



FDI Inflows from Different Regions into the Western Cape

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1. Introduction

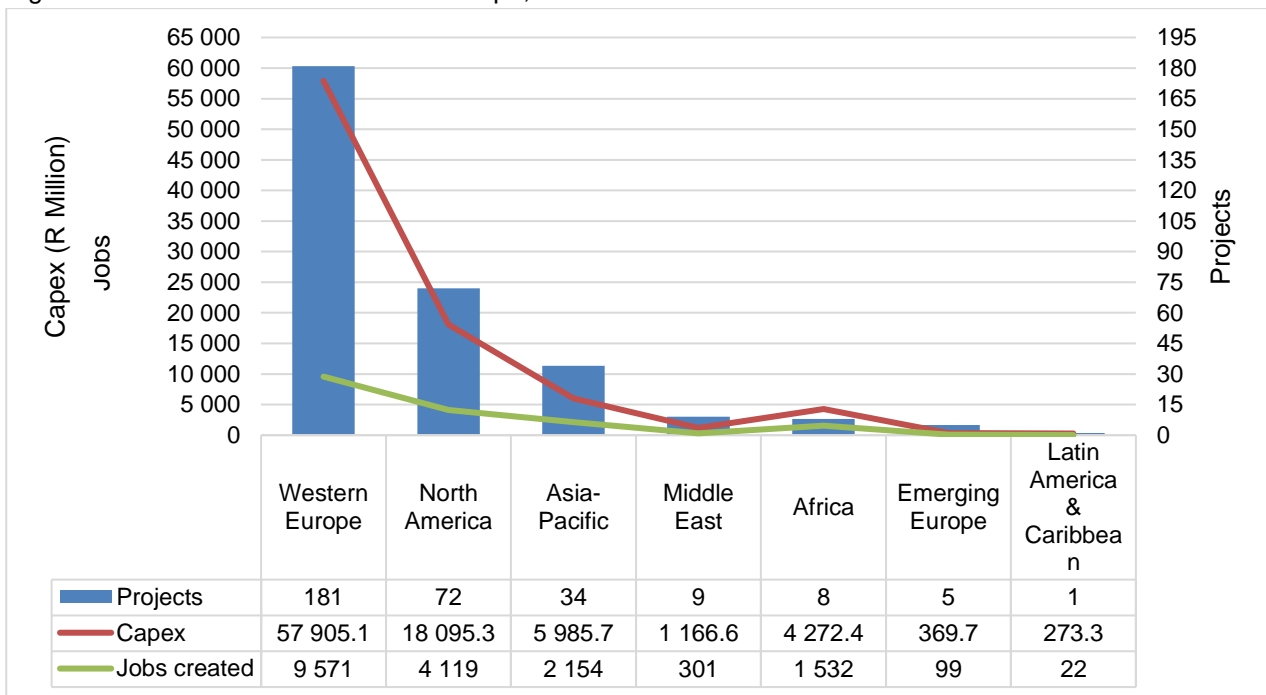
Foreign direct investment (FDI) is regarded as a major catalyst to economic growth and development within an open economy. When appropriate policies are put in place, FDI can contribute to higher economic growth through technology spillovers and the creation of a more competitive business environment. Since it is becoming increasingly competitive to attract inward FDI, it is expedient for the Western Cape to create a transparent and enabling policy environment to help attract and retain investment into the province.

The objective of this paper is to analyse the inflow of FDI from the different regions of the world into the Western Cape between 2010 and 2020.

2. An overview of inward FDI into the Western Cape

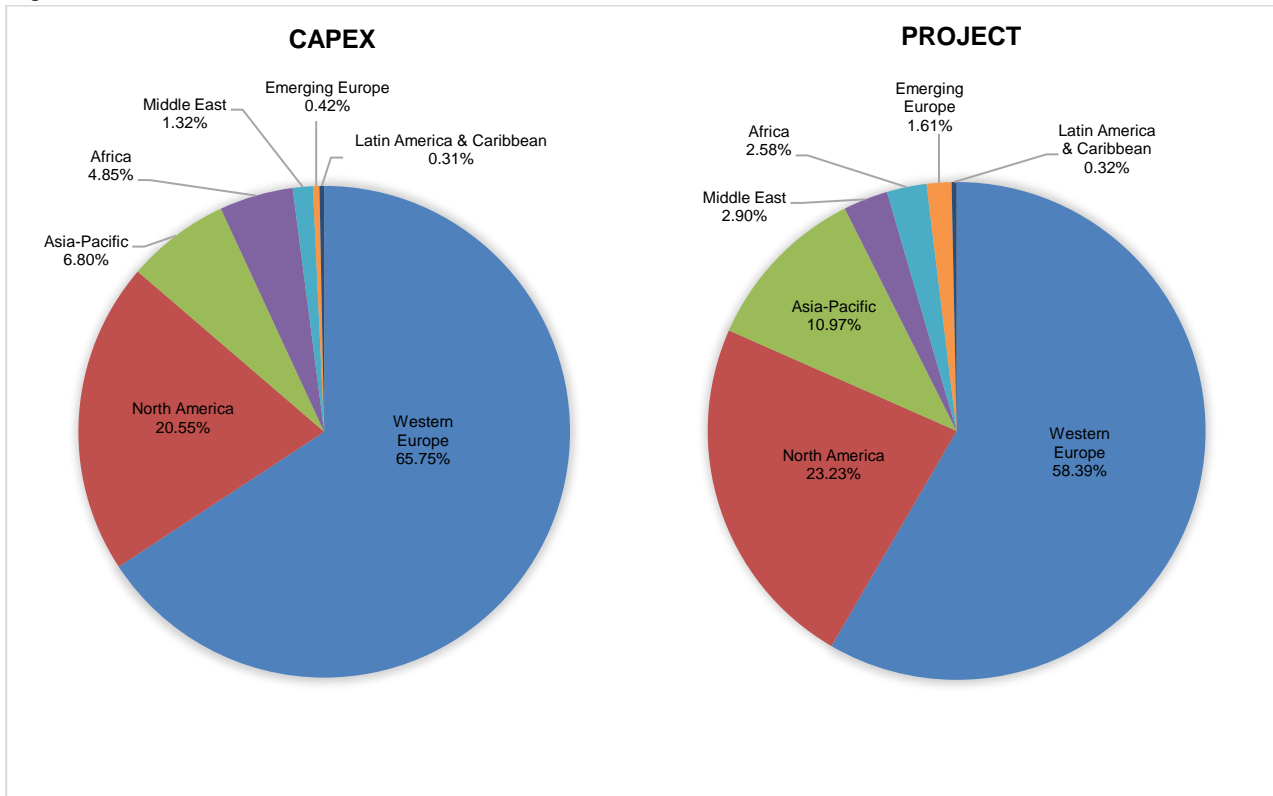
In the last decade, the Western Cape has secured the second highest number of inward FDI projects among the nine provinces of South Africa. Although FDI received by the province, between 2010 and 2020, came from various corners of the world, Western Europe was the biggest contributor to FDI into the Western Cape in terms of both capital expenditure (R57.9 billion or 65.8% of the total capex into the province) and the number of projects (181 projects or 58.4% of the total number of FDI projects). Moreover, investment from Western Europe during this period created 9 571 jobs. During the same period, significant contributions to the province's inward FDI have come from North America (21% in terms of capex and 23% in terms of FDI projects) and the Asia-Pacific region (7% of capex and 11% of FDI projects).

Figure 1: FDI inflows into the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

Figure 2: Share of FDI, 2010-2020

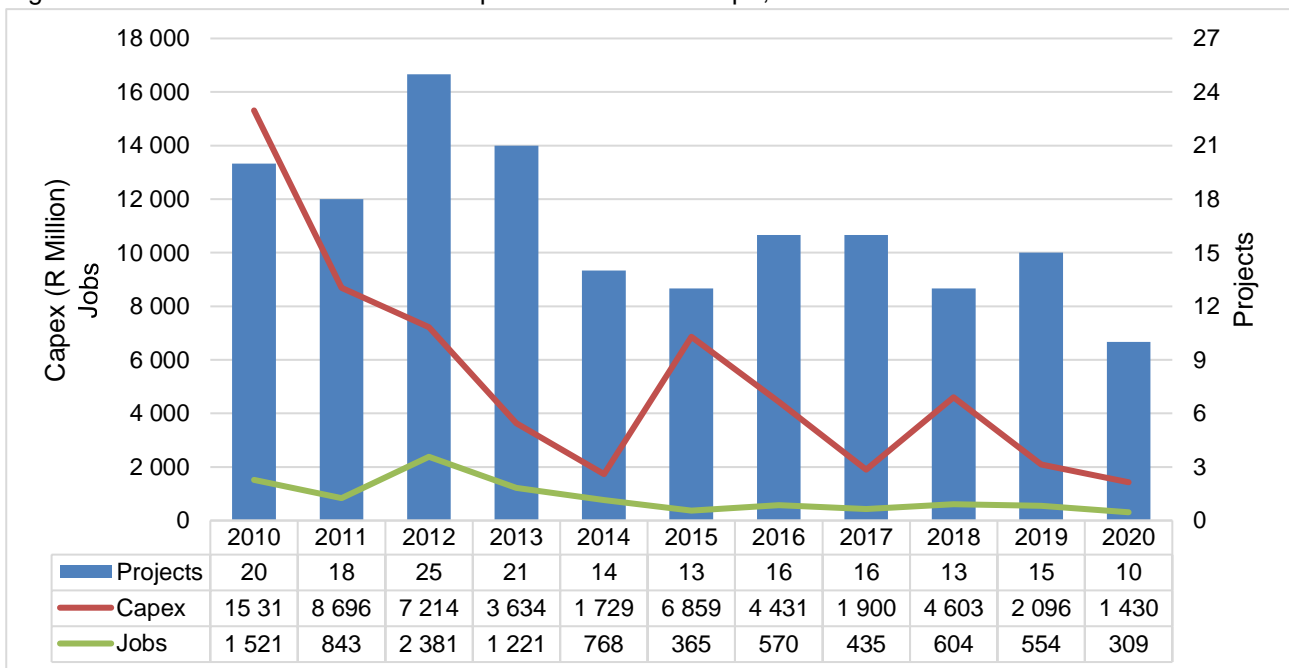


Source: FDI Intelligence, 2021

2.1 Western Europe

While the region was the highest contributor to inward FDI in the province between 2010 and 2020, that contribution has generally followed a downward trend since 2010 as shown in Figure 3. The highest number of FDI projects originating from Western Europe to the Western Cape, during the period under review, was recorded in 2012 whereas the lowest was in 2020.

Figure 3: Inward FDI from Western Europe to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

When breaking down the data by countries, the United Kingdom is the biggest contributor to both FDI capex and projects. This was predictable as FDI flows from traditional investors are partially driven by strong historical relationships. Interestingly, France has the second highest capital expenditure in the last decade, R1.8 billion more than Germany, R7.1 billion more than the Netherlands and R8 billion more than Switzerland. However, the latter countries had a higher number of FDI projects, with Germany's being double the number of FDI projects by France in the same period. This suggests that France capital expenditure per project is higher than Germany's.

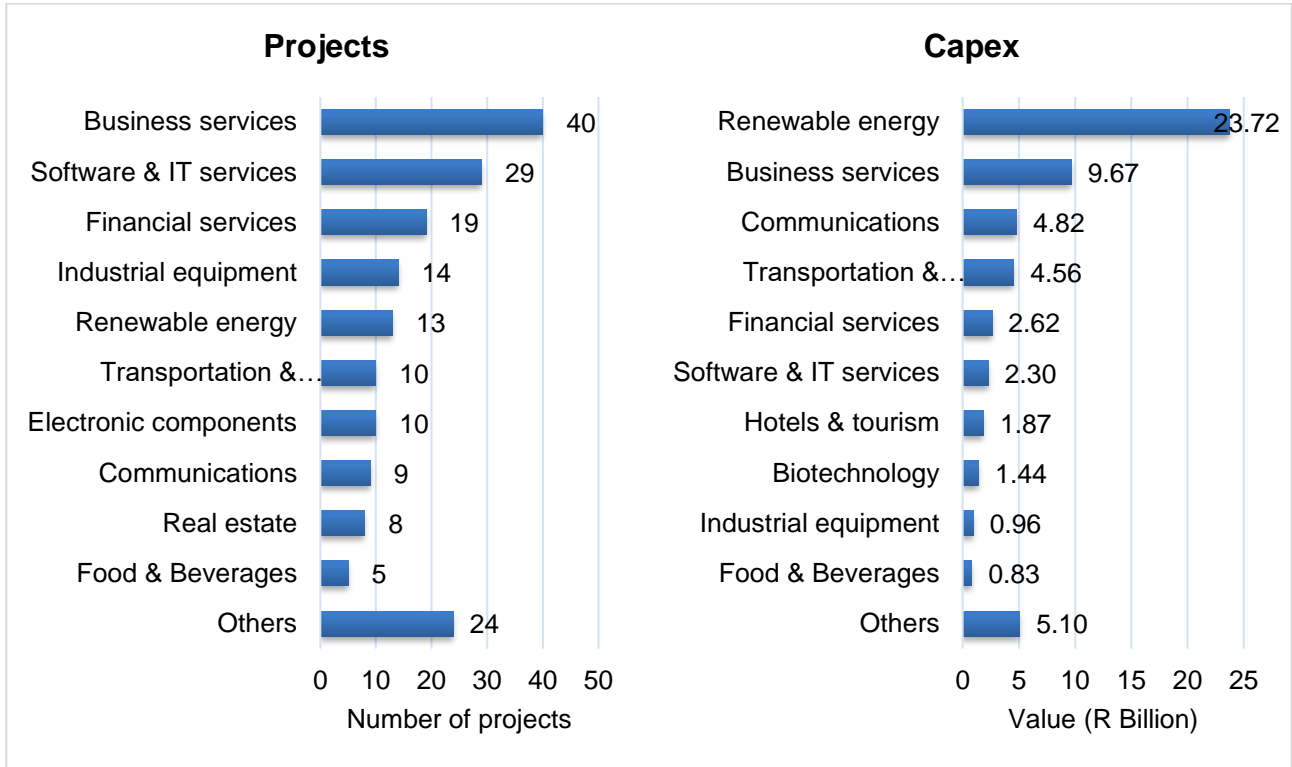
Table 1: Western European countries investing in the Western Cape, 2010-2020

By Projects				By Capex			
Rank	Source Country	No. of projects	Share	Rank	Source Country	Capex (R Billion)	Share
1	United Kingdom	81	44.75%	1	United Kingdom	17.31	29.89%
2	Germany	24	13.26%	2	France	9.93	17.16%
3	Switzerland	15	8.29%	3	Germany	8.14	14.06%
4	Netherlands	14	7.73%	4	Italy	7.49	12.94%
5	France	12	6.63%	5	Spain	3.76	6.49%
6	Spain	7	3.87%	6	Ireland	3.37	5.82%
7	Ireland	6	3.31%	7	Netherlands	2.79	4.82%
8	Italy	6	3.31%	8	Belgium	1.98	3.43%
9	Denmark	5	2.76%	9	Switzerland	1.96	3.38%
10	Belgium	3	1.66%	10	Denmark	0.56	0.97%
11	Norway	3	1.66%	11	Norway	0.28	0.48%
12	Austria	1	0.55%	12	Portugal	0.15	0.26%
13	Finland	1	0.55%	13	Sweden	0.07	0.12%
14	Luxembourg	1	0.55%	14	Austria	0.04	0.07%
15	Portugal	1	0.55%	15	Finland	0.04	0.07%
16	Sweden	1	0.55%	16	Luxembourg	0.02	0.03%
	Total	181	100%		Total	57.91	100%

Source: FDI Intelligence, 2021

It is important to note that Western European countries investments in the Western Cape are mostly focused on projects in services sectors such as business; software and IT; financial; transportation and warehousing; and communication services. Similarly, the bulk of capital expenditure is recorded in the same services sectors including the hotel and tourism industry. Yet, 41 % (i.e. R23.7 billion) of total capital expenditure into the province between 2010 and 2020 is seen in the renewable energy sector.

Figure 4: Top 10 sectors of the Western Cape that Western European companies are investing in, 2010-2020

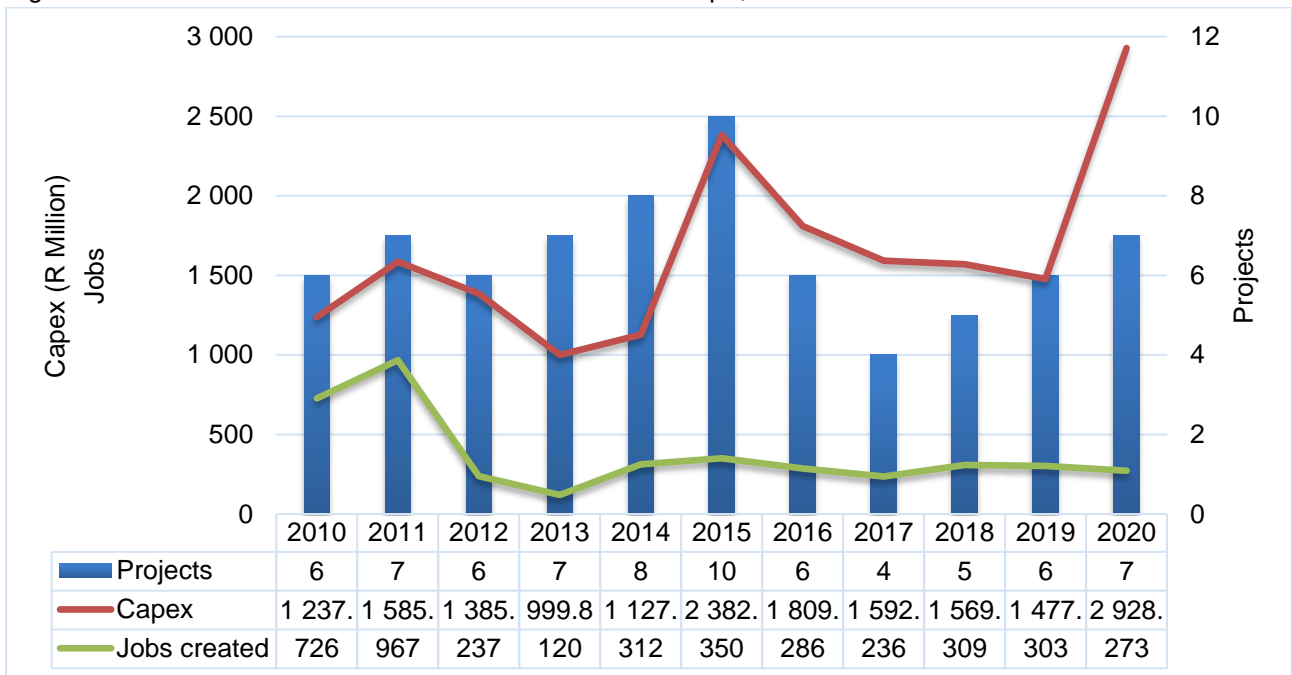


Source: FDI Intelligence, 2021

2.2 North America

North America, while being the second biggest investor into the province, has only invested less than one third of the amount invested by Western Europe between 2010 and 2020. Similar to Western Europe, yearly investment from the region has not been steady during the 2010-2020 period. It is, nonetheless, interesting to note that the highest level of capital expenditure was recorded in 2020, despite the worldwide health and socio-economic crisis engendered by the COVID-19 pandemic.

Figure 5: Inward FDI from North America to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

As can be observed in Table 2, only 2 North American countries, namely the United States (US) and Canada, have invested in the province in the last decade, with the former being the main investor with 88% of capital expenditure and 92% of FDI projects. This is not surprising given the fact that the United States is the largest investor on the African continent and has an estimated 600 companies in South Africa and more across the continent, including some of the largest American companies (Schneidman and Weigert, 2018). Nonetheless, it is argued that the US commercial impact on the continent should be more significant than it actually is. In fact, the US business model is generally welcomed across the continent because of the general practice of its companies to hire and promote locally, invest socially and reject corruption, among other practices. That is why the announcement of the US tech giant Google's R2.2 billion in investment funding into the Western Cape was applauded, as it promises to significantly contribute to job creation and the growth of local industries.

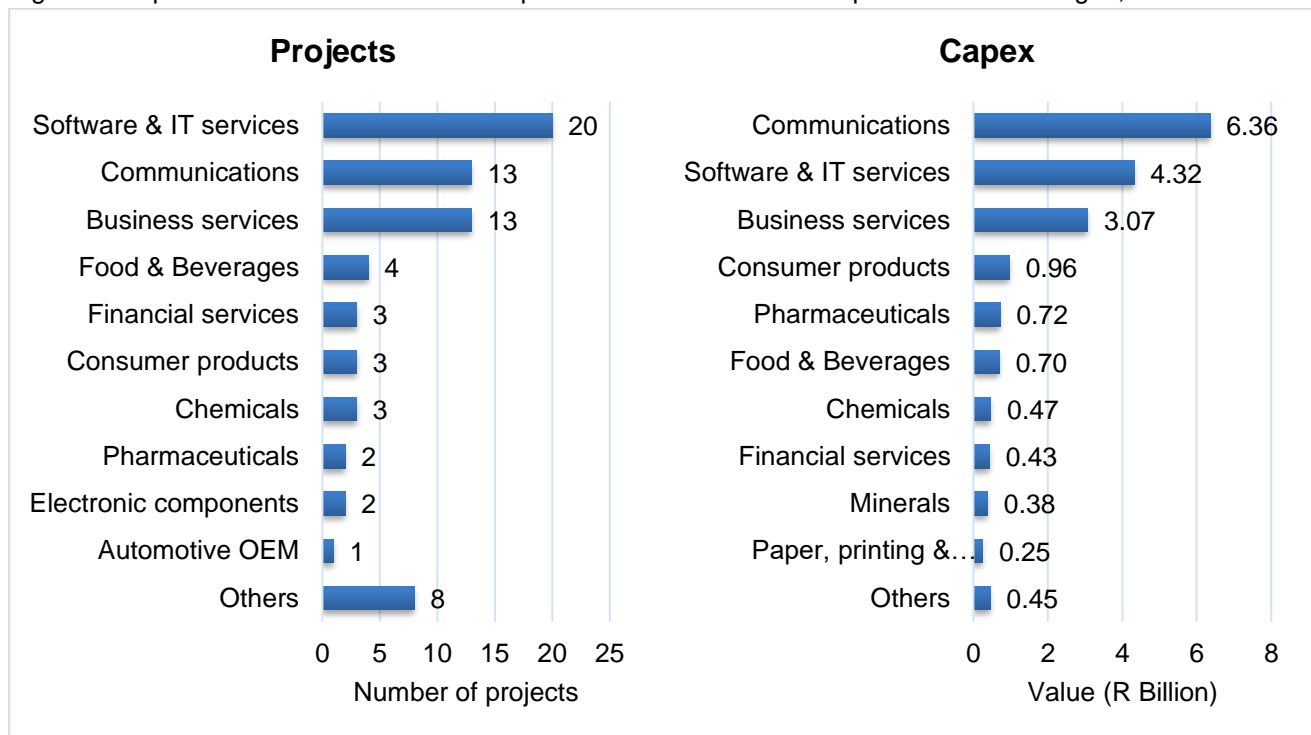
Table 2: North American countries investing in the Western Cape, 2010-2020

By Project				By Capex			
Rank	Source Country	No. of Projects	Share	Rank	Source Country	Capex (R Billion)	Share
1	United States	66	92%	1	United States	15.96	88%
2	Canada	6	8%	2	Canada	2.13	12%
	Total	72	100%		Total	18.10	100%

Source: FDI Intelligence, 2021

Just like the Western European companies, the bulk of North American companies' investments in the Western Cape in terms of number of projects as well as capital expenditure is in the services sector, with Software and IT, Communications, Business and Financial services being the industries of focus.

Figure 6: Top 10 sectors of the Western Cape that North American companies are investing in, 2010-2020

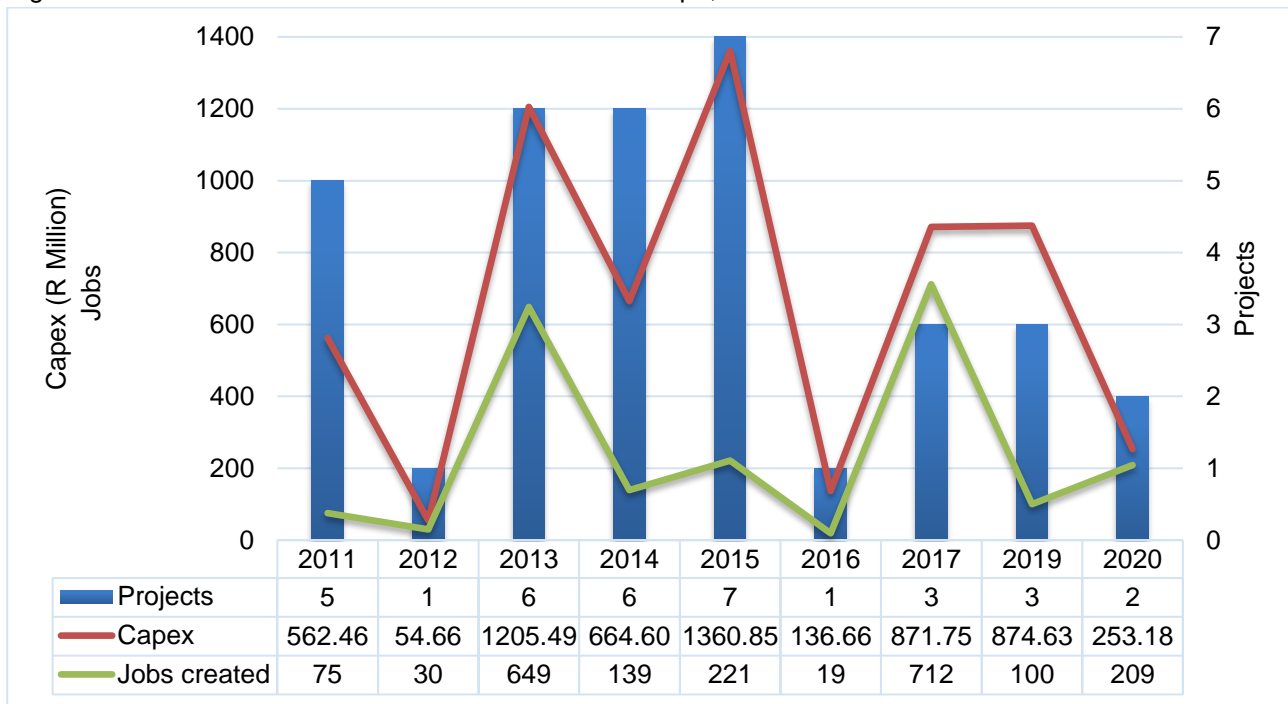


Source: FDI Intelligence, 2021

2.3 Asia-Pacific

Inward FDI flow from the Asia Pacific region has also not been stable over the last decade. Both the highest capex (R1.4 billion) and the highest number of projects (7) were recorded in 2015. Yet, the highest number of jobs created was in 2017 with a capital expenditure of only R871 million and 3 FDI projects.

Figure 7: Inward FDI from Asia-Pacific to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

Unsurprisingly the Asia-Pacific country with the largest investment in the Western Cape is China (Table 3). As the African continent’s largest creditor, accounting for 14 percent of sub-Saharan Africa’s total debt stock in 2018 (Schneidman and Weigert, 2018), what is surprising is China’s relatively low level of FDI inflow to Africa, which accounted for just over 5 percent of total FDI inflows into the region in 2015. India, which is among the emerging partners playing an increasing role in Africa, has only invested R450 million in 5 projects between 2010 and 2020.

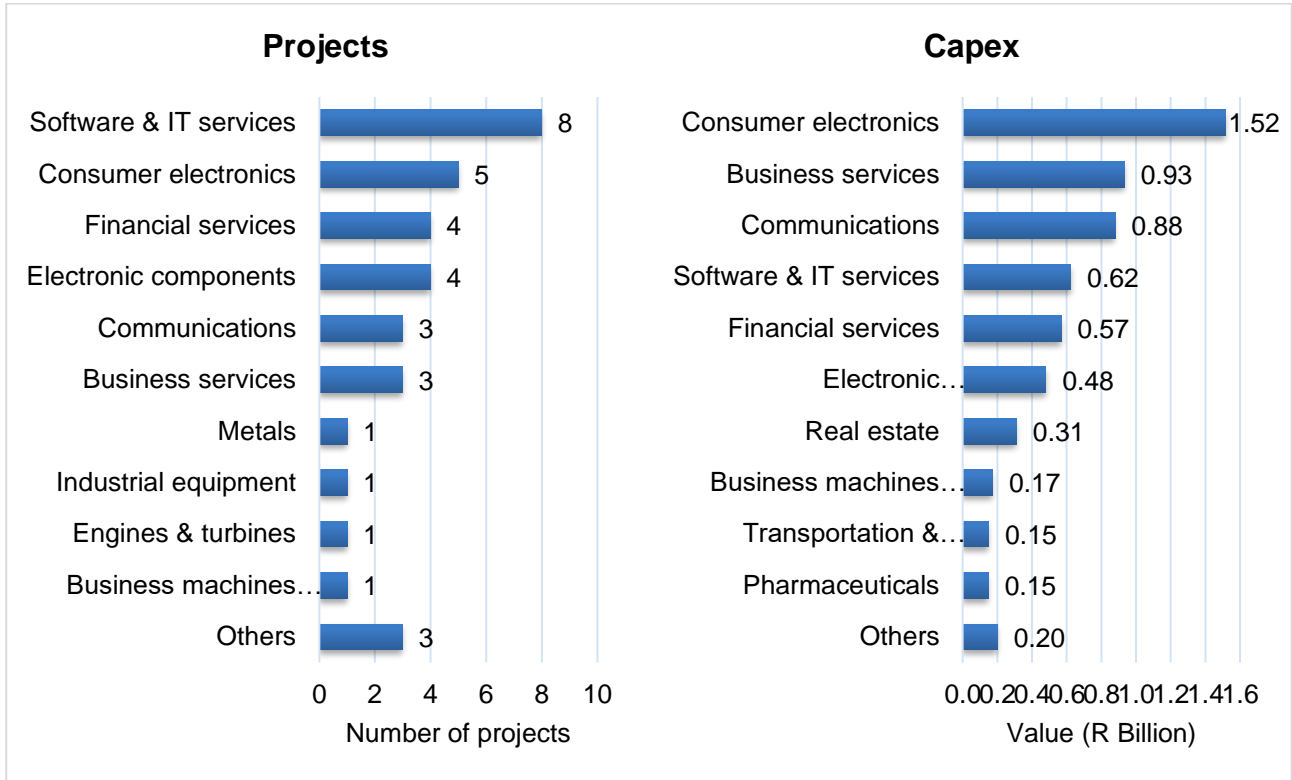
Table 3: Countries from the Asia-Pacific region investing in the Western Cape, 2010-2020

By Project				By Capex			
Rank	Source Country	Projects	Share	Rank	Source Country	Capex (Billion)	Share
1	China	16	47%	1	China	3.53	59%
2	India	5	15%	2	Hong Kong	0.73	12%
3	Australia	3	9%	3	India	0.45	7%
4	Hong Kong	3	9%	4	Singapore	0.35	6%
5	Singapore	2	6%	5	Australia	0.18	3%
6	Bangladesh	1	3%	6	South Korea	0.17	3%
7	Japan	1	3%	7	Thailand	0.15	3%
8	Malaysia	1	3%	8	Malaysia	0.15	2%
9	South Korea	1	3%	9	Bangladesh	0.14	2%
10	Thailand	1	3%	10	Japan	0.14	2%
	Total	34	100%		Total	5.99	100%

Source: FDI Intelligence, 2021

Again, the main sector receiving FDI inflow from the Asia-Pacific region is the services sector, with considerable capital investment in business; communications; software and IT; and financial services. These Western Cape services sub-sectors also received the bulk of FDI projects by Asia-Pacific companies in the last decade.

Figure 8: Top 10 sectors of the Western Cape that companies from Asia-Pacific are investing in, 2010-2020

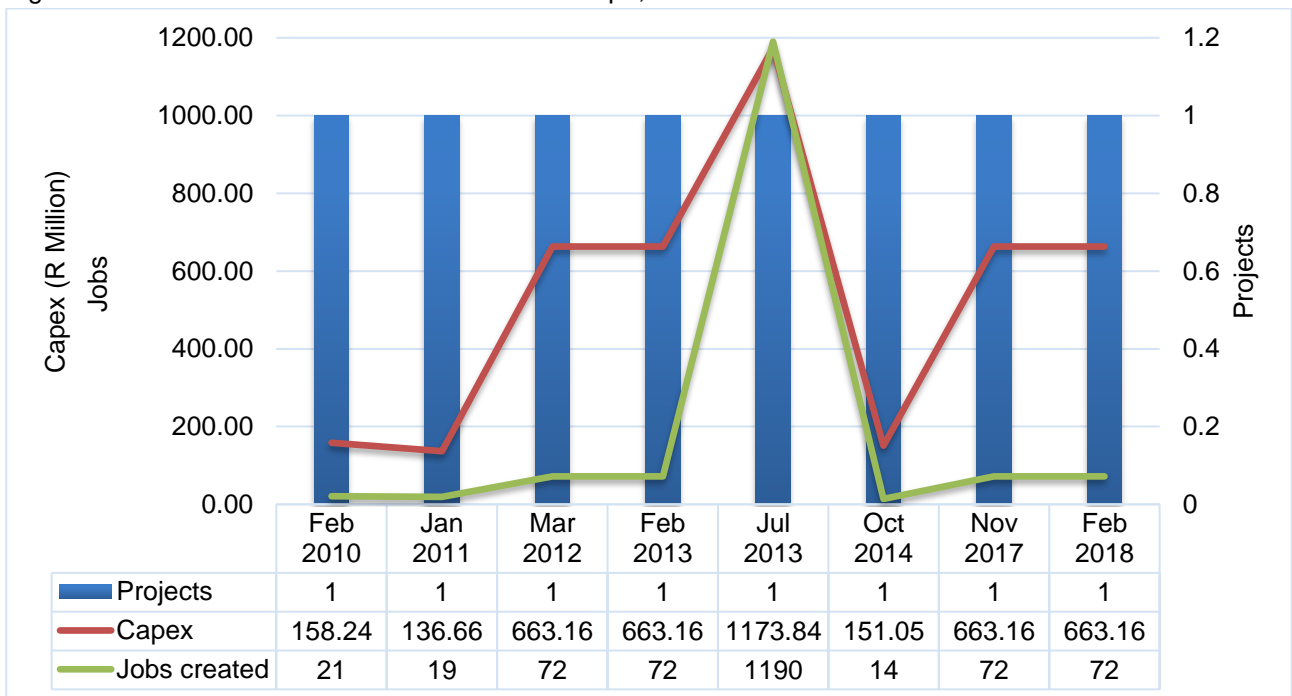


Source: FDI Intelligence, 2021

2.4 Africa

While South Africa remains the most extensive investor in other African countries, the reverse is not true as African countries' contributions to FDI inflows to South Africa has historically been relatively low. The Western Cape has similarly received very low FDI from African countries over the last decade. The largest value of investment into the province was made in 2013 by Botswana's Northern Textile Mills (Nortex) into the textiles industry. The project created 1190 jobs, the highest during the period under consideration.

Figure 9: Inward FDI from Africa to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

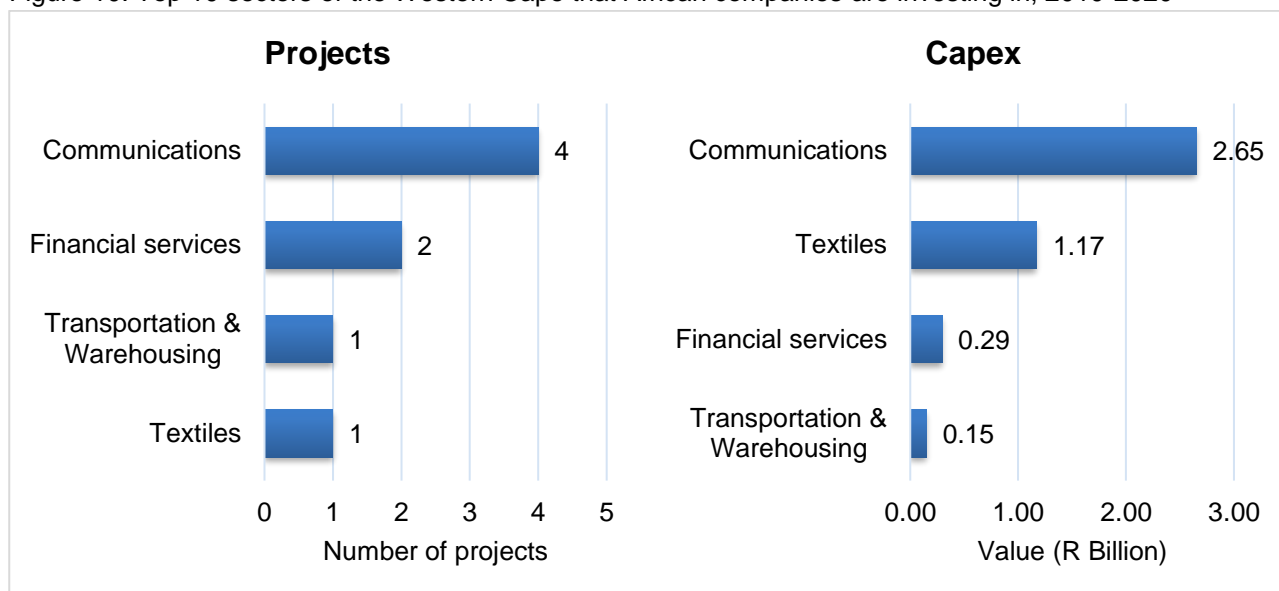
Only 5 African countries have invested in the Western Cape in the last decade. All but one of them are SADC Member States as shown in Table 4. The main sectors receiving capital investment from African countries are communication services, and textiles, while communications and financial services have seen the greatest number of projects between 2010 and 2020 (Figure 10).

Table 4: African countries investing in the Western Cape, 2010-2020

By Project				By Capex			
Rank	Source Country	Projects	Share	Rank	Source Country	Capex (R Billion)	Share
1	Botswana	2	25%	1	Namibia	1.33	31%
2	Mauritius	2	25%	2	Botswana	1.32	31%
3	Namibia	2	25%	3	Mauritius	0.82	19%
4	Angola	1	13%	4	Angola	0.66	16%
5	Ghana	1	13%	5	Ghana	0.14	3%
	Total	8	100%		Total	4.27	100%

Source: FDI Intelligence, 2021

Figure 10: Top 10 sectors of the Western Cape that African companies are investing in, 2010-2020

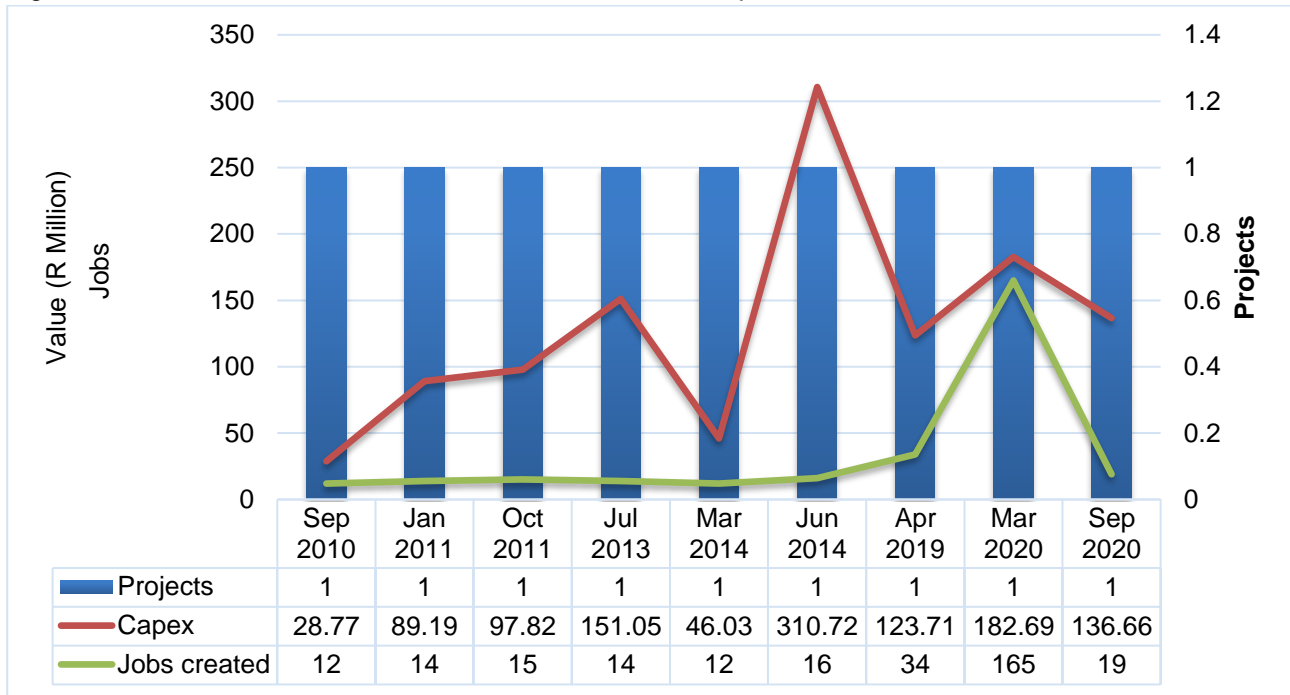


Source: FDI Intelligence, 2021

2.5 Middle East

The Middle East's FDI inflow to the Western Cape generally followed an upward trend between 2010 and 2013, with an increase of 980% in that period. In March 2020, the province received an investment of R182.7 million, which created 165 jobs, the highest number of jobs created from Middle Eastern FDI in the past decade.

Figure 11: Inward FDI from the Middle East to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

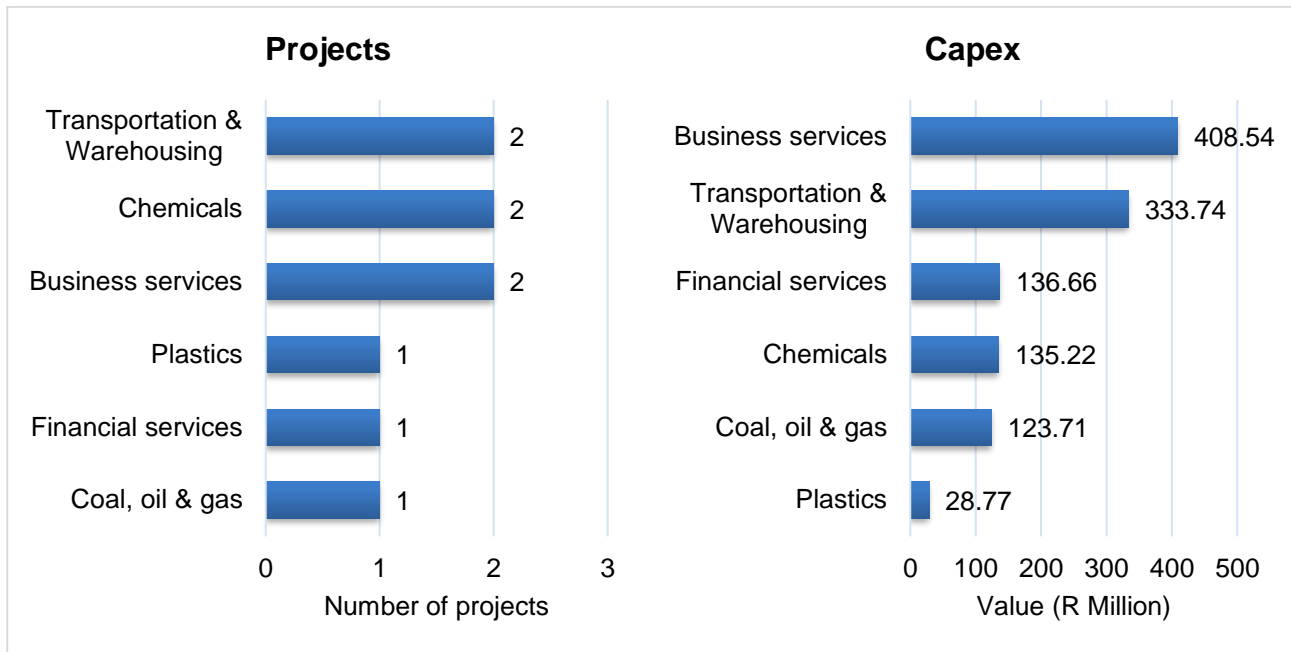
The UAE is the top contributor to FDI inflows from the Middle East to the province, with over R1 billion invested and 6 FDI projects undertaken in the last decades (Table 5). Most of the region’s capital investment and projects are in the business service; transportation and warehousing; financial services; and chemicals sectors as shown in Figure 12.

Table 5: Countries from the Middle East investing in the Western Cape, 2010-2020

By Project				By Capex			
Rank	Source Country	Projects	Share	Rank	Source Country	Capex (R Million)	Share
1	UAE	6	67%	1	UAE	1002.65	86%
2	Qatar	2	22%	2	Qatar	135.22	12%
3	Saudi Arabia	1	11%	3	Saudi Arabia	28.77	2%
	Total	9	100%		Total	1166.65	100%

Source: FDI Intelligence, 2021

Figure 12: Top 10 sectors of the Western Cape that companies from the Middle East are investing in, 2010-2020

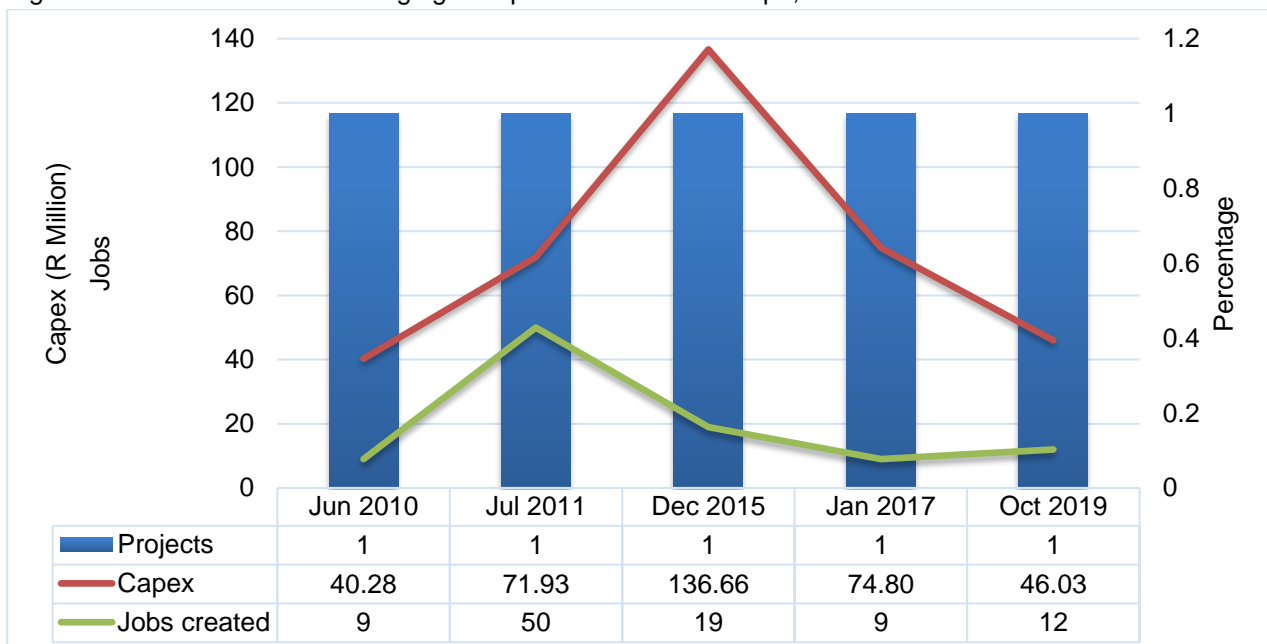


Source: FDI Intelligence, 2021

2.6 Emerging Europe

In the last decade, the flow of FDI from Emerging Europe into the Western Cape has been relatively low. The highest capital investment (i.e. R136.7 million) from the region, which created 19 jobs was received in December 2015. However, the highest number of jobs created through FDI from the region was recorded in July 2011, from a capital investment of R71.9 million (Figure 13).

Figure 13: Inward FDI from Emerging Europe to the Western Cape, 2010-2020



Source: FDI Intelligence, 2021

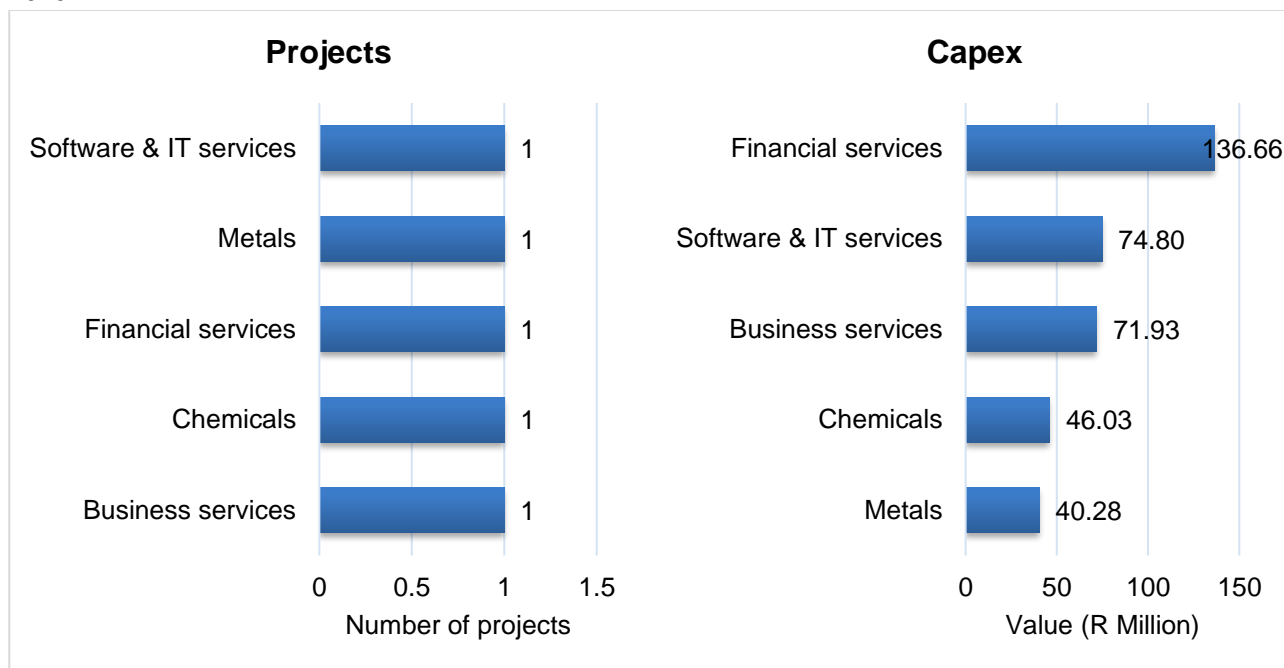
The only two Emerging European countries that have invested in the Western Cape in the last decade are Russia and Croatia (Table 6). A large share of capital investments from this region are in the services sector, with financial, software and IT as well as business services, receiving R283.4 million (i.e. approximately 77%) of the R369.7 million invested in the province by companies from Emerging Europe in the last decade (Figure 14).

Table 6: Countries from Emerging Europe investing in the Western Cape, 2010-2020

By Project				By Capex			
Rank	Source Country	Projects	Share	Rank	Source Country	Capex (R Million)	Share
1	Russia	4	80%	1	Russia	294.90	80%
2	Croatia	1	20%	2	Croatia	74.80	20%
	Total	5	100%		Total	369.70	100%

Source: FDI Intelligence, 2021

Figure 14: Top 10 sectors of the Western Cape that Emerging European companies are investing in, 2010-2020



Source: FDI Intelligence, 2021

2.7 Latin America and Caribbean

From the information in Table 7, it is safe to say that the Latin American and Caribbean region's investment interest in the Western Cape is practically non-existent. In the last decade, only 1 project with a capital expenditure of R273 million was recorded from Chile in the Food and Beverages industry.

Table 7: Inward FDI from Latin America and Caribbean to the Western Cape, 2010-2020

Month	Projects	Capex	Jobs created	Source Country	Sector
Feb 2012	1	273.32	22	Chile	Food and beverages
Total	1	273.32	22		

Source: FDI Intelligence, 2021

3. Conclusion

Historically, Western Europe has been the biggest contributor to inward FDI in the province with the United Kingdom spearheading the group. While emerging partners such as China, India and the UAE are ramping up their investment into the African continent, their entry into the Western Cape is still relatively timid. An interesting take away from this analysis is that most FDI inflows to the province from all regions of the world is directed to the services sectors in general, and particularly to the Software and IT, Communication, Business and Financial services. In fact, the notably significant past and upcoming investment in the Software and IT as well as Communication services, solidifies the province's brand of "Africa's Tech Capital". Notwithstanding that the high concentration of investment in those industries points to the need to diversify investment opportunities by opening up relatively untapped sectors in order to attract inward FDI from regions that have not been able to find their niche on the Western Cape scene up to this point.

Reference

Schneidman, W. and Wiegert, J. (2018). 'Competing in Africa: China, the European Union and the United States', *Africa in Focus* [Online]. Available at: <https://www.brookings.edu/blog/africa-in-focus/2018/04/16/competing-in-africa-china-the-european-union-and-the-united-states/#:~:text=As%20a%20result%2C%20China%20has,according%20to%20Foresight%20Africa%202018.>

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