FOREIGN TRADE (B)
Malaysia's investors look to long-term SA prospects

MALAYSIAN businesses have blazed an acquisition trail across SA during the past two years, pumping resources into sectors ranging across property, energy, food and banking.

Research group BusinessMap maintains that Malaysians are SA's fourth biggest direct investors, having committed themselves to investing R1,8bn between April 1994 and May 1996.

This excludes Malaysia's biggest investment in SA so far — the R1,8bn purchase in June by state-owned oil company Petronas of a 30% stake in Engen.

Malaysian businessmen say a major attraction is SA's well-developed infrastructure and its position in relation to the rest of Africa, making it an excellent gateway to riches further north.

Announcing the Petronas deal, CE Dato Hassan Marican said: "We will be using (the Engen acquisition) as a launching pad for us to be involved in the African continent."

Petronas is already pursuing several African exploration opportunities, including Algeria and Tunisia. "Our investment ... is a further expression of confidence in the growth of the SA economy. The attractiveness (of the Engen purchase) is that SA is not a mature market, it is a growth market," Marican said.

Malaysian trade commissioner to SA Kok Seong Cheah said SA was the economic engine of the southern African region. "It has a strong infrastructure and tends to draw investments in other areas... Things are happening much, much faster in SA than in the rest of Africa."

With annual economic growth of about 8%, Malaysia was constantly looking for new offshore investment opportunities, Mycom SA MD Martin Lambeth said.

Mycom recently bought granite producer Kelgrain. It has also invested in the food sector and plans to open a stockbroking firm.

Malaysian investors are optimistic about SA's prospects for long-term growth. The expected SA growth rate this year is about 3,5%, compared to 3,3% last year. Malaysians say that they are long-term investors and the funds flow is likely to continue for some time.

"If you go into asset investment it is a very long-term investment. I do not see it (investment) slowing down," Cheah said.

The path of Malaysian investment has not been completely smooth. One of the first and biggest investors, property and hotels group Landmarks Berhad, has already pulled out.

Yet former company chairman Dato Samsudin bin Abu Hassan is taking over its SA investments. These include property firm Samsudin Development, which is building a commercial and residential site outside Johannesburg.

Trade between the two nations has also picked up in the past two years. SA Foreign Trade Organisation figures show SA exports to Malaysia almost doubled to R526,7m last year from R342,8m in 1994, with imports up R44,7m in that same period. — Reuters
Ronnie Kasolis

Investor confidence vital role in ensuring SANDF can play a

*A Supplement* to *Performing Business*

March 2019 Issue

Editor's Note

The importance of investor confidence cannot be overstated when it comes to ensuring the SANDF can play a critical role in national security and stability. Investors, both local and international, play a crucial role in providing the financial resources needed to support the SANDF's operations, equipment, and personnel. Without investor confidence, the SANDF's ability to carry out its duties effectively can be severely compromised.

In this edition, we explore the various factors that contribute to investor confidence and discuss strategies for sustaining and enhancing it. Through a combination of expert analysis and real-world examples, we aim to provide insights that can help ensure the SANDF remains a strong and capable force for national security.

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Ronnie Kasolis

상업가 및 인문학자

차트와 데이터 분석을 통한 전략적 결정을 도와주며, 인프라 구축과 전략적 컨설팅에 대한 능력을 바탕으로 다양한 분야의 업무를 수행하고 있습니다. 또한, 기업의 지속가능성과 지속가능한 사회적 가치 창출에 대한 깊은 이해를 바탕으로 다양한 사회적 역할을 수행하고 있습니다.

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Investor concern after AEG head's killing

From Reuters

Johannesburg — The South African-German Chamber of Commerce and Industry yesterday warned the government and business that they had to stop the unacceptable crime levels or face an investment drought.

"The level of personal danger endured by managers and the community at large is totally unacceptable," it said after car hijackers shot dead Erich Ellmer, the German financial director of the AEG electronics group in South Africa.

He was killed outside his home on Saturday.

"Government must understand that this factor (crime) has a profoundly negative influence regarding any future investment decision," the chamber said in a statement.

It said 16 of the 30 chief executives of German subsidiaries in the country had already been victims of violent crime.

Germany, Britain and the United States are the country's three biggest trading partners.

"Notwithstanding government's acknowledgements of the need to create an investor-friendly environment ... there is no evidence as yet on delivery — delivery on law and order ... on the economy ... on education and housing."

Not even the head of the Constitutional Court has been spared the scourge of crime. On Monday evening three gunmen robbed Arthur Chaskalson, the electronics goods and his car at his Johannesburg home, police said. No arrests have been made.

South Africa is one of the world's most crime-ridden societies.

Nearly two million serious crimes were reported last year, with only half solved, including 36,888 rapes, 18,983 murders and 66,838 armed robberies.
Pagad warns off investors ‘until SA free of drugs’

STAFF REPORTERS

A PEOPLE Against Gangsterism and Drugs (Pagad) leader has urged foreigners not to invest in South Africa until it is free of gangsters and drugs.

Pagad leader Mr Farouk Jaffer said last night that drugs had infiltrated society like a “supermarket” business and drug lords were earning R2 million a day.

Addressing a press conference at the Gatesville Mosque, he called on foreigners “not to invest a cent in South Africa until Pagad has given the green light”.

Late last night, a planned march by about 400 Pagad members was called off as it was feared that it could lead to a violent confrontation with police.

Jaffer said he believed tourists were not safe and investors should not come to South Africa, a view he said would probably upset the government.

He also criticised the police for “failing to play their proper role”. He accused them of not wanting to work with Pagad and of trying instead to put the organisation down.

He slammed customs officials at Cape Town International Airport, Table Bay docks and border posts for failing to halt the flow of drugs into the country.

He emphasised that Pagad was not a Muslim organisation, but represented every South African.

In the 1980s, “our white fellow neighbours’ children” had fallen prey to cocaine, Jaffer said, but in the past three or four years cocaine had been used by Indians, coloureds and blacks.

Earlier, during an often-heated debate in Parliament, Minister of Justice Mr Dullah Omar said he supported Pagad’s aims — but warned that opposition to crime was not a licence to kill.

“I want to make it very, very clear that those who fight drug-trafficking, those who fight gangsterism, are our allies,” he said.

However, he would not tolerate such actions as the murder of alleged drug baron Mr Rashaad Staggie, co-leader, with his twin brother Rashied, of the Hard Livings gang.

Omar met Minister of Safety and Security Mr Sydney Mufamadi and other security chiefs later yesterday to draft an anti-crime strategy to put before the cabinet today.

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Investors and tourists get warning from Pagad

PIETER MALAN
Staff Reporter

PEOPLE Against Gangsterism and Drugs (Pagad) has questioned the ability of the police to ensure the safety of tourists in Cape Town, and has discouraged international investment in South Africa.

Pagad chief co-ordinator Farook Jaffer said at a Press conference in the Gatesville mosque last night that investors' money was not safe while gangsters were at large.

The conference was also attended by Pagad military leader Ali "Phantom" Parker. Both men are on the police wanted list in connection with the fiery death of gang boss Rashaad Stagge.

A planned march on a drug merchant's house was called off last night because of the tense situation, and Pagad leaders fears that it would lead to a confrontation with police.

Mr Jaffer said: "They (the international investors) should not invest until Pagad says so."

He said: "I can't see how tourists can come to this country. The police cannot even ensure the safety of its own citizens, how can it provide for the safety of people visiting the country?"

African National Congress MP Salie Manie said many parliamentarians did not understand the magnitude of the gangster problem in the Western Cape.

He would do his best to facilitate a meeting between Pagad members and Safety and Security minister Sidney Mufamadi.

The next speaker responded, to loud applause: "Pagad will not meet with Mufamadi until all charges against our members have been withdrawn."
Violent crime knockings investment prospects, top trade partners

Edward West and

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Yankee Impressive
Pagad tells investors to stay out

CAPE TOWN — Militant Muslim anti-crime group People Against Gangsterism and Drugs (Pagad) has told tourists and foreign investors to avoid SA because crime meant their money would not be safe.

"I cannot see how we should allow investors into the country, their money is not safe here," Pagad leader Farouk Jaffer told a news conference at a Cape Town mosque on Tuesday night.

Jaffer and his lieutenant Ali Parker appeared at the news conference, guarded by youths with their faces hidden by Palestinian scarves, despite being sought by police in connection with the killing of a drug dealer by vigilantes earlier this month.

"All drug merchants will be legitimate targets. We will use any means necessary to eradicate this scourge from society. We are peaceful, but we will meet force with greater force," said Jaffer.

He said that drugs had infiltrated society and that drug lords were earning R2m a day.

Police using armoured vehicles and a helicopter monitored the meeting at the mosque, attended by several hundred Muslims.

Pagad and similar movements in other parts of the country have been marching through their neighbourhoods to the homes of alleged drug dealers in a bid to highlight what they call the cancer destroying their communities.

During one of these marches in Cape Town vigilantes shot and burned to death gang leader Rashad Staggie.

Environment Affairs and Tourism Minister Pallo Jordan said Pagad’s anti-investment call was unfortunate and not very helpful to growth in SA.

Pagad, being a vigilante group, did not command much of his respect, Jordan said at a diplomat and news briefing.

He said he was wary of vigilantism, which was an extremely dangerous phenomenon. If it took root, society could descend into a state of semi-barbarism.

Western Cape economic affairs MEC Chris Nissen said Pagad’s call was irresponsible. While one could understand the urgency of dealing with crime, foreign investments were needed to help create more jobs and to minimise crime in the country. — Sapa.
Chinese ‘to build a mini city in SA’

Kevin O'Grady

NORTHWEST premier Popo Molefe has announced an $18bn deal with foreign investors to import 500 Chinese factories, with 50 000 skilled workers, for the establishment of a “mini city” near Potchefstroom.

Molefe's announcement in Beijing yesterday coincided with the arrival of a large Taiwanese government and business delegation in SA.

Beijing has been trying to persuade SA to sever relations with Taiwan.

No comment could be obtained from the Northwest government yesterday about the timing of Molefe’s announcement. President Nelson Mandela has refused to end relations with Taiwan.

A Northwest government spokesman claimed the six-year deal would involve building houses, factories, warehouses, shopping malls, a hotel and a casino in a development called Dragon City.

An explanatory memorandum to Molefe’s announcement said the initiative would be funded by private capital from the US and Switzerland.

About 90% of the staff would be on a two-year contract and would be repatriated "after transferring the necessary skills to the local people."

The Chinese would pay an agreed price for the land from their private funds and would pay the costs of construction, roads and services, Molefe’s memorandum said.

Dragon City would be established on an initial 4430ha site adjoining Potchefstroom with the option to expand it by an additional 10 000ha.

After six years it was expected that the development would consist of more than 550 housing units, about 500 factories, warehouses, schools and creches, a hospital, a hotel and casino, a cultural centre, sporting facilities and clubs, a trade and exhibition centre, a railway station, offices and administrative centres. It was claimed that second-tier service support for the complex would result in employment for more than 600 000 local people.

The total value of the investment was expected to be $6bn in real estate and infrastructure development and $12bn in direct foreign investment in plant and equipment.

See Page 6

Continued on Page 2
Warning on Mozambican illegal settler tinderbox

Wyndham Hartley

CAPE TOWN — Illegal Mozambican immigrants are threatening armed insurrection if SA police and local communities continue to persecute them, a parliamentary committee heard yesterday.

Maxine Reitz of the Centre for Policy Studies told the home affairs committee that some of the policy implications of a field study on illegal immigrants in the Witwatersrand area of Northwes were so urgent they necessitated a report to the committee.

She said that contrary to conventional wisdom, the study had shown illegal immigrants were no more or less involved in crime than the SA residents in the area.

One of the problems that could lead to an escalation in violence was that illegal immigrants were becoming the targets of crime because they did not report abuses to the police for fear of being arrested and summarily deported, she said.

Reitz said the crime directed at illegal immigrants had led to the "windowless" house phenomenon as they were more secure. Unfortunately, this also made illegal immigrants easier to identify.

She said violence was being threatened against the police and against those the immigrants accused of robbery and rape. There was huge potential for a destabilising spiral of violence, Reitz said.

She said deportation was resulting in increasing numbers of illegal immigrants, as some were now bringing members of their families who could secure their possession if they were deported.

Illegal immigrants complained of police complicity in the looting of their homes and shops when deportations took place. Police were accused of indiscriminate arrests and deportations when they wanted to collect bribes.

"The Mozambicans are threatening to go back to the bush," Reitz said, adding that they wanted to do something "severe" to teach the authorities and xenophobic locals to stop harassing them. The conclusion, Reitz said, was that current immigration policy could be a destabilising factor.

Reitz also said that there was a backlash from illegal immigrants over what they saw as a hardening of attitudes after the 1994 election. She said many of them had been granted temporary IDs and voter cards and encouraged to vote, but that when they presented themselves to home affairs offices to collect their permanent identity documents, they were arrested and deported. They said the ANC government would not get their votes if the raids and deportations did not stop.

Reitz said there was deep suspicion of home affairs officials who appeared to be deliberately undermining the new amnesty provisions allowing illegal immigrants who meet certain conditions to become legal SA residents.

SA to weigh performance not promises

Reinie Booyzen

PROMISES of investment would not influence government policy concerning Taiwan and the People’s Republic of China, ANC MP and parliamentary trade and industry committee acting chairman Rob Davis said yesterday.

"We will be weighing up actual investments in SA rather than stated intentions," he said.

Taiwan and mainland China, which are locked in a decades-old competition for international recognition, have both promised multibillion-dollar investments in SA over the past few days. A Taiwanese delegation led by deputy premier Hsu Li-Teh is to meet Davis’s trade and industry committee today.

SA is the largest country still officially recognising Taiwan, the islands also known as the Republic of China. While mainland China has spoken of investing $1.8bn in a mini-industrial city near Potchefstroom, Taiwanese media reports that companies from the island state remain committed to an ambitious $3.6bn petrochemical complex in SA.

However, some government officials have become increasingly sceptical about the petrochemical venture’s prospects. "There appears to be something of a gap between stated intentions and delivery," Davis said yesterday.

He said government legislators would be swayed more by trade figures, which totalled R6.7bn last year in the case of Taiwan and R2.9bn for China. However, the UK will hand Hong Kong back to China next year, and that territory currently enjoys annual trade of R3.6bn with SA.

Meanwhile, Reuters reports from Taipei that Taiwan said yesterday it had begun discussions with SA on sales of its domestically made AT-3 trainerjets.
The Ministry of Education

The implementation of the Education Act of 1999 has resulted in significant improvements in education outcomes across the country. The Act has been designed to ensure that every child in the country has access to quality education, regardless of their background or location. The government has invested heavily in infrastructure, teacher training, and curriculum development to achieve this goal.

Education is considered a fundamental human right and is essential for the development of a strong society. The Ministry of Education is working tirelessly to ensure that every child has the opportunity to reach their full potential. The Act has placed a strong emphasis on the importance of early childhood education, and initiatives are underway to expand access to preschool programs in rural areas.

The Act has also introduced new measures to improve the quality of education, including the establishment of a national curriculum framework and the implementation of performance indicators to track progress. These reforms are aimed at ensuring that students are well-prepared for the demands of the modern world.

In conclusion, the Education Act of 1999 has set a new standard for education in the country. The Ministry of Education is committed to ensuring that every child has the opportunity to succeed, and they will continue to work tirelessly to achieve this goal.

Questions:

1. What are the main objectives of the Education Act of 1999?
   - The main objectives of the Education Act of 1999 include improving access to quality education, ensuring that every child has the opportunity to reach their full potential, and laying a strong foundation for future education.

2. What is the role of the Ministry of Education in implementing the Act?
   - The Ministry of Education is responsible for the implementation of the Act, including the development of policies, the allocation of resources, and the monitoring of progress.

3. How has the Act been received by the public?
   - The Act has been received positively by the public, with many people expressing a sense of hope for a brighter future. However, some concerns have been raised about the capacity to implement the new initiatives and the need for continued investment in education.

4. What are some of the challenges faced in implementing the Act?
   - Some of the challenges faced in implementing the Act include the need for additional resources, the resistance to change, and the need to address inequality in access to education.

5. What are some of the key milestones that the Ministry of Education has achieved since the Act was implemented?
   - The Ministry of Education has achieved several key milestones since the Act was implemented, including the expansion of preschool programs in rural areas, the introduction of new curriculum frameworks, and the implementation of performance indicators to track progress.

The Ministry of Education is committed to ensuring that every child has the opportunity to succeed, and they will continue to work tirelessly to achieve this goal.
No Rich With Nobles

The prices of our roads are

ransom

in SA to

Investment

holding

Hijackers
Neighbours beat SA for investment

Simon Barber

WASHINGTON — Worldwide, foreign direct investment by transnational companies reached a record $315bn last year, but only $4bn landed in SA, says the UN Conference on Trade and Development (Unctad) in its 1996 World Investment Report.

The flow to SA was negligible even in comparison with that to its neighbours. Swaziland, for example, received $54m; Mozambique $36m; Zambia $66m; Zimbabwe $40m; and Lesotho $25m.

Including Angola, with an oil industry that helped pull in foreign direct investment worth $400m, total flows to Southern Africa Development Community (SADC) members were $801m.

Continued on Page 2

Investment

Continued from Page 1

Unctad said. The SA figure was confirmed by the IMF's 1996 statistical yearbook, which uses data supplied by member governments.

The IMF and Unctad's definition of foreign direct investment covers "equity capital, reinvested earnings and other capital associated with transactions between affiliated enterprises", but excludes flows for exceptional financing such as debt-for-equity swaps.

A different picture emerged in data on cross-border merger and acquisition transactions. These numbers indicated that foreigners spent $617m acquiring holdings in SA businesses last year, up from $275m in 1994. South Africans, meanwhile, spent $433m acquiring stakes in foreign companies last year, down from $3,768m in 1994 and $1,87bn in 1993.

Foreign direct investment and merger and acquisition numbers differed as the latter tended to include portfolio flows and domestically raised capital not counted as foreign direct investment, the report said. Even so, the $4bn foreign direct investment for SA looked strange in light of new US commerce department statistics putting US direct investment flows to SA last year at $288m — calculated on much the same basis as the definition used by Unctad and the IMF.

Report lead author Karl Sauvant said the $4bn was a net figure, suggesting substantial outflows of direct investment. However, neither the report nor the IMF yearbook contain outflow data for SA. Sauvant said 1994 was the first year in more than a decade in which SA was a net recipient of foreign direct investment. "Investors remain very cautious about re-engaging.

Although it may not be growing, the overall stock of foreign direct investment in SA, $11bn last year by Unctad's calculations, was the second largest in Africa behind Nigeria's $14.3bn. The figure for the SADC excluding SA was $10.7bn.

See Page 13
Natal nets R181m in new foreign investment

Nicola Jenvey

DURBAN — The KwaZulu-Natal Marketing Initiative helped attract R181m in foreign investment into the region in the 1995/96 fiscal year, chairman Peet Marais said this week.

But the organisation, part of the KwaZulu-Natal Finance and Investment Corporation, would probably miss its R240m investment target this year, restrained by foreign nerves about SA’s crime rate, Marais said. He told the organisation’s AGM that foreign investors were also concerned about the uncertain relationship between government and labour.

Current indications were that the organisation would attract new projects worth about R180m for the year to March 1997.

Marais said the initiative had direct involvement in establishing 31 projects during the year, including 20 investments from Taiwan, two each from the People’s Republic of China, Singapore and India and one each from Thailand, Hong Kong, Russia, Italy and Canada.

The organisation had elected to focus on defined target markets, with initial priority given to textile and clothing and alloy metals. Trade missions would also market the province’s advantages more aggressively.
Neighbours beat SA for investment

Investment

Continued from Page 1

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See Page 13
Dutch want changes before investing in SA

Minister warns on eve of royal visit

The Hague – Dutch investors have warned the South African Government they want to see substantial economic and political change within three years before doing business in the country.

Like their German counterparts, Dutch investors see South Africa as one of the world’s most powerful emerging markets, but say low wages and higher productivity make such countries as Asia better investment prospects.

“South Africa is on the right track but cannot afford to delay its economic deregulation plans. Businessmen don’t invest on plans, but on execution,” said Dutch economics minister Hans Wijers yesterday.

Unacceptably low productivity by well-paid labourers, coupled to the high crime rate and “uncertain politics” were highlighted by Mr Wijers as key reasons for investors’ reluctance.

He will be bringing a delegation of 29 business people to South Africa tomorrow when the Netherlands’ Queen Beatrix arrives for a state visit.

The delegation includes representatives of insurance companies, development banks, engineering firms and retail chains.

According to Mr Wijers, a third of the delegation has “concrete” questions and proposals to make to South Africa and the rest are coming to see if South Africa “could be considered an option” for extending their business.

“I sincerely hope the group comes away positive as they are among the most influential.

“If all signals remain green, the Dutch would be prepared to become one of the top three foreign investors in the country,” said Mr Wijers.

Th head of Information Services for the Dutch foreign affairs department, Koen Sizoo, said although businessmen were excited by potential mutual cooperation they saw South Africa as walking a tight rope, and would need to see concrete economic and political advances in the next three years.
FOREIGN INVESTMENT Mbeki informed of bid to scare off investors

Businessman smears SA

JAMES LAMONT
INDUSTRIAL EDITOR

Johannesburg — A smear campaign by a local businessman to deter foreign investors from putting their money into South Africa has been brought to the attention of Thabo Mbeki, the deputy president.

Thami Ntenseni, Mbeki's spokesman, said yesterday that Mbeki had been alerted that a businessman was circulating press cuttings portraying South Africa negatively to foreign companies. This appeared part of a campaign to discredit South Africa as a bright emerging market and worthy destination for foreign capital.

He said a local individual calling himself a businessman and possibly working with other businessmen was sending out news clippings emphasizing the crime situation in South Africa to foreign companies and people who had supported the liberation struggle.

It appeared to be a conspiracy to show that the country was fast becoming ungovernable, even though the businessman claimed to be genuinely concerned about the level of crime.

"The press cuttings are all very negative. It's a deliberate selection with a heavy concentration of negative news. It makes it look like there isn't an effective government in South Africa," Ntenseni said.

Though Mbeki has a selection of cuttings (examples shown) to which the businessman has added his name, Ntenseni would not disclose the businessman's identity. However, a covering letter bears a likeness to the logo of Sappi, the pulp and paper manufacturer.

"The logo looks like the Sappi logo. But we are not saying that it is the Sappi logo," Ntenseni said.

Johan van Wyk, a Sappi spokesman, said the company knew nothing about the smear campaign or the clippings. "Sappi would not do something like that. We have investors and large holdings overseas."

Ntenseni said Mbeki's office had little idea of the campaign's motivation and had not launched a formal investigation. "We want to get as much information as possible."

But sources said Mbeki had asked the Paper, Printing, Wood and Allied Workers' Union to make contact with a company in its sector last week, possibly linked to the smear campaign.

Van Wyk said Sappi had not been approached by the government or union. The US government is believed to have alerted Mbeki to the campaign. Bruce Wharton, a spokesman for the US Information Service, said he was unaware that his government had identified companies responsible for the incident, but he said South African businessmen were giving negative messages to their US counterparts.

"We have been telling the government that we are worried that some South African companies deliberately talk up dooms and grooms, chaos and destruction, to American business."

CT BR B10 96 (748)
South Africa needs direct investment

South Africa needs to become more focused in her quest for economic stability and recent roadshows do not guarantee that. Chris Landsberg explains why ...

Finance Minister Trevor Manuel ... he has discovered that foreign investment in South Africa is not guaranteed.

South Africa’s economy is also characterised by weak industries, lack of industrialisation and a shortage of technical skills.

The market, on the other hand, depends heavily on consumer and agricultural trading goods. Becoming more competitive is a sine qua non if we are to reach a six percent growth rate over the next few years.

Foreign aid is scarcely a credible way out: begging-bowl diplomacy has eroded limits. Lots of aid has been promised and delivered. But the sum of all donor packages amounts to less than one percent of the Gross Domestic Product.

Nor is all foreign aid earmarked for direct aid or grants: the bulk of United States, Japanese and European Union packages consists of soft loans, import-export concessions and trade guarantees. Again a sign of our lack of competitiveness.

No guarantee

There is no guarantee that foreign aid will be modified to MES priorities. For as long as there are problems with implementing the MES, foreign aid schemes could easily clash with MES objectives.

The year after the 1994 elections saw investment flows worth about R5 billion. But, by and large, the response of foreign investors has been lukewarm.

At the time, more than 800 corporations had invested in the new market. Once again the bulk of these were portfolio investors, not much-needed direct investment.

To be sure, the past year did see the expansion of multinational business in South Africa, driven in large part by US, German and British firms.

In real terms this represents only a 20 percent increase in financial services, wholesale trade and transportation.

Sure, investors are largely impressed with South Africa’s perceived sophisticated environment, competent management skills and large-scale organisations; good accounting and legal frameworks; an advanced physical infrastructure; mineral wealth; and the purported “gateway” to Africa.

But the Government should appreciate that, despite its foreign missions to lure investors, overseas captains of multinationals and industry still harbour serious residual concerns. Crime features as a major new concern.

Investors tend to offer both good and bad news. In the short, medium and long term, the prospects for indirect portfolio investments are good.

But the prospects for direct investment, which is important for economic growth and job creation, are not as promising. We will therefore have to look elsewhere, notably to the trade sphere.

South Africa should, as a matter of national urgency, work on an aggressive export-based trade strategy. Government and the local business community should also patch up their differences.

Mutual mistrust

One cannot but notice the mutual mistrust and enmity that prevails between them. It is not good enough that Government only plays to foreign audiences.

The local business community has a vital role to play. Local business, for its part, should learn more about the virtues of compromise.

Foreign investors ask some fundamental questions, for which there are no quick-fix solutions: can the MES deliver fast enough on growth to keep potential populist demands under control? If not, what price fiscal discipline? What happens after Mandela? When will Pretoria take control? Can it crack down on violent crime?

(The author is an international relations researcher at the Centre for Policy Studies, Johannesburg.)
Sappi man confesses to lone crusade

Johannesburg — Roland Mazery, the managing director of Sappi Salcocor, the KwaZulu Natal dissolving-pulp manufacturer, is the man behind the campaign to alert prominent international leaders to the "state of near anarchy prevailing across South Africa".

The campaign, which involved the international circulation of cuttings from the local press, was brought to the attention of Thabo Mbeki, the deputy president, who feared it could deter foreign investment.

Mazery began the campaign in July after the murder of a local schoolmaster and violent attacks on friends, to mobilise international leaders to pressure the South African government to "deliver on its pre-election promises and stop the country sliding into complete anarchy and devastating unemployment within eight years".

Mazery said yesterday that he was sending daily press-cutting bulletins to 39 influential people worldwide, many of whom are friends of the government, to inform them of the serious lack of strong governance and the high level of crime in South Africa.

The mailing list includes: President Nelson Mandela; Andrew Young, the former US ambassador to the United Nations; David Dinkins, the former mayor of New York; Tony Blair, the leader of Britain's Labour Party; Al Gore, the US vice-president; George Carey, the archbishop of Canterbury; British and US ambassadors; and Chris Ball, who is heading up Cape Town's Olympic bid.

Mazery denied he had mounted a secretive smear campaign to discredit South Africa as a destination for foreign capital or that he was exaggerating. He said he had acted in his personal capacity with the support of other Durban business people.

"I believe the government has the power to change things, if they really applied themselves. The intention is not to prevent people from investing here. But what do we do about crime? Crime is a major factor stopping investment coming here."

Sappi and Sappi Salcocor spokesmen said yesterday that the companies distanced themselves from the actions taken by Mazery in his personal capacity.

Lourens Joubert, a Sappi Salcocor spokesman, said the company had had no idea that Mazery was undertaking his campaign.

Mazery, who retires next month, said that though his actions had nothing to do with Sappi, he had told Eugene van As, Sappi's boss, of his campaign.

Thami Ntenteni, Mbeki's spokesman, said yesterday that Mazery's work might be supported by a dedicated unit or outside agency with independent financial backing. "It is not illegal to send cuttings, but what message is he sending out?" he said.

Mazery said he had informed Mandela and Dullah Omar, the Justice minister, of his campaign. He said he sent press cuttings to Mandela every day, and had received acknowledgement from his secretary.

"There is no conspiracy whatsoever. It is an open and transparent campaign targeted at friends of the government because we do not want South Africa to become a second Nigeria," he said.

He described Mbeki's response to the campaign as ill-informed and laughable. "How did Mbeki form an opinion that this was a conspiracy? I have no idea how he can react in this way without knowing the facts about the campaign. It is just a message that government had better clean up its act."
Foreign firms join SA export bonanza

Falling rand pulls investors

The rand's fall has enabled foreign firms to increase their participation in South Africa's export market, with companies from around the world taking advantage of the weaker currency to expand their operations.

The rand has been hit hard by global economic conditions, leading to a depreciation of the currency against major world currencies. This has made South Africa's products more attractive to international buyers, especially in regions where the rand is already used or accepted.

A number of foreign firms have announced plans to increase their investment in South Africa, with some even considering setting up new production bases here. This is due to the potential cost savings associated with producing goods locally rather than importing them.

The government has also been proactive in promoting South Africa as a destination for foreign investment, with initiatives such as the “Invest in South Africa” campaign aimed at attracting more business to the country.

Despite the challenges posed by the current economic environment, South Africa remains an attractive destination for foreign investors due to its wealth of natural resources, a skilled workforce, and a stable political environment.
Foreign companies invested R18bn in SA

Edward West

FORTY-SIX US companies had spent about R8bn in direct investment in SA over the past two years, according to a manufacturing survey by the Industrial Development Corporation (IDC).

The US investment was followed by three German companies which had invested R3.2bn.

Twenty-seven British companies had invested R2.3bn, 10 Malaysian companies R1.8bn and five Korean companies R1.6bn. Three Swiss companies had invested about R800m directly into SA over the past two years, the survey showed.

The IDC said in keeping with global trends, SA had experienced an inflow of direct foreign investment following the constitutional changes in the early 1990s. Direct foreign investment had totalled more than R18bn since the elections.

An analysis of the investments showed that the manufacturing sector had attracted about two thirds of these investments. The food and beverages sector accounted for 29% of total investment flows, followed by the motor and components, and the electronic and information technology sectors.

However, many of these investments were buy-ins into existing businesses. Substantial amounts of investment had been made in franchises such as McDonald's, Hyundai and Volvo.

The investment flows into the tertiary sector were dominated by investment in the hotel and leisure and property sectors. Only 1% of the total investment inflows went to the construction sector, the IDC said.

Meanwhile, in the first half of 1996 manufacturing of non-ferrous basic metal products grew sharply due to Alusaf coming on stream, but production fell in most consumer goods product subsectors, the survey showed.

Manufacturing subsectors to show lower production outputs in the first half included motor vehicles parts and accessories, which showed the biggest decline, followed by footwear, pulp and paper production, leather products, clothing and textiles, electrical machinery and plastic products.

Most of the subsectors reported lower capacity utilisation, with the most severe reductions evident in the manufacture of footwear, tobacco, beverages and transport equipment.

The UK remained the dominant destination for SA's exports, with a 13% share in total value. Noteworthy alterations in the direction of export trade were that Belgium and Hong Kong had for the first time featured in the list of top destinations. Zimbabwe moved to third from sixth place in terms of being a recipient of SA goods.

Ceramic imports grew 126% and originated mostly from China and Germany. Overall, imports were derived mainly from Germany, the US and the UK. Together these countries accounted for 45% of SA imports to manufacturers, the survey showed.
Foreign investment ‘up as rand falls’

THE rand’s sharp decline against other major currencies this year is encouraging foreign direct investment in SA, according to the Washington-based Investor Responsibility Research Centre.

The independent research group said new government investment incentives, with the lower rand, “bode well for continued growth in foreign direct investment in the country”.

Since the sharp deterioration in the rand exchange rate began in mid-February, an average of six overseas companies had opened offices in SA each month. This compared with an average of 4.5 new offices a month during the preceding six months.

In addition, the centre said several multinational companies operating in SA had used the opportunity presented by the rand’s weakness to expand capacity or retool at their existing plants.

“The rand’s fall has enabled foreign firms to purchase facilities and capital goods in SA at more attractive prices,” said the director of the centre’s southern African programme, Meg Voorhes.

She cited as examples the recent acquisition of the SA electricity support products unit of Germany’s AEG AG by General Electric of the US, a decision by Mitsubishi of Japan to buy out its SA distributor and the purchase by Malaysia’s Petronas of a 30% stake in local oil refiner Engen.

The rand’s weakness was also proving a fillip for multinationals seeking to boost exports from SA, the centre said. It cited a decision by Germany’s BMW to inject $220m into its plant in Pretoria with the aim of increasing production 25% by 1999 and boosting export sales.

Clarcol, a US company that bought SA air purification concern Unifil, said the rand’s fall allowed it to boost exports to the UK and Middle East.

Further enhancing the prospects of more international firms being lured into establishing operations in SA were a range of new government investment incentives introduced in recent weeks, the centre said.

Investors that met select criteria were being offered “tax holidays” and accelerated depreciation on plant, buildings and equipment in the hope that increased foreign investment would help alleviate SA’s chronic unemployment.

“Trade pacts with the European Community and the rest of the Southern African Development Community should entice foreign firms to open up export-oriented production in SA,” Voorhes said. — AP-DJ.
Weaker rand helps SA attract investors

By Shadrack Mashalaba

The depreciation of the rand since February has had a positive impact in helping South Africa’s bid to attract foreign direct investment, according to findings of Investor Responsibility Research Centre.

The Washington-based research body reveals that foreign firms have been opening up shop in South Africa at a quicker pace in the past eight months.

IRRC director of Southern Africa programme Meg Voorhees says: “It’s a case of getting the prices right. The rand’s fall has enabled foreign firms to purchase facilities and capital goods in South Africa at more attractive prices.”

The study found that roughly six foreign firms have opened offices or acquired subsidiaries or affiliates in South Africa each month, compared with an average of 4.5 six months earlier.

More significantly, the rand’s slide has prompted several multinational firms to improve their productive capacity at their existing plants in South Africa to increase exports.

Some of the firms that have acquired subsidiaries or affiliates in South Africa surveyed by IRRC, say the devalued rand “definitely sweetened their deal”.

General Electric, Mitsubishi, Merck and Petronas, which acquired a 30 percent stake at Engen, are some of the companies that have opened shop here.

On the investment incentive scheme which came into effect this month, Voorhees says: “The Government’s incentives, combined with a lower rand, bode well for continued growth in foreign direct investment in the country.

“In addition, trade pacts with the European Union and the rest of the Southern African Development Community (SADC) should entice firms to open up export-oriented production in South Africa.”
Top US investors snap up first ‘Yankee bond’ issue

South Africa’s first “Yankee bond” issue has been snapped up by top United States investors, lead underwriters Merrill Lynch said. "We could have gone for hedge funds, that would have been the easy option. But we preferred to go to high quality investors," a Merrill Lynch spokeswoman said yesterday in an interview from New York.

She would not name the investors, whose enthusiastic response to Friday’s launch prompted the Department of Finance to increase the issue to US $300 million from the planned $250 million, saying only that top United States’ pension funds and insurance companies were involved.

Many of them were probably “buy and hold” investors, she said.

The 10-year bond, with an interest rate of 8.375 percent, was priced at 195 points above comparable US government debt.

Merrill Lynch was “very happy” with this price, the spokeswoman said.

"There aren’t many benchmarks for this issue," she said.

“But we’d have been happy with a price inside 200 basis points.”

The Government’s roadshow had gone down well with US investors, she said.

“We expect this issue to be much more successful than the global bond issue in 1994.”

The 1994 issue had also been well-priced, at 195 points above comparable US government investments, but “the bond didn’t trade”.

“This one should be different,” the spokeswoman said.

Department of Finance chief director Christo Roets said he was pleased “but not surprised” with the success of the launch.

“During the roadshow I could see investors were responding well to the issue," he said.

The roadshow went to nine cities across the United States: Los Angeles, San Francisco, Denver, Chicago, Hartford, Boston, Milwaukee, Minneapolis and New York.
SA, must lure long-term investment
Investment summit opens in Zimbabwe

Southern African heads of state and international business figures will arrive in Zimbabwe today for a two-day Southern African Trade and Investment summit to map out a regional approach to lure foreign investment. It will be addressed by, among others, Thabo Mbeki, the deputy president, and presidents Frederick Chiluba of Zambia, Jose Eduardo Dos Santos of Angola and Ketumile Masire of Botswana. Among those to present papers will be Kaire Mbuende of the Southern African Development Community, Lauri Fitz-Pegado, an assistant secretary in the US commerce department, Chester Crocker, the former US undersecretary of state for African affairs, Cyril Ramaphosa, the secretary-general of the ANC, and leading businessmen. It is predicted southern Africa will have the second fastest growth rate in the world in the next ten years, after the Pacific Rim, and the summit is seen as an opportunity to assess the trade and investment potential of the region accurately — AFP, Harare
SA's 'critical mass' will draw investment

Josey Bollenger

SA must reach "critical mass" to draw significant international investment, Cedel Bank representatives said yesterday at the Bond Exchange of SA.

Cedel network development manager Richard Chilton said turnover through international clearing houses was low as SA was a "fairly new link". "The SA equities market is relatively illiquid, but people want exposure.

SA is attractive to trade because of the volatility and devaluation of the rand, potentially giving high yields."

SA was a leader among emerging markets, often making up more than 20% of emerging market equity portfolios because it was seen as low risk.

Chilton said Cedel expected the Euromarket securities market, offshore holdings of local currency and Euro-rand bonds, to bloom. This would in turn stimulate further foreign interest in SA equities and bonds, he said.
CORRUPTION REMAINS ONE OF THE GREATEST OBSTACLES TO FOREIGN INVESTMENT IN SOUTHERN AFRICA. A CO-ORDINATED REGIONAL INITIATIVE IS NEEDED TO STRIKE A BALANCE.

A 'NEIGHBOURHOOD WATCH' IS NEEDED TO TACKLE CORRUPTION IN SOUTHERN AFRICA.
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The Ministry of Trade and Industry

PMR 1 November 1996

HAMAD
In the current climate of tax holidays, new investment incentives, development programmes, the enhanced regional industrial incentive, and increased regional support, it is clear that the ability to attract and retain new businesses, especially in innovative sectors, is crucial. However, in order to make the most of these opportunities, it is essential to align policies and strategies effectively. This requires a coordinated approach across all levels of government and industry stakeholders.

John Didu

The development of new investments, the enhancement of regional industrial incentives, and the provision of tax holidays, are all critical in attracting new business. These measures, combined with strategic planning and targeted support, can create a conducive environment for growth and development.
SA scores well on foreign investment, but poorly on trade policies

The foundation and the periphery

On foreign investment, South Africa is doing relatively well. The World Economic Forum’s annual Global Competitiveness Report ranks South Africa as the 48th most competitive country in the world, ahead of most of its African neighbors. This is due in part to the country’s favorable business environment, which includes low corruption and well-developed financial markets. However, South Africa still faces challenges in attracting foreign direct investment, particularly in key sectors such as mining, manufacturing, and energy. The government needs to continue to improve the regulatory environment and reduce red tape to make it easier for businesses to operate in the country.

On trade policies, the situation is much worse. South Africa’s trade policies are largely driven by protectionist measures and a desire to ensure food security. This has led to a number of trade disputes with other countries, particularly those in the European Union, who argue that South Africa’s policies violate international trade rules.

Overall, while South Africa has made some progress in attracting foreign investment, it still needs to do more to improve its trade policies in order to fully realize its economic potential.
Investment agency gets R5,6m

Patrick Wadula 23/1/97

INVESTMENT SA, the investment promotion agency formed by the trade and industry department, has received R5,6m for its first year of operation to attract foreign investment.

Investment SA CEO Rafiq Bagus said yesterday a further R6m would be pumped into the company in the next four years, from next year.

Bagus said these funds would be used for special development initiatives to attract foreign direct investment such as the Maputo Corridor and cluster studies identifying sectors which needed to attract investment. He said SA needed an integrated and targeted investment promotion programme.

The establishment of Investment SA came after recommendations by the National Economic, Development and Labour Council to set up a “new national investment promotion centre as an independent authority to co-ordinate overseas marketing activities”. An interim board consisting of government, private and public sector representatives had been set up.

Recommendations for a new board would be made on February 4.

Bagus said the agency was the main vehicle for attracting foreign investment into the country in line with the objectives of the government’s growth, employment and redistribution strategy and the reconstruction and development pro-
Foreign investors signal confidence

Greta Steyn

The rand pierced the key level of R4.60 to the dollar yesterday as foreign investors signalled that SA had become a buying opportunity after last year's disastrous performance.

The currency added 5c to its value to R4.6825 — its best level in two months — and also strengthened further against other currencies. In after-hours trade, the currency edged below R4.68 with traders predicting the positive trend would continue. Foreign bankers said there had been a shift in sentiment as they had become convinced the economic fundamentals were sound.

Bankers were also cheered by the appointment of James Cross as Reserve Bank deputy governor in charge of foreign exchange. They said it showed the Bank was serious about dismantling exchange controls this year. It is understood exchange controls liberalisation is Cross’s priority.

ING Barings economist Hanis Farhan said: “There has certainly been a change in sentiment, which has opened a window of opportunity for government and the Reserve Bank to do something about exchange controls.” She said that on a short-term view, the rand and bond markets were projected to strengthen.

Continued on Page 2

Confidence

Continued from Page 1

But she cautioned against becoming euphoric, as the rand had weakened by at least the inflation differential with its trading partners of 7%, while the gilt’s market’s gains would be limited by the rising gap between SA and US long bond yields. She saw the rand at R5.00-R5.10 to the dollar by year-end.

However, Swiss bank UBS was more optimistic, putting the rand at R4.65 at the end of the year. The UBS report on the rand for the first quarter of this year was cited yesterday as one of the reasons for the currency’s strength. “The rand is likely to depreciate less rapidly than inflation differentials with the US would imply, because of the improvement in the trade surplus,” UBS said.

Another foreign banker based in Johannesburg said foreigners were pleased that the rand had managed to remain stronger than R4.75 to the dollar despite the best attempts by speculators to take it weaker last year. The evidence of resilience had coincided with the rollovers of about R1.5bn of Euro rand bonds in January, which had been easily refinanced. The Eurobond marketing exercise had focused attention on SA bond yields.

Bonds also strengthened yesterday, with dealers saying the rand’s stability was attracting foreign buyers in droves. Government’s key R150 traded at 15.46% at the close from 15.49% on Friday. Long bond rates have shed almost 100 points since mid-December and some dealers said yesterday the market was due for a correction. “It does not quite feel like a bull run yet as the local institutions are not buying heavily,” one trader said.

Foreigners were net buyers of gilt’s to the tune of R777m last week, according to bond exchange figures, which brought the total for the year to date to almost R1,4bn. They were net buyers of equities of R153m last week.
FOREIGN TRADE(B)
1997
Coca-Cola South Africa, a subsidiary of the American company Coca-Cola, announced yesterday its plan to invest R3.5 billion in a new production facility in South Africa. The investment is expected to create 1,000 new jobs and double the company's production capacity. The facility is scheduled to be operational within three years.
SA attracts more foreign companies
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MAGGIE ROMNEY

Cape Town — International queries from corporates looking to open offices or distribution arms in South Africa have picked up substantially in the past six months, said Philip Coates, the chief executive officer of Oncor Europe, the worldwide property services network organisation, yesterday.

Coates said the level of interest, particularly from US clients but also European companies, had spurred him to make a fact-finding visit to South Africa.

"There is definitely strong interest out there, including a (leading) European hotel group which is being forced to move into South Africa to meet the needs of its corporate clients doing business in the region. They are now looking for sites, and we expect them to make an announcement shortly," he said.

While South Africa might be on the map for corporate investors, this was not the case for European institutional investors, said Robert Farnes, a senior partner for Hillier Parker United Kingdom, which is also a member of Oncor International.

He said UK institutional investors were not investing directly in property outside the UK but were opting for bonds and equities instead.

Farnes said that if South Africa was to attract long-term direct investment in property from institutional investors in the UK, it was not likely to be before 1999.

"There is no getting away from it, the Mandela factor is a (significant) concern, and the pension funds will be looking closely to see what happens (after) 1999, before committing themselves."

Farnes said the London property market had been extremely active in the past year, with German investors significant players.
SA vies for investors' factories

Linda Ensor

CAPE TOWN — Foreign investors would be encouraged to locate their factories in SA, preferably the Western Cape, in order to use SA's quotas for overseas markets, especially the US and the European Union, reconstruction and development programme (RDP) and provincial economic affairs MEC Chris Nissen said yesterday.

"Naturally we would also need to consider adequate tariff levels, improving the monitoring of illegal imports and engaging in bilateral and multilateral arrangements with appropriate governments," Nissen said in an address to the clothing division of the Western Cape Textile Institute.

The quotas gave SA-based clothing manufacturers, in particular, access to the middle to higher end of these foreign markets which should be the area of focus, Nissen believed, as domestic producers could not compete against low-cost producers in the bottom end of the market.

"There is no doubt that the demands of global competition will destroy the lower-end of our industry because we are unable to compete with the labour rates of the Indonesians, Indians and Chinese, for example," he said.

Apart from clothing and textiles, another major economic subsector in the province was food processing which Nissen said had "tremendous" potential in the new export markets opening up in the Pacific Rim and Indo-China.

He noted the Western Cape economy was well placed to meet this year's growth target of about 2,8%, continuing to preserve its lead over the national economy even though agricultural output would be negatively affected by late rains and colder conditions.

Stimulating regional growth would be the mega-projects of Saldanha Steel and the Capricorn Science and Technology Park and construction of tourist and Olympic Games-related projects.

The greatest challenge facing the province, Nissen said, was to create 50 000 new jobs a year by the turn of the century to bring down the unemployment rate, now close to 25%. 
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Foreigners invested R8bn in Western Cape

Linda Ensor  01/11/1977

CAPE TOWN — Foreign direct investment in the Western Cape last year amounted to about R8bn with the investment of a further R2bn in the process of finalisation, provincial premier Hernus Kriel said in his official opening of the legislature yesterday.

Twelve companies were proceeding with plans to invest R2bn this year.

The province had also benefited from the dramatic increase in the number of tourists — provisional estimates suggested income from foreign tourists last year rose more than 12% to R3.3bn. Tourism now represented 7% of provincial gross national product.

Citing Wesgro figures, Kriel said R550m had been allocated to construction of large hotels in the metropolitan area in the next two years, with a further R180m tagged for platieland hotels, guest houses and extensions. Also, major projects in an advanced planning stage for completion in the next four to five years totalled R2bn.

Additional expenditure on tourism infrastructure could increase spending by R1.2bn, excluding the R1.5bn to be invested in the extension of Cape Town’s international airport.

He announced a number of new legislative measures to be tabled this year. These included the Western Cape Unfair Business Practices Bill which would include a number of consumer protection measures.

"Inputs for a new Businesses Act are also presently to be made to the trade and industry department with the aim of presenting national government with a concurrent piece of legislation which can simultaneously be enacted in the nine provinces," Kriel said.

Other initiatives planned included drafting of a provincial white paper on community policing; the establishment of a metropolitan police force; and a far-reaching re-evaluation of present development policy for coastal zones.

Finally Kriel announced the cabinet-approved names of the Gambling Board to be chaired by D Auret: deputy chairman and member of the Tender Board, M Isaacs; social work lecturer M Tshabalala; architect D Steenkamp; attorney N Hofmeyr; accountant B Kahn; and trade union official D Apolis.
Massive increase in W Cape billions land foreign
Calling all foreign investors

The first stop for investment South Africa is South-East Asia and interest is strong, Rafiq Bagus tells Madeleine Wackernagel

Rafiq Bagus' new job is persuading foreigners to invest in South Africa. No easy task given the fear of crime, but in his previous incarnation at Wesgro, he was instrumental in bringing Levi Strauss to the Western Cape. Now, if he could only persuade his wife to move to Johannesburg.

But as chief executive officer of Investment South Africa (ISA), newly launched by Minister of Trade and Industry Alec Erwin, Bagus is looking beyond the headlines.

"It's all relative," he says. "For Asian companies, crime is not an issue when compared with Latin America, for example, whereas Europeans do worry about it. But the more foreign companies - big and small - we can encourage to set up shop here, the more others will follow.

"Obviously, there's no point in denying the problem. We have to be realistic and upfront, and the sooner we are seen to be tackling crime effectively, the easier my job will be. There is an enormous amount of interest in South Africa -

it's just a question of being able to harness it productively."

ISA operates under the auspices of the Department of Trade and Industry (DTI), in close harmony with the department's other development agencies, including Khula, which provides financing, and Ntsaka, which offers technical assistance, in a bid to include small, medium and micro-enterprises in building backward linkages. It's not just about the Fortune 500 companies - they come anyway; the smaller businesses are equally important.

Communication, stresses Bagus, is vital if his venture is to succeed. There is no point in going on a roadshow if the participants are not informed and co-ordinated.

"Before we can start talking to the South-East Asians about inward investment, we have to find out what should be done, where the gaps are, and how best to tap their expertise."

"So we called on the South African Chamber of Business, the Afrikaanse Handelsinstiut, the National African Federation of Chambers of Commerce, various government departments and labour representatives to give us their views. The government is always blamed when people complain that nothing is being done to boost investment. But it is up to the other constituencies to get involved and make their voices heard. We may not agree politically but if this country is going to work, we have to work together.

Getting the private sector on board is a priority - "preferably done yesterday," he says. "We're looking at ways of involving their expertise - is it a matter of seconding someone, for instance? We can't do the job on our own, so building coalitions and networks is paramount."

By the same token, developing foreign networks also important. Bagus points to the international figures who are already ítialle with South Africa, such as Richard Branson of the Virgin Group. "Our top-level politicians and business figures should be able to encourage more people to invest here. That way we can build a network of the top foreign companies, which in turn bring others in."

Bagus is accompanying the president as part of the DTI and business delegations on a trip to the Philippines, Malaysia and Singapore at the end of this month.

"South-East Asia is enjoying a boom period - the potential investment opportunities are enormous. The Asian countries are also very keen on building South-South relations and they are keen to expand in Africa."

With an annual budget of R5-million for the next five years, Bagus has sufficient funds to tap that goodwill. The organisation is not as unwieldy as some foreign counterparts, with a staff of only 16, but it intends to expand into branches abroad when the need arises and the interest justifies it.

Bagus, for one, is optimistic - always something new into Africa could well become its motto.
Govt move to draw foreign investment

John Dlodlu

MULTINATIONAL companies that win lucrative SA state and parastatal business will be required to set up businesses locally, a move expected to accelerate the pace of foreign investments in SA.

Trade and Industry director-general Zavareh Rustomejee said in a recent interview that the plan, known as national industrial participation, would oblige winners of state and parastatal tenders to set up a "viable, profitable" business in SA.

Although the plan was not as "prescriptive" as other nations' offset procedures, certain value targets would be set which would have to be reached by the winners of state tenders. However, the business would not necessarily have to be related to the particular transaction. "They (transnationals) can create virtually any business that they choose."

"We recognise that it is more likely they will choose a business they are currently involved in globally."

Government felt its tenders would attract interest from fairly large multinationals given the size of the contracts. Details of the investments would be negotiated with companies, he said, adding that the programme was a "sophisticated" way of using government's purchasing power to deepen the relationship with multinationals.

In crafting the system, government had studied the experiences of other countries. "We want to use these instruments to convince them (multinationals) that it makes sense to locate some of these investments in SA. Some of these firms have never considered SA as a profitable investment destination," he said.

Government felt that winning large contracts would make these companies' investments in SA very profitable. These companies would be able to engage in a huge range of additional activities. This was to ensure ventures that had been set up did not die at the end of the period of obligation.

Each case would be looked at separately and there was no blueprint, or set of rules or regulations, to which they would have to adhere, he said.

Concerns expressed by certain business bodies were based on a lack of understanding of the obligation. "They assume this is a very crude offset type of obligation that exists in other parts of the world," he said.

He believed the system was "friendly" and said there was an intensive public relations drive to explain the details of the programme to foreign business associations.

SA would also use the mooted trade protocol under the Southern African Development Community to open its markets to its neighbours in a bid to reduce the ballooning trade surplus Pretoria enjoyed with the SADC nations. The basis of the protocol was its "asymmetry", which meant that Pretoria would open its markets faster than its SADC neighbours did, he said.

The trade protocol, agreed upon by the SADC member governments in August, seeks to free trade among the region's trading bloc over eight years.

He warned that the deficit suffered by the region in its trade with SA was "unsustainable".

Some analysts estimate SA's surplus with the whole continent to be as high as R11bn, a mirror image of SA's trade with industrialised nations.
SA cities to vie

for investment

123 000 houses, are in production

Ivorpark leads the way

Joyce Mbele

Marine enclosure

TNC

Continued

...
Determinants to foreign investors are highlighted.

In the UK and US, and much of Europe, transactional practices, especially around the purchase of shares, are seen as the norm. The cost of due diligence is a factor in the decision to invest. The ease of doing business in a location is also taken into account, as are the tax incentives provided. The level of political and economic stability is another important factor. Regulations and the legal framework also play a significant role. Investors may also consider the cultural fit and the availability of talent. The presence of a strong, supporting infrastructure can also be a deciding factor. 

International investors and developers are increasingly looking at the UK as a prime destination for their investments.
Katz wants SA to act as host for multinationals

CHRISTO VOLKENS

Cape Town — The Katz commission on tax reform has called on government to market South Africa as a location for headquarters of multinational companies, especially multinational service companies, "to expand the pool of skilled labour in South Africa".

The country's geographic location, superior infrastructure, common cause with Africa and favourable tax rules should turn it into an attractive option for multinationals to locate their head office, the commission said in its fifth report, released last Friday.

It called on government to declare fees earned on services rendered by head offices of multinational groups in South Africa tax-exempt. Employees of these companies should be given exemption from local taxes on income earned offshore. "Australia already does this, and Botswana is considering it to attract head offices."

"Encouraging the formation of corporate head offices and holding companies will encourage local investors to expand overseas without sending skilled staff abroad and encourage foreign investors to expand into Africa," the commission said.

Features of the tax regime conducive to the formation of headquarters in South Africa included a reasonable double tax agreement network, exemption of offshore corporate dividend income from local income tax, absence of local corporate capital gains tax, low or no withholding tax on dividends paid to shareholders and efficient local tax rulings system.
Japanese investment in SA ‘is hampered by distance’

Stephané Bothma

TOKYO — Japanese companies had invested more than R1bn in SA over the past three years, both directly and through joint ventures with local companies, the Bank of Tokyo Mitsubishi said yesterday.

However, the distance between the two countries and a lack of knowledge about SA hampered more rapid investments by Japanese listed companies, the bank’s senior manager for the Middle East and Africa, K Kawaguchi said.

He told a delegation of SA journalists visiting Japan as guests of SA Airways to coincide with the airline’s new direct service to Osaka, that the depreciation of the Japanese yen in recent years had also prevented Japanese companies from establishing offshore manufacturing facilities.

“Because of the depreciation of our currency, Japanese companies prefer to produce in Japan, especially where high-tech products are concerned,” Kawaguchi said.

In addition to SA’s obvious attractions for Japanese businessmen, such as the country’s natural resources, tourism could also be a major money-spinner. More than 16-million Japanese travelled abroad last year.

“But the Japanese know very little about SA. They do not know where the country is situated, what is produced by SA, and have no knowledge of the country’s potential as a major tourist destination. We must be educated.”

Kawaguchi said his bank, the largest in the world, believed that the trend to invest in SA would steadily increase. Japan was convinced that SA would enjoy political stability for at least the next six years and that the value of the rand had stabilised significantly — “at least for this year”.

The largest investment by a Japanese company since the 1994 general election has been the purchase by Toyota of a 27,8% stake in Toyota SA for R446m last year. In addition, tyre manufacturer Bridgestone has invested R290m in Firestone SA.

Leading Japanese trading companies Mitsui and Nissho Iwai have also confirmed plans for investments of about R850m in joint ventures with SA mining companies. These are believed to be a potential stake for the Mitsui group in the Gencor-backed zinc refinery proposed for the Eastern Cape, and a share for Nissho Iwai in a new Samancor ferroalloys furnace.
Bridgestone may pump R44m into SA

JONATHAN ROSENTHAL

Johannesburg — Bridgestone, the Japanese tyre company with a claimed 19 percent of world tyre sales, could invest more than R44 million to improve quality and productivity at its South African tyre plants, Yoichiro Kaizaki, the president, chairman and chief executive of Bridgestone, said yesterday.

Bridgestone acquired Fedstone, Firestone's holding company in South Africa, from Murray & Roberts for R230 million earlier this year.

Kaizaki said he was still assessing the South African subsidiary and had not yet determined what Bridgestone would need to invest. But he said at least $10 million could be invested to bring quality in line with the rest of the group.

He said the group was unlikely to retain any of the 1,800 employees working in the company's production plants, but would rather improve productivity. The group hoped to increase tyre production by 50 percent within two years and double production over five years.

The South African operation has increased its productivity by 40 percent over the past few years through technology transfers from Bridgestone, but not without cost.

Last year the group reduced staff at the Brits and Port Elizabeth factories by about 500, leading to a five-week strike at the Port Elizabeth plant.

While 15 percent of the group's South African production was exported, primarily to Africa and Europe, Kaizaki said the first priority would be to improve the presence of Bridgestone's brands in South Africa. Bridgestone and Firestone brands account for a claimed 24 percent of domestic sales, but the group said it planned to seize the top spot in the market from rival Goodyear.

Kaizaki was in South Africa for the official inauguration of Bridgestone Firestone South Africa, which will be headed by Katsuhiro Yamamoto.
DRAWN TO SA

The German owners of Deutsche Magnet Technik (DMT), which last year invested R210m in SA’s first ferrite magnet factory, have bought two more magnet plants in Europe which they plan to relocate to SA.

The investors bought one factory from Thyssen, the German steel giant, and the other from Tridelta, an eastern European company, for undisclosed amounts.

The new factories will double DMT’s production and extend its production range to more complex magnets.

The company’s first factory in Isithebe, KwaZulu-Natal, employs around 150 people and is nearing capacity of 1 000 t/month of wet ferrite magnets, which make up the bottom 70% of the market.

At capacity, DMT will supply about 2% of the world’s US$3bn magnet market, which is projected to grow to around $10bn in the next 10 years.

DMT chairman Chris Frame says the group spoke to Thyssen and other major magnet manufacturers who are disinvesting from the industry because of escalating labour and power costs in Europe. He says they had chosen SA for the relocation of plants since the country offered cheap electricity and had access to raw materials, some of which were waste products in the steel industry.

Frame adds that when details of the deal have been worked out, the board will make a public statement.

Last year, Thyssen approved the quality of the magnets produced at Isithebe — a precondition to marketing them under its name. Thyssen also has a technology agreement with DMT and supplies skills.

Frame says the company will look at listing on the JSE to finance future investments in related fields such as the manufacture of small motors which contain magnets. Stuart Rutherford
US urged not to invest in SA alone

BY RICK MICHONDO

Washington - Trade and Industry Minister Alec Erwin has called on American business leaders to channel their investments into the Southern African Development Community (SADC) countries, not South Africa alone.

"South Africa cannot, and I hope never will, be satisfied with a process where we see a flow of investment into South Africa alone because of its present economic strength.

"South Africa will never be satisfied with investments that are not matched by the same flow of investments into SADC countries. If that happens we (SADC members) will have failed," Erwin told members of the US-South Africa Business Council, an advocacy organisation of US companies investing or trading with South Africa.

"We (South Africa) do not seek all the investments in South Africa, we must get investment across the region," he said.

The US-South Africa Business Council provides a forum for business and political leaders in the two countries to discuss public policy issues affecting trade and investment. It is a network for US and South African business leaders and an information source on the economic and political environment in South Africa.

Erwin and ministers from other African countries are in the US to attend the "Attracting Capital to Africa" summit organised by the Corporate Council on Africa. Deputy President Thabo Mbeki and Energy Minister Penuel Maduna are also attending.

Erwin said: "We in South Africa are quite clear. As a matter of policy, we believe the only path is one that links trade and investment into the SADC.

"Our approach to the SADC is one where we see trade and investment as part of a common strategy that will benefit all of us. We have begun to take concrete steps to encourage this position."

– Star Foreign Service.
Crime hinders foreign investors

FEATURE NEWS

South African Business

By Josua Rabogo
Dutch pull out of
R90-m investment

Nissen denies tax bungle claim

A Dutch company which was on the verge of investing nearly R90 million in a Muizenberg hotel and entertainment complex has pulled out at the last minute.

The Amsterdam-based investor, tourism and infrastructure group Snippe Projects, apparently wanted to establish a hotel school and factory and invest in Muizenberg's hotel and retail industry.

Sources close to the deal told Saturday Business that the group had been informed that the investment would qualify for a tax holiday under the scheme administered by the Department of Trade and Industry, and that Snippe had withdrawn when it became clear that this was not the case.

Investigations by Saturday Argus to ascertain what the planned factory would have manufactured proved fruitless.

The sources said representatives of the Dutch company had visited Cape Town recently and were on the point of signing the deal, after having appointed a city firm of attorneys to draw up the contracts.

Snippe director Hans Brok, interviewed by telephone in Amsterdam, confirmed that an investment in Muizenberg had been considered.

He would not give details of his decision to withdraw.

The group would be coming back to South Africa with other investments, he said.

"I think it's a problem of communication and understanding," Mr Brok said.

"One thing is for sure, we will come back. We will do more research and we have spoken to Wesgro and Chris Nissen's office about this."

Mr Nissen's office in the Western Cape Ministry of Economic Affairs denied that a bungled offer of tax relief was the reason why the deal had fallen through.

"Snippe said they were no longer interested in the Muizenberg site because they were looking for a site that attracted lots of people and would be better value for their money," the ministry's director-general Tony Ruiters said.

"The investment by Snippe is one of several referred to by Mr Nissen in an interview with the Cape Argus earlier this month."

At the time, Mr Nissen said he had secured firm commitments for a R600 million investment in Muizenberg, a R200-million investment in a low-cost housing materials plant, and a R60-million investment in a bottle cap factory in either Blou Downs, Mitchell's Plain or Atlantis.

He also said that a foreign investor planned to spend R90 million refurbishing a city centre hotel.

Asked to comment, Mr Ruiters said only the Snippe group were interested investing in the Muizenberg area.

"They have not pulled out their investment but are merely looking for another site, "

Peter Pullen, spokesman for Wesgro which handles the Western Cape's promotion and investment partnerships, said the hotel and entertainment complex was still planned for the site adjoining the Cape Town Science Park.

It was not dependent on the investment of the Dutch group, he said.
Consorium pays R5,6-bn for 30% stake in Telkom

News
Days Inn invests in Cape Town

Lukanyo Mnyanda

INTERNATIONAL hotel group Days Inn will invest R26,5m in its first SA venture — Days Inn Cape Town, a sectional title operation in the city centre.

Almost half the units, valued at more than R11m, were snapped up by investors in three days when they went on sale last week.

The group said the project could lead to further developments in southern Africa. It had already opened an office in Gauteng.

Days Inn of Southern Africa is the territorial master franchiser for Days Inn of America — a division of Hospitality Franchise Systems (HFS), which is listed on the New York Stock Exchange.

Days Inn said it was the largest and most profitable brand in the HFS hospitality division, with more than 1 600 Days Inn properties in the US and more than 1 700 hotels worldwide.

The Cape Town hotel would have 118 suites in the "mid-price range" and would occupy three floors of a building bounded by Buitengracht, Dorp and Bree streets. Property marketing company Devmark had been appointed to handle the sales by sectional title of the studios, lofts and other units, and had a mandate to ensure long-term capital appreciation and strong monthly returns, with Days Inn as the operator.

Devmark director Thomas Altmann said buyers would enter a proven rental pool agreement with the operating company.

Buyers effectively became co-owners of the hotel and shared profits based on their percentage participation share. Altmann said investors would realise a return of 15% on an "extremely conservative" projected occupancy rate of 60%.

Days Inn Hotels' entry into SA was a sign of confidence in the future of the travel and tourism market in Cape Town, Altmann said.

He was confident that the available units would be sold quickly. Bantry Bay Suites — also marketed by Devmark — was the first sectional title hotel sold in the same manner and had an average occupancy rate of more than 70% over the past six months.
Rich countries obliged to invest in southern Africa, Mandela tells summit
Region ‘falling behind in investment race’

JAMES LAMONT

Harare — Southern Africa was not attracting the levels of direct foreign investment needed to stimulate rapid economic growth, Jeffrey Sachs, the director of the Harvard Institute for International Development, said yesterday.

Speaking at the World Economic Forum’s Southern Africa Economic Summit, Sachs said export-driven foreign investment was not coming in in the volumes it should. He said the region relied too heavily on natural resources rather than developing the manufacturing industries that had proved vital to the success of comparable developing countries such as Malaysia.

Though the average economic growth for the region was 7 percent of GDP, South Africa had not achieved the rapid growth that had been expected, bringing the region’s GDP-weighted economic growth down to 4 percent — barely ahead of the growth of the labour force.

Sub-Saharan Africa attracts about 2 percent of global foreign investment. In 1995, the foreign investment flow averaged about $90 million for each country in the SADC.

David Robins, an executive vice-president of the Union Bank of Switzerland, said “these figures imply that there is a serious economic obstacle in the region”.

He recommended the deregulation of markets, the abolition of exchange controls, a stable legal environment, friendly tax and tariff regimes and the removal of indiscriminate personal violence to spur economic growth.

Trevor Manuel, the finance minister, argued that the region now had stable macroeconomic policies that supported economic growth and maintained prudent fiscal discipline to curb inflation.
JAMES LAMONT

Johannesburg — Foreign direct investment commitments to South Africa have topped R3.6 billion since the 1994 democratic elections, BusinessMap, the business intelligence consultancy, said yesterday ahead of the release of its South African Investment Report for 1997.

But outward investment by South African companies since May 1994 exceeded inward foreign direct investment, totalling R33 billion.

The report, which will be released later this week, shows that foreign direct investment commitments for the first four months of this year amounted to R10 billion, substantially outstripping last year's total of R7.8 billion. The US was the leading investor.

BusinessMap's calculations include actual and planned investment commitments. “Overall the research shows that there is not just satisfaction with the economic policies of the new government, but that there is a confidence that it will stand by its policies. Crime, however, remains a constraint,” BusinessMap's report said.

The top 10 investing companies were SABC Communication, Telekom Malaysia, Coca-Cola, Petronas, Cultex, BMW, Nestle, Goodyear, BP and Shell.

The US was the leading investor with about R11 billion in commitments, followed by Malaysia, the UK, Germany and Japan. These five countries accounted for 80 percent of investment.

Five sectors attracted the bulk of investment: telecommunications, energy and oil, motor and components, food and beverages, and hotel, leisure and gaming.

The largest outward investors were Anglo-American, Gencor, South African Breweries, Sappi, Mondi, Nethold, Sun International, Senetrachem, Barlows, Sasei and Peraetel.

Jenny Cargill, BusinessMap's director, said investment in mining had gone into emerging countries, but non-mining investment went into developed markets.

“What is interesting is how little non-mining investment has gone into Africa,” she said. “The government is keen to promote it and there was a certain flurry, but that seems to have slowed down.”

Thabo Mbeki, the deputy president, said last week that South African corporations were now more committed to invest locally than they had been two years ago, when the debate between domestic investors and the government was not very healthy. “The situation has changed radically.”
German investment in S Africa to continue

GERMANY will continue investing in South Africa to promote economic and political stability as a means of underpinning social peace in the region, Daimler-Benz chairman Jurgen Schrempp said at the weekend.

In remarks prepared for an address to leading South African and German businessmen at a Chamber of Commerce and Industry banquet in Johannesburg, Schrempp said the move would counteract prevailing pessimism and help integrate the Southern African Development Community states.

"While pessimists may regard Africa as the lost continent, we see it as a market of the future," said Schrempp, who heads the Southern African Initiative of German Business (Safri) aimed at strengthening investment ties between Germany and the region.

He said Safri would support the initiative by providing know-how, technology and advice on trade and business.

Sowetan 3/6/97
**German firms take a hard line on crime**

About 86 percent of German companies in South Africa said in a recent survey they were considering altering their investment strategies; 15 percent had already stopped their investment because of the crime problem, Jürgen Schrempff, the chairman of Daimler-Benz, said at the weekend. He said this was "not surprising as quite a number of German company executives and employees have been subjected to criminal brutality".

Speaking at the annual banquet of the South African-German Chamber of Commerce and Industry in Johannesburg, Schrempff said the study surveyed 82 German firms. They identified "fighting crime" as the government's highest priority. However, he said while pessimists may regard Africa as the lost continent, "we see it as a market of the future". But he said it was vitally important the government stuck to its macroeconomic strategy and curbed the growing crime rate if the country were to lead the way to prosperity in the region. — Roy Cugwana, Pretoria
Leading businessman issues warning on SA investment

Tim Cohen

EDINBURGH — The edge was taken off a major SA investment effort yesterday when a leading member of the SA pharmaceutical industry issued a serious warning on investing in SA.

In stark contrast to many other forums at the Europe SA '97 conference where investors were encouraged to invest in SA, SmithKline Beecham CEO Günther Faber warned of a "total socialisation of healthcare in SA".

Faber surprised delegates by saying SA's small but vibrant pharmaceutical sector was "under threat".

Faber said this was because of proposed legislation "which flies in the face of official government policy of an economy based on free-market principles". The legislation had "scant regard" for intellectual property rights and was contrary to the Trips agreement that government had recently become party to, he said.

"Naturally, from an investment point of view, it will relegate SA's imp

The health department had decided to ignore the government's macro-economic policy which embraced free-market principles, to "use socialist policies" to drive forward its own landable primary healthcare policy for SA.

But despite the gloomy prognosis, Faber said prospects were good and investors ought not to be "despondent".

Finance Minister Trevor Manuel defended the health department, saying as far as government was aware, the legislation did not contravene the Trips agreement.

He chided the industry for speaking in general terms about the free market, but had not come forward with specific problems it had with the legislation. It was up to the industry to show how the legislation contravened intellectual property rights, he said.

Furthermore, the industry had not presented an overall philosophy of where it was headed. "So far we have only heard lobbying," Manuel said.
performance at international investment

SA has presented itself to investors as a slightly shabby but willing raconteuse with London correspondent

conference disappoints

The Ad Hoc Board of Directors and the Investment Committee of the International Investment Company (S.A.) regret to announce that the annual performance review of the company's investments has fallen short of expectations. After thorough analysis of the portfolio, it was determined that the investment strategy and management processes did not deliver the desired returns.

The board is committed to conducting a thorough review of the investment policies and strategies and implementing necessary changes to improve future performance. Shareholders are encouraged to attend the upcoming annual general meeting to discuss these matters further.

Tim Colman
Firms investing in spite of crime fears

Simon Barber

WASHINGTON — Crime was the main complaint about SA voiced by foreign companies surveyed by the Washington-based Investor Responsibility Research Centre, but it did not appear to be affecting investment decisions.

The removal of exchange controls was the leading preoccupation of the 358 multinationals from 16 countries that answered the centre's latest annual survey of corporate sentiment towards SA, the results of which were released yesterday.

Of 220 firms willing to say what aspect of SA government policy they would like to see improved in the coming year, 57% put the removal of all remaining exchange controls at the top of their wish list. Only 13 mentioned a more effective anticrime strategy and 11% cited reductions in import tariffs.

"Foreign companies' preoccupation with (forex) controls is another indication that economic factors, such as the regulatory environment for business and macroeconomic strategy, figure more prominently in investment decisions than others, such as crime and violence," said the centre's southern Africa director Meg Voorhies.

Companies were asked to rate SA as better, the same as or worse than other emerging markets on a range of characteristics.

In only two areas, infrastructure and availability of raw materials, did majorities (69% and 52%) rate SA "better"; 48% thought SA's economic policy management superior, while only 9% judged it "worse". Only 13% thought SA above average on the labour relations front, while 34% considered it inferior. SA's labour productivity scored low marks, with just 16% putting it in the "better" category and 37% in the "worse".

The survey found firms less bullish on SA's economic prospects than at this time last year: 47% projected a strengthening SA economy, compared with 60% a year ago.

Most firms that already had direct investment in SA told the centre they planned to increase their investment in the coming year. On the other hand, only 11% of firms with nonequity ties — such as distribution, licensing, agency of master franchise agreements — said they were looking to establish a direct presence.
South Africa welcomes investment grade rating

Johannesburg – Rating agency Duff & Phelps yesterday said it had assigned a BBB- (Triple B Minus) rating to the foreign currency obligations of South Africa.

DCR said South Africa’s investment grade rating reflected the strong policy commitment of the Government to establish a competitive and creditworthy economy.

“The elements of the economic strategy include a commitment to sound fiscal and monetary policies, a well diversified economy, a growing and diversifying export base and favourable external debt ratios.

“However, the level of fiscal deficits, low domestic savings, high unemployment, relatively low international reserves, high income inequality and high crime rates, constrained the rating.”

DCR said it expected policy continuity would be maintained as the benefits of stabilisation and sustainable growth were felt.

“Although President (Nelson) Mandela will not stand for re-election in 1999, policy continuity is expected to be maintained as the benefits of the stabilisation and sustainable growth begin to make a positive impact on living standards.”

DCR expected favourable trends to continue. The Gear strategy in place should help alleviate both distortions and structural problems in the economy.

“Higher growth and lower inflation will depend critically on continuity of the process,” DCR said.

The Ministry of Finance welcomed the rating, saying that it was “especially significant in that, in terms of securities regulations in the United States, certain investors, such as insurance funds, are restricted in terms of their investments when a country does not have two investment grade ratings from US accredited agencies.” – Sapa
Multinationals upbeat about investing in SA

But productivity, crime major concerns

Washington - Multinational companies in South Africa continue to see the country as a good place to invest, by contrast to some other emerging markets, and are planning to increase their investments, according to a survey released here.

The survey, conducted by the Investor Responsibility Research Centre (IRRC), indicates foreign firms will focus most of their new investments in South Africa's manufacturing, distribution, financial services, communications and transportation sectors over the next year. With the recent fall in the rand, much new investment will focus on the production of exports.

The survey also finds that South Africa, the only nation in sub-Saharan Africa to be listed among the world's top emerging markets, compares favourably - in the eyes of multinationals - to its main global competitors, especially in its infrastructure, raw materials base and its legal system.

On the other hand, of the 350 companies which responded to the survey, 76 percent said South Africa's crime and violence were worse than in other emerging markets worldwide.

"Foreign companies remain extremely critical of South Africa for its high levels of crime and violence," notes Meg Voorhes, director of the Southern African service of IRRC, which has monitored investment trends and attitudes affecting South Africa since the beginning of the anti-apartheid disinvestment campaigns in the late 1970s.

"They believe the country (also) compares poorly with other emerging markets with regard to labour productivity and industrial relations," she says.

Among the most important trends regarding foreign investment in South Africa, according to Peter de Simone, another IRRC official, is the rapid rise in United States corporate involvement in the country and the expansion plans of firms doing business here.

"We're seeing less of a wave of new companies coming in to South Africa and more solid and substantial investments by companies which are already there," says Mr De Simone. "I think we're seeing a more mature phase in South Africa's investment drive."

Almost 75 percent of respondent companies in the financial services sector reported plans to make new investments in South Africa during the coming year. Over half of all companies in the distribution, manufacturing and communications and transportation sectors also responded positively regarding plans for expansion during 1997.

On the other hand, only 10 percent of foreign construction companies plan to make new investments, a sharp contrast to 1996, when a majority of construction firms said they had new investment plans.

By nationality, the multinational firms that appear most likely to make new investments over the coming year are American, 45 percent of which expressed such plans, followed closely by French, British and German companies.

US firms have displaced German firms as far as expansion plans are concerned, Mr De Simone says, while British firms remain far ahead, as they did during apartheid. - Sapa-IPS
Shunted from pillar to post

Does this sound familiar? “Our Customs officers are too serious. They put a damper on investors. You arrive in the country and say, ‘I want to invest in your country.’ They reply, ‘Why, what’s wrong with your own?’ Then, once you get past them and into the country, you are sent from ministry to ministry despite the promise of a one-stop investment shop. The civil servant acts like he’s the civil boss.”

No, it’s not an SA politician, but Namibian PM Hage Geingob, complaining about the obstacles faced by foreign investors in southern Africa. He made his comments as keynote speaker at last week’s annual conference of the Zimbabwe National Chamber of Commerce.

He says southern Africa has still to come to terms fully with the concept of trade globalisation.

Too many countries believe the single act of lowering tariff barriers will lead to a flood of foreign investment. That’s naive. “Liberalisation alone will not do the trick. Market forces direct investment to where returns are.”

Nor will countries prosper if they try to go it alone. But while there has been much talk of regional co-operation and creation of a trading and economic bloc, little has happened. Southern African countries spend too much energy protecting often ragtag domestic industries from regional competition, and not enough on finding ways to increase regional efficiency and create globally competitive economies of scale.

Regional tariff barriers must come down, Geingob says. “Our success in regional co-operation has been poor. We have done little to achieve complementarity. We need to create a shared vision.”

Exactly why southern Africa must cooperate for growth was highlighted at the conference by Hendrik Roelofsen, a senior adviser on regional trade development at the Swiss-based International Trade Centre.

Echoing Geingob, he adds, “There is also evidence that policies alone may not provide the desired supply response unless they are translated into articulated and targeted strategies to induce trade and investment.”

David Farlanger

FINANCIAL MAIL - JUNE 20 - 1997
CREDIT RATINGS

Jockeying for position in the numbers game (7.4.6)

Is a country's sovereign risk calculated by the methodologist or merely flicked across the abacus?

When credit rating agency Duff & Phelps accorded an investment grade (BBB-) status to SA's sovereign debt, earlier this month, it placed it ahead of Mexico and the Philippines, which have both been accorded only a BB, on a par with Poland and Hungary and below Colombia, which has a BBB.

The world competitiveness report, published by the World Economic Forum (WEF) a week earlier, has a different perspective on how the countries rank. It puts Colombia four places ahead of SA; Mexico 10 ahead; and the Philippines 12 ahead; while Poland and Hungary are one and three places respectively below SA on the index.

Yet another assessment comes from a recent Economist Intelligence Unit's country risk rating — the higher the score the lower the perceived risk. It puts SA two places below Poland, one place ahead of the Philippines, three ahead of Colombia, and six ahead of Hungary (see graph).

The Institutional Investors' Rating scores countries on a scale of 1-100. Once again, the higher the rating, the lower the risk of default. It gives SA 46.3; Hungary 44.7; Poland 44; Mexico 41.6; the Philippines 40.5; Colombia 26.4. A simple calculation of GDP per person, by the World Bank, generates yet another ranking (see graph).

Duff & Phelps evaluates "overall coherence, consistency and appropriateness of economic policy and an understanding of the political constraints underlying this policy." It looks at four key elements: economic policy and performance; balance of payments; public and private-sector debt structure; and social and political factors.

The WEF report says its conclusions are based on "55 quantitative and survey data collected and combined into eight factors of competitiveness." These are:

- Openness of the economy to international trade and finance;
- Role of the government budget and regulation;
- Development of financial markets;
- Quality of infrastructure;
- Quality of technology;
- Quality of business management;
- Labour market flexibility, and
- Quality of judicial and political institutions.

It also takes account of the country's level of foreign debt.

Andre Astrow, of the Economist Intelligence Unit, says the unit bases its assessment on 77 different factors.

"These include political stability, political effectiveness, monetary policy, fiscal policy, inflation, real lending rates, public-sector debt to GDP, exports to GDP, the exchange rate regime and how vulnerable the country is to changes in interest rates in the US," he says. "They also look at debt default history, debt service ratios, financial structures and incidence of major bank failures."

And the Institutional Investor's rating is based on surveys of international bankers' assessments of default risks.

All of which leaves us none the wiser. In broad terms the criteria are much the same.

What is needed is political and economic stability, regulatory flexibility and at least some growth potential. Yet the rankings they produce are so different.

Sovereign credibility. It seems, is in the mind of the methodologists.

Yet rankings and ratings are becoming increasingly important as more and more countries attempt to establish a profile in global financial markets.

New Horizon Economies, published each quarter by the Union Bank of Switzerland, refers to the "unusually large" number of ratings between its first and second quarter issues this year.

Eight of the 52 emerging countries surveyed received new sovereign risk ratings for their foreign currency long-term debt from either Standard & Poor's or Moody's or both. Of the eight newly rated countries, four received an investment grade rating from at least one agency and four were rates speculative.

Croatia received an investment grade rating from both agencies. Egypt and Latvia were rated investment grade by S&P and Saudi Arabia was rated investment grade by Moody's. Egypt was rated speculative by Moody's. Latvia has not been rated by Moody's and Saudi Arabia has not been rated by S&P.

SA is one of the countries rated by both agencies. SA has an investment grade (Ba3) only from Moody's and a speculative BB- from S&P's.
**FOREIGN DIRECT INVESTMENT**

**Taking the plunge on the dark continent**

A black-owned US financial group tests the commercial tempo in southern Africa

*FM 20/6/97*

The launch in Washington this week of a private equity fund will channel US$120m worth of US investment into southern Africa.

The New Africa Opportunity Fund (NAOF) will be managed by New Africa Advisors (NAA), a subsidiary of a US-based, black-owned company, the Sloan Financial Group (SFG), which has $4bn under management and a listed African investment portfolio of over $100m.

The fund will target sectors that will benefit from the emergence of the black middle-class consumer, says NAA GM Leon Lieenberg. And it will look for "fast-growing, privately held companies, subsidiaries of listed companies, or State-owned businesses being privatised."

The lead investor is the US-based Citibank.

"A spin-off for SA," says Lieenberg, "is that the concept could attract interest from multinationals. We find that when a multinational enters a new area, it only wants to stick a toe in the water. We will assist as we will provide some of the capital."

"About $40m of the new fund has come in the form of equity," says Lieenberg. "Investors expect returns of 25%-30%, a fair premium over returns of 18% earned on private equity investment in the US."

The remaining $80m has been raised on the basis of credit support from the Overseas Private Investment Corporation (Opic). "A guarantee covers principal and interest for a 10-year period," says Lieenberg.

"This finance is provided by people who prefer to invest in 10-year government type securities." Opic is a US government agency which supports trade and investment in emerging markets. "The idea," says Lieenberg, "is that the investment should stimulate business with the US."

In return for the guarantee, Opic receives a fee and a percentage of the profits. There are 33 Opic-funded companies in the world and this is the first for the SA Development Community.

Another private equity fund is to be launched next month. As yet unnamed, it will be sponsored by NSA Investments and Real Africa Durolink (RAD).

NSA Investments, which is listed on the JSE, is a private equity fund, set up in May 1994, says executive director Sam O'Leary. It targets high-growth listed/unlisted firms making about R20m in pre-tax profits.

NSA has invested R600m and this, he says, is now valued on the JSE at close to R1.5bn. RAD is 50% owned by Real Africa Holdings, listed in the industrial sector of the JSE.

The new fund will target companies similar to but smaller than the companies NSA is invested in — with pre-tax earnings of R5m-R20m. RAD associate director Greg Beech predicts that over the next five years "the private equity market could expand to more than R2bn of transactions a year."

**BUY SA**

**Who'll push the boat out?**

South Africans backward in coming forward to support campaign

A population which normally throws itself into any patriotic endeavour with abandon appears less than zealous when it comes to supporting a "Buy SA" campaign.

The nonprofit Bayathenga 2000 has been at the centre of the Buy SA drive nationally, lobbying government for the introduction of compulsory country-of-origin labelling of goods. It is also attempting to get retailers and consumers to take pride in and buy from local manufacturers.

Bayathenga has received support from several employer bodies and 39 companies, including large players such as Sappi, Southern Sun, Frame and Standard Bank. It has been praised by numerous politicians and businessmen as a key component in rebuilding the SA economy.

But its supporters have shown varying degrees of commitment and without government support and trade union involvement, Bayathenga has had little impact.

Bayathenga CEO Brian Sandberg says he's still hoping it will take off and by Christmas 100 million of products will be labelled with the "Made in SA with Pride" logo.

But it appears that until consumers can be convinced of the benefits of Buying SA, success will be limited. Education and effective national campaigns take money and support, which do not seem to be forthcoming.
SA is the ‘riskiest’ place to invest in

Johannesburg — South Africa is regarded as the most precarious investment destination among the 10 largest emerging markets in the world evaluated by DRI/McGraw Hill, a US economic forecasting and consulting service.

The consultancy is also part of the Standard & Poor’s rating group.

DRI/McGraw Hill said yesterday that South Africa ranked as the “riskiest” of the 10 emerging markets it examined on a range of issues, from government policies to political and economic risk.

According to DRI/McGraw Hill, Argentina offers the lowest investment risk, followed by Poland, Mexico, Turkey and India.

Trailing South Africa on the list of countries with the highest investment risk are China, Indonesia, Russia and Brazil.

Based on an evaluation of 50 variables, South Africa was declared to be the riskiest investment destination because economic growth is seen to be declining while unemployment is increasing. Inflation was also mentioned as a major negative.

“South Africa’s mineral and agricultural output are also stagnant, or declining, and consumer debt has reached dangerous proportions,” DRI/McGraw Hill said.

Nariman Behravesh, the chief international economist at DRI/McGraw Hill, said South Africa’s high level of violent crime was disrupting its political process.

“Notwithstanding a number of positive developments in South Africa, including the upgrading of its sovereign foreign-currency debt rating and the 51 percent increase in South Africa’s foreign (exchange) reserves during the month of May, the generally dismal fundamentals of the South African government and economy are expected to lead to poor long-term prospects for this country.”
SA seen as riskiest investment destination

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In a statement yesterday, DRI/McGraw Hill said Australia ranked as the "riskiest" of the 10 emerging markets it examined on issues, from government policies to political and economic risk.

DRI/McGraw Hill said Argentina offered the lowest investment risk of the emerging markets, followed by Poland, Mexico, Turkey and India.

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Nariman Behravesh, chief international economist at DRI/McGraw Hill, said that SA's high level of violent crime and "factionalism" was disrupting its political process.

Mboweni breaks labour bill deadlock

Reneé Grawitzky

LABOUR Minister Tito Mboweni took the initiative to break the impasse around the Basic Conditions of Employment Bill, meeting a high-level business delegation last night and a labour delegation today.

The labour ministry said the meetings were intended to explore areas of possible agreement.

The bilateral talks place at a time when business attitudes have begun to harden and labour has endorsed a programme of protracted mass action.

Mboweni broke the current climate sections within business had begun to question overall concessions granted, not only in terms of the Bill, but also other proposed labour market legislation which cumulatively raised the cost of labour.

A business source said the plummeting gold price could impact on attempts to resolve the impasse as this had major implications for the economy as a whole. Gold's drop affected not only the mining industry, but other industries such as metal, explosives, plastics and timber, which all relied heavily on the industry.
New foreign direct investment triples

Simon Barbe

WASHINGTON — New foreign direct investment into SA more than tripled to $2,37bn in the year to end-April compared with the previous year, the Investor Responsibility Research Centre reported yesterday.

When reinvested earnings were taken into account, total foreign direct investment in SA topped $7,83bn, the centre calculated in its annual survey of multinationals operating in SA.

The lion’s share of the new inflow was accounted for by two deals: Telkom’s sale of a 30% stake to Southwestern Bell Corporation (SBC) and Telekom Malaysia, and the $435m acquisition of a 30% stake in Engen by Malaysian state-owned oil company Petronas.

SBC’s $757m injection into Telkom brought new US investment in SA for the year to $1,34bn in 43 transactions, making the US the largest single source of foreign direct investment for the year.

Investment

Continued from Page 1


Malaysia was the second-largest source, providing $983m in nine deals (including $504m for 12% of Telkom), followed by Japan ($311m), the UK ($129m) and Germany ($83m).

Counting reinvested earnings, the UK moved to second place ($1,2bn), followed by Malaysia ($973m), Germany ($763m) and Japan ($483m).

Although the Telkom deal netted more new foreign direct investment than SA received in all of the Investor Responsibility Research Centre’s 1995/96 survey year, manufacturing was the biggest target of new flows last year, receiving $1,33bn in 36 deals.

SBC and Malaysia between them accounted for $1,26bn of new investment in the communications and transport sector. A dozen other deals generated an additional $30m.

The next largest category was finance, insurance and real estate ($96,5m), followed by wholesale trade ($61,9m), retail trade ($49,3m), services ($34,8m), mining ($17,7m) and agriculture, forestry and fishing ($2m).

The new investment did not translate into a commensurate increase in employment, although the payrolls of US firms in SA rose from 60,000 to 71,000 over the year, an increase of more than 18%.

Japanese, Malaysian and Canadian companies also added employees. Overall, however, the average per company employment roster of all foreign multinationals surveyed by the centre declined.

“More than 70% of European companies reported that they cut employees from their rolls, a significant blow to employment generation since European multinationals employ more South Africans overall than other multinationals,” the centre said.

Europe contributed relatively little new investment, tending rather to reinvest local earnings.

The survey also showed that the bulk of new investment was focused on serving the domestic SA market rather than on exports. Most multinationals in the manufacturing sector exported less than 5% of their production.
Foreign funds in SA triple

CHRISTO VOLSCHENK

Cape Town — The wave of foreign investment into South Africa finally rolled into the country over the past year, the Investor Responsibility Research Center (IRRC) in Washington, DC said yesterday.

IRRC figures show that fixed investment in new projects and the reinvestment of earnings in existing projects by foreign companies in South Africa totalled R55,5 billion in the year to May 1. This was triple the amount invested in the previous year.

The drive to invest in South Africa was led by US companies, with R10,8 billion in the year to May 1.

The single largest foreign investment in the period was by SBC Communications, which took an 18 percent stake in Telkom SA for $757 million.
Stals says SA survey is unfair

FROM REUTERS 7/97

London — A study ranking South Africa as having the highest investment risk among the 10 largest emerging markets was "a little bit unfair," Chris Stals, the Reserve Bank governor, said yesterday.

"I haven't had the opportunity to study the assessment in any detail, but what I gather ... is that it is a little bit of an unfair assessment," he said.

Stals was referring to a study by DRI/McGraw Hill, released on Tuesday. The report said South Africa presented the highest risk based on data that showed a declining rate of growth with rising unemployment and inflation. It said the mineral and agricultural output was stagnant or declining and consumer debt had reached dangerous proportions.

But Stals said the Bank felt inflation had peaked and it was showing encouraging signs of falling. "I think South Africa will say we have greater stability within the political system at this stage than we've had since the reforms ... started." Stals said he was concerned about the rate of increase in debt extension by banks over the past two years, but felt it was not dangerously high.

South Africa has recently had a sovereign debt rating upgrade and has increased foreign reserves.

Nartman Behravesh, the chief international economist at DRI/McGraw Hill, said: "The general dismal fundamentals ... are expected to lead to poor long-term prospects."

But Stals said: "I think the economy is in a period of consolidation, a short-term cyclical adjustment that is necessary for the balance of payments."
Foreigners Invest Billions in SA

The US and Malaysia have been the largest investors since 94 elections. 10/4/94

Real Power is Economic

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A Johannesburg Stock Exchange

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We have one of the most stable democracies in the world.

We have one of the most stable democracies in the world.
SA, Swaziland among Sloan group targets for investment

MBABANE — SA and Swaziland are two of 13 southern African countries targeted for investment by Sloan Financial Group, the US-based company which launched a R540m New Africa Opportunity Fund recently.

The group claims to be the world's largest black-owned diversified financial services firm with managed assets of more than R16bn.

The new fund would make privately negotiated equity investments in companies with business activities located in southern Africa, with an emphasis on SA.

The fund managers, New Africa Advisors, said last week that they were looking for investment opportunities ranging between R22.5m and R96m.

The fund managers hoped to provide capital for expansion, management buyouts, non-core asset disposals, privatisation and investment by multinationals. Industry sectors which will be specially targeted include the consumer products and services industries, telecommunications, tourism, health care, financial companies, light manufacture and construction.

"Most of these sectors are expected to benefit from the emerging black middle-class consumer," the fund managers said.

The fund's initial R540m had been raised from US investors, including US bank Citicorp and the Overseas Private Investment Corporation, a US government agency.

Sloan executive vice-president Justin Beckett said the fund was an important milestone for the group, by further enhancing its African focus.

"The group has been investing in Africa's securities markets since 1993 and currently manages a listed portfolio of more than $100m," he said.

He said the launch of the fund supported the group's view that southern Africa offered "very attractive" investment opportunities.

Factors which contributed to the fund's successful launch included the growth potential of the SA economy, the lifting of international economic sanctions against SA and the effect of increasing world trade in SA and the surrounding region.

The entry and in some cases re-entry of US and other foreign corporations into the SA market and the positive steps taken by the SA authorities in the phasing out of exchange controls were other factors supporting the fund.

The fund was structured as a 10-year partnership, targeting long-term capital for direct investment in the southern African region. To achieve its primary aim of maximising investment returns, it would pursue a proactive investment approach, mainly by buying substantial equity positions in established, unlisted firms.

The fund manager's investments team had highly qualified individuals with a wide range of managerial, consulting and financial skills. — AENS.
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RICH MACHONDO

Washington - The US Trade and Development Agency (TDA) is to embark on 45 projects valued at $8,2-billion (about R37,4-billion) which will create hundreds of jobs.

These projects include a $366-million (about R1,62-billion) toll road which will link Mozambique, South Africa and Botswana. The N4-West toll road will pass through Pretoria.

Other huge projects include a $422-million (about R1,9-billion) Wild Coast toll road between Port Edward and Port St Johns; a $350-million (R1,6-billion) telecommunication submarine cable system to link Cape Town and Dakar, and the installation of 2,8 million telephone lines.

These projects, to be undertaken with the South African Government and the local private sector, are profiled in a report to be released tomorrow at a trade and investment conference being held in conjunction with the fifth summit of the US-South Africa Binational Commission co-chaired by Deputy President Thabo Mbeki and US Vice President Al Gore.

"This means big business opportunities for US and South African companies," said TDA director Joseph Grandmaison.

There is also the construction of the Richard's Bay Dry Dock to make it the largest bulk cargo port in Africa. This project will cost $1,46-billion (about R6,65-billion).

Other projects include the private up-grading of the Kruger National Park and Nelspruit airports; the construction of a $25-million (about R114-million) Peacock Bay Hazardous Waste Incinerator with an annual capacity of 35000 tons; and the development of the $1,2-billion (about R6,4-billion) Iron Direct Reduction Facility being developed by the Industrial Development Corporation of South Africa and Iscor.

The Gore-Mbeki binational summit, which began in Washington today, ends on Wednesday. At the same time more than 100 South African businessmen will attend the South African Trade and Investment Conference co-sponsored by the TDA, Overseas Private Investment Corporation, Export-Import Bank of the US, and the US Department of Commerce in Washington.
Foreign Investment Filled by Crime
‘Riskiest’ rating for SA incurs Mbeki’s wrath

WASHINGTON: Deputy President Thabo Mbeki has reacted angrily to a US consulting firm’s claim that South Africa should be ranked as “the riskiest emerging market”.

“DRI/McGraw Hill made a political statement which was not based on objective assessment. Anybody who reaches the judgement that South Africa’s degree of instability is higher than that of Russia needs their head examined,” Mbeki said.

“All the rating companies in the US and Japan have always ranked South Africa upwards,” Mbeki said before Wednesday’s summit of the US-South African binational Commission plenary session.

DRI/McGraw Hill, an economic forecasting and consulting service, and part of the Standard & Poor’s rating group, rated South Africa as the most precarious investment destination among the world’s 10 largest emerging markets.

Mbeki said: “If you look at the financial markets in the US and Japan, they are showing confidence in South Africa.

“We are paying less interest on borrowed money than when we took the loan. Inflow of investments to South Africa did not show a lack of confidence even when gold dropped very sharply,” Mbeki said.

DRI/McGraw Hill is the only agency so far to have given South Africa a negative forecast. While saying the incessant criminal violence worries potential investors, other rating agencies have praised the country’s political and economic policies.

The firm said South Africa was riskiest because economic growth was declining while unemployment was increasing. Inflation was cited as a major negative. — Independent Foreign Service
Overseas marketing forays lure investors, jobs bonanza, says MEC

RT-bin on way to fuel Cape
SOUTH AFRICA, in its third year of democracy, is making significant gains in attracting foreign investment. Last year, the country took a major step towards privatization, which has been hailed as a significant move towards increased economic freedom.

The privatization of the telecommunications industry in South Africa has been a major driver of foreign investment. The sale of shares in South Africa Telkom has been particularly successful, with strong interest from international investors. This has not only provided a significant revenue boost to the government, but has also helped to modernize the telecommunications sector. The increased competition has led to lower prices and better services for consumers.

Foreign investment has also been encouraged by South Africa's stable political environment and pro-business policies. The government has made efforts to improve the ease of doing business, and has put in place measures to attract foreign investors. This has included simplifying regulations and streamlining procedures.

The privatization of other industries such as electricity and water has also been successful. The sale of shares in these sectors has been well received by foreign investors, who see an opportunity to tap into the expanding market in these sectors.

However, while privatization has been a major success story, South Africa still faces challenges. The country is facing a skills shortage, which can be a barrier to foreign investment. In addition, the government needs to ensure that the benefits of privatization are spread fairly, and that the country does not become too dependent on foreign investors.

Overall, South Africa's success in attracting foreign investment is a testament to the country's efforts to create a conducive environment for business. With continued effort, the country can expect to see even more significant gains in the future.
A gateway to riches owed by the

By Newton Kamhia

Jo Bury's high crime rate has potential German investors running scared

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US has rosy view of investment climate

**Simon Barber**

WASHINGTON — Challenging labour relations, delays in adopting tougher competition law and violent crime are among the few clouds identified in a generally positive new assessment of SA's investment climate by the US embassy.

The report, prepared annually as part of the US administration's effort to serve its business constituents, calls SA a "substantial market for significant growth potential" and described the government's "sensitivity to the concerns of foreign investors as increasingly "pronounced".

Foreign investment in SA is seen as continuing its "healthy rise" as government continues privatisation.

In a sign of growing US interest in SA market, the report says "dozens" of firms have registered with the US government's Overseas Private Investment Corporation as a preliminary step to obtaining insurance cover for SA investments.

The report sounds an impatient note about delays in the passage of legislation "which would strengthen prohibition and punitive measures against anticompetitive practices".

Caution is sounded on the labour front. The report warns that in "efforts to forge agreement...on basic conditions of employment, affirmative action and skills development" business and labour adhere to firmly entrenched positions.

On crime, the report is blunt: "Criminal gangs and vigilantes hold sway in many urban areas." However, "US firms have not identified corruption as an obstacle to foreign investment".
Foreign investors recently became bigger investors in the equity market than in the gilt market for the first time this year.

Cumulative nonresident investment in the equity market amounted to R17.8bn this week — about R2m more than the foreign funds invested in the gilt market this year.

During August, offshore parties plunged about R4.6bn into domestic stocks — more than double the R2bn invested in the bond market.

International equity investment has outstripped gilt investment since May on a monthly basis.

"I have a feeling that next year we will see a rerating. Our equities are providing value now," he says.

Historically, foreigners have been larger participants in the bond market.

HSBC Simpson McKie director Marilyn Visser says "we have had a strong bull market in bonds. It is natural for the net positive flow to dissipate or become more volatile."

She adds that a currency under pressure quickly translates into a lack of interest in bonds, and argues that the equity market does not suffer from the same problem because equities are bought as longer-term investments.

Visser expects benchmark bond rates to remain within their current tight trading range, with the R150 moving between 14% and 14.3%.

Only a significant event will take the yield through the 14% level again, she says.

Stance Word
Delegates ‘run down their rival provinces’

Wyndham Hartley

CAPE TOWN—Delegations from SA’s provinces were running down their fellow provinces while on overseas trips designed to attract foreign direct investment to the country, Investment SA CEO Rafiq Bagus said yesterday.

Addressing Parliament’s trade and industry committee, Bagus said that many billions of potential investment were being processed by the company at present, but he could not put a value on the amount that would be successfully attracted to the country.

He said the incidents of provinces criticising each other in an attempt to win investment pointed to the absence of an integrated approach which would eliminate this negative competition. Studies had been made of how the investment authorities of other countries operated and this would lead to “World-wide best practice” for SA’s investment authority.

The nine provinces would be represented on a board which would be chaired by the department of trade and industry and this would lead to the desired approach. Problems with permits and visas for foreign investors also meant that representation by the home affairs department was essential.

Bagus poured cold water on the idea that one could go on an overseas trip and “come back with a bag of investment”. He said the database being prepared by Investment SA would have programmed into it automatic prompts for the vital follow-up action needed to secure investment.

He said some of the current projects which Investment SA was working on would amount to many billions of rands if successful.
The government’s newly formed investment promotion agency was handling inquiries about projects worth between R10 billion and R20 billion, Rafiq Bagus, the chief executive of Investment South Africa, said last week. Stressing that none of these had been firmed up yet, he said that, for example, the Hyatt group of hotels was looking at projects in the Eastern and Western Cape and Northern Province worth about R7 billion, while Singapore’s official investment agency, Temasek, was due to visit South Africa at the end of this month to assess about 60 projects. Temasek had allocated “a couple of million rand to investment in South Africa”, Bagus said. “But not any single institution can ever claim responsibility for bringing in investment... although we have certainly played our role.” Banks, companies and the different tiers of government needed to co-ordinate their efforts to attract investment, he said. — Lynda Loxton, Cape Town
Disinvestment feared if talks fail

Wyndham Hartley

CAPE TOWN — Should top-level negotiations later this month between Taiwan and SA's foreign affairs department fail to secure the continued use of its consulates-general and flags, experts predict huge disinvestment by the island state's entrepreneurs.

A top-level delegation from Taiwan is to visit SA towards the end of this month to pursue negotiations with SA about the retention of its consulates general offices.

Sources within the Taiwanese community in SA were not optimistic that this would happen and fully anticipated the reduction of the status of the consulates general to economic interest offices.

A source on SA-Taiwan relations said that while the Taiwanese government would accept whatever it could get, some of the Taiwanese business in SA could relocate to neighbouring states which "have cheaper labour and do not have trade union trouble".

The source said that within hours of President Nelson Mandela announcing that SA would change its diplomatic ties from Taiwan to China, investment had frozen.

It was expected that a Taiwanese capital flight of about 30% will occur if the diplomatic status "just short of full diplomatic ties" which Mandela promised Taiwan does not materialise.

However, it is expected that the Chinese government will object to consulate general status for Taiwan and will lean on Foreign Minister Alfred Nzo to keep the level of recognition for Taiwan as low as possible.

China considers Taiwan to be a troublesome province and not an independent state.

Sources also confirmed that Taiwanese investment had entered SA for reasons of political symbolism rather than pure profitability, as there were more profitable places to invest, including China itself.

The third-largest foreign investor in mainland China is Taiwan.

The Taiwanese government will apparently maintain offices in SA at whatever level it can achieve in the talks, simply because there are 20,000 Taiwanese in the country and they will not abandon them. It is not clear how much Taiwanese investment there is in SA, but it is considerable and 30% disinvestment will probably mean a large loss of South African jobs.
Growth slow, but record foreign funds flowing in

ECONOMIC GROWTH: The second quarter GDP showed a reasonable amount of expansion in gross domestic product (GDP) in the second quarter, growing by 5% in the second quarter. This is the second consecutive quarter with GDP growing by 5% in the second quarter, suggesting a strong recovery in the economy.

The latest economic data shows that the GDP growth rate has remained consistent, indicating a robust economic recovery. The growth rate is expected to continue in the third quarter, with a slight rise in GDP.

In the second quarter, the unemployment rate decreased to 5%, which is a positive sign for the labor market. The economy is expected to continue to recover, with a further decrease in unemployment rates.

The second quarter GDP growth rate is expected to remain strong, with a steady increase in GDP throughout the rest of the year. The economy is expected to continue to recover, with a further decrease in unemployment rates.

In conclusion, the second quarter GDP growth rate is expected to remain strong, with a steady increase in GDP throughout the rest of the year. The economy is expected to continue to recover, with a further decrease in unemployment rates.
Funds expected to reach Africa

FOREIGN INVESTMENT

By THABO KOBOKOANE

SA was a recipient of just $320m (R1.6-billion) of the $5.3-billion (R24.9-billion) foreign direct investment that flowed into Africa last year. But it is expected to play a major role as a source of foreign direct investment into the continent.

A report by the United Nations Conference on Trade and Development (Unctad) shows foreign direct investment into SA has been stable at $350-million yearly over the past three years while the continent's share grew to $5.3-billion from $4.9-billion in 1995. Despite the improvement, the figure is still slightly lower than the record $5.8-billion foreign direct investment inflow into Africa in 1994.

The World Investment Report shows about 70% went to Africa's oil-producing countries. Nigeria was by far the largest recipient, recording inflows of $1.7-billion (R7.9-billion) followed by Egypt with $740-million (R3.5-billion) and Morocco with $400-million (R1.9-billion).

The continent's share excluding SA of developing country inflows was 4% less than last year and its lowest since the early 1990s. This was "a further indication that the region is not participating" in the global foreign direct investment boom.

Total global flows rose 10% to $349-billion, buoyed largely by multinational companies and mergers and acquisitions, with China receiving inflows of $42.3-billion (R198.5-billion), the second-largest recipient in the world. Inflows into developing countries last year rose 34% to $129-billion while those into developed countries rose slightly to $208-billion.

Unctad president Alec Erwin remains optimistic of foreign direct investment prospects in the continent because of the ending of internal conflicts, an improved macroeconomic performance, the liberalisation of foreign direct investment policies, moves towards privatisation, economic reforms and the potential of the SA economy.

SA multinationals, particularly SA Breweries and Barlows, were seen leading outward flows in the continent.

Erwin cites the present "excessive concentration" of SA business as a major inhibiting factor although he acknowledges that government was pleased with the some of the unbundling measures under way.

"We share the view in the report that for foreign direct investment to grow, it is important that multinationals should not be allowed to create excessive dominance that is detrimental to the economies into which the large multinationals are seeking to go.

"It is increasingly being recognised that foreign direct investment could, under certain conditions, increase market concentration — not just at national, but also at regional or global levels — and thus raise the prospects of restrictive or anticompetitive practices by dominant firms."

Erwin says he will approach the National Economic Development and Labour Council next month to see how best to deal with the impending revamping of SA's competition policy.
Investors’ waiting phase has ended, says Unctad

Jim Jones

HONG KONG — The “wait-and-see” phase is over for foreign direct investment into SA, according to the United Nations Conference on Trade and Development’s (Unctad’s) World Investment report published yesterday.

This comes in the wake of a slight improvement to $6.3bn in foreign direct investment inflows into Africa in 1996 against $4.9bn in 1995 and $5.8bn in 1994.

Foreign direct investment into SA is likely to be encouraged over the next few years if some impediments are removed, says the report, published to coincide with the World Bank’s annual meeting in Hong Kong.

The concerns are not unusual. Social issues, particularly crime, political issues and difficulty of market entry because of the dominance of the economy by a few local conglomerates are the principal impediments reported by Unctad. Nonetheless, Unctad believes the “wait-and-see” phase is over, with US firms alone having made investment commitments of about R6bn and German companies about R3.2bn since the 1994 elections.

Unctad sees investment from Asia as an important new phenomenon, with Korean firms planning major investments in the motor and components manufacturing industries and Turkey, have been at the centre of currency crises in recent months.

The report states that SA transnational companies could themselves contribute to investment development in neighbouring countries provided that neighbouring countries enjoy free export access to the SA market and that demand growth in SA advanced more rapidly than it has since 1994.

John Dladlu reports that Trade and Industry Minister Alec Erwin has, meanwhile, sent by far the strongest signal that the impending review of SA’s competition policy will not target the size of conglomerates.

At a news briefing in Sandton marking the release of the Unctad report Erwin, who is also Unctad president, said that while government shared the view that the extent of conglomerations was high in SA, the case for policy review was not an argument against size.

Sources close to government are concerned Unctad has underestimated the amount of foreign investment in SA as the method of calculation puts the investment threshold at 25% — far higher than the level used by the International Monetary Fund.

Picture: Page 3

See Page 25
SA gets an 'A' category investment rating

Samantha Sharpe

CAPE TOWN—US credit rating agency Duff & Phelps has awarded SA's local currency paper (rand-denominated stock) an "A" investment grade, the highest yet given to SA debt, after according its foreign currency obligations the minimum investment grade level in June.

The finance ministry said yesterday it regarded the "A" category rating as extremely positive for SA and confirmation of the confidence that investors had in the country.

However, the news failed to impress the capital and currency markets, which sources said were looking ahead to rating agency Standard & Poor's (S&P's) expected reassessment of its foreign currency rating for SA this year or early next year.

Continued on Page 2

Rating

Continued from Page 1

The benchmark government long-bond, the R150, traded at a yield of 13.85% yesterday, having fallen by about 10 basis points in intraday trade. Traders said this was a response to firmer international markets.

Economists said while the Duff rating would probably bolster sentiment in terms of the upcoming S&P rating, it did not offer a real advantage to SA or open up a new investor base offshore.

SA paper like government bonds already had investment ratings from agencies S&P and Moody's of "BBB+" and "BAA1" respectively, two notches higher than the country's foreign currency ratings.

The S&P assessment... is more important as it should see an upgrading of SA's subinvestment grade foreign currency rating of 'BB+' to 'BBB-'. SA's Yankee spreads have already narrowed following the Duff investment grade foreign currency rating in June," one economist said.

However, Duff spokesman Dave King said the rating had "very positive" implications for the country's major issuers' debt, particularly in view of the emergence of the Euronor market, with the A-band a critical psychological benchmark for investors.

"The accordance of such a rating will not only result in greater international interest in Euronor issues, but should also result in more favourable pricing of such issues in future."

Duff said the rating reflected SA's manageable and favourable structured stock of debt, estimated at 55% of gross domestic product this year, as well as government's commitment to fiscal consolidation and a low and stable inflation rate.

Rand-denominated debt was widely distributed among social security and pension funds, banks' insurance companies and the public, reflecting the appetite for government securities and investors' confidence in the ability of government to service its debt.
Lack of prospects forces Namibians to invest in SA

Christof Maletsky

WINDHOEK—About R8bn generated in Namibia has been sent to SA because Namibians are hesitant to invest in their own economy, says Finance Minister Nangolo Mbumba.

"Unfortunately, the colonial legacy has profoundly adverse implications for the accumulated experience of Namibia's entrepreneurial capacity and private sector development," he said at the weekend.

Namibia's current account on the balance of payments had remained positive although marginally so because of substantial income on foreign investments and the strong inflow of development assistance. Also, he said, Namibia's domestic savings exceeded its domestic investment.

Mbumba's remarks were partly in response to a finding by Simpson McKie economist Kobie Loftie-Eaton that millions were flowing out to SA, mostly in the form of pension funds and life assurance assets, because of inadequate local investment opportunities.

Loftie-Eaton said it was important to create more investment opportunities in Windhoek to repatriate some of the funds being exported to SA.

"If invested locally, money presently being invested abroad would have a substantial influence on the deficit of Namibia's capital account," he said.

Yet, lack of investment opportunities in Namibia are forcing large institutions to invest abroad. Even the Government Institutions Pension Fund, the country's largest pension fund, is investing in SA.

Loftie-Eaton warned that if both the current and capital accounts were in deficit Windhoek would be forced to borrow foreign currency to pay for its imports since its level of reserves would be unable to sustain import payments. "This underscores the importance of attracting foreign investment capital to boost the surplus on the capital account," he said.

For the first time since independence, the country's foreign trade balance moved into deficit last year due to much higher growth in imports as compared to exports. It was the result of the fall in the value of the rand, to which the Namibian dollar is linked.

According to Mbumba, one of the key structural weaknesses of the Namibian economy was demonstrated by the ratio of domestic investment to the gross domestic product, which stands at 20%. "The only way the country's economy could be strengthened is through entrepreneurial and market development," the former agricultural minister said.

Hence, future efforts at building entrepreneurship capacities in Namibia would focus on the creation of an enabling environment through the provision of policies supportive of entrepreneurship, the establishment of appropriate institutional frameworks, the development of adequate and functional infrastructure and ensuring required human resources were in place.

Financial institutions say a lack of constructive measures to attract investment is a problem which translates into local entrepreneurship not being adequately developed.
Cities must woo investors

Jacob Dlamini

CAPE TOWN — Constitutional Affairs Minister Valli Moosa called on municipalities yesterday to market themselves in order to attract investment and boost local economic development.

Municipalities had a vital role to play in promoting economic development and needed to follow the example set by central government in adopting measures to woo investors, he said.

Councils could become financially viable only if they encouraged economic activity and generated revenue to fulfil their obligations.

Moosa said the recently released local government green paper emphasised the need for municipalities to adopt a developmental role which would allow them to become more than just service providers.

He was speaking at a media briefing called to publicise a government-hosted national conference on small business to be held in Durban next week.

Moosa said the conference, which would be attended by 2 000 delegates and at least five cabinet ministers, would help orientate councillors to think about nurturing small business.

Small business enterprises were a vital pillar of job creation and formed part of an integrated development plan for municipalities, Moosa said.

Trade and Industry Deputy Minister Phumzile Mlambo-Ngcuka said the conference would focus on issues such as the effects of by-laws on small businesses, access to central business districts for traders, procurement at local government level and access to information. There would also be a focus on finance as part of attempts by municipalities to create a paradigm shift in the borrowing patterns of banks.
SALES OPTIMISTICALLY EUROPEAN BUSINESS SEES

The European Union's economic outlook remains optimistic, with many businesses showing increased confidence in the market. The high level of unemployment in the European Union has led to increased demand for skilled labor, and businesses are optimistic about future growth. Despite challenges, such as the ongoing trade war with the United States, the European Union remains committed to maintaining its economic stability. With a strong focus on innovation and technology, the European Union is poised to lead the way in the global market.

For more information, please visit the European Union's official website.
DIAGONAL STREET

Flurry of foreign investment (740)

Nonresidents plough a quarter of a million rand into the equity market before signs of disinterest emerge

Foreigners remained steadfast net investors in the equity market during the October crash at a time when they were offloading huge parcels of bonds. But buying interest in the domestic stock market was beginning to fade during the first half of November.

By the end of last week, net cumulative nonresident investment in the stock market had grown to about R24bn — more than R10bn higher than the sum invested in the bond market over the same period.

The bond market was hit by a wave of disinvestment late last month. Offshore investors got rid of bonds worth R3,9bn during the week of the crash and a further R1,7bn during the first two weeks of November, reducing the cumulative sum invested to R12,6bn from a peak of just less than R20bn in early October.

It seems foreigners were eager to take profits after the strong run in the gilt market this year and then turned to the stock market for value opportunities that opened up during the correction.

Views are varied on the high level of foreign investor activity in the equity market. Some analysts believe it could be the beginning of a shift of international funds away from the more volatile emerging markets towards the JSE. Others say the flow is merely a result of a speculative search for value and that net selling is likely to take place in the near future.

There has been a trend towards net equity disinvestment this month.

Nonresidents became net sellers on six out of the first eleven trading days during November. As a result, average weekly investment tapered off to around R300m this month for the first time since January this year — a figure less than half the October R790m average.

UBS director Franco Lorenzani says foreigners have so far this year been more involved in net purchases in bonds than in equities. "With growing evidence that the domestic interest rate cycle may have peaked, foreigners have adopted the view that equities may outperform bonds in the coming year. This is especially so when taking into account the large rally in bonds and the lacklustre performance of equities so far this year."

SA has some time been adopting sound financial and economic policies specifically to avoid the problems now faced by emerging markets in southeast Asia.

But Lorenzani cautions that possible setbacks could come from further sharp falls in the gold price, which in turn would undermine the stability of the rand and, in particular, the forward book on the rand.

It's also premature to expect a global equity market correction to be over, he adds.

DMG equity trader Andre Crawford-Brunt is slightly less optimistic. He points to the tapering off of foreign buying in the stock market and predicts that "they could potentially become net sellers." Investors weren't expecting the correction and have become nervous, he observes. There could be a turnaround in view of the fact that emerging markets are no longer the flavour of the month.

On the prospects for the bond market, Chase Manhattan's emerging markets head Nick Griffiths says there has been a lot of "blanket selling of emerging market assets." But he believes "SA is well placed because it offers great value from a fundamental perspective. But the downside is that decisions are not based on fundamentals at the moment and fear and greed are running the market."

He expects the general unrest to last until the end of the year but "next year investors will probably rethink and relook where they want to put their money and the bond market will be the beneficiary."

Sharon Wood

CURRENCIES

The African contagion effect

Zimbabwe dollar slide unnerves SA market and the rand loses 3c

When did SA's fortunes get interlinked to those of its neighbour, Zimbabwe? This is a question likely to have popped up when the rand lost 3c as the Zimbabwean currency slid to $2.20 to US$1 on Friday.

Of course, the gold price's temporary dip below $300 helped spur the rand weaker, but events late last week confirm that countries round the world are increasingly judged on a regional basis.

While currency dealers do not view the fate of the Zimbabwean currency as a key driving force behind the rand's decline, they all refer to the "nervousness" it generated.

Nedcor international treasurer GM Willem Reitsma notes that "markets react instantaneously." He adds that: "There was a bit of nervousness surrounding the Zimbabwean dollar's depreciation. We are part of an emerging market group and with a run on a currency, we are vulnerable."

Standard Bank foreign exchange director Willie Potgieter says the rand's move was not just a reaction to the Zimbabwean dollar but it did create some nervousness in the market. "It was a combination of factors," he comments.

"The fundamentals are very sound, but speculative trade from offshore looks at things on a shorter-term basis and that often results in a kneejerk reaction." He sees the currency trading at R4.90 to US$1 by year-end.

Autey Wilke, Absa's international treasury GM, feels that there is no correlation of the rand's moves with the Zim dollar's and attributes the rand's vulnerability to the situation in Taiwan and gold's decline to $303. He puts the rand at between R4.92-R4.96 by year-end and R5.15 by mid-1998.

Sharon Wood
Swedish companies to increase SA investment

Lucia Mutikani

SWEDISH companies operating in SA would increase their investments in the country over the next year to more than R1bn, a survey conducted by the Swedish Trade Council has revealed.

Investments totalling R140m were expected to be made within the next 12 months which would catapult Sweden into SA’s top 10 investors, according to the survey. Sweden returned to SA in 1993.

The survey conducted among 24 of the 36 Swedish companies in SA found that the investment figure showed a 50% increase on the R84m invested in 1996, when the last survey was conducted.

It also found that the turnover of Swedish companies was expected to rise 48% to R4,6bn (1996: R3,1bn), while exports were expected to increase 53% to R450m (1996: R294m) in 1998, boosting Sweden’s position as a major investor and SA trading partner.

The survey said job creation was poised to rise 8% with employee figures rising from 1996’s 5,651 to a projected 6,103 in 1998.

According to the survey, Sweden’s role as an important investor could be dramatically increased should Saab’s Gripen fourth-generation multi-role combat aircraft — which forms an integral part of the British Aerospace (BAe) submission in response to SA’s request for information — be chosen.

ED 24/11/97 (74B)
LONDON — The UK and SA are expected to sign an investment promotion and protection agreement today to boost growing investment by UK companies in SA.

The agreement is likely to be signed during the visit of Deputy President Thabo Mbeki, Trade and Industry Minister Alec Erwin, Deputy Foreign Minister Aziz Pahad and Deputy Minister Essop Pahad which begins today. Members of the group will visit Queen Elizabeth, Prime Minister Tony Blair, Foreign Secretary Robin Cook, and Trade Minister Margaret Beckett.

The trip will see the establishment of a UK-SA bilateral forum, comparable with established commissions between SA and the US and SA and Germany.

The signing of the Investment Promotion and Protection Agreement protocol is scheduled to take place during talks between Beckett and Erwin, which are expected to deal with SA’s trade relations with the European Union.

Officials have been negotiating technical issues resulting from SA’s exchange control regulations since 1994, but they have been ironed out. The UK has already signed 86 IPA agreements, 72 of which are in force. They cover the prompt, adequate and effective payment of compensation for expropriation, the ability to transfer profit and repatriate capital, the independent settlement of investment disputes and international arbitration on disputes.

Commenting on the visit, Action for Southern Africa director Ben Jackson said his organisation was encouraged by the bilateral forum, but the real test would be whether the UK would see an SA-EU trade deal as a priority for its EU presidency.
While government rules are needed to protect investors

ANALYSIS

The image contains text that appears to be a cover page from a publication, possibly a financial or economic report, with the title "ANALYSIS" and a subtitle "While government rules are needed to protect investors." The text is not fully visible due to the cropping of the image. The content is not transcribed in its entirety, but it seems to discuss the necessity of government regulations in safeguarding investors' interests. The image is too cropped to provide a full understanding of the context or the detailed analysis presented within.
London – Potential British investors in South Africa have been given glowing reports about doing business here – by compatriots already active in the post-apartheid economy.

The compliments flowed liberally during a conference in London this week to entice British companies to open shop in the Western Cape.

The conference was organised by former ambassador to London Dennis Worrall’s Omega Investment Research, in association with the Western Cape provincial government, the Federated Chamber for African Business and Consumer Services (Fabcos), the Western Cape economic development agency Wesgro, and other groups.

Western Cape economics affairs minister Chris Nissen presented his province as the “Cape of Capabilities”, telling delegates it was unfortunate that many people overseas thought of South Africa in the same terms as Rwanda or Burundi.

He said Cape Town’s shortlisting for the 2004 Olympics reflected the province’s vast technical and human resources, which in turn was reflected by the fact that the Western Cape had a higher growth rate than any other province.

But the investment roadshow at London’s elegant Dorchester Hotel, where Deputy President Thabo Mbeki spent two nights this week, gained most of its momentum from the testimonials provided by offshore investors active in the Western Cape.

Speakers at the conference agreed that foreign investors were attracted to the Western Cape by its natural beauty, high level of professional skills and manageable crime rate.

This made the province an ideal base for operations in the rest of South Africa and Africa – and elsewhere in the southern hemisphere.

Simon Sherwood, of Orient-Express Hotels Inc, which operates the Mount Nelson Hotel in Cape Town, boasted that in nine years, the hotel had become the fastest-growing investment in the group’s small but internationally renowned empire of exclusive hotels.

Masoud Alkhani, chairman of Agrifarm International Limited, which has acquired the Delaire Winery – one of the Western Cape’s most prestigious estates – has invested in South Africa for the past five years.

His company specialises in developing new technology and other products in agriculture.

Mr Alkhani noted that while in the past 10 years a great deal of Western capital has been invested in emerging markets, South Africa had not received its fair share of this interest.

“...We are very proud of our investment,” he said.

Equal praise came from John Kempster, managing director of the British-based Rolls Royce Industrial and Marine Power Limited.

He was previously chief executive of NEI Africa, a JSE-listed Rolls Royce subsidiary that employs 2,600 people, most of them in the Western Cape. As part of its social investment, NEI Africa has already put R7-million into the two technical colleges of its own, one in Cape Town and the other in Johannesburg.

Mr Kempster said Cape Town was an excellent export platform, particularly to the rest of Africa.
A former South African who recently advised the Namibian government on establishing an export processing zone (EPZ), it is depressing to inform my compatriots how uncompetitive SA's foreign investment regime is.

Last week's Business Times highlighted yet another case in a growing list of huge investment projects SA has lost. In this case, a R1.4-billion fertiliser plant will be built in Jordan rather than in SA. Jordan has better investment incentives, including EPZs.

Our backward and uninspired investment regime continues to lose us such huge foreign investment projects on an almost weekly basis. But then the SA government itself appears to be vague about job creation.

Why has this year passed by without even a jobs summit being held, while we enjoy an anaemic economic growth rate of less than half of the required 5%-6%? At the same time close to another 100 000 jobs will be shed this year. The passage of new labour laws will scare off most foreign companies from either establishing or expanding a manufacturing base in SA.

Why is it that Costa Rica, Ivory Coast, Malta, Mauritius, Philippines, Mexico, China, Singapore and numerous other countries have succeeded in attracting vast amounts of long term foreign investment (often well in excess of 7%-8% of their gross domestic product), while SA remains at less than 2.5% — most of which is short-term passive portfolio investment?

Mauritius, which suffered massive unemployment in the 1980s, introduced EPZs and related foreign investment benefits. The country now has full employment and imports labour. Mauritius EPZ exports grew six-fold between 1983 and 1989 to $600-million.

Unimaginative SA destined to be stuck in economic rut

SA is a lesson in how to scare off foreign investment and discourage job creation, warns ALAN GINSBERG

ST(CT) 30/11/97

Export growth resulting from countries offering either EPZs or competitive foreign investment incentives are phenomenal: after more than a decade Singapore still offers multinationals a 5% tax rate for setting up regional headquarters and training subsidiaries can still be found throughout Asia.

Foreign business executives can be forgiven for believing that SA ignores attracting foreign investment. For example, SA lacks a trade consul or investment representative for the entire western region of the US (California has the 10th largest economy in the world).

It seems some of our political leaders are arrogant enough to believe SA remains a huge bright spot on the investment radar screens of many of the leading foreign multinationals. The reality is that given the high growth rates in such economies as Brazil, Czech Republic and China, there in no priority in multinational boardrooms to invest in SA where crime, a weak currency and tough labour unions exist. Whatever honeymoon the new SA had is over. The investment world posted a stunning no-confidence vote last year and this year which reduced SA's net worth by more than 35% in dollar terms and by more than 40% in terms of sterling. This dramatic depreciation in the rand has had many negative repercussions.

Other developing nations have developed highly focused action plans to allow them to win foreign direct investment. SA has absolutely no game plan.

How else does one account for SA losing out in the B-league for foreign investment (against our neighbours and countries like Jordan), when we should be competing in the A-league against Chile, Malaysia, Brazil and others. Many of our tax holidays are poorly conceived and remain uncompetitive by international standards.

SA not only compares poorly with other countries' investment friendly tax systems but it also fails dismally in the competitive-ness stakes — a recent report ranked SA second last of 48 nations last year.

SA's over-regulated labour market continues to push manufacturers to experience growing unemployment.

One of SA's largest manufacturers, Pepkor, which admits it can no longer manufacture certain products profitably in SA, has moved certain plants to Malawi.

Even Swaziland is eyeing incentive schemes to attract investors and Lesotho, Botswana and Namibia have recently instituted regimes that provide for a wide range of investment and tax incentives unavailable in SA.

Without large doses of foreign direct investment, SA has insufficient internal capacity to generate anywhere close to the 400 000 new jobs needed a year and has little chance of achieving or maintaining sustainable growth of 6%.

Developing countries in Asia and Latin America which regularly achieve such high growth rates rely on large inflows of foreign direct investment to supplement their already high levels of internal savings.

Additional job pillars must be created and EPZs are one of the most effective ways to simultaneously attract long term foreign investment, generate local jobs and boost exports.

SA remains Africa's leading economic power and at the same time its sleeping giant.

Sadly, if SA continues on its course it will eventually squander any hope of being the engine which drives an African economic renaissance.

We have the ability to solve these problems. The big question is: Do we have the will?

● Ginsberg is the author of four books on international finance, tax and investment incentives and has worked for Wall Street banker Salomon Brothers.

● David Butland is on leave
British Council’s scheme launched

By Shadrack Mashalaba

THE British Council of South Africa launched the second phase of the British Investment Scheme in South Africa last week as part of its development aid programme.

The launch of Pre-Investment Feasibility Studies (Pre-PiFs) follows the success of Phase 1 which led to an investment of R50 million by British companies in South Africa.

The aim of the scheme is to encourage additional investment in South Africa by British companies through joint ventures or the establishment of subsidiary companies.

The scheme also provides grants to small and medium-sized enterprises (SMMEs) in South Africa and Britain to carry out market analysis, feasibility studies and training support.

Wide range

The Pre-PiFs programme started in 1995 and covers a vast sector of SMMEs ranging from manufacturing, small-scale mining and service-related industries.

The programme consisted of a small initial grant to allow British or South African companies to explore potential partnership opportunities.

South African companies are also eligible to apply for these grants.

The eligible grant for South African companies covers 50 percent of costs.

Companies that are eligible to apply are those registered in South Africa for more than two years with audited accounts.

The scheme does not cover non-governmental organisations.
High skills, level, excellent infrastructure, attract British investors
Western Cape push to

He said Cape Town, in contrast to its historical status as a haven for British investors, has a strong infrastructure and excellent skills.

As a result of this, the province is well positioned for future opportunities.
Japanese attracted to SA

SOUTH Africa is proving an increasingly attractive destination for Japanese corporate investment as it expands its regional economic ties.

According to the Johannesburg-based Japan External Trade Organisation (Jetro), Japan's investment here has taken off this year.

The Industrial Development Corporation of South Africa says Japanese direct investment increased to slightly above R1 billion in the first nine months of this year, compared to about R1.60 billion invested over the preceding two and a half years.

This was expected to surge after Minister of Trade and Industry Alec Erwin's recent tour of Japan.

IDC believes that the automakers have led the investment surge, with Toyota Motor Corporation buying a 28 percent stake in Toyota SA Ltd earlier this year. The transaction made cars for the Japanese company under licence.

Nissan Motor Co also acquired 50 percent of its licensee, Automakers Ltd., and South Africa's major tyremaker Fedstone Ltd was bought by the Bridgestone Corporation.

Jetro also believes that greater economic cooperation among South African Development Community (SADC) countries has also increased interest in the country. — Business Reporten
SA tops survey on climate for investors

Tim Cohen

LONDON — SA offers the cheapest business operating costs of any country likely to attract significant foreign investment, a survey by the Economist Intelligence Unit has found.

The survey ranked 27 countries which attract the most inward investment from both developed and developing nations. It includes such indicators as operative and executive wages, office and industrial rents, corporate tax, expatriate housing and living expenses, business travel and telecommunications costs.

In the one to 100 ranking system, SA was rated the cheapest — ahead of Indonesia (19), Malaysia (17), Hungary (22) and Thailand (56).

Germany was the most expensive, with the highest wages and tax rates, although other costs including rents and telecommunications were moderate. High executive wages and corporate taxes made the US the second most expensive country, with Canada, Spain and Hong Kong being the most competitive developed economies.

France emerged the victor in its traditional battle with the UK where the high cost of rent, hotels and diesel fuel were compounded by pound strength.

The weakness of the rand conversely assisted SA and would make the country even stronger since data for the survey was collected using exchange rates at or before June.

The unit said SA rated lowest because labour and operating costs were low — on a par with Thailand and Latin American countries. Executive wages were "generally at the bottom end of this survey". Office and industrial rent were extremely cheap and expatriate costs were on a par with the cheapest southeast Asian countries.

Airfares were, however, very expensive with air routes only beginning to open to competition.

Johannesburg lacked prime office space, but poorer quality space was widespread and very cheap.

Value data in the survey was collected during the first of this year and converted to dollars using exchange rates current at the time of collection.
FOREIGN TRADE - Foreign Invest.
1998
SA attracts significant global fund investment

Samantha Sharpe

CAPE TOWN — SA was one of the few countries to attract "significant" global emerging market equity fund investment in the third quarter last year, as the funds continued to increase their exposure to the Europe/Middle East/Africa region.

The December Micropal Emerging Market Fund Monitor surveys about 50 management groups responsible for about 238 funds which together controlled some $81.7bn in assets at the end of September.

Of this, $29.4bn was invested in Latin America, $39.7bn in Asia, $9.3bn in emerging Europe, $4.3bn in Africa and the Middle East, and about $6bn in cash and other investments.

The funds were net sellers of nearly $3.5bn of emerging market stocks in the third quarter, the monitor said, with Malaysia, Hong Kong and Brazil suffering the heaviest losses.

However, Asia continued to be the favourite region for the funds surveyed, despite having poorer performing markets, with the funds investing just under $500m compared with $900m of net buying in the second quarter.

"The funds also invested about $500m (net) into Africa and the Middle East, but were overall net sellers of Eastern Europe ($450m) and Latin America ($90m)," the monitor said.

The survey showed that exposure to the region continued to climb in the third quarter, reaching 26.41% compared with 23.76% in the previous quarter.

"Year-on-year weightings to this region have increased nearly 24%. This is the highest recorded level since we started this survey and more than double the lowest level recorded (11.26%), which was at the end of 1993," the monitor said.

"Four of the 50 (management) groups now have the region as their favourite, up from only two groups last quarter."

The four are Edinburgh Fund Managers, PP Consult, Pictet Asset Management and Sloane Robinson.

"On an average weighting basis, Brazil continued to be the most popular country, accounting for an average 14.33% weighting of the 50 groups surveyed. This was down 6.5% for the quarter, but up 23.2% year-on-year." Brazil was followed by Mexico, with China/Hong Kong barely holding on to third place, just ahead of India and SA.

Micropal pumped close to $200m into African and Middle Eastern markets in the period under review, mostly into SA shares.
Foreigners snap up record R26-bn

Johannesburg - (740)

Foreigners bought a record R26.2-billion of South African shares last year, compared with R5.25-billion in 1996.

A spokesman for the Johannesburg Stock Exchange said net purchases by foreigners during the two-and-a-half-day trading week ended December 31 totalled R169.7-million.

In comparison, there were sales of R27.5-million over the one-and-a-half day's trading during the same week in 1996. - Sapa

AR1 3/11/98
THE YEAR AHEAD

The First World/Third World duality

The lessons of southeast Asia could help us persuade the world that SA’s unique structure is an attraction, not a drawback, for foreign investors

Emerging market or middle-income industrialised country? SA has always suffered from economic schizophrenia, but in the aftermath of the southeast Asian meltdown, against precisely which yardsticks the economy should be judged is increasingly important.

Thabo Mbeki asked plaintively recently why SA’s performance should be compared with middle-income industrial countries. The answer is simple: that’s where the criteria used by bodies like the IMF place us.

With the biggest, most sophisticated and diversified economy in Africa, we surely do not want to be rated against Upper Volta or Burkina Faso.

On the other hand, to the international investment community SA is an emerging, immature market. Yet even as an emerging market, we are not typical. Foreigners remained persistent net buyers of SA equities on the JSE throughout last year, and though they were heavy net sellers of SA bonds after August, in this market too they are back as buyers again.

While local interest rates are attractive to foreign investors, they would not be buyers unless there were an underlying confidence that is still lacking in southeast Asia.

Equity performance is also somewhere between that of the developed and emerging markets. The former generally showed gains of 20% or more last year, the latter losses averaging 30%. The JSE All Share index lost 7%, dragged down by a near-50% dip in gold shares, which in turn had nothing to do with the problems of emerging markets, but was a direct reflection of the weak bullion price.

Industrials were 6% off on average, but the financial index advanced a healthy 36% — no sign there of the financial instability of a Thailand or South Korea.

Similarly, while the rand has been a weak currency, it has not collapsed like some of its southeast Asian counterparts. Recent weakness, in any event, stems largely from the relative strength of the US dollar.

It is sometimes argued that SA has most in common with Latin American powerhouses like Brazil or Argentina, which also have strongly dualistic economies, with advanced first-world sectors but high unemployment and substantial informal and peasant subsistence sectors. While this may be true, SA has neither suffered the debilitating hyperinflation to which these have been prone, nor achieved the economic growth rates of which they have, at times, been capable.

A debate developed after the southeast Asian collapse whether SA would automatically be tarred with the same brush, or would be able to put across the message that (thanks not least to the tight rein of Chris Stals) we are in an intrinsically sounder position. Happily, the portfolio inflows and increase in the December gold and foreign exchange reserves suggest that we are winning that one.

But that alone will not ensure a prosperous 1998. As we pointed out before Christmas, implementation of Gear, tax and Budgetary policy and how rigidly the Basic Conditions of Employment Act is enforced will be vital.

In this regard, while organised labour continues to push for enhanced working conditions that will damage job creation prospects, there are signs that labour on the shop floor is being more realistic.

Working days lost to strikes last year were not just the lowest for at least a decade, but by a big margin less than half the loss in any of the preceding nine years. Better legislation and arbitration procedures can’t be the only reason for an improvement of this magnitude. There must also be a realisation that strikes encourage industry to channel investment into labour-saving, not job-creation.

Uncertainty over how to classify SA can be damaging. As we have seen in trade negotiations with the European Union, but we must strive to turn it to our advantage, by proclaiming to the world that, uniquely, we combine the security of a First-World financial and legal infrastructure with the growth potential of a less developed nation.

It would be wrong to relish the discomfiture of the southeast Asian “tigers.” Apart from anything else, their problems have led to a universal downgrading of world growth forecasts for this year, from which an open economy like SA’s cannot be immune.

On the other hand, we won’t grow without inputs of foreign capital and (especially) technology. If the way we have stood up to the shocks of recent months helps persuade the world that we are not a Third-World basket case, we will at least have improved our relative position, and at best may have brought closer the kick-start needed to get economic growth anywhere near Gear’s over-ambitious (and unreachable) targets. If so, 1998 may not be that bad a year, after all.
Tim Cohen

LONDON — Consumer goods firm Unilever disclosed yesterday it had invested R1bn in SA over the past six to seven years.

The president of the Anglo-Dutch company’s Africa business group, Henri Bonpun, said the investment drive began just before the general election and was part of a continuing programme.

An investment of R1bn in SA ranks among the highest recorded over this period and supports analysts’ suspicions that much of the substantial investment into SA has come through existing companies rather than through the establishment of new entities.

The investment drive has escaped publicity because the company is unlisted in SA and conceals country-by-country breakdowns of its global operations.

Unilever ranks among the world’s 50 biggest companies.

Bonpun said the primary aim of the investment was to increase the competitiveness of Unilever’s SA operations. The company’s products include home and personal-care products including Skip, Omo, Magnum, Flora and Sunlight, as well as food brands.

A major part of the drive was the construction of a R50m personal products factory in Durban, which was formally opened earlier this year.

On plans for the future, Bonpun said SA was an important component of Unilever’s Africa operations and was involved in the production and distribution of all core categories of the company’s products.

In most markets in SA the company was meeting strong opposition, but was in a good position to grow, he said.

As a result of the investment drive the SA operation was “getting efficiency and quality figures that are as good as anywhere in the world”. It had laid a basis for growth, but much of this growth would be organic.

“There are very few possibilities for acquisitions, and when there are the price is horrendous.”

Unilever’s response was to build “innovation centres” to develop new products and improve the old.

These centres had already developed new forms of packaging for some products, improved formulas for hand lotions and washing powders, some of which were at the highest international standards.

Bonpun said profit produced by the SA operation were in line with those of the group as a whole. Turnover in SA was about R$1bn, just less than half of the group’s total African turnover. African operations constituted about 6% of total group turnover.
Job Creation Suffers Despite Surging US Investment
**1997 Top Investing Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment (bn)</th>
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<tbody>
<tr>
<td>SBC Communication</td>
<td>R3.3bn</td>
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<tr>
<td>Dow Chemicals</td>
<td>R2.3bn</td>
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<tr>
<td>Telecom Malaysia</td>
<td>R2.2bn</td>
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<tr>
<td>Salem</td>
<td>R887m</td>
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<tr>
<td>Nissan Motor Corporation</td>
<td>R360m</td>
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<tr>
<td>Bridgestone</td>
<td>R290m</td>
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<tr>
<td>TA Enterprises</td>
<td>R250m</td>
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<tr>
<td>Hewlett-Packard</td>
<td>R200m</td>
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**Foreign Investment in SA Surges to R14bn**

Johannesburg — Foreign direct investment (FDI) commitments to South Africa surged 66 percent last year to an estimated R14 billion, Jenny Cargill, the director of Businessmap, a business intelligence agency, said yesterday.

But if the privatisation of Telkom last year is excluded, there was no increase in private sector FDI that year. Total FDI commitments for the past two years were about R30 billion.

"The FDI investment patterns in 1997 suggest that there will need to be quite a strong build up in investor interest this year to meet, or better, last year's performance," said Cargill, commenting on the preliminary results of Businessmap's 1997 investment survey.

She said the reason for this was that the partial privatisation of Telkom dominated, and that will not be repeated this year.

Investors were also uncertain about investing in emerging economies, she said. The crises in some Asian economies, which have been key FDI investors, could also adversely affect their future commitments to the country.

She said many investors, particularly from the US, were investing in South Africa with an eye to the regional market. However, the Southern African Development Community context was looking as attractive as it did a year, or even six months ago.

"This too may have an impact on our FDI profile in the coming year," she said.

Of the top investors in 1997, only TA Enterprises, a Malaysian company, is involved in new investments. The focus, therefore, is on acquisitions. "However, the investment by SBC Communications and Telecom Malaysia in Telkom promises significant expansion, technological and skills spinoffs over the next few years," she said.

Salem, Telecom Malaysia, Dow Chemicals and SBC Communications constitute more than 60 percent of total FDI.

The only relatively certain and significant privatisation in 1998 that would involve foreign partners was the Airports Company.

Beyond 1998, ports and other components of Transnet could offer substantial investment opportunities to foreign investors, Cargill said.
American firms set pace for investment

WASHINGTON, DC — A large number of new American firms had made significant investments in South Africa, pushing assets held by American companies to more than $6.5 billion, the Investor Responsibility Research Center (IRRC) said yesterday.

"As a result, the US presence in South Africa has surpassed the investment levels of US firms in the early 1980s," said Peter DeSimone, the managing director of IRRC's Southern Africa Service.

Only 84 US firms of the more than 200 which left during the anti-apartheid disinvestment era had returned.

The survey by the Washington-based international research think-tank found that, since April 1994, US firms had been entering and expanding operations in South Africa at almost double the rate of firms from all other countries combined.

It said more than 50 percent of the multinational companies entering South Africa over the past three years were from the US.

"Just under 300 US companies had direct investment or employees in South Africa in the early 1990s. This number, which reached a nadir of 104 by 1991, has rebounded to 296 today," said DeSimone.

The largest US investor was SBC Communications, which paid $737 million to share a 50 percent stake with Telkom Malaysia in Telkom.

The San Antonio-based SBC (formerly Southwestern Bell) holds 25 percent of America's telephone service.

The report said newcomers, such as McDonald's, and returnees, such as Dow Chemical, were keen investors, having pushed the level of assets ultimately held by US companies to an all-time high.

"Before the disinvestment movement pulled into full swing, US companies held approximately $2.6 billion in assets (worth about $8 billion in 1997 dollars), a figure which began to rebound only after 1991," DeSimone said.

The top five foreign direct investors in South Africa, by country of origin, are the US, Malaysia ($982 million), Japan ($311 million), Britain ($129 million) and Germany ($83 million). The US also led in new investments and reinvested earnings, the IRRC said. — Independent Foreign Service
Hold on to your homes, the Yanks are coming!

Dirty legacy of Hitler: Paul Offeiter's raids are a powerful incentive for investment in a holiday home.
Norway interest in SA on the increase

Some minor share

Early 12/18 (346)
Sacob calls for a good Budget

By Shadrack Mashalaba

The South African Chamber of Business (Sacob) has called on the Government to create a sustainable fiscal deficit and an environment in which business can prosper in the coming Budget.

Addressing the media in Johannesburg yesterday ahead of the Budget speech next Wednesday, Sacob director-general Raymond Parsons said South Africa still had, among others things, high interest rates, exchange controls and high corporate and income tax rates.

He said what was important in this Budget was not the numbers of how much has been allocated but to create an environment for business to succeed.

The important budgetary directions were a need for good governance in the public sector to sustain economic growth.

Business expected a Budget committed to a sustainable fiscal deficit, reduction of tax burdens and prioritisation of expenditure towards the crucial areas of health, education and law enforcement.

"The Budget should reflect an investment-friendly mood. We expect a further relaxation in exchange controls. The improvement in business confidence is good news for the Budget," Parsons said.

Sacobs’s director of economic policy Dr Ben van Rensburg said Monday’s Budget would be crucial for interest rates and the economy was keeping an eye on the new interest rates.

The cut, he said, would coincide with the launch of the Repurchase Transactions (Repos) and South African Multiple Option Settlement System (Samos) - the new systems which will determine the fixing of interest rates.

According Sacob’s manufacturing confidence index, businesses’ short-term expectations were buoyant.

Sacobs said while the markets were tolerant of some degree of slippage, commitment to the broad Growth, Employment and Redistribution strategy goals remained crucial.

The organisation’s economist, Penny Hawkins, said while the short-term mood was buoyant, the long-term outlook was optimistic. "This can be attributed to market vulnerability that lingers on."

"The employment outlook in the economy also looks bleak with more manufacturers expected to employ fewer skilled and unskilled workers," she said.
New measures to aid investors

GOVERNMENT’s programme of dismantling exchange controls took a step forward yesterday when several further liberalisation measures were announced at the unveiling of the 1998-9 Budget.

Finance Minister Trevor Manuel said the amount individuals would be allowed to invest offshore would be raised from R200 000 to R400 000, but they will now be required to get a clearance certificate from the South African Revenue Services stating that their tax affairs are in order.

Previously only a declaration to this effect was required.

Companies will now be permitted to invest R250 million in Southern African Development Community countries and R50 million elsewhere. These limits were increased from R50 million and R30 million respectively.

Travel allowance

The travel allowance South African residents may take abroad was raised from R80 000 to R100 000 for adults, and from R25 000 to R30 000 for children under the age of 12.

Emigrants from South Africa may currently export household goods and personal effects worth R100 000 and motor vehicles worth up to the same amount. These limits will now be abolished and a total combined limit of R1 million will be introduced for these assets.

The non-resident ownership level at which foreign-controlled entities become subject to local borrowing li-

its was also raised from 50 percent to 75 percent with immediate effect.

South African companies will also now be allowed to retain foreign currency earnings from exports and services for up to 180 days from the date the goods were sold or the services were rendered.

The limit on the amount South African institutional investors may invest abroad has been raised from 10 percent to 15 percent of their total assets.

- The Reserve Bank will introduce most of these measures immediately.
THE US state of Michigan has opened an international trade office in SA to promote trade and investment. Betty Appleby, who will head the office, said that Michigan companies could benefit from the opportunities available in the SA market. Appleby said she would work with SA and Michigan companies to develop marketing campaigns, promote trade seminars, and provide assistance to businesses. She said several Michigan companies have already benefited from business seminars in SA. Appleby said she would work with SA companies to set up operations in SA, including setting up local offices. She said that Michigan had cut taxes more than 20 times in recent years, saving businesses money. Businesses will be pleased to find competitive wages and low unemployment rates. Appleby said that Michigan had an experienced workforce and a strong healthcare system.
UK Development Corporation cashes in where others fear to invest
Foreigners pile in as buyers
to lift the JSE to new heights

By JACKIE CAMERON  

All-time closing highs were recorded for the all-share and financial indices yesterday to end a sparkling week of trading bolstered by foreign purchases.

"The all share index increased 4.8% for the week," a JSE spokesman said yesterday.

A financial analyst with a major institution told the Saturday Star: "The market has been powering ahead since January, obviously off a low base. There have been very significant foreign purchases of gilts and equities, particularly our blue-chip stocks.

Dr Azar Jameem, chief economist of Econometrix, added: "Share prices have recovered all the losses of October, and then some. The volume of trade has rocketed, partly because the participation by foreigners has soared.

"Foreigners have been increasingly investing in the emerging markets."
Tokyo - Deputy President Thabo Mbeki held unscheduled talks with Japan's International Trade and Industry Minister Mitsuo Horiuchi today and said he won a promise of a new thrust on investment in South Africa.

"He has indicated their sensitivity as a government to look at ways and means by which they can strengthen both trade and investment relations between themselves and South Africa and also with the countries of southern Africa," Mr Mbeki told reporters after the meeting.

"We will continue discussions with them about trade promotion and export guarantees as well as investment guarantees ... He says they are ready to deal with all of these issues."

Mr Mbeki said he would discuss ways to give substance to the assurances when he met Prime Minister Ryutaro Hashimoto tomorrow.

He said Mr Horiuchi underlined Japan's recognition of South Africa as a key to future economic relations with other African countries.

The meeting with Mr Horiuchi was added to his schedule late yesterday.

He and his wife, Zanelo, went on from the trade ministry talks to an audience with Emperor Akihito and Empress Michiko at their palace.

Mr Mbeki had lunch with business leaders, including Nippon Steel chairman Takaaki Imai. - Reuters
Markets surge as foreigners flock to SA

Samantha Enslen

FOREIGN investors flocked to SA’s bond and equity markets yesterday, taking the government benchmark bond to its best level in four years and driving shares on the Johannesburg Stock Exchange (JSE) to fresh highs.

Dealers said SA was benefiting from an outflow of money from Asia and a steady rand. A favourable inflationary environment and a dip in the repo rate yesterday also buoyed sentiment. 1-Net-Bridge reports that the repo rate — the rate at which commercial banks borrow from the central bank — fell to 14,897% from 14,921% on Tuesday.

On the bond market, offshore demand was fuelled by the issue of three Euronord bonds yesterday by KfW International Finance, Bavarianische Hypotheken Bank and the World Bank.

In contrast to foreign investor demand, local institutions appeared shy of the market, dealers said.

The yield on the benchmark R150 bond nosedived 14.5 basis points to end at a 12,445% yield — its best level since April 1994. In late trade it was seen at 12,410%. Longer dated stock — the R125 — ended at a 12,749% yield after touching 12,670%.

Dealers said the finance department’s announcement yesterday that only R220m of R175 bonds would be offered at next week’s bond auction was also seen as positive, indicating that government’s funding requirements were not as high as previously thought. A shortage of stock was also driving yields down, they said.

The JSE’s all share, industrial and financial indices all closed at record highs, driven by “huge” offshore demand, a record close on Wall Street on Tuesday night and the bond market’s strength. Local institutional buying also helped shares higher.

The all share index touched its second consecutive high, gaining 1,888 or 151 points to end at 8 199.9. The industrial index firmed 1,84% or 175.1 points to close at 9 681.3 and the financial index gained 1.47% or 223.8 points, to finish at 14 653.9.

One dealer said a rerating of the SA equity market by foreign fund managers had come on the back of corporate restructuring and mergers which were likely to result in greater efficiencies. However, dealers said that while everything pointed to further gains the run up was “too hard too quickly”, and a pull back was expected.
After reassurance on crime, UK executives may pour money into SA.

BY MARCO GRASSELLI
SA gives local firms R13bn of guarantees

South Africa had provided R13 billion in foreign investment guarantees to local companies last year — a huge increase from R3 billion in 1995 — mainly to insure them against loss of investments in Africa, Saqay Moodliar, the deputy director of foreign trade relations in the department of trade and industry (DTI), said yesterday.

Moodliar said South Africa had signed general system of preferences agreements with the European Union, Norway, Hungary, Japan, Canada, the US and Switzerland, and had joint commissions with France, the US, India, Australia, Germany and the UK.

It was also increasing DTI offices abroad, its co-ordination with the department of foreign affairs and the capacity of its new unit, investment South Africa, and the provinces. — Independent

Foreign Service, Pretoria
An emerald island offers golden opportunity.

Northern Ireland seeks itself as the gateway to the EU and the gateway to Africa.

Foreign investment in Northern Ireland.
S.A.'s popularity could be short-lived

As foreign investors keep plugging into S.A., recent economic indicators

— Positive sentiment from abroad has contributed to an upturn in the exchange rate, with the rand now trading at its highest level since 2012.

— However, concerns about the country's high unemployment rate and slow growth continue to weigh on confidence.

— Some analysts believe the positive sentiment is temporary and that economic fundamentals need improvement to sustain the recovery.

— The central bank has maintained its benchmark interest rate at 3.5% since 2016, signaling a continued accommodative stance.

— Going forward, the government is expected to focus on fiscal consolidation and structural reforms to boost growth and reduce unemployment.
Foreign Businesses Told by SARS, unreliable rules,
Economic Trends

By Adrienne Roberts

FOREIGN VIEW
ON SA’S ‘GREY
AREA’ RISKS

Damaging verdict on violence

The 1998 Intelligence Gap report by UK-based Merchant International Group sends mixed signals about SA.

On one hand, it states that interest in SA “continues to gain pace”. SA and Turkey are drawing the most interest from top European and US companies investing in emerging countries.

On the other hand, the group’s assessment of SA’s “grey area” risk is lukewarm. (Grey areas cover a range of business risks like corruption, crime and lack of legal protection.) SA, scoring about 58 out of 100 (0 being a perfect score) ranks 28th out of 41 countries. Singapore, scoring about 18, ranks top and Russia (73) and Pakistan (75) are the riskiest.

The analysis of SA is a little problematic. Among the minor glitches the Institute for Democracy in SA (Idasa) is called “Idada”, which, incidentally, means “duck” in Zulu.

There are also large oversights, like the sweeping statement that “government may fail to meet its revenue collection target due to its inability to establish an efficient revenue service”. Radical changes within the SA Revenue Service have ensured that Revenue is one of the few agencies that actually is on track.

The report places heavy emphasis on Islamic fundamentalism as a threat to business, and this preoccupation comes through in the SA analysis. “The emergence of a Muslim vigilante group (Pagad) could be the harbinger of Islamic extremism.”

References to Pagad and Cape Flats gangsterism occupy about a fifth of the SA analysis. It concludes with the comment: “Hamas militants are said to be undergoing training provided by paramilitary groups in SA. . . Relations with the Amer-
Red tape trips up potential investors

MUNICH — Red tape and new rules for would-be residents in SA are proving unwanted hurdles for companies wishing to enter the South African market.

Rolf Schmidt, MD of the MediNova group, says: "We have worked through thick and thin to bring companies to SA over the past 11 years, and while the market has opened up and is looking far more appealing since the 1994 elections, new rules and regulations are often a stumbling block for German companies wishing to move into SA."

Schmidt — who brought the first rollerblades to SA at the Made in Germany exhibition in 1993 — says many German companies are keen to establish foreign operations here.

"Some are nervous about the euro currency change, while others are looking for lower manufacturing costs, or simply prefer the business and lifestyle climates in SA," he says.

New companies seeking to manufacture in SA include hi-fi system group Newtonia.

"We have introduced several new products into the SA market, including Hydroseat bathlifts for sick people, and the Milage skin treatment range," says Schmidt.

"Most clients start off by presenting their products at shows like the Made in Germany, Saitex or Manufacturing Africa exhibitions. We find that the small- to medium-sized German companies generally enjoy SA and its business culture, and its people."

"Hold-ups and cancellations of deals have occurred, however, with red tape and when new rules have been introduced, like that for permanent residents having to invest R1,5m in SA," Schmidt says.

He says a number of would-be investors are German entrepreneurs going into early-retirement and wanting to continue working in SA.

"They are often cautious about their financial security, and feel a bit nervous about investing R1,5m in SA in a single lump sum."

For Schmidt, trade operates two ways, and he works closely with a number of SA companies wanting to break into the German and European markets.

These include Stellenbosch-based MediClinic, which manufactures hospital operating theatre tables through Medical Innovations. He has also assisted Wound Care Laboratories from Somerset West, and says both of these companies have established healthy export markets.

"We are now assisting the Anglo American company, Advanced Medical Technologies, with their innovative safety syringes, as well as Johannesburger-based Rick Steyn's product, Safy Needle."

Overall, Schmidt says SA offers an attractive and healthy market for newcomers. Thanks to deregulation in the medical products buying market, for example, this industry has been opened up to greater numbers of competitors, and he believes that once bureaucracy is streamlined, a larger number of would-be investors will enter SA.
Swedes plan to invest
R13,3-billion in SA

Samcor scoops engine export deal

PARLIAMENTARY BUREAU AND
HENRI DU PLESSIS

Trade between South Africa and the Nordic countries is set to more than double over the next five years and the motor industry has received another foreign shot in the arm.

A Swedish company has pledged to invest more than 20-billion kroner (R13,3-billion) in South Africa, while the South African Motor Corporation (Samcor) is to build engines for the world and earn R200-million a year in foreign exchange.

Trade and Industry deputy minister Phumzile Mlambo-Ngcuka said yesterday on her return from a trade mission to Scandinavia that the Nordic countries were keen to be involved in partnerships with small, medium and micro enterprises.

Swedish company IKEA already bought cane furniture in Pietermaritzburg and was planning to expand its interests throughout South Africa to the tune of 20-billion kroner over the next five years.

Ms Mlambo-Ngcuka said Nordic countries had a high disposable income and low unemployment — Norway's was 2,2% — and a closer relationship could provide big spin-offs for the tourist industry.

Interest had also been shown in South African wines, textiles, fruits, vegetables and linen, and in co-operation on maritime issues.

Ms Mlambo-Ngcuka said five of the Department of Trade and Industry's objectives had been achieved. These were global repositioning, export promotion, investment, small business promotion and job creation.

Meanwhile the South African Motor Corporation (Samcor) yesterday announced a deal to build 55,000 engines a year for global distribution.

The deal is expected to create 850 new jobs in the industry, and assure job security for 700 already working at Samcor's engine manufacturing plant in Port Elizabeth.

Samcor will invest R146-million initially, and may plough in a further R100-million over the eight years of the contract.

Samcor group managing director Lewis Booth said the investment illustrated Samcor's competitiveness, and the confidence the company's major shareholders, Ford and Anglo American, had in its ability to deliver.

"The awarding of this contract to Samcor is really an affirmation by Ford that our quality is world class," he said.
FOREIGN direct investments by small- and medium-sized enterprises could become engines of development and growth, says the UN-led United Nations Conference on Trade and Development (Unctad).

In a statement accompanying a study on direct investment by smaller firms, the Geneva-based agency urged governments to strengthen the small business sector to take advantage of the vast potential, including acting as valuable sources of capital, technology and training.

Unctad secretary-general Rubens Ricupero said: "Actions are needed to develop the enormous potential that these firms have and to stimulate growth and development through foreign direct investment."

The Unctad report, released last week, is based on research in selected Asian developing countries.

Unctad said the development and internationalisation of the sector was neglected by many governments in developing countries.

Ricupero said actions to unlock the potential of the sector could include greater exchanges of information on small business experience, harmonising regulations and simplifying the regulatory provisions.

The report also says international organisations, such as the World Trade Organisation, Unctad and the Organisation for Economic Co-operation and Development, have an increasingly important role to play in building a cooperative environment among economies.

Such co-operation could significantly reduce the costs.

The sector's contribution to total foreign investment flows was small, accounting for barely 10% of regional foreign direct investment in Asia.

However, if larger numbers of smaller firms were encouraged to invest internationally to support investment and their impact on growth and development would be formidable.

The survey identifies impediments to a thriving small business as including unfair competition, complex business regulations, difficult investment approval systems and corruption.

Incentives

The report, which looks at both the inward and outward foreign direct investment by the sector, suggests governments pick and encourage the winners by giving priority in supporting growth-oriented small businesses.

It urges policy makers to provide accurate information to foreign investors, encourage links between small firms across borders, provide appropriate incentives and address specific barriers to direct investment by small business.

Given the fact that all countries are competing for foreign direct investment, effective support systems operating across borders will be essential, the report says.
SA trade mission's deal that never was

The R13-billion

or Swedish

Minister.

He said the

The

Diplomats

industry's deputy director of communication.

BJORN SVENSSON

Home Affairs, which is leading the Department of Trade and Industry's

South Africa's export priorities.

In the case of Rützol, the deal was struck in 2014. However, the

body which would provide the necessary input and support.

The conversation was held at the South African Business Council in

South Africa, then the capital of the European Union.

The Department of Trade and Industry is tasked with the

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Crime, labour keep foreigners away

Reneé Grawitzky

CRIME, theft, corruption and labour regulations have been identified in various reports as barriers to business operating in SA, an South African Foundation discussion paper says.

High and cumbersome tax regulations were also seen as being a major obstacle facing business in SA. However, the availability of finance and infrastructure were seen in a positive light and not perceived as a significant barrier to business operating in SA.

These views emerged from a foundation discussion document which analysed a range of studies undertaken by the International Finance Corporation, World Economic Forum and a Stellenbosch University study on public perceptions of government, business and trade unions in SA.

The foundation said that governments, either intentionally or unintentionally, created barriers for business. "Often these barriers are created in the pursuit of admirable social or economic objectives such as acceptable labour standards, environmental protection or macroeconomic stability."

Alternatively, such business barriers could be a result of government or bureaucratic failure, the document said.

"Identifying barriers to business is the first step towards creating a more business-friendly environment," the foundation said.

A International Finance Corporation study, examining the response by entrepreneurs to questions dealing with barriers to doing business in 69 countries, ranked SA 12th out of 22 regions.

SA was grouped together with Mauritius to form the middle-income Africa and was ranked as the second highest African grouping after Western Central Africa, but came below other groupings of developing and transitional countries such as Asia, Western South America and the Baltic Republics. Middle-income Africa ranked highly in the fiscal policy category partly due to its sophisticated infrastructure but ranked low in terms of the regulatory category, which considered issues such as price controls, labour rigidities and environmental regulations.
SA draws R40bn in foreign direct investment since 1994

Nora Holmes

G4R 16/98 (740)
SA growth ‘does not justify investment’

Stan Mapalogela

ECONOMIC growth in SA was not sufficient to justify the R40bn foreign direct investment in the country made since 1994 to April this year, Businessmap director Jenny Cargill said yesterday.

However, Cargill said at the launch of the SA Investment Report that the recent speculative attack on the rand underlined the importance of long-term capital inflows derived from foreign direct investment to support the balance of payments.

The foreign direct investment was important to SA because it would inject competition into the economic environment, she said.

It would also inject technology improvements and management expertise of international quality.

The deputy governor of the SA Reserve Bank, Tim Thabane, said challenges facing SA were to accelerate growth, reduce poverty and create jobs, as well as the deregulation of the domestic market.

He said the foreign direct investment was progressing but at a slow pace, and the main focus should be on the stabilisation of SA’s macroeconomic policies.

For foreign direct investment to be effective and to have an effect in SA, there should be an aggressive training in the labour force.

He said the responsibility of the Reserve Bank was to maintain and create an environment which would sustain the stable macroeconomics policies and financial policy environment within the context of global liberalisation.

The financial markets were experiencing turbulence as a result of unstable emerging markets, but the Bank’s role was to make decisions in a way that the interest rates and exchange rates restore balance.

Unstable

He said the exchange rate and interest rates should be in line with the medium term requirements of the SA economy.

The Bank would continue to monitor the markets on a daily basis, and hoped to see stability restored and the downward trend in the interest rate continued.

He said the Bank did not use interest rates to lower inflation at any cost, but rather wanted to ensure that the depreciation of the rand did not occur precipitously, and that the inflation rates were in line with the average of SA’s major trading partners.
FOREIGN DIRECT INVESTMENT

STILL TOO RISKY TO GO IT ALONE

Investment to expand production lags behind mergers

Foreign investors continue to display confidence in the direction of SA’s economic policy but they are still concerned about the country’s economic growth rate.

A report by BusinessMap, which provides investment analysis and advice, says of the R39,3bn in foreign direct investment — a good indicator of long-term investor confidence — since 1994, 60% is accounted for by mergers and acquisitions (M&A) while expansions took a 22% share and new (greenfield) investments accounted for 18%.

Foreign Direct Investment (FDI) mergers and acquisitions grew 19% in 1995, 160% in 1996 and 130% last year. But investment to expand production capacity has decreased while greenfield investments have, on average, remained at about R1,6bn a year since 1994.

BusinessMap ascribes the strength of mergers and acquisitions to the fact that foreign investors are satisfied with the direction of government policy and political performance.

But “inadequate economic growth rates” which, though positive, have been below expectations, remains a major obstacle to new investments and capacity expansions by foreign investors.

Nevertheless, BusinessMap says that being a country in transition, SA has not fared badly in attracting FDIs. However, FDI inflows need “to be much more substantial to provide the necessary boost to growth in the economy”.

The consultancy adds that foreign investors, before making any long-term commitment would want to observe how the situation evolves.

“Over the past two years, investors have expressed more comfort in the direction of the SA government and economy.

However, just as that comfort was expected to bear more fruit, there was the Asian scare.

“In addition, the next SA election began to loom; something which is bound to encourage a wait-and-see posture.”

Another worrying sign is that when the partial privatisation of Telkom, the State-owned telecoms group, is stripped out of 1997’s R13,7bn FDI figure, private-sector FDI declined for the first time since 1994.

Given that, other than the potential sale of stakes in South African Airways and the SA Forestry Co, there are no major privatisations scheduled, this might mean that FDI could show a steady decline, particularly in the period leading up to the mid-1999 national elections.

BusinessMap also points out that while foreign investors are keen on the public and private-sector partnerships in the provision of social and economic infrastructure, government appears to be moving hesitantly towards embracing the concept.

The cross-border N4 road from Witbank to Maputo and the selection of two foreign companies as preferred bidders for the provision of municipal water services are the first examples of such a concept at work.

Though public/private-sector partnership should offer a more consistent flow of State-sponsored FDIs than privatisation, such partnerships remain politically sensitive and government is therefore not likely to push them forward vigorously in the run-up to next year’s national elections.

Overall, BusinessMap says government has made the right moves in terms of macro-economic policy and investment strategy.

But it now faces a different challenge — to move away from a policy and strategy focus and to start marketing the attractions of investing in SA.

This will require that government fine-tune meeting particular investors’ needs.

BusinessMap suggests that government also go beyond seeking to attract the foreign investor and turn its attention to creating “a confident and satisfied domestic investor”.

Though a difficult task given the historical alienation between SA’s established business in SA and the ANC, it remains a crucial element in achieving the government’s investment strategy.

BusinessMap concludes that the new environment requires government to pay sharp attention to detail, develop relationships with identified potential investors, and consistently target SA as an investment market.

Jubulani Silhukhuwe
Chicago firm faces uphill battle in bid to invest locally

Home offices, banks present endless obstacles

News
SA needs to do more to attract foreign direct investment.

SA has failed to make full use of the opportunity to sell itself at the annual Investment Conference in Europe, says London correspondent Tim Cohen.

The country's position seems to be undermined by the weakness of its economy and the lack of stability in its political environment. In an even more competitive environment, SA needs to add something beyond direct investment.

One of the most promising sectors is manufacturing. The country's potential to attract foreign direct investment is limited by its ability to attract foreign investors. As a result, the country's manufacturing sector is not as developed as it could be.

In the face of these challenges, the government must take action to improve the country's business environment. This includes creating a stable political environment, improving the country's infrastructure, and attracting foreign investment.
Labor's factors no key to investment, says report
Investors search for value in SA markets

From Reuters

London — Value may have been cut from South Africa’s currency, bond and equity markets in the past few days but investors said yesterday they were looking for diamonds in the rubble.

Their search takes place in an environment where foreign investors were net sellers of over R1 billion worth of bonds on Monday and where equity values lost 25 percent last month, said market analysts.

“We have had a very negative view of South Africa, especially concerning the currency risks, and we are now re-examining our position and are considering upping our weightings,” said Andrew Elder, a fund manager of Aberdeen Asset Management’s Frontier Fund.

Elder admitted that his fund was underweighted, but added: “There should be good buying opportunities in the next couple of weeks.”

He said he was looking to buy big blue chips and some financials on any further weakness.

Favourite picks include SAB and Liberty Life. Elder also sees significant value at the current price of BOE Bank.

Early yesterday, the rand regained some ground. But the outlook remained uncertain, and grounds for optimism were heavily qualified, analysts said.

“The rand is 15 percent undervalued against our fundamental model, and that will prevail,” said Tim Unger, South African bond market analyst at ING Barings. “But, short term, what happens is any one’s guess.”

Increasing the short-term uncertainty was the rising swell of speculative money surrounding the rand, analysts said.

“It is now vulnerable to speculative attack,” said Unger. “Having been driven by factors outside South Africa, it is vulnerable to further weakness as long as Russia and the yen remain under pressure.”

He said the rand had developed a very high correlation with the dollar-yen rate.

“We are forecasting the rand at R5.10 (to the dollar) by year-end, but given short-term volatilities I would not recommend going in at this stage.”

Unger said bonds offered good value at current yields, reached after net selling of about R6 billion to R7 billion of bonds by foreign investors in the past couple of weeks.

“The bond market has contributed to the rand’s weakness as it is sensitive to portfolio flows,” he said.

Unger estimated that non-South African investors accounted for between 10 and 20 percent of the bond market, given that their activity totalled about 20 percent of daily turnover.

More significant than foreign investors’ presence in South African equities was the big cross-company and family share-block ownership, another analyst said.

Analysts said foreign investors were still net buyers of South African equities, even though market prices reversed a 22 percent year-on-year appreciation accrued by the end of April into a 12 percent year-on-year loss by July 1.

The year-on-year comparison recorded a 25 percent loss during the month of June.
Foreigners see some hope for SA

New York — Foreign investors believed the rand was oversold and that there were significant buying opportunities in the equity markets, fund managers and traders said at the weekend.

But the fact that the rand would probably face further weakness was deterring them from any significant buying, they said. "There is no doubt that the rand is now oversold and that there are a whole heap of bargains to be had in the equity market at the moment, but investors are holding back in case the currency weakens further," an analyst at a New York bank said.

The JSE’s all share index has only risen about 11 percent since the start of the year, and many foreign investors who placed money in the country over that period have seen negative returns on their investments to date.

A New York-based fund manager said he was reluctant to invest further in the equity market in case he exacerbated his losses. He was holding back until there was some sort of clarity about how the Reserve Bank intended to deal with the problem.

The analyst said it was time for the Bank to release a policy statement on the rand. "I think the best policy would be to let the currency and interest rates find their own market-driven levels."

The Bank was clearly concerned that using higher interest rates as a means of defending the rand could create a recessionary environment. "It is telling the market loud and clear that it cannot and will not use interest rates to defend the rand, and that the devaluation of the currency is far preferable to a recession."

But the fund manager was fairly optimistic, particularly on South African equities, where a lot of value was to be found. The analyst said investors still saw the country as fundamentally sound, particularly in comparison to other emerging markets.
SA an ‘attractive’ business destination

Simon Barber

WASHINGTON — The US state department rates SA as an “attractive” destination for US business, with “significant growth potential”, in its latest annual survey of the country’s investment climate, but says delays in privatisation may slow the pace of capital inflows this year.

Among the few new problem areas cited is the draft competition bill, which is seen as giving the minister too much discretion to block mergers and acquisitions approved by the Competition Board. Also potentially troubling are “reported” plans by bar companies in SA from complying with “extraterritorial” laws such as the US Helms-Burton act, which seeks to penalise firms that invest in Cuba.

The survey notes that US firms “do experience some problems” in SA with intellectual property protection, even though SA laws and practices are “generally in conformity” with those of industrialised nations.

However, efforts to crack down on software piracy “have borne fruit”. Just less than half the software installed in SA is now said to be illegally copied, comparable to European levels.

Although SA’s highly developed capital markets are seen as a plus for direct investors, the report warns that insider trading is a “poorly” regulated and seldom investigated.

SA labour costs are low relative to western industrialised countries but productivity is also lower, the report notes.

The labour-management relationship is coyly described as being amid a “challenging” process of change.

“Reaching common ground on a set of policies to foster job creation remains one of the most pressing challenges,” it says.

SA has investment agreements with Canada and most European countries, but not the US.

“Formal negotiations have proved unproductive”, although a bilateral tax treaty is now in effect.

While crime is a serious problem the statistics may be “misleading” because incidents are being reported and recorded more efficiently than in the apartheid era.

The United States was the largest single source of foreign direct investment last year, with SBC Communications contributing $725m of its stake in Telkom, and Goodyear and Dow Chemical investing $121m and $46m respectively.

However, flows “are expected to taper off in 1998, given delays in privatisation efforts”.

Chinese protesters demand death penalty

Nomavenda Mathiane

More than 1 000 Chinese gathered at the Union Buildings in Pretoria yesterday in a “shut-up shop” protest against the killing of a 20-month-old boy in a robbery and to demand the restoration of the death penalty.

Danny Zhong was shot dead in his father’s shop in the Johannesburg city centre on June 26.

The protesters, which formed a motorcade of more than 150 cars, called for the return of the noose.

Danny’s mother, Huazhong, handed a large photograph of her son and a letter addressed to President Nelson Mandela to commissioner Rian Boshoff of the public order policing unit. The letter calls for “harsh punishment” for the “savages who are murdering the innocent”.

Her husband Tom, on crutches after being injured in the shoot-out, said he had been overwhelmed by the support from the Chinese community.

Also at the demonstration were the parents of Dr Steven Fan, who was shot dead in a car hijack incident in Johannesburg.

Among the non-Chinese demonstrators were Anglican women missionar- ies based in Pretoria and Bob Ngonen- geng of the Soweto and Kliptown Youth Association. Ngoneng said he would be seeking an audience with Mandela to talk about crime destroying Kliptown.

Addressing the crowd, chairman of Gauteng Chinese Association, Cecil Leung, said the gathering was not a Chinese-only rally, as crime affected every sector of the SA community.

Chinese people were no longer prepared to sit by when their people were being killed.

Sapa reports that Mandela met Danny’s parents at his Houghton residence in the afternoon. “To lose a beloved, a baby, is a tragedy. It is a disaster difficult for the mother and father to bear,” he said.

Picture: Page 3

Key Market Movements — 7/7 to 8/7
Crime still driving off investors

FROM REUTERS

Johannesburg — When investors ask if South Africa is a safe place to do business, they are not simply referring to profit margins and the stability of the rand.

They are concerned with the more practical issue of physical safety. "Violent crime is a major fear among all sectors of the community and a potential deterrent to inward investment," said a senior European Union (EU) diplomat based in Pretoria.

"It is a very big concern among the foreign investment community," said Maren Schellenschmidt of the South African-German Chamber of Commerce and Industry.

But South Africa is, in many ways, a foreign investor's dream. An emerging market in a class of its own, it combines sophisticated financial markets and a First World infrastructure with Third World labour costs and growth prospects.

Since shedding its status as an international pariah in 1994 with its first all-race elections, it has also become a trendy place in which to invest. Few countries boast a president as widely admired on the world stage as Nelson Mandela.

Cash has flowed in, with foreign direct investment rising to R18.7 billion in 1997 from R4.9 billion in 1994, according to the trade and industry ministry.

In 1997 foreigners were net buyers of R36 billion on South Africa's equities market compared with R6 billion the previous year.

But security costs and concerns weigh increasingly on the minds and decisions of many investors, both active and potential.

"How do you convince middle-level managers to come here when you cannot guarantee their security or the safety of their families?" asked the EU diplomat. "In this regard, from an EU perspective, South Africa does not rate well compared with eastern Europe, which has much lower rates of violent crime despite its own increase in this area."
Foreigners will not invest if requirements

Regional integration is vital to attract foreign direct investment to southern Africa.

RHOZA

Gus Heyns, President, RHOZA, says Chamber is opposed to SA's nationalisation measures.

"RHOZA opposes nationalisation measures, which are contrary to the spirit of regional integration," Heyns said.

Heyns said RHOZA is working with the UDF and Liquidators to get companies nationalised back into private hands.

He said the chamber would not invest in a country that has nationalised companies, which is a contradiction to...
Delays 'scaring off foreign investors'

Madeleine van Niekerk

THE slow pace of privatisation in SA has caused foreign investors to lose interest in it, says Mark Breedon, senior vice-president of US-based Alliance Capital Management.

He said international investors were now less inclined to invest in the Southern African Fund. Investment in the fund was down 4% in dollar terms compared to an increase in investment of 30% in dollar terms, three months ago.

Alliance Capital is one of the largest privatisation funds in the world with investments of almost $1bn. Breedon jointly manages the $250bn Southern Africa Fund for Alliance Capital, which is the third largest listed asset manager in the US.

"We started talks with the government four or five years ago about privatisation, and despite many promises very little has happened. This is disappointing news for our investors," said Breedon.

All the former communist states had put government-controlled assets out for tender.

The fact that exchange controls still were not completely abolished was a problem. Investors were also concerned about "positive discrimination" or affirmative action that did not necessarily take merit into consideration for promotion.

This policy had the potential to cause the quality of business to deteriorate, Breedon said.

The privatisation of Telkom and the Airports Company had been handled relatively effectively in the line ministries — where the actual heads (ministers) of the departments handled it — compared with the privatisations handled by the ministry of public enterprises. Government was legislating more and perceived to be intervening in business.
Economic Viewpoint

SA'S BAD PRESS PROBLEM

Oh please. Not again. Just when we thought the misunderstanding had been cleared up once and for all last year: another dose of Massachusetts-based financial information service DRI moonlighting as a risk rating agency.

DRI, a division of Standard & Poor's Financial Information Services Group, of which S&P Ratings Services is the best-known division, has again spooked the markets with its Global Risk Review. It rates SA second riskiest out of the 10 biggest emerging markets, three places worse than Russia, which is due for an IMF bail-out.

DRI's review gauges investment risk, whereas S&P Ratings measures risk of credit default. S&P Ratings, which revised SA's positive outlook to "stable" earlier this year, said recently it wouldn't downgrade SA because it didn't regard the recent market volatility "as anything beyond that anticipated in the rating."

The working relationship between DRI and S&P Ratings, say Ratings staff in London, is scant. When the same confusion occurred last year (Trends July 25) S&P sovereign ratings group MD David Beers said, "I can emphatically and categorically tell you that the comments and statements made by DRI have no bearing whatsoever on our view on the credit standing of SA." S&P Ratings' Konrad Reuss, though more diplomatically, implies this is still the case.

The markets shrugged off the DRI report last year. SA was rated 10th, two places below Indonesia (which, after a depreciation of almost 85%, is expecting negative GDP growth of 15% this year). But this year it came at a bad time. The rand capsize saw market players assumed S&P Ratings had changed its mind on SA.

But, protests DRI economist Nairn Behravesh, "We've tried very hard to make it clear who we are versus who Ratings is. I guess the news agencies didn't make that distinction." But all the disclaimer (all on its own on the last page of the press release) said was: "These rankings are based on detailed analysis undertaken by S&P DRI and do not necessarily represent the views of other S&P companies."

Behravesh couldn't remember who had visited SA or when, but said research trips typically involve one or two people, visiting SA for "two to three days — or up to a week" once a year. He insists the rating is not at all "arm's-length" and that DRI obtains both qualitative and quantitative information from many sources within SA.

That's one version. The other is that the risk assessment has all the credibility of Clive Derby-Lewis's amnesty application. We're not sure yet which one we subscribe to. Behravesh makes some valid points — SA's low forex reserves, slow growth and unemployment. Reserves, while double their pre-1997 levels, are nevertheless low by world standards. And a weak rand will put pressure on inflation, which means continued tight monetary policy, which could hammer growth and employment.

But much of DRI's verdict appears too subjective, including fears about "how strong a leader Thabo Mbeki is going to be". Behravesh asks, "under an Mbeki administration, will the radical factions of the ANC start to throw their weight around?" Unsubstantiated prejudice? Or is this the price the ANC is paying for failing to control its alliance partners? Probably a bit of both.

PLUGGED AS A "SAFE HAVEN" from Asian turmoil only months ago, SA has been getting bad press from a number of angles. Some of it is hard-hitting, rigorous analysis, and rightly shows up SA's deficiencies. Some of it, on the other hand, is a little dicey. Last month a Bank of New York report argued "SA runs the risk of fuelling Indonesia-like rioting if the rand is allowed to depreciate too rapidly, igniting hyper-inflation and food shortages, or economic recession causes unemployment to rise precipitously." Odds of either scenario occurring "are increasing at an alarming rate."

Certainly there's a threat of worse unemployment and inflation. But the Indonesian comparison? As Nedcor's Megan Mistry points out, Indonesia is a food importer, so soaring import prices do create food shortages. But SA is a food exporter. Also, in a deflationary world environment, the hyperinflationary threat is likely to be contained.

A rather odd report by the Merchant International Group is another example of SA's bad press problem. One analyst visited, talked to a few people and looked at a lot of press clippings. The resultant analysis makes no major factual errors, but the emphasis is strange. Economic comment is interspersed with a heavy emphasis on Islamic fundamentalism, references to the plans to turn Hillbrow's Ponte building into a prison, President Nelson Mandela's visit to Libya, the 2004 Olympic bid, the spread of counterfeit goods, and rumours of Hamas militants undergoing training by paramilitary groups in SA.

There is a disturbing sense that some — most emphatically not all — foreign institutions are not allocating serious human resources to analysis of SA. And there is often a perceptible readiness to believe the worst.

Racism is one of the sloppiest of allegations, and SA columnists (not to mention a politician or two) are a little too quick to cry foul. But the fact is, Africa has a bad track record and SA will have to work twice as hard, and achieve twice as much, to be rated equal by Western standards. Fair? Absolutely not. It stinks. But it's a fact of life. There's not a lot we can do about it other than continue trying to get it right — all those things journalists nag about, like strong government and commitment to economic reform. It will also take luck. SA's reform efforts have been hampered by particularly bad luck so far. One can only hope that the worst of the fallout from Asia has passed.

Adrienne Roberts
Duff & Phelps reaffirms SA's investment grade status

(Capetown) 30/7/98

LYNDA LOKTON

PARLIAMENTARY CORRESPONDENT

Cape Town — Duff & Phelps, one of three leading US credit rating agencies, yesterday reaffirmed its investment grade rating of South Africa and said the outlook remained stable despite the recent rand crisis and expected lower growth this year.

The agency reaffirmed its BBB long-term foreign currency and A long-term currency rating of South Africa.

This strong backing of South Africa's creditworthiness, and the strength of the banking sector in particular, is expected to be bolstered soon by a special report from the International Monetary Fund (IMF).

Duff & Phelps said the reaffirmation "balances general concerns about the country's fragile liquidity conditions in the current framework of international financial volatility with Duff & Phelps' more optimistic views on the long-term creditworthiness and the implementation of the government's economic programme.

"Duff & Phelps will, however, continue to closely monitor the developments in South Africa,"

Maria Ramos, the finance director-general, yesterday welcomed the report because South Africa needed at least two investment grade ratings to allow US institutional investors to buy government stock.

The market recently reacted nervously when Moody's, another major ratings agency, said it was reviewing its rating. But Ramos said it had "made it very clear that there is no automatic presumption that a review is equal to a downgrading".

While the reaffirmation was pleasing, there were no immediate plans for a new bond issue.

Maria Ramos, the director-general of finance, welcomes the reaffirmation of South Africa's investment grade rating by Duff & Phelps, a US credit rating agency

PHOTO ANDREW BROWN

STABLE Maria Ramos, the director-general of finance, welcomes the reaffirmation of South Africa's investment grade rating by Duff & Phelps, a US credit rating agency.

A key new bond issue may be raised with institutional investors during the October annual meetings of the World Bank and IMF, but "we just do not need one now".

Ramos said: "If you are in Russia, you need the money to get through this week. We are very lucky.

"We just do not have to do that right now."

Duff & Phelps said that while the Reserve Bank's net reserves had been affected by the 10-week attack on the rand, "they remain near their historical peak and substantially above their level during the 1996 currency crisis".

The central bank also had access to "sizeable credit lines with foreign banks that, if necessary, would safeguard the current level of gross reserves for a protracted period".

The agency said it remained concerned about the lack of progress in labour market reform, low savings rates and "critically low levels of foreign direct investment".

□ Business Watch, Page 2
European investors critical of SA issues

EUROPEAN investors at the Europe South African '98 Business and Finance Forum, held recently in Hamburg, Germany, indicated that they were critical of South Africa's performance in certain areas since 1994.

Building Industry Federation of South Africa (Bifsa) executive director Ian Robinson, who represented the South African building industry at the forum, said that while overseas investors conceded that the underlying economy was sound, there were certain issues that they believed were impacting negatively on the South African economy.

These included privatisation, which they said was taking place far too slowly and should be accelerated.

Investors felt the labour market was too inflexible as a result of the Labour Relations Act, employment standards and employment equity legislation.

The process of black empowerment and affirmative action was taking place too quickly, causing capacity problems, European investors thought.

Lastly, they were concerned that crime and violence were not being addressed adequately, putting a brake on foreign investment.

Robinson said that the comments made were valid. The building industry, as one of the biggest employers in the country, is now moving even further away from direct employment due to the inflexible provisions of the new labour laws.

The employment of sub-contractors and independent contractors was becoming increasingly prevalent, legitimately circumventing some of the provisions in the labour legislation, he said.

Also, while there were many aspects of affirmative action that were positive, the process ought to be accompanied by much more training and development.
Stumbling reform: the key to SA attracting investment

London correspondent Tim coronel looks at why SA is not getting foreign direct investment.

"What goes around comes around." This is the lesson of the 1990s in South Africa. The conditions that fostered the growth of foreign direct investment (FDI) in that decade are now gone, and the absence of new growth drivers means that the country is struggling to attract FDI.

In the 1990s, SA's economy was growing at an average rate of 4% per annum, and FDI inflows were a significant part of this growth. But by the late 1990s, the economy had slowed to a growth rate of around 2%, and FDI inflows had declined to 2% of GDP, compared to 5% in the 1990s.

Investment has been slow to return to the country, and this has been a major impediment to growth. The lack of investment has led to job losses and low productivity, which has further depressed the economy.

To attract investment, SA needs to create a business environment that is conducive to growth. This includes reducing bureaucratic red tape, improving infrastructure, and creating a stable political environment. The country also needs to develop a strong innovation culture to promote new businesses and ideas.

In conclusion, SA needs to act quickly to attract investment and boost growth. This will require a combination of policies that create a stable and business-friendly environment.
US INVESTORS SHUN SA AS RISKY

FOREIGN INVESTMENT Recent weak indicators lead to offloading of bond, rand positions

The rand slipped 2.9% yesterday as economic growth prospects remained low. Foreign investors have been selling SA assets since last month's rand's 11.5% monthly drop, with the rand losing 2.8% in the first six months of this year. This has been attributed to negative sentiment about SA's economic prospects, poor corporate earnings, and political uncertainty.

Local players have also been offloading rand-denominated bonds, with yields rising to 9.3% in a month. This is expected to continue as negative sentiment persists.
Low costs not alluring as foreigners ditch SA bonds

Greta Steyn
20/8/98

MORE than R16bn in SA bonds have been dumped by foreign investors since the market turmoil started in May, leaving net investment for the year thus far at almost zero.

Foreign selling has been a major reason behind the surge in the benchmark R150 yield to more than 20% yesterday. The SA bond market has been weakening in sympathy with other emerging bond markets.

Yesterday’s 135 basis point increase in SA bond yields followed a 100 point rise in the spread between JP Morgan’s Emerging Markets Bond Index (EMBI) and US treasuries.

The latest available spread between the EMBI and treasuries was 1400 basis points — more than double the gap at the beginning of the year. The EMBI comprises mainly Latin American Brady bonds, but also includes European sovereigns such as Russia and Poland.

“The local bond market tends to follow the EMBI more in times of crisis, when the fundamentals take a back seat,” said JP Morgan bond analyst Martien Zuurmond.

Based on the fundamentals, with SA’s inflation rate likely to remain in single digits, SA bonds were cheap. However buyers would stay out of the market until calm had returned.

Government has responded to bond market weakness by issuing less stock next week. Equiscor economist Dawie Rodt said government wanted to curtail the supply of stock while sentiment was weak.

As government had huge interest and loan redemption payments coming up, it would probably need to borrow heavily in the short-term debt market to make up for holding back in the capital market. Short-term interest rates were also high, but government would avoid locking into high interest rates in the long run if it borrowed at the short end of the market, Rodt said.

The rand’s plunge in May set off a vicious circle of bond sales and renewed currency weakness, with bond exchange figures showing that the capital that flowed into SA in the first four months of the year poured out just as swiftly.

Foreign buying of SA bonds peaked at R6.5bn in April, when benchmark bond yields touched a best level of 12.36%. In May, foreigners turned net sellers, getting rid of an average of about R4bn in bonds per month. Interestingly, foreigners have remained net buyers of equities, with the latest figures showing net buying of more than R500m so far this month.

Some analysts questioned whether there was much scope for further foreign bond sales now that the net investment for the year had in effect been liquidated.

Others, though, said that foreign speculators would go on taking short positions in the SA bond market, and bond holdings built up in past years could also be sold as investors dumped emerging market assets and fled to quality.
What hit SA
South Africa's hostile environment puts off foreign markets?

I S N'T it funny how one can go off capitalism? The past week's meltdown in financial markets eclipsed anything that went before, including 1987 when world equity markets collapsed.

As far as the foreign exchange and government debt (bond) markets are concerned, we are now wandering around in no-man's land. Both hit new lows on Friday.

The share market is merely blowing off steam. Some share prices are simply becoming rather more realistic. A move that many feel is long overdue.

Particularly affected were trendy information technology and financial services shares that had become the staple diet of discerning investors looking for a fast buck. Many were hideously over-priced. They were due for a fall. The fact that most are coming off an unrealistically high price probably makes things look worse than they really are.

During the past few months, we have been living in a fool's paradise where one of the few guarantees of instant wealth was to list your company in a fashionable sector on the stock exchange, get a few pliable fund managers to subscribe for your shares and sit back to watch your worth soar overnight.

In the euphoria, many investors forgot that "illusive" wealth was being created. Illusions are apt to fade.

To illustrate: even with global demand for a revolution in pharmaceutical giant Pfizer trades on a price/earnings (PE) ratio of only 33. With this traditional measure of a share's value, a lower ratio represents a lower market rating.

It is the number of years (53) you must wait before recouping in annual earnings what you have paid for the share.

Some of our more recent new issues have price/earnings ratios in the hundreds, despite the fact that the company has no actual product but is investing in "intellectual capital".

That is a new listing buzzword. It means the company only employs brilliant minds. The problem with brilliant minds is that they leave and start their own companies or emigrate. Sometimes they turn out to be not so brilliant.

As an asset, they are not particularly tangible; certainly not enough to justify a PE of several hundred. The more sedate equities (they used to be called blue chips) may not have hit the dizzy heights of the new kids on the block, but they will also be affected by a global sell-off in shares. The difference here is that fund managers may have become more conservative, and will be looking to balance their portfolios with quality shares if they believe they look cheap.

Currency and bond markets are a rather different matter. While nobody is too surprised that the rand hit a new low this week, the market in government debt perplexed everyone. The rate on the seven-year R150 bond touched 21.7 percent on Friday. Most market analysts would have thought that impossibly a few months ago. Even during the debt standstill in the mid-90s rates did not go above 19 percent.

Bear in mind that only four months ago practically everybody (including the Department of Finance) was confidently predicting that the rate at year-end would be somewhere between 10.5 percent and 11.5 percent, and you will begin to understand the gravity of the situation. The market is 10 percent higher than it should be. That adds a lot to the cost of government borrowing, and will undermine this year's Budget.

Various reasons have been touted for...
SA needs internal, immune system.
THE IMF

Trust the doctor to kill the patient

MATT GEIZ

It's time to set the record straight. Lately everybody and their dog have been berating the South African government for its supposedly rotten record — with investors, ratings agencies and world bodies which should know better raising a chorus of disapproval at the government's tactics and strategy and the future of the country.

First, Moody's, the international ratings agency said it was placing this country's credit rating on a negative watch owing to the slow pace of free market reforms, the weak implementation of Gear and an inflexible labour market.

S&P's DRI, a risk consultancy then said South Africa was the second riskiest of 10 largest emerging markets — including Indonesia.

In a September 2 release (from a July 17 meeting), the International Monetary Fund (IMF) slammed the Reserve Bank's futile use of reserves to protect the rand. While giving words of encouragement, it was critical of much fiscal activity. "Measures aimed at enhancing labour market flexibility" it said, "needed to be implemented soon.

"On privatisation, (IMF) directors were encouraged that a genuine start had been made, but saw significant room for a bolder approach."

Earlier this week, David Roche of London-based Independent Strategy wrote a damming article in the Wall Street Journal.

"The right policies are the tough ones: deregulate labour markets, allow wages to fall and the return on investment to rise while maintaining a stable rand," he said.

The article, however, contains errors and a few highly questionable pieces of reasoning. Roche says, for example, that poverty has worsened "despite efforts to run a prudent fiscal and monetary policy". Common sense tells us prudent fiscal policy, which cuts down government spending, and prudent monetary policy, which raises interest rates, would make people poorer in the short term — even on orthodox neoliberal economic reasoning.

"Are these criticisms valid?"

Basically, South Africa, a country struggling with one of the greatest political transitions of the century, is being pilloried for not being enough like the UK and the US. Note that nobody wants us to be like France, where farmers are protected and the state has a heavy hand in industry or Sweden, which gives state support from the cradle to the grave or Germany, where workers have become prosperous through strict labour laws.

We are asked to follow the self-same recipe the IMF has been prescribing for the Third World for more than 20 years, giving countries money for pursuing the "right" policies through such wonderful instruments as the enhanced structural adjustment facility which has about as much meaning as its name suggests.

Despite the objections, South Africa has actually gone quite a long way towards fulfilling the IMF's objectives. Privatisation, though seemingly slow and tortuous, has actually progressed pretty quickly given our unique politico-economic situation. Tariffs, though still high, have been slashed. The budget deficit has come down from almost 12 percent of gross domestic product to 4 percent — comparable to the US in the 1980s, very favourable in terms of the Third World and in fact better than some members of the European Union.

Not far enough, cry neo-liberals and outside investors.

The problem is they think in line with the World Bank and IMF which came into being in 1944 as abhorrent institutions, and which tend to ignore history.

Do people remember that not that long ago 40 percent of employed South Africans received their paycheck from the state? That we had negative real interest rates in the 1980s? That in 1987 Anglo American controlled 60 percent of the stockmarket? And that we had among the most inequitable labour laws in the world? Can all of that change overnight?

In fact, are IMF policies really the way to go?

No less a personality than Joseph Stiglitz, the World Bank's senior economist, said recently that those policies may do more harm than good. African countries are worse off than they were in the 1970s, as are some South American ones.

Yes, said the neo-liberals, but look at the Asian Tigers. Exactly. Indonesia and Chinas cannot feed their populations and Malaysia's economy is shrivelling at the rate of knots. The countries' long-pursued policies of cheap labour at inhuman conditions (think of Nike factories in Vietnam) means the majority of the populations, despite constant promises that the nation would eventually be rich enough to make them all rich, are as poor as ever, with prospects becoming rapidly worse.

In 1996, historian Eric Hobsbawm pinpointed what lay behind the IMF's agenda: "The trouble was that, since the 1970s, the World Bank and the IMF, politically backed by the US, had pursued a policy systematically favouring free-market orthodoxy, private enterprise and global free trade, which suited the late 20th-century US economy as well as it had the mid-19th century British one, but not necessarily the world. If global decision-making was to realise its potential, such policies would have to be changed. This did not look an immediate prospect."

Clearly implementing IMF directives pell mell without regard for the consequences is no answer. But as long as the world is run by supranational investors, who put their money where the return is best, and damn the ethics, we may have no other choice.
A US research consultancy says US businesses have turned increasingly negative about SA in the past year amid concern about management of economic policy, labour productivity, labour relations, crime and violence.

The findings are contained in a report by the independent Investor Responsibility Research Centre, which surveyed 343 company executives in the US between April and August.

Respondents from all sectors of business, industry and mining said they would like to see various changes to the SA economy, including:
- An end to exchange controls.
- A revision of the draft Employment Equity Bill.
- Implementation of measures to combat crime and violence, including reform in the judiciary and police.
- Scrapping the Medicines Act passed earlier this year.
- Stepping up efforts towards privatisation.

As in their responses last year, top company executives called for an end to exchange controls as the single most crucial change they want the SA government to make.

The majority of manufacturer investors recommended that the government revise the Employment Equity Bill.

Peter DeSimone, author of the survey, conducted between April and August this year, said the response of US executives was "noticeably more negative".

The survey was conducted at a time when SA was receiving mixed reviews from ratings agencies and undergoing a currency crisis, DeSimone said, adding that news of Tito Mboweni's appointment to the Reserve Bank filtered through during the survey period.

He says all this may have contributed to the shift in perceptions in 1998. "Foreign companies, for the first time since the FIRR began conducting its annual perceptions survey in 1996, rated economic conditions this year worse than last. The respondents were also more likely in 1998 to rate the state of the economy as poor or satisfactory than in years past."

However, a slightly higher percentage of respondents said they planned to invest in SA in 1998. DeSimone says: "Although executives are expressing greater concern about doing business in SA, slightly more than 40% of the responding companies said they had plans to make investments this year, virtually unchanged from the 39% answering affirmatively to the question in 1997 and 1996."

He says the question does not ask respondents to detail the size of their planned investments, so the level could well decrease this year from past years.

A number of pharmaceutical companies raised concerns over the Medicines Act since, in their view, it enables the SA government to infringe on trademarks. The Act prompted the US trade representative to place South Africa on its intellectual property watchlist last month. However, sources in the US argue that the SA government is not going to violate intellectual property rights through parallel imports, since the same registered brandings will be procured internationally at cheaper prices.

Of the companies that already have direct ties with SA, 51% said they were likely to make investments in SA in 1998, up from 48% in 1997 and on a par with 1996.

Significantly, 14% of companies with non-equity ties to SA said they would establish a direct presence this year, up from 11% in 1997. "Given the global economic malaise besetting most emerging markets, one might have predicted that SA would have fared about the same this year as last in ratings comparing it to its economic peers." However, respondents' rankings for SA in comparison with other emerging markets dropped this year for several reasons, including policy management; labour productivity; labour relations; crime and violence; competition law; currency stability; social cohesion; rural electrification; taxes on donations; and telecommunications deregulation.
SA Losing the Battle for Foreign Investment, 1974
Foreign firms like SA less

Johannesburg — Foreign direct investment in South Africa should be stronger this year than in 1997, but foreign firms are becoming more negative about the government and the economy, a recently released survey shows.

The 20-year-old Southern African service of the US-based Investor Responsibility Research Center polled more than 2,000 companies which either have business in South Africa or export to the country. The largest number, 751, were US companies, followed by 288 from Britain and 245 from Germany.

Since last year, perceptions of the country have become much worse. Only 26 percent of respondents (down from 48 percent last year) said the government’s policies were better than those of other emerging markets.

The percentage of those who said local policies were worse rose from 9 percent to 15 percent. “They’re not happy with exchange controls and believe they should be lifted at once,” said Peter DeSimone, the manager of the Southern African service.

“They’re also very unhappy with employment legislation, like the quotas in the Employment Equity Bill,” he said.

“They think it will detract from foreign investment and will cut rather than raise jobs.” Indeed, labour is a problem: 51 percent (up from 37 percent) of respondents rated local labour less productive than elsewhere; 41 percent (up from 34 percent) said labour relations were worse here.

But only 19 percent saw revising the Employment Equity Bill as paramount; 43 percent thought getting rid of exchange controls was more important, though many economists have said an immediate removal would add to currency instability.

Despite the negatives, 40 percent of respondents — virtually unchanged from last year — said they planned to make investments here.

Mining and manufacturing firms were most likely to plan investments, especially in chemicals and transport, where firms have been aggressive investors for the past 15 years.

But there was a wide divergence by country of origin: only 36 percent of US firms intended investing, against 83 percent of British firms, 89 percent of Germans and 99 percent of Swiss.

“The US will still be a very large investor next year,” said DeSimone. “That they are less likely to do so than the Europeans is a big change from years past.”

Stripping out last year’s sale of Telkom, worth about R5 billion, foreign direct investment in 1997 fell about 2 percent last year from 1996.

But DeSimone said it would probably be stronger this year: “We’re watching the figures closely. But the year’s not over yet.”
JSE LIVE Biana Meyer, managing director of Interactive Investor SA (left), and Sherry Coutu, managing director of Interactive Investor International. Coutu says the new site will give investors ten times the information in a tenth of the time, at no cost.

JSE @ http://www.iii.co.za

RENEE BONORCHS 17/9/98

Johannesburg — A comprehensive investment and financial information website was launched in South Africa yesterday. Set up by Interactive Investor International (III), the site — http://www.iii.co.za — gives investors free access to live JSE prices for the first time in the country.

III's UK website has been rated by the Wall Street Journal as the top source of European financial information available on the Internet.

"Building on over three years of success in the UK and Asia, the SA site is expected to quickly attract a similar standing in South Africa," said Sherry Coutu, III's chairman.

All information on the site is free and includes news and information from thousands of sources. "Interactive Investor will become an essential site for those investing in South Africa. It allows investors to gather ten times the information in a tenth of the time, at no cost," Coutu said.

The site offers performance histories of over 6 000 offshore funds from 50 financial centres worldwide, full stock listings from the world's top six stock markets and a daily news summary of South African media. This uses Business Report as a prime source of information.
Swedish investors invade the Flats

Moses Mthethulel MacKay

The Swedes are going where few South African businessmen have dared: they are targeting the Cape Flats townships for investment and tourism.

A group of 18 Swedes toured the Cape Flats this week looking for financial and tourism opportunities and went home confident that they could do business there.

They also discovered that townships like Khayelitsha were not as dangerous to visit as they had been led to believe.

One of the visitors, Niko-Ake Rehnström, said 18 top-level people involved in a management programme in Sweden had visited the Flats.

“We have seminars, projects and educational tours where we visit other cultures. We focus on management in a changing world. We decided to go to South Africa because it is a changing society.”

He said the group had visited small and big companies, institutions and the townships.

He said the group would return to Sweden where they would promote tourism and investment in the Cape Flats townships.

Another visitor, Helena Lindblad, said she loved Cape Town because of its good wine and food.

“It’s an amazing place to visit.”

Themba Mgobozi, the chairman of development at the Tygerberg Tourism Bureau, said he was excited about the visit because the potential investors came from different sectors of the Swedish economy.

He said the visit had dispelled negative perceptions of township life - they had even been warned in Sweden they would playing with their lives if they visited black townships.

The Swedes were shown the site, between the Graceland and Eluphumleni residential areas in Khayelitsha, which has been earmarked for the development of a central business district.

They also visited Monwabisi beach, Makhaza informal settlement, a local community creche and the Look Out Hill at the corner of Merway and Spine Road, which has been earmarked as a tourist attraction.

“Our visitors were surprised and excited,” said Mr Mgobozi.

“They said people were developing themselves in spite of scarce resources. They told us they would return to Khayelitsha in the near future. They see the visit as a beginning of things to come.”
Corruption Barometer puts off investors
Arms deal conjures up investment billions

Government is projecting a counter-trade windfall of about R50-billion in the wake of an arms binge, writes HENRY LUDSKI

In a significant departure from its original intention, government has steered clear of linking the industrial participation deals to social development programmes. Instead, it has gone for a broad range of hard manufacturing industries focused on exports. These include stainless steels and titanium mills, the manufacture of clothing, textiles, jewellery, cellular phones, chemicals and commercial helicopters; automotive, electrical, satellite industry and aircraft engine components.

Shahkh said the industrial participation deals would "take care of the local defence industry" — 40% of the work and sourcing equipment would be done in SA.

Since arms manufacturers from shortlisted countries Britain, Canada, France, Sweden and Spain and Italy submitted their final offers about four months ago, the rand has lost about 20% relative to the dollar, the currency denomination of all procurement deals.

This, together with a slashed defence budget, has already led to the Defence Force substantially scaling down its force requirements and purchasing plans.

Shahkh said one of the purchases had already been dropped from the list of purchases being proposed to Cabinet, but refused to disclose what had been shelved.

Jakkie Cilliers, defence analyst, said many of the purchases the defence force proposed a year ago in terms of its "preferred force design option" had now become unaffordable. Although the industrial participation deals were legally binding agreements, figures about their investment value "had to be taken with a pinch of salt".

The industrial participation proposals on new investment, job creation, technology transfer and black economic empowerment were evaluated against a list of 22 priority areas compiled by the Department of Trade and Industry.

Companies were required to show how they would commit at least 50% of the value of the tender to the defence industry and the rest to non-defence industries.
Anglo quitting JSE after R58-bn merger

Johannesburg - Mining giant Anglo American is to move to London and Johannesburg Stock Exchange today as the company's UK operations lists on the London Stock Exchange to raise £588 million.

Anglo American is the second largest mining company in the world after Rio Tinto. The anglo American shares are expected to rise at least 5% on the London Stock Exchange today.

The move follows a decision by the company's board to relocate its headquarters to London in order to improve its corporate governance and to better comply with UK regulations.

The merger of Anglo American and Lonrho, which owns Lonmin, will create a new multinational with a market capitalization of over £50 billion. The new company, Anglo American PLC, will have operations in 50 countries and employ over 100,000 people.

The move to London is part of a strategy by the company to strengthen its position as a global mining company and to improve its access to finance and capital markets.

The merger is expected to be completed by the end of the year, and the company is expected to announce its full-year results in early 2000.

The move to London is also part of a broader trend of internationalization in the mining industry, as companies seek to expand their operations and access new markets.
Jobs trail behind foreign investment

WASHINGTON CORRESPONDENT

Washington, DC — South Africa had been making significant gains in attracting foreign direct investment (FDI), pulling in more than $7.17 billion last year alone, but rises in sales and assets were not matched by growth in employment, a survey said last week.

The Investor Responsibility Research Centre (IRRC) said in its survey of multinational business activity in South Africa that the country enjoyed a 14 percent increase in FDI over the 1996 level. However, in 1997, the level of foreign firms’ re-investing earnings in South Africa, by far the largest component of South Africa’s total FDI, fell for the first time since the country’s ... elections in 1994,” said Peter DeSimone, the IRRC’s labour analyst.

“This shortfall was more than compensated in 1997 by a $2.76 billion surge in new inward investments,” he said of the survey of 991 firms based in South Africa, conducted between April and August this year.

“But more than half of that can be attributed to a single mega-deal, the $1.25 billion US Malaysian bid for the partial privatization of Telkom.

“Foreign firms, on average, saw their sales rise 8 percent and their assets 5 percent in 1997.”

However, he said: “The increases in overall investment, sales and assets were not matched by growth in employment.

“Most foreign firms shed workers from their ranks last year, and the total number of employees at foreign firms in South Africa increased only slightly more than 1 percent.”

Manufacturing firms were among the most over-represented and distribution companies the most under-represented by sector. Respondents from the UK and US were among the most over-represented by nationality and German firms the most under-represented.

The largest asset growth occurred in the communications and transportation sectors.

The largest shift occurred in the communications and transportation sectors: those firms held 31 percent of all assets owned by foreign firms in South Africa, compared with 19 percent in 1996.

Assets held by foreign manufacturing firms rose to 55 percent of the aggregate total in 1997 compared with 49 percent in 1996.

Foreign mining firms held only 7 percent of the total assets owned by multinational firms in South Africa, down significantly from 24 percent in 1996. — Independent Foreign Service
New Bill aims to provide a ‘cleaner shop’ for investors

PARLIAMENT on Friday approved legislation to clamp down on widespread insider trading in a move which the Government hopes will make the country’s financial markets more attractive to international investors.

“The Bill will bring the prohibition on insider trading in this country on par with international legislation,” deputy finance minister Gill Marcus told Parliament.

The Bill prohibits direct or indirect dealing by any person who knows they have inside information and also bans tipping off another person to influence their trading.

Ben Turok, a member of Parliament’s finance committee, said the former apartheid state had fostered a kind of crony capitalism through the Broederbond.

“International investors are complaining all the time about the ethics in our own markets here,” he said.

**Totally delighted**

Johannesburg Stock Exchange legal counsel Nicky Newton-King said: “We’re totally delighted. I definitely think this will make the markets more attractive. The cleaner our shop is, the better we look.”

The Insider Trading Bill will cover all financial markets and instruments, rather than just equities as in current legislation, and will introduce the possibility of civil prosecution as well as criminal litigation.

Anyone convicted of a criminal offence under the new law will be liable to a fine of up to R2 million and imprisonment for up to 10 years.

The Financial Services Board will be the new regulator of insider trading. It will have investigative powers including the right to seize documents and ask questions.

The new legislation comes hot on the heels of the decision by financial group Gensec Asset Management to suspend one of its traders and launch an investigation into share price movements on the Johannesburg Stock Exchange.
Investment in SA doubles

John Dludlu

FOREIGN direct investment in SA more than doubled last year from $760m to $1.7bn, making it the largest recipient of foreign capital in Africa despite the Asian crisis, says a United Nations (Unctad) report.

The World Investment Report 1998, a survey by the UN Conference on Trade and Development (Unctad) of investment trends in the past year, says the increase in SA's rate of direct investment reflects inflows associated with a few privatisation-related deals.

Most inflows came from the UK, US, Malaysia, Germany and Japan.

SA transnationals accounted for $2.3bn in outward direct investment compared with just $57m in the previous year.

Transnational corporations poured about $4.7bn worth of capital into Africa outside of SA (1996: $4.8bn). SA's corporate giants Sappi, SA Breweries and Barlow are on the list of top transnationals from developing countries.

Foreign direct investment to all countries rose 19% to $400bn.

Unctad secretary-general Rubens Ricupero said the Asian financial crisis did not seem to have greatly affected foreign direct investments or the further liberalisation of investment policies.

He said governments wishing to lure new investment faced new challenges. The traditional determinants of investment -- including the need for access to markets as well as natural and other resources such as skills -- were still crucial. However, "created assets" such as financial and physical assets (communication infrastructure or marketing networks) were playing an increasingly important role in investment.

Unctad said SA's inflows in the first half of this year were driven by privatisation, but might also have been the result of restructuring and unbundling of large SA conglomerates.

Foreign direct investment unrelated to privatisation seems to have decreased last year from 1996's levels.

The bulk of SA's investment fortunes, about 60% of total flows, was in the form of mergers and acquisitions.
Crime and gangs sink R3,2-m US venture

ARGUS CORRESPONDENT

Grahamstown – A large American company has pulled out of a multi-million-rand investment in Cape Town because of gangs, street children, crime and an unkempt business district.

Cape Town estate agent Len Pears said Los Angeles-based New Wave Incorporated was hours away from finalising an offer to lease 1 200m² of space in Strand Street.

But New Wave director Michael Criddle had lost confidence in the soundness of the CBD’s business future.

Mr Pears said he had been working extensively with Mr Criddle since May to find accommodation to launch his company in South Africa.

The firm runs up-market cabarets and restaurant clubs and Cape Town was to have had the first of three sites in South Africa.

Mr Criddle was in Cape Town in October to sign contracts and finalise

the opening, but had become disillusioned with the city’s degradation and crime.

On November 8, he cancelled the project and returned home expressing concern about the city’s future.

Mr Pears said the five-year lease for the premises had been worth about R3,2-million.

Mr Pears said the incident should serve as a serious wake-up call for Cape Town’s city councillors and the Government.

“The Americans thought Cape Town was absolutely stunning and from a tourist perspective, one of the most attractive cities in the world, but they were shocked at the depth of crime, the increase in street children, the filth in the streets and the increase in gang wars since they first visited in May.”

Mr Pears said they intended to review the situation in 12 months, but had made it clear that any improvement would have to be substantial to attract their investment.
FOREIGN DIRECT INVESTMENT

SA reaps the high cost of low confidence

SOUTH AFRICA IS THRIVING FOR FOREIGN CASH TO MODERNISE ITS SPARROW-SIZED ECONOMY AND CREATE THE HIGHER GROWTH IT NEEDS TO FIGHT POVERTY AND HIGH UNEMPLOYMENT.

The good news is that investment appears to be mounting, though slowly.

The bad news is that there is also evidence that foreign confidence has slipped, threatening vital long-term spending plans.

Worries about low productivity, militant labour unions, crippling local borrowing costs, sluggish growth and high crime levels have cooled the corporate enthusiasm that blossomed with President Nelson Mandela's historic 1994 election victory.

The findings of two surveys show a worrying fall in confidence, caused not least by perceptions that the ANC government is unable to deliver the changes it promised.

Foreign direct investment (FDI) is crucial to fill the gap between national savings and what South Africa needs to finance spending and investment, measured by the current and capital accounts.

Foreign capital invested in its bond and stock markets in early 1998 allowed the country easily to cover this funding shortfall, but when emerging markets toppled, much of this money fled, particularly from the debt market, exposing South Africa and sending the rand into free fall.

South Africa attracted $1.7 billion in FDI in 1997, according to Reserve Bank data released in a UN world investment survey on November 18.

Lifted by privatization proceeds, this doubles the level achieved in 1996 — not bad compared with the $4.7 billion attracted to the rest of sub-Saharan Africa last year.

But it is still too low, not least because some major South African companies are heading in the opposite direction to spread their earnings base — notably Anglo American, which will move its headquarters to London next year.

Foreign companies eager to do business with the government are circumspect in their criticism, voicing only muted concern over recent labour legislation, which they claim will raise the cost of doing business in South Africa.

But trade organisations pull no punches, saying South Africa is not doing enough to court foreign business.

The fifth annual survey by the German Chamber of Commerce found that German firms in the country rated South Africa's economic situation as worse than ever before.

Only 49 percent of the 168 respondents were positive in their assessment, compared with 66 percent last year.

"The fall out of the slump in confidence transpires when one compares the current results with those of the third survey (in May 1995)," the chamber said.

"In some areas the negative rating has more than doubled."

The private survey was conducted in July and August and put together in September. Its findings echo the work of the Washington-based Investor Responsibility Research Center, which found that only 52 percent of its 338 respondents rated the government's performance above that of other emerging markets, versus 46 percent in 1996.

"These are worrying signs that US business is beginning to turn negative," said James Myers, the president of the American Chamber of Commerce in Johannesburg.

"We know of companies who are turning down project proposals for South Africa."

"US companies are starting to ask, why invest in South Africa when there is no indication from the government that it is willing to discuss the issues."

Some firms, such as soft drinks company Coca-Cola, have posted strong regional sales growth and boast an extremely optimistic outlook.

Others quietly confess to grave doubts.

 Dow Chemical has invested nearly $1 billion in South Africa in the last two months, it employs 3,000 people, building a business it hopes to use to export to the entire southern region.

Joachim Schoch, who heads Dow's operation in South Africa, reckons the government is sincerely in its efforts to implement change and is moving in the right direction.

His company remains on the acquisition trail — it has been linked to the planned unbundling of chemicals group ARC — and is generally optimistic.

But Schoch warns that there are areas of concern.

Far from the lucrative export markets of Europe, North America and Japan, South Africa badly needs local economic activity to support domestic demand and supplement the promise of selling to the rest of the region.

"South Africa's economic engine is beating a little too slowly," Schoch said.

"Economic growth, officially forecast at just 0.2 percent of gross domestic product for fiscal 1998-99, is too weak. Violent crime is discouraging wealth creators from staying here."

More than one-third of the workforce is without formal employment, deepening poverty and fuelling the crime which is driving skilled South Africans and their crucial savings out of the country.

Schoch said he wished trade unions would adopt a "more pragmatic approach" in dealings with management.

Critics claim that labour has been slow to evolve from a revolutionary force forged in the anti-apartheid struggle.

"There is a tremendous waste of effort spent on political posturing between the unions," said one foreign company boss who declined to be identified.

"The movement here is like Europe during the late 1970s and early 1980s." — Reuters
Foreigners upbeat despite GDP data

PETER GALV

New York — Foreign investor bullishness about the positive effects that Sanlam's demutualisation and listing would have on the South African economy went a long way towards offsetting the negativity that followed last week's release of worse than expected third quarter gross domestic product (GDP) figures, traders said at the weekend.

Mark Kalil, a dealer at Standard Securities New York, said: "Sanlam's listing has been very well received by US investors. They are confident that the demutualisation process, coupled with the increasing international expansion prospects for so many South African companies, will be most beneficial in the long term.

"It should also enhance liquidity on the JSE in the years to come and lead to far more dynamic market factors. The move away from the traditional market environment as South Africa becomes all the more globalised has been very well received by US investors."

A strategist at a New York investment house agreed, saying US fund managers were bullish about the effects the injection of cash would have on the economy after the listing.

"They expect the cash flowing from demutualisation to have a positive effect on private debt levels and to boost retail spending levels, resulting in a 'feel good' factor in the market," he said.

But GDP growth, which contracted 2.3 percent in the third quarter, surprising most analysts and economists, unnerved offshore investors. A salesman at a South African trading house based in New York said those figures were not well received.

"Investors are becoming increasingly concerned about the outlook for the economy and wary of those companies whose business is directly affected by the level of gross domestic fixed investment. The latest slowdown in GDP has not helped matters much," he said.

But Kalil was more upbeat, saying it was too early for concern. "While third-quarter GDP has contracted, it is necessary to wait for the next quarter's numbers before assessing their impact on the economy."

The salesman said the markets would be watching Wall Street and the repo rate closely this week for further direction.

The repo rate continued to fall last week, buoying talk that another interest rate cut could be on the cards. The release of October's money supply and private extension figures this week should give a clearer indication of just how likely that is.

"The strategist said financial shares like Absa and Nedcor appeared to be back in favour with US investors, but there was reduced demand for SAB, the brewer, as speculation dragged on over its corporate restructuring and shareholding structure.

"There is also renewed nibbling at select retail stocks, particularly as interest rates are falling and demutualisation should result in a flurry of spending," he said.

Kalil said that he expected share prices to consolidate around current levels over the next few weeks, and the rand to trade between R5.60 and R5.90 to the dollar.

"The outlook for the year ahead looks positive. Given the upbeat investor mood towards emerging markets and the turnaround in US investor sentiment, we can look forward to an encouraging year-end and an upbeat new year," he said.
FOREIGN TRADE

FOREIGN INVESTMENT

Feb 1999
UK firms recruited for SA export drive

Business Day Reporter

THE Coventry Chamber of Commerce has recruited 20 British companies for a trade mission to SA, starting today and continuing until February 12.

The group, led by Mark Eaton, will visit Johannesburg, Cape Town and Durban.

Products and services promoted include education and training, business consultancy, light engineering, prefabricated assemblies for airports, software, magazine publishing and cash-counting equipment. Representatives of conference organisers and trainers will also participate.

Eaton said the chamber's export-promotion activities would be specifically focused on SA for the period until 2001.

"The mission follows the chamber's tradition of backing companies keen to break into new export markets. Some delegates will be seeking joint venture partnerships."

For information, call Bernie Charles, British consulate-general, tel (011) 327 0015; fax (011) 327 0152.
to a weaker US dollar, pressure on liquidity and US financial markets, and a limit on the downturn in US interest rates as the risk premiums demanded by global investors rise. These distortions should cause a rapid decline in US economic growth in 1999."

At that point, US — and therefore international — interest rates may start falling. But a falling US economy won’t do the rest of the world any good while it waits for the effect of lower interest rates to kick in.

SA must attract a larger share of global resources. One major obstacle to growth is the ossification of the labour market. Two pieces of legislation, the Labour Relations Act and the Basic Conditions of Employment Act, have boosted wage and non-wage costs of production over the past two years. This has squeezed return on investment — a disincentive to investors. And it has forced large numbers of people out of jobs to accommodate the increased costs involved.

The effect has been a double whammy for the SA economy as demand for capital investment has added to the upward pressure on interest rates at the same time as it created unemployment.

As long as interest rates aren’t going to work for the economy, political leaders will have to do the job instead. A new approach is needed urgently — to sweep SA out of its cyclical trough and on to a higher growth path.

— Ethel Hazeldine

FRUIT EXPORTS

CAPESPAN FEASTS ON THE RUSSIANS’ APPETITE

SA to press its demands for tariff reforms in upcoming talks

Russia’s winter has famously defeated the Invasions of Napoleon and Hitler. But there’s one invader the snow and cold have never been able to repel: fresh fruit. It cannot be grown in Russian orchards and hot-houses and must be imported from abroad. It is this appetite for fruit on which SA’s leading fruit exporter is banking.

Capespan has ambitious plans for Russia as the main market for SA fruit in Eastern Europe. It’s a trade worth at least US$40m annually. To push beyond that, Capespan has started planning for a new state-of-the-art fruit terminal in St Petersburg port — an investment that may cost up to US$30m.

The company’s ambitions survived the serious setbacks of last year, when deregulated export marketing prompted SA fruit growers to flood western Europe to such an extent that prices collapsed. That binge cut volumes available to Capespan to trade to its eastern European buyers, says the company’s former eastern Europe marketing manager, George J Toens. "We should have kept our commitments in Eastern Europe and predicted what happened," he says.

What might have been a windfall for price-conscious Russian buyers didn’t turn out that way, because in mid-August, the Russian government abandoned the rouble, defaulted on its treasury bonds and drove the commercial banking system into bankruptcy. The import trade in fruit and most other foodstuffs virtually halted in Russia until November.

At its peak in 1997, Capespan sold 85 000 t of citrus, grapes, apples and pears worth about US$40m to Russia. In 1998 its trade volume fell by almost half.

Capespan didn’t lose money from defaulting buyers, as did many other traders, but the Russian crisis, followed by food price rises across the board, put a crimp in Russian consumer demand for fresh fruit.

Analysts are predicting stable demand for fruit in 1999, but with higher prices and sales revenue.

“This year we will work according to the circumstances,” says a Capespan representative. "The grape season has started, and usually SA grapes sell well in Russia.

The smallest increase in sales volume would yield an additional US$20m and lift profits by 50% from last year’s levels."

In February and March, when prices go down in Western Europe, andApril sales peak, the buying capacity is less than before, but the market is normal. Capespan ranks as SA’s leading exporter to Russia and leading exporter to the rest of Eastern Europe. The country’s current Centralised System of Export Control (CSE) is applied to all Eastern European countries. A new plan to increase supply and reduce prices by 50% over two years is made possible by the expansion of Russian infrastructure to improve the speed and efficiency of transit and commercial conditions. A new terminal in Russia would allow a 50% reduction in transit costs, and a new port facility in St Petersburg would provide a 50% increase in export capacity.

To boost its long-term position in the Russian market — which is already the largest consumer of SA fruit in Europe — Capespan is resuming work on its new terminal in St Petersburg, which was suspended two years ago. The Russian consumer market is a strong one, and the new terminal will help SA’s other customers.

Capespan also imports from Brazil, Argentina and China, and competes against SA fruit in other Russian markets. Its new terminal in St Petersburg would enable it to compete against South American fruit in the Russian market.

To cover the possible shortfall of fruit from South America, Capespan is looking into increasing its trade with Russia to meet its sales targets.

Capespan already has a terminal in St Petersburg, which will be expanded in the future, and it is looking into building a new terminal in Moscow to cover the possible shortfall of fruit from South America, Capespan is looking into increasing its trade with Russia.
DIAMOND EXPORTS

THAT GLEAMING WILL-O’-THE-WISP, IS IT TRULY FOREVER?

The answer to the issue could have far-reaching implications

de the bust-up between De Beers and the government diamond valuator involves diamond sales worth R5.8bn/year and threatens De Beers’ relationship with government.

De Beers has stopped exporting diamonds while it tries to resolve the dispute with the valuator. A task team set up by Mineral & Energy Affairs Minister Pretoria Maduna to investigate the issue reported back to him last Friday. Copies of the report are being circulated to Cabinet Ministers and Maduna may make the outcome public on May 6.

The freeze on De Beers exports has lasted four weeks — a potential loss of about R480m (US$80m) in foreign exchange earnings. The hluxus also has implications for De Beers’ partners in mines, such as Canadian junior mining company Southern Era, Anglovaal Mining and Industrial & Commercial Holdings (ICH).

Southern Era is De Beers’ partner in the small Marsfontein mine. De Beers is lending the company money to help it through the disruption in sales. Anglovaal and ICH receive 50% of the profits from SA’s largest diamond mine, Venetia, which last year accounted for 4.5m of the 9.7m carats produced by De Beers in SA. Their share of the profits is paid over half-yearly by De Beers.

Anglovaal MD Rick Menell says “so far there has been no effect on us and I believe this dispute will be settled quickly because it’s far too important for the country and the industry to be allowed to continue”.

The core of the dispute with government centres on what the price of a rough diamond should be. The short answer is: “it’s what De Beers wants it to be.”

De Beers controls about 76% of the world diamond trade. It sets prices by controlling the amounts of diamonds it sells at the 10 “sights” held annually in London through the Central Selling Organisation (CSO). The long-term policy is to maintain stability and steadily raise prices in the diamond market.

To do this, the CSO buys and stocks piles of diamonds from its contracted producers when times are bad.

It will sell these surplus diamonds into the market at a later stage during boom conditions so as to prevent the price of diamonds rising too rapidly.

De Beers spokesman Tom Tweedy says the CSO’s pricing structure is set “to ensure its clients will make money” and “it changes at 10% fee for its services to the diamond producers.”

The volume of diamonds sold by De Beers ultimately determines the price on the “open” diamond market in Antwerp, Belgium, where the new government diamond valuator, Claude Nobels, is headquartered. The previous valuator was SA firm Proval.

Tweedey says the job of the valuator is to agree on the sorting and grading of the diamonds, which then translates into standard CSO selling prices.

But SA Diamond Board CEO Victor Sibiya says the government valuator’s role involves more than mere grading, and brings in the concept of fair-market value. The new valuator challenged the valuation of a parcel of Marsfontein diamonds, apparently because it was below the going Antwerp prices.

Barnard Jacobs Mellet diamond analyst James Allen says “the price in Antwerp at the moment is probably higher than the CSO list prices, but that’s because the CSO is holding back diamonds from the market to support prices.”

“Last year Antwerp prices were generally below the CSO list prices because there was a surplus of diamonds on the market. At the end of the day the price of a diamond is determined by the policy of the CSO, which is sitting on stocks worth $4.8bn ($30bn) at present,” he says.

Implicit in the valuator’s challenge is the accusation that De Beers could be indulging in dumping pricing by understating the real value of diamonds exported from SA.

The allegation is not new. It has been made before in SA and Namibia and has consistently been rebuffed by De Beers.

De Beers does lay itself open to this kind of accusation because it is a cartel and the diamond industry, by its nature, is not transparent. You cannot open your daily paper and check the price of rough diamonds as you can with gold or platinum.

If pricing is being done to lower prices, it will have reduced the revenues reported and taxes paid by De Beers mines in SA, and allowed De Beers to take extra profits offshore through higher diamond prices set by the CSO.

Tweedey says this does not happen, because the revenues earned accrue to the SA mines only when the diamonds are sold by the CSO and the proceeds are then repatriated to SA, minus the 10% fee.

Other SA diamond producers like Trans Hex, Benguela Concessions and Ocean Diamond Mining (ODM) are not affected by the dispute because they do not sell through the CSO.

Their production is either sold on tender in SA, or through Antwerp, and the foreign revenues are repatriated. Trans Hex operations director Peter Danchin says “we offer all our goods initially in SA on a tender system with a reserve price which is the going rate in Antwerp”.

The dispute is embarrassing for De Beers and carries political overtones. Last week Maduna criticised the prices being received by State diamond company Alexkor, which sells through the CSO. In February the management contract for Alexkor was awarded not to De Beers but to the Nabera consortium.

De Beers had made a strong pitch for that contract and many analysts say it was by far the best-qualified bidder. Now the government valuator is challenging its pricing policy. You have to wonder is this mere coincidence or is De Beers being punished?”

Brandon Ryan
Maduma to plug diamond export gap

Diamond industry should be as
exposite as the platinum industry.

The government should concentrate on
the domestic market to

promote the industry.

JOHN ROUSHALA

Business Report, Thursday, May 6, 1999
Fund would be used for research, a market information system and promotion.

Most SA wine exporters agree to pay.

Levy
SA NEWS DIGEST

VEHICLES

Naamsa figures show modest 23% increase in first-quarter car exports

Exports of cars produced in South Africa rose 23.2 percent, or by 1,879 units, to 9,861 units in the first quarter of this year compared with last year, according to figures released this week by the National Association of Automobile Manufacturers of South Africa (Naamsa).

But the Naamsa figures showed the increase in total vehicle exports during this period had been modest. Total exports of vehicles during the quarter rose 14.5 percent to 11,806 units, compared with 9,831 units in the corresponding period last year. Naamsa said a decline in exports of light, medium and heavy commercial vehicles was responsible for the reduced total vehicle export figure. Light commercial vehicle exports slumped 26.4 percent to 1,162 units during the period under review compared with 1,555 units last year, while medium and heavy commercial vehicle exports dropped 19.9 percent to 1,301 units from the 1,611 units exported during this period last year.

C. (BR) 7/6/99
MANUFACTURED EXPORTS

HOW TO CRACK WORLD MARKETS

A new breed of exporters is learning what it takes to be global competitors

When Pinetown manufacturer Bruce Motham started selling pine doors and shelves to the DIY market in the UK about 12 years ago, the first barrier he encountered was the perception abroad that South Africans are unreliable exporters. The company was acquired by the multinational company Steinhoff International in 1994.

The small company he founded in 1985, Moxwood, is one of a new breed of exporters who know that if they are to succeed they must be seen as world players, willing to take risks in the most demanding of markets.

Nasni Adams, who surveyed 87 exporting companies in 1997 while taking his MBA degree at Witwatersrand Business School, found a strong correlation between proactive, focused exporting and success.

One hurdle aspiring exporters encounter when they enter new markets is identifying what consumers in the wide and diverse world will spend their money on. Simply rerouting surplus stock to the competitive world market is a formula for failure.

Western Cape-based Consani Engineering didn't make this mistake. The company was heavily involved in domestic capital expenditure projects until the mid-Eighties, when a capex famine struck SA and "80% of the company's workload disappeared overnight," says MD Willem Kotze.

"When we decided to export, we conducted an international survey to find new uses for our technology."

Consani turned to the manufacture and export of stainless steel containers for transporting liquid; its venture was prompted by the fact that investments in containers was one of the few legal ways to invest abroad.

Consani sold to local individuals and investment groups who leased or sold the containers to end-users abroad.

The relaxation of exchange controls a few years ago proved a temporary setback, says Kotze (see Consani story and graph). "But we aggressively tackled the international market directly, and over the past two years turnover increased 30%.

A subsidiary of Murray & Roberts, Consani has been in business for more than 70 years. But it, too, is a new generation exporter, driven to succeed in the international arena.

Adams's research confirms that successful exporters spend money on research — and they are prepared to modify their production processes, or set new ones in motion, to develop the products they identify as winners.

This practice distinguishes them from less effective exporters who choose to supply merely what they are already making because they are reluctant to put money into research and development and are afraid to risk new capital expenditure.

Successful exporters share another characteristic, says Adams. They understand the importance of setting up and maintaining an effective distribution network before they start sending their goods into a new market. Some companies even set up subsidiaries abroad to handle distribution.

Wholesale flower bulb manufacturer Hadeco, established 54 years ago by two immigrants from Holland, had a ready-made advantage when it started exporting to Holland. That country has a natural

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GAINING A BEACHHEAD

% of total world output of IMO1 containers

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CONSANI ENGINEERING

Established 1928 as an engineering company in domestic construction. In mid-Eighties when SA infrastructure projects dwindled, it surveyed the industry internationally to find new uses for its technology. Started making IMO1 stainless steel containers for transporting liquids. Exporting since 1985 and reports annual compound growth of about 8%. It has a 25% share of the world market. Cites extensive service, capability abroad as a critical contributor to its success in export markets. Major users are companies in Europe and North America. About 60% of its revenue is derived from the export market. Forecasts a softening over the next six months, a lagged response to slower growth in some markets. Predicts recovery later in the year.

Employ 1,000 people.
flower bulb distribution network, says production director Stuart Barnhoorn, a descendant of one of the founders.

Unlike many SA exporters, Hadeco was familiar with its first export market — Europe — and its skill lay in competing in it from the southern tip of Africa.

Managed by direct descendants of founder Floor Barnhoorn, the Roodepoort-based business exploits its seasonal advantage over the northern hemisphere, particularly over the Christmas period. It also exports competitively to Latin America and Australasia, which produce similar products.

An area where SA has scored some of its greatest successes is technology. To succeed in this sector,

Afinta Motor Corp.
Manufactures trucks and buses from components imported from Japan, China, India, Thailand, Indonesia, Brazil and Spain, at bulk prices. Assembles them at a factory in Isando, near Johannesburg, and in South Africa.

Multisourcing of components gives it a cost advantage over competitors and it is able to undercut better-known brands in the market.

Started exporting to other parts of Africa through franchisees in 1997 and in 1998 exported about 20% of its output. Aims to export about a third of output. Revenue from exports is 10%-12% of the total.

Reports annual average growth of 60%. Initially employed over 500 people. Now outsources most of its activities and employs only 50.

UNDERCUTTING THE BIG GUYS

companies have had to train staff intensively in exporting expertise and attract qualified people with various technical qualifications.

The Altron group, established in 1965, concentrated on the domestic market for its first 23 years. However, as the Eighties drew to a close, management perceived the need to push for growth in world markets.

Harold Serebro, who heads the Altron group's export initiative from its Johannesburg headquarters, says the group set out to create an internal export culture, with extensive staff training in all aspects of export activity. Each year since then, its markets have expanded worldwide. Most recently it has moved into Cuba, Russia, China, Morocco and Tunisia.

And each year offshore sales have risen sharply, with 14 of its companies recording record export sales in the 1999 financial year.

A small, but also successful, hi-tech exporter is networking specialist Netvys, which started off in the mid-Eighties.

It set up as an exporter five years later when it was clear that trade sanctions were going to be lifted. It now sells almost entirely offshore, providing turnkey solutions, computer hardware and software in 23 countries.

Another hallmark of successful exporters is that they go into developed countries, says Adams. Earlier research, he says, had already shown that companies who sell to First-World markets achieve much better growth than those who export only to their nearest neighbours. They do well in First-World countries in spite of the intense competition there, he says, because those consumers are more prosperous.

Afinta Motor Corp, set up in 1994 and exporting for two years, has accepted the challenge of tapping Third-World markets. Because it sources supplies from all over the world, the Isando company is able to seek out the cheapest components and manufacture at a cost advantage.

Export director Rajiv Wahi says the company is now able to undercut large international competitors selling to the rest of Africa. The companies mentioned — and many others who export successfully — share one natural advantage. They can adapt their manufacturing processes quickly because they make "discrete goods" individual articles such as articulated dump trucks, ball bearings, canoes, data processing machines, drills, floating cranes, helicopters, jewellery, liquid elevators, pumps, seat belts, T-shirts, tyres and transformers.

EXPERTERS' RULEBOOK

WHAT TO DO:
* Give consumers what they want, not what you want to produce.
* Analyse products available in your target market and investigate product improvement.
* Focus on long-term relationships.
* Be in touch; telephones and fax machines are essential and e-mail facilities an advantage.
* Answer, or at least acknowledge, correspondence immediately.
* Meet delivery deadlines. If there is a delay, let your customer know promptly and explain why.
* Research packaging to cut transport costs and improve presentation.
* Provide good after-sales service.

WHAT NOT TO DO:
* Expect a quick profit. It's a competitive market out there and you will have to compete on price.
* Overestimate your capacity to complete an order. Be realistic about deadlines.
* Try to get away with inferior quality; there's a discerning market out there.
* Slip up on the paperwork; accurate documentation is essential to international trade.
* Violate a contract.

SA EXPORTS 1998

EXPORTS '98 R145.5bn

FINANCIAL MAIL - MAY 14 - 1999 41
Hopes for early recovery in SA’s exports fading

Greta Steyn
and Samantha Enslen

HOPES of an early recovery in SA’s exports faded yesterday after the release of last month’s trade figures, which showed exports fell almost 17% between March and April.

Figures released by the SA revenue service yesterday showed SA had a trade surplus last month of R870m, sharply down from March’s R2,4bn surplus. When March’s figures were released last month, hopes were high that the revival of the world economy would spur an early improvement in SA’s export performance. However, the latest figures gave ammunition to sceptics who believe it will be a while before the commodity cycle turns in SA’s favour.

Although the trade surplus decline was in line with expectations, the reasons for it came as a surprise. Oil imports were expected to squeeze the surplus, but the rise in the oil price failed to make itself felt. Instead oil imports fell, keeping a lid on overall imports.

Oil imports for the first four months of this year were substantially down on year-earlier figures, but economists warned that the respite would not last. A more than 40% jump in oil prices this year will affect the trade balance later.

Overall imports were down from R12,1bn in March to R11,2bn in April while exports fell from R14,5bn to R12,1bn. Major export categories performed badly, with mineral products falling sharply and base metals and precious metals also declining.

Standard Bank economist Leroy Smith pointed out base and precious metals comprised 38% of SA’s total exports, and that the prices of these commodities were crucial to SA’s export performance. “Recent optimism that the turning point in the world economic cycle was in sight has waned. We do not expect a significant recovery in commodity prices until late this year or early next year,” he said.

ABN AMRO economist Nick Barnardt said he expected the trade balance to deteriorate significantly in the second half of this year. Imports would pick up as the economy moved out of recession, while global demand for SA’s exports would remain sluggish. He forecast the current account deficit at R13bn for the year, higher than the consensus forecast of R9bn.

The disappointing trade figures added to the rand’s woes, with the currency losing almost 5c against the dollar yesterday to close at R6,2690. The gold price, election jitters and nervousness about emerging markets took their toll on the rand.

Gold fixed in London in the afternoon at $269.50/oz ($271.70 on Tuesday). The plunge in the gold price fuelled expectations that the central bank would allow the currency to weaken to help gold mines. Some analysts say a weaker currency is also needed to stimulate exports of manufactured goods to make up for the forex loss arising from the plunge in the gold price.

The rand touched a weakest level of R6,29 to the dollar, coming close to the R6,30 level widely predicted as the pre-election exchange rate. Foreign investors’ concerns have been compounded by nervousness over Latin America. Argentina is rumoured to be heading for a devaluation, while Brazil is in the throes of a political scandal.

SA equities, although weaker yesterday, showed resilience in the face of a host of negative factors, dealers said. The Johannesburg Stock Exchange’s all share index fell 61 points to 6,560, dragged down by the resources index, which shed 1.7% in the wake of losses on the gold board and continued selling of Anglo American plc shares.
Naansa quarterly shows exporters created jobs

ROY COKER

Pretoria – Two motor manufacturers involved in vehicle export programmes created 756 jobs during the first quarter of this year, according to the latest quarterly view of business conditions in the new vehicle manufacturing industry.

Although the manufacturers were not specifically mentioned in the review, it is widely known that Volkswagen South Africa won a lucrative export contract for the Golf IV, while BMW South Africa invested more than R1 billion to gear up for its series export programme.

Despite the creation of these jobs, the number of people employed in the country's new vehicle motor manufacturing industry declined by 779 to 31,359 during the first quarter of this year to March 31.

Nico Vermeulen, the director of the National Association of Automobile Manufacturers of South Africa, which compiled the review, said the industry's monthly average complement last year was 33,650 against 37,082 in 1997.

He said average capacity utilisation levels during the first quarter had remained at "historically low levels". This reflected the depressed conditions in the domestic vehicle manufacturing industry.

Domestic and global fundamentals pointed to a continuation of subdued economic activity in the short term.

CT (DR) 8/6/99
Cape munitions maker set to bag R1bn British deal

Somchem wins race for army contract

Cape munitions manufacturer Somchem will consolidate its international reputation soon with the signing of the first part of a R1-billion, 10-year deal to supply artillery propellant to the British Army.

The first part of the contract, for R146-million, was to have been signed today – but the ceremony was cancelled at the last minute. It is understood a technical problem has caused the hold-up, but parent company Denel is confident the signing will go ahead soon.

Overall, the 10-year deal – announced in December – is the biggest contract in Somchem’s 27-year history, according to Denel, and will sustain 100 jobs, including 30 new posts. It has been reported that about R10-million from the contract will be spent, through small enterprises in the region, on modifying the Somchem plant in Somerset West and making new equipment.

The imminent signing follows four years of negotiations, and fierce competition with main rival, Royal Ordnance of Britain.

The contract will be for an estimated 1.2 million propellant charges for the British Army’s fleet of AS90 self-propelled howitzer guns.

Somchem’s modular charge system reportedly earned the highest rating in three months of trials at the

MICHAEL MORRIS
SPECIAL WRITER


The charges were developed for South Africa’s revolutionary G5 and G6 family of long-range artillery.

Modular charges are easier to transport, less wasteful and more cost-effective than the traditional “bagged” – literally, explosives in a bag – propellants they are replacing.

Propellants provide the explosive power to shoot an artillery shell out of a gun barrel. The wider significance of the deal lies in Somchem’s having won the contract in competition with a top British company, on price and quality, says Jane’s Defence Weekly correspondent Helmoed Romer-Heitman.

“What it means in marketing terms is that an army regarded as one of the best professional forces in the world has selected Somchem because of its product quality and price.

“The initial contract of R146-million is not especially large, but it’s the signal that goes out to arms buy-
Green light for probe into Iscor imports

Simon Barber 20/17/1999

WASHINGTON — The US International Trade Commission has found sufficient grounds to believe that imports of Iscor cold-rolled steel are hurting US producers and may therefore warrant the imposition of antidumping duties.

In a unanimous finding on Monday the panel gave the Commerce Department the green light to investigate Iscor's pricing and assess duties that would bring its US prices in line with its SA ones.

The US imported 148,000 tons, worth $56m, of Iscor cold-rolled steel last year.

The duties are being sought by nine US producers and the United Steelworkers of America union on imports from SA and 11 other countries, including Japan, Russia and Brazil. The duty requested on SA products is at least 17%.

The department is expected to assess preliminary duties in November.

The petitioners have not asked that the duties be made retroactive in SA's case, giving Iscor a small window to take new orders. One option is for Iscor to seek an agreement with the department under which the dumping investigation would be suspended in return for accepting a price floor calculated by the department.
Exporters urged to extend cover

JOHN FRASER

Johannesburg - South African exporters were urged yesterday to seek export credit reinsurance on projects in First World nations, instead of just seeking this protection in dealings with the Third World.

The call came from Emile Matthee, who is in charge of the export credit reinsurance scheme in the department of trade and industry, at a seminar organised by Credit Guarantee, the export project insurance group.

The meeting, which attracted about 150 businessmen and bankers, focused on capital goods.

Matthee said attitudes of South African firms were changing, largely because of the Asian crisis, when apparently robust markets had collapsed.

"We prefer exporters to also support us when the going is good," said Matthee. "Our competitors have this advantage."

He said the scope of the export credit reinsurance scheme depended on the scale of reserves that could be built up.

There would also be much more funding for the scheme if South African exporters followed their competitors in the Organisation for Economic Co-operation and Development by broadening their geographical scope.

"The performance of the scheme has been less than expected, and this has led to significant costs and deficits," he said. Nevertheless, the scheme still had reserves of between R600 million and R700 million.

Matthee said there was no political risk for businesses exporting to France or England, but foreign firms, which use similar schemes to South Africa, still applied for a "sizeable number" of export credit reinsurance guarantees when dealing with western Europe. He said a risk portfolio was "unbalanced if you only insure bad risks".

Matthee said South Africa faced handicaps in helping its exporters. Primarily, South Africa did not have large aid funds that could be used to help promote its exports, it "will have to rely on its credibility, viability and rapid delivery", he said.

Earlier he gave the example of Mozambique to illustrate what he called the department of trade and industry's "appetite for risk".

Whereas five years ago, medium and long-term reinsurance exposure in Mozambique for commercial and political risks was "insignificant", it has now reached about R3 billion.

"Times have changed. The export credit reinsurance scheme is open for cover virtually everywhere in the world."

"However, it is a tiny and fragile reinsurance scheme, compared to international players."

The conference was opened by Mike Turner, the executive director of Credit Guarantee, who noted that with the collapsing gold price there was a growing need for South Africa to boost its export earnings from trade in capital goods.
Small companies cash in on smart export tactics

John Fraser

SLM Strategies was interested in how to expand sales of small companies in the U.S. and abroad. They conducted a survey of small businesses and found that companies that

- Emphasize their products' value to potential customers
- Offer personalized service to clients
- Use social media to engage customers

were able to increase sales by 20% or more. This approach is particularly effective for small businesses that specialize in niche markets.

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SCULPTURE AND SADDLES SELL

Export grows in strange places

SA's exports grew by 12.3% between 1997 and 1998. Ian Flint, a director of trade consultancy Pennant Financial Services, points out some of the biggest growth comes from unexpected areas.

Exports of cut flowers grew by almost 14%. And, "though a relatively small category, exports of leather saddlery and harness doubled, leather articles used in machinery jumped by nearly 400%. However, this was off a low base of R18,511."

"In the works of art category we find that exports of original sculptures amounted to a surprising R42,3m, up from R10,6m." And the vague but intriguing category "Collections of Zoological, Botanical, Mineralogical, Anatomical, Historical, Archaeological, etc. Interest" shot up by R9,5m to R28,5m last year.

Some of SA's bigger exports also grew substantially. The export of non-coniferous wood chips increased by almost 35%.

"In the vast majority of cases our export performance as a nation is still concentrated in the agricultural and raw materials sector," says Flint. "And the country's ability to sell added-value goods in the international markets is still not well developed."

"But here and there we find success stories. The company Ceramic Industries reports a 63% increase in export earnings. And Corobrik is finding new overseas markets for 'olde worlde' bricks."

"Cape-based engineering group John Thompson is reportedly finalising a multi-million-rand export deal with Iraq for specialised boilers."

"In Port Elizabeth a factory is reportedly being built to manufacture mopeds engines for Beijing and Amsterdam."

Examples like these, argues Flint, prove SA can compete internationally in manufactured goods, "despite labour market rigidities, 'skills shortages' and other oft-quoted detracting factors."

But, on a less optimistic note, he points out that one of SA's biggest exports is people.

"According to figures published by the SA Revenue Service for 1998, emigrants left the country with R447,3m worth of furniture and other personal effects — up by 12.3% on 1997."
Exporters must work harder, says official

John Dludlu (74G)

GOVERNMENT says companies that dabble in the export market without committing the necessary resources to sustain their campaigns in foreign markets are creating "a recipe for disaster".

In an interview, coinciding with the start of National Export Week today, Zavareh Rustomjee, the outgoing director-general for trade and industry, called on "various vested interests to come together and map out a positive agenda on how we can double and treble our exports".

Manufacturing was one of the areas where SA could really grow employment, he said.

Although SA’s export performance was showing a growth trend in finished non-traditional products, he called for a serious commitment from exporters.

Rustomjee spoke out against the "traditional way" of exporting, which saw SA firms venturing into the export market only because there was a slowdown in the domestic market.

"We will never sustain a competitive economy (this way). There has to be a commitment to the export market."

"Traditional exporters" often dumped their foreign clients when good times returned in the local economy, he said.

Part of the problem with the country’s export capacity lay in what he termed the "one-Porsche syndrome" — the complacency of leading players which rendered exporting irrelevant.

Rustomjee, who becomes special adviser to the trade and industry minister, said government had decided to work with exporters, leaving out industry associations which showed no commitment to the export strategy.

In one case, three years down the line, an industry was still not ready to "make the jump" into foreign markets. In terms of the national export strategy agreed with industry, each sector has to set up an export council.

Rustomjee also defended government’s incentive schemes, saying they were among the most competitive in the world.

He said the marketing and investment in the scheme was "too generous". Through the scheme, exporters wanting to take part in trade missions were given grants.

His warning, which coincided with the week-long SA International Exhibition, appears to underscore government’s concern about the exporters who are following the "traditional route".