

Making investment work

The question of foreign investment for a post-apartheid South Africa and the value of an investment code were the subject of a two-and-a-half day forum near Rustenburg late in April.

Missing from the weekend's discussions, convened by Idasa and private sector concerns, were labour representatives, Azapo and the ANC. A hastily faxed ANC paper was read by UCT academic and ANC economics policy adviser Alan Hirsch. The remaining 40 delegates seemed to concur almost too easily, prompting someone to remark that perhaps the different constituencies were not being entirely true to themselves. However the air of agreement was stirred most effectively by SA Communist Party representative Essop Pahad who injected some stimulating questions into the debate.

The conference was opened by one of the conveners, Prof Wiseman Nkuhlu (economist and rector of the University of Transkei), who said that South Africa did not have adequate savings to undertake the kind of restructuring needed in the first few years of post-apartheid rule. To develop a programme that would have any meaningful impact required resources from outside the country.

Central questions that emerged during the conference were how to ensure that foreign investment made an impact on the welfare of the marginalised and, at the same time, made South Africa attractive to investors. This led to lively debate on the nature of investment policy and whether or not there was a need for a separate code of conduct for investors.

Almost all participants – which included a range of political parties, chambers of commerce and black business forums – agreed on the need for a stable political climate and foreign investment. However, some cautioned that foreign investment should not be seen as a panacea for all ills and that the manner in which it came into the country needed to be regulated to some extent.

The chief executive of the German Chamber of Commerce and a representative of the Binational Chambers' Consultative Committee, Klaus Schuurman said countless numbers of foreign fact-finding missions were visiting South Africa, but they could not find any facts because everything was in a state of flux.



Siphoshe Shabalala (PAC), Hennie Bekker (NP) and Essop Pahad (SACP)

He said the long-term potential of the country was of no interest to investors; they wanted to know what they could get in the short term. A declaration of intent regarding future investment and industrial policy was urgently needed.

By SUE VALENTINE

Nafcoc representative Max Tlakula said foreign investment should bring with it the transference of technology and skills so that black business people could attain skills they did not have.

Lot Ndlovu of the Black Management Forum said foreign investment should not be attracted to South Africa at all costs. It should only flow into the country once apartheid was dead so that it could not hinder or delay the transformation process.

While he agreed that foreign investment would be valuable in promoting economic growth, creating jobs, offering South Africa entry into foreign markets and providing additional revenue for government social spending, Ndlovu said South Africans should also be realistic about the nature of foreign trade and investment.

He said international trends indicated that a virtual "closed shop" agreement operated among the developed nations.

Democratic Party MP Brian Goodall said it was the responsibility of the government of the day to set the example by investing in the country. "You cannot expect foreign investment if there is no local investment."

Gavin Woods of the Inkatha Freedom Party said the IFP favoured foreign investment provided there was protection for

labour, anti-trust laws were adhered to and that environmental issues were considered.

SACP politburo member Essop Pahad said many South Africans were sceptical of foreign investment for fear it would take away their independence and integrity and because foreign investors' primary concern was to make money, not the welfare of the people.

Pahad said it was "pie in the sky" to talk about political stability if one did not look at the issue of redistribution. "We need to make people who have been marginalised feel that they have a stake in the process and in society."

He said he did not believe that capitalism would provide sufficient economic growth to satisfy South Africans. Another social system needed to be sought, one in which foreign investment would still have a role.

Nationalisation was not necessarily a principle of socialism, but it could form part of a programme to achieve certain objectives. He added: "we are too used to giving threats... 'if you don't do this, all the money will go to Eastern Europe'. Not much money is going to Eastern Europe... what business in the West wants is the markets of Eastern Europe, not to invest there."

University of the Transkei economist and PAC member Siphoshe Shabalala said the link between economic growth and human progress was not automatic. There had to be an explicit commitment to benefiting those who were marginalised and oppressed.

"Foreign investment should assist South Africa's ability to be competitive. We do not want to be a third world economy, we do not want to perpetuate centre-periphery relations... The African people are not objects of development, but creators of wealth," he said. African entrepreneurs should play a central role in rebuilding the country, but they could not do so if they were limited to spaza shops and small retailing concerns. Hi-tech and manufacturing capacity needed to be developed.

All important stakeholders should also participate in negotiations with foreign investors, said Shabalala.

A short video by the SA Chamber of Business, emphasising South Africa's high rates of company tax and inflation along with

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other negative factors militating against foreign investment, provoked some sharp discussion. Alan Hirsch said some of the conclusions drawn by the video were open to debate in terms of how certain data had been interpreted. Capital flight from South Africa during the 1980s was not due only to high inflation and low returns, but to specific political factors.

Suggestions in the video that tax holidays (not offered by the South African government) were an important incentive to foreign investors were also disputed by several delegates. General consensus during the course of discussions was that local and foreign investors should be treated equally.

According to Goodall, incentives should relate to the nature of the investment and not its source. Therefore they should be available to local and foreign investors.

Addressing the issue of overseas perceptions of investment opportunities in South Africa, World Bank consultant and policy analyst Witney Schneidman said the attitude of most potential investors was "let's wait and see".

"The key question is, will the South Africa of the 1990s be any more attractive to investors than other parts of the continent?" He said companies were looking first and foremost for predictability; even the advent of a socialist system would not be a turn-off to foreign companies so long as the situation in the country was stable.

He felt South Africa did not have much time in which to demonstrate its stability to investors. If the violence continued for another 24 months the window of opportunity that was now open would close.

He said the strongest allure for potential investors was the size of the South African consumer market which was likely to expand over the next decade and could become the largest in Africa.

The conclusions and way forward that emerged from the various presentations and small group discussions tended to coalesce around the need for greater research into the African debt problem, for ways to address the crisis in Africa and for a code clarifying the country's position regarding foreign investment.

In addition, the establishment of an interim government which signified a distinct break with the past could be of great importance for relations with the international community.

Sue Valentine is Media Co-ordinator with Idasa.

Malaysian miracle: is there a catch?

Afascinating guest at the investment forum was the deputy governor of the Malaysian reserve bank, Dr Lin See-Yan.

Dr Lin was at pains to tell delegates that the "rhetoric and emotions" he had witnessed during the forum were very similar to those in Malaysia in the late 1960s; and yet now, in 1992, Malaysia was into its sixth year of rapid growth, with no inflation.

"When we became independent in 1957 we were the world's largest exporter of rubber and tin. We had the most skewed economy ever seen - it had been completely controlled by the British who then left us with nothing except a fairly good civil service."

Malaysia's response to this situation - and to the question of how to ensure economic growth - was to diversify the economy. This meant moving away from rubber and tin and going into import substitution. In Malaysia's case, palm oil.

However, despite the finely laid economic plans, in 1969 there were massive riots in reaction to racial discrimination and poverty.

Research at the time showed that the Malaysians owned less than one percent of corporate wealth in Malaysia. Half of the country's population was classified as poor, while two thirds of the economy was owned by foreigners.

By contrast, by the end of 1990, said Dr Lin, 30 percent of corporate wealth was owned by Malaysians.

Explaining how this came about, Dr Lin pointed to the launch of the new economic policy in 1969. It aimed to eliminate poverty, regardless of race, and to create a commercial sector among the poor. This required a break with old attitudes which associated certain categories of work with certain racial groups.

The policy was to promote economic growth with the government at the helm. The activities of the private sector were to be steered as carefully as possible, but without recourse to nationalisation.

However, despite wide diversification of the Malaysian economy, in 1982 the prices of all its main exports fell simultaneously. The Malaysian government decided to abandon redistribution in favour of economic growth and to surrender the control of the economy to the private sector.

"Although the government still controlled policy-making, we realised that the private sector only works when the private sector runs it," said Dr Lin.

He added, however, that "if you let them, the private sector will chase profits from here to infinity", and stressed the need for

clear government policy and efficient civil service.

The present attitude among civil servants in Malaysia was that the private sector should be encouraged to make money, because for every dollar they make, the civil service receives 35c.



Deputy governor of the Malaysian reserve bank, Dr Lin See-Yan

Noticeably absent from Dr Lin's address was the role of the unions - or lack thereof - in his country. He gave little explanation of the tension, if any, between recognition of political and civic rights and the implementation of economic policies determined by the Malaysian government.

In response to questions, Dr Lin said Malaysia inherited Britain's unions after independence. "They were very vocal and no one wanted to antagonise them, but the unions were not compatible with what the government wanted - wages linked to productivity."

He said that a flexi-wage system had been established whereby companies determine, on a yearly basis and depending on profits, what basic wage to pay. In good years big bonuses are paid out to staff, during recession wages come down, but unemployment is avoided.

Fundamental to Malaysia's success, said Dr Lin, was that its economy was reorganised in order to make it more competitive. This included a commitment by government to spending large sums of money on education and technical training.