

South Africa First in Africa for Investment

JOHANNESBURG, South Africa, June 24, 2014 (SA Info) -- South Africa was Africa's best foreign direct investment (FDI) performer in 2013, topping the charts for both inflows and outflows of FDI and leading the trend towards increasing intra-African investment, according to the UN Conference on Trade and Development's (UNCTAD's) latest World Investment Report.

The report, released in June, showed that FDI inflows to South Africa jumped from US\$4.5-billion in 2012 to a record-high \$8.1-billion in 2013, with investments in infrastructure being the main attraction. This put South Africa on top of the table for FDI inflows into Africa, followed by neighbouring Mozambique, Nigeria, Egypt and Morocco.

At the same time, South Africa's FDI's outflows almost doubled, from \$2.9-billion in 2012 to \$5.6-billion in 2013, powered by investments in telecommunications, mining and retail. Angola was Africa's next-biggest investor, followed by Nigeria, Sudan and Liberia.

Investment-driven regional integration

In all cases, Unctad's report found, outward investment flows were directed mostly to other countries on the continent, paving the way for investment-driven regional integration.

The report noted that South African companies such as Bidvest, AngloGold Ashanti, MTN, Shoprite, Pick n Pay, Aspen Pharmacare and Naspers, along with companies from other countries - including Algeria, Egypt, Kenya and Nigeria - were upgrading their cross-border operations first in neighbouring countries and then more widely across the continent.

According to the report, the share of cross-border greenfield projects - the major investment type in Africa - originating from other African countries increased from about 10% between 2003 and 2008 to 18% between 2009 and 2013, with all the big investor countries (South Africa, Kenya and Nigeria) more than doubling their shares.

Over the same five years, the gross value of cross-border intra-African acquisitions - the second-biggest investment type in Africa - grew from less than 3% in 2003-08 to more than 9% in 2009-13.

Growing consumer markets are a key force enabling these trends, the report found, with an increasing amount of FDI into Africa going to "consumer-facing" industries such as banking and telecommunications.

"The rapid economic growth of the last decade underlies the rising dynamism of African firms on the continent, in terms of both trade and foreign investment," the report states.

"Led by the cross-border operations of [corporations] based in the major economies of the continent, this trend is sustaining African leaders' efforts to achieve deeper regional integration.

"Intra-African investments are trending up, driven by a continuous rise in South African FDI into the continent, as well as by increases of flows since 2008 from Kenya, Nigeria, and northern African countries."

Trends in African FDI

Unctad's report identifies a number of trends in foreign direct investment in Africa, including the following:

Regional integration efforts are intensifying.

"African leaders are seeking to accelerate regional integration, which was first agreed to in the 1991 Abuja Treaty. The treaty provided for the African Economic Community to be set up through a gradual process, which would be achieved by coordinating, harmonizing and progressively integrating the activities of regional economic communities (RECs).

"Recent efforts in this direction include a summit of African Union leaders in January 2012 that endorsed a new action plan to establish a continental free trade area. In addition, several RECs plan to establish monetary unions as part of a broader effort to promote regional integration."

Consumer-oriented sectors are beginning to drive FDI growth.

"Expectations for further sustained economic and population growth underlie investors' continued interest not only in extractive industries but also in consumer-market-oriented sectors that target the rising middle-class population. This group is estimated to have expanded 30 percent over the past decade, reaching 120-million people.

"Reflecting this change, FDI is starting to diversify into consumer-market-oriented industries, including consumer products such as foods, information technology (IT), tourism, finance and retail. Similarly, driven by the growing trade and consumer markets, infrastructure FDI showed strong increases in transport and in information and communication technology (ICT)."

Intra-African FDI is focusing on manufacturing and services rather than the extractive industries.

"Comparing the sectoral distribution across sources shows that 97% of intra-African investments target non-primary sectors, compared with 76% of investments from the rest of the world, with a particularly high difference in the share that targets the manufacturing sector.

"Intra-African investments in the manufacturing sector concentrate in agri-processing, building materials, electric and electronic equipment, and textiles, while in the services sector African [corporations] have been attracted to telecommunications and retail industries, especially in rapidly growing economies like those in Nigeria, Ghana, Uganda and Zambia.

"Other very active industries for intra-regional investments are finance, especially banking, and business services, where investors from South Africa, Kenya, Togo and Nigeria are expanding in their neighbouring countries."

Some foreign corporations are starting to invest in research and development in agriculture on the continent.

This is motivated "by declining yields, global warming, concerns about supply shortages, and the sectoral need for a higher level of technological development.

"For example, in 2013, Dupont (United States) gained a majority stake in the seed company Pannar by promising to invest \$6.2-million by 2017 to establish an R&D hub in South Africa to develop new seed technology for the region."

Technology firms have also started to invest in innovation in Africa.

"In November 2013, IBM opened its first African research laboratory, on the outskirts of Nairobi, with an investment of more than \$10-million for the first two years ... Kenya has become a world leader in payment by mobile phone, stirring hope that Africa can use technology to leapfrog more established economies ... In the last few years, Google has funded start-up hubs in Nigeria, Kenya and South Africa, as part of a push to invest in innovation in Africa." **(Source: South Africa Info)**