

## SA's 'image problem' scares investors away

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The latest Unctad (United Nations Conference on Trade and Development) World Investment Report has found SA lags in attracting foreign direct investment (FDI), trailing even the conflict-ridden economies of Libya and Sudan. Analysts attributed the decline of SA's attractiveness as an investment destination to the "image problem" of a political culture that is perceived to be hostile to foreign investment. The good news is that this year's First-quarter FDI numbers already amount to half of the entire 2010 inflow, according to Reserve Bank data.

The UN report found SA has dropped to 10th-largest recipient of FDI inflows into Africa. FDI declined 68% from \$5-billion in 2009 to \$1.6-billion in 2010. Angola, Egypt, Nigeria, Libya, the Democratic Republic of the Congo, Ghana, Algeria and Sudan all receive more FDI than SA. However, the country still dominates the subregion of southern Africa in terms of attracting FDI. Flows into Africa came in at \$55-billion which is 12% less than in 2009. SA is far less dependent on DTI for its growth than its African peers; it is able to fund most of its capital expenditure from internal savings. The report says the \$1.6-billion worth of funds that flowed into SA as FDI constituted 1.9% of gross capital formation (the amount spent on maintenance and expansion of infrastructure and other capital goods). This compares with an African average of 15.9% and a developing country average of 9.6%. Professor Stephen Gelb of the University of Johannesburg's Edge Institute said the key impediment to increased FDI inflows was the "perception gap" between the commercial reality on the ground and the risks supposedly attached to investing in Africa.

Thus although Africa might offer the most lucrative business opportunities, once these were adjusted for risks they were not sufficient to bring significant investment. "The returns in Africa are very high, but once you adjust for risk they're not as significant," said Gelb. He said most FDI in SA was in the form of foreign companies merging with or acquiring local firms and not necessarily as a result of greenfield investments. Thus the massive decline in FM could be as a result of the dearth of merger and acquisition activity in 2010. Gelb said the decline was cyclical, not structural, since the Walmart/Massmart acquisition alone surpassed last year's entire FDI inflow. Lyal White, head of dynamic markets at the [Gordon Institute of Business Science \(GIBS\)](#), said the numbers represented a trend of long-term relative decline for SA's economy compared with other dynamic markets. "SA is a relatively mature market by African standards. The numbers are affected by large once-off investments such as Barclays' acquisition of a majority stake in Absa, thus the numbers don't always give a fully accurate picture," he said. Eckart Naumann, an independent economist and an associate of the Trade and Law Centre of Southern Africa, said: "Investors no longer look at a single economy when they make their decisions, but at the broader regional market. It is perceptions that matter and not necessarily the reality on the ground."

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Stuur Terugvoer