South African Corporate Engagement with Africa: Unpacking Negative and Positive Perceptions

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South Africa has emerged in the past decade as a key investor in the rest of sub-Saharan Africa. Its growing economic dominance and the way that investment from South African companies is affecting individual economies is increasingly steering political perceptions about the country and its relationship with the continent. For both policy makers and businesses alike, this introduces new challenges about how South Africa's engagement could and should be managed.

This paper looks at how South African investment is perceived in the region. It also identifies some of the issues that are colouring perceptions about South African corporate expansion. Lastly, it makes some suggestions for policy makers and businesses on how South Africa's economic engagement with the region could be better managed.

South Africa's economic entry into the rest of Africa

South Africa is counted among the five top foreign investors in Africa, which also include France, the Netherlands, the United Kingdom and the United States. Together these five countries accounted for more than half of the total flows to the region in 2004.[2]

Although South African involvement is weakest in parts of Francophone and Northern Africa and it is one among many players in Africa's big economies (Kenya, Egypt and Nigeria), it is dominant in its immediate neighbourhood. South Africa has a longstanding, institutionalised economic relationship with four of its closest neighbours — Botswana, Lesotho, Namibia and Swaziland — within the context of the Southern African Customs Union (SACU). South Africa also has a well-established foothold in all sectors in other direct neighbours, such as Zimbabwe and, more recently, Mozambique. This prominence as a leading investor has rapidly expanded into the rest of the Southern African Development Community (SADC), even into such challenging environments as the Democratic Republic of Congo. But South Africa is also extending its reach into other African countries as far flung as Nigeria and Egypt.

Analysis of South African investment into the rest of the continent shows that the country often leads in retail, property, construction, manufacturing, tourism, transport, telecommunications and financial services. The only sectors where South Africa's dominance is overshadowed by the involvement of Africa's traditional investment partners, such as its former colonial rulers, the US, Russia and others, are in energy and sometimes in mining. However, South African gold mining companies have been particularly astute in their acquisitions on the continent and have helped increase the contributions of gold to overall export revenue in individual economies such as Mali, Ghana and Tanzania.

Before assessing the impact of South African investment in the rest of Africa, it is useful to look at it within the context of its share of total South African investment abroad. This is important because the perception exists that the increasing prominence of South Africa in the region is part of a concerted strategy to dominate Africa's individual economies. However, an analysis of South Africa's African investment over the last decade refutes this perception outright.

South Africa's total assets (flows and stocks) in the rest of Africa were 5.7% of its total foreign assets in 1994. This share remained fairly stable over the past decade, although there has been a significant increase in the overall value of South African assets in the rest of Africa, rising from R6.1 billion in 1994 to R36.6 billion in 2004.[3]

Despite this apparent increase, it is important to recognise that South African investors continue to prefer European countries as their main investment

Table 1: South African foreign assets in Africa, 1994–2004[1]

Year	Africa's % of total	Value of Africa's share (R bn)	South Africa's total foreign assets (R bn)
1994	5.7%	6,143	106,129
1995	5.4%	6,751	123,580
1996	4.9%	8,131	164,219
1997	4.0%	9,357	232,956
1998	4.6%	15,318	332,899
1999	3.3%	20,453	606,258
2000	3.3%	24,170	721,569
2001	3.2%	26,801	818,782
2002	4.5%	30,009	662,758
2003	4.6%	32,399	688,882
2004	4.9%	36,668	746,118

Source: Various South African Reserve Bank Quarterly Reports, 1995–2005

destination. Since 1994, more than 80% of South African investment abroad has been channelled to that region.

It is the size of the accumulated South African investment in the rest of Africa combined with the small size of individual African economies that is largely responsible for the perception that South African business involvement on the continent is motivated by a desire to dominate.

For example, the size of an average sub-Saharan African economy (excluding South Africa and Nigeria) is only about $3.6 billion (or R21.6 billion).[5] Thus the impact of individual company operations on a country's balance of payments (because of increased imports and exports), tax revenue, foreign reserves and growth is often dramatic and instantly visible.

For example, SABMiller's purchase and operation of three breweries in Mozambique increased tax revenue paid by the breweries by 700%, and by 2003 SABMiller's operations provided 5% of the country's total tax revenue.

In Mali, gold production has grown almost eightfold in less than a decade, from 6.6 tonnes in 1996 to 51.6 tonnes in 2003, following investments by Anglogold-Ashanti and Randgold Resources. As a result, the contribution of gold to real gross domestic product (GDP) has more than doubled every four years, from 2.25% in 1992, to 6% in 1998 and 14% in 2002.[6] Increased gold production has enabled the country to record an average rate of growth of about 5.2% between 1999 and 2002. It also created a surplus in Mali's trade balance in 2002, owing to exceptional gold production that year.[7]

Africa's best performing economy, Botswana, is another example. The country had a total workforce of just under 500,000 in 2001. Of this number, only about 275,000 were employed in the formal sector, and about 45% of this figure were in the employ of the Botswana government. The rest of the workforce was employed in the informal sector. In addition, Botswana recorded an unemployment rate of about 19.5%. It is within this context that even small investments of R10 million per project have a significant effect.

Indeed, various surveys conducted by the South African Institute of International Affairs (SAIIA) have found that perceptions about South African economic involvement in the region are more negatively charged in the country's immediate neighbourhood where its dominance is most strongly felt (such as within SACU, its immediate neighbours and some SADC countries) than further afield. However, it is important to distinguish how these perceptions are formed and by whom.

Key factors influencing perceptions about the entry of South African business?

Most of the investment flowing from South African companies into the rest of Africa is purely private sector-driven. South African companies are thus primarily

motivated to enter into individual markets by sound business principles, such as competitiveness, business growth and profit. This is important because most South African companies assume risk without any support (fiscal or other) from the South African government.[8] They thus have to bear the consequence of a potential business failure due to political or other risks alone.

- **South African business style.** African governments often express surprise about the way that South African companies conduct business. In an environment where personal relations are considered far more important than contracts or time-keeping, the business-like approach of investors from a fellow African country is often misunderstood. This leads to allegations of arrogance and, more seriously, racism. Although there is sometimes truth in this, most of the biggest complaints are from individuals or companies that previously profited from special rents or from a preferential arrangement with the political elite.
- **Misunderstanding the needs of the private sector.** Many South African companies complain that although there is a good understanding at the executive and ministerial level of the needs of the private sector, this is not followed through in the lower ranks of bureaucracy. This is partly explained by the recent emergence of many African countries from centrally planned, socialist-driven economies. There is thus a weak understanding of the requirements of a thriving private sector. Foreign investors are generally viewed with suspicion because they are often associated with the exploitative policies of former colonial rulers. Some bureaucrats also believe that the generous investment incentives that have been adopted to entice foreign investment are to the detriment of the local economy.
- **South Africa is not a traditional aid donor.** South Africa is not an aid donor, as is the case with most of Africa's traditional foreign investors from the developed world. Hence, the sweetener of aid smoothing bilateral relations between South Africa and recipient governments is often not an option. The linkage between aid, trade and investment in most African countries cannot be ignored and many other investors do not hesitate to employ this to their advantage. Access to government thus becomes a critical issue for many investors. In various surveys conducted in the past two-and-a-half years by SAIIA's Business in Africa programme, businesses often complained that they do not receive adequate support from the South African government. Their main concern was that many South African embassies in Africa lack a trade representative that could facilitate discussions with government or assist them to avoid some of the pitfalls of doing business in certain environments. They believed that embassies should play a much more supportive role in identifying reliable business partners, trade and investment opportunities, sources of good legal advice and competent accounting services, and understanding the local operating environment.

However, it is important to differentiate between the experiences of smaller versus larger investors. Big investors, such as BHP Billiton in the Mozal smelter

and Sasol in the building of the gas pipeline from the Tembe and Pande gas fields in Mozambique, had the capacity and resources to engage with the Mozambican government. In fact, in both cases the investments were facilitated after numerous bilateral meetings involving both the South African and Mozambican governments. However, smaller South African companies lack this access or capacity to deal with numerous levels of government.

■ **South Africa's 'unfair' competitive advantage.** Some of the negative perceptions about South Africa's economic role are fed by the impression that South Africa enjoys an unfair advantage as a competitor for foreign investment and that its trade policy is motivated by selfish self-interest. To a large extent, this is borne out by the huge trade surplus the country enjoys with the rest of Africa. For example, South Africa has a trade surplus of more than 90% with Mozambique. Although a trade deficit with one country is not necessarily an insurmountable problem, most African countries are in the unenviable position of being long-standing net importers of goods financed by borrowing and loans. Only a handful of individual African countries enjoy a marginal trade surplus with South Africa, such as Nigeria and Egypt. Whereas South African investment into the region is supposed to compensate for this huge imbalance, many governments feel that South Africa should do more to open its market to goods from the rest of the continent.[9]

Within SACU, South Africa is also accused of siphoning investment away from its other members. The recent relocation of the Volvo manufacturing plant from Gaborone to Durban, despite generous incentives to encourage manufacturers to locate in Botswana, is presented as one such example. This is further coloured by the failure of the Hyundai manufacturing plant in Botswana in 2000, which is still described by some observers in that country as having been deliberately engineered to counter regional competition to South Africa's automobile industry. Although the renegotiated SACU agreement on the insistence of its other members makes provision for the development of a common industrial policy, this will be difficult to implement and requires a much closer working relationship between the various national governments and industries.

■ **The behaviour of individual companies.** However, the behaviour of individual companies, especially large corporates involved in sectors considered to be strategic to the future prosperity of individual economies, often has a significant impact on the way that South Africa is perceived in the region.

The Anglogold–Ashanti merger is one of the most critical examples of this. Ashanti Goldfields was not only considered to be a flagship company of Ghana, it was also a national asset, with the government enjoying a 17% share in the company.[10] The acquisition by Anglogold of Ashanti Goldfields was debated as heavily in Ghana's parliament as it was in the media. The subsequent successful conclusion of the merger and the rise in the fortunes of the company and Ghana's gold sector have contributed to the positive manner in which

investment from South Africa is viewed across the board in Ghana.

Brewer SABMiller's experience in Kenya is another example of how a single company can unwittingly influence perceptions of South Africa. The brewer's decision, after much consideration, to withdraw in 2002 was viewed extremely negatively by Kenya's fiercely nationalistic and government-controlled press. To this day, South African investors are still described by Kenya's business elite as arrogant and domineering, leaving no space in the market for local products, brands or companies.

The reception of the South African retail sector in Africa

One sector that has attracted some of the most stringent criticism is that of retails in the region. More than 10 South African retail groups are now actively involved in the rest of Africa and are highly visible in individual markets.[11] The sector is accused, among others, of flooding markets with South African products, displacing local informal markets and traders, undermining local manufacturing capacity and charging their customers more than they would in their South African home market.

South African retailers respond that they have to compete on an uneven playing field. Their operating environment is dominated by the informal sector and therefore highly unregulated. Many well-established and long-standing informal traders do not pay income tax or duties and some deal in smuggled goods. In contrast, South African retailers are obliged to pay transport and storing costs, taxes and onerous customs duties. The prices of their goods reflect these costs and account for their higher rate. This scenario also explains why border towns such as Nelspruit are so heavily frequented by Mozambican customers who find it more cost-effective to travel to South Africa to do their shopping over the weekends than shopping for the same goods in Maputo. Other border towns, such as Mafikeng, benefit because of the strength of the Botswana pula versus the rand. (Botswana is part of SACU and thus no duties are applicable.)

Retailers also state that they rarely source manufactured goods locally because of quality, cost and volume considerations. Goods that are sourced have to be delivered throughout their global supply chains and on time. Because of the hard and soft infrastructure constraints in many African countries and the small size of the manufacturing sector, this is a serious problem. The decision to source goods from South Africa or elsewhere is motivated by the importance of ensuring a consistent supply and stable prices to consumers. This is also one of the largest benefits to local consumers who in the past faced prices that were determined on an ad hoc basis by informal traders. Thus, the perception that South African retail activity in the rest of Africa is always negative is much more nuanced than appears at face value.

In defence of the company, it should be noted that often breweries are privatised at a stage when the companies had been literally defunct for many years, such as was the case in Mozambique with its three state-owned breweries. Not only were their operations unprofitable, but the government was no longer able to pay workers their full salaries or pensions. It was also not willing to retrench workers because of the political cost. This was left to the incoming investor to sort out. The manner in which companies manage cases like these is critical to the way in which they will be perceived in the long term. In the case of Mozambique, SABMiller is today considered to be one of the country's preferred employers, following the completion of the restructuring process. The company, together with other players such as BHP Billiton and Sasol, has introduced best practice into the country both in terms of operational procedures and the introduction of benefits such as reliable wages, medical health insurance and private pension schemes.

■ **Unintended effects of South African policies.** But as the South African experience in Botswana shows, South African investment can sometimes be viewed negatively rather than positively for reasons that require much deeper scrutiny. South Africa is the country's biggest investor, accounting for more than half (52%) of total foreign investment in 2002. There is no doubt that the prudent management of Botswana's most strategic resource (diamonds) is directly a result of the long-standing partnership between the Botswana government and the South African mining giant De Beers. The success of this relationship has been pivotal over the years to the growth and maturing of Botswana's economy.

However, as mentioned earlier in this paper, the entry of South African retailers and its impact on local manufacturing is viewed much less positively and tends to colour the overall view of the entry of South African companies into that market. South African restaurant franchises, in contrast, are viewed more positively for various reasons. Firstly, most inputs are sourced locally, which boosts agriculture, an important source of livelihoods and a cultural touchstone in Botswana. Secondly, the industry also encourages the transfer of good, functional business skills, thereby supporting the government's endeavour to promote entrepreneurship.

More serious is the impact of domestic South African policies on initiatives in Botswana to diversify and strengthen the economy in the non-mining sectors. A clear example of this relates to the development of Botswana as an international financial centre. The International Financial Services Centre (IFSC), which had hoped to attract a large number of businesses from South Africa, suffered a major setback following the changes in taxation rules in South Africa in 2001. A key draw-card of the IFSC, which was intended to give South African companies good reason to register in Botswana, was its low corporate tax rate of 15%. However, the South African government introduced new tax regulations that required South African companies operating in foreign

countries that charged a lower corporate tax rate than in South Africa to pay additional taxes[12] if that rate was less than 90% of the South African rate.[13] The new rules not only affected South African firms using the IFSC, but all companies with investments in Botswana. For example, manufacturers pay a 15% corporate tax rate in Botswana, whereas other companies pay 25%; both of these are less than 90% of the South African rate. The problem was only addressed in August 2003, when — in an effort to remove the fiscal obstacles to bilateral trade and investment — the two countries negotiated a new double taxation agreement that replaced the 1977 arrangement. The new agreement also provided the necessary certainty and predictability on tax treatment for both South African and Botswana companies seeking to establish a presence in each other's territories, as companies would not be taxed again on profits that would be repatriated to their respective countries.[14]

The interconnectedness of the two markets is also demonstrated by the impact of the exchange rate differential between them. Traditionally, a stable and competitive exchange rate has been critical to the success of Botswana's non-traditional exports and economic diversification strategy. Over the period 1989–98, exchange rate stability against the rand enabled non-traditional exports (excluding vehicles) to grow at an average rate of 15% a year, and to become an important source of jobs.[15] However, the appreciation of the pula by more than 10% against the rand in recent years has made it extremely difficult for Botswana producers to compete with their South African counterparts. Then again in 2003–05, the South African rand appreciated sharply against the dollar. The lack of exchange rate stability in the region is a serious concern because it affects investment both in Botswana and South Africa.

In the case of Botswana, the way South African investment is viewed is, therefore, much broader than individual companies or sectors. Thus, in this country, whose fortunes are so closely intertwined with South Africa's, the relationship is much more complex, requiring careful management by policy makers and businesses alike.

Recommendations to policy makers and businesses

Many countries from the region are advocating a more equal trading relationship between South Africa and themselves. One of the issues that South African policy makers could consider is a unilateral opening of the country's market to goods from the region. However, this should only happen after a thorough impact assessment study has been conducted. With regard to the SACU, further steps should be taken towards developing a regional industrial policy. This requires a much closer working relationship, firstly, among governments in the customs union and, secondly, between business and governments.

Companies believe that South African embassies on the continent should do more to promote bilateral trade and investment between South Africa and

the region. The staff complements of many South African missions on the continent lack a representative from the Department of Trade and Industry or a staff member who looks at the bilateral economic relationship on a full-time basis. Much of the business intelligence provided to foreign businesses by their missions such as trade or investment backgrounders in the case of the US, Australia and the UK, are invaluable when doing business on the continent.

Overall, it is clear that a much closer relationship is required among the South African Departments of Trade and Industry and Foreign Affairs and South Africa's intelligence services, in line with international best practice throughout the developing and developed world. South Africa will be much better served in its economic engagement if this is conducted in a more co-ordinated fashion. In countries such as Australia and the UK, the foreign affairs and international trade departments have merged to provide a better service to their stakeholders.

Management of local sensitivities is an important component of South Africa's outreach in the region. The dominance of South African companies, both financially and technologically, combined with the small size of the private sector in many countries, imply that it should be no surprise that local businesses are crowded out of the market. A closer dialogue between the South African government and business to manage perceptions around this more effectively can be valuable in addressing some of these negative consequences in a more coherent fashion. Many companies are already learning the value of being more attuned to local cultural practices and sensitivities, the importance of reliable local partners, the advantage of proficiency in local languages and respect for local brands.

South African companies are in agreement in various surveys conducted in the past two-and-a-half years that South Africa has much to offer the region. They agree that often problems arise in the operating environment because of a lack of capacity and a weak understanding of the requirements of the private sector. This is true both for Africa's bureaucracies and its emerging private sector. Joint exchange programmes directed at training customs officials, for example, can make an important difference to the way that business is conducted in the region. At the same time, it is also critical that government officials obtain a clear understanding of the undermining effect of corruption and weak political and economic governance on both local and foreign business confidence.

Many companies are already training some of their local staff members from the region in South Africa and appoint locals to run their operations abroad. Some are also investing in the training of their South African staff before they are posted abroad to ensure that they are more attuned to the challenges of working in the region. Others are encouraging cross-postings between South African and foreign staff members to support better awareness of the different business environments in the region and the development of a new organisational culture that is infused by the various experiences in those

countries. Some companies even go as far as to advocate an exchange between South African labour unions and their regional counterparts to ensure a better understanding of the needs of an international corporate who has to service the global market on a competitive basis. These are positive steps that should be supported.

Conclusion

When focusing on some of the negative aspects of how some South African corporate activity is perceived in the region, one should not lose sight of the fact that South African investment is clearly leading to the growth of the private sector in Africa, by increasing revenue generation for governments; improving economic growth and exports; transferring technology; ensuring the reindustrialisation of some economies through the acquisition and revitalisation of moribund state-owned enterprises; formalising the market, thereby ensuring greater price stability, discipline in pricing and improved consumer choice; creating employment; transferring business skills; introducing good corporate practice; and boosting investment confidence from other foreign investors who have tagged on to South African foreign direct investment.

South African companies emphasise that doing business in Africa often requires getting involved in areas outside of their core business. Good corporate social responsibility makes sound business sense for companies and ultimately for South Africa's economic engagement. The private sector has a critical role to play in the development of Africa, and South Africa as a major investor in the region, even more so. Strengthening Africa's private sector is an ongoing challenge in which South African companies can play a major role as positive agents in support of change. Understanding that there is a role for multiple players in this environment — whether from governments, business or labour — is the first step in establishing a business environment that ensures the sustainable development of the continent in the long term.

Endnotes

[1] NEUMA GROBBELAAR is the director of studies and head of the Business in Africa programme at the South African Institute of International Affairs.

[2] UN Conference on Trade and Development (UNCTAD), *World Investment Report 2005: Transnational Corporations and the Internationalisation of R&D*. New York: UNCTAD, 2005, pp. xxii.

[3] Various South African Reserve Bank Quarterly Reports.

[4] South Africa's foreign assets in the rest of Africa are taken as an approximate estimate of the overall value of South African investment in the rest of the region, although this figure also includes flows.

[5] See World Bank, *Development Indicators 2005*. Washington DC: World Bank, 2005, p.15.

[6] World Trade Organisation (WTO), *Trade Policy Review Mali.* Report of the Secretariat, Trade Policy Review Body, WTO, WT/TPR/133, 24 May 2004, p.64, available at http://www.wto.org.

[6] *Ibid.*, p.ix.

[7] However, it should be noted that South African companies have emerged as the largest developing country user of insurance coverage in Africa provided by the Multilateral Investment Guarantee Agency (MIGA).

[8] At the launch of SADC's Regional Indicative Strategic Development Plan (RISDP) in 2002, SADC chairman, Tanzanian President Benjamin Mkapa, urged South Africa to take greater responsibility for correcting current trade imbalances with its neighbours and suggested it accept a larger share of the responsibility of addressing the enormous asymmetry in economic power between South Africa and the rest of the region by investing more in the industrialisation of the region. Madakufamba M, 'Mkapa urges South Africa to engage in fair trade with SADC neighbours', Regional Economic Development and Integration, 13 March 2003, available at http://www.sardc.net/Editorial/Newsfeature/04210304.htm.

[9] After the merger, the share of the Ghanaian government was reduced to 3.52%. Interview with Anglogold Ashanti, 9 January 2005.

[10] They are Edcon, Foschini, JD Group, Massmart, Metcash, Mr Price, Nuclicks, Pepkor, Pick 'n Pay, Shoprite and Wooltru. See Benkenstein A, C Brink, K Burden & D Prins, 'African footprints: Top 100 South African companies', in Charlotte Brink Consulting, Investment in Africa. Unpublished report, May 2004.

[11] At a rate equal to the difference between the foreign and the South African tax rate.

[12] Botswana Institute for Development Policy Analysis (BIDPA), *BIDPA Briefing*, Third Quarter, 2000.

[13] Alan Boshwaen, CEO of IFSC, was quoted in *The Citizen*, 18 August 2003.

[14] Botswana Institute for Development Policy Analysis (BIDPA), *BIDPA Briefing*, Third Quarter, 1998.