FOREIGN TRADE (B)

Malaysia's investors look to long-term SA prospects

(74B) BD 6/8/96

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

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

This excludes Malaysia's biggest investment in SA so far — the R1,9bn purchase in June by state-owned oil company Petronas of a 30% stake in Engen.

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

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

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

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

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

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

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

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

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

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

Trade between the two nations has also picked up in the past two years. SA Foreign Trade Organisation figures show SA exports to Malaysia almost doubled to R626,7m last year from R342,8m in 1994, with imports up R44,7m in that same period. — Reuter.

SANDF can play a vital role in ensuring investor confidence

(74B) BD 7/8/96

RONNIE KASRILS

THE recent visits abroad by President Nelson Mandela and Deputy President Thabo Mbeki illustrate the fund of goodwill that exists towards SA.

Crucial to the prospects for our country is our ability to translate this support into substantial long-term investment.

Central to the challenge is the concern over stability which has a direct impact on investor confidence. The stability is what Defence Minister Joe Modise is seeking through his positioning of defence within our new economic vision.

The essence of this position, encapsulated in the new definition of security in the white paper on defence, sees the role of defence as not only protecting against conventional threats, but also serving to create a positive climate for economic development and social progress.

Defence thus has the wider utility of cementing stability — the prerequisite for investment and socio-economic upliftment — through guaranteeing peace and security and promoting confidence in SA.

In the absence of a foreseeable military threat, some query the very necessity of maintaining a defence force. There are many ripostes to this argument, but let us simply consider the detrimental effect on the international community of an SA bereft of a conventional defence.

Without credible defence, even the most naive must concede that we would lack a central pillar of state to reinforce our sovereignty and underwrite our long-term security. The visible guarantor of stability is what the world expects of a responsible state, and is the basis on which the international community will judge our investment potential.

The crime wave often prompts a second question: "Why not a soldier on every street corner?" But far more is being contributed by the SANDF than meets the eye.

Through the national crime prevention strategy, the SANDF deploys 8 000 troops, or 60 companies, a day to reinforce the police.

In numerous combined security operations against organised crime, such as drug and gun smuggling, and in curbing political violence, soldiers have logged thousands of hours — manning road blocks, searching for weapons and patrolling trouble spots.

Some security responsibilities, such as border patrols, illegal crossings, cattle rustling and safeguarding remote farms, have been taken over from the police. In addition to the 2 000 troops continually on duty in KwaZulu-Natal, the deployment of double that number during the recent local government elections there was widely credited with helping to ensure peaceful conduct of those elections — further enhancing our image as a state committed to peace and security.

All of this allows the release of more police to combat crime at local level, where it counts most, and is a better contribution to combating the criminal menace than posting soldiers on street corners.

What needs to be understood is that we are limited in the number of troops deployable. The army is made up of 47 000 soldiers, of which 12 000 are available, through rotational deployment, as combat troops for these tasks. What must also be understood is that we no longer have hundreds of thousands of citizen force conscripts available.

Limitations or not, the SANDF is daily underwriting the social and political stability, which the recent Nedcor Project on Crime and Violence and Investment identified as significantly influencing international investment decisions.

Regionally, credible defence makes good economic sense too.

KASRILS

The Southern African Development Community has reported that it is increasingly becoming an attractive market and area for investment. Given that in the highly competitive global economy, states and economic blocs compete among themselves for investment on the basis of security they offer for that investment, our ability to contribute to the long-term stability of the region will enhance its attractiveness.

The cementing of this stability, to stimulate the flow of international investment and create new market opportunities, can be achieved through building credible defence and security co-operation with our neighbours, under the auspices of the SADC's security organ, the Interstate Defence and Security Committee, which Modise chairs.

When we consider that more than 80% of the value of our international trade and more than 90% of its volume pass through our harbours, it is not surprising that international investors regard SA as a "port of entry" to the region.

Consequently, it is to our distinct advantage to visibly facilitate safe and assured access to our ports. To do so effectively, we require the appropriate wherewithal.

Taking the navy as an example: replacing the ageing strike craft and submarines can be seen as necessary to ensure the safety of international maritime traffic, by enabling us to adequately patrol our sea lanes. Such vessels would also greatly enhance our ability to guarantee the maritime sovereignty of our 200-mile exclusive economic zone — an area equal in size to the land mass of SA (Edward and Marion Islands each have their own exclusion zone) — rich in marine stocks and untapped mineral resource beneath the seabed.

The utility of our army and air force, suitably equipped, can be seen in similar terms, particularly in relation to regional peace support operations — the new mode whereby states manage conflict — and in the effective provision of humanitarian and disaster relief.

We need only recall our ability to respond to the recent ferry disaster on Lake Victoria, our assistance to Mozambique during the floods, and our humanitarian aid to Rwandan refugees, to appreciate a positive image created for SA.

At a time when international financial markets are so sensitive to rumour and speculation such positive images clearly inspire international confidence in a country, and such confidence spurs on investment. That is good for business.

A credible defence capability, as a means to ensure stability, can therefore be viewed as a significant national economic asset, rather than as a diversion of scarce resources. The challenge for defence is to retain a credible capability while remaining within our financial means. This is particularly so in the light of the huge defence spending cuts since 1989, with a reduction of more than 50% in seven years, and funding dropping from 4,5% of GDP to below 2%.

The "creeping obsolescence" of our main equipment — much of which will be completely obsolete by 2005 — is now a pressing issue, given our growing regional role.

A disciplined, logical financial approach to defence requirements is a prudent way of ensuring a stable, peaceful and secure environment, in which we are able to create jobs, put food in people's stomachs and roofs over their heads.

To map the way ahead for defence in this context, Modise has initiated a national defence review process, within the policy framework of the defence white paper.

This is investigating all aspects of defence, to recommend options for the role, structure, design, force and equipment levels and their funding, and human resource management, to establish an unprecedented national consensus on defence. Consensus ensures legitimacy for defence, and adds to its credibility. The confidence that credible defence gives our citizens and the much-needed international investor makes an incalculable contribution to our country and economy.

□ Ronnie Kasrils is deputy defence minister.

Investor concern after AEG head's killing

(74B) CT (Bon) 21/8/96

From Reuter

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

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

He was killed outside his home on Saturday.

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

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

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

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

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

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

Nearly two million serious crimes were reported last year, with only half solved, including 36 888 rapes, 18 983 murders and 66 838 armed robberies.

Pagad warns off investors 'until SA free of drugs'

(74b)

CT 21/8/96

STAFF REPORTERS

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

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

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

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

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

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

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

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

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

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

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

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

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

● See Page 7

Investors and tourists get warning from Pagad

(25) (288) (74B)

PIETER MALAN
Staff Reporter

ARG 21|8|96

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

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

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

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

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

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

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

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

The next speaker responded, to loud applause: "Pagad will not meet with Mufamadi until all charges against our members have been withdrawn."

Violent crime knocking investment prospects, top trade partners warn

BD 22/8/96 (74B)

Edward West and Ronny Tshabalala

SA's leading trade partners warned yesterday that escalating violent crime was damaging prospects of new offshore investment in SA.

Chambers of commerce for the US, UK, Germany and Japan — SA's top four trading partners last year — said crime was a key factor inhibiting investment in SA and that SA's government had yet to show a commitment to cracking down on it.

American Chamber of Commerce president Bill Mallory said a recent survey named violence and car hijacking as deterrents to US investment in SA. The findings of the survey had been passed on to the Gauteng provincial government.

The German chamber, which maintained earlier this week that 16 of the 30 heads of German companies in SA had been victims of violent crime, said yesterday that a teacher secondment programme funded by the German government was being obstructed by crime fears. One teacher was robbed at gunpoint in front of the German School in Johannesburg on Tuesday night.

The Italian embassy said it was compiling statistics on crimes involving its nationals and would consider linking up with other embassies once the report was complete.

Japanese External Trade Organisation director, Shintaro Matoba said Japanese companies had given staff manuals on how to protect themselves.

The calls for government to crack down on crime follow the murder last week of German businessman Erich Ellmer in front of his Bryanston home.

The killing helped to revive fears about the investment environment in SA and has been blamed in some quarters for a renewed weakness in the rand and equities.

Mercedes-Benz and its principal, Daimler-Benz AG, said yesterday that they would find it "increasingly difficult to justify any further stable investment in SA" unless something was done to address the instability in the country's community in general.

British business delegates said they also wanted action to follow the SA government's words on sweeping policy changes. "During SA's last trade mission to the UK the issue of the implementation of policies was raised," a spokesman said.

Comment: Page 12

Pagad tells investors to stay out

BD 22/8/96 (748)

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

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

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

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

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

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

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

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

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

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

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

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

Chinese 'to build a mini city in SA'

Kevin O'Grady

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

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

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

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

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

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

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

The Chinese would pay an agreed

Continued on Page 2

Chinese

Continued from Page 1

price for the land from their private funds and would pay the costs of construction, roads and services, Molefe's memorandum said.

Dragon City would be established on an initial 4 430ha site adjoining Potchefstroom with the option to expand it by an additional 10 000ha.

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

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

See Page 6

Warning on Mozambican illegal settler tinderbox

BD 29/8/96

Wyndham Hartley

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

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

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

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

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

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

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

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

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

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

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

SA to weigh performance not promises

BD 29/8/96 (74B)

Reinie Booysen

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

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

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

SA is the largest country still officially recognising Taiwan, the islands also known as the Republic of China. While mainland China has spoken of investing $18bn in a mini-industrial city near Potchefstroom, Taiwanese media reports that companies from the island state remain committed to an ambitious $3,5bn petrochemical complex in SA.

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

He said government legislators would be swayed more by trade figures, which totalled R5,7bn last year in the case of Taiwan and R2,9bn for China. However, the UK will hand Hong Kong back to China next year, and that territory currently enjoys annual trade of R3,6bn with SA.

Meanwhile, Reuter reports from Taipei that Taiwan said yesterday it had begun discussions with SA on sales of its domestically made AT-3 trainer jets.

QUESTIONS

†Indicates translated version.

For written reply:

Foreign private direct investment in SA

241. Mr A WATSON asked the Minister of Trade and Industry:

What (a) long and (b) short-term foreign private direct investments in South Africa were made by concerns in (i) the United Kingdom, (ii) Germany, (iii) Italy, (iv) Belgium, (v) Austria, (vi) Switzerland, (vii) France, (viii) the Netherlands, (ix) Luxembourg, (x) the United States of America, (xi) Taiwan and (xii) Japan in (aa) 1993, (bb) 1994 and (cc) 1995?

N435E

The MINISTER OF TRADE AND INDUSTRY:

The requested information was obtained from the South African Reserve Bank for 1993 and 1994. Unfortunately the figures for 1995 are not available yet.

Foreign private direct investments

1993	*R millions*		
	Long-term	*Short-term*	*Total*
UK	10 302	435	10 737
Germany	2 604	1 156	3 760
Italy	22	18	40
Belgium	237	43	280
Austria	56	11	67
Switzerland	2 590	289	2 879
France	139	69	208
Netherlands	1 833	71	1 904
Luxembourg	2 213	36	2 249
USA	3 362	305	3 667
Taiwan	19	4	23
Japan	54	14	68

Foreign private direct investments

1994	*R millions*		
	Long-term	*Short-term*	*Total*
UK	10 528	745	11 273
Germany	3 207	1 400	4 607
Italy	32	34	66
Belgium	196	83	279
Austria	62	15	77
Switzerland	3 090	379	3 469
France	725	123	848
Netherlands	3 554	104	3 658
Luxembourg	2 166	12	2 178
USA	4 078	693	4 771
Taiwan	20	6	26
Japan	138	22	160

Transkei/Ciskei: payments for telephone services outstanding

534. Mr J A JORDAAN asked the Minister for Posts, Telecommunications and Broadcasting:

(1) Whether any payments for telephone services in the former homelands of (a) Transkei and (b) Ciskei are still outstanding; if so, (i) what total amount is outstanding, (ii) how many subscribers still owe money on their accounts and (iii) over what period does the non-payment of telephone accounts extend;

(2) whether all telephones in these areas are linked to payment accounts; if not, how many telephones are not so linked;

(3) whether any arrangements have been made for the payment of these accounts; if not, why not; if so, what arrangements;

(4) whether telephone services to any subscribers in these areas have been disconnected as a result of the non-payment of accounts; if not, why not; if so, how many;

(5) whether any other action has been taken or is to be taken against payment defaulters; if not, why not; if so, what action?

N935E

The MINISTER FOR POSTS, TELECOMMUNICATIONS AND BROADCASTING:

The Managing Director of Telkom SA Limited has informed me as follows:

(1) Payments in respect of telephone services are still outstanding in the former homelands of Transkei and Ciskei.

(i) A total amount of R73 million in the Transkei and R20 million in the Ciskei is outstanding;

(ii) 22 800 subscribers in the Transkei and 26 700 subscribers in the Ciskei still owe money on their accounts;

(iii) most accounts are fully paid but a significant percentage is extended over a couple of years.

(2) No telephones in the Transkei and Ciskei areas are linked to payment accounts.

(3) In terms of section 5 (4d) of the Reorganisation Act, Telkom will continue to render final accounts on behalf of the State for a period of twelve months after which period the outstanding accounts will be handed over to the State Attorney.

In order to honour this agreement an interim structure was put in place to operate from 1 April 1996. It is known as the Bridging Structure and consists of a number of people (not Telkom staff) situated on the seventh floor in the Sancardia Building, Pretoria and regional people of the former TBVC territories situated in the respective territories.

(4) Telephone services in the Transkei and Ciskei areas were suspended and disconnected due to non-payment of accounts but at a very slow pace. The project team encouraged them to accelerate this process in order to work off the backlog before incorporation. As a result thousands of customers were suspended and disconnected. Due to consumer and union pressure in the Ciskei the former PMG instructed that the 3 000 customers suspended in March 1996 be reinstated immediately.

(5) All the former TBVC customers became Telkom customers on 1 April 1996 with a zero opening balance. Statements were sent to all customers, including those that are suspended or disconnected, indicating the closing balances on 31 March 1996. Statements will be sent out regularly showing any movement on the account since 1 April 1996. If no movements have taken place a letter of demand will be sent out. This exercise will continue until 31 March 1997 after which all outstanding accounts will be handed over to the State Attorney in terms of the Reorganisation Act. In order to handle all the queries on these accounts a toll-free number has been installed. Four people are handling the queries on a full-time basis

Universities: number of students

606. Mr T C NTSIZI asked the Minister of Education:

How many (a) Black, (b) Coloured, (c) Asian, (d) White and (e) other students were registered in (i) 1992, (ii) 1993, (iii) 1994, (iv) 1995 and (v) 1996 at each university in the Republic?

N1058E

The MINISTER OF EDUCATION:

Number of students enrolled at universities in South Africa according to institution and Population Group in 1992

Institution	*Whites*	*Asians*	*Coloured*	*Blacks*
Universities				
Cape Town	6 639	481	1 488	1 630
Durban-Westville	285	4 575	153	3 343
Medunsa	4	203	20	1 887
Natal	5 971	2 530	217	2 130
North	24	16	29	16 172
Orange Free State	6 241	6	323	138

Mbeki attacks industrial conglomerates

BD 11/9/96 (232) (74B)

Simon Barber

WASHINGTON — The unwillingness of SA's biggest industrial conglomerates to compete was a greater obstacle to increased inflows of foreign direct investment than crime or fears about the country's prospects after President Nelson Mandela's departure, Deputy President Thabo Mbeki said in an interview published in this week's international edition of Newsweek.

At the same time, Mbeki did not sound concerned by what is widely considered to be the disappointing level of foreign fixed investment — as opposed to "fickle" portfolio flows — in SA. "There has not been too much hesitation among direct investors; the ones who come and open up factories," he said.

Some, he said, were hanging back "because they simply find it is difficult to access the SA market, which is dominated by big conglomerates that are not too friendly to competitors."

Asked where SA was looking for markets, Mbeki left the US off the list while emphasing Western Europe and the developing "Africa, Asia and to some extent Latin America".

Mbeki blamed SA's crime woes on the past and on the poor quality of the police. The new government had not been prepared for the level of corruption it found in the service. "We knew there were some rotten officers, but we did not know just how wide the malaise had spread."

Nonetheless, he was confident that "the crime issue is part of the transitional phase we are in and will soon go down significantly". He did not elaborate on the reasons for his confidence.

Union militancy was "misunderstood". The unions posed "no threat to the state". "The first thing that hit Jacques Chirac as French prime minister was a wave of strikes. No one said France was collapsing." The real story of SA unions was not strikes but their "sophistication".

"Agreements reached between the National Union of Metalworkers in the automotive industry, for instance, are tied to productivity and the profitability of the companies. They include provisions for training to raise skills levels and discussion between union and management to achieve greater international competitiveness," Mbeki said.

Asked to assess government's performance since May 1994, Mbeki cited progress on the "political constitutional front", declining political violence and economic recovery. But government had had to revise its expectations of what it could do in terms of social upliftment. "We found the capacity for spending on development was not as big as we thought it was."

Looking to the future, Mbeki waxed enthusiastic on the possibilities of the "information superhighway" and the potential of "properly developed communications systems" to offset SA's distance from the industrialised world's markets. "We will also use the technical route not only to educate our people but to take specialist services to them.

"I think SA is positioned to occupy the cutting edge in terms of the creation of modern societies."

Hijackers holding investment in SA to ransom

(74b) ST(BT) 22/9/96

The pirates of our roads are hurting confidence, writes DON ROBERTSON

ALMOST 4 000 cars and an estimated 800 trucks were hijacked in the Gauteng area in the first six months of the year. In most cases, guns were used to do the job.

Car and especially truck hijacking, along with a general increase in violent crime, have become big factors in business confidence, severely affecting potential foreign investment.

According to a Nissan Diesel trucking survey, police and security companies engaged in anti-hijacking activities say collusion by the driver is evident in up to 90% of the cases.

The survey says hijacking trucks to gain control of the load is increasing, although the extent of losses to industry and commerce is difficult to assess.

The National Crime Information Centre says that in the six months to June, 3 895 cars were hijacked in and around Gauteng — 21 a day. This is marginally down on the 4 060 taken by force in the first half of last year.

Captain Jan Combrink, spokesman for the provincial police commissioner in Gauteng, says no official figures have yet been compiled, but it is estimated that between 750 and 800 trucks were hijacked during the period.

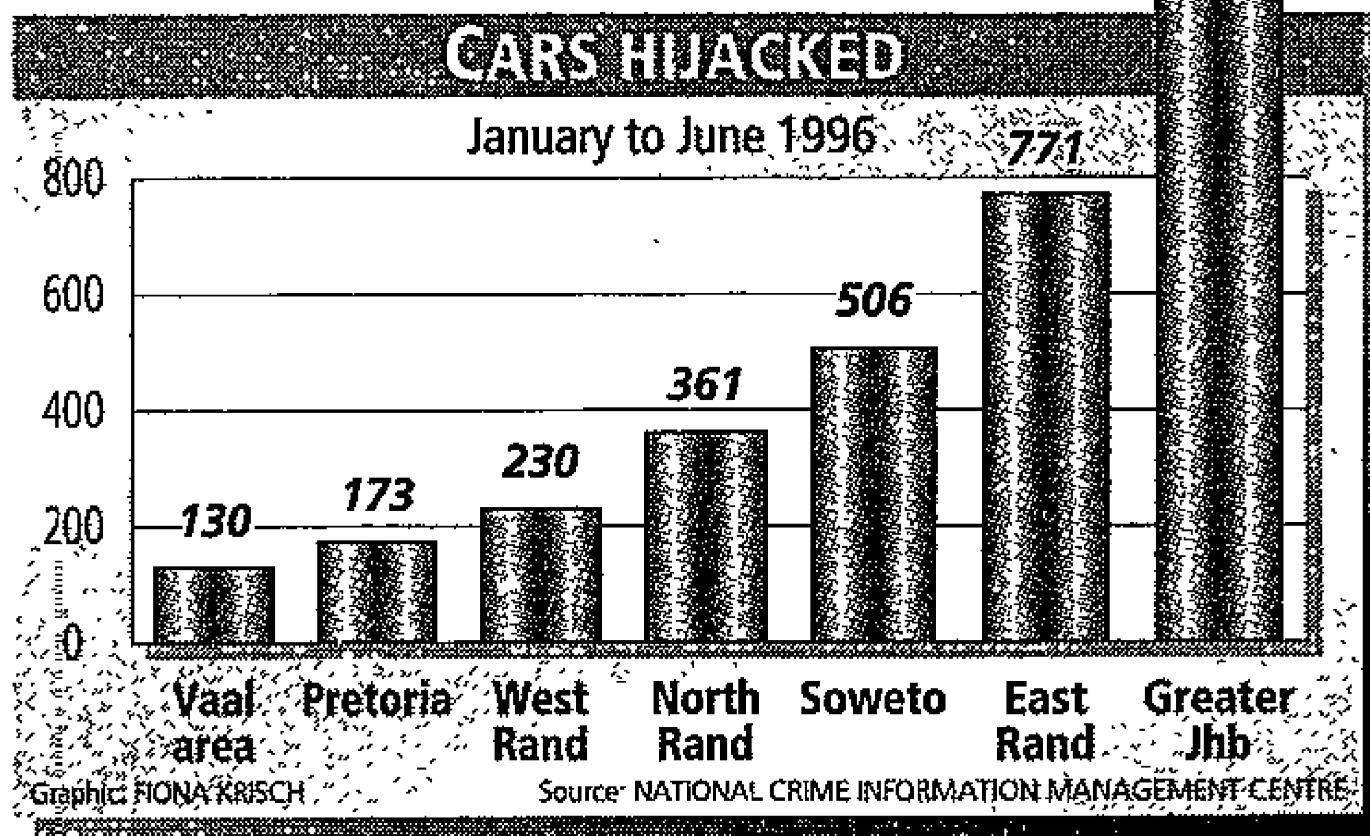
Last year 1 692 trucks were hijacked, an increase of 103% on the 1994 figure of 836 (itself 36% higher than the figure for 1993). About 83% of last year's hijackings were in the Gauteng area.

The efforts of the anti-hijack squad and the recently equipped highway patrol have made some progress. In the first half of the year police recovered 1 455 cars, made 400 arrests and smashed five syndicates. A total of 3 000 stolen cars were recovered.

"Since the beginning of the year, the anti-hijack squad operating under the Priority Crime unit, the highway patrol (equipped with 100 BMW cars), and a group which has infiltrated crime syndicates have shared information and have made significant progress in apprehending criminals.

"Although only 400 arrests were made, many more vehicles were involved — some syndicate members were charged for the hijacking of more than one vehicle," says Combrink.

Gauteng traditionally accounts for about 75% of the hijackings countrywide. The terrifying aspect of hijack statistics is that in 94% of the incidents, firearms were used, leading to 18 deaths and 43 injuries. The comparison for last year was 43 people dead and 87 wounded.



Greater Johannesburg is most susceptible to hijackings — 1 724 cars were taken during this period — followed by the East Rand's 771.

National Crime Information Centre figures show that 39% of hijacks were passenger cars, 33% bakkies, and 22% minibuses, while 6% went unrecorded.

Of the victims, 62% were black, 28% white, 6% Asian and 4% coloured. Thursdays between 8am and 10pm appear to be the most likely time for a car or truck to be hijacked, followed by Fridays and Wednesdays.

In 20% of the cases, victims were parked outside their homes or in driveways. The next most common ploy of hijackers was to rob people of their vehicles while stopped along the road, at traffic lights or stop streets, or by forcing vehicles off the road.

In the case of truck hijackings, vehicles carrying items such as furniture, electrical appliances, car parts, liquor, cigarettes, clothing, and photographic and entertainment equipment are most susceptible. Fuel and other large loads such as steel, all of which are easy to sell through "fences", are also vulnerable.

In the event of a hijack, the incident should be reported to the police as soon as possible. Statistics show that if the police are alerted within four hours of the event, there is a good chance of recovering the vehicle.

Jake Alberts, managing director of Natro Freight, has seen six of his trucks hijacked over the past two years, five of them in 1995. In none of the incidents were the trucks loaded, and none was recovered. The replacement value is about R1,5-million.

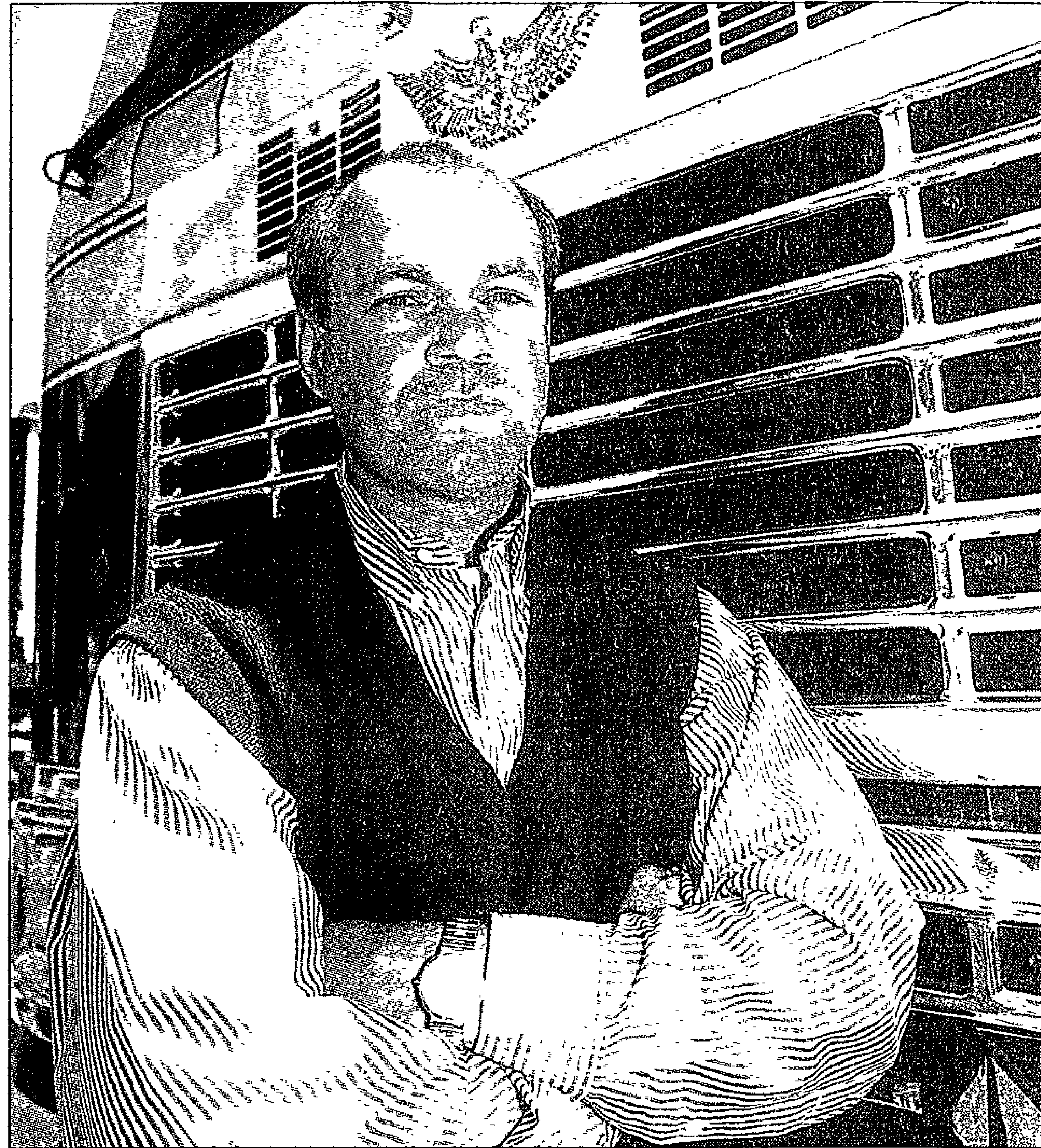
"In one case a R500 000 horse-and-trailer was traced to Zimbabwe. We notified the insurance company, but they asked us to leave the recovery to them. We approached the police in Zimbabwe. After initial investigations the truck disappeared.

"It was then discovered by one of our drivers in Zambia and when he asked who it belonged to, he was told it was owned by a Zambian government minister."

In another instance, one of his trucks was hijacked in the afternoon near Belfast in Mpumalanga. Alberts received a call the following morning from a Komatipoort border post officer asking if he had sold the vehicle as the hijacker had official registration certificates.

Nedcor said in its recent crime project that vehicle theft was lower than in many developed countries because fewer people owned cars, but higher than the international average.

Picture JULANI VAN DER WESTHUIZEN



NO TRUCK WITH ROBBERS ... Jake Alberts of Natro Freight has lost six lorries to hijackers

Neighbours beat SA for investment

Simon Barber

(74B) BD 26/9/96

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

The flow to SA was negligible even in comparison with that to its neighbours. Swaziland, for example, received $54m; Mozambique $36m; Zambia $66m; Zimbabwe $40m; and Lesotho $23m.

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

Continued on Page 2

Investment

Continued from Page 1

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

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

A different picture emerged in data on cross-border merger and acquisition transactions. These numbers indicated that foreigners spent $617m acquiring holdings in SA businesses last year, up from $275m in 1994. South Africans, meanwhile, spent $438m acquiring stakes in foreign companies last year, down from $3,78bn in 1994 and $1,87bn in 1993.

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

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

Although it may not be growing, the overall stock of foreign direct investment in SA, $11bn last year by Unctad's calculations, was the second largest in Africa behind Nigeria's $14,3bn. The figure for the SADC excluding SA was $10,7bn.

See Page 13

Natal nets R181m in new foreign investment

Nicola Jenvey

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

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

Current indications were that the organisation would attract new projects worth about R150m for the year to March 1997.

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

The organisation had elected to focus on defined target markets, with initial priority given to textile and clothing and alloy metals.

Trade missions would also market the province's advantages more aggressively.

BD 25/9/96 (74B)

Neighbours beat SA for investment

Simon Barber

(7HB) BD 26/9/96

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See Page 13

Dutch want changes before investing in SA

Minister warns on eve of royal visit

(74B)
ARG 27/9/96

ARGUS CORRESPONDENT

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

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

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

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

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

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

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

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

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

Th head of Information Services for the Dutch foreign affairs department, Koen Sizoo, said although businessmen were excited by potential mutual co-operation they saw South Africa as walking a tight rope, and would need to see concrete economic and political advances in the next three years.

FOREIGN INVESTMENT *Mbeki informed of bid to scare off investors*

Businessman smears SA

JAMES LAMONT
INDUSTRIAL EDITOR

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

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

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

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

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

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

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

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

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

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

Van Wyk said Sappi had not been approached by the government or union.

The US government is believed to have alerted Mbeki to the campaign. Bruce Wharton, a spokesman for the US Information Service, said he was unaware that his government had identified companies responsible for the incident, but he said South African businessmen were giving negative messages to their US counterparts.

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

CT (BR) 8/10/96 (74B)

SA needs direct investment

(74B) Sowetan 9/10/96

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

IN AN AGE OF WESTERN-DOMINATED globalisation, politics and economics have become highly intertwined. The intersection between the two, notably for non-Western developing nations, is heavily pronounced.

South Africa is no exception. Its domestic realities – severe inequality, massive unemployment, poverty and illiteracy – necessitate a particular stress on economics in general.

Six months ago, South Africa's economic foreign policy sought to secure support for its Reconstruction and Development Programme.

Today foreign policy is articulated in defence of the Macro Economic Strategy. It is already proving a successful framework for economic policy. It is starting to lay a firm basis on which to build economic growth.

But many prospective investors are concerned about the ostensible lack of capacity to implement the MES.

They believe Government must be more focused and visionary if it wants to effect the much-needed six percent growth rate needed to make some inroads into massive joblessness and socio-economic backlogs.

But South Africa lacks the resources to address its social and economic challenges on its own. It needs foreign investment and trade.

However, as shown by Finance Minister Mr Trevor Manuel's investment roadshows, Deputy President Thabo Mbeki's endowment diplomacy or President Nelson Mandela's big business approaches, these are hardly guaranteed.

The bad news is that the days of astronomical Marshall Aid schemes are long gone. No foreign governments, not to mention multinationals, are ready to dish out billions of dollars to some far-off country.

Nor are powerful governments and international big businesses philanthropic. Investors are fundamentally obsessed with the maximisation of profits.

Competitive edge

Thus, South Africa's answers will not be found by looking to investors; it will be secured if and when we get the fundamentals in place at home, and beef up our competitive edge in global trade.

The extent to which investments are forthcoming is largely confined to indirect investment. The first two years of democratic rule was characterised more by massive inflows of portfolio investment.

What the country needs is direct foreign investment, the stuff that creates jobs.

Also, South Africa is hardly a robust trader. It ranks low on the ladders of skilled jobs, productivity and competitiveness. It is outstripped by emerging markets such as India, Brazil and the Philippines.

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

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

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

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

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

No guarantee

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

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

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

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

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

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

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

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

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

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

Mutual mistrust

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

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

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

(The writer is an international relations researcher at the Centre for Policy Studies, Johannesburg).

(74b) CT (BR) 9/10/96

'I wanted to stop SA's slide into anarchy'

Sappi man confesses to lone crusade

JAMES LAMONT AND SHIRLEY JONES

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

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

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

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

CAMPAIGNER
Sappi's Roland Mazery

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

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

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

Sappi and Sappi Saiccor spokesmen said yesterday that the companies distanced themselves from the actions taken by Mazery in his personal capacity. Lourens Joubert, a Sappi Saiccor spokesman, said the company had had no idea that Mazery was undertaking his campaign.

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

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

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

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

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

Falling rand pulls investors

(74B)

Foreign firms join SA export bonanza

ARG 9/10/96

RICH MKHONDO
FOREIGN SERVICE

Washington – The decline in the value of the rand has helped South Africa attract direct foreign investment, says a leading American research centre.

The Washington-based Investor Responsibility Research Centre (IRRC), said more foreign companies had opened businesses at a quicker pace in South Africa over the past eight months than at any other time.

"Since February, when the rand first tumbled against major currencies, IRRC research shows that roughly six foreign firms have opened offices or acquired subsidiaries or affiliates in the country each month, compared with a net average of 4,5 each month in the preceding six-month period," said IRRC director Meg Voorhees.

"More significantly, the IRRC has found that the rand's slide has prompted several multinational firms to retool or add capacity to their existing plants in South Africa to increase exports.

"The rand's fall has enabled foreign firms to purchase facilities and capital goods in South Africa at more attractive prices."

But Ms Voorhees and her researchers said the disadvantage of investing when the rand's value had declined meant there was lack of competition from local companies.

The IRRC is a 24-year-old research centre which has done extensive research on South African issues in the past, getting into fights with the apartheid government when it said that sanctions were hurting the economy.

With a database of 1 800 multinational parent companies and 3 500 subsidiaries, affiliates and partners doing business in the country, the centre provides an annual research service on the South African business environment and mood.

It has been engaged in a number of research projects on behalf of potential US investors considering South Africa as an emerging market, and of South African business and government organisations seeking to attract foreign investment.

In its recent research, the IRRC said companies which had recently acquired subsidiaries or affiliates in South Africa included US-based General Electric, which acquired Daimler-Benz's subsidiary AEG's assets to expand its power generation, distribution, control and lighting systems businesses.

Others include Merck (US), which bought Logos Pharmaceuticals from Tiger Oats, Mitsubishi (Japan), which bought its South African distributor, Mitsubishi SA, Petronas (Malaysia), which bought a 30 percent stake in oil giant Engen, and US-based Clarcor Inc which bought Unifil, a South African air filtration producer.

Ms Voorhees said: "The rand's weakness makes exporting a more viable option, which is encouraging some multinationals to expand their capacity."

The IRRC praised the government incentive scheme which came into effect this month, saying it boded well.

The scheme, part of the Government's macro-economic strategy, allows companies to write off depreciation on categories of newly purchased machinery and buildings at an accelerated rate, as well as tax incentives.

"In addition, trade pacts with the European Community and the rest of the Southern African Development Community should entice foreign firms to open up export-oriented production," Ms Voorhees said.

Foreign companies invested R18bn in SA

BD 9/10/96 (74B)

Edward West

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

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

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

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

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

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

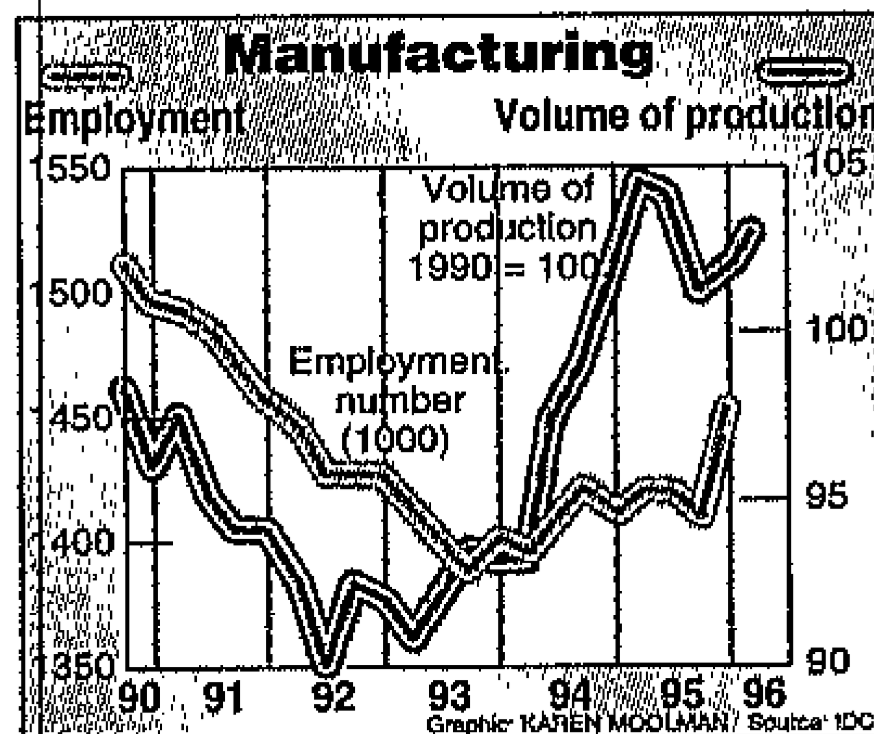
The investment flows to the tertiary sector were dominated by investment in the hotel and leisure and property sectors. Only 1% of the total investment inflows went to the construction sector, the IDC said.

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

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

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

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



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

Foreign investment 'up as rand falls'

(74B) BD 9/10/96

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

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

Since the sharp deterioration in the rand exchange rate began in mid-February, an average of six overseas companies had opened offices in SA each month. This compared with an average of 4,5 new offices a month during the preceding six months.

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

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

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

The rand's weakness was also proving a fillip for multinationals seeking to boost exports from SA, the centre said. It cited a decision by Germany's BMW to inject $220m into its plant in Pretoria with the aim of increasing production 250% by 1999 and boosting export sales.

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

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

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

"Trade pacts with the European Community and the rest of the Southern African Development Community should entice foreign firms to open up export-orientated production in SA," Voorhes said. — AP-DJ.

Weaker rand helps SA attract investors

Sowetan 11/10/96

By Shadrack Mashalaba

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

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

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

The study found that roughly six foreign firms have opened offices or acquired subsidiaries or affiliates in South Africa each month, compared with an average of 4,5 six months earlier.

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

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

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

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

"In addition, trade pacts with the European Union and the rest of the Southern African Development Community (SADC) should entice firms to open up export-oriented production in South Africa."

Top US investors snap up first 'Yankee bond' issue

(74B) ARG 15/10/96

BUSINESS EDITOR

South Africa's first "Yankee bond" issue has been snapped up by top United States investors, lead underwriters Merrill Lynch said.

"We could have gone for hedge funds, that would have been the easy option. But we preferred to go to high quality investors," a Merrill Lynch spokeswoman said yesterday in an interview from New York.

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

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

The 10-year bond, with an interest rate of 8,375 percent, was priced at 195 points above comparable US government debt.

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

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

"But we'd have been happy with a price inside 200 basis points."

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

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

The 1994 issue had also been well-priced, at 193 points above comparable US government investments, but "the bond didn't trade".

"This one should be different," the spokeswoman said.

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

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

The roadshow went to nine cities across the United States: Los Angeles, San Francisco, Denver, Chicago, Hartford, Boston, Milwaukee, Minneapolis and New York.

SA 'must lure long-term investment'

(74B) BD 15/10/96

Linda Ensor

CAPE TOWN — The volatility of capital movements over the past two years was a stark indication of the need for SA to attract long-term direct investments rather than portfolio and short-term capital, Reserve Bank economic adviser Ernie van der Merwe said yesterday.

Addressing the biennial conference of the Commonwealth Press Union, Van der Merwe said the strong inflow of short-term and portfolio investments in 1994/95 had made the exchange rate "extremely vulnerable to foreigners' perceptions of domestic as well as international conditions".

As a result of this volatility, the rand's exchange rate might not reflect the purchasing power parity of the currency, nor SA's short-term international competitiveness.

Van der Merwe noted that increased volatility in the foreign exchange market had in turn resulted in erratic interest rate movements on the bond market.

In the 18 months to end-December last year R27,1bn flowed into SA — more than half the capital that flowed out of the country in the preceding 10 years. However, most of these funds were of a short-term nature and were quickly withdrawn in the first half of this year on perceptions that the rand was overvalued.

The net inflow of capital subsided from R7,4bn in the fourth quarter of last year to R0,2bn in the first quarter of this year, recovering slightly to R2,5bn in the second quarter of the year. However, long-term capital with a maturity of more than one year still amounted to a net inflow of R7,1bn in the first six months of the year.

Van der Merwe said if SA was to achieve a high, sustainable economic growth it would have to reduce its dependence on foreign capital inflows and improve its domestic savings ratio.

"One of the most disconcerting developments has been the continued decrease in the ratio of domestic saving to GDP from a level of about 25% in the middle of the 1980s to just above 16% in the first half of this year."

Volatile capital movements also effected financial indicators such as money supply, which became a less reliable indicator of underlying inflationary pressures. This made it difficult for the Bank to achieve its objective of eliminating the current inflation differential of 5% between SA and its major trading partners.

"The continued high rates of increase in the money supply of about 15% in the past two years in an environment of high positive real interest rates, may be partly due to these structural adjustments."

Domestic liquidity had also been affected by SA's increased involvement in financial markets, Van der Merwe noted. Banks did not have to rely solely on the Reserve Bank any longer and could easily obtain funds from foreign sources when they were squeezed by tight liquidity.

The 10 branches of overseas banks in the country were responsible for no less than 15% of the turnover in the foreign exchange market in August.

Investment summit opens in Zimbabwe

CT Bee 22/10/96

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

(748)

SA's 'critical mass' will draw investment

Josey Ballenger (74B) BD 23/10/96

SA must reach "critical mass" to draw significant international investment, Cedel Bank representatives said yesterday at a seminar co-sponsored by the Bond Exchange of SA.

Cedel network development manager Richard Chilton said turnover through international clearing houses was low as SA was a "fairly new link".

"The SA equities market is relatively illiquid, but people want exposure. SA is attractive to trade because of the volatility and devaluation of the rand, potentially giving high yields."

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

Chilton said Cedel expected the Eurorand securities market, offshore holdings of local currency and Eurorand bonds, to bloom. This would in turn stimulate further foreign interest in SA equities and bonds, he said.

A 'neighbourhood watch' is needed to fight corruption in southern Africa

Corruption remains one of the greatest deterrents to foreign investment in southern Africa. A co-ordinated regional initiative is called for to stamp it out, argues **John Dludlu**

(74B) BD 31/10/96

IN 1994 a luxury vehicle belonging to the ANC was stolen. An alert announcing the theft was broadcast in various media and within 18 hours the car was recovered. The car had been issued to Thabo Mbeki, then ANC chairman.

Deputy President Mbeki told this story to international investors and his political counterparts in southern Africa last week to illustrate the point that corruption in state organs — such as the SAPS — continues to worry investors eyeing Africa as a destination for their capital. Fortunately for Mbeki and the ANC, the car did not — like many others — wind up in "corrupt" police car parks before being passed on to stolen vehicle syndicates.

He said police corruption undermined government's efforts to deal effectively with crime and this had to be addressed.

Corruption, notably within African governments themselves, came out as one of the main areas of concern among prospective investors at the trade and investment conference in Harare, Zimbabwe, organised by the International Herald Tribune.

Like money laundering, corruption has become a sophisticated business.

One of the large-scale forms of corruption which directly affects investor perceptions about a country is the award of state contracts. This is illustrated by the furore that resulted from the manner in which Zimbabwean President Robert Mugabe's administration awarded a contract to Malaysian firm YTL Corporation to refurbish and expand the Hwange thermal power station in Zimbabwe.

Normal procedures were reportedly bypassed.

CROCKER

Disclosures that Transnet has waived normal tendering procedures in awarding a multimillion-rand scrap metal contract to Xisaka, the firm in which the SA Railway and Harbours Workers' Union has a stake, does not show SA in a positive light.

At the conference, US foreign commercial service director-general Lauri Fitz-Pegado called on the 12 governments of the Southern African Development Community to ensure transparency in the way that bids are awarded for infrastructure projects.

Corruption has severely tarnished the image of Africa in the eyes of the Western world — the major source of investment.

Speaking as a private citizen, former US assistant secretary of state for Africa Chester Crocker said although southern Africa was now a "more open, transparent and clean place" to do business, "performance in these regards remains quite uneven across the region". He warned that neither local nor foreign investors would risk capital if they thought "awards and contracts were warped by political favouritism or improper dealings".

Other forms of corruption result from cases in which political parties or politicians act as "unofficial investment centres", advising investors, mainly foreigners, on where to invest their shareholders' capital.

However, the blame for corruption cannot be placed squarely on governments' doorsteps. The private sector, which dishes out financial favours to corrupt state ministers and regulatory authorities, is equally responsible and, therefore, whatever measures are taken to stamp out corruption should involve business directly, or at least have its full backing.

While Mbeki's address was largely aimed at signalling to potential investors that Pretoria was engaged in efforts to deal with official corruption, perhaps the time has come to mount a southern African "neighbourhood watch" against corruption.

Models of such regional co-operation initiatives already exist in southern Africa. These include the conflict resolution mechanisms and the campaign against money laundering under the development community.

The grouping would be a suitable forum to house such a structure which would have to work closely with national and international law enforcement agencies.

An anti-corruption campaign will be less controversial than the ambitious trade liberalisation project under negotiation by the development community's trade diplomats, and, therefore, easier to launch. Funding for such initiatives should also prove easier to secure from donors and multilateral financial institutions which are concerned about corruption.

terms, direct or indirect discrimination against any person on any grounds whatsoever and particularly on the grounds of "race, gender, sex, ethnic or social origin, colour, sexual orientation, age *disability*, religion, conscience, belief, culture or language.". (My italics).

From the above it is clear that persons affected with HIV/Aids are to be treated on an equal footing as any other person. Section 8(3)(a) of the Constitution, however, does not prevent measures being taken "to achieve the adequate protection and advancement of persons or groups or categories of persons disadvantaged by unfair discrimination, in order to enable their full and equal enjoyment of all rights and freedoms ". In line with the sentiments contained in this provision my Department is working on a policy in respect of people living with HIV/Aids which, as indicated above, is to be included in the staffing policy. This will hopefully be available in the near future.

Finally, I would like to make mention of the fact that the South African Law Commission has taken up in its programme an investigation, entitled "Aspects of the law relating to Aids". This is an extensive investigation in which aspects of the law relating to Aids are being investigated in the light of the uncertainty and differences of opinion that currently exist concerning legal and ethical aspects in respect of Aids.

Judicial Service Commission: trips undertaken

1040. Mr D M BAKKER asked the Minister of Justice:

(1) What was (a) the (i) total cost, (ii) number and (iii) class of flights undertaken, and (b) the (i) total cost of hotel accommodation, (ii) number of nights' accommodation and (iii) grading of hotels used, by members of the Judicial Service Commission and paid for by the Commission in respect of the year ended 30 June 1996;

(2) whether any international trips were undertaken by such commissioners during that year; if so, what was the cost of the (a) flights and (b) hotel bills in respect of these trips;

(3) what was the purpose of each of the trips undertaken by the said commissioners?

N1887E

The MINISTER OF JUSTICE:

(1) (a) (i) R83 934,50

(ii) 50

(iii) Business class 21
Economy class 29

(b) (i) R53 018,57

(ii) 52

(iii) R430 per night 3 or 4 Star

(2) No international trips were undertaken.

(3) The trips referred to in paragraph 1 *supra* were undertaken to attend sitting of the Commission in Johannesburg and Cape Town.

Legal aid: budget

1055. Mr D H M GIBSON asked the Minister of Justice:

(1) (a) What was the budget for legal aid in the 1995/96 financial year and (b) what amount was actually spent on legal aid during this period;

(2) Whether legal aid at a cost exceeding R1 million was rendered in any one case; if so, (a) how many such cases are involved and (b) what are the further relevant details in respect of each such case?

N1959E

The MINISTER OF JUSTICE:

(1) (a) The total budget in respect of legal aid for the 1995/96 financial year amounts to R185,207 million and is made up as follows:

Legal aid in terms of the constitution	R116 000 million
Legal aid board	R 66 416 million
Legal aid: former Transkei	R 210
former Bophuthatswana	R 1 961 million
Public defender system: former Ciskei	R620
Total	R185 207 million

(b) A total amount of R75 725 million of the budget was actually spent on legal aid and is made up as follows:

	R'000
Legal aid in terms of the constitution	R 6 847 million
Legal aid board	R66 410 million
Legal aid: former Transkei	None
Former Bophuthatswana	R 1 916 million
Public Defender System: former Ciskei	R 507
Total	R75 725 million

(2) Yes.

(a) One.

(b) The State *versus* Mr W A Vermaas on several fraud charges. Legal aid instructions were issued as a result of a direction of the Supreme Court on 25 July 1995 for Mr W A Vermaas for the appointment of an attorney and junior advocate to represent him at fees agreed with in concurrence with the Minister of Justice. An amount of R1 159 303 million has been spent in the 1995/96 financial year in respect of legal aid for Mr W A Vermaas.

American companies: investments in SA

1086. Mr D DE V GRAAFF asked the Minister of Trade and Industry:

(a) How many American companies invested in South Africa during the period 1 November 1995 to 30 June 1996 and (b) what is the (i) total amount of capital so invested and (ii) number of employees currently employed by these companies?

N1990E

The MINISTER OF TRADE AND INDUSTRY:

(a) South Africa does not, currently, have an investment tracking system that records information on the basis set out in the question. Information was gathered from the office of the Registrar of Companies, the South African Reserve Bank and the Washington based Investors Responsibility Research Centre (IRRC), an organisation that specialises in the tracking of multi-national investment in South Africa. Based on the information available, the IRRC lists 36 U.S. companies as having invested in South Africa during the period 1 November 1995 to 30 June 1996. The records of the office of the Registrar of Companies list a further 22 U.S. concerns that registered external companies in South Africa during the same period. It can further be assumed that there were a substantial number of U.S. concerns that registered local companies or that took minority shareholding in existing businesses operating in South Africa. The origin of such investment is, however, not readily identifiable from the records of the office of the Registrar of Companies or any other source.

(b) (i) The amount invested on the transactions recorded by the IRRC alone amounted to R1 411,2 million (the data from the Registrar of Companies does not include the amount invested).

(ii) None of the sources recorded exact employment figures, but it is estimated that about 2 700 employment opportunities resulted from the investment recorded by the IRRC, for the period 1 November 1995 to 30 June 1996.

BD 27/11/96 (74B)

Erwin tells of scheme to 'hold the hands of investors'

John Dludlu

TRADE and Industry Minister Alec Erwin announced a series of industry support measures last night aimed at accelerating investment and making SA companies internationally competitive.

At a media briefing, Erwin announced details of the tax holidays and small/medium manufacturing development scheme to assist new investments.

In terms of the tax holidays scheme, new investments in manufacturing, with assets — land, buildings and machinery — of more than R3m, would be taxed at zero rate for six years, Erwin said. Qualifying criteria would include human resources, priority industries and the investment location.

Through the small business manufacturing development programme, which replaced the present simplified regional industrial development programme, firms with assets of less than R3m would be given an establishment grant to ease cash-flow problems.

Erwin said that with the accelerated depreciation system, industrialists' holidays would run to nine years.

Johann Reinhardt, chief director in charge of the regional industrial development programme, said workshops would be held to allow provinces to take part in the evaluation of projects.

However, Erwin said, the final decision would rest with national government through the board for regional industrial development.

Erwin disclosed details of the long-awaited, short-term export finance guarantee scheme. The scheme, to be administered by Credit Guarantee, was designed to make pre- and post-shipment finance available to smaller firms through banks. "Credit Guarantee will, in turn, guarantee the loans," the corporation said.

Erwin said the schemes were aimed at assisting growth and restructuring-orientated businesses and took account of pressures on business from the global economy.

On concerns for the state's administrative capacity, Erwin said the package was building on administrative strengths of the regional industrial development programme.

Trade department chief director for industry and technology strategy Alan Hirsch said existing firms, which would not qualify for the new benefits, would have received support from a range of state schemes such as the lapsed 37E for accelerated depreciation.

Erwin said although all investors would be given the same treatment, through next year's launch of Investment in SA — a one-stop investment centre — government would hold "the hand of investors, especially foreign ones".

Officials estimated that it should take six weeks for a project to be evaluated.

SA scores well on foreign investment, but poorly on trade policies

WASHINGTON: South Africa has received a mixed report card from a US agency and an influential newspaper on its economic policies.

SOUTH AFRICA'S economic policies are "mostly not free", a US agency and an influential newspaper said in their index of economic freedom.

But even though the Heritage Foundation and the Wall Street Journal gave the country an overall mark of three (out of five) and ranked South Africa 73 out of 150 countries they surveyed, the index lauded the transition to democracy, saying it has gone well and national reconciliation has been impressive.

The paper and foundation gave South Africa three points in corporate taxation, government intervention in the economy, monetary policy, banking and property rights. The best score is one (very free) and the worst is five (repressed).

South Africa scored two points in capital inflows and foreign investment, wage and price controls. The country did worst — five points — in trade policy, followed by four points in taxation.

"Under the terms of the Import and Export Control Act, South Africa's Minister of Trade and Industry may act in the national interest to prohibit, ration or otherwise regulate imports. In recent years, the list of restricted goods requiring import permits has been reduced, but still includes such goods as foodstuffs, clothing fabrics, footwear, wood, paper and paper products, refined petroleum products and chemicals," the index said in giving South Africa its worst mark of five in trade policies.

But under taxation the index said: "South Africa has a progressive tax system, with the highest income level taxed at a rate of 45% and the average income level taxed at a rate of 17%. The corporate tax is 35%."

In giving South Africa its best score of two in capital flows, foreign investment and wage and price controls, the 1997 index said: "No government approval is required for foreign investment and foreign investors are subject to the same laws as domestic investors ... Price controls, once pervasive, now exist only on coal, gasoline and some utilities. There is no national minimum wage, but labour legislation could lead to the de facto imposition of wage controls."

The index is often used by US lawmakers as they decide how to allocate foreign assistance, but it is unclear if economists, investors trade representatives or the Republican Party-controlled US Congress also use the rating.

Of the 40 sub-Saharan African countries evaluated in the annual survey, only one, Swaziland, earned a "free rating".

Swaziland, ranked 50th among 150 of the world's 191 countries surveyed by the foundation, has the "freest" economy in sub-Saharan Africa, while Somalia and Libya are the most economically repressed countries. But the landlocked kingdom fares poorly compared with the rest of the world.

South Africa was among 26 countries which received a "mostly unfree" rating.

"We found that countries with the most economic freedom have higher rates of economic growth than those with less economic freedom," the 520-page book said.

Only eight countries earned scores of "free". The country enjoying the most economic freedom is Hong Kong, followed by Singapore, Bahrain, New Zealand, Switzerland and the US tied at fifth, the UK and Taiwan tied at seventh.

In Africa the seven countries ranked as economically repressed are: Mozambique (133), Rwanda, Sudan and Zaire tied for 136, Angola, Libya and Somalia (141).

The seven countries that qualify as "mostly free" are Namibia, Gabon and Benin, all tied for the 67th spot, Uganda (64), Zambia and Botswana (59th).

The foundation and the paper said its researchers found that foreign aid impeded economic growth in poor countries. "Instead of helping poor countries lift themselves out of poverty, development aid often impedes their economic growth," said Heritage policy analyst Mr Bryan Johnson.

"Economic freedom, by contrast, produces high rates of economic growth. For an example, the 10 economically freest countries ... all have high standards of living. But the least economically free countries ... all suffer from chronic poverty," the index said. — Independent Foreign Service

Investment agency gets R5,6m

(748) BD 23/1/97

Patrick Wadula

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

Investment SA CE Rafig Bagus said yesterday a further R5m would be pumped into the company in the next four years, from next year.

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

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

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

Bagus said the agency was the main vehicle for attracting foreign investment into the country in line with the objectives of the government's growth, employment and redistribution strategy and the reconstruction and development programme. "Through foreign investment, Investment SA hopes to facilitate job creation and export growth."

He said there was a lot of interest from southeast Asia.

"We are charged with the challenging task of positioning the country as a quality investment destination internationally, and thereby helping foreign investors to make informed decisions about investment opportunities."

Investment SA would also co-ordinate the provincial investment opportunities. "We have endeavoured to consult with all the provinces prior to mapping out our national strategy."

Foreign investors signal confidence

(74B) BD 28/1/97

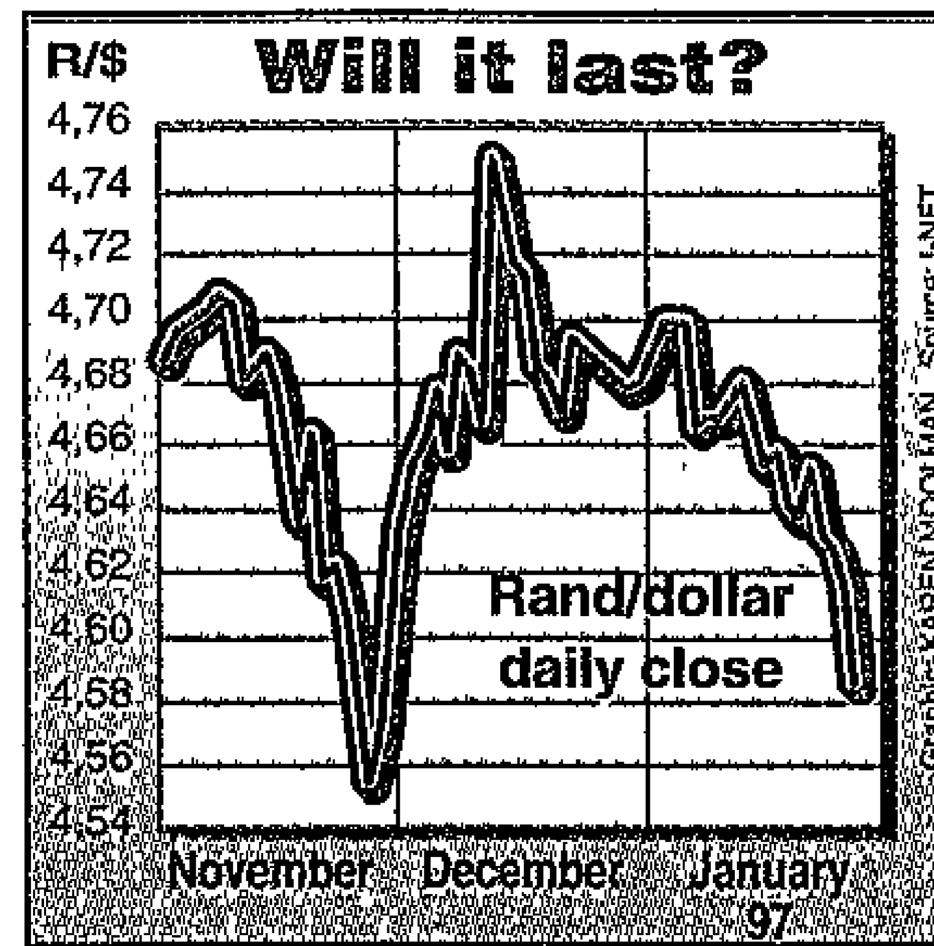
Greta Steyn

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

The currency added 3c to its value to R4,5825 — its best level in two months — and also strengthened further against other currencies. In after-hours trade, the currency edged below R4,58 with traders predicting the positive trend would continue. Foreign bankers said there had been a shift in sentiment as they had become convinced the economic fundamentals were sound.

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

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



Continued on Page 2

Confidence (74B)

Continued from Page 1

BD 28/1/97

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

However, Swiss bank UBS was more optimistic, putting the rand at R4,85 at the end of the year. The UBS report on the rand for the first quarter of this year was cited yesterday as one of the reasons for the currency's strength. "The rand is likely to depreciate less rapidly than inflation differentials with the US would imply, because of the improvement in the trade surplus," UBS said.

Another foreign banker based in Johannesburg said foreigners were pleased that the rand had managed to remain stronger than R4,70 to the dollar despite the best attempts by speculators to take it weaker last year. The evidence of resilience had coincided with the rollovers of about R1,5bn of Eurorand bonds in January, which had been easily refinanced. The Eurobond marketing exercise had focused attention on SA bond yields.

Bonds also strengthened yesterday, with dealers saying the rand's stability was attracting foreign buyers in droves. Government's key R150 traded at 15,40% at the close from 15,49% on Friday. Long bond rates have shed almost 100 points since mid-December and some dealers said yesterday the market was due for a correction. "It does not quite feel like a bull run yet as the local institutions are not buying heavily," one trader said.

Foreigners were net buyers of gilts to the tune of R777,4m last week, according to bond exchange figures, which brought the total for the year to date to almost R1,4bn. They were net buyers of equities of R153m last week.

FOREIGN TRADE (B)
1997

Coca-Cola to invest R500m

(74B)

Amanda Vermeulen

BD 4/2/97

THE Coca-Cola Company will invest R500m in SA over the next five years — matching a R500m investment by its seven franchisees — in a bid to double the size of its business in the next five to seven years.

Coca-Cola CEO Douglas Ivestor said yesterday that the investment would be directed at purchasing equipment, as well as support systems which would boost the availability of Coca-Cola products, particularly in the emerging market.

Analysts said Coca-Cola's push in the SA market would help it assert its roughly 90% share of the carbonated soft drinks market.

Coca-Cola SA president Carl Ware said the seven bottlers — Amalgamated Beverage Industries, Coca-Cola Bottlers Mpumalanga, Coca-Cola SABCO, Cooks, Kilimanjaro, Peninsula Beverages and Suncrush — had agreed on a strategy to take advantage of opportunities to double the business.

Ivestor said SA was one of Coca-Cola's top 10 markets, with total sales accounting for an estimated R4,8bn in turnover at the retail level, generating more than R1bn for spaza shops.

Coca-Cola CEO Douglas Ivestor, left, and Zanosi Kunene, a director of Coke bottler Kunene Brothers, at the announcement yesterday of a R500m investment in SA. Pictures: ROBERT BOTHA

SA attracts more foreign companies

(74B) CT (BR) 5/2/97

MAGGIE ROWLEY
PROPERTY EDITOR

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

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

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

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

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

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

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

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

SA vies for investors' factories

BD 7/2/97 (74B)

Linda Ensor

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

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

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

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

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

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

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

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

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BD 7/2/97 (748)

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Foreigners invested R8bn in Western Cape

BD 11/2/97 (74B)

Linda Ensor

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

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

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

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

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

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

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

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

Finally Kriel announced the cabinet-approved names of the Gambling Board to be chaired by D Auret: deputy chairman and member of the Tender Board, M Isaacs; social work lecturer M Tshabalala; architect D Steenkamp; attorney N Hofmeyr; accountant B Kahn; and trade union official D Apollis.

Foreign billions land in W Cape

'Massive' increase

ARG 11/2/97 (74B)

WILLIAM-MERVIN GUMEDE
Political Staff

A whopping R8-billion in direct foreign investment has flowed into the Western Cape in the past year and another R2-billion is on the way.

In addition, tourism is estimated to have brought in R3,3-bn in foreign exchange in 1996 – 12 percent more than in 1995.

The province's efforts to attract trade and direct foreign investment were starting to bear fruit, Western Cape Premier Hernus Kriel told the provincial legislature in his opening address yesterday.

Mr Kriel said this was a "massive" increase over investment in the region in previous years.

He said direct investments in the province in 1996 topped the R8-bn mark and the figure was expected to jump to R10-bn when about 12 outstanding direct investment initiatives were finalised.

According to provisional estimates, tourism had brought R3,3-bn in foreign exchange into the province, an increase of 12 percent on the previous year's figure.

Mr Kriel said budget cuts which came into effect late last year had put a huge burden on health provision and people should expect the scope and scale of health services offered by the province to be reduced.

He said 3 100 health workers had taken voluntary severance packages and only 700 of them would be replaced

About 600 newly-appointed school principals would take up the posts of those who took voluntary severance packages. The

Hernus Kriel: provincial efforts 'bearing fruit'

To page 3

LEON MULLER

Bad hair day: the infamous south-easter gets up to its tricks with a Swan in the naval contingent at the opening of the Western Cape legislature

P.T.O.

MAIL & GUARDIAN
February 14 to 20 1997

Calling all foreign investors

M&G 14-20/2/97 (74b)

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

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

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

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

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

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

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

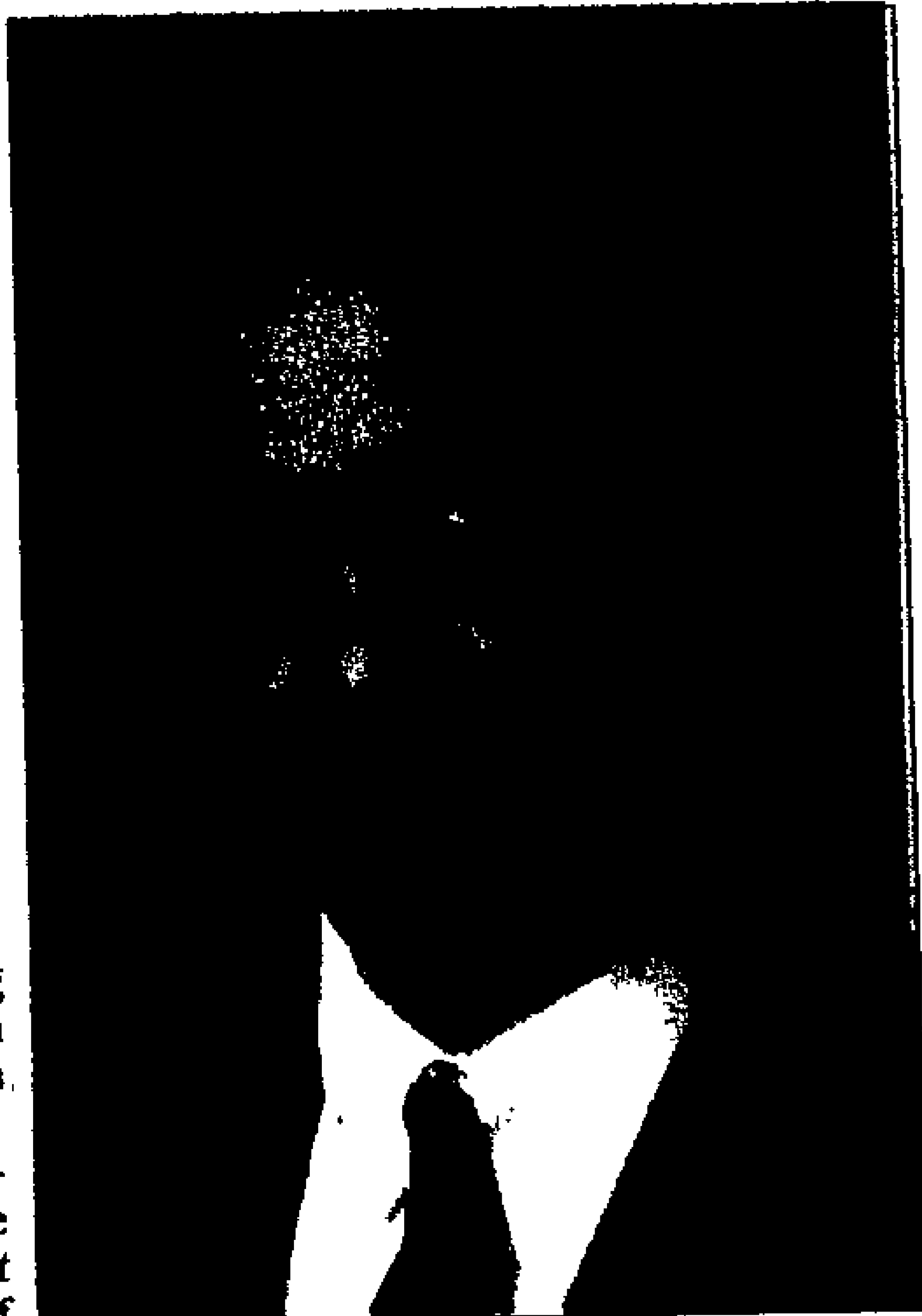
"Before we can start talking to the South-East Asians about inward investment, we have to find out what should be done, where the gaps are, and how best to tap their expertise.

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

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

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

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



Rafiq Bagus: Always something new into Africa

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

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

Bagus, for one, is optimistic — always something new into Africa could well become its motto.

Expatriate mortgage services

'Foreign interest in SA investment underestimated'

BD 21/2/97 (74b)

Belinda Beresford

FOREIGN interest in investment in SA was generally underestimated, Katz commission chairman Michael Katz said yesterday.

Speaking at the Johannesburg launch of Board of Executors' Investment Administrators, Katz said he was personally working on foreign investment deals worth R10bn-R13bn. Foreigners were making real plant investments, not just investments in the financial sector.

Katz said there were many reasons SA was so attractive to foreign investors. It had a big domestic population with an attractive consumer market, and an abundance of natural resources. There was a well-developed physical infrastructure and a sophisticated telecommunications system. In addition, the financial services industry and legal structure was comparable with the most sophisticated in the world. The independence of the Reserve Bank combined with a well-developed regulatory framework, and the freedom of the press and of the judiciary added to confidence.

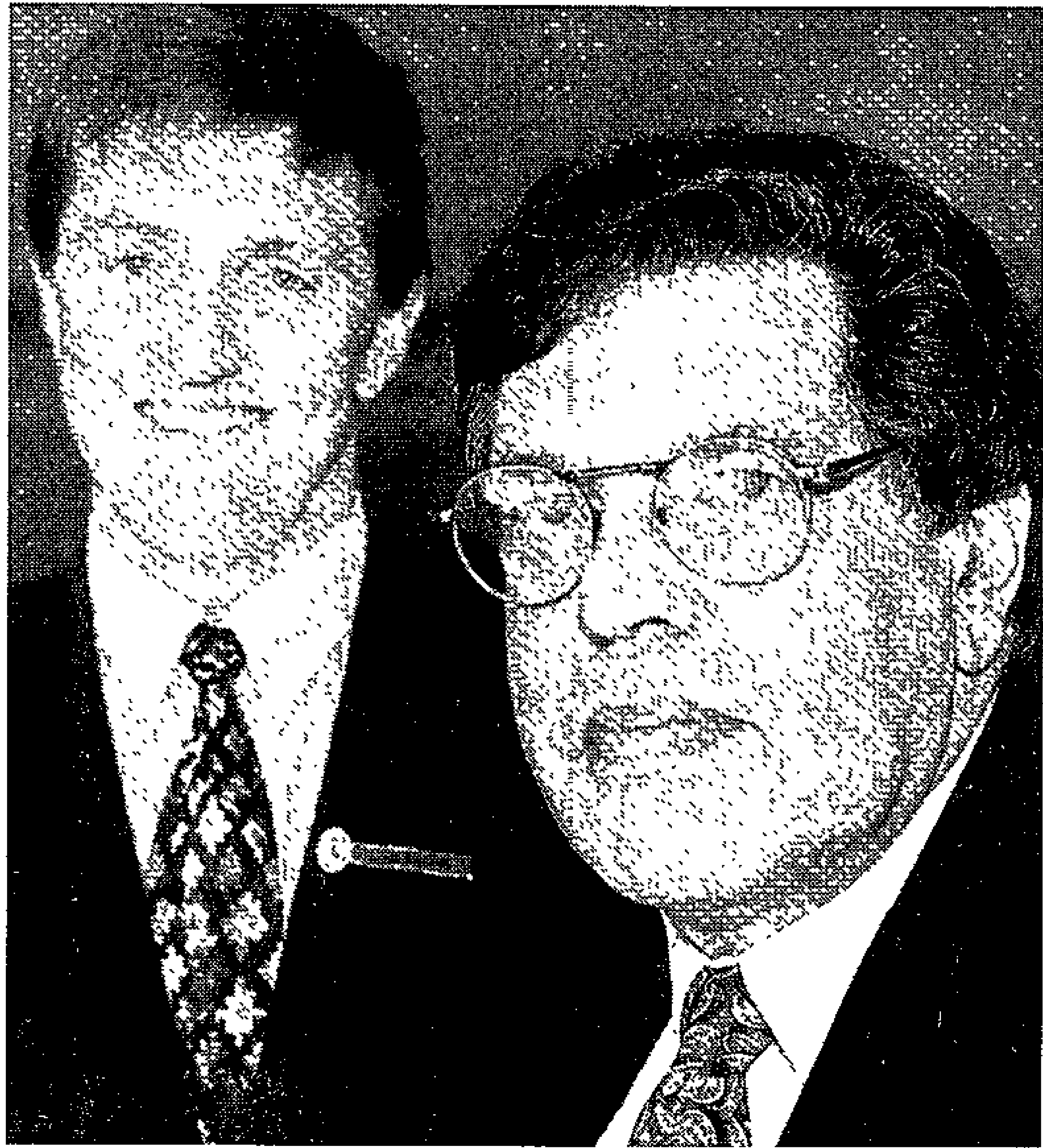
When competing against other countries such as those from the former communist bloc, SA was distinguished by its strong entrepreneurial culture, Katz said.

Corporate SA would look completely different in three to four years due to six major factors, he predicted. The abolition of exchange control would see companies disposing of noncore assets to fund international expansion, and foreign investors would stimulate the process as SA companies would need to be more focused to deal with the competition. Other factors included the pressures for black economic empowerment and for improved corporate governance.

Another development which had been underestimated was the introduction of the Labour Relations Act, Katz said. This would give organised labour control over investments, which would affect the decision-making process.

Katz confirmed that the Katz commission on tax reform had finalised its recommendations on the basis of the taxation system and the issue of capital transfer taxes. They needed to be taken as part of a holistic plan, and not on an ad hoc basis.

In a world of mobile capital and skills there was a need for taxes to be internationally competitive at both corporate and individual levels. To achieve this the collection of revenue needed to be improved, the tax base had to be broadened and the country needed steady economic growth.



Michael Katz, right, head of the Katz commission on tax reform, and Board of Executors Investment Administrators executive director Gavin Williams at the launch of the nvestment fund yesterday. Picture: ROBERT BOTHA

Govt move to draw foreign investment

(74B)

BD 24/2/97

John Dludlu

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

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

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

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

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

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

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

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

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

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

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

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

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

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

123 000 houses 'are in production'

BD 17/3/97

Lukanyo Mnyanda

THE housing ministry should have issued about 500 000 low-cost housing subsidies by June this year when delivery should have accelerated enough to push the number of units to 200 000, according to the BMI Building Research Strategic Unit.

The unit's quarterly review of the industry notes that, with 123 000 houses in production, visible delivery was taking place at a faster pace and should boost business and consumer confidence levels.

However, it warned that concerns about crime would continue to put a damper on spirits.

"The building industry will only be able to exploit its undoubted potential to be an engine for growth if government can fulfil its role to create a secure and investor friendly environment," it said.

Respondents were also concerned about the availability of key resources, especially finance, capital subsidies and land for low costs developments. But other resources were fairly easy to access, with the high unemployment rate making labour "extremely easily available".

BMI director Llewellyn Lewis said the survey — made up of 121 telephone interviews with both established and emerging contractors — showed that confidence levels had been consolidated in the fourth quarter with 40,8% of respondents expecting improved conditions over the next six months.

Contribution

Lewis said both the emerging and established sector viewed houses costing less than R65 000 as an important source of growth this year, although this view was more prevalent among emerging contractors.

The established sector expected that houses in the R65 000 to R150 000 bracket would be their main source of growth, while townhouses and cluster homes were also set to make a healthy contribution.

Lewis said both the established and emerging sectors generally expected conditions to improve by up to 5% this year, with the emerging sector slightly more confident.

Building costs, which were seen to be very high, were still a source of concern for both sectors of the market and most respondents believed that building materials price increases had exceeded the inflation rate.

Confidence was also suffering from perceptions that corruption, an ineffective public service and government were still the norm.

Continuing perceptions that SA was still a divided society added to the negative views and did "not contribute to the nurturing of a positive self image and an investor environment".

Ivory Park leads the way in Masakhane campaign

BD 17/3/97

Josey Ballenger

MIDRAND had achieved one of the best records in SA during the seven-month-old Masakhane campaign, having stepped up its collection of service payments from 3% at the programme's launch to 30% in the December-to-February quarter, officials said at the weekend.

In the greater Midrand area, Masakhane — a national campaign to implement services in disadvantaged areas, and combat rates boycotts — was applied to Ivory Park township, which has a population of 180 000.

December was the highest-yielding month, as 41% of Ivory Park's 15 000 formal sites paid for their services. The residents were charged R31 a month.

To date the Midrand local council had collected about R982 000, said council executive committee chairman Alan Dawson. This would be used to install street lights, parks and undertake job skills training.

However, at an awards ceremony in Ivory Park on Saturday, Dawson said 60% or R2,5m still needed to be collected to realise the council's goals.

"We have collected nearly R1m, but R2,5m is not with us," he said, noting that sum could be used for 600 flush toilets, mass lighting to reduce crime or the launch of a training centre for jobs.

"We not only have a culture of nonpayment, which is being swept away in Ivory Park, but also a culture of nonservice delivery," he said, emphasising that the council had to improve its delivery of services.

The council ranked 4,5 out of 10 in its administration and delivery of services in an in-house survey.

He said Midrand's goal was to reach a 50% payment level by June.

"Ivory Park has very little by way of infrastructure," Dawson said. Only 20% of residents had flush toilets and individual water points, while 80% used a septic tank system — which Dawson described as "totally unacceptable given the geological strata of Ivory Park" — and shared water taps. Emergency and waste removal services were, however, available throughout the area.

Dawson credited the improvement in payments to council interaction with the community: "Because of the lack of services, we have turned payment for services into developmental rands, which allows the community to reinvest its money directly into the community."

SA cities to vie for investment

Nicola Jenvey (74B)

BD 17/3/97

MARITZBURG — The constitution, which transfers the responsibility of regional development to local government, would force cities to look at their competitive advantages when competing for fixed direct foreign investment, said KwaZulu-Natal Finance and Investment Corporation economist Dana Moore.

Addressing the annual KwaZulu-Natal marketing initiative strategic planning session last week, Moore said there was a concentration of fixed direct investment in the trading blocks of Europe, southeast Asia and the US.

In 1994, Japan, US and western Europe attracted 60% of the world's fixed direct investment followed by developing countries (37%) and eastern Europe (3%). Sub-Saharan Africa and New Zealand each attracted \$1,8bn, translating into 1,7% of the investment pie.

Moore said one advantage of encouraging local governments to assess their competitive advantages was that the affected citizens would become more familiar with their own environments.

Investment SA CEO Rafiq Bagus said SA did not have the time or manpower to use "the shotgun approach" to attract investment. Malaysia and Scotland annually spent more than \$500m each on attracting investment, but SA's constraints forced a more targeted approach.

Reviewing the KwaZulu-Natal initiative's targets for the year, initiative chairman Peet Marais said there would be more emphasis on attracting investment in the food and beverage sector.

During 1995/96, the initiative attracted 33 new projects worth R176m to the province and 15 projects valued at R147m last year.

Deterrents to foreign investors are highlighted

BD 2/4/97 (746)

Lukanyo Mnyanda

INTERNATIONAL investors and developers were attracted to SA's property market by the potential for good returns, but security considerations, high interest rates and the sustainability of the growth were still regarded as deterrents, said Old Mutual Properties head Ian Watt.

Speaking on his return from an international property market exhibition in Cannes, France, Watt said SA's relatively short-term leases as well as the cost of transactions, especially rewards to agents, were discouraging international players from entering the SA market.

"Office leases over 10 years are the norm in the UK and US, and much of Europe looks to terms well beyond five years, whereas SA has a typical lease length of three to five years."

Longer leases gave offshore investors a greater assurance that investments would work and would have a better chance of delivering the desired returns.

The SA property market needed also to look at scale of rewards to agents relative to the effort required by transactions if it was to compete with markets such as the UK, where commission scales were lower.

"The cost of doing business is a factor in the view of European investors, and there is a risk that local brokers could price themselves out of the market."

Watt said that development agencies in the Middle East, Europe and Asia were stealing a march on their SA counterparts through their participation in exhibitions targeting international players.

"Of the 280 exhibitors at Cannes, 101 were national, regional and local authorities — from Beirut to Berlin and beyond — all seeking to attract investors and developers with a range of financial and tax incentives."

Stockholm had used the exhibition, which attracted 7 000 investors and developers from Europe, the US, South America and Asia, to promote its bid for the 2004 Olympic Games and investment in the city.

SA brokers reported considerable interest at the exhibition, and said a number of deals were in the pipeline.

Meanwhile, estate agency Aida National Franchises said it had experienced increasing interest from Hong Kong buyers looking to settle in SA ahead of the territory's incorporation into China this year.

Aida Cape Town's Arnold Maritz said more than 15% of sales by the franchise in February were to Hong Kong buyers concerned about the territory's future when Britain's lease expired at the end of June.

Katz wants SA to act as host for multinationals

ET(BR) 8/4/97 (748)

Christo Volschenk

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

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

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

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

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

Japanese investment in SA 'is hampered by distance'

BD 10/4/97 (7410)

Stephané Bothma

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

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

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

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

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

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

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

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

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

Bridgestone may pump R44m into SA

CT (BR) 11/4/97 (74B)

JONATHAN ROSENTHAL

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

Bridgestone acquired Fedstone, Firestone's holding company in South Africa, from Murray & Roberts for R290 million earlier this year.

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

He said the group was unlikely to retrench any of the 1 800 employees working in the company's production plants, but would rather improve productivity. The group hoped to increase tyre production by 30 percent within two years and double production over five years.

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

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

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

Kaizaki was in South Africafor the official inauguration of Bridgestone Firestone South Africa, which will be headed by Katsuhiko Yamamoto.

ROLL OUT THE BARREL *The traditional Japanese barrel-breaking ceremony called Kagami-Wari symbolises a new start or a beginning, in this case between Bridgestone South Africa and its Japanese parent. Seen here are (from the left) Katsuhiko Yamamoto, the chairman and chief executive of Bridgestone South Africa, Tito Mboweni, the minister of labour, and Yoichiro Kaizaki, the president, chairman and chief executive of Bridgestone Japan* PHOTO JOHN WOODROOF

DRAWN TO SA

FM 13/4/97

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

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

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

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

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

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

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

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

Frame says the company will look at listing on the JSE to finance future investments in related fields such as the manufacture of small motors which contain magnets. *Stuart Rutherford*

US urged not to invest in SA alone

By Rich Mkhondo

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

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

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

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

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

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

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

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

(74B) Star 22/4/97

Crime hinders foreign investors

Sowetan 22/4/97

By Joshua Raboroko

SOUTH AFRICAN-BORN British businessman Dr Reginald Reed believes foreign investment will only start pouring into the country once violence, crime and apartheid are completely wiped out.

Reed – born Hlongwane and originally from Alexandra Township in northern Johannesburg – says investors fear escalating crime and violence will jeopardise their chances of doing good business in South Africa.

He says there are still many remnants of apartheid in our society. He singled out the corporate world as an example but also pointed to the general behaviour of some whites – which he says is still far from changing.

Political change

"We have to learn to change attitudes, especially those of racists, if South Africa is to become a world power. However, there are those who have accepted political change. Now we have to seek economic power."

As an anti-apartheid activist, Reed left South Africa in the wake of the government clampdown on the PAC and ANC during the 1960s.

After seeking political refuge in many African countries, he settled in Britain where he obtained a doctorate in psychology and philosophy. He later started his own business consultancy and obtained British citizenship.

Reed spoke to *Sowetan* on a two-week visit to South Africa during which he visited his family in Tembisa on the East Rand. He also held talks with government officials and former president FW de Klerk.

Businessman Dr Reginald Reed believes foreign investment will help reduce the high level of unemployment in South Africa.

He says the dawn of the new political dispensation here has sparked enthusiasm among foreign countries, including Britain, the United States and Germany to resume business in this country.

But, he adds that his experience is that the international community fears investing in South Africa because of the escalating crime They are also concerned with what will happen after Nelson Mandela's presidency

They have high regard for Mandela, and believe he is one of the "world's greatest leaders and probably the most prominent African statesman", he says

Reed notes a large increase in the number of business visitors to South Africa, with around 1 000 people passing through the trade directorate's doors during the past year

The directorate offers them services such as market research, identification of potential agents, checking of these agents and lobbying of South African authorities on trade issues.

Britain is the biggest investor here, with around one third of all foreign investment. This is the result of the traditionally close relationship between South Africa and Britain.

High crime rate

However, Reed adds, other countries willing to do business with South Africa are still sceptical about the future of their investments here because of the country's high crime rate.

He is surprised that crime has increased in the aftermath of apartheid

During the epoch of segregation, he says, police were able to keep crime low. "Why are they not doing so now?"

This seems to indicates that there are people who wish apartheid was still entrenched.

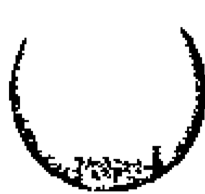
However, he believes foreign investment will help to reduce the high levels of unemployment in poor black communities. Education will also have to be spread equally among the different population groups.

He blames low productivity in South Africa on workers lacking the necessary skills and training to make them productive. As a result, employers will have to pay for training

In conclusion, Reed says, everyone will win by making the country more competitive.

He lauds Labour Minister Tito Mboweni's recent Green Paper on a skills development strategy for all industrial sectors. It proposes to raise money for training by imposing a profit levy of 1 percent to 1.5 percent

Reed intends to return to South Africa to start several business projects as well as to share his experiences with "my people – because I believe we are a winning nation".



SATURDAY BUSINESS

APRIL 26/27 1997

Dutch pull out of R90-m investment

Nissen denies tax bungle claim

ARG 26/4/97 (74b)

CHARLENE CLAYTON and THABO MABASO
Business Staff

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

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

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

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

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

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

He would not give details of his decision to withdraw.

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

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

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

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

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

The investment by Snippe is one of several referred to by Mr Nissen in an inte view with the Cape Argus earlier th month.

At the time, Mr Nissen said he ha secured firm commitments for a R500 m lion investment in Muizenberg, a R90-m lion investment in a low-cost housi materials plant, and a R60-million inves ment in a bottle cap factory in either Bl Downs, Mitchell's Plain or Atlantis.

He also said that a foreign invest planned to spend R90 million refurbishi a city centre hotel.

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

"They have not pulled out their inve ment but are merely looking for anoth site."

Peter Pullen, spokesman for Wesg which handles the Western Cape's prom tion and investment partnerships, sai hotel and entertainment complex was st planned for the site adjoining the Cap corn Science Park.

It was not dependent on the investm of the Dutch group, he said.

War zone or storm in a teacup?

Opinions differ strongly about the effects of South Africa's crime wave on foreign investment. **Miepje Commandeur** and **Helma van de Vondevoort** report

LOCAL representatives of South Africa's leading trade partners regularly suffer from crime, a snap survey by the *Mail & Guardian* shows.

Staff members of foreign embassies and chambers of commerce are often at the forefront of deals running into billions of rands of imports and exports. (Some indication of these are contained in trade figures from the Department of Customs and Excise for the first nine months of 1996.)

These diplomats and trade attaches are the very people who have to sell South Africa as a viable trading partner and a land ripe for investment.

But many of them, and still more of their employees, have fallen victim to the crime wave. Some say this will have an impact on trade and investment; but others are not as concerned.

Bomb victim: Italian Maria Haenen believes that South Africa is not safe and feels obliged to advise companies planning to invest in the country about the crime level

PHOTOGRAPH: SIDDIQUE DAVIDS

JAPAN
Imports: R8,7-billion
Exports: R6,3-billion

Three members of the Japanese Chamber of Commerce have had their cars hijacked. According to a chamber representative, the Japanese embassy has increased awareness among Japanese nationals about crime.

The police need to be strengthened and become less corrupt, he says.

The director of the Japanese External Trade Organisation in Johannesburg, Shintaro Matoba, had his car stolen in Sandton City. He believes that the reasons for the current crime are the high unemployment rate and the poor quality of policemen.

Investments from Japan are "half-and-half" affected by the crime level, he says.

AUSTRALIA
Imports: R2,6-billion
Exports: R1,5-billion

Noel O'Brien, a director of the Australian South African Business Association, has had a personal experience of local crime. Four months ago, two robbers held a knife to his chest in the garage of his office building in central Johannesburg and grabbed his portable computer.

During the past six months, three other employees have been mugged, one was hijacked and the bakkie of the association's driver has been stolen twice.

Earlier this year the association moved its offices to the suburb of Parktown.

O'Brien says that he has lived in South Africa for 22 years, but crime has grown worse in the past three years. "The police can't cope with it anymore. It's a war zone out there. That's why I think troops should be patrolling the suburbs at night, or at least there should be roadblocks or control points on the streets."

O'Brien says Australians are not keen to invest in South Africa: "The security situation, the labour unrest, low productivity and the high level of taxation in South Africa are the main concerns from Australian investors."

"Why should they look at South Africa as a good investment area? They would rather go to Asia."

GERMANY:
Imports: R16,2-billion
Exports: R4,5-billion

A German study last month found that one in five local managers had one or more murders reported among staff.

The survey by the German Chamber of Commerce in South Africa, representing 82 companies with more than 35 000 employees, found that, on average, every 18 months the family of a managing director of a German company in South Africa becomes a victim of crime.

More than three-quarters of the German companies say that their future growth is endangered by the high crime level.

One of the managers surveyed said: "We see the present state of anarchy, lawlessness and escalating violent crime as a major threat to the survival of our business."

Another manager warned: "The whole economy is being damaged by the virtual non-existence of a criminal justice system. Crime is eroding consumer confidence, forcing many people to leave the country."

Only 15% of German companies claimed they would not change their future plans because of crime. This group employs 47% of the total workforce — and this indicates that smaller companies are more likely to change their investment strategies owing to crime.

UNITED KINGDOM
Imports: R12,3-billion
Exports: R12,3-billion

The experiences of British diplomats include the hijacking at gunpoint in Johannesburg of the second secretary of the British High Commission.

But Britain — South Africa's largest trading partner — is not discouraged by the high crime rate. The press representative at the High Commission, Andrew Noble, says crime is not "a significant factor" in Britain deciding about investment in South Africa.

"What matters are the business prospects and British investors feel that they are very good."

The High Commission is encouraging trade, investment and the establishment of more businesses in South Africa, says Noble. "We are very committed to this place."

CANADA
Imports: R903-million
Exports: R715-million

Canadians also prefer to look at the opportunities that the South African market offers rather than worry about the high crime rate. Senior Trade Commissioner Ron Hoffmann of the Canadian High Commission Trade Office says that in 1993 there were only six Canadian companies with offices or operations in South Africa; now there are more than 70.

"And it is growing fast. Most of our companies here are doing well. The South African market is changing rapidly and the Canadians are very interested in investing in South Africa."

ITALY
Imports: R4,6-billion
Exports: R2,43-billion

Giorgio Marini, first counsellor of the Italian Embassy in Pretoria, says that staff as well as consular representatives in both Pretoria and Johannesburg have suffered several thefts and attempted hijackings. Alarm systems at the embassy and at the homes of staff have been improved.

He believes that criminals should be sentenced more severely and there should be more visible policing.

Farini says, however, that Italy is "rather optimistic" about the future and adds: "Investment from Italy is not being adversely affected by current crime levels."

More than a year ago, as a result of a dispute with squatters, a petrol bomb was thrown into the bedroom of the son of Maria Haenen, the assistant to the secretary-general of the Italian Chamber of Commerce in Johannesburg.

She says she now finds it more difficult to advise Italian companies to invest in South Africa. "It is not a safe country and I have to tell them that," she says.

THE NETHERLANDS
Imports: R2,7-billion
Exports: R3-billion

Staff at the Dutch Embassy in Pretoria have not personally suffered from crime, but they have become more careful in their daily lives because of all the stories they hear and read.

Although no research has been done, they believe that Dutch companies are discouraged by the "poor South-African investment climate", of which crime is one factor.

However, at least one highly placed diplomat — who did not want his nationality to be identified — says that anxiety about crime is just a storm in a teacup. "There are too many diplomats with too little to do, leaving them with too much time to worry about the crime situation in this country," he said.

Jenny Cargill of the consultancy BusinessMap says investors display many shades of opinion concerning the impact of crime. It's certainly a factor in the decision to invest foreign funds, but it is only part of a good investment backdrop. Foreign investors are also looking for sound macro-economic policies, incentives and a strong regional market. However, "consistent reports of reduced crime" will only mean greater confidence, says Cargill.

Telkom billions flow in

Consortium pays R5,6-bn for 30% stake

(74B) ARG 14/5/97

ALIDE DASNOIS AND LLEWELLYN JONES
BUSINESS REPORTERS

Sealed: advocate Dikgang Moseneke, Dato Mohamed Said CEO of Telekom Malaysia, his wife Datin Sophia, President Mandela, Linda and Ed Whitacre of SBC in the United States and Jay Naidoo celebrate the deal

In what is probably the biggest foreign investment deal ever, more than R5,6-billion will flow into South Africa today when a consortium of foreign buyers pays for a slice of Telkom.

The deal, announced in March and signed in Cape Town today, gives the Thintana consortium – made up of Telekom Malaysia and Texas-based SBC – a 30 percent stake in Telkom and marks the first step in the privatisation programme driven by Posts and Telecommunications Minister Jay Naidoo.

The consortium is paying $1,26-billion for its share in the State-owned telecommunications group.

About $260-million will be paid to the State and used to settle debt, and the remaining $1-billion will be paid to Telkom to finance new infrastructure.

Other shares in Telkom – probably about 10 percent – are to be sold to previously disadvantaged groups through the new National Empowerment Fund, run by the Department of Trade and Industry.

The state will keep control of Telkom, which will maintain its telephone monopoly for five years in terms of a 25-year licence agreement.

In return, Telkom has undertaken to double the telephone network in five to six years.

The Malaysian and American partners were chosen from a list of bidders, including the French and German telecommunications groups.

The German company Deutsche Telkom pulled out of the competition in February, claiming the infrastructure targets set by Mr Naidoo were too demanding.

Telkom chairman Dikgang Moseneke will stay at his post. SBC's Mac Deschwind has been appointed chief operating officer.

The chief executive of the restructured group has yet to be appointed.

Days Inn invests in Cape Town

Lukanyo Mnyanda (74B) BD 14/5/97

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

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

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

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

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

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

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

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

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

He was confident that the available units would be sold quickly. Bantry Bay Suites — also marketed by Devmark — was the first sectional title hotel sold in the same manner and had an average occupancy rate of more than 70% over the past six months.

Rich countries obliged to invest in southern Africa, Mandela tells summit

Star 22/5/97 (74B)

By Peter Fabricius
Harare

President Mandela delivered a tough and uncompromising message to top international investors here yesterday, saying southern Africa was "entitled" to investment from industrial countries because they had subjected the region to "the most brutal form of exploitation" in the colonial era.

He was addressing about 600 business leaders from 45 countries at the opening of the fifth World Economic Forum (WEF) southern African summit – the first held outside South Africa.

This is considered one of the premier forums for southern African political leaders to impress potential foreign investors with reasons for investing in their countries.

For the most part, countries stress free-market, business-friendly policies such as privatisation and relaxing trade barriers – two of the themes of the summit.

In his speech Mandela stressed the disciplined management of public resources and "far-reaching plans for reconstruction" by regional countries.

When WEF president Klaus Schwab asked Mandela and Zimbabwean President Robert Mugabe to say what role they thought international business could play in the development of southern Africa, Mugabe stressed his country's economic reforms and structural adjustments.

But Mandela took a different tack, saying the old industrialised countries "owe us that support, not as a question of charity, but because we are entitled to it. Our region was subjected to the most brutal form of exploitation in the colonial era which robbed us of our resources."

It was necessary for investors from the old colonial powers to act on the basis of that history, Mandela said.

Each country also had its own peculiar problems that needed to be addressed.

SA had inherited a R254-billion debt from the old government, which cost R30-billion a year to service.

He said this was a debt SA "did not owe" to foreign companies because it was incurred by the old government's pension fund. SA needed investment to service it.

Mandela added that the region also needed help to develop the skills of its people and to form joint ventures with African companies to close the gap with big white companies.

The president returned to South Africa last night.

► Black journalists 'criticise for promotion' Page 3

NEW

Region 'falling behind in investment race'

(74B) CT(BD) 22/5/97

JAMES LAMONT

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

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

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

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

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

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

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

INVESTMENT *Research highlights confidence in economic plan*

Foreigners pour R31bn into SA.

CT(BR) 27/5/97 (74B)

JAMES LAMONT

Johannesburg — Foreign direct investment commitments to South Africa have topped R31,6 billion since the 1994 democratic elections, BusinessMap, the business intelligence consultancy, said yesterday ahead of the release of its South African Investment Report for 1997.

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

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

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

The top 10 investing companies were SBC Communication, Telekom Malaysia, Coca-Cola, Petronas, Caltex, BMW, Nestlé, Goodyear, BP and Shell.

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

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

The largest outward investors were Anglo-American, Gencor, South African Breweries, Sappi, Mondi, Nethold, Sun International, Sentrachem, Barlows, Sasol and Persetel.

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

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

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

German investment in S Africa to continue

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

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

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

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

Sowetan 3/6/97

German firms take a hard line on crime

CT (BR) 3/6/97

About 85 percent of German companies in South Africa said in a recent survey they were considering altering their investment strategies; 15 percent had already stopped their investment because of the crime problem, Jurgen Schrempp, the chairman of Daimler-Benz, said at the weekend. He said this was "not surprising as quite a number of German company executives and employees have been subjected to criminal brutality".

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

(63) (74B) (59)

Leading businessman issues warning on SA investment

(74B) BD 4/6/97

Tim Cohen

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

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

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

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

"Naturally, from an investment point of view, it will relegate SA's importance in terms of a base as a springboard into Africa."

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

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

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

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

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

SA performance at international investment conference disappoints

SA has presented itself to investors as a slightly shabby but willing racehorse, writes London correspondent Tim Cohen

BD 5/6/97

(74B)

LONDON — Over the past three years, SA has presented itself to the international investor community for inspection. Every year, a new glamorous location is selected for what is known as the Europe SA conference; last year it was Cannes and this year's parade ring was Edinburgh.

But what SA put on show this year was far from a sprightly, prancing thoroughbred. Rather, SA presented a slightly shabby but willing three-year-old with poor bloodlines, but showed promise if it could only stop tripping over its own feet.

The conference began on the day of a national strike in SA; hardly an auspicious start, even if the strike revolved around a difference of opinion between government and its trade union allies.

The "international investor community" — ever so diplomatic but in fact fundamentally skittish — was already slightly quizzical about Deputy President Thabo Mbeki's last-minute absence from the conference of which he is the patron. Also absent was Constitutional Affairs Minister Valli Moosa, although three other cabinet ministers attended. Add to this a set of speeches which said little new and often sounded as if they had been written on the back of a cigarette packet; a few businessmen with scores to settle; and at least one scandal back home and you have the makings of a public relations mess.

However, a combination of the remnants of the rosy glow which surrounds post-apartheid SA, the country's trademark resilience and some genuinely impressive performances by government and business over the past year and the international investor community was left, if not openly enthusiastic, then at least within a certain comfort zone.

For example, delegates were surprised to hear about the turnaround in SA's aluminium industry.

Hulett Aluminium MD Peter Staude raised a wry laugh when he said that up until the early '90s, SA's aluminium industry was uncompetitive "even by SA standards". He then sketched the extraordinary turnaround in the industry, making the obvious but important point that the only way to become the lowest-cost producer is to set your mind on becoming the lowest-cost producer.

Staude said one of the main reasons the industry was so competitive was the low cost of electricity in SA. This led to questions about how long this situation could pertain.

Staude, who was not just bragging but selling the idea of downstream manufacturing of aluminium products, impressed delegates when he said Eskom had signed a 25-year contract with the company and was not averse to long contracts.

With so much mining activity recently, these discussions were a focus of the conference. The key question appeared to be whether SA could make a major impact on mining in Africa or whether SA's heralded selling point, that it is the pathway into Africa, is a misplaced notion.

In gold production, SA is now challenged by Australian and Canadian companies. These two countries also field as much as five times as many exploration companies. SA is being challenged in its own backyard. In addition, SA's deep level gold mining is a specialised art.

Contrary to this view, Anglovaal deputy chairman Rick Menell spoke warmly about the possibilities of mining in SA. On the subject of the road into Africa, JCI business development CE Rob Still had a novel thought: "Roll out Madiba".

SA often had the best credentials on paper, but SA's diplomats were, well, too diplomatic, he said. Too often, Canadian or Australian companies had won contracts because their governments had twisted arms, he said.

In his closing address Finance Minister Trevor Manuel quoted a previous speaker who said promises which were treated sceptically at the previous conference had been put into effect this year.

The only problem was that very few promises were made at this conference.

Firms investing in spite of crime fears

BD 12/6/97 (74b)

Simon Barber

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

The removal of exchange controls was the leading preoccupation of the 356 multinationals from 16 countries that answered the centre's latest annual survey of corporate sentiment towards SA, the results of which were released yesterday.

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

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

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

In only two areas, infrastructure and availability of raw materials, did majorities (69% and 52%) rate SA "better"; 48% thought SA's economic policy management superior, while only 9% judged it "worse".

Only 13% thought SA above average on the labour relations front, while 34% considered it inferior. SA's labour productivity scored low marks, with just 16% putting it in the "better" category and 37% in the "worse".

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

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

South Africa welcomes investment grade rating

(74B) ARG 12/6/97

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

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

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

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

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

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

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

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

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

Multinationals upbeat about investing in SA

But productivity, crime major concerns

ARG 14/6/97 (74B)

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

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

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

On the other hand, of the 356 companies which responded to the survey, 76 percent said South Africa's crime and violence were worse than in other emerging markets worldwide.

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

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

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

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

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

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

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

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

FOREIGN INVESTMENT (~~221A~~) FM 20/6/97

Shunted from pillar to post (74B)

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

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

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

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

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

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

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

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

CREDIT RATINGS

Jockeying for position in the numbers game

(740) FM 27/6/97

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

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

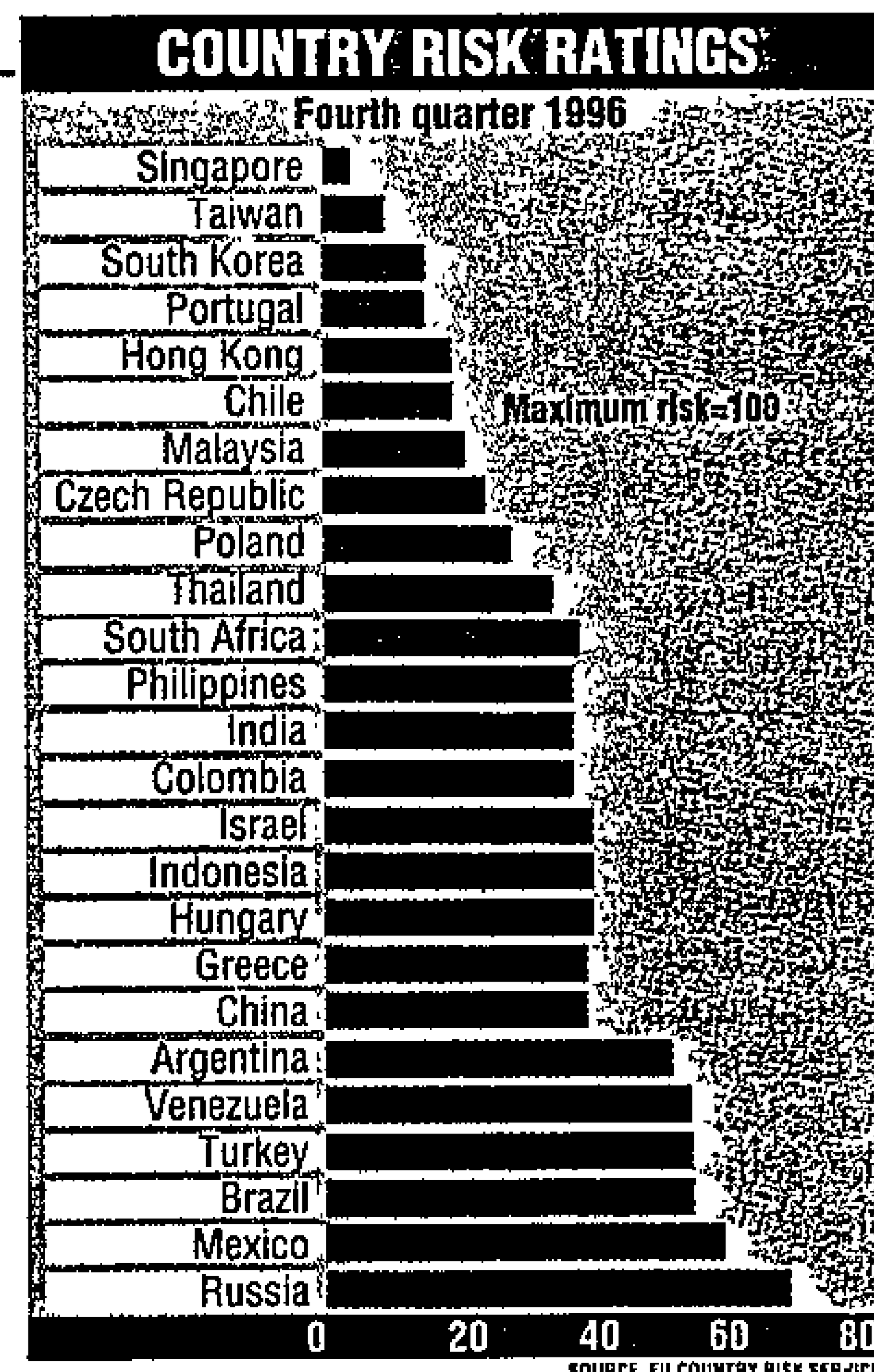
The world competitiveness report, published by the World Economic Forum (WEF) a week earlier, has a different perspective on how the countries rank. It puts Colombia four places ahead of SA; Mexico 10 ahead; and the Philippines 12 ahead; while Poland and Hungary are one and three places (respectively)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

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

The Institutional Investors' Rating scores countries on a scale of 1-100. Once again, the higher the rating, the lower the risk of default. It gives SA 46,3; Hungary 44,7; Poland 44; Mexico 41,6; the Philippines 40,5; Colombia 26,4.

A simple calculation of GDP per person, by the World Bank, generates yet another ranking (see graph).

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



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

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

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

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

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

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

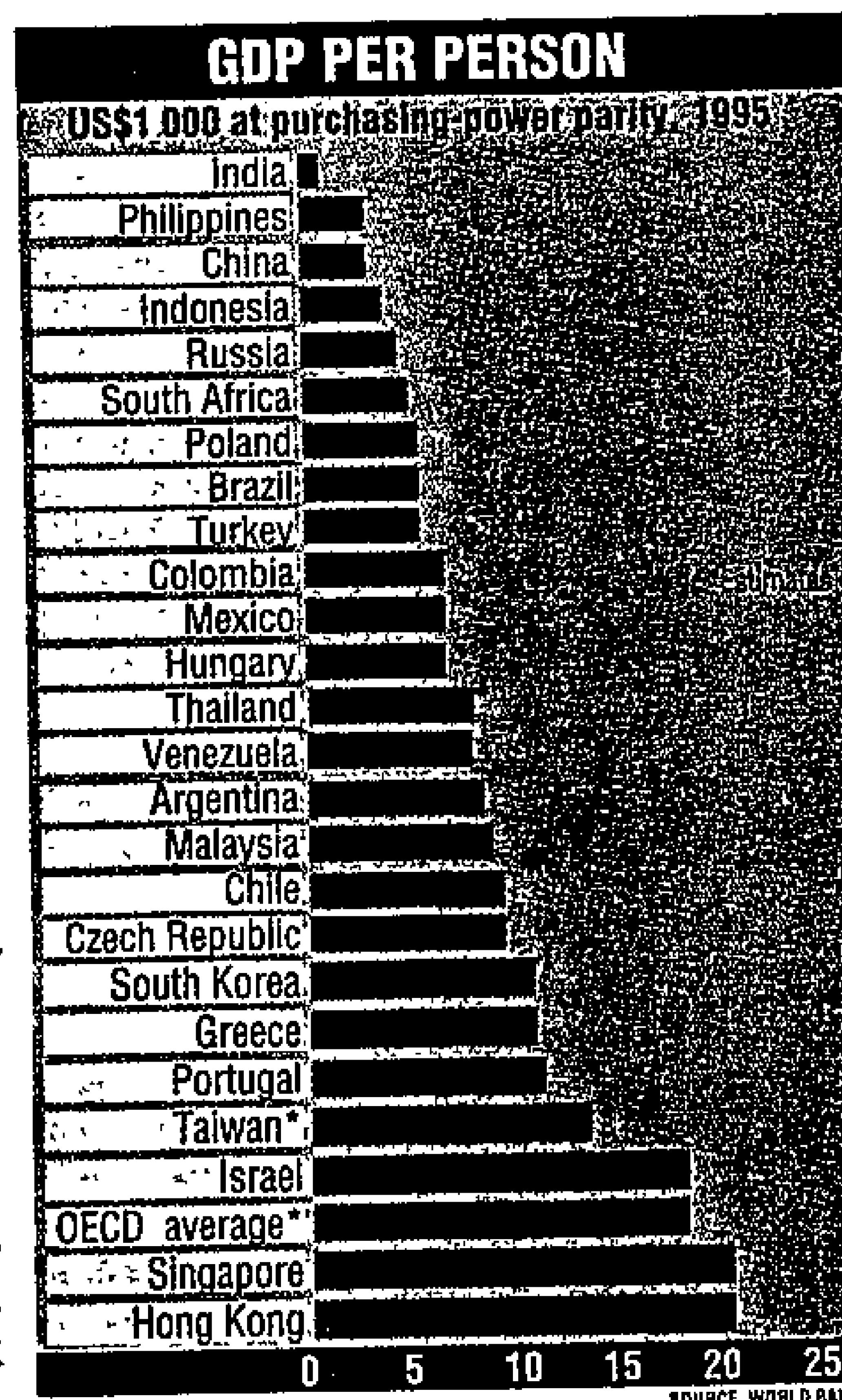
All of which leaves us none the wiser In broad terms the criteria are much the same. What is needed is political and economic stability, regulatory flexibility and at least some growth potential. Yet the rankings they produce are so different.

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

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

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

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



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

SA is one of the countries rated by both agencies. SA has an investment grade (Baa3) only from Moody's and a speculative BB+ from S&P's.

Ethel Hazelhurst

FOREIGN DIRECT INVESTMENT

Taking the plunge on the dark continent

(74B)

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

FM 20/6/97

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

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

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

The lead investor is the US-based Citibank.

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

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

The remaining $80m has been raised on the basis of credit support from the Overseas Private Investment Corporation (Opic). "A guarantee covers principal and interest for a 10-year period," says Liebenberg. "This finance is provided by people who prefer to invest in 10-year government type securities."

Opic is a US government agency which supports trade and investment in emerging markets. "The idea," says Liebenberg, "is that the investment should stimulate business with the US."

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

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

Liebenberg . . . *aiming at black middle class*

O'Leary . . . *has grown R600m to almost R1,5bn*

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

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

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

Ethel Hazelhurst

BUY SA

Who'll push the boat out?

South Africans backward in coming forward to support campaign

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

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

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

But its supporters have shown varying degrees of commitment and without government support and trade union involvement, Bayathenga has had little impact. Bayathenga CEO Brian Sandberg says he's still hoping it will take off and by Christmas million of products will be labelled with the "Made in SA with Pride" logo.

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

Stuart Rutherford

SA is the 'riskiest' place to invest in

ET (Por) 9/7/97 (74B)

FROM AP-DOW JONES

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

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

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

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

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

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

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

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

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

SA seen as riskiest investment destination

(74B) BD 9/7/97

SA IS regarded as the most precarious investment destination among the 10 largest emerging markets in the world evaluated by DRI/McGraw Hill, a US economic forecasting and consulting service which is part of the Standard & Poor rating group.

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

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

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

Based on an evaluation of 50 variables, SA was declared the riskiest investment destination because economic growth was declining while unemployment was increasing. Inflation was also cited as a major negative.

"SA's mineral and agricultural output are also stagnant, or declining, and consumer debt has reached dangerous proportions," DRI/McGraw Hill said.

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

"Notwithstanding a number of positive developments in SA — including the upgrading of its sovereign foreign-currency debt rating and the 51% increase in SA's foreign (exchange) reserves during the month of May — the generally dismal fundamentals of the SA government and economy are expected to lead to poor long-term prospects for this country," he said.

Behravesh said the outlook for Argentina was far more encouraging.

"Solid economic growth — fuelled by a rapid increase in exports as well as sound fiscal and monetary policy, a stable peso and relatively low interest rates — lead us to believe that over the next five years, Argentina will pose the lowest business investment risk of the 10 largest emerging markets," he said.

"Poland is also considered one of the lowest risks because of the country's upswing in industrial output and construction activity and the nation's declining inflation and unemployment."

China ranked high on the list of risky emerging markets, because of "a large percentage of nonperforming bank loans. ...Chinese banks have been crippled by policies that force them to make questionable loans to state-owned companies. A Chinese banking crisis could have a serious impact on developing Asia." — AP-DJ.

Mboweni breaks labour bill deadlock

BD 9/7/97 (...)

Reneé Grawitzky

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

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

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

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

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

New foreign direct investment triples

Simon Barber (74B) BD 10/7/97

WASHINGTON — New foreign direct investment into SA more than tripled to $2,87bn in the year to end-April compared with the previous year, the Investor Responsibility Research Centre reported yesterday.

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

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

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

Continued on Page 2

Investment

(74B)

Continued from Page 1

BD 10/7/97

the year. Counting reinvested earnings, US firms contributed $2,37bn.

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

Counting reinvested earnings, the UK moved to second place ($1,2bn), followed by Malaysia ($997m), Germany ($975m) and Japan ($484m).

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

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

The next largest category was finance, insurance and real estate ($96,5m), followed by wholesale trade ($61,9m), retail trade ($49,2m), services ($24,8m), mining ($17,7m) and agriculture, forestry and fishing ($2m).

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

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

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

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

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

Foreign funds in SA triple

(74B)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

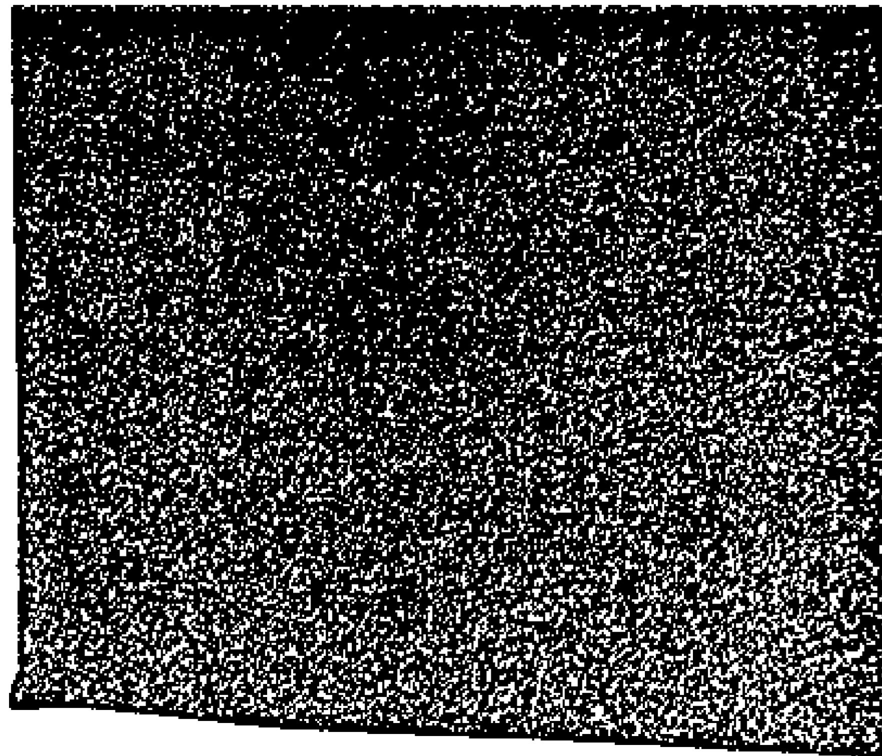
CT(BR) 10/7/97

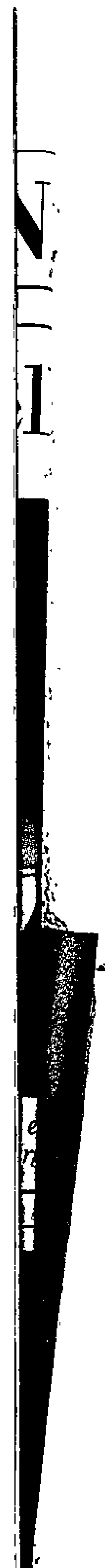
Cape Town — The wave of foreign investment into South Africa finally rolled into the country over the past year, the Investor Responsibility Research Center (IRRC) in Washington, DC said yesterday.

IRRC figures show that fixed investment in new projects and the reinvestment of earnings in existing projects by foreign companies in South Africa totalled R35,5 billion in the year to May 1. This was triple the amount invested in the previous year.

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

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





Stals says SA survey is unfair

(74b) CT(BR) 11/7/97

FROM REUTER

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

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

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

But Stals said the Bank felt inflation had peaked and it was showing encouraging signs of falling. "I think South Africa will say we have greater stability within the political system at this stage than we've had since the reforms ... started."

Stals said he was concerned about the rate of increase in debt extension by banks over the past two years, but felt it was not dangerously high.

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

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

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

Sowetan
BUSINESS
Real power is economic

Sowetan 10/7/97

Foreigners invest billions in SA

(74B)

The US and Malaysia have been the largest investors since '94 elections

FOREIGN DIRECT INVESTMENT in South Africa more than tripled in the year to May 1 compared with the previous year, with the USA and Malaysia leading the investment drive.

The Washington-based US research institute, IRRC, said in its latest survey on multinational business activity in SA that the country had made significant gains in attracting foreign direct investment.

The largest single foreign investment was by US group, SBC Communications, which took an 18 percent stake in Telkom for R3,42 billion.

SBC's partner in the partial privatisation deal, Telekom Malaysia, acquired 12 percent of the national telecommunications group.

Total investment

The two investments helped push total foreign investment for the year to May 1 to approximately R13 billion – more than three times the about R3,62 billion in new funds the previous year.

Taking into account the reinvested earnings of the multinational firms, the total foreign direct investment (FDI) amounted to R36-billion.

"Foreign business activity in South Africa thus has entered a new phase. In the initial period following the April 1994 elections, the number of foreign companies, especially US firms, grew relatively rapid, but large investments were rare," IRRC Southern Africa Service director Meg Voorhes said.

"The last year, particularly since August 1996, has seen a series of large investments broaden foreign direct investment in the country."

The US led the way in new investment, contributing R11 billion in new investments and reinvested earnings.

Malaysian companies, in second position for new investments and third for overall FDI, brought in just less than R4,5 billion, a sharp contrast to 1996 when Malaysian firms accounted for less than one percent of the assets owned by foreign firms in SA.

In addition to the Telkom transaction, the Malaysian state-owned oil group, Petronas, bought 30 percent of local petroleum company, Engen, for R1,96 billion.

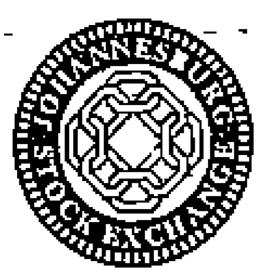
The IRRC said British and German firms retained their significant presence in the country and ranked second and fourth respectively in foreign direct investment, largely due to the magnitude of their reinvested earnings.

Ranked fifth

Japan stepped up its direct involvement in SA, and boosted by the R452 million acquisition of a stake in Toyota SA by the Toyota Motor Corporation, ranked fifth in total FDI – *Sapa.*

Share prices on the Johannesburg Stock Exchange

These were prices at close of market.
N.B: The JSE does not operate on public holidays.
Prices courtesy of Frankel, Pollak, Vinderine Inc



Johannesburg Stock Exchange

Name	Buyer	Seller	Last	High	Low
1. Nail	R4,00	R4,05	R4,00	R4,50	R1,25
2. Nail-N	R3,55	R3,60	R3,55	R4,25	R2,50
3. Kilimanjaro	R3,00	R3,10	R3,00	R3,70	R1,50
4. African Life	R32,20	R32,90	R32,20	R32,90	R8,75
5. Metropolitan	R8,60	R8,64	R8,64	R9,50	R6,74
6. Real Africa Investment	R13,20	R13,50	R13,50	R13,50	R2,00

GLOSSARY: Buyer: Price at which the share was bought. **Seller:** Price at which the share was sold. **Last:** Last traded prce or the share. **High:** Highest level share reached this year. **Low:** Lowest level the price reached this year.

Ramaphosa punts SA to investors

Johnnic chief counters 'risky' US economic rating

(74b) ARG 14/7/97

RICH MKHONDO
Foreign Service

Washington – Johnnic chairman Cyril Ramaphosa has strongly defended South Africa as an emerging market destination for investors in the face of a gloomy report by an influential US economic consultancy.

South Africa was the best such destination for investors, and one of the most politically stable countries in the world, Mr Rampahosa said.

The deputy chairman of New Africa Investments was in New York to meet investment fund managers and American business people.

He said some researchers and analysts had been sending conflicting messages about South Africa.

Some had said the country should be ranked as the riskiest emerging market, while others had said South Africa was the best value for money.

"We have one of the best and most stable democracies in the world, and a government that cannot go wrong with its economic and political policies," Mr Ramaphosa said.

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

At the same time, the Investor Responsibility Research Centre (IRRC) a Washington-based international research think tank, said multinational companies doing business in South Africa continued to rate it one of the best destinations for investors among emerging markets.

DRI/McGraw Hill said Argentina offered the lowest investment risk among emerging markets, followed by Poland, Mexico, Turkey and India. Also safer than South Africa were China, Indonesia, Russia and Brazil.

South Africa was the riskiest because economic growth was slipping, while unemployment was increasing. Inflation was cited as a serious negative factor.

Mr Ramaphosa said unemployment and crime remained among the Government's biggest concerns and challenges, but President Mandela and his colleagues had set goals to reduce the unemployment rate by the year 2000, and to curb crime.

"We have many companies from the United States, Malaysia, Japan, Britain and Germany who have major investments in South Africa. Surely there are many prudent researchers from these companies who have given us a clean bill of political and economic health," Mr Ramaphosa said.

The IRRC had said South Africa had made significant gains in its drive to attract foreign direct investment, with the first steps towards privatisation providing much of the attraction.

Ramaphosa sells SA as investment haven

Star 15/7/97

(74b)

However DRI/McGraw Hill, a US consulting service, has rated SA the most precarious emerging market

By Rich Mkhondo
Washington

South Africa is the best destination for investors and one of the most politically stable countries in the world, Cyril Ramaphosa said yesterday.

Ramaphosa, chairman of Johnnic and deputy chairman of New Africa Investments, was in New York to meet investment fund managers and US businessmen. He said some researchers and analysts had been sending out conflicting messages about South Africa, saying the country should be ranked as the riskiest emerging market, while others deem South Africa the best value for money.

"We have one of the best and most stable democracies in the world, a government which cannot go wrong with its economic and political policies," Ramaphosa said in an interview.

DRI/McGraw Hill, a US economic forecasting and consulting service which is part of the Standard & Poor's rating group on issues ranging from government policies to political and economic risk, has ranked South Africa as the most precarious investment destination among the world's 10 largest emerging markets.

At the same time, the Investor Responsibility Research Centre (IRRC) a well-known Washington-based international research think tank, said multinational firms in South Africa continue to rate the country as one of the best destinations for investors because of its infrastructure, legal system and supply of raw materials.

DRI/McGraw Hill said Argentina offered the lowest investment risk, followed by Poland, Mexico, Turkey and India. Also less risky than South Africa were China, Indonesia, Russia and Brazil, an opinion based on an evaluation of 50 variables.

Of concern in South Africa was the fact that economic growth was declining while unemployment was increasing. Inflation was also cited as a major negative.

> "We have one of the best, most stable democracies in the world"

Ramaphosa said unemployment and criminal violence remained two of the Government's biggest challenges, but President Mandela and his colleagues had set goals to reduce the unemployment rate by the year 2 000 and to curb criminal violence.

"The investing world regards South Africa as a country with a potential for growth. We have many companies from the US, Malaysia, Japan, Britain and Germany, which have major investments in South Africa. Surely there are many prudent researchers in these companies who have given South Africa a clean bill of political and economic health," Ramaphosa said.

The IRRC has found South Africa has made significant gains in its drive to attract foreign direct investment, with the Government's first steps on the road to privatisation providing much of the attraction.

The organisation said South Africa's largest single foreign investment was the SBC Communications 18% stake, valued at R3,4-billion, in state-owned Telkom. The second involved SBC's partner, Telekom Malaysia, which had purchased a 12% interest in Telkom.

The top five foreign direct investors in South Africa, by country of origin, were: the US (R5,4-billion); Malaysia (R4,4-billion); Japan (R1,4-billion), Britain (R580-million) and Germany (R373-million).

The United States also led in new investments plus re-invested earnings of R10,3-billion, followed by Britain, R5,4-billion, Malaysia, R4,4-billion, Germany R4,3-billion and Japan, R2,1-billion.

The US department of commerce said America's investment in South Africa showed a 13% increase last year, but trade between the two countries registered a 6% drop.

The department said statistics showed that US direct investment – mainly in the manufacturing sector – in South Africa rose in the first four months of this year to R6,4-billion from R729-million in 1996.

SA, Swaziland among Sloan group targets for investment

BD 21.7.97

(74B)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment-grade rating for SA is in the offing, say US investors

(74B) BD 24/7/97

Robyn Chalmers

SEVERAL US investors believed SA would soon be upgraded to an investment-grade rating, offsetting a recent ranking of SA as the riskiest investment destination of the world's 10 largest emerging markets, Eskom MD Allen Morgan said at the weekend.

Morgan said that during a recent visit to the US together with new Eskom chairman Reuel Khoza, a range of investors were confident that the time was right for SA to be upgraded.

"Eskom recently received a BBB+ long-term rating from Standard & Poor's for its R8bn, 30-year Eurorand zero coupon bonds. This, along with other ratings, is in sharp contrast to a recent survey ranking of SA as a high-risk investment destination," he said.

US economic forecasting service DRI/McGraw Hill said Argentina offered the lowest investment risk, followed by Poland, Mexico, Turkey and India. Also less risky than SA were China, Indonesia, Russia and Brazil.

Eskom treasury risk manager Theuns Kotze said in terms of formal ratings, SA was rated well ahead of these countries. Standard & Poor's BB+ foreign currency rating for SA was ahead of Argentina's BB rating, Brazil's BB rating, Russia's BB- and Turkey's B. SA's rand rating is BBB+.

Moody's had given SA a foreign currency investment rating of BAA3 while Argentina had a grade of B1, Brazil B1, Russia BA2 and Turkey B1.

Stockbrokerage JP Morgan said in a recent review of world financial markets that SA's creditworthiness was sufficiently improved that the group expected an upgrade from Standard & Poor's in SA's foreign currency rating to BBB- later this year.

Kotze said the DRI/McGraw Hill survey appeared unrealistic in the face of these ratings and the good reception of SA's recent launch of a $500m Yankee bond and a ¥40bn Samurai bond.

Morgan said the rating recently given to Eskom's zero coupon bonds reflected confidence in the parastatal and in SA in general. "Eskom plays a critical role in economic growth and it currently has surplus capacity and will continue to do so for some time."

Despite uncertainty about the effect the restructuring of the electricity supply industry would have on Eskom, and concerns about the utility becoming a tax and dividend paying entity, Standard & Poor's said the outlook was positive. "Standard & Poor's believes Eskom is adequately positioned to contribute to SA's electrification plans over the next few years, while maintaining operational and financial stability," the organisation said last week.

R37-billion investment from US

(74B) ARG 28/7/97

RICH MKHONDO

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

These projects include a $356-million (about R1,62-billion) toll road which will link Mozambique, South Africa and Botswana. The N4-West toll road will pass through Pretoria.

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

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

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

There is also the construction of the Richard's Bay Dry Dock to make it the largest bulk cargo port in Africa. This project will cost $146-million (about R665-million).

Other projects include the private upgrading of the Kruger National Park and Nelspruit airports; the construction of a $25-million (about R114-million) Peacock Bay Hazardous Waste Incinerator with an annual capacity of 35 000 tons; and the development of the $1,2-billion (about R5,4-billion) Iron Direct Reduction Facility being developed by the Industrial Development Corporation of South Africa and Iscor.

The Gore-Mbeki binational summit, which began in Washington today, ends on Wednesday. At the same time more than 100 South African businessmen will attend the South African Trade and Investment Conference co-sponsored by the TDA, Overseas Private Investment Corporation, Export-Import Bank of the US, and the US Department of Commerce in Washington.

Foreign investment felled by crime

SURVEY

By ZILLA EFRAT

THE American Chamber of Commerce's 1987 survey on crime paints a gloomy picture: overseas investors appear to believe that crime in South Africa is out of control, and have little confidence in the police and the justice system.

These factors could have a detrimental effect on new investment and expansion of existing investments, something South Africa can ill afford at the moment, says AmCham in its report.

AmCham's findings are based on 245 questionnaires sent to the chief executive officers of its member companies in South Africa.

It says members perceive little change in the high overall incidence of crime as it affects business, but from the number of incidents reported the situation appears to have stabilised.

Violent crimes experienced by members such as armed robberies, hijackings, rape and murder are slightly down on the figures reported in AmCham's 1996 survey, but crime involving fraud, business espionage and computer theft, although all small in numbers, are up.

Break-ins fell by 3%, vandalism by 9%, hijackings of cars by 14%, hijacking of motorcycles by 16% and theft by 9%. Nonetheless, AmCham members say crime is still unacceptable for normal business and "too common and too serious".

The amount of violence which still accompanies crime in South Africa and the preponderance of firearms remains a matter of deep concern.

The survey found that 34% of AmCham's members believe crime is the greatest concern currently faced by South Africa and 77% say government is "unsuccessful" in combating it. It also highlights a change in views on the ability of the police to turn the crime situation around.

In other findings, members see the political situation in South Africa as "volatile" rather than "peaceful" and believe it is "deteriorating".

ST (BT) 29/6/97 (74B)

'Riskiest' rating for SA incurs Mbeki's wrath

CT 1/8/97 (748)

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

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

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

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

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

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

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

The firm said South Africa was riskiest because economic growth was declining while unemployment was increasing. Inflation was cited as a major negative. — Independent Foreign Service

R1-bn on way to fuel Cape jobs bonanza, says MEC

Overseas marketing foray lures investors

ARG 7/8/97 (74B)

ASHLEY SMITH
STAFF REPORTER

An economic surge in the Western Cape's manufacturing sector, centred on such key areas as Saldanha, Mitchell's Plain, Philippi and Atlantis, could result in a dramatic drop in joblessness.

This is the view of the provincial MEC for economic affairs, Chris Nissen, who disclosed yesterday that foreigners were about to invest more than R1-billion in the province.

Mr Nissen recently headed a highly successful delegation to investment conferences in Scotland, Germany and Italy.

Investments and potential investments resulting from their marketing of the region as an international investment opportunity include:

- A R250-million boost for the Western Cape Property Fund.
- A R100-million project to be managed jointly by a scaffolding company and a black-owned engineering firm, creating 300 jobs.
- A R40-million venture between an international metal company and a local one.
- A potential R700-million venture capital fund with three Scottish financial institutions.

During the trip, the group had also highlighted the "enormously beneficial effect" hosting the 2004 Olympics would have on Cape Town and South Africa, Mr Nissen said.

Although a recent survey showed unemployment in the province to be 17,3%, a figure of 25% would be "closer to the truth", Mr Nissen said.

Results of the survey were "misleading", because so-called employed people working as informal traders were dependent on the weather to earn their living.

Mr Nissen said if the manufacturing sector was boosted sufficiently by foreign and local investment, unemployment should drop to 5% in the near future.

"The Paris Chamber of Commerce, the largest in the world, has taken a keen interest in the Western Cape as a potential investment opportunity.

"This renewed interest is mainly because of our short-listing for the 2004 Olympics," he said.

The appointment of Meyer Kahn to the police service was also seen as a positive step by investors.

Tony Ruiters, head of economic affairs and the reconstruction and the development programme in the Western Cape, said such initiatives as the R2-billion Saldanha Steel project should stimulate growth in fishing, agriculture and manufacturing industries.

Other projects which would be catalysts for further growth in the manufacturing sector included the R3,5-billion Capricorn project near Muizenberg and the Philippi East project, Mr Ruiters said.

Investment enters a new phase

(74b) el 17/8/97

Privatisation is attracting a lot of foreign money

By ALI MPHAKI

SOUTH AFRICA, in its third year of democracy, made significant gains in its drive to attract foreign direct investment, says the IRRC's recently completed 1997 survey into multinational business activity in the country.

The government's first steps on the road to privatisation provided much of the attraction.

The largest single foreign investment over this period was by SBC Communications, which claimed an 18 percent stake in Telkom SA, as part of the parastatal's partial privatisation, for $757 million.

The second largest involved SBC's partner, Telekom Malaysia, which purchased a 12 percent interest in Telkom.

These two investments culminated in a post-elections record-breaking investment drive in which foreign investors, led by US and Malaysian firms, made more than $2,87 billion in new investments in South Africa from May 1, 1996 to May 1, 1997 – more than triple the estimated $800 million in new investments that came into the country a year earlier.

When the reinvested earnings of multinationals during the period are taken into account, the total foreign direct investment topped $7,83 billion in the year ending May 1, 1997.

"Foreign business activity in South Africa thus entered a new phase," says Meg Voorhes, director of the IRRC's southern Africa service.

"In this initial period following the April 1994 elections, the number of foreign companies, especially US firms, grew rapidly, but large investments were rare.

"The last year, particularly since August 1996, has seen a series of large investments broaden foreign direct investment in the country," Voorhes adds.

While US and Malaysia are leading countries in terms of new investment, the Japanese are now in fifth place for foreign direct investment. Although Japanese companies have long been involved in South Africa through licensing arrangements, until recently they had negligible investment in the country – largely a legacy of Japanese government policy that discouraged direct investment in South Africa during the apartheid era.

Perhaps the most significant indicator of this sea of change was Toyota Motor Corporation's acquisition in October 1996 of a significant minority stake in Toyota SA.

British and German firms remain a significant presence in South Africa and rank second and fourth in foreign direct investment, by the IRRC's estimates, largely because of the magnitude of their reinvested earnings.

In the past year, the lion's share of new investments by foreign investors has been in two sectors: manufacturing and transportation and communications.

While the new investments in transportation and communications are almost wholly accounted for by the SBC/Telekom Malaysia stake in Telkom, a wide range of firms have acquired, established or significantly expanded manufacturing operations in South Africa, particularly in auto production.

Of note is that US companies outstripped firms from other countries in adding employees to their payrolls in South Africa, growing from approximately 60 000 to 71 000 between May 1, 1996 and May 1, 1997 – a more than 18 percent increase.

Firms from Japan, Malaysia and Canada also added considerable numbers to their rosters, all growing at a rate greater than 20 percent.

While employment totals on the whole rose in the last year – up by approximately 10 percent – growth was generated mostly by the entrance of new foreign multinationals into the market.

Per company employment totals were down this year from last, and more than 70 percent of the European companies responding to this year's survey reported that they had cut employees from their rolls in the last year – a significant blow to employment generation since European multinationals employ more South Africans overall than other multinationals.

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

A gateway to riches closed by the fear of fear

(7HB) Star 30/8/97

By NEWTON KANHEMA

Stuttgart – The chairman of Daimler-Benz, one of Europe's biggest corporations, has written to President Nelson Mandela expressing concern about South Africa's high crime rate, which has begun to turn away potential German investors.

Jurgen Schrempp, who is also chairman of the Southern Africa Initiative of German Business, told Mandela that because Johannesburg was considered the gateway to investment in the subcontinent, the high crime rate in the city was a hindrance to investment in southern Africa.

Schrempp received a reply from Deputy President Thabo Mbeki, who assured the German business community that the Government was doing something about the situation.

New offensive

Mbeki specifically noted the appointment of South African Breweries chairman Meyer Kahn as chief executive officer of the South African Police Service as part of a new offensive against crime.

The letter from Schrempp comes several months after German businessmen expressed concern about security in areas such as Gauteng. Their fears arose after a German businessman died in an attempted hijacking in Johannesburg.

A survey of German or German-affiliated companies operating in South Africa found that half had been affected by crime in recent months.

A spokesman for Schrempp, Josef Gorgels, said the Daimler-Benz chairman was hoping the appointment of Kahn would help yo turn the situation around.

Gorgels said the crime situation in Johannesburg had made the task of German businessmen keen to push investment "a mission impossible".

"We are trying to mobilise investment and skills to Africa. Africa is practically unknown to the entrepreneur of medium size. The image of Africa is very bad. The present situation in Kenya and Congo makes our lives difficult.

"Every time you speak to investors they always agree with all the things you tell them. Then comes the question: 'What about security in Johannesburg?'"

Gorgels acknowledged there was "a distorted perception" of Africa in Germany.

"But remember we do not live on facts but perception. For South Africa this has reached a serious level."

He said potential investors would have to take experts to Africa if they invested there, but it was almost impossible to find a family who wanted to go to South Africa.

ASSURANCE: Mbeki sent a reply to concerned businessmen

Gorgels said a crime-infested city was worse than a war zone: "With war one knows where the fighting is taking place. At least you know where the frontier is, but with this sort of crime there are no fronts, you cannot be safe anywhere."

The message of Gorgels and Schrempp was one heard repeatedly during a two-week visit to Germany sponsored by the German government.

There is a marked enthusiasm for doing business, not only with South Africa but also with other countries of the Southern African Development Community.

German government officials and businessmen say Pretoria should push the development of the SADC region into a common market of 140 million people, much like the European Union, which has been a major success over the past few decades.

"The message is to develop this common market. Many of the countries in the neighbouring countries are complaining that South Africa has maintained protectionist policies and that trade relations are tipped in favour of South Africa," one businessman said.

South Africa's protectionist policies and its lack of competitiveness, especially when measured against other "high-wage" countries, was also cited by many as a drawback.

Referring to international forums such as the SADC, Gorgels observed that the "SADC should work hard and be stronger and work together in the global economy as joint forces".

The Germans are strongly pushing the line that the way the industrialised world can best help Africa is through investment and not through aid handouts.

As part of a R10-billion arms package which has been offered to the SA National Defence Force for its re-equipment programme, the Germans have proposed a number of counter-trade proposals which they claim will help to generate thousands of jobs.

Importance

Mbeki is due to visit Germany in October as part of the German-South African Bi-national Commission, which is regarded by the Department of Foreign Affairs in Pretoria as of equal importance to the South African-United States Bi-national Commission, which recently held a series of sessions in Washington.

Gorgels said a German business organisation planned a number of visits to southern Africa in the coming year, and would also host several seminars in Germany to encourage investors and entrepreneurs to consider southern Africa.

US has rosy view of investment climate

(748) BD 5/9/97

Simon Barber

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

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

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

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

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

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

On crime, the report is blunt: "Criminal gangs and vigilantes hold sway in many urban areas." However, "US firms have not identified corruption as an obstacle to foreign investment".

FOREIGN INVESTORS (74B)

Flavour of the moment

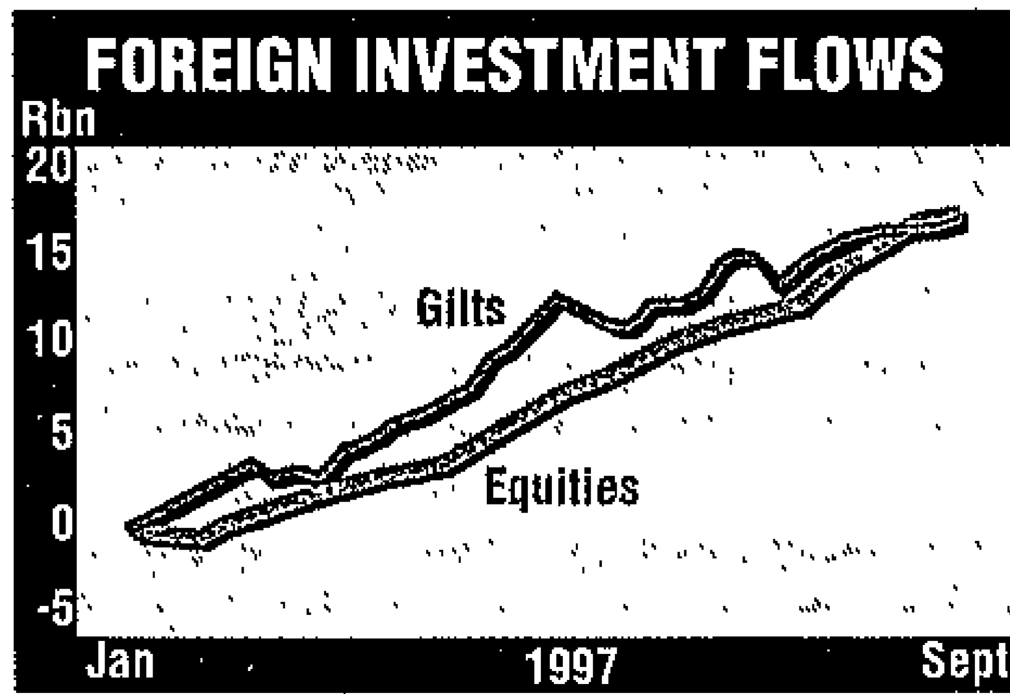
FM 12/9/97

Foreigners recently became bigger investors in the equity market than in the gilt market for the first time this year.

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

During August, offshore parties plunged about R4,5bn into domestic stocks — more than double the R2bn invested in the bond market

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



Barnard Jacobs Mellet & Co equity analyst Eghard van der Hoven is confident that the strong offshore interest in the equity market will continue into next year and sees the JSE Industrial p e rating moving up to 16 or 17 next year from its current 14

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

Historically, foreigners have been larger participants in the bond market

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

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

Visser expects benchmark bond rates to remain within their current tight trading range, with the R150 moving between 14% and 14,3%.

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

Delegates 'run down their rival provinces'

Wyndham Hartley

BD 11/9/97 (74B)

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

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

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

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

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

He said some of the current projects which Investment SA was working on would amount to many billions of rands if successful.

INVESTMENT

(74B) CT (BR) 15/9/97

Agency handles queries worth up to R20bn

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

Disinvestment feared if talks fail

Wyndham Hartley

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

A top-level delegation from Taiwan is to visit SA towards the end of this month to pursue negotiations with SA about the retention of its consulates general offices. Sources within the Taiwanese community in SA were not optimistic that this would happen and fully anticipated the reduction of the status of the consulates general to economic interest offices.

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

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

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

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

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

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

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

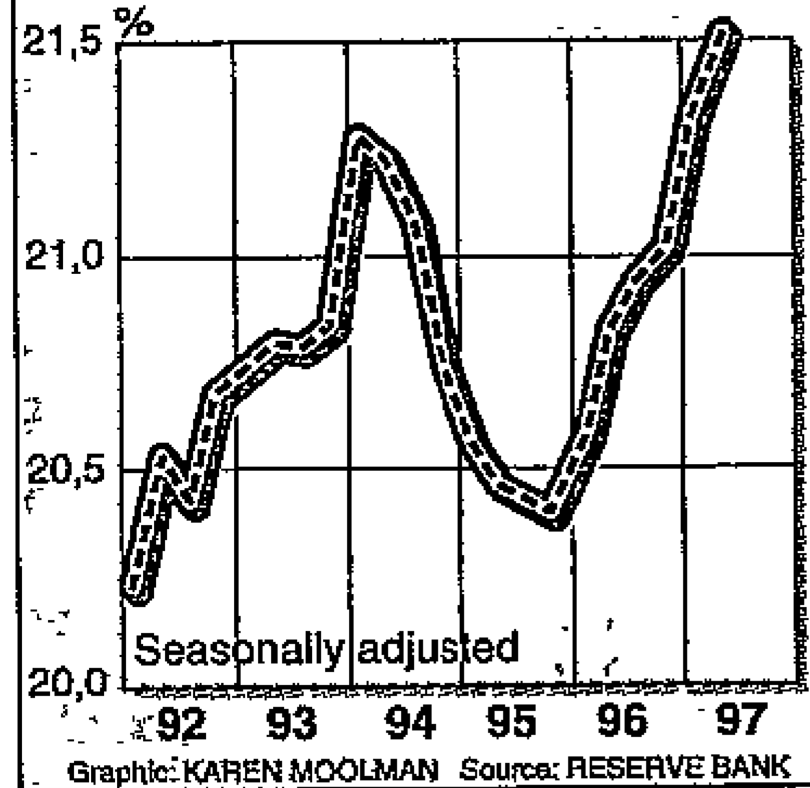
The Taiwanese government will apparently maintain offices in SA at whatever level it can achieve in the talks, simply because there are 20 000 Taiwanese in the country and they will not abandon them. It is not clear how much Taiwanese investment there is in SA, but it is considerable and 30% disinvestment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

BD 18/9/97 (74B

Growth slow, but record foreign funds flowing in

(74B) BD 19/9/97

Real government consumption expenditure as % of real gross domestic product



Graphic: KAREN MOOLMAN Source: RESERVE BANK

Belinda Beresford

ECONOMIC growth in the past 18 months had been disappointing, although nonprimary sectors had caused an expansion of economic activity in the second quarter, the Reserve Bank said in its latest Quarterly Bulletin yesterday.

There was more positive news on the balance of payments, with the capital account seeing an inflow of R12,7bn of foreign funds — the largest recorded in a quarter. The current account deficit continued to shrink, with a consequent improvement in gross reserves.

Gross domestic product (GDP) showed a seasonalised annualised rate of 2,5% for the second quarter after a fall of 1% in the first quarter. The secondary and tertiary sectors grew 3,5% in the second quarter, up from 2% for the first three months.

The gross domestic expenditure (GDE) figures for the second quarter gave economists cause for concern, with a 2% seasonally adjusted and annualised rise. This hike followed three quarters of negative growth and came despite a R2,2bn fall in inventories.

A major contributor to the increase in GDE was government consumption expenditure, which grew 5,5% for the second consecutive quarter.

Private consumption expenditure growth was static at 1% for the first two quarters.

The bank said there had been continued increases "at all levels of general government, especially in real expenditure on intermediate goods and services".

Real gross domestic fixed investment lifted slightly to a seasonally adjusted and annualised growth rate of about 3%. Within this figure the public sector showed a marginal increase in fixed investment from 3% in the first three months to 3,5% in the second quarter. Private sector investment lifted to 3% in the second quarter from 2%.

The bank said diverging movements of GDE and GDP in the past year had created a "healthier balance" within the economy.

Real GDE had remained below real GDP since the final quarter of last year with "the beneficial effects of reducing inflationary pressures in the economy and creating a smaller deficit on the current account of the balance of payments".

Another positive effect had been slower growth in demand for imports which in turn "created capacity to meet the increased international demand for SA manufactured goods".

The second quarter had seen a surplus in the overall balance of payments, which had improved gold and foreign reserves for the third consecutive quarter. Second quarter reserves were equivalent to 9,5 weeks' worth of imports.

Overall foreign reserves were at R30,7bn by the end of June, including R1,8bn of short-term borrowings from the bank.

The bank warned that although the capital account had seen large inflows these were likely to soften following turbulence in the foreign exchange market.

Broad money supply, M3, showed annualised quarter on quarter growth of 16,4% for the second quarter, down from 18,1% for the first three months.

Funds expected to reach Africa

ST (BT) 21/9/97 (74B)

FOREIGN INVESTMENT

By THABO KOBOKOANE

SA WAS a recipient of just $330-million (R1.6-billion) of the $5.3-billion (R24.9-billion) foreign direct investment that flowed into Africa last year. But it is expected to play a major role as a source of foreign direct investment into the continent.

A report by the United Nations Conference on Trade and Development (Unctad) shows foreign direct investment into SA has been stable at $330-million yearly over the past three years while the continent's share grew to $5.3-billion from $4.9-billion in 1995. Despite the improvement, the figure is still slightly lower than the record $5.8-billion foreign direct investment inflow into Africa in 1994.

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

The continent's share (excluding SA) of developing country inflows was 4% less than last year and its lowest since the early 1980s. This was "a further indication that the region is not participating" in the global foreign direct investment boom.

Total global flows rose 10% to $349-billion, buoyed largely by multinational companies and mergers and acquisitions, with China receiving inflows of $42.3-billion (R198.8-billion), the second-largest recipient in the world. Inflows into developing countries last year rose 34% to $129-billion while those into developed countries rose slightly to $208-billion.

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

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

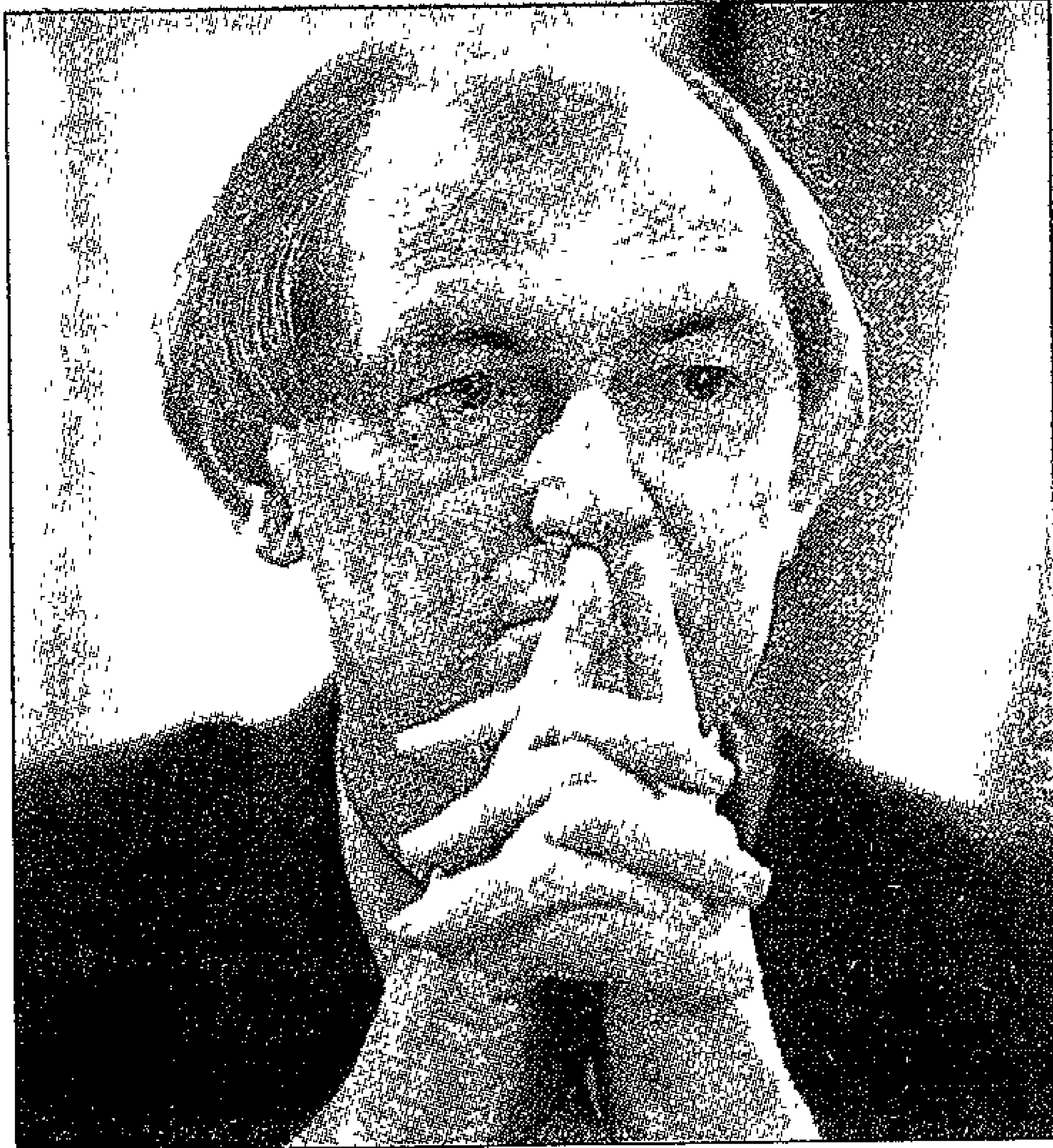
Erwin cites the present "excessive conglomeration" of SA business as a major inhibiting factor although he acknowledges that government was pleased with the some of the unbundling measures under way.

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

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

Erwin says he will approach the National Economic Development and Labour Council next month to see how best to deal with the impending revamping of SA's competition policy.

Picture: JON HRUSA



OPTIMISTIC . . . Alec Erwin says investment in Africa will rise

Investors' waiting phase has ended, says Unctad

BD 22/9/97 (74B)

Jim Jones

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

This comes in the wake of a slight improvement to $5,3bn in foreign direct investment inflows into Africa in 1996, against $4,9bn in 1995 and $5,8bn in 1994.

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

The concerns are not unusual. Social issues, particularly crime, political issues and difficulty of market entry because of the dominance of the economy by a few local conglomerates are the principal impediments reported by Unctad. Nonetheless, Unctad believes the "wait-and-see" phase is over, with US firms alone having made investment commitments of about R8bn and German companies about R3,2bn since the 1994 elections.

Unctad sees investment from Asia as an important new phenomenon, with Korean firms planning major investments in the motor and components manufacturing industries and

Continued on Page 2

Unctad

Continued from Page 1

Malaysian firms targeting service industries such as hotels, property and telecommunications.

But while the figures themselves represent one aspect of change, another more important one is the fact that many transnational companies see investment in SA as part of a strategy of integrating their SA affiliates into their international production networks, to export part of their output. The report says this is putting pressure on other affiliates to integrate with their parent companies to become more efficient and to improve their access to world markets.

While the US transnational companies' investments have been comparatively broadly spread, the German companies have tended to concentrate on manufacturing operations and the British on financial services, publishing, beverages and chemicals.

A paradox not explained in the Unctad report is that Thailand and Malaysia, which have experienced lower volatility in their macroeconomic indicators than countries such as SA and Turkey, have been at the centre of currency crises in recent months.

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

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

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

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

Picture: Page 3
See Page 25

SA gets an 'A' category investment rating

(74B) BD 2/10/97

Samantha Sharpe

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

The higher a country's investment rating the easier it is to attract foreign investors, and the lower the cost of borrowing internationally.

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

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

Continued on Page 2

Rating

(74B) BD 2/10/97

Continued from Page 1

The benchmark government long-bond, the R150, traded at a yield of 13,85% yesterday, having firmed by about 10 basis points in intraday trade. Traders said this was a response to firmer international markets.

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

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

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

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

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

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

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

Lack of prospects forces Namibians to invest in SA

BD 7/10/97 ([illegible]) (74B)

Christof Maletsky

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

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

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

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

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

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

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

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

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

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

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

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

'Cities must woo investors'

BD 30/10/97 (74B)

Jacob Dlamini

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

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

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

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

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

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

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

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

European business sees SA less optimistically

(74B)

Sowetan 16/10/97

EUROPEAN business perceptions of the South African economy have deteriorated over the past two years but the overall outlook remains positive, the European Chamber of Commerce said this week.

However, European perceptions of violence, crime and Government competence have fallen dramatically.

The Eurochamber, an umbrella body encompassing the individual European chambers of commerce in South Africa, said a survey on business confidence indicated that 50 percent of European businesses viewed the current economic environment as either excellent, good or satisfactory, against 72 percent in 1995.

Fourteen percent said the economic situation was bad, compared to eight percent in 1995, while 36 percent said conditions were "sufficient".

European Union (EU) ambassador to South African Mr Erwan Fouere said he hoped the generally optimistic response would contribute positively to debates surrounding the Government's economic policies and business relations between the EU and South Africa.

"The European Union's ultimate aim in supporting the Eurochamber's studies is to further strengthen the trading and investment relationship between the EU and South Africa," he said at the presentation of the report in Johannesburg.

Future planned investments totalled a healthy R3,5 billion, the survey showed, despite a limited response by firms canvassed.

Worrying trend

A worrying trend was the deterioration in the perception regarding crime, violence and corruption.

Businesses were concerned by the inability of Government to address the high level of crime.

The survey showed some 78 percent of the respondents (64 percent in 1995) were pessimistic about the Government's ability to control crime.

The negative feelings were particularly high among German business people.

Other areas of concern were the reliability of government leaders, corruption and the competence of the civil service.

Only 21 percent of the respondents showed confidence in the abilities of political leaders, and only three percent showed confidence in the ability of the civil service.

The survey showed an alarming 87 percent believed that corruption existed within Government structures, against 72 percent in 1995.

The respondents were generally optimistic about the political framework and the context of economic policy.

It showed the businesses were satisfied that the Government was consistent and committed to its economic policies.

Respondents expressed confidence in Government's commitment to ensure the free transfer of funds, return on investment and the maintenance of free competition.

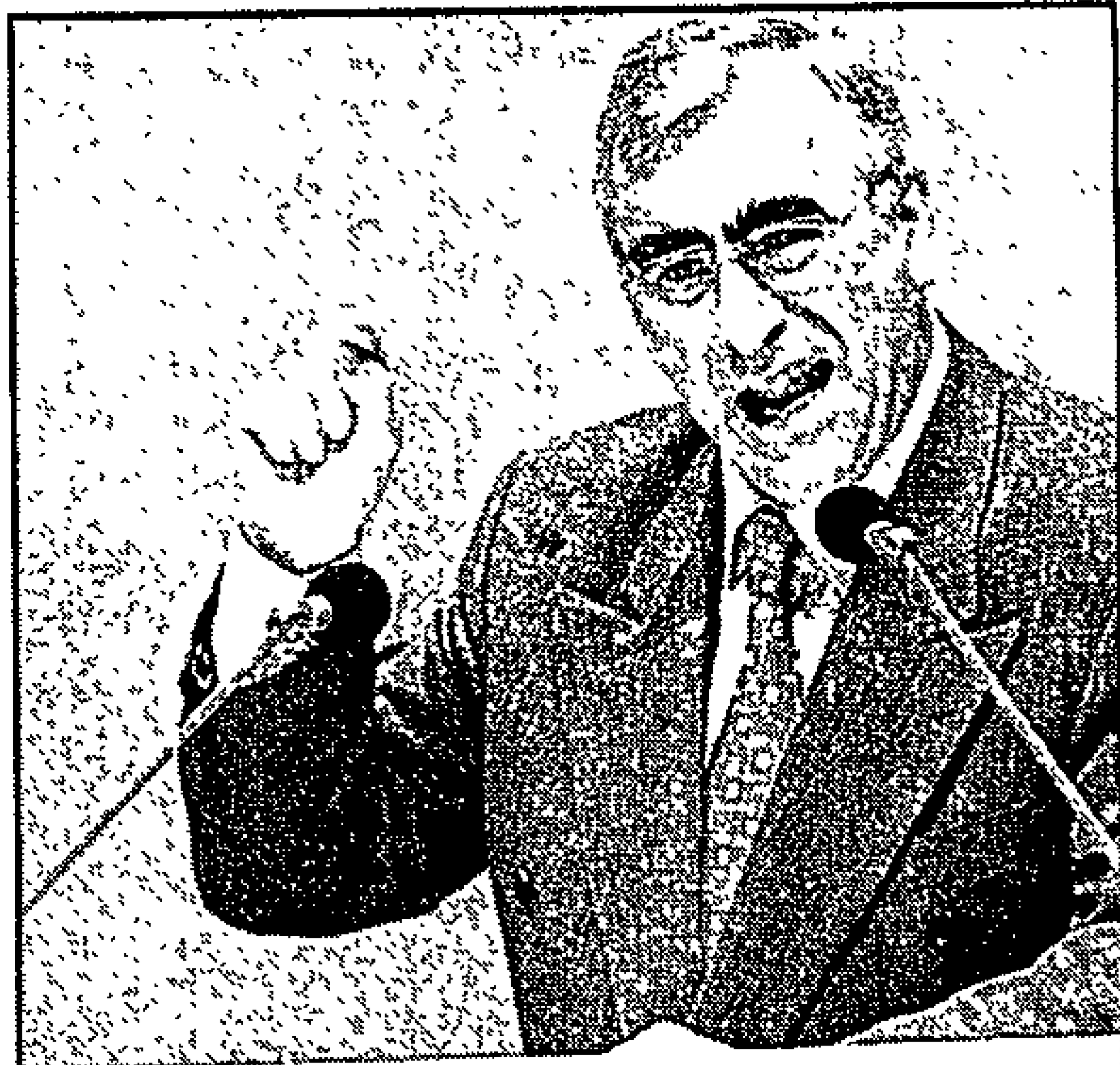
They were less confident about operational factors, such as labour productivity and trade unions.

Firms also had relatively high and growing expectations regarding their living standards and quality of life in South Africa.

Crime remained the primary area of concern.

The survey questioned more than 670 European-controlled companies, of which 327 firms replied, representing 113 600 employees.

- The EU accounts for around 50 percent of foreign direct investment in South Africa.
- The Eurochamber survey also shows a trend away from empowerment deals and commitments and affirmative action.



German finance minister Theo Waigel ... businessmen from his country are particularly pessimistic about the South African Government's ability to control crime. PIC: AP

European companies in South Africa are placing less emphasis on black economic empowerment deals and affirmative action.

Business confidence

The survey on business confidence and perceptions in South Africa indicated that 37 percent of the European-controlled firms canvassed were not considering black economic empowerment deals, up from 30 percent in 1995.

Thirty-five percent of the respondents said they were considering such deals, while 28 percent indicated they were either in the process or had already implemented empowerment measures, compared to 35 percent two years ago.

It also showed that 25 percent of the companies were not considering implementing affirmative action to raise their complement of black staff.

The figure was six percent higher than in 1995, when 19 percent were against affirmative action. – *Sapa.*

DIAGONAL STREET

FM 21/11/97

Flurry of foreign investment (740)

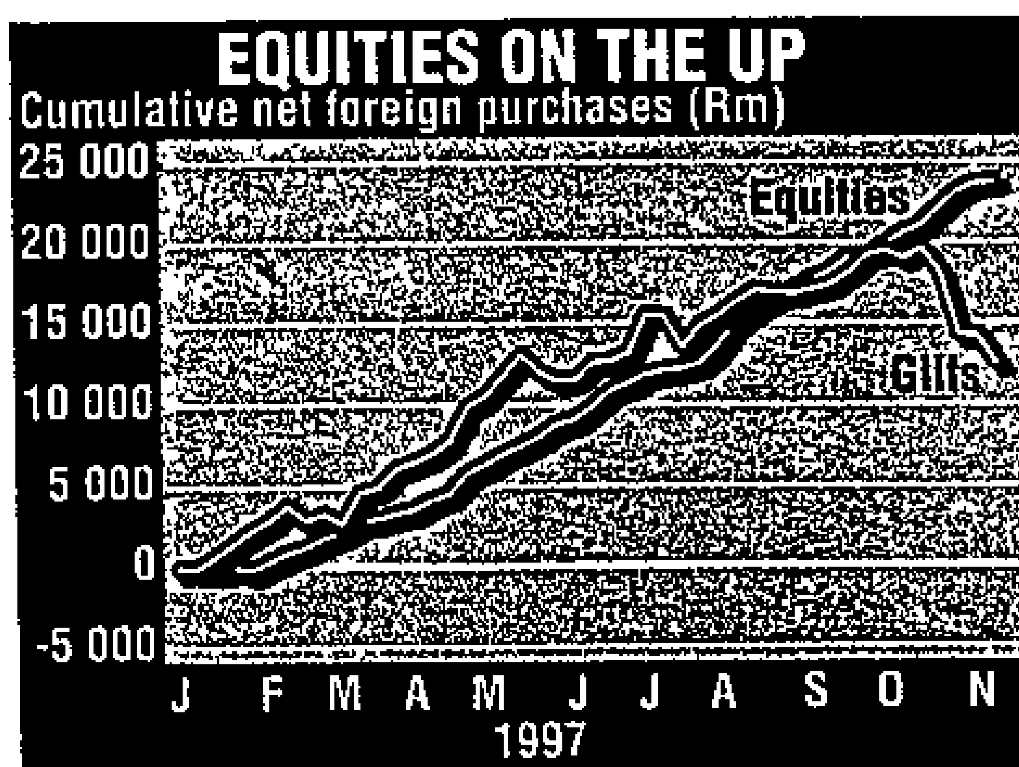
Nonresidents plough a quarter of a million rand into the equity market before signs of disinterest emerge

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

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

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

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



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

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

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

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

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

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

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

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

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

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

CURRENCIES

The African contagion effect

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

When did SA's fortunes get interlinked to those of its neighbour, Zimbabwe? This is a question likely to have popped up when the rand lost 3c as the Zimbabwean currency slid to Z$20 to US$1 on Friday.

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

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

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

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

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

Autrey Wilke, Absa's international treasury GM, feels that there is no correlation of the rand's moves with the Zim dollar's and attributes the rand's vulnerability to the situation in Taiwan and gold's decline to $303 He puts the rand at between R4,92-R4,95 by year-end and R5,15 by mid-1998. Sharon Wood

Swedish companies to increase SA investment

Lucia Mutikani

SWEDISH com[illegible] operating in SA would incr[illegible] their investments in the country over the next year to more than R1bn, a survey conducted by the Swedish Trade Council has revealed.

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

The survey conducted among 24 of the 36 Swedish companies in SA found that the investment figure showed a 50% increase on the R94m invested in 1996, when the last survey was conducted.

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

The survey said job creation was poised to rise 8% with employee figures rising from 1996's 5 651 to a projected 6 108 in 1998.

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

BD 24/11/97 (74B)

SA delegation in UK to sign investment protocol

(74D) BD 25/11/97

Tim Cohen

LONDON — The UK and SA are expected to sign an investment promotion and protection agreement today to boost growing investment by UK companies in SA.

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

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

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

Officials have been negotiating technical issues resulting from SA's exchange control regulations since 1994, but they have been ironed out. The UK has already signed 86 Ippa agreements, 72 of which are in force.

They cover the prompt, adequate and effective payment of compensation for expropriation, the ability to transfer profit and repatriate capital, the independent settlement of investment disputes and international arbitration on disputes.

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

ANALYSIS

While govt must tread carefully, rules are needed to protect investors

BD 28/11/97 # (74B)

SA should ensure its house is in order and consider legislation to oversee and regulate local and international financial markets, says ANC MP **Ben Turok**

THE Financial Times wrote on October 30, "When the cinema is on fire, it does not usually make sense to lock the doors," in reference to suspension of trading on the New York Stock Exchange during the recent markets crash. But it did not say anything about preventing fires in the first place.

SA's Parliament has recently passed a number of finance bills with a common thread running through them — a concern about the importance of institutions and regulation. This should not be interpreted as a new campaign to freeze market processes, but rather a recognition that even free markets need institutions of oversight and regulation.

The pieces of legislation are an attempt to bring more order into our house. It is a recognition that government has a role which cannot be performed by the so called equilibrium of market forces.

But enhancement of domestic institutions and regulation is not enough in a turbulent economic world and SA will have to pay increased attention to international dimensions as well.

It was reported recently that the international hedge fund industry managed assets of $240bn last year. Hence it is appropriate that the Financial Services Board is making proposals about "foreign collective investment schemes", which would include Soros-type funds.

Some regulations are necessary to protect local investors so that they know what they are getting themselves into. Obviously we shall have to proceed with great delicacy in such matters so that we do not send the wrong signals. But some protective steps will have to be taken.

The recent stock exchange crash forces us to acknowledge the dangers to our economy. The Johannesburg Stock Exchange dropped 11% or R200bn in one day and 10% in one week, the largest fall since 1987.

Whatever the reasons for the recent problems, the world is clearly not in control of financial flows. There are no world institutions to regulate financial flows, so we live in anarchic environment which is bewildering to developing countries.

International markets speculator George Soros gave an unexpected explanation of this situation in his speech at the recent International Monetary Fund (IMF) annual meeting in Hong Kong.

He said: "It is impossible to ban currency trading because it is intrinsic to the global capitalist system which is inherently unstable. It is marked by boom-or-bust patterns and the ever-present risk of breakdown. There is no equilibrium."

IMF head Michel Camdessus said: "The crisis was foreseen and preventable, but still struck with full force." He asked for a mandate to promote the "orderly liberalisation of capital movements", but there is some resistance to giving the IMF this mandate.

Business Day said in an editorial that no market was an island unto itself in an era of globalisation. Deregulation, trade liberalisation and high-speed communication have helped broaden investors' horizons.

Globalisation, then, is part of the problem. National economies are interlocked in a system of global trade and investment, the effect of which can be devastating.

The institutional speculator has emerged as a powerful actor. There is a plethora of speculative transactions in commodity futures, stock options and the manipulation of currency markets, including the plunder of central bank reserves. Daily turnover of forex transactions is more than $1-trillion a day, of which only 15% is trade and capital flows.

Massive trade in derivatives undermines conduct of monetary policy worldwide.

Hence we need scrutiny of the role of major speculative instruments such as option trading, short sales, nontrading derivatives, hedge funds, non-deliverable currency transactions, program trading, index futures and the like.

Curiously, these activities are totally removed from entrepreneurial functions in the real economy. There is no need to produce real commodities. Instead, there is a casino effect. Speculative money is funnelled to offshore havens. There is a drain of billions of dollars in capital flight which dramatically reduces domestic tax revenues, paralyses social programmes, drives up budget deficits, and spurs accumulation of large public debts.

The New York Stock Exchange's Superdot system has a daily capacity of 2-billion shares — and that volume can create chaos, and has done in recent months.

Even the cautious Alan Greenspan, the US Federal Reserve Board chairman, says this kind of technology increases the potential for rapid and widespread disruption. The difficulties have been so widespread that this year's June G-7 meeting called for "stronger risk management" and "strong prudential standards".

So what do we conclude? That the world is out of joint and we can do nothing about it? Or that we make a careful study of the speculative processes at work and assess whether we can hedge ourselves in any way?

There are no easy answers, but then, even the New York Stock Exchange has an automatic circuit breaker built into its computer.

Can we not do anything to protect our economy?

Some international players are beginning to think about corrective measures. French Prime Minister M Jospin said last year: "What globalisation means is the globalisation of regulation, a return to stable international monetary system, an economic security council … action against financial speculation, including taxation to limit financial speculation ." He has since supported Malaysia's call for rules to govern currency speculation.

At the recent G-15 meeting in Kuala Lampur, Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Malaysia, Mexico, Nigeria, Peru, Senegal, Venezuela, Zimbabwe and Kenya supported the need for new international mechanisms to insulate developing countries from the fluctuations of world markets.

It was agreed that the G-15 would draft rules on currency trading to be presented to the IMF and the World Bank. This follows a statement calling on these bodies to "study recent developments in currency markets with a view to appropriately regulating them in order to make them more open and transparent".

Mahathir Mohamad, Prime Minister of Malaysia, who is leading this campaign, said the source of funds in currency trading should be made known and profits from dealings should be taxed. "There seems to be an endless supply of money to be dumped on the market. Regulations should be drawn up to make sure they trade in real things and they pay due taxes to whatever country is entitled to the taxes." Rich nations demanded the rule of law to be respected "yet currency trading has no rules".

Japan and southeast Asian countries propose to set up an Asian monetary fund to cushion crisis-ridden regional economies. At first the IMF opposed this, but it has now accepted the proposal on the grounds that it will complement the IMF support. The IMF even accepted the desirability of a regional surveillance group to watch for any impending crisis.

The political significance of these developments have not yet been noticed in SA.

Mahathir started his campaign with what seemed to be high provocation at the IMF meeting in Hong Kong. This was a signal of a new awakening on the part of the countries of the south. With Japan joining the new fund, with India a participant in the G-15, and with China announcing the end of a unipolar world, it may be that the currency crisis is the beginning of a third world political revival.

It may therefore be appropriate to propose that in addition to the legislation adopted recently, SA pays close attention to what other countries are saying about institutions for monitoring, and possible regulation of financial markets.

☐ *This is an edited version of a speech made in Parliament by Turok earlier this month.*

'The Cape of Capabilities' earns lavish praise at British investment summit

ARG 29/11/97 (74B) (66)

TYRONE SEALE

London – Potential British investors in South Africa have been given glowing reports about doing business here – by compatriots already active in the post-apartheid economy.

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

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

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

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

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

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

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

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

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

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

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

"We are very proud of our investment," he said.

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

He was previously chief executive of NEI Africa, a JSE-listed Rolls Royce subsidiary that employs 2 500 people, most of them in the Western Cape. As part of its social investment, NEI Africa has already put R7-million into two technical colleges of its own, one in Cape Town and the other in Johannesburg.

Mr Kempster said Cape Town was an excellent export platform, particularly to the rest of Africa. – Foreign Service

Unimaginative SA destined to be stuck in economic rut

(74B)

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

ST(BT) 30/11/97

As a former South African who recently advised the Namibian government on establishing an export processing zone (EPZ), it is depressing to inform my countrymen on just how uncompetitive SA's foreign investment regime is.

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

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

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

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

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

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

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

It seems some of our political leaders are arrogant enough to believe SA remains a huge bright spot on the investment radar screens of many of the leading foreign multinationals. The reality is that given the high growth rates in such economies as Brazil, Czech Republic and China, there in no priority in multinational boardrooms to invest in SA where crime, a weak currency and tough labour unions exist.

Whatever honeymoon the new SA had is over. The investment world posted a stinging no-confidence vote' last year and this year which reduced SA's net worth by more than 35% in dollar terms and by more than 40% in terms of sterling. This dramatic depreciation in the rand has had many negative repercussions.

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

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

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

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

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

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

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

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

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

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

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

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

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

● *David Bullard is on leave*

British Council's scheme launched

Sowetan 9/12/97 (74B)

By Shadrack Mashalaba

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

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

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

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

Wide range

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

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

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

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

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

The scheme does not cover non-governmental organisations.

Western Cape push to attract British investors

'High skills level, excellent infrastructure'

ARG 1/12/97 (74B)

TYRONE SEALE
INDEPENDENT FOREIGN SERVICE

London – British potential investors in South Africa have been given glowing reports about doing business there – by compatriots who are already active in the post-apartheid economy.

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He said Cape Town's short-listing for the 2004 Olympics reflected the province's vast technical and human resources which in turn was reflected in the fact that the Western Cape had a higher growth rate than anyother province.

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

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

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

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

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

Mr Alikhani, who was born in Iran and educated at the Hebrew University of Jerusalem, noted that while in the past 10 years a great deal of Western capital had been invested in emerging markets, South Africa had not received its fair share of this interest.

He compared South Africa's recent development with transition in the former Soviet Union and in Iran to illustrate why investing in South Africa was a safe bet.

He pointed out that the political systems in the Soviet Union and apartheid-era South Africa collapsed at roughly the same time.

But, said Mr Alikhani, while the Soviet economy collapsed along with the political system, in South Africa the economy grew in spite of the political crisis, because of the integrity of financial systems and services, and infrastructure.

"We invested in the agricultural sector in South Africa because it offers great opportunity. Being in the southern hemisphere, we can use our expertise and manpower to help other areas, including the northern hemisphere.

John Kempster, managing director of UK-based Rolls Royce Industrial and Marine Power Limited said Cape Town, where the company manufactures industrial boilers and power generation equipment, was an excellent export platform, particularly to the rest of Africa.

Already, 45 percent of the products produced in Cape Town were exported, and the company was using the Mother City also to develop business in South Africa.

"Western Cape infrastructure is excellent, and the skills level is higher than in other parts of Africa."

Japanese attracted to SA

(74B) Sowetan

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

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

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

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

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

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

Jetro also believes that greater economic cooperation among South African Development Community (SADC) countries has also increased interest in the country. – *Business Reporter*

SA tops survey on climate for investors

BD 12/12/97 (74B)

Tim Cohen

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

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

In the one to 100 ranking system, SA was rated the cheapest — ahead of Indonesia (1,6), Malaysia (1,7), Hungary (2,2) and Thailand (5,6).

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

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

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

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

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

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

Value data in the survey was collected during the first of this year and converted to dollars using exchange rates current at the time of collection.

FOREIGN TRADE – Foreign Invest.

(74B)

1998

SA attracts significant global fund investment

(748) BD 5/1/98

Samantha Sharpe

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

The December Micropal Emerging Market Fund Monitor surveys about 50 management groups responsible for about 238 funds which together controlled some $81,7bn in assets at the end of September.

Of this, $29,4bn was invested in Latin America, $32,7bn in Asia, $9,3bn in emerging Europe, $4,3bn in Africa and the Middle East, and about $6bn in cash and other investments.

The funds were net sellers of nearly $3,5bn of emerging market stocks in the third quarter, the monitor said, with Malaysia, Hong Kong and Brazil suffering the heaviest losses.

However, Asia continued to be the favourite region for the funds surveyed, despite having poorer performing markets, with the funds investing just under $600m compared with $900m of net buying in the second quarter.

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

Regional allocations

Unweighted %

	Sep 97	Jun 97	Sep 96
Asia	29,18	36,81	43,49
Latin America	37,31	35,34	30,21
EMEA	26,41	23,76	21,31
Other	1,17	1,13	1,69
Cash	5,93	2,96	3,30

Graphic: SARAH EVANS Source: MICROPAL

On a country by country basis, Thailand attracted the most investment — more than $500m of net buying — most of which was accounted for by fund manager Templeton, which appeared to believe the Thai stock market had bottomed out.

SA took second place, attracting just more than $400m of net buying power in the third quarter, about $20m-$30m above the previous quarter, Micropal said.

The survey showed that exposure to the region continued to climb in the third quarter, reaching 26,41% compared with 23,76% in the previous quarter.

"Year-on-year weightings to this region have increased nearly 24%. This is the highest recorded level since we started this survey and more than double the lowest level recorded (11,26%), which was at the end of 1993," the monitor said.

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

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

"On an average weighting basis, Brazil continued to be the most popular country, accounting for an average 14,33% weighting of the 50 groups surveyed. This was down 6,5% for the quarter, but up 23,2% year-on-year." Brazil was followed by Mexico, with China/Hong Kong barely holding on to third place, just ahead of India and SA.

Templeton pumped close to $200m into African and Middle Eastern markets in the period under review, mostly into SA shares.

Foreigners snap up record R26-bn

(74 B)

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

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

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

ARG 8/1/98

THE YEAR AHEAD

The First World/Third World duality

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

FM 9/1/98 (74b)

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

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

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

On the other hand, to the international investment community SA is an emerging, immature market Yet even as an emerging market, we are not typical. Foreigners remained persistent net buyers of SA equities on the JSE throughout last year, and though they were heavy net sellers of SA bonds after August, in this market too they are back as buyers again While local interest rates are attractive to foreign investors, they would not be buyers unless there were an underlying confidence that is still lacking in southeast Asia.

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

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

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

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

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

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

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

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

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

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

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

Unilever injects R1bn into SA over six years

(74B) BD 27/1/98

Tim Cohen

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

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

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

The investment drive has escaped publicity because the company is unlisted in SA and conceals country-by-country breakdowns of its global operations.

Unilever ranks among the world's 50 biggest companies.

Bonpun said the primary aim of the investment was to increase the competitiveness of Unilever's SA operations. The company's products include home and personal-care products including Skip, Omo, Magnum, Flora and Sunlight, as well as food brands.

A major part of the drive was the construction of a R50m personal products factory in Durban, which was formally opened earlier this year.

On plans for the future, Bonpun said SA was an important component of Unilever's Africa operations and was involved in the production and distribution of all core categories of the company's products.

In most markets in SA the company was meeting strong opposition, but was in a good position to grow, he said.

As a result of the investment drive the SA operation was "getting efficiency and quality figures that are as good as anywhere in the world". It had laid a basis for growth, but much of this growth would be organic.

"There are very few possibilities for acquisitions, and when there are the price is horrendous."

Unilever's response was to build "innovation centres" to develop new products and improve the old.

These centres had already developed new forms of packaging for some products, improved formulas for hand lotions and washing powders, some of which were at the highest international standards.

Bonpun said profit produced by the SA operation were in line with those of the group as a whole. Turnover in SA was about $1bn, just less than half of the group's total African turnover. African operations constituted about 6% of total group turnover.

Job creation suffers despite surging US investment

BD 28/1/98 (74B)

Simon Barber

WASHINGTON — Surging US direct investment in SA is not creating jobs at anything like the same pace as US companies remain wary of the labour environment and the scarcity of skills, the Investor Responsibility Research Centre says.

The research centre follows direct investment trends in SA on a company-by-company basis.

It estimates the value of assets owned by US companies in SA reached more than $9,5bn last December.

That compares with US commerce department figures, also derived from company surveys, of $2,7bn at the end of 1994 and $4,3bn at the end of 1995.

However, the number of employees per unit of asset value has been falling.

US companies in SA today employ the same number of workers — about 90 000 — as they did at the pre-sanctions high-water mark of US direct investment, when US assets were valued at $3bn in 1997 dollars.

Peter DeSimone, the Investor Responsibility Research Centre's chief SA specialist, said American firms were "choosing to enter and expand into much more capital-intensive investments in SA than they had in years past.

"There seems to be a reluctance to enter labour intensive investment because of concerns over wages, the overall labour environment and skill sets."

De Simone said companies were telling the centre that they saw the dearth of skills and the concomitant need to "spend large amounts on training" as a deterrent given that "there are other places they can go".

The research centre's employment estimate is based on figures for majority-owned subsidiaries of US companies, and does not, for example, include figures for the SA companies in which returning car makers Ford and General Motors have taken stakes.

Counting those numbers would push the payrolls of US affiliates to about 100 000.

Meanwhile, the US corporate presence measured by number of companies had returned to pre-disinvestment levels, even though only 64 US firms of the more than 250 that left during the 80s had returned, DeSimone said.

New entrants like Southwestern Bell, which purchased a 30% stake in Telkom for $757m last year, have been leading the charge to invest in SA.

By the research centre's count, 296 US firms now have employee or indirect investment in SA.

This is almost the same number of firms as before the sanctions exodus.

DeSimone calculates that GM paid about $100m for the 49% stake it announced it was acquiring in Delta Motors last December.

Delta Motors was created in 1986 out of GMs disinvested assets.

GM and Delta have declined to disclose the purchase price.

1997 top investing companies	
SBC Communication	R3,3bn
Dow Chemicals	R2,3bn
Telecom Malaysia	R2,2bn
Salem	R887m
Nissan Motor Corporation	R360m
Bridgestone	R290m
TA Enterprises	R250m
Hewlett Packard	R200m

Foreign investment in SA surges to R14bn

CT(BR) 30/1/98 (74B)

MIRANDA STRYDOM

Johannesburg — Foreign direct investment (FDI) commitments to South Africa surged 65 percent last year to an estimated R14 billion, Jenny Cargill, the director of Businessmap, a business intelligence agency, said yesterday.

But if the privatisation of Telkom last year is excluded, there was no increase in private sector FDI that year. Total FDI commitments for the past two years were about R30 billion.

"The FDI investment patterns in 1997 suggest that there will need to be quite a strong build up in investor interest this year to meet, or better, last year's performance," said Cargill, commenting on the preliminary results of Businessmap's 1997 investment survey.

She said the reason for this was that the partial privatisation of Telkom dominated, and that will not be repeated this year.

Investors were also uncertain about investing in emerging economies, she said. The crises in some Asian economies, which have been key FDI investors, could also adversely affect their future commitments to the country.

She said many investors, particularly from the US, were investing in South Africa with an eye to the regional market. However, the Southern African Development Community context was looking as attractive as it did a year, or even six months ago.

"This too may have an impact on our FDI profile in the coming year," she said.

Of the top investors in 1997, only TA Enterprises, a Malaysian company, is involved in new investments. The focus, therefore, is on acquisitions. "However, the investment by SBC Communications and Telecom Malaysia in Telkom promises significant expansion, technological and skills spinoffs over the next few years," she said.

Salem, Telecom Malaysia, Dow Chemicals and SBC Communications constitute more than 60 percent of total FDI.

The only relatively certain and significant privatisation in 1998 that would involve foreign partners was the Airports Company.

Beyond 1998, ports and other components of Transnet could offer substantial investment opportunities to foreign investors, Cargill said.

American firms set pace for investment

eT(PR) 3/2/98 (74D)

Rich Mkhondo

Washington, DC — A large number of new American firms had made significant investments in South Africa, pushing assets held by American companies to more than $9,5 billion, the Investor Responsibility Research Center (IRRC) said yesterday .

"As a result, the US presence in South Africa has surpassed the investment levels of US firms in the early 1980s," said Peter DeSimone, the managing director of IRRC's Southern Africa Service.

Newcomers and returnees to South Africa are making it big, think-tank report shows

Only 64 US firms of the more than 200 which left during the anti-apartheid disinvestment era had returned.

The survey by the Washington-based international research think-tank found that, since April 1994, US firms had been entering and expanding operations in South Africa at almost double the rate of firms from all other countries combined.

It said more than 50 percent of the multinational companies entering South Africa over the past three years were from the US.

"Just under 300 US companies had direct investment or employees in South Africa in the early 1980s. This number, which reached a nadir of 104 by 1991, has rebounded to 296 today," said DeSimone

The largest US investor was SBC Communications, which paid $757 million to share a 30 percent stake with Telekom Malaysia in Telkom.

The San Antonio-based SBC (formerly Southwestern Bell) holds 25 percent of America's telephone service.

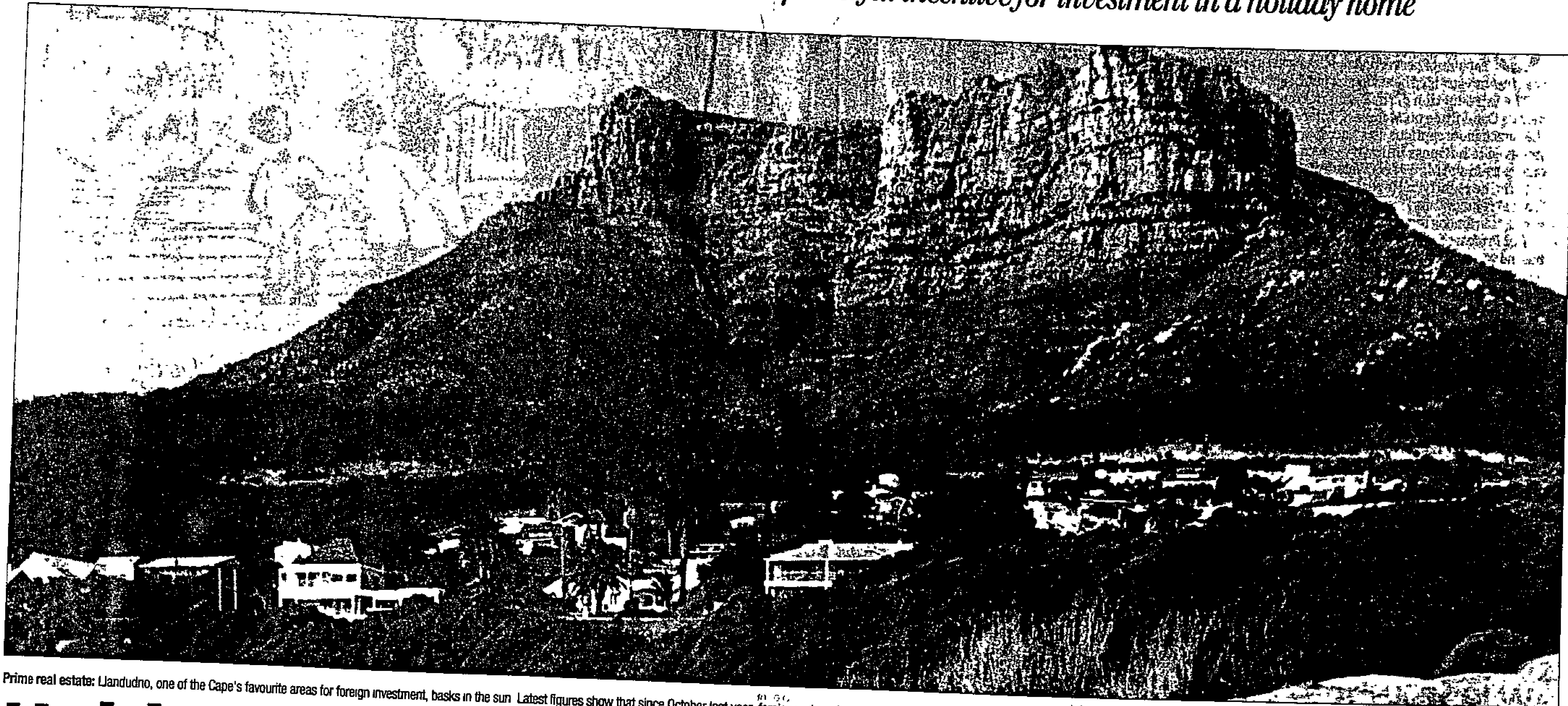
The report said newcomers, such as McDonald's, and returnees, such as Dow Chemical, were keen investors, having pushed the level of assets ultimately held by US companies to an all-time high.

"Before the disinvestment movement pulled into full swing, US companies held approximately $2,6 billion in assets (worth about $3 billion in 1997 dollars), a figure which began to rebound only after 1991," DeSimone said.

The top five foreign direct investors in South Africa, by country of origin, are the US, Malaysia ($982 million), Japan ($311 million), Britain ($129 million) and Germany ($83 million).

The US also led in new investments and reinvested earnings, the IRRC said. — Independent Foreign Service

When the Cape enjoys its balmy summer weather, the northern hemisphere is still wrapped in the chilly legacy of winter. ***Paul Olivier*** *finds it's a powerful incentive for investment in a holiday home*



Prime real estate: Llandudno, one of the Cape's favourite areas for foreign investment, basks in the sun. Latest figures show that since October last year, foreigners have invested a whopping R146-million in residential properties in the Western Cape, mainly as holiday homes and seasonal retreats

Hold on to your homes, the Yanks are coming!

(74B) ARG 21/2/98

The hardy British are snapping up Western Cape property, but the Germans are said to be too nervous to invest here.

Estate agents report that the expected German invasion has not materialised because the Germans are apparently afraid of crime in South Africa – and are even fearful of flying over Africa's notoriously uncontrolled airspace.

And while the Americans have been slow to buy our houses, estate agents are confident that the Yanks are coming in large numbers to buy their slice of the Cape.

Latest figures show that since October last year, foreigners have invested a whopping R146-million in residential properties in the Western Cape, mainly as holiday homes and seasonal retreats.

Investors from the United Kingdom continued to show the most confidence, spending more than R73,7-million for 38,4% of all the homes sold to foreigners.

But Germany, once tipped as the top source for foreign investment into the local residential property market, represented 27,3% of foreign sales valued at R37,1-million.

Third is the United States, with Americans having 5,6% of the market share, buying 11 units valued at R6,3-million.

But market property experts predict the American share will grow significantly in the near future.

"The local property market in general has shown significant growth since October last year, but the German connection has proved disappointing against all expectations," said Roger Gallagher, Cape regional director of Pam Golding properties.

"Unsafe flying conditions over Africa, highlighted by the aviation disaster off the Namibian coast when 33 US and German servicemen were killed in a mid-air collision, has deterred many German buyers who traditionally favour Cape Town as a holiday destination.

"The high rate of violence in South Africa and the Western Cape, as well as the rand's ability to hold its own against foreign currencies, are also factors responsible for the German investors holding back," Mr Gallagher said.

Foreign investors buying property in the Western Cape fall into the upper-income or definitely wealthy bracket who generally spend anything from R1,5-million upwards for a home in the Mother City.

Some wealthier investors have been known to spend R5-million or more on a single property and properties falling into the R2-million to R2,5-million bracket have become increasingly popular.

Foreign investors regard Cape Town largely as a holiday venue or a seasonal retreat. The mix of an attractive destination, English as the lingua franca, and warm weather while the northern hemisphere freezes is unbeatable. Some spend large parts of the summer here with the first three months of the year the most popular.

German investors are known to buy up guest houses for business purposes while the British set up holiday homes and seasonal retreats which could also be used as venues for business conferences.

Many of the properties are rented out to tourists during the off-season.

Mr Gallagher said although expectations were still high that the German market would recover, all eyes were now set on the United States "where pointers indicate capital is waiting to be invested".

Other Western Cape property experts echo Mr Gallagher, saying that the United States still wields the economic sceptre in the world, a fact highlighted by the recent meltdown of the Asian economies.

US visitors to Cape Town predict that investments from their country could soon start flowing in as people there become disillusioned with overcrowding and escalating crime in California, the US holiday mecca.

Leading international property broker ERA Steer said its representatives would be visiting Las Vegas for the international ERA convention later this year with a specific interest in investors from the United States.

ERA is the largest international property franchise in the world with offices in 19 countries.

"Although we have traditional ties with the United Kingdom and Germany and they [illegible] in our core markets, the United States is emerging as a potential giant for investment in the Western Cape's property market," said chairman Hadden Steer.

He added, however, that his organisation still viewed Germany as one of the most important investor markets in the world and that the Cape Town operation would soon join the more than 120 offices throughout Germany.

"The German connection will be one to watch in the future as it holds huge potential for further growth," Mr Steer said.

But South Africans from Gauteng still lead the field of local property investors who have spent R163-million for 347 properties in the Western Cape over the past five months.

Norway interest in SA on the increase

BD 24/2/98 (748)

Samantha Sharpe

CAPE TOWN — Norwegian direct investment in SA, estimated at between R260m and R320m last year, is expected to rise substantially in the next few years as Norway seeks to strengthen economic ties with the country, the Norwegian Trade Council says.

Speaking ahead of the arrival of a Norwegian royal, trade and governmental delegation to SA, Norwegian Trade Council director Arild Blixrud said while trade figures between the countries were relatively small these were increasing.

Norwegian exports to SA — excluding oil, gas, ships and rigs — rose 27,6% to R131m between 1996 and 1997 while imports increased 10,6% to R360m.

However, this excluded trade in services or other direct investment. Income from shipping services alone is estimated at twice the value of exports to SA.

While 150 Norwegian companies were active in SA — most in the chemicals, metal, energy, telecommunications, shipping and fish processing businesses — only 20 had established a presence through joint ventures or local offices, Blixrud said.

"However, we see increasing interest among Norwegian businesses looking to trade with SA, which is viewed as a potential hub for investment into the rest of sub-Saharan Africa."

Norwegian Trade and Industry Minister Lars Sponheim, who will travel as part of the delegation, said bilateral relations between SA and Norway had developed rapidly since the lifting of sanctions in 1993, with the trade council and department working together to encourage Norwegian companies to explore opportunities in southern Africa.

This would be complemented by a match-making programme — introduced by the Norwegian agency for development co-operation, Norad, last year — to support small and medium-sized Norwegian companies in their search for joint venture partners.

Sponheim said some of the Norwegian investments in SA last year included state-owned oil company Statoil's joint venture with Sasol to use synthetic fuels to improve yields from offshore oil producing facilities; the acquisition by Norway's Hydro Aluminium Extrusion of a 30% stake in Hulett Aluminium Profiles and the agreement between Norway's Borregard Lignotech and Sappi Saiccor for production of lignin-based products.

SA, British investment deal approved by committee

Wyndham Hartley

CAPE TOWN — SA's investment and promotion agreement with the UK — outstanding since 1994 — was finally approved by Parliament's trade and industry committee yesterday.

The agreement, which will protect South Africans investing in Britain and British investors in SA from being prohibited from repatriating capital under certain circumstances, has been stalled since 1994 because of changes in SA's foreign exchange regulations.

Deputy director of bilateral trade relations Robert Moodie told the committee that the UK had initially opposed dealing with exchange control through a special protocol.

They then accepted the idea of a special protocol, provided there was no limitation on Britons' transfer of compensation should their SA investments be expropriated.

He explained that there was a Reserve Bank regulation stating that after five years of residence such compensation could not be transferred back to the country of origin.

The Bank finally agreed that there had never been a situation where a foreign investor had been expropriated and wanted to transfer the compensation and agreed to waive the five-year ruling. This broke the logjam, allowing the agreement to come before the committee for approval, Moodie said.

He said it was important for SA investors for the agreement to be in place as soon as possible as it reduced their capital risks and hence their insurance costs when doing business in Britain.

In response to a question from National Party MP Piet Marais, Moodie said that the agreement did not place British investors in SA in a better position than local residents because the agreement stated that SA law would apply.

This meant that constitutional provisions on expropriation would apply to all foreign investors in SA.

Moodie said the agreement would not favour British investors over those from other countries.

(74B)

BD 26/2/98

Sacob calls for a good Budget

Sowetan 6/3/98 (74B)

Parsons says Government should create an investment-friendly mood

By Shadrack Mashalaba

THE SOUTH AFRICAN Chamber of Business (Sacob) has called on the Government to create a sustainable fiscal deficit and an environment in which business can prosper in the coming Budget.

Addressing the media in Johannesburg yesterday ahead of the Budget speech next Wednesday, Sacob director-general Raymond Parsons said South Africa still had, among others things, high interest rates, exchange controls and high corporate and income tax rates.

He said what was important in this Budget was not the numbers of how much has been allocated but to create an environment for business to succeed.

The important budgetary directions were a need for good governance in the public sector to sustain economic growth.

Business expected a Budget committed to a sustainable fiscal deficit, reduction of tax burdens and prioritisation of expenditure towards the crucial areas of health, education and law enforcement.

"The Budget should reflect an investment-friendly mood. We expect a further relaxation in exchange controls. The improvement in business confidence is good news for the Budget," Parsons said.

Sacob director-general Raymond Parsons.

Sacob also released its February Business Confidence Index (BCI), which shows an improvement of 1,5 percentage points.

Sacob's director of economic policy Dr Ben van Rensburg said Monday would be crucial for interest rates, and expected a one percentage point cut.

The cut, he said, would coincide with the launch of the Repurchase Transactions (Repos) and South African Multiple Option Settlement System (Samos) – the new systems which will determine the fixing of interest rates.

According Sacob's manufacturing confidence index, businesses' short-term expectations were buoyant.

Sacob said while the markets were tolerant of some degree of slippage, commitment to the broad Growth, Employment and Redistribution strategy goals remained crucial.

The organisation's economist, Penny Hawkins, said while the short-term mood was buoyant, the long-term outlook was optimistic. "This can be attributed to market vulnerability that lingers on."

"The employment outlook in the economy also looks bleak with more manufacturers expected to employ fewer skilled and unskilled workers," she said.

New measures to aid investors

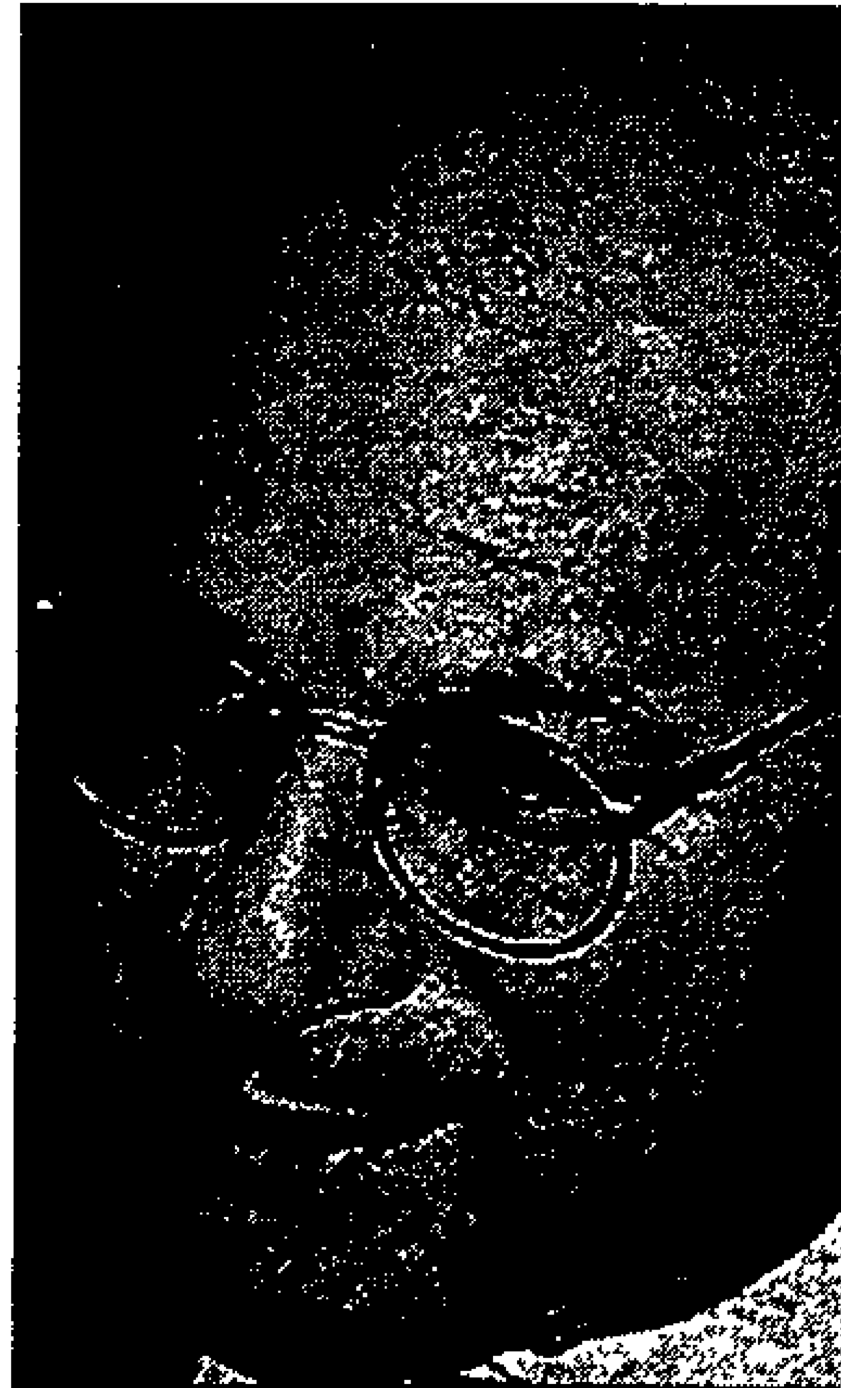
(74B) (ZA)

GOVERNMENT's programme of dismantling exchange controls took a step forward yesterday when several further liberalisation measures were announced at the unveiling of the 1998-9 Budget.

Finance Minister Trevor Manuel said the amount individuals would be allowed to invest offshore would be raised from R200 000 to R400 000, but they will now be required to get a clearance certificate from the South African Revenue Services stating that their tax affairs are in order.

Previously only a declaration to this effect was required.

Companies will now be permitted to invest R250 million in Southern African Development Community countries and R50 million elsewhere. These limits were increased from R50 million and R30 million respectively.



Trevor Manuel

Travel allowance

The travel allowance South African residents may take abroad was raised from R80 000 to R100 000 for adults, and from R25 000 to R30 000 for children under the age of 12.

Emigrants from South Africa may currently export household goods and personal effects worth R100 000 and motor vehicles worth up to the same amount. These limits will now be abolished and a total combined limit of R1 million will be introduced for these assets.

The non-resident ownership level at which foreign controlled entities become subject to local borrowing limits was also raised from 50 percent to 75 percent with immediate effect.

South African companies will also now be allowed to retain foreign currency earnings from exports and services for up to 180 days from the date the goods were sold or the services were rendered.

The limit on the amount South African institutional investors may invest abroad has been raised from 10 percent to 15 percent of their total assets.

The Reserve Bank will introduce most of these measures immediately.

US state opens office in SA to promote trade and investment

BD 9/3/98 (74b)

Patrick Wadula

THE US state of Michigan has opened an international trade office in SA.

Betty Appleby — who will head the office — said that although office staff planned to introduce Michigan companies to the opportunities available in exporting and seeking agents and distributors in SA, other avenues of cooperation existed, such as joint ventures with SA companies.

Appleby said she would work with SA and Michigan trade organisations, Michigan economic development offices and conduct trade seminars.

She said several Michigan companies were already doing business here.

This included the US's big three car manufacturers: Ford, General Motors (which recently bought a stake in SA's Delta Motor Corporation), and Chrysler. Last year, Michigan-based retail firm Amway, which already has 2,5-million distributors in 75 countries, set up an office in Cape Town.

"We would like to look at information technology, health care, agriculture and tourism," said Appleby.

She said this year's SA International Trade Exhibition would also showcase a "Med Trade" exhibition where "SA companies will be able to see the potential of Michigan's companies in the health sector".

US consulting firm PHH Fantus said that Michigan had cut taxes more than 20 times in five years, saving businesses and residents more than $3,5bn while building a $1bn "rainy day" fund.

"Businesses will be pleased to find competitive wage scales and our construction costs are competitive," the consulting firm said.

Almost 1 000 foreign companies have set up operations in Michigan.

SA companies which qualified for federal and state financing would receive assistance from a number of institutions, including a small business assistance programme, Appleby said.

UK development corporation cashes in where others fear to invest

Tim Cohen

(74B) BD 3/4/98

LONDON — British development finance institution the Commonwealth Development Corporation (CDC) has taught SA business a lesson by achieving juicy returns on investments in shunned areas of the economy, including shopping centres in Soweto and buildings in central Johannesburg.

CDC, the soon to be privatised arm of the British government's international development aid department, entered SA only after the 1994 elections. But it has made substantial inroads by investing where established SA companies have feared to tread.

CDC CE Roy Reynolds said when the agency first proposed investing in shopping centres in Soweto, no large financial institutions were interested.

Finally, insurer Norwich Life took a 51% stake in a joint company, Norcom. The investment is now paying handsome dividends and new investments are being considered.

Some of the new property investments are in areas under the noses of large SA financial institutions in central Johannesburg and Cape Town.

Reynolds acknowledged central Johannesburg was hardly what most people would consider a good investment area, but an increasing amount of trade was taking place there.

Initial resistance from spaza shop owners to CDC's three Soweto shopping centres dissipated after spaza turnover increased as the centres became favoured shopping areas.

Reynolds said SA differed from other African countries in that a variety of sources of capital were available to entrepreneurs. CDC's other investments in SA include an olive farm in the Western Cape, and a substantial investment in a private equity fund, Enterprise Capital.

However, it has not all been plain sailing. Its investment in International Pepsi Cola Bottler, aimed at establishing Pepsi franchise holders in Africa outside SA, is stagnant after the Pepsi head office lost interest.

In its international results released yesterday, the CDC acknowledged it had been hit by the Asian crisis, maintaining flat post-tax profit of £64m compared with 1996, with provisions for possible losses of £55m.

British Prime Minister Tony Blair said last October a majority stake in CDC would be sold. Group chairman Lord Cairns said he expected the process to be completed within two or three years. The move will allow the CDC to borrow on international capital markets, providing an additional source of funds for investment in development around the world.

Foreigners pile in as buyers to lift the JSE to new heights

(74B) Star 4/4/98

By JACKIE CAMERON

All-time closing highs were recorded for the all-share and financial indices yesterday to end a sparkling week of trading bolstered by foreign purchases.

"The all share index increased 4,8% for the week," a JSE spokesman said yesterday.

A financial analyst with a major institution told the *Saturday Star*: "The market has been powering ahead since January, obviously off a low base. There have been very significant foreign purchases of gilts and equities, particularly our blue-chip stocks.

"Also, the market seems to believe it won't be battered by anything else out of Asia.

"I'm cautiously optimistic on the next quarter. Interest rates are expected to continue to come down, which bodes well for the growth of companies."

Dr Azar Jammine, chief economist of Econometrix, added: "Share prices have recovered all the losses of October, and then some. The volume of trade has rocketed, partly because the participation by foreigners has soared.

"Foreigners have been increasingly investing in the emerging markets."

FLY TO
Prices

Mbeki wins Japan investment pledge

(7413)

ARG 8/4/98

Tokyo – Deputy President Thabo Mbeki held unscheduled talks with Japan's International Trade and Industry Minister Mitsuo Horiuchi today and said he won a promise of a new thrust on investment in South Africa.

"He has indicated their sensitivity as a government to look at ways and means by which they can strengthen both trade and investment relations between themselves and South Africa and also with the countries of southern Africa," Mr Mbeki told reporters after the meeting.

"We will continue discussions with them about trade promotion and export guarantees as well as investment guarantees ... He says they are ready to deal with all of these issues."

Mr Mbeki,said he would discuss ways to give substance to the assurances when he met Prime Minister Ryutaro Hashimoto tomorrow.

He said Mr Horiuchi underlined Japan's recognition of South Africa as a key to future economic relations with other African countries.

The meeting with Mr Horiuchi was added to his schedule late yesterday.

He and and his wife, Zanele, went on from the trade ministry talks to an audience with Emperor Akihito and Empress Michiko at their palace.

Mr Mbeki had lunch with business leaders, including Nippon Steel chairman Takashi Imai. – Reuters

Markets surge as foreigners flock to SA

BD 16/4/98

(74B)

Samantha Enslin

FOREIGN investors flocked to SA's bond and equity markets yesterday, taking the government benchmark bond to its best level in four years and driving shares on the Johannesburg Stock Exchange (JSE) to fresh highs.

Dealers said SA was benefiting from an outflow of money from Asia and a steady rand. A favourable inflationary environment and a dip in the repo rate yesterday also buoyed sentiment. I-Net-Bridge reports that the repo rate — the rate at which commercial banks borrow from the central bank — fell to 14,897% from 14,921% on Tuesday.

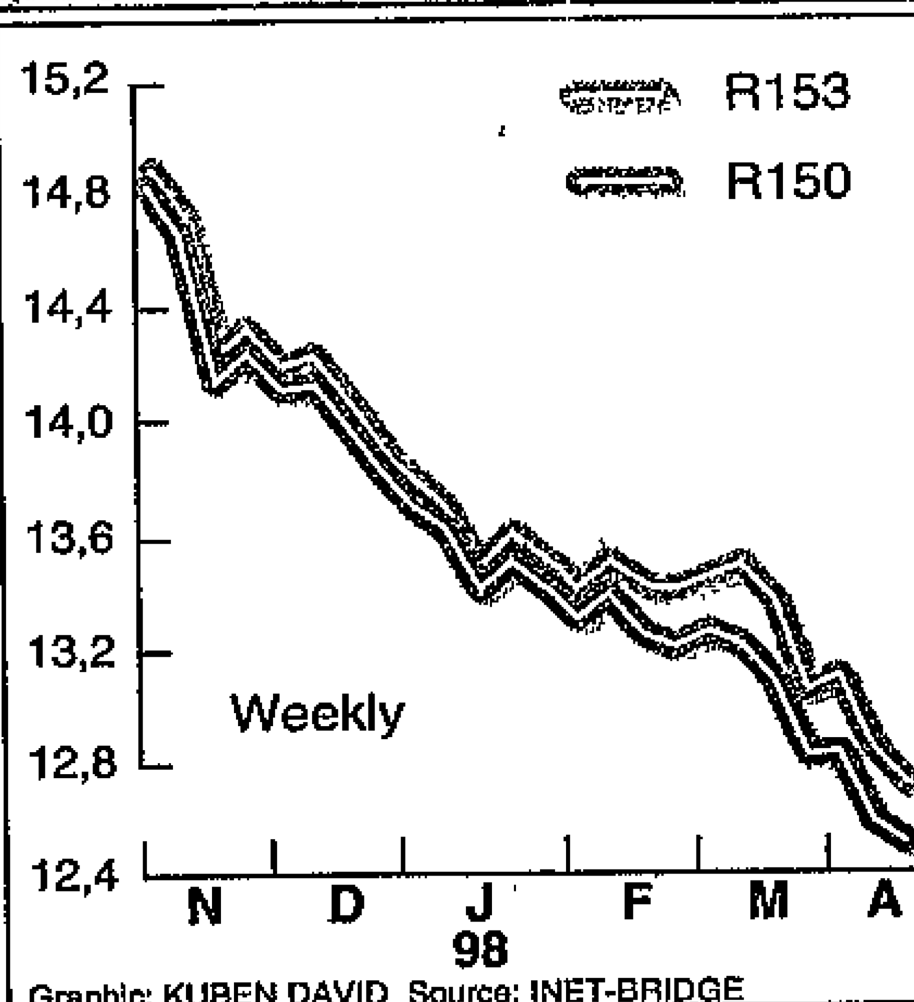
On the bond market, offshore demand was fuelled by the issue of three Eurorand bonds yesterday by KFW International Finance, Bawerische Hypotheken Bank and the World Bank.

In contrast to foreign investor demand local institutions appeared shy of the market, dealers said.

The yield on the benchmark R150 bond nosedived 14,5 basis points to end at a 12,445% yield — its best level since April 1994. In late trade it was seen at 12,410%. Longer dated stock — the R153 — ended at a 12,710% yield after touching 12,670%.

Dealers said the finance department's announcement yesterday that only R250m of R175 bonds would be offered at next week's bond auction was also seen as positive, indicating that government's funding requirements were not as high as previously thought. A shortage of stock was also driving yields down, they said.

The JSE's all share, industrial and financial indices all closed at record highs, driven by "huge" offshore demand, a record close on Wall Street on Tuesday night and the bond market's strength. Local institutional buying also helped shares higher.



The all share index touched its second consecutive high, gaining 1,88% or 151 points to end at 8 199,9. The industrial index firmed 1,84% or 175,1 points to close at 9 681,3 and the financial index gained 1,47% or 2[illegible]3,3 points to finish at 14 683,9.

One dealer said a rerating of the SA equity market by foreign fund managers had come on the back of corporate restructuring and mergers which were likely to result in greater efficiencies. However, dealers said that while everything pointed to further gains the run up was "too hard too quickly", and a pull back was expected.

After reassurance on crime, UK executives may pour money into SA

Star 11/4/98 (74B)

By MARCO GRANELLI

A group representing 60 powerful British companies is to visit South Africa with an eye on investment after hearing that the country was gaining the upper hand in the fight against crime.

Safety and Security Minister Sydney Mufamadi visited the foreign investors in London last week at the invitation of the D-Group (Development Group) which represents companies with a joint annual turnover of nearly R500-billion.

Speaking on his return this week, Mufamadi said his visit had been a great success. "It was necessary for me to address them in the light of the fact that the issue of stability is one of the many factors that business people consider when taking investment decisions – whether they are setting up businesses for the first time or considering expanding them," he explained.

Among the top executives at the briefing were representatives from a number of multinational companies already represented in SA which are considering expansion, as well as companies exploring new investment opportunities here.

The D-Group is now putting together a delegation which will travel to SA soon to meet business and political leaders.

D-Group deputy chairman Sir Robin Ross said the members, almost all of which are blue-chip companies, were constantly looking for opportunities for overseas investment and had invited Mufamadi to brief them on security concerns in southern Africa.

Ross said: "What came out clearly from his visit are the considerable difficulties being faced by the Government, particularly regarding organised crime, and the associated social problems related to crime. But it was equally clear that South Africa is fully aware of the situation and is doing everything it can to turn it around."

Mufamadi told the group that law and order was enjoying a high priority on the Government's agenda: "We believe that the economic prosperity necessary to guarantee our people a better life is not realisable in an environment which is not underpinned by adequate levels of stability," he told the gathering.

"It is for this reason that, from the outset, the Government maintained that the reduction of crime to tolerable levels is an absolute imperative," he said. He cited the rapid globalisation of crime, SA's relatively advanced level of industrialisation, its modern communication and banking systems, previous hostilities and the availability of weapons in the region, and corruption as among the reasons for SA's unacceptably high crime levels.

But Mufamadi said the strategic approach adopted to deal with crime was showing signs of success. While the situation was serious, there appeared on the other side of the picture to be a continual tilting of the balance of forces in favour of an enhanced safety and security environment.

FOREIGN INVESTMENT

ET (BR) 7/5/98 (74B)

SA gives local firms R13bn of guarantees

South Africa had provided R13 billion in foreign investment guarantees to local companies last year — a huge increase from R2 billion in 1995 — mainly to insure them against loss of investments in Africa, Sagay Moodliar, the deputy director, foreign trade relations in the department of trade and industry (DTI), said yesterday.

Moodliar said South Africa had signed general system of preferences agreements, with the European Union, Norway, Hungary, Japan, Canada, the US and Switzerland, and had joint commissions with France, the US, India, Australia, Germany and the UK.

It was also increasing DTI offices abroad, its co-ordination with the department of foreign affairs and the capacity of its new unit, Investment South Africa, and the provinces. — *Independent Foreign Service, Pretoria*

FOREIGN INVESTMENT *Northern Ireland sees itself as the gateway to the EU — and SA as the gateway to Africa*

An emerald country offers golden opportu-nities for SA

JOHN SPIRA

The extensive restructuring in South Africa's financial services sector will inevitably lead to a fundamental reorganisation of its cost structure.

Northern Ireland is willing and able to help, says Bruce Robinson, the chief executive of the Industrial Development Board for Northern Ireland. Robinson recently led a Northern Ireland trade delegation to South Africa.

He believes Northern Ireland could be particularly attractive to South African institutions in the sphere of call centres: facilities offering telephone assistance to customers.

"Research has found that the Ulster accent is deemed to be particularly friendly," says Robinson. "In a call centre context, it could do wonders for customer relationships."

He gives several reasons for South African institutions to look to Northern Ireland for expansion.

"There are many similarities in the insurance and banking regulatory systems," he says.

"It is also a cost-effective way of getting into the European market. We would welcome any South African company that was looking to Europe with Northern Ireland as a base."

Robinson says Northern Ireland has been highly successful in promoting itself as a base for foreign companies. Its biggest market is the US, but it has also attracted substantial investment from Korea and Japan.

Its largest growth areas have been in network services, back office activities, software activities and telecommunications.

"We are currently producing more software graduates than we have employment opportunities," he says.

Robinson says Northern Ireland is extremely cost-effective for the international investor: "Our cost structures are about 10 percent lower overall than anywhere else in the UK and 40 to 50 percent lower than London.

"Large financial institutions who find high street rentals prohibitively expensive move a lot of their data processing to Northern Ireland."

For example, last year British Telecom made a major investment in a Northern Ireland call centre which employs 750 people. "It acts as a bureau service to their customers and to some of their own marketing operations."

ACCENT ON INCENTIVES *Bruce Robinson*

Abbey National and the Prudential have established call centres, software centres and policy processing facilities in Belfast.

But what of the country's political problems?

"In 1994 when the ceasefire was announced, investment from outside went up by about 50 percent, and we continue to build on that platform," Robinson says.

"We were rerated in the market and as we continue to progress with the talks, that will continue to happen.

"The economic performance of Northern Ireland is buoyant. Manufacturing employment has grown, in contrast to the shrinking numbers in the rest of Europe other than the Republic of Ireland.

"Unemployment has fallen from 14 percent to 7 percent. That's well ahead of the EU (European Union) average."

Robinson points to the establishment of a winning business in Durban by Ulster Carpet Mills.

"The company bought the Durban factory about five years ago," he says. "The Durban plant is supplying a lot of product elsewhere in the world because sterling has become so expensive. The two plants have been well integrated."

Little of investment note has gone the other way, but Robinson is hopeful South African companies will look upon Northern Ireland favourably.

"We offer incentives in the form of non-taxable capital grants. Elsewhere in the UK such grants are taxable.

"But the main attraction is the calibre of our young people. We boast high academic standards. We've invested a lot in universities' IT (information technology) departments."

Robinson characterises Europe as a single market. He says promotional activities that Northern Ireland could undertake in Europe for a foreign company would centre on linguistic capability.

"We have an imaginative programme to second our graduates to work in Europe for six to nine months, after which they have developed selling skills and are fairly fluent in the language of that country."

Robinson says the Northern Ireland trade mission members see tremendous opportunities arising out of the changes in South Africa.

"There's a good market here for our smaller companies. We're encouraged by the number of companies here looking for foreign joint venture partners.

"There's also a strong indication that South Africa is becoming the gateway to Africa.

"The great challenge to a small company is to find a cost-effective way of getting into a large market. As a small country, we've tended to focus on trading areas rather than large markets in their own right."

Robinson stresses that Northern Ireland's business people have become more sophisticated and understanding of the needs of small and medium-sized enterprises.

"Just as South Africa would look to the UK for trade and investment because of the many similarities deriving from a 200-year legacy, so it is inevitable that some of the questions we have going into a new market like South Africa make it easier," he says.

"It is a better comfort zone than many other markets."

SA's popularity could be short-lived

Foreign investors have been stampeding into SA. But recent economic indicators already signal that the country's popularity will cool down before next year, writes economics editor Greta Steyn

(74B) BD 13/6/98

AT LAST we are flavour of the month. Foreign investors have been rushing into SA at an astonishing pace, pouring huge sums of capital into the country. Turnover on the financial markets is booming and the markets have enjoyed a good run. What are the reasons for the big foreign investment, and can it last?

The first quarter of this year saw a dramatic improvement in foreign capital inflows from the last quarter of last year. Sanlam estimates that SA experienced a net capital inflow of R7bn to R8bn in the first quarter. That compares with R1,9bn in the fourth quarter. The capital inflow in the first quarter this year was about double the current account deficit, estimated at about R3,7bn.

The main reason SA has enjoyed the limelight this year is the fact that its interest-rate cycle has turned down. Its equities market, which languished in the doldrums last year, was due for a boost and falling interest rates provided a good reason.

The bond market continued to benefit from yield-hungry investors seeking alternatives to traditional European markets in the run-up to European monetary union. Bonds also offered capital gains as long-bond yields led short-term rates lower.

Lower interest rates, in turn, depended on lower inflation. SA's performance on the inflation front has been surprisingly impressive. Economists now expect inflation to average about 5% for the year; at the beginning of the year optimists were looking at 5,5%. That is dramatically lower than last year's average of 8,6%.

Even more encouraging is the fact that lasting gains seem to have been made in the fight against inflation. Of course, the rate will rise again as the economy picks up steam. Yet economists do not expect a major upturn; next year's average consumer price inflation should be about 5,5%.

The bullish inflation scenario and the downturn in interest rates has stimulated net foreign investment so far this year of about R17bn in the bond market, compared with R14,7bn for last year as a whole, and about R20bn in the equities market, against R26,2bn for the whole of 1997.

However, some recent economic indicators have introduced a note of caution. Scrutiny of the latest economic indicators suggests a sense of unease is justified.

The first set of data to introduce a note of caution was the trade balance for March. The deficit of R361m was entirely unexpected and highlighted SA's problems on the current account of the balance of payments (BoP).

Admittedly, reasons can be found to explain away the problem. The import bill was swelled by huge machinery imports (a rise of R1,2bn in March from February) for the Saldanha Steel project. The Standard Bank's economics division points out that, machinery imports aside, imports would have fallen in March.

Nevertheless, the trade balance is a blight on the economic horizon. The Asian crisis is showing itself in the trade figures; exports to Asia declined about 5% in the first quarter in nominal terms from the same period a year ago. Export revenues from base metals fell for the second consecutive month. Economists have noted a pickup in cheap imports from Asia such as clothing and textiles.

The current account deficit has not mattered this year as foreign capital inflows have more than compensated for the shortfall. Yet this is not a never-ending party. Bear in mind that the foreign capital inflows have been mostly in the form of "hot money" — portfolio inflows that are highly sensitive to changes in sentiment and global market conditions.

Even a relatively modest current account deficit of about 2% of gross domestic product can become too big when foreign sentiment turns. That is why it is essential that the rand exchange rate reflects the underlying trade performance. The rand should depreciate a bit faster than inflation differentials; if it does not, there could be trouble.

The other indicator that is cause for concern is private-sector credit extension. The rise in the annual rate of growth of private-sector credit extension to 14,9% in March from 13,7% in February was caused by a surge in the "other loans and advances" category. That category continues to defy gravity with an annual rate of increase of almost 25% in March.

Stals's comments suggest that the credit increase is not important enough to prevent an easing in monetary policy. He notes that big changes in the SA financial markets have rendered the credit figures less useful as warning signals for future inflation. The explosion of turnovers in the financial markets, foreign participation and financial engineering are all factors that distort the numbers.

Several interesting explanations have been offered for the rise in credit. One is that foreign speculators are using credit raised locally to fund purchases of SA assets. Another reason flows from exporters keeping capital offshore as a result of the easing of exchange controls. ABN Amro economist Colen Garrow says exporters now have to raise more credit locally for working capital purposes. The usual explanation — the switching from foreign credit to local finance — has also been trotted out again.

These explanations suggest the credit figures are out of kilter with the real economy. The prevailing belief is that credit and money supply have little bearing on inflation; high rates of credit growth have not caused economists to temper their inflation forecasts. The argument is that the credit figures should therefore not be taken into account in monetary policy decisions.

However, the reasons for the distortions tell a story. Foreign use of local credit to buy SA assets should not be dismissed. It suggests a very short-term view on the country and signals that not all the buying of SA assets recently has been "real" investment. It shows a reluctance to commit funds to the country. It suggests a negative view of the rand.

This negative view is further strengthened by the view that exporters are keeping their forex offshore. They were recently allowed to keep their proceeds overseas for up to six months. If they are doing so, they cannot be too positive about the rand's prospects. The same goes for switching credit to local rather than foreign sources.

So the credit figures, too, seem to suggest the current account deficit and resulting concerns about the currency are beginning to prey on people's minds. It is not yet a major concern and not enough reason to cool foreign demand for SA assets.

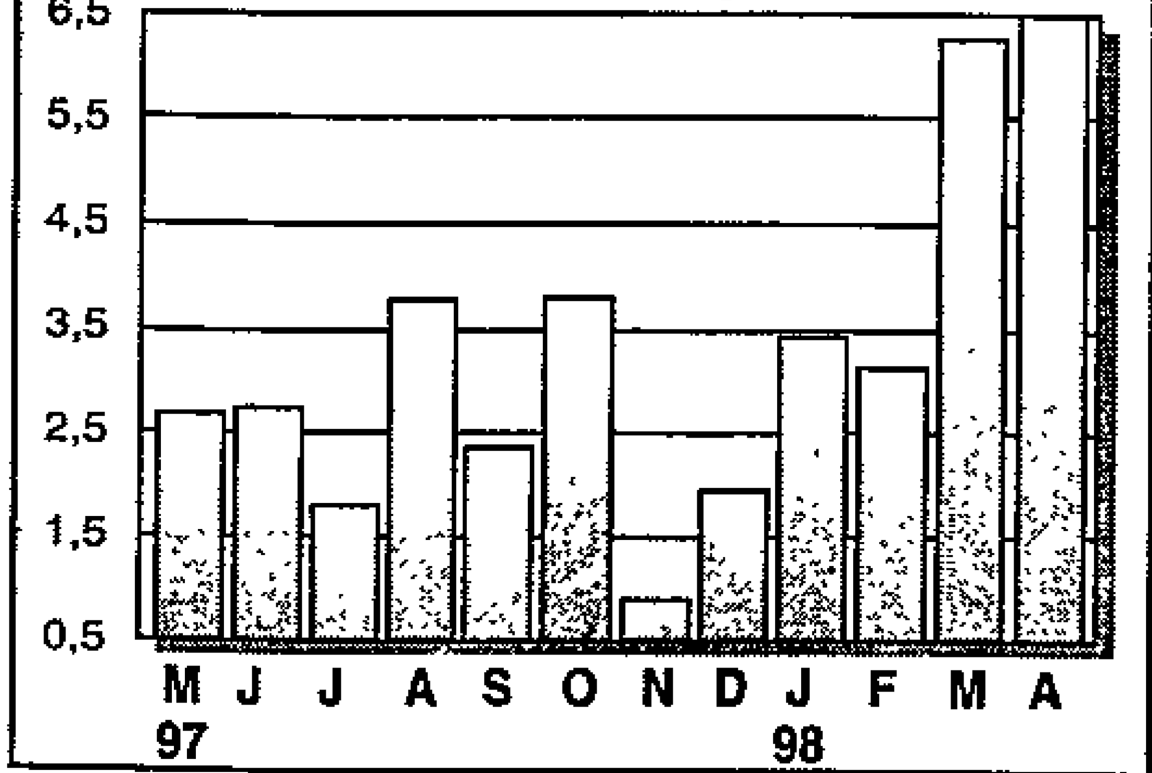
But the BoP is beginning to niggle. The slight drop in the central bank's forex reserves last month seems to confirm that all is not as it should be.

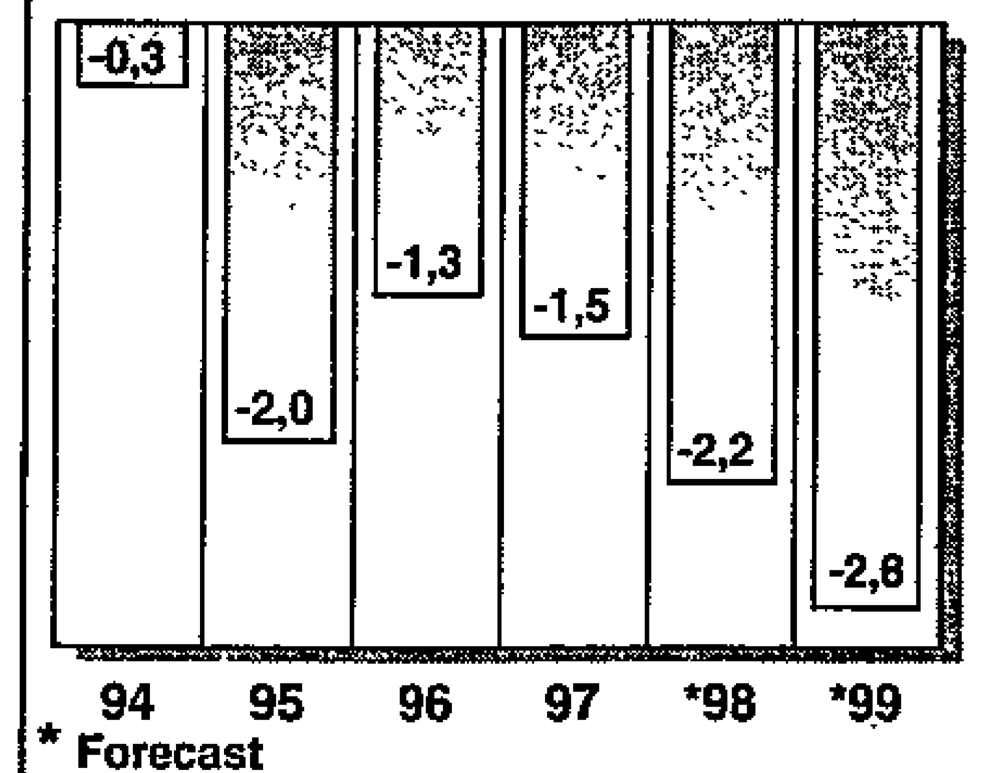
Add to that the fact that Stals believes all money creation is potentially "bad", no matter what the reasons are for the credit creation. He has to remain vigilant about future inflation and cannot get too euphoric about present inflation. True, he has confirmed that interest rates will ease but he did not say by how much.

Concerns about the BoP and high credit growth suggest interest rates might not fall as far or as fast as people hope. It will not be surprising if lending rates do not fall a full 200 points before the cycle reaches a bottom in the first quarter of next year.

Foreign investment is likely to cool down before the interest rate cycle has bottomed. Unease about the economy, especially about the widening current account deficit, should combine with political concern to temper the enthusiasm of foreign investors.

Next year should see a current account deficit of close to R20bn from about R14bn this year. The year sees an election already characterised by talk of diluting the central bank's independence and it marks the end of Stals's term as governor. Foreign investors will probably begin taking these factors into account before this year is over. Unfortunately, low inflation will not be enough to book a permanent place in the emerging markets' limelight.





Graphics KAREN MOOLMAN Sources: INET-BRIDGE & SA RESERVE BANK

Home Affairs 'bungling' scares off investors

Foreign businesses foiled by SA's 'unreliable rules'

(740) ARG 16/5/98

PAUL OLIVIER

Bureaucratic bungling, South Africa's "rigid" labour laws and a restrictive investment environment are costing the country billions of rands annually in lost foreign investment, financial experts say.

Top economists say the loss in foreign investment could amount to as much as R5-billion a year. This, they say, makes a mockery of the Government's Growth, Employment and Redistribution strategy (Gear), which is aimed at attracting foreign investment and creating jobs.

Phillip Clayton, senior economist at Standard Bank, told Saturday Argus that South Africa and its Southern African Developing Community partners attracted investment equivalent to only 1% of their gross domestic products (GDP), while other developing countries realised at least 2%.

A loss of 1% amounts to billions of rands annually. "Although business confidence in South Africa is growing, the climate is not conducive to economic growth," Mr Clayton said.

Experts say restrictive clauses in the Aliens Control Act prevent foreign investment.

One clause in the act prohibits wealthy foreigners who immigrate to South Africa from working in this country until permanent residency has been approved. Such an approval could take up to three years.

According to another provision of the act, a foreign investor who receives permanent residency may not use any of his capital to start his own business or employ people until three years have passed.

Home Affairs officials – locally and at embassies and consulates – have been accused of misinterpreting the act and giving investors incorrect advice.

"In some cases investors and their families come to South Africa lock, stock and barrel, only to be told by immigration officials here that their papers are not in order," said Gary Eisenberg, an immigration attorney.

In one incident, a Hong Kong textile group, which has already invested more than R300-million in a factory in the Western Cape, could not bring much-needed machinery into the country. The equipment, worth R15-million, can only be installed by a specialised technician, but efforts to obtain a temporary work permit for a technician from Hong Kong have proved fruitless.

Home Affairs director-general Albert Makwena, answering questions from Saturday Argus, said: "The department is unable to comment. The reason being that the statements as put in the inquiry are not factual."

The Aliens Control Act has been blamed for giving officials too much discretionary power when dealing with applications for immigration permits. The German Chamber of Commerce and Industry found, after a survey among its members, that there were "no reliable rules within the Department of Home Affairs" when it came to issuing immigration permits.

"German investors are often told they need a permanent-residency permit if they wanted to start a business in South Africa, while only a temporary permit is needed," said Maren Schellschmidt, of the Southern African-German Chamber of Commerce and Industry.

Last year a task team which presented Home Affairs Minister Mangosuthu Buthelezi with a Green Paper on international migration criticised the Aliens Control Act and South Africa's rigid labour laws. The task team found foreigners were being denied temporary work permits because of a mistaken belief that their mere presence would disadvantage South Africans. The team also criticised the wide discretionary powers given to Home Affairs officials.

By Adrienne Roberts

FOREIGN VIEW ON SA'S 'GREY AREA' RISKS (74B)

Damaging verdict on violence

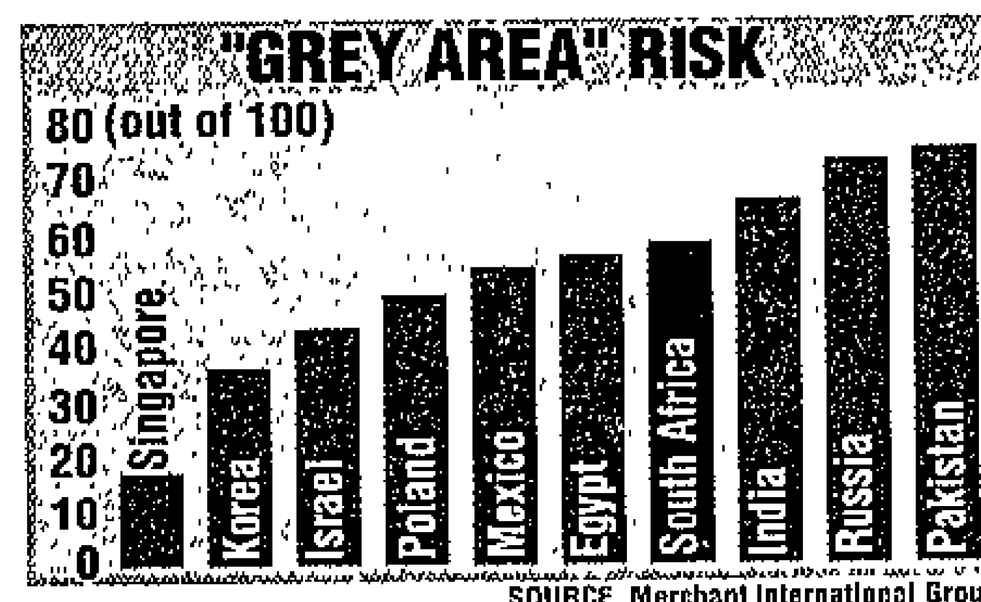
The 1998 *Intelligence Gap* report by UK-based Merchant International Group sends mixed signals about SA.

On one hand it states that interest in SA "continues to gain pace". SA and Turkey are drawing the most interest from top European and US companies investing in emerging countries. FM 22/5/98

On the other hand, the group's assessment of SA's "grey area" risk is lukewarm. (Grey areas cover a range of business risks like corruption, crime and lack of legal protection.) SA, scoring about 58 out of 100 (0 being a perfect score) ranks 28th out of 41 countries. Singapore, scoring about 18, ranks top and Russia (73) and Pakistan (75) are the riskiest.

The analysis of SA is a little problematic Among the minor glitches: the Institute for Democracy in SA (Idasa) is called "Idada", which, incidentally, means "duck" in Zulu.

There are also large oversights, like the sweeping statement that "government may fail to meet its revenue collection target due to its inability to establish an



efficient revenue service". Radical changes within the SA Revenue Service have ensured that Revenue is one of the few agencies that actually is on track.

The report places heavy emphasis on Islamic fundamentalism as a threat to business, and this preoccupation comes though in the SA analysis. "The emergence of a Muslim vigilante group (Pagad) could be the harbinger of Islamic extremism"

References to Pagad and Cape Flats gangsterism occupy about a fifth of the SA analysis. It concludes with the comment. "Hamas militants are said to be undergoing training provided by paramilitary groups in SA . . Relations with the Americans are already strained because of the government's failure to adopt the US line on global issues, in particular with regard to Libya and Cuba. The existence of terrorist camps that strike at a US ally isn't likely to be viewed positively"

Merchant International Group was founded in 1982 as a strategic research body, and says its risk report polls 7 000 multinational companies About 100 multinationals buy the report annually. ■

Red tape trips up potential investors

BD 25/5/98 (74b)

Melanie
Sergeant-Haape

MUNICH — Red tape and new rules for would-be residents in SA are proving unwanted hurdles for companies wishing to enter the South African market.

Rolf Schmidt, MD of the MediNova group, says: "We have worked through thick and thin to bring companies to SA over the past 11 years, and while the market has opened up and is looking far more appealing since the 1994 elections, new rules and regulations are often a stumbling block for German companies wishing to move into SA."

Schmidt — who brought the first rollerblades to SA at the Made in Germany exhibition in 1993 — says many German companies are keen to establish foreign operations here.

"Some are nervous about the euro currency change, while others are looking for lower manufacturing costs, or simply prefer the business and lifestyle climates in SA," he says.

New companies seeking to manufacture in SA include hi-fi system group Newtronics.

"We have introduced several new products into the SA market, including Hydroseat bathlifts for sick people, and the Milage skin treatment range," says Schmidt.

"Most clients start off by presenting their products at shows like the Made in Germany, Saitex or Manufacturing Africa exhibitions. We find that the small- to medium-sized German companies generally enjoy SA and its business culture, and its people.

"Hold-ups and cancellations of deals have occurred, however, with red tape and when new rules have been introduced, like that for permanent residents having to invest R1,5m in SA," Schmidt says.

He says a number of would-be investors are German entrepreneurs going into early-retirement and wanting to continue working in SA. "They are often cautious about their financial security, and feel a bit nervous about investing R1,5m in SA in a single lump sum."

For Schmidt, trade operates two ways, and he works closely with a number of SA companies wanting to break into the German and European markets.

These include Stellenbosch-based Medi-Clinic, which manufactures hospital operating theatre tables through Medical Innovations. He has also assisted Wound Care Laboratories from Somerset West, and says both of these companies have established healthy export markets.

"We are now assisting the Anglo American company, Advanced Medical Technologies, with their innovative safety syringes, as well as Johannesburg-based Rick Steyn's product, Safty Needle."

Overall, Schmidt says SA offers an attractive and healthy market for newcomers. Thanks to deregulation in the medical products buying market, for example, this industry has been opened up to greater numbers of competitors, and he believes that once bureaucracy is streamlined, a larger number of would-be investors will enter SA.

CAPE ARGUS, TUESDAY, JUNE 2, 1998

Swedes plan to invest R13,3-billion in SA

Samcor scoops engine export deal

(74b) ARG 2/6/98

PARLIAMENTARY BUREAU AND
HENRI DU PLESSIS

Trade between South Africa and the Nordic countries is set to more than double over the next five years and the motor industry has received another foreign shot in the arm.

A Swedish company has pledged to invest more than 20-billion kroner (R13,3-billion) in South Africa, while the South African Motor Corporation (Samcor) is to build engines for the world and earn R200-million a year in foreign exchange.

Trade and Industry deputy minister Phumzile Mlambo-Ngcuka said yesterday on her return from a trade mission to Scandinavia that the Nordic countries were keen to be involved in partnerships with small, medium and micro enterprises.

Swedish company Ikea already bought cane furniture in Pietermaritzburg and was planning to expand its interests throughout South Africa to the tune of 20-billion kroner over the next five years.

Ms Mlambo-Ngcuka said Nordic countries had a high disposable income and low unemployment – Norway's was 2,2% – and a closer relationship could provide big spin-offs for the tourist industry.

Interest had also been shown in South African wines, textiles, fruits, vegetables and linen, and in co-operation on maritime issues.

Ms Mlambo-Ngcuka said five of the Department of Trade and Industry's objectives had been achieved. These were global repositioning, export promotion, investment, small business promotion and job creation.

Meanwhile the South African Motor Corporation (Samcor) yesterday announced a deal to build 55 000 engines a year for global distribution.

The deal is expected to create 350 new jobs in the industry, and assure job security for 700 already working at Samcor's engine manufacturing plant in Port Elizabeth.

Samcor will invest R146-million initially, and may plough in a further R100-million over the eight years of the contract.

Samcor group managing director Lewis Booth said the investment illustrated Samcor's competitiveness, and the confidence the company's major share holders, Ford and Anglo American, had in its ability to deliver.

"The awarding of this contract to Samcor is really an affirmation by Ford that our quality is world class," he said.

Foreign investment by small firms encouraged

John Dludlu BD 3/6/98

(748)

FOREIGN direct investments by small- and medium-sized enterprises could become engines of development and growth, says the SA-led United Nations Conference on Trade and Development (Unctad).

In a statement accompanying a study on direct investment by smaller firms, the Geneva-based agency urged governments to strengthen the small business sector to take advantage of the vast potential, including acting as valuable sources of capital, technology and training.

Unctad secretary-general Rubens Ricupero said: "Actions are needed to develop the enormous potential that these firms have and to stimulate growth and development through foreign direct investment."

The Unctad report, released last week, is based on research in selected Asian developing countries.

Unctad said the development and internationalisation of the sector was neglected by many governments in developing countries.

Ricupero said actions to unlock the potential of the sector could include greater exchanges of information on small business experience, harmonising regulations and simplifying the regulatory provisions.

The report also says international organisations, such as the World Trade Organisation, Unctad and the Organisation for Economic Co-operation and Development, have an increasingly important role to play in building a co-operative environment among economies.

Such co-operation could significantly reduce the costs.

The sector's contribution to total foreign investment flows was small, accounting for barely 10% of regional foreign direct investment in Asia.

However, if larger numbers of smaller firms were encouraged to invest internationally their combined investment and their impact on growth and development would be formidable.

The survey identifies impediments to a thriving small business as including unfair competition, complex business regulations, difficult investment approval systems and corruption.

Incentives

The report, which looks at both the inward and outward foreign direct investment by the sector, suggests governments pick and encourage the winners by giving priority in supporting growth-orientated small businesses.

It urges policy makers to provide accurate information to foreign investors, encourage links between small firms across borders, provide appropriate incentives and address specific barriers to direct investment by small business.

Given the fact that all countries are competing for foreign direct investment, effective support systems operating across borders will be essential, the report says.

The R13-billion blaps

SA trade mission's deal that never was

LAUDE DASNOIS
BUSINESS EDITOR

Deputy Trade and Industry Minister Phumzile Mlambo-Ngcuka made an embarrassing blunder this week by announcing a R13-billion foreign investment which never existed.

Briefing journalists on her return from a trip to the Nordic countries, she said the Swedish furniture giant, Ikea, would invest more than R13-billion (20-billion Swedish kroner) in South Africa over the next five years.

Journalists were surprised by the size of the alleged investment, which is is bigger than South Africa's entire defence budget for this year.

But at the time the R13-billion figure was confirmed by the Department of Trade and Industry's deputy director of communications, Kanyo Gqulu.

He assured the Cape Argus that Ikea would plough the money into South African furniture factories, particularly small factories, which would produce for export.

Then the Cape Argus approached Ikea, whose spokeswoman in Stockholm, Marie-Luise Ribbans, said 20-billion kroner was Ikea's estimate of the total cost of expanding production across the world over the next five years.

In fact, a final decision had not yet been taken about Ikea sourcing any of its products from South Africa, she said.

Although discussions with the deputy minister's delegation in Stockholm had been "good", no monetary commitments had been made by Ikea, she said.

"We will meet again with the South Africans in the autumn," Ms Ribbans said.

At the briefing last week, Ms Mlambo-Ngcuka said: "Ikea furniture company, among others, expressed their willingness to capitalise their investment up to 20-billion SK, and this equals the total amount of current Swedish investment in South Africa."

The deputy minister could not be reached for comment on the denial.

Mr Gqulu said today the whole thing had been a misunderstanding. He had interpreted statements by Ikea representatives at the Stockholm meeting to mean that the entire R13-billion would be spent in South Africa, but it seemed this was not the case.

ARG 5/6/98 (74B)

Crime, labour keep foreigners away

Reneé Grawitzky (74B)

BD 8/6/98

CRIME, theft, corruption and labour regulations have been identified in various reports as barriers to business operating in SA, an South African Foundation discussion paper says.

High and cumbersome tax regulations were also seen as being a major obstacle facing business in SA. However the availability of finance and infrastructure were seen in a positive light and not perceived as a significant barrier to business operating in SA.

These views emerged from a foundation discussion document which analysed a range of studies undertaken by the International Finance Corporation, World Economic Forum and a Stellenbosch University study on public perceptions of government, business and trade unions in SA.

The foundation said that governments, either intentionally or unintentionally, created barriers for business. "Often these barriers are created in the pursuit of admirable social or economic objectives such as acceptable labour standards, environmental protection or macroeconomic stability."

Alternatively, such business barriers could be a result of government or bureaucratic failure, the document said.

"Identifying barriers to business is the first step towards creating a more business-friendly environment," the foundation said.

A International Finance Corporation study, examining the response by entrepreneurs to questions dealing with barriers to doing business in 69 countries, ranked SA 12th out of 22 regions.

SA was grouped together with Mauritius to form the middle-income Africa and was ranked as the second highest African grouping after Western Central Africa, but came below other groupings of developing and transitional countries such as Asia, western South America and the Baltic Republics. Middle-income Africa ranked highly in the fiscal policy category partly due to its sophisticated infrastructure but ranked low in terms in the regulatory category which considered issues such as price controls, labour rigidities and environmental regulations.

SA draws R40bn in foreign direct investment since 1994

CT (BR) 9/6/98 (740)

NCABA HLOPHE

Johannesburg — South Africa had attracted foreign direct investment flows worth about R40 billion since 1994 as a result of mergers and acquisitions, BusinessMap, the consultancy, said yesterday.

"These figures exclude the small investments recorded under the government's incentive schemes. The flows reflect the growing confidence of investments in the broad political and economic environment," it said.

The privatisation of Telkom, which netted the country R5,5 billion, increased last year's flows by 52 percent to R13,7 billion, although private sector investment had dropped from 1996.

The US was the largest single investor, followed by Malaysia and the UK.

"Not surprisingly, Asian, particularly Malaysian, investments are slowing down. There is potential for the UK to overtake Malaysia as the second largest investing country in South Africa."

Both North America and Europe had pumped in R14,5 billion since 1994.

However, lower economic growth rates had resulted in a fall in expansions and development of new or greenfield investments.

US corporations dominate the top 10 company investors, accounting for almost 45 percent of total foreign direct investment commitments, although they have been joined by UK's Lonrho and Italy's Aeroporti de Roma.

But Jorge Maia, the Industrial Development Corporation's economic research and development manager, said: " What we have seen is just a change of ownership, when in fact we would like to see fixed investments that would expand the production base and create employment and infuse new skills and technology."

Brian Craig, the regional manager of Investment South Africa, said the mergers and acquisitions represented the first phase in the cycle, and investors were cautious as they re-entered the South African market.

"The next phase will see small investors coming in as well to back up and service the needs of the larger corporations. The small corporations would enter into joint venture partnerships with local firms," he said.

Telecommunications was the top industry performer, followed by energy and oil, motor components and food and beverages. The hotel, leisure and gambling industry slipped out of the top five.

SA growth 'does not justify investment'

BD 10/6/98 (74b)

Stan Maphologela

ECONOMIC growth in SA was not sufficient to justify the R40bn foreign direct investment in the country made since 1994 to April this year, Businessmap director Jenny Cargill said yesterday.

However, Cargill said at the launch of the SA Investment Report that the recent speculative attack on the rand underlined the importance of long-term capital inflows derived from foreign direct investment to support the balance of payments.

The foreign direct investment was important to SA because it would inject competition into the economic environment, she said.

It would also introduce technology improvements and management expertise of international quality.

The deputy governor of the SA Reserve Bank, Tim Thahane, said challenges facing SA were to accelerate growth, reduce poverty and create jobs, as well as the deregulation of the domestic market.

He said the foreign direct investment was progressing but at a slow pace, and the main focus should be on the stabilisation of SA's macroeconomic policies.

For foreign direct investment to be effective and to have an effect in SA, there should be an aggressive training in the labour force.

He said the responsibility of the Reserve Bank was to maintain and create an environment which would sustain the stable macroeconomics policies and financial policy environment within the context of global liberalisation.

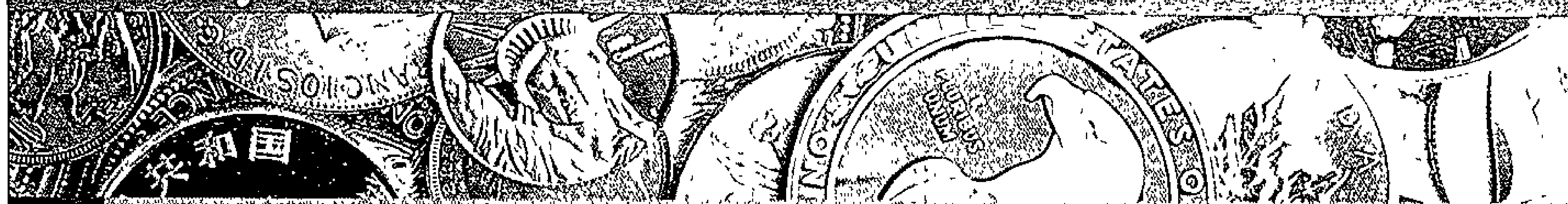
The financial markets were experiencing turbulence as a result of unstable emerging markets, but the Bank's role was to make decisions in a way that the interest rates and exchange rates restore balance.

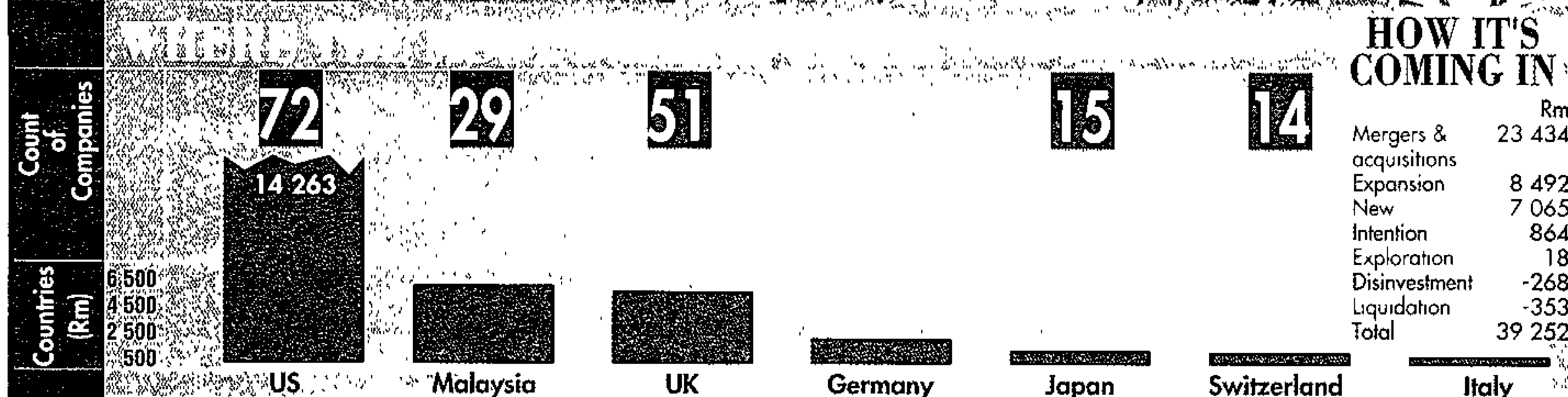
Unstable

He said the exchange rate and interest rates should be in line with the medium term requirements of the SA economy.

The Bank would continue to monitor the markets on a daily basis, and hoped to see stability restored and the downward trend in the interest rate continued.

He said the Bank did not use interest rates to lower inflation at any cost, but rather wanted to ensure that the depreciation of the rand did not occur precipitously, and that the inflation rates were in line with the average of SA's major trading partners.





FOREIGN DIRECT INVESTMENT

STILL TOO RISKY TO GO IT ALONE

(74-B)

Investment to expand production lags behind mergers

FM 12/6/98

Foreign investors continue to display confidence in the direction of SA's economic policy but they are still concerned about the country's economic growth rate.

A report by BusinessMap, which provides investment analysis and advice, says of the R39,3bn in foreign direct investment — a good indicator of long-term investor confidence — since 1994, 60% is accounted for by mergers and acquisitions (M&A) while expansions took a 22% share and new (greenfield) investments accounted for 18%.

Foreign Direct Investment (FDI) mergers and acquisitions grew 19% in 1995, 160% in 1996 and 130% last year But investment to expand production capacity has decreased while greenfield investments have, on average, remained at about R1,5bn a year since 1994.

BusinessMap ascribes the strength of mergers and acquisitions to the fact that foreign investors are satisfied with the direction of government policy and political performance.

But "inadequate economic growth rates" which, though positive, have been below expectations, remains a major obstacle to new investments and capacity expansions by foreign investors.

Nevertheless, BusinessMap says that being a country in transition, SA has not faired badly in attracting FDIs. However, FDI inflows need "to be much more substantial to provide the necessary boost to growth in the economy".

The consultancy adds that foreign investors, before making any long-term commitment would want to observe how the situation evolves.

"Over the past two years, investors have expressed more comfort in the direction of the SA government and economy.

However, just as that comfort was expected to bear more fruit, there was the Asian scare.

"In addition, the next SA election began to loom; something which is bound to encourage a wait-and-see posture."

Another worrying sign is that when the partial privatisation of Telkom, the State-owned telecoms group, is stripped out of 1997's R13,7bn FDI figure, private-sector FDI declined for the first time since 1994

Given that, other than the potential sale of stakes in South African Airways and the SA Forestry Co, there are no major privatisations scheduled, this might mean that FDI could show a steady decline, particularly in the period leading up to the mid-1999 national elections.

BusinessMap also points out that while foreign investors are keen on the public and private-sector partnerships in the provision of social and economic infrastructure, government appears to be moving hesitantly towards embracing the concept.

The cross-border N4 road from Witbank to Maputo and the selection of two foreign companies as preferred bidders for the provision of municipal water services are the first examples of such a concept at work.

Though public/private-sector partnership should offer a more consistent flow of State-sponsored FDIs than privatisation, such partnerships remain politically sensitive and government is therefore not likely to push them forward vigorously in the run-up to next year's national elections.

Overall, BusinessMap says government has made the right moves in terms of macro-economic policy and investment strategy.

But it now faces a different challenge — to move away from a policy and strategy focus and to start marketing the attractions of investing in SA.

This will require that government fine-tune meeting particular investors' needs.

BusinessMap suggests that government also go beyond seeking to attract the foreign investor and turn its attention to creating "a confident and satisfied domestic investor".

Though a difficult task given the historical alienation between SA's established business in SA and the ANC, it remains a crucial element in achieving the government's investment strategy.

BusinessMap concludes that the new environment requires government to pay sharp attention to detail, develop relationships with identified potential investors, and consistently target SA as an investment market.

Jabulani Sikhakhane

Chicago firm faces 'uphill battle' in bid to invest locally

Home affairs, banks present endless obstacles

ARGT 18/6/98 (74b)

LLEWELLYN JONES
BUSINESS REPORTER

South Africa is crying out for foreigners to invest their cash here, but for one American trying to establish a South African operation for his Chicago-based employers, the experience has been "nothing but an uphill battle".

Mike Stagliano of InPhoto Surveillance said he had faced nothing but "road blocks" over the past two years, starting with the Department of Home Affairs, then Telkom, through to local banks.

Mr Stagliano said the key focus of the company's business revolved on insurance investigations. He said InPhoto Surveillance was one of the largest such companies in the world, employing 150 investigators.

It employed three people in South Africa. InPhoto Surveillance decided to invest in South Africa after a local insurer expressed an interest in using the company's services.

"The idea was that I would come to South Africa to set up the business and train a local person to eventually run it," said Mr Stagliano.

"But it took months to get a work permit. We had to re-apply three times because the paperwork was 'lost' or had 'gone missing'."

The company eventually applied for a 30-day business visa for Mr Stagliano so he could sort out the work permit in South Africa.

But, said Mr Stagliano, he was continually rebuffed with the phrase "We're processing the paperwork". With four days to go before his visa ran out, he went directly to the Minister of Home Affairs' office and had the work permit granted almost immediately after explaining the situation.

Mr Stagliano's problems, however, did not stop there. Local banks would not provide finance for vehicles for his investigators because the company did not have a credit track record in South Africa.

Telkom demanded a R4 000 surety for each of the four telephone lines he needed to install.

Mr Stagliano said: "We wanted to employ another investigator and approached a bank to finance a new vehicle.

"Because they had turned us down once before, two years ago, they turned us down flat again without even looking at our financial statements.

"It was only through the intervention of our bank branch manager that we were given the finance."

Most recently, Mr Stagliano has had "extreme difficulty" renewing his work permit.

"They said the application would take 21 days to process, but when I went back 20 days later, I was presented with another list of questions they wanted answered."

But, by that stage Mr Stagliano had only two weeks left on his work permit and had to go to the Chicago head office for meetings.

"At that point, our head office decided the South African operation would be closed down if the work permit was not granted."

While the work permit was eventually renewed, Mr Stagliano still feels frustrated.

"We employ only three people at the moment, but that is three people who would not have had a job if we closed the local operation."

SA needs to do more to attract foreign direct investment

SA has failed to make full use of the opportunity to sell itself at its annual investment conference in Europe, says London correspondent **Tim Cohen**

STALS

SA's most famous tax lawyer, Dennis Davis, tells a great joke about South Africans.

The inhabitants of the new SA have become the biggest whingers in the world, he told a conference recently.

It's like the story about Katz and Cohen. Katz says to Cohen: "Cohen, you look terrible. What is the matter?"

Cohen says to Katz: "Things are really bad. Two weeks ago, a distant relative of mine in the US left me $1m.

"But Cohen, that's fantastic," says Katz.

"But that's not the end of it," says Cohen, "a week later, a relative in England left me £1m."

"But Cohen, that's incredible. How can you possibly looks so down in the dumps," says Katz.

"But you don't understand," says Cohen. "This week, nothing!"

And so it goes in the rainbow nation. For a country familiar with miracles, the pedestrian feels depressing.

One of the most pedestrian things about the new SA has been its limited ability to attract foreign direct investment.

Just how sluggish this most worthwhile form of investment has been was demonstrated this week at SA's annual investment showcase, an investment conference held in Hamburg.

According to figures provided by Business Map, foreign direct investment has totalled just under R40bn since the 1994 election.

This might not be so bad except for two things: firstly, a large proportion of this investment was made up of privatisations.

And secondly, the vast majority of the foreign direct investment to SA was made up of mergers and acquisitions.

Despite government's protestations about the inaccuracy of the figures, new businesses that have created new jobs have not emerged anywhere near the rate either expected or needed.

The figures show another surprising feature. The biggest foreign investor has not been countries of the first world, but Malaysia, which now has many problems of its own to deal with.

Government's use of its annual showcase is rather curious. As with the similar conference last year, the opportunity was not used to make any announcements of consequence.

On the contrary, government ministers were forced to concede that the partial privatisation of SA Airways was being delayed. The delays are technical and will not affect the overall process, but it was not good public relations nevertheless.

Bad luck also played a role, with the recent depreciation of the rand and global worries over not only developing countries but even developed countries casting a pall over the event.

Some ministers had messages that raised eyebrows. Minerals and Energy Minister Penuell Maduna's presentation on mining was focused on the iniquities, in his view, of SA's mineral rights system, which uniquely allows mineral rights to be separated from the right of land ownership.

Although SA's mining policy is still being finalised, Maduna passionately espoused the view that the legal framework excluded the state from the country's mineral resources and thereby deprived black South Africans of access to their birthright.

The point of black exclusion from the mining sector is well made, but to locate the problem in the mineral rights regime, as Maduna did, raised suspicions that government was on the verge of claiming for itself rights that it does not currently hold.

However this might be justified, this process is normally described as nationalisation and is not popular among potential investors.

Surely, in the presence of the international investment community, it would have been better to outline government's plans to help black entrepreneurs to enter the mining industry, assuming that anyone would want to at current commodity prices.

Nevertheless, the overall tenor of the conference was defensive, as if foreign investors merely needed reassurance rather than positive encouragement.

However, underlying the matters addressed at the conference, new trends are discernible. Exchange controls are no longer a major topic of discussion. Neither is the principle of privatisation, although its pace and extent most definitely are.

Reserve Bank governor Chris Stals complained that SA's economic position seems to be understood much better outside the country than at home.

This is probably true, but it is also true that the weaknesses of SA's position are also seen more acutely from outside rather than inside the country.

It is a measure of how far SA has come that none of its shortcomings are due to political matters or macroeconomic issues.

The focus now seems to be more on structural weaknesses in the SA economy and the lack of really urgent action in addressing labour market rigidities.

Institutional weaknesses in some government ministries are also now top of the agenda.

In an ever more competitive environment, SA needs to add something special to its attempts to attract foreign direct investment.

Pat Cornick

Labour factors no key to investment, says report

(74B)
BD 1/7/98

Reneé Grawitzky

INTEREST rates, as opposed to average wage levels, are considered by large companies to be far more important determinants of investment, which ultimately affect job creation, a report funded by the Human Sciences Research Council says.

A study found that interest rates, economic growth and overall economic stability were considered by large companies to be the most important determinants of investment.

A number of companies also considered consumer spending and exchange rates to be significant factors. Average wage levels and maintaining good labour relations were the least important variables.

This emerged from a study conducted by the National Labour and Economic Development Institute (Naledi), the research arm of the Congress of SA Trade Unions.

The study analysed the investment decisions of several large companies operating across the main sectors of the economy to determine the demand for labour in SA.

James Heintz, a Naledi economist and author of the report, said labour demand depended on the levels of investment in the country, whether investment was directed towards capital or labour and the level of utilisation of capacity.

The study found that the companies surveyed would continue investing in the future but would employ fewer highly skilled workers and would focus more on capital intensive investment. These companies had undergone retrenchment and rationalisation programmes over the past few years.

This had major policy implications, Heintz said, for government's increased focus on raising the skills level of the SA workforce.

The study said emphasis on education, training and skills development was important for access to jobs, not necessarily for direct job creation. Heintz said the companies indicated that changing technologies were likely to have a substantial effect on the types of skills required.

The results of a corresponding econometric study also showed that the investment behaviour of these companies was linked to profit share and economic growth.

Heintz said when profit share in the economy was put under pressure, investment fell and companies embarked on labour-saving measures. Profit share was "influenced by competing claims on output, including claims by labour and by financial institutions".

This meant if capital costs increased, profit share would be reduced, and this was also likely to occur if strikes increased.

Heintz said an increase in black wages did not directly lead to a corresponding rise in unemployment, as argued in a recent World Bank report.

He acknowledged, though, that there was a trade-off between wages and employment if all else remained the same.

Investors search for value in SA markets

(74B) CT (BR) 2/7/98

From Reuters

London — Value may have been cut from South Africa's currency, bond and equity markets in the past few days but investors said yesterday they were looking for diamonds in the rubble.

Their search takes place in an environment where foreign investors were net sellers of over R1 billion worth of bonds on Monday, and where equity values lost 25 percent last month, said market analysts.

"We have had a very negative view of South Africa, especially concerning the currency risks, and we are now re-examining our position and are considering upping our weightings," said Andrew Elder, a fund manager of Aberdeen Asset Management's Frontier Fund.

Elder admitted that his fund was underweighted, but added: "There should be good buying opportunities in the next couple of weeks."

He said he was looking to buy big blue chips and some financials on any further weakness.

Favourite picks include SAB and Liberty Life. Elder also sees significant value at the current price of BOE Bank.

Early yesterday, the rand regained some ground. But the outlook remained uncertain, and grounds for optimism were heavily qualified, analysts said.

"The rand is 15 percent undervalued against our fundamental model, and that will prevail," said Tim Unger, South African bond market analyst at ING Barings. "But, short term, what happens is any one's guess."

Increasing the short-term uncertainty was the rising swell of speculative money surrounding the rand, analysts said.

"It is now vulnerable to speculative attack," said Unger. "Having been driven by factors outside South Africa, it is vulnerable to further weakness as long as Russia and the yen remain under pressure."

He said the rand had developed a very high correlation with the dollar-yen rate.

"We are forecasting the rand at R6,10 (to the dollar) by year-end, but given short-term volatilities I would not recommend going in at this stage."

Unger said bonds offered good value at current yields, reached after net selling of about R6 billion to R7 billion of bonds by foreign investors in the past couple of weeks.

"The bond market has contributed to the rand's weakness as it is sensitive to portfolio flow," he said.

Unger estimated that non-South African investors accounted for between 10 and 20 percent of the bond market, given that their activity totalled about 20 percent of daily turnover.

More significant than foreign investors' presence in South African equities was the big cross-company and family share-block ownership, another analyst said.

Analysts said foreign investors were still net buyers of South African equities, even though market prices reversed a 27 percent year-on-year appreciation accrued by the end of April into a 12 percent year-on-year loss by July 1.

The year-on-year comparison recorded a 25 percent loss during the month of June.

Foreigners see some hope for SA

(74B)

PETER GALLI

BR 6/7/98

New York — Foreign investors believed the rand was oversold and that there were significant buying opportunities in the equity markets, fund managers and traders said at the weekend.

But the fact that the rand would probably face further weakness was deterring them from any significant buying, they said. "There is no doubt that the rand is now oversold and that there are a whole heap of bargains to be had in the equity market at the moment, but investors are holding back in case the currency weakens further," an analyst at a New York bank said.

The JSE's all share index has only risen about 11 percent since the start of the year, and many foreign investors who placed money in the country over that period have seen negative returns on their investments to date.

A New York-based fund manager said he was reluctant to invest further in the equity market in case he exacerbated his losses. He was holding back until there was some sort of clarity about how the Reserve Bank intended to deal with the problem.

The analyst said it was time for the Bank to release a policy statement on the rand. "I think the best policy would be to let the currency and interest rates find their own market-driven levels."

The Bank was clearly concerned that using higher interest rates as a means of defending the rand could create a recessionary environment. "It is telling the market loud and clear that it cannot and will not use interest rates to defend the rand, and that the devaluation of the currency is far preferable to a recession."

But the fund manager was fairly optimistic, particularly on South African equities, where a lot of value was to be found. The analyst said investors still saw the country as fundamentally sound, particularly in comparison to other emerging markets.

SA an 'attractive' business destination

Simon Barber

(74B) BD 9/7/98

WASHINGTON — The US state department rates SA as an "attractive" destination for US business, with "significant growth potential", in its latest annual survey of the country's investment climate, but says delays in privatisation may slow the pace of capital inflows this year.

Among the few new problem areas cited is the draft competition bill, which is seen as giving the minister too much discretion to block mergers and acquisitions approved by the Competition Board. Also potentially troubling are "reported" plans to bar companies in SA from complying with "extraterritorial" laws such the US Helms-Burton act, which seeks to penalise firms that invest in Cuba.

The survey notes that US firms "do experience some problems" in SA with intellectual property protection, even though SA laws and practices are "generally in conformity" with those of industrialised nations.

However, efforts to crack down on software piracy "have borne fruit". Just less than half the software installed in SA is now said to be illegally copied, comparable to European levels.

Although SA's highly developed capital markets are seen as a plus for direct investors, the report warns that insider trading is "poorly" regulated and seldom investigated.

SA labour costs are low relative to western industrialised countries but productivity is also lower, the report notes.

The labour-management relationship is coyly described as being amid a "challenging" process of change.

"Reaching common ground on a set of policies to foster job creation remains one of the most pressing challenges," it says.

SA has investment agreements with Canada and most European countries, but not the US.

"Formal negotiations have proved unproductive", although a bilateral tax treaty is now in effect.

While crime is a serious problem the statistics may be "misleading" because incidents are being reported and recorded more efficiently than in the apartheid era.

The United States was the largest single source of foreign direct investment last, year, with SBC Communications contributing $725m of its stake in Telkom, and Goodyear and Dow Chemical investing $121m and $48m respectively.

However, flows "are expected to taper off in 1998, given delays in privatisation efforts".

Chinese protesters demand death penalty

Nomavenda Mathiane

More than 1 000 Chinese gathered at the Union Buildings in Pretoria yesterday in a "shut-up shop" protest against the killing of a 20-month-old boy in a robbery and to demand the restoration of the death penalty.

Danny Zhong was shot dead in his father's shop in the Johannesburg city centre on June 26.

The protesters, which formed a motorcade of more than 150 cars, called for the return of the noose.

Danny's mother, Hua Zhong, handed a large photograph of her son and a letter addressed to President Nelson Mandela to commissioner Riaan Engelbrecht of the public order policing unit. The letter calls for "harsh punishment" for the "savages who are murdering the innocent".

Her husband Tom, on crutches after being injured in the shoot-out, said he had been overwhelmed by the support from the Chinese community.

Also at the demonstration were the parents of Dr Steven Pon, who was shot dead in a car hijack incident in Johannesburg.

Among the non-Chinese demonstrators were Anglican women missionaries based in Pretoria and Bob Ngoaneng of the Soweto and Kliptown Youth Association. Ngoaneng said he would be seeking an audience with Mandela to talk about crime destroying Kliptown.

BD 9/7/98

Addressing the crowd, chairman of Gauteng Chinese Association, Cecil Leong, said the gathering was not a Chinese-only rally, as crime affected every sector of the SA community.

Chinese people were no longer prepared to sit by when their people were being killed.

Sapa reports that Mandela met Danny's parents at his Houghton residence in the afternoon. "To lose a beloved, a baby, is a tragedy. It is a disaster difficult for the mother and father to bear," he said.

Picture: Page 3

Key Market Movements — 7/7 to 8/7

Crime still driving off investors

(74B) ([illegible]) CT (BE) 9/7/98

From Reuters

Johannesburg — When investors ask if South Africa is a safe place to do business, they are not simply referring to profit margins and the stability of the rand.

They are concerned with the more practical issue of physical safety. "Violent crime is a major fear among all sectors of the community and a potential deterrent to inward investment," said the rating agency Fitch IBCA recently, citing crime as one of the reasons for revoking South Africa's Rating Alert positive.

Violent criminal activity has actually declined slightly since the frightening peaks of the mid-1990s, according to police statistics. The murder rate fell from 66,6 per 100 000 people in 1994 to 59,6 in 1997.

Recorded vehicle theft fell 3,5 percent in the same period, while violent robberies dropped almost 18 percent.

But crime rates remain sky-high by global standards and the country's dangerous image has stuck.

"The image of South Africa as a country to invest in is diminishing as a result of its reputation for violence," said one senior European Union (EU) diplomat based in Pretoria.

"It is a very big concern among the foreign investment community," said Maren Schellschmidt of the South African-German Chamber of Commerce and Industry.

But South Africa is, in many ways, a foreign investor's dream. An emerging market in a class of its own, it combines sophisticated financial markets and a First World infrastructure with Third World labour costs and growth prospects.

Since shedding its status as an international pariah in 1994 with its first all-race elections, it has also become a trendy place in which to invest. Few countries boast a president as widely admired on the world stage as Nelson Mandela.

Cash has flowed in, with foreign direct investment rising to R13,7 billion in 1997 from R4,9 billion in 1994, according to the trade and industry ministry.

In 1997 foreigners were net buyers of R26 billion on South Africa's equities market compared with R5 billion the previous year.

But security costs and concerns weigh increasingly on the minds and decisions of many investors, both active and potential.

"How do you convince middle-level managers to come here when you cannot guarantee their security or the safety of their families?" asked the EU diplomat. "In this regard, from an EU perspective, South Africa does not rate well compared with eastern Europe, which has much lower rates of violent crime despite its own increase in this area."

Foreigners will not invest if requirements are not met

Regional integration is vital to attract foreign direct investment to southern Africa, says Chamber of Business president **Humphrey Khoza**

MANY new developments are taking place in the world under the heading of globalisation that have implications for southern Africa and our own environment.

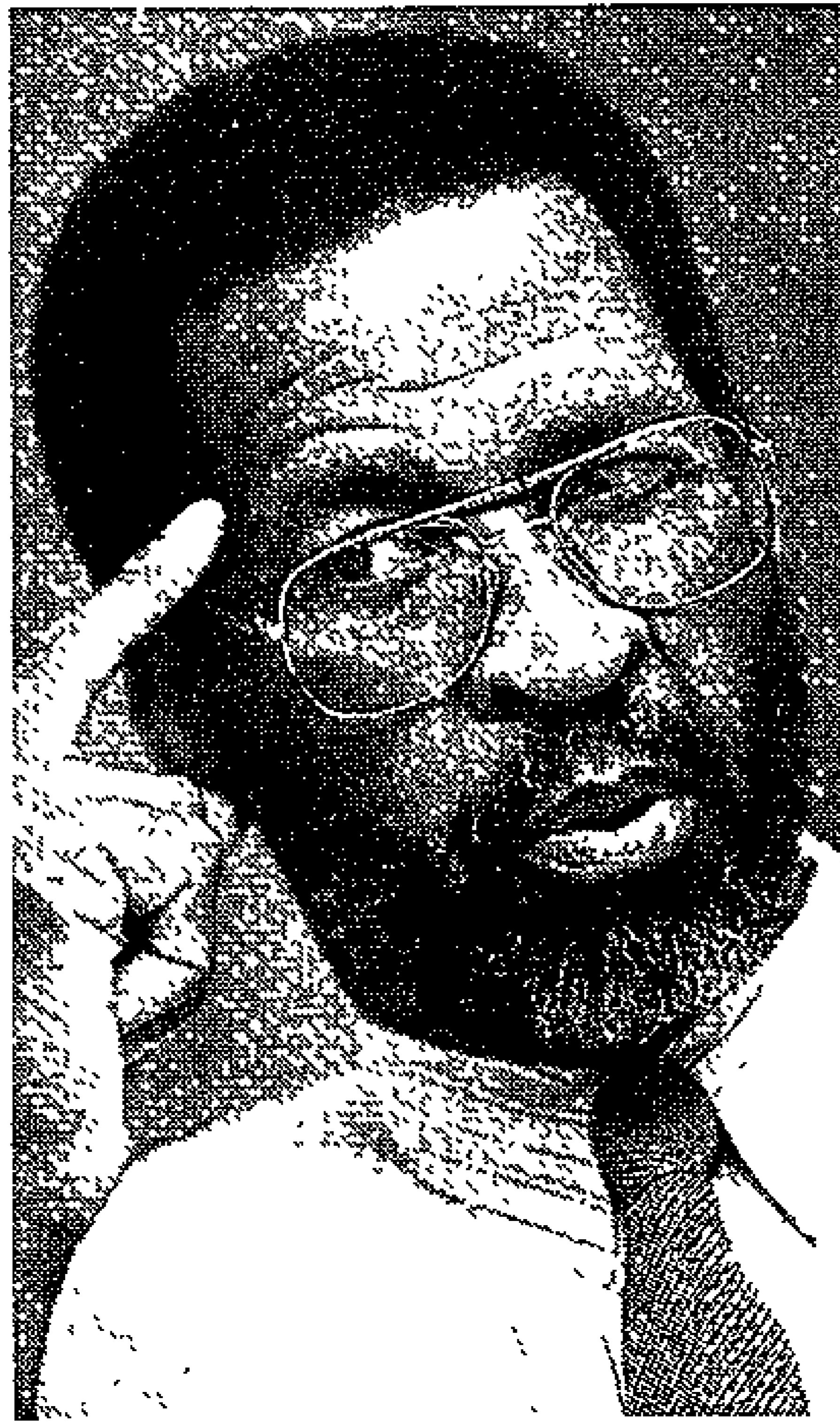
I refer particularly to negotiations at the level of the Southern African Development Community (SADC) to negotiate a free trade agreement, and also those on a free trade agreement between SA and the European Union (EU).

There is a definitive link between these two developments, in that the SADC will not only be linked to the EU via the Lomé Convention but also through the opportunities that the EU-SA free trade agreement will offer to the region.

It is an undoubted fact that foreign investment improves trade and enhances economies. SADC countries are undertaking the spadework to put in place the mechanisms required to encourage greater investment in southern Africa.

With this in mind SA businessmen have started to look across the borders to establish where the best opportunities and investment environments will be offered in the near future, in order to establish the necessary linkages in SADC countries.

In the context of a global economy, investors have quite stringent expectations of countries where they invest. The world we have now entered is quite stormy, and being part of a globalised economy is a serious challenge. A pre-requisite to attracting investment that will capitalise on the opening up of markets in the SADC, and to removing the anti-Africa syndrome in terms of investment, is to provide packages which will entail the following:


KHOZA

- □ Fiscal discipline;
- □ Appropriate monetary policies;
- □ Trade liberalisation;
- □ Flexible labour markets;
- □ Privatisation and restructuring of the public sector;
- □ Commitment to provide modern (appropriate) infrastructures;
- □ Appropriate social and educational policy;
- □ Effective border control measures and efficient public sectors; and
- □ Constitutionally guaranteed property rights and no controls over foreign capital flows.

Attracting foreign investment is a two-way strategy. It is not only a question of opportunities and investment policies, but also a matter of governments preparing the way for investors to be confident about the SADC countries.

The requirements are stringent, and if they are not met foreigners will not invest.

Why it is that foreign investors wield so much power over the sovereign governments of especially emerging market countries?

The answer is straightforward — they dispose of the capital, entrepreneurship and technology which we need to grow our economies.

If we are unable to provide them with policy certainty and financial stability on top of profit opportunities, they will simply ignore us as investment destinations.

In 1996 the SA government implemented the Growth Employment and Redistribution programme. Investors will be looking to similar commitments from governments in southern Africa.

This will reduce risk and provide investors with a feeling of confidence in our economic future and the integration programme which has commenced with the negotiation of the free trade agreement.

The SADC countries enjoy benefits which are not available to SA businessmen, who surely will be investigating them in terms of investment decisions.

They are the following:

- □ Most of the SADC countries offer well-educated workers who, in many instances, are prepared to work at wage rates as low as one-third of the rates applicable in SA.

I am not promoting slave wages but I am referring to the need for productivity-related wages;

- □ Ready-made raw materials are available, for instance, good quality cotton in Zambia and high quality tobacco crops in both Zimbabwe and Zambia;
- □ Positive worker management relationships exist — an important factor in promoting investment;
- □ Benefits are available to SADC countries in terms of the Lomé Convention. SA's associate membership enables it to participate in the EU Investment Development Fund with respect to funding for projects in terms of which a linkage project could be developed between SA and another SADC country; and
- □ The size of the southern African market — it consists of more than 200-million people. Eight SADC countries show a higher growth rate than SA. Although it is from a low base, it is encouraging.

It is no secret that the advent of the 1994 election in SA changed the geopolitical situation dramatically in the region.

Disappointingly, the growth of manufacturing fell short. It has been noted that with the partial exception of SA, southern African countries are virtually excluded from technological upgrading which is a major route to global competitiveness.

New investment in manufacturing from foreign sources is the only viable route to upgrading the economies of southern Africa in the area of technology. This would lead to the improvement of labour productivity and new management skills.

The policy environment in the region needs to be improved substantially, by putting in place sound economic reform programmes, greater openness to attract foreign direct investment, underpinned by sound and stable institutional structures.

Integration in SADC could and should serve as an important policy instrument to promote trade and industrial development and investment infrastructure in the region.

I would like to see closer co-operation between business organisations in the region in ways which will strengthen business opportunities and the pooling of information.

The enhancement of southern Africa as an investment destination also depends upon the ability of the business sector to organise and mobilise itself. In the past, several unsuccessful efforts were made to create a business organisation for the SADC. I believe that it is appropriate that we as business revisit these past endeavours.

The road to complete economic restructuring is long and full of pitfalls. Southern African governments, including SA, have to bite the bullet.

On our own we will not be successful — jointly we need some of the billions of dollars of the global village that are available for foreign investment. However, the competition for foreign direct investment is tough. If we are not prepared to reduce risk through appropriate policies, we will not attract our due share.

The enthusiasm with which SADC members opposed and isolated apartheid must now be transformed into a zealousness to build an integrated regional economy.

□ *This is an edited version of Khoza's speech to the Zimbabwe National Chamber of Commerce's congress at Victoria Falls last week.*

Delays 'scaring off foreign investors'

(74B) ([illegible])

Madeleine van Niekerk

THE slow pace of privatisation in SA has caused foreign investors to lose interest in it, says Mark Breedon, senior vice-president of US-based Alliance Capital Management.

He said international investors were now less inclined to invest in the Southern African Fund. Investment in the fund was down 4% in dollar terms compared to an increase in investment of 30% in dollar terms, three months ago.

Alliance Capital is one of the largest privatisation funds in the world with investments of almost $1bn. Breedon jointly manages the $250bn Southern Africa Fund for Alliance Capital, which is the third largest listed asset manager in the US.

"We started talks with the government four or five years ago about privatisation, and despite many promises very little has happened. This is disappointing news for our investors," said Breedon.

All the former communist states had put government-controlled assets out for tender.

The fact that exchange controls still were not completely abolished was a problem. Investors were also concerned about "positive discrimination" or affirmative action that did not necessarily take merit into consideration for promotion.

This policy had the potential to cause the quality of business to deteriorate, Breedon said.

The privatisation of Telkom and the Airports Company had been handled relatively effectively in the line ministries — where the actual heads (ministers) of the departments handled it — compared with the privatisations handled by the ministry of public enterprises. Government was legislating more and perceived to be intervening in business.

BD 24/7/98

SA'S BAD PRESS PROBLEM (74B)

FM 24/7/98

Oh please. Not again. Just when we thought the misunderstanding had been cleared up once and for all last year: another dose of Massachusetts-based financial information service DRI moonlighting as a risk rating agency

DRI, a division of Standard & Poor's Financial Information Services Group, of which S&P Ratings Services is the best-known division, has again spooked the markets with its *Global Risk Review*. It rates SA second riskiest out of the 10 biggest emerging markets, three places worse than Russia, which is due for an IMF bail-out.

DRI's review gauges investment risk, whereas S&P Ratings measures risk of credit default. S&P Ratings, which revised SA's positive outlook to "stable" earlier this year, said recently it wouldn't downgrade SA because it didn't regard the recent market volatility "as anything beyond that anticipated in the rating".

The working relationship between DRI and S&P Ratings, say Ratings staff in London, is scant. When the same confusion occurred last year (*Trends* July 25) S&P sovereign ratings group MD David Beers said, "I can emphatically and categorically tell you that the comments and statements made by DRI have no bearing whatsoever on our view on the credit standing of SA." S&P Ratings' Konrad Reuss, though more diplomatically, implies this is still the case.

The markets shrugged off the DRI report last year. SA was rated 10th, two places below Indonesia (which, after a depreciation of almost 85%, is expecting negative GDP growth of 15% this year) But this year it came at a bad time The rand capsized as market players assumed S&P Ratings had changed its mind on SA.

But, protests DRI economist Nariman Behravesh, "We've tried very hard to make it clear who we are versus who Ratings is. I guess the news agencies didn't make that distinction." But all the disclaimer (all on its own on the last page of the press release) said was: "These rankings are based on detailed analysis undertaken by S&P DRI and do not necessarily represent the views of other S&P companies."

Behravesh couldn't remember who had visited SA or when, but said research trips typically involve one or two people, visiting SA for "two to three days — or up to a week" once a year. He insists the rating is not at all "arm's-length" and that DRI obtains both qualitative and quantitative information from many sources within SA

That's one version. The other is that the risk assessment has all the credibility of Clive Derby-Lewis's amnesty application. We're not sure yet which one we subscribe to. Behravesh makes some valid points — SA's low forex reserves, slow growth and unemployment. Reserves, while double their pre-1997 levels, are nevertheless low by world standards. And a weak rand will put pressure on inflation, which means continued tight monetary policy, which could hammer growth and employment.

But much of DRI's verdict appears too subjective, including fears about "how strong a leader Thabo Mbeki is going to be". Behravesh asks, "under an Mbeki administration, will the radical factions of the ANC start to throw their weight around?" Unsubstantiated prejudice? Or is this the price the ANC is paying for failing to control its alliance partners? Probably a bit of both.

PLUGGED AS A "SAFE HAVEN from Asian turmoil" only months ago, SA has been getting bad press from a number of angles. Some of it is hard-hitting, rigorous analysis, and rightly shows up SA's deficiencies. Some of it, on the other hand, is a little dicey. Last month a Bank of New York report argued "SA runs the risk of fuelling Indonesia-like rioting if the rand is allowed to depreciate too rapidly, igniting hyperinflation and food shortages; or economic recession causes unemployment to rise appreciably." Odds of either scenario occurring "are increasing at an alarming rate".

Certainly there's a threat of worse unemployment and inflation. But the Indonesian comparison? As Nedcor's Magan Mistry points out, Indonesia is a food importer, so soaring import prices do create food shortages But SA is a food exporter. Also, in a deflationary world environment, the hyperinflationary threat is likely to be contained.

A rather odd report by the Merchant International Group is another example of SA's bad press problem. One analyst visited, talked to a few people and looked at a lot of press clippings. The resultant analysis makes no major factual errors, but the emphasis is strange Economic comment is interspersed with a heavy emphasis on Islamic fundamentalism, references to the plans to turn Hillbrow's Ponte building into a prison, President Nelson Mandela's visit to Libya, the 2004 Olympic bid, the spread of counterfeit goods, and rumours of Hamas militants undergoing training by paramilitary groups in SA.

SPOT THE REAL RATING AGENCY

Rank	S&P DRI (1997)		S&P Rating Services	1998	(1997)
1	(2)	Poland ↑	China	BBB+	(BBB+)
2	(1)	Argentina ↓	Poland	BBB-	(BBB-)
3	(3)	Mexico	India	BB+	(BB+)
4	(4)	Turkey	**SA**	**BB+**	**(BB+)**
5	(7)	Russia ↑	Argentina	BB	(BB)
6	(6)	Brazil	Mexico	BB	(BB)
7	(5)	India ↓	Brazil	BB-	(BB-)
8	(9)	China ↑	Russia	B+	(BB-) ↓
9	(10)	**SA** ↑	Turkey	B	(B)
10	(8)	Indonesia ↓	Indonesia	CCC+	(BBB) ↓

SOURCE RATING SERVICES, S&P DRI

There is a disturbing sense that some — most emphatically not all — foreign institutions are not allocating serious human resources to analysis of SA. And there is often a perceptible readiness to believe the worst.

Racism is one of the sloppiest of allegations, and SA columnists (not to mention a politician or two) are a little too quick to cry foul. But the fact is, Africa has a bad track record and SA will have to work twice as hard, and achieve twice as much, to be rated equal by Western standards. Fair? Absolutely not. It stinks. But it's a fact of life. There's not a lot we can do about it other than continue trying to get it right — all those things journalists nag about, like strong government and commitment to economic reform. It will also take luck. SA's reform efforts have been hampered by particularly bad luck so far. One can only hope that the worst of the fallout from Asia has passed. **Adrienne Roberts**

RATINGS *On track to pull US investors, says Ramos*

Duff & Phelps reaffirms SA's investment grade status

(740) CT (BR) 30/7/98

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — Duff & Phelps, one of three leading US credit rating agencies, yesterday reaffirmed its investment grade rating of South Africa and said the outlook remained stable despite the recent rand crisis and expected lower growth this year.

The agency reaffirmed its BBB- long-term foreign currency and A- long-term currency rating of South Africa.

This strong backing of South Africa's creditworthiness, and the strength of the banking sector in particular, is expected to be bolstered soon by a special report from the International Monetary Fund (IMF).

Duff & Phelps said the reaffirmation "balances general concerns about the country's fragile liquidity conditions in the current framework of international financial volatility with Duff & Phelps' more optimistic views on the long-term creditworthiness and the implementation of the government's economic programme.

"Duff & Phelps will, however, continue to closely monitor the developments in South Africa."

Maria Ramos, the finance director-general, yesterday welcomed the report because South Africa needed at least two investment grade ratings to allow US institutional investors to buy government stock.

The market recently reacted nervously when Moody's, another major ratings agency, said it was reviewing its rating. But Ramos said it had "made it very clear that there is no automatic presumption that a review is equal to a downgrading".

While the reaffirmation was pleasing, there were no immediate plans for a new bond issue, Ramos said. The possibility might be raised with institutional investors during the October annual meetings of the World Bank and IMF, but "we just do not need one now".

Ramos said: "If you are in Russia, you need the money to get through this week. We are very lucky.

"We just do not have to do that right now."

Duff & Phelps said that while the Reserve Bank's net reserves had been affected by the 10-week attack on the rand, "they remain near their historical peak and substantially above their level during the 1996 currency crisis".

The central bank also had access to "sizeable credit lines with foreign banks that, if necessary, would safeguard the current level of gross reserves for a protracted period".

The agency said it remained concerned about the lack of progress in labour market reform, low savings rates and "critically low levels of foreign direct investment".

STABLE *Maria Ramos, the director-general of finance, welcomes the reaffirmation of South Africa's investment grade rating by Duff & Phelps, a US credit rating agency*

PHOTO ANDREW BROWN

☐ **Business Watch, Page 2**

European investors critical of SA issues

(74D) Sowetan 31/7/98

EUROPEAN investors at the Europe South African '98 Business and Finance Forum, held recently in Hamburg, Germany, indicated that they were critical of South Africa's performance in certain areas since 1994.

Building Industry Federation of South Africa (Bifsa) executive director Ian Robinson, who represented the South African building industry at the forum, said that while overseas investors conceded that the underlying economy was sound, there were certain issues that they believed were impacting negatively on the South African economy.

These included privatisation, which they said was taking place far too slowly and should be accelerated.

Investors felt the labour market was too inflexible as a result of the Labour Relations Act, employment standards and employment equity legislation.

The process of black empowerment and affirmative action was taking place too quickly, causing capacity problems, European investors thought.

Lastly, they were concerned that crime and violence were not being addressed adequately, putting a brake on foreign investment.

Robinson said that the comments made were valid. The building industry, as one of the biggest employers in the country, is now moving even further away from direct employment due to the inflexible provisions of the new labour laws.

The employment of sub-contractors and independent contractors was becoming increasingly prevalent, legitimately circumventing some of the provisions in the labour legislation, he said.

Also, while there were many aspects of affirmative action that were positive, the process ought to be accompanied by much more training and development.

Structural reform the key to SA attracting investment

London correspondent **Tim Cohen** looks at why SA is not getting foreign direct investment

SA IS a significant market with high growth potential; it has a market-orientated tradition with a sophisticated financial sector; it has fine communication links, cheap electricity, lower labour costs than western industrialised countries and raw materials abundance; English is spoken everywhere, it is in the European time zone, and it is even sunny. And yet foreigners do not invest.

Or do they? Even over this basic point there is dispute.

A recent Ing-Barings emerging markets strategy report quotes the latest International Monetary Fund (IMF) figures which show the following: between 1994 and the third quarter of 1997, SA had a current account deficit every year, which was compensated for by a capital account surplus in all years except 1996.

On the capital account, there were portfolio debt and equity capital surpluses every year. These figures support the widely accepted proposition that SA has been relying on "hot money" to support its current account deficit.

But here is the crunch: according to the IMF figures there was a negative direct capital balance of minus $500m over the same period. Since the election, SA has been a net recipient of foreign direct investment in only one year, and in the first three quarters of 1997 $1,2bn of direct investment actually flowed out of the country.

Compare this with developing countries overall. During 1997 a net $120bn flowed into developing countries, and based on its relative size, SA's "fair share" of this amount ought to have been about $1,6bn. This leads Ing-Barings to conclude: "For a country classified as an emerging market this is unusual and a sign of vulnerability."

These figures contrast diametrically with those produced by consultant group Business Map which states that far from being SA's worst year, 1997 was in fact SA's best year for direct investment, with new investment just under R14bn, easily surpassing the next biggest figure of about R9bn the year before.

The difference is easily explained on one level because Business Map's figures reflected foreign investment commitments rather than the actual movement of funds. The figures were intended to show trends rather than capital flows.

But there is more. Business Map director and editor Jenny Cargill says the official direct investment figures do not reflect "the flavour of what is happening on the ground". Furthermore, she says, it is still early days in the evolution of government policy making, and increases in portfolio investment normally precede direct investment.

Anecdotal evidence certainly suggests there is more happening below the surface than appears evident. Unilever is said to have invested more than R1bn since the election. Part-privatisations have brought in large amounts of foreign capital.

And yet, the ING-Barings report states there has been caution with respect to direct investment, shown not only by the capital flows but by the extent to which multinational corporations prefer non-equity investment.

A survey of German-based firms active in SA during 1996 indicated that most preferred joint ventures with local partners that did not entail capital commitments. Much of the investment by US multinationals has been through franchises, with capital raised by the local partner. Acquisitions rather than greenfield developments constitute the largest share of investment flows. Some large companies that divested during the sanctions years, notably in the banking sector, have not returned, or have even apparently considered returning.

Compared to some countries loosely in SA's bracket, direct investment into SA is laughably small. Brazil, for example, financed about two-thirds of its current account deficit in 1997 with direct investment. Although SA's current account deficit has been small, direct investment flows into SA have constituted at best small fractions of its current account deficit.

It is hard to overestimate the importance of direct investment because apart from adding to currency reserves, direct investment is a measure of confidence because the companies involved investigate precisely the comparative desirability of investing in a country before doing so. In contrast to the first rand collapse in 1996 which took place in the context of the break-up of the "rainbow coalition", the current currency turmoil is in part a consequence of the lack of direct investment.

So what needs to be done? The ING-Barings report says political and social instability are the root causes of low direct investment, with investors sceptical about the ability of government to deliver progress on macroeconomic stability. Policy credibility remains the key variable, and this means retaining fiscal discipline, reforming the labour market, preserving Reserve Bank independence, and accelerating privatisation.

In short, until SA combats its slow progress on structural reform, the rand, not to mention the country, will remain vulnerable.

FOREIGN INVESTMENT *Recent weak indicators lead to offloading of bond, rand positions*

US investors shun SA as risky

(74B) ET(MR) 11/8/98

Peter Galli

New York — US investors offloaded some of their bond holdings and rand positions on Friday — ahead of the South African long weekend — on renewed concerns about the South African economy and the weaker Asian and US bourses. That drove long-dated bond yields higher and pushed the rand weaker.

Dan Laforge, a New York-based equity trader and strategist for Barnard Jacobs Mellet (US), said last week's disappointing gold and foreign exchange reserves and the R1,5 billion increase in foreign credit lines to R18,5 billion last month had unnerved investors and raised renewed concern about the economy's growth potential.

Those fears were heightened when the South African Chamber of Business revised its economic growth forecast downwards. It said GDP growth for the year was now likely to be about 1 percent, down from its previous 1,5 percent.

Laforge said the reserve figures had "again highlighted foreign investor worries that the Reserve Bank simply did not have the financial resources to protect the rand from another speculative attack".

Many traders and economists believe that is quite likely. The only other weapon the Bank has to protect the currency is short-term interest rates.

In the event of another speculative attack, it could raise these rates even further. But Chris Stals, the governor, appears unwilling to do that, as it would further strangle economic growth prospects.

The rand slipped 2,29 percent against the dollar over the week, and was trading at R6,26 in late Friday New York trade from its R6,12 close the previous Friday.

The yield on the benchmark R150 bond stood at 16,33 percent on Friday, up from its 15,75 percent of the week before. A higher yield means the underlying rand price of the bond has fallen.

JSE and Bond Exchange figures for the four days to Thursday show foreigners were net sellers of R1,08 billion in bonds, but net buyers of R456,9 million in equities.

"While they are still buying equities, interest is dwindling on a weekly basis. Emerging market fears have returned to haunt foreign investors, while the weaker US market and flailing Asian bourses are hampering investment in general," Laforge said.

Deena Katz, the president of US-based Evensky Brown Katz and Levitt said the firm was giving South Africa "a wide berth. While I'm very impressed with the level of sophistication in the financial arena, the prevailing economic conditions are not conducive to investment.

"The potential risk just outweighs the possible reward," said Katz.

On Friday the Hong Kong equity market fell to a three-and-a-half year low, while in the US the Dow Jones industrial average ended the week 285,27 points, or 3 percent, weaker at 8598,02. That is 739 points, or 7,9 percent, off its July 17 peak.

A strategist for a US investment house said many investors were becoming increasingly concerned that Asia's deepening slump would have a far greater effect on corporate profitability than had been previously thought.

"Many stocks remain expensive, even after this correction, and corporate profit growth is decelerating.

"Profits for companies in the Standard & Poor's 500 index grew 2,5 percent in the second quarter of this year, which is significantly down on the double-digit gains of previous years," he said.

All of this has contributed to global investor nervousness, and the JSE did not escape unharmed. The all share and industrial indices lost more than 5 percent on the week, and the financial index slumped 6,62 percent.

Equity dealers say they expect further weakness over this week as investor caution dominates world markets. But bond traders say the R150 could break below 16 percent again on active local institutional buying.

Low costs not alluring as foreigners ditch SA bonds

(7489)

Greta Steyn BD 28/8/98

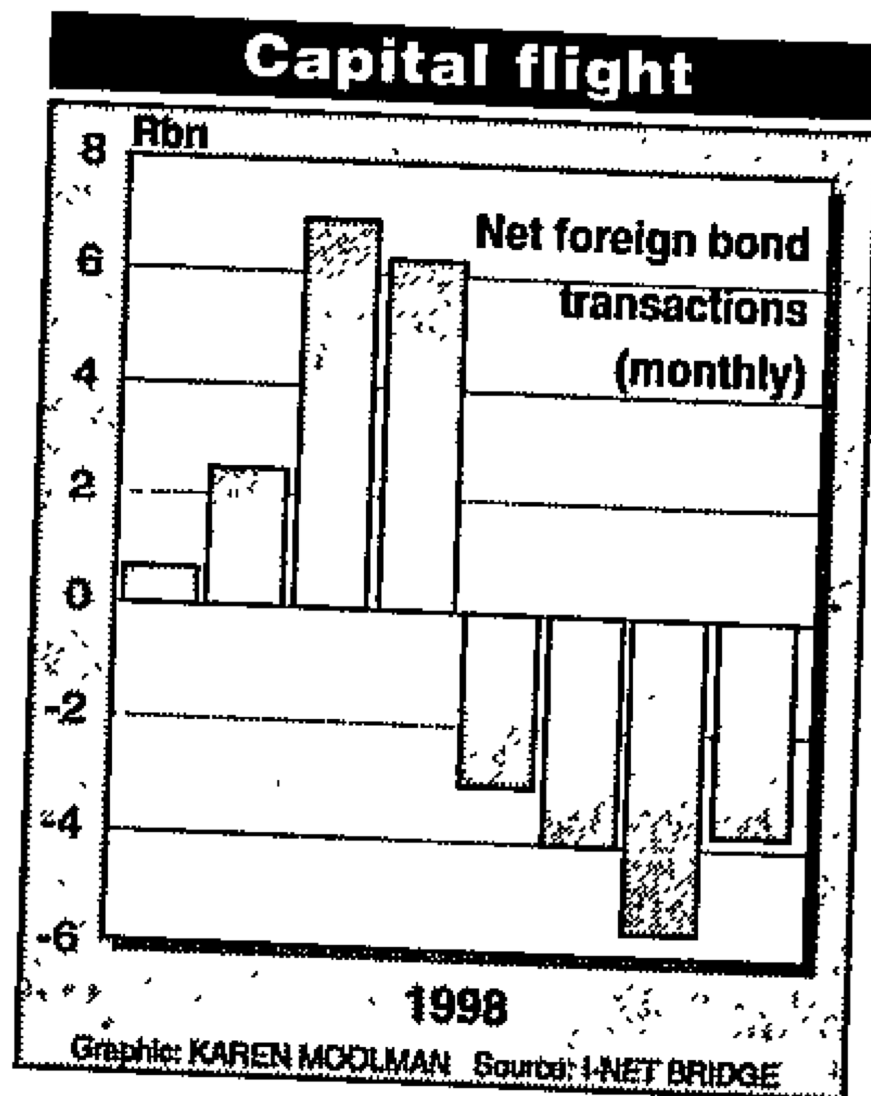
MORE than R16bn in SA bonds have been dumped by foreign investors since the market turmoil started in May, leaving net investment for the year thus far at almost zero.

Foreign selling has been a major reason behind the surge in the benchmark R150 yield to more than 20% yesterday. The SA bond market has been weakening in sympathy with other emerging bond markets.

Yesterday's 135 basis point increase in SA bond yields followed a 100 point rise in the spread between JP Morgan's Emerging Markets Bond Index (EMBI) and US treasuries.

The latest available spread between the EMBI and treasuries was 1 400 basis points — more than double the gap at the beginning of the year. The EMBI comprises mainly Latin American Brady bonds, but also includes European sovereigns such as Russia and Poland.

"The local bond market tends to follow the EMBI more in times of crisis, when the fundamentals take a back seat," said JP Morgan bond analyst Maarten Zuurmond. Based on the fundamentals, with SA's inflation rate likely to remain



Graphic: KAREN MOOLMAN Source: I-NET BRIDGE

in single digits, SA bonds were cheap. However buyers would stay out of the market until calm had returned.

Government has responded to bond market weakness by issuing less stock next week. Equisec economist Dawie Roodt said government wanted to curtail the supply of stock while sentiment was weak.

As government had huge interest and loan redemption payments coming up, it would probably need to borrow heavily in the short-term debt market to make up for holding back in the capital market. Short-term interest rates were also high, but government would avoid locking into high interest rates in the long run if it borrowed at the short end of the market, Roodt said.

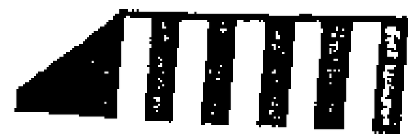
The rand's plunge in May set off a vicious circle of bond sales and renewed currency weakness, with bond exchange figures showing that the capital that flooded into SA in the first four months of the year poured out just as swiftly.

Foreign buying of SA bonds peaked at R6,2bn in April, when benchmark bond yields touched a best level of 12,36%. In May, foreigners turned net sellers, getting rid of an average of about R4bn in bonds per month. Interestingly, foreigners have remained net buyers of equities, with the latest figures showing net buying of more than R500m so far this month.

Some analysts questioned whether there was much scope for further foreign bond sales now that the net investment for the year had in effect been liquidated.

Others, though, said that foreign speculators would go on taking short positions in the SA bond market, and bond holdings built up in past years could also be sold as investors dumped emerging market assets and fled to quality.

ST 30/8/98 (74B)



SUNDAY MORNING ASSESSMENT / DAVID BULLARD

What hit SA markets?

South Africa's hostile environment puts off foreign investors

ISN'T it funny how one can go off capitalism? The past week's meltdown in financial markets eclipsed anything that went before, including 1987 when world equity markets collapsed.

As far as the foreign exchange and government debt (bond) markets are concerned, we are now wandering around in no-man's land. Both hit new lows on Friday.

The share market is merely blowing off steam. Some share prices are simply becoming rather more realistic, a move that many feel is long overdue.

Particularly affected were trendy information technology and financial services shares that had become the staple diet of discerning investors looking for a fast buck. Most were hideously overpriced. They were due for a fall. The fact that most are coming off an unrealistically high price probably makes things look worse than they really are.

During the past few months, we have been living in a fool's paradise where one of the few guarantees of instant wealth was to list your company in a fashionable sector on the stock exchange, get a few pliable fund managers to subscribe for your shares and sit back to watch your worth soar overnight.

In the euphoria, many investors forgot that "illusory" wealth was being created. Illusions are apt to fade.

To illustrate: even with global demand for a revolutionary product called Viagra, pharmaceutical giant Pfizer trades on a price/earnings (PE) ratio of only 53. With this traditional measure of a share's value, a lower ratio represents a lower market rating.

It is the number of years (53) you must wait before recouping in annual earnings what you have paid for the share.

Some of our more recent new issues have price/earnings ratios in the hundreds, despite the fact that the company has no actual product but is investing in "intellectual capital".

That is a new listing buzzword. It means the company only employs brilliant minds. The problem with brilliant minds is that they leave and start their own companies or emigrate. Sometimes they turn out to be not so brilliant.

As an asset, they are not particularly tangible; certainly not enough to justify a PE of several hundred. The more sedate equities (they used to be called blue chips) may not have hit the dizzy heights of the new kids on the block, but they will also be affected by a global selloff in shares. The difference here is that fund managers may have become more conservative, and will be looking to balance their portfolios with quality shares if they believe they look cheap.

Currency and bond markets are a rather different matter. While nobody is too surprised that the rand hit new lows this week, the market in government debt perplexed everyone. The rate on the seven-year R150 bond touched 21,7 percent on Friday. Most market analysts would have thought that impossible a few months ago. Even during the debt standstill in the mid '80s rates did not go above 19 percent.

Bear in mind that only four months ago practically everybody (including the Department of Finance) was confidently predicting that the rate at year-end would be somewhere between 10,5 percent and 11,5 percent, and you will begin to understand the gravity of the situation. The market is 10 percent higher than it should be. That adds a lot to the cost of government borrowing, and will undermine this year's Budget.

Various reasons have been touted for the chaotic market conditions, but it is too simplistic to lay the blame for our woes on emerging market fallout from Russia. The fact is that this country remains hostile to foreign investment.

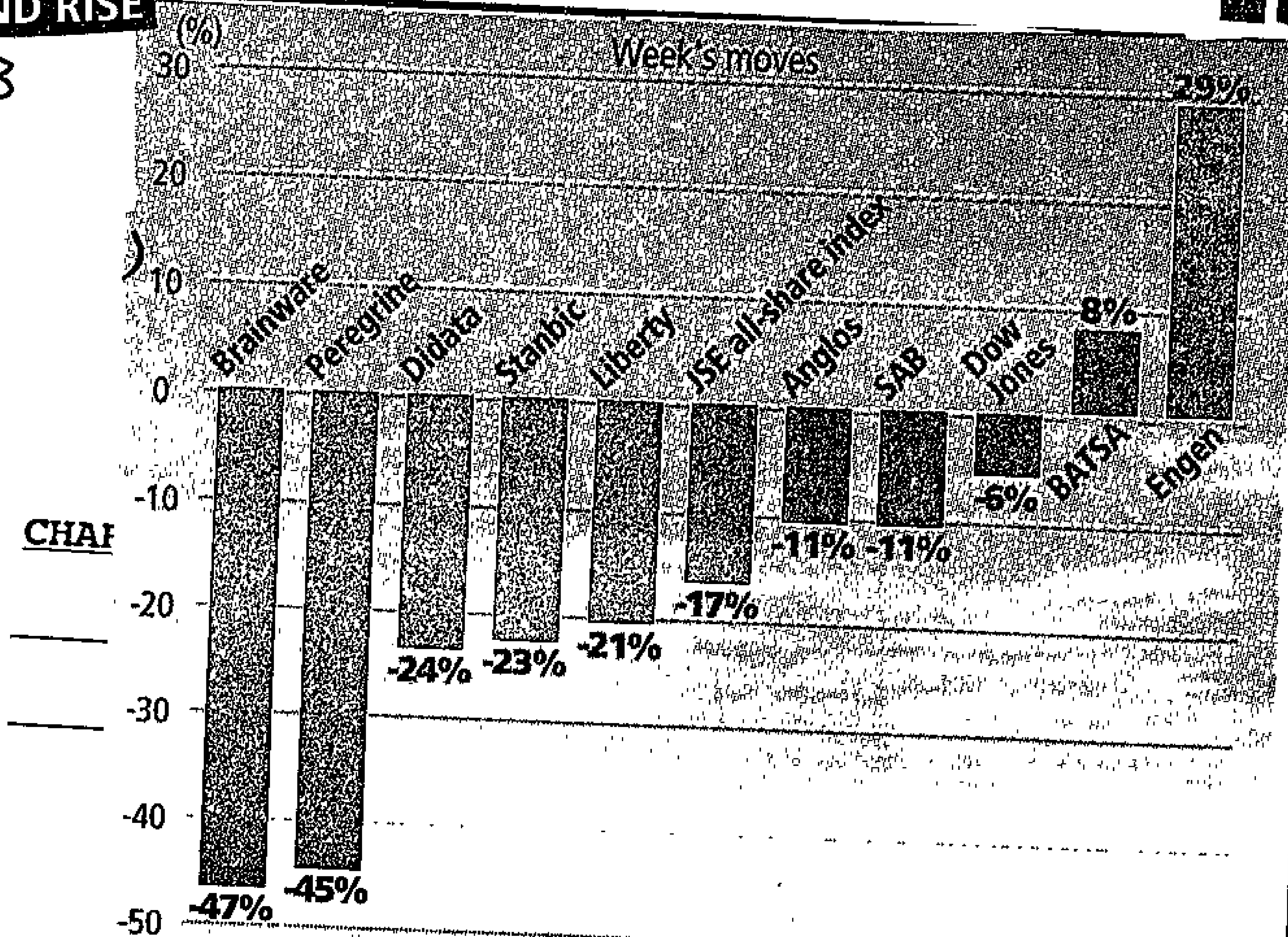
Although we are repeatedly told that we cannot be compared to Russia and that economic fundamentals remain positive in South Africa, that is either not true or the story is not convincing enough to be swallowed by foreign investors. We have historically high interest rates which we need to protect the currency. On the other hand, high interest rates kill economic growth.

The root cause of our problem is the hostile economic environment we offer foreign investors — companies that may have been considering setting up in South Africa and creating jobs.

Our Employment Bill, if it becomes law, will dictate to companies how they should be run and who they may employ. The government's Gear policy is in tatters, and we have an extremely militant labour force. Add to that rampant corruption, widespread crime and election uncertainty and one has a recipe for further disaster. Can things get worse? Yes, if we let them.

ST 30/8/98 (74B)

SEE HOW THEY FALL . . . AND RISE



AMONG this week's biggest losers were two of 1998's highest flyers, Brainware and Peregrine.

Brainware listed in January at an issue price of R1, rose to R5,84 and closed the week at R1,09. Peregrine was issued in June at R2,50, rose to R29 and closed the week at R14,90.

Losses on more established stocks such as Anglos, Liberty and SAB were more limited, as none had risen quite so dramatically this year.

Batsa and Engen proved the exceptions, with Batsa rising after strong results and a chunky special dividend and Engen gaining 29 percent on news of a takeover offer from Malaysia's Petronas at R23 a share.

SA needs internal 'immune system'

ARG 3/8/98 C74B

Foreign investors bring opportunities, not threats, says KEN ANDREW, Democratic Party MP and chairman of the portfolio committee on public accounts

Seeing the proliferation of giant, golden McDonald's "M" signs around the country as a symbol of some global capitalist plot is to miss the point of the relationship between foreign direct investment and the economic empowerment of all South Africans.

In "Caught in a world of uncertainty: upliftment debate misses the point that SA is hostage to global forces" (Cape Argus, August 21), Zubeida Jaffer reports on a debate on economic empowerment in Parliament.

Opposition parties are accused of being predictably negative about economic prospects, while the African National Congress claims to be doing a sterling job of uplifting the poor in difficult global circumstances. South Africa's economic woes are seen as symptoms of a foreign, Asian flu.

The currency crisis in developing markets is taken as a sign that economic globalisation is the "world's newest dictator".

The Democratic Party is certainly not negative about our economic prospects – our range of policy proposals for eliminating poverty in South Africa are a positive contribution to the problem and have been spelled out repeatedly in parliamentary debates.

But we are realistic. Unlike the ANC, the DP refuses to bury its head in the sand when it comes to meeting the challenge of global competition.

It is true that some of our problems are not of our own making.

It is also true that we live in a rough, tough world and sometimes countries such as ours are judged unfairly. But insisting that South Africa's "economic fundamentals" are sound and that we are merely victims of ruthless currency speculators is avoiding the uncomfortable truth that our economy is sending out some very negative signals to foreign investors.

Globalisation is an impersonal game, which offers carrot and stick.

The carrot is the competitive advantage offered to countries that heed its best practices. The stick is carried by the world financial markets, which function as an implacable enforcer of macro-economic prudence – imperfectly, but ruthlessly nevertheless.

Nowhere is this more apparent than in Europe – where the Asian flu has laid Russia's economy out on its death bed, while the fitter economies of Europe have been largely unaffected.

Time magazine journalist James Graff comments that the fall of the rouble would have had a substantial effect on the rest of Central Europe six or seven years ago.

The fact that it hasn't done so now shows how deep the economic restructuring of countries like the Czech Republic and Poland has been.

The lesson for South Africa is that we need a strong internal "immune system" to survive and thrive in the global economy. We need bold initiatives from government to demonstrate that we have the confidence, determination and courage to overcome our problems.

The DP recommends four steps:

- A renewed and enthusiastic commitment to GEAR as an integrated package.
- The abolition of exchange control.
- An accelerated and comprehensive programme of privatisation.
- The introduction of greater labour market flexibility, even if only for a specific period.

Whether we like it or not, South Africa has to find ways to turn the reality of globalisation to its advantage.

Let us recognise that foreign direct investment is critical – without it our economy is doomed to continuing mediocre performance, at best. Why? Because:

- For job creation we need economic growth.
- For economic growth we need investment.
- For investment we need domestic savings and foreign direct investment.

South Africa does not have enough domestic savings, so without foreign direct investment we will not have sustainable job creation.

Far from trying to "impose checks" on foreign companies, we should be actively promoting South Africa as an investment destination. Successful developing countries in Latin America, like South Africa in the three decades after World War 2, have relied heavily on foreign direct investment to sustain their high growth rates. These countries have developed detailed plans for it.

The DP proposes that special teams be formed to promote South Africa actively as an investment destination. High-level involvement of the private sector should be a top priority.

Closer co-operation between the departments of Trade and Industry, Tourism, Foreign Affairs, Finance, Land Affairs and Agriculture is needed for this promotion to succeed.

A ministerial cluster team – similar to that which manages the National Crime Prevention Strategy – should be formed to co-ordinate foreign and trade policy. It is the least the Government can do to show that economic growth, like solving crime, is its priority.

Our Office for Serious Economic Offences and the Heath Commission, while hanging out some embarrassingly dirty laundry, is sending a strong message to South Africans and the world that we're washing corruption out of our society.

It is worth noting that it is not Americans but South Africans who are working at MacDonald's, Planet Hollywood and other US franchises here. Cape Town, and South Africa, needs these jobs for economic empowerment.

The last thing we want to do is chase foreign investors away.

Trust the doctor to kill the patient

ET(MR) 11/9/98 (74B)

MATT GETZ

It's time to set the record straight. Lately, everybody and their dog have been berating the South African government for its supposedly rotten record — with investors, ratings agencies and world bodies which should know better raising a chorus of disapproval at the government's tactics and strategy and the future of the country.

First, Moody's, the international ratings agency, said it was placing this country's credit rating on a negative watch owing to the slow pace of free market reforms, the weak implementation of Gear and an inflexible labour market.

S&P's DRI, a risk consultancy, then said South Africa was the second riskiest of 10 largest emerging markets — including Indonesia.

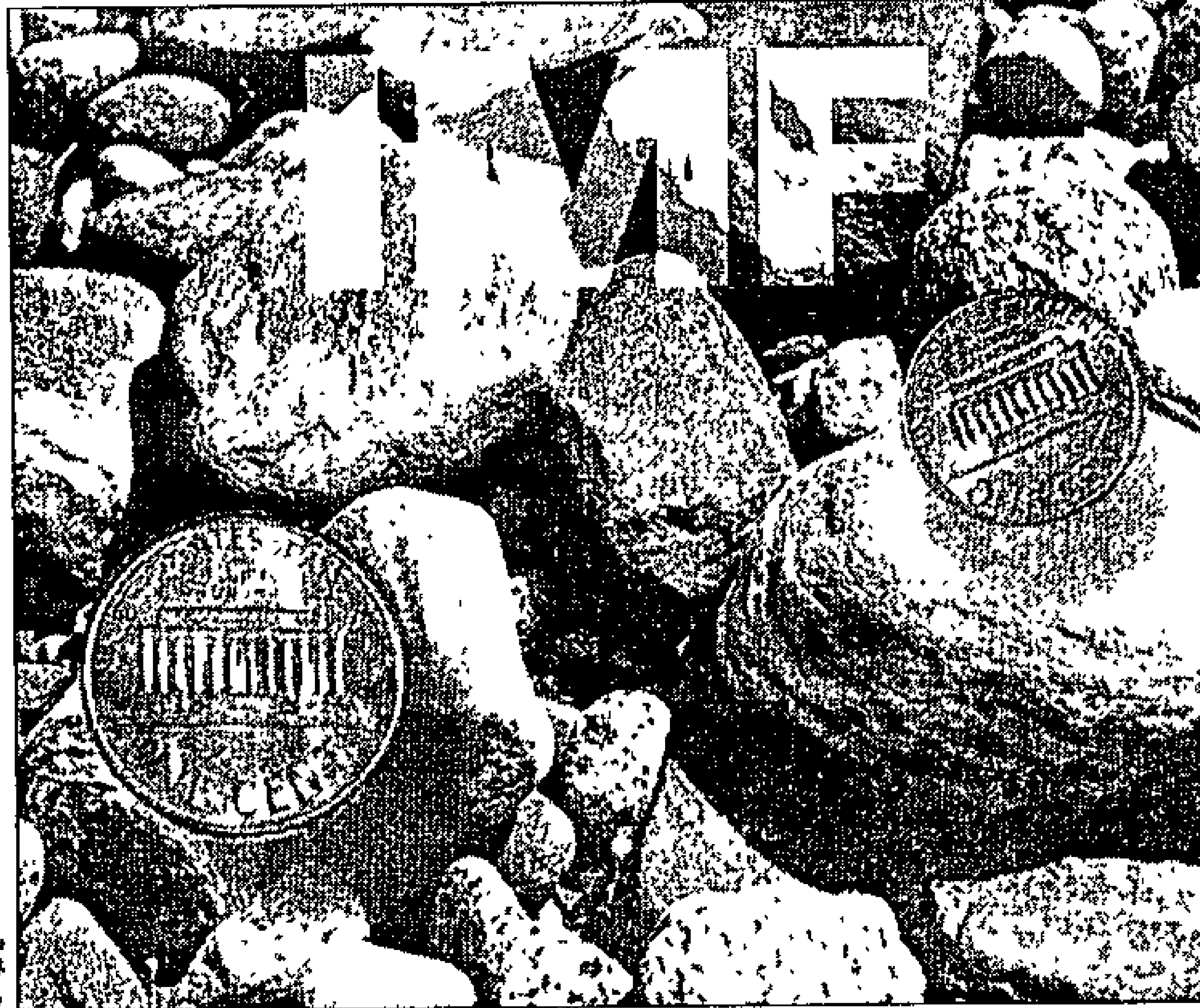
In a September 2 release (from a July 17 meeting), the International Monetary Fund (IMF) slammed the Reserve Bank's futile use of reserves to protect the rand. While giving words of encouragement, it was critical of much fiscal activity. "Measures aimed at enhancing labour market flexibility," it said, "needed to be implemented soon.

"On privatisation, (IMF) directors were encouraged that a genuine start had been made, but saw significant room for a bolder approach."

Earlier this week, David Roche of London-based Independent Strategy wrote a damning article in the Wall Street Journal.

"The right policies are the tough ones: deregulate labour markets, allow wages to fall and the return on investment to rise while maintaining a stable rand," he said.

The article, however, contains errors and a few highly questionable pieces of reasoning. Roche says, for example, that poverty has worsened "despite efforts to run a prudent fiscal and monetary policy". Common sense tells us prudent fiscal policy, which cuts down government spending, and prudent monetary policy, which raises interest rates, would make people poorer in the short term — even on orthodox neo-liberal economic reasoning.



Are these criticisms valid?

Basically, South Africa, a country struggling with one of the greatest political transitions of the century, is being pilloried for not being enough like the UK and the US. Note that nobody wants us to be like France, where farmers are protected and the state has a heavy hand in industry, or Sweden, which gives state support from the cradle to the grave or Germany, where workers have become prosperous through strict labour laws.

We are asked to follow the selfsame recipe the IMF has been prescribing to the Third World for more than 20 years, giving countries money for pursuing the "right" policies through such wonderful instruments as the enhanced structural adjustment facility, which has about as much meaning as its name suggests.

Despite the objections, South Africa has actually gone quite a long way towards fulfilling the IMF's objectives. Privatisation, though seemingly slow and tortuous, has actually progressed pretty quickly given our unique politico-economic situation. Tariffs, though still high, have been slashed. The budget deficit has come down from almost 12 percent of gross domestic product to 4 percent — comparable to the US in the 1980s, very favourable in terms of the Third World and in fact better even than some members of the European Union.

Not far enough, cry neo-liberals and outside investors.

The problem is they think in line with the World Bank and IMF, which came into being in 1944 as ahistorical institutions, and which tend to ignore history.

Do people remember that not that long ago 40 percent of employed South Africans received their paycheque from the state? That we had negative real interest rates in the 1980s? That in 1987 Anglo American controlled 60 percent of the stockmarket? And that we had among the most inequitable labour laws in the world? Can all of that change overnight?

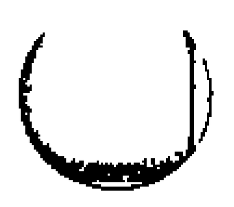
In fact, are IMF policies really the way to go?

No less a personality than Joseph Stieglitz, the World Bank's senior economist, said recently that those policies may do more harm than good. African countries are worse off than they were in the 1970s, as are some South American ones.

Yes, said the neo-liberals, but look at the Asian Tigers. Exactly. Indonesia and China cannot feed their populations and Malaysia's economy is shrinking at the rate of knots. The countries' long-pursued policies of cheap labour at inhuman conditions (think of Nike factories in Vietnam) means the majority of the populations, despite constant promises that the nation would eventually be rich enough to make them all rich, are as poor as ever, with prospects becoming rapidly worse.

In 1996, historian Eric Hobsbawm pinpointed what lay behind the IMF's agenda: "The trouble was that, since the 1970s, the World Bank and the IMF, politically backed by the US, had pursued a policy systematically favouring free-market orthodoxy, private enterprise and global free trade, which suited the late 20th-century US economy as well as it had the mid-19th century British one, but not necessarily the world. If global decision-making was to realise its potential, such policies would have to be changed. This did not look an immediate prospect."

Clearly, implementing IMF directives pell-mell without regard for the consequences is no answer. But as long as the world is run by supranational investors, who put their money where the return is best, and damn the ethics, we may have no other choice.



US turns negative on inflexible SA market

ST(BT) 13/9/98

But a research group has found that US businesses still plan to invest in SA this year, writes CHARMAIN NAIDOO from New York

(74B)

A WASHINGTON research consultancy says US businesses have turned increasingly negative about SA in the past year amid concern about management of economic policy, labour productivity, labour relations, crime and violence.

The findings are contained in a report by the independent Investor Responsibility Research Centre, which surveyed 343 company executives in the US between April and August.

Respondents from all sectors of business, industry and mining said they would like to see various changes to the SA economy, including:

- An end to exchange controls.
- A revision of the draft Employment Equity Bill.
- Implementation of measures to combat crime and violence, including reform in the judiciary and police.
- Scrapping the Medicines Act, passed earlier this year
- Stepping up efforts towards privatisation.

As in their responses last year, top company executives called for an end to exchange controls as the single most crucial change they want the SA government to make.

The majority of manufacturer investors recommended that the government revise the Employment Equity Bill.

Peter DeSimone, author of the survey, conducted between April and August this year, said the response of US executives was "noticeably more negative".

The survey was conducted at a time when SA was receiving mixed reviews from ratings agencies and undergoing a currency crisis, DeSimone said, adding that news of Tito Mboweni's appointment to the Reserve Bank filtered through during the survey period.

He says all this may have contributed to the shift in perceptions in 1998. "Foreign companies, for the first time since the IRRC began conducting its annual perceptions survey in 1996, rated economic conditions this year worse than last. The respondents were also more likely in 1998 to rate the state of the economy as poor or satisfactory than in years past."

However, a slightly higher percentage of respondents said they planned to invest in SA in 1998.

DeSimone says: "Although executives are expressing greater concern about doing business in SA, slightly more than 40% of the responding companies said they had plans to make investments this year, virtually unchanged from the 39% answering affirmatively to the question in 1997 and 1996."

He says the question does not ask respondents to detail the size of their planned investments, so the level could well decrease this year from past years.

A number of pharmaceutical companies raised concerns over the Medicines Act since, in their view, it enables the SA government to infringe on trademarks. The Act prompted the US trade representative to place South Africa on its intellectual property watchlist last month. However, sources in the US argue that the SA government is not going to violate intellectual property rights through parallel imports, since the same registered brandings will be procured internationally at cheaper prices.

Of the companies that already have direct ties with SA, 51% said they were likely to make investments in SA in 1998, up from 48% in 1997 and on a par with 1996.

Significantly, 14% of companies with non-equity ties to SA said they would establish a direct presence this year, up from 11% in 1997.

"Given the global economic malaise besetting most emerging markets, one might have predicted that SA would have fared about the same this year as last in ratings comparing it to its economic peers." However, respondents' rankings for SA in comparison with other emerging markets dropped this year for several reasons, including policy management; labour productivity; labour relations; crime and violence; competition law; currency stability; social cohesion; rural electrification; taxes on donations; and telecommunications deregulation.

SA losing the battle for foreign investment, survey says

(74B) BD 15/9/98

Simon Barber

WASHINGTON — SA is losing ground in the competition between emerging markets for foreign direct investment, says the annual "perceptions" survey of multinational companies active in the country.

The survey is conducted by the Washington-based Investor Responsibility Research Centre. Senior executives from the 343 US, European and Asian firms which responded voiced growing "consternation" over the quality of government's economic management and with the productivity of SA workers, survey director Peter DeSimone said.

He said the timing of the survey — conducted between April and August, when the rand was under heavy pressure, growth was slowing and the news that Labour Minister Tito Mboweni was to succeed Chris Stals as Reserve Bank chief was generating uncertainty — may have contributed to the negative shift in perceptions since last year.

Forty percent of respondents planned investments in SA this year, almost exactly the same as last year. DeSimone said no conclusions could be drawn about the size of investments as companies were not asked to detail their plans.

A year ago 48% of respondents thought SA's economic management compared favourably with that of other emerging markets. That figure was now down to 26%, while the proportion who considered the SA authorities were doing a worse job than their counterparts elsewhere rose from 11% to 15%.

A narrow majority (51%) rated SA labour productivity worse than that of other emerging markets — up from 37% in 1997. Forty-one percent gave SA labour relations a "worse" rating, compared with 34% a year ago.

In spite of this, when asked what regulatory changes they would most like to see, the most common response (48%) was the elimination of exchange controls.

In contrast, only 19% cited amendments to the draft employment equity bill as their most pressing wish. Judicial and police reforms to reduce crime and violence were cited by 9%.

Of the firms which responded, 244 had employees in SA's 108 000 all-told agreements. Eighty-seven percent of those who gave priority to changes in the employment bill were "large employers", DeSimone said, with work forces numbering more than 400.

Bearing out frustrations expressed to Trade and Industry Minister Alec Erwin by the US-SA Business Council, US firms proved to be the least likely to say they planned investments in SA this year.

Of the major foreign investors in SA, 96% of German firms, 89% of Swiss firms and 53% of UK firms had near-term investment plans, but only 35% of US companies, compared with 45% a year ago.

By sector, foreign firms with the greatest propensity to invest this year were mining and manufacturing concerns. All nine mining companies who responded, and 59% of manufacturers, said they planned investments.

DeSimone sent questionnaires to 1 800 multinationals tracked by the research centre's corporate-funded SA service. About a third responded to sections dealing with their current operations. The 343 who answered the "perceptions" questions "closely mirrored the profile of all foreign firms doing business in SA".

Direct investment may be growing, but so is pessimism

Foreign firms like SA less

CT (BR) 15/9/98 (74 B)

MATT GETZ
MARKETS EDITOR

Johannesburg — Foreign direct investment in South Africa should be stronger this year than in 1997, but foreign firms are becoming more negative about the government and the economy, a recently released survey shows.

The 20-year-old Southern African service of the US-based Investor Responsibility Research Center polled more than 2 000 companies which either have business in South Africa or export to the country. The largest number, 751, were US companies, followed by 288 from Britain and 245 from Germany.

Since last year, perceptions of the country have become much worse. Only 26 percent of respondents (down from 48 percent last year) said the government's policies were better than those of other emerging markets.

The percentage of those who said local policies were worse rose from 9 percent to 15 percent.

"They're not happy with exchange controls and believe they should be lifted at once," said Peter DeSimone, the manager of the Southern African service.

"They're also very unhappy with employment legislation, like the quotas in the Employment Equity Bill," he said.

"They think it will detract from foreign investment and will cut rather than raise jobs."

Indeed, labour is a problem: 51 percent (up from 37 percent) of respondents rated local labour less productive than elsewhere; 41 percent (up from 34 percent) said labour relations were worse here.

But only 19 percent saw revising the Employment Equity Bill as paramount; 48 percent thought getting rid of exchange controls was more important, though many economists have said an immediate removal would add to currency instability.

Despite the negatives, 40 percent of respondents — virtually unchanged from last year — said they planned to make investments here.

Mining and manufacturing firms were most likely to plan investments, especially in chemicals and transport, where firms have been aggressive investors for the past 13 years.

But there was a wide divergence by country of origin: only 35 percent of US firms intended investing, against 53 percent of British firms, 89 percent of Germans and 96 percent of Swiss.

"The US will still be a very large investor next year," said DeSimone. "That they are less likely to do so than the Europeans is a big change from years past."

Stripping out last year's sale of Telkom, worth about R5 billion, foreign direct investment in 1997 fell about 2 percent last year from 1996.

But DeSimone said it would probably be stronger this year: "We're watching the figures closely. But the year's not over yet."

Company News

JSE LIVE *Ilana Meyer, managing director of Interactive Investor SA (left), and Sherry Coutu, managing director of Interactive Investor International. Coutu says the new site will give investors ten times the information in a tenth of the time, at no cost* PHOTO SELWYN TAIT

JSE @ http://www.iii.co.za

CT (PR) 19/9/98

RENÉE BONORCHIS (655) (74B)

Johannesburg — A comprehensive investment and financial information website was launched in South Africa yesterday. Set up by Interactive Investor International (III), the site — http://www.iii.co.za — gives investors free access to live JSE prices for the first time in the country.

III's UK website has been rated by the Wall Street Journal as the top source of European financial information available on the Internet.

"Building on over three years of success in the UK and Asia, the SA site is expected to quickly attract a similar standing in South Africa," said Sherry Coutu, III's chairman.

All information on the site is free and includes news and information from thousands of sources. "Interactive Investor will become an essential site for those investing in South Africa. It allows investors to gather ten times the information in a tenth of the time, at no cost," Coutu said.

The site offers performance histories of over 6 000 offshore funds from 50 financial centres worldwide, full stock listings from the world's top six stock markets and a daily news summary of South African media. This uses Business Report as a prime source of information.

Swedish investors invade the Flats

ARG 19/9/98 (74b)

MOSES MTHETHELELI MACKAY

The Swedes are going where few South African businessmen have dared: they are targeting the Cape Flats townships for investment and tourism.

A group of 18 Swedes toured the Cape Flats this week looking for financial and tourism opportunities and went home confident that they could do business there.

They also discovered that townships like Khayelitsha were not as dangerous to visit as they had been led to believe.

One of the visitors, Niks-Ake Rehnström, said 18 top-level people involved in a management programme in Sweden had visited the Flats.

"We have seminars, projects and educational tours where we visit other cultures. We focus on management in a changing world. We decided to go to South Africa because it is a changing society."

He said the group had visited small and big companies, institutions and the townships.

He said the group would return to Sweden where they would promote tourism and investment in the Cape Flats townships.

Another visitor, Helena Lindblad, said she loved Cape Town because of its good wine and food. "It's an amazing place to visit."

Themba Mgobozi, the chairman of development at the Tygerberg Tourism Bureau, said he was excited about the visit because the potential investors came from different sectors of the Swedish economy.

He said the visit had dispelled negative perceptions of township life – they had even been warned in Sweden they would playing with their lives if they visited black townships.

The Swedes were shown the site, between the Graceland and Ekuphumleni residential areas in Khayelitsha, which has been earmarked for the development of a central business district.

They also visited Monwabisi beach, Makhaza informal settlement, a local community creche and the Look Out Hill at the corner of Merway and Spine Road, which has been earmarked as a tourist attraction.

"Our visitors were surprised and excited," said Mr Mgobozi.

"They said people were developing themselves in spite of scarce resources. They told us they would return to Khayelitsha in the near future. They see the visit as a beginning of things to come."

'Corruption Barometer' putting off investors

Star 23/9/98 (74B)

By Cecilia Russell
Political Staff

The ANC has accused the NP of sabotaging foreign investment in South Africa by sending its Corruption Barometer to foreign diplomats in the country.

Gauteng ANC MPL Mohamed Dangor said the NP's executive director, Renier Schoeman, had sent a letter with a copy of the corruption barometer to the Saudi Arabian ambassador just weeks before the country was to send a large and important trade delegation to South Africa.

The corruption barometer gave an assessment of the levels of corruption in the South African provincial and national government between 1994 and 1998.

Dangor said any investor would be put off when faced with the barometer, which was based on allegations, not proven cases of corruption.

"The only reason people would send this document to foreign diplomats is to destabilise the country. This will stop foreign investment and new jobs will be lost. This is unpatriotic," Dangor said.

Dangor said he intended to alert Deputy President Thabo Mbeki to the NP's actions.

But the NP has denied there was anything sinister in sending the barometer to the international community.

"The corruption barometer briefs the international community of the actual state of affairs in the country," spokesperson Daryl Swanepoel said.

Swanepoel agreed that some of the corruption cases had not yet been investigated but the report had made special note of these cases to distinguish them from those which had been proven.

He said Transparency International (South African sector) had already commended them for making a "first local attempt" to quantify corruption in the country.

The report had also dealt with policy initiatives suggested by the NP for dealing with corruption, he said.

About 140 Saudi businessmen are expected to fly into South Africa this week.

Arms deal conjures up investment billions

ST(BT)27/9/98(74B)

Government is projecting a counter-trade windfall of about R50-billion in the wake of an arms binge, writes HENRY LUDSKI

THE government is planning to turn its controversial R15-billion spending binge on arms into SA's biggest ever foreign investment windfall.

The value of the counter-trade expected to flow from the purchases was this week put at more than R50-billion by Shamin Shaikh, Defence Force chief of acquisitions.

It is also expected to create about 30 000 jobs in the manufacturing sector.

Shaikh said Defence Minister Joe Modise and Trade and Industry Minister Alec Erwin had set out to use the defence purchase to leverage foreign investment.

"It's been a good gamble by the two ministers which has paid off," said Shaikh.

Cabinet is expected to make a final decision next month on what will be the biggest purchase of foreign-made equipment to date.

The extent of the investment, which Shaikh says far exceeds SA's expectations, is expected to weigh heavily in favour of Cabinet giving the Defence Force's acquisition plan the go-ahead.

This week's stronger rand, coupled with political instability in southern Africa, are others factors which have strengthened the hand of the Defence Force, which considers the proposed procurements as its best shot at modernising SA's defence capability.

SA plans to buy three submarines, four corvettes, five maritime helicopters, 40 light utility helicopters, 38 advanced fighter aircraft, 24 trainer aircraft and 54 main battle tanks.

In return it is expecting the biggest injection of direct investment yet into the new SA.

The industrial participation deals on offer from the countries vying for the Defence Force contracts are expected to provide a boost to the beleaguered SA defence industry and industrial manufacturing sector.

Shaikh said the Defence Force had already made its final recommendations about which offers Cabinet should accept.

However, Trade and Industry was "fine tuning" the investment value of the industrial participation deals on offer.

In a significant departure from its original intention, government has steered clear of linking the industrial participation deals to social development programmes.

Instead, it has gone for a broad range of hard manufacturing industries focused on exports. These include stainless steels and titanium mills, the manufacture of clothing, textiles, jewellery, cellular phones, chemicals and commercial helicopters; automotive, electrical, satellite industry and aircraft engine components.

Shaikh said the industrial participating deals would "take care of the local defence industry" — 40% of the work and sourcing equipment would be done in SA.

Since arms manufacturers from shortlisted countries Britain, Canada, France, Sweden and Spain and Italy submitted their final offers about four months ago, the rand has lost about 20% relative to the dollar, the currency denomination of all procurement deals.

This, together with a slashed defence budget, has already led to the Defence Force substantially scaling down its force requirements and purchasing plans.

Shaikh said one of the purchases had already been dropped from the list of purchases being proposed to Cabinet, but refused to disclose what had been shelved.

Jakkie Cilliers, defence analyst, said many of the purchases the defence force proposed a year ago in terms of its "preferred force design option" had now become unaffordable. Although the industrial participation deals were legally binding agreements, figures about their investment value "had to be taken with a pinch of salt".

The industrial participation proposals on new investment, job creation, technology transfer and black economic empowerment were evaluated against a list of 22 priority areas compiled by the Department of Trade and Industry.

Companies were required to show how they would commit at least 50% of the value of the tender to the defence industry and the rest to non-defence industries.

Anglo quitting JSE after R58-bn merger

ARGUS CORRESPONDENT

Johannesburg – Mining giant Anglo American is to move to London and delist from the Johannesburg Stock Exchange after a dramatic R58-billion deal to merge with its offshore arm, Minorco, it was announced today.

It then will be a British company with a wholly-owned South African subsidiary, and its listing on the London Stock Exchange is expected to put it among the top 100 companies there.

But analysts are asking whether this will be good for South Africa, or whether it represents a vote of no confidence in the economy.

An Anglo spokesman said: "Dramatic political change, together with an easing of controls on capital, has led to this major step in bringing together the assets and resources of Anglo and Minorco. The structures and their geographic separation that have arisen as a result of South Africa's long political and financial isolation from the international community have proved increasingly complicated."

The new company, Anglo American PLC, will be the second largest mining group in

ARG 16/10/98

To page 2

Mining giant quitting JSE for London

From page 1

London, just behind Rio Tinto, and be about 40th in the prestigious FTSE 100 index.

Julian Ogilvie-Thompson, the present chairman of Anglo, will become the chairman of the new company.

Minorco's chief executive officer will become an executive director of Anglo American PLC.

The Anglo move comes after Billiton demerged from Gencor last year and moved to London.

Goldfields is also reported to be considering a move to London.

Old Mutual, the giant financial institution, and Sasol, the petrochemicals company, are similarly considering listing in London, although they would not be likely to move their headquarters to Britain.

South African companies are finding it increasingly difficult in Johannesburg to raise the money they need for expansion abroad.

They need to have a higher profile to compete with international giants based in Europe and the United States.

Anglo American shares fell by R13 on the Johannesburg Stock Exchange today as the company listed in London.

The shares opened at R184 from a close of R197 yesterday.

Bruce Williamson, an analyst at ING Barings Southern Africa, said the listing would not translate into rands and cents for the South African economy, but would allow Anglo to compete against the best players in world markets.

"Because of exchange controls, our companies can not compete internationally.

"Anglo can now continue to grow its business, and can look for exploration possibilities in other countries," he said.

Jobs trail behind foreign investment

Rich Mkhondo (74b)
WASHINGTON CORRESPONDENT

Washington, DC — South Africa had been making significant gains in attracting foreign direct investment (FDI), pulling in more than $7,17 billion last year alone, but rises in sales and assets were not matched by growth in employment, a survey said last week.

The Investor Responsibility Research Centre (IRRC) said in its survey of multinational business activity in South Africa that the country enjoyed a 14 percent increase in FDI over the 1996 level.

"However, in 1997, the level of foreign firms' re-investing earnings in South Africa, by far the largest component of South Africa's total FDI, fell for the first time since the country's ... elections in 1994," said Peter DeSimone, the IRRC's labour analyst.

"This shortfall was more than compensated in 1997 by a $2,76 billion surge in new inward investments," he said of the survey of 991 firms based in South Africa, conducted between April and August this year.

"But more than half of that can be attributed to a single megadeal, the $1,25 billion US-Malaysian bid for the partial privatisation of Telkom.

"Foreign firms, on average, saw their sales rise 8 percent and their assets 5 percent in 1997."

However, he said: "The increases in overall investment, sales and assets were not matched by growth in employment.

"Most foreign firms shed workers from their ranks last year, and the total number of employees at foreign firms in South Africa increased only slightly more than 1 percent."

Manufacturing firms were among the most over-represented and distribution companies the most under-represented by sector. Respondents from the UK and US were among the most over-represented by nationality, and German firms the most under-represented.

The largest asset growth occurred in the manufacturing, communications and transportation sectors.

The largest shift occurred in the communications and transportation sectors: those firms hold 31 percent of all assets owned by foreign firms in South Africa, compared with 19 percent in 1996.

Assets held by foreign manufacturing firms rose to 55 percent of the aggregate total in 1997 compared with 49 percent in 1996.

Foreign mining firms held only 7 percent of the total assets owned by multinational firms in South Africa, down significantly from 24 percent in 1996. — Independent Foreign Service

New Bill aims to provide a 'cleaner shop' for investors

PARLIAMENT on Friday approved legislation to clamp down on widespread insider trading in a move which the Government hopes will make the country's financial markets more attractive to international investors.

"The Bill will bring the prohibition on insider trading in this country on par with international legislation," deputy finance minister Gill Marcus told Parliament.

The Bill prohibits direct or indirect dealing by any person who knows they have inside information and also bans tipping off another person to influence their trading.

Ben Turok, a member of Parliament's finance committee, said the former apartheid state had fostered a kind of crony capitalism through the Broederbond.

"International investors are complaining all the time about the ethics in our own markets here," he said.

Totally delighted

Johannesburg Stock Exchange legal counsel Nicky Newton-King, said: "We're totally delighted. I definitely think this will make the markets more attractive. The cleaner our shop is, the better we look."

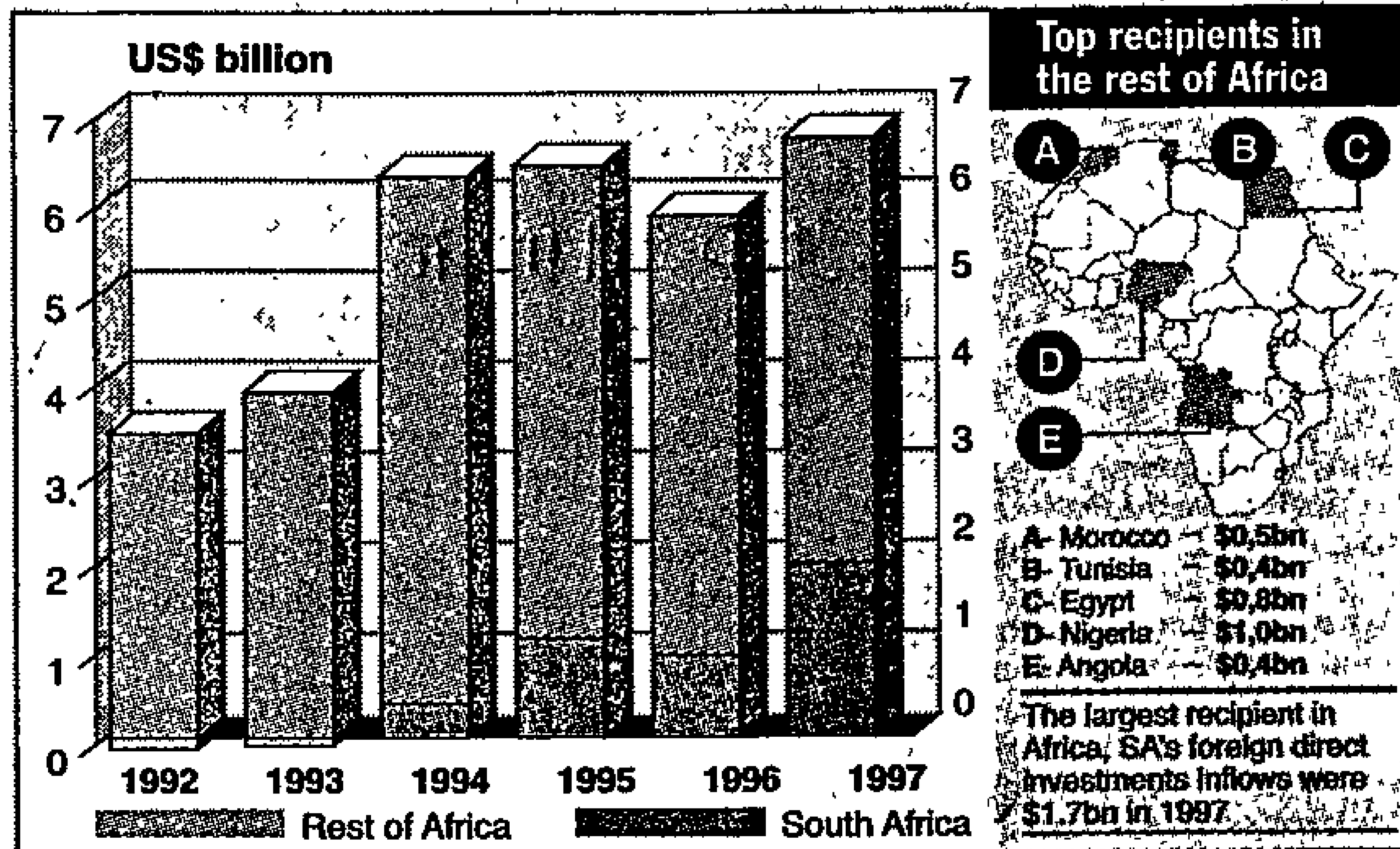
The Insider Trading Bill will cover all financial markets and instruments, rather than just equities as in current legislation, and will introduce the possibility of civil prosecution as well as criminal litigation.

Anyone convicted of a criminal offence under the new law will be liable to a fine of up to R2 million and imprisonment for up to 10 years.

The Financial Services Board will be the new regulator of insider trading. It will have investigative powers including the right to seize documents and ask questions.

The new legislation comes hot on the heels of the decision by financial group Gensec Asset Management to suspend one of its traders and launch an investigation into share price movements on the Johannesburg Stock Exchange.

SA gets bulk of foreign direct investment



MATTHYS MOSS / Sources: WORLD INVESTMENT REPORT/ IDC

Investment in SA doubles

BD 11/11/98 (74B)

John Dludlu

FOREIGN direct investment in SA more than doubled last year from $760m to $1,7bn, making it the largest recipient of foreign capital in Africa despite the Asian crisis, says a United Nations (UN) report.

The World Investment Report 1998, a survey by the UN Conference on Trade and Development (Unctad) of investment trends in the past year, says the increase in SA's rate of direct investment reflects inflows associated with a few privatisation-related deals.

Most inflows came from the UK, US, Malaysia, Germany and Japan.

SA transnationals accounted for $2,3bn in outward direct investment compared with just $57m the previous year.

Transnational corporations poured about $4,7bn worth of capital into Africa outside of SA (1996: $4,8bn). SA's corporate giants Sappi, SA Breweries and Barlow are on the list of top transnationals from developing countries.

Foreign direct investment to all countries rose 19% to $400bn.

Unctad secretary-general Rubens Ricupero said the Asian financial crisis did not seem to have greatly affected foreign direct investments or the further liberalisation of investment policies.

He said governments wishing to lure new investment faced new challenges. The traditional determinants of investment — including the need for access to markets as well as natural and other resources such as skills — were still crucial. However, "created assets" such as financial and physical assets (communication infrastructure or marketing networks) were playing an increasingly important role in investment.

Unctad said SA's inflows in the first half of this year were driven by privatisation, but might also have been the result of restructuring and unbundling of large SA conglomerates.

Foreign direct investment unrelated to privatisation seems to have decreased last year from 1996's levels.

The bulk of SA's investment fortunes, about 60% of total flows, was in the form of mergers and acquisitions.

Prospects: Page 3

Crime and gangs sink R3,2-m US venture

ARGUS CORRESPONDENT

Grahamstown – A large American company has pulled out of a multi-million-rand investment in Cape Town because of gangs, street children, crime and an unkempt business district.

Cape Town estate agent Len Pears said Los Angeles-based New Wave Incorporated was hours away from finalising an offer to lease 1 200m² of space in Strand Street.

But New Wave director Michael Criddle had lost confidence in the soundness of the CBD's business future.

Mr Pears said he had been working extensively with Mr Criddle since May to find accommodation to launch his company in South Africa.

The firm runs up-market cabaret and restaurant clubs and Cape Town was to have had the first of three sites in South Africa.

Mr Criddle was in Cape Town in October to sign contracts and finalise the opening, but had become disillusioned with the city's degradation and crime.

On November 8, he cancelled the project and returned home expressing concern about the city's future.

Mr Pears said the five-year lease for the premises had been worth about R3,2-million.

Mr Pears said the incident should serve as a serious wake-up call for Cape Town's city councillors and the Government.

"The Americans thought Cape Town was absolutely stunning and, from a tourist perspective, one of the most attractive cities in the world, but they were shocked at the depth of crime, the increase in street children, the filth in the streets and the increase in gang wars since they first visited in May."

Mr Pears said they intended to review the situation in 12 months, but had made it clear that any improvement would have to be substantial to attract their investment.

SA reaps the high cost of low confidence

CT (DR) 24/11/98 (74B)

AUSTER BULL

South Africa is thirsting for foreign cash to modernise its apartheid-disfigured economy and create the higher growth it needs to fight poverty and high unemployment.

The good news is that investment appears to be mounting, though slowly.

The bad news is that there is also evidence that foreign confidence has slipped, threatening vital long-term spending plans.

Worries about low productivity, militant labour unions, crippling local borrowing costs, sluggish growth and high crime levels have cooled the corporate enthusiasm that bloomed with President Nelson Mandela's historic 1994 election victory.

The findings of two surveys show a worrying fall in confidence, caused not least by perceptions that the ANC government is unable to deliver the changes it promised.

Foreign direct investment (FDI) is crucial to fill the gap between national savings and what South Africa needs to finance spending and investment, measured by the current and capital accounts.

Foreign capital invested in its bond and stock markets in early 1998 allowed the country easily to cover this funding shortfall.

But when emerging markets toppled, much of this money fled, particularly from the debt market, exposing South Africa and sending the rand into free fall.

South Africa attracted $1,7 billion in FDI in 1997, according to Reserve Bank data released in a UN world investment survey on November 10.

Lifted by privatisation proceeds, this doubles the level achieved in 1996 — not bad compared with the $4,7 billion attracted to the rest of sub-Saharan Africa last year.

But it is still too low, not least because some major South African companies are heading in the opposite direction to spread their earnings base — notably Anglo American, which will move its headquarters to London next year.

Foreign companies eager to do business with the government are circumspect in their criticism, voicing only muted concern over recent labour legislation, which they claim will raise the cost of doing business in South Africa.

But trade organisations pull no punches, saying South Africa is not doing enough to court foreign business.

The fifth annual survey by the German Chamber of Commerce found that German firms in the country rated South Africa's economic situation as worse than ever before.

Only 48 percent of the 168 respondents were positive in their assessment, compared with 86 percent last year.

"The full extent of the slump in confidence transpires when one compares the current results with those of the third survey (in May 1995)," the chamber said.

"In some areas the negative rating has more than doubled."

The private survey was conducted in July and August and put together in September.

Its findings echo the work of the Washington-based Investor Responsibility Research Center, which found that only 26 percent of its 343 respondents rated the government's performance above that of other emerging markets, versus 46 percent in 1996.

"These are worrying signs that US business is beginning to turn negative," said James Myers, the president of the American Chamber of Commerce in Johannesburg.

"We know of corporates who are turning down project proposals for South Africa.

"US companies are starting to ask, why invest in South Africa when there is no indication from the government that it is willing to discuss the issues."

Some firms, such as soft drinks company Coca-Cola, have posted strong regional sales growth and boast an extremely optimistic outlook.

Others quietly confess to grave doubts.

Dow Chemical has invested nearly $1 billion in South Africa in the last 24 months. It employs 3 000 people, building a business it hopes to use to export to the entire southern region.

Joaquin Schoch, who heads Dow's operation in South Africa, reckons the government is sincere in its efforts to implement change and is moving in the right direction.

His company remains on the acquisition trail — it has been linked to the planned unbundling of chemicals group AECI — and is generally optimistic.

But Schoch warns that there are areas of concern.

Far from the lucrative export markets of Europe, North America and Japan, South Africa badly needs local economic activity to support domestic demand and supplement the promise of selling to the rest of the region.

"South Africa's economic engine is beating a little too slowly," Schoch said.

Economic growth, officially forecast at just 0,2 percent of gross domestic product for fiscal 1998-99, is too weak. Violent crime is discouraging wealth creators from staying here.

More than one-third of the workforce is without formal employment, deepening poverty and fuelling the crime which is driving skilled South Africans — and their crucial savings — out of the country.

Schoch said he wished trade unions would adopt "a more pragmatic approach" in dealings with management.

Critics claim that labour has been slow to evolve from a revolutionary force forged in the anti-apartheid struggle.

"There is a tremendous waste of effort spent on political posturing between the unions," said one foreign company boss who declined to be identified.

"The movement here is like Europe during the late 1970s and early 1980s" — Reuters

NEWS

Foreigners upbeat despite GDP data

CT (BR) 30/11/98 (740)

PETER GALLI

New York — Foreign investor bullishness about the positive effects that Sanlam's demutualisation and listing would have on the South African economy went a long way towards offsetting the negativity that followed last week's release of worse than expected third quarter gross domestic product (GDP) figures, traders said at the weekend.

Mark Kalil, a dealer at Standard Securities New York, said: "Sanlam's listing has been very well received by US investors. They are confident that the demutualisation process, coupled with the increasing international expansion prospects for so many South African companies, will be most beneficial in the long term.

"It should also enhance liquidity on the JSE in the years to come and lead to far more dynamic market factors. The move away from the traditional market environment as South Africa becomes all the more globalised has been very well received by US investors."

A strategist at a New York investment house agreed, saying US fund managers were bullish about the effects the injection of cash would have on the economy after the listing.

"They expect the cash flowing from demutualisation to have a positive effect on private debt levels and to boost retail spending levels, resulting in a 'feel good' factor in the market," he said.

But GDP growth, which contracted 2,3 percent in the third quarter, surprising most analysts and economists, unnerved offshore investors. A salesman at a South African trading house based in New York said those figures were not well received.

"Investors are becoming increasingly concerned about the outlook for the economy and wary of those companies whose business is directly affected by the level of gross domestic fixed investment. The latest slowdown in GDP has not helped matters much," he said.

But Kalil was more upbeat, saying it was too early for concern. "While third-quarter GDP has contracted, it is necessary to wait for the next quarter's numbers before assessing their impact on the economy."

The salesman said the markets would be watching Wall Street and the repo rate closely this week for further direction.

The repo rate continued to fall last week, buoying talk that another interest rate cut could be on the cards. The release of October's money supply and private extension figures this week should give a clearer indication of just how likely that is.

The strategist said financial shares like Absa and Nedcor appeared to be back in favour with US investors, but there was reduced demand for SAB, the brewer, as speculation dragged on over its corporate restructuring and shareholding structure.

"There is also renewed nibbling at select retail stocks, particularly as interest rates are falling and demutualisation should result in a flurry of spending," he said.

Kalil said that he expected share prices to consolidate around current levels over the next few weeks, and the rand to trade between R5,60 and R5,80 to the dollar.

"The outlook for the year ahead looks positive. Given the upbeat investor mood towards emerging markets and the turnaround in US investor sentiment, we can look forward to an encouraging year-end and an upbeat new year," he said.

FOREIGN TRADE

- FOREIGN INVESTMENT -

~~Feb~~ 1999

UK firms recruited for SA export drive

Business Day Reporter (74G)

BD 11/2/99

THE Coventry Chamber of Commerce has recruited 20 British companies for a trade mission to SA, starting today and continuing until February 12.

The group, led by Mark Eaton, will visit Johannesburg, Cape Town and Durban.

Products and services promoted include education and training, business consultancy, light engineering, prefabricated assemblies for airports software, magazine publishing and cash-counting equipment. Representatives of conference organisers and trainers will also participate.

Eaton said the chamber's export-promotion activities would be specifically focused on SA for the period until 2001.

"The mission follows the chamber's tradition of backing companies keen to break into new export markets. Some delegates will be seeking joint venture partnerships."

□ For information, call Bernie Charles, British consulate-general, tel (011) 327 0015; fax (011) 327 0152.

to a weaker US dollar, pressure on liquidity and US financial markets, and a limit on the downtrend in US interest rates as the risk premiums demanded by global investors rise. These distortions should cause a rapid decline in US economic growth in 1999."

At that point, US — and therefore international — interest rates may start falling. But a failing US economy won't do the rest of the world any good while it waits for the effect of lower interest rates to kick in.

SA must attract a larger share of global resources. One major obstacle to growth is the ossification of the labour market. Two pieces of legislation, the Labour Relations Act and the Basic Conditions of Employment Act, have boosted wage and non-wage costs of production over the past two years. This has squeezed return on investment — a disincentive to investors. And it has forced large numbers of people out of jobs to accommodate the increased costs involved.

The effect has been a double whammy for the economy as demand for capital investment has added to the upward pressure on interest rates at the same time as it created unemployment.

As long as interest rates aren't going to work for the economy, political leaders will have to do the job instead. A new approach is needed urgently — to sweep SA out of its cyclical trough and on to a higher growth path.

Ethel Hazelhurst

FRUIT EXPORTS

CAPESPAN FEASTS ON THE RUSSIANS' APPETITE

SA to press its demands for tariff reforms in upcoming talks

Russia's winter has famously defeated the invasions of Napoleon and Hitler. But there's one invader the snow and cold have never been able to repel: fresh fruit. It cannot be grown in Russian orchards and hot-houses and must be imported from abroad. It is this appetite for fruit on which SA's leading fruit exporter is banking.

Capespan has ambitious plans for Russia as the main market for SA fruit in eastern Europe. It's a trade worth at least US$40m annually. To push beyond that, Capespan has started planning for a new state-of-the-art fruit terminal in St Petersburg port — an investment that may cost $30m.

The company's ambitions survived the serious setbacks of last year, when deregulated export marketing prompted SA fruit growers to flood western Europe to such an extent that prices collapsed. That binge cut volumes available to Capespan to trade to its eastern European buyers, says the company's former eastern Europe marketing manager, George T'Joens. "We should have kept our commitments in eastern Europe and predicted what happened," he says.

What might have been a windfall for price-conscious Russian buyers didn't turn out that way, because in mid-August, the Russian government abandoned the rouble, defaulted on its treasury bonds and drove the commercial banking system into bankruptcy. The import trade in fruit and most other foodstuffs virtually halted in Russia until November.

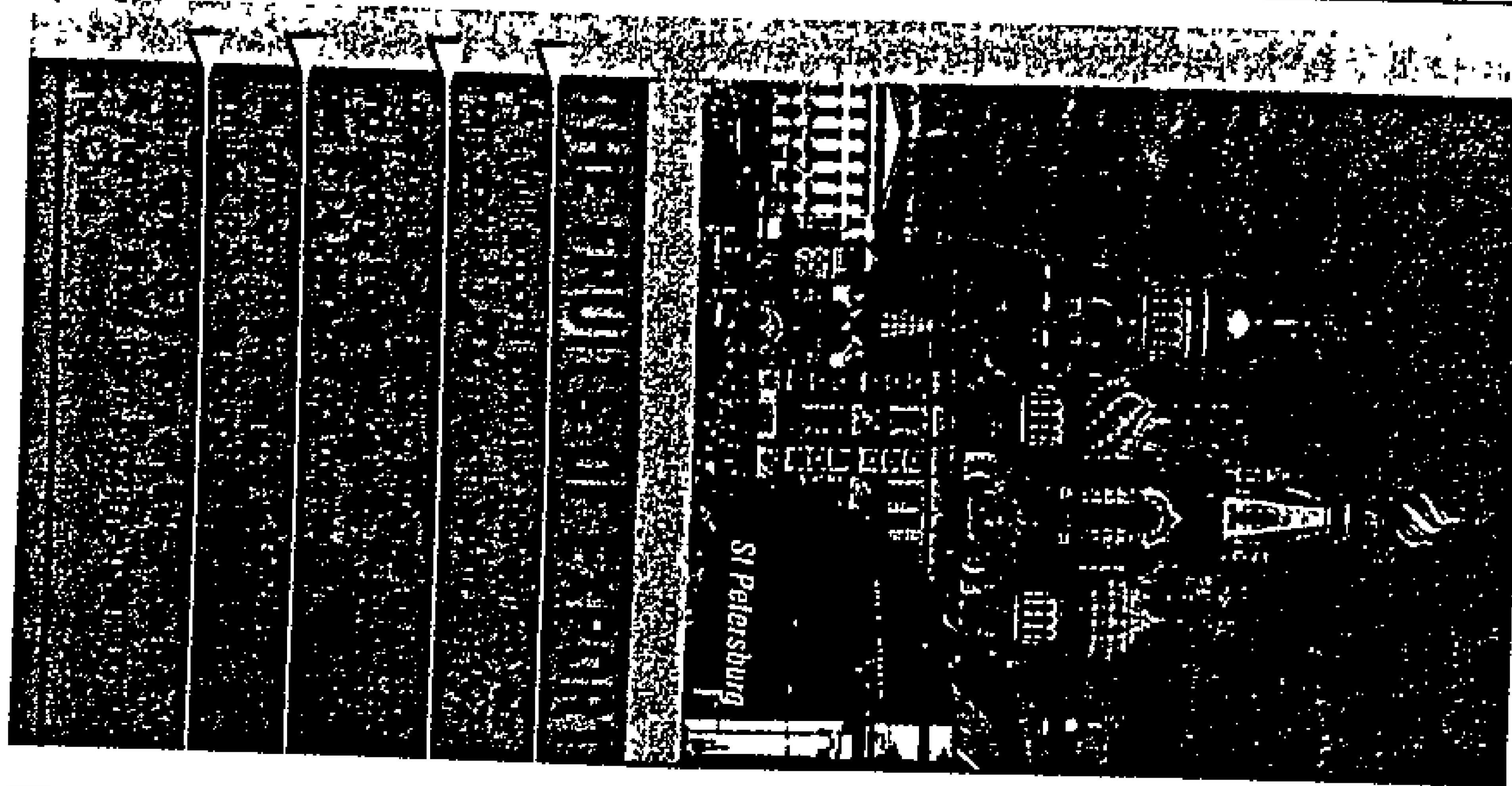
At its peak in 1997, Capespan sold 85 000 t of citrus, grapes, apples and pears worth about $40m to Russia. In 1998 its trade volume fell by almost half.

Capespan didn't lose money from defaulting buyers, as did many other traders, but the Russian crisis, followed by food price rises across the board, put a crimp in Russian consumer demand for fresh fruit.

Analysts are predicting stable demand for fruit in 1999, but with higher prices and sales revenue.

"This year we will work according to the circumstances," says a Capespan representative. "The grape season has started, and usually SA grapes sell well in Russia in February and March, when prices go down in western Europe. Apples and pears start in late March, and citrus in July. The buying capacity is less than before, but the market is normal."

Capespan ranks as SA's leading exporter to Russia, and leading trader with Russia, if one excludes sales of Russian diamonds to De Beers' Central Selling Organisation.


St Petersburg

To cover the possible shortfall of fruit volumes, because SA marketers operate independently, Capespan executives are also considering supplying Russia with other SA commodities, such as soya beans, sugar and meat.

To boost its long-term position in the Russian fruit market — which is already the largest consumer of SA fruit in eastern Europe — Capespan is resuming work on the St Petersburg terminal project it considered, and shelved, two years ago. The company already has its own terminals in the UK, Germany and the Netherlands. A terminal in Russia could cost $30m.

An investment of this size would lend bargaining power to SA's demand that the Russian government change its tariff policy and give SA fruit imports a fair chance to compete against imports from Brazil, Argentina and Chile.

Under Russia's current Generalised System of Preferences (GSP), the South American countries are classified as "developing", and pay only 75% of the import duty that SA, as a "developed" country, must pay on imports.

When Deputy President Thabo Mbeki visited Moscow last September, he asked that Russia change its GSP designations. The issue is high on the agenda of the first session of the SA-Russia intergovernment commission on economic co-operation, due to meet in a few months.

Unless Russia agrees to the change, Capespan may decide to postpone its terminal.

John Helmer, Moscow

DIAMOND EXPORTS

THAT GLEAMING WILL-O'-THE-WISP, IS IT TRULY FOREVER?

The answer to the issue could have far-reaching implications

The bust-up between De Beers and the government diamond valuator involves diamond sales worth R5,8bn/year and threatens De Beers' relationship with government.

De Beers has stopped exporting diamonds while it tries to resolve the dispute with the valuator. A task team set up by Mineral & Energy Affairs Minister Penuell Maduna to investigate the issue reported back to him last Friday. Copies of the report are being circulated to Cabinet Ministers and Maduna may make the outcome public on May 6.

The freeze on De Beers exports has lasted four weeks — a potential loss of about R480m (US$80m) in foreign exchange earnings. The hiatus also has implications for De Beers' partners in mines, such as Canadian junior mining company Southern Era, Anglovaal Mining and Industrial & Commercial Holdings (ICH).

Southern Era is De Beers' partner in the small Marsfontein mine De Beers is lending the company money to help it through the disruption in sales.

Anglovaal and ICH receive 50% of the profits from SA's largest diamond mine, Venetia, which last year accounted for 4,5m of the 9,7m carats produced by De Beers in SA. Their share of the profits is paid over half-yearly by De Beers.

Anglovaal MD Rick Menell says "so far there has been no effect on us and I believe this dispute will be settled quickly because it's far too important for the country and the industry to be allowed to continue".

The core of the dispute with government centres on what the price of a rough diamond should be. The short answer is: it's what De Beers wants it to be.

De Beers controls about 75% of the world diamond trade. It sets prices by controlling the amounts of diamonds it sells at the 10 "sights" held annually in London through the Central Selling Organisation (CSO). The long-term policy is to maintain stability and steadily raise prices in the diamond market.

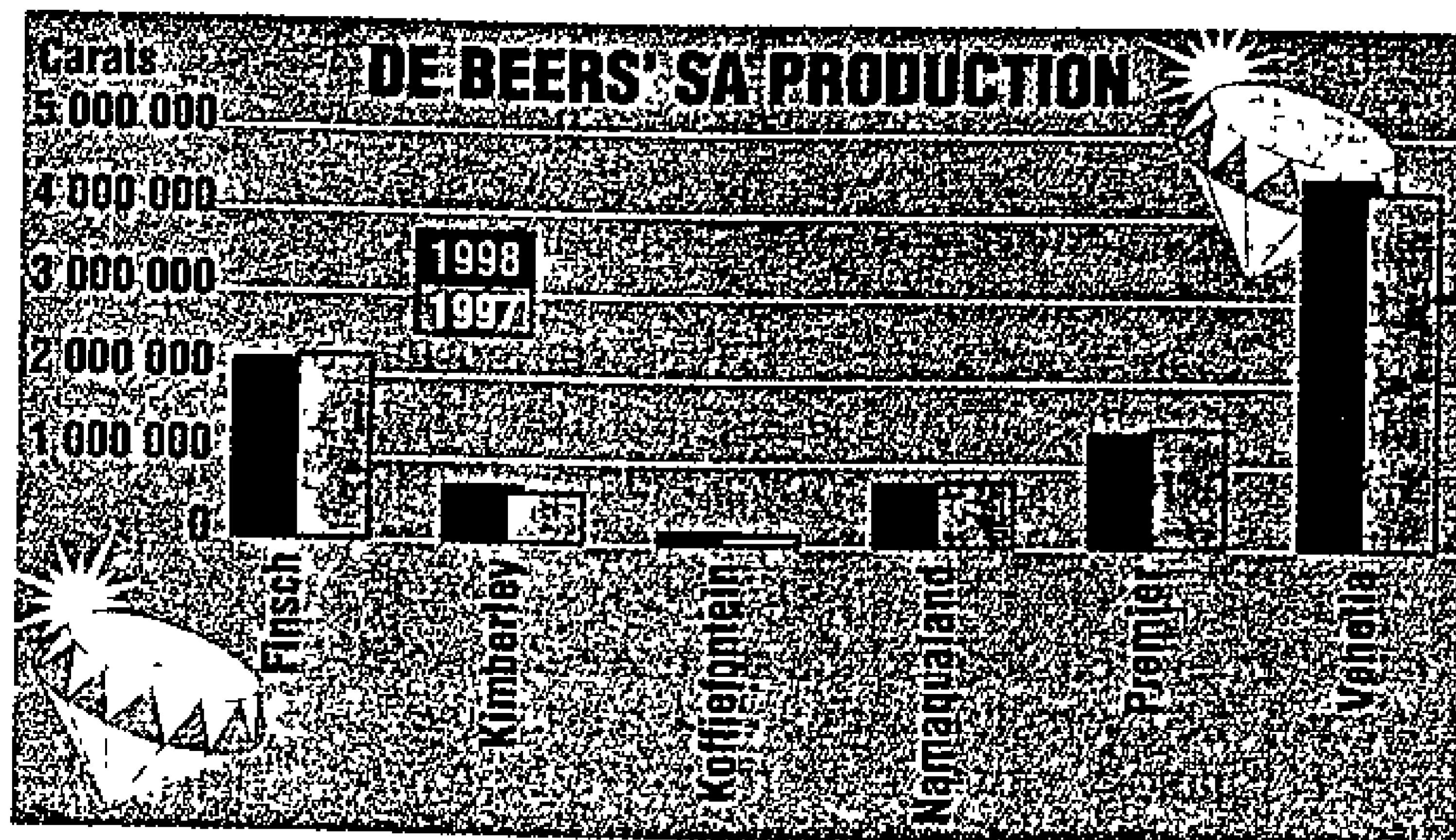
To do this, the CSO buys and stockpiles diamonds from its contracted producers when times are bad.

It will sell these surplus diamonds into the market at a later stage during boom conditions so as to prevent the price of diamonds rising too rapidly.

De Beers spokesman Tom Tweedy says the CSO's pricing structure is set "to ensure its clients will make money" and it charges a 10% fee for its services to the diamond producers.

The volume of diamonds sold by De Beers ultimately determines the price on the "open" diamond market in Antwerp, Belgium, where the new government diamond valuator, Claude Nobels, is headquartered. The previous valuator was SA firm Proval.

Tweedy says the job of the valuator is to agree on the sorting and grading of the diamonds, which then translates into standard CSO selling prices.



But SA Diamond Board CEO Victor Sibiya says the government valuator's role involves more than mere grading, and brings in the concept of fair market value.

The new valuator challenged the valuation of a parcel of Marsfontein diamonds, apparently because it was below the going Antwerp prices.

Barnard Jacobs Mellet diamond analyst James Allen says "the price in Antwerp at the moment is probably higher than the CSO list prices, but that's because the CSO is holding back diamonds from the market to support prices.

"Last year Antwerp prices were generally below the CSO list prices because there was a surplus of diamonds on the market. At the end of the day the price of a diamond is determined by the policy of the CSO, which is sitting on stocks worth $4,8bn (R30bn) at present," he says.

Implicit in the valuator's challenge is the allegation that De Beers could be indulging in transfer pricing by understating the value of diamonds exported from SA.

The allegation is not new. It has been made before in SA and Namibia and has consistently been rebuffed by De Beers.

De Beers does lay itself open to this kind of accusation because it is a cartel and the diamond industry, by its nature, is not transparent. You cannot open your daily paper and check the price of rough diamonds as you can with gold or platinum.

If transfer pricing has been taking place, it will have reduced the revenues reported and taxes paid by De Beers mines in SA, and allowed De Beers to take extra profits offshore through higher diamond prices set by the CSO.

Tweedy says this does not happen, because the revenues earned accrue to the SA mines only when the diamonds are sold by the CSO and the proceeds are then repatriated to SA, minus the 10% fee.

Other SA diamond producers like Trans Hex, Benguela Concessions and Ocean Diamond Mining (ODM) are not affected by the dispute because they do not sell through the CSO

Their production is either sold on tender in SA, or through Antwerp, and the foreign revenues are repatriated. Trans Hex operations director Peter Danchin says "we offer all our goods initially in SA on a tender system with a reserve price which is the going rate in Antwerp".

The dispute is embarrassing for De Beers and carries political overtones. Last year Maduna criticised the prices being received by State diamond company Alexkor, which sells through the CSO. In February the management contract for Alexkor was awarded not to De Beers but to the Nabera consortium.

De Beers had made a strong pitch for that contract and many analysts say it was by far the best-qualified bidder. Now the government valuator is challenging its pricing policy. You have to wonder is this mere coincidence or is De Beers being punished?

Brendan Ryan

Maduna to plug diamond export gap

(74G) CT(BR) 6/5/99

JONATHAN ROSENTHAL

Pretoria – Penuell Maduna, the mineral and energy affairs minister, said yesterday he would review diamond export agreements to ensure they were not being used for widescale evasion of a 15 percent export duty.

Under South African law, diamond exporters are obliged to pay a 15 percent export duty on rough diamond exports unless they can prove they first offered the diamonds at a fair price to the local cutting and toolmaking industry and failed to find buyers.

The exemption is intended to stimulate the domestic cutting industry.

But sources in the ministry said in practice exporters were largely ignorant of how the exemption law worked and assumed it allowed them to simply export tax-free, without first offering the diamonds to the domestic industry.

As a result, most of the country's exports of diamonds, worth an estimated $900 million to $1 billion a year, go untaxed. This costs the government up to $150 million in lost revenue.

"A healthy and prospering diamond industry should be as important to our country as it is to the shareholders of the companies directly involved in the industry.

"This, however, means that we, as government, must ensure the taxes, dues and fees are being paid by the industry," Maduna said.

He said if exporters were found to have misused the duty-free export provisions in the law, they could be faced with liabilities for unpaid tax.

"If indeed there is tax payable to the government they (the South African Revenue Service) will have to go into it," he said.

De Beers, the country's leading diamond producer, said it welcomed the review as it felt confident De Beers complied with the law.

Tracey Peterson, a De Beers spokesman, said the group facilitated the import of the high-grade diamonds that could be most profitably cut by the domestic industry.

Maduna also released the findings of an investigation into a dispute between the Government Diamond Valuator and De Beers over the alleged undervaluation of export diamonds. The dispute has halted diamond exports since mid April.

EAGLE EYE *Penuell Maduna, the mineral and energy affairs minister, is determined to stop evasion of export duty by the diamond industry and to see that taxes, dues and fees are paid*

Most SA wine exporters agree to pay levy

BD 7/6/99

Funds would be used for research, a market information system and promotion

Louise Cook

THE majority of SA's 150 wine exporters have for the first time agreed to pay a statutory levy on exports, industry sources say.

The purpose of the planned compulsory levy, which would be payable by law if an application to government succeeded, is to increase export volumes of SA wines through marketing and develop new US and eastern markets.

The chairman of the new wine industry trust, Michael Fridjhon, confirmed that the industry was applying to the agriculture ministry to set up statutory levies for research, a market information system and, for the first time, export promotion.

SA Wine and Spirit Exporters' Association chief Kim Green said no decision had been taken on whether the export levy would apply only to exporting producers, or all producers. "In a way, we (exporters) also serve the interests of producers who do not export, as domestic prices are maintained through exports."

This view was backed by Fridjhon, who said in the absence of a surplus removal scheme, exports worked against a glut on the local market. "I would not have a problem if the levy covered all producers," he said.

However, according to Green, the application may exclude nonexporters if there were signs of undue resistance from them.

The proposed levies for information and research are separate applications, but indications are that there would not be resistance as the money is being paid in terms of the legislation that lapses later this year.

Before levies can become legally binding, recommendations to the ministry are needed from the national agricultural marketing council and two parliamentary portfolio committees. A well-placed source said it was hoped that the export levy would start by the beginning of July.

At present R3,5m a year was generated for export promotion through voluntary contributions by about 110 members of the export association. The idea was not to push up the amount, but rather to spread the collection base, the source said.

About 40 nonmembers who exported would be affected if the levy application succeeded, he said.

All statutory levies on agricultural produce, as well as an export promotion levy for wool, were scrapped in recent years. The wool levy was thrown out after a lack of support for the idea from farmers.

New marketing legislation does provide for the payment of statutory levies provided "directly affected" parties agree.

Last year's wine exports were 9% higher than in the previous year, with the main markets being the UK, Belgium, Luxembourg and Germany.

SA NEWS DIGEST

☐ VEHICLES

Naamsa figures show modest 23% increase in first-quarter car exports

Exports of cars produced in South Africa rose 23,2 percent, or by 1 879 units, to 9 984 units in the first quarter of this year compared with last year, according to figures released this week by the National Association of Automobile Manufacturers of South Africa (Naamsa). (746)

But the Naamsa figures showed the increase in total vehicle exports during this period had been modest. Total exports of vehicles during the quarter rose 14,6 percent to 11 266 units, compared with 9 831 units in the corresponding period last year. Naamsa said a decline in exports of light, medium and heavy commercial vehicles was responsible for the reduced total vehicle export figure. Light commercial vehicle exports slumped 26,4 percent to 1 152 units during the period under review compared with 1 565 units last year, while medium and heavy commercial vehicle exports dropped 19,3 percent to 130 units from the 161 units exported during this period last year. – *Roy Cokayne, Pretoria*

(BR) 7/5/99

MANUFACTURED EXPORTS

HOW TO CRACK WORLD MARKETS

A new breed of exporters is learning what it takes to be global competitors

When Pinetown manufacturer Bruce Moxham started selling pine doors and shelves to the DIY market in the UK about 12 years ago, the first barrier he encountered was the perception abroad that South Africans are unreliable exporters.

Other manufacturers entering the world market in the late Eighties and Nineties tell similar stories. Historically, SA exporters tapped foreign markets only when domestic demand failed to keep their factories working at close to full capacity.

Then, when the domestic business cycle turned, they dropped out of the world arena to mostly concentrate on local distribution

Moxham says the lingering perception of South Africans as inconsistent exporters was a greater handicap to his export initiative than the anti-apartheid trade sanctions in place at the time But he persevered, moving from the UK market when recession hit it a few years later to Europe and, in 1994, to the US.

Here he encountered another problem — his inexperience of the north American market. After initially losing money, the company modified its manufacturing processes and streamlined production. Since then its export initiative has gone from strength to strength (see Moxwood story and graph) The company is now a subsidiary of Steinhoff International, through Megacor, of which Moxham is MD.

The small company he founded in 1985, Moxwood, is one of a new breed of exporters who know that if they are to succeed they must be seen as world players, willing to take risks in the most demanding of markets

Nasmi Adams, who surveyed 87 exporting companies in 1997 while taking his MBA degree at Wits Business School, found a strong correlation between proactive, focused exporting and success

One hurdle aspiring exporters encounter when they enter new markets is identifying what consumers in the wide and diverse world will spend their money on. Simply rerouting surplus stock to the competitive world market is a formula for failure

Western Cape-based Consani Engineering didn't make this mistake. The company was heavily involved in domestic capital expenditure projects until the mid-Eighties, when a capex famine struck SA and "80% of the company's workload disappeared overnight," says MD Willem Kotze

"When we decided to export, we conducted an international survey to find new uses for our technology."

Consani turned to the manufacture and export of stainless steel containers for transporting liquid; its venture prompted by the fact that investments in containers was one of the few legal ways to invest abroad.

Consani sold to local individuals and investment groups who leased or sold the containers to end-users abroad.

The relaxation of exchange controls a few years ago proved a temporary setback, says Kotze (see Consani story and graph) "But we aggressively tackled the international market directly, and over the past two years turnover increased 30%."

A subsidiary of Murray & Roberts, Consani has been in business for more than 70 years. But it, too, is a new generation exporter, driven to succeed in the international arena

Adams's research confirms that successful exporters spend money on research — and they are prepared to modify their production processes, or set new ones in motion, to develop the products they identify as winners.

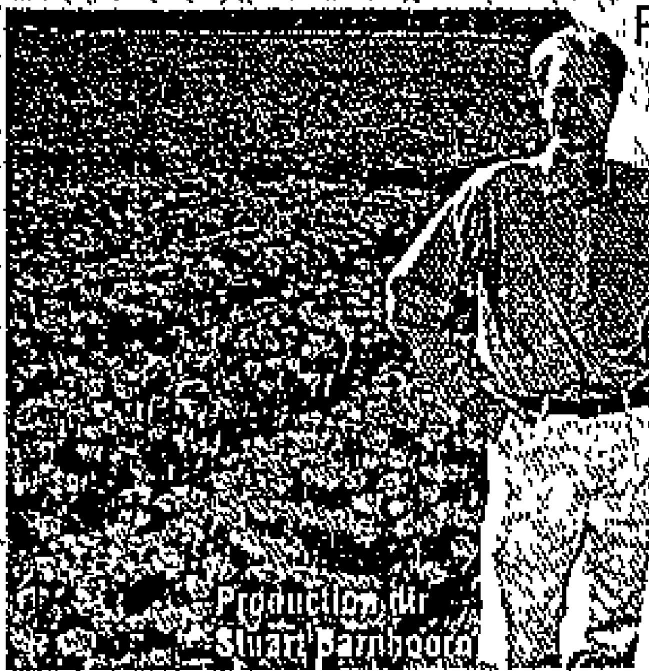
This practice distinguishes them from less effective exporters who choose to supply merely what they are already making because they are reluctant to put money into research and development and are afraid to risk new capital expenditure.

Successful exporters share another characteristic, says Adams. They understand the importance of setting up and maintaining an effective distribution network before they start sending their goods into a new market. Some companies even set up subsidiaries abroad to handle distribution

Wholesale flower bulb manufacturer Hadeco, established 54 years ago by two immigrants from Holland, had a ready-made advantage when it started exporting to Holland That country has a natural

TULIPS TO AMSTERDAM

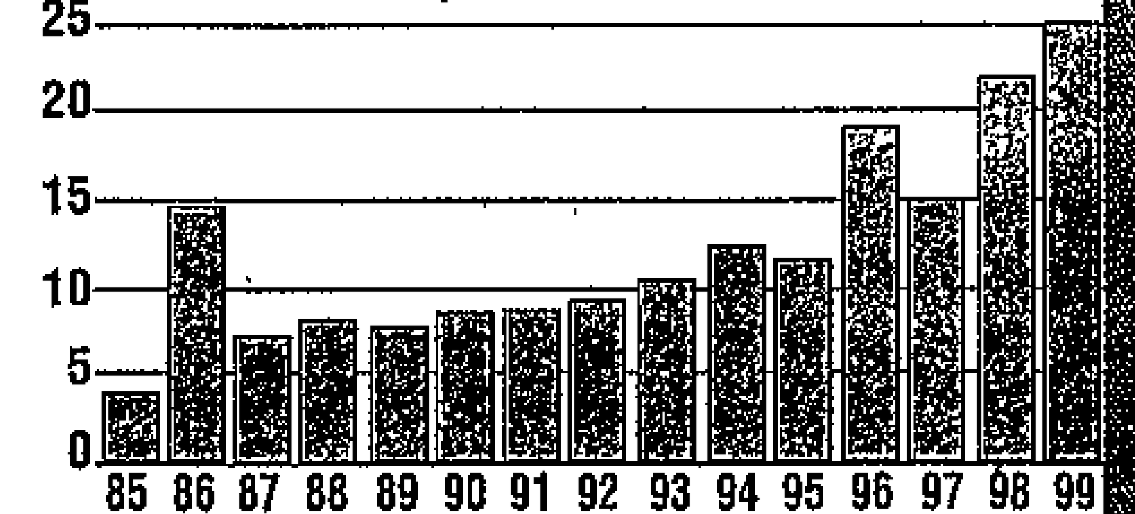
HADECO
Well, maybe not Amsterdam, but just about everywhere else. This wholesale bulb grower was established in 1948 by two immigrants from Holland. Grows 45 kinds of bulbs and 60 types of cut flowers. Sells 100m bulbs and 40m flowers annually — 65% on export markets.
Exports bulbs and cut flowers to Europe, Japan, the US and South America.
Exports bring in 65% of revenue.



Peak sales period is September-March, the northern hemisphere winter, when it exports up to 10t of cut flowers a week. Employs 1 000 people.

GAINING A BEACHHEAD

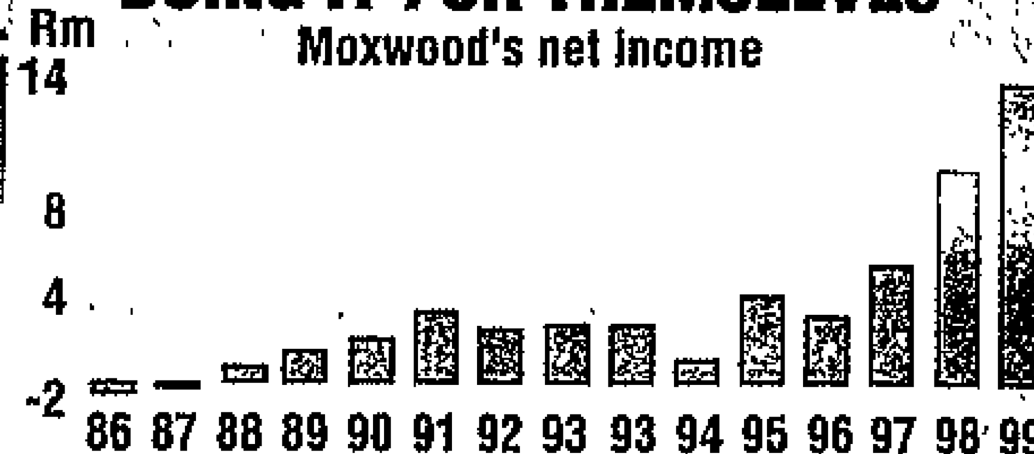
% of total world output of IMO1 containers



CONSANI ENGINEERING
Established 1928 as an engineering company in domestic construction. In mid-Eighties when SA infrastructure projects dwindled, it surveyed the industry internationally to find new uses for its technology. Started making IMO1 stainless steel containers for transporting liquids. Exporting since 1985 and reports annual compound growth of about 8%. It has a 25% share of the world market. Cites extensive service capability abroad as a critical contributor to its success in export markets. Major users are companies in Europe and North America. About 80% of its revenue is derived from the export market. Foresees a softening over the next six months, a lagged response to slower growth in some markets. Predicts recovery later in the year. Employs 1 000 people.

CE Willem Kotze

DOING IT FOR THEMSELVES



MOXWOOD
Family business established in 1985. Now subsidiary listed Steinhoff International through Megacor. Manufactures quality pine doors, shelving and related products, mainly for export. Started selling to do-it-yourself suppliers in the UK in 1987. Later expanded into Europe, the US, Korea, Taiwan and Australia.
Technical innovation and intensive staff training. Demands of the export market changed the methods used by its whole supply chain. Major challenge is meeting different product specifications in each market. Employs 500 people.

Founder Bruce Moxham

flower bulb distribution network, says production director Stuart Barnhoorn, a descendant of one of the founders

Unlike many SA exporters, Hadeco was familiar with its first export market — Europe — and its skill lay in competing in it from the southern tip of Africa.

Managed by direct descendants of founder Floor Barnhoorn, the Roodepoort-based business exploits its seasonal advantage over the northern hemisphere, particularly over the Christmas period. It also exports competitively to Latin America and Australasia, which produce similar products.

An area where SA has scored some of its greatest successes is technology. To succeed in this sector, companies have had to train staff intensively in exporting expertise and attract qualified people with various technical qualifications.

The Altron group, established in 1965, concentrated on the domestic market for its first 23 years However, as the Eighties drew to a close, management perceived the need to push for growth in world markets.

Harold Serebro, who heads the Altron group's export initiative from its Johannesburg headquarters, says the group set out to create an internal export culture, with extensive staff training in all aspects of export activity Each year since then, its markets have expanded worldwide Most recently it has moved into Cuba, Russia, China, Morocco and Tunisia

And each year offshore sales have risen sharply, with 14 of its companies recording record export sales in the 1999 financial year.

A small, but also successful, hi-tech exporter is networking specialist Netsys, which started off in the mid-Eighties

It set up as an exporter five years later when it was clear that trade sanctions were going to be lifted It now sells almost entirely offshore, providing turnkey solutions, computer hardware and software in 23 countries

Another hallmark of successful exporters is that they go into developed countries, says Adams. Earlier research, he says, had already shown that companies who sell to First-World markets achieve much better growth than those who export only to their nearest neighbours. They do well in First-World countries in spite of the intense competition there, he says, because those consumers are more prosperous

Afinta Motor Corp, set up in 1994 and exporting for two years, has accepted the challenge of tapping Third-World markets Because it sources supplies from all over the world, the Isando company is able to seek out the cheapest components and manufacture at a cost advantage

Export director Rajiv Wahi says the company is now able to undercut large international competitors selling to the rest of Africa.

The companies mentioned — and many others who export successfully — share one natural advantage They can adapt their manufacturing processes quickly because they make "discrete goods" individual articles such as articulated dump trucks, ball bearings, canoes, data processing machines, drills, floating cranes, helicopters, jewellery, liquid elevators, pumps, seat belts, T-shirts, tyres and transformers

Export Dir Rajiv Wahi

AFINTA MOTOR CORP
Established 1994. Manufactures trucks and buses from components imported from Japan, China, India, Thailand, Indonesia, Brazil and Spain, at bulk prices. Assembles them at plants in Isando, near Johannesburg, and in Swaziland. Multisourcing of components gives it a cost advantage over competitors and it is able to undercut better-known brands in the market. Started exporting to other parts of Africa through franchisees in 1997 and in 1998 exported about 20% of its output. Aims to export about a third of output. Revenue from exports is 10%-12% of the total.
Reports annual average growth of 60%. Initially employed over 500 people. Now outsources most of its activities and employs only 50.

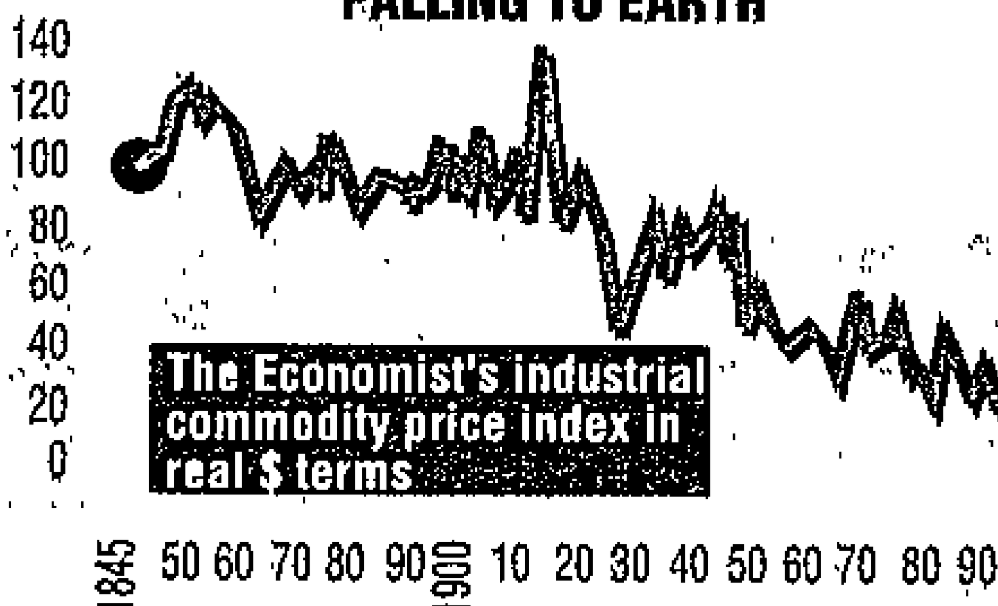
UNDERCUTTING THE BIG GUYS

EXPORTERS' RULEBOOK

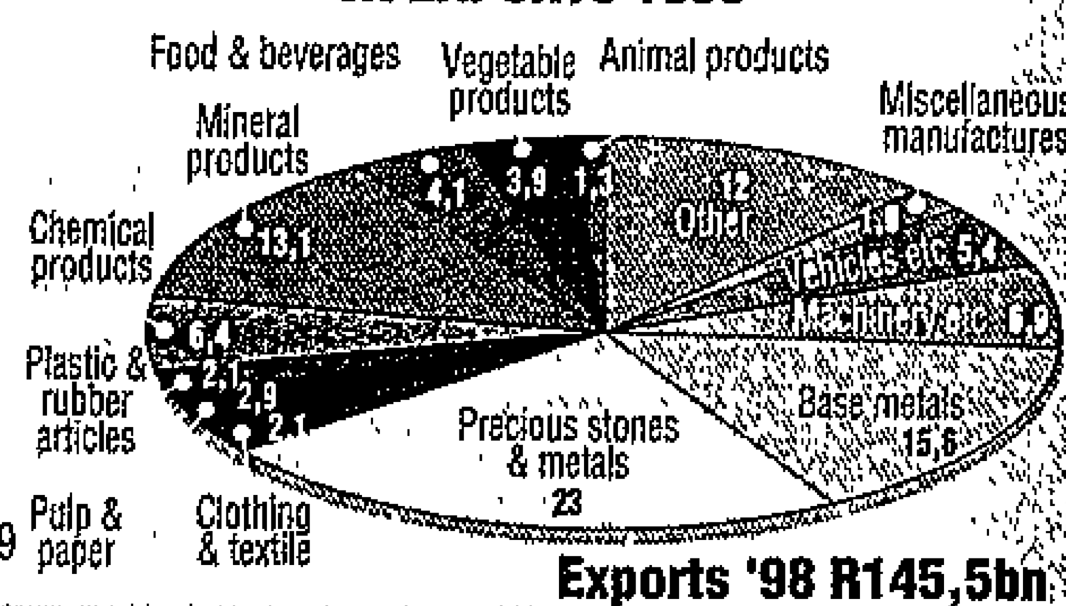
WHAT TO DO:
*Give consumers what they want, not what you want to produce.
*Analyse products available in your target market and investigate product improvement.
*Focus on long-term relationships.
*Be in touch; telephones and fax machines are essential and e-mail facilities an advantage
*Answer, or at least acknowledge, correspondence immediately.
*Meet delivery deadlines If there is a delay, let your customer know promptly and explain why.
*Research packaging to cut transport costs and improve presentation.
*Provide good after-sales service.

WHAT NOT TO DO:
*Expect a quick profit. It's a competitive market out there and you will have to compete on price.
*Overestimate your capacity to complete an order. Be realistic about deadlines.
*Try to get away with inferior quality; there's a discerning market out there.
*Slip up on the paperwork; accurate documentation is essential to international trade.
*Violate a contract.

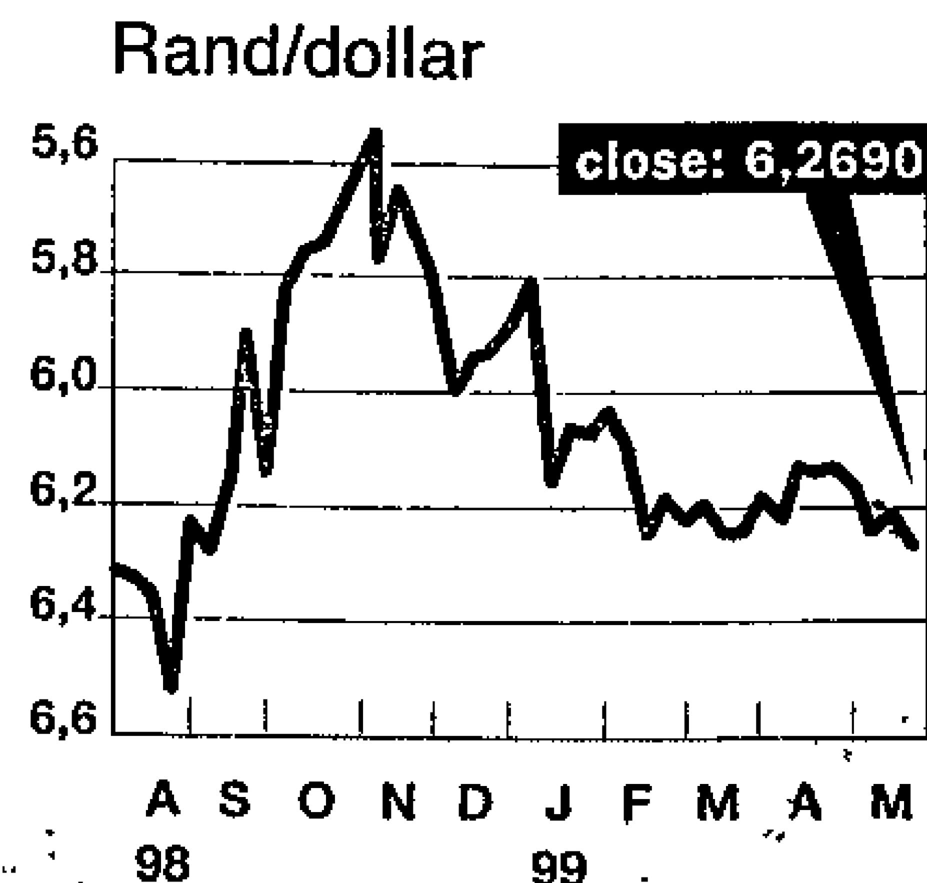
FALLING TO EARTH

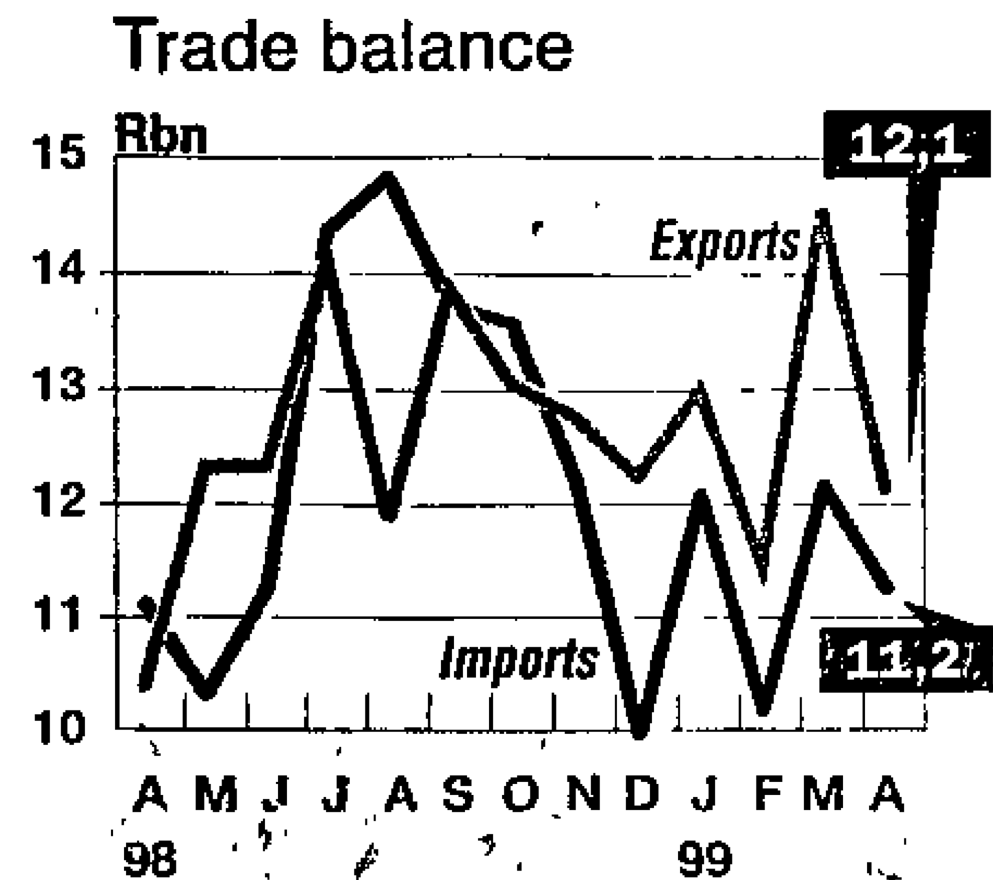


SA EXPORTS 1998



Rand under pressure as trade surplus sinks





KAREN MOOLMAN Sources: I-NET BRIDGE, CUSTOMS & EXCISE

Hopes for early recovery in SA's exports fading

BD 27/5/99 (74G)

Greta Steyn and Samantha Enslin

HOPES of an early recovery in SA's exports faded yesterday after the release of last month's trade figures, which showed exports fell almost 17% between March and April.

Figures released by the SA revenue service yesterday showed SA had a trade surplus last month of R870m, sharply down from March's R2,4bn surplus. When March's figures were released last month, hopes were high that the revival of the world economy would spur an early improvement in SA's export performance. However, the latest figures gave ammunition to sceptics who believe it will be a while before the commodity cycle turns in SA's favour.

Although the trade surplus decline was in line with expectations, the reasons for it came as a surprise. Oil imports were expected to squeeze the surplus, but the rise in the oil price failed to make itself felt. Instead oil imports fell, keeping a lid on overall imports.

Oil imports for the first four months of this year were substantially down on year-earlier figures, but economists warned that the respite would not last. A more than 40% jump in oil prices this year will affect the trade balance later.

Overall imports were down from R12,13bn in March to R11,23bn in April while exports fell from R14,55bn to R12,1bn. Major export categories performed badly, with mineral products falling sharply and base metals and precious metals also declining.

Standard Bank economist Leroy Smith pointed out base and precious metals comprised 35% of SA's total exports, and that the prices of these commodities were crucial to SA's export performance. "Recent optimism that the turning point in the world economic cycle was in sight has waned. We do not expect a significant recovery in commodity prices until late this year or early next year," he said.

AMB DLJ economist Nick Barnardt said he expected the trade balance to deteriorate significantly in the second half of this year. Imports would pick up as the economy moved out of recession, while global demand for SA's exports would remain sluggish. He forecast the current account deficit at R13bn for the year, higher than the consensus forecast of R9bn.

The disappointing trade figures added to the rand's woes, with the currency losing almost 5c against the dollar yesterday to close at R6,2690. The gold price, election jitters and nervousness about emerging markets took their toll on the rand.

Gold fixed in London in the afternoon at $269,50/oz ($271,70 on Tuesday). The plunge in the gold price fuelled expectations that the central bank would allow the currency to weaken to help gold mines. Some analysts say a weaker currency is also needed to stimulate exports of manufactured goods to make up for the forex loss arising from the plunge in the gold price.

The rand touched a weakest level of R6,29 to the dollar, coming close to the R6,30 level widely predicted as the pre-election exchange rate. Foreign investors' concerns have been compounded by nervousness over Latin America. Argentina is rumoured to be heading for a devaluation, while Brazil is in the throes of a political scandal.

SA equities, although weaker yesterday, showed resilience in the face of a host of negative factors, dealers said. The Johannesburg Stock Exchange's all share index fell 61 points to 6 550, dragged down by the resources index, which shed 1,7% in the wake of losses on the gold board and continued selling of Anglo American plc shares.

Naamsa quarterly shows exporters created jobs

(74G)

Roy Cokayne

Pretoria – Two motor manufacturers involved in vehicle export programmes created 756 jobs during the first quarter of this year, according to the latest quarterly review of business conditions in the new vehicle manufacturing industry.

Although the manufacturers were not specifically mentioned in the review, it is widely known that Volkswagen South Africa won a lucrative export contract for the Golf IV, while BMW South Africa invested more than R1 billion to gear up for its 3 Series export programme.

Despite the creation of these jobs, the number of people employed in the country's new vehicle motor manufacturing industry declined by 779 to 31 350 during the first quarter of this year to March 31.

Nico Vermeulen, the director of the National Association of Automobile Manufacturers of South Africa, which compiles the review, said the industry's monthly average complement last year was 33 658 against 37 082 in 1997.

He said average capacity utilisation levels during the first quarter had remained at "historically low levels". This reflected the depressed conditions in the domestic vehicle manufacturing industry.

Domestic and global fundamentals pointed to a continuation of subdued economic activity in the short term.

CT(MR) 8/6/99

CAPE ARGUS, THURSDAY, JUNE 24, 1999

Cape munitions maker set to bag R1bn British deal

(744G) ARG 24/6/99

Somchem wins race for army contract

MICHAEL MORRIS

SPECIAL WRITER

Cape munitions manufacturer Somchem will consolidate its international reputation soon with the signing of the first part of a R1-billion, 10-year deal to supply artillery propellant to the British Army.

The first part of the contract, for R146-million, was to have been signed today – but the ceremony was cancelled at the last minute. It is understood a technical problem has caused the hold-up, but parent company Denel is confident the signing will go ahead soon.

Overall, the 10-year deal – announced in December – is the biggest contract in Somchem's 27-year history, according to Denel, and will sustain 100 jobs, including 30 new posts. It has been reported that about R10-million from the contract will be spent, through small enterprises in the region, on modifying the Somchem plant in Somerset West and making new equipment.

The imminent signing follows four years of negotiations, and fierce competition with main rival, Royal Ordnance of Britain.

The contract will be for an estimated 1,2 million propellant charges for the British Army's fleet of AS90 self-propelled howitzer guns.

Somchem's modular charge system reportedly earned the highest rating in three months of trials at the Eskmeals test range in northern England in 1997.

The charges were developed for South Africa's revolutionary G5 and G6 family of long-range artillery.

Modular charges are easier to transport, less wasteful and more cost-effective than the traditional "bagged" – literally, explosives in a bag – propellants they are replacing.

Propellants provide the explosive power to shoot an artillery shell out of a gun barrel. The wider significance of the deal lies in Somchem's having won the contract in competition with a top British company, on price and quality, says Jane's Defence Weekly correspondent Helmoed Romer-Heitman.

"What it means in marketing terms is that an army regarded as one of the best professional forces in the world has selected Somchem because of its product quality and price.

"The initial contract of R146-million is not especially large, but it's the signal that goes out to arms buyers internationally that is important. In the meantime the plant ticks over, potentially in anticipation of other orders."

Mr Romer-Heitman said the economic "knock-on" effect throughout the local economy should not be under-estimated. For South Africa's defence industry, the order is significant, although analysts say more international business will be vital to the industry's future.

In 10 years, Department of Defence spending in the domestic armaments sector has dwindled from 44% to about 9%. With dipped profits in recent years, Denel's future depends increasingly on foreign buyers, analysts say.

The Somchem propellant, the development of which went hand in hand with the hi-tech metallurgical engineering that assured the success of the G5 and G6 guns, is understood to include an additive that combats barrel erosion.

The Achilles heel of guns with long barrels was excessive wear, said Mr Romer-Heitman. South Africa's hardware was a "proven technology".

Part of this was the extensive chemical research and development on the modular charges.

"The speed and temperature of the 'burn' – the explosion of the charge – is vital to efficiency."

Green light for probe into Iscor imports

Simon Barber BD 21/7/99

WASHINGTON — The US International Trade Commission has found sufficient grounds to believe that imports of Iscor cold-rolled steel at below home-market prices are hurting US producers and may therefore warrant the imposition of antidumping duties.

In a unanimous ruling on Monday the panel gave the commerce department the green light to investigate Iscor's pricing and assess duties that would bring its US prices in line with its SA ones.

The US imported 148 000 tons, worth $56m, of Iscor cold-rolled steel last year.

The duties are being sought by nine US producers and the United Steelworkers' of America union on imports from SA and 11 other counties, including Japan, Russia and Brazil. The duty requested on SA products is at least 17%.

The department is expected to assess preliminary duties in November.

The petitioners have not asked that the duties be made retroactive in SA's case, giving Iscor a small window to take new orders. One option is for Iscor to seek an agreement with the department under which the dumping investigation would be suspended in return for accepting a price floor calculated by the department.

(189)(74G)

Exporters urged to extend cover

(74G) CT(BR) 22/7/99

JOHN FRASER

Johannesburg – South African exporters were urged yesterday to seek export credit reinsurance on projects in First World nations, instead of just seeking this protection in dealings with the Third World.

The call came from Emile Matthee, who is in charge of the export credit reinsurance scheme in the department of trade and industry, at a seminar organised by Credit Guarantee, the export project insurance group.

The meeting, which attracted about 150 businessmen and bankers, focused on capital goods.

Matthee said attitudes of South African firms were changing, largely because of the Asian crisis, when apparently robust markets had collapsed.

"We prefer exporters to also support us when the going is good," said Matthee. "Our competitors have this advantage.

He said the scope of the export credit reinsurance scheme depended on the scale of reserves that could be built up.

There would also be much more funding for the scheme if South African exporters followed their competitors in the Organisation for Economic Co-operation and Development by broadening their geographical scope.

"The performance of the scheme has been less than expected, and this has led to significant costs and deficits," he said. Nevertheless the scheme still had reserves of between R600 million and R700 million.

Matthee said there was no political risk for businesses exporting to France or England, but foreign firms, which use similar schemes to South Africa, still applied for a "sizeable number" of export credit reinsurance guarantees when dealing with western Europe. He said a risk portfolio was "unbalanced if you only insure bad risks".

Matthee said South Africa faced handicaps in helping its exporters. Primarily, South Africa did not have large aid funds that could be used to help promote its exports. It "will have to rely on its credibility, viability and rapid delivery", he said.

Earlier he gave the example of Mozambique to illustrate what he called the department of trade and industry's "appetite for risk".

Whereas five years ago, medium and long-term reinsurance exposure in Mozambique for commercial and political risks was "insignificant", it has now reached about R3 billion.

"Times have changed. The export credit reinsurance scheme is open for cover virtually everywhere in the world.

"However, it is a tiny and fragile reinsurance scheme, compared to international players."

The conference was opened by Mike Turner, the executive director of Credit Guarantee, who noted that with the collapsing gold price there was a growing need for South Africa to boost its export earnings from trade in capital goods.

Small companies cash in on smart export tactics

(744) CT (MR) 20/8/99

JOHN FRASER

Johannesburg – Exports formed an integral part of manufacturing output in Gauteng, accounting for 29 percent of production, a survey by the Johannesburg Chamber of Commerce and Industry showed.

The survey, conducted in May, showed that more than a third of the companies surveyed were small businesses with a turnover of less than R10 million a year. The chamber said this confirmed that exports were increasingly a key part of small-business strategy.

The export performance of many businesses has been hit by the global economic slump, and 61 percent of respondents said their volumes were down in the first quarter of 1999 compared with the same period last year. The main reasons were the collapse in Asian markets and stiff price competition from overseas rivals.

However, half of the participants said they were planning to boost capacity by more than a quarter to cater for exports.

Most firms complained about high wage costs, expensive imported inputs and transport. They said the threat of cancelled orders resulting from late deliveries, because of congestion at Durban harbour, added to export costs. Another problem, primarily in Africa, was payment for goods. The low rand was also an important factor.

Those firms reporting booming exports attributed their success to finding new markets, expanding their share of existing markets and launching new products. Africa is the biggest market for these companies.

Australia was the second biggest export market. Companies faced the problems of competing with Asian producers and the perception that South African firms are not reliable long-term suppliers.

SA exports to Africa worth R20bn a year

CT (MR) 31/8/99 (74G)

JOHN FRASER

Johannesburg – South Africa's exports to the rest of Africa had expanded by 335 percent since 1992, when trade sanctions were lifted, and were now worth R20 billion a year, a report released last week showed.

However, the figures, compiled in a report by Whitehouse and Associates, a research firm, also showed a sharp slowdown in the growth of this trade in the last three years.

The data excluded exports to South Africa's partners in the Southern African Customs Union: Botswana, Namibia, Swaziland and Lesotho.

The data, compiled for the Saitex export promotion conference in October, showed that most of South Africa's export trade was in beneficiated and fully manufactured goods – an important potential growth sector for the economy.

"These figures show that Africa is a major and growing export market for us," said Johan Theron, the Saitex exhibition director.

"What is really significant is the type of export trade," he said.

"We don't export to any other region of the world with a weighting like this towards beneficiated and fully manufactured articles.

"That is exactly the pattern that is needed to kick-start our manufacturing capacity."

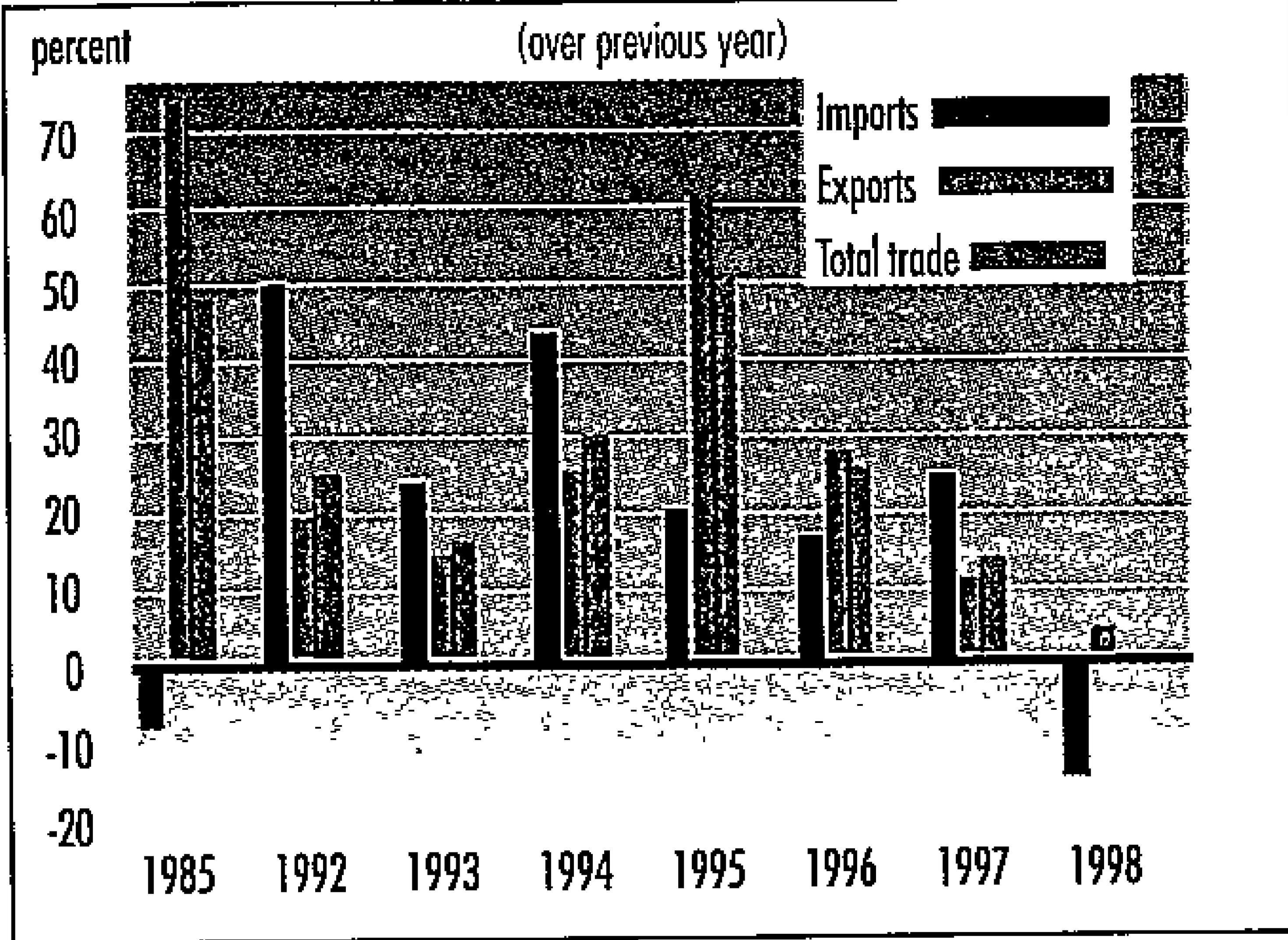
Although growth in exports had been encouraging, the rate of this growth had slowed down recently, partly because of the worldwide recession and also because of problems in South Africa's main neighbouring market of Zimbabwe.

The analysis showed that the rate of growth in South African exports to Africa had steadily declined in recent years, from a 61 percent jump in 1995 to a 27 percent increase in 1996, an 11 percent rise in 1997 and just 3 percent last year.

Last year also brought a fall of 15 percent in South Africa's imports from the rest of Africa, bringing the overall trade growth down to zero.

"When compared with the double-digit growth of previous years, this is cause for concern," the report warned.

It added that the fall of 15 percent in South African imports from Africa "is sure to create political tensions within the region".



(74(5) FM 1/10/99

SCULPTURE AND SADDLES SELL

Export grows in strange places

SA's exports grew by 12,3% between 1997 and 1998. Ian Flint, a director of trade consultancy Pennant Financial Services, points out some of the biggest growth comes from unexpected areas.

Exports of cut flowers grew by almost 14%. And, "though a relatively small category, exports of leather saddlery and harness doubled, leather articles used in machinery jumped by nearly 400%. However, this was off a low base of R118 511."

"In the works of art category we find that exports of original sculptures amounted to a surprising R42,3m, up from R10,6m" And the vague but intriguing category "Collections of Zoological, Botanical, Mineralogical, Anatomical, Historical, Archaeological, etc. Interest" shot up by R9,5m to R28,5m last year.

Some of SA's bigger exports also grew substantially The export of nonconiferous wood chips increased by almost 35%.

"In the vast majority of cases our export performance as a nation is still concentrated in the agricultural and raw materials sector," says Flint. "And the country's ability to sell added-value goods in the international markets is still not well developed.

"But here and there we find success stories. the company Ceramic Industries reports a 63% increase in export earnings. And Corobrik is finding new overseas markets for 'olde worlde' bricks.

"Cape-based engineering group John Thompson is reportedly finalising a multimillion-rand export deal with Iraq for specialised boilers

"In Port Elizabeth a factory is reportedly being built to manufacture moped engines for Beijing and Amsterdam"

Examples like these, argues Flint, prove SA can compete internationally in manufactured goods, "despite 'labour market rigidities', 'skills shortages' and other oft-quoted detracting factors."

But, on a less optimistic note, he points out that one of SA's biggest exports is people.

"According to figures published by the SA Revenue Service for 1998, emigrants left the country with R447,3m worth of furniture and other personal effects — up by 12,3% on 1997." ■

Exporters must work harder, says official

BD 19/10/99

John Dludlu (74G)

GOVERNMENT says companies that dabble in the export market without committing the necessary resources to sustain their campaigns in foreign markets are creating "a recipe for disaster".

In an interview, coinciding with the start of National Export Week today, Zavareh Rustomjee, the outgoing director-general for trade and industry, called on "various vested interests to come together and map out a positive agenda on how we can double and treble our exports".

Manufacturing was one of the areas where SA could really grow employment, he said.

Although SA's export performance was showing a growth trend in finished non-traditional products, he called for a serious commitment from exporters.

Rustomjee spoke out against the "traditional way" of exporting, which saw SA firms venturing into the export market only because there was a slowdown in the domestic market.

"We will never sustain a competitive economy (this way). There has to be a commitment to the export market."

"Traditional exporters" often dumped their foreign clients when good times returned in the local economy, he said.

Part of the problem with the country's export capacity lay in what he termed the "one-Porsche syndrome" — the complacency of leading players which rendered exporting irrelevant.

Rustomjee, who becomes special adviser to the trade and industry minister, said government had decided to work with exporters, leaving out industry associations which showed no commitment to the export strategy.

In one case, three years down the line, an industry was still not ready to "make the jump" into foreign markets. In terms of the national export strategy agreed with industry, each sector has to set up an export council.

Rustomjee also defended government's incentive schemes, saying they were among the most competitive in the world.

He said the marketing and investment in the scheme was "too generous". Through the scheme, exporters wanting to take part in trade missions were given grants.

His warning, which coincided with the week-long SA International Exhibition, appears to underscore government's concern about the exporters who are following the "traditional route".