

FDI and MNCs in SA

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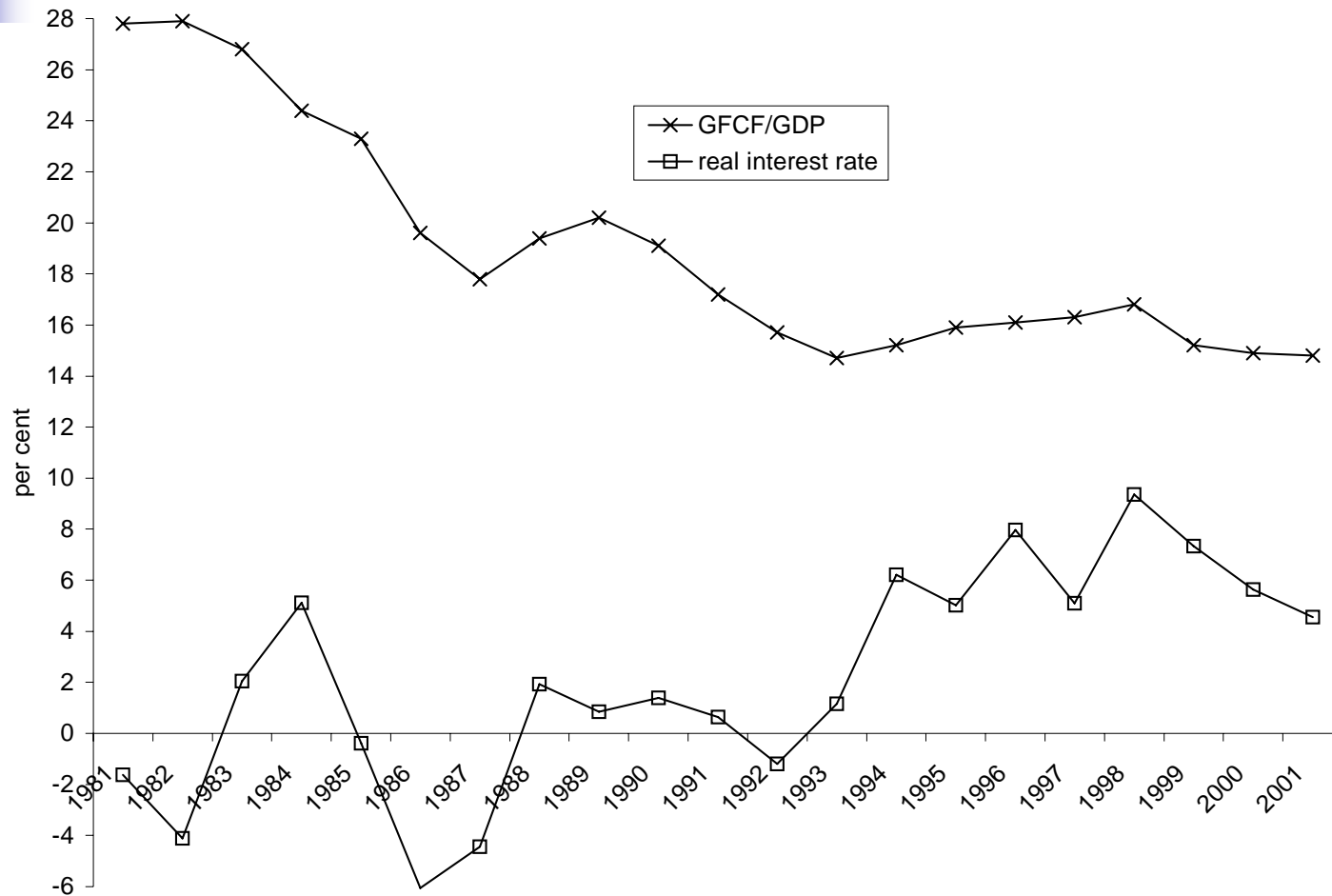


FDI and the macroeconomic policy framework

- Macro strategy of 1996:
 - Lower inflation (tight monetary policy)
 - Reduced budget deficit
 - Improved business confidence and higher private sector investment
 - Gradual exchange control liberalisation
- FDI expected to be key factor in achieving higher investment and growth rates

Investment performance:

- lower investment in 1990s due to govt and parastatals
- increase in 1996-98 due to iron & steel, non-ferrous (development finance), telecomms (privatisation), chemicals



FDI and balance of payments:

- trade surplus; negative net income paymts; require capital inflows (mainly portfolio); FDI low

[Rand millions]	1996	1997	1998	1999	2000	2001
Trade balance	11 548	10 769	10 416	25 343	29 495	41 947
Services balance	-3 092	-3 070	-1 859	-3 492	-3 609	-4 517
Net income paymts	-16 584	-18 125	-21 424	-25 249	-28 936	-39 063
<i>CA balance</i>	<i>-8 128</i>	<i>-10 426</i>	<i>-12 867</i>	<i>-3 398</i>	<i>-3 050</i>	<i>-1 687</i>
Net for. direct investmt	-970	6 756	-6 737	-475	4 280	85 921#
Net portfolio investmt	9 576	30 580	20 375	52 346	-13 835	-67 626#
Net other investmt	4 788	-10 287	3 662	-19 356	11 775	-29 305
<i>Financial account balance</i>	<i>13 394</i>	<i>27 049</i>	<i>17 300</i>	<i>32 515</i>	<i>2 220</i>	<i>-11 010</i>

Note: # large inflow and outflow due to linked 'paper' transactions due to the corporate restructuring of De Beers and Anglo-American

FDI: small inflows, large outflows (1997: telecoms priv)
 - large inward stocks 2000 (due to foreign listings, not real inflows); large outward stocks

(Source: UNCTAD, WIR)

Inward and outward FDI flows as % of GFCF

		90-95 (avg)	1996	1997	1998	1999	2000
South Africa	Inward	1.3	3.5	15.8	2.5	7.6	4.7
	Outward	4.8	4.5	9.7	8.0	8.0	1.4
World	Inward	4.1	5.9	7.4	11.0	16.5	22.0
	Outward	4.8	6.2	7.4	11.0	15.9	20.6
Developing countries*	Inward	4.9	7.9	10.3	11.0	14.1	14.3
	Outward	2.8	4.5	4.8	3.8	4.5	7.6

Inward and outward FDI stocks, as % of GDP

		1985	1990	1995	2000
South Africa	Inward	15.8	8.2	9.9	34.5
	Outward	15.7	13.4	15.4	25.7
World	Inward	7.8	8.9	10.0	20.0
	Outward	6.2	8.4	9.9	19.6
Developing Countries*	Inward	15.4	13.6	14.7	30.6
	Outward	2.0	3.1	5.5	13.9

* excluding China



FDI profile

- Main sectors?
 - Telecoms, Mining, Energy & oil, Motor vehicle, Food products, Chemicals, Textiles and clothing
- Wide range of source countries:
 - USA, Uk, Malaysia, Germany, Switzerland, Japan
- Modes of investment
 - Relative unimportance of greenfield investment
 - mainly M&A
 - Expansions increased in 2002



Policy to attract FDI?

- Liberal investment environment, few controls
- Access to tax and other investment incentives; development finance
- Non-selective in sectors or in behaviour
- Impact of privatisation



Motivations for FDI:

- Mainly market-seeking (low exports by foreign TNCs)
- Some efficiency/deepening integration – auto sector
- Resource-seeking – minerals, iron & steel
- Following rather than leading local growth
- Led to reductions in R&D and some replacement of production with imports: e.g. pharmaceuticals, food
- Now some investment as a low-cost export base and market access – e.g. clothing under AGOA
- Some major failures of foreign firms (e.g. of textiles)

(BusinessMap, 2003, Gelb 2002, Hawkins & Lockwood 2000, AT Kearney, 2000)



Internationalisation – SA TNCs

- South Africa with strong original links with international corporations: mining, banking, machinery and equipment
- Sanctions and divestment → local diversified conglomerates, now TNCs
- Highly concentrated economy:
 - Four firm concentration >50% in almost half of the 57 main product groupings ('96 Census)
 - Largest five conglomerate groupings control 62.9% of JSE capitalisation
 - Anglo-American (now UK-based): 26th largest non-financial TNC by foreign assets, 8th on UNCTAD's transnationalisation index



Dimensions of SA internationalisation (cont)

- International techno and skills links of many companies in e.g. chemicals, iron & steel, auto
- Resource based – mining, chemicals, steel, aluminium, paper
- Government allowed overseas primary listings: South African Breweries, Anglo, Old Mutual, Billiton
- UNCTAD: 4 SA companies in top 50 developing country MNCs, by size of foreign assets (Sappi, SAB, Barloworld, Pepkor)
- SA with 17 of top 200 'emerging market' companies by market cap (Brazil with 18, Korea with 21)



Recent patterns

- Outward acquisitions (e.g. Sasol)
- Expansion of SA companies across Africa: services, retail, mining
- Unbundling and vertical integration
- Better integration into international manufacturing networks (auto)
- Foreign owners with production capabilities: steel
- FDI from Asia
- De-emphasis of FDI in itself by government



Questions

- Effects on international trade?
(most trade flows by MNCs - tho' not necessarily intra-firm)
- Strategies of SA TNCs?
- Nature of TNC relationships and effects on local economy: techno transfer, skills, integration with global networks....?