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Conference Papers

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

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and the EU's CWCI Fund

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SARPN's ultimate goal is to contribute to the sustainable reduction of poverty through effective pro-poor policy, strategy and practice in the SADC region. Its purpose is to deepen and widen debates on policy, strategy, practice and decision-making processes that impact on poverty in the region. SARPN provides platforms that widen participation by bringing people together across the region to exchange ideas, and disseminates information to deepen understanding of poverty issues and improve policy and practice.

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Preface

The Southern African Regional Poverty Network (SARPN) would like to thank the following for their role in ensuring the success of this workshop:

- Ms Sanusha Naidu (Human Sciences Research Council) for her role in conceptualising the workshop and for overseeing its organisation.
- Ms Ella Mathobela (SARPN) for her sterling work, at a rather inconvenient time, in organising the workshop.
- Ms Ingrid du Toit (SARPN) for her assistance in preparing the funding application to the CWCI fund.
- Dick Cloete for his skilful editing of this volume and the workshop summary.
- The twelve conference speakers, drawn from government, the private sector, academic and civil society, for willingly accepting our invitations to present their perspectives on this important topic. A special vote of thanks is due to South Africa's former Minister of Public Enterprises, Minister Jeff Radebe, for agreeing at very short notice to open the conference. His keynote address did much to stimulate and shape subsequent debate by the delegates.
- The 65 delegates for their participation and interest over the two days.
- SARPN owes a special thanks to the CWCI fund – a joint initiative of the EU and the National Treasury (RSA) – for approving our funding application and for agreeing to a rescheduled date.

One indicator of the success of this conference is the number of follow-up processes, which various participating organisations are jointly and/or individually pursuing. These will add to our understanding of the role and impact of South African business in southern Africa, against a growing commitment to regional integration. The conference papers captured in this volume will provide a solid base for further analysis and commentary.

These conference papers and presentations need to be read in conjunction with the Workshop Summary. The self-standing summary captures the debate at the workshop. It can be accessed on the SARPN website at: http://www.sarpn.org.za/documents/d0000755/summary.php

Richard Humphries
SARPN Co-ordinator

Introduction

Since South Africa's return to the international fold in the early 1990s, South African business has made great strides into Africa, and particularly into southern Africa where it is regarded by many as the engine for regional economic growth, as well as an agent furthering political stability and democracy. That the ending of apartheid would open up the African market to South African capital was never in doubt, though few predicted the rapidity with which it would seek to exploit this new market or the sheer volume of its flow into Africa. One recent report (from Liquid Africa) argued that during the last decade South Africa had become the 'largest foreign direct investor in Africa.'[1]

In this view, the expansion of South African corporate activity into African markets displays a pragmatic approach optimising opportunities offered by the continent. The latter has also been aided by the fact that most of these markets are virtually virgin terrain as a result of years of de-commercialisation under state socialism. As a result this has led to a mushrooming a South African business presence throughout Africa in the form of joint ventures, greenfield investments, and mergers and acquisitions. In this regard, the expansion of South Africa's private and public sector has been applauded often for providing much needed employment, facilitating the rehabilitation of infrastructure, building the capacity of indigenous personnel, and providing liquidity to cash strapped markets in Africa.

The case for South Africa's business interests in the continent extends beyond President Mbeki's Africa policy. Although the official view is that such expansion provides the necessary mobilisation of inward capital flows, which is seen as an important resource for President Thabo Mbeki's realisation of the Africa Renaissance and New Partnership for Africa's Development (NEPAD), the expansion of corporate activity in Africa is generated by the reality that it offers good business prospects, and certainly not for altruistic reasons associated with regional development. South African business is truly competitive in the continent, as compared with other parts of the world.

This has often been a sensitive issue amongst African leaders who have expressed concerns over the 'hegemonic' influx of South African investment, which is compounded by the huge trade imbalance in South Africa's favour. The latter is reinforced by the head of the South African Foundation (an affiliation of businesses), Neil van Heerden, who notes that the rest of Africa offers 'huge potential' for South African companies and that South African top business leaders must open their eyes to these opportunities.

Against this backdrop, the ***Southern African Regional Poverty Network (SARPN)***, a regional poverty network based in the Integrated Rural and Regional Development research programme at the Human Sciences Research Council (HSRC) with financial assistance from the ***Cultural Workshop Cultural Initiatives Fund (CWCI)***, a joint initiative of the National Treasury and the European Union in South Africa, hosted the ***Stability, Poverty reduction and South African trade and investment in Southern Africa*** conference in Pretoria on 29 and 30 March 2004**.** The purpose of the conference was to provide a platform for government, business, and civil society partners in South Africa and from the region to engage, discuss and interrogate whether the above discussion sketches an accurate assessment of South Africa's trade and investment expansion into the region. It did this by responding to the following questions:

- Is South African expansion promoting development in the economies that it invests in?
- Is it promoting skills development and training of locals to occupy managerial positions in their African operations?
- How has the expansion of South African business affected local industries, producers, and small and medium enterprises in the region?
- Is this expansion just another way of opening up a market of consumers who are thirsty for the latest cell phones, fashion, and multimedia devices?

[1] See the following article (http://www.sarpn.org.za/documents/d0000556/index.php)

The conference was designed to illustrate valuable lessons learnt from the experiences[2] of business, government and the general populace on:

- What they see as the positive and negative impacts of business expansion into respective economies;
- The viability of current trade policies and practices, which can help shape future trade policy decisions for regional authorities; and
- An honest discussion of South Africa's role in the region, whether it is a hegemon or a partner.

Conference highlights

In light of these considerations the conference began with a keynote address by Jeff Radebe, Minister of Public Enterprise in South Africa. His speech provided a thumbnail sketch of the divide between South Africa and the region. He indicated that South Africa's regional dominance and its role as an economic powerhouse is indisputable, but this dominance has no space for hegemonic tendencies. Instead Radebe urged that it should be used as a mechanism to bridge the divide between South Africa and the region. He emphasised that, despite strong perceptions in some quarters, South Africa has no aspiration to become an imperialist power on the continent. Radebe highlighted that possible ways of preventing this happening could include a regulatory and reporting system facilitated through the South African parliament and managed through the framework that the African Parliament would provide. He noted the following efforts undertaken by his department:

> In our own small way, we have instructed our [state owned enterprises] SOEs to "conduct their business in Africa with the utmost probity and with irreproachable ethics. In countries where they operate they must consciously and deliberately promote employment, particularly of women and the disabled, help develop small, medium and micro enterprises (SMMEs), procure goods and services, and work alongside communities at all times to secure their well-being. At all times, due deference to local law and custom must be central to their attitude and approach to work. In essence, they must integrate commercial viability and returns on investment with the need to encourage sustainable development towards the upliftment of communities and national/regional economies." At this stage we do not have separate monitoring structures in place to oversee the activity of SOEs in Africa, other than the instructions we have given them and the requirements of the Public Finance Management Act (PFMA). I have suggested that perhaps a special Code of Conduct may be one way to go. Another has been the suggestion that all SOEs operating in Africa should report regularly to Parliament, according to specific requirements, so that Parliament can play an oversight role. It may be, too, that the African Parliament may be a useful instrument to act as a guardian of all development activity in Africa.

In conclusion the minister urged that South Africa's role in the continent should be one of partnership aimed at development with a people centred approach.

The first panel entitled ***South Africa's trade and investment patterns in the region*** highlighted some of the core characteristics of South Africa's economic dominance in the region and the continent. Sanusha Naidu and Jessica Lutchman noted that in 2001 total South African foreign investment in Africa amounted to R26.8 billion which was an increase of approximately R2.7bn over the 2000 figure and a 300% increase over five years. Over half of this total took the form of direct investment in new or ongoing operations. Moreover of all its trading partners, South Africa alone enjoys a trade surplus with Africa, standing at approximately 5:1. Moreover South Africa has become a major source of new direct investment in Africa which has seen an across the board involvement of every sector (private and parastatal) of the SA economy in the African market. The big investors are MTN, ESKOM, SASOL, SABMiller, Shoprite, Protea, DSTV.

[2] See New York Times 17.02.02. 'The South Africans Have Arrived'.

Naidu and Lutchman concluded with an analysis of how this expansion reflects on South Africa's relations with the continent. They noted that the literature seems to indicate an ambivalent attitude. On the one hand South Africa's engagement with Africa is based on non-coercive, non-hegemonic behaviour. Negotiations or 'quiet diplomacy' are the favoured approach in, for example, Zimbabwe and Burundi. This is consistent with the idea of co-operation and partnership and in line with President Mbeki's Africa policy, anchored in the Pan-Africanist ideology that finds expression in the AU and NEPAD. On the other hand is an assumption that South Africa's position in the WTO and other such forums is contrary to the region's interests and that it is pursuing a narrow and self-serving hegemonic policy to appease its national interest and promote market access for its corporates with little concern for its neighbours and the continent. This has led analysts to argue that it is unclear whether South Africa is Africa's partner or hegemon.

Reg Rumney in his presentation reiterated some of the points made by Naidu and Lutchman about South Africa's economic presence in the region. He noted that for the period 1994 to 2003 South African investment in the SADC was 25% (in dollar terms) of total foreign direct investment (FDI) flowing into the SADC region while South African companies invested R22.8bn during the same period. The trade balance was 9:1 in South Africa's favour. The biggest recipient of South African investment is Mozambique, which according to BusinessMap has eclipsed Zimbabwe to become South Africa's largest trading partner. South African companies have invested most heavily in the resources sector in SADC countries. The basic industry sector in SADC, including steel and other non-ferrous metals, received the second highest amount of investment from South Africa.

Rumney noted that South African investments in the region have, to some extent, mainstreamed development aspects in their expansion. In the case of the Mozal aluminium smelter in Mozambique this was demonstrated by the creation of the Mozal Community Development Trust (MCDT), an initiative in which South Africa's Industrial Development Corporation (IDC) played a major role. The MCDT concentrated on sustainable development projects within the 10km radius of the smelter, although it is not limited to this area alone. The MCDT targets five areas for development:

- Small business development;
- Education and training;
- Health and environment; and
- Community infrastructure.

But the larger question to emerge from the delegates was whether Mozal was viable for Mozambique in terms of expanding the export base of the country; moving beyond what has become an enclave economy and whether development initiatives around the smelter percolated to other areas of the country. Prof. Castel-Branco in his presentation on the economic linkages between South Africa and Mozambique addressed some of these issues. He noted that the relationship between South Africa and Mozambique was a symbiotic one. The demise of apartheid in South Africa (which opened the doors for the expansion of corporate South Africa throughout the Southern African region) and the end of the war in Mozambique saw FDI and unidirectional trade replacing labour migration and services as the dominant forms of economic linkage between Mozambique and South Africa. In Castel-Branco's opinion the minerals and energy complex (MEC) dominates economic relations between South Africa and Mozambique.

In his analysis Castel-Branco is not convinced that mega projects in the minerals and energy sector (like Mozal) will yield the desired results of helping to diversify Mozambique's exports. This is because the links between South Africa and Mozambique are rooted in:

> … the same dominant dynamics of a system of accumulation in expansion, and under processes that are adapted to different circumstances. New economic linkages have been developed that strengthen the deep rooted unequal integration between the two economies in areas of interest for South African large corporations. Thus, dynamics of interests (and, consequently, of investment and business decisions) of South African large capital and of the Mozambican economy become interlinked, in part because of the absence of alternative, diversified and broad-based poles of economic development in Mozambique.

Eddie Cross, in his presentation on South Africa's role in Zimbabwe's economic regeneration, drew on the some of Prof. Castel-Branco's thoughts. Of note was his impassioned plea for South Africa and its corporates not to lose sight of the fact that their future lies with the region. He emphasised that even though South Africa is fairly advanced compared to its neighbours this does not give it or its companies diplomatic license to dominate and control Zimbabwean resources. Instead its activities in the country should be based on a mutually inclusive and equal relationship governed by reciprocal market access. Moreover Cross warned South Africa against using the region as a dumping ground for manufactures and for restricting the growth of regional industry in favour of maintaining markets for their own products. A prime example of this sort of thing is the activity of the South African paper giants, SAPPI and MONDI in the region. Not only do they fix prices together, they also co-operate in market strategies and divide markets up between them. In Tanzania they stood by as the largest single investment in Tanzanian industry – Southern Paper Mills collapsed when they could have intervened to save it. All in all Cross urged that if Zimbabwe's economic regeneration is to be achieved the role of South Africa's corporate sector must be based on partnership, mutual interest and consent, and overall sustainable development with a poverty reduction focus.

The panel discussion on doing business in Africa focused on the following core themes:

- Trade inequalities and market distortions, notwithstanding asymmetrical trade information, must be analysed and companies must address the specifics of particular situations and understand that they cannot apply a one size fits all policy.
- The issue of state versus markets is central to the debate on who regulates the market. Markets cannot be left to their own devices and companies cannot regulate markets themselves. The state must accept its responsibilities to regulate markets effectively and fairly.
- An important area is anti-corruption legislation to regulate bribery and break the link between wealthy local elites and foreign investment so that poverty is addressed. The region must form an anti-corruption unit to monitor corruption. Corruption and illegitimate business practice creates bottlenecks in the process of social service delivery and tends to exacerbate poverty.
- Civil society must perform the role of watchdog and monitor both the state and large corporations.
- Apartheid South Africa's destabilisation policy destroyed the region's infrastructure and export markets and this has never been replaced. The rehabilitation of the region offers many opportunities for South Africa companies. South Africa's role in the rehabilitation of the region should not be at the cost of its companies taking a monopolistic position.
- Countries and regional communities need to build the intellectual, technical and legal capacity to effectively negotiate free trade agreements (FTAs). Africa should not expect to get any special deals. Negotiators must judge where a position of dominance can be acquired. FTAs are not about governments alone negotiating with other governments. The negotiation process must include representatives from civil society, the business sector and those industries which are either likely to lose or gain. Negotiating FTAs is about developing well co-ordinated and well informed positions and speaking with one voice.
- It will not be possible to achieve sustainable macro-economic stability if poverty reduction is not fast tracked
- Businesses are exploiting those markets where labour is cheap for their own self-serving interests and are not concerned with the development of the wider economy.
- Wages, working conditions and employment opportunities should be key considerations for companies undertaking to expand into African markets.
- In Africa companies operate sometimes in a bungled bureaucratic environment where macroeconomic data is either unreliable or outdated while licensing procedures are sometimes obsolete.
- The philosophy that the 'business of business is business' accurately captures that profits can be made in even the most hostile terrain, with The Democratic Republic of Congo (DRC) the prime example.
- A vision for the future of the region needs to be developed with special attention given to how to address the issue of overlapping membership in the various trade structures, namely SACU, SADC and COMESA. These overlapping memberships create confusion around rules of origin of products, allow for companies to tariff jump and complicate external trade negotiations putting those in the region at a disadvantage.
- South Africa's agenda at the WTO needs to be carefully analysed. It position does not seem compatible with broader regional interests and concerns and it seems to be creating cleavages in the region. To

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

The discussion raised a fundamental question about whether South African companies play by the rules in their African operations. Devan Pillay, researcher with Cosatu's research arm, NALEDI, provided an analysis of two South African based companies, Woolworths in Ghana and Shoprite in Zimbabwe and Zambia. The study was part of a broader study by the African Labour Research Network, which assessed multinational operations in Africa. It is part of an initiative by trade unions and civil society in the OECD countries to support the development of strong trade unions in developing countries. The study on Woolworths and Shoprite operations in Africa found that:

- Casual workers were favoured above permanent employees. They worked more overtime than permanent employees and did not receive benefits such as sick leave and maternity pay.
- Expatriate South African managers are paid more than local managers. In Zambia white expatriates hold the six top jobs with only the HR position being held by a Zambian. Locals occupy all junior management posts.
- Salaries were above national minimum wage rates but far below the minimum living level.
- In Ghana Woolworths subtly discouraged workers from unionising by playing on the fears of limited employment opportunities in the country. Workers in the Shoprite stores were allowed to join unions but in Zambia only permanent members are unionised.
- Both Woolworths and Shoprite abided by conditions of service when it came to granting permanent employees annual paid and sick leave.
- Woolworths offers training for its workers. Shoprite offers basic training for its workers around the use of computerised tills. Ninety per cent of total staff in the Zimbabwean operation is unskilled labour.
- Shoprite imports more than 30% of its products from South Africa in its Zimbabwean operation, although the company buys local products such as fruit, vegetables and other non-food household wares for sale. In Zambia, local management say the company imports 35% of its stock from the south while 65% is from local sources. However, interviewees dispute the 65% from local sources and instead argue that it comes from the region and that the actual amount sourced from Zambia cannot be quantified.
- Shoprite is also accused of discriminatory practices against Zambian farmers where it is claimed that the company prefers to import from its group subsidiary Freshmark. Management denies this and says that its overall policy is to deal with local producers as much as possible but it is concerned about the quality of goods and the reliability of the producers.
- Both Woolworths and Shoprite have corporate social responsibility programmes, which focus on community projects and donations to charities.

The presentation again raised the spectre of South Africa being Africa's new imperialist. While Naidu and Lutchman noted earlier that South Africa's position in the continent was ambivalent, Prof Habib adopted a more forthright position, arguing that South Africa should assume a hegemonic role in the continent. He argued that those who see South Africa as a partner and those who see it as a hegemon both tend to assume that partnership and hegemony are mutually exclusive. They do not look at different types of partnerships, including those that hegemons may be involved in. The literature also implies that South African foreign policy is homogenous. In Habib's assessment both schools of thought tend to compartmentalise South Africa's engagement with the continent into separate boxes without considering the contradictions and ambiguity of its behaviour where it wavers between partnership and hegemonic tendencies. In his final analysis Habib argued that without peace and stability sustainable development cannot be realised on the continent. For this to be achieved, the continent needs a hegemon to underwrite stability. For Habib, South Africa has displayed such tendencies in its intervention in Lesotho and even in its peace interventions in the DRC and Burundi. Moreover South Africa has been instrumental in fashioning a continental vision through the notion of the African renaissance and NEPAD. For there to be genuine development on the continent, South Africa must take the lead in underwriting stability to ensure development. This does not mean that it has to act in a unilateral way.

This wide ranging analysis of South Africa's role in the continent produced the following key discussion points, which are summarised below:

- South Africa is seen as a bullyboy in the region, but it has a relatively small economy. We have to be quite humble about South Africa's ability to get Africa right. South Africa also has problems that it needs to get right before it starts trying to sort out other countries problems.
- Is there a possibility of multi-state hegemony or of regionalised hegemony that may merge over time into a single hegemony given that Africa is still largely regionalised? In effect one would have different hegemons in southern and western Africa.
- 'The new kid on the block syndrome' that plagues South Africa may cause discomfort amongst other supposed hegemons that have emerged during different phases of the decolonisation process.
- The question of South Africa protecting capital in the region is very interesting. Within South Africa state and capital have not reached an accord on the form of the economy or state. Is it a question of migrating to marry abroad for fear of marriage in South Africa?
- It is important to take into account that although the economy of South Africa is dominated by corporations that are large in global terms this does not mean that South Africa has a large economy. Who has the hegemony, the state or large corporate capital?
- Even when there are wage determinations unions are ineffective in ensuring that they lead to some sort of poverty alleviation. Remedying these problems requires first remedying the legislative frameworks in African countries and this requires effective trade unions.
- It is not clear how effectively the South African government could regulate the operation of its corporates beyond its borders. Countries in the region are competing for FDI. Dealing with labour regimes is very complex. Companies determine wages at the dollar rate and go to the lowest wage takers. China represents a challenge with its low labour costs. Ways of regulating capital include the code of conduct, which is voluntary, and the bilateral investment agreement. There are three other obvious ways.
  - Extending the legal boundaries so that South Africa companies can be prosecuted for acts outside the boundaries of the country. A number of countries did this to deal with companies that broke apartheid sanctions.
  - Tax concessions to promote particular types of regional investment.
  - Regional standardisation of regulatory frameworks. This is especially important if we are looking at Southern Africa becoming a free trade area. There may be others, and we need to start thinking about these questions.
- It is important to ensure that wages can help to alleviate poverty, so they need to be above minimum poverty levels. But even in South Africa, which has relatively strong trade unions, there are wage levels that are lower than the poverty levels.

The last presentation by Mrs Chawe Mpande-Chuulu provided an overview of the harmonisation of trade regimes in the region, especially in the areas of goods and services, movement of people, labour relations, telecommunications, and transport. In particular she focused on the overlapping membership in SADC, COMESA and SACU and the implications this has for revenue sharing in an enlarged SACU and the implications of a split region for COMESA. Mrs Mpande also highlighted that with South Africa being the largest investor in the region and the fact that it already has an FTA with the European Union, it is in a good position to provide lessons for the region's negotiations with the EU and the USA.

Way forward

The discussion on the way forward centred on the following critical issues, which must be addressed to achieve sustainable development:

- Continued research on the impact of South Africa's economic expansion into Africa.
- The need to develop a deeper understanding of the synergies between the rules based WTO system and FTAs and their impact on bilateral and multilateral relationships.
- A deeper investigation of the relationship between trade and poverty and whether the rule based system, FTA's and multinational behaviour effectively harness the potential for poverty reduction.

- A regulatory framework for companies to ensure that development and poverty reduction is mainstreamed.
- The role of civil society actors, like SARPN, in providing a platform for engagement and dialogue between government, business and civil society representatives on developing a cohesive strategy around trade policy and negotiations at bilateral and multilateral level.

Sanusha Naidu

Keynote Address

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

Jeff Radebe (Minister of Public Enterprises)

I have been asked to address how we bridge the divide between South Africa and the region through development. So, let me begin in the conventional way by providing a thumbnail sketch of the infrastructure, resource and trade divide that exists between South Africa and the region. This audience is well aware of the other socio-economic factors that single out South Africa as an economic powerhouse in African terms. A glance at any economic map of southern Africa reveals the high concentration within South Africa's borders of an immense network of all-weather roads, railway lines, inland and coastal container terminals, telephone systems and communications, energy and fuel depots, petrol filling stations, post offices, banks, police stations and so on. This part of the world dominates international air passenger and freight figures for the continent. South Africa's six major ports feature high on the list of Africa's busiest ports, with Durban at the top.

Let us sink down into some detail that does not often find its way into discussions. South Africa is responsible for 42% of railways in Sub-Saharan Africa, about 47% of the total number of locomotives of all types in Sub-Saharan Africa, and critically, South Africa operates 96% of Sub-Saharan and 92% of Africa's total number of electric locomotives. South Africa operates 74% of Sub-Saharan rail freight wagons, and these move 91% of freight tonnage south of the Sahara.

Africa's rail and port networks are the main gateways and arterial routes for the continents exports and imports. Where rail is not well maintained, roads take over. But the majority of African roads are not all-weather roads, and very few have either tarmac or paving. These factors influence the transport costs of imports and exports. It is estimated that freight costs in southern Africa average about 16,42%, compared to just over 13% for southern Africa, excluding South Africa. The average costs for land-locked African countries are over 20%. The comparative global figure for developing countries stood at 8,7% in 2001.

Delays at border posts between countries also impact negatively on the ability of countries to trade with each other. These delays range across the spectrum from about four hours or so between South Africa and Botswana, and up to 36 hours between Tanzania and Zambia on the Tazara railway route. Delays cost the region about $48 million per annum!

But we should also note that non-distance related costs, such as tariffs and port charges, account for between 12 and 40% of inland trade costs.

When we back up the infrastructure record with the governance and administration framework, we are told that once again our country dominates in areas such as efficient and divergent revenue collection, the integrity of financial institutions, the strength of civil society, education and higher technical training, medical infrastructure, etc.

However, I would urge some caution as to what this all means. South Africa's infrastructure dominance has much to do with this country's history as a resource for minerals that at the turn of the 20th century played into a much larger global imperialism where South Africa’s diamonds, gold and its geographic location served its colonial masters extremely well and ensured that the Cape became a springboard for imperialist adventures into the interior. At the same time, the peculiar status of South Africa as, in Basil Davidson's term, a settler colony for much longer than other colonies meant that it developed a particularly unique position in relation to Europe itself.

The years of Union, followed by the white Republic, were years that saw the emergence of state-sponsored enterprises in the rail, energy, iron-ore processing and metallurgy sectors. Eskom, Spoornet and Iscor have their origins in specific attempts by the nascent white state to undermine its dependence on Europe, whilst the Union of South Africa itself as a non-federal undertaking was shaped as much by the threat to unity by increasingly hostile tariff wars between the rail companies of the four colonies after the conclusion of the South African Boer war in 1902. These enterprises would later become avenues for other government policies such as the employment of white labour, but they started life as creatures of a particular domestic industrial policy supported by the mining companies and other established financial interests that pushed development in a particular direction to the exclusion of other interests. Interestingly, we still hear echoes of these early battles in present-day disputes over adjustments to preferential tariff regimes, and of the role of the state owned enterprises in South Africa's economy now.

Basically, let us not fall into the trap that suggests that there is something special about the people who live in South Africa itself that explains why we have become a regional powerhouse. There are other factors that explain why the rest of sub-Saharan Africa has the infrastructure profile it has.

Topography and climate have something to answer for the way in which infrastructure emerged in Africa, but these by themselves do not explain the particular colonial paths that development took. We cannot underestimate the devastation of apartheid South Africa's deliberate and calculated policy of destabilisation. To cut a long, painful and detailed story short, we are still counting the costs today of the widespread implementation of a coherent state plan from the late 1970s onwards to reduce southern Africa's infrastructure quite literally to rubble. Place on a map many of the regional infrastructure development plans for rail, road, bridge and building repair, refurbishment and maintenance across Angola and Mozambique, and one finds the old battle zones of the wars and conflicts that covered those dreadful decades.

So, the divide between South Africa and the region probably extends beyond the allocation of resources, infrastructure, the operation of integrated networks of systems, and the legacies of greater stability in the state economic and private sectors than practically all of the other Southern African Development Community (SADC) countries have experienced over the past 50 years.

The divide extends therefore to a totally different recent experience of our combined historical legacy. South Africa's first decade of freedom, indeed, from the very first minute of its birth, saw a country living in a neighbourhood of close friends who have overwhelmed us with their own generosity of spirit, despite all that apartheid South Africa threw at them. Instead of having to join in a society of frontline states ranged against a rogue country in the region, we have been able to join with them in a more constructive relationship to build the sub-continent up again. But South Africa does that with most of its own critical infrastructure, expertise and resources intact.

This phenomenon, I submit, is the beginning of the bridge that will ultimately close the gap that exists between us. But it will not be done if South Africa surges into the continent as a new imperialist, ready to take advantage of the new atmosphere of openness and confidence that is returning to the continent.

Government has taken note of the superb *African Development Report 2003* of the Development Bank of South Africa and the New Partnership for Africa's Development (NEPAD) secretariat, as well as the thought provoking analysis of the operation of South Africa companies in the rest of Africa conducted by BusinessMap. I am sure that you will have occasion these next two days to reflect on these findings. But I think we would all agree that the fact that strong perceptions exist that many South African companies and enterprises come across as arrogant, disrespectful, aloof and careless in their attitude towards the local business community, consumers, work seekers and even governments, is a cause for major concern. I think we should also note that nature of South Africa investments in many African countries, as stretching across the more traditional areas of minerals and resource exploitation, through to services and more and more through a retail presence.

Just last week another important gathering of experts, activists and academics met to discuss South Africa's first decade of freedom. Salim Ahmed Salim, former Secretary-General of the OAU and now heading the Mwalimu Nyerere Foundation, as usual made some salient remarks about where we are today and what

challenges face us. In drawing his conclusions, Salim noted what he called the ‘pioneering dynamic that South African investment is unleashing across the Continent. Through the medium of private investment, South Africa [he said] is sharing with the rest of Africa its relatively advanced capital and technological endowments.’ But he then went on to caution that ‘as this country consolidates its linkages with the rest of the continent, it may be appropriate to devise mechanisms for ensuring that the investments are directed towards areas of higher social benefits and promoting sustainable economic development.’ He then expressed the hope that ‘perhaps the effective operationalisation of the NEPAD programme may lead to such outcomes.’

I would hope, as the Minister responsible for the activities of most of the large state-owned enterprises (SOEs) in South Africa, that Dr Salim's fears and hopes find careful reflection in the Boardrooms of South African companies generally, but I believe they will find echoes in the state-owned enterprises that operate in Africa. At the same time, a close look at the infrastructure and development agenda of NEPAD highlights new and exciting projects that cut through the destruction of the past, and identifies projects that rise above the calamitous past that often holds us as a continent back. I refer in passing to the greater Inga project, the Western Power Corridor, and the proposals for a railway linking the Great Lakes region to southern and eastern Africa more effectively.

I have taken the liberty of asking your permission to distribute copies of our recent publication *Africa First!* as a shortcut to some of these plans and projects. We believe that, working together with colleagues in the rest of the continent on important projects like the ones I have already mentioned, we will in fact bridge the gap between Africa and the world.

If I may just quote from the conclusion of that booklet: ‘not only is it important to revive and rebuild infrastructure that has fallen into disuse, or has been marginalised through other budgetary concerns, it is imperative that we explore new opportunities to break down the definition of peripheral and central areas within the nation-state and establish cross-border corridors that by their very nature will redefine what is the periphery.’ Because ‘re-ordering the arteries of economic activity to emphasise greater access and trans-frontier contact within the continent alongside improved corridors that link the coast of Africa with its hinterland provides a major opportunity for enriched trans-African trade and development in this era of globalisation.’

NEPAD itself can only find expression in the fulfilment of country, sub-regional and regional development programmes. Participating states have an obligation therefore to martial whatever resources they have towards clearly defined, environmentally informed development initiatives that derive not from the desire for grand schemes but from what they can contribute to the future of people themselves. Thus, the whole Inga hydroelectric project on the Congo River may well become one of the engineering wonders of the world, but its purpose is to power the continent so that Africans can drive productive plants and machinery, derive energy and lighting for domestic use, to power computers in schools, and to drill boreholes into our thirsty soil.

NEPAD also rests, though, on a conceptual understanding that projects must involve decisions of governments and people, of communities and of inclusion. Governance and the improvement of financial probity and the integrity of institutions is a sine qua non of the whole NEPAD environment. The objective, in the words of some NEPAD documentation, is to place Africa on a path of lasting growth and development. The means can only come through participation, legitimacy, probity and commitment to a people-centred model of development.

Security, peace and stability are absolutely necessary for the success of our projects as well. It is one thing to depend on governments issuing mine clearance certificates before development work can proceed in Angola or Mozambique. It is quite another to expect people to work and to build when warlords, gangs and rebel groups terrorise everyday existence through violence or simply by demanding protection fees. But most important of all, instability and insecurity themselves cause people in the affected areas to be alienated from ownership of the projects, to say nothing of their personal security, and shakes the foundations of confidence of any funding agency. That is one of the reasons why peacekeeping operations, assisted by demining efforts, and the consolidation of legitimate government at all levels in Africa remain a critical if under funded

activity on our continent. And that is why we should all be concerned about developments in Cote d'Ivoire, Equatorial Guinea and DRC as much as with the need to restore normalcy in Swaziland and Zimbabwe.

In our own small way, we have instructed our SOEs to ‘conduct their business in Africa with the utmost probity and with irreproachable ethics. In countries where they operate they must consciously and deliberately promote employment, particularly of women and the disabled, help develop small, medium and micro enterprises (SMMEs), procure goods and services, and work alongside communities at all times to secure their well-being. At all times, due deference to local law and custom must be central to their attitude and approach to work. In essence, they must integrate commercial viability and returns on investment with the need to encourage sustainable development towards the upliftment of communities and national/regional economies.’

At this stage we do not have separate monitoring structures in place to oversee the activity of SOEs in Africa, other than the instructions we have given them and the requirements of the Public Finance Management Act (PFMA). I have suggested that perhaps a special Code of Conduct may be one way to go. Another has been the suggestion that all SOEs operating in Africa should report regularly to Parliament, according to specific requirements, so that Parliament can play an oversight role. It may be, too, that the African Parliament may be a useful instrument to act as a guardian of all development activity in Africa.

We have however begun some work to assess the socio-economic impact of SOE activity where they operate. Much of this work lies in the future as social impacts emerge, but we have attempted, through participation in environmental impact assessments and the like, to see what can be done. At the same time, I have made a call to the representatives of African countries to feel free at any time to approach us if they have concerns, problems or words of advice, to ensure that either consciously or unconsciously our SOEs do not stray from the path we would prefer them to walk. Government can lead to stop us becoming the new imperialists, and we trust that most in the private sector would agree with our approach.

With those few remarks, I hope that you have fruitful discussions on an interesting and critically important topic. No economic processes ever move by themselves, and we would not be doing our duty if we didn't follow these developments very, very closely, and hopefully be able to take steps in good time to prevent problems from arising.

It is sobering too to recall that as we celebrate 10 years of freedom in South Africa, we must also commemorate the tenth anniversary of the genocide in Rwanda. These two events highlight the precarious nature of our cause for freedom and development.

Understanding South Africa's Engagement in the Region: Has the Leopard Changed its Spots?

Sanusha Naidu and Jessica Lutchman (HSRC)

South Africa has become the largest source of foreign direct investment (FDI) in the SADC countries and probably the second largest in Africa as a whole through a range of mergers, acquisitions, joint ventures and Greenfield investments. In the countries making up South Africa was the largest source of foreign direct investment (FDI), exceeding the combined volume coming from the United States and United Kingdom. The involvement in the African market is across the board involving every sector (private and parastatal) of the South African economy. There is a considerable imbalance in South Africa's favour in its trade relationship with Africa. This ranges from 9:1 in trade with South African Development Community (SADC) countries and 5:1 in trade with Africa as a whole. Mozambique has become the fastest growing area of South African economic involvement on the continent, overtaking Zimbabwe as South Africa's largest trading partner.

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

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

For South African investors the chief attraction is rates of return routinely over 30 per cent and in some cases as high as 60 per cent compared to from 16-20 per cent at home. Most South African investment in Africa is direct, while most African investment in South Africa is portfolio investment.

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

Table 1: South Africa's top five African trading partners (R billions)

Country	2002 Exports from SA	2002 Imports into SA	2002 Totals	2003 Exports from SA	2003 Imports into SA	2003 (November totals)
Zimbabwe	7.30	2.16	9.46	6.04	2.49	8.51
Mozambique	6.42	0.40	6.82	5.27	0.25	5.52
Nigeria	2.73	3.62	6.35	2.30	2.68	4.98
Zambia	5.54	0.78	6.32	3.79	0.53	4.32
Angola	3.43	0.13	3.56	3.10	0.03	3.13

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

In the aviation sector South African Airways (SAA) has entered the West African market and in the retail sector Shoprite Checkers has branches in 15 African countries and plans to expand into Nigeria in 2004.

Table 2: South African Investment in Africa by region and investment type: value in R millions and market share (1997-2001)

Region	Direct	Portfolio	Other	Totals	Percentage
SADC	37 458 (48,6%)	4 028 (5,2%)	35 538 (46,2%)	77 024	80,1%
Africa	14 072 (73,7%)	171 (0,9%)	4 832 (26,4%)	19 075	19,9%
Overall	51 530 (53,6%)	4 199 (4,4%)	40 370 (42,0%)	96 099	100%

Table 3: African investments by region in South Africa: value in R millions and market share (1997-2001)

Region	Direct	Portfolio	Other	Totals	Percentage
SADC	9 280 (10,0%)	43 636 (46,8%)	40 132 (45,2%)	93 048	89,9%
Other Africa	1 519 (14,4%)	324 (3,0%)	8 703 (82,6%)	10 506	10,1%
Overall	10 799 (10,4%)	43 960 (42,4%)	48 835 (41,2%)	103 554	100%

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

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

As Dot Keet argues, "it is … not lost on other African countries that South Africa – with its banks, private companies and even parastatal corporations keenly looking for investment opportunities in Africa and elsewhere – has its own 'national interests' in promoting the kind of 'global rights' of corporations in all countries and (almost all) sectors that an investment agreement in the WTO is aimed at."

The jury is still out on whether democratic South Africa is Africa's partner or hegemon.

Table 4: Major South African corporates in Africa by sector

Sector	SA Corporation	Locations in the rest of Africa
Aviation and airport services	Airports Company of South Africa	9 countries
Airlines	South African Airways (SAA)	Two joint ventures 49% stake in Air Tanzania 30% stake in Nigeria's national carrier Eagle Airline SAA flies to 20 African destinations
Banking and financial services – **Private enterprises**	Stanbic	9 countries
	ABSA	4 countries
	Stanlib (Standard Bank / Liberty Bank joint venture)	9 countries
	First Rand plus subsidiary Rand Merchant Bank	3 countries
	Nedbank	7 countries
	Investec Ltd	4 countries
	Metropolitan Life	5 countries
State-owned enterprises	DBSA	7 countries
	IDC	20 countries
Construction	Murray & Roberts	Permanent offices in 3 countries and 13 contracts
	Group 5	Contracts in 13 countries
	Concor	Contracts in 9 countries
Energy	Sasol	Contracts in 4 countries. The planned merger of its liquid fuels with the marketing and distribution business of Malaysia's Petronas will lead to operations in 14 sub-Saharan countries
Manufacturing	Nampak	10 countries
	Sappi	3 countries
	SABMiller	13 beer breweries in 10 countries 35 sorghum breweries in 5 countries
	Illovo Sugar	5 countries
	Tongaat Hulett	3 countries
	Barloworld	7 southern Africa countries
	AECI subsidiaries AEL and Dulux	Registered AEL companies in 7 countries Manufacturing Dulux products in 5 countries
Media and broadcasting	Multichoice	TV and subscriber services 21 countries
Mining	De Beers	3 countries
	Anglogold	8 countries through merger with Ashanti Goldfields
	Goldfields	Operations in 1 country and exploration in 3
	Randgold Resources	3 countries
Retail	Shoprite	100 outlets in 15 countries Contributed R2.0 billion to SA net exports by sourcing products from SA.
	Massmart (Makro, Game, Dion, Cash & Carry, Builders Warehouse)	Over 300 outlets in SACU states. Game opening in Uganda in 2004
	Metcash	3 countries
	Wooltru / Woolworths	52 stores in 19 countries
	Steers Holdings (Steers, Debonairs, FishAways, Church's Chicken, Pouyoukas Foods)	Franchises in 22 countries
	Pepkor Holdings (Pep Stores, Ackermans)	6 countries

<table>
<tr><td colspan="2" rowspan="2"></td><td>Ellerine Holdings Limited
(Ellerines, Town Talk Furnishers, Furn City, Rainbow Loans, CPI, Foreign, Wetherlys, Osiers, Roodefurn)</td><td colspan="2">94 stores in 5 countries</td></tr>
<tr><td>JD Group
(Abra, Barnetts, BoConcept, Bradlows, Electric Express, HI-FI Corporation, Joshua Doore, Morkels, Price and Pride, Russells)</td><td colspan="2">28 stores in 4 countries</td></tr>
<tr><td colspan="2">Research & Development</td><td>V&A Waterfront</td><td colspan="2">Contacts in 3 countries for feasibility studies of waterfronts (Mauritius, Gabon, Nigeria)</td></tr>
<tr><td colspan="2" rowspan="4">Telecommunications</td><td>MTN/M-Cell</td><td colspan="2">Cellular/fixed line contracts in 5 countries (Uganda 50%, Rwanda 31%, Nigeria 94%, Cameroon 100% and Swaziland – joint venture).
Bidding for a 60% stake in Kenya’s second cellphone operator, Kencell, against MSI Cellular. Kencell’s rival, Safaricom, has UK group Vodafone as its shareholder. Vodafone is a significant shareholder in Vodacom.</td></tr>
<tr><td>Vodacom</td><td colspan="2">Cellular contracts in 5 countries but only functional in Lesotho, DRC 51%, Tanzania 65% and Mozambique. Operations in Mozambique resumed in late 2003 after a year-long delay. Zambian licence remains non-operational for the second year. Has also made a bid for a 50% share in local Nigerian operator Econet Wireless to enable it to compete with MTN. Issue stalled by court action.</td></tr>
<tr><td>Transtel
(A division of Transnet)</td><td colspan="2">Runs telecommunication network with SA multinationals in Africa (includes banks, retail stores, local telecoms and some civil and security networks)</td></tr>
<tr><td>Eskom Enterprises Telecommunications</td><td colspan="2">1 fixed line/cellular contract</td></tr>
<tr><td colspan="2" rowspan="2">Transport</td><td>Transet
(9 divisions with African involvement including Spoornet Joint Ventures and its subsidiary Comazar, Transwerk and Transtel)</td><td colspan="2">20 country contracts</td></tr>
<tr><td>Unitrans</td><td colspan="2">7 countries</td></tr>
<tr><td colspan="2" rowspan="4">Tourism and Leisure</td><td>Protea Hotels</td><td>Resorts in 9 countries</td><td rowspan="3">Together they are present in 13 countries</td></tr>
<tr><td>Southern Sun</td><td>Resorts in 6 countries</td></tr>
<tr><td>Sun International</td><td>Resorts in 4 countries</td></tr>
<tr><td>Imperial Car Rental</td><td colspan="2">110 locations in 8 southern African countries</td></tr>
<tr><td rowspan="2">Utilities</td><td>Power</td><td>Eskom Enterprises</td><td colspan="2">3 management contracts, 1 joint venture and 28 country contracts</td></tr>
<tr><td>Water</td><td>Umgeni Water</td><td colspan="2">3 country contracts</td></tr>
<tr><td colspan="2" rowspan="2">Information Technology</td><td>Arivia.com
(state-owned)</td><td colspan="2">Offices in Nigeria, Ghana and Botswana
1 joint venture with Seven Seas Technologies in Kenya
Contracts in Namibia, Malawi Zambia and Uganda</td></tr>
<tr><td>Mustek
(Mecer brand)</td><td colspan="2">Authorised dealerships in 8 African countries</td></tr>
</table>

Data in the table is constructed from information in the Corporate Mapping Database, a joint project by Democracy and Governance and Integrated Rural and Regional Development at the Human Sciences Research Council (HSRC). Prof John Daniel and Ms Sanusha Naidu administer the project while Ms Jessica Lutchman maintains the database. The project collects data on South African corporate activity in Africa.

Mapping South Africa's Trade and Investment in the Region

Reg Rumney and Michelle Pingo (BusinessMap)

South Africa's dominance in the region has steadily increased since the country was re-admitted to the global economic community with the democratic elections of 1994. South Africa is an important direct investor in the other SADC countries and is trading more with its neighbours, though African trade has not displaced South Africa's traditional trading partners in Europe, America and the East. South African president Thabo Mbeki's support for rejuvenating Africa through the New Partnership for African Development (Nepad) – described as a vision and strategic framework for Africa's renewal[1] – is being enthusiastically adopted by many South African companies, both private and state-owned, encouraged by favourable foreign exchange relaxation for investing in first the SADC and then Africa.

This paper will look at the scale of South Africa's penetration in the regional economies by examining its foreign direct investment in the Southern African Development Community (SADC) [2] and its trade with this region. The issue of the socio-economic and political effects of South African investment on the regional economies will be addressed by a case study of the effects of the Mozal aluminium smelter investment on the local community in Mozambique.

1. The scale of South Africa's penetration of the regional economy

Total South African foreign investment in Africa in 2001 amounted to R26.8 billion; an increase of approximately R2.7bn over 2000 and a 300% increase over five years. Just over half of this total took the form of direct investment in new or ongoing operations.[3]

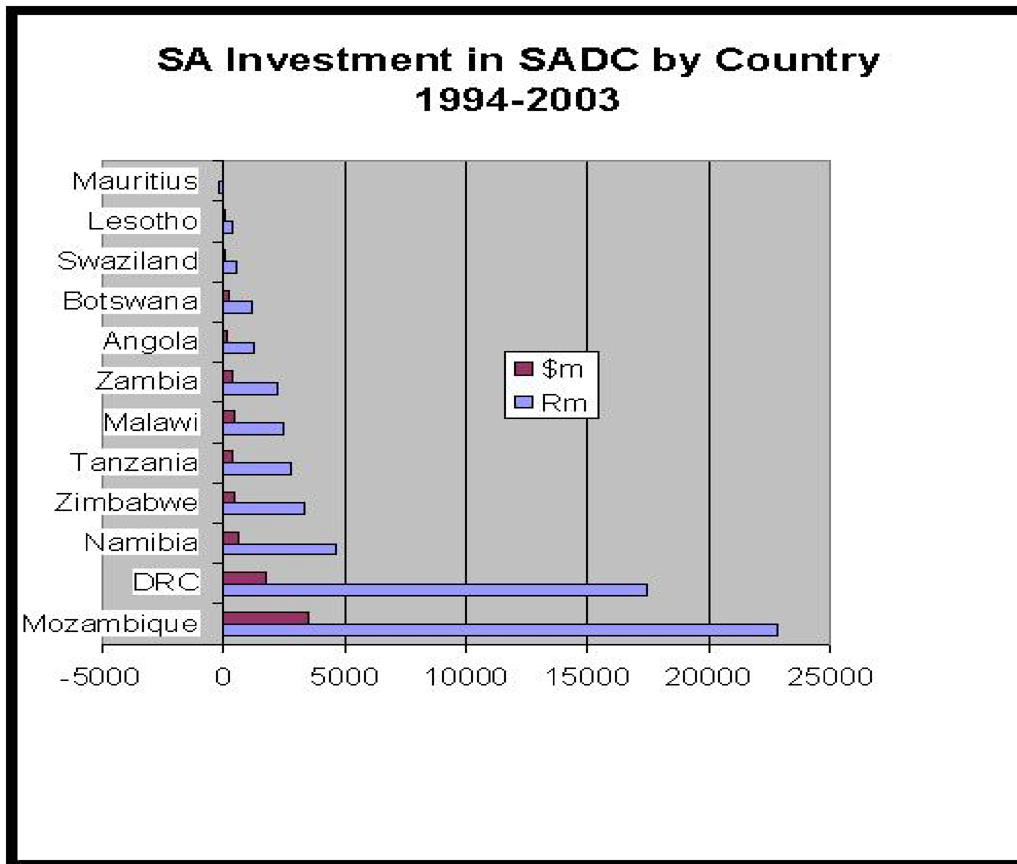
For the period 1994 to 2003 South African investment in the SADC was 25% (in dollar terms) of total FDI flowing into the SADC region as measured by *The BusinessMap Foundation* using its unique database of announced FDI in the region.[4]

South Africa has been an active foreign direct investor in all the SADC countries, although it has been easier for the country to invest in countries close to it geographically. Consequently South African companies invested R22.8bn from 1994 to 2003 in Mozambique, the country in the SADC region receiving the highest South African FDI. The other South African neighbours, Namibia, Zambia and Zimbabwe, also received high amounts of investment from the country. The Democratic Republic of Congo (DRC) received the second highest amount of investment from South Africa between 1994 and 2003, amounting to 71% of the total FDI received by the country.

The graph below shows the amount invested by South Africa in each SADC country from 1994 to 2003.

[1] Nepad website- http://www.nepad.org
[2] The SADC consists of: South Africa, Angola, Botswana, the DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Seychelles, Tanzania, Zambia and Zimbabwe.
[3] The South African Department of Trade and Industry
[4] While *The BusinessMap Foundation* uses Unctad's definition of Foreign Direct Investment, the Foundation records the FDI on the date of announcement, and includes intentions and expressions of interest, to capture investment mood. At a later date the intentions and expressions of interest are filtered out if they have not been translated into actual investment. Our figures are therefore not entirely comparable with the official flows, though over time they should coincide.

Graph 1: South African investment in SADC by country 1994-2003



Source: The BusinessMap Foundation

The table below shows the percentage of total FDI coming from South African companies and the ranking of South Africa as a foreign investor in the country. South Africa is ranked as the top foreign investor or as one of the top three foreign investors in many SADC countries. It invested R4.3bn in Lesotho between 1994 and 2003, which is 86% of the total FDI received by Lesotho. Likewise South Africa contributed 80% and 71% of Malawi and Swaziland's foreign investment in the period.

Table 1: SA investment in other SADC countries

Country	SA FDI as a percentage of total FDI in the country 1994 to 2003	SA ranking as foreign investor in the country
Angola	1%	6
Botswana	58%	1
DRC	71%	1
Lesotho	86%	1
Malawi	80%	1
Mauritius	-9%	3
Mozambique	31%	1
Namibia	21%	3
Swaziland	71%	1
Tanzania	35%	2
Zambia	29%	1
Zimbabwe	24%	3

Source: The BusinessMap Foundation

Historically South African Transnational Corporations (TNCs), Anglo American, South African Breweries (now called SABMiller) and Old Mutual have invested extensively in the SADC. Old Mutual has been a long-standing investor in the region; it opened a branch in Namibia in 1921 and an office in Zimbabwe in 1927. Before 2002, Anglo American and its subsidiaries, as South African companies, invested R5.6bn in the SADC region. In the same period SABMiller invested R302m in the SADC countries. Anglo and SABMiller both invested in Angola, Botswana, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe. In addition SABMiller invested in Malawi and Anglo American invested in the DRC. In 2002 these TNCs were reclassified as UK based companies following their foreign listings and majority UK shareholding.

Other South African companies that have invested in many SADC countries include Standard Bank, Shoprite, Vodacom and Eskom.

Standard Bank trades as Stanbic Africa in 16 African countries, including 10 SADC countries outside South Africa. Before 1994 Stanbic Africa had investments in the SADC countries of Namibia and the DRC. The investment in Namibia dates back to 1915. In 1995 the bank concentrated on entering Lesotho, Mozambique and Tanzania by acquiring stakes in local banks. An investment in Zimbabwe in 1997 was followed by investments in Swaziland and Zambia in 1998. In 1999 there was an additional investment in Lesotho when the bank acquired a 70% stake in the Bank of Lesotho. At the end of 2001 the Standard Bank Group paid $13.5m for 60% of the Commercial Bank of Malawi. Most recently, in May 2003, Stanbic Investment Management Services was launched in Botswana.

Shoprite operates in all the SADC countries except for the Democratic Republic of Congo (DRC) and the Seychelles. Shoprite began its expedition into the region in Zambia in 1995 when it purchased and refurbished six buildings to open retail stores. In 1997 Shoprite invested R69-million in Mozambique, Zambia and Zimbabwe. Between 1998 and 2001 Shoprite expanded its investments in Zambia and Zimbabwe. The company continued to expand into the SADC region in 2002 and 2003 with investments in Angola, Mauritius and Tanzania.

Vodacom's first expansion outside SA was in May 1996 when it established a cellular telephone service in Lesotho, through a joint venture with state-owned Lesotho Telecommunications Corporation. Vodacom invested in Vodacom Tanzania in August 2000, acquiring a 65% stake. In May 2002 Vodacom bought a 51% stake in Congolese Wireless Networks (CWN) to create Vodacom Congo. And most recently Vodacom Mozambique was launched. Vodacom has allocated over R4bn ($496m) to three of its African ventures to date.

The state-owned enterprise Eskom has invested in Mozambique, Lesotho, Mauritius and Zambia. The company has two joint ventures in Mozambique, the Mozambique Transmission Company (Motraco) and a project to distribute and sell natural gas from the Pande gas field. Eskom owns part of the Lesotho Telecommunications Corporation via the Mountain Communications consortium. Eskom is involved in the Trans Africa Projects in Mauritius and has a 51% stake in the Lusemfwa Hydro Power Company on the Zambian copper belt. Other than concessions Eskom has also been involved in contracts with power utilities in Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia, Zambia and Zimbabwe.

The majority of South African trade is still predominantly with Europe, America and Asia, as can be seen in the table below.

Table 2: Destination of South African trade

Region	Share of total exports (%)		Share of total imports (%)	
	2000	2003	2000	2003
Americas	17	14	15	14
Africa	16	16	2	3
Asia and Oceania	28	30	39	37
Europe	39	39	44	45

Source: Department of Trade and Industries

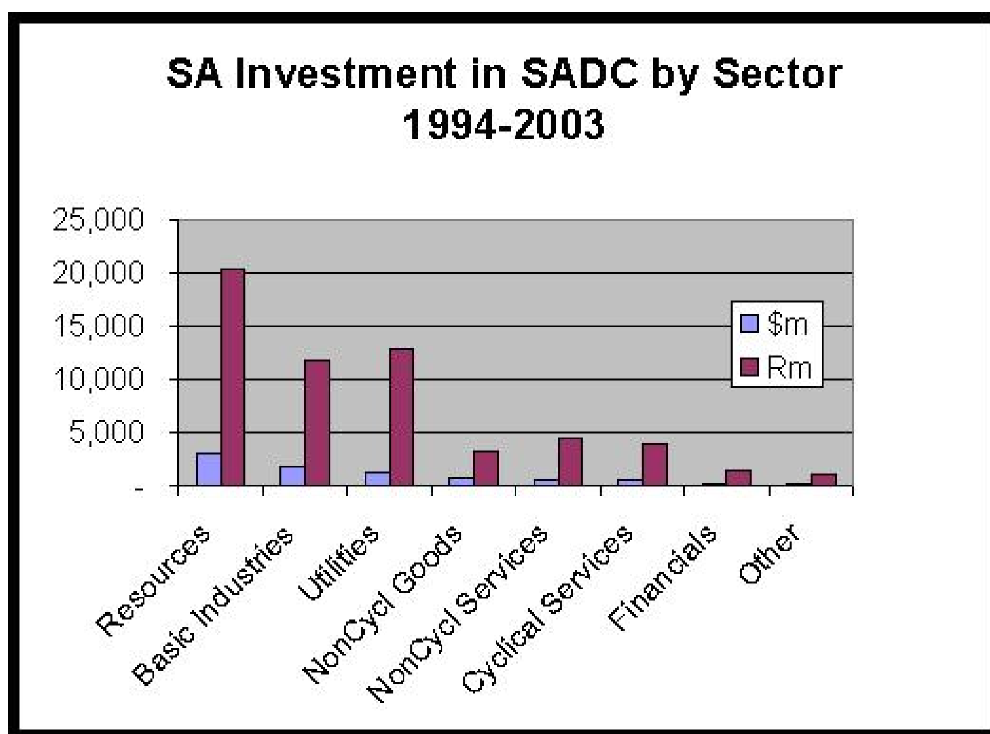
South Africa is a net exporter to most of the other SADC countries, except for Botswana, Lesotho, Namibia and Swaziland. The amount of South African exports to the following eight SADC countries Angola, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe in 2003 was R25.6bn, which is 11% of total South African exports and 66% of South African exports to Africa.

South Africa is a net importer from Swaziland and Lesotho, which is understandable as the South African market is much larger than the markets of these neighbouring countries. South Africa's imports from Namibia have surpassed its exports to Namibia in every year between 2000 and 2003. The trade deficit with Namibia increased to R4 million in 2003 as a result of decreasing exports from South Africa to Namibia, which fell from a high of R261 000 in 2000 to R3 000 in 2002 and zero in 2003. The trade deficit with Botswana has also been rising in recent years reaching a high of R30m in 2003, due to low exports to Botswana.

2. Sectors in which South African investment is concentrated

The SADC resources sector received the highest foreign investment in the period 1994 to 2003. South African companies have also invested largely in the SADC countries' resources sectors. The basic industry sector in SADC received the second highest investment amount from South Africa. The basic industry sector includes steel and other non-ferrous metals. The graph below shows South Africa's investment in the SADC region by sector for the period 1994 to 2003.

Graph 3: South African investment in SADC by sectors 1994-2003



South African investment in the SADC region resources sector, which includes gold, platinum and diamond mining, as well as oil and gas exploration and production, was just over R20bn between 1994 and 2003. The largest investments in the SADC resources sector by South African companies are in the table below.

Table 3: South Africa's largest investments in the SADC resources sector 1994-2003

Year	Target Company	Target Country	Source Company	Rm	US$m	Type
2001	Pande & Temane gas fields	Mozambique	Sasol Oil	4 064	581	New
2001	Skorpion zinc project	Namibia	AngloGold	3 655	454	New
1997	Namzinc	Namibia	Anglo American Corporation of SA	450	100	Expression of interest
2003	Zimbabwe Platinum Mines	Zimbabwe	Impala Platinum	626	85	Expansion

Source: The BusinessMap Foundation

3. The impact of South African investment on regional economies

The fear when a region receives a surge of external investment is that it will create an 'enclave economy', as in Angola, where investment for offshore oil platforms has created a circle of wealth insulated from the rest of the poverty-stricken country. Also, there is a real possibility that such surges of investment may exacerbate inequality within a country, with damaging political and social consequences.

The impact of the sizeable investment in the Mozal aluminium smelter on Mozambique is one such example. It is also perhaps the only example where there has been some serious consideration of the impact of such investment, and an attempt to offset any potential deleterious side effects of the investment. The South African state-owned development finance institution, the Industrial Development Corporation (IDC), as a 24% shareholder in the Mozal Aluminium smelter in Mozambique has undertaken many projects geared to the development of the local communities. To support and promote sustainable development projects, the Mozal Community Development Trust (MCDT) was established in 2000.

There is evidence in the case of the Mozal smelter – unlike in other SADC countries where there is no such evidence – that the investment itself may have helped rather than hindered development. The Human Development Index (HDI) of Mozambique has improved from 0.325 in 1995 to 0.356 in 2001. The index was in fact lower in 1999 than in 1995 at 0.323, therefore the launch of the Mozal Community Development Trust in 2000 may have had an effect on the HDI.

Also, in 2001 Mozambique's Mozal aluminium smelter began to operate at full capacity corresponding with a more than tripling of exports to the EU in 2001 from the previous year. In 2001, for the first time ever, Mozambique recorded a trade surplus with the EU. Mozambican exports to the EU rose from €111.8-million in 1999 to €531m in 2001. EU countries imported Mozambican aluminium worth €392m in 2001, up from €22m in 2000, accounting for 73.7% of Mozambique's exports to the EU.

The MCDT is primarily focused on projects within a 10-km radius of the smelter, but it is not limited to this area. Last year 47 out of the 50 planned projects were concluded successfully. In the 2003 financial year Mozal granted the Trust US$2 million for community projects and plans to increase the allocation to $2.5m in the next financial year.

The MCDT targets four key development areas. They are:

- Small Business Development,
- Education and Training,
- Health and Environment, and
- Community Infrastructure

Small business development

The Small and Medium Enterprise Empowerment and Linkages Programme (SMEELP) officially launched on 18 July 2001, was established to support local business by linking small and medium enterprises (SMEs) to the Mozal expansion project's supply chain.

The programme was executed over 24 months through a joint venture comprising the Mozal expansion project team, the Mozal operations team, Africa Project Development Facility of the International Finance Corporation (IFC) and Centro de Promocao de Investimentos (CPI) of the Mozambican government.

As a result of the linkages programme, 28 project contracts totalling more than $5m were awarded to, and successfully delivered by, Mozambican SMEs. In total, more that 200 local companies were awarded work by the project. The project workforce peaked at approximately 5 000 people in October 2002. Mozambican employees have worked 69% of the total man-hours to date on the project.

The MCDT also financed the construction of the Beloluane Market. The market has a total of 100 stands. More than 100 families depend on the income generated by the market.

With the donation of a block-making machine to local small business, daily brick production has increased substantially requiring more workers to handle the increased capacity. A second block-making machine was donated to ADEMO, a Mozambican Trust for handicapped people, providing disabled people with an opportunity to develop a small business and become self-sufficient.

Education and training

Education and training receives a large proportion of the Trust's attention. Between 2000 and 2003, the MCDT built 25 classrooms in six different primary schools. These primary schools are all within a 10km radius of the smelter and have in excess of 4 500 children in attendance.

In addition the Trust has completed three secondary school projects. These projects included a fully stocked library, a computer facility housing 20 workstations connected to the internet and the donation of welding equipment to a school offering training in technical fields.

The Trust also provides bursaries to 20 students studying various courses at the Eduardo Mondlane University. Modern equipment, such as copy machines, was also donated to the schools and the university.

Teachers have undergone training in computer skills, education technology and HIV/AIDS. The MCDT also sponsored the vendors from the Beloluane Market in a number of courses including small business management, poultry farming and cooking courses. In addition, a group of 20 single mothers and widows from Matola benefited from a carpet-making and embroidery course. As a result, these women have started their own businesses.

The MCDT supports the Agriculture Development Programme (ADP) with its aim to assist farmers who were resettled due to the Mozal plant. The farmers underwent small business management courses and expanded their agriculture skills to include poultry farming. In order to diversify the farming activities of the Bematchome Farmers Association, broiler houses were built and courses on broiler production were sponsored. Fifty farmers were also trained in cashew tree cropping to further diversify and re-introduce a traditional Mozambican crop with great export potential.

Health and environment

A malaria prevention and management programme has been established. The MCDT is co-funding the Lebombo Spatial Development Initiative spray programme. As a result, the malaria infection rate has been reduced by up to 18.3% in the sprayed areas. Extending the programme to the broader community, local malaria laboratories in the community health centres were supported via the MCDT. Availability of medicine for malaria treatment in the local clinics and bed nets were also supported.

To date, trained field officers giving information on how to prevent and fight HIV/AIDS have visited more than 200 000 people. This programme is supported financially by MCDT and is implemented by Ajuda de Desenvolvimento de Povo para Povo-Mozambique in conjunction with district health authorities.

Medical equipment has been donated to local hospitals. Further, the Trust supports the Old Age Centre of Massaca, providing a better life for the district's senior citizens.

Community Infrastructure

The Trust built a new police station in Beloluane and renovated the Matola Police Headquarters. Four new vehicles were donated to assist the Beloluane police in the performance of their duties.

Five boreholes were drilled and water tanks were installed to facilitate the local community's water access.

Farmers in the Mavoco resettlement area were experiencing difficulties transporting their seed and fertilisers from the Beloluane Centre, a distance of over 10 km by road. A small warehouse was constructed to remedy the situation. The MCDT also provided funds for a tractor and trailer to help transport goods. A small milling machine was provided and is run by the farmer's association for the benefit of the broader community.

4. Conclusion

South African investment in the region is substantial, but not overwhelming: in that sense the idea of South Africa as an economic 'regional hegemon' is overdone.

South Africa's investment in the region continues to follow its trade relations in the sense that regions other than Africa continue to dominate. For instance, one of the biggest investments by SAB, traditionally regarded as a South African TNC, was the deal that led to the merger with Miller of the US to create SABMiller.

On the other hand, in one of its nearest neighbours, Mozambique, it is the dominant investor, surpassing even the former colonial power, Portugal.

South Africa's proximity also gives it greater economic influence through transport routes and the planned integration of energy distribution in a regional power pool. Indeed, as significant as direct investment in new projects or acquisitions have been the many concessions and joint ventures undertaken by Spoornet in the region.

Under President Mbeki, two of the countries big state-owned enterprises (SOEs) have entered the region with great gusto, and this active engagement with the Nepad project is likely to continue. Eskom, though an electricity utility, has undertaken telecommunications investment, along with Vodacom, 50%-owned by part-privatised Telkom, and private company MTN. These and other investments in services, rather than resources, should have a positive but difficult to quantify effect on the quality of life of SADC inhabitants through greater competition and more choice, as well as boosting economic activity.

A Trade and Investment Perspective on the Region

Richard Kamidza (SEATINI)

1. Introduction

This paper takes as given:

- the potential to increase regional trade and production
- that significant regional and global resources will be necessary to expand existing production frontiers and trade in goods and services
- the existence of supply-side constraints and capacity limitations
- the harsh socio-economic and political realities in some member states
- the low levels of domestic savings in many countries in the region
- the weak and partisan indigenisation project in many countries
- that South Africa is the hub of foreign direct investment (FDI) in the region
- the failure of privatisation processes to assume social responsibilities
- the failure to respect labour laws.

2. The status of investment and trade in the region

The SADC countries are endowed with abundant agricultural, mineral and human resources and a combined population of about 208 million. However intra-regional trade remains very erratic and is dominated by South Africa and Zimbabwe. The prevailing poverty conditions in some member states illustrate the failure of investment and trade flows to facilitate development.

2.1 Foreign direct investment flows

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

Table 1: Foreign direct investment inflows by country, 1990 to 2001, US$ million

Country	1990-1995	1996	1997	1998	1999	2000	2001
Angola	260	181	412	1114	2471	879	1196
Botswana	-24	70	100	96	37	57	57
DRC	-3	25(a)	-44(a)	61(a)	11(a)	23(a)	32(a)
Lesotho	213	286	269	262	163	119	118
Malawi	15	44	22	70	60	45(a)	58(a)
Mauritius	21	37	55	12	49	277	12
Mozambique	28	73	64	235	382	139	255
Namibia	96	129	84	77	111	153	99
Seychelles	23	30	54	55	60	56	34
South Africa	301	818	3817	561	1502	888	6653
Swaziland	63	22	-15	152	100	-19	69
Tanzania	39	149	158	172	183	193	224
Zambia	122	117	207	198	163	122	72
Zimbabwe	34	81	135	444	59	22	5

Source: UNCTAD, FDI/TNC database, 2002
Note: (a) indicates estimate

2.2 The structure of production in the region

Industrial production in the region focuses on a small range of commodities such as copper, coffee, diamonds, tobacco, fish, tea and prawns. Although recent trade protocols have liberalised trade in goods and services in the region most countries continue to depend on trade in a limited number of commodities and compete with one another for markets. A number of countries depend on trade in a single commodity.

Table 2: Commodity dependency of selected southern African countries

Country	Year	Individual Commodities as a % of total export earnings		Destination of products
Angola	1999	Diamonds	12.0	EU, USA, China
Botswana	1999	Diamonds	79.0	EFTA, EU
DRC	1999	Diamonds	58.0	EU, USA
Malawi	1999	Tobacco Tea	62.0 9.0	EU, South Africa, USA
Mozambique	1998	Prawns	5.9	South Africa, Zimbabwe, EU
Namibia	2000	Diamonds Fish	48.0 25.0	EU, South Africa
Tanzania	2000	Coffee Cashew nuts (unprocessed)	13.0 13.0	EU, India
Zimbabwe	2000	Tobacco	15.9	EU, South Africa
Zambia	1999	Copper Cobalt	50.0 14.0	EU, South Africa

Source: Calculated from EIU various reports

2.3 Neo-liberal policy effects

In general liberalised trade and investment has not facilitated development and has failed to enhance product competitiveness in national, regional and international markets. There is a high rate of de-industrialisation and massive privatisation leading to a weak and narrow industrial base, a factor that is contributing to low trade and investment inflows.

Multilateral and bilateral trade relationships must be seen in the context of a series of conditionalities, such as those related to aid, which have an impact on politics, the environment and social security. These conditionalities are designed to open certain sectors of the economy to FDI and to transnational corporations (TNCs). The FDI bundle, which comprises capital, contacts, managerial competence and technology transfer amongst other things, needs to be critically assessed in order to ascertain its future value and benefit to the people. Currently there is a lack of equity and transparency in the regulation of international financial and capital markets as well as a lack of democratic global governance.

2.4 Policy challenges facing trade and investment

It is important to look at the relations between SADC countries and between SADC and the outside world. SADC countries need to harmonise:

- Rules and regulations that govern the movements of capital and labour, traffic, border crossing procedures, quality and standards of goods, customs, and investment procedures;
- Fiscal, monetary and exchange rate policies;

The political and socio-economic policies and plans of member states need to;

- Improve the supply-side economics by enhancing the productive base of the member states. This will lead to qualitative and quantitative improvements in production and trade, which will help to attract more investment in the form of capital, technology and human skills development;
- Address escalating crime, socio-economic decay, political polarisation and the poor record of human rights and the rule of law all of which lead to negative reports that deter trade and investment;
- Develop policies aimed at eliminating obstacles to the free movement of capital, labour, goods and services, and people in the region.

3. Major players and sectoral focus

Sectors favoured by TNCs include:

- tourism
- transport and storage
- telecommunications
- mining and quarrying
- metals and metal products
- motor vehicles
- food and beverages
- pharmaceutical products
- chemical products
- agriculture.

4. Multilateral and bilateral trade arrangements

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

The region is guided by multilateral (WTO) and bilateral (Cotonou) trade arrangements that seek to enhance the flow of trade leading to development.

Negotiations are also underway with multilateral institutions such as the EU and WTO, though under different configurations. Significant characteristics of these negotiations are:

- The SADC is deeply divided, hence it is not negotiating economic partnership agreements (EPAs) as a united block;
- Large-scale exports have developed in products where the Cotonou Agreement provides significant advantages, but this excludes areas under the European Union's common agricultural policy, to which SADC countries do not yet enjoy duty-free access. In addition, trade agreements that exist between the EU and SADC distort intra-regional trade;
- There is concern that goods exported duty free to South Africa could find their way into the neighbouring SADC markets on a duty free basis disguised as South African goods;
- The EU-SA trade agreement binds all South African Customs Union (SACU) members and treats them as having a higher status. This means that the low income countries of this group no longer enjoy rights to non-reciprocal trade preferences and full duty access to the EU market for all their exports except EBA (everything but arms). They face the accelerated introduction of a free trade agreement (FTA) with the EU that was never designed with their economic structures and level of development in mind. This will subject them to free trade with the EU without any corresponding improvement in market access. They are also excluded from any direct consultations on how the FTA should be implemented in addition to facing serious fiscal revenue losses as a result of the elimination of tariffs on trade with EU.
- Of the non-SACU countries, only six SADC countries (Angola, DRC, Malawi, Mozambique, Tanzania and Zambia) enjoy rights to non-reciprocal trade preferences and full duty access to the EU market for all their exports except EBA. So, they can participate in EPA negotiations if they so wish.
- Likely victims of EPA negotiation are Mauritius, Seychelles and Zimbabwe. Seychelles is interested in securing duty free access for its canned tuna exports. The country has little or no industry to protect. Mauritius is interested in its food and drink, which may be threatened by EU products through EPAs. Zimbabwe, which depends heavily on agriculture and agro-processing industries, faces potentially devastating competition under a FTA.

Policy challenges:

- Events are moving very fast;
- The EU has already launched wide consultations including informal meetings with broad spectrum of stakeholders;
- There is a desire to make significant progress by the end of May (April – May);
- There is a need to rationalise configurations. Sixteen Eastern and Southern African (ESA) countries launched joint EPA negotiations with the EU in February 2004. However the region is divided with Tanzania, South Africa, Mozambique, and Angola out of these negotiations. In general the SADC seems to rely too much on South Africa, which has an existing EU trade-relationship.

What is the Experience and Impact of South African Trade and Investment on the Growth and Development of Host Economies? A View from Mozambique[1]

Carlos Nuno Castel-Branco[2]

1. Introduction

This paper discusses and analyses the experience and impact of the dynamics of South African investment and trade in Mozambique, as part of a more general analysis of the role of the South African system of accumulation in southern Africa.

The paper was initially presented in a shorter PowerPoint version at the 'Conference on Stability, Poverty Reduction and South African Trade and Investment in southern Africa'. It discusses how South African investment and trade patterns associated with the expansion of the minerals and energy complex (MEC), and other oligopolistic industries, has shaped the system of accumulation in Mozambique. The paper argues that a broader development basis and dynamic needs to emerge, and that this can be achieved only through a regional and international perspective.

The paper is organised into seven sections. The next section discusses the economic linkages between South Africa and Mozambique in historical perspective. This is followed by a section that looks at the dynamics of growth and trade in Mozambique and the influence of the South African system of accumulation. Section four discusses the dynamics and impact of South African foreign direct investment (FDI) in Mozambique. Section five studies two specific examples of the role and implications of the MEC in Mozambique, namely in aluminium and natural gas. Section six discusses the nexus between macroeconomic conditions and policies, the characteristics of productive and trade capacities, and investment trends in Mozambique. Finally, section seven draws some conclusions on the overall debate.

2. Historical context of economic links between Mozambique and South Africa

2.1. Introduction: dynamics of economic integration between Mozambique and South Africa

Economic links between South Africa and Mozambique developed from as early as the late 19th and early 20th centuries. They have been shaped by four major dynamic factors:

- The weakness of the Mozambican economy relative to the forces of capital in southern Africa, and the nature of economic public policy options in relation to socio-economic pressures and linkages in Mozambique
- the regional strength of corporate South Africa developed around the MEC as a system of accumulation that integrates the region around South Africa
- the international weakness of the South African economy and the desire of its capital to expand within the region and beyond and

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[1] This paper is an extended and developed version of a presentation made at the "Conference on Stability, Poverty Reduction and South African Trade and Investment in Southern Africa", organised by SARPN/HSRC, which took place in Pretoria on the 29th and 30th of March, 2004. I would like to thank the Conference organisers for having invited me to the Conference, and the participants and discussants for having helped to develop this paper.

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- the hegemony of a small number of large corporations over the South African economy and state, and over the dynamics of capital accumulation in the southern African region.[3]

These dynamics factors were as important historically in developing economic linkages around labour migration, the 'gold profit' and transport services, as they have been, more recently, in developing links around South African FDI in Mozambique and unidirectional trade (Mozambique imports 10 times more from South Africa than it exports to South Africa).[4]

The processes by which particular links are developed, strengthened or replaced vary according to specific historical and socio-economic circumstances. They have been influenced by socio-economic pressures and interest groups: fiscal and balance of payments weaknesses, profit maximisation through minimisation of labour costs in mining, market expansion and dominance, as well as attempts to minimise the impact of public policy on business interests and room for manoeuvre.

Also, there have been more general political goals at play that created pressures to change or maintain links. During the 1970s and 1980s the South African apartheid regime sought to prevent the emergence of new linkages and development opportunities in Southern Africa, and to maintain control over regional economic integration. The strategy of the apartheid regime combined economic pressure (diverting rail and port traffic, revaluing gold transactions associated with the deferred wages of migrant workers and drastically reducing the number of migrant workers from Mozambique) and systematic, extensive and intensive military action. Thus, by unilaterally reducing the intensity of economic links (badly affecting the Mozambican economy as a whole) and preventing new links from developing, South African capital and political forces reduced the ability of Mozambique to escape from its sphere of hegemonic influence.

2.2. Old dominant patterns of economic links between Mozambique and South Africa

Economic links between Mozambique and South Africa were initially based on migrant labour and transport services and, from the 1960s, were extended to trade and investment.

In order to keep labour abundant, socially and politically disorganised and cheap, South African mining capital developed a regional labour strategy, which resulted in massive recruitment of migrant labour from all over southern Africa to work in the mines. In Mozambique, the region below the parallel 22 (approximately south of the Save river) was defined as a labour reserve for the South African mines, in particular for the gold mines. South African mining capital became the single most important employer of Mozambican wage labour, employing an average of 110 000 migrant workers (25% of industrial employment in Mozambique) per year in the first half of the 1970s.[5] Moreover, in the late 1960s and early 1970s, total income accruing to migrant workers was one and a half times higher than total income from commercial agricultural production in the south of Mozambique. The deferred component of migrant workers wages (one third of total wages) was three times as high as income from family farms.[6] Thus, in addition to being the largest employer of wage labour in Mozambique, South African mines were also, by far, the most important source of income and finance for the agricultural sector in the south of Mozambique.[7] Finally, the 'gold business' associated with migrant workers'

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[3] See, for example, Castel-Branco 2002a; Centro de Estudos Africanos (CEA), 1979a; Fine, B. 1997a and 1997b; Fine, B. and Z. Rustomjee. 1996; First, R. 1983; Haarlov, J. 1997; O'Laughlin 1981; Roberts, S. 2000; Wuyts, M. 1980.

[4] Castel-Branco 2003a, 2002a and 2002b.

[5] CEA. 1979; INE (various statistics yearbooks); Wuyts 1989 and 1980.

[6] See Castel-Branco 1994a; Wuyts 1981.

[7] See, for example, Castel-Branco 1994a; CEA 1979a; O'Laughlin 1981.

deferred wages was a very significant contribution to balancing the current account that would otherwise have been systematically negative.[8]

In the mid 1970s, South Africa reduced the number of Mozambican migrant workers from 118 000 in 1975 to 41 300 in 1977.[9] This move by the South African government and mineral complex created a large number of unemployed workers in Mozambique consisting of those who lost their jobs and the new entrants into the labour market who could not find a job. It also led to a profound crisis of accumulation in the agricultural sector, which became starved of finance.[10] The sudden collapse in the number of workers recruited and the unilateral elimination of the 'gold business' by the South African government also created severe current account pressures. On the one hand, the value of the workers' remittances declined by the combined effect of the fall in recruitment of labour and the elimination of the gold business. On the other hand, the crisis of accumulation in the agricultural sector increased imports of food, particularly cereals, and reduced the production of exportable goods. The migrant labour had created a mode of accumulation and production of surplus. The collapse of job opportunities made this mode of accumulation crumble.

The transport system that links South Africa and Mozambique was originally developed around the MEC in South Africa. On the one hand, it was built to enable the transportation of thousands of migrant workers recruited to the mines of South Africa. On the other hand, part of the finance to build the system was tied to the MEC. Finally, the MEC became one of the major beneficiaries of the transport system of the Port of Maputo and its imports and exports. The railway and port became the second largest employer of Mozambican workers. The transport system of the Port of Maputo was also the largest source of foreign currency for Mozambique, contributing as much as 40% of the total export revenue of the country. Moreover, net foreign currency income resulting from transport services, together with net workers' remittances, kept the overall balance of payments in equilibrium.[11]

Finally, economic links between South Africa and Mozambique were also developed around trade and investment. Trade involved traditional exports to South Africa (mostly prawns and oil products); and South African exports of equipment, raw and intermediate materials, accessories and parts, and a variety of consumer goods to meet the fast growing demands of an increasing urban population and booming manufacturing sector. By the early 1970s, South Africa was the second largest trading partner of Mozambique, just after Portugal. At that time, the current account between Mozambique and South Africa was, on average, balanced.

Prior to the current inflow of FDI into Mozambique, large-scale South African FDI was associated with two main processes. One was the building of the large, Cahora Bassa hydroelectric dam (HCB) on the Zambezi River in the province of Tete in the late 1960s – the South African government, through Eskom, is one of the three current shareholders in the dam. The other, from the early 1960s, was the inflow of South African FDI into different industries. This process was associated with three main factors:

- the restructuring of labour and industrial relations in Mozambique as a result of political pressures to eradicate forced labour and the national liberation war
- the need for expansion of industrial production as a result of economic opportunities and political pressures and

[8] CEA. 1979a. The "gold business" resulted from the fact that when labour migration to South Africa started on a systematic and controlled manner, it was agreed between the Portuguese and the South African governments that approximately one third of the miners' wages would be paid to the Portuguese colonial administration and the workers would only receive this money on return to Mozambique. The agreement also stated that the deferred wages would be paid in gold, and the gold/Rand exchange rate was fixed. Thus, the colonial administration received gold and paid the deferred wages to the workers in Mozambican escudos. On top of this, the world price of gold appreciated significantly over time, which allowed the Portuguese administration to make a profit based on the differential between the world price of gold and the price of gold that had been fixed in the agreement with the South African authorities.

[9] See INE (various statistics yearbooks); and Wuyts 1989.

[10] See Castel-Branco 1994a; CEA 1978, 1979a and 1979b.

[11] CEA 1981, Wuyts 1989 and 1984.

- the insistence by the Portuguese administration on financial austerity and financial autonomy for the colonies, because of the fiscal difficulties faced by the Portuguese state.

Whereas the first two factors demanded significant levels of investment in new capacity and modernisation of existing assets, the third prevented such an investment programme from being implemented. The answer given by the colonial administration to this dilemma was the adoption of the policy of 'open doors' to FDI. Of the 13 industries already installed in Mozambique up to the early 1960s when the open door policy was adopted, only two had been developed through foreign (non-Portuguese) participation. Of the 12 developed after the adoption of the open door policy, four involved joint ventures and eight required foreign technical assistance.

South African capital participated in many of these industries, particularly in the larger ones associated with the MEC: Maputo's oil refinery, fertilisers, HCB and metal smelters.[12] Directly (in the South African mines and related industries in Mozambique) and indirectly (transport services), the South African MEC employed about 40% of the industrial workforce of Mozambique.

So far it has been argued that the integration of the two economies has depended on identified economic and political pressures, agents and the relationship between them. How have these forms of integration evolved? Have they changed? If so, why and which new processes and dynamics have emerged? These questions are discussed in the remaining sections of this paper, which analyse the current trends in economic links between Mozambique and South Africa.

3. Current dynamics of growth and trade of the Mozambican economy and the influence of the South African system of accumulation

3.1. Introduction: general trends and new patterns of integration

In the 1990s, after the end of the apartheid regime in South Africa and the war in Mozambique, new links have been developed between the two economies influenced by traditional dynamics and new processes. South Africa developed alternative service infrastructure during the apartheid years to reduce links with the southern African region and put pressure on the regional economies. This infrastructure made the South African economy less dependent on transport services provided by Mozambique. Additionally, restrictions on labour migration were maintained and increased as the new South African government was under pressure to address huge domestic unemployment and respond to processes of restructuring and change within the MEC itself.

The end of the economic and political boycott against the apartheid regime opened the doors for the expansion of corporate South Africa throughout the southern African region. Moreover, the dominant South African system of capitalist accumulation, based on a few, very large corporations and oligopolistic industries, needed to expand to maintain its viability, to acquire more competitive strength relative to the world economy, and to take advantage of globalisation processes and global links. Also, the globalisation of corporate South Africa is expected to minimise the impact on business interests of changes and more progressive policies adopted by the new South African state. Thus, the framework that will make economic integration under the hegemony of large South African corporations possible is set finally, ironically not under, but after the defeat, of the apartheid regime.[13]

Under the economic expansion and globalisation of South African large corporations, FDI and unidirectional trade have replaced labour migration and services as the dominant vectors of economic links between

[12] For a detailed, historical account and economic analysis of these processes, see Castel-Branco 2002; Pereira Leite 1989, Wield 1977a and 1977b, and Wuyts 1980.

[13] Castel-Branco 2004, 2003, 2002a and 2002b; Daniel, Naidoo and Naidu 2003; Fine and Rustomjee 1996; Games 2003; Harlov 1997; Lutchman and Naidu 2004; Roberts 2000; Rumney 2004; Shoeman 2003.

Mozambique and South Africa.[14] South Africa has become the main trading partner of Mozambique and the main driving force for FDI. The South African MEC drives FDI in Mozambique, together with expanding and globalising monopolistic or oligopolistic industries of regional or international dimensions (such as those in beer, sugar, energy, cereal milling and tourism). Trade is mostly unilateral, with the result that Mozambique has developed a huge trade deficit with South Africa. In the process, the South African financial sector has become very prominent in the Mozambican economy.[15]

Industrial services and productive capacities related to the MEC and dependent on imports have been developed in Mozambique. While these new productive capacities can easily be used to help develop other sectors of the economy, at the moment they are anchored around a few mega projects, and the lack of dynamics in other sectors prevents any further development of, and links from, these services and capacities taking place.[16]

Spatial development initiatives (SDI) have mainly been used as a political framework for further integration and penetration of South African FDI. When projects associated with the SDIs have a clear focus supported by large corporations and the international financial system (such as, for example, the large BHP-Billiton aluminium smelter, Mozal, the Maputo-Witbank motorway, the sugar industry, or a large tourism project associated with large capital in South Africa), they are implemented. When the focus is vague (such as multiplier effects and linkages derived from assumptions about trickle-down effects emerging from development corridors), very little happens and implementation is very slow or non-existent.

On the whole, under the same dominant dynamics of an expanding system of accumulation, and under processes that are adapted to different circumstances, new economic links have been developed that strengthen the deep rooted unequal integration between the two economies in areas of interest for South African large corporations. Thus, dynamics of interests (and, consequently, of investment and business decisions) of South African large capital and of the Mozambican economy become interlinked, in part because of the absence of alternative, diversified and broad-based economic development in Mozambique. The next sections will look in more detail at the current forms of economic integration and relationships that have been developed around FDI and trade between Mozambique and South African corporations.

3.2. General patterns of growth, production and trade

The major sources of growth in Mozambique's gross domestic product (GDP) have been services (mostly trade, finance, transport and telecommunications, tourism and construction) and mega and large projects in industry, energy, minerals and agriculture (aluminium, natural gas, heavy or mineral sands, energy, cement, beverages – particularly beer – sugar and cereal milling).

With the exception of tourism, all the other service sectors are heavily concentrated in Maputo: about 70% of trade and of transport and telecommunication services, and 75% of financial services and construction activity take place in Maputo. Furthermore, almost 80% of investment in transport infrastructure takes place around the big corridors (Maputo, Beira and Nacala), with emphasis on the Maputo Corridor that links Mozambique and South Africa. Construction is concentrated around industrial mega projects, road programs with the emphasis on the Maputo-Witbank toll road, and luxury housing around Maputo and Matola. Trade is fundamentally urban and retail, and rural trade networks are very slow to develop. Finance is either speculative or related to large projects linked with international capital. Thus, services are developing around and helping to create economic dynamics that are narrowly based and that operate against the broadening of the development base.[17]

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[14] Labour migration and services are still quite important, but they are no longer the dominant features of integration of the Mozambican economy in the sphere of influence of corporate South Africa.

[15] Castel-Branco 2002a and 2002b.

[16] Castel-Branco and Goldin 2003.

[17] INE (various issues of the statistics yearbook); Banco de Moçambique (various annual reports); KPMG 1999; Castel-Branco 2003 and 2002a.

Production and export of goods show similar trends to services, as would be expected. Although cereals for household consumption are estimated to be the principal component of agricultural production, dominant agro-industrial activities are sugar (for the domestic market but also a very important export crop), tobacco, wood and cotton (all for export). These four agro-industrial products account for less than 15% of total industrial output, but represent more than 80% of agro-industrial output. Manufacturing output is heavily concentrated around aluminium, beer, cereal milling and soft drinks, which represent more than 70% of total output. Aluminium, alone, represents some 48% of total manufacturing output and 28% of manufacturing valued added.[18]

For most of the last three and a half decades, services usually represented around 55% of export revenue and goods 45%. However, between 1980 and 1983, and again in 2002, exports of goods represented almost 70% of export revenue, more than double the revenue from services. In both periods, manufacturing industry became the most import source of export revenue.

In the early 1980s, this change was due to two factors: the oil crisis and the collapse of transport services to and from the hinterland. Mozambique used to export refined oil products, although it was a net importer of oil and oil products. The oil price boom of the early 1980s pushed the share of oil products in total manufacturing exports from 10% to over 30%. At the same time, the implementation of the UN mandatory sanctions against the illegal unilateral declaration of independence (UDI) regime of Ian Smith in Rhodesia, and the war against this regime, reduced the rail and port traffic to and from the hinterland very significantly. At the time of the application of sanctions against the illegal UDI regime, port and rail traffic to and from Rhodesia through Mozambique accounted for more than half of all revenue from transport services in Mozambique.[19]

In 2002, the dynamics of change affecting the export ratio were different, as the single most important factor explaining the change was the introduction of aluminium exports. Once Mozal began operations, Mozambique's exports of goods more than trebled. Mozal, which is responsible for 48% of total industrial output and 28% of manufacturing value added (MVA), also represents approximately 75% of manufacturing exports, 60% of exports of goods and 42% of total export revenue of Mozambique.[20] Put together, exports of goods from fishing, agriculture and all other industries (except aluminium) add to no more than two thirds of total aluminium exports.

Imports are very closely related to investment. On average, over the last 25 years, investment goods (raw materials, intermediate goods, spares, equipment and machinery) have accounted for more than 60% of total imports in any one year. In periods of strong investments, such as during the early 1980s (associated with massive productive investment under the government's prospective indicative plan, PPI) and the late 1990s and early 2000s (associated with massive inflows of FDI for MEC related mega projects), investment goods have accounted for as much as 80% of total imports. Currently, approximately 50% of Mozambican imports in any one year are directly linked to a few mega projects and financed through FDI. For example, if Mozal is excluded from the accounts, Mozambique's imports fall by about one third.[21]

On the whole, Mozambican exports, prior to Mozal and Sasol, were not sensitive to changes in investment levels. On the other hand, imports are highly sensitive to investment levels. Therefore, the economy tends to build up towards economic crisis and stabilisation related recession after short-lived periods of fast growth, because of increasing balance of payment pressures that develop as the economy expands. Hence, more than the aggregate level of investment, the patterns of growth and investment in Mozambique are crucial determinants of

[18] INE (various issues of the statistics yearbook) and Castel-Branco 2003, 2002a and 2002b.

[19] INE (various issues of the statistics yearbook); Wuyts 1989 and 1984, Castel-Branco 2003, 2002a and 2002b.

[20] INE (various issues of the statistics yearbook); Castel-Branco 2003; and Castel-Branco and Goldin 2003.

[21] Castel-Branco 2003 and 2002a; Castel-Branco and Goldin 2003; INE (various statistics yearbooks).

sustainable and fast growth. This conclusion calls, obviously, for specific investment, industrial and trade strategies and policies.

3.3. Trade between Mozambique and South Africa

South Africa is Mozambique's major trading partner, accounting for 44% of Mozambique's imports, but only 20% of Mozambique's exports and 37% of Mozambique's total foreign trade. In 2002, Mozambique's trade deficit with South Africa reached US$ 500 million. This was equivalent to two-thirds of Mozambique's global trade deficit, and eight times the value of exports from Mozambique to South Africa. The trade deficit with South Africa has increased three fold over the last decade, in association with the increasing role of South African FDI in Mozambique.

Despite being South Africa's main trading partner in the region, Mozambique only accounts for a very small proportion of South Africa's external trade. On the whole, from the South African point of view, Mozambique is interesting for specific investment projects that strengthen the regional role of the MEC and the regional expansion of oligopolistic industries, and at the same time promote exports from South Africa to Mozambique.

So far, the problem of a chronic and high trade deficit has been partly minimised by the fact that FDI finances a large share of imports. However, this does not address overall balance of payments problems. FDI projects can be very profitable individually despite running a high external trade deficit. However, if they repatriate profits, import investment services and transfer wages in foreign currency, while simultaneously generating an external trade deficit through their pattern of production, then such projects will be reinforcing unsustainable growth patterns and will be pushing the Mozambican economy closer and closer towards macroeconomic crisis.

The big question, then, is whether South African investment creates enough of a dynamic to promote exports from Mozambique to the rest of the (non-South African) world to compensate for Mozambique's increasing trade deficit with South Africa.

As will be shown later evidence indicates that this is not happening on a systematic basis: only MEC mega projects are export-oriented, the high degree of export concentration created by the current investment patterns is dangerous for the sustainability of export dynamics, and Mozambique's share of the resources generated by such projects is very small. However, this problem may be partly compensated for by the industrial services and some linkages that are developing in Mozambique, mostly anchored around MEC projects. They may provide a basis for beginning to strengthen domestic linkages and to reduce the import sensitivity to investment end economic expansion. However, unless the dynamics and patterns of investment and growth are diversified, linkages away from MEC mega-projects, and thus the diversification of development poles and of the productive and export basis, will continue to be weak and unsystematic.

The structure of trade between the two countries reflects the dynamic forces that shape economic links between Mozambique and South Africa, namely: the regional dominance of the South African economy; the role of the MEC; and the weakness of the Mozambican economy. The dominant exports from South Africa to Mozambique are mineral products (mostly oil and other fuels), prepared foodstuffs (mostly cereals and beverages),[22] chemical products, base metals (iron and steel), energy, and vehicles, equipment and parts. Together, the core MEC and associated industries represent 60% of South African exports to Mozambique. Mozambique's main exports to South Africa include energy, prawns, cotton, construction equipment and food industry residues.

[22] A significant change in the structure of South African exports of prepared foodstuffs to Mozambique has happened. Beer used to be the single most important component of this group but its share of the group has declined very significantly in the last few years, in line with the penetration of SAB in the Mozambican beer industry by acquiring all of the three major breweries. Thus, trade has been replaced by South African direct investment. Hence, in parallel with falling exports of beer from South Africa, the FDI driven beer industry has become one of the fastest growing industries in Mozambique.

In this connection, there are two important trading statistics worth mentioning. First, trade in energy between the two countries, particularly Mozambique's imports of energy from South Africa, increased very sharply in the last two years, mostly due to the establishment of Mozal in Beluluane, province of Maputo.[23] Although energy exports are a small proportion of South African exports to Mozambique, the energy trade is crucial within the strategy of expansion of South African capitalism. On the one hand, Eskom controls the supply of electricity to Mozal, which consumes more energy than the rest of Mozambique. On the other hand, Mozal has enabled a dynamic and structural link between the electricity grids of South Africa, Mozambique and Swaziland through Motraco, a joint venture company that supplies South African energy to Mozal. Moreover, the 2 500 Gwh of energy that Eskom is exporting to Mozambique provides an entry point for further South African involvement in the energy sector in Mozambique by strengthening its 'big partner' position in projects linked with two large hydroelectric dams, Cahora Bassa and M'panda Uncua, and in negotiating contracts for supplying electricity to other energy-intensive mega projects in Mozambique, such as heavy sands and iron and steel, in Gaza and Maputo respectively.

Furthermore, the single most important reason for Mozambique to liberalise the energy sector, ending the monopoly of the Mozambican electricity company (EDM), was to provide the legal framework for Motraco and Eskom to enter the Mozambican market as suppliers. This is a clear example of MEC driven economic and industrial strategy and policy in Mozambique.

Second, construction equipment, accessories and spare parts, associated with the construction of the Maputo-Witbank toll road, formed a very large component of trade between Mozambique and South Africa over the period 1998-2001.[24] Part of the equipment and accessories needed to build the road on the Mozambican side were supplied by Mozambique. Therefore, these items are registered as Mozambique's exports to South Africa, but in fact Mozambique had to import them.

Mozambique's gas pipeline linking the gas reserves in Pande (Inhambane, Mozambique) with the gas-to-liquid refinery in Mpumalanga (South Africa) is going to introduce yet another change in the direction and composition of trade between South Africa and Mozambique. Large flows of gas from Mozambique are likely to make a difference in Mozambique's exports and trade balance with South Africa, ***other things being equal***. However, this is not going to change two fundamental characteristics of trade dynamics between the two countries: the narrowness of the Mozambican export base (which will become even more concentrated and will be dominated by the core MEC); and the fact that economic benefits to society accruing from such trade are significantly lower than financial benefits accruing to the firms involved.

Given the large differences in economic capacity between the two countries, the operation of any mega project in Mozambique is likely to increase Mozambican imports of electricity,[25] equipment, accessories, parts and investment services. For example, in line with the sharp increase in FDI inflows to Mozambique, imports have increased by almost 50%, and the size of Mozambique's trade deficit has been mostly determined by what happens to investment, particularly FDI. If an investment project is completely export oriented (like Mozal), the size of the trade deficit falls only slightly as the net contribution of any large export oriented project to exports is reduced by the sheer size of the demand for imports.[26] When projects are not completely export oriented (like soft drinks, beer, cement), the trade deficit increases because a small export share of output cannot compensate for the import dependence of output.[27] As FDI inflows to Mozambique increase, 'investment services' and 'other

[23] Mozambique's imports of energy from South Africa increased 20 times since Mozal was established.

[24] This road is part of the spatial development initiative (SDI) for the Southern region, and of the expansion of the minerals-energy complex.

[25] At the least in the foreseeable future.

[26] Irrespectively of more precise calculations about actual net trade gains retained by the economy, not only by the firm.

[27] See Castel-Branco 2003, 2002a and 2002b for a statistical analysis of the relationship between investment and the trade deficit in Mozambique. Data analysis shows an almost symmetric relationship between investment and the trade deficit; and between the size of the capital account surplus and the trade deficit. Further, data demonstrate that this relationship is caused by the high elasticity of imports

service expenditure' have become the major determinants of the size of the deficit of the balance of services.[28] Therefore, ***other things are not equal***.

Outside the dynamics of mega and large projects, particularly of Mozal, industrial output and exports are stagnant, manufacturing output has actually declined in 2003, and the MVA share of GDP, without Mozal, has fallen to the levels of 1971.[29]

4. Dynamics of South African foreign direct investment in Mozambique

4.1. Weight of South African foreign direct investment in Mozambique

Private investment accounts for almost 55% of all investment in the Mozambican economy since the end of the war (1992), and public investment accounts for the remaining 45%.[30]
Public investment has been entirely financed by external flows of capital through official multilateral and bilateral grants and loans, and has been mostly allocated to infra-structure (such as roads and water and sanitation systems), social sectors (education, health) and special programmes related to post-war normalisation of life (demobilisation of the armies, rehabilitation of living and working conditions for more than four million external refugees and internally displaced people).[31]

Between 1990 and 2003, private investment in Mozambique was financed by FDI (36%), national direct investment (NDI) (6%) and loans and other sources, mostly in the form of non-market based inflows of foreign capital (58%).[32]

When MEC-related mega projects are excluded from the picture, the structure of financing of private investment changes significantly: total private investment falls by more than 55%, the share of FDI in total private investment falls to approximately 16%, the share of NDI increases to 14%, and the share of loans and other sources increases to 70%. Thus, whereas the share of FDI in total private investment in Mozambique is very high if compared with almost any other country, FDI seems to be highly concentrated around MEC projects. Hence, the share of FDI in non-MEC private investment is not that impressive, and is only slightly higher than NDI.[33]

In any case, approximately three-quarters of private investment in Mozambique is financed by inflows of external capital, which shows how dependent the Mozambican economy is upon foreign savings.

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with respect to investment (due to weak investment capacities of the economy and poor inter- and intra-industry linkages), and low elasticity of export with respect to investment (because of weak and concentrated productive and export capacity of the economy). Export-oriented mega projects, such as Mozal, Iron and Steel, Heavy Sands and Pande (gas) will increase the export sensitivity to investment. However, actual net balance of payment gains from such projects are very small. Additionally, unless the growth and development basis is diversified, the Mozambican economy will become an extension of the minerals-energy complex of South Africa and growth in other areas will be precluded because of its destabilising effect on the balance of trade.

[28] See INE. various issues. Statistics Yearbook.

[29] Castel-Branco 2003; Castel-Branco and Goldin 2003.

[30] INE (various issues of the statistics yearbook); CPI (investment data bases); Banco de Moçambique (various annual reports). These percentages are only approximations. In reality, there is a large contribution of *off-budget* financing of projects, mainly in social areas and infra-structures, which is incompletely recorded. *Off-budget* financing of projects is the preferred practice of many development agencies and non-governmental organizations (NGOs). The majority of these projects have the same focus as public investment, and are often implemented with some degree of coordination with public policy and strategy. Thus, these projects are, here, considered within the domain of public investment.

[31] INE (various issues of the statistics yearbook); Government of Mozambique (various issues of the annual budget and economic and social program, as well as the respective implementation assessment reports).

[32] Castel-Branco 2003, 2002a and 2002b; CPI (adjusted investment data bases for various years).

[33] Ibid.

South African companies have invested in 18% of 1 800 private investment projects approved in Mozambique between 1990 and 2003. As far as ***direct weight*** is concerned, South African private investment represents 40% of all FDI, 15% of total private investment and 9% of total gross investment (public and private investment).[34]

However, it would be misleading to assess the weight of South African private investment only by its direct impact. As will be shown later, South African private investment is highly concentrated in very large projects, although it is unlikely that South African capital would risk taking the sole financial burden in any of these large projects. Thus, it is at least as important to assess the ***indirect weight*** of South African private investment by looking at the weight represented by the projects in which South African corporations participate.[35]

Between 1990 and 2003, projects in which South African corporations are the driving force (18% of total) have absorbed 85% of total FDI, 35% of NDI, 73% of loans, 75% of total private investment and approximately 45% of total gross investment (private and public) accruing to Mozambique.[36] This data is more indicative of the ***actual weight*** of South African private investment in Mozambique, because the figures show that South African private capital is capable of mobilising its own resources and the resources of other corporations and banks around the world, including a considerable share of Mozambican NDI, to pursue its investment strategies. The data also shows that these projects tend to be very significantly larger (approximately 12 times larger, on average) than the average private project in Mozambique.

If South African FDI represents approximately one fifth of total investment in these projects, why is it claimed that South African corporations are the driving force not only of these projects but also of total private investment in Mozambique? There are three main reasons for making this claim. First, as the following sections show, these projects correspond to the dynamics of accumulation and globalisation of South African large corporations. This will be demonstrated by analysing the allocation of investment. Second, through strong links with South African suppliers, these projects help the integration of the economies and the regionalisation of South African firms. Input-output data in Mozambique is extremely poor, but data from the largest private investment ever made in Mozambique, Mozal, will give an approximation of the extent of these linkages. Third, logically derived from the previous two points, it is clear that the lion's share of private investment in Mozambique ids determined by the dynamics of accumulation and globalisation of South African large corporations. In other words, private foreign capital inflows to Mozambique are attracted mainly by the regional and global strategies of South African firms, which have been capable of mobilising their resources, and resources from elsewhere, to implement strategic business and investment decisions. As shown below, oligopolistic competition for market dominance and expansion has been one of the chief components of corporate strategy, which decides not only what, where and how much investment to make, but also when, in alliance with whom, and under what kind of policy and institutional framework to make it.

At this stage, it could be interesting to recall the speech by the South African Minister of Trade and Industry made in Nacala (North of Mozambique), during the Nacala Development Corridor investor's conference (February 2003).[37] Speaking on behalf of President Thabo Mbeki, the minister delivered a very focused and brief speech in which, amongst other points, he explained why South Africa supported the launching of the Nacala Development Corridor despite the fact that the corridor is one thousand miles from South Africa. His explanation was based on four main points. First, the South African manufacturing industry, which is fast becoming competitive all over the world, is growing very fast and, consequently, is facing some shortages of raw materials, mostly wood and natural fibres. Regional development corridors may link the industrial belts of South Africa with sources of raw materials in other countries in Southern Africa. Second, the other countries can share

[34] Ibid.

[35] Castel-Branco 2004, 2003, 2002a, 2002b and 2001.

[36] Castel-Branco 2003, 2002a and 2002b; CPI (adjusted investment data bases for various years).

[37] Recollection from the author's own notes taken during the speech of the Minister.

some of the prosperity that the South African economy is enjoying by becoming part of industrial product chains as suppliers of raw materials. Third, linking infrastructure development with large and viable projects, or clusters of dynamic economic activity, will make infrastructure construction and management profitable and, thus, attract private investment into infrastructure development. Fourth, South African engineering and consultancy firms have been heavily involved in the development of the Nacala Corridor Strategy across three countries (Mozambique, Malawi and Zambia), and South African capital is very likely to become more involved in the development of large investment projects related to the corridor, particularly in tourism, infrastructure and telecommunications, and minerals.[38]

4.2. Dynamics of investment allocation

4.2.1. Aggregate sectoral allocation of investment

Between 1990 and 2003, 97% of total FDI and 89% of total private investment were allocated as follows: manufacturing industry (67% of FDI and 50% of total private investment); mineral resources (22% and 16%); tourism (6% and 15%); and agriculture (2% and 8% respectively).[39]

Six industries (aluminium and energy, natural gas, heavy/mineral sands, sugar, beer and cement), with a total of nine corporations operating 15 plants, have absorbed 63% of total FDI, 25% of total NDI, 62% of total loans and other sources and 60% of total private investment. Of these nine corporations, only one, cement (three plants), is not driven by large South African capital.[40]

More than 90% of all investment in mineral resources is divided between natural gas (Sasol) and heavy/mineral sands (various companies, including Australian and Irish, but the largest of them are Southern Mining and the Industrial Development Corporation (IDC), which are South African).[41]

Of total private investment in the manufacturing industry, aluminium and energy, sugar, beer, soft drinks and cereal milling (nine firms or large groups, all South African or associated with South African capital) absorbed 94% of FDI, 50% of NDI, 43% of loans and others sources, and 72% of total private investment.[42]

4.2.2. Dynamics of sectoral allocation of South African private investment

South African investment is mainly associated with the core MEC: aluminium and energy, natural gas, heavy and mineral sands. Investment around the MEC is heavily supported by the small number of very large South African multinational corporations of worldwide or regional dimension (such as BHP-Billiton, Eskom, Sasol, Southern Mining), large industrial, minerals and energy capital from around the world (Australia, the United Kingdom, Ireland and Japan), South African and international investment agencies (IDC, IFC, EIB and others).[43]

In addition, South African investment has expanded quickly into areas of oligopolistic or quasi-monopolistic competition, in a quest to globalise and control markets by using the region as a trampoline for world markets, or

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[38] The most important of such projects, all of which are still at the design or pipeline stage, are: large eco-tourism projects, the toll road linking the large Nacala Port with Malawi, and the large heavy/mineral sand project of Moma.

[39] Castel-Branco 2004 and 2003; CPI (adjusted data base on investment for various years); Banco de Moçambique (various annual reports). Agro-industry was excluded from agriculture and included in manufacturing industry.

[40] Ibid. Aluminium and energy go together for three reasons. First, energy is the major component of aluminium and the main reason why Mozal was built around Maputo, in Beloluane. Second, the largest energy investment of the last decade was made in Motraco, the power station built to supply energy to Mozal. Third, Mozal consumes more than twice as much energy as the rest of Mozambique, and imports of energy from South Africa have increased almost 20 times since Mozal came into operation.

[41] Ibid.

[42] Ibid.

[43] Industrial Development Corporation (IDC), a South African parastatal; International Financial Corporation (IFC), a member of the World Bank group; European Investment Bank (EIB). For sources: Lutchman and Naidu 2004; Rumney 2004, Fine and Rustomjee 1996; Shoeman 2003; Daniel, Naidoo and Naidu 2003; Games 2003; Castel-Branco 2004, 2003, 2002a and 2002b.

simply as an expansion of the domestic market. Mains areas of investment are: sugar (Illovo and Tongaat Hulett control three out of four sugar estates and factories, and a Mauritian consortium with South African finance controls the fourth); beer (SAB control all three breweries); soft drinks (Coca-Cola SABCO has control, through a local branch, Coca-Cola, of all bottling plants), cereal milling (Namib Management controls or is involved with the largest cereal milling complexes, except one), mega tourism projects (Limpopo and Libombos), and mega infrastructure (management of major ports, major toll roads, telecommunication systems and industrial parks developed around anchor projects associated with the MEC). Tourism and infrastructure are developed around the concept of SDIs.[44]

Associated with the MEC and oligopolistic expansion, South African investment has also moved into dependent industry and industrial services.[45] On the one hand, the core MEC and other large projects (such as the sugar industry) represent demand for certain industrial activities and for maintenance and engineering services. South African firms were initially reluctant to move to Mozambique, as they could supply all services and goods from South Africa and did not know enough about industrial capabilities in Mozambique. This led to a quick expansion of links between supplier South Africa firms, based in South Africa, and mega and large projects in Mozambique.[46]

In the meantime, Mozal's expansion and the starting or development of other mega and large projects intensified demand for such goods and services. Thus, South African firms were quick to move and take the opportunity to expand into Mozambique. However, they are still reluctant to make serious commitments and investments. Usually, they relocated to Mozambique workshops and warehouses that stock parts and make small repairs, employing a very small number of workers, and involving very little fixed (and sunk) costs. Others have engaged in joint ventures with Mozambican firms, renting and, thus, taking advantage of existing fixed capital, and making small narrowly focused investments to upgrade some core capacities to provide specialised services for specific mega projects, provided that they anticipate that they can win profitable contracts with Mozal (such as, for example, the removal, repair and current maintenance of the aluminium pots). Almost all these firms are import dependent, and a very large share of their imports come from intra- and inter-firm trade with South African suppliers.[47]

Thus, links with mega and large projects have created dependent industrial capacities for the domestic market, but usually involving little commitment by the South African firms that have made the investment. However, as demonstrated by the capacities and number of firms involved, developing linkages with mega projects could be

[44] Lutchman and Naidu 2004; Rumney 2004, Fine and Rustomjee 1996; Shoeman 2003; Daniel, Naidoo and Naidu 2003; Games 2003; Castel-Branco 2004, 2003, 2002a and 2002b, Roberts 2000.

[45] The concept of dependent industrialization is linked to the following characteristics: import dependency; dependency with respect to exogenous dynamics of industrialization (including access to markets, technology and capital, product design, investment decisions, etc.); dependent partnerships (such as in the case of integration with oligopolistic, international product and value chains); lack of dynamic backward and forward linkages within the economy outside the mega and large projects that have initiated the process. This pattern of industrialization cannot be identified as import substitution (even when firms produce only or mostly for the domestic market), as it does not substitute, but rather creates, import pressures. True import substitution would involve backward and forward linkages that this pattern of industrialization does not usually develop outside economic enclaves.

[46] Castel-Branco and Goldin 2003.

[47] According to Castel-Branco and Goldin (2003), some of the core industrial capacities and services developed around Mozal are as follows: *Engineering/manufacturing industry firms:* Cometal-Mometal (pots, chimneys and pipes); Tubex (tools and spares); Kempe/Metech (maintenance of pot lines); Forjadora (containers); Kanes (spares, metal structures and maintenance); Agro-Alfa (repair of start up equipment); MC Engineering (repair of start up equipment). *Construction firms:* Marcleusa (electricity substation in the plant and acoustic barrier in the port of Matola); Construções Chemane (maintenance, water drains, removal of temporary buildings); SORADIO (electric installations and wiring, and repairs); and Wade Adams (housing construction and maintenance of buildings). *Industrial services:* TDM (phone and phone data base network); EDM (shareholder and represented in Motraco); Strang Rennies Mozambique Consortium, SRMC (export of aluminium); Diesel Eléctrica (suppliers and maintenance of hydraulic equipment); Interwaste (industrial waste removal); and Transaustral (employee transport). *Other services:* Eurest Support Services (catering); Gray Security (manned security, reception, and armed response); Thsala Mozambique (catering and cleaning); Cinderella (laundry and uniform management); and Flor Real (landscaping earthworks).

one of the core pillars of a strategy to support business and productive capacity development in Mozambique. Given the type of capacity that has been developed, concentrated in engineering and other crucial industrial services, such a focus on business and productive capacity development could help not only the firms involved but business and productive dynamics as a whole, because it could help to provide capacities and services for all and reduce marginal costs of productive investment in Mozambique.

On the other hand, dependent business dynamics have developed around product chains controlled by South Africa or other multinational and large corporations: this is happening in export of fruits (mainly citrus and mangoes) and some other basic agro-industrial products (such as animal food); some areas of metal engineering in which South African firms provide reputation, a technological basis and access to markets; tourism related activities; and others. On the whole, a very large proportion of existing and relatively successful (or at least not unsuccessful) small and medium firms have developed links with South African firms, some of them within the 'black economic empowerment' scheme. However, the link between black empowerment processes on both sides have, more often than not, developed through links with the core MEC and associated dynamics, as well as other traditional, oligopolistic industries.[48]

4.2.3. Influence of the South African financial system

South African capital has long been a driving force in the Mozambican financial market. The literature on finance in Mozambique usually emphasises that Portuguese financial interests control the Mozambican commercial financial system. This is only partially true when one looks at the domestic financial system and abstracts from its international interactions. Moreover, this argument only holds if one abstracts from the relationship between finance, investment and production.

In other words, Portuguese banks own most of the banks in Mozambique, and the larger banks from the point of view of domestic banking operations. However, the domestic banking system is responsible for less than 20% of investment financing, production and trade in Mozambique, and a significant share of their activity is limited to being an agency to channel international capital flows. Most of the private capital invested in Mozambique over the last decade or so comes from South African and international financial institutions that operate through South African banks. This is easily explained: as mentioned earlier, almost three-quarters of private investment in Mozambique depends on inflows of foreign capital, and half of these inflows are in the form of FDI associated with large South African globalising corporations.[49] Thus, South African banks are far more important than Portuguese ones, but they tend to operate mostly through direct relationships with mega and large projects and firms rather than through maintaining a direct, physical presence in Mozambique.

More recently, the South African commercial banks have started to expand, physically, into the Mozambican economy in line with the dynamics of FDI in Mozambique. Hence, one new commercial bank was created and South African banks bought two commercial banks over the last two years. Together, Nedbank, Standard Bank and Banco Austral represent approximately one-third of banking operations in Mozambique.

Given their experience in financing productive activities and their superior financial linkages and muscle, South African banks may be in a better position to expand their domination of the Mozambican financial system and, therefore, strengthen the influence of key economic and investment dynamics of South Africa in Mozambique: MEC, oligopolistic competition, SDI and associated investment in infra-structure and tourism, and dependent industrialisation.

4.2.4. Implications for regional allocation of investment within Mozambique

As should be expected, the regional allocation of investment within Mozambique closely follows the sectoral dynamics of investment allocation. Between 1990 and 2003, Maputo City and the Province of Maputo absorbed

[48] Lutchman and Naidu 2004; Rumney 2004; Shoeman 2003; Daniel, Naidoo and Naidu 2003; Games 2003; Castel-Branco 2004.

[49] If one adds to this the fact that all public investment is financed from inflows of foreign capital, the conclusion is that between 78% and 80% of total investment in Mozambique is financed by inflows of foreign capital.

75% of FDI, 55% of NDI, 52% of loans and other sources and 60% of total private investment. The City and the Province of Maputo (extreme South of Mozambique) incorporate the largest industrial park in the country, but investment concentration is mostly due to the presence of Mozal, Motraco (which supplies Mozal with energy), sugar, beer, soft drinks, cement and cereal milling, which are the most dynamic sectors in term of growth, exports and investment. This explains the fact that 88% of total private investment in the manufacturing industry in Mozambique takes place in the City and Province of Maputo.

In addition, Maputo also absorbs three-quarters of total investment in transports and telecommunications and in retail trade, as well as almost 90% of total investment in construction and the financial sector, and 30% of investment in agro-industry.

The Provinces of Gaza and Inhambane (in the South, with the main activities being natural gas, heavy sands and tourism) together absorb 15% of total FDI and 17% of total private investment. Sofala (in the Centre, with sugar) absorbs 5% of total FDI and 8% of total investment. Nampula (in the North, with heavy sands and the Nacala Corridor as the principal investments) absorbs 4% of FDI and 5% of total investment. The remaining five provinces (comprising 60% of the territory and almost 48% of the population) absorb 1% of FDI and 10% of total private investment.

Traditional explanations for strong, asymmetric regional distribution of investment include: the presence of resources, infrastructure and industrial facilities, human capital, privatisation and the importance of local markets. In the case of Mozambique, the presence of resources is important only for extractive mining industries; local markets are important for beverages and cereal milling; privatisation is important in the case of sugar, beer, cereal milling, soft drinks and cement; and infrastructure, industrial facilities and human capital seems to be important across the board.

However, corporate and public strategies (whether articulated through SDI and/or oligopolistic competition or not) are dynamically more powerful explanations for regional allocation of investment. First, there is a strong link between sectoral and regional allocation of resources. Second, the choice of sectors to invest in, given the other conditions, reflects corporate strategies and public policy in response to them. Third, the distribution of infrastructure, capacities, productive assets to privatise, income and market demand, is not a natural endowment; it has been constructed, over time, as a function of corporate strategy and public policy.

5. Case-Studies: aluminium and natural gas

5.1. Aluminium

Mozal is a large aluminium smelter built in the late 1990s in Beloluane, outskirts of Maputo City. It has the capacity to produce 512 000 tons of aluminium ingots per year. The total cost of the project was approximately US$ 2.4 billion. Current shareholders are BHP-Billiton (66%), IDC (20%), Mitsubishi (12%) and the Mozambican government (2%).[50] In addition to FDI, the financing of the project has been guaranteed by South African agencies (IDC and South African financial system), the financial system in the UK and other European agencies (including Mozambican government shares financed by a loan from the European Investment Bank); by Japanese corporations and financial system, by the International Finance Corporation (IFC) and even by Mozambique.[51] Production started in 2000, and the main markets are the European Union and the automobile industry in Asia.

[50] BHP-Billiton, included in the FTSE 100 index, has recently become the largest aluminium producer in the world, controlling mining of alumina and smelters. Its business is focused on minerals and non-precious metals, and in June 2003 announced extra profits, over and above their own expectations, of US$1.2 billion.

[51] Given the close relationships between the South African financial system and the minerals-energy complex of South Africa, the predominant role of South African financing in Mozal is another indicator of the link between Mozal and the minerals-energy complex (see Fine and Rustomjee 1996).

Mozal has been given Free Industrial Zone (FIZ) status. This means that it is exempted from paying duties on imports of material inputs, equipment, parts and any other imports that are required for the activity of the company. It is also exempted from paying value-added tax, and corporate taxes are limited to 1% of sales. The project can import and export capital freely after registering with the central bank.[52]

With initial capital cost per direct job equivalent to 26 direct jobs elsewhere in the manufacturing sector, each worker in Mozal produces as much as 30 workers and exports as much as 200 workers from the average manufacturing firm.[53] In absolute terms, Mozal is far more productive than any other firm in Mozambique. Relative to its initial capital costs Mozal's main advantage lies in its huge export capability and demand pressures that may provide a basis for linkages, provided that the Mozambican economy develops the capacity to absorb and respond to such demand pressures.

Aluminium represents 48% of total manufacturing output and 28% of total MVA, and the huge difference between the two is due to Mozal's heavy reliance on acquisition of intermediate materials and services, mostly imported. It is interesting to mention that aluminium production by BHP-Billiton is vertically integrated, as this corporation owns and controls alumina mines and aluminium smelters, and has interests in electricity and final consumption of aluminium. BHP-Billiton aluminium production is vertically integrated at world level, not necessarily in any one country. This also means that no single company of the BHP-Billiton aluminium group is necessarily vertically integrated, although all of them may individually benefit from the industrial linkages that BHP-Billiton provides. Hence Mozal is exclusively focused on direct production and export of aluminium with very little vertical integration as it subcontracts the provision of almost all services and goods that are required. However, Mozal benefits from vertical integration provided through the BHP-Billiton group that owns smelters and the alumina mines that supply the raw material.[54]

Mozal's total contribution to GDP fluctuates around 3.3%, which, for a single firm, is a huge value. Its contribution to exports is even more impressive: 75% of manufacturing exports, 60% of exports of goods and 42% of total export revenue of Mozambique.[55] Net trade gains of Mozal, estimated at about US$ 400 million per year at full capacity and steady state, are very large if compared with the scale of the Mozambican economy. However, when profit repatriation, payments of investment services and transfers of wages of foreign workers are accounted for, Mozal's net balance of payment gains are reduced to US$ 100 million per year. Of these, only about US$ 45 million are actually retained by the Mozambican economy in the form of wages of Mozambican workers (US$ 17 million), purchases in the domestic economy (net contribution of about US$ 14 million), social programs (approximately US$ 4 million) and fiscal linkages (expected to be about US$ 10 million in 2004).[56]

Thus, Mozal is a huge and very efficient project, but its actual net contribution to the Mozambican economy as a whole, although still quite important, is not as impressive as might be expected from such a mega project. This has led many analysts to consider that the main contribution of Mozal to the Mozambican economy is to be a showroom: to demonstrate that high profile and highly demanding and competitive mega projects can work efficiently and profitably in Mozambique and compete with the best in the world. Of course, the next question that comes to mind is why would someone wish to demonstrate that mega projects, from which the economy as a whole does not profit a huge deal, could work in Mozambique?

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[52] See GOM 1999 for the Mozambican legislation on FIZ.

[53] Castel-Branco 2002a and Castel-Branco and Golding 2003. It is argued that Mozal can generate as many as 2,500-3,000 indirect jobs through linkages. This estimate is not taken into consideration in the above analysis because it depends on linkages that have not yet materialised and also because each one of the predicted, indirect jobs requires more investment for the said linkages to materialize.

[54] Castel-Branco and Goldin 2003.

[55] Castel-Branco 2003 and Castel-Branco and Goldin 2003.

[56] Castel-Branco and Goldin 2003.

According to state officials, the Mozambican government became closely involved with the Mozal project after the investors demonstrated the potential developmental benefits from the expected demand-related linkages that Mozal could generate, as well as from employment creation and the opportunity to change the structure of the economy and improve the balance of trade.[57] The success of Mozal is expected to improve business confidence in the Mozambican economy and attract more FDI. The government also sees mega projects like Mozal as desirable because they accelerate the pace of industrialisation and the development of the domestic private sector through linkages.

From previous discussions and data, it is obvious that expected linkages are not happening at a significant rate, and that high tech mega projects are not the way to address unemployment. The slow development of domestic business and productive capacities, including the pool of entrepreneurship and qualified workers, is one of the reasons why linkages emerge with difficulty. This suggests that mega projects are not perfect substitutes for strategies and policies that promote the development of domestic capabilities. Instead, these projects may be significantly more efficient if they are part of such strategies and policies with broader development goals in mind.[58] Fiscal linkages have been prevented from happening because of the package of incentives that Mozal enjoys.[59] Mozambican officials claim that for public finances to benefit from Mozal, the government needs to own shares in the project. However, the government, a very minor shareholder, has to pay back the foreign loan that was used to buy its shares, which attaches risks to public financial returns on a project like Mozal.

Amongst Mozambican officials, it is believed that survival pressures will force Mozambican firms to become efficient, and that these pressures are what Mozambican firms need in order to become efficient. 'Intelligent partnerships', meaning joint ventures with foreign firms with expertise in the area, are seen as the only available way to promote domestic firms for two reasons: no other forms of investment are available on a systematic basis, and joint ventures are seen as the best way to transfer technology, skills and experience.

As discussed earlier, although linkages with the domestic economy tend to grow, even if not very fast, no significant investment in upgrading of industrial capabilities has taken place in the vast majority of cases. This is partly due to strong deficiencies related to business strategies, access to capital, understanding of industrial upgrading demands and other problems related to business and productive capacities. Moreover, most firms see Mozal as only a fraction of their market, and not one with long-term ties because of the nature of contracts and cycles of activity. Thus, no firm, domestic or foreign, is willing to commit significant effort, capacities and resources in substantial industrial upgrading only to compete for occasional contracts with Mozal. Most firms seek such contracts but improve only what is strictly necessary to win a contract, mainly for reputation and financial gains.

Thus, little real technology transfer has taken place because the contracts have been almost always short-lived.[60] If other mega projects or other dynamic development poles emerge, which have demands consistent with and complementary to those of Mozal, potential supplier firms may become more committed to true industrial upgrading and development.

Mozal does not seem to be changing the structure of the economy. On the contrary, it is reinforcing the economy's dependence upon a smaller bundle of primary products, only this time it is the transformation of alumina and electricity into aluminium that dominates manufacturing output and exports of goods, rather than sugar, tea, cotton or cashew nuts. Similarly, whereas the project's net contribution to the balance of trade is

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[57] Interviews with Luís Sitoe, Manuel Mbeve and Sérgio Macamo (Ministry of Industry and Trade, MIC, in Portuguese), and António Macamo (CPI, linkages division).

[58] See, for example, Borensztein, Gregório and Lee 1995, Eayon and Kortum 1995, Hirschman 1981 and 1958, Lall 1997, 1992a and 1992b, Mello 1999 and Nelson and Pack 1999.

[59] See Helleiner 1989, Hirschman 1981 and Weiss 1980, for a more general discussion of this problem.

[60] Castel-Branco and Goldin 2003.

significant (abstracting from who retains the real resources, as discussed earlier), the export structure of the economy is becoming more concentrated and narrow, and therefore more vulnerable to volatile booms and busts of primary commodity markets.[61]

Mozambican officials also argue that Mozal was established in Maputo because of Mozambique's comparative advantage in power supply (associated with the large Cahora Bassa dam on the Zambezi River, in Tete), cheap labour and the package of incentives. However, a closer examination shows that cheap labour (meaning low wage labour) was relevant for Mozal only during the construction phase. The vast majority of Mozambican workers in the plant are either skilled or semi-skilled, and the company is reported to be recruiting skilled workers from many other firms because they can pay higher wages.[62] Mozal is capital-intensive and the wage bill is a small proportion of the company's cost structure.

Motraco, a joint venture of three electricity corporations, namely EDM (Mozambique), ESCOM (South Africa) and SEB (Swaziland), which supplies Mozal's energy requirements, is linked with the South African power grid. Therefore, while it is obvious that Mozal has strong links with the energy sector,[63] such links are with the South African energy sector, not the Mozambican. Thus, whether or not Mozambique has comparative advantages in supplying power is irrelevant for Mozal.[64]

Mozal's officials argue that the project was located in Mozambique for three main reasons: energy, incentives and Mozambique's fast economic growth in recent years.[65] Their analysis of energy and incentive issues differs from that of Mozambican officials.

The link with energy is through Eskom's expansion strategy in the region. This corporation controls most of the energy generated in South Africa and also by Cahora Bassa, and is involved in new projects to expand energy production (Mpanda Uncua in Mozambique, and potential projects elsewhere on the continent). Mozal was also conceived as part of the energy strategy because of its energy intensity, which radically improves the viability and profitability of private investment in the Mozambican energy sector and of integrating Mozambique's energy grid with Eskom's. Thus, the motivation to establish Mozal in Mozambique, particularly in the South, can only be properly understood within this more general, strategic framework that combines the capabilities, interests and strategies of Eskom, BHP-Billiton, the South African financial system and the MEC.

In addition to the package of incentives received from the government of Mozambique, Mozal enjoys incentives provided by the South African government, more importantly in the form of cheap energy tariffs as part of export and globalisation incentives. Given that energy is the single largest cost in aluminium production, energy

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[61] See, for example, Edström and Singer 1992 for an analysis of the booms and slumps of primary commodity markets and their de-stabilising impact on the economy and business confidence. According to Castel-Branco and Goldin 2003, between 2000 and 2003 the world aluminium price fell by 15%.

[62] Interview with Manuel Mbeve (MIC), and Ian Reid and Peter Cowie (Mozal). See also "Metical", various issues in January and February 2001. Ian Reid and Peter Cowie also argued that one of the major constraints faced by Mozal and any other future mega project in Mozambique is the acute shortage of skilled and experienced workers. Reid and Cowie also emphasised that the current labour law does not help industrialisation because the domestic supply of skilled workers is very limited and the new law makes recruitment of foreign workers very difficult. They suggest that the government should concentrate on training large numbers of professionals of required quality and improving the quality of the education system. They argue that Mozal is not only recruiting skilled workers but also providing training and scholarships to increase the supply of skills.

[63] Motraco, built primarily to supply energy to Mozal, is proof of this link. The fact that Mozal consumes twice as much energy as the remaining of Mozambique, and that Motraco could be upgraded to supply the entire manufacturing sector in the South, is proof of the strong and increasing role of the South African energy sector in the Mozambican economy.

[64] Costs and unreliability of supply of electricity are the main infrastructure related problems faced by the manufacturing sector in Mozambique, as identified by Biggs, Nasir and Fisman 1999. Thus, even if Cahora Bassa is capable of producing large quantities of energy, the Mozambican economy is not capable of using it. Therefore, arguing that Mozambique has comparative advantages in power supply requires a strong qualification: in relation to whom? Definitely, it is not relative to South Africa.

[65] Interviews with Ian Reid and Peter Cowie (Mozal).

subsidies may play a far more important role in Mozal's profitability than some of the other incentives that are provided by the Mozambican investment incentive legislation.

There are other factors that should be taken into consideration in this analysis. First, Mozambican officials said that Mozal was developed not from government initiatives but fundamentally because of the insistence of the investors, even before the revised and more generous version of the FIZ legislation had been approved. Therefore, incentives at the level of FIZ status were not the fundamental issue in the decision to invest.[66]

Second, when Mozal was still developing as an idea, Kaiser, a USA-based multinational, was trying to convince the Mozambican government to build a large aluminium smelter in the outskirts of Maputo. Kaiser failed in large part because Mozal came along. According to Mozal's officials, Kaiser did not have the financial structure or the influence upon the world market to be able to succeed.[67] Mozal's aggressive business strategy seems to have been motivated also by the need to eliminate Kaiser as a competitor as part of a strategy to protect and expand the economic might of the South African MEC.

Third, Mozal's officials also claim that no mega project can succeed in Southern Africa without going through the South African financial system and operating together with some large South African corporation.[68] The argument is that South Africa has the capability and the experience in the region, and also the integration strategy that links the economies of the region. For example, in Mozal (1999) it is argued:

> Since the project will import a substantial proportion of its inputs from South Africa, it will stimulate regional trade between the two countries. This trade will also enhance the viability of the road and rail system that is being implemented as part of the Maputo corridor… The new transmission line will contribute to regional integration and enhance the Southern Africa power pool. (pp. 61-2).

Fourth, Mozal creates important dynamic linkages with other South African firms that are the main suppliers of parts, equipment, services and assistance. Fifth, Mozal's location in Mozambique also opens access to the Indian Ocean directly through the Port of Maputo, where investors initially wanted Mozal to be built.[69]

Sixth, large South African corporations, whether associated with the MEC or not, are globalising instead of integrating vertically and horizontally within the South African economy. Apart from the market power they acquire by expanding worldwide, globalisation helps these corporations to become less sensitive to government policy and to increase the influence of their strategies on public policy.[70]

Therefore, although the FIZ status helped to get Mozal established in Mozambique, it may have done so only in conjunction with the other factors. In other words, Mozal may have happened in Mozambique even if the incentive package made available by the Mozambican government was far less generous.

This analysis points to four fundamental issues. First, massive investment incentive packages increase the social costs of FDI, reduce its social benefits, and are often superfluous. Second, incentives should not be used without thorough consideration of the corporate strategies and motivations behind investment decisions because it may

[66] Interviews with António Macamo, Luís Sitoe and Manuel Mbeve. This information is confirmed by Ian Reid and Peter Cowie (Mozal), who said that it was only after several visits by members and officials of the Mozambican government to Mozal's twin project in Richard's Bay, where they could see the linkage potential of a large aluminium smelter, that the Mozambican government finally decided to go ahead with Mozal.

[67] Interviews with Ian Reid and Peter Cowie.

[68] Ian Reid.

[69] Manuel Mbeve.

[70] See Fine 1997b, Fine and Rustomjee 1996 and Roberts 2000.

almost always be possible to minimise the social costs of incentives and increase the social benefits of the project. For example, Mozambique could have used the competition between Mozal and Kaiser, or the strategic locational advantages of Mozambique, to reduce the magnitude of tax exemptions awarded to Mozal.[71] Third, the analysis of investment projects should only incorporate externalities (such as indirect employment and linkages) if the costs and possibilities of making such externalities happen are thoroughly estimated and evaluated; otherwise, projects may be approved on the basis of benefits that will not occur. Fourth, no matter how much FDI flows into the Mozambican economy,[72] there is no substitute for strategies and policies that effectively create domestic business and productive capabilities, including entrepreneurial capacities and a qualified and motivated working force. These strategies cannot be general and abstract, and should take into account the various forces that influence the development of the Mozambican economy, including the processes of restructuring and expansion of South African capitalism.

5.2. Natural gas[73]

Sasol's Pande-Temane (Inhambane) natural gas project consists of a small refinery that extracts natural gas, purifies it and pumps it through a pipeline that is almost 900 kilometres long, crossing three 0provinces in Mozambique (Inhambane, Gaza and Maputo), and takes the gas to Sasol's plants in South Africa, where it will be transformed into liquid fuels. Sasol (70% of the shares) and IDC are the main partners in this project. The project falls within Sasol's strategy of diversification away from coal, of controlling regional energy reserves and of sharing, in a monopolistic manner, the world market for gas-to-liquid fuels. Thus, in the early 2000s, Sasol signed an agreement with Chevron (USA) to form a worldwide gas-to-liquid fuels joint venture, and Mozambique's natural gas reserves are part of such a project.

The cost of the project is estimated at US$ 1.5 billion. The project will employ less than 200 workers during operation. Gas will start to be pumped to South Africa in 2004. When the operation starts, Mozambique's exports to South Africa are expected to increase very sharply, much reducing Mozambique's trade deficit with South Africa. However, the real balance of payments impact of the project will depend on the same factors as described for Mozal: net current and capital account effects, as well as the actual retention of resources by the Mozambican economy which, in turn, depends on wages, taxes, domestic purchases, social programmes and so on.

It is too early to attempt any quantitative projections of the economic impact of the natural gas project, but it is expected to have the same profile as Mozal's. GDP and industrial output will jump to a higher level, or platform, of activity from which further growth will depend on the growth dynamics elsewhere in the economy. Exports will also jump to a higher platform, but actual balance of payments gains (including actual resource retention by the host economy) will be significantly less impressive than export growth. An added twist to export dynamics: two primary energy and mineral based products, aluminium and natural gas, will account for about two thirds of the country's total export revenue. This will increase export concentration leading to dangerous levels of vulnerability to shocks related to commodity market volatility. If industrial domestic linkages are not created and other development poles do not emerge, production and export concentration will tend to constrain productive capacities to a narrow range of basic operations, sectors and technologies.

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[71] See, for example, Chang 1998 for a more general discussion of the bargaining process between LDCs and multinational firms, and Blomström, Kokko and Zejan 2000, and Weiss 1998 for a more general analysis of the relationships between the state and multinational firms.

[72] Large inflows of FDI, such as the case of Mozal, are likely to be highly concentrated in a few areas because of corporate strategies and Mozambique's limited capabilities. This does not offer very good prospects for vertical integration and diversification of the Mozambican economy. Furthermore, FDI inflows into the economy are unstable and the current boom seems to be running out of steam (UNCTAD 2000a and 20001). The current capabilities of the Mozambican economy – infrastructures, skills, entrepreneurial, institutional and financial – would easily be exhausted by a couple of projects of the scale of Mozal. Therefore, it should not be taken for granted that Mozambique will continue to receive massive inflows of FDI and that it has the capacity to absorb more mega projects.

[73] Section based on interviews with CPI and the mega project advisory group, and on media articles.

Downstream links from natural gas, associated with the development of energy intensive industries, like the dormant Maputo Iron and Steel Project (MISP), are still only a theoretical hypothesis (similar to the probability of developing downstream industries that may use Mozal's aluminium as an input). If such energy-intensive, downstream links develop while the remaining industrial sectors do not, then the Mozambican system of accumulation, reflected through the agencies, linkages and productive and export base, will become fundamentally dominated by the core MEC.

Thus, strategically it is at least as important to diversify the social, sectoral and regional sources of economic growth and dynamics, as it is to maximise the linkage potential generated by the existing dynamics of the MEC in Mozambique.[74]

There is, however, another dimension of the natural gas project that is very important to consider: the implications of fierce oligopolistic competition for strategies, costs and benefits for the economy.

The monopoly of the Pande-Temane natural gas reserves was allocated to Enron (United States) by the Mozambican government in the mid-1990s as a condition of the continuation of the United States government's food aid programme to Mozambique. Enron expected to export the gas to South Africa, but negotiations with Sasol and the South African government did not make any progress for years. Then, Enron conceptualised the development of the iron and steel project (MISP) to diversify the market for natural gas by increasing domestic demand, and a consortium with the IDC and a Swedish corporation was created for this purpose.

After the Mozambican government approved the general outline of the MISP, the IDC withdrew from the project without, as far as available information is concerned, ever giving a convincing formal explanation for the move. The closest to an explanation that the IDC gave was to argue that its corporate strategy was to move away from capital-intensive projects. However, this explanation is not consistent with the IDC's investment in the expansion of Mozal two years later, and with its partnership with Sasol in the natural gas project. The IDC's position might have been influenced by the desire to block Enron and support Sasol's goals; or it might have been motivated by the monopoly power of another South African large corporation, Iscor (steel), which might not have been interested in the opening of a mega steel and iron project in the region outside its control. Whatever the official reason might be for IDC's decision concerning MISP, the consortium broke up soon after and Enron was left alone to try, and fail, to mobilise finance for a US$ 1.2 billion project that had been abandoned by two of the three main partners.

Enron's position became unsustainable. They had a monopoly of the gas reserves but no market for it. It was only a matter of time before Sasol launched the final offensive to acquire Enron's monopoly rights to the gas reserves. Sasol had signed an agreement with Chevron for a worldwide joint venture on gas-to-liquid fuels, and claimed to have found enough gas reserves in Sofala to build a petrochemical refinery without Enron's involvement. Some Mozambican experts also claim that at the time Mozambican government institutions and public utility enterprises blocked any attempt by Enron to develop the gas and the iron and steel projects. Whether this claim is true or not, Enron had no sustainable negotiation position. At the end they left and Sasol acquired the monopoly over the natural gas project.

Thus, a bigger and more capable player threw out Enron, the original bully. The alliance between the South African and the Mozambican government in pursuing and helping Sasol's cause was stronger than the USA threat of cutting food aid. Also, at the end of the process, Mozambique was not as dependent on food aid for food security and public revenue as it was in 1994-1995, and the troubles that later led to the bankruptcy of Enron, and to criminal charges against its top managers had already started to shake what was once one of the largest energy companies in the world.

[74] Castel-Branco 2004, 2003 and 2002a; Castel-Branco and Goldin 2003.

The oligopolistic war delayed the start of the gas project by more than eight years, and prevented the iron and steel project from starting. (One could even ask if the MISP could ever be developed without the 'approval' and involvement of Iscor, and what the market for its output could be). The final outcome was simply that one monopolist was replaced by another, and the new one forms part of the regional and global dynamics and strategies of expansion of the South African core MEC.

What was the role of the Mozambican government in this process? Did the government formulate a strategy to maximise social and economic benefits for Mozambique by negotiating on the basis of the war between Sasol and Enron, and Sasol's strategic interest in the project? There is no definite evidence for a yes or no answer to these questions.

However, the case of the natural gas project shows four important points. First, the development of large projects tends to be determined by corporate strategy rather than by the simple availability of resources. As the Sasol chief executive said when the monopoly rights agreement was signed with the Mozambican government, Sasol had waited three decades for the right time to make the predatory move, and the agreement marked the accomplishment of its corporate and business strategy. Second, strategy gives competitive advantages to corporations but also reveals their strategic interests that could be used by governments to bargain for better social and economic deals. Governments need to understand the strategies and moves of the corporations, and need to have their own strategies.

Third, the South African government actively pursues regional and globalisation strategies and helps the construction of market dominance by large South African corporations: the IDC, for example, has been a key player in the natural gas project (and also in Mozal), not only by providing finance but also by participating in oligopolistic wars. And the Mozambican government – what strategies does it pursue? Or does it believe that any orthodox textbook about the economics of perfect competition correctly describes the market forces at play in the region?

Fourth, whether one likes it or not, the processes and systems of accumulation, investment and business development in the region are closely related with some key dynamics. Hence, public and corporate strategies alike have to incorporate the regional and international dimension of economic and business development or be irrelevant. Again taking the example of the MISP, does it really make any sense to develop such a large project with the main purpose of diversifying the market for natural gas? What knowledge do the government, investment promotion institutions and businesses in Mozambique have about the dynamics of the iron and steel industry in the region (issues such as demand, supply, technology, competitiveness, finance, adjustment strategies –expansion, contraction and upgrading – incentive mechanisms in place, agents involved and the linkages developed)? Industrial strategies and policies cannot only be based upon linkages that are technologically possible. They have to be focused on the actual social and economic linkages and agents, and on the way they relate to each other to form capacities, pressures and interests that determine which strategies are adopted and implemented and what their outcome is likely to be.

6. The macroeconomic-production/investment-trade nexus and patterns of investment and trade with South Africa

Macroeconomic, productive and trade conditions in Mozambique are closely and dynamically related. On the one hand, productive and trade dynamics affect macroeconomic balances: employment, fiscal deficit, balance of trade and balance of payments deficits, savings, investment and growth. On the other hand, macroeconomic limits also constrain growth and investment dynamics. Finally, macroeconomic policy, aimed at providing monetary balances through monetarist approaches, contributes to shaping the patterns of investment and growth, and may not help to address the productive and trade dynamics that may affect the imbalances that monetary policies are trying to address.

Thus, any approach to developing business and productive capacities has to take into account the dynamic relationship between macroeconomic, productive and trade conditions, including macroeconomic policy. To do so, it should start by looking at the impact of current patterns of growth, trade and investment on macroeconomic conditions, and how macroeconomic policies affect macroeconomic, productive and trade dynamics.

The macroeconomic-production/investment-trade *nexus* in Mozambique involves three main characteristics. First, the productive base of the economy is heavily import-dependent, such that imports of investment goods are highly and proportionally sensitive to investment. Second, the export basis is highly concentrated and narrow, established around primary products and up to 2001 was not elastic with respect to investment. Thus, investment and economic expansion have always been associated with chronic and increasing trade balance deficits. This means that every time the economy expands the trade balance deficit increases to the point of crisis.

Third, investment is highly dependent upon inflows of foreign capital. Thus, when investment and the economy expand, the capital balance becomes highly positive. In the short run, the capital balance surplus may offset some of the trade deficit generated by economic expansion. In the long run, if foreign inflows of capital are not continuous, capital repatriation and interest (and other investment services) payments will contribute to the overall balance of payments deficit. That is, the trade deficit is chronic, while the capital balance surplus is short to medium term. Thus, the lasting effect of fast growth, given the current patterns of investment, production and trade, is balance of payments imbalances.[75]

This general trend has been slightly modified recently because exports have become more elastic with respect to investment. This is only due to the export impact of Mozal (aluminium), and the forthcoming export impact of Sasol (natural gas). As mentioned earlier, the other sectors have had a very small impact on increase of exports.

Mozal's net trade gains in 2004 are expected to be around US$ 350 million, which will reduce Mozambique's trade deficit by more than one third. Between 1998 (when construction started) and 2003, Mozal's net trade gains were either negative or close to zero due to the high import intensity of construction and production and a larger and longer than expected fall in the world price of aluminium. As production and exports approach steady state at full capacity, and world prices recover and stabilise, net trade gains tend to become highly positive.[76]

As mentioned in early sections, the impact on trade is not the only way that Mozal affects the balance of payments: the overall impact has to include the current and the capital accounts. Once such factors are considered, Mozal's net contribution of uncommitted resources to the economy may be around US$ 45 million per year at full capacity.[77]

Additionally, there is the problem of export concentration: a 10% variation in the international aluminium price will immediately change export revenue by more than US$ 80 million, which is more than the overall exports of the manufacturing sector (excluding Mozal). At the same time, the trade deficit will change by about US$ 40 million. Between 2000 and 2002, the world aluminium price fell by 15%, such that only in 2004 is Mozal expecting positive net trade gains. If BHP-Billiton adjusts output to a longer than expected fall in aluminium prices, export revenue loss will be even larger.[78]

Thus, leaving the solution of the macroeconomic-production/investment-trade *nexus* to mega projects seems to be not only unwise but also dangerous. First of all, multiplier effects of such MEC projects are limited, unless they continue to expand individually (which is unlikely). Second, the import substitution effect of such projects

[75] Castel-Branco 2003, 2002a and 2002b.

[76] Castel-Branco and Goldin 2003.

[77] Ibid.

[78] Ibid.

is also very limited. For example, Mozal could reduce production-related imports by one sixth at best, provided that the Mozambican economy can supply everything that is not electricity and alumina (which is unlikely to happen during the lifetime of Mozal's project). Third, the overall balance of payments, wage and fiscal linkages emerging from such projects are very limited: a cereal milling or beverage firm producing a small fraction of Mozal's output pays far more taxes than Mozal.[79] Fourth, the economy becomes more volatile as exports become more narrowly based. In periods of boom, the economy tends to suffer from 'Dutch disease'; with the exchange rate and the non-MEC productive basis becoming uncompetitive, domestic prices may go up and external trade trends may actually become more chronically imbalanced. In periods of crisis, the economy may lose at least the equivalent of the exports of the entire manufacturing sector (MEC projects excluded). Fifth, policy and institutions will tend to develop around the dominant interests of the MEC and oligopolistic expansion, thus failing to systematically address the issues related to broadening the basis for growth, investment, trade and development.[80] Not surprisingly, one top manager of Mozal argued that it is much easier to invest US$ one billion than US$ one million in Mozambique.[81]

In the short run, mega projects can increase the elasticity of exports with respect to investment and have a huge impact on net trade gains, provided that prices are stable and productive and pecuniary linkages are developed with the rest of the economy. However, a strategy that is solely focused on mega projects to promote equilibrium, stability and dynamic economic linkages is bound to fail if the issues related to promoting a broad basis for development are not seriously addressed.

At the same time, since 1987 the government has been trying to address serious macroeconomic imbalances through monetarist policies aimed at controlling aggregate demand and money supply. If external aid is excluded from the picture, progress on macroeconomic stability has been minimal over the last 17 years. Although fast GDP growth has resumed, employment is continuing to fall, skills have been lost and entire industries have disappeared, fiscal revenue has not kept pace with economic growth, and trade and balance of payments deficits are, and tend to continue to be, strong, unsustainable and rooted in the patterns of economic, business and productive capacity development.[82]

Monetarist policies have a strong impact on real economic variables (investment, savings, growth, employment) affecting:

- the level, type and allocation of resources available
- the behaviour of economic agents, including of the financial institutions, employers and employees
- the ability to mobilise and deploy new resources and capacities and
- the dynamics that have the most influence on economic growth, investment, trade and development.

Such policies have not coped well with monetary variables: apart from inflation, which has been below 20%, but unstable, for 8 years, no other monetary variable improved significantly. Aid flows are going to start declining and mega projects will not replace their (apparent) 'stabilising effect'. Thus, the time may have arrived when the costs and benefits of pursuing monetarist policies to stabilise macroeconomic conditions should be seriously and rigorously reassessed. Most importantly, data clearly shows that there is a clear macroeconomic-

[79] It can be argued that mega projects usually implement larger social projects than other firms. Together, Mozal and SASOL, for example, spend a total of about US$ 10 million per year in social programs. However, this is less than half of what a 1% increase in turnover taxes of these projects would contribute to the state budget (these projects benefit from the largest tax holidays available in Mozambique due to their status as free industrial zones). Additionally, these mega projects' social programs tend to be focused on infrastructure building: schools, health centres, roads, housing complexes, and so on. The management and operation of such infrastructures is, however, assumed by the government and translated into pressures upon current expenditure. Thus, capital expenditure in social programs by individual projects may well crowd out the ability of the state to sustain such programs or to develop other social programs. Therefore, social programs would be better served if such projects pay more taxes.

[80] Castel-Branco 2002a and Castel-Branco and Goldin 2003.

[81] Castel-Branco and Goldin 2003.

[82] INE (various issues of the statistics yearbook); Banco de Moçambique (various annual reports); Castel-Branco 2003, 2002a and 2002b, and 1994.

production/investment-trade *nexus* that is far more important in determining macroeconomic balances and long-term development prospects than pure monetary variables as they are perceived by monetarist policies.

Thus, unless the macroeconomic-production/investment-trade *nexus* is specifically addressed by development strategies (for example, through promotion of economic linkages and exports on a broader social, sectoral and regional basis), stabilisation programs will continue to be ineffective and growth dynamics will continue to be unstable and short lived. South African investment and trade dynamics in Mozambique are not helping to address this issue.

7. Conclusions

One question that may arise from the earlier discussion is whether South African FDI in Mozambique is 'good' or 'bad' for development. As a starting point for analysis, this question is too simplistic and inadequate. On the one hand, it involves normative definitions of development and of what is good and bad for each different development path. On the other hand, it is a normative question, rather than one that is trying to describe and understand the patterns of development that are actually taking place. Finally, the question abstracts from the fact that different circumstances and interests may determine very different qualitative assessments of similar patterns of growth, investment and trade.

One way of developing a better research question is to seek to understand the patterns of development that are taking place, the types of productive capacities and social conditions that are being created, and the real possibilities for change that are available or that can be created at affordable social and economic costs. In attempting to do so, it will be important to understand how agents and economic linkages interact at national and regional levels to form part of, and influence, the emergence of such patterns of development.

From the analysis made in the earlier sections, it seems that current patterns of development in Mozambique are too narrow and unstable, and are becoming narrower as a result of interests and pressures associated with agents and linkages that form part of a system of accumulation based upon the MEC and oligopolistic strategies, competition, co-operation and globalisation. It seems to be obvious that broadening the social, sectoral and regional basis of growth and development is of crucial importance. Furthermore, it is also necessary to increase, diversify and upgrade production, services and export bases, and strengthen domestic and regional backward and forward linkages. Moreover, the analysis shows the relevance of learning how to define and choose priorities and how to articulate capacities, resources and institutions to pursue such priorities. Another core point that emerges from the analysis is the need to take advantage of the dynamics of large corporate expansion to develop linkages that may actually help to diversify the economy. Finally, the other challenge is how to link such developments with poverty reduction and improving of the general working and social conditions for the vast majority of the population.

The big question that has to be asked, however, is where is the energy and capacity for change going to come from? If the dominant strategy is determined by the core MEC, if the MEC is capable of mobilising resources to pursue its strategies and goals, if the strategies pursued do not address all, or any, of the above questions, how can change take place? Thus, the analysis has to very quickly evolve towards a better understanding of the relationship between the state and other social forces within Mozambique, South Africa and the Southern African region, which may support change with a regional dimension. There is no point in attempting to protect national boundaries against MEC and oligopolistic economic integration. Change towards broader, more progressive and socially more equitable development dynamics requires a regional and international perspective. The development of this perspective demands a better understanding of the political economy of economic accumulation and integration in Southern Africa.

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Do South African Corporations Play By The Rules? Selected case studies from Zambia and Kenya

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1. Introduction

Zambians view South African corporations operating in the country as international businesses. South African corporations are involved in a wide range of activities including: exporting goods and services to Zambia, setting up sales offices and subsidiaries, establishing production facilities selling to the Zambian market, licensing local firms to produce for the local market, or operating in Zambia through strategic alliances with Zambian firms or other foreign firms. In all these activities South African corporations have had to deal with the Zambian market environment.

The Zambian context and business environment determines the rules by which South African corporate involvement must be judged. This judgment needs to look to the future and take into account the dictates and philosophy of the New Economic Partnership for Africa's Development (NEPAD), and be mindful of the mission to help foster economic development through mutual cooperation. This assessment sets out to 'reflect on and analyse the impact' of South Africa's post apartheid economic expansion on regional economies from the viewpoint of recipients in a particular host country interacting with South African corporations.

The views given mainly emanate from the findings of two studies, *Enforcing Competition Law in Zambia*, and *Investment Policy in Zambia, Performance and Perceptions* undertaken by The Consumer Unity and Trust Society, African Research Centre (CUTS-ARC), Lusaka. Both studies were based on national consultations and civil society surveys to gather perceptions on the competition regime and the development impact of foreign direct investment (FDI).

During the apartheid era South Africa operated as a closed economy for a considerable period of time. During this time it is likely that considerable domestic competitive pressure built up with economies of scale and surplus capacity becoming problems. At the level of the individual firm these were key reasons to go international and expand into the region. This meant that with the introduction of democracy and the subsequent opening up of the economy there was considerable impetus for South African corporations to expand into Southern Africa. The considerable experience gained over a relatively short period of time since then, both by South African corporations and host countries, makes it a worthwhile endeavour to look at the 'lessons learned' and reflect on future possibilities.

This paper looks at the business activities of South African corporations in Zambia during the 1990s. This period coincides with the introduction of multiparty democracy in Zambia in 1991 and the adoption of structural adjustment programmes (SAPs) sponsored by the World Bank and International Monetary Fund (IMF). For Zambia, this meant the pursuit of private sector-driven market oriented policies. This led to the liberalisation of the socio-economic regime and the privatisation of the state owned enterprises that earlier dominated about 80% of the economy. Under the changed circumstances, South African corporations were welcomed into Zambia whole-heartedly, because there was a need felt for their presence just as there is today.

During the 1990s most South African corporations entered Zambia by participating in the privatisation process of the state owned parastatals directed by the Zambia Privatisation Agency (ZPA). In addition some corporations have entered the economy through other forms of investment such as mergers, acquisitions and green field investments. While the entry of South African corporations has had a significant socio-economic impact in Zambia, and has been greatly appreciated, there is a feeling that it could have had a much greater

impact on economic development if South Africa companies had worked more closely with the public sector. The reality on the ground is that poverty in Zambia has increased to unprecedented levels, a fact that is further complicating efforts to stem the devastating impact of the HIV/AIDS pandemic.

2. Profile of economic interdependence between South Africa and Zambia

2.1 South Africa-Zambia trade ties

The decline of copper prices and the subsequent downturn of the mining industry has had an adverse impact on the growth of the manufacturing sector in Zambia. Further, the liberalisation of the economic, and especially the trade, regime led to easier imports. As a result many of the manufacturing firms lost their domestic market to imported products, mainly from South Africa and Zimbabwe. At the same time many domestic firms were unable to export due to high input costs and costs of production, and low output quality.

Zambia's major trading partners for imports in 2003 were South Africa, the United Kingdom, Kenya, Japan, Hong Kong, China and Zimbabwe. As regards the role of trade groupings in imports, COMESA stood top, whereas on exports SADC is prominent. The largest import items in 2003 include machinery and transport equipment, chemicals (urea, fertilisers, sulphuric acid, herbicides, insecticides, and fungicides), food and live animals, fuels and lubricants, and miscellaneous manufactured materials. The major imports from SADC were machinery and transport equipment, manufacturing and consumer products, chemicals and fertilisers.

Zambia's major export items in 2003 were manufactured materials such as refined copper and copper articles, cobalt products and metallurgy, and semi precious stones. The major exports markets were the United Kingdom, South Africa, Tanzania, Switzerland, India, Japan, China, Hong Kong, Kenya Malawi and the DRC.

Outside the metals, copper fabrication, yarn, sugar and cement Zambian manufacturing products have not penetrated export markets.

The export of sugar increased as a result of the quota by the Southern African Customs Union (SACU) countries. Copper wire gets duty free access in the SACU countries.

Table 1: Zambia's trade with SADC and COMESA countries 2003 (million Kwacha)

Region	Quarter 1	Quarter 2	Quarter 3	Quarter 4*	TOTAL
COMESA					
Imports from (cif)	333 683	208 933	263 407	418 415	
Exports to (fob)	76 911	92 745	112 944	144 559	
Trade balance	-255 772	-116 188	-150 463	- 273 856	
SADC					
Imports from (cif)	1 219 045	1 135 476	1 055 027	1 333 864	
Exports to (fob)	399 962	478 273	540 854	575 176	
Trade balance	-819 083	-657 203	-514 173	-787 688	

Source: CSO, International Trade Statistics, 2003 cited in CSO Monthly
* Provisional

2.2 Regional Integration and co-operation (SADC, NEPAD)

The Southern African Development Community (SADC) Treaty basically aims at the creation of a development community that will provide balanced economic growth and development, political stability and security for all member states through regional cooperation and integration. As a result the Trade Protocol, signed in 1996, aims at progressively establishing a SADC free-trade area, initially over eight years. Implementation of the protocol is based on the principle of reciprocity, meaning that tariff preferences will be extended only to member states that have submitted their instruments of implementation while the phase-down offers are country-specific.

Sugar and textiles are covered by a special agreement annexed to the Trade Protocol, which provides duty-free-quota access to SACU markets for non-SACU member countries of SADC. However the agreement on textiles is extended to least developed member countries, which include Malawi, Mozambique, Tanzania and Zambia. Apart from apparel, Zambia has a cotton quota of 1 700 tons per annum within the SADC.

The major imports from SADC in 2003 were motor vehicles, petroleum oils, sulphur, manufacturing machinery, asbestos, iron pyrites and chemicals. The major export items include copper and copper articles, base metals, wood and cotton

The SACU arrangement offers Zambia duty free exports of copper cables to the SACU countries.

3. The Zambian Business Environment Since 1991

3.1 Overview of policy trends

From 1964 until 1985 economic policies were characterised by import substituting industrialisation, pervasive controls, and expansion of the state sector of the economy. Development during this period tended to neglect agriculture in favour of industrial expansion. As a result people moved to urban areas. This migration is one reason why Zambia is highly urbanised by African standards. Experience now shows that industrialisation based on a small economy like that of Zambia is not sustainable. When the copper price collapsed Zambia had to borrow in the hope that its fortunes would reverse. This did not happen and the borrowing only helped to create an onerous debt burden.

3.2 National development strategy

In 1991 authorities agreed to adopt a set of International Monetary Fund and World Bank supported structural adjustment proposals starting with implementation of three macroeconomic objectives:

- Restoration of macroeconomic stability through monetary and fiscal reforms;
- Facilitation of private sector growth by freeing price and exchange rate regulations and import and export regulations;
- Shifting agriculture and industry from public monopolies to private and decentralised institutions.

The thrust of the macroeconomic stabilisation strategy was an attack on inflation by reducing fiscal deficits and the money supply. This was to be achieved through the elimination of subsidies and the adoption of a cash budget – so that expenditure increases would only be met from revenue increases or savings. Initially the implementation of these proposals resulted in further destabilisation of the economy. Inflation increased to over 180 percent in the first two years before declining to 54% and subsequently to 33.5%.

3.3 Investment issues

The limited discussion in Zambia on the country's investment policies and performance can probably be explained by the lack of detailed reporting of investment inflows by national accounting authorities. Investigations carried out in the course of this study showed that reported inflows are estimates made by the Central Bank – The Bank of Zambia. Data held by the Investment Centre only refers to pledges and does not include actual investments undertaken. Table 5, however, shows that government expenditures on fixed capital formation are slightly less than private investments. But, in 1998, public investments exceeded private investments. This demonstrates sluggish private sector investment growth.

It is however difficult to distinguish the type of foreign investments. Available information does not distinguish investments by type; for example whether they were destined for take-over of existing firms or establishment of new production premises.

Investment Policy and Law: The need for new institutions
The 1991 government was very clear that investment was the key factor for growth and development. However, it is also important to be clear that investment decisions are a function of expected income streams and, therefore, investor perceptions about present and future conditions for commercial activity matter greatly. Accordingly, the government of the day sought to deal with the necessary elements that constitute the 'investment climate'. First, it made clear the policy for a private sector-driven economy. Second was the promulgation of various laws deemed supportive of the private sector and necessary to build the confidence of investors.

In particular, a specific Investment Act and Investment Centre was put in place; the Privatisation Act and Agency; the Communications Act and Authority; the Pensions and Insurance Act and Authority; ERB including the Office for the Promotion of Private Investment in the energy section (OPPI) under the Ministry of Energy; the Securities Act and Stock Exchange Commission; the Banking and Financial Services Act as administered by the Central Bank, and so on. These laws provided the necessary enabling environment. The following sections will look at some specifics and implementation results.

3.4 Privatisation

Privatisation remained a key element of Zambia's structural reform programme. Among the privatised companies in 2000 were the remaining major assets of Zambia Consolidated Copper Mines (ZCCM), which was a major milestone in the privatisation programme and private sector development. Prior to its privatisation, the deteriorating performance of ZCCM had adverse effects on the treasury (low tax revenue and rising government subventions), external sector (declining export earnings), and in the real sector (declining employment and incomes). The main major assets of ZCCM were sold to two consortiums. Further details appeal below in the section on the mining sector.

3.5 Competition

The Competition and Fair Trading Act is a law of general application that establishes basic principles for the conduct of business in Zambia. The act maintains and encourages competition. Among its objectives are to:
- Provide consumers with competitive prices and product choices;
- Regulate competition in the economy by prohibiting anti-competitive trade practices
- Regulate monopolies and concentrations of economic power;
- Strengthen the efficiency of production and distribution of goods and services;
- Secure the best possible conditions for the freedom of trade;
- Expand the base of entrepreneurship.

The overall objectives of this law are therefore to:
- Prevent anti-competitive conduct by encouraging competition and efficiency in order to provide for greater choice for consumers in terms of price, quality and service
- Ensure that the interests and welfare of the consumers are adequately protected in their dealings with producers and sellers.

The purpose of the Act is to control or eliminate restrictive agreements or mergers and acquisitions or abuse of dominant positions in the market that limit access to markets or otherwise unduly restrain competition.

4. South African corporates involvement in Zambia

4.1 Manufacturing sector, mining and processing

The mining sector has been the prime source of revenue for economic development in Zambia for over 70 years, with exports of mineral products contributing about 60% of total foreign exchange earnings. Over the years, the national economy has developed a comparative advantage in copper and cobalt mining. Deposits of gold, diamonds, zinc, gemstones, coal and a variety of agro and industrial minerals are also found in Zambia. Large-scale mining activities include copper, cobalt, and coal while small-scale mining is active in a variety of gemstones that include emeralds, amethysts, aquamarine, tourmaline and garnets.

The performance of the mining sector over the past couple of years has been rather mixed. This has been largely attributed to a drastic reduction in the world market price of both copper and cobalt on the London Metal Exchange.

Thus to restore the viability of the once prosperous and gigantic conglomerate ZCCM, which contributed about 90% of Zambia's net foreign exchange earnings in the 1980's making it the lifeblood of the Zambian economy, the government began planning for its eventual privatisation. This was necessary to attract investment and with it better management and re-capitalisation.

However, the shock decision by Anglo American Corporation to cut back on its investment in Zambia's copper industry has cast a dark cloud over the country's economic prospects. The implications of Anglo's announcement – which includes massive job cuts and a marked drop in export earnings – appear to have jolted the government and Zambia's cooperating partners into seriously seeking an alternative strategy for the hitherto copper-dependent economy. Economic observers predict that Anglo's withdrawal will cost the country some 11 000 jobs in the mining sector and many more in it support industries. They, however, say that Anglo's decision not to invest further in the Konkola Copper Mines (the largest post-privatisation mining company in which it is the majority shareholder) is only a small part of the problem because the industry suffered a major setback last year when the mining house shelved plans to develop the Konkola Deep Mining Project (KDMP).

The Nature of the Mining Sector

Market size: The mining sector continues to play a significant role in the Zambian economy. The copper industry, for instance is responsible for around 70% of Zambia's foreign receipts. Lately mining has been generating between 6 and 9% of GDP and contributes about 40 000 jobs to total formal sector employment that currently stands at about 470 000.[1]

Market concentration: The main major assets of ZCCM were sold to two consortiums. The first consortium comprising Zambia Copper Investment (ZCI), Commonwealth Development Cooperation (CDC) and International Finance Cooperation (IFC), operating as Konkola Copper Mines (KCM), took over Konkola Division together with Konkola Deep Mining Project (KDMP), Nchanga Division and Nampundwe Mine.

The second consortium consisting of First Quantum Minerals and Glencore AG International, operating as Mopani Copper Mines (MCM), took over Mufulira Division, Nkana Mine and the concentrator and cobalt treatment plant. Further, Nkana Smelter and its refinery were incorporated into a new subsidiary of Zambia Copper Investments (ZCI) plc called Smelter Company Limited (Smelterco). Anglo American Corporation is earmarked to manage this company, under contract, for five years. Privatisation also saw the acquisition of Bwana Mkubwa Mine by First Quantum Minerals Limited who have understandably transformed it into a modern mining set up which is fully computerised.

The regulatory environment: The principal policy instruments that govern activities in the mining sector are the Mines and Minerals Act, the Investment Act and municipal by-laws. In addition several other pieces of legislation govern conduct in the mining sector by virtue of the fact that mining may cut across a broad spectrum of other sectors in the economy.

Technology and the level of skills: Mining has the capacity to increase the stock of needed skills and expertise, promote the development of a broad spectrum of service industries, add value through downstream processing, and transfer technology to small-scale operators. The orderly development of small-scale mining is also capable of lowering poverty through the creation of development zones or areas in rural mining centres arising from the emergence of mining communities, and the provision of essential agricultural inputs such as lime close to agricultural areas. It may also support cottage industries such as pottery and brick making, and increase demand for skills and for essential mining equipment and machinery.

With the rapid privatisation of the mines and the government's pronouncement of a free market economy the sector is likely to shift towards a more capital-intensive technological environment. Therefore it is necessary to evaluate to what extent factors such as capital-intensity will promote improved levels of literacy in the workforce and support the general development requirements of the country.

Table 2: Level of foreign penetration

Division/Mine	Ownership
Chambishi Copper Mine	China Non Ferrous Metal Industries Corporation
Konkola Division/KDMP, Nchanga Division, Nampundwe Mine	Commonwealth Development Corporation (UK) International Finance Corporation (investment wing of the World Bank)
Mufulira Division, Nkana Mine, the concentrator and cobalt treatment plant	First Quantum Minerals (Canada) Glencore AG International
Nkana Smelter and Refinery (Smelter	Anglo American Corporation (South Africa)

[1] Source: Poverty Reduction Strategy Paper for Zambia, 2002-2004

company Ltd)	
Bwana Mkubwa Mine	First Quantum Minerals Ltd (Canada)
Maamba Collieries Ltd	Kuvasa Mining (South Africa)
Ndola Lime Company Ltd	Socomer (Belgium)
Roan Antelope Mining Corp.	Binani Group of India (has since shut down)
Chambishi Cobalt Plant	Avmin Ltd of South Africa
Nampundwe Pyrite Mine	CDC of the UK
Kansanshi copper Mine	Cyprus Amax Minerals of the USA
Chingola Refractory Orcs Dumps	International Finance Corporation CDC of the UK
Chibuluma Mine	Metorex (Pty) Ltd & Miranda Mines of South Africa Crew Development Corporation of Canada Genbel Ltd of Australia

Table 3: Foreign and local investment pledges (US$ million) and employment created in the mining sector from 1999 – 2001

Sector	**Local**			**Foreign**			**Employment**		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Mining	0	0	0	10.2	2.3	14.6	971	183	300

Source: Zambia Investment Centre

Intellectual property regime (in the case of mining sector only) and technology transfer: There is no credible and sufficient data as well as government policy statement or position regarding intellectual property in the mining sector. What is clear however is that the mining companies have a long history of mining in Zambia dating back to about 1900. Prominent companies such as Anglo American Corporation have been involved in mining in Zambia from as far back as 1900. Therefore in the absence of a clear-cut government position on this matter, it becomes extremely difficult to give a precise statement on this subject.

However, under the investment act, investment guarantees assure investors that property rights shall be respected and that no investment of any description can be expropriated unless Parliament has passed an act relating to the compulsory acquisition of that property. Moreover in case of expropriation, full compensation shall be made on the market value and must be convertible at the current exchange rate. Investors are guaranteed that investments will not be adversely affected by any changes in the Investment Act for a period of seven years. The country has gone further by being a signatory to the Multilateral Investment Guarantee Agency (MIGA) and other international agreements, which guarantees foreign investment protection in cases of civil strife, disasters, and other disturbances.

At the bilateral level, Zambia has signed reciprocal promotional and protection of investment protocols with a number of countries.

4.2 South African involvement in retail and other trade

The major entrant in the sector was Shoprite Checkers, a supermarket chain that now owns and operates some 19 retail outlets in Zambia. This entry has woken local suppliers to modern retail dynamics especially on issues of quality, price and delivery.

4.3 Services sector

The government's long-term vision for the tourism sector is 'to ensure that Zambia becomes a major tourist destination of choice with unique features, which contributes to sustainable economic growth and poverty reduction'. The tourism sector plays a vital role in economic growth and government policy is aimed at

promoting its performance. This is the main thrust of the Poverty Reduction Strategy Paper (PRSP). The sector's impact can be realised through employment creation, rural and infrastructure development, community development, increased foreign exchange earnings, and entrepreneurial development.

Given that most of the tourism resources are in the rural areas, the sector plays an important role in rural development. Large-scale investments have economic linkages, which stimulate and strengthen the creation of small- and medium-scale enterprises. For example, construction of hotels and lodges stimulates the agribusiness and food supply sub-sectors, the service provision industry, construction industry, handicrafts industry and so on.

Similarly, as tourism expands, it encourages the development of infrastructure such as airports, accommodation facilities, roads and telecommunications. In the long run this will attract investment in other sectors of the economy. In addition, increased tourism activity encourages entrepreneurial skills development aimed at supplying goods and services to the investment areas. Above all government revenue is enhanced through increased revenues as a result of the growth of the tourism sector.

Description of the scope of the study and presentation of findings: The study will cover perceptions of foreign and domestic investment among investors and civil society. The relationship between policy, perceptions and performance will be examined through selected case studies. The study will draw upon secondary sources and the data from three surveys that will be conducted by partners. The surveys are conducted on civil society, local businesses and domestic subsidiaries of multinational corporations.

The nature of the sector

Market size: Zambia has considerable untapped natural resources for tourism development. They include abundant wildlife, rich cultural and natural heritage sites, abundant water resources, peace and tranquillity. The country has 19 National Parks and 34 Game Management Areas (GMAs) covering 33% of the country, but only 5% of this has been developed for tourism. The National Heritage Conservation Commission (NHCC) has catalogued well over 177 potential sites for tourism development that remain unexploited. These sites comprise archaeological, geological, historical, natural and traditional sites. Zambia has over 35% of the water resource in Southern Africa offering enormous opportunities such as the world famous Victoria Falls[2].

Market concentration: The following are some of the major hotels in the hospitality industry in Zambia:
- Zambezi Sun, Livingstone
- Royal Sun, Livingstone
- New Fairmount Hotel, Livingstone
- Pomodzi Hotel, Lusaka
- Intercontinental Hotel, Lusaka
- Holiday Inn, Lusaka
- Lusaka Hotel, Lusaka
- New Savoy Hotel, Ndola
- Mukuba Hotel, Ndola
- Royal Hotel, Ndola
- Edinburgh Hotel, Kitwe
- Protea Hotel, Chingola
- Ngulu Hotel, Mongu
- Lyambai Hotel, Mongu

Regulatory environment: The Zambia National Tourism Board, a statutory body under the Ministry of Tourism, Environment and Natural Resources together with the Ministry of Tourism is mandated with the responsibility of regulating the sector.

[2] Source: Poverty Reduction Strategy Paper, 2002-2004

Technology and the level of skills: Most of the major hotels, resorts, lodges and guesthouses to a large extent are advanced in terms of Information Communication Technology (ICT). However, the sector mostly employs unskilled and semi-skilled workers whose educational and professional qualifications are low.

Table 4: Level of foreign penetration

Hotel	Foreign ownership
Zambezi Sun	South Africa
Royal Sun	South Africa
Taj Pamodzi	India
Intercontinental	
Holiday Inn	South Africa
Protea	South Africa

Table 5: Investment pledges in US$ millions (1997 to 2001)

	1997	1998	1999	2000	2001
Investment pledges	59.1	92.2	8.9	18.5	13.9

Source: Zambia Investment Centre

Policy overview: The current tourism policy framework has three key elements. Firstly, the emphasis is private sector-driven development. The private sector will take the lead in the development of tourism initiatives and the implementation of investment plans with the assistance of the Ministry of Tourism, Environment and Natural Resources and the Zambia Investment Centre. Secondly, the sector encourages environmentally sustainable growth. The development of the sector will be undertaken in a manner which protects natural resources to ensure long-term sustainability of key tourist attractions (for example wild life, forests and water falls) that are required to attract tourists to Zambia. Lastly, the government's policy in the tourism sector is to create an enabling environment for private sector participation; provide adequate infrastructure and legislation for the growth of the sector, and encourage balanced community involvement aimed at poverty reduction in rural areas.

Trade and Licensing Regulations: The Zambia National Tourist Board (ZNTB) was responsible for licensing of all tourism related activities such as hotels, lodges and guesthouses. This function has to date been transferred to the Ministry of Tourism. However, tourist operators are also required to obtain other licenses from government institutions or departments should they endeavour to provide other services and amenities. For instance retail licenses are obtainable from the district councils and liquor licenses from the Ministry of Local Government and Housing.

Privatisation: The sector has seen the leasing of several campsites to the private sector in the various national parks spread across the country. (For more information please refer to the Zambia Privatisation Agency Status Report of 30 November 2002)

Competition: The Competition and Fair Trading Act, Chapter 417 of the laws of Zambia governs competition related matters in the sector. The preamble of the Act states the aims of the Competition Commission are to:

- Regulate competition in the economy
- Regulate monopolies and concentrations of economic power
- Protect consumer welfare
- Strengthen the efficiency of production and distribution of goods and services
- Secure the best possible conditions for the freedom of trade
- Expand the base of entrepreneurship.

Labour: In the hospitality industry, labour is organised under the auspices of the Hotel and Catering Association of Zambia. All workers in the hospitality industry are free to join this association. The hospitality sector in Zambia mostly employs unskilled and semi-skilled workers with low levels of professional qualifications. Apart from the major tourist destinations hotels and resorts the rest of the sector is a beneficiary of both unskilled and semi-skilled labour. As is the case with all the other sectors in Zambia, the appropriate national labour laws govern labour relations.

Environmental regulation: Through the 1994 National Environmental Action Plan (NEAP), the government recognised the need for adopting sustainable policies aimed at maintaining ecosystems, essential ecological processes, and the biological resources of the country. The NEAP has provided an overview of Zambia's environmental problems, existing legislation and institutions, and strategy options for improving environmental quality. It has also provided the basis for the development of a detailed Environmental Investment Plan, which supports implementation of its recommendations.

Fiscal regime for foreign investments: In an effort to stimulate investment in the tourism sector, the Government offered several incentives to the sector. These included the reduction in corporate tax to 15% for tourist operators and recognising them as exporters of non-traditional exports, allowing a re-claim of VAT on costs incurred in establishing tourism enterprises, and zero-rating for accommodation offered by hotels, lodges and guest houses in Livingstone District for two years. The list of tourism activities that are zero-rated for VAT was extended to include boat cruising, micro-lighting, helicopter tours and walking safaris making the product competitive regionally. Duty on the importation of aeroplanes of any weight has been removed and the waiver on tourist visas has been re-instated.

4.4 Sector profile – agriculture and agro processing

The role of the sector in the economy
Agriculture in Zambia has the potential to enhance economic growth and reduce poverty. Good performance in the sector translates into overall improvement of the country's GDP, creates jobs, and expands the tax base. This is mainly because the majority of Zambians depend on agricultural related activities for livelihood. Thus the sector is seen as one of the driving engines for the anticipated economic growth that is required to reduce poverty. In view of the potential multiplier effects that the agricultural sector has on the economy, the restoration of its high and sustained growth is seen as a critical step in reducing poverty in Zambia.

Brief description of sector performance over time
The real growth rate in the agricultural and agri-business sub-sector has fluctuated significantly mainly due to the sector's high dependence on seasonal rainfall, reduced investments and the failure to strategically position the sector according to its comparative advantage. Because agriculture is predominantly rain-fed, its performance has been highly variable and inadequate. The sector's contribution to GDP averaged 18% over the past decade. Non-traditional, mainly agriculture-based exports did increase from $46.5 million in 1995 to $133.9 million in 1999, thus demonstrating the enormous export potential of the sector. The contribution of agriculture to non-traditional exports increased from 23% in 1990 to 47% in 1999. However, this growth is seriously threatened by the lowered competitiveness of the sector due to high production costs arising from the high prices of inputs, especially energy and fertiliser.

There were disastrous yields in the 1990's, due mainly to droughts experienced particularly in the southern parts of the country. Added to this has been a decline in soil fertility (due to constant cultivation and over-application of fertiliser) in areas that have historically been the most productive. During the 1991/1992 drought, the worst in many decades, rainfall averaged 375.5 millimetres and 615.3 millimetres in Zone I and II respectively. Zone III recorded 971.5 millimetres (see figure 2.1). Poor rainfall in Zones I and II has meant that Zone III has increasingly become relatively more reliable for agricultural production.

Brief description of the scope of the study and presentation of findings
The research for the study will be based on existing studies, economic data and a survey of foreign investors and domestic businesses in the sector. On the basis of the case studies, survey results, secondary sources and other economic data, the report will generate recommendations for government policies at sectoral level.

Market concentration: There are three main categories of farmers in Zambian agriculture: small-, medium-, and large-scale. Small-scale farmers are mostly subsistence producers of staple foods with an occasional surplus for sale on local markets. Medium-scale farmers produce surplus maize and other cash crops mainly for the local market, while large-scale farmers produce for both the domestic and international markets.

The regulatory environment: The regulatory environment in any country plays a critical role in facilitating (or inhibiting) enterprise development. During the pre-1991 period, the coordination of responsibilities relating to the small and micro enterprise sector (most enterprises in the agro-processing sector fall into this category) was generally chaotic with too many agencies sharing the tasks. The main ministry, the Ministry of Commerce, Trade and Industry (MCTI), was charged with the responsibility for coordinating and developing policy for the sector. Through its small and medium scale unit (the MSE Unit), MCTI controlled SIDO, which was created through the Small Industry Development Act of 1981[3]. There are also municipality by-laws. Figure 3.1 shows the main regulatory controls that were cited by sample enterprises as having a direct effect on their operations[4]. Legal aspects of the MSE's regulatory framework have severely constrained this sector's development. Restrictive legal regulations include the Traders Licensing Act of 1968; the Market Act; the Town and Country Planning Act; and the Public Health Act. Besides these, municipal by-laws, particularly the market regulations and hawker licensing regulations all act as effective constraints particularly on the despised 'static' informal sector participants such as traders, street vendors (including those dealing in processed foodstuffs) and hawkers.

Technology and the level of skills: The majority of enterprises in the agro-processing sub-sector cite deficiencies in skills as one of the major constraints on their operations, particularly in the areas of production techniques (this needs to be urgently addressed); management; and sales and marketing (see Figure 3.2, Imani Report; P 45). The majority of enterprises also contend that the required skills are available locally. This implies that what is required to strengthen the production, management, and marketing capacities of small-scale operators in the agro-processing industries is to harness locally available skills. The role of service providers in this regard is considered strategic to this.[5]

There has been very little effort in Zambia to develop indigenous technology geared towards the use of local resources. An analysis of patent statistics (an indicator of inventive activity) shows for example, that Zambia's record has been quite poor. According to a 1986 study by Bhalla,[6] Zambia has one of the highest numbers of inhabitants per patent application. A more recent study[7] shows that the situation has not changed much even today. Of the interviewed firms in this study, less than 11% said they were involved in research and development (R&D) activities, and the total of 215 firms, employed only 14 scientists, 39 engineers and 175 technicians. Most R&D activity is confined to large firms. In particular, there are very few initiatives aimed at developing labour intensive technological options for small-scale operators.[8]

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[3] SIDO's main functions included the provision of credit, conducting feasibility studies and market surveys, procurement and distribution of supplies and equipment, and developing industrial estates.

[4] Small-scale food processing sector in Zambia, Imani Development (Pvt) Limited in collaboration with O. Saasa, October 2000, CTA Working Document Number 8015

[5] Small-scale food processing sector in Zambia, Imani Development (Pvt) Limited in collaboration with O. Saasa, October 2000, CTA Working document Number 8015

[6] Bhalla, A.S. 1986. Technological Dependence of Africa, JASPRA: The Challenge of Employment and Basic Needs in Africa, Oxford University Press, Nairobi

[7] SNF, Norway and Department of Economics, The University of Zambia, (1995), op cit.

[8] See in particular Jha, Dayanatha, B. Holjati and Stephen Vosti, 1991. The use of Improved Agricultural Technology in Eastern Province. In Celis, Raphael, John T. Milimo and Sudhir (eds.), Adopting Improved Farm Technology: Study of Smallholder Farmers in Eastern Province. Zambia Rural Development Studies, UNZA, Lusaka and International food Policy Research Institute, Washington D.C.; Tembo, Stephen and Chosani Njobvu, 1997. The Status of Smallholder Farming and Agricultural Services in Zambia, Report prepared for the Ministry of Agriculture and Cooperatives, Institute of Economic and Social Research, University of Zambia, Lusaka

Table 6: Foreign ownership of Zambian companies in the agricultural sector

Company name	Foreign ownership
Nakambala Sugar Company	Illovo Sugar of South Africa Commonwealth Dev. Corporation
Zambia Seed Company Ltd	Weibull AB (27.5% shareholding) Swedfund International AB (25% shareholding)
Zambia Horticultural Products Ltd	Foodcorp of South Africa
Zambia Cashew Company	CDC (12.5% shareholding)
Zambia Coffee Company Ltd	African Plantations Corp
Nchanga farms – Mukumpu Ipumbu farm	CDC
National Milling Co	Erabus BV and Namib Mills
Nanga farms	CDC
Mpongwe Development Co	CDC (70% shareholding)
Lint Co of Zambia, Chipata Unit	Clark Cotton of South Africa
Kawambwa Tea Company	Metal Distributors of UK

Source: ZPA Status Report as at 30 November 2002

Table 7: Foreign and local investment pledges (US$ million) and employment created from 1999-2001

1999 Investment

Sector	Local	Foreign	Total	Employment
Agriculture	2.5	27.9	30.4	1 204
Manufacturing	1.8	30.6	32.4	2 587

2000 Investment

Sector	Local	Foreign	Total	Employment
Agriculture	0.6	8.3	9	1 036
Manufacturing	2.3	28.4	30.7	1 902

2001 Investment

Sector	Local	Foreign	Total	Employment
Agriculture	0.4	26	26.4	1 808
Manufacturing	2.4	28	30.4	1 134

Source: Zambia Investment Centre

Overview of economic policies

Zambia has significant natural potential in terms of temperate climate, 90% unexploited land, and abundant water resources. However, the country has an apparent deficiency in farming and processing capacity for basic food products and is a net importer of the same (about US$100 million per annum). Except for individual company sector champions, the food-processing sub-sector is uncompetitive. This is because the Zambian food chain has failed to modernise effectively. Despite the incidence of increase trade competition at the regional level, most sector players have not corrected shortcomings. Zambia therefore faces the likely danger of food trading subsuming food production as food economies globalise. Some issues need resolving before long including: too small an agricultural base, poor under invested infrastructure, poor road, rail and telecommunications, high borrowing cost and cost of imported inputs, declining domestic consumption as abject poverty increases, failure to address modern food retailing dynamics, an example of this the entry of the South African retail chain, Shoprite and the arising procurement standards and credibility issues.

The bulk of the failure in the sector is attributed to local enterprises. FDI has on the other hand taken full advantage of the lack of 'local competition'. Through various routes, FDI has entered the sector and is doing

very good business with the likes of Shoprite and the international export markets. Cases in point include Zambeef Products Limited and Agriflora. Through modernisation and strategic management they have become the best sector players in the region and are currently involved in capacity building.

During privatisation of state-owned enterprises, Zambia has managed to attract FDI inflows in the sector. Privatisation related FDI inflows in the sector included amongst others:

- The privatisation of National Milling Company Ltd to Erabus BV and Namib Mills of Namibia
- Lint Company of Zambia – Chipata Unit was sold on a competitive tender basis to Clark Cotton of South Africa
- Zambia coffee was sold to African Plantations corporation
- Zambia Horticultural Products was sold to Foodcorp Ltd of South Africa
- Zambia Seed Company Ltd (Swalof Weibull AB shareholding 27%; Swedfund International AB shareholding 25%)
- Zambia Sugar Company (Illovo of South Africa shareholding 40%, CDC shareholding 30%)

On the whole, FDI has impacted positively on the concerns of wealth and job creation, foreign exchange generation and hence balance of payments, technology transfers and hence sector modernisation.

South African Corporate Expansion and Zimbabwe's Economic Regeneration

E G Cross (MDC)

The full extent of the collapse of the formal economy in neighbouring Zimbabwe is quite difficult to actually appreciate. Since 1997 (the last year in which any sort of normal economic and political rationality prevailed) the economy has seen the following declines in absolute output:

- GDP has declined 40% from US$8 billion in 1997 to an expected US$4,8 billion in the current year.
- Industrial output is down 40%.
- Commercial agricultural output is down to about 10% of the historical average achieved in the early 1990's.
- Mining output is down slightly less – but now falling rapidly in key traditional products such as asbestos, gold and chrome.
- Tourism activity is about 20% of 'normal'.
- A quarter of all commercial banks are either in liquidation or under the curator ship of the Reserve Bank. Nearly 70% are in difficulty and are unlikely to survive.
- The value of the Zimbabwe dollar has fallen from 12 to 1 against the US dollar in 1997 to an estimated real value today of 7 000 to 1.
- Inflation has exceeded the IMF definition for hyperinflation of 50% per month.

I see no slowdown in these trends – at the end of 2003 the MDC forecast a decline in GDP of another 10% in 2004, the Minister of Finance was only slightly less pessimistic. Provided some form of transition back to a legitimate national government and the restoration of rational economic and political policies takes place in the near future we can still talk of regeneration in the Zimbabwe economy. If the situation is allowed to drift much longer the medicine needed to get this corpse off the mortuary table might have to be very strong indeed.

If and when Zimbabwe does find itself in the recovery room, the task ahead of us will be daunting. Much of the gains made in the social sphere since independence in 1980 have been swept away by the chaos of the past four years. Over three million Zimbabweans now live abroad. This represents a quarter of our total population. Human flight continues at over a 1 000 people a day. Much of Zimbabwe's fabled human capital now lives abroad and is unlikely to come home when change occurs.

Over a quarter of all remaining adults in Zimbabwe are HIV positive and Aids deaths are running at over 150 000 a year, and accelerating. Infant mortality is high for children under the age of five and maternal mortality is at record levels. As a result life expectancy is down from 59 years in 1990 to 36 years today. The consequences of these demographic shifts on the availabilities of skill and experience in Zimbabwe will be one of the most serious problems we will face.

Then there is our infrastructure – our whole railway network is running only nine trains a day – and most are both weight and speed restricted because of the condition of the track. Our roads are in a dire state and require resealing and in some cases, reconstruction. Our fuels supply system is in a complete shambles as is our electricity grid and production network.

In our cities, urban homeless now constitute 40% of the total urban population. With an estimated 6,6 million people in the urban areas, the cities are now supporting double their designed capacity. Sanitation and sewerage systems are totally overloaded and we are fast running short of potable water supplies. Urban transport is hopelessly entangled and costs up to 40% of disposable incomes for some communities. Getting to and from work for the 60% of formal sector workers who remain employed is a daily nightmare.

The current role of the South African corporate sector

Historically South African companies have played a critical role in the Zimbabwe economy. At one stage, Anglo-American was at least 40% of the value of the stock market for example. South Africa was probably the largest single foreign investor in many spheres. It controlled the breweries, the main hotel group, and a substantial proportion of the mining industry and had a significant stake in agriculture.

This role was intensified during the 15 years of mandatory UN sanctions that followed the unilateral declaration of independence (UDI) and led to the independence of Zimbabwe under a majority government in 1980. International firms, which had investments in Rhodesia, often handed over control to their South African subsidiaries or sold out their interests to South African firms. After independence, the nature of South African investment changed – there were some reversals of control (Shell International took back their substantial interests and placed them under the control of BP). South African investment actually declined for a while – South African Breweries (SAB) withdrew from Delta Corporation for example – selling their shares to the state.

But the major shift has been in respect of Anglo-American, which has completely restructured its Zimbabwe portfolio in the past ten years. The objective seems to have been to withdraw from industry and much of the agricultural sector and the company now sits on a huge resource of cash and is investing heavily into traditional resource based extractive industries centred on mining.

Of particular note has been the massive investment in the platinum industry where an expected inflow of capital resources that could reach US$3 billion is under way. It is interesting to note that this investment exercise was in fact pioneered by a Zimbabwean group which put together the ZIPLATS deal – taking a failed Australian investment worth US$500 million and turning it around in a few months and then selling a majority interest to Anglo. The key to this activity is the package that the Zimbabwean group negotiated with the government of Zimbabwe, which in effect allows the platinum companies to operate outside the confines of the Zimbabwean economy.

To protect South African investments the two governments have signed a joint bi-lateral investment guarantee agreement – which is now under some strain as the state moves to illegally acquire South African owned farming assets as a part of their 'fast track to nowhere' programme. The two major sugar companies in the lowveld are both South African owned – both are in fact part of the Anglo stable – Hippo directly through Anglo Zimbabwe and Triangle through South African interests in Natal; they are now both under threat.

But in other fields there have been some significant developments in recent years – in the food sector the South African food giants, Tiger Oats and Premier, have both taken a key position in major Zimbabwean firms – Blue Ribbon and National Foods. The global giant, Metcash, now one of the largest wholesale companies in the world, has taken a strong position in the wholesale business in Zimbabwe, extending its 'Lucky Seven' brand into local markets and establishing a wholesale chain to support it – Trador. They recently bought out the Jaggers group and are now the largest group of this type in Zimbabwe. Thus far the retail chains in South Africa have had mixed experience in the Zimbabwe market – Woolworths came in and are now almost out. Pick and Pay have invested in a Meikles subsidiary (TM Supermarkets) and another major retail distributor (Power Sales) has been taken over by South African interests. SAB would dearly love to get back into Delta and have been buying their shares whenever the opportunity presents itself.

In the public sector we have seen investments by the South African financial sector in the Bulawayo to Beitbridge Railway and Spoornet is operating the line. ESCOM are involved at Hwange Power Station and ISCOR is at ZISCO (the steel plant in the Midlands). These are strategic and vital injections of much needed expertise and capital and perhaps give a guide as to what might happen when the process of 'regeneration' begins.

In the banking industry, Standard Bank (South Africa) has absorbed the network of Grindlays, which has withdrawn from Zimbabwe, Nedbank have withdrawn from Zimbank and both Barclays and Standard Bank (UK) are spearheading their planned entry to the South African market from their Zimbabwe base. ABSA have invested in the Commercial Bank of Zimbabwe and are providing technical and financial support.

Taken all together it is difficult to estimate the total contribution of these investment and technical relationships with firms in the Zimbabwe economy. However it is very substantial and must be expected to grow as the situation is normalised and regional markets open up.

South African corporate expansion and the regeneration of the Zimbabwean economy

Zimbabwe has huge potential – between them, South Africa and Zimbabwe have the great majority of the world's potential resources of chrome and platinum. In addition we are about number six in rank as gold producers (if we take into account illegal sales) and are the world's leading producer of white asbestos.

Zimbabwe is one of the world's great tourist destinations – the Zambesi river system, the wild life resources and its climate and infrastructure make it one of the least used tourist destinations in the world. When South Africa was promoting its own tourism in the United States last year, it was the Victoria Falls they chose as the centrepiece of their exhibit.

Much more than South Africa, Zimbabwe is the hub of regional trade and communications. If South Africa is to be able to take advantage of regional markets – its access will, in the main, be through Zimbabwe. Zimbabwean manufacturing in the fields of footwear, clothing and furniture remain highly developed and competitive. Its steel potential is considerable if managed correctly and can be expanded and diversified. The coal based energy potential is simply enormous.

From an agricultural perspective, of all the countries that border South Africa, Zimbabwe still has the best prospects as an agricultural producer. It has a wide range of natural regions and huge irrigation potential. South Africa is operating at the limits of its water and land resources and must look outside for future agricultural expansion.

South Africa on the other hand has all it takes to be the natural and logical partner in the process that is required to exploit this potential for the benefit of the region and the respective populations of both countries. You have the technology, not global technology, but African technology developed for African conditions. You have much of the capital resources required and the infrastructure to support it over your borders.

I see all of this as positive potential. We can develop the relationship with Eskom, Spoornet and ISCOR to our mutual benefit – we do not need to go out into the world market for partners in these specific areas. We share your vision for a regional network to generate cheap electrical energy and to feed it into our industries through the regional grid. We share your vision of unified regional markets that give our manufacturers the opportunity to harden their steel to meet global competition.

What we do not want is an unequal relationship based on the sheer disparities in size. Our GDP (after 24 years of Robert Mugabe) is only 3% of that of South Africa. If South Africa is a global minnow we are a regional minnow. We do not want a partnership with companies who simply want to control our resources so that they can manipulate global markets – platinum and chrome are prime examples. We want a genuine partnership that is based on respect for each other's sovereignty and status and the need to recognise local priorities.

All too often in the past South Africa has negotiated abroad without recognising the interests and needs of its smaller regional partners. South Africa must break with the past and forget the myth that it is a part of the developed world. You are a part of Africa and your future lies with the region, not the United States or Europe,

although we share the need for Africa to play a greater role in global markets and you show the way in this respect.

We do not want restrictions on the entry of our manufactured products into South Africa or South African principles determining what may be sold into South Africa in competition with related South African firms. We do not want South Africa using us as a dumping ground for manufactures and for restricting the growth of regional industry in favour of maintaining markets for their own products.

A prime example of this sort of thing is the activity of the South African paper giants, Sappi and Mondi in the region. Not only do they fix prices together they also co-operate in market strategies and divide markets up between them. In Tanzania they stood by as the largest single investment in Tanzanian industry – Southern Paper Mills collapsed and folded. Rather we should be looking at regional strategies to command a greater role in global markets – using regional trade as a testing and training ground for the intense competition we face abroad.

It is an ill wind that blows no one any good, there are many interesting investment opportunities for companies that are 'here to stay' in Zimbabwe. Assets are available at a small fraction of their real value. Many firms recognise this and are quietly establishing a base in the corporate sector. At this stage we in the MDC would urge those firms who are taking such steps to be careful in their selection of local partners and in the path their negotiations take, as we will be hard on corrupt and monopolistic practices.

We would also urge that your larger firms start to think through how they might come in when change takes place and help us with the process of regeneration to their own advantage. We would urge the major public sector corporations in particular to look at this aspect. We need a technical and financial partner for ZISCO – the steel manufacturer. We need massive assistance from Spoornet with the rehabilitation of our railways. We need full co-operation with Eskom in relation to our coal-fired power stations and our involvement in regional power supplies and distribution.

We will need help to get our gold mines back into production and we need to think through our joint efforts in chrome and platinum. South Africa has done a great job in the tourist sector – we need help to get our industry up and running and operating in a mutually supportive manner. We need to look afresh at our air carrier and ask ourselves does it make any sense to operate these small air companies when only the giants can really make it work?

Finally, you can help us rebuild Zimbabwe by sending home the many thousands of skilled and experienced people who have made South Africa their home while Zimbabwe burned.

To make this all possible we in Zimbabwe have a few things to do. We must re-establish the rule of law, and the independence and professionalism of our judiciary. We must recreate our democracy and establish respect for all human and political rights. We must guarantee private property rights and protect foreign and local investment activity. We must open our markets, float the Zimbabwe dollar and remove exchange controls. We must curb corruption and punish the corrupt. We must make our administration investor and visitor friendly. These are all things you cannot do for us – we must achieve these things before we can plan for any sort of regeneration and the recovery of our place in the world.

Despite the collapse of our economy, we remain South Africa's leading market on the African continent. This demonstrates, more than anything else does, the resilience of our ties and the potential of our alliance. What is needed now is your help to get us to the starting gate rather than the exit.

Doing Business in Southern Africa: Opportunities and Constraints

Iraj Abedian (Standard Bank)

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

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

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

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

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

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

The Industrial Development Corporation: Financing Africa's Development

Zora Madikizela (IDC)

This presentation outlines the Industrial Development Corporation's (IDC) involvement on the continent, looks at challenges it faces in financing projects in the region and sets out the IDC's vision and mission with regards to the NEPAD goals.

The IDC is a self-financing state owned development finance institution established by act of parliament that promotes the development of sustainable industries in South Africa, the SADC and the African continent. It works as a private company to promote entrepreneurship and competitive enterprises based on sound business principles. It pays income tax at corporate rates and dividends to its shareholders. It has an independent Board of Directors and its annual reports are freely available to the public. Its vision is 'to be the primary driving force of commercially sustainable industrial development and innovation to the benefit of South Africa and the rest of the African continent'. Its mission is to be a self- financing national development finance institution whose primary objectives are:

- to contribute to the generation of balanced, sustainable economic growth in Africa and
- to the economic empowerment of the South Africa population, thereby promoting the economic prosperity of all citizens.
- the IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles.

Its core strategies are:

- providing risk capital to the widest range of industrial projects
- identifying and supporting opportunities not yet addressed by the market
- empowering emerging entrepreneurs
- establishing local and global involvement and partnerships in projects that are rooted in or benefit South Africa and the rest of Africa
- maintaining our financial independence and
- building upon and investing in human capital in ways that systematically and increasingly reflect the diversity of our society.

The IDC is actively and effectively supporting Africa's revival by:

- acting as a catalyst for investments in productive capacity through the provision of development finance
- assisting in the financing of exports of South African capital goods and services to African projects
- fully supporting the New Partnership for Africa's Development (NEPAD) and regional spatial development initiatives (SDIs).

Government has extended its mandate to cover the continent in order to do this, expressing its commitment in this way to support economic development in Africa and underpin NEPAD. It sees the IDC as 'one of the policy-based development finance institutions that can leverage and catalyse private sector investment for economic development …' and has introduced the corporation to African governments and business.

Beyond South Africa's borders the IDC's African portfolio consists of 70 projects under implementation or consideration in 23 African countries. Financing has been approved for 34 of these projects in 12 countries. In addition, 38 purely export finance applications have been approved or are under consideration. In total the corporation has approved approximately US$1.21 billion for African projects.

The IDC's role in project development in Africa begins with identifying project opportunities. It then co-sponsors feasibility studies, sources financial and operating partners and provides and arranges funding. The IDC itself takes an equity stake and assists with project implementation through a project steering committee. It also has representation on the board of directors.

Financing criteria include green fields projects, expansions and rehabilitations. Projects are mainly large scale and must be profitable and sustainable within a reasonable time frame. The main element IDC looks for is development potential; others include empowerment and rural development. The owners should be prepared to make a reasonable financial contribution and there must be security for the investment.

Critical success factors include adherence to a comprehensive set of investment guidelines. Economic merit is non-negotiable and a thorough due diligence must be undertaken. Other factors include, risk mitigation, appropriate financial structuring, off-take / supply agreements, hard currency generation, strong partnerships and a financial contribution from the promoter.

The IDC shares project risk with the sponsors and financial partners and its participation raises investor confidence in African projects and attracts other lenders and investors. It does not seek shareholding control or management participation and acts as a neutral partner with an intrinsic developmental focus and approach.

Some of the challenges Africa faces include the necessity of ensuring political stability and maintaining investor friendly environments. Sound fiscal and monetary management are essential as are efforts to combat corruption, protect property rights and further regional integration. Human capital resources need to be enhanced by raising education levels and addressing skill shortages. In the field of financial capital African countries need to raise domestic savings and investment levels in order to reduce the high dependence on donor funding and foreign direct investment. Infrastructure needs attention in order to improve delivery efficiencies and the availability of supplies. Environmental issues are also important.

Typical project specific challenges investors in Africa face include limited domestic markets, while high domestic interest rates and short-term financing leads to a dependency on foreign capital. Projects need to generate hard currency to repay foreign loans and face the risk of domestic currency devaluation. There is a lack of equity and a need for flexible funding structures. And finally there is a lack of support in project preparation.

In conclusion, Africa is attracting progressively higher inflows of foreign direct investment. The IDC has played a positive role in this development, making great strides in boosting investment activity and changing grossly exaggerated perceptions of Africa as a high-risk investment destination.

Vodacom's Regional Activities

Niezaam Davids (Vodacom)

This presentation will look at:
- An overview of Vodacom's activities within the region
- Its approach to doing business in the region
- Market potential for sub-Sahara Africa
- Economic impact associated with Vodacam's involvement
- Key lessons learnt from its involvement in the region.

In South Africa Vodacom is the industry leader with 56% of market share, more than 9 million customers and a turnover of more than R20 billion annually. It employs approximately 4 000 staff in the country.

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

In Tanzania it is the industry leader with 58% of market share, more than 570 000 customers. Its operation there has 35% local participation. Key challenges in this market are getting the regulatory environment right, the tariff regime and the development of infrastructure. In the Democratic Republic of Congo (DRC) Vodacom is again the Industry leader with 48% market share and over 650 000 customers. It has 49% local participation. The key challenges in this market are tariffs and infrastructure development. Vodacom only launched it operation in Mozambique in December 2003. At present it has 2% local participation. Key challenges are interconnection, tariffs, and infrastructure. In Lesotho Vodacom is the market leader with 76% of the cellphone market. It has 12% local participation with 97 000 customers. Key challenges are the affordability of cellphone services, interconnection, tariffs and infrastructure.

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

In the DRC Vodacom a faced price war initially but is now in a dominant position. It had to educate the market to show that unsustainable tariffs do not favour anyone. In Mozambique negotiations to set up clear conditions for investment took about a year. In Lesotho the issue of affordability is important and Vodacom is working to get the government to understand that low tariffs are not sustainable.

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

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

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

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

Sub-Saharan Africa has enormous growth potential. It has very low tele-density and a population nearly three times that of the United States of America with one fifth of the world's natural resources. Mobile networks provide a quick and effective way of addressing the lack of telecommunications services in Africa. They can rapidly expand services, pre-paid services can address problems of affordability and provide a big multiplier effect, and they can make a contribution to bridging the digital divide.

Key lessons for Vodacom:

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

African Social Observatory Synthesis Report[1]

Devan Pillay (NALEDI)

1. Introduction

The African Social Observatory Pilot Project focused on four countries, South Africa, Zimbabwe, Zambia, and Ghana. In South Africa, Metso Minerals, a Finnish multinational corporation (MNC) was studied. In the other three countries, South African based MNCs engaged in the retail sector were studied. In Ghana the study focused on Woolworths, and in Zimbabwe and Zambia on Shoprite Checkers.

The main objectives of the project are:

- To build the capacity of African-researchers and research institutions linked to the labour movement to monitor and evaluate the conduct and activities of multinational corporations in their respective countries,
- To provide a concrete and strategic basis for social dialogue and trade union action at regional and global levels,
- To facilitate and enhance the contribution of African trade unions to the emerging debate and policy development process regarding frameworks and binding mechanisms for corporate accountability and social responsibility, and
- To strengthen the capacity of members of the African Labour Research Network to assess the application of international labour standards in our respective countries.

The criteria used when researching the respective Multinational Corporations included the following:

- Wages, unionisation, employment intensity, decent jobs relative to industry, skills development, industrial health and employment equity
- Adherence of Corporations and Supply Chain to core labour standards
- Engagement with trade unions and community
- Contribution to local economic development/linkages to local companies
- Support for acceptable forms of corporate social responsibility
- Adherence to good corporate governance
- Promotion of human rights
- Extent of environmental/health and consumer protection impacts
- Adherence to Code of Conduct (including strong enforcement and auditing)

The social observatory seeks to empower unions and other actors in civil society to influence government and the manner in which MNCs operate through building networks/linkages.

Two other papers were also produced as part of the project. One focused on labour standards and conditions that prevail in MNCs and lobbying and campaigns against MNCs. The other paper looked at the flows of foreign direct investment (FDI) in Africa and its impact.

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[1] This pilot project, helped launch the African Social Observatory Project as a partnership between the African Labour Research Network (ALRN), the Labour Research Service, and the Trade Union Solidarity Centre of Finland (SASK). All the partners would like to thank SASK for the financial and other support provided to the project and the other partners.

The ALRN was formed in 2000 and is co-ordinated by the National Labour and Economic Development Institute (NALEDI) based in Johannesburg, South Africa. The network has brought trade union researchers or researchers from trade union linked institutions together from Ghana, Namibia, South Africa, Zambia, Zimbabwe, Malawi, Kenya, Nigeria and Angola.

This synthesis reports briefly highlights the arguments made in the FDI paper and the main findings and trends in the four country reports.

1.1. Project methodology

A template questionnaire was drafted and sent to all researchers, who were advised to adapt the questionnaire to suite local circumstances. The research focused on labour related issues but also touched on training, environmental issues, and socially responsible investment.

Management in the different companies co-operated with the research to varying degrees, with the exception of Woolworths in Ghana. Here management found the questionnaire 'too sensitive' and refused to take part in the research. This left the researcher with no option but to interview workers outside the work place.

2. Foreign direct investment in Africa

The reasons African governments seek foreign direct investment are to improve capital formation, transfer of skills and technology, create jobs, and increase competitiveness. The paper distinguishes between green field, and merger and acquisition (M&A) FDI and found that most FDI into Africa took the form of M&A investment, which has lower benefits than green field FDI. The analysis reveals that FDI does not lead to the above expected outcomes.

One of the most dangerous outcomes of FDI is the tendency to lead to monopolistic practices through the closing down or buying out of local competitors. This makes the introduction of a competition policy imperative to counter such practices.

African countries make use of initiatives such as incentives, investment treaties, and investment promotion agencies to attract FDI. Incentives can be grouped into three categories namely fiscal, financial, and rule or regulatory-based. The Namibian experience demonstrates that incentive schemes do not yield the desired effect. Investment treaties in the main serve to create a secure environment for foreign investors. At the same time countries establish investment promotion agencies (IPA) to pro-actively market their country as an investment destination.

In Africa, the main attraction for FDI is market related, notably the size and growth of the local market and access to regional markets. Investment flows to Africa have declined steadily. In the 1970s Africa accounted for 25% of foreign direct investment to developing countries. In 1992 it only accounted for 5.2% and in 2000 it received 3.8% of the total FDI to the developing world. The SADC region experienced a decline from 0.9% to 0.3% between 1995 and 2000.

According to the World Investment Report (WIR 2001) FDI inflows to Africa declined from $10.5 billion in 1999 to $9.1 billion in 2000. The flow to its top recipients, namely, Angola, Morocco, and South Africa fell by half. The main sources of FDI to Africa were France, the United Kingdom, the United States, and to a lesser extent, Germany and Japan (WIR, 1999).

On average FDI flows to North Africa remained more or less the same as in the previous year, $2.6 billion. Egypt remained the most important recipient of FDI flows in North Africa.

In sub-Saharan Africa, there has been a decrease in FDI from $8 billion in 1999 to $6.5 billion in 2000. A sharp drop of flows into Angola and South Africa caused the overall drop into sub-Saharan Africa.

More recently, a group of African countries including Botswana, Equatorial Guinea, Ghana, Mozambique, Namibia, Tunisia and Uganda have attracted rapidly increasing FDI inflows. Reasons differ from country to

country. In the case of Equatorial Guinea its rich reserves of oil and gas played a role. Natural resource reserves also played a role in the cases of Botswana, Ghana, Mozambique and Namibia while privatisation was pointed out as a factor that attributed to attracting FDI to countries like Mozambique, Ghana and Uganda.

2.1 Flows to the SADC region

Due to the drop of FDI flows into Angola and South Africa, the overall SADC region experienced a fall in flows from $5.3 billion in 1999 to $3.9 billion in 2000. However, countries like Mauritius and Lesotho experienced strong increases in FDI whereas others, for example, Zimbabwe experienced a significant drop, in its case from $444 million in 1998 to $59 million in 1999 and only $30 million in 2000 (WIR, 2001).

The latest figures of FDI into SADC by UNCTAD (2001) reveal that the highest amount of FDI inflow in absolute terms was recorded by Angola (US$ 1,8 billion), followed by South Africa with an inflow of US$ 877 million. The rest of the region accounted for FDI inflows of less than US$300 million in the year 2000.

2.2 Flows by sectors

A large proportion of FDI is directed towards the primary sector, especially oil and gas. Between 1996 and 1999, most investments in the SADC region went into the metal industry and the mining sector and thereafter into the food, beverages and tobacco sectors. Other sectors like tourism accounted for a small amount of FDI. Sectors attracting FDI in the SADC region in order of priority are:

- mining and quarrying
- financial services
- food
- beverages and tobacco
- agriculture, forestry and fishing
- hotel
- leisure and gaming
- other manufacturing
- energy and oil
- telecom and IT
- retail and wholesale and
- construction (Hansohm et al, 2002).

Main conclusions

A SADC seminar that brought together researchers, trade unionists and NGOs in Windhoek, Namibia in February 2001, recommended the following:

- Africa should abandon its open door policy to FDI
- Africa should determine the national policy and set the context for FDI. Social policy and the public sector cannot be handed over to international institutions or the private sector
- Africa should resist all additional conditions that come with FDI and instead African governments should set their own conditions for FDI
- Africa should retain savings as the basis for domestic capital accumulation. Other areas that need to be addressed in order to maintain own financial resources are:
  - transfer pricing (changing prices charged by companies when moving their products between their units in different countries in order to avoid high taxes)
  - payments for consultations
  - fees for copy write and patents
  - losses due to privatisation
  - losses due to structural adjustment programmes
  - loss through increased costs of interest payment

  - loss through continuing debt payments, especially for debts created by the apartheid regime.
- Africa should obtain technology that is not tied to FDI
- Trade Unions and NGOs should put pressure on Southern African governments to join forces in order not to succumb to pressure from the North during negotiations in the WTO
- There is a need to stop the liberalisation of capital movements and speculative capital flows at global level
- Africa should develop regionalism as defined by the people, and not by the European Union or the United States and
- Africa should use the concept of selective de-linking from the global economy within regional settings but not as a form of national autarchy.

One of the main outcomes of using incentives to attract FDI is increased competition among African countries that leads to countries engaging in a 'race to the bottom', offering investors more and more attractive financial incentives, and reducing the regulatory requirements on firms.

The Angolan case proves that it is insufficient to base an analysis of FDI trends only on what business determines as attractive for FDI. Angola attracted resource-seeking FDI despite the country's longstanding war.

3. Analysis of country reports

3.1 Labour legislation and ILO conventions

Ghana is the only country that partook in the study that had not ratified all eight core ILO Conventions. It has ratified seven of the conventions with convention 138 – Minimum Age – outstanding.

All countries have sufficient labour legislation to protect workers against abusive practices. Minimum wage legislation does not prescribe wages above minimum living level or poverty datum line.

While labour legislation may be described as sufficient, in some cases enforcement is a problem. In other cases the need to attract FDI and the deregulation of the labour market have left workers vulnerable.

3.2 Freedom of Association

Workers at Woolworths (Ghana) are not unionised but at their insistence and initiative a communications committee, made up of representatives of workers from all departments, was formed. The committee serves as a liaison between workers and management. So far one of the initiators of the committee has been dismissed. Management has been accused by workers of discouraging them from forming or joining trade unions through intimidation and reminding them of the lack of jobs in Ghana. The lack of protection has led to workers being laid off unjustifiably. However workers have never complained nor taken any actions against the company for the fear that any such action could result in their dismissal. Management cites examples from other countries to support their argument that the workers can still enjoy good conditions without unions. But despite these arguments, workers are of the strong opinion that unionisation will improve their lot in the company.

Workers at Metso Minerals are free to join unions of their choice. There are four unions representing workers at the plant and all have recognition agreements with the company. Workers have complaints that some members of management discourage workers from joining unions. This practice is not widespread in the company and it seems that only lower ranking managers are guilty of such behaviour. In general though there is a positive relationship between the unions and management. There is an agreement between the two parties to meet monthly.

Trade union representatives have access to the workplace. Judging from the responses to the questionnaire it seems that union officials do not have a problem with access to the workplace but shop stewards do experience

difficulty when they want to go into another department. While the company says unions are free to distribute information, they do experience some difficulty. Many unionised workers do not know many of the company policies, the committees that exist, and decisions taken in these committees.

Shoprite Zambia permanent employees are unionised. The casual workers who constitute almost 50% of the total workforce are not unionised. Employees other than those in management are free to join trade unions of their choice. Management has a recognition agreement with the National Union of Commercial and Industrial Workers (NUCIW). The NUCIW is the national union currently organising eligible permanent employees in all Shoprite Checkers outlets. According to the union, managers often discourage workers from joining the union. The union has a shop steward in each outlet.

Shoprite Zimbabwe workers are unionised and are members of the CWUZ. CWUZ is 'allowed' to recruit members from Shoprite. The union is also allowed to distribute flyers and reports on union activities.

3.2 Collective bargaining

Metso Minerals is a member of South Africa's Metal and Engineering Industries Bargaining Council. All substantial issues related to working conditions and wages are negotiated annually at the bargaining council. The company adheres to the minimum wage levels set at the bargaining council. The company in facts pays its workers slightly higher than the minimum wage agreed to at the bargaining council. However according to the bargaining council agreement workers work 40 normal hours per week and are permitted to work 10 overtime hours per week. Some workers at Metso stated that they worked up to 40 hours overtime per week. Workers claimed they were victimised if they do not agree to work overtime. The union is free to distribute information and have access to information most of the time. Shop stewards are entitled to time off for union work.

In Ghana workers reported that neither collective bargaining nor workplace forums exist. Workers have individual contracts with the company and wages are determined by management at the enterprise level based on a pay structure determined solely by management. Pay increases take place at the beginning of each year. Workers work seven days a week, six hours a day except on Sunday when they work eight and a half hours. They get one day off every fortnight. Workers have no problems distributing information to workers at the workplace.

In Zambia there is a Collective Agreement between the NUCIW and Shoprite, which expired on the 30th June 2003. A new agreement is presently being discussed. Union officials and workers indicated that initially it was a struggle for the union to gain recognition. Disclosure of information on strategic company issues is wholly at the discretion of the Shoprite Checkers Head Office in South Africa. The unions also claimed that management has a tendency to delay the collective bargaining process and at times declared unilateral wage adjustments without consulting the unions. Wages are determined at the national-industry levels in collective bargaining agreements. Wage negotiations are held three times a year for the commercial sector.

Management states that the average salary is around K 460 000 per month and is above the national legislation and industry level. However, evidence from pay slips indicates a salary range of K 230 000 to 450 000. Cleaner's salaries range from K 150 000 to 180 000. Supervisor's salaries range from K 350 000 to K 450 000. The maximum normal work hours permitted per week is 45 hours.

The Zimbabwe report states that there is a collective agreement in place between Shoprite and CWUZ. The minimum wage in the commercial sector was ZW$47 696.00 as at June 2003. This means that workers in the commercial sector are earning 35% of the Poverty Datum Line. This applies to employees of Shoprite as well where more than 70% of employees are earning a wage below the PDL. Another disparity at Shoprite is the widening income differentials between higher and lower paid workers.

Unionised employees are given time off from work to participate in union activities. The collective bargaining agreement for the commercial sector specifies that the maximum hours of work is 45 hours per week. Seventy five per cent of the employees at Shoprite work at least 45 hours per week. Overtime is not voluntary, but is a management decision. Employees who work overtime during normal working days are paid one and half times the hourly rate, whilst employees who work overtime on public holidays are paid double the hourly rate. Casual employees often work more overtime to increase their total earnings.

The benefits workers receive differ from country to country. All permanent workers receive paid sick leave, paid maternity leave, paid vacation, and severance pay. The project revealed that South African workers receive more benefits than their counterparts in other African countries.

3.3 Workplace restructuring

All companies studied indicated they intend to expand at some point in the future but the decision to expand is exclusively that of corporate management. While there is the possibility to increase employment, management in most cases indicated that there would be an increase in use of casual labour. Presently all the companies make use, to varying degrees, of casual or non-permanent workers. The use of casual labour is on the increase, enabling employers to undermine worker's rights and to circumvent national labour legislation.

In Zimbabwe, Zambia, and Ghana between 40-50% of the workforce are casual employees. In all cases casuals are non-unionised and feel that the unions have sold them out. In most cases casuals earn less and do not receive any benefits.

3.4 Training

Training provisions to improve the human capital base is almost non-existent in Shoprite Zimbabwe and Zambia. There is some in-house training, such as training workers on the till. In Zambia only managers receive training.

The high labour productivity and the good customer care provided by Woolworths Ghana are attributed to the highly skilled workforce (all have formal education). Most of the Ghanaian supervisors have university degrees. The company has a training policy. As part of the training programme workers are introduced to the structure of the company and customer relations. The company is planning more training for the workers and is making arrangement to send managers to branches in other countries for training. Also, arrangements are being made to bring a trainer from South Africa to train the Ghanaian staff.

Metso Minerals do provide training to their employees. The company also has a study loan policy and complies with the South Africa Skills Development Act.

3.5 Discrimination

The study uncovered various forms of discrimination. The South African study found that there were incidents of racial discrimination against black workers by fellow white workers and to some extent by lower ranking managers. There was also discrimination based on union membership.

In Ghana and Zambia, discrimination took the form of a huge differential in wages and benefits between expatriates and local workers and managers. For example in Ghana all expatriate staff enjoy free housing and private cars but no Ghanaian has a company car or enjoys subsidised housing.

Discrimination does not seem to be a problem in Zimbabwe.

3.6 Child labour

None of the employers studied use child labour and they all abide by international conventions and national legislation on child labour. What came out strongly though is that none of the companies ensure that their suppliers do the same.

3.7 Health and safety

Shoprite Zambia does not have a policy on occupational health and safety. Without going into details, in the collective agreement the only clauses that cover this aspect relate to medical regulation, protective clothing and accident. For instance on accidents, the collective agreement clause merely mentions that, ' All accidents occurring at the place shall, whether involving injury or not (minor or serious), be reported immediately to the store management.'
Woolworths in Ghana also has neither a policy nor a committee to deal with health and safety issues.

Metso Minerals has a Health and Safety Committee made up of management and shop stewards. It also has a medical facility on site. The company takes health and safety seriously and complies with South Africa's Occupational Health and Safety Act.

According to Zimbabwe's new Labour Act, there should be a 50/50 representation of employees and management on the health and safety committee. But Shoprite Zimbabwe currently does not have a health and safety committee. The trade union is still waiting for both Shoprite management and employees to nominate committee members.

3.8 Environmental issues

Although Zimbabwe has 33 Environmental Acts that promote sustainable growth and development, many firms investing in Zimbabwe are not obliged to abide by these laws. Shoprite does not have an environmental policy but does stress a clean environment.

Shoprite in Zambia also does not have an environmental policy but the company complies with national legislation and standards on this matter. However in 2003 local press reported that the health inspectors had confiscated and destroyed a large quantity of food items that had gone stale from Shoprite Checkers fast food outlets trading as Hungry Lion in the Copperbelt province of Zambia.

Woolworths it seems sell products that encourage responsible behaviour from its suppliers, for example tuna products that come from fleets that use dolphin friendly techniques, and it sells free-range eggs and other products.

Metso Minerals has an environmental policy and emphasises process optimisation to save energy, raw materials, and money, and to minimise emissions into the air and other environmental impacts. It has established a separate business line that concentrates on solutions for metal recycling. Metso Corporation and Metso Minerals (SA) take environmental issues very seriously. The company is committed to sustainable development and this is incorporated into its operations.

3.9 Social responsibility investments

All the companies studied are involved in social responsibility investments (SRI). In Ghana, Woolworths, donates money and food worth million of cedis to orphanages and other charitable institutions. It also donated food and drink for a special Christmas party for children. Like its parent company, Woolworths (Ghana) demonstrated its commitment to community improvement by donating ¢101 million (US$11000) to the Mother and Child Community Foundation at its opening. The foundation is a Ghanaian NGO committed to improving the lives of women and children in deprived areas.

In Zambia management claims that Shoprite Checkers is contributing to development by creating skills, jobs and business opportunities for local nationals and establishments. Shoprite Zambia's involvement with the community is limited. It runs a consumer programme on the national radio station and occasionally supports some national sporting and music activities. Shoprite also provides information boards at all its supermarkets as part of its service to the community and public.

In Zimbabawe foreign investors are not obliged to promote local social activities. However, Shoprite Zimbabwe contributes to some social activities in Bulawayo. It funds a local football club and golf club. It also occasionally funds social football matches. The supermarket also donates food, non-food, and household items to local charities.

Metso Minerals (SA) has been supporting the SOS children's village in Johannesburg since 1982. In addition the company assists the rural community of Isithebe with road maintenance. It also gives general donations and sponsorships to charities such as Hospice.

South Africa's Foreign Policy and a Realistic Vision of an African Century

Adam Habib and Nthakeng Selinyane[1]

Introduction

South Africa's return to the fold of the international community of free nations 10 years ago was greeted with joy by the regional states and the continent. It was seen as a crowning moment for the multiple formations of the global anti-apartheid movement, which had thrown its weight behind dismantling a system declared to be a crime against humanity.

The policies of the new democratic state, however, were partly determined by a capricious international order; an order configured by the rapid and volatile movement of capital. On the one hand South Africa needed to placate and harness that force (in competition with other states) in order to finance the country's reconstruction. On the other hand it also needed to establish solidarity with other similarly challenged states — most of them authoritarian polities not open to the kind of internal pressure from the populace that had been exerted in South Africa's case — to influence the viewpoint of the prevailing global order. Indeed many African states explicitly voiced the expectation that South Africa would play an active role in promoting the cause of the developing world in international forums.

South Africa was thus from the outset faced with the vexing task of having to chart a course between reforming the global order by advocating and advancing a transformative set of values, and doing so with the backing of an array of states whose political ethos in the main contradicted these same values. If Pretoria were to insist on observance of human rights, democracy and the rule of law in its relations with the regional states, it risked alienating its tenuous continental constituency. Only the support of other African states would enable it to lobby for the reformation of the global asymmetries which have stood at the heart of Africa's status as a 'basket case', at a time when the collapse of the Cold War had opened up space for the democratisation of the international political institutions. If on the other hand South Africa prioritised a southern (especially African) solidarity at the expense of liberal democratic values, it risked compromising its moral standing in the international arena and rendering hollow its calls for reform.

This chapter looks at the way South Africa has negotiated this intractable set of challenges over the first decade of democratic government. After a short survey of the main perspectives on South Africa's foreign policy, we present our own assessment and conclude that the country's relations with the outside world can best be understood as schizophrenic. We suggest a way to enable South Africa to play a leading role in reviving Africa's fortunes in the community of nations, arguing that such an outcome is in the interests of South Africa because it constitutes a bottom line that will help achieve South Africa's own transformation.

Assessment of South Africa's role in Africa

At least two distinct perspectives emerge in the debates about the current role South Africa plays on the continent. It is seen either as an emerging middle power and a pivotal state; or as a selfish hegemon. The first

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position is championed by Maxi Schoeman,[2] who sees South Africa as playing the role of an emerging middle power — a synthetic term that draws on the twin theses of middle power and emerging power. The term 'middle power' is used to denote, first, a position in a universal hierarchical order of states; second, size and rank in the international division of labour, which confers the opportunity to exert moral influence on the global system; and third, an interest in a stable international order that does not seek to impose 'an ideologically preconceived vision of an ideal world order'.[3] A middle power operates through multilateral avenues, since it cannot impose its vision on a global scale.

Whereas the traditional middle powers of the Cold War (such as New Zealand, Canada and the Scandinavian countries) chose the global arena as their plane of action and were not regional powers, the end of that era and the escalation of regional conflicts dramatically transformed this state of affairs. The emerging powers are regional, and they shoulder responsibility for stability and order in all of their member countries. Such powers (for example, Brazil and India) are part of the Third World. They are expected by the big powers to keep their backyard neat (with the support of the latter); to enforce the global rules of the game; and to exert influence in certain cases where pressure from the superpowers has proved ineffective.

Schoeman is persuaded that South Africa has discharged its role as a middle power in the international arena admirably. It has been exemplary in its control of small arms, voluntary denuclearisation and the ban of anti-personnel landmines; and it played a leading part in the Nuclear Non-Proliferation Treaty Review and Extension Conference of 1995 and the proscription of trade in diamonds to finance regional wars. It also stood out as a leading voice lobbying for the Third World at the World Trade Organisation (WTO) and for debt relief; and it has maintained independent solidarity-based relations with certain 'rogue' states in the teeth of pressure from the West.

South Africa's regional role, however, is not so prominent, despite the support and encouragement of both the US and the UK. Its advocacy for Nepad and its place in the African Union (AU); its drive both to host the Pan African Parliament and to bid for a permanent seat on the UN Security Council all evince a willingness to play this role, as do its interventions to bring peace in the Democratic Republic of Congo (DRC), Lesotho and Angola and its disaster relief efforts in Lesotho, Mozambique and Tanzania. South Africa's acceptability as a regional leader has, however, not always been acknowledged. Some countries like Zimbabwe are anxious not to be eclipsed, while others are reluctant to open their flawed democracies to scrutiny. The best way out is for South Africa to place an even greater emphasis on multilateralism in its continental role. For Schoeman, what makes South Africa a good candidate for the status of a middle power is its deliberate abstention from hegemonic behaviour while remaining a pivotal state. Whereas a hegemon would attempt to cast the region in its own mould, and commit resources towards this end, South Africa has not done so. Schoeman regrets that South Africa has not followed this course, in contrast with Nigeria in West Africa.

Daniel, Naidoo and Naidu,[4] who argue that while South Africa has shown willingness to play a regional role, it has not been keen to lead, propound a similar position. This conclusion has been reached via a review of South African activities in Africa, seen against the background of three hypothetical scenarios of Africa–South Africa relations after apartheid. These were first suggested in an article by Robert Davies, written in 1992. The scenarios are:

- a South Africa first approach, with capital and state pursuing parochial economic goals without regard for the well-being of the region

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2 Schoeman M, 'South Africa as an emerging middle power' in Daniel J, Habib A & R Southall (eds), *State of the Nation: South Africa 2003–2004*. Cape Town: HSRC Press, 2003.

3 *Ibid*., p.3.

4 Daniel J, Naidoo V & S Naidu, 'The South Africans have arrived: Post-apartheid corporate expansion into Africa' in Daniel J, Habib A & R Southall (eds), *State of the Nation: South Africa 2003–2004*. Cape Town: HSRC Press, 2003.

- an 'integration under South African hegemony' approach, through which the country would drive regional integration, but in a manner putting a premium on its own interests and aspirations for hegemony, '[f]avouring some subordinate states over others' and
- a 'non-hegemonic regional co-operation and integration'.

The position of Daniel, Naidoo and Naidu is that the South African state has shown less aggressiveness in its continental forays than it has in the penetration of South African business into the continent. The post-apartheid state is seen as pursuing a policy of 'non-hegemonic co-operation' through multilateral organisations like the Southern African Development Community (SADC), the Organisation of African Unity (OAU)/African Union (AU), the Non-Aligned Movement (NAM), and the Commonwealth. Multilateralism did not prevent South Africa from intervening in a hegemonic manner in the political crises of Lesotho between 1994–98. However, it has been invoked to justify 'forsaking of [South Africa's] rights to speak out or comment against acts of moral outrage by fellow members of the international community' especially in the case of Zimbabwe. Thus, while supporting South Africa's multilateralist approach to foreign policy, the authors nevertheless would like it to take into account a human rights dimension.

This interpretation also finds expression and support in the work of other scholars like Le Pere[5] and Landsberg, both of whom approvingly stress the pivotal rather than the hegemonic role of the South African state. The term 'pivotal' gives a character of importance to South Africa's foreign policy that implicitly stresses partnership, multilateralism, and non-assertive behaviour.

In an earlier two-piece work, McGowan and Ahwireng-Obeng[6] argued that the actions of the state and capital cannot be understood as independent of each other. Daniel, Naidoo and Naidu contest this position.[7] Through a study of the political negotiation of economic interaction with the region, they arrive at a radically different characterisation of South Africa's relations with the continent. Lamenting that '[m]ost different from being a partner with the region would be South Africa acting as a *selfish regional hegemon'*,[8] the authors assert that this has come to pass since 1994. As proof they point to South Africa's refusal to renegotiate the unequal Southern African Customs Union Agreement (SACUA), and its trade battles with Zimbabwe between 1994–97. It has violated the integrity of SACUA through bilateral agreements with non-SACU countries in the region, and by its unilateral abrogation of sections of the agreement that threaten its dominance. Of the eight SADC protocols adopted by 1998, South Africa has ratified only one. This relates to shared water resources (such as the giant dam project in Lesotho), in which South Africa has an extremely significant interest. Quaintly, the protocol on trade has been put on ice on the pretext that it should await a final agreement on SACU. In politics, the battle for supremacy can be seen in South Africa's standoff with Zimbabwe over the SADC Organ on Politics, Defence and Security.

A number of shortcomings, some of which are common to all the perspectives, emerge from the literature discussed above. Firstly, all of these articles and chapters assume that partnership and hegemony are mutually exclusive options. Yet any careful study of hegemonic behaviour, in both global and regional contexts, would demonstrate that partnership is as much a modality of engagement as other, more aggressive interventions. The literature thus implicitly leads to caricatures of what hegemonic and partnership models involve. A second serious weakness in these analyses shows the ideologically constraining effects of progressive orthodoxy. Much of the literature emanating from such quarters romanticises partnership and engagement and refuses to consider other options, on the grounds of political correctness. A hegemon is a global or regional leader in military, political, economic and often cultural affairs. Whereas the definition of a pivotal state is merely descriptive, the definition of the hegemon stresses leadership; it goes beyond mere description to emphasise agency. Every hegemon is a pivotal state. But it has to be more. Hegemons not only aspire to leadership, and are not only

[5] Le Pere G, 'South Africa — An emerging power', *Global Dialogue*, 3, 1, 1998.

[6] McGowan PJ & F Ahwireng-Obeng, 'Partner or hegemon? South Africa in Africa — II', *Journal of Contemporary African Studies*, 16, 1, 1998.

[7] Daniel J, Naidoo V & S Naidu, *op.cit*.

[8] *Ibid*., p.178 (original emphasis).

endowed with military, economic and other resources: they have a political and socio-economic vision for their trans-national environments, and a political willingness to implement it. If that vision is one of security, stability and development, as is often the case, then the hegemon will underwrite the implementation of these goals. Again, that does not mean that a hegemon does not have partners in this enterprise. It often does, but it takes responsibility for ensuring that the contents of its vision are given concrete form in the region it sees as its sphere of influence.
South Africa's role should be that of a hegemon. Simply being a pivotal state, an important one, means a rejection of the role of leadership. This is not in the interests of South Africa nor of other states in the region. Instability in Southern Africa, which hinders development and democracy, will be addressed only when a regional hegemon is prepared to underwrite these objectives. If that does not happen, South Africa's economic goals will remain compromised, for, as President Mbeki has often said, 'the fate of democratic South Africa is inextricably bound up with what happens in the rest of the continent'.

Finally, all of the perspectives reviewed here also suffer the weakness of assuming or imputing consistency and homogeneity to South Africa's foreign policy. These are clearly conspicuous by their absence. The real character of South Africa's foreign policy is that it falls far short of the attributes ascribed to it in the literature, and appears to be quite opalescent. On some occasions South Africa has acted in a hegemonic manner to establish and guarantee stability, while in other cases, where the need was equally great, it has hesitated to intervene. This leads one to describe South Africa's foreign policy as schizophrenic.

A discussion of selected cases of regional engagement demonstrates the effects of this divided foreign policy.

The schizophrenic character of South African foreign policy

The bifurcated character of the country's foreign policy is shown by its ability to play a leadership role and persuade other states to subscribe to its vision on the one hand, and its tendency to be persuaded by pragmatic factors to act as only one among the many in regional engagement on the other. The latter trait demonstrates a reluctance to lead. South Africa uses multilateralism as an excuse, and emphasises the important but not the dominant position of South Africa in the region. South Africa's foreign policy in the last 10 years since 1994 has reflected both of these characteristics.

South Africa's lack of leadership is reflected in its engagement with Nigeria during the Abacha period. Initially, South Africa (rightly) took a critical stand against Nigeria, calling for comprehensive sanctions and Abuja's expulsion from the Commonwealth following the execution of various Movement for the Salvation of the Ogoni People (MOSOP) activists, including their leader, the author Ken Saro-Wiwa, by the Abacha regime in November 1995. However, South Africa was quick to revise its position when the western capitals rushed back to support General Abacha's regime only a year later. Taking its cue from the major powers, South Africa saw its convictions come full circle by the time the 1997 Commonwealth meeting was held to review the fast-deteriorating situation in Nigeria.

A similar pragmatism influenced its relationship with the Polisario. In 1996 South Africa went back on its 1995 commitment to extend diplomatic status to Polisario in order to procure a trade and joint co-operation agreement with Morocco, which continues to defy UN resolutions condemning its occupation of the Western Sahara.[9] South Africa has since stopped short of recognising the Western Sahara Democratic Republic, ostensibly to avoid direct confrontation with France and the US.

But perhaps the lack of leadership in South Africa's foreign policy was most patent in the cases of Mobutu's Zaire, in Zimbabwe, and in Swaziland. In all these cases a hegemonic style of leadership was effectively abandoned. During the 1997 Zairean debacle in the twilight of Mobutu's kleptocracy, the South African state played a double role: it mollycoddled the regime in Kinshasa while simultaneously, fostering contacts between

[9] *Mail&Guardian,* 1 March 1996.

South African companies and the rebels in Lubumbashi, thereby risking its credibility as a catalyst for regional stability. Swaziland and Zimbabwe, both near neighbours of South Africa, have been condemned by its classic multilateralist stance. Pretoria is always arguing that the problems of democracy can be resolved only by the peoples of the countries concerned on the one hand, while also holding that it can intervene only within the framework, and with the blessing and co-operation of, the other members of SADC.

This has not, however, stopped South Africa from denouncing any international condemnation of Zimbabwe's human rights and governance record. South Africa's stance on Zimbabwe could be seen as mollifying, because South Africa needs the support of that country to exercise regional leadership. In contrast, while Swaziland's absolute monarchy has created strong political dissension in that country, South Africa has few strategic interests to defend there. Both despotic regimes are effectively tolerated by South Africa for reasons of self-interest.[10]

Yet at the same time South Africa has also assumed the yoke of regional leadership. Its involvement in the resolution of the Lesotho crisis of 1998, the second DRC civil war, and the Burundian conflict are all examples of this trend. On joining the push to negotiate peace in the DRC in early 1999, South Africa suggested a plan that stressed the need for a ceasefire and troop withdrawal, and recommended the holding of a conference of reconciliation and reconstruction, the installation of an all-inclusive transitional government, a new constitution, and the holding of general elections.[11] In November 1999 South Africa pledged R1.2 million towards a joint military commission in the DRC,[12] and for more than a year the minister of local government, Sydney Mufamadi, was responsible for bringing the belligerents together. So determined was South Africa's involvement in this initiative that in August 2002, Mbeki announced a 90-day target for bringing peace to the DRC after Paul Kagame and Joseph Kabila had signed a deal on 30 July 2002 brokered by Mbeki and Kofi Annan, in the presence of the SADC chairman, Bakili Muluzi of Malawi.[13] In December 2002 the final agreement was concluded, and in June 2003 the transitional government was sworn in in Kinshasa, attesting to the success of this intervention.

As Zuma reminded the Congolese, 'persistent pressure got the ANC to the negotiating table … and kept both sides there through the convoluted CODESA process'.[14] It was the same pressure that, while conspicuously missing in the Swaziland and Zimbabwe cases, was brought to bear in Congo–Kinshasa by South Africa. What this case demonstrates is that where a hegemonic intervention has been made, real prospects of establishing stability have been realised. In contrast, less satisfactory outcomes have been realised in cases where the state has been more reluctant to intervene. It may be an indictment of South Africa that it has not been able to marshal sufficient firmness to prevail on Rwanda and Uganda to give peace a chance in their region.

The case of Lesotho is yet another illustration of South Africa's ability to intervene hegemonically to bring about, and guarantee, stability, unfettered by multilateral considerations. When the government of Lesotho was rendered powerless by protests over the election results in 1998, South Africa deployed its military might (under the banner of SADC) to restore order, and remained actively involved. Its diplomatic efforts eventuated in a smooth transition to general elections and the creation of a stable multiparty parliament that was acceptable to all the major national constituents. Interestingly, while castigating South Africa for its inaction on Zimbabwe, and dismissing the Lesotho intervention as a bullying antic, Daniel, Naidoo and Naidu[15] also approvingly cite Roger Southall's assessment that this intervention has brought about a stability in Lesotho that promises to be long-lasting.

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[10] Indeed President Mbeki's response to political and academic critics of his government's stance on Zimbabwe could betray official awareness of the painful choices that impose themselves on the state in such circumstances: 'We are not going to go about overthrowing governments on the African continent', *Mail&Guardian*, August 2002.

[11] *Mail&Guardian*, 15 January 1999.

[12] *Mail&Guardian*, 19 November 1999.

[13] *Mail&Guardian*, 16 August 2002.

[14] *Mail&Guardian*, 27 June 2003.

[15] Daniel J, Naidoo V & S Naidu, *op. cit.*

In Burundi, taking over the baton from the former president, Nelson Mandela, Deputy President Jacob Zuma worked alongside the Gabonese deputy foreign minister to salvage the power-sharing transitional government formed in November 2001 after the comprehensive peace agreement signed in August 2000.[16] South Africa has for two years now posted a peacekeeping force in Bujumbura, as part of an AU buffer contingent.

South Africa's leadership has perhaps been displayed most unambiguously in the building of institutions for continental integration, and in representing Africa's interests on the world stage. Mbeki, in partnership with Olusegun Obasanjo of Nigeria, has successfully sold the idea of Nepad to the G-8, the EU, and the UN.[17] The transformation of the OAU to the new AU under South African leadership has enabled the organisation to focus more fully on the continent's development needs. South Africa has also used its position in the United Nations Conference on Trade and Development (UNCTAD), NAM, and the international finance institutions to advance Third World and African concerns over the international political and economic order. It has, however, been capable of discrepant stances here too — as seen in its rejection of demands for reparations for slavery, colonialism and apartheid at the World Conference Against Racism in 2001; and its breaking ranks with the Third World against the 'Washington Consensus' at the UN Conference on Development Finance in Monterrey, Mexico, in 2002.[18]

What then has been the effect of South Africa's bifurcated foreign policy? Clearly the emerging pattern is one of mixed results. There has been progress on the continent over the last decade: institutions of integration have been built, and peace and stability have been achieved in parts of the continent, like Angola and Mozambique. Again, some African countries are experiencing an economic rejuvenation as a result of the return of investment. Africa has gained a greater prominence on the international agenda than it had a decade ago, and this has been accomplished by the continent's leaders rather than by progressive thinkers from abroad. Some overriding concerns, however, remain. Africa's share of world trade remains minuscule. Instability has reared its head in areas that were once relatively stable, like Zimbabwe. In some cases inadequate leadership, ethnic conflicts, or economic crises have weakened the newly incumbent democratic regimes.

A review of Africa's progress in the dawn of the new millennium and of South Africa's foreign policy over the last decade reveals some patterns. In those cases where an unambiguous hegemonic intervention has been attempted (Lesotho and the DRC), South Africa has been able to offer political stability, without which the project of installing democratic institutions and regenerating economies in Africa will remain a mirage. On the other hand, in the cases where South Africa has been unwilling to act in a decisive manner to bring about stability (as in Swaziland and Zimbabwe), these countries are prey to spiralling political instability. Such a situation is inimical to the building of a national, and regional, consensus on democratic norms.

This then suggests a strategic lesson for the South African government. If it is to remain committed to economic rejuvenation and democracy in Africa, stability is required, created if necessary through the leadership of a dominant state. South Africa as an economic and military power must assume that leading role.

Conclusion

The first 10 years of democratic transition and consolidation have seen South Africa change from being a pariah state to becoming an active player in continental and global affairs. The statecraft of the post-apartheid era evolved in a context of a series of fluid transitions elsewhere in Africa, in which the threat of a return to conflict

[16] *Mail&Guardian*, 16 August 2002.

[17] South Africa's ambiguous role in its leadership of the Nepad/AU processes (e.g advocating peer review while apparently condoning human rights abuses in prominent countries like Zimbabwe), has been severely criticised from a variety of angles. See for example Taylor I, 'Rhetoric versus practice: South Africa's role in Nepad' in Nel P, Geldelhuys D & W. Carslneus (eds), *Post-Apartheid South Africa's Foreign and Security Policies.* Sage Publishers, forthcoming in 2004. The validity of the various critiques notwithstanding, South Africa has convincingly demonstrated the ability to lead.

[18] For a comprehensive discussion of the trajectory of South Africa's roles on the international stage, see Bond P, 'Snubbed by Geneva, embraced by Brazil — the story of two Trevors' in *Public Eye,* 21 February 2002.

was ever-present. The expectation that South Africa would use its superior economic and military resources and its moral authority to restore political stability and international stature to the continent has been only partially fulfilled, but it continues to be justified. Its history of sub-imperial supremacy,[19] and various strategic considerations have so far restrained South Africa from using its full power to bring about stability and engineer economic renewal on the continent. Without the country making an unambiguous commitment to doing so, however, President Thabo Mbeki's vision of an African century and a continental reawakening faces the prospect of collapse. It is clear that wherever South Africa has intervened hegemonically to bring stability, it has created an opportunity for the relevant country to consolidate the institutions and norms of democracy. A combination of active political, and, where necessary, military intervention with economic rewards could promise a tenable stability, which would allow for a deliberate focus on the economic agenda. For South Africa, single-minded hegemonic intervention will release regional resources that can be directed towards priority areas, to improve the lot of the peoples of the region.

[19] By sub-imperial supremacy, we mean a behavioural characteristic of a hegemonic power, but displayed within the confines of a specific geographic area.

Harmonising Trade Relations Between Regional Economic Communities: the case of SADC and COMESA

Chawe Mpande-Chuulu (COMESA Secretariat)

The Economic Community of Eastern and Southern Africa (COMESA) was established as an economic integration block focusing on trade and investment. It has followed a traditional path, starting as a preferential trade area (PTA) in 1982, becoming a free trade area in 2000 and then a customs union in 2004. The intention is to establish a common market in 2014, followed by an economic union in 2025. There are 20 member states (Egypt, Eritrea, Ethiopia, Comoros, Sudan, Djibouti, Uganda, Kenya, Rwanda, Burundi, Seychelles, Madagascar, Mauritius, Malawi, Zambia, Congo DR, Angola, Swaziland, Zambia, Zimbabwe).

In October 2000, nine of these states (Egypt, Djibouti, Sudan, Kenya, Malawi, Madagascar, Mauritius, Zambia, Zimbabwe) began trading as a free trade area on duty-free and quota-free terms for all goods originating within the region. In January 2004 Rwanda and Burundi joined, raising the GDP of the COMESA FTA to 80.5% of the total COMESA GDP, with 54% of the people in COMESA living in the FTA.

The Southern African Development Community (SADC) began life as the Southern African Development Coordination Conference launched by the then nine majority ruled frontline states in southern African with the primary agenda of liberating Mozambique, Zimbabwe, Namibia and South Africa. Once liberation was achieved the SADCC transformed into the SADC and redefined the association from a loose coordination structure into a legally binding association. It now has 14 members (Tanzania, Zambia, Mauritius, Malawi, Zimbabwe, Angola, Namibia, Botswana, Lesotho, Swaziland, Mozambique, Seychelles, Congo DR and South Africa) and focuses on peace, security, labour and trade. Zambia, Mauritius, Zimbabwe, Swaziland, Congo DR, Malawi Seychelles and Angola are also members of COMESA.

Both COMESA and SADC recognise export led growth strategies as important for propelling economic growth and see intra-regional trade as one avenue for enhancing economic growth. Both groupings base trade agreements on rule of origin. The COMESA free trade agreement includes all products with 35 per cent content by value originating in the area. There are no sensitive lists and there is 100% coverage for products that meet the origination requirements. Once countries enter the free trade agreement they also enjoy duty and quota free trade with others members. The next step will be to introduce a common external tariff. Despite the relaxation of controls intra-regional trade is hampered by the low manufacturing capacity of member states.

SADC also has free trade based on 35 per cent value but on a product-by-product basis. Stringent criteria for some products impede increased internal trade. The preferential trade agreement introduced in 2000 will extend to 2008 at which stage it should cover 85% of products. The plan is to introduce a free trade agreement in 2012 that will provide for duty free and quota free trade between member countries.

Countries that have dual membership generally use the COMESA rules of origin, as they are more explicit and streamlined.

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

Once COMESA becomes a customs union it can enter into an economic partnership agreement (EPA) with the EU as a unitary signatory. It needs to develop a framework for trading in services before opening up to the EU. If the union is not yet in place countries will sign individually. The original intention was for a

combined regional grouping but COMESA and SADC split. Sixteen countries launched EPA negotiations with the EU in February 2004 as an Eastern and Southern African configuration (ESA). They are Burundi, Comoros, DR Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe. SADC cannot sign as a unit because South Africa already has an EPA, which incorporates all the South African Customs Union (SACU) countries. Non-SACU countries can only sign an EPA if they form a customs union excluding the SACU countries. In COMESA Egypt is similarly excluded because it has an existing EPA with the EU.

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

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

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

A lot of attention has been given to the role of big business in the area and what influence South African business has on government. South African companies have mostly been involved in the privatisation of state owned enterprises including sugar, brewery, cement, soft drinks, hotels and mining, and in the liberalisation of formerly protected sectors such as telecommunications and aviation.

In general this expansion has been extractive with most COMESA countries becoming a destination for South African exports. Even where there has been investment such as rehabilitation of infrastructure and supply of new equipment the beneficiaries have been South African companies.

South African companies have also worked hand in hand with EU counterparts with headquarters in South Africa and they prefer to outsource from South African companies with subsidiaries based in the host country. They have adopted poor labour practices and conditions of service – long hours, temporary employment and contract work (to avoid compensation), no fringe benefits (not even medical aid/insurance) – practices that they would not have adopted in South Africa.

Despite COMESA being a FTA with no internal restrictions price differentials and market segmentation have hampered the smooth operation of the FTA. For example in the cigarettes sector BAT (Zambia) cannot export cigarettes to Zimbabwe or Congo DR as that market is reserved for supply from South Africa or outside Africa. Similarly in the soft drinks sector concentrates are not supplied from the sub-region, but from offshore.

South African investments have had a negative impact on cross-border trade, particularly on small traders, and on income generation, revenue collection and poverty alleviation. Major suppliers to the privatised mines in Zambia are South African and are paid in South Africa. This cuts out Zambian small and medium enterprise suppliers, which are mostly made up of retrenched workers and also reduces revenue collection.

Within South Africa's borders South African companies practice fair competition but beyond those borders they take advantage of the weak competition or non-existent competition authorities in most COMESA countries to introduce restrictive business practices. While COMESA has made advances in formulating regulations to govern regional competition, these have yet to be implemented. COMESA is also at an advanced stage in the formulation of guidelines for regional investors through the COMESA Common Investment Area (CCIA).

It is clear from the statistics that it is South Africa doing business in the COMESA region, more than any other non-COMESA or SADC country. In almost all the countries where they are operating South African companies hold monopolies in their sectors and have dominant market shares. Despite this business practices are not part of the discussions of the Joint SADC Task Force at this stage.

South African companies have taken advantage of weak regulatory systems in most African countries to maximise their profits and invest as little as possible in host countries. Many MNCs are known to have negotiated personal investment incentives with key political players and senior governmental officials in host countries and have received exemptions that local companies had been denied in return. This has added to their ability to enjoy undue market dominance and advantage.

It has been argued that South African companies saved jobs and prevented the collapse of many sectors. Whilst this maybe the case the expectation was that private investment would be more efficient and would create and distribute wealth more effectively than public investment. Changing from inefficient state-owned enterprises (SOEs) to privately owned companies was expected to benefit local producers and suppliers and in particular SMEs to at least the same extent as their South African counterparts. This has not occurred.

Instead preference has been given to South Africa producers and suppliers. South African nationals hold key company positions at the expense of local people with skills and training. This situation is improving as immigration authorities are working hand in hand with professional associations when issuing work permits, particularly in the accountancy and auditing field. The worst affected professions are those in the construction industry.

What skills development has taken place has been more to do with familiarity with operations rather than acquiring new skills. There has been some improvement in consumer choice but the question is who has been the main beneficiary?

To chart a way forward and ensure that trade and investment in the region begin to benefit all players COMESA and the SADC need to work closely together on a range of issues including:

- Competition policy
- Investment
- Labour standards
- Trade in services
- Coherence and complementarity between the different groupings in the region in the EPA negotiations.