

Unique number: 0550



Selling the country on the beach:

A case for and against investing in South Africa

(1843 words excluding references)

1. Introduction

According to Stats SA's economic growth statistics, South Africa is currently in a contraction as the economy declined by 3.2% on the first quarter of 2019 after increasing by 1.4% in the fourth quarter of 2018. The country's GDP went in a contraction in the first quarter of 2018 and dropped 2.7% quarter-on-quarter. It then went on a recession in the fourth quarter of 2018 where it shrank by 1.4% quarter-on-quarter from 2.6%, as shown in figure 1. This and other factors discussed in this essay cast a bleak picture for prospective investors and South Africa's investment worthiness as a whole. This essay weighs the pros and cons of investing in South Africa. Taking a balanced view, the essay concludes by summarising a case for and against investing in South Africa.

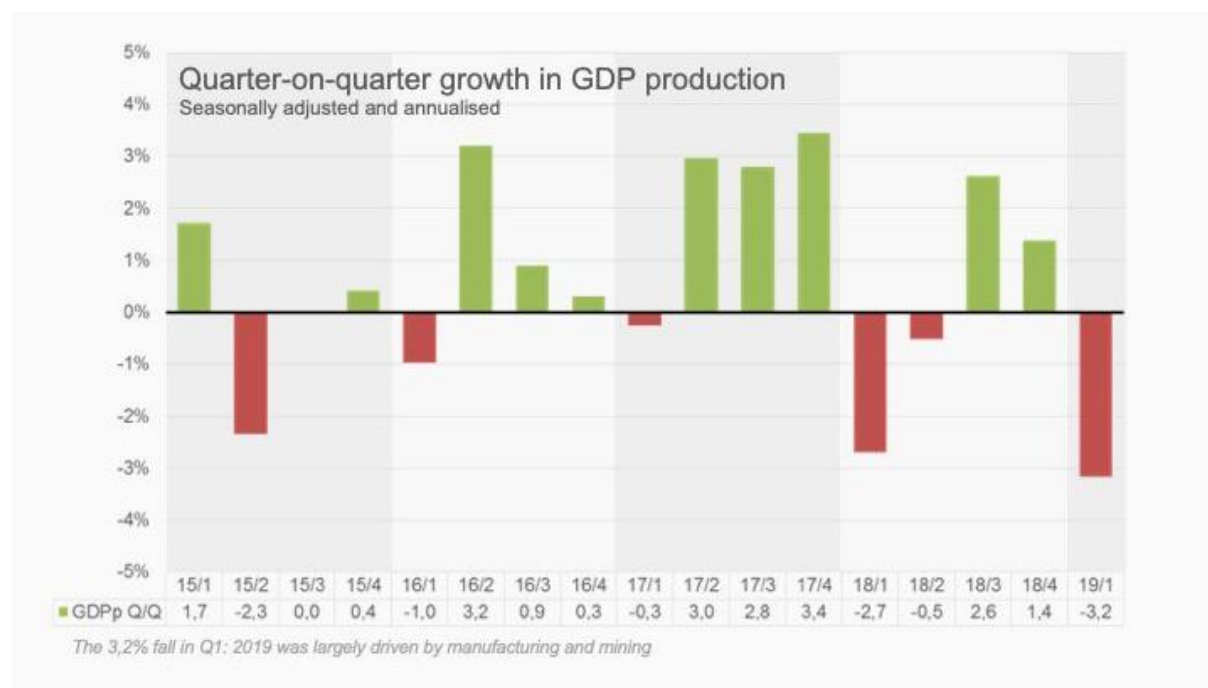


Figure 1: South Africa's economic growth over time

2. Background: The Dwindling margins of South Africa's FDI

South Africa's foreign direct investment, net inflows (BoP, current US\$) (source: World Bank)

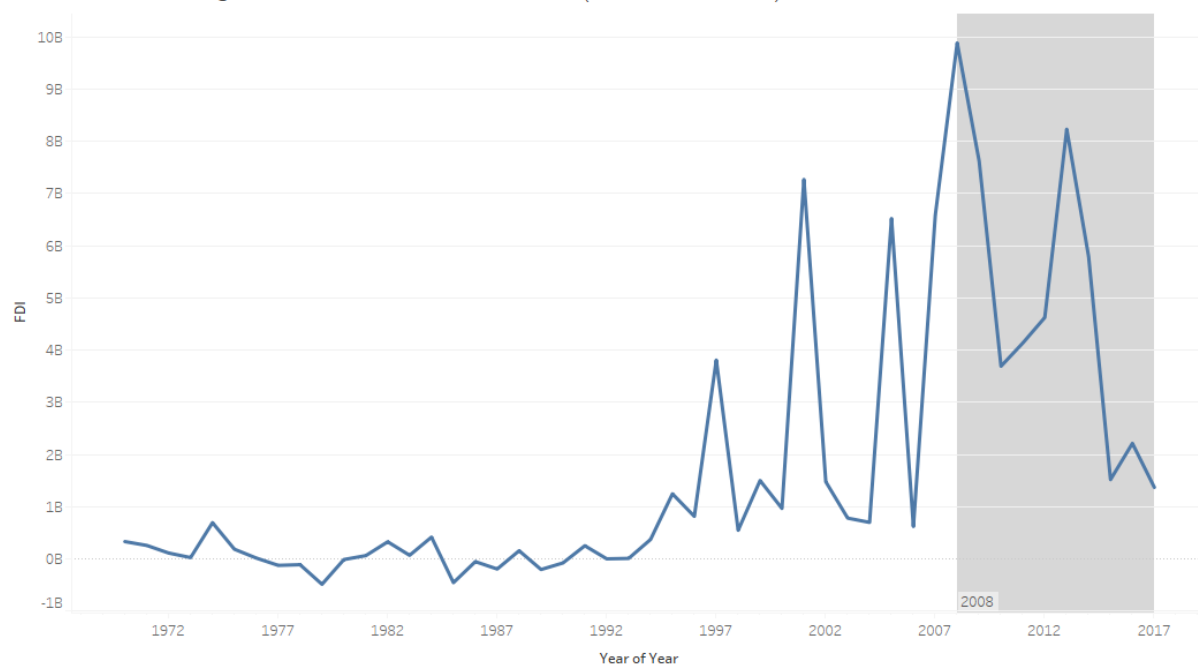


Figure 2: South Africa's Foreign Direct Investment in the past 5 decades

The foreign direct investment (FDI) is an important tool for economic growth for any country, and South Africa has had a decline since 2008. This decline in investment has in turn, aggravated South Africa's economic growth challenges, further threatening the National Development Plan's objective of overcoming the triple challenge.

According to an article by PricewaterhouseCoopers, the reasons for the decline are mostly a lack of regulatory transparency, corruption, a high tax rate, ease of payment and the cost of labour ("strategyand-what-foreign-investors-want.pdf," 2018). As we observe in figure 2, South Africa's FDI also dropped significantly since 2014 due to a slump in economic growth. The decline in economic growth was also fuelled by the global dip in oil and commodity prices which negatively impacted South Africa's mining sector. It would be a confluence of these factors which led to a cascade of economic downgrades, spiralling unemployment rates and tumbling political stability which would betray the country's investment potential as discussed in the next sections.

3. Swimming against the tsunami: A nation's battle to remain economically afloat

South Africa currently presents a climate of challenges which repel investment. This section mentions dangers, risks and reasons for not investing in South Africa.

3.1. South Africa's waning competitiveness rank

Figure 3 shows South Africa's rank from the Global Competitiveness Report published by the World Economic Forum (Trading Economics, 2019: 1). Out of 140 countries ranked, South Africa has been dropping since 2016, consequently reaching its lowest ever in 2018 at rank 67. As a measure of country's institutions, infrastructure, health, primary education, financial market, business sophistications and innovation to name a few, the shrinkage in competitiveness ranking signals an inability for South Africa's economy to successfully and fairly compete in markets for goods that are traded internationally and does not bode well for investment.



Figure 3: South Africa Competitiveness Rank

3.2. South Africa's declining Logistic Performance Index

South Africa also declined in the Logistic Performance Index (LPI) since 2016 as figure 4 portrays. This means that the country has become less efficient, sometimes even more expensive, to move products in and out of national borders. This encumbers industrial activity in a manner which discourages investment and investor confidence.

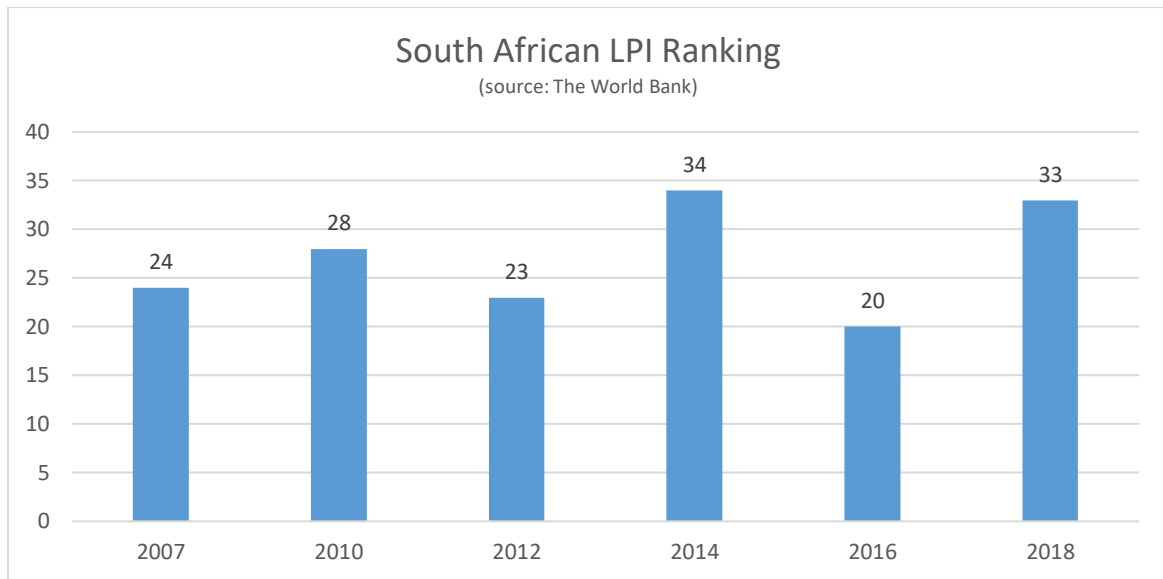


Figure 4: South Africa's LPI ranking

3.3. Chaos, confusion and commerce: South Africa's political instability

As seen in the political stability figure 5, South Africa's political stability has been plummeting for the past 10 years. "According to an article by News24, Political insecurity is manifested in the form of regular political shocks, such as surprise cabinet reshuffles and the ensuing calls for votes of no confidence in the country's former president" (News24. 2017: 1).

South African politics have been besieged by a torrent of scandals which pushed the country to the brink of economic collapse. A slew of contentious political events have ravaged the country like a plague since 2008 when the country's political stability Index started tumbling. These include rampant state corruption as reflected in the state capture report by the Public Protector (and confirmed more recently at the Zondo commission of inquiry) which confirmed impropriety in state dealings, confounding presidential decisions to recall and change three finance ministers in one week (December, 2015), the police massacre of 34 mine workers (August, 2012), the exorbitant illegal splurge of R246 million national funds in upgrading the former president's homestead. These scandals and their ensuing economic consequences resulted in the country's economy being downgraded by various rating agencies. In 2017, S&P Global and Fitch downgraded South Africa's credit rating to BB+ sub-investment grade while Moody's downgrade kept the country just one notch above sub-investment grade at Baa3. The incendiary political climate of the country is a major deterrent to investment as was even cited by the three aforementioned rating agencies.

South Africa's Political Stability Index over time

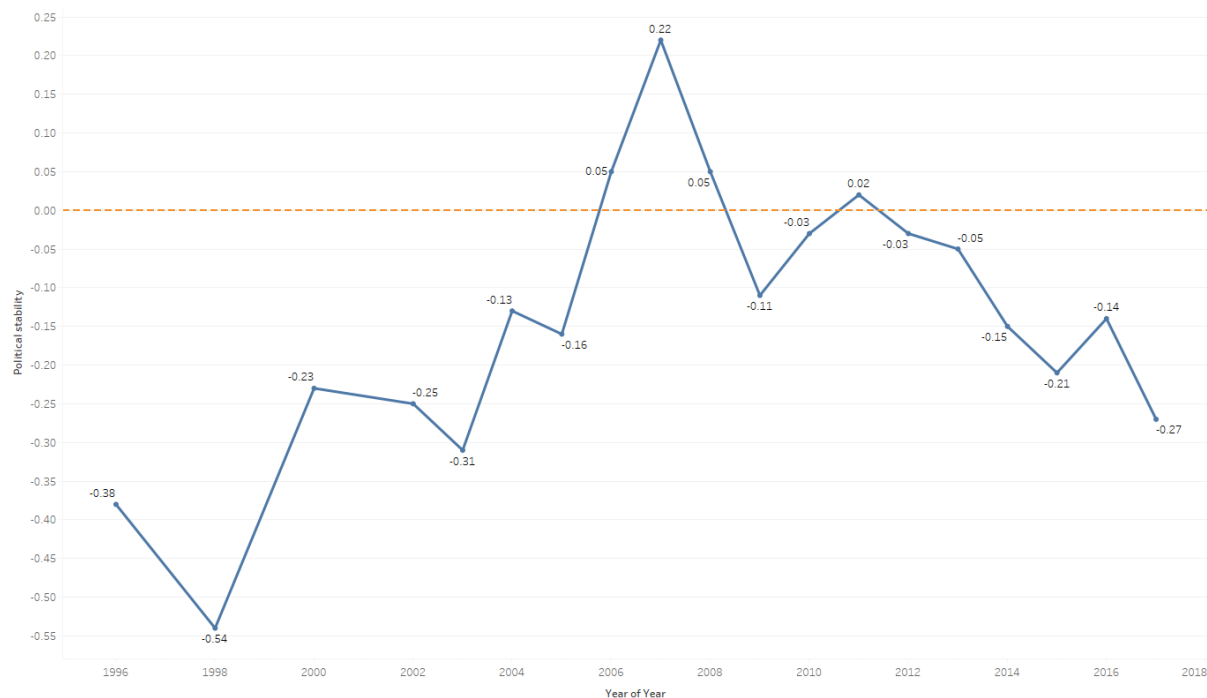


Figure 5: "Political stability index (-2.5 weak; 2.5 strong): The World Bank provides data for South Africa from 1996 to 2017. The average value for South Africa during that period was -0.14 points. Data shows that there is a decline in political stability."

3.4. Decline in infrastructure

The South African Institute of Civil Engineers' assessment revealed that the country's overall key infrastructure, including water supply, transport, electricity, transport, education and health, is at risk of failing. South Africa was graded a D+ in 2018 compared to C- in 2011. This regression can only dampen investor confidence.

The mass load shedding across South Africa, as the national power utility failed to provide consistent source of energy has reportedly slowed productivity. A country that "cannot operate cannot make money" (Fin24, 2019:1). According to the energy analysis Chris Yelland, loadshedding "cost the productive economy about R2 billion a day (The South African 2019: 1)." A "dark" country where there is minimum economic productivity due to inconsistent energy repels investment opportunities.

4. Swimming back to shore: South Africa's Glimmers of hope

4.1. South Africa's strong points

In this section of the essay, I will argue and discuss the reasons South Africa is a worthy investment choice. I start off by listing some of South Africa's strong points before discussing reasons why South Africa is suitable for investment. These strong points include the following:

- South Africa has a continentally competitive economy.
- Apart from the democracy being well established, the rule of law is also well observed.

- The state financial management is competent, and the business climate is globally competitive.
- South Africa enjoys a generous-sized and active stock exchange.
- The country adopted production and financial services as opposed to traditional industries.
- The tourism and retail sectors are highly lucrative industries.
- South Africa is the world's largest producer of:
 - Platinum
 - Manganese
 - Chrome
 - Vanadium
 - Vermiculite

The following discussion further unpacks reasons that make South Africa a worthy investment destination.

4.2. Globally ranked universities which produce skilled labour

Universities make positive contributions to the society and economy, universities solve the problem for unemployment. Now South Africa has the top universities in the continent and in the top 200 globally, according to the Times Higher Education World University Rankings. ("Best universities in Africa 2019," 2018). Because of the top universities, South Africa ensures the availability of very skilled graduates. Furthermore, "Legislation promotes training and skills development, creating an environment to fast-track the building of world-class skills and competences"(Chibba, 2018: 1).

African Rank 2019	WUR Rank 2019	University	Country
1	=156	University of Cape Town	South Africa
2	201–250	University of the Witwatersrand	South Africa
3	301–350	Stellenbosch University	South Africa
4	401–500	University of KwaZulu-Natal	South Africa
5	501–600	Makerere University	Uganda

Table 1: Ranking of South African Universities (2019)

4.3. Independent institutions

South Africa has strong independent institutions such as the South African Reserve Bank (SARB) and the National Treasury. This can assure investors of minimal political interference in economic and Industrial matters. According to governor Lesetja Kganyago SARB's "independence has allowed it to weather political attacks over the past 10 years "(Menon, 2019: 1). This demonstrates stability and gives investors a good reason to invest in South Africa.

Furthermore, as seen in various legal battles, South Africa's judicial system is renowned for its ability to be impartial when adjudicating in matters between the state, civil societies and business entities. This is a guarantee to investors that the country's courts are a legitimate recourse of defence against malevolent state encroachment. This is contrary to many other nations around the world, both in

Africa and elsewhere, where businesses, human rights and oversight institutions cannot protect workers' rights and businesses are vulnerable to state abuse.

4.4. Tourism: The world at South Africa's doorstep

The Chief Executive Officer of South African Tourism, Sisa Nthsona said in a Brand South Africa article that "There is no other sector in the country that is showing 8% growth per annum," (Nthite, 2018: 1). He further pointed out that the tourism sector records for 9% of the country's GDP and approximately 8.5% of the continents.

From a development and business point of view, tourism contributes significantly in terms of creating jobs because a large number of tourists visits South Africa, in 2017 alone 10,285,000 tourists visited South Africa just lower than Morocco, which is the highest visiting country in the continent.

This analysis shows that the South African tourism sector is attractive to FDI.

Morocco and South Africa Tourist Arrival (source: World Bank)

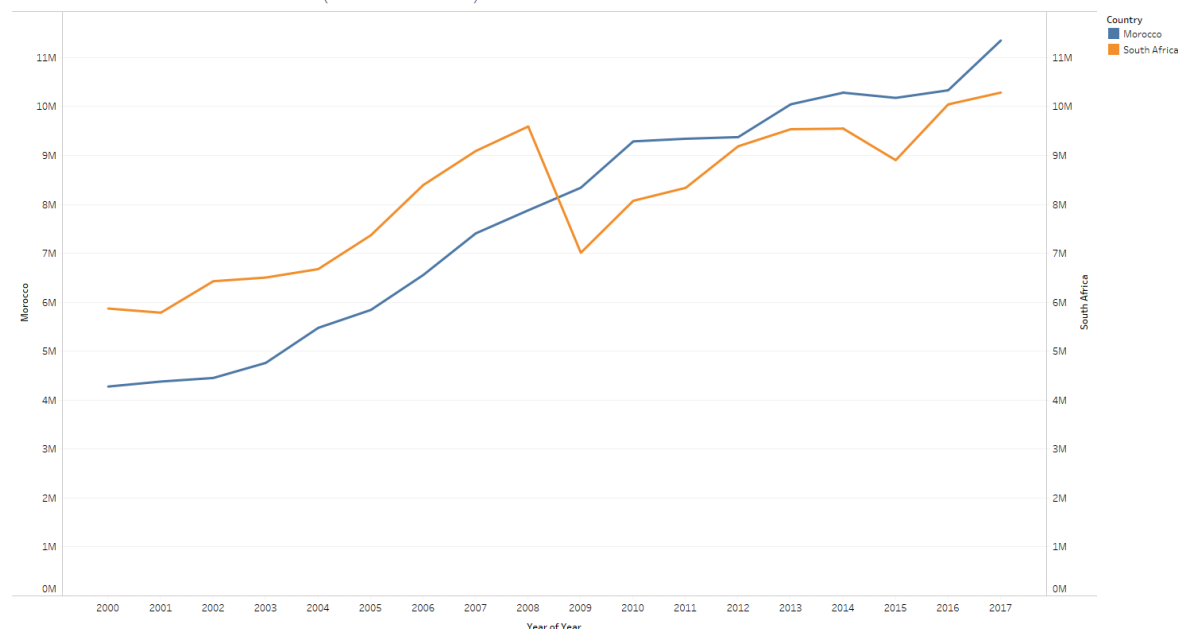


Figure 6: The rise of South Africa's tourism sector.

4.5. South Africa's potential

South Africa has a wealth of natural resources. Already international companies, such as in the gas and oil sector are interested in the potential of the country.

As far as the agro-processing and agriculture sector is concerned, South Africa is a regional leader and is pioneering the green technologies and industries development which will create new jobs and reducing environmental impact.

"One of the main reasons South Africa is becoming a popular trade and investment destination is because the country ensures it can meet the specific trade and investment requirements of prospective investors" (Chibba, 2018: 1). This is because South Africa has generous investment

incentives and interventions in industrial financing like “concept, research and development incentives for private sector businesses that invest in the creation, design and improvement of new products and processes.”

In addition to this, President Ramaphosa announced new economic reforms of which Chamber President Janine Myburgh is confident businesses will support. Ramaphosa said “measures introduced to ignite economic activity and restore investor confidence are paying dividends” (Isaacs, 2019: 1). This demonstrates South Africa’s commitment to inculcating an investor-friendly economy.

5. Conclusion

This essay has presented arguments against and in support of investing in South Africa. At first glance it appears that South Africa's economy is beleaguered by a flood of insurmountable challenges such as an economy in a contraction, a declining FDI, a waning competitiveness ranking and political instability. On closer inspection we find that other sectors like tourism are steadily growing above 8%, the country's universities are globally competitive and suited for producing skilled labour and the country's oversight institutions enjoy an independence that is rare to find elsewhere on the continent. South Africa therefore is not investment *non grata* but rather an investment gamble full of investment risks and exciting opportunities all at once.

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