

# Navigator

Now, next and how for business

South Africa



Together we thrive

# Overview

## Confidence shines in the Rainbow Nation

The Rainbow Nation has yet to turn the corner after a tumultuous few years during which GDP per capita barely grew<sup>1</sup>. With the country enduring its longest downward phase of the debt cycle since 1945<sup>2</sup>, the World Bank has cut its growth forecast for South Africa through to 2021. However, current president Cyril Ramaphosa promises reforms to stabilise the economy and stimulate growth.

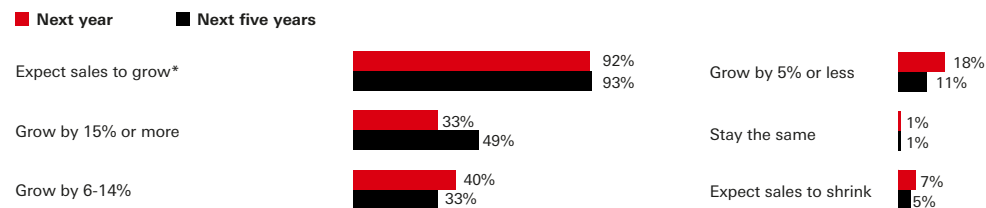
# State of play

## Unbridled optimism despite economic instability

South African companies are highly optimistic about their prospects, both in the short and longer term. A significant 92% project growth for their business over the next year. The responses of South African firms indicate a large number of the kind of highly entrepreneurial businesses the study characterises as high-growth firms. A third of South African companies are classed high-growth firms, meaning they are predicting sales growth of 15% or more in the next year. Over five years the percentage of firms with expectations of such high growth jumps to 49%.

Aside from targeting ambitious growth, three-quarters of South African companies are prepared for total or substantial change in their business over the next year.

### Expectations for future business growth



\*This is the sum of grow by 5% or less, 6-14%, 15% or more.



## What you need to know

- 1 South African firms are among the most optimistic globally about prospects for growth.
- 2 Expectations of high growth over five years are even more positive than for short-term growth.
- 3 Agility and resilience are high, with 75% of South African companies ready for their business to change substantially or completely over the next five years.

## What your business can do



Adopt a more entrepreneurial approach to prepare for the substantial changes that are increasingly likely in every market.



Improve your products and services. 36% of South African companies see this as the best way to counter threats.



Consider entering new markets. Whether to protect or grow, breaking into new markets is considered paramount by agile, resilient firms.

<sup>1</sup><https://www.economist.com/middle-east-and-africa/2019/10/13/south-africas-president-promises-big-results-eventually>

<sup>2</sup><https://www.bloomberg.com/news/articles/2019-09-25/south-africa-s-economy-enters-70th-month-of-downward-cycle>

# Trade outlook

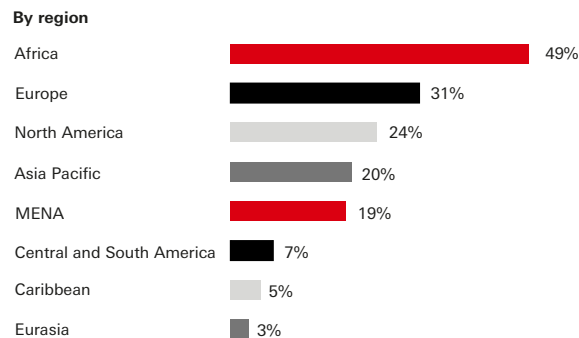
## Africa grows in importance with trade to Europe down

International trade is a little more sluggish for South African businesses than the global average. Three in five South African companies have reduced or stopped trade with other markets since 2017, while more than half (52%) plan to do so in the next two years. The importance of Africa has increased by 9% to 56%, while trade to Europe has reduced, particularly to the UK and France.

Looking forward, Africa and Europe continue to be key, although the US is the second most important country after Botswana for international expansion over the next three to five years. 18% and 16% of South African businesses that will expand to Botswana and the US in the next three to five years are motivated by favourable partnership opportunities.

It is interesting to note that, reflecting their wider role, South African firms are highly engaged with the concept of trade as a force for good. Businesses are broadly twice as likely as their global peers to see international trade as a driver to address issues such as poverty and inequality, and to drive inclusion, support employment, raise incomes and foster peace and stability.


### Future trading expansion markets in the next three to five years



### What you need to know

- 1 61% of South African companies have stopped or reduced trading internationally in the past two years.
- 2 Africa and Europe continue to be the key markets for South African goods and services but the US is growing in importance.
- 3 South African firms are twice as likely as their global peers to see international trade as a solution to social issues.

### What your business can do

-  Seek favourable partnership opportunities. For South African firms this is a key reason to expand internationally.
-  Look at expanding into new markets and explore government incentives to do so.
-  Watch out for declining customer demand in your existing export markets. South African companies cite this as a key reason for withdrawal.

# Protectionism and geopolitics

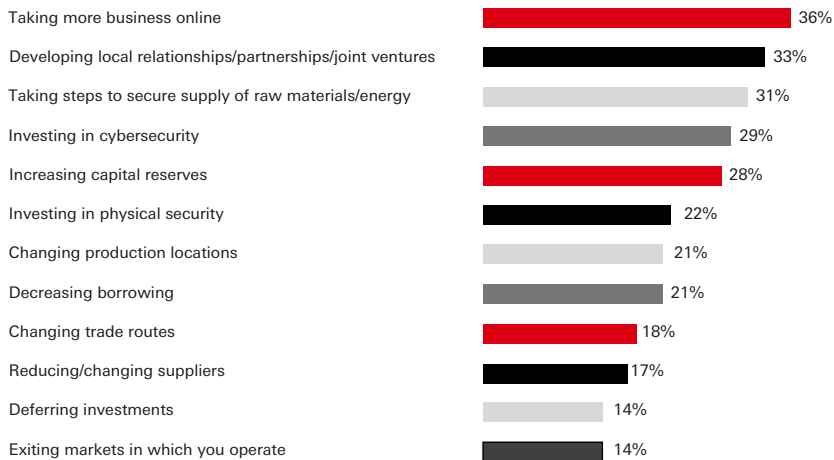
## Protectionism is widely felt in South Africa

The rise in protectionism globally is increasingly felt in South Africa, with more than three quarters of businesses (76%) feeling that governments are becoming more protective of domestic businesses.

The good news is that protectionism doesn't seem to be hurting most South African companies. Three in five who feel protectionism is growing say they have gained more than they lost from its effects and 29% cite increased competitiveness as the reason. However, another 35% of firms identified an increased cost of doing business due to tariffs.

Meanwhile, the impact of geopolitics is very strongly felt – 78% of South African businesses say it is having an effect, compared with only 64% of firms globally. As a result, 36% of South African companies are taking more business online. Other popular strategies include taking steps to secure supply of raw materials, investing in cyber security, increasing capital reserves and developing local partnerships. It is also worth noting that almost a quarter of businesses (22%) employ physical security to mitigate geopolitical risk.

### Ways in which businesses are coping with geopolitics



## What you need to know

- 1 76% of South African businesses feel affected by protectionism – noticeably above the global average of 65%.
- 2 60% of South African businesses say they see more gain than loss from protectionism.
- 3 More than three quarters of South African firms are feeling the impact of geopolitics, with a wide range of strategies employed to counter the threat.

## What your business can do



Enter joint ventures with local companies to counter protectionism, or consider acquiring them as many South African firms do.



Look at taking business online to counter the threat from both protectionism and geopolitics.



Take steps to secure your supply of raw materials in the event of geopolitical issues impacting your supply chain.

# The sustainable future

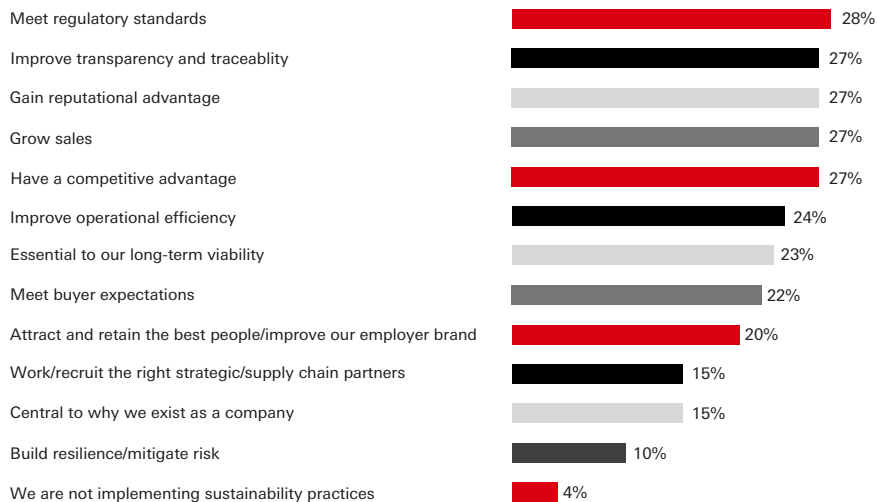
Firms respond to pressure from all sides to be more sustainable

In the past few years, sustainability has become an important theme for businesses globally and is increasingly seen as a driver for growth. South African companies are feeling particular pressure from governments and investors to become more sustainable in the next five years, with competitors, regulators, employees and end consumers also an influence. Currently, pressure from the latter is less strongly felt than elsewhere, with 26% of South African firms noting their influence compared with 34% globally.

Environmental, social and governance (ESG) metrics are recognised as highly relevant by South African companies, with social and governance issues particularly important. 87% of firms recognise the importance of social aspects (compared with 79% globally), while 79% are interested in governance issues (the global average is 68%).

Meanwhile, three quarters of South African businesses think they have a role to play in achieving the UN's Sustainable Development Goals (SDGs) and 37% think that role is significant.




## Motivations for implementing sustainable practices



## What you need to know

- 1 South African companies feel the pressure to be more sustainable in the next five years from governments, investors, competitors, regulators, employees and end consumers alike.
- 2 ESG factors are recognised as highly relevant by South African firms, particularly social and governance issues.
- 3 South African businesses are significantly more likely to see a role for themselves in delivering the UN's SDGs.

## What your business can do

-  Ensure your sources of raw materials are sustainable. This is the most important environmental factor for South African companies.
-  Look at labour standards and fair treatment of employees. Nearly a third of South African businesses see these as important social issues.
-  Address anti-bribery/corruption and executive salary/compensation, which are the top two governance factors in South Africa.

# Breakthrough tech

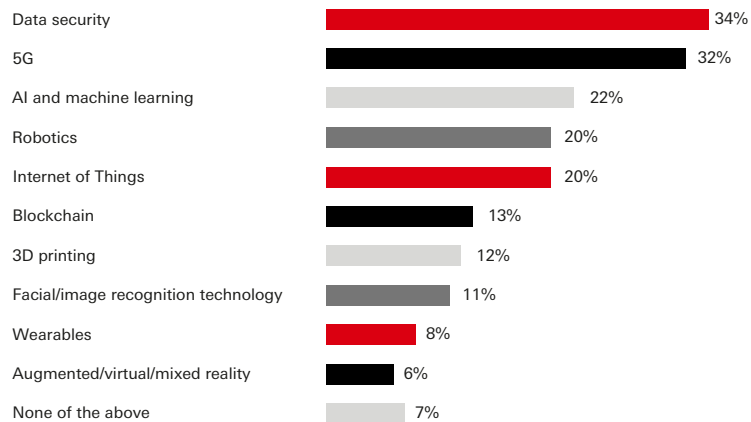
## Firms set for a tech explosion

Reflecting their forward-looking optimism and entrepreneurial spirit, South African companies are highly enthusiastic about the potential of new technology in the next five years. Levels of interest in data security technologies and 5G are particularly high and noticeably above global averages for each. Artificial intelligence (AI), robotics, the Internet of Things (IoT), blockchain and 3D printing are also rated as technologies that will have the greatest impact in the next five years.

Firms see these technologies as multiple enablers for business improvement, with better productivity and increased speed to market the most popular perceived benefits overall. On an individual level, those that believe data security will be important feel it will help increase transparency and compliance, while AI, 5G and robotics are expected to reduce cost by firms who rate their importance.

South African businesses see North America (and in particular the US) as the major technology hub globally. However, Europe and APAC are also considered important.

### Technologies businesses think will be important over the next five years



## What you need to know

- 1 Engagement with new technology is high, particularly data security and 5G.
- 2 The key benefits expected from implementing new technology are improved productivity and increased speed to market.
- 3 South African businesses largely look to other regions for technological expertise, as they see North America, Europe and APAC as dominant in this respect.

## What your business can do



Invest in data security. This is seen as the most important technology by 34% of South African companies.



Take steps to understand the potential of 5G for your business. 32% of South African firms think it will have a big impact in the next five years.



Explore the potential of AI and machine learning as a driver for growth.

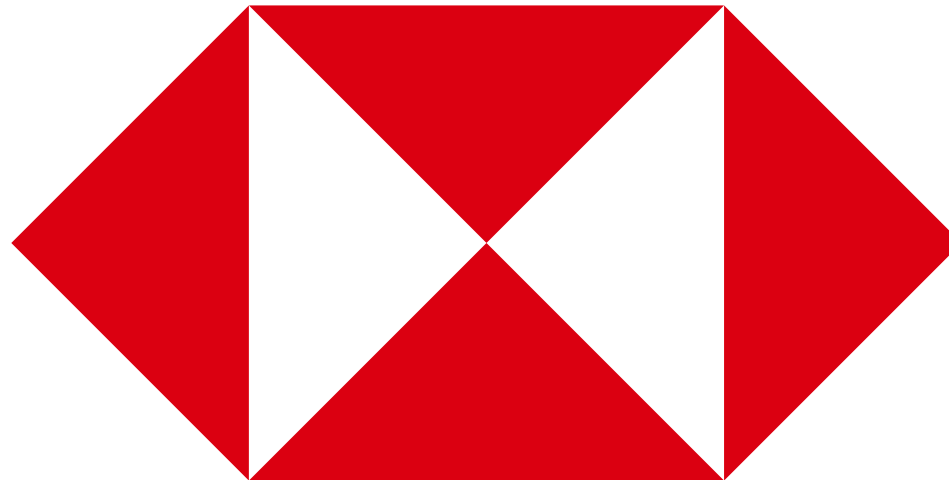
## About HSBC Navigator South Africa

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in South Africa. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2, 3, 5 & 6: all companies. n=200

Page 4: companies who are impacted by geopolitics. n=193



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