



Emerging Commercial Rivalries in Africa: A View from South Africa

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RECOMMENDATIONS

- South African companies should highlight their African expertise to tap into the strategic partnership opportunities offered by BRIC countries.
- South Africa should increase the frequency and visibility of state visits to African countries to highlight its commitment to the region.
- Bilateral forums and diplomatic missions should be used more effectively to address commercial problems and forge stronger ties with African trading partners.
- South Africa should leverage its competitive edge as an African partner to other African countries by introducing policies that provide advantages for its multinationals in the rest of Africa.
- Government and the private sector need to align foreign policy and business expansion on the continent.
- South African companies need to be more aware of the growing competition in African markets and devise long-term strategies to address it, rather than see the region as an overflow pipe for their local business.

EXECUTIVE SUMMARY

The growing importance of emerging markets such as Brazil, Russia, India and China (BRIC) on the global stage, and their interest in Africa's resources, has real implications for Africa. This is particularly so for South Africa (SA), a significant local investor on the continent.

The new pattern of trade and investment in the South–South zone is not only changing perceptions of Africa as a value proposition, it is also changing the way business is being done. This has both positive and negative implications for African countries and companies operating in these markets.

The new wave of investment offers benefits for SA companies in other African markets. These include: increased economic activity and new customers for goods and services; infrastructure improvements; opportunities for strategic partnerships; and potential linkages with the home markets of these investors. On the downside, there are issues related to corruption, the apparent countenance of poor governance, increased competition and undermining of local producers with cheap imports.

This briefing examines the changing nature of business in Africa as a result of the rapid entry of new investors from the global South, and assesses the effects on SA's continental ambitions.

INTRODUCTION

The new wave of investment and diplomatic activity from emerging markets in the South, including the BRIC countries, but also Malaysia, Dubai and others, has led observers to comment on the related displacement of traditional Western investors in Africa. But SA, a relatively new investor of significance in the rest of Africa, may be equally affected by the concerted courtship of the continent.

The size of SA's economy — an estimated one-third of sub-Saharan Africa's total gross domestic product and 25% of the total continental economy² — means trade and investment from the country has boosted

the continent's economic growth, which averaged 5.4% in 2008.³

SA investment, which began in earnest in the late 1990s, may not equal the billions being lined up by Africa's new investors, but its engagement has been steady and broad-based, focusing not just on resources but on a wide range of sectors that have greater linkages to, and thus benefits for, the economies of other countries. These investments include retail, property, hotels, information communication technology (ICT), manufacturing, agriculture, insurance, banking, transport, tourism and others.

Investment from BRIC nations has been swift and large, comprising foreign direct investment (FDI) and official direct assistance (ODA) focused mostly on utilities, mines, the oil sector and infrastructure. Agriculture is a future opportunity.

China and India have built their commercial interests on the bedrock of longstanding political ties while Brazil, a relative latecomer, has used a diplomatic *tour de force* to engage the continent. Russia, which disengaged from Africa after the Cold War, is playing on its liberation-era ties to the continent to forge a new commercial engagement, based largely on resources.

SA is in a key position. It is a sought-after market for new investors, providing a more familiar environment from whence to launch new operations on the continent and is both a competitor and potential partner in the rest of Africa.

THE NEW CHALLENGERS

New emerging market investors in Africa have not only highlighted a broader global shift in the balance of commercial power from Western states to emerging nations, they have put the spotlight on Africa as a place to do business.

They are flattering governments with diplomatic attention and offering large financial inducements for resources. China, for example, has undertaken 18 high-level visits to Africa covering 38 countries since 2000.⁴ Brazil's President Luiz Inácio 'Lula' da Silva has visited 17 countries since taking office in 2003 while Russia's President Dmitry Medvedev covered four nations on his first official visit in 2009.

China has been the focus of changing commercial engagement because of the size and pace of its investment in Africa. Total trade reached \$107 billion in 2008 — \$51 billion in exports and \$56 billion in imports.⁵ FDI has risen sharply in the past decade, with \$5.49 billion going to Africa in 2008 alone.⁶ China's ODA, which is used to secure resource swaps, is more than twice investment flows.

Politically, China continues to court African support for its broader global ambitions in multilateral forums, and uses its financial clout to isolate its political opponents, notably Taiwan.

India's import-driven energy dependence has been the driver for stronger commercial links with the continent. India–Africa bilateral trade increased from \$967 million in 1991 to nearly \$30 billion in 2008.⁷ Although its financial investment may not match that of China, it has invested in more projects overall — 130 compared to 86 from China and 25 from Brazil.⁸

India's official engagement has been more political than commercial. It leverages Africa's support in multilateral forums for causes that also affect its own national interests, such as trade, and is a significant contributor to African peacekeeping efforts. Like China, it has avoided engaging in controversial political issues in Africa, preferring to stress a development agenda.

Brazil has the biggest Latin American presence in Africa. More than 300 companies already operate in Angola, its biggest African market.⁹ State oil company Petrobras has interests in five other countries, while construction firm Odebrecht is spending up to \$1 billion in Angola and has large construction and oil-related contracts elsewhere in Africa.

Odebrecht, together with conglomerate Camargo Corrêa, is working with diversified mining giant Comphania Vale do Rio Doce (Vale) in its \$1.3 billion Moatize coal project in Mozambique. Vale recently invested in SA-owned Teal Exploration and Mining to extend its footprint in copper.¹⁰

In the past 10 years, Brazilian exports mostly to Angola, SA and Nigeria increased almost eightfold. In 2008, they reached more than \$10 billion, 5% of all Brazilian exports.

Russia has used diplomacy to re-establish itself in Africa. It has an ambitious agenda to assist its multinational corporations to expand while shoring up domestic energy reserves.¹¹

There are many benefits for Africa. In addition to significant funding for resource deals, the interest shown by these emerging markets has highlighted the continent's investment potential, while the alignment to the world's fastest growing economies has increased Africa's international status and influence.

SOUTH AFRICA IN AFRICA

Just over a decade ago, SA was the new business challenger in Africa as its companies, supported by post-apartheid government, sought markets for pent up production and capital.

By 2000, SA had become the biggest investor in Africa outside the oil industry. The South African Reserve Bank estimated FDI stocks in Africa rose from about \$230 million in 1990 to \$1.6 billion and \$3.2 billion in 2004 at constant prices — 10.89% of outward FDI stocks.¹² The 2009 figure may be double that as a result of new investment in mega-projects, equity deals with African companies and green-field projects.¹³

Trade, too, increased by 659% between 1994 and 2008.¹⁴ SA has a large trade surplus with most African countries. Such skewed commercial activities that appear to favour SA are at the heart of official concerns about economic engagement with the continent.

To address similar problems, China and India have opened their markets to dozens of African products. But SA is constrained by regional trade arrangements and by strict regulations covering goods entering its market.

Diplomatic efforts by the SA government have assisted business expansion. However, as the country does not have the clout of a former colonial power, nor is it a donor or a funding benefactor like its Western and emerging market competitors, it relies mostly on its 'African-ness' to court other governments.

It has not all been smooth sailing. In addition to trade imbalance issues, the success of SA companies in other African markets has led to

resentment and allegations, often unfounded, of exploitation and arrogance. Such allegations are not directed at other investing nations.

Africans seem better disposed to Western investors, with whom they have dealt for decades, and to the new investors, bar some incidences of hostility towards China.

But relationships are improving as SA has increased contact with African markets and as the benefits of its trade and investment become entrenched.

THREATS TO SA BUSINESS

There are many opportunities for SA companies in the new wave of investors, but also some threats.

For example, SA companies face increased competition, particularly in the resources and construction sectors. It is difficult to compete for tenders and contracts with large, well funded, competitors. They may also lose out as suppliers and contractors to the new investors who are creating opportunities for their own multinationals in the slipstream of big projects, for example Vale in Mozambique.

Chinese companies are able to undercut competitors in tender bids by using cheap labour and state subsidised finance and their own products. Billion dollar investments have enabled them to cultivate relationships with governments that may allow them to circumvent tender requirements.¹⁵

A tendency by some BRIC investors to compromise on corporate ethics and transparency in deals and operations may also disadvantage SA firms, which are bound by corporate governance principles and shareholder disclosure back home.

China is swamping African markets with cheap and often counterfeit goods, thereby undermining formal retail markets by undercutting prices. SA firms also face pricing competition in the communications market as India leverages its competitive advantage.

OPPORTUNITIES

SA already has strong political ties with BRIC countries as a strategic member of the global

South. This makes it a key market for two-way investment and presents an opportunity for support in global forums.

The recent commodity boom, driven largely by BRIC countries, has boosted economic growth in Africa and with it, increased demand for goods and services, which SA companies are well placed to provide.

Large infrastructure investments from BRIC countries will improve the operating environment for all companies and bring down the costs of doing business.

Political instability and undue risk are not in the interests of large investors like China and India. Thus, while they may not criticise host governments, they have influence that they are likely to use to secure their investments. This may be positive for other investors who may not have such access.

New investors in Africa often lack experience of the continent and business networks — two strategic advantages that SA companies can offer. The deal between Standard Bank and the Industrial and Commercial Bank of China is one example of this synergy.¹⁶ Such partnerships will allow SA companies to increase their sphere of influence radically.

CONCLUSION

The emergence of new investors in Africa, bringing benefits for the continent as a whole, is positive for the continent as a whole. But SA business, which accommodated Western competition in its African expansion, needs a new strategy to take into account the shifting business landscape and to ensure it remains a significant and competitive player on the continent.

ENDNOTES

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- 5 BBC News, 'China's chequebook draws African nations', 9 November 2009.
- 6 Forum on China Africa Co-operation, 2 November 2009, <http://www.focac.org/eng/zxxx/t624041.html>.
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- 8 *Ibid.*
- 9 *Africa Investor*, 'Brazil comes to the table', 1 September 2008.
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- 11 Stevens J & S Freemantle, 'Russia re-engages Africa with elevated bargaining power', *Africa: Insight – BRIC in Africa*, Standard Bank newsletter, 30 July 2009.
- 12 Goldstein A & W Prichard, 'South African multinationals: South–South co-operation at its best?', in Grobbelaar N & H Besada (eds), *op. cit.* Quantifying SA investment is complicated by issues about the nationality of companies and questions about the origins of the investments.
- 13 This conclusion is based on a tally of big deals based on a variety of published sources.
- 14 Kganyago L, *op. cit.*
- 15 *Mail & Guardian*, 'Why China trumps SA', 10 August 2008.
- 16 In 2007, the Industrial and Commercial Bank of China bought a 20% stake in Standard Bank for \$5.5 billion. SouthAfrica.info, 'China buys into Standard Bank', 26 October 2007, <http://www.southafrica.info/business/investing/stanbank-261007.htm>.

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