



# INVESTMENT AND BUSINESS OPPORTUNITIES IN SOUTH AFRICA

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## 1 WHY INVEST IN SOUTH AFRICA

### 1.1 Strategic Location

South Africa's seven commercial ports form by far the largest, best equipped and most efficient network on the African continent, handling 500 million tons of cargo annually. They function as strategic transshipment hubs for traffic between Europe, Asia, the Americas and Africa. The phenomenal growth in airline traffic since 1994, through the major international airports in Johannesburg, Durban and Cape Town, is due to the rapid growth of both tourism and business travel.

South Africa is ideally positioned for access to the 14 countries in the Southern Africa Development Community (SADC) with a total population of over 180 million people. Most imports into SADC are manufactured in or transported via South Africa. Well-developed roads and rail links provide the platform and infrastructure for good transportation deep into sub-Saharan Africa.

### 1.2 Rapid Liberalization of Trade and Investment Environment

South Africa trade and industrial policy is continuing its change towards an internationally competitive economy capitalizing on its competitive and comparative advantages. Already tariff barriers have been reduced, exchange controls relaxed and a greater labour market flexibility has been introduced.



### **1.3 Modern Infrastructure**

The most pleasant surprise which many first-time visitors receive on arrival in South Africa is the excellent physical infrastructure including modern rail, road, air and other transportation services. The harbour and road systems are well maintained and hold immense potential for public-private partnership.

A well developed electricity network, through the power parastatal Eskom, supplies roughly half of Africa's electricity with a generating capacity of 157 million GWh. Its rates are amongst the cheapest in the world and a massive electricity connection programme has met its target of connecting an additional 300,000 new households per year. As a consequence, numerous small industries have emerged and people are being skilled in various business operations. This has unlocked a huge potential market for household appliances and equipment.

The Spatial Development Initiatives (SDI) programme is unlocking the potential of under-developed areas by identifying public-private partnership in bulk and municipal infrastructure projects and over 400 projects in the Provinces. The SDI are designed to optimize comparative and competitive advantage in under-developed areas with existing economic potential.



## ***1.4 Sophisticated Financial Markets***

South Africa's well-developed financial system is unrivalled in any emerging market. Corporations operating in South Africa are well served by merchant banks, brokerage firms, corporate finance houses, and a wide variety of financial services specialists, both in terms of application of modern technology and skill in international finance. The sophisticated legislation governing the financial sector has been streamlined to meet international norms and provides the platform for the introduction of major foreign financial institutions into the local market.

Legal, accounting, management consortia and advertising fees are considerably lower than in most developed economies, with most of the leading international service firms operating major South African subsidiaries.

The Johannesburg stock exchange, formed in 1887, is the 11th largest stock exchange in the world by market capitalization and has already replaced the 'open-outcry' system with automated screen based trading.

## ***1.5 Cutting Edge Technology***

Gold-smelting (Copyright: SATOUR)

South Africa's history has led to the development of unique and sophisticated technologies. Today these technologies are sustaining the industrial and mineral beneficiation mega-projects that form the cornerstone of the new global industrial strategy. The abundance of high quality coal and scarce water provided the incentive to develop highly efficient coal-fired power stations with minimal water requirements, including the largest dry-cooled coal-fired power station in the world today at Matimba. The real price of electricity has reduced steadily.



Sasol, a South African energy giant, is the world's most successful producer of liquid fuel from coal. It possesses unique technology to produce both fuel and chemical components from coal in a single process. The major steel producer, Iscor, introduced a major technological breakthrough with the development of the Corex process, which uses coal instead of coke to produce molten iron. Iscor, together with the country's Industrial Development Corporation, is involved in a leading edge technology steel plant under construction at Saldanha Bay, Western Cape. The South African mining industry has become a world leader in developing cost-efficient mining technology for deep level and high pressure operations.

### ***1.6 World Class Telecommunications and Information Technology Industry***

Telecommunications is one of the fastest growing industries in South Africa, with a growth rate of 45 % driven largely by the introduction of cellular telephones and the recent partial privatization of Telkom. Telkom's 5 year Vision 2000 programme aims to add 3 million telephone lines, a 75 % increase.

The company insists on obtaining the latest global technology at the best life-cycle costs. Telkom installed a SAT-2 digital fiber-optic cable in 1993, which effectively provides southern Africa with access to the global telecommunications highways. Overall South Africa has one of the most advanced telecommunications systems of all emerging markets.



## **1.7 Diverse, cost efficient Mineral and Agro-Industry Inputs**

South Africa has the competitive advantage in beneficiation of mineral and agricultural inputs due to the immense concentration of reserves of important minerals, its low-cost coal-based electricity supply, a world class infrastructure with considerable capacity, a developed and skilled technology base and proven entrepreneurial abilities.

South Africa has the world's largest reserves of chrome ore (68 %), vanadium (45 %), andalusite (90 %), manganese ore (3.9 billion tons). It also holds substantial reserves of antimony, asbestos, diamonds, coal, fluorspar, iron, lead, zinc, phosphates, uranium, vermiculite, zirconium and platinum group metals.

The agriculture, forestry and fishing industries provide the growing agro-processing industry with abundant resources and are well-positioned to export to the northern hemisphere 'out of season'. South Africa has developed one of the largest planted forestry resources in the world. Plantations cover more than 1.4 million hectares with exports accounting for 35% of total turnover of forestry products. South Africa's pulp and paper manufacturers rank amongst the largest companies of their kind in the southern hemisphere.



## **1.8 Unsurpassed Quality of Life**

With an abundance of natural attractions, a year long temperate climate and an inclusive and sociable outlook on life, South Africa and its citizens offer long term visitors or residents a quality of life unsurpassed anywhere in the world. First world health care, education, property, sporting and recreation facilities, ensures that South African lifestyles are world class.

As with any major political and economic transition, problems of adjustment are evident in the incidence of crime and violence in the major metropolitan centers, and are not particular to South Africa. The concerns of foreign visitors are shared by all South Africans and are addressed by a comprehensive national crime prevention strategy focusing on all aspects of criminal justice. Solutions are also provided by urban renewal and redevelopment projects, public works programmes in under-developed areas, and community development projects linking the youth to meaningful income generating opportunities.



## 1.9 Government Commitment to Investment Facilitation

The South African government welcomes foreign investors. All exchange controls on non-residents have been lifted so that investors are free to take their money out of the country at any time.

Against the background of rapidly transforming the national economy, striving to expand and increase its competitive edge in world markets, the South African government has implemented a plethora of incentive programmes. These are aimed at accelerating and facilitating the transition to competitive and sustainable manufacturing industries. The key features are:

- tax holiday incentive scheme
- small, medium manufacturing development programme
- accelerated depreciation allowance

The national and provincial governments have developed investment promotion and facilitation strategies, which are focused on the needs of international competitive companies and their search for new and profitable markets. A national network of investment promotion agencies is focused on the new global industrial strategy of the Department of Trade and Industry. This is a component of the government's Growth, Employment and Redistribution (Gear) strategy and impacts on the investment decisions facing world class companies.

The national investment promotion agency, Investment South Africa (ISA) will provide access to:

- a sector specific marketing strategy linked to your field of operations;
- an online database focusing on the regulatory, commercial and operating environment effecting your company
- links to local joint venture partners, and
- tailor made itineraries for inward investment missions.



## 2 POLITICAL AND LEGAL STRUCTURE

South Africa has, since 1994, fast become a stable democracy with a modern constitution enshrining appropriate checks and balances.

The judicial authority, which is similar to the Pakistani system, consists of different levels of courts, whose independence and impartiality are secured by the constitution.

Provinces are afforded limited legislative powers that must correspond with the national constitution.



### 3. OUTLINE OF THE SOUTH AFRICAN ECONOMY

South Africa has a relatively large and diverse economy, which is the power-house of Africa. Total GDP was about \$112 billion in 2000, with a population currently estimated at 44 million. South Africa contributes 73% of total GDP in the 14-member Southern African Development Community (SADC), but accommodates only 22% of the SADC population.

The formal sector has outgrown the dependence on primary activity. Currently agriculture contributes less than 5% to GDP, and mining less than 8%.

The secondary sector represents just under a third of the economy and the tertiary sector contributes more 54% to GDP.

It is widely recognized that the GDP is substantially higher than reflected in official figures as a result of the large informal sector, which is inadequately measured in the national accounts.

The South African economy is an open economy, with 27.7 % of its GDP exported. Despite the transitional challenges, the South African economy has proved its resilience, as demonstrated by its consistent export performance.

The South African business community has proved it's world class caliber in the face of international competition, at home and abroad, as South Africa has deregulated and opened up to the global economy.



### 3 INVESTMENT OPPORTUNITIES

#### Sector Overview

Detailed outlines on which sectors have most potential in each of the nine provinces are available and Investment South Africa has drawn up detailed studies of each of the identified sectors. The following list is far from exhaustive and foreign direct investors are discovering opportunities in many other sectors:

- Electronics
- Information Technology
- Telecommunications
- Agro-processing
- Textiles and Clothing
- Tourism and Entertainment
- Chemicals and Pharmaceuticals
- Automotive sector
- Transport



#### 4 HOW TO ESTABLISH A BUSINESS IN SOUTH AFRICA

By now you should be sufficiently interested in South Africa to explore further the prospects for making an investment and finding out how to establish a business.

SA Migration International would be pleased to assist you in providing any further information necessary, including details on the steps needed to establish a business in South Africa.

You are welcome to contact us with your Business ideas and details for a free consultation to receive a personalized step by step process outline to get all the required permits approved in the most efficient and streamlined way.

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