hub may overstate the extent to which the rest of Africa is a destination for (certain) South African manufactured goods, while understating the contribution made by South Africa's logistics and distribution sectors. In addition, this role has meant that a number of ancillary services are provided by South African companies (such as maintenance and repair services) to countries in the rest of Africa.

South African firms are also seeing increasing investment competition in the rest of Africa, primarily from developing economies from the rest of the world (and particularly from Asia), but also through increasing cross-border investment within the continent

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particularly from Asia), but also through increasing cross-border investment within the continent. Such competition, while potentially positive for the investee countries, will serve to reduce South Africa's influence in the rest of Africa, negatively impacting its own perceived role as a gateway to the region.

Increasing investment competition is also likely to impact trade dynamics between South Africa and the rest of the continent. While the preliminary analysis suggested that there may not be a strong link between South Africa's growth in FDI stock and growth in exports to the rest of Africa, this link may be further weakened by increased investment competition. Other foreign investors into Africa may implement stricter procurement policies that direct trade towards specific regions, away from South Africa. China's focused investment in infrastructure on the continent (and particularly in the East African region) may serve to improve logistics and transport routes between various Central and Southern African countries and key ports in East Africa. This is also likely to have an impact on South Africa's traditional role as a regional distribution hub.

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 activity is undertaken by the private sector. This is in contrast to 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 better understand the challenges

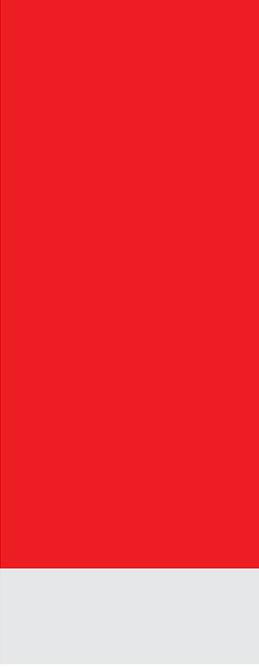
Better dialogue between the South African private and public sectors can help to ensure that technical and political engagements between South African and other African governments address issues of concern to South African businesses. Creating better platforms for discussion between policy makers and the private sector can also enhance South Africa's engagement in various trade and investment integration initiatives

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. Creating better platforms for discussion between policy makers and the private sector can also enhance South Africa's engagement in various trade and investment integration initiatives. This includes 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. This, however, may also necessitate a proactive approach by South African companies in demonstrating their commitment to principles of sustainable development. South African firms could adopt a more holistic approach to CSR activities, provide better reporting on sustainable development investment and increase their participation in initiatives such as the UN Global Compact. This would serve to improve both the perception and reality of South African companies’ contribution to positive socioeconomic outcomes in the other African countries in which they invest and operate.

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

Finally, the analysis makes clear that South African investment into (and trade with) the rest of Africa is linked to both goods and service-oriented sectors. South Africa should therefore aim to ensure that deeper and more expansive regional liberalisation of goods, services and investment are achieved. This should be the goal, even if it requires greater liberalisation concessions by South Africa in the different regional negotiating forums. Such an approach would provide South African firms with preferential access into other African markets, and allow these firms to better compete against global investors in these regions.



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