



A look at Trade and Foreign Direct Investment Inflows from South Africa to Africa

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Abstract

Although South Africa lacks the financial might that EU, USA, China and India possess, it enjoys advantage of cultural affiliation, history and geographical proximity to African countries. This paper discusses the depth of trade and investment flows between South Africa and the rest of the continent as way of advancing economic development on the continent. We find that SA total investment and historical trend is closely matching that of India and China and only slightly less than FDI flows from USA. However, SA/Gauteng Investment in Africa do not create as much employment in Africa as similar investments from the other 4 countries/regions. This may be explained by the fact that either SA investments in Africa are not green field or most of it is disproportionately composed of the tertiary sector. The fact that investment in Africa from all regions is still growing indicates that SA and Gauteng have the capacity to increase their investment on the continent.

On trade, there is a striking similarity of trade flows from Gauteng to Africa on the one hand and that of South Africa on the other. Although both imports and exports from either Gauteng or SA have been increasing apace, the latter (exports) are growing at a faster pace. The lower import volume from Africa to Gauteng/SA is explained by the fact that the continent is weak in manufacturing and produce similar goods(commodities) to SA while the higher export volume to Africa is due to the fact that SA enjoys comparative advantage in manufacturing against its trading partners in Africa. We also note that both export and import flows are stronger in the SADC region than the rest of Africa indicating the impact of geographical and cultural closeness. Further, Africa is the most important export destination to Gauteng and SA followed by the EU, China, USA and India in that order. On imports, Africa ranks fourth (behind EU, China, USA and India in that order) as the most important source of goods.

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1.1. Introduction

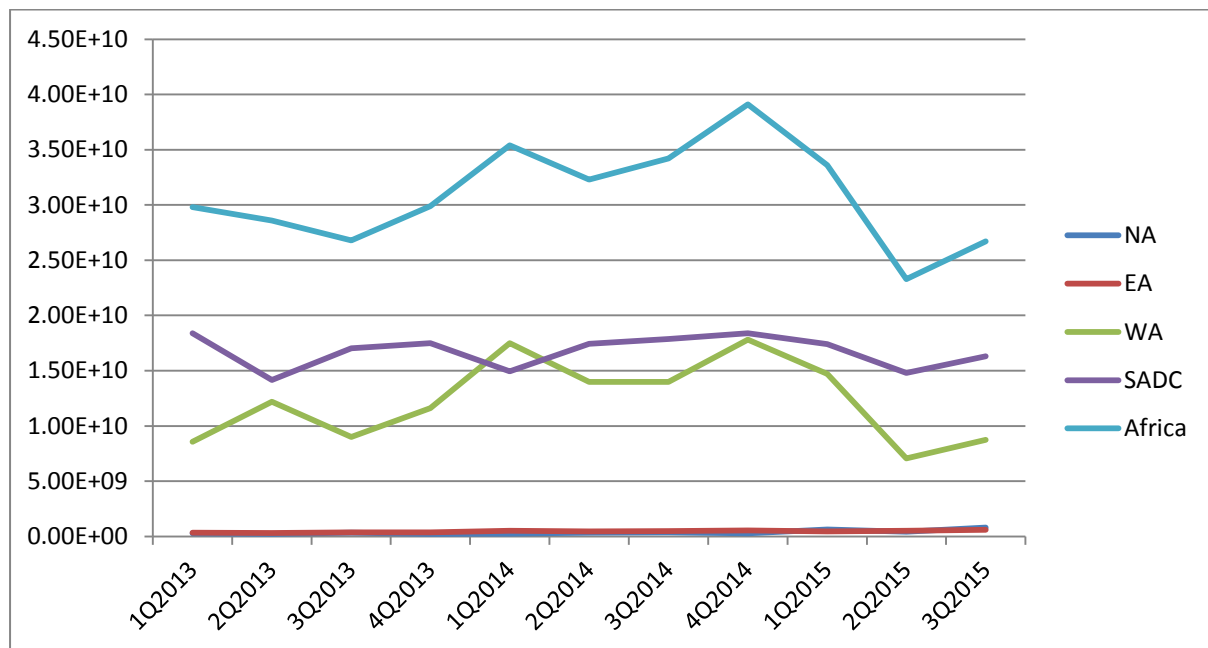
African countries have experienced tremendous growth in the last ten years and global economic powers such as the United States, European Union, China and India have increased their presence in Africa through trade and investment opportunities. The national strategy has identified Africa's economic development as one of its objective and this has also been embraced by the Gauteng Provincial Government. South Africa works within the confines of the African Union and its agencies (Nepad) as well as with affiliates such as the SADC, EAC and Ecowas to build a credible, prosperous and peaceful Africa. Although South Africa lacks the financial might that the above countries/regions possess, it enjoys advantage of cultural affiliation, history and geographical proximity to African countries. This paper intends to determine how South Africa is engaging in the Africa's economic advancement through trade and investment activities. To provide perspective, the paper also discusses the participation of other global players in the continent.

1.2. SA Trade with Africa

1.2.1. Imports from Africa

Figure 1 shows the trend of South Africa's imports from Africa and other economic regions in Africa. It indicates that total imports increased from Q1 2013 to Q4 2014 and then decelerated up to the second quarter of 2015 and is now on the recovery phase. It also shows that the average total import is 35 billion rand.

Figure 1: SA imports from African economic regions (ZAR)



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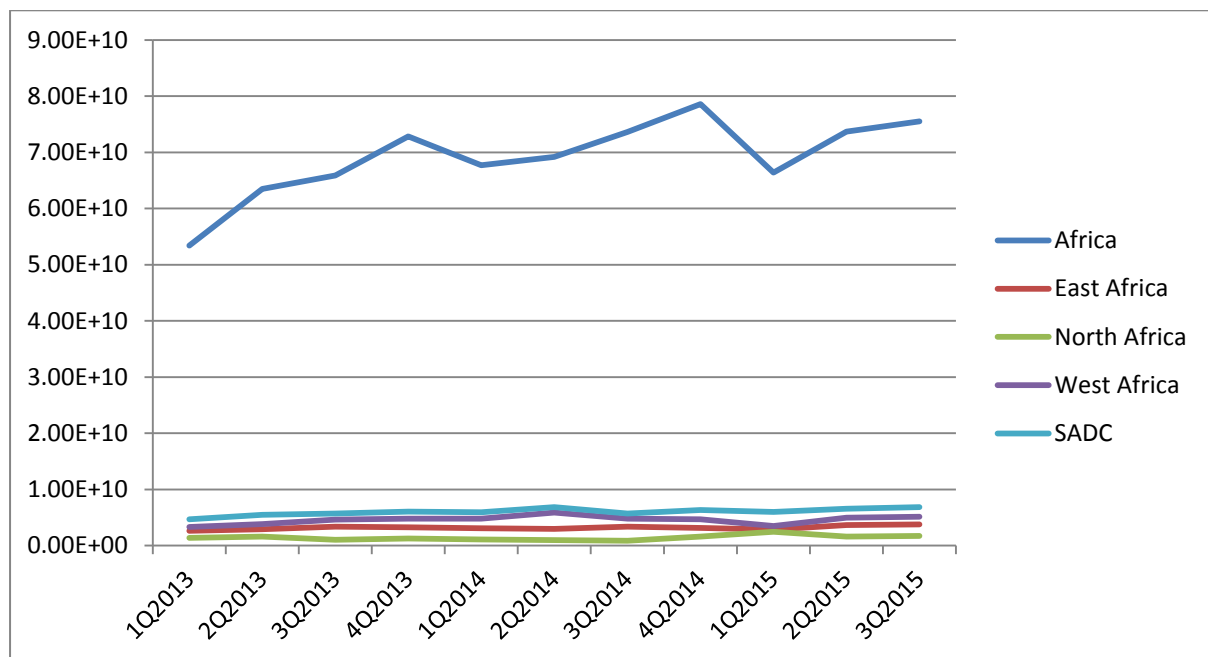
Figure 1 also shows that most imports originate from the SADC region and West Africa. The imports from SADC are shown to be more stable while that from the West African Region is volatile and mainly comprise petroleum products from Nigeria. Imports from East and North Africa are the lowest averaging below 5 billion rands. Mineral products account for over two-

thirds of all imports from SADC. Pearls, precious stones, precious metals and coins account for 13%; machinery, mechanical appliances and electrical equipment 5.3%; base metals 5.2%; and textile and textile articles 4%.

1.3. South African Exports to Africa

Figures 2 and 3 show exports from SA to the continent where total earnings from goods sold in the continent average around 70 billion Rand and it has been on a steady but incremental progress since 2013. Exports from South Africa to Africa are well distributed across sectors with machinery comprising the bulk of the exports. Other product segments indicate that the manufacturing sector is the most significant as far as the export consignment to Africa is concerned.

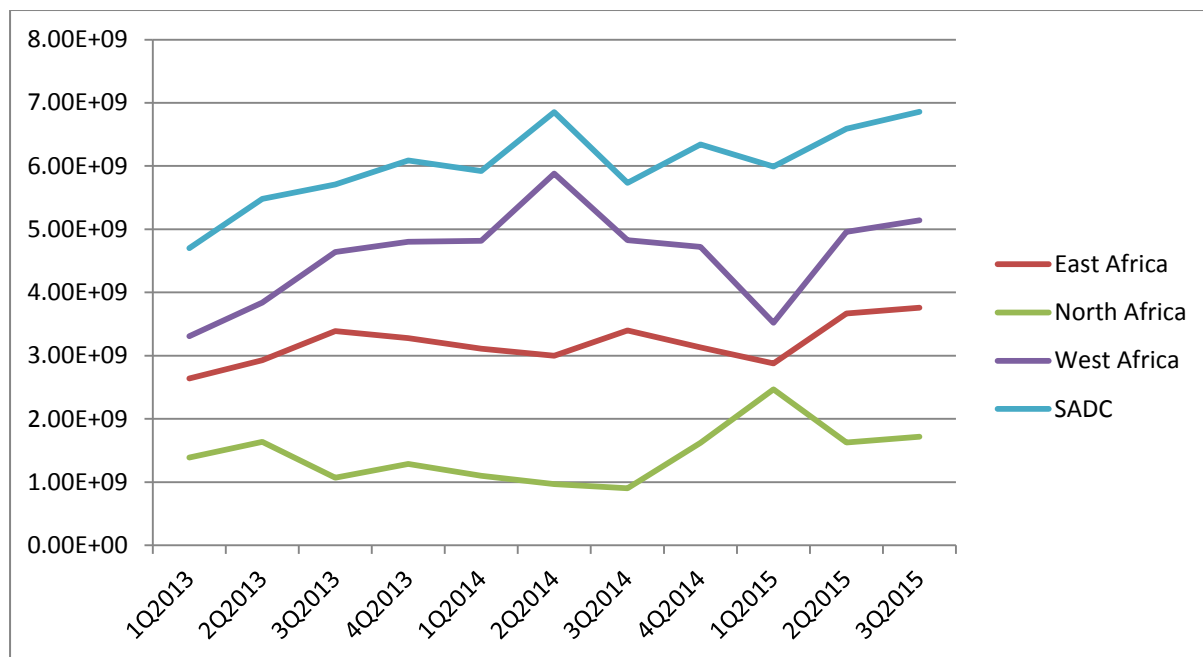
Figure 2: Trend of SA Exports to Africa



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The data as depicted in Figure 3 shows that SADC is the single most important destination of SA goods, probably due to the proximity and cultural closeness that the region enjoys. West Africa region is next in attracting most SA goods followed distantly by EAC region and North Africa.

Figure 3: Exports from SA to economic regions in Africa

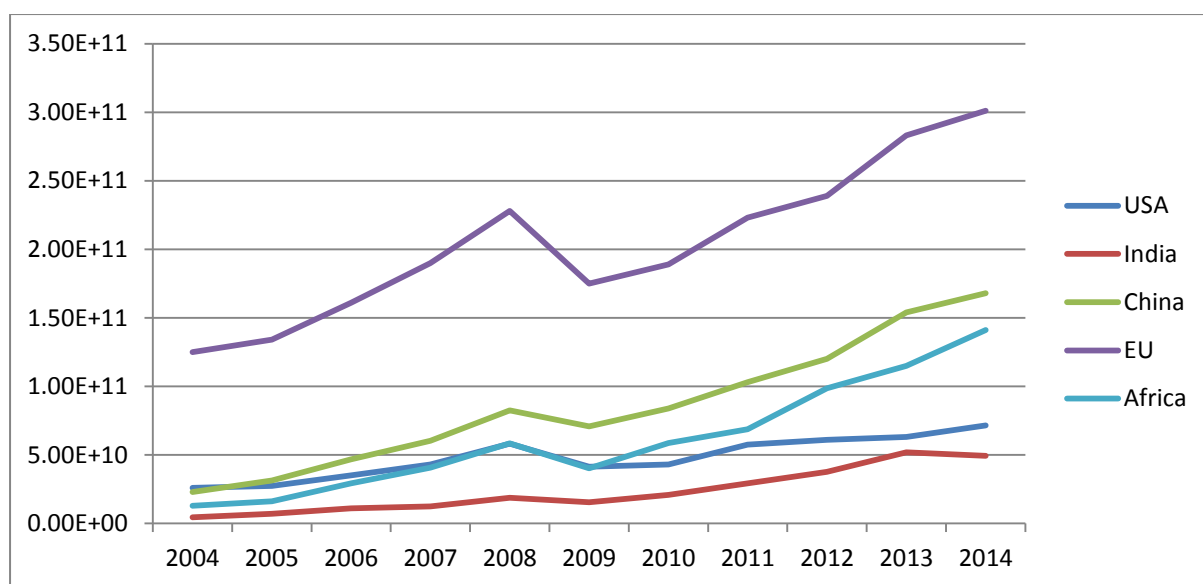


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1.4. How does SA and Gauteng Trade in Africa compare to that of other countries

To have an indication of the impact of trade of South Africa/Gauteng with Africa, we need to measure it against trade activities between other global powers such as China, USA, EU and India.

Figure 4: SA Import Sources



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1.4.1. Import sources

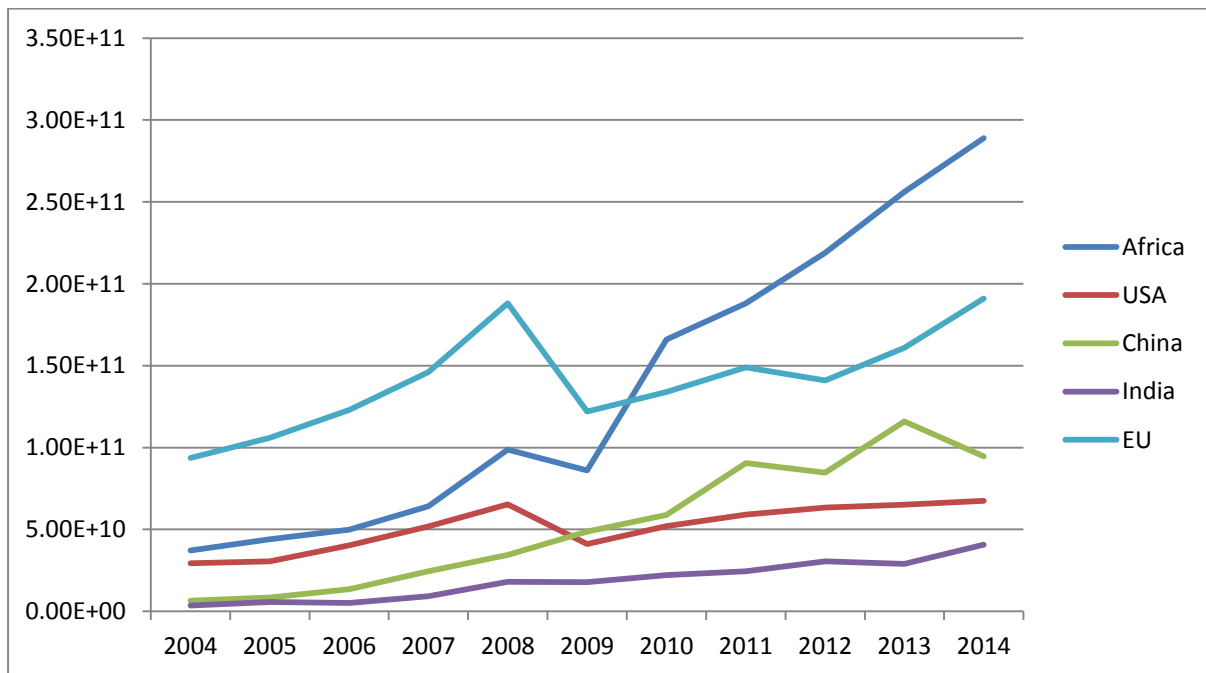
Figure 4 shows import sources to South Africa from five different countries/blocs. It shows that imports to SA from all the partners have been on the rise. It also shows that EU is the single most important import source of SA and the imports were temporarily jolted by the financial crisis of 2009 but it picked up thereafter and it has reached all time high of \$300 billion in 2014. China is the next important Source of imports to SA.

Figure 4 also indicates that Africa displaced USA as the third most important source of imports in 2009 and the rate at which the import trade is growing equals that of China. Amongst these trade partners of SA India is the least important source and since 2013 imports from India to SA has actually declined.

1.4.2. Export destinations

When it comes to exports the story is very different. Figure 5 shows that EU was the most important destination of SA goods prior to 2010. However, in 2009, Africa overtook it as the most important destination of SA goods. In fact between 2009 and 2010, exports from SA to Africa increased exponentially by a whopping 200 billion rands or 100%.

Figure 5: SA Exports to Africa and other global destinations



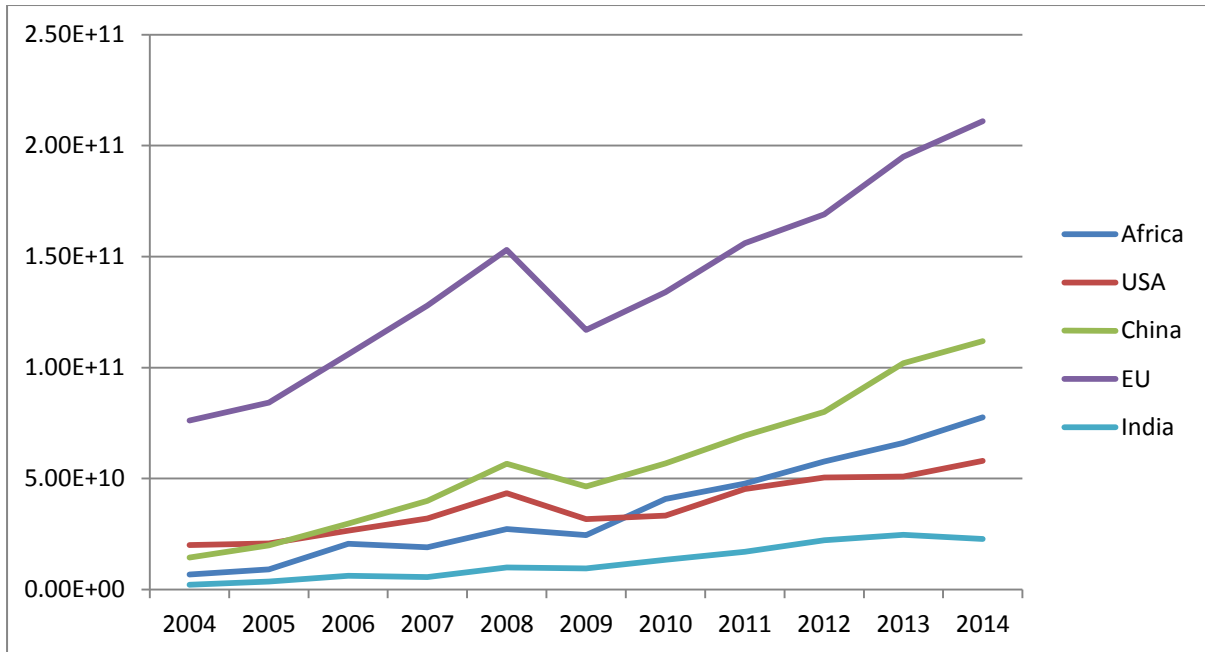
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After 2010 exports from SA to Africa has been growing at a faster rate than with any other partner, China included.

1.5. Gauteng Trade with Africa in perspective

Gauteng trade largely resembles that of SA. Africa ranks third as an important source of goods to the province after EU and China respectively while India is the lowest. It is good to remark that Gauteng trade with all regions is in significant ascendancy since 2009 crisis.

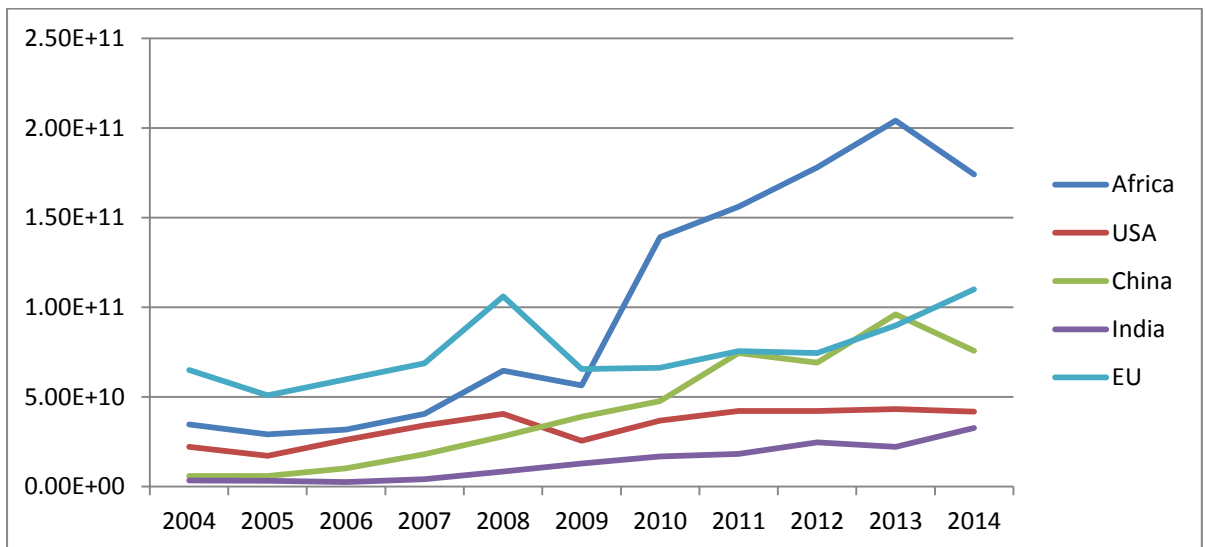
Figure 6: Gauteng import sources



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Import data shows that, like SA, EU by far is a dominant supplier of goods to Gauteng. China, Africa, USA and then India are respectively rank as the 2nd, 3rd, 4th and 5th important supplier of goods to Gauteng.

Figure 7: Gauteng export destinations



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Exports from Gauteng to the continent also largely resemble the national one but there is one striking difference. Although since 2009 Exports from the province to the continent has been on the exponential rise, it dipped between 2013 and 2014 the same period Exports to China were decreasing indicating the reliance of Africa on China for growth and the former's vulnerability. Nevertheless, Africa has emerged as the most important destination of Gauteng goods and given that Gauteng mainly exports manufactures and food to Africa, the importance of the African market in supporting economic development of Gauteng cannot be exaggerated.

1.6. FDI outflows from SA to Africa

Between 2005 and 2015 roughly US\$500 billion worth of capital investment, resulting in the creation approximately 60 thousand jobs, has been invested in Africa. Most of the investment took place between 2009 and 2014 with 2013 recording the largest investment in a single year.

Table 1: Trend of FDI inflows from South Africa to Africa

Year	Capex (ZAR m)	Jobs
2015	17 456.1	2 019
2014	56 243.2	8 026
2013	65 674.9	9 588
2012	15 223.6	3 613
2011	54 689.8	6 737
2010	40 071.5	4 749
2009	79 369.6	2 940
2008	20 250.4	5 514
2007	10 866.2	2 174
2006	12 083.0	4 642
2005	3 692.0	2 432
2004	20 565.8	2 193
2003	21 243.0	4 481
Total	417 429.0	59 108

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Sectorial analysis of the investment data shows that most of the investment has targeted mining sector. Real estate, communications, finance and food and beverage sectors are the other sectors that have attracted investment from South Africa. Despite the fact that the minerals sector has invested most money in Africa, it has resulted in the creation of few jobs and hence the investments may just be acquisitions/brownfields than Greenfield and as such, has resulted in less economic impact on the continent. In fact most jobs have been created by investments in the real estate's sector.

Table 2: Sectorial composition of FDI from SA into Africa

Industry Sector	Capex	Jobs Created
Coal, Oil and Natural Gas	141 191.7	2 693
Real Estate	80 737.5	10 156
Communications	67 451.6	6 245
Metals	39 588.4	11 261
Financial Services	13 754.7	2 629
Building & Construction Materials	13 004.8	2 182
Food & Tobacco	12 318.1	8 780
Chemicals	10 449.3	970
Hotels & Tourism	9 507.2	1 553
Consumer Products	7 057.2	2 925
Minerals	6 294.4	3 510
Beverages	3 496.4	1 127
Business Services	3 286.6	824
Transportation	2 066.9	140
Textiles	1 779.8	1 061
Industrial Machinery, Equipment & Tools	1 431.8	984
Software & IT services	1 249.0	298
Non-Automotive Transport OEM	1 079.1	590

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1.7. How does FDI outflow to Africa compare to flows from other countries

To gain a handle on whether outflows of FDI from SA to Africa is significant, we discuss similar flows from India, Brazil, USA and EU, some of the major trade partners of SA. The table below shows that the EU by far is the largest investor in Africa followed distantly by the USA. It also shows that flows from SA are almost equal to similar flows from China and India.

Table 3: Major investors into Africa, 2003-2015 (Billion Rand)

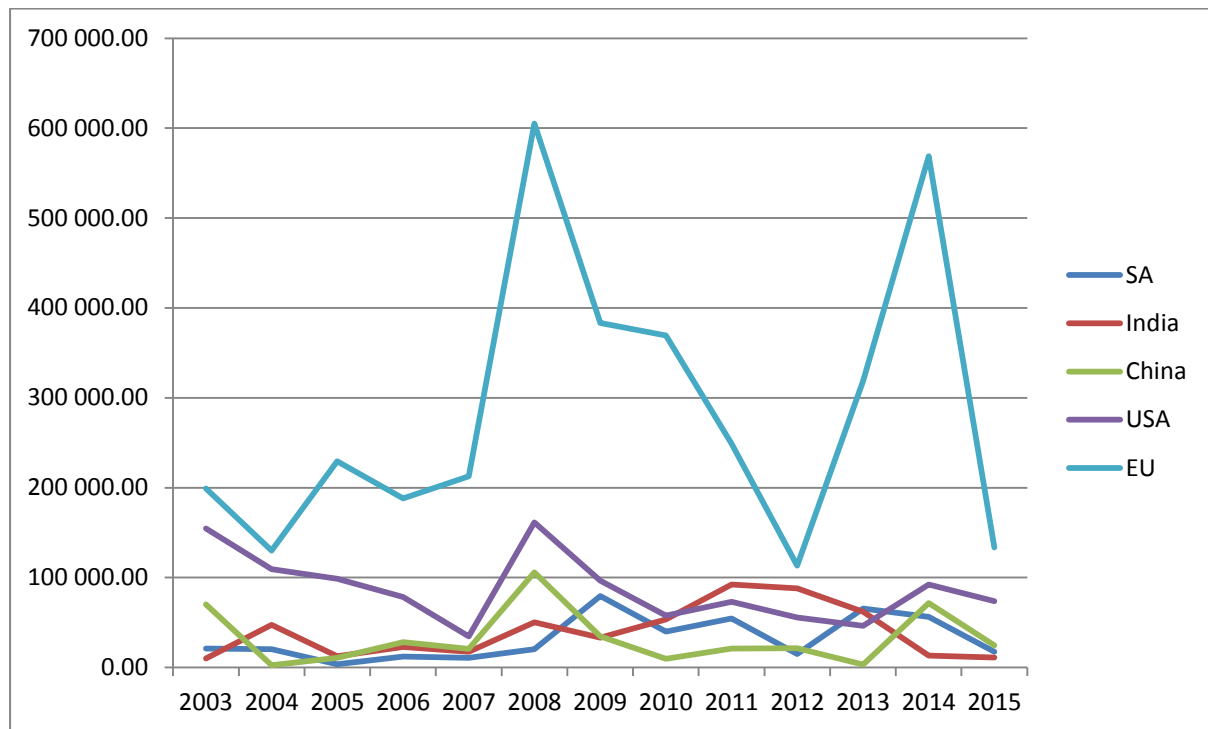
	Number of projects	of Capex	Jobs created	Number of companies
EU	3361	3826	605198	1886
USA	1003	1126	150071	601
China	237	425	94234	146
India	416	559	99705	212
South Africa	441	415	58748	206

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Table 3 and Figure 8 show that around 2003/2004, USA outflows of FDI to Africa was nearly equal to those from EU. After that the US outflows decreased steadily only picking up slightly

between 2013 and 2014. Currently SA FDI outflows to Africa are higher than similar flows from India and only slightly lower than that of China. Sectorially the outflows to Africa from all sources are not very much dissimilar to South African outflows to Africa. Coal, Oil and natural gas tops the list for all countries while communication, construction, finance and business services are some of the major sectors in Africa attracting investments from all countries as shown in appendices 1 to 4.

Figure 8: Trend of FDI inflows into Africa (ZAR m)



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1.8. Conclusion

The analysis shows that South African/Gauteng trade and investment in Africa is on the rise. The data shows that sectorial composition of FDI outflows from other regions: EU, USA, China and India to Africa are very similar to the outflows of FDI from South Africa to Africa. Also, SA total investment and historical trend is significantly matching that of India and China and only slightly less than flows from USA. However, SA/Gauteng Investment in Africa do not create as much employment in Africa as similar investments from the other 4 countries/regions. This may be explained by the fact that either SA investments in Africa are not green field or most of it is disproportionately composed of the tertiary sector. The fact that investment in Africa from all regions is still growing indicates that SA and Gauteng have the capacity to increase their investment on the continent.

On trade, there is a striking similarity of trade flows from Gauteng to Africa and South Africa on the other. Both imports and exports from either Gauteng or SA have been increasing apace. However, exports to Africa are growing stronger. Exports from the province to Africa decreased slightly between 2013 and 2014, the same period Gauteng's' exports to China decreased, showing the over-dependence of the province on China for growth. The lower import volume from Africa to Gauteng/SA is explained by the fact that the continent is weak in manufacturing and produce similar goods(commodities) to SA while the higher export volume to Africa is due to the fact that SA enjoys comparative advantage in manufacturing against its trading partners in Africa. We also note that both export and import flows are stronger in the SADC region than the rest of Africa indicating the impact of geographical and cultural closeness. Further on trade, and using global powers such as USA, China, India, EU as perspective, both South Africa and Gauteng are experiencing the highest export earnings from trade with Africa. In other words, Africa is the most important export destination to Gauteng and SA followed by the EU, China, USA and India in that order. On imports, Africa ranks fourth (behind EU, China, USA and India in that order) as the most important source of goods.

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Appendices

Appendix 1: Sectorial composition of FDI inflows from Western Europe into Africa

Industry Sector	Capex	Jobs Created
Coal, Oil and Natural Gas	1 462 724.3	36 832
Metals	393 459.9	82 887
Real Estate	292 989.6	44 293
Alternative/Renewable energy	233 279.5	8 076
Communications	161 333.3	22 662
Hotels & Tourism	152 982.6	24 330
Chemicals	146 083.6	10 795
Building & Construction Materials	130 190.5	21 778
Food & Tobacco	91 172.7	52 584
Warehousing & Storage	77 441.5	6 786
Financial Services	75 041.9	15 684
Automotive OEM	68 567.0	42 256
Beverages	46 863.5	13 983
Business Services	44 421.7	19 458
Transportation	41 033.1	7 502
Paper, Printing & Packaging	38 975.6	6 939
Wood Products	29 024.3	6 363
Minerals	28 397.5	14 749
Software & IT services	26 869.6	10 567
Textiles	26 716.1	39 373
Industrial Machinery, Equipment & Tools	23 070.9	16 246
Pharmaceuticals	16 849.1	12 231
Consumer Products	16 599.6	10 507
Plastics	11 781.5	6 179
Automotive Components	11 776.8	14 503
Aerospace	10 129.4	11 948
Electronic Components	7 467.3	10 008

Appendix 2: Sectorial Composition of Fdi inflows from USA into Africa

Industry Sector	Capex	Jobs Created
Coal, Oil and Natural Gas	671 107.2	20 121
Metals	83 133.7	18 373
Alternative/Renewable energy	46 297.6	863
Communications	43 742.1	3 149
Software & IT services	34 923.9	16 978
Chemicals	29 408.6	1 579
Hotels & Tourism	29 236.4	4 900

Food & Tobacco	23 027.5	14 355
Building & Construction Materials	20 803.6	3 234
Automotive OEM	20 750.9	10 448
Business Services	19 472.6	8 281
Transportation	15 921.1	3 207
Real Estate	13 970.2	2 242
Consumer Products	13 570.7	7 521
Financial Services	11 724.1	2 362
Beverages	9 395.9	3 395
Industrial Machinery, Equipment & Tools	9 142.8	5 596
Warehousing & Storage	4 970.4	306
Automotive Components	4 907.1	7 167

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Appendix 3: Sectorial Composition of FDI inflows from India into Africa

Industry Sector	Capex	Jobs Created
Coal, Oil and Natural Gas	204 366.5	3 752
Chemicals	61 152.5	4 551
Communications	51 114.5	5 576
Metals	28 199.4	6 989
Food & Tobacco	27 581.9	6 143
Automotive OEM	23 867.6	18 610
Alternative/Renewable energy	20 809.5	390
Textiles	14 412.0	11 377
Plastics	11 262.4	4 794
Real Estate	10 975.4	915
Hotels & Tourism	10 719.9	1 658
Software & IT services	7 153.3	4 608
Financial Services	7 113.4	1 149
Non-Automotive Transport OEM	4 260.3	2 088
Building & Construction Materials	3 941.6	2 284
Healthcare	3 187.0	1 441
Rubber	3 148.4	1 094
Pharmaceuticals	2 793.3	1 880
Transportation	2 522.7	750
Business Services	2 432.5	7 865
Industrial Machinery, Equipment & Tools	2 385.6	1 942

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Appendix 4: Sectorial Composition of FDI inflows from China into Africa

Industry Sector	Capex	Jobs Created
Coal, Oil and Natural Gas	139 489.2	2 236
Real Estate	65 075.4	6 817
Metals	62 852.6	21 229
Automotive OEM	31 656.0	29 642
Alternative/Renewable energy	31 411.1	653
Communications	30 927.2	7 868
Building & Construction Materials	20 987.6	3 569
Chemicals	13 114.9	1 007
Ceramics & Glass	8 177.3	1 882
Textiles	7 268.1	10 482
Aerospace	2 284.8	736
Industrial Machinery, Equipment & Tools	1 988.4	2 252
Food & Tobacco	1 533.8	755
Non-Automotive Transport OEM	1 481.0	736
Transportation	1 429.5	206
Financial Services	1 417.8	186
Consumer Electronics	1 087.3	1 758
Electronic Components	964.3	775
Minerals	651.5	383

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