FOREIGN TRADE _ EXPORTS

7431

1998

SA appliances firm casts trade net wide

By Sowetan Business Reporter

EXPORTS are set to play a major role in the product development and expansion plans of leading white goods manufacturer, Defy Appliances Limited, following the company's plug into foreign markets.

The expansion programme, says Defy Appliances, will account for a significant proportion of its annual turnover by the end of the century

According to Defy's export director Guy Macnab, his company's main focus for exports will be mainland Africa and the Indian Ocean islands.

Referring to African trade, Macnab says: "Zimbabwe is one of Defy's largest trading partners but a lot of effort has been put into other African countries to establish the Defy brand name and it is starting to pay off with greater brand awareness now translating into sustainable sales," he said.

Africa, argues Macnab, has vast potential for further expansion provided South African companies are willing to invest time and effort.

The company had also had some success in other developing countries, particularly in South America and Central America.

Defy has exhibited its products at a number of international domestic appliances exhibitions. It is also investigating the supply of custom designed and produced airconditioning units to a well-known international hotel group for installation outside of South Africa.

Defy's products have comfortably complied with international standards with regard to safety and quality and it has already attained these for most of its products.

No to ban on Zambian pork imports

BD 6/4/98

(74G)

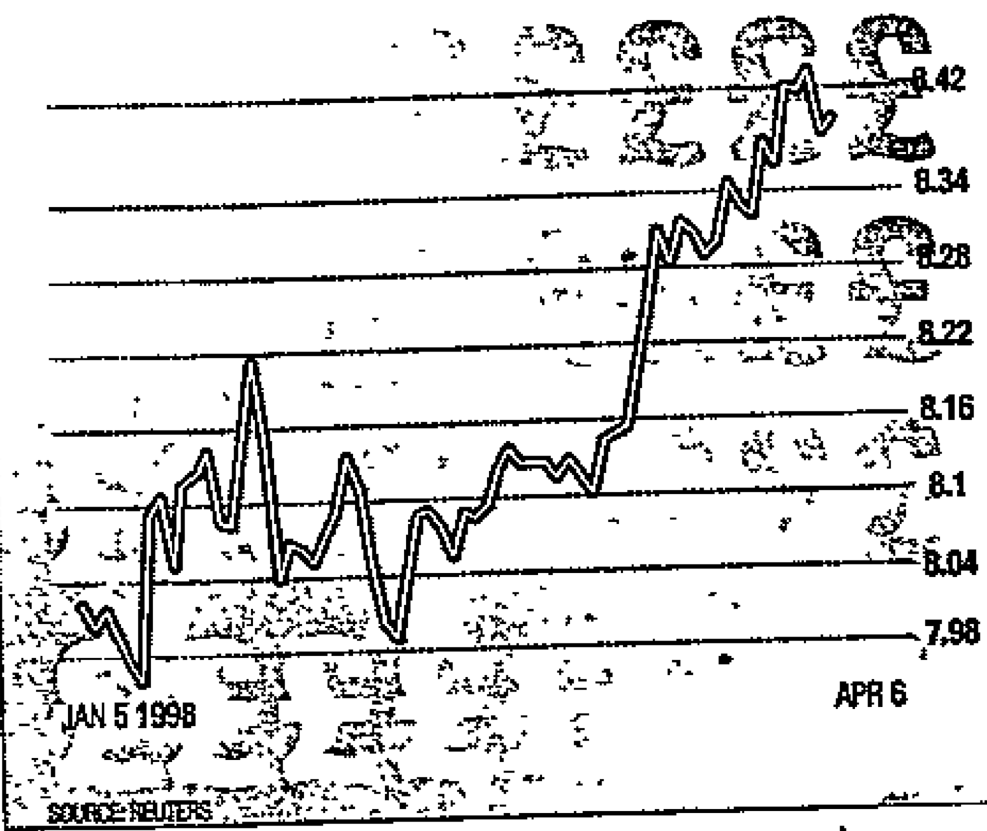
THE Zambian government has rejected calls by local farmers and traders to ban imports of SA and Zimbabwean pork which they say are flooding the local market.

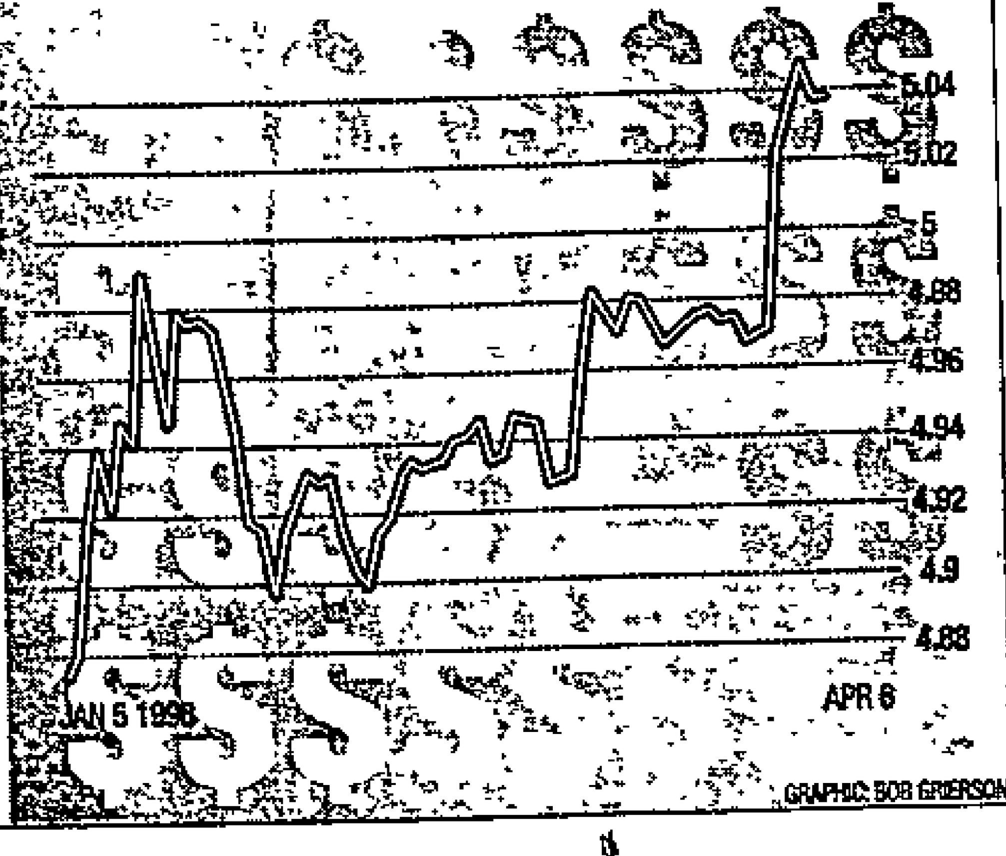
Although the Zambia National Farmers' Union says cheap imports are driving pig farmers out of business, the agriculture, food and fisheries permanent secretary Kabeta Muleya says Zambia has led the promotion of regional trade and cannot complain about fierce competition.

He advised pig farmers to be more efficient. Zambia is a member of the Southern African Development Community and the Common Market for Eastern and Southern Africa (Comesa), and believes such a ban would run counter to Comesa's ideals, Muleya says.

Smiling economists look on highs of rand's lows for SA exporters

ARG 6/4/98 (74G)





ALIDE DASNOIS
Business Editor

Economists are far from being worried about the rand's slide against the US dollar, and rather welcome it as a boost for South Africa's exports.

The rand fell through the barrier of five to the dollar this week as the American currency surged ahead on international markets, and it also slipped against the British pound.

This makes South African imports – or at least those priced in US dollars and British pounds – more expensive.

But it also makes exports cheaper, helping to offset the export advantage gained by several Asian countries as a result of the fall in the value of their currencies this year.

"South African exports are more competitive than they were a week ago," said Reserve Bank economist Bernie de Jager.

Economists agreed that the rand's slide against the US dollar and the British pound reflected the strength of those currencies rather than the weakness of the rand, and pointed out that against currencies like the German mark and the Japanese yen the rand was holding its value.

"The dollar and the pound are the two strongest currencies in the world," said Boland Bank economist Francois Jansen.

He attributed the US dollar's strength to good growth prospects in the American economy.

The pound, he said, was riding the wave of the British decision not to join the European Monetary Union and not to make the pound part of the new European currency, the Euro.

"The Euro is seen as a weak currency – and the pound is seen as a better bet," said Mr Jansen.

Seen in terms of the basket of currencies against which the Reserve Bank measured the value of the rand, the slide was relatively small.

Midweek, the currency had lost only 1% of its value last week, noted the Reserve Bank's Mr De Jager.

Nor was the Bank particularly worried that higher-priced imports would set off a new surge in inflation.

Conservative monetary policies (such as high interest rates) would help to keep inflation down.

Mr de Jager said: "The inflationary effects of higher import prices no longer filter through the economy in the same way as they did a couple of years ago, partly because of tougher competition."

He saw the rand settling at about R5,15 to the US dollar by year-end, while Pieter Loubscher of the Stellenbosch Bureau for Economic Research put it between R5,20 and R5,25 to the US dollar – provided capital inflows into South Africa were sustained.

But Tony Twine, economist at Econometrix, expected it to climb back to R4,98 to the US dollar by the end of the year.

The dollar, he said, would reach a turning point later this year when "the bubble bursts" and investors who were putting their money into the US realised that there was not as much growth potential in its economy as they thought.

:S

Exports to Canada have more than tripled in 5 years to R2,5bn

(744) MD 20/4/98

Claire Pickard-Cambridge

SA EXPORTS to Canada had more than tripled since 1993, reaching a high last year when bilateral trade exceeded R2,5bn, Canadian Secretary of State for Africa and Latin America David Kilgour said last week.

He told the Canada-SA Chamber of Business in Johannesburg that the balance in trade had been "well in SA's favour".

Kilgour, who is leading a trade and investment mission to a number of African countries, said that Canada was one of SA's fastest growing markets.

As a market for Canadian exports, SA ranked in importance alongside India and Chile.

"We now have 75 joint ventures involving Canadian companies in SA. The rest of Africa also benefits from Canadian direct investment."

In the mining sector, for example, SA's Rand Merchant Bank had estimated that Canadians were taking part in more than 50% of the new mining ventures in Africa.

He said Canadians were betting on the "African renaissance" with SA as its key partner. A high point of Canada's new relationship with SA would come later this year when it hoped to welcome President Nelson Mandela to Canada. Trade and Industry Minister Alec Erwin was also planning to visit Canada this year with a large trade delegation, he said.

The Canadian government was supporting transformation in SA through its development assistance programme, and was working with SA in four priority areas where assistance amounted to about R60m annually. These areas were governance, human resources development, economic development and support for civic organisations.

Support covered activities ranging from training magistrates to assisting with telecommunications and mining policy reform, to developing the skills of young black business executives. A junior executive training programme was launched this week to enable young black executives to broaden their experience by working with a cooperating firm in Canada.

Other examples of Canadian business links with SA included the following:

- SAA express flew Canadian region jets; and
- Helicopters made by Bell Textron in Montreal were used by SA mining and transport companies.

Kilgour said Bell's Rotary aircraft had also been shortlisted by the SA National Defence Force as part of its re-equipment programme.

EXPORTS

CT (BR) 23/4/98 (74G)

BMW exports cars worth R78m to the UK

The largest export consignment of South African-built BMW vehicles and the first-ever order for the UK will leave Durban this week en route to Southampton. BMW said yesterday that more than 700 3-Series vehicles worth about R78 million have been transported to Durban for export. Last year almost 4 000 3-Series vehicles were exported, mainly to Australia. By 2000, production will be up 250 percent and two-thirds of the 200 3-Series vehicles produced by BMW SA will be exported.

BMW said its internal employment would increase by about 25 percent, investment by suppliers to support the BMW export programme could amount to an additional R1 billion and their employment would rise significantly, in many instances by up to 100 percent. Other benefits at macro level included infrastructure development to upgrade transport and harbour facilities to cope with BMW's export programme. — *Staff Reporter, Johannesburg*

SA NEWS DIGEST

☐ VEHICLES

CT (BR) 8/5/98

Exports of SA-produced vehicles increased 76%, says Naamsa

Exports of South African-produced vehicles were 76 percent, or 2 954 units, higher in the first quarter of this year against the year-earlier period, according to figures released by the National Association of Automobile Manufacturers of South Africa (Naamsa). This was despite a slump in exports of light, medium and heavy commercial vehicles in the first three months of this year.

Figures released by Naamsa this week showed vehicle exports rose from 3 870 units in the first quarter last year to 6 824 units this year. The increase resulted from a 182,4 percent, or 3 293 unit, increase in exports of South African-produced cars in the first quarter of this year. Car exports in this period rose to 5 098 units from 1 805 last year.

Light commercial vehicle exports declined by 15,4 percent, or 284 units, to 1 565 units in the first quarter this year compared with 1 849 last year. Medium and heavy truck exports slumped by 25,5 percent, or 55 units, to 161 units from 216 units. Exports of South African-produced vehicles totalled 19 569 units last year compared with 11 553 units in 1996. — *Roy Cokayne, Pretoria*

R5-bn export order for VW

(922) (74G)

MOTORING REPORTER

Volkswagen South Africa has been awarded a R5-billion contract to export 68 000 South African-built Golfs to Britain.

The contract has been awarded to VWSA by its German parent company.

VWSA plans to double its production output immediately to service the order.

Managing-director Hans-Christian Maergner says the company will produce about 65 000 vehicles this year, of which 8 000 will be exported as part of the new contract. A further 4 000 will be exported in terms of existing contracts and the rest made available for the South African market.

Next year, in addition to 56 000 vehicles for the local market, VWSA will manufacture 60 000 vehicles for export, bringing total production in Uitenhage to 116 000 vehicles.

The R5-billion export order is made up entirely of new, fourth generation Volkswagen Golfs.

ARG 11/5/98

VWSA wins R5bn UK export contract

BD 12/5/98 (74G)

Stan Maphologela

VOLKSWAGEN of SA has won a R5bn contract to export 68 000 vehicles to the UK in the next two years, a deal which will double its production and make it the largest vehicle exporter and manufacturer in Africa.

VWSA will service the order on behalf of German parent Volkswagen AG, which is unable to meet the demand for the new Golf through factories already producing the vehicle.

VWSA MD Hans-Christian Maergner said 65 000 vehicles would be produced in total this year, of which 8 000 would be exported as part of the new contract and 4 000 would be exported in terms of existing contracts. The rest were for SA.

"Next year, in addition to 56 000 vehicles for the local market, VWSA will produce 60 000 vehicles for export, bringing total production in Uitenhage to 116 000 vehicles.

"This order will have a substantial impact on our economy in the Eastern Cape and thus the country as a whole."

The R5bn export order was for new, fourth-generation Golfs.

Maergner said SA-built Volkswagens had been well-received in Britain. VWSA had completed a British export order of 5 000 third-generation Golfs.

The new order would allow VWSA to create more than 1 000 jobs in the Uitenhage factory. "An additional monthly wage bill of about R4m will be injected into the regional economy. Capex totalling R150m will be undertaken to expand infrastructure to facilitate completion of the order. VWSA will also invest R10m in training for employees working on the export programme," he said. Production of the export vehicles would start in July.

The company has started talks with the National Union of Metalworkers of SA to allow workers to take their annual leave over a two-month period, rather than during the traditional three-week motor industry shutdown.

Comment: Page 13

VW's export contract a massive boost to the economy

CT(BR) 12/5/98 (744)

Roy Cokayne

Pretoria — Volkswagen South Africa (VWSA) had been awarded a R5 billion contract by Volkswagen in Germany to build 68 000 fourth generation Golfs for the British market over the next 18 months, Hans-Christian Maergner, the managing director of VWSA, said yesterday.

As a result VWSA was expected to double its production output and become the biggest vehicle maker in Africa. Maergner said 8 000 of these cars would be manufactured this year, with production starting in July, and the balance shipped next year.

"Even more potential exists for us in the year 2000 and beyond," he said.

Maergner said VWSA would become a significant foreign exchange earner for South Africa as a result of the contract, which would have a substantial effect on the Eastern Cape economy and on the country as a whole.

David Powels, the financial director of VWSA, said the contract would create more than 1 000 direct and indirect jobs at VWSA's Uitenhage plant.

A training programme that would cost more than R10 million had been set up.

Powels said the export project required a capital investment programme of R160 million, with R104 million spent on manufacturing and assembly tooling and facilities; R31 million on a paint shop upgrade; and R25 million on new information systems in logistics and production planning.

More than 70 percent of the cash flow from the capital investment programme would be to South African suppliers.

Powels said export turnover of R5 billion was equivalent to 12 percent of South Africa's total manufacturing goods exports and 20 percent of total gold exports last year.

Maergner said VWSA would produce 65 000 vehicles this year. In total, 12 000 would be exported and the rest would be made available for the local market.

He said VWSA would produce 56 000 vehicles for the local market next year and 60 000 for export, bringing total production in Uitenhage to 116 000 vehicles.

VWSA would have to move to three shifts a day on a 24-hour basis, six days a week, to meet the export volume.

Volkswagen SA in R5-bn export deal

By Shadrack Mashalaba

VOLKSWAGEN South Africa (VWSA) said yesterday it had been awarded a contract to produce 68 000 cars for export to the United Kingdom in a deal valued at R5 billion.

The venture will make Volkswagen the biggest exporter in South Africa. Volkswagen South Africa is expected to deliver the cars in 18 months.

About 8 000 cars of the total number will be manufactured in production that will start in July. The balance will be manufactured and shipped in 1999. The company said part of the total production will include local content.

Addressing the media in Midrand yesterday VWSA's managing director Hans-Christian Maergner said the project will not only benefit the Eastern Cape, but the whole of South Africa in expected foreign exchange and the jobs to be created.

Maergner said the project will also generate revenue for the company's long term strategy.

Maergner said a total of 1 000 jobs will be created in a recruitment drive that is expected to start in the coming weeks. The workers will undergo an intensive training programme.

The company will be sending about 15 of the workers to Germany to acquaint themselves with the manufacturing processes.

Maergner said that the group's bullish performance could result in further export opportunities during 2000 and beyond.

However if capacity at other plants became available, VWSA would also have to make sure that it remained a preferred supplier within the group.

"Reliability has to be guaranteed. We cannot tolerate unprocedural labour disruptions.

"The rest of the world is not waiting for South Africa to catch up but are improving in leaps and bounds.

"We will need to make quantum leaps to catch up and stay competitive," said Maergner.

Cooperation

At the same announcement the National Union of Metalworkers of South Africa (Numsa) general secretary Mbuyiselo Ngwenda said cooperation was critical to the project's success.

"We welcome the project and hope that it will open the eyes of other investors that investment is not about bidding on the Johannesburg Stock Exchange only," said Ngwenda.

He said the investment would ensure that the upcoming Job Summit would not turn out into a "posturing forum".

The Department of Trade and Industry has also welcomed the investment.

VWSA has also called for the retention of the Motor Industry Development Programme (MIDP), a strategy developed by the Government in 1994 to make the industry competitive. The programme is expected to expire after 2002.

Maergner said they will continue engaging the government on the programme. The company was also planning to import some of its models to South Africa such as VW Passat, VW Sharan, VW Golf and VW Caravelle.

In the previous year the company increased its production by 7,9 percent to 4 290,875; sales rose by 6,4 percent, total workforce increased by 7,3 percent to 279,892.

VWSA managing director Hans-Christian Maergner announced in Midrand yesterday that the company had secured an export order for 68 000 cars valued at R5 billion for shipment to the United Kingdom. CLEMENT LEKANYANE

Rosy outlook for SA exports to UK

(7(4(CT) CT(PM) 15/5/98

STAFF REPORTER

Johannesburg — The high value of the British currency and large car exports from South Africa would shake up the trade balance between South Africa and the UK, its largest trading partner, Nick McInnes, the British consul-general, said yesterday.

McInnes said the high value of sterling had seen exports from Britain to South Africa fall 10 percent in 1997. UK exports were worth £1,7 billion in 1997. Trade figures for 1998 suggested a similar fall may be recorded this year, he said.

"UK exports to South Africa were down by more than 10 percent in 1997. This trend looks as if it is continuing so far this year," McInnes said.

Sterling has reached record levels against the rand, trading at R8,30 yesterday.

Meanwhile, South African exports to the UK are resurging, rising 10 percent last year to £1,3 billion. "South African exports have for the most part traditionally been exports of minerals, fruits and vegetables.

"However, what is encouraging from the South African point of view is the very strong growth in exports of manufactured goods to the UK."

NICK MCINNES

This week, Volkswagen South Africa announced a R5 billion export order of Golf models for the UK market.

McInnes said the high foreign exchange rate was encouraging British companies to establish joint ventures with South African manufacturers rather than seeking to sell their products in the local market.

"Much of the new investment is by smaller firms investing in bricks and mortar in South Africa for the first time, concluding joint ventures or manufacturing under licence agreements," he said. UK companies have invested nearly £1 billion since the democratic elections in 1994.

"I am convinced South Africa represents significant industrial investment opportunities," McInnes said.

NEWS

Govt slams 'vested interests' after Columbus ruling

(746) BD 18/5/98

Simon Barber

WASHINGTON — The SA government attacked American "vested interests" after the US International Trade Commission unanimously ruled on Friday that US industry was being injured by subsidised imports of SA stainless steel plate produced by Columbus Stainless.

The ruling means the US commerce department will now start to investigate whether, in fact, Columbus has been receiving subsidies whose benefits may be offset or "countervailed" by import duties in order to protect US firms and workers.

Responding to a petition by three US firms and the United Steelworkers Union, the department has already agreed to look at eight subsidies that the petitioners claim have given Columbus an unfair price advantage in the US.

That enquiry was contingent on an injury ruling from the trade commission.

SA ambassador Franklin Sonn issued a strongly worded statement saying government "was deeply concerned" by the commission's decision.

The "complex and onerous investigation ... will unduly create uncertainty and undercut the exporters' access to the US market", he said.

Sonn also blasted the US steel industry's "vested interests", saying that it was "regrettable" that they "clearly do not share their government's commitment to the fundamental principle of global trade, which is fairness".

SA was not the only country hit by the trade commission's decision, which also gave the go ahead for countervailing duties to be considered on far larger stainless plate imports from Belgium, Italy and South Korea.

At the same time, the commerce department will be considering antidumping duties sought by the petitioners on products from all four countries plus Canada and Taiwan.

For SA, the countervailing case is potentially more serious that the antidumping one, even though the petitioners are seeking stiff 37% dumping duties on Columbus product.

The commerce department has agreed to study whether the Industrial Development Corporation's (IDC's) contribution of start-up capital to Columbus, in which IDC is a one-third partner with Highveld Steel and Vanadium and Samancor, represents a countervailable subsidy.

If IDC participation is found to be countervailable, a number of other minerals beneficiation megaprojects in southern Africa could become targets

Sonn said government was "committed to facilitating and supporting the domestic industry" but stressed that "this has been and will continue to be done within the multilateral trading system" and in accordance with its rules.

The commerce department is scheduled to issue a "preliminary determination" on countervailing duties at the end of next month and on antidumping duties in September.

Export boost could create 1,7-million jobs — report

BD 25/5/98

Reneé Grawitzky

ONE million skilled and 700 000 unskilled jobs could be created over the next five years if SA's nongold exports more than doubled its 1996 levels, a report compiled by the University of Pretoria says.

The report also found that increased government investment in "kickstart" public works programmes, at least in the short term, could create up to 1,7-million job opportunities for skilled and unskilled workers by 2002.

The implementation of government's procurement policy aimed at developing micro-, small- and medium-size enterprises was also viewed as a constructive initiative in creating jobs.

These options emerged from an econometric analysis conducted by the University of Pretoria's Bureau for Economic Policy and Analysis which evaluated various policies aimed at enhancing the labour absorption capacity of the economy and reducing unemployment. The report stressed the importance of policies which promoted education and training but expressed caution over wage subsidies.

SA's labour absorption rate, the report found, had declined from 80,9% between 1960-65 to 8,4% during 1985 and 1990. It was also revealed that more than half of total unemployment was among young people (less than 29 years of age); about 43% of the unemployed had education levels of less than grade seven and nearly 69% of all unemployed workers were new entrants to the job market.

The report said unemployment was caused by the lack of appropriate working skills and a "hostile market environment" which was a manifestation of trade union militancy and the "ill-timed implementation of some questionable labour policies".

The report argued that a broad economic policy framework for sustainable growth, development and labour absorption required trade liberalisation (including labour market flexibility); labour-intensive small- and medium-size enterprises; economic stability and investment in infrastructure and training.

International trends had shown that economic growth flourished where flexible labour markets existed, the report said. However, the SA labour market was not in equilibrium, while the other major markets were showing a greater extent of stability. At face value, it would seem that labour policies were at odds with other policy measures, such as the growth, employment and redistribution strategy, the report said.

The report found that since 1980 the average remuneration in the public sector increased at a faster rate than in the private sector. It was also revealed that although wages for skilled workers were determined by demand and supply, unskilled wages were determined by factors other than demand and supply and related to other variables such as trade union power and militancy. "The wage here is higher than the equilibrium market wage, with unemployment as the result."

Upgraded rail links to boost exports drive at Iscor

(74G)

About R1-billion will be spent on upgrading rail links to facilitate more iron exports, writes DON ROBERTSON

ST (BT) 31/5/98

THE carrying capacity of the rail link between the Sishen iron ore deposit and the Saldanha export port will be increased by almost 75% in the next 10 years at a cost of about R1-billion.

The first phase, announced by Orex, the Spoornet business unit dedicated to the transport of iron ore, will be capital expenditure of R170-million. This will increase capacity from the current 22-million tons a year to 27-million tons in the next three years.

Capacity will then be increased gradually, on a yearly basis, to reach 38-million tons by 2010. To achieve this, the carrying capacity of wagons will be increased, more loops or passing points introduced, trains will be longer (with greater frequency) and more motive power will be added.

Iscor is confident it will be able to increase its exports by about 8-million tons and will spend R550-million to increase production at the mine, while Portnet will also be required to upgrade equipment, including tipplers once the 27-million ton figure has been reached.

Khutso Mampeule, executive manager at Orex, says Spoornet management has granted permission to embark on the expansion programme to 38-million tons. "It is a great vote of confidence for Orex, Iscor, Assmang and Portnet."

The line, which at 933km is the longest bulk haul railway in the world, currently moves about 18-million tons of export iron ore for Iscor and 4.2-million tons for Associated Manganese.

Assmang will spend R125-million to expand its nearby Beeshoek mine, leading to further demands on the line.

In the current financial year, this will be increased by 1.8-million tons. The additional ore will be used at Iscor's R7-billion Saldanha Steel plant, which will be commissioned this week.

When at full capacity, Iscor will have access to 26-million tons, Assmang 10-million and Saldanha Steel 1.8-million tons.

ON THE FAST TRACK — the carrying capacity of the Sishen line will be increased by 75% over the next 10 years

Mampeule explains that achieving the leap to 38-million tons will involve repairing and upgrading wagons to carry 100 tons from the current 85 tons.

An order has already been placed with Transwerk for 60 of these wagons, which will be in operation in January.

The line currently has nine loops. Another is being upgraded. Eventually 20 will be operational. In addition, the trains will be extended to 216 wagons from 200.

"To make this possible, it will be necessary to add a diesel locomotive to the three electric locomotives now used, which the train driver can engage when facing steep hills.

The rise in the number of loops means frequencies can be increased from the current 27 a week to 32 and then 35 a week.

Efficiencies have also been achieved with turnaround time falling from a total of 65 hours to 56 hours.

In addition, a rail replacement programme will be introduced in 2008 to ensure operational efficiency. This could cost between R400-million and R800-million.

Iscor is the world's largest exporter of lumpy iron ore. It has 57% of the market. Present world prices are about $22 a ton for lumpy, while fine ore, which Iscor also exports, fetches about $14 a ton. Iron ore reserves in the northern Cape are estimated at 3-billion tons. Last year, Iscor's iron ore exports earned R1.29-billion in foreign exchange.

The Orex line has many other proud achievements. It is listed in the Guinness Book of Records as having the longest train — 7.3km, the largest number of wagons on a train, the longest non-stop heavy haul run and the highest speed over the route.

First quarter SA exports to US surge

(74G) BD 1/6/98

Simon Barber

WASHINGTON — SA exports to the US surged in the first quarter of this year, slashing SA's trade deficit with the US.

Measured by customs value, US imports from SA between January and March hit $720m — a 45% leap from the equivalent figure last year, while US exports to SA grew by just 2% to $729m, according to new commerce department figures. The resulting $9m SA deficit represented a 96% narrowing of the $222m trade gap a year ago.

US imports of SA products under the tariff heading that includes platinum group metals and gold were up 58% on a year ago to $278m. This included $166m worth of platinum sponge, up from $114m, while shipments of palladium and rhodium rose to $28m and $16m from $18m and $11m.

Notwithstanding US anti-dumping action against SA carbon steel plate, SA iron and steel exports to the US were up 88% to $124m. Of this, ferrochrome containing more than 4% carbon accounted for $21m, compared to $7m a year ago.

Ferromanganese and ferrosilicon manganese contributed a combined $35m — $20m more than during the same period last year.

Deliveries of ore went from $58m in the first quarter to $84m, helped by a leap in the value of titanium slag shipments to $46m from $18m.

The first quarter also saw increased deliveries to the US of inorganic chemicals worth $25m as well as industrial — chiefly mine-related — machinery ($18m) and vehicles ($15m).

Less positively, SA's clothing exports to the US appeared to be flagging.

The value of US imports from SA under the two major tariff categories for apparel slid to $13m in the first quarter from $16m a year ago.

The decline was echoed in new volume figures for both fabric and clothing released by the Commerce department 92s textiles office. In the year ending March 31, the equivalent of 6,9-million m² of Multifibre Agreement goods, apparel and non-apparel, entered the US, a 31% drop from the previous year.

For manmade fibre products, the figure was 3,9-million m², a 23% drop.

Exporters' lack of interest in support schemes disappoints govt

John Dludlu

GOVERNMENT has challenged serious exporters to take advantage of its export support measures. Trade and industry director-general Zavareh Rustomjee says government's 36 industry support programmes are delivering measurable results, but it is disappointed at industry's response.

The department has spent the past four years putting in place a coherent policy and support programmes and institutions.

Government has stopped what it saw as a wasteful general export incentive scheme which, Rustomjee says, cost the taxpayer almost R25bn in today's money over a five-year period.

"The impediments lie increasingly on the side of the private sector, because there is still a sense that people are not serious about exporting on a sustained basis," he says. "We have quite a lot of resources for those industry federations willing to set up export councils."

Rustomjee rejects complaints that there are no matching grants to support the exporting effort and urges industries to take advantage of the department's support under the export marketing and investment assistance programme.

The department has shut down 14 offices but new missions aligning SA with rapidly expanding economies are being opened in co-ordination with foreign affairs.

The changes are intended also to diversify SA's investment and trading partners.

In keeping with the "African renaissance" theme, the department was engaged in processes such as the renegotiation of the Southern African Customs Union and getting the Southern African Development Community (SADC) free trade area signed.

Talks are under way on the SADC tariff dismantling programme. SA and customs union partners are due to unveil a five-year liberalisation offer to other SADC countries next month.

Rustomjee challenges financial institutions to take a share of the risk involved in funding small business. Government would maintain its stake in the Small Business Development Corporation, but it was not in a position to carry the full risk of lending to small business.

Khula Finance Corporation, a state-owned finance wholesaler, has supported more than 20 000 jobs since its inception a year ago, while Ntsika, which provides non-financial support to small business, has helped about 20 000 enterprises. The department's industry support measures helped create about 77 000 jobs.

Alan Hirsch, chief director for industry and technology strategy, says the department is expecting to maintain this job-creating trend, if not do better this year.

(74G) BD 19/6/98

Analysts upbeat but cautious about SA exports

(T4G)

John Dludlu and **Patrick Wadula** take a look at the effect of the rand's roller-coaster ride on SA exports

BD 22/6/98

SA's exporters are expected to receive a fillip — notably in European, US and African markets — following the recent trouble plaguing the rand, analysts say.

However, the analysts also warn of negative spinoffs, including a dampening effect on investment decisions, from the currency's depreciation.

Luke Doig, the chief economist at Credit Guarantee, urged SA exporters at the weekend to concentrate on Africa, while Jorge Maia of the Industrial Development Corporation (IDC), said growth prospects in continental Europe and the continuing uptrend in the US would bolster demand for SA exports.

The depreciation of the SA currency is expected to improve the price competitiveness of local exports.

The conclusion of the free trade agreement, currently being negotiated with the European Union, should also give SA a window of opportunity into the EU market, Doig said, although he was less upbeat on investment prospects in the medium term.

Maia said growth in both the US and Europe was being driven by domestic demand, a factor that should augur well for demand for SA goods.

However, the economists canvassed believed that the improved fortunes of SA's exporters were likely to provide only "some margin of relief" against the effect of the Asian crisis.

A recent analysis by the IDC shows that SA and its partners in the customs union have started feeling the pinch of detrimental effects from the continuing east Asian crisis in the form of sharply reduced regional demand for foreign products, including SA's, and the influx of cheaper southeast Asian goods in the domestic market. In the first quarter of 1998, SA's exports to the region declined, compared with the same period last year. This occurred amid a surge in east Asian imports.

The IDC commentary shows that SA's exports to the Americas, Europe and — less importantly in terms of its share of SA's export basket — Oceania have been growing rapidly, while the troubles in the Zimbabwean economy earlier this year put brakes on exports to Africa. However, the east Asian economies, which were still in the doldrums, could return to sourcing production inputs from SA because of the newly acquired price edge, said Maia.

Exports from SA and Botswana, Namibia, Lesotho and Swaziland — the other customs union members — to southeast Asia were dominated last year by basic iron and steel items (24%); nonferrous metal basic products (20%); mining (17%); industrial exports (11%); and agriculture (7%), says the IDC.

Paul Theron, executive director at the Clothing Federation, said that forward-thinking companies in the sector which had already made investments, were likely to be rewarded in the current climate. However, he warned that the positive effect of the rand crisis would not be noticeable immediately thanks to longer leads — six to 12 months — in the sector's orders.

If the rand's weakness was sustained the effect would filter through to the clothing sector.

The loss of value by the rand would also slow down the use of legal clothing imports by raising their cost, said Theron. He warned, though, that if high interest rates were maintained for a long time, this could put pressure on consumers and retailers, particularly as the Christmas season — the traditionally strong time for the industry — was approaching.

Standard Bank raised its prime lending rate a percentage point on Friday, taking its cue from the central bank's repo rate hike.

Paresh Pandya, the research and information manager at Reed Business Information, said that with the fall in the rand, SA's exports would become competitive on the international market. He said an increase in exports would lead to the growth of local industrial production creating many job opportunities.

Pandya said the negative impact would include the high rise in costs for the importing of petroleum and other industrial products and components used in local production plants. "The downside of it all is that the US and the UK are among our leading trading partners and these are the two countries through which we pay in dollars and pounds respectively," he said.

Freight forwarding

Des Mooney, Gauteng regional chairman of the SA Freight Forwarders' Association, said imports via freight forwarding had slowed down.

He said freight forwarders in Gauteng had experienced a decline of between 15% and 20%, while Durban was down by 25% compared with the same period last year.

SA Footwear Leather Industry Association CEO Robert Feinblum said exports were in a better position provided the local shoe makers used domestic raw materials.

He said the footwear industry, which was daunted by Asian shoe makers, would receive an indirect boost by the gradual reduction of imports and increase in exports in the industry.

The exact scale of the benefits for exporters would be determined by the degree to which they used imported inputs; whether the exported commodity's price was determined in international markets; the destination; and whether exporters made the most of the price advantage.

During the headlong plunge in the exchange rate of the rand in 1996, SA exporters were accused by some Asian importers of not taking advantage of the price competitiveness resulting from the currency's depreciation.

One analyst said SA exporters had bumped up their prices in foreign markets as the rand was falling, making their exports less competitive, instead of maintaining existing prices.

Other market watchers expressed concern that the newly gained price competitiveness could take pressure off industrialists, slowing down restructuring efforts to make their operations more competitive globally.

Government raised a similar concern during the 1996 fall of the rand.

Manufacturing leads export drive

BD 30/6/98 (74G)

Samantha Sharpe

CAPE TOWN — While SA had a long way to go to improve its international competitiveness, it had made some progress in the past four years in improved manufacturing exports, the trade and industry department's Alan Hirsch said last night.

Hirsch, who was speaking on behalf of Trade and Industry Minister Alec Erwin at a Production and Operations Management Society conference on competitiveness and wealth creation, said SA's manufacturing exports had grown at a rate well above 10% in real terms since 1994.

"From 1988 to 1997, the proportion of SA exports classified as gold and primary products has fallen from 65% to 44%, while the proportion classified as manufactured products (not primary processed products) grew from 5% to 20%," Hirsch said.

"Last year, manufactured exports grew to a level nearly 20% higher than in 1996.

"Sectors which have improved the most include transport equipment, professional equipment, motor vehicles, parts and accessories, and plastic products, all of which grew by more than 40% last year."

In terms of inward-looking manufacturing, he said, SA had steadily reduced import protection since 1995.

At the same time it had offered support to industrialists willing to accept the challenge of international competition, Hirsch said.

This included a range of supplyside measures supporting investment, industrial innovation, small business development and exports, as well as specific programmes of limited duration for the most sensitive sectors such as textiles and clothing, and motor vehicle assembly and components.

"In doing so we have successfully lowered prices for consumers, increased exports and stabilised employment, which is falling fast in several industries."

The new competition law, which Hirsch said conformed with best international practice, would sharpen the teeth of SA's competition authorities without giving them licence to attack big business for no good reason.

SA needs more than export optimism

BD 2/7/98 (74G)

The current bout of volatile economic activity has sent predictions into a tailspin but there is some light at the end of the tunnel, writes economics editor **Greta Steyn**

ALWAYS look on the bright side As the rand crisis deepened this week, people have been trying hard to emphasise that a weak rand will boost exports and help gold mining.

But the power of positive thinking has not been strong enough to dispel the pall of gloom over the economy. The four percentage point increase in the prime overdraft rate is a terrible shock to an economy which was gearing up for lower interest rates.

Political pressure to change economic policy will no doubt intensify. What are the implications for economic policy of the present crisis? What kind of economic future does SA face now that the rand has lost about a quarter of its value against the dollar this year, and interest rates are at 13-year highs?

Some commentators, such as the Financial Times's Lex column, have warned that Finance Minister Trevor Manuel would find it more difficult now to stick to the right policies.

"The odds are that the government's policy resolve will weaken, not stiffen," the column said.

A backlash against Manuel and Reserve Bank governor Chris Stals's policies, which have spectacularly failed to deliver on growth, employment and redistribution, is unavoidable.

Obviously the pressure to give in to populist economics must be resisted. However, that does not mean that government and the Bank should blindly stick to the same policy track. They should reexamine their policies, and ask themselves whether some changes might not be necessary.

The hike in interest rates came at a time when SA was getting ready to reap the benefits of its impressive inflation performance.

Inflation has surpassed the targets in the growth, employment and redistribution (Gear) strategy, coming in at an average of 8,6% last year instead of Gear's projection of 9,7%. For this year, Gear projected inflation at 8,1% — even after the rand crisis, average inflation will be about two percentage points below that level.

The question now is whether SA has not placed too much emphasis on rooting inflation out of the system. Can the country not live with somewhat higher inflation — at or slightly above the Gear projections, say — rather than attempt to emulate Europe?

Granted, if interest rates had not risen in the past few weeks, the benefits of a weak rand would be eroded by inflation.

But just how high do interest rates have to be to ensure that inflation does not wipe out the competitive benefits of a devaluation? Rates are undoubtedly higher than they need be to do the job.

From now on, the central bank should place more emphasis on the balance of payments (BoP) — and less on inflation — as a determinant of monetary policy.

Once the BoP has improved, interest rates should be cut aggressively even if inflation is rising at the same time. Obviously, while the BoP remains fragile, the Bank should be cautious.

A little less emphasis on inflation is one policy. Other policy issues that are likely to be re-examined are exchange controls, privatisation and fiscal policy.

On exchange controls, there could be a slight shift in favour of restrictions.

The Bank's efforts to clamp down on speculative transactions in the forward market signal a change from a more laissez-faire approach. Only when the rand is looking healthier should controls on residents be eased further, and then liberalisation is likely to proceed at a snail's pace.

More significantly, government could impose new controls on nonresidents. There is a possibility that once the panic is over, government will look at introducing Chilean-style controls on foreign investment to prevent the destabilising effects of short-term capital flows. Ironically, Chile has begun to move away from the policy of requiring a "deposit" or reserve requirement of a year from foreign investors.

Nevertheless, many emerging markets are starting to look seriously at introducing reserve requirements to stop capital from leaving in a hurry; SA should also consider doing so.

Privatisation is also likely to be looked at, and hopefully the process can be speeded up.

On fiscal policy, the question is whether government should stick to its deficit targets given that economic growth will fall well short of Gear's projections this fiscal year and the next. It will be extremely difficult to do so. But abandoning the targets would send the wrong message to the markets. Achieving them will present a huge dilemma; more so as SA is about to enter election mode.

The fiscal headaches are aggravated by the rise in interest rates on government stock and the increase in the cost of servicing government's foreign debt.

Government also has to pick up the tab for the central bank's forward cover losses. An unscheduled rise in government debt seems unavoidable.

The fiscal problem is only one part of a bleak economic outlook for this year. Economists warn that people expecting an export boom to take up some of the slack should bear in mind that there is a time lag between a devaluation and its effects on the BoP.

The Bank said changes in the rand's value were followed with a time delay of two to three quarters by an adjustment in the current account balance. Nevertheless, the unexpectedly low current account deficit in the first quarter — combined with the rand's weakness — has led economists to revise down their current account forecasts for this year.

Rand Merchant Bank, which had a bearish forecast of a deficit of about R16bn, has revised its projection down to about R13bn. Other economists are also talking in that range.

Only exports of manufactured and semimanufactured products will benefit from the rand's depreciation. SA can influence demand for manufactured products by setting competitive prices; it cannot do so for commodity exports. About 20% of SA's exports are pure manufactured goods and about 40% are semimanufactured or manufactured.

Some exports, such as coal, are done in terms of contracts which cannot be changed at short notice. This is one of the reasons for the lag in export volumes responding to a devaluation.

Economists are divided about the extent to which the BoP will respond to the devaluation.

Nedcor's Kevin Lings does not believe there will be a dramatic effect on export volumes.

He said exporters of products such as steel had been looking for new markets in eastern Europe to compensate for Asia's decline. As a result of competitive pressures, their margins had been squeezed and they would to some extent, use rand weakness to improve profitability rather than drop dollar prices. He put next year's current account deficit at R18bn.

Old Mutual economist Rian le Roux is much more optimistic. He said the accompanying graph showed SA's exporters were well placed to capitalise on the weak rand. The graph showed that, in the past, a rise in commodity prices had been required to trigger an increase in export volumes. This had changed as SA exporters had diversified into manufacturing and had sought new markets. SA had become much less dependent on commodity prices.

He put the current account deficit at R15bn next year. He was also more bullish on economic growth for next year, which had positive implications for the current account as a percentage of gross domestic product.

On GDP, some forecasters expected growth of less than 1% this year even before this week's two percentage point rise in prime overdraft rates.

It seems certain that growth this year will be negligible — a far cry from the 2% expected at the beginning of the year.

Next year is much less certain; obviously it depends on how long interest rates stay at these levels. The range of forecasts is 2%-3%; precrisis forecasts put growth at 3%-4%.

Among the pessimists is Sanlam's Pieter Calitz, who has revised his forecast for growth next year down to 2% from an initial 3,3%. He still expected a boost from demutualisation, but warned that the present economic climate could dampen the effects. Pre-emptive shopping in anticipation of cashing in free shares was much less likely in a climate of high interest rates and weak financial markets.

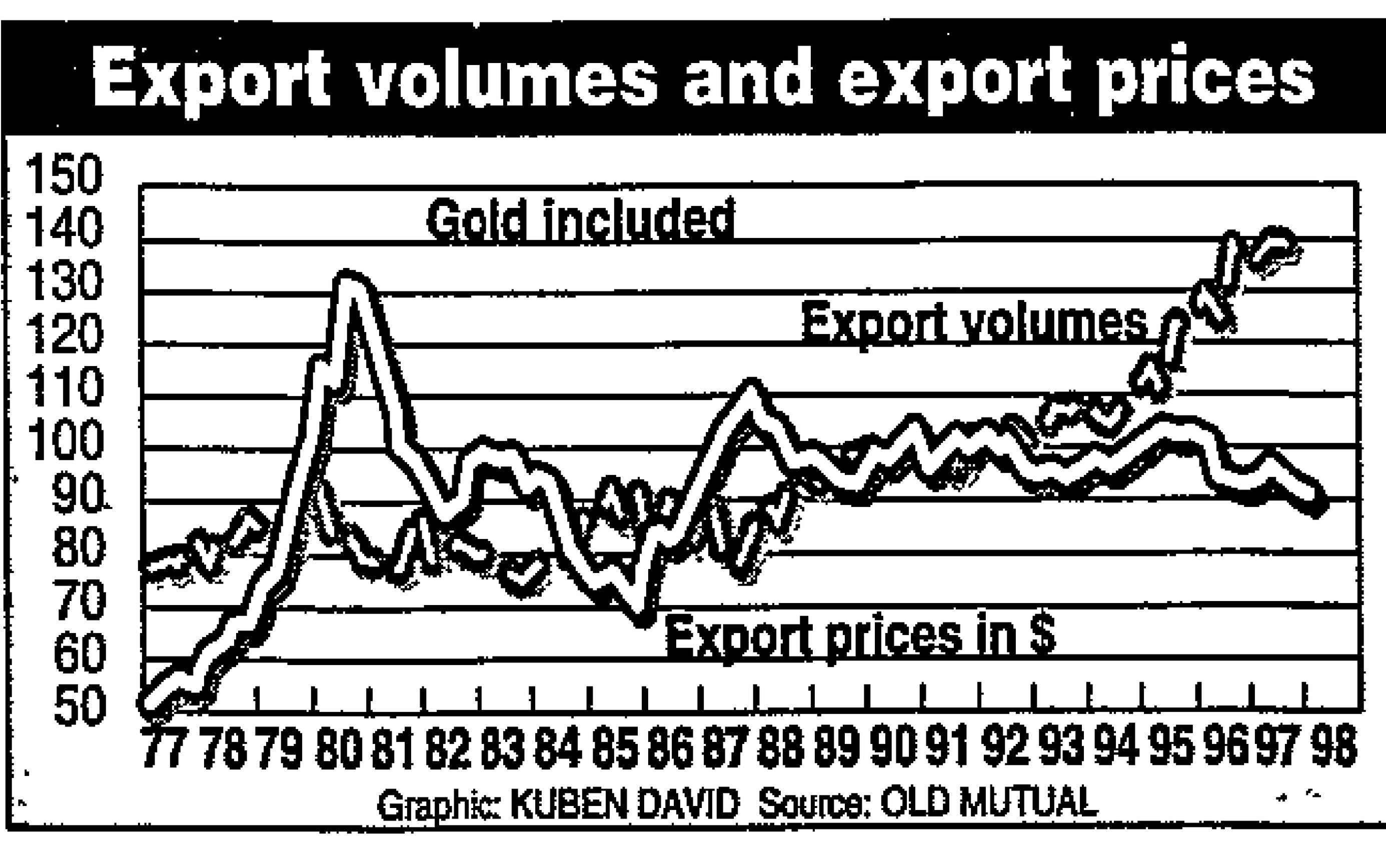
Le Roux, by contrast, was more optimistic with a 3% growth forecast. His optimism was largely based on the belief that export volumes would respond significantly. As a result, the structure of SA's economic growth would improve. Growth would be driven by the production side rather than the demand side of the economy.

On inflation, economists are remarkably sanguine given the collapse in the currency. The weak economy and low oil prices explained part of their optimism.

Paradoxically, headline inflation will rise as a result of the increase in mortgage rates, with economists now expecting an average inflation rate of about 6% this year from about 5%-5,5% pre-crisis. However, the interest rate effect will unwind next year, mitigating the lagged influence of the weak exchange rate. There is a fairly wide range of forecasts, but generally economists expect average inflation next year to remain below 7%.

Although recession seems unlikely, SA faces an uncertain economic future and difficult policy challenges.

Manuel and the Bank have a big sales job on their hands; let us hope they have a sensible product to sell.



Graphic: KUBEN DAVID Source: OLD MUTUAL

Department books unqualified for fourth year

Geis claims continue to haunt government

CT (PR) 3/7/98 (7HG)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Fraudulent claims worth millions of rands continue to haunt the department of trade and industry almost one year after it phased out its controversial general export incentive scheme (Geis).

According to a report for 1996-97 tabled in parliament yesterday by the auditor-general's office, this was the fourth year in a row that the department's books had to be qualified despite the fact that it had tried to take corrective steps.

The department spent R1,7 billion on Geis in 1996-97 against R1,9 billion in 1995-96. The report said there were "material deficiencies in the supporting documentation" for claims, and "little reliance" could be placed on them.

The size of the claims under the scheme had been so vast that it had been difficult to verify them. Between March 1991 and December 1997 the department had only been able to verify 64,3 percent of the claims submitted.

The report said irregularities and losses had also been found in the local content programme for the motor vehicle industry, where corrective steps had also been taken. Five motor vehicle manufacturers had been summonsed to appear in court in connection with claims worth R122 million, but had retaliated with counter-claims worth R104,3 million.

The department's debts to private organisations had risen 31,9 percent to R189 million by March 1997 because of the irregular payment of export incentive claims, while the department had made claims worth R3,1 million against companies that had tried to receive payments under both Geis and the motor scheme.

The auditor-general's office yesterday also tabled reports on the departments of labour, public enterprises and sport and recreation, as well as on the Central Statistical Service and the former Manpower Development Authority of Bophuthatswana.

The report on the department of labour was qualified, mainly because of poor internal controls, problems with the incorporation of manpower departments of the former homelands, accounting weaknesses and the failure to comply with State Tender Board procedures.

Exporters fear their good fortune might not last

BD 1/7/98 (749)

Bernard Simon

EVEN as they rush to take advantage of the tumbling rand, some exporters are concerned their good fortune may not last long.

"It's a very mixed blessing," says John Rowe, sales and marketing director at Columbus Stainless, the stainless steel producer. "My real fear is that if this continues, it is ultimately going to be inflationary."

The rand's 26% fall since May has raised hopes of a sharp rise in exports as SA products become more competitive in foreign markets. A falling exchange rate enables exporters to lower their prices in foreign markets while maintaining or even increasing local currency earnings.

Standard Bank's economics department estimates that merchandise exports will rise at least 12% this year.

However, a weakening currency has drawbacks that can quickly offset the short-term benefits. By pushing up import costs, it raises the price of many raw materials, and often has a ripple effect on domestic prices in general.

Columbus imports nickel and chrome, the basic raw materials used in stainless steel. Rowe says he is also worried about the falling rand's knock-on effect on electricity and labour costs, its two main local inputs.

Some exporters fear that any advantage from the rand's decline could be offset by similar depreciations in the currencies of other emerging market exporters, especially in east Asia.

Bruce Sutherland of Rebtex, which makes sisal carpets and abrasives, expects he will have to cut prices by 6%-10% to match Far East rivals. "All your competitors are also dropping their prices," Sutherland says. Customers in New Zealand and Australia were asking for price reductions.

All 19 divisions of packaging group Nampak are reviewing export prices in the wake of the rand's decline, says export manager Tim Leaf-Wright.

"The rand price would be the same. If we quote in dollars or pounds, we would certainly reduce our price accordingly."

Leaf-Wright is optimistic that price cuts will help Nampak match competition from Far East suppliers in some of the 51 countries in which the group sells.

Similarly, many other exporters are rushing to take advantage of opportunities offered by the weakening rand, even if they do turn out to be short-term.

According to Emilicha Wolters, co-owner of Shade and Hail Net Systems, which makes carports, "many people have approached us", especially Americans, who buy carports mainly from Mexico.

Ropemaker Haggie Rand hopes the weakening rand will open new markets to replace the European Community, where the company faces an anti-dumping action.

"We are looking at Canada and the west coast of the US at the moment," says Morgan Pillay, international marketing manager for the steel wire rope division.

The company had also begun talks with Malaysia, with which Pillay says they could not compete in the past.

Weak rand could be a boon to exporters – official

(74G) BD 6/7/98

John Dludlu

THE rand's plunge against the dollar will give new opportunities to SA exporters, and those eyeing the African market can look forward to a price competitiveness boost for their products, says a senior government official.

Mfundo Nkuhlu, chief director for Africa trade relations at the trade department, says exporters ought to be celebrating the depreciation of the rand.

The African market, in which SA's manufactured goods are making inroads, has always been an open one.

But as Asia, also hit by currency depreciations, battles to "export itself out of the present crisis", Africa could turn out to be a battlefield.

Nkuhlu warns that SA companies depending on imported inputs for their production may have reason to worry.

This is because the decline in the rand's value will make their inputs more expensive.

Nkuhlu said government would be concerned if SA's exports were to put African industries under strain.

However, he said he hoped the newly gained price competitiveness would see Pretoria's exports displacing those of third countries.

Other analysts have said the real gains in the rand's fall would be determined, in part, by whether SA exporters raised their prices.

This was noticed in the 1996 fall of the rand, according to one market watcher.

Nkuhlu appeared sanguine about prospects for SA investment in Africa, saying that terms of trade and investment have always tended to favour SA.

Although the rand's troubles may affect the rate of return on investment, the SA currency has tended to be relatively strong against those of most of African countries.

Previously, government has been concerned that currency depreciation could see companies resting on their laurels, forgetting about the imperative to restructure their operations due to the newly found price competitiveness.

It is also suggested that SA exporters should use their currency advantage to find new opportunities in the European and the US markets, where growth is led by domestic demand.

In another development, Nkuhlu said government is planning a trade mission later this month to east Africa, which would include Uganda, Tanzania and Mauritius.

This follows a successful mission to west Africa last month.

SA vehicle exports accelerate 78%

ROY COKAYNE

Pretoria — Exports of South African-produced vehicles have risen 77,7 percent, or 5 705 units, to 13 048 units in the first six months of this year compared with the same time last year. This is according to figures released by the National Association of Automobile Manufacturers of South Africa (Naamsa).

Nico Vermeulen, the director of Naamsa, said the dramatic depreciation in the rand since the end of April this year would further boost the industry's exports of components and built-up vehicles.

New South African-produced car exports were the biggest contributor to the increase, rising 183 percent, or 5 580 units, to 8 628 units in the six-month period against 3 048 car units exported in the same period last year.

Light commercial vehicle exports registered a 4,08 percent, or 158 unit, increase from 3 873 in the first half of last year compared with 4 031 this year. But medium and heavy truck exports dropped 7,8 percent, or 33 units, from 422 units last year to 389 units this year.

Volkswagen SA (VWSA), which last year had the lowest market share for total exports of the seven local manufacturers at 3,2 percent, has jumped into top spot overall.

VWSA, which announced in May this year that it had been awarded a R5 billion contract by Volkswagen in Germany to build 68 000 fourth-generation Golfs for the British market over the next 18 months, exported 3 431 units in the first half of this year.

BMW South Africa, which has also secured major export orders for right-hand drive markets, also increased its exports dramatically from 606 units in the first half of last year to 3 276 units this year, raising its market share from 8,3 percent to 25,1 percent.

Nissan exported a total 1 758 units for a market share of 13,5 percent and was in third place overall.

CT (BR) 7/8/98

Weak rand has spinoff for exports and jobs

CAPE TOWN — Spin-offs from the weak rand were opportunities for export-orientated businesses and the saving of jobs, said Colin Boyes, the deputy director of the Cape Chamber of Commerce.

The Chamber's June quarterly economic survey reflected more difficult trading conditions for businesses in the Western Cape, but it was not all bad news. "Significant for members in commerce and services is the cost of money, mainly referring to interest rates," Boyes said.

He said that in the March survey, this aspect was ranked eighth, but was now rated the second most important impact on the business climate. The most important was crime and violence, although only marginally so.

"In March the low cost of money rating was based on the expectation of lower interest rates. This was stopped in its tracks with the recent depreciation of the rand and the indication is that many members have been forced to switch to survival mode," Boyes said.

He said commerce and service members were negative about conditions in Cape Town's central business district. "One member in the tourism business encapsulated the views of many by stating that business conditions were being harmed by a dirty, unsafe city, with no convention centre."

He said members in manufacturing "felt uncomfortable with the new labour legislation stating it would lead to unrealistic expectations that would create labour instability". — Sapa.

TRADE

(~~492~~) (74G)

SA car exports rise 66% in seven months

Exports of South African-produced vehicles rose by 65,8 percent to 14 403 units in the first seven months of this year, according to figures released by the National Association of Automobile Manufacturers of South Africa (Naamsa) last week. Naamsa said the rand's depreciation would further boost exports of components and built-up vehicles. (BR) 7/9/98

But Naamsa said the depreciation of the rand had placed significant upward pressure on new vehicle prices, resulting in a number of manufacturers announcing price increases during August this year. The major contributor to the increased exports between January and July this year was passenger vehicles, which rose by 161,3 percent, or 5 588 units, to 9 052 units compared with 3 464 in the same period last year. — *Roy Cokayne, Pretoria*

The cup runneth over for SA wine exporters

CT (BR) 7/9/98 (74G)

Françoise Botha

Cape Town — South African wine exporters bucked the prophesied downturn and posted a 35 percent increase in bottled wine exports over the five months to May on the strength of a surge of orders from new foreign markets.

Figures released late last week by the South African Wine and Spirit Exporters' Association (Sawsea) showed that from January to May, bottled white wine exports increased by 22 percent year on year and bottled red wine exports surged by 55 percent year on year.

"If the honeymoon was over, then we could assume from these figures that we were starting a solid relationship," quipped Graham de Villiers, the chairman of Sawsea.

"We are seeing that a lot of the current growth is taking place in new markets, with inroads being made into the US and strong growth from Holland and the Benelux countries. Orders from Germany are also starting to play a more significant role, and there is ... a fair amount going to the East."

De Villiers said this development was exciting because these were all relatively new markets for South Africa. As our wines became "better known, export growth would gather pace", he said.

More good news was that the increase in bulk wine exports was showing considerable signs of slowing, posting only a 12 percent gain over the period.

Wines which were exported in bulk and bottled overseas were usually cheaper, higher-volume wines, De Villiers said.

He said the value end of the market was starting to grow in hard currency terms.

"Exporters are earning higher revenues because of the drop in the rand. Some foreign buyers are pushing for producers to reduce their prices in the wake of the devaluation of the rand," he said.

However, most would not do this, he added.

"By far the majority are maintaining their hard currency prices because of the impact on the price of imported components like corks, barrels and cellar equipment," said De Villiers.

SA forestry exports (7406) plummet 20% to R4,6bn

BD 10/9/98 FORESTRY

Robyn Chalmers

EXPORTS of forestry products fell 20% to R4,6bn last year from a 1995 high of R5,6bn and are set to decline further, largely as a result of poor economic growth and the new regulatory controls coming up.

Forest Owners' Association chairman Mike Edwards said a number of factors were adversely affecting the forestry industry and its ability to export products. These included volatile financial markets, a depressed demand, the Asian and Pacific Rim economic crisis, high interest rates as well as escalating crime and violence.

While the industry had managed to retain a positive trade balance of R1,6bn for last year, Edwards warned that the "full implication" of the Asian crisis and other more recent events such as the currency crisis could still be felt. Also, he said, the National Forests Bill — currently being approved — would lead to further unnecessary "shackles" being placed upon the forestry industry.

The bill was "far too prescriptive" on a number of private enterprise issues. It enabled the water affairs and forestry minister to terminate various legally constituted contracts — including those dealing with timber supplies — on a five-year notice period.

"It also enables the minister to make regulations relating to the quality of timber produced by giving him the power to prescribe the methods of manufacture and marketing of any timber or timber product," he said.

Edwards said planned legislation could result in investors in the forestry industry having less right of choice in issues concerning their enterprises, less recognition of the risks they face in their investments and greater uncertainty.

Other countries — including Argentina, Australia, New Zealand, Brazil and Chile — were actively encouraging the rapid development of plantation forestry through a number of clearly defined national strategies, he said.

"SA, however, appears to be headed in the opposite direction when it comes to the promotion of forestry development," said Edwards in the association's annual report.

"During 1996/97 net new afforestation in SA amounted to only 7 757ha — the lowest since 1983. By comparison, new afforestation in New Zealand during the same period was 88 000ha."

Bottled wine exports show a heady increase

BD 10/9/98 (WINE (74G))

CAPE TOWN — SA wine exporters bucked the expected downturn and posted a 35% increase in bottled wine exports over the five months to the end of May.

Figures released by the SA Wine and Spirit Exporters' Association show that from January to May bottled white wine exports increased 22% while bottled red wine exports surged 55% year on year.

"If the honeymoon is over, we can assume from these figures that we are starting a good and adult relationship," said the association's chairman, Graham de Villiers. "What we are seeing now is a phase of steady sales, which is very encouraging."

He said a lot of the growth was taking place in new markets, with inroads being made into the US and strong growth coming from the Benelux countries. Orders from Germany were also starting to play a more significant role and a fair amount was going to the east. "These are all relatively new markets for SA and as our wines become better known, so the export growth will gather momentum," De Villiers said.

He said the increase in bulk wine exports was showing considerable signs of slowing, posting only a 12% gain over the five-month period.

"There are some foreign buyers who are pushing for producers to reduce their prices in the wake of the devaluation of the rand, but most will not do so. By far the majority are maintaining their hard currency prices because of the impact on the price of imported components like corks, barrels and cellar equipment."

SA wine exports to the UK increased by 9% in volume terms last year on top of the 48,6% and 29,5% increases recorded over the previous two years. Total growth in wine exports to the end of May stood at 22%.

Meanwhile, the KWV said yesterday the total SA wine harvest for the 1997/98 season was slightly lighter than the previous two seasons, in spite of the hectares under vine increasing over the past three years.

This season's smaller harvest can be attributed to climatic conditions during the ripening stage.

However, KWV said, more good wine was made from the crop compared with last year. The problem was that sales had not come up to expectation and according to estimates, there would be 14,7-million litres more good wine at the end of January next year than was anticipated.

Should weather conditions play along, the possibility of a record 1999 crop was also in the offing. — Sapa.

First-half surge in exports to US

BD 11/9/98 (74G)

Simon Barber

WASHINGTON — SA's exports to the US surged in the first half of the year, even though the rare surplus SA briefly enjoyed in the first quarter disappeared, according to the commerce department's latest trade figures.

Buoyed by sharp increases in sales of platinum and other metals, the customs value of SA exports to the US in the first six months of the year was up 36% from the same period last year, rising from $1,12bn to $1,52bn.

Imports from the US — mostly machinery and other capital goods — were also up but much less sharply, rising 15% from $1,47bn to $1,7bn. Much of the increase came from $258m in aircraft sales.

Commodities in the tariff category that includes platinum group metals, gold and diamonds continued to be SA's major export to the US, accounting for $600m in the first half against $433m last year.

Platinum sponge alone accounted for $339m, up from $267m in the first half of last year. As of end-June, the value of unwrought palladium SA exported to US — $92m — was nearly the same as for all of last year. First-half US imports of SA rhodium at $45m exceeded those of the previous 12 year.

US imports of primary SA iron and steel went from $130m in the first half of last year to $238m this year. With the global economy slowing, this jump raises the chances that SA producers will be hit by an expected fresh onslaught of antidumping suits.

SA exports of organic and inorganic chemicals also appeared to be thriving, rising to $105m from $68m a year ago.

Separate figures from the commerce department textiles office showed a continued growth in volume — gauged in million square metre equivalents — of SA cloth and clothing entering the US market.

For the year to June 30, SA shipped the US 46,5-million square metres of apparel and nonapparel in categories covered by the Multifibre Agreement, a 4% increase on last year. Yet value of SA clothing exports to the US in the first six months looked almost unaltered from last year, at $28m.

Export surge for SA wines

A SOUTH AFRICAN wine association said this week new foreign markets thirsty for the country's wine had led to a 35 percent surge in export growth in the first five months of 1998.

South African wine exports have grown in new markets in Asia, the United States, the Netherlands and Germany, Graham de Villiers, chairman of the South African Wine and Spirit Exporters' Association (SAWSEA), said in a statement.

"This is very exciting because these are all relatively new markets for South Africa and as our wines become better known, so the export growth will gather momentum," he said.

White and red wine exports grew by 22 and 55 percent respectively from January to May, SAWSEA said.

Wine exporters, who saw a massive increase in foreign demand after South Africa held its first all-race elections in 1994, had expected export growth to flatten off.

"If the honeymoon is over, then we can assume from these figures that we are starting a good and adult relationship," de Villiers said.

SAWSEA said it was pleased the increase in bulk wine exports had slowed over the last five months, because the industry wanted to focus on bottled sales to improve South Africa's image as a quality wine producer.

South Africa's largest wine cooperative KWV said recently wine exports surged by 10 percent in 1997 to 110.6 million litres from 99.9 million litres in 1996. – *Reuters.*

IDC to terminate exports subsidy scheme

John Dludlu

PRESSURE from the World Trade Organisation (WTO) has forced the Industrial Development Corporation (IDC) to terminate its exports subsidy scheme which has helped SA manufacturers protect about 95 000 jobs.

The IDC said yesterday it would accept new applications for the subsidy scheme — which has cost the parastatal about R168m since 1991 — until the end of November.

To date, the IDC has approved 392 loans worth R1,5bn under the scheme, while the subsidised interest rate portion has cost about R168m.

IDC official David Holloway said the corporation had been under pressure from the WTO to terminate the scheme which contravened rules on export subsidies.

Under the scheme, a special interest rate of prime lending rate less 4,5% is charged. It funds the creation of new production capacity and new ventures

Continued on Page 2

IDC

Continued from Page 1

aimed at exports.

The IDC was exploring other WTO-compliant measures to assist exporters, Holloway said.

An industry source said government, which owned the IDC, was not willing to expose SA exporters to costly lawsuits from mainly US companies alleging unfair trade. However, the IDC said none of its beneficiaries had fallen foul of this except for one complaint which involved a subsidiary.

The scheme's termination follows last February's phase-out of another low interest rate programme for companies facing stiff tariff cuts under WTO regulations and comes during a period of high interest rates.

The IDC said that apart from defending existing jobs, the scheme had also contributed to the creation of more than 12 000 jobs and R7,7bn worth of additional exports a year.

INTERNATIONAL

ILO debates problems of export-processing zones

(74G) BD 28/9/98

GENEVA — About 27-million people, 90% of whom are women, work in 850 export processing zones worldwide, often earning low wages in poor working conditions, the International Labour Organisation (ILO) said today.

The United Nations agency also said that the industrial zones, which import and process materials before exporting them again, were huge employment generators but often lacked meaningful links with the domestic economies around them.

The comments came in a report called "Labour and social issues relating to export processing zones", which was issued at the start of a week-long meeting at the ILO's Geneva headquarters on problems posed by the zones and how to solve them.

Experts from 10 countries, including China, will attend.

"It is a regrettable feature of many zones that both male and female workers are trapped in low-wage, low-skill jobs. They are viewed as replaceable and their concerns do not receive sufficient attention," it said in the report.

"The classic model of labour regulation with a 'floor' or framework of minimum labour standards and free trade unions and employers coming together to negotiate binding agreements, is extremely rare in export processing zones," it said.

China, which has 124 export processing zones, had created the greatest number of jobs. About 18-million people were employed in firms with foreign investment alone, and many millions more in Chinese-owned zone enterprises, according to the report.

North America is host to the largest number of zones with 320, followed by Asia at 225. But developing regions such as the Caribbean, with 51, Central America with 41, and the Middle East with 39 were also attracting these "vehicles of globalisation".

Export processing zones are industrial zones with special incentives — tax holidays, duty-free imports and exports — set up to attract foreign investors, in which imported materials undergo some degree of processing before being exported again.

The US and Mexico are the most active export processing zone operators, with 213 and 107, respectively.

Most are maquiladoras, or assembly plants clustered around Mexican border cities such as Tijuana, which the report said was the most important television set-producing area in the Americas.

The maquila industry, set up in 1965 as an emergency measure, now processes exports worth $5bn a year, more than 30% of all exports from Mexico, the report said.

In Costa Rica, where there are nine export processing zones, 49 000 jobs have been created since 1981, mostly in the garment and electronics sector.

Export processing zones in China are very different from those in other countries, according to the 50-page report.

"The special economic zones, as they are known, are not only designed to promote investment but to experiment with market economics on a controlled basis, with a view to extending it to other parts of the country in due course if it is deemed desirable," it said.

"In China, zones are often of city scale and resemble any other modern business complex," it said. They include residential areas, recreational facilities and social services. — Reuter.

Export performance 'disappointing'

(349) BD 22/10/98

Greta Steyn

SA's manufactured exports were growing at a "disappointing" rate of 10% this year, the Industrial Development Corporation (IDC) said yesterday.

The rate of increase in manufactured exports had slowed down substantially, from increases of more than 20% in 1996 and last year to less than 10% in the first half of this year.

The IDC said in its quarterly overview of SA's trade and industrial performance the southeast Asian crisis was largely to blame. The relative stability of the rand from the start of the crisis until May this year, as well as lower import demand from emerging markets, had contributed to the "disappointing" export performance.

Exports of manufactured goods to southeast Asia had plunged 35% in the first six months of this year compared with the same period a year ago. The sharpest falls — ranging from 53% to 60% — had been recorded in exports to Indonesia, Malaysia, the Philippines and Singapore.

The transport equipment sector reported the biggest decline in exports because a contract to supply locomotive carriers to eastern countries had come to an end last year. The value of rail locomotive exports declined from more than R220m in the first six months of last year to only R13m in the six months to June this year.

The economic crisis in Zimbabwe — SA's biggest trading partner in the Southern African Development Community (SADC) — led to a sharp 22% decline in its demand for SA exports, which, in turn, largely contributed to the 6% drop in manufactured exports to the SADC as a whole.

"Regional developments are of particular concern to SA industry, as the SADC claims a 17% share of the manufactured exports basket," the IDC said.

Nevertheless, there were manufacturing sectors that notched up healthy growth. Tyre exports rose R80m in the first half of the year, boosted by demand from the southern African region. The motor vehicle industry also got a shot in the arm from SA's neighbouring countries. "In sharp contrast to the depressed conditions faced by the motor vehicle industry on the home front, vehicle exports almost doubled to over 13 000 units in the year to June this year."

While the SADC accounted for 29% of machinery and equipment exports, the US, Germany, Japan and Britain remained the biggest export destinations for manufactured goods, with a collective share of almost 34%.

Manufacturing employment also suffered as firms went through a process of upgrading and modernising capital stock to enhance global and domestic competitiveness. Employment levels declined 3%, translating into more than 22 000 job losses, in the first half of this year, on top of the 4% contraction recorded last year.

Protective tariff on SA steel exports 'unlikely'

ROY COKAYNE

Pretoria — Cold water was poured on the prospect of the US putting a protective tariff on some South African steel yesterday by Werner Höne, the general manager market strategy for Iscor Steel.

A newspaper report said the imposition of the protective tariff was being considered following an International Trace Commission (ITC) ruling and a campaign by steelmakers about the potential threat to US steel mills.

The report said the possible tariff tightening came after the ITC voted unanimously that hot rolled steel from Japan, Russia and Brazil was dumped in the US at unfairly low prices.

The ITC was expected to issue a preliminary ruling by the end of the month on whether the US commerce department should put a tariff on foreign steel from South Africa and other countries.

Höne said a specific process had to be followed before such a tariff could be imposed. "No process has started on any steel product from South Africa."

He said the process in the US to obtain protection from imports sometimes took months.

ET (PR) 20/11/98

with the FINANCIAL TIMES

BD 27/11/98 (74G)

Govt, business announce export strategy

John Dludlu

GOVERNMENT and business announced details of a joint export strategy yesterday, marking the first major push by SA after 1994 to venture into foreign markets.

A key part of the strategy, following a national export week, is the establishment of a National Export Advisory Council, several working groups and sectoral export targets.

At a launch function in Midrand yesterday, Trade and Industry Minister Alec Erwin said the council consisted of senior government officials, parastatals and business associations and would meet at least three times a year. "We do not want a mass rally," he said, signalling the intention to keep the body focused.

He warned that government would not work with export councils that did not have clear strategies.

Erwin said that for the first time industry and government were pushing in the same direction.

The working groups would look into the development of sectoral export strategies; improvements in export finance; transport and logistics; and further development of an institutional capacity within the business sector.

The council, which would include nominated business representatives, would begin its work early next year.

Another crucial part of the strategy is a small exporters' programme, a plan by which government is seeking to identify and nurture the development of 100 small exporters each year. Certain sectors have already set up industry export councils as part of this drive.

Faizel Ismail, the chief director for export and investment promotion at the trade and industry department, said the overall export targets included increasing the contribution of finished manufactured exports to 30% of total SA exports over the next three years from 20%.

The targets also included raising manufactured exports 14% a year in real terms and increasing the penetration of SA's exports in nontraditional markets.

Ismail said the overall targets were in line with government's growth, employment and redistribution strategy.

In terms of strategies submitted by the motor manufacturing and components sector, vehicle exports should rise 5% and exports of components 25% in 1999/2000, he said.

The capital goods sector is hoping to increase volumes of SA's manufactured capital equipment 60% by 2003.

Although Asian economies might be in trouble, Erwin said exporters should not forget that market.

Trade and Industry Minister Alec Erwin announces the launch of a joint export strategy at Gallagher Estate in Midrand yesterday. Picture: TREVOR SAMSON

SA exports receive major boost

BD 30/11/98 (74G)

New strategy takes targeted approach with IDC assisted financial support

John Dludlu

The drive to promote SA's exports in foreign markets received a major boost last week with announcements of an export strategy and plans for a new financing mechanism.

Apart from a new export strategy jointly supported by government and business, SA exporters were promised improved financial support by the Industrial Development Corporation (IDC).

Buoyed by strong results, the IDC — a parastatal headed by Khaya Ngqula — has announced its intention to start an export-import finance subsidiary to shore up SA exports. The corporation has built up expertise in both import and export support.

IDC finance GM Gert Gouws says it has been impressed by the Indian model which focuses on smaller exporters.

Though the IDC has been supporting exporters, it has had to phase out support measures which are incompatible with the World Trade Organisation.

Apart from establishing the National Export Advisory Council, government has identified key markets, product categories and sectoral and national trade exhibitions to be targeted.

The trade and industry department says these markets will include all the continents. The following countries and markets have been targeted: Argentina (auto and components; capital equipment); Brazil (auto and components; capital equipment; stainless steel); Chile and Peru (capital equipment); US (flowers and crafts); Côte d'Ivoire, Ghana, Mali and Senegal (capital equipment; structural steel); Burkino Faso (capital equipment); Nigeria and Gabon (structural steel); Netherlands, Switzerland and Japan (flowers); Belgium and Spain (auto and components); Italy (clothing; stainless steel) and Australia (footwear; leather; stainless steel).

In Germany and the UK, SA is targeting the following sectors as priority exports: auto and components; clothing; crafts; footwear; leather; and textiles.

Among the European Union countries, Germany enjoys a huge surplus in trade with SA.

Trade Minister Alec Erwin has urged exporters not to forget the southeast Asian market in their strategies.

The same targeted approach has been adopted in identifying priority markets of foreign investment.

These are: Canada (automotive components; mining/mineral beneficiation); US (agro processing; automotive components; petrochemicals; pharmaceuticals; plastics; information technology; electronics; tourism infrastructure); France, Germany and the UK (automotive components; chemicals; tourism infrastructure); Italy (automotive components); India (chemicals; information technology); Japan (automotive components; chemicals; mining); and Australia (mining).

The SA Chamber of Commerce has welcomed government's linkup with business to promote exports.

The release of the export strategy follows disappointing trade figures that suggest exports slowed down in October.

ET(BR) 14/1/98

SA wines back on US menus

(74G)

RICH MKHONDO

Washington, DC — After the wine business was nearly destroyed by US anti-apartheid sanctions, South African wines are beginning to flourish across the US, vigorously migrating to restaurant's wine lists and prominent on retail shelves.

New brands such as Springbok and old classics like Groot Constantia can be found in many restaurants across the country, and more choices are available at grocery and bottle stores.

South African wines are earning up to an 87 out of 100 rating from wine magazines and newspapers, and tasters in many pubs and restaurants quickly run out of Boschendal sauvignon blanc.

"We have been experimenting by pouring the Boschendal by the glass. It is one of our most popular sauvignon blancs," said a restaurant manager in Santa Monica, outside Los Angeles.

Experts in California, where 80 percent of US wine makers are based, said international trade sanctions against South Africa, among the strictest ever imposed, had practically destroyed the country's wine business.

The experts, restaurateurs and liquor-store owners said that soon after the lifting of US trade restrictions in September 1991, South African growers streamed to California and Europe to learn the latest in viticultural and wine-making methods.

They returned home not only with the knowledge to make wines better suited to the world market, but with money from foreign investors.

In 1990, Americans imported 855 000 cases of wines from South Africa. The latest 1996 figures from KWV International put the figure at 11,1 million cases, earning the country $125 million in foreign exchange.

Ken Omish, the managing director of Cape Ventures — which imported 155 000 cases of wines from South Africa last year, a 33 percent growth from 1996's 120 000 cases — said Cape wines were popular with American tourists and investors who return home having fallen in love with South African wines.

"The biggest problem is that unlike other countries such as Australia, Chile, France, Italy and Spain, which promote their products across the US, there had been no public relations effort by South Africa," Omish said.

"It is a pity because South African wines have the potential of phenomenal growth to challenge other countries and the state of California's 80 percent dominance of the US market," said Omish. — Independent Foreign Service

They are former members of the cants had done so by admitting respon- all, he said. command, but

Swaziland slashes SA flour imports

BD 15/1/98 (744) WHEAT

DURBAN — Swaziland has slashed the amount of wheat flour it imports from SA, saying the product is being dumped and is threatening its milling firms.

Swaziland's National Agricultural Marketing Board said last week it was cutting imports to 15% of the amount it had been importing from SA in recent months.

"Due to excessive imports and dumping the board has decided to restrict imports of wheaten products to levels imported before September 1 1997," it said.

Swaziland is the second southern African country to complain about SA wheat exports. Zambia stopped importing wheat products last September.

Analysts said SA's wheat exports to neighbouring countries had risen sharply since the deregulation of the country's wheat market from November 1 last year.

Jannie de Villiers of SA's National Chamber of Milling said wheaten flour exports to Swaziland, averaging about 50 tons a month in previous years, had jumped to between 500 and 1 000 tons a month.

Swaziland was a small market worth just more than R1m a month, he said. "It's not a major loss to the SA industry, but it is a major loss in trying to establish a free trade zone in the Southern African Development Community."

A Swaziland-based importer said the block on SA flour was hurting consumers because locally milled flour was regarded as inferior in quality.

"We (the importers) are seriously thinking about challenging this position in court because we feel it cannot be legally justified," he said.

Swaziland's Chamber of Commerce said it would probe allegations of dumping and intervene to raise the current limit.

"We hope this situation is temporary. There might be ways we can intervene to raise the limit once we have explanations and figures from the board," the chamber's executive director Sibusiso Sibandze said.

Meanwhile, SA's wheat milling body hit out yesterday at a new import tariff on wheat, saying the system on which the duty was based was outdated and unnecessarily burdening millers and consumers.

Hilton Zunckel, financial manager of the National Chamber of Milling, said the timing of the tariff was unfortunate as it coincided with a season in which the country had a shortfall of wheat and had to import.

"When there is a lot of wheat, we understand there is a problem for farmers (as they get lower prices). But in this current season there is going to be a shortfall in SA," Zunckel said.

The trade and industry department earlier announced it had increased the customs duty on wheat to 5c/kg from nil before with effect from last Friday following a drop in international prices. It also raised the wheaten flour tariff from 50% ad valorem to 50% plus 5c/kg.

Zunckel said the tariff could increase the price of bread by 3c a loaf.

He said the international price government used to decide the tariff, the Argentinian Trigo Pan price, was not relevant to SA as most millers got wheat from Canada, the US and Australia — whose prices were higher than the Argentinian price.

The wheat model protects a domestic price level of R889 a ton and a tariff is triggered if the Argentinian price — over a four week average — falls $10 below this level.

The department said this model was only a temporary measure and was under review. — Reuter.

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New top of

Pule Molebeledi

NEW Northern Province provincial director-general Manching Monama has pledged to work hard to realise the "dream of the people" of the north for a transformed and efficient public service.

Speaking at the Legal Resources Centre in Pretoria yesterday, where she will continue as a director until she moves into her new job next month, Monama said she was looking forward to her new responsibilities.

Northern Province pr Ngoako Ramatlhodi en Monama's appointmen said the province was nate to attract an admi tor of her calibre. "She with her a wealth of e ence in the legal and a istrative fields that wi efit the province's de ment," he said.

Monama replaces

FRUIT EXPORTS

Pithy start to new season

Growers expected to cash in on sliding rand

The fruit industry is expecting a R700m jump in 1998 export revenues with both Unifruco (deciduous) and Outspan International (citrus) predicting 16% earnings growth. This will boost combined 1998 fruit export revenues to a total of R5bn.

Rand-based fruit export revenues could well be further enhanced, should the rand continue its current decline against the US dollar.

The expected growth in forex income should also help compensate for the forecast drop in maize export revenues, if El Niño produces the predicted late-season drought in the summer rainfall region.

Deciduous fruit producers are looking forward to a bumper export season. This follows last year's dismal performance, brought on by a combination of bad weather and marketing woes, with European market prices depressed by big domestic and imported fruit surpluses.

This year, it's a different story Unifruco GM, operations, Anton du Preez says. "After a cold, wet winter, we've experienced a good early export season, giving SA producers a valuable 10-14 day marketing window of opportunity against other southern hemisphere producers

"While fruit quality is better than last year, we also expect export volumes to be boosted by more than 20% — to about 60m-62m cartons"

This, combined with an expected 10%-15% increase in average rand price revenues, should boost forex earnings to about R2,8bn from last year's R2,4bn.

But, adds Du Preez, while industry volumes should show substantial growth, Unifruco no longer represents the whole industry.

With export deregulation effective from last October, several independent exporters have filled the gap.

Cape Town-based independent deciduous fruit exporter Multifruit joint MD Pierre van der Merwe says his group, which should export about 3m cartons this year, has obtained higher export prices for its clients — disproving the prediction by the fruit industry's protectionist lobby that the single channel system would lead to cutthroat competition and reduced export revenues.

Van der Merwe foresees substantial growth for independent exporters

"Independents should handle 10m-12m cartons of deciduous exports this year. In future I expect Unifruco to control about 50% of the export crop, the balance being handled by independent exporters. But Unifruco must remain an essential role-player in the deciduous fruit export industry," he says

The recent R42m purchase of a Cape apple farm by the UK-based Albert Fisher group adds further muscle to the independents, while others like Fruveg also contribute to the growing tally. Van der Merwe expects the current 25-odd "active" independents to be reduced to 5 or 6 within a few years.

Outspan International CE John Stanbury anticipates the 1998 citrus export crop will be about 10% higher than last year's, following a strong increase in plantings over the past 5-6 years.

"With dollar-based freight rates expected to drop by about 10% this year, the rand value of the export crop should grow to about R2,2bn, from last year's R1,9bn," he adds

Arnold van Huyssteen

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Local exporters 'need a foothold in Asia'

BD 19/1/98 (74G)

John Dludlu

SA WILL consolidate trade relations with southeast Asian countries this year to position exporters to penetrate those markets after the financial turmoil there, says a senior trade department official.

Bahle Sibisi, the new chief director for foreign trade relations at the trade and industry department, said government would take trade missions to foster ties with Thailand and Indonesia this year.

While these countries might look unattractive in the short term, once their currency and financial crisis was resolved, it would be beneficial for SA exporters to gain a foothold in those markets.

The department would also look at strengthening trade relations with Latin American nations.

Sibisi, formerly director of bilateral trade relations, said efforts would be made this year to further trade relations with China following the establishment of diplomatic ties.

An investment promotion and protection accord had already been signed, but a bilateral trade accord establishing most-favoured-nation status between the two countries had yet to be concluded.

A key part of the accord, which the department hoped would be concluded before Trade Minister Alec Erwin's visit to China next March, would be provisions to deal with dumping complaints.

Sibisi said although trade would form an important part of relations with fast-growing countries like China, the aim was also to promote SA as a production centre.

Sibisi will also formally take over the protracted technical talks with the European Union (EU).

His priority on this front would be to have the negotiations wrapped up by June, he said. He has been playing a leading role for some time in the talks, in an unofficial capacity.

The co-operation talks, including a possibility of a trade and development agreement, have reached a crucial bargaining stage where political will is stronger following SA's presentation of a detailed trade liberalisation programme last November.

Erwan Fouéré, the outgoing EU ambassador to SA, has called on SA technical negotiators to take advantage of the positive political climate around the negotiations, warning Pretoria's negotiators to avoid "any slippage" in the talks.

To a large extent, this will now fall on Sibisi's shoulders.

In part, Pretoria was seeking to widen access for its exports to the EU and hoped the deal would enhance the investment environment in SA.

"It will be important to take the accord to the private sector for (business) opportunities", he said.

After the conclusion of the talks, the challenge would also be to secure ratification of the deal with the EU — SA's main trading partner — by the World Trade Organisation (WTO).

Sibisi will also have to manage the string of binational economic commissions, including ones with the US, India, Germany, Australia, and France. Most were due to hold plenaries in SA.

Apart from being in charge of bilateral trade relations, Sibisi will also be responsible for SA's participation in multilateral forums like the WTO and the United Nations Conference on Trade and Development of which Erwin is chairman.

He will head SA's preparations for participation in the WTO's next round of talks on agricultural trade as well as trade and competition policy.

His chief directorate also houses the secretariat on nonproliferation, the unit responsible for overseeing compliance with international conventions on weapons of mass destruction.

Zimbabwean woes to knock SA exports

John Dludlu, Janet Parker and Michael Hartnack

SA's exports to Zimbabwe will take a knock as economic troubles in Harare, which triggered food riots this week, reverberate across southern Africa, SA analysts have warned..

International business confidence in southern Africa is also expected to be dampened by the violence following steep price rises in most basic foods, prompted by the depreciation of the Zimbabwean dollar.

President Robert Mugabe's cabinet yesterday appointed a three-minister committee to ensure that "nobody will be able to put up prices of basic food commodities to unaffordable and unrealistic levels". It would review all recent price increases and recommend measures to prevent profiteering.

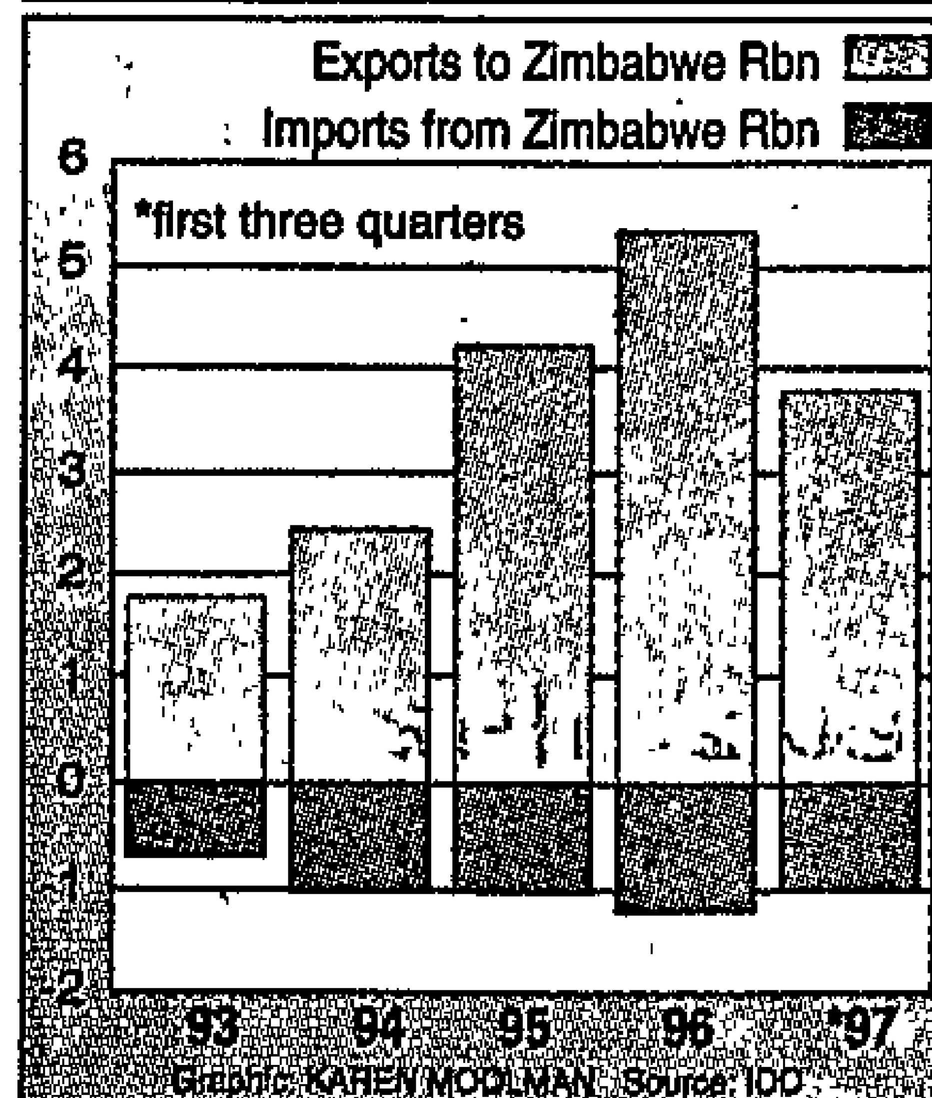
On Tuesday the army was deployed to quell widespread riots and looting.

Standard Bank economist Nico Czypionka said an economic slowdown in Zimbabwe caused by rises in interest rates would limit demand of SA's exports to Zimbabwe, which was SA's main trading partner in the subregion.

Figures supplied by the Industrial Development Corporation (IDC) show the Southern African Customs Union — including SA, Botswana, Lesotho, Namibia and Swaziland — ran a R4,14bn surplus in trade with Zimbabwe in 1996. The surplus was R2,9bn in the first nine months of last year. Exports to Zimbabwe represented 4,3% of the customs union total in 1996.

Czypionka said Zimbabwean exports might become intensely compet-

Continued on Page 2



BD 22/1/98

Zimbabwe

Continued from Page 1

BD 22/1/98

itive, thanks to the currency depreciation, but this would be short-lived as inflation and expensive input costs eroded the gains of a weaker currency.

The IDC said: "It appears that the (SA) sectors exporting machinery and equipment (including electrical machinery), motor vehicles, parts and accessories, chemical products, as well as printing and publishing products, are the most exposed to a future downturn in Zimbabwean import demand."

Kenneth Kotelo, an economist at the Pretoria-based Africa Institute, said the problems in Harare, coming hot on the heels of the aborted coup in Zambia, would negatively affect investor sentiment in southern Africa.

SA Foundation executive director Neil van Heerden said developments in the region were "interconnected". "Consequences can be swift".

SA Tourism Board executive director Michael Farr said the riots were likely to have a detrimental effect on tourism to Zimbabwe and the region.

Foreign markets often viewed unrest problems in a regional context rather than a country-specific context. As a result the southern African tourism region could experience some spillover, but the SA tourism industry would not face severe consequences.

Farr said 30% of SA's foreign tourists also visited other African countries, mainly Zimbabwe. Tourists now might exclude Zimbabwe or postpone the whole trip.

An independent tourism specialist, Delano Caras, said the effect of the riots in Zimbabwe "would not be too bad", unless they continued and spread to Victoria Falls and other important tourist areas.

On the positive side, the IDC said more attractively priced Zimbabwean equities presented opportunities for the less risk-averse SA investor. "Further opportunities are likely to arise in the form of an accelerated privatisation process due to mounting fiscal pressures."

Land plans still stand: Page 6
Government not in control: Page 12

(74G)

SA exports soar

South African exports in Africa last year were worth R20,45-billion, R2,91-billion more than in 1996, while Europe remained the biggest trading partner, buying goods worth R38,48-billion. – Sapa

ARG 27/1/98

Stainless steel exports shoot up 500%

NCABA HLOPHE

Johannesburg — Government incentives and advanced technological expertise boosted South African exports of stainless steel fabricated products to 30 000 tons worth R525 million last year, Dave Slater, the chief director of the Southern African Stainless Steel Development Association (Sassda), said yesterday.

This was a 500 percent increase from the 5 000 tons worth R50 million exported in 1991, and created an average of 2 000 jobs.

"We are on track to achieve our objective of 100 000 tons of locally produced stainless steel for local conversion by the year 2000," Slater said.

The exports of stainless steel products were expected to top 35 000 tons this year, which would represent 35 percent of the conversion of stainless steel in the country.

"A range of products are proving successful, including tank containers, pipe and automotive components, products for the catering industry as well as process equipment," Slater said.

Sassda formed a new business development unit this year to help exporters with research and marketing and to bring them together to consolidate their penetration of overseas markets.

The new sector will be headed by Scott Hously, formerly the marketing development manager at Columbus Stainless Steel.

"More companies are realising the benefits of working with stainless steel and it all points to a very positive year ahead," Slater said.

Negative views unfair, say researchers

Exports 'deserve more recognition'

(74G)

ETBE 6/2/98

LYNDA LOXTON

Cape Town — South African manufacturers are better at increasing exports than many would give them credit for, but they need to be more adventurous about finding new markets, a research paper has found.

In the latest issue of Trade and Industry Monitor, Pieter Laubscher of the University of Stellenbosch's Bureau for Economic Research said widely held negative views about South Africa's manufactured export performance were unfair.

"South Africa is widely viewed as a predominantly primary commodity exporter and a price-taker on world markets, while its companies only export when the domestic economy is in recession," Laubscher said.

"However, such views do not recognise the ongoing structural changes in the industrial sector over the past couple of years."

Industries had been actively upgrading their production facilities to gear up for exports and, although export growth was coming off a low base, "a significant track record has been established over the past decade".

Gold exports as a percentage of total exports had fallen from 36,1 percent to 21,5 percent and primary products from 20,3 percent to 19,4 percent between 1988 and 1996, Laubscher said.

Beneficiated primary products had risen from 23,3 percent to 27,8 percent; material intensive products from 4,9 percent to 7,1 percent; and manufactured products from 5,6 percent to 17 percent. The balance was made up of "unclassified" products, which fell from 9,8 percent to 7,2 percent.

The strong growth was headed by transport equipment (up 29,4 percent a year in dollar terms), metal products and machinery (up 18,1 percent, including electrical machinery), and chemicals, rubber and plastic (up 17,5 percent, involving mainly industrial and other chemicals).

Of total exports in 1996, 33 percent went to the European Union (EU), 19,2 percent to the Far East, 14,5 percent to Southern Africa, 9 percent to North America and 6,9 percent to the rest of Africa.

But this picture was distorted by the inclusion of diamond exports from South Africa, Botswana and Namibia to the EU, Laubscher said. Without those, the EU took 24,3 percent of exports, the Far East 23,1 percent and Southern Africa 19,8 percent, with the growth of exports to Southern Africa outstripping the rest.

'Unions oppose export zones'

John Dludlu

BD 11/2/98 (74G)

THE labour element at the National Economic, Development and Labour Council is expected to oppose government's bid to introduce "industrial development zones", says a senior labour representative at Nedlac.

Herbert Mkhize, labour convener at Nedlac's trade and industry chamber, said yesterday unions were opposed to plans to create "concentration camps".

Labour was also against "export processing zones" by any other name, he said.

Government representatives are expected to make another presentation to the chamber this week on plans to introduce industrial development zones. Government officials say the focus of these zones will be provision of infrastructure and there "might be some exporting" facilities in these areas too.

However, Alan Hirsch, the chief director in charge of industry and technology strategy at the trade and industry department, said there would be no "exemptions from the laws of the country" in these zones. Existing tariff and concessions would still be provided.

Another Nedlac negotiator has expressed doubts that the zones, offering nothing special, will attract significant industrial development into coastal areas as envisaged by government.

Labour has been vehement in its opposition of export processing zones, fearing that these areas will reverse some of the hard-won gains of the past few years for the labour movement.

Business, on the other hand, has raised concerns about customs and excise leakages.

Accepting industrial development zones would automatically mean acceptance of a range of provisions within these zones, Mkhize said.

Policy test: Page 12

MOTOR VEHICLE SALES

Exports are roaring ahead

Industry development plan spurs manufacturers on

The domestic market may be idling, but exports of SA-made vehicles are accelerating at a spectacular rate. SA manufacturers exported 19 569 vehicles in 1997 — a 69% increase on the previous year. Analysts expect a further sharp rise this year.

Of the 1997 total, 10 458 were cars, 800 light commercial vehicles, and 1 111 trucks. The biggest market remains Africa, but Asia, Australia and the UK are among other regions being targeted.

Much of this activity is the result of incentives in the two-year-old motor industry development plan, which offers import duty rebates to companies which also export. Annual exports by the industry as a whole are already approaching the equivalent of a full month's domestic production. This year they may exceed that level.

Exports are already the lifeblood of some companies. BMW shipped nearly 4 000 cars overseas last year — adding more than 25% to its domestic sales. Toyota, a slow starter in the export race, was snapping at BMW's heels with well over 3 500 foreign sales of cars and commercials. Nissan, Delta and Volkswagen each exported about 2 500.

It's good news for those companies at a time when the domestic market shows few signs of strengthening.

McCarthy Motor Holdings chairman Brand Pretorius takes the positive view that last month's vehicle sales were the second highest January figure in 13 years. But the fact is the market as a whole was more than 10% down on the previous January.

Marketers and analysts expect little improvement in the near future and the consensus is that the total market for 1998 will be down for the second year in a row.

Part of January's market problem, it must be said, was of manufacturers' own making. Some companies extended their Christmas factory shutdown in order to run down excess vehicle stocks.

In some cases, this worked too well and customers couldn't get the vehicles they wanted. Some manufacturers also blame extended school holidays in certain provinces, notably the Free State and Western Cape, which affected commercial activity in those areas.

David Furlonger

JANUARY VEHICLE SALES

Manufacturer	Cars	Number of sales	Total sales	% of total car market
VW	CitiGolf	1 297		
	Polo	1 197		
	Golf/Jetta	1 079		
	Audi A4	500		
	A6	136		
	A8	9	4 218	24,1
Toyota	Corolla	1 783		
	Conquest	1 515		
	Camry	219		
	RAV4	33		
	Lexus	10		
	Landcruiser	4		
	Prado	71		
	Previa	2	3 637	20,8
Samcor	Tracer/Midge	1 043		
	Fiesta/Soho	674		
	Telstar/626	143		
	Ford Escort	301		
	Falcon	99		
	Mondeo	32		
	Explorer	5		
	Mazda Etude	194		
	Pajero	103		
	Spacegear	9		
	Jaguar	40	2 643	15,1
Delta	Astra/Kadett	470		
	Corsa	1 188		
	Saab	8		
	Suzuki	15	1 681	9,6
M-Benz	C-Class	552		
	E-Class	201		
	S-Class	9		
	SLS	10		
	SLK	39		
	Honda Ballade	638		
	Odyssey	6		
	Prelude	20		
	CR-V	65	1 540	8,8
BMW	3-Series	1 252		
	5-Series	197		
	7-Series	10	1 459	8,3
Nissan	Sentra/Sabre	631		
	Maxima	98		
	Fiat Uno	379		
	Alfa Romeo	42		
	Sani/Patrol	73		
	Other	1	1 224	7,0
Daewoo	Cielo	292		
	Espero	21		
	Lanos	243		
	Nubira	157	713	4,1
Chrysler	Jeep	94		
	Neon	12		
	Voyager	55	161	0,9
Land Rover	Discovery	69		
	Defender	79		
	Range Rover	5	153	0,9
Peugeot	306	11		
	406	34		
	806	4	49	0,3
Subaru	Impreza	9		
	Legacy	9	18	0,1

	1998	1997	% change
January	17 496	19 835	-11,8
Dec (16 453) to Jan			+6,3

LIGHT COMMERCIALS

	Number of sales	% of market
Delta	2 101	28,4
Samcor	1 772	23,9
Toyota	1 636	22,1
Nissan	1 266	17,1
VW	379	5,1
M-Benz	206	2,8
Land Rover	50	0,7

	1998	1997	% change
Jan	7 410	7 967	-7
Dec (7 363) to Jan			+0,6

MEDIUM COMMERCIALS

	Number of sales	% of market
M-Benz	82	27,5
Toyota	77	25,8
Nissan	51	17,1
Delta	40	13,4
Iveco	22	7,4
Samcor	21	7,0
AAD	5	1,7

	1998	1997	% change
Jan	298	382	-22
Dec (255) to Jan			+16,9

HEAVY COMMERCIALS

	Number of sales	% of market
M-Benz	92	24,2
Toyota	65	17,1
Tyco	53	13,9
Delta	40	10,5
MAN	39	10,3
Nissan	33	8,7
Iveco	21	5,5
ERF	11	2,9
Freightliner	10	2,6
Scania	10	2,6
AAD	6	1,6

	1998	1997	% change
Jan	380	413	-8,0
Dec (385) to Jan			-1,3

TOTAL VEHICLE SALES

	Number of sales	% of market
Toyota	5 415	21,2
VW	4 597	18,0
Samcor	4 436	17,3
Delta	3 862	15,1
Nissan	2 574	10,1
M-Benz	1 920	7,5
BMW	1 459	5,7
Other	1 321	5,2

	1998	1997	% change
Jan	25 584	28 597	-10,5
Dec (24 456) to Jan			+4,6

Source: NATIONAL ASSOCIATION OF AUTOMOBILE MANUFACTURERS OF SA

COAL EXPORTS

Iscor underpins second Richards Bay coal terminal

Waterberg holds key for increase in exports

The decision by Iscor to export 3 Mt/year of coal through the proposed second export terminal at Richards Bay underpins the terminal's prospects and the long-term future of SA's coal export industry.

The expansion of Iscor's Grootegeluk colliery on the Waterberg coalfield near Ellisras in North-West Province to produce this export coal will be a pioneering business development.

The Waterberg coalfield holds the key to continued healthy SA coal exports after about 2050 when the export quality reserves on the Witbank and Mpumalanga coalfields run out. SA last year exported 62 Mt of coal worth about R9bn through Richards Bay.

Iscor chairman Hans Smith says the group has committed itself to exporting 3 Mt tons annually through the South Dunes Coal Terminal (SDCT) at Richards Bay and would like to push this to 4 Mt.

He says Iscor wants to do this "as fast as possible which realistically means within two years", following the group's inability to continue exporting through the Richards Bay Coal Terminal (RBCT).

The SDCT project has been in the hands of construction firm Group Five and Dutch coal trading group Anker Kole for the past 18 months since MacPhail gave up on the project because of its own financial difficulties.

A go-decision on the R1,3bn project has been anticipated by analysts for the past six months and it is now expected by March/April with construction due to start in June.

SDCT MD Trevor McGiddy says: "We are on schedule to have the bankable feasibility study completed by the end of March and are fastracking this with the banks already involved in doing their own audits on the project.

"Construction should start in the second quarter of this year with completion scheduled for the second quarter of 2000."

While all the major coal groups own reserves in the Waterberg, Iscor has the only operating mine at Grootegeluk which is a multiproduct colliery supplying Eskom's Matimba power station as well as exporting metallurgical coal.

There lies the spur that has galvanised both Iscor and Coallink — the division of Spoornet which manages the coal export railway line running from Witbank to Richards Bay.

Iscor is intent on building up its export business and in 1996 exported 0,7 Mt of coal through the RBCT though it is not a member. Iscor exported through arrangements to use the unutilised portions of export quotas belonging to RBCT members, in particular Shell.

That loophole vanished last year when JCI bought out Shell's coal assets because JCI has the production capacity to utilise all of Shell's RBCT export quota.

With the RBCT nearing maximum capacity, and major coal groups Amcoal and Ingwe looking abroad for expansion, Coallink is worried about long-term business growth on the Richards Bay line which is Spoornet's main profit earner.

GLOBAL SOURCING FORECAST (Mt): 2005

Country	Current	Low	High
Colombia	27	40	50
Venezuela	5	11	20
Indonesia	38	45	55
South Africa	61	69	72
China	26	20	30
Australia	70	102	114
USA	31	30	40
Poland	24	20	27
Russia	14	12	16
Other	10	11	16
Total	307	360	440
Demand	302	446	446
Surplus (Shortfall)	4	(86)	(6)

Source: Ingwe

Coallink executive manager Ian Bird says Spoornet is supporting the SDCT and is focusing its attention on opening up the Waterberg field.

Bird sees Iscor's role as critical because the group is Spoornet's largest customer and it has the only operating mine on the field. The main problem facing the Waterberg is the extra 500 km railing distance to Richards Bay which pushes up transport costs.

What's required is a competitive rail tariff — which it seems Iscor has already negotiated on a trial basis — and an upgrading to "heavy haul" status of sections of the line between Ellisras and the start of the Richards Bay line near Witbank.

Once these essential building blocks are in place the way would be open for further development of the Waterberg by the other coal groups.

McGiddy declines to provide details of the SDCT ahead of final agreement but analysts believe it will have the capacity to shift 12 Mt annually which could easily be expanded to 14 Mt.

Cost of the terminal is estimated at around R500m while Portnet will spend R110m on building a new vessel loading berth and Spoornet will invest about R750m in new rolling stock.

Apparently the terminal will be financed 20% by equity and 80% through debt with Group Five and Anker Kole looking to bring in another two equity partners.

One of these will be the contractor appointed to run the terminal. Materials handling group Fraser Alexander appears to be the leading contender out of the three companies bidding for this position The other partner is likely to be Iscor

The major users of the terminal providing its base load of export volumes will be Iscor, Anker Kole, Gold Fields Coal, Total/Avmin and Kangra.

Capacity above their requirements will be made available to all comers on a "pay as you use" basis.

Delicate negotiations are still underway between the SDCT and the RBCT over some areas of co-operation between the two terminals in using the infrastructure at Richards Bay.

The RBCT has never looked fondly on the development of a competing second terminal at Richards Bay. It scuppered SDCT's predecessor — the Coalex Joint Venture — by making special arrangements to bring lead Coalex member Sasol into the RBCT structure.

Analysts feel that cannot happen again with Iscor because the RBCT no longer has the spare capacity while building new capacity would involve an expensive "greenfields" expansion.

Nevertheless, until the final documents are signed, McGiddy would do well to note the philosophy of *Time*'s Businessman of 1997 — Intel CEO Andre Grove — who lives by the motto that: "only the paranoid survive."

Brendan Ryan.

Wine exports to UK drop by 7%

CT(BR) 24/2/98 (74G)

Christo Volschenk

Cape Town — After wine exports to the UK grew 38 percent in 1995 and 30 percent in 1996 they unexpectedly dropped 7 percent in volume terms in the second half of last year, said Jane Hunt, the director of Wines of South Africa in London.

Wines of South Africa, which is based in London, is an export promotion agency. The company has more than 100 local producers as members.

Speaking at a conference organised by Longridge Winery, an exporter, in response to the drop in wine exports to the UK, Hunt suggested the phasing out of the government's general export incentive scheme had a lot to do with the drop.

Unreliable supply was another major reason for the drop in exports, she said.

"When government assistance dried up, producers increased their prices to maintain their profit margins," Hunt said.

"Quality did not lift with the prices and consequently British consumers turned their backs on South African wines."

She said the rot in exports could be stopped by concentrating the marketing effort at the top end of the British market.

"We should export more top quality wines.

"Currently, South Africa has a fair share of the lower and middle price markets, where consumers have little loyalty to brands and producing countries," Hunt said.

"In the high price market consumers are far more loyal and that is where South African producers should aim."

Hunt said the wine industry needed a clear strategy and a "suitably resourced, independent body" to regulate the industry and drive the export effort.

About 60 percent of all South African wine exports go to the UK, the single biggest buyer of South African wines.

Alex Dale, the export director of Longridge Winery, said overall wine exports were still growing, with new markets constantly being added to traditional markets.

"It is cause for concern when our biggest market suddenly takes a dip at a time when more growth was expected," Dale said.

'SA needs strategy to hold wine exports'

BD 24/2/98 WINE (74G)

Louise Cook

WINE sales to the UK — representing 60% of all SA wine exports — dropped 7% between June and November last year after previous year-on-year increases of up to 38%, Wines of SA London director Jane Hunt said yesterday.

In a keynote address at the Longridge wines conference in Cape Town, Hunt warned that unless the SA wine industry changed dramatically and set up "a suitably resourced industry body to draw up a workable strategy for the whole industry", wine exports were under threat.

"Every month passed without direction will make it progressively more difficult for the SA wine industry to achieve its potential. The big five who were highly influential in the local wine industry had the resources and were therefore able to bring about change, but they had failed significantly to capitalise on the opportunities.

"This failure will have long-term effects on their export competitiveness and is in complete contrast to the leading roles that the large companies play in Australia and Chile," Hunt said.

She said branded products were essential for the success for the whole of the SA industry. In the UK, well-established SA brands were either unsuitable or unsuccessful. Increases in wine prices should reflect increases in quality and the number of grape varieties in SA should be rationalised, she said.

"SA's export success since 1994 need not to be seen as an unrepeatable phenomenon. Industry cohesion, commitment, speedy change and hard work combined with improved wine quality, will ensure this," she said.

Hunt said SA wines were regarded in the UK as good value for money, a factor which, with the exception of France and Australia, put SA ahead of all competition.

SA exporters have to get out there and knock 'em dead

BD 6/3/98 (74G)

Export behaviour in SA's manufacturing industry shows that there is a need for new and improved strategies, writes **Haroon Bhorat**

THE cornerstone of government's economic policy lies in the growth, employment and redistribution (Gear) programme.

The Gear strategy commits government to increasing economic growth via a macroeconomic environment built on prudent monetary and fiscal management.

Crucially, though, Gear also speaks of the need to drive long-term economic growth through high rates of growth in manufactured exports. An important issue, then, is trying to understand the export behaviour of SA manufacturers, and to evaluate whether the sector is, at present, able to meet the aspirations of the Gear strategy for export-orientated economic growth.

An analysis was undertaken of seven manufacturing sectors, from 1990 to 1995, using monthly data. The study analysed manufacturing performance and behaviour on a long-run (five years) and short-run (eight months) basis. The general finding was that manufacturing firms did not respond in the long run to the change in the price of exports, or to changes in their production levels. Most of the response from these firms took place in the short run, where firms did change export volumes when prices or production levels altered.

In the main, the results suggest that the chosen manufacturing subsectors are essentially small exporters, relative to world demand. This is combined with sectors that, while exporting large volumes relative to other SA sectors, are not orientated in a significant way to the world market. The exception in the sample was the metal products sector, which is known to export a significant share of its output. This general lack of outward orientation is reflected, then, in a manufacturing sector that has not had a long involvement as an exporter in the global economy, and hence can be categorised as a new entrant into most world markets.

Given this characterisation of the manufacturing sector as a whole, and most of its subsectors, the insignificant results in the long run are not surprising.

The dominant significant effect of sectors that respond in the short run either to a decline in domestic demand or an increase in volume of production, is strongly indicative of an, as yet, uncompetitive manufacturing industry that only reacts to price and income changes once the domestic market has been saturated. SA manufacturers are thus by and large "residual exporters".

The strong response in the short run speaks of a manufacturing industry with potential, but one that needs to increase world exports before price and income changes have any long-term bearing on performance.

The policy implications of this responsiveness by manufacturing exporters to prices and income are important. The above analysis suggests that trade policy needs to be geared towards developing existing markets and encouraging new destinations for manufactured goods. The reasoning here is that the insignificant long-run results are indicative of industries that do not have a long history in global markets.

The clothing, textile and leather industries are a good example as they have only recently emerged from a long period of protectionism and now need to promote exports if they are to survive. Trade policy would thus need to focus on improving the reputation of, and promoting the products of, local manufacturing industries.

The problem with many of the manufacturing firms then, is not poor quality or high prices, but poor knowledge on the part of international buyers regarding most SA-manufactured products. When manufacturing producers cease to be residual exporters, only then can it be claimed that the industry is becoming more globally competitive.

Recent trade policy initiatives seem to reflect some of these needs for greater market penetration and awareness, although they remain in their infancy. Hence, the trade and industry department intends to set up export councils aimed at instilling a sustainable export culture within the manufacturing industry. These councils will be buttressed by seminars, trade missions and industry-specific exhibitions, all intended to develop foreign markets. The implementation of these policies remains largely untested and hence their effectiveness would need to be evaluated in the future.

The other problem facing policy makers is that manufacturers are low-volume producers, making them price takers in export markets. Policy should focus on increasing the quantum of goods produced by these firms, if only to allow them to determine their own prices. Realising these economies of scale not only means lower unit costs but will also yield significant responses by these firms to price and income changes.

These increases in production levels need to be complemented by higher profile in destination markets. It is also true that, with increasing production levels, manufacturers need to raise the proportion of output exported. In this way the residual exporting will fall away as output and exports will be positively correlated, as in the case of metal products.

For macroeconomic policy the implication is that alterations in the exchange rate will have some affect in manufacturing, although this will be limited to a few subsectors. Exchange rate movements are also likely to affect export performance only in the short run. Improved export performance through an exchange rate depreciation, for example, will thus not be borne out given the poor response in the long run by the manufacturing industries to price changes. Macroeconomic policy intended to manipulate the exchange rate for the benefit of manufacturing producers will hence only perpetuate the existence of residual exporters in the economy.

Export shares as a % of total manufacturing exports

Sector	% share	Rank
Food, beverages, tobacco	10,77	4
Clothing, textiles, leather	7,11	6
Paper	7,25	5
Chemical products	17,28	2
Basic metal	34,85	1
Metal products	16,38	3
Other	6,36	7

Graphic: KAREN MOOLMAN Source: CSS

□ *Bhorat is a member of the Development Policy Research Unit at the University of Cape Town's School of Economics.*

Transnet lands contract to supply ore trucks to Sweden

Robyn Chalmers

TRANSNET has been awarded a five-year contract with a potential value of more than R450m to supply ore trucks to Swedish mining company LKAB.

Transnet MD Saki Macozoma said yesterday Transnet subsidiary Transwerk would supply five prototype trucks with a total value of $1,56m in the initial stage of the contract.

"If the testing of the five prototype trucks yields positive results, LKAB will place further orders in stages for the next five years," he said.

Macozoma said the project might open doors for Transnet to enter the railway supply market in Europe.

Last year, Transnet identified one of Transwerk's objectives as being to increase its market share by penetrating international markets.

"As a result, Transwerk developed and implemented strategies to pursue international ventures, focusing on Europe including Sweden, Africa and southeast Asia," he said.

Transwerk is a transport equipment refurbishment and manufacturing parastatal with a particular focus on the rail transport sector.

The company, which had a turnover in 1997/98 of close to R1bn, refurbishes rolling stock, ancillary equipment, components permanent way products and road trailers.

There was speculation earlier this year that the contract was linked to a second deal which would entail Sweden supplying up to 48 Saab Gripen fighters to the SA Air Force. The contract was worth about R2,5bn.

However, Transnet media liaison manager Thami Didiza said yesterday there was no formal link between the two contracts and they were being negotiated separately.

Macozoma said Transwerk would be giving technical assistance to LKAB.

Last year, Transwerk was awarded contracts to manufacture 100 tank wagons for Sudan; modernise the first Blue Train set and convert baggage vans into motor car carriers for cross-border transport. It also concluded an agreement with GEC Althorn for the maintenance of traction motors.

SA must diversify exports — report

BD 17/3/98 (74-G)

John Dludlu

THE southeast Asian currency turmoil which has bolstered the region's exports could see SA's manufactured exports to southern Africa being displaced by competitive ones from Asia, says a recently released report from a London-based policy think-tank.

In its latest report assessing the implications of the Asian crisis, the Centre for Research into Economics and Finance in Southern Africa, a research unit within the London School of Economics, says the troubles will definitely have an adverse effect on direct investment into SA.

This will be more so if the crisis spreads to South Korea, which the paper says is a significant potential source of future investment in SA and the southern Africa region.

The decrease in Asian investments may be prompted, in part, by the fact that in times of crisis investors might choose familiar markets. But the extent of the investment decline will depend on the scale to which the crisis spreads to other economies.

On lessons for SA, the study's authors warn that even with bale outs, adjustments required by financial crises carry steep costs. "Moreover, in contrast to Mexico and Asian countries, SA has no regional 'big brother' to facilitate a bale out in the first place".

The paper, one of a growing number of studies written since the start of the crisis in the so-called Asian tiger economies last October, warns that the Asian currency depreciation will act as an additional "headwind" in SA's bid to compete for market share in areas where Asian exporters now have a stronghold. The paper says there is a clear need for SA to diversify its exports.

In general, the paper argues it is likely SA's export growth will not be too adversely affected by the Asian slowdown because of high growth rates expected in Europe this year.

SA exports to US up last year

ARG 18/3/98

RICH MKHONDO (74G)

Washington – South African exports to the United States climbed steadily last year, reports the Department of Commerce here.

They were worth $2,5-billion last year, 8% more than in 1996, while imports of US goods fell 3% to $3-billion, a 36% fall in the $783-million US trade surplus with South Africa for 1996.

Most of South Africa's exports to the US by value came from the sale of platinum sponge worth $564-million, compared with $474-million in 1996.

Exports of platinum and diamonds were worth $957-million, $100-million more than in 1996, and the value of chemicals grew 36% to $154-million.

Meanwhile South African imports of US cereals fell substantially from $183-million in 1996 to $86-million last year.

The major markets for US goods in sub-Saharan Africa are in South Africa and Nigeria.

By Adrienne Roberts — Email: roberts@tml.co.za

Ten habits of effective exporters

(344(a)) FM 20/3/98

Breaking into the EU market

The European Union is a tough market to crack, but that's no reason for SA exporters to avoid it, says EuroChamber of Commerce in Southern Africa project co-ordinator Anahid Harrison.

"There are a lot of niche areas where SA products could be much more strongly promoted in Europe." There is, for instance, "huge potential" in security electronics.

But there are a number of do's and don'ts. EuroChamber's recently released *EU-SA Export & Import Handbook* lists 10 areas novice exporters tend to get wrong:

- Bad communications. Phones and fax machines are vital, but e-mail is becoming important too;
- Delayed replies. Exporters should answer any correspondence as soon as possible. Failing that, they should inform the importer they are working on a reply;
- Late delivery. "Never exaggerate your capacity. Should a delay occur, inform your buyer promptly and state the reason for the delay";
- Poor product quality. "Investigate product improvement possibilities if necessary, but never ship poorer quality goods than those demanded and agreed on";
- High export margins. "Adopt a positive attitude towards long-term relationships instead of incidental exports, even if it leads to smaller margins. Quote realistic prices";
- Bad packaging. Exporters should research packaging problems to reduce transportation costs and to improve product quality and appearance;
- Product design not adapted to EU consumer preferences. Analyse comparable local products to identify the difference. If possible, exporters should agree with the agent or distributor to keep them up to date on the latest trends and tastes,
- Violating exclusive rights clause in a contract. "Never try to breach your contract by selling to other trade partners You will find that you may lose both partners, since the EU market is highly organised";
- Incorrect documentation. "Always ensure you supply all the documents requested by the importer, and that you include the details requested. Fax a full set of non-negotiable documents to your importers as soon as the goods have been received by the carrier"; and
- Failure to present neat and accurate documentation "Documentation is a vital part of international trade, it is therefore most important that your documentation is accurate and as neat as possible."

For exporters who want to put out feelers, good places to start are the Trade & Industry department and EuroChamber, at:

- exporthelpdesk@dti.pwv.gov.za; and
- eurocham@icon.co.za.

Rag trade looks to Africa deal for exports bonanza

ARG 26/3/98 (74G)

Policy could create thousands of jobs

ALIDE DASNOIS AND LLEWELLYN JONES
Business Staff

Clothing manufacturers are hoping the Clinton administration's new trade policy for Africa will open up lucrative export markets in the United States – creating tens of thousands of new jobs in the industry.

At the moment, high walls protect US clothing and textile industries against competition from other countries.

But the new Africa Trade Growth and Opportunities Act, part of President Clinton's "trade, not aid" policy, offers countries in Africa better access to US markets under certain conditions.

Clothing Federation executive director Paul Theron said South African clothing exports made up only 0,1% of clothing imports into the US. If exports were allowed to rise to just 1% over three years, 30 000 new jobs could be created, he said.

The bill offered a "window of opportunity" to the South African garment industry, said federation president Bernard Richards.

Up to 100 000 new jobs could be created over five years if clothing exports from South Africa were allowed into the US more freely, said Dr Richards.

But he warned that textile manufacturers in the US could still scupper the plans to open up the country's markets.

The bill has been passed by the House of Representatives, but is being blocked by the Senate, where some senators want more protection for the US textile industry.

Although textile imports from Africa are not likely to pose any significant threat to US manufacturers, textile lobbies in the US fear African countries could become springboards for illegal exports of clothing and textiles from Asia to the US.

Dr Richards said United States textile companies were trying to get the bill changed so that only clothing made with US-made yarns and fabrics would benefit from better market access.

The bill offers African countries better access to US markets on condition they lower their customs barriers and other conditions. The Department of Trade and Industry welcomed the bill, but had reservations about some of the conditions.

It also was worried the US could withdraw access if it considered the country concerned was no longer meeting conditions.

BRENTON GEACH

Breezing in: US president Bill Clinton and First Lady Hillary greet wellwishers on their arrival in Cape Town

'Geis has proved too open-ended and costly'

DTI defends supply side measures

CT (PR) 26/3/98 (74G)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The department of trade and industry (DTI) yesterday defended its supply side measures meant to replace the General Export Incentive Scheme (Geis) and accused some industries of deliberately not making use of them to become more competitive.

Zav Rustomjee, the DTI director-general, was briefing the parliamentary portfolio committee on trade and industry. He said export support schemes such as Geis had proved too open-ended and expensive to maintain.

"At the last count, the present day equivalent of the money that has gone on Geis over the past seven years runs to between R21 billion and R25 billion, and I do not think we have a lot to show for it," Rustomjee said.

Ben Turok, an ANC MP, had expressed concern the supply-side measures had not kicked in fast enough or were not helping many industries while jobs were being lost, mainly in the fruit and vegetable canning industry, because Geis had been terminated.

Rustomjee said the termination of Geis had been in the pipeline for two to three years, and it had been clear that industry could not continue to rely on Geis carrying on.

"It would be incorrect to say that supply side measures are not working," said Rustomjee.

"We have tried to be as bold, but also as prudent, as we can in formulating new schemes. We do not want to end up in a situation where we start a scheme, commit resources to it, pick up anomalies halfway down the track and then have to scale back, creating all kinds of uncertainties."

He said "most of our (supply side) schemes have been long in formulation" because of the need to consult as widely as possible to develop the right schemes.

"I have to say that part of the problem over the past couple of years has been a belief among some quarters within the private sector that if they hold out long enough, and if they push us hard enough, and if they evoke spectres of mass de-industrialisation and unemployment, that we will reconsider," he said.

"I think that some of them have miscalculated on this."

If the industries had devoted as much time and energy to working with the government through its cluster process to develop the supply side measures as they had to lobbying the government on Geis, they would be better off now, said Rustomjee.

But some industries faced problems that they could do little about, notably the common agricultural policy in the EU which crippled them, regardless of their competitiveness, he said.

Columbus faces US antidumping suit

Simon Barber

BD 30/3/98 (74G)

WASHINGTON — Columbus Stainless is expected to be hit with a US antidumping suit tomorrow, probably forcing it to suspend exports of stainless steelplate to the US.

Industry officials said the suit, which also targeted producers in Spain, Italy, Belgium, South Korea and Taiwan, was to be filed by Lukens Steel and Allegheny Teledyne, both of which had recently blamed their disappointing performance on competition from imports.

Lukens is being bought by Bethlehem Steel, which has agreed to sell most of Lukens' stainless steel operations to Allegheny.

Antidumping action has already forced Iscor and Highveld Steel and Vanadium, which owns 30% of Columbus, to give up sales of carbon steel plate to the US market worth an average of $30m a year.

Columbus' exports to the US of stainless plate have been running at about 6 500 tons a year, worth about R50m, said Michael Evans of Texas-based steel importer Maurice Pincoffs. Evans is also vice-chairman of the US-SA binational commission's business development committee.

Although that is a tiny fraction of total US consumption, it represents 10%-15% of US imports, well above the minimum 3% import share needed for the petitioners to go after Columbus under US antidumping rules.

Assuming the US international trade commission accepts the suit — and it has rarely, if ever, rejected such a case at the outset — the commerce department will assess preliminary dumping duties on the targeted imports within the next month or so.

The duties are designed to raise prices of the imports to what the department calculates they would be if the targeted producers were charging US customers the same as domestic ones, after accounting for transport and other costs.

Importers have to pay the duties into an escrow account while waiting for a final ruling from the department and confirmation of the ruling by the trade commission, a politically appointed panel which decides whether petitioners are being harmed by the imports.

If it decides they are, the duties become permanent and the importers lose what they have put in escrow. If not, the importers get their money back and the case ends.

However, the proceedings normally take at least a year and whatever the outcome, eat up hundreds of thousands of dollars in legal fees.

Iscor and Highveld stopped shipping carbon steel plate to the US soon after the suit against them was filed in late 1996. That is the standard re-

Continued on Page 2

Columbus

(74G)

Continued from Page 1

BD 30/3/98

sponse in steel antidumping cases and one of the reasons why US companies file them.

Even if their petitions are ultimately unsuccessful and more than half are, the petitioners generally achieve relief from imports while their cases work their way through the system.

SA producers, though their export volumes to the US are small, are generally considered sitting targets, because they operate a de facto two-tier pricing system and charge export customers less than domestic ones..

To avoid duties SA companies have to convince the trade commission that they are not hurting US producers. In the carbon steel plate case, Iscor and Highveld failed to do that. Instead, they entered into "suspension agreements" with the commerce department, agreeing to let the US government set a minimum price at which they could sell into the US in lieu of having duties of up to 51% slapped on their plate.

Under the agreement, SA carbon steel plate is still priced out of the US market. One reason is that the other countries targeted in the suit — Russia, Ukraine and China — obtained much better deals than SA. They were granted quotas that allow them to sell more plate into the US than SA ever exported here and at prices well below those at which Iscor and Highveld were accused of dumping.

David McKay reports that Iscor and Highveld have applied for antidumping measures of their own on Ukranian and Russian exports to SA, the SA Iron and Steel Institute said on Friday.

The institute said that Iscor and Hiveld had applied to the SA Board on Tariffs and Trade for interim provisional duties of 80% against dumped imports of hot-rolled sheet and plate from Ukranian and Russian exporters.

Vanadium prices: Page 19

ANALYSIS

Govt, private sector must guide exports

(74G) BD 31/3/98

What is SA doing to build its export promotion capabilities? **Faizel Ismail** looks at international trends and the implications of these for SA

WHAT role should the state play to help South African companies to grow and internationalise?

How do we build structured and effective relationships with the private sector and assist these companies to develop collective export capabilities?

How do we develop a national export culture? Should SA create a totally private sector agency which drives export promotion, or a totally public sector one.

These are some of the issues that the department of trade and industry's (DTI's) export and investment promotion chief directorate is currently addressing.

Industrial and economic policy objectives are critical in the current phase of SA's economic development. Thus it would seem that our first challenge would be to recruit dynamic people who not only have some private sector experience but also can develop a strong policy orientation. We will have to develop strong relations with private sector service providers to whom we can subcontract services.

A clear definition of where we need to specialise and what we need to outsource will have to be developed. The British and the French systems are thus of interest to us.

In the British case, all the economic representatives are public servants with a well developed relationship with the private sector. In the French case, the CFCE is a highly developed public-private sector agency with the foreign economic representation remaining part of the civil service.

In the case of Ireland, Sweden, Finland and Australia, the entire export promotion system is managed and controlled by an agency which is supposed to work like a private sector consultancy.

The development objectives get lost and the gap between the government and industrial policy objectives becomes larger.

The DTI's task will be to develop the instruments and services and approaches that have been successfully developed in these countries.

The Finns have identified their target companies as those that are in the growth stage of their development. These companies have a competence, product or system to sell, but do not know where to sell it.

In all countries referred to, the export agencies identified and developed a few clusters of companies for export development. A cluster co-ordinator was appointed to develop the export strategy of that cluster. The cluster co-ordinator also has to develop contracts with a group of companies. These could include more developed companies, which have internationalised and gained extensive experience, and new companies hoping to develop global market share.

The role of relevant export information through systems such as a directory of exporters is critical.

In all countries the government plays a significant role in the development of small exporters. Ireland identifies companies that are ready to be assisted and develops a partnership/joint project with each company. A programme of action is then developed to support each company's export strategy.

The Finns began developing an export culture 20 years ago by running two to three day seminars in the different regions of the country. In SA we have some excellent private sector training facilities for exporters. This capacity needs to be incorporated into an export training strategy.

An export and investment promotion chief directorate has been created with an export development section divided into specialised units — export developments and a small exporters unit. The export services section is broken up into financial assistance schemes, export help desk, export information services, research and training.

Some of these sections are already functioning well. Nonetheless, there is still potential to increase the efficiency of the export promotion activities. The adoption of a project approach will ensure better monitoring and performance evaluation of both staff and programmes. In addition, the new programmes focusing on export sectors, small exporters and the application of IT to export information systems has already begun to boost SA's export capabilities.

On the human resources side a tremendous amount of work has been done since 1997 in rebuilding the enthusiasm of the export promotion staff in Pretoria and in the DTI's foreign offices. The DTI is well ahead in building a representative foreign service. A great deal of effort has been devoted to training of staff in foreign economic work. The DTI has made great progress in making every member of the staff an enthusiastic participant in this process of transformation.

In this we need to draw from international best practice and borrow ideas that can be easily adapted to SA's needs. The DTI has also begun to draw on the existing experience in some excellent consultancies and non-governmental organisations in the field.

The minister of trade and industry will need to be advised and guided on the building of SA's export capabilities. The DTI will initiate a process to create a national export council. The shape and form of this will be developed through a process of dialogue and consultation with the private sector and other interested groups.

In developing its export capabilities SA does not have to go through all the learning phases of development of other countries — it can use their experiences to leap ahead into international best practice.

☐ *Ismail is chief director of export and investment promotion at the trade and industry department.*

Govt, business have high hopes for exports

BD 30/12/98 (74G)

Manufactured goods may reach 30% by 2003, writes John Dludlu

GOVERNMENT and business have expressed confidence that SA's export performance will improve next year, with manufactured items rising as percentage of goods sold abroad.

Interviewed yesterday, Victor Mathale, director for export trade promotion at the trade and industry department, said government was confident that manufactured goods — currently at around 23% of exports — would reach the target of 30% in 2003.

He echoed industry's optimism that SA's exports will continue to grow, especially to Africa, Europe, Latin America and Asia. The move by certain European countries to cut interest rates to spur growth augured well for demand for SA exports.

Mathale points to the order for Volkswagen SA to produce cars for export to the UK, and BMW SA's contract to supply 3-series vehicles for the world market, as two developments that will bolster the export performance of the vehicle and components sector. VW SA was recently awarded a R5bn contract to supply 68 000 vehicles to the UK.

He says government's aim is for SA companies to win about half of all construction projects awarded in Africa. He expects the agro-processing, chemicals and plastics sectors to continue expanding their businesses in Africa, with the cut flower market targeting the European Union (EU), Switzerland and Japan as likely high-growth areas.

Government officials are expecting the proposed free trade agreement with the EU, which has stalled over a trademark dispute, to assist the SA export drive. The two sides are hoping to conclude an agreement soon which will eliminate tariff barriers over 12 years.

Pretoria is also hoping the planned review of the EU's common agricultural policy, through which EU farmers are given generous subsidies, will ease restrictions on SA's agricultural exports to the EU.

Mfundo Nkuhlu, chief director for Africa trade relations at the trade and industry department, has said the newly forged trade links with African and Middle Eastern countries should begin delivering benefits to SA exporters in the new year.

Though some sources believe SA exporters did not utilise the benefits of a weaker currency to the full this year, they believe the formulation of a coherent export strategy, backed by an export advisory council, could enable exporters to take better advantage of opportunities.

With a wheely in front of the Johannesburg City Hall, Ryan Wade takes his protest about city cycling conditions to CBD motorists. He was one of 25 cyclists who rode from the FNB stadium in Soweto to the city centre to highlight the joys of cycling as an alternative mode of transport. Picture: TREVOR SAMSON

Attempt to resolve Earlybird pay dispute

BD 30/12/98 (?) POULTRY

Taryn Lamberti and David McKay

WORKERS and management at the Earlybird poultry farm north of Johannesburg met yesterday in a bid to end a bitter month-long strike which has been marred by violence.

Earlier, about 700 members of the Food and Allied Workers' Union (Fawu) were interdicted from entering Earlybird's premises after striking workers assaulted temporary labourers brought in to break the strike two weeks ago. One temporary worker was admitted to hospital, Earlybird human resources manager Arnold Prinsloo said.

Fawu have rejected management's offer of an 8% pay increase, demanding 10,5%.

Prinsloo said the 8% offer was a "good deal" considering the state of the economy and the poultry industry, which was threatened by imports. Fawu representatives were unable to comment yesterday.

The company, which slaughters 150 000 chickens a day, had not suffered any loss in production because 700 casual workers had been employed to replace striking Fawu members, Prinsloo said.

Union representatives and management have held talks with the Commission for Conciliation, Mediation and Arbitration and an independent mediator, but failed to reach agreement. The parties were at loggerheads yesterday, with management refusing to accept the union's suggestion of a compromise settlement at 9%.

Meanwhile, striking members of the National Union of Mineworkers at Anglo American Platinum Corporation (Amplats) mines in North West and the Northern Province were yesterday considering what the company described as a "significantly improved" pay offer.

Amplats management said they had improved their offer of 8,5% across the board late yesterday, after 10 hours of consultation with an independent mediator.

Amplats spokesman Steve Calladine declined to give details of the revised offer, but hoped union representatives would consult members and decide on the offer by today.

Govt, business have high hopes for exports

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FOREIGN TRADE

- EXPORTS -

1999

Despite setbacks, multimillionaire plans to stay

The largest foreign investor in SA feels unfairly treated. Samsudin Abu Hassan spoke to senior assistant editor Michael Acott

(74B) BD 25/1/99

SAMSUDIN Abu Hassan is not a happy man. The largest individual foreign investor in SA, Samsudin estimates he has put R1bn into the country.

A Malaysian, he came here in 1994 as a multimillionaire, having made his first $8m by the age of 28 and $500m before he was 40.

Now 43, he feels under attack, his business reputation at risk because of recent reports about the empire he has built in SA and particularly about New Republic Bank.

"I am being slaughtered in the streets," he says, holding a Business Day poster saying that the Reserve Bank baled out NRB.

Samsudin is chairman of the bank and of its controlling shareholder, SMG Holdings. Both he and NRB deny emphatically that there was any Reserve Bank assistance, or any need for it. The Reserve Bank says the need to condone a shortfall in NRB's capital adequacy ratio "never arose".

NRB, acquired in 1995, has been the star performer in the SMG group, showing a 246% increase in attributable profit last year.

The claim that the Reserve Bank had allowed NRB to exclude a R213m loss from its capital adequacy ratio comes in a due diligence report by auditors KPMG. Until last year KPMG audited most of Samsudin's companies and did his due diligence check when he bought NRB in 1995.

The sale of NRB to Mzi Khumalo's Mawenzi Resources for R490m was agreed last year subject to the due diligence investigation. Khumalo, former chairman of industrial holding group JCI, now cites the report as a reason for cancelling his purchase; NRB says he is trying to drive down the value of the bank or backing out of a deal he found he could not afford. The matter is with lawyers.

What irks Samsudin is not so much that a deal has gone sour, but suggestions that it is one of several that have failed — he bought the stockbroking firm Mathison & Hollidge and then sold it at a loss of nearly R30m, and pulled out of the bidding for Aventura Resorts — and that there could be question marks about other parts of his SA empire.

For that he blames not the due diligence report, but local newspapers, particularly Business Day, which have hinted at wider problems. He cites "a lack of accountability and public responsibility".

"These rumours are totally unfounded," Samsudin states, saying that they started with negotiations for the sale of NRB and could be the work of his detractors.

So, is SMG Holdings in trouble? Is Samrand — the huge property company with 700ha for commercial and township development in Midrand and a casino development near Vanderbijlpark — in trouble?

No, says Samsudin firmly.

Is there any suggestion of trouble anywhere in his businesses? "To the best of my knowledge, no. There is no basis for the rumours."

Is the sale of NRB essential to the financial well-being of the rest of the SMG group?

"No. We decided to sell it. Strategically it is not right to have gaming and banking (in the same group). It is not that we have to sell it."

He readily admits that there will be a need for cash to continue development of the Emerald casino and leisure resort. The casino licence — which Samsudin describes as a bonus, as it was not part of the planning when the Vaal River property was bought — brings with it development commitments.

"We have invested about R100m, together with our joint venture partners, for infrastructure and temporary casinos, and there will be a further capital requirement of R550m over the next three to five years.

"The casino opened on December 1 last year and is doing well above expectations."

Samsudin is a London-qualified chartered accountant. His record, as he describes it, is of a turnaround specialist: buying small or ailing companies, injecting capital and new management and showing large profits within a short period.

His first investments here were just before the 1994 election which brought the African National Congress to power, when many businessmen were uncertain about SA's future. He was accompanied by a bodyguard, which surprised some South Africans at the time, but is more common now.

He spent R45m on the Midrand property which became Samrand, and invested R380m to buy nearly 30% of Christo Wiese's Boland Bank. He sold the stake back to Wiese ("I made a clear R180m profit on that") to concentrate on NRB.

"We had a good relationship and parted on good terms," Wiese says. "I don't know where the fault lies in his dispute with Mawenzi Resources, but I am saddened by his statement that he is disappointed at some business ethics in SA. This country does not want a high-profile individual investor like Samsudin projecting an attitude that SA is not a good place in which to do business."

Paul Barnard of Barnard, Jacobs Mellet, which bought Mathison & Hollidge from Samsudin, says he found Samsudin "prudent and fair" in his business dealings.

Samsudin says his remaining Malaysian investments are worth $200m. Despite new Malaysian exchange control restrictions, he transferred $10m to SA last year and sees "no problem" in moving more money here if necessary.

He married a former SA model, Melleney, in November 1994 and moved here permanently in 1995. The couple have two children and intend staying, he says, despite "a few setbacks along the way", because he has confidence in this country.

"I have the capital and the experience and, with most of my money in the ground, I have to be fully committed in order to make it good."

Samsudin Abu Hassan. Picture: TREVOR SAMSON

The gospel of globalisation

(74b)

By Christopher Qiqimana

GLOBALISATION is the new religion of the late 20th century. The new heaven on earth is the capitalist system. The new god is the market. The archangels are the so-called market forces.

The high priests are the big and powerful owners of capital who, with their divine grace, are the arbiters between the market forces and the nations of the world, so that the latter may finally find eternal peace and gratification in this new heaven.

Like all religions, globalisation has in its service fervent followers – the politicians, the economists, the journalists and the bureaucrats who, like all religious fanatics, propagate the gospel with fervour, allowing no critical thought.

To show their commitment to the new gospel, they have rechristened capitalism the free market system.

Profit fetishism has convinced the high priests of globalisation that the world is governed by two equally powerful forces of good and evil, capital and labour.

Their profit fetishism has made them consciously choose that capital (largely constituted of inanimate objects) is good and that labour (made up of humans) is evil.

And that, through their elected predestination and not their toil, the high priests will mitigate with their god, the market, the historical worth and value of the supposed evil force, labour.

Globalisation has a cynical view of humanity, if not an utter and venomous hatred of it. As a philosophical world outlook and practice, it is the triumph of capitalism over communism.

Marx is dead, the Soviet Union is dead.

Capitalism is dominant and therefore has to consolidate its gains on an international scale. The powers that be have organised institutions of support and clubs like the International Monetary Fund, World Bank, World Trade Organisation and the Paris Club.

It is therein that the fanatics of the new religion sojourn, to teach the former communists and their former fellow travellers in the developing world the etiquette, manners and rules of how to ascend to the new heaven, the free market system.

Like all pupils, the born-again must memorise the new litany which they must implement with the fervour and bigotry of religious fanatics, liberalisation, wholesale privatisation of state assets, carte blanche relaxation of foreign exchange controls, free flow of capital and investments, and so on.

Children at an informal settlement near Kliptown in Johannesburg. Poverty will spread in South Africa and elsewhere on the continent unless there is more foreign direct investment in Africa.

Capitalism has triumphed on a global scale and so must the frontiers of nation-states crumble – national economies have to be integrated into the celestial orbit of globalism.

But the Holy Scriptures inform us that the way to heaven is difficult and thorny.

We must enquire then from the high priests, being the arbiters with their god, the market, what the methodology is that will make the path to heaven less difficult and less thorny.

Experience tells us that the fervent and rigorous implementation of what their fanatics tell the developing nations leads to countless deaths of people because of starvation and uncontrolled pandemics because of the otherwise good but unregulated interventions of the scientific and technological revolution.

Given that the majority of the wretched of the earth own nothing but their labour, and given that labour is an inimical force to profit fetishism and the capital that our high priests so adore, shall it not follow that our high priests act contrary to the Christian values of adoring and preserving human life?

If that is not a fair charge against their religion, what is the practical advice that our high priests give to the developing nations to escape from their Armageddon?

To allow the free movement of capital and investment flows, the frontiers of nation-states must vanish.

The divestiture of state assets, liberalisation and deregulation provide an enabling environment for capital and investment flows to permeate to the developing world.

But where does the largest volume of this capital and investment flow?

This question is not difficult to answer – the bulk of foreign direct investment (FDI) flows among the developed nations, while the developing nations attract only about 30 percent of that investment.

If we are here to speak of Africa in 1994, it attracted only 1,5 percent of FDI, with the larger portion being taken notably by South Africa, Nigeria and Angola.

While the African governments believe that they have the so-called economic fundamentals in place, one has to ask why FDI flows dodge Sub-Saharan Africa?

There are fervent fanatics of globalisation who have come up with the philosophy of investment called "triagism".

This is a military concept denoting that, in times of war, the hopeless casualties must be left for dead, while the probable survivors must be given some limited treatment.

In terms of investment, those economies that have been classified as hopeless cases must be left for the dogs, while FDI flows can be encouraged to promising cases like South Africa, Egypt and Nigeria.

This nefarious approach to FDI flows exposes the high priests of globalisation and their fanatics for what they are: "To hell with the poor," they say. Profit fetishism is the ultimate god of the high priests of globalisation.

But it is my belief that humanism – whose ultimate goal is the attainment of freedom, social justice, and an end to social tyranny and economic exploitation – is the noble goal of the millions of poor people around the world.

In Voltaire's book *Candide*, the title character comes across an African slave from Guinea in Surinam, who cries to him: "Dogs, monkeys, parrots, they are all a thousand times less wretched than we are.

"The Dutch fetishes who converted me tell me every Sunday that we are all the sons of Adam, whites and blacks alike."

Is it not true that the dogs, monkeys and parrots of Beverly Hills have access to clean water, housing, medical treatment, clothing and even better sanitation than the poor peasants of Bagamoyo in Tanzania?

If we are indeed all the sons of Adam, both black and white, shall it not follow to say that we are all each other's keeper?

(The writer works for the Africa Trade Relations section of the Department of Trade and Industry. The article is written in his personal capacity.)

MINING *Analysts say annual forum will highlight essential changes*

'Africa needs laws to protect investors'

ET(PR) 2/2/99 (740)

ANTONY SGUAZZIN

Cape Town — Governments in Africa needed to show they could make and enforce laws to protect investors if the continent's vast mining industry was to attract the money needed to overcome low metal prices, analysts said yesterday.

At the fourth annual Investing in African Mining Conference, which takes place in Cape Town this week, African mining ministers will update investors on their plans to provide tax breaks and security of land title for investment, as well as efforts to give foreign companies greater leeway in hiring and firing employees.

Analysts said these changes were essential.

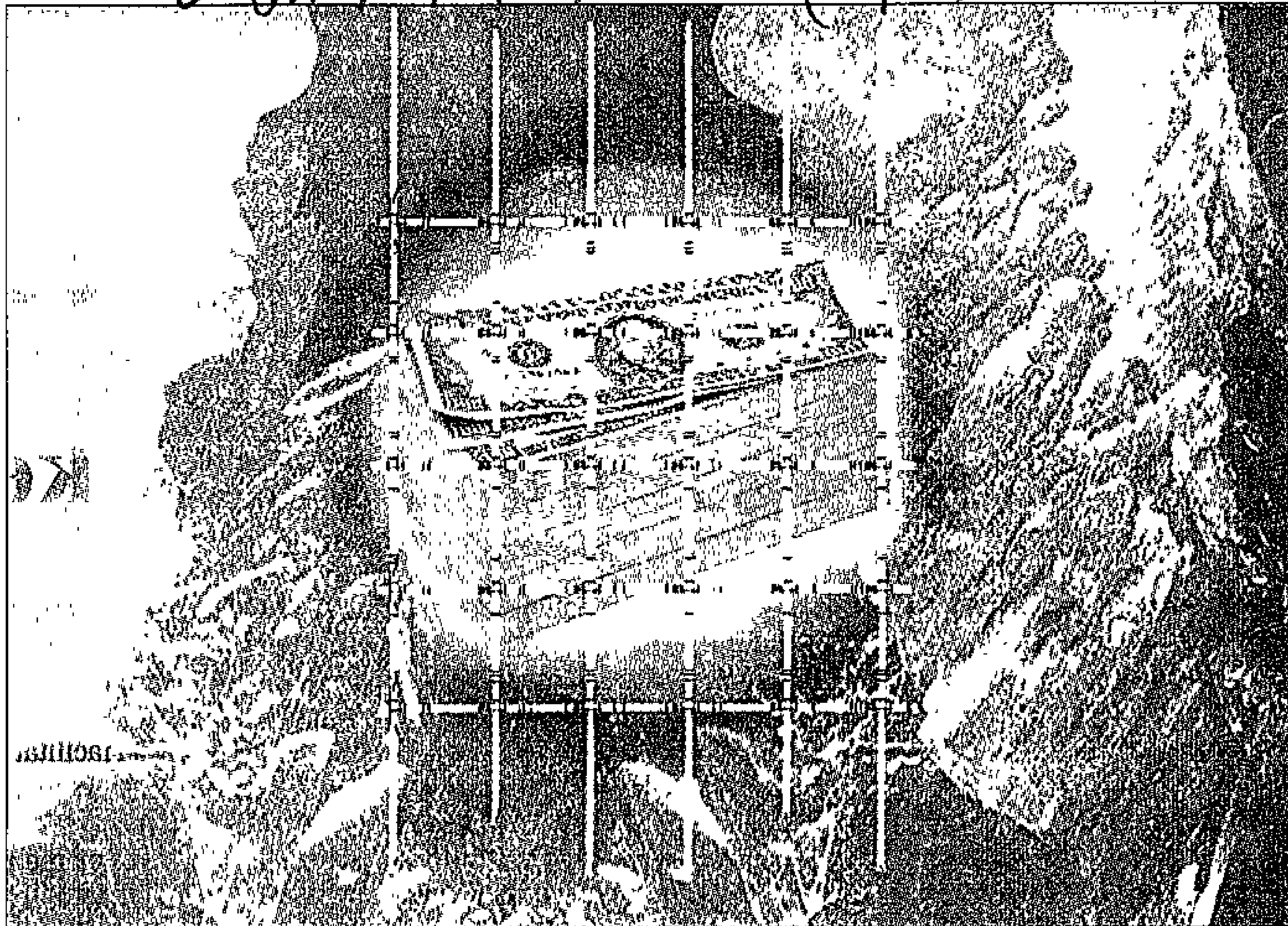
In a world of plentiful metal supplies African countries, which hold some of the world's richest deposits of minerals, will have to relax their laws to make their resources a competitive investment with those on other continents.

Graham French, a gold fund manager at M&G Investment Management, said mining companies "tend to go to Latin America and Australia, where there is easier land title".

Companies generally are scaling back production plans because of low prices.

In the past 18 months the Bloomberg base metals index has fallen about 25 percent. The price of gold, a third of which comes from Africa, is close to its lowest in two decades.

Yet the rewards could be great. Africa is the biggest source of mined gold, platinum, chrome, manganese and vanadium. It is also the site of undeveloped or abandoned deposits of copper, cobalt and zinc.



African governments, which depend on mineral sales to raise foreign currency, have been hesitant to open their mining industries.

Investors have effectivelyexpressed dissatisfaction with these governments' reluctance to alter their mining laws and have looked elsewhere.

Barry Sergeant, an analyst at BOE Securities, said: "There have been a lot of promises, but not too much has materialised."

Suffering most from the drop in investment are the small exploration companies that have in the past dominated the conference.

Capital evaporated after claims by Canada's Bre-X Minerals to have discovered a 71 million-ounce gold deposit in Indonesia proved to be a fraud, damaging investor confidence in mining exploration.

"Junior companies, especially in Canada, were able to raise money on just the interest they had in a property with potential, especially for gold," Sergeant said.

"After the Bre-X story broke, there was a total collapse."

But not everything has worked against African countries. The devaluation of many currencies has lowered the cost of African mining assets.

The rand traded at a record low against the US dollar last year. This could stoke investor interest, said analysts.

However, many potential investors are still deterred by Africa's political instability.

The Democratic Republic of Congo, arguably the site of the world's richest copper and cobalt deposits, is embroiled in a civil war which shows few signs of resolution.

The normally stable Zimbabwean economy has also been prone to riots and strikes during the past year, and throughout the continent other conflicts are flaring up, which have hit mining output and reduced investor confidence.

"There are some opportunities out there for more aggressive takeovers," said Charles Kernot, an analyst at Paribas.

The Investing in African Mining Conference is scheduled to run from February 2 to February 4.

Speakers will include executives from Anglo American, Barrick Gold, Anglogold and Placer Dome.

Representatives of a number of global investment banks, including Paribas Capital Markets, Barclays Capital Group and SBC Warburg, will also attend. — Bloomberg

Death of Daewoo boss won't stop investments

(74b)

South Korean trade officials brush off fears of pullout

By Hyewook Cheong and Vivian Warby

Reports on the killing of Daewoo Motors SA president Yong-koo Kwon in Sandton will not scare away current or future investments in South Africa, South Korean companies say.

Trade officials brushed off reports of a possible pullout of South Korean businesses, saying no company had ever "packed up and fled" over the death of a company official.

Korea Trade-Investment Promotion Agency spokesperson Kim Nak-kun said: "Incidents like this don't happen very often. Even if someone got killed, it usually does not draw as much media attention as it did in this case. Kwon's death gained a lot of publicity as he was the president of Daewoo Motors SA," Kim said.

Daewoo was the largest Korean investor in SA with four regional headquarters and more than 200 workers in places such as Johannesburg and Sandton. The company had poured $127-million (R760-million) into SA since establishing its first satellite office in 1986.

Daewoo Corporation spokesperson Kim Byung-chul said: "President Kwon's death is a tragedy, but there will not be any changes in our operations in South Africa."

However, many Koreans still perceived SA as a race-torn nation. There were concerns, too, over the crime wave.

Meanwhile, Gauteng police spokesperson Andy Pieke said police were making some progress, but an arrest was not imminent. Investigations were still at a sensitive stage, he said.

Kwon was found dead last week, shot once in the head, in the driveway of the Korean guesthouse he was staying at in Morningside Manor. Investigating officer Inspector Fanie van der Wat said the murder was either a botched hijacking or an assassination.

Police had been inundated with calls after the offer of a reward of up to R250 000 for information leading to the arrest of Kwon's killer or killers.

Anyone who has any information that can help the police can phone Van der Wat on 083-490-0086 or Superintendent Hein Kalp on 082-809-1687.

US still SA's biggest investor

Signing of a trade and investment framework agreement is expected to be the precursor to a free trade pact, writes Jackie Davies of AENS

(74b)

BD 15/2/99

WASHINGTON — As US Vice-President Al Gore prepares for his SA visit this week, newly released figures show that the US is still by far SA's largest foreign investor.

US investment in the SA private sector last year was $540m, nearly a quarter of the $2,2bn in direct foreign investment, according to a survey of 1 750 multinational companies by the Investor Responsibility Research Centre in Washington, DC.

Direct foreign investment in SA's private sector last year showed an increase of 32% on the 1997 figure. Total foreign investment, including that in privatisations, declined last year to $2,2bn from $2,8bn; the 1997 figure was inflated by the partial sale of Telkom.

While the latest figures confirm the US position as number one foreign investor, they also show that US investment is not increasing as rapidly as US and SA government officials would have liked after nearly four years of Binational Commission activity.

The commission's trade and investment subcommittee is the most high-profile and active of all its committees.

At this week's meeting, the presence of US trade representative Charlene Barshefsky as co-chair is intended to signal US commitment to improving investment and trade with SA.

Barshefsky is expected to sign a trade and investment framework agreement (TIFA), which is expected to be a precursor to a free-trade agreement.

This and other US free-trade initiatives present SA with a dilemma. To nurture new US investment, SA is being asked to open its markets even further to US imports. However, these imports are blamed for the loss of an estimated 100 000 jobs a year in SA.

On the other hand, as SA's primary trading partner, the US can have an effect on the strength of the economy.

US companies are believed to provide 86 000 jobs in SA and increased investment is urgently required to ensure more jobs and more foreign currency.

By signing the TIFA agreement, SA will appear likely to move towards accepting a free-trade relationship, hoping that the benefits will outweigh the disadvantages.

The new figures on foreign investment in SA show a weakening in the level of Asian investment in SA last year in the wake of the Asian economic crisis.

Malaysia, which was the top investor in South Africa in 1996, slipped to sixth place in 1998. Britain is now SA's second largest foreign investor, with $517m last year, which is more than three times its 1997 total.

Billiton's demerger from Gencor, and its subsequent move to London, produced investment benefits for SA and helped to boost investor totals.

France's investment in SA increased to $256m, ranking that country third overall.

Almost all of France's investment was accounted for by LaFarge's $255m purchase of SA cement company Blue Circle from Murray & Roberts.

Two newcomers to the top five in the past year were Switzerland and Italy, with totals of $253m and $238m respectively.

SA's manufacturing sector gained the most investment, edging above $1bn for the fourth consecutive year.

The metal subsector showed the most dramatic increase, attracting $230m more in new investment last year than it did in 1997.

Even without deals on the scale of the massive Telkom selloff in 1997, investment in the communications, transport and energy sector remained high last year, at more than $566m.

Investments in distribution and retail facilities fell by 81% to $57m last year, which was a four-year low.

Investments in the finance, insurance and real estate sector also decreased last year. There was a decline in the number of foreign property development investments, and a decrease in the number of foreign firms setting up branch operations and brokerage facilities in SA last year.

Meanwhile, investment in service operations rebounded to 1996 levels of about $27m, mostly in the business-services segment.

Foreign companies continued to overlook agriculture and construction last year, but the mining sector saw a turnaround, rising from $28m in 1997 to $476m.

US-SA commission tackles crime

Special training courses to be held in the US for SA law enforcement agencies to teach police and prosecutors

Wyndham Hartley

CAPE TOWN — The US-SA binational commission ended its sixth session yesterday by concluding two key agreements on the creation of permanent structures to address crime in SA and to promote trade and investment.

Deputy President Thabo Mbeki and US Vice-President Al Gore co-chaired a plenary session which received various reports from the nine committees which make up the commission, including one on a deal struck between US attorney-general Janet Reno and Justice Minister Dullah Omar to establish a permanent anticrime co-operation committee. The committee will begin its work almost immediately.

The benefits of the agreement should be felt quickly as the training and technical assistance promised by the US are fed into the office of National Director of Prosecutions Bulelani Ngcuka.

There will also be special training courses in the US for SA law enforcement agencies. These will teach South African police officers and prosecutors about how the US dealt with its crime situation which was once considered to be out of control.

The trade and investment agreement, signed by Trade and Industry Minister Alec Erwin and US Commerce Secretary William Daley creates a council on trade and investment that will meet regularly to discuss problems. High on the council's list will be the antidumping actions brought by the US against a number of SA companies exporting products to the US, particularly steel.

Gore said the agreement — which follows the signing of a trade and investment framework deal six months ago — would speed up the expansion of two-way trade between the US and SA.

Mbeki said the US had also agreed to share its expertise on AIDS with SA. He said the successful conclusion of the session "showed the rapid growth in the detailed relationship between the two countries".

Gore said the anticrime committee would "give SA officials access to resources from the FBI, the Drug Enforcement Agency, Customs, the Immigration Service and other law enforcement agencies and is a step forward in crime-fighting co-operation between SA and the US."

(74B)

investment
how to deal with crime
BD 19/2/99

Direct investment in SA improving

CT(BR) 25/2/99 (74B)

ZINTLE FILTANE

Johannesburg — Foreign direct investment (FDI) in South Africa was on the increase despite investor concerns regarding labour policy, taxation and skills shortages according to a report released yesterday by Business Map, the independent consultant.

There were also concerns about immigration hurdles and governance.

The report estimated an investment of R17,2 billion last year. This is a 9 percent increase in rand terms but a moderate decrease if the devaluation of the rand is taken into account.

Investor interest in the past three months of the year boosted the numbers, despite last year's market crisis.

Business Map said Europe remained the major source of investment for South Africa, and Malaysia occupied top position among investing countries mainly because Petronas, the Malaysian state oil group, bought Engen for about R4 billion. The report said Malaysian interest in the country had since dropped, with some disinvestments.

Italians joined the country's investor list and occupied third place on arrival. But, according to the report, it was difficult to determine at this stage whether last year's investments would generate a pattern of Italian FDI in South Africa. The US dropped to fourth place from being the lead investor.

FDI was dominated by mergers and acquisitions with fewer new investments. Although expansions by foreign corporations increased, the activity was still below 1996 levels.

Foreign investors in the past year showed an interest in new sectors such as mining and construction.

Business Map said it was after the local economy showed some some resilience to global shock waves and the devaluation of the rand that the increase in FDI occurred.

Economists believe the corporate tax reduction from 35 percent to 30 percent announced in the Budget last week would help create a favourable FDI environment.

Analysts said yesterday the country now had a bigger pool from which to draw investors.

Multinationals increase investment in SA firms, says business report

(74B) BD 25/2/99

SA ATTRACTED significantly more foreign investment last year after big multinational companies snapped up stakes in local firms, according to a consultants' report released yesterday.

Business Map estimated R17,229bn was invested in SA last year, a 9% rise on the R15,82bn of the previous year and welcome news for a country desperate to attract foreign capital.

The report said the growth had been surprising in view of the collapse in emerging market confidence suffered during the year. But it said a late burst of buying in the final three months of the year buoyed the numbers.

"In a bad year SA was able to sustain foreign interest, and the fact that the investment involved more countries and was across a broader spectrum of sectors was also encouraging," Business Map director Jenny Cargill said.

SA is battling a balance of payment and current account deficit and must borrow from abroad to finance the shortfall in domestic savings it needs to fuel growth. The rand fell more than 20% against the dollar during a prolonged currency crisis that slashed a third from the value of the Johannesburg bourse, making assets cheaper and tempting a number of foreign firms to buy.

The burst in mergers and acquisitions activity was led by Malaysian state oil group Petronas, which bought fuel company Engen last October for about R4bn.

Canada's Placer Dome also made the largest investment yet in the SA gold sector, paying $235m this month for 50% of South Deep Gold Deposits in a joint venture with Western Areas Gold Mine.

French company Lafarge bought Blue Circle cement from Murray & Roberts last July for R1,5bn, taking a stake in a sector which hit by weak growth and high interest rates, but which could be poised to recover.

"The French are clearly saying that there is going to be a lot of infrastructure investment in the region. They probably hope that after the elections there will be more public-private sector partnerships," Cargill said.

Uncertainty over post-Nelson Mandela SA following this year's election is cited along with concerns over low labour productivity and a severe shortage of skills as an obstacle to attracting investment.

But SA's reputation for violent crime emerged as a less serious issue for investors, she said. — Reuter.

Foreign investment adds R770 million-plus to Western Cape coffers

KARIN SCHIMKE
POLITICAL WRITER

FOREIGN direct investment in the Western Cape amounted to R770 million from April 1997 to December 1998, directly creating 1 658 jobs.

This represents only investments facilitated by Wesgro, and the actual figure of foreign investment in the Western Cape is probably substantially higher than this.

These figures came to light yesterday when provincial Business Promotion and Tourism MEC Hennie Bester delivered his budget vote speech in the legislature.

With the financial co-operation of Wesgro, the Business Promotion and Tourism department also started a Cape film office to market and develop the province as a location for film, television and photography production.

Bester said: "The size of this industry, which has close linkages with the tourism industry, should not be underestimated. The most recent information indicated that expenditure by foreign film companies in the Western Cape amounted to R400m and that 55% of foreign productions done in South Africa came to the Western Cape."

Bester said Cape Town's attraction as an international business location was expected to lead to further inflows of investments and had generated interest among entrepreneurs.

Foreign tourists also trekked to the Western Cape in droves, and in January this year Cape Town International Airport recorded its highest-ever (48 350) arrival of foreign visitors.

Bester said the V&A Waterfront had reported its best month ever in December last year.

Local tourism, however, was not doing as well, and Bester attributed this to the fact that increased interest rates last year left South Africans with less money in their pockets.

Bester reported some bad news, saying that retail turnover and clothing sales were down and durable consumer goods like furniture, household equipment and car sales faced drastic declines.

"Similarly, the construction sector may only just have reached the trough of a deep recession. Even our biggest-ever provincial mega-project (Saldanha Steel, with R7 billion investment just about to be completed) faces extraordinary challenges in the light of a 'bottomless' world market for steel."

On the other hand, mega-projects like Century City and the casinos would help to counter the construction recession, with residential and office construction also expected to turn around.

Bester said: "The message emanating from all these trends for the Western Cape government and business community is loud and clear: Notwithstanding a wide range of serious cyclical and structural obstacles, the preconditions for faster growth are there."

CT 3/3/99 (74B)

DROPPING OFF

Investors shun South Africa for Asia

(74B) ARG 6/3/99

PETER GALLI

Foreign investors at present are betting that Asia will be the top emerging market performer this year, and are — for the moment — actively increasing their investments in the region. Unfortunately, South Africa is one of the casualties, all but dropping off their list of favourite emerging markets.

The economic recoveries under way in several of the Asian economies and anticipated huge restructuring benefits are buoying global investor sentiment in the region. That is a major turnaround from last year, when investors fled following the Asian currency crisis. Indonesia was particularly hard hit, with its stock market plummeting more than 90 percent last year from its 1997 high.

South Africa, in contrast, is experiencing an economic recession. The rand is volatile and is expected to weaken sharply again this year, and increased political rhetoric ahead of the elections and concerns about the government's ability to meet its macro-economic forecasts are not helping investor sentiment.

Last month's global fund manager survey by US brokerage Merrill Lynch is a case in point. More than half the investors canvassed said Asia was their favourite emerging market over the next 12 months. In contrast, not one of the Japanese, American or European fund managers canvassed described South Africa as their favourite emerging market over the next year, while only 3 percent of British fund managers gave it the thumbs up (down from 9 percent in December).

And, to make matters worse, just 30 percent of South African fund managers preferred their own market — down from December's 41 percent.

Some 52 percent of South African managers felt Asia was the best bet, while 51 percent of US fund managers, 69 percent of Japanese managers, 68 percent of European managers and 63 percent of British managers gave Asia the thumbs up.

Global investors say there is huge value to be found in those Asian companies which will benefit from restructuring. Merrill Lynch favours restructuring plays in Asia, even though it is somewhat wary of the region as a whole in the short term.

The brokerage, which was bullish towards the region last year and accordingly increased its weightings, is now somewhat more cautious on expectations that some Asian currencies could come under pressure this year.

Geoff Bahrenburg, a global investment strategist at Merrill in New York, says it was overweight in both Thailand and South Korea earlier this year, but has subsequently reduced its exposure to Thailand in favour of Israel.

"The Asian markets are bottoming, but we are not expecting rapid, strong growth there."

Merrill has also reduced its holdings of Japanese technology stocks, but has raised banking shares to overweight on the expected restructuring in the sector, he adds.

Gary Greenberg, the chief international investment officer for New York—based Van Eck Associates, says its unit trusts are investing in Asia and are moving towards an overweight position in the region.

"Most investors have already factored the economic recoveries starting to take place into their valuations, and the focus is now clearly on corporate restructuring," he says.

"US experience has shown that corporate profitability rises enormously when companies restructure successfully, and we are buying those shares in Asia, like Housing and Commercial Bank in Korea," he says.

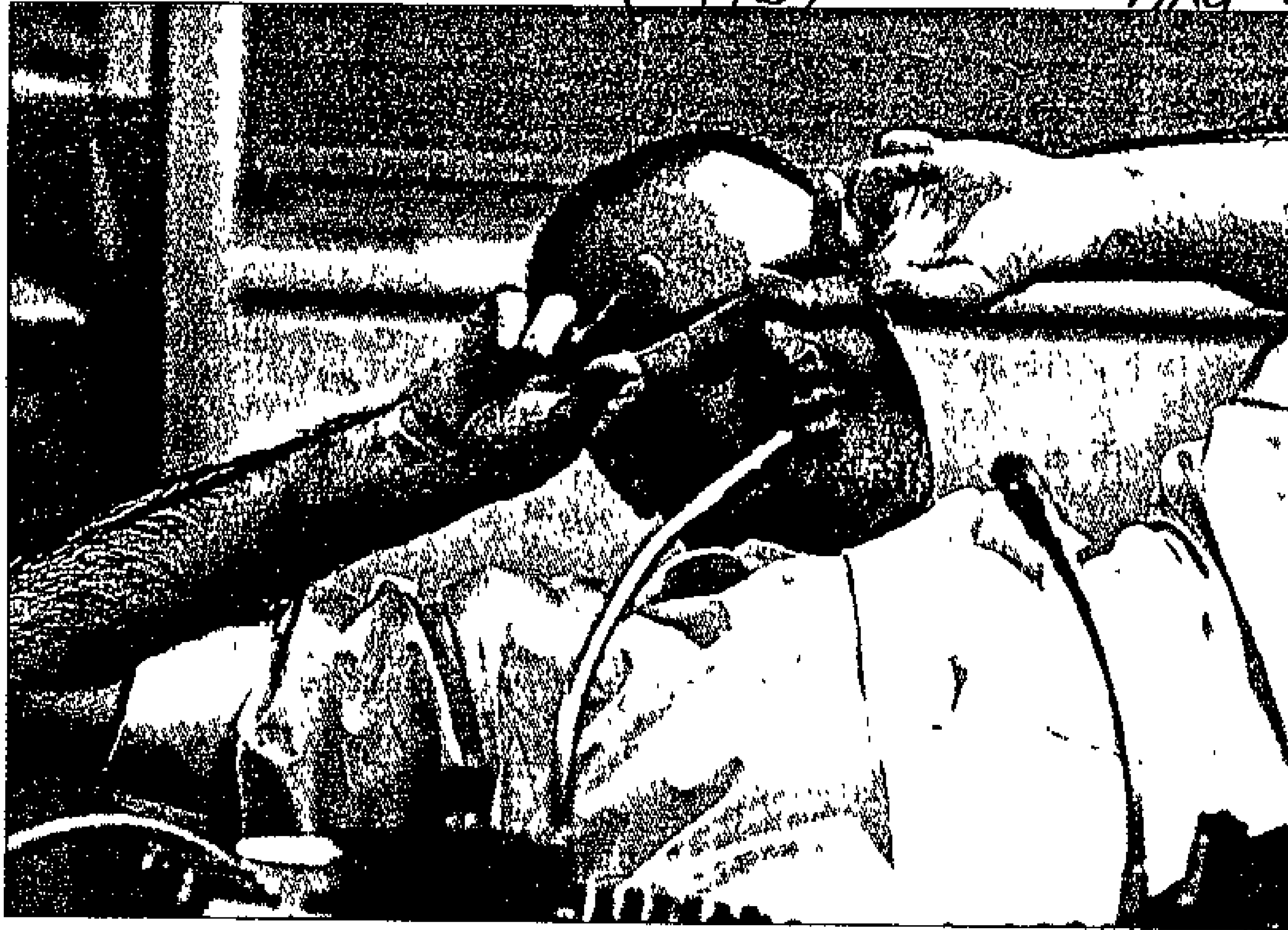
Indian software shares are also currently attractive, with many companies offering potential earnings growth of more than 100 percent as they gain huge amounts of business in Europe and America.

"Electronic groups like Satyam Computer Services and Infosys Technologies, which is set to become the first Indian company with an American Depository Receipt listing this month, offer value at their current levels. So does education group Niit, which has computer schools throughout India and in Asia," he says.

Chicago—based Wanger Asset Management, which has $200 million invested in Asia, is also positive about emerging Asia. It is still investing in Hong Kong, Singapore and Taiwan, but shying away from Indonesia.

While most global unit trusts have a small percentage of their portfolio invested in South Africa, there is unlikely to be any radical shift in this allocation until there is a recovery in commodity prices and after the general elections.

Until then, the country appears relegated to the backburner while Asia basks in the limelight of renewed foreign investment flows. — San Francisco



WAKE UP CALL *This sleepy Tokyo trader may prefer Asian investment to South African* PHOTO AP

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Are 'big boys' bailing out?

(740) Star 22/7/99

South Africa's giant companies are moving to Britain, and no matter what reasons the directors give, the man in the street reckons it is a late-Nineties version of the often derided chicken-run, reports Jon Ashworth in London

During the apartheid years, London was big on Marxist exiles and light on homegrown South African delights such as Outspan oranges and Castle lager. Few would admit to holidaying in South Africa and no one supported the Springboks.

How times change. Today, the freedom fighters have gone home, Londoners can't move for South African labels and Cape Town has become the destination of choice. South African household names such as Anglo American and South African Breweries (SAB) have started springing up on the London Stock Exchange.

For the estimated 300 000 to 400 000 South Africans living and working in Britain, this makes for a curious sense of *deja vu*. SAB, which brews Castle lager, is the latest in a line of big South African blue chip names to seek a primary listing in London. Anglo American makes its London debut in May, and Old Mutual, the Cape Town-based insurance group, could follow in June, pending approval from members, who vote on demutualisation recently.

All three are expected to win a place in the FTSE 100 index of leading shares, following a lead set by Gencor, the mining group, which spun off its base metals interests into Billiton in July 1997. Billiton arrived with a bang, but has since seen its shares slide on weak metal prices, proving that membership of the FTSE 100 does not guarantee success.

The predominance of tracker funds ensures demand for FTSE 100 shares, but some British fund managers are less than thrilled about this enforced exposure to South Africa, technically an emerging market. Such is the dominance of the companies involved that an entire chunk of South Africa at a stroke is being relocated to London.

The feeling among "ordinary" South Africans, white and black, is that the "big boys" are bailing out. As one Johannesburg banker put it: "The economy has not been good in the last 12 to 18 months."

The man in the street is saying: "These guys are off to London and we are stuck here. Among reasonably well-informed professionals, there is definitely a perception these companies are getting out."

> "Informed professionals believe that these firms are quitting"

This, then, is a late-Nineties version of what used to be called the "chicken run". In the final years of Afrikaner rule, white South Africans who emigrated were branded cowards for flitting the coop.

With a selective loosening of foreign exchange controls, it was inevitable that Anglo and its bedfellows would go in search of new sources of capital. Some see parallels with Hong Kong, from where Jardine Matheson moved its domicile to Bermuda in 1984, the year Britain signed its agreement to hand back the colony to China. The listings of Jardine group companies were shifted to Singapore in 1995.

The moves were greeted with anger in Beijing. In London, South African companies have a stock market that is highly liquid and which gives them ready access to foreign pounds and dollars. Jan Newman, managing director of SG Hambros South Africa, said: "They are gaining efficiency in terms of raising capital and internationalising themselves."

GRAPHIC: JASON ASKEW

Johannesburg has long been dominated by big-name players, such as SAB, Anglo American, Rembrandt and Gencor.

Blocked from investing overseas, the big groups took stakes in each other, making for a notoriously illiquid stock market. This is changing as companies unbundle themselves, but not fast enough for some.

Gencor embarked on just such an unbundling exercise in the early 1990s, hiving off interests including Engen (the former Mobil oil in South Africa) and Sappi, the paper group. SAB is seeking to do the same, but remains typically South African in its diverse spread of holdings.

Money from all those Castle cans has been channelled into soft drinks, hotels and gaming and shopping centres. SAB owns Southern Sun, the hotels group built up by Sol Kerzner, the Sun City pioneer. Southern Sun holds the local Holiday Inn franchise, has a 50% stake in a casino operator, and owns nearly 20% of Edgars, a department store group. Graham Mackay, SAB's group chief executive, is sensitive to charges that the company has deserted South Africa.

"We would have languished in South Africa and lost our growth prospects," he said.

"There will be a lot of deals in the industry and we either have to take part or be a spectator." Anglo American is merging with Minorco, its Luxembourg-registered cousin, to create a £6-billion (R60-billion) entity, Anglo American plc.

Known for its gold, diamonds, platinum and coal, Anglo represents a broad cross-section of South African life.

Its interests span forestry (Mondi), car assembly (Samcor), sugar (Tongaat-Hulett), construction (LTA), financial services (FirstRand), explosives (AECI) and wine estates (Vergelegen).

These are all household names in South Africa. - The Times, London

Lonely planet seeks worldly partners

Mixed messages about SA's attractiveness as an investment destination are becoming commonplace, writes MARCIA KLEIN

(288) (74B) ST(BT) 28/3/99

SA IS on the verge of becoming one of the more attractive emerging market investments, but it needs to knuckle down to earn the respect of foreign investors, analysts said this week.

Inability to grow the economy, the slow rate of privatisation and labour inflexibility remain among the most significant stumbling blocks. SA keeps on getting mixed messages about its attractiveness for investment.

Last month Standard & Poor's reaffirmed its rating of SA as one notch below investment grade. SA has already achieved an investment grade rating from Moody's and Duff & Phelps, but S&P is considered more influential.

SA is near bottom on the World Competitiveness report, and recently at Davos it was ranked below countries like Botswana, Namibia, Mauritius and Morocco on the World Economic Forum's Africa Competitiveness report.

Just two weeks ago, a survey by London-based risk assessment research group Merchant International Group named SA as the 14th riskiest country for business, based on factors like organised crime, corruption and extreme political groupings.

However, Econometrix senior economist Michiel Bester says: "These analyses look at a number of indicators which are important and useful but they overstate the negativity. Our economic policies are more sound than most emerging markets, and we have adopted these policies voluntarily."

He says SA's ratings can be considered excellent since last year was a bad year for emerging markets.

Bester says there may be reticence in terms of investment because SA is facing an election, and there could be fear of an ANC two-thirds majority. "The other key hindrance to investment is the disappointing pace of privatisation, but after the election government will be in a greater hurry to privatise."

The lower tax rate, conservative financial policies, declining interest rates, reduction of tariff protection and lack of price controls make SA increasingly attractive.

Bester says one problem is turmoil in neighbouring countries. "We are in a region which does not have a good image for political stability," he says.

But a much bigger obstacle is labour legislation. "Countries with inflexible labour markets have lower GDP growth rates," says Bester, adding that there is also a correlation between lower interest rates and higher ratings.

"By next year we should get an investment grade rating and this will see more money coming in. Ratings are important in terms of portfolio investments, but foreign direct investment is a much longer road. You have to earn the respect of foreign investors," he says. "Given the high degree of scepticism overseas, they were surprised by the political miracle but the economic miracle has not followed."

Murray Stewart, of the Deutsche Morgan Grenfell SA desk in London, says international investors are reasonably encouraged about investing in SA. "Net buying of SA equities continues to be positive, as do fixed investment flows. We continue to see money come into SA, although it does not necessarily have the safe haven status of just over a year ago."

Anthony Ginsberg, the new MD of Gensec Unit Trusts, says in his recently released book, *SA's Future — From Crisis to Prosperity*, that the honeymoon is over. He lists about 30 countries with ministries focusing specifically on attracting investment. SA only has the finance and trade & industry ministries, which have other priorities.

He believes SA should consider free trade zones and tax incentives which have successfully attracted investment to countries like Mauritius, Taiwan, Botswana and Mauritius.

Industrial relations 'key to attracting more investment'

CT(BR) 7/4/99 (74B)

FRANK NXUMALO

Johannesburg — There was not enough investment in South Africa to create jobs, Humphrey Khoza, the president of the South African Chamber of Business told the the Federation of Unions of South Africa last week.

Khoza referred to a recent International Labour Organisation study that said South Africa invested 17 percent of gross domestic product (GDP), against the 22 percent required to achieve 3 percent growth.

He said the decision whether or not to invest was based on a number of things, including the crime rate, the availability of skilled labour and good management, labour market regulation, the state of industrial relations and confidence in policy maintenance and predictability.

Industrial relations had to be looked at on three levels. Nationally, though collective bargaining was rare, national negotiations and consultation on many matters had become important with the advent of tripartism and Nedlac, though Nedlac's role could get more limited.

Second was the sectoral level, which he divided into the unorganised sector, with little contact between business and labour, and the organised sector, which had bargaining councils and forums.

"It is at the sectoral level that many employers have a serious problem with the thrust of the new Labour Relations Act," he said. "This act unashamedly promotes centralised collective bargaining as the preferred means of settling wages and conditions of service. We believe this one-size-fits-all approach to be inappropriate for South Africa.

"Although a statutory duty to bargain was not made part of our law, the structure of the legislation and the rights granted to trade unions brings us very close to a de facto duty to bargain."

Third was the shop floor. This level was very important for small business, which employs 45 percent of the country's workers and contributes nearly one-third of GDP while dealing with high interest rates, international competition and weak demand.

Delegation is looking but not talking

Peugeot to set up shop again, says council report

CT (MR) 19/4/99 (74.13)

Roy Cokayne

Pretoria – Peugeot, the French motor company, had taken a decision to once again establish an assembly-manufacturing facility in South Africa, according to a Greater Pretoria Metropolitan Council report.

The facility was likely to be on a contract-assembly basis, said the report, which was compiled by the executive director of metropolitan economic development after an investment recruitment visit to Europe and the UK in June last year.

The report said Peugeot was considering Delta Motor Corporation in the Eastern Cape and Samcor or Nissan, near Pretoria, as possible contract-assembly partners.

"The awaited announcement of the final motor industry development programme (MIDP) will influence the Peugeot group's decision to re-enter the small South African market and the manner of re-entry."

The report also said the Peugeot team had visited the BMW plant in Rosslyn and was having discussions with Samcor.

"Samcor is quite willing to consider a contract-assembly venture with Peugeot but is concerned that there may be clashes in the respective product range as well as the production volumes envisaged by Peugeot."

Lewis Booth, the group managing director of Samcor, said last week he had met a Peugeot delegation socially and had allowed the delegation to inspect Samcor's plant.

But Booth said there were no negotiations taking place with Peugeot about contract assembly. "We continue to have approaches from other car companies about opportunities and look at them on their business merits.

"But we don't expect anything to come of this while the MIDP is still in discussion and the economy so poor."

Peugeot is imported and distributed by McCarthy Motor Holdings (MMH).

Mike Lowman, the project manager for MMH on Peugeot, said there was nothing definite on Peugeot's contract-assembly plans.

Lowman said Peugeot was merely involved in an exercise to look at possible long-term opportunities.

"They have had a couple of missions out here to investigate and work out the viability. The missions have visited other car plants in South Africa for their opinions and spoken to the trade and industry department and the National Association of Automobile Manufacturers of South Africa to update themselves regarding the MIDP.

"We think they are mad and they agree. The climate is currently not right and there are a lot of problems in the industry," Lowman said.

"However, we can't stop them looking around and assessing the situation. It forms part of their long-term planning and to comment on whether it happens or not would be pure conjecture."

Delta Motor Corporation spokesmen did to respond to a request for comment. Johan Kleynhans, the director of group affairs and communications at Nissan South Africa, confirmed a Peugeot delegation had visited Nissan's plant but had not entered into any negotiations.

New body to woo investment

BD 19/5/99 (74B)

Stephen Laufer

GOVERNMENT is to establish an advisory council with strong international participation to help it increase foreign direct investment, says Deputy President Thabo Mbeki.

Addressing fund managers and CEs representing up to R1-trillion of domestic investment at an investment seminar in Johannesburg yesterday, he made the announcement in a speech in which he sought to answer private sector questions about his future administration; dismiss speculation on his cabinet and economic policy; address concerns about crime and the pace of restructuring state enterprises; and reassure business that the African National Congress did not plan to amend the constitution.

Mbeki said: "Attracting foreign investment remains a matter of concern." Although levels of investment were stable, they were not yet high enough to support all of government's growth, job creation and poverty alleviation aims.

Government had been "interested and inspired" by the idea of the advisory body, mooted by leading international business figures. A number of internationally known private sector figures had volunteered to serve on it. Details were still being discussed and the council would be launched after the election.

A new mechanism would also allow government, business and labour to "focus on high growth and labour stability", despite competing views on some issues. Besides the activities of the National Economic, Development and Labour Council, there was a need to build on the social partnership created between labour and business during a recent visit to Ireland.

Mbeki said there was some concern about the meaning of black empowerment. He had agreed to meet black business soon because "we cannot have self-enrichment which is corrupt posing as black empowerment", an apparent response to the events surrounding the recent departure of two Nail directors.

On economic policy, Mbeki said the growth, employment and redistribution strategy "remains correct and the next government should continue to be bound by it, including fiscal discipline and deficit reduction".

However, he warned that poverty alleviation was critical. It was crucial that South Africans should "see direct benefit from the democratic system and the economic policies being implemented".

Efforts to improve the performance of the police and courts would continue. It was clear that anticorruption units had to be strengthened, he said.

Mbeki told the crowd to ignore speculation on the make-up of his future cabinet. Worthwhile information on the subject could be the result only of a leak "and the only place it could have leaked from is my head. That has not happened."

In what could have been a hint that he did not plan to downsize, Mbeki said significant savings could not be achieved by cutting ministries which employed six or eight officials. Experience with combining the land and agriculture portfolios after the National Party left the national unity government had shown that most departmental officials remained in office because they were still needed.

Real reform was needed at local government level. A joint effort between government and the private sector was needed to ensure local government had the capacity to meet people's basic needs.

Reform was also needed in the provinces, but there was no intention of altering "the constitutional relationship of the provinces to national government".

Equally, there was intent to affect "the independence of statutory bodies such as the Reserve Bank".

Emerging market outlook: Page 17

Mkwanazi spells out Transnet's future

BD 19/5/99

Robyn Chalmers

TRANSPORT utility Transnet will become a financial investment holding company within about four years, housing a limited number of strategic transport assets, according to deputy MD Mafika Mkwanazi.

This comes despite Transnet being forced to abandon its restructuring masterplan as it could not agree with government on ways to resolve its huge pension fund liability and operational debts.

Mkwanazi said at a Business Map transport meeting yesterday that while it would take four years to complete Transnet's transition, a number of key restructuring initiatives would take place before the end of this year. "We expect a Transnet announcement every month."

The restructuring was intended to ensure that Transnet units were developed into viable stand-alone businesses.

In the year to end-March last year Transnet posted a net profit of R278m, compared with a loss of R170m the previous year. Business units Fast Forward and SA Airways (SAA) recorded losses, while Spoornet, Autonet and Portnet reported reduced profitability.

Analysts believe Transnet will ultimately comprise the assets of Spoornet, with the private sector operating much of its freight transport business; Petronet; some Portnet assets; and a port authority.

An announcement on Portnet's restructuring is imminent and is likely to point to the private sector running port operations and facilities. Transnet will temporarily retain more than 50% of SAA, where bidding for a 20% stake is under way. The airline is likely to be floated on the Johannesburg bourse.

Government and Transnet are still grappling with options for Spoornet. Analysts believe private sector concessions will be granted on fringe lines.

Mkwanazi indicated that the sale of nonstrategic assets such as Autonet and Fast Forward would continue apace. A 30% stake in fleet management company Viamax Fleet Solutions and travel group Connex have already been sold. A compromise had been reached to deal with problems arising from the R10bn pension fund and medical aid liability on a case-by-case basis. "We could not keep waiting for consensus on every issue," he said.

Call to cut project red tape

(74B) BD 21/5/99

Robyn Chalmers

REFORM of SA's legal and regulatory environment will need to move ahead if international players are to invest in local infrastructure projects, says John Barton-Bridges, manager of private sector investments at the Development Bank of Southern Africa.

Barton-Bridges said yesterday there was a big private-sector appetite for infrastructure schemes. "However the environment has to be right and the project must be structured correctly if we are to retain the interest of these key players. There are many other attractive markets and opportunities out there," he said.

Barton-Bridges heads the bank's specialised Private Sector Investments Unit, set up to support private infrastructure provision. These services include a range of financial products as well as limited advisory services.

Barton-Bridges says some projects in SA had taken longer than anticipated to get off the ground, largely because of the transition in the legislative framework.

The bank has, he says, been increasingly involved in facilitating private sector involvement in SA Development Community member countries.

There is rising demand for infrastructure such as affordable and reliable water and sanitation systems, energy, telecommunications, roads, airports and harbour facilities.

Also, the trend towards increased private sector participation in infrastructure is gaining momentum. Many countries have begun to implement political and economic reforms which have encouraged foreign and domestic investment. They are liberalising key sectors like telecommunications, transport and energy and moving to privatise state utilities.

Barton-Bridges says the bank does not seek to compete with private sector banks or other potential sources of finance. He says pricing of the bank's financial support aims to encourage private co-funding; it is priced according to risk and to cover the bank's costs.

"Our role is complementary and catalytic. We typically do not provide more than 25% of the total debt or equity requirement of a particular project."

More conservative approach may be adopted

Investors wary of ANC two-thirds

ARGUS 5/6/99

(74B)

PETER GALLI

San Fransico – Foreign investors were becoming increasingly anxious yesterday at the prospects of the ANC winning a two-thirds majority in Wednesday's general election, with a major investment fund warning this may have a devastating effect on local financial markets.

Mark Mobius, the president of the $40 billion Templeton Emerging Market Fund, said he would fundamentally alter his investment view of the country if the ANC won 67 percent of the vote.

Mobius, one of the most respected emerging market investors, administers the $40 billion fund, one of the largest investors in South Africa's financial markets. It is heavily weighted towards the country, at 8,5 percent or about $3,4 billion.

"If the ANC gains the power to unilaterally amend the Constitution, we will adopt a very conservative and cautious approach to further investment," he said.

Alex Baez, a vice-president and portfolio manager for emerging market equities at influential global investment firm JP Morgan Investment Management in New York, said both South African and foreign investors were concerned about the two-thirds majority scenario.

But he was more bullish than Mobius, saying that while the financial markets would take a battering, this could well be perceived as a buying opportunity.

"We would be surprised if the ANC interfered with the independence of the Reserve Bank. Given that Tito Mboweni, the soon-to-be governor of the Bank, and Gill Marcus, a deputy governor, are senior ANC officials, you could argue this has already happened," he said.

Trevor Greetham, an international strategist for global brokerage Merrill Lynch in London, said current falling commodity prices, which indicated continued global economic weakness, were weighing far more on investor's minds than the South African elections.

Reuters reported that the JSE's benchmark all share index ended flat yesterday after profit-taking pruned earlier gains and the market looked ahead to the appointment of a new Cabinet following the general election.

"Our market has been very good because the elections went well ... we have had a good run and saw some profit-taking creeping in," said a trader.

The all share index eased 3.1 points or 0,05 percent to 6,769.3 as market heavyweight Anglo American dived 2,36 percent to R290 as it gave up recent gains.

The financial index, comprising banks and insurance stocks, ended up 0,63 percent to 9488.7 on rising hopes of an interest rate cut after encouraging economic data released this week.

Industrials rose 0,14 percent to 7332.4, with fuel giant Sasol the day's star performer, adding 2,86 percent to R39,55 as dealers focus on a stock they reckon is cheap.

The influential gold index ended 0,31 percent higher at 835.6 as bullion held at around $265,30 an ounce.

Investors hawk-eyed for shift in policy

(74B) CT(BR) 7/6/99

PETER GALLI

San Francisco – Nervous foreign investors started bailing out of South African equities last week ahead of the finalisation of the election results, US traders said at the weekend.

"There was some offshore selling on the fear that the ANC would get a two-thirds majority and have unfettered power," said a New York merchant bank trader.

Caution was reflected in the latest JSE figures, which show that in the four days to Thursday foreign investors were net sellers of R186,2 million in equities.

That selling came despite significant rises in the all share index, which surged 4,4 percent on the week; the 5,7 percent gain in the industrial index; and the 4,7 percent rise in the financial index, spurred by aggressive local buying, the trader said.

However, the all gold index bucked the positive trend as the downward spiral in the metal's price continued. The index lost 2,3 percent on the week while the metal fell 1,83 percent to close at $265,35 on the New York spot market on Friday. It slipped over $6 to end the week at $267,20 on the Commodities Exchange.

"A number of political analysts have pointed out that due to the complicated procedure of allocating seats in parliament, the ANC would need to win closer to 70 percent of the vote to make any fundamental changes to the constitution," the trader said.

"Nevertheless, investors remain wary and will be closely watching who (President) Thabo Mbeki appoints to his Cabinet and listening to his every word for a sign of a shift in sentiment."

Hayden Smith, of the brokerage Barnard, Jacobs, Mellet, outlined what investors wanted from the government: a clear statement that the constitution would not be altered in any way, and an assurance that the Reserve Bank would maintain its independence and be allowed to continue its policy of strict monetary and fiscal discipline.

They wanted real moves on the privatisation of state assets, the addressing of current inflexible labour legislation and a workable strategy on crime, the largest deterrent to capital inflows.

Smith said the government's increasing intolerance of criticism concerned foreign investors, who felt it could take a more aggressive populist stance.

Election is good news for industry

BD 9/6/99 (74B)

Quiet tone of the elections has sent a positive message to investors and the overseas community

Business Day Reporter

LAST week's national election which saw the African National Congress coming within one seat of a two-thirds majority in the new parliament was "good news" for the property market, said Peter Gilmour, the CEO of RE/MAX.

Gilmour said that the climate in property markets reflected the relative political stability and the election had delivered that by returning the ANC to power peacefully.

"In addition, incoming president Thabo Mbeki has committed himself to conservative fiscal and monetary policies, to economic growth and job creation and that too will translate into a more stable property market."

Gilmour predicted that interest rates would decline further, possibly by another two percentage points within the next few months, enhancing the relative home buying power of consumers.

"Mbeki has also committed himself to tougher measures against crime, and that too is good news for the home owning public Nor are property rights under threat as the constitution provides more than adequate checks and balances in these and in many other respects," he said.

There had been a degree of "fence sitting" pending the outcome of the elections and the weeks that follow were likely to show increased activity due to that "pent-up" demand.

That in turn would translate into hardening prices and bigger sales volumes.

Gilmour said RE/MAX had experienced a 26% increase in group sales during the first quarter of the year to record levels. There were early indications of that trend continuing and picking up pace.

Demand remained greater for existing homes as opposed to new launches as the price gap between old and new remained relatively wide.

He said he expected security villages to remain popular, with most of the selling action taking place below the R400 000 mark. However, demand for larger homes had shown a comeback, reflecting greater confidence in the country. Overseas buyers, who held back pending the elections, could resurface.

"The generally quiet tone of the elections and the message this sent to investors, the business world and the overseas community will ensure that this locked up potential is released," Gilmour said.

SA markets offer good opportunities — Ramos

(746) BD 9/6/99

Pat Sidley

SA MARKETS offer better opportunities "perhaps than in other parts of the world", finance director-general Maria Ramos told a large group of unit trust investors in Midrand yesterday.

She described moves made by government that should encourage investment from foreign investors as well as local business, including tax reform, exchange controls, financial regulation and consumer protection.

Sudden changes in exchange controls should not be expected. The changes "will be boringly more of the same slow, steady moves" as government would continue to relax the controls gradually over a number of years.

One of the issues worrying the unit trust industry was the limit to the amount that could be invested offshore and that was being reached in several funds.

However, the gradual approach would continue depending on worldwide developments.

This approach had not been widely accepted or acknowledged in SA, although it was accepted outside the country by entities such as the International Monetary Fund, which had advised government not to relax controls further last year or this year. Despite this, government had introduced some relaxation.

Referring to financial regulation, Ramos said the country had "by and large" a sound financial sector. It was well-regulated and bank supervision was world class. "We need to keep at the cutting edge," she said.

The move to merge the supervisory tasks of the Financial Services Board and the bank oversight provided by the Reserve Bank had precedents in Canada, Australia and the UK.

Practical and process issues were now being talked through and one of the issues was capacity to undertake some of the tasks.

"We do not want to spend billions of dollars baling out failed banks," she said.

Tax reform was an important part of government strategy aimed at reducing the overall tax burden. Improved efficiencies were used in part to reduce tax.

On personal tax, the priority had been to reduce the burden on those with incomes between R50 000 and R70 000.

Company tax had been reduced from 35% to 30%, and Ramos believed this should contribute to attracting foreign investment. Internationally, rates varied between 30% and 38%.

Secondary tax and been reduced from 25% to 12,5%

She said there was still much to be done — some of it in the retirement industry.

Ramos wanted to highlight the level of funding (70%) in the government's pension funds. Few countries could lay claim to the same level of funding.

RIGHT FLAVOUR AGAIN? (74B)

Foreigners eye SA

FM 11/6/99

Not only are foreign investors seeing value in SA bonds, they're starting to talk about buying the currency too

"We think investors should also take a look at the rand Notwithstanding the rand's recent volatility, we believe that a healthy balance of payments during the remainder of the year will underpin a strengthening of the currency," says London-based Chase Manhattan vice-president Francis Beddington

In the current account of the balance of payments, (BoP) he expects a continued trade surplus. One reason is weak demand for imports He also thinks a pickup in exports of transport equipment and SA's free trade agreement with the European Union will offset weak commodity prices.

And the surplus on the trade account should offset the deficit on the service account, which is likely to suffer as increasing payments of interest and dividends go to foreign investors

On the capital account of the BoP, Beddington says "strong performance will lead to continued foreign interest in the SA bond market" — hence continued strong portfolio inflows. Beddington is also optimistic about equities.

Increased foreign borrowing by government may also bring in capital. "We think there is a strong possibility government will boost its offshore borrowing in order to reduce its need to finance its budget deficit domestically while at the same time boosting foreign exchange reserves "

But SA has failed to attract enough foreign direct investment to boost the BoP significantly and "this trend will continue"

If the BoP strengthens, will the Reserve Bank go on cutting interest rates? Yes, but this won't undermine the rand "because it is insensitive to interest rates and the exchange rate is influenced by foreign exchange flows and sentiment".

A lower gold price and any political developments will have only a temporary effect on the rand, "presenting an opportunity to get in at better levels".

It raises all the same questions as the foreign enthusiasm about SA as a "safe haven" at the beginning of last year. Is this good news, or just another speculative disaster waiting to happen? ■

SA the place to invest in, Ramos says

(74B)

ALIDE DASNOIS

ARGT 12/6/99

South Africa is a good place to invest in right now, though South African's don't always realise it, Maria Ramos, the Director-General of Finance, says.

After addressing this week's Association of Unit Trusts conference, Ramos said the foundations had been laid for sustainable economic growth over the next few years. The economy can comfortably grow at three percent a year without bumping up against the constraints of the past, she says.

Pointing out that South Africa's two most recent bond issues were snapped up by foreign investors, Ramos says international investors are spotting opportunities here which South Africans should seize.

"We should be the first to take advantage of these opportunities. We should overcome our own scepticism, look for opportunities and grab them."

Huge progress has been made in fiscal reform, she says: the budget deficit has been slashed; more efficient tax collection has made income tax cuts possible; output-based budgeting has been introduced to ensure that services are delivered efficiently; and a new debt management strategy has been adopted by government.

Productivity, which fell in the 1970s and 1980s, has been growing at 2,3 percent a year since 1994.

"These are structural reforms which will bring benefits for a long time."

Ministers target new investments

Linda Ensor BD 30/6/99 (74B)

CAPE TOWN — Government has embarked on a multi-pronged strategy to create a favourable climate for investment, government ministers said yesterday.

Corporate tax rates will be reduced, labour market rigidities addressed and an International Investment Council, announced by President Thabo Mbeki in his opening speech in Parliament last week, will meet for the first time in September.

One of the top international businessmen who will be invited to sit on the council, which will have between 10 and 12 members, will be DaimlerBenz chief Jurgen Schremp. Others will be drawn from Africa, Asia, the Indian subcontinent, the US and Europe and will help to assess SA's industrial programmes and strategies, appropriate markets and ways of attracting investment.

Regarding incentives for foreign investors, Trade and Industry Minister Alec Erwin said government was committed to a reduction and stabilisation of corporate tax rates as the best way to achieve this. However, discussions were under way about the need to create incentives for certain types of internationally competitive investments.

"Our broad approach is not to introduce a whole range of incentives but to reduce taxes and create a favourable environment for investment and then work through more carefully planned projects," Erwin said.

Talks were also under way with the banking sector to overcome the serious structural obstacles to the inadequate financing of this sector, which should be treated on a venture capital basis with funds specifically set aside for it.

Erwin called for a "breakthrough" in this regard.

Regarding the revised Gross Domestic Product (GDP) figures which resulted from the change in the base year to 1995, Finance Minister Trevor Manuel said this would have a profound impact on the macroeconomic ratios used by government.

Last year's figure for the deficit before borrowing would be 2,9% instead of 3,3%, tax to GDP 24,5% instead of 28%, the expenditure to GDP 27,3% instead 31,3%, debt to GDP 47,4% instead of 55,6%, the current account deficit at 1,6% as opposed to 2,2% and savings to GDP 13,5% instead of 16,3%.

Manuel stressed that new models were being created for next year's budget but the improved ratios would not necessarily mean more money to spend as the focus should be on the quality of expenditure.

MAIL & GUARDIAN
June 4 to 10 1999

Wait-and-see attitude among foreign investors

M+G 4-10/6/99 (74b)

Donna Block

President-elect Thabo Mbeki is frequently quoted saying, "It's time to get to work," and foreign investors are keen to see he if keeps his word.

Most economists and Africa watchers agree that direct foreign investment — investment in resident enterprises — will stay on the sidelines as investors take a wait-and-see attitude before making any new commitments in South Africa.

The head of one New York investment firm commented: "It's not as if we didn't know who the new president would be, but Cabinet appointments are unclear and implementation of economic policy will be critical."

The appointment of the new Cabinet is of major concern to foreign investors, especially that of the minister of finance. They are also looking closely at the appointments for safety and security, education and labour.

Foreign direct investment (FDI) is important to South Africa because it is one of the major forces that can drive economic growth in the country and the continent. FDI brings in equity financing, which helps increase production and growth, increases employment opportunities, and brings in new and innovative management techniques, technology and skills.

According to FBC Fidelity Investment Bank's *Economic Perspectives*, FDI also generates "spillover benefits such as stimulation of competition, higher-quality standards, higher productivity and wages".

Unlike the "hot money" that flows in and out of the stock and bond markets from foreign speculators, FDI has been slower in making its way into the country. Reserve Bank Governor Chris Stals noted at a recent briefing that little of the money that has flowed into the country in the past five years made it into "bricks and mortar". There are major concerns that are keeping these investors out — crime, corruption, high real interest rates and an unwieldy tax structure.

Mike Schussler, an economist at FBC Fidelity, said that in addition to these factors, privatisation was taking longer than expected and South Africa's savings rate is one of the lowest in the world.

The possibility that the African National Congress will achieve a two-thirds majority has also caused some anxiety among foreign investors. Mbeki has been working diligently to allay these fears. He has made it clear that attracting foreign investment is a priority and stressed that the ANC had no plans to use a two-thirds majority to alter the Constitution or to limit the independence of the Reserve Bank.

Though many investors are exercising caution, confidence that the Mbeki administration will address the concerns of foreign investors is high. The proposed establishment of an advisory council on foreign investment, which would include international businesspeople to help stimulate capital inflows, has added to investor confidence.

Foreign investors have been pleasantly surprised by the government's determination to fight inflation and adopt a conservative approach to spending, and the political stability of the last five years is definitely a plus.

However, speculators — who were the undisputed winners during last year's rand crisis — continue to kindle suspicions that the ANC will do away with conservative spending controls and embark on state-sponsored expansion to lift growth and create jobs.

Because South Africa is a capital-poor country, it gives us little choice but to remain dependent on foreign capital inflows to fulfil investment needs. The other choice is to institute policies that will raise the level of domestic savings, or the country will have to live with poor economic growth rates.

John Clemmow, head of African research for Investec Securities in London, said: "Foreign investment will wait until there are clear signs of growth in the economy. This will require a change in domestic policy settings away from those designed to appease forex traders and towards those more attuned to the needs of the general public. I fully expect this to happen."

Shares in Old Mutual leap to R13

R11,25 if you opted to sell

ALIDE DASNOIS AND ARGUS CORRESPONDENTS

Old Mutual shares made a strong debut today, trading at R13 within minutes of their listing and touching R13,05 just before noon.

By midday about 30 million Old Mutual shares had changed hands in hectic trading on five stock exchanges in Africa and the United Kingdom.

The London Stock Exchange opened 30 minutes earlier than normal to synchronise with the Johannesburg Stock Exchange for the listing of 830 million shares.

The shares were offered on the market at R11,25 each.

"We are off to a very encouraging start," said Old Mutual chairman Mike Levett in London. "We are starting life as the quoted company with the largest share register of any company in Africa and one of the largest in the United Kingdom."

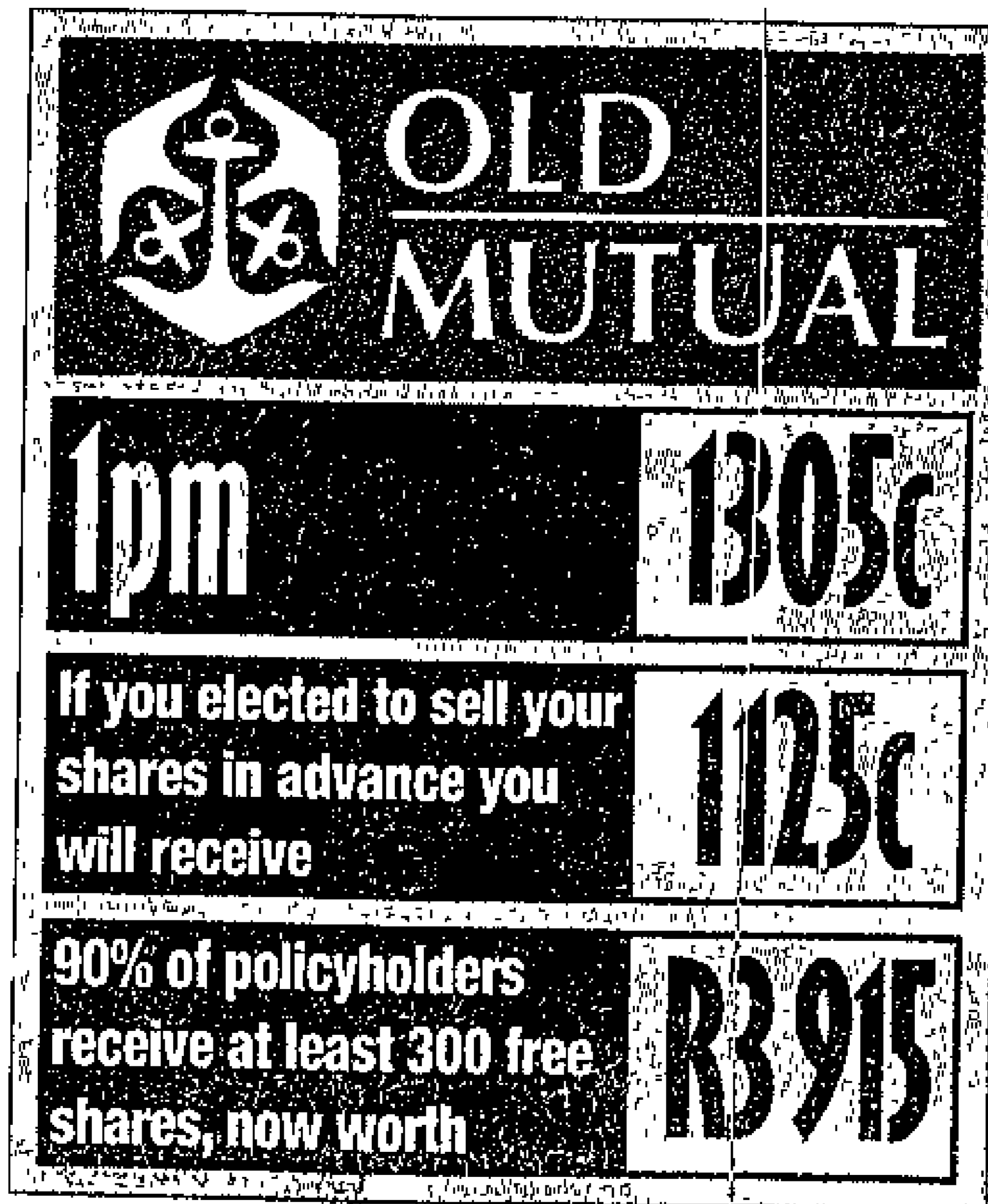
Shareholders' Association chairman David Sylvester said the sharp rise in the trading price was a vote of confidence in South Africa.

"This has proved wrong all those who said that Old Mutual's base in South Africa would hold down the price of the share on international markets."

Old Mutual spokesman Gareth David said there was great interest at the start of trading in London, where the pre-listing offer price was 120p.

The three other stock exchanges on which the giant company listed are Malawi, Zimbabwe and Namibia.

Significant volumes were traded on all the exchanges in the first half-hour and



analysts predicted the shares would trade well throughout the day.

If you are one of the million shareholders who sold before listing, you will probably be at least R3 375 richer by July 20, when you should have received your cheque.

Shareholders who sold before today will be paid R11,25 a share. Each Old Mutual policyholder was allocated a minimum of 200 shares. Most policyholders were given at least 300, which will bring them each R3 375 if they decided to sell before the listing. About 10% received fewer than 300.

Analysts say the approximately R10-billion shareholders are expected to be paid out will boost the economy and possibly

To page 3

Boost for economy as Old Mutual shares rocket

(748) ARG 12/7/99 (49)

From page 1

increase consumer spending.

Whichever way shareholders decided to use their money - either to pay off debt or to spend - it would be positive for the upswing, said Tony Twine, senior economist at Econometrix.

Ray Brand, an analyst at Standard and Poors MMS, agreed that the impact of that money on the economy would be huge.

When Sanlam, Old Mutual's rival, made its stock exchange debut last year, money that could have been injected into the economy was instead used to pay off debt.

Although interest rates were much lower now, Mr Brand said, people who still had big bond and car repayments would use the windfall to pay off debt.

■ You can sell your shares at any time through the Old Mutual Share Sale Service or a stockbroker, and you will be paid the market price.

Last week the Financial Services Board warned shareholders against selling through moneylenders offering "instant cash" for Old Mutual or Sanlam shares.

The board said it was illegal for moneylenders to solicit the shares and it was not in the interests of shareholders to sell through them.

Old Mutual listing attracts foreigners to SA

(74B)

Hilary Joffe

BD 16/7/99

A LARGE proportion of the foreign investors who bought Old Mutual shares in its prelisting bookbuild were investing in SA for the first time, sponsoring broker Merrill Lynch said yesterday.

About 300 institutional investors bought into the placing — which included the shares raising new capital for Old Mutual as well as the free shares of policyholders who decided to sell — and totalled more than R15bn. Most SA international share placings would have 25 to 30 foreign investors.

"We decided early on we had to break out of the emerging markets mould," said Old Mutual GM Roddy Sparks. "We pitched as a mainstream player to mainstream players."

Old Mutual's share register included the blue chip names of the investment industry worldwide.

UK institutions hold about 18%, north Americans and Europeans a further 9%, and southern African institutions and individuals hold the rest.

Sources said SA was not previously on the radar screens for many of the foreign fund managers, especially from the US and Europe. Merrill Lynch SA CE Sidney Rebe said the listing was two years in the making. Much of that time was spent promoting not just an insurance company but SA as a good investment. This was no easy task because many foreign investors lost heavily in emerging markets last year.

Ahead of the listing Merrill Lynch brought to SA key European and North American sales people, most of whom had never visited the country.

Merrill Lynch's head of SA investment banking, Nick Pagden, said that at 120p the share price struck was closer to midpoint than the rand price of R11,25 as the rand strengthened 5% against sterling during the period.

It closed 40c up at R13,45 yesterday after 7,2-million shares traded.

making possible his own reward- sibilities to the surrounding

HE Barnes
Johannesburg

Global perceptions are what count

Government officials cannot ignore investors' opinions, writes Paul Mitchell

LAST week SA was reported as being 47th out of 59 countries listed in a global competitiveness index — down from 42nd last year (Business Day, July 14).

SA was last in terms of labour practices and in the bottom five in terms of security. We edged Columbia into bottom place on organised crime.

With no apparent sense of irony, Themba Mhlongo, chief director for industry and technology strategy at the trade and industry department, questioned the use of people's views as the basis for these rankings.

To weigh this argument let us take a hypothetical situation from the world of business. If you talk to any director or CE whose company's share price has hit the skids you will hear a fairly consistent refrain. Usually one of two factors is blamed.

The first is outside influences on the market as a whole such as the weak rand or emerging market jitters. This can quickly be discounted when the share has fallen relative to the market.

The second explanation is that the market does not understand the company. The performance — past, present and future — of the business is being measured in the wrong way by analysts and investors.

There is a parallel between these two attitudes. Whose views should matter to the individuals responsible for trade and industry in SA or those held accountable for a company's share price performance?

In the latter case the directors of a company should be worried about the share price; it is the single best measure of how well they are doing their jobs. For trade and industry officials — whose performance, it could be argued, is measured by the performance of "SA Ltd" — what foreign investors think should be of major concern.

It is the objective view of individuals and companies, who trade and industry officials are hoping will invest their hard currency in this country, that should be of paramount importance. The competitiveness report is a fairly reliable measure of the views of these people.

To come back to Mhlongo's argument: surely the fact that people's views are used for rankings is the whole point?

For the director it matters only what the market's views of his company are. The common frame of mind is one of an abdication of responsibility and a worrying arrogance and lack of interest in objective opinion.

Foreign investors, or stock market analysts, are using the things that are important to them to measure performance. It does not matter at all whether these are the things that government officials or directors think should be important; they are by definition the only things that count. It is up to the director to make sure that the market understands his business, his plans and expectations for the future. He owes it to his employees and his shareholders.

In the same way government owes it to business to ensure that the people who judge the attractiveness of SA — foreign investors and managers of multinationals — understand the country.

Government officials must make it their business to understand the concerns of investors and analysts. They must seek to understand what it is that is used to value this country.

Until they do, SA, just like those poor misunderstood companies, will continue to struggle to find investment, interest and funds from abroad.

Mitchell is a management consultant.

(74B) (480) (49) BD 20/7/99

Billion rand bonanza

European business plans major investment in manufacturing for Western Cape

BOBBY JORDAN

FOREIGN investment worth more than one billion rand, translating into thousands of jobs, is heading for the Western Cape.

The Western Cape Investment and Trade Promotion Agency announced this week that investment plans were at "an advanced stage" and heavy machinery was already piling up at the harbour.

Wesgro chief executive officer Peter Pullen said: "It's the first time ever that we've got more than R1-billion worth of 'pipeline' investment — it's extremely encouraging.

"We're quite cautious and we only classify something as 'pipeline' if we're pretty sure it will happen," he said.

The investors were mainly from Europe and would target the Cape's manufacturing sector, including significant developments in vehicle components, agro-processing and furniture production.

Pullen said the investment bonanza was one of several positive signs in the economy.

Interest rates had dropped to their lowest level in years and the number of business delegations was on the increase.

"The country generally is much more optimistic across the board and we're working much more closely with other regions," he said.

Wesgro hosted 102 business delegations from April 1998 to March 1999, representing 1 115 delegates. Significantly, many of these delegations were from China, where there is increasing interest in the Cape's tourism and agriculture sectors. There is even talk of a R500-million Chinatown development on a site close to the Cape Town.

Pullen said Wesgro attracted about R730-million worth of foreign direct investment during the last financial year, which translated into 1 483 direct jobs. Much of the investment was in the first quarter of this year — a sign that economic activity was on the increase.

"The South East Asian economic meltdown impacted badly on everything. There was a slow-down in the flow of investment. But it looks like we weathered the storm better than expected," Pullen said.

According to Hennie Bester, MEC for business and tourism, prospects for growth looked good.

He said the province had to take advantage of the global trend towards a knowledge-based economy. It should also make the most of its areas of "competitive advantage" such as medical technology and tourism.

But he warned about crime and the lack of skills training.

By Adrienne Roberts (74B)

FM 23/7/99

ANOTHER WAY OF RATING SA'S RISK FACTORS

Good, with a few bad patches

Since 1997 the Asian crisis, and emerging market turbulence in general, have placed heavier emphasis on measuring emerging market risk.

According to JP Morgan's measure, different regions are now displaying widely different risk patterns. Of the 25 countries assessed, six countries' scores deteriorated; five remained the same and 14 improved — SA's among them

The bank assesses countries in terms of seven domestic and seven external risk factors Latin America scored about the same for both. But in emerging Asia, emerging Europe and Africa, external risks were significantly greater.

Each factor is scored from zero to 10, zero meaning no risk. The domestic risk criteria are: real GDP growth; change in GDP growth rate compared with last year; average inflation for 1999-2000; per capita GDP, the budget surplus or deficit as a percentage of GDP; year-on-year real growth in bank credit extension for the past three months; and adherence to International Monetary Fund data dissemination standards.

RATING RISK

Alternative country risk assessments

	Economic factors score	
Latin America	**Current**	**Apr**
Argentina	47	42
Brazil	72	72
Chile	29	27
Ecuador	64	66
Mexico	44	46
Peru	36	35
Venezuela	53	57
Emerging Asia		
China	41	41
India	35	40
Indonesia	50	58
Malaysia	27	34
Philippines	40	36
South Korea	24	26
Taiwan	29	32
Thailand	36	37
Europe		
Czech Rep	28	28
Greece	36	34
Hungary	27	27
Poland	35	41
Russia	65	67
Turkey	57	48
Africa		
Morocco	44	44
South Africa	39	41

SOURCE: JP MORGAN

SA scored a perfect zero on all criteria but two It scored 10 on per capita GDP, as it falls below the US$5 000 level. And it scored a three for failing to top the 1%-3% GDP growth level.

The external risk factors were: the extent to which the real exchange rate in May was overvalued compared with the five-year average, the size of the current account deficit; total external debt as a percentage of GDP; external debt as a percentage of exports, interest payments as a percentage of exports; short-term debt and amortisation as a percentage of foreign exchange reserves and M2 money supply as a percentage of forex reserves.

SA scored 1 or zero for all except the last two, in both of which it scored 10

This suggests that, to improve its risk ratings, SA's priorities are to grow faster, alleviate poverty and boost the level of its foreign exchange reserves ■

Investor interest is high on Mbeki's agenda

(74B) BD 3/8/99

There are matters needing the president's more urgent attention than the African Growth and Opportunity Act, argues **Princeton Lyman**

It is time for Bill Clinton to hear about Africa again ...

IN AN editorial in Business Day on July 19, President Thabo Mbeki was urged to accept US President Bill Clinton's invitation to Washington next month "with alacrity". This would allow him to throw his weight behind the African Growth and Opportunity Act.

While Mbeki's election as president offers an opportunity for reinforcing relations between SA and the US, they do not necessarily include the act as a high priority.

With Nelson Mandela, there was such admiration and adoration that many problems could be either swept under the rug or put aside. President Bill Clinton's visit to SA in March last year was a good example of that aspect of the relationship: great warmth and a frank exchange of views but little real accomplishment.

Mbeki will likely make his first visit to the US as president when he addresses the United Nations in September. The UN venue allows him to focus on some of the problems most important to SA, particularly the conflicts on the continent and debt.

Mbeki comes to the summit not only as the new leader of SA but as the leader of the Nonaligned Movement.

Now that African nations are working toward peace agreements in both Congo and Sierra Leone — agreements that count on extensive UN peacekeeping — Mbeki must make the case forcefully to the UN and the US that such investment by the international community is essential and just. Since the Rwanda and Somalia debacles the US has not been supportive of extensive UN peacekeeping in Africa.

At a time when the US and its North Atlantic Treaty Organisation partners are asking the UN to invest heavily in bringing stability to Kosovo, Mbeki has a right to demand a more forthcoming position from the US on African conflicts.

Mbeki will find a more receptive ear on another of his favourite themes: the inequalities inherent in the globalisation process, particularly the debt problem. Clinton has recognised that bolder moves on this issue are essential. Mbeki must stress that SA cannot succeed if nations to its north are collapsing upon it.

Finally, Mbeki must put SA back on the map of investors. SA was amazingly absent from investors' attention at the Corporate Council for Africa Summit in Houston in April. SA's policies are sound, but it has just been rated near bottom on competitiveness, based largely on labour policy.

Its record on privatisation is rather good but critics (including the US administration) have to be made to see the direction and commitment behind the present policy. Mbeki needs to take advantage of the planned investment conference in New York and other opportunities in the US to rekindle investor interest in SA.

All these emphases are far more important than SA's lobbying for the Africa act, now before the Senate, as some have suggested.

Mbeki can do more for the support of SA and the other African countries by stressing the broader themes for which he is particularly well positioned.

Lyman is Omega Investment Research's adviser in the US. He was US ambassador to SA and Nigeria, and US assistant secretary of state for international organisations

... and Thabo Mbeki is the man to tell him

Survey damns local business environment

(74B) BD 16/8/99

Fred Ahwireng-Obeng

Research finds that SA has failed to allay investor fears about institutional certainty

IF THE perceptions of local and foreign investors about institutional obstacles in SA are used to gauge their problems in dealing with the state, then it is clear that the local business environment is largely inimical to attractive investment.

Recent research indicates that SA has so far failed to minimise institutional uncertainty in its efforts to promote large-scale productive entrepreneurship to combat unemployment and inequality.

The research — focusing on institutional obstacles to SA's development — shows that the majority of investors believe that the most serious obstacles to higher local investment are crime and theft.

This is followed by tax laws and labour regulations, corruption, political instability, inflation, and the country's safety and environmental regulations.

Other less significant obstacles cited by the respondents include foreign currency regulation, inadequate infrastructure, financing and regulation on foreign trade.

The survey involved 800 small and medium-sized firms and was based on a global study conducted by the World Bank in 1997.

The survey shows that SA entrepreneurs view crime as a grave threat to the well-being of their business. They also feel that the government is not protecting their person and property — leading them to seek private means of security. This increases the cost of doing business here.

Tax rates and labour regulations are cited as the second most restraining government-business interface variables.

SA corporate tax rates are highlighted as being among the highest in the world and the three labour laws that have been passed — the Labour Relations Act, the Employment Equity Act and the Basic Conditions of Employment Act — are all seen as adding to the inflexibility of the labour market and the cost of doing business in SA.

The study shows a striking similarity between SA and the rest of sub-Saharan Africa, with a large percentage of entrepreneurs worried about the interface between government and business, the credibility of government policies, crime and security, uncertainty about the law-making process, the unreliability of the judiciary and corruption.

This finding in some ways indicates the extent to which SA departs from a typical upper middle-income society.

The findings have several implications. Despite far-reaching institutional reforms, much more is required if SA's transition to a democratic polity and open, liberal economy is to yield the widely expected post-apartheid dividends of rapid economic growth, high levels of employment and more equitable distribution of income and wealth.

Ahwireng-Obeng is professor of economics at the Wits Business School, Parktown.

Western Cape lures European investment

BUNTY WEST
METRO WRITER

TRADE and investment in the Western Cape is growing steadily, as shown by many joint ventures between European companies and local businesses.

Commenting on the positive development after the Western Cape Trade and Investment Promotion Agency's (Wesgro) annual general meeting, held on Monday, chief executive officer Peter Pullen said emerging black business was receiving joint venture capital from Europe (90%) with the UK leading the field.

Wesgro, which sets out to promote economic growth in the Western Cape, achieved higher than expected growth in investment opportunities and job creation, despite poor 1998 growth.

The target was R700 million worth of investments and jobs for 800 unemployed people.

Pullen said Wesgro had exceeded these targets.

Wesgro brought in investment opportunities worth R730,5m and created 1 483 jobs.

"Much of the growth came in the first three months of 1999, (the last three months of the financial year)," Pullen said.

"This means the levels of confidence in the Western Cape are high and manufacturing, especially in the furniture trade, is getting a boost.

"Investment in the pipeline is three to four times higher than last year."

The agency, which set a goal of R700m and 1 500 jobs for 1999-2000, will raise these targets because of the good showing in the first three months of 1999.

(74B) (49A) CT 18/8/99

SA is gaining kudos from investors

(74B) (279A)

THE ECONOMY

By JANETTE BENNETT

WHAT's it like to do business in South Africa? This was the question Absa chairman Dr Danie Cronjé and group MD Nallie Bosman faced constantly during their recent roadshow to US and European shareholders, investors and fund managers.

Now that the days of the apartheid siege economy have gone, foreigners are well-informed about SA's fundamentals. "They want to know our impressions and interpretations of what is happening — they want insight into doing business," Cronjé said.

The bankers essentially turn into salesmen on their roadshows. They sell Africa, the Southern African Development Community, SA and Absa — in that order. "We are part of Africa and therefore an emerging market, and we pay a premium for that, whether we like it or not," Cronjé said.

The message they bring back from their fourth roadshow is overwhelmingly positive. 'There are concerns, mostly about slow economic growth and factors such as crime and unemployment.

But the strides forward are enormous. Foremost was the peaceful election, which took care of a lot of uncertainty.

"Last year people asked what would happen after Nelson Mandela. We said we knew who the next president would be ... And investors have confidence in Thabo Mbeki. They see him as a hands-on professional president, dealing with the issues," Bosman said.

It was during their roadshow last year that the emerging markets crisis sent the rand diving and interest rates soaring. But the way SA rode the crisis has been viewed positively. "It was our first real test as a country which is part of the global economy," Cronjé said. "Investors have seen we can take a punch like that."

Also welcomed is SA's shift from relying almost solely on monetary policy to steer the economy to a mix of fiscal and monetary policies. "In the past, we relied too heavily on monetary policy and it was difficult to defend that position," Cronjé said. It is clear the government's tor[illegible] working, they said, with the fiscal deficit at 2.9% from 10.1% in 1993/4, and inflation at 4.9% from almost 20% in the 1980s.

Shocks and surprises in SARB report

By Shadrack Mashalaba

FOREIGN direct investment in South African assets rose to R3,7 billion in comparison with R1,6 billion in the first half of 1998.

According to the South African Reserve Bank's (SARB) annual economic report, the acquisition of foreign direct investment assets by South African entities amounted to R9,6 billion in 1998 compared with R10,8 billion in 1997.

The report says the direct outward investments were dominated by the acquisition of offshore assets by South African banks during 1998.

The bank also reported that deficit on the current account, which shows difference between exports and imported merchandise, was R11,6 billion for the 1998 calendar year. This is in contrast to the surplus on the current account which equalled 0,1 percent of gross domestic product in the first half of 1999.

Another feature noted by the bank's report has been the decline in formal-sector employment in 1998, which it said was the continuation of a long-term decline dating back to 1989. The report said the decline in employment can be attributed to the slowdown in world economic activity – following the disruption of international financial markets in 1997 and 1998.

Added to that was the inhibition caused by declining international commodity prices, especially gold which declined to a 20-year low by the middle of 1999.

"Accumulated job losses from the third quarter of 1989 to the end of the first quarter of 1999 reached almost 850 000 and reduced the number of the potential workers to a level seen in 1979," said SARB.

Sowetan 26/8/99

Foreign investment slows down

ST(BT) 19/9/99 (74B)

INVESTMENT

By S'THEMBISO MSOMI

FOREIGN direct investment into SA has declined for the first time since 1994 with half-year figures for this year netting only 25% of last year's results.

Over the past five years, direct foreign investment has injected well over R58-billion into SA, showing an increasing trend.

According to Business Map's annual investment review, released on Friday, the decline can largely be attributed to a slowdown in investment into developing countries as investors become less secure about emerging markets following last year's turmoil in the Asian markets.

The report — entitled SA Investment 1999, the millennium challenge — says last year's exchange rate volatility and uncertainty over interest rates could also have contributed to the decline in investment.

It expresses hope of a growing trend towards privatisation and public and private sector partnerships under President Thabo Mbeki. The restructuring of state assets has continued to be an important contributor to aggregate investment performance with Swissair bringing in R1.4-billion for the partial privatisation of SAA.

But, as Business Map economist Karen Heese warns in the report, one of the major problems is that the ruling African National Congress alliance has not yet reached consensus on how to approach public and private sector partnerships and other forms of state restructuring.

SA fails overseas competitive test

PRESSURE POINT: Niall Carroll of Deutsche Morgan Grenfell says profits are under pressure

MANY multinationals that stayed in South Africa during the sanctions era enjoyed a very favourable investment environment behind high tariff walls while regulation kept the domestic market relatively free from competition.

In particular, oil, pharmaceutical and motor companies are now beginning to experience a tightening market as this protection falls away.

But with its global network, a multinational has the opportunity to benefit from transfer pricing. A multinational can decide where in the world it wants to earn its profit. In a low-tax jurisdiction, it would lower its input costs and produce a higher profit. Conversely, in a high-tax jurisdiction, it would raise its input costs and show low profits by taking the profits elsewhere in its network.

"The government now reports to a different constituency — the electorate wants lower prices, and this is resulting in deregulation," says Niall Carroll, head of corporate finance at Deutsche Morgan Grenfell.

"Multinationals are complaining that their profits are being squeezed, but in reality the market is simply normalising. The market place is indeed becoming more competitive, but that's what engaging the global economy is all about. Pressures often apply equally to SA corporates.

"However, there is a slightly populist overtone to some of the government's pronouncements, particularly in respect of the oil and pharmaceutical companies, where they want to be seen as fighting to improve the lot of their constituency. Multinational companies are relatively easy targets to knock as they have no major local constituency or shareholder base," says Carroll.

Greater competition does not necessarily mean less profit. Carroll cites the deregulation of the stockbroking industry in 1995. Although greater competition ate into margins, the volume of business increased exponentially boosting the total profits of many stockbroking firms.

"Profitability in SA has been under enormous pressure over the last three years. Returns on capital have halved due to the gradual elimination of tariffs and recent recession," says Carroll.

(74B)

Those multinationals that have made large investments in SA are here for the strategic advantages. For instance, SA enjoys a reputable regulatory environment where pharmaceutical companies can test their new products and receive international certification.

"In addition, many multinationals use SA as a springboard into the rest of Africa, and the solid infrastructure and financial markets here make it viable. SA has been integrated into the global network of the motor industry and certain models are manufactured locally for the international market. But these opportunities are relatively few."

In the financial services sector, where more than 70 foreign banks established operations here, the greatest problem has been a shortage of skills. Carroll says the transfer of skills that many boasted of has been largely chimerical.

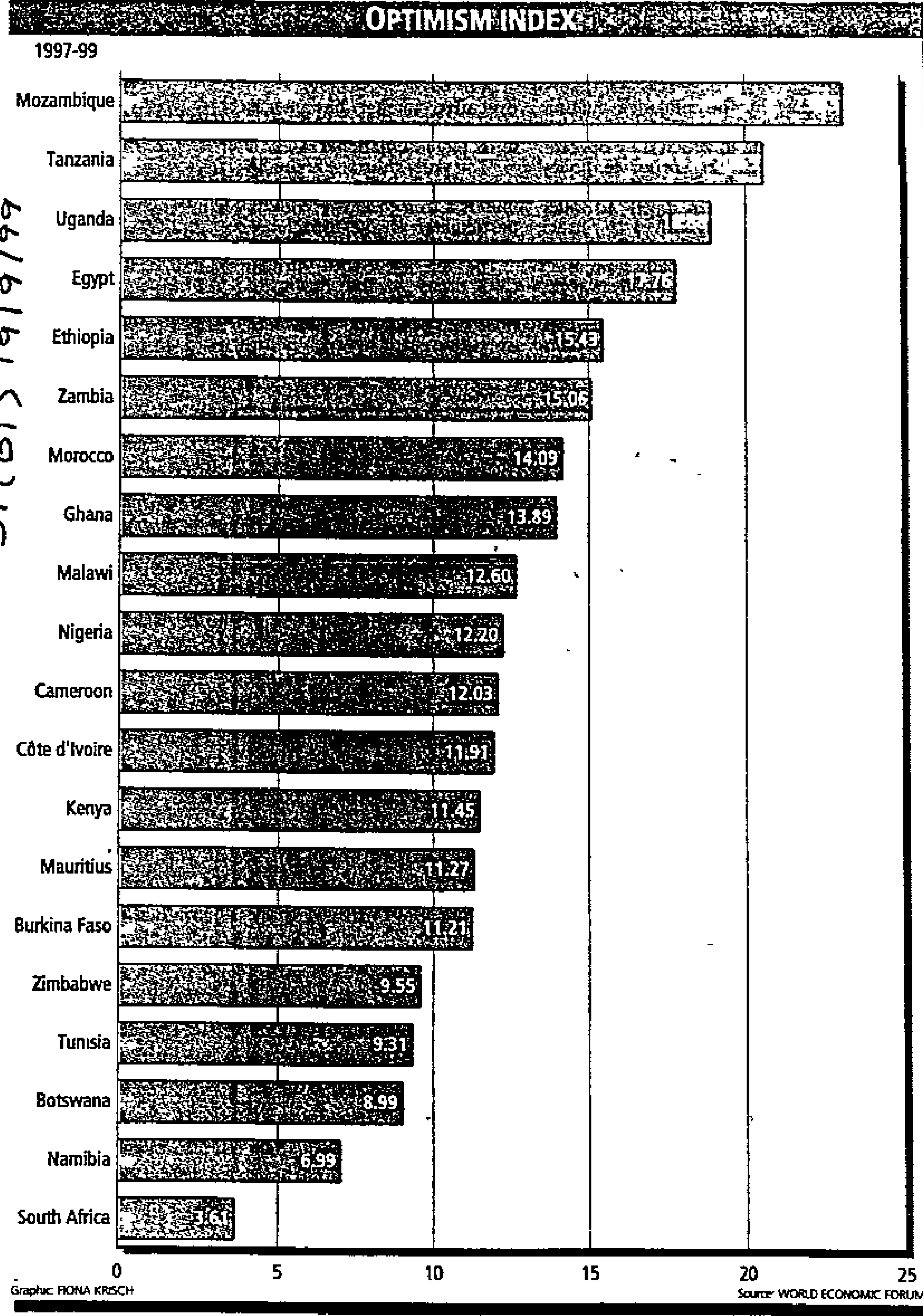
What has been even more fraught with difficulty is the affirmative action programmes, which has been characterised by ballooning salary scales and job hopping.

"Multinationals are relatively diligent in their programmes but it is expensive," says Carroll.

"SA is one of some 200 countries competing for foreign direct investment. This will flow to where the environment is most beneficial — where productivity is high, tax low and labour legislation not antipathetic to business. In various overseas competitiveness ratings surveys, SA is falling."

Although these rating systems are often flawed, they are taken seriously by many multinationals considering investing in SA.

ST (BT) 19/9/99



Y2K READINESS *International group rates country 'high risk for foreign investment'*

Global agricultural firm refuses to trade with SA

CT(BR) 1/9/99 (74B)

Renée Bonorchis

Johannesburg – Cargill, the third largest global import/export company, had refused to trade with South Africa over concerns that the country's year 2000 (Y2K) status was risky, the agriculture department said yesterday at a meeting of Y2K experts.

It emerged at the meeting that the Gartner Group, an international research institute, had assessed South Africa as being a high risk for foreign investments over the new year.

The country had been given a category three rating. Category one represents the most secure and ready economies for Y2K.

Cargill is a US-based company that merchandises, processes and distributes agricultural and other essential products and services throughout the world.

A source from the department said the position was critical. "The world perceptions about South Africa are threatening the country."

"Gartner (group) has suggested that ... 40 percent of the country's infrastructure won't work and that 80 percent of government-run systems won't work" because of Y2k problems, the department said.

"Cargill ... now won't trade with us. If this continues, we will have goods ready for shipping that will lie and rot in the docks, and we will not be able to bring goods in either."

> *'The world's perceptions about SA are threatening the country'*

Tsietsi Maleho, the acting chief executive of the National Year-2000 Decision Support Centre (NYDSC), said the centre was liaising with international bodies, including Gartner, the International Monetary Fund and the United Nations to try to change perceptions about South Africa's readiness.

A spokesman connected to M2K, the non-profit company involved in the Y2K remediation project for local authorities, said the problem may be that perceptions were realities.

The NYDSC said the South African embassy in Washington and other high-level sources would try to patch up relations with Cargill and any other companies worried about doing business with South Africa.

However, the centre said it would not publish statistics that could facilitate a good impression of the country's Y2K health because they could be misleading.

Sowetan 1/10/99

Allure of Africa fades

Foreign direct investment in South Africa and the continent in general dropped last year, **Sharon Chetty** looks at some of the reasons ... (74B) (1)

FOREIGN direct investment (FDI) in South Africa dropped last year, adding to the overall decrease of investment into the rest of the continent, according to the latest World Investment Report of the United Nations Conference on Trade and Development (Unctad).

The decrease to South Africa has been attributed to a slow down in privatisation-related investment.

Whereas in 1997, South Africa received a record $1,7 billion (about R10,2 billion) in FDI, in 1998 the figure was a mere $371-million (about R2,2 billion), placing the country seventh on the continent after Nigeria (which was number one) followed by Egypt, Tunisia, Algeria, Zimbabwe and Angola.

The decline has also been attributed to reduced investment by Asian companies, especially from Malaysia, due to the economic crisis there.

However, if the South African figure was excluded from the overall tally, the continent would record a "modest increase", says the report.

And while Africa has been benefiting from an inflow of FDI since the early 1990s, the growth in investment is still less than for other developing regions, "leaving much of Africa's potential for FDI unutilised".

Germany, Malaysia, Switzerland, the United Kingdom, United States and Italy – mainly because Aeroporti di Roma bought a stake in the Airports Company of SA – were the main sources of FDI into South Africa.

The industries that attracted most of the investment were in energy and oil, mining and quarrying construction and materials, motor vehicles and components and food and beverages.

In the Southern African Development Community (SADC) region, there had been $2,27 billion (about R13,62 billion) FDI, which was a mere 0,35 percent of the world's inflows.

While the "security situation", in other words the high crime rate, is cited as a concern for investors coming into SA, war-torn Angola, which has government-controlled oil resources, beat SA to the investment cake.

Algeria, another country wracked by internecine violence, but which also has oil resources, earned more FDI than SA with $500-million (about R3 billion) flowing in there.

Not surprisingly the war-torn Democratic Republic of Congo earned nothing.

And in South Africa's case, there appears to be little or no correlation between a country's attractiveness and the amount of investment it receives.

South Africa is touted as the most attractive on the continent, followed by Nigeria and Botswana while Zimbabwe is way down the scale.

UN secretary general Kofi Annan.

However, prospects for higher FDI into South Africa are still good, particularly in manufacturing, mining and forthcoming privatisation projects, predicts the report.

Regional integration in SADC, the conclusion of trade agreements with both the European Union and the United States and "domestic and political developments" are the factors which are expected to influence FDI inflows into SA in the medium to long term.

And prospects for Africa generally are good, says the report, "as many African countries appear to be a better place to do business than the overall negative image would suggest".

The existing disparity between the developing and developed world is quite stark and is increasing.

Despite a general slowdown in world economic growth, global FDI inflows reached a record $644-billion (about R3 864 billion) last year, which was an increase on the 1997 level.

The European Union got 35,7 percent of that, followed by the United States, 30 percent, China 7,1 percent, Brazil 4,5 percent and Canada 2,6 percent.

Nearly all of the increase in FDI was concentrated in developed countries while FDI flows into developing countries as a group declined.

While the developing countries of Asia had reduced flows, Latin American and Caribbean countries recorded "strong performances" according to the report. And investment flows into the transition economies of Central and Eastern Europe remained almost stable.

Most of the FDI flows can be attributed to cross border mergers and acquisitions.

These include the merger of British Petroleum and Amoco of the US worth $55 billion (R330 billion); Daimler Benz of Germany and US Chrysler Corporation at $41 billion (R246 billion), Zeneca Group of the UK and Astra AB of Sweden worth $32 billion (R192 billion) and Hoechst of Germany and Rhone-Poulenc of France worth $21 billion (R126 billion).

Transnational Corporations (TNCs) are at the core of global FDI, says the report.

There are some 60 000 TNCs which in turn have more than half a million affiliates that account for an estimated 25 percent of global output.

The world's largest 100 transnational corporations, when measured in terms of foreign assets, "hold a dominant position in the international production system".

They now account for $4 trillion (R24 trillion) in total sales and hold a stock of assets in excess of $4,2 trillion.

General Electric is the world's largest TNC, followed by the Ford Motor Company and Royal Dutch Shell Group.

Among the top 100 TNCs, only two are from developing countries: Petróleos de Venezuela and Daewoo Corporation of the Republic of Korea.

The report says that FDI "is now the single most important source of external finance" for developing countries.

It overshadows official aid and exceeds net lending by international banks. At the same time, it is not just about money changing hands.

FDI can comprise a package of resources such as new technology, access to new markets, the transfer of skills and management techniques and consideration for the environment for the country into which in flows.

However, governments still have to be cognisant. As United Nations secretary general Kofi Annan says in the preface to the report:

"To promote the development of their own countries, governments need to maximise the positive contribution that foreign direct investment can make to development and to minimise any negative effects it may have."

FOREIGN DIRECT INVESTMENT

(74B) 18 FM 1/10/99

OIL AND TIMBER HAVE LIMITS

Attracting funds to manufacturing sector is key to future growth

Poor infrastructure and the HIV/Aids pandemic are hamstringing Africa's ability to attract foreign direct investment (FDI), particularly into the manufacturing sector.

The continent needs more foreign investment to drive economic growth and development because of its low level of savings — which has averaged 17% of gross domestic product (GDP) in the late Nineties compared with the 25% average for Asia's developing countries.

Though Africa's record in attracting FDI has improved in recent years, the main attraction to investors remains its natural resources, such as minerals, oil and timber. Last year, Africa attracted 17% of the estimated US$3,5bn spent on nonferrous minerals exploration worldwide, says the *1999 African Development Report*.

Though resource-based FDIs bring capital, their benefits to developing countries have been mixed, according to the World Bank's *1999/2000 World Development Report*. The data does not take into account the wealth the country loses when resources are extracted. The extraction could damage the environment, and the economic growth might not be sustainable.

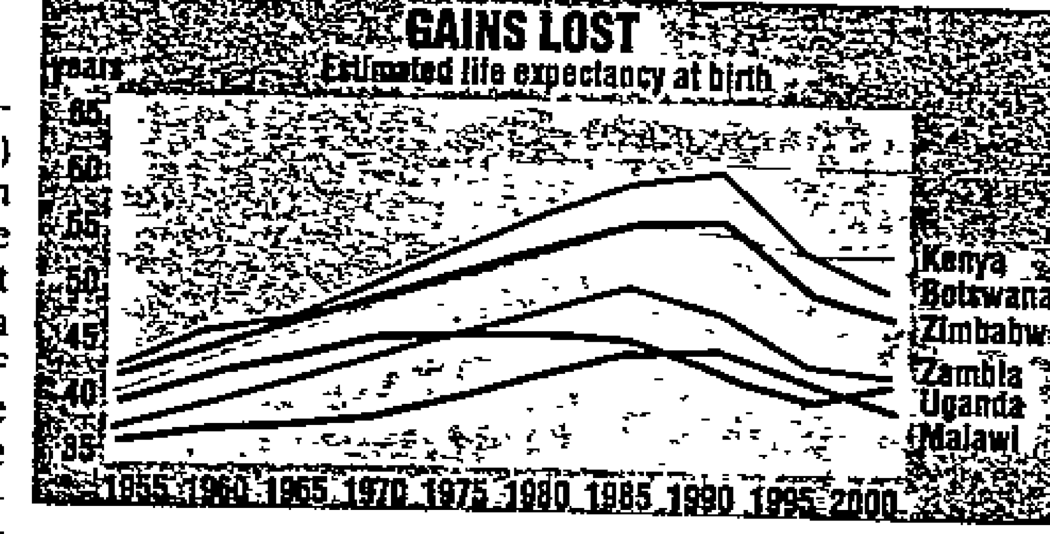
If Africa is to sustain economic growth, it needs more investment in manufacturing, which offers new technologies, new markets and increased human capital.

The UN Conference on Trade & Development suggests Africa should seek to attract FDI on two fronts: companies seeking relocation to areas where unit costs of production are lower, and investors seeking preferential access to export markets.

Mauritius has successfully exploited both lines of attack, with its efficient infrastructure, labour productivity and preferential access to European (under the Lomé Convention) and US markets.

African countries sharing similar preferential access to Europe under Lomé have not reaped the same benefits because of poor and expensive infrastructure such as electricity, roads, telecommunications and transportation.

The African Development Bank (ADB) cites a study on African exports to the US which found that freight charges as a proportion of CIF value (cost, insurance and freight) were higher by 20% on average than for similar goods from other low-income countries.



"In effect, the international freight charges facing African exporters are a significantly greater source of protection for US producers than are the remaining US import tariffs," the ADB says.

The ADB attributes the decline in Africa's share of international trade from 5,9% in 1980 to about 2% in 1998 to a loss of export competitiveness because of mainly poor and inefficient infrastructure.

Africa also remains unattractive because of the small size of its markets. Speedier integration of regional economies would help.

One victim has been the Southern African Development Community (SADC)'s clothing and textile sector, according to Johannesburg-based consultancy Businessmap. "While clothing and textiles are seen as one fruitful area as cotton production in the region advances and overseas producers look to locate near supplies, the impasse between SA and regional producers over tariffs raises questions around the attractiveness of the sector," Businessmap says.

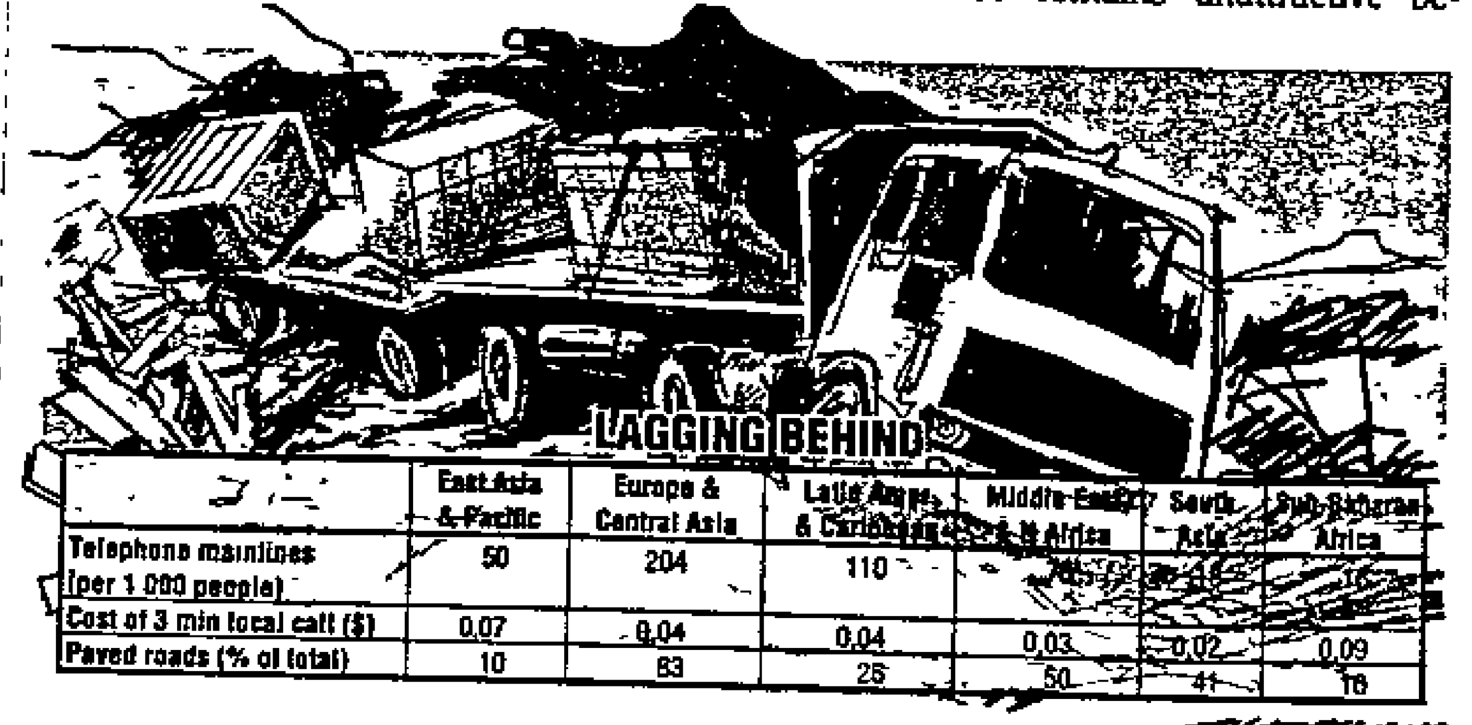
The consultancy also found that the SADC's ability to attract value-added industries was constrained by the failure of most governments to keep pace with the demands of competitive skills training, combined with factors such as the "brain drain" and the impact of HIV/Aids.

The HIV/Aids epidemic threatens to reverse 30 years of improvements in human development for most African countries.

The World Bank notes that the spread of HIV/Aids will increase labour costs and decrease the availability of skilled labour. The bank cites a study of several companies in Botswana and Kenya which showed that the main elements of increased labour costs were absenteeism and higher expenditure on medical and other benefits.

It took Botswana more than 30 years to improve life expectancy from 47 years to 62 by 1990. But between 1990 and last year, HIV/Aids had cut life expectancy by nine-and-a-half years, according to the World Bank.

Zakhele Sikhakhane



LAGGING BEHIND

	East Asia & Pacific	Europe & Central Asia	Latin America & Caribbean	Middle East & N Africa	South Asia	Sub-Saharan Africa
Telephone mainlines (per 1 000 people)	50	204	110	[illegible]	[illegible]	[illegible]
Cost of 3 min local call ($)	0,07	0,04	0,04	0,03	0,02	0,09
Paved roads (% of total)	10	83	25	50	41	16

Home Affairs 'circus'

Stalling over foreigners' work permits puts multimillion-rand investments in jeopardy

(746) (236) ST(CM) 3/10/99

BOBBY JORDAN

A BUREAUCRATIC "circus" in the Department of Home Affairs is threatening to sabotage a R30-million investment deal in the Western Cape between South Africa and one of the world's leading airlines

Lufthansa had to scupper plans to expand its global telesales call centre at Cape Town International Airport in June because the department has turned down applications for work permits for several of its employees.

The move has outraged senior Department of Finance officials who have been battling to secure foreign investment They say the deal is one of several multimillion-rand investments that are being jeopardised by Home Affairs administrative delays.

Minister of Trade and Industry Alec Erwin, who was in Washington this week, declined to comment

However, a senior government official, who asked not to be named, said the Minister had been asked to intervene because it was feared South Africa was losing hundreds of millions of rands.

The telesales centre employs 40 consultants who handle overflow calls from Lufthansa's main call centre in Kassel, Germany. The company had planned to expand the centre to four times its size, employing 160 consultants, by June 11 Sources say it may have to pull out of the deal, which is being negotiated in conjunction with Investment South Africa and the Western Cape Investment and Trade Promotion Agency (Wesgro).

According to documents in the possession of the Sunday Times, the Home Affairs Department had given Lufthansa an assurance that work permits would be processed in time.

Lufthansa was considering "cutting its losses" if the issue could not be resolved, the documents said.

Several meetings had been held, but the department continued to reject the applications It claimed the applicants' backgrounds and qualifications were not suitable. It also claimed:

- The applicants' skills and abilities were available in South Africa;
- Lufthansa was dictating to the Department, and
- German companies and churches had a reputation of abusing the immigration system in South Africa.

Wesgro's chief executive Peter Pullen said the delays were unnecessary and "problematic".

Lufthansa was unable to bring in the technical experts it needed, he said

In a statement this week, the managing director of the Lufthansa call centre, Roman Zynga, said. "During the recruitment stage, several successful candidates were based outside South Africa. Work permits for these candidates . await authorisation.

"The call centre in Cape Town (currently) represents an investment of more than R10-million and (it) plans to employ more than 160 consultants by the year 2000 . more than 80 percent of the staff will be South African."

Another company, Hong Kong-based Novel Industries — which has invested more than R100-million in two factories in Atlantis and employs more than 240 people — is considering scaling down operations because of difficulties with work permits.

Novel has said it may reconsider its plan to invest another $3-million (R18-million).

Numerous requests for comment have been directed in the past two weeks to the Department of Home Affairs' chief director for migration, Dr Patrick Matlou, and director for migration, Michael Tlhomelang, but none has been received.

Meanwhile, the country's top immigration lawyers have slated the department. They claim it has disintegrated in the wake of scandals around former director-general Albert Mokoena who has had to quit, leaving a backlog of about 7 000 work permit applications and a dysfunctional system

"We have a renegade public department — no matter what we do it remains unresponsive," said lawyer Gary Eisenberg.

"If a department is not answerable to the public, then we have a national crisis."

Investors' attitudes changing, says Ramos

BD 14/10/99 (74B)

Finance department finds that it pays to be open and honest

FINANCE director-general Maria Ramos says foreign investors are still worried about crime and the pace of privatisation, but on the positive side, they no longer worry about SA's creditworthiness.

Speaking at the launch of I-Net Bridge and MarketStream's new financial data receiver in Sandton on Tuesday night, she said: "Crime is an issue on investors' minds. They want to know what steps are being taken to deal with the problem."

Referring to the president's announcements on crime, Ramos said: "The tougher measures have been a comfort to investors."

Regarding privatisation, Ramos said investors had misunderstood the processes and regulations that needed to be put in place before state assets such as railways could be privatised.

Ramos said it was good news for the SA economy that the dollar gold price had improved, SA prime interest rates had fallen and the country's inflation rate was under control. Government had made the right economic decisions.

She said these choices had enabled the SA government to reduce its budget deficit, avoid squeezing savings and had allowed it to keep up social spending, especially on the country's poor.

Ramos also said economic decisions had to be based on sound information. The finance department had improved the quality of information that it makes available to the markets and the public.

Ramos attributed the change in investors' perceptions to the ministry's communications strategy. "We have communicated openly, transparently and honestly.

"During last year's emerging market crisis we learnt that it does not pay not to be open. A lot of uncertainty was reduced when the SA Reserve Bank started to publish forward book and foreign exchange reserve data on a monthly basis," Ramos said.

Ramos said that, in the case of another crisis, government would respond in a way similar way to its approach last year.

"SA has a strong banking sector which is sound and well regulated," Ramos said.

Ramos also said that SA was not in a position where it needed to apply for a loan from the International Monetary Fund's (IMF's) new contingent credit line programme.

The IMF introduced the credit line in May with the intention of offering credit lines as back-up finance for countries pursuing sound policies but threatened by crisis contagion.

Turning to the SA Revenue Services (SARS), Ramos said tax collection had improved.

"If you have not submitted your income tax form, the SARS will contact you at 8pm at night, when you are about to have supper, just to see if you need any assistance," Ramos joked. "There has been a massive improvement in this area." — I-Net Bridge.

SA's poor image keep investors away

(74B) AACT 21/10/99

JON JETER

Frustrated by their inability to attract foreign investment, South African officials recently surveyed corporate executives worldwide to learn why.

The Germans complained about crime. The British were concerned about the high AIDS rate. Everyone was reluctant to do business with South Africa's assertive labour unions. But one US executive's response really crystallised the issue.

"Why," the survey quoted the executive as saying, "we still see South Africa as one big game reserve."

For all its triumphs – the peaceful transition from white minority rule to a democracy, and the free-market reforms that have been lauded internationally – South Africa still has an image problem.

"People don't even know we have paved roads in South Africa," said Mpho Mosimane, a spokesman for President Thabo Mbeki. "That told us that we need to do a better job of marketing."

To be sure, South Africa's image is nowhere near as bad as it was before 1994, when the apartheid government trampled the rights of the black majority and defied economic sanctions and ridicule from the international community.

When Congress approved sanctions in 1986, 360 US companies were doing business in South Africa; by 1991, only 125 remained.

But the flood of foreign investment that everyone expected to follow the first all-races elections in 1994 has been a trickle. Today, 386 US firms operate in South Africa, about the same number as before sanctions.

Total foreign investment over the last five-year period is less than $10-billion (R60-b) – at best half the level anticipated when Nelson Mandela became the nation's first democratically elected president.

"South Africa really inspired a lot of people with this feel-good tale of good versus evil," said Dwayne Gathers, director of the California Office of Trade and Investment here. "But when you look really closely at the situation, that's all a lot of Americans really know about this place. Sometimes I'm just floored at the lack of sophistication that people have in dealing with South Africa."

For instance, people in California don't realise South Africa is much farther away than China. "I tell people all the time that if you mail a package FedEx, then it will take two days to get here," he said.

"Everyone just sort of took it for granted that the money would start rolling in when Mandela was elected," Mr Gathers said. "At the end of the day, there are a lot of places to invest your money, and South Africa just hasn't been at the top of anyone's list for a long while."

'We still see South Africa as one big game reserve'

Mr Mbeki's visit to the United States late last month was largely a recruitment drive. He met with hundreds of corporate executives and potential investors in New York, reassuring them that the government was addressing crime and AIDS, and holding the line on its austere economic plan, called Growth, Employment and Redistribution (Gear).

Still, South Africa's entrance into the pool of emerging market countries came just as competitors in Asia and Latin America – almost all with larger populations than South Africa's 42 million – were becoming investment darlings and receiving most available money.

And opening South Africa's long-protected market hasn't come without growing pains. As unemployment increased, so did crime. In a World Economic Forum index measuring the economic competitiveness of 59 countries, South Africa ranked 47th. When business executives were asked to assess protection provided by local police, South Africa ranked last.

"We've had a lot of break-ins, and we've had to spend thousands of dollars on electric fences and security, and it's just a major pain," said M Hesse, chief executive of Wika Instrument Corporation, an international electronics firm with a plant here.

Work force productivity is a major question mark, with the rising AIDS rate, labour unions that aren't afraid to strike and the number of blacks who were poorly educated under the apartheid Government and often don't have the skills for high-tech jobs.

The new Government's affirmative action requirements and labour laws are seen as onerous.

Corruption is also a barrier. When Wika Instruments bid on a Government contract last year, Mr Hesse said, mid-level government officials made it clear that a bribe would help Wika's cause.

"We told them to go jump in a lake, but you have to be aware of those hidden costs before deciding to do business here."

There are signs that South Africa will turn the corner, said Mr Hesse and others. Mr Mbeki has announced the creation of a special police force, much like the FBI, to target priority crimes, and has directed his cabinet to loosen its labour laws to encourage entrepreneurship. Rising gold prices could stem job losses in the mining industry.

South Africa's ability to round up foreign investment is crucial to the economic development of the rest of the continent.

"Any African renaissance will start here," said KV Schuurman, chief executive for the German Chamber of Commerce and Industry. "South Africa is where the cake is baked. Everyone else is just making cookies." – Washington Post

ST (BT) 31/10/99 (23b) (74B)

Immigration mess scares investors

HOME AFFAIRS
By SUE THOMAS

FOREIGN investors caught up in Home Affairs' worsening tangles of red tape have caught fright and are threatening to avoid the country, say investment agencies and investors.

It's so bad Trade Minister Alec Erwin wants a meeting with Home Affairs Minister Mangosuthu Buthelezi on Tuesday to thrash out the problem.

Said the deputy CE of a major investment agency, who did not want to be named: "The problem's getting worse and it's putting off investors.

'The feedback we're getting is that if it's going to be impossible for us to get work permits for our personnel in this country, then we're not coming."

This week, a potential investor told him the visa issue was a deal killer. "What's the point of spending a fortune trying to attract investment when a government department is single-handedly dismantling all these efforts," he says.

Home Affairs spokesman Hennie Meyer says the department receives complaints about visas "from time to time but I'm not so sure it's any different in other countries".

Says an American Chamber of Commerce official: "It's getting much worse. A backlog is piling up, they're understaffed and there's less and less motivation to do anything about it."

Businessmen from mainland China, encouraged by two high-profile trade visits to SA this year, are being stonewalled. "The situation has become farcical," says Martyn Davies of the Africa Asia Society. "A president of a Chinese bank with an office in SA was recently refused a visa to visit the country."

Home Affairs and government's investment agency, Investment South Africa, are supposed to work together in approving visas for investors, says Davies. Yet the department recently issued a directive to SA missions to bypass Investment South Africa's input.

Davies says several Asian businessmen have complained that Home Affairs officials are demanding bribes but European and American chambers of commerce say they have received no reports of fraud.

Klaus Shuurman, head of the Southern African-German Chamber of Commerce and Industry, says the biggest problem is bureaucracy.

European chambers of commerce, with the help of Home Affairs, are printing a pamphlet on how to apply for work permits. — *I-Net Bridge*

SA crime is still investors' top deterrent

(74B) (34)

Justin Palmer

ANY country which acts to prevent capital outflows also acts to prevent capital inflows, Lord Renwick of Clifton said at the forum yesterday.

During a session dealing with mobilising investment in the Commonwealth, Renwick said investors should be able to invest in a country but they should also be able to repatriate their capital.

"There are ways of discouraging highly volatile short-term capital movements. Beyond that it is best to let the market do its work," he said, adding that most portfolio investments were not short-term and should therefore be facilitated.

Renwick, formerly the British ambassador to SA and now deputy chairman of investment bank Robert Fleming Holdings, offered insights into what overseas investment institutions looked for when deciding which countries to invest in.

He listed five requirements: political stability, rule of law, sound macroeconomic policies, sensible monetary policies and effective, transparent, predictable regulations.

He said Africa had been less successful than Asia or Latin America in attracting large-scale investment flows because its nations did not score particularly highly in terms of the above requirements.

He added that African economies continued to be buffeted by factors outside government control. In SA's case, he gave the examples of the Bank of England's decision to sell off part of its gold reserves and the protectionist restrictions on the country's agricultural exports under the European Union-SA trade agreement.

Commenting more broadly on SA, he said the single largest impediment to investment in the country was violent crime. "It is a matter of life and death, not only for those affected but for the economy as well," he said.

Renwick said SA had one of the strongest economic policy teams of any developing country and that, despite challenges, government had also pursued policies that were deserving of international support.

BD 11/11/99

How SA can prove it's a serious prospect for investors

In an African way, we need to tell the world that we are ready to grasp the new century, argues the leader of the Opposition, **Tony Leon**

(74B) ARG 18/11/99

I have, over the last week, had the privilege of a crash course in investment economics and the business of emerging markets from some of the largest and smartest investors and traders located in the City of London.

Typically, and cumulatively, they hold positions or billions of dollars in the South African bond, currency and foreign debt insurance markets

Aside from being asset managers of global repute and hedge funds of big risk and even bigger return, they have views on how South Africa will attract much-needed, and seldom-sighted, foreign direct investment.

Foreign direct investment, rather than the more volatile short-term flows which characterise our present investment profile, is the biggest single external factor which will turn South Africa into a winning nation – and prevent us joining the ranks of world also-rans as a nation remembered briefly for its noble miracle in 1994 and then consigned or forgotten somewhere between Somalia and the Sudan.

Generally, the view in the financial markets is bullish about South Africa for the next 18 to 24 months.

But more is required of us for fundamental growth in the longer term.

There is a view that President Thabo Mbeki, Finance Minister Trevor Manuel and Reserve Bank governor Titus Mboweni are three men at least who understand the modern world and how it works

But it is this assumption which heightens the expectation and fuels the assumption that "something more" will happen on the economic front

Large flows of foreign direct investment (FDI) into the country will occur only when South Africa erects and advertises certain benchmarks against which our economic attractiveness is measured

Undoubtedly, there is justifiable appreciation for the responsible conduct of monetary and fiscal policy and the liberalisation of our trade regime.

But, frankly, this is simply too little and too unexciting to attract the capital flows we need

While investors and potential investors are, for example, impressed at the courage and commitment of the Reserve Bank governor, in considering inflation targeting, they still ask. "How will you ever achieve attractive low levies of core (not headline) inflation without fundamentally reforming your labour market and downscaling the government sector and its mammoth size?"

The answer to these two questions is, in my view, the key in determining whether we get it right or take the road of the "also-rans"

■■■■

Reflecting on "Africa and South Africa in the next millennium", there are certain simple, but essential steps which will help the "forgotten continent" to be taken seriously at last.

1. A change of style

The new breed of African leadership needs to change its priorities and profiles alike.

It is clear that Mr Mbeki, more than Robert Mugabe, reflects the new spirit in Africa and that can only be to our advantage

But as that most astute and sympathetic Africa watcher, Michael Holman, said to me: "The relationship between the West and Africa is like two partners in a bad marriage – they both know each other intimately, but they fail to excite or even interest each other any more."

We in Africa need to change that! We need to stop living down to a bad or wasteful reputation We also need to take advantage of the new breed in world entrepreneurs, from Ted Turner to Bill Gates to Steven Spielberg

They don't just make conspicuous sums of money, they also want to "do good" So, we should bring them to Africa

For example, we should show them Anton Rupert's pride and joy, the Peace Parks which cross borders and enhance conservation.

And we should show them where low investment in dollar terms can yield a very high return.

In fact, if we spent as much time (and money) in South Africa on hosting the world's leading chief executives – and pampering their needs and flattering their vanities – as we do on Non-Aligned summits, or Commonwealth heads of government meetings, the investment would repay itself a thousand-fold.

The Organisation of African Unity, the Non-Aligned Movement and the Commonwealth have their place But on the eve of the 21st century, surely we need to switch priorities and act on the realisation that attracting and maintaining the goodwill of investors, not just governments, will drive our country and our continent forward

2. Sell Africa differently

We need to remind the West and the world that Africa can no longer be ring-fenced in a globalised world While maintaining the world's interest in Africa is a hard sell, the technique needs to change

We need to remind the world that a warring Africa, a diseased Africa and a poor Africa pose real threats to global stability The spread of AIDS, the trafficking of drugs, the rise of fundamentalism and the export of terrorism will, literally, destabilise the world, if it simply shrugs off the problems of Africa.

The flipside of globalisation is that you can no longer ring-fence Africa and its problems.

'You can no longer ring-fence Africa and its problems'

Where our region is not at peace – in Angola, in the Democratic Republic of Congo – we need heightened international involvement, a raised diplomatic profile and a recognition from the United States and the European Union that these nasty regional disputes, if left unaddressed and unresolved, spill over and, when the spillage is too great, containment can be too late.

3. Reflect a changing ethos

Africa and South Africa need to communicate their changing ethos. We need to tell the world that Lagos has privatised its water supply, that De Beers has made a compact with the World Health Organisation to wipe out polio in Angola and that Africa is open for business We should tell them that, in an African way, we are ready to grasp the next century.

4. Africa needs to get wired

Of all the questions I've been asked in Europe, the most difficult to answer is, "How prepared are you and what policies are you pursuing for the technological revolution which characterises the age of information? Around the world, it's the age of the individual, the small unit, the internet and small business using e-commerce

Yet, too often in my country, refuge is sought and solutions are searched for in big government, in centralisation and in over-regulation.

These are simply the wrong options, out-of-date solutions, and lead us again down the path of the also-rans.

We need to grasp the implications of the information age fast.

When it comes to technology, we have yet to create a new legal framework for e-commerce or give incentives to business to move on to e-commerce, or even gear our education and training system to the internet revolution

In a country and continent still grappling with the problem of delivering basic literacy, this observation might seem frivolous. Yet it is central to South Africa maintaining a competitive edge.

And, if we don't change, even revolutionise our thinking, we will condemn our poor to further marginalisation

We should train our unemployed in computing skills; we should provide all our public libraries and, on a progressive basis, schools with the internet.

5. Practise good governance

Of all the messages I received, the loudest one, perhaps, relates to good governance

People turned away from Africa because of bad governance, corruption, dictatorships, state over-regulation and the suppression of human rights

They will "turn on" to us when we exhibit the characteristics of good governance.

I'm not talking here just of regular elections.

I mean thriving multiparty systems, a separation between party and state and the strict, but fair, application of the rule of law by independent courts

The South African Government does itself abroad, and our citizens at home, no favours by its intolerance of opposition and its sidelining of Parliament

It is the reversal of these trends that the world expects if our country is to assume its rightful leadership role in the continent and the continent its proper place in the world.

SA retains investment rating

748 BD 10/12/1999

Jonathan Katzenellenbogen

INTERNATIONAL rating agency Duff & Phelps has maintained its investment grade for SA, saying it will consider an upgrade only "if progress on the privatisation and labour-market fronts underpin a sustainable increase" in the country's economic growth.

Duff & Phelps said yesterday that "cumbersome new labour regulations" could damage job creation over the medium term. It attributed poor economic growth and employment creation "to the government's slow progress in the areas of labour reform and privatisation".

Duff & Phelps and Moody's have given SA the lowest possible investment grade rating. The other large US agency, Standard & Poor's (S&P's), rates SA below investment grade, but is to review this early next year.

Yesterday Duff & Phelps reaffirmed its BBB- rating on SA bonds denominated in foreign currency and its A- rating on local currency government debt. It maintained the outlook on the rating as stable, implying little chance of an upgrade next year.

Speaking from London, Jaime Sanz, a Duff & Phelps vice-president who visited SA two months ago, said the labour market problems were not a matter of specific laws, but rather the entire package of legislation "which does not help the unemployed and only helps those with jobs".

Sanz said an unemployment rate of about 33% was unsustainable and "labour market changes have to happen". However, he was encouraged by government's continuing review of legislation that might impede small business development.

Duff & Phelps said political support for austere policies would strengthen SA's medium-term creditworthiness.

It said policy continuity after the retirement of former president Nelson Mandela proved that "political risks are diminishing and succession risks had been initially overstated". It pointed to a strong macroeconomic policies, with a government budget deficit of 2,8% expected this fiscal year and a falling inflation rate.

Rand and bond dealers said there was little market response to the reaffirmation of the rating. A London bond dealer said an investment grade rating from S&P's could lower the spread at which SA borrowed over US and German government debt by as much as half a percentage point.

Finance director-general Maria Ramos said that she did not know what more SA had to do for S&P's to grant it an investment grade.