Business Day p14

SA could learn from France's appetite for investment

30 sept. 2015 | Hilary Joffe

France is world leader in tourism and does not shrink from global competition for investor capital, writes Hilary Joffe

GREATER Paris is a city of 12-million people that hosts 32-million tourists a year. It has, since the early 1600s, been developed as a city open to visitors, one of the world's great walking cities. And the evidence is everywhere, not just in the obvious tourist sites but in the number of restaurants, bars and (for some reason) pharmacies around every corner, which far exceeds what the locals on their own would justify.

This is the point presumably missed by those of our own policy makers who seem keener to curb foreign visits than to attract them.

Tourism doesn't just bring in foreign exchange. On a large enough scale, it becomes a competitive advantage for an economy, making it attractive as an investment destination because it boosts the size of the consumer market.

That's very much the case for France, which is the world's leading tourist destination, with 85-million annual tourist visits augmenting the demand from 65-million French consumers (not to mention 500-million more European consumers to whom France offers a gateway). The size of France's consumer market was top of a list of France's unique advantages as a place to do business that De Beers CEO Philippe Mellier, himself a Frenchman, offered last week at an "Invest in France" event in Johannesburg, hosted by the French-South African Chamber of Commerce.

It was an event that felt rather bizarre. Here were the ambassador and officials from the world's sixth-largest economy pitching for companies from SA to invest in their country, at a time when it is SA that should be doing the pitching. Not that France was targeting SA in particular — for the first time it held these seminars in 50 countries simultaneously. SA was just one. But it is one that saw foreign direct investment decline sharply last year from its 2013 peak. The latest Reserve Bank figures show inward foreign direct investment recovered to R6bn in the second quarter of this year, from a negative R22bn in the first quarter, but this is not even one-tenth of the total foreign direct investment that came in last year — and it hardly counters the R5.9bn that South African companies invested outward in the second quarter.

Outward investment by South African companies has ramped up over the past three years, reaching R147bn last year. Not much of it has gone to France but Steinhoff and Aspen have both bought sizeable operations there in the past three years, accounting for the bulk of the 12,000 people employed by the 30 South African companies with a presence in France.

SA’s companies are obviously worth targeting for those countries keen to attract inward investment.

France’s policy makers clearly see themselves in a global competition for investor capital, and its ambassador to SA emphasised the value added by foreign companies, which account for 2-million French jobs, nearly a third of France’s exports and 29% of its corporate research and development. Last week’s pitch set out a list of assets SA can but envy — cutting-edge infrastructure and productivity levels among them.

It’s obviously not all as rosy as the glossy diplomatic presentations make out. Business people pointed to France’s troublesome labour unions and difficult pharmaceutical regulators. And it doesn’t crack the top 10 on the World Economic Forum’s latest global competitiveness index — France is ranked 22nd.

But it does get some credit for implementing reforms to enhance its competitiveness. And, arguably, the country’s effort to sell and compete matters in itself, signalling an appetite and openness to investment, and indeed to tourism, that is in contrast to the much more ambivalent signals that tend to come from SA’s government. SA could also learn from France’s narrative on what its advantages are and what it has to offer.

Paradoxically, at least SA has staged an unexpected recovery on the competitiveness front — climbing seven places to 49th on the index. To some extent, that is more because SA is just less bad on measures such as technology and labour productivity — the record is still spectacularly uneven, with SA right at the bottom of the rankings on the quality of its maths and science education and its "co-operation in labour-employer relations", but right at the top on its auditing standards and equity market.

The index is a road map to what countries could and should do to be more competitive.

But it doesn't capture some of the key attributes that make economies more or less attractive as investment destinations, such as market size, or macroeconomic performance, or the willingness or otherwise of the authorities to open their economies to investment and ensure enabling regulatory frameworks.

The push by SA's large companies in recent years to expand off shore is in large part a reflection of the fact that other jurisdictions have more to offer. As the CEO of Business Unity SA, Khanyisile Kweyama, put it at last week's event, if SA's companies are to grow and thrive, they have to go global — so it's not necessarily unpatriotic to encourage them to invest in France or anywhere else.

So foreign investment can and should be a two-way street. But unless SA is serious about doing what it takes to draw foreigners in, it's more likely to be a one-way street.

• *Joffe is editor at large*