Stability, Poverty Reduction and South African Trade and Investment in Southern Africa

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Conference Proceedings

Bridging the divide between South Africa and the region through development
Jeff Radebe, South African Minister of Public Enterprises

South Africa is the economic powerhouse of the region. Its lead in infrastructure, administrative and financial capacity is a result of the country' s historical role as settler colony and a supplier of minerals to the imperial and international economies, and should not be seen as due to the special nature of its people.

We also need to recognise the negative impact that apartheid destabilisation, including deliberate attempts to destroy infrastructure, had on neighbouring countries. Despite this South Africa's first decade of freedom has seen friendly relations with its neighbours. This has enabled it to begin playing a more constructive role in building up the sub continent.

South Africa's infrastructure can serve as the basis for reconstruction, but the fact that many South African companies have come across as uncaring in their expansion into other African countries is a major problem. South African companies and state owned enterprises (SOEs) need to direct investment to areas of higher social benefits and sustainability. NEPAD aims to encourage a people centred approach to development based on peace and security on the continent.

The government encourages state owned enterprises to conduct themselves with the utmost probity and the highest ethical standards in other African countries. They must observe local customs and law, and work to encourage sustainable development.

At present there are no monitoring structures to oversee the external activities of state owned enterprises apart from government instructions and the requirements of the public finance act. Government is considering setting up a code of conduct and enabling parliament to play an oversight role. The African Parliament may also be able to play a role.

The South African government has begun work to assess the impact of its SOEs in other African countries and encourages the governments of those countries to contact it if they have concerns with the role of SOEs. Government will take the lead in preventing South African enterprises from becoming the new imperialists and hopes that it will get the support of the private sector in this.

Discussion

South Africa companies are perceived as arrogant and as not implementing best practise in labour relations in most African countries. They don't see themselves as part of Africa and see Africa only as a source of profits.
Both private and state owned companies need to be regulated to avoid giving South Africa a bad name.
Are their specific incidents that give rise to the concern that South Africa will be seen as imperialist?

Is there a mandate for state owned enterprises to use local suppliers? Most private investors use South Africa suppliers.

Jeff Radebe

A report by DBSA and Nepad highlights the arrogance of the private sector. In Kenya both government and the private sector are critical of the South African private sector. It is in this context that government is considering a code of conduct for state and private investors to counter the perception that South Africans are the new imperialists in Africa.

The term imperialism is used to describe a perception that South African companies are only there to make a quick buck. To realise the vision of an African renaissance it is essential to ensure that development is always at the centre of commercial activities.

SOEs in South Africa have shareholder and development protocols to guide the way they conduct themselves. Their role is to support development over and above making a profit. Part of their mandate includes promoting broad based black economic empowerment, and participation by women and the disabled. The have big corporate responsibility budgets, and take on big economic projects that may not be economically viable in the narrow sense of the term. They should adopt the same approach in the rest of Africa. An example would be Spoornet's involvement in Mozambique in upgrading the railway line to Ressano Garcia. There are similar projects in Nigeria and Ghana.

Responses from the floor

South African investments have impacts on foreign policy in other parts of Africa, on the policies of other countries and on attitudes to NEPAD.
NEPAD does not have as high a profile other countries in the region as it has in South Africa.

A number of research and policy institutions are looking at the impacts of South African investments in the region including BusinessMap, the Human Sciences Research Council (HSRC), the South African Institute of International Affairs (SAIIA) and Naledi. Other Southern African countries are also looking at the issue, some with funding from the CWCI.

South Africa's activities raise issues around stability, poverty reduction and trade and investment.

Panel One: South Africa's trade and investment patterns in the region

Chair: Margaret Lee

Understanding South Africa's engagement in the region: has the leopard changed its spots?

Sanusha Naidu and Jessica Lutchman, HSRC

Against the background of the growing importance of Africa as an export market and investment destination for South African companies this presentation looks at:

- Continuing investment and trade trends by South Africa into the African market
- A breakdown of major South African corporates in Africa by sector
- Whether South African policy makes it a partner or a hegemon.

South Africa has become the largest source of foreign direct investment (FDI) in the SADC countries and probably the second largest in Africa as a whole. For South African investors the chief attraction is rates of return routinely over 30 per cent and in some cases as high as 60 per cent compared to from 16-20 per cent at home. Most South African investment in Africa is direct, while most African investment in South Africa is portfolio investment.

The percentage of total South African exports going to Africa has increased from 4 per cent in 1991 to 12 per cent in 2001. Since 2002 Africa has been South Africa's third largest export market after Europe and Asia, with the Americas coming in fourth. Imports to South Africa from the rest of Africa constitute just over 3 per cent of total imports in 2003. This makes for a trade balance of around 5:1 in South Africa's favour. South Africa has trade deficits with its other main trading partners, namely Europe, Asia and the Americas. South Africa's top five African trading partners are Zimbabwe, Mozambique, Nigeria, Zambia and Angola in that order.

South African investments include: aviation and airport services; banking and financial services; construction; energy; manufacturing; media and broadcasting; retail trade; mining; tourism and leisure; utilities and information technology. Mining has seen some of the largest investments including Anglo Gold's merger with Ashanti Goldfields, Randgold's investments in West Africa, while Mvelaphanda Holdings is poised to enter the DRC. In the banking and services sector Investec and Metropolitan Life have been prominent while the state owned Industrial Development Corporation (IDC) is involved in 20 African countries. Vodacom and MTN are looking to expand in Nigeria and Kenya, SAA has entered the West African market and Shoprite Checkers has branches in 15 African countries and plans to expand into Nigeria in 2004.

There are two schools of thought on this expansion. One argues that there is little evidence of South Africa pursuing a narrow and self-serving hegemonic policy. Proponents point out that the government is at pains to ensure other African states of its commitment to co-operation in line with the notion of an African renaissance, which informs the policies of the AU and NEPAD.

A second view holds that South Africa's role on the continent and in international forums is evidence of a drive to pursue national interests and promote market access for its corporates with little concern for its neighbours and the continent.

This raises the issue of whether it is possible to regulate this investment.

Trade and investment in the region

Richard Kamidza, SEATINI

The region has significant natural resources and there is potential to increase regional trade and production. However, this potential is constrained by limited capacity, harsh socio-economic and political conditions and government policies that have not led to equitable or sustainable development. South Africa and Zimbabwe dominate regional trade but in general liberalised trade and investment have not facilitated development. Most countries depend on commodities and compete with one another for markets, a number of countries depend on trade in a single commodity.

South Africa is the hub of foreign direct investment in the region and along with Angola, Mozambique and Tanzania has registered impressive growth in investment flows. In contrast Zimbabwe has seen a sharp decline in investment. Much of the FDI is linked to conditionalities that need investigation to establish possible impacts on social and economic policies and labour laws. FDI has often failed to take on the issue of social responsibility.

Neo-liberal policies have failed to enhance competitiveness. Privatisation has led to a high rate of de-industrialisation contributing to a narrow and weak industrial base and low trade and investment flows.

It is important to look at the relations between SADC countries and between SADC and the outside world. Rules and regulations within SADC need to be harmonised to facilitate flows of capital, labour, goods and services and to harmonise the political and socio-economic policies and plans of member states.

In trade negotiations at the WTO and with the EU and in other multilateral and bilateral negotiations SADC countries are deeply divided by differing interests and relationships with particular trading partners.

Mapping South African trade and investment in the region

Reg Rumney, BusinessMap

The presentation focuses on FDI, which tends to be more long term than portfolio investment. Countries in the SADC and the rest of Africa do not offer many opportunities for portfolio investment. South Africa's main investments in the region have been in

Mozambique, the DRC, Namibia, Zimbabwe and Tanzania. In Zimbabwe there has been quite a lot of portfolio investment as conditions there have meant that there are a number of bargains.

The figures do not support the view of South Africa as a regional hegemon. Though trade with Africa is growing South Africa still conducts most of its trade with Europe, Asia, the Americas and Oceania. It accounts for about 25 per cent of investment in the SADC region but is also investing in the rest of the world where the numbers tend to be much larger. For example, in the period from 1994 to 2003 South Africa invested about R60 billion in the SADC but a single investment outside the region, such as the South African Breweries merger with Miller, amounted to R5 billion – equivalent to a large chunk of the total investment in the region. One reason for investing in the region is that exchange control regulations favour SADC countries and Africa in general.

Though investment is mainly in resources, basic industries and utilities, South African, more than other investors in Africa, have gone into services and there are significant investments in the banking, financial, retail and telecommunications sectors. The development potential of investments in sectors such as telecommunications should not be underestimated.

Mozal, one of the single biggest investments in Mozambique captures one of the biggest problems of FDI, the potential to create an enclave economy that only benefits an elite. This has happened with the oil industry in Angola and the same could happen with Mozambique. It is early days yet and this aspect needs external evaluation.

This underlines the need to build government and NGO capacity in the countries receiving investment to regulate that investment. There are questions around the potential for external regulation although shareholder pressure can influence multinational corporations (MNCs)

Africa is a very risky environment but the high returns that can be made explain private sector investment. The losses also explain why some sectors, such as construction, are now reluctant to invest. The question remains why the government and parastatals are so keen to expand into the region. For Spoornet there are probably good profits to be made now but Eskom is probably looking more to the development of a regional power pool that South Africa could both draw power from and sell power to.

Discussion

The liberalisation of foreign exchange controls after 1997 has increased South African investment in the region. Haven't privatisation processes also played a role?
In addition to South African state owned enterprises and private enterprises filling gaps left by privatisation, they have also taken over dominant companies like Lonrho.
What proportion of South African FDI in SADC is by state owned companies or companies with a significant government stake?

What are the downstream effects such as employment, small business development and other spin offs?
There are rumours that a lot of South African private sector companies are using Africa to get money out of the continent. Also that in large parts of the region local managers are being fired and those displaced by affirmative action policies in South Africa are being redeployed.

Reg Rumney

The post apartheid surge of investment from South Africa has been mainly in resources. The downstream effect of investment in resources is quite limited unless policy links FDI to beneficiation. Otherwise there may be some training but the minerals go out and so do the dividends.

Investment in things like cell phones and banking not only exploits a country's resources but also gives something back by oiling the wheels of commerce and industry. As the biggest economic power in the region South Africa will generate resentment and this needs to be managed through social responsibility programmes that support local business, put in local management as much as possible, and by social investment programmes.

Most FDI is private, where parastatals have ventured in it this has been through concessions and joint ventures with very little direct investment. Privatisation has not played a dominant role in FDI; a lot of the investment is in green field projects. South African state owned enterprises have taken advantage of privatisation in other parts of Africa. The issue is whether the state owned enterprises will be keen to continue with those investments in support of NEPAD when they are privatised or will they fall away? It is also an issue for people in those countries who ask how Eskom can invest in privatisation in their country. There is some contradiction but the government does seem to have a genuine commitment to underpin the internally driven process of renewal in Africa by supporting the development of infrastructure. Cell phone companies have played a big part here.

From the floor

If NGOs help to build the capacity of organised labour and this leads to stronger labour laws could this act as a disincentive for investment?
An SAIIA study on Mozambique indicates that South Africa companies source less than 10 per cent of supplies locally. Reasons given include inconsistent supply, lack of quality and volume. The issue of an enclave economy is very real but South African investment has also had a very positive impact on the revival of some sectors such as agriculture where a small investment has had a big impact.

Reg Rumney

Not aware of any evidence of South African companies using investments in Africa to funnel money out of the country. South African authorities should look at this question.

There has been a change in emphasis for at least one of South Africa's big transnationals. South African Breweries (SAB) initially invested heavily in Africa because it felt that it had an advantage in third world conditions. Subsequently it has sold out some of its African investments and moved on. In its wake it has left functioning breweries and made space for local private investment.

The labour issue centres on gross exploitation rather than compliance with minimum labour laws. If South African companies think they can get away with apartheid style exploitation they should think again. Un-unionised labour is notoriously difficult to deal with. In general companies do not mind dealing with organised labour but they do have a problem with governments that act as organised labour.

Enclave economies are a problem and companies like Shoprite Checkers need to look at building capacity seriously. There is a lot of resentment about trade imbalances and the lack of reciprocity in trade and investment. There are very few investments in South Africa from the region. The two newspapers, *This Day* and the *Mail and Guardian*, are isolated examples. We need to encourage reciprocity of investments and allow companies from the region to invest in the lucrative South African market.

The South African market is very difficult to invest in because it is dominated by big local monopolies. The recent introduction in the budget of opportunities for foreign companies to invest in the stock exchange is a starting point.

Responses from the floor

Are there any studies of investment possibilities in agriculture? Agricultural investments have a big multiplier effect and most of the poverty is in rural areas.
What are the possibilities in infrastructure development? This is central for development but Murray and Roberts has had a dismal record.

South African public enterprises were built up under apartheid to enable South Africa to fight sanctions. This contrasts with other countries in the region where state companies have been privatised and have gone into the hands of European based private companies. Investments by South African state enterprises are having a big impact. What proportion of the profits of South African state enterprises come from operations in the region? These companies subsidise services such as electricity in South Africa.

South Africa does not only have a trade surplus with African countries but also with the EU. For Africa it is an issue. What is South Africa doing to correct the imbalance. The EU and US are being attacked heavily for their trade regimes.

Have heard a lot about the problems and challenges facing regional economic communities but there seems to be no way forward to rationalise these structures and make them viable.

The capacity to regulate is a problem. Are there initiatives to create this kind of capacity? We cannot invite the International Financial Institutions (IFIs) to do it. We need strong civil society structures to guard against the transnational corporations.
How appropriate is FDI? Much of it is done in the name of relieving poverty and creating stability, but both private and state sectors seem to be investing in heavily capital intensive projects with high poverty creating potential.

Reg Rumney

What are the alternatives to capital intensive projects? The problem is that South African companies are resources companies. The ideal would be for countries to regulate to secure the kind of FDI that they want. The problem is that Africa attracts less than 4 per cent of the FDI flows to developing countries, probably less than 1 per cent of total FDI flows. Can it pick and choose in this situation?

This does not mean that African countries are powerless but they have to structure regulations in ways that will not turn away investment. Black economic empowerment and affirmative action type regulations can work if they are properly structured.

Civil society needs to be drawn in to help with regulation. Governments do not have the capacity to handle it on their own. Civil society in South Africa, including the trade unions, has helped us to avoid a very destructive route.

South Africa does not seem to be doing much to equalise trade flows. The feeling seems to be that free trade agreements will lead to equalisation but there is a supply side problem and equalisation will not happen without some stimulation.

South Africa’s SOE sector is very diverse. Some, like Eskom, are well run and profitable, although in its case this is partly due to over investment in 1980s. There are also some very poorly run SOEs. Spoornet is perceived as being poorly run but it is investing in the region. The problem may be partly due to a mandate that is not well formulated. SOEs tend to invest in infrastructure in the region.

The problems for Murray and Roberts and Group Five come down to the fact that they have not been paid. This is a big concern because if South Africa is to play a role in developing infrastructure road transport is an important area. Both companies are very unhappy about the situation. They are continuing in some places in Africa. Their problems reflect on the high risk/high reward nature of investments in Africa.

Not aware of any studies on investment in agriculture and the figures for agriculture are not separated out of the global figures.

Sanusha Naidu

It is not clear what is happening about South Africa's trade surplus with the region and Africa. South African negotiations at the WTO are focused more on global issues.

On the question of downstream effects on poverty reduction and issues such as job creation, local procurement and whether South Africa is exporting an oppressive labour regime the picture is also not clear.

In the telecommunications field there are some very innovative developments but the question is whether it is addressing development and poverty.

Richard Kamidza

Rationalisation of the regional economic blocks remains a big political issue. Even within countries there are problems. For example Zimbabwe has two union bodies and it is difficult to get them to join up.

Panel two: Voices from the region on South African trade and investment

Chair Mrs Chawe Mpande-Chuulu (COMESA Secretariat)

What is the experience of South African trade and investment on growth and the development of host economies? A view from Mozambique.
Castel-Branco, economist - Mozambique

Under apartheid Mozambique was integrated into the South African economy through labour migration and the transport services that went with them. Both were related to the mineral and energy complex in South Africa.

Towards the end of apartheid and after independence in Mozambique that relationship was partly destroyed by war and destabilisation, and by economic boycott because of the political direction in Mozambique.

Now Mozambique is increasingly integrated with South Africa through FDI in the context of the South African government's spatial development initiatives (SDIs) and specific corporate strategies. The minerals and energy complex along with the financial sector have dominated recent flows of South African investment to Mozambique.

One of the reasons given for the investment in Mozal was low labour costs, but labour is a small part of the total costs of the project. Wages are higher than in other sectors in Mozambique though they are lower than in South Africa. According to the CEO of Mozal the main reason for the investment was Eskom's strategy. Mozal consumes three times the electricity consumed in the rest of Mozambique and since it began operating electricity imports from South Africa have increased.

In the same way the reason why three out of four of the big sugar estates in Mozambique are owned by South African companies has more to do with the strategies of these companies than with development in Mozambique.

Total gross investment in Mozambique is 60 per cent private and 40 per cent public. All the public investment is grant financed. Of the private investment 36 per cent is FDI and of this 40 per cent is from South Africa, amounting to 15 per cent of private investment and 9 per cent of total gross investment. However, the impact of South African investment is much greater because the 18 per cent of projects in which South African investment is prominent account for 75 per cent of all private investment in Mozambique. Most of this investment is concentrated in Maputo with very little reaching the outlying provinces.

Mozambique is spending a lot of time and money promoting itself as a tourist attraction. But most of the investment that comes to the country comes because of South African corporate strategy.

Most of these projects have very strong links with domestic firms in South Africa. In 2002 Mozal bought US$78 million of goods and services from Mozambique. The bulk of this was for water and electricity. Two thirds of the remainder was from South African firms relocated in Mozambique to supply Mozal. Much of the remaining third was sourced from Mozambican firms engaged in joint ventures with South African companies; some of them black economic empowerment companies. In terms of linkages the net contribution to value added in Mozambique came to around 10 per cent. In general linkages in the mineral energy complex are very low.

Six industries, aluminium and energy, natural gas, heavy/mineral sands, sugar, beer and cement, representing 13 firms absorb 63 per cent of FDI and 60 per cent of total private investment, so investment is extremely concentrated.

The South African government is on record as saying that the main reason for its support of corridor strategies is to link South African industries with sources of raw materials in the region – mainly wood and natural fibres. The South African government also sees a link between mega projects and private investment in infrastructure because they make infrastructure profitable and this enables private sector involvement.

The focus on the minerals and energy complex reflects the interests of South African capital and is having an impact on Mozambique, which is becoming more attuned to this complex. Production related industrial services are becoming stronger and there is an impact on corporate culture and the way companies do business. There is also an impact on government policies, which are increasingly aligned to the strategies and needs of large corporate investors rather than to the development of linkages and diversification.

South Africa is Mozambique's biggest trading partner. Trade flows favour South Africa in a ratio of about 10:1 and this is increasing Mozambique's trade deficit. This would not be a big problem if trade with South Africa helped Mozambique to increase its exports to the rest of the world and secure a trade surplus there but this is not the case.

Employment creation is limited and linkages are very low. For example Mozal does not pay taxes so there is little direct contribution to government revenue. The gross contribution to foreign exchange is high but net is low and very little is retained in the country.

There is some development of industrial and institutional services but mainly to serve the large foreign projects with very few benefits for the rest of the economy.

In conclusion, we should ask what patterns of growth and development are emerging in the region and whom do they benefit? Are their true alternatives to hegemonic investment linked to capitalist development? While looking for those alternatives what can be done to improve the impact of investment for the poor and for workers? Is it realistic to expect that South African corporate investors will pursue social objectives, or will they pursue profits as investors do in the rest of the world? And if this is so, is it not up to the country to set conditions that will make investment conducive to development?

Do South African Corporates play be the rules? Selected case studies in Zambia and Kenya

Frywell Chirwar, Consumer Unity and Trust Society (CUTS), Zambia

What can South African corporations contribute to poverty reduction and what are the limits of government ability to control investments?

Economic growth is important but the majority need to participate if it is to lead to economic development. Therefore we need to look at the extent to which the involvement of South African corporations involves the overall population in the countries where investment takes place.

The business environment in Zambia changed in the 1990s. A new government with pro-market policies came into power. Zambia adopted a full range of liberalisation policies, which required improved management of the macro economic environment. Structural adjustment involved selling off many state enterprises. This coincided with the end of apartheid and much South African investment entered Zambia through this process. In addition some South African companies set up green fields projects.

There is a consensus in Zambia on the need for FDI to bring in new management techniques, market access, technology and standards on quality. Both Shoprite and SA Breweries did not use local suppliers at first because of problems with quality. Both began increasing the quantity of supplies bought locally as quality improved. This has helped to achieve a real trickle down effect.

Countries in the region need investment but investors can do a lot more than they are at present to improve on the development aspects of their participation in local economies. Countries need to look at ways of improving their regulatory environments and consider whether to go the route of self regulation or to implement codes of conduct as suggested by the South African Minister of Public Enterprises. South Africa provides a good example through its affirmative action polices for other countries to consider.

South African corporate expansion and Zimbabwe's economic regeneration

Eddie Cross, economic advisor, MDC

Historically Zimbabwe is South Africa's largest trading partner in Africa. The Zimbabwean economy is in a disastrous decline that it will be very difficult to recover from if the situation does not change soon.

South African companies have played a big role in the Zimbabwean economy, dominating many sectors and South African investors are still heavily involved. South African investment can play a big role in supporting the process of regeneration when it begins. Zimbabwe has huge potential, particularly in mining, agriculture and tourism and, as the hub of regional trade and communications, can provide South Africa with access to the region. This is important because 80 per cent of South Africa's industrial products go to African markets and if South Africa and Zimbabwe are to solve their employment problems this will have to be driven by industrial growth.

South Africa can provide technology adapted to African conditions and financial resources. It can help to provide energy and to build up the transport networks that are necessary for economic growth. But for the relationship to work South Africa has to respect the role of regional partners. They do not want an unequal relationship based on the dominance of the South African economy and big South African corporations.

Too often South Africa has entered international negotiations without considering the interests of regional partners. It has to recognise that it is part of the region and not part of the developed world. It must provide access to its markets and not restrict regional growth to maintain markets for its own products.

Discussion

South Africa has just emerged from apartheid and the government faces problems of transforming the state and regulating the private sector. The government does not control private companies. It must exercise control where public sector companies are involved.

Are all stakeholders aware before South African companies invest that expatriate South Africans will be paid more than local employees and that the companies will not accept products from local suppliers?

We need to know more about where investments originate. It is not always possible to tell whether global investors are using South Africa as a channel to enter the region.

Eddie Cross

Zimbabwean investors have been just as arrogant as those from South Africa and are equally guilty of exploiting historic advantages over neighbours. However, South Africa still does not see itself as part of Africa. It is evident walking around Pretoria that in some ways little has changed although in others everything has changed. The same is true of Zimbabwe. Changing our societies will take time but we have to work at it. We need to recognise these historic imbalances exist and what they mean. It is a problem when the South African government and parastatals participate in corrupt deals with the Zimbabwean government like the Bulawayo to Beitbridge railway line and bridge.

Frywell Chirwar

Selective distribution, a refusal to deal, or an exclusive deal are problems. In the case of Shoprite there was a refusal to deal. The investigation found that all suppliers were aware of the conditions of sale. The problem was that the particular seller did not meet the standards. Shoprite was informed that if it refused suppliers who met the criteria legal action would be taken. Any company that wants to invest in a country must make sure that it complies with all existing legislation and regulations including those governing competition.

Castel-Branco

At Mozal Mozambican workers earn about three times what other Mozambican workers earn. That is not surprising as productivity is much higher given the capital intensity. In addition all workers at Mozal are skilled. They must have a certain level of skill to be employed and they get additional training. A production line manned by 15 workers produces a ton of aluminium a day. Nevertheless wages are half what they are in South Africa. Also South Africans employed at the plant earn considerably more for the same kind of work.

Workers at Mozal organised themselves into a trade union after they went to South Africa for training and learned about the wages and conditions in South Africa and worker organisation. The interesting thing was that the prime minister said that workers should not strike because it would discourage foreign investment and Mozal might leave. This is unlikely given the level US$2.5 billion investment.

The 10 per cent increase in wages secured by workers through the strike will make little difference to Mozal, which makes huge profits. The prime minister also said that higher wages would increase inflation in Mozambique. Statements like this invite investors to exploit the situation. Mozal did not state what wages it would pay before opening the plant but wages are a product of social bargaining and cannot be set unilaterally.

Looking at the issue of stability, research shows that a 25 per cent increase in the Mozambican wage bill will increase Mozal’s net positive contribution to the balance of payments by 7 per cent and its contribution to fiscal revenue will increase by around 5 per cent. So a government like the Mozambican government that is seeking stability must look at things like wage levels. By favouring unrestrained capital accumulation the country is encouraging macro-economic instability. Higher wages and greater contributions to the fiscus can significantly increase the stability of a country like Mozambique.

Mozal spends $2-3 million in social projects. If it increases the taxes it pays by 1 per cent it will contribute an extra $15 million to the state budget. This will have a huge impact on Mozambique and no impact on Mozal. It is wrong to think that by giving up everything you are better off.

Responses from the floor

A negotiated settlement in Zimbabwe may make it difficult to address socio-economic problems and avoid the present political quagmire.

How can you link South African with Europe? If you talk about NEPAD you talk about Thabo Mbeki and how do you link him with thinking as a European?

Do you expect the South African government to sign a trade agreement with the MDC? It can only sign an agreement with another government. Signing a trade agreement with Mugabe's government is not tantamount to corruption.

Are there any partnerships between Shoprite and local companies? This will help to build capacity.

We need to look at the influx of people coming from the region to South Africa because this also contributes to the drain on foreign exchange.

Eddie Cross

ABSA has invested in a local company and has very much played the role of junior partner.

On the other hand there are real problems with the monopolistic role SA Breweries has played in Africa. The South African government should not allow it to hold the monopoly it has in the local market.

Establishing partnerships would do a lot to reduce concerns about South African dominance in the region.

Many people come to Zimbabwe from across the region to buy goods to trade. They play an important role. One advantage these small traders have is an ability to handle the bureaucracy. One of the reasons PicknPay withdrew from Tanzania was that it could not deal with the bureaucracy and still compete with the informal traders. The informal traders do a tremendous job. Five thousand women cross the border between Zimbabwe and South Africa to trade every day. They handle something like 15 per cent of Zimbabwe's total national trading business and support hundreds of thousands of people. There are also 2 million Zimbabweans living in South Africa and sending money home. Something like 30-40 per cent of Zimbabwe's total foreign earnings comes from people living abroad.

Responses from the floor

The South African Department of Trade and Industry (DTI) has instructed its officials not to focus only on retail because it does not necessarily have spin offs for the local economy.

The fourth sugar estate in Mozambique is Mauritian owned and this resulted from a DTI directive to promote South African Mauritian joint ventures in third countries in the region. The DTI also assisted a joint South African Mauritain investment in the clothing industry in Botswana.

Panel discussion: Doing business in Southern Africa; opportunities and constraints

Chair: Sanusha Naidu (HSRC/SARPN)

Iraj Abedian, Standard Bank

Poverty is the biggest problem we face; yet our political system obstructs trade, development and modernisation in the name of the poor. We should not believe that we can stop the global process and be exempt from the dynamics of global business, or social and economic processes.

What we do for the poor needs to be in the context of the global process. We cannot continue to blame everything on colonialism; the mightier force is the future. This conference should look at what we can do collectively in the region to benefit the poor and get the best deal in the emerging global situation in the next few years. What would happen if South African businesses did not invest in the region? It is not their fault if there are no restrictions or regulations, no framework for doing business in a country. You have to ask what measures business has to comply with and how they compare with good practices. These are the right questions to ask to eliminate poverty.

Politicians and governments have to look at how to modernise our joint business frameworks. You cannot alleviate poverty by protecting some local businesses. This perpetuates poverty. There is a big difference between keeping a few jobs in exploitative local business that do not give the masses access to services and opening up to foreign competitors who provide services in an open and transparent manner.

We cannot waste time posturing and setting one group against another, or one country against another. There are over 200 million people on the continent and we have to look at how we can give them all real access to acceptable levels of infrastructure. Our politicians have to give up fighting amongst themselves and look at how they can collectively create a winning network of business infrastructure. Our success in a globalising environment depends on this. The GDP of all the 14 SADC countries taken together is less than the GDP of Turkey, which is not a big player. The real challenges are how to get access to the farmers of Malawi and provide infrastructure for the underdeveloped, war torn areas of Mozambique.

The biggest constraint is the continuing resistance to modernising government institutions. South Africa has the most modernised government in the region. The best thing for other countries is to try to catch up. They cannot expect South Africa to slow down because, by international standards, it is still far behind. South Africa is working on the free trade agreement while others criticise. How do we remove the constraints and wake up the people in government and business who are snoozing, in South Africa and in other countries, while George Bush and his team are sorting things out to suit themselves.

These are the real issues. Let’s not be parochial. We know the constraints. Other countries need to replicate what South Africa has tried to do over the last ten years rather than bash it. We have a choice, either we will all gain or we will stay in a losing situation as we have been before.

Zora Madikizela, Industrial Development Corporation (IDC)

The IDC is a self-financing state owned development finance institution established by act of parliament that promotes sustainable development in South Africa, the SADC and the continent. It works as a private company to promote entrepreneurship and competitive enterprises based on sound business principles. It identifies opportunities not yet identified by the market, empowers emerging entrepreneurs, and acts as a catalyst for investment by providing development finance. The IDC fully supports NEPAD's development initiatives and its mandate has been extended to cover the continent in order to do this.

The IDC has 70 projects across different sectors and plays a role in project development by identifying opportunities and sourcing funding. Projects are mainly large scale and must be profitable and sustainable within a reasonable time frame. The main element IDC looks for is development potential, others include empowerment and rural development.

When investing in a country political stability is essential, the maintenance of an investor friendly environment is important, as are sound monetary management and efforts to combat corruption and protection of property rights. Environmental issues are also important. Economic merit is non-negotiable as IDC shares the project risk. The IDC has made an important contribution to changing perceptions of Africa as a high risk investment destination.

Naseem Davids, Vodacom head of mergers and acquisitions

Doing business in Africa has become easier for Vodacom in the last few years, mainly because it has prioritised setting clear rules of engagement with governments. This makes the flow of FDI a lot easier. While the motives for investment might be selfish telecommunications can have an enormous impact as a catalyst for other developments. Vodacom has identified five key areas in Africa; it is operating in Tanzania, Mozambique, the DRC and Lesotho, and is looking at Nigeria. Market leadership is a key requirement wherever it goes because the synergies this brings make the investment worthwhile.

Private enterprises require a clear regulatory framework and clear interconnectivity regimes to succeed. Governments tend to protect inefficiency through tariffs and regulations. South Africa is no different, interconnection rules perpetuate Telkom's position as a state owned monopoly.

In the DRC Vodacom a faced price war initially but is now in a dominant position. It had to educate the market to show that unsustainable tariffs do not favour anyone. In Mozambique negotiations to set up clear conditions for investment took about a year. In

Lesotho the issue of affordability is important and Vodacom is working to get the government to understand that low tariffs are not sustainable.

Vodacom sees its approach as Afrocentric. This entails taking a developmental look at the business model. For example it has made an up front investment in working with the Zambian government to develop a clear and transparent regulatory framework that will enable it to do business there. The South African regulatory framework provides a model of good practice for other markets.

Vodacom also sets short term operating goals. It needs positive returns from an investment within 18 months. The costs of capital are too great to allow for a longer period, particularly in a market where the rules are always changing. Achieving this return fuels further investment. Meaningful local participation is important not just because it is politically correct but also because a local partner that understands the market is good business.

The country due diligence is critical to the whole process. Conditions for investors are far more difficult in Africa. A pre due-diligence study that would take two and a half weeks in Europe can take years in Africa. Often investments have to be made without finishing the studies and without being able to weigh market potential against macro-economic risk, political stability and the regulatory environment properly.

The next step is to score and categorise the market. This will determine the level of involvement. The star markets are those where there are big opportunities for mobile networks. For example Nigeria, Ghana and Sudan where there is a lot of opportunity for market growth. Then there are operating markets where you need some form of presence, perhaps through partnerships or consultancies.

Sub-Saharan Africa has enormous growth potential. It has very low tele-density and a population nearly three times that of the United States of America. Mobile networks can rapidly expand services, provide a big multiplier effect, and make a contribution to bridging the digital divide.

Key lessons for Vodacom:

- GDP per capita is often not a good reflection of the ability to take up services. We often ignore the huge informal economy and as a result underestimate the size of the market. But we also underestimate the cost of doing business and the unpredictability of the regulator. Business plans have to take this into account.
- We need to establish good governance, clear rules of engagement and stable macro economic environments.
- We need to build capacity and genuine economic empowerment. Its better to service networks locally than with expensive South Africans.
- Need to educate governments on the importance of lowering the cost of doing business and not trying to take too much out of businesses.

Discussion

To what extent have the European trade agreements played a role in modernising the economies and the regulatory systems of SADC countries and what lessons can we learn?

The problems Vodacom faces in the Zambian market include competitors already in that market. Should a private sector company that may be going to compete in the market be involved in developing the regulatory environment? Will other stakeholders, such as consumers, also be brought into the process?

What are the emerging sectors that IDC will focus on in Africa?

Which solely non South African sectors has IDC supported?

Is IDC getting money from the European Investment Bank or the African Bank to own land?

The issue of trade inequalities was not raised.

The Vodacom presentation talked about the need to regulate the state rather than the need for the state to regulate the market. Allegations of corruption around Vodacom's engagements in Nigeria underline the need for the state to regulate the market. Civil society also needs to monitor both the state and large corporations. New South African anti-corruption legislation will regulate bribery in foreign countries by South African corporations. To address poverty we have to break the link between corruption of wealthy local elites and foreign investment.

Corruption is rife in Angola, particularly around the oil industry where big countries are actively engaged in it. The amount of money being stolen there and elsewhere would have a big impact on poverty if it was properly invested and applied. It far exceeds the amount of foreign aid going to those countries.

Where is poverty in this whole debate? Investment and infrastructure are essential. Malawi's transport infrastructure serving export markets was destroyed by the war in Mozambique and by Rhodesian and South African destabilisation. It has never been replaced.

Townships in South Africa and Zimbabwe are located far from the places where people work with the result that they spend 30-40 per cent of their income on transport. These things have to fixed.

South Africa could help with the investments but this should not be at the cost of its companies taking a monopoly position.

Officials on both sides of the border harass the informal traders who cross between South Africa and Zimbabwe and other countries. Yet the informal sector accounts for most of the trade in many African countries. We need to find ways to make it easier for the informal sector to do business.

Iraj Abedian

Yes we learnt from the European trade deal. South Africa's business sector has very little international experience. We learnt that international trade and business is tough and there are no special deals for the poor or oppressed. We need to work collectively and not leave it to South Africa.

The Americans are not into the free trade agreement (FTA) to help Africa but to see where they can dominate. Similarly, we need to see where we can dominate, but we have to go into the negotiations with our eyes open and not expect to get a special deal. We have to go to the negotiations well prepared and with the right options ready. We have to change the mindset that we are owed something. We owe it to ourselves to get the best we can from the negotiations. We have to do the research and we have to bring in civil society. We need to have farmers and business people, the people who have something to lose or gain in our delegations in the same way that the French farmers are there. But our trade delegation is made up of government officials who do not understand business and have little contact with it.

Government ministers have a critical role to play but they do not meet to study the situation and plan before they go to international forums. The Europeans and Americans have spent millions to develop their understanding and positions. They don't just use one institute, they use five or six to make sure that they have got it right. This is what we learnt. We need to speak to the Australians, to those involved in Mercosur and the Mexicans about NAFTA to learn what we can about free trade agreements. It is worrying to hear the Australians talk about how much their banking sector, their telecommunications sector and others lost through the free trade agreement. We have a lot of homework to do.

The business sector, the lawyers, the architects all have to wake up and realise what they could lose. We have the intellectual capability but we are not putting the capacity in place. If the countries in the region join forces and create the capacity we will be able to get a better deal.

Where is poverty falling through the cracks? You cannot have sustainable macro-economic stability if you do not diminish poverty on an accelerated rate. Inequality is not unique to Africa. There is inequality in America and it has the same implications. The child death rate in Washington DC is exactly the same as in Zambia. Just because the per capita incomes are high in the developed countries does not mean that there is no poverty.

There is a global situation panning out that creates two track economies globally. Increasingly this is a global challenge that we have got to worry about.

Naseem Davids

It is important to set the rules of engagement because business struggles with unpredictability. As the regulator and the regulatory environment become more sophisticated they become more predictable and that makes it more comfortable to do business.

When the framework is not clear regulators start to impose restrictions and this may end up with them having no industry to regulate. To create a sustainable industry you need good practice.

Legislation to control foreign corrupt practices is very important. But the state must police this and similar legislation. It is unrealistic to expect private sector players to enforce and regulate this legislation. Companies can adopt a code of ethics and compliance to ensure that people employed by the company do not engage in these practices. But the company cannot control what happens outside the company, what its service providers do. The company has a role to play but the state must determine the broader framework

Zora Madikizela

The IDC operates across a range of sectors including manufacturing, energy and tourism. As an organisation it also looks at new sectors to finance on the continent. More recently it has set up a services unit, which focuses on the transport sector. Other new sectors include health care, education and wholesale franchising.

In Ghana the IDC financed a wholly non South African investment in a hotel but generally speaking there is always some South African involvement in its projects.

The IDC does not have unique programmes for international organisations like the European Investment Bank but it does get funds from these organisations.

Iraj Abedian

In reality bribes are still tax deductible for French corporations although legislation is pending to stop the practice. Germany, Portugal and Spain also continue this practice. The Americans are pressuring the OECD largely because they cannot do the same. Civil society has to highlight these practices. Why are the French sitting on this law if they are so worried about clean practices? Why does SADC or COMESA not have a unit to track corruption? Why is there no interface with civil society to ensure that people involved in these practices as caught? It will not happen if it is left to political processes. This does not only happen in Angola or Nigeria. It is better not to have FDI if it promotes corruption. Why is that 45 per cent of African savings deposited in Europe? Black and white Africans do this. Unless we deal with these issues we will not deal with poverty.

Responses from the floor

Investment has a role to play in development but things cannot be done to suit individual companies. This only perpetuates problems that need to be dealt with for the same companies to progress. Wages and working conditions are part of the bigger picture.

There is a debate about whether the state or business should ensure that things happen. An individual business wants to be the best in the market and is not concerned with the wider economy and how it develops.

We equate business with capitalists but the interests of workers are also involved and their interests are rarely connected with those of the business. Mozambique is seen as good for business because the work force is cheap and obedient. This will reproduce a productive structure that is completely uncompetitive and this means that you cannot expand your market.

These problems have to be addressed from society's point of view as well as from the point of view of business. There must be an environment that does not prevent businesses from operating but also does not prevent development from taking place.

Is it possible to explain the role of IDC in preventing the iron and steel project from happening in order to support Sasol's fight to expel Enron from Mozambique?

What was the point of increasing the mobile phone tariffs in Mozambique?

Who are Vodacom's local partners?

What is the point of having a second operator when the Mozambican market is very small? If the answer is efficiency gains why does Vodacom want to double the tariffs?

One of IDC's criteria is development impact, including job creation. In understanding job creation does IDC take into consideration factors like wages and working conditions?

There is an argument that the rate of return IDC expects often creates debt rather than empowerment.

What has been the interaction of other stakeholders in the process of developing the regulatory framework in Zambia?

Vodacom's approach is described as Afrocentric as opposed to Eurocentric. To support this educational activities and the initial investment in working with the regulator were mentioned. These activities are self serving so what does Afrocentric mean?

There is scepticism about free trade agreements (FTAs) mainly because of the dominance of business, the increasing market share of individual companies and tendencies to reduce employment to achieve economies of scale. How do we deal with the issue of poverty in the face of declining employment?

Why does it take so long to do a due diligence in Africa? There are IMF and World Bank reports along with a number of institutes and sources in the region.

What is there in the India-South Africa-Brazil connection for the region? Some commentators say South Africa will not benefit at all by taking on these two quickly emerging giants.

Was the political situation predictable and stable in Zambia and if not, what were the rules of engagement?

We should blame government officials for taking bribes not the companies involved because businesses will do what it takes to get business, especially when competing with businesses from areas where bribery is institutionalised.

Zora Madikizela

I can’t give an answer to the question on IDC’s role in Mozambique.

When doing its due diligence IDC does look at issues like wages and working conditions.

The IDC has to be self-sustaining, and the rate of return has to provide for this. Its mandate does not allow it to give grants.

There are many issues that affect the length of time it takes to conduct due diligence. For example IDC looks at whether the project qualifies in terms of our mandate. Then there is a process of looking for partners before the actual due diligence is conducted followed by negotiating the contract.

Naseem Davids

The overarching concern in Mozambique was the government subsidy of the existing fixed line operator. The introduction of mobile operators highlighted the need to increase tariffs to level the playing field.

To date other stakeholders have not participated in developing the regulatory framework in Zambia. It is not an ideal situation even if it is self-serving. We took this approach in order to make the investment. A precondition for investment throughout Africa is that the playing fields have to be level and the tariffs have to be transparent.

While our approach is Afrocentric it is self-serving. However we are more attuned to the development needs in these markets than other operators, especially European investors like Orange or Swedetel. They have not tried to take people along and educate them about the uses of mobile telephony and have not looked at community services and public payphones in rural areas. These things reflect that we are Afrocentric and have nowhere else to go. It is self-serving but it is built on the aim of creating a bigger market.

In the DRC Vodacom was in a joint venture with Congolese Wireless. It helped to have a local partner.

Iraj Abedian

Due diligence takes so long because there are real cases of failed states that are not operating and delivering public goods. You cannot get things like the latest figures on foreign reserves without connections. Even in South Africa our statistics are not that reliable, to the north the situation is far worse. How do you do a sovereign risk analysis where none of the macro indicators are up to date and what is available is often clearly inaccurate? When you go from macro risk to sectoral risk the problem multiplies. Then when you go to the regulatory side and apply for a licence you find that there is no procedure to do so, and no budget and the government has to apply for funding to do the work. This is the way the state is run.

This is what we mean by modernisation. You cannot blame South Africa for trying to dominate when things are run like this. Even in South Africa we are fifteen years behind.

I don't support FTA unconditionally. An FTA in Southern Africa would be a good thing. Then everyone could do business and we would not have smugglers. Free trade will break the artificial colonial borders and allow free flowing, job creating trade that will benefit the poor, not the advantaged groups. FTAs are complex. Between a giant like the United States and South Africa and FTA will bring trouble because it reflects the failure of multilateralism. This leads to a proliferation of FTAs in which the United States is saying we will do it in the way that benefits us. They have done it with Thailand and are about to do it with South Africa. Trade has benefits but it can also be a death trap, especially when it is between the very powerful and the weak. There is not enough noise about it from business, farmers, bankers and lawyers. They have to toyi toyi.

There will be little benefit for the region if South Africa, Brazil and India get together. South Africa is faced with the stark reality globally that it has to choose some strategic partners or it will die waiting for its African neighbours to get things together. At least this will give them something to link into down the line. These are the harsh realities of the global system. We are not running or controlling the global system. We are a minor player and have to be strategic – we have to look at what the lesser evils. There are problems with Brazil because we compete on a lot of things, but at the same time there are a lot of complementarities where we can get in to a dominant position by co-operating. We cannot ignore India. It is probably the biggest emerging economic power in the next twenty years. It has far fewer structural problems than China. An FTA between South Africa and India will benefit South Africa and the region at the macro level but it will destroy some industries. We will emerge from it with more jobs but not across all sectors. We cannot be romantic and say that we cannot do something unless it benefits all the countries of Africa.

Responses from the floor

It is wrong to say that companies cannot operate without predictability. Even when things were at their worst in the DRC there were companies making money. Companies want to make money whether it promotes war or not.

One of the lessons emerging from the SADC review was the negative effect of not involving important stakeholders. At the WTO the African group tries to go in as a group and the Southern and Eastern African groups also try to work together. South Africa is pulling the Southern African bloc apart. What is the sense in having two positions? Eastern and Southern Africa are going to negotiate separate agreements with the European Union. This could affect the investments of South African businesses in Eastern Africa. South Africa's aggressiveness towards COMESA is deceitful when there are such big investments in the region.

Iraj Abedian

The answer on the separate trade negotiations is simple – business is snoozing. No one is even remotely following these issues. South African businesses have never had to deal with a situation where subsidiaries in different countries have to face contradictory situations. There is very little knowledge of the fragmentation in Africa in the business community.

But it is also a problem that the countries like Zambia can go into two or three sets of negotiations and sign three sets of agreements and hope to get good results. These regional trading blocs are useless inherited structures. We should get rid of them and start from scratch.

Responses from the floor

The game is on to define the region of the future. The South African government's primary interest is in expanding the SACU customs union. But it is not clear what will happen when Mugabe goes and a new regime emerges in Zimbabwe. This will have a fundamental bearing on the region. Angola is also looking at where to put its head and it probably will not be SADC. The future of SADC looks doubtful and international players seem to favour COMESA.

It is not helpful to have a South Africa versus the region attitude on WTO. But these perceptions and suspicions are real. Underpinning them is that South Africa is very different to other countries in the region. This is reflected in attitudes to the WTO. South Africa sees the WTO as about market access and negotiation. Other countries are locked into preferential trade agreements with the United States and European Union, which can remove them at will. The business community is asleep on these issues.

To work collectively you have to find a real collective interest. If South Africa wants a sustainable relationship with the region it has to recognise that there are different levels of development and it has to accommodate that. In the same way the region has to understand that South Africa is different.

Naseem David

Business will adapt to government frameworks. But there are problems, for example Vodacom has been asked to work in Congo Brazzaville. It is across the river from Kinshasa but it is a separate country. How can you put together a plan for such a small economy?

Panel Three: Critical reflections

Chair Prince Mashego, IGD

The impact of South African corporate expansion on labour in Africa: relevant case studies

Devan Pillay, NALEDI

Naledi is undertaking the African Social Observatory project with the African Labour Research network, which has fourteen members. It is assessing multinationals operations in Africa. This is part of an initiative by trade unions and civil society in OECD countries to support the development of strong trade unions in developing countries. The intention is to assist in improving wages and working conditions and to assess multinationals operations. It began with the retails sector because of its importance in the area. This year will look at the mining sector.

Questionnaires are administered to workers and management and evaluated in terms company policy, national legislation, whether the country has adopted eight core ILO guidelines and other international conventions and OECD guidelines if the country is a signatory. The companies covered in the research are Unilever (Metso Minerals), Shoprite and Woolworths.

Findings showed that workers who established worker's committees were often dismissed and unionised workers were often victimised. In countries where trade unions were weak workers were often laid off without justification, especially those pushing for unionisation. There was resistance to unionisation except in Zimbabwe. There was large-scale use of casual workers. They worked more overtime than permanent employees and did not receive benefits such as sick leave and maternity pay.

All South African multinationals pay above the minimum wage in the country but these wages are far below the minimum living level. Expatriate South African managers are paid more than local managers. Where there are no collective bargaining agreements management adjusted wages unilaterally and tended to overestimate wage levels.

There was no use of child labour but it was difficult to assess whether this applied to the value chain as a whole. Only Woolworths was providing training. Most products were sourced from South Africa with less than 30 per cent coming from local sources. Most workers and trade unions in the area feel that South African companies are exporting apartheid.

The Project will help to expose multinational corporations that violate legislation and labour practice, inform companies, helped to generate public pressure on multi-national corporations in Europe. Effective pressure needs effective consumer bodies as consumer boycotts are the most effective type of action.

Constraining the unconstrained: South Africa's hegemonic obligations in Africa
Adam Habib, HSRC

There are two views on South African foreign policy in the region. The first holds that South African engagement has been very positive for the region. It has behaved like a typical middle power, working in a multilateral framework driven by the UN human rights agenda. Rather than a hegemonic state, it is a pivotal state like Zimbabwe and Nigeria.

The other view holds that South African engagement has been driven by selfish concerns and that it has acted as a regional hegemon. Focusing on trade negotiations it holds that South Africa came to agreements where this suited it but where there were penalties or costs it did not take them up. It has used its power to pursue a one-sided policy.

There are serious problems with this literature. It assumes that partnership and hegemony are mutually exclusive and does not look at different types of partnerships, including those that hegemons may be involved in. Hegemony is about leadership, about having a plan and underwriting the costs of its implementation. It does not necessarily mean a unilateral approach.

The literature also implies that South African foreign policy is homogenous. In fact contradictions have been a central feature of foreign policy involving elements of hegemonic leadership and of complete pragmatism. In its interventions in Lesotho and the DRC, and its support for NEPAD South Africa has exercised hegemonic leadership. It has developed a vision and plan, effected a solution and underwritten its implementation.

However, there have also been significant examples of pragmatism in foreign policy. South Africa's interaction with the Polisario movement was dominated by its concern to maintain relations with Morocco, and in the last days of the Mobutu regime in the DRC it played both sides. In Swaziland and Zimbabwe it has not done much, in the latter case even at the expense of compromising its role in NEPAD and the African Union. Another example is the activities of South African capital on the continent. Companies are investing all over the continent but we do not know what role they are playing in poverty alleviation and development. We know that some are doing good work but there are others who may be harming South African interests. Countries have a legitimate interest in regulating the export of corporate capital, both to ensure profitability and that it is in line with the government's vision for the region and the continent.

South African success stories have been where it has engaged in hegemonic leadership. The big failures have been where South Africa refused a hegemonic role and simply followed a multilateral agenda and refused to underwrite it. The strategic lesson is how to achieve hegemonic leadership, not to reject the role. Hegemonic behaviour can be undertaken simply to benefit the hegemonic power or it can have systemic benefits. An example of the latter is the role of the United States in Europe after World War 2. It ensured domestic security and implemented its own development programme. Despite significant costs it undertook the hegemonic role for three reasons. It saw that there were enormous profits to be made, it reinforced the common heritage between the United States and Western Europe, and it prevented the USSR from becoming an alternative hegemon in the area by effectively underwriting the emergence of social democracy.

Can something similar happen in Southern African. Some of the conditions seem to exist. There are enormous profits to be made in the region. The government has expressed the notion of a common heritage for some time, amongst others through the concept of the African renaissance and through NEPAD. Nigeria is a possible alternative hegemon – not as economically strong as South Africa but perhaps with more political will. But while these conditions may exist we need to avoid too idyllic a view of self-constraining ideologues.

Internationally, civil society is increasingly acting to constrain state agendas. But if civil society in the region is to play the role of constraining the unconstrained then it needs to start establishing a more regional agenda and regional linkages.

The argument is that South Africa needs to be hegemonic but we need to look at mechanisms to ensure that this hegemonic behaviour is systemically beneficial for the region. Without hegemony there will be no stability and without stability poverty alleviation will remain elusive.

Discussion

The study on retail companies is too narrow to throw much light on this very important debate.

The South African state has a very important role to play as a hegemonic power in defending the rights of South African capital in the region and this has an important impact on poverty reduction. However, it has not done this in Zimbabwe despite the existence of a bilateral investment guarantee agreement.

The post WW II environment was very different to the present situation and applying lessons from it may lead to a very different outcome. Contradictory foreign policies can be applied consciously. For example one could be very consistent on trade and quite opportunistic when it comes to human rights. We need to look more closely at the content of the hegemony.

The presentation did not look at the forces and interests that drive hegemony. It is true that we need an agenda that works rather than infinite discussion. The question is who will drive it? The interests of South African capital in Zimbabwe may not be the interests of the Zimbabweans, or at least of all Zimbabweans. We have to move away from the existing approaches to the issue but without leaving aside the fundamental problems that exist. People are concerned with human rights and trade relations because there are problems. Is it possible to look at hegemony not just from the point of one country but rather from the point of one agenda?

We cannot cope with hegemony by mobilising civil society. How do we distinguish between the state and civil society? Are we talking about capital and labour against the state? The state includes some of the same interests that motivate civil society. It comes back to the point of which interests drive the agenda.

Are there difference between the way that South Africa companies operate in Africa and the way that multinationals from countries outside Africa operate?

To what extent is South Africa constrained as a hegemon by the interests of its neighbours. To what extent is this relationship effectively managed? There have been comments that neighbours would like more consultation when South Africa speaks for the region.

It was not clear from the presentation what role governments play in labour relations?

Are there other possible hegemons besides Nigeria, perhaps closer by?

Can South Africa act as a gateway for Unites States and European interests in Southern Africa?

There are different concepts of common heritage. The government and much of the population share a heritage of pan Africanism. On the other hand South African business is very white and relates more easily to its European counterparts than to black Africans. Common business interests push the rationale for bilateral arrangements with Europe and the United States.

Adam Habib

South Africa needs to defend its companies but also to regulate them in the region to ensure that corporate expansion benefits the political and socio-economic agenda for the area.

The environment is fundamentally different to that after WW II but the intention was to look for cases where hegemony was systemically beneficial, what made it beneficial and what conditioned political elites to act in certain ways. There are differences. One example is that macro-economic policies were Keynesian then and they are far more neo-liberal now. But there are similarities between the relationship between the United States and Western Europe and the relationship between South Africa and Africa. There is a common political heritage but this does not extend to the business community and this is why regulation is absolutely necessary. But we should not overplay this. The Oppenheimers are meeting leaders in region all the time.

The interests that drive hegemony are very important and the research has not reflected on this sufficiently. The public discourse in the newspapers complains that Mbeki is away too much. This is myopic because if we don't get stability in Africa South Africa is in trouble. We will not be able to generate the kind of resources to drive our own development. There is a direct interest for both state elites and capital to stabilise and develop the region.

It is also in the interests of trade unions, NGOs and CBOs. For the first time there is a coincidence of interest across the ideological and class spectrum that recognises that a transnational agenda is imperative. There will be constant contests around this. Business itself is not homogeneous. Different elements will try to advance their own interests, as will different elements of labour. This contest needs to play itself out not only on a national but also a regional and continental agenda, with different players constructing alliances. This is already happening with civil society organisations meeting to establish a regional agenda.

The issue around neighbours is a real one but South Africa cannot suspend what it is doing because others don't like it. It has to engage with them and manage the situation so that it can pursue a multilateral agenda. But there should be no illusions. Hegemons are rarely liked. The problem is that we may not have sufficient administrative capacity to engage in that kind of astute diplomatic management. We need far more sophisticated diplomatic training.

Kenya, Zimbabwe and Angola are more pivotal states, Nigeria is the only other African state with true hegemonic capacity.

South Africa is a gateway for Europe and the United States and they would like South Africa to play a hegemonic role. They don't want to send troops here. The question is how do you avoid becoming a sub imperial power but rather shape an agenda that is systemically beneficial for the region as a whole. That requires a vision and agenda.

Devan Pillay

There are two reports, the detailed country report and a synthesis report that will be made available to SARPN.

Governments played a ceremonial role but were largely ineffective when there were problems. When there was strike at the Shoprite store in Zambia the Minister of Labour requested that management negotiate but the local management had no control over wages, which were controlled by South Africa. Shoprite entered Zambia by acquiring a parastatal and this affected many issues, such as the decision making power of local management. South African corporate management played a pivotal role in these issues in all the countries studied. Government legislation is very weak.

The main problem areas with Unilever in South Africa were unwillingness to negotiate collective agreements, downsizing and outsourcing. They are common to Unilever across the globe. Conditions in South Africa were better than in Brazil and India, largely because of the strong trade unions in South Africa. Woolworths practices are similar to the others with regard to outsourcing and also downward pressure on wages and employment.

Responses from the floor

It seems that South African companies are not underpaying in terms of labour laws in the countries. Is the problem with the governments that do not have adequate labour laws?

Companies work within the boundaries set in the countries where they operate. If the boundaries are weak they will go with the flow. How can South Africa regulate its own companies? Through bilateral investments? Companies are now negotiating agreements with clauses that countries have to at least enforce their own labour and environmental regulations. This still does not address the question of whether these standards are on a par with those in South Africa.

South Africa is seen as a bully-boy in the region, but it has a relatively small economy. We have to be quite humble about South Africa's ability to get Africa right. South Africa also has problems that it needs to get right before it starts trying to sort out other countries problems.

A code of conduct was suggested as a form of regulation but people seem to be suggesting something stronger. Can you spell out what you have in mind by way of regulation?

We are told that South Africa is not in a hurry to enter trade negotiations with Europe because it already has an agreement in place. Meanwhile divisions are tearing the trading blocs in Southern and Eastern Africa apart. Who is driving the hegemonic agenda? Is it capital or the politicians? If South African businesses are operating from these countries they are making profits. Who will profit from disrupting the negotiations? There also seem to be South African interests behind Mozambican traders in Zimbabwe.

In a number of countries socio-economic conditions are bad and there is massive unemployment. Where do companies take their lead from in setting wages? What kind of recommendations can the labour movement make to try and protect workers?

Is there a possibility of multi-state hegemony or of regionalised hegemony that may merge over time into a single hegemony given that Africa is still largely regionalised? In effect one would have different hegemons in Southern and Western Africa.

In addition to a political common heritage in southern Africa there is also an ethnic common heritage that crosses the borders of national states. This has never been formally mobilised to promote a common agenda but there are commonalities at the grassroots.

During different phases of decolonisation you find different states playing a hegemonic role and when a new state comes in there may be a contest with the previous semi-hegemon. For example Zimbabwe played a larger role before South Africa was liberated and before Zimbabwe, Zambia and Mozambique played a greater role. South Africa may be regarded with some discomfort because of this displacement

The question of South Africa protecting capital in the region is very interesting. Within South Africa state and capital have not reached an accord on the form of the economy or state. Is it a question of migrating to marry abroad for fear of marriage in South Africa?

Until ten years ago the apartheid regime in South Africa was the biggest enemy of its four neighbours. It is their efforts along with those of the South African people that helped to bring down apartheid and allowed this discussion to take place. The dynamics of hegemony can change. If South Africa does not take these states into account they may not help South Africa if it has problems in the future. People in Mozambique and other countries are saying we paid a high price but what has it brought us?

In looking for cases of systemic benefit from hegemony we should also look at whether the benefit could have come without hegemony.

It is important to take into account that although the economy of South Africa is dominated by corporations that are large in global terms this does not mean that South Africa has a large economy. Who has the hegemony, the state or large corporate capital? And if that is the case how do you address the issue?

South Africa corporations go to other countries and provide poor working conditions and wages but these same problems exist in South Africa. How can the South African state deal with these issues at a regional level when it can't deal with them at home? It seems that the hegemony we are looking at is the hegemony of large capital – even over the state.

Devan Pillay

South African multinational corporations in Africa do abide by minimum conditions. The problem is that the regulations and legislation in countries are outdated. Trade unions also have limited capacity to deal with companies and governments. When Woolworths went into Ghana the trade unions did not organise workers from the start because they wanted the company to establish itself first. This allowed the company to entrench its labour regime. In Zambia the collective bargaining agreement had expired two months before the study started. Only six months later, after the study was finished, did the trade union start negotiating a new agreement.

Even when there are wage determinations the unions are ineffective in ensuring that they lead to some sort of poverty alleviation. Remedying these problems requires first remedying the legislative frameworks in these countries and this requires effective trade unions.

It is not clear how much the South Africa government could impose regulations at source. Countries in the region are competing for FDI. Dealing with labour regimes is very complex. Companies determine wages at the dollar rate and go to the lowest wage takers. If unions set wages at regional level enterprises will migrate out of the region. China poses a huge problem for employment around the world because of the relocation of enterprises. Many trade unions fear for their existence because of relocation to China and India.

On wage levels you need to ensure wages that are competitive and can help to alleviate poverty, so they need to be above minimum poverty levels. But even in South Africa there are wage levels that are lower than the poverty levels.

Adam Habib

Ways of regulating capital include the code of conduct, which is voluntary, and the bilateral investment agreement. There are three other obvious ways.

- Extending the legal boundaries so that South Africa companies can be prosecuted for acts outside the boundaries of the country. A number of countries did this to deal with companies that broke apartheid sanctions.
- Tax concessions to promote particular types of regional investment.
- Regional standardisation of regulatory frameworks. This is especially important if we are looking at Southern Africa becoming a free trade area. There may be others, and we need to start thinking about these questions.

It is true that the African situation is complex. We have a continent that is in a far bigger crisis now than it was twenty years ago. A significant part of that crisis is due to following a set of policies that were largely put forward by the IMF. South Africa's hegemonic leadership is a necessary but not sufficient condition for addressing the situation.

We need to get Africa right because investment managers in the developed countries don't have the knowledge to distinguish between Johannesburg and Harare. We need to have stability or we are in trouble. Without stability you can't talk about regulatory progress, you can't talk about rational public policy and you can't talk about a progressive social agenda. So stability is crucial.

A hegemon probably has to be a single state but it does not have to act unilaterally. There have to be partnerships but at the end of the day somebody has to be willing to underwrite the cost of stabilisation.

Whether it is possible to achieve the same systemic outcome without a hegemon needs investigation.

The view about the hegemony of capital is right but the state also has its own independence. Why has capital agreed to black economic empowerment? Other states in the region are far less able to act independently and this is why it is important for South Africa to take the lead. It was a mistake to allow South African corporations to relocate abroad because now we have far less regulatory capacity. We made a mistake by only looking at the balance sheet and not at broader national and regional issues.

Panel four: Mapping the way forward: strategies and frameworks

Chair

Harmonising trade relations between regional economic communities (RECs): the case of SADC and COMESA

Chawe Mpande-Chuulu, COMESA

The Economic Community of Eastern and Southern Africa (COMESA) was established as an economic integration block focusing on trade and investment. In 1981 it became a free trade area and it is working towards a customs union and then a common market. There are 20 member states, with 11 in the free trade area. They constitute 80 per cent of total GDP of the COMESA region and including 54 per cent of the population. Namibia and Tanzania have left and joined SADC. The free trade agreement (FTA) includes all products with 35 per cent content by value originating in the area.

The Southern African Development Community (SADC) emerged from the frontline states to assist with the liberation of Mozambique, Zimbabwe and South Africa. It now has 14 members and focuses on peace and security, labour and trade. SADC also has free trade based on 35 per cent value but on a product-by-product basis. There is no intention to establish a customs union. Stringent criteria for some products impede increased internal trade.

Countries with dual membership use the COMESA rules of origin for the most part because they are easier to implement.

There is a joint COMESA-SADC task force looking at the WTO, transport, trade facilitation and telecommunications. In multilateral negotiations, for example with the WTO, COMESA and SADC members are part of the Africa group. South Africa is also a member of the Cairns group, which is aggressively promoting agricultural exports. There were joint meetings at ministerial, ambassadorial and official levels for Cancun and Doha.

Once COMESA becomes a customs union it can enter into an economic partnership agreement (EPA) with the EU as a group. It needs to develop a framework for trading in services before opening up to the EU. If the union is not yet in place countries will sign individually. The original intention was for a combined regional grouping but COMESA and SADC split. SADC cannot sign as a unit because South Africa already has an EPA, which incorporates all the South African Customs Union (SACU) countries. Non-SACU countries can only sign an EPA if they form a customs union excluding the SACU countries. In COMESA Egypt is similarly excluded because it has an existing EPA with the EU.

South Africa is the biggest source of FDI in the region and has a role to play in finding a framework to harmonise trade in goods and services, movement of people, labour relations, telecommunications, transport and other issues. At present South Africa is not playing this role on multi- or bilateral levels. Its participation is disruptive and affects participation by other states. For example Namibia and Swaziland trade in COMESA on a partial basis because they are in SACU. South Africa influenced Namibia and Tanzania to withdraw from COMESA. Zambia is being pulled in two directions. It is not clear whether splitting the region is part of a South African agenda or if it is the result of EU initiatives. Questions include the implications for revenue sharing in an enlarged SACU and the implications of a split region for COMESA.

South Africa has the advantage of experience having already negotiated an agreement with the EU. It will be an observer in negotiations on the SADC EPA. It has an important role to play as a hegemon.

The EU supports integration in principle but when it comes to details EU countries take a very hard line.

We have looked at the role of big business in the area and what influence South African business has on government but we also need to give more attention to the role and potentials of small business.

Discussion

Is the real problem in the region with South Africa or with the EU? The EU knows exactly how to divide and rule its former colonial possessions. It also acts in conjunction with the US. There is a point at which Africa needs to rebel and reject further colonisation.

Can countries that are part of SADC have their own EPA?

Do you need a customs union to negotiate an effective EPA?

The complexity of organisations is a real problem. These institutions all have a history and were created for a certain purpose at a certain time. But now the overlapping memberships and competing economic communities are preventing us from reaching our goal. Is it possible for African leaders on the continent to get together at highest level and replace them with four regions?

Trade unions and civil society were encouraged by the seeming unity amongst the G20+ group at Cancun. But can that unity hold in the light of the divisions and splits revealed here?

Civil society organisations are opposed to some of the EPAs because they see them as very unfair to Africa. The EU and US are getting what they want because they are negotiating with weak partners. What kinds of governance mechanisms are there to ensure that ordinary people do not lose out?

The real problem is the EU. Their main interest in the near future will be the eastern bloc countries. The southern African region is being divided and is facing an organic hegemonic power at the same time. We need to harmonise the regional blocs.

The multiplicity of organisations has been a problem for some time but a common approach for addressing the problem has not emerged. It is not correct to say the EU and US are dividing us. We can only be divided if we want to be divided. Countries in the region are all looking at what is in it for them. We are facing a challenge as Southern Africans. Do we get rid of all these organisations and find one organisation that will represent us all? What do people mean when they suggest that South Africa must play a reconciliatory role? That is the critical issue, not the EU or US.

Chawe Mpande-Chuulu

Is the EU the real problem? Is this re-colonisation? By and large it does not seem so. How should Africa rebel? Refusing to enter economic partnerships is not the way to go. We should use whatever we can get from our former colonial masters to take us one step further. We should use the economic partnership agreements to enhance capacity building and improve relationships amongst ourselves. This will only happen if we use the opportunity that exists well and participate well involving all sectors. For example if the agreement includes an investment fund how can we target it most effectively? We should not reject the opportunity but look at how we can negotiate something positive for ourselves.

The SADC can only sign an EPA if the SACU countries are excluded.

The EU is more interested in signing an FTA than an EPA. COMESA will sign as a customs union if this is in place when the negotiations are completed. Egypt will be excluded. The question of how Tanzania will relate to the customs union will have to be resolved. COMESA member states are not prepared to go into an FTA at present.

The AU is unlikely to throw out the overlapping communities from a political point of view. The challenge is to take these wrecks that started as building blocs and find a coordination mechanism for them. This is the challenge for the AU. It will also have to consider coordinating EPAs in Africa with those in the Caribbean and Pacific regions.

Civil society and trade unions in the COMESA region have identified one civil society organisation, SEATINI [?], so far and it is part of the regional negotiating forum. It is looking to work with more civil society structures at both regional and national level.

It would be useful for the EPA negotiations to have more information about the process that brought the Eastern European countries into the EU and what concession they get because this will impact on African countries.

South African wine and fisheries industries got concessions as part of the agreement to give up naming rights.

We need more common agendas. At present SADC and COMESA have regional meetings on the same issues. Why are there no joint meetings? There are some joint meetings on telecommunications but we need common telecommunications regulation. We could hammer out joint goals for the EPA and coordinate around things like opening up financial relations.

Responses from the floor

There is not enough dialogue between the South African government and big and small business in the negotiations.

The speaker mentioned that the South African government might not be aware of investments in COMESA countries. It needs to be aware that investment does not only take place in areas where there are trade agreements.

What does harmonisation mean? Complete harmony will have disadvantages for some countries.

The ultimate objective of an EPA is free trade. African countries should rebel against reciprocity and complete and total access, not against trade in itself.

Chawe Mpande-Chuulu

South Africa does not have close enough links with COMESA and the government does not understand that its businesses are investing in COMESA countries.

Closure
Richard Humphreys, SARPN

Participants should reflect on possible ways forward and to communicate their thoughts to SARPN. The conference proceedings and the papers presented will be available on the SARPN web site (www.sarpn.org.za).

Discussion

The HSRC is interested in continuing the work begun by Sanusha Naidu on mapping South African investments in other parts of Africa. It is also discussing fundraising for a project on the quality of South African investments in other parts of Africa with BusinessMap and the DTI. Other institutions are welcome to partner in this project.

Other institutions in the region will also be continuing with their work in the area.

We have not talked about the WTO. All small countries have an interest in the protection offered by a rules based WTO system. Is there a way to integrate regional agreements into the WTO, which is driving the trade agenda?

Corporate South Africa has a remarkable concentration of economic power. This has both danger and potential for the region. At present most of the investment is going abroad. How can we turn it to invest in Africa for the benefit of citizens and the reduction of poverty?

The question of the relationship between poverty and trade needs more investigation. Globalisation has had a negative effect on unemployment in South Africa.

Africa as a continent faces structural problems. It needs to improve the supply side of the economy and improve things like transport, infrastructure and the mobility of workers.

The South African government is obsessed with growth. It has failed to achieve this with GEAR. It has to realise that growth is not the only thing and that other things need to be in place.

There are important issues for the DTI. South Africans are fast becoming aliens in their own continent. Regulatory frameworks need attention because countries are experiencing problems with them. People need to be more aware of the benefits of democracy. If civil society is more aware of these benefits things will be better.

Many countries are asking how to attract foreign investment. They need to look at the issues that hamper investment. The land issue is a serious problem. We also need to investigate the industrial policies that currently exist in African countries and role of donor countries in formulating them. They need to talk to the resources that are available in countries in order for those countries to portray themselves in a more attractive light. We need a project to look at trade blockages between African and other countries and how to open our markets to products from African countries.

The small number of large corporations in South Africa, how they operate and the role they can play in development is an interesting theme. But we also need to look at development alternatives that are not driven by the financial power of large corporations and here we are far behind. We spend too much time analysing the problem and not enough looking at alternative ways of doing things.

South African capital cannot develop the region on its own. We need to look for other sources of development, other dynamics of development. This has to be linked to an agenda. Are we looking for development that depends on the ability to hire and fire workers easily? Development must also address social concerns. Stronger links with the region may help South Africa to find development strategies that do not depend totally on large corporations.

Corporate capital is important. But the largest number of visitors to South Africa is from other parts of Africa and the biggest area of growth is in the informal economy. Future discussions need to look at how the SME sector in South Africa can create synergies with the sector across the continent.

We have heard a lot about compliance with legislation and regulations. Research in Mozambique shows that where workers have grievances the corporations influence judicial processes. Business can educate the market but we don’t hear that unions and civil society have the resources to educate the department of labour on how to enforce compliance.

There has been much mention of investment in infrastructure and retail but not much about manufacturing. Also there has not been much mention of the role investment can play in poverty alleviation and job creation. Countries can influence the type of investment they get from South Africa. They can actively target specific kinds of investment and present the sectors where they want investment.

We need to stay focused on the issue of poverty. We cannot reverse globalisation. Even the South African corporates are not really South African. How can governments, civil society and researchers find ways to make globalisation reduce poverty? What regulation do we need to reduce poverty? Do we need self regulation or do we need civil society watchdog bodies.

South Africa’s state owned enterprises are a good idea and they should not be abandoned for the sake of privatisation.

How can we develop and manage a network of SMES?