South Africa: The gateway to Africa

Presented by:

Rose Blatch
International Trade Institute of Southern Africa
“The prospect of investing in sub-Saharan Africa can cause businessmen to sweat. The region is often seen as a corporate graveyard of small, impossibly difficult markets where war, famine, AIDS and disaster are always lurking.”

The Economist: ‘The flicker of a brighter future’

“…. We conclude that Africa could be on the brink of an economic take-off, much like China was 30 years ago, and India 20 years ago.”

The World Bank
Africa at a glance

**US$ 1.95 trillion**
GDP in 2012

**US$ 1.3 trillion**
Consumer spending in top 18 cities by 2030

**US$ 392 billion**
FDI into Africa (2000-2012)

**616 million**
Mobile phone connections (2013)

**84%**
of the world’s chromium reserves

**88%**
of the world’s platinum reserves

**108**
Corporations generating annual revenues of US$ 1 billion in 2012

**40%**
of the world’s gold reserves

**10%**
of the world’s oil reserves

**17%**
Compounded annual rate at which consumer spending rose from 2008 - 2012

**35% (2000) – 50% by 2020 (estimate)**
African households with discretionary spending power

**29**
African companies with at least US$ 3 billion in revenue in 2012

**+1 billion**
Population in 2012 with 70% under the age of 30

**108**
Corporations generating annual revenues of US$ 1 billion in 2012

**FDI into Africa (2000-2012)**

**35% (2000) – 50% by 2020 (estimate)**
African households with discretionary spending power

**29**
African companies with at least US$ 3 billion in revenue in 2012
### Africa’s growth 2000 – 2016 (projected)

**Africa’s economic output**
*(GDP in US$ billions, current)*

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>587</td>
</tr>
<tr>
<td>2001</td>
<td>568</td>
</tr>
<tr>
<td>2002</td>
<td>575</td>
</tr>
<tr>
<td>2003</td>
<td>696</td>
</tr>
<tr>
<td>2004</td>
<td>840</td>
</tr>
<tr>
<td>2005</td>
<td>987</td>
</tr>
<tr>
<td>2006</td>
<td>1.13</td>
</tr>
<tr>
<td>2007</td>
<td>1.32</td>
</tr>
<tr>
<td>2008</td>
<td>1.57</td>
</tr>
<tr>
<td>2009</td>
<td>1.47</td>
</tr>
<tr>
<td>2010</td>
<td>1.70</td>
</tr>
<tr>
<td>2011</td>
<td>1.86</td>
</tr>
<tr>
<td>2012</td>
<td>1.98</td>
</tr>
<tr>
<td>2013</td>
<td>2.10</td>
</tr>
<tr>
<td>2014</td>
<td>2.24</td>
</tr>
<tr>
<td>2015</td>
<td>2.39</td>
</tr>
<tr>
<td>2016</td>
<td>2.55</td>
</tr>
</tbody>
</table>
Africa and Asia compared

GDP growth, unweighted annual average, %

(Excluding countries with less than 10 m population, as well as Iraq and Afghanistan)
World’s 10 fastest-growing economies

**Annual average GDP growth, % (2001 – 2010)**

- Angola
- China
- Myanmar
- Nigeria
- Ethiopia
- Kazakhstan
- Chad
- Mozambique
- Cambodia
- Rwanda

**Annual average GDP growth, % (2011 – 2015)**

- China
- India
- Ethiopia
- Mozambique
- Tanzania
- Vietnam
- Congo
- Ghana
- Zambia
- Nigeria
Degree of business risk in Africa

Least risky

Most risky
Choosing high potential markets in Africa

GDP compounded annual growth rate (2005 - 2015)

Ease of doing business
Global rapid growth markets in the years ahead

**Country selection based on 3 key criteria:**

1. Large, both in terms of GDP and demographics
2. Dynamic, rapidly growing
3. Strategic importance for business development

Mexico · Colombia · Brazil · Chile · Argentina · South Africa · Ghana · Nigeria · Egypt · Saudi Arabia · Turkey · Poland · Lithuania · Qatar · United Arab Emirates · Russia · Kazakhstan · China · India · Korea · Vietnam · Thailand · Malaysia · Indonesia

*Source: Ernst & Young*
Africa – the positives

- 26 out of 54 countries now classified ‘middle class’
- No of people living below the poverty line has decreased from 51 to 39%
- More than 2/3 of continent registered overall improvement in economic governance
- Cost of starting a business has halved
- Private sector is now the engine for growth
- Annual rate of foreign investment has increased fourfold since 2000
- GDP set to remain above 5.5% for the next few years
Africa – the challenges

- Cultural differences between Africa and the West are extreme in religion, language, customs, etc.
- 53 countries – 2000 dialects
- Ranks at the bottom in the World Bank’s Ease of Doing Business survey
- Poor quality roads, inadequate harbours, and inefficient rail systems increase the cost of doing business (30% of GDP)
- Companies often have to import building supplies and equipment to construct factories
- Unreliable electricity supply necessitates the use of company’s own electricity generators
The solution... South Africa

✓ Has both a 1st world segment and a 3rd world component

✓ With a foot in both the West and Africa, **South Africa bridges the cultural/business practice gap**

✓ Has 4% of Africa’s land coverage and 6% of Africa’s population BUT produces **25% of Africa’s GDP**

✓ Generates more than **50% of Africa’s electricity output**

✓ Enjoys more tonnage through its ports than the combined facilities of Angola, DRC, Gabon, Kenya, Mozambique & Tanzania

✓ Facilitates more air transport than rest of southern, central and eastern Africa put together

✓ Has extensive road & rail networks

✓ Has a sophisticated banking & telecoms infrastructure

✓ Is the world’s 29th biggest economy & 39th largest exporter
South Africa is the springboard into Africa

South Africa:

- Is currently at the helm of the African Union
- Is leading the way with regional integration
- Is set to play a leading role in mobilising investment infrastructure on the continent (North-South Infrastructure corridor)
- Produces 40% of Africa’s industrial output and 45% of its mineral output
- Has been ranked by a World Bank survey as the sixth most attractive emerging market for doing business
- Is home to over 70% of leading African businesses
- Has Africa’s largest bourse (stock exchange)
- Has 50% of Africa’s purchasing power
South Africa also has its problems, however...

- +/- 50% of the population lives in poverty
- Unemployment stands at 30% or more
- More people receive welfare from government than have jobs
- Education and skills levels are low
- Public healthcare is under-resourced
- Strike action is on the rise
- The HIV infection rate is one of the highest in the world.
Macroeconomic stability: selected African countries

World Economic Forum’s Macroeconomic Stability Index 2013-2014

1 = low; 7 = high

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>3.15</td>
</tr>
<tr>
<td>Kenya</td>
<td>3.64</td>
</tr>
<tr>
<td>Ghana</td>
<td>3.08</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.39</td>
</tr>
</tbody>
</table>

South Africa is often cited as an example of peaceful transition to democracy. Its progressive constitution enshrines a wide range of social & economic rights.
Quality of infrastructure: selected African countries

World Economic Forum’s Quality of Infrastructure Index 2013-2014

1 = underdeveloped; 7 = extensive & efficient

South Africa’s excellent infrastructure, together with first-class financial, legal and commercial systems, makes this country a natural location to pursue the significant opportunities of South and southern Africa.

(President, General Electric South Africa)
Selected African countries’ annual tertiary education labour pool (2010 estimates)

- South Africa: 130,000 – 140,000
- Ghana: 34,000 – 36,000
- Kenya: 30,000 – 32,000
- Nigeria: 17,000 – 19,000
- Mauritius: 7,000 – 9,000
South Africa’s key economic sectors: % contribution to GDP
South Africa’s mineral output

- **World’s largest producer** of manganese, chrome, ferrochrome, platinum group metals, vanadium and vermiculite

- **3rd largest producer** of gold, asbestos, antimony and manganese ore

- **4th largest producer** of coal and silicon metals

- Also produces **a large proportion** of the world’s gem diamonds
South Africa’s automotive industry

- Millions of rands of motor vehicles exported to countries all over the world
- Main contributors: BMW, Mercedes Benz, Toyota and VW
- Growth kick-started by the govt’s MIDP incentive. (Credits earned on exported local content used to offset duties on imported components)
- MIDP to be replaced in 2013 by the APDP (Automotive Production & Development Program)
South Africa’s liberal trade regime

- South Africa was a founding member of the GATT in 1947
- South Africa is currently an active member of the WTO
- Since 1994, tariffs have been reduced and non-tariff barriers phased out
- South Africa’s global economic strategy focuses on improving export performance by dismantling barriers to trade and gaining increased market access.
South Africa’s preferential trade relationships

- The TDCA with the EU
- The FTA with SADC
- Preferential market access agreement with Mercosur
- GSP arrangements with a number of countries
- AGOA
- Proposed integrated African free-trade zone
South Africa’s total trade: 2011

Total trade: US$ 153 billion (2012)

**EXPORTS (US$ 70 billion) dominated by:**

- primary & intermediate commodities (minerals, base metals, precious & semi-precious stones and metals, e.g. gold)
- Services (tourism, food, hospitality & transport)
- Other (e.g. chemicals, refined petroleum products, machinery & vehicles, transport equipment, vegetable products, food products)

**IMPORTS (US $ 83.3) dominated by:**

- Primarily raw materials
- Industrial & capital goods (e.g. chemicals, machinery & equipment, vehicles & transport-associated goods, textiles)
South Africa’s total trade by region: 2010-11

- Asia: 45% in 2011, 40% in 2010
- Europe: 30% in 2011, 25% in 2010
- Africa: 15% in 2011, 10% in 2010
- North & South America: 10% in 2011, 5% in 2010
- Oceania (Aus & NZ): 5% in 2011, 0% in 2010
South Africa’s top export destinations & sources of imports: 2011

Export destinations:
- China
- Germany
- USA
- Japan
- UK

Sources of imports:
- China
- Germany
- USA
- Japan
- Saudi Arabia
Reaching African consumers

- Understand income levels
- Develop locally relevant products
- Build your brand – Africans are brand loyal
- Build a strong value proposition at right price points
- Build Awareness: Traditional and non-traditional mediums
- Educate the consumer
- Focus on youth
THANK YOU for your attention

Contact details:
Rose Blatch
Email  rblatch@mweb.co.za / rose.blatch@itrisa.co.za
Cell phone  +27 83 450 5169
Tel office  +27 11 807 5317
P O Box 2475, Rivonia, 2128, Gauteng, South Africa