

Wesgro Investment Strategy, 2017

1. Global

The world economy increased by 3.2% in 2016 and is expected to increase further to 3.6% in 2017 and 3.7% in 2018. Broad-based upward revisions in the euro area, Japan, emerging Asia, emerging Europe, and Russia more than offset downward revisions for the United States and the United Kingdom. But the recovery is not complete: while the baseline outlook is strengthening, growth remains weak in many countries (IMF, 2017). FDI is very closely linked to GDP and GDP growth prospects. The increase in global GDP growth should lead to an increase in FDI (FDI Intelligence, 2017).

In 2016, greenfield FDI continued to rise, with capital investment increasing by more than 6% to ZAR11trn, its highest since 2011, alongside an increase in job creation by 5% to 2.32 million. The number of FDI projects increased slightly by 1.8% to 15 754 in 2016. From 2017 to 2020, greenfield FDI is expected to slowly recover with annual growth of 3% to 5% per annum over this period.

Western Europe continued to be the main source region for global FDI making up 47% (United Kingdom, Germany, France and Switzerland being the top markets) from 2012 to 2016, followed by North America (23%). The top 10 markets account for 68% of all investments projects and seven of the markets are from the European Union. The United States was the largest source of FDI by projects accounting for 21% from 2012 to 2016 followed by the United Kingdom and Germany.

A significant development in 2016, was India becoming the leading global destination for capital investment valued at ZAR823bn. The rapid growth of greenfield FDI in India shows that while economic development organisations try to attract FDI for the contribution greenfield FDI can make to employment and GDP, FDI is strongly attracted to high-growth economies. Success breeds success and to attract high volumes of FDI, locations need to create the conditions for strong economic growth and development to take place (FDI Intelligence, 2017).

Another significant development in 2016, was China overtaking the United States to become the second biggest country for FDI by capital investment, recording ZAR818bn of announced FDI, compared with ZAR762bn-worth in the United States.

The matrix table below shows the top 20 global destination sectors that have attracted FDI between 2012 and 2016. The table demonstrates that the key sectors, among the top 20, attracting FDI by projects that have been growing over the five year period and have created the most jobs per project are: consumer products, real estate, textile, renewable energy, software and IT services and communications.

The matrix tables below, in all sections, show selected sectors in terms of the number of investment projects, growth and jobs. The indicators are as follows:

Orange: represents the largest top 20 sectors by investment projects. It also shows the sectors that are fastest growing between the period 2012 to 2016 and that have created the largest jobs per project on average over the period 2012 to 2016.

Grey: represents the sectors in the orange category that also appear among the largest sectors by capital expenditure.

TOP 20 Global Destination Sectors For FDI, 2012-2016								
Rank	Industry Sector	Projects (2012-2016)	Industry Sector	Avg Growth 2012-2016	Industry Sector	Avg Jobs Per Project (2012-2016)	Sector by Capex	Capex 2012-2016 (ZARbn)
1	Software & IT services	10 678	Space & Defence	17.71%	Real Estate	14.55%	Real Estate	6 334
2	Business Services	8 437	Non-Automotive Transport OEM	17.58%	Biotechnology	12.58%	Coal, Oil and Natural Gas	5 933
3	Textiles	6 961	Alternative/Renewable energy	16.11%	Consumer Products	9.36%	Alternative/Renewable energy	4 188
4	Financial Services	5 678	Rubber	12.15%	Wood Products	8.70%	Communications	3 094
5	Industrial Machinery, Equipment & Tools	4 710	Biotechnology	11.92%	Textiles	7.16%	Metals	2 386
6	Consumer Products	4 258	Textiles	11.75%	Space & Defence	6.29%	Automotive OEM	2 322
7	Communications	4 237	Wood Products	11.74%	Alternative/Renewable energy	6.09%	Financial Services	2 247
8	Food & Tobacco	3 642	Paper, Printing & Packaging	11.31%	Non-Automotive Transport OEM	5.15%	Chemicals	2 217
9	Transportation	3 393	Healthcare	10.92%	Leisure & Entertainment	4.05%	Transportation	1 943
10	Automotive Components	2 784	Real Estate	9.07%	Software & IT services	3.83%	Food & Tobacco	1 801
11	Chemicals	2 393	Ceramics & Glass	8.82%	Paper, Printing & Packaging	3.53%	Textiles	1 719
12	Real Estate	2 232	Leisure & Entertainment	8.52%	Healthcare	3.37%	Consumer Products	1 645
13	Electronic Components	2 050	Consumer Products	5.58%	Communications	3.33%	Software & IT services	1 613
14	Metals	1 897	Building & Construction Materials	5.04%	Building & Construction Materials	2.63%	Business Services	1 585
15	Plastics	1 458	Communications	5.02%	Aerospace	2.39%	Automotive Components	1 412
16	Alternative/Renewable energy	1 397	Medical Devices	4.37%	Automotive Components	1.56%	Hotels & Tourism	1 030
17	Automotive OEM	1 284	Software & IT services	4.02%	Rubber	1.54%	Electronic Components	991
18	Pharmaceuticals	1 166	Hotels & Tourism	3.77%	Medical Devices	1.04%	Warehousing & Storage	970
19	Coal, Oil and Natural Gas	1 112	Semiconductors	2.93%	Transportation	0.88%	Industrial Machinery, Equipment & Tools	780
20	Hotels & Tourism	1 067	Food & Tobacco	2.73%	Warehousing & Storage	0.02%	Semiconductors	532

At a city level London was the largest source city for global investments between 2012 and 2016. A list of the top source cities is provided in the table below.

TOP GLOBAL SOURCE CITIES FOR FDI, 2012-2016				
RANK	SOURCE CITY (2012-2016)	PROJECTS	SOURCE CITY (2012-2016)	AVG GROWTH 2012-2016 (>100 PROJECTS)
1	London	3 897	Gurgaon	46.14%
2	Tokyo	3 162	Herzogenaurach	34.92%
3	Paris	3 141	Croix	30.04%
4	NYC (NY)	1 960	Shanghai	28.99%
5	Stockholm	1 060	Seattle (WA)	24.80%
6	Singapore	896	Neuilly-sur-Seine	22.55%
7	Seoul	889	San Francisco (CA)	22.31%
8	Dubai	828	Shenzhen	18.47%
9	Hong Kong	819	Copenhagen	17.32%

TOP GLOBAL SOURCE CITIES FOR FDI, 2012-2016				
RANK	SOURCE CITY (2012-2016)	PROJECTS	SOURCE CITY (2012-2016)	AVG GROWTH 2012-2016 (>100 PROJECTS)
10	Beijing	749	Rome	14.85%
11	San Francisco (CA)	749	Tel Aviv	14.59%
12	Luxembourg	727	Geneva	13.63%
13	Madrid	687	Bangkok	13.16%
14	Amsterdam	658	Bentonville (AR)	12.57%
15	Milan	608	New Delhi	12.33%
16	Munich	596	Armonk (NY)	12.12%
17	Mumbai	586	San Diego (CA)	11.95%
18	Dublin	562	Neckarsulm	11.94%
19	Toronto	541	Istanbul	11.65%
20	Sydney	530	Stockholm	10.72%

2. South Africa

Between January 2012 and December 2016 a total of 800 FDI projects were recorded into South Africa. These projects represent a total capital investment of ZAR408.77bn which is an average investment of ZAR510.75m per project. During the period, a total of 80,232 jobs were created. Global FDI into South Africa by projects decreased by 6.3% and 2.3% by capex between 2012 and 2016. South Africa's GDP growth increased by 0.3% in 2016 and is expected to increase by 0.7% in 2017 and 1.1% in 2018 and this is expected to increase FDI (IMF, 2017).

Half of all investments into South Africa between 2012 and 2016 originate from Western Europe (51% projects and 44% capex), followed by North America (22% projects and 14% capex). The top 4 markets in terms of projects were the United States, United Kingdom, Germany and China. London is the top city for FDI into South Africa in terms of projects (10.4%) and Beijing in terms of capex (9.5%).

The matrix table below shows South Africa's top 15 global destination sectors that have attracted FDI, are growing and creating the highest average jobs between 2012 and 2016. These sectors are textiles, metals, consumer goods and transportation.

Global Inward FDI into South Africa's Sectors, 2012-2016						
RANK	Industry Sector	Projects (2012-2016)	Industry Sector	Growth (2012-2016)	Industry Sector	Avg Jobs per projects (2012-2016)
1	Business Services	116	Textiles	139.50%	Automotive OEM	702
2	Software & IT services	105	Metals	64.44%	Non-Automotive Transport OEM	649
3	Industrial Machinery, Equipment & Tools	57	Alternative/Renewable energy	36.33%	Building & Construction Materials	454
4	Communications	56	Coal, Oil and Natural Gas	31.90%	Pharmaceuticals	378
5	Financial Services	56	Plastics	30.00%	Metals	276
6	Textiles	52	Consumer Products	20.83%	Consumer Products	200
7	Alternative/Renewable energy	46	Food & Tobacco	16.81%	Textiles	140
8	Electronic Components	39	Business Services	14.03%	Minerals	131
9	Transportation	35	Automotive OEM	13.12%	Food & Tobacco	128
10	Chemicals	33	Pharmaceuticals	10.00%	Transportation	127
11	Automotive OEM	24	Rubber	10.00%	Automotive Components	126
12	Food & Tobacco	24	Consumer Electronics	8.33%	Rubber	124
13	Consumer Products	22	Industrial Machinery, Equipment & Tools	7.05%	Biotechnology	115

Global Inward FDI into South Africa's Sectors, 2012-2016						
RANK	Industry Sector	Projects (2012-2016)	Industry Sector	Growth (2012-2016)	Industry Sector	Avg Jobs per projects (2012-2016)
14	Metals	19	Electronic Components	4.05%	Space & Defence	94
15	Coal, Oil and Natural Gas	13	Transportation	3.10%	Consumer Electronics	94

3. Western Cape

Between January 2012 and December 2016 a total of 165 FDI projects were recorded into the Western Cape. These projects represent a total capital investment of ZAR36.65 b which is an average investment of ZAR222.63m per project. During the period, a total of 9,717 jobs were created. Global FDI into the Western Cape by projects and capex declined by 6.3% per annum and 1.2% per annum respectively between 2012 and 2016.

More than half of all investments into the Western Cape between 2012 and 2016 originated from Western Europe (58% projects and 64% capex), followed by North America (24% projects and 13% capex). About one fifth of all investments into the Western Cape are from the United Kingdom (27% projects and 15% capex). The top 3 markets (including the US and Germany) command more than half of all investments into the province. London is the top city for FDI into the Western Cape in terms of projects and Windhoek is the top city in terms of capex.

In terms of projects the largest sectors attracting FDI into the Western Cape were business services, software and IT services. These sectors account for 43% of all FDI by projects. Renewable energy is the Western Cape's largest sector attracting 23% of FDI by capex between 2012 and 2016.

The transportation sector was the fastest growing Western Cape sector by FDI projects between 2012 and 2016, followed Industrial Machinery, Equipment & Tools. The Western Cape's textiles sector attracted the largest average job per project (252 average jobs) between 2012 and 2016, followed by consumer products (376 average jobs).

The African region was the largest destination for Western Cape outward FDI (OFDI) both in terms of projects and capex accounting for 56% projects and 73% capex between 2012 and 2016, followed by Western Europe in terms of projects and Middle East in terms of Capex. The largest destination markets in terms of projects were Nigeria, the UK, Angola, the United States, Zambia and the UAE accounting for a combined 50%, while the largest by Capex were Mozambique, Nigeria and the UAE accounting for a combined 57%.

The matrix table below shows the Western Cape's global destination sectors that have attracted FDI, are growing and created the highest average jobs between 2012 and 2016. The Western Cape sectors that feature in all three categories include transportation, industrial machinery, equipment & Tools, business services, alternative/renewable energy, textiles, software & IT services, communications and financial services.

GLOBAL FDI INTO WESTERN CAPE, 2012-2016								
Rank	Industry Sector	Projects (2012-2016)	Industry Sector	Avg Growth (2012-2016)	Industry Sector	Avg Jobs per project (2012-2016)	Industry Sector	Capex 2012-2016 (ZARm)
1	Business Services	40	Transportation	48.00%	Textiles	252	Alternative/Renewable energy	10 880
2	Software & IT services	31	Industrial Machinery, Equipment & Tools	25.00%	Consumer Products	169	Communications	4 602
3	Electronic Components	11	Business Services	19.36%	Metals	152	Business Services	3 744
4	Financial Services	10	Alternative/Renewable energy	16.67%	Consumer Electronics	129	Transportation	3 198
5	Transportation	10	Textiles	16.67%	Pharmaceuticals	118	Software & IT services	3 036
6	Communications	9	Software & IT services	12.17%	Plastics	107	Financial Services	1 433
7	Industrial Machinery, Equipment & Tools	9	Communications	10.67%	Business Services	65	Textiles	1 245
8	Alternative/Renewable energy	6	Financial Services	10.00%	Electronic Components	61	Consumer Products	1 066

GLOBAL FDI INTO WESTERN CAPE, 2012-2016

Rank	Industry Sector	Projects (2012-2016)	Industry Sector	Avg Growth (2012-2016)	Industry Sector	Avg Jobs per project (2012-2016)	Industry Sector	Capex 2012-2016 (ZARm)
9	Chemicals	6	Pharmaceuticals	0.00%	Coal, Oil and Natural Gas	54	Consumer Electronics	963
10	Textiles	6	Electronic Components	-2.50%	Food & Tobacco	53	Electronic Components	935
11	Consumer Electronics	4	Consumer Electronics	-20.00%	Biotechnology	50	Real Estate	741
12	Metals	4	Metals	-33.33%	Financial Services	42	Metals	728
13	Consumer Products	3	Chemicals	-37.50%	Medical Devices	39	Industrial Machinery, Equipment & Tools	674
14	Food & Tobacco	3	Consumer Products	-50.00%	Communications	36	Food & Tobacco	591
15	Automotive OEM	2	Food & Tobacco	-50.00%	Transportation	35	Chemicals	581
16	Pharmaceuticals	2	Biotechnology	-50.00%	Alternative/Renewable energy	30	Biotechnology	558
17	Real Estate	2	Automotive OEM	-100.00%	Software & IT services	30	Pharmaceuticals	368
18	Aerospace	1	Paper, Printing & Packaging	-100.00%	Business Machines & Equipment	29	Plastics	352
19	Beverages	1	Real Estate	-100.00%	Industrial Machinery, Equipment & Tools	24	Coal, Oil and Natural Gas	291
20	Biotechnology	1	Plastics	-100.00%	Beverages	22	Beverages	249
21	Business Machines & Equipment	1	Business Machines & Equipment	-100.00%	Automotive OEM	19	Automotive OEM	174
22	Coal, Oil and Natural Gas	1	Beverages	-100.00%	Chemicals	18	Medical Devices	117
23	Medical Devices	1	Coal, Oil and Natural Gas	-100.00%	Real Estate	18	Aerospace	103
24	Plastics	1	Engines & Turbines	-100.00%	Aerospace	14	Business Machines & Equipment	17

The table below shows the Western Cape's the top 20 global source cities between 2012 and 2016 for projects and average growth over the period 2012 to 2016.

GLOBAL FDI INTO WESTERN CAPE BY MARKETS				
Rank	SOURCE MARKETS	PROJECTS (2012-2016)	SOURCE MARKETS	AVG GROWTH 2012-2016
1	London	28	Paris	33.33%
2	Paris	6	London	14.61%
3	NYC (NY)	5	NYC (NY)	-33.33%
4	Madrid	3	Bonn	-33.33%
5	Qingdao	3	Mainz	-50.00%
6	Beijing	2	Windhoek	-50.00%
7	Bonn	2	Singapore	-50.00%
8	Copenhagen	2	Milan	-50.00%
9	Dubai	2	Copenhagen	-50.00%
10	Enkhuizen	2	Geneva	-50.00%
11	Fareham	2	Seattle (WA)	-66.67%
12	Geneva	2	Dubai	-66.67%
13	Hamburg	2	Hamburg	-66.67%
14	Hong Kong	2	Qingdao	-66.67%
15	Los Angeles (CA)	2	Hong Kong	-66.67%
16	Medina (OH)	2	Beijing	-100.00%
17	Milan	2	Madrid	-100.00%
18	Mumbai	2	Terni	-100.00%

GLOBAL FDI INTO WESTERN CAPE BY MARKETS				
Rank	SOURCE MARKETS	PROJECTS (2012-2016)	SOURCE MARKETS	AVG GROWTH 2012-2016
19	Palo Alto (CA)	2	Enkhuizen	-100.00%
20	Seattle (WA)	2	Medina (OH)	-100.00%

The table below shows the largest sectors in terms of projects that have been experiencing positive growth and have created the largest jobs per project between 2012 and 2016 for the Western Cape and globally. The sectors have been extracted from the global and Western Cape matrix tables above.

As can be shown in the table below the Western Cape mirrors a number of global sectors for inward FDI. The green highlighted sectors in the table below represent the sectors that mirror the global sectors for FDI. The sectors in the table below are extracted from the global and Western Cape tables above that represent the sectors that have attracted the largest FDI, are growing and creating the highest average jobs. Two key sectors that the Western Cape can add to the list of its focus sectors are consumer products and real estate.

A suggestion is for the investment unit to shift away from a country focus and move more towards a provincial or even city level focus for attracting FDI. There are stark differences within countries in terms of their outward FDI focus and where their key companies are headquartered.

Another suggestion is for the investment unit is to focus on increasing domestic investment. This entails presenting investment opportunities to local companies and encouraging them to invest in the Western Cape. A key lesson in the literature is that in order to attract more foreign direct investment it has become necessary to increase domestic investment.

A key concern in the Western Cape that the analysis has highlighted is that the province is attracting FDI into sectors that are fast growing but not necessarily create a large number of jobs. However caution must be exercised here as some sectors are catalytic sectors, in other words they assist other sectors to grow.

After the key focus sectors have been agreed upon, a further analysis will be need to be conducted to identify the key focus markets based on each of the selected sectors.

LARGEST SECTORS & GROWING & CREATING JOBS AMONG TOP 20	
GLOBAL	WESTERN CAPE
Software & IT services	Transportation
Textiles	Industrial Machinery, Equipment & Tools
Consumer Products	Business Services
Communications	Alternative/Renewable energy
Real Estate	Textiles
Alternative/Renewable energy	Software & IT services
-	Communications
-	Financial Services