

FOREIGN INDIRECT INVESTMENT PLATFORM

In the transition from apartheid to democracy, strong economic growth will be needed. This growth must succeed in overcoming the handicaps which apartheid imposed on South Africa. And it must bring higher living standards to the black majority, a reduction in absolute poverty levels, and a more equitable distribution of resources.

The key to sustained and balanced economic growth is investment. Investment in productive capital must be greatly increased, and soon.

But South Africa is likely to experience a savings gap when the growth rate increases to the high levels necessary to meet popular expectations. Even increased local savings will be unlikely to finance such high growth rates alone, though they must form the largest share of it. It is recognised that the primary impulse to expand investment in South Africa - which is a task of urgent national importance - must come from local investors.

But while the bulk of investment must be financed from local savings, it is acknowledged that a part of this gap must be filled from abroad. (It is equally important that the outflow of capital be reversed.) Foreign investors should therefore be encouraged to participate in South Africa's growth.

In particular, investment of a long-term nature which contributes to balanced economic growth and development is to be encouraged. Foreign investors who support such investments will expect commercial returns within normal risk parameters.

The following categories are given as examples of investments which fall within this range:

investment in local companies which have demonstrated a high level of social responsibility, for example, good relations with trade unions, spending on employee training, and compliance with national labour standards

bonds which fund infrastructural development of deprived communities, including but not limited to water supply, electrification and housing

investments which enable enterprises to expand employment

bonds which fund infrastructural development of deprived communities, including but not limited to water supply, electrification and housing

bonds issued by entities which have a proven commitment to the development of deprived communities

property investments in black townships and inner city developments which raise living standards there while also strengthening black business

investments in small and medium businesses particularly, where this facilitates the expansion of employment at low cost

investment in new technology to enable South African enterprises to compete internationally, especially if such technology is appropriate to conditions of high unemployment as in South Africa

investments which enable companies to expand exports of non-primary merchandise

A suitable system should be introduced by which progress along these lines can be evaluated. Such system should include a mechanism whereby shortcomings can be corrected through the making of recommendations to the appropriate authorities.

investments which are engineered to gear-up local investment in any of the above

investments which advance black ownership or employee ownership of economic assets

investments which empower specifically black communities to gain greater control over their own savings

vehicles which promote institution-building in lower-income and historically-deprived communities.

investments which increase fair competition in markets currently dominated by a single supplier, and reduce prices in such markets.

Vehicles and instruments which fall into these categories will be actively developed and promoted.

It is well understood, moreover, that investors' requirements for market-related returns and risk exposure must be met if these vehicles are to be successful.

Concessionary investments, donations and foreign aid have a role to play, particularly in securing acceptable guarantees. For the most part, however, normal investment criteria must be met if foreign investment is to be attracted.

Investments within these guidelines will receive support and assistance. Moreover, overall national economic policy will be formulated so as to encourage such investments. Foreign portfolio investment outside the range described above, which complies with national laws and exchange control regulations, and which does not, at entry or exit, cause severe disruption to the stability of securities' markets or foreign exchange markets, will nevertheless not be penalised.

Foreign investors in South Africa will enjoy equal treatment with local investors. Foreign investments which are in conflict with national laws, however, will be dealt with in terms of those laws, for example, the laws upholding basic minimum labour standards, consumer and environmental protection, industrial health and safety standards, and the like.

The enforceability of contracts and the rule of law are fundamental principles which will be strenuously upheld for all investors. A regime of transparency will be upheld to ensure that all investors are assured of fair and equal treatment.

Apart from encouraging investments of a long-term nature which contribute to balanced economic growth and development, a democratic government should offer no special incentives to foreign portfolio investors.

It is acknowledged that the two-tier currency system is a serious obstacle to the efficient use of foreign investment. Foreign investment through the financial rand has no impact on foreign currency reserves and merely facilitates disinvestment by other investors. The two-tier system must therefore be abolished at the earliest opportunity.

The restoration of political stability in South Africa under a strong democratic government and other measures will do much to reduce the pressure of capital outflows which originally necessitated the introduction of the finrand.

Even investments through the financial rand will be valuable, however, if they are directed at the approved investments listed above, or if the discount of the financial rand to the commercial rand is thereby reduced.

The guidelines in this platform apply specifically to indirect, or portfolio, investments. Direct investment will be covered by another document consistent with this.

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