

SOUTH AFRICA AND NIGERIA:

Getting closer all the time

By Jessica Lutchman, John Daniel and Sanusha Naidu

"Like wildfire tearing through a dry forest, South Africa is rapidly entrenching itself in every facet of the Nigerian economy: from construction, energy, aviation, entertainment to revenue collection, South African companies loom large and are still growing."

Aminu Mohammed, *Weekly Trust*, Nigeria, 13 September 2003.

The end of apartheid opened up the African economy to South African capital. Isolated from that market for decades because of sanctions and its "polecat" status, South Africa was freed to exploit huge new investment opportunities in a stagnating continental economy. The speed and extent of the capital inflow into Africa has been impressive.

In 1991, Africa's share of South Africa's global export trade was 4%. By 2003 it had risen to 16.48%, overtaking that of the Americas and making Africa South Africa's third-largest export market (behind the European Union and Asia). The republic has also become the largest source of new foreign direct investment in the rest of Africa. South



Above: A giant poster of MTN adorns a building in Lagos, the commercial nerve centre of Nigeria August 8, 2002. REUTERS/George Esiri GE/CLH/NIGERIA TELECOMS LAGOS Photo by GEORGE ESIRI.

In the four-year period from 1999-2002, there was an approximate 540% increase in South Africa's exports to Nigeria

African businesses have actively entrenched themselves in sectors such as mining, financial services, retail, telecommunications and aviation across the continent.

Besides sector involvement, nascent bilateral relations between South Africa and other African countries have also become an important component in South Africa's growing involvement in the rest of Africa.

Of particular interest and significance has

been the flourishing of relations between South Africa and Nigeria. Politically, both countries are the dominant state entities in their respective sub-regions. They also both have a history of co-operation with and involvement in a range of continental projects, like the New Partnership for Africa's Development (Nepad), and both countries are led by presidents with a record of involvement in international and regional ventures.

Between the two there is also an economic synergy born from the fact that South Africa is Africa's largest economy, and Nigeria its biggest consumer market.

The boom in trade between the two countries stems from a 1999 bilateral trade agreement and the inauguration in 2002 of a Binational Commission. The Commission has facilitated co-operation between the two countries in areas such as defence and security, science and technology and education and culture. It has also reduced obstacles to trade with agreements on taxation and the protection of investments. It meets twice a year and is

chaired at Deputy President level.

The benefits flowing from these arrangements can be seen in the fact that in the four-year period from 1999–2002, there was an approximate 540% increase in South Africa's exports to Nigeria. In 2003, two-way trade flows between SA and Nigeria amounted to R5,3 billion. Of that, South Africa's exports were valued at R2,3 billion while its import share, 98.4% of which is oil, amounted to R2,7 billion.

As of mid-April 2003, an estimated 55 South African companies were doing business in Nigeria (Table 1 below). The single largest investor is MTN. Its entrance into the Nigerian market came by way of the first telecommunications auctions process in Africa in January 2001, when it was awarded one of Nigeria's Global Systems Mobile licences for a fee of US\$ 285m. At the time, MTN's entrance into the Nigerian market was the company's single biggest investment outside of South Africa, and by the end of 2003 it had spent more than

By contrast, the Nigerian business profile in South Africa is modest and shrinking, given the sad demise of its most public investment in the form of *ThisDay* newspaper

off Lagos harbour, which is being spearheaded by Game, Shoprite, V&A Waterfront, and JHI Real Estate.

A second is the development of the Tinapa business and tourism resort in the Cross River State of Calabar. Standard Bank, Protea Hotels, Shoprite Checkers, Southern Sun, and the Industrial Development Corporation are the major stakeholders in this project.

Yet, while some companies are thriving in the Nigerian market, a handful have faltered. Vodacom recently closed its Nigerian operation when it was accused of using corrupt measures in its attempt to enter the market through a joint venture with the local cellular phone company, Econet Wireless Nigeria (EWN). South African Airways' (SAAs') bid for the national airline failed when the Nigerian government shifted position and reneged on an agreement with SAA and opted

Training companies, particularly in the area of IT, get a lot of business from Nigerians and there are thousands of Nigerians working in a wide range of fields such as academia, human resources, property, accounting and the medical field."

And, then of course, there is the whole arena of organised crime and other illicit activities in which it is popularly perceived that significant numbers of Nigerians are involved.

Finally, what future is there for the Nigerian-South African relationship? On the political side, conditions for a closer strategic alliance are favourable. On the economic side, while Nigeria currently enjoys a positive trade balance with South Africa, the relationship is unequal and favours South Africa.

Nigeria's trade link with South Africa is based almost entirely on oil, whereas South Africa's trade is diverse and includes a range of products that Nigeria's massive consumer market clearly wants. It is our view that, provided the Nigerian state holds firm and does not fragment in the face of sectarian violence, South Africa's trade in the Nigerian market can only grow.

The opposite does not apply because, apart from oil, Nigeria has little or nothing to offer to the South African consumer. The inequality in the relationship will, therefore, grow and ultimately the trade balance will turn in South Africa's favour. As the Chief Executive Officer of Vodacom noted in June 2004, "Nigeria is very important. It's the second-most important economy in Africa and it's very difficult not to be in Nigeria" (*Business Day*, 8 June, 2004). An increasing number of South African businesses are recognising that fact and, as they enter that market, the gap between Africa's largest and second-largest economies will widen. •

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This article is based on the chapter "South Africa and Nigeria: Two unequal centres in a Periphery" in State of the Nation: South Africa 2004-2005, published in November 2004. For information on how to order the book, see the back page.

Table 1: SA companies in Nigeria and Nigerian companies in SA

SA companies in Nigeria	Nigerian companies in SA
MTN, Eskom, Stanbic, Stanlib, JHI Properties, Nu Metro, Game, Shoprite Checkers, Multichoice, Spoornet, Woolworths, PetroSA, Umgeni Water, V&A Waterfront, Arivia.kom, Sasol, ACSA, IDC, Rand Merchant Bank, Johnnic Business Day, Grinaker LTA, Group 5, Murray & Roberts, Nampak, SABMiller, Broll, Famous Brands, St. Elmos, Aberdare, Transtel, Global resorts, Protea, Southern Sun, Fleet Africa	ThisDay Newspaper, FS African Standard, Union Bank, First Bank, Philips Consulting
<i>Constructed from the HSRC Corporate Mapping Database</i>	

US\$ 1 billion in infrastructural and other start-up costs in Nigeria. By then, its number of subscribers had topped the one million mark. Towards the end of 2004, its subscriber base has grown to 1.97 million. In 2003-04, MTN recorded an after-tax profit (ATP) from its Nigerian operation of R2.4 billion, representing 55.8% of its total profit from its non-South African ventures.

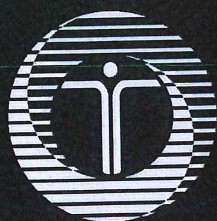
MTN's success in Nigeria has sparked multi-million rand projects by a cluster of South African investors. One involves the waterfront development and rehabilitation of the Bar Beach area of Victoria Island, just

for Virgin Atlantic as a joint-venture partner with its national carrier.

By contrast, the Nigerian business profile in South Africa is modest and shrinking, given the sad demise of its most public investment in the form of *ThisDay* newspaper. However, according to Dianna Games, Managing Editor of the *SA Journal of International Affairs*, this paucity of companies only "masks the vibrant business relationship that Nigeria has with South Africa". For example, she says, "Many Nigerian entrepreneurs have invested millions of rands in South Africa and source products from the country.

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