

South Africa

Africa's shrinking star?

9th April 2014

According to official figures released this week Nigeria has knocked South Africa – ‘the gateway to the continent’ – off its perch as Africa’s biggest economy.

Max Gebhardt, Managing Director and Head of Strategic Communications for FTI Consulting in South Africa, discusses the immediate response in that country and the implications this could hold for the confidence of foreign investors.

South Africa’s response to the news that Nigeria is Africa’s biggest economy has been one of mild amusement and slightly dismissive. The underlying tone of the comments has been that it is just an arithmetic adjustment and doesn’t really change much, instead of being a threat. South Africa continues with the belief that it is the continent’s economic powerhouse because of its more advanced infrastructure and financial institutions.

Business Day, one of South Africa’s main business newspapers, described the rebasing of the Nigerian economy as nothing more than “technical”. It was, the newspaper said in an editorial, “tempting not to take Nigeria’s change of status to number one too seriously”. It pointed out that South Africa remained better positioned in terms of its GDP per capita despite Nigeria’s overall GDP rising 60 percent to an estimated US \$510 billion compared to South Africa’s US \$350 billion.

In a subtle dig, Business Day said that Nigeria remained a far less developed economy than South Africa and its national electricity grid, for instance, wasn’t able to provide enough power to supply Johannesburg’s needs during peak hour. Glossing over the fact that South Africa’s own power utility is struggling to keep the country’s lights burning.

Even South Africa’s Ministry of Finance wasn’t really moved by the news saying in a statement that the “announcement gives concrete expression to the fact that Africa is indeed rising”. Rather than being of any concern, the ministry said it was in fact to South Africa’s benefit that Nigeria was now Africa’s biggest economy. “South Africa has been and will continue to benefit from faster economic growth in the rest of the continent,” it said.

That line was followed by Business Day which said it would be of benefit to all. This might be the case, but it misses an important communications element.

South Africa can no longer call itself the continent’s economic powerhouse. It can no longer use the statement that it is the continent’s biggest economy when trying to woo foreign investors. As any marketer or communications adviser knows,

perception and positioning are important tools when communicating a message.

In South Africa’s case, while it might have better infrastructure, power systems and institutions with which to conduct business than Nigeria, it is slowly seeing its dominant position on the continent coming under threat from a variety of other African countries.

Mauritius is actively positioning itself as the Singapore of Africa, a gateway for financial institutions, such as private equity funds, to invest into Africa. It has installed high speed broadband and put in place favorable tax regimes for companies looking to locate to the island country. Increasingly South African companies themselves are using Mauritius as a location from which to invest into the rest of the continent. In so doing, undermining South Africa’s mantra that it is the primary entry point to Sub-Saharan Africa.

And it is not just as Africa’s biggest economy that South Africa no longer holds the top post. According to the World Economic Forum’s Global Competitive Index, Mauritius is now Africa’s most competitive economy, ranked at 45th out of 148 countries. South Africa was ranked second at 53rd followed by Rwanda (66th), Botswana (74th), Morocco (77th) and Namibia (90th).

Mauritius also holds the top spot in the World Bank’s ‘Ease of Doing Business’ survey, followed by Rwanda and then South Africa. Rwanda holds the top spot for “ease of starting a business”.

Yes, there are other areas where South Africa does remain top, like the country’s financial institutions. The WEF ranks South Africa first out of 148 countries for regulation of securities exchanges. South Africa also ranks first place for strength of auditing and reporting standards; efficacy of corporate boards; and the protection of minority shareholders’ interests.

These are important rankings, especially for international investors. But saying you rank top, with the best accounting and auditing services, doesn’t really resonate as well as a positioning statement saying you are the continent’s biggest economy.

The rather blasé reaction of many South Africans to the news that the country has been toppled from the top spot highlights how few recognise the power of having such a message in the armoury when communicating with outside investors. Coupled with the fact that South Africa has been removed from its top spot in a number of other areas should be of double concern.

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There is also a potential impact to South Africa's continued role in a number of important international bodies such as the G20, which is supposed to represent the world's 20 major economies. Given that Nigeria is now the continent's biggest economy it could quite rightly argue that it should be a member, as opposed to South Africa.

As Nigeria is now the world's 26th biggest economy, it will no doubt be pushing for a greater role in many other multilateral international institutions where South Africa has previously held sway.

Should that come about, it will further diminish South Africa's stature in the international community where it likes to believe it can punch above its weight.

Economists argue that everyone benefits from growing trade flows, which is true. But there is certainly a great deal of competition among nations when it comes to securing international investment. Something South Africa has been rather naïve about, saying that this change isn't about competition. Of course it is.

But all is not lost. South Africa has the ability to regain its pre-eminence as Africa's economic powerhouse, though perhaps not that of the continent's biggest economy. In the meantime, as a nation South Africa is going to have to find a new key message to use when selling itself.

To dismiss the news as being irrelevant misses the point. A great deal has changed. Nigeria now has the right to use a message that was previously South Africa's.



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