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Case study on outward foreign direct investment by South African enterprises*

Executive summary

South Africa is an emerging outward investor. It ranked among the top10 largest developing country investors in 2004. The prospects for further internationalization of South African enterprises, both large enterprises and SMEs, are promising in the light of an improving regulatory framework, encouragement by the Government and the increasing desire of South African firms to go abroad to improve competitiveness.

While most South African OFDI is dominated by large private enterprises, Stated-owned enterprises (SOEs) and SMEs have contributed to corporate internationalization. Their drivers and motives are largely the same, but SMEs and SOEs tend to invest closer to home and in neighbouring countries in Africa as compared with the large private enterprises. Historical ties, competition at home and from abroad, attractiveness of overseas markets and liberalization played a key role in driving South African OFDI. Access to natural resources has led South African companies (both large and SMEs) to invest abroad to secure supplies. Trade-supporting motives and market access have been prominent reasons for SMEs to engage in OFDI. South African SMEs face a number of constraints on OFDI, which include lack of access to finance, managerial skills, and market informations and concern about the risk of operating in an unfamiliar environment.

Available evidence suggests that OFDI in general has helped increase the competitiveness of South African companies at least in terms of greater revenues, profitability, market expansion, access to technology and exposure to international business.

This paper is one of five case studies prepared by the UNCTAD secretariat as background documents for the Expert Meeting to facilitate discussion on internationalization of developing country firms. It examines the growth and geography of OFDI from South Africa, drivers, policy and impact on corporate competitiveness.

* This document was submitted on the above-mentioned data as a result of delays in processing.

This document was prepared and edited by the UNCTAD secretariat with substantive inputs from Reg Rumney, Executive Director, BusinessMap Foundation, South Africa.

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Outward foreign direct investment by South African enterprises

I. Introduction

1. South Africa is an emerging outward investor. The desire of South African companies to internationalize and their drive to access markets, natural resources and technologies, diversify, support trade channels, control value chains and take advantage of investment opportunities abroad were among the key reasons for OFDI. Liberalization and relaxation of exchange controls have also helped. The purpose of drive to internationalize through OFDI is to improve their competitiveness.

2. The South African Government has recently encouraged its firms to invest abroad. Finance Minister Trevor Manuel stated: in the 2001 Budget “The global expansion of South African firms holds significant benefits for the economy – expanded market access, increased exports and improved competitiveness”.¹ “We propose to abolish exchange control limits on new outward foreign direct investments by South African corporates”.² In 2004, the Government further removed restrictions and raised investment-ceiling limits for OFDI by South African companies. Given the improved policy environment and financial capability of South African companies, including growing competition at home and from abroad, the prospects for South African OFDI are promising.

3. This paper explains the growth and geography of OFDI from South Africa. It examines why South African OFDI is largely concentrated in a few host economies; what are the drivers and motivations of OFDI; how OFDI has increased the competitiveness of South African companies; whether OFDI by small and medium-sized enterprises (SMEs) differs from that by larger companies; and what are the policy considerations to support OFDI by South African enterprises.

II. South African OFDI: Trends and development

4. South African OFDI was evident in the 1980s, but the push to invest abroad became notable after 1990 largely owing to the relaxation of sanctions and liberalization for OFDI. The pressure for South African companies to diversify their operations internationally became stronger after 1990 as corporate strategy based on conglomeration fell out of fashion and “focusing on core businesses” became essential. Until 1990, exchange controls in South Africa encouraged conglomeration rather than OFDI. The source of growth then was through expansion within the country.³

5. South Africa is a major source of FDI in Africa. Its OFDI flows have been increasing since 1990, albeit erratically, contributing to an OFDI stock of \$29 billion in 2004 (UNCTAD, 2005). Outflows have exceeded inflows of FDI in most years since 1990 (table 1). South Africa ranked among the top 10 largest emerging market investors with the lion's share of its OFDI concentrated in Europe and Africa, and lately, North America (particularly the United States). South African OFDI is geographically concentrated, with over 90 per cent of the country's OFDI stock in 10 host economies in 2003 (table 2). Most OFDI is associated with large South African enterprises, but there are notable exceptions in overseas investments by South African SMEs, mainly in Africa.

¹ Budget speech Mr. Trevor A. Manuel, Minister of Finance, 21 February 2001.

² Speech by Mr. Trevor A. Manuel, Minister of Finance, addressing the National Assembly on the tabling of the Medium Term Policy Statement, the Adjustments Appropriation Bill and the Revenue Laws Amendment Bill, 2004 (www.finance.gov.za/documents/mtbps/2004).

³ South African enterprises grew through acquisitions of foreign interests that divested in South Africa during the apartheid years. Other means included acquisition of smaller enterprises by larger mining companies as a basis for growth.

**Table 1. South Africa: Inward and outward FDI, 1990-2004
(Millions of rand)**

Year	Inward FDI flows	Outward FDI flows
1990	-203	71
1991	685	574
1992	10	5 524
1993	33	974
1994	1 348	4 388
1995	4 502	9 059
1996	3 515	4 485
1997	17 587	10 831
1998	3 104	9 841
1999	9 184	9 659
2000	6 158	1 878
2001	58 404	-27,359
2002	7 958	-4,195
2003	5 443	4 365

Source: South African Reserve Bank.

**Table 2. Top 10 destinations of South African OFDI, 2003
(Millions of rand)**

Rank	Country	Amount
1	United Kingdom	44 084
2	Luxembourg	43 704
3	Belgium	23 080
4	United States	14 936
5	Austria	11 183
6	Australia	6 804
7	Germany	6 559
8	Netherlands	5 925
9	Mozambique	5 071
10	Mauritius	4 106
	Total (top-10)	165 452
	Total OFDI stock	180 507

Source: South African Reserve Bank, *Quarterly Bulletin*, (2005).

Note: Ranking in terms of OFDI stock.

6. In the 1990s, South African enterprises were acquiring assets abroad to strengthen their position and international image in preparation for the transfer of stock exchange listings abroad. The transfer of listing to the London Stock Exchange since 1994 was a key development that contributed to the rapid growth of South African OFDI, particularly in the 1990s. Some three quarters of South Africa's OFDI stock is in Europe and another 9 per cent each in the Americas and Africa (table 3).

Table 3. South Africa: OFDI stock, by region, 2003

(Millions of rand; percentage)

Country	R-millions	Percentage
Europe	137 356	76.1
Americas	16 966	9.4
Africa	15 837	8.8
Asia	3 510	1.9
Oceania	6 807	3.8
International organizations	31	0.0
Total	180 507	100.0

Source: South African Reserve Bank (2005).

7. Fifty-seven companies listed on Johannesburg's Securities Exchange (JSE) in 2004 also had a listing in at least one other foreign stock market. Twenty-seven of them were listed on the London Stock Exchange (LSE), including such major South African companies as Billiton, Anglo American, Old Mutual, South African Breweries and Dimension Data.

8. OFDI from South Africa into the region has continued to increase since 1994; this makes making it the largest investor in Mozambique and among the leading investors in many of the other African countries.⁴ The number of South African companies doing business in Africa has more than doubled in a decade since 1994 and by the beginning of 2005, 34 of the top 100 JSE-listed companies had 232 investment projects in 27 African countries, employing 71,874 people.⁵ South African OFDI to Africa spans a wide range of industries, from cellular communications to mining activities (table 4).

9. More than 22 per cent of FDI flows received by the South African Development Community (SADC) in 1994-2004 were from South Africa, with the share in some years exceeding 40 per cent share (table 5). Despite earlier exchange controls, OFDI from South Africa to the neighbouring countries of the Common Monetary Area (Botswana, Lesotho, Namibia and Swaziland) was not restricted, and South Africa's major banks, for instance, had established subsidiaries long before the wave of investment in SADC.

⁴ See (<http://www.sabcnews.com/economy/business/0,2172,89935,00.html>).

⁵ "Africa Inc", Who Owns Whom and the South Africa Institute of International Affairs, published in "Who Owns Whom 2005", Dun and Bradstreet, 2005.

Table 4. South Africa: Selected OFDI projects in Africa by South African companies, 2000-20004

Year	Acquiring company	Industry	Acquired company	Host economy	Type of FDI	Transaction value (US\$m)	Reasons for investment
2004	Metorex Ltd.	Resources	Ruashi Mining	Democratic Republic of the Congo		86	Major orebody with promise of high returns
2004	Randgold Resources	Resources	Loulo Concessions,	Mali	New	80	Organic growth geographical diversification
2004	Randgold Resources	Resources	Licences and assets	Angola	Mergers and acquisitions	15	
2003	AngloGold	Resources	Ashanti Zimbabwe	Ghana	Mergers and acquisitions	274	diversification
2003	Impala Platinum	Resources	Platinum Mes Hartley Platinum Mines	Zimbabwe	Expansion	85	Attractively priced assets
2003	Impala Platinum l	Resources		Zimbabwe	Expansion	80	Attractively priced assets
2003	Industrial Development Corporation	Basic Industries	Kolwezi Tailings project	Republic of the Congo	Mergers and acquisitions	33	Acquisition of controlling interest
2003	Nedbank	Financials	Commercial Bank of Namibia	Namibia	Expansion	33	
2003	DeBeers	Financials	Building	Angola	New	30	Unstated
2003	Stanbic Africa	Financials	Banco Standard Totta de Mozambique	Mozambique	Expansion	22	Expansion drive
2003	Stanbic Africa	Financials	Investec Bank (Botswana)	Botswana	Mergers and acquisitions	21	
2003	Impala Platinum	Resources	Platinum Mines	Zimbabwe	Expansion	19	Attractively priced assets
2003	Sasol	Resources	Escravos gas to liquid plant	Nigeria	New	Undisclosed	Use of existing technology
2002	Eskom Holdings	Utilities	Grand Inga Falls hydroelectric project	Democratic Republic of the Congo	Intention	1200	Securing SA energy needs
2002	Vodacom	Telecommunication	Vodacom Mozambique	Mozambique	New	260	Geographical expansion
2002	Ressano Garcia Railway company	Cyclical services	Caminhos de Ferro de Mozambique	Mozambique	New	78	Geographical Diversification
2001	Saso Oil	Resources	Pande & Teemanegasfields	Mozambique	New	581	Energy exploitation for SA needs
2001	MTN	Telecommunication	MTN	Nigeria	New	285	Geographical expansion
2001	Industrial Development Corporation	Basic industries	Moza II	Mozambique Democratic	Expansion	160	Support for regional project
2001	Vodacom	Telecommunication	Vodacom Congo	Republic of the Congo	New	94	Geographical expansion
2000	Vodacom	Telecommunication	Vodacom Tanzania	United Republic of Tanzania	New	142	Geographical expansion
2000	AngloGold	Resources	Ashanti Goldfields Geita pject	United Republic of Tanzania	Privatization	83	Geographical expansion

Source: BusinessMap Foundation.

Table 5. South Africa: OFDI to SADC, 1994-2004

(Millions of dollars; percentage)

Year	Total FDI to SADC	South African OFDI to SADC	South Africa's share of FDI to SADC
1994	60	26	43%
1995	1 420	214	15%
1996	1 149	97	8%
1997	2 517	1 062	42%
1998	5 085	1 988	39%
1999	1 282	114	9%
2000	904	281	31%
2001	9 808	1 585	16%
2002	4 600	1 884	41%
2003	7 443	932	13%
2004 (1st half)	4 976	597	12%
Total	39 244	8 781	22%

Source: BusinessMap Foundation Database of Announced FDI.

Note: SADC comprises Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe.

10. The bulk of South Africa's OFDI stock in 2003 was from the private non-banking sector (table 6). OFDI activities by State-owned enterprises (SOEs) contributed only 2.5 per cent to the OFDI stock. This is not surprising, because the activities of South Africa's State-owned enterprises before 1994 were primarily concentrated within the country. The SOE's exposure to OFDI is a relatively recent development as compared with its private enterprises. The strong commitment of the Government in promoting the New Partnership for African Development (NEPAD) encouraged SOEs to expand into Africa. Thus, it was only after 2000 that South African SOEs began to move into Africa, more visibly contributing to infrastructure development in the region.⁶ An interesting feature of South African OFDI in Africa is that SOEs have invested substantially in the continent, particularly in Mozambique. OFDI by SOEs outside Africa is, by contrast, insignificant.

Table 6. South Africa: OFDI stock, by institutions and types of finance, 2003
(Millions of rand; Percentage)

Types of corporations/financing components	Value	Percentage
Public corporations		
	4 707	2.6
Equity capital	81	0.04
Reinvested earnings	1 653	0.9
Other capital	2 973	1.6
Banking sector		
	3 758	2.1
Equity capital	2 605	1.4
Reinvested earnings	1 153	0.6
Private non-banking sector		
	172 042	95.3
Equity capital	58 909	32.6
Reinvested earnings	102 727	56.9
Long-term capital	4 231	2.3
Short-term capital	6 175	3.4
Total OFDI	180 507	100

Source: South African Reserve Bank, (2005).

⁶ Bridging the Divide between South Africa and the Region through Development, keynote address by Jeff Radebe, Minister of Public Enterprises, to the HSRC-FORUM 150 Conference, 29 March 2004, Pretoria.

11. Given the long experience of South African banks' involvement in Africa, the figures for OFDI in the banking sector in the region might have been higher than indicated by available statistics. The anecdotal evidence, however, is that banking assets acquired in Africa have often been acquired at bargain prices, a fact that partly explains the low level of South African banking OFDI. South African banking OFDI was driven by reactions to investment opportunities provided by privatization in the region, where assets could have been offered at attractive prices.

12. The financing strategy of South African OFDI differs by types of institutional investors. The lion's share of the private non-banking sector's OFDI activities were financed through reinvested earnings, while the banking sector preferred using equity capital and the SOEs through other capital such as intra-company loans. The different financing strategies reflect the different degree of extensiveness and exposure of the different types of institutions to internationalization and the influence of government regulations on raising corporate finance abroad. South African enterprises were until recently not allowed to borrow in foreign markets against domestic assets. The greater use of reinvested earnings by private non-banking enterprises suggests longer experience with OFDI, greater profitability and retention of earnings for capital expansion. Favourable OFDI "experience effects" and prospects of overseas operations in supporting long-term corporate growth also played a role. A lower level of reinvested earnings in the banking sector and SOEs suggests relatively recent OFDI exposure, and that profitability has not been as high as that from other locations or that internally generated funds have not been sufficient to finance OFDI activities. Thus, there is a need to resort to using equity or loan financing arrangements. Tax on foreign dividends before 2004 by the South African Government also encouraged reinvestment in OFDI activities by South African companies.

III. Drivers and motivations

13. South African companies are investing abroad for various reasons, which differ at different times, between industries, types of corporations and host locations (tables 7 and 13). OFDI from South Africa is generally motivated by two sets of factors: (i) macroeconomic influences, including home market situation and policy direction; and (ii) company-specific factors driving OFDI.

14. One of the key drivers of OFDI from South Africa is the end of the political isolation in the 1990s, which offered an opportunity for internationalization by South African companies. Prior to that, South African companies were investing abroad to diversify from the home economic environment and to prepare for their transfer of listing to stock exchanges abroad. BusinessMap noted in a study of the London listings in 2003 that while the reasons that South African companies provided for changing their listing varied, their core motivations have been the same (Goster, 2002). These reasons include the following:

- (i) Access to more and cheaper capital to finance expansion;
- (ii) The possibility of being listed on the London Stock Exchange; and
- (iii) Companies having outgrown the South African market and needing to establish a global presence.

15. Increasing competition and market saturation at home had encouraged South African companies to go abroad to improve competitiveness and profitability. Historical ties played a role in the internationalization, as did investment opportunities that emerged in neighbouring countries through privatization (box 1). For instance, long familiarity with the business environment in the United Kingdom and strong personal and historical ties with the host country were a key reason for South African OFDI in the United Kingdom. The policy direction of the Government in strengthening regional cooperation has led South African SOEs to invest in the region in developing infrastructure facilities and to support the regeneration of Africa under the banner of "African Renaissance". OFDI in the SADC region was influenced by the selective relaxation of exchange controls. The improved OFDI policy environment (liberalization and relaxation of exchange controls) also contributed to the internationalization of South African companies.

16.

Table 7. Drivers of, and motives for OFDI by South African enterprises, by types of enterprises and industry

Industry	Drivers and motives	Enterprises	
Stated-owned enterprises	Government policy supports regional cooperation and infrastructure development	Industrial Development Corporation Eskom	
	Investment opportunities	PetroSA	
	Privatisation in host countries	Transnet	
	Regional network of operations	South African Airways	
Private enterprises			
	Natural resources and agriculture	Access to natural resources Investment opportunities from privatization Control value chains Access markets Lower cost of production	Anglogold Ashanti Illovo Sugar Metorex Sappi
	Manufacturing	Access to markets and expand growth Sourcing of materials Diversification Trade-supporting	Mondi Sappi Steinhoff DPI Plastics Spamjaard Universal Footwear Sasol, Illovo Sugar
	Services	Access to markets and expand growth Investment opportunities from privatizations Strengthen market position Regional networks Financial motives Transfer of listing and raising of capital	Datatec MTN Standard Bank Absa Bank Dimension Data Anglo American

Source : UNCTAD.

Box 1. Privatization and investment opportunities for South African OFDI

Privatization and investment opportunities in neighbouring countries such as Mozambique and the United Republic of Tanzania encouraged South African companies and SOEs to invest in these countries. The State-owned **Industrial Development Corporation (IDC)** supports infrastructure development in the Southern African region through taking up equity stake in projects. For instance, it took a 25 per cent equity interest in the first phase of the Mozal aluminium smelter project in Maputo, (Mozambique) and participated in Mozal 2, the expansion project, for a cumulative investment of \$538 million.⁷ IDC has an interest in 89 projects and overseas activities in 28 African countries.⁸ It invests in the continent to manifest in a substantive way the South African Government's policy in supporting African regional cooperation and investment opportunities offered by privatization in the host country. Similarly, **Eskom**, an energy utility SOE, has invested in a joint-venture project to supply electricity to the Mozal project in Mozambique. It has invested about \$32 million in 2002 in Lesotho's main telecommunications service provider. **Transnet** (a transportation SOE), through its airline subsidiary South African Airways (Pty) Ltd (SAA), acquired a 49 per cent stake in the Tanzanian national airline and has a 19 per cent interest in the Railway Systems of Zambia. **Absa Ltd** has operations in four African countries: Mozambique, Zimbabwe, the United Republic of Tanzania and Namibia. The first three were results of privatization that provided investment opportunities in Banco Austral in Mozambique, Commercial Bank of Zimbabwe and the National Bank of Commerce in the United Republic of Tanzania.

Source: UNCTAD.

⁷ BusinessMap FDI database.

⁸ IDC website: www.idc.co.za.

17. Corporate-specific factors in South African OFDI are similar to those for OFDI of other developing countries: market seeking, resource seeking and efficiency seeking. The extent of internationalization, geographical spread and corporate-specific motives of South African OFDI are illustrated by the cases presented below.

Resource-seeking motives

18. Access to natural resources had led South African companies to invest in Africa and as far away as Australia. In 2003, **PetroSA** acquired an interest in offshore facilities in Gabon and in Algeria. In 2004, it acquired an interest in an offshore oil field in Nigeria. The company bought a stake in a gas-to-liquid fuel project in the Islamic Republic of Iran and in a fuel grade methanol project in Qatar. PetroSA OFDI was to access natural resources in oil and gas. **Anglogold Ashanti** (gold production), a merger between Anglogold (South Africa) and Ashanti (Ghana), has operations in 11 countries. Investment opportunities provided by the opening up of mining industries in host countries and access natural resources were among the key motivations for OFDI. **Illovo Sugar** (agriculture company) invests outside South Africa for various reasons, which include access to trade preferences provided to neighbouring developing countries to export sugar to the European Union, increased opportunities for intraregional exports and investment opportunities from the privatization programmes of neighbouring countries.⁹ Most of Illovo OFDI has been in Africa and in such countries as Malawi, the United Republic of Tanzania, Mozambique, Swaziland and Zambia (table 8). Sugar production in these countries also costs less than in South Africa. Illovo has been able to diversify geographically, access lower-cost resources and service profitable markets in Europe through neighbouring countries.

Table 8. Illovo Sugar: OFDI activities and profitability, 2003

Host country	Acquisition	Reason for investment	Operating profit (%)
Zambia	Zambia Sugar Company	Privatization opportunity	38
Malawi	Sugar Corporation of Malawi (Sucoma)	Privatization opportunity	34
United Republic of Tanzania	Kilombero Sugar Company	Privatization opportunity	17
South Africa	13
Swaziland	5
Mozambique	-1
United States	..	Geographical diversification	-6
Total			100

Source: Company's information, Illovo Annual Report 2004.

Market-seeking motives

19. **Mondi** (paper industry) followed its competitor (Sappi) abroad for market reasons. It has gone abroad to expand its markets and access to resources, a globalisation process that had taken it further away from its South African base. The small size of the South African market has encouraged **Datatec** to expand abroad. The company invested in countries where telecommunications and Internet services are deregulated, especially in developed countries. Cellular services provider **MTN Group** has expanded aggressively in Africa (table 9). In July 2005, MTN acquired a 51% interest in Loteny Telecom (Republic of Cote d' Ivoire). The group has also shown interest in investing in Iran. The main reason for MTN's expansion is that as a dominant firm in the cellular telephone market in South Africa it was impelled to seek new markets to pursue rapid growth. **Standard Bank Ltd** has extensive operations in Africa (table 10). It has a network spanning 17 African countries. Standard Bank also has, through Standard International Holdings, subsidiaries in Asia, United States, Brazil, Russian Federation and Turkey.

⁹ *Business Day* Johannesburg, 12 October 2004.

Table 9. MTN: Geographical distribution of selected OFDI activities, 1998-2001

Subsidiary/affiliate	Host country	Year	Stake	Employees
MTN Cameroon	Cameroon	2000	70%	339
MTN Nigeria	Nigeria	2001	75%	1 619
MTN Rwanda	Rwanda	1998	40%	340
MTN Swaziland	Swaziland	1998	30%	90
MTN Uganda	Uganda	1998	52%	396

Source: MTN group, company's information.

Table 10. Standard Bank: Geographical distribution of OFDI in Africa

Subsidiary/host country	Equity ownership
Stanbic Bank Botswana	100%
Standard Bank Lesotho	100%
Standard Bank Swaziland	65%
Lesotho Bank	70%
Stanbic Bank Congo	100%
Stanbic Bank Ghana	97%
Stanbic Bank Kenya	96%
Stanbic Bank Ltd Malawi	60%
Stanbic Bank Nigeria	93%
Stanbic Bank Zambia	100%
Stanbic Bank Zimbabwe	100%
Stanbic Bank Finance Zimbabwe	100%
Standard Bank Mauritius	100%
Standard Bank s.a.r.l Mozambique	96%

Source: Standard Bank Ltd., company's information.

Acquisitions abroad

20. South African companies have long been buying assets abroad as part of their strategy for internationalization. M&A purchases were undertaken for various reasons, which range from financial and stock exchange listing motives to access to markets and natural resources. Most M&A purchases were in developed countries, primarily the United Kingdom, Australia and the United States (table 11). Fewer M&As were in developing countries and they were mainly concentrated in Africa, partly contributed by privatization in the host countries. Zimbabwe and Zambia received the most South African M&A purchases among the developing countries in 1995-2004.

Table 11. South Africa: Cross-border M&A purchases, by economy, 1995-2004

(Number of deals)

Economy	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1995-2004
World	23	25	36	45	71	66	34	32	19	21	372
Developed countries and territories	13	15	24	35	61	52	25	22	14	14	275
United Kingdom	3	2	10	11	19	16	6	9	4	3	83
Australia	-	6	3	12	14	11	9	6	6	5	72
United States	2	2	5	4	9	11	6	3	1	1	44
Germany	4	2	1	1	3	3	1	1	-	-	16
Netherlands	-	-	1	1	3	-	1	1	1	-	8
Canada	-	1	-	1	2	2	-	1	-	1	8
Developing countries and territories	10	10	12	10	9	14	9	10	4	7	95
Africa	9	7	10	5	6	8	5	5	3	6	64
Zimbabwe	1	1	1	-	4	-	-	2	-	2	11
Zambia	1	-	4	2	-	2	1	-	-	-	10
Namibia	-	-	2	-	-	1	-	-	2	1	6
Malawi	-	3	-	1	-	-	1	-	-	-	5
United Republic of Tanzania	2	-	-	1	-	2	-	-	-	-	5
Botswana	1	1	1	-	-	-	1	-	-	1	5
Mozambique	-	1	1	-	-	1	1	-	-	-	4
Latin America and the Caribbean	-	3	-	3	-	1	-	3	-	-	10
Asia and Oceania	1	-	2	2	3	5	4	2	1	1	21
India	-	-	-	-	-	2	-	1	-	-	3
Thailand	-	-	-	-	2	-	-	-	-	-	2

Source: UNCTAD cross-border M&A database.

Table 12. South Africa: Cross-border M&A purchases, by industry, 1995-2004

(Number of deals)

Industry	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	1995-2004
Total industry	23	25	36	45	71	66	34	32	19	21	372
Primary	2	4	1	5	5	6	7	4	7	4	45
Mining	2	4	1	4	5	6	7	4	7	4	44
Secondary	5	9	10	4	8	14	4	6	3	8	71
Food, beverages and tobacco	2	1	1	-	3	-	-	-	-	-	7
Wood and wood products	-	1	3	-	-	4	-	1	1	2	12
Oil and gas; petroleum refining	1	-	-	-	-	2	1	3	-	1	8
Chemicals and chemical products	1	2	2	-	1	1	-	-	-	1	8
Metal and metal products	-	2	-	2	1	1	-	1	-	-	7
Machinery	-	1	1	-	2	4	-	-	1	2	11
Electrical and electronic equipment	-	1	1	1	1	2	2	-	-	2	10
Services	15	11	25	36	58	46	23	22	9	9	254
Construction firms	-	-	1	-	1	1	-	-	1	1	5
Trade	-	1	6	14	16	7	4	3	-	2	53
Transport, storage and communications	1	-	2	1	3	1	1	-	2	2	13
Finance	12	9	10	11	18	16	11	16	6	3	112
Investment & commodity firms, dealers, exchanges	6	7	5	8	11	12	2	12	2	3	68
Insurance	2	-	4	1	-	2	1	2	2	-	14
Business activities	1	1	3	8	17	16	7	3	-	1	57
Prepackaged software	-	1	3	3	7	9	5	2	-	-	30
Business services	1	-	-	4	7	6	2	1	-	1	22

Source: UNCTAD, cross-border M&As database.

21. Some two thirds of the M&A purchases were in services industries, led by finance and trade activities (table 12); this suggests the influence of market access, trade-supporting, diversification and long-term corporate growth motives. Because of its strong capital market and historical ties, the United Kingdom was a prominent target country for finance M&As. M&As in software industries were also prominent and mainly in technologically advanced countries in Europe and the United States. Access to technology and skills are important drivers for South African M&A purchases by enterprises in this business activity. Mining has been an important area for acquisition of assets abroad to secure immediate access to natural resources and control over the value chain.

OFDI and SMEs

22. Market saturation, market-size limitation at home and the attractiveness of overseas markets have encouraged small and medium-sized South African TNCs to internationalize. But they are internationalizing more slowly and in smaller numbers than the larger ones. Despite the more favourable regulatory environment for OFDI, and the possibilities offered by globalization for South African firms since 1990, an examination of the bottom 100 companies by market capitalization on the JSE Securities Exchange reveals that only about 22 have one or more foreign subsidiaries abroad.¹⁰ The motives for OFDI were largely the same for small and medium-sized companies as they were for the larger enterprises. But trade support and market access were prominent reasons for the former (e.g. Spanjaard, Universal Footware) (table 13). The geographical spread differs between the larger TNCs and the small and medium-sized ones. The latter tend to invest closer to home, often in the neighbouring countries, while the former ventures both near and far. Access to natural resources drives South African SMEs, as it did for large companies, to invest where they can secure supplies.

Table 13. Selected small and medium-sized TNCs from South Africa^a

Company	Subsidiary/host country	Industry	Reasons for OFDI
Spanjaard Ltd	<ul style="list-style-type: none"> • Molyslip Zimbabwe (100%) • Spanjaard UK (100%) 	Chemicals speciality	<p>Geographical diversification</p> <p>It UK investment was to establish a conduit for exports of specialized lubricants and metal powders to that market.</p> <p>The company derives 28% of its revenue outside South Africa.</p>
Metorex	<ul style="list-style-type: none"> • Metorex Burkino Faso BV (Netherlands/Burkino Faso) (100%) • Abbey Commodities (Switzerland) (100%) • Chibuluma Mines Plc (Zambia) (85%) • Ruashi Project (DRC) (68%) 	Industries are zinc, marketing, copper, and copper and cobalt.	<p>Resource seeking</p> <p>Metorex is a medium-sized mining company.</p>
DPI Plastics (Pty) Ltd	<ul style="list-style-type: none"> • DPI Oregon (Zimbabwe) (50%) • DPI-Simba (Tanzania) (50%) • Aqualia (Pty) (Mauritius) • DPI International Ltd (Mauritius) (100%) 	Plastics manufacture	Market seeking
Universal Footwear (Pty) Ltd	Two subsidiaries in China	Retailing—wholesale	Source materials and access to production facilities

Source: JSE Securities Exchange, various publications.

^a These are enterprises listed at the lower end of the JSE listing. They have a small turnover and number of employees, and small profits. They are not subsidiaries of larger companies and have invested, or are likely to invest, outside the country.

¹⁰ These enterprises have a small turnover and number of employees and small profits. They are not subsidiaries of larger companies and have invested, or are likely to invest, outside the country.

IV. OFDI and competitiveness of South African enterprises

23. Of the top 50 non-financial TNCs from developing economies in 2002, seven were South African companies as compared with three in 1997, a fact which implies strengthened positions vis-à-vis other developing-country TNCs (table 14).¹¹ More than 50 per cent of these South African TNCs' assets are overseas and a significant proportion of their sales was generated from foreign operations. Five out of the seven TNCs have a transnationality index¹² of at least 50 per cent, which suggests that they are highly transnationalized entities.

Table 14. South Africa: Largest non-financial TNCs, ranked by foreign assets, 2002^a

(Millions of dollars)

Corporation	Industry ^c	Assets		Sales		TNI ^b
		Foreign ^c	Total	Foreign ^e	Total	(Per cent)
Sappi Limited	Paper	3 733 ^d	4 641	2 941	3 729	71.7
Sasol Limited	Industrial chemicals	3 623	8 960	3 687	7 114	38.4
MTN Group Limited	Telecommunications	2 582	3 556	729	1 991	52.1
Anglogold Limited	Gold ores	2 301	3 964	831	1 761	54.4
Naspers Limited	Media	1 655 ^d	2 498	412	1 148	39.0
Barloworld Limited	Diversified	1 596	2 569	1 984	3 409	54.5
Nampak Limited	Rubber and plastics	782 ^a	2 281	328	1 317	48.9

Source: UNCTAD (2004, pp. 22-23).

^a All data are based on the companies' annual reports unless otherwise stated.

^b TNI is the abbreviation for "Transnationality Index". The Transnationality Index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

^c Industry classification for companies follows the United States Standard Industrial Classification as used by the United States Securities and Exchange Commission (SEC).

^d In a number of cases companies reported only partial foreign assets. In these cases, the ratio of the partial foreign assets to the partial (total) assets was applied to total assets to calculate the total foreign assets. In all cases, the resulting figures have been sent for confirmation to the companies.

^e Foreign sales are based on the origin of the sales. In a number of cases companies reported only sales by destination.

24. Other corporate evidence suggests that OFDI has increased the competitiveness of South African companies in terms of increased profitability, revenues, market and assets expansion, access to technology and exposure to international business that otherwise would not have been possible (tables 15 and 16). Companies such as **Anglogold Ashanti**, **Naspers**, **Barloworld**, **Sappi**, **Nampak**, **Alexander Forbes** and **Illovo Sugar** generated more than 50 per cent of their revenue, and have a significant proportion of their assets, outside the country. About four-fifths of **Illovo Sugar** profits in 2003 were generated abroad, mainly from neighbouring countries. **Mondi** trebled its turnover to \$7 billion a year, of which \$5.5 billion originated from operations in Europe.¹³ **Steinhoff Ltd**, a furniture manufacturer, generated 73 per cent of its revenue in the European Union and the Pacific Rim, and 17

¹¹ Ranked by foreign assets.

¹² The Transnationality Index is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

¹³ Mondi contributed 22 per cent to Anglo American Corp's earnings in 2003, thus becoming the second largest contributor to the Anglo group.

per cent in Africa. Of its net assets, 74 per cent are outside Africa. Steinhoff has operations in Poland, other European countries and Australia. **Datatec** is South Africa's most transnationalized IT company

with 95 per cent of its revenue in 2004 from overseas activities, mainly from the United States and the European Union (table 17). About two fifths of **MTN** subscribers are now outside South Africa, with 31 per cent of them in Nigeria. Its average revenue per user (ARPU) in Nigeria in the financial year 2004 was \$51, down from \$57 in 2003, but still substantially higher than the figure for its home base, South Africa, where the ARPU was roughly \$31.

Table 15. South Africa: OFDI and selected competitiveness indicators, by types and enterprises

Types/indicators of competitiveness	Enterprises	Remarks
Increased revenue and expanded markets	Sappi, Sasol, AngloGold, Barloworld, Mondi, Steinhoff, MTN Group, Datatec, Illovo Sugar	A significant proportion of revenues generated abroad. Access to overseas markets contributed to expanded market; improved market position.
Significant portion of assets located abroad	Sappi, Sasol, AngloGold, Naspers, Barloworld, Nampak, Steinhoff, MTN Group, Datatec	Suggest greater exposure to international business. Able to diversify risk.
Increased profitability	Illovo Sugar, MTN Group	Overseas operations are more profitable than at home. A significant proportion of profits came from abroad.
Access to technology	Dimension Data Holdings, Datatec	Access to R&D and technology infrastructure and facilities of host countries, which contribute to competitiveness.

Source : UNCTAD.

Table 16. Growth and profit of Top South African TNCs, 2005

Company	Avg percentage growth —last 5 years (financial)		Percentage of revenue generated outside South Africa		Percentage of assets outside South Africa
	Market capitalization	Attributable income	Africa	South Africa	
Sasol Ltd	28.8%	16.8%	38.0%	37.7%	
MTN Group Ltd	43.3%	96.2%	36.5%	56.9%	
AngloGold Ashanti Ltd	29.1%	31.3%	67.0%	50.0%	
Gold Fields Ltd	29.5%	2.9%	49.7%	67.4%	
Naspers Ltd	53.6%	71.2%	58.0%	32.0%	
Bidvest Ltd	2.2%	1610.0%	35.0%	44.0%	
Barloworld Ltd	82.0%	107.7%	54.0%	51.0%	
Steinhoff International Holdings	21.1%	25.0%	73.0%	74.0%	
Sappi Ltd	17.2%	-17.2%	74.0%	68.3%	
Nampak Ltd	11.0%	17.2%	74.0%	68.3%	
Alexander Forbes	2.6%	2.6%	52.0%	71.0%	
Illovo Sugar	20.7%	-1.7%	52.0%	-	
Datatec Ltd	24.4%	68.1%	95.2%	-	

Source : Johannesburg Stock Exchange (data extracted as at 26 July 2005), media profiles and annual reports.

Table 17. Datatec: Geographical breakdown of revenues, by region, 2004

Region/country	US\$ '000	Percentage
North America	1 206 775	51.4%
South America	19 412	0.8%
United Kingdom and Europe	807 239	34.4%
Asia Pacific	200 313	8.5%
South Africa	113 209	4.8%
Total	2 346 48	100.0%

Source: Datatec Ltd., company's information, and Annual Report.

25. South African companies have in general prospered with their OFDI activities in Africa. However, OFDI has also contributed to undermining some South African companies, especially when their overseas investments were not focused with respect to their core business and when companies overeagerly seized investment opportunities that came along. There have been M&A failures, particularly those that do not add much synergy to the overall corporate objectives. This supports the message that OFDI strategies should be selective and focused on a specific internationalization drive.

V. Obstacles to OFDI

26. Exchange controls were eased gradually from 1997 onwards. Previously, had been approach simply to discourage outward flows of investment, direct or portfolio. Residents were not allowed to have foreign bank accounts or invest in foreign funds. Neither outward nor inward direct investment was at the top of the agenda at the time of political volatility in the 1970s and 1980s. The restriction on South African companies in raising finance against domestic assets limited OFDI. The lack of institutional support also played a role.

27. While recognizing the need to internationalize to improve competitiveness, South African SMEs faced constraints in going abroad. The lack of access to finance and market information, and concern over the additional risk of operating in an unfamiliar environment, has been limiting factors, as have the lack of managerial skills and expertise in handling international business activities.

VI. OFDI policy

28. The existence of exchange controls for residents was a key factor in the decision of South Africa's major companies to move their domiciles and primary listings offshore. Exchange controls had been intensified in 1961. A deterioration in the balance of payments also made it necessary to restrict capital flows out of the country¹⁴.

29. Where OFDI was allowed, it was by special dispensation, since the general rule was one of prohibition. The conceptual approach to allowing such dispensations was that such investment must result in a longer-term benefit to the economy, such as the promotion of exports of both goods and services, including technology, through the protection of existing markets and the development of new ones, and the protection of essential imports of goods and technology.

30. Selective easing of exchange controls has been used to encourage investment first in Southern Africa, specifically the SADC countries, and then in Africa. In March 1997, the Government relaxed exchange controls and South African firms were allowed to invest up to R30 million abroad, with an additional R20 million for investment in member countries of the SADC. This was followed by further relaxation in 1999 that allowed South Africa-resident firms to invest up to R250 million per

¹⁴ Exchange Control Regulations, Orders and Rules 1961, which were promulgated in Government Notices R1111 and R1112 of 1 December 1961, issued under of the Currency and Exchanges Act (Act No. 9 of 1933).

approved investment in the SADC region. Fixed investment in new ventures allowed in the rest of the world was raised to R50 million. The investment ceilings were further relaxed in subsequent years. By

2004, South African companies were allowed to invest up to R2 billion per project in Africa, and half of that level for investment outside Africa. In addition, the amount that enterprises could raise in loans locally over and above the investment ceiling was increased from 10 per cent to 20 per cent. The Reserve Bank still has to approve outward investment.

31. In June 2004, tax on foreign dividends repatriated to South African shareholders in companies where those shareholders have more than a 25 per cent beneficial interest was removed. It was seen to have the unintended incentive of encouraging investment in developed or capital-exporting countries rather than developing countries, such as those in Africa¹⁵

VII. Conclusion

32. South African companies, SOEs and private enterprises, large enterprises and SMEs, have been investing abroad to improve competitiveness. They have invested in greenfield projects and acquired assets abroad to strengthen their market position, access new markets, secure natural resources, increase profitability, gain better control of their value chains, and access technology, skills and management expertise. An improved policy environment, liberalization and relaxation of exchange controls have encouraged South African OFDI. In this regard, the prospects for South African OFDI are promising.

33. OFDI by South African SMEs has been limited as compared with that by larger enterprises. This is because they have faced more constraints in going abroad. A number of policy options and measures to help improve the ability and capacity of the SMEs to invest abroad in order to enhance competitiveness could be considered.

34. Such measures could include providing market information and investment opportunities in target host countries or regions. Institutional support is of paramount importance. Financing facilities to support OFDI by SMEs consistent with the development objectives of the country could be encouraged. Equally useful would be the setting up of an outward FDI agency or division to cater for the specific needs of South African companies with regard to internationalization. OFDI promotion programmes such as outward investment missions can be useful, as will facilitation activities such as public-private sector dialogue and forums to exchange experiences, including with regard to policy issues, on internationalization through OFDI from SME perspectives. Training and linking with business schools can play an important role in strengthening capacity-building, especially regarding doing business abroad, risk management, cultural differences and international management. SMEs as well as large TNCs should adopt good corporate governance, operating as responsible corporate citizens and contributing to the development of host countries.

35. The analysis of the internationalization of South African SMEs through OFDI in this paper has been limited by the lack of statistics. This is one area to which attention should be given in order to gain insights into the strategies, drivers, challenges, benefits, obstacles and risks for South African SMEs with regard to going abroad to improve competitiveness.

¹⁵ Medium Term Budget Policy Statement 2003, National Treasury, Republic of South Africa, 12 November 2003 (<http://www.finance.gov.za/>).

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