



Foreign Direct investment and the Investment Climate in Africa

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African Leadership Retreat 2010, 12 July 2010

Introduction

Ladies and gentlemen, honourable guests,

Following the final match of the FIFA World Cup 2010 last night in Johannesburg, I can proudly stand before you today and declare that Africa has just successfully hosted one of the world's biggest sporting events.

The importance of the World Cup to the continent was not just about hosting a good event, but delivering on a world class level, on time, on budget and with precision detail. Africa's ability to step up to the plate

and to hold court with the most esteemed company in the world was played out on a global stage watched by billions. It has given us confidence in who we are, and contributed significantly to perceptions of what the real talent and capabilities of Africa can achieve. A recent article in a local newspaper quoted a fund manager as saying that “the buzz from Africa’s first soccer World Cup is being heard in investment houses across the globe, and is drawing new interest in business and capital to the continent”. Indeed, we are using the occasion to rebrand Africa’s image and to send out a message to the world that Africa is indeed open for business!

New investment frontier

That Africa is being seen as a rewarding new frontier for investment has also become clear against other recent developments both at home and abroad. In 2003, Goldman Sachs predicted that four emerging economies, Brazil, India, Russia and China, would develop as major forces in the global economy. This indeed came true. Now predictions have turned on the ‘Next 11’, a list of the new rising emerging giants, which includes African countries (Nigeria and Egypt). Africa is also placed prominently on the G20 through South Africa, which was expanded from the G8 to recognise the important role in the global economy being played by the emerging markets. And further recognition

of Africa's global economic significance is reflected by the investment grading given by sovereign rating agencies to Botswana, Mauritius, Morocco and South Africa.

Against the background of the recent global economic recession, emerging markets performed better than their developed country counterparts, and many investors re-evaluated their perception of, and appetite for, emerging market risk. Proudly, Africa responded to the downturn by continuing with reforms already underway, and not embarking on reactionary protectionism, as happened in some other regions of the world. Countercyclical policies were adopted, with fiscal expansion underpinned by infrastructure spending, and central banks co-ordinating to cut interest rates and stimulate demand. This response marked Africa's coming of age amongst the world's economic policy makers and was indeed impressive.

Though hard-hit by the downturn through the fall of commodity prices and trade levels, African governments' room for manoeuvre was made possible due to its economic resilience: in the face of recession in developed countries, Africa's growth remained positive, at 2.5 percent in 2009, and its recovery looks set to be strong, at 5 percent in 2010 and 5.9 percent in 2011 according to the IMF, well above the average forecast for global growth.

In terms of Foreign Direct Investment, Africa has witnessed an increase from just US\$9 billion in 2000 to over US\$62 billion in 2008. This shows that Africa is seen as part of a “new growth wave” where high growth is providing higher returns for investors seeking new opportunities. In fact a number of recent studies comparing the experience of investors in Africa with other markets have resolved that we provide the highest returns of any market.

Real GDP growth averaged around 6 percent for Sub-Saharan Africa between 2002 and 2008--almost double that of the 1980s and 1990s—and has been characterised by the rise of a number of star performers. With Nigeria, Ghana, Egypt, Tanzania, Zambia, Uganda, Rwanda, Botswana, Mozambique and many others emerging as regional role models, there is the potential to inspire their neighbours on the continent, similarly to how the Asian giants inspired their regional neighbours to greater economic success.

But what is underpinning this ‘new growth wave’ in Africa?

Firstly, macro-economic stability has been brought about by better macro-economic policy over the last two decades. Inflation has been trimmed from double—and sometimes triple—to just single digits, with few exceptions. Budget deficits have been reduced through more prudent fiscal expenditure and a widening of the tax revenue base in

many countries. Foreign exchange reserves have risen substantially as debt servicing has come down, reflecting participation in the World Bank and IMF's Heavily Indebted Poor Countries initiative, where the majority of countries enrolled have successfully completed the programme. Economic growth has become less volatile in a number of countries, where the boom-bust cycle of the past is being tempered by the emerging of more stable source of growth from the diversification of economic activities.

Secondly, African countries have embarked upon broad-ranging agendas of structural reform. This has been backed by the consensus today amongst African leaders that sustainable growth will only come through fostering the private sector and increasingly integrating with the global economy. Hence, across the continent we are witnessing:

- the opening of African markets to greater local and foreign competition through reduced trade and investment barriers, and tougher actions against monopolistic behaviour;
- the strengthening of institutions of governance, resulting in reductions in red tape, greater efficiency of administrative functions, such as customs and commercial courts, and the improved transparency and accountability by government;

- increased investment in national infrastructure to reduce logistical bottlenecks;
- improved financial intermediation, with the rise of pan-African banking, greater access to financial services by the unbanked or under-banked, and the rise in strength and number of Africa's stock exchanges from just 5 in 1989 to 20 in number today; and
- not least, the prioritisation of spending on health and education in national budgets.

We should also recognise the role that Africa's improved commitment to democracy and political stability is playing. With more participatory government and a more active civil society, it is not surprising that the continent is experiencing fewer conflicts and the speedier resolution of crises. Indeed exceptions still exist, but it is a case in point that they no longer serve as the rule.

Another important relationship is that of African countries with the rest of the developing world, with whom we now conduct more than half of our trade. The BRIC countries, as well as many other emerging markets, have offered Africa the opportunity to diversify their investment, finance and trade partners, but also something far more. Their focus on Africa as a significant component of their future growth has renewed interest from

our traditional trading partners, and is serving to transform our reputation from that of a developmental lost cause to the alluring promise of a vast source of untapped resources and wealth that forms a critical part of the global supply chain.

Where do the opportunities in Africa lie?

It has often been said that Africa's strength is her people, and thus it was appropriate that we chose as our theme for the World Cup, 'Sekunjalo ke nako', 'now is the time to celebrate our humanity!' Indeed, with 1 billion people, the 21st century is witnessing the rise of the African consumer. It may surprise many to know that the growth of Africa's middle class has now surpassed that of India, according to McKinsey. And that in 2000 more than 59 million Africa households had spending power of above \$5000—the level above which they start spending more than half on non-food consumer items—and that by 2030 the top 18 cities in Africa are estimated to have a combined spending power of \$1.5 trillion. This perhaps explains the McKinsey Global Institute's finding that two-thirds of Africa's economic growth between 2000 and 2008 was not from resources, but largely from services and manufacturing.

While FDI into Africa remains largely centred on oil, minerals and other resources, the rise of the alternative sectors is creating many opportunities. For instance, telecommunications is characterised by the fastest mobile phone growth in the world—from just a few million subscribers a decade ago to over 400 million today. This is driving revolutions in other industries, particularly finance, where mobile phone banking is providing access to finance for millions of formerly unbanked or underbanked customers. Mobile phones are a tool for many Africans to exercise their creativity and innovation in business, to connect to markets and customers, and to raise productivity. Equally, African customers are demanding increased goods and services from sectors such as transport, tourism, retailing, energy, health, agriculture, and food processing, which will spur additional industries such as wholesale, construction and logistics.

Given Africa's growing labour force and unique geography, the continent is also uniquely placed to cater for rising demand for specific goods and services from the rest of the world, driven by demand for energy, food and meeting new environmental objectives. This is expected to spur sectors such as eco-tourism, natural and organic foodstuffs, horticulture, biofuels, and renewable energy (such as solar, hydro and wind).

While resources will undeniably remain an important component of Africa's growth for many decades to come given the vast tracts of land that are yet to be surveyed for the potential mineral wealth that they hold, another significant area of opportunity that could open up is that of manufacturing. As China's income levels rise, so wage demands are rising there to and there are signs that industry in China is gradually becoming more capital than labour intensive. And so with an estimated workforce of 1.1 billion in 2040, market analysts expect Africa will overtake China and India, and could become the next low-wage destination for international manufacturers.

Africa's people are not just her customers or workers, but we should also pay tribute to her entrepreneurs. Those familiar to travelling across the continent will pay testament to the extraordinary ingenuity, the visionary solutions, and the determination shown to succeed against all odds. With the right conditions, African entrepreneurs have shown that they can advance from surviving for today to thriving into a brighter tomorrow. And hence, the new Big Men of Africa are our businessmen and women, and they are creating a new stage on which the values of responsibility and accountability are being played out, where the customer is king and the market is their watchful referee.

But while we celebrate all that is going right in Africa, we should not lose focus of the many challenges we have to overcome:

- We need to continue to pursue regulatory reforms, improved general governance, and international investment standards;
- Ensure that we appropriately manage our resource wealth for the benefit all citizens;
- Continue to diversify away from heavy dependence on resources and raise productivity;
- To deepen access to financial markets for all citizens;
- To invest in human capital and logistical infrastructure to create the capability to unlock new opportunities;
- To pursue regional integration to promote cross-border trade, the creation of attractively large consumer markets, and to reach economies of scale of production;
- And last but not least, to foster possibly our most precious resource, that of **leadership**. Ineffective leadership has been the root cause of many of Africa's problems in the past, but the Africa of today recognises the importance of ethical, effective and accountable leadership in helping us overcome our challenges. Witness for example initiatives such as Mo Ibrahim's Foundation, which rewards leaders who govern well with cash prizes; the African Leadership Academy, which is dedicated to shaping new

generations of leaders; the African Leadership Initiative, and the African Leadership Institute, which run programmes for senior executives; the Annual African Business Leaders Forum, which is supported by a research centre on leadership; and the many leadership programmes now being offered at African business schools. The fact that we are here today, speaks to our awareness and appreciation of the role that we are playing in our own societies, and our desire to collaborate on how we can make tomorrow a better Africa for us all.

In South Africa, I think we speak for many of our African counterparts, when we say we are strongly committed to the many development objectives outlined above.

And for all of us, the preparation and hosting of the FIFA World Cup 2010 has shown our determination to succeed, and is a demonstration of the art of the possible. Our stadiums are icons that fill us with a sense of confidence and capability, and so we hope that many of you will have enjoyed the magnificence of Soccer City, the nautical beauty of Moses Mabhida in Durban, the ingenuity of Mbombela stadium's locally inspired design, the cutting edge symmetry of Nelson Mandela Bay stadium, and the stature of Green Point stadium against the skyline of the Mother City. They will remind us of how we showcased the best of what Africa can

deliver, and of how Africa has stepped up to the plate to declare that we are, unmistakably, open for business.

Ladies and gentlemen, as the Spanish can testify to you today, it feels good to be winning in Africa!