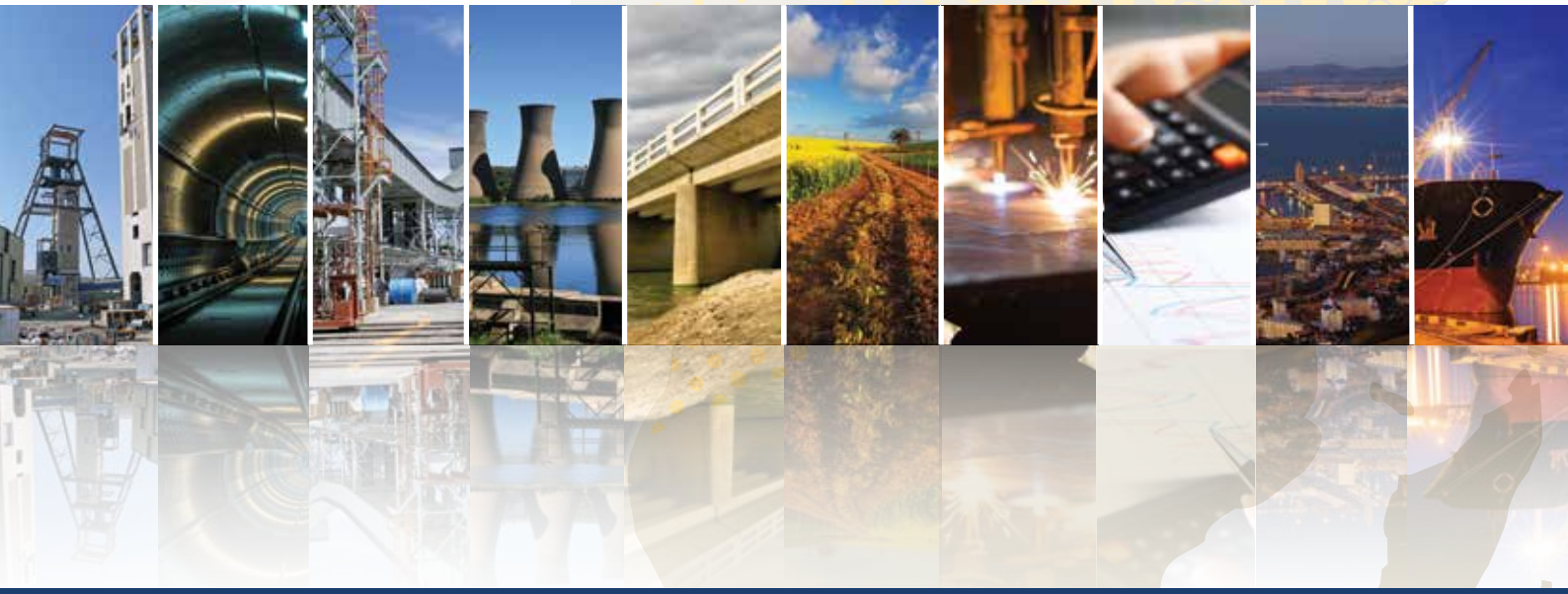

TRADE AND INVESTMENT OPPORTUNITIES IN AFRICA

PROSPECTS AND CHALLENGES FOR SOUTH AFRICAN EXPORTERS AND INVESTORS

ESTABLISHED IN 2001
ECIC
EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA SOC LTD

TRADE AND INVESTMENT OPPORTUNITIES IN AFRICA

Prospects and Challenges for South African Exporters and Investors

Published by
Export Credit Insurance Corporation of South Africa SOC LTD
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South Africa
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GLOSSARY OF ACRONYMS

AEC	African Economic Community
AfDB	African Development Bank
AU	African Union
AV	Audio-visual
BIT	Bilateral Investment Treaty
CAADP	Comprehensive Africa Agriculture Development Programme
CEMAC	Economic and Monetary Community of Central Africa
CEN-SAD	Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
CREC	China Railway Engineering Corporation
DBSA	Development Bank of Southern Africa
DIRCO	Department of International Relations and Cooperation
DRC	Democratic Republic of the Congo
EAC	East African Community
ECCAS	Economic Community of Central African States
ECIC	Export Credit Insurance Corporation
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
M&A	Merger and Acquisition
NDP	National Development Plan
NIPF	National Industrial Policy Framework
NEPAD	New Partnership for Africa's Development
NIPF	National Industrial Policy Framework
OECD	Organisation for Economic Cooperation and Development
PIDA	Programme for Infrastructure Development in Africa
REC	Regional Economic Community
RHIB	Rigid hull inflatable boat
RMB	Rand Merchant Bank
SAA	South African Airways
SACU	Southern African Customs Union
SADC	Southern African Development Community
TISA	Trade and Investment South Africa
The dti	Department of Trade and Industry
TOC	Trade Opportunities Centre
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UMA	Union of the Arab Maghreb
US	United States
WTO	World Trade Organisation

1. BACKGROUND AND OBJECTIVES

After decades on the sidelines of the global economy, there is now a near-universal agreement that Africa is becoming an increasingly attractive hub for foreign investors. Boosted by various economic, political and social reforms, growth in Africa averaged more than 5% a year between 2003 and 2012, with some countries registering annual growth rates of 7 to 18%. By 2012, sub-Saharan Africa's collective gross domestic product (GDP) was USD$2.0 trillion (roughly more than India's and slightly less than Brazil's)[1]. With no less than six of the world's ten fastest growing countries over the past decade, Africa is attracting increased investment. A report by the United Nations Conference on Trade and Development (UNCTAD) shows that foreign direct investment (FDI) into Africa has grown from US$15 billion in 2003 to US$50 billion in 2012[2]. The economic rise of the continent is expected to continue over the next few years, with the International Monetary Fund (IMF) forecasting an average growth of 6% per annum over the next ten years[3].

There is also a significant boost in the spending power of Africans. According to the African Development Bank (AfDB), Africa's fast-emerging middle class is comprised of over 300 million people, and analysts from the McKinsey Global Institute estimate that general consumer spending across the continent will hover past the US$1 trillion mark in 2020[4].

As Africa's economies progress, analysts project that opportunities will open up in sectors such as retail, tourism, telecommunications, financial services, infrastructure-related industries, resource-related businesses, and along the agricultural value chain.

There is thus a clear need for increased South African economic engagement in Africa. Increased trade facilitates growth for South African businesses, as well as South Africa's African partners, simultaneously strengthening its economy and Africa's markets. In addition to creating jobs domestically, investment abroad allows South African companies to strengthen and deepen host economies' productive capacities and the creation of manufacturing value chains.

Accordingly, this paper aims to identify and unlock opportunities that the region has to offer to South African exporters and investors. This paper does not seek to provide definitive answers as to how companies should access and manage African opportunities, but rather to recognise and leverage the value of typologies.

1. Ernst and Young. 2012. 2012 Attractiveness Survey: Africa – Building Bridges. Ernst and Young: London.
2. UNCTAD. 2013. World Investment Report 2013 – Global Value Chains: Investment and Trade for Development. United Nations: New York and Geneva.
3. IMF. World Economic Outlook Database.
4. McKinsey Global Institute. 2010. Lions on the Move: The Progress and Potential of African Economies. McKinsey and Company; AfDB. 2011. The Middle of the Pyramid: Dynamics of the Middle Class in Africa, Market Brief. AfDB: Tunis.

2. THE SOUTH AFRICAN TRADE AND INVESTMENT STRATEGY TOWARDS AFRICA

South Africa's foreign and trade policy has been characterised by a greater emphasis to accelerate and deepen engagement in Africa. To this end, the government laid out a series of interrelated policies to meet this objective, including the following plans and frameworks.

2.1 NATIONAL DEVELOPMENT PLAN

The government's broad developmental strategy, under the auspices of the National Development Plan (NDP), aims to restructure the South African economy in order to accelerate and sustain its performance. In so doing, the strategy aims to create opportunities for jobs in order to reduce poverty and the extreme inequalities that characterise South African society and the economy.

In achieving the developmental goals, the NDP views increasing South Africa's exporter base as a vital component for accelerating economic growth, enhancing economic participation and generating employment opportunities. The plan advocates a focus on South African factor endowments and on areas where the country has a comparative advantage, such as mining, construction, mid-skill manufacturing, agriculture and agro-processing, tourism and business services. The plan also calls for investment in cross-border infrastructure projects, such as road and rail networks, energy and port infrastructure, in order to facilitate deeper integration[5].

2.2 NATIONAL INDUSTRIAL POLICY FRAMEWORK

South Africa's National Industrial Policy Framework (NIPF) aims to facilitate diversification of the country's current industrial product mix by promoting the production of high value-added manufactured goods. The aim is to facilitate the diversification of South Africa's production base beyond its current reliance on raw materials. In addition, the NIPF aims to contribute to Africa's industrial development by pursuing a broader conception of regional integration with an emphasis on building the continent's productive capabilities[6]. The export-readiness of companies remains a crucial component of the NIPF and is considered central to achieving competitiveness and inclusive growth.

2.3 SOUTH AFRICAN TRADE POLICY AND STRATEGY FRAMEWORK

Regional integration, in particular in Africa, is a central thrust of South Africa's trade policy. The policy complements and supports the objectives of the NIPF, and further calls for diversification of the country's export markets.

On the African continent, the framework calls for South Africa to play a meaningful role in strengthening continental processes that seek to diversify and build agriculture and industrial production in line with the objectives set out in the New Partnership for Africa's Development (NEPAD). Part of this process requires building the productive base of regional markets and strengthening border infrastructure development. The framework further indicates that South African bilateral relations should serve the developmental priorities defined by African countries[7].

5. National Planning Commission. 2011. National Development Plan – Vision for 2030. Government Printing Works: Pretoria.
6. Department of Trade and Industry. 2007. A National Industrial Policy Framework. Government Printing Works: Pretoria.
7. Department of Trade and Industry. 2009. A South African Trade Policy and Strategy Framework. Government Printing Works: Pretoria.

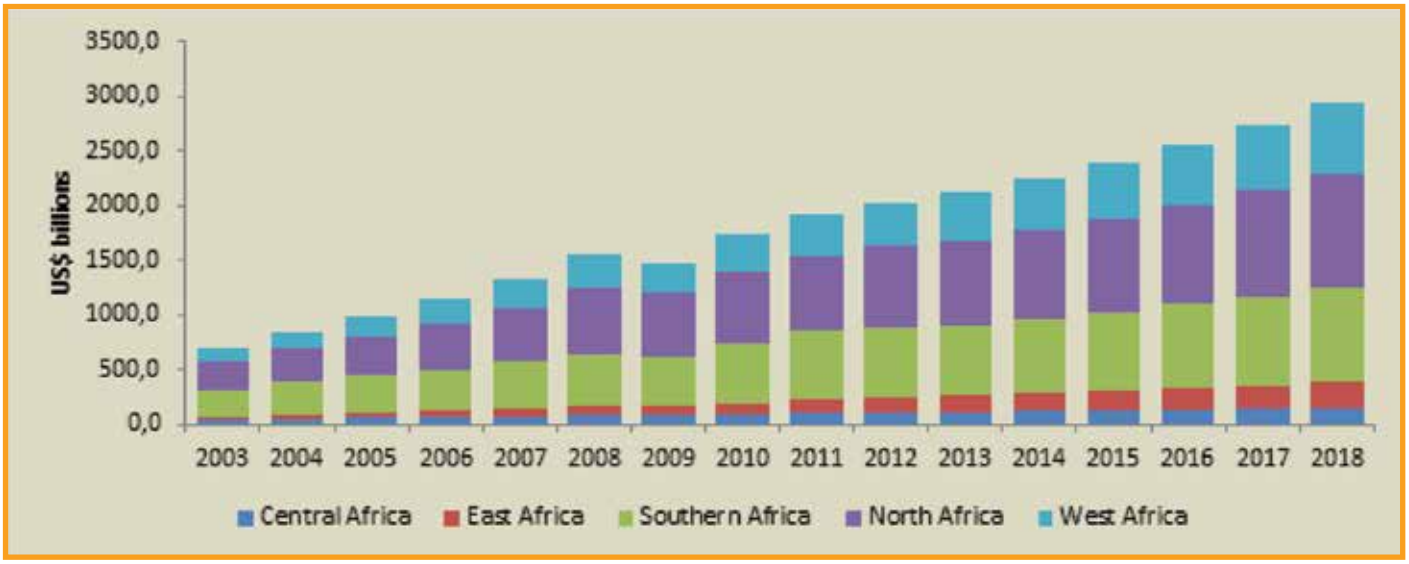
3. AFRICA'S MACROECONOMIC PERFORMANCE AND OUTLOOK

3.1 OVERVIEW

3.1.1 REGIONAL DYNAMICS

Growth in Africa averaged more than 5% a year between 2003 and 2012. Accordingly, the size of the African economy has more than tripled, and has grown at twice the population growth rate since then. At about US$2 trillion in 2012, the collective African economy was larger than that of either Russia or India, and it is expected to double by 2025[8].

Figure 1: Africa's economic output (2003–2018)



Source: IMF World Economic Outlook Database, April 2013.

Figure 1 shows that North Africa and Southern Africa are the dominant regions in the continent. Both regions accounted for approximately 68.5% of Africa's economic output in 2012. West Africa followed with 19.9%, East Africa with 6.5% and Central Africa with 5.2%. Further regional dynamics are as follows:

In **Central Africa,** GDP is likely to continue to grow by 5.7% in 2013 and 5.4% in 2014, with above average growth in Chad and in the Democratic Republic of Congo (DRC). In Chad, oil production and agriculture are the main drivers of growth. In the DRC, mining, agriculture and construction are boosting growth. However, sustainable growth requires further progress in political stability, and the security problem in the eastern part of the country has significantly affected economic activity in that region[9].

8. Ernst and Young. 2013. Attractiveness Survey Africa 2013 – Getting Down to Business. Ernst and Young: London.
9. AfDB, Organisation for Economic Cooperation and Development (OECD), UNDP, and Economic Commission for Africa. 2013. Africa Economic Outlook 2013. AfDB, OECD, UNDP, ECA: Paris and Addis Ababa.

Most countries in **East Africa,** such as Rwanda, Tanzania, Ethiopia and Uganda, are on a solid growth path of between around 5% and 7% for the next five years. Economic growth in Kenya is expected to amount to 4.5% in 2013 and to accelerate to above 5% in 2014. In Sudan, the economy has been heavily affected by the secession of South Sudan. In 2012, GDP contracted by 4.4% and for 2013 a moderate growth of 1.2% is projected, together with an acceleration of 2.6% in 2014[10].

Due to the resumption of oil production and exports, Libya's GDP bounced back by 96% in 2012, boosting growth in **North Africa** to 9.5%, after the region's GDP had stagnated in 2011. Given political uncertainties and difficult international economic conditions in Egypt, growth is expected to remain subdued at 2% in 2013 and to accelerate to 3.5% in 2014, thus remaining below pre-revolution levels. After negative growth of around 2% in 2011, the Tunisian economy recovered in 2012, growing by over 3%. It is expected that the economy will continue to grow by around 3.5% in 2013 and to achieve higher growth of around 4.5% in 2014. In 2013–2014, Morocco and Mauritania are expected to achieve solid growth rates of 6% and 5% respectively. In Algeria, growth is expected to accelerate from 2.5% in 2012 to above 3% in 2013 and to 4% in 2014[11].

In **Southern Africa,** GDP is expected to grow by around 4% in 2013 and to accelerate to 4.6% (if South Africa is excluded, it is expected to grow by 5.1%) in 2014. In Angola, Mozambique, Zambia and Botswana, growth is likely to remain buoyant. Malawi is expected to emerge from its 2012 economic crisis and to return to solid growth. In 2012, economic growth in South Africa was adversely affected by heavy strikes in the mining sector and the recession in the Euro area. With improved global demand and supportive macroeconomic policies, a gradual recovery is expected for 2013 and 2014. Zimbabwe continues to record positive growth rates of above 5%. However, due to the economic crisis, with declining production levels until 2009, by the end of 2014, real GDP will still be more than a quarter lower than it was in 2001. Swaziland's economic growth continues to be the lowest in the region and in Africa as a whole.

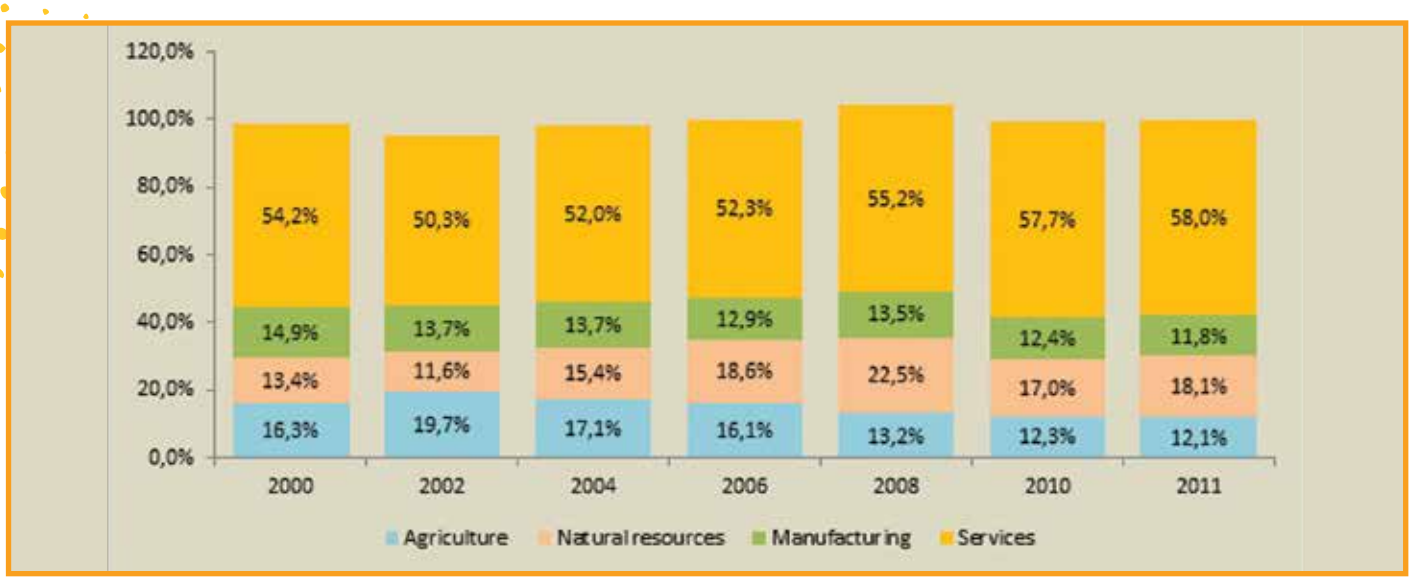
West Africa has grown at a compound rate of 13.5% between 2003 and 2012. The region is expected to continue its rapid growth with rates of 6.7% in 2013 and 7.4% in 2014. It has become the fastest growing region of the continent. Growth in the region is not only driven by the oil and mineral sectors, but also by agriculture and services, and on the demand-side, it is driven by consumption and investment. Nigeria is expected to continue growing by between 6.7% and 7.3% in 2013 and 2014 respectively. In Ghana and Côte d'Ivoire, average growth in 2013–14 is likely to exceed 8% and 9% respectively. In most countries of the region, growth is expected to pick up in 2013–2014, exceeding 5%. In a few countries, such as Benin, Cape Verde and Guinea-Bissau, growth will remain more subdued[12].

3.1.2 SECTORAL COMPOSITION

While natural resources are an important contributor to Africa's growth and will continue to be, they have contributed less than a third of Africa's growth since 2000. The rest has come from a range of other sectors, including agriculture, manufacturing, construction, and services[13]. These growth patterns are reflected in the overall structure of Africa's total GDP.

10. ibid
11. ibid
12. ibid
13. Ernst and Young, op.cit.

Figure 2: Sectoral contribution of Africa's GDP (2000–2011)



Source: The World Bank, World Development Indicators 2013.

Figure 2 shows that, since 2000, natural resources have made an average contribution of less than 20%, while services are moving closer to accounting for 60% of the value added to the sector. The services industry's future growth trajectory is expected to maintain the same momentum for the foreseeable future.

3.2 ECONOMIC PERFORMANCE DRIVERS

3.2.1 COMMODITY PRICES

There is a fairly common view that Africa's growth over the past decade has been driven by the demand for its natural resources. Higher commodity prices have increased returns and incentivised investment in places where infrastructure deficiencies and political risk make production costly. In addition, firms entering underdeveloped countries have, in many instances, had to invest in the infrastructure required to facilitate the production and transportation of resources. These have not only contributed to growth in the natural resources industry, but have also improved efficiencies for other sectors that are able to use the infrastructure.

Finally, high commodity prices have boosted the external and fiscal accounts of commodity-producing countries. A study by Ernst and Young shows that Africa's ability to cover its total debt service through export earnings has strengthened fourfold, on average, since 2007, in comparison to 1990 levels[14].

3.2.2 IMPROVED SOVEREIGN PROFILES

Due to debt forgiveness under the auspices of the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, many African countries have had their stifling debt burdens substantially reduced over the course of the last decade. Average external debt on the continent has fallen from 63% of GDP in 2000 to 22.2% in 2012[15]. This improved sovereign profile has allowed many African governments to have greater flexibility to invest in growth. In addition, a number of countries in the region have obtained international sovereign credit ratings, allowing them to raise international bonds, for which the proceeds have been allocated to infrastructure investment.

3.2.3 POLITICAL STABILITY

With a few exceptions (Mali, the Central African Republic and some North African countries), the region has experienced greater political stability

14. Ernst and Young. 2013, op.cit.
15. Severino, J & Debled, E. Africa's Big Boom. The Independent, 1 November 2012.

during the past decade than at any other time in its post-colonial history. The improved political climate has paved the way for a reduction in economic risk, and has allowed normal economic activity to be re-established in many nations. This paved the way for much-needed foreign investment.

3.2.4 CONSUMPTION DYNAMICS

The continent's new-found appeal is also underpinned by population dynamics, characterised by the rapidly growing population and increasing household income. The increase in population is associated with rising domestic consumption. Consumer spending accounts for some 60% of GDP in Africa, and is a major contributor to overall demand growth[16]. In addition, declining inflationary pressures, improved access to credit, lower interest rates and sustained remittance inflows have increased real per capita incomes, thus supporting consumer demand in the region and contributing to its resilience and robust growth in recent years. According to the African Development Bank, the number of middle-class consumers in Africa has expanded by more than 60% to 313 million over the past decade[17].

3.3 OUTLOOK

Going forward, the robust domestic demand factors that have underpinned the region's growth performance in recent years and the projected strengthening of global demand are expected to support its medium-term growth trajectory. The IMF projects that 11 of the 20 fastest growing economies in the world through to 2018 will be in Africa. The IMF's forecasts for 54 African countries suggest that 19 will grow by more than 6% in 2013, increasing to 23 in 2014[18].

Investments in the natural resources sector in the region are still set to remain an important growth driver. However, investment in other sectors, such as financial and business services, infrastructure and retail services, should grow further in the medium term[19].

However, there are downside risks to the projected bullish outlook. These include a possible downturn in the Chinese, EU (European Union) and US (United States) economies, intensification of easing in international commodity prices, economic overheating, adverse weather conditions and disruptions to productive activity due to political, civil and labour unrest. The projected rise in consumption spending may also generate substantial current account deficits and could be exacerbated should exceptionally low interest rates and liquidity be constrained, thereby rendering Africa a less attractive investment destination.

16. The World Bank. 2013. Africa's Pulse – An Analysis of Issues Shaping Africa's Economic Future, 7. The World Bank: Washington DC
17. AfDB. The Middle of the Pyramid: Dynamics of the Middle Class in Africa. Market Brief. 20 April 2011. AfDB: Tunis.
18. IMF. 2013. World Economic Outlook Database.
19. The World Bank. 2013. Global Economic Prospects – Less Volatile, but Slower Growth, 7. The World Bank: Washington DC.

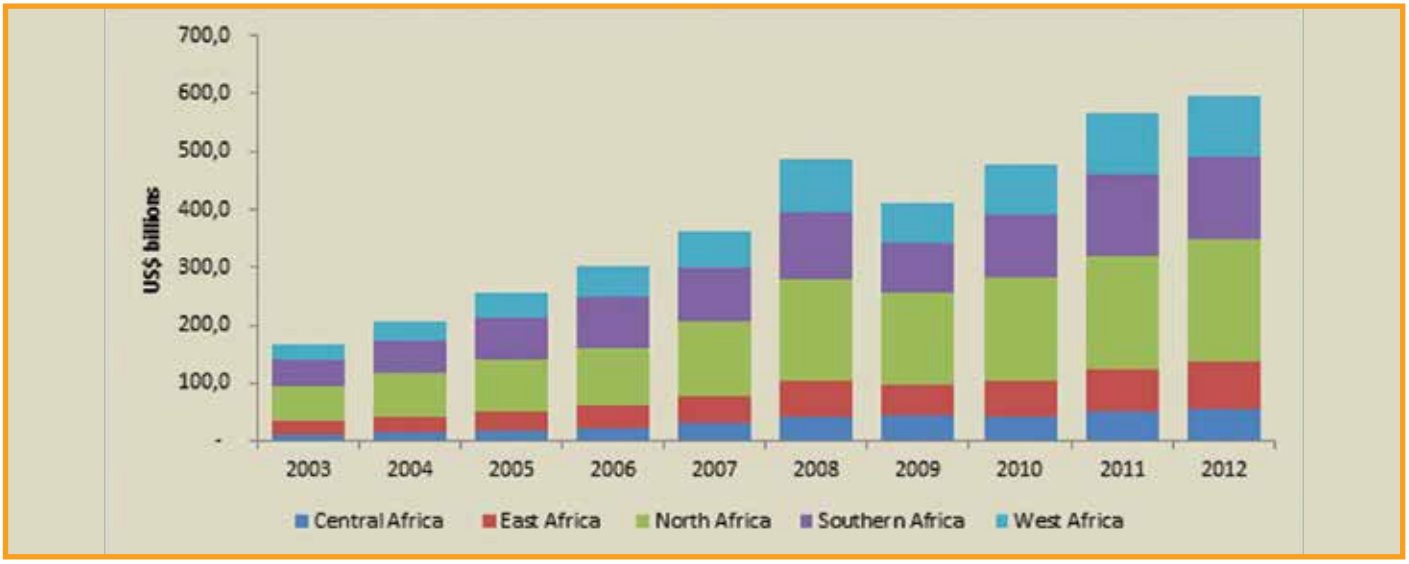
4. TRADE AND INVESTMENT ANALYSIS BETWEEN SOUTH AFRICA AND THE CONTINENT

4.1 DIRECTION AND COMPOSITION OF TRADE

4.1.1 TRADE WITH REST OF WORLD

Over the years, there has been a slow and steady rise in Africa's imports from the rest of the world, as illustrated in Figure 3. Barring a dip in 2009, imports have continually risen, reaching US$597 billion in 2012. The propensity to import has been on the increase across all the regions, with all the regions registering double digit growth rates over the past 10 years. North Africa and Southern Africa have been the largest importing regions throughout the past decade. Both regions accounted for approximately 60% of the total African import basket in 2012.

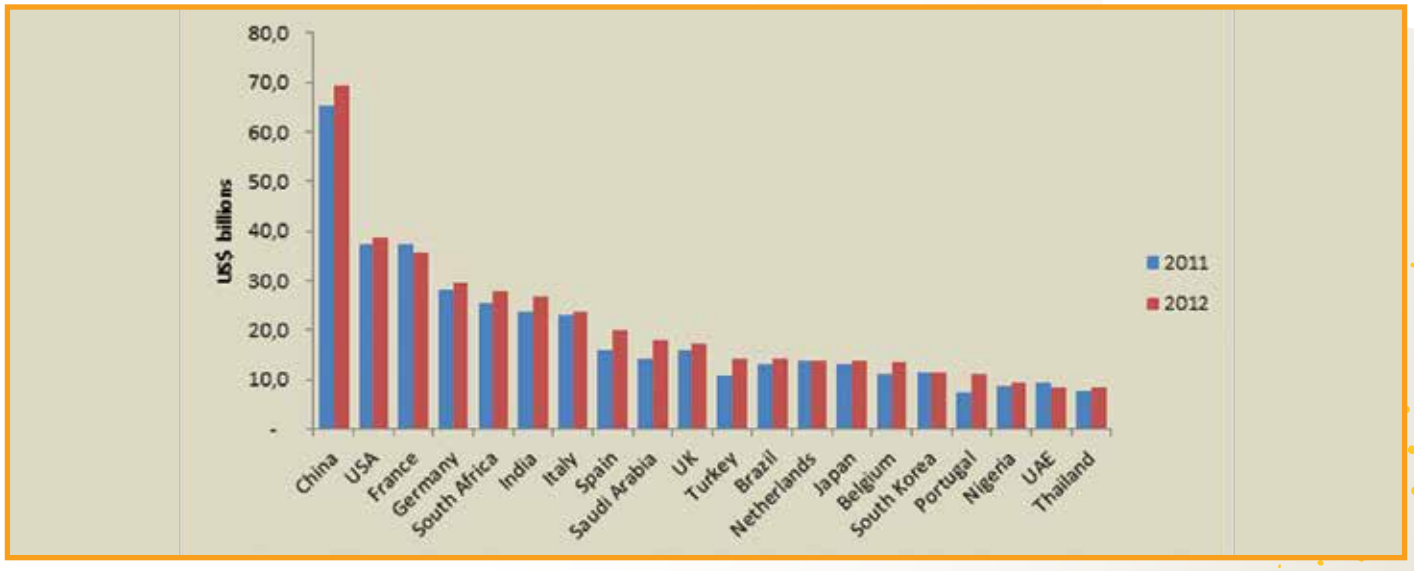
Figure 3: Africa's imports from rest of world



Source: UNCTAD Statistics.

Figure 4 shows that the top 20 African trading partners accounted for approximately 74% of Africa's imports in 2012. China has emerged to become Africa's largest trading partner over the decade. Africa's imports from China grew from US$8.6 billion in 2003 to US$69.3 billion in 2012 – a compound growth rate of 26%. China was followed by the USA, France, Germany and South Africa in the top ten.

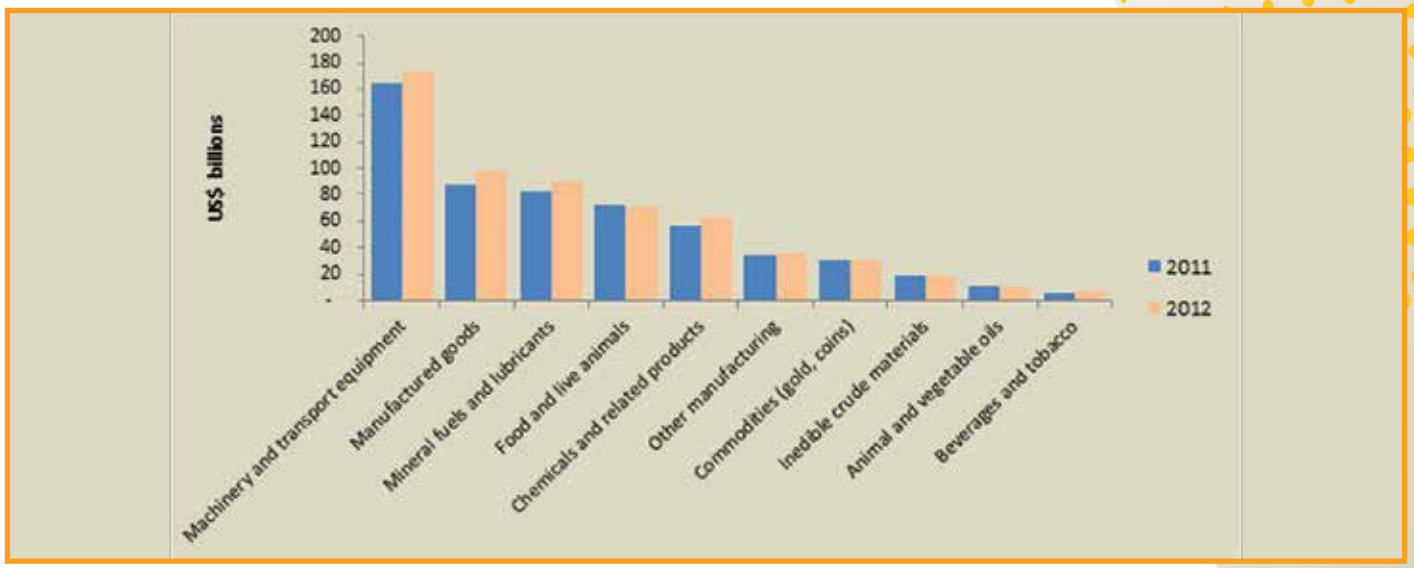
Figure 4: The origin of African imports



Source: UNCTAD Statistics.

It should be noted that African countries import manufactured and other high value-added products to a great extent due to the weakness of their industrial sectors. Data from UNCTAD shows that in 2012, machinery and transport equipment, and manufactured goods constituted over 50% of Africa's imports from the rest of the world. This was followed by refined fuel and related products (15%), food and live animals (12%), and chemical products (11%). Figure 5 shows the composition of African imports from the rest of the world by value for the period 2011–2012.

Figure 5: Top 10 African imports from rest of world (2011–2012)

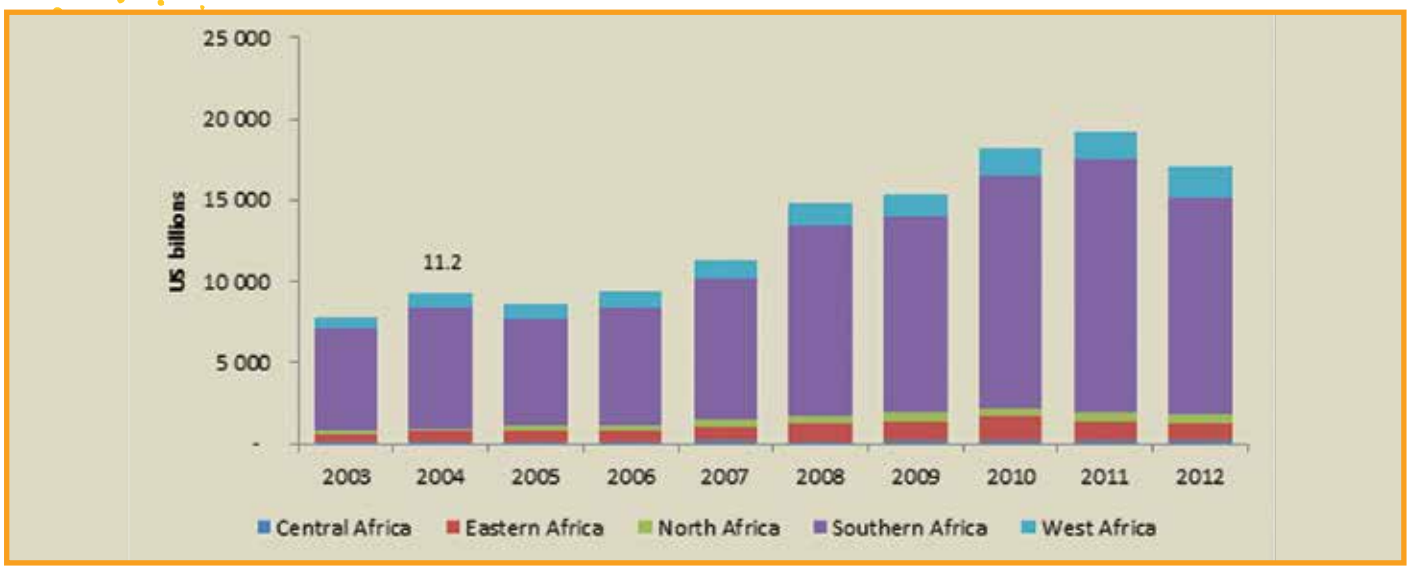


Source: UNCTAD.

4.1.2 TRADE WITH SOUTH AFRICA

Over the years, there has been a slow and steady rise in South Africa's exports to the rest of the African continent, as illustrated in Figure 4. At US$19.1 billion in 2012, Africa accounted for 15.1% of South Africa's total export basket. Southern Africa is the largest destination of South Africa's exports, comprising 70% (US$13.4 billion) of the country's total exports to the continent in 2012. Figure 6 shows that South Africa trades less with Central and North African regions, although exports to both these regions grew at a compound rate of 9.5% and 11.5% respectively over the past decade.

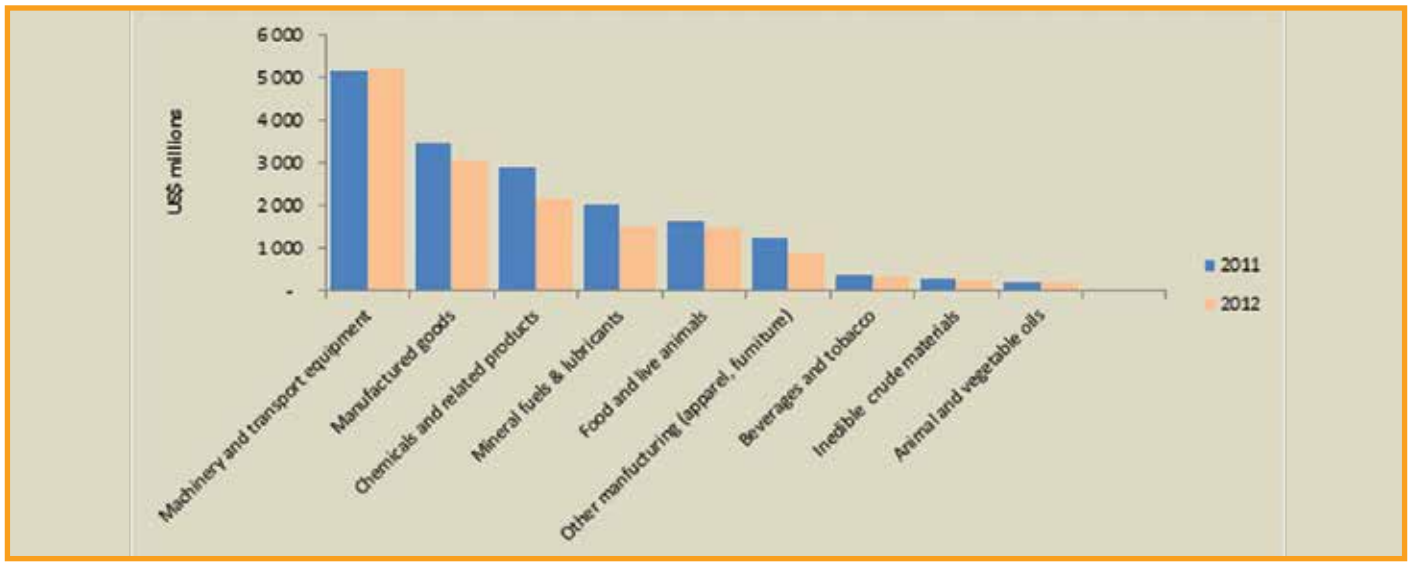
Figure 6: South African exports to Africa (2003–2012)



Source: UNCTAD.

There is a high proportion of value-added exports to the rest of Africa, with transport equipment, machinery, mechanical appliances, iron and steel articles, chemicals, mineral fuels, food and beverages, and clothing and textiles goods accounting for approximately 90% of South Africa's total exports – as illustrated in Figure 7. This is an important consideration, as it ties in with South Africa's domestic economic structure, based traditionally on mining, agriculture, engineering and chemical products, and their allied industries. These are also the areas that are attracting the most (investment) interest in African countries.

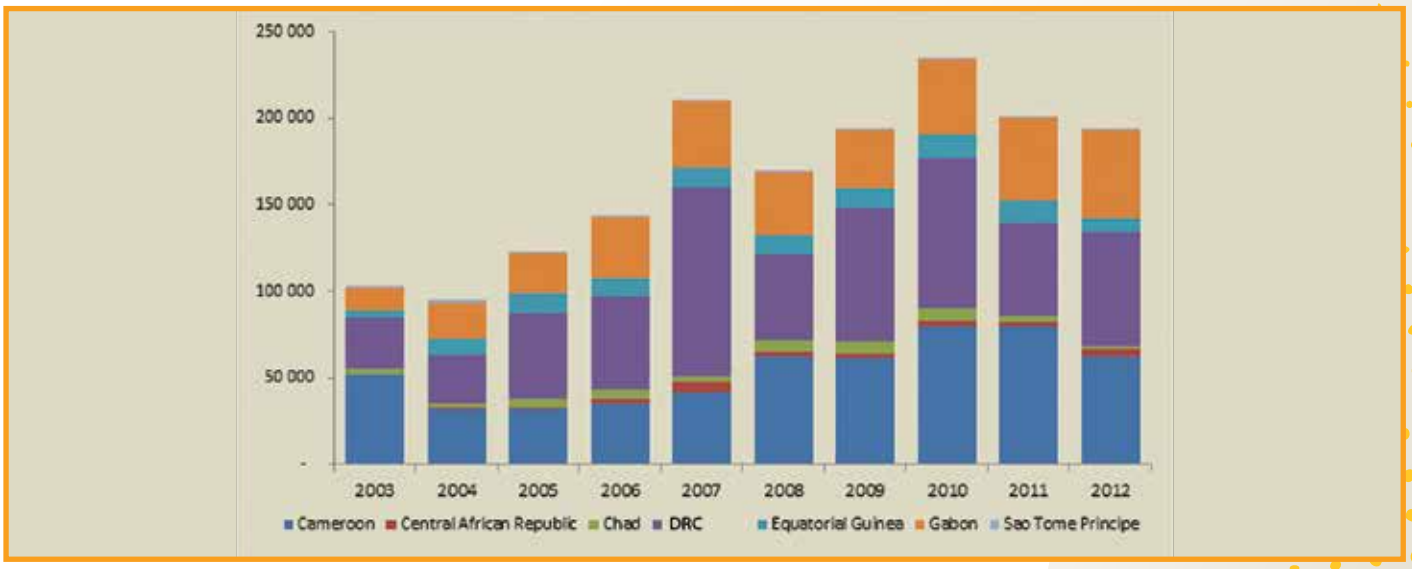
Figure 7: Top 10 SA export products by sector to Africa (2011–2012)



Source: UNCTAD

As mentioned, **Central Africa** has seen a limited amount of trade (at US$300 million in 2012) from South Africa. The domination of business and contracts by the French and Belgian companies in these countries, the differences in business culture and legal systems, and language problems have all presented barriers to business. Nevertheless, trade between the two partners grew at a compound rate of 5.1% over the period 2003–2012. The balance of trade is highly skewed in favour of South Africa, with the latter maintaining a trade balance surplus over the past decade.

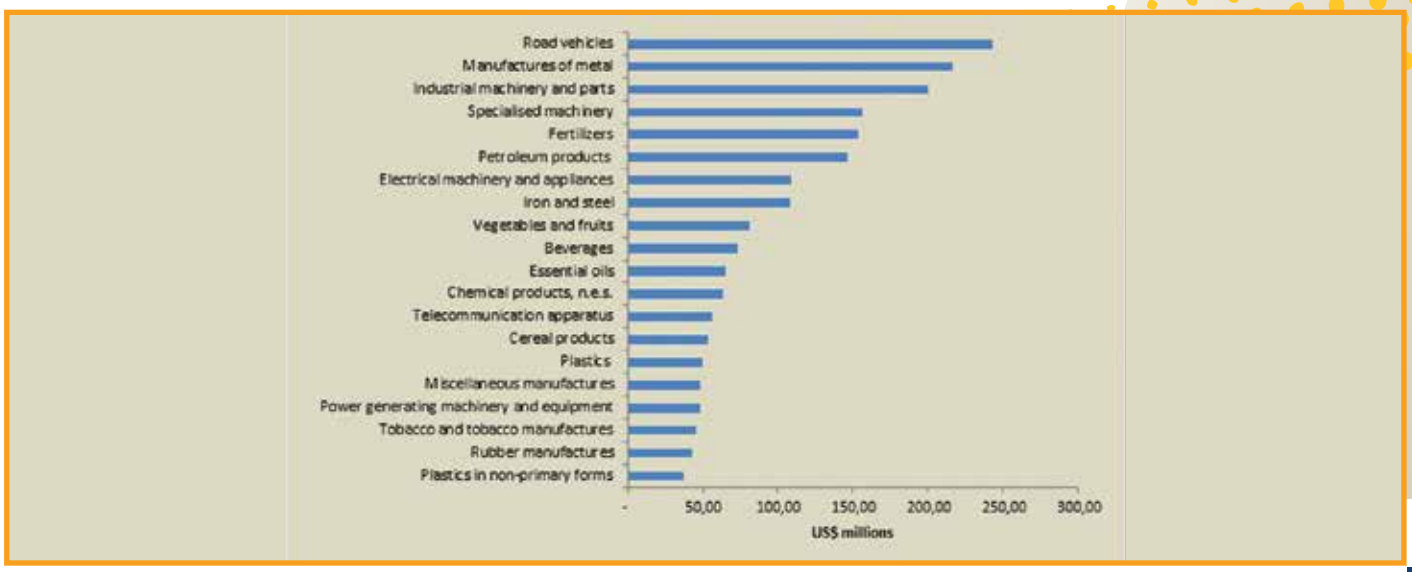
Figure 8: South African exports to Central Africa, US$ millions (2003–2012)



Source: UNCTAD.

As Figure 8 shows, South African trade was largely with Cameroon (21.6%), DRC (24.1%), Equatorial Guinea (27.3%) and Gabon at 24.7%. South African exports into the region comprised largely of transport equipment, metals, industrial machinery, fertilizers, petroleum products, electrical machinery, fruits and vegetables, chemicals and communication apparatus (see Figure 9).

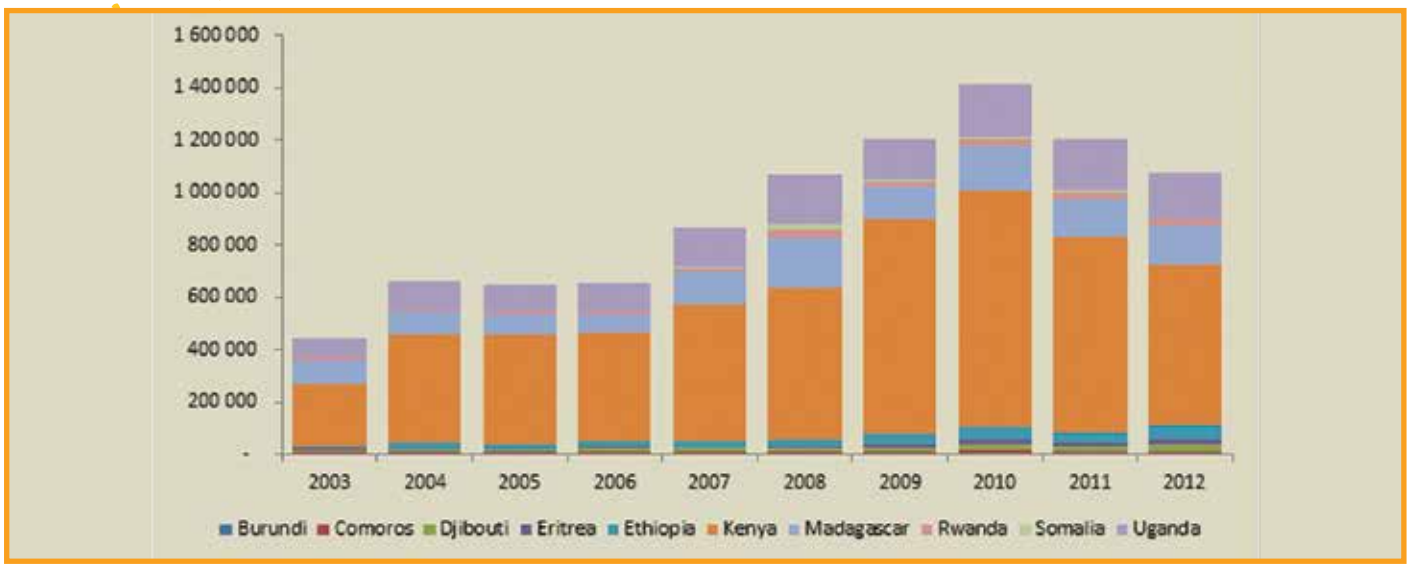
Figure 9: Top 20 South African exports to Central Africa



Source: UNCTAD.

East Africa is a steadily growing market for South African goods and services, with South African exports to the region having grown, on average, by 11.5% over the past ten years. South Africa's largest trading partners in the region are Kenya (53%), Madagascar (18.2%) and Uganda (15.1%) – illustrated in Figure 10. In 2012, China was the largest sources of imports for East African countries at 14.7%, followed by South Africa at 13.3%. Other key sources of the region's imports include India (11.6%), the USA (5%), the United Arab Emirates (UAE) (4.5%), and Saudi Arabia (4.2%).

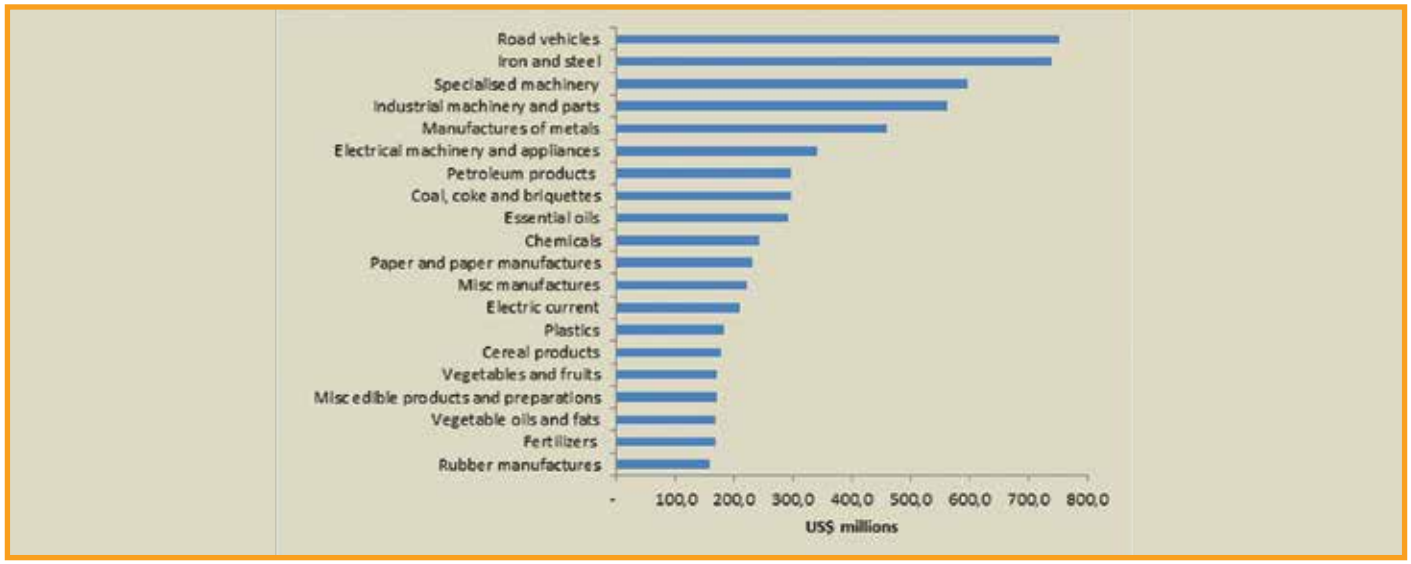
Figure 10: South African exports to East Africa, US$ millions (2003–2012)



Source: UNCTAD.

South African exports into the region, as shown in Figure 11, are dominated by transport equipment, iron and steel, specialised and industrial machinery, metals, electrical machinery, chemicals, paper and related products, and petroleum products.

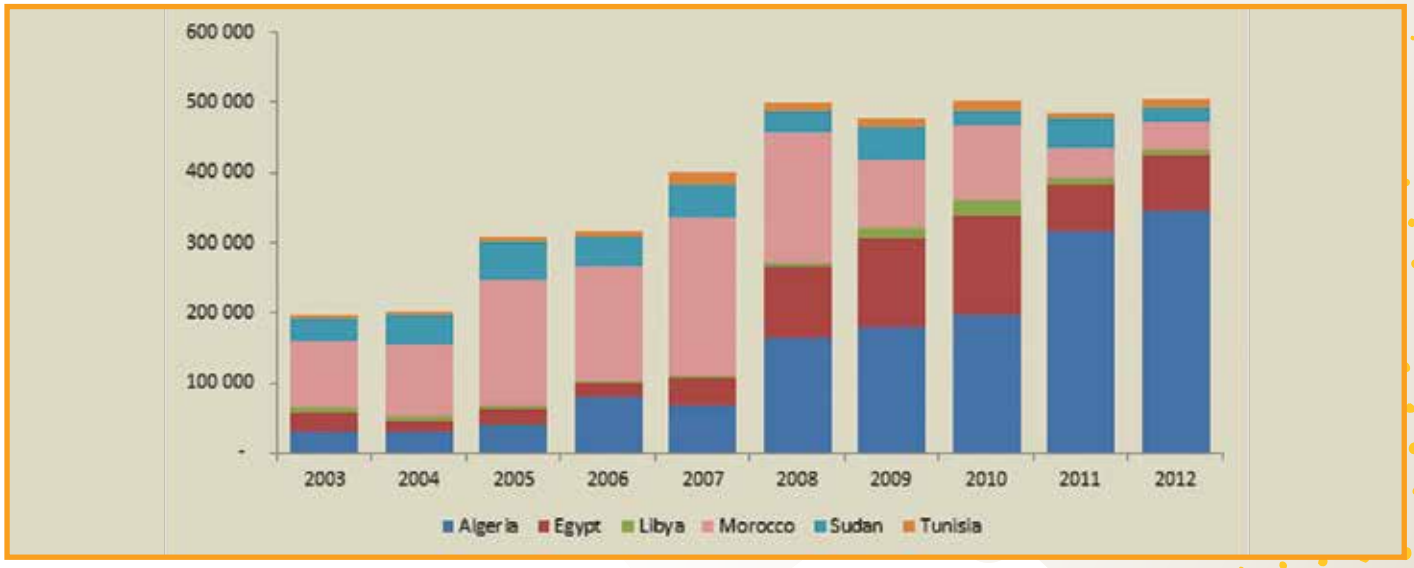
Figure 11: Top 20 South African exports to East Africa



Source: UNCTAD.

Similar to Central Africa, South African trade with **North Africa** is very negligible (at 2.9% in 2012) when compared with South African trade with other African regions. North Africa' key sources of imports include China, EU member states, Saudi Arabia, Brazil and India. However, the market is promising, as South African exports to the region have grown from US$198 million in 2003 to US$506 million in 2012 – an average growth of 11.9% (see Figure 12).

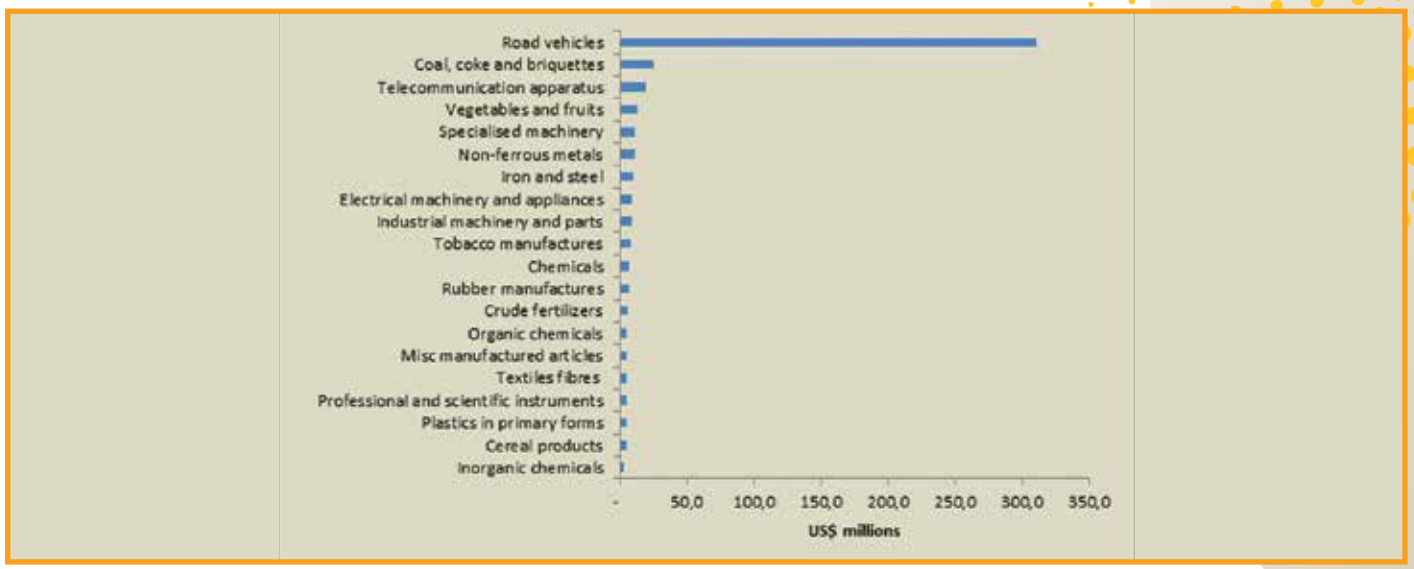
Figure 12: South African exports to North Africa, US$ millions (2003–2012)



Source: UNCTAD.

Approximately 56% of South Africa's trade with the region is with Algeria, followed by Egypt at 24.5% and Morocco at 12.3%. Bilateral trade with Libya, Sudan and Tunisia is negligible. As illustrated in Figure 13, over 60% of South Africa's exports into the region comprised of road vehicles.

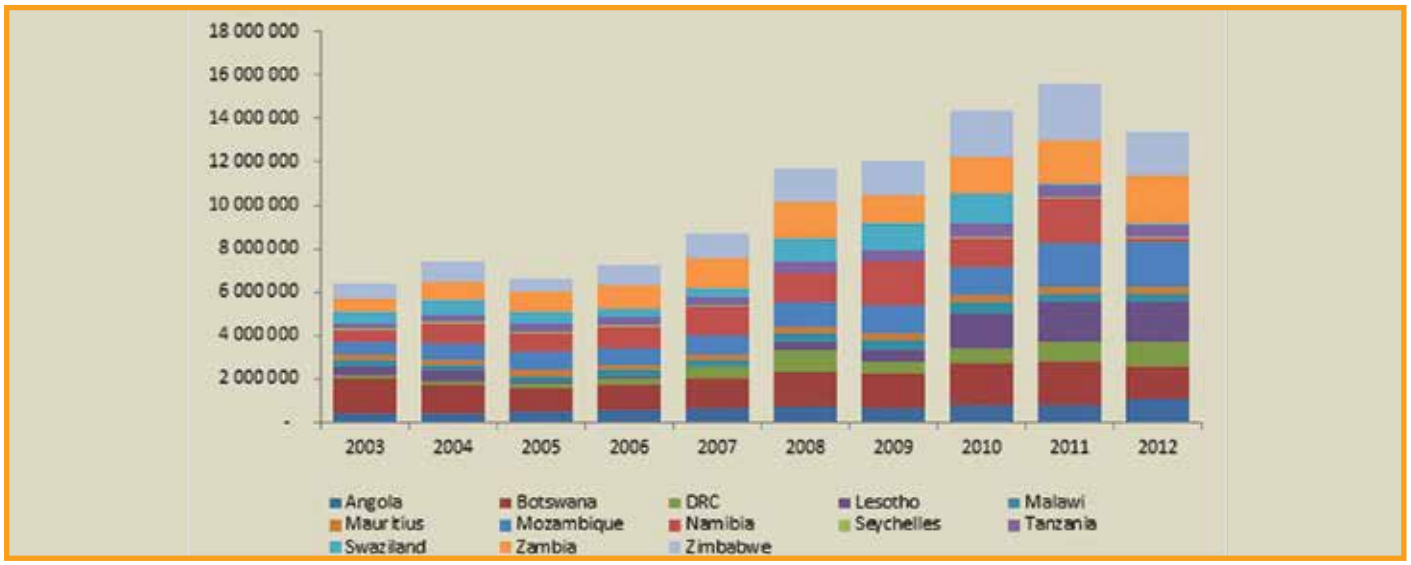
Figure 13: Top 20 South African exports to North Africa



Source: UNCTAD.

Southern Africa remains the main area for South African trade, with Angola, Mozambique, Zambia and Zimbabwe being the top destinations for South African exports. At US$13.6 billion in 2012, bilateral trade between South Africa and the region was the largest when compared to the former's trade with other regions in the continent. This could be attributed largely to South Africa's proximity to the regional markets and the Southern African Development Community (SADC) Free Trade Area (FTA), which allows for the duty-free movement of goods and services. As shown in Figure 14, bilateral trade between South Africa and Southern Africa has grown by 11.3% on average over the past ten years, with South African exports growing by 11.2%, while its imports rose by 24.8%.

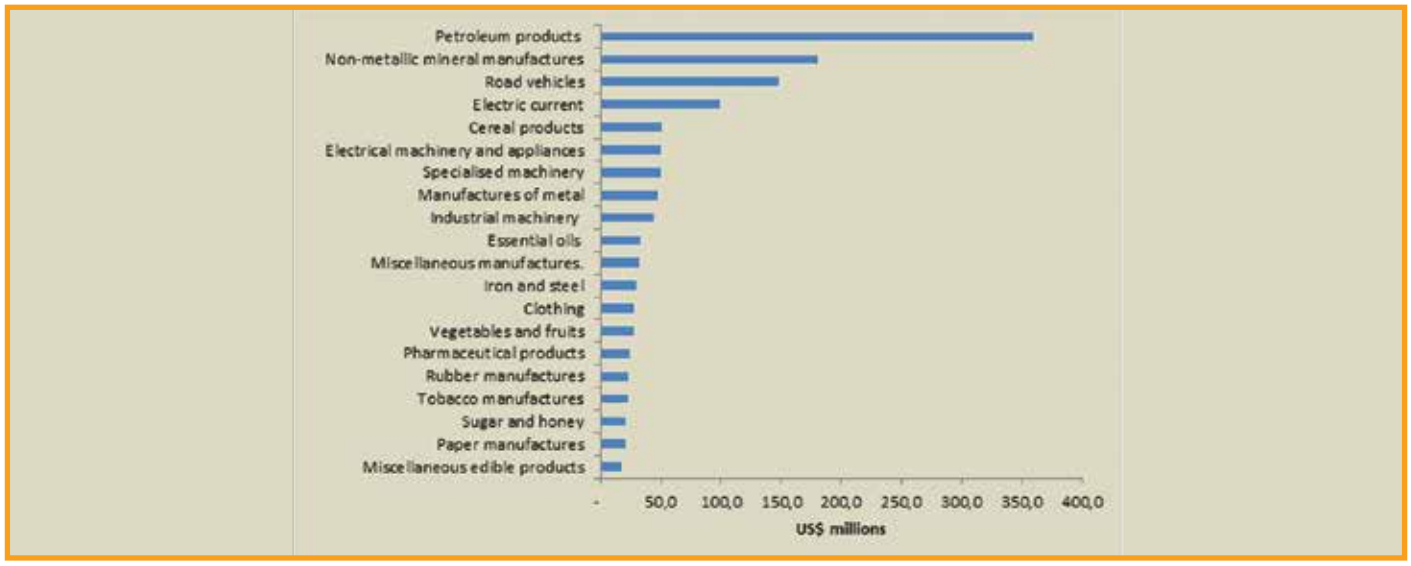
Figure 14: South African exports to Southern Africa, US$ millions (2003–2012)



Source: UNCTAD.

South African exports to the region are dominated by petroleum products, capital equipment and machinery, the export of electricity, essential oils, food and beverages, and pharmaceutical products (see Figure 15).

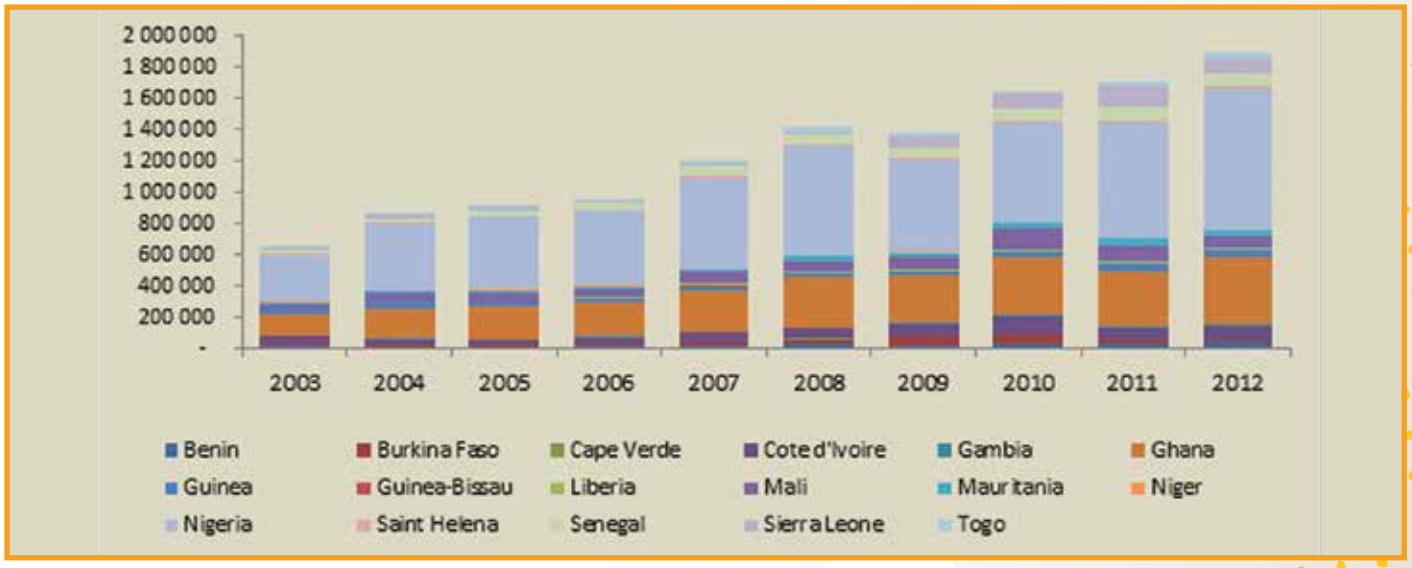
Figure 15: Top 20 South African exports to Southern Africa



Source: UNCTAD.

Bilateral trade between South Africa and **West Africa** was US$5.9 billion in 2012 – a growth of 18.5% since 2003. Nigeria, as illustrated in Figure 16, was South Africa's largest trading partner in the region in 2012, accounting for approximately 78% of South Africa's total trade with the region. This was followed by Ghana at 11%. South Africa's trade with West Africa represented 27% of its total trade with the rest of the continent.

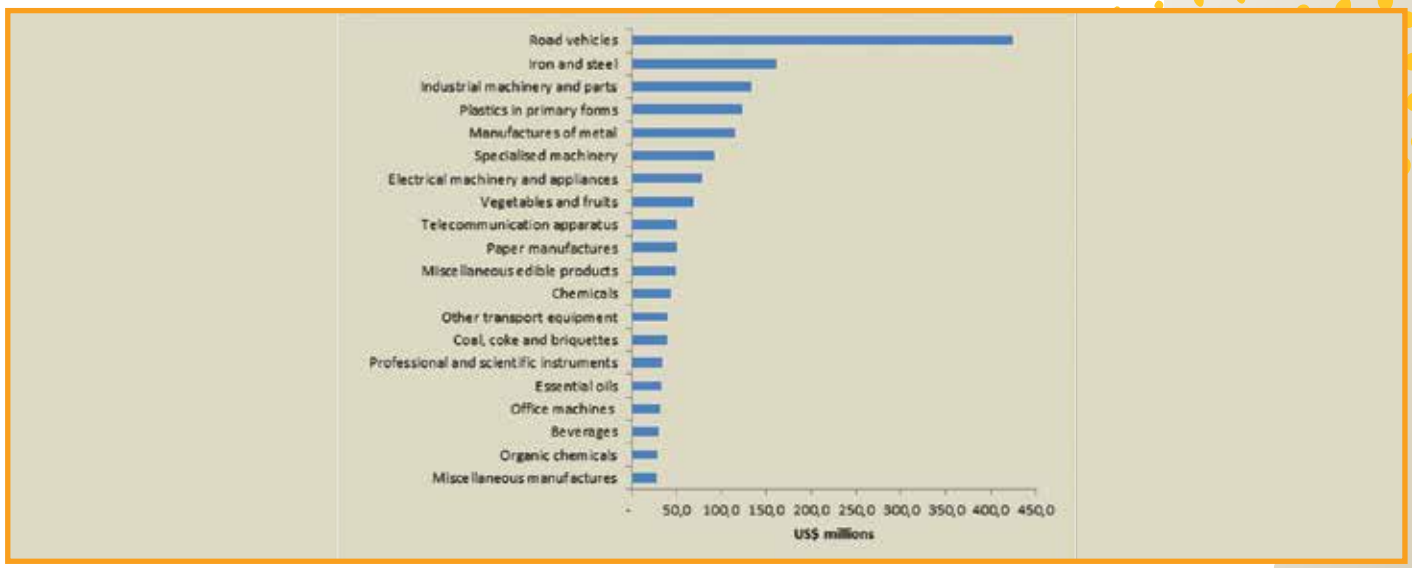
Figure 16: South African exports to West Africa, US$ millions (2003–2012)



Source: UNCTAD.

Similar to trade patterns with other African regions, South Africa tends to export high value-added manufactures (road vehicles, iron and steel products, capital equipment, food and beverages, communication equipment, chemicals, essential oils, and electro-technical equipment) to West Africa. The top 20 exports (as shown in Figure 17) to the region have experienced average growth rates of 16% for the past ten years, showing a sustained demand for these manufactured products.

Figure 17: Top 20 South African exports to West Africa (2012)



Source: UNCTAD

4.1.3 OVERVIEW OF REGIONAL TRADE INTEGRATION

The importance of regional economic integration as a means of accelerating and consolidating economic and social development is well-rooted in Africa's history, although in most instances the initial aim was more to gain greater political influence and a voice in the international arena. Consequently, many formal initiatives have been established to further this goal, under the overarching umbrella of the African Union's (AU) African Economic Community (AEC) plan to achieve a continental common market by 2028.

There are currently multiple regional economic communities (RECs) in Africa. These communities consist primarily of trade blocs and, in some cases, political and military cooperation. Under the auspices of the AU, RECs such as the Community of Sahel-Saharan States (CEN-SAD), the Common Market of Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD), the Union of the Arab Maghreb (UMA) and SADC, are considered as building blocks of the AEC (see Table 1 and Map 1 in the appendix). Several of these RECs contain subgroups with tighter customs and/or monetary unions of their own. Examples include the Economic and Monetary Community of Central Africa (CEMAC), the Southern African Customs Union (SACU) and the West African Economic and Monetary Union. Other African regional blocs that do not participate in the AEC (although their members are part of other regional blocs that do participate) are the Greater Arab Free Trade Area, the Economic Community of the Great Lakes Countries, the Indian Ocean Commission, the Liptako-Gourma Authority and the Mano River Union.

Table 1: Pillar RECs for the African Economic Community

Pillars REC	Area (km²)	Population	GDP ($US)		Member states
			billions	per capita	
CEN-SAD	14.9 million	544 million	790	1,452	28
COMESA	12.9 million	441 million	446	1,811	20
EAC	1.8 million	135 million	85	732	5
ECCAS	6.7 million	134 million	176	1,451	11
ECOWAS	5.1 million	300 million	302	1,748	15
IGAD	5.2 million	208 million	130	1,197	7
SADC	9.8 million	270 million	472	3,152	15
UMA	5.8 million	87 million	392	5,836	5
AEC	30 million	854 million	2,054	2,406	54

Source: IMF World Economic Outlook Database and various REC websites.

Table 2 illustrates the RECs' progress in integrating. Several RECs have made some progress in accelerating the regional integration agenda, although they still need to make tremendous efforts to harmonise policies, especially Africa-wide. Some RECs (COMESA, EAC, ECCAS, ECOWAS and SADC) have set up an FTA, while CEN-SAD and IGAD are still doing that. COMESA launched its Customs Union in June 2009, with an implementation framework of three years. EAC has a fully operational customs union. Other RECs plan to become fully-fledged customs unions (e.g. SADC) in the coming years[20].

Table 2: RECs progress on regional integration

Integration stages	CEN-SAD	COMESA	EAC	ECCAS	ECOWAS	IGAD	SADC
FTA	Proposed	In force	In force	In force	In force	Proposed	In force
Customs Union		In force	In force	Proposed	Proposed		Proposed
Common Market			In force				Proposed for 2015
Monetary Union		Proposed for 2018					Proposed for 2016
Free Movement of People		Proposed for 2025	In force	Proposed	In force	Proposed	Proposed
Free Movement of Capital and Services		Proposed for 2025				Proposed	
Political Pact			Proposed		Proposed		
Defense Pact					In force		

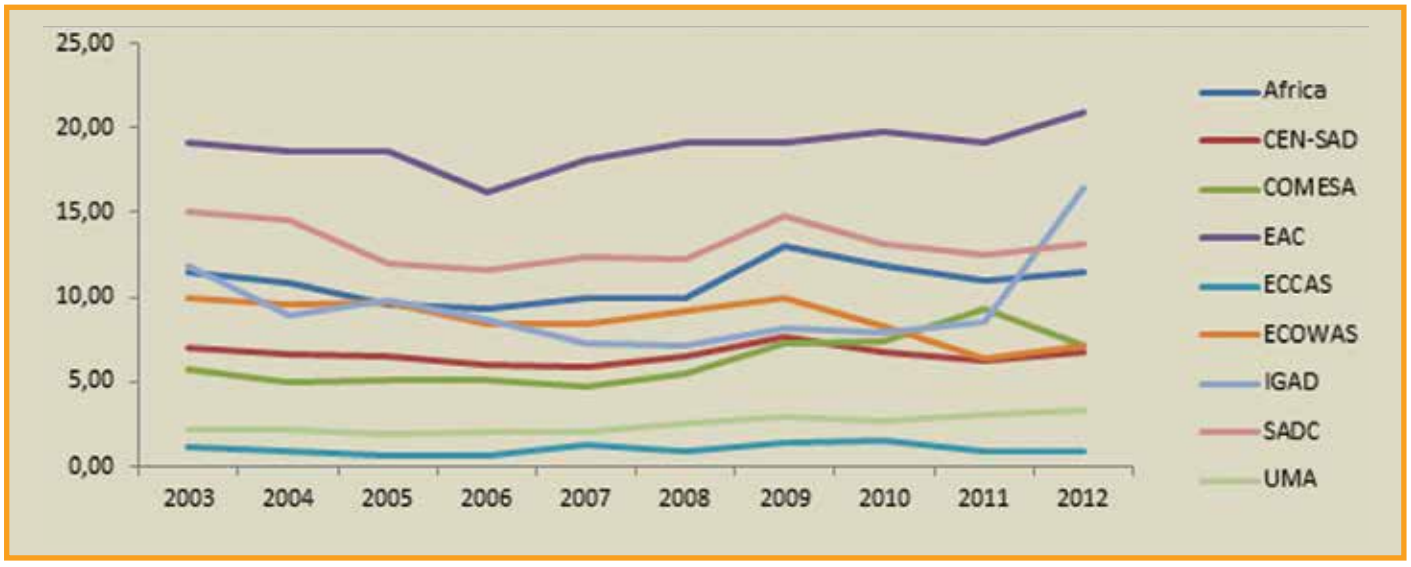
Source: African Union, African Development Bank and Economic Commission for Africa. 2012. Assessing Regional Integration in Africa V – Towards an African Continental Free Trade Area. UNECA: Addis Ababa.

In West Africa, there is a growing rapport between ECOWAS and the West African Economic and Monetary Union, leading to their adopting a common programme of action on a range of issues, including trade liberalisation and macroeconomic policy convergence[21]. In Central Africa, ECCAS and CEMAC are making efforts to increase their working relationships towards harmonising their programmes[22]. In Eastern and Southern Africa, IGAD and the Indian Ocean Commission are applying most of the integration instruments adopted within COMESA. The EAC and COMESA have a memorandum of understanding to help harmonise their policies and programmes, while COMESA and SADC have set up a task force to deal with common issues and invite each other to their policy and technical meetings[23]. The tripartite FTA between COMESA, EAC and SADC is currently under negotiation. These negotiations are expected to be concluded in 2014, with an FTA expected to be established in 2015[24]. The FTA is expected to bring together 26 countries, with a population of 600 million and a combined GDP of US$1 trillion.

20. United Nations Economic Commission for Africa et al. 2012. Assessing Regional Integration in Africa – Towards a Continental Free Trade Area. UNECA: Addis Ababa.
21. African Union, African Development Bank and Economic Commission for Africa. 2012. Assessing Regional Integration in Africa V - Towards an African Continental Free Trade Area. UNECA: Addis Ababa.
22. ibid
23. ibid
24. ibid

Despite sustained efforts for accelerated and deeper regional integration efforts, intraregional trade has remained relatively constant over time. Trade among African countries is currently estimated at 11% of the continent's total, a long way behind other regions. Based on 2012 figures, trade within North American countries was about 32% of the total, while 67% of Europe's trade is between the countries in the region. The figure for Asia was 54%[25]. At the REC level, Figure 18 shows that the share of intra-regional goods trade in total goods exports was only around 7% in COMESA, 13% in SADC and 0.8% in ECCAS in 2012. This compares with 25% in the Association of Southeast Asian Nations, around 49% in the North American FTA and more than 60% in the EU[26].

Figure 18: African RECs intraregional exports (2003–2012)



Source: UNCTAD.

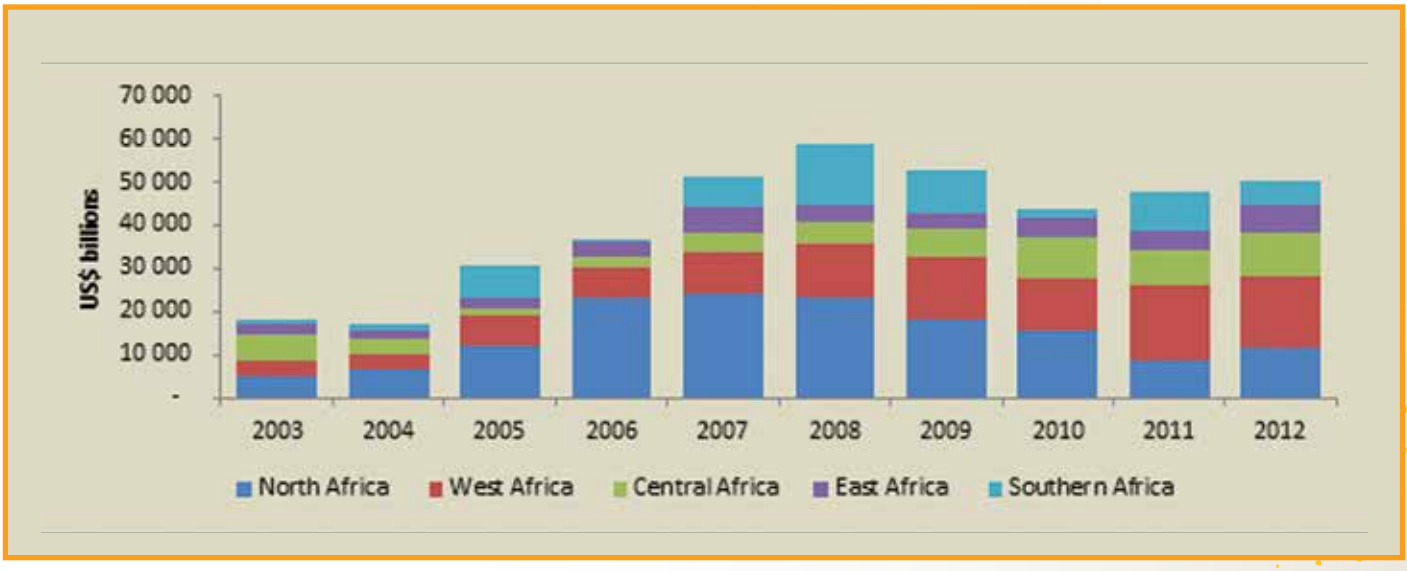
4.2 THE DIRECTION AND COMPOSITION OF FOREIGN DIRECT INVESTMENT

4.2.1 FDI INFLOWS FROM REST OF WORLD

FDI inflows to Africa grew to US$50 billion in 2012, a rise of 5% over the previous year, and have grown at a compound rate of close to 12.3% since 2003 (as shown in Figure 19). While the proportion of Africa's FDI to global inflows is still small at 3.7%, it is an increase on the 1.3% average of the 1990s, suggesting that Africa is taking greater prominence in asset allocation decisions[27].

25. UNCTAD statistics.
26. UNCTAD statistics.
27. UNCTAD. 2013. World Investment Report 2013 – Global Value Chains: Investment and Trade for Development. United Nations: Geneva.

Figure 19: FDI inflows to Africa, 2003–2012



Source: UNCTAD.

In addition, the credit crisis fast-tracked the need for new growing markets, with Africa considered to be offering a higher rate of return on foreign investment than any other region. The UNCTAD's 2012 World Investment Report shows that Africa offers a higher return (at 20% compared with 14% in Latin America and the Caribbean, and 15% in Asia) on investment than any other emerging market[28]. This is attributed to less intense competition, the small presence of foreign companies and a strong rising consumer demand. The World Bank projects FDI inflows into Africa to reach US$75 billion by 2015[29].

In a regional context, **Central Africa** attracted US$10 billion of FDI in 2012, a surge of 14.3% since 2003. The flows are predominately concentrated in Equatorial Guinea, Gabon, DRC and Cameroon – all oil-exporting countries. FDI to Central Africa as a share of total Africa FDI inflows was 20% in 2012. France remains the largest investor in the region due to its historical and strategic influence.

Recent natural resource discoveries have contributed to the increase in FDI inflows to **East Africa,** from US$2.0 billion in 2003 to US$6.3 billion in 2012. This includes investment in recently discovered gas reserves in Kenya and the oil fields in Uganda. There has also been a surge in FDI in the past five years to countries such as Ethiopia, Djibouti and Madagascar. The expansion of household purchasing power, improved infrastructure and regional integration has triggered further investment in sectors such as banking, retail and telecommunications. The origin of FDI in East Africa is dominated by China and India.

North Africa has been a favoured destination for FDI over the past decade, with the region posting an average 36% of total African FDI inflows between 2003 and 2012. This was driven largely by Algeria, Egypt, Libya and Tunisia. Most FDI in the region has been in the hydrocarbon sectors of the respective countries. By the end of 2012, North Africa accounted for approximately 23% of Africa's total FDI inflows. In general, more favourable macroeconomic environments, better infrastructure, and massive oil and gas resources have made the region an attractive investment prospect. The largest investors in this region are the USA, UK and Germany[30].

FDI flows to **Southern Africa** increased from US$1.3 billion in 2003 to US$5.4 billion in 2012 – a compound growth of 18.6% for the decade. Resource-rich

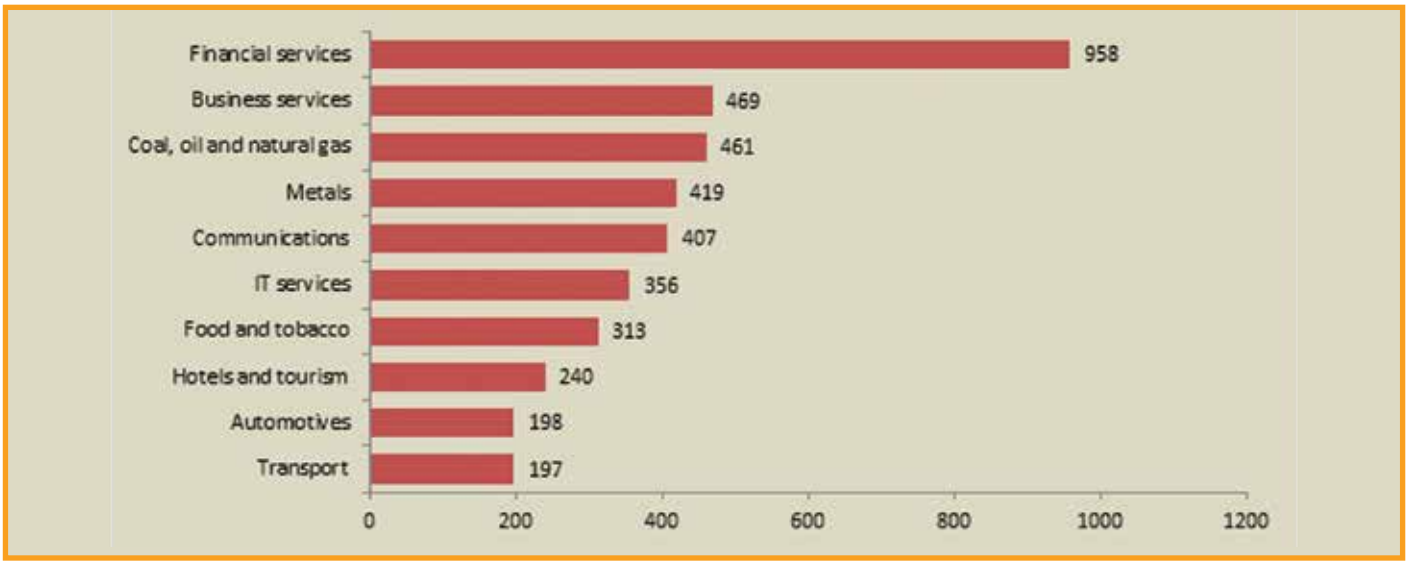
28. ibid
29. World Bank, op.cit.
30. UNCTAD. 2013, op.cit.

countries in the region have been the key recipients of FDI and include Angola (hydrocarbons), the DRC (mining and metals), Mozambique (hydrocarbons, mining and metals), South Africa (mining and metals), Tanzania (mining and metals) and Zambia (mining and metals). South Africa is the largest investor in Southern Africa, with China's interest heavily vested in the resource extraction industry. Other investors include the USA, UK, Malaysia, Germany, Portugal, Canada and Japan.

In 2012, West Africa accounted for approximately 34% of Africa's total FDI inflows. FDI inflows rose from US$3.4 billion in 2003 to US$16.8 billion in 2012 – a compound growth rate of 20%. FDI flows are dominated by flows into the hydrocarbon industry and, to some extent, the mining and metals industry in the region. Countries that experienced a significant surge in inward FDI for the past decade were Ghana (54%), Liberia (24.6%), Niger (75%), Nigeria (15.4%), Senegal (47%), Guinea (24%) and Sierra Leone (26%). The USA, UK and China dominate FDI inflows and stock in the region.

While the extractive industry dominates in terms of the value of overall FDI flows, investment in the services sector, notably among infrastructure-related projects in construction, transportation, electricity, communications and water, has been expanding. An analysis by Ernst & Young found that, over the past decade, the largest number of FDI-funded projects in sub-Saharan Africa was in financial services (958), business services (469), and oil and natural gas (461) – see Figure 20. During the past five years – measured by number of projects – the subcontinent's greatest FDI growth came in communications (32.2%), transportation (30.3%), and food and beverages (26.7%). By contrast, annual numbers for new projects in oil and gas industries have been declining slightly.

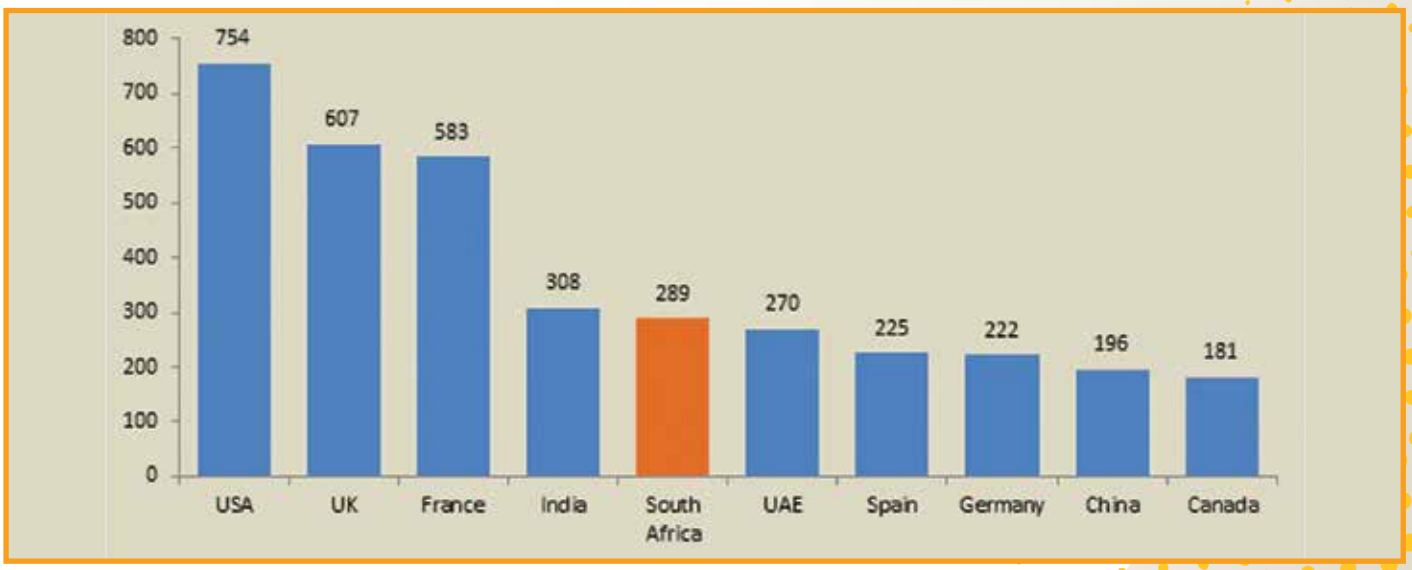
Figure 20: Top 10 sectors ranked by number of projects (2003–2012)



Source: Ernst & Young and FDI markets

Although Figure 21 and Map 2 show that developed countries have been responsible for the highest number of FDI projects in Africa, in terms of value, FDI inflows have recently been dominated by multinational corporations from developing countries. Today, Malaysia, South Africa, China and India are the largest developing country sources of FDI in Africa. Malaysia's FDI flows into Africa in 2011 ranked third among the top 20 investing countries in Africa. In terms of the 2011 FDI stock, China's total of US$16 billion stock falls behind Malaysia and South Africa by US$3 billion and US$2 billion respectively. By the end of 2011, Malaysia's portfolio of global FDI reached U$106 billion, of which U$19.3 billion went to African states. Although much of the Malaysian investment remains energy driven, the breadth of Malaysian investment has broadened from oil, gas and oil palm plantations to industries such as telecommunications, banking and finance, infrastructure and property development, manufacturing, power generation and more. Both China and South Africa's FDI is diversified across all the sectors. India's FDI inflows to Africa stood at US$14 billion in 2012, making the country the seventh largest investor in the continent. The country's FDI has traditionally been concentrated in Mauritius, but has recently been diversified in East Africa. It is estimated that 80% of Indian investments in East Africa are in the services and manufacturing sectors[31].

Figure 21: Top 10 FDI new projects source countries investing Africa (2003–2012)



Source: Ernst & Young and FDI markets.

31. ibid

4.2.2 MODE OF ENTRY

Another important feature of the structure of foreign investment in Africa is the choice of the entry mode, which can take the form of a merger and acquisition (M&A), private equity or greenfield investment, irrespective of whether FDI is market-seeking or resource-seeking. However, in many instances, foreign investors take a decision on the level of equity participation along a continuum of partial ownership through a joint venture or a wholly foreign-owned subsidiary. Consequently, the mode of entry can be interpreted to consist of four forms: partial acquisitions, full acquisitions, greenfield joint ventures and greenfield wholly-owned subsidiaries. During the period 2000–2007, on average 38% of all inflows to Africa's mining and hydrocarbons industries were in the form of cross-border mergers and acquisitions. In 2012, M&A sales in the mining and hydrocarbons industries accounted for approximately 16% of Africa's total FDI inflows[32].

Greenfield investment has largely been targeted at consumer-oriented industries. The share of consumer-related FDI greenfield projects in total value of FDI greenfield projects in Africa has risen from just over 5% in 2008 to close to 23% in 2012[33]. Such greenfield projects have been targeted at consumer-related manufacturing and services sectors (e.g. financial services, food and beverages, clothing and textiles, electrical equipment, automotives, communications and transport equipment) in countries such as South Africa, Ethiopia, Kenya, Nigeria, Uganda and Angola (some of the largest African markets). The expansion of FDI flows in some consumer-oriented industries in Africa and their geographic distribution are indications that the prospect of the greater spending power of African consumers is attracting more foreign investors.

In recent years, there has been an uptake of private equity investment in the continent – although it is currently concentrated in a few countries. South Africa is, by far, the largest recipient (accounting for 53% of total investments in 2011), followed by Egypt, Mauritius, Morocco and Nigeria (all countries responsible for around 5–8% of total investment. This type of investment is diversified across many sectors (see Table 3). Nevertheless, it is envisaged that private equity investment will become prominent in Africa in the medium term as the middle income earners and the affluent become accustomed to investment opportunities in the continent[34].

32. ibid
33. ibid
34. ibid

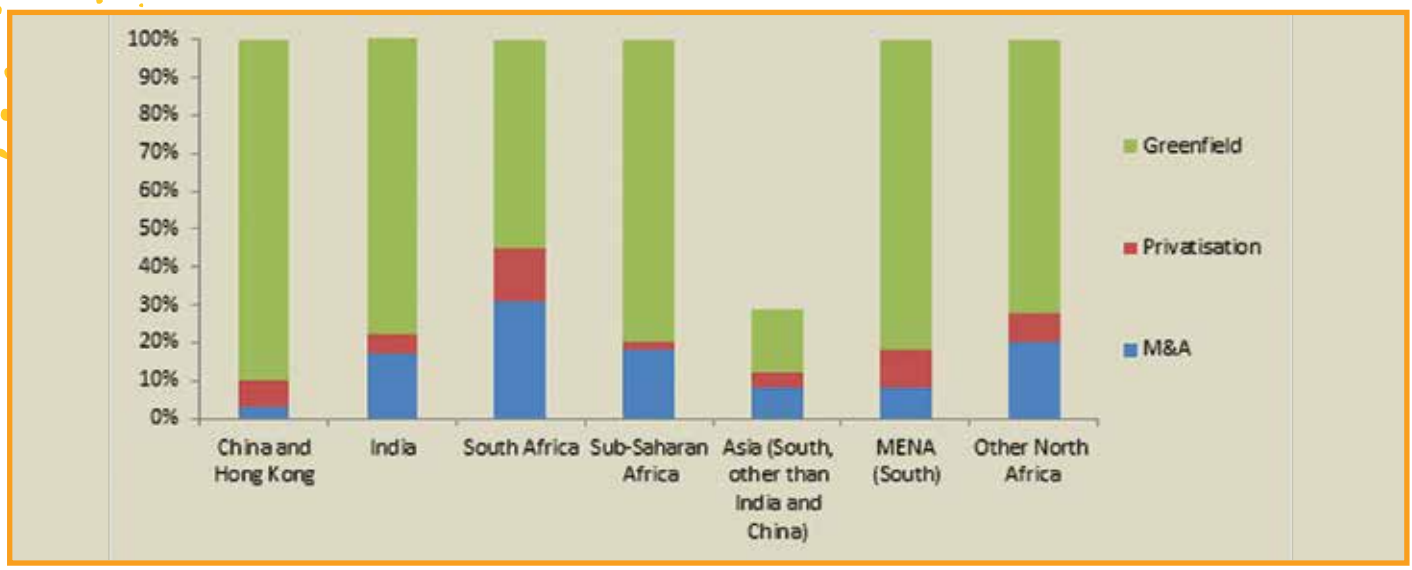
Table 3: The 10 largest FDI deals by private equity firms in Africa, 1996–2012

Year	Value ($ million)	Acquiring company	Home economy	Acquired company	Host economy	Industry of the acquired company
2006	4,802	Shareholders*	South Africa	Kumba Iron Ore	South Africa	Iron ores
2007	3,502	Bain Capital	USA	Edgars Consolidated Stores Ltd	South Africa	Retail stores
2006	2,313	Investor Group*	UAE	Tunisie-Telecoms	Tunisia	Telecommunications
2007	1,438	Shareholders*	South Africa	Mondi ltd	South Africa	Paper mills
2007	1,410	Abraaj Capital Ltd	UAE	Egyptian Fertilisers Co SAE	Egypt	Nitrogenous fertilizers
2009	1,277	Paulson &Co Inc	USA	AngloGold Ashanti Ltd	South Africa	Gold ores
1997	1,261	Investor Group*	USA	Telkom South Africa	South Africa	Telecommunications
2011	1,200	Investor Group*	Kuwait	Orascom Telecom Tunisie SA	Tunisia	Telecommunications
2006	1,000	Lexshell 44 General Trading (Pty) Ltd	UK	Victoria & Alfred Waterfront	South Africa	Land sub-dividers and developers
2007	933	Cleansheet Investments (Pty) Ltd	USA	Alexander Forbes Ltd	South Africa	Insurance agents, brokers and service

Source: UNCTAD, World Investment Report 2013.

In terms of country strategies, Figure 22 gives an overview of entry modes for FDI investors by country.

Figure 22: FDI entry mode in Africa according to investor country



Source: Henley, J., Kratzsch S., Kulur M. & Tandogan T. 2008. Foreign Direct Investment from China, India and South Africa in Sub-Saharan Africa: A New or Old Phenomenon? Research Paper No. 2008/24. United Nations University, World Institute for Development Economics Research.

Chinese FDI in Africa, until recently, has often taken the form of M&As in natural resource-seeking and infrastructure investments carried out by medium and large state-controlled enterprises and closely tied to aid and trade. For example, Sinopec's direct acquisition of oil explorer Addax Petroleum in 2009 stands out, and was the largest foreign acquisition by a Chinese firm[35]. However, a new template is emerging. In some recent cases, China has pursued joint venture and partnership opportunities with local firms or other international investors. Chinese companies view this as a means of creating attractive financing structures for projects, and a variation on their commodities for infrastructure development model. In the DRC's cobalt sector, for instance, China Railway Engineering Corporation (CREC) and Sinohydro have entered into an agreement to establish a joint Sino-Congolese venture, Sicomines. Sicomines will provide the DRC with China Export-Import Bank-financed infrastructure in exchange for copper and cobalt mining concessions. The venture will provide road construction, two hydroelectric dams, hospitals, schools and railway links to Southern Africa, Katanga and the Congo Atlantic port at Matadi[36].

The India FDI entry mode is somewhat different from Chinese FDI in that the relations between India and Africa have grown over many decades. FDI has been primarily carried out by well-integrated Indian diaspora in Mauritius and further expanded into other East African economies. The Indian government offers a wide array of mechanisms, for example, through greater activities of the Indian Export-Import Bank, to bundle together the objectives of FDI, trade and aid. A case in point is greenfield investments like horticulture in Kenya and farming in Ethiopia by the Indian MNE Karuturi Global Limited or the successful acquisition of a large share in the Greater Nile Petroleum Operating Co. in Sudan by the Indian state-owned multinational ONGC[37].

South African investors have a high preference for greenfield investments and, to some extent, joint ventures or M&As as the mode of entry. In the construction, manufacturing and resources industries, South African firms strongly prefer contracts followed by joint ventures, while in the services and retail sectors, they strongly prefer wholly owned subsidiaries when they invest in Africa. The rationale behind the adoption of different entry strategies is that for the construction, manufacturing and resources firms, the risk is perceived to be minimised by bringing local partners into the transaction, mostly because the investment requires a lot of capital on the ground and is more vulnerable to expropriation. The services and retail firms, on the other hand, minimise risks by full control and avoid post-merger challenges of cultural assimilation.

4.2.3 SOUTH AFRICAN FDI INTO AFRICA

Since 1994, South African companies have engaged in a sustained outward FDI thrust into the continent. The country is ranked fifth in terms of cumulative FDI project numbers in the rest of Africa since 2003. In 2012, South Africa was ranked third overall in terms of FDI projects in Africa, and, in fact, when one strips out investment from other countries into South Africa itself, it was the single largest investor in FDI projects in the rest of Africa in 2012[38].

With US$18 billion, South Africa was the fifth largest holder of FDI stock in Africa in 2011 and the second largest developing country investor globally after Malaysia. The majority of this outward stock can be attributed to reinvested earnings in the private non-banking sector. The largest share of the country's outward FDI stock in Africa is in Mauritius. One fourth of this stock is also concentrated in Nigeria and in Mozambique and Zimbabwe[39].

Map 3 shows South African companies' footprint into Africa.

The South African corporate presence has traditionally been strongest in SADC. However, across the subcontinent, South African corporations and investments are continuously emerging and gradually expanding beyond SADC's borders. Over recent years, South African companies have

35. Akinkugbe, R. Six top trends in sub-Saharan Africa's extractives industries. Middle Africa Insight Series, 23 July 2013. Ecobank.
36. ibid
37. Kratzsch, S. Forms and Performance of Foreign Direct Investment in sub-Saharan Africa. United Nations Industrial Development Organisation
38. Ernst and Young. 2013, op.cit.
39. UNCTAD. 2013, op.cit.

been seen entering into West, East and Central African markets with great success. The share of African countries outside SADC has nearly reached 50% of the entire South African FDI stock in Africa[40]. Flourishing industries include food and beverages, telecommunications, financial services, pharmaceuticals and retail.

In **food and beverages,** SABMiller, is an industry giant, operating directly in 15 African countries. Tiger Brands, a South African food company, recently took over Nigeria's leading food manufacturers, UAC and Dangote Flour Mills, sparking fears of eventual monopolisation of the Nigerian food industry. Tiger Brands has a 51% stake in the food and consumer interests of the East Africa Group of Companies in Ethiopia and in biscuit manufacturer Deli Foods in Nigeria. It has a 49% share of UAC Foods, also in Nigeria[41] .

A look at the **financial service sector** reveals a similar trend. Standard Bank has operations in 19 West, East and Southern African countries, including a new branch in South Sudan. With 2.6 million customers outside South Africa, it is the subcontinent's largest bank in terms of both income and assets. Rand Merchant Bank (RMB) has well-established retail and treasury operations in Botswana, Mozambique, Namibia, Swaziland, Lesotho, Tanzania and Zambia. The financial institution has also opened offices in Nigeria and Ghana. Nedbank has a network of approximately 35 countries and this has been made possible by its alliance with Ecobank. Other financial institutions playing an increased role in the continent include Sanlam, Liberty Holdings, Blue Financial Services and Alexander Forbes[42].

Retail is another example. As South Africa's grocery retail sector becomes increasingly saturated, leading industry players such as Shoprite and Massmart have continued to look for wider continental growth. Africa's biggest retailer, Shoprite, has a total of 156 non-South African stores spread over 17 countries, including Ghana, Uganda and Nigeria. Massmart has 26 stores in 11 countries and its African footprint and further expansion possibilities were the reasons Walmart bought 51% of the group. Pick n Pay has 100 outlets in eight SADC countries and has plans to enter into Malawi and the DRC. Global retailer, Spar Group, has also followed suit. The retailer is already established in Swaziland, Namibia, Mozambique and Botswana, and is to further expand its African grocery footprint as the South African market becomes increasingly saturated. Historically, Woolworths traded in the rest of the continent under a franchise model, where the company would sell products to franchisees with limited other involvement in the business. However, the retailer intends replacing its franchise business model with joint venture partnerships as it expands into the rest of the continent. Woolworths currently has 46 stores in 11 African countries, Botswana, Namibia, Lesotho, Swaziland, Ghana, Kenya, Tanzania, Uganda, Zambia, Nigeria and Mozambique. The retailer also intends opening new outlets in Angola. Other retailers with a significant African presence include furniture retailers such as Ellerines, the JD Group and the Lewis Group, and clothing and fashion retailers such as Edcon, The Foschini Group, Mr Price Group, and Truworths Holdings[43].

South African companies such as Anglo Ashanti, Exxaro Resources and Goldfields are prominent in the **mining and metals** industry across the continent. Recently, PetroSA signed a memorandum of cooperation with Cohydro for cooperation in the hydrocarbons industry in the DRC from pre-exploration to production between the two firms[44]. Ghana, Mali, Zimbabwe and the DRC appear to be the main countries of interest for South African mining companies in Africa

In the **pharmaceuticals** sector, Aspen Holdings' presence in Africa is through its wholly owned subsidiary, Shelys. The group has manufacturing sites in Tanzania and Kenya to supply countries in East Africa and designated export territories.

40. Draper, P., Kiratu, S. & Samuel, C. 2010. The Role of South African FDI in Southern Africa. Discussion Paper 8/2010. Deutsches Institut für Entwicklungspolitik: Bonn.
41. Imara Africa Securities. 2012. Tiger Brands looks to increase its exposure to the Nigerian consumer market. Imara Africa Securities.
42. Berkowitz et al. 2012. The role of South African business in Africa: South African outward investment. TNS Research Survey and DNA Economics. Pretoria.
43. Ibid and various companies' websites.
44. Government Communication and Information System. 2012. South Africa Yearbook 2012/13. Government Printers. Pretoria

Aspen also has a presence in Nigeria, Uganda and Mauritius. Another South African pharmaceutical company, Adcock Ingram, has footprints extended into Ghana and Kenya[45].

In the **travel and tourism** sector, South African Airways (SAA), SA Express, and SA Airlink, have a strategic alliance covering Southern Africa. Another operator servicing the region is Comair, which operates under a British Airways franchise in South Africa. In the hotel and hospitality subsector, The Protea Hospitality Group, Tsogo Sun Group and Sun International have an extensive presence in the region, notably in Southern and East Africa. Similarly, South African restaurant chains are particularly active in Namibia, Botswana and Kenya. Famous brands (which include Steers, Wimpy, Debonairs and FishAways) have an extensive African network, with over 80 franchises across the continent, while Spur and Nando's are less prevalent[46].

In **the information and communication technologies** domain, a number of South African companies have managed to successfully expand into Africa. These include Business Connexion, Datatec, Naspers, Altron, MTN and Vodacom. For example, Business Connexion has a presence in the rest of Africa, and its mode of entry in these countries has been through a mix of subsidiaries, offices and service centres. Datatec has a presence in more than 10 African countries. Naspers, through its Media 24 and Multichoice brands and products has a physical presence in more than 10 countries, through a network of agencies. The company is considered one of the largest providers of satellite television on the continent, reaching approximately one million subscribers in 48 countries, excluding South Africa. By 2011, MTN had close to 90 million subscribers in 14 African countries (outside South Africa); and in all but three countries, these operations are run in partnership with a local shareholder. Vodacom has recently entered into the DRC and has fast become its main service provider[47].

A number of **chemical and related companies** have a significant presence Africa. These include, inter alia, AECI Ltd, Omnia Holdings, African Oxygen and Freeworld Coatings. Most of these companies service mining and manufacturing offering a range of chemical products including commercial explosive, initiating systems, blasting, gases, welding products, paint and coatings. AECI operates through over 15 different brands and subsidiaries, whereas Omnia Holdings has operations in over 20 countries in Africa. African Oxygen has a presence in approximately 12 African countries[48].

In the **construction** industry, major South African construction firms such as Aveng Grinaker-LTA, Murray and Roberts, Group Five and WBHO, have extensive operations in the continent. These companies have subsidiaries and operations in a number of African countries, while also undertaking building, civil, commercial and industrial projects in countries where they have not formally established offices. Pretoria Portland Cement is a leading cement manufacturer, with a number of manufacturing operations in neighbouring countries (notably Botswana and Zimbabwe). The company has also build and acquired manufacturing factories in the DRC and Ethiopia[49] .

South African huge FDI into the continent has been fuelled by, among other factors, saturation in the local market, evident opportunities Africa offers, the fact that so many South African products are tailor-made for the African market, and regional integration initiatives under the auspices of SACU and the SADC FTA. In addition, many international companies either opened or reopened offices in South Africa after the end of apartheid, and are using South Africa as a springboard for their operations.

4.2.4 OVERVIEW OF SOUTH AFRICAN BILATERAL INVESTMENT AGREEMENTS

In the immediate post-apartheid era (1994–1998), South Africa concluded 41 bilateral investment treaties (BITs), mainly with European countries (14 of those are with African countries), but most are not ratified. In Africa, only three BITS have been

45. Various companies' websites.
46. Berkowitz et al, op.cit.
47. Ibid and various companies websites
48. ibid
49. ibid

ratified and entered into force, namely Mauritius, Mozambique and Zimbabwe. These three countries feature in South Africa's list of the top 10 outward FDI destination.

South Africa has since reviewed its BIT policy. Following the policy review, the South African government has decided to refrain from entering into BITs in the future, "except in cases of compelling economic and political circumstances", and to review its existing BITs "with a view to termination, and possible renegotiation on the basis of a new model BIT to be developed.

The government has, to this end, tabled a number of outward investment reforms as part of the 'Gateway to Africa' reforms, which aim to boost South Africa's position as a base for investment into the rest of Africa and further afield. These new reforms, which have been broadly welcomed by the South African business community, include the relaxation of cross-border financial regulations and tax requirements on companies and measures to make it easier for banks and other financial institutions in South Africa to invest and operate in other countries[50].

50. National Treasury. Gateway to Africa and Other Reforms, Annexure to the 2013 Budget Review.

5. PROSPECTS FOR EXPORTS AND INVESTMENTS

A key focus of the research was the identification of concrete export and investment opportunities at the level of specific upstream, midstream and downstream products and services. The following principles guided the process of scoping opportunities:

- Market attractiveness (demand) in terms of size of market and growth potential, drawing on available information including historical market growth and indicators of future growth
- South African capability to export, drawing on competitiveness with respect to skills, know-how, economies of scale and links to South African related-sector strengths
- Barriers to market entry

Based on these principles informing the identification of opportunities, research showed that Africa's business opportunities are potentially very large, particularly for companies in consumer-facing industries (such as retail, telecommunications and banking), infrastructure-related industries, and agriculture, tourism, manufacturing and resource-related industries.

5.1 MINING AND EXTRACTIVE INDUSTRIES

5.1.1 SECTORAL DYNAMICS

Africa represents one of the fastest growing and highest potential **oil and gas** exploration and production areas in the world. Up to 70 oil and gas discoveries have been made in the region over the past five years. Most of the new developments are still in the relatively early stages of what promises to be a huge build-up of infrastructure and activity. New frontiers in the oil and gas space in recent years have been East and Southern Africa's Rift System and Rovuma Basin (comprising Kenya, Tanzania, Uganda and Mozambique), West Africa's Transform Margin (which extends nearly 1 500 km along the coast from eastern Ghana, across the Ivory Coast and Liberia, and to the west of Sierra Leone), and the Lower Gulf of Guinea (covering Gabon, Equatorial Guinea, Namibia and Congo) pre-salt plays. This unyielding appetite for new frontiers has been accompanied by a general rise in capital expenditure for oil and gas across the continent, with Africa likely to register an increase by the end of 2013 of close to 15%[51].

The African **mining and metals** industry is also the mainstay of the continent. FDI is primarily targeted at this sector as the continent is mineral-rich, hosting 95% of the world's total platinum, 34% of chromium, 49% of cobalt, 64% of diamonds, 34% of bauxite and 29% of manganese (see Table 4)[52]. Africa actually experienced the second-largest increase in both percentage and dollar terms in exploration activity. Despite global economic uncertainty, the budget for non-ferrous metals exploration increased to record levels in 2012, helping to underpin continued industry investment. Africa's share of global exploration budgets rose to 17% in 2012. While the DRC held its prime spot for exploration spending for the second consecutive year, an increased focus on

51. Akinkugbe, R, op. cit.
52. US Geological Survey. 2012. Mineral Commodity Summaries 2012. US Government Printing Office: Virginia.

West Africa translated into gold receiving the largest dollar increase in 2012 Burkina Faso was one of the key contributors to this trend. Indeed, West Africa's iron ore frontiers have been increasingly compared to Australia's Pibara region, with a variety of investors pursuing new opportunities in the former. Up to 20 mining companies have commenced iron ore projects in the region, as West Africa's iron ore deposits are globally reputed to be high-grade, generally attracting low processing costs, due to the low levels of impurities found in them. Overall, mining exploration targets in Africa have focused primarily on Burkina Faso, Ethiopia, Ghana, the DRC, Namibia, Tanzania, Botswana, Mali and Zambia. Unlike the oil and gas sector, across the mining and metals sector, exploration activity over the past years has been focused on identifying new mining frontiers, rather than expanding the resources at previous discoveries[53]. Natural resources are likely to remain FDI priorities for the region in the near term, with East Africa's hydrocarbons projects a key attraction for resource-seeking investors.

Table 4: World and African commodities reserves

Key resource	Units	African reserves	World reserves	% of world reserves
Platinum	Million kg	63	66	95
Diamond	Million carats	385	600	64
Cobalt	Million MT	367	750	49
Bauxite	Million MT	240	750	32
Chromium	Million MT	120	350	34
Manganese	Million MT	182	630	29
Gold	Thousand MT	8	52	15
Oil	Billion barrels	127	1,333	9
Gas	Trillion cubic feet	467	6,254	8
Coal	Billion MT	35	645	5
Copper	Million MT	27	680	4

Source: US Geological Survey, Mineral Commodity Summary, 2012.

Table 5: Selected major ongoing explorations in the natural resources sector in African economies

Subregion	Oil and gas	Metals and minerals
Central Africa	Cameroon, Chad, Gabon	Gabon (manganese), Cameroon (iron ore), Central African Republic (uranium)
East Africa	Tanzania, Uganda, Kenya	Eritrea (gold), Ethiopia (gold), Tanzania (gold, uranium)
Southern Africa	Angola, Mozambique	Mozambique (coal, iron ore), DRC (copper, cobalt, gold, silver, zinc), Zambia (copper), Botswana (copper), Malawi (uranium), Madagascar (nickel)
West Africa	Ghana, Ivory Coast, Sierra Leone, Liberia, Equatorial Guinea	Sierra Leone (iron ore),Senegal (iron ore), Guinea (iron ore), Liberia (gold)

Source: US Geological Survey, Mineral Commodity Summary, 2012.

53. Akinkugbe, R, op.cit.

5.1.2 TRADE AND INVESTMENT OPPORTUNITIES

In the **hydrocarbon** industry, South Africa is well positioned to become a major hub for the supply of oil and gas services, and equipment and materials to the region. South Africa currently has significant competence and activity in a number of upstream service and supply areas, including the repair, maintenance and upgrade of various kinds of oil and gas marine vessels, e.g. drilling rigs, pipe-laying vessels and various kinds of work barges. In terms of ship repairs, a total of 1 780 vessels undergo repairs in South African ports annually[54].

Repair facilities in all the major South African ports cater for large ships to be dry-docked and others to be attended to on floating docks. For small vessels, typically up to 1 000 tonnes, all harbours have slipways and a selected few have synchro-lifts that will cater for ships up to 2 000 tonnes. The Port of Cape Town is an important repair facility, catering for the West Coast oil and diamond mining and fishing industries. The Port of Durban is ideally positioned to serve the Eastern sea routes. There are opportunities in engineering services with respect to the design, fabrication and construction of specialised modules or facilities for the oil fields, including storage tanks, processing modules for offshore platform or onshore facilities, docking facilities, tugs/barges, civil structures, platforms, etc. The Port of Saldanha Bay has a large fabrication yard dedicated to the regional upstream market. At the product level, South African firms can provide equipment and materials such as pumps, valves, pipes, motors, instrumentation, process equipment, etc. for the specialised needs of the upstream industry. Much of this builds on capabilities that have been developed for South Africa's broader industrial and mining sector.

In the **mining and metals** industry, South Africa has developed considerable expertise in mining and mining-related supply industries. It has a number of firms located at the global technological frontier. The high number of mining patents and citations received in comparison to that of other countries is indicative of the quality of the country's mining products and services. To this end, the country's firms are recognised as leaders in turnkey new mine design and operations, mine safety, ventilation, tracked mining, geological services and shaft sinking. Mine safety is key across all the regions in Africa. Fuel cell technology and products that use platinum have been applied in the tracked mining area, which includes rail-based track mining and the use of underground locomotives. In addition, the level of South Africa's development and expertise in the ventilation area is considered to be much greater than in comparable mining countries. At the product level, South African firms have an opportunity to manufacture and supply a number of capital equipment products, as discussed in section 5.4.2. Some of the risks and challenges in Africa for the mining sector include resource nationalism, price and currency volatility, inadequate supporting infrastructure and cost inflation. Resource nationalism has manifested itself through tax and royalties hikes, increasing social investment requirements, contract renegotiations, restrictions on foreign ownership, requirements for indigenous shareholdings, and calls for minerals beneficiation. These initiatives by host governments are aimed at securing greater financial, regulatory and sometimes operational control over extractive industries.

For mining firms with a substantial portion of their revenue and debt denominated in US dollars, fluctuations in exchange rates can have a large impact on their bottom line, especially when the cost of goods sold is denominated in local currencies. For example, Vale reported currency losses of US$1.4 billion in 2011 due to the impact of exchange fluctuations in the cost of goods sold in local currencies in a broad range of the jurisdictions in which they operate.

Lack of infrastructure, such as power, usable roads, functioning railways and efficient ports, makes the logistics for mining companies working in remote areas of underdeveloped countries much more

54. Gowans, B, Opportunities for Future expansion of Ship Repair Business in South Africa. Railways and Harbours Conference and Exhibition: Ports 2009, Cape Town, South Africa.

difficult. Companies are often forced to supply their own infrastructure to mining operations, making it a continuous challenge to support operations with goods, materials and services at reasonable cost. Examples of the impact of infrastructure gaps on resource projects are numerous. In Mozambique, millions of dollars have been invested in the country's rail infrastructure linking its remote coalfields with the country's Beira port. Nevertheless, heavy rains flooded the rail line for two weeks in early 2013, practically paralysing coal exports and forcing Brazilian mining giant, Vale, to declare force majeure. Across Africa, similar energy and mining projects are being continually hampered by a lack of adequate infrastructure.

Lastly, cost inflation in the sector is expected to intensify over the next several years, due to a number of factors, including wages, energy, ore grades, currencies, supplier constraints and taxes. In the prevailing environment of global economic uncertainty, softening commodity prices, higher input costs, and strengthening local currencies in many mining jurisdictions are increasing the pressure on margins. Industry consolidation, automation technology, owner-operated mines and investment in energy assets are some of the steps that companies are taking to lessen the impact of rising costs.

5.2 INFRASTRUCTURE-RELATED INDUSTRIES

5.2.1 SECTORAL DYNAMICS

Africa's infrastructure deficit is well documented. Salient infrastructure dynamics in Africa include the following: In the power industry, 42% of the African population has access to electricity. The power sector has a financing gap of approximately US$23 billion a year. The total spending needs of the power sector amount to US$40.8 billion a year. With regard to water, only 5% of Africa's cultivated land is irrigated and only 58% of Africans have access to safe drinking water. The estimated annual capital cost of the water resource infrastructure is approximately U$10 billion, of which almost 80% is for the development of large multipurpose hydropower storage, and about 10% is for the development of a large storage capacity for urban water supply and investment in developing small-scale infrastructure projects. As a complement to these physical investments, Africa will need an additional US$1.0 billion a year to develop hydrological networks, meet gaps in water information and develop water management institutions.

In the transportation industry, Africa has many small and medium-sized ports, with a low concentration by world standards. Many ports are poorly equipped and inefficiently operated. Road and rail networks in Africa are disconnected, and many are in a poor condition. Spending needs for the road sector amount to US$9.6 billion a year, skewed towards capital expenditure. Existing spending on the sector amounts to US$6.9 billion a year, significantly less than what is needed[55].

Table 6: Infrastructure spending needs for Africa (US$ billions per annum)

Infrastructure sector	Capital expenditure	Operation and maintenance	Total spending
ICT	7.0	2.0	9.0
Irrigation	2.9	0.6	3.4
Power	26.7	14.1	40.8
Transport	8.8	9.4	18.2
Water and sanitation	14.9	7.0	21.9
Total	60.4	33.0	93.3

Source: The World Bank, Africa's Infrastructure – A Time for Transformation.

55. The World Bank. 2010. Africa's Infrastructure – A Time for Transformation. The World Bank: Washington DC.

The World Bank's African Country Infrastructure Diagnostic Report argues that the continent requires at least US$93 billion more in spending per year to augment the infrastructure deficit (see Table 6). Currently, African governments and private sources combined are investing about US$72 billion a year in new infrastructure across the continent[56]. While the deficit should be a reflection of the opportunities that exist for companies involved in the construction of infrastructure, it does not imply that countries will carry out the necessary investment spending to address the shortfall.

5.2.2 Trade and investment opportunities

While inadequate infrastructure may be the single biggest threat to Africa's long-term growth, at the same time it also represents a significant opportunity for investors to finance physical infrastructure assets such as ports, railway lines, toll roads, power stations, hospitals and broadband information and communication technologies (ICTs). With governments across the continent committing billions of dollars to infrastructure, Africa is at the start of a 20- to 30-year infrastructure development boom.

The African Union, under the auspices of the Programme for Infrastructure Development in Africa (PIDA), and further guided by RECs' infrastructure master plans, has prioritised approximately 50 cross-border projects and programmes grouped into a set of general categories. With respect to **energy infrastructure,** priority energy projects, with a combined price tag of U$40 billion, have been earmarked for implementation before 2020. Included under the priority energy portfolio are nine hydropower schemes, four transmission corridors, and gas and oil pipelines. **Transport infrastructure** projects total US$25 billion, including 14 multimodal corridors, ports and railways modernisation, and air transport modernisation. PIDA is also targeting the development of three multipurpose **dams and water transfer facilities** at a cost of US$1.7 billion. **ICT infrastructure** will focus on submarine cables capacity building and interconnections, land fibre-optic interconnection infrastructure and the installation of internet exchange points[57].

The overall capital cost of delivering the PIDA projects is expected to be nearly US$68 billion, or about US$7.5 billion annually through to 2020. Energy and transport projects and programmes represent around 95% of the total cost, demonstrating the critical need for transformative investments in these sectors to support African trade, promote growth and create jobs. Investment needs for ICT and water represent lower percentages. PIDA further envisages investments of US$ 360 billion up to 2040[58].

PIDA presents opportunities for South African exporters of **electrical equipment,** including transformers, prepaid meters, high- and medium-voltage switch gear, circuit breakers, transmission technologies, solar panels and wind energy turbines. South African exports of electrical equipment and machinery to Africa have grown at a compound rate of 11.5% between 2003 and 2012. Further investment opportunities exist in rural and urban electrification, the construction of renewable energy plants, and transmission and distribution networks and substations. In **transport,** South African exporters have an opportunity to export and invest in rolling stock, logistics hubs, rehabilitation and the replacement of rail tracks, the construction of port quay walls, graving and floating docks, slipways and port storage facilities. South African companies have delivered world-class projects in **water** (e.g. Lesotho Highlands Water Project) and **wastewater treatment solutions** for residential and industrial use. South African companies, such as Veolia Water Solutions and Biwater, who specialise in large- and small-scale municipal, industrial and modular plants are already taking opportunities in Africa designing, building and commissioning water treatment processes and systems for both greenfield plants, as well as for existing plants that require technology upgrades or capacity improvements in countries such as Ghana, Sudan and Zambia. As the water needs of the continent grow, there will be a greater need for the supply of water infrastructure equipment

56. ibid
57. AU, AfDB and NEPAD. 2011. Programme for Infrastructure Development in Africa – Interconnecting, Integrating and Transforming a Continent. AU Commission: Addis Ababa.
58. ibid

such as tanks, pipes and fittings, valves, pumps and related motors, ultraviolet and reverse osmosis equipment, flow meters, etc. There are also turnkey opportunities in the design and construction of reservoirs, water treatment plants, booster pumps stations and chemical dosing buildings.

Despite vast opportunities presented by the envisaged infrastructure projects, funding remains a key challenge. African governments have historically financed a sizeable share of the continent's infrastructure development on balance sheet, and infrastructure rollout has been constrained by budgetary restrictions. Furthermore, local banks are often unable to supply the tenor of loans needed for long-term infrastructure investment. For the continent's infrastructure backlogs to be cleared, some form of collaboration with private sector players is a necessary and important precondition. African governments have also commenced with an innovative template for infrastructure financing, which includes involving a combination of public-private partnerships, specialist infrastructure funds, equity financing for private infrastructure developments, public bonds placements and sovereign wealth funds. In power projects, the common and well-known constraint is policy interventions on tariffs, whereby tariffs charged are way below marginal costs, rendering otherwise viable projects unviable. Risks associated with environment/social issues, political uncertainties, etc., are more or less limited to the pre-completion stage, and post-implementation risks are limited. There are also challenges with respect to insufficient collection and the absence of ring-fencing of revenues for the purpose of maintaining assets. On the other hand, transport (road/highway) projects involve higher risks associated with traffic growth, willingness-to-pay, and environmental and social issues.

5.3 AGRICULTURE

5.3.1 SECTORAL DYNAMICS

Despite its millions of hectares of unused land, Africa spends US$20 billion each year importing food[59]. Currently most countries are net food importers. Not only is the fertile continent a net importer of food, but according to the AU, 30 million people require either emergency assistance or some kind of agricultural aid every year, and 200 million people are chronically hungry at any given time[60].

Having realised this chronic situation, the AU, through NEPAD, initiated the Comprehensive Africa Agriculture Development Programme (CAADP). The programme aims to increase agricultural productivity by 6% a year, as a means of encouraging food security and increasing incomes. The CAADP has encouraged countries to identify key areas for their countries' investment agreements and sign 'compacts'. Through these compacts, governments set out individual road maps for their country's agricultural development and commit to investing 10% of their national budgets to agriculture[61]. The results so far have been patchy, with only a handful of countries contributing the agreed amount, but the initiative has successfully placed agriculture back in public and policy discourses, and has reinstated government's role in the sector.

Mounting concern over the security of food supplies is also spurring a wave of private equity investment in Africa. The emergent African Agricultural Land Fund claims to be one of the first to invest in the potential of Africa's farmland and targets risk-adjusted returns of 25% per year from production and land price appreciation. Diversified across crops, biofuels, livestock, game farming and timber, the fund aims to profit by increasing yields by using modern farming techniques, investing in technology and generating economies of scale by aggregating smaller farms[62]. In addition, the Africa Enterprise Challenge Fund provides for companies looking to work in Africa with kick-start grants of between US$150 000 and US$2.5 million, which they must match with their own money. So far, it has committed US$32 million to 40 business deals, leveraging about US$150 million from the private sector, and it expects to commit additional funding in the short- to medium-term[63].

59. The World Bank. 2012. Africa Can Help Feed Africa – Removing Barriers to Regional Trade in Food Staples. The World Bank: Washington DC.
60. Games, D. 2006. A Missed Opportunity? A Three-country Study of African Agriculture. Brenthurst Discussion Paper 7/2006. The Brenthurst Foundation: Johannesburg.
61. Available at: http://www.nepad-caadp.net/about-caadp.php.
62. Henshaw, C. Private sector interest grows in African farming. Wall Street Journal, 28 October 2010.
63. Available at: http://www.aecfafrica.org/index.php?option=com_content&view=article&id=12&Itemid=26.

Foreign buyers have also turned their eyes to Africa's farmland. After the commodity crisis of 2008, when record food prices caused widespread rioting around the developing world, many importing countries bought up vast tracts of land in African countries as a means of securing future supplies. Developing economies, such as India, China, Singapore, Malaysia and Vietnam, have ventured into Africa. Most of these countries' investments go to Eastern, Central and West Africa, and focus on grains, sugar cane and palm oil plantations[64]. The bulk of investments is still in the early phase of projects and is not yet operational. Outbound investments from China and India are being driven by the rapid rise in domestic demand for agricultural products and by the loss of farming land due to urbanisation and industrialisation processes. For example, from 1997 to 2011, China lost 8.2 million hectares of arable land, due to urbanisation, forest and grassland replanting programmes, and damage caused by natural disasters[65].

5.3.2 Trade and investment opportunities

A combination of population growth, rising incomes and urbanisation, and buoyant global commodity markets currently provide unprecedented market opportunities for Africa to develop a competitive agribusiness sector. Urban food markets are set to increase fourfold to exceed US$400 billion by 2030, requiring major agribusiness investments in processing, logistics, market infrastructure and retail networks[66]. The growing middle class is also seeking greater diversity and higher quality in its diets. Moreover, the lack of competition for economies of scale, untapped water resources and the substantial arable lands available for large-scale farming suggest that opportunities for agri-business are remarkable. There is already a history of success in some African countries where conditions are appropriate.

The history of success does not, however, mean that in places where conditions are not currently optimal, no opportunity may be possible. Indeed, there may be significant potential to create advantage. To this end, there could be great scope to provide services that would help create conducive conditions on land that is met by challenging natural endowments. For example, in countries where land is suffering from poor mineral soil content, companies could provide services to local farmers that enrich that soil content. In this way, the creation of advantage through the production and delivery of value-adding products and services to the agricultural industry could be extremely rewarding. Another example lies in helping to improve quality. For African farmers looking to move from subsistence to commercial farming, one of the major challenges is meeting international standards for trade. Indeed, many farms lack the infrastructure and capacity to meet highly stringent international regulations. In this situation, the development of mechanisms and services aimed at supporting small-holder farmers seeking to produce commercially to meet international quality standards could be especially beneficial.

In the **horticulture** segment of agriculture, commodities with significant consumption patterns both within and across regional blocs present viable export and investment opportunities for South African firms. A study by the United Nations Development Programme (UNDP) asserts that maize is an essential crop in both East and Southern Africa. Similarly, beans, rice, oil seeds, cassava and fish products are significant in East and West Africa. The study further shows that West and North Africa are the largest consumers of millet and milk. East, North and Southern Africa also account for approximately 75% of beef in Africa[67].

The UNDP study further emphasise that African countries' propensity to import wheat, rice, palm oil, sugar, soy oil, soya beans and milk has been on the rise since 2003. It is projected that the region's import propensity of these commodities will accumulate by over US$200 billion between 2013 and 2015 – an exponential increase of over 400% in less than 20 years[68].

64. Food and Agriculture Organization. 2013. Trends and Impacts of Foreign Investment in Developing Country Agriculture – Evidence from Case Studies. United Nations: Rome.
65. Nair, C. An Asian perspective on the world food crisis and its impact on development. Available at: http://www.consumptionomics.com files/ChandranNairUNCTADXIII.pdf.
66. The World Bank. 2013, op.cit.
67. UNDP. 2012. The Roles and Opportunities for the Private Sector in Africa's Agro-food Industry. United Nations: Johannesburg.
68. ibid

South Africa, with its resources and skills, has a competitive advantage in a number of crops, including table grapes, citrus, essential oils, maize, sugar cane and vegetables for processing. The continent has shown a sustained demand for South African fruit and vegetables. South African exports of fruit and vegetables into Africa have grown from US$188 million in 2003 to US$362 million in 2012 – a compound growth rate of 10.4%. Sugar exports and related products have grown at an average of 6.5%, whereas essential oils grew by 18.9% over the past decade.

One major opportunity in the agricultural marketing sector is to create infrastructure for facilitating cleaning, grading, packing and other primary processing activities for both food grains and perishables. Local markets are characterised by poor infrastructure, especially warehouses, cold store facilities, sanitary places, appropriate sheds and inefficient utility facilities. As a result, there are frequent fire outbreaks, high post-harvest losses, food safety concerns, and traders are confronted with disposing of fresh produce, irrespective of prices.

In the **meat industry,** Africa is considered a net importer of livestock, thus presenting potential opportunities for South African small-scale livestock farmers to participate in the industry. South African exports of meat products into the continent have grown by 8.1% over the past ten years. There are a number of production systems that could be practiced in the continent. The most ideal systems are weaner production (calves are weaned from their mothers at nine months and sold to feedlots or commercial farmers), steer production (animals, mostly steers, are kept on the veld for at least two years and marketed when prices are favourable), cattle breeding (race-specific animals are bred, usually according to breeder guidelines and marketed to other breeders and commercial farmers) and feedlotters and speculators (animals are bought in and fattened over a period, and then marketed, or merely bought in and sold where prices favour immediate disposal).

Constraints and risks in agribusiness in Africa include the following: Complications over land acquisition processes and uncertainty regarding land rights is the main risk for foreign companies investing in Africa. One of the most common misconceptions about this continent is the supposed availability of fertile land (due to low density rates and the lack of deeds of property), which is in fact already used for cultivation or grazing animals. The acquisition of such lands can later lead to tensions with local villagers over resource utilisation (water or grazing land). In most African countries, land ownership resides with the state, which is technically the sole entity empowered to grant land concessions. However, in practice, land usage is much more complicated and acquiring land implies getting the approval of many different stakeholders, including local communities, which retain considerable power over land, local governments and central governments.

Moreover, infrastructure is still lacking in many regions, and any establishment there would have to include heavy investment in farm and irrigation equipment and transport. Currently, it is estimated that just 10% of cropped land is prepared by tractor, and only 4% of cultivated land is irrigated[69] . Although acquiring prices are usually very low, clearing the land in a context of limited equipment and transport infrastructure can end up being expensive. For example, it was reported that the cost of clearing land and turning it into a farm is about US$1 500/ha in Ethiopia[70] .

Crop losses due to drought and flooding remain a threat to the agro-food industry. Burkina Faso, Niger and the northern part of Ghana experienced flooding in 2010, where farms were completely destroyed, including on-farm storage houses. The situation is not different from other countries in Africa, which are prone to natural disasters.

5.4 MANUFACTURING

5.4.1 SECTORAL DYNAMICS

Africa is the least developed region of the world in terms of industrialisation. It accounts for a negligible share of global industrial output and

69. Baynton-Glen, S. 2012. China-Africa – Agricultural Potential. Standard Chartered Global Research.
70. Business Monitor International. Industry trend analysis – Asia's foray into African farming: Early and troubled days, 28 August 2013.

manufactured exports. Only in a few of the countries is the manufacturing value-added/GDP ratio above 20%. In a large number of African countries, the manufacturing sector's contribution to GDP is less than 15% and, in some cases, it is lower than 5%. Where manufacturing occurs, the output is heavily concentrated on light consumer goods and agro-processing industries. The majority of African countries are yet to be involved in any significant sense in the medium- and high-technology segments of global manufacturing that have characterised the rise of Asian countries in recent years[71].

Some African countries' experiences with manufacturing have had modest success on the back of unilateral trade preferences, such as African Growth and Opportunities Act and the EU's Everything-But-Arms. However, these preferences guarantee limited scope and size, and are vulnerable to erosion as trade liberalises further in destination markets. Even in their domestic markets, African manufacturers are increasingly under pressure from efficient manufacturing companies from China, India, etc. In most cases, domestic producers suffer from this competition and are obliged to leave the market. In some cases, however, competition has prompted domestic firms to compete, as in the Ethiopian shoe sector, while in others it has offered some new opportunities[72].

Africa's negligible role in manufacturing is evidenced by its trade patterns. Whereas global trade flows have been increasingly characterised by intra-industry trade in intermediate manufactured goods, Africa's exports are largely composed of raw materials and imports of final consumer goods. Imports of capital equipment and many intermediate goods are primarily destined for commodity extraction.

Continental policy initiatives present opportunities for regional industrialisation and value addition. In 2007, the Conference of African Ministers of Industry endorsed the Accelerated Industrial Development of Africa Action Plan. The plan provides a continental framework for addressing the root causes of Africa's low industrial development. The African Mining Vision, which foresees the mineral sector contributing to broader continental social and economic development, is another instrument that can change the situation. Other initiatives include the High-level Conference on African Agribusiness and Agro-industries, the CAADP, the Maputo Declaration and the AU Summit on Boosting Intra-African Trade and Fast-tracking the Establishment of the Continental Free Trade Area.

5.4.2 TRADE AND INVESTMENT OPPORTUNITIES

South Africa has developed an established, diversified manufacturing base that has shown its resilience and potential to compete in the global economy. The country has proven export and outward investment capabilities in agro-processing, automotives, chemicals, electronics, metals, clothing and textiles. In 2012, manufactured exports constituted 90% of total South African exports to Africa[73].

In **agro-processing,** most African countries are involved to varying degrees. According to the UNDP, of the 500 companies listed in the Jeune Afrique ranking, 111 are active in at least one segment of the agro-food value chain. Notable indigenous companies include Tiger Brands and Clover Ltd (South Africa), BIDCO and AFN Enterprises (Kenya), Dangote and Flour Mills (Nigeria), Blue Skies, Wienco and Chemico (Ghana), Camlait and Bien VU (Cameroon), Giplait, Cevital, Soummam and COGRAL (Algeria), and Al Doha (Egypt)[74].

The expanding number of middle- and high-income consumers on the continent has shifted consumption patterns and personal tastes to processed food and beverages. The expansion of South African retail and supermarket chains into the rest of the continent is creating shelf space for these consumers to satisfy their new tastes. Other global retail chains are increasingly casting their eyes on African markets as a potential place to sell their wares. For example, part of Walmart's strategy with its entry into South Africa was to launch into other African markets. Supermarkets in Africa do

71. AU. 2013. Action Plan for the Accelerated Industrial Development of Africa. AU: Addis Ababa.
72. ibid
73. ECIC calculations based on UNCTAD trade data.
74. UNDP. 2012, op. cit.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not have developed firm-specific private standards to differentiate their products, and codes of conduct for suppliers that allow them to develop "credence goods" to meet consumers' concerns for social and environmental sustainability are non-existence. This offers local agro-processing industries upgrading opportunities. South African companies can add value by deepening processing activities (washing or chopping); combining products (mixed washed, peeled and chopped vegetables, ready for cooking) and packaging (for speciality products). These products are important for supermarkets and branded manufacturers, because they allow them to reform traditional products in middle- and high-income markets.

The market for agricultural machinery also holds immense promise in Africa. With 11% of the world's arable land (86% of which is still uncultivated) and very low tractor penetration, Africa holds strong potential for mechanisation development in the longer term. Although machinery sales growth will be slow to start off, it is expected that opportunities will become available in the longer term, especially in North, East and Southern African countries.

In the **chemicals** subsector, South Africa is considered a world leader in coal-based synthesis and gas-to-liquids (GTL) technologies. Chemicals and related exports accounted for approximately 14% of South Africa's total export basket into the continent in 2012. Between 2003 and 2012, chemicals exports have almost doubled from US$1.1 billion in 2003 to US$2.1 billion in 2012 – a compound growth of 9.6%[75]. The recent discovery and exploration of coal and gas on the continent presents further opportunities for the South African chemicals industry.

The South African **industrial electronics** industry has repeatedly proven itself in terms of world-class innovation and production. The industry is characterised by a handful of companies with strong capabilities in professional electronics, while small to medium companies specialise in security systems and electricity pre-payment meters. Export and investment opportunities in industrial electronics lie in the development of access control systems and security equipment, automotive electronic subsystems, systems and software development in the banking and financial services sector, silicon processing for fibre optics, integrated circuits and solar cells. There are also significant opportunities for the export of hardware and associated services, as well as software and peripherals.

South Africa's is also a net exporter of **metals,** and export and investment opportunities include the manufacturing of primary steel products and semi-finished products, such as billets, blooms, slabs, forgings, reinforcing bars, railway track material, wire rods, seamless tubes and plates. Exports of metal products into the continent have grown by 11% between 2003 and 2012 and constitute 6.3% of South Africa's total exports into Africa.

South Africa has leading global **transport and haulage equipment** products. In many cases, the mining sector provided the initial source of demand, and successful domestic firms then branched out into other areas. The export of road vehicles and transport equipment registered US$2 billion in 2012 – accounting for approximately 13.3% of total South African exports and 39% of total South African capital equipment exports into Africa. In addition, exports of road vehicles and transport equipment have grown at a compound rate of 13.1% over the past decade – showing a sustained demand for these products.

Africa has been the leading destination of South Africa's exports of **forestry, timber pulp and paper** products, with exports to the continent accounting for approximately of 60% of total South African exports of forestry, timber pulp and paper to the rest of the world. Key products of interest include doors, windows and their frames, posts and beams, assembled flooring panels and skirting boards.
The export performance of the **mining equipment** sector is also indicative of South Africa's global

75. ECIC calculations based on UNCTAD trade data.

competitiveness. In 2012, mining equipment constituted 19% of the total South African exports into the continent and just over 50% of total machinery and capital equipment exports into Africa. Since 2003, the share of Africa in South Africa's mining exports has been increasing, on average, by 20% per annum. In this regard, South African firms have an opportunity to manufacture and supply heavy drilling equipment, underground locomotives, hydraulic equipment and haulage, ventilation, conveyors, scrapers, safety equipment and washing spirals, among other mining-related products.

5.5 CONSUMER-RELATED INDUSTRIES

5.5.1 SECTORAL DYNAMICS

While mineral resources will undoubtedly continue to be important, the most significant contributors to African growth are changing, with less reliance on exports and more reliance on domestic demand (consumer spending and imports). Since 2000, consumer spending in Africa has grown at a steady 4% per year, reaching nearly US$600 billion in 2010[76] . Private consumption is expected to reach US$1 trillion by 2020. According to a report by the McKinsey Global Institute, clothing and textiles, consumer goods, and food and beverages will account for approximately 45% of the total amount. This will be attributed to urban Africans spending a large share of their income on food and groceries[77]. With Africa's exploding middle class (over 300 million people) always looking to be serviced with new products, Africa's **fast-moving consumer goods** sector looks promising. There is a huge and ever-growing opportunity for manufacturers and retailers of food and beverages, telecommunications, financial services and retail services. Salient industry features include the following: changing tastes and sophistication in clothing and textiles, surging digital and mobile usage, robust saving culture and the continuing evolution of mobile financial services, and distinct consumer markets. African consumer-related industries are projected to grow by more than US$400 billion by 2020[78] .

Currently, the African consumer market is concentrated, with 10 of 54 countries (Algeria, Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Sudan and Tunisia) accounting for 81% of private consumption in 2011. It is projected that these countries and other countries such as Ethiopia, Uganda, Zambia and Senegal will account for nearly three-quarters of total consumer spending in Africa by 2020[79].

Within these attractive consumer markets, there is a wide range of consumers for which companies must tailor attractive, differentiated offers. Accenture identifies five key African consumer segments, including basic survivors, working families, rising strivers, cosmopolitan professionals and the affluent. Basic survivors are considered the largest consumer group, characterised by low income; they reside in urban slums and/or rural areas, and tend to make day-to-day decisions based on essential needs. Working families, the second largest consumer group, emphasise stability and routine lives; their spending patterns are largely informed by their offspring. Rising strivers are viewed to have a slightly higher disposable income due to access to credit and other resources; they are considered to value upward mobility and their purchasing decisions can be influenced by convenience, quality or even more "expressive" factors. The affluent, although small in numbers, are viewed to represent the wealthy due to their high disposable income[80].

Accenture estimates that working families will represent 33% of the total African market opportunity by 2015. The largest group will remain basic survivors at 45%, followed by rising strivers (16%), cosmopolitan professionals (3.1%) and the affluent (2.8%). Even though cosmopolitan professionals and the affluent will still constitute a relatively small portion of the market, their spending power translates into a significant opportunity for luxury products and services. As the African economy

76. Hatch, G, Becker, P and Van Zyl, M. 2011. The Dynamic African Consumer Market: Exploring Growth Opportunities in Sub-Saharan Africa. Accenture: Cape Town. 2011
77. Hattingh, D, Russo, B, Sun-Basorun and Van Warmelen, A. The Rise of the African Consumer. McKinsey Africa Consumer Insights.
78. McKinsey Global Institute, op.cit.
79. Hatting, D et al., op.cit
80. Hatch, G et al., op.cit.

continues to mature, these segments are likely to grow more rapidly[81].

5.5.2 TRADE AND INVESTMENT OPPORTUNITIES

The South African ICT and electronics industry is very established and sophisticated, consisting of indigenous companies who have ready access to cutting-edge technologies, equipment and skills. The industry also has the advantage of access to the rapid expansion of telecommunications and IT throughout the African continent. Thus, South African companies are recognised as world leaders in innovation, production and cost efficiency, backed by an excellent local infrastructure. For example, MTN's Global Multiprotocol Label-switching Virtual Private Network, including telepresence, video and audio conferencing, file sharing, application and data hosting, is unmatched on the continent. The technology aims to connect key network point-of-presences in South Africa, Kenya, Nigeria, Djibouti, Tanzania and the UK. The technology will ensure that MTN's enterprise customers will receive a seamless managed network service based on MTN's undersea cable investments. With this move, MTN and other South African companies are well placed to take advantage of the growing demand for advanced communications services in Africa's enterprise sector. This development further underscores the growing opportunities in the ITC enterprise solutions and electronics market in Africa, driven by a positive economic outlook and increasing investments in key industry verticals.

Demand for consumer electronics products in Africa has grown rapidly in line with rising disposable incomes and is dominated by the affluent and cosmopolitan consumer market. The demand has also been driven by the continued downward pressure on the prices of products, such as mobile handsets and digital television sets. The average price of a mobile handset continues to decline in a market that is 85% prepaid, although smartphone prices have begun pushing up prices again. A similar trend has also occurred with the price of digital television sets. In many segments, this process has been accelerated by the entry of local brands catering to the domestic market, particularly for audio-visual (AV) products.

The cosmopolitan and affluent African consumers tend to be well informed about technological trends and demand mobile handsets, digital television sets and notebook computers with state-of-the-art features. Replacement rates for consumer electronics products in these segments are higher. The affluent group is understood to change their television sets every three years, compared with about every five years for other market segments. A similar phenomenon pertains to mobile handset replacement, with affluent consumers switching as often as twice a year.

It is projected that demand in all product categories will be driven by new releases and technologies. Increased demand for mobility, lower prices and channel expansion will fuel demand for notebook computers, as well as digital lifestyle products, such as digital cameras, plasma displays, LCD and plasma television sets, LCD monitors and mobile handsets. In the AV segment, television sales will be driven by growing demand for the better viewing experience offered by plasma and LCD models, as well as the continuing migration from analogue to digital broadcasting.

The main challenges of doing business in ICTs and electronics include uncertain policy and regulatory frameworks, especially with regard to tariffs and licensing, weak transmission and interconnection agreements, planning networks for adequate capacity with uncertain market demand, and currency fluctuations. The latter can affect import and financing costs for mobile operators, especially if call tariffs are dollar-based.

Organised **food retail** is very minimal in most African countries, with less than 5% of food sales done through the organised retail sector. The majority of food and drink retail is done through independent vendors and market kiosks. This clearly highlights that growth in the wider consumer sector is coming off a very low base. The mass grocery retail industry has struggled to develop due to a lack of infrastructure, creating difficulties transporting resources to and from ports and for retailers to access consumers.

81. ibid

Opportunities are immense in both West and Central Africa. Both regions have generally not witnessed the same level of investment in organised food retail as Southern and East Africa, partly because South African retailers, such as Shoprite, have focused on neighbouring countries. North Africa's mass grocery retail industry remains underdeveloped, with few modern retail outlets and formats. Despite the sound macroeconomic outlook, most North African consumers, with the possible exception of Egypt, are proving to be a challenging market to penetrate for South African retailers due to perceived political risks, and cultural and religious practices. The majority of the region's retail markets are fragmented and most outlets remain independent family-run stores, which offer convenience and geographical proximity to customers, as well as large product ranges. Due to the potential capacity of the market and the relative wealth of consumers, it is projected that the industry will experience a strong growth over the coming years, thus presenting further opportunities for South African retailers.

The problems for retailers in Africa include, inter alia, the lack of suitable real estate, high rentals, long supply chains, transport logistical problems, a lack of quality domestic goods and service providers, slow returns on investments and the need for critical mass, high import duties and excise taxes, and uncertain land tenures for property development

The underdevelopment of the **financial services** sector in Africa has boosted the opportunities available to local companies willing to take the risks. South African banks have a sizeable competitive advantage in Africa as a result of their capital strength and technological capabilities. They also have a ready-made client base of South African companies operating in African countries, which reduces their client risk.

Mobile financial services across the continent are expected to grow substantially, driven by higher numbers of mobile subscribers, increased deployment of mobile money platforms, the large size of the unbanked population and increased sales penetration of smartphones in the region. It is also expected that intra-country and intra-regional remittance transfers will become major drivers of revenues, especially in West and East Africa. These developments provide South African companies with the opportunity to introduce mobile money transfer technologies, such as the eWallet and app, to the growing African market. In the retail space, apart from consumer lending, there is a significant opportunity for banks to offer one-stop shopping for financial services that specifically target the growing cosmopolitan and affluent markets in the region with such premium services as wealth management.

The main problems in the African financial services sector include currency risks and weak domestic private sectors. With regard to the former, foreign banks target hard currency income streams, where possible, in weak currency countries. Where profits are generated in local currencies, such as in retail banking, however, the challenge for banks is to grow earnings at a faster rate than the currency depreciates. Most African countries are also associated with few creditworthy borrowers. Typically, most banking deals are done with governments or parastatals, which are known to be high-risk clients.

5.6 MARITIME-RELATED INDUSTRIES

5.6.1 SECTORAL DYNAMICS

The continent currently has a small maritime security asset base in order to safeguard a coastline of approximately 31 000 km in length. A Brenthurst study showed that Africa (excluding North Africa) had five frigates, seven medium-range patrol aircraft, 18 coastal patrol vessels, approximately 60 craft capable of conducting limited offshore patrols, and around the same number of inshore patrol craft in 2010. Given the naval resources at the continent's disposal, the study posits that it is impossible for the entire coastline to be permanently patrolled, rendering the continent's coastlines vulnerable to criminal activities, plundering of fishery resources and environmental degradation[82].

There is also increasing demand for passenger ferries throughout the African lakes regions as continuing degradation of the road infrastructure makes road transport increasingly difficult. In West and Central Africa, where the Congo basin has a navigable network of 12 000 km, covering nearly four million km2 in nine countries, this waterway could be a very

82. The Brenthurst Foundation. 2010. Maritime Development in Africa – An Independent Specialist's Framework, Discussion Paper 2010/03. The Brenthurst Foundation: Johannesburg.

valuable resource in a multimodal transport network serving the region. Attractive markets and possible areas for expansion are Lake Victoria (Tanzania, Uganda and Kenya), Lake Tanganyika (Tanzania, Burundi, the DRC and Zambia), Lake Malawi (Malawi, Mozambique and Tanzania) and Lake Volta (Ghana). The current fleets in use in these waterways have come under much scrutiny for security and safety standards due to the age of the boats and lack of modern navigation systems[83].

In addition, with the proliferation of FTAs on the continent and the movement of goods getting worse because of roads in bad condition due to heavy trucks, the use of coastal shipping becomes paramount. While container vessels are used between the larger ports, intermediate ro-ro landing craft could be used between regional ports. Expansions and upgrading to port infrastructure in Africa may indicate further demand for port assistance craft, including tugs, pilot and patrol boats. In the oil and gas sector, Nigeria, Angola, Mozambique, Kenya and Ghana represent attractive markets for oil and gas crew and provisioning supply craft, given their extensive reserves and production.

5.6.2 TRADE AND INVESTMENT OPPORTUNITIES

The South African vessel construction industry, in particular boat building, is principally an export industry, with 90% of production dedicated to exports.

Numerous reports have shown that the industry has undergone an efficient industrial restructuring that makes it internationally competitive in respect of price, quality (both in finish and sailing abilities) and durability. Its products are highly acclaimed and have won a number of international awards. It also has a fine reputation among international boat designers, who often allocate orders and refer clients to South African boatbuilders[84]. South Africa's shipyards currently focus on the niche small vessels, with local facilities concentrating their efforts on tugs, fishing vessels, deep-sea patrol, search and rescue vessels, yachts, passenger ferries, frigates and bunker barge-sized vessels, but with the potential to grow. Local shipyards have also developed capacity in fire-fighting boats and crew transport boats for the oil and gas sector. There has been some diversification into power catamaran production[85].

The South African boatbuilding sector has the opportunity to build on its strengths in multihull production to expand exports into new markets, as well as to build on niche competency areas to diversify its exports. Potential market opportunities exist and the industry can consider expanding its commercial boat supply, including rigid hull inflatable boats (RHIBs) into Africa, focusing on military and naval security boats, harbour workboats for fire-fighting and pollution control and patrol boats, oil and gas crew and provisioning supply craft, and ferries and fishing craft. As oil, gas and port activities increase in sub-Saharan Africa due to increasing investment in extractive industries and infrastructure upgrades, the demand for harbour work boats and supply craft will increase. Furthermore, as African countries continue to address safety and security concerns, there are plans to upgrade patrol and rescue fleets. South Africa is well positioned to serve this market, both in terms of proximity to markets and its relationships with other countries on the African continent. South African boatbuilders have already developed niche competencies in areas relating to safety and security, and these can be leveraged (along with wider South African competencies in related industries) to provide higher end, specialised product offerings. The market for lower end commercial boats, such as fishing craft and ferries, may have growth potential as governments target the upgrading of crafts[86].

South African suppliers may face significant market barriers, including tied assistance by bilateral donors and local procurement requirements. In many instances multinational exploration companies with established links with suppliers in their home countries may bypass South African service providers. In addition, the lack of presence in target

83. Kaiser Associates & Gowans, B. 2012. Scoping Study on Competitiveness and Market Development for the South African Boatbuilding Industry. Department of Trade and Industry. .
84. COFISA Report on Western Cape Boat Building Industry. 2010
85. Kaiser Associates & Gowans, B, op.cit
86. ibid

markets means that South African service providers cannot identify purchasing decision-makers in some countries and thus cannot take advantage of unadvertised opportunities [87]. This is exacerbated by the relatively high overheads required for marketing.

5.7 TOURISM AND RELATED INDUSTRIES

5.7.1 SECTORAL DYNAMICS

Due to its impressive growth and greater political stability in the last decade African has become more attractive for business and leisure activities. The continent was the second-fastest growth by region after Asia and the Pacific as it attracted approximately 52 million tourists in 2012. By 2030, the region is expected to more than double its arrivals from 50 million to 134 million, raising its market share to 7.4%[88].

Despite the bullish sectoral outlook, many countries on the continent continue to lack the necessary infrastructure and services to unlock their tourism potential. For example, while branded establishments in key tourist destinations such as, inter alia, Mauritius, Kenya, Tanzania, South Africa, and Egypt offer a wide variety of quality accommodation and related hospitality services across the board, most establishments that are not associated with known brand names are, more often than not, lacking in adequate and/or consistent quality standards.

5.7.2 TRADE AND INVESTMENT OPPORTUNITIES

The tourism industry is recognised as one of Africa's strategic but most under-invested assets. A report by the Africa Investor 2010 Wealth Cheque estimates that the tourism market has approximately US$200 billion of untapped potential with an estimated total market size of $254 billion[89]. The diversity of the tourism industry and the sectors that it embraces, such as accommodation facilities, transport services, restaurants, shopping facilities, conference facilities and resorts, underscores the intensive uniqueness of the industry and its attractiveness to investors.

Africa has a rich endowment of natural and cultural resources, providing a vast range of investment and trading opportunities, as well as exciting and unique travel experiences that are mostly anchored in authentic cultural traits and nature itself. As a result, investors are strategically placing themselves across the continent with the aim of growing their portfolios in order to leverage on current and future demand. African governments have also realized the industry's immense potential and through tax incentives and other guarantees have encouraged more investments into the sector.

Several opportunities are available for South African investors, including the design, construction and management of luxury lodges and retreats. Apart from these, marine tourism opportunities exist. For example, Lake Victoria in Uganda has a substantial number of bodies of water that are still unexploited. A luxury boat cruise or tour operatorship could be a great idea. Balloon flights are a relatively new experience for millions of Africans. There is also room for foreign investors to partner with governments on national park concessions.

The key risks and challenges associated with tourism investment include concerns about the political stability and safety of the host country, and unclear or incomplete laws on property ownership.

87. ibid
88. World Tourism Organisation. 2013. UNWTO Tourism Highlights, 2013. United Nations: Paris.
89. Africa Investor and The Africa Group. 2010. Africa Wealth Cheque: Final Report. Africa Investor Magazine and The Africa Group

6. CONCLUDING REMARKS AND RECOMMENDATIONS

Given its remarkable growth over the past decade, Africa has been hailed as the next frontier for opportunity and a potential global growth pole. Political conflict has declined, economic growth is robust, and economic management, governance and political stability have improved. All have contributed to a marked shift in the global perception of the continent – from pessimism to enormous potential.

The greatest myth about investing in Africa is that it is a homogenous place with common risks. That is not the case. The size, diversity and complexity of individual country markets mean that a single Pan-African strategy will likely fall short. Instead, organisations should evaluate each country on its own merits.

Regardless of the markets or segments on which a company chooses to focus, companies need to consider a simple framework that can help to most effectively execute an entry strategy. To choose the right entry strategy, companies must assess the risks and then decide whether to establish a stand-alone business, enter via an acquisition, seek partnerships or joint ventures, or licence their products and services to another company. Each approach has its pros and cons. For example, entering via a greenfield investment (i.e. going it alone) can result in the biggest payoff if entry is successful, but is also the riskiest choice for companies that lack local market knowledge, access to distribution channels or political connections.

Conversely, entering Africa via an acquisition can be expensive and time-consuming, but can provide immediate access to existing networks and distribution channels, and the opportunity to gain deep market insights that can be scaled. Partnering provides a faster way of gaining access to local market knowledge and distribution channels, but selecting the right partner requires a careful appraisal of ownership, control, pricing and local partner capabilities. Licensing can offer the least risky and lowest cost option to expand market reach, but may also carry a high brand risk, thus limiting the potential to exploit potential market opportunities.
Ultimately, the right strategy must reflect the company's goals and priorities, the state of local market development and regulation, and the specific nature of the entry barriers to be overcome. The following considerations is therefore recommended for South African companies aiming to venture into the continent

6.1 OPTIMISE USE OF DOMESTIC FINANCIAL INSTRUMENTS

Development finance institutions, such as the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA), and local commercial banks provide South African exporters and investors with adequate financial facilities to venture successfully into the continent. Both the IDC and DBSA fund commercially viable projects on the continent through in-house instruments, such as equity and quasi-equity financing, the provision of commercial debt and export finance. Their sectors of interest include mining and beneficiation, agro-processing, infrastructure, hotel and resort developments, ICTs and manufacturing.

The Export Credit Insurance Corporation (ECIC) of South Africa provides both commercial and political risk cover for South African exporters and investors. The ECIC's interest make-up scheme also enables financial institutions to offer globally competitive interest rates on export transactions that are supported by the ECIC. This enables South African exporters to compete in international markets based on their price and quality, and not to lose a potential transaction because a competing country's government is offering excessively generous financing terms to close a deal.

More financing options are also made available by local commercial banks, which periodically collaborate with the ECIC. There are other equity instruments that provide over US$100 million to South African citizens wanting to invest in Africa. These instruments include the Standard Bank Africa Equity Index Exchange Trade Note (with a value of US$66 million), the Momentum Africa Equity Fund (US$23.9 million) and the Prescient Africa Equity Fund (US$11.2 million)[90]. These financing instruments give investors access to active listed companies across the continent.

6.2 OPTIMISE DEPARTMENTAL ENGAGEMENT

There are two key government departments essentially involved in South Africa's export effort: the Department of Trade and Industry (the dti) and the Department of International Relations and Cooperation (DIRCO). The dti's Trade and Investment South Africa (TISA), International Trade Commission, and International Trade and Economic Development divisions focus on increasing levels of international trade and FDI for local companies. These divisions further deal with South Africa's implementation of trade engagements under the banner of SACU, SADC and the World Trade Organisation (WTO). The dti has a number of programmes to support South African exporters and investors, including, inter alia, Export Marketing and Investment Assistance, the Capital Projects Feasibility Programme and the Manufacturing Competitiveness Enhancement Programme.

The dti, through the Trade Opportunities Centre (TOC), also assists South African potential exporters to identify international business opportunities. The TOC provides matchmaking opportunities by matching international business opportunities to South African export-ready firms. The centre also publishes weekly trade lead bulletins, which provide a snapshot of international business opportunities received from the Department's network of foreign economic representatives

DIRCO conducts and coordinates South Africa's international relations and promotes South Africa's foreign policy objectives. The Department oversees the country's embassies, high commissions, consulates and trade offices in Africa and elsewhere. Similar to the dti, the Department has a number of divisions dealing with multilateral institutions, such as the AU, the United Nations and the WTO. Both the dti and DIRCO have foreign representatives stationed in a number of the missions in key African markets to promote South African commercial interests and assist visiting companies.

6.3 OPTIMISE INWARD AND OUTWARD TRADE MISSIONS

To expose South African products and services to the global community, TISA and provincial trade and investment agencies (e.g. Trade and Investment KwaZulu-Natal, Western Cape Destination Marketing, Investment and Trade Promotion Agency) lead inward and outgoing trade missions for South African exporters and investors. Trade missions are usually comprised of export councils, government representatives and private business organisations, such as the South African Chamber of Commerce. To participate in these trade missions, companies have the option of applying for financial support, through the dti's Sector Specific Assistance Scheme, subject to certain mandatory conditions being met. Export councils are Section 21 (non-profit) companies that serve to represent the developmental and promotional objectives of a particular industry on a national level. They do not provide financial or other direct assistance. Although they are purely advisory in character, they have the government's ear and

90. Gatt, L. Venturing north: South Africa's pioneering role in African investment . Consultancy Africa Intelligence, 18 February 2013.

can lobby most effectively for state support for the sectors involved. The dti's programmes, such as export marketing, are also most easily accessed through the councils. They are also represented in important Pan-African business bodies, such as the SADC Employers Group.

6.4 OPTIMISE SOUTH AFRICAN TRADE AND INVESTMENT AGREEMENTS

Trade blocs are also an important consideration, especially for market-seeking firms. There are eight major trade zones, the result of agreements that eliminated tariffs and quotas between member countries to create common markets that allow free movement of capital and labour. To this end, South Africa is part of SACU and SADC FTA, and is currently participating in the negotiations for a trilateral FTA that encompasses the EAC, COMESA and SADC.

The SADC Protocol on Trade was signed in 1996. Regional tariff phase-downs began in 2000 and the SADC FTA started operating in 2008.

6.5 OPTIMISE STRATEGIC ALLIANCES

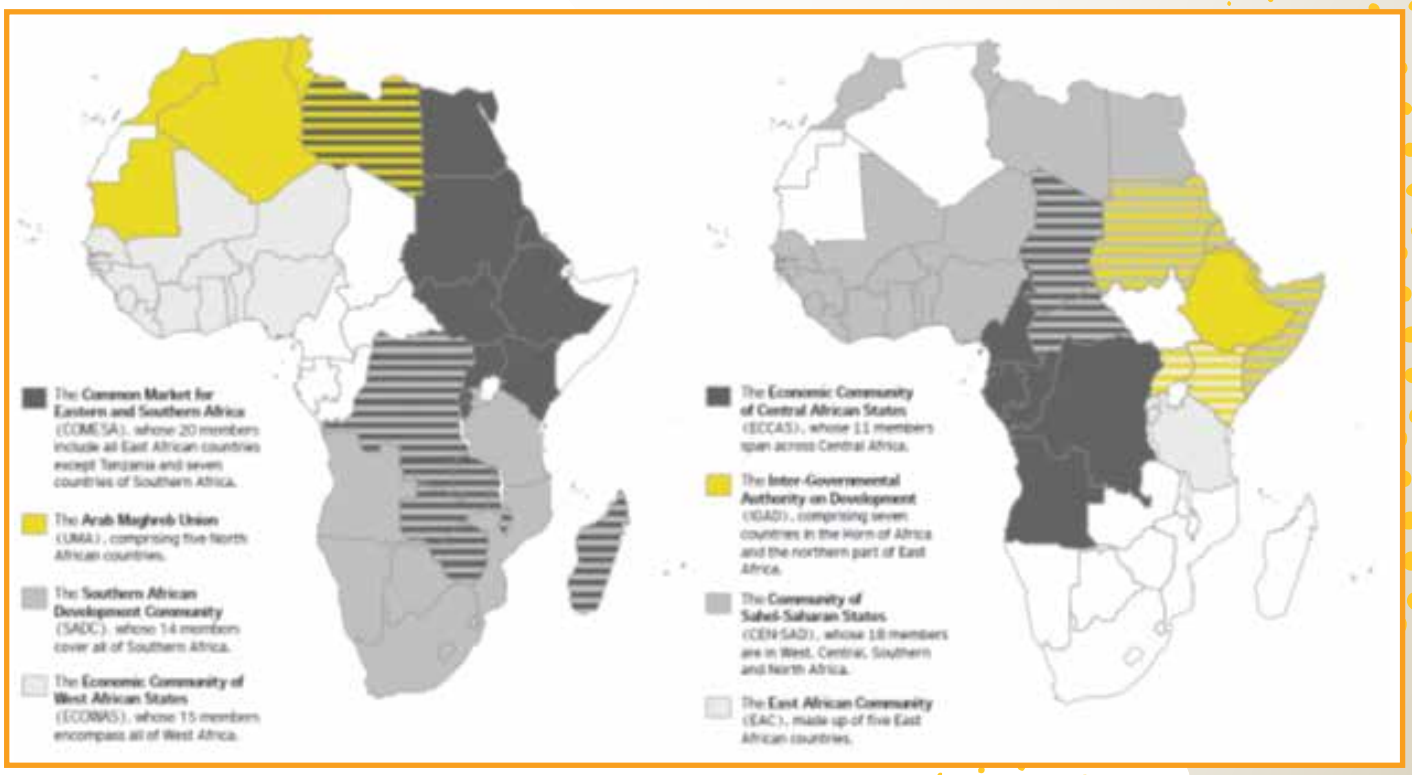
Markets in the rest of the continent require companies' synergies rather than competition. South African construction and engineering companies have led the way, for example, by collaborating to produce the expertise required for major African infrastructure projects.

Local exporters and investors can also initiate deals via Pan-African conferences, such as the World Economic Forum, Ports and Harbours, Mining and Infrastructure Indabas, Transport and Logistics, and Africa Rail, without even venturing into African markets. These meetings offer opportunities to create efficient synergies for companies situated at various stages in the project value chain.

7. APPENDIX

7.1 LIST OF MAPS

Map 1: RECs pillars of the African Economic Community

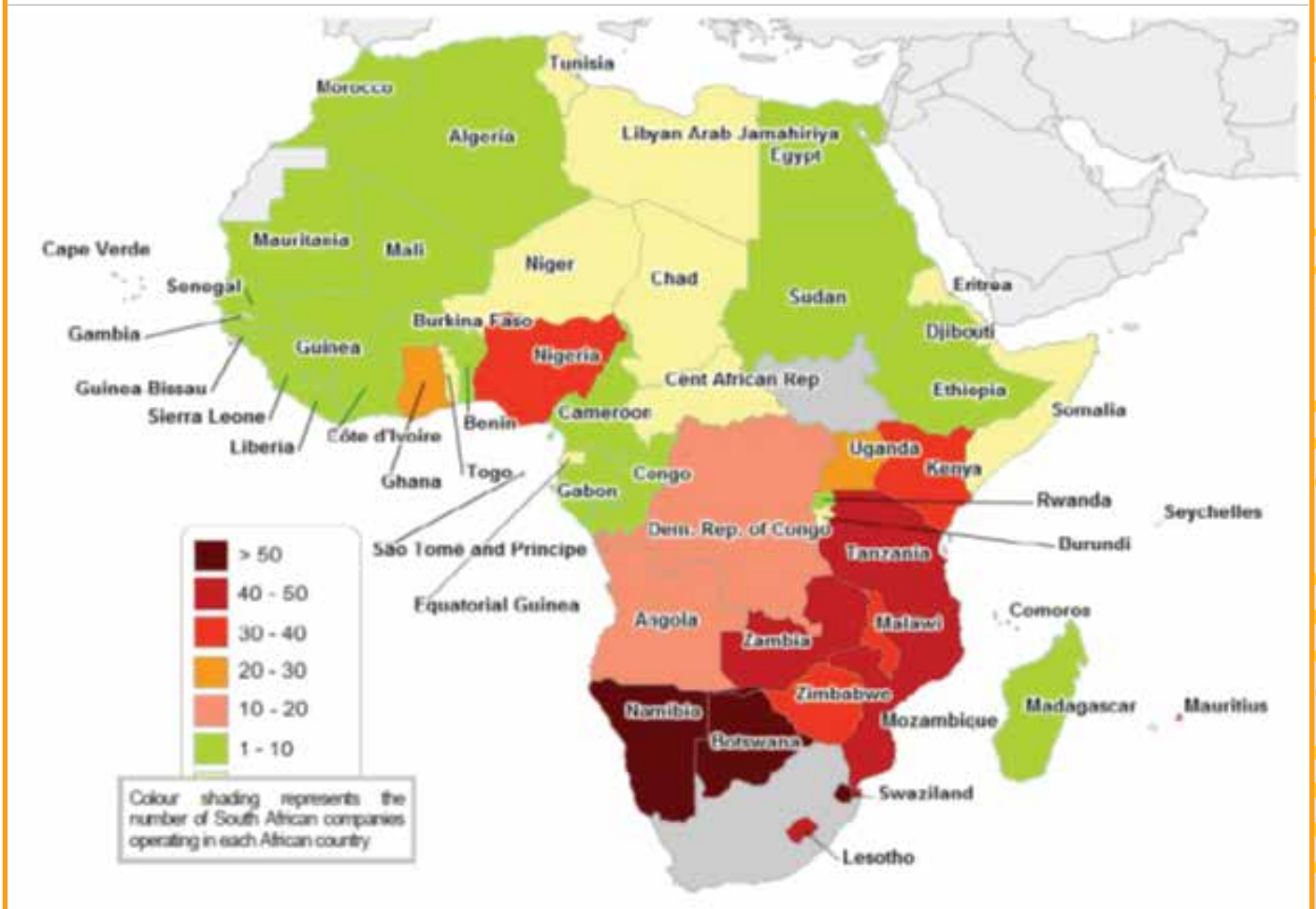


Source: Ernst and Young, 2012. 2012 Attractiveness Survey: Africa – Building Bridges. Ernst and Young: London.

Map 2: Origin of African FDI stock

Source: Ernst and Young, 2012. 2012 Attractiveness Survey: Africa – Building Bridges. Ernst and Young: London.

Map 3: South African companies' footprint in Africa



Source: Source: Berkowitz et al,op.cit

NOTES

NOTES

Export Credit Insurance Corporation of South Africa SOC LTD
39 Ingersol Road, Lynnwood Glen, Pretoria, 0081

P.O Box 528, Menlyn, 0063

Company Registration No. 2001/013128/06
Registered Financial Services Provider: FSB No. 30656