



the **e d g** e institute  
economic development | growth & equity

## **South Africa in Africa: In whose Interest?**

**Paper for Harold Wolpe Memorial Seminar, 9 March 2005**

**Kuseni Dlamini**

Ladies and gentlemen, I receive this invitation with great trepidation not least because the hosts, being Steven and Eddie, are sort of intellectual icons that played a very important role in ones intellectual growth. Their work influenced my intellectual upbringing at Natal University.

Tonight's seminar discussion topic, ladies and gentlemen, could not have been more relevant. I dare say that it is in the best interest of both South Africa and Africa that this question be explored. The question of "South Africa in Africa: in whose interest?" It is needless to say one of the most topical issues debated by intellectuals and ordinary citizens alike, in most parts of the continent and by keen observers of African affairs elsewhere in the world. So we are not alone here tonight ladies and gentlemen. You can take comfort in that. The question I shall argue ought to be viewed within the broader context of globalisation underpinned as indeed it is by the emergence of competing regional economic blocks around the world. The former Oxford dean Allen Rodman has argued convincingly that far from taking place in a single global market most business activity by large companies takes place in regional blocks. For example, ladies and gentlemen, over 95 percent of all cars produced in Europe are sold in Europe. So what Allen argues is that the notion of globalisation as it's often portrayed in the popular press and in popular commentaries is actually exaggerated.

The emergence of Africa as a formidable regional economic block which can stand its own against the European Union, the North American free trade area and the Association of Southeast Asian Nations is in the best interest of South Africa and Africa; to the extent that South Africa's expansion into Africa contributes to the strengthening of Africa as a globally competitive regional economic block as I think it does in ways that are not insignificant. This trend should be supported not least because in the final analysis, competitive battles will be won or lost at the regional level.

What I'm arguing here tonight, ladies and gentlemen, is that if we talk about South Africa's movement into Africa we've got to look at it within the broader global context. We've got to look

at it within the broader positioning of Africa as a region in a globalising and increasingly competitive world. I am arguing that in order for South Africa and Africa to be competitive in an increasingly competitive world they have to be in a position to base their competitive strategies on a very strong regional economic block.

The countries that have successfully positioned themselves as winners from globalisation have done so on the basis of being part of strong and formidable regional economic blocks. That is why Africa, I suggest, ought to follow the same route. South Africa in Africa cannot escape this dynamic. It would therefore be in the best interest of South Africa in Africa to unleash Africa's productive forces in a way that positions both in the mainstream spheres of global affairs. Africa's marginal positioning in the broader global scheme of things need to be addressed if we are to deal with the levels of Afro pessimism prevalent in Africa and beyond. There are countless examples of Afro pessimism. Basically the notion that the rest of the world doesn't expect anything positive out of Africa and sadly even Africans don't expect anything positive out of Africa. They are as pessimistic about the state of their continent as the rest of the world is. So we really need to tackle Afro pessimism head on, ladies and gentlemen, if we are to reinvent Africa from within.

Africa accounts for only 1.5 percent of the global gross domestic products and about 2.1 percent of global trade. In the 1950's it was 3 percent and you can see while the rest of the world has been moving forward, Africa has fallen by the wayside and actually regressed instead of progressed and yet its share of the global population is about 13 percent. It has a gross continental product figure of about \$540 billion comprising \$200 billion for North Africa, \$120 billion for South Africa and only \$200 billion for sub Saharan Africa. The continent's total GDP is less than Spain's DGP of \$580 billion and just over the Pentagon's budget of \$400 billion and only 5 times, only 5 times, the turnover of a company like Exxon Mobil in the United States which had a turnover of about \$191 billion in 2001.

On a more positive note in what was a vote of confidence for NEPAD the IMF suggested in June 2003 that if implemented properly NEPAD will raise Africa's GDP by 80 percent. Ladies and gentlemen I'm also arguing that we've got to view South Africa's expansion into Africa within the broader context of NEPAD as well. Most leading companies in South Africa have endorsed the NEPAD initiative even if for some it is sometimes just rhetoric devoid of substance. The global business scene is dominated by the 500 largest multinational corporations mainly based in the triad regional blocks of the EU, NAGTA and Japan and the 500 top global corporations account for 90 percent of global foreign direct investment and they're just drawn from a total of 30 000 multi national corporations.

African countries invariably occupy the bottom places on the world league tables. This ladies and gentlemen indicates the extent to which Africa remains on the periphery of an increasingly

globalising world. Effectively while the rest of the world has been globalising, Africa has fallen by the wayside. It is my view that it is only through the growth of a vibrant and globally competitive African business sector that the continent's chronic and acute marginalisation can be addressed. There is no other way. Africa's problem is not globalisation. It is the lack of it. Globalisation has contributed to the rise in the world's overall standard of living over the past 25 years. We know that there are populist movements, the anti globalisation movement and the NGO's which tend to throw stones at globalisation. My view is that it doesn't make sense. It's a waste of time to try and escape an inescapable force like globalisation. The best way is to try and develop appropriate strategies to maximise your gains and minimise your losses from it. It is within that context that we've got to look at the relationship between South Africa and Africa. It's imperative for both to maximise their chances in a globalising world that is very, very competitive.

In the 1950's and the 1960's the Marshal plan underpinned by US-led foreign direct investment delivered the spectacular recovery of post war Europe and later Japan and Japan has turned to be the engine that helped to sustain growth in both Europe and North America in the 1980's, having benefited from the Marshal plan. Who knows maybe one day South Africa is helping Africa going forward. Africa will help South Africa to sustain its growth and also meets its socio economy priorities and objectives.

Africa's problem is also not South African penetration and expansion. It is the lack of it. There are a number of factors that still inhibit the expansion of South African companies into Africa. I say it is the lack of South African expansion into Africa that is a problem for Africa simply because if I look at the countries where South Africa has expanded politically and economically the impact has by and large been positive. That's not to say that there aren't cases where things could have been done differently. There are certainly many cases where South African companies and indeed South African politicians could have conducted them better and differently to leave a much more positive impact but I'm arguing that overall the countries that have opened up to South African companies and also to other companies from elsewhere in the world are actually outperforming in terms of economic growth the countries that have not opened up - the countries that have not managed to attract South African companies to come and invest.

There are a number of factors, as I've just said, that still inhibit the expansion of South African companies into Africa. These include the human capital deficit, which is caused by lack of strategic investment in people development in Africa; also poor infrastructure; the lack of certainty regarding the rule of law; as well as the sanctity of contracts; the issue of corruption which is widely spoken about; the democratic and governance deficits that have become to be a hallmark of some African countries, not all of them, as I'm going to argue that most of them are actually better off in terms of these indicators; as well as inappropriate policies and regulatory regimes. All these factors increase the cost of doing business in Africa. If Africa is to effectively compete for foreign direct investment the cost of doing business must come down.

South African companies unlike their European and American counterparts have taken a long term view of Africa as indeed they must by diversifying their investments beyond the traditional sectors. Most European and American companies still confine their activities within the traditional sectors of petroleum, mining and construction. South African companies still play in these fields but they've gone further to expand and penetrate other sectors of Africa's economies. South African expansion and penetration into Africa over the past 10 years has contributed in ways that are not insignificant to the socio economic growth and development that we see on the continent. Indeed those countries that have more South African companies which have come to set up shop are showing much more positive signs of progress than those that don't. The advent of a non-racial democratic South Africa opened and widened the space for this country to play a significant role in international as well as regional economic and political affairs than hitherto.

More importantly it has unleashed massive business opportunities for South African companies beyond the traditional sectors that I've mentioned. South African companies are now active players in new sectors like financial services, advertising, retail, skills development, consulting, telecommunications, healthcare, property development and many other non-traditional sectors. This is not surprising. It was to be expected not least because the country's dominant economic and political position in relation to the rest of Africa and the legacy of sanctions as a result of the historical legacy of international isolation meant that local companies could not freely invest in Africa.

South Africa is well positioned to unlock Africa's economic growth and development potential. I believe that there's a potential for a different model of capitalism. For a stakeholder-based capitalist approach in Africa and I think South African companies because of their tradition of investing in corporate social investment initiatives in South Africa are better positioned to be in a position to lead the way and teach their American and European counterparts about how best to engage with African countries, African people and African communities.

The country's Africa policy as well on the political side and its active pursuit of economic opportunities on the African continent ought to be viewed within this backlog. As Stephen was saying earlier on we've seen more commitment by Pretoria in terms of conflict resolution, peace keeping in Africa in different parts of the continent. Ladies and Gentlemen, I want to suggest that we need to view the political engagement by South Africa in Africa in the context of the need for Africa to be safer for business and I say South African business - historically European companies have been using Africa as a playground but we haven't seen really any significant progress of sustainable development footprints being left by European and American companies. I think in the context of NEPAD and also in the context of the missions and values of most of the leading companies in South Africa there is certainly space and opportunity for a much more positive impact on Africa by South African companies. Not American or European companies.

Within a period of less than 10 years South Africa has become one of the top 10 investors in most African countries. In the same period South African has become one of the top 10 trading partners for most African countries. European and American companies, which historically dominated the African business landscape, are facing stiff competition from South African companies, which is determined to increase their share of investment and market opportunities in Africa. This trend is set to redefine the balance of economic power and space in ways that are very, very fundamental. The African business landscape is more contested now than it has ever been. The deepening of economic ties in Africa has been one of the most notable features of the emerging relationship between South Africa and Africa. It's worth mentioning as well that the Department of Trade and Industry took a decision a year or so ago to close all its trade missions outside Africa to concentrate all its resources on the African continent. So even at a strategic political level you are seeing Africa being made a priority from a foreign policy point of view and also from a trade relations point of view, and that ladies and gentlemen I think is something that South African companies cannot ignore because foreign policy at the end of the day must be aligned to the commercial interest of flagship companies.

I know that's a very contested notion but if you go to the USA or you go to France or Britain when Tony Blair goes to Russia the first thing he is likely to talk about when he speaks to Vladimir Putin is the interest of BP in that country. There is nothing wrong with President Mbeki talking about the interest of one of South Africa's top companies when he visits any country because in the current era in which we live ideological wars have given way to economic wars. So any government policy that is not aligned to the promotion of the interest of business, I'm not suggesting that government policy should be captive to business interest, business has got to subject to the same level of scrutiny as government is, but there is a need for a symbiotic and mutually reinforcing relationship between trade policy, foreign policy as well as the commercial strategies of flagship companies. I'm suggesting that the penetration into Africa has got to be seen within that context ladies and gentlemen.

Politically Pretoria has extended its commitment and deepened its engagement within Africa by inter alia providing diplomatic leadership and military capabilities for peace keeping missions where required on the continent. Pretoria is also deploying its diplomatic capital to try and bring warring factions in different parts of the continent together; building on the successful model that was used to arrive at a negotiated settlement in South Africa. The desire to adopt South Africa's negotiated settlement in pursuit of the ideal of African solutions to African problems has in some instances underpinned, inspired and/or informed Pretoria's role in conflict resolution and peace settlements on the continent.

But why is South African penetration of an expansion into Africa in the best interest of both? Firstly South Africa's involvement in Africa is driven by a long-term vision that seeks to promote

the continent's socio-economic renewal. On that basis I'm arguing that South Africa's penetration and expansion into Africa is in the best interest of both. So both stand to benefit. In whose interest? It's in the interest of both. It is part of the NEPAD project, which is aimed at unlocking Africa's renaissance. Most South African companies that go into Africa do not just identify with the African reality. They are part of it. They are influenced by it as much they are shaped by it. So the tendency to throw a dichotomy between South Africa and Africa therefore needs to be questioned. That South Africa is part of Africa and it's not the other in terms of the way in which they relate. I think we have to see South Africa as deeply rooted and located within Africa.

As the continent's economic powerhouse South Africa has more to gain or lose from Africa's success or failure. While there are compelling moral reasons to help Africa there are also compelling pragmatic reasons that have to do with South Africa's enlightened self-interest. Experience tells us that there is nothing that can better focus the attention of any country other than its national interest; what Stephen mentioned earlier on in his introduction as part of the defining the public interest. There is no reason why South Africa should be an exception from this rule. It is in South Africa's enlightened self-interest to make Africa work.

Secondly, South Africa's market is small by global standards. It makes sense to promote the growth of durable market, market economies in Africa to expand market opportunities for local products. This is also key to attracting and retaining foreign direct investments. One of the reasons why foreign direct investment inflow into Africa are limited is the small size of individual African markets and dare I say the small size of the greater African market. If you compare Africa not just to China but just to India it pales into insignificance. India has got over a billion people. Sub Saharan Africa does not have that number of people. South Africa's expansion into Africa contributes to the emergence of the greater African market that can effectively compete with China, India and other developing world markets. By moving into Africa South African companies turn historically poor people with little or no disposable income into economic citizens and thus expanding the size of the African market which is key to sustaining economic growth.

Why does Africa matter and why should South African companies lead the way into Africa? First, things are getting better in Africa. Although there are still perceptions of high risks in Africa, the returns are also comparatively high. In sectors such as banking generous returns on investments of around 30 percent are not uncommon. In terms of work done by Diana Games for the South African Institute of International Affairs we do find at times that the returns on investment can be between 50 and 60 percent. So it's really the notion of high risk and high reward.

Secondly the policy and regulatory environments are improving in most African countries. This is linked to a move in most countries towards better governance, transparency and accountability as well as a generally business-friendly climate. This would provide certainty, predictability and a more reliable regulatory regime where there was none and ultimately lower the overall cost of

doing business.

Thirdly a wave of privatisation currently underway in most African Countries has unleashed huge opportunities which South African companies cannot afford to ignore. It's because of these reasons that I think it make sense for South African companies to position themselves to access the opportunities that are there in Africa. By the late 1990's the majority of parastatals in Africa were either fully or partially privatised. Privatisation where properly done and thought out, can result in efficient improvement, which in turn contributes to overall competitiveness in any country. South African companies and parastatals have taken advantage of some of these opportunities.

Furthermore African countries are making significant progress in setting up anti-corruption committees to effectively deal with the legacy of corruption in Africa. Over two thirds of African countries have democratically elected governments. More Africans today are governed by governments that they freely elected than was the case 10 to 15 years ago. Increasingly, slowly but surely, Africa is becoming safer for business. That's why South African companies needs to go there. I mean the response to the crisis in Togo is a good example. It shows that enlightened African leaders have assumed collective responsibility for stabilising the continent. Africa has never been safer for South African business. To the extent that South Africa is either at the forefront or plays a central role in conflict resolution and peace initiatives in Africa it makes sense that South African companies should be at the forefront of Africa's economic revival and that they should benefit from the peace dividend that results from such initiatives. It will not make sense for South Africa to bring the peace and for American and European companies to enjoy the peace dividends. It really makes sense for South African companies to position themselves to access those opportunities.

Just before I conclude ladies and gentlemen, how does Africa benefit from South Africa's involvement is also very important. It shouldn't just be a one-way street. Firstly Africa stands to benefit from the liberation of its productive forces in pursuit of value creation opportunities. Job creation and poverty can be addressed in the process. There are key socio-economic challenges facing most of Africa. South African companies are playing a key role in unleashing Africa's untapped economic potential in hitherto neglected economic sectors. Secondly most South African companies embrace corporate citizenship. This means that they plough back some of their profits in social investment initiatives. To the extent that this is done South African companies stands to benefit from having a good image and reputation and above all good relationships with the people and communities where they operate in Africa. That is indispensable, ladies and gentlemen, if South African is to be there for the long haul, is to build productive relationships with the people and communities in the areas where it operates in Africa.

Furthermore infrastructure development is another key area of concern and by going into Africa and setting up shop invariably you'll find that where factories or mines or businesses have be set

up there is no infrastructure. Infrastructure investment tends to be a prerequisite for any business. So there is a dividend from an infrastructural development point of view. Lastly skills transfer, as Stephen mentioned that in his introduction, and people development in sharing of best practice, although we come from different historical backgrounds and also we have different perspectives of the world, some African countries have historical legacies of socialist regimes and we come from the baggage of apartheid, there is room for sharing perspectives with the rest of the continent and building win-win relationships.

To conclude there are certain fundamental questions that need to be posed regarding the relationship between South Africa and Africa. First, can it be any different from what it is. If so, how? Is it necessarily unique to this part of the world to have the existing pattern of relationships between what is by all accounts an economic and political powerhouse and its weak and sometimes small neighbours. How different is the relationship between South Africa and Africa from that between America and Mexico and Canada? Also how different is the relationship between South Africa and Africa from that between West Germany and the former East Germany and from that between Germany, France and the rest of the EU, which is relatively underdeveloped. We need to reflect on those questions.

I'd like to suggest in conclusion that there is nothing very unique and too different from South Africa's relationship with Africa and other relationships elsewhere in the world marked by the same balance of power dynamics. South Africa can and must be a force for good in Africa. In the final analysis it is only a mutually beneficial strategic partnership underpinned by trust that can result in a globally competitive regional block. The relationship should not be seen as a zero sum game because it is not. It must be viewed for what it is and what it should be. A win-win positive sum game that would reinvent Africa to take its place in the mainstream sphere of global affairs. Thank you very much for your patience.