South Africa is emerging from isolation into a period of opportunity" – South African President, Nelson Mandela.

It is widely believed that South Africa will become the economic engine of the Southern African region. But, despite opportunities for investment in and trade with South Africa, many international investors are carefully considering their options. South Africa is competing, inter alia, with Eastern European and Pacific Rim countries for foreign direct investment. Moreover, foreign investors seem to be adopting a wait-and-see position, that is, waiting to see what other big investors do and what happens to the determinants of foreign investment in South Africa. Some investors have even labelled foreign investment in South Africa as “hugely postponable”.1

In attempting to ascertain what factors would make South Africa a more attractive investment option one might well turn to the ten factors that Jegatesan2 believes should be considered before investing in any foreign country:

- political stability
- economic strength and performance
- the government’s attitude to investors
- government policies, in respect of equity guidelines, employment of expatriates and exchange control
- infrastructure
- labour matters
- banking and finance
- public service bureaucracy
- local business environment
- quality of life (medical facilities, housing, safety and security)

With the above investment factors in mind, we sought to elicit and evaluate the perceptions of foreign (trade) representatives regarding the political, economic and social conditions in South Africa. This article examines the results of our evaluation.

Study design and methodology

The survey was conducted during January and February 1995 among 86 foreign representatives/missions represented in South Africa. These (trade) representatives are the first “links” between foreign investors and South Africa. Their objectives are, inter alia, to promote trade between countries and to inform foreign investors (usually) from their own countries about economic, political, technological and social issues in the host country (in this case South Africa).
The South African case

Their knowledge and experience of South Africa were perceived to be adequate even if they had been in the country for less than two years.

The representatives/missions were not required to identify themselves and could remain anonymous when returning their questionnaires. The foreign missions of three countries, namely Italy, Britain and Belgium, formally elected not to participate in the survey.

The representative completing the questionnaire was requested to indicate the number of years that he/she had represented his/her country in South Africa. Ninety per cent of the respondents had represented their countries in South Africa for two years. Ten per cent had represented their countries in South Africa for periods ranging from three to six years.

The survey produced 26 completed questionnaires or a response rate of 30.2%.

The data were analysed by means of descriptive statistics such as frequency and univariate analyses. This produced mean, mode and median values. The mode values were regarded as an indication of consensus among respondents on each of the factors involved in a country evaluation. The ratings (on a scale from 1 to 10) were ranked from the highest to the lowest mode value. Below-average ratings were regarded as an indication of factors that are not conducive to investment in South Africa, while the opposite applied to factors with above-average ratings. These variables were then ranked within each group.

Findings

Overall rating of South Africa as a trade partner and investor attitudes

Asking how the missions rate South Africa as a trade partner (overall) on a ten point scale, resulted in a mode value of 5. This means that they perceive South Africa as a "fairly reliable" trading partner although the majority pointed out that this perception is based on certain conditions which are described in the following paragraph.
Investment in South Africa and its creditworthiness

None of the missions indicated that they would discourage investment in South Africa. Only 15.3% of the missions who responded would recommend investment in South Africa unconditionally. However, most of the missions (84.7%) indicated that they would recommend investment under certain conditions. The most prominent condition was continued political stability. Other conditions focused on the following aspects (in no specific order):

- more relaxed currency regulations and exchange controls
- international competitiveness
- increased political stability
- a more fair tax system
- a decrease in labour unrest
- a decrease in labour wage demands

 Asked for what length of time they would recommend investing in South Africa, 75% of the respondents indicated that they would recommend investment for a period of up to five years. This may be ascribed to the fact that the next national and provincial elections are scheduled to take place in 1999.

A period of five years also suggests that they do not recommend investment in long-term fixed assets, but rather investment in financial assets (shares and bonds). Pledges by foreign countries, for development assistance, trade credit, concessionary loans and other direct investment suggest that substantial long-term foreign direct investment decisions have not yet been finalized.

Country evaluation

Various factors influencing investment decisions were identified and representatives were asked to rate 17 considerations influencing foreign investment in South Africa. Rating options were out of 10, where a rating of 1 means undesirable, 5 equals average influence, and 10 means a perfect consideration for foreign investment.

Factors not conducive to investment in South Africa

Figure 1 indicates factors which the foreign representatives indicated were not conducive to foreign investment during early 1993:

<table>
<thead>
<tr>
<th>Safety and security</th>
<th>Exchange controls</th>
<th>Labour union demands</th>
<th>Labour productivity</th>
<th>Public service bureau</th>
<th>Tax system</th>
<th>Interest rates</th>
<th>Political risk</th>
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**Figure 1:** Factors not conducive to foreign investment in South Africa (1993 Foreign Representatives' Assessment)

Exchange control

Foreign missions awarded the lowest value to this factor, resulting in a mode value of 2.7 (see fig 1). The Government of National Unity gave its approval to the abolition of the financial rand as from 13 March 1995. This is the most significant economic decision by President Mandela's government to date, but one that will give confidence in the economic course it has chosen. The abolition of the dual currency system and the creation of a unitary rand removed any barriers that prevent foreign investors from critically assessing the country's economic and political prospects.3

The link between safety and security, political stability and economic factors such as exchange control is evident, and South African political, economic and labour stakeholders still have to learn how to adequately balance these issues.

The demands of labour unions

Foreign missions awarded the second lowest value to this factor, resulting in a mode value of 3.2.

It is clear that international investors and their advisers will closely examine the demands of labour unions and the debate on the new Labour Relations Bill. Clearer still is the fact that foreign investors' perceptions were negative at the beginning of 1995 and that any perceived increase in hostile labour demands will impact more negatively on foreign investment.

Safety and security

From figure 1 it is clear that foreign missions awarded the third lowest value to this factor, resulting in a mode value of only 3. The third quartile (Q3), which represents the value awarded by 75% of the respondents, similarly was a rating of 3 out of a possible 10.

The above ratings can be ascribed to the high crime rate. Police were searching for 210,000 people in connection with crimes committed between 1 January and 30 September 1994. There were 203,955 house burglaries and theft cases over the same period, compared with 160,832 in 1990. Robbery rose from 43,780 cases to 70,321 cases over the same period. On 27 February 1995, President Nelson Mandela ordered the South African Police Service to deploy additional police officers to combat crime, violence and lawlessness.

Political stability

Foreign missions awarded a mode value of 3 to this factor. The democratically elected government will have to prove to foreign investors that it is able to perform consistently and that it is irreversibly committed to liberal economic policies, including the abolition of the financial rand and the liberalization of exchange controls.

The productivity of the labour force

Foreign missions awarded a mode value of 4 to this factor. It is valid to put this value in perspective with other countries, and figure 2 gives an indication of output/employee and unit labour cost in manufacturing for selected countries for 1991/1992.

From figure 2 it can be seen that the South African output per employee (including management) in manufacturing increased at a low rate of 0.8% per annum over a seven-year period, while the annual unit labour cost shown for South Africa over the same seven-year period was about 10 times that of
Korea, De Jager adds that the competitiveness of Korea is preserved by an increase in productivity which almost matches its unit labour cost increase. South Africa cannot be named in the same class of productivity as these countries, and this fact will impact on foreign investment and international competitiveness.

Public service bureaucracy

A mode value of 3 was awarded to this factor. A positive attitude on the part of the state to international projects is important because it can accelerate approval and completion of projects and, of course, new job opportunities. It would seem that foreign representatives are not impressed with South Africa’s public servants, and that government agencies, and especially agencies working with foreign investment issues, must take note of these perceptions.

Taxation

Foreign missions awarded a mode value of 4 to this factor.

A commission under the chairmanship of Professor M Katz has been appointed to investigate taxation in South Africa. Releasing its interim report on 9 December 1994, the commission’s chairman said the government was losing R15 billion a year because of low staffing levels and dismal collection systems. The commission was not in favour of tax incentives for foreign investors, but proposed the scrapping of nonresident shareholders’ tax and marketable securities tax.

Foreign investors are subject to a nonresidents shareholders’ tax of 15%, a secondary tax on companies of 25%, and a transition levy of 5% in addition to basic corporate tax of 35%.

However, the first budget of the Government of National Unity on 15 March 1995 sent a clear message to foreign investors that South Africa means business. The investment friendliness of the budget was reflected in the following measures:

- the abolition of the nonresident shareholders’ tax
- the dropping of import charges

Interest rates

Foreign missions awarded a mode value of 5 to this factor.

The Governor of the South African Reserve Bank, Dr Stals, admitted that monetary policy had been too relaxed during 1994. On 21 February 1995, he announced a one percentage point increase, from 13% to 14%, in the bank rate. The bank rate was increased by a further one percentage point during June 1995. The bank rate is the rate at which the Reserve Bank provides credit to banks. These increases were introduced in an attempt to curb credit, combat inflation and protect the balance of payments. Another reason for tightening monetary policy was the objective of relaxing some exchange controls.

Factors conducive to investment in South Africa

Figure 2 indicates factors which the foreign representatives indicated were conducive to foreign investment during early 1995.

Transport infrastructure

Foreign missions awarded the highest value to this factor, resulting in a mode value of 9. Respondents felt that South Africa’s infrastructure, and specifically its transport infrastructure, is of an exceptionally high standard and that this is a positive signal for investment.
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Figure 3: Factors conducive to foreign investment in South Africa
(1998 Foreign Representatives/Mission)

<table>
<thead>
<tr>
<th>Decision Area</th>
<th>Mean</th>
<th>Mode</th>
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</thead>
<tbody>
<tr>
<td>Transport infrastructure</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Medical facilities</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Raw materials</td>
<td>7.1</td>
<td>8</td>
</tr>
<tr>
<td>Bank infrastructure</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Housing</td>
<td>5.8</td>
<td>6</td>
</tr>
<tr>
<td>Gov. attitude (Fr)</td>
<td>5.8</td>
<td>6.1</td>
</tr>
<tr>
<td>Support services</td>
<td>6.2</td>
<td>7</td>
</tr>
<tr>
<td>Quality of SA product</td>
<td>6.6</td>
<td></td>
</tr>
<tr>
<td>Economic performance</td>
<td>5.2</td>
<td></td>
</tr>
<tr>
<td>Government policies</td>
<td>5.1</td>
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</tr>
</tbody>
</table>

Decisions, and particularly when deciding on direct investments, like setting up manufacturing plants, factories and other value-adding projects.

Raw materials
Foreign missions awarded a mode value of 9 to this factor.
In reserves, South Africa ranks first in the world for the platinum group of metals (88%), manganese (85%), chromium (72%), vanadium (44%), gold (40%) and aluminum-silicates (37%). It holds second position in reserves of vermiculite (40%) and zirconium minerals (26%). It has the world's third largest reserves of uranium (13%), fluorapatite (12%), phosphate rock (7%) and antimony (3%).

There is no reason why South Africa cannot benefit from any of the precious metals for export, but this would best be done by an organization such as a mining company riding on the back of a sophisticated international network.

Edwards believes that improvements to facilitate value-added industries should include the removal of regulations such as the rule that bullion can be sold only through the South African Reserve Bank. Precious metals, and particularly gold, should also be discounted to local companies that benefit from them to ensure that the manufactured product is price-competitive in South Africa and internationally.

Housing
Foreign missions awarded a mode value of 9 to this factor. Although South Africa is experiencing a desperate shortage of low-income housing, its high-income housing compares favourably with overseas standards - both in quality and affordability.

Medical facilities
Foreign missions awarded a fourth highest value to this factor, resulting in a mode value of 8. Medical care is one of the determinants of quality of life. The quality of schools, medical facilities, housing and security is an important consideration for foreign personnel working on international projects, and this relatively high rating should be seen in this context. South Africa's relatively affordable medical cost structure is also a positive factor in this regard.

Banking infrastructure
Foreign missions awarded a relatively high mode value of 7 to this factor.
South African banking and financing instruments are excellent to assist international trade through a network of international banking links and the South African government has decided to allow the establishment of branches of international banking groups. Suiter stresses this fact by stating the following: "South Africa probably has one of the most sophisticated financial services industries, e.g. banking and insurance, in the Southern hemisphere."

Support services
Foreign missions awarded a mode value of 7 to this factor, which means that their perception of services like business consulting, auditing, attorneys, et cetera, is above average.

The government's attitude towards investors
Foreign missions awarded a mode value of 5 to this factor. Government officials who come into contact with overseas investors must be informed of the job, investment and other opportunities associated with such investments so that they can receive
favourably and courteously. Government policy on capital transfers to the investor’s home country, foreign financing of staff salaries, foreign exchange control and import protection are factors that affect international business. The attitude towards overseas investors may be improved by introducing tax incentives and by relaxing foreign exchange control measures.

**Government policies**

Foreign missions awarded a mode value of 5 to this factor.

The South African government’s policies are aimed at improving the quality of life for all its citizens. To this end it has embarked on various policies, for example, the Reconstruction and Development Programme (RDP), affirmative action and black empowerment. In terms of the RDP, the water supply to deprived communities will be improved and low-cost housing erected for the homeless, thus opening up opportunities in the construction industry.

**Economic performance**

Foreign missions awarded a mode value of 5 to this factor.

South Africa had a gross domestic product (GDP) of $120 billion in 1994 and the highest GDP per capita in Southern Africa. In 1994 the GDP rose by 2.3%, the first increase since 1988. South Africa’s foreign debt in the year to March 1995 was 15% of GDP, while its national savings rate was 17.5% of GDP. The World Bank is nevertheless of the opinion that the South African economy can grow at a sustainable 5% per year.

Presently, 50% of South Africans do not have formal jobs. To alleviate this problem requires a savings rate of 22%. Encouragingly, domestic investment rose by 7% in real terms during 1994/1995. However, South Africa needs foreign investment, entrepreneurship and an increase in savings if it wants to sustain its economic growth.

**The quality of South African products**

Foreign missions awarded a mode value of 5 to this factor. It is clear that South Africa’s products are not always up to the international standard, and that much has still to be done to produce higher quality products.

**Conclusion**

Investment in South Africa will increase significantly only once the factors not conducive to investment have been addressed to the satisfaction of potential foreign investors.

Government has shown a willingness to tackle thorny economic problems and to restructure the South African economy to make it more “investor friendly”. Ideology has no place in the world of foreign investment and it is the South African government’s responsibility to create the right environment for foreign investment and international business alliances in such a way that perceptions will change from “investment in South Africa is hugely postponable” to “investment in South Africa will add value to our business”.

It is, however, not the exclusive responsibility of government to create a climate that is conducive to foreign investment.

Labour unions will have to contribute by tempering their demands for higher salaries and by playing a constructive role in worker forums, as envisaged by the proposed new labour legislation.

The management of South African companies will have to ensure increased productivity and better quality products. A participative management style may enable both management and labour to accomplish this.

South Africa is viewed as a country with investment potential. Foreign missions recommend investment in South Africa, but require that South Africa relax monetary restrictions, temper labour demands, improve safety and security, increase productivity, and maintain political stability, supply information on investment opportunities, free regional trade and involve the private sector in the expansion of affordable infrastructure.

**Notes and references**

4. Investor confidence was jolted at the May 1996 World Economic Forum by Cosatu’s disabling influence on government (Financial Mail, 31 May 1996, p 36). The reason for this uncertainty is that the ANC has capitulated to Cosatu on the increase in the Vat rate, three clauses in the Constitution and on privatization in the past.
6. A Hadland, “Troops and extra police deployed to crack down on violent crime”, *Business Day*, 28 February 1995, p 1. The perception that government has failed to satisfy business on crime, violence, social order and creation of an environment conducive to job creation through business activity (*Business Day*, 29 May 1996, p 3) might be one of the reasons why foreign representatives view this area as highly unsatisfactory for promoting foreign investment in South Africa.