Can South African Business Drive Regional Integration on the Continent?

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Can an emerging African country, such as South Africa, provide the knowledge, technology and capital for the constitution of a new future for Africa, redefining traditional continental trade and investment patterns? Regional integration initiatives in Africa have often been politically driven exercises that largely neglect its most important constituency, business.[1] Owing to this omission, inter-continental trade often happens despite, rather than because of, the proliferation of regional agreements. However, the rise of South African investment into the rest of Africa could challenge traditional North–South trade and investment linkages between Africa and the rest of the world. Despite small beginnings, the role of South African business as a key stakeholder and driver of economic regional integration on the continent deserves attention.

This paper investigates the impact of South African private sector investment in Africa on traditional trade linkages on the continent and looks at whether such investment is leading to greater economic integration. First, it provides an overall picture of emerging South African investment into the rest of Africa within the broader context of global FDI. Second, it assesses the impact of South African investment into the rest of the continent on traditional trade linkages. Third, it asks whether South Africa has enough investment clout to bolster growth in regional trade, leading to greater integration into the global economy and the building of regional economies of scale.

Drivers of South African investment into Africa

The 2004 *World Investment Report* identifies three factors that have

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driven South Africa's outward foreign direct investment (FDI) in Africa.[2]

- Liberalisation of South Africa's regulatory regime for outward FDI has facilitated firms' expansion abroad. The country has also signed six bilateral investment treaties (BITs) and 14 double taxation treaties (DTTs) in the region.

- Liberalisation of South Africa's trade and exchange controls has raised competition in local markets and encouraged firms to look abroad.[3] At the same time, privatisation and liberalisation in other African countries have allowed South African companies to acquire firms in the region.

- South African firms often have technological advantages over local competitors in Africa and greater familiarity with African conditions than transnational corporations (TNCs) from other regions.

South African multinationals, like most multinationals, have four key drivers for cross-border expansion. They include market-driven or market-seeking FDI, where investment decisions are driven by the size of the market; by resource-seeking or factor-driven FDI, where an abundance of specific natural resources, low-cost, skilled labour or physical infrastructure are important factors; efficiency-seeking FDI, which is linked to workforce productivity and integration of the market into regional frameworks; and, lastly, strategic asset and capability-seeking investment, where a company is motivated to enter a market to protect or further its competitive advantage within the global context.[4]

Two of the classic drivers of foreign investment can be linked closely with market integration. However, in the case of South African investment, like foreign investment in general into Africa, company behaviour seems to reflect a predilection for resource-seeking and strategic asset or capability-seeking investment.

In the case of South African businesses, market significance only seems to be a consideration when it is related to the underlying size of a particular domestic market (Nigeria in particular) and disposable income (as in the case of Botswana), a particular opportunity at the domestic level, usually in the form of a concession or a privatisation opportunity, and, in the case of members of SACU, ease of access to those markets.

South Africa's investment into the rest of Africa

South Africa is an economic giant relative to other African economies. Its GDP of about $160 billion is 80 times larger than the GDP of the average state in Africa.[5] Over the past 10 years, South Africa has not only asserted this economic dominance of the continent in its bilateral trade with the rest of sub-Saharan Africa, but has expanded the relationship into significant investment in Africa. South Africa is today considered the leading investor in Africa outside the oil industry.

South African companies, unlike most foreign investors, are now also active in the financial, tourism, retail, manufacturing, construction, agricultural and telecommunications sectors on the continent. According to the *World Investment Report 2004*, South Africa had over 900 TNCs by the end of the 1990s. Seven of those were among the top 50 non-financial developing country TNCs in 2002. This group includes companies from South Korea, Hong Kong, Brazil, Mexico, Singapore, Taiwan and others. A further 2,044 foreign affiliates were based in South Africa by the end of 2002, indicating South Africa's position as a launching pad for foreign investment into the rest of Africa.

Table 1: Ranking of top South African TNCs among top 50 developing country TNCs/millions of dollars

Ranking by foreign assets	*Corporation*	*Industry*	*Total assets*	*Total sales*	*Total employ ment*
10	Sappi	Paper	4,641	3,729	17,572
12	Sasol	Industrial chemicals	8,960	7,114	31,150
18	MTN Group	Telecommunications	3,556	1,991	4,192
19	Anglogold[a]	Gold ores	3,964	1,761	53,097
30	Naspers	Media	2,498	1,148	10,711
31	Barloworld	Diversified	2,569	3,409	23,192
44	Nampak	Rubber and plastics	1,281	1,317	18,062

[a]: Prior to the Anglogold/Ashantigold merger in 2004.
Source: World Investment Report 2004, pp. 22-23

An analysis conducted by SAIIA of the top 100 companies listed on the South African stock exchange earlier this year showed that only eight of those companies and their subsidiaries did not have an Africa focus.[6] Those that have ventured into Africa have generally emerged as leaders in their markets due to a lack of both international and local competition.

Although the magnitude of South African investment in Africa is difficult to establish and the figures are often outdated, the South African Reserve Bank estimates that such investment has grown from $1.2 billion (R8 billion) in 1996 to just over $4 billion (R26 billion) in 2001. Although this represents growth of at least 70%, it still represents only 3% of total South African investment overseas.[7] Europe and the Americas are still the largest recipients of South African investment with just under 69% and 19% respectively — representing just less than 90% of total South African investment abroad and reflecting South Africa's traditional trade linkages with that part of the world.

Table 2: Foreign assets of South Africa by region, 31 December 2001

Region	*Value (Rand millions)*	*Percentage*
Africa	26.8	3.2%
Asia	13.0	1.5%
Europe	564.5	68.9%
International organisations	50.3	6.1%
North and South America	157.6	19.2%
Oceania	6.4	0.7%
Total	818.7	100%

Source: South African Reserve Bank, September 2003

However, this figure understates the magnitude of South African investment in Africa as it excludes significant investments over the last four years, including the second expansion phase of the Mozal aluminium smelter in Mozambique (total outlay for this project was $2.2 billion); the laying of the Sasol pipeline ($1.2 billion) in that country; the merger of AngloGold and Ashanti Goldfields of Ghana ($1.4 billion), and the continental expansion of banks, retailers and telecommunications companies like MTN and Vodacom. Indeed, the 2004 *World Investment Report* estimates that in 2002 South Africa's FDI stock into the rest of Africa accounted for 7% of its total outward FDI. Although this overall percentage is still small, both in value and percentage of overall investment, the impact is huge. This is closely related to the small size of the private sector in the rest of Africa, as well as low levels of investment.

It is also useful to compare South African investment with global investment patterns into Africa. According to the 2004 *World Investment Report*, FDI inflows into Africa increased from $12 billion in 2002 to $15 billion in 2003, an increase of 28%. Percentage-wise, the

Table 3: South African investment in other SADC countries: 1994–2003

Country	*SA FDI as % total FDI*	*SA ranking as investor*
Angola	1%	6
Botswana	58%	1
DRC	71%	1
Lesotho	86%	1
Malawi	80%	1
Mozambique	31%	1
Namibia	21%	3
Swaziland	71%	1
Tanzania	35%	2
Zambia	29%	1
Zimbabwe	24%	3

Source: The BusinessMap Foundation, March 2004.[8]

region's total share in global FDI rose from 1.7% in 2002 to 2.6% in 2003. The increase in South African investment into the rest of Africa from 3% of its total outward flows to 7% demonstrates that although South African investors do not necessarily assess risk in Africa that differently from other foreign investors, it indicates growing confidence in the region's prospects. This has significant implications for closer economic co-operation and market integration in Africa.

An overview of the type of South African investment into the rest of Africa shows that, generally, so-called 'big' South African investments such as Mozal, Sasol and Anglogold Ashanti are rare.[9] There are some medium-sized investments in agro-business, particularly sugar production, railways, finance, telecommunications, utilities and brewing. However, the majority of investments, especially in the retail sector, are much smaller, although ironically much more visible. More than 10 different South African retail groups have invested in Africa since 1994.[10]

South African trade with the rest of Africa

Has South African investment led to more intra-regional trade in Africa and greater market integration? The results are self-evident. South African investment has certainly increased bilateral trade with the rest of Africa, but with an important proviso — in the short term, this has not translated into significant linkages with local economies.

The statistics highlight the positive achievements as well as the challenges. South Africa's total trade with Africa has grown by over

Table 4: South Africa's trade with Africa — Top 15 trading partners (R million)

Country	*1994*		*2003*		*%*
	Imports	*Exports*	*Imports*	*Exports*	*Change*
Zimbabwe	1,021.60	2,459.40	2,656.01	6,551.40	164.5
Mozambique	91.90	1,406.80	280.80	5,676.20	297.5
Zambia	103.90	1,158.40	2,656.01	4,049.00	266.0
Angola	16.90	311.80	28.90	3,393.76	941.2
Nigeria	21.20	63.60	2,764.21	2,548.61	6,165.1
Kenya	28.10	664.70	106.59	2,214.10	235.0
Mauritius	15.10	541.30	124.69	2,068.59	294.2
Tanzania	15.90	183.20	136.67	1,887.93	90.2
Malawi	187.00	622.00	381.93	1,695.43	156.8
DRC	353.60	349.70	28.64	1,257.43	6,736.4
Ghana	22.60	80.90	52.50	1,161.79	1,073.2
Botswana	566.80	4,171.50	a	a	a
Namibia	1,414.80	4,057.70	a	a	a
Swaziland	1,147.90	2,816.40	a	a	a
Lesotho	214.10	2,742.20	a	a	a

[a]:There are no 2003 import or export figures for Botswana. Lesotho, Namibia and Swaziland, since these countries are part of SACU.

Source: Apartheid Past, Renaissance Future: South Africa's Foreign Policy 1994-2004, pp. 332–333.

300% since 1994. Exports to Africa have increased from R8.6 billion ($1.3 billion) in 1994 to R38.8 billion ($5.9 billion) in 2003. Unfortunately, the picture is rather one-sided. Africa has not been able to match South Africa's aggressive trade expansion into its markets, although there has been an equivalent increase of imports from Africa during the same period — from a low base of R2.3 billion ($0.4 billion) to R8.1 billion ($1.2billion).[11]

A closer look at trade figures with individual African countries shows that only Nigeria in sub-Saharan Africa, and Tunisia and Egypt in North Africa, have marginal trade surpluses with South Africa. Unfortunately, neither of the latter two countries feature in its top 15 trading partners. In the case of Mozambique, South Africa's share of total trade is 93%. The Mozambican example is not unusual. Although a trade deficit is not necessarily a negative factor, problems do arise when countries have a trade deficit with every single major trade partner, as is the case often in Africa.

For example, research conducted by SAIIA earlier this year measuring the growth of intra-regional trade of the six different regional economic communities that are considered the building blocks of the African 'economic union',[12] showed that SADC has

Table 5: Internal trade of economic groupings as % of their total exports

SADC	**1980**	**1990**	**2002**
Intra-regional	0.4	3.1	8.8
Extra-regional	99.6	96.9	91.2
EU	58.33	43.28	40.69
US and Canada	8.33	14.13	12.27
Japan	4.77	7.54	5.57
Rest of Africa	7.18	6.42	17.99
Rest of the world	20.98	28.06	14.92
Comesa	**1980**	**1990**	**2002**
Intra-regional	5.7	6.3	5.6
Extra-regional	94.3	93.7	94.4
EU	42.75	46.62	39.3
US and Canada	9.56	10.91	10.2
Japan	3.55	5.09	3.5
Rest of Africa	6.19	4.78	7.29
Rest of the world	32.25	26.30	34.15
Ecowas	**1980**	**1990**	**2002**
Intra-regional	10.1	7.9	11.1
Extra-regional	89.9	92.1	88.9
EU	58.6	51.49	43.29
US and Canada	4.5	11.49	6.32
Japan	3.98	4.51	1.21
Rest of Africa	17.99	12.55	17.03
Rest of the world	14.92	19.65	32.15
ECCAS	**1980**	**1990**	**2002**
Intra-regional	1.4	1.4	1.3
Extra-regional	98.6	98.6	98.7
EU	53.37	59.25	45.99
US and Canada	15.56	15	16.37
Japan	0.93	2.11	1.57
Rest of Africa	13.17	8.9	6.41
Rest of the world	16.97	14.74	29.65
AMU	**1980**	**1990**	**2002**
Intra-regional	0.3	2.9	2.8
Extra-regional	99.7	97.1	97.2
EU	56.95	70.36	72.12
US and Canada	25	4.52	4.96
Japan	1.53	4.9	2.1
Rest of Africa	1.5	3.9	4.98
Rest of the world	15.03	16.3	15.84
IGAD	**1980**	**1990**	**2002**
Intra-regional	N/A	N/A	N/A
Extra-regional	N/A	N/A	N/A
EU	37.6	39.17	24.56
US and Canada	5.2	4.55	3.35
Japan	5.66	4.3	3.55
Africa	8.78	19.33	20.49
Rest of the world	42.76	32.65	48.05

Source: UNCTAD Handbook of Statistics, Calculated from World Development Indicators, 2003, Tsotetsi K, Quo Vadis Africa? Regional Integration in Africa, SAIIA, 2004.

demonstrated the most significant increase in trade with the rest of Africa over the past 10 years. Trade with the rest of Africa in this regional economic community has increased from 6.42% in 1990 to 17.99% in 2002. However, these trade figures in fact reflect South Africa's growing trade with other African countries outside SADC.

South Africa's trade gains and dominance of regional exports has elicited much criticism across the region. 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 industrialisation of the region.[13]

He emphasised that the goal of a SADC free trade area by 2008, a customs union by 2010 and a common market by 2012 would be difficult to achieve if the current structure of intra-SADC trade continued, where South Africa accounted for 50% of intra-SADC exports and 10% of its imports.

Much of this one-sided export growth into the rest of Africa (and also outside SADC) has been spurred by growth of South African investment in the retail, tourism and construction sectors. The vast majority of the companies involved admit they source less than 10% of their goods in the local market.[14] They point out that local procurement opportunities are limited owing to the inferior quality and high cost of goods because of inadequate and inconsistent supply linked to low volumes. Their import dependency, combined with the capital-intensive nature and knowledge specificity of their businesses, has led to limited linkages with the local manufacturing sector. Instead, the South African business presence has led not only to domination of local businesses, but has also placed local manufacturing capacity under pressure. South African investment has thus brought both gains and losses.

One of the most significant gains is the enormous impact South African investment is having on the regulatory frameworks and business culture of countries in Africa, which is translating into clear gains for inter-regional trade and ultimately Africa's consumers.

A pertinent example relates to the expectations of consumers. The argument that often the impetus for trade liberalisation comes from disgruntled consumers is also relevant in Africa. Whereas the South African retail sector is displacing many of Africa's colourful and vibrant informal markets, it is also introducing a new discipline in the pricing structure of goods. South African investment has led to an increase in consumer choice, to a consistent and reliable supply of goods to local consumers, in turn resulting in greater price stability. This is particularly important within the context of a market dominated by the informal sector, as is the case in Africa.

Historically, both formal and informal traders could charge whatever they wished, especially in cases where stock was obtained through smuggling. The prices charged by South African retailers are a true reflection of the import duties and taxes that have to be paid by traders.[15] This has introduced more transparency to the market and has resulted in growing consumer awareness amongst the population (although this is still in its infancy) in countries where South African companies have invested.

As is well known, tariffs are a considerable revenue earner for many governments in Africa in the absence of an otherwise well-developed and diversified tax base. Interestingly, many of these duties have now come down, due to consumer pressure, commitments under various free trade protocols in the Common Market for Eastern and Southern Africa (Comesa), SADC and other regional economic communities, and growing formalisation and broadening of the tax base as company sales tax contributes to government coffers.[16]

However, as demonstrated by the first business climate survey on regional integration conducted on behalf of the Association of SADC Chambers of Commerce and Industry, the private sector has identified numerous steps that need to be taken to overcome obstacles to greater integration of the region. These include:

- stabilising exchange rates;
- effectively combating crime and corruption;
- ensuring greater security of investments;
- improving infrastructure, and
- improving and simplifying regulatory frameworks.[17]

The constraints implicit in these recommendations are prevalent throughout the continent and present potential investors with significant stumbling blocks. They have also had a considerable impact on the way in which companies have approached investment decisions in Africa. Nonetheless, some South African companies have proved themselves remarkably adaptable to challenges on the continent.

For example, the decision by MTN and Vodacom, two of the largest South African telecommunications companies in Africa, to opt for a pre-paid billing system on a continent whose individual economies are predominantly cash-based and driven by informal markets, has revolutionised their expansion strategies. This has fuelled their spectacular growth in Rwanda, Cameroon, the DRC and Nigeria and has enabled them to sidestep pitfalls like the lack of access to credit information about the average consumer in Africa. It has also fundamentally changed normal South African investment patterns in Africa.

Both these companies have not followed the traditional pattern, namely of gradually expanding into neighbouring states in an ordered wave flowing outwards from the home base in South Africa across the continent. Although both companies did first venture into a SACU member state before exploring the rest of the continent,[18] their subsequent investment strategies followed a very different and rather haphazard pattern,[19] closely related to underlying opportunities in the market. Their confidence in this investment strategy has been underpinned by the development of the appropriate technology that is replicable throughout the continent with fairly limited innovation.

Brewer SABMiller, in contrast, has adopted a far more structured investment pattern, first investing in the so-called BLNS (Botswana, Lesotho, Namibia and Swaziland) states (excluding Namibia due to stiff competition from local breweries), followed by Zimbabwe, other members of SADC (with Mozambique only coming into the picture in 1995), and eventually Western, Central and Eastern Africa. The differences between the so-called 'new technology' or 'new

Table 6: SABMiller's investment pattern into the rest of Africa

Country	*Date*	*Effective ownership*
Botswana	1978	47%
Swaziland	1981	60%
Lesotho	1982	39%
Zimbabwe	1990	23%
Tanzania	1993	66%
Zambia	1994	90%
Mozambique	1995	65%
Ghana	1997	69%
Uganda	1997	40%
Kenya	1998	87%
Angola	1998	Management contract

Source: Based on annual reports of SABMiller[21] economy'[20] companies and older more traditional operations seem to be related both to the sequencing of investments and the initial starting point of investment.

Is South African business involvement leading to greater regional integration?

Certainly, the growth of South African business involvement in the region is having a significant, albeit arguably uneven, impact on the strengthening of regionalism on the continent. South African trade and investment linkages have not yet led to a significant erosion of the traditional ties of most African economies (South Africa included) with Europe — although there is some evidence that European goods flowing into Africa are increasingly being sourced via South African retailers rather than directly from Europe. This trend, however, is exacerbating tension in the region, particularly in SADC as some states view South Africa as a 'dumping ground' of EU products, which are in turn 'dumped' by South African companies in the rest of the region. Moreover, South Africa's steady march towards more FTAs with developed countries (for example the US) and emerging economies (Mercosur, China, India and others) is seen as evidence of a ruthless pursuit of self-interest and trade policy unilateralism to the detriment of its neighbours.

Indeed, some observers would argue that South African investment has led to a crowding out of local business and a further undermining of the region's limited manufacturing capability.[22] Although globally there is growing evidence of the development of new, regional, southern supply chains that feed into regional production hubs of composite manufacturers,[23] these intra-trade and inter-industry trade activities have not yet sufficiently emerged in Africa, notwithstanding South African investment. However, this does not mean this might not happen over time. The possibility exists that this model of development potentially allows the continent's members to be integrated into a 'flying geese' model of trade and development, wherein countries with less advanced product structures can assume simple manufacturing and services activities to service supply chains of more advanced regional partners (South Africa in this instance) and move towards more sophisticated manufacturing and services over time.

However, the preconditions for the emergence of this scenario are absent at present. South Africa is not investing sufficient capital into the manufacturing sector in the region to support this thesis. This could be a result of South Africa's own domestic growth challenges and the small size of its economy on a global scale. The success of the flying geese model is also highly dependent on a very close relationship and agreement between government and business, as has been the case with Japanese investment into the rest of Asia, the prototype for the development model. This is not the case in South Africa. South African business is following its own instincts. Even in the case of the entry of South African parastatals into the rest of Africa, commercial success, rightly so (in view of the use of public funds), is the primary concern determining investment decisions.

One could argue that the experiences within SACU might offer a way forward and provide the nucleus for greater regional integration over time. However, members of SACU have mixed feelings about the benefits of membership to their economies — especially in the custom union's earlier guise prior to adoption of a re-negotiated agreement. Some countries accused SACU of undermining their manufacturing base and luring away foreign investment in favour of South Africa.[24] It would seem that, in the absence of a common industrialisation policy in the region, these problems will continue. Greater emphasis on the issue within the context of the new SACU agreement could change this prognosis over time.

Conclusion

South African investment into the rest of Africa is having a significant impact on the continent. However, the impact on regional integration specifically is still gradual and limited, especially in the absence of politically driven investment. This seems a prudent path for South Africa to adopt in view of its limited resources, competing domestic demands and the absence of government guarantees in the case of the failure of business ventures because of political risk.

Yet, South African companies are demonstrating greater, albeit measured, confidence in the rest of the region and are contributing to greater economic integration by challenging traditional trade patterns; influencing regulatory frameworks; contributing to economic growth and diversification, and transferring knowledge and skills.[25] This incremental process seems far better geared towards success than the political top-down approach that has characterised most integration efforts in the region.

However, it also requires greater sensitivity about the positive and negative impacts of South African trade and investment expansion on the rest of the continent. It remains a critical challenge for the South African government to develop appropriate strategies with partners in Africa (both government and business) to ensure the benefits of increased trade with Africa are spread more beneficially. The South African government has already done much to favour investment into the rest of Africa through the targeted liberalisation of capital controls. Surely more could be done.

The South African government can, through the pursuit of mutually beneficial public–private partnerships, provide much of the regulatory certainty that hinders greater investment into the rest of Africa.[26] There are positive examples in this regard, such the Maputo development corridor. However, this approach also requires the South African government to invest more in developing regional industrialisation policies and for governments in the rest of Africa to demonstrate a clear commitment to partnership and regionalism. Related to this point is the importance of keeping in mind that South African and other investors interact at the national level within domestic regulatory frameworks (especially in Africa with its highly fragmented markets) and that regional integration is only useful from their perspective when it contributes positively to the regulatory frameworks of national economies or ameliorates risk.[27] It could thus be argued that good economic and trade policies are closely related to good governance at the national level, which is almost entirely an issue of domestic reform and intervention — as advocated by Nepad. Thus a 'bottom-up' approach to inter-continental trade patterns with buy-in by national governments across the region is advocated. Lastly, South Africa might also be able to act as a more effective catalyst for fairer regional trade if it chooses to unilaterally liberalise its market to products from the rest of Africa.[28]

Endnotes

1 As demonstrated recently by the case of the Confederation of Tanzania Industries which has requested a re-assessment of Tanzania's decision to withdraw from Comesa in favour of SADC. Tanzanian business has complained that it has lost out on trade deals and has experienced increased tariff barriers since the country withdrew from Comesa. It also complains that it is subject to intense competition from South African investors. See Saule A, 'To leave or stay?', *South African Foreign Policy Monitor*, SAIIA, August-September 2004, pp. 2–3.

2 *World Investment Report 2004: The Shift Towards Services*, UNCTAD, p. 24.

3 The South African Reserve Bank eased capital controls on South African companies

wishing to invest in the rest of Africa in November 2002 from $79 million to $216 million in recognition of business's role business in developing the continent. In 2003, it was raised to R2 billion per project for investment in Africa and R1 billion for investment outside it. See *www.reservebank.co.za*.

4 *Investment 2002: Challenges and Opportunities*, BusinessMap Foundation, January 2003, p. 12.

5 South Africa's economy contributes 19% to the total African economy, one-third to sub-Saharan Africa's economy and almost two-thirds to SADC's GDP. See 'South Africa in Africa: Development partner or investment predator?', SA Foundation, *Occasional Paper*, 3, 2004, p. 2.

6 This analysis is based on a survey of annual reports (1994–2003) of the top South African companies listed on the South African stock exchange, commissioned by SAIIA in 2004. See Benkenstein A, Brink C, Burden K & D Prins, 'African footprints: Top 100 South African companies', in *Investment in Africa*, Charlotte Brink Consulting, May 2004. (unpublished)

7 SARB, 'Sixth census of foreign transactions, liabilities and assets, 31 December 2001', supplement to the *SARB Quarterly Bulletin*, September 2003, pp. B6—9.

8 Rumney R & M Pingo, 'Mapping South Africa's trade and investment in the region', The BusinessMap Foundation, 2004.

9 Another unique feature of foreign investment in Africa is that a 2003 UNIDO study found that 40% of all foreign investors in Africa invested less than $1 million per project. This also seems to be the case with South African investment into the rest of Africa. In Mozambique, for example, figures provided by the Mozambican investment promotion agency show that 85% of individual South African investments or outlays were less than $1 million between 1998–2002. This is despite the fact that South Africa is considered to be the leading investor there, with 49% of total investment.

10 They are Edcon, Foshini, JD Group, Massmart, Metcash, Mr Price, Nuclicks, Pepkor, Pick 'n Pay, Shoprite and Wooltru. See Benkenstein et al., op. cit.

11 See Department of Trade and Industry, *www.dti.gov.za*.

12 They are SADC, Comesa, Ecowas, ECCAS, the Inter-governmental Authority on Development (IGAD) and the Arab Maghreb Union (AMU).

13 Madakufamba M, 'Mkapa urges South Africa to engage in fair trade with SADC neighbours', *Regional Economic Development and Integration*, 13 March 2003. See *http://www.sardc.net/Editorial/Newsfeature/04210304.htm*.

14 Various company and country research studies conducted by SAIIA since May 2002.

15 A study conducted in 2001 on retail prices in a South African retail chain's stores found that the company was charging foreign customers considerably more — in the case of Mozambique, for example, the price was 50% more than in South African for similar goods. However, a closer look revealed an exact reflection of the import duties charged by the Zambian and Mozambican governments, which were directly transferred to customers. See Vink N & J Kirsten, 'Pricing Behaviour in the South African Food and Agricultural Sector', A Report to the National Treasury, June 2002 and Grobbelaar N, 'Every continent needs an America: The experience of South African firms doing business in Mozambique', *Business Report 2*, SAIIA, 2004.

16 In the latter case, the Zambian experience of South African company SABMiller, the largest brewer in Africa, is instructive. At its entry into the Zambian market in 1994, the government levied duty rates amounting to 100% of the wholesale beer selling

price — raising about ZK72 billion ($15 million) a year in government revenues, but doubling the retail price of beer. The company asked the government to reduce the duty rates to boost sales, arguing that a growth in sales would have a positive impact on revenue. It was only when the company guaranteed a minimum revenue recovery of ZK82 billion ($18 million) in return for a reduction in duties to 85% that the government relented. The cut in duties brought about a 7% price reduction for consumers. Sales increased and revenues grew by 27% to a total value of ZK92 billion ($20 million). The Zambian government subsequently agreed to a further reduction in the excise rate from 85% to 70% in the 2003 financial year. See Benkenstein A et al., op. cit., p. 283.

17 This is the first business-driven survey across the region.

18 Vodacom invested in Lesotho in 1995 and MTN invested in Swaziland in 1998.

19 MTN's next African destination was Rwanda and Uganda, followed by Cameroon and then Nigeria. Vodacom similarly moved into Tanzania, then the DRC and then Mozambique. Vodacom experienced delays in the starting up phase of its operations in Mozambique due to problems with the domestic regulatory framework as related to undeclared government subsidies of the Mozambican telecoms entity MCELL.

20 This term refers to the information communication technology (ICT) or financial services sectors. See 'South Africa in Africa: Development partner or investment predator?', op. cit., p. 2.

21 Benkenstein A et al., op. cit.

22 This complaint was raised often in a study conducted by SAIIA on the impact of South African investment in Mozambique. See Grobbelaar N, 'Every continent needs an America: The experience of South African firms in mozambique', op. cit.

23 'The new geography of international economic relations', Unctad, TD/B/51/6, 17 September 2004, p. 7. The paper argues that a new geography of trade is reshaping the global landscape and the South is gradually moving from the periphery of global trade to the centre. This phenomenon is echoed in international investment flows. A South–South co-operation strategy could consolidate and expand this transformation.

24 SAIIA Interview in Botswana, May 2004.

25 South African investment in mega-projects in certain countries has had a significantly positive effect on trade balance, economic growth and revenue. For example, in Mozambique, the Mozal aluminium smelter coming on line in 2002 contributed 2.1% to real GDP growth, while exports grew by 53%. The IMF predicted that real GDP growth would increase to over 8% in 2004 as a result of Mozal II and the Sasol gas pipeline. Exports were expected to increase by 40%, whereas imports were expected to decline because of reduced construction activity resulting from the completion of these projects. At the same time, net international reserves were also projected to rise by $40 million during 2004 to a level of $696 million by the end of the year (translating into 5½ months' worth of imports). Medium-sized investments have also had a positive impact. SABMiller's purchase of three breweries in Mozambique increased tax revenue paid by the breweries by 700% and the company's operations now provide 5% of total tax revenue. See also Grobbelaar N, 'Changing the business landscape in Africa: South African business moving northwards', *SA Yearbook of International Affairs*, SAIIA, 2003/04. pp. 199–208.

26 In 2003, South Africa was the top developing country user of MIGA insurance facilities in Africa, according to a presentation at the World Economic Forum

meeting in Maputo, June 2004. See also the 2003 MIGA annual report that lists risk cover to Standard Corporate and Merchant Bank (South Africa) in Mozambique to the tune of \$113.5 million in oil and gas; to Sasol, also in Mozambique, to the tune of \$27 million and \$45 million respectively; to the Industrial Development Corporation (IDC) for agriculture in Zambia, to the tune of \$3.6 million, and to MTN in Nigeria to the tune of \$5 million and \$45 million respectively in telecommunications. MIGA's total guarantee exposure in Africa was listed as \$952.9 million in 2003, representing 19% of the agency's portfolio.

27 See also Goldstein A, 'The new regionalism in sub-Saharan Africa: More than meets the eye?' *Policy Brief 20*, OECD Development Centre, 2002, p. 17. Goldstein makes the point that those countries that have adopted favourable regulatory frameworks attract more FDI than their neighbours.

28 South Africa is already obliged under the SADC trade treaty to liberalise its tariff structure faster than less developed economies within the community.