

# SOUTH AFRICA BUSINESS MISSION FACT SHEET 2010-2011



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## **BUSINESS OPPORTUNITIES IN SOUTH AFRICA**

The South African Information and Communication Technology (ICT) sector is progressive, competitive and in many instances, highly sophisticated. The ICT sector in South Africa is the 20th largest in the world. It is a market, which has shown long-term growth, but as a market it has yet to mature. The sector is expected to continue its annual growth of approximately 7.5 % during the next couple of years.

South Africa recently has become a net importer of agricultural products; agricultural production has increased, reaching 15 % of GDP. The largest export groups are raw sugar, fresh grapes, citrus, nectarines, wine and deciduous fruit. Other important exports include avocados, plums, maize, black tea, groundnuts, meat, pineapples, tobacco, wool and cotton.

In 2009, the demand for housing is almost 2.1 million units while many houses stand empty and many people live in shacks, which constitute the bulk of the housing backlog. Therefore, the South African government keep pushing for improvements, but in the midst of the financial crisis there is a severe fund shortfall. According to developmental studies, this shortfall will increase to R253 billion by 2016.

South Africa's energy sector is critical to the national economy and contributes with about 15 % of the country's gross domestic product (GDP) The country is still benefitting from the large amounts of coal deposits and because of this fact, South Africa has been able to deliver cheap coal prices compared to international standards. On a national level, the electricity prices are amongst the worlds lowest, even though there have been huge price increases since 2008.

## GENERAL INTRODUCTION

Dutch traders landed at the southern tip of modern day South Africa in 1652 and established a stopover point on the spice route between the Netherlands and the East, founding the city of Cape Town. After the British seized the Cape of Good Hope area in 1806, many of the Dutch settlers (the Boers) trekked north to found their own republics. The discovery of diamonds (1867) and gold (1886) spurred wealth and immigration and intensified the subjugation of the native inhabitants. The Boers resisted British encroachments but were defeated in the Boer War (1899-1902); however, the British and the Afrikaners, as the Boers became known, ruled together under the Union of South Africa.

In 1948, the National Party was voted into power and instituted a policy of apartheid - the separate development of the races. The first multi-racial elections in 1994 brought an end to apartheid and ushered in black majority rule under the African National Congress (ANC). ANC infighting, which has grown in recent years, came to a head in September 2008 after President Thabo MBEKI resigned. Kgalema MOTLANTHE, the party's General-Secretary, succeeded as interim president until general elections scheduled for 2009 and was won by Jacob Zuma.

South Africa GDP contributes around one fourth of the total gross domestic product of the African continent. The GDP of South Africa is mainly based on its economic activities. South Africa Gross Domestic Product (GDP) contracted 2.10% over the last 4 quarters of 2009. The South Africa Gross Domestic Product is worth 277 billion dollars or 0.45% of the world economy, according to the World Bank. South Africa has a two-tiered economy; one rivaling other developed countries and the other with only the most basic infrastructure

## COUNTRY FACTS

<b>Area</b>	<b>Total</b>	1,219,090 sq km
	<b>Land</b>	1,214,470 sq km
	<b>Water</b>	4,620 sq km
<b>coastline</b>		2,798 km
<b>Terrain</b>		Vast interior plateau rimmed by rugged hills and narrow coastal plain.
<b>Land use</b>	<b>Arable land</b>	12.1%
	<b>Permanent crops</b>	0.79%
	<b>Other</b>	87.11% (2005)
<b>Irrigated land</b>		14,980 sq km (2003)
<b>Population</b>		49,052,489
<b>Population growth rate</b>		0.281% (2009 est.)

## ECONOMIC FACTS

Subject	Unit	2004	2005	2006	2007	2008	2009	2010	2014
<b>GDP Constant Price</b>	<b>Annual percentage change</b>	4.9	5	5.3	5.1	3.1	-2.2	1.7	4.5
<b>GDP Current Price<sup>1</sup></b>	<b>Billion US dollars</b>	216.34	242.676	257.894	283.381	277.188	243.315	249.524	-
<b>GDP per Capita, current price<sup>2</sup></b>	<b>US dollars</b>	4,656.40	5,175.63	5,441.82	5,922.20	5,693.27	4,943.16	5,014.14	-
<b>Inflation rate, consumer price</b>	<b>Annual percentage change</b>	1.4	3.4	4.7	7.1	11.5	7.2	6.2	4.5
<b>Current account balance<sup>3</sup></b>	<b>Billion US dollars</b>	1.234	2.48	11.08	12.69	20.63	20.98	-	-
<b>Current account balance</b>	<b>Percentage of GDP</b>	-3.2	-4.0	-6.3	-7.3	-7.4	-5.0	-6.5	-7.5

<sup>1</sup>[http://www.economywatch.com/economic-statistics/South-Africa/GDP\\_Current\\_Prices\\_US\\_Dollars/](http://www.economywatch.com/economic-statistics/South-Africa/GDP_Current_Prices_US_Dollars/)

<sup>2</sup>[http://www.economywatch.com/economic-statistics/south-africa/GDP\\_Per\\_Capita\\_Current\\_Prices\\_US\\_Dollars/](http://www.economywatch.com/economic-statistics/south-africa/GDP_Per_Capita_Current_Prices_US_Dollars/)

<sup>3</sup>[http://www.indexmundi.com/south\\_africa/current\\_account\\_balance.html](http://www.indexmundi.com/south_africa/current_account_balance.html)

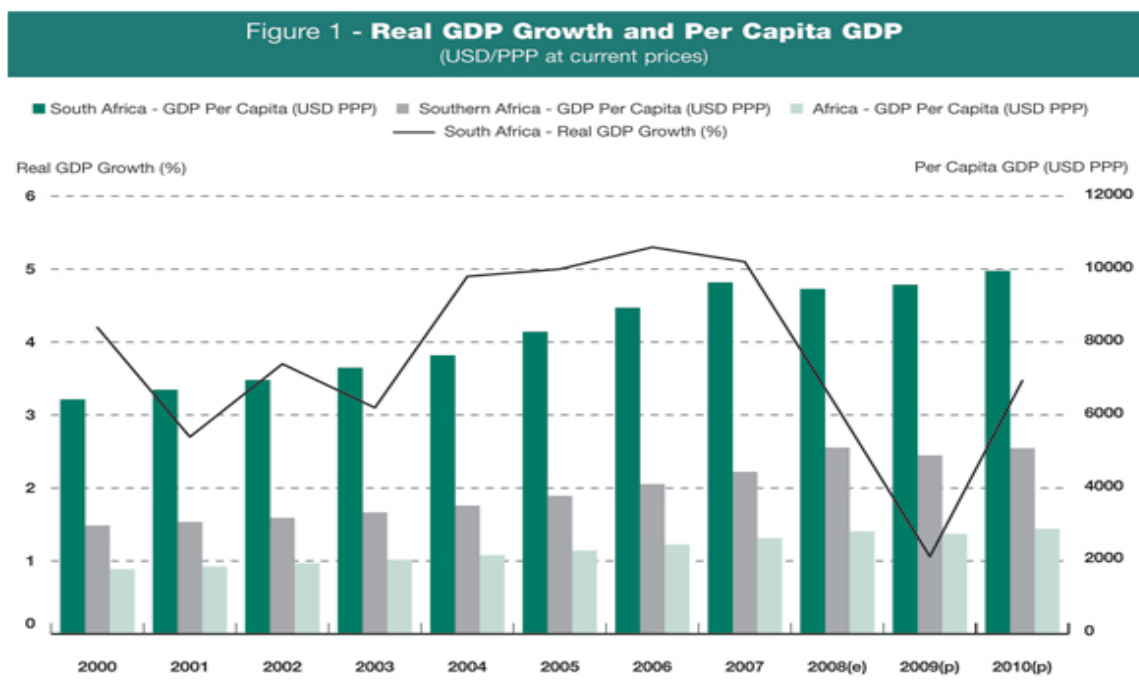
## ECONOMIC SITUATION

South Africa has the most advanced economy on the African continent. Since 1994, particularly, the country's economy has grown rapidly. Its geographical position provides an ideal gateway to Sub-Saharan Africa. The most important contributors to the economy include the mining sector, manufacturing and agriculture. Most economic activity takes place in Gauteng where most mining occurs. The country's financial and industrial infrastructure is well-developed with excellent growth potential. The country is plagued with the problem of large socio-economic inequalities that resulted from the apartheid regime and continues to manifest itself in the form of high unemployment rates, wide areas of poverty and increases in crime. An informal sector has developed as a result of unemployment and this poses another challenge to the country's economic development.

Economically, South Africa is considered to be an emerging market with an abundant supply of natural resources. The financial, legal, communications, energy and transport sectors are well-developed, and the country has a modern infrastructure. However, growth has not been strong enough to substantially lower South Africa's high unemployment rate (which was at 24.2% in 2007), and the economic problems from the apartheid era remain serious, especially regarding poverty and a lack of economic empowerment among disadvantaged groups. Economic policy is currently focusing on targeting inflation and liberalizing trade, hoping to increase job growth and household income. GDP growth in 2006 and 2007 was 5%, up from 3.7% in 2004 and 4.5% in 2005, while inflation in 2007 stood at 6.5%. This improvement has been steady, and the country is showing good potential for the future.

### GDP growth, annual percentage change

among them.



Source: IMF and local authorities' data; estimates (e) and projections (p) based on authors' calculations.

## **Political situation**

The political dispute within the ANC over the succession of Thabo Mbeki ended with the victory of Jacob Zuma in December 2007. President Mbeki was forced to resign in September 2008 over alleged high-level interference in Zuma's indictment on corruption charges (dropped before elections). The subsequent split within the ANC led to the creation of a new party, the Congress of the People (COPE), in December 2008. Elections are planned for 22 April 2009.

South Africa faces a myriad of challenges; an increasing and farcical rate of crime, political upheavals and tension in lieu of the forthcoming elections as well as the looming deadline and expectations of playing host to the FIFA 2010 soccer world cup with an expected 3 million visitors. In amongst these, jostling for position are the fundamentals South Africa must face - achieving racial equality, sustainable development and tackling climate change.

## **FOREIGN AID**

Below are four projects that are being carried out in South Africa:

1. GEF program is one of the largest with a number of national and regional GEF grants for nature conservation and renewable energy, for a total of just under US\$80 million.
2. IFC's committed portfolio in South Africa is currently \$577 million in 20 projects. This is IFC's second largest portfolio in Sub-Saharan Africa, after Nigeria.
3. MIGA has actively engaged with South African investors to promote south-south investment, particularly in Africa. Consequently, South Africa is the Agency's seventh largest investor country, accounting for \$271.9 million, or 3.73%, of its gross exposure
4. WBI, the capacity development arm of the World Bank Group, has been active in South Africa and recently South Africa became a focus country for WBI. A detailed capacity building program has been developed focused exclusively on specific demands from stakeholders in South Africa and building partnerships with local institutions.

The European Union is South Africa's largest trading partner, accounting for 40% of South Africa's imports and 30% of exports. In 2006, South Africa's imports from the EU amounted to R154bn while exports came to R124bn. On the other hand, South Africa is the EU's 15th largest trading partner.

## **FOREIGN INVESTMENT**

South Africa, which recorded a strong rise in foreign direct investment (FDI) in 2008, might still show increased inflows for 2009, despite estimates that global flows would slump from \$1,7 trillion in 2008 to \$1,2 trillion this year on the back of the global economic crisis.

The latest United National Conference on Trade and Development (Unctad) World Investment Report (WIR), which was globally released on Thursday night, indicated that South Africa recorded FDI inflows of \$9 billion during 2008, a substantial increase on the 2007 figure of \$5,7 billion.

Somewhat surprisingly, Unctad's survey of prospects for 2009 still forecast that flows into South Africa could rise in 2009, despite the country's retreat into its first recession in 17 years.<sup>4</sup>

### **Investment climate**

The government of South Africa is open to foreign investment, which it views as a means to drive growth, improve international competitiveness, and obtain access to foreign markets. Virtually all business sectors are open to foreign investors. No government approval is required, and there are almost no restrictions on the form or extent of foreign investment. The Department of Trade and Industry's (DTI) Trade and Investment South Africa (TISA) division provides assistance to foreign investors.

South Africa's participation in the Southern African Development Community (SADC), comprising 14 sub-Saharan African countries, allows access to a market of approximately 140-million, which is expected to grow at an annual rate of around 3%.

A number of other countries provide market access through the generalized system of preferences (GSP) mechanism. South Africa is accorded GSP status by European Union countries as well as Canada, Czech Republic, Hungary, Japan, Norway, Switzerland and the US.

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<sup>4</sup> [http://www.sagoodnews.co.za/trade\\_investment/foreign\\_investment\\_rises\\_in\\_2008.html](http://www.sagoodnews.co.za/trade_investment/foreign_investment_rises_in_2008.html)

## TRADE

Europe is South Africa's biggest source of investment, accounting for almost half of South Africa's total foreign trade. The recently concluded trade agreement between the European Union (EU) and South Africa - the Trade, Development and Co-operation Agreement (TDCA) - removes 90% of all trade barriers over the next decade.

Also, the US provides market access opportunities to a number of African countries, including South Africa, through the African Growth and Opportunity Act (AGOA).

The table below shows the main export partners of South Africa

<b>Export to</b>	<b>Trade value (000)</b>	<b>Share (%)</b>	<b>Growth (% 5 yr)</b>
Japan	18,929,223	12.82	323.43
United states	17,732,645	12.01	142.34
Germany	11,788,092	7.98	108.61
United kingdom	10,592,339	7.17	40.16
Netherlands	8,271,376	5.60	131.92
China	6,394,242	4.33	373.36
Spain	4,462,475	3.02	131.83
Switzerland	4,395,749	2.98	509.37
Italy	4,094,974	2.77	83.72
Spain	3,820,289	2.59	91.65

## ICT SECTOR IN SOUTH AFRICA

South Africa has the largest and most advanced telecommunications network in Africa. In 2008, South Africa was the fourth-fastest growing mobile communications market in the world. The South African government sees telecommunications as an essential component of the country's economic expansion, and further investment and deregulations are expected. Furthermore, as part of a total of 17 guarantees to FIFA in relation to the 2010 FIFA World Cup, the government commit to put in place the relevant ICT infrastructure.

The South African Information and Communication Technology (ICT) sector is progressive, competitive and in many instances, highly sophisticated. The ICT sector in South Africa is the 20th largest in the world. It is a market, which has shown long-term growth, but as a market it has yet to mature. The sector is expected to continue its annual growth of approximately 7.5 % during the next couple of years.

The ICT sector, comprised of information, electronics and communications technology, contribute with around 7 % of the South African GDP, although, the ubiquitous nature of the sector means that it is difficult to quantify its real value. The spinoffs are unending. In 2007, the total value added of communications was R65.8 billion.

Most international voice and data traffic has been carried on the Sat3 cable on Africa's west coast. This cable is controlled by a group of operators including Telkom, which kept the access fees exorbitantly high. The mere threat of Seacom's arrival prompted Telkom to drop its fees up to 90% ahead of the fierce competition.

### Strengths

#### *Strong issues*

- Internationally competitive skills base in terms of quality and availability. It is interesting to note that whilst the skills shortage may be an issue, this is generally the case for specialized and high end skills and management skills; the competency and international competitiveness of local skills was generally regarded very highly. This is a critical factor in the knowledge economy and cannot be over-emphasized
- High quality education. These were seen more as a source of resources and learning than generators of technology
- Good infrastructure and communication networks
- Good level of ICT related innovation
- Good skills base of ICT related to financial services
- Good growth in the ICT industry and development of foreign client bases
- Presence of globally recognized players.

#### *Soft issues*

- Good platform to launch into the rest of untapped market of Africa; Experience in the local conditions and stepping stone to the broader African market. Furthermore, a great number of South African companies have experience with export to other (southern) African countries
- Same time zones as Europe
- Same broad cultural base as Europe
- Favorable exchange rate for foreign clients
- English as first language in the ICT Industry.

## **Weaknesses**

- South Africa is a relatively small market compared to European markets
- The relative distance from other main markets is a disadvantage
- The pool of skilled workers is relatively small
- The costs of doing business are higher than some other ICT intensive countries like India.

## **Opportunities**

- Fast developing local market with demanding customers
- A natural entry point into the rest of Africa
- Lower development costs, skill costs and cost of doing business than most EU countries
- Extensive trade and ICT relations with Europe
- Limited local competition and high pricing provides opportunities for new competitors.

## **Threats**

- Monopoly behavior and market protection by some local players
- Bureaucracy in public ITC market
- Black Economic Empowerment (BEE) codes and local content requirements may exclude Danish companies from lucrative contracts. This may indeed be an opportunity for companies who do have strong partnerships with local BEE companies to penetrate the market as some buyers (especially government) is keen on using local black-owned companies – however often these do not have the skills or requisite capabilities
- Increasing global shortage of skilled staff
- Issues related to staff retention – the ‘brain drain’ and South Africa’s strict immigration policy
- The perception of South Africa being 3rd world and those products from South Africa are not of international quality and therefore the price is considered high.
- Current high cost of bandwidth
- Telkom’s current market monopoly and high telecommunication pricing
- Crime and personal security.

## **Players in the ICT sector**

- Cell C
- MTN
- Telkom
- Neotel
- Vodacom
- Virgin Mobile

## **AGRICULTURE**

South Africa has a dual agricultural economy, comprising a well-developed commercial sector and a predominantly subsistence-oriented sector in the rural areas. The country has a number of competitive advantages in agriculture.

Although South Africa recently has become a net importer of agricultural products, agricultural production has increased, reaching 15 % of GDP. The largest export groups are raw sugar, fresh grapes, citrus, nectarines, wine and deciduous fruit. Other important exports include avocados, plums, maize, black tea, groundnuts, meat, pineapples, tobacco, wool and cotton.

### **Wine**

South Africa is the world's eighth largest producer of wine, contributing 3% of the world's total wine production. About 90 per cent of this production occurs within the Cape Floral Kingdom (CFK), the smallest yet richest plant kingdom on earth. Internationally recognized as a global biodiversity hotspot, the most important areas of the CFK have been listed as South Africa's newest World Heritage Site. As one of the richest yet most threatened reservoirs of plant and animal life on earth, conservation of the Cape Floral Kingdom is critical.

South Africa is ranked as the ninth-largest wine producer in the world, with a harvest of 7.5 hectolitres of which 65% is used in wine-making. The export of South African wine has been growing steadily for a number of years, from 22 million litres in 1992 to about 314 litres in 2007. More than 53,000 people owe their livelihoods to wine production.

In 2002-2007, the market for Wine in South Africa increased, growing at an average annual rate of 3.8%. The leading company in the market in 2007 was DGB. The second-largest player was Fosters Group Ltd. with Robertson in third place.

### **Strengths of agriculture**

- Counter-seasonality
- Low power costs
- Labour availability
- Technology institutions / R&D facilities
- Potential for diverse production
- Presence of multi-nationals
- Sector-specific incentives

### **Weaknesses of agriculture**

- Lack of export infrastructure for perishables
- Transport inland / port charges / long distances
- Small domestic market
- Production volumes small
- Distances to global markets
- Skills (especially at management level)
- Unavailability of water

## **CONSTRUCTION**

The infrastructure plays a central role to the South African development agenda. In particular, three drivers make the South African government commit itself to invest heavily in the country's infrastructure and attempt to encourage urban renewal by introducing tax incentives for investments, refurbishments and construction in certain areas. These are the infrastructure backlogs emanated from apartheid, pressure for economic efficiency and not least the upcoming 2010 FIFA World Cup.

In 2009, the demand for housing is almost 2.1 million units while many houses stand empty and many people live in shacks, which constitute the bulk of the housing backlog. Therefore, the South African government keep pushing for improvements, but in the midst of the financial crisis there is a severe fund shortfall. According to developmental studies, this shortfall will increase to R253 billion by 2016.

A large part of the construction taking place across South Africa is in one way or another linked to developments anticipating the 2010 FIFA World Cup. Thus, the upcoming 2010 FIFA World Cup is bringing investments in the construction of new infrastructure in South Africa. Thus, despite of the financial crisis, the South African construction is growing enormously. In fact, the sector grows with almost 25 % every year.

Initiatives to finance infrastructure and housing projects in the less developed residential areas, like the ones taken by The Development Bank of Southern Africa (DBSA) and the National Housing Finance Corporation (NHFC), creates a flow of money and work as a catalyst for the sector. The overall outlook for the South African construction sector is looking good.

## **ENERGY**

South Africa's energy sector is critical to the national economy and contributes with about 15 % of the country's gross domestic product (GDP) The country is still benefitting from the large amounts of coal deposits and because of this fact, South Africa has been able to deliver cheap coal prices compared to international standards. On a national level, the electricity prices are amongst the worlds lowest, even though there have been huge price increases since 2008. The electricity prices will continue their growth in the coming years in order to finance the investments in the energy sector.

About 68% of energy consumption in South Africa is coal driven. 8 % of South Africa's energy supply is constituted by renewable energy and waste, while 19 % of energy is produced by the extraction of Crude oil. Nuclear energy (3%) and gas (2%) makes up the last 5%.

The main operator in the country is Eskom. This government owned company generates 95% of the country's electricity, and exports some of the electricity to, amongst other, neighbouring countries. In total Eskom delivers up to 60% of the electricity that is consumed on the African continent.

It is expected that the South African population will grow from 47.9 million in 2007 to 50.6 million in 2012, and estimates suggest that an annual 4% national economic growth would increase the demanded electricity capacity from 40000MW in 2009 to 57710MW in 2025. Therefore heavy investments are needed to be able to service the demands of the population and the industry.

According to the renewable white paper of 2002 which set a target of establishing 10 000 GWh of renewable energy resources by 2013 and by so doing, the government installed a feed-in tariff that supports producers of renewable energy. The four identified renewable energy technologies that receives, and the approximate prices that energy suppliers would pay the renewable energy generators, are: wind (R1,25 per kilowatt hour); small hydro (94 cents/KWH); landfill gas (90 cents/KWH); and concentrated solar (2.10/KWH).

While these tariffs may not influence the prices for the South African consumers at first, they are seen as having the potential to act as a stimulus to the development of renewable energy in South Africa. Also, wind and solar power are the most interesting areas within the South African context, and research is being done to see if wind and solar power are sustainable solutions. So far there seems to be good potential.

## **Conclusion**

### **Strengths**

- With the country generating 40 per cent of African GDP, its economic and political influence has been an inescapable fact on the continent.
- South Africa boasts extensive mineral resources, diversified industry, and an outperforming tertiary sector (banks, telecommunications, transports).
- With public finances under control and the country's external financing needs at moderate levels, debt has been low.
- With the country's good creditworthiness, the government continues to enjoy substantial borrowing capacity.
- Tight economic management, in conjunction with a good business environment, constitutes a major asset.

### **Weaknesses**

- The social and economic dualism inherited from the apartheid era and now reflected by a wage gap has been a source of social and political tensions.
- The campaigns against poverty, unemployment, and the AIDS pandemic have made it necessary to increase the growth rate, which in turn requires eliminating economic bottlenecks.
- A shortage of skilled labour has stalled implementation of vast investment projects in the transport and energy sectors.
- With its growing financing needs, South Africa has been vulnerable to a crisis of investor confidences.

### **Risk Assessment**

Economic activity, which has been remarkably dynamic since 2004, slowed slightly in 2007 with tighter credit controls and higher interest rates facilitating a soft landing for household demand. In 2008, investment should become the new engine of strong growth even if the shortage of skilled labour should delay infrastructure programmes. Those favourable economic conditions, which have benefited construction, financial services, and manufacturing, have bolstered corporate solvency as evidenced by a Coface payment incident index remaining below the world average.

The tight fiscal policy these past years has allowed the government to gain substantial leeway in supporting the economy without increasing public debt. The energy bill and the increases in imports of consumer and capital goods have contributed to further undermining the current account deficits. Although the limited foreign debt burden has tended to ease insolvency risk, the country has moreover remained vulnerable to foreign exchange liquidity crisis risk. Especially with its financing needs largely covered by volatile portfolio investment and with the prospects limited for a significant increase in direct investment. The considerable credibility of the Central Bank, which has been taking pains to bring inflation within its target range (between three and six per cent), should limit exchange rate volatility.

In the political field, the election of Jacob Zuma, supported by the Communist Party and the COSATU trade union, as president of the ANC in December 2007 has raised uncertainties about the country's political and economic direction. 2008 may see a leadership crisis and early presidential elections since the current president, Thabo Mbeki, has been weakened by defeat in the ANC elections. Furthermore, newly elected Zuma is currently facing judicial charges. In this context, the election contest to choose Mbeki's successor, scheduled for 2009 at the latest, remains wide open. Moreover, social risks have remained significant, stoked by the frustrations of the large proportion of the population that has not benefited from the fruits of economic growth.