



South Africa



Rated by the UN as one of the world's 26 industrialized nations and by the US Commerce Department as one of a few select Big Emerging Markets (BEMs), South Africa offers great potential for exporters and investors with the right products, resources and commitment. South Africa has a substantial and sophisticated market with significant growth potential, well-developed financial institutions and capital markets, first-rate communication and transport links and readily available, inexpensive electrical power and raw materials. It offers easy access not only to neighboring markets but elsewhere in Africa. In areas such as mining, information technology and paper production South African companies have become major international players.

Country profile

The Republic of South Africa at the southern tip of the African continent comprises 1,219,090 sq. km. or 470,893 sq. miles (including two island possessions more than 1,920 km/1,193 miles southeast of Cape Town—Prince Edward and Marion. The country is within the subtropical high pressure belt and wide expanses of ocean have a moderating influence on the climate. More than 76% of the population is of black African heri-

tage; some 12.7% whites; 8.5% Colored; and 2.5% East Indian. Two-thirds of black South Africa belongs to the Nguni group and speak Xhosa, Zulu, Swati and Ndebele. The rest belongs to the South, North and West Sotho (Tswana), the Tsonga, and the Venda. The Coloreds are a mixed race and Indians are the descendants of indentured laborers brought to Natal by Britain in the 1860s to work on sugar plantations. Forebears of

the Afrikaners and English-speaking whites came from the Netherlands, France and Britain in the 17th and early 19th centuries, and, more recently, Germany, Portugal, Italy, Greece and other European countries. There is also a sizeable Chinese community. Next to English and Afrikaans, nine major Bantu languages enjoy official status. South African society is predominantly Christian but there are also sizeable minorities of Muslims, Jews and Hindu.

History

The region is said to have been occupied by small nomadic groups of San or Bushmen hunter-gatherers 100,000 years ago. Some 2,000 years



Fast facts



Pres. Thabo Mbeki
Born: June 18, 1942
Since 1999

POLITICAL

Head of State	Pres. Thabo Mvuyelwa Mbeki
Ruling Party	ANC
Main Opposition	Democratic Alliance
Independence	31 May 1910
Freedom Day	27 April 1994
Capitals	Pretoria, Cape Town, Bloemfontein
Official languages	English & 10 others

PHYSICAL

Total area	470,691 sq. miles 1,219,090 sq. km. (2 x Texas)
Arable land	12% of land area
Coastline	1,844 miles/2,968 km

POPULATION

Total	43.6 million
Av. yearly growth	1.32%
Population/sq. mile	92
Urban population	55%
Adult literacy	85%

ECONOMY

Currency	Rand (R)(US\$1=10.47)
GDP (real)	\$162.2 billion
GDP growth rate	1.2%
GNP per capita ¹	\$2,880
GDP (ppp) ²	\$290.6 billion
GDP per cap. (ppp)	\$6,800
Inflation rate	9.0%
Exports	\$33.3 billion
Imports	\$30.0 billion
Development aid	\$523 million
External debt	\$24.9 billion
Unemployment	30%

1. *Atlas method.*

2. See page 159 for an explanation of purchasing power parity (ppp).

ago they were gradually displaced by the pastoral Khoi or Hottentot and 1,500 years ago migrant Bantu entered the region from the north-central part of the continent. Portuguese explorer Bartholomeu Dias was the first European to set foot on South African soil in August 1487. It was, however, only on 6 April 1652 that a small group of Dutch under command of Jan van Riebeeck of the Dutch East India Company settled at the Cape. In 1689 they were joined by French Huguenots who developed the settlement into a notable wine producer. Britain took control of the Cape in 1806. The new British settlers aligned themselves with the Dutch frontiersmen. However, relations between the British authorities and the Boers (farmers)—as these descendants of the original Dutch and French settlers called themselves—were strained. The Boers trekked north and established their own independent Republics of the Transvaal and the Orange Free State. After their defeat by Britain in the Anglo-Boer War of 1899-1902 both Boer Republics were ruled from Westminster for eight years until 31 May 1910 when, together with the Cape and Natal colonies, they received independence as part of the Union of South Africa. Until 1994 the country was ruled by a succession of white governments applying segregation in one form or another. Beginning in 1912 the African National Congress (ANC) represented much of the disenfranchised black majority. In 1960s, the ANC abandoned its non-violent stance at the insistence of leaders such as Nelson Mandela, Walter Sisulu and Govan Mbeki. With most of these leaders later convicted and jailed at Robben Island, the ANC continued its struggle from abroad. The decision in 1990 by President F.W. de Klerk to scrap apartheid and negotiate a new South Africa with Mandela and his comrades led to the first free elections on 24 April 1994. The ANC won and Nelson Mandela became president. After his retirement in 1999, Deputy President Thabo Mbeki led the ANC to its second major victory and assumed the presidency.

Government

Parliament consists of a National Assembly with 400 members elected on a proportional basis, and a National Council of Provinces (NCOP), consisting of 54 permanent members and 36 special delegates representing provincial interests. The President, formally elected by the National Assembly, is both the Head of State and leads the Cabinet. Each of the nine provinces has its

own legislature consisting of between 30 and 80 members and is headed by a premier representing the majority party. Since the 1999 election the ANC has held a two-thirds majority in the national parliament with 266 seats against 38 for the largely white Democratic Party led by Tony Leon and 34 for the Inkatha Freedom Party (IFP) headed by Zulu Chief Mangosuthu Buthelezi. The IFP is in coalition with the ANC while the DP formed the Democratic Alliance in 2000 together with the New National Party (NNP) with its 28 seats and the Federal Alliance (FA) with its 2 seats. The NNP has since left the DA to seek a new dispensation with the ANC. The other nine smaller parties include the white right-wing Vryheidsfront (Freedom Front) and the black left-wing Pan African Congress of Azania (PAC). The ANC also governs in all the provinces except the Western Cape, where the Democratic Alliance rules, and Kwazulu/Natal, where the IFP governs.

Economic policy

The South African government sees its broad goals as the creation of a strong, dynamic and balanced economy; the elimination of poverty; meeting the basic needs of every South African; development of human resources; protection against racial or gender discrimination in hiring, promotion or training; the development of a prosperous and balanced regional economy in southern Africa; and integration into the world economy. Rolled out in July 1996, its Growth, Employment and Redistribution (GEAR) macroeconomic strategy set specific goals in all spheres of economic activity, ranging from gross domestic product growth to budget deficits, interest rates, inflation and job creation. Even though the country has fallen short in terms of GDP growth and job creation, it held its own on inflation and deficit targets. The government continues to receive good ratings from Moody's, Standard & Poors, Fitch and other rating agencies.

Sectors

South Africa has a modern, well-diversified economy. Agriculture contributes about 4.5% of the gross domestic product (GDP) and accounts for 13% of the total employment. Mining and mineral processing—even though they have been outstripped by manufacturing in recent years—remain vital to the economy. They still make an 8% direct contribution to GDP and employ more than half a million. South Africa's mineral wealth is found in diverse geological formations. The Wit-

watersrand Basin around Johannesburg yields 98% of South Africa's gold output while the Bushveld Complex, spanning the North-West and Mpumalanga provinces, contains the world's largest reserves of platinum group minerals (PGMs), chromium, vanadium, nickel, fluorspar and andalusite, apart from substantial supplies of antimony, asbestos, diamonds, coal, fluorspar, phosphates, iron ore, lead, zinc, uranium, vermiculite and zirconium. Both South Africa's fishing and forestry industries have developed into key economic players on the domestic scene and important currency earners. The sophistication of its manufacturing industry places South Africa in the company of the world's thirty top industrial nations. Nearly 32% of GDP is derived from secondary industry and policy-makers are devoting particular attention to sound, accelerated development of this sector. South Africa manufactures a wide range of consumer goods, including food products, textiles, footwear and clothing, metal and chemical products, and paper and paper products. The production of capital goods such as machinery, transport and electrical equipment is also expanding. In 1997, manufacturing, electricity, gas, water and construction contributed almost a third of the nation's total GDP, compared to agriculture's 4.5% and mining's 7.8%. South Africa's modern and extensive transport system places it in the company of top industrialized nations. A number of countries in southern Africa use this network to move their imports and exports. In the past the government has assisted strategic undertakings with subsidies and preferential treatment, including ADE (diesel engines), SASOL (synthetic fuels and petrochemicals), IDC (Industrial Development Corporation), CSIR (Scientific and Industrial Research), Mossgas, the Strategic Fuel Fund, and Soekor (oil and gas exploration). Since 1994, however, the trend has been to privatize.

Privatization

In 1995, under a "National Framework Agreement" (NFA), government, business, and labor agreed to a substantial program of restructuring and privatization of state assets. Partially or fully privatized so far are the Airports Company, six radio stations of the state-owned SA Broadcasting Corporation, Telkom (the national telecommunications company), and South African Airways (SAA). The two biggest deals to date are the sale in 1997 of 30% percent of Telkom SA to a con-

South Africa's Major Trading Partners

Country	Exports		Imports	
	2000 Total R Billion ³	% ¹	2000 Total R billion ³	% ¹
US	18.5	12.11	16.0	11.77
Germany	11.8	7.78	18.0	13.24
UK	15.2	8.95	11.6	8.57
Japan	12.1	7.98	10.7	7.9
Italy	4.3	2.79	4.5	3.32
France	2.9	1.87	5.7	4.2
Total Trade²	136.0	100	152.8	100

1. Percentage of total South African imports and exports.

2. Total trade, including all others.

3. Rand billion, constant 1995 prices.

Source: SA Department of Trade & Industry

sortium of SBC Communications of the US and Telekom Malaysia for \$1,261 million and the sale in 1999 of 20% of SAA to Swissair for \$230 million. Deals in the offing involve an additional stake in Telkom and the restructuring of Denel (a defense contractor), Eskom (a power utility), and Transnet (the country's major transport group). Earnings from privatization over the next four years are expected to exceed \$5.6 billion. So far the government has managed to overcome opposition from the trade unions and the South African Communist Party.

Investment

The US tops the list of foreign investors between 1994 and 1998 with a total of R14.3 billion, followed by Malaysia with R6.7 billion, Britain (R6.2 billion), Germany (R2.6 billion) and Japan with R1.8 billion. From 1994 until mid-1999, SBC Communications was a close second on the FDI list to Malaysia's Petronas. Dow Chemicals, Coca-Cola, IBM, Salem, Goodyear, Duracell, Ford and McDonalds are other big US investors. Main sectors for investment were telecommunications, energy and oil, automobile manufacturing, food and beverages, chemicals and plastics and mining. Dow Chemical's takeover of Sentrachem for \$850 million in 1998 is the largest single outright purchase of a South African private company in recent years. During the past six years, however, direct investment abroad by South African multinational firms has outpaced FDI inflows. South Africa has also become the largest source of investment not only in neighboring SADC nations but much of the rest of Africa.

Trade

In 2000, the US topped the list of nations trading with South Africa. Other significant trading partners were Germany, the United Kingdom, Japan, Italy and France. In February 1999, the U.S. and South Africa signed a Trade and Investment Framework Agreement (TIFA)—the first in Sub-Saharan Africa. The US is a major supplier of wheat and rice to South Africa and in 1999 accounted for 11% of the country's total agricultural imports. The US also has a significant share of the growing market for high technology equipment, computers and software, and machinery. As a result of the liberalization of its economy, South Africa's ratio of trade in goods and services to gross domestic product increased from 53.6% in 1994 to 64.8% in 1997.

Financial sector

The South African Reserve Bank (SARB) oversees a world-class banking system comprising 56 fully licensed institutions and 60 representative offices of foreign banks. The JSE Securities Exchange is Africa's largest and one of the world's top twenty exchanges. As of July 1999, the total capitalization value of the more than 600 firms listed on the JSE firms exceeded R1.3 trillion—approximately \$216 billion. In 1995 the JSE began permitting banks and foreign firms to join its registry. Foreign trade accounts for a sizeable portion of the daily volume. Among the significant foreign banks that have expanded into South Africa to assist investors and traders is HSBC Equator Bank. This bank also has operations in Angola, Côte d'Ivoire, Ghana, Mozambique and Uganda.

Sophistication

The level of sophistication of South Africa can best be judged by looking at the size of the top one hundred companies and tracing the success that its private sector has had in capturing world market share not only in mining and minerals but manufacturing and information technology. Notable among these are Sappi, which leads the world in the production of fine coated paper with a market share of 25% in the US and in Western Europe, and more than 60% in Africa; South African Breweries which ranks fifth worldwide and operates breweries in Africa and Europe; Anglo American and Billiton with mining interests span-

ning the globe; and Datatec and Didata that have become world players in information technology after acquisitions in Japan, Europe and North America. Sappi today has manufacturing operations in eight countries on three continents and sells in more than a hundred countries. Barloworld, the country's major industrial brand management company, has a significant presence not only in other African countries but around the world, including the United States, the UK and Europe. It is the world's largest independent lift truck dealer, a leading provider of comprehensive transport solutions, a vendor of cement, lime, paints and coatings, and steel tube, as well as a provider of financial services and leasing. Its brand name portfolio includes such familiar names as Caterpillar, Mercedes Benz, BMW, Toyota and Hyster. The shares of Sappi and Barloworld and other major South African firms trade not only on the JSE Securities Exchange but on foreign exchanges as well. Both Barloworld and Sappi have a considerable foreign shareholding—more than 60% of Sappi's stock was foreign-owned in April 2001.

Key partners

The Development Bank of Southern Africa (DBSA) works with donors and partners at international, national and regional levels on targeted infrastructural and strategic developments. It is playing an increasingly important role in the Southern African Development Community (SADC). Its investment portfolio has grown rapidly, with approved cumulative loans increasing from R10.3 billion in March 1996 to R21.1 billion by March 2000. Another key component in the South African arsenal to attract and assist foreign participation in the country and on a regional basis is the Industrial Development Corporation of South Africa Limited (IDC). The IDC provides financial and technical assistance for the development of value-adding greenfield expansion or rehabilitation projects in Africa. Its field of interest ranges from manufacturing to energy, mining, minerals beneficiation, agriculture, agro-processing, tourism, information technology, telecommunications and selective franchising. The IDC provides loan finance for a period of between five and ten years for sustainable, worthwhile projects—up to 50% in the SADC region and 25% elsewhere on the continent. It also provides medium- to long-term credit for importers of South African capital goods and services. By June 2001

the IDC's portfolio of African projects under implementation or investigation comprised 17 in 13 countries, excluding South Africa. The IDC has the largest centralized, multi-disciplinary project evaluation group in Southern Africa.

Taxes & tariffs

With the exception of mining companies which are subject to special rates, the corporate tax rate is 30%. A secondary tax on companies (STC) is imposed at a rate of 12.5% on the net dividends and withholding taxes are levied on interest and royalties paid to non-residents. A 14% value-added tax (VAT) applies. Exports are zero-rated, and no VAT is payable on imported capital goods. In keeping with its WTO commitments, the government has sought to reform a complex tariff structure of the past.

Business activity

AGRICULTURE

Corn, wheat, sugar cane, fruit, vegetables, beef, poultry, mutton, wool, dairy products.

INDUSTRIES

Mining (world's largest producer of platinum, gold, chromium), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs.

NATURAL RESOURCES

Gold, diamonds, platinum, uranium, coal, iron ore, phosphates, manganese.

EXPORTS

\$33.3 billion (1999 est.): gold, other minerals and metals, food, chemicals, manufactured goods.

IMPORTS

\$30 billion (1999 est.): machinery, transport equipment, chemicals, petroleum products, textiles, scientific instruments.

MAJOR TRADING PARTNERS

US, UK, Germany, Italy, Japan, France.

Doing Business with South Africa

► Investment

Since 1994 steps have been taken to make South Africa more attractive to foreign investment by reducing import tariffs and subsidies to local firms; eliminating discriminatory non-resident shareholders tax; removing remaining limits on hard currency repatriation; reducing by half secondary tax on corporate dividends; lowering the corporate tax rate on earnings to 30 percent; and allowing foreign investors 100 percent ownership. Foreign investors are not screened or subjected to performance or other special requirements. The government, however, encourages investments that will strengthen, expand, or enhance technology in various industries. Foreign firms are entitled to the same export incentive programs, tax allowances and other trade regulations applicable to domestic enterprises. As the Government pushes ahead with plans to attract strategic equity partners for its large parastatal organizations, there is an increased sensitivity to the concerns of foreign investors.

Incentives and assistance are also available to both locals and foreigners under the Small/Medium Manufacturing Development Program (SMMDP). Since 1994 major areas for investment have been in telecommunications, energy and oil, motor and components, food and beverages, chemicals and plastics, mining, manufacturing and hotels. A Government program of Spatial Development Initiatives (SDIs) has enhanced investment opportunities outside the major industrial centers. An official agency, Investment South Africa (ISA), provides information and assistance to prospective investors, helps identify opportunities, and assists them in finding joint venture partners and obtaining technology and capital. Franchising is an established practice. The Department of Trade and Industry must approve manufacturing royalties.

► Trade

Rapid development and expansion of telecommunications, large new pollution and waste management systems, increased use of computers and high technology devices, modernization of airports, the introduction of managed health care and a growing market for security systems are only a few areas where American products have found ready acceptance in recent years. The US remains a major exporter of agricultural products and current estimates indicate that for the medium term South Africa will continue to rely in part on imports to meet its food needs. Principal imports for the year 2000 include wheat (600,000 tons), corn (700,000

tons), rice (550,000 tons), vegetable oils (60,000 tons) and a variety of consumer-oriented food products. Most prospective exporters to South Africa find that this country replicates on a smaller scale their domestic market, both in product preference and marketing methods.

At the same time, US importers have been able to purchase sophisticated local manufactures and sold them back into the US market at handsome profits. Lately the rapidly growing tourism sector has provided a market for US suppliers of information systems, marketing, design, architecture, finance and management planning. E-commerce is expected to play a significant role in future business. South Africa is an extremely competitive marketplace and it is essential that exporters provide adequate servicing, spare parts, and components, as well as qualified personnel capable of handling inquiries. It is common to appoint a single agent or distributor capable of providing national coverage either through a single office or a network of branch offices and outlets. South Africa is an ideal springboard for trading with the 13 other countries of the Southern African Development Community (SADC) and the neighboring members of the South African Customs Union (SACU).

► Trade finance

All Eximbank programs are available to US exporters of goods and services to South Africa. South Africa's sophisticated financial sector provides overdraft facilities and short- to long-term credit. Key areas of business for foreign banks include trade finance, letters of credit, foreign exchange activities and services to offshore investors.

► Selling to the government

Not only the central government but nine provincial governments and hundreds of local authorities present a market for overseas suppliers of sophisticated goods and services. Government purchasing is done through competitive bidding on tenders published in the State Tender Bulletin and some of the leading newspapers. A local agent is needed to act on behalf of foreign bidders. When selling to the government, consideration should be given to the government's goal to expand black participation in the economy. Even though there are no set rules pressure is growing to include "set-asides" for black businesses. In some large-scale infrastructural projects, such as a recent tender for

a third cellular license, including a Black Economic Empowerment (BEE) partner was mandatory. The government's Industrial Participation Program (IPP) mandates a countertrade/offset package for all state and parastatal purchases of goods, services, and lease contracts above \$10 million. Under this program, bidders on governmental and parastatal contracts must submit an industrial participation package worth 30 percent of the imported content value. The bidder has seven years to fulfill this obligation.

► **Exchange controls**

Exchange controls are administered by the South African Reserve Bank's (SARB) Exchange Control Department through commercial banks that are authorized to deal in foreign currency. In March 1997, the Finance Ministry started to relax foreign exchange controls. Royalties, software license fees, and certain other remittances to non-residents still require the approval of the SARB.

► **Legal rights**

An independent judiciary allows full recourse without political interference in disputes over property or any other facet of business. Patents may be registered for 20 years and trademarks for 10 years, renewable for an additional 10 years. While South African IPR laws and regulations are largely TRIPS-compliant, there is still concern over copyright piracy and trademark counterfeiting and the US is working with the government to find ways of reducing infractions.

► **Partnerships**

In looking for partners, foreign firms have a range of choices between sophisticated large, medium-sized and smaller entities. Often the choice is determined by prevailing politics which favor black enterprise participation in government contracts. The government has leaned towards Private Public Partnerships (PPPs) in some projects, inviting foreign firms to enter in a joint venture with the authorities. It also makes good sense for foreigners with designs on the regional SADC market and other areas of Africa to join forces with South African firms with extensive local knowledge.

► **Establishing a presence**

South Africa's Companies Act provides for clear, transparent regulations concerning the establishment and operation of businesses. Foreign investments are organized under the same rules and regulations as domestic firms with one exception: overseas companies may opt to operate as "external companies" which do not pay tax on undistributed profits. Share capital duty is based

instead on the shares of the parent firm. Foreigners may normally buy into local firms without limitation, either by acquiring shares or assets. There is no record of any expropriation or nationalization of American or any other foreign investment in South Africa.

► **Financing projects**

The Development Bank of Southern Africa and the Industrial Development Corporation assist in the financing of projects involving local partners. The Overseas Private Investment Corporation backs and insures US projects in South Africa. The US Trade and Development Agency funds feasibility studies, consultancies, training programs, and other project planning services in the area. Under current exchange controls foreigners need special permission to borrow locally as part of an effort to prevent excessive "gearing" through local financing. The World Bank's International Finance Corporation has established the Africa Enterprise Fund (AEF) to finance projects ranging from \$100,000 to \$1.5 million at market interest rates.

► **Labor**

The government has promised to review labor legislation in response to complaints that the South African labor market is over-regulated. There are 2.2 million unemployed people in South Africa—23% of the economically active population. Unemployment rates are highest among black South Africans (29%), followed by Coloreds (16%), Indian (10%), and Whites (4%). Nearly 35% of the workers belong to unions. The strongest among them, the 1.8 million member Congress of South African Trade Unions (COSATU), is a full partner in the ANC governing alliance. Even though strike activity has declined sharply under the ANC-led government, COSATU and others have not been slow at using mass stayaways for political purposes.

► **Business climate**

Business customs in South Africa are similar to those in the US and Western Europe. South African business people tend to dress conservatively and those of the old school make every effort to be on time for appointments. Even though English dominates, business ignores Afrikaans at its own peril, especially if it is consumer-oriented. There is a level of language sensitivity among Afrikaners that prompts most local firms and many foreign entities to advertise and print their literature in both languages.