

## **South Africa's manufacturing sector gets a boost of foreign direct investment**

Local and foreign direct investment picked up during the second half of 2020 pointing to early signs of rising positive sentiments towards the South African economy and especially in relation to its manufacturing sector which saw a significant focus for new investments.

This emerged as a central theme from the latest TIPS Foreign Direct Investment (FDI) tracker which covered the second half of 2020. The FDI tracker authors, Kelello Mashiane and Muhammed Patel, point out that this period saw an increase in investments partly driven by a stabilization of production in the face of the pandemic (local shutdown and reduced global demand) as well as a result of the pledges made during President Cyril Ramaphosa's November 2020 Investment Conference. They state that the investment pledges (some new and some already on the cards) point to a rise in positive sentiments towards the economy but it was still early days as the pledges were still not in the ballpark of those made during the 2019 Investment Conference.

The tracker found that during this period, the bulk of the R75.2 billion (committed for 32 projects) emerged out of pledges made at the Conference. As compared to the first half of 2020, a large portion of the investments (R29bn) was directed at manufacturing-linked projects in basic metals (about R18bn), food and beverages (R6 bn) and the automotive value chains (R5bn). The second largest amount of R20bn is linked to mining whilst there was also a sizeable investment in telecommunications.

Interestingly, Patel and Mashiane point out that the projects captured during this period showed a greater diversity of investor companies, industries and subsectors compared to the first half of the year, where projects were concentrated within a handful of mining companies such as Menar, Anglo American Platinum (Amplats) and BioTherm. Another interesting shift is the continued support from French companies, who collectively pledged R14bn at the 2020 Investment Conference following a R20bn commitment at the 2019 Investment Conference by a group of French companies (Total, Alstom, Limagrain and Air Liquide).

The tracker also highlighted that a substantial share of the total investment value recorded is composed of three projects in excess of R10 billion, which constitute 61% (R46 billion) of the total pledged value. The largest of these commitments is R17 billion for the United Heavy Industries investment programme followed by Anglo Americans' R15 billion investment in the firms operations and the R14 billion combined pledge by a collective of French companies.

The Tracker recorded seven projects that have values between R1 billion and R6 billion. These account for 22% of the total pledged value, or R29 billion in total. Pioneer Foods R5.5 billion expansion project has the highest value in this bracket. It is followed by the R4.4 billion pledge by Teraco which is closely trailed by the Ford-led R4.3 billion by private companies in the Tshwane Auto SEZ. Vanadium Resources Steelpoortdrift vanadium project and Google's Equiano subsea cable contribute R2.4 billion and R2.3 billion respectively. The other projects included here are each valued at R1.5 billion and include the combined Belgian commitment and Total's drilling the Luiperd-1X gas well.

When exploring the impact of these investments on job creation, the tracker found that based on employment creation data, 15 799 job opportunities were linked to seven projects with 6 349 being permanent jobs and 9 450 temporary jobs. A project with a large employment footprint was the Tshwane Auto SEZ investment which aims to create 10 800 prospective jobs (2 100 permanent, 8 700 temporary).



There were a number of sustainability investments including renewable energy projects. Amazon has commissioned the SOLA Group to develop a 10MW solar farm and through the project 28GWh of solar energy will be wheeled via Eskom's grid to local Amazon facilities every year. The energy will be delivered by SOLA via the transmission network as per a Wheeling Use-of-System agreement, which is a first in South Africa. The project is one of Amazon's 26 global utility-scale wind and solar projects under the Climate Pledge initiative. This will be Amazon's first facility in South Africa.

CHEM Energy South Africa has invested in a fuel cell technology manufacturing facility at the KwaZulu-Natal Dube Trade Port special economic zone to feed into the ambitious green hydrogen value chain. Rainbow Rare Earths has also invested in developing long-term sources of Neodymium and Praseodymium and associated rare earth elements. Industrial uses of the elements include applications in manufacturing as inputs for large permanent batteries used in electric vehicles and, in magnets used in the construction of wind farms.

There is also the Giant Flag consortium investment in eco-tourism development in the Eastern Cape which includes the construction of a solar field. Other solar-linked investments include the construction of a 10 MW solar photovoltaic (PV) plant at the Elikhulu gold tailings retreatment plant by Pan African Resources. Additional projects aimed at developing solar energy such as the African Infrastructure Investment Managers (AIIM), through the IDEAS Fund - one of South Africa's largest domestic infrastructure equity funds and one of the largest investors in the country's renewable energy landscape.

As a final point, a significant investment in telecommunications is Teraco Data Environments' R4.4 billion data centre known as "JB4". The facility is being built in Ekurhuleni, Gauteng and will become the largest single-site data centre in Africa.

Issued by: TIPS

The link to the tracker on the website: <https://www.tips.org.za/manufacturing-data/fdi-tracker/item/4118-fdi-tracker-q3-and-q4-2020>

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#### TIPS TRACKERS

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**TIPS Export Tracker** provides updates on export trends, and identifies sectors and products that are performing well and those that are lagging.

**TIPS Import Tracker** provides an overview of import patterns and looks at the causes of surges in manufacturing imports, and their likely impact on industry.

**TIPS Tacker: The economy and the pandemic** highlights important trends in the COVID-19 pandemic in South Africa, and how they affect the economy.