SOUTH AFRICA Investment Guide

Foreign Investment Climate

Openness to Foreign Investment

South Africa offers an attractive climate for foreign investors. South Africa has a substantial market with significant growth potential, an economy steadily moving toward market orientation, access to other markets in Africa, well-developed financial institutions and capital markets, excellent communication and transport links, liberal repatriation of profits and other earnings, lower labor costs compared to western industrialized countries (although productivity is also lower), and availability of inexpensive electrical power and raw materials. However, South Africa's economic growth has been sluggish at 2.5 percent in 1997 and 0.5 percent in 1998; and the country faces daunting challenges as it competes with other emerging market countries for foreign investment. While South Africa's reputation as an emerging market suffers from its proximity to the tangle of conflicts that have engulfed its northern neighbors in and around the central African sub-region, it offers access to markets not only throughout Africa but also farther afield in the Southern Hemisphere.

Investment has been spurred by a number of steps designed to make South Africa's markets more attractive to foreign investment. These include:

- reducing import tariffs and subsidies to local firms;
- eliminating the discriminatory non-resident shareholders tax;
- removing certain limits on hard currency repatriation;
- halving the secondary tax on corporate dividends;
- lowering the corporate tax rate on earnings to 30 percent;
- allowing foreign investors 100 percent ownership.

Additionally, the government does not impose performance requirements on foreign companies, does not normally screen foreign investment, and does not require new investments to comply with specific requirements (although the Government encourages investments that strengthen, expand, or enhance technology in various industries). At the same time, South Africa's tariff system is complex and is subject to rapid change. Foreign companies also complain about delays or rejections in receiving work permits for some of their proposed expatriate employees.

The South African Government treats foreign investment essentially the same as domestic enterprise investment. Foreign firms receive national treatment for various investment incentives such as export incentive programs, tax allowances and other trade regulations. As the Government pushes ahead with plans to attract strategic equity partners for its large parastatal organizations, sensitivity to the concerns of foreign investors has become more pronounced.

The main area in which foreign investors are treated differently from domestic investors concerns local borrowing restrictions imposed by exchange control authorities. No person in South Africa may provide credit to a non-resident or "affected person" without exchange control exemption. An "affected person" is a company or other body in which:

• 25 percent or more of the capital assets or earnings may be utilized for payment to, or to the benefit of, a non-resident; or,

• 75 percent or more of the voting securities, voting power, power of control, capital, assets or earnings are vested in, or controlled by, any non-resident.

A company falling into the category of an "affected person" may only borrow up to a specified percentage of its total "effective capital" which mainly comprises issued shared capital, share premium accounts, reserves created from profits, inappropriate profits and approved shareholders' loans.

Normally, the maximum amount an "affected person" may borrow is 50 percent of the total "effective capital", plus an amount determined by the following formula: South Africa participation/non-resident participation times 50 percent. Requests to borrow in excess of the formula are granted for operations that are considered to be in the national interest such as import replacement. The primary purpose of the local borrowing restriction is to ensure the adequate capitalization of foreign investments and to prevent excessive "gearing" using local funds (i.e., a company borrowing against its share capital). The definition of local borrowing includes overdrafts, leasing of capital equipment, mortgage bonds and local shareholders' loans in excess of foreign shareholders' loans.

Currency Conversion and Transfer Policies

Investment South Africa (ISA; www.isa.co.za) - a national investment promotion agency established by the DTI on April 1, 1996 - provided most of the following information on foreign exchange controls. ISA provides information and assistance to prospective investors, including identification of opportunities and joint venture partners and sourcing of technology and capital. The South African Reserve Bank (SARB) administers foreign exchange controls through its Exchange Control Department. Commercial banks act as authorized dealers of foreign exchange on behalf of the SARB.

During the Apartheid era, South Africa restricted investment abroad by its citizens through a stringent foreign exchange control regime. In 1994, the Government announced a long-term plan for the gradual lifting of foreign exchange controls. In 1995, the abolishment of the financial Rand mechanism removed most exchange controls on non-residents. Unless otherwise authorized by the exchange control department, all transactions between residents and non-residents of South Africa must be accounted for through the authorized dealers.

In general, there are no controls on the removal of investment income or capital gains by non-residents. Dividends may be paid to non-residents without the approval of the SARB, provided an auditor's certificate shows such dividends are a result of post-tax trading, or realized capital profits. The SARB must approve the payment of dividends following de-registrations or liquidations. The SARB does not allow the remittance of profits or repayment of loans when, as a result of the remittance, the local financial assistance limit is exceeded. In such cases, local financial assistance will be reduced prior to remittance.

Companies taking money out of South Africa must complete a Form A (available from authorized dealers) if the amount is in excess of the currently prescribed amount of R50,000 (US$8,333 as of July 1999).

Foreign firms may invest in share capital without restriction. In order to return disposal proceeds and dividends to their country of origin, foreign investors should ensure that their share certificates are endorsed "non-resident" by an authorized dealer.

Royalties, software license fees, and certain other remittances to non-residents require the approval of the SARB. The Department of Trade and Industry must approve manufacturing royalties (not including sales or marketing royalties). Royalty fees are based on a percentage of ex-factory sales with a maximum of four percent for consumer goods and six percent for intermediate and final capital goods. Approval is normally for five years.

Additional information on exchange control regulations can be obtained from the South African Reserve Bank: http://www.resbank.co.za

Dispute Settlement

South Africa is a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards, but is not a member of the International Center for the Settlement of Investment Disputes (Washington Convention).

Performance Requirements and Incentives

South Africa does not impose performance requirements as a condition for establishing, maintaining or expanding investments, or for access to tax and investment incentives. However, investment in certain strategic sectors is contingent upon acceptance of informal sectoral "gentleman's agreements" aimed at assuring security of supply. For example, oil companies are required to purchase synthetic fuels at a specified formula price. The Government has identified the need to deregulate sectors governed by such informal agreements, including the transportation, energy, and telecommunications sectors to encourage investment and foreign participation in the economy.

By virtue of South Africa's membership in the World Trade Organization (WTO), SA is a signatory to the Trade-Related Investment Measures (TRIMS) agreement. South African legislation is fully compliant with the TRIMS agreement. In 1998, the last protectionist local content requirements with regard to tea and motor vehicle schemes were phased out.

While the SMMDP scheme follows a wide burst approach, some much more focused incentive schemas have been created. These aim at creating a whole new industry cluster or supporting an existing cluster with self-generating support sectors up- and down-stream in the value chain. An example is the MIDP (Motor Industry Development Program) which in its current format will run out by the year 2007. It has had a significant effect on attempts to rationalize the traditionally over-protected SA motor industry in a piecemeal fashion while facing up to the gradual reduction of import duties on motor vehicle imports (10 years ago the import duty was more than 115 percent; currently it is 50.50 percent and dropping). The MIDP scheme has resulted in reinforcing South Africa as a production location of certain RHD platform models for a global, if marginal, market, as well as the production of components requiring natural resource inputs e.g. leather seats (labor intensive, cow or buffalo hide beneficiation) or catalytic converters (platinum beneficiation), to name but a few.

The MIDP enables South African vehicle and component manufacturers to increase production runs and encourages rationalization of the number of models manufactured by way of exports and complementing imports of vehicles and components. With the MIDP scheme South African exporters of motor vehicles or motor vehicle components earn export credits which can be used to off-set the import duty at currently 50.50 percent on similar imports.

The issue of Black Economic Empowerment (BEE) has assumed growing importance in the past five years. Government, for its part, has shown increasing interest in using its position, as both buyer and seller, to promote the economic empowerment of historically disadvantaged groups. Depending on the ministry involved, this interest has been reflected in varying degrees. In large-scale infrastructure projects like the Maputo Corridor, BEE objectives were evident in requirements mandating the use of small and medium subcontractors. In other cases, like the tender for the third cellular license, having a BEE plan and partner was mandatory. The variations in Government's approach to BEE and concerns that existing empowerment efforts have not benefited the public at large have led to calls for a review of the practice in general. One such review is currently underway through the privately backed Black Economic Empowerment Commission, which is scheduled to release a set of recommendations in late 1999.

Private Ownership Rights

Private property rights, whether foreign or domestic, are equally protected by law and the same opportunities exist for both foreign and domestic private entities. In general, all foreign and domestic private entities are entitled to own business enterprises and engage in profit-making activities. Private entities are allowed freely to establish, acquire, and dispose of interests in business enterprises. The acquisition of an existing business enterprise is usually achieved through the purchase of shares or assets. The securities regulation panel code applies to public limited companies and to private companies with 10 or more shareholders and capital and reserves in excess of R5 million (US$904,159 at the 1998 average exchange rate). If a stake of 30 percent or more is acquired, an offer must be made to minority shareholders to acquire all their shares at a price equal to the highest paid by the investor.

Present Government policy is to refrain from competing with private entities in the private sector. The following firms enjoy a degree of protection through direct or indirect allowances from the Government which give them a financial advantage vis-à-vis private entities:

- ADE (diesel engines),
- SASOL (synthetic fuels and petrochemicals),
- IDC (industrial development corporation),

• CSIR (scientific and industrial research and marketing innovations),

• and the Central Energy Fund family of companies, including Mossgas, the Strategic Fuel Fund, and Soekor, the state oil exploration company.

In addition, Telkom (the state telecommunications company) enjoys a monopoly until the year 2002 on providing international and fixed line telecommunications services. If Telkom's strategic equity partners meet certain performance targets, the SAG will consider an extension of this monopoly until 2003. Transnet enjoys a monopoly on most transport and port services, and Eskom (the state electricity monopoly) operates as a non-taxed company, which pays dividends to the state as its sole shareholder.

Protection of Property Rights

Property rights, including intellectual property, are protected under a variety of laws and regulations. South Africa has an independent judiciary under which any threat to property rights may be enforced without political interference.

Transparency of Regulatory System

In general, South Africa's Companies Act provides for clear, transparent regulations concerning the establishment and operation of businesses. Business organizations of more than 20 persons that operate for gain must be registered as a company under the Companies Act of 1973, which is based upon British company law. Foreign investments are organized under the same rules and regulations as domestic firms with one exception. Foreign companies that choose not to form a firm in South Africa operate as "external companies." External companies do not normally pay tax on undistributed profits, but share capital duty is based on the shares of the parent firm. The legal liabilities of an external company are not limited. Foreign investors may normally buy into local firms without limitation. Restrictions on foreign ownership in the 1990 privatization of ISCOR were an isolated case. No local equity requirements exist. In practice, foreign firms invite domestic participation when it is suitable for the business of the firm.

It is not necessary for any shares in a firm to be held by a South African resident. Shares of any denomination may be issued, and no-par shares are permitted. The use of "nominee" shares, non-voting, and low-voting shares is common, as are cross-holdings among corporations and overlapping boards of directors. This makes it difficult to identify the ownership of many listed corporations and concentrates control among the country's large conglomerates. A pending change to the Companies Act, which will affect voting and nominee shares, is likely to make share ownership more transparent. Regulations on insider trading are poorly developed with little investigation of insider trading. The Financial Services Board has indicated that it will beef up its monitoring and protection against insider trading. The subscription of a minimum amount of shares is not required. Public firms must have at least two directors and private firms one director. The directors need not be South African residents. External firms must appoint a South African resident to accept services of notices on the firm. All firms must keep proper financial records, but only public companies and external companies must file annual financial statements with the registrar of companies. External companies must file with the registrar their South African financial statements and the financial statements for the foreign company as a whole. An application for exemption from this requirement may be requested.

All businesses must obtain a business license from the local authority, which is valid indefinitely unless the business is relocated or acquired by a new owner. In general, businesses must register with the local Regional Services Council, Department of Labor, Workman's Compensation Commissioner, the appropriate Industrial Council, the Receiver of Revenue, and the Department of Customs and Excise.

The maintenance and promotion of the Competition Act of 1979 provides for the prevention of, or control over, restrictive trade practices and monopoly situations. The Competition Board, which has power to investigate anti-competitive behavior or structure, implements the Act. It can only recommend to the responsible cabinet minister punitive or preventative action against the concerned parties. A 1986 amendment to the Competition Act of 1979 specifically prohibits five anti-competitive practices: resale price maintenance, horizontal price fixing, horizontal collusion on conditions of supply, horizontal collusion on market sharing, and collusive tendering or "bid rigging." In spite of these measures to restrict anti-competitive behavior, South Africa is known for "cozy relationships" among business owners, which may involve cross sitting on one another's boards and the extension of favors. Recent decisions of the Competition Board (such as the Mondi and Kohler decision) suggest increasing openness to foreign investment and more likelihood of stopping domestic tie-ins that appear to restrict competition.

The South African Parliament recently passed a new Competition Act, based largely on the Canadian and British models of common law, which is to take effect Sept. 1, 1999, replacing the 1979 Act. The Bill creates a Competition Commission (replacing the Competition Board) to act as investigator and prosecutor of anti-trust cases, a Competition Tribunal to consider and rule on the cases, and a Competition Court to act as the appeals body. These bodies are too new to evaluate their performance.

Under the Communications Law of 1996, a new regulatory authority for the telecommunications sector was created - the South African Telecommunications Regulatory Authority (SATRA), which assumed its new responsibilities in early 1997. Under the law, SATRA is independent from the Ministry of Posts, Telecommunications, and Broadcasting and has exclusive authority over the issuance of licenses in the telecommunications industry, the investigation of anti-competitive actions by market participants, and the enforcement of Government telecommunications policy. As a relatively new regulatory authority, SATRA is still engaged in the process of building its technical and legal capacity, and defining its relationship with the Department of Communications and the telecommunications industry. Federal Communications Commission (FCC), SATRA does not have control over the formulation of government telecommunications policy, which is retained by the Minister of Posts, Telecommunications, and Broadcasting. SATRA has made several important rulings, such as the refusal to grant Telkom exclusive rights to promote Internet access, and the prohibition of "callback" operations, both of which are currently before the courts.

South Africa's tax, health, and safety laws and regulations are fairly unbureaucratic and transparent.

International Investment Agreements

South Africa has signed various investment agreements with many countries since 1994. South Africa's investment agreements that have entered into force include those with the U.S., Malaysia, the U.K., the Netherlands, Switzerland, the Republic of Korea, Germany, France, Cuba, Denmark, Austria, China, and Canada. South Africa has also signed many investment agreements that have not yet been ratified or entered into force, including those with Paraguay, Senegal, Mozambique, Italy, Iran, Mauritius, Sweden, Ghana, Argentina, Finland, Spain, Egypt, Chile, Greece, Russia, the Czech Republic, the Belgo-Luxembourg Economic Union, and the European Investment Bank. The South African Customs Union (SACU) agreement with Botswana, Lesotho, Namibia, and Swaziland; and the Common Monetary Area agreement with Lesotho, Namibia, and Swaziland also facilitate investment flows between the participating countries.

Foreign Trade Zones

The Department of Trade and Industry has undertaken to implement a series of Industrial Development Zone (IDZ) Initiatives that aim to create environments conducive to export-oriented production and services for international and local investors. The idea is that by locating within these zones, new investments will benefit from world-class infrastructure, local and cost advantages, in addition to existing fiscal incentives, linkages with local markets, expedited customs procedures, and a single stop regulatory authority. IDZs are to be geographically designated within a controlled duty free area, near a port or airport. A National Development Zone Authority (NDZA) is to be responsible for the regulation, facilitation, and administration of the IDZs. Local NDZA offices will facilitate the regulatory and approval process - acting as "one-stop shops" - while the private sector manages and develops the zones. The Coega Industrial Development Zone Initiative, which includes South Africa's first deep-water free port near Port Elizabeth, is up and running. Development has also begun on the East London IDZ Initiative, designed to create a duty free environment with tax incentives and access to deep water ports while minimizing input costs, particularly transport. More information on IDZs is available from the Department of Trade and Industry at http://www.sdi.org.za

Foreign Investment Statistics

Foreign direct investment (FDI) data is readily available in South Africa, but published statistics vary widely depending on source. Among the various institutions that provide foreign investment data, the U.S. Embassy in South Africa tends to rely most heavily on the South African Reserve Bank (SARB), the Investor Responsibility Research Center (IRRC) - a Washington, D.C. based corporate research provider, and South Africa based Business Map (BM). The latter two offer fee based services for a wide range of investor related data and analysis and may be contacted via their respective web sites, www.irrc.org and www.bmap.co.za. Although FDI statistics from IRRC and BM are not in total agreement, both show the U.S. to be the largest source of new foreign direct investment in South Africa since the 1994 transition to democracy. The SARB does not provide country specific figures which distinguish between actual new investment flows and changes in investment stocks caused by asset swaps, exchange rate adjustments, and mergers and acquisitions - making it difficult to track the U.S. FDI position in South Africa on a yearly basis.

Since 1994, direct investment abroad by South African multi-national firms has outpaced that of FDI inflow into South Africa. Throughout this period, for instance, net FDI inflows from sources into South Africa have been largely offset by net FDI outflows from South Africa to the UK, Luxembourg, and Switzerland by primarily large south African conglomerates, particularly

Anglo American/De Beers. South Africa is now the largest source of new investment for many surrounding SADC nations and South African investment in the rest of Africa presently exceeds that from all of Asia, the U.S., and Latin America.

The following statistics on foreign direct investment were drawn from the SARB's June 1999 Quarterly Bulletin. SARB statistics conform to the IMF definition of FDI and represent actual investment, excluding announced but not completed "intended" investment. The conversion exchange rate used was that of the average for each year cited.

Note: FDI is generally defined as ownership of at least 10 percent of the voting rights in an organization by a foreign resident or several affiliated foreign residents, including equity capital, reinvested earnings and long-term loan capital. Average exchange rates by year: 1993 - 3.40; 1994 - 3.54; 1995 - 3.65; 1996 - 4.30; 1997 - 4.61; 1998 -5.53.

Taxation

As a general principle, taxes are levied only on income derived from a source within or deemed to be within South Africa. This principle applies to resident and non-resident individuals and companies. Income tax-payers are divided into two categories: individuals, who are taxed at progressive rates, and companies, taxed at 35 percent of taxable income (mining companies have different tax rates) with a secondary tax of 12.5 percent on the dividends declared by the company exceeding those paid to the company. Income derived from petroleum extraction is subject to a maximum tax rate of 61 percent. Gold-mining enterprises are subject to a progressive tax rate determined by the levels of mining income and gross mining revenue and a rate of 42 percent on income derived from non-mining operations. Branches of foreign companies with management outside of the country are subject to a 40 percent tax rate.

Companies make provisional tax payments at six months after the beginning of the financial year, at the end of the financial year, and six months after the end of the financial year. Withholding taxes are imposed on interest and royalties remitted to non-residents. Capital gains are tax free, and dividends received by a South African company are tax exempt. South Africa has a 14 percent value-added tax (VAT). Exports are zero-rated and no VAT is payable on imported capital goods.

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On Oct. 1, 1996, South Africa introduced an incentive scheme as part of the Small/Medium Manufacturing Development Program (SMMDP). Incorporated entities as well as sole proprietors and partnerships (excluding trusts) qualify for the incentive package and may apply for assistance. Only "new, secondary" operations engaged in manufacturing as well as processing or assembly may be considered for incentives. A "new" operation refers to any entity registered after Oct. 1, 1996, and "secondary" refers to the manufacturing of final products. The incentive package provides for an establishment grant payable for three years on qualifying assets and a profit/output incentive payable for an additional year. The industrialist may also qualify for an additional two years profit/output incentive provided the industrialist can meet or exceed the labor remuneration to value added ratio of 55 percent measured in the fourth financial year. The SMMDP also provides a Productivity Improvement Program on merit and at the discretion of the Board.

Initial assistance is rendered in the form of a tax-free establishment grant for the first three years calculated at 10.5 percent per year on qualifying assets up to a maximum investment of R3 million (US$542,495 at the 1998 average exchange rate) per enterprise per project. Qualifying assets are defined as land and buildings owned at cost, land and buildings leased (capitalized at 15 percent), plant and machinery at cost, and capitalized leased plant and machinery. Payment of the establishment grant is subject to the demonstration of a minimum equity of 10 percent.

The tax free profit/output incentive is calculated as 25 percent of profit before tax (PBT), not to exceed the annual establishment grant as calculated above, up to a maximum amount of R315,000 (US$56,962 at the 1998 average exchange rate) per year, per undertaking, whichever is the lesser. To qualify for the fifth- and sixth-year profit/output incentive, the applicant is required to maintain a labor remuneration to value added ratio equal to or exceeding 55 percent. The labor remuneration to value added means the percentage is determined in accordance with the formula and with all the accounting terms referred to given their meaning as understood under the General Accepted Accounting Practice (GAAP).

The incentive package also provides for a foreign investment grant up to a maximum value of US$50,000. This assistance is only provided with respect to an initial maximum investment of up to R3 million in qualifying assets per enterprise per project. No further assistance will be granted with respect to any future expansions of the project. The incentives are tax-exempt in terms of Section 10 (zH) of the Income Tax Act, 1962 (Act No. 58 of 1962) and valid in all areas of South Africa for the maximum period of six years. All incentives are offered on a basis that does not discriminate between national and foreign investors.

The South African tax system has changed from a source-based to a residence-based system with effect from the 1 January 2001, in line with international trends. This means that South African residents will be taxed on their worldwide income. Non-South African residents will still be taxed on income from South African sources subject to the double taxation agreements with the different countries.

The principle taxes imposed in South Africa are direct and indirect taxes:

- Direct Taxes include Income Tax, Secondary Tax on Companies (STC), Capital Gains Tax (CGT) and Donations Tax.

- Indirect Taxes include Value Added Tax (VAT), Estate Duty, Stamp Duties, Transfer Duties, Excise and Customs Duties, Marketable Security Taxes, Regional Services Council Levies and Skills Development Levies.

For more information on taxation go to www.sars.gov.za

Stock Market

The JSE Securites Exchange was established in 1887. By the end of the 1990's, the Exchange had 668 listed companies.

The JSE Securites Exchange has two separate sections, effectively a second and third stock exchange, called the Venture Capital Market (VCM) and the Development Capital Market (DCM). The DCM, which was established in 1984, permits the listing of smaller companies on less onerous terms and at far less cost. The VCM, established in 1989, consists of joint ventures between listed and non-listed firms.

South Africa today is one of the most sophisticated and promising emerging markets globally. The unique combination of a highly developed first-world economic infrastructure and a huge emergent market economy has given rise to a strong entrepreneurial and dynamic investment environment.

Macro Economic Stability

The success of the first democratic election in 1994 put the economy on a growth path and created an environment favorable for both domestic and foreign investment. During the latter half of 1997 the world economy and especially emerging markets were negatively affected by the East Asian financial crisis. South Africa's economy was no exception and the economy grew by only 0.8 per cent in 1998 compared to 2.6 per cent in the previous year.

The economy recovered quite robustly after 1998 before world economic conditions began to deteriorate towards the end of 2000. The weakening of the international economy resulted in a slowdown in growth in South Africa during the first quarter of 2001 but the domestic economy picked up again in the second quarter of 2001. Exactly how the effects of the events of 11 September will impact on growth in the near future, remain to be determined. Much will depend on events in the US economy. However, South African trade is diversified across a range of products and markets, and has weathered adverse international conditions fairly well so far.

Market Opportunity

One of the greatest reasons why South Africa has become one of the most popular trade and investment destinations in the world is because we make sure that we can meet your specific trade and investment requirements. There are many lucrative possibilities arising from South Africa's wealth of natural resources and almost unlimited export and import opportunities.

Costs of doing Business

The costs of doing business in South Africa compares favorably to other emerging world markets. The costs for labor, land, rental, human resources, transportation and general living expenses do vary from province to province. Gauteng as the economic hub of South Africa is only marginally higher than the other provinces, yet it offers business amenities that have a world class standard.

Skills

South Africa possesses a large resource base of skilled, semi-skilled and unskilled labor. The South African Government has introduced wide-ranging legislation to promote training and skills development and to fast-track the building of world-class skill and competence.

A strong network of universities and other tertiary education institutions is home to a host of leading international academics and researchers, with the majority of research and development in South Africa undertaken at the country's universities.

Financial Infrastructure

South Africa is one of the world's favorite emerging markets, offering investors sophisticated financial infrastructures and exceptional investment opportunities. The SA Reserve Bank (SARB) oversees the banking services industry in SA. The non-banking financial services industry is governed by the Financial Service Board (FSB). SA has three principle financial service markets:

- The JSE Securities Exchange SA (JSE)
- The SA Futures Exchange (Safex)
- The Bond Exchange of SA (BESA)

The JSE is governed and licensed externally by the Stock Exchange Control Act of 1985. The Safex and BESA markets are governed by the Financial Marketers Control Act of 1989. The markets are self regulated internally.

Transport and Logistics Infrastructure

South Africa boasts one of the most modern and extensive transport infrastructures in Africa. This infrastructure plays a crucial role in the country's economy and is depended on by many neighboring states. Public company Transnet (a parastatal) is SA's main transport operator and is the holding company for SAA (airways), Spoornet (rail transport), Autonet (road transport), Pertronet (liquid petroleum), Portnet (port authority) and Fast Forwards (container shipments).

Natural Resources

South Africa has huge mineral resources as follows:

- 80% of the world's reserves of manganese ore
- 56% of the world's reserves of platinum group minerals
- 35% of the world's reserves of gold and
- 68% of the world's reserves of chromium.

South Africa ranked in top position in the majority of the world mineral reserves and production, in 1999:

Where to Start

A good guide for investors about the dynamics and principles involved in the South African business environment is the Investor's Handbook Publication. The following factors are covered in this publication:

- Entry and residence of foreign investors and expatriate labor
- Foreign exchange control
- Business entities and registration
- Sources of finance for the foreign investor
- Property and licenses including intellectual property, cellular licenses, banking licenses and prospecting and mining rights.
- Land - acquisition, rezoning, subdivision and transfer
- Site development including information about building permits, environment assessment, electricity, water and telephones
- Importing and exporting which includes information about import permits, export permits, registration, customs, payment deferment, duty drawback, bonded warehouses, manufacturing under rebate, clearing agents
- Tax Registration for Business which includes information on Tax Registration, Value Added Tax, Employee Tax, Regional Levies and Accounting policies.
- Other relevant laws such as Competition Law, Environmental Law, Labor Laws, Recommendations for Investors.
- Contact information for the Labor sector, National Investment Agencies and the Provincial Promotional Agencies

Investment Rules

The following are a selection of the Investment Rules for the South African Business sector:

Competition Law

In the second half of 1998 a new Competition Law was finalized. It provides for approval of mergers if strict criteria are used, such as whether the new firm created would be dominant in its market, the effect of a merger and whether any other reasons in favor of the merger exist, such as efficiency or competition in international markets. The new law aims to strike a balance between certainty and flexibility by providing clear rules. Measures taken against anti-competitive practices are now more severe than those that prevailed under the previous Competition Law.

Environmental Law

Environmental legislation is receiving increasing attention in South Africa, with severe penalties under discussion in a proposed Environmental Bill for those found guilty of damaging the environment. The penalties could extend even to those who were directors of a company at the time the environmental damage was caused.

The main longstanding legislation affecting environmental issues are the Atmospheric Pollution Prevention Act, the Health Act and the Water Act. The Bill of Rights of the South African Constitution stipulates that everyone has the right to an environment that is not harmful to health or well-being.

Labor Regulations

Details on Labor Regulations can be found be found on http://www.labour.gov.za

Exchange Controls

For Exchange Control regulation, go to the Reserve Bank's site by clicking on www.resbank.co.za

Financial Regulations

For more information on Financial Regulations go to www.fsb.co.za

Investment Facilitation

- General information on investing in South Africa and the business environment.
- Detailed information on sectors in SA for potential investors
- Providing finance to explore investment opportunities in South Africa
- Facilitating your company's investment
- Facilitating direct government support in the form of incentives for your investment
- Aftercare / ongoing contact and problem solving after your company invested in South

Competition policies

The Competition Commission has a range of functions in terms of Section 21 of the Competition Act. These include investigating anti-competitive conduct in contravention of the Act; assessing the impact of mergers and acquisitions on competition and taking appropriate action; monitoring competition levels and market transparency in the economy; identifying impediments to competition and playing an advocacy role in addressing these impediments.

In taking these actions, the Commission must balance issues related to competition with the broader social and economic goals outlined in the Act, such as employment, international competitiveness, efficiency and technology gains, as well as the ability of small and medium sized businesses and firms owned or controlled by historically disadvantaged persons to compete.

In order to ensure the consistent application of the Act across sectors, the Commission may negotiate agreements with other regulatory authorities, participate in their proceedings and advise, or receive advice from, any regulatory authority.

The Competition Commission is independent but its decisions may be appealed to the Competition Tribunal and the Competition Appeal Court.

For more information on the Competition Commission, go to http://www.compcom.co.za

Industrial Development Zones

The Industrial Development Zone (IDZ) programme is one of many incentives offered by the dti to encourage international competitiveness of the South African based manufacturing sector.

IDZs will be purpose-built industrial estates linked to an international port or airport in which quality infrastructure and expedited customs procedures are coupled with unique duty-free operating environments suited to export-oriented production.

Government will license operators to develop and run the IDZs, provide enterprise support measures, minimize red tape and provide efficient services to enterprises within an IDZ.

For more information on various IDZs in South Africa, go to http://www.sdi.org.za/idz.html

Intellectual Property Rights

South Africa has a developed system of intellectual property law covering patents, industrial designs, copyright and trademarks. It is also a signatory to most of the international conventions in this field.

Environmental Regulations

Environmental impact management should play a more significant role in all spheres of society. As determined in Schedule 4 of the Constitution of South Africa, 1996, the environment is a concurrent function of the relevant national and provincial departments. For the national and provincial environmental departments, a major role is inter alliances to set specific regulatory norms and standards for impact management and to ensure that individuals and organizations meet these.

Incentives

South Africa is without doubt an exciting and dynamic place to do business. To continually grow our economy and to allow our country to prosper, Government plays a key role in providing investment infrastructure, incentives and support to business.

There are over 90 incentives, loans and rebates that the dti has designed to offer you, our customer, so that your business can achieve growth and together we can create a better life for all South Africans.

Market Opportunity

South Africa is a vast country covering 1,223,000 square kilometers. It is equivalent in size to Germany, France, Italy, Belgium and the Netherlands combined. It is the world's largest producer of:

- Gold
- Platinum
- Vanadium
- Chromium
- Manganese
- Alumino-silicates

South Africa as an investment host country offers a policy of openness which promotes Direct Foreign Investment (DFI). It is also favorable to enacting investment legislation, Industrial Development Zone legislation and making Investment incentives available.

Each of our nine provinces have their unique strengths to offer you specific investment sector opportunities. Quick overviews of these opportunities by province are listed below:

GAUTENG

- Aluminium Products
- Automotive Components
- Beer & Malt
- Carbonated Drinks
- Food Processing
- Integrated Solutions
- Pharmaceuticals

- Telecommunications Equipment

EASTERN CAPE

- Aquaculture
- Automotive Components
- Pharmaceuticals (Generic & High Volume)
- Mohair Apparel
- Sanitary-ware

WESTERN CAPE

- Conference Tourism
- Eco-tourism
- Film Production
- Ship Repair & Containerization
- Precision Engineering
- Boat-building

MPUMALANGA

- Agro-forestry
- Wood, Wood Products & Furniture
- Catalytic Converters
- Food Processing
- Horticulture
- Pipes & Tubes
- Plastics Products
- Solvents

KWAZULU NATAL

- Aluminium Conversion
- Automotive Components
- Chemicals Conversion
- Engineering & Metal Works
- Wood & Wood Products

NORTHWEST

- Dimension Stone
- Leather Tanning & Finishing
- Meat Products

THE FREE STATE

- Alternate/Ecotourism
- Downstream Petrochemicals
- Farm Equipment & Machinery
- Hotels, Resorts, & Casinos
- Leather Tanning & Finishing
- Pharmaceuticals R&D

NORTHERN CAPE

- Aquaculture
- Beta Carotene
- Tourism: Historical & Cultural
- Tourism: Hotels & Resorts
- Tourism: Game Lodges/Ecotourism

NORTHERN PROVINCE

- Tourism: Game Lodges & Nature Reserves
- Granite Mining, Cutting & Polishing
- Hotels & Resorts
- Sub-tropical fruits
- Vegetable Processing

South Africa is the engine of growth in Southern Africa and with its new global focus, strategic geographical location and world class infrastructure assets; it presents a highly competitive investment location.

For more information on the JSE Securities Exchange, see URL: http://www.jse.co.za/.

For information on Investing in South Africa visit: http://www.dti.gov.za.