

Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

Vol. 31 - South Africa

Part 2 (Lifestyle/Economy/Industry)

April 11, 2017

In the previous part 1 of the report on South Africa I gave an overview of the country and discussed some lifestyle features and politics. This time, in part 2, I will again introduce some lifestyle features as well as focus on the economy and industry.

First let's look at South African cuisine. A representative staple for meals is "pap", which is a dough-like food kneaded from maize flour using hot water. Pap is often eaten with either a stew-like meat dish or with sautéed meats, which is also common among many other African countries (picture 1).



Picture 1: Pap and a meat stew

There is also cuisine that is characteristic of and unique to certain regions in South Africa. For example, in Durban, which is how to many Indian immigrants, various curries are prominent, while the town of Knysna, in Western Cape Province is famous for its oysters. There is also "peri peri chicken" (also called piri piri) cooked with a special spicy sauce (using the piri piri chili pepper), which is itself a novel South African dish

In the cities, you can find a great deal of English food influence with lots of steak and fish and chip places, as well as a wide variety of other cuisine to choose from: seafood, Italian, Chinese, Korean, Japanese and many other ethnic restaurants (note 1). You can also find such American fast food establishments as McDonalds, KFC, Starbucks and Krispy Kreme Donuts (note 2) as well as such South African fast food places like Steers (hamburgers), MUGG & BEAN (coffee cafe), and Nando's (peri peri chicken). So, you have quite diverse dining and eating-out choices.

When asking Japanese who have stayed in South Africa what they recommend to eat, they often say, "steak and wine". In South Africa, the steaks are so thick you can hardly finish them. This kind of mature, thick beef is popular in Japan too, but will cost you more than 2,000 yen. And, as many of you know the area around South Africa's Cape Town is one the world's foremost wine producing regions, and for just 1,000 yen you can get a really outstanding bottle of wine (note 3). Just this



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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.

past weekend, family and friends gathered for a barbecue (in South Africa they call it a “braai”) in the garden taking in the scenery while enjoying South African wine and thick beef. You see steak and wine are an integral part of South African culture (table 1) (picture 2).

Table 1: World Wine Production

	(100 liters)	(%)
Italy	48,800	18.8
France	41,900	16.1
Spain	37,800	14.6
U.S	22,500	8.7
Australia	12,500	4.8
China	11,500	4.4
Chile	10,100	3.9
South Africa	9,100	3.5
Argentina	8,800	3.4
Germany	8,400	3.2
Russia	6,980	2.7
Portugal	5,600	2.2
Rumania	4,900	1.9
New Zealand	3,100	1.2
Hungary	2,700	1.0
World Total	259,500	100

Source: OIV, October 2016



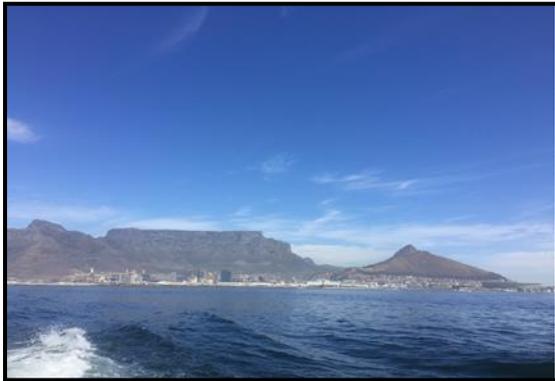
Picture 2: We often have “braais” in the garden (backyard)

As for the tourist industry, South Africa has many tourism resources. For those who hear the word Africa and animals immediately come to mind, the (wild) game drive (safari) in Kruger National Park (near the Mozambique border) is highly recommended. Also, you can experience a very authentic game drive just a two hour drive from Johannesburg at the Pilanesberg National Park. These are among a number of other national parks where you can easily observe animals first hand (picture 3)



Picture 3: Parent and child rhinoceroses (Kruger National Park)

Around Cape Town there are such tourist and world heritage sites as Table Mountain, Robben Island (Nelson Mandela was imprisoned on the island for 18 years), and the Cape of Good Hope as well as many wineries for wine loving gourmets. In addition, there is whale watching in the sea-side town of Hermanus, surfing in Jeffries Bay, the scenic Drakensberg Mountains, and the desert flowers of Namaqualand that bloom once a year, with resorts in these areas filled with tourists. Also with such a good climate, golfing, tennis, running, cycling and various other outdoor activities are a popular way to spend leisure time (pictures 4 and 5).



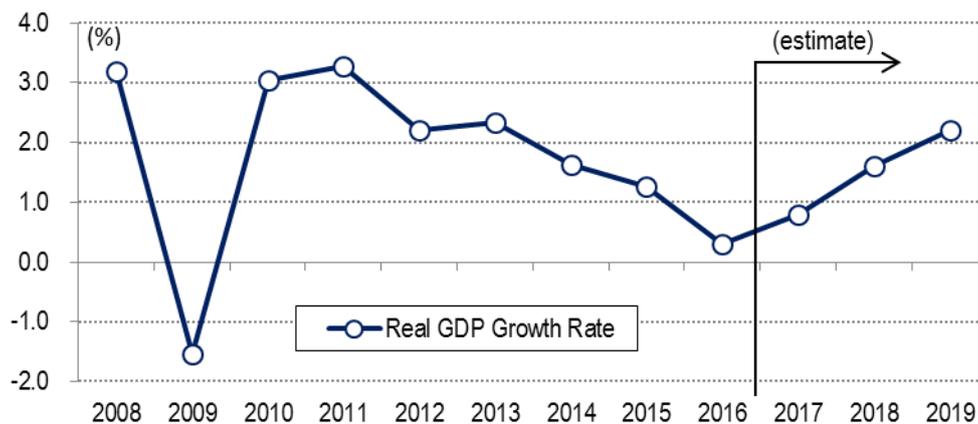
Picture 4: Cape Town/Table Mountain are must see when visiting South Africa



Picture 5: The Stellenbosch wine area is enchanting

Next I would like to touch upon South Africa's economy. Up until 2013 South Africa boasted the largest economy in sub-Saharan Africa (it is now the second largest), at which time it was surpassed by Nigeria as a result of Nigeria revising its GDP calculation standards, and there is no question that it is by far the country with the most modernized industries in sub-Saharan Africa. On the other hand, as mentioned before, South Africa's economy has remained in the doldrums for some time. The African economies began to gain notice in the 2000s with the South African economy averaging 4.2% annual growth between 2000 and 2008. However, from 2010 the average annual growth rate has fallen to the 2% level with 2016 being particularly anemic with a growth rate of only 0.3%, well below the potential growth rate of 1% (graph 1)

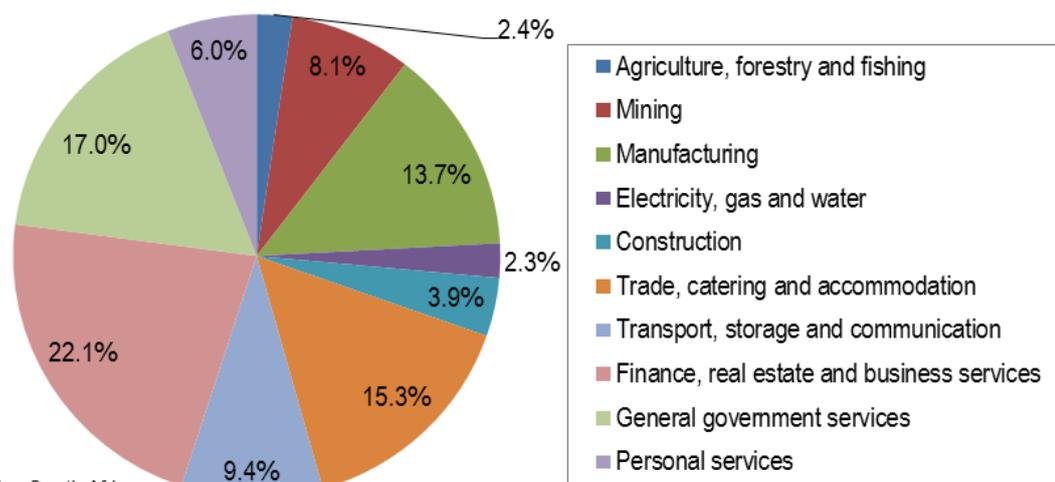
Graph 1: Real GDP Growth Rate



Source: IMF

In terms of the composition of South Africa's GDP, primary industry (agriculture forestry and fisheries, mining) comprises 10%, secondary industry (manufacturing, utilities, construction) makes up about 20%, while tertiary industry (services and others) encompasses 70% (graph 2).

Graph 2: South Africa's GDP Composition by Industry (2016, real basis)



Source: Statistics South Africa

Looking at exports, such metals and minerals as coal, iron ore, chrome and magnesium and precious metals like gold, platinum and diamonds make up 40% of South Africa's total exports. China ranks number one as a destination for South Africa's exports followed by Germany, the U.S. and Botswana and Namibia which are in the same economic zone as South Africa (tables 2 and 3).

Table 2: South African Exports by Item (2016)

	(100 million rand)	(%)
Mineral products	2,238	20.4
Precious metals	1,826	16.6
Vehicles aircraft and vessels	1,478	13.5
Iron and steel products	1,340	12.2
Machinery	1,028	9.4
Chemicals	675	6.1
Vegetables	603	5.5
Prepared foodstuffs	490	4.5
Plastics and rubber	239	2.2
Wood pulp and paper	231	2.1
Other	836	7.6
Total	10,984	100

Source: South African Revenue Service

Table 3: Main Export Destinations (2016)

	(100 million rand)	(%)
China	1,012	9.2
Germany	827	7.5
United States	806	7.3
Botswana	546	5.0
Namibia	519	4.7
Japan	508	4.6
India	474	4.3
United Kingdom	465	4.2
Belgium	337	3.1
Mozambique	333	3.0
Other	5,157	47.0
Total	10,984	100

1R=8.65 ¥=\$0.078(3/27)

As background to the slumping growth of recent years under this economic structure are such factors as the political turmoil introduced in Part 1, the fall in resource prices and production levels due the decline in overseas demand, the rise in labor disputes, sluggish manufacturing as result of power shortages and a decrease in agricultural production on account of droughts.

The decline in resource prices has had a direct impact on the South African economy where the ratio of resource-related exports is high. This has led to a deterioration in the profits of mining companies inducing restructuring which in turn has driven numerous labor disputes in the mining industry in particular (other industries are also suffering from labor disputes), causing a vicious circle in which production activity actually ceases (note 4). Although recently there has been some improvement in addressing electric power shortages, it still causes great disruption in daily living and can be fatal to the manufacturing industry, as the unstable supply of electricity obviously acts as a hindrance overall to companies' production activity. As South Africa's manufacturing industry is more highly developed than that of other African countries, power shortages are a major bottleneck in South Africa's economic development

Also, higher food prices due to depressed agricultural production, the depreciation of the rand and the rise in prices for imports have all come together to negatively affect consumption creating a roadblock on the path to an improved South African economy. Furthermore, the government's Black Economic Empowerment (BEE) policy, or black citizen preference policy, has also been a drag on the South African economy (note 5). Following apartheid, a system was introduced to increase the economic power of the black majority. However, it has at times acted as a stumbling block to the progress of rational business economics and a barrier to the entry of foreign capital so essential to economic vitalization.

Although the South African economy has been facing these various headwinds, according to the IMF's forecast the South African economy should moderately pick up in 2017 on the back of a recovery in the world economy. With resource prices recovering in comparison with the recent past and concern over the fall in the rand having subsided, there are some signs of positive sentiment appearing. The overall impression is that the downturn in the South African economy has hit bottom (note 6).

Lastly, let's look at the business opportunities in South Africa. I'll start with the conclusion. With one of the largest populations and per capita incomes in sub-Saharan Africa, South Africa is a very attractive market. Certainly, in looking at South Africa individually, the economy has reached a fairly mature level and it faces the roadblocks described above, however, from the perspective of sub-Saharan Africa, South Africa is doubtlessly a very important country with infrastructure and legal systems already in place and a large market and production base that allows it to serve as a gateway for the entire region.

In fact, there are now nearly 200 Japanese companies operating from bases in South Africa, including trading companies, manufacturers (autos, construction machinery, household appliances, heavy machinery), media companies, mega-banks and insurance companies, among others. In addition, Japanese expatriates have been dispatched to U.S. and European financial institutions to form "Japan Desks" aimed at supporting Japanese companies in South Africa.

Of course, not only are there Japanese companies, there are many U.S. and European companies in the country listed on both the Johannesburg Stock Exchange and the London Stock Exchange as the highly developed financial infrastructure in South Africa is far ahead of the rest of sub-Saharan Africa, so that "business in Africa" really means first setting up in South Africa.

Under these circumstances, Marubeni has established 3 units in South Africa; the Regional COO for Africa (AFR), the Johannesburg Branch (JHB), and the Sub-Saharan Africa Desk (SSD). The Regional COO for Africa is responsible for the entire Africa region, the Johannesburg Branch focuses on business in South Africa and the southern Africa region, while the Sub-Saharan Desk looks to develop new business in the sub-Saharan Africa region.

Also, we have such subsidiary companies as MarPless Communication Technologies that created and maintains the national citizen ID system of South Africa using fingerprint authentication technology and Marubeni Middle-East & Africa Power Limited, Johannesburg Branch, which develops power projects in South Africa (note 7). From fiscal 2017 the number of expatriates in South Africa have been increased by 6 bringing the total to 23. As one of the largest trading companies, we are focused on disseminating information and cultivating new business, so we encourage everyone to take advantage of us and consider looking at potential new business in South Africa

Visiting from Japan be prepared for a long trip of about 20 hours. There are many flight route options; via the Middle East (Dubai, Qatar, Abu Dhabi) or via Asia (Singapore, Hong Kong) and so on. South Africa will not fit the general image of "Africa", as it has a different taste and feel with a strong presence as the business hub of Africa. I assure you, if you come to South Africa it will not disappoint.

Although you need to be vigilant about safety and security, if you come and stay for about one week the good weather and inexpensive will be enough to charm you. (I've been here 3 years and don't really want to return to Japan!) I will be returning to our Research Institute in Japan in April and my successor will continue with the reports on sub-Saharan Africa. So, now that I have to return to Japan after 3 years I just want to say thank you to everybody! Hamba Kahle! Totsiens! (note 8)

Note 1: *Almost none of our expatriates eat "pap" on a daily basis. Japanese food is popular in South Africa so you see a lot of signs like "so-and-so Sushi". However, in Johannesburg there are probably only 2 or 3 Japanese restaurants actually run by Japanese and only 1 or 2 in Cape Town (there is a certain Japanese restaurant in Cape Town where the fresh tuna and tempura rice bowl are exquisite as it is near the sea).*

Note 2: *Both Starbucks and Krispy Kreme opened their first stores in 2016.*

Note 3: *You rarely see expensive, luxury European or U.S. wine in the liquor shops. Regarding red wine, the "pinotage" vintage, which is native to South Africa, is very famous in red wine circles. On the other hand, it is popular to drink white wine with ice in South Africa, which makes the wine go down smoothly and hard to stop drinking it.*

Note 4: *In August of 2012, the Marikana platinum mine incident occurred in which police shot and killed a large number of protesters (strikers) who had been gathering over a dispute between labor and management at the mine. The incident became a serious political problem. In 2014, a 5-month strike at the same mine occurred over higher wages and was a factor in South Africa's negative economic growth that year.*

Note 5: *Government ministries, public-owned enterprises and other public entities have to comply with BEE affiliated rules and regulations related to the preferential treatment of South Africa's black citizens. In procurement, licensing, public-private partnerships, and the sale of state-owned assets or state-owned businesses, companies with high BEE scores based on such criteria as corporate ownership, employment and skill development are given priority.*

Note 6: *However, most recently on March 31st President Zuma reshuffled his cabinet including the dismissal of his finance minister, which the markets reacted to negatively sending the rand downward again. S&P lowered South Africa's*

long-term foreign currency bonds (4/3, BBB- → BB+) and downgraded its credit rating to junk status, reigniting political turmoil and placing a heavy burden on the economy.

Note 7: *Recently Marubeni was selected as the preferred bidder in a coal-fired power plant (630MW) under an IPP scheme in South Africa, and also signed a power purchasing agreement for a coal-fired power plant (300MW) in Botswana on an IPP basis.*

Note 8: *These words mean goodbye in the Zulu language and in the Afrikaans language. When you depart a South African Airways (South Africa's national airline) flight, the flight attendants will use these words to see you off.*

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