



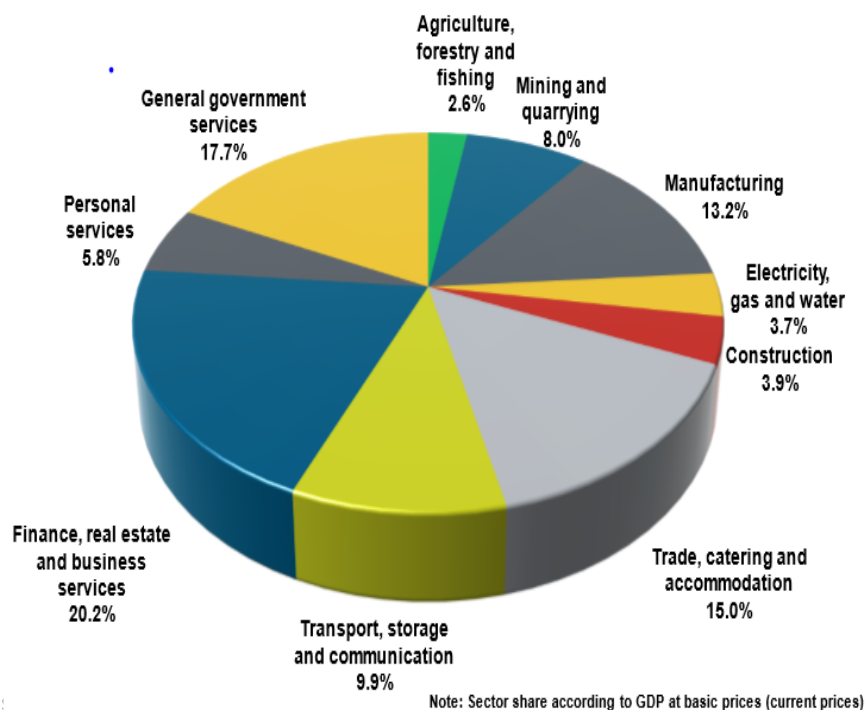
# **The case for investing in South Africa: Executive summary**

*Accelerating growth by building partnerships*

# The economy:

## South African economy offers a strong value proposition

### Sectoral composition of South Africa's gross domestic product (GDP) in 2017



### South Africa's value proposition

- Africa's most industrialised economy. It is the region's principal manufacturing hub and a leading services destination.
- Highly diversified economic structure in terms of sectoral composition.
- One of the most open economies in the world (ratio of exports and imports to GDP exceeds 58%). Preferential access to numerous global markets.
- Endowed with an abundance of natural resources.
- An extensive and modern infrastructure network.
- Sophisticated banking sector with a major footprint in Africa. It is the continent's financial hub.
- Offers a supportive and growing ecosystem as a hub for innovation, technology and fintech.

Source (chart): Industrial Development Corporation, compiled using data from Statistics South Africa.

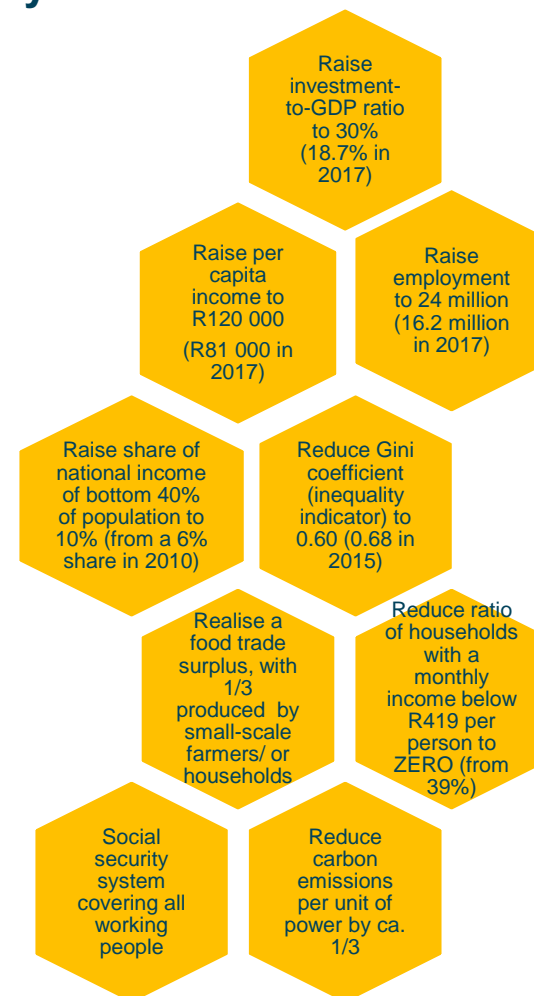
# The economy: A long-term strategic plan focused on inclusive growth

- The *National Development Plan: Vision 2030* (NDP), which was launched in 2012, constitutes South Africa's overarching policy framework.

The NDP's comprehensive framework seeks to drive and entrench an inclusive economic growth agenda for South Africa.



## By 2030 ...



Source (graphic): Information obtained from National Development Plan: Vision 2030, National Planning Commission; various sources for recent data.

# The economy: Prudent macroeconomic policy management



## Prudent macroeconomic policy and management support South Africa's attractiveness as an investment destination

### Prudent fiscal and monetary policy regimes

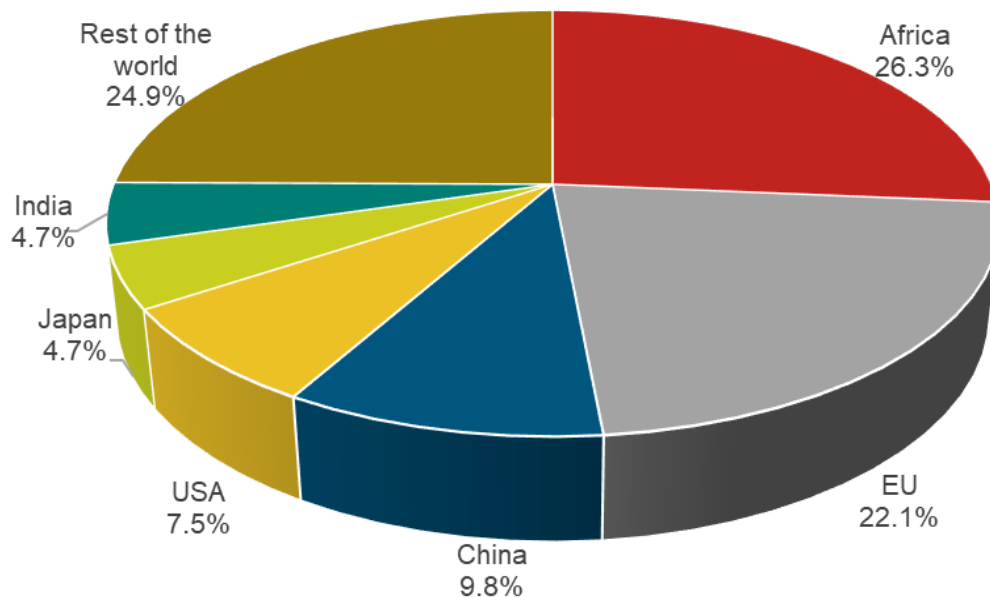
#### South Africa's macroeconomic policy

- Fiscal policy balances development needs with fiscal sustainability. National Treasury committed to fiscal consolidation and prudent budgetary management.
- Independent and prudent monetary policy with the South African Reserve Bank (SARB) as its custodian. The SARB follows an inflation targeting regime (target band: 3% to 6%).

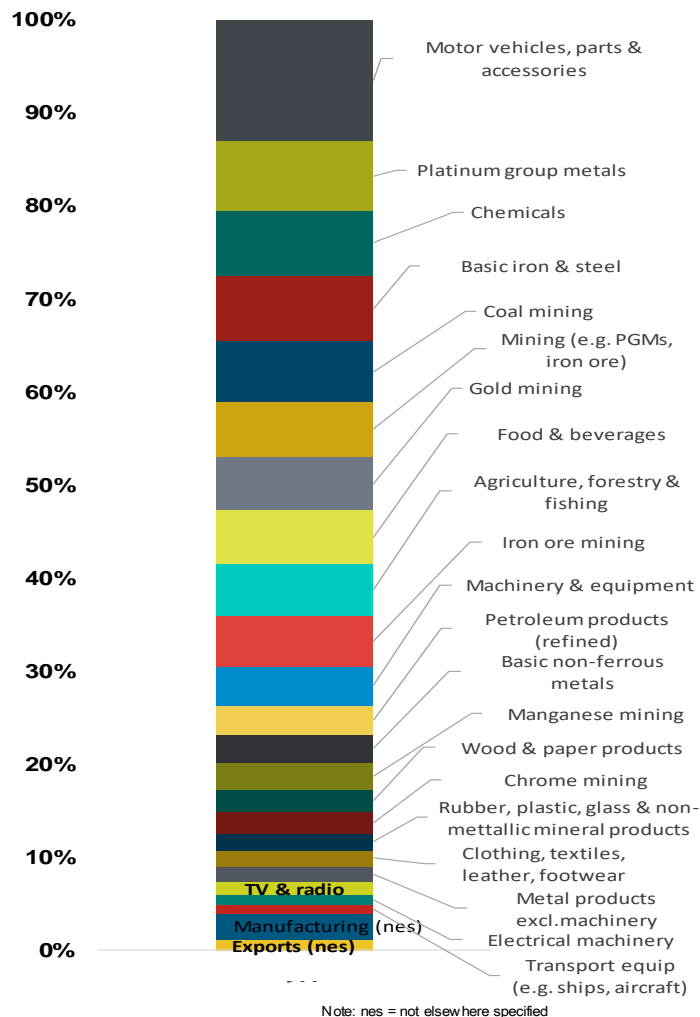
# The economy: Diversified export sector and wide global reach

- South Africa's access to global markets is enhanced by its trade agreements (for example, SADC Free Trade Area; EU-SADC Economic Partnership Agreement; preferential access to the US market under the Africa Growth and Opportunity Act (AGOA), etc.).

**Leading markets for SA exports, 2017 (R1 187.5 bn)**



**Composition of SA's export basket in 2017**



Source (charts): Industrial Development Corporation, compiled using South African Revenue Services data

# The economy: Poised for faster growth



## Largest and most advanced economy on the African continent...

- South Africa offers a unique combination of first world infrastructure and logistics networks and a diversified emerging market (EM) economy offering low sectoral concentration risks.
- Its gross domestic product (GDP) of ZAR4.65 trillion (USD349.4 billion at the average USD/ZAR exchange rate for 2017) represents circa 16% of the African continent's overall GDP.
- Composition of South Africa's GDP is similar to those of developed economies - diversified and positioned to generate sustainable long-term returns on invested capital.
- While economic growth has been slow in recent years, the economy's growth potential can be enhanced through policy certainty and consistency, as well as structural reforms, leading to higher levels of investment activity.

## Potential upside in SA's economic growth forecasts

GDP growth expectations	2018	2019	2020
SA Reserve Bank (September 2018)	0.7	1.9	2.0
IDC (September 2018)	0.8	1.6	2.2
IMF (October 2018)	0.8	1.4	1.7
Bloomberg consensus (Sept. 2018)	0.7	1.9	2.1
Reuters consensus (Sept. 2018)	0.8	1.7	2.0

**National Treasury estimated that South Africa's potential growth can be raised by 2.5 percentage points if the necessary policy and administrative reforms are undertaken.**

Sources (table): South African Reserve Bank, Industrial Development Corporation (IDC); International Monetary Fund (IMF), Bloomberg, Reuters.

# Investment environment: Safe investment destination offering solid returns



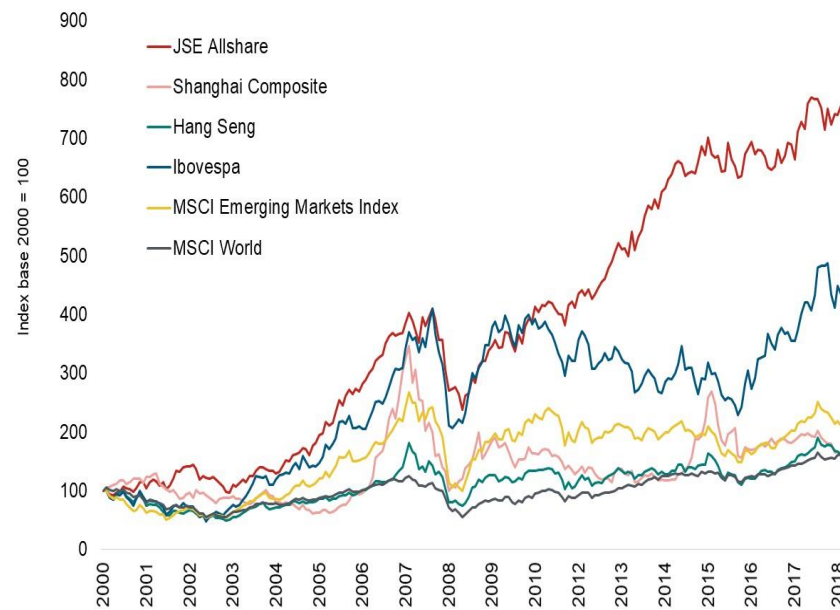
## A responsible participant in the global economy...

- Ranks number 1 in Africa with regard to Strength of Investor Protection (21<sup>st</sup> globally) and Protection of Minority Shareholders' Interests (30<sup>th</sup> globally)\*.
- Ranks 31<sup>st</sup> in the world in terms of Efficiency of Legal Framework in Settling Disputes\*.
- Progressive constitution and sound governance framework.
- Independent judiciary provides respect for the rule of law.
- Actively addressing corruption.
- Meaningful contributor to global governance.

## Superior long-term investment returns...

- South Africa has produced solid financial returns for portfolio investors.
- The Johannesburg Stock Exchange Allshare index has outperformed other emerging market indices since the start of the new millennium.

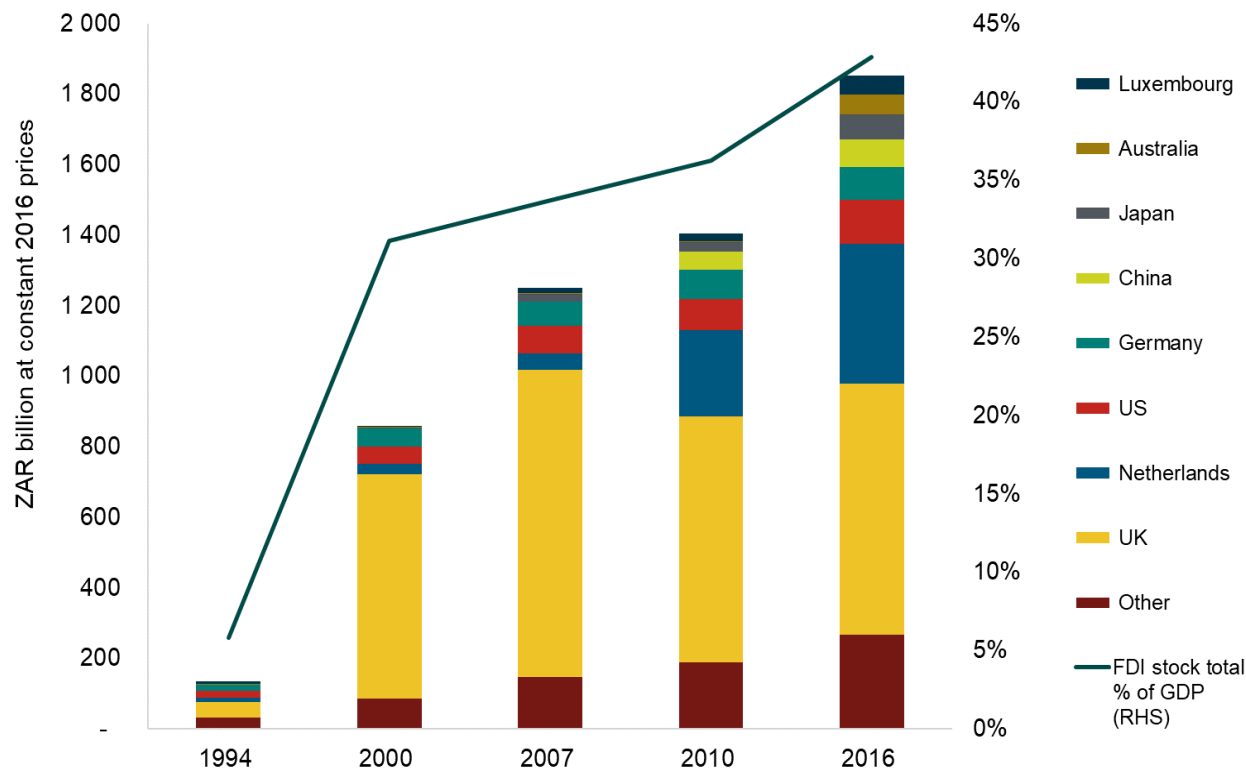
Select global equity markets: relative performance since 2000



**Positive outlook for financial returns for major sectors of the economy**

Source: \* World Economic Forum's Global Competitiveness Report 2017-2018; (chart); National Treasury analysis using Bloomberg data

# Investment environment: Strong foreign investor presence and track record



- The overall stock of foreign direct investment (FDI) in the economy represented 42.8% of GDP in 2016, up from 5.8% in 1994.
- Inward FDI traditionally dominated by European investors, particular from the United Kingdom.
- Fast-growing presence of Asian investors in recent years, predominantly from China.

Source (chart): Industrial Development Corporation analysis, compiled using South African Reserve Bank data



# Platform to support growth: World-class infrastructure is a competitive advantage



**Ranked number 1 in Africa in the World Bank's Logistics Performance Index ...**

## Road, rail and port facilities

- 158 952 km of paved roads (10<sup>th</sup> globally).
- 20 986 km of railways (13<sup>th</sup> globally for length of railways).
- Eight seaports:
  - Two of the world's top container ports (Durban, Cape Town).
  - Two of the world's largest dry bulk ports (Richards Bay, Saldanha Bay).

## Beneficiation/ energy capacity

- Installed generation capacity of 47.3KW, with significant excess capacity coming on stream.

## Advanced ICT infrastructure

- Internet and personal computer penetration is the highest in the region, with 54% of individuals using the internet.
- Upload and download speeds significantly higher than other regional economies.

## Ease of air travel

- 144 airports with paved runways.
- Ranked 25<sup>th</sup> globally for quality of air transport infrastructure.

# Platform to support growth: Large markets that could be accessed



## Domestic market...

- A population of 56.5 million people and a growing middle class.
- South Africa ranks 27<sup>th</sup> globally for its domestic market size.
- 37.7 million people in the working age category.
- Young population, as 66% are under the age of 35.
- Young, vibrant population presents major opportunities for investors.

## Gateway to Africa...

- Location of choice for multinationals in Africa, underpinned by factors such as a skilled labour force, established infrastructure and a world class banking and financial services sector, among others.
- The cost of doing business in South Africa is a major pull factor, underpinned by the supportive environment and relative competitive advantages on the continent.
- Provides access to the continent with a population of over 1 billion and a GDP of USD2.2 trillion.
- Regional partnerships, including participation in the Southern African Development Community, Southern African Customs Union and in the new African Continental Free Trade Area, provide platforms for growth across several sectors.

# Platform to support growth: Preferential access to key world markets



- South Africa is a member of the World Trade Organisation.
- Access to global markets has been enhanced through bilateral agreements with most of South Africa's major trading partners. Preferential access to key export markets has been secured through various agreements and by participating in regional economic communities.

Agreement name	Type of agreement	Countries / regional blocs involved
<b>Southern African Customs Union (SACU)</b>	Customs union	South Africa, Botswana, Lesotho, Namibia, Swaziland
<b>Southern African Development Community (SADC) Free Trade Area</b>	Free trade agreement	15 SADC member states
<b>Economic Partnership Agreements</b>	Free trade agreement	SACU- EU EPA plus Mozambique and Angola
<b>EFTA-SACU FTA</b>	Free trade agreement	SACU + EFTA (Iceland, Liechtenstein, Norway and Switzerland)
<b>African Growth &amp; Opportunity Act (AGOA)</b>	Unilateral assistance measures (non- reciprocal)	US- 39 sub-Saharan African countries
<b>Generalised System of Preferences (GSP)</b>	Unilateral (non-reciprocal)	SA- EU, Norway, Switzerland, Russia, Turkey, the US, Canada, Japan
<b>SACU-Mercosur</b>	Preferential trade agreement	SACU and Argentina, Brazil, Paraguay and Uruguay

The African Continental Free Trade Area will boost intra-Africa trade and create a very large market of over 1 billion people and a combined GDP of USD 2.2 trillion that will unlock industrial development.

Source: Invest SA

# Platform to support growth: Access to affordable capital



## World class capital markets...

- South Africa has world class equity and debt capital markets, on par with those in developed economies.
- The Johannesburg Securities Exchange (JSE) is one of the world's top 20 exchanges and has a market capitalisation of USD1.11 trillion.
- South Africa's major primary and secondary equity and bond markets, based at the JSE, represent a market capitalization-to-GDP ratio of 312%.
- Sophisticated and well-regulated banking sector, ranked 37<sup>th</sup> globally for financial soundness.

**South Africa's financial sector has a large footprint across the African continent.**

## ... reflected in capital raising statistics\*

- 12 IPOs in 2017 with total proceeds of USD2.3 billion, compared to USD261 million in 2013. A total of 44 IPOs over the period 2013 to 2017, collectively totaling USD4.8 billion.
- 5 of the top 10 IPOs by value in Africa in 2017 were raised in South Africa.
- 251 Further Offerings (FOs) in 2017 (collectively valued at USD37.6 billion), up from 35 FOs (total of USD4.6 billion) in 2013.
- South Africa accounted for 7 of the top 10 Further Offerings in Africa in 2017.

Source\*: PWC Africa Capital Markets Watch, prepared using data from Dealogic

# Policy framework incentivises investment to stimulate growth: Industrial policy support



## South Africa is actively seeking to enhance investment levels

### South Africa's catalytic approach to investment

- South Africa provides active support for investors by providing a wide range of incentives, including a comprehensive suite of tax incentives for investment in Special Economic Zones (SEZs).
- Incentives offered by SEZs include:
  - Preferential 15% corporate tax rate
  - Valued Added Tax (VAT) and customs duty suspension in customs-controlled areas;
  - Employment incentive;
  - Building allowance;
  - Preferential land rental and utility rates.
- Investment in labour-absorbing industries is encouraged through various mechanisms.
- Financing assistance provided by state-owned development finance institutions (DFIs) such as the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA) and the Land Bank.

## Industrial policy framework

- Comprehensive suite of financial grants, tax incentives and other forms of business support to investors.
- Policy and administrative reforms to stimulate investment.
- Incentives for investment in special economic zones.
- Attractive support and incentive system and financing by state-owned DFIs for industrial development and investment promotion.

# Policy framework incentivises investment to stimulate growth: Interventions to ensure social stability



- 1 Education**
  - Government has introduced free tertiary education to previously excluded students so as to build a strong, skilled and competent workforce.
- 2 Health**
  - In addition to the large ARV programme, government is exploring a national health insurance programme to improve access to quality healthcare.
- 3 Social Services**
  - The government continues to support the elderly, children and other economical inactive groups through the social grants programme.
- 4 Employment**
  - Strong partnerships between government, labour and business in initiatives aiming to create employment opportunities.
- 5 Youth**
  - Several initiatives and programmes in place to facilitate the assimilation of youth into the mainstream economy.
- 6 Women**
  - Clear policy framework and several programmes to advance the economic empowerment of women.
- 7 Entrepreneurship**
  - The government has established a dedicated small business development and support Ministry that coordinates government-wide and targeted financial as well as non-financial support for the SMME sector.

**Government interventions are yielding positive results.**

# Policy framework incentivises investment to stimulate growth: Economic transformation and reform



## Drivers of change...

**The key driver for economic transformation and reform agenda is an urgent need for greater economic inclusion (that is, to narrow the gap between the rich and poor while further diversifying the economy).**

## ...Government's efforts on transformation

**1 Extensive social services**

- To raise the human capital of the disadvantaged - the foundation of our fiscal framework.

**2 SME support**

- That includes funding and a program of policy improvement.

**3 Active competition policy**

- Which allows for responsive but predictable policy action against anti-competitive behavior.

**4 Broad-Based Black Economic Empowerment (BBBEE)**

- Policies to incentivise firms to ensure economic equity amongst race groups.

**5 Strategic use of state procurement practices**

- To give better opportunities for black and small businesses.

**6 Black Industrialists Policy**

- To provide targeted support to medium-sized black owned firms to grow into large firms.

**7 Land reform**

- To uplift rural communities and allow black people access to productive assets.

# Policy framework incentivises investment to stimulate growth: Reforms to address obstacles to investment



## Key sectors/areas

## Actions

### Mining

- Withdrawal of the 2017 draft Mining Charter.
- Government instituted a consultative process with industry, the labour movement and the general public for revising the Mining Charter.
- New Mining Charter gazetted in September 2018.
- Current Mineral and Petroleum Resources Development Act remains applicable, with the amendment bill having been withdrawn so as to provide greater certainty for the mining sector.

### Land reform

- Government has initiated a structured consultative process to address land reform while maintaining comparative advantages.

### Telecommunications

- Broadband policy gazetted in 2013 seeks to provide every South African with access to broadband connection at a cost of 2.5% or less of the average monthly income.

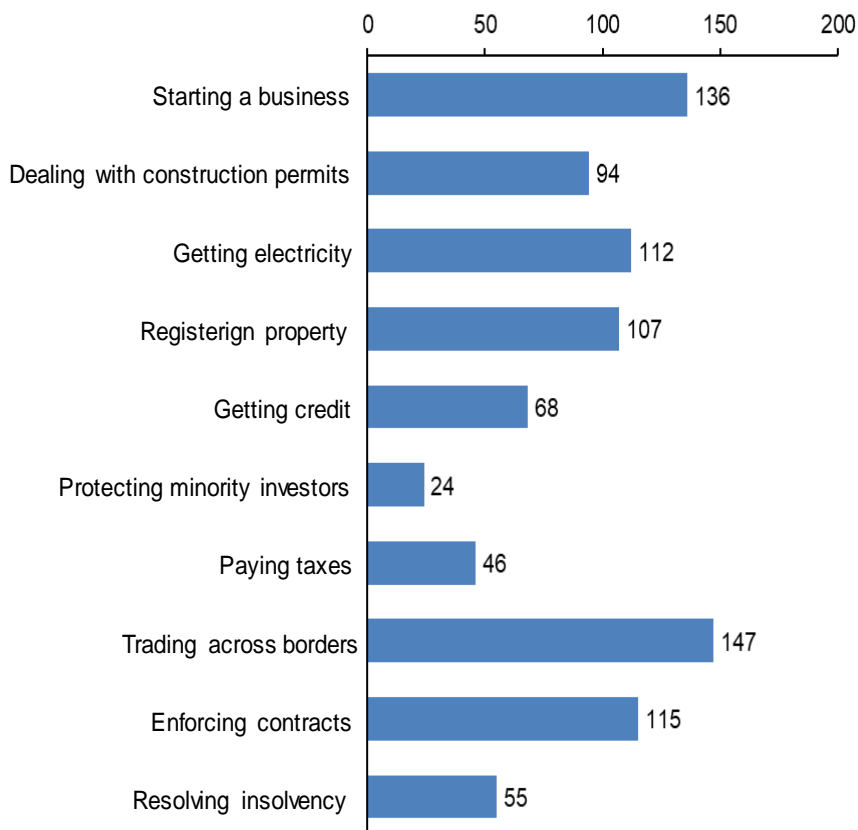
### Energy

- Government's long-term energy plan expressed in the draft Integrated Resource Plan (IRP 2018) recently published for public comment. The IRP 2018 provides a roadmap for the planned energy generation and evolution of the energy mix over the period to 2050.
- Enhanced impetus for renewable energy to replace decommissioned coal generation capacity.



# Policy framework incentivises investment to stimulate growth: Improving the ease of doing business

## South Africa's rankings on ease of doing business out of 190 countries



\* Note: A ranking of 1 out of 190 is the best in each respective category

Source (chart data): World Bank *Doing Business* 2018

## ... Government's efforts to improve South Africa's rankings

### Starting a business

- Register a company in a day using self-service terminals.
- Online search portal for company names.
- CIPC has Implemented mobility apps.
- Introducing a single platform for businesses to register for Unemployment Registration Fund and Workmen's Compensation Fund.

### Registering a property

- Move to online property registration, electronic online checking for rates and clearance certificates.
- Work is underway to streamlining processes, reducing information asymmetry and reducing costs for registering a property.

### Trading across borders

- Implemented Preferred Traders Programme and working towards undertaking joint inspections, adopting new customs legislation.
- South Africa participates in the Global Coalition for Efficient Logistics as regional anchor that integrates domestic and other African small, medium, micro and cooperative enterprises into global markets through B2B digital trading tools.

### Paying taxes

- Online e-filing system, improve transparency of information, documentation required.
- Working towards reducing the time taken for VAT audits.

### Contract enforcement

- Enforcing contracts was made easier through the amendment of the monetary jurisdiction of lower courts and the introduction of voluntary mediation.

# Sectoral strengths of South Africa's provinces



## North West:

- Mining
- Agriculture and agro-processing
- Tourism
- Metal products
- Machinery and equipment
- Renewable energy (solar)

## Northern Cape:

- Mining
- Agriculture and agro-processing
- Fisheries and aquaculture
- Renewable energy (solar, wind)
- Jewellery manufacturing

## Western Cape:

- Tourism
- Financial and business services
- Transport and logistics
- Information and communications technology
- Agriculture and agro-processing
- Fisheries and aquaculture
- Petrochemicals
- Basic iron and steel
- Clothing and textiles
- Renewable energy (solar, wind)

## Gauteng:

- Financial and business services
- Information and communications technology
- Transport and logistics
- Basic iron and steel, steel products
- Fabricated metal products
- Motor vehicles, parts and accessories
- Appliances
- Machinery and equipment
- Chemical products, pharmaceuticals
- Agro-processing

## Limpopo:

- Mining
- Fertilisers
- Tourism
- Agriculture
- Agro-processing
- Energy, including renewables (solar)

## Mpumalanga:

- Mining
- Tourism
- Forestry, paper and paper products, wood and wood products
- Agriculture and agro-processing
- Metal products

## KwaZulu-Natal:

- Transport and logistics
- Tourism
- Motor vehicles, parts and accessories
- Petrochemicals
- Aluminium
- Clothing and textiles
- Machinery and equipment
- Agriculture and agro-processing
- Forestry, pulp and paper, wood and wood products



## Free State:

- Agriculture and agro-processing
- Mining
- Petrochemicals
- Machinery and equipment
- Tourism

## Eastern Cape:

- Motor vehicles, parts and accessories
- Forestry, wood and wood products
- Clothing and textiles
- Pharmaceuticals
- Leather and leather products
- Tourism
- Renewable energy (wind)

Source: Industrial Development Corporation

# Attractive opportunities across several sectors



## Agriculture and agro-processing

- Fruit and vegetable packaging & canning.
- Fruit juice processing.
- Processing of soy-based products.
- Processing of organic, vegetarian, dehydrated foods.
- Meat processing.
- Aquaculture.
- Expansion of dairy value chain.
- High value additives and nutraceuticals.
- Non-edible oil processing.
- Crop production for feedstock into bio-fuels processing.
- Indigenous plant and flower growing.

## Mining and minerals beneficiation

- Coal-bed methane: coal-to-liquid; coal ash utilisation to address acid mine drainage; carbon capture and storage.
- Manganese value chain development.
- Vanadium as a strategic input to energy storage.
- Development of titanium value chain, especially titanium dioxide.
- Ferrochrome production, revitalising chrome value chain.
- PGMs beneficiation, development of fuel cell industry.

## Manufacturing

- Motor vehicles, parts, accessories.
- Other transport equipment (e.g. heavy vehicles, aircraft, vessels, rail equipment).
- Machinery and equipment.
- Metals fabrication.
- Chemicals, plastics.
- Pharmaceuticals.
- Footwear, leather industries.
- Clothing, textiles.
- Cosmetics.
- Fast-moving consumer goods.

## Advanced Manufacturing

- Fuel cells.
- Energy storage.
- Speciality materials.
- Electronics.
- Aerospace.
- Defence industries.
- Medical devices and emerging tele-medical instrumentation.
- Speciality chemicals, including biochemicals.
- Additive manufacturing, including 3D printing.

## Services

- Tourism.
- Business process outsourcing.
- Financial and insurance services.
- Internet of Things related opportunities.
- Film production and support services.
- Oceans economy related services (e.g. shipbuilding, repairs, maintenance).

## Infrastructure

- Energy generation infrastructure, incl. renewables.
- Energy efficiency.
- Transportation and logistics infrastructure.
- Water infrastructure.
- Telecommunications infrastructure.
- Agro-logistics and rural infrastructure.
- Recycling.

Sources: Industrial Development Corporation, Invest SA

# South Africa as a regional gateway: The African continent offers a myriad of opportunities



Sector	Opportunity
<b>Agriculture and agro-processing</b>	Africa has 60% of the world's uncultivated arable land, with value-adding opportunities in the food processing sector; abundant water resources for energy generation, irrigation and potable water.
<b>Mining and minerals beneficiation</b>	Africa is major player in various mineral resources such as platinum, chromium, diamonds, gold, bauxite, cobalt, copper, phosphate and uranium. The continent has almost 8% of the world's oil reserves. Its enviable resource endowment provides vast opportunities for investment in mining and minerals beneficiation.
<b>Hydrocarbons, particularly natural gas</b>	Large offshore and onshore gas reserves discoveries in, for example, Mozambique and Tanzania present huge development opportunities for energy generation, among others.
<b>Manufacturing</b>	Wide range of opportunities, including development of value chains such as petro-chemicals, food processing and beverages production, minerals beneficiation and metal products fabrication, forestry and wood processing, textiles and clothing, footwear etc.
<b>Infrastructure</b>	Massive development opportunities across the infrastructure spectrum, including input requirements associated with Africa's ongoing infrastructure and industrial development drive.

# South Africa as a regional gateway: The African continent offers a myriad of opportunities



Sector	Opportunity
<b>Forestry and wood processing opportunities</b>	Massive potential in commercial forestry and downstream development in the respective value chain.
<b>Consumer goods</b>	Africa has just over 1 billion consumers, a young population, rising disposable incomes, growing middle classes and increasingly sophisticated consumer segments. These factors are indicative of numerous opportunities for consumer-oriented sectors.
<b>Banking sector / financial services</b>	Rapid growth in the past decade, with financial sector reforms underpinning this momentum.
<b>Information, communication and telecommunications</b>	An important driver behind Africa's economic growth in recent years, underpinned by an already substantial and rapidly expanding subscriber base.
<b>Regional integration</b>	Regional economic communities (for example, SADC, SACU, COMESA, EAC) are key drivers of economic growth, investment activity in infrastructure and productive activities, as well as intra-Africa trade. The African Continental Free Trade Area (AfCFTA) will bring together 55 African countries with a combined population of more than 1 billion people and a GDP of USD 2.2 trillion.

# South Africa:

## Building partnerships, accelerating growth



- South Africa has the most developed, diversified, technologically advanced and industrially integrated economy on the African continent.
- The country remains one of the preferred investment destinations in Africa and is also an important gateway for markets and other business opportunities throughout the continent.
- The South African economy has become increasingly diversified over the years, thereby reducing its sectoral concentration risks, particularly in mining. This has unlocked a diverse range of high-yield investment opportunities, predominantly but not exclusively in sectors with high export propensities.
- The success of many domestic industries in export markets is indicative of inherent global competitiveness.
- The economy boasts an extensive and modern infrastructure network which is being expanded further as a massive investment programme is rolled out by the public sector. Together with various other forms of industrial support from the South African government and other public sector institutions, this provides an attractive pull-factor for investors.
- The South African economy is poised to achieve a higher growth trajectory. Recent political developments have been widely welcomed, resulting in a clear recovery of business, investor and consumer sentiment.

# South Africa: Building partnerships, accelerating growth



- Confidence in the South African government's ability to address structural impediments, including the achievement of greater policy coherence, consistency and certainty, as well as its focus on entrenching a business-friendly and investment-supportive environment, will attract investor interest and increase capital spending, both from domestic and foreign sources, in the domestic economy.
- These developments, alongside a substantially improved global economic outlook, augur well for South Africa's very open economy, with significant catalytic ramifications for investment prospects across a wide variety of sectors.