

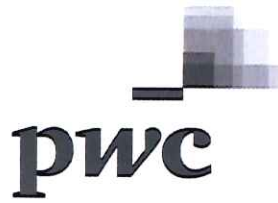
strategy &



Realising the vision



Estimating the potential economic impact of investment pledges made at the South Africa Investment Conference in October 2018





President Cyril Ramaphosa reported nearly R290 billion worth of investment pledges from local and international companies. PwC's Strategy& calculations suggest that this investment would add an estimated R338 billion to South Africa's GDP over the 2019–2024 period, create or sustain an estimated 165 000 direct and indirect jobs (on average per year) and generate an estimated R59 billion in additional government revenue.

In addition, the investment would enable some R468.8 billion in potential production from 2025 to 2035. This production would, over the ten-year period, add an estimated R505 billion to South Africa's GDP, create and/or sustain an estimated 116 000 direct and indirect jobs (on average per year) and generate an estimated R133 billion in government revenue.

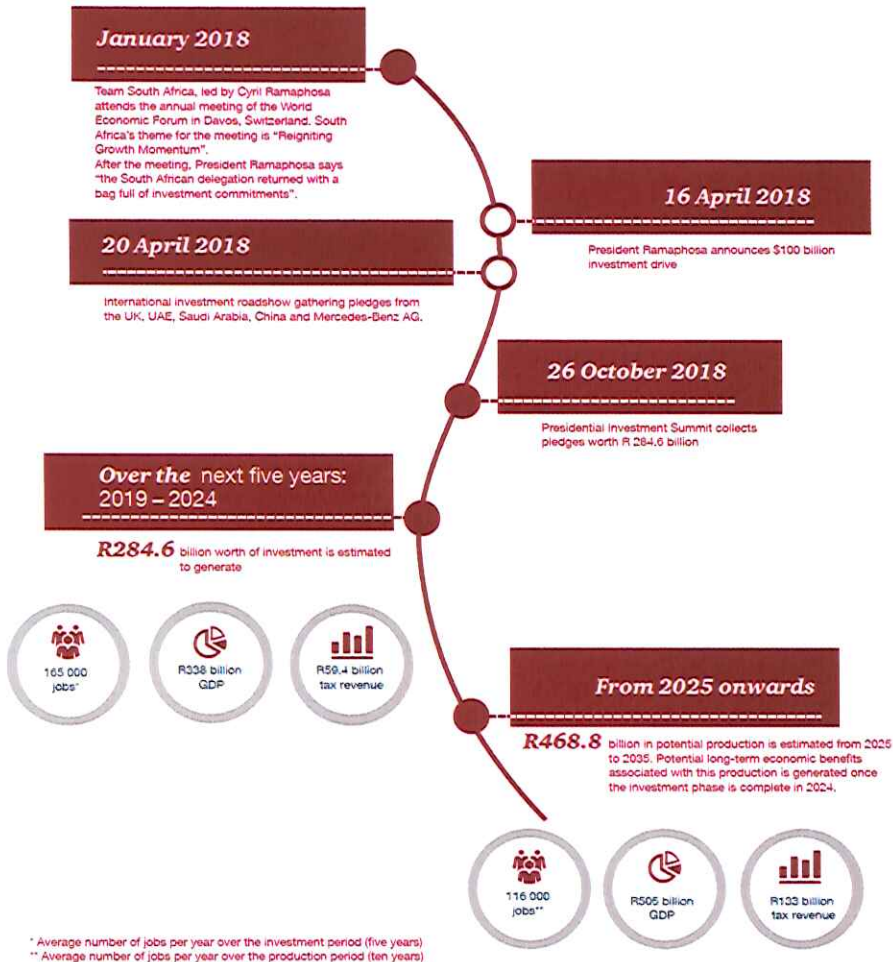
On 16 April 2018, President Cyril Ramaphosa announced his five-year, US\$100 billion investment drive in a bid to revive the South African economy. According to the president, his initiative is a response to the drop in total fixed investment in South Africa from 24% of GDP in 2008 to 19% of GDP in 2017, and foreign direct investment (FDI) inflows dropping 77% in rand terms over the same period¹.

Shortly after this announcement, President Ramaphosa began an international roadshow promoting trade and investment agreements with existing South African partners. A team of investment envoys was assembled to support the presidency, made up of former finance minister Trevor Manuel, former deputy finance minister Mcebisi Jonas, Afropulse executive chairperson Phumzile Langeni, and chairman of Liberty Group Jacko Maree. In addition, economist Trudi Makhaya was appointed as the president's economic advisor².

¹ <https://www.bloomberg.com/news/articles/2018-04-16/ramaphosa-vows-to-hunt-100-billion-in-south-africa-investment>

² <https://www.timeslive.co.za/news/2018-10-29-past-the-halfway-mark-a-walk-through-ramaphosas-investment-plan/>

Timeline of R284.6 billion investment



Factors influencing FDI inflows

However, following a challenging economic and political period in South Africa leading up to the appointment of President Ramaphosa in February 2018, attracting FDI is much easier said than done. In our recently-published report "What foreign investors want: South African insights from a global perspective on factors influencing FDI inflows since 2010", PwC's Strategy& found that South Africa scores only 49.9 out of 100 when considering seven key factors influencing FDI inflows.³

The report found the most important factors affecting South Africa's FDI inflows over time were the quality of governance, political stability and property rights – all hot topics in the country at present. Other key factors explored in the report include trade openness, efficiency of government regulation, safety and security, quality of infrastructure, control of corruption and policy continuity.⁴

³ PwC (2018): What foreign investors want: South African insights from a global perspective on factors influencing FDI inflows since 2010. <https://www.pwc.co.za/en/publications/strategyand-what-foreign-investor-want.html>

⁴ PwC (2018): What foreign investors want: South African insights from a global perspective on factors influencing FDI inflows since 2010. <https://www.pwc.co.za/en/publications/strategyand-what-foreign-investor-want.html>

Early results

Initial investment pledges were made by the governments of the United Arab Emirates (US\$10 billion), the Kingdom of Saudi Arabia (US\$10 billion) and the Republic of China (US\$14.7 billion)⁵.

In an announcement about the Presidential Investment Summit held in October, investment envoy, Jacko Maree supported the President's benchmark vision of a 50/50 split between local and foreign investment to make up the projected \$100 billion total sum⁶.

FDI is an important enabler of economic growth. For emerging market economies, foreign investment inflows are crucial for transferring money and expertise from multinational companies to local enterprises. Emerging markets also need FDI to help finance infrastructure deficits.⁷

President Ramaphosa was cognisant of this when, as the deputy head of the National Planning Commission (NPC), he oversaw the formulation of the National Development Plan (NDP) 2030, published in 2012. The NDP aimed for total fixed investment to rise from below 20% of GDP at the start of the current decade to 30% of GDP by 2030.⁸

The NDP also planned for public sector investment to account for 10% of GDP by 2030. In 2017, total fixed investment was recorded at 19% of GDP, with around 80% of the investment coming from the private sector.⁹ In other words, both the overall investment target as well as the public investment target have not been met. This is indicative of the fact that the South African economy needs significant investment stimulus.

Outcomes of the Investment Conference

The key sectors targeted by the summit were:

- Agriculture and agro-processing;
- Mining and minerals beneficiation;
- Heavy manufacturing;
- Water and transport infrastructure;
- Energy;
- Information, communication and technology;
- Manufacturing;
- Tourism, business process outsourcing, and film; and
- Venture capital.

During his final address to the summit, President Ramaphosa declared that during the course of the day “nearly R290 billion” had been pledged by both local and international companies seeking to participate in the President's five-year plan.

⁵ <https://www.timeslive.co.za/news/2018-10-29-past-the-halfway-mark-a-walk-through-ramaphosas-investment-plan/>

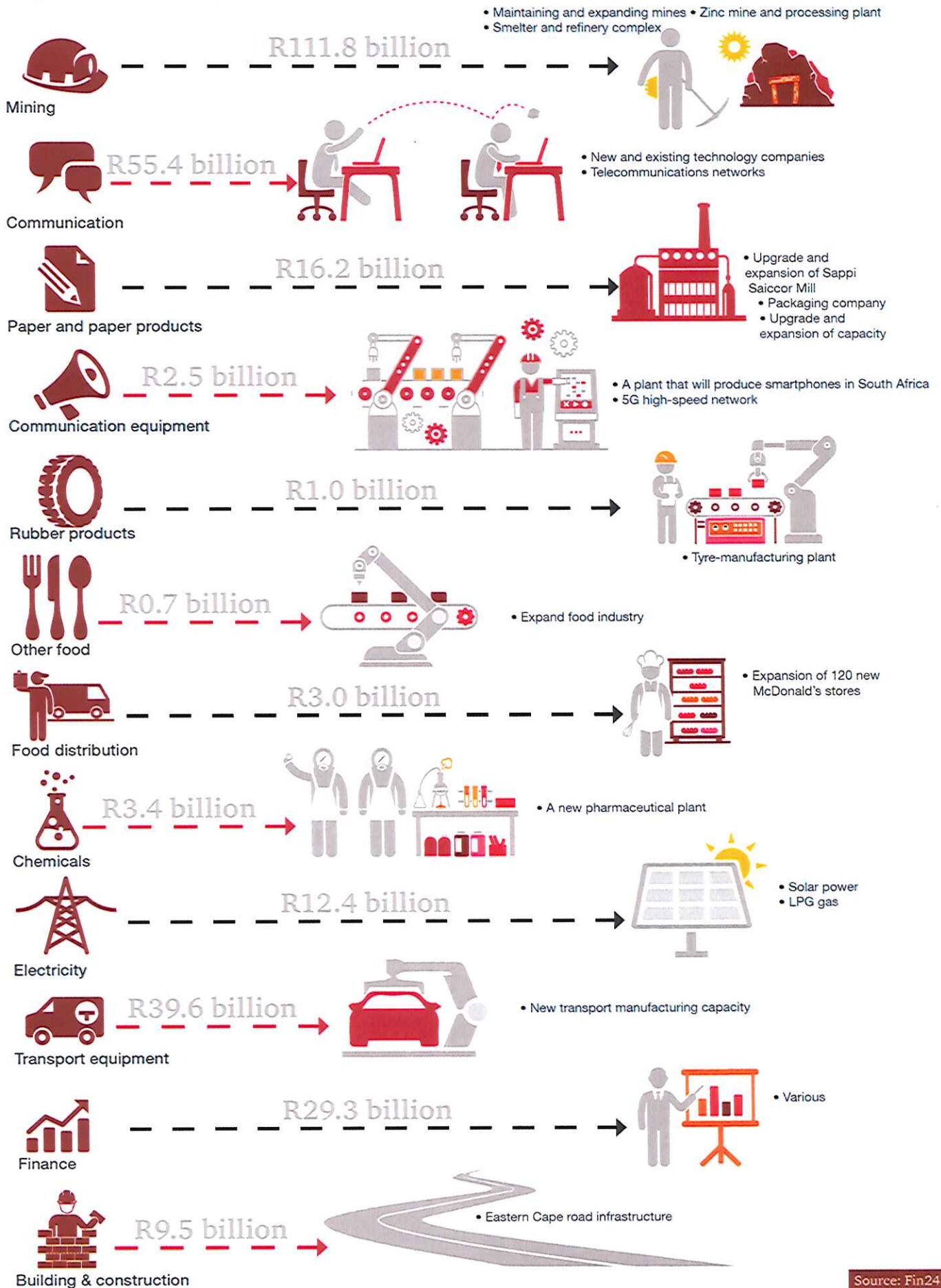
⁶ <https://www.businesslive.co.za/bd/economy/2018-06-27-locals-must-lead-100bn-investment-drive-says-ramaphosa-advisor-trudi-makhaya/>

⁷ PwC (2018). What foreign investors want: South African insights from a global perspective on factors influencing FDI inflows since 2010. <https://www.pwc.co.za/en/publications/strategyand-what-foreign-investor-want.html>

⁸ South African government (2012). National Development Plan (NDP). https://www.gov.za/sites/default/files/NDP-2030-Our-future-make-it-work_r.pdf

⁹ World Bank data

Pledged investments by sector



Source: Fin24

Unemployment remains one of government's core concerns. In August 2018, President Ramaphosa declared the urgency "to develop and implement a stimulus package to ignite growth that will lead to the creation of jobs, especially for young people and women".¹⁰ To this end, some of the investment pledges also specify job creation targets, including those by Sumitomo Rubber, Anglo America and McDonald's.

Estimated economic impact of the promised investment

The R284.6 billion of investment pledged is expected to support long-term economic benefits for South Africa, including stronger real GDP growth, the creation of jobs and generation of additional tax revenue.

We estimate the potential economic activity over the next five years resulting from this investment will include:

- An estimated R338 billion added to GDP;
- Creating and/or sustaining an estimated 165 000 direct and indirect jobs, on average, per year; and
- An estimated R59 billion added to total government revenue, through both the collection of direct and indirect taxes.

These estimated economic impacts are only associated with the investment spending between 2019 and 2024.

Long-term economic contributions will be created by the additional production in the various sectors, once the investment phase is complete. We estimate some R468.8 billion in potential production from 2025 to 2035 due to linkages. Our calculations show that the above-mentioned production would potentially contribute the following impacts over a ten-year period:

- R505 billion added to GDP;
- Creating and/or sustaining an estimated 116 000 direct and indirect jobs, on average per year; and
- R133 billion added to total government revenue.¹¹

¹⁰ <https://www.thesouthafrican.com/cyril-ramaphosa-plan-unemployment-rate/>

¹¹ Ten years post-investment phase based on evidence of lifespan of manufacturing plants in US (US Bureau of Economic Analysis) and Canada (StatCan)

Short- and long-term economic impact across investment sectors



Note: Jobs created from investment are calculated to represent an annual average over five years whilst jobs created from production represent an annual average over 10 years post-investment phase based on evidence of lifespan of manufacturing plants in US (US Bureau of Economic Analysis) and Canada (StatGen).

When considering the economic impact results for each of the sectors, we see that the sector with the largest investment does not necessarily generate the largest long-term economic contributions:

- The largest investment is captured within the mining sector;
- Investment in the rubber sector generates the largest GDP multiplier effect;
- In terms of the jobs created and tax revenue generated through the investment, the food sector has the largest job and tax multipliers; and
- The sector that generates the largest production from the investment is the transport equipment sector. This sector will also generate the most long-term economic benefit across all three performance indicators (GDP, employment and tax).

From our analysis, we see that the continued investment in South Africa would assist in reducing unemployment, poverty and improve people's lives, which, in turn, would also support long-term economic growth. This aligns with President Ramaphosa's State of the Nation Address (SONA) 2018 in which he promised to use investment, among other levers, to address the country's challenges of poverty and inequality.

However, this analysis is based on the assumption that all investment pledges, amounting to R284.6 billion, are translated into real investments, as the estimated economic contributions will be proportionate to the investment made. The challenge for South Africa is to ensure that the already-listed factors that influence investment are addressed. Investment pledges will only translate into actual investments if a supportive business environment, policy certainty and political stability are in place. These too were pledges of SONA 2018.

The well-attended Investment Summit was a showcase of South Africa's attributes, and a place of conversation about how the country had progressed over the preceding eight months on the policy and political front. The R284.6 billion in investment pledges assessed here are testament to the perceived improvement in the local investment climate and the optimism around South Africa heading into 2019.

Strategy& Economics

PwC's Strategy& Economics team is made up of economic, regulatory and political risk analysts who have extensive experience and knowledge across a range of sectors and African market areas. We offer a range of comprehensive and integrated client offerings, including economic and regulatory impact assessments, market entry analyses, IFRS 9 reporting, behavioural economic interventions and Bayesian network modelling as well as economic and political scenario planning.

Strategy& is PwC's integrated strategy consulting offering, focussed on uniting strategy and execution to deliver immediate impact and lasting value.

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