Wesgro seminar "cautiously optimistic" about trade with Africa

A recent seminar of Wesgro (The Western Cape Investment and Trade and Promotion Agency) expressed cautious optimism about recent investment trends and prospects for the Western Cape in the year to come.

Wesgro discussed regional, national and global trends and prospects at Wesgro IQ's first seminar of 2012. Wesgro IQ is the agency's in-house economic research unit. Wesgro economist Lisa Brown was joined by economist Craig Lemboe of the Bureau of Economic Research at the University of Stellenbosch and head of Wesgro IQ: Jacyntha Maclennan. Wesgro focussed mainly on trends, while Lemboe looked out the economic outlook for the year ahead.

Wesgro was optimistic about local Foreign Direct Investment (FDI) growth on the back of growth rates for developed nations - South Africa and the Western Cape's strongest trading partners - that were looking stronger than anticipated by the International Monetary Fund. But strong African growth was an even greater cause for optimism.

Maclennan said growth in projects globally over the past five years was an indicator of appetite for investment and this was likely to have a positive impact on Western Cape FDI projects going forward.

Western Cape provides the lion's share

Africa held 8.1 percent of global FDI in 2011 as a destination for FDI and this was likely to pick up over the next year, Brown said. South African investment into Africa grew by 19.8 percent from 2010 to 2011 and Western Cape FDI into Africa grew by 73.3 percent in 2011 from the previous year, so the Western Cape's share of FDI into Africa is 74 percent. This was the lion's share of investment into Africa from South Africa. FDI inflows from Africa to South Africa in 2010 to 2011, however, increased by 313 percent from 2010 to 2011.

"The Western Cape's strong investment into Africa was largely due to property development projects and financial services. It's critical to understand that new property assets are creating the space for SA retailers, hotels and other investors to move in, so it's creating economic infrastructure for further development," said Wesgro CEO Nils Flaatten. He added that Wesgro suspected a lag in available FDI statistics from speaking to companies, so the figures may be lower than reality.

Western Cape companies taking the lead

"Companies with headquarters in the Western Cape are taking the lead in terms of investing into Africa. This speaks to the strength of the asset management sector in Cape Town and a changing institutional appetite to invest into Africa," Flaatten said.

He continued: "While recent investment into Africa is opening up further opportunities for the export of goods and services, we are a little disappointed that we didn't see these outflows five years ago. Typically, we have a two- to thre- year window to intensify these FDI flows before getting crowded out by international investors. What this means is that SA businesses must urgently develop Africa strategies before getting crowded out.

"Corporates must also be cautious of focussing only on the big African markets like Nigeria and Kenya, and must develop second-tier country strategies for investment into medium-sized African markets," said Flaatten.

Continued FDI growth expected

Wesgro is expecting FDI growth into Africa to continue and strengthen in the coming year. "The Western Cape is, therefore, clearly South Africa's springboard into Africa," said Maclennan.

Brown said South Africa's main, traditional source markets for FDI between 2007 and 2011 were the US, Western Europe, Britain, Japan, China, India, Australia and Russia.

The Western Cape was the second most popular provincial destination in South Africa for FDI and Cape Town the second most popular city after Johannesburg. Johannesburg attracted double the number of projects that Cape Town did over the five-year period, however the value of projects compared to the Western Cape differed by only 3 percent . Stellenbosch also emerged as one of the top-10 investment destinations in the country.

Communications sector tops

Brown said the Western Cape scored two of the top-15 FDIs into South Africa in 2011. Both were capital investments of more than R350 million and both were in the communications sector.

Global FDI flows over the past few years have, primarily, been into services and the Western Cape has a very strong services industry. "This is a key competitive advantage," said Maclennan.

The top-three sectors in the Western Cape for FDI from 2007 to 2011 were software and IT services, which captured 17 percent of all projects in this period, business services which captured 12 percent of projects, and communications capturing 9.4 percent . The communications sector received the bulk of capital expenditure on investment in the province, at 28.9 percent, with software and IT services attracting only 2.7 percent of Capex value. Surprisingly, renewable energy attracted only 2 percent of projects, but attracted 25 percent of Capex into the province from 2007 to 2011.

An investor destination of choice

Brown said companies surveyed by the Financial Times have indicated that the Western Cape was an investor destination of choice because it has "strong domestic market growth potential" and proximity to a strong local market and markets in Africa.

Looking ahead, Lemboe saw slower economic growth for South Africa and the Western Cape in the year ahead, but there was some cause for cautious optimism. He expected faster economic growth from 2013.

Lemboe said that exports to the Euro zone, a key trading partner, would remain a challenge in the year ahead. However, strong African economic growth predicted for the year ahead was good news for South African exporters and investors.

GDP growth for sub-Saharan Africa for the year ahead was expected at around 5 percent , according to the IMF, while many European economies looked at under 1 percent growth.

Household expenditure picking up

Lemboe said although unemployment remained high, household expenditure was picking up and contributing positively to GDP growth as a result of higher real wages and increased credit extension (albeit still lower than its pre-crisis peak). Currently, household debt stands at 75 percent of disposable income.

Expenditure on durable goods recorded the fastest growth over the past few quarters, and benefited from low interest rates, as seen by the continued growth in new vehicle sales.

However, expenditure on non-durable goods (mainly food) was still lagging. Many of the job losses during 2009/10 were amongst lower income individuals who usually spend a larger portion of their incomes on food, which has had a disproportionately adverse effect on non-durable goods consumption. Lemboe was encouraged by the growth in fixed investment, particularly into machinery and equipment and hopes that the government would make good on its promise of increased government infrastructure spending, as set out in President Jacob Zuma's State of the Nation speech.