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Africa Current Issues

Can South Africa / Nigeria Relations be Recalibrated?

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Introduction

South Africa and Nigeria, the two African powerhouses, experience a rocky relationship. The leadership of the time tends to set the tone. Sani Abacha and Nelson Mandela clashed over human rights abuses. Mbeki and Obasanjo developed close ties and shared their vision of a united continent. A return to tumult under Zuma and Jonathan reversed this positive trend.

Following the xenophobic outbreak of violence in South Africa, the two countries must now reconcile forceful responses from all quarters. These events bring their often-volatile relationship into sharp focus. However, the episode may emerge as a catalyst for resetting bilateral ties across political, social and business domains. Both Presidents Cyril Ramaphosa and Muhammadu Buhari see enormous upside potential from building a far closer working relationship. Healing rifts between the continent's two biggest (and slowest growing) economies has never been more important. Overcoming the critical barriers to the social and economic advancement of Africa will require putting egos, ideological differences, short-termism, and competitive rivalries aside.

This article explores the tensions between the two countries and the potential that recent events will lead to a pact that benefits not only the two countries, but also the continent as a whole. It will examine how a changing approach to diplomacy may foster more stable relations, unpack the economic rivalry between the countries, review how mistrust and political overreach strained commercial relations, and explore the impacts on businesses.

The private sector is the growth engine in fiscally hamstrung economies such as Nigeria and South Africa. For any business in any industry that hopes to successfully operate in these challenging and fluid business climates, understanding the underlying dynamics is critical. Both countries offer very lucrative returns to private sector players able to negotiate the constantly shifting legal, economic, bureaucratic and operational impediments. However, failure could see the promise of fortunes end in financial and economic ruin.

1. Diplomatic ties under strain

The recent WEF on Africa was intended as more than a fresh start for bilateral relations.¹ Both Ramaphosa and Buhari desperately sought a catalyst to kick-start their ailing economies. The much-vaunted African Continental Free Trade Agreement (AfCFTA) was to be the centrepiece. Plans to bury the hatchet were very nearly derailed by xenophobic attacks on African nationals by disenfranchised South Africans.

Fallout from the violence spilled beyond South Africa / Nigeria relations, with several countries whose citizens had been attacked and harassed condemning the outcomes, and some hinting at insufficient action by the South African government.

Fortunately, the spat did not degenerate into an all-out standoff between two obstinate parties. This has been the case in the past. Ramaphosa made no excuses admitted that fault lay entirely with South Africa and apologised. Buhari did not revel in Ramaphosa's apology and Nigeria and South Africa eventually signing 30 trade and cooperation agreements.²

Both presidents showed a willingness to make concessions and displayed refreshing diplomatic maturity. Both set aside egos and sought cooperation rather than competition realising that the longer-term impact of violence and distrust is devastating for investment, job creation and economic growth.

The events in the run-up to the summit and the way in which they were managed appeared against a backdrop of the signing and adoption of the AfCFTA, an agreement set to drive economic growth by freeing up intercontinental trade. Of course, there is still much progress to be made, and a great deal that the private and social sectors can learn from what appear to be warming political relations.

2. Mending political fences

Even as politicians move closer and discover common ground, existing business and societal cleavages threaten political progress to date. The violence that erupted in South Africa targeted not only foreign nationals but also their businesses, many looted and razed to the ground.

The fallout saw cancellation of international football matches with South Africa³, a private Nigerian airline offer to fly Nigerians back to Nigeria⁴, and Nigerian artist “Burna Boy” commit to an ultimately cancelled “Africa Unite” music concert.⁵ The cancellation of “Africa Unite” speaks volumes about lingering tensions between South Africans and Nigerians, particularly on social levels.⁶

The divergent responses by political, corporate and social leaders to the violence demonstrate the far-reaching consequences of disunity, animosity and mistrust. They also reveal that despite political leaders’ attempts to quell tensions, divisions run far deeper at the private and social sector levels. These divides may prove far more difficult to bridge.

African countries and citizens are stronger united and working toward a common goal. If leaders are going to quell social tensions, they must expose the stereotypes and narratives of distrust between Nigerians and South Africans for the falsehoods they are. Without sincere buy-in on the ground, no amount of diplomacy or trade pacts will lead to the realisation of economic growth and social cohesion on the continent.

3. Economic Relations: Unhealthy Competition?

South Africa and Nigeria are, and have always been, fiercely competitive rivals. Their rivalry reflects their ambitions for continental dominance.⁷ From the football pitch, to foreign direct investment (FDI), and on to the size of economies and growth rates, every win or loss is a matter of national pride. Runners-up are often left red-faced, forced to find excuses or a new metric by which to measure their superiority. And often, the two get in their own way.

South Africa ceded its title as the continent’s largest economy to Nigeria in 2014 (after a statistical rebasing in Nigeria), forcing South African politicians and reporters to refer to their nation as “Africa’s most industrialised country”. The rivalry to be the “the biggest” or “the most” illustrates how the two nations attempted to gain an advantage over each other and seek continental supremacy despite their downward vectors. They can now lay legitimate claim to being amongst Africa’s slowest growing economies, suggesting an urgent need to alter their approach.

Their combined economies account for half of Sub-Saharan Africa’s GDP⁸. Given the erratic policy shifts and the resultant sluggish growth, the pair acts as a brake on the entire continent’s growth trajectory. In essence, rather than leading the continent forward, the once would-be economic leaders of Africa are holding it back (Figure 1).

Figure 1: GDP 2000-2024

Source: IMF

Internal political and ideological battles and slowing world growth are condemning the South African and Nigerian economies to near stagnation. South Africa's GDP expansion was 0.8% in 2018, and is unlikely to exceed 0.5% this year. Nigeria's economy grew at 1.9% in 2018 but continues to decelerate, far from the double-digit figures posted in 2010.⁹

These two African nations once promised enormous potential for economic growth and development but have seen this squandered by years of corruption; fiscal mismanagement and a devastating trail of ruinous, not simply haphazard, policy implementation. The effects appear for all to see: South Africa's overly onerous visa requirements, prejudicial mining policies and upheaval at the helm of its finance ministry¹⁰, or Nigeria's clumsy foreign exchange interventions, import bans and unexplained delays in appointing a cabinet.¹¹

Both governments are further guilty of encouraging left-leaning economic nationalism, of creating environments of regulatory uncertainty, and short-sighted interference in the private sector.¹² These policy errors have resulted in dismal business confidence and an unattractive climate for foreign investment.

All is not well in the business world as a result. Frequent electricity outages and spiralling labour costs cripple South Africa's mining and manufacturing sectors. The Nigerian economy is buckling under the effects of a subdued oil price (and oil field insurgencies in the north).

To avoid being left behind, both countries must set aside their counterproductive rivalry and implement business and investor-friendly economic policy reform, for without this; there can be little if any improvement in commercial trade and economic advancement.

4. Commercial Ties: Allies or Frenemies?

Despite the history of economic competition, trade relations between the two countries have remained relatively strong. Food products (both unprocessed and processed), chemical and mineral products, vehicles, and steel account for the bulk of SA exports to Nigeria¹³, while 99% of South Africa's imports from Nigeria are mineral products, primarily oil.¹⁴

Trade and commercial interests between the two nations have been complicated by Nigeria's imposed food import bans in an attempt to shield its domestic industry from cheaper competition.¹⁵ Similarly, South African cement producers, struggling in the face of weak demand petitioned the government to hike cement tariffs. Nigerian Dangote Cement, which now owns SA based Sephaku Cement¹⁶ nevertheless sees great potential for infrastructure development projects in Africa.¹⁷

A growing trend toward protectionism is not unique to these two countries. Protectionism is spreading in developed markets. The xenophobic violence noted earlier sparked fierce nationalism and calls for protectionism in Nigeria.¹⁸

After the targeting of foreign nationals in South Africa, All Progressives Congress (APC) party chairman Adams Oshiomhole called for the nationalisation of some SA companies in Nigeria, with forced listings on their domestic stock exchange already in place.¹⁹

South African multinationals operating in Nigeria, fearful of retribution, were quick to condemn the outbreak of xenophobic violence. South African broadcaster Multichoice's Global Head of Corporate Affairs said:

"The on going violence in South Africa against foreign nationals is against the spirit of Africa, and counter-productive to the decades of work done by African leaders and well-meaning organisations to unite the continent".²⁰

Operating conditions for South African companies in Nigeria were extremely difficult, even before the anger stoked by the xenophobic violence. Nigerian authorities, already distrustful of SA entities and quick to act on perceived transgressions, often accuse them of tax evasion and illegal repatriation of profits and punish complicit banks.²¹

The targeting of MTN by the Nigerian regulator is a prominent example of government interference. The telco faced potential fines of USD 15 billion over the last five years.²² South African television broadcaster Multichoice also faced sanctions for alleged copyright infringement.²³

Many South African firms doing business in Nigeria learned difficult lessons. South African retailer Woolworths closed its three pilot operations in Nigeria after a year, citing high rental costs, prohibitive import duties, and the complexity of supply chain processes. The company called these issues "highly challenging".²⁴ Tiger Brands exited its two-thirds stake in Dangote Flour Mills, selling it for USD 1 after losing nearly ZAR 2 billion²⁵, while Mr Price's Nigerian operations continue to struggle. Thus, South African companies tread warily in Nigeria and many will have good reason to rethink their market expansion given government interference and the perceived singling out of SA companies.

South African authorities have not always been welcoming either, despite being "open for business".²⁶ State (over) regulation focuses largely on the mining sector. There are far fewer Nigerian companies operating in South Africa than South African companies operating in Nigeria, due mainly to the monopolistic structure of the South African corporate landscape, which likely fuels their perceived arrogance in Nigeria.²⁷

More damaging for both nations is the incalculable impact on foreign investment, due to companies and potential investors deferring or cancelling altogether investment in the two countries on concerns over constantly shifting policy and regulatory overreach.

Both South Africa and Nigeria have long been overly reliant on foreign portfolio inflows to offset economic imbalances as they struggle to attract critical foreign direct investment. SA attracted a net USD 5 billion in 2018 and Nigeria USD 2 billion, but both have FDI inflows as a percentage of GDP below 1.5%.²⁸ Without fiscal reform and a less intrusive stance to foreign investors, both risk being left behind on the continent they aspire to steer.

5. What it means for business

Any well-informed foreign investor can easily identify many sound reasons to shy away from pursuing market penetration in either of these jurisdictions:

- Weak economic growth dilutes much of the earlier economic progress made by both countries, particularly as unemployment and disaffectedness continue to increase;
- Government policy, , is often reactionary, fluid and inconsistent, while regulatory interference remains a persistent threat to a stable operating environment;
- Internal political and ideological battles within both governments ultimately led to catastrophic nationalistic and protectionist agendas, egged on by leftist oppositions;

- The recent outbreak of xenophobic violence and retaliation demonstrate that foreign companies are becoming increasingly vulnerable to retribution.

Despite numerous market penetration failures in both countries, many companies based in Africa seek to expand their operations in Nigeria and/or South Africa, due to:

- Large, relatively untapped markets, sizeable young populations, and growing demand for consumer goods;
- Economic advances over the past two decades, generating rising income levels and steady migration of large swathes of the population up the living standards ladder.
- Opportunities for employment in companies geared toward construction, renewable energy and manufacturing, encouraged by incentives to help alleviate chronic power shortages and government infrastructure shortfalls.
- Clear determination by both countries to be the supreme regional hegemon; and
- Pending commencement of AfCFTA trade.

Companies seeking to enter either country must realistically balance the upside potential with the inherent risks. Market, economic and policy volatility are realistic starting points for potential investors. Winning at all cost should not be the primary strategic goal. Becoming combative or adversarial is seldom a winning strategy. Instead, businesses must embrace the development potential of each market. New entrants should seek assistance from local partners to overcome adversity or regulatory and policy obstacles. Indeed, many locals are deeply sceptical of any foreign company seen as attempting to extract profit without making a societal or fiscal contribution.

Investors must also appreciate the simple, but important distinction that Africa is not a country. A one-size fits all approach is usually ineffective, and often perceived as arrogant by the local population. An understanding of the cultural nuances and sensitivity to historic imbalances will help new entrants avoid being branded as arrogant or driven only by profit at the expense of the local population. New entrants should cultivate local partners with deep knowledge of the operating environment, as this tactic may be the difference between success and failure.

For investors, the key takeaway is simple – Africa's giants may be too big to ignore, but they are not too big to fail.

6. Where to from here?

"When the elephants fight, it is the grass that suffers," aptly captures the consequences of the discord between South Africa and Nigeria at all levels. Yet, there are signs of healing.

For the first time in a long while, the politicians sat around the table and worked toward a common goal. Relations on a private sector and societal level must follow to undo the ailments governments are committed to heal. Political leadership and maturity is vital.²⁹ What is required is exceedingly simple in theory, but fraught with complexity and pitfalls without societal buy-in. The xenophobic violence, rather than driving the two countries further apart, drew them closer together in their joint condemnation of the outbreak. It also provided an opportunity to reset their historically rocky relations ahead of the commencement of AfCFTA trading. To jointly realise the promise each country holds, maturity at the political, business and societal level must prevail over reactionary responses.

- Both must embrace the reality that collaboration is required. There is little sense in competing for what will ultimately become a shared destiny;
- Economic diplomacy will allow the collective strength of these two countries to be more impactful, leading the continent to greater prosperity, rather than holding it back (AfCFTA must be the platform for this);
- Governments must create and maintain a business-friendly investment environment through stable policy and minimal regulatory interference. The private sector is the engine of growth. Policy must simply be the enabler.

If done correctly, the collaboration could create a virtuous cycle that will catapult not only Nigeria and South Africa, but also the continent as a whole to higher growth trajectories. Failure to address underlying tensions could doom both countries to further economic slide and a retreat in foreign business investment.

It would be unthinkable, especially at a time when African countries must now rely on each other more than ever, to jeopardise the progress thus far because of unfounded mistrust and suspicion on a business and societal level.³⁰ There has never been a more dire need to set egos and competition aside at all levels for the greater good of economic progress and upliftment. Ignoring the need for unity could fracture continental relations irreparably and throw the future of the AfCFTA into question.

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