

**Foreign investment came under the spotlight at a recent seminar attended by the tripartite alliance. This discussion document summarises the issues.**

**S**ince early this year, the ANC and its allies, particularly Cosatu, have been investigating the question of what the appropriate policy towards foreign investors might be in the post-sanctions era. Several meetings and seminars have been held, with the co-operation of the United Nations Centre on Transnational Corporations — a body which normally assists only governments.

1. Foreign investment will play an important role in South Africa's future economic development. The ANC and Cosatu will welcome foreign investment. In working out policy, a satisfactory balance should be struck between rewards accruing to the investing firm or individual, and benefits accruing to the country.

2. In general, policy towards foreign investment should be guided by an overall vision of future South African economic development. The ANC is still developing its economic vision, but there is consensus on some critical issues.

3.1. Foreign investment has played a major role in South Africa's economic development since the establishment of the gold mines. Since the 1930s, foreign investors have focussed on manufacturing, taking advantage of the government's import-substitution industrialisation policy.

3.2. In the 1970s it became ev-

# Future foreign investment



**Delegates at the foreign investment seminar included representatives from the SACP, ANC, Cosatu and local and foreign experts.**

ident that the racist nature of the South African economic system limited the growth of domestic consumption and the skill of the industrial labour force. Direct foreign investment weakened. When the government's misconceived racist economic policies were compounded with political instability in the late 1970s and mid-80s, South Africa's foreign liabilities declined, particularly in the form of equity investment (the buying of shares). The sanctions campaign merely accelerated a trend that was fundamentally a response to the crisis of the apartheid economy.

3.3. The South African experience illustrates the widely accepted argument that the most important factors attracting foreign investment are access to a substantial market, consistent and predictable economic policies, political stability and economic growth. Where the apartheid government failed, the ANC and Cosatu plan

to succeed. The strategy to attract foreign investment in a democratic South Africa rests simply on the intention of these organisations to create conditions conducive to investment in general.

4. The regeneration of the manufacturing sector is critical to the efforts to overcome the current economic plight of the majority of the people. For this reason it will be necessary to encourage stronger links with transnational corporations that help revitalise manufacturing.

5. The development of domestic technological know-how and access to international markets is the most important contribution transnational corporations can make to South African development. The Alliance would encourage technology transfer and insist on the training of nationals, particularly from the disadvantaged communities.

6. The ANC and Cosatu would encourage in-coming investors to

generate new economic capacity, rather than simply purchasing existing assets.

7. Foreign investors could crowd out smaller domestic investors, especially those from communities previously denied access to capital. For this reason, investing firms would be expected to finance a significant proportion of their investment with new capital from abroad.

8. It will be necessary to assure foreign investors that their assets will not be nationalised without fair compensation. In addition, all companies bringing in investment should have access to foreign exchange for profit repatriation and the purchase of inputs.

9. However, the ability of governments to implement domestic economic strategies is, to an extent, limited by the degree of foreign ownership in the economy. This is especially true in certain strategic fields, for example bank-

ing and financial services. For this reason we envisage that there might be some inhibitions on foreign ownership, but that these would not be extensive.

10. Evidence for the efficacy of financial incentives such as tax breaks, is ambiguous at best. When the basic conditions for investment are in place, financial and other incentives seem merely to lessen the benefit derived by the host country from foreign investment. (South Africa's disastrous industrial decentralisation policies provide ample evidence.) However, highly desirable and expensive domestic or foreign investments might require some special financial arrangements.

11. In the event of freer trade and investment relations within Southern Africa, or a wider area, the countries within the market should be wary of bidding against each other through financial or similar incentives, for a limited pool of investment. The result of

this would be that the net benefits of foreign investment in the region as a whole would be reduced. This suggests that the countries of the region would need to strive towards a degree of co-operation in formulating policies towards foreign investors.

12. Foreign investors would be expected to comply with domestic regulations regarding industrial relations, workers' health and safety, the environment, affirmative action, and the training and education of their employees.

13. In the transitional period, where current regulations are inadequate, foreign and domestic firms will be expected to comply with suitable alternative standards. These standards might be drawn from international protocols in current use, or from successful national regulations of other countries, and will not be designated before potential investors and other parties have been consulted. ♦



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