Assessing the implications of South Africa's commercial expansion in the rest of Africa

by

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As the candidates supervisor, I have/~~have not~~ approved this thesis/dissertation for submission

Signed:.................... Name: Ufo Uzodike Date: 07/04/05

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> *If you wish success in your life, make perseverance your bosom friend, experience your wise counselor, caution your elder brother and hope your guardian genius –*
>
> Joseph Addison (1972-1719)

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Abbreviations

AFDB	African Development Bank
AGOA	African Growth Opportunity Act
ANC	African National Congress
ASEAN	Association of South East Asian Nations
AU	African Union
BLS	Botswana, Lesotho, Swaziland
COMESA	Common Market for Eastern and Southern Africa
CONSAS	Contellation of SouthernAfrican States
DBSA	Development Bank of Southern Africa
DTI	Department of Trade and Industry
ECOWAS	The Economic Community Of West African States
EFTA	European Fair Trade Association
SAARC	South Asian Association for Regional Co-operation
EU	European Union
FDI	Foreign Direct Investemnt
FTA	Free Trade Agreement
GEAR	Growth, Employment and Redistribution
IDC	Industrial Development Corporation
MAP	Millenium Africa Plan
NAFTA	North American Free Trade Agreement
NAI	New Africa Initiative
NEPAD	New Partnership for Africa's Development
NP	National Party
OAU	Organisation of African Unity
RENAMO	Mozambican National Resistance Resistencia Nacional Mocambicana
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SADF	South African Defence Force
SAIIA	South African Institute of International Affairs
SARB	South African Reserve Bank
SPS	Sanitary and Phytosanitary Standards
TBVC	Transkei, Bophuthatswana, Venda, and Ciskei
UN	United Nations
UNITA	National Union for the Total Independence of Angola
WTO	World Trade Organisation

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Chapter 1

Introduction

> *It's very directly in the interest of South Africa that there should be development in the rest of the continent... I don't think you can have sustainable, successful development in this country if the rest of the continent is in flames* – President Thabo Mbeki (Quoted in Swarns, 2002: 11)

The demise of apartheid and the advent of democracy in 1994 heralded positive outcomes for South Africa in terms of rapid and large commercial strides made in the rest of Africa. South African capital that had been isolated for decades due to international sanctions was once again set free to grab opportunities in both developed and developing markets. For many South African exporters and investors, such opportunities seemed not only to abound in the rest of Africa but also have received tremendous rewards for their identification of fellow African countries as important target markets. As a result of those efforts, Africa (collectively) has emerged as the second largest export destination for South African goods after the European Union. An important outcome of this is the fact that South Africa enjoys a favourable trade surplus in its relations with many African countries. Currently, the overall trade balance stands at 5:1 in South Africa's favour. While some African countries have viewed this huge trade imbalance as unfair, Pretoria believes that the growing investments in the continent serve to offset it.

Recent reports on South Africa's investment patterns in the rest of Africa outlines South Africa as an important source of African foreign direct investment in the continent. It is estimated that South African investment represents close to 20% of total foreign direct investment in Africa (DBSA, 2003: 115). Statistics derived from the South African

Reserve Bank have also shown that South Africa's direct (actual) investment in other African countries have almost doubled between the period 1994 to 2002. It is believed by South African research organisations like 'Whitehouse and Associates' and the 'South Africa Foundation' that intra-continental investment is bound to increase in the coming years as more emphasis is placed on Africa's New Partnership for Africa's Development (Nepad) (South Africa Foundation, 2004: 5).

There are crucial reasons for South Africa's growing investments in other African countries. Essentially, South Africa's investments in other African countries have been pinned down to two arguments. The first argument considers South African investment as beneficial to regional economic development. This argument seems to emerge from the perception that South African multinationals, which are essentially African, should be dedicated to aiding the process of economic development rather than exploiting and re-colonizing the African market. In essence, South African multinationals are expected to reinforce and complement formal South African governmental foreign policy and development plans (such as Nepad and economic integration under the auspices of the African Union). The second argument considers South African investors as neo-imperialists, intent on exploiting rather than developing African markets. This argument arises from the fact that some South African multinationals have come under the spotlight for unsavory business practices. The proponents of this argument believe that South African multinationals are utilizing South Africa's foreign policy objectives and development plans such as Nepad to free ride by penetrating and gaining significant market shares with the sole aim of profiteering (even if it means exploitation). The principal objective of this essay is to place this debate in context and determine which of these arguments holds true. Should we expect that because South African multinationals are African they will differ fundamentally from their foreign counterparts when it comes to the nature and characteristics of their investment actions in fellow African countries?

1.1. Literature Review

Research concerning South Africa's trade and investment patterns in the rest of Africa is a new and largely untouched terrain. Literature on South Africa's relations with the wider continent is primarily pinned down by writings concerning the Southern African sub-region. Nevertheless, since the institution of democracy in South Africa, there are writers who have tried to analyze the relationship that South Africa shares with the rest of Africa in relation to trade and investment patterns. Amongst the first was Robert Davies' (1996) piece entitled *"South Africa's economic relations with Africa: current patterns and future perspectives"*. This chapter was part of the edited book by Abedayo Adedeji entitled <u>South Africa and Africa: Within or Apart?</u>. The chapter presented and reviewed empirical data on South Africa's relations with other African countries in key areas such as trade, project contracting, and investment. Based on the empirical data, Davies tried to outline policies and options for future economic relations with the rest of the continent. Davies put forward three scenarios that South Africa might opt for following its move towards democracy (1996: 188-191):

- *Approach 1: "Africa is of only marginal importance". It proposes that South Africa is part of the "First World" and that its future lies in further developing its relations with the countries of the North.*
- *Approach 2: Recognizes that Africa is of importance, but seeks to build relations on the basis of past patterns. Associated with this approach are*

the notions of South Africa as 'the engine of growth for the region' and the 'natural gateway for investments throughout the region'. Implicit in this notion is the idea that mutual benefit will be ensured by linking up and accepting South African hegemony. In effect it would seem that this approach proposes that South Africa take on more hegemonic ambitions.

- *Approach 3: Calls for more equitable and mutually beneficial patterns of regional relations. The approach seems to opt for South Africa becoming more of a development partner to the rest of the region.*

Davies made two important observations in reviewing his empirical data. One was that the rest of Africa is becoming an important market for South African exports. Trade with other African countries had grown considerably since the lifting of economic sanctions in 1994. Secondly, in terms of investments, Davies believed that major South African investment in the rest of Africa was relatively limited. He provided data, which illustrated that the only two sectors that were getting the bulk of FDI in African countries were mining and tourism. Davies concluded by calling for more research in the area of South African relations with the African continent as a whole instead of just limiting research to the Southern African region, as there seems to be important relationships developing.

Fred Ahwireng-Obeng and Patrick J McGowan heeded the call for more research in the area of trade and investment patterns with other African countries. In 1998, these authors' co-authored two articles entitled "*Partner or Hegemon? South Africa in Africa*" (Part 1 and Part 2). Both articles featured in the Journal of Contemporary African Studies. Part 1 of the article centered on presenting a wide range of data describing "post-apartheid South Africa's trade, infrastructural, telecommunications and investment presence in Africa". Like Davies, Ahwireng-Obeng and McGowan found that trade with the rest of Africa was growing at a rapid pace. Essentially, this was due to the fact that while the countries of the North are essentially South Africa's export market for gems, precious metals, minerals, and base metals, South Africa has found that it has a comparative advantage over most African markets in terms of manufacturing. The research in terms of trade relations with the wider continent was centered on South Africa's relations with SADC and SACU.

The authors also dealt with the approach that the South African government and business would take in engaging with the rest of the Southern African sub-region. The authors' central question was simple:

> *Can the new South Africa be a partner focusing on the mutually beneficial development of the region because it recognized that South Africa cannot long endure as an island of prosperity in a regional sea of misery, or will the realities of sharply unequal political and economic power inevitably lead South Africa's public and private sectors to act as hegemons...?* (Ahwireng-Obeng & McGowan, 1998a: 13)

The authors believed that their empirical data was enough to deduce that South Africa was 'increasingly hegemonic' in the Southern African sub-region (Ahwireng-Obeng & McGowan, 1998a: 13). Yet what they sought to investigate even further was whether South Africa would use its influence to benefit the region or selfishly to promote her national interests? This question became the focal point in Part two.

Part Two took on a more theoretical approach to the above questions instead of quantitative analysis. Utilizing theories such as the World systems theory the authors attempted to shed light on the question of the nature of South Africa's expansion in other

African countries. Having concluded that South Africa was acting as a hegemon, they pondered the question of whether South Africa was "benign or selfish" (Ahwireng-Obeng & McGowan, 1998b: 188). The conclusion reached was that South Africa was acting as a selfish hegemon, particularly in the spheres of trade and investment (Ahwireng-Obeng & McGowan, 1998b: 189). The authors however did end on an important note:

> *The observation that South Africa cannot exist as an island of prosperity in a sea of poverty and misery has been stressed repeatedly by President Mandela and other South African government leaders was totally valid. But since liberation what has South Africa actually done to promote more balanced and equal development on the region? Our answer is: very little. This is deeply ironic given the widespread belief that the end of apartheid would promote an African renaissance* (Ahwireng-Obeng & McGowan, 1998b: 190).

The writers end on the note that South Africa's economic expansion has had little impact on development in the rest of the region. In comparison to Davies' work, the Ahwireng-Obeng and McGowan article placed a large emphasis on South Africa's economic expansion being more aligned towards a selfish leader in the wider continent rather than development partner.

Dianna Games challenged this view in 2003 in a study for the South African Institute of International Affairs (SAIIA) entitled '*The experience of SA firms doing business in Africa*'. The study was part of a three-year project (Business in Africa project) and was undertaken to complement SAIIA's Nepad good governance project. The study focussed on the problems faced by South African companies in doing business in other African countries. The case studies incorporated in the study concentrated on four sectors: banking, telecommunications, retail and food, and mining. Games argued that these cases contradicted the perception of South African companies as "new colonizers" and "bully boys" and suggested that their involvement in other African countries was having a positive effect. Thus she argued:

> *South Africans have improved the quality of goods and services, introduced greater choice, developed skills, encouraged local entrepreneurship to service their business in the domestic markets, led the telecommunications revolution, built infrastructure, provided world-class expertise and advice and a myriad of other things* (Games, 2003: 39)

and,

> *Trade and Investment from South Africa is crucial to the development of the continent and it dovetails neatly with the Nepad imperative that Africans uplift themselves* (Games, 2003: 39)

Although this view varies dramatically from the perceptions of Davies and Ahwireng-Obeng and McGowan, Games was not alone with the view that South Africa's commercial expansion equates to development in the rest of Africa. In 2003, John Daniel, Varusha Naidoo and Sanusha Naidu published their research on South Africa's corporate expansion in the rest of Africa in the annual State of the Nation: South Africa 2003-2004. Their research paper was entitled '*The South Africans have arrived: Post-Apartheid corporate expansion into Africa*'. Essentially, the purpose of the paper was to map the extent of South Africa's post-apartheid expansion into the African economy as well as assess how South Africa's hegemony was and is being expressed. In terms of trade, the conclusion was the same as that of Ahwireng-Obeng and McGowan. According to the Daniel, Naidoo and Naidu article, Africa had become South Africa's third largest export destination on the basis of regions (with the EU first and NAFTA second). Also, exports to other African countries were largely manufactured goods, which were not only on the increase but also seem destined to continue rising in the short and medium terms as South Africa starts formalizing trading agreements with countries beyond the Southern African sub-region.

Furthermore, it was discovered that South African investments in the rest of the continent had gone beyond the traditional sector investments in construction, mining and tourism. It had diversified into other sectors like information technology, telecommunications, financial services, aviation, transport, research and development, broadcasting and media and retail. However, the article fell short of an in-depth analysis on the nature of South African investments into African host countries. Could South Africa's investments in other African countries be characterised as developmental or exploitative? Rather, the article focused on the issue of assessing South Africa's approach with other African countries. Adapting from the Robert Davies article, the three scenarios were once again proposed. Briefly put, they were the "South Africa first approach, integration under South African hegemony approach, and finally non-hegemonic regional cooperation and integration". The authors' point of view was that South Africa's relations with the rest of the continent, especially its economic expansion should fit into Davies third scenario approach, namely non-hegemonic cooperation.

In effect then, the literature review has outlined that South Africa's economic expansion in the rest of the continent is pinned down around two arguments. South Africa's economic expansion can either fall into the category of 'selfish hegemon' (or what I would term as neo-imperialist) or alternatively 'development partner'. The central argument of this study is that South Africa's commercial expansion in the rest of Africa exemplifies traits of neo-colonialism. Yet, will this statement hold true when analysing recent empirical data pertaining to South Africa's investment patterns in the rest of Africa? The focus of this essay therefore involves a probe into the extent, nature and implications of South Africa's most recent trade and investment patterns in the rest of Africa.

This study is broken down into five chapters. The three main chapters are sandwiched between the introduction, which sets up and contextualizes the topic within the broader literature, and a conclusion that seeks to provide a synthesis of the principal arguments and findings. Chapter 2 gives a brief overview of the relations between South Africa and the rest of Africa as they existed in the apartheid era and as they exist in the post-apartheid era. The chapter tries to determine whether there has been a change in the nature and scope of such relations. Chapter 3 assesses South African trade patterns in the rest of Africa. To what extent has South Africa engaged with the rest of the continent in terms of its trade relations? What degree of importance do other African markets hold for South African exports? To what extent are South African trade relations with other African countries reciprocal? Chapter 4 then moves on to assess the extent and impact of South African foreign direct investment in other African countries. The chapter tries to assess whether South Africa's investment patterns in other African countries have been portraying trends of development or exploitation. Chapter 5 tries to integrate both the literature surveyed and data presented in an attempt to draw conclusions on the possible coherence between South African government and business interests in their quest for partnership to bring about African renewal.

Chapter 2

Contextualizing South Africa's relations with the rest of Africa

> *...while South Africa's people experienced discrimination and repression at home, the people of other countries fell victim to destabilization policies, which...inflicted damage estimated at $65 billion on the economies of neighbouring countries* – Dennis van Niekerk (Dube, 2003: 1).

At best, South Africa's relations with other African states prior to democracy in 1994, can be described as "limited due to the conflict between Pretoria's apartheid ideology on the one hand, and African continental rejection of South Africa's race discrimination policies and its exclusion from the community of African states on the other"(www.rereth.ethz.ch/gess/internatrel/gabriel/pj.05.html). Also, South Africa's relations with the wider continent were also described as hostile. Essentially, hostilities arose from manifestations of Apartheid governments' need to protect white minority rule. To gain a greater understanding of the nature of South Africa-Africa relations, a brief overview is required of South African foreign policy encompassing the years 1945 to 2004. The overview will cover two periods, namely 1945 - 1994 and finally 1994 to 2004.

2.1. South Africa's relations with the rest of Africa 1945-1994

Prior to 1945, the international community regarded South Africa as a respected country being as it was both a member of important international organizations and institutions such as the British Commonwealth and the League of Nations. More importantly, under the leadership of Jan Smuts, South Africa contributed to significant political processes such as the drawing up of the preamble to the UN Charter (Mills, 2000: 225). An important feature of South Africa's foreign policy during this period was that it had adopted a 'Western-orientated foreign policy', which emphasized South Africa's 'cultural and political alignment with the West' (Mills, 2000: 225). This has had far reaching implications for South Africa, even in the present period. In reviewing relevant literature, it seems that some Africans view South Africans not only as perceiving themselves as belonging and sharing more in common with the Western world than with the rest of Africa but also that South Africans show little commitment to embracing their African identity. Consider, for instance, the following article written by Hein Marais:

> *... the charge most frequently leveled against SA is its alleged willingness to act as pointsman for Western interests. The charges were muttered during the Non-Aligned Movement summit last September when South African diplomats tried to convince the other 112 member states to adopt new forms of "proactive engagement" with the West and supranational institutions like the World Bank and IMF. The suspicions were reinforced by the similarity of United States' and South African positions during the Zaire crisis in 1997...The high-profile Bilateral National Commission (BNC) set up between the US and SA has lent further credence to the suspicions. The sentiment reportedly aired by Robert Mugabe last year - "I won't have them treating me like a province of South Africa" - is widely shared in southern and central Africa.* (http://mondediplo.com/1999/03/07safr)

Also, in a recent newspaper article, a Nigerian writer, Adekeye Adebayo, pointed out that:

> *Many South Africans black and white, still talk about the rest of Africa as if they are not a part of it...... Nothing could better symbolize South Africa's cultural limbo, caught as it is between a shameful past of arrogant, European racism and struggling to arrive at a future as the midwife of Africa's Renaissance......Many South Africans still adopt the patronizing attitude that they 'the rainbow nation of God', have much to teach Africa ...and they* (South Africa) *have nothing to learn from the rest of the continent* (Adebayo, 2004: 11).

Even the Ambassador of Japan, Yasukani Enoki mentioned in a speech delivered in July 2001 at the University of Witwatersrand that:

> *If I ask you 'Is South Africa a Western value system based society or an African value based society?' everyone may have a different reply. ... When I served as Consul General in Detroit, there was a mayor's election between candidates, all of whom were African American. The most effective shooting words to attack other candidates were 'He is not black enough'. Very curiously I heard the same expression from neighbouring African countries, 'South Africa is not black enough'* (2001: 10)

These perceptions are despite the efforts of South African leaders to create a new South African identity, one that not only takes into account its colonial past but also embraces its African future. This is evidenced by the famous speech by (then Deputy) President Mbeki:

> *I am an African.... [refering to European immigrants, Boer people, descendants of warriors of traditional tribes and many others he concludes by saying] ....Being part of all these people and in the knowledge that none dare contest that assertion, I shall claim that I am an African* (Quoted in Enoki, 2001: 12)

These varying perceptions seem to illustrate that South Africa finds itself with one foot in the Western world and the other in Africa, thereby presenting itself with an 'identity crisis'. However, this may not necessarily be true. Yes, South Africa has kept its relations with the first world intact, but South Africa has also made numerous efforts to cultivate an Africa-centered identity. President Mbeki's articulation and advocacy of an African renaissance offers a regional vision of moral, cultural, political, and economic regeneration based on the pan-African perspective. Also Pretoria has played a crucial role in the formation of the African Union, the drafting of Nepad and, more recently, the restructuring of both SADC and SACU. All these efforts were collaborative processes aimed at 'shaping and institutionalising norms and principles for Africa's renewal' (Hendricks, 2004: 11). South Africa cannot be construed outrightly as the 'pointman' for Western interests especially considering South Africa's recent alliances with Brazil and

India to strengthen South-South cooperation. At the WTO ministerial meeting in Cancun in November 2003, South Africa was part of a new trade bloc coalition of twenty developing countries (along with countries such as India, Brazil, and China) that rejected the further lowering of their import tariffs until developed countries, particularly the US and EU, committed to significantly lowering subsidies to their domestic agricultural sector (http://www.cid.harvard.edu/cidtrade/gov/southafricagov.html). Clearly, the claim that South Africa is more aligned with the West is contestable and probably merely a case of South Africa's pragmatism being viewed as, or mistaken for, being a stooge. Indeed, Pretoria's energetic efforts and commitment since 1994 towards fashioning regional integration and economic renewal are testimonies to a South Africa that is seeking to re-insert itself into the African political economy.

Yet, returning to the issue of South Africa's Africa foreign policy prior to democracy, South Africa's relations with the rest of Africa first became somewhat strained with the swearing in of DF Malan as Prime Minister in 1945. With the change in government, came the adoption of a new domestic regime namely 'apartheid'. The rationale behind the new apartheid regime was to 'counter black self-determination' which was at the time, becoming an important trend in the rest of Africa (Mills, 2000: 227). Malan had also envisaged the 'development of the continent along the lines of Western European Christian Civilisation' (Mills, 2000: 227). It was hoped that South Africa could foster friendly relations and links with neighbouring states in Africa, but it would do so with collaborations among permanent white communities in South Africa's neighbouring countries. During this time, decolonisation quickly became the ideal option and most colonial powers were transferring power over to 'black governments'. With other African countries gaining independence from colonial powers, it soon became clear that identification with colonial authorities was not the favoured route to building links in the various African countries. South Africa had to become more pragmatic in its approach and incorporate the realities of decolonization. The subsequent South African government under the leadership of H.F. Verwoerd tried to encompass these new realities in South Africa's foreign policy.

Verwoerd outlined plans for regional cooperation, focusing on South Africa and the British High Commission territories of Botswana, Lesotho and Swaziland (Mills, 2000: 227). But, like D.F Malan's plans, Verwoerd's conception of African cooperation did not materialize because of South Africa's domestic policies of apartheid. South Africa's international standing became worse in March 1960 with the Sharpeville crisis. Demands for international sanctions against the repressive regime materialized and South Africa became far more isolated. Verwoerd's response to such isolation was the 'politics of security', which sought the suppression of internal violence and a stress on economic growth (Mills, 2000: 230). An important outcome of the 'politics of security', was that following Verwoerd, the new Prime Minister B.J Voster, picking up from the 'politics of security' concept, attempted an 'outward movement' which sought 'rapprochement' with 'Black Africa" (Mills, 2000: 230). The government strategy was that it could improve its international standing and the acceptance of its white minority government, if it could improve relations with "Black Africa" (Mills, 2000: 230).

Although this quest to re-formulate relations with other African countries proved unsuccessful, South Africa did manage to establish links with Malawi in 1967 and with the BLS states through the revision of the South African Customs Union agreement in 1969. Unlike the BLS states, relations with other African countries proved thornier. In a speech made at the OAU Council of Ministers meeting in April 1975, it was stated that "any talk with the apartheid regime is such nonsense that it should be treated with the contempt it deserves" (Mills, 2000: 231). It was apparent from this speech that the prospect of relations between South Africa and the wider continent would not be considered appropriate. Yet despite the political condemnation of the Republic of South Africa, some African states still maintained informal and covert trade links. It was reported that imports from South Africa by certain African countries increased from US$280 million to US$680 million in 1969 (for which statistical evidence remains difficult to retrieve) (Mills, 2000: 231).

By the late 1970s with South Africa slowly losing its respectability on the international scene and with the fear of guerilla wars in Rhodesia and Portuguese territories of Angola and Mozambique spilling over the borders into South Africa, the apartheid state sought alliances with the so-called 'pariah states' (Israel, Paraguay, Taiwan and Chile) in order to modernize its security forces. This modernization of the military force was perceived as imperative because of changes in both the domestic and international scenes. With the independence of Mozambique and Angola, came escalations in guerilla wars in both Namibia (formerly South West Africa) and Zimbabwe (formerly Rhodesia). The creation of the new and independent states were said to have encouraged the civil uprisings in

Soweto (Mills, 2000: 230). The economic boom that South Africa experienced in the 1960s was offset by an economic crisis in the 1970s with the incessant rioting.

South Africa soon began to feel the pressure mounting and perceived these changes in the domestic and international contexts as a 'total onslaught' against the apartheid government. The period 1978 to 1989 saw P.W Botha assume leadership of South Africa. Botha's counteractive to the total onslaught against the Republic was the adoption of the 'total national strategy'. The strategy had two objectives. The first was the creation of a peaceful Constellation of Southern African States (CONSAS) and the second involved the defence of South Africa using any means possible against external interference.

The proposed formation of CONSAS by Botha in 1979 sought to include other African countries like the BLS States, Malawi, Rhodesia, Namibia, the TBVC States (Transkei, Bophuthatswana, Venda and Ciskei), and if possible Zambia and Mozambique (Mills, 2000: 240). The rationale behind the formation of CONSAS was to promote economic cooperation. If Botha were to have made a success of CONSAS then it was believed that South Africa's domestic political order would be recognized. But like his predecessors, Botha's strategy to bring about recognition of the domestic order, formalize African relations, and improve the international standing of South Africa failed to materialize. Instead of joining CONSAS, African countries like Zimbabwe, Botswana, Lesotho, Swaziland, Angola, Zambia, Malawi and Tanzania united to form the Southern African Development Co-ordination Conference (SADCC) which was formed in 1979, but the grouping only lasted till 1992, until which time South Africa gained membership and the Southern African Development Community (SADC) was born. The aim behind the formation of SADCC was to reduce neighbouring states' dependence on the South African economy (Mills, 2000: 241).

In the early 1980's, the Republic once again found the domestic order threatened. Domestically, pressure for democratic change had begun and freedom fighters that were banished had set up bases of operations in neighbouring countries to launch attacks against the apartheid regime. With these domestic and regional pressures mounting, the government abandoned all notions of formalizing regional cooperation and instead placed security and the protection of its domestic order as the top priority. This strategy led to the formulation of the infamous 'destabilisation policy'. This policy encompassed mainly economic and military coercion in the sub-region. The purpose of this destabilization policy was to "keep neighbouring states off balance, especially those that had been used to launch ANC and SWAPO attacks against the white regime" (Mills, 2000: 243).

The destabilization campaign led to military invasions of at least seven countries in the Southern African sub-region, the backing of dissident groups in Angola (UNITA) and Mozambique (RENAMO), and the general disruption of regional economies by sabotaging transport systems and disruption of oil supplies. The cost of these military missions in the Southern African sub-region proved to be immense. It was estimated that the South African destabilization campaign cost more than 1.3 million lives at an economic cost of US$ 65 billion (Bouckaert, 2000: 240). The 1985 memorandum to the Organisation of African Unity estimated damage to the value of US$ 10 billion to SADCC states covering the period 1980-1985 (Bouckaert, 2000: 240).

By the end of the 1980s, it became apparent that Pretoria could no longer sustain its military campaign against the sub-region. Three important factors were weighed against the apartheid government. Firstly, the international sanctions were taking its toll against the South African economy. Secondly, because of international sanctions, South Africa was becoming dependent on its African neighbours despite its 'threat' of counter-sanctions, and thirdly, its military position could no longer be maintained in the Southern African sub-region. Any further demands on the SADF would have pushed an economy already weak by sanctions into major recession (Mills, 2000: 251). South Africa was experiencing economic stagnation with a declining GDP as a result of strikes, disinvestments and sanctions. It was believed that between 1985 and 1990, South Africa suffered a capital outflow of R6 billion annually (Mills, 2000: 249).

By 1989, realizing that its military and economic coercion was finally taking its toll on the domestic base, and the fact that its power within the region had limitations, the apartheid government sought new avenues for diplomatic relations with the wider continent. There was a shift in the nature of foreign policy, termed by political writer Andre du Pisani as a move from 'rampant realism' to 'neo-realism' (1992: 180). The notion of neo-realism, while recognizing South Africa as a sub-regional power in Southern Africa, realizes that there are limits to that power and relies on non-coercive instruments of policy such as diplomacy and economic cooperation (du Pisani, 1992: 181). Following this shift in foreign policy, it seemed that the following tenets, in the words of Neil van Heerden (the then Director General of the Department of Foreign Affairs), formed the core of South Africa's new foreign policy on Africa in 1989/1990:

- *South Africa is a part of Africa, in and through which our future lies*
- *African problems must be resolved by Africans*
- *South Africa's international isolation is contrary to African interests*
- *The use or support of violence for the promotion of political objectives is unacceptable*
- *Joint interests and responsibility in respect of the economic, sociological and ecological welfare of Southern Africa ought to be the basis of cooperation and good neighbourliness*
- *South Africa is economically powerful and has the infrastructure and capabilities to be the cornerstone of regional development.*
- *Southern African states are interdependent and their future peace and instability are indivisible*
- *South Africa favours a regional conference for the promotion of joint interests in southern Africa*

(Venter, 1997: 98).

The above statement however, proved to be nothing more than window dressing as South Africa's sub-regional interests still remained pretty much the same. Underneath it all, the apartheid government still strived to ensure the dependence of neighbouring states on South Africa in terms of labour, transport and trade. The 'supposed change' in South Africa's Africa policy did not help much in the domestic sphere where pressures for internal change were mounted by the oppressed masses. The correlation between international pressures (through sanctions) and domestic pressures (the oppressed majority) on South Africa, finally propelled the apartheid government into submission of power.

This change in domestic order came about under the leadership of President F.W de Klerk. To return to international respectability and to emerge from an economic slump, de Klerk realized the need for reform of the domestic order. This reform later emerged from the CODESA negotiations held between de Klerk and freedom fighter Nelson Mandela in 1991 and 1992. These negotiations not only resulted in the dismantling of the apartheid regime, but also led to the first democratic elections in 1994, which saw the emergence of a Government of National Unity (ANC and NP). The move towards democracy was perceived not only as a great triumph for those who suffered under the apartheid regime but also for the continent at large.

2.2. Post-1994: Reconstructing relations with the rest of Africa

> *South Africa cannot escape its African destiny. If we do not devote our energies to this continent, we too could fall victim to the forces that have brought ruin to its various parts* – Nelson Mandela (1993: 89).

The democratic elections held in April 1994, marked a watershed moment in South African politics. Yet, while the liberation struggle of many had finally been realized, the question that remained was how would the new government "translate the gains of the liberation diplomacy into more principled foreign policy" (Alden & Le Pere, 2003: 3). More importantly, where would the region now fit into South Africa's new foreign policy? Three propositions were put forward as to the nature of post-apartheid South Africa's relations with other African countries. Firstly, democratic South Africa could set out to dominate the sub-region as a sub-regional power (hegemon). Secondly, democratic South Africa could assume a leadership role in relation to the rest of the continent. Finally, democratic South Africa could turn its back on the rest of the continent in order to concentrate on its own socio-economic development (Venter, 1997: 76).

The government's response to the three propositions turned out to be quite the opposite. It vowed that it would not be viewed as a hegemon; that it was in no position to assume leadership; and finally, after the support that its fellow African countries had given during the apartheid era, the probability of South Africa turning its back on its African counterparts was unlikely. Bearing in mind that the internal policy framework of South Africa was based on the acceptance of the Reconstruction and Development Programme (RDP), Mr. Alfred Nzo (the then Foreign Affairs Minister) in a brief to Parliament in August 1994, outlined the following declarations (derived from the RDP White Paper) in relation to South Africa's foreign policy commitment to Africa:

- *It is impossible to rebuild the economy of South Africa in isolation from its Southern African neighbours. It would also be dangerous for South Africa to dominate its neighbours, as it would restrict their growth, reduce their potential as markets.... It is therefore important for South Africa to participate in regional development through multilateral forums such as the Southern Africa Development Community (SADC) and Southern African Customs Union (SACU).*
- *It is important for South Africa to cooperate with its neighbours to develop an effective growth and development strategy...*

- *South Africa's integration of African foreign policy and trade policy as part of a broader strategy to strengthen South-South relations.*

(Henwood, 1997)

A great deal of faith was placed in RDP as it was believed that such a programme would have positive benefits for sustainable reconstruction and development in not only South Africa but also in the Southern African sub-region. The RDP seemed to fit in with the Mandela government's objective of portraying South Africa as non-hegemonic. To bolster that position, that government embarked on an increasing number of co-operation engagements with other African countries across the continent. However, South Africa's non-hegemonic intentions were questioned in 1998 when South Africa (together with Botswana) launched a military intervention to stabilize neighbouring Lesotho. It seemed that South Africa's foreign policy was becoming ad hoc and contradictory and, more importantly, there were insinuations that South Africa was beginning to assume the position of a regional hegemon on the continent.

Thabo Mbeki was quick to quash such insinuations on assuming the South African Presidency in 1999. The Mbeki era, some contend, appears to be qualitatively different from that of his predecessor in that South Africa's Africa relations were now conducted within a coherent foreign policy framework which not only eschewed hegemony specifically but also which placed emphasis on partnership and cooperation (Daniel, Lutchman and Naidu, 2004: 567). A number of changes in South Africa's domestic and foreign policies warrant this claim to the Mbeki government's preference for partnership over hegemony. For instance, with economic globalisation and the neo-liberal alternative (privatization, open capital markets and trade liberalization) taking the world by storm, post apartheid South Africa had realized quickly that it had to be far more pragmatic in relation to its economic policies. In 1996, a repositioning strategy, which was encapsulated in the Growth, Employment and Redistribution (GEAR) economic policy was agreed upon and subsequently replaced the existing RDP (Malmbo-Ngcuka, 2003: 2). But, GEAR only became much more pronounced when President Mbeki assumed office in 1999.

The Mbeki government "underscored the critical role of foreign investment and trade in the process of domestic transition" (Schraeder, 2001: 233). As such, other African markets soon became the focal point of South Africa's global economic strategy. This focus on the other African markets as trade and investment destinations has yielded great success for South Africa's public and private sector, as South Africa not only enjoys a favourable trade surplus with the rest of the region but also takes pleasure in the profits earned from investments made in some African countries (Honey, 2003: 25).

Yet, apart from looking at the rest of the continent as an export market and investment destination, President Thabo Mbeki has also pledged his commitment to developing the African continent. Central to this effort was the call for an 'African Renaissance', which subsequently became embodied in the Millenium African Plan (MAP). MAP sought to address issues of limited development on the continent as well as deal with Africa's growing marginalization in the global markets. MAP focused on the following priority areas: "the creation of peace, security, stability and the promotion of democratic governance, investing in people through the comprehensive human development strategy, increasing investment in information and communications technology, improving the development of infrastructure especially the transport and energy sectors, and mobilizing sources of domestic and foreign financing for development" (Alden & Le Pere, 2003: 10). Soon after the emergence of MAP, President Abedoulaye Wade of Senegal put forward the OMEGA plan for Africa, which was widely seen as a "Francophone-inspired alternate and competing framework" to MAP (Alden & Le Pere, 2003: 10). The OMEGA plan focused on conceptualizing a "new strategic development vision, with the goal of reaching an average annual economic growth rate of 7%" (Mingo & Wehner, 2001: 1). Priority sectors under the OMEGA plan included basic infrastructure, education, health care and agriculture (Mingo & Wehner, 2001: 1). While common in the objective of trying to forge collective commitment by the various African leaders to development, the plans differed in the scope of their approach to African development. The Omega Plan proposed a narrow notion of development focusing on economic growth. MAP, on the other hand, had a broader and holistic developmental vision encompassing political, economic and social aspects (Mingo & Wehner, 2001: 3). With two prospective African development plans being put forward, the issue remained as to which plan would be adopted to lead the continent forward in its mission for African renewal.

With increasing rivalries and tensions between OMEGA and MAP, the relevant leaders behind the two development plans recognized the need for compromise. As such, a merged and synthesized version of the two separate development plans was adopted and referred to as the New African Initiative (NAI). With the additions of Egypt and Senegal, South Africa, Nigeria and Algeria constituted the core steering committee countries that jointly presented the merged NAI for approval to the OAU Summit in Lusaka, Zambia in July 2001. This meeting was followed by an intensive lobby effort with the G-8, the EU, the UN and the Bretton Woods System (Alden & Le Pere, 2003: 10). The NAI Implementation Committee met in Abuja, Nigeria in October 2001 to "finalize the nature of the initiative and develop a definitive text" (Alden & Le Pere, 2003: 11). It was at this meeting that the NAI was renamed and replaced by the New Partnership for Africa's Development (Nepad). Through Nepad, African leaders made a commitment to work together, in effective partnerships, to rebuild the continent. The African governments pledged to promote peace and stability, democracy, sound economic management and people-centered development, and to hold each other accountable in terms of agreements outlined in the programme (www.nepad.org). The Nepad document also outlined several priority sectors. These included infrastructure, information and communications technology, human development, agriculture, and the diversification of production coupled with increased market access for African exports (Mingo & Wehner, 2001: 3).

In addition, President Mbeki realized that South African business (private sector as well as its public sectors) had a critical role to play in the roll-out of Nepad in the rest of the continent, especially in relation to the Nepad priority sectors mentioned above. Whereas the South African government has expressed its foreign policy objective in relation to the rest of Africa as being that of a development partner, in the economic sphere the objectives of the business elite remain unclear. The economic sphere is broken up into the public enterprises and the private sector. While the South African government has the ability to keep its public sector in check (owing largely to the fact that the South African government remains a majority stakeholder in state-owned enterprises and it has regulatory mechanisms to commission accountability), the private sector remains the 'problem child' for the South African government, especially given that there are no formal ties that bind the private sector to act in consonance with the government. Not surprisingly, this has caused tension as the private sector's expansion and poor business conduct as it exploits business opportunities in other parts of Africa opened up by the Pretoria in the name of Nepad may be portraying South Africa as an imperialist state.

To try and at least ensure that the private sector expansion in other African countries is within ethical bounds, President Mbeki requested the setting up of the Nepad Business Group, which was founded as a mechanism to forge closer working relations between South Africa's private sector, the South African government and the Nepad Secretariat in order to play a meaningful role in assisting with Nepad goals.

At the World Economic Forum- African Economic Summit in Durban, in June 2003, more than 75 South African companies (and 75 international companies) of the 200 companies at the conference, signed the Nepad "Business covenant and declarations on business in Africa". The signing of this business declaration was a landmark development as it signified a groundswell of private sector support for Nepad and a step forward to solidifying public-private partnerships. Those companies that signed the declaration committed themselves to:

- *Develop best practice standards of corporate governance throughout Africa, buttressed by proper accounting and audit procedures and a commitment to eliminate corrupt practices.*

- *Further improve the quality and effectiveness of corporate social responsibility programmes and the continued transfer to national economies of appropriate skills and technology, to help build human capital and productivity.*

- *Provide support to African governments in their efforts to achieve best practice standards of economic governance by sharing experiences and seconding skills where appropriate. This is aimed at promoting the enhancement of national accounts, corporate law, and financial market operations, and the harmonizing of listing requirements, investment codes and other domains where the knowledge and skills of private sector institutions might be relevant.*

(Nepad Business Group, 2003: 2).

Following the signing of the Nepad business declaration, the Nepad Business Group under the chairmanship of Mr. Ruel Khoza, put forward an action plan. The first phase of the action plan was the development of two covenants on 'the elimination of corruption' and 'corporate governance'. The second phase of the action plan was the identification of sectoral priorities on which the group will focus its efforts in relation to other countries in Africa. The sectoral priorities included banking and finance, resources, information, communication and technology, transport, energy, stock exchanges, environment and water (Nepad Business Group, 2003: 4). Yet, signatory companies have a great deal to prove as they try to translate their commitment to Nepad obligations from a signature on paper into actual priority projects.

There is no doubt that emerging from its period of isolation and with its embrace of democracy, South Africa is looking for greater engagement with its fellow African countries. South Africa's growing trade and investment links with fellow African countries best illustrates the growing importance of the rest of Africa to South Africa.

Chapter 3

South Africa's trade patterns with the rest of Africa

3.1. South Africa's overall trading patterns

South Africa's trading relations have always been perceived as more inclined towards developed markets (Ryan, 2003: 20). In terms of regions, South Africa's biggest export market has been the European Union (EU). The EU is considered as South Africa's biggest source of investment, accounting for up to half of South Africa's total foreign trade. Six of South Africa's top ten trading partners are European countries (comprising of the United Kingdom, Germany, Netherlands, Belgium, Italy and Spain). The importance of the EU region has also been solidified with the conclusion of the trade agreement with South Africa in January 2000. The SA-EU trade agreement allows for the removal of 90% of all trade barriers covering the period 2000 to 2010. Essentially, the agreement paves the way for the establishment of a bilateral free trade area between the EU and South Africa, in conformity with World Trade Organization (WTO) rules. The agreement covers important issue areas such as free trade, development, co-operation, finance, technical assistance and political dialogue as a step towards meaningful relations with South Africa.

The conclusion of the Free Trade Agreement (FTA) has seen considerable growth of trade between South Africa and the EU. Since 2000, South Africa's exports (mainly on products subject to tariff reductions) to the bloc increased by 50%. The EU's exports to South Africa in comparison grew at a much slower rate of 20% in 2000 and by a further 11% in 2001 (www.southafrica.info/doing_business/sa_trade/agreements). It seems, therefore, that the FTA seems to be slightly in South Africa's favour. The EU remains an important economic partner for South Africa, accounting for 31.3% of South Africa's exports and 39.7% of South Africa's imports in 2000 (AFDB/OECD, 2003: 286). Also of importance is the fact that South Africa attracts 70% of its foreign direct investment from the EU (AFDB/OECD, 2003: 288).

Apart from the EU, North America (and more importantly the United States) also stands as one of South Africa's key trading relationships. The trade and investment relationship between South Africa and the US has been growing considerably since 1994 and has become even more important with the introduction of the Africa Growth and Opportunity Act (AGOA) passed by the US legislature in 2000. AGOA allows for the duty-free access of eligible African exports into the US. In relation to South Africa, some of the major sectors that have benefited under AGOA include clothing and textiles as well as some agricultural and mining sectors. Exports falling under AGOA amounted to $ 1,3 billion in 2002. Statistics for 2002 indicate that the following South African industrial sectors produce the majority of products that are AGOA-eligible (i.e. exports in those product categories that were specifically added under AGOA): 'transportation equipment' (2002: 45%; 2001: 60%); AGOA-eligible 'minerals and metals' (2002: 27%; 2001: 34%); 'textiles and apparel' (2002: 6,5%; 2001: 3,5%); and 'agricultural products' (9%; 2001: 8,5%) (AGOA1). Yet, while there may be positive spin-offs for South Africa in terms of increasing its exports, there is a possible downside to the agreement. One such downside lies in the US discretionary powers. In accordance with these discretionary powers, the US is entitled to change tariff margins subsequent to South Africa's exports in certain products growing dramatically (African Economic Outlook, 2003). A further problem with AGOA concerns the time frame for the agreement. AGOA is scheduled to lapse in 2008. In an attempt to safeguard its market access in the US, South Africa (in cooperation with SACU) is looking to sign a separate free trade agreement with the US. The implications of the FTA agreement (both positive and negative) for South Africa and her regional partners remain unclear at this early stage of negotiations.

Overall, South Africa's relations with North America, remains important and beneficial as South Africa enjoys a trade surplus with the region. Recent statistics show a trade surplus for South Africa of R3 billion in 2000, R5 billion in 2001 and R3 billion in 2002 (DTI trade database). Strategically, South Africa would do well in trying to ensure and reproduce its trade surpluses with the North American region.

It must be noted that South Africa's core focus for its exports do not however lie with the highly lucrative markets of developed countries like the EU and North American regions. An important trade pattern seems to be emerging. Essentially, this pattern illustrates the growing importance of other African markets as profitable export destinations for South African goods. Table 1, Table 2 and Graph 1 outline South Africa's trading relations with the rest of Africa and outlines some important consequences of this trading relationship.

Table 1: South Africa's Overall Export Partners

Exports (R millions) Region	2000	2001	2002	Growth (00-02)
European Union	66, 181	80, 264	98, 256	48
Africa	28, 067	34, 675	44, 509	59
NAFTA	28, 073	32, 910	38, 574	37
North East Asia	20, 983	23, 582	30, 396	45
China's	8, 510	10, 450	13, 427	58
Middle East	7, 831	8,704	10, 984	40
ASEAN	4, 990	6, 342	7, 656	53
EFTA & Other	3, 872	4,361	6, 028	56
Pacific Continent	3, 836	4, 209	5, 748	50
SAARC	3, 526	4, 138	4, 876	38
Other	1, 453	1, 894	3, 003	107
Mercosur	2, 403	3, 751	2, 799	16

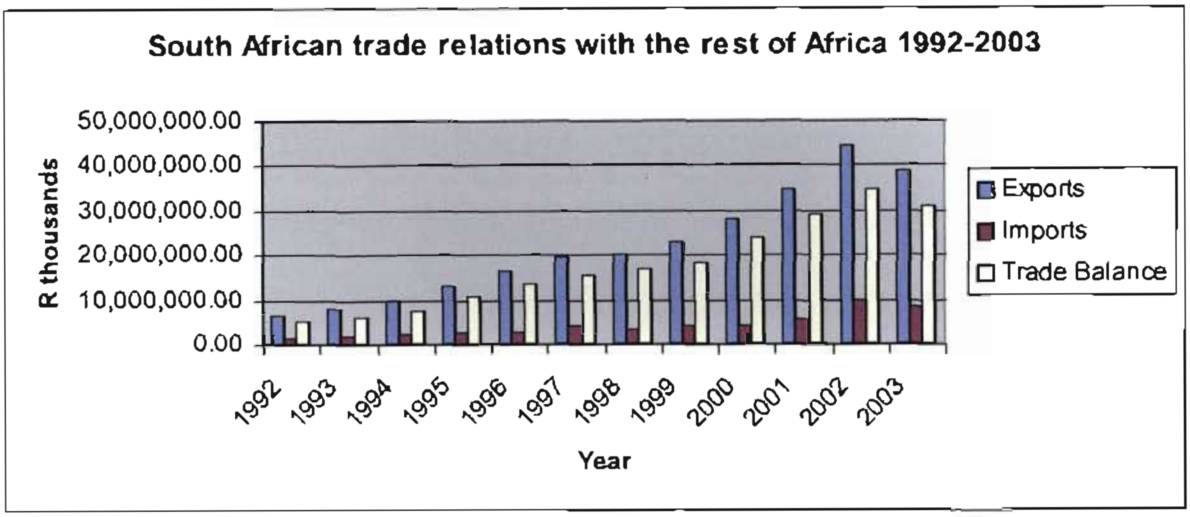
Source: Statistics adapted from the Department of Trade and Industry Trade Database

Table 2: South Africa's Overall import Partners

Imports (R millions) Region	2000	2001	2002	Growth (00-02)
European Union	74, 510	88, 731	115, 134	55
NAFTA	24, 342	27, 899	35, 185	45
Middle East	26, 309	27, 952	26, 032	-1
North East Asia	18, 374	18, 692	23, 634	29
China's	13, 123	15, 683	22, 046	68
ASEAN	7, 291	8, 025	11, 555	58
Africa	4, 261	5, 630	9, 927	133
Pacific Continent	5, 037	6, 511	8, 383	66
Mercosur	3, 674	5, 498	7, 634	108
EFTA & Other	4, 835	4, 333	5, 191	7
SAARC	2, 179	2, 576	3, 486	60
Other	2, 137	2, 093	4, 054	90

Source: Statistics adapted from Department of Trade and Industry Trade Database

Graph 1: SA trade relations with the rest of Africa (1992-2003)



Trade statistics adapted from the Department of Trade and Industry trade database. (http://www.dti.gov.za/econdb/raportt/rapmenu1.html).

Overall, the statistics outline the following important trends. Firstly, Africa has emerged as South Africa's second largest export destination after the European Union. This positive growth is due to the increasing number of African trading partners and agreements concluded since the apartheid era. Effectively, the increase in African trading partners has translated into volume of trade increases (Liquid Africa, 2003: 2). This is evidenced by Graph 1, which illustrates that exports to other African countries have more than quadrupled from R10 billion in 1994 to R44 billion in 2002, with a slight drop to R39 billion in 2003. The increase in trade relations with other African countries could be through one of many reasons. There was no doubt that during the apartheid era, South Africa did have covert trade relations with some countries in Africa and statistics on such trade remain unreliable and hard to access. Once sanctions were lifted, trade relations that were once covert were converted into formal relation thus resulting in the flourishing of trade relations across the continent. These trade relations are strengthening as more emphasis is being placed on regional integration under the auspices of Nepad.

Secondly, South Africa's trade relations with the rest of Africa could be attributed to tariff reductions across all sub-regions in Africa. In the 'African Development Report 2004', the following patterns of tariff changes were noted:

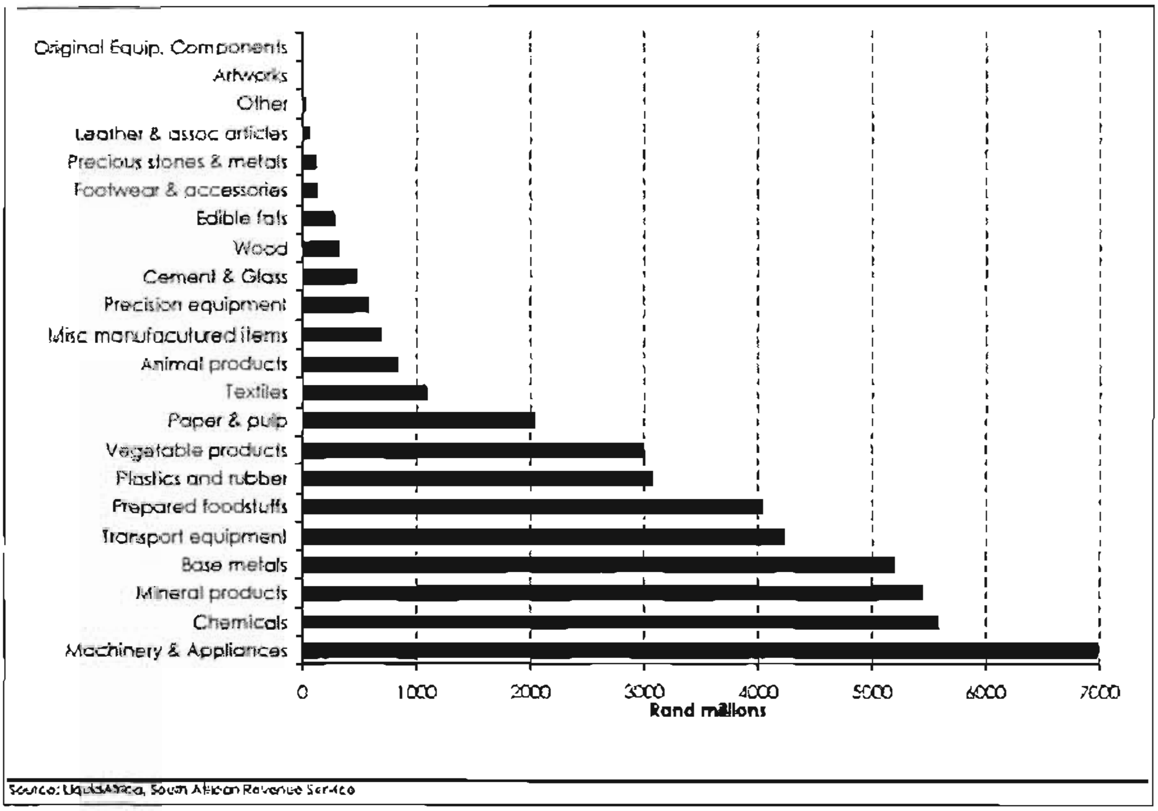
- In All of Africa, average scheduled tariffs dropped from 23.6% in 1990-1995 to 16.1% in 2000-2002.
- In the North African sub-region, average scheduled tariffs were reduced from 27.2% in the 1990-95 periods to 22.5% in the 2000-02 periods.
- In the West African sub-region, average scheduled tariffs, which stood at 22.8% in 1990-95 periods, declined to 14.2% in 2000-02 periods.
- In the Central African sub-region, average scheduled tariffs dropped from 21.7% in 1990-95 periods to 16.7% in 2000-02 periods.
- In the East African sub-region, average scheduled tariffs were reduced from 28.3% in 1990-95 periods to 15.9% in 2000-02 periods.
- Lastly, in the Southern African sub-region, average scheduled tariffs dropped from 19.7% in 1990-95 periods to 12.7% in 2000-02 periods.

These tariff reductions are not only indicative of Africa's move towards trade liberalisation but also serve to illustrate how they helped to open up market opportunities for South African multinational enterprises.

Thirdly, while South Africa has been exporting extensively to the rest of Africa, it has been importing minutely. This has resulted in a net trade imbalance between South Africa and the rest of the region. Looking at statistics for the last three years, in 2000, exports stood at R 28 billion and imports at R 4 billion (trade imbalance of 7:1); in 2001, exports stood at R 34 billion and imports at R 5 billion (trade imbalance of 6.8:1); and in 2002, exports stood at R44 billion and imports at R 9 billion (trade imbalance of 4.8:1). While it seems that the trade balance is somewhat decreasing between South Africa and the rest of Africa in terms of ratio, South Africa nevertheless enjoys a positive trade balance. The bottom line therefore is that trade relations remain heavily in South Africa's favour rather than most African countries.

South Africa's trade surplus with other African countries essentially originates from the nature of goods it exports to other African countries. South African exports to the rest of Africa are primarily manufactured goods. Leading exports include machinery, chemicals, mineral products, base metals, transport equipment, and prepared foodstuffs. Most products are capital goods and equipment and intermediate goods that are subsequently processed in local industries (Liquid Africa, 2003: 4). In comparison, South African imports from other African countries comprise mostly of lower value products like tobacco, beverages, prepared foodstuffs, wood products, textiles and some high value products like mineral fuels and oils. From prior research, South Africa has a comparative edge over most African countries in the manufacturing sector. Graph 2 below, which gives a brief indication of South African goods being exported to other African countries, highlights this comparative advantage.

Graph 2: 2002 SA Exports by products to Africa



Source: LiquidAfrica, 2003: 4

Nevertheless, it seems that the perception of the African market as 'tiny in consumer terms and limited by overall poverty' has been negated by South Africa's increasingly successful penetration of fellow African markets. However, beneath the success of South Africa's trade with other African countries lies the reality of the huge aggregate trade imbalance that exists between South Africa and the rest of the continent. Most African countries have perceived this trade imbalance as 'unfair' as they believe that while they have allowed South African products into their markets, South Africa has not been accommodating to their efforts to export products to the South African market. At present there are only claims by some African countries (such as Kenya, Namibia, Swaziland, Zambia, and Zimbabwe) regarding a lack of reciprocity in trade relations between South Africa and other African countries. Factual evidence in this regard remains limited and requires further research.

In terms of claims, COMESA members recently complained that they had products that were competitive enough to be placed in the South African market but were finding it difficult to export into the market because South Africa's sanitary and phytosanitary (SPS) requirements are dissuading other African products from entering the South African market (Ndlela, 2003). Sanitary and phytosanitary (SPS) measures are regulations and standards applied to both imported and domestic goods that aim to protect human or animal life or health from food borne risks, humans from animal and plantcarried diseases, plants from pests and diseases (www.ictsd.org/issarea/atsd/Resources/docs/NTB.pdf). Yet such measures have the ability to act as trade barriers to protect domestic producers and thus restrict the flow of trade. Countries such as Zambia and Mauritius have continually noted the lack of reciprocity in terms of entry into the South African market and as such have argued for greater market access into South Africa's market.

As a case in point, in 2001 Mauritius and South African authorities were at loggerheads regarding the trade of canned tuna. It was found that South Africa continued to purchase canned tuna from Thailand and Philippines but refused entry to canned tuna from Mauritius because it did not meet the standards (food safety requirements) set by the

South African Bureau of Standards (SABS) (International Trade Forum 2002). These standards resulted in a barrier to sales of canned tuna by a Mauritian company. The result was that the International Trade Center (ITC) officials had to organize a mission for SABS officials to Mauritius to inspect the Mauritian company and determine whether there was a way of getting the company to meet South African standards. The end result was a technical agreement between the SABS and the Mauritian ministry responsible for controlling exports of fisheries. In terms of the technical agreement, South Africa would accept canned tuna from the Mauritian company subject to inspection of each consignment.

The case highlights a number of important issue areas. It seems that South Africa has the perception that other African countries are not producing goods that are competitive enough to be placed on the South African market. However, this is not true. Research by the International Trade Center (2001) found that the Southern African Customs Union (SACU) has potential to increase imports from the SADC by three times the current level. As a consequence of this, South Africa's trade balance with SADC would decrease from 9:1 to 2,5:1 (Ryan, 2003: 20).

Research done by Whitehouse and Associates has found, however, that the lack of increased inter-regional trade seems to stem from the "lack of information on reliable African suppliers, high transport costs, lack of cooperation between regional standards bodies and unreliable infrastructure, especially for chilled and frozen products" (Ryan, 2003: 20). What has been South Africa's reaction to the lack of reciprocity in trading relations with other African countries? In an effort to address the regions perception regarding its lack of openness to other African markets, the South African Department of Trade and Industry has begun work on a new project that looks at increasing market access for other African products in South Africa as well as diversifying and expanding the manufacturing sector in some of the African countries. The project is set for launching in July 2004. The specifics of the project is still to be released by the Department of Trade and Industry but it does show that the government has acknowledged the trade imbalance and is willing to try and reduce it to a more acceptable level.

The trade imbalance is not the only implication that arises from South Africa's relations with the rest of the region. Looking at the breakdown of South African trade relations by sub-region also depicts other implications. Before going into the specifics of the implications, a brief outlook is required of South Africa's trading relations with the various sub-regions in Africa.

3.2. Breaking down South Africa's trade relations with the rest of Africa by region

3.2.1. The Data

Tables 3 and 4 as well as graphs 3, 4, 5 and 6 below illustrate South Africa's trade patterns with the rest of the continent by sub-region. These tables and graphs give a clearer picture of the principal markets for South African products as well as the emerging and more lucrative markets that seem to capture South Africa's attention. The next section analyses this data and also compares South Africa's trade balance with various sub-regions in Africa.

Table 3: South Africa's African export destinations:

Region	*Exports (R millions)*				*Growth (2000-2002)*
	2000	2001	2002	Feb 2003	
Central Africa	477.4	651.3	975.8	245.5	104
Indian ocean	661.7	838.5	1,048.4	275.0	58
East Africa	2,084.4	2, 749.8	3, 591.9	487.2	72
North Africa	765.6	1, 693.4	1, 911.8	233.0	150
Southern Africa	21, 900.2	25, 384.2	31, 790.5	4, 153.8	45
West Africa	2, 175.4	3,357.0	5, 190.5	752.1	139

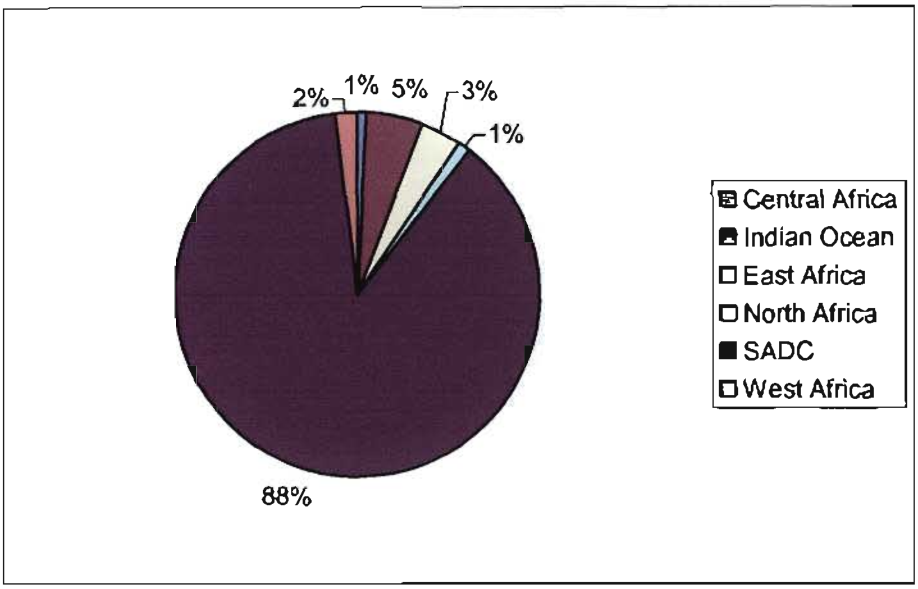
Source: Statistics adapted from the Department of Trade and Industry Database

Table 4: South Africa's African import partners

Region	*Imports (R million)*				*Growth (2000-2002)*
	2000	2001	2002	Feb 2003	
Central Africa	55.5	605.6	1,271.0	16.5	2190
Indian Ocean	23.3	18.3	36.7	1.9	57
East Africa	85.2	190.9	149.8	20.2	76
North Africa	140.6	134.0	242.7	30.5	73
Southern Africa	2,421.0	2, 756.0	4,171.0	631.7	72
West Africa	1,531.4	1, 924.3	4, 055.0	167.5	165

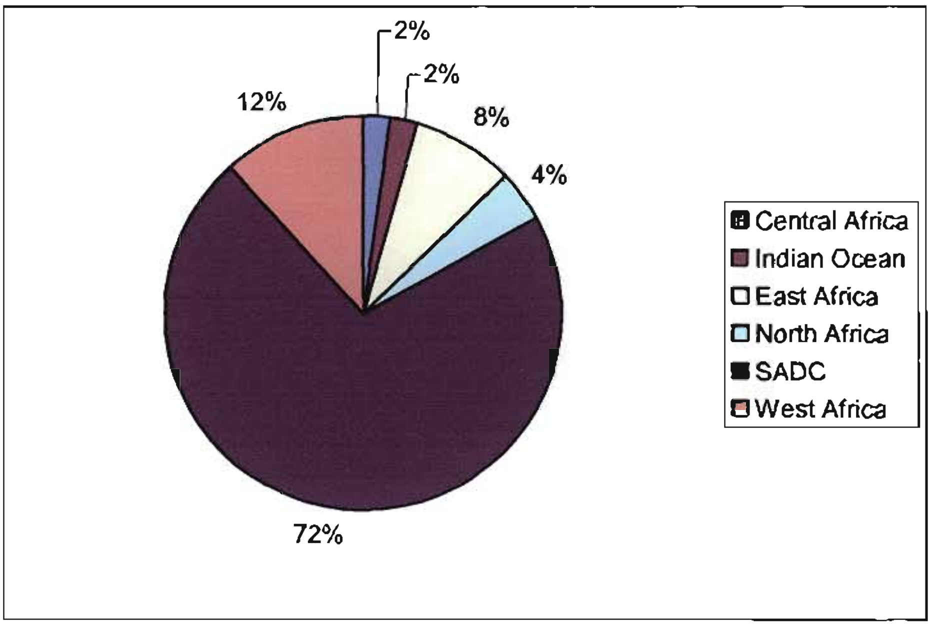
Source: Statistics adapted from the Department of Trade and Industry Database

Graph 3: SA exports to the rest of Africa (by region) 1992



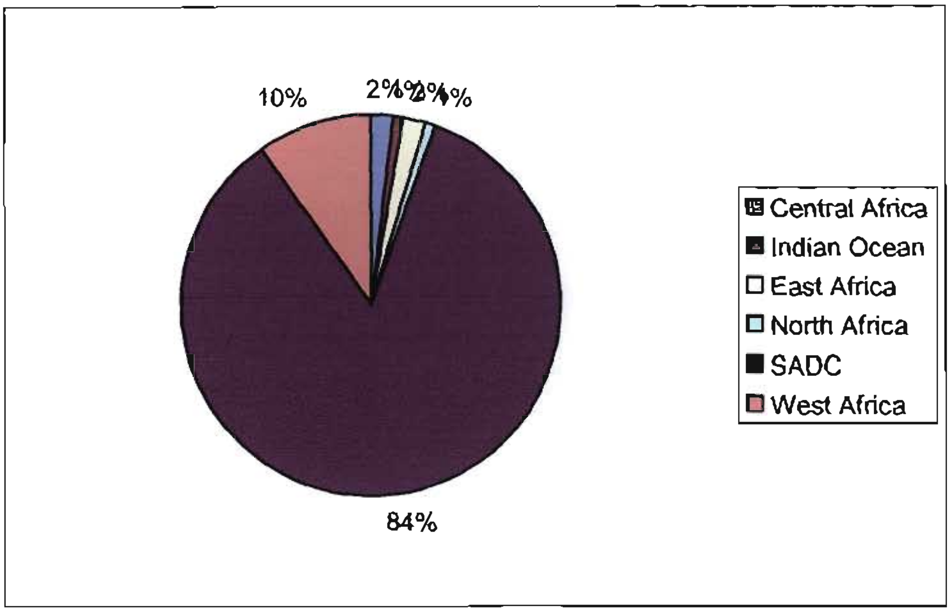
Source: Statistics adapted from the Department of Trade and Industry

Graph 4: SA exports to the rest of Africa (by region) 2002



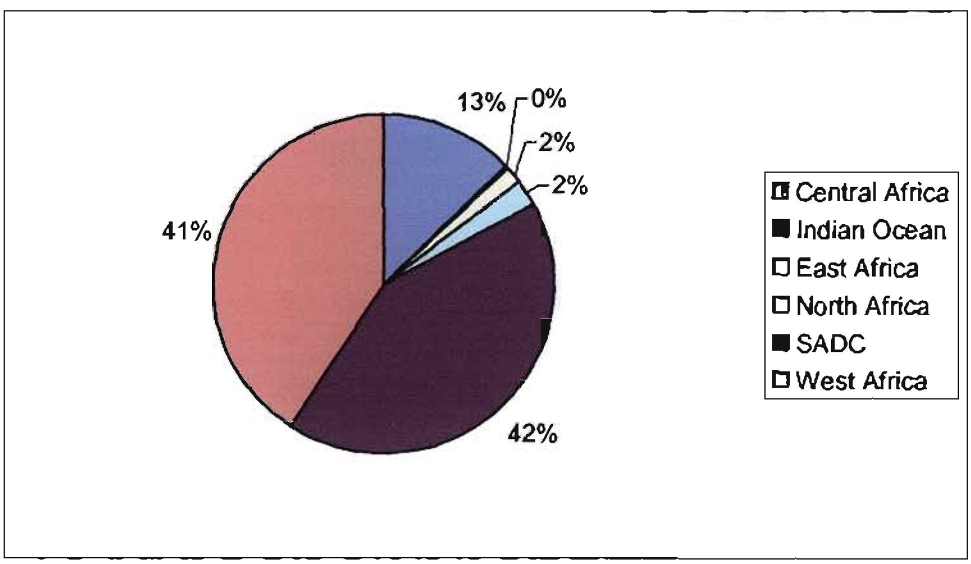
Source: Statistics adapted from the Department of Trade and Industry

Graph 5: South Africa's African import partners 1992



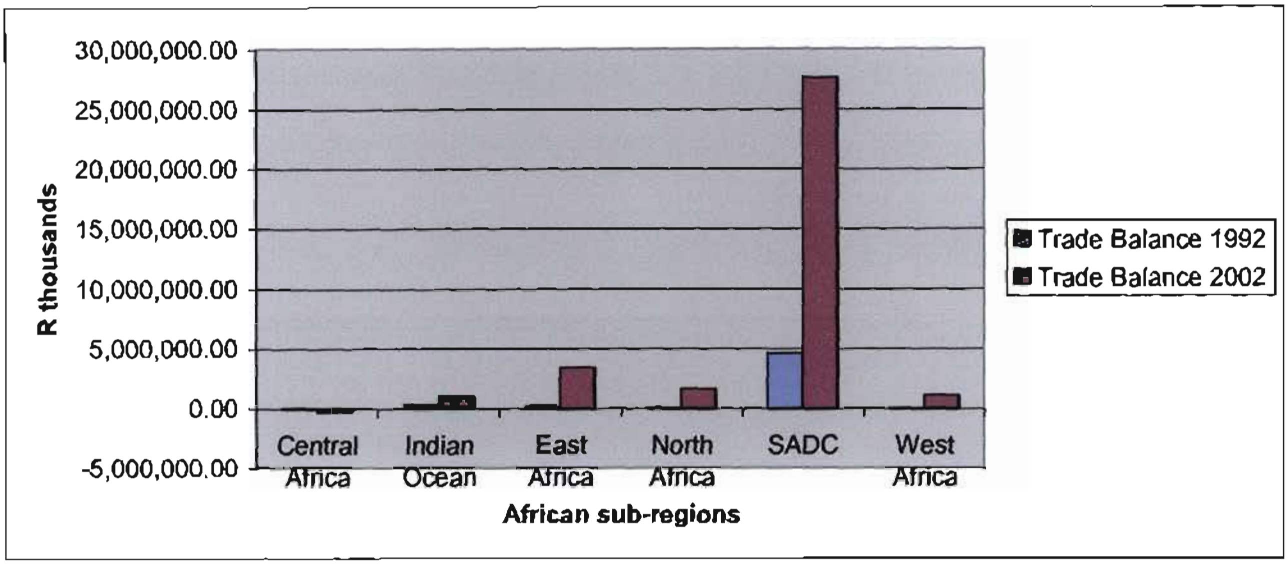
Source: Statistics adapted from the Department of Trade and Industry

Graph 6: South Africa's African import partners 2002



Statistics adapted from the Department of Trade and Industry.

Graph 7: Comparison of South Africa's trade balance with various sub-regions in Africa 1992 and 2002



Source: Statistics adapted from the Department of Trade and Industry.

3.2.2. Analyzing the data

The post-apartheid period has seen South Africa's commercial expansion gain great momentum in the rest of Africa. South Africa's increasing dominance cannot be avoided. Graphs 3, 4, 5, 6, and 7 illustrate South Africa's economic power particularly in the Southern African sub-region. In 2002, a whopping 71% in exports went to the Southern African sub-region. In the same year, South Africa also enjoyed a trade surplus of R 27 billion with the sub-region. The thorny question is why has South African trade focused largely on this sub-region? Possible explanation results from the fact that Southern African states have always shared links with South Africa and preferred South African products because of proximity and also the fact that they remain integrated in the Southern African Development Community (SADC) pact. The sub-regional bloc of

SADC comprises Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The aims of SADC include:

- *Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa;*
- *Support the socially disadvantaged through regional integration; Evolve common political values, systems and institutions; and*
- *Promote and defend peace and security; Promote self-sustaining development on the basis of collective self-reliance, and the interdependence of Member States* (www.**mbendi**.co.za/or**sadc**.htm)

These aims are achieved through the application of eight basic fundamentals:

- *Preservation of democracy, peace and security in the region;*
- *Investment in infrastructure and spatial development corridors;*
- *Investment in Human resources;*
- *Conservation and management of natural resources;*
- *The pursuit of market economic principles;*
- *The creation of a large market;*
- *Investment protection; and*
- *The promotion of science technology* (www.**mbendi**.co.za/or**sadc**.htm)

According to SADC, the ultimate objective of SADC, therefore, is 'to build a Region in which there will be a high degree of harmonisation and rationalisation to enable the pooling of resources to achieve collective self-reliance in order to improve the living standards of the people of the region' (www.sadc.int). Apart from the general aspects of the SADC pact pulling neighbouring states together, the trade protocol adopted on 1 September 2000 is considered a key instrument for forging regional integration in Southern Africa. The objectives of the protocol include 'enhancing the economic development, diversification and industrialization of the region and to establish a free trade area (FTA) in southern Africa by 2012' (Agama, 2001: 2). The motive behind establishing the FTA is seen as a mechanism to reduce trade barriers between member countries while at the same time maintaining a limited degree of protection against countries that are not signatories to the SADC FTA (Agama, 2001: 3). The intention of the FTA is to ensure that 100% of intra-SADC trade will be freed from tariffs by 2012. The potential benefits of establishing the FTA include:

For smaller countries of SADC:

- Access to an enlarged market;
- Increased competition and hence opportunities for improving efficiencies;
- Increased investment and higher total factor productivity growth from better access to technology; and
- Increased intra-regional trade along with inflows of foreign capital.

For larger countries e.g. South Africa:

- Increased market share and development of new markets especially for manufactured goods in SADC (Gaulier &Chauvin, 2002: 7-8).

Effective trade in goods amongst member states is said to be the economic foundation for all moves towards regional integration. Incidentally, SADC's trade amongst member states seems to be on the increase. The following table illustrates the intra- trade (export & import) statistics for the SADC region covering the period 1980-1999.

Table 5: Intra SADC Trade (Exports %)

	1980	**1985**	**1990**	**1995**	**1999**
Intra SADC trade	**0.9**	**3.4**	**3.1**	**9.9**	**10.0**

Source: Gaulier & Chauvin, 2002: 14

Table 6: Contribution of each country to intra SADC exports%

Source of intra SADC exports	*1980*	*1985*	*1990*	*1995*	*1999*
Angola	0.2	0.0	0.03	0.03	0.9
Dem. Rep. Of Congo	0.2	0.1	0.1	2.7	0.1
Malawi	11.1	6.1	0.5	1.9	2.3
Mauritius	2.2	0.1	1.4	0.6	0.6
Mozambique	1.8	0.1	0.1	1.4	1.6
South Africa	64.2	50.5	56.0	76.5	77.8
Seychelles	0.2	0.0	0.0	0.0	0.1
Tanzania	9.6	0.1	0.2	0.3	1.3
Zambia	4.4	4.1	1.0	1.3	2.0
Zimbabwe	6.0	38.9	40.7	15.4	14.9

Source: Gaulier & Chauvin, 2002: 14

Table 7: Percentage of imports by member countries from SADC

Share of SADC countries imports	*1980*	*1985*	*1990*	*1995*	*1996*	*1999*
Angola	0.0	0.6	0.8	7.1	18.9	10.0
Dem.Rep. of Congo	0.4	1.6	1.1	18.1	14.6	31.6
Malawi	36.7	53.0	24.8	49.2	62.5	64.4
Mauritius	14.5	4.2	9.9	11.3	9.5	11.2
Mozambique	3.7	5.0	7.6	55.5	54.3	58.6
South Africa	0.1	1.8	1.8	2.1	2.3	1.9
Seychelles	12.3	10.2	14.8	14.0	13.7	14.3
Tanzania	0.7	0.7	1.3	13.9	8.6	13.3
Zambia	1.2	10.9	7.9	49.1	54.7	65.5
Zimbabwe	8.3	31.7	33.1	51.2	49.4	51.2
Intra SADC Trade	*1.6*	*4.7*	*5.1*	*9.9*	*11.0*	*10.2*

Source: Gaulier & Chauvin, 2002: 16

According to Tables 5 and 6, it would seem that SADC is experiencing successful increases in intra trade exports, leaping from 0.9% (1980) to 10.0% (1990). The main contributors to an increase in exports in 1999 appear to be South Africa and Zimbabwe. South Africa dominates trade by supplying 77.8% (1999) of SADC intra trade exports (Gaulier & Chauvin, 2002: 14).

The fact that South Africa exports extensively and imports minutely (as little as 1.9% in 1999) has caused some concern to SADC member countries. These concerns again arise from the issue of trade imbalances and reciprocity in trade relations discussed earlier in the chapter. Currently, the trade gap between South Africa and the other member states of SADC seems to be increasing since the adoption of the SADC free trade agreement in 2000. The trade ratio between South Africa and the rest of SADC has moved from 6:1 in 1999 to 8:1 in 2000 and 9:1 in 2002 (Loxton, 2002: 19).

Effectively, the trade gap that exists exposes the low levels of interdependence that exists in SADC. The dependence of SADC members on South Africa could, in effect, result in trade diversion rather than trade creation within the region (Agama, 2001). It is the contention by Loxton (2002: 19) that the trade surplus that South Africa enjoys is a result of the reliance of SADC member states on exports from South Africa instead of looking for ways to diversify their own production bases. This reliance on the South African market does not allow for greater intra-trade amongst member countries, rather, it results in the flow of trade in one direction, namely South Africa. What is required is the ability of SADC members (especially non-SACU members of SADC) to gain greater access into dominant markets like the South African market (Gaulier & Chauvin, 2002: 18). However, this has been difficult due to factors such as the South African trade standards, which in most instances serve as trade barriers for products from some other African countries.

It is alleged by some SADC members that South Africa is using rules of origin to protect its textile and clothing, footwear, and motor vehicle industries (Kalenga, 1999: 5). However, South Africa has argued that strict rules of origin are crucial in attempting to avoid trade deflection, which occurs when producers in third countries use the SADC trade regime to export their own products into one or more SADC countries as if originating from a SADC member state (Kalenga, 1999: 5). An important case to consider in this regard is the serious disagreements that have arisen between South Africa and some textile or clothing producing SADC countries (notably Malawi, Mauritius, Mozambique, Tanzania, and Zimbabwe) over the rules of origin applied in the above-mentioned sector (Financial Times, 2004: 13). South Africa was concerned about the fact that some SADC countries import their materials and components from South East Asia, and after a one-stage transformation process, such products could be exported to South Africa at the preferential rate accorded to SADC members. Quite aside from the potential negative impact on South Africa's local textile and clothing industry, such an arrangement would provide minimal benefits to the economies of other SADC states given the low value-added aspect of such trade. The implications are that much of the benefits would accrue to the real (non-SADC) sources of the imports while South African manufacturers are inundated with cheap imported clothing (with cheaper labour costs), which may not only undercut local producers but also may eventually force them either to go out of business or to relocate their production plants to lower wage SADC countries. The net effect of such activities would not only threaten South African domestic production but also employment. As such, in June 1999, South Africa tabled a proposal at the SADC Trade Negotiating Forum in Botswana which proposed that products in the clothing and textile sector need to undergo a two-stage transformation process to be considered a local product and liable to enter the South African market (Kalenga, 1999: 6). South Africa later changed the proposal in September 1999 and proposed that textile and clothing products from Malawi, Mozambique, Tanzania, and Lesotho need only undergo a two-stage process to benefit from import tariff cuts by South Africa (Kalenga, 1999: 7). This would only be implemented for three years after which the above-mentioned countries would have to prove that that at least 45% of the value of the product had been added domestically (Kalenga, 1999: 7). South Africa's director of SADC relations in the Department of Trade and Industry, Sifiso Ngwenya, argued that South Africa had proposed such reforms because they wanted to "encourage the industrial development of the region, not screwdriver operations" (www.panapress.com/newslatf.asp?). Yet, such actions on South Africa's part could also be construed as a dominant member utilising the rules of origin to protect its domestic market at the expense of weaker markets in the SADC regional bloc.

Important trade relations are not limited to the Southern African sub-region. With the transition to democracy, East Africa has also proven to be an area of growth for commercial expansion. Some East African countries have preferred links with South Africa due to its relative geographical proximity and the prices of goods tend to be cheaper as opposed to importing goods from overseas markets. South African exports to the East African sub-region accounts for 8% (2002), while South African imports account for a meagre 1,5% (2002) from the sub-region. This effectively leaves South Africa with an overall trade surplus of R 3 billion (2002). One of the more significant relationships that South Africa holds in the East African sub-region seems to be with Kenya. South Africa in effect pinpoints Kenya as the gateway to the East African sub-region. As it stands, South Africa enjoys a significant gap in terms of trade over Kenya. The trade balance between the two countries stands at 1 to 20 in South Africa's favour (www.fingaz.co.zw/fingaz/2003/July/July24/330.shtml). Relations between the two countries over the years have been rather hostile and tense. Kenya has long accused South Africa of flooding Kenya's market with cheap goods while at the same time imposing tariffs and other trade barriers to block Kenyan goods from entering South Africa's market. In an attempt to rectify this situation, South Africa and Kenya signed a trade pact in August 2003. This agreement seeks to open up trade between the two signatories thus encouraging greater flows of Kenyan products into the South African market as well as greater flows of investment from South Africa to Kenya (www.safrica.info/what_happening/news/sakenya-deal.htm)

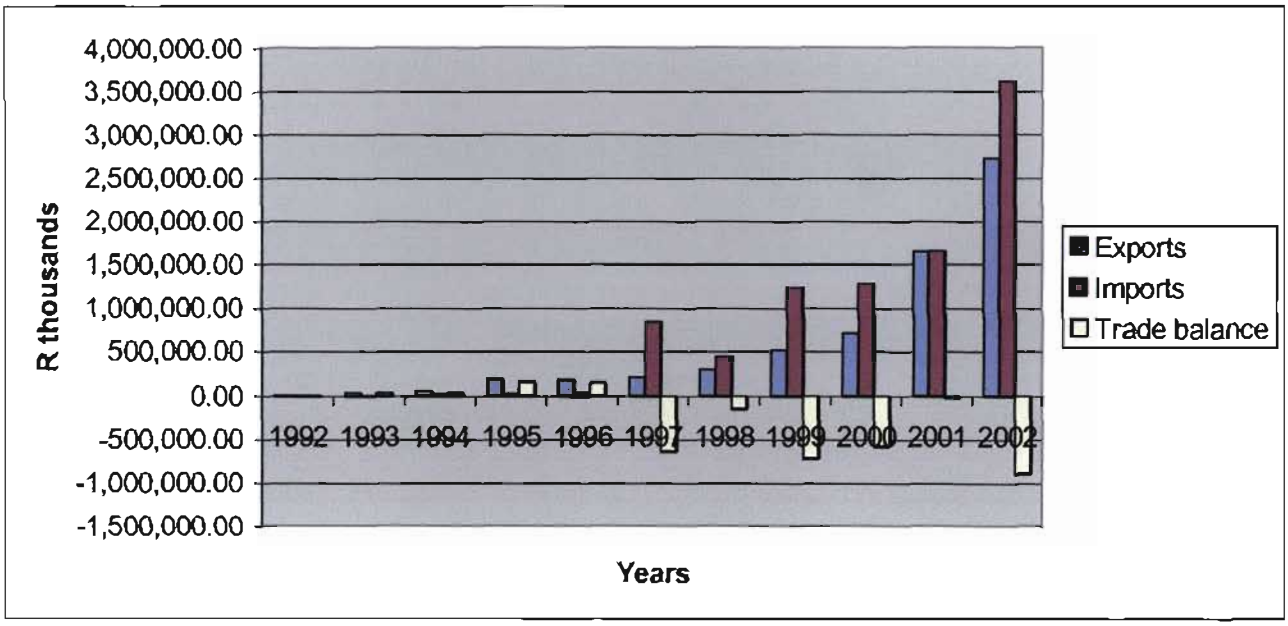
Post-apartheid South Africa's commercial expansion however has not focused solely on these regions. Recently, commercial expansion has become more evident and prominent in the West African sub-region, especially since the inception of Nepad. The exports to the sub-region grew from R 2.1 billion million in 2000, to R 3.3 billion in 2001 and R 5.1 billion in 2002. The growth in the West African region comes primarily from the new trade agreement signed and the commencement of the Binational Commission set up with Nigeria in 2002. The Commission is seen as a chance to deepen and strengthen cooperation between the two countries in defence and security, science and technology, infrastructure as well as education and culture (www.nigeriafirst.org/article_238.shtml).

The Commission was also seen as resulting in a symbiotic relationship between two polar opposites, "Nigeria with the teeming market, low technology base and poor infrastructure' to 'infrastructure- rich South Africa, with a high manufacturing base and advanced agro-allied development' (www.**nigeria**first.org/article_238.shtml). Incidentally, Nigeria has already become South Africa's largest trading partner in the West African region and it is believed that at the current rate of growth in exports, Nigeria could emerge as South Africa's largest African partner in the next five years (Liquid Africa, 2003: 6). In terms of trade, of the total South African exports to the West African sub-region (R 5.1 billion – 2002), R 2.7 billion goes to Nigeria. Nigeria also ranks as South Africa's number one supplier of imports (40.8% in 2002). Of more importance an interesting finding is that Nigeria is one of the few countries that actually holds a positive trade balance (almost R 800 million in 2002) over South Africa (as graph 8 illustrates). This primarily arises from the fact that South Africa imports a large amount of crude oil from Nigeria.

The blossoming trade relations between the two powerhouses of Africa are said to have important implications for the continent,

.. *by virtue of our relative strengths our two countries have the ability to lead the continent into the mainstream of global socio-economic development within the broad objectives of the African Renaissance-* Jacob Zuma (IGD, 1999: 1).

Graph 8: South Africa's trade relations with Nigeria (1992-2002)



Source: Statistics adapted from the Department of Trade and Industry

The two countries are regarded as 'economic colossuses of Africa, accounting for more than half of the GDP of sub-Saharan Africa (IGD, 1999: 2). They both hold important geo-strategic relations with Nigeria in the West African region and South Africa in the Southern African region. As such, the fostering of greater economic ties between the two countries could eventually lead to the greater inter-regional cooperation and even more importantly 'Africa-wide economic integration' (IGD, 1999: 2). As it stands, only 8% of Africa's total exports were intra-African as compared to much more successful regional blocs like the EU where intra-trade amounts to 62% (Ryan, 2003: 20). As pointed out earlier, effective trade in goods amongst member states is said to be the economic foundation for all moves towards meaningful regional integration. As such, with Nigeria and South Africa slowly solidifying their relationship, it is hoped that these two countries will encourage more trade relations among member countries from their respective sub-regional groupings - ECOWAS and SADC. Thus, with these forces pushing for integration from West Africa and Southern Africa, it is believed that Central Africa and East Africa would be pulled into realizing the ethos of greater regional integration.

In the Central African sub-region, trade remains minimal. South African exports to the sub-region amounts to only 2% of total exports. Yet, in terms of exports, the interesting thing to note is that according to graphs 5 and 6, Central Africa is the only sub-region that boasts a trade surplus in 2002 in its trade with South Africa. This is largely due to South Africa's trading relationship with Gabon. In 2002 the total imports from Central Africa amounted to R 1, 271 billion. Of that amount R1, 227 billion was imported from Gabon. Essentially this can be attributed to the fact that Gabon's oil industry is key to the economy of the country and is its most important natural resource. The oil industry is a major source of foreign exchange and accounts for the majority of all it exports (http://www.mbendi.co.za/land/af/ga/p0005.htm).

Market Access into the North African sub-region has been the toughest task for South Africa. This is largely due to the fact that North Africa (comprising Algeria, Libya, Tunisia, Morocco and Egypt) and the rest of the countries South of the Sahara remain separated by cultural, religious, historical and especially economic terms (Mills, 2003: 4). In terms of trade, the North African countries have always been heavily dependent on trade and investment ties with Europe and North America because of its relative geographic proximity to those markets and transport routes allow them to trade at cheaper rates than would trading with South Africa which remains further away (www.anc.org.za/anc/newsbrief/2003/news0716.txt). Yet, with the inception of Nepad has come a change in the mindset of the North Africans. North African countries such as Egypt, Morocco and Algeria have recently been seeking opportunities to enhance trade ties with South Africa as a way towards realizing the vision of wider African economic integration. In July 2003, South Africa and Egypt held a South African-Egyptian bilateral commission, which investigated the possibility of a free trade agreement between the two countries (www.anc.org.za/anc/newsbrief/2003/news0716.txt). Both South Africa and Egypt have realized that the levels of trade between the two countries remain low and that there was much potential for boosting trade ties. Algeria has also welcomed South African businesses to take full advantage of privatization opportunities currently underway in the country. South Africa's increasing thrust for bilateral trade agreements with North African countries seems to be resulting in a gradual increase in exports into the non-traditional markets of North Africa.

What then do these increasing trade relations with the various sub-regions of Africa signify? The call for increasing ties with Egypt in North Africa, Kenya in East Africa, Nigeria in West Africa, more recently the Democratic Republic of Congo in Central Africa, all signify South Africa's move towards a realignment of the regional power base and structure on the continent. It is the belief that the above-mentioned countries possess significant influence in dictating pace and stability in their respective sub-regions and more importantly, they are considered as gateways into their significant sub-regions. The overall implications of realigning the power bases and signing trade agreements to boost trade ties between South Africa and the above-mentioned countries from the various sub-regions could have important implications for increasing intra-trade flows on the continent. Currently, the linkages (both historical and infrastructural) that most African countries share with their former colonial powers hinder the ability for African countries to trade amongst themselves, impacting negatively on the ability to attain Africa-wide regional integration. It must be noted, however, that this study does not call for the de-linking of ties with former colonial powers since that would be unrealistic as countries try to position themselves in the global economy. What this study suggests is that African countries look to enhance avenues for cooperation and attempt to boost levels of intra-African trade as they try to work towards a regional integration project. South Africa's attempt to solidify relations with the various sub-regional powers is one way of attempting to increase intra-regional trade levels in Africa. This realignment of the power bases also has vast potential for South African businesses, which are constantly looking for entry into lucrative new markets. The only concern is that increasing trade ties could also mean that South Africa's trade imbalance with the rest of the region could increase. Essentially, it is up to African countries to ensure that trade agreements signed with South Africa guarantees a substantial level of market access for their goods in the South African market. African countries trading with South Africa should realize that South Africa's success (as an export-led market) is dependent on market access in other African markets. As statistics from the Department of Trade and Industry show, in no other region other than the rest of Africa does South Africa hold a trade surplus.

Given the trade imbalance with the rest of the region and moves towards increasing market shares in the rest of Africa through signing trade agreements in the various sub-regions, South Africa seems to portray an aggressive image in the rest of the continent. Yet, South Africa believes that its imbalance and aggressive expansion as an exporter is offset by the huge investments being made across the continent in relevant critical sectors. South Africa believes that their investments are positive in terms of development, and efforts to diversify the production base of some African countries. But how true is this? The next chapter will seek to investigate South Africa's proposition of being a development partner as well as its contention of assisting some African countries in diversifying their production bases.

Chapter 4

South African FDI in the rest of Africa

4.1. Foreign Direct Investment in perspective:

Foreign direct investment (FDI) is increasingly being seen as one of the main contributors and stimuli to economic development and modernization, technological enhancement, income growth and employment. Apart from the presupposed benefits of FDI, an important element of FDI is that supplementing trade, FDI has the overall ability to create direct and deeper links between economies. Essentially, FDI is defined as "the investment made to acquire a lasting management interest (usually at least 10% of voting stock) and acquiring at least 10% of equity share in an enterprise operating in a country other than the home country of the investor (Mwilima, 2003: 29). FDI can either take the form of "greenfield investments" (investment in new assets), "mergers and acquisitions (M&A's)" (acquisition of existing assets) or alternatively "joint ventures" (partnerships between host and home companies). What drives companies to invest in other countries and raise their profiles to multinational status? A number of theories and determinants have been developed over the years assessing the reasons for investing in other countries.

The basic understanding of FDI theory was initially encompassed in 'economic growth theory', which explained that foreign investors are attracted by profit chances through international interest rate differentials and as a consequence, substantial flows from low to high return countries (Blattner, 2002: 5). The 'Heckscher-Ohlin model' explained the phenomenon of FDI as a result of market imperfection. What this basically meant in relation to foreign investment was that the failure of factor prices (e.g. labour and production costs) to equalize between countries could give an incentive for companies to start or invest in foreign subsidiaries in other countries other than the home market in order to benefit from the lower costs (Sodersten & Reed, 1994: 470).

Vernon's FDI 'product cycle theory' placed more emphasis on the fact that companies tend to invest or become multinational at a certain stage in their growth (Jepma, Jager & Kamphuis, 1996: 108). In the early stages of the product cycle, initial expansion into other markets is through exports. Because countries are separated by a technological gap, new markets are available to receive new products. Once the product has become standardized and competing products have been developed, firms may look for lower cost locations and newer markets (Sodersten & Reed, 1994: 471). The baseline argument for the product cycle process is that as the product reaches the maturity stage and competition intensifies, the production of the industrial goods shifts towards countries where the foreign demand exceeds the procurement in the home market (Blattner, 2002: 6).

John Dunning also contributed to developing FDI theory by introducing the "eclectic theory of international production'. The theory is characterized as the OLI (ownership, locational advantages and internalization) approach. In terms of ownership advantages, the investing company must enjoy specific, unique production conditions enabling it to generate a future flow of income and profits. Unique production conditions would include both tangible goods (such as exclusive access to natural resources, manpower and capital) and intangible goods (specific technological knowledge, market knowledge, specific organizational and entrepreneurial qualities or market access) (Jepma, Jager & Kamphuis, 1996: 112). Locational advantages encompasses special facilities being set up for foreign companies in the foreign market and include advantages in tax rules, available infrastructure, an adequate supply of cheap labour and subsidies (Blattner, 2002: 7). Internalisation involves exploiting ownership advantages by not contracting out the associated activity but deliberately pursuing it and retaining control over it (Jepma, Jager & Kamphuis: 1996: 113). The essential determinant of internalization is that the costs of exploitation of the intangible asset through FDI should be less than those of other means such as licensing or outright sale of the patent (Blattner, 2002: 7).

More recently (1993), Dunning together with Rojec developed a 'four fold typology' of FDI (Blattner, 2002: 8). These theorists proposed that investments are typically motivated by either one or all of the following factors: 'market seeking' (gaining access into large or growing markets), 'efficiency seeking' (looking to lower the cost of production), 'strategic asset seeking' (usually done through mergers and acquisitions), resource opportunities (DBSA, 2003: 122).

4.1.1. Importance of Investments in Africa

African leaders have not fully embraced FDI as an essential feature of economic development. Fears of African governments have included the loss of political sovereignty, the push of domestic firms into bankruptcy due to increased competition and, if predominantly in the natural resource sector, acceleration in the pace of environmental degradation. Yet, investments can play an important role in the development efforts of countries. Such benefits to the host country may include:

- Employment generation and growth: FDI can create new employment opportunities resulting in higher growth. It can increase employment indirectly through increased linkages with domestic firms.
- Supplementing domestic savings: African countries have low savings rates thereby making it difficult to finance investment projects needed for accelerated growth and development. FDI can fill this resource gap between domestic savings and investment requirements.
- Integration into the global economy: Openness to FDI enhances international trade thereby contributing to the integration of the host country into the world economy.
- Raising skills of local manpower: training of workers
- Transfer of modern technology
- Enhanced efficiency: Opening up an economy to foreign firms increases the degree of competition in product markets thereby forcing domestic firms to allocate and use resources more efficiently.

(Dupasquier & Osakwe, 2003: 4-8)

4.1.2. The upsides of investing in Africa

A recent report by a Bataleur Research Institute pointed out the following aspects that attract and encourage investment in the continent:

- The growth potential of the various African countries due to their emerging markets.
- The large size of many African markets
- The political and economic stability of various African countries
- The emerging democracy/ African optimism
- Exploiting natural resources
- Responding to economic policy reforms especially privatization

- The willingness of the various African countries to embrace new business, approaches and to conduct with South African companies
- The openness to foreign direct investment
- The fact that many Global/Multinational Corporations are already operating in various African countries

(Dupasquier & Osakwe, 2003: 9-10)

4.1.3. The Downsides of investing in Africa

According to experts, several factors may serve to impede investments in Africa. They include:

- Political Instability: The region has been seen as politically unstable because of the high incidence of war, frequent military interventions in politics and religious and ethnic conflicts.
- Macroeconomic instability: Instability in the macroeconomic variables as evidenced by the high incidence of currency crashes, double digit inflations and excessive budget deficits.
- Poor Infrastructure: The absence of adequate supporting infrastructure such as telecommunications, transport, power supply, road and air links.
- Corruption and weak governance: Weak law enforcement stemming from corruption and the lack of a credible mechanism for the protection of property rights.
- High dependence on commodities: Some countries rely on exports of a few primary commodities for foreign exchange earnings. Because the prices of these commodities are highly volatile, they are vulnerable to terms of trade shocks and this results in high country risk thereby discouraging foreign investment.
- A weak private sector coupled with a strong government presence in the economy.

(Dupasquier & Osakwe, 2003: 13)

4.2. Determinants of South African investment in other African countries

South Africa's investments in most African countries can be embedded in varying aspects of FDI theories such as 'product cycle', 'OLI approach' and the 'four fold typology approach. Yet, the following reasons are attributed to South Africa's growing presence on the continent.

In terms of the 'product cycle approach', it seems apparent from the expansion of telecommunication companies like MTN and Vodacom, that investments in some African countries is driven by the fact that the home market (South Africa) has become far too saturated and competitive in terms of cellular technology. With competition for subscribers heating up between local companies MTN, Vodacom and Cell C, both MTN and Vodacom have opted to look beyond the borders of the home market (South Africa) for subscribers. This trend illustrates Vernon's proposition that once the home market reaches its mature stage (competitive and saturated), local companies will look towards other countries where the demand for the product is growing. As such companies are actually 'market-seeking' to ensure that their products get sold and a profit is ensured.

The attractiveness of investing in other African markets has been highlighted in an article in the Financial Mail, which illustrates that South African businesses expanding in the rest for Africa, have routinely registered "returns over 30%- in some cases 50%-60%, compared with 16%-20% in the South African market" (Honey, 2003: 24). It seems that a lucrative market exists outside the borders of South Africa. For instance, people in other African countries are eager to purchase cutting edge technology (goods pertaining to Information technology and telecommunications) that South African companies are able to introduce into the market.

Apart from market seeking, tax allowances on investments in other African countries also contribute to South African companies looking to invest in other African countries (DBSA, 2003: 123). South Africa's recent foreign economic policy in the context of the New Partnership for African Development (Nepad) is to promote investment by South African businesses in the rest of Africa. As such, South African businesses may apply to transfer between R750 million and R 2 billion per new investment in other countries in Africa, as opposed to R500 million anywhere else in the world (DBSA, 2003: 124).

Also outlined as a key determinant of South African FDI in other African countries is the issue of 'proximity'. Proximity does not in effect mean that South African companies may experience lower costs of travel, but rather that South African companies may have better access to information and can relate to such information because South Africa is essentially an African country (DBSA, 2003: 124). An emerging perspective is that as an African country, South Africa believes it has a greater familiarity with African policy objectives and investment conditions. This then translates into the belief that at the end of the day, South African companies have a competitive advantage over foreign investors when it comes to investing in other African countries. To some extent this emerging perspective may have some credibility, but it should also be realized that former colonial powers have forged ties and links with African countries well over a decade long. South Africa may share an identity and a development plan with the rest of Africa, but

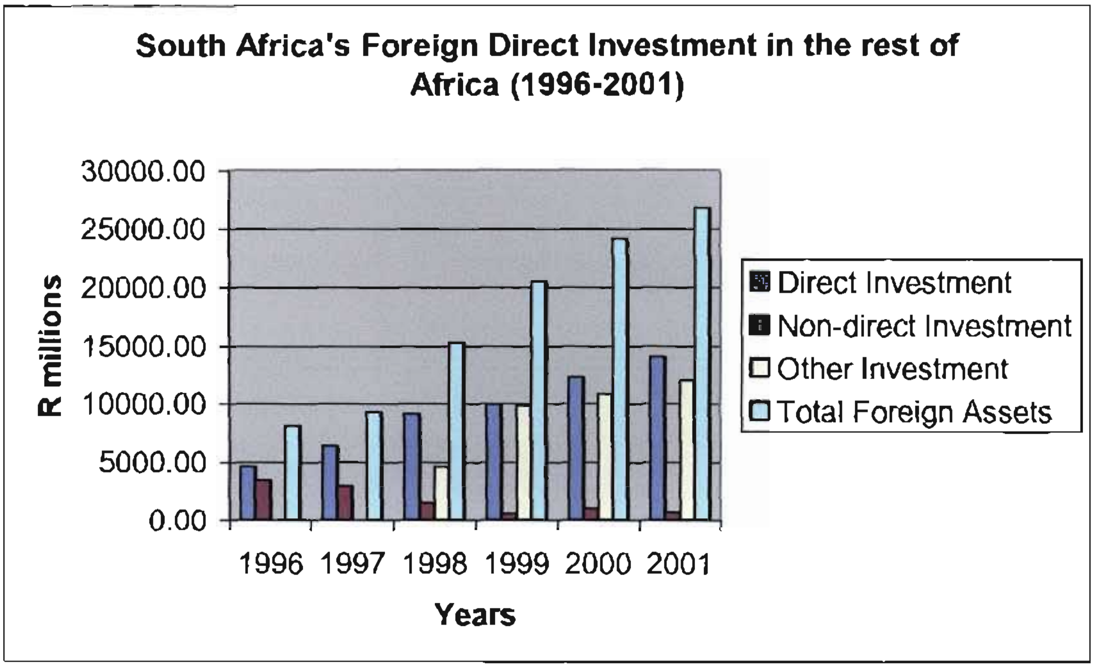
European companies share a history with the African continent. South African and European countries will prove to be worthy competitors in the struggle for trading and investment opportunities in other African countries.

4.3. Overview of South African investments in the rest of Africa

South Africa may be enjoying a favourable trade surplus over some countries in Africa, but the proposition put forward is that South Africa's huge trade imbalance with the rest of the continent is offset by the rising investments made by South Africa in other African countries. Recent reports, namely that emerging from the research institution of Liquid Africa, have even outlined South Africa as the "largest foreign direct investor in the region outclassing both European and American investors" (LiquidAfrica, 2003: 2). It has been suggested that South Africa has "invested an average of $1.4 billion in annual foreign direct investment since 1991" (LiquidAfrica, 2003: 1). The proposition that South Africa is the largest investor in Africa is however contested by research done by the BusinessMap Foundation. This research institution tracks investment of South African companies in the SADC region. According to BusinessMap Foundations SADC FDI database, South African investment into the SADC region has only been estimated at "25% of total foreign investment" (BusinessMap, 2003(b): 3). The extent to which South Africa is 'the largest investor in the rest of Africa' remains highly disputed. What this research paper shows, however, is that as an African investor South Africa has made notable contributions in terms of foreign direct investment in other African countries.

The graph that follows shows that South African investment (direct investment) has more than doubled from R 9 billion in 1996 to R 26 billion in 2001. The graph also gives the breakdown of direct, portfolio, other, and total investment. Direct investments are defined as investments by South African residents with undertakings abroad in which they individually (or collectively in the case of the affiliated organizations or persons) have at least a 10% of voting rights. In more simple terms, direct investments would equate into long- term investments in a particular host country. Portfolio investments on the other hand are investments that cover all outright securities transactions between residents and non-residents (e.g. purchases of new issues and shares). By definition, other investments are mostly long-term and short-term deposits and loans not recorded under financial account items (short-term investments). This study will deal with direct investments as it gives a much clearer picture on actual investments that might aid development (as they are long term investments) in a host country rather than portfolio, which remains on the stock market and other investments which is essentially short – term.

Graph 9: South Africa's FDI in the rest of Africa

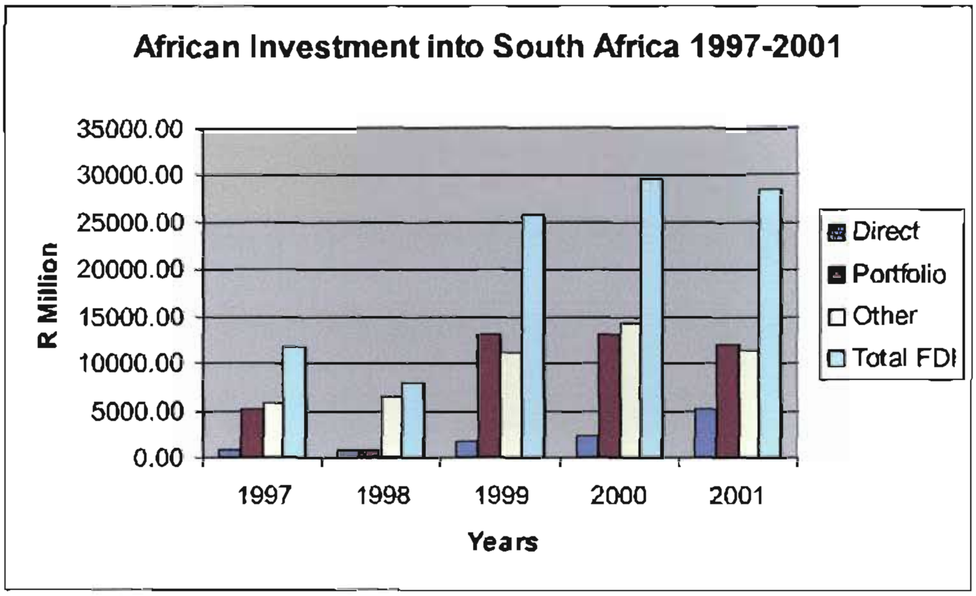


Source: Statistics adapted from the South African Reserve Bank.

From the graph above, it can be seen that most of the investment going into other African countries is direct. In 2001, R14 billion of the R26 billion was direct investment in the rest of Africa, equating to 53% of total foreign investment. It seems that 46% accounts for 'other investments' (short term investments) and 1% for portfolio investments.

While South Africa is investing in other African countries, this is not a one-way flow. Other African countries are also investing in South Africa. Graph 10 below illustrates the extent of African investment into South Africa.

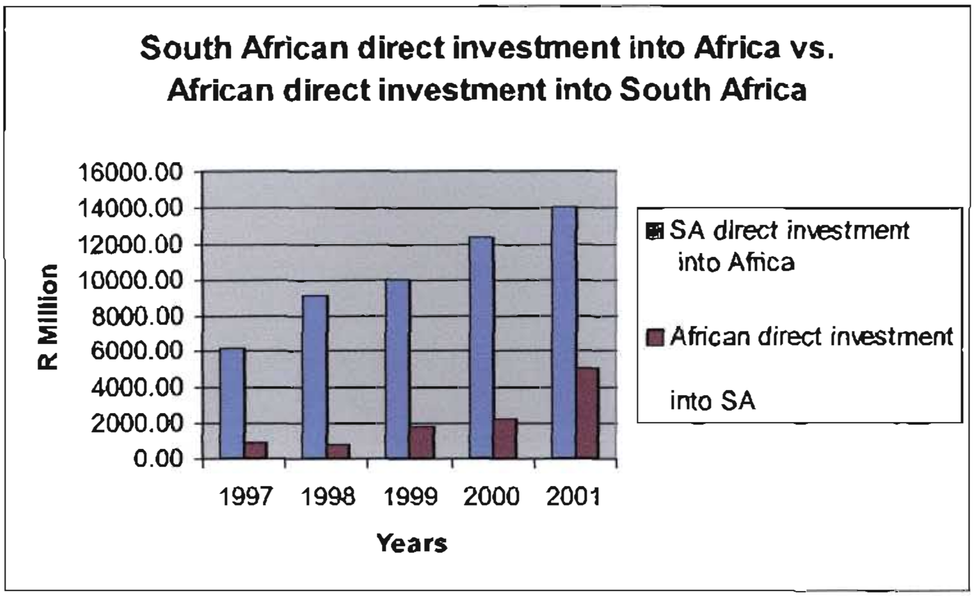
Graph 10: African investment into South Africa



Source: South African Reserve Bank

The above graph illustrates that despite a drop in 1998, African investments in South Africa has doubled from R11 billion in 1997 to R28 billion in 2001. The biggest difference in foreign direct investment between South African investments in the rest of Africa and African investments in South Africa is that there is much more direct investment from South Africa's side, while African investments take on the characteristics of portfolio holdings. Of the Africa's total investment in South Africa, 18% accounts for actual direct investment (long-term), 43% is portfolio investment, which is placed on the JSE market and 39% is other investment (short-term deposits). From the data provided above, it can be stated that both portfolio and direct investment have grown substantially since 1998. Also, there is much more direct investment flowing from South Africa into other African countries and that there is a reciprocation of investment between South Africa and other African countries. However, graphs 10 and 11 illustrate that very little actual investment flows from other African countries in South Africa.

Graph 11: South African direct investment in the rest of Africa vs. African direct investment into South Africa



Source: South African Reserve Bank.

So in which direction is South Africa's FDI flowing and who are the biggest African investors in the South African economy? The analysis of the latter is rather constrained by the fact that South African investment statistics are not broken down into source countries by the South African Reserve Bank but rather two sub-regions namely SADC and other Africa (sub-regions beyond Southern Africa). The statistics from 1997- 2001 show the following patterns:

Table 8: South African Investments in Africa by Region and by Investment Type: value in R millions and market share (1997-2001)

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

Source: Constructed from figures supplied by the South African Reserve Bank's Quarterly Bulletins.

Table 9: African Investments by Region in South Africa: Value in R millions and by market share (1997-2001)

	Direct	Portfolio	Other	Totals	%
SADC	9,280 (10,0%)	43,636 (46.8%)	40,132 (45.2%)	93,048	89,9%
OTHER AFRICA	1,519 (14,4%)	324 (3,0%)	8,703 (82,6%)	10,506	10,1%
OVERALL	10,799 (10.4) (10.4)	43.960 (42.4)	48,835 (41.2)	103,554	100%

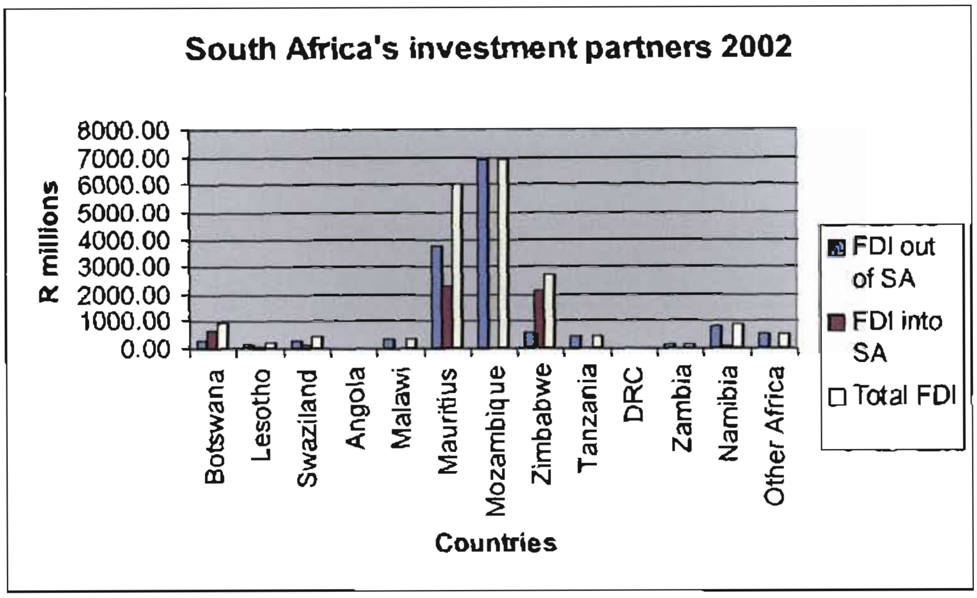
Source: Constructed from figures supplied by the South African Reserve bank's Quarterly Bulletins

What the above two tables seem to illustrate is that like its trade patterns, the sub-region of Southern Africa remains an important investor and investment recipient for South Africa. A glance at Table 8 shows that from the period 1997-2001, 80,1% of South Africa's overall investment flowed into the Southern African sub-region. In contrast, 19.9% of South Africa's overall investment headed for other African countries beyond the Southern African sub-region. According to Table 9, in terms of other African countries investments into South Africa, it seems that countries in the Southern African sub-region are significant investors in the South African economy (accounting for 89,9% of total African investment into South Africa). Again, countries from the sub-region beyond Southern Africa hardly feature as important investors, accounting for only 10,1%

of total African investment in South Africa. This in effect confirms that South Africa's links with and commitment to the Southern African sub-region remains strong. This does not mean, however, that South Africa lacks dedication to other African countries beyond the Southern African sub-region. What could be the case is that the sub-regions beyond Southern Africa remain unfamiliar territory to South African businesses and such businesses are pacing themselves in their commercial expansion into these sub-regions. It is also likely that the pace at which these businesses expand into these investment destinations will increase rapidly given the implementation of Nepad and South Africa's growing joint and bilateral commission being signed in the countries beyond the Southern African sub-region.

In addition to looking at the overall trends of investment into and out of South Africa, statistics can also be constructed to show South Africa important investment recipients and the largest African investors in South Africa. Graph 12 illustrates inward flows to and outward flows from South Africa.

Graph 12: South Africa's Investment Partners in Africa, 2002.



Source: South African Reserve Bank

A number of factors regarding the above graph merit comment. Firstly, as can be seen from the above graph, Mozambique ranked as the most important recipient of South African investment in 2002. It accounted for 48,4% of actual direct investment (R6,8 billion of the total direct investment of R14 billion). This could be attributed to the massive projects being taken on by South African companies in Mozambique. South Africa does not rank as the only important source of FDI in Mozambique. Foreign investors such as Portugal, Australia and the United Kingdom have also been important sources of FDI in Mozambique. Nevertheless, South Africa has made important investments in the mining, aluminium, coal, and telecommunications sectors. The biggest investments to date comprise the establishment of Mozal I Aluminium Smelter (with South African companies such as the IDC having a 25% stake and Australian multinational BHP with a 49% stake as well as the Japanese company Mitsubishi having a 26% stake). In the telecommunications sector, Vodacom has bought a licence to operate in Mozambique and plans to pump $200 million into the country over the next ten years. Sasol has also invested R10 million in the Pande and Temane gas field projects that look to distribute gas from the Pande and Temane fields in Mozambique to Secunda in South Africa. Mozambique offers a number of lucrative investment opportunities prompted by its market-friendly policy framework (DBSA, 2003: 116). What should be noted, however, is that the FDI statistics could see a change in 2002/2003 as South African companies have been moving to secure projects in countries such as Angola. With Angola emerging from civil war and moving towards peace, many opportunities remain for investment in various sectors namely mining, infrastructure, retail, and financial services. The South African government has also been quick to sign Binational Commissions and joint cooperation agreements as a way to secure market access for South African companies. The South African-Angola Chamber of Commerce was set up in 2003 to facilitate and expand trade opportunities between the two countries.

In addition to Mozambique being an important investment hotspot, Mauritius also ranked as the second most lucrative market for South African investment. Mauritius accounted for R3,7 billion of the R14 billion of direct (actual) investment in 2002 (which equates to 26,1%). One could only assume this is because the country offers encouraging incentives for FDI, especially offshore investment. Many South African corporations have found profitable rewards from offshore investments in Mauritius. South African companies target offshore holding companies in jurisdictions, which have strong ties with South Africa (in this case Mauritius) to hold investment portfolios and other assets. This means that the South African branch of the operation will be taxed at normal South African corporate rates, but returns on assets held in the offshore company can benefit from a low tax regime (http://www.lowtax.net/lowtax/html/offon/southafrica/sa_outward.html). South African companies investing in Mauritius can also benefit from other investment incentives such as free trade zones and free ports enabling South Africa to establish 100% owned enterprises. Companies, which fall under the ambit of the free trade zone, have access to the African Preferential Trade Area as well as quota free access to the EU (http://www.lowtax.net/lowtax/html/offon/southafrica/sa_outward.html). However, the investment figures for Mauritius might drop in the forthcoming 2003 FDI statistics because of new regulations pertaining to tax on outward investments as set out by the 2003 South African state budget.

Zimbabwe also features as an important investment destination. But it seems that investment into Zimbabwe has been dropping due largely to political tensions encompassing the country at present. In 1997, Zimbabwe was South Africa's second largest investment destination in Africa, topped only by Namibia. Five years later (in 2002), it had slipped to third place. However, it is contended that Zimbabwe might be regaining its sparkle as an important investment partner in 2003/2004. In recent weeks, South African companies have been scrambling to buy up Zimbabwean businesses (Bonorchis, 2004: 4). Despite the current levels of political instability in the country, companies are investing large amounts of money in the economy. It is the belief that South African countries already operating in Zimbabwe are making good profits, and it is only the dividends that are proving to be difficult because of foreign exchange restrictions (Bonorchis, 2004: 4). Notwithstanding, South African companies see long term potential for operations, once stability returns to Zimbabwe. South African companies are thus investing to build up a nest egg for the future.

In terms of African investment into South Africa, the biggest investors seemed to be Mauritius, Zimbabwe and Botswana. Whilst the statistics are able to give an indication of the largest African investors in South Africa, these statistics cannot be broken down to give an indication of the sectors that these African countries are investing in. This area requires further research and goes beyond the ambit of this study.

Yet despite the statistics, the pending question remains, 'Is South African investment in other African countries aiding in development'? But before this question is tackled, a brief overview is required of where in the rest of Africa and in which sectors South African companies are investing. The table below gives a brief overview of sector investments by South African companies in other African countries.

Table 10: Major South African Companies in other African countries by Sector (selected companies)

Sector	Companies	Located
Aviation & airport services	Airports Company of South Africa (ACSA)	Management contracts in 9 countries
Airlines	South African Airways (SAA)	SAA has a: - 49% stake in Air Tanzania - proposed 30% stake in Nigeria's new national carrier 'Eagle Airline. In all, SAA flies to 20 African destinations

		Nationwide Airlines	Contracts to provide aircraft for five national airlines (Tanzania, Malawi, Namibia, Zimbabwe and Mozambique)
Banking & financial services	**Private Enterprises**	STANBIC	In 18 African countries
		Absa	In 5 countries
		Stanlib (joint venture between Standard Bank and Liberty Bank)	In 9 countries
		First Rand and its subsidiary Rand Merchant Bank	In 5 countries
		Nedbank	In 8 countries
		Investec Ltd	Involved in 4 countries
		Metropolitan Life	In 5 countries
	State-owned enterprises	DBSA	Funding ventures in 7 countries
		IDC	Funding ventures in 20 countries
Construction		Murray and Roberts	Permanent offices in 3 countries and 13 country contracts
		Group 5	13 country contracts
		Grinaker LTA	9 country contracts
		Concor	9 country contracts
Energy		Sasol	4 country contracts. Its planned merger of its liquid fuels sector with Malaysia's Petronas marketing and distribution businesses will lead to it having operations in 14 sub-Saharan African countries
Manufacturing		Nampak	In 10 countries
		SABMiller	18 beer breweries in 14 countries, 35 sorghum breweries in 5 countries
		Illovo Sugar	In 5 countries
		Barloworld	Operational in 7 southern African countries

	AECI (subsidiaries African Explosives Limited and Dulux)	AEL companies in 7 countries. Manufacturing Dulux products in 5 countries.
Media & broadcasting	Multichoice	TV and subscriber services in 21 countries
Mining	Anglogold	The merger with Ashanti Goldfields and Anglogold gives it a mining presence in 8 countries
	Randgold Resources	In 3 countries
Retail trade	Shoprite Holdigs Ltd	162 outlets in 15 countries with a planned expansion into Nigeria in 2004
	Massmart (Makro, Game, Dion, Cash & Carry et al)	Over 300 outlets in SACU states
	Metcash	In 3 countries
	Wooltru/Woolworths	52 stores in 19 countries
	Truworths Limited	Stores in 13 countries
	Steers Holdings (Steers, Debonairs, FishAways, Church's Chicken, Pouyoukas Foods)	Franchises in 22 countries
	St. Elmos	Franchises in 7 countries
	Pepkor Holdings (Pep Stores and Ackermanns)	Has a presence in 6 countries
	Ellerine Holdings Limited (Ellerines, Town Talk Furnishers, Furn City, Rainbow Loans, CPI, Foreign, Wetherlys, Osiers, Roodefurn)	Has 94 stores in 5 countries.
	JD Group (Abra, Barnetts, BoConcept, Bradlows, Electric Express, Hi-Fi Corporation, Joshua Doore, Morkels, Price and Pride, Russells)	Has 28 stores in 4 countries.

Research & development	V&A Waterfront	Contracts in Mauritius, Gabon, Nigeria for the construction of waterfront complexes
	CSIR	Conducting research projects in 17 countries
Telecommunications	MTN/M-Cell	Cellular-fixed line contracts in 5 countries (Uganda 50%, Rwanda 31%, Nigeria 94%, Cameroon 100%, Swaziland (which is a joint venture). In six months (March-Sept 2003), MTN posted net profit of R2.1bn from revenues of R11.2 bn from its African operations. Has 7.9 million African customers

	Vodacom	Cellular contracts in 5 countries but only four functional. These in Lesotho, DRC (51%), Tanzania (65%) and Mozambique; operations resumed in late 2003 in Mozambique after a year-long delay in its renewal. Zambian licence remains non-operational for second year. In early 2004, Vodacom was awarded a 5-year management contract with a local cellphone operator Econet Wireless Nigeria (EWN) to enable it to go head-to-head in competition with MTN. The deal collapsed in May 2004 when Vodacom withdrew from Nigeria after corruption allegations. In six months (March-Sept 2003) posted profit of R1.4 bn from revenue of R11.3 bn. Has 9.6 million African customers.
	Transtel	Transtel (a division of Transnet) runs a telecommunications network with South African multinationals ranging from banks, railways, retail stores, local telecoms, and some civil and security networking in 19 countries.

Transport		Transnet: 9 divisions African involvement is through divisions such as Spoornet Joint Ventures and subsidiary Comazar, Transwerk and Transtel	20 country contracts	
		Unitrans	7 country contracts	
Tourism & leisure services		Protea Hotels	Resorts in 9 countries	Together they are present in 13 countries
		Southern Sun	Resorts in 6 countries	
		Sun International	Resorts in 4 countries	
		Imperial Car Rental	110 locations in 8 Southern African countries	
Utilities	**Power**	Eskom Enterprises	Has 4 utility management contracts in Malawi, Mali, Uganda and Nigeria. Also has 4 joint venture companies in Morocco, Mozambique, Libya and Zambia and has contracts in 25 other countries. With a total of 33 links to African countries, ESKOM is Africa's largest power utility. Eskom's biggest initiative is the "Grand Inga" project. Together with the national utilities from Angola, Botswana, DRC and Namibia, Eskom has formed a joint venture company known as Westcor. The Grand Inga project will not only generate enough energy to light up Africa, but will also have excess to be exported to European countries.	
	Water	Umgeni Water	3 country contracts	

Information Technology	Arivia.kom (state-owned)	3 offices in Nigeria, Ghana and Botswana. 1 joint venture with Seven Seas Technologies in Kenya Contracts in Namibia, Malawi, Zambia and Uganda.
	Mustek	Has authorized dealerships in 8 countries

Source: HSRC Corporate Mapping Database (also, see Annexure1 for South African company footprint in the rest of Africa by sector)

4.4. Interpreting South Africa's investments in other African countries

South Africa's investments in other African countries have been sourced from both its private and public sectors. However, there is a need to draw a distinction between investments made by the two sectors as they differ in both the nature and scope of their holdings. There is a growing perception that investments made by South Africa's public sector falls in line with being that of a development partner while investments made by the private sector resembles that of a neo-imperialist. This study takes a look into this perception and tries to determine whether such a distinction is credible.

4.5. The development partner vs. The Neo-imperialist

4.5.1. The case of the development partner

> *We do not want to be perceived as the new colonizer of Africa. We aim to work together with our fellow Africans for an equal development of the continent.... We have to ensure that we build partnerships, to avoid an imbalance of economic development. We will not be happy if South Africa develops in isolation, while there is poverty in the rest of the continent – Jeff Radebe (Minister of Public Enterprises)* (United World 2003: 1)

An important trend in South Africa's investment patterns in the rest of Africa has been the fact that South Africa's parastatals have been actively expanding in other African countries. The above quote by the former Minister of Public Enterprises Jeff Radebe seems to sum up South Africa's parastatal approach in its expansion in other African countries, which is essentially the fact that such parastatals would prefer to be considered as development partners. Development in infrastructure has also been an important investment pattern for parastatals. One of the setbacks of African countries securing investment and increasing their productivity in trade has been the absence of adequate supporting infrastructure. The South African government as well as its business arm, the parastatals, have been quick to notice these inadequacies and have offered their services in three critical sectors - transport, telecommunications, and utilities (water, power, energy). The involvement of parastatals in other African countries has also illuminated the idea of government-to-government relations and the idea of cooperation and collaboration, hence the 'development partner'. Parastatal involvement in other African countries has also added credibility to South Africa's foreign policy objectives such as African economic development and the vision for African renewal. Some of the parastatals in Table 10 have also envisioned 'big plans' for the continent as an attempt to aid economic development in Africa.

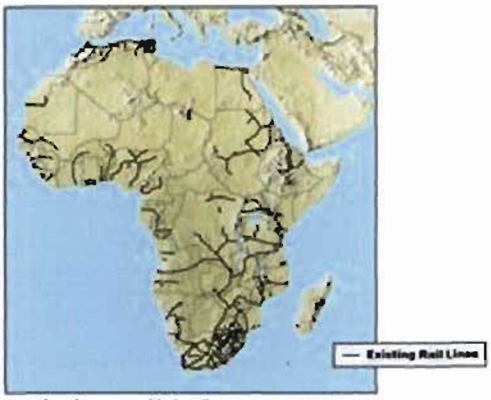
The Trans Africa Agenda

The South African government has envisaged 'large scale plans' to get the rest of the continent back on its feet. Among these plans has been Spoornet's vision of the 'Cape to Cairo' Railway system that looks to enhance the capacity and effectiveness of Africa's rail system. At the Africa Rail Conference held in Johannesburg in 2003, Dolly Makgatle (Chief Executive Officer of Spoornet) pointed out:

> *Africa's rail industry is faced by a 50- year backlog, and it is time to get the rail industry back on track. Cecil John Rhodes' dream of building a rail link between the Cape and Cairo must be realized if we want Africa to develop to its full potential as is the hope of the New Partnership for Africa's Develoment (Nepad) (Business in Africa, 2003: 25).*

It is estimated that there is only 80 700 km of rail in Africa. This equates to 2.7 km of track per 1000 km in Africa, while in Europe, there is 60km of track for every 1000km. At the present moment, there is a rail infrastructure that stretches from South Africa up to the Democratic Republic of Congo, but that is where it stops. The North African countries are also connected through a common rail link. The objective for Spoornet is to try to bridge the gap between the extreme north and the extreme south and facilitate the creation of a Trans Africa rail link. The maps below outline Africa's rail links as they exist and the envisaged programme to link all existing rail links into a common system:

Map 1: Spoornet's 'Cape to Cairo' rail link



Existing rail infrastructure

Envisaged: Cape to Cairo.

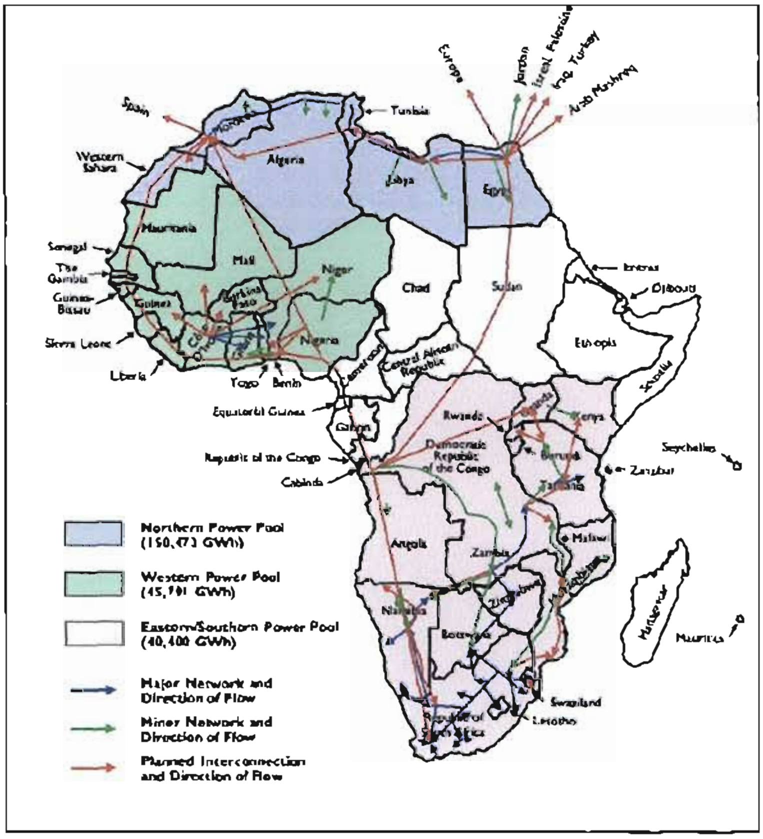
Source: http://www.schillerinstitute.org/economy/maps/maps.html

The belief is that if the Trans Africa Railway is realized, then this could have important implications in terms of economic growth. It is the perception that effective and efficient railways could allow for cost-effective passenger transport, assistance in debt relief and most importantly the possibility of increased trade between African countries. Countries and exporters look for market proximity when it comes to trade and from the map above of the existing rail infrastructure, it can be seen that the linkage between countries in terms of transport remains limited. It is no wonder then that North African countries would prefer to export to the Middle East and European countries rather than send goods 'down south'. Linking the various rail infrastructures would have a positive impact on African intra-trade statistics when the 'Cape to Cairo rail linkage' becomes a reality.

So what is Spoornet's strategy to realize such a huge initiative? Firstly, Spoornet has launched an international arm to its business known as Spoornet International Joint Ventures (SIJV). As the name would suggest, Spoornet looks to go into other African countries as a partner looking to work jointly with other African parastatals. Currently operational in 18 African countries and looking to expand into another 6 African countries, SIJV's core operations include leasing of rolling stock assets, operating and maintenance contracts (operate and transfer after an agreed period of time), consultancy services, investments in rail and portfolio management. So as it stands, Spoornet's role in realizing the envisaged "Cape to Cairo' remains in the initial phases which include investments in upgrading infrastructure and equipment. Once existing infrastructure has reached its full potential then new African transport corridors can be constructed.

South Africa's role in developing infrastructure elsewhere in Africa is not limited to Railways. Eskom Enterprises (South Africa's Power parastatal) in association with five other African power parasatatals (namely Botswana Power Corporation, Empresa Nacional de Electridade of Angola, NamPower of Namibia and Societe Nationale d' Electricite of the Congo) have been engaged in the 'The Grand Inga Project'. Together, the five companies have set up a joint venture company known as Western Power Corridor (Westcor). Through the Grand Inga Project, Westcor will attempt to 'light up Africa'. Essentially, the Grand Inga is a multi-billion dollar project to create the biggest hydroelectric power scheme (connecting the Western, Southern, Eastern and Northern Power Pools) in the world by damming the Congo River (Carnie, 2004: 12). As can be seen in Map 2 below, three power pools already exist in Africa namely the Northern (the blue area on the map), Western (the green area on the map) and Eastern/Southern power pools (the pink area on the map). Countries shaded in white are not connected to any of the power pools and it is hoped that with the development of the Grand Inga, these countries will be drawn into the hydroelectric scheme to ensure that power flows much more easily on the continent. The Inga project comprises of three phases (Inga 1, 2 and 3). Inga 1 and 2 are already in existence and Eskom has invested large amounts in upgrading the existing Inga power schemes. Eskom Enterprises has set aside $1 billion in an attempt to build Inga 3 (which will cost more than $ 6 billion). Once built, the Grand Inga Dam would generate 40000 megawatts of electricity. The interconnection of the Grand Inga would include linking the power lines from the Grand Inga to South Africa through Angola and Namibia (a distance of 3000 km). The power lines would also go 4000 km north through the Central African Republic and Sudan to Egypt. Nigeria has also made its intentions clear that it would like to take Inga power to the West African sub-region. Apart from connecting the power to Africa's main population centers, there is also an indication that Westcor might be looking to export power to Europe through Spain. Map 2 below illustrates a clearer indication of the Grand Inga project.

Map 2: The Grand Inga Project

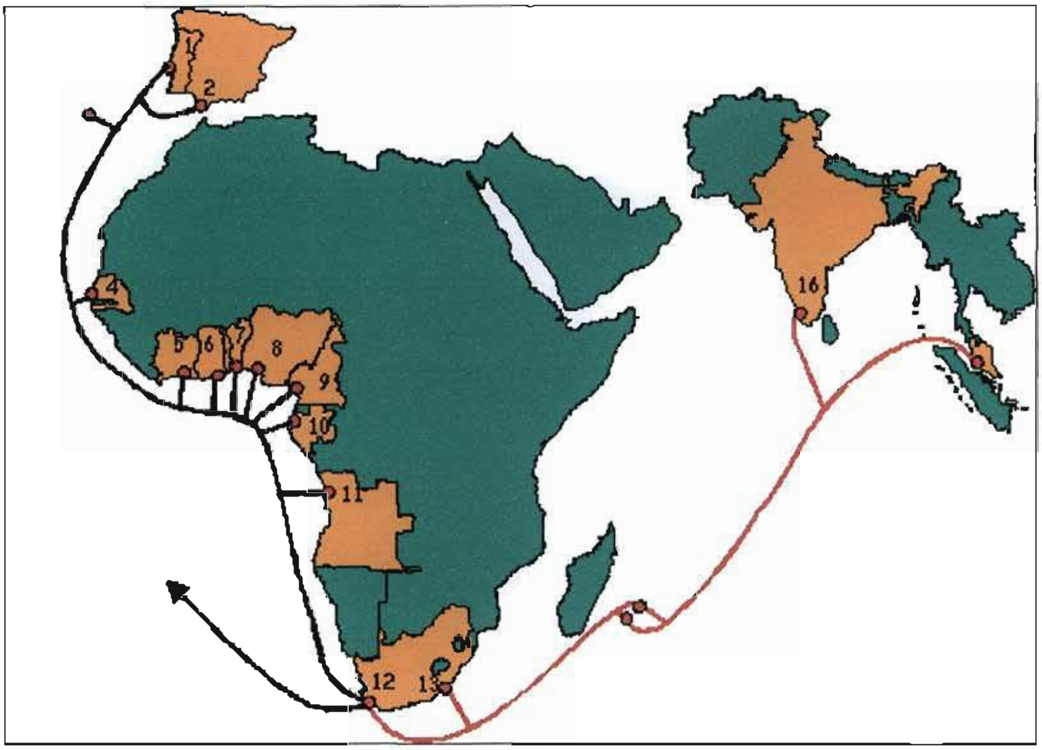


(http://www.mbendi.co.za/eskomenterprises/about/maps.htm)

The Grand Inga project is still in the initial phases, with all the governments of the national utilities involved in Westcor signing an intergovernmental memorandum of understanding.

One of the most striking African projects spearheaded by a South African parastatal (Telkom) is the underwater sea cable system known as the SAT3/WASC/SAFE (a system created by Africans for Africans).

Map 3: Telkom SAT3/WASC/SAFE



(Source: www.safe-sat3.co.za)

The telecommunications project links three existing cable projects namely, Southern African telecommunications cable 3, the West African Submarine cable and the South African Far East Cable. SAT3/WASC/SAFE consists of 14 279 km submarine cable from Portugal to Cape Town and 12 169 km cable from Cape Town to Malaysia.

On the Western side, the cable surfaces in Senegal, Cote d'Ivoire, Ghana, Benin, Nigeria, Cameroon, Gabon and Angola and South Africa. On the eastern leg, the cable heads to Reunion, Mauritius, India and Malaysia. It is also estimated that 25 landlocked African countries are linked through terrestrial and satellite networks (Bidoli, 2002: 12). The cost for SAT3/WASC/SAFE has been estimated at $650 million. Of this, Telkom invested $85 million. Yet, while spearheaded by Telkom, the project would not have been a reality without the pooling of resources from other African countries. It should also be noted that 56% of the funding for the project came from Africa with 44% coming from telecommunications operators outside Africa (Bidoli, 2002: 12). Designed with a lifespan of 25 years, the system provides unprecedented bandwidth and reliability. One of the biggest benefits of the system is that as co-owners and operators of the system, African countries saved up to $300 million in fees that was paid to the US and European operators for inter-regional traffic requirements. Telkom CEO Sizwe Nxasana pointed out that, "a simple telephone call to a neighbouring African country must be routed by satellite through Europe and the US. This is the relic of the colonial past. This cable system will stop the hemorrhaging of foreign exchange out of Africa" (Bidoli, 2002: 13).

All of these projects seem to illustrate the fact that South Africa's parastatals have embarked on engaging in the continent in a manner that complements South Africa's foreign policy directives and illuminates South Africa as a development partner. In sync with the big 'Trans Africa plans,' parastatal expansion in the rest of the continent has also been one of good moral standing. They have represented South Africa favourably in the eyes of other African countries. South African companies have had to deal with the stigma of being considered as 'big bullies' who push their weight and might around. Yet, South Africa's parastatals while making a profit in some African countries do not look to dominate the market. Parastatal expansion in other countries are usually characterised by contracts and joint ventures that essentially look to build, operate, and transfer projects over to host governments or local companies once their contracts have expired. Jeff Radebe has also on occasion pointed out that:

> *Our state-owned enterprises are under strict instruction from all shareholder ministers to conduct their business in Africa with the utmost probity, irreproachable ethics, with a conscious and deliberate policy to promote employment, particularly of women and the disabled, the development of small, medium and micro enterprises, the procurement of goods and services and the upliftment of local communities.... If we do not insist on irreproachable conduct, negative perceptions about us as South Africans will develop* (Loxton, 2004: p6)

Often, state-owned enterprises have to engage in a higher level of corporate governance than those in the private sector, as stakeholders see them as having a greater duty of accountability and transparency. This flows from the fact that public entities are subject not only to normal company laws and the regulatory framework that governs the private sector but also to additional regulations such as the Public Finance Management Act and guidelines from government departments such as the Protocol on Corporate Governance for the public sector. These regulations ensure not only transparency and accountability but also that parastatals put forward an admirable reputation in their business endeavours. At the end of the day, the practices of state-owned enterprises may be viewed as a reflection of the government's commitment both to the continent and good governance. It would seem then that the government has in place enough regulations to ensure that parastatal expansion into other African countries are subject to checks and balances that will ensure that such expansion is done with utmost responsibility, thus ensuring that public sector expansion runs parallel to its African foreign policy objectives.

Public sector investment to aid in African development is not enough. The private sector also has an important part to play in African development given its comparatively larger capacity, resources, and finances to drive the economic renewal process in the region. Yet, while the South African government may have the public sector under its control, the private sector remains a critical issue area. While the activities of the public sector are kept in check by formal government and stakeholder regulations, the private sector has no affiliations or links to the government and may venture into other African countries according to their own rules. As such, this has resulted in much friction between the government and the private sector. Private sector companies often have one clear objective, namely producing positive financial returns. The South African government has paved the way for companies (both public and private) to enter other African countries though bilateral, multilateral agreements and African development plans like Nepad, and has also provided the finance mechanisms through its financing arm the DBSA and IDC to ensure that companies are given the opportunity to enter other African markets to aid in realising its African foreign policy objectives. At the bare minimum, the South African government wants to ensure that South Africa's economic expansion aids in foreign policy objectives and negates the perception of South Africa as the new colonizer of Africa. Yet, at present, some South African private sector companies' investments and presence in the rest of the continent have been brought into question.

4.5.2. The case of the neo-imperialist

Negative Perceptions surrounding South Africa's expansion

While some have welcomed South Africa's commercial expansion, like Tanzanian President Benjamin Mkapa, who at the opening of tourism conference in Arusha in March 2004, had this to say about South African investment:

> *Those of you who follow events in this country will not have missed the criticism- in the media and in certain political circles-levelled at my government concerning increased South African investment in Tanzania. I have only one answer to such criticisms. I wish we could have more South African investments in this country... We would be patently foolish not to access South African capital for our development. Post-apartheid South Africa is our friend, and our partner in development - bilaterally as well as in the context of the Southern African Development Community, the African Union, and its economic programme, NEPAD* (Nyirabu, 2004: 30)

Even Nigerian Vice President Atiku Abubakar (and co-chairman of the Nigeria-South Africa Binational Commission) pointed out that:

> *Nigeria is not for sale, but is open for investment...an economically powerful country like South Africa needs to profitably invest in Nigeria and help it regain its lost international credibility* (Mbatha, 2001: 3)

Yet, despite the positive feedback from some fellow African countries regarding South Africa's expansion, there are other African countries, which do not look at South Africa's expansion through rose tinted glasses. For instance, in a newspaper article written about South Africa's expansion, one Kenyan writer observed:

> *But there are cries of outrage from politicians and businessmen who view South Africa's rapid expansion as a new form of colonialism. In Kenya, President Daniel Arap Moi has criticized a deal that gave the South African Bottling Company, control of one of Kenya's largest bottling businesses. An opposition party legislator spoke out even more sharply, .. "if we continue doing this* (allowing South African businesses to buy out existing Kenyan businesses) *we'll end up owning nothing in Kenya ...They are looking for control and that is where the conflict is coming in... they bulldoze their way around. It seems like they still have the old attitudes of the old South Africa'* – (Swarns, 2002: 11)

It can be deduced from the above quote that well-warranted concerns from some fellow African countries emerge from the fear that 'South African corporate profiles might become too prominent and South African products may become too dominant at the actual or perceived expense of local competitors' (Simon, 2001: 8). The displacement of local businesses leads to the deep-rooted fear that the host economy might fall into the hands of a foreign investor, who might then be able to determine the purchasing pattern of the host economy and thus manipulate the host economy according to its (the foreign investor's) needs. Yet, the other side to the argument is that foreign investors might actually promote rather than displace local production. For example, in Tanzania, Dr Abdul-Kader Shareef (Tanzania' deputy foreign affairs and cooperation minister) pointed out that:

> *..,local producers have enhanced their packaging and service in order to be considered as suppliers. If they pass the test, they stand a chance at supplying Shoprite's other outlets in 14 African countries... Currently, Tanzanian instant coffee is being exported to Shoprite outlets* (Gibson, 2003: 3).

While the above quote does not negate the concern regarding the displacement of local producers, it does show that there may be two sides to the argument. Also, it should be noted that this study would have desired to deal with the debate regarding the displacement of local production, but the statistical evidence at present remains minimal and inconclusive and requires more in-depth research before conclusions can be made.

In addition to the question of the displacement of local businesses in the host economy, there are also concerns regarding the repatriation of profits. Zambian Vice President

Nevers Mumba, speaking to the members of the South African business association, noted that:

> *Zambia stood out as a true destination because it is the only country that allows investors to externalize their profits...the wholesale repatriation of profits is slowly becoming a major concern for government because some individuals who are not well-meaning have taken advantage of that policy* (Mupuchi, 2004: 12).

Capital flight has become a major concern for some African governments due to the belief that some foreign companies are exploiting their economies and, as such, new investments do not have the desired impact on the host economies in terms of growth. Again, the statistical evidence to prove this statement remains minimal and requires further research. But as a Nigerian businessman (Ogbeni Tope Awe) pointed out regarding South African investment and capital flight:

> *Anybody who comes to invest wants to make a profit and there are laws in the land to check undue advantage in the marketplace... the law is there but the law does not check that it is not the fault of the person who comes to invest. Also, what about the infrastructures they have built, are they going to take them on a plane and take them away, they cannot* (Olajide, 2003: 5)

Again, some companies may be taking advantage of investment regulations and trying to maximize profits and sending it home instead of reinvesting, but there are also those companies that honour investment regulations and are committed to rebuilding economies (especially those committed to infrastructure). Also, host governments must be looking to ensuring regulations that try to avoid capital flight. Like the Zambian case, the laws regarding investment are too accommodating. The Zambian government might want to showcase their country as an investment haven, but they must not create a situation where investors do not at least invest in some social and economic development within the country.

The concerns of fellow African countries regarding South African investment is also aggravated by the attitude of some South African companies when it comes to investing in other African countries. Dave Muir of Aviation Brand Consultants (a research company which carries out research prior to a company setting up business in a host country) pointed out that many South African companies have a sense of arrogance when it comes to expanding in other African countries. This arrogance originates from the fact that most South African companies view the rest of Africa homogenously and South African businesses regard business principles as defined by themselves (Lipson, 2002: 7). For example, Rupert Pardoe (Absa deputy group chief executive) asserted that:

> *But we're not investing in Africa for altruism. We're investing in Africa to make some money* (Quoted in Swarns, 2002: 11)

Such views invariably result in resentment and lead to South African businesses being labelled 'neo-imperialists'. The question that remains then is that if the South African government is dedicated to re-engaging with the rest of the continent and promoting the African renaissance, why is it that it allows some South African private sector companies to expand and operate with such views? Like most governments, the South African government recognises the importance of the private sector in driving economic development in the rest of the continent and as such has set up a number of opportunities for South African companies wanting to invest in other African countries. These private sector companies have practically had a free passage into African countries through South African foreign policy efforts and Nepad priority plans. While the state-owned enterprises have been under an obligation to act morally in other African countries, the private sector is free of government obligations and therefore has the space to act of its own free will. As such, a number of South African private sector companies have received flak for their operations in other African countries.

To date, numerous cases have emerged illustrating South African private sector exploitation of other African markets. These include:

- Vodacom, which sought to acquire a 50% stake in the cellphone operator Econet Nigeria in an underhanded manner.
- MTN, which was accused of exploiting subscribers in Nigeria by charging high tariffs and providing epileptic services. Also, MTN was accused of operating illegally in the Democratic Republic of Congo.
- Shoprite Checkers was accused of exploiting labour in six Southern African countries. Allegations included low wages and overworking labourers.
- Anglo American and De Beers were named in the UN Report on the illegal exploitation of natural resources in the Democratic Republic of Congo.

Basically, these and other emerging cases on some South African companies in the rest of Africa further reinforce the statement that such South African companies are just typical corporates that view Africa as merely a 'vent for surplus'. The most recent case to illustrate this point concerns Shoprite Checkers and the treatment of its workers.

4.6. Case Study: Shoprite in Zambia

Shoprite operations began in 1995 with one retail store in Cairo, Lusaka. Between 1995 and 2003, 17 more outlets were opened including the flagship investment in Zambia's Manda Hill. Shoprite operates 18 retail outlets, one wholesale, 7 fast food outlets trading as the Hungry Lion throughout Zambia. The Zambian operations have also contributed a significant amount to the total group earnings. By the end of 2002, Turnover in Zambia had increased from K19 billion ($ 3.9 million) in 1996 to K 276 billion ($ 57.6 million). In terms of employment, Shoprite Zambia has a total of 1617 workers. The employment structure is listed in Table 11:

Table 11: Number of Shoprite employees in Zambia

Employment Category	Number Employed
Permanent Employees	918
Casual Employees	699
Total	1617

(Source: Muneku, 2003: 83)

As a percentage it seems that Shoprite has 57% permanent employees and 43% casual employees. At present, only permanent employees are unionized. Why? The reasoning given by the National Union of Commercial and Industrial Workers (NUCIW) was that casuals were difficult to include because of the temporary nature of their employment (Muneku, 2003: 86).

Casual workers felt that the union was discriminating against them. The casual workers felt they had no form of protection and were vulnerable to management intimidation. Of their concerns, the one major problem has been the issue of casualisation. In terms of the law, the 1997 amendment to the Employment Act defines a casual employee as "any employee the terms of whose employment provides for his payment at the end of each day and who is engaged for a period of not more than six months". Yet it was discovered that some casuals have been employed for periods of up to 2 years. The employees are able to beat the requirements that an employee ceases to be a casual if in continuous employment for a period exceeding six months by rolling fixed 3- month contracts. The contracts are appropriately terminated and new ones' are re-entered into by both parties.

Yet apart from the issue of casualisation, more pertinent issues include the problem of low wages. In July 2003, Shoprite-Checkers workers went on strike demanding an increase in salaries, which they believed were too low to meet the most basic needs. The workers were demanding a living wage that they felt they strongly deserved from profits made from the Zambian operations. Management denounced the strike as illegal, but Zambia's Human Rights Commission said the actions were justified. The workers were demanding a salary increase to a minimum of K 700000 ($ 146) per month up from the current minimum of K230 000 ($48), which roughly works out to an increase of 204 per cent. Management on the other hand offered an increment of K 80000 across the board covering housing, transport, medical, lunch allowances and the salary would bring the minimum to K310000 ($65) or a 35 percent increase.

Table 12: Shoprite Checkers Minimum Salary Schedule (Kwacha per month)

Title	Basic	Housing	Travel	Medical	Lunch	Gross
Trolley Collector	160 000	50 000	30 000	10 000	10 000	260 000
Till Packer	160 000	50 000	30 000	10 000	10 000	260 000
Parcel Counter	160 000	50 000	30 000	10 000	10 000	260 000
Receiving Labourer	160 000	50 000	30 000	10 000	10 000	260 000
Storeroom Labourer	160 000	50 000	30 000	10 000	10 000	260 000
Shelf Packer	160 000	50 000	30 000	10 000	10 000	260 000
Service Department	160 000	50 000	30 000	10 000	10 000	260 000
Cashiers	160 000	50 000	30 000	10 000	10 000	260 000
Stock Counter	160 000	50 000	30 000	10 000	10 000	260 000

Source: Shoprite collective agreement 2001 in Muneku, 2003: 90.

Supervisors Salaries range from K350 000 to K450 000. It seems that while there is a uniform salary structure for all categories of unionized employees, the wage range for casual employees differs and comprises K 35 000 per week (K140 000 per month).

The Minimum Wages and Conditions of Employment (Shop Workers) Order, 1997 is a statutory protection of shop workers in formal employment who are not unionized. Through this statutory employment the Minister of Labour can without consultation with social partners announce minimum monthly wages and other conditions such as working hours, overtime, paid leave, sick leave, etc. The minimum wages are arranged in eight categories with the lowest being K55 000 ($11) and the highest being K135 000 ($ 28). This statutory instrument has not been changed since 1997. The problem that trade unions find with this statute is that the Minister does not consult with social partners especially trade unions on arriving at minimum wages and conditions of employment.

In 2003, the Jesuit Center for Theological Reflection (JTCR) conducted a monthly basic needs basket survey estimating what an average family of six, living in the capital of Lusaka would need to spend on basic commodities every month. In August 2003, it was estimated that the total cost of food and essential non-food items was K1.014 million (about US$ 214). The total cost of food only, that is mealie-meal, beans, vegetable, bread, eggs, sugar was estimated at K367, 700 (about US$ 80). Cost of mealie-meal alone was K27, 600. The cost of essential non-food items such as charcoal, wash and bath soap, energy, etc. was recorded at K646, 800 (US$137) (Relief Web 2003).

The maximum working hours under the statutory instrument is 45 hours per week, which is covered by the Shoprite Checkers collective agreement. There are however reports that the company does not comply with such provisions. Interviews with workers at the Manda Hill Shoprite Checkers store illustrated the following: the average working day is from 8am to 6pm (excluding bakery and deli staff who work longer hours) with about a half an hour lunch. This means that they work for 47.5 hours from Monday to Friday with about 15 hours on the weekend. Total working hours therefore amounts to 62 hours per week with management cheating workers out of overtime pay required by law for work that goes beyond 45 hours.

Nevertheless, the strike against casualisation, poor wages and long working hours lasted 2 days during which time Shoprite Checkers lost over K 800 000 million (US$ 168,189). Negotiations that took place between management and the union ended in dispute. The parties agreed on the appointment of a reconciliation board. The matter still however remains unresolved.

The perception by workers is that South Africa - not Zambia - benefits the most from Shoprite's investment in the country. The gains for Zambia have been very limited in relation to trade relationships and the bad conditions of the jobs created. Both supply systems and profits boost South Africa's growth. Most workers are aware that most of the goods sold by Shoprite come from South Africa. South Africa then remains as the zone of development. Not surprisingly, one worker concluded:

> *They (these investors) are not helping Zambia to develop. Shoprite, whatever they sell, the monies are transmitted to SA right away.. Even the government is aware that these people, they are just using Zambia as a market, just to sell their things and send all their profits to SA. So Zambians are not benefiting from it.*
>
> *If we look at all the products, the merchandise they have, they all come from South Africa, which means that manufacturers in South Africa are on the benefit side, because they are the ones that receive the money* (quoted in Miller, 2003: 13).

In certain regards, Zambians have cause to fear as it was estimated in the 2002 joint Chairman's and CEO Report that the Group exported in excess of R429 million worth of merchandise to its non-RSA (African operations) stores in 2002. The group's aim was to ensure not only that its operations earn valuable foreign exchange, but also provide a large number of jobs in the manufacturing and food industry in South Africa. But for a company that highlights the importance of uplifting local producers in its mission statement, the reality remains that Shoprite's first mission remains to secure economic development for the home country. Why should it be any other way? Should economic development in the home market not be the first and foremost priority? There is of course no objection to making profits and trying to ensure national interests. But, it does become a problem when companies issue mission statements like the following,

> *In the spirit of the New Partnership for Africa's Development (Nepad), African countries are nurturing an economic union, which will allow Africa to grow to greater self-sufficiency and economic stability. Shoprite wants to play a meaningful role in building a "United States of Africa", dominated not by foreigners but African companies... Apart from offering consumers quality products at the lowest prices, the respective local economies also benefit from... retail property infrastructure, job creation, the upliftment of local producers.* - Shoprite's African Vision- (Shoprite Checkers Annual Report 2003)

Shoprite illuminates its dedication for development plans like 'Nepad' and visions like the 'African Renaissance', yet in practice, they have crowded out local producers by securing for themselves retail domination in some African countries. Also, they have exploited their workers by under-paying and overworking their staff. In a sense, they have become under-handed in their expansion in other African countries. But, the company's exploitation of workers is not exclusive to other African countries. In October 2003, 30 000 South African workers went on strike demanding better pay and working conditions. The demands laid down by the South African Commercial Catering and Allied Workers' Union (Saccawu) included the reinstatement of hourly pay rates for various employees (minimum 27 working hours for part-time workers and 40 hours for former flexi-time workers), an increase in the hourly rate (which stood at R4,50), and finally, the scrapping of all 'illegal and oppressive clauses (such as HIV testing) from all employment contracts (Union Network International, 2003: 1).

Unlike Shoprite which fronts as a moral corporate and behaves like a neo-imperialist, some companies such as Absa have been more forthcoming about their expansion in other Southern African countries by pointing out that their expansion is not in the interest of altruism but for the sole purpose of profit. Although such intentions may lead to resentment by host African governments, at least these governments know what they can or cannot expect from such multinationals and may or may not allow such companies to enter their markets. So why is it that Shoprite cannot be as up front about their objectives? Not every government expects companies to come with the objective of trying to develop the country. Indeed, most realize that business is about competition and that the name of the game is profit. But, when the South African government's long-term objective on the continent is one of African economic development and South African centrality in enabling and benefiting from the process over the long-run, then it becomes important for companies to assist in such an initiative by acting in a manner that does not focus principally on short-term profitability. Exploitative activities reflect negatively on South Africa as a whole, and other African countries might lose respect for, and trust in, not only the South African government but also South African companies that are dedicated to the objective of African renewal. If other African government's view South African multinationals in a negative light, then conditions for operating in host countries become harsh and this will eventually hinder not only the process of African development that the South African government is so committed to but also South Africa's chances of benefiting from it politically and economically.

The South African government's critical issue area includes the need to prompt for ethical and decent behaviour from some private sector companies. Yet, what options does the South African government have available? Increasingly, perspectives from relevant camps in South Africa and from the rest of the region are inclined towards pushing for the strengthening of regulatory frameworks of FDI in general and more importantly the regulation of private capital. The onus is not only on the South African government to regulate the ethical behaviour of its private sector but also requires concerted efforts from host governments to regulate FDI at entry. Regulating the ethical behaviour of the private sector can be done. In this regard, the following recommendations can be put forth in regulating FDI:

- **Regulation of FDI at the source (in this case Pretoria)**: FDI flows from South Africa can be regulated at the source by Pretoria through an ethical code of conduct which expanding companies are required to adhere to. Also, the South African government may consider an extension of legal boundaries, which would entitle the government to prosecute those companies that engage illegally with other host African countries. Currently, the South African government has been considering initiatives to realize the above recommendations. One of these initiatives includes the establishment of the King Committee. Recently, the King Committee was commissioned to look at the issue of corporate governance by South African companies. It was outlined by the Committee that South African companies buy into the King Committee principles such as triple-bottom-line reporting, which actively pursues a system of checks and balances and tries to ensure that companies function in an efficient and ethical manner (Gillingham, 2004: 15). Also, there are indications that the Government is planning to enact legislation that will make it possible to prosecute South African companies accused of corruption in foreign countries (Radebe, 2004: 1).

- **Regulation of FDI at entry into host African countries.** This can occur at the stage during which treaties and bilateral agreements for investment are signed. It is important for host African countries to ensure that such agreements include clauses that prompt ethical behaviour from South African companies. Other strategies for ensuring that foreign investors contribute towards the development (rather than the exploitation) of host countries might include tax concessions for corporate social investments and the development of local industries.
- **Regulation of FDI at the regional level**: efforts can also be made towards the standardisation of regional regulatory frameworks that look to safeguard host countries against exploitative behaviour.

The above recommendations are but a few initiatives that can feed into a collaborative effort from host and home governments in strengthening regulatory frameworks in order to keep the private sector in check.

In concluding this chapter, it can be observed from the data and evidence presented above that South African companies have found lucrative opportunities for investments in other African countries. Unfortunately, the nature of such investments has been brought into question. Increasingly, two schools of thought seem to characterise the engagement of South African multinationals with the rest of the continent – one that considers SA as a 'development partner' and the other that portrays South Africa as a 'new colonial master' of the continent (South African Foundation, 2004: 5). The data presented in this thesis portray a number of conclusions surrounding these two schools of thought. At the most basic level, the primary motive for SA companies' (both parastatal and private sector alike) reach into other African markets is driven by 'profitability' and 'maximising returns on investments as per basic capitalist business philosophy and ideology. This is understandable given the fact that the survival of a business is dependent on the rewards from its investments. The importance of profitability is highlighted not only by the spate of operational losses being experienced by some South African parastatals in 2004 but also the government's position that the parastatals may need to sell non-core assets or try to seek private–sector partnerships. Clearly, 'rewards earned from investments' play important roles as deciding factors in any company's decision to invest in another country.

However, apart from the issue of 'maximising profits' the data provided in the chapter also outlines other significant patterns. Firstly, South African companies, especially parastatals, are becoming increasingly involved in 'Grand African development schemes' aimed at constructing and rehabilitating infrastructure in many African countries. This in effect reinforces the proposition of the development partner. On the other hand, the activities of some private sector companies (like Shoprite) support the proposition of a neo-colonialism. Yet, while the general perception is that private sector companies are exploitative in their expansion in some African countries, more in-depth research is required concerning the downstream effects that all expanding private sector companies have in host countries. There is a need to delve deeper into the nature of South African investment in other African countries. Research needs to determine whether South African economic expansion in other African countries is 'reinforcing patterns of economic exploitation, social disruption, environmental damage and the political abuse of the continent' in order to strengthen the case for neo-imperialism (Keet, 2004: 16). This involves looking at statistical evidence to support the case for exploitation rather than basing the argument of neo-imperialism on perceptions. Therefore, this study suggests more statistical economic research to determine the impact of South African investment on host African economies.

Chapter 5

Conclusion: Towards a synthesis

> *Other regions of the world, including the most developed countries, are hard at work to change their neighbourhoods for the better. SA can only ignore or minimise this task...at our own peril, driven by a lingering sense that we are not an integral part of the African continent. This will not do.*
> – President Thabo Mbeki (Quoted in Singh, 2004: 50)

Arguably, one of the most important shifts in South Africa's foreign policy since 1994 has been its pledge to enhance development in the rest of the continent. Within 10 years of democracy, South Africa's commitment to African renewal has been illustrated through the encouragement of negotiated compromise solutions to political conflicts (for instance, in Angola, Burundi, Democratic Republic of Congo and Lesotho), its representation of African interests in multilateral forums (such as Unctad, NAM, and the WTO), and its proactive role in African economic initiatives (such as Nepad and SADC), its place in the African Union and its proposal to host the Pan-African Parliament. Yet, the perception is that while the South African government's political efforts to re-integrate South Africa into the continent and to help develop the continent remain clear in the economic sphere, the commitment of South Africa's business elites to the rest of the continent is being increasingly questioned. The expansion of South Africa's businesses in other African countries continues to raise the question of whether such economic expansion is 'benign development' or 'neo-colonialism of a regional hegemon'. Are we seeing an increasing alignment between South African business activities and the South African government's foreign policy, or alternatively, is business manipulating the government's foreign policy efforts to pursue its own selfish interests?

The view on the question of the relationship between foreign policy and business activities suggests that:

> *Foreign policy has to be responsive to, and supportive of, the commercial strategic objectives of flagship companies. This is key to national and global competitiveness. However, companies also have a role to play in this equation. They have to behave patriotically and align their activities to the broader national interest. Business and government should develop and maintain relations of trust to help make South Africa a success story* (Dlamini, 2004: 170).

The above quote suggests that a reciprocal relationship (or even partnership) needs to exist between business and government in the pursuit of national interest. Writers like Kuseni Dlamini put forward the argument that in the least, South African businesses cannot afford to ignore foreign policy as the South African economy is linked to the global economy and as such the government holds the key to facilitating access to market opportunities (Dlamini, 2004: 179). The government on the other hand expects a 'patriotic business class', not one that agrees with everything that government does but more a class that acts in the national interest. More importantly, the South African government expects business to "conduct its affairs with integrity by upholding the highest standards of corporate governance especially in Africa" because "companies are unofficial ambassadors for their countries, and they project a good or bad image depending on how they conduct their affairs" (Dlamini, 2004: 178). The image projected by South African businesses could affect the South African government's ability to engage in the rest of Africa's developmental and regional integration priorities. In assessing the implications of South Africa's commercial expansion in the rest of Africa, this study provides some insights into the relationship that exists between the South

African government's foreign policy and South Africa's business activities in the rest of the continent.

To some extent, the data provided in this study seems to indicate a growing correlation between the South African government's foreign policy initiatives pertaining to Africa and some South African business activities in the rest of Africa (that is a case for benign development). Looking at recent state visits to several African countries (such as the Angola, Democratic Republic of Congo, Kenya, and Nigeria), the South African government officials were always accompanied by a South African business delegation, which included a combination of representatives from parastatals (such as Eskom Enterprises, and Transnet) and private companies (especially mining companies such as Tokyo Sexwale's Mvelephanda Holdings and Patrice Motsepe's ARMGold and tourism companies such as Protea and Southern Sun). Of course this could be an indication of the growing partnership between government and business. Even at the African Economic Forum held in Mozambique this year (2004), many South African business leaders pledged their support and commitment to the South African government's objectives for African development and renewal.

While there has been little doubt that the South African government has been instrumental in creating opportunities and a conducive continental environment for South African business investments the question is whether South African businesses have been as accommodating by keeping in line with Pretoria's foreign policy objectives aimed at African renewal and development. This study has provided some evidence on the increasing role played by South African parastatals (such as Eskom, Spoornet, and Umgeni) and private companies (such as MTN and Vodacom) in refurbishing infrastructure on the continent. One of the overarching goals of the Mbeki led government is to rehabilitate and upgrade infrastructure in the rest of the continent. In this regard, the afore-mentioned companies have contributed significantly to the upgrading and development of power utilities, rail infrastructure, and telecommunications in some African countries. Judged from that perspective, Pretoria's quest for a working partnership between government and business in achieving regional development not only remains on track but also South Africa's role on the continent can be seen as primarily benign (politically) and developmental (economically).

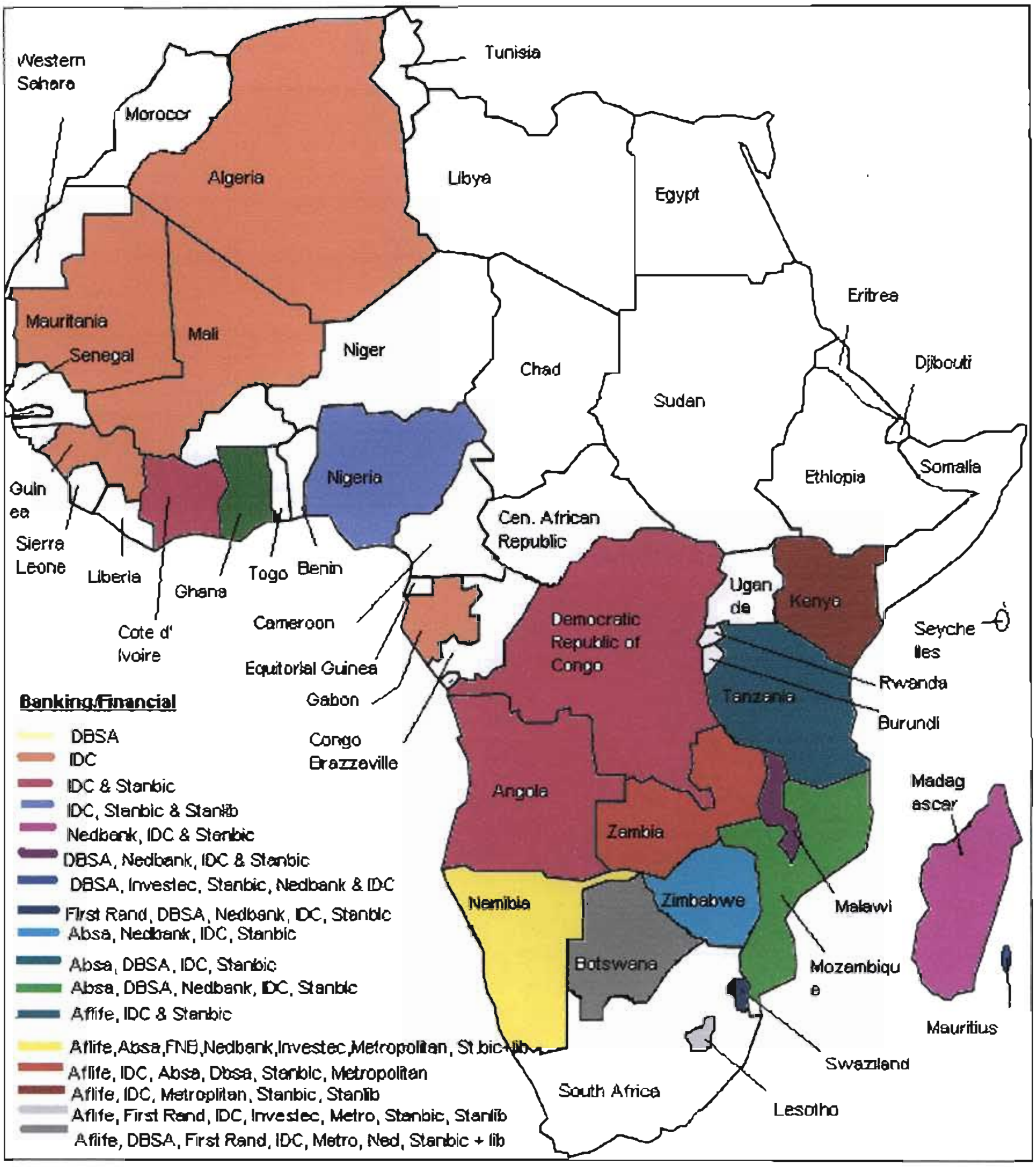
Converse to the above proposition of South Africa as a development partner, is the view that considers South Africa's growing economic presence in other African countries as a case of neo-imperialism. Also, the indicated cases mentioned in this study of unsavoury business practices by some South African companies (such as Shoprite) has reinforced the above-mentioned proposition of South Africa as a neo-imperialist, which is intent on exploiting other African countries. While the case for neo-imperialism may be warranted, the underlying evidence to prove it remains unavailable at present. While this study has presented negative perceptions from other African countries, there is no comparative factual statistical evidence that demonstrate the case against South Africa as a neo-colonial actor within the region. Even the case study of Shoprite can be construed as an illustration of 'capitalist opportunism' rather than 'neo-imperialism'. To resolve this question, it has to be asked whether South African companies are looking to enter other African markets with the sole 'intention' to 'exploit markets'. Despite the predatory actions of some companies and the profit driven activities of some others, this study has shown that many South African companies (particularly parastatals) have been acting within the spirit of the government's desire for a contributory role as development partner. Clearly, the intention to 'colonise' other African countries is lacking in both the political and economic spheres. Pretoria's African foreign policy frameworks have made it clear that it has no intention of being an imperial power on the continent; rather, it would prefer to be a partner. Although business is driven by a commercial ethos, which encompasses the 'intention to maximise profits', Pretoria has been particularly keen to reel in South African businesses into adhering to its policy preferences. At the core of this policy thrust is a new code of conduct for businesses operating within Africa, which seeks to limit irresponsible and profiteering activities by South African multinationals.

To this end, the hypothesis of this study, which was that South Africa's commercial expansion exemplifies traits of neo-colonialism, has to be changed. The evidence presented in this study shows a number of dynamics pertaining to South Africa's commercial expansion in other African countries. Firstly, there is evidence that illustrates coherence between the South African government's development efforts and business activities (mostly parastatal and some private sector companies), thus highlighting the case for the development partner. This is despite the fact that recent activities by South African or South African based actors and mercenaries have brought South Africa under the spotlight as regional leaders work to unravel the intrigue surrounding an apparent coup plot to overthrow President Obiang Nguema of Equatorial Guinea (Kimber 2004:

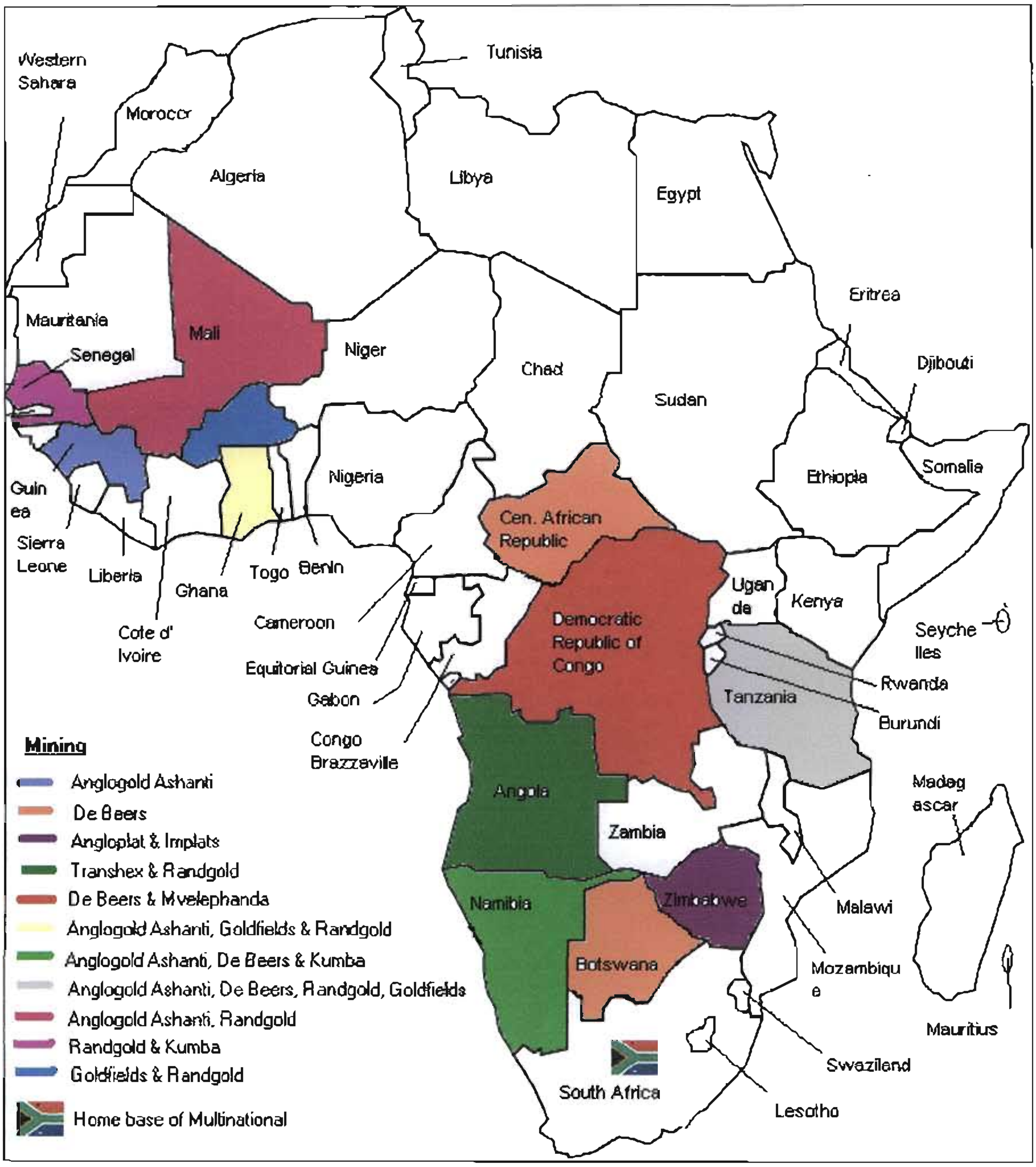
12). Reputedly led and financed by several persons including Mark Thatcher, Simon Mann, David Hart, and J Archer, 89 mercenaries (many of whom were ex-South African Defence Force members) were caught and are standing trial for their actions in Equatorial Guinea and Zimbabwe (Terreblanche & Fabricius, 2004: 1). Nevertheless, the proposition for the case of neo-imperialism still remains to be challenged. However, what should be remembered is that in only having commemorated ten years of democracy, South Africa's engagement (both political and economic) in the rest of Africa is still largely reactive and constantly evolving. Yet, as time persists, it is hoped that the interests of the South African government and business will see eye to eye as Pretoria pushes forward with its vision and long-term objective of an African renaissance. As Antoine de Saint-Exupery (*www.quotationspage.com*) said: "One man may hit the mark, another blunder; but heed not these distinctions. Only from the alliance of the one, working with and through the other, are great things born".

Annexure 1: Footprint of South African companies' investment in the rest of Africa by sector

Map 4: Banking/Financial



Map 5: Mining



Western Sahara
Morocco
Algeria
Tunisia
Libya
Egypt
Mauritania
Mali
Senegal
Niger
Chad
Sudan
Eritrea
Djibouti
Guinea
Sierra Leone
Liberia
Ghana
Togo
Benin
Nigeria
Cote d' Ivoire
Cameroon
Equitorial Guinea
Gabon
Congo Brazzaville
Cen. African Republic
Democratic Republic of Congo
Ethiopia
Somalia
Uganda
Kenya
Seychelles
Rwanda
Burundi
Tanzania
Madagascar
Angola
Zambia
Malawi
Namibia
Zimbabwe
Botswana
Mozambique
Mauritius
Swaziland
South Africa
Lesotho
Mining
Anglogold Ashanti
De Beers
Angloplat & Implats
Transhex & Randgold
De Beers & Mvelephanda
Anglogold Ashanti, Goldfields & Randgold
Anglogold Ashanti, De Beers & Kumba
Anglogold Ashanti, De Beers, Randgold, Goldfields
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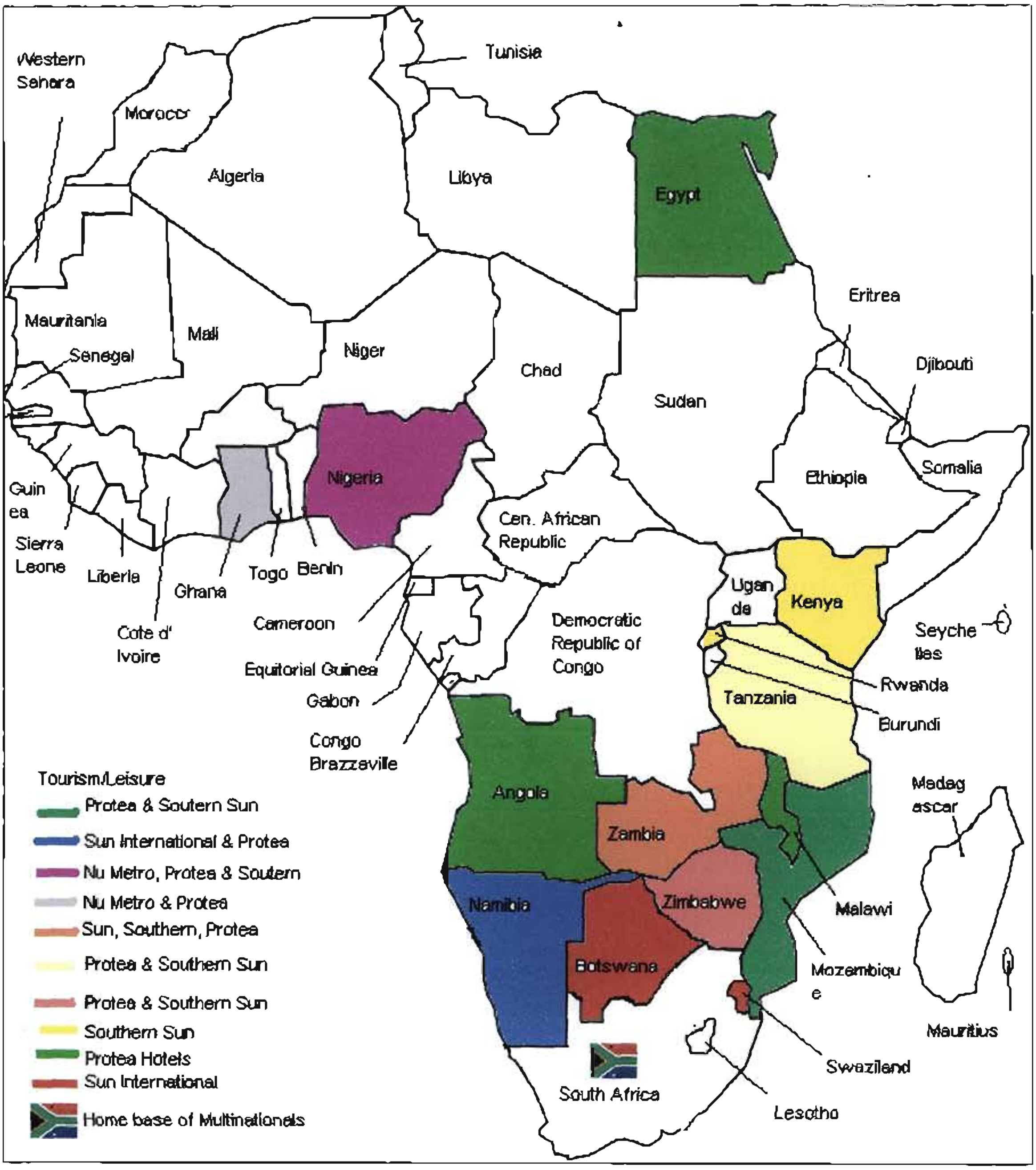
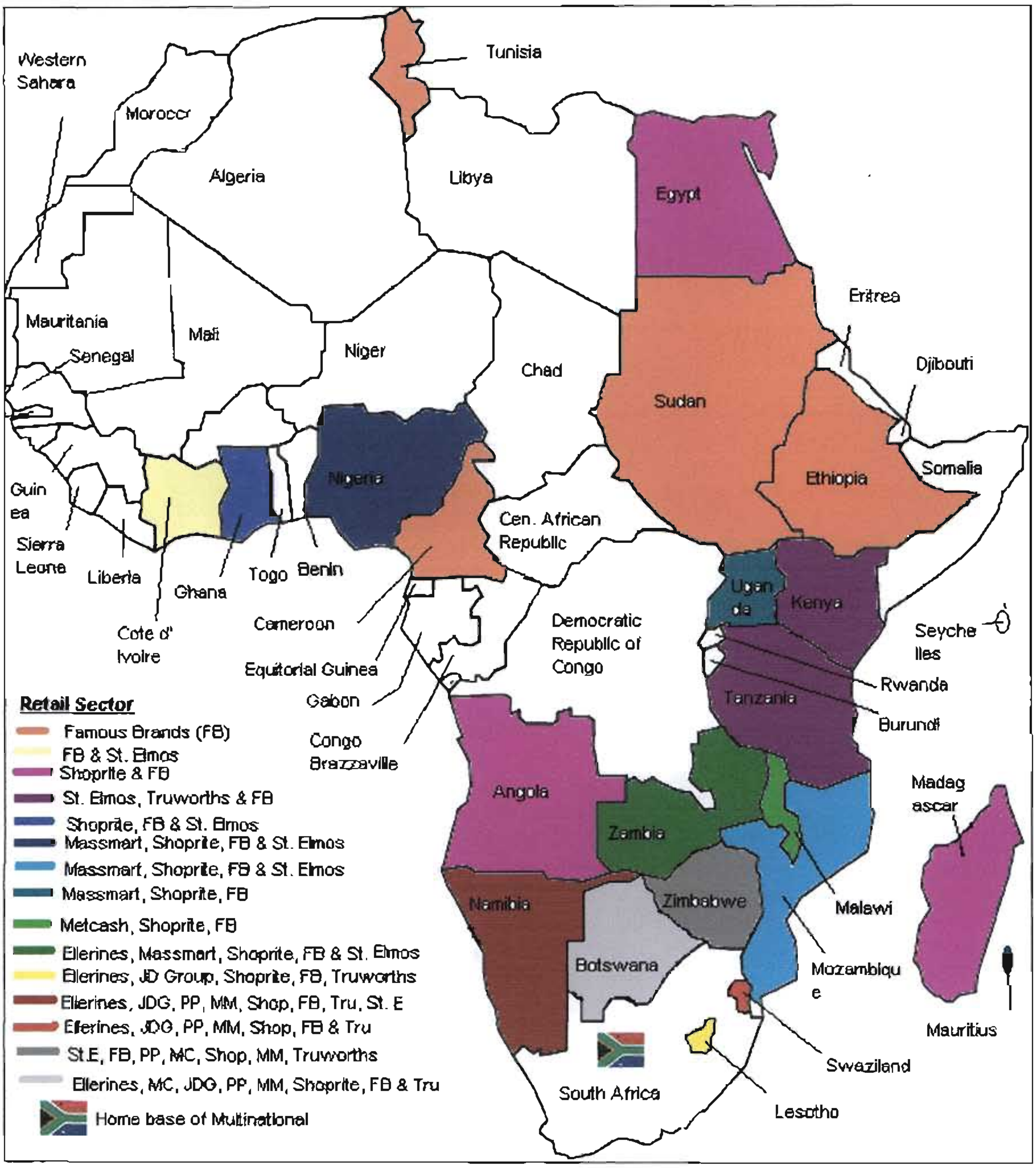
Randgold & Kumba
Goldfields & Randgold
Home base of Multinational

Map 6: Tourism

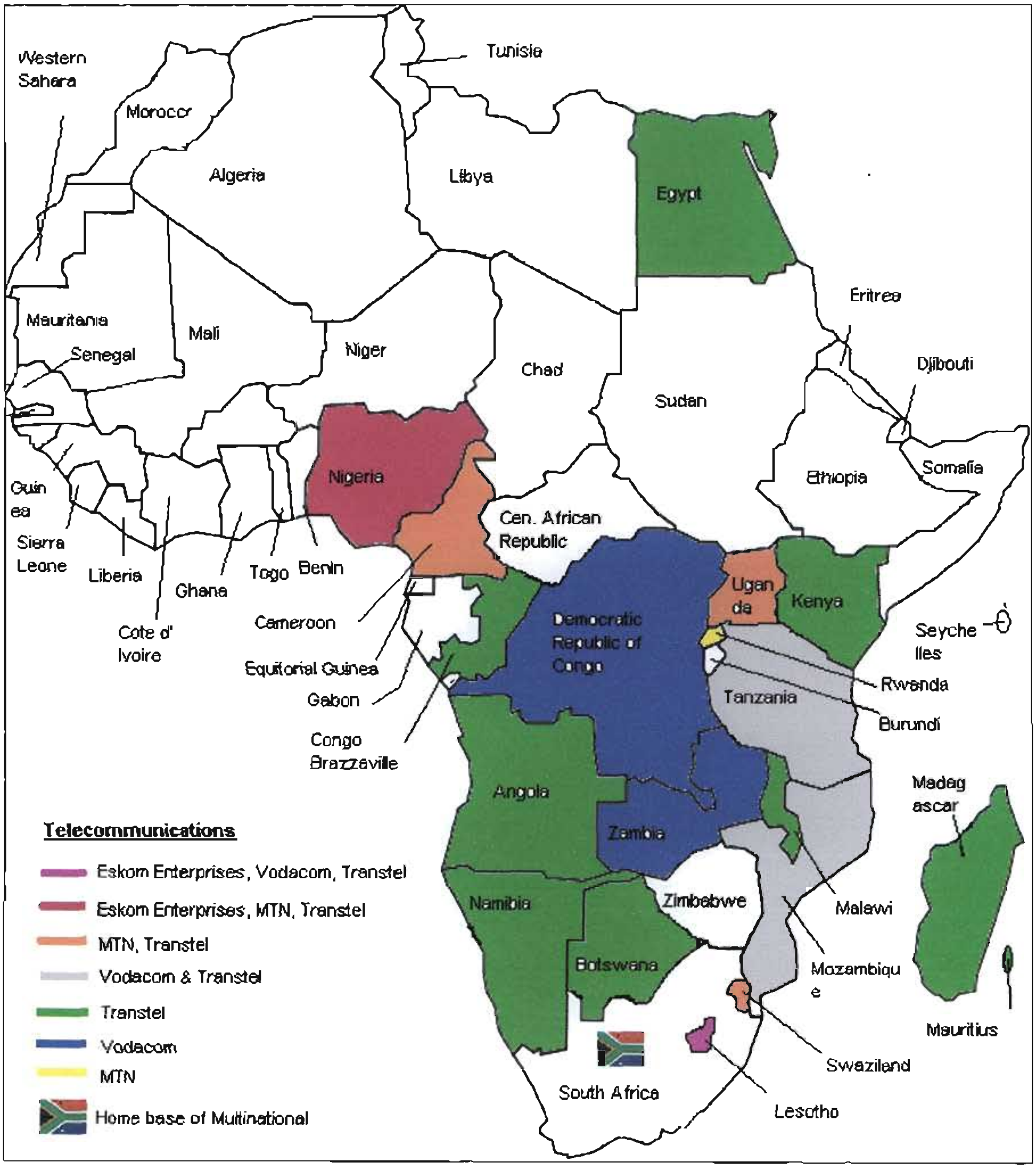


Map 7: Retail

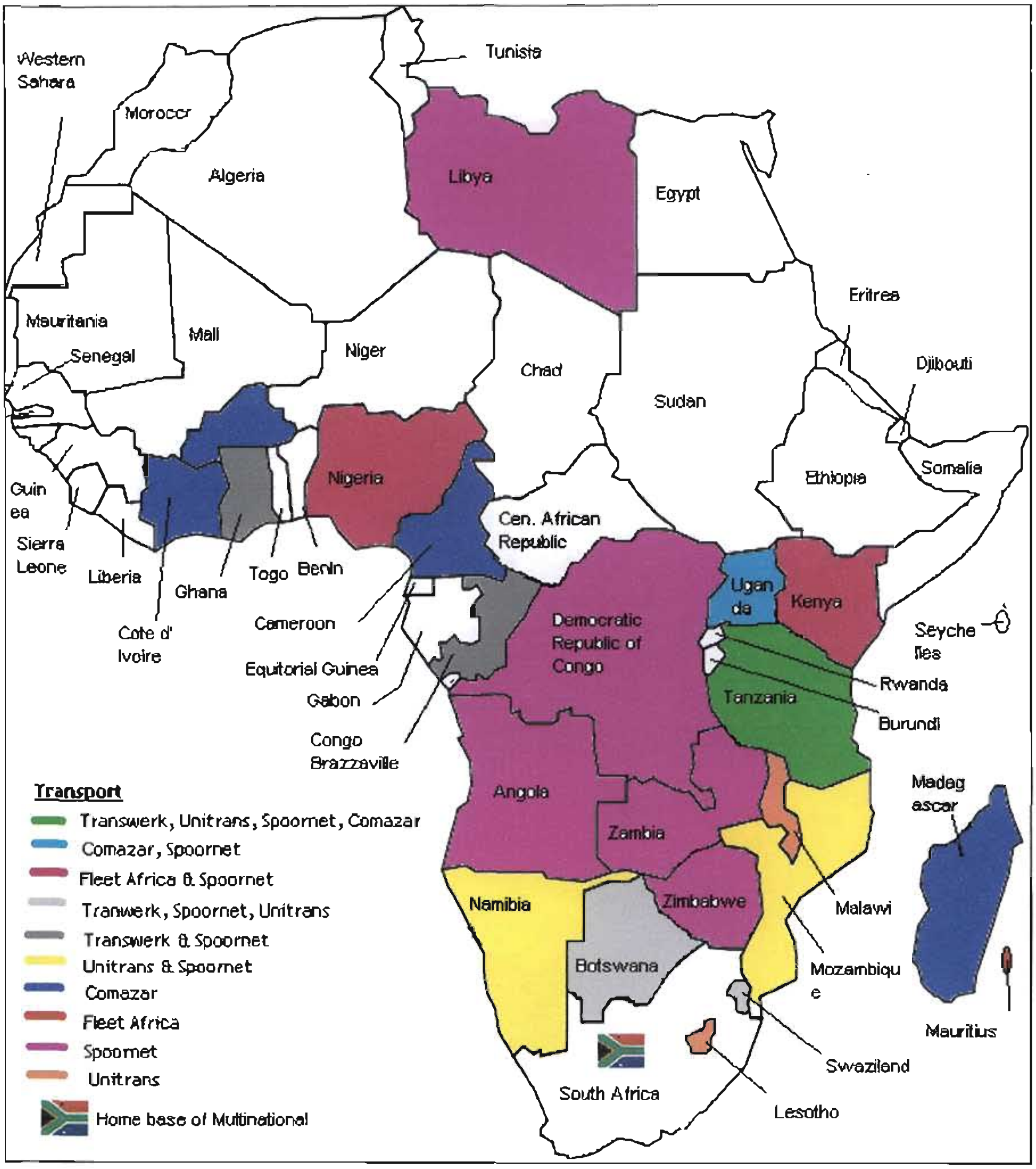


Western Sahara
Tunisia
Morocco
Algeria
Libya
Egypt
Eritrea
Mauritania
Mali
Senegal
Niger
Chad
Sudan
Djibouti
Nigeria
Ethiopia
Somalia
Guinea
Sierra Leone
Liberia
Ghana
Togo
Benin
Cen. African Republic
Cote d' Ivoire
Cameroon
Equitorial Guinea
Gabon
Congo Brazzaville
Democratic Republic of Congo
Uganda
Kenya
Seychelles
Rwanda
Burundi
Tanzania
Angola
Zambia
Malawi
Madagascar
Namibia
Zimbabwe
Botswana
Mozambique
Mauritius
Swaziland
South Africa
Lesotho
Retail Sector
Famous Brands (FB)
FB & St. Elmos
Shoprite & FB
St. Elmos, Truworths & FB
Shoprite, FB & St. Elmos
Massmart, Shoprite, FB & St. Elmos
Massmart, Shoprite, FB & St. Elmos
Massmart, Shoprite, FB
Metcash, Shoprite, FB
Ellerines, Massmart, Shoprite, FB & St. Elmos
Ellerines, JD Group, Shoprite, FB, Truworths
Ellerines, JDG, PP, MM, Shop, FB, Tru, St. E
Ellerines, JDG, PP, MM, Shop, FB & Tru
St.E, FB, PP, MC, Shop, MM, Truworths
Ellerines, MC, JDG, PP, MM, Shoprite, FB & Tru
Home base of Multinational

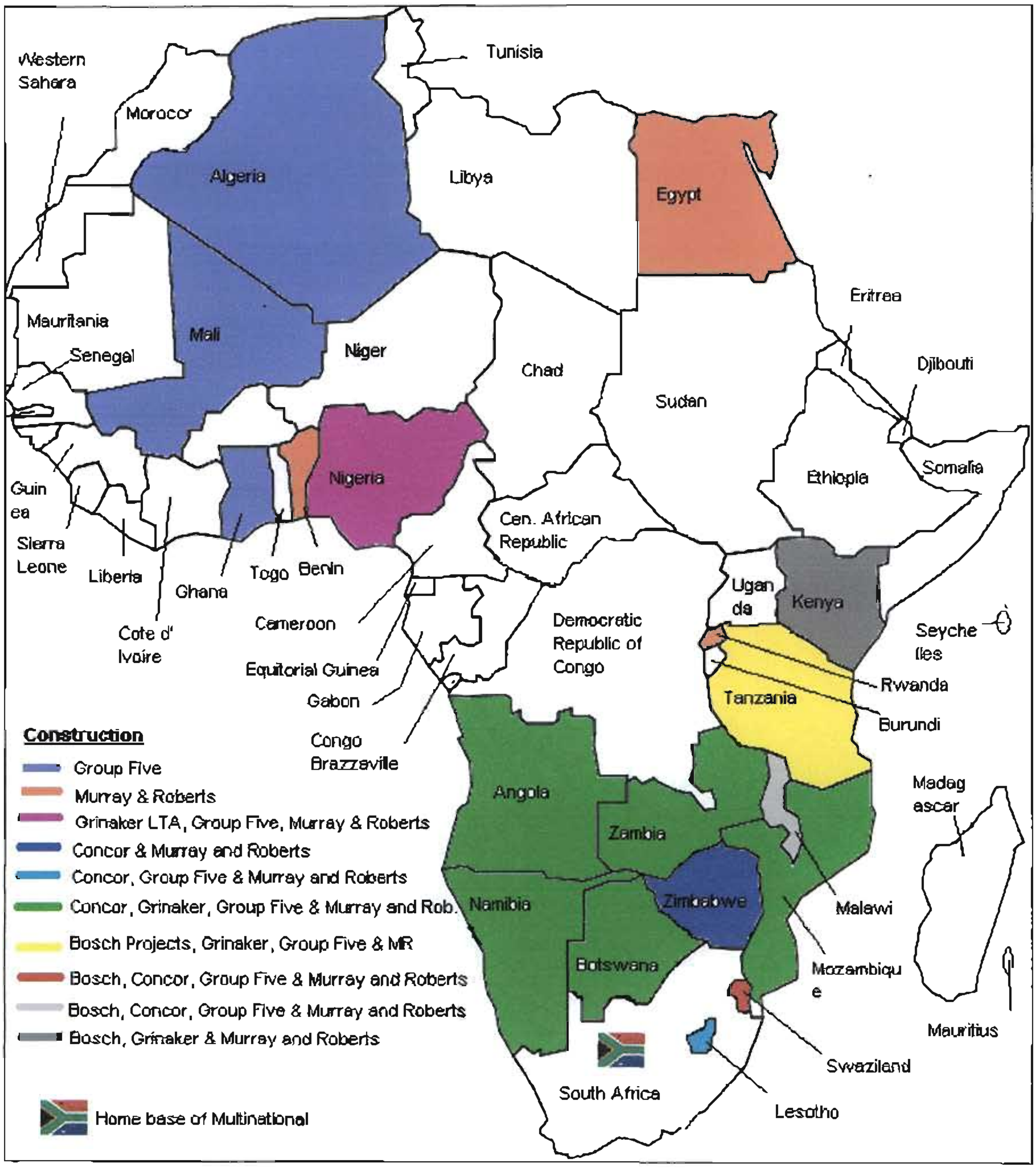
Map 8: Telecommunications



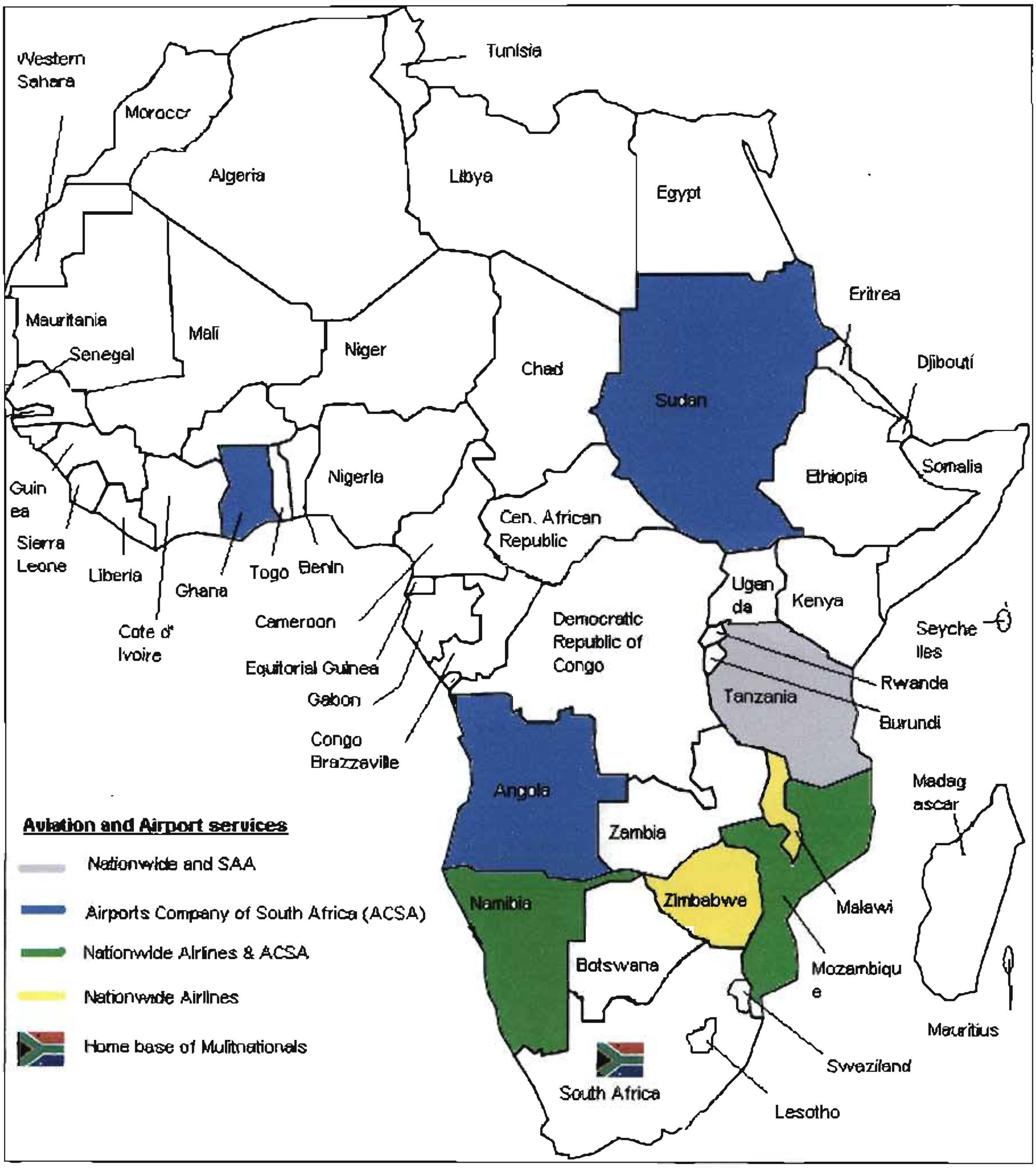
Map 9: Transport



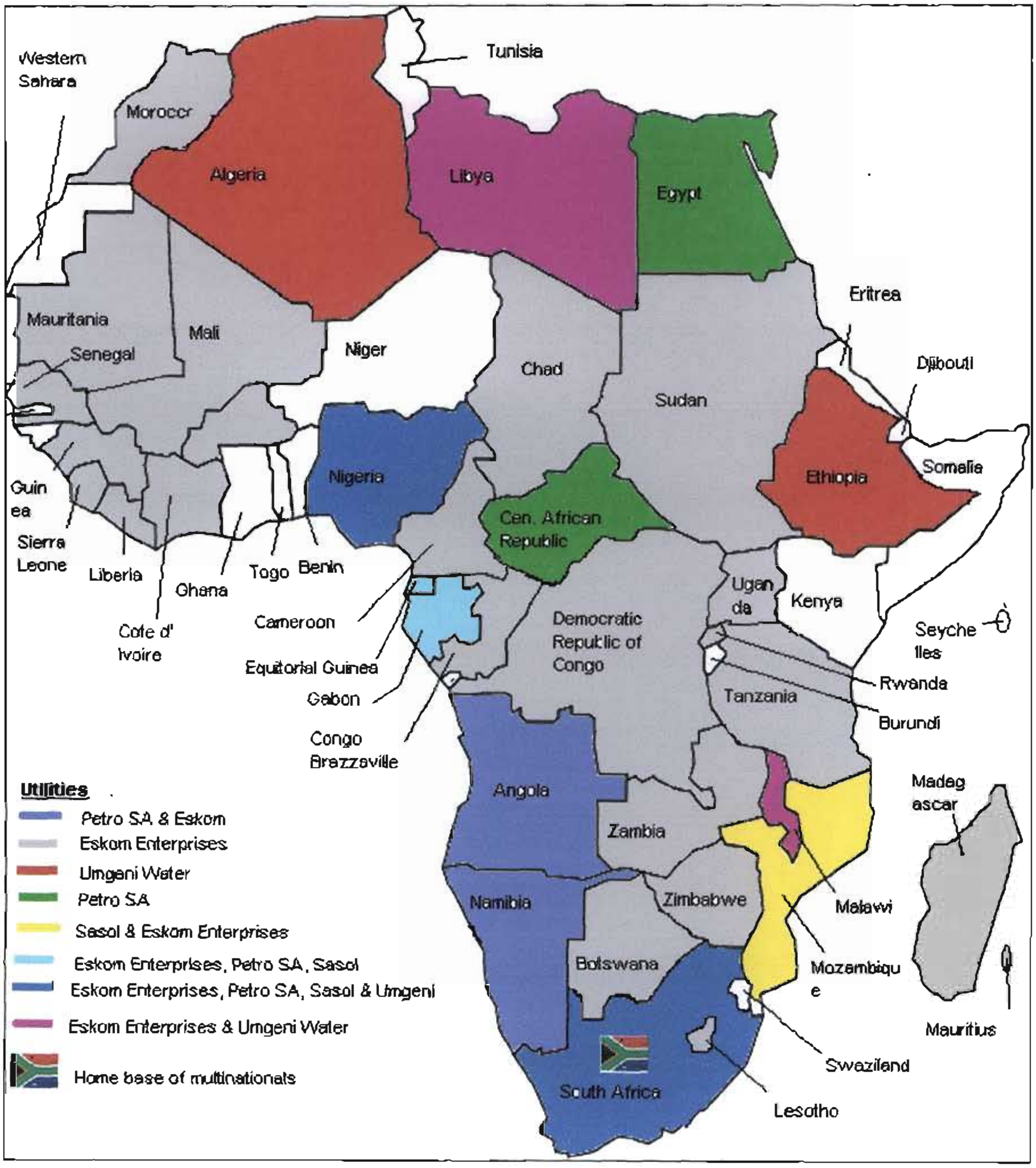
Map 10: Construction



Map 11: Aviation



Map 12: Utilities



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