Chapter 6

South Africa's Outward Investment: The Liberalisation of Exchange Controls and Firms' Reactions

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INTRODUCTION

The advancement of South African firms within Africa as well as the relocation of the head offices of major firms will be seen as major symbols of economic progress made by the country after its democratisation. During the apartheid period, the white South African Administration had an antagonistic relationship with African countries such as Zambia and Tanzania and was isolated by economic sanctions from the international community. The outward investment by South African firms in other African countries was limited to Malawi and those countries within the Southern African Customs Union (SACU) that had friendly relations with South Africa. In terms of industries, South African investments were mainly in the mining industry. However, since the 1990s, more specifically around 1994, South African firms have increased their investment beyond SACU in the areas of banking, manufacturing, telecommunication, retail and agriculture.

It is thought that such a phenomenon occurred not only because of strategic changes by firms but also policy changes such as the relaxation of exchange controls in capital transactions (Games 2004; *Business Day*, 28 November 1995). From the standpoint of the theory of direct investment, the existence of "asymmetry of interest" between a firm and a state may be pointed out (Takanaka 2001; Kamei 2001). Foreign investment offers firms many benefits, such as profitability and expansion of markets, but there are many negative aspects for the state, such as de-industrialisation, employment reduction and declining exports. Why then did the South African government create a policy of exchange control liberalisation that would accelerate foreign investment after democratisation?

The purpose of this chapter is to examine the relationship between the policy of

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exchange control liberalisation and the investment activities of South African firms or its economy on a large scale. In South Africa, the South African Reserve Bank (SARB) controls everyday foreign exchange while the Minister of Finance is responsible for exchange control policy (Stals 1998; Department of National Treasury 1998).

Although it has been discussed in magazines and newspapers, the advance of South African firms in Africa has received little attention in academia. The South African Institute of International Affairs launched the Business in Africa Research Project in 2003. This research project published ten reports covering nine countries. In Japan, Hirano ed. (2006) analysed the development of South African and Chinese firms in Africa. Nishiura (2009) analysed the determinants of foreign direct investment (FDI), combining micro data at the firm level with macro data at the country level. Although the motives for the expansion of South African firms in Africa were discussed in these previous studies, the transformation and impact of the exchange control policy of the South African government has not yet been fully studied.

Therefore, we examine the following two research questions in this chapter: Firstly, how did South African firms react to the policy of exchange control liberalisation? We analyse the policy by investigating the change at the macro level including investment statistics and investment timing at the firm level. Secondly, how did the policy of exchange control liberalisation influence the South African economy and society? Did the foreign investment activities of firms cause a decline of industry, de-industrialisation, capital flight or a reduction in employment in South Africa?

This chapter is divided into five sections. The first section presents a background to exchange controls in South Africa. The second section presents an analysis of the reaction of South African firms to changes in the exchange control policy, and the third section considers the influence on the South African economy and society of changes to the exchange control policy. The final section provides a summary of this chapter.

1. EXCHANGE CONTROL LIBERALISATION IN SOUTH AFRICA

1.1 *Exchange Control Policy in the Apartheid Period*

In South Africa, a large amount of capital was flowing out of the country in response to the unstable economic situation after the 1960 Sharpeville Massacre. Gold and foreign exchange reserves held by the South African government and SARB at the end of 1959 were worth 349 million rand in total, but fell to 191 million rand by the end of 1960. To cope with this situation, the government attempted to stem the outflow of capital by introducing exchange controls for both residents and non-residents of South Africa in 1961. Residents were strictly restricted from taking domestic assets out, and a two-tier foreign exchange system was introduced for non-residents (Kahn 1991). Since the new blocked rand was normally lower than the commercial rand, it was changed to local currency at an advantageous rate when someone invested in South Africa. However, it was exchanged at a disadvantageous rate when someone invested abroad.

This two-tier foreign exchange system for non-residents was maintained even after its name was changed from blocked rand to financial rand. The exchange controls for non-residents were abolished temporarily in February 1983, but a debt crisis in South Africa in 1984 coinciding with an intensification of the international anti-apartheid campaign meant that the exchange controls for non-residents was reintroduced in August 1985. Although the difference between the financial rand and the commercial rand reached 50% in 1986, this difference was reduced to 23% in 1990 (SAIRR 1996).

1.2 *Exchange Control Liberalisation after Democratisation*

The governor of SARB, Dr C. Stals, expressed the view that removing exchange controls was not yet possible because immediate abolition would lead to capital outflows of up to 20 billion rand, and the result would be an increase in domestic interest rates and a decline in asset prices in April 1994 (*Business Day*, 26 April 1994). In August 1994, Governor Stals stated that abolition of exchange controls should be subject to the following conditions: a narrowing of the discount between the commercial rand and the financial rand to around 10% and a build-up of sufficient foreign exchange reserves to cover three months' worth of imports (SAIRR 1995).

In March 1995, as a first step in reforming the exchange control policy, Finance Minister Mr C. Liebenberg announced the abolition of the financial rand and liberalised investments in South Africa by foreign investors. Wesso (2001) indicated that the significant improvement in the overall balance of payments from 1994 to the first half of 1995 allowed SARB to turn its attention to dismantling the exchange controls for non-residents by abolishing the financial rand. In March 1995, the difference between the two exchange rates was reduced to 3.6%, as the gold and foreign exchange reserves of the Reserve Bank had increased 1.6 times from March 1994 to February 1995. However, foreign exchange reserves in February 1995 still only covered 1.6 months of imports, which did not meet Stals' condition (SAIRR 1996; RSA 1996; SARB Database).

In June 1996, Minister of Finance Mr T. Manuel, Liebenberg's successor, made an announcement regarding the easing of restrictions and foreign investments by institutional investors. Manuel also announced reformation of the exchange control policy on a large scale in March 1997. The upper limit on foreign investment by South African firms was increased to 50 million rand within the Southern African Development Community (SADC) and 30 million rand for other areas. Manuel stressed that the liberalisation of exchange controls was part of the reform of the macroeconomic financial situation, interest rates and exchange rates. He also believed that the conditions were right after extensive consultation with the Governor of SARB[1].

In addition, a further liberalisation measure was announced in 1998: the upper investment limit was relaxed to 250 million rand within SADC countries and 50 million rand for other areas. As stated by Minister Manuel, the reason for this change was to

[1] "National Budget Speech by Trevor Manuel, Minister of Finance, 12 March 1997" (http://www.treasury.gov.za/documents/national%20budget/1997/speech/speech.pdf)

strengthen the country's presence in the SADC economy and to increase the activities of South African individuals, firms and financial institutions[2]. Relaxation of the exchange controls continued in 2001 and 2002 until the upper limit of foreign investment by South African firms was abolished in 2004, although it was still necessary to receive authorisation from SARB. Exchange controls for institutional investors and individuals were eased gradually every year from 2005 to 2008.

1.3 *Argument for Relaxing the Exchange Control Policy*

The main feature of the exchange control policy of South Africa after democratisation is that the relaxing of exchange controls was carried out gradually. However, there is a great deal of argument about the policy changes in South Africa. The opinion of the trade union is summarised in "Social Equity and Job Creation" (January 1996), a proposal for the creation of the National Economic Development and Labour Council (NEDLAC) as a forum for policy dialogue between the government, trade unions and employers' associations. In regard to the exchange control policy, the trade unions warned of the impact of capital flight because this would cause the loss of domestic employment. It had been proposed that the government use domestic assets for national profit (Labour Caucus at NEDLAC 1996). Mr S. Shilowa, Secretary General of the Congress of South African Trade Unions (COSATU), an African National Congress (ANC) affiliate and the largest trade union congress in South Africa, stated that the high interest rates were caused by the policy of exchange control liberalisation and rand depreciation. He maintained that the high interest rates would stifle growth, raise the level of debt, frustrate the housing programme and negatively impact small businesses[3].

On the other hand, the business community requested that the relaxing of exchange controls happen faster (Bond 2000). In February 1996, the South African Foundation, on behalf of large firms in South Africa, submitted to NEDLAC a proposal, entitled "Growth for All", to abolish the exchange controls for residents in one to two years. They believed that this abolition would bring the rand down to a reasonable price which would then have a positive impact on the domestic economy (South African Foundation 1996). Next, the South African government proposed that the exchange controls be gradually relaxed in order to revitalise the economy while acknowledging that they had inhibited inward investment and market mechanisms in GEAR (a macro-economic policy document) (Department of Finance 1996).

As described above, there were generally three opinions regarding exchange control reform: (1) opposition to the relaxation, led by the trade unions and left-wing groups within the ANC, (2) early relaxation led by the business community and (3) gradual relaxation led by SARB and the Department of Finance. Dr A. Hirsch, one of the key

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[2] "The 1998 Budget Speech" (http://www.treasury.gov.za/documents/national%20budget/1998/speech/speech.pdf)

[3] "Notes for an input by Sam Shilowa, COSATU General Secretary at the Labour Law conference 13 July 1996" (http://www.cosatu.org.za)

economists in the Department of Trade and Industry and Presidential Office, stated that "What Stals and the ANC agreed was that liberalisation should be gradual. … Though a key motive for exchange liberalisation was to increase confidence in the South African economy, after the disastrous experience of 1983-85 it was an act of faith. Stals must have been worried about the unknown outcome of liberalisation" (Hirsch 2005: 84).

In addition to this, we cannot ignore the influence of international organisations such as the International Monetary Fund (IMF). The IMF demanded that the South African government abolish the two-tier foreign exchange system, though political uncertainties suggested the government would need to preserve the financial rand for the time being (*Business Day*, 25 April 1994). Furthermore, the IMF showed their intention to establish a new financing mechanism to help cushion the abolition of the financial rand in October 1994 (*Business Day*, 5 October 1994). However, Dr Stals, the Governor of SARB, said the IMF had advised South Africa against swiftly lifting remaining exchange controls in response to the financial crisis in Mexico (*Business Day*, 22 September 1995).

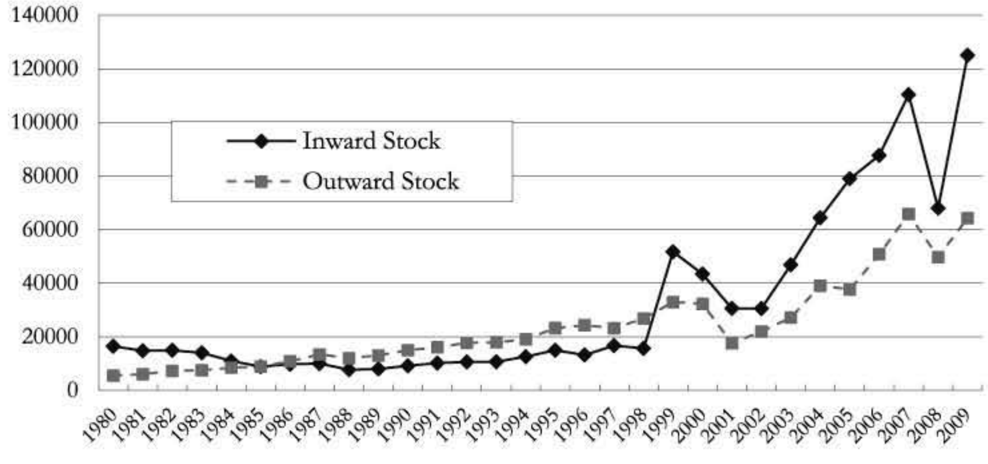
2. OUTWARD DIRECT INVESTMENT BY SOUTH AFRICAN FIRMS

2.1 *Direct Investment and Trends*

Direct investment is defined as "the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy" (IMF 1993: 86). Direct investment is also characterised as occurring when "the direct investor seeks a significant voice in the management of an enterprise operating outside his or her resident economy" (IMF 1993: 80). This "effective voice" is what makes direct investment different from indirect investment (portfolio investment) for the purposes of acquiring interest and capital gains. Generally, when investors hold at least 10% of common stocks or the voting rights in a local firm they are considered to have "an effective voice" and their activity is classified as a direct investment. FDI can be divided into inward investments and outward investments. In addition, direct investment is divided into "flows" and "stock" data. Flows data are used to understand annual increases and decreases and the trends of direct investments. Stock data regards direct investment as a kind of capital expenditure and is used as an index of productive capacity in foreign territories.

South Africa's outward direct investment (stock base) increased 7.9-fold from 1994 to 2009. The increase of direct investments by the banking sector was remarkable until 1999, since the exchange controls by institutional investors was relaxed in 1996. After foreign investment restrictions for firms were abolished in 2004, direct foreign investments of South Africa increased substantially.

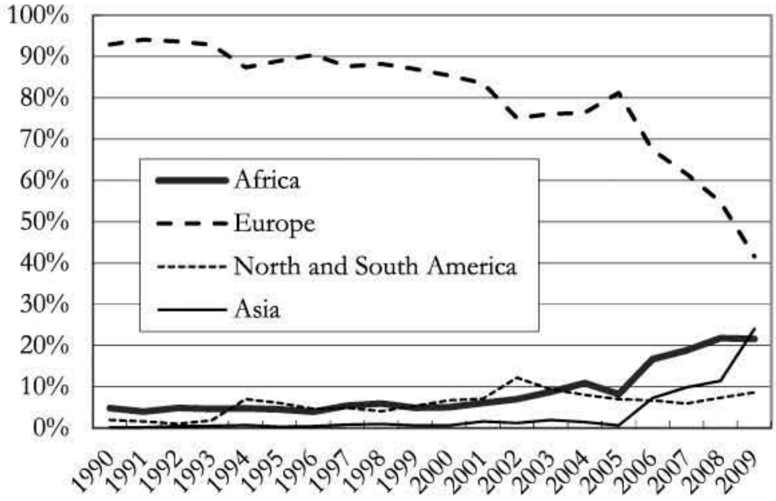
Figure 1 Trends of South Africa's FDI (stock base) from 1980-2009 (US$ millions)



Source: UNCTAD online database.

Figure 1 shows the trends in South Africa's FDI (stock base). Outward investments did not exceed $20 billion until the 1994 election. However, they started to increase after relaxing of the exchange controls for residents around 1997-1998 and exceeded $30 billion in 1999. A significant decline in 2001 was explained by the fact that the world's largest diamond firm, De Beers, eliminated cross-shareholding with Anglo American Corporation and became its subsidiary. After the Anglo American Corporation moved its headquarters to the United Kingdom in 1999, it was no longer regarded as a foreign investment. On the other hand, inward investments increased more than outward investments. Although there was a temporary decline caused by rand depreciation in 2002-2003 and the depression caused by the Lehman Shock of 2008, large amounts of inward investment flowed into the telecommunications, energy, petroleum, automotive, food and beverage and chemical industries. This increased 9.9 fold from 1994 to 2009.

Figure 2 Regional Share of South Africa's FDI Outward Stock from 1990-2009



Source: South African Reserve Bank, *Quarterly Bulletin*, multiple issues.

Figure 2 shows the trend of South Africa's regional share of outward direct investments (stock base). In 2009, the share for Europe was 41.6%, North and South America was 8.6%, Africa was 21.6%, Asia was 24.0% and Oceania was 4.1%. Since the 1990s, the share of South Africa's outward investments in Africa and Asia has increased, while its share in Europe has decreased remarkably.

Table 1 South Africa's FDI Outward Stock in African Countries from 2000-2009 (R millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Angola	22	1	1	1	3	102	102	102	1,287	1,401
Botswana	260	308	307	591	619	572	859	936	1,538	2,665
DRC	4	0	0	0	0	0	836	1,182	1,745	3,398
Ghana	15	2	3	15	7	6	34	3,090	4,965	5,418
Kenya	14	154	164	3	5	0	79	79	1,270	1,259
Lesotho	167	256	162	204	256	227	239	211	176	307
Malawi	176	18	367	784	786	804	807	1,356	1,735	1,660
Mauritius	2,556	5,536	2,649	4,109	8,116	3,440	33,893	33,122	44,122	49,312
Mozambique	3,613	4,117	6,896	5,071	4,396	4,584	5,331	5,717	7,779	6,400
Namibia	1,120	2,889	1,095	1,151	840	834	872	726	513	699
Nigeria	6	1	1	1	5,099	4,989	9,962	31,659	28,384	30,369
Swaziland	1,246	116	232	937	841	423	810	840	1,164	1,756
Tanzania	78	530	420	541	553	615	1,619	1,621	2,130	2,995
Uganda	1	223	202	10	267	478	1,335	1,132	1,555	2,228
Zambia	13	89	146	415	412	586	413	349	754	567
Zimbabwe	309	587	603	420	645	671	1,253	1,036	690	2,749
Other	2,665	128	92	1,584	756	752	674	1,220	1,085	2,504
Total	12,265	14,955	13,340	15,837	23,601	19,083	59,118	84,378	100,892	115,687

Source: South African Reserve Bank.

Table 1 shows the changes in South Africa's FDI outward stock in African countries. The most prominent destination for South Africa's outward investments in African countries was Mauritius, which accounted for 42.6%. Nigeria, Mozambique, Ghana, the DRC and Tanzania then followed. As of 2000, the most investments occurred in SADC countries, but investments in other African countries, including Nigeria, Ghana and Uganda, increased in later years. Although South African firms had mineral rights and interests in Africa before democratisation, firms went into the oil, manufacturing, construction, retail and communication industries when the exchange controls were relaxed after democratisation.

2.2 *Headquarters Shift of South African Firms*

A remarkable reaction of the South African major firms to the changes in exchange control policy after democratisation was the offshore primary listings to the London Stock Exchange. This refers to the transfer of headquarters. By the end of 2000, five firms had received permission from the South African government and SARB to move their primary listings. Firms wishing to obtain approval for an offshore primary listing have to prove several conditions; for example, that foreign expansion is necessary, that a significant portion of the firm's revenue is derived from outside South Africa and that there will be a definite balance of payment benefits for South Africa or that South Africa's gross international reserves will not be adversely affected (Walters and Prinsloo 2002).

Billiton was the first South African firm listed on the London Stock Exchange. This occurred in July 1997 after Gencor interests, with the exception of gold and platinum, moved to Billiton. South African Breweries (SAB), one of the biggest beer brewing and beverage firms in the world, was the next, transferring to the London Stock Exchange as a primary listing in March 1999. Third, in October 1998, Anglo American Corporation, the largest business group in South Africa, announced that it would transfer to the London Stock Exchange in May 1999 after having absorbed Minorco, a subsidiary which managed the foreign assets of the corporation. Fourth, Old Mutual, a major insurance firm in South Africa, was demutualised in May 1999 and listed on the London Stock Exchange in July 1999. Finally, Dimension Data, a global firm in the information and communication field, was listed on the London Stock Exchange in July 2000.

These five firms maintained the Johannesburg Stock Exchange as secondary listings while using the London Stock Exchange as their primary listings. All of the firms, except for Dimension Data, raised their stock index ranking of the London Stock Exchange (FTSE) 100. Moreover, all five firms increased the market capitalisation of the Johannesburg Stock Exchange (Walters and Prinsloo 2002).

2.3 *Advance of the South African Firm in Africa*

Nishiura (2009) examined the FDI activity of the top 100 asset-based firms in South Africa from *Financial Mail's Top Companies 2004*. It was confirmed that 71 firms had their FDI activity in Africa. In terms of investment sectors or industries, retail, manufacturing, construction, minerals and energy, transport and communications fields were relatively more likely to invest in Africa. This was especially true in the retail sector, where all ten firms ranked in the top 100 firms were invested in Africa.

Table 2 shows the place of investment according to the investment timing of major South African firms. SABMiller invested in 14 African countries in beer and beverage production[4]. SABMiller was created when SAB purchased Miller, which was then the second largest beer brewery in the United States. In addition to this, in 2001, SABMiller undertook cross-shareholding with Castel, a French firm which invested in 19 other African countries.

SABMiller had been operating in SACU countries before 1992; it invested in Tanzania in 1993 and Zambia in 1994, when the state-owned firms were privatised. It also invested in Mozambique in 1995, Ghana and Uganda in 1997 and Malawi in 1999 through the acquisition of existing firms. However, the investment in South Sudan in 2009 was a greenfield investment. According to the management of SABMiller Africa, low

[4] http://www.sabmiller.com/

competition, growth potential and good infrastructure were the key factors in determining an investment[5]. This policy of low competition aiming at the expansion of market share reflected its investment activities in Africa, such as early advancement and acquisition of existing firms.

Table 2 South African Firms' FDI in Africa

	SABMiller	Illovo Sugar	Tiger Brands	Standard Bank Group	First Rand	ABSA	Shoprite
-1992	Namibia, Botswana, Swaziland, Lesotho			Swaziland, Namibia, Botswana, Madagascar	Botswana, Namibia	Namibia	Namibia
1993-1996	Tanzania, Zambia, Angola, Mozambique	Mozambique		Kenya, Zambia, Zimbabwe, DRC, Lesotho, Tanzania, Uganda	Swaziland		Zambia
1997-2000	Ghana, Uganda, Malawi	Malawi, Swaziland, Mauritius, Tanzania		Ghana, Nigeria, Mozambique		Tanzania	Swaziland, Botswana, Mozambique, Zimbabwe, Uganda,
2001-2004	Agreement with Castel	Zambia		Mauritius, Malawi	Lesotho	Mozambique	Egypt, Malawi, Lesotho, Madagascar, Mauritius, Tanzania, Ghana, Angola
2005-	Nigeria, South Sudan		Kenya, Cameroon, Ethiopia, Nigeria	Angola	Mozambique, Zambia, Tanzania		Nigeria, DRC

Source: Each firm's website and annual reports.

The acquisition of firms as a method of investment in African countries is also found in the case of Illovo Sugar[6], the largest sugar manufacturer in Africa. Illovo Sugar invested in Tanzania when the state-owned sugar firm was privatised. The motive for this investment was the acquisition of the Tanzanian domestic market[7].

The Standard Bank Group had subsidiaries (banks) in 17 countries in Africa[8]. As shown in Table 2, this group invested in each African country at a relatively early stage, and worked to support South African firms by facilitating financial transactions. First Rand, including its major subsidiary First National Bank, was a late comer to investment in Africa compared with the Standard Bank Group. After 2004, however, First Rand began investing in four African countries[9].

5 Interview with Supply Chain Manager of SABMiller Africa on 3 September 2009
6 http://www.illovo.co.za/Home.aspx
7 Interview with the Corporate Affairs Manager of Kilombero Sugar, a subsidiary of Illovo, in Tanzania on 18 August 2011
8 http://www.standardbank.com/
9 http://www.firstrand.co.za/live/index.php

Shoprite is Africa's largest supermarket chain, with more than 1500 stores in 18 African countries[10]. Shoprite opened stores in Zambia in 1995 and in Mozambique in 1997. Shoprite also entered Swaziland and Botswana by purchasing OK Bazaars in 1997. Shoprite invested in Zimbabwe and Uganda in 2000, then Egypt, Malawi and Lesotho in 2001. In 2002, Shoprite entered Madagascar and Tanzania through the purchase of existing supermarkets. Shoprite subsequently opened stores in Ghana and Angola in 2003 and DRC in 2007. Shoprite announced its withdrawal from India in 2010 and devoted its funds to business in West Africa. According to Shoprite management, the most important factor in determining an investment is the exchange control policy in the host country, which affects remittance as well as economic growth and price stability[11].

3. THE IMPACT OF EXCHANGE CONTROL LIBERALISATION ON THE SOUTH AFRICAN ECONOMY

The South African government, SARB and trade unions were concerned with two main points with regard to the relaxation of exchange controls: (1) the outflow of capital from South Africa, leading to an increase in interest rates, and (2) a decrease in employment and the hollowing out of industry. Would these concerns prove correct?

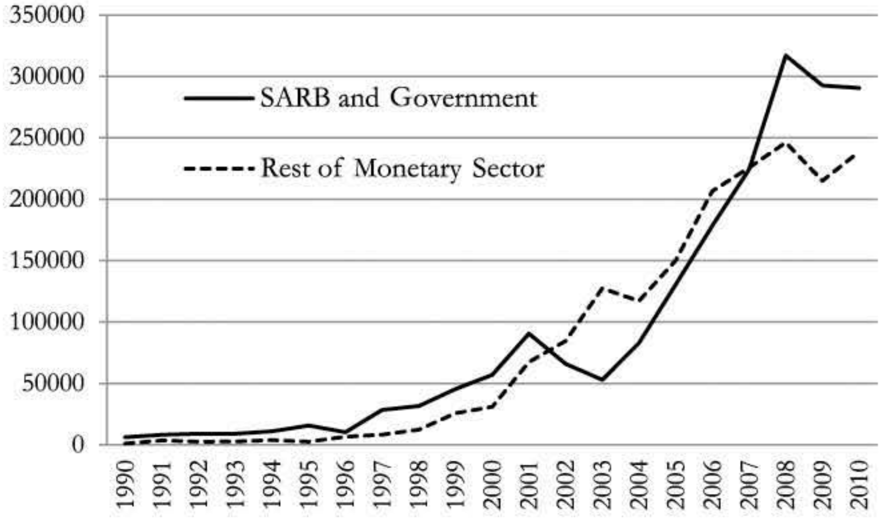
3.1 *Change of Foreign Reserves and Interest Rates*

Figure 3 shows the trend of gold and foreign reserves in South Africa. The gold and foreign reserves held by the South African government and SARB were R15.7 billion at the end of 1995. These exceeded R28 billion in December 1997 after the announcement of exchange control relaxation. At this time, these reserves accounted for 2.8 months of imports (RSA 1999; SARB Database). Low gold and foreign reserves between 2002 and 2004 were caused by rand depreciation.

Gold and foreign reserves increased after the upper limit on the exchange controls for South African firms was abolished, which was supported by strong economic growth and the soaring price of gold. Gold and foreign reserves held by the South African government and SARB were R290.6 billion in December 2010, which is equivalent to 5.4 months of imports[12]. On the other hand, gold and foreign reserves held by the private monetary sector showed a tendency to increase, starting around the time of democratisation and exceeding R10 billion in 1998. These reserves exceeded the amount held by the government and SARB from 2002 to 2007.

[10] http://www.shopriteholdings.co.za
[11] Interview with Director: Non RSA Operation of Shoprite on 31 August 2009
[12] South African Revenue Services (http://www.sars.gov.za/home.asp?pid=211)

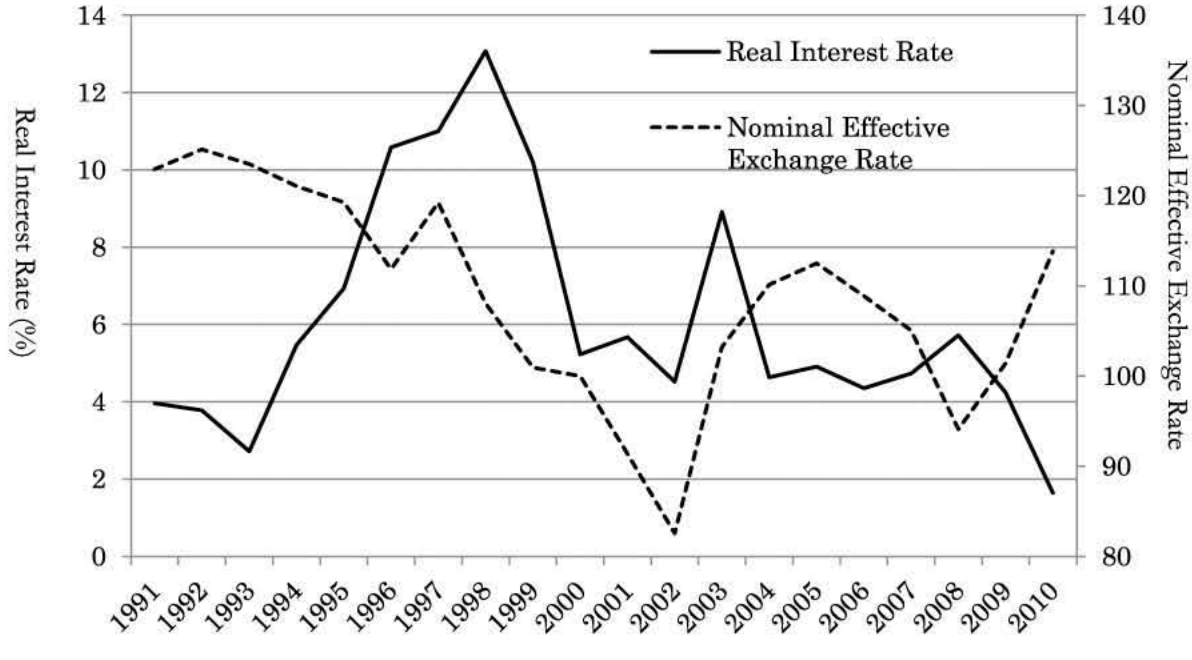
Figure 3 Gold and Foreign Reserves in South Africa from 1990-2010 (R millions)



Source: South African Reserve Bank Database.

We now examine the changes in the exchange rate and interest rate. Trade unions were concerned that removing exchange controls would lead to an increase in the interest rate which would have a negative impact on domestic production and housing construction. SARB was also concerned with increasing interest rates. It was concerned that the rapid decline in the exchange rate would lead to increased interest rates and would promote capital flight.

Figure 4 Exchange Rate and Interest Rate in South Africa from 1991-2010



Source: South African Reserve Bank, IMF and World Bank Database.

Figure 4 shows the changes in the real interest rate and the nominal effective exchange rate in South Africa. The real interest rate was 5.5% in 1994, but it exceeded 10% between 1996 and 1999, peaking at 13% in 1998. Russia's economic insecurity and the Asian financial crisis led to rand depreciation and imported inflation increased nominal interest rates (SARB 1998).

Since 2000, the real interest rate has remained at less than 6%, except for a short time. Nominal interest rates increased in 2001-2002 due to the weak rand. SARB attributed this to several factors including expectations of further relaxations of exchange controls early in 2002, weak long-term economic growth, high unemployment and high inflation (SARB 2002). Despite the high interest rates of the late 1990s, it cannot be said that exchange control liberalisation led to a long-term increase in the interest rate.

3.2 *Changes in Employment*

With respect to the exchange control liberalisation, trade unions were most concerned that it would lead to a decrease in the employment. Table 3 shows the change in the employment rate every five years in the non-agriculture sector in South Africa after democratisation.

Employment in the mining and manufacturing sectors decreased in 2009 compared to 1994 while other sectors have generally increased. Employment in the non-agricultural sector has increased on the whole. In other words, a shift of employment in South Africa was observed from the mining and manufacturing sectors to the service sector in the same period. About a million part-time workers are included in the "Total" in Table 3. However, even excluding this, the number of full-time workers in 2009 was higher than the number of total workers in 1994.

Table 3 Number of Employment (1,000) in South Africa (non-agriculture sector)

	1994	1999	2004	2009
Mining and quarrying	614	441	457	492
Manufacturing	1,422	1,314	1,265	1,220
Electricity, gas and water supply	40	43	44	59
Construction	366	232	273	441
Wholesale and retail, repair and personal and household good, hotels and restaurant	730	872	1,277	1,672
Transport, storage and communication	281	243	206	353
Financial intermediation, insurance, real estate and business services	194	205	1,172	1,823
Community, social and personal services	1,587	1,535	1,798	2,180
Total	5,234	4,885	6,492	8,240

Source: Statistics South Africa, *South African Statistics 2011*.

As previously mentioned, many major retailers have advanced in Africa; these firms have tended to expand their business even in South Africa. For example, the number of Shoprite employees has increased more than 10 fold since 1997 (McGregor Publishing 1998; Who Owns Whom 2008). In addition, the employment rate in the entire financial sector has significantly increased from 1994 to 2009. The Standard Bank Group added approximately 10,000 employees from 1997 to 2007 (McGregor Publishing 1998; Who Owns Whom 2008). Although employment in the mining sector dropped dramatically from 1994 to 1999 due to the rationalisation of domestic mines, employment has increased slightly due to inward investment after the mineral boom of 2000.

With regard to employment in the manufacturing sector, there was a loss of 64,000 positions in the textile and clothing industry between 1994 and 2005[13]. Many firms transferred their production bases to neighbouring Lesotho and Swaziland in order to receive the benefits of the United States' African Growth Opportunity Act (AGOA) and to make the most of low labour costs. However, it is believed that most of the decrease was associated with the slump in exports and the inflow of cheap products from Asia due to trade liberalisation. For instance, the value of imported textile and clothing increased 2.8 fold between 1996 and 2005 (World Trade Atlas).

From the above, it is possible to see that the movement of capital due to the relaxing of exchange controls has resulted in a decrease in employment in some industries, but that it has not had major adverse effects on the whole.

CONCLUSION

The purpose of this chapter was to examine the relationship between the policy of exchange control liberalisation and the investment activities of South African firms or the South African economy on a large scale. We set two research questions for this purpose.

We started by examining how South African firms reacted to the policy of exchange control liberalisation. Direct investment and indirect investment by the banking sector have soared since the exchange controls on institutional investors was relaxed in 1996. Direct investment in Africa has increased in both volume and proportion. Headquarters relocation of major South African firms was realised through relaxing the exchange controls. The effects on the behaviour of South African firms' direct investments in Africa caused by changes to the exchange control policy can be summarised as follows.

Firstly, although South African firms invested in SACU countries prior to democratisation, they increased investment in SADC countries around 1997 when the South African government and SARB relaxed the exchange controls. Several South African firms spread their investments in African countries beyond SADC with guidance from the New Partnership for African Development (NEPAD) around 2002. Secondly, with the exception of telecommunications, there are many examples of South African firms that invested in African countries through the acquisition of existing firms or of privatised state-owned firms. Thirdly, with the exception of the Standard Bank Group

[13] Interview with the General Secretary of National Bargaining Council of the Clothing Manufacturing Industry on 19 January 2007.

and SABMiller, South African firms tended to invest in African countries after the relaxation of exchange controls in 1996.

Next, we examined how the policy of exchange control liberalisation influenced the South African economy and society. The relaxing of exchange controls worked to decrease foreign exchange by allowing South African firms to invest in other countries. However, this relaxation further promoted an increase in inward investment in South Africa. As a result, gold and foreign reserves held by both the government and the private sector in South Africa increased compared to their rate in 1994.

In addition, job losses were a concern. The decrease of employment in the mining and manufacturing sectors in the years 1994-2009 was mainly caused by trade liberalisation and the rationalisation of their businesses. The number of full-time workers in 2009 was higher than the total number of workers in 1994. Because direct foreign investment caused by relocating headquarters in the manufacturing industry was limited in South Africa, it was thought that there was little negative influence on its economy.

We were not able to explain in detail the influence of relaxing of exchange controls on other African countries because of limited space. However, South Africa became the largest investor in some countries such as Mozambique, Mauritius and Tanzania. Of these, Tanzania is the country with the largest share of production of sugar, beer and telecommunications. South African investments may have a major impact on the Tanzanian economy.

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