SwissCham
Southern Africa – South Africa Chapter (SCSA-SAC)

Event – Review

Luncheon with

Donna Oosthuyse

Chief Country Officer, Citi Bank South Africa

20th of September 2012, held at the Inanda Club in Sandton

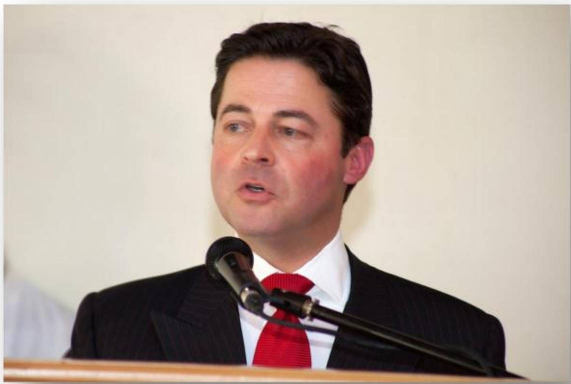
SCSA-SAC Doc.DM_09/2012

At a business luncheon recently held at the Inanda Club in Sandton, Members of SwissCham Southern Africa – South Africa Chapter had the privilege of being addressed by **Donna Oosthuyse**, Chief Country Officer, Citi Bank South Africa.

SwissCham President Thomas C. Hippele welcomed the guests who had come to hear Donna Oosthuyse's message on the topic:

" Economic Outlook – chances, risk and forecast"

After a delicious starter and main course, Thomas Hippele introduced the guest speaker, Donna Oosthuyse, Chief Country Officer, Citi Bank South Africa.



Thomas C Hippele, SwissCham President

Donna Oosthuyse, Chief Country Officer, Citi Bank SA

Donna Oosthuyse, born in South Carolina (USA), graduated (Hons), at Duke University in 1978.
1982, MA in Latin American Studies and Economics, Georgetown University. With Citigroup: 1985, Country Debt Restructuring Unit handling Mexico, Ecuador, Costa Rica and other countries; management positions, Latin American Unit; 1991-95, Head, Derivatives, Treasury; senior management positions in Latin America and Africa; 2003-09, Chief Operating Officer, Africa; since 2009, Citi country Officer, South Africa. Member of the Board: Banking Association of South Africa; Junior Achievement Africa-South Africa; Chairperson, International Banking Association of South Africa. Recipient of awards.
She is also President of the American Chamber of Commerce (AMCHAM) in South Africa.

Following please enjoy the interesting, challenging and surely thought-provoking full speech of Donna Oosthuyse:

"Citi is the 6th largest bank in South Africa as well as the largest branch of an international bank operating in South Africa with a local balance sheet of ZAR45Bn. Citi first established a presence in South Africa in 1958. After divesting in 1987 we reopened a branch in 1995. We currently employ around 350 people in South Africa.

Globally we hold approximately 200 million customer accounts and do business in more than 160 countries and jurisdictions. Our worldwide net revenue for 2011 was $78Bn, and our assets totalled $1,874Bn.

In Africa we have a strong and proud legacy. We opened our African operations in 1914 in Liberia. Today we have a presence in 16 countries and cover an additional 26 African countries from a non-presence country unit based in Johannesburg. If Citi Africa was a standalone bank we would rank in the Top 15 African banks, based on total assets.

Today I will be sharing my views on the prospects for growth in Sub Saharan Africa (SSA) as well as the trends that are impacting on the SSA growth story.

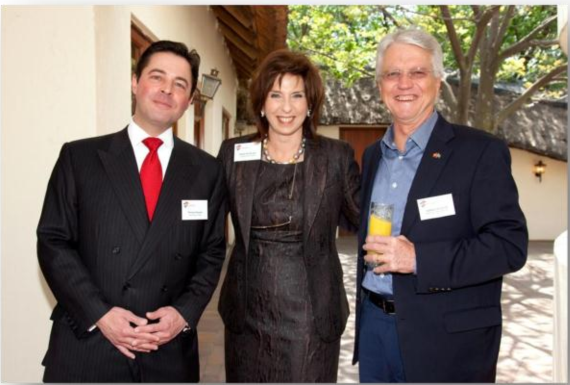
I will also share some brief insights on AMCHAM and how we approach commercial diplomacy within a South African context.

There has been much attention paid to the pickup in growth in SSA in the last decade, with a majority of this driven by promotion of the subcontinent as the newest frontier market. Indeed, for the period of 1991 to 2000 SSA GDP growth averaged 2.3%, while for the period 2001 to 2010 growth averaged 5.1%.

The potential for economic growth in Sub-Saharan Africa remains significant given the continent's positive demographics and the abundance of natural resources.

The IMF supports this growth premise forecasting SSA GDP growth of 5.3% in 2013, only behind that of Asian growth, with seven of the 10 fastest growing economies in the world located in Sub-Saharan Africa.

While much analysis of the SSA growth story has tended to focus on commodities demand by China and the pick-up in the headline growth rate, arguably what is most interesting about the story, and arguably more surprising, is that services have invariably been the most important engine of growth for the last decade. In fact, even with the substantial rise in commodity prices in the 2000s, the industrial sector has only just about been able to hold its own as a percentage of GDP, whereas the service sector has risen as a percentage of GDP and now accounts for over 50% of GDP for SSA as a whole.



GDP data for most SSA countries in the last decade indicates that the fastest growing sectors are broadly similar: telecommunications and transport, retail and wholesale trade, business and financial services and construction. All of these fall into the services sector.

While it is hard to put an exact number on the nature of the impact, various studies indicate that about a third of the pick-up in growth in SSA in the last decade is driven by commodity demand. However, if commodity prices only account for around one-third of the SSA growth story of the 2000s, then two-thirds are being explained by a variety of other factors that have allowed the services economy to grow.

Our research suggests that the other two thirds of the growth story is explained by improved political stability, better economic policy, a new wave of investment into SSA by corporates and SSA growth coming off a low base. These African specific factors are supported by the mega trends of globalisation, urbanisation & digitalisation that are also playing out in SSA.

Please allow me to reflect briefly expand on these factors:

The reality is that from a political stability perspective SSA has had a poor image given wars, corruption and instability. But, by the middle of the 1990s, the political picture in SSA had begun to change. However,

outside of a limited number of countries, the subcontinent has not embraced democracy in a meaningful sense. Instead, what seems to have emerged over this time are a range of political systems which have shown the capacity to evolve and crucially, to survive crises, rather than to slip back into conflict and chaos. Recent examples include Cote d'Ivoire, where although it has taken time to emerge from its civil war, it has done so largely intact and has not been dragged down into a failing state. More pertinently, Nigeria overcame the death of the incumbent president, Umara Yar'Adua, without the military re-involving itself in politics even if the transfer of power did not follow the exact procedures outlined in the constitution. At the other end of the scale, facing a crucial election to define its democratic credentials, Senegal passed with flying colours in 2012 when it went through a peaceful and democratic presidential transition. In South Africa we are currently experiencing significant upheaval within the Mining Industry, but we are also witnessing social and democratic institutions responding to these disruptions.
The bottom line is that increased political stability, and the decline in conflict, has been a major benefit in terms of encouraging investment, notably by the private sector.

The two clearest indicators of this positive outcome in terms of economic policy were a steady reduction in fiscal deficits against the background of improved agricultural sector growth. Combined, these led to a major reduction in inflation across the continent from the mid-1990s, with the impact arguably most visible from the early 2000s.
While much of the policy focus has been on improved fiscal discipline, in our view the single most important policy reform made in SSA was the widespread liberalization of foreign exchange controls and liberalization of foreign exchange markets, removing a key barrier to investment in SSA.

In hindsight it is perhaps not surprising that high commodity prices, against the background of an improved political and economic policy environment led to a new wave of investment into SSA. A key driver to SSA investment was the political changes in South Africa in 1994, that meant that South Africa companies where no longer political pariahs on the subcontinent. What is noteworthy was that this wave of investment was not just into commodity projects, but has also been into other sectors, notably the consumer goods and service sectors. To some extent, the charge into SSA was led by mining companies, but it was soon followed by mobile phone operators, retailers and other service providers.

Added to these drivers of growth in SSA is the simple fact that the pick-up in growth is also, at least in part, a numbers game. During the 2000s there has been a sharp pick-up in growth in the two biggest economies on the continent: Nigeria and South Africa. South Africa's annual average growth rate for the 20 years from 1981-1999 was only 1.8% per annum, but in the next 12 years, from 2000-11, it nearly doubled to 3.5%; whereas for Nigeria the rise was even more noticeable, from an average of 2% per annum to 6.5% per annum. The importance of this one trend simply cannot be understated, given that World Bank data shows that these two economies alone accounted for just under 50% of SSA GDP in 2010.
There are some important points to bear in mind about the big economy story in SSA. The first is that, although growth picked up in South Africa in the 2000s, the country still grew more slowly than the rest of SSA. This is unlikely to change significantly going forward. Second, the importance of Nigeria may become more pronounced if, as we expect, its GDP data is revised along the lines of that completed in December 2010 in Ghana. A revision along the same lines for Nigeria could potentially increase its GDP by around 40%, moving it much closer to potentially becoming the largest economy in SSA.

While much analysis of the SSA growth story has tended to focus on commodities and the pick-up in the headline growth rate, arguably what is most interesting about the story is the impact of the globalization, urbanization and digitization on the African growth story.

Globalisation is changing the opportunities for development in low and middle-income countries, opening up some paths and closing off others. For Africa, the changing structure of trade patterns and accompanying changing trade rules will influence economic growth significantly.

World trade is set for both a prolonged boom and a marked transformation. We expect growth in world trade to expand at an average rate of 6.1% pa, between 2010 and 2030 compared to a growth rate of 5.4% pa between 1990 and 2010. This growth in cross-border trade is driven by GDP growth, by per capita income growth and by the reduction in man-made and natural trade barriers

In this context we expect Africa to more than double its share of world trade from 3% in 2010 to 7% in 2050.
Africa, which was not part of any of the ten largest trade relationships in 2010, is expected to be a part of two such corridors by 2050, being the Africa – Emerging Asia and the Africa – Western Europe trade corridor.
These structural shifts in global trade will mean that Africa's dependence on advanced country markets will lessen dramatically.

As a result of these changes in the next number of years it is likely that there will be significant changes in the rules by which the international trading and financial systems operate. The future of the Doha Round of WTO talks is uncertain, but hopefully the gains made in multilateral liberalisation under the Uruguay round will not be reversed. The economic challenge facing the US and the EU threaten a retreat to protectionism and we are witnessing a tougher stance by the US towards China for example.
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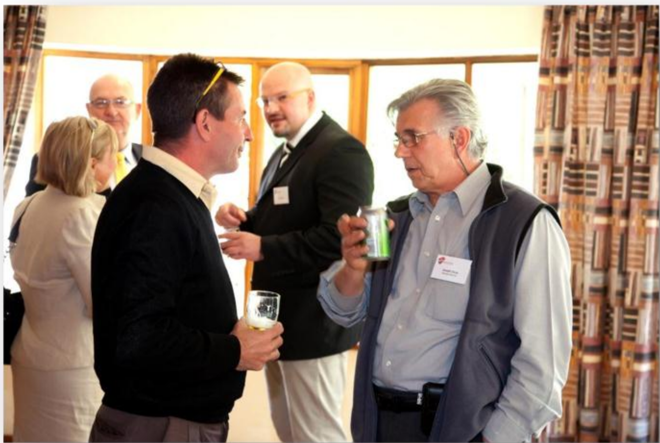
The other simplistic view of the relationship is that, because of the Chinese government's often stated policy that it will not intervene in the internal politics of a country, its companies have much greater leeway to strike investment deals in difficult political circumstances and with opaque clauses which companies from other countries would be very wary of taking.



Within SSA we therefore also expect a tougher stance towards China.

African urbanisation will accelerate; with the African population radically shifting from rural to urban areas. The continent's urban dwellers in 2010 made up nearly 40% of the total, and this will rise to 50% by 2030. In this configuration, domestic demand will be boosted by new patterns of consumption. Domestic sales will benefit from the rise of the middle class, improved telecommunications and banking operations and by the development of infrastructure in general.

As urbanisation accelerates, the global competitiveness of African countries will also increase. It is estimated that a firm operating in a city of 10 million people has unit costs around 40 percent lower than if it operated in a city of only 100,000.

Rapid urbanisation will occur in response to rising demographic pressure, changing comparative advantage and reduced costs of migration.

That growth is, in turn, creating huge demand for private and public sector infrastructure development such as power stations, electricity grids, water supply and treatment plants, roads, railways, airports, bridges, telecommunications networks, schools, hospitals, and more.
Linked to urbanisation is the African demographic transition taking place. In terms of the basic numbers, according to the UN, the population of SSA is set to double towards 2 billion people in the coming 50 years, reflecting the fact that the median age is now just under 20 years old, compared to 30 in Asia and 40 in Europe. For Afro-optimists, the biggest positive in this data is that this rapid growth
of the labour force creates a large and dynamic consumer market.

A positive aspect of delayed demographic change is that Africa could benefit from the “demographic dividend” - the increase in the ratio between the working age population and the non-working age population. Half of Africa’s population is aged 17 or less, and the active population aged 15 to 64 will triple between 2005 and 2060.

The demographic dividend can result in an increase of the labour force, a decline in dependency ratios, increased national savings and an acceleration of urbanisation. All of these may lead to higher productivity and more rapid economic growth. However, this “virtuous circle” is not automatic and depends upon other factors: the labour force must be well educated, national savings efficiently mobilised and appropriate economic policies and good governance adopted.
The demographic dividend will also exhibit itself in increased importance and role of Africa’s middleclass in socio-economic development.

But the key question is how much income will these new consumers have? Defining the middle class as those with a daily consumption of US$ 2- $20 per day in 2005 PPP US dollars, the AfDB argued that by 2010 the middle class accounted for around 34% of the population or a market of over 300 million people.

The most important of these is arguably what it calls the “floating group “with spending of between US$ 2- $4 per day. In fact, as the AfDB notes, this means that 60% of this new middle class, or around 180m people, are “barely out of the poor category” and could easily fall out of their definition of being in the middle class if growth was to slow or inflation was to rise sharply.

Mobile penetration in Africa is on the rise with an estimated 735 million subscribers by the end of 2012.
Mobile telephony allows expansion and access to financial services to previously underserved groups in developing countries. The increasing use of mobile telephony in developing countries has contributed to the emergence of branchless banking services, thereby improving financial inclusion.
The increasing prevalence of mobile technology has already had a significant impact on the expansion of financial services in Sub-Saharan Africa, where 16% of adults, and 31% of those with a formal account, report having used a mobile phone in the past 12 months to pay bills or send or receive money.

Many of those who use alternative banking tools may also use formal financial services. But a growing share of people, especially in the developing world, rely solely on systems outside the formal banking sector.

For example the M-PESA mobile solution used in Kenya is used by 68 percent or 14 Million of Kenyans. This world class mobile solution highlights how Africa can use technology to leapfrog more developed countries.

The exercise of trying to understand what has happened in SSA in the last decade or so, is not just one of theoretical economic interest, but also an attempt to understand how the past will drive future economic developments. In fact, what is interesting is that some of the drivers of growth in the last decade, notably the improved political and economic policy environment may now be less important for the future.
While growth in SSA has picked up relatively robustly in 2010-11 after the short lived slump in 2009, we remain wary about forecasting that growth will continue to pick up further in the short term, or get back up to the peak of 7.2% recorded in 2007. This, in part, reflects our view that at least some of the factors which have helped create a mild and short-term growth slowdown in SSA in 2009 may now be on the wane, which will limit any quick recovery.
The most obvious brake on any strong pick-up in growth is likely to be slowing growth in Asia. While we do not expect any sort of imminent hard landing in China, the reality is that very high growth rates seen in the last decade may not be sustainable in the next few years. We expect Chinese GDP growth will slow from 9.2% in 2011, to 7.9% in 2012, and remain around the 8% level in 2013.
The slowdown in Asia is also happening at the same time as there is a need to unwind the fiscal stimulus in many SSA countries. In fact, in parts of East Africa and Nigeria this policy brake on growth is more evident because monetary policy has already had to be tightened sharply in 2H 2011 to offset rising inflation and currency weakness.
Moreover, and crucially, the need to unwind the fiscal stimulus is arguably most apparent in the Southern Africa Customs Union (SACU) countries, including South Africa. In fact, returning to our earlier big country theme, our forecasts that the South African economy is only set to grow at 2.7% in 2012 and 3.6% in 2013, a considerably slower rate compared to 2001-10, looks set to place a distinct brake on any pick-up in growth for SSA as a whole in the next few years.
Finally, the infrastructure deficit and constraints to doing business in SSA remain very real and were not fundamentally tackled during the growth slow-down in 2009. Both have quickly re-emerged as constraints to the growth pick up in 2010- 11, most notably in the power sector where examples of prolonged power shortages have becoming increasingly common throughout the region.

Whatever happens in the short run in SSA, the need to build infrastructure is arguably one of the most pressing issues facing SSA if it is to achieve sustained growth in the medium to long term. On the aggregate level, total gross fixed capital formation in SSA for the last decade is still fundamentally too low, despite picking up gradually. In fact, we think that a benchmark of around 30% of GDP is required to sustain higher, transformative rates of growth in the coming decades, well above the 20% average of the last decade. For Afro-optimists the biggest push for infrastructure development in SSA in the coming decade looks set to be China’s ongoing efforts to build a new Africa, and the figures often thrown around are substantial. In July 2012, China’s president, Hu Jintao announced that China would lend US$20bn to African governments for infrastructure and agriculture projects over the next three years; double the amount offered in 2009. Moreover, while there are valid discussions about the quality of the projects that Chinese companies are building, and even the potential hidden costs, the sharp reality is that Chinese construction companies are embarking on, and completing, projects all around SSA, which are likely to have a positive impact on growth. But even if the Chinese are now investing more in SSA infrastructure than the World Bank, this will still be insufficient.

Of the sectors that need prioritizing, perhaps the most pressing in need of investment is electricity, a sector in which growth can be driven by the private sector if the government gets its pricing policy correct.
A second area of investment is water infrastructure. Agriculture is arguably SSA’s most neglected, but potentially most important and competitive sector in the global economy, going forward, especially in a world where food prices could remain at significantly higher levels than historically has been the norm.

The real challenge in developing the agricultural sector in SSA is to try and ensure that there is investment in water infrastructure to boost storage, and allow a significant increase in irrigation. Quite simply, SSA is an “under-dammed” region by global standards. Building dams is not without controversy, but will be required if Africa is to realise its agriculture potential.

In conclusion we think that the growth story in SSA is at an interesting phase. In many ways it is now quickly moving beyond a story about gains from high commodity prices against the backdrop of improved economic policy environment and improved political stability. Yes, these have improved and have played an important part in the pick-up in growth in the 2000s. Moreover, they will remain important in future. Instead, it is other factors that will increasingly drive growth in SSA in the coming decade and beyond.

To give an idea of the potential impact of this growth, I return to Citi's long-term global growth projection. One of the most interesting global trends that was highlighted in this study is the rise in Africa from accounting for only 4% of world GDP 2010 to 7% by 2030 and 12% by 2050.
Having set a base case growth stories are very rarely straight line stories. Setbacks should, and in fact must, be expected. The reality is that while SSA as a whole may continue to grow robustly in the coming decade, it is a large and complicated region, and within it some countries and sub-regions may experience temporary, or even prolonged, crises. These could be economic, or political, or a combination of both, and will often prove difficult to spot coming. More optimistically, as we have argued, many countries in SSA now seem to have developed a political robustness which means that these crises are now setbacks, rather than becoming more fundamental problems As such, there are periods when growth will be above trend, and then, as we expect in the next few years, periods when it be below trend. The key to achieving the longterm goal and getting investment right is to understand these fluctuations. The other point to make is that our projections assume the effort to integrate Africa into the global economy makes progress in the coming years, which in turn allows acceleration in the growth rate that we are projecting between 2015 and 2025.

We think that the state has an important role to play in driving development in SSA. One crucial area of thinking we believe still needs to be resolved in the overall development story in SSA in the coming decade and beyond is that of how much governments want the state to be involved in the development drive. Moreover, the idea of involving the state has a clear resonance in SSA, not only given its history, but also in a region where the rise of China, which has used the state as an important although much misunderstood agent of development has been important. Moving closer to home, there is also a strong argument within SSA, that the two most successful states in terms of economic development – Botswana and Mauritius – have actively used the state as a key engine of growth.

What does all this mean in practice? Well the bottom line is that to be an effective developmental state, the government probably not only has to be able to articulate a clear commitment to a national development agenda, but it must also have the capacity and reach to implement it so that overall, economic growth meets the additional goals of poverty reduction and the provision of public services.

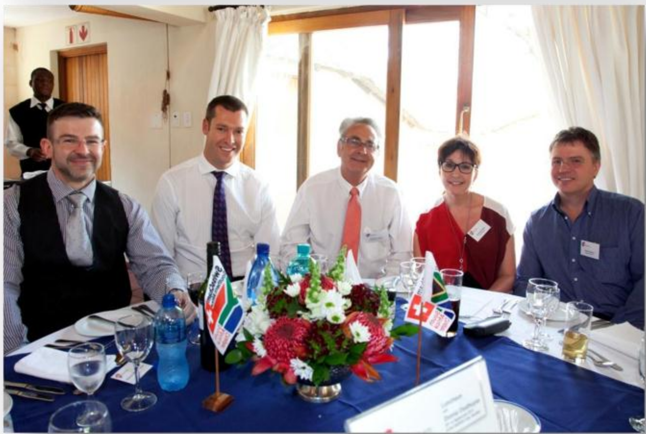
The rise of SSA is not pre-ordained, or inevitable. But we remain optimists that this can be achieved.

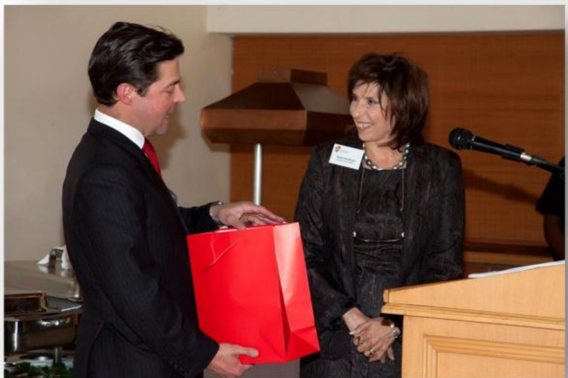
Please allow me to make some comments on AMCHAM.
The American Chamber of Commerce is the representative body for US business in South Africa. We seek to facilitate investment, bilateral trade and other business exchanges that contribute to the country's economic and social prosperity. Amcham currently has approximately 260 member companies.
As AMCHAM we focus on making advocacy on competitiveness the centrepiece of our value proposition. Specifically we focus on:
Enhancing the competitiveness of South Africa as a nation to ensure sustainable economic growth;
Showcasing the crucial role that attracting American companies and U.S. investment to South Africa has in contributing to this vital end-state goal; and
Enhancing the competitiveness of American companies operating in South Africa
AS part of our strategy to engage proactively with our stakeholders, Amcham has identified eight priority areas which we believe are critical to the competitive positioning of South Africa as a destination of trade, investment and tourism and we have prepared position papers with specific recommendations related to each of them.
These areas are:

- Agriculture
- FDI
- Infrastructure
- Broad Based Black Economic Empowerment (BBBEE)

- Sustainability
- Nationalisation and security of assets
- Labour and skills and Health.

For these eight areas we have produced position papers that we use as the basis for all our interactions with government officials and other role players."





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