Development Centre Studies

Regional Integration, FDI and Competitiveness in Southern Africa

By Andrea Goldstein

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DEVELOPMENT CENTRE OF THE ORGANISATION
FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Foreword

This publication results from the Development Centre's work on Trade, Competitiveness and Adaptive Capacity. Specifically, it comes under the 2003/2004 Work Programme topic of clarifying how regional integration strategies and sound economic policies could enhance the pattern of growth and attractiveness to foreign capital, in particular in very poor countries.

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Preface

Foreign direct investment (FDI) plays a key role as an engine of economic growth and development. Under the right conditions, foreign capital can help close the gap between capital needs and domestic savings, raise skills in the host economy, contribute to technological transfer, widen market access and improve the quality of socio-economic and corporate governance. Sub-Saharan Africa largely remained at the margin of global FDI flows during the boom years of the 1990s. Perception of a poor investment climate, small market size, inadequate infrastructure and insufficient knowledge of investment opportunities have been blamed for the continent's low performance. This is particularly worrying for Southern Africa. Despite a long record of economic integration, and correspondingly high levels of FDI flowing between SADC members (principally originating in South Africa and, to a lesser extent, Mauritius), FDI from outside the area is hesitant, especially in the light of the exceptional nature of foreign companies' involvement in the Angolan oil industry.

As part of the Development Centre's mandate to investigate financing development and how financial flows affect the development process, this study analyses the structure of FDI in Southern Africa. It carries out a detailed survey of FDI flows throughout the region and reviews FDI in selected industries. One of the key conclusions — good news for Southern Africa — is that, where investment has taken place, the experience has been rewarding for both sides, with a positive impact on workers and domestic entrepreneurs in the host economies. Despite this experience and efforts at providing incentives for foreign investors, the bad news is that private investment remains coy. The reasons for this, suggests the author, are relative macroeconomic instability, low levels of infrastructure, a labour-market skills deficit, and, especially, a poor political and social reputation.

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There are lessons here for other parts of Africa and, indeed, for other economies in the developing world. This study reinforces the lesson that an FDI strategy can only be based on enhanced domestic investment. Political instability and institutional unpredictability, however, still permeate the business environment in many countries. Such "bad reputation" can be reduced by investing in physical infrastructures and skill levels, but also in better political and social policies and institutional reform. While international rules and regulations may support domestic policy reform, they can be no substitute for it.

Louka T. Katseli
Director
OECD Development Centre
Paris, September 2004

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Executive Summary

Policy makers in emerging and developing economies are increasingly conscious of the role that foreign direct investment (FDI) can play in boosting productivity and income growth. It can bridge the savings/investment gap, introduce modern capital goods and state-of-the-art management practices, sustain the drive to reform host countries' economic policies and create global vertical production networks within which multinational firms locate input processing in their foreign affiliates. Policy interventions may help to maximise the benefits and minimise the unintended consequences of FDI, but they may also introduce additional distortions and aggravate problems.

This study explores major FDI trends in Southern Africa and analyses the impact of the activities of multinational corporations (MNCs) on the region's ability to compete on global markets. While FDI flows to non-OECD countries have emerged as one of the key features of globalisation, Africa lags behind other regions. Reasons include a high incidence of war and domestic political unrest, inappropriate governance standards, price and currency instability and small market size. The adoption of economic liberalisation measures, the inroads made by democracy and progress in regional integration have all combined to improve the attractiveness of the 14-member Southern African Development Community (SADC). Established in 1992 and relaunched as a Free Trade Area in September 2000, SADC aims to promote development and economic growth, alleviate poverty, enhance the standard and quality of life for the people of Southern Africa and support the socially disadvantaged through regional integration.

Severe data limitations outside South Africa mean that relatively little is known about FDI in the SADC. This survey describes its economic, normative and legal framework, examines the importance of SADC integration in explaining FDI and analyses its impact on individual nations' and industries' arduous paths towards growth-enhancing insertion into the world economy.

FDI flows remain lower in SADC than in Asia, Eastern Europe and Latin America, although they still are substantial, especially in some countries. South Africa's market size makes it the natural destination for FDI destined to supply local demand. The associated higher quality of physical and human infrastructure further reinforces this locational advantage. Some other SADC members, on the other hand, seem unlikely destinations for foreign companies, owing either to their small GDP or to their bellicose climates. Angola, ravaged for almost 30 years by a now concluded civil war, has seen its strategic relevance as a source of oil for the industrialised world increase in recent years, with abundant FDI flows. Zimbabwe, on the other hand, has become an island of political uncertainty, with FDI flows drying up.

The evidence shows that the same opportunities that "multinationalisation" opens elsewhere exist in the SADC — as do the problems created in the process. The automotive industry provides a good example of how commodity-dependent, high-income developing countries can introduce mechanisms to deepen industrialisation and widen the sources of competitive advantage. Evidence of a virtuous FDI-efficiency cycle also appears in telecommunications — although here market competition plays a far more important role than the form of ownership (public *vs.* private, or domestic *vs.* foreign). In other supply chains, increasing market concentration accompanies the arrival of foreign companies. It exposes domestic firms to the reality of strong competition, but consumers may not necessarily benefit in the absence of appropriate regulatory mechanisms. This applies particularly in agri-business, where relationships between farmers, processors and retailers are very complex and emerging issues are similar in the SADC and in developed economies. Another important finding is that South African corporations have been particularly enthusiastic to invest in SADC countries — as well as the rest of Africa — from which OECD-based ones still stay clear. In this sense, regional integration is driven by the private sector, a feature that augurs well for its long-term success.

Governments must tackle important policy issues head-on if the region is to attract more FDI, make such flows less volatile, maximise their developmental impact and minimise the costs that opening to (distorted) world market forces may impose. The record of Southern Africa, and *a fortiori* of Africa, is wanting as far as various microeconomic factors are concerned — and these make companies flee. Recurring complaints include the high costs of doing business in the region, in interest rates, labour administration, transportation and freight costs, the seemingly unstoppable rise of notoriously high crime rates, especially in rural areas, and the deep distortions to business

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activity provoked by the HIV-AIDS pandemic. Much can be done to make economic and political climates welcoming to foreign investors. Firming so-called macroeconomic fundamentals is clearly necessary for its own good, not only because foreigners demand it but also and more fundamentally because there can be no reduction of poverty unless taxes are collected, fiscal receipts are spent on education, health and infrastructure and reduced external vulnerability smoothes exchange-rate volatility.

Equally fundamental, domestic investment must increase. The experience of the newly-industrialised countries in Asia suggests that growth precedes the FDI boom; foreign investors will start venturing into “strange” countries only when they see residents putting their money there. This applies to private agents as well as to public authorities. To generate sustainable growth, economic reforms must succeed in transferring resources to dynamic sectors and uses. To achieve this, policy makers must creatively package basic economic principles into institutional designs sensitive to local opportunities and constraints. The debate on development strategies now resonating in South Africa and other large emerging economies such as Brazil and India is not a luxury, but rather a necessary component of a broader package that aims at improving their competitiveness.

Realising the efficiency spillovers from inward FDI depends for its part on openness to imports and the technical capability of local firms. Market competition remains the most efficient tool to put pressures on producers of goods and services, as proven by OECD experience. The emphasis on market-friendly regulatory reform, however, does not preclude exploring more active forms of policy intervention, including innovative private-public partnerships, to improve SADC countries’ ability to attract high-quality FDI. Nonetheless, it is difficult to provide unequivocal policy advice, because some policies that maximise the potential spillovers from a given pool of appropriable technology (such as technology transfer requirements or active competition policies) may actually reduce the attractiveness of the host country to some foreign investors.

Finally, the increased role of foreign investors has a political dimension. Growing public concern about “financial colonisation”, especially by South African companies, has sparked controversies in countries such as Tanzania and Zambia. Political opposition to FDI is not exclusive to Africa and even less so to SADC. It often originates in the manipulation of public opinion by groups that exploit the rents created by autarchic economic policies; emerging competition from more efficient foreign producers obviously threatens them. It calls for a wide range of measures, from better public education on the reality

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of globalisation to stronger actions to transfer its benefits to the public at large and introduce compensatory mechanisms to those that lose from it. Different considerations apply when foreign companies are accused of not paying sufficient attention to governance issues — if they are not themselves at the origin of corruption and malpractice. Of the various approaches suggested, one would make all such payments a legal reporting requirement. An alternative, proposed by Global Witness and George Soros, would require such reporting for listing on major stock exchanges. Under a third option, companies would report confidentially to the international financial institutions, which would then collate the information and publish aggregate revenue figures. This has the advantage of preserving the confidentiality of firm-specific information while providing a global certification system for information.

In sum, no first-best "institutional technology" is inherently superior as a quick fix for countries that wish to enhance their pro-active participation in global markets on the basis of domestic and foreign capital. This reinforces the need for fair national evaluations of different options, devoid of ideological *a prioris*. It also highlights that national interests diverge between industrial and developing countries on the question of a multilateral investment framework.

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Chapter 1

Introduction

Summary

This opening, introductory chapter briefly discusses the economic, geographical and policy conditions under which foreign direct investment (FDI) occurs in the countries and regions of the world. It considers especially FDI in and among countries that belong to preferential trade arrangements (PTAs) of different types and among different groups of countries. The focus then narrows to the main subject of this study, FDI within the 14-member South African Development Community (SADC) and why such FDI patterns hold particular interest. It poses several questions for analysis. How important is integration in explaining FDI to the SADC? What measures are governments introducing to attract finance to fill the resources gap? What are the underlying bases for competitive advantage and disadvantage in the evolving SADC economy, and what impact does FDI have on these nations' arduous paths towards growth-enhancing insertion into the world economy? What linkages have and have not been formed, especially within the agricultural and mining sectors, which might form a basis for future growth? What explains South African corporations' enthusiasm for investing in African countries — SADC and non-SADC — from which OECD-based firms still stay clear? How do macroeconomic developments, political events and institutional quality affect different foreign and domestic stakeholders? What policy measures can improve competitiveness, and how can donors help?

FDI to non-OECD countries grew into one of the key features of globalisation in the 1990s. FDI can contribute to productivity and income growth throughout different channels — bridging the savings/investment gap, introducing modern capital goods and more sophisticated management practices and sustaining the drive to reform host countries'

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economic policies (Fukasaku, 2002). In recent decades, as the rapid growth of trade in intermediate inputs has sustained overall world commerce expansion, the role of FDI in easing less developed countries' access to world markets has also gained importance. Much of this trade involves multinational firms locating input processing in their foreign affiliates, thereby creating vertical global production networks. Possible drawbacks of FDI may also exist. Sceptical and sometimes populist rhetoric on the evils of international capital flows, prevalent in the 1970s, pointed to such less positive phenomena: increasing outflows of foreign exchange due to high import intensity[1], profit remittances and technical royalties; excessive capital intensity and skill-biased technical changes; and raising wage and income inequalities between skilled and unskilled workforces and rural and urban areas. While the policy tide has clearly reversed since the 1980s, a fundamental note of caution persists. It derives from empirical tests on the FDI-growth nexus, which fail to find uncontroversially positive relationships (see in particular Carkovic and Levine, 2002). Policy interventions may help to maximise benefits and minimise unintended consequences, but they may also aggravate problems. For instance, granting investors incentives on the expectation that they will generate positive spillover to the rest of the economy may be counterproductive if they modify the relative costs of capital and labour and therefore lead to the adoption of a labour-saving technology. More fundamentally, however, the problem for many developing and least-developed countries lies in the lack of FDI rather than problems that may stem from its consequences.

Cross-border investment by manufacturing, mining and service companies is not new. For most of the 20th century multinational enterprises set up operations in far-flung markets either to access natural resources or to jump over tariff barriers. More recently, increasing FDI flows have been associated with trade liberalisation, both multilateral and through PTAs. The logic is similar. Integration should accelerate economic growth through enlarged domestic markets, tougher competition and more efficient resource allocation — all particularly relevant in developing countries and emerging markets. The North America Free Trade Agreement (NAFTA) provides perhaps the best example of this link. Under it FDI flows to Mexico from the United States and Canada and from third countries exploded (López-Córdova, 2001). These forms of North-South, economy-wide preferential arrangements, like the eastern and southern enlargement of the European Union, take place among neighbouring countries — some rich, some poorer. Yet this "geographical luxury" is not accessible to sub-Saharan African countries. They have two options, either South-South regionalism or economic partnership agreements (more limited in both scope and time) with OECD countries. Examples include

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the Trade, Development and Co-operation Agreement (TDCA) between the European Union and South Africa signed in October 1999, the Partnership Agreement between the ACP (African, Caribbean and Pacific) states and the EU signed in Cotonou in June 2000 and the Africa Growth and Opportunity Act (AGOA) introduced by the United States in 2001.

Mercosur offers an example of FDI explosion associated with a PTA among non-OECD countries. It illustrates the mixed evidence on the FDI-PTA nexus. Despite abundant signs of pro-efficiency measures, market-seeking strategies predominate and affiliates' productivity gains are not reflected in a significant increase in exports and even less in extra-zone exports (Chudnovsky, 2001). Many critics of Mercosur have focused on the special case of the automotive industry and see it as evidence of the negative effects of tariff-jumping FDI. More generally, the relationship between FDI and regionalism is multidimensional, and its outcome depends on specific features, such as the degree of integration at the outset, the significance of the changes brought about by the PTA, and — in particular — the nature of the simultaneous changes in countries' economic environment, including new-found macroeconomic stability (Blomström and Kokko, 1997). A further policy issue relates to income differences across and between regions and countries within a PTA and to the contribution that FDI may make to aggravate or alleviate them. The so-called "new economic geography" predicts uneven distribution of aggregate gains from economic integration; activities are likely to agglomerate in a few centres. On the positive side, the same literature also highlights that helping a less favoured region attain a critical mass of industrial activity, especially through selected projects with large multiplier effects, can enable it to take off (Ottaviano and Puga, 1998).

This study focuses on the Southern African Development Community (SADC)[2], established among 14 member countries[3] in 1992 and relaunched as a Free Trade Area in September 2000. This South-South PTA seeks to promote development and economic growth, alleviate poverty, enhance the standard and quality of life for the people of Southern Africa and support the socially disadvantaged through regional integration. It has interest for analysing the FDI-PTA nexus for two main reasons. First, Africa generally lags behind other regions in attracting FDI owing to a high incidence of political unrest and war, inappropriate governance and price and currency instability (Rogoff and Reinhart, 2002) — all of which also plague Southern Africa. Second, the SADC is peculiar for the towering role of its largest member, South Africa[4]. South Africa's market size makes it the natural destination for FDI destined to supply local demand. The associated higher quality of physical and human infrastructure further reinforces its locational advantage. Some of the other

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SADC members, on the other hand, seem unlikely destinations for foreign companies because either their GDPs are so small or bellicose climates have characterised them. Nevertheless, FDI has reached them too, and South African capital has been at the forefront. The considerable internationalisation of its major companies through outward investment as well as “financial hollowing out” through the transfer of primary listing abroad is another feature that distinguishes South Africa from other emerging markets. Anglo American, the largest South African business group (its primary listing is now in London), had a larger 2002 turnover ($20.5 billion) than the combined GDPs of Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles and Swaziland — which together have a population of 37 million people.

The literature on FDI in SADC is relatively thin, not least owing to massive data limitations outside South Africa. Thus little is known about the effects of increasing internationalisation on competition and competitiveness or about its implications for wages and salaries, a topic that has received considerable attention in countries such as Indonesia, Morocco, and Venezuela. The major exception is Te Velde and Morrisey (2001), which includes Zambia and Zimbabwe in a five-country study of the effect of foreign ownership on wages in Africa. After controlling for size and location, they find that foreign ownership results in wages 13 per cent higher in Zimbabwe and 23 per cent in Zambia, the second-lowest and the highest premium among the five countries. The same knowledge gap exists for the effects of FDI on credit constraints, which may be eased if foreigners reduce the pressure on domestic firms by bringing in scarce capital or reinforced if foreign firms borrow heavily from domestic banks when lending institutions consider them a safer bet[5].

Short of fully treating all these issues, this study tries to provide information and data bearing on several intertwined questions. How important is integration in explaining FDI to the SADC? What measures are governments introducing to attract finance to fill the resources gap? What are the underlying bases for competitive advantage and disadvantage in the evolving SADC economy, and what impact does FDI have on these nations’ arduous paths towards growth-enhancing insertion into the world economy? What linkages have and have not been formed, especially within the agricultural and mining sectors, which might form a basis for future growth? What explains South African corporations’ enthusiasm for investing in African countries — SADC and non-SADC — from which OECD-based firms still stay clear? How do macroeconomic developments, political events and institutional quality affect different foreign and domestic stakeholders? What policy measures can improve competitiveness, and how can donors help?

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Notes

1. In 1982 a World Bank document concluded that "Kenya's high import dependence is due to the fact that a large part of its industry is controlled by transnational corporations. These firms frequently preferred foreign inputs to local ones on the grounds that the former were more compatible with the technological process in use and their supply was more dependable" (Gulhati and Sekhar, 1981).

2. In 1992, the Southern Africa Development Co-ordination Conference changed its name to the Southern Africa Development Community (SADC).

3. Ranked by the size of their 2001 GDP in power purchasing parity, they are South Africa, Zimbabwe, Angola, Mozambique, Tanzania, Botswana, Mauritius, Namibia, Zambia, Malawi, Swaziland and Lesotho, plus the Democratic Republic of Congo and Seychelles for which World Bank data are not available. Nine of them (Angola, Malawi, Mauritius, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe) are also COMESA members, although Tanzania pulled out in 2001. Uganda has also applied to join SADC.

4. Although the largest economies — Brazil and South Africa, respectively — account for a roughly equivalent share of activity in Mercosur and SADC, in the former the second-largest one (Argentina) is also an important FDI destination.

5. Using firm-level data from the Côte d'Ivoire for 1974-87, Harrison and McMillan (2003) find privately owned domestic firms significantly more credit-constrained than foreign firms so that borrowing by foreign firms aggravates those constraints.

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Chapter 2

The Framework for FDI

Summary

This chapter looks at the framework for FDI in the SADC. It begins with a thorough description of the Community and its development, then moves on to examine the FDI policy regimes found in the different member countries. A separate section discusses the role of investment promotion agencies, and another the quality of the business environments of the members. The latter includes several macroeconomic and governance indicators and compares them with those in other emerging economies.

SADC

The history of regional integration in Southern Africa is as long as in any developing region. The Southern Africa Customs Union (SACU), established in 1910, is the world's oldest single market of its kind. It groups five countries (Botswana, Lesotho, Namibia, Swaziland and South Africa), provides for duty-free circulation of goods and grants transit rights across South African territory. The Common Monetary Agreement (CMA) of 1969, later renegotiated to become the Multilateral Monetary Area (MMA), included Namibia at independence but excluded Botswana. Administered by the South African Reserve Bank, the MMA established the rand as the Customs Union's common currency and made South African monetary policy the *de facto* SACU policy[1]. The structure of the SACU's common external tariff, determined by South Africa, primarily reflects its policy priorities and industrial structure and may sometimes impose an anti-export bias on members' industries (Jenkins, 2001),

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thus rendering it more difficult for them to attract FDI. A renegotiation of the SACU Agreement, concluded in late 2002 but still to be ratified by all parties, provides for a more democratic institutional structure, a dispute settlement mechanism, a requirement for common policies on industrial development, agriculture, competition and unfair trade practices and a new system regarding the common revenue pool and sharing formula (Hartzenberg, 2003). In its recent Trade Policy Review, the WTO commended the SACU but also called for a simplification of the tariff structure.

Following the end of apartheid and multi-party elections in 1994, South Africa embarked on new economic and trade reforms and joined SADC. A mid-1996 Trade Protocol committed the (then) 12 members to a programme of phasing out customs duties and other equivalent measures to establish an FTA with its own dispute settlement mechanism early in the 21st century. While the Trade Protocol identifies for elimination several non-tariff measures, such as import quotas, customs procedures and export subsidies, it excludes other important ones, such as local-content requirements, levies, other border charges and import (and export) licensing. SADC is also developing policies that reduce and eliminate barriers to the free movement of goods, services, capital and labour. It mobilises support for national and regional projects to promote sectoral co-operation in communications, energy, industry, mining, tourism and transport, and it operates projects partially financed by foreign sources. Certain specific sectoral tasks are apportioned to particular members. For example, South Africa co-ordinates SADC's finance and investment, Namibia co-ordinates projects in fisheries and Botswana holds the seat of the SADC Secretariat.

Implementation began in September 2000 after ratification by 11 members, based on the principle of reciprocity; i.e. tariff preferences will be extended only to members that have submitted their instruments of implementation. All five SACU countries have ratified the Trade Protocol and have a single schedule of tariff concessions *vis-à-vis* the SADC free-trade area. All SADC countries currently participating in the Protocol have deposited their implementation instruments. Duties on Category A products (mostly capital goods and equipment) immediately went to zero, with certain higher tariff-band goods moving to zero over either a three-year or five-year period[2]. SADC members made "differentiated offers" to non-SACU SADC countries plus Botswana, Lesotho, Namibia and Swaziland (BLNS), and "general offers" to South Africa. While SADC exports to South Africa benefit from reduced customs duties, SADC members have no corresponding obligation towards imports from South Africa but instead must submit proposals to reduce

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customs duties to nil within eight years. To enhance equity in the region, offers of tariff reduction to BLNS countries are heavily front-loaded, while offers to South Africa are mid-loaded to back-loaded[3]. Finally, the protocol includes a rules-of-origin regime that requires goods to be wholly produced in the member states, with specific provisions for mineral products extracted from either the ground or the sea-bed of member states[4].

Sensitive products, specific to each participating state, will remain largely outside of this schedule, and textiles will not be included in the eventual free trade arrangement. Sugar's markets are highly protected domestically and prices are kept artificially above the world price. The SADC sugar market access and co-operation agreement has now been incorporated as an Annex to the amended Trade Protocol. Depending on a review of the prevailing conditions five years after entry into force of the agreement, the long-term objective is to establish full regional liberalisation from 2013. SACU improved its initial tariff-free quota (45 000 tons per annum) to be shared among all the SADC surplus producers with an additional 20 000 tons (at a reduced rate) available only to non-SACU SADC surplus producers. Sugar trade has already worsened relations between South Africa and Swaziland, where the sector accounted for 9 per cent of exports in 2001. The three giants of the South African sugar industry are Illovo, Tongaat-Hulett, and Transvaal Sugar. One of the three owns every mill except the one in KwaZulu Natal. The South African Sugar Association (SASA) protects millers and growers. It handles the country's entire export programme and ensures that customs tariffs are automatically raised whenever domestic prices increase. The impact on related products such as confectionery and soft drinks has been significant, and the Board of Tariffs and Trade (BTT) is now calling for an end to regulation. In retaliation against the steep prices, some confectioners have begun importing sugar at a cost 10 per cent higher after duties than the local product.

Different authors have explored the scope for increased intra-regional trade in SADC. Cassim (2000) argues that, compared with regions such as SACU or Mercosur, actual South African exports to SADC are higher than estimated potential exports, but the opposite holds for non-SACU countries' exports to South Africa. Chauvin and Gaulier (2002), however, question the potential trade-creation effect of SADC. South Africa does not seem positioned either to increase its intra-regional exports of manufactures or to import more labour-intensive products — both owing to supply constraints in other SADC countries and because such products are "sensitive" and therefore subject to special liberalisation schedules. Econometric analysis also suggests that regional integration *per se* is not likely to accelerate FDI to SADC without

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enhancement of the regulatory quality in the economy, including the independence of the telecoms regulator (Wolf, 2002). Regional trade provides a high proportion of fiscal revenue to several SADC members, so an additional issue involves the substantial revenue cost deriving from the FTA, with or without the elimination of exemptions (Tsikata, 2000).

FDI Regimes

In theory if not always in practice, all SADC countries welcome FDI and most have special FDI regimes, *ad hoc* incentive mechanisms and/or specialised agencies to attract foreign investors (Table 2.1 on the following four pages). A complementary route is through adherence to international treaties, norms and codes of conduct such as the United Nations Commission on International Trade Law (UNCITRAL), the International Center for the Settlement of Investment Disputes (ICSID), the Multilateral Investment Guarantee Agency (MIGA) and the Paris Convention for the Protection of Industrial Property.

Mauritius probably has advanced most in designing an attractive package for foreign investors. It has signed double-taxation avoidance treaties with 26 countries. Tax-incentive companies pay corporate tax at 15 per cent, and companies holding a Category 2 Global Business Licence and/or operating in the free-port zone enjoy complete exemption. Offshore companies (i.e. those holding Category 1 Global Business licences) are subject to corporate tax at a rate not exceeding 3 per cent (since July 2002). The threshold for permanent resident status is a $500 000 investment in qualifying business activities such as manufacturing, free-port, financial services, information technology, hotel, tourism and related services, operational headquarters of multinational companies, agro-based industry, fishing and marine resources, concession projects (build-operate-transfer) and film production. New schemes were introduced in early 2000. The Regional Headquarters Scheme is aimed at companies wishing to provide headquarters services to related corporations in countries of the region. The main incentives provided under this scheme include a ten-year tax holiday and a 15 per cent corporate tax thereafter, tax-free dividends, duty-free imports of office furniture, equipment and personal belongings of expatriate employees and duty-free import of a maximum of two cars for expatriate staff. Equity Funds are a newly created instrument to support export-processing zone (EPZ) firms and improve their leverage ratios. Other priority areas include improving human-capital (training) and promoting the transfer of competencies among firms.

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Table 2.1. **Main Feature of FDI Regimes**

	Screening	National Treatment	Negative List	Performance Requirements	Capital Controls	Fiscal and Other Incentives	Intellectual Property Rights (IPR) Protection	Recognition and Enforcement of Foreign Arbitration Awards
Angola	New investment code (February 2003) still awaits National Assembly passage.	Yes	Yes (defence, public order and security).	N/A	On capital and money market transactions, real estate and personal capital movements.	N/A	No	N/A
Botswana	Yes	Yes, but foreign investors have no access to assistance loans and grants designed for citizen-owned contracting firms or small enterprises.	Some sectors solely for citizen participation are closed to non-citizen Africans and South Asians. Most restrictions are circumvented. Foreigners have continued to invest in some areas, such as gas stations, by franchising to Botswanans).	Performance requirements are not imposed as a condition for establishing, maintaining or expanding an investment in Botswana, or for access to tax and investment incentives.	N/A	Incentives to promote export-oriented industries include a duty drawback facility and exemption from sales tax when importing machinery and equipment required in the production of export merchandise.	April 1998	ICSID and MIGA member.
Lesotho	*De facto* screening for very small-scale manufacturing.	Prohibition on ownership of land-lease titles.	Restrictions in licensing of business and consumer services	No	Approval needed to transfer profits and the proceeds of disinvestment (no case recorded).	No	N/A	ICSID and MIGA member.
Malawi	No	N/A	Preference to Malawians in privatisation projects. A new land ownership policy issued in 2002 prohibits foreigners from owning land.	Not in compliance with TRIM notification requirements, but no performance requirements to establish, maintain or expand an investment.	Non-residents may hold FX accounts; neither residents nor non-residents may hold offshore accounts.	Yes	June 1970	N/A

Table 2.1. (contd.)

	Screening	National Treatment	Negative List	Performance Requirements	Capital Controls	Fiscal and Other Incentives	Intellectual Property Rights (IPR) Protection	Recognition and Enforcement of Foreign Arbitration Awards
Mauritius	All applications for an investment certificate must be made to the Board of Investment and be processed within four weeks (eight when an environmental impact assessment or a development permit is required). Offshore business and free port licences approved directly by MOBAA and MFA, exempt from cabinet approval.	The government offers local and foreign investors the same incentives. They do not carry performance requirements.	Foreigners may not own land without prior permission; no discrimination against foreign investors, although the government encourages local participation.	N/A	N/A	Incentives are available in (1) EPZ; (2) the free port, providing ware-housing, packaging, assembly, and logistics facilities for re-export; and (3) offshore business. Permanent residence and regional headquarters schemes recently introduced to attract new investors and multinationals. Specific incentives to attract advanced technology industries as well as skill-intensive and knowledge-intensive services.	September 1976	ICSID and MIGA member.
Mozambique	Industrial Free Zone status under the gene-ral investment scheme requires a minimum investment of $5 million and depends how many Mozambican jobs are created, the use of and value added to local resources/products and export-generated foreign exchange. The Investment Promotion Centre handles applic-ations, with a maximum 45 day processing limit.	N/A	Private land ownership is prohibited.	In mining.	Both residents and non-residents may hold foreign exchange accounts.	N/A	July 1998	N/A

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Table 2.1. (contd.)

	Screening	National Treatment	Negative List	Performance Requirements	Capital Controls	Fiscal and Other Incentives	Intellectual Property Rights (IPR) Protection	Recognition and Enforcement of Foreign Arbitration Awards
South Africa	Business permit required to establish a company is issued after the Department of Home Affairs has received documentary motivation and evidence of the applicant's intention to invest in South Africa. Processing times range from six to eight weeks.	Yes	Except in banking, no restrictions limit foreign ownership, whether of set up or acquired companies.	Some (e.g. a foreign bank establishing a branch may be required to employ a minimum number of local residents to obtain a banking licence, and may be obliged to have a minimum capital base). Foreign companies are required to register as external companies before immovable property can be registered in their name.	Foreign investors face local borrowing restrictions imposed by exchange control authorities. No person in SA may provide credit to a non-resident or "affected person" without exchange control exemption.	For location within Industrial Development Zones (IDZs).	March 1975	Member of the New York Convention of 1958, but not of the International Center for the Settlement of Investment Disputes.
Swaziland	Yes	N/A	N/A	N/A	Both residents and non-residents may hold foreign exchange accounts, but residents face quantitative limits.	N/A	May 1991	N/A
Tanzania	Minimum investment capital of $300 000 for foreign based investors	N/A	N/A	N/A	N/A	TIC-approved firms and investors in priority sectors benefit from low withholding taxes on dividends and interest of 10% and 0%. Mining companies also benefit from withholding tax relief. Agricultural companies enjoy specific advantages.	No	N/A

Table 2.1. (contd.)

	Screening	National Treatment	Negative List	Performance Requirements	Capital Controls	Fiscal and Other Incentives	Intellectual Property Rights (IPR) Protection	Recognition and Enforcement of Foreign Arbitration Awards
Zambia	In addition to the compliance with the Companies Act No. 26 of 1994, a foreign company must, within 28 days of its establishment, lodge a list of directors, constitution, and local representative with the Registrar of Companies.	There is no distinction in law between foreign and domestic investors. The privatisation process is open to foreign bidders	N/A	There are no requirements for local content, equity, financing, employment, or technology transfers.	N/A	Incentives for rural enterprises, farming, and non-mineral exports. Special incentives for producers of non-traditional exports introduced in 1993 and removed in 1996. Other general incentives are subject to annual reviews.	May 1977	Disputants must first resort to the Zambian High Court, *i.e.* internal dispute settlement. Failing that, the parties may go to international arbitration, which the state recognises to be binding. ICSID and UNCITRAL member.
Zimbabwe	Proposals approved by the Zimbabwe Investment Centre; Ministry of Home Affairs issues work permits for expatriate staff. Both initial and renewal issuance of work permits has at times proved problematic.		Official policy supports the maximum Zimbabwean participation in any new investment project. While no specific requirements have been defined, 30% local participation is a widely accepted benchmark.	No performance requirements, but investment welcomed that contributes to rural development, job creation, exports, use of local materials, and transfer of appropriate technology.		Several tax breaks available for new investment by foreign and domestic companies. Capital expenditures on new factories, machinery and improvements are fully deductible and import tax and surtax are waived on capital equipment.	December 1981	1965 convention on the settlement of investment disputes, and the 1958 New York convention on the recognition and enforcement of foreign arbitral awards. No UNCITRAL arbitration precedent.

Source: OECD.

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Mauritius's success in converting the whole island into an EPZ (Box 2.1) has influenced FDI policies in the rest of the SADC. Namibia created a special company in January 1996 to promote and manage the Walvis Bay EPZ in conjunction with its Offshore Development Company, the institution responsible for the promotion, marketing, co-ordination and monitoring of enterprises registered in Namibia as offshore and export-processing enterprises. Some of the five other enterprises already operational in the zone opted either to convert to full-Namibian producers, thus relinquishing their EPZ status, or to move to greener pastures closer to their markets[5]. Success stories include Namibian Press and Tools, a German investment manufacturing vehicle components, and Libra Bathroomware, a maker of bathroom accessories taken over by Germany's Hoesch Group. Three more applications for EPZ certificates were in different stages of the screening process in 2003.

Box 2.1. **Key Figures for the Mauritius EPZ in 2002**

Number of enterprises: of 506 in the EPZ, 230 (45 per cent) are in the clothing sector (T-shirts, shirts, trousers and pullovers) and 44 (8.6 per cent) in textiles. This compares with only 239 enterprises in 2001, of which 201 were in clothing and 47 in textiles.

Employment: of 87 204 EPZ workers, 72 034 worked in clothing and 4 536 in textiles. The number of female workers was almost exactly twice that of males (58 249 *versus* 28 955). The EPZ had 16 302 foreign workers in 2002, a sharp increase over 2001 (15 668).

Trade: EPZ exports in 2002 equalled Rs33.5 billion, of which Rs25.6 billion (75 per cent) were produced in the clothing sector and Rs1.2 billion in textiles. Of total EPZ imports of Rs16.9 billion, Rs8.6 billion (50 per cent) were fabric and thread. New spinning mills inaugurated in 2003 caused a decrease in textile imports.

South Africa takes a different policy position. Wary of conventional EPZs, it has opted for Industrial Development Zones (IDZs) within Spatial Development Initiative (SDI) regions, to maximise linkages between these two programmes and offer investors highly productive and efficient production platforms. By mid-2003, 12 industrial, agricultural or tourism SDIs had been launched or were being established across Southern Africa (Table 2.2).

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Table 2.2. **Industrial Development Zones in South Africa**

IDZ	SDI (South African province)	Target sectors	Comments
Corridor Sands	Limpopo Valley	Titanium mining	On track to have started implementation in 2003. South Africa, Mozambique and Zimbabwe signed a treaty formally launching the 3.5 million hectare Great Limpopo Transfrontier Park encompassing South Africa's Kruger National Park, Mozambique's Limpopo National Park and Zimbabwe's Gonarezhou National Park.
North West	Platinum	Mining, industry, agriculture, tourism	A R3 billion highway will be built to link the Maputo corridor and the trans-Kalahari highway in Botswana.
	Gauteng	Multisectoral	
Northern	Phalaborwa	Mining, agriculture, tourism	This corridor aims to complement the Maputo corridor by linking Nelspruit in Mpumalanga and Phalaborwa.
Gauteng, Mpumalanga and Mozambique	Maputo Development Corridor	Road building and multisectoral	The Witbank-Maputo highway is being financed by a private consortium on a build-operate-transfer basis.
KwaZulu-Natal	Lubombo	Agriculture, tourism	Includes the building of a tarred road between the former homeland areas in KwaZulu-Natal and Maputo and should include significant investment around the St Lucia wetlands (a UNESCO world heritage site).
Northern KwaZulu-Natal	Richards Bay	Mining, industry, tourism	Complementary to the Lubombo SDI. A passenger terminal is to be built in Richards Bay.
Durban	KwaZulu-Natal	Industrial, tourism	
	Wild Coast	Agriculture, tourism	
	Fish River	Industrial	
Cape's west coast region	West Coast Investment Initiative	Tourism, fisheries, agriculture, industry	A R9 billion steel plant will be built near Saldanha Bay.
Johannesburg with Windhoek and Walvis Bay	Coast to Coast, linking in Namibia	Road building and multisectoral	

Source: www.idz.gov.za.

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The launch of the SDI programme in 1996 took place within a broader policy shift to territorial development from an approach that tried unsuccessfully to make the homeland areas economically viable. The IDZ/SDI approach is "an attempt to use public resources to leverage private sector investment in [S]outhern African locations that have inherent (and under-utilised) economic potential" (Hartzenberg, 2001, p. 771). Launched in 1999, the IDZs consist of two zones of operation. First, delimited customs-secured areas (CSA) have entry and exit points controlled by Customs personnel. Each CSA has a dedicated customs office providing inspection and clearance services and a one-stop administrative centre to facilitate approvals and permits. CSA-based enterprises are eligible for duty-free imports of production-related raw materials and inputs, a zero value-added tax (VAT) rate for supplies procured within South Africa and the right to sell into South Africa upon payment of normal import duties on finished goods. Second, industries and services corridors (ISCs) are park environments adjacent to CSAs, occupied by service providers to CSA enterprises. A dedicated national IDZ authority will oversee the development of these zones. It will develop appropriate policy, set national investor guidelines and designate new zones. Each IDZ will be led by a development company/corporation, responsible for all aspects of project development and ongoing management. It may be a joint public/private venture. An IDZ administrative unit based in each of the zones will include a one-stop regulatory and approval service for fast, predictable investment approval procedures, a dedicated customs service providing single-window clearance and marketing and information centres. IDZs will have specific strategic components to develop human-resource capacity and facilitate advanced labour relations, with sophisticated dispute-resolution facilities included.

Agro-tourism SDIs (e.g. Wild Coast and Lubombo) have grown in prominence as their expected job-generating potential is substantially bigger than in traditional industry projects (Rogerson, 2001). The Maputo Development Corridor (MDC) is the only SDI with a sufficiently long and substantial track record to assess the results of the broad policy. Of the IDZs, East London has received operating permits and the Johannesburg International Airport (JIA) and Richards Bay have been designated as IDZs. The JIA has a sectoral focus on its competitive advantage as a logistics hub as well as its "transumer" potential (for business travellers requiring tourism, consumer and corporate services), avionics and light industrial assembly of various appliances and goods for the SADC and other African markets (Rogerson, 2002). Other earmarked sites include Durban, Saldanha and Richmond.

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The most ambitious IDZ is Coega, in the heart of the Fish River SDI some 20 km from the Port Elizabeth/Uitenhage metropolitan area. Its anchor project is a smelter with a capacity of 220 000 tons a year to exploit the alumina deposits at Gamsberg in Northern Cape[6]. Gencor, with Mitsui and other Asian groups, expressed an initial interest, but no progress occurred until 2003 when Pechiney agreed to fund roughly 45 per cent of the smelter's cost, with Eskom and the IDC jointly funding 25 per cent, leaving the remaining 30 per cent for an unnamed international mining group. The agreement between the National Ports Authority and Pechiney, set initially for 25 years, concerns marine and berth infrastructure and the installation of conveyers. Pechiney will also be able to link the cost of electricity to a number of variables, ensuring a tie to the price of aluminium as defined on the London Metal Exchange. Outstanding issues to be clarified with the Coega Development Corporation before final approval of the investment include the establishment of a fiscal regime for the enterprise and financing the equity participation.

The Role of Investment Promotion Agencies

Supplementing the influence of a country's investment climate and market size, greater investment promotion associates with higher cross-country FDI flows (Morisset, 2003). Almost all SADC countries have one or more investment promotion agencies that provide one or more services such as image building, investment generation, investor services and policy advocacy (Te Velde, 2003). Like their most successful equivalents in countries such as Chile, Ireland and Singapore, they are all public-sector organisations. Their locations in government and the ranges of activities they perform differ, however, which explains to some extent the wide differences in their effectiveness.

The Mauritius Industrial Development Agency (MIDA) was first established in 1985 as the Mauritius Export Development and Investment Authority (MEDIA) to improve the institutional framework for industrial and export promotion and to set up and manage industrial estates. Lack of co-ordination between the Investment and Export Promotion branches and administrative bottlenecks emerged. After deciding to enter Mauritius, potential investors had to go office-hopping to seek approval and obtain the relevant permits and licences from various ministries. This, plus significant changes in the nature of FDI to Mauritius, led to a new Investment Promotion Act in 2001 (Bonaglia and Fukasaku, 2002). It transferred all investment promotion and facilitation activities to the Board of Investment (BOI), a full-

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fledged investment promotion office entirely funded by the Treasury. The BOI acts as a facilitator and provides charge-free, one-stop shopping service to both local and foreign investors to ensure speedy processing of applications. It offers post-investment services as well, and it does not regulate. In the two years to March 2003, the BOI approved 176 projects for a total investment commitment equal to €300 million (of which one third is by foreigners) and 10 000 new jobs. Only 75 projects have materialised, however, and only 4 800 jobs were created (DREE, 2003).

Elsewhere, however, the record of such agencies is generally poor owing to difficulty in making the transition from regulatory to promotional roles (Pigato, 2001). Botswana, for instance, created in 1998 an autonomous organisation with a special emphasis on export-oriented manufacturing industries, the Botswana Export Development and Investment Authority (BEDIA). BEDIA is supposed to assist investors with purchasing or leasing property, obtaining work and residence permits, obtaining necessary licences and factory space and obtaining other regulatory approvals. To date, the record is mixed (US Commercial Service, 2001). Because of difficulties in finding permanent staff, its promised assistance to prospective investors has not always been timely and comprehensive. Its much-publicised overseas investment missions have not yet resulted in large-scale, job-creating foreign investments. It has not succeeded in smoothing immigration processing, a source of considerable frustration to expatriate businesspeople as in most SADC countries. A new collaboration between BEDIA and several ministries to create a one-stop service for investors might help to eliminate some of the bureaucratic difficulties. In Zimbabwe, co-ordination between the Zimbabwe Investment Centre (ZIC) and the Export Processing Zone Authority (EPZA) has long been deficient (Bhalla *et al.*, 1999). In Lesotho, "the investment promotion agency within [the Ministry of Industry, Trade and Marketing] does not proactively 'market' the country. The quality of provided information [and] its availability leave much to be desired, and there is no regularly updated web site. [Moreover], requirements for granting visas, especially multiple-entry visas, and procedures for obtaining work and residence permits are complex and time consuming" (World Bank, 2003*a*). In early 2003 an agency for private investment was established in Angola's president's office to review investor applications and promote private investment. A similar proposal has been made for Mozambique, where the existing agency — the *Centro de Promoção de Investimentos* (CPI) — has been only partially successful in streamlining the process of establishing and starting a business, which remains "cumbersome, costly, and time-consuming" (Sarkar, 2000, p. 36).

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The Quality of the Business Environment

FDI flows respond powerfully to factors, broader than specific policies and institutions, that determine the quality of the investment climate. Moreover, while policy advocacy appears effective because it benefits both foreign and domestic investors, investment-generation or targeting strategies seem expensive and risky, especially in countries with poor investment climates. Sour macroeconomic conditions, slow and insufficiently credible progress in trade liberalisation, privatisation and other structural reforms, inadequate skills and infrastructure and bad governance have all contributed to Africa's failure to bridge the resource gap through FDI. As an indicator of the strength of property-right enforcement, corruption, in particular, associates negatively with the ratio of subsequent foreign direct investment flows to both gross fixed capital formation and private investment (Aizenman and Spiegel, 2002).

Table 2.3 reports figures for some variables that proxy national political infrastructures. Although the analysis is too rough to claim any definitive scientific value, it seems that for most SADC countries — Angola, DR Congo and Zimbabwe being the major exceptions — the quality of the macroeconomic environment, while not stellar, does not pose a major obstacle to FDI. SACU countries, in particular, have a generally positive growth outlook combined with low inflation and external debt. Although corruption is perceived as a serious problem in many SADC countries, globally marginal countries such as Malawi and Zambia do not show much higher values for the Transparency International index than do large economies like Thailand and Turkey that are highly integrated with OECD countries. The picture changes for the worse, however, for the SADC countries' endowments of some key resources that attract FDI. The most dramatic indicator of the dire situation of SADC countries is the very high incidence of HIV/AIDS. Second, all SADC countries except Zimbabwe have literacy rates lower than in seven competing emerging markets. Third, scientific publications, a proxy for the availability of highly skilled workforces, are for all bar South Africa a fraction of those in the other countries. Fourth, the networked readiness index also takes lower values, probably because privatisation is lower in SADC than in competing regions in Asia, Central and Eastern Europe and Latin America.

That Angola has received such important FDI inflows *despite* the catastrophic quality of its governance indicators is the most paradoxical feature of Table 2.3. Although a few sub-Saharan African countries have generated

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international investors' interest by improving their business environments (Morisset, 2000), many observers point out the unclear linkage between the quality of governance and investors' willingness to enter African business waters. In their seminal contribution, Easterly and Levine (1993) observed that "the dummy variable for sub-Saharan countries retains a large and significant negative coefficient even after including a very wide assortment of political and economic explanatory variables" (p. 14). Asiedu (2002) concludes that Africa is simply different, while according to Aryeetey (2002) considerable improvements in the policy environments of many African countries in the last two decades have done little to convince the rest of the world to take Africa seriously.

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Table 2.3. **Macroeconomic and Governance Indicators in SADC and Selected Emerging Economies**

	Macroeconomic Management			Skills and Infrastructure Endowment				Governance	
	Average real GDP growth (1999-2004)	Average CPI Inflation (1999-2004)	External Debt (% of GNP)	Adult HIV Incidence (%)	Literacy (15-24 years) (%)	Networked Readiness Index	Scientific Publications (1986-1999)	Corruption Perception Index	Business Establishment cost
SADC									
Angola	7.0	154.9	66	5.5	..	..	22	1.7	..
Botswana	5.0	6.1	9	38.8	84.5	..	336	6.4	..
Congo, DR	0.1	206.1	..	4.9	88.4	..	306	..	..
Lesotho	3.1	8.4	84	31.0	82.7	..	56	..	..
Malawi	2.4	2.1	140	15.0	81.0	..	371	2.9	0.40
Mauritius	5.1	5.6	31	0.1	93.3	49	85	4.5	..
Mozambique	6.5	9.3	221	13.0	75.1	..	122	..	1.71
Namibia	3.3	9.4	15	22.5	89.9	..	135	5.7	..
Seychelles	-3.1	6.1	20	..	..	..	21	..	..
South Africa	2.9	6.8	20	20.1	91.3	60	29 382	4.8	0.19
Swaziland	2.1	8.7	22	33.4	89.6	..	78	..	..
Tanzania	5.4	5.5	60	7.8	..	..	1 136	2.7	3.47
Zambia	3.6	20.1	142	19.7	90.8	..	451	2.6	0.72
Zimbabwe	-6.2	188.5	34	33.7	98.7	30	1 485	2.7	0.32
Other Emerging Economies									
Brazil	2.4	7.8	38	0.7	94.0	62	40 856	4.0	0.45
China	7.5	0.1	10	0.1	98.7	36	87 051	3.5	..
Hungary	4.0	7.4	38	0.1	99.8	70	24 162	4.9	1.01
Indonesia	3.3	10.9	70	0.1	98.3	41	1 376	1.9	1.05
Mexico	2.8	7.5	22	0.3	97.4	56	19 239	3.6	..
Thailand	4.1	1.1	54	1.8	99.4	57	4 367	3.2	0.20
Turkey	2.0	43.1	67	<0.1	98.8	59	17 602	3.2	0.37

Sources: IMF (2003), *World Economic Outlook*, April (Growth and inflation averages include forecasts for 2003 and 2004.); OECD (2002), *External Debt Statistics*; Transparency International (2003), *Global Corruption Report*; Harvard Center for International Development (2002), *Global Information Technology Report*; Djankov *et al.* (2001); National Science Foundation (2002), *Science and Engineering Indicators*; UNAIDS (2002), *Epidemiological Fact Sheets on HIV/AIDS and Sexually Transmitted Infections*.

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Notes

1. Lesotho, Namibia and Swaziland have their own exchange control authorities as well as their own acts or regulations and rulings, but under the CMA their application must be at least as strict as that of South Africa. Accordingly, investments and transfers of funds from South Africa to other CMA countries do not require the approval of the exchange control authorities but may require that of the host country.

2. Category B products (e.g. goods that constitute important sources of customs revenue) will be liberalised gradually by 2008. Category C contains products deemed sensitive by member states (e.g. imports sensitive to domestic industries such as sugar for SACU countries). These goods, limited to a maximum of 15 per cent of each member's total merchandise trade, will be liberalised between 2005 and 2012. A fourth category, Category E, covers products ineligible for preferential treatment under general and security exceptions permissible under Articles 9 and 10 of the protocol. These are expected to make up a small list, so that by 2012 about 98 per cent of SADC merchandise trade will be subject to zero tariffs.

3. Zimbabwe and Mauritius also agreed to start their tariff reductions earlier than other non-SACU members.

4. Negotiators have yet to settle on product-specific rules of origin for coffee, wheat flour, plastics, electrical appliances and motor vehicles.

5. "Walvis Bay EPZ still on track", *The Namibian Economist*, 21 March 2003.

6. Although the area is also rich in zinc, an early project to build a smelter was aborted.

7. A not unrelated point is that reforms designed without adequate regard to local realities and domestic politics are probably more frequent in Africa and that this factor, more than lack of commitment by governments, often produces unintended consequences or a "reform backfire".

Chapter 3

General FDI Features

Summary

This chapter assembles the available data on FDI in the SADC — inflows, stocks and FDI relative to gross fixed capital formation, by country. Use of UNCTAD's Inward FDI Performance and Potential Indexes permits, despite their acknowledged limitations, a comparison of the relative FDI performance of individual member countries. The chapter concludes with a brief look at the limited available data on FDI by sector in selected SADC countries.

Since the early 1990s, the SADC economic and political landscape has witnessed dramatic changes. South Africa has achieved its historical transition from apartheid to multiracial democracy[1], Namibia has gained independence, peace has returned in Mozambique and (although it may be too early to judge) Angola, the political situation has improved in other countries and economic liberalisation has happened almost everywhere. This has been reflected in increasing FDI inflows, both in absolute terms and relative to the world total (Table 3.1). Total inflows increased more than eight-fold from the 1990-95 yearly average of $1 188 million to the $10 072 million peak recorded in 2001. Over the same period, SADC went from representing 27.5 per cent of FDI flows to Africa to 53.7 per cent. Even more remarkable, the region's share in the world total, albeit still small, more than doubled from 0.5 per cent to 1.2 per cent. FDI flows to SADC declined markedly in 2002. Similar trends appear in investment stocks (Table 3.2), although the SADC shares in the total for Africa, emerging economies and the world still remain lower than those prevailing two decades ago.

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Table 3.1. **FDI Inflows**
(millions of US dollars)

	1990-95 average	1996	1997	1998	1999	2000	2001	2002
Angola	260	181	421	1 114	2 471	879	2 146	1 312
Botswana	-24	70	100	96	37	54	26	37
Congo, DR	-3	25	-44	61	11	23	1	32
Lesotho	213	286	32	27	33	31	28	24
Malawi	15	44	-1	-3	46	-33	-20	..
Mauritius	21	37	55	12	49	277	32	28
Mozambique	28	73	64	235	382	139	255	406
Namibia	96	129	84	77	111	153	275	181
Seychelles	23	30	54	55	60	56	59	63
South Africa	301	818	3 817	561	1 502	888	6 789	754
Swaziland	63	22	-15	152	100	39	78	107
Tanzania	39	149	158	172	517	463	327	240
Zambia	122	117	207	198	163	122	72	197
Zimbabwe	34	81	135	444	59	23	4	26
Total SADC	1 188	2 062	5 067	3 201	5 541	3 114	10 072	3 407
As percentage of Africa total	*27.5*	*35.3*	*47.5*	*35.9*	*45.3*	*36.7*	*53.7*	*31.0*
As percentage of developing economies	*1.6*	*1.4*	*2.6*	*1.7*	*2.4*	*1.3*	*4.8*	*2.1*
As percentage of world total	*0.5*	*0.5*	*1.1*	*0.5*	*0.5*	*0.2*	*1.2*	*0.5*

Source: UNCTAD.

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Table 3.2. **FDI Stocks**
(millions of US dollars)

	1980	1985	1990	1995	2000	2001	2002
Angola	61	675	1 024	2 921	7 977	10 122	11 435
Botswana	698	947	1 309	1 126	1 821	1 494	1 946
Congo, DR	709	620	546	541	617	618	650
Lesotho	5	25	83	179	330	358	382
Malawi	113	151	198	163	183	163	163
Mauritius	26	43	169	256	687	719	746
Mozambique	15	17	42	202	1 094	1 350	1 755
Namibia	1 994	2 010	2 047	1 708	1 230	797	978
Seychelles	54	105	204	321	577	636	699
South Africa	16 519	9 024	9 121	15 099	47 418	50 246	50 998
Swaziland	243	104	336	535	432	479	656
Tanzania	47	91	93	325	1 783	2 111	2 351
Zambia	355	450	1 012	1 543	2 350	2 422	2 619
Zimbabwe	186	187	124	342	1 085	1 088	1 114
Total SADC	21 025	14 449	16 308	25 261	67 584	72 603	76 492
As percentage of Africa total	*65.4*	*42.7*	*32.1*	*32.6*	*46.8*	*46.0*	*44.8*
As percentage of developing economies	*6.8*	*3.6*	*3.0*	*2.7*	*3.3*	*3.3*	*3.3*
As percentage of world total	*3.0*	*1.5*	*0.8*	*0.8*	*1.1*	*1.1*	*1.1*

Source: UNCTAD.

The big picture masks some crucial details. First, the apparently very positive results of 2001 reflect a single deal in South Africa, the unbundling of cross-shareholding between London-listed Anglo American and De Beers of South Africa. Second, one deal also dominated in 1997, in this case the partial privatisation of Telkom, South Africa's incumbent telecom operator, and the purchase of a 20 per cent combined stake by SBC from the United States and Telkom Malaysia Berhad. The revival over the first half of 2002 reflected the acquisition of majority shares in two local steel firms by foreign interests, although this was partly offset by the reacquisition by Transnet, the government holding company in transport, of a 20 per cent stake in South African Airways held by (now bankrupt) Swissair.

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South Africa alone accounted for more than 70 per cent of SADC inflows in 1997 and 2001, against a 50.8 per cent annual average in 1996-2001, which itself was twice as large as the 1990-95 average of 25.3 per cent. At the global level, the large increase in FDI also concentrates in a small number of countries; the 12 largest recipients of FDI in 2000 accounted for 85 per cent of the total. An analysis of the largest multinationals' main subsidiaries and affiliates confirms the dominance of South Africa in the region (Jenkins and Thomas, 2002). The world's largest multinationals maintained 390 different subsidiary entities in SADC, with more than 70 per cent based in South Africa. Angola is the second-largest FDI recipient in SADC, accounting for more than a fifth of total inflows in both 1990-95 (21.9 per cent) and 1996-2001 (22.1 per cent). Lesotho's relative importance has diminished greatly[2], while two former socialist countries — Mozambique and Tanzania — saw their share grow from 5.6 to 8 per cent. The Zambian case is dominated by the long process leading to the privatisation of Zambia Consolidated Copper Mines Limited (ZCCM) in 2000, with (then South Africa-based) Anglo American as the main foreign partner, and the latter's subsequent decision in early 2002 to withdraw from the country. Among smaller SADC countries, Jenkins and Thomas (2002) highlight that during the 1990s tourism fuelled significant inflows to Seychelles, while Namibia has been more successful than other SADC partners in keeping FDI flows relatively consistent over time, avoiding boom-and-bust cycles. The opposite is true for Swaziland.

Country rankings are different for the contribution of foreign investors to gross fixed capital formation (GFCF) (Table 3.3). For South Africa the ratio is generally lower than for developing economies — and much lower than for fellow SADC members. The same holds true for most of the other large economies except Mozambique and Angola, although in some years FDI inflows can represent a very considerable share of GFCF even in Zimbabwe (44 per cent in 1998) or Mauritius (25.9 per cent in 2000).

All these traditional benchmarking indicators, while useful, do not take into account the different sizes of host economies. UNCTAD has developed an original methodology to capture the effect of factors other than size that determine the willingness of foreigners to invest in a country — indeed the very variables discussed at length in the preceding section. Its Inward FDI Performance Index is the ratio of a country's share in global FDI flows to its share in global GDP; when it takes values lower than one it signals a country's inability to attract its "fair" share of global FDI, whether due to weak governance, an unpromising location and/or a poor endowment of physical and human infrastructure — and *vice versa* when the value exceeds unity. A

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further UNCTAD benchmarking index captures a country's FDI potential on the basis of its performance in eight factors deemed key determinants of transborder flows.

Table 3.3. **FDI Inflows as a Percentage of Gross Fixed Capital Formation**

	1990-95 average	1996	1997	1998	1999	2000	2001	2002
Angola	39.3	9.0	21.1	48.6	86.8	28.0	66.7	..
Botswana	-2.4	6.4	8.6	7.4	2.7	4.2	2.2	3.0
Congo, DR	-0.3	5.9	-8.7	13.5	1.2	1.8	0.1	..
Lesotho	14.4	11.4	5.6	6.1	7.5	8.2	8.7	11.2
Malawi	-1.3	-1.3	-0.4	-1.4	20.7	-14.3	-10.5	..
Mauritius	2.4	3.3	5.0	1.3	4.2	25.9	3.2	2.7
Mozambique	6.3	13.1	10.5	27.4	30.0	10.8	23.0	24.0
Namibia	16.7	15.7	11.7	9.9	14.3	23.8	39.9	..
Seychelles	20.4	18.0	31.7	26.3	26.4	31.3	28.9	..
South Africa	1.3	3.5	15.5	2.5	7.4	4.7	40.5	4.8
Swaziland	26.6	6.1	-3.5	34.6	20.5	10.4	34.0	..
Tanzania	3.7	13.9	14.0	12.8	38.9	29.3	20.8	14.5
Zambia	26.9	8.2	14.1	41.3	32.5	21.2	10.1	25.8
Zimbabwe	2.1	4.2	8.0	44.0	7.2	2.6	0.5	7.5
Total SADC	3.7	5.9	14.9	10.8	17.1	9.8	..	..
As percentage of Africa total	*5.3*	*5.3*	*9.7*	*8.0*	*11.8*	*8.8*	*19.4*	*8.9*
As percentage of developing economies	*6.5*	*6.5*	*11.4*	*12.0*	*14.3*	*14.6*	*12.7*	*10.5*
As percentage of world total	*4.4*	*4.4*	*7.5*	*10.9*	*16.5*	*20.8*	*12.8*	*12.2*

Source: UNCTAD.

UNCTAD is the first to acknowledge that this exercise has limitations, but the indices are useful to compare the relative performance of SADC countries (Table 3.4). Clearly the most striking result appears for Angola, which received in 1999-2001 more than five times the FDI flows suggested on the basis of its economic size — and despite a far from stellar score in the Potential Index. Botswana also holds interest, but for exactly opposite reasons. Although it has a good Potential score, it has received rather little FDI. Mozambique and Namibia recorded noteworthy improvements in both indexes. Table 3.4 also confirms that South Africa, for its economic size, is positioned to receive more considerable FDI flows, although it did not perform very well on the Potential Index in the 1990s, even falling by one rank in the SADC.

Table 3.4. **Values and Country Rankings of the UNCTAD Inward FDI Performance and Potential Indexes**

	Inward FDI Performance Index				Inward FDI Potential Index			
	Value		Rank		Score 0-1		Rank	
	1988-1990	1999-2001	1988-1990	1999-2001	1988-1990	1999-2001	1988-1990	1999-2001
Angola	-0.0	5.1	129	2	0.151	0.166	105	105
Botswana	2.2	0.3	29	115	0.297	0.346	41	59
Congo, DR	-0.1	0.2	134	127	0.097	0.085	131	139
Lesotho								
Malawi	1.1	1.0	51	133	0.150	0.203	106	120
Mauritius								
Mozambique	0.3	1.8	109	24	0.068	0.178	137	108
Namibia	0.5	0.9	94	34	0.164	0.279	98	79
Seychelles								
South Africa	-0.0	0.2	131	81	0.220	0.266	67	72
Swaziland								
Tanzania	0.1	0.6	119	40	0.120	0.161	122	130
Zambia	4.2	1.7	9	64	0.111	0.160	124	134
Zimbabwe	-0.2	0.8	136	124	0.152	0.147	104	137

Source: UNCTAD.

Data limitations make it almost impossible to have a clear view of the aggregated distribution of FDI flows and stocks in SADC by investor countries and sectors. For information, Table 3.5 provides the sectoral composition of FDI in selected SADC countries, but these not strictly comparable figures cover different periods and depict either stocks or accumulated inflows. Many countries do not publish reliable data. In some cases only cumulated flow figures are available, and in others there is information only on approved investments and not actual commitments. Flaws and inconsistencies in data on private capital flows to SADC (and *a fortiori* the rest of sub-Saharan Africa) result from the abandonment of monitoring them, a phenomenon that in turn stems from financial liberalisation, concern that monitoring may scare away potential investors and scarce resources for the task (Bhinda *et al.*, 1999). It should be possible to build a more reliable database — although it would exclude some important source countries such as India, Malaysia and South Africa — from data on outflows from OECD countries. This proved impossible too, however, because bilateral flows often are so small that confidentiality clauses prevent national authorities from releasing the data[3]. For all these reasons, the analysis that follows first covers individual, selected SADC economies and then key sectors[4].

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Table 3.5. **FDI by Sector in Selected SADC Countries**
(percentage of total)

	South Africa	Mauritius	Botswana	Zimbabwe	Tanzania	Mozambique
Agri-business	0	0	0	15	7	9
Mining	28	0	79	12	39	19
Manufacturing	26	10	3	25	22	51
Utilities/Transport	3	50	1	7	5	5
Construction	0	0	0	4	6	2
Trade/Services	4	5	10	37	13	6
Finance	39	17	6	0	8	7
Other	0	18	0	0		0
Total	100	100	100	100	100	100

Source: OECD.

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Notes

1. It is important to remember that because of sanctions 362 foreign companies divested in South Africa during 1984-89 (Nordås 2001).
2. In 2003 UNCTAD revised the Lesotho FDI data on the recommendation of its Investment Policy Review conducted in the country. In the findings, FDI figures were found to include funding for the Lesotho Highlands Water Projects, which is considered a development project organised through the auspices of the International Monetary Fund and the World Bank, financed for the most part through development loans, the responsibility of whose repayment lies with South Africa. The author thanks Hilary Nwokeabia at UNCTAD for clarifying this point.
3. This was the case for instance in correspondence with the Banque de France and the British Department of Trade and Industry.
4. Some survey results provide a first, albeit very imprecise indication. According to Kalenga (2000), tourism, telecommunications, petroleum and gas, agriculture and pharmaceuticals and chemicals were, in that order, the most important sectors for FDI in SADC in 1998-2000.

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Chapter 4

FDI in Selected SADC Economies

Summary

Chapters 4 and 5 overlap and should be taken together. They contain extensive surveys, descriptions and analyses of FDI in selected SADC economies and sectors. Chapter 4 covers South Africa, Angola, Mozambique and Zimbabwe. Chapter 5 considers FDI in textiles and clothing, the automotive industry, food and beverages, non-oil mining and information and communications technologies. Both chapters contain an important sub-theme because they not only examine inward FDI in the usual sense but also explore the role of South African investment in the Community and detail the emergence of South African multinational firms.

South Africa

South Africa dominates the SADC and Africa in general as an FDI destination. The South African Reserve Bank (SARB) statistics represent actual — i.e. excluding announced but not completed — investment, but the Bank does not provide figures that distinguish between actual new investment flows and changes in stocks caused by asset swaps, exchange-rate adjustments and mergers and acquisitions. For the sectoral composition, figures are available only from the BusinessMap survey of investment intentions (Table 4.1). Natural resource and market-seeking FDI predominate, as evidenced by the high concentration in the telecommunications, oil and energy and food and beverage sectors (Vickers, 2002). Between 1994 and 1999, transport and telecommunications totalled around ZAR8.8 billion (owing to the privatisation of ACSA, SAA, and Telkom), followed by energy and oil (ZAR8.5 billion). Although its weight in economic activity has greatly diminished in recent decades, mining remains an important sector of the South African economy. Recent legislative changes will affect its investment outlook (Box 4.1). In manufacturing, consumer durables (motor and components sectors) and non-

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durables (food, beverages and tobacco) were the most important. There has also been some investment in jewellery to process South African gold and precious stones (Box 4.2).

The United Kingdom is by far the largest investor country, although this is to some extent a statistical artefact owing to the decision by a number of big South African companies (Anglo-American, Old Mutual, South Africa Breweries, Didata) to move their primary listings to the London Stock Exchange in 2000-01 (Table 4.2). Other leading investors include the United States, Germany (particularly in the car industry), the Netherlands and Switzerland. For all these OECD countries, however, investments in South Africa account for a marginal share of their overseas assets (Table 4.3). Among other OECD investors, Sweden's South African affiliates employed almost 4 000 people in 2000 (an 11.4 per cent year-on-year increase) — only 0.4 per cent of Swedish investors' total employment abroad, but larger than in some OECD countries such as Japan, South Korea or Turkey (ITPS, 2002).

Table 4.1. **Sectoral Distribution of Committed FDI into South Africa, 2000**

Sector	US Dollars (millions)	ZAR (millions)
Food, beverages and tobacco	440.3	3 173
Motor and components	361.3	2 505
Professional services	351.7	2 404
Telecommunications and IT	204.7	1 509
Mining and quarrying	208.2	1 500
Textiles, leather and footwear	114.6	847
Hotels, leisure and gaming	98.8	730
Transport and transport equipment	73.6	513
Financial services	54.7	376
Media, print and publishing	29.9	230

Source: BusinessMap SA FDI online database: www.businessmap.org.za.

Table 4.2. **Foreign Liabilities of South Africa by Selected Countries Direct Investment, end-2002**

(millions of ZAR)

	UK	USA	Germany	Netherlands	Switzerland	Malaysia	**Total**
Public corporations	0	2 639	0	0	0	1 759	**4 923**
Banking sector	118	1 545	664	538	57	0	**3 984**
Private non-banking	158 050	19 699	21 381	12 214	5 946	5 307	**246 930**
Total direct investment	**158 168**	**23 883**	**22 045**	**12 752**	**6 003**	**7 066**	**255 837**

Source: SA Reserve Bank (2004), *Quarterly Bulletin*, June.

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Table 4.3. **The Importance of South Africa as a Destination of FDI Outflows for Selected OECD Countries**
(percentage of total FDI outflow)

	1990[a]	1995[b]	1999[c]
United States	0.19	0.20	0.29
Japan	..	0.02	0.19
Germany	0.85	0.79	0.53
France	..	0.05	0.10
United Kingdom	..	3.47	0.49
Canada	0.02	0.11	0.07
Netherlands	..	0.11	0.13
Switzerland	..	0.54	0.35
Belgium	..	..	..
Portugal	..	12.27	5.60

Notes: *a* = 1991 for US; *b* = 1996 for Japan; *c* = 1998 for Japan, Germany, France, Netherlands.
Source: OECD.

Box 4.1. **Foreign Investment and New Mining Legislation in South Africa**

Although mining peaked in economic importance more than 50 years ago, it remains the country's largest taxpayer and biggest exporter, and it still employs some 500 000 people. In 2002, to boost black participation in the industry, the government unveiled a proposed mining charter. It envisaged that new projects be at least 51 per cent owned by black-controlled companies, with a goal of 30 per cent for established companies. It also called for *de facto* nationalisation if black investors failed to come up with the necessary financial resources. The plans puzzled outside investors, and the large mining concerns revolted. The revised Minerals and Petroleum Resources Act requires companies to transfer 15 per cent of their assets to black investors within five years and 26 per cent within ten years. A scoreboard will rate companies on how well they meet the charter's goals, including social responsibility programmes such as improving employee literacy and rehabilitating areas around the mines. In May 2003, Harmony Gold Mining and black-owned African Rainbow Minerals announced a merger to form the world's fifth-largest producer, Harmony, a company worth ZAR20 billion. In July, Gold Fields reached agreement in principle to sell 15 per cent of its shares to Movela, an investment company headed by Tokyo Sexwale, former premier of Gauteng province, and other black investors.

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Box 4.1 (contd.)

The Mineral and Petroleum Royalty Bill, a second reform, brings South Africa into line with other countries' laws. Mineral rights, previously held in perpetuity by mining houses, will be transferred to the state, which will issue development licences and charge royalties. Coal is levied at 2 per cent, gold at 3 per cent, platinum at 4 per cent and diamonds at 8 per cent. The provisions will be phased in over four years. The Chamber of Mines and the Foreign Investors' Mining Association do not dispute the government's right to legislate, but they have warned that the extra tax will discourage investment and may force closures and job losses. The bill's fiscal stabilisation provision, which offers companies the chance to lock in initial royalty rates for 30 years by paying an up-front premium, has also attracted criticism as it indicates that royalty rates could change.

Another piece of legislation for black economic empowerment is the financial services empowerment charter, presented in October 2003. Not long before, in what analysts hailed as a ground-breaking although defensive transaction, Investec in May 2003 sold 25.1 per cent of its shares to a group of black investors in a deal financed by the Public Investment Commissioner, which invests government pension funds. In another recent development, several lawsuits brought in New York are suing for $100 billion for victims of apartheid. They accuse firms of doing business with and supporting the South African government even after a United Nations ruling that apartheid was a crime against humanity. Specific suits seek $6.1 billion from Anglo American and de Beers for exploiting workers and $7 billion from Gold Fields for allegedly exposing workers to uranium contamination.

Sources: Author's interviews; "Miners must dig deeper to stay in South Africa", *Financial Times*, 22 April 2003; and "Heavy pressure", *The Economist*, 15 May 2003.

Box 4.2. **OroAfrica**

More than 80 per cent of the world's gold goes into the manufacture of gold jewellery. With four factories in Italy and an annual production of 42 tonnes of gold chain, Gruppo Industriale Filk of Vicenza is Italy's largest and most technologically advanced gold chain producer. In 1997, it invested $1.5 million to establish a 50/50 joint venture to make gold chain jewellery with OroAfrica, an unlisted South African company owned by the Nathan family (56 per cent), Global Capital/Investec (25 per cent), and management and staff (19 per cent). In 1998, AngloGold, the world's largest gold producer, made its first venture into jewellery manufacturing by acquiring 25 per cent of OroAfrica for ZAR55 million. This was Filk's first factory outside Italy and the deal forms part of Italy's offset obligations in return for Agusta's contract to supply the South African Airforce with 30 helicopters.

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Box 4.2. (contd.)

The company operates a 6 000 m² facility in the old Nationale Pers building in the centre of Cape Town and employs 170 people. The complex includes manufacturing space, a jewellery-making training school, retail space and offices to house local and international buyers as well as various government departments such as foreign exchange, VAT and Customs & Excise. It makes six tonnes of gold chain a year, a large part of which is exported duty-free into the United States thanks to AGOA. In contrast, jewellery exports from Italy to the United States are subject to a 6 per cent duty. Besides the cash investment, Filk invested in technology transfer and training.

Malaysia has emerged as a significant new source of post-apartheid FDI since 1994, accounting for 21 per cent of cumulated flows[1]. Malaysian investors have purchased mostly existing assets, have been particularly active in the property and related tourism and leisure markets from which other foreigners have shied away. They have showed sudden interest in South Africa for a number of politically related reasons (Padayachee and Valodia, 1999). These include the enthusiasm of ANC-aligned economists and activists for the Malaysian approach to empowering indigenous Malay (*bumiputra*)[2], the strategy of the Malaysian governing party, UMNO, to intensify its direct interest in South Africa and the use of Malaysia as a platform for networks of overseas Chinese capital from Chinese Taipei and Hong Kong, China making their way into South Africa.

Reflecting a general *laissez-faire* attitude that includes no specific incentives, there is no official or unofficial listing of foreign-owned companies in South Africa, and the authorities do not organise censuses to track their behaviour[3]. Thus relatively little is known about their impact on economic variables such as trade flows, training or wages and salaries. Exceptions are surveys, which are by definition limited in coverage. Based on a World Bank survey of manufacturing firms in the greater Johannesburg metropolitan area, Rankin (2001) finds that firms with some foreign ownership are more efficient than identical ones with none. While size significantly affects firms' export behaviour both within SADC and on global markets, however, foreign ownership does not. Gelb (2002) analyses a sample of 162 foreign firms, finding that 45 per cent of them invested in South Africa through full or partial acquisitions, a mode of entry particularly prominent for medium-sized companies. The overwhelming majority of surveyed firms fully or partly met

their original expectations. The domestic market is the main outlet for their output, with exports in many cases a "vent-for-surplus". Jenkins and Thomas (2002) echo this. For a smaller sample of 81 companies, they find that four-fifths focus on the local market and less than a third export outside of Southern Africa.

The 1999 benchmark survey of US FDI conducted by the Bureau of Economic Analysis provides additional, extremely valuable information on the characteristics and behaviour of majority-owned non-bank foreign affiliates (MOFAs) of US companies. A comparison between South Africa and three Latin American countries (Argentina, Brazil and Mexico) sheds some light (Table 4.4).

— South Africa is far less important in terms of the share of total global assets held by American investors. MOFAs' South African assets are less than a fifth of those in Argentina, a country of comparable economic size, and a tenth of those in Mexico.

— Capital-intensity (as proxied by sales per employee) is much lower in South Africa than in Argentina and Brazil but higher than in Mexico. Employee compensation accounts for a much larger share of gross product than in the Latin American countries.

— At 1.3 per cent of GDP, MOFAs' gross product represents a very minor share of South African GDP, not only relative to the three Latin American countries (where it is between 2.5 per cent and 3.6 per cent) but also and *a fortiori* than in comparable Asian emerging markets such as Malaysia (6.2 per cent), Indonesia (3.8 per cent) and the Philippines (3.6 per cent).

— MOFAs' R&D expenditures in South Africa are negligible. This holds true in comparison with Latin America (0.54 per cent of sales in Brazil and 0.31 per cent in Mexico) and even more relative to other emerging economies such as Korea (0.98 per cent) and India (0.45 per cent).

— MOFAs based in South Africa account for a tiny share of intra-firm trade. The value of US imports of goods they shipped equals 0.26 per cent of those shipped by Mexico-based MOFAs.

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Table 4.4. **Selected Data for US Majority-Owned Non-Bank Foreign Affiliates (MOFAs)**
(amounts in millions of US dollars)

	South Africa	Argentina	Brazil	Mexico	South Africa Relative to Mexico (%)	SADC as Percentage of World Total
Total assets	7 252	38 184	90 625	71 350	10.16	0.18
Total sales	7 797	22 641	55 248	79 328	9.83	0.36
Goods	6 724	17 280	44 224	72 464	9.28	0.38
Services	1 034	4 795	9 782	5 136	20.13	0.29
Investment income	39	566	1 242	1 728	2.26	0.05
Net income	169	350	880	4 805	3.52	0.11
Capital expenditures	210	2 177	3 672	4 334	4.85	0.19
R&D expenditures	13	21	301	242	5.37	0.07
US exports of goods shipped to MOFAs	286	1 300	3 933	29 419	0.97	0.14
US imports of goods shipped by MOFAs	72	470	3 002	27 558	0.26	0.04
Gross product	1 644	7 192	16 095	17 146	9.59	0.29
Compensation of employees	1 098	2 747	7 332	7 384	14.87	0.44
Employees	52 400	91 900	339 500	729 200	7.19	0.70
Employees compensation as % gross product	66.79	38.20	45.55	43.07	155.09	..
Assets p/employee	138 397	415 495	266 937	97 847	141.44	..
Sales p/employee	148 798	246 366	162 733	108 788	136.78	..
Gross product as % GDP	1.3	2.5	3.0	3.6		

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Almost all major South African companies have invested heavily in other SADC countries, elsewhere in Africa and indeed globally, although South Africa remains an important business centre for all of them[4]. Some of these investments have long existed; South Africa was the world's 11th largest outward investor by 1975 (Nordås, 2001). De Beers has managed Botswana's diamond mining industry since 1969 through Debswana, a joint venture with the local government[5]. Anglo American built up considerable interests in Brazil, including Aracruz Celulose and the Morro Velho gold mine, the country's largest. It bid unsuccessfully for a controlling stake in CVRD, the world's largest iron ore producer, at its privatisation in 1997. Other companies' overseas investments are more recent. With 75 per cent of its assets offshore, Sappi has become the world's biggest manufacturer of coated paper and dissolving pulp.

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Barloworld, a diversified industrial brand-management group, now makes more than 65 per cent of its profits outside South Africa. Sasol, the world's largest coal-based petrochemicals producer, acquired a stake in Equatorial Guinea's Block L from ChevronTexaco. Old Mutual, which still generates 70 per cent of its operating profits in South Africa, now collects 65 per cent of its life premiums overseas. South African banking institutions, for their part, have invested to lead corporate clients into the rest of Africa. In 2001, Stanbic accumulated an 80 per cent stake in Uganda Commercial Bank and 60 per cent of the Commercial Bank of Malawi in privatisation deals, and it has established an offshore operation in Mauritius. Companies such as Iscor, Durban Roodepoort Deep, Pepkor, Metro Cash & Carry, Didata and Woolworths have made large investments in Australia. In 2002 alone, Anglo American bought the Diputada de Las Condes copper mine in Chile and AngloGold acquired the stake it did not hold in an Argentinian mine (Cerro Vanguardia). Other sectors, such as breweries and telecommunications, are explored in greater depth later.

Since mid-1997, five of South Africa's big business concerns (Billiton, South African Breweries, Anglo American[6], Old Mutual Life Assurance and Dimension Data) have moved their primary listings from Johannesburg to London. Investec, a financial services group, was denied permission to do this and gained regulatory approval only for a compromise dual listing that kept domestic operations in Johannesburg.[7] Companies with overseas secondary listings include Sappi (in London, New York, Frankfurt, and Paris) and Sasol, which switched its secondary listing from Nasdaq to the NYSE in April 2003, although it will retain its primary listing in Johannesburg. The specific circumstances of these offshore listings differ, but their advantages typically include easier access to capital at lower cost, the opportunities to escape from the volatility of financing costs in an emerging market economy and to retain skilled staff with share options packages, and the benefits of divergent business cycle movements in different markets (Walters and Prinsloo, 2002). The record for London-listed companies is mixed. As all of them have made it to the benchmark FT 100 index, they have generally gained in liquidity and, insofar as they had to adapt to more stringent accounting and governance requirements, in corporate transparency as well. Nevertheless, management has complained that companies remain tarnished by a certain African stigma that reflects financial analysts' lack of knowledge of the continent[8].

The internationalisation strategy of smaller and less well-known companies has come more recently (Table 4.5 provides some examples). As is rather customary for multinationals from smaller countries, especially in the developing

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world, they started their FDI drive in neighbouring economies with the expectation that they could exploit superior business practices without facing strong competition from either local firms or subsidiaries of "global players". Geographical and cultural proximity also reduce the co-ordination and transaction costs of foreign operations[9]. MTN's investment in Uganda pointedly exemplifies such advantages. When it acquired Uganda's second licence to operate cellular telecom services, it had already developed "a unique body of in-house corporate knowledge for managing the risks involved [in operating in difficult economic and political environments] without seeking external cover at additional cost" (Mistry and Olesen, 2003, p. 40). Based on superior local knowledge and greater ability to read market signals, MTN Uganda chose to market pre-paid phone cards aggressively, whereas Celtel, controlled by Vodafone of the United Kingdom in association with the IFC and the first licensee that had enjoyed a monopoly position for several years, had marketed cellular service as a luxury. In less than two years MTNU developed a subscriber base 22 times Celtel's. In 2002, the Department of Finance allowed companies to invest more money in Africa than previously, raising the limit from ZAR750 000 to ZAR2 billion a year. MTN was a crucial catalyst. It wanted the ability to reduce its unhedged dollar exposure.

The internationalisation of corporate South Africa has multiple explanations. As the country abandoned inward-looking trade and industrial policies, competition on the home market became stronger and profit margins thinner, even as opportunities opened for audacious companies in many countries in Africa and other developing regions. A comparison between the two cellular network operators is illustrative[10]. Vodacom, the joint venture between Telkom and UK's Vodafone, which as the first entrant on the domestic market has almost eight million customers there, operates in only three neighbouring countries (Lesotho, Tanzania, and DR Congo, having won but not used a licence in Mozambique). MTN, on the other hand, has found it expensive to enlarge its customer base in South Africa and must pay its larger competitor for calls that it does not terminate. At an early stage, therefore, the company started to invest in the rest of Africa, where it now earns 36 per cent of its revenues and 38 per cent of headline earnings against Vodacom's 6 per cent. Further, most large South African businesses operate in very capital-intensive sectors — mining, of course, but also paper or brewing — where global concentration has risen in recent years. Anglo American particularly has felt the need to close the size gap *vis-à-vis* its main rivals (Rio Tinto and BHP Billiton) by focusing on base metals and selling non-core activities such as financial services. The group's most recent deal is the proposed acquisition of Ghana's Ashanti Gold.

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Table 4.5. **Some Emerging South African Multinationals**

CS Holdings	This IT services provider has expanded its operations in Tanzania and Addis Ababa.
Group Five	One of Africa's largest construction companies. Overseas activity accounted for 37% of 2002 turnover (28% in 2001). Major projects in SADC are the *Nova Vida* housing complex in Angola, the infrastructure for the Vilanculo gas station in Mozambique, the new Bank of Tanzania headquarters in Dar-es-Salaam and a ski resort in Lesotho.
Illovo Sugar	Africa's leading sugar producer and a significant manufacturer of downstream products. Bought the Zambia Sugar Company (ZSC), a former SOE managed and part-owned by Tate and Lyle, in April 2001. Although ZSC seeks to increase yield by introducing new varieties of cane and improving extraction, it has encountered problems in taking advantage of regional trade agreements. For example, there were constraints on sugar exports to South Africa during 2001 because of delays in South African gazetting of the SADC trade protocol under which there is a 9 500 MT quota. South Africa also requires certificates of origin in advance of goods shipment and the firm reports problems matching truck loading with the documents. In Tanzania Illovo owns 55% of previously public Kilombero Sugar Company, with British ED&F Man (20%) and the Government of Tanzania (25%). The investment sought Tanzania's market, its location advantages and the opportunity to spread the climatic risks of international investments. Other agricultural and manufacturing operations exist in Malawi, Swaziland, Mauritius and Mozambique.
Italtile	The world's largest buyer of ceramic tiles, with 45% of the South African tile market. In 2001 it operated 44 franchised CTM stores (compared with 33 in 2000) that cater largely for the DIY market, 14 fully-owned CTM outlets and 11 Italtile stores that sell an upmarket product range. It has three stores in Namibia, two in Botswana and Swaziland, and its first in Dar es Salaam, Tanzania, opened in June 2001. Others operate in three Australian states. Italtile imports about 90% of its sales, which were worth about ZAR 100 million in 2002; CTM imports about 40%.
Metro Cash & Carry	Has recently opened both wholesale discounters (open to small-scale retailers and the food-service sector only) and public hypermarkets in Botswana, Namibia and Swaziland.
MTN	In the first half of 2002 subscribers in Africa increased by 53%, compared with 10.5% in South Africa. MTN contract subscribers in South Africa spent on average ZAR 602 per month, while pre-paid customers spent only ZAR 163, giving it a blended average of ZAR 210 per subscriber. In the rest of Africa, almost entirely a pre-paid market, customers spent far more: $60 in Nigeria, $34 in Uganda, $28 in Rwanda, $22 in Swaziland and $21 in Cameroon. MTN signed up its millionth Nigerian subscriber in its first year of operation there. Teledensity is estimated to have increased to 1.6. Owing to a lack of available and reliable terrestrial transmission links, MTN Nigeria recently completed constructing its own microwave backbone route to provide the necessary transmission infrastructure. The backbone, named "The MTN Y'helloBahn", represented an investment of $120 million and can enable up to 1 900 voice calls at the same time. It spans 3 400 kilometres and stretches from the north to the south-east and south-west respectively. MTN Nigeria has so far deployed nine mobile switching centres and close to 400 base stations across Nigeria with a targeted minimum of two base stations a day. In Swaziland, MTN has far exceeded its licensing obligations. With network coverage of over 70% of the country and a customer base of more than 75 000, Swazi MTN has achieved a remarkable population penetration of 7%, among the highest in Africa. By July 2003 locally recruited and appointed Swazi nationals held all senior management positions.

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Table 4.5 (contd.)

Pick 'n Pay	With 342 supermarkets and hypermarkets in South Africa, 471 in the rest of Africa and 70 in Australia, Pick 'n Pay more than tripled its outlets and turnover in less than a decade; the latter stood at ZAR 18.8 billion ($2.2 billion) in January 2003.
Protea Hotels	Africa's largest hotel group, with properties in Southern Africa, Nigeria and London. In Tanzania, it is the only international brand with more than one property. In 2002 Protea launched a new hotel in Chingola, Zambia, with a local partner to take advantage of the expected upsurge in business from the privatisation of the copper-mining industry. In 2003 it took over the management of its first properties in Egypt, and expansion into the Gulf market is under consideration to take advantage of the lower perceived appeal of Western brands in the region.
Shoprite	Operates 80 large-format stores (mainly supermarkets) in 13 other African countries, most of them opened in the early 2000s. The most important markets are Zambia, where it bought the state-run retail outlets in 1996, and Namibia, with 18 supermarkets and 11 Megasave stores. Shoprite Zambia employs about 900 permanent and 600 casual workers throughout its 25 outlets; it "Zambianised" two of nine original expatriate positions in 2001-2002. In 2003 it planned to enter four additional African markets (including Ghana) and India. Shoprite has secondary stock market listings in Namibia and Zambia.

Source: OECD.

Despite its concerns, directed more at delisting than at outward investments *per se*, the government has also encouraged traditional, white-owned corporations to invest in Africa and SADC in particular. This is a manifestation of South Africa's strategic interest in improving economic conditions all across the continent, a policy goal at the root of the New Partnership for Africa's Development (NEPAD). State-owned enterprises have played a large role in this respect. For example, South African Airways has taken equity participations in other African carriers (Goldstein, 2003*a*). Eskom Enterprises (EE) was created in 2000 to drive Eskom's expansion into Africa and abroad and manage its non-electricity businesses, including South Africa's second network operator jointly owned with Transnet's subsidiary Transtel, as well as transportation and engineering services. At the time government planned to carve up Eskom by hiving off its transmission business into a separate, state-owned company and selling 30 per cent of its power-generation business to private investors. EE's growth was supposed to compensate Eskom for the loss of a big part of its domestic business. Despite a few successes, however, EE's investments abroad have encountered high development costs and its finances have deteriorated, making necessary an injection of funds[11]. While revenue for 2002 grew 23 per cent, profits fell because of huge business development costs and losses stemming from acquisitions like EE's stake in

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Lesotho's mobile telecommunications. The current restructuring aims at cutting costs, clarifying corporate focus and improving accountability. Eskom has aligned itself with NEPAD's goal of making electrification of the continent its first infrastructure development initiative.

Angola

The overwhelming majority of FDI in Angola goes into the oil sector. The country is the world's 24th-largest producer — and a significant non-OPEC one — and the 19th in terms of known reserves (ENI, 2002)[12]. Oil represents 56 per cent of GDP and as much as 90 per cent of fiscal receipts, and exports from the Malonga oil terminal provide 93 per cent of hard-currency revenue. Although production originally started with onshore fields, all production and reserves are now offshore, mainly in the Northern Cabinda enclave[13]. Considerable exploration activity in deepwater acreage has resulted in 19 commercial oil discoveries that pushed the country's reserve base from 3.4 billion bbl to almost 10 billion bbl in just three years. Since 1989, oil production has increased steadily from 166 mm bbl liquids to 266 mm bbl in 1998, and the number of wells more than doubled from 1993 to 47 in 2003. Angola's crude oil generally is of high quality, with an API gravity ranging from 32º to 39.5º and sulphur content from 0.12 per cent to 0.14 per cent.

The September 11 terrorist attacks reinforced the strategic importance of Angola and the Gulf of Guinea region more generally (Ellis, 2003). US companies, with ChevronTexaco in the van, dominate oil investment in Angola. Recent major discoveries in deepwater offshore Angola and in the region encourage the possibilities of further investment. An average of 45 exploration and appraisal wells per year is forecast through 2005, with most of the activity expected in deepwater and ultra-deep water blocks[14]. Although some 80 per cent of gas produced is currently flared, policies now restrict this for new fields, and gas is expected to become increasingly important. This should require some investment offshore and additional opportunities downstream.

The national oil company, Sonangol, is the sole concessionaire for exploration and production, with international oil companies involved under production-sharing agreements. Responsibility for licensing has recently passed to the Ministry of Petroleum. Sonangol is responsible for product supply, distribution and marketing to the domestic market, crude export marketing and an airline industry in support of petroleum operations, in

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addition to upstream exploration and production activities. It established an oil trading operation in London, thus cutting out foreign intermediaries, has assisted governments in other West African countries and is involved in downstream operations in the DR Congo (Gary and Karl, 2003, p. 32). It is associated with various international oil companies (Table 4.6), including the following:

— ChevronTexaco manages the production oilfield in co-operation with Sonangol, Agip and Total;

— ExxonMobile operates Block 15 under a production-sharing contract with BP, Agip and Norwegian investors; and

— Total, besides managing the country's sole refinery jointly with Sonangol, operates Block 17 under a production-sharing contract with ExxonMobil, BP and Norway's Statoil and Norsk Hydro.

Angola also holds some 11 per cent of the world's known diamond reserves, considered second only to Namibia's in quality[15]. Most production comes from alluvial deposits, although kimberlite source rocks are said to hold much larger potential. Until 1985, De Beers managed the mines and sold the diamonds to the government agency Endiama. War and a poor investment climate stopped mining, but De Beers bought stones until 1999, when it ceased in the face of the consumer campaign against "conflict diamonds". The country's only remaining producing mine is Catoca in the Lunda-Sul province, the world's fourth largest, a joint venture between Endiama, Russia's Alrosa, Brazil's Odebrecht, and Israeli-Russian businessman Lev Laviev[16]. In early 2000, the state marketing company Sodiam set up the Angolan Selling Corporation (Ascorp), a joint venture with Laviev, who gained the exclusive right to buy all Angola's diamonds[17]. Diamond producers have criticised Ascorp, saying it has sold gems at below the going rate. Moreover, claiming that it broke existing contracts, De Beers challenged this deal in British and Dutch courts. Endiama depends on De Beers for technical expertise needed for deep mining operations. In November 2002, the parties reached a moratorium, suspending arbitration proceedings during their talks[18]. The moratorium, extended several times, expired at the end of April 2003. The deal apparently made was expected to hand De Beers the marketing of all diamonds produced by a new joint venture in which Endiama would receive exploration and mining rights. In April 2003, the government also approved a plan to end Ascorp's four-year monopoly and build a new cutting factory at a cost of more than $3 million to add value to the local industry.

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Table 4.6. **Major Investment in the Angolan Oil and Gas Industry**

Block	Major investors	Description
0, including Takula, Numbi and Kokongo oil fields (Angola's largest).	Chevron, Sonangol, TotalFinaElf, ENI-Agip	Total production reached 510 000 b/d at the end of 1999, as new wells were commissioned on the Nemba field and development was completed on the Lomba field. The joint venture hopes to increase Block Zero production to 600 000 b/d by 2001.
1, offshore the northern Angolan city of Soyo.	ENI-Agip, Texaco	
2, offshore the northern Angolan city of Soyo. Major fields include Lombo, Sulele and Tubarao.	Texaco, Total FinaElf	Braspetro Angola (BPANG) founded on 6 January 1981 now operates with three other oil companies in exploration and production of Block 2, in offshore Angola. Today, the branch office produces 24 000 b/d.
3, located off the northern coast.	TotalFinaElf (50), Agip, Ajoco, Mitsubishi, Naftgas, Sonangol, INA-Naftaplin	Second largest area of production
14 (at Kuito offshore Cabinda)	Chevron	Daily production exceeds 100 000 bbl and recoverable reserves approach 1 billion bbl.
15 (Kissanje, Dikanza, Hungo/Chocalho, Marimba, Xikomba).	Exxon Mobil, BP, Agip, Statoil, Sonangol (concessionaire)	The largest deepwater development in Africa, with eight discoveries since 1998. Estimated recoverable reserves in excess of 3.5 billion bbl. Production starts in 2004.
16	Canadian Natural Resources (50), Odebrecht (30), Sonangol (20)	
17 (Girassol, Dalia, and Rosa fields)	Total FinaElf	Between 3 and 3.5 billion bbl of recoverable reserves. Dalia's reserves greater than Girassol but oil is heavier.
31	BP (27), Sonangol, ExxonMobil, Statoil, Marathon, TotalFinaElf	The Plutão well is located about 108 miles offshore and is the first successful well drilled in ultra-deep water.
34 (south of 17)	Hydro (30%, technical assistant), Sonangol (20%, operator), Phillips (20%), Shell (15%), Braspetro (15%)	Covers an area of 5 900 square kilometres. The water depth ranges from 1 500 to 2 500 meters.
Onshore production (Kwanza and Congo basin)	TotalFinaElf	Facilities near Soyo damaged during the civil war, $250 million rehabilitation project currently under way.
LNG project located south of the Zaire River	Texaco, Sonagol	Launched in July 1999, investment of $2.5 billion. First deliveries by end-2004.
Sanha gas and condensate project at Cabinda	Sonangol	
Refinery and marine facilities in Lobito	Samsung	Basic engineering began in 2001, construction in 2002, completion expected by 2006 to produce 200 000 b/d. Korea's shipbuilders also are exporting oil tankers.

Source: OECD.

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Even more than South Africa, Angola is not a major FDI destination for any OECD country except Portugal, for which it accounted for 2.7 per cent of outstanding overseas assets in 1997 (Banco de Portugal, 2000). This reflects close historical, political and cultural ties. For Portuguese firms, all Lusophone countries in Africa, despite their much smaller size, account for a share of overseas assets similar to that of China, Japan and North Africa combined (GEPE, 1999, Table 20, p. 30). In the 1970s ex-colonies accounted for a full third of Portuguese FDI (Ennes Ferreira, 2002). Portuguese companies recently have divested from Angola, however, especially in mining where other investors have become more active (Banco de Portugal, 2002).

Among non-OECD countries, Brazilian companies started investing in Angola in the 1970s, in oil drilling and construction. Linguistic ties were reinforced because Brazil was the first country to recognise Angola (in 1975), the Brazilian authorities wanted to diversify oil imports to nearer sources and Petrobras had technological know-how developed in deep waters. In 1979 this state-owned company acquired a 17.5 per cent stake in the consortium exploring Block 2 and has invested $1 billion since then[19]. In 1995 the two countries agreed that Angola would reimburse its outstanding debt by exporting more than seven million barrels a year. The other, private, company from Brazil with substantial investment in Angola — and the largest non-oil foreign firm, employing almost 5 000 people — is Odebrecht (Antunes, 2002). This diversified group built the Capanda hydro-power station, gained the water and sanitation concession in Luanda and jointly exploits the Catoca diamond mine. The Angolan authorities have given strong support to Brazilian investment. Odebrecht (also active in many other developing countries) received more than half of Proex resources, a main export-support instrument, in 1991-97. Angola alone accounted for 22.5 per cent of Proex-financed exports (Bonelli *et al.* 1997, pp. 26-7). A Brazilian transport firm, Macom, now runs Luanda's buses and its only taxi service, and a Brazilian public-relations company produces the only national daily newspaper.

With the exception of De Beers, South African companies do not have a high profile in Angola, although this is changing rapidly. Group Five is building a new 2 400-home complex in Luanda. Shoprite is said to want to open stores in Luanda. Eskom is looking at Angola's rich hydro-electric potential. MTN and Vodacom are interested in mobile-phone operations[20].

As in other resource-abundant countries, the rents produced by the oil *cum* diamonds boom have caused the so-called Dutch disease, i.e. a combination of exchange-rate overvaluation, relative price distortions, a strong urban bias and the stagnation of non-oil exports and import-competing sectors (Kyle, 2002). Nowhere is the expression "enclave economy" more appropriate.

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Not only are virtually all inputs (machinery and skilled workers) imported, but production also takes place either offshore or in the Cabinda enclave. Most hard-currency receipts go to service the debt, with the rest accruing to the so-called *empresários de confiança*, a small oligarchy tightly linked to the public sector and the ruling party (Aguilar, 2003).

This combination of negative macroeconomic and governance factors hinders job creation and jeopardises the long-term political sustainability of the post-war transition. The US Agency for International Development and ChevronTexaco have recently created an alliance to provide support and training for enterprise development (ICG, 2003). Each party has committed up to $10 million over five years to develop private-sector agricultural initiatives, deliver savings and credit products and offer professional training and education programmes to small and medium sized agricultural enterprises. The programmes, which include other activities and some of which will run in partnership with the UN Development Programme (UNDP), are targeted at resettlement of persons in rural areas.

More fundamentally, the authorities have become increasingly aware of the importance of ending corruption and wooing international support. Under the new budget law approved in July 2003, all state revenue from whatever source — including signature bonuses, usually paid up front and demanded from companies wishing to invest in the oil industry — will be included in the budget. The government also recruited Atom KPMG Consulting to prepare an "oil diagnostic". Angola, however, has stopped short of backing the British government's extractive industries transparency initiative.

Mozambique

Following a brutal and destructive civil war, Mozambique entered its second decade of peace with rosy *prima facie* signs of continued democratic transformation and pro-market economic reform. The country has become a sort of "darling" of donors and the international community. Its "continued place atop the list of the world's fastest-growing economies has been seen as another signal that commitment to the 'Washington Consensus' will provide the funds required to bring infrastructure, schools, and health care to the rural majority" (Weinstein, 2002, p. 141). The country's balance of payments disequilibrium remains enormous, however, and foreign aid finances more than half of the government's budget. A weak productive structure persists, with exports concentrated in very few commodities. Cashew, prawns and cotton account for more than half of exports (Sarkar, 2000). Labour-intensive

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manufacturing is not competitive. Despite the opportunities opened up by AGOA, Mozambican clothing exports to the United States in 2002 were roughly $500 000, from only three remaining clothing exporters. The country is far too poor to sustain a diversification into higher-value-added services like Mauritius, it has made relatively little progress in privatising large-scale enterprises and it has failed to transform its agricultural sector (still 81 per cent of employment) from subsistence farming to export cropping. Unlike most of its neighbours, Mozambique has yet to develop a mining and/or extraction tradition.

FDI (Table 4.7) has therefore concentrated heavily in a few mega-projects (Table 4.8), including the Maputo steel mill that is unlikely to be realised, and light manufacturing, usually in connection with privatisation. Data on agro-industrial investment from different financing sources show that only 13 per cent relied exclusively on FDI alone, with an additional third being joint ventures (Benfica *et al.*, 2002). FDI is prevalent in vertically integrated plantation agriculture, in part owing to the recent injection of Mauritian capital in the rehabilitation of the sugar industry.

Table 4.7. **FDI in Mozambique: Distribution by Type and Industry (1990-1999)**
(amounts in millions of US dollars)

Sector	FDI	DDI	Loans	Total
Aluminium (Mozal smelter)	1 327	13	0	1 340
Sugar	41	28	160	229
Cement	25	24	96	145
Beer	40	14	86	140
Electrical power (Motraco)	26	13	91	131
Textiles (cotton ginning, spinning, cloth)	25	13	89	126
Cereal mills	22	16	61	98
Wood products	7	9	64	80
Metal engineering	7	9	63	80
Tea	5	8	26	38
Cashew processing	7	7	24	37
Soft drinks	5	26	3	34
Tobacco	0	2	26	28
Glass	3	3	13	20
Vegetable oils	3	2	9	14
Total	1 542	186	811	2 540
Percentage of manufacturing investment	94	79	81	87
Percentage of total investment	79	43	37	55

Source: Castel-Branco (2002) using various sources (Investment Promotion Centre, fieldwork, and central bank).

Table 4.8. **Mega-Projects in Mozambique**

Project	Major Investors	Description
Mozal aluminium smelter	Billiton (47%), Mitsubishi (25%), IDC (24%), and Mozambique government (4%) financed through a loan from the European Investment Bank.	This $1.34 billion investment was completed in 2000 and has been producing at full capacity (245 000 tonnes) since end-2001. The smelter employs 740 people, and almost all output is exported. Alumina, coke, and electric power are imported. An estimated maximum of 6% of the total construction cost was sourced locally (below the 10% target). Expansion to double capacity is under study.
Hidroeléctrica de Cahora Bassa (HCB)	Governments of Portugal (82%) and Mozambique (18%)	This power facility, said to be the region's most efficient, was created in the 1970s by damming a Zambezi river gorge. Installed capacity is 2 075 MW, of which 65% is used. The firm exports to South Africa and Zimbabwe, and the transmission lines bypass Maputo. Although a pricing dispute impeded resumption of sales until 1999, the new agreement is still disadvantageous to Mozambique. HCB is obliged to sell most of its output to South Africa at a paltry price fixed until 2030. Mozambique must re-import power at market rates.
M'panda Ncua dam	Private investors and governments of Mozambique and South Africa (10% each)	This plant, to be built in 2005-10, would allow increased power generation at Lake Cahora Bassa. It would require a $2 billion investment, including transmission lines to Maputo.
Temane and Pande natural gas project	Sasol (50%) and governments of Mozambique and South Africa (25% each)	Construction of the 856 km pipeline to link the fields in Pande (Inhambane) with the gas-to-liquid refinery in Mpumalanga (South Africa) started in May 2002 and is expected to last until 2004. Reserves are estimated to be equal to 25 years. In February 2003 the Development Bank of Southern Africa (DBSA) agreed to provide a 12-month R550m bridge facility.
Maputo iron and steel project (MISP)	Enron (50%) and Kobe Steel, VAI, Techint, Midrex, and Duferco (10% each)	Construction of the mill to produce steel slab for export using South African iron ore and magnetite started in 2002. The plant is expected to enter production in 2004.
Limpopo Corridor Sands Project near Chibuto	Southern Mining, WMC, IDC	Probably the world's largest unexploited deposit of titaniferous mineral sands. Measured and indicated resources exceed 2.7 billion tons, with sufficient contained ilmenite to produce 1 million tons of titanium slag a year for 35 years. The project would cost about ZAR500 million to develop and first production would be in 2006. The Mozambican Council of Ministers gave its approval in May 2002.

Source: Andersson (2001), updated with information from *Business Day*, various issues.

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Barring major implementation problems, the mega-projects should have large positive impacts on FDI and the trade balance, although negative ones on national income and the balance of payments could more than offset them in the worst-case scenario (Andersson, 2001). Castel-Branco (2002) shows that FDI flows and the size of the capital account surplus are associated with the trade deficit. Imports are highly elastic with respect to investment (because of the economy's weak investment capacity and poor inter- and intra-industry linkages), and exports show low elasticity (because of weak productive capacity and high export concentration).

Even in the best-case scenario, it is difficult to foresee a very sizeable impact on poverty alleviation. The Mozal aluminium smelter is the largest mega-project. Although its annual GNP contribution is relatively minor, it probably has played a more substantial role as a Mozambican showcase for the international investment community. As progress in implementing and completing it responded to expectations, other potential investors manifested their interest. Other external economies came with the streamlining of administrative procedures to respond to the requests of Mozal investors and the building of physical infrastructure to accelerate its construction and allow exports; they too have benefited unrelated parties. On the negative side, staff retention in higher education and the public administration (a "domestic brain drain") presents a problem, especially in engineering and ICT, because Mozal can pay much higher salaries (Vogels, 2002). The IFC has launched a specific initiative to minimise such costs by building partnerships between Mozal and local businesses to maximise subcontracting opportunities for local SMEs. The expansion linkages programme (SMEELP), a combination of both training and mentoring to support firms to deliver the contracts, has successfully linked 12 companies to 21 contracts with Mozal at a value of over $3 million[21]. The Africa Project Development Facility put together this linkage programme. Based on its success, an operations-side linkages programme (Mozal MOT Link) is getting underway. It will replicate the model with a new financing component to help SMEs access commercial bank financing. A Community Development Trust has also been created and has undertaken a groundbreaking HIV/AIDS awareness programme that consists of intensive, repetitive, face-to-face encounters between trained field workers and community members. Again, the IFC will provide a matching contribution to ensure its continuation.

Mozal itself forms part of the Maputo Development Corridor (MDC). Based on the 1995 Bilateral Agreement between South Africa and Mozambique, the MDC aims at revitalising rail, road and port links, promoting industrial and services development, fostering social progress and achieving

environmental sustainability. Its main elements are a toll-road from Witbank (in Mpumalanga) to the Mozambican capital, the upgrading of Maputo harbour and new telecommunication linkages between South Africa and Maputo. The concession contract for the upgraded National Route Four (N4) went to the Trans-African Concessionaires (TRAC) consortium, led by France's Bouygues, in December 1996[22]. The project is the first Build, Operate and Transfer (BOT) project undertaken either in Mozambique or South Africa. Construction lasted more than three years and the road will be periodically upgraded over the 30-year concession period to comply with pavement and level-of-service requirements. Specific contractual conditions to broaden economic empowerment have included the obligation to sub-contract 20 per cent of the work to historically disadvantaged communities in South Africa and 40 per cent of those in Mozambique to local firms. Rogerson (2001, p. 331) observes that "the contracting work was deliberately broken into suitable packages that could be handled by small entrepreneurs. Indeed, 296 of the planned 469 packages of work for small road contractors are for contracts worth ZAR100 000 or less and over 80 per cent of contract awards to SMMEs fall into construction works of a maximum three months duration". SMMEs have been awarded contracts to erect guard rails and fences, concrete kerbing and channelling, mark roads, and pitch grouted stone. Over 11 500 construction workers have received some training in bricklaying, plastering, asphalting, data processing and management (Bouygues, 2003).

Although the Beira terminals have been managed since 1998 by a joint venture between government-owned CFM (Mozambique Ports & Railways Company) and Cornerfeld of the Netherlands, the Maputo harbour concession agreement was held up for four years by a multitude of factors, such as resistance within the Mozambican government to "selling off the family silver" and the private sector's concerns about completion of the N4 and the state of the Limpopo and Resanno Garcia railroads[23]. In April 2003, the government granted a 15-year concession with a 10-year extension option to the Maputo Port Development Company (MPDC). A consortium of Mersey Docks & Harbour Company, owner and operator of the port of Liverpool, the Portuguese terminal operator Liscont and the Swedish construction firm Skanska owns 51 per cent of MPDC, and CFM has the remaining 49 per cent. The deal, unique in Africa, represents the first time that an entire port authority, with regulatory, management and operating functions, has been conceded to a privately controlled company. Targeting South African exporters facing mounting costs and delays in Durban, the two-phase redevelopment project will begin by upgrading the dilapidated quayside and constructing a 1.3 km road connecting

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the port to the N4. Negotiations for another management contract for the Ressano Garcia line are being finalised with a consortium of South African companies led by Spoornet and Rennies.

The most important investors in Mozambique come either from other SADC countries or from Portugal. South African investment represented 35 per cent of FDI inflows in 1990-2001 and 300 out of 1 607 projects approved (Castel-Branco, 2002). South African investors control three out of five sugar estates (Illovo bought Maragra, Tongaat Huleet acquired Xinavane and Mafambisse), three out of four breweries, all soft drinks bottling plants, much cereal milling and most tourism facilities, a sector that may become second in importance only to the minerals-energy complex. Anglo-American and other investors have also moved into various agro-industry projects such as cashew processing and coffee.

The profile of Portuguese investors is similar. Mozambique is the 13th largest destination for Portuguese FDI, with a 2 per cent share second only to Angola in Africa (Banco de Portugal, 2000). Privatisation and the conversion of bilateral debt into equity participations have led to Portuguese investments in distribution of petroleum products (Petrogal), cement (Cimpor), agro-business (IPE in cotton and cashew nuts), finance (BPI, BCP, Mello, Caixa Geral de Depositos, etc.) and tourism. There are 244 Portuguese-owned companies, including the country's largest, Banco Internacional do Mozambique, of the BCP Group[24].

Mauritian companies have also invested in Mozambique. Their general profile, with an emphasis on services and agri-business, broadly resembles that of other foreign investors, but — a relative peculiarity — most of their subsidiaries in Mozambique are by far their most important operations abroad. This is the case, for example, of Sena Holdings, a four-company consortium that controls the Companhia de Sena sugar plants in Marromeu and Luabo (the government retains a 25 per cent stake). Mozambique wants to attract additional investment from Mauritius in sectors such as rice, sugar and cotton (the Buzi agro-industrial project) as well as tourism. Mauritius will support the establishment of a hospitality school at Eduardo Mondlane University.

In sum, although Mozambique has recorded considerable progress in macroeconomic stabilisation and has attracted several large, capital-intensive investments based on natural resource availability, it is debatable whether the business environment is conducive to labour-absorbing investment. One writer terms it "disabling" (Flatters, 2002). Problem areas include labour laws, land procedures, tax systems, the financial sector, company laws and regulations,

telecommunications, transport, law enforcement and corruption (FIAS, 2001). Removal of these administrative, legal and systemic barriers has been slow. A bill to introduce tighter measures against corruption passed first parliament reading in late April 2003. It would create a Central Anti-Corruption Office directly subordinate to the Attorney-General. Since the bill was drafted in mid-2001 the Attorney-General's Office has already set up its Anti-Corruption Unit. The bill may now require a change in its name and will define its tasks more closely. Among the issues that must be addressed is the declaration of assets by state employees. Currently, only government members must declare their assets and update these declarations on a regular basis. They are not made public but are lodged with the Administrative Tribunal, the body that oversees the legality of public expenditure. The bill would require anyone working for the state to declare assets. Suggestions were made in the debate that only those "in decision-making positions" should do so; this will now require definition in appropriate legal terms.

Zimbabwe

Zimbabwe is the second-largest SADC economy, yet even before the emergence of its current severe political uncertainties, it never succeeded in attracting FDI flows comparable to those entering the other countries. Although the number and value of approved FDI projects increased in the second half of the 1990s, the amounts remained rather modest. The commercial sector accounted for the bulk (about 58 per cent) followed by construction (18 per cent) and manufacturing (9.6 per cent). No data exist on realised FDI, but a 1994 report (now ten years old) noted that 56 per cent of all approved projects were being implemented. High customs duties on imported equipment, a deteriorating economic environment, limitations on the repatriation of capital and profits, pressures to enter into joint ventures with local firms and difficulty in obtaining Reserve Bank approval for EPZ status were the main reasons for the poor performance (Chipika and Davies, 2002). Restrictions placed on foreign equity participation — 25 per cent in a company and 5 per cent by each individual investor — best exemplified government ambivalence.

In the 1990s, two large FDI deals became mired in considerable controversy. In 1994 BHP Platinum Mining of Australia and other, smaller foreign investors committed to develop the $2 billion Hartley Mine project in Chegutu, about 85km south of the capital, Harare. This was the single largest

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investment ever undertaken in Zimbabwe. The first ore was mined in 1995 and the mill and concentrator began operations in October 1996. Although the government committed itself to respect certain standards concerning profit repatriation, duty-free imports of equipment and raw materials and easy access to permits for expatriate engineers, managers and other skilled personnel, it failed in practice (Muradzikwa, 2002). Customs officials unaware of the government concession to BHP held up large amounts of capital equipment and technology at Beitbridge border post between South Africa and Zimbabwe. The authorities then imposed a moratorium on the renewal of permits for expatriates and the issuing of new ones, arguing that BHP was not doing enough to empower the indigenous population and that the skills BHP sought were adequately available in Zimbabwe. Having suffered huge losses, BHP closed down the Hartley platinum complex in 1999 and sold its 67 per cent interest to Zimbabwe Platinum Mines (Zimplats) for $3 million, along with its interest in the Mhondoro platinum project.

In 1996, during a state visit by Prime Minister Mahathir Mohamad, Malaysia's YTL Corp. sealed a $600 million pact to buy from the government a 51 per cent stake in the Hwange thermal power station in north-eastern Zimbabwe, the largest in the country. Concluded without going to tender, this was the biggest privatisation deal with any foreign company since the country's independence in 1980. The Zimbabwe Electricity Supply Authority (ZESA) kept the remaining 49 per cent. The government was to lease the station's six existing coal-fired units to the joint venture, which would then develop two new 330-megawatt units, significantly reducing Zimbabwe's reliance on imported electricity. Various international investors had shown an interest in the Hwange plant, but government felt that in the name of South-South co-operation ZESA should court only the East Asian countries, a move resisted by the company's board (Lauseig, 2000)[25]. The Affirmative Action Group also spoke strongly against the deal.

Excess government intervention in the economy and state-run industries make the short-term outlook for the mining sector unfavourable, undermining its ability to continue to generate more than a quarter of the country's export earnings. External market forces and weak commodity prices have also had a serious impact on ferro-alloys, gold, steel and uranium developments. On top of this, the overall macroeconomic situation has deteriorated badly since 2001, a crisis that imposes mounting cost on the South African economy too. A conservative estimate holds that reduced exports, the failure by Zimbabwe to service its debt (in particular to Eskom and Telkom) and lower FDI to South Africa cut 2002 South African GDP growth by 1.3 per cent and led to between

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20 000 and 30 000 job losses in 2000-02 (Schussler, 2003). The crisis has also brought inflationary pressure and forced the South African Reserve Bank to keep interest rates higher than otherwise required. Although Zimbabwe's political and economic instability — including the lack of access to foreign exchange either to import production inputs or to repatriate earnings — and poor profitability have direct adverse consequences for operations of foreign firms, only a small number of firms in the Jenkins and Thomas (2002) sample were considering withdrawal in the short term. Almost half of interviewees with operations in Zimbabwe expressed long-term optimism about the future of the country, but a common view was that significant reforms must first take place. Firms with long histories in Zimbabwe particularly held this view. Standard Bank, for instance, announced plans to inject more than $10 million into Stanbic Zimbabwe, its largest African subsidiary with 15 branches and 600 staff, once the country's political situation improves[26]. In 2002 another South Africa-based group, Barloworld, bought Porthold Cement for $54 million.

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Notes

1. Malaysia has not limited its investments to South Africa, however. Since June 1996, its corporations are reported to have invested $1 billion in Africa, mainly in oil, power and telecommunications, after showing a steady increase in the early 1990s. Other key investments occurred in telecoms in Zimbabwe and Ghana. Petronas has also expanded in developing Asia and Egypt in the face of dwindling domestic oil reserves.

2. Since the early 1970s foreign companies (excluding those geared to exports) have had to cede 30 per cent of their equity to Malay interests; new rules released in June 2003 will allow international companies to own fully their manufacturing operations in Malaysia, although *bumiputra* requirements remain in place in the services sector.

3. For comparison, every five years the Central Bank of Brazil conducts a mandatory census of all firms with at least 10 per cent of foreign equity participation. In 2000 11 404 companies had total assets of R$914 billion and sales of R$501 billion.

4. Anglo American in particular still generated 54 per cent of 2002 earnings domestically.

5. The government stake in De Beers Botswana Mining Company increased from 15 per cent to 50 per cent in 1975. In 1991, the company changed its name to Debswana Diamond Company. Damtshaa, the fourth Debswana mine, began production in October 2002, making Botswana the largest producer of diamonds in the world by value.

6. In April 2001, De Beers was turned into an unlisted subsidiary of Anglo American in a deal that gave the Oppenheimer family control over the diamond company.

7. Similar binational arrangements exist for RTZ and Unilever.

8. Investec shares, for instance, fell 40 per cent in the ten months after London listing in July 2003. In an interview the company's chief executive declared, "It was the right thing to do. It was a strategic imperative for us, although I recognize that we still have to prove ourselves to overseas investors" ("Investec expects business boost", *Financial Times*, 22 May 2003).

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9. For some European countries, Crozet *et al.* (2003) also identify an FDI learning process in which location decisions gradually become more remote from the country of origin.

10. "Vodacom signals expansion in SA and neighbouring countries", *Business Today*, 19 June 2003 and "MTN shakes off also-ran image by releasing set of healthy results", *ibid.*, 20 June 2003.

11. In addition to operating in the engineering and construction sector, Rotek runs a transport fleet. Another Eskom division, TSI, offers project management and operating maintenance services locally and in Nigeria, Libya, Vietnam, Turkey and Georgia. TSI also holds various renewable energy projects, including Eskom's wind energy turbines, solar power and a biomass gasifier system. The division has been driving Eskom's clean energy initiatives. See "Africa is a big turn-on", *Financial Mail*, 27 June 2003.

12. The United States imports more oil from Angola than from Kuwait.

13. As in the Niger Delta states in Nigeria, political tensions are high in some areas of Cabinda as separatist groups demand a greater share of oil revenue for the province's population. These groups often kidnap foreign nationals in an attempt to draw attention to their independence claims. In September 2002, the Angolan government announced that it was prepared to open talks with Cabindan separatist groups and offer the province some measure of autonomy, but ruled out the prospect of complete independence.

14. Sonangol reportedly invested some $15 billion in exploration and development in 1999-2002.

15. "Angolan diamonds: on the rocks", *The Economist*, 14 September 1996.

16. Tokyo Sexwale, a South African tycoon, recently announced that he will start mining diamonds at two sites.

17. Also in 2000 the DR Congo government sealed a similar marketing arrangement with another Israeli company, IDI.

18. "Talks stalled on De Beers return to Angola", Reuters, 13 May 2003.

19. "Petrobras quer ampliar participação no setor em Angola", *Folha de S. Paulo*, 31 October 2002.

20. "Into Africa", *The Economist*, 12 June 2003.

21. Brad Roberts, SME Department: Mozambique, World Bank Group, personal communication.

22. Bouygues's subsidiary SAUR is also the largest investor in Aguas de Moçambique, the water and sanitation company, alongside IPE-Aguas de Portugal and Mazi.

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23. “Maputo deal secured”, *WorldCargo News*, April 2003.

24. “244 empresas moçambicanas falam português”, *Publico*, 23 September 2002.

25. In 1996 President Mugabe dismissed the entire ZESA board after it had voiced its disapproval of the Hwange deal. He then appointed a new board, which also opposed the same deal and warned the government not to sell strategic installations to foreigners as this would cost the country dearly in the future.

26. “Stabic plans to recapitalize Zimbabwe arm”, *Financial Times*, 20 November 2002.

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Chapter 5

FDI in Selected Sectors

Textiles and Clothing

Global trade and investment patterns in the textiles and clothing industry are largely determined by restrictive policy measures such as Multifibre Arrangement (MFA) quotas, tariff peaks and other, frequently changing non-tariff barriers. The Agreement on Textiles and Clothing (ATC) governs trade among World Trade Organisation (WTO) members. It will progressively phase out quotas in the EU, USA and Canada. After a ten-year period ending on 1 January 2005, and provided that phase-out proceeds as agreed, the ATC will expire and all quotas will be abolished.

A number of trade arrangements with OECD partners also affect the SADC region. On the US market, AGOA allows developing countries to export clothing duty-free provided that not only cloth/fabric but also yarn are sourced from AGOA signatories (the "triple transformation" rule of origin). Insofar as it embodies only a single transformation rule, AGOA resembles the MFA for less developed countries. Countries with this designation can gain quota-free and duty-free access to the United States simply on the basis of local assembly operations (Gibbon, 2003). Fully fashioned knitwear exports remain disqualified because of the "knit to shape" problem, and duty-free entry for textiles and apparel made with non-US yarn or fabric is capped (at 3.5 per cent of all such US imports in 2008). On the EU market, the Cotonou Convention allows quota- and duty-free exports from ACP countries to the EU, with a provision that 60 per cent of an export's value must be added in the beneficiary country. Under the Lomé Convention, apparel items must undergo a "double

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transformation" — i.e. assembly plus at least one pre-assembly operation (spinning and/or weaving/knitting) in the exporting country. For this reason, the EU applied so-called "cumulation" to all ACP countries, requiring at least two stages of production to be carried out locally (i.e. fabric had to be made locally). Some countries, such as Lesotho, got special dispensation from the ruling for eight years. The EU-South Africa Free Trade Agreement incorporates a "double transformation" rule of origin and provides for a phasing-out of duties on clothing over a five-year period (a rate of 5.2 per cent was applied during 2001).

The 2000 SADC Free Trade Agreement calls for the elimination of SACU duties on cotton imports from SADC by 2005. A special provision for clothing permits single-stage conversion from Malawi, Mozambique, Tanzania and Zambia (MMTZ), governed by quota for five years. The preferential access is available only for products to be consumed inside SACU (Naumann, 2002). During negotiations on the future of the quotas, the MMTZ group objected to the reference to the special arrangement with SACU as a derogation and to the reference to the two-stage processing as the default rule of origin for textiles and clothing. Zimbabwe and Mauritius raised the issue of duty levels for clothing and textiles higher for exports based on double-stage processing but zero for those based on single-stage processing. South African mills must buy domestic fibre first and can import cotton under permit only when that supply has become exhausted. Prices paid to growers are typically around the level of the "A" index (implicitly higher than other growths in the region). If local spinning capacity expands, spinners would likely demand access to competitively priced fibre, which may lead the South African government to identify alternative farmer-support schemes. South Africa also has bilateral agreements with Malawi and Zimbabwe. It favours an immediate reduction to a zero tariff, whereas the BLNS countries (Botswana, Lesotho, Namibia, South Africa, Swaziland) prefer a gradual tariff phase-down.

With few exceptions, textiles and clothing account for a very large share of manufacturing production and non-traditional exports in all SADC countries. In Mauritius, for instance, clothing exports correspond to 25 per cent of GDP (Gibbon, 2001) and a larger proportion of total manufactured exports than in similar garment-dependent economies in South Asia (Wignaraja, 2001). In Malawi the entire textile industry employs close to 29 000 persons during the peak season and represents the largest share of non-traditional exports (MCCI, 2002). In Lesotho and Swaziland growth was pulled by the trade sanctions on South Africa that encouraged firms to shift production there for export to the United States — and led to US quotas in the early 1990s[1].

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FDI is omnipresent all along the textile and clothing supply chain in the SADC and especially in EPZs. In Mauritius it takes mainly the form of "triangular manufacturing", initiated by Hong Kong, China capital interested in cheap labour and access for dyed cloth and fabric to quota freedom — later, quota allocations — for the United States and to a lesser extent the EU, especially French markets (Gibbon, 2001)[2]. This kind of cut-make-trim (CMT) operations, which resemble the *maquiladora* in Mexico and the Caribbean, is also widespread in Lesotho, Malawi and Swaziland, where customers include South African companies such as Woolworths and Pepkor. Until the recent past, investment in full packaging (i.e. investors sourcing cloth/fabric and trim/ components on their own behalf as well as carrying out assembly) was much less common. In evidence of the "footloose" character of investment in this industry, firms tend to manufacture for export in rented buildings rather than constructing their own, more capital-intensive, facilities (de Coster, 2002).

South Africa is partly an exception. Survey results by Roberts and Thoburn (2003) indicate that two-thirds of firms have local owners[3]. Textile firms are internationalised in terms of trade and technology, but only very few have a significant export orientation. Although the sector is becoming increasingly open, neither trade nor export performance appears to be directly associated with firm growth. Such growth may be linked with exporting, but shipping abroad has a defensive motivation to counter the threat to the domestic market.

More recently, Claas Daun, a German industrialist and venture capitalist, has emerged as a major player, said to be the largest individual foreign investor in South Africa. His interests have a combined turnover of more than ZAR6 billion. In textiles, which account for about 60 per cent of his business, Daun owns well-established brands such as Home Fabrics, Fabric Library, Springbok Trading, Glodina, Jordan Shoes and Mooi River Textiles. They account for roughly half of South Africa's textiles capacity[4]. Daun has acquired firms very cheaply and turned them around by making finance available for upgrading equipment, or closed them down and sold off the machinery. He has other investments in footwear and leather and, at one time or another, in almost every large listed furniture group, including Morkels, Profurn and Steinhoff. He currently has a stake in JD Group. In August 2003, the Competition Tribunal approved the merger between his company and the ailing meat and leather group Kolosus, subject to the condition that no more than 150 employees in any "affected firm" may be retrenched for a year after the order.

Trade exchanges between SACU and other SADC countries are dominated by Zimbabwe's exports of fibres to SACU, followed by Malawi's exports of clothing to SACU and SACU's exports of fibres to Mauritius (Tagg, 2002). South Africa has been the major destination for Malawi's textile exports, accounting for almost 78 per cent of 2000 shipments while other SADC countries took only 2 per cent. Most textile exporters have long-term contracts with importers or design outlets in South Africa. All packaging materials such as cartons are locally sourced, except for polythene bags for packing finished fabrics and Hessian sacks and bales for packing cotton yarn and cotton lint (also used by the tobacco and tea industries) that are imported from Zimbabwe and South Africa. The same is true for Swaziland, which also exports zip fasteners for the regional market. A subsidiary of Japan's YKK Group opened a plant in 1977 at the Matsapha Industrial Estate that currently employs more than 130 people to produce 15 million meters of synthetic and metal zip fasteners per year, using raw materials imported from Japan.

Clothing is one of the leading export segments for SADC countries, and the scope for redirecting investment flows and increasing intra-area trade better to exploit relative comparative advantage is certainly substantial (Visser, 2001). There are structural constraints, however, especially low total factor productivity (despite very low labour costs) and huge geographical distances from major markets. Mauritius built its success on the choice of turning the whole country into an EPZ, with unrestricted duty-free access for machinery, cotton and yarn and high duties on clothing. Between 1982 and 1990, the number of firms in the EPZ increased nearly fivefold from 120 to 570, and employment in these companies quadrupled from 20 000 to 80 000 (Gereffi, 2002). Ownership is split evenly between domestic and foreign capital. The cost disadvantages of the island location have been offset by a concentration on high-unit-value products, such as "Scottish" knitwear (mainly jerseys and pullovers). Labour productivity is significantly higher than in the Caribbean.

By the late 1990s, Mauritian companies had developed different strategies depending on their most important markets (Gereffi, 2002, p. 30). For exports to the US market governed by the MFA, both assembly and finishing took place in Mauritius, and firms gained "highly structured learning experiences centred on process-related competences". Exporters producing for the EU market, on the other hand, were integrated backward into knitting and in a few cases dyeing and (wool) spinning, a strategy that allowed for more diffuse learning experiences related to functional versatility. Sannassee and Pearce (2002) observe that FDI operations are not embedded in any qualitatively

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distinctive local inputs. They thus have no incentive to interact with local creative resources in a dynamic development process. This makes Mauritius vulnerable to footloose exit as wages and other costs rise.

Having become established producers for the lower and middle market segments in the EU and the United States, Mauritian firms attempted in the mid-1990s to move up the value chain into own-brand manufacture. The attempt failed, and by the late 1990s the emphasis had shifted back to volume production, partly on the basis of delocalisation to Madagascar, India and Mozambique[5]. Despite much lower wages, however, productivity and the quality of infrastructure proved lower than expected (Jhamna, 2000). In this sense the expectation that Mauritius's development could follow the "flying geese" pattern that had characterised East Asia in the 1970s, involving similar transfers of labour-intensive stages of production from richer to poorer neighbours, has not fully materialised. AGOA has recently reinforced Mauritian textiles FDI, not only to the rest of SADC but also to Senegal — enough so to stimulate discussion of the feasibility of launching a new air service from Port Louis to Dakar and on to the United States. The island continues to remain a net receiver of clothing FDI, however. Rashid International from Dubai is building a Rs 110 million plant, its second overseas facility, to manufacture jeans. It will operate Italian machines and equipment and employ 450 persons, mainly from India. Sri Lankan Star Knitwear is building its fourth plant in Mauritius, bringing its payroll to 2 500, of which a quarter come from the Indian subcontinent. Although the LDC provision has so far curbed the development of textile plants, major global denim maker Arvind Mills is investing in a yarn-producing plant and expanding its apparel facilities in order to boost sales of jeans and other denim apparel to major US brands and retailers. Arvind already produces about 10 million metres of denim every year on the island and purchased a local clothing factory a few years ago. The Compagnie Mauricienne du Textile (CMT) also began building a new cotton yarn plant in January 2003. Major US retailers such as Gap and Eddie Bauer have opened regional buying offices on the island[6].

Asian FDI is also increasing in lower-wage SADC countries. Large Chinese Taipei multinationals such as Nien Hsing and Tuntex[7] are attracted by the prospect of supplying large retailers such as Gap, Victoria's Secret and Wal-Mart in the short window open between the ending of MFA and the expiration of AGOA in 2008. Similarly, Malaysian textiles conglomerate Ramatex started operating an integrated site in Namibia in 2002 (Box 5.1), and other manufacturing units are being erected by Rhino Garments and Tai Wah Namibia (a Ramatex subsidiary). The Malaysian investment was first promised

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to the Eastern Cape province, but the Namibian incentive package (and much less strike activity than in South Africa) proved more alluring — one of the few examples so far of the "investment wars" that have characterised other emerging regions since the 1990s (Oman, 2000).

In relative terms, Lesotho has been the main beneficiary of AGOA. FDI has created new skills and work attitudes, but local linkages in the form of spin-offs or subcontracting are negligible, although some backward integration into textile production is starting (UNCTAD, 2003). Namibia also takes advantage of AGOA; its textile and clothing industry was almost non-existent before Ramatex arrived. Despite very low productivity — garment output per worker is said to be only half as high as in South Africa, where it is only 25 per cent of Asia's — Namibia enjoys the advantage of shipping times to the United States and Europe up to 30 per cent lower than South Africa's (de Coster, 2002).

Box 5.1. **Ramatex Namibia**

Ramatex, one of Malaysia's leading integrated textile manufacturers, has operations in Cambodia, South Africa, Mauritius and China. Following six months of negotiations with the Ministry of Trade and Industry and the City of Windhoek, it started construction in 2001 of a huge, fully integrated textile and garment plant in the Otjomuise area, the first of its kind in Namibia. Other stakeholders include the Namibia Investment Centre, the Off-Shore Development Company, NamPower, NamWater and Telecom Namibia. The city has agreed to lease a 43-hectare portion of land at no direct cost to Ramatex. The project will be exempt from land-use tax. The total estimated site development cost of N$ 60 million is split between the City of Windhoek, paying up front, and the government. The site had already been earmarked for industrial development, so funding had been prearranged with the Development Bank of Southern Africa. Authorities believe that the Ramatex investment will add value to Namibian manufacturing, diversify exports, create opportunities for skills training and entrepreneurial development, promote SMEs and stimulate economic growth. Given the limited skills and training in the area, Ramatex is expected to provide the necessary training. The operation was expected to create 3 000 jobs in the first year alone, mostly for Namibian women. By February 2003 two of the four buildings had started production, each housing more than 1 000 workers. In another building not far from where sewing occurs, cotton is spun into yarn and turned into fabric.

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Box 5.1 (contd.)

The Malaysian investors are optimistic about the future and the benefit the factory holds for local Namibians. "If they are prepared to work harder, if they are keen to learn, to be well-disciplined, if they are responsive to supervisors' instruction, they could be trained and become skilful sewers. The aim is to instil discipline, punctuality, high productivity, good quality and a culture of hard work. What we want is discipline, and hardworking Namibian people that can be equated to China when comes to garment manufacturing". The project has not been without controversy, however. The factory still has not released the results of an Environmental Assessment, although Namibian legislation requires it for all new projects before approval. In April 2003, Namibian employees demanded a wage increase, housing allowances and other benefits. In May, about 700 Asian expatriate employees, mostly from China, went on strike demanding a N$500 across-the-board salary increase and better conditions of service. More than 400 were suspended, accused of playing an active role in the work stoppage. President Sam Nujoma defended Ramatex, saying the workers were still being trained. The Congress of Democrats, in opposition, expressed concern over the alleged exploitation of Namibian workers at the factory and called for "immediate reinstatement of the suspended workers and for the immediate and unconditional bettering of the working conditions and remuneration of the Ramatex employees".

Sources: author's interviews; "Ramatex Silence Continues", *The Namibian*, 22 November 2002; "Pins and needles at Ramatex", *The Namibian Economist*, 28 February 2003; "Ramatex warrants minimum wage in manufacturing", *ibid.*, 30 May 2003.

The main trade-policy uncertainty surrounds the phasing out of AGOA, especially a possible extension of the LDC provision offering all AGOA-eligible countries except Mauritius and South Africa the right to use Asian fabrics in duty-free exported apparel[8]. SADC countries have weak cotton sectors and depend on imports of fabric from Asia to satisfy their needs. Under the US law, the provision will expire on 30 September 2004, and potential investments will not be launched if the benefit is not extended for a few years. Although the so-called AGOA II signed into law in August 2002 raised caps imposed on duty-free apparel imports from sub-Saharan Africa, specific limits on products made from Asian fabrics did not benefit. Given that it is probably too late to integrate backward on any scale, governments must reduce levels of bureaucracy, improve efficiencies in terms of customs clearance and valid documentation and reduce irregularities (Morris, 2002)[9]. In the longer term the pressure to find indigenous suppliers of fabrics may revive the SADC spinning industry, although indications of this sense remain very tentative[10].

An additional serious limit on the expansion of SADC manufacturers is what appears to be a rather lax application of labour standards (Box 5.2). Problems such as underpayment of employees, widespread resort to child labour, substantial and often compulsory overtime and trade union repression have been widely documented (Clean Clothes Campaign, 2002 and Jauch, 2002). OECD consumers have become increasingly concerned with such practices, and retailers do not source from producers with dubious corporate responsibility credentials. Even more fundamental, building market shares on the basis of cheap labour, EPZs and time-bound preferential access to OECD markets is hardly sustainable in the long term, as is revealed by the experience of Central American and Caribbean countries that have export volumes far in excess of those of the SADC (Mortimore, 2003). Moreover, the textile machinery industry in South Africa, to say nothing of other SADC countries, is very far from the international frontier. While the emergence of new competitors to traditional producers such as Germany, Italy and Japan may have improved the bargaining position of users, the lack of a competitive domestic industry makes it difficult to move away from cost-sensitive market niches[11].

Box 5.2 **Labour Standards in the Textile/Clothing Industry in Three SADC Countries**

In September 2000, Swaziland's enactment of legislation inconsistent with ILO standards on the right to freedom of association and collective bargaining prompted the Office of the US Trade Representative to review that nation's eligibility for duty free access to the American market under the Generalized System of Preferences. The United States subsequently delayed a final decision to give Swaziland time to remove a clause holding workers and their unions financially and criminally liable for any material or other losses caused by both legal and illegal strikes. In Lesotho, according to UNCTAD (2003, p. 35), "[T]here is some concern at compliance by investors in the textiles and garments industry with norms for treatment of workers, especially working conditions. Unions, including moderate unions, believe that factory inspections should be improved and that some investors are loath to be fully compliant. They also believe that there is inadequate training of personnel officers in some companies". The situation is very different in Mauritius, where, as a result of tight labour market conditions, "any employee who has worked for the same employer for at least one year is regarded as a permanent worker and enjoys all the associated entitlements. The only exception concerns immigrant workers, who are employed increasingly often by the [textile, clothing, and footwear] industries in the absence of local workers. Immigrant workers generally have a renewable two-year work permit" (ILO 2000, p. 31).

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The Automotive Industry

The industry has attracted considerable FDI in assembly plants and component production over the last few years, almost exclusively in South Africa. Although precise data are not available, estimated production capacity increased from 462 000 units to 564 000 between 1995 and 2001[12]. The South African industry is based on the local operations of seven multinational corporations, three from Europe, two from the United States and two from Japan (Table 5.1). Three of them (BMW, Ford and Nissan) are based in Gauteng, one (Toyota) in Kwazulu-Natal and the other two in the Eastern Cape. Some firms with a long presence in the country — notably Ford, General Motors and Toyota — had abandoned it as a result of trade sanctions but have bought back their subsidiaries. German auto-makers with their narrower global manufacturing reach, on the other hand, have followed a different strategy, investing directly from the very beginning, giving South Africa a more central role in their production map and turning the country into the sole basis for some models (Box 5.3). They currently account for 97 per cent of South Africa's passenger-car exports. In 2001, BMW produced 41 000 units, Daimler Chrysler 61 000, Delta 22 000, Ford 53 000, Nissan 60 000, Toyota 80 000 and VW 74 000.

Table 5.1. **Major Investments in the South African Automotive Industry**

Company	Location	Description
Assemblers		
BMW	Rosslyn (Pretoria)	BMW SA invested more than ZAR1 billion and recently announced a further ZAR2 billion investment to align the facility with BMW's global network. It has pioneered several technologies and concepts that have proved so successful that other BMW operations are now implementing them. All RHD 3 series, as well as all leather seats for BMW cars, are made in South Africa.
Daimler-Chrysler	East London	The sole global supplier of C-Class right-hand-drive (RHD), the plant is competing with the Bremen and Sindelfingen factories in Germany for the contract to produce the successor to the C-Class model. If it succeeds, an investment of about ZAR2 billion would be required to retool by 2007, and eight to ten major suppliers would need to open facilities in the country. DaimlerChrysler recently acquired the foundry of ADE (Atlantis Diesel Engines), a major diesel engine assembler, and a 75% stake in retailer Sandown Motors. In September 2002, the Competition Tribunal approved the merger of four of its major dealerships (Sandown, McCarthy, Imperial and Barloworld). Smaller franchise dealers have begun a campaign for a "bill of rights" to prevent large companies from evicting them from their businesses.

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Table 5.1 (contd.)

Company	Location	Description
Assemblers		
Fiat		Fiat has spent ZAR400 million since 1998 to produce the 178 world car family (Palio, Siena and Palio Weekend). In 2001, exports exceeded ZAR1 billion, mostly to other RHD markets. The local company supplies components ranging from safety-critical components to suspension components, steering mechanisms, heat shields, leather seat-covers and catalytic converters. About 56% of the component content is domestic. Because of the company's problems, production in South Africa may cease. The subsidiary Magneti Marelli SA was established in 1997 to produce exhaust systems. The Comau plant in Uitenhage (formerly Aims, part of the US Pico group bought in 1999) does important work on body systems and dies development.
Ford/Samcor	Port Elizabeth (Silverton)	The plant produces 12 different models for Ford, Mazda and Mitsubishi and more than 100 model variants. Output capacity is over 250 000 units a year. Awarded Q1 plant status accreditation. Exclusive supplier of the 1.3 and 1.6 RoCam engines for use in the soon-to-be-launched Ford Icon motor vehicle. The paint shop has been refurbished with new technology, with the ultimate goal of reaching 80 000 units per shift each year, at export quality requirements. The company claims that this reduces repair time, improves gloss and smoothness and offers greater resistance to chipping and corrosion on its vehicles.
General Motors/Delta	Port Elizabeth (Struandale)	GM, which has owned 49% of the Delta Motor Corporation since 1997, launched the assembly of the Opel Corsa in late 1996 and added a boot version in summer 1997. The Corsa CKD kits are imported from Brazil. The refitting demanded a ZAR300 million investment. Annual capacity is scheduled for 25 000 units. The plant also produces the Astra and Isuzu light trucks. More than ZAR50 million has been spent on capital projects at dealerships. In 2003, ZAR100 million was being spent to consolidate the two paint shops into one, featuring specialised robots and automated exterior spray painting.
Nissan		In 2000, Nissan increased its investment in Automakers by purchasing Sanlam's 37% stake, subsequently increased to 98.7%. In 2001, the name was changed to Nissan South Africa. Plans to assemble the Renault Megane and Scenic were suspended.
Scania		A new plant inaugurated in February 2003 more than doubled production of heavy trucks and buses from 700 to around 2 000 units. Scania increased exports by more than 400% in 2002 to 269 units.

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Table 5.1 (contd.)

Company	Location	Description
Assemblers		
Toyota	Durban	The plant, qualified for ISO TS16949 in 2002, has a capacity of 110 000 units a year and its capacity utilisation is close to 90%. The company recently opened a new ZAR168 million pressing plant for car side panels and is investing ZAR3.5 billion to become a global source for Corollas and light commercial and multi-purpose vehicle exports. Starting in 2004, South Africa will join Argentina and ASEAN countries as part of the global production network for pick-up trucks, multi-purpose vehicles and major vehicle components. In June 2003, Toyota reached an agreement with joint-venture partner Wesco Investments to boost the former's percentage of shares in Toyota South Africa (TSA) from 35.7% to 74.9%. TSA is the holding company of Toyota South Africa Motors, which handles the production and distribution of Toyota vehicles in South Africa.
Volkswagen	Uitenhage	VW has invested ZAR690 million in the new Polo and announced a ZAR2.1 billion six-year investment in plant infrastructure, product upgrades and improved facilities. Is also planning to start exporting Polos, in addition to producing all RHD W Golf models for the global market and supplying 30 000 units a year to the European market. The variety of VW models will be reduced from five to three.
Components' producers		
ASEC (Delphi)	Port Elizabeth	ASEC invested ZAR30 million in new equipment, engineering and facilities in 1999 to produce exhaust catalysts, for which the company holds 22% of the global market.
Behr		Facing pressure from key German customers looking to expand production in the country, Behr acquired its operation from another foreign investor in 1999. Some changes were introduced (automation, purchasing, marketing, closure of R&D facilities) but not in the plant layout. Productivity and efficiency have improved in each business division (air conditioners, radiators).
Bosal Automotive	Pretoria	This Belgian company produces precision tubing, including exhaust systems, catalytic converters, towbars, roof racks, jacks and warehouse racking systems. The South African exhaust plant has been operating for more than 40 years and was awarded the QS 9000 Achievement Quality Award in 2002 (the first South African exhaust manufacturer to achieve this standard). One of the group's two satellite Research and Engineering Centres is in Pretoria. Research into product innovation includes lightweight exhaust systems, weight-reduction programmes for existing product lines and development of innovative technology.

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Table 5.1 (contd.)

Company	Location	Description
Mario Levi and the Dalmaso Group	Uitenhage (Eastern Cape)	A ZAR39 million retanning and finishing plant opened in 2000 produces 1 200 hides a day, mainly exported to Italian automotive manufacturers including Alfa Romeo. In 2002, Levi announced a further ZAR79 million investment to expand the plant to supply additional car makers. It wants to increase capacity to 3 000 hides a day and staff from 100 to 270. The quality and quantity of local inputs remain problems, but Italian tanners are able to use lower-grade hides to produce automotive leather similar to that made from top-quality hides.
NGK Ceramics	Cape Town	NGK invested $20 million to build a new factory in 2001 in response to the opening of a plant in Port Elizabeth by Corning, its major international rival . Their combined share of the world market for the ceramic substrate for catalytic converters is 90%. Expatriate personnel have been used extensively. One year later the plant was running at optimal capacity.

Note: Catalytic converters used by the French groups Renault and Peugeot PSA are sourced in South Africa. Fully built-up imported car models from both groups are now being marketed in SA by dedicated dealerships at competitive prices as part of the duty rebate.

Source: OECD.

Box 5.3. **BMW in South Africa**

BMW, the German high-quality premium car producer, started operating in South Africa in 1968 through Praetor Monteerders, which assembled cars using BMW engines and drive trains in a factory in Rosslyn, north of Pretoria. This initial batch of cars (known as 1800 SA) was sold in South Africa and exported to Brazil. In the early 1970s, BMW bought shares in the company and by 1975 it had taken over full shareholding and established BMW South Africa (Pty) Ltd. Three years later, BMW was established as a high performance luxury passenger car manufacturer in South Africa. It set a production record in 1989 at 19 071 Completely Knocked Down (CKD) units.

In the mid-1990s, BMW made a ZAR1 billion investment to upgrade the production facility to one of the most modern in the world. Upon completing a new paint shop, BMW started producing the new 3-Series in October 1998. In October 1999, BMW Plant 9 — Rosslyn's official designation — became the first automotive manufacturing plant in the world to meet the ISO 14001 International Environmental Management System Standard and the BS 8800 Safety and Health Standard. In June 2002, Rosslyn was awarded the highly prestigious J.D. Power European Gold Plant Quality Award, ranking it first among European plants for quality. In recognition of the company's work in Social and Environmental Responsibility and Productivity Excellence, BMW South Africa also received special awards from the National Automobile Dealers Association.

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Box 5.3 (contd.)

In 1999, for the first time, Rosslyn produced more cars for export than for the local market. Production rose from 23 000 3-series passenger cars in 1998 to 55 555 in 2002, of which almost 80 per cent were exported. Export production was up 18 per cent in 2002. Primary markets are the United States (47 per cent), Japan (18 per cent) and Australia (8 per cent), with the rest going to New Zealand; Hong Kong, China; Singapore and Chinese Taipei. On the domestic passenger car market, BMW commanded an 8.7 per cent share in 2002, the brand's highest market penetration in the world. At 42 per cent, BMW's share of the big-bike motorcycle market (more than 500 cc) is also by far the largest in South Africa. Employees at Rosslyn grew by almost 900 between 1998 and 2001, which BMW says has led to the creation of over 18 000 downstream jobs in BMW's South African supplier network.

Major additions and modifications are currently underway, including substantial extensions to the body manufacturing and assembly complex. A massive new ZAR300 million preparation plant is currently being commissioned as an extension to the existing, state-of-the-art, water-based paint facility. The upgraded plant will be capable of producing 60 000 units a year. This will result in a substantial increase in BMW's export capacity — worth ZAR50 billion over the life cycle of future models. A BMW Technology Centre operates jointly with Vista University, South Africa's largest and newest black university.

Sources: author's interviews; "BMW Has Made an Investment in the Rebirth of Mandela's South Africa", *AAOW Magazine*, June/July 2000; "2003 year of expansion for BMW", www.wheels24.co.za, 25 February 2003; and Global Insight (2003).

The SADC automotive industry extends beyond South Africa, but it has encountered troubles. Willowvale Mazda Motor Industries (WMMI) was Zimbabwe's largest assembler, but it drastically slashed production because the country's foreign currency shortages made it impossible to import vehicle kits[13]. Nissan Africa and Quest Motor Corporation opened another plant in 1996 to build pickups; it may well have the same problems. In Botswana, a now defunct plant opened in Gaborone in 1998 to assemble Hyundai and Volvo models for export to the region and Australia. Wheels of Africa, a large car distributor from South Africa, contributed 30 per cent of the plant's cost (ZAR250 million, $26 million); the Botswana Development Corporation and Dutch banks Ambro and FMO provided the rest. NedCar in the Netherlands delivered the body components for the Volvo S40 and V40, for welding,

painting and final assembly in Botswana. The local value added was 20 per cent. The plant also produced the Hyundai Accent on a completely knocked down (CKD) basis, replacing a semi-knocked down (SKD) plant, also in Gaborone. Expected to produce 30 000 units by 2000 and employ 1 100 people, the plant was instead closed in 2000. Later that year a consortium of South African investors bought it to set up an assembly plant in Kimberly. A similar fate befell Afinta Motor Corporation (AMC), a Swazi company backed by US and South African investors, which assembled trucks and buses using Cummins engines and components from Asia and Brazil[14]. FDI in automotive parts has had more success, especially for German investors. Principal among these is the HMB factory in Gaborone (a Delphi Automotive subsidiary that produces electrical wiring harnesses for Audi and Opel) and Namibia Press and Tools (a subsidiary of Weser Metall Umformtechnik), a Tier 2 supplier to VW in Germany and South Africa).

South Africa's automotive industry has recorded rapid export expansion, initially of components but latterly also of vehicles (Table 5.2), taking advantage of cost-effective local resources, such as cheap electricity (required for aluminium manufacture) and an abundance of natural resources (platinum benefaction in catalytic converters, cow or buffalo hide for leather seats)[15]. The industry also caters to RHD (right-hand drive) markets such as Australia, Japan, India, the UK and many African countries. For BMW and VW, South Africa accounts for roughly 20 per cent of their global RHD production. Imports of new cars also proved to be an important market driver in 2001-02, as a strong rand made imported cars considerably cheaper. This enabled them to increase their share considerably, from 28 per cent in 2000 to 34 per cent in 2002, a trend that may continue. The industry's share of manufacturing sales, value added and investment all increased in 1993-2001, despite weak market demand, falling import duties and the abolition of local content requirements (Black, 2003). Labour productivity (value added per employee) increased by 37.8 per cent, above the manufacturing sector average, although capital productivity growth remained sluggish at best (Barnes, 2002).

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Table 5.2. **Main Performance Data for the South African Automotive Industry**

	1995	1996	1997	1998	1999	2000	2001	2002
Market dimension:								
Domestic production (units)	373 712	374 758	342 535	286 159	266 349	289 333	299 035	..
Exports (%)	4.0	3.0	5.4	8.3	18.3	19.0	26.5	..
Total local markets (units)	395 793	421 076	399 275	351 510	325 775	356 082	384 099	..
Imports (%)	5.5	11.0	14.2	18.6	18.2	18.7	22.1	..
Export data:								
Components exports (R million)	3 318	4 051	5 115	7 895	9 600	12 640	18 585	24 500
Built vehicle exports (R million)	900	750	1 600	2 100	5 100	7 400	11 400	15 500
Factors of production:								
Assembly employment	38 600	38 600	37 100	33 700	32 000	32 300	32 700	..
Component employment	81 000	89 000	78 000	70 000	60 000	59 500	58 500	..
Capital expenditure (R million)	846.8	1 171.3	1 265.3	1 342.1	1 511.0	1 561.5	2 078.2	..
Capacity utilisation (cars) (%)	84.3	78.9	77.3	64.3	64.6	66.1	72.2	..

Source: NAAMSA (National Association of Automobile Manufacturers of South Africa), *Annual Report 2001/2002*.

Public policies can get credit for making these developments possible. Like other developing countries pursuing import-substitution industrialisation, South Africa had hosted a great number of car assemblers, producing a wide variety of models with low efficiency due to the inability to exploit economies of scale and specialise in specific segments of the value chain. Progressive relaxation of the protective automotive regime started in 1985 with phase six of the local-content programme introduced in 1961. It looked at vehicles for the first time on the basis of value rather than weight. The Motor Industry Development Plan (MIDP) was launched in September 1995 to improve the international competitiveness of the automotive and associated industries, enhance vehicle affordability in the domestic market and encourage export growth. Its core elements have been steady reduction in import duties by 2002 — from 65 per cent to 40 per cent on built-up vehicles, from 49 per cent to 30 per cent on original-equipment components and from 40 per cent to 20 per cent on trucks and buses — and the elimination of minimum local-content requirements[16]. Under the export complementation scheme, component exports qualify for Import Rebate Credit Certificates (IRCCs), which can be used to offset customs duty on automotive imports. Manufacturers earn export credits on the locally manufactured components of exported vehicles, which they can use to reduce their total duty payable on imports of low-volume vehicles so as to concentrate on high-volume manufacture. Many component makers

have arrangements for these credits with the local assembly plants that they supply. Exporters unable to use the IRCCs in this way can sell these negotiable instruments to importers.

MIDP phase two will reduce export credits by 7 per cent a year to phase the scheme down, until they reach a level where every rand of exports earns only 70c worth of imports. A Productive Asset Allowance (PAA) has been introduced to encourage investment by original equipment manufacturers (OEMs) and the component industry to promote further rationalisation, while the Small Vehicle Incentive (SVI) was phased out because it artificially supported new entrants at the lower end of the market. A 2002 Review extended the MIDP from 2007 until 2012, reduced the pace of import-duty reduction[17], postponed to 2009 the 70 per cent valuation of exports for import rebates and froze that value until 2012. Policy towards medium and heavy-duty vehicles was not examined in the 2002 Review, and the position of such vehicles under the MIDP must still be evaluated. Imports of second-hand vehicles continue subject to a special permit, few of which are issued.

South African authorities continue to monitor industry developments. They expect that the local content in domestically assembled vehicles will increase given the higher model production volumes now being achieved. This will influence future changes to the SADC automotive regime. The industry is on the list of sensitive products to be negotiated separately by both the SACU and Zimbabwe (Muradzikwa and Black, 2000). According to a 1999 SACU position paper proposal, MIDP adoption by any other SADC country would extend all MIDP rules. Hence SADC exports to SACU (and vice versa) would not be eligible for import rebate credits, and no tariff barriers would apply between SADC countries and SACU for automotive products. If, on the other hand, any SADC country chooses to remain outside the MIDP, SACU would grant no tariff concessions on imports of either vehicles or automotive components.

Opinions on the MIDP differ greatly. Barnes *et al.* (2003) argue that this is an example of "how a carefully targeted policy, cognisant of administrative weaknesses, [….] has led to the growth of dynamic comparative advantage as firms have caught up with the global frontier". Car manufacturers impose ever more stringent requirements on suppliers — for example a defect rate of less than 50 parts per million and a cost index of manufacture (CIM) lower than 1.0. Except for inventory control (i.e. delivery reliability to customers), substantial improvement has occurred in a range of benchmarks such as quality and operational shop-floor efficiency (Barnes, 2002). External factors (raw

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material inventories, supplier performance) appear as more serious obstacles than internal factors (work-in-progress control, training, absenteeism), suggesting that learning is still predominantly taking place among Tier I suppliers and has not yet diffused widely up the value chain (Barnes *et al.*, 2003, p. 4). Flatters (2002) is much more sceptical, arguing that continued MIDP import protection for vehicles and components creates rents on the domestic market and results in large transfers from South African vehicle buyers — a conclusion that the previous authors dispute on the basis of a comparison between retail car prices in South Africa and Europe. A 2002 report by Deloitte & Touche on motor vehicle manufacturing competitiveness in South Africa argued that the government should not phase out tariff protection faster than required by international obligations.

Despite improvement, the South African components sector has in most respects some way to go before it reaches the global frontier. The challenge is to develop productive capabilities in more integral components and increase the scale of production to break into international supplier networks. A South African body-pressing firm makes 1 000 different components whereas a press shop in Japan typically makes only 150, with much larger volumes. While a South African firm produces 300 000 alternators a year, the German parent company has recently established a plant in Wales with a capacity of eight million. Namibia Press and Tools identified workers' inability to perform quality control during the assembly process as a major constraint. Nevertheless, South African subsidiaries can compete in small-batch production for components and parts for vehicle models no longer produced, so that automated plants in OECD countries become uncompetitive (see Black, 2003 for the Behr case). Some examples of private sector engagement in technology co-operation include the following.

— The Japan External Trade Organization (JETRO) established an Automotive Development Programme in 1998. Participating companies' final evaluation of progress towards continuous improvement of shop-floor practices shows a wide range of results. Many firms have established green areas (meeting rooms for workers), introduced multi-skilled matrix charts, modified standard work instruction sheets (using illustrations and cartoons) and implemented training/educational courses. South African component companies have shown a significant increase in interest in having technical agreements with Japanese firms. Very few, however, use sophisticated equipment such as a stereo lithography apparatus (SLA) to speed up prototype manufacturing, and the use of ICT is also limited. One South African company has long had a technical agreement with a

Japanese company, but the latter initially provided no guidance or assistance in improving shop-floor management because they are not specifically included in the agreement. To comply with new and stricter requirements by car manufacturers, the South African company requested such assistance from the Japanese company, and it has received it for the past two to three years.

— DaimlerChrysler has a project to use sisal fibres for manufacturing vehicle components in South Africa, using a technology developed by a German firm, Johann Borgers GmbH & Co. KG (Borgers). The technology recipients were two local South African firms, Brits Textiles and NCI (UNIDO and WBCSD, 2002). DaimlerChrysler also has worked with the Council for Scientific and Industrial Research to improve the entire process supply chain, including natural fibre production at sisal farms. Borgers' role included prescribing recipes suitable for the components involved, recommending raw material suppliers, assisting with plant sourcing and layout and providing on-going technical and quality assistance. Also included was an exchange of personnel, including a technical team to help set up the production line. Through an existing technology agreement between Borgers and NCI, Borgers provided assistance to NCI with the design and development of the lamination, trimming and assembly process. NCI pays a royalty to Borgers of 2 per cent on revenue generated, to retain the technological support. The first sisal component was released for inclusion in the Mercedes-Benz C-Class vehicle in October 2001. The sisal-cotton mixture from local manufactures now makes up 75 per cent of the material in the car's rear shelf. The two local firms thus have benefited from this technology transfer and now successfully process the fibres and produce the components to the required standards.

— No less than 30 per cent of components (by volume) in Nissan diesel trucks produced in South Africa have been adapted or developed by the local engineering department to meet local conditions and needs. About 40 per cent of the total engineering budget is spent on adapting equipment to local conditions. In addition, the company's enterprise resource planning system (ERPS) uses only South African software, including some written specifically for Nissan Diesel.

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— German investors have introduced special courses to teach the German language to staff (Hartzenberg and Muradzikwa, 2002). As assemblers increasingly source components from German suppliers that invest in South Africa, improving local personnel's language skills facilitates co-ordination and increases flexibility along the supply chain.

— Because the high cost of domestic steel presents an obstacle to further competitiveness gains, positive developments should result from Iscor's decision to invest in dual-phase steel and other high-strength, lightweight grades demanded by the sector. The introduction of this steel grade within three years will require an estimated capital investment of at least ZAR500 million. The main capital expense involves the installation of equipment that allows the steel to cool in two phases, giving lighter-weight material additional strength. Iscor's link with the world's second-largest steelmaker, LNM, should also be important for the dual-phase rollout, as LNM already has dual-phase ability and is the second-largest supplier of steel to the US auto industry.

The public authorities have committed to assist this process through investment in skills development and training. Possibly the best example is Supplier Park Development at Rosslyn, close to Pretoria. This project, part of the Blue IQ's initiative, is a partnership between the Gauteng provincial government and the private sector. The former is investing ZAR200 million in the basic infrastructure, while the latter must provide the remaining ZAR800 million needed over the next eight years. In November 2002, the Lear Corporation became the first tenant. Two German firms and one French company are reportedly planning to set up their first South African operations in the supplier park, to be near the BMW plant. According to Naacam, the automotive components' organisation, by situating their operations in the supplier park component firms could shave up to 3 per cent off their costs[18]. Another initiative is the Automotive Industry Development Centre (AIDC), a partnership between Soshanguve College, Technikon Northern Gauteng, Technikon Pretoria, the University of Pretoria and CSIR, aimed at improving capacity in technical skills training, automotive engineering and managerial skills in the automotive industry. The AIDC has entered into a partnership with a German-based international research and development organisation, the Frauenhofer-Gesellschaft, as well as with a French engineering school and research centre.

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Foods and Beverages

Brewing[19]

In most SADC countries, beer is not only the most popular alcoholic beverage, but also the best-selling drink after water and ahead of milk and soft drinks. Brewing is also a globally oligopolistic industry with a small number of brands available world-wide — although in many developing and emerging countries local bottlers of global brands rank high among the largest domestic firms[20].

The evolution of South African Breweries (SAB) exemplifies the international expansion of a developing-country multinational, both because it highlights motives for internationalisation rare for developed-country firms and because it illustrates the challenges that latecomers from developing countries face when trying to establish themselves as global market leaders. Like other South African businesses during the apartheid years, SAB operated within a "siege economy". Companies were virtually immune from foreign competition, but unable to expand abroad because of sanctions and restrictions on capital movements.

The situation changed dramatically in the 1990s. Building on its power in the domestic market, the company created a virtual monopoly in neighbouring countries, acquiring privatised breweries or concluding licensing agreements with other brewers or bottlers in these countries. SAB entered the Mozambique and Tanzanian markets through privatisation and then expanded to gain monopoly power through strategic partnerships (Box 5.4). In Angola, it has a three-year contract to manage and rehabilitate the country's only brewery (Empresa de cervejas N'gola) on behalf of the government, and it controls the Coca-Cola bottling business. SAB also holds 23 per cent of Delta, one of the largest industrial companies listed on the Harare Stock Exchange with wide-ranging interests — beer, sorghum, CSDs, hotels and gaming as well as eco-tourism and retail. In February 2001, SABMiller Africa and the French Castel Group entered into a strategic alliance for their operations in Africa (excluding South Africa and Namibia). In May 2002, SAB closed its Kenyan operations under an arrangement to concentrate on its Tanzanian operations in the East African region, leaving the Kenyan market to Castel's East African Breweries.

SAB has found it more difficult to enter the Namibian market. In 1997 it established North South African Breweries (NSAB), a joint venture with local investors (who hold 51 per cent), among them the National Union of Namibian

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Workers (NUNW)[21]. NSAB intended to operate a new brewery at Ondangwa, which it expected to employ 2 000 workers and to use local maize. Namibian Breweries (Nambrew) successfully resisted this investment; in 1995 it had lobbied against a plan for a brewery in Tsumeb[22]. Nambrew is owned by Belgium's Interbrew and Ohlthaver and List, Namibia's pre-eminent business group that also controls Namib Sun Hotels and Rietfontein Dairies. With 847 workers, it is the country's largest private employer. While much smaller than SAB, Nambrew exports 40 per cent of its premium quality beers produced according to the *Reinheitsgebot*, the 1516 German purity law that prohibits the use of any ingredients besides malt, hops, water and yeast. Like another successful food processor, Springer Schokoladenfabrik (owned by Cadbury Schweppes), Nambrew benefits from consumer perception as a premium food product with German quality and authenticity traditions (even though Springer, for example, imports virtually all its inputs from South Africa and assembles them in Windhoek). In May 2003, Interbrew reached an agreement to sell its 28.9 per cent stake to Diageo and Heineken for € 31m[23].

Box 5.4. **Privatisation and FDI in Mozambican and Tanzanian Breweries**

Tanzania Breweries Limited (TBL) was privatised in 1993[24]. SAB holds 66 per cent, the International Finance Corporation (IFC) 8.79 per cent, the government of Tanzania 5 per cent, the Privatisation Trust 10 per cent and the general public 10.17 per cent. Before privatisation its annual revenue never exceeded TShs.15 billion and the company had just 30 per cent of the local market, with imports accounting for the rest. Gross production and finance inadequacies constrained TBL's ability to keep up with growing demand. Since 1993, TBL has undertaken an extensive capacity expansion and upgrade programme, involving the refurbishment of the breweries at Dar-es-Salaam and Arusha and the construction of a new brewery at Mwanza. Further capital has been spent on upgrading the distribution infrastructure. According to Portelli and Narula (2003, p. 11), "cost control, productivity and investment in production related training (such as computer literacy courses and skill base development within the workforce) are all basic tenets of the corporate strategy" and "TBL has undertaken a comprehensive programme of sourcing inputs from the host country, making the transition from widespread off-shore sourcing activities (through the MNE parent network) to sourcing inputs from locally based firms". TBL currently controls 85 per cent of the Tanzanian beer market. With over 1 600 employees, eight production centres and ten warehouses, it is one of the largest private employers in Tanzania with an annual turnover of $107 million.

Box 5.4 (contd.)

SAB purchased state-owned Cervejas de Mocambique (CDM) in 1995 and the Laurentina brand in 2002[25]. SAB's investment and the curb it imposed on the once-thriving trade in smuggled South African beer have benefited the government. Taxes paid by the breweries rose by 700 per cent. By 1998, CDM provided about 5 per cent of total tax revenue. It pays a minimum wage equivalent to $96 a month, more than two-and-a-half times the statutory minimum. It was the first company quoted on the Mozambican stock exchange, which opened in October 1999.

Given the low per capita income levels in much of sub-Saharan Africa, however, SAB could achieve further growth only by venturing into new, far-flung markets. In the second step of its internationalisation, it started to expand into other large developing-country markets with low penetration by developed-country competitors. Starting in the mid-1990s, it invested heavily in countries such as China and India and bought a number of formerly state-owned breweries in Central and Eastern Europe. The firm's international expansion is driven by its highly efficient production, making it one of the most efficient competitors in the entire industry, and its skill in managing the supply chain in abnormal markets that require great flexibility to overcome problems such as deficiencies in basic infrastructure. SAB owns and operates 108 breweries in 24 countries, employs over 31 000 people and has become the world's fourth-largest brewer by volume, with very high profit margins in some countries.

Despite these strengths and achievements, SAB's expansion into other emerging markets, although it helped achieve output and revenue growth, did little to solve a key problem, its hard-currency shortage. The lion's share of revenues continued to come in the form of weak currencies, but the acquisition of inputs such as machinery or the re-financing of loans had to be in hard currencies. In one solution SAB became listed on a major international stock market, helping it with at least the capital-raising and re-financing problems. Yet it had become apparent that the company had no choice but to expand into developed-country markets to generate hard-currency revenues. Its financial viability was at stake. The company began to consider acquisitions in Europe and the United States. After a series of failed attempts (such as Bass Brewery in the United Kingdom), it finally announced in May 2002 the acquisition of the Miller Brewing Company in the United States, making it the

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world's second-largest brewer after Anheuser-Busch. Renamed SABMiller, the company has cut reliance on earnings in the rand from around 65 per cent to under 35 per cent. In 2003 SABMiller continued its overseas expansion by acquiring Peroni of Italy and increasing its share of the Indian market through a joint venture with Shaw Wallace, India's second-largest brewing group and owner of the Haywards and Royal Challenge brands. The possibility of using Miller's distribution system to market premium European brands like Pilsner Urquell or Peroni in the United States exemplifies the resulting synergies.

Agri-Business

Along with Kenya, South Africa and Zimbabwe have emerged as the main horticultural countries in Africa, with an important participation in world markets. For example, South Africa is the third-largest exporter of citrus after the United States and Spain, and its fresh-fruit sales abroad soared from 4.4 Mt to 9.6 Mt between 1992 and 2001, although the increase in value has been much smaller. After agricultural marketing systems were liberalised in the mid-1990s, competition in citrus, deciduous and subtropical fruit has increased significantly. In the first year after deregulation more than 200 export agents competed for citrus, and multinationals like Dole and Del Monte established bases in South Africa (Mather, 2002). The country is also the sixth-largest producer of wines, with exports rising from $42.5 million in 1992 to $227.6 million in 2001 (FAOSTAT data). On the British wine import market, the world's largest, South Africa recorded the fastest growth in 2002 to reach a 9.5 per cent market share[26]. There is scope for greater processing of vegetables, although frozen and canned vegetables are not popular in the local market. Organic vegetables represent another growth sector, and South Africa grows a vast spectrum of flowers, ranging from summer flowers to bulbous flowers to tropical and desert plants.

The degree of foreign participation varies across market segments. A different but related phenomenon is foreign investment in land. South African farmers have been very active, particularly in Mozambique, to the extent of establishing a private foundation in 1995, the South African Chamber for Agricultural Development (SACADA). SACADA currently settles farmers in the Niassa Province. In the wake of the crisis in Zimbabwe, its white farmers have also moved to Mozambique and Tanzania. In both countries foreign — indeed private — land ownership is prohibited. In Mozambique the government gave the land on hire purchase, whereas the Tanzania Investment Centre allocated 3.1 million hectares for agricultural investment pending new

legislation[27]. Although its climate is considered very suitable for farming and the soil is fertile, Mozambique does not have a domestic industry for basic mechanical and chemical inputs, and persistent logistical bottlenecks hinder the full realisation of the country's agri-business potential[28].

Wine

The South African wine industry was traditionally highly regulated, with a co-operative — Kooperatiewe Wijnbouwers Vereniging (KWV), to which belong about 95 per cent of wine producers and all of the 260 cellars that press grapes — simultaneously assuring three functions. It set a minimum wine price, fixed production quotas and secured exports for the domestic wine surplus. Trade sanctions, a lack of appropriate winemaking equipment and the very unsophisticated domestic market resulted in wines of low quality. This changed with the abolition of the quota system in 1992, the transformation of KWV into a public company in 1997, and the creation of the Wine Industry Trust in 1999, financed jointly by KWV and the state. The minimum price of wine remains the central legislative feature of the domestic wine industry.

At prices that compare favourably with international competitors, high-quality South African wines are now considered a balanced combination of European and New World styles because of their crisp acidity[29]. According to AC Nielson, in the British market where 18 of the top 20 brands are New World wines South Africa outperforms its direct rivals, Australia and the United States. Still, almost half of the exports are still shipped in bulk and bottled in other countries such as France and Australia. Growth below the £4 price-point is still the strongest, fuelled by the increasingly high frequency of promotional activity by the major brands. The average bottle price in 1992, at £3.60, undercut the market average of £3.83.

Whereas in traditional European producing countries vines account for between 5 and 10 per cent of cropped area, the so-called New World wine producers have much lower percentages (0.2 per cent in the United States, Australia and New Zealand and 1 per cent in Argentina and South Africa)[30]. In these countries, which have suitable climates and ample land for expansion, the main influence on vineyard area is the expected long-term profitability of grapes relative to that of alternative uses for the land (Anderson, 2001). Investment is replanting and upgrading vineyards extensively. Over the past three years, over 86 per cent of all vines uprooted have been white (FAS, 2002). Plantings of Shiraz have grown the most dramatically; it was the number-one

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cultivar planted in 1999 and 2000. South African producers have spent much time developing competitive vineyard resources and now have a good varietal mix and improving quality. Many local wineries take advantage of the decreased cost of imported wine-presses, barrels and equipment, planning cellar expansions well in advance to take advantage of the favourable exchange rate. Yet Ewert (2003) argues that such developments are not matched by an equally effective transfer of new technology and techniques to the farm; growers are slow in adjusting their viticultural practices. This may reflect either a resistance to innovation or an inability to transfer innovations through the supply chain to farmers.

The global wine industry is also moving towards a concentrated structure. A few large companies (Hardys Stamp, Hardys Nottage Hill, Hardys VR, Banrock Station and Jacobs Creek from Australia, Blossom Hill and E & J Gallo from the United States) dominate on the basis of their ability to deliver large volumes of wines of consistent quality, supplied regularly at various price points. Brand building and the associated need to develop long-term strategies and follow methodical, pragmatic approaches are also becoming increasingly important. Failure to develop powerful brands would mean transferring margins to retailers. As the French Senate observed in a recent report,

> "[S]ometimes, integration is not limited to marketing wines under the store's own brand, it can also extend to the development of *contrats de filière*. Carrefour has developed this practice by contracts with wineries that aim at securing regularity in supply. They are also a means to certify quality since contractualisation is based on a *cahier des charges* that defines production areas, cultivars and specific conditions regarding grape-growing and wine production and processing. […] This evolution, guided by the desire to match supply and demand, results in a form of buyer-driven supply chain that, caused as it is by motivations outside the wine *filière*, risks to increase the dependence of wine producers *vis-à-vis* retailers" (Sénat, 2002, p. 59-60, my translation).

The first South African companies capable of competing with such majors are Distell, created in 2000 by the merger of Stellenbosch Farmers' Winery (SFW) and Distillers Corporation, and WestCorp International, created in 2002 by the merger of the Vredendal Winery in the Olifants River Region with its neighbour Spruitdrift. The latter already has two brands, Goiya and Namaqua, in the top 20 in the UK market and has access to 6 000 hectares of vineyards — nearly half of all in the region — supplied by 250 growers. As a founding

member of the British Ethical Trade Initiative (a forerunner of the recently launched local Wine Industry Ethical Trade Association), the company is committed to comply with strict codes of conduct and fair labour practices. Global consolidation has brought growing cross-border investments. Wineries face increasing pressure to offer competitive ranges of products that meet the price/quality needs of consumers and retailers in different markets and market segments, especially as retailers consolidate their supply chains. The need for greater access to stable or adequate wine-grape/juice supplies, the need for more control over the wine-grape costs within given quality levels and the desire to expand wine portfolios primarily motivate foreign investment. In 1999 foreigners had bought stakes in at least 25 Cape wine farms[31]. US winery investments in South Africa have been relatively limited, however, apparently based on misgivings about political stability despite the obvious agricultural advantages (Pompelli and Pick, 1999). Box 5.5 describes an example of the changes wrought by the arrival of foreign owners. Other recent examples of foreign investment include the following:

— The joint-venture between Stellenbosch Vineyards and liquor and brewing company BRL Hardy, Australia's second-largest winery, is an ambitious attempt to develop a new brand by leveraging the growing European interest in South African wine through the strength of BRL Hardy's sales, marketing and distribution muscle in the European market.

— European wine companies with South African interests include Alain Moueix of the famous Bordeaux wine-making family, which bought a vineyard at Somerset West in 1998, and Germany's Farmer's Markt Landhandel that acquired the Blaauwklippen estate in 1999. Two German vintners famed for their Rieslings have branched out to make a new red wine in South Africa. Bernhard Breuer of the Georg Breuer winery and Bernd Philippi of Koehler-Ruprecht recently teamed up with a Johannesburg lawyer, Stephan du Toit, to produce Mont-du-Toit, a new label from the Wellington region.

— The scions of European corporate dynasties have made various investments. Anne Cointreau-Huchon of the liqueur and Cognac family has made huge investments in Morgenhof Estate, including new vineyards and a 2 000-barrel underground maturation cellar; Italian Count Riccardo Agusta invested ZAR17 million in revamping Agusta Wines' cellar in Franschhoek; and heirs of Germany's Dornier aerospace group invested ZAR100 million to produce a first, experimental vinification in 2001.

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— Finally, a younger generation of overseas financiers has ventured into the country. Hong Kong, China-based businessman Manfred Schoeni bought the Ashanti wine farm in 1997 for ZAR15 million. A Bahaman entrepreneur joined with American investors and local expertise to establish the Bowe Joubert winery in 2001. Swiss businessman Donald Hess invested in Glen Carlou and Namibian-born German Markus Rahmann in Asara.

Box 5.5. **Bringing Foreign Expertise to South African Wine Estates**

Giulio Bertrand, a retired textile industrialist from Piedmont, bought the Morgenster estate near Table Mountain in 1992 with the goal of making a Bordeaux-style red. As Morgenster overlooks the Indian Ocean, the altitude and ocean breezes cool the vineyards, allowing even ripening of grapes despite the hot climate. The winery released its first wine — a 1998 blend of Cabernet Sauvignon and Merlot called Lourens River Valley — in Europe and Japan for about $23 a bottle. In 2000 Morgenster hired as consultant Pierre Lurton, a French winemaker who heads Bordeaux's Château Cheval-Blanc, one of St.-Emilion's two premier *grands crus classés A*, the highest classification in the appellation. Lurton argues that making wine abroad allows experiments that can not be done in Bordeaux. Bertrand also planted five varieties of Italian olive tree and produced South Africa's first Italian-style, extra-virgin olive oil in 1997. In 2002, Morgenster received the Orciolo d'Oro award at the IV Concorso Internazionale Oli da Olive in the "international oils: fruttato medio" category.

It is not easy to predict how the wine industry will develop in South Africa and what contribution can be expected from foreign investors. Owing to a global oversupply, companies seek to increase margins by producing smaller volumes of higher quality. Wines of South Africa is planning its first generic consumer campaign in Britain to improve value share of the retail market, raise awareness of the country's wines and increase shelf space allocated to these wines. The challenge is to develop products that match consumers' appreciation of high fruit flavour. The risk is that market-led industrialisation — through acidification and worship of colour *per se* — will weaken the traditional emphasis on originality, finesse and complexity. As the US leading wine magazine recently stated, "South Africa's recent success with its red wine production could have come at a price — a loss of regional character (or *terroir*) as it increased its reliance on blue-chip varieties"[32]. In sum, although technological, organisational and marketing innovations are key to the industry, success will depend on the ability to share knowledge and information throughout a value chain that still remains more fragmented than in other New World wine-producing countries.

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Although successful in raising its profile on export markets, the South African wine industry must address the severe challenges left by the apartheid system. Authorities have identified improving working conditions and enhancing black participation in the industry as the two most pressing issues. The Industrial Development Corporation provides expertise and finance to promote development in the agriculture, aquaculture, fishing and related value-added industries. Investments focus on the development of new crops and technologies as well as empowering emerging entrepreneurs. Elsewhere in agribusiness, an example is a joint project with the MOR Group of Israel and a 20 per cent black-owned partner to plant 1 000 hectares in the Western Cape with persimmon, known as Sharon fruit or Chinese apple. About 80 per cent of 2002 production was exported and a ZAR45 million packing and storage facility was inaugurated in June 2003. Other initiatives support downstream processing projects that offer the opportunity to increase demand for primary production and add value to raw agricultural products.

Fisheries in Namibia

Fisheries also have attracted considerable investment[33]. Extremely rich in nutrients, the southern Atlantic Ocean is one of the world's major catchment areas. In South Africa, the exclusion of foreign vessels and a conservative management strategy in effect since 1983 led to a gradual recovery in catch rates. Namibian fishing grounds, on the other hand, were regarded as international waters because of the nature of South Africa's occupation of the country, and foreign vessels enjoyed unrestricted access. On obtaining independence in 1990, Namibia declared a 200 nautical mile exclusive economic zone (EEZ) to prevent over-fishing, especially by foreign trawlers. The policy has succeeded. Stocks of the main species (hake, horse mackerel, monk fish, pilchard, crab, lobster and orange roughy) have recovered steadily in its waters. The industry has grown too. The value of all landings rose from $156 million in 1996 to $286 million in 2001. Exports climbed from $181 million to $354 million, or about a quarter of total exports (Irwin *et al.*, 2003). Employment, mainly at onshore processing plants, almost doubled to 14 000 (FAO, 2002).

Official policies aim to increase Namibian involvement in the fishing industry, particularly by previously disadvantaged groups. The degree of Namibian ownership of a vessel (or fishing concern), composition of crew and the amount of catch landed and processed at Namibian ports all affect a company's quota allotment. During 2000, of a total of 309 vessels licensed to fish in Namibian waters, 80 per cent flew the Namibian flag[34]. Foreign-flag

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vessels can operate only with a local right-holder and all fish caught by such vessels must be landed in Namibia, at either Walvis Bay or Luderitz, and counted against the local right-holder's quota for that species[35]. The largest foreign investment to date has come from the Spanish company Pescanova (see Box 5.6).

Box 5.6. **Pescanova in Namibia**

Pescanova — founded in Vigo, Spain, in 1960 and now the largest fishing organisation in the Western world and a presence in 26 countries — first considered investing in Namibia in the 1960s, but had to wait until independence. NovaNam, a joint venture with local financial institutions initially supported by the IFC, was the first foreign investment in independent Namibia. The company operates a fleet of 12 wet-fish trawlers and three freezer trawlers, and is contractually responsible for managing two hake processing factories in Luderitz and one in Walvis Bay with a daily capacity of 150 tons of raw material. With a total turnover of more than €100 million, the company employs 2 250 people directly (it started with 250) and over 500 indirectly. Around 1 400 of the workforce are shore-based.

Over 90 per cent of the catch is exported, both as frozen fish and as consumer-ready goods. As in other agri-business segments, in the fishing industry integrating into the retail market is seen as necessary to find shelter from the very high volatility of the commodity market. Whereas most white fish companies maintain that it is more profitable to process at sea on freezer trawlers as it provides a higher quality product, Novanam now processes more than 60 per cent of its total production in its land-based factory. The factory itself has not one foreigner, from the general manager downwards. It processes more than 200 different retail products and markets an increasing share directly to major grocery chains in Europe. Thanks to this investment, Namibia accounts for 41 per cent of frozen hake imports on the Spanish market — far ahead of Argentina (11 per cent) or Chile (2 per cent). Spain is the EU's largest hake consumer, with per capita consumption almost twice as large as the EU average of 22.9 kg per annum.

Luderitz's remote location can make staff recruitment difficult. As well as establishing its own training school, NovaNam is helping to champion the urban and waterfront development of the town to enhance its attractions to potential new employees. Pescanova has also looked at new ways to transfer its knowledge of sustainable fish farming to help the Namibian government further develop its fisheries sector.

Ownership and control of the fleet, however, are not fully transparent, so the *prima facie* evidence of a steady increase in Namibian involvement in the fishing industry may mask a more nuanced reality. A few conglomerates control the fishing business, with deep vertical integration. Because fish are very perishable (and fresh whole fish lose weight in processing), wholesale and retail mark-ups are very high. Together they make up almost half of the retail price, or more than twice the landed cost in Namibia. Fresh fish must be air-freighted to the market, which adds another 20 per cent to the final price. Much of the catch is exported unprocessed to Europe, although a huge investment in processing factories means that increasing amounts of fish are processed in Namibia before export.

In just 50 years, as advances such as sonar and satellite positioning systems allowed fleets to home in on pockets of abundance, the global spread of industrial-scale commercial fishing has cut by 90 per cent the oceans' population of large predatory fishes (Myers and Worm, 2003). Even as sought-after species such as tuna and swordfish declined, many other less popular fishes also dropped enormously in numbers as they were caught unintentionally on long lines of baited hooks or in bottom-scouring trawls. This level of depletion not only threatens the livelihood of fishers and an important source of protein, but could also unbalance marine ecosystems. At the 2002 World Summit on Sustainable Development in Johannesburg, most countries signed a declaration calling for restoring stocks by 2015 by curbing over-fishing, creating reserves that serve as nurseries for valued species and encouraging consumers to avoid the most endangered fishes.

In land-locked SADC countries where fish is an important component of dietary protein, declining per capita supply and growing populations have resulted in growing food insecurity, usually manifested as protein deficiency (Hara, 2001). Although Namibia is credited with having one of the world's best fisheries management systems, future growth will depend on expanding the uncertain resource base of fish stocks. Aquaculture — the system of fish/seafood cultivation and extraction in a controlled environment less vulnerable to climatic variations than marine fishing — is seen as the most promising option[36]. Namibia's largely uninhabited coastline, unpolluted sea water and availability of inexpensive fish by-products are the key advantages. The focus is on involving artisanal stakeholders to maximise employment creation. Any substantial boost in production for human consumption and exports would require support and facilitation by governments — in appropriate research and studies necessary to overcome the constraints, development of infrastructure and putting enabling policies in place. Current activities remain

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limited to the raft cultivation of high-quality oysters at Walvis Bay, Swakopmund and Luderitz. Indigenous marine species with potential for aquaculture include galjoen, kob and blacktail. The Xunta de Galicia has provided technical assistance to establish a training centre in Henties Bay.

Developing these activities demands capital, knowledge and time, so in the near term the only viable option is to increase quota fees and other levies. A major controversy concerns the appropriate level of fishing levies. According to Hesselmark (2003), the average levy has plunged from 10 per cent to 4 per cent of landed value during the last nine years, and the Namibian government gets only a paltry 1 per cent of the retail price. The real profits are made from managing the supply chain and therefore accumulate outside Namibia. Hesselmark (2003) estimates that raising the levy to 20 per cent of landed value would increase annual government revenues by about N$350 million without jeopardising the competitiveness of Namibian fisheries on world markets. In the longer run vertically integrated companies may decide to reduce the profitability of the Namibian fishing industry rather than take the loss higher up in the value chain. As the market value of the quotas decreases, local joint-venture partners would suffer from reduced rent incomes. On the assumption that such Namibian businesses contribute only their ability to get the quota allocations, the net effect would be a redistribution of incomes from rent-takers to the state. Whether that will increase the total welfare of the Namibian people depends entirely on how the extra government revenues get used.

Supermarkets and Dairy Products

Until recently, retail trade in emerging regions has been organised around small owner-operated shops. Deregulation, urbanisation, increased female labour-force participation and the consumption boom of the 1990s (particularly the rapid increase in car and refrigerator ownership) have brought about an expansion of often foreign-owned supermarket chains and shopping centres. Africa is no exception, although the transition started later than elsewhere, around the mid-1990s. Supermarkets have spread fast in Southern and Eastern Africa, proliferating beyond middle-class, big-city markets into smaller towns and poorer areas. The introduction of hypermarkets of up to 13 000 square metres of floor space offers customers a wider variety of products and services at lower prices. New types of retailers, including discount and convenience stores, have also proliferated in recent years. This development is squeezing out smaller supermarkets, which cannot compete in either product selection or price.

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In South Africa, supermarkets already account for 55 per cent of national food retailing, similar to the share in Mexico although a bit lower than in Argentina, Brazil, and Chile (Weatherspoon and Reardon, 2003)[37]. Densities are similar. More in contrast, however, large foreign retail chains such as Ahold, Carrefour and Wal-Mart, which all have invested heavily in Asia and Latin America, have taken a far less aggressive approach to the South African market[38]. As a result, the market is concentrated in the hands of four domestic groups "with enormous bargaining power" (FAS, 2001). Shoprite in particular grew aggressively in the 1990s, buying out three of the four major supermarket chains (Grand Bazaars, Checkers and OK Bazaars). Such chains all can dictate their buying terms to suppliers, who are expected to deliver products to central depots or warehouses for distribution to supermarkets and retail outlets[39]. Suppliers pay a nominal fee for this warehouse allowance. The big retail groups differ in terms of product range and clientele. Shoprite-Checkers and Spar, for example, have great strength in the black areas whereas Woolworths is stronger in the smaller "up-market" segment. Most supermarkets sell their own-label products as well as manufacturers' brands. With the domestic market nearing saturation, the top four chains have all invested abroad (see Table 4.5). Under-stored markets elsewhere in Africa allow much higher profit rates and "logistical technology has permitted efficiency in supply chains, so that good quality, inexpensive products can be marketed in relatively poor countries" (Weatherspoon and Reardon, 2003, p. 340)[40].

The concentration of the industry in fewer and larger companies has influenced wholesale distribution practices. Supplying supermarkets presents both potentially large opportunities and big challenges for producers. Supermarkets' procurement systems involve purchase consolidation, a shift to specialised wholesalers and tough quality and safety standards. Because of the perceived inadequacy of the services provided by traditional wholesalers in terms of quality, standards and reliability, supermarkets increasingly resort either directly to producers through contract farming or to new forms of more sophisticated wholesalers (Reardon and Berdegué, 2002). In South America, some producers benefit from the regional and global sourcing networks of supermarket chains (Goldstein, 2003*b*). For example, melon producers in Brazil and salmon producers in Chile entered into long-term contracts with Carrefour to cater to their domestic markets but now sell through the French company's global network. In 2003, Carrefour Brazil was expected to export goods worth $25 million[41]. Domestic suppliers also face challenges, however, as large chains, regardless of their ownership, may use the option of importing to negotiate lower prices. In Chile, for instance, supermarkets customarily receive more

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than 45 days' credit from their suppliers. To solve problems that derive from unequal bargaining power and unfair practices, the Argentine government negotiated a commercial practices agreement in 2000. Carrefour and Wal-Mart did not initially sign it, arguing that the obligation to respect minimum prices ran counter to their business models.

In SADC, the rise of regional procurement systems by South African supermarkets may stimulate intra-regional trade, "essentially using the powerful logistical mechanisms of supermarket procurement systems to collapse the fragmentation of markets" (Weatherspoon and Reardon, 2003, p. 352). In Zimbabwe, for instance, Pick 'n Pay entered the local market in May 1996 in association with a local chain, TM Supermarkets (part of the Meikles Africa group), to which it provided the ability to exploit its superior procurement technology for both food and non-food merchandise. In Zambia, where it commands 50 per cent of the highly competitive retail market in Lusaka and even higher shares in other areas, Shoprite has partly integrated the produce markets of South Africa and Zambia. There is evidence that average prices to consumers in Zambia have decreased and product quality (including hygienic conditions) and variety have increased — but also that life has become much harder for Zambian horticultural producers (World Bank, 2003*c*, pp. 102-6). Local producers suffer from low levels of capacity use, lack of domestic supplies of cans and bottles, a variety of transport and logistics costs and their inability to respect quality and safety standards and manage inventories. (Shoprite does not have its own warehousing facilities in Zambia.) For local firms that have managed to keep supplying Shoprite, however, the reward comes in the form of substantially higher turnover.

Generally, however, South African retailers manage well-established marketing and distribution systems, and they tend to source from their home country rather than in host economies. The resulting competition issues are best exemplified by a 2001 decision by the Zambia Competition Commission (ZCC, 2002). Ngwerere Farms Limited (NFL) filed a complaint alleging that Game Stores had unfair trading terms designed to make it impossible for Zambian suppliers to do business with it. Game Stores demanded a 2.5 per cent discount to have goods placed on the shelf, a further 2.5 per cent to pay for goods supplied on a 30-day-after-statement basis, a further 2.5 per cent for provision to advertise the suppliers' goods in their promotional material and, finally, a credit period of 90 days for new suppliers. The Commissioners noted that these conditions were indeed restrictive and in violation of Section 7(2) of the Act, and that Game Stores was a monopoly undertaking in its type of

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business. To protect the public interest, the Commission issued a "cease and desist order" to stop Game Stores from imposing conditions and terms specified in their South African operations, because they have anti-competitive effects in Zambia. What may work well in South Africa does not necessarily mean that it will be acceptable in Zambia.

Meeting more demanding buyers' requirements proves hardest for small producers. An urgent need thus exists for development programmes and policies to assist them in adopting the new practices that these procurement systems entail. The Namibian government, together with the Agronomic Board, has appointed market facilitators in all six areas of horticultural production in the country[42]. Their job is to convince retailers and producers that the country indeed has a market if the two work together. Retailers need to advise producers on what they need, so that producers can dedicate their time to producing what is needed. The Agronomic Board is also setting up a database to record what producers intend to plant, what they have planted, the forecast yield and actual production. Retailers can access the database and make plans throughout the whole process, so that when produce is ready for market they will know where and how much.

In Zambia since 2000, the International Business Leaders Forum, the British Council and the Danish Embassy have supported a partnership between Shoprite, ZamSeed, the Ministry of Agriculture, Food and Fisheries, some NGOs and the Luangeni Community. Its main purpose is to build capacity among the rural communities of Chipata to begin producing high quality vegetables[43]. Partly thanks to initiatives of these kinds, Shoprite has reduced to between 30 per cent and 40 per cent the share of monthly purchases sourced from South Africa. It now exports some high-value produce from Zambia to its store in Malawi[44]. Another example is the Partnerships for Food Industry Development, a co-operative agreement running since June 2001 between the US Agency for International Development, Michigan State University and the University of Fort Hare. Its goal also is to bridge the gap from both ends of the production chain by gathering information about the products of small-scale producers and about the needs of business. In 2002, Pick 'n Pay announced a new initiative aimed at empowering emerging farmers in the Nkonkobe region[45]. The EU supports the Mauritian association of horticultural producers and exporters (APEXHOM) to improve quality certification, increase productivity, raise exports and enhance capabilities. In the longer term, retailers may even subsidise export-seeking activities by small suppliers, as Carrefour already does in France; in 2001 it paid for the participation of four small- and

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medium-sized enterprises (SMEs) (Conserves Stéphan/Celtigel, Distillerie du Périgord, Lucien Georgelin and Prince de Bretagne) at a Franco-Chinese trade fair in Beijing.

The dairy industry provides a case study of the changing relationships between retailers, food companies and farmers amidst liberalisation and growing foreign involvement. Multinational supermarket chains have global relationships with a handful of international milk distributors, so that bargaining positions are less skewed. Still, supermarkets are reputed to fix purchase prices seven months ahead regardless of the maize price and insist on confidential discounts of up to 10 per cent to display products prominently[46]. Although relatively small on a global scale (0.5 per cent of a 2002 world milk supply equal to 593 million tons, according to FAO estimates), South Africa has, with other Southern Hemisphere countries such as Argentina, Australia, Brazil and New Zealand, one of the lowest producer prices. Yet widespread foreign protection and subsidisation of dairy farmers, especially in the European Union, make it practically impossible to export profitably. In South Africa, dairy farming is the fourth-largest branch of agriculture. It supports some 212 000 people. Although it is cost efficient, access problems on world export markets and higher financial costs result in a minimum efficient South African dairy farm size more than three times that in Europe[47].

Concentration has accelerated along the supply chain. The number of milk producers went from 7 921 in 1997 to 5 347 at end-2001. Four groups, including partly-French Clover[48], Parmalat (Italy) and Nestlé, account for 70 per cent of processed milk. Roughly half of sales take place in the three large supermarket chains (DREE, 2002). The relationship between milk producers and dairy companies may cause concerns. From February to May 2002, South African milk buyers and producers and their respective organisations engaged in confrontation and accusatory behaviour as the cost squeeze in which some producers found themselves resulted in a lower than normal milk inflow. The industry managed to overcome this mini-crisis through inventory changes and increased imports, but some farmers had to seek creditor protection and many mixed farmers stopped dairy farming[49]. A new organisation established in July 2002, Milk South Africa, will enable milk producers and processors jointly to design and implement industry strategies.

These phenomena are not limited to South Africa. In Brazil, Nestlé halved the number of producers from which it buys milk, from 28 920 in 1998 to 14 142 in 2000, while more than doubling the average daily purchasing volume per farm from 129 to 270 litres (DREE, 2001). Recent Chilean experience also

points to increasingly antagonistic relationships along the supply chain. In January 2003, competition authorities (the Comisión Resolutiva Antimonopolio) admitted a request by Fedeleche (Federación Nacional de Productores Lácteos) and started an investigation to determine whether the largest processors (Soprole, Nestlé, Parmalat, and Loncoleche) colluded and acted without justification in reducing raw milk prices and refusing to buy.

Non-Oil Mining

With few exceptions, such as Lesotho, Mozambique and Swaziland, extractive industries attract at least 25 per cent of FDI in all SADC countries. The region is extremely well endowed with a large variety of precious and base minerals (Table 5.3). Yet the potentially negative consequences of an excessive dependence on natural resources are well known (Bonaglia and Fukasaku, 2003). Oil, gas and mining can generate enormous wealth, but countries rich in minerals tend to be blighted by corruption, conflict, poor economic growth, low public spending, poor rights records and low levels of child welfare. Experience in countries such as Australia, Canada and, more recently, Chile, on the other hand, suggests that it is possible to diversify away from pure mining extraction into related activities, especially the development of a domestic machinery industry. This section analyses recent developments in Zambia, a copper-dependent economy, and Tanzania, where mining FDI has grown very fast in the recent past. South Africa, the continent's mining superpower, is covered in Box 4.1 above.

The Zambian economy derives most of its foreign exchange earnings from exports of copper and a few other metals (lead, zinc, silver, gold and cobalt). Previously owned by Anglo American and the Roan Selection Trust, the mines were nationalised in 1970, and in April 1981 one large company called Zambia Consolidated Copper Mines Limited (ZCCM) was formed. Inefficiency and corruption characterised state ownership, most foreign investors withdrew, and many small and medium local enterprises working either in servicing parts or on an agency basis were forced out of business by long delays in securing payment. In 1991, the new MMD (Movement for Multi-party Democracy) government started a comprehensive privatisation programme that finally led to the sale of the Mopani and Konkola mines to Anglo American in March 2000[50]. Concessional arrangements afforded the new owners import, tax and other waivers in exchange for refurbishment, expansion and further exploration.

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Table 5.3. **SADC Mineral Statistics: World Market Shares**
(percentage)

Metal	SADC producers	Mine production		Reserves[a]	Reserve base[b]
		2001	2002		
Cobalt	ZM	22	21	4	5
Chromium	SA	45	45	49	77
Copper	ZI	2	2	4	4
Diamond	BW, DR, SA	43	43	60	58
Gemstones	BW, DR, SA, NA, AN, TZ	59	56	0	0
Gold	SA	16	16	19	40
Kyanite	SA	48	48	0	0
Lithium	ZI	5	4	>1	>1
Manganese	SA	19	17	6	80
Nickel	BW, SA, ZI	5	5	7	9
Platinum	SA	75	74	89	87
Palladium	SA	34	31	0	0
Selenium	ZM	>1	>1	4	4
Silicon	SA	3	3	0	0
Tantalum	DR, ZI	5	4	0	0
Titanium	SA	21	21	15	30
Vanadium	SA	31	27	23	32
Vermiculite	SA, ZI	55	62	40	40
Ziconium	SA	28	28	38	19

Notes: *a)* That part of the reserve base which could be economically extracted or produced at the time of determination. The term "reserves" need not signify that extraction facilities are in place and operative.
b) That part of an identified resource that meets specified minimum physical and chemical criteria related to current mining and production practices, including those for grade, quality, thickness and depth. The reserve base is the in-place demonstrated (measured plus indicated) resource from which reserves are estimated.

Source: US Department of the Interior/US Geological Survey (2003), *Mineral Commodity Summaries*.

Prior to its privatisation, the ZCCM employed an elaborate system of procurement, involving the pre-qualification of suppliers and competitive tenders (World Bank, 2003*c*). ZCCM's procurement of goods and services had a huge impact on the local economy and involved hundreds of local firms. The extended period of privatisation created enormous uncertainty for many Copperbelt area suppliers and saddled many with unpaid arrears from ZCCM, which eroded their financial positions and constrained them from re-equipping or otherwise restructuring their operations to service new markets. As the mines had been looted, the machinery stripped and shafts allowed to flood, ownership change resulted in pressing needs for rehabilitation and restocking that were met almost exclusively by non-Zambian companies. With time, more

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attention has been devoted to local suppliers and procurement arrangements, but by the time that this mutual awareness improved, much of the procurement for rehabilitation had already taken place, and many firms were not adequately prepared to respond to the new requirements set by the privatised companies.

Prior to vesting, ZCCM retrenched a considerable number of employees. Whereas in the past many ex-employees opted to return to their home districts, they have tended recently to remain in the Copperbelt. Although the formula used by ZCCM to calculate terminal benefits was generous by local standards, many such individuals without alternative income sources quickly exhausted their retrenchment packages. One way to lessen these effects and reduce dependence on mining would encourage individuals to establish their own commercial enterprises or use their skills to enhance the capacity of established local businesses. BPD/NRC (Business Partners for Development/Natural Resources Cluster) is a field-based, three-year programme to explore and promote partnership arrangements between corporations, civil society and government to better manage social issues in the extractive industries. The programme is funded by the UK Department for International Development, the World Bank group and various multinationals (Royal Dutch/Shell, BP, Anglo American, Rio Tinto, Placer Dome) and is administered by CARE International. It focuses on the concept of Tri-Sector Partnering and the ability to leverage the core competencies of all the parties involved. This has led to the creation of a Business Development Fund, providing access to venture capital to support local SME development. A related study looks at the constraints and opportunities for micro-enterprise development in the agricultural and agri-business sectors.

Although painful, all these changes enabled reducing the cost of digging out every pound of copper from $1 to 85 cents between 2000 and 2002. Unfortunately, the world price also fell from 84 cents to 75 cents. Anglo American's consortium hoped that investment in the shallow mines would produce cash to finance the exploitation of a deeper and far more valuable operation — the Konkola Deep Mining Project — that allegedly contain 400 million tons of copper[51]. With only eight years of deposits (perhaps less) remaining in the shallow mines and no prospect for financing Konkola Deep, Anglo said in early 2002 that the prospects in Zambia were too poor to carry on. The property was resubmitted for public bids by the Zambia Privatisation Agency and was awarded to Sterlite Industries of India, a significant producer of aluminium, copper and zinc, in August 2003.

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Tanzania's recent experience, especially in gold mining, provides a somewhat more optimistic reading on foreign involvement. The country's historically recorded gold production was not significant, but the rich greenstone belts around Lake Victoria compare geologically and in size to some of the major gold-producing areas of Western Australia and Canada. These belts, which extend into Kenya and Uganda, represent one of the largest under-explored prospective goldfields in Africa. Following legislative and fiscal reforms, Tanzania has experienced a mining bonanza. The Golden Pride project in Nzega, now wholly owned by an Australian company, was launched in 1998. The $165 million Geita project, jointly owned by Ashanti Goldfields and Anglogold, followed in 2000. In 2001, the $280 million Bulyanhulu project owned by Barrick opened. Development has recently started on the $90 million North Mara project owned by Australia's East African Gold Mines, a company in which Anglogold has a 16 per cent interest. Although recent investment has focused on gold, there also is significant interest in the Kagera nickel-copper-cobalt belt, which runs north and east from near the border with Burundi and extends into Uganda. Tanzania is also a significant producer of gems, including diamonds from the old Williamson Diamond mine in Shinyanga and rubies from Longido, one of the world's largest ruby mines. Other gemstones found in Tanzania include sapphires as well as the famous tanzanite, unique to the country. Mineral exports increased from only $15 million in 1995 to $185 million in 2000, and the sector expects to contribute 6 per cent of GDP by 2005 as against only around 2.5 per cent currently.

Nevertheless, Tanzania also has its share of controversy. Established companies pay 3 per cent to the Treasury on the value of minerals at the point of export in the initial phase of production, while investors recoup their investment. This has produced a debate over whether the royalty is too low, although it is not out of line with mining tax regimes elsewhere. Moreover, the government has no defined revenue-management plan for its new riches. Given the bad experience of Nigeria's oil producing regions, the distribution of the royalty income (which all goes directly to central government) and the need for adherence to strict environmental standards cause concern. On the positive side, the increasing participation of companies listed publicly on international stock exchanges should improve environmental and governance standards. Sensitive to accusations of exploitation, foreign companies such as Resolute and Barrick are already involved in health and education projects[52].

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Information and Telecommunications Technologies

In most emerging markets, FDI has linked with the privatisation of state-owned telecommunications companies, especially in the early stages of liberalisation experiments. The Agreement on Basic Telecommunications Services and its associated Reference Paper that 72 WTO member nations signed in 1998 has had a crucial influence. Despite controversies and disagreements over market liberalisation in telecommunications and audio-visual services, all signatories agreed to open their domestic markets in telecommunications to operators based in other WTO member countries on a most-favoured-nation (MFN) basis. Africa is both similar and different — similar because in many countries the largest acquisitions by foreign investors were in telecoms, but different because infrastructure privatisation has moved rather slowly so far, as highlighted by the 2003 *African Economic Outlook*.

In private participation, market competition and independent regulation, the SADC region is ahead of the rest of Africa but behind Asia and Latin America. As shown in Table 5.4 (on the following two pages), only four countries — South Africa, Mauritius, Lesotho and Tanzania, in chronological order — have opened the share capital of their traditionally state-owned telecom operators to private investors, in all cases foreign ones.

South Africa corporatised Telkom in 1991 as the only provider of fixed-line telephone services to the general public. Telkom also owns 50 per cent of Vodacom, one of the two cellular phone providers licensed in 1994. In 1997, the government sold a 30 per cent stake to an American-Malaysian consortium (Thintana Communications)[53]. The stake is the upper limit of foreign ownership. Among the 39 developing nations that signed the Basic Services Agreement, South Africa was one of 11 that chose to keep some form of restrictions on foreign ownership “to maintain a balance between international cooperation and the national interest with regard to the construction of its information infrastructure” (Wang, 2003, p. 230). Market conditions and a prolonged policy process delayed the stock market offering initially earmarked for 2001 and finally concluded in March 2003.

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Table 5.4. **The Sequence of Telecommunications Reform in SADC Countries**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola										
Privatisation										
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	1	1	1	1	1	1	1	2	2	2
Autonomous regulation						M	M	M	M	M
Botswana										
Privatisation										
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition					2	2	2	2	2	2
Autonomous regulation			M	M	M	M	M	M	M	M
Lesotho										
Privatisation							---------------70%---------------			
Fixed competition		0	0	0	0	0	0	0	0	0
Mobile competition		1	1	1	1	1	1	1	2	2
Autonomous regulation							I	I	I	I
Malawi										
Privatisation										
Fixed competition		0	0	0	0	0	0	0	0	0
Mobile competition		1	1	1	1	2	2	2	2	2
Autonomous regulation					M	M	M	M	M	M
Mauritius										
Privatisation							---------------40%---------------			
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	1	1	2	2	2	2	2	2	2	2
Autonomous regulation	M	M	M	M	M	M	M	M	M	M
Mozambique										
Privatisation										
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition				1	1	1	1	1	2	2
Autonomous regulation	M	M	M	M	M	M	M	M	M	M
Namibia										
Privatisation										
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	1	1	1	1	1	1	1	1	1	1
Autonomous regulation	M	M	M	M	M	M	M	M	M	M
Seychelles										
Privatisation										
Fixed competition		0	0	0	0	0	0	0	0	0
Mobile competition		1	1	1	2	2	2	2	2	2
Autonomous regulation										

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Table 5.4 (contd.)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
South Africa										
Privatisation				------	------	------	--30%--	------	------	------
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	2	2	2	2	2	2	2	3	3	3
Autonomous regulation				M	M	M	M	M	M	M
Swaziland										
Privatisation					1	1	1	1	1	1
Fixed competition										
Mobile competition										
Autonomous regulation										
Tanzania										
Privatisation								------	--35%--	------
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	1	1	1	1	1	3	4	5		
Autonomous regulation	M	M	M	M	M	M	M	M	M	M
Zambia										
Privatisation										
Fixed competition		0	0	0	0	0	0	0	0	0
Mobile competition		1	2	2	4	4	4	4	4	4
Autonomous regulation										
Zimbabwe										
Privatisation										
Fixed competition	0	0	0	0	0	0	0	0	0	0
Mobile competition	1	1	1	1	3	3	3	3	3	3
Autonomous regulation								M	M	M

Notes: The percentage figures indicate the share of private equity ownership in the incumbent operator. The number in the mobile row corresponds to the number of cellular operators in the country. "Autonomous regulation" captures the existence of a separate agency, subject to either ministerial control (M) or parliamentary oversight (I).

Sources: OECD, Economist Intelligence Unit, and ITU Telecommunications Policy Database.

Mauritius Telecom was partly privatised in 2000 when the government accepted a $261 million bid by France Telecom over competing offers by Vivendi and Portugal Telecom. According to the shareholders' agreement, the government will hold five director seats, including those of chairman and chief executive, and the strategic partner four. The Mauritian authorities had originally planned in 1995 to privatise Mauritius Telecom through the stock exchange, only to decide in 1997 that first inviting a strategic partner was in the best interest of all stakeholders (Keetharuth, 2003). Jointly with Zimbabwe's

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Econet Wireless International and South African power giant Eskom, Mauritius Telecom also participated in the 2000 sale of 70 per cent of Tele-Com Lesotho. Finally, Deutsche Telekom and Mobile Systems International Cellular bought a share in TTCL. The consortium received a four-year exclusive right to provide basic telephone services in Tanzania[54] and committed to increase subscriber lines from 155 200 to 800 100, install two public payphones for every 3 000 inhabitants and roll out Backbone Digital Transmission and Switching Systems. The deal has been mired in controversy, however. After paying the first $120 million instalment in February 2001, the Anglo-German consortium has refused to disburse the rest, claiming accounting irregularities. In February 2003, the two sides agreed to appoint an independent mediator to look at the accounts.

Other countries have had less ambitious corporate reform objectives — and certainly far less encouraging results. Malawi's 1998 reform accomplished two of its goals. It split the incumbent fixed-line monopoly, the Malawi Post and Telecommunications Corporation, into two companies, Malawi Telecommunications Limited (MTL) and Malawi Post Corporation (MPC), and it issued two new cellular licences. By the end of 2002, however, the government had neither privatised the fixed-line telecommunications operator nor introduced competition in fixed-line services. The new regulator, although separate from the Ministry of Information, remains heavily dependent on it. Although cellular penetration and internet use expanded dramatically following reform, prices increased, especially for cellular calls, and fixed-line penetration remains low by regional standards (Clarke *et al.*, 2003). In Zimbabwe the spin-off of TelOne from the Posts and Telecommunications Corporation has resulted in increased network digitalisation, but the waiting list for connections exceeds 1 million lines, and prolonged legal wrangling has derailed plans to introduce competition (EIU, 2003). TeleAccess, a company controlled by a former army officer[55], received a second fixed-line licence in December 2002. It previously had won a tender to build the COMESA regional network, but first had to prove that it was providing telecoms services within its home market.

FDI is widespread in mobile telephony, however. MTN, the South African private operator, has already been mentioned in Chapter 4. Vodacom, half-owned by state-run Telkom with Vodafone holding a third, added a Global System for Mobile Communications (GSM) licence in Mozambique in 2002[56] to its interests in Lesotho, Tanzania, the Democratic Republic of Congo and Zambia. Mauritius Telecom has bought non-controlling stakes in Burundi's Africell (38 per cent) and the Société Malgache de Mobiles (24.5 per cent). It

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has also shown interest in buying Vivendi International's shares in Kencell, the second-largest GSM cell-phone operator in Kenya, and has targets in Malawi.

Almost two decades of regulatory reform in telecommunications have abundantly proven that privatisation, although possibly necessary, is far from sufficient to increase productivity and enhance consumer welfare. WTO Agreement commitments to implement pro-competition regulatory principles include cost-based pricing schemes, interconnection rights and an independent regulatory authority. The results in OECD countries (Boylaud and Nicoletti, 2000) are almost perfectly mirrored in Latin America (Estache *et al.*, 2002). In mobile telephony, probably the most relevant for development, Africa is no different. Competition is critical for rapid mobile expansion, and the presence of a state-owned incumbent has a negative impact (Gebreab, 2002). Although competitive markets grow significantly faster than monopolies, having two or three operators does not appear to make any significant difference. All SADC countries bar Swaziland have at least two cell-phone companies. Nonetheless, although the information available is scarce for analysing whether companies compete effectively, it appears that an excessive number of operators reduces the market opportunities for the individual operator. Insofar as this produces a loss of economies of scale, it results in higher tariffs to recoup investments. In Tanzania one can be sceptical about the long-term viability of maintaining five operators, and indeed two operators (Vodacom and Mobitel) control the market.

In fixed-line communications, the need to provide private investors with rents for them to expand geographical coverage explains the lower degree of market liberalisation. In South Africa, Telkom was awarded a five-year exclusivity, with a range of conditions on service extension and upgrading of infrastructure. In the five years to May 2002, it had to provide 2.69 million new working exchange lines to add to the network, which amounted to just over four million lines in 1996. A specified number of these new lines (1.676 million) was set aside for areas designated as "under-serviced". Service conditions were set on a range of criteria, such as the time to install new lines, fault rates and response to complaints. Financial penalties were stipulated for failure to meet any of the targets. Targets were also set in terms of the upgrading of the network, including the digitisation of all exchanges. Telkom fell just 11 448 lines short of the 2.69 million target for installation between 1997 and 2002 (Makhaya and Roberts, 2003). The network was also almost fully digital by mid-2002, and times for installation and correcting faults had decreased dramatically. Notwithstanding the large rollout programme in fixed-line

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communications, however, increased telecoms ownership for rural and low-income users resulted almost exclusively from the adoption of cellular phones[57]. An important reason for this lies in the cellular tariff structure, so any future use of universal service funds should be more technology-neutral, which would enhance the roll of cellular (Hodge, 2002).

The new telecoms policy announced in early 2001 by the Department of Communications favours limited competition for Telkom (Goldstein and Linhares Pires, 2001). A second national operator was to be licensed in 2002 to provide the full range of public switched telecommunications services, so the market will be limited to this duopoly at least until 2005. Vague text wording has also raised concerns that government will run roughshod over the authority of the independent regulator. Government intends "granting" licences to state-owned companies like Sentech (which will receive a multimedia and international licence) and the second network operator "shall include" Esi-tel (the telecoms subsidiary of Eskom Enterprises) and Transtel (the telecoms division of Transnet). This has been criticised not only in the private sector but also by the Department of Trade and Industry, which argues that it is not supportive of the development of logistics and other knowledge-driven activities. That process too has been delayed, but it is expected that two state-owned enterprises will form part of the new operator.

Autonomous and independent regulators have been established in most SADC countries. Although the quality of utilities regulation is generally high, the process has not been immune from problems, as indeed in all OECD and non-OECD countries. In South Africa, regulatory responsibilities have been located only partially outside the ministries. The Minister of Posts and Telecommunications remains responsible for issuing licences, although Satra has the right to take action against Telkom should it appear that it gives undue preference to certain parties or causes undue discrimination. Further confusion arose from the discussion of creating the Independent Communications Authority of South Africa (ICASA). The executive proposed to retain the powers to appoint and remove commissioners and to allow regulatory decisions to stand even if improper interest is later established on the part of a councillor — although these ideas were both amended at a later stage. ICASA regulates telecommunications services and deals with licensing, tariffs, spectrum management and dispute resolution. Although it is statutorily independent, the minister of communications has virtual veto power over ICASA rulings. The ICASA is also hampered by resource shortages and poor skills retention. It has issued rulings against the interests of Telkom, but the latter has always opposed them and appealed to the courts. Angola, Botswana,

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Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania and Zambia have also created independent regulators. Lesotho and Zimbabwe have yet to finish doing so. Policy co-ordination in this domain is described in Box 5.7.

Box 5.7. **The Telecommunications Regulators Association of Southern Africa (TRASA)**

Article 13.13 of the SADC Protocol sets the objective of promoting the creation of regional bodies where required to provide a framework for collaboration and interaction between and among service providers, users, regulators, labour and other stakeholders to participate as equal partners in the process of implementation. In April 1997, the Southern Africa Telecommunications Association (SATA), established in 1981 as a forum for the essentially self-regulating state-owned operators, gave way to two separate regional bodies, one for regulators and one for operators. TRASA aims at increasing communications and co-ordination between regulatory authorities and supporting the creation of a common enabling environment for regulation and taxation so as to encourage investment in the telecommunications sector. It also seeks to standardise the allocation of radio frequencies and equipment and operating standards and to develop the requisite human capital to provide cost-effective services throughout the region. Membership in TRASA is contingent upon a country's providing in law for the establishment of an autonomous regulatory authority. Countries without independent regulators can participate in the activities of TRASA but do not have voting rights. Similar bodies in other regions are the Asean Telecommunications Regulators Council (ARTX) and the Foro Latino Americano de Entes Reguladores de Telecommunicaciones (REGULATEL).

TRASA collaborates extensively with other international organisations to facilitate SADC legislation of the Telecommunications Policies and Model Telecommunications Bill. In 2000, it organised with the International Telecommunications Union (ITU) and Commonwealth Telecommunications Organisation (CTO) a workshop on Universal Access Models. The workshop aimed to produce a regional Universal Access Model, which could be adopted by countries within the region to suit their local conditions. The draft, developed by CTO and ITU, included three sections: guidelines on universal service funds; reverse auctions for granting minimum subsidies; and multipurpose community telecentres. The World Bank has signed a memorandum of understanding with TRASA to provide technical support.

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In the 1990s, the fast rise of India, especially Bangalore, as an important offshore outsourcing centre for business processes showed the potentially positive contribution of the telecoms sector to poverty reduction and inclusive globalisation. In the SADC, Mauritius is developing as an info-tech platform for the Indian Ocean. Its efficient telecommunications infrastructure allowing fast connections *via* ISDN and leased lines with Europe and the United States has been reinforced by the long-awaited connection by fibre optic cable through the South Africa Far East (SAFE) Project. Operational since June 2002, it allows an initial maximum throughput of eight GB (34 MB p/second against ten MB previously).

With the help of a $100 million line of credit from India, the government has also launched the Ebene Cybercity. Modelled on Indian high-tech clusters, it is intended as a single-stop facility for IT-enabled services, call centres, back-office operations, business process outsourcing, software development, intelligent manufacturing and ICT education. The communications plan consists of satellite-based as well as high-speed cable/fibre-optic data transmission links and provision for multiple service providers for data and voice communication facilities, with the latest technologies of xDSL, GPRS and wireless broadband. It includes plans for backbone structured cabling, adequate digital telephone switching capacity for ready-to-use telephone connections, radio networking and WCDMA/CDMA 3G facilities. All facilities will be modular and scalable to world standards for operability. The city is connected *via* ATM switch and optical fibre cable to the high-speed node at suitable locations. Parks of Mauritius Ltd. and Software Technology Parks of India manage the project; construction began in September 2002. So far Infosys has announced the largest investment (Box 5.8). Another recent investment is the Tata Infotech Education Centre, a joint venture between India's largest business conglomerate and the Institut Supérieur des Affaires. Together with Blanche Birger, a local firm, Satyam has also filed a request to set up a training centre capable of hosting up to 1 400 ICT students. Finally, Nokia and Hewlett Packard have decided to place their regional headquarters in Mauritius.

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Box 5.8. **The Infosys Disaster Recovery Centre in Mauritius**

In October 2002, Infosys Technologies, India's second-largest software exporter, announced that it would set up its first disaster recovery centre in Mauritius, operational from January 2003. The centre, complete with infrastructure, network connections, telecommunication facilities and back-up client data, will stand by to take over client projects from across the globe. Serving as an alternative location in case of a disaster in other Infosys development centres, it will have capacity to accommodate 1 500 people. In emergencies such as natural disasters or political unrest, personnel will relocate to the centre and start work immediately. The centre opened on a rented site and will move to the company's own 25-acre premises (a $25 million investment) in about three years. The campus will house a global development centre to service its international clients. The company considered alternative locations before deciding that Mauritius is ideal because of its close ties with India, sound flight connectivity with many Indian cities and cost effectiveness of operations. In another incentive, the government issued 1 500 visas so that Infosys workers could fly to the island in an emergency. Air Mauritius inaugurated a weekly service to Bangalore in 2003.

The call-centre industry beckons as another area of potential interest for foreign investors. Almost non-existent a decade ago, it grew to some $60 billion world-wide by 2003. South Africa has between 22 000 and 25 000 seats in call centres or tele-businesses, and the industry has the potential to create 50 000 to 100 000 jobs by 2006 (WESGRO, 2001). The country is internationally competitive. Salaries are considerably lower — by 25 per cent compared with the United Kingdom[58] — and the workload is considerably heavier — 243 days per year at 42 hours per week, compared with 220 days at 36 hours internationally (Dimension Data Customer Contact Solutions, 2001). Two international airlines have set up call centres in Cape Town. Global Telesales, a Lufthansa subsidiary, invested ZAR10 million in October 2000 to provide services such as general information, flight information, fares, reservations, re-bookings, re-routings and special requests. Over 3 000 overflow calls per day generated from the German domestic market are routed to 120 German-speaking agents in Cape Town. The Qualiflyer Group opened its ninth global customer-care centre in July 2001, providing employment for 200 persons initially. The Dialogue Group, a British company, has recently invested

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ZAR20 million in a call centre in Cape Town to monitor an American closed internet portal called Lexchatsafe[59]. The largest operators, however, remain South African headquartered. Dimension Data, the London-quoted IT services company that runs call centres in six regions, has just set up an 800-seat centre for a US customer.

Namibia also is promoting its competitive presence. It has a considerable German-speaking population. Salaries are much lower than in competing countries in Central and Eastern Europe, and the country is in the same time zone as Europe. Currently the only call centres provide internal customer services for local financial institutions and utilities. The single foreign operator is ABC Bücherdienst GmbH in Swakopmund, a small German investment that supports Germany's largest online bookseller (now merged into Amazon.de) with e-mail enquiry and order processing. The firm hopes to reach a staffing level of 16 and is small enough to route its electronic mail traffic through a local internet service provider rather than leasing its own data link. The parent company also operates a similar investment in the United States to process orders during the German evening and night and subcontracts basic German data-entry work to a company in the Republic of Georgia. Finally, in May 2003 Mauritius Telecom halved connection rates for dedicated lines to France to €12 000 per month, which compares favourably with other countries that compete on the Francophone call centre market such as Morocco (€20 000).

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Notes

1. Because of the large disparity between total incomes earned by Basotho working abroad and those of domestic garment industry workers, growth in the garment industry has not offset the decline in remittance incomes.
2. Gibbon (2001) reports that family connections between Chinese politicians and businessmen in the Far East and Sino-Mauritians played an important part in attracting investment, in addition to purely economic advantages. Four items account for 92 per cent of total clothing exports. T-shirts and pullovers are exported mainly to France, trousers to the USA, and men's shirts to the UK.
3. Questionnaires were sent to all member firms of the South African Textile Federation. Altogether 45 responses came back from firms employing a total of 27 738 in 1999, approximately 43 per cent of the total employment of the sector as measured in official statistics.
4. "Kolosus goes to Daun, making him colossal in SA", *Sunday Times*, 3 August 2003.
5. To encourage local entrepreneurs to invest abroad, the government has set up a Regional Development Certificate Scheme, which will provide a number of fiscal incentives to entrepreneurs who hold at least 35 per cent of the equity in an approved regional development project. Madagascar is part of COMESA but not of SADC. Floreal Knitwear, the first Mauritian company to establish a factory in Madagascar in 1989, is currently its biggest employer. The plant was shut in 2002 owing to the political turmoil in the country, but is now operating again at half capacity to reach a monthly production of 100 000 pieces by end-2003.
6. In June 2003 a major crisis erupted following lay-off announcements by Hong Kong, China's Summit Textiles, which was closing two of its 16 plants in Mauritius, and Esquel, which is liquidating 20 year-old Leisure Garments (employing 2 600 people of whom 800 are Chinese workers).
7. Founded in 1986, Nien Hsing is currently the world's largest jeans maker, with an annual output of 40 million pairs, and is also the sixth-largest denim maker, producing some 60 million metres per year. It has set up five factories in Nicaragua, two in Lesotho, and one in Mexico over the past decade, taking

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advantage of AGOA and the Caribbean Basin Initiative (CBI) Enhancement Act. According to the company's Chairman Chen Ron-chu, "profits chalked up by the jeans garment division and the textile mill in [Lesotho] are estimated at NT$ 1.5b and NT$ 550m, respectively, per year" ("Denim giant finds new lease of life in Central America, Africa", *Central News Agency*, 31 August 2000). As concerns the recent expansion of Tuntex in Swaziland, the company has now overtaken Simunye Sugar Estate as the kingdom's largest employer. Swaziland is one of the few countries that have diplomatic relations with Chinese Taipei.

8. The recent US proposal to reduce import duties on textiles in the Doha round would also lower advantages offered under the AGOA.

9. The Botswana Development Corporation and commercial banks have labelled the textile and clothing sector "high risk", thus making raising capital for investments reportedly difficult.

10. As cotton growing lends itself ideally to cultivation by smallholders and could play an important role to settle and enlarge the sector's development in rural areas, the South African cotton industry aims to raise to 30 per cent by 2005 the share of domestic crop sourced from emerging farmers.

11. Only three South African exhibitors have registered for ITMA 2003, the quadrennial event organised by the International Textile Machinery Association.

12. South African vehicle manufacturers do not report production data, so this estimate is based on NAAMSA figures for total vehicle output and for the industry average capacity utilisation rate for cars.

13. "Vehicle prices jump 174 per cent", *The Financial Gazette*, 17 October 2002.

14. The SA Bureau of Standards claimed the company's vehicles did not meet the prescribed standards, leading to its liquidation. AMC was also a contender for the ZAR20 billion taxi recapitalisation project to replace about 120 000 16-seat minibus taxis with safer 18-seat and 35-seat vehicles.

15. The figure for harnesses stands in stark contrast; over 70 per cent of all their material purchases takes place outside of South Africa.

16. A small-vehicle incentive to promote vehicle affordability has remained in place.

17. Duties on light vehicles will decline from 30 per cent in 2007 to 25 per cent in 2012. For completely knocked down (CKD) components, duties will decline from 25 per cent in 2007 to 20 per cent in 2012.

18. "Blue IQ's supplier park draws foreign components firms to SA", *Business Day*, 24 June 2003.

19. The following is partly based on the author's contribution to the 2002 *World Investment Report* of UNCTAD.

20. This is the case for instance of Coca-Cola bottlers in Greece and Venezuela.

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21. The following is partly based on *NEPRU Quarterly Economic Review*, No. 12, September 1997.
22. "Namibia shoots down SAB plan", *Business Times*, 31 August 1997.
23. Guinness and Heineken have a close relationship in Africa, and Nambrew already produces and distributes draught Guinness in the South African market.
24. TBL also owns 75 per cent of Tanzania Distilleries, a wine and spirits supplier, and 60 per cent of Darbrew, a traditional beer brewery.
25. Laurentina is the new name of the Reunidas brewery, privatised in 1998 to a consortium formed by the Commonwealth Development Corporation, Guinness and France's Castel with local investors (including the management and workforce) for $8.12 million.
26. *Harpers-Wine News*, 7 May 2003.
27. "Mozambique is paradise for SA farmer", *Farmer's Weekly*, 2 November 2001, and "Land is becoming a hot issue", *New African*, June 2003.
28. "Life after Zimbabwe", *Farmer's Weekly*, 21 February 2003.
29. "A Taste of South Africa", *Wine Spectator*, 30 September 1995.
30. Argentina, the world's fifth largest producer of grapes and wines, has (of the New World countries) the largest area under vines with 204 723 ha, followed by California with 198 279 ha, Australia with 148 275 ha, Chile with 106 971 ha, and South Africa with 106 331 ha (Anderson, 2001).
31. "South African Farming: The Boer's brave new world", *The Economist*, 20 November 1999.
32. "Leaving Pinotage Behind", *Wine Spectator*, 2 June 2003.
33. In the Seychelles, Heinz operates a large tuna processing plant bought from the government in 1996. It has become the country's largest single employer.
34. Namfish is a fishing company with exposure to the hake and horse mackerel sectors, as well as the Angolan pelagic sector through its 34.9 per cent stake in NamSea. Namfish is listed on both the JSE and the NSX. JSE-listed Tiger Brands, through its subsidiary Sea Harvest Corporation, is the majority shareholder with a 34.5 per cent stake in Namfish.
35. In Iceland, the only OECD country where fisheries play a comparable economic and employment role, direct shareholding in fisheries or fish processing is not allowed. Indirect shareholding, i.e. in a company holding shares in a fisheries or fish processing company, by foreigners is limited to 25 per cent of the holding company (or 33 per cent if the holding company owns less than 5 per cent of the fishing or fish processing company).

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36. Since 1984, the global output of aquaculture has increased by 10 per cent annually, as against 1.6 per cent for captured fish output.

37. The modern retail sector has 33 hypermarkets (roughly equivalent to about 330 supermarkets in sales terms) and 1 352 supermarkets, according to ACNielsen's data base for South Africa, which covers most of the large-format retailers in the country (Weatherspoon and Reardon, 2003).

38. The African market remains largely untapped except for a couple of franchises in the French-speaking countries. France's Cora group trades in Egypt and also has a few franchises in Mauritius and Madagascar. With increased competition introduced by the arrival of Shoprite and Game from South Africa and the appearance of increasingly efficient specialist hypermarkets, distribution in Mauritius is currently undergoing massive changes.

39. On the situation in Europe, see Dobson (2003).

40. For Shoprite, for instance, the domestic business represents 90 per cent of turnover but only 80 per cent of profits.

41. "Carrefour dobra vendas externas de alimentos", *Valor Econômico*, 28 February 2003.

42. See "Getting local produce onto shop shelves", *The Namibian Economist*, 23 May 2003.

43. See "The Luangeni Project in Chipata" at http://www.iblf.org/csr/csrwebassist.nsf/content/f1c2b3f4d5a6.html.

44. "Shoprite Offloads 2.7m Shares On Lusaka Stock Exchange", *The Post*, 20 February 2003.

45. "P'n'P talks to small farmers", *Dispatch*, 11 October 2002.

46. "Can the Western Cape dairy industry be saved?", *Farmer's Weekly*, 18 October 2002.

47. "Local Dairy Industry Compares Well With First World", *East Cape News*, 31 October 2002.

48. In 2002, Clover, which is controlled by National Co-operative Dairies (NCD), sold a 25 per cent stake in Clover Beverages to Danone.

49. "Light at the end of the tunnel for milk producers", *Farmer's Weekly*, 1 March 2002.

50. In 1998, an offer of $165 million was turned down as insultingly low. With the value slumping lower with the price of copper, Anglo American paid a mere $90 million for it. See "Tragically undermined", *The Economist*, 1 June 2002.

51. *Ibid*.

52. "Raising the gold standards", *Financial Times*, 24 July 2000.

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53. Although the details of the shareholder contract remain confidential, SBC has assumed a significant degree of control over much of the strategic and operational decision making. With the exception of the CEO, who is South African, SBC and Telkom Malaysia will hold the key operating positions during the five-year exclusive franchise period.

54. In Zanzibar TTCL competes with Zanzibar Telecoms Ltd. (Zantel).

55. See "Zimbabwe ends telecoms monopoly", *BBC News*, 4 December 2002.

56. The regulator in Mozambique, INCM, issued invitations to tender in March 2002. Twelve companies expressed an interest and purchased tender documents. Four eventually submitted their bids to the regulator. Vodacom International will have the majority stake in Vodacom Mozambique with local partners Emotel, a consortium of local businesspeople, public figures and the war veterans' association. The existing operator mCel is owned by the Government of Mozambique (74 per cent) and Germany's Detecon (26 per cent).

57. Moreover, although the roll-out target was met, rate rebalancing led to more disconnections than new connections, meaning a net decline in fixed lines in recent years.

58. "Keeping time with Europe", *Financial Times— IT Review*, 2 July 2003.

59. "SA Web Nanny for US Kids", *Financial Mail*, 6 June 2003.

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Chapter 6

Implications

Summary

This concluding chapter builds on all the earlier material to discuss important policy issues for the region. Relative to regional groupings of other emerging economies, the SADC reflects greater importance of intra-area FDI, not only from South Africa but also from Mauritius and, to a lesser extent, Zimbabwe. Investment opportunities do exist, although the economic environment remains very uncertain, so that only companies already familiar with Southern Africa have been willing to commit further resources. Increasing evidence nevertheless appears of the presence in the SADC of the same opportunities that "multinationalism" opens elsewhere — and the emergence of the same problems. Hence, the main policy questions that this chapter treats are similar to those applicable elsewhere: improving the business climate, designing an appropriate FDI strategy and coping with downside risks.

This concluding chapter discusses a number of important policy issues that must be tackled head-on if the region is to attract more FDI, make such flows less volatile, maximise their developmental impact and minimise the costs that opening to often distorted world market forces may sometimes impose. The foregoing survey highlights a reality far more complex than oft-heard generalisations that Southern Africa is integrating only slowly with the world economy. Absolute FDI flows and stocks clearly are lower than in Asia, Eastern Europe and Latin America, but they still are substantial, especially in some countries. While the trade opportunities opened by regional integration *per se* may be a less important motivation for investors than in countries such as Mexico or Hungary, for smaller SADC countries anchoring to the large emerging economy of South Africa signals a more liberal business environment in which foreign investors find it easier to operate. Relative to regional

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groupings of other emerging economies, SADC reflects the great importance of intra-area FDI, not only from South Africa but also from Mauritius and, to a lesser degree, Zimbabwe. Investment opportunities do exist, although the business environment remains very uncertain so that only companies already familiar with Southern Africa are willing to commit further resources. The huge increase in the number of internationalising South African companies shows the extent to which medium and large industrial companies (in addition to the biggest conglomerates) have accumulated distinctive processes and asset positions to compete on international markets. In the longer run, policy developments not directly linked to formal integration may have a large impact on regional dynamics. For example, the ending of the AGOA dispensation for low-income SADC countries to import fabric may potentially benefit South African textiles firms. Reportedly, a shortage of local cotton yarns already has occurred, with escalating prices as a result[1].

Increasing evidence appears of the presence in the SADC of the same opportunities that "multinationalisation" open elsewhere — and of the emergence of some of same problems (Table 6.1). The automotive industry provides a good example of the possibilities that commodity-dependent, high-income developing countries have of introducing mechanisms to deepen manufacturing industrialisation, induce pro-efficiency measures and market-seeking strategies and widen the sources of competitive advantage. In such a producer-driven supply chain, foreign investors clearly play a crucial role. WTO-compatible incentives may be used in this process, and the commitment by national authorities must be solid, although progressive phase-out is also necessary to ensure that export dynamism does not eventually generate rent-seeking attitudes. Evidence of a virtuous FDI-efficiency cycle also appears in telecoms, where market competition plays a notoriously more important role than the form of ownership (public *vs.* private or domestic *vs.* foreign). In retail trade and agri-business, on the other hand, SMEs find it increasingly difficult to compete against foreign business and keep up with heightened quality and organisational requirements.

Improving the Business Climate

Economic and business analyses of the determinants of FDI traditionally emphasise the positive contribution of a welcoming economic and political climate and, conversely, the burden imposed when so-called fundamentals are not sound. Sound macroeconomic policies clearly are necessary for their

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own good, not only because foreigners demand them, but also and more basically because fighting fiscal profligacy helps reduce poverty through broader, more effective tax collection, enhanced spending on education, health and infrastructure, and reduced vulnerability to exchange-rate volatility. Southern Africa is no different from other regions. Well managed countries with solid reform agendas and records of stability and good governance perform well. In 2002, Mozambique had growth of 12 per cent, among the fastest in Africa, together with other reformers such as Ethiopia, Rwanda and Uganda.

Table 6.1. **FDI and Industrial Competitiveness in SADC Countries**

	Importance of FDI	Main Source Countries	Main Host Countries	Effects on		
				Linkages	Exports	Market structure
Textiles and clothing	Very high	Asia	All	Few	Large	Positive
Automotive	Very high	EU, Japan, USA	South Africa	Few but growing	Large	Positive
Brewing	Very high	South Africa	All except South Africa	Few but growing	Small	..
Winery	Low	Australia, EU	South Africa	Few	Small but growing	..
Retail trade	High	South Africa	All except South Africa	Few	Small	Uncertain
Dairies	Very high	EU	All	Few	Small	Uncertain
Non-oil mining	Very high	Canada, EU, India, South Africa	All	Few	Large	..
Information and telecommunications technologies	Very high	EU, India, Malaysia, South Africa, USA	All	Few but growing	Medium	..

Source: OECD.

The SADC and Africa more generally trail behind the rest of the world in privatisation too. Progress here would not only allow FDI to increase, but also provide citizens with better services. According to the UN Economic Commission for Africa, of the 2 300 privatisations in sub-Saharan Africa over 1991-2000 only 66 were of higher-value and economically significant enterprises. The vast majority were sell-offs of ailing or small firms, which

helps to explain why privatisation so far has not boosted investment in Africa. Investment codes, where they exist, have by and large failed to restrain government conduct and insure private agents against the risks of arbitrariness, unfair litigation and expropriation (Ailola, 2000). This illuminates the important role that international financial institutions play in Southern Africa, especially the World Bank and its private sector arm, the International Financial Corporation (IFC). IFC participation often is not needed on strictly financial grounds, but rather to provide informal political risk insurance.

Unfavourable microeconomic factors can make companies flee. The record of Southern Africa, and *a fortiori* of Africa, is clearly wanting in terms of improving the business climate by strengthening corporate governance, commercial justice systems and the regulatory environment. Recurring complaints in most firm interviews conducted for this project include the high cost of doing business in the region — including interest rates, labour administration, transportation and freight costs — the seemingly unstoppable rise of crime from notoriously high rates and the deep distortions in business activity provoked by the HIV-AIDS pandemic. Market competition remains the most efficient tool to put pressures on producers of goods and providers of services in a non-distortionary way, as shown by the OECD's work on regulatory reform. Mauritius and Namibia recently joined the ranks of SADC countries that have adopted competition legislation. The Mauritius Competition Bill sets up a Fair Trade Office and a Competition Appeal Tribunal. It puts the EPZ on the same footing as public services. Insofar as benchmarking of best-practice models would assist in driving down costs, South African authorities use the OECD peer review mechanism to improve their competition policy (OECD, 2003).

The dearth of qualified labour deeply affects SADC countries' ability to attract high-quality FDI. In the face of severe budget constraints it calls for innovative forms of private-public partnership. Over the past three decades, South Africa and Zimbabwe, the two countries with the largest pools of high-skilled workers, have experienced considerable losses due to migration to the United States, the United Kingdom and other Commonwealth countries. About 70 per cent of skilled South Africans consider emigrating, although a composite statistical index used to construct each person's "emigration potential" showed that only 2 per cent of the sample falls into the "very high" category (McDonald and Crush, 2003). The practical impact of such a "brain drain" is very hard to quantify — despite the alarmism that the media have spread on the basis of unsound evidence[2] — but the loss seems to be felt most acutely in engineering, medicine, accounting and financial services. More recently, the skills crisis has reputedly extended to artisans, a shortage due primarily to the collapse of training[3].

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For most of the 1990s South African authorities viewed temporary and permanent immigration of skilled personnel with suspicion, and the numbers have correspondingly declined since 1994. Only in 2001 did the ANC admit that skills immigration is not necessarily disadvantageous to South Africans. The 2002 Immigration Act has replaced the Aliens Control Act, the last remaining major piece of apartheid-era legislation. Regarding work permits and/or permanent residency for high-skilled migrants and their families, the reform has three main pillars. First, it eases "red-tape" requirements. Second, it relies on market forces to determine where skills are most needed, rejecting the centralised, state-run points systems used in Canada and other immigrant-receiving countries. Third, it requires employers to pay into a national fund to provide training to South Africans. Some of these ideas have proved controversial, and their practical implementation will not be easy to assure. Wöcke and Klein (2002) argue that imposing financial penalties and other restrictions on employers of foreigners with skills is detrimental to South Africa's competitiveness in the global economy and will deter investors and those needing skills not available in the South African labour market. McDonald and Crush (2003) observe that the new approach to skilled migration creates a sense of "good" versus "bad" immigrants and contributes to a general mood of distrust of non-citizens.

Existing regulations may impede the delocalisation of labour-intensive activities to SADC countries. Almost paradoxically, an example is provided by a South African financial services institution that chose to list in London[4]. As the rand depreciated against Western currencies in the early 2000s, Old Mutual shifted its back-office business home to take advantage of low labour costs. A major obstacle in holding data outside the country where a company is doing business, however, is the risk of breaching the law if standards do not meet their EU equivalents. Pending a standardisation of South African data protection laws with EU rules, Old Mutual decided to dump a copy of data on British customers back into the United Kingdom every night.

Designing an Appropriate FDI Strategy

A successful FDI strategy may require some *ad hoc* measures. Even with good records in terms of macroeconomic stability and good governance, Southern African countries may still pay a credibility premium *vis-à-vis* other emerging host economies. It may therefore pay to invest in reinforcing investment promotion agencies, provided that they have adequate micro-

foundations. Greater effectiveness associates with certain internal characteristics of the agencies, such as having established reporting mechanisms to the country's highest policy makers (the president or prime minister) or to the private sector. Such institutional links are crucial because they help strengthen governments' commitment as well as reinforce the agencies' credibility and visibility in the business community.

On the efficiency spillovers from inward FDI, the literature suggests that the technical capabilities of local firms and openness to imports, a proxy for the competitiveness of host country markets, are among their most important determinants. If this is so, the capabilities that Lesotho, for example, has built up in clothing manufacturing are not yet sufficient to sustain FDI once trade privileges are withdrawn (perhaps as early as in two years) and Lesotho faces full competition. Both of these characteristics can be influenced by host country policy. Yet it is difficult to provide unequivocal policy advice, because some policies that maximise the potential spillovers from a given pool of appropriable technology (such as technology transfer requirements or active competition policies) may actually reduce the attractiveness of the host country to some foreign investors. In Zambia, for instance, the competitiveness of local suppliers of goods and services to the copper-mining industry suffers from unfair import competition, and the World Bank advises Zambia to "review (and reform, where necessary) existing tax arrangements and exemptions". In other words, no first-best "institutional technology" is inherently superior and can work as a quick fix for countries that wish to enhance their pro-active participation on global markets on the basis of domestic and foreign capital.

This point reinforces the need for a fair evaluation of different national options, devoid of ideological *a prioris*. The experience of the newly industrialised countries in Asia suggests that, even in the presence of some constraints on their freedom of manoeuvre, foreign investors may still enter new markets when they see rapid growth and good export prospects. This certainly applies to the best-performing SADC countries. As Rodrik (2003*a*, p. 13) observes, "Botswana mixed up market-friendly institutions with heavy state intervention and a large public sector [while] Mauritius combined its outward export-processing zone with centralized wage bargaining and (for a developing society) an unusually generous welfare state". More precisely, despite the expectation that FDI may fill a savings gap, foreign investors will start venturing into "strange" countries only when they see evidence that residents are putting their money there. This applies to private agents as well as to public authorities. To generate sustainable growth, economic reforms must succeed in transferring resources to dynamic sectors and uses, and to achieve

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this policy makers must creatively package basic economic principles into institutional designs sensitive to local opportunities and constraints (Rodrik, 2003*b*). For this reason the debate on development strategies now resonating in South Africa and other large emerging economies such as Brazil and India is not a luxury, but rather a necessary component of a broader package that aims at improving their competitiveness. Recently, shifts in policy mixes seem to acknowledge more openly that contractionary macroeconomic stances to reduce fiscal imbalances in the short term may actually damage local and foreign investment in the medium run.

National interests do diverge between industrial and developing countries — or OECD and non-OECD ones, to use a definition common but not very accurate — concerning the suitability of a multilateral investment framework to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly FDI, which will contribute to the expansion of trade. They are also opposed on the issue of an investor-state dispute settlement mechanism. Both the Singapore and the Doha Ministerial declarations clearly provide that negotiations will be launched only after explicit consensus by all members. South Africa has been a vocal exponent of developing countries' resistance to proceeding hastily on a multilateral investment agreement and of avoiding the pitfalls experienced with TRIPS. Conversely, it has appealed for widening the scope of free trade talks between the SACU and the United States to cover agricultural subsidies and antidumping, citing the failure of the WTO ministerial meeting in Cancún as a reason.

Coping with Downside Risks

The increased role of foreign investors has sparked political controversies in some SADC countries. In Tanzania there is a growing public concern about "financial colonisation" by South African companies creating excessive dependence and reducing market competition. Negative attitudes increased after Absa demanded various changes in the memorandum of understanding for the privatisation of the National Bank of Commerce in 1997, leading to the sale's becoming a drawn-out process (Kabelwa, 2002). In Lesotho, while all investors state that bureaucratic red tape does not cause concern, "a major problem that may not be immediately apparent is the almost individual distrust with which most Basotho view the Southeast Asian investors […] Many Basotho

believe that [their] businesses have been compromised by the Government's inability or unwillingness to control the proliferation of [foreign] trading businesses with which they cannot compete […] Many of the East Asian industrialists, unable to communicate with their Basotho staff in English, have employed supervisors recruited from China to run their production lines. These supervisors are also not able to communicate effectively with the workers and resort to tactics […] that are unacceptable to Basotho labour" (Salm, 2002, p. 8).

Political opposition to FDI is not exclusive to Africa, even less so to the SADC. It often originates in the manipulation of public opinion by groups that exploited to their advantage the rents created by autarchic economic policies and that are obviously threatened by emerging competition from more efficient foreign producers. Dealing with it calls for a wide range of measures, from better public education on the reality of globalisation to stronger actions to transfer its benefits to the public at large and introduce compensatory mechanisms for those that lose from it. Converting a general principle into a workable policy solution is not straightforward, however, because it is difficult to assess who are the losers and what are their losses.

In the SADC, industrial activity, already highly polarised in the richest and largest market, will likely concentrate even further in South Africa as firms locate where they can produce more efficiently and workers enjoy higher welfare — close to large markets where more firms and workers locate. As Puga (2002) notes for the EU, this creates a cumulative causation process that tends to increase regional differences. The record of public policy mechanisms to redress these trends is mixed at best, not least owing to the potentially perverse consequences of improving the transport infrastructure, which may strengthen the incentives for business to concentrate in the core rather than move on to the periphery.

The corruption issue, illustrated by the controversy surrounding the Lesotho Highlands Water Project, deserves mention. This well publicised scheme will deliver water to the arid Gauteng province, South Africa's industrial centre, *via* the Vaal Dam and generate hydroelectricity for Lesotho. Campaigners have long branded the project as both ecologically unsound and containing terms unfair to the Basotho people. In 2002, more than a dozen Western firms were accused of bribing the former chief executive of the Lesotho Highlands Development Authority to win business. In early 2003, Canada's Acres International was convicted and sentenced to pay a fine of *maloti* 22m ($2.2 million)[5]. In passing sentence, the judge in the case made it clear that he wanted "to send a clear message that companies wanting contracts should

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not even think of taking a risk in trying to bribe officials. This is the first time a company from an industrialised country operating in a developing country has been convicted of bribing a public official. The amount is staggering . . . and great harm has been done to Lesotho."[6] Acres is trying to appeal, arguing that the bribes were paid by a middleman without its knowledge. The LHWP official involved has already been convicted for his part in the scandal and is serving a 15-year sentence. A South African consultant pleaded guilty to paying him $375 000 on behalf of the Italian construction company Impregilo, which denies knowingly paying the bribe.

The risk that the potential benefits of FDI may be forfeited because of corruption is even larger in war-torn countries with very poor governance. Angola is a case in point, as the overwhelming majority of foreign capital is directed at exploiting non-renewable mineral resources traditionally more conducive to inappropriate financial and budgetary practices. As the ICG recently reported, "[T]hose with influence in Angola — whether donors or oil companies — can play a positive role in influencing the commitment to reform. Quiet engagement and partnership is most effective, particularly where there is focused effort on specific issues. But when bottlenecks have arisen, the government has clearly reacted — albeit bitterly — to external public pressure" (ICG, 2003, p. 15). Foreign investors undertaking resource extraction could provide independent information about payments. As the World Bank (2003*b*) observes, "British Petroleum recently took such action in its payments to the government of Angola, but none of the other 34 oil companies active in Angola have adopted this policy. This demonstrated that the oil industry is not sufficiently concentrated for the self-regulation model to work as it did in the case of diamonds. There is therefore a case for public action to facilitate co-ordination in the oil industry and other extractive industries" (p. 129).

Various approaches have been suggested. One would make all such payments a legal reporting requirement. An alternative, proposed by Global Witness and George Soros, would make such reporting a requirement for listing on major stock exchanges. Under another alternative companies would report on a confidential basis to the international financial institutions, which would then collate the information and publish aggregate revenue figures. This has the advantage of preserving the confidentiality of firm-specific information while providing a global certification system for information.

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Notes

1. The author thanks Simon Roberts for drawing his attention to this point.
2. McDonald and Crush (2003) review some such statements and argue that "the magnitude and impact of the skills haemorrhage are simply assumed rather than demonstrated".
3. The National Advisory Council for Innovation estimates that South Africa will face a skills shortfall of between 15 000 and 40 000 skilled artisans, project managers and specialised engineers by 2008. In the metal sector, there are only 1 800 apprentices in training, as against 13 000 in the early 1980s. See "Artisan alert", *Financial Mail*, 20 June 2003.
4. See "It's back to base for OM back office", *Financial Times*, 21 August 2002.
5. Others on the list and still facing trial include companies from France (Bouygues, Spie Batignolles, Dumez International), the UK (Balfour Beatty, Keir International, Stirling International), South Africa (Concor, Group Five), Italy (Impregilo), Germany (Hochtief, Lahweyer International, Diwi Consulting, ED Zublin) and Switzerland/Sweden (ABB).
6. "Canadian firm fined for bribing top official", *The Herald*, 29 October 2002.

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