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REGIONAL INTEGRATION, FDI, AND COMPETITIVENESS: THE CASE OF SADC*

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Foreign direct investment (FDI) to non-OECD countries, one of the key features of globalisation, may contribute to productivity and income growth throughout different channels – e.g. bridging the savings/investment gap, introducing modern capital goods and more sophisticated management practices, sustaining the drive to reform host countries' economic policies, and creating global vertical production networks whereby multinational firms locate input processing in their foreign affiliates. Although policy interventions may help to maximise benefits and minimise unintended consequences, they may also introduce additional distortions and aggravate problems.

This study describes major FDI trends in Southern Africa and analyses its impact on the region's ability to compete on global markets following the adoption of economic liberalisation, including progress in regional integration. Africa lags behind other regions in attracting FDI for a number of reasons – a high incidence of war, inappropriate governance, and price and currency instability – all of which also plague Southern Africa. The 14 member countries established the Southern African Development Community (SADC) in 1992 and re-launched it as a Free Trade Area in September 2000 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. South Africa's market size makes it the natural destination for FDI destined to supply local demand, and the associated higher quality of physical and human infrastructure further reinforces the locational advantage. Some of the other SADC members, on the other hand, appear unlikely destinations for foreign companies, either because their GDP is so small, or for the bellicose climate that have characterised them in the 1990s. This having said, FDI has reached them as

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well. FDI flows remain lower than in Asia, Eastern Europe, and Latin America, although they are still substantial, especially in some countries. A case in point is Angola, which has seen its strategic relevance as a source of oil for the industrialised world increase in recent years, with abundant FDI flows despite a civil war ravaging the country for almost 30 years.

Relatively little is known about FDI in SADC, not least because data limitations are massive outside of South Africa. What is the economic, normative and legal framework of FDI in SADC? How important is integration in explaining FDI to SADC? What impact is FDI having in these nations' arduous path towards growth-enhancing insertion into the world economy? And what is special about South African corporations that explain their relative enthusiasm in investing in countries – including in non-SADC Africa – from which OECD-based ones still stay clear?

This study tries to fill this gap by exploring in some depth a few industrial and service sectors. There is increasing evidence that the same opportunities that "multinationalisation" open elsewhere are present in SADC – and so are the problems created in the process. The automotive industry provides a good example of the possibilities that commodity-dependent, high-income developing countries have of introducing mechanisms to deepen the process of manufacturing industrialisation and widen the sources of competitive advantage. Another sector where there is evidence of a virtuous FDI-efficiency cycle is telecoms – although here market competition plays a notoriously more important role than the form of ownership (public vs. private, or domestic vs. foreign). In other supply chains, the arrival of foreign companies is accompanied by increasing market concentration. While this exposes domestic firms to the reality of cut-throat competition, consumers may not necessarily benefit unless appropriate regulatory mechanisms are introduced. This is the case in particular of agri-business segments, where the relationships between farmers, processors and retailers are very complex and emerging issues are similar in SADC and in developed economies.

There are a number of important policy issues that have to be tackled heads-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 are the ones that make companies flee. Recurring complains include the high cost of doing business in the region – in terms of interest rates, labour administration, transportation and freight costs –, the seemingly unstoppable rise of crime from notoriously high rates, especially in rural areas, and the deep distortions to business activity provoked by the HIV-AIDS pandemic. Much can therefore be made to make economic and political climate 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 allows to smooth exchange rate volatility.

Equally fundamental is that domestic investment must increase: the experience of the newly-industrialised countries in Asia suggests that growth precedes the FDI boom as foreign investors will only start venturing into "strange" countries once there is 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 this, policy-makers must creatively

package basic economic principles into institutional designs that are sensitive to local opportunities and constraints. For this reason the debate on development strategies that is 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.

Efficiency spill-overs from inward FDI depend 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 providers of services in a non-distortionary way, as proven by the OECD work on regulatory reform. In the face of the severe budget constrain, the dearth of qualified labour calls for innovative forms of private-public partnership to improve SADC countries' ability to attract high-quality FDI. Although host country policy can influence both, it is difficult to provide unequivocal policy advice, since some of the policies that maximize 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 political dimension of the increased role of foreign investors must be mentioned. A growing public concern about "financial colonisation", especially by South African companies, has sparked political 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 were exploiting to their advantages the rents created by autarchic economic policies and are obviously threatened by the emerging competition from more efficient foreign producers. But it call 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 to those that lose from it.

Different considerations apply to cases where foreign companies have been accused of not paying sufficient attention to governance issues – when not of being themselves at the origin of corruption and malpractices. Various approaches have been suggested. One is to make all such payments a legal reporting requirement. An alternative, proposed by Global Witness and George Soros, is to make such reporting a requirement for listing on major stock exchanges. A further alternative is for the companies to 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.

In sum, there is no first-best "institutional technology" that is inherently superior and may 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. If anything, this point reinforces the need for a fair evaluation of different options at the national level, devoid of ideological *a prioris*. It also highlights the all-too-obvious issue that national interests diverge between industrial and developing countries – or OECD and non-OECD ones to use a definition that, while not very accurate, is common – when discussing the suitability of a multilateral investment framework.

Introduction

Foreign direct investment (FDI) to non-OECD countries has grown in the 1990s into one of the key features of globalisation. FDI may contribute to productivity and income growth throughout different channels – e.g. bridging the savings/investment gap, introducing modern capital goods and more sophisticated management practices, and sustaining the drive to reform host countries' economic policies (e.g., 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 input trade involves multinational firms locating input processing in their foreign affiliates, thereby creating global vertical production networks. This is not to conceal the possible drawbacks of FDI. Sceptical and sometimes populist rhetoric on the evils of international capital flows, prevalent in the 1970s, pointed to the less positive phenomena associated to FDI: increasing outflows of foreign exchange on account of 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 workforce and rural and urban areas. If the policy tide has clearly reversed since the 1980s, a fundamental note of caution derives from empirical tests on the FDI-growth nexus, which fail to find an uncontroversially positive relationship (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 expectations that they will generate positive spill-over on the rest of the economy may turn to be counterproductive if they modify the relative cost of capital and labour and therefore lead to the adoption of a labour-saving technology. More fundamentally, for many developing and least-developed countries the problem is rather the lack of FDI.

Cross-border activity by manufacturing, mining, and service companies is obviously not a new phenomenon. For most of the 20th century, however, 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 to trade liberalisation, both multilateral and in the context of preferential trade arrangements (PTAs). The logic is similar: integration is expected to accelerate economic growth through enlarged domestic markets, tougher competition, and more efficient resource allocation. This is particularly relevant in the case of developing countries and emerging markets. Possibly the best example of this link is provided by the North America Free Trade Agreement (NAFTA), after whose signature FDI flows to Mexico, both from the United States and Canada and from third countries exploded (López-Córdova 2001). These forms of North-South, economy-wide preferential arrangement, as the forthcoming Eastern and Southern enlargement of the European Union, take place among neighbouring countries – some rich, some poor. Unfortunately, this "geographical luxury" is not accessible to sub-Saharan African countries. For them two options are available, either South-South regionalism or more limited (in both scope and time) economic partnership agreements with OECD countries such as the Trade, Development and Cooperation Agreement (TDCA) between the European Union and South

[1] In 1982 a World Bank document concluded that "Kenya's high import dependence is 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).

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.

One example of FDI explosion associated to a PTA among non-OECD countries is Mercosur. That experience is illustrative of the mixed evidence on the FDI-PTA nexus. Though there is abundant evidence 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 and López 2000). Many critics of Mercosur have indeed 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 is dependent 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 regional problems – 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 that aggregate gains from economic integration are not evenly distributed, since 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 – in particular through selected projects with a large multiplier effect – can enable it to take off (Ottaviano and Puga 1998).

This paper 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. SADC is an interesting case for analysing the FDI-PTA nexus for a number of reasons. It takes place in a continent that lags behind other regions in attracting FDI for a number of reasons – a high incidence of war, inappropriate governance, and price and currency instability (Rogoff and Reinhart 2002) – all of which also plague Southern Africa. It is also peculiar for the towering role of its largest member – South Africa.[4] Not only does South Africa's market size makes it the natural destination for FDI destined to supply local demand, but the associated higher quality of physical and human infrastructure further reinforces the locational advantage. Some of the other SADC members, on the other hand, appear unlikely destinations for foreign companies,

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

[3] These are – ranked by the size of their 2001 GDP in power purchasing parity – South Africa, Zimbabwe, Angola, Mozambique, Tanzania, Botswana, Mauritius, Namibia, Zambia, Malawi, Swaziland, and Lesotho – plus 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.

either because their GDP is so small, or for the bellicose climate that have characterised them in the 1990s. This having said, FDI has reached them as well, and South African capital has been at the forefront of such trends. The high degree of internationalisation of its major companies – through outward investment as well as "financial hollowing out" through the transfer of primary listing abroad – is indeed a further feature that distinguish South Africa from other emerging markets. And Anglo American, the largest South African business group (although its primary listing is now in London), had a larger 2002 turnover (US$ 20.5b) than the combined GDP of Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, and Swaziland with a population of 37 million people.

The scholarly literature on FDI in SADC is relatively thin, not least because data limitations are massive outside of South Africa.[5] This means, in particular, that little is known about the effects of increasing internationalisation on competition and competitiveness, to say nothing of its implications on wages and salaries, a topic that has received considerable attention in countries such as Indonesia, Morocco, and Venezuela.[6] The same holds true for the debate on the effects of FDI on credit constraints – that may be eased if foreigners, by bringing in scarce capital, reduce the pressure on domestic firms, or reinforced if foreign firms borrow heavily from domestic banks (insofar as they are a safer bet for lending institutions).[7] Short of fully answering all these questions, this paper tries to provide information and data to analyse a number of intertwined questions: How important is integration in explaining FDI to 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 is FDI having in these nations' arduous path 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 still be a basis for future growth? What is special about South African corporations that explain their enthusiasm in investing in countries – including in non-SADC Africa – from which OECD-based ones still stay clear? And, finally, how do macroeconomic developments, political events, and institutional quality impact on different stakeholders, foreign and domestic alike, what measures can be taken to improve competitiveness, and how can donors assist in this endeavour?

A summary road map follows. The next section presents the economic, normative and legal framework of FDI in SADC. In particular it summarises progress in macroeconomic adjustment and structural reforms, including open regionalism. Section II provides an

[5] Writing in 1974, Suckling found that about 60 per cent of South Africa's GDP growth in 1957-72 was due to technological change and that about two-thirds of this was technology incorporated in FDI inflows (cited in Padayachee 1995). Recent exceptions extensively quoted in this paper include Ramachandran and Kedia Shah (1998), SADC case studies in Basu and Srinivasan (2002), research on the automotive, textile and clothing industries at the Universities of Cape Town (DPRU) and Natal (CSDS), and investors surveys conducted by Gelb (2003) and Jenkins and Thomas (2002).

[6] The major exception is Velde and Morrisey (2001) that includes Zambia and Zimbabwe in a five-country study of the effect of foreign ownership on wages in Africa. They find that, when controlled for size and location, foreign-ownership results in wages that are 13 per cent higher in Zimbabwe and 23 per cent in Zambia – the second-lowest and the highest *premia* among the five countries.

[7] Using firm-level data from the Ivory Coast for the period 1974-1987, Harrison and McMillan finds that privately-owned domestic firms are significantly more credit constrained than foreign firms and that borrowing by foreign firms aggravates domestic firms' credit constraints. enterprises.

overview of major FDI trends, while Section III explores in some depth the role of foreign-owned companies in the South African economy and analyses the motivation of major investors in other SADC countries. Section IV examines the FDI competitiveness impact in key industrial and service sectors, drawing on selected representative case studies. The concluding Section summarises the evidence and puts forward policy implications.

1. The framework for FDI

1.1. SADC

In Southern Africa the history of regional integration is as long as in any developing region. In fact, 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. Additional to the SACU agreement is the Common Monetary Agreement (CMA) signed in 1969, later renegotiated to become the Multilateral Monetary Area (MMA) – including Namibia at independence but excluding Botswana. Administered by the South African Reserve Bank, the MMA established the rand as common currency within the Customs Union and made South African monetary policy the *de facto* policy of SACU.[8] However, 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), thus rendering it more difficult for them to attract FDI. A re-negotiation of the SACU Agreement, that was concluded in late 2002 but still has to be ratified by all parties, provides for a more democratic institutional structure; a dispute settlement mechanism; the requirement to have 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 although it also called for a simplification of the tariff structure.

Following the end of apartheid and the holding of multi-party elections in 1994, South Africa embarked on new economic and trade reforms and joined SADC. In mid-1996, a trade protocol was signed, which committed the (then) twelve members to a programme of phasing out customs duties and other equivalent measures in the process of establishing a FTA with its own dispute settlement mechanism early in the 21st century. While the Trade Protocol has identified several non-tariff measures to be eliminated, such as import quotas, customs procedures, and export subsidies, it excludes other important non-tariff barriers, such as local-content requirements, levies and 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. SADC mobilizes support for national and regional projects to promote sectoral cooperation in communications, energy, industry, mining, tourism, and transport, and operates projects partially financed by foreign sources. Certain specific sectoral tasks are apportioned to particular members, for example, South

[8] Lesotho, Namibia, and Swaziland have their own exchange control authorities, as well as their own acts or regulations and rulings, but in terms of the CMA Agreement 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.

Africa co-ordinates SADC's finance and investment, Namibia coordinates projects in fisheries, and Botswana holds the seat of the SADC Secretariat.

Implementation commenced in September 2000 after ratification by 11 members and is based on the principle of reciprocity, i.e. tariff preferences will be extended only to member states that have submitted their instruments of implementation. All five SACU countries have ratified the Trade Protocol, and they have a single tariff schedule of concessions vis-à-vis the SADC free-trade area. All SADC countries currently participating in the Trade Protocol have deposited their implementation instruments. Duties on Category A products (mostly capital goods and equipment) were reduced immediately to zero, with certain higher tariff band goods moving to zero over either a three- or five-year period.[9] SADC members made "differentiated offers" to non-SACU SADC countries plus Botswana, Lesotho, Swaziland, and Namibia (BLNS countries), and "general offers" to South Africa: while SADC exports to South Africa benefit from reduced customs duties, SADC members have no corresponding obligation in respect of imports from South Africa but are instead required to submit offers for their respective proposals to reduce customs duties to a nil rate within eight years. As a means of enhancing equity in the region, offers for tariff reduction to BLNS countries are heavily front-loaded, while offers to South Africa are mid- to back-loaded.[10] 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 that must be either extracted from the ground or the sea-bed of the member states.[11]

Sensitive products, which are 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 higher than the world price for the commodity. The SADC sugar market access and cooperation 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 cumulative to be shared amongst all the SADC surplus producers) with an additional 20,000 tons (per annum at a reduced rate) only available to non-SACU SADC surplus producers. Sugar trade has already worsened relations between South Africa and Swaziland, where the sector accounts for 9 per cent of exports (2001 data). The three giants of the South African sugar industry are Illovo, Tongaat-Hulett, and Transvaal Sugar. All but one mill in KwaZulu Natal are owned by one of these three firms. Millers and growers are currently protected by the South African Sugar Association (SASA) which handles the country's entire export programme as well as ensuring that customs tariffs are automatically raised whenever domestic prices increase. The

[9] Category B products (e.g. goods that constitute important sources of customs revenue) are to be liberalized gradually by 2008. Category C consists of 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, are to be liberalized between 2005 and 2012. In addition, a fourth category of products, 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 of products, so that by 2012 about 98 per cent of SADC merchandise trade will be subject to zero tariffs.

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

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

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 even though the cost is 10 per cent higher after duties than the local product.

The scope for increased intra-regional trade in SADC has been explored by different authors. Cassim (2000) argues that, when compared to regions such as SACU or Mercosur, actual South African exports to SADC are higher than estimated potential exports, whereas the opposite is true for non-SACU countries' exports to South Africa. Chauvin and Gaulier (2002), on the other hand, question the potential trade creation effect of SADC. South Africa does not seem in the position to either increase its intra-regional exports of manufacturing goods or import more labour-intensive products – both because of supply constraints in other SADC countries and because such products are "sensitive" and therefore subject to special liberalization schedules. Econometric analysis also suggests that regional integration *per se* is not likely to accelerate FDI to SADC unless the regulatory quality in the economy, including the independence of the telecoms regulator, is enhanced (Wolf 2002). Considering that regional trade provides a high proportion of fiscal revue for several of SADC members, an additional issue is the substantial cost that derives from the FTA, with or without the elimination of exemptions (Tsikata 2000).

1.2. FDI regimes

In theory, when not in practice, all SADC countries welcome FDI and most have a special FDI regime, *ad hoc* incentive mechanisms, and/or specialised agencies to attract foreign investors (**Table 1**). A complementary route is through adherence to international treaties, norms, and codes of conduct such as the United Nations Commission of 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.

Table 1. Main features of the FDI regime

Mauritius possibly has advanced most in designing an attractive package for foreign investors. Double taxation avoidance treaties have been signed 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 freeport zone enjoy complete exemption. Offshore companies (i.e. holding a Category 1 Global Business licence) are subject to corporate tax at a rate not exceeding 1.5 per cent (3 per cent as from July 2002). The threshold for permanent resident status is a US$ 500,000 investment in qualifying business activities such as manufacturing, freeport, 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 10-year tax holiday and a 15 per cent corporate tax thereafter, tax-free dividends, and 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 EPZ firms and improve their

leverage ratios. Another priority area is improving human capital training and enhancing the transfer of competencies across different firms.

Mauritius's success in converting the whole island into an EPZ (**Box 1**) has influenced FDI policies in the rest of SADC. Namibia for instance created a special company in January 1996 to promote and manage the Walvis Bay EPZ in conjunction with the 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 that were already operational in the zone, have either opted to convert to a becoming full-Namibian producers and, as such, have relinquished their EPZ status, or have opted to move to greener pastures closer to their markets.[12] Success stories include Namibian Press and Tools, a German investment which manufactures vehicle components, and Libra Bathroomware, which manufactures bathroom accessories and was taken over by Germany's Hoesch Group. Three more applications for EPZ certificates are in different stages of the screening process, and if approval is granted they would be in operation by the end of 2003.

Box 1. Key figures of Mauritius EPZ in 2002

Number of enterprises: over a total of 506 enterprises located in the EPZ, 230 (45 per cent) are in the clothing sector (tee-shirts, shirts, trousers, and pullovers) and 44 (8.6 per cent) in textiles. This compares to 239 enterprises in 2001, of which 201 in clothing and 47 in textiles.

Employment: 87,204 persons were EPZ workers, of which 72,034 in clothing and 4,536 in textiles. Foreign workers were 16,302 in 2002, a sharp increase relative to 2001 (15,668). The number of female workers was almost exactly twice as large as that of male workers (58,249 versus 28,955).

Trade: EPZ exports in 2002 were equal to Rs 33.5 billion, of which Rs 25.6 billion (75 per cent) produced in the clothing sector and Rs 1.2 billion in textiles. Over total EPZ imports equal to Rs 16.9 billion, Rs 8.6 billion (50 per cent) are fabric and thread. New spinning mills to be inaugurated in 2003 will result in a decrease in textile imports.

The position of the South African government is different. Wary of conventional EPZs, it has decided to rather opt for Industrial Development Zones (IDZs) located within designated Spatial Development Initiative (SDI) regions so as to maximize the linkages between these two programmes to offer investors highly productive and efficient productive platforms. The launch of the SDI programme in 1996 must be seen within the framework of the broader move of South Africa's approach to territorial development from policies that tried (unsuccessfully) to make the homeland areas economically viable to "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, for their part, consist of two zones of operation. A customs secured area (CSA) is a delimited area with entrance and exit points controlled by Customs personnel. Each CSA has a dedicated customs office providing inspection and clearance services, and one-stop administrative centre to facilitate the approval and permit processes. CSA-based enterprises are eligible for: duty-free import of production-related raw materials and inputs; zero rate on VAT for supplies procured from South Africa; and right to sell into South Africa

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

upon payment of normal imported duties on finished goods. Industries and services corridors (ISCs) are park environments adjacent to CSAs, occupied by service providers to CSA enterprises. A dedicated national IDZ authority will be established to oversee the development of these zones. The responsibility of this body will be to develop appropriate policy, set national investor guidelines and determine the designation of new zones. The development of each IDZ will be led by an dedicated development company/corporation, responsible for all aspects of project development and ongoing management. This may take the form of a joint public/private investment venture. A dedicated IDZ administrative unit will be based in each of the zones and will include a 'one-stop' regulatory and approval service, including fast, predictable investment approval procedures, a dedicated customs service providing single window clearance, and marketing and information centres. IDZs will have a specific strategic human resource component aimed at facilitating advanced labour relations – including through advanced dispute resolution facilities (CCMA) – and developing human resource capacity.

As of mid-2003, twelve industrial, agricultural or tourism-led SDIs had been launched or were in the process of being established across Southern Africa (**Table 2**). Agro-tourism SDIs (e.g. Wild Coast and Lubombo) have grown in prominence as their job-generating potential is expected to be 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 (see section 3.3 below). As far as IDZs are specifically concerned, the most ambitious is Coega, situated in the heart of the Fish River SDI some 20 km from the Port Elizabeth/Uitenhage metropolitan area. The anchor project is a smelter with a capacity of 220,000 tons a year to exploit the alumina deposits at Gamsberg, in Northern Cape.[13] Although Gencor, with Mitsui and other Asian groups, had expressed an initial interest, no progress was recorded 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. The remaining 30 per cent stake would be funded by an unnamed international mining group. The agreement between the National Ports Authority and Pechiney, set for an initial period of 25 years, concerns marine and berth infrastructure and the installation of conveyers. Pechinery will also be able to link the cost of electricity to a number of variables, ensuring that it is tied to the price of aluminum as defined on the London Metal Exchange. Outstanding issues that need to be clarified with the Coega Development Corporation before finally approving the investment include the establishment of a fiscal regime for the enterprise and financing the equity participation. The East London IDZ has also received operating permits and the Johannesburg International Airport (JIA) and Richards Bay have been designated as IDZs. At JIA the sectoral focus is upon its competitive advantage as a logistics hub as well as for 'transumer potential' (business travelers requiring tourism, consumer and corporate services), light industrial assembly of various appliances and goods for the SADC and other African markets, and the avionics sector (Rogerson 2002). Other earmarked sites include Durban, Saldanha and Richmond.

Table 2. Industrial Development Zones in South Africa

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

1.3. The role of investment promotion agencies

On top of the influence of the country's investment climate and market size, greater investment promotion is associated with higher cross-country FDI flows (Morisset 2003). Almost all SADC countries have one or more investment promotion agencies that provide one or more of services such image building, investment generation, investor services, and policy advocacy (te Velde 2003). As their most successful equivalents in countries such as Chile, Ireland, and Singapore, they are all public sector organisations. Their location in government and the range of activities they perform, however, differ and this is to some extent a reason for 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. However, lack of co-ordination between the Investment and Export Promotion branches, coupled with administrative bottlenecks – after deciding to invest in Mauritius, potential investors had to go office-hopping to seek approval for the investment and to obtain the relevant permits and licences from various ministries – and significant changes in the nature of FDI to Mauritius, led to a new Investment Promotion Act in 2001 (Bonaglia and Fukasaku 2002). All investment promotion and facilitation activities have been transferred to the Board of Investment (BOI), a full-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 does not undertake regulatory activities. Post-investment services are offered as well. In the two years to March 2003, the BOI has approved 176 projects for a total investment commitment equal to € 300m (of which one third is by foreigners) and 10,000 new jobs. These figures, however, have to be put in context: only 75 projects have materialised and 4,800 jobs created (DREE 2003).

Elsewhere, however, their record is generally poor on account of the difficulty that investment promotion agencies in Africa have in making the transition from a regulatory role to a promotional one (Pigato 2001). In Botswana, for instance, an autonomous organisation with a special emphasis on export-oriented manufacturing industries, the Botswana Export Development and Investment Authority (BEDIA), was created in 1998. BEDIA is supposed to assist investors with purchasing or leasing property, obtaining work and residence permits, obtaining necessary licenses and factory space, and obtaining other regulatory approvals. To date, the record is mixed (US Commercial Service 2001). Due to difficulties in filling permanent staff positions, its promised assistance to prospective investors has not always been timely and comprehensive. In addition, its much-publicized overseas investment missions have not yet resulted in large-scale, job-creating foreign investments. Moreover, BEDIA has not succeeded in smoothing immigration processing, a source of considerable frustration to expatriate businesspeople in Botswana as in most SADC countries. A new collaboration between BEDIA and several ministries to create a "one-stop shop" for investors might help to eliminate some of the bureaucratic difficulties investors experience. 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, its

availability leaves 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 2003a). In early 2003 an agency for private investment was established in Angola's president's office that would 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 to establish and start a business, that remains "cumbersome, costly, and time-consuming" (Sarkar 2000, p. 36).

1.4. The quality of the business environment

FDI flows, however, respond to factors broader than specific policies and institutions – namely the quality of the investment climate. Moreover, while policy advocacy appears effective, because such activity is not only beneficial to foreign but also to domestic investors, investment generation or targeting strategies appear expensive and risky, especially in countries with poor investment climates. It is commonly argued that Africa's failure to bridge the resource gap throughout FDI is due to sour macroeconomic climate, slow and insufficiently credible progress in trade liberalisation, privatisation and other structural reforms, inadequate skills and infrastructure, and bad governance. As an indicator of the strength of property right enforcement, corruption, in particular, is negatively associated with the ratio of subsequent foreign direct investment flows to both gross fixed capital formation and to private investment (Aizenman and Spiegel 2002).

Table 3 reports figures for some variables that proxy national political infrastructures. Although the analysis is far to rough to claim any 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, is not a major obstacle to FDI. SACU countries, in particular, have a generally positive growth outlook combined with low inflation and external debt. Interestingly enough, while corruption is perceived to be a serious problem in many SADC countries, the value of the Transparency International index is not much higher in globally marginal countries such as Malawi and Zambia than in large economies such as Thailand and Turkey that are highly integrated with OECD countries. The picture however is different in terms of the endowment of some key resources that attract FDI. First, in all SADC countries except Zimbabwe, literacy rates are lower than in seven competing emerging markets. Second, and related, scientific publications – that proxy the availability of highly skilled workforce – are for all countries bar South Africa a fraction of those in such other countries. Third, the networked readiness index also takes lower values. The reason is probably privatization, the extent of which is lower in SADC than in competing regions in Asia, Central and Eastern Europe, and Latin America. A thorough examination of the telecommunication industry is presented in Section 4.5. The fourth and most dramatic indicator of the dire situation of SADC countries is the very high incidence of HIV/AIDS.

Table 3. Macroeconomic and governance indicators in SADC and selected emerging economies

That Angola has received such important FDI inflows *despite* a catastrophic quality of its governance indicators can be highlighted as the most paradoxical feature of **Table 3**. Although a few sub-Saharan African countries have generated the interest of international

investors by improving their business environment (Morisset 2000), the unclear linkage between the quality of governance and investors' willingness to charter African business waters is a point raised by many observers. In their seminal contribution, Easterly and Levine already 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 Aryeteey (2002), considerable improvements in the policy environment in many African countries in the last two decades have done little to convince the rest of the world to take Africa seriously.[14]

2. General FDI features

Since the early 1990s the SADC economic and political landscape has witnessed dramatic changes. To name just the main ones, South Africa has achieved its historical transition from apartheid to multi-racial democracy,[15] 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 4**). Total inflows increased more than eight-fold from the 1990-95 yearly average of US$ 1,188m to the US$ 10,072m peak recorded in 2001. Over the same period, SADC has gone from representing 27.5 per cent of FDI flows to Africa to 53.7 per cent: even more remarkable is the fact that the region's share in the world total, albeit still small, has more than doubled from 0.5 per cent to 1.2 per cent. Similar trends can be detected in terms of stocks (**Table 5**), although the SADC shares in the total for Africa, emerging economies, and the world still remain lower than the levels prevailing two decades ago. In 2002, FDI figures to SADC declined markedly.

Table 4. FDI inflows

Table 5. FDI stocks

The big picture, however, masks some crucial details. First, the apparently very positive results of 2001 reflect a single deal in South Africa – the unbundling of the cross-shareholding between London-listed Anglo American and De Beers of South Africa. Second, 1997 figures are also dominated by a single deal, 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 was due to 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.

[14] 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".

[15] It is important to remember that because of sanctions 362 foreign companies divested in South Africa during the period 1984-89 (Nordås 2001).

The geographical breakdown is equally interesting. 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. This figure is twice as large as the 1990-95 average (25.3 per cent). This is not surprising given that at the global level the large increase in FDI is concentrated in a small number of countries: the twelve largest recipients of FDI in 2000 accounted for 85 per cent of the total. An analysis of the main subsidiaries and affiliates of the largest multinationals confirms the dominance of South Africa (Jenkins and Thomas 2002). Of 390 different subsidiary entities in SADC of the world's largest multinationals, more than 70 per cent are 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). It is also worth-noting that Lesotho's relative importance has diminished greatly, while two former socialist countries – Mozambique and Tanzania – have seen their share grow from 5.6 per cent to 8 per cent. Finally, 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 (see Section 4.4). 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 when examining the contribution of foreign investors to gross fixed capital formation (GFCF) (**Table 6**). 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 selected 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).

Table 6. FDI inflows as a percentage of gross fixed capital formation

All these traditional benchmarking indicators are useful, but they do not take into account the different size of host economies. UNCTAD had 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 that have been discussed at length in the preceding Section. The 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 their "fair" share of global FDI – be it due to weak governance, unpromising location, poor endowment of physical and human infrastructure – and *vice versa* when it is higher than unity. A further UNCTAD benchmarking index captures a country's FDI Potential on the basis of its performance in eight factors that are deemed to be key determinants of trans-border flows.

While there are limitations in this exercise, as UNCTAD is the first to acknowledge, the indices are useful to compare the relative performance of SADC countries (**Table 7**). Clearly the most striking result is that of Angola, that received in 1999-2001 more than five times the FDI flows warranted on the basis of the country's economic size – and this despite a far from stellar score in the Potential Index. Botswana is also an interesting case, but for exactly opposite reasons – although it has a good Potential score, it has received rather little FDI. Otherwise the improvements recorded by Mozambique and Namibia, in both Indices, are

noteworthy. Finally, Table 7 confirms that South Africa is, for its economic size, in a position to receive more considerable FDI flows, although it has not performed very well on the Potential score in the 1990s, even falling by one rank in the SADC context.

Table 7. Values of and country rankings by the UNCTAD Inward FDI Performance and Potential Indices

Data limitations make it almost impossible to have a clear view on the aggregated distribution of FDI flows and stock in SADC by investor countries and sectors. For purely informational purposes, **Table 8** provides the FDI sector composition in selected SADC countries, but figures are not strictly comparable since they cover different periods and are either stock levels or accumulated inflows. Many receiving countries do not publish reliable data; in some cases only cumulated flows figures are available; and in some cases information is only available on approved investments and not on 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 is due to financial liberalisation, concern that monitoring may scare potential investors, and scarce resources to devote to this specific task (Bhinda *et al.* 1999). In principle it should be possible to build a more reliable database – although excluding some important source countries such as India, Malaysia, and South Africa – on the basis of statistics on outflows from OECD countries. This however proved impossible too, since bilateral flows are in many cases so reduced in size that confidentiality clauses prevent national authorities from releasing such data.[16] For all these reasons, the analysis is presented first for individual, selected SADC economies and then in key sectors.[17]

Table 8. FDI by Sector in Selected SADC Countries

3. FDI in selected SADC economies

3.1. South Africa

South Africa dominates 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. However, the SARB does not provide country-specific figures which distinguish between actual new investment flows and changes in investment stocks caused by asset swaps, exchange rate adjustments, and mergers and acquisitions. In terms of sectoral composition, figures are only available from the BusinessMap survey of investment intentions (**Table 9**). Natural resource-seeking and market-seeking FDI dominate, as evidenced by the high concentration in the telecommunications, oil and energy, and food and beverage sectors (Vickers 2002a). Between 1994 and 1999, transport and telecommunications totalled around ZAR 8.8 billion (due to the privatisations of ACSA, SAA, and Telkom), followed by energy and oil (ZAR 8.5 billion). Although its weight in economic activity has

[16] This was the case for instance in correspondence with the Banque de France and the British Department of Trade and Industry.

[17] A first, albeit very imprecise, indication is provided by survey results, according to which tourism, telecommunications, petroleum and gas, agriculture, and pharmaceuticals and chemicals are, in the order, the most important sectors for FDI in SADC in 1998-2000 (Kalenga 2000).

greatly diminished in recent decades, mining also remains an important sector of the South African economy. The investment outlook will be affected by recent legislative changes (**Box 2**). In manufacturing, consumer durables (motor and components sectors) and non-durables (food, beverages and tobacco) were the most important and are analysed in Sections 4.2 and 4.3 below. There has also been some investment in jewellery to process South African gold and precious stones (**Box 3**).

Table 9. Sectoral distribution of committed FDI into South Africa, 2000

Box 2. Foreign investment and the new mining code in South Africa

Although the importance of mining in the South African economy reached its peak more than 50 years ago, the industry remains the country's largest taxpayer, its biggest exporter and it still employs some 500,000 people. In 2002, in order to boost the participation of historically disadvantaged groups in the South African mining industry, the government unveiled a proposed mining charter. The draft envisaged that new projects be at least 51 per cent owned by black-controlled companies, while for established companies that goal was 30 per cent. 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 the 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. It is accompanied by a scoreboard rating companies on how well they meet goals set out in the charter, including social responsibility programmes such as improving employee literacy and rehabilitating the areas around the mine. In May 2003 Harmony Gold Mining and black-owned African Rainbow Minerals said that they would merge to form the world's fifth-largest producer, HARMony, a company worth ZAR 20b. 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, a former premier of Guanteng province, and other black investors.

The Mineral and Petroleum Royalty Bill is a second recent reform. Bringing South Africa into line with other countries' laws, mineral rights, which were previously held in perpetuity by mining houses, will be transferred to the state, which will issue licenses for the development of assets. 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 out in over four years. Although the Chamber of Mines and the Foreign Investors' Mining Association do not dispute the government's right to do this, 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 of locking in initial royalty rates for 30 years by paying an upfront premium, has also attracted criticism, as it indicates that royalty rates could change in the future.

Another piece of legislation in the area of black economic empowerment is the financial services empowerment charter, presented in October 2003. In what was hailed by analysts as a ground-breaking, although defensive, transaction, in May 2003 Investec sold 25.1 per cent of its shares to a group of black investors. The deal was financed by the Public Investment Commissioner, which invests government pension funds. A final recent development is represented by several lawsuits brought in New York by a lawyer who is suing for US$ 100b for victims of apartheid. The firms are accused of doing business with, and supporting, the South African government even after a United Nations ruling that apartheid was a crime against humanity. Anglo American and de Beers are being sued for US$ 6.1b for exploiting workers while Gold Fields is for US$ 7b 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 3. OroAfrica

More than 80 per cent of the world's gold is used in the manufacture of gold jewellery. With four factories in Italy and an annual production of 42 t of gold chain, Gruppo Industriale Filk of Vicenza province in the Northeast is Italy's largest and most technologically advanced gold chain producer. In 1997 it invested US$ 1.5m to establish a 50/50 joint venture 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), for the manufacture of gold chain jewellery. In 1998 AngloGold, the world's largest gold producer, made it first venture in the realm of jewellery manufacturing acquiring 25 per cent of OroAfrica for R55m. This was Filk's first factory outside Italy and the deal forms part of Agusta's offset obligations in return for its contract to supply the South African Airforce with 30 helicopters.

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 6 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 US are subject to a 6 per cent duty. Besides the cash investment, Filk invested in technology transfer and training.

The UK is by far the largest investor country, although this is to some extent a statistical artifice due to the decision taken by a number of big South African companies (Anglo-American, Old Mutual, South Africa Breweries, Didata) to move their primary listing to the London Stock Exchange in 2000-01 (**Table 10**). Other leading investors include the USA, Germany (particularly in the car industry, see below), the Netherlands, and Switzerland. For all such OECD countries, however, investments in South Africa account for a marginal share of their overseas assets (**Table 11**). Additional information on individual countries is also interesting. In the Sweden case, for instance, South African affiliates employed almost 4,000 people in 2000 (a 11.4 per cent year-on-year increase). Although this is equal to a tiny 0.4 per cent of total employment abroad, it is larger than in OECD countries such as Japan, South Korea, or Turkey (ITPS 2002). More information on US investments is presented below.

Table 10. Foreign liabilities of South Africa by selected countries

Table 11. The importance of South Africa as FDI destination for selected OECD countries

Malaysia has emerged as a significant new source of post-apartheid FDI since 1994, accounting for 21 per cent of cumulated flows.[18] The main characteristics of Malaysian investors are that they have mostly purchased existing assets, have been particularly active in the property and related tourism and leisure markets from which other foreigners have shied away, and have showed sudden interest in South Africa for a number of politically-related

[18] Malaysia had not, however, limited its investments to South Africa. Since June 1996, its corporations were reported to have invested US$ 1b in Africa, mainly in oil, power and telecommunications, after showing a steady increase in the early 1990s. Other key investments had been in telecoms in Zimbabwe and Ghana. Petronas has also been expanding in developing Asia and Egypt in the face of dwindling domestic oil reserves.

factors (Padayachee and Valodia 2000). These include the enthusiasm of ANC-aligned economists and activists for the Malaysian approach to empowering indigenous Malay (*bumiputra*),[19] 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 Taiwan and Hong Kong making their way into South Africa.

Reflecting a general *laissez faire* attitude, that includes as noted above the lack of specific incentives, there is no (official or unofficial) listing of foreign-owned companies in South Africa and authorities do not organise censuses to track their behaviour.[20] This means that at the general level relatively little is know 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. On the basis of 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. However, while size significantly affects firms' export behaviour (both within SADC and on global markets), foreign ownership does not. Gelb (2003) analyses a sample of 162 foreign firms, finding that 45 per cent of them invested in South Africa throughout full or partial acquisitions, a mode of entry that is particularly prominent for medium-sized companies. The overwhelming majority of surveyed firms fully or partly met their original expectations. The domestic market constitutes the main outlet for their output, with exports being in many cases a "vent-for-surplus". This latter point is echoed by Jenkins and Thomas (2002) that, for a smaller sample of 81 companies, find that four fifths have a 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 12**).

- 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 the sales per employee ratio) is much lower in South Africa than in Argentina and Brazil, although higher than in Mexico. Employees 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 and 3.6 per cent) but also and a fortiori than in comparable Asian emerging markets

[19] Since the early 1970s foreign companies (excluding those geared for exports) have been required to give a 30 per cent to Malay interests; new rules released in June 2003 will allow international companies to fully own their manufacturing operations in Malaysia, although *bumiputra* requirements remain in place in the service sector.

[20] By way of comparison, every five years the Central Bank of Brazil conducts a mandatory census covering all firms with at least 10 per cent of foreign equity participation. For 2000 this gives a total of 11,404 companies with total assets equal to R$ 914b and sales of R$ 501b.

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. Again, if this holds true with respect to Latin America (where they are equal to 0.54 per cent of sales in Brazil and 0.31 per cent in Mexico), it applies 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 dismal share of intra-firm trade. The value of US imports of goods they shipped is equal to 0.26 per cent of that of those shipped by Mexico-based MOFAs.

Table 12. Selected Data for US Majority-Owned Nonbank Foreign Affiliates

Almost regardless of their sector of activity, all major South African companies have heavily invested in other SADC countries.[21] Some of these investments have long been in existence – already in 1975 South Africa was the world's 11th largest outward investor (Nordås 2001). De Beers has managed Botswana's diamond mining industry since 1969 through Debswana, a joint venture with the local government.[22] Anglo American also built up considerable interests in Brazil, including the Morro Velho gold mine, the country's largest, and Aracruz Celulose, and unsuccessfully bid for a controlling stake in CVRD, the world's largest iron ore producer, at the time of its privatisation in 1997. For other companies, overseas investments are relatively recent. With 75 per cent of its assets offshore, Sappi has become the world's biggest manufacturer of coated paper and dissolving pulp. 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 life premiums overseas. South African banking institutions, for their part, have invested abroad with the objective of leading corporate clients into the rest of Africa. In 2001, for instance, Stanbic has accumulated a 80 per cent stake in Uganda Commercial Bank and a 60 per cent participation in the Commercial Bank of Malawi in privatisation deals and has established an offshore operation in Mauritius. Other sectors, such as breweries and telecommunications, are explored in greater depth in Sections 4.3.1 and 4.5. It must be highlighted that investment outflows have been far from being exclusively towards SADC and the rest of Africa. 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 Argentinean mine (Cerro Vanguardia).

Moreover, since the middle of 1997, five of South Africa's big business concerns (Billiton, South African Breweries, Anglo American,[23] Old Mutual Life Assurance, and Dimension

[21] In their personal capacity, the Oppenheimer family is one of Zimbabwe's largest landowners.

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

[23] 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.

Data) have moved their primary listings from Johannesburg to London. Investec, a financial services group, was denied permission to move its primary listing to London and only gained regulatory approval for a compromise dual listing that kept domestic operations in Johannesburg.[24] Companies with overseas secondary listing include Sappi (in London, New York, Frankfurt, and Paris) and Sasol, that switched its secondary listing from the Nasdaq to the New York Stock Exchange in April 2003, although it will retain its primary listing in Johannesburg. While the specific circumstances of these offshore listings may differ, advantages typically include easier access to capital resources at lower cost, the opportunity to escape from the volatility of financing costs in an emerging market economy and retain skilled staff with share options packages, and the possibility of benefiting from 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. At the same time, management has complained that companies remain tarnished by a certain African stigma that reflects the lack of knowledge on the continent by financial analysts.[25] It is important to highlight that, notwithstanding considerable activism in investing overseas, South Africa remains an important business centre for all of them – Anglo American, in particular, still generated 54 per cent of 2002 earnings domestically.

A more recent phenomenon is the internationalisation strategy of smaller, and less well-know, companies (**Table 13** provides some examples). As it is rather customary for multinationals from smaller countries, especially in the developing world, these companies have started their FDI drive in neighbouring economies, on 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 reduces the co-ordination and transaction costs of overseas operations.[26] MTN investment in Uganda represents a very poignant example of such advantages. In **199x**, when it acquired the second license to operate cellular telecom services in Uganda, MTN 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). On the basis of superior local knowledge and greater ability to read market signals, MTN Uganda chose to aggressively market pre-paid phonecards, whereas Celtel – the first licensee, a company controlled by Vodafone of the United Kingdom in association with the IFC that had enjoyed a monopoly position for **X** years – had marketed cellular service as a luxury. As a result, in less than two years MTNU developed a subscriber base 22 times larger than Celtel's. In 2002 the Department of Finance allowed companies to invest more money in Africa than previously allowed – the limit went from R750 000 to R2bn a year. MTN was a crucial catalyst for the allowance, in the interest of being able to reduce its unhedged dollar exposure.

[24] Similar binational arrangements exist for RTZ and Unilever.

[25] Investec shares, for instance, have fallen 40 per cent in the ten months since London listing in July 2003; in an interview the company's chief executive declared that "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).

[26] For some European countries Crozet *et al.* (2003) also identify an FDI learning process, the location decisions gradually becoming more remote from the country of origin.

Table 13. Some South African Emerging Multinationals

The internationalisation of corporate South Africa has multiple reasons. Clearly as the country abandoned inward-looking trade and industrial policies competition on the home market became stronger and profit margins thinner, while on the opposite in many countries in Africa and other developing regions opportunities opened for audacious companies. A comparison between the two cellular network operators is illustrative.[27] Vodacom, the joint venture between Telkom and UK's Vodafon which as the first entrant on the domestic market has almost 8 million customers at home, operates in three neighbouring countries only (Lesotho, Tanzania, and DR Congo, having won but not used a license in Mozambique). MTN, on the other hand, has found it expensive to enlarge its customer base in South Africa and is also obliged to pay its larger competitor for call that it does not terminate. From an early stage, the company has therefore 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 6 per cent that Vodacom is earning in other countries. A further element is the fact that most large South African businesses operate in very capital-intensive sectors – such as mining, of course, but also paper or brewing – where concentration has risen in recent years on a global scale. Anglo American, in particular, 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.

Despite concerns in most recent years, which as a matter of fact are 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 should be seen as a manifestation of South Africa's strategic interest in improving economic conditions all across the continent, a policy goal that is at the root of NEPAD. State-owned enterprises have obviously played an even greater role in this respect. Eskom Enterprises (EE), a company created in 2000 to drive Eskom's expansion into Africa and abroad and manages 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, investments abroad have been tempered by high development cost and company finances have deteriorated, making it necessary an injection of money.[28] While revenue for 2002 grew 23 per cent, profits fell because of the huge business development costs and losses stemming from certain acquisitions, such as its stake in Lesotho's mobile telecommunications. The current restructuring aims at cutting costs, clarifying corporate focus, and improving accountability. In particular, Eskom has aligned itself to Nepad's goal of making electrification of the

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[27] "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", *ibidem*, 20 June 2003.

[28] In addition to operating in the engineering and construction sector, Rotek runs a transport fleet. 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.

continent its first infrastructure development initiative. Huge contracts in the pipeline would become the centre of EE's activities. Finally, both anecdotal evidence and formal analysis suggest that in the emerging global economy CEOs with foreign backgrounds direct their firms to become more international in their operations.[29] Although it is not possible to test this theory formally in South Africa, where only in early 2003 a British citizen became the first non-South African chief executive in one of the country's globally competitive companies (Sappi), in general management has become increasingly cosmopolitan. Examples include Sir Mark Moody-Stuart, Anglo American's chairman.

3.2. 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).[30] 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.[31] There has been considerable exploration activity in deepwater acreage resulting in 19 commercial oil discoveries which has 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 steadily increased from 166 mmbbl liquids to 266 mmbbl in 1998 and the number of wells has more than doubled since 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 national oil company Sonangol is 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 addition to upstream exploration and production activities. Sonangol established an oil trading operation in London, thus cutting out foreign intermediaries, has assisted government in other West African countries, and is also involved in downstream operations in the DR Congo (Gary and Karl 2003, p. 32). It is associated with various international oil companies (**Table 14**), including the following:

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

[29] In their analysis of U.S. S&P-500 manufacturing firms from 1992 through 1997, Blonigen and Wooster (2003) find that switching from a local to a foreign CEO leads to substantial increases in the firm's proportion of its foreign assets and foreign affiliate sales.

[30] The United States imports more oil from Angola than from Kuwait.

[31] Similar to 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. The separatist 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.

- ExxonMobile, that operates Block 15 in the context of a production-sharing contract with BP, Agip and Norwegian investors;
- Total, that besides managing the country's sole refinery jointly with Sonangol, that operates Block 17 in the context of a production-sharing contract with ExxonMobil, BP, and Norway's Statoil and Norsk Hydro.

Table 14. Major investments in the Angolan oil and gas industry

The strategic importance of Angola, and more generally of the Gulf of Guinea region, has been reinforced by the September 11 terrorist attacks (Ellis 2002). This is particularly clear in the case of the United States, whose companies, ChevronTexaco *in primis*, dominate oil investment in Angola. Recent major discoveries in deep water offshore Angola and in the region are encouraging the possibilities of further investment. In terms of future exploration activity, an average of 45 exploration and appraisal wells per year are forecast over the period through to 2005 with most of the activity expected in deepwater and ultra-deep water blocks.[32] 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, but also additional opportunities downstream.

Angola also contains an estimated 11 per cent of the world's known reserves of diamonds – considered second to Namibia's ones only in quality terms.[33] Most production comes from alluvial deposits, although the potential is said to be much larger in the kimberlite source rocks. Until 1985 De Beers used to manage the mines and sell the diamonds to the government selling agency Endiama. Because of war and a poor investment climate, it stopped mining, but it kept buying stones until 1999, when it stopped in the face of a consumer campaign against "conflict diamonds" originating from rebel movements. The country's only remaining producing mine is Catoca, the world's fourth largest, a joint venture between Endiama, Russia's Alrosa, Brazil's Odebrecht, and Israeli-Russian businessman Lev Laviev in the Lunda-Sul province.[34] 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.[35] Diamond producers have criticised Ascorp, saying it has sold gems at below the going rate. Moreover, claiming that it broke existing contracts, De Beers has challenged this deal in front of British and Dutch courts. Endiama is dependent on De Beers for the technical expertise needed for deep-level mining operations. In November 2002 the parties reached a moratorium, suspending arbitration proceedings while the talks were held.[36] The moratorium was extended several times but expired at the end of April. The deal 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 approved a plan to end Ascorp's four-year monopoly and build a new cutting factory at a cost of more than US$ 3m to add value to the local industry.

[32] Sonangol reportedly invested some US$ 15bn in exploration and development in 1999-2002.

[33] "Angolan diamonds: on the rocks", *The Economist*, 14 September 1996.

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

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

[36] "Talks stalled on De Beers return to Angola", Reuters, 13 May 2003.

Even more than in the case of South Africa, Angola is not a major FDI destination for any OECD country with the exception of Portugal. For this investor, Angola accounted for 2.7 per cent of outstanding overseas assets in 1997 (Banco de Portugal 2000). This is of course far from surprising considering the close historical, political, and cultural ties binding these two countries. Another manifestation is the fact that for Portuguese firms, all Lusophone countries in Africa, despite their much smaller size, account for a similar share of overseas assets as 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). Lately, however, Portuguese companies have divested from Angola, especially in mining where other investors have become more active (Banco de Portugal 2002).

Among non-OECD countries, a similar case is Brazil's. Brazilian companies started investing in Angola in the 1970s, in oil drilling and construction works. The linguistic ties were reinforced by the fact that Brazil was the first country to recognize Angola in 1975 and the interest of Brazilian authorities to diversify oil imports to nearer sources, as well by the technological know-how developed by Petrobras 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 US$ 1b since then.[37] Moreover, 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 – where it is turn 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 support that authorities have given to Brazilian investment in Angola is testified by the fact that Odebrecht (which is also active in many other developing countries) received more than half of Proex resources – a main export support instrument – in 1991-97 and that Angola alone accounted for 22.5 per cent of total 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. On the other end, with the afore-mentioned 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; and MTN and Vodacom are interested in mobile-phone operations.[38]

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, strong urban bias, and stagnation of non-oil exports and import-competing sectors (Kyle 2002). Nowhere is the expression "enclave economy" more appropriate: not only are virtually all inputs (machinery no less than skilled workers) imported, but production also takes place either offshore or in the Cabinda enclave. Most hard currency receipts are used to service the debt, with the balance accruing to the so-called *empresários de confiança*, a small oligarchy tightly linked to the public sector and the ruling party (Aguilar 2003).

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

[38] "Into Africa", *The Economist*, 12 June 2003.

This combination of negative macroeconomic and governance factors does obviously hinder job creation and jeopardise the long-term political sustainability of the post-war transition. The U.S. 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 US$ 10 million over five years to develop private sector agricultural initiatives and deliver savings and credit products as well as offer professional training and educational programmes, to small and medium sized agricultural enterprises, among other activities. The programmes, some of which will also be in partnership with the UN Development Programme (UNDP), are targeted at resettlement of persons in rural areas.

More fundamentally, 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 money that comes to the state for whatever purpose – including signature bonuses, usually paid upfront 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.

3.3. Mozambique

Following a brutal and destructive civil war, Mozambique has entered into 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 and 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, however, remains enormous and foreign aid corresponds to more than half of the government's budget. Mozambique's productive structure remains weak and exports concentrated in very few commodities – cashew, prawns, and cotton account for more than half of exports (Sarkar 2000). Labour-intensive manufacturing sectors are uncompetitive: despite the opportunities opened up by AGOA, in 2002 Mozambican clothing export to the United States was roughly US$ 500,000, with the number of clothing exporters dwindling down to three. The country is also far too poor to sustain a diversification into higher-value-added services like Mauritius, has made relatively little progress in privatising large-scale enterprises, and has failed to transform its agricultural sector, which still accounts from 81 per cent of employment, from subsistence farming to export cropping. Lastly, unlike most of its neighbours, Mozambique has yet to develop a mining and/or extraction tradition.

FDI has therefore been heavily concentrated in a few mega projects (including the Maputo steel mill that is unlikely to be realised) (**Table 15**) and light manufacturing, usually in connection with privatisation (**Table 16**). Data on agro-industrial investments across different financing sources show that only 13 per cent relied exclusively on FDI alone, with an additional a third being joint ventures (Benfica *et al.* 2002). FDI is prevalently in vertically-integrated plantation agriculture, in part due to the recent injection of Mauritian capital in the rehabilitation of the sugar industry.

Table 15. FDI in Mozambique: distribution by type and industry

Table 16. Mega-projects in Mozambique

Barring major implementation problems, the mega projects are expected to have large positive impacts on FDI and the trade balance, although these could be more than offset, in the worst-case scenario, by the negative ones on national income and the balance of payments (Andersson 2001). Castel-Branco (2002) shows that FDI flows and the size of the capital account surplus are associated with the trade deficit. This is due to the high elasticity of imports with respect to investment (due to weak investment capacities of the economy and poor inter- and intra-industry linkages) and the low elasticity of export with respect to investment (because of weak productive capacity and high export concentration). Even in the best-case scenario, anyway, it is difficult to anticipate 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 has played a possibly more substantial role as a showcase of Mozambique to the international investment community. In other words, as progress in implementing and completing it responded to expectations, other potential investors have materialised their interest. Moreover, there have been other external economies insofar as the streamlining of administrative procedures to respond to the requests of Mozal investors, or the building of physical infrastructure to accelerate its construction and allow exports, have benefited unrelated parties as well. On the negative side, staff retention in higher education and the public administration (a "domestic brain drain") is a problem, especially in engineering and ICT, since Mozal can pay much higher salaries (Vogels 2002). The IFC has launched 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 US$ 3m.[39] The Africa Project Development Facility was responsible for putting together the linkage programme with Mozal. Based on the success of the first programme, an operations side linkages programme (Mozal MOT Link) is getting underway. The new programme will replicate the model with a new financing component to help SMEs access commercial bank financing. A Community Development Trust has also been created, that 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 is 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 (NP) 4 was awarded to the Trans-African Concessionaires (TRAC) consortium, led by France's Bouygues, in December 1996.[40] 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

[39] Brad Roberts, SME Department: Mozambique, World Bank Group, personal communication.

[40] 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.

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 works to historically disadvantaged communities in South Africa and 40 per cent of works in Mozambique to local firms. Rogerson (2001) 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 ZAR 100,000 or less and over 80 percent 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 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 private sector's concern about completion of the N4 and the situation regarding the Limpopo and Resanno Garcia railroads.[41] 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, Portuguese terminal operator Liscont, and Swedish construction firm Skanska owns 51 per cent of MPDC, and CFM the remaining 49 per cent. The deal is unique in Africa in that it is the first time that an entire port authority, with its regulatory as well as management and operating functions, has been conceded to a company controlled by the private sector. Targeting South African exporters that are facing mounting costs and delays in Durban, the two-phase redevelopment project will begin with upgrading the dilapidated quayside and the construction of a 1.3 km road connecting 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 are either from other SADC countries or from Portugal. South African investment represents 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 (see below), all soft drinks bottling plants, large cereal milling, and most of facilities in tourism, 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. For this country Mozambique is the 13th largest destination of FDI, with a 2 per cent share second to Angola only 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

[41] "Maputo deal secured", *WorldCargo News*, April 2003.

company – Banco Internacional do Mozambique – that belongs to the BCP Group.[42] Finally, Mauritian companies have also invested in Mozambique. The general profile, with an emphasis on services and agri-business, is broadly similar to that of other foreign investors. What is relatively peculiar is the fact that for most such investors subsidiaries in Mozambique are by far their most important operations abroad. This is the case for instance for Sena Holdings, a four-company consortium which controls the Companhia de Sena operating sugar plants in Marromeu and Luabo (the government retains a 25 per cent stake). Mozambique is interested in attracting 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 fully conducive to labour-absorbing investment – to the extent of being termed "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 a slow process. A bill to introduce tighter measures against corruption passed first parliament reading in late April 2003. The bill proposes the creation of a Central Anti-Corruption Office, directly subordinate to the Attorney-General. Since the bill was drafted (in mid-2001) the Attorney-General's Office had already set up its Anti-Corruption Unit. The bill may now require a change in the name of this unit, 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 are obliged to declare their assets, and update these declarations on a regular basis. These declarations are not made public but are lodged with the Administrative Tribunal, the body that oversees the legality of public expenditure. The bill would make anyone working for the state declare their assets. Suggestions were made in the debate that only those "in decision-making positions" should declare their assets. The Commission will now have to define this in appropriate legal terms.

3.4. Zimbabwe

Zimbabwe is SADC second-largest economy, and yet it has never achieved to attract FDI flows comparable to other countries. Although the number and value of approved FDI projects increased in the second half of the 1990s, amounts have 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; however, a 1994 report noted that 56 per cent of all the approved projects were being implemented. High customs duties on imported equipment, 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 (Chipika and Davies 2002). Government ambivalence is best exemplified by the restrictions placed on foreign equity participation – 25 per cent in a company and 5 per cent by each individual investor.

[42] "244 empresas moçambicanas falam português", *Publico*, 23 September 2002.

In the 1990s, two large FDI deals have been mired in considerable controversy. In 1994 BHP Platinum Mining of Australia and other smaller foreign investors committed to develop the US$ 2b Hartley Mine project in Chegutu, about 85km south of the capital Harare, the single largest investment ever undertaken in Zimbabwe. The first ore was mined in 1995 and the mill and concentrator commenced 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). Large amounts of capital equipment and technology were held up at Beitbridge border post (border between South Africa and Zimbabwe) by customs officials who were unaware of the government concession to BHP. A moratorium on the renewal of permits for expatriates, and the issuing of new ones, was then imposed, as authorities argued 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, in 1999, BHP closed down the Hartley platinum complex and sold its 67 per cent interest to Zimbabwe Platinum Mines (Zimplats) for US$ 3m, 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 US$ 600m pact to buy a 51 per cent stake in the Hwange thermal power station in northeastern Zimbabwe, the largest in the country, from the government. The agreement, concluded without going to tender, was the biggest privatisation deal signed with any foreign company since the country's independence in 1980 and the Zimbabwe Electricity Supply Authority (ZESA) kept the remaining 49 per cent. The government will lease the station's six existing coal fired units to the joint venture which will then develop two new units at 330-megawatt each, 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).[43] The Affirmative Action Group also spoke strongly against the YTL/Hwange deal.

Excess government intervention in the economy and state-run industries make the short-term outlook for the mining sector not favourable, undermining its ability to continue to generate more than a quarter of the countries foreign export earnings. External market forces and weak commodity prices have also had a serious impact on ferroalloys, gold, steel, and uranium developments. On top of this, the overall macroeconomic situation has deteriorated badly since 2001, a crisis that is imposing a mounting cost on the South African economy. A conservative estimate is that reduced exports, the failure by Zimbabwe to service its debt (in particular to Eskom and Telkom), and lower FDI to South Africa has cut 2002 GDP growth by 1.3 per cent and led to between 20,000 and 30,000 job losses in 2000-02 (Schussler 2003). The crisis has also put pressure on inflation and forced the South African Reserve Bank to keep interest rates higher than otherwise would have been required. Although current political and economic instability – including the lack of access to foreign exchange, either to import inputs for production or to repatriate earnings – and poor profitability have direct adverse consequences for operations of foreign firms, only a small number of firms in the

[43] 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 is also opposed the same deal and warned the government not to sell strategic installations to foreigners as this would cost the country dearly in future.

Jenkins and Thomas (2002) sample are considering withdrawal in the short-term. Almost half of those 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. This is particularly so for those firms with a long history in Zimbabwe. Standard Bank, for instance, announced plans to inject more than US$ 10m into Stanbic Zimbabwe, its largest Africa subsidiary with 15 branches and 600 staff, once the country's political situation improves.[44] In 2002 another South Africa-based group, Barloworld, bought Porthold Cement for US$ 54m.

4. FDI in selected sectors

4.1. Textiles and clothing

Global trade and investment patterns in the textiles and clothing industry are to a large extent determined by restrictive policy measures such as Multifibre Arrangements (MFA) quotas, tariff peaks, and other frequently-changing non-tariff barriers. Trade among World Trade Organisation (WTO) members is governed by the Agreement on Textiles and Clothing (ATC), which will progressively phase out quotas in the EU, US and Canada. After a 10-year period ending on 1 January 2005, the ATC will expire and all quotas will be abolished.

The region is also affected by a number of trade arrangements with OECD partners. 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 (triple transformation rule of origin); insofar as it embodies only a single transformation rule, for less developed countries AGOA resembles the MFA – countries with this designation can gain quota-free and duty-free access to the United States simply on the basis of carrying out local assembly operations (Gibbon 2002). Fully-fashioned knitwear exports remained disqualified because of the 'knit to shape' problem and duty-free entry for textiles and apparel made with non-US yarn/fabric is capped (to reach 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 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 for eight years from the ruling. 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 5-year period (a rate of 5.2 percent applied during 2001).

Finally, implementation of the 2000 SADC Free Trade Agreement calls for the elimination of SACU duties on cotton imports from SADC by 2005. The FTA includes a special provision for clothing that permits single stage conversion from Malawi, Mozambique, Tanzania, and Zambia (MMTZ) governed by quota for five years. The preferential access however is only available for products to be consumed inside SACU (Naumann 2002). In the course of

[44] "Stabic plans to recapitalize Zimbabwe arm", *Financial Times*, 20 November 2002.

negotiations concerning the future of the quotas, the MMTZ group objected to the reference to the special arrangement with SACU as 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 being higher for exports based on double-stage processing whilst being zero for those meeting single-stage processing. South African mills are compelled to buy domestic fibre first and can import cotton with a permit only once that supply has become exhausted. Prices paid to growers are typically about the level of the 'A' index (implicitly higher than other growths in the region). If local spinning capacity is expanded, spinners would likely demand access to competitively priced fibre which, in turn, may lead the South African government to identify alternative farmer support schemes. South Africa also has bilateral agreements with Malawi and Zimbabwe. In addition, South Africa favours an immediate reduction to a zero tariff, whereas the BLNS countries prefer a gradual tariff phase-down.

With few exceptions, textile 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), a greater proportion of total manufactured exports than that of 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 the 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 to export to the United States (leading to the establishment of U.S. quotas in the early 1990s).[45]

Table 17 sketches the main ownership features of the supply chain in SADC. FDI is omnipresent, especially in EPZs. In Mauritius this was mainly in the form of 'triangular manufacturing', initiated by Hong Kong capital interested in cheap labour and gaining access for their dyed cloth and fabric to quota-freedom - and subsequently, quota allocations - for the US (and to a lesser extent the EU, especially French) markets (Gibbon 2001).[46] This kind of cut-make-trim (CMT) operations, that resemble the *maquiladora* investment in Mexico and the Caribbean, is also widespread in Lesotho, Malawi, and Swaziland, where customers include South African companies such as Woolworths and Pepkor. On the other hand, until the recent past investment in full-packaging (i.e., sourcing cloth/fabric and trim/components on their own behalf, as well as carrying out assembly) was much less common. The "footloose" character of investment is proven by the fact that firms tend to manufacture garments for export in rented buildings rather than constructing their own, more capital-intensive, facilities (de Coster 2002).

Table 17. Ownership features in the SADC textile/clothing supply chain

[45] However, due to the large disparity in total income earned by Basotho working abroad and domestic garment industry workers, growth in the garment industry has not offset the decline in remittance incomes.

[46] 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: of these, T-shirts and pullovers are mainly exported to France, trousers to the US, and man shirts to the UK.

South Africa is partly an exception. Survey results by Roberts and Thoburn (2002) indicate that two thirds of firms have local owners.[47] Textile firms are internationalised in terms of trade and technology, but only a very small number have a significant export orientation. Although the sector is becoming increasingly open, both involvement in trade and export performance do not appear to be directly associated with firm growth. This does not mean that firms growth is not linked with exporting, rather that the latter strategy is motivated by defensive reasons (the threat to the domestic market).

More recently, Claas Daun, a German industrialist/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 ZAR 6bn. 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 that account for roughly half of South Africa's textiles capacity.[48] Daun has acquired firms very cheaply and turned them around, making finance available for upgrading equipment, or closed them down and sold off the machinery. Besides textiles, Daun's South African investments include footwear and leather. He has, at one time or another, invested 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 with 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). For instance South Africa has been the major destination of Malawi's textile exports, accounting for almost 78 per cent of 2000 shipments (other SADC countries represented 2 per cent). Most of the exporters of textiles have long-term contracts with importers or design outlets in South Africa. On the other hand, 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 zippers 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 zippers 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 to better exploit relative comparative advantage is certainly substantial (Visser 2001). Opportunities however must be analysed realistically in view of structural constrains, in particular low total factor productivity (despite very low labour costs) and huge geographical distance from major market. 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

[47] Questionnaires were sent to all firms which are members of the South African Textile Federation and altogether 45 responses were received which employed a total of 27,738 in 1999, approximately 43 per cent of the total employment of the sector as measured in official statistics.

[48] "Kolosus goes to Daun, making him colossal in SA", *Sunday Times*, 3 August 2003.

from 120 to 570, and employment in these companies quadrupled from 20,000 to 80,000 (Gereffi 2002). Ownership is evenly split between domestic and foreign capital. The disadvantages of the Mauritius location in cost terms have been offset by a concentration on high-unit-value products, such as "Scottish" knitwear (mainly jerseys and pullovers). Labour productivity is regarded as significantly higher than in the Caribbean.

By the late 1990s, Mauritius companies had developed different strategies depending on their most important markets (Gereffi 2002). In the case of exports to the US market, governed by the MFA, both assembly and finishing were taking 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 backward integrated 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 distinctive local inputs and they have no incentive to interact with local creative resources to build the dynamic essence of development processes, making Mauritius vulnerable to footloose exit as wages and other costs rise.

Having gained the status of established producers for the lower- and mid-middle market segments for the EU and US, Mauritian firms attempted to move up the value chain into own brand manufacture in the mid-1990s. This attempt proved unsuccessful and by the late 1990s the emphasis had shifted back to volume production, partly on the basis of delocalisation to Madagascar as well as India and Mozambique.[49] 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 be spread and accelerated by the "flying geese" pattern, involving similar transfers of labour-intensive stages of production from richer to poorer neighbours, that had characterised East Asia in the 1970s, has not fully materialised. AGOA has recently reinforced Mauritian textiles FDI, not only to the rest of SADC but also to Senegal – so much that discussions are held concerning the feasibility of launching a new air service from Port Louis to Dakar and onto the United States. The island, however, continues to remain a net receiver of clothing FDI. Rashid International from Dubai is building a 110 M Rs plant, its second overseas facility, to manufacture jeans. The plant will operate Italian machines and equipments and employ 450 persons, mainly from India. Sri Lankan Star Knitwear is building its fourth plant in Mauritius, bringing its payroll to 2,500 workers of which a fourth 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 produce about 10 million meters of denim every year on the island. In addition, the group purchased a local clothing factory a few years ago. The Compagnie Mauricienne du Textile (CMT) also

[49] 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 due 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.

began building a new cotton yarn plant in January 2003. Finally, major US retailers such as The Gap and Eddie Bauer have opened regional buying offices on the island.[50]

Asian FDI is also increasing in lower-wage SADC countries. Large Taiwanese multinationals such as Nien Hsing and Tuntex[51] are attracted by the prospect of supplying large retailers such as the 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 4**) and other manufacturing units are being erected by Rhino Garments and Tai Wah Namibia (a Ramatex subsidiary). The Malaysian investment was first promised to the Eastern Cape province, but the Namibian incentive package (and the fact that strike activity is much more limited 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).

[50] In June 2003 a major crisis erupted following lay-off announcements by Hong Kong's Summit Textiles, that is closing down two of its 16 plants in Mauritius, and Esquel, which is liquidating 20 year-old Leisure Garments (employing 2,600 people, of which 800 Chinese workers).

[51] 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 60 million yards per year. It has set up five factories in Nicaragua, two in Lesotho, and one in Mexico over the past decade, taking 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 Taiwan.

Box 4. Ramatex Namibia

Ramatex is one of Malaysia's leading integrated textile manufacturers. It 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, in 2001 Ramatex started construction of a huge fully integrated garment and textile plant in the Otjomuise area, the first of its kind in Namibia. Other stakeholders involved in the Ramatex development 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 also be exempted from tax on land use. The total estimated amount of developing the site is N$ 60m, split between the City of Windhoek, paying up front, and the government. Since the site had already been earmarked for development as an industrial location, 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. In the absence of the limited skills and training in the area, Ramatex is expected to provide the necessary training. Ramatex, once in operation, is expected to create 3,000 jobs, mostly to Namibian women, in the first year alone. By February 2003 two of the four buildings had started with production, each housing more than 1,000 workers. In another building, not far from where the sewing is taking place, cotton is spun into yarn and turned into a material.

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 however also raised various issues of concern. The factory has still not released the results of an Environmental Assessment (EA) on the factory - almost 10 months after it came into operation. According to Namibia's Environmental Assessment Policy, an EA must be carried out for all new projects before approval can be granted for their implementation. Then in May 2003 about 700 Asian expatriate employees, mostly from China, went on strike demanding a N$500 cross-the-board salary increase and better conditions of service. This was the second incident of labour unrest within a month at the Malaysian-owned textile factory. On April 15 some 3,000 Namibian employees, some of whom reportedly earn less than N$ 300 a month, demanded a wage increase, housing allowances and other benefits. At present, 416 workers are on suspension after being accused of playing an active role in the work stoppage. Although President Sam Nujoma defended Ramatex saying the workers are still being trained, there is a need for the factory to pay decent wages once fully established. This can only be achieved in the medium to long term if a minimum wage is instituted in the manufacturing sector, to which Ramatex belongs. Working conditions at Ramatex were also criticised by the opposition parties in parliament. The Congress of Democrats has 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", *ibidem*, 30 May 2003.

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 activity are negligible, although some backward integration into textile production is starting (UNCTAD 2003). Another country taking advantage of AGOA is Namibia, where the textile and clothing industry was almost inexistent before a major investment by the Malaysian group Ramatex to set up a fully integrated plant. Despite very low productivity – garment output per worker is said to be only half as high as in South Africa, where it is turn equal to 25 per cent of Asia – Namibia enjoys the advantage of shipping times to the United States and Europe up to 30 per lower than South Africa's (de Coster 2002).

For all such countries the main uncertainty surrounds the phasing out of AGOA and in particular 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.[52] 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 from such acceleration. SADC countries have weak cotton sectors and depend on imports of fabric from Asia to satisfy their needs. Given that it is probably too late to backwardly integrate on any scale, governments must reduce levels of bureaucracy, improve efficiencies in terms of custom clearance, valid documentation and reduce irregularities, that has been reported (Morris 2002).[53] In the longer terms the pressure to find indigenous suppliers of fabrics may revive the SADC spinning industry, although indication in this sense remains still very tentative.[54]

An additional serious limit for the expansion of SADC manufacturers is what appears to be a rather lax application of labour standards (**Box 5**). Problems such as underpayment of employees, widespread resort to child workforce, substantial and often compulsory overtime, and trade union repression have been widely documented (Clean Clothes Campaign 2002 and Jauch 2002). On OECD markets, consumers are increasingly concerned with such practices and retailers do not source from producers of dubious corporate responsibility credentials. A possibly more fundamental problem is that 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 shown by the experience of Central American and Caribbean countries that have export volumes far in excess of those of SADC (Mortimore 2003). Finally, 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

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

[53] The Botswana Development Corporation and commercial banks have labeled the textile and clothing "high risk", thus making raising capital for investments reportedly difficult (de Crozer 2002).

[54] As cotton growing lends itself ideally to cultivation by small-holders and could play an important role to settle and enlarge the developing sector in the 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.

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.[55]

Box 5. Labour standards in the textile/clothing industry in three SADC countries

In September 2000, Swaziland's enactment of legislation on the right to freedom of association and collective bargaining that is inconsistent with ILO standards prompted the Office of the U.S. Trade Representative to review that nation's eligibility for duty free access to the American market under the Generalized System of Preferences programme. The U.S. 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), "there 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, due to 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).

4.2. Automotive

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, it can be estimated that production capacity has increased from 462,000 to 564,000 units between 1995 and 2001.[56] The South African industry is based on the local operations of seven multinational corporations, three from Europe, two from the US, and two from Japan (**Table 16**). Three of them (BMW, Ford, and Nissan) are based in Gauteng, one (Toyota) in Kwazulu-Natal, and the other two are in the Eastern Cape. Some firms with a long presence in the country, which had abandoned it as a result of trade sanctions, have bought back their subsidiaries. This has been notably the case for Ford and General Motors, but also for Toyota. Insofar as their global manufacturing reach is less wide, German auto-makers, 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 of the models (see **Box 6**). These German companies currently account for 97 per cent of South Africa's passenger-car exports. In 2001, BMW produced 41,000 units, DaimlerChrysler 61,000, Delta 22,000, Ford 53,000, Nissan 60,000, Toyota 80,000, and VW 74,000.

[55] Only three South African exhibitors have registered for ITMA 2003, the quadriannual event organised by the International Textile Machinery Association.

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

Table 18. Major investments in the South African automotive industry

Box 6. BMW South African experience

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, located north of Pretoria. This initial batch of cars (known as 1800 SA) were sold in South Africa and exported to Brazil. In the early 1970s, BMW bought shares in this 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. A production record was set in 1989 at 19,071 Completely Knocked Down (CKD) units.

In the mid-1990s, BMW made a ZAR 1b investment to upgrade the production facility into 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 for 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.

In 1999, for the first time, Rosslyn produced more cars for export than for the local market. Production has risen 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 balance going to New Zealand, Hong Kong, Singapore, and Taiwan. On the domestic passenger car market, BMW commanded a 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. The number of employees at Rosslyn has grown by almost 900 between 1998 and 2001, which BMW says has led to the creation of over 18,000 downstream jobs within BMW's South African supplier network.

Major additions and modifications are currently underway, including substantial extensions to the body manufacturing and assembly complex. In addition, a massive new ZAR 300m Preparation Plant is currently being commissioned as an extension to the existing, state-of-the-art, water-based paint facility. It is anticipated that the upgraded plant will be capable of producing 60,000 units per annum. This will, in turn, result in a substantial increase in BMW's export capacity from South Africa to ZAR 50b worth over the lifecycle of future models. A BMW Technology Centre was created jointly with Vista University, the largest and newest historically black university in South African.

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 GlobalInsight (2003).

The SADC automotive industry, however, is not limited to South Africa. Willowvale Mazda Motor Industries (WMMI) is Zimbabwe's largest assembler, although it has drastically slashed production in recent few years. Production peaked at 1,000 cars a month, but WMMI has temporarily closed its Harare plant on at least two occasions in the past three years as the foreign currency shortages made it impossible to import vehicle kits.[57] A second plant was inaugurated in 1996 by Nissan Africa and Quest Motor Corporation to build pickups. As for Botswana, in 1998 a plant opened in Gaborone 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 to the cost (ZAR 250m, or US$ 26m), with the Botswana Development Corporation and Dutch banks Ambro and FMO providing the rest (Pula 119m and 135m, respectively). NedCar in the Netherlands delivered the body components for the Volvo S40 and V40 which were welded, painted and final assembled in Botswana (the local value added was 20 per cent). The Hyundai Accent was produced on a completely knocked down (CKD) basis, replacing a semi-knocked down (SKD) plant, also in Gaborone. The plant was expected to produce 30,000 units by 2000 and employ 1,100 people, but was closed down in 2000. Later that year a consortium of South African investors bought the facility to set up an assembly plant in Kimberly. A similar fate plagued Afinta Motor Corporation (AMC), a Swazi company backed by US and South African investors that assembled trucks and buses using Cummins engines and components from Asia and Brazil.[58] More successful has been FDI in automotive parts, especially for the German automotive industry. Principal among these is the HMB factory in Gaborone (a Delphi Automotive's 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).

The South Africa automotive industry has recorded rapid export expansion, initially of components, but latterly also of vehicles (**Table 19**), 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 benefaction in leather seats)[59] – and catering for RHD (right hand drive) markets like Australia, Japan, India, the UK and many African countries. In the case of BMW and VW, South Africa accounts for roughly 20 per cent of their global RHD production. Imports of new cars have also proved to be an important total market driver over 2001-02, as a strong rand made imported cars considerably cheaper. This enabled imported cars to increase their share considerably: from 28 per cent in 2000 to 34 per cent in 2002, a trend that according to Global Insight may increase further, reaching 38 per cent in 2003. The industry's share of manufacturing sales, value added and investment have all increased over the period 1993-2001, despite weak market demand, falling import duties, and the abolition of local content requirements (Black 2002). Labour productivity (value added per employee) within the industry increased by 37.8 per cent over the same period, above the manufacturing sector average, although capital productivity growth remained sluggish at best (Barnes 2002).

[57] "Vehicle prices jump 174 percent", *The Financial Gazette*, 17 October 2002.

[58] 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 ZAR 20b taxi recapitalisation project that aims to replace about 120,000 16-seater minibus taxis with safer 18- and 35-seater vehicles.

[59] The figure for harnesses stands in stark contrast to this, with over 70 per cent of all material purchases taking place outside of South Africa.

Table 19. Main performance data for the South African automotive industry

Public policies are credited for making these developments possible. Similar to other developing countries pursuing import-substitution industrialisation, South Africa hosted a great number of car assemblers, producing a wide variety of models with low efficiency levels 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, that looked, for the first time, at vehicles on the basis of value rather than weight. The Motor Industry Development Plan (MIDP) programme was launched in September 1995 to improve the international competitiveness of the automotive manufacturing and associated industries, enhance vehicle affordability in the domestic market, and encourage export growth. Its core elements have been the 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.[60] 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 component 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 an importer.

In MIDP Phase two, which runs through to 2007, export credits will gradually be reduced by 7 per cent a year to phase the scheme down, until reaching a level where every rand of exports earns only 70c worth of imports. A Productive Asset Allowance (PDA) has been introduced to encourage investment by the OEMs and component industry aimed at furthering rationalisation, while the Small Vehicle Incentive (SVI) was phased out on the grounds that it artificially supported new entrants at the lower end of the market. The 2002 Review extended the MIDP from 2007 until 2012, reduced the pace of import duties reduction,[61] and postponed to 2009 the 70 per cent valuation of exports for import rebate purposes (and froze the value until 2012). The policy regarding the medium and heavy-duty vehicle sector was not part of the 2002 Review and the position of such vehicles under the MIDP is still to be evaluated. Similarly, imports of second-hand vehicles continue to be subject to a special permit, few of which are issued.

South African authorities will continue to monitor industry developments and, in particular, expect that the local content level in domestically assembled vehicles will increase given the higher model production volumes that are now being achieved. These developments will influence future changes to SADC automotive regime. The industry was placed on the list of sensitive products to be negotiated separately by both the SACU and Zimbabwe (Muradzikwa and Black 2000). In 1999 a SACU position paper set out two proposals. According to the first, MIDP adoption by Zimbabwe or any other SADC country would

[60] A small vehicle incentive to promote vehicle affordability has remained in place.

[61] 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.

extend all MIDP rules, meaning that "no import rebate credit certificates can be issued by SADC countries wishing to export into SACU (and vice versa) and there would be no tariff barriers between SADC countries and SACU with regard to automotive products". If, on the other hand, Zimbabwe or any other SADC country chooses to remain outside the MIDP, then there will be no tariff concessions by SACU on either vehicle imports 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 are imposing ever more stringent quality 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. With the exception of inventory control (i.e. delivery reliability to customers), substantial improvement has been registered in a range of benchmarks such as quality and operational shop-floor efficiency (Barnes 2002). External factors (raw material inventories, supplier performance) appear to be 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). Flatter's (2002) analysis is much more sceptical, arguing that MIDP continued 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 car retail 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 8-million. Namibia Press and Tools identified workers' inability to perform quality control steps during the assembly process as a major constraint. All this being said, South African subsidiaries can compete in small batch production for components and parts for vehicle models that are not produced anymore, so that automated plants in OECD countries become uncompetitive (see Black 2003 in the case of Behr). Some examples of private sector engagement in technology cooperation include.

- The Japan External Trade Organization (JETRO) established an Automotive Development Programme in 1998. The final evaluation of progress towards continuous improvement of the shop-floor practices made by participating companies 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. There has also been a significant increase in interest amongst South African component companies in having technical agreements with Japanese companies. Very few companies, however, use sophisticated equipment such as a stereo lithography apparatus (SLA) to speed up prototypes manufacturing and the use of ICT is also

limited. One South African company has had a technical agreement with a Japanese company for a long period of time. The latter, however, was not providing any guidance or assistance with improving the shop floor management. To comply with new and stricter requirements by car manufacturers, the South African company requested assistance from the Japanese company with regards to shop floor improvements and now the assistance has been provided to the company for the past 2-3 years. Strictly speaking, provision of such technical assistance is not included in the technical agreement between the two companies.

- A project by DaimlerChrysler 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 & NCI (UNIDO and WBCSD 2002). In addition, DaimlerChrysler has worked with the Council for Scientific and Industrial Research to improve the entire process supply chain, including the 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. Under this agreement NCI pay a royalty of 2 per cent on revenue generated to Borgers to retain their technological support. The first sisal component was released for inclusion in the Mercedes-Benz C-Class vehicle in October of 2001. The sisal-cotton mixture from the local manufactures now makes up 75 per cent of the material in the Mercedes Benz C Class's rear shelf. The two local firms have benefited from this technology transfer in that they are now successfully processing the fibres and producing the components to the required standards for the Mercedes vehicles.
- 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.
- German investors have introduced special courses to teach German language to staff (Hartzenberg and Muradzikwa 2002). As assemblers increasingly source components from follow suppliers, also from Germany, that invest in South Africa, improving local personnel's language skills facilitates co-ordination and increases flexibility along the supply chain.
- As the high cost of domestic steel is considered an obstacle to gaining further competitiveness, positive developments are expected to derive from Iscor's decision to invest in dual-phase steel and other high-strength, lightweight grades, which are being demanded by the sector. It is speculated that the introduction of this steel grade within three years will require a capital investment of at least ZAR 500m. The main capital expense will relate to the installation of equipment that allows the steel to cool in two phases, giving lighter-weight material additional strength. It is also anticipated that

> Iscor's link with the world's second-largest steelmaker, LNM, will 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.

Public authorities are 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 ZAR 200m in the basic infrastructures, while the latter is expected to provide the remaining ZAR 800m that would be needed over the next eight years. In November 2002 the Lear Corporation became the first tenant. Two German firms and one French company are reputedly 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.[62] 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 also 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.

4.3. Food and beverage

4.3.1. Brewing[63]

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. Brewery is also a global oligopolistic industry with a small number of brands available worldwide – although in many developing and emerging countries local bottlers of global brands rank high among the largest domestic firms.[64]

The evolution of South African Breweries (SAB) is an interesting example of the international expansion of a developing-country multinational, both because it highlights motives for internationalization that are rare for developed-country firms and because it illustrates the challenges 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 what is best described as a "siege economy". Companies were virtually immune from foreign competition but, because of sanctions and restrictions on capital movements, unable to expand abroad.

The situation has changed dramatically in the 1990s. Building on its power in the domestic market, the company had created a virtual monopoly also in neighbouring countries, acquiring privatized breweries or concluding licensing agreements with other brewers or bottlers in these countries. SAB entered the Mozambique and Tanzanian markets through

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

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

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

privatization and then expanded to gain monopoly power through strategic partnerships (**Box 7**). 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 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 similar 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 where it will concentrate on its Tanzanian operations in the East African region leaving the Kenyan market to Castel's East African Breweries.

Box 7. Privatisation and FDI in Mozambican and Tanzanian Breweries

Tanzania Breweries Limited (TBL) was privatized in 1993.[65] 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 owns 10.17 per cent. Before privatization its annual revenue never exceeded TShs.15 billion and the company had just 30 per cent of the local market, with foreign 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 Petrelli and Narula (2003), "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's currently controls for 85 per cent of the Tanzanian beer market. With over 1,600 employees, eight production centres and ten warehouses, TBL is one of the largest private sector employers in Tanzania with an annual turnover of $US 107 million.

As regards Mozambique, SAB purchased state-owned Cervejas de Mocambique (CDM) in 1995 and the Laurentina brand in 2002.[66] SAB's investment and the curb it imposed on the once thriving trade in smuggled South African beer have benefited the government too. Taxes paid by the breweries rose by 700 per cent. By 1998, CDM provided about 5 per cent of total tax revenue. CDM pays a minimum wage equivalent to US$ 96 a month, more than two-and-a-half times the statutory minimum. CDM was the first company quoted on the Mozambican stock exchange, which opened in October 1999.

However, given per capita income levels in much of sub-Saharan Africa, further growth could only be achieved by venturing into new, far-flung markets. In a second step of its internationalization process, SAB started to expand into other large developing-country markets with a low level of penetration by developed-country competitors. From the mid-1990s onwards SAB invested heavily in countries like 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 to one of the most efficient competitors in the entire industry, and its skill in managing the supply chain in abnormal markets requiring a high degree of 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 developed into the world's fourth-largest brewer by volume, with very high profit margins in some countries.

[65] TBL also owns 75 per cent of Tanzania Distilleries, a wine and spirits supplier, and 60 per cent of Darbrew, a traditional beer brewery.

[66] 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 (that included the management and workforce) for US$ 8.12m.

Despite these strengths and achievements, SAB's expansion into other emerging markets, although it helped achieve output and revenue growth, did little to solve the key problem of a shortage of hard currency. While the lion's share of revenues continued to come in the form of "weak" currencies, be it in rand or other developing countries' currencies, the acquisition of inputs such as machinery or the re-financing of loans had to be in "hard" currencies like the dollar. One solution was to list SAB on a major international stock market, helping it with at least the capital-raising and re-financing problems. It became apparent, however, that the company had no choice but to expand into developed-country markets. SAB's financial viability was at stake, unless the currency problem was solved; so 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), the company finally announced in May 2002 the acquisition of the Miller Brewing Company in the United States, becoming the world's second largest brewer after world leader 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. Synergies are exemplified by the possibility of using Miller's distribution to market premium European brands like Pilsner Urquell or Peroni in the United States.

It is interesting to note that 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 including the National Union of Namibian Workers (NUNW) that hold a 51 per cent stake.[67] NSAB intended to operate a new brewery at Ondangwa, expected to employ 2,000 workers, using local maize. This investment was successfully resisted by Namibian Breweries (Nambrew), which already in 1995 had lobbied against a plan for a brewery in Tsumeb.[68] Nambrew is owned by Ohlthaver and List (Namibia's pre-eminent business group which also controls Namib Sun Hotels and Rietfontein Dairies) and Belgium's Interbrew. 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 which prohibits the use of any ingredients besides malt, hops, water and yeast. Like another successful food processors, 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.[69]

4.3.2. Agri-business

Along with Kenya, South Africa and Zimbabwe have emerged as the main horticulture producing 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

[67] The following is partly based on *NEPRU Quarterly Economic Review*, No. 12, September 1997.

[68] "Namibia shoots down SAB plan", *Business Times*, 31 August 1997.

[69] Guinness and Heineken have a close relationship in Africa, and Nambrew already produces and distributes draught Guinness in the South African market.

fresh fruits sales abroad have soared from 4.4 Mt to 9.6 Mt (although in value the increase has been much smaller) between 1992-2001. After agricultural marketing systems were liberalised in the mid-1990s, competition for citrus, deciduous, and subtropical fruit has increased significantly. In the first year after deregulation there were more than 200 export agents competing for citrus and multinationals like Dole and Del Monte established a base in South Africa (Mather 2002). The country is also the sixth largest producer of wines, with exports rising from US$ 42.5m in 1992 to 227.6 in 2001 (FAOSTAT data). On the British market, the world's largest for wine imports, South Africa recorded the fastest growth in 2002 to reach a 9.5 per cent market share.[70] There is scope for greater processing of vegetables, although frozen and canned vegetables are not popular in the local market. Organic vegetables is another growth sector. A vast range of flowers are also grown in South Africa, ranging from summer flowers, bulbous flowers, to tropical and desert plants.

As it is made clear in what follows, the degree of foreign participation varies across market segments. A different, though obviously very related phenomenon, is land purchasing by foreign investors. South African farmers have been very active, particularly in Mozambique, to the extent that a private sector foundation, the South African Chamber for Agricultural Development (SACADA), was established in 1995. SACADA is currently involved in the settlement of farmers in the Niassa Province. In the wake of the crisis in their country, white Zimbabwean farmers have also moved to Mozambique and Tanzania. It is important to underline that 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 was located 3.1m hectares for agricultural investment, pending the possible approval of a new law.[71] Although the climate is reputed to be very suited to farming and the soil is fertile, Mozambique does not have a domestic industry for basic mechanical and chemical inputs and logistical bottlenecks also persist that are currently hindering the full realisation of the country's agri-business potential.[72]

4.3.2.1. Wine

The South African wine industry was traditionally highly regulated, with a co-operative – Kooperatiewe Wijnbouwers Vereniging (KWV), to which about 95 per cent of wine producers and all of the 260 wine cellars that press grapes belong – simultaneously assuring three functions: set a minimum price for wine, set production quotas, and secure exports for the domestic wine surplus. Trade sanctions, lack of appropriate winemaking equipment, and the fact that the domestic market had very little sophistication resulted in wines of little 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, to be 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 considered a balanced combination of European and New World styles due to their

[70] *Harpers-Wine News*, 7 May 2003.

[71] "Mozambique is paradise for SA farmer", *Farmer's Weekly*, 2 November 2001 and "Land is becoming a hot issue", *New African*, June 2003.

[72] "Life after Zimbabwe", *Farmer's Weekly*, 21 February 2003.

crisp acidity.[73] According to AC Nielson, in the British market – where eighteen of the top twenty brands are new-world wines – South Africa is outperforming its direct rivals, Australia and the USA. However, 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 wine brands. Last year's average bottle price was lower than the market average (£3.83), at £3.60.

Whereas in traditional European producing countries vines account for between 5 and 10 per cent of cropped area, in the so-called New World wine producers the percentage is much lower (0.2 per cent in the United States, Australia and New Zealand and 1 per cent in Argentina and South Africa).[74] Hence in those countries, which have ample land with suitable climates 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). Physical investment is being used for replanting and upgrading vineyards extensively. Over the past three years, over 86 per cent of all vines uprooted have been white (FAS 2002). The most dramatic growth has been in the plantings of Shiraz, which has been the number-one cultivar planted in 1999 and 2000. South African producers have spent a lot of time developing vineyard resources to be competitive and now have a good varietal mix and improving quality. Many local wineries are taking 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. However, Ewert (2002) argues that such developments are not matched by an equally effective transfer of new technology and techniques to the farm, as growers are slow in adjusting their viticultural practices. This may reflect either a resistance to innovation or an inability to transfer innovations throughout the supply chain to farmers.

The global wine industry is also moving towards a concentrated structure where 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 USA) dominate on the basis of their ability to deliver large volumes of wines of a consistent quality, supplied regularly at various price points. Brand building, and the associated need to develop a long-term strategy and follow a methodical, pragmatic approach, are also becoming more and more important. Failure to develop powerful brands would mean transferring margins to retailers. As the French Senate observed in a recent report,

> "sometimes, 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,

[73] "A Taste of South Africa", *Wine Spectator*, 30 September 1995.

[74] 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 2003).

caused at it is by motivations outside the wine *filière*, risks to increase the dependence of wine producers *vis-à-vis* retailers" (Sénat 2002).

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, under the top 20 in the UK market and has access to 6,000 hectares of planted 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 obviously translated into growing cross-border investments. Wineries are under increasing pressure to offer a competitive range 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. Foreign investments are primarily motivated by the need for greater access to stable or adequate winegrape/juice supplies, the need for more control over the winegrape costs within given quality levels, and the desire to expand wine portfolios. In 1999 it was estimated that foreigners had bought stakes in at least 25 Cape wine farms.[75] An interesting example of the changes brought about by the arrival of foreign owners is described in **Box 8**. Other recent examples include:

- 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 German company Farmer's Markt Landhandel that acquired the Blaauwklippen estate in 1999. Additionally, 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
- Various investments by the scions of European corporate dynasties. Anne Cointreau-Huchon of the liqueur and Cognac family has made huge investments in Morgenhof Estate, including new vineyards and a 2000-barrel underground maturation cellar; Italian Count Riccardo Agusta invested R17-million in revamping Agusta Wines' cellar in Franschhoek; and heirs of Germany's Dornier aerospace group invested R100 million with first experimental vinification in 2001.
- Finally, a younger generation of overseas financiers has ventured into the country, such as Hong Kong-based businessman Manfred Schoeni (bought the Ashanti wine farm in 1997 for R15 million), a Bahaman entrepreneur who joined with American investors and local expertise to establish the Bowe Joubert winery in 2001, Swiss

[75] "South African Farming: The Boer's brave new world", *The Economist*, 20 November 1999.

businessman Donald Hess in Glen Carlou, and Namibian-born German Markus Rahmann in Asara.

However, in the case of U.S. winery investments, misgivings about political stability appear to be a reason for their limited value despite obvious agricultural advantages (Pompelli and Pick 1999).

Box 8. 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. 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 a foreign consultant, Pierre Lurton. This French winemaker heads Bordeaux's Château Cheval-Blanc, one of St.-Emilion's two premiers *grands crus classés A* – the highest classification in the appellation. As Morgenster overlooks the Indian Ocean, the altitude and ocean breezes cool the vineyards, allowing even ripening of grapes, despite the hot climate. Lurton argued 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 industry will develop in South Africa and what contribution can be expected by foreign investors. Due to a global oversupply of wine, companies are looking to increase margins by producing smaller volumes of higher quality grapes and wine rather than large quantities of lower quality wine. 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 for South African wineries is therefore 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* – weakens the country's 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".[76] In sum, although technological, organisational, and marketing innovation is key to the industry, success will depend on the ability to share knowledge and information throughout a value chain that still remains more fragmented that in other New World's wine-producing countries.

Moreover, although successful in raising its profile on export markets, the South African wine industry must address the dire 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 are focused on the development of new crops and technologies as well as the empowering of 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 ZAR 45m 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.

[76] "Leaving Pinotage Behind", *Wine Spectator*, 2 June 2003.

4.3.2.2. Fisheries in Namibia

Fisheries are another natural resources sector that has attracted considerable investment.[77] Extremely rich in nutrients, the Southern Atlantic Ocean is one of the world's major catchments areas. In South Africa, the exclusion of foreign vessels and a conservative management strategy with effect from 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 also declared a 200 nautical mile exclusive economic zone (EEZ) to prevent overfishing, in particular by foreign trawlers. Such policies have been successful, and stocks for the main species (hake, horse, monk, pilchard, crab, lobster, and orange roughy) have recovered steadily .its waters, the industry has grown. The value of all landings has risen from US$ 156m in 1996 to US$ 286m in 2001, that of exports from US$ 181m to US$ 354m, approximately a quarter of total exports (Irwin, Jacobs, Greene 2003). Employment, mainly at onshore processing plants, almost doubled to 14,000 (FAO 2002).

Official policies aim at increasing 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 the quota allotment given to a company. During 2000, a total of 309 vessels were licensed to fish in Namibian waters, 80 per cent of which were Namibian flag.[78] Foreign flag vessels can only operate 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.[79] The largest foreign investment to date has come from the Spanish company Pescanova (see **Box 9**).

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[77] Another example is Seychelles, where Heinz operates a large tuna processing plant, bought from government in 1996, that has become the country's largest single employer.

[78] 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.

[79] 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 a 25 per cent of the holding company (or 33 per cent if the holding company owns less than 5 per cent of the fisheries or fish processing company).

Box 9. 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 fishing and processing factories in Luderitz and one in Walvis Bay with a daily capacity of 150 tonnes of raw material. With a total turnover of more than € 100m, the company directly employs 2,250 people (from an initial 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 a 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. In the factory itself, there is not one foreigner, from the general manager downwards. More than 200 different retail products are processed and an increasing share is then marketed directly to major grocery chains in Europe. Thanks to this investment, on the Spanish market Namibia accounts for 41 per cent of frozen hake imports – way 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, thus 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 been looking at new ways transfer its knowledge of sustainable fish farm production to help the Nambian government further develop its fisheries sector.

Ownership and control of fleet, however, is 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. The fishing business is controlled by a few conglomerates, with deep vertical integration. Since fish is very perishable, (and particularly fresh whole fish lose some weight due to fins, heads and bones) retail and wholesale mark-ups are very high. Together they make up almost half of the retail price, or more than twice the landed cost in Namibia (**Figure 1**). Fresh fish has to be air freighted to the market, and that 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 being processed in Namibia before export.

Figure 1. The fish value chain

In just 50 years, as advances like 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 like 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 overfishing, creating reserves that serve as nurseries for valued species, and encouraging consumers to avoid the most endangered fishes.

In SADC land-locked countries where fish is an important component of the dietary protein, declining per caput supply against growing populations has resulted in food insecurity, usually manifested as protein deficiency, is a growing problem (Hara 2001). Although Namibia is credited with having one of the world's best fisheries management systems, future fish stocks are surrounded by uncertainty and future growth will be dependent on expanding the resource base. Aquaculture – the system of fish/seafood cultivation and extraction in a controlled environment which is less vulnerable to climatic variations than the marine fishing sector – is seen as the most promising option.[80] 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 as a means of maximising employment creation. But in order to boost production substantially for export human consumption, the support and facilitation of the governments concerned would be vital. This should be in the areas of appropriate research and studies necessary to overcome the constraints, development of infrastructure and putting in place enabling policies. Current activities are limited to the raft cultivation of high-quality oysters at Walvis Bay, Swakopmund, and Luderitz, while 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, however, demand capital, knowledge, and time, so in the near term that only viable option would be to increase the quota fees and other levies. A major controversy concerns the appropriate level of fishing levies. According to Hesselmark (2003), during the last nine years, the average levy has gone down from 10 per cent of landed value to 4 per cent and the Namibian government only gets a paltry 1 per cent of the retail price. In the meantime, the real profits are made by 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 only contribute their ability to get the quota allocation, 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 are used.

4.3.2.3. Supermarkets and dairy products

[80] Since 1984, the global output of aquaculture has increased annually by 10 per cent, whereas captured fish output has only increased 1.6 per cent each year.

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 (in particular the rapid increase in car and refrigerator ownership) has brought about an expansion of – often foreign-owned – supermarket chains and shopping centres. Africa is no exception, although the transition has started later than elsewhere, around the mid-1990s. Supermarkets have spread fast in Southern and Eastern Africa, already proliferating beyond middle-class big-city markets into smaller towns and poorer areas. The introduction of hypermarkets of up to 13,000 square meters of floor space is offering customers a wider variety of products and services at lower prices. New types of retail stores, 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.

In South Africa, supermarkets already account for 55 per cent of national food retail, similar to the share in Mexico although a bit lower than in Argentina, Brazil, and Chile (Weatherspoon and Reardon 2003).[81] Densities are similar. What is different however is that large retail chains such as Ahold, Carrefour, and Wal-Mart, which have all invested heavily in Asia and Latin America, have taken a far less aggressive attitude with respect to the South African market.[82] As a result, the market is concentrated in the hands of four domestic groups "with enormous bargaining power" (FSA 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 are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores.[83] 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, are very strong in the black areas whereas Woolworth is stronger in the smaller "up-market" segment. On the other hand, most supermarkets sell their own-label products as well as manufacturer's brands. With the domestic market nearing saturation, the top four chains have all invested abroad (see **Table x** above). 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).[84]

The concentration of the industry into 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.

[81] In the modern retail sector, there are 33 hypermarkets (roughly equivalent to about 330 supermarkets in sales terms) and 1,352 supermarkets in ACNielsen's data base for South Africa, which covers most of the large-format retailers in that country (Weatherspoon and Reardon 2003).

[82] 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.

[83] On the situation in Europe, see Dobson (2003).

[84] For Shoprite, for instance, the domestic business represents 90 per cent of turnover and 80 per cent of profits.

Because of the perceived inadequacy of the services provided by traditional wholesalers in terms of quality, standards, and reliability, supermarkets are increasingly resorting either directly to producers through contact farming or to new forms of more sophisticated wholesalers (Reardon and Berdegué 2002). In South America, some producers are benefiting from the regional and global sourcing networks of supermarket chains (Goldstein 2003). For example, melon and salmon producers, in Brazil and Chile respectively, which entered into long-term contacts with Carrefour to cater for the domestic markets are now selling through the French company's global network. In 2003 Carrefour Brazil is expected to export goods for US$ 25m.[85] Domestic suppliers, however, are also challenged by the fact that large chains, regardless of their ownership, may use the option of importing as a means to negotiate lower prices. In Chile, for instance, it is customary for supermarkets to receive credit of more than 45 days from their suppliers. To find a solution to problems that derive from unequal bargaining power and unfair practices, in Argentina the government negotiated a commercial practices agreement in 2000. Carrefour and Wal-Mart did not initially sign this agreement, arguing that the obligation to respect minimum prices run 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 the latter country 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 2003c, pp. 102-6). Local producers suffer from low levels of capacity utilization, lack of domestic supply of cans and bottles, and a variety of transport and logistics cost, but also from their inability to respect quality and safety standards and manage inventory levels (Shoprite does not have its own warehousing facilities in Zambia). For the local firms that have managed to keep supplying Shoprite, however, the reward is in the form of a substantially higher turnover.

South African retailers, however, manage well-established marketing and distribution systems and they tend to source from their home country rather than in host economies. 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 supply to this South African retail chain. Game Stores demanded a 2.5 per cent discount to have goods placed on the shelf, a further 2.5 per cent discount in order to pay for goods supplied on a 30-day after statement basis, a further 2.5 per cent discount for provision to advertise the suppliers' goods in their promotional material, and finally, for new suppliers, a credit period of 90 days. The Commissioners noted that the 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 business. In order to protect public interest, the Board issued a "cease and desist

[85] "Carrefour dobra vendas externas de alimentos", *Valor Econômico*, 28 February 2003.

order" so that Game Stores do not impose conditions and terms specified in their South African operations as they have anticompetitive effects in Zambia. What may work well in South Africa does not necessarily mean that the practice will be acceptable in Zambia.

Matching more demanding requirements is hardest for small producers and there is thus an urgent need for development programmes and policies to assist them in adopting the new practices that these procurement systems demand. In Namibia, government, together with the agronomic board, has appointed market facilitators in all six areas of horticultural production in the country.[86] Their job is to convince retailers and producers that there is a market in the country - provided that 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, which will record what the producers intend to plant, what they have planted and the forecasted yield, as well as what has actually been produced. Retailers can access the database and make plans throughout the whole process so that, by the time produce is ready for market, they will know where to get what and how much they can get. 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. The main idea was to build capacity among the rural communities of Chipata to begin producing high quality vegetables.[87] Partly thanks to initiatives of these kinds, Shoprite has reduced to 30 to 40 per cent the share of monthly purchases that are sourced from South Africa and now exports some high-value produces to its store in Malawi.[88] A third example is the Partnerships for Food Industry Development, a co-operative agreement between the US Agency for International Development, Michigan State University, and the University of Fort Hare that has been running since June 2001. Again, the goal is to bridge the gap from both ends of the production chain by gathering information about the products of small-scale producers and information about the needs of business. In 2002 Pick'n'Pay announced a new initiative aimed at empowering emerging farmers in the Nkonkobe region.[89] The EU is supporting 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 for instance it paid for the participation of four SMEs (Conserves Stéphan/Celtigel, Distillerie du Périgord, Lucien Georgelin, and Prince de Bretagne) at a Franco-Chinese trade fair in Beijing.

The dairy industry is an interesting case study of the changing relationship between retailers, food companies, and farmers in a context of liberalisation and growing foreign involvement. In this industry, multinational supermarket chains have global relationships with a handful of international milk distributors – and therefore the respective bargaining position is 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.[90] Although relatively small on a global scale (0.5 per cent of a 2002

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

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

[88] "Shoprite Off Loads 2.7m Shares On Lusaka Stock Exchange", *The Post*, 20 February 2003.

[89] "P'n'P talks to small farmers", *Dispatch*, 11 October 2002.

[90] "Can the Western Cape dairy industry be saved?", *Farmer's Weekly*, 18 October 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. Government protection and subsidisation of dairy farmers, however, are widespread, especially in the European Union, making it practically impossible to export profitably. In South Africa, the industry is the fourth largest agricultural sector and provides a livelihood for some 212,000 people. Therefore, although it is cost efficient, access problems on world export markets and higher financial costs result in a minimum efficient dairy farm size more than three times larger in South Africa than in Europe.[91]

Concentration has accelerated along the supply chains. The number of milk producers has gone from 7,921 in 1997 to 5,347 at end-2001; four groups – including partly-French Clover[92] and foreign-owned Parmalat (**Box 10**) and Nestlé – account for 70 per cent of processed milk; and roughly a half of sales takes place in the three large supermarket chains (DREE 2002). The relationship between milk producers and dairy companies may cause concerns. During the period February 2002 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 of the 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, even if some farmers had to seek creditor protection and many mixed farmers stopped dairy farming.[93] A new organisation, Milk South Africa, was established in July 2002, where milk processors and milk producers will partake in the designing and implementation of industry strategies.

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

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

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

Box 10. Expanding through acquisitions: the Parmalat case

Parmalat is a global dairy food company with a solid presence in emerging markets. In Brasil alone, Parmalat bought 19 different companies in the 1990, invested US$ 1bn, and multiplied its size by 30. By 1998, Latin America accounted for a larger share of the company's turnover than Europe.

Parmalat entered the South African market in 1998 by acquiring Towerkop and Bonnita. With its headquarters in Stellenbosch, it employs over 1,500 people and operates ISO 9002 plants in Gauteng, Cape Town, Bonnievale, and Port Elizabeth, as well as seven distribution centres and 17 franchise distributors. In July 2003 Parmalat took over Unilever's cheese-making operations in South Africa for ZAR 65m (€ 7.5m), buying the Simonsberg and Melrose brands and a plant in Stellenbosch. Additional processing facilities exist in other SADC countries, where Parmalat participated in privatisation deals. In Mozambique it established a joint venture with J.V. Consultores (owned by former co-operation minister Jacinto Veloso) to buy 80 per cent of what used to be a state-owned milk products factory in 1996 for US$ 1.43m. A further US$ 3m was spent in rehabilitating and modernising the factory, and in January 1997 it started producing UHT milk. A similar strategy was followed in Swaziland, where Parmalat acquired a 60 per stake in the Swaziland Dairy Board jointly with Tibiyo Taka Ngwane (the royal investment fund) and local dairy farmers. Parmalat has rationalised its regional production, and imports specialised products such as yoghurt from its South African plant to supply the Swaziland market. The market for milk products has been liberalised and farmers are now selling directly to retailers and consumers.

By introducing more sophisticated management and marketing methods than those prevailing before, foreign-owned companies may increase efficiency and productivity. During the business transformation, Parmalat realized that operational units were often unable to capture customer orders for hours at a time due to an existing unreliable telecommunications infrastructure. In the perishable dairy goods business, it is critical that regular and reliable order capture service is provided to customers. The company was concerned that customers may not remain loyal if service continued to deteriorate. By applying leading technologies and sound business principles, BPCS HiVolume allows Parmalat to rapidly capture larger customer orders, which provide insight into purchasing habits. Large companies, however, also leave the flank open to the accusation of exploiting their market power. This is why liberalisation must be accompanied by a strengthened system of market monitoring. In 1999 the Zambia Competition Commission examined the exclusive dealing arrangements that Parmalat had instituted along with the supply of refrigerated containers/cold rooms on loan basis for its products. Parmalat was found to control 60 per cent of the market for fresh milk/products and 20 per cent in fruit juices. Although technically fresh milk/products do not require exclusive dealership, the practice was found to be rife in the sector. Exclusivity did not include retail outlets which are free to carry competing products and the ZCC Board authorised the exclusive dealing arrangements because it did not disadvantage competitors.

The previously State-owned Dairy Produce Board had been privatized and sold to a South African company called Bonnita. Bonnita Zambia was established to revive the ailing Zambian dairy industry. The industry is of strategic importance to the rural economy where most dairy farmers come from. Bonnita South Africa had been taken over by Parmalat of Italy, and the acquisition also covered Bonnita South Africa's Zambian investments under Bonnita Zambia. The dairy farmers were at first apprehensive about the entry of Parmalat

into the picture, as they were concerned about their own investments in Bonnita Zambia, as well as about the future of the support structure that Bonnita Zambia had so well developed in the supply and distribution of dairy products right from the farmers to the consumers.

The Commission was concerned about the competitive effects that were likely to emerge if a new player was to come into the market and discontinue the developmental approach that had been taken by Bonnita. It evaluated the effects of the merger in accordance with the provisions of the competition Act, specifically section 8 (on Mergers and Take-overs Notification) read together with section 7 (on whether the object of the transaction is to prevent, restrict or distort competition in the relevant market). The Commission authorized the take-over but, taking into account the farmers' concerns, made it subject to Parmalat continuing the formal contacts established with dairy farmers throughout the country, as well as maintaining the shares that a dairy farmers' consortium had in the company. Parmalat's exclusive distribution arrangement was also authorized subject to removal of price fixing and territorial restraint clauses.

These phenomena are not limited to South Africa. In Brazil, for instance, 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 from 129 to 270 litres (DREE 2001). The recent Chilean experience also points at increasingly antagonistic relationships along the supply chain. In January 2003 competition authorities (i.e. 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 the product.

4.4. 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 incredibly well-endowed in a large variety of precious and base minerals (**Table 20**). 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. Yet 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. The experience of 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, in particular 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. The experience of South Africa, the continent's mining superpower, was covered in **Box 2** above.

Table 20. SADC Mineral Statistics

The Zambian economy derives most of its foreign exchange earnings from export 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. State ownership was characterised by inefficiency and corruption, most foreign

investors withdrew from the country, and many small and medium local enterprises working either in servicing parts or on an agency basis were forced out of business as a result of the 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.[94] The concessional arrangements afforded the new owners import, tax, and other waivers in exchange to refurbishment, expansion, and further exploration.

Prior to its privatisation, the ZCCM employed an elaborate system of procurement, involving the pre-qualification of suppliers and the implementation of competitive tenders (World Bank 2003c). ZCCM's procurement of goods and services had a huge impact on the local economy, with hundreds of local firms involved. The extended period of the privatization created enormous uncertainly for many Copperbelt area suppliers and saddled many such companies with unpaid arrears from ZCCM which eroded their financial position 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, a demand that was met almost exclusively by non-Zambian companies. With time, more attention has been devoted to local suppliers and procurement arrangements, but by the time that this mutual awareness improved, much of the needed 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, the recent trend has been towards employees remaining in the Copperbelt. Although the formula used by ZCCM to calculate terminal benefits was generous by local standards, lacking alternative income sources many such individuals have quickly exhausted their retrenchment package. One way of lessening the effects of retrenchment and to reduce dependence on mining is to encourage the retrenchees to establish their own commercial enterprises or to 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. The central point of this process is 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 Small and Medium Enterprise (SME) development, as well as to a study to look at the constraints and opportunities for micro-enterprise development in the agricultural and agri-business sector.

Although painful, all such changes allowed to reduce the cost of digging out every pound of copper from US$ 1 to 85 cents between 2000-02. Unfortunately, over the same period the

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

world price 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 contains 400m tonnes of copper.[95] With only eight years (and perhaps less) of deposits remaining in the shallow mines and no prospect for financing Konkola Deep, in early 2002 Anglo said the prospects in Zambia were too poor to carry on. The property was resubmitted for public bids by the Zambia Privatization Agency, and was awarded to Sterlite Industries of India in – a significant producer of aluminium, copper and zinc – in August 2003.

A seemingly more optimistic reading of foreign involvement in the sector is provided by the recent experience of Tanzania, in particular in relation to the gold sector. Whilst the country's historically recorded gold production was not significant, the rich greenstone belts around Lake Victoria can be compared geologically, and in size, with some of the major gold producing areas of Western Australia and Canada. These greenstone belts, which also 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. This was followed in 2000 by the US$ 165m Geita project, jointly owned by Ashanti Goldfields and Anglogold, and in 2001 by the opening of the US$ 280m Bulyanhulu project owned by Barrick. Development has recently commenced of the US$ 90m North Mara project owned by Australia's East African Gold Mines, a company in which Anglogold has a 16 per cent interest. Whilst the focus of recent investment has been gold, there 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. A number of other gemstones are found in Tanzania including sapphires, as well as the famous tanzanite, unique to Tanzania. Mineral exports have increased from only US$ 15m in 1995 to US$ 185m in 2000 and by the year 2005 the sector is expected to contribute 6 per cent of GDP, compared to a current level of around 2.5 per cent.

Nevertheless, Tanzania also has its share of controversy. Established companies pay 3 per cent on the value of the minerals at the point of export to the Treasury in the initial phase of production, while investors recoup their investment. This has produced a debate over whether the royalty is too low. In fact this rate is not out of line with mining tax regimes elsewhere. Moreover, the government has no defined revenue management plan for its new riches. Bearing in mind the experience of Nigeria's oil producing regions, the distribution of the royalty income (which all goes direct to central government) and the need for adherence to strict environmental standards are causes of concern. On the positive side, the increasing participation of companies listed publicly on international stock exchanges is expected to improve environment and governance standards. Sensitive to accusations of exploitation, foreign companies such as Resolute and Barrick are already involved in health and education projects.[96]

[95] *Ibidem*.

[96] "Raising the gold standards", *Financial Times*, 24 July 2000.

4.5. *Information and telecommunications technologies*

In most emerging markets, FDI has been associated, especially at the early stage of the liberalisation experiment, with privatisation of state-owned telecommunications companies (UNCTAD 2000, pp. 131-4). The Agreement on Basic Telecommunications Services and its associated Reference Paper that 72 WTO member nations signed in 1998 has been crucial in this respect. Despite controversies and disagreements over market liberalization in telecommunications and audiovisual 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. In this respect the African continent is both similar and different. Similar insofar as in many countries the largest acquisitions by foreign investors were in telecoms; but also different because the pace of infrastructure privatisation in Africa has been so far rather slow, as highlighted by the 2003 *African Economic Outlook*.

In terms of 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 19**, only three countries – South Africa, Mauritius, and Tanzania, in chronological order – have opened the share capital of their state-owned traditional telecom operators to private investors, in all cases foreign ones. Telkom was corporatised in 1991 as the only provider of fixed-line telephone services to the general public. It 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).[97] The stake is the upper limit of foreign ownership as, among the 39 Third World nations that signed the Basic Services Agreement, South Africa was one of the 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). Market conditions and a prolonged policy process delayed the stock market offering, initially earmarked for 2001 and finally concluded in March 2003.

Table 19. Sequence of telecommunications reform in SADC countries

Mauritius Telecom was partly privatised in 2000 when the government accepted a US$ 261 m 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 ones. Interestingly, in 1995 Mauritian authorities had originally planned 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 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[98] 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

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

[98] In Zanzibar TTCL competes with Zanzibar Telecoms Ltd. (Zantel).

and Switching Systems. The deal however has been mired in some controversy. After paying the first $120m 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.

In other countries the objectives of corporate reforms have been less ambitious – and for sure the results far less encouraging. In Malawi, the 1998 reform accomplished two of its goals – splitting the incumbent fixed line monopoly, the Malawi Post and Telecommunications Corporation, into two companies, Malawi Telecommunications Limited (MTL) and Malawi Post Corporation (MPC) and issuing two new cellular licenses – but the government has neither privatized the fixed-line telecommunications operator nor introduced competition in fixed-line services by the end of 2002. In addition, the new regulator, although separate from the Ministry of Information, remains heavily dependent upon 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). Similarly, in Zimbabwe the spin-off of TelOne from the Posts and Telecommunications Corporation has resulted in increased network digitalisation, but the waiting lists for connections exceeds 1 million lines and plans to introduce competition have been derailed by prolonged legal wrangling (EIU 2003). In December 2002 a licence to a second fixed line was granted to TeleAccess, a company controlled by a former army officer.[99] Previously, TeleAccess had won a tender to build the COMESA regional network, but had to first prove that it was providing telecoms services within its home market.

FDI, on the other hand, is widespread in mobile telephony. The experience of MTN, the South African private operator, has been mentioned in Section X.X. above. Vodacom – which is half-owned by state-run Telkom, with Vodafone holding a third – added a GSM (Global System for Mobile Communications) license in Mozambique in 2002[100] to its interests in Lesotho, Tanzania, the Democratic Republic of the Congo and Zambia. Mauritius Telecom has also bought non-controlling stakes in Burundi's Africell (38 per cent) and the Société Malgache de Mobiles (24.5 per cent). It 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. In this sense the results in OECD countries (Boylaud and Nicoletti 2000) are almost perfectly mirrored in Latin America (Estache *et al.* 2002). In the case of mobile telephony, probably the most relevant for development purposes, Africa is no different: competition is critical for rapid mobile expansion and the presence of a State-owned incumbent has a negative impact on expansion (Gebreab 2002). Interestingly, while

[99] See "Zimbabwe ends telecoms monopoly", *BBC News*, 4 December 2002.

[100] The regulator in Mozambique, INCM, issued invitations to tender in March 2002. Twelve companies expressed an interest and purchased tender documents. Four companies 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. Existing operator mCel is owned by the Government of Mozambique (74 per cent) and German company Detecon (26 per cent).

competitive markets grow significantly faster than monopoly ones, 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, in particular, one can be sceptical about the long-term viability of maintaining five operators, and indeed two operators (Vodacom and Mobitel) control the market.

As far as fixed lines are concerned, the lower degree of market liberalisation is explained by the need to secure private investors with rents in order for them to expand geographical coverage. 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, Telkom is required to provide 2.69 million new working exchange lines to add to the network which amounted to just over 4 million lines in 1996. A specified amount of these new lines (1.676 million) were 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 short of the 2.69 million target for new lines to be installed between 1997 and 2002 (Makhaya and Roberts 2003). The network was also almost fully digital by mid-2002, and times for installation and for the remedying of faults have decreased dramatically. Notwithstanding the large rollout programme in fixed line, however, increased telecoms ownership for rural and low-income users is almost exclusively due to the adoption of cellular.[101] Since an important reason is the tariff structure of cellular, any future use of universal service funds should be more technology-neutral, which would enhance the roll of cellular in such plans (Hodge 2002).

The new telecoms policy announced in early 2001 by the Department of Communications favours limited competition for Telkom (Goldstein and Pires 2001). A second national operator was to be licensed in 2002 to provide the full range of public switched telecommunications services. The market will be limited to this duopoly at least until 2005. The vague wording of the text 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). It has been criticized not only by 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.

Finally, 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 has been the case in all OECD and non-OECD

[101] Moreover, although the roll-out target was met, rate rebalancing led to disconnections which were larger than new connections meaning a net decline in fixed lines in recent years

countries. In South Africa, regulatory responsibilities have only partially been located outside of the Ministries. The Minister of Posts and Telecommunications remains responsible for issuing the licences, although Satra has the right to take action against Telkom should it appear that it is giving undue preference to certain parties or causing undue discrimination. Further confusion was created in the discussion concerning the creation of 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 such ideas were both amended at a later stage. ICASA regulates telecommunications services and deals with licensing, tariffs, spectrum management, and dispute resolution. Although 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, Malawi, Mauritius, Mozambique, Namibia, South Africa, Tanzania, and Zambia have also created independent regulators; other states, namely Lesotho and Zimbabwe, are in the process of creating them. Policy co-ordination in this domain is described in **Box 11**.

Box 11. 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 inter-action between and amongst 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 separated regional bodies, one for regulators and one for operators. TRASA aims at increasing communications and coordination between regulatory authorities and supporting the creation of a common enabling environment, in regard to regulation and taxation, so as to encourage investment in the telecommunications sector. Additionally, TRASA seeks to standardise the allocation of radio frequencies and equipment and operating standards and develop the requisite human capital to provide cost-effective services throughout the region. Membership in TRASA is contingent upon a country's law providing for the establishment of an autonomous regulatory authority. Countries, which do not possess 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 for facilitating the implementation of the SADC legislation of Telecommunications Policies and Model Telecommunications Bill. In 2000, for instance, it organised a workshop on Universal Access Models together with the International Telecommunications Union (ITU) and Commonwealth Telecommunications Organisation (CTO). The workshop was aimed at producing regional Universal Access Model, which could be adopted by individual countries within the region to suit their local conditions. The draft Universal Access Model presented, developed by CTO and ITU, includes three sections: guidelines on universal service funds, reverse auctions for granting minimum subsidies and, multipurpose community telecentres.

The World Bank has also signed a memorandum of understanding with TRASA to provide the latter with technical support.

In the 1990s, the fast rise of India, and Bangalore in particular, as an important offshore centre for outsourcing business process previously implemented in OECD countries has shown the potentially positive contribution of the telecoms sector to poverty reduction and inclusive globalisation. In SADC, the island of 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 US has been reinforced with the long-awaited connection via fibre optic cable through the South Africa Far East (SAFE) Project. Operational since June 2002, it allows an initial maximum throughput of 8 GB (34 MB p/second against 10 MB previously). With the help of a US$ 100m line of credit extended by India, the government has also launched the Ebene Cybercity. Modelled on Indian high-tech clusters, the Cybercity is intended as a single-stop facility 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/optic fibre data transmission links and provision for multiple service providers for data and voice communication facilities, with latest technologies of xDSL, GPRS and wireless broadband. It includes plans for providing 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. The project is managed by Parks of Mauritius Ltd and Software Technology Parks of India and construction began in September 2002. So far the largest investment has been announced by Infosys (**Box 12**). 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. Nokia and Hewlett Packard have also decided to set their regional headquarters in Mauritius.

Box 12. Infosys's disaster recovery centre in Mauritius

In October 2002 Infosys Technologies, India's second largest software exporter, announced that it will set up its first disaster recovery centre in Mauritius operational from January 2003. The centre, complete with infrastructure, network connections, telecommunication facilities as well as back up client data, will be on stand-by to take over client projects from across the globe. Serving as an alternate location in case of a disaster in other Infosys development centres, the centre will have a capacity to accommodate 1500 people. In case of an emergency situation, such as natural disasters or political unrest, personnel will be relocated to the centre and work commenced instantly. The centre will first be on a rented site and move to the company's own 25-acre premises in about three years, with an investment of US$ 25m. The Infosys campus will also house a global development centre to service its international clients. The company considered alternative locations before finding that Mauritius is an ideal location because of its close ties with India, sound flight connectivity with many Indian cities and cost effectiveness of operations. Another incentive was that the government had issued 1,500 visas so that Infosys workers could fly to the island in an emergency. Air Mauritius will inaugurate a weekly service to Bangalore in 2003.

Another area of potential interest for foreign investors is the call centre industry. Almost inexistent a decade ago, this industry is predicted to grow to US$ 58.6 billion worldwide by the year 2003. In South Africa there are 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 within the next three to five years (WESPRO 2001). The country is internationally competitive since salaries are considerably lower – by 25 per cent compared with the UK[102] – and the working load is considerably heavier – 243 days per year at 42 hours per week, compared to 220 days per year at 36 hours internationally (Dimension Data Customer Contact Solutions 2001). A couple of international airlines, for instance, have set up call centres in Cape Town. Global Telesales, a Lufthansa Airlines subsidiary company, invested R10 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 are generated from the German domestic market and are routed to 120 German-speaking agents in Cape Town. The Qualiflyer Group opened its ninth global customer care centres in July 2001, providing employment for two hundred persons initially. The Dialogue Group, a British company, has recently invested ZAR 20m in a call centre in Cape Town where staff is responsible for monitoring an American closed Internet portal called Lexchatsafe.[103] The largest operators, however, remain South African-headquartered – in particular Dimension Data, the London-quoted IT services company that runs call centres in six regions and has just set up an 800-seat one for a US customer.

Another country that is promoting its competitive presence is Namibia, which has a considerable German-speaking population. Salaries are much lower than in competing countries in Central and Eastern Europe and the country is also on 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 inquiry and order processing. ABC Bücherdienst GmbH 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 US (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 favorably with other countries that compete on the Francophone call centre market such as Morocco (€ 20,000).

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

[103] "SA Web Nanny for US Kids", *Financial Mail*, 6 June 2003.

5. Implications

This survey highlights a reality that is far more complex that the oft-heard generalisations according to which Southern Africa is integrating at a slow pace to the world economy. There is no doubt that absolute FDI flows and stocks are lower than in Asia, Eastern Europe, and Latin America, but they are still substantial, especially in some countries. Likewise, while the trade opportunities opened up by regional integration *per se* may be less important a motivation for investors than in countries such as Mexico or Hungary, for smaller SADC countries anchoring to a large emerging economy such as South Africa signals a more liberal business environment in which foreign investors find it easier to operate. More fundamentally, relative to regional groupings in other emerging economies SADC is characterised by the great importance of intra-area FDI – not only from South Africa but also from Mauritius and, to a lesser degree, Zimbabwe. This shows that investment opportunities exist, although the business environment remains very uncertain so that only companies that area already familiar with Southern Africa are willing to commit further resources. From a different angle, the huge increase in the number of South African companies internationalising 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 that are not directly linked to formal integration may have a large impact on regional dynamics. In particular, the ending of the AGOA dispensation for low-income SADC countries to import fabric may potentially benefit South African textiles firms as there has reportedly already been a shortage of local cotton yarns and escalating prices as a result.[104]

What is more, there is increasing evidence of the presence in SADC of the same opportunities that "multinationalisation" open elsewhere – and also of the emergence of some of same problems created in the process (**Table 20**). The automotive industry provides a good example of the possibilities that commodity-dependent, high-income developing countries have of introducing mechanisms to deepen the process of manufacturing industrialisation, induce pro-efficiency measures and market-seeking strategies, and widen the sources of competitive advantage. There is no need to remind that in a producer-driven supply chain such as this, the role of foreign investors is clearly crucial. 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 translate in rent-seeking attitudes. Another sector where there is evidence of a virtuous FDI-efficiency cycle is telecoms – although here market competition plays a notoriously more important role than the form of ownership (public vs. private, or domestic vs. foreign). In the case of retail trade and agri-business, on the other hand, SMEs are finding increasingly difficult to compete against foreign business and keep up with heightened quality and organizational requirements.

This concluding Section discusses a number of important policy issues that have to be tackled heads-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.

[104] I thanks Simon Roberts for drawing my attention to this point.

5.1. 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 that is imposed when so-called fundamentals are not sound. Firming so-called macroeconomic fundamentals is clearly necessary for its own good, not only because foreigners demand it but also and more fundamentally because fighting fiscal profligacy helps reducing poverty through more broader tax collection, enhanced spending on education, health, and infrastructure, and reduced vulnerability to exchange rate volatility. Southern Africa is clearly no different from other regions, and well-managed countries, with solid reform agendas and a record of stability and good governance, perform well. In 2002, in particular, Mozambique had growth of 12 per cent – among the fastest in Africa together with other reformers such as Ethiopia, Rwanda, and Uganda.

Privatisation is another area where SADC, and Africa more in general, trails behind the rest of the world and where progress would not only allow to increase FDI, but also provide citizens with better services. According to the UN Economic Commission for Africa, of the 2,300 privatizations 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 and so far privatization has not boosted investment in Africa. Investment codes, where they exist, have by and large failed in restraining government conduct and ensuring private agents against the risk of arbitrariness, unfair litigation, and expropriation (Ailola 1998). This helps explaining the important role that international financial institutions, and in particular the World Bank through its private sector arm, the International Financial Corporation (IFC), play in Southern Africa. IFC participation is often not needed on strictly financial grounds, but rather to provide informal political risk insurance.

On the other hand, it is microeconomic factors that make companies flee, and the record of Southern Africa, and *a fortiori* of Africa, is clearly wanting in terms of improving the business climate – strengthening corporate governance, commercial justice systems, and the regulatory environment. Recurring complains in most firm interviews conducted for this project include the high cost of doing business in the region – including in terms of interest rates, labour administration, transportation and freight costs –, the seemingly unstoppable rise of crime from notoriously high rates, and the deep distortions to 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 proven by the OECD work on regulatory reform. Mauritius and Namibia recently joined the ranks of SADC countries that have adopted competition legislation. In the former, in particular, the Competition Bill sets up a Fair Trade Office and a Competition Appeal Tribunal. Interestingly, the EPZ is put on the same standing as public services and remains immune from the competition legislation. Insofar as benchmarking of best practice models would assist in driving down costs, it is also remarkable that South African authorities are using the OECD peer review mechanism to improve their competition policy (OECD 2003).

The dearth of qualified labour is another major issue affecting SADC countries' ability to attract high-quality FDI, and in the face of the severe budget constrain it calls for innovative forms of private-public partnership. Over the past three decades, South Africa and Zimbabwe, the two countries with the largest pool 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 "brain drain" is very had to quantify – despite the alarmism that the media has spread on the basis of unsound evidence[105] – 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.[106]

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. It was only in 2001 that the ANC admitted that skills immigration is not necessarily disadvantageous to South Africans. The 2002 Immigration Act has replaced the Aliens Control Act, the last major piece of apartheid-era legislation left in South Africa. As far as work permits and/or permanent residency for high-skilled migrants and their families are concerned, the three main pillars of the reform are easing of "red tape" requirements, relying on market forces to determine where skills are most needed (rejecting the centralized, state-run points systems used in Canada and other immigrant-receiving countries), and requiring 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 (2003) 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 to utilise skills not available in the South African labour market. McDonald and Crush (2003) on the other had observe that the new approach to skilled migration creates a sense of 'good' versus 'bad' immigrants and contributes to a general mood of distrust about non-citizens.

A further concern is that 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.[107] As the rand depreciated against Western currencies in the early 2000s, Old Mutual has 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 be in breach of the law if standards do not meet their EU equivalent. Pending a standardisation of South African data protection laws with EU rules, the solution has been to dump a copy of data on British customers back in the United Kingdom every night.

5.2. Designing an appropriate FDI strategy

Additionally, a successful FDI strategy may require some *ad hoc* measures. For a given record in terms of macroeconomic stability and good governance, Southern African countries

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[105] McDonald and Crush (2003) review some such statement and argue that "the magnitude and impact of the skills haemorrhage are simply assumed rather than demonstrated".

[106] 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 over the next five years. 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.

[107] See "It's back to base for OM back office", *Financial Times*, 21 August 2002.

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 their micro-foundations are adequately dealt with. Greater effectiveness is associated with certain internal characteristics of the agencies, such as the fact of having established reporting mechanisms to the highest country's policy makers (i.e., the president or prime minister) or to the private sector. Such institutional links are crucial because they contribute to strengthen the government's commitment as well as reinforce the agency's credibility and visibility in the business community.

Moving on to the efficiency spillovers from inward FDI, the literature suggests that openness to imports, a proxy of the competitiveness of host country markets, and the technical capability of local firms are among their most important determinants. If this is so, the capabilities that Lesotho, for instance, has built up in clothing manufacturing are not yet sufficient to sustain FDI once trade privileges are withdrawn (perhaps as early as two years) and Lesotho faces full competition. Both of these characteristics can be influenced by the host country policy. However, it is difficult to provide unequivocal policy advice, since some of the policies that maximize 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 what can be termed unfair import competition and the World Bank advises to "review (and reform, where necessary) existing tax arrangements and exemptions". In other words, there is no first-best "institutional technology" that is inherently superior and may 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.

If anything, this point reinforces the need for a fair evaluation of different options at the national level, devoid of ideological *a prioris*. The experience of the newly-industrialised countries in Asia also 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. And this certainly applies to the best-performing SADC countries too: as Rodrik (2003a, 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 only start venturing into "strange" countries once there is 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 this, policy-makers must creatively package basic economic principles into institutional designs that are sensitive to local opportunities and constraints (Rodrik 2003b). For this reason the debate on development strategies that is 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. There recently seems to be a shift towards a policy mix that acknowledge more openly that a contractionary macroeconomic stance to reduce fiscal imbalances in the immediate may actually damage local and foreign investment in the medium run.

This discussion also highlights the all-too-obvious issue that national interests diverge between industrial and developing countries – or OECD and non-OECD ones to use a definition that, while not very accurate, is common – when discussing 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 to the investor- state dispute settlement mechanism. Both the Singapore and the Doha Ministerial declaration clearly provide that negotiations will only be launched after explicit consensus by all members. South Africa has been a vocal exponent of developing countries' resistance to proceed hastily on such a multilateral agreement on investment and to avoid the pitfalls experienced with TRIPS. Conversely, it has appealed for widening to agricultural subsidies and antidumping the scope of free trade talks between the SACU and the United States, citing the failure of the WTO ministerial meeting in Cancún as a reason.

5.3. 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 becoming a drawn-out process (Kabelwa 2002). In the case of Lesotho, while all investors state that bureaucratic red tape is not a cause of concern, "a major problem that may not be immediately apparent is the almost individual distrust with which most Basotho view the South East Asian investors […] Many Basotho believe that [their] businesses have been compromised by the Government's inability of 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).

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 were exploiting to their advantages the rents created by autarchic economic policies and are obviously threatened by the emerging competition from more efficient foreign producers. But it call 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 to those that lose from it. Converting a general principle into a workable policy solution, however, is not straightforward, since it is difficult to assess who are the losers and what are their losses.

An additional problem in SADC is that industrial activity, already highly polarised in the richest and largest market, is likely to concentrate even further in South Africa as firms locate where they produce more efficiently and workers enjoy higher welfare – that is close to large markets, where in turn more firms and workers locate. As Puga (2002) notes in the case of the EU, this creates a cumulative causation process that tends to increase regional differences. The record of public policy mechanisms to redress these trends, however, is mixed at best – not least due to the potentially perverse consequences of improving the transport

infrastructure, something that may strengthen the incentives for business to concentrate in the core rather than move on to the periphery.

Finally, the controversy surrounding the Lesotho Highlands Water Project must be mentioned. This well-publicised project will deliver water to the arid Gauteng province, South Africa's industrial centre, via the Vaal Dam and generate hydro-electricity for Lesotho. Campaigners have long alleged that the project is both ecologically unsound and is being conducted on 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 (US$ 2.2m).[108] Announcing his sentence, the judge in the case, Mahapela Lehohla, made it clear he wanted "to send a clear message that companies wanting contracts should not even think of taking a risk in trying to bribe officials. This is the first time a first world company operating in the third world has been convicted of bribing a public official. The amount is staggering... and great harm has been done to Lesotho."[109] Acres is trying to appeal, arguing that the bribes were paid by a middleman without its knowledge. The LHWP official involved, Masupha Ephraim Sole, has already been convicted for his part in the scandal, and is serving a 15-year sentence. A South African consultant has pleaded guilty to paying him US$ 375,000 on behalf of Italian construction company Impregilo, which denies knowingly bribing Sole. The huge weapons procurement programme in South Africa has also been at the origin of a complex legal investigation, involving both local policy-makers and foreign defence companies.

The risk that the potential benefits of FDI may be forfeited because of corruption is obviously 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 that are traditionally more conducive to inappropriate financial and budgetary practices. As the ICG recently reported, "those 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" (2003, p. 15). Foreign investors undertaking resource extraction could provide independent information about payments. As the World Bank (2003b) 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 coordination in the oil industry and other extractive industries" (p. 129).

Various approaches have been suggested. One is to make all such payments a legal reporting requirement. An alternative, proposed by Global Witness and George Soros, is to make such reporting a requirement for listing on major stock exchanges. A further alternative is for the

[108] 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).

[109] "Canadian firm fined for bribing top official", *The Herald*, 29 October 2002.

companies to 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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Table 1. Main Features of the FDI Regime

	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 approved e in February 2003, still awaits passage by the National Assembly.	Yes	Yes (defence, public order and security).		On capital and money market transactions, real estate, and personal capital movements.		No	
Botswana	Yes	Yes, although foreign investors do not have access to assistance loans and grants designed for citizen-owned contracting firms or for small enterprises	Some sectors solely for citizen participation (i.e. closed to other non-citizen African and South Asian residents). Most restrictions are circumvented (many foreign investors have continued to invest in certain areas, such as gas stations, through franchising to Batswanas).	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.		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.
DR Congo							January 1975	
Lesotho	*De facto* screening for very small-scale	Prohibition on ownership of land-lease titles.	Restrictions in licensing of business and	No	Approval needed for the transfer of profits and the	No		ICSID and MIGA member.

	manufacturing.		consumer services		proceeds of disinvestment (no case recorded).			
Malawi	No		Preference to Malawians in privatization projects. A new land ownership policy issued in 2002 prohibits foreigners from owning land.	Not in compliance with TRIM notification requirements. However, Malawi does not set performance requirements for establishing, maintaining or expanding an investment.	Non-residents may hold FX accounts; neither residents nor non-residents are permitted to hold offshore accounts.	Yes	June 1970	
Mauritius	All applications for an investment certificate must be made to the Board of Investment and be processed within 4 weeks (8 when an environmental impact assessment or a development permit is required). Offshore business and freeport licenses approved directly by MOBAA and MFA, exempt from cabinet approval.	The government offers local and foreign investors the same incentives. The incentives do not carry performance requirements.	Foreigners may not own land without prior permission; no discrimination against foreign investors, although the government encourages local participation.			Incentives are available in three broad areas: (i) EPZ; (ii) the freeport which provides warehousing, packaging, assembly, and logistics facilities for re-export activities; and (iii) offshore business. Permanent Residence and Regional Headquarters Schemes recently introduced to attract new investors and multinationals. Specific	September 1976	ICSID and MIGA member.

						incentives expected to attract advanced technology industries as well as skill-intensive and knowledge-intensive services.		
Mozambique	Industrial Free Zone status, provided for under the general investment scheme, requires a minimum investment of US$ 5m and depends on the number of jobs created for Mozambicans, the use of and added value to Mozambican resources and products, and the generation of foreign exchange through export. Applications handled by the Investment Promotion Centre and subject to a maximum of 45 day processing limit.		Private land ownership is prohibited.	In mining.	Both residents and non-residents may hold foreign exchange accounts.		July 1998	
Namibia		Yes					No	Guaranteed by the Foreign

								Investment Act
Seychelles							November 2002	
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 6 to 8 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				Both residents and non-residents may hold foreign exchange accounts, but residents face quantitative limits.		May 1991	
Tanzania	Minimum investment capital of US$300,000 for					TIC-approved companies and investing in specified priority	No	

	foreign based investors					sectors benefit from reduced withholding taxes on dividends and interest of 10% and 0% respectively. Mining companies also benefit from certain withholding tax reliefs. Agricultural companies enjoy specific advantages.		
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 privatization process is open to foreign bidders		There are no requirements for local content, equity, financing, employment, or technology transfers.		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, the internal dispute settlement. Failing that, the parties may go to international arbitration, which the state recognizes to be binding. ICSID and UNCITRAL member.
Zimbabwe	Proposals must be approved by the Zimbabwe Investment Centre; Ministry of Home Affairs responsible for		Official policy supports the maximum Zimbabwean participation in any new investment	While there are no general performance requirements, authorities welcome investment in		Several tax breaks available for new investment by foreign and domestic companies. Capital	December 1981	1965 convention on the settlement of investment disputes between states and nationals of other states, and to the

	the issuance of work permits for expatriate staff. Both initial and renewal issuance of work permits has, at times, proved problematic.		project. While no specific requirements have been defined, 30% local participation is a widely accepted benchmark.	enterprises that contribute to rural development, job creation, exports, use of local materials, and transfer of appropriate technology.		expenditures on new factories, machinery and improvements are fully deductible and import tax and surtax are waived on capital equipment.		1958 New York convention on the recognition and enforcement of foreign arbitral awards. No precedent of resort to arbitration according to UNCITRAL rules.

Source: OECD

Table 2. Industrial Development Zones in South Africa

IDZ	SDI (South African province)	Target sectors	Comments
Corridor Sands	Limpopo Valley	Titanium mining	Seems to be on track and, if everything goes well, will commence implementation in 2003. South Africa, Mozambique and Zimbabwe also 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 R3bn highway is to 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
Guateng, 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 R9bn steel plant near Saldanha Bay is to be built
Johannesburg with Windhoek and Walvis Bay	Coast to Coast, linking in Namibia	Road building and multisectoral	

Source: www.idz.gov.za

Table 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 (% GNP)	Adult HIV incidence (%)	Literacy (15-24 years)	Networked readiness index	Scientific publications (1986-1999)	Corruption perception index	Business establishing 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	..
DR Congo	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	29382	4.8	0.19
Swaziland	2.1	8.7	22	33.4	89.6	..	78	..	..
Tanzania	5.4	5.5	60	7.8	..	..	1136	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	1485	2.7	0.32
Other emerging economies									
Brazil	2.4	7.8	38	0.7	94.0	62	40856	4.0	0.45
China	7.5	0.1	10	0.1	98.7	36	87051	3.5	..
Hungary	4.0	7.4	38	0.1	99.8	70	24162	4.9	1.01
Indonesia	3.3	10.9	70	0.1	98.3	41	1376	1.9	1.05
Mexico	2.8	7.5	22	0.3	97.4	56	19239	3.6	..
Thailand	4.1	1.1	54	1.8	99.4	57	4367	3.2	0.20
Turkey	2.0	43.1	67	<0.1	98.8	59	17602	3.2	0.37

Sources: IMF (2003), *World Economic Outlook*, April; 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*.

Table 4. FDI inflows

	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
DR Congo	-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 percent of Africa total	*27.5*	*35.3*	*47.5*	*35.9*	*45.3*	*36.7*	*53.7*	*31.0*
as percent of developing economies	*1.6*	*1.4*	*2.6*	*1.7*	*2.4*	*1.3*	*4.8*	*2.1*
as percent of world total	*0.5*	*0.5*	*1.1*	*0.5*	*0.5*	*0.2*	*1.2*	*0.5*

Source: UNCTAD

Table 5. FDI stocks

	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
DR Congo	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 percent of Africa total	*65.4*	*42.7*	*32.1*	*32.6*	*46.8*	*46.0*	*44.8*
as percent of developing economies	*6.8*	*3.6*	*3.0*	*2.7*	*3.3*	*3.3*	*3.3*
as percent of world total	*3.0*	*1.5*	*0.8*	*0.8*	*1.1*	*1.1*	*1.1*

Source: UNCTAD

Table 6. 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
DR Congo	-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		
Africa total	*5.3*	*5.3*	*9.7*	*8.0*	*11.8*	*8.8*	*19.4*	*8.9*
Developing economies	*6.5*	*6.5*	*11.4*	*12.0*	*14.3*	*14.6*	*12.7*	*10.5*
World total	*4.4*	*4.4*	*7.5*	*10.9*	*16.5*	*20.8*	*12.8*	*12.2*

Source: UNCTAD

Table 7. Values of and country rankings by the UNCTAD Inward FDI Performance and Potential Indices

	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
DR Congo	-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
Total SADC								
Africa total								
Developing economies								
World total								

Source: UNCTAD

Table 8. FDI by Sector in Selected SADC Countries

	South Africa	Mauritius	Botswana	Zimbabwe	Tanzania	Mozambique
Agri-business	0	0	0	15	7	78
Mining	28	0	79	12	39	
Manufacturing	26	10	3	25	22	
Utilities/Transport	3	50	1	7	5	
Construction	0	0	0	4	6	
Trade/Services	4	5	10	37	13	
Finance	39	17	6	0	8	
Other	0	18	0	0		
Total	100	100	100	100	100	78

Source: OECD

Table 9. Sectoral distribution of committed FDI into South Africa, 2000

Sector	US$ mn	ZAR mn
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

Table 10. Foreign liabilities of South Africa by Selected Countries (end-2000)

	UK	USA	Germany	Holland	Switzerl'd	Malaysia	**Total**
Public corporations	..	2 433	..	..	777	1 621	**5 461**
Banking sector	58	1 088	547		53	226	**4 084**
Private non-banking	242 424	15 606	18 411	893	9 407	4 958	**316 977**
Real estate	444	498	132	10 062	10 263	11	**2 337**
Total	**242 926**	**19 625**	**19 090**	**11 006**	**10 263**	**6 816**	328 859

Source: SA Reserve Bank (2002), *Quarterly Bulletin*, December.

Table 11. The Importance of South Africa as Destination of FDI Outflows for Selected OECD Countries

	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
The 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

Table 12. Selected Data for US Majority-Owned Nonbank Foreign Affiliates (MOFAs)

(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	NA
Assets p/employee	138 397	415 495	266 937	97 847	141.44	NA
Sales p/employee	148 798	246 366	162 733	108 788	136.78	NA
Gross product as % GDP	1.3	2.5	3.0	3.6		

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

Table 13. Some South African Emerging Multinationals

CS Holdings	This IT services provider has expanded its operations in Tanzania and Addis Ababa.
Group Five	This is one of Africa's largest construction companies. Overseas activity accounts for 37 per cent of 2002 turnover (28 per cent in 2001) of the group. 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, 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 in sugar exports to RSA during 2001 due to 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 to be sent in advance of goods being shipped and the firm reports problems matching truck loading with the documents. In Tanzania Illovo owns 55 per cent of previously-public Kilombero Sugar Company, with British ED&F Man (20 per cent) and the Government of Tanzania (25 per cent). The investment was motivated by market seeking objectives, Tanzania's 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	Italtile is the world's largest buyer of ceramic tiles. It has a 45 per cent share of the South African tile market. In 2001 it operates 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. There are three stores in Namibia, two in Botswana and Swaziland, and the first one in Dar es Salaam, Tanzania, was opened in June 2001. Six additional stores operate in Australia during the past year, taking the total to nine in three states with another outlet under construction. In spite of the weakening rand, the group is able to import tiles competitively. Italtile imports about 90 per cent of its sales, which were worth about R100-million last year, while CTM imports about 40 per cent.
Metro Cash & Carry's	Has recently opened both wholesale discounters (open to small-scale retailers and the food service sector only) and hypermarkets open to the public in Botswana, Namibia, and Botswana.
MTN	In the first half of 2002 subscribers in Africa grew by 53 per cent, compared to 10.5 per cent growth 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 subscribers. In the rest of Africa, which is almost entirely a pre-paid market, customers spent far more; US$ 60 in Nigeria, US$ 34 in Uganda, US$ 28 in Rwanda, US$ 22 in Swaziland, and US$ 21 in Cameroon. In Nigeria, MTN has signed up its millionth subscriber in its first year of operation. Teledensity is estimated to have increased to 1.6. Due to a lack of available and reliable terrestrial transmission links, MTN Nigeria recently completed the construction of its own microwave backbone route that provides the necessary transmission infrastructure to support traffic flow routes in Nigeria. The backbone, named 'The MTN Y'helloBahn', was constructed through an investment of US$ 120m and can enable up to 1,900 voice calls at the same time. MTN Nigeria's microwave backbone 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, of which eight are operational, with the ninth scheduled to go operational in the next few weeks. In addition, it has deployed close to 400 base stations across Nigeria and is working to deploy a targeted minimum of two base stations a day. In Swaziland, MTN has far exceeded its licensing obligations. With network coverage of over 70 per cent of the country and a customer base of more than 75,000, Swazi MTN has achieved a remarkable population penetration of 7 per cent, among the highest in Africa. By July 2003 all senior management positions are filled by locally recruited and appointed Swazi nationals.

Pick 'N Pay	It has 342 supermarkets and hypermarkets in South Africa, 471 in the rest of Africa, and 70 in Australia – more than tripling its outlets in nearly a decade, and tripling its turnover, which today stands at R18.8 billion (US2.2 billion as at January 2003).
Protea Hotels	Africa's largest hotel group, with property in Southern Africa, Nigeria, and London. In Tanzania, Protea 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 to stem 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 now being considered 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 and "Zambianised" two of the nine original expatriate positions over the past two years. In 2003 it planned to enter four additional African markets (including Ghana) and India. Shoprite has secondary stock market listings in Nambia and Zambia.

Source: OECD

Table 14. Major investment in the Angolan oil and gas industry

Block	Major investors	Description
Zero, including Takula, Numbi and Kokongo oil fields (Angola's largest).	Chevron, Sonangol, TotalFinaElf, ENI-Agip	Total production reached 510,000 bbl/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 bbl/d by 2001.
One, offshore the northern Angolan city of Soyo.	ENI-Agip, Texaco	
Two, offshore the northern Angolan city of Soyo. Major fields include Lombo, Sulele and Tubarao.	Texaco, Total FinaElf	Braspetro Angola (BPANG) founded on January 6, 1981, now operates with three other oil companies in exploration and production of Bloc 2, in offshore Angola. Today, the branch office produces 24,000 barrels of oil a day.
Three, 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 shall start 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 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 kilometers. 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, US$ 250m rehabilitation project currently under way.
LNG project located south of the Zaire River	Texaco, Sonagol	Launched in July 1999, investment of US$ 2.5b. 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 and produce 200,000bpd Korea's shipbuilders also are exporting oil tankers.

Source: OECD

Table 15. FDI in Mozambique: distribution by type and industry (1990-1999)

US$ million

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**
% of manufacturing investment of the type	94	79	81	87
% of total investment of the type	79	43	37	55

Source: Castel-Branco (2001), using various sources (Investment Promotion Centre, fieldwork, and central bank).

Table 16. 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 US$ 1.34bn investment was completed in 2000 and has been producing at full capacity (245,000 tones) since end-2001. The smelter employs 740 people and almost all output is exported. Alumina, coke, and electriccal power are imported. It is estimated that a maximum of 6% of the total construction cost was sourced locally (below the 10% target). An expansion to double capacity is under study.
Hidroeléctrica de Cahora Bassa (HCB)	Governments of Portugal (82%) and Mozambique (18%) **and SA?**	This power generation facility, said to be the region's most efficient, was created in the 1970s by building a dam in a gorge on the Zambezi river It has an installed capacity of 2,075 MW, of which 65% is utilised. The company exports to South Africa and Zimbabwe and the transmission lines bypass Maputo. Although a pricing dispute impeded resumption of actual 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 that is fixed until 2030. Mozambique then finds itself reimporting 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 to increase power generation at Lake Cahora Bassa. It would require a US$ 2bn 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 kms 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 and is expected to enter production in 2004. MISP will employ 750 workers when Phase one is completed and another 750 people after the completion of the expansion in 2009.
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 ZAR 500m 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.

Table 17. Ownership in the SADC textile/clothing supply chain

	Cotton farming	Lint production and yarn spinning	Weaving and knitting	Garment manufacture
Botswana		x		Two thirds of 44 large establishments are foreign-owned (16 by Asian investors), five are joint ventures. Leading companies include B&M Garments, Caratex Botswana (local and Taiwan capital), and Sri Lanka's Tri Star Group.
Lesotho			x	Factories are almost exclusively owned by Chinese and Taiwanese.
Malawi	The Great Lakes Company, which bought National Seed Cotton division, is the major supplier and exporter of cotton in the country. Clark Cotton from South Africa agreed to establish a joint cotton operation with parastatal ADMARC.	State-owned David Whitehead and Sons Ltd is the main cotton mill and weaving factory, with backward linkages with some cotton ginners such as the Salima Ginnery Ltd. Government launched privatisation in 2002 and the two Indian bidders formed a new company, Mapeto (DWSMalawi) Ltd, that bought it for US$ 816,000 in May 2003. The new company is expected to invest over US$ 10m in the rehabilitation of the plant,		Over 10 foreign companies have invested since the establishment of the EPZ in 1993. South Africa's Pep relocated in 1996 following the bi-lateral trade agreement.
Mauritius		x	Around 30 enterprises employing less than 5,000 persons.	Around 250 enterprises, employing around 77,000 persons (3/4 women and 16 per cent foreigners). In 1998 the 8 largest groups accounted for just under half of exports and 53 per cent of employment. Largest companies are Chinese-owned and produce mainly for the U.S. market on a CMT basis. Smaller ones (Franco-, Indo-,

				and Sino-Mauritian) export to the EU.
Mozambique			Two private companies work well below capacity (Riopele and Fábrica de Cobertores R.K), government still controls three units (Texmoque closed since 1993, Texmanta since 1996 and Texlom since 1999).	Ten small factories located in the south and centre.
Namibia		Namibia's first cotton ginning operation is US$ 6m joint venture between a U.S. firm and a Namibian investor. The deal requires 30 per cent Namibian share-holding and US$ 500,000 spent on training.	In 2001 Malaysia's Ramatex invested in a major site comprising four garment factories, two knitting mills, two spinning mills, and two dyeing mills. The site is expected to employ more than 10,000 people and export most production to the United States.	
South Africa		x	x	X
Swaziland			x	Factories are almost exclusively owned by Chinese and Taiwanese. Employing about 2000 people (98 per cent females), Tuntex Textile Swaziland is one of the biggest overseas affiliates of the homonymous Taipei group.
Tanzania	x	x	Some mills have been privatized (Tanzania-China, Ubungo, Morogoro); new mills include Karibu and Lakhani.	x
Zambia	x	Following the exit of Lonhro, two companies (Dunavant and Clark Cotton) have between them an 80-90 per cent market share.	x	x
Zimbabwe	The Cotton Company of Zimbabwe (Cottco, successor to the Cotton Marketing	Cargill Zimbabwe, which processes 30% of the country's cotton, owns three cotton gins.	Cottco's subsidiary Scottco operates a spinning mill using lint produced by a sister	x

	Board) was privatised in 1997; employees are now the largest single shareholder (28 per cent).	Fierce competition among cotton ginning companies that are now introducing various schemes to attract more growers.	company (Motmate). A joint venture between China's Fok Ing and local investors operate Revival Fabrics in the EPZ.	

Sources: OECD; www.bharattextile.com and papers presented at the ITC workshop "Business Implications for the Textile & Clothing sector in Africa of current trends in Multilateral Trading System", Maseru, 18-19 November 2002 (www.intracen.org/worldtradenet/docs/whatsnew/atc_lesotho_november2002/lesotho_atc_2002.htm)

Table 18. Major investments in the South African automotive industry

Company	Location	Description
Assemblers		
BMW	Rosslyn (Pretoria)	Invested more than ZAR 1b and recently announced a further ZAR 2b investment to align the facility with BMW's global network. In addition, BMW SA has pioneered a number of technologies and concepts that have proved so successful that they are now being implemented in other BMW operations internationally. All RHD 3 series, as well as all leather seats for BMW cars, are made in South Africa.
Daimler-Chrysler	East London	Sole global supplier of C-Class right-hand-drive. 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 South Africa gets the go-ahead, an investment of about ZAR 2bn would be required to retool the production plant by 2007, while around eight to ten major suppliers would also 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 per cent 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.
Fiat		Pumped ZAR 400m since 1998 to produce the 178 worldcar family (Palio, Siena and Palio Weekend). In 2001, export exceeded ZAR 1bn, 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 per cent of the component content is domestic. Because of the company's problems, there is the possibility that production in South Africa may seize completely at the end of 2003. Subsidiary Magneti Marelli SA established in 1997 for the production of exhaust systems. Comau plant in Uitenhage (formerly Aims, part of the US Pico group bought in 1999) carries out important activities of 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 per cent 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 ZAR 300m investment. The annual capacity is scheduled to be 25,000 units. The plant also produces the Astra and Isuzu light trucks. More than ZAR 50m have been spent in capital expenditure projects on dealerships. In 2003 ZAR 100m is being spent to consolidate the two paint shops into one, featuring specialised robots and automated exterior spray painting.
Nissan		In 2000, the Nissan Motor Company increased its investment in Automakers by purchasing Sanlam's 37 per cent stake. The stake was subsequently increased to 98.7 per cent. In 2001, the company's name changed from Automakers to Nissan South Africa. Plans to assemble Renault Megane and Scenic was put on ice for the foreseeable future.

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 from South Africa by more than 400 per cent in 2002 to 269 units.
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 per cent.. The company recently opened a new ZAR 168m pressing plant for car side panels and is investing ZAR 3.5b 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 per cent to 74.9 per cent. 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 ZAR 690m on the new Polo and announced a ZAR 2.1b 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 in the future.
Components' producers		
ASEC (Delphi)	Port Elizabeth	Invested ZAR 30m in new equipment, engineering and facilities in 1999 to produce exhaust catalysts, for which the company holds 22 per cent of the global market.
Behr		Facing pressure from key German customers that were looking to expand production in the country, it 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.
Mario Levi and the Dalmaso Group	Uitenhage (Eastern Cape	Opened a ZAR 39m retanning and finishing plant in 2000, which produces 1,200 hides a day, mainly exported to Italian automotive manufacturers including Alfa Romeo. In 2002 Levi announced a further ZAR 79m investment to expand the plant in order to supply additional car makers. The goal is to increase capacity to 3,000 hides a day and staff from 100 to 270. Although the quality and quantity of local inputs remain a problem, 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	Invested US$ 20m 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 per cent. Expatriate personnel have been used extensively. One year later it was running at the optimal capacity level.
		Catalytic converters used by the French groups Renault and Peugeot PSA are sourced in South Africa; fully built-up imported models from both groups are now being marketed in SA by dedicated dealerships at a competitive price as part of the duty rebate. B

Source: OECD

Table 19. Main performance data for the South African automotive industry

	1995	1996	1997	1998	1999	2000	2001	2002
Market dimension								
Domestic production (units)	373712	374758	342535	286159	266349	289333	299035	
Exports (%)	4.0	3.0	5.4	8.3	18.3	19.0	26.5	
Total local markets (units)	395793	421076	399275	351510	325775	356082	384099	
Imports (%)	5.5	11.0	14.2	18.6	18.2	18.7	22.1	
Export data								
Components exports (Rm)	3318	4051	5115	7895	9600	12640	18585	24500
Built-up vehicle exports (Rm)	900	750	1600	2100	5100	7400	11400	15500
Factors of production								
Assembly industry employ't	38600	38600	37100	33700	32000	32300	32700	
Component industry employ't	81000	89000	78000	70000	60000	59500	58500	
Capital expenditure (Rm)	846.8	1171.3	1265.3	1342.1	1511.0	1561.5	2078.2	
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*.

Table 20. SADC Mineral Statistics: World Market Shares

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		
Gold	SA	16	16	19	40
Kyanite	SA	48	48		
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		
Selenium	ZM	>1	>1	4	4
Silicon	SA	3	3		
Tantalum	DR, ZI	5	4		
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: U.S. Department of the Interior/U.S. Geological Survey (2003), *Mineral Commodity Summaries*.

Table 21. Sequence of telecommunications reform in SADC countries

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Angola										
Privatisation										
Fixed competition										
Mobile competition	1	1	1	1	1	1	1	2	2	2
Autonomous regulation						M	M	M	M	M
Botswana										
Privatisation										
Fixed competition										
Mobile competition					2	2	2	2	2	2
Autonomous regulation			M	M	M	M	M	M	M	M
Lesotho										
Privatisation									70	
Fixed competition										
Mobile competition		1	1	1	1	1	1	1	2	2
Autonomous regulation							I	I	I	I
Malawi										
Privatisation										
Fixed competition										
Mobile competition		1	1	1	1	2	2	2	2	2
Autonomous regulation					M	M	M	M	M	M
Mauritius										
Privatisation									40	
Fixed competition										
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										
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										
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										
Mobile competition		1	1	1	2	2	2	2	2	2
Autonomous regulation										
South Africa										
Privatisation				30						
Fixed competition										
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										
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										
Mobile competition		1	2	2	4	4	4	4	4	4
Autonomous regulation										
Zimbabwe										
Privatisation										
Fixed competition										
Mobile competition	1	1	1	1	3	3	3	3	3	3
Autonomous regulation								M	M	M

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

Notes: The percentage figures indicate the share of private equity ownership in the incumbent operator. The letters in the fixed row correspond to unbundling of local loop services (U) and multiplicity of operators (M). 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).

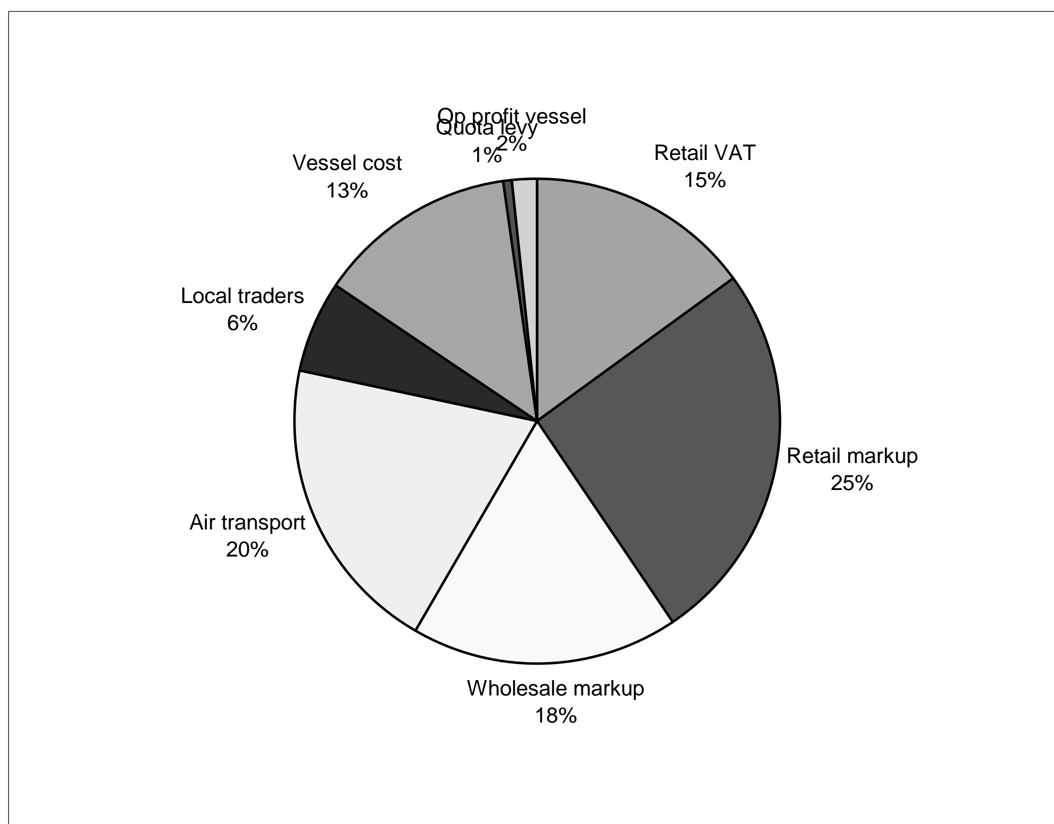
Table 22. FDI and Industrial Competitiveness in SADC countries

	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

Figure 1. The fish value chain

Percent shares of retail value



Source: Hesselmark (2003)