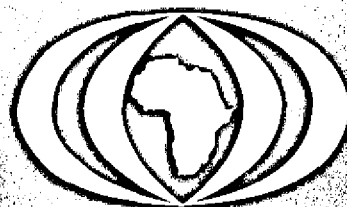


**SPECIAL STUDY/SPEZIALE STUDIE**

**THE ECONOMIC IMPLICATIONS  
OF DISINVESTMENT  
FOR SOUTH AFRICA**

**Carolyn M Jenkins  
1986**

**THE SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS**



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**It should be noted that any opinions expressed in this article are the responsibility of the author and not of the Institute.**

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## P R E F A C E

This study attempts to deal with an aspect of the disinvestment debate about which there has been much discussion and speculation, but, as yet, little research: the economic implications of investment sanctions for South Africa. This paper is an abridged version of a thesis submitted for the degree of Master of Arts in the Department of Economics at the University of Natal. The full thesis is to be published by the Economic Research Unit of the University of Natal (Durban).

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# C O N T E N T S

	PAGE
PREFACE	ii
LIST OF TABLES	v
1. THE DISINVESTMENT CAMPAIGN	1
Definition of Terms	3
Programmes of Disinvestment and the Mechanics of Withdrawal	4
Historical Perspectives	7
Corporate Response	14
Black Worker Attitudes	16
Concluding Comment	17
2. THE CONTENT, COMPOSITION AND ROLE OF FOREIGN INVESTMENT IN SOUTH AFRICA	18
Types of Foreign Capital Flows	18
The Need for Foreign Investment	19
South Africa's Net International Indebtedness	22
Foreign Investment in South Africa	23
Foreign Investment and the Imbalance Between Domestic Savings and Domestic Investment	25
Foreign Investment and the Deficit on the Current Account of the Balance of Payments	32
Foreign Investment and the Gap Between Domestic Income and Expenditure	37
The Changing Composition of Foreign Investment	38
The Distribution of Foreign Investment by Country of Origin	40
The Distribution of Foreign Investment by Sector	42
Remedies for Disruptive Capital Flows	44
Summary of the Main Findings	45
3. FOREIGN DIRECT INVESTMENT	48
The Structure of FDI in South Africa	49
The Impact of Private Direct Investment on the South African Economy	53
Resource Transfer Effects	54
The Provision of Capital	54
The Provision of Technology and New Products	57
The Provision of Entrepreneurial and Management Skills	59
Employment Effects and Labour Relations	61
Linkages into the Local Economy	66
Market Structure	68
National Autonomy	69
Summary of the Main Findings	71

	PAGE
4. DISINVESTMENT	73
Implications of a Reduction in Capital Flows	74
Implications for the GDP	74
Implications for Employment	76
Implications for Resource Transfers to South Africa	78
Implications for the Distribution of Income	80
Implications for the Balance of Payments	81
Implications for the Current Debt Crisis	83
Summary of the Main Findings	85
5. CONCLUSION	87
NOTES	94

## LIST OF TABLES

Table 2.1	South Africa's Net International Indebtedness 1956-1983	24
Table 2.2	Gross Domestic Savings and Investment in Relation to Each Other and Expressed as Percentages of the Gross Domestic Product, 1947-1984	26
Table 2.3	Self-Financing Ability of the Public Authorities, 1963-1984	28
Table 2.4	Average Savings Trends in the Private Sector, 1960-1984	30
Table 2.5	Distribution of Foreign Liabilities by Type of Institution as at Selected Year-ends, 1956-1983	31
Table 2.6	Historical Course of the Current Account of the Balance of Payments, 1962-1984	33
Table 2.7	South Africa's Need for Foreign Capital, as Reflected in the Balance on the Current Account of the Balance of Payments, 1962-1984	35
Table 2.8	Sectoral Distribution of South Africa's Long-term Foreign Liabilities related to the Fixed Capital Stock for 1980	43
Table 3.1	Foreign-controlled Manufacturing in South Africa by Country of Origin, 1978	50
Table 3.2	Indigenous and Foreign Control of South African Manufacturing, by Industry Group	52
Table 3.3	Financing of Foreign-Controlled Firms in the South African Economy, 1957-1983	56



## 1. THE DISINVESTMENT CAMPAIGN

Pressure in many forms is being applied to South Africa by most of the nations of the world with a view to changing the system of apartheid (separation of the races) which still dominates the country's political, economic and social structures. Some measures adopted, such as sports or cultural boycotts, have as their goal a change in certain aspects of apartheid; others, such as economic sanctions, aim to precipitate a change in the entire South African system.

Although South Africa is certainly not the only country in the world where violation of human rights is carried out on a large scale, there are several factors contributing to the concentration of attention focused on this country. Firstly, South Africa's extensive economic and political ties with the West have made its racial policies the object of greater Western scrutiny and criticism than might otherwise have been encountered. Its substantial white population, which is responsible for the propagation of apartheid, is a source of embarrassment to the West. In addition, there are repeated calls from the rest of Africa for the liberation of the country's black population.

Short of war, economic sanctions are favoured as one of the most effective means of bringing pressure to bear on the South African government. The present campaign to encourage or coerce foreign companies to disinvest from South Africa is one form of economic sanction.

The debate that has raged over foreign investment in South Africa centres around the question of whether the presence of foreign capital maintains apartheid, or leads to a more just society. Opponents of foreign investment in South Africa say that such involvement gives a moral legitimacy to the white

minority regime, and that it creates vested foreign interests in the stability of the current political system. They argue that the withdrawal of investment and the increased isolation of South Africa would place pressures on the economy that could force the government to abandon the discriminatory system and work out a system which more truly reflects the interests of all South Africans. On the other hand, those who support continued business involvement say that they too oppose apartheid, but that a more just society will better be achieved if foreign companies use their influence to promote reforms both within and outside the workplace. They argue that the withdrawal of foreign investment will only serve to worsen the plight of Blacks in South Africa, both by increasing unemployment and by strengthening reactionary tendencies among Whites in this country.

It is not always clear from the arguments of both sides just how the means that are advocated will obtain the desired objective, or just how the withdrawal of foreign corporate involvement will exacerbate or ultimately improve the situation. In reality, there is much uncertainty with regard to the effects of disinvestment, a factor which has not prevented the growth of a serious commitment to the goals and philosophy of the campaign.

The purpose of this study is not to speculate about the effects of disinvestment on South African politics, or on the ethics of foreign involvement in this country, but rather to clear away, by the use of economic analysis, some of the uncertainty as to the implications of investment sanctions for the economy, and to assess the importance to South Africa of foreign capital flows. Interpretation of the complex economic issues is hindered by the fragmentary nature of the available data, the lack of a general equilibrium model with which to investigate the relationships between different aspects of the South African economy, and the lack of a unified body of theory which explores the consequences of changing capital flows on receiving economies.

At present the South African economy exhibits a pronounced dualism, with marked racial and spatial inequalities in the distribution of income: the population of the subsistence sector being predominantly Black and suffering widespread poverty. This study considers the probable consequences of disinvestment for the economy as a whole, and especially for the growth rate of incomes and employment, without attempting to trace out explicitly their regional and sectoral impacts. The important issue of the implications of disinvestment from South Africa on the neighbouring "frontline" states is also not considered.

This chapter sets a background to the study by providing a review of the various programmes of disinvestment that have been proposed, the history of the disinvestment campaign, the response to this campaign of foreign firms involved in the South African economy, and black worker attitudes to the disinvestment debate. It also examines some of the prevailing views as to the implications of disinvestment for the South African economy.

In the following chapters, an attempt will be made to analyse the possible economic impact of the withdrawal or limitation of foreign investment, both direct and indirect, on the South African economy. Chapter Two discusses the composition, necessity and impacts of foreign investment and its importance for the growth of national income in South Africa. In Chapter Three the significance of multinational enterprise for the South African economy is considered. An analysis of the likely implications for the economy of the withdrawal or limitation of foreign capital will be undertaken in Chapter Four. The final chapter contains the conclusions of the study.

#### Definition of Terms

One problem that arises immediately is the looseness with which the terms 'disinvestment' and 'divestment' are used when

discussing the issue of foreign corporate withdrawal. The words tend to be used interchangeably.

'Disinvestment,' however, refers to the act of withdrawing funds that have previously been invested, or preventing an inflow of new investment. Within the context of the debate, "disinvestment" means the restriction or withdrawal of investment funds from South Africa by foreign firms or banks.

'Divestment' on the other hand applies to the procedure of ridding oneself of something, including certain stocks in a portfolio. In the context of the disinvestment campaign, 'divestment' refers to the sale, by foreign shareholders, of shares in foreign firms doing business in or with South Africa, in an attempt to coerce these firms to withdraw from South Africa. The ultimate aim of divestiture (divestment) is disinvestment from South Africa, and its effects are felt only indirectly by this country.

The drive for disinvestment is therefore taking the form of two distinct, but related campaigns : the disinvestment campaign, which is taking place to a lesser or greater extent in all countries that do business in South Africa (although the main forum of debate is, without doubt, located in the United States); and the divestment campaign, which is occurring almost exclusively in the US.

#### Programmes of Disinvestment and the Mechanics of Withdrawal

The advocates of disinvestment do not all agree as to who should withdraw from South Africa, or as to how and when withdrawal should occur. There are, broadly speaking, two groups of protagonists of the disinvestment cause:

- (i) those, like many of the disinvestment lobby groups in the US, who base their case on moral arguments and advocate withdrawal on the assumption that doing business

with and in South Africa underpins apartheid, while disengagement provides moral support for its opponents and could even exert sufficient pressure on the government to bring about change; and

- (ii) those more radical elements, like the United Nations Centre Against Apartheid, who argue that foreign withdrawal will hasten Black/White confrontation and revolution in South Africa.

The latter group advocates the complete and immediate withdrawal of all foreign investment and loans from South Africa, and include in the principle of disinvestment the prohibition of the purchase of gold Krugerrand coins and broader economic sanctions against South Africa.

The former group is divided as to which firms should be pressured to disinvest. Some advocate the withdrawal of all foreign investment from South Africa. Others believe that pressure ought to be applied to those companies with operations in South Africa that have not signed a code of conduct, as, for example, the Sullivan Principles (1), have not acted in a 'socially responsible' way, or that are engaged in some business which may be regarded as inherently objectionable (2). Still others say that disinvestment should be undertaken by those firms which have dealings with the government or government-controlled corporations in South Africa, while foreign investment in the private sector should be encouraged, so as to maximise the influence of foreign firms in the workplace.

Differences also exist as to what 'disinvestment' entails, although one of three possible programmes is usually advocated :

- (i) the limiting of new investment;
- (ii) the pegging of new investment (or disinvestment) to political change in South Africa- this usually takes the form of a proposal that disinvestment be carried out if significant change does not occur within a given period of time, say two years, or that no new investment

be undertaken until such time as change has occurred; or  
(iii) the immediate withdrawal of existing investment.

In the debate over withdrawal, it is not always clear as to how corporate disinvestment from South Africa might be accomplished. It is obviously not possible for companies simply to remove their subsidiary operations from the country. Several courses of action are available to a company deciding to withdraw a subsidiary or branch operation from South Africa :

- (i) the company can sell its South Africa interests to another foreign investor in return for non-South African cash or equities;
- (ii) it can sell its assets to a South African investor and repatriate abroad the sales proceeds, received in the form of local currency, subject at present to the prevailing rate of exchange in the financial rand market; or
- (iii) it can scale down its investments, repatriating abroad all profits through the present commercial rand market and repairing rather than replacing old machinery, until its assets are so small that they can be abandoned and written off.

While the sale of foreign-owned assets in South Africa to another foreign company may be conducted freely without intervention by the South African government, the risks and costs to foreign investors associated with the sale of their holdings to South Africans are high due to the present restrictions on outflows of foreign capital resulting from exchange-control regulations (3). A further deterrent at present to selling assets to local investors is the unfavourable rate of exchange.

The costs of withdrawing from South Africa vary from company to company. For a small sales-and-service operation, for example, withdrawal would involve the cancellation of outstanding contracts and the sale of inventory, whereas for a larger manufacturing company, withdrawal would mean the sale of

extensive fixed capital assets and the repatriation abroad of large sums.

At present, foreign firms operating in South Africa find themselves faced with an economic and moral dilemma. At home and abroad they are faced with attacks for supporting apartheid and the threat of divestment, yet they are mindful of the, in some cases, substantial profits that can be made in South Africa, as well as the costs of withdrawal. These costs could be large if a company is forced to sell its South African holdings at an inopportune time. If all U.S. companies, for example, were required to sell simultaneously, it is probable that the price offered for most subsidiaries would be well below their value to the parent companies. On the other hand, the cost of remaining in South Africa could be significant, bearing in mind the civil unrest and political uncertainty, as well as the threat by some African countries that continued operation in South Africa could jeopardise investment opportunities in the rest of Africa.

The costs of the cessation of indirect foreign investment in South Africa are likely to fall almost exclusively on the economy, rather than on overseas investors, who will find other markets for their loans. Even if South Africa is not completely excluded from international financial markets, a successful campaign against bank loans to this country will make credit shorter and harder to raise.

### Historical Perspectives

Demands for the severance of economic links between South Africa and the rest of the world were first made in the early 1960s by Albert Luthuli, then President of the African National Congress (ANC) and Nobel Peace Prize winner in 1964. Economic sanctions were seen as a key pressure strategy by the ANC and Pan Africanist Congress (PAC), which had started setting up external missions in Africa, North America and Europe after the

Sharpeville riots in 1960.

The first major move against South Africa by a foreign power was undertaken in 1962, when the Kennedy Administration unilaterally banned the supply to South Africa of arms that could be used in 'enforcing apartheid'. The following year the United Nations Security Council called on member states to impose, voluntarily, an arms embargo against South Africa.

Calls for disinvestment began in 1965 when political activists began pressurising United States companies with subsidiaries in South Africa to withdraw their interests from this country. Church organisations were particularly vocal in urging shareholders to raise the South African issue at shareholders' meetings. The Interfaith Center for Corporate Responsibility (ICCR) played an important role in encouraging sympathetic parties to buy stocks in corporations, which then put them in a position to influence corporate policy, and to propose shareholders' resolutions calling for policy changes in and towards South Africa. Almost nothing was achieved in terms of disinvestment resolutions. For the first ten years the campaign received scant attention or support, and activists had very little success in pressurising firms to withdraw. They did, however, succeed in encouraging governments to investigate labour practices in South Africa. In 1973 the US State Department issued a report on the labour practices of American subsidiaries in South Africa, and, in the same year, Britain held parliamentary hearings into the performance of British companies in South Africa. In 1974 the British Government drew up a Code of Conduct aimed at ensuring certain social and economic rights for workers in British companies operating in this country.

Until the mid-1970s the disinvestment campaign was used as a means of educating the foreign public as to conditions in this country. Economic linkages between the West and South Africa were stressed, and the situation in this country was brought regularly to the attention of company shareholders with a view to



African subsidiaries. Even sympathisers with the disinvestment lobby were sceptical of its power to succeed.

An important shift occurred, however, in the mid-1970s. The Vietnam War which had occupied American minds and media, came to an end. It was replaced as a focus of interest to a certain extent by the civil war in Angola and the debate over American involvement in the liberation struggle in Southern Africa. Then, in 1976, the riots and scholar demonstrations in Soweto brought the South African issue forcibly to the attention of the West. This marked the beginning of a period in which foreign perceptions of this country changed markedly. The harshness of the reaction of the South African government to the situation caused many people to question seriously whether foreign companies in this country could be a progressive force for change. Calls for companies to withdraw their investments from South Africa mounted and the disinvestment campaign gained considerable publicity. In the US, church groups, politicians, students, trade unionists and private individuals renewed efforts to persuade companies to sell their South African subsidiaries and to persuade banks to halt further loans to this country. There was considerable activity on university campuses, with students demonstrating in favour of the divestment of university funds from companies doing business here.

Activists, however, had no success in persuading Congress to apply economic pressures to South Africa. This led to a change in tactics in the late 1970s. Firstly, attention was shifted from Congress to state and city legislatures, which were encouraged to consider divestment legislation. Disinvestment lobbyists found a far more favourable response from state legislators, who are more inclined than members of Congress to see foreign policy issues in moral rather than pragmatic terms. Secondly, activists began to approach large pension funds, proposing that they divest from companies with South African links.

Though limited success was achieved in these areas, even at this stage the disinvestment lobby was not a large movement. It also suffered severely from a lack of coordination, being made up of numerous small interest groups and private individuals.

Certain significant counter-proposals to disinvestment were made. In 1977 the Reverend Leon Sullivan, a Black civil rights campaigner and a director of General Motors, drew up a Code of Conduct to which American companies were asked to adhere if they retained their South African operations. Although the Sullivan Principles have no binding effect in law, many shareholders require that companies submit annual reports on their implementation of the Code for review at shareholders' meetings. The Code, in fact, permits extraordinary outside involvement in the internal decision-making of US corporations. It requires firms to promote the training and advancement of Blacks, to improve wages and fringe benefits, to provide common facilities for all staff, to recognise black trade unions, and to assist black community development. Opinion is divided as to the effectiveness of the Sullivan Principles, some seeing them as little more than a camouflage for exploitation, others believing that they are a force for progressive change in South Africa.

At the turn of the decade, the activism generated by the Soweto riots had lost much of its heat, although major new participants in the campaign were attracted, and they worked hard to hold the attention of legislators, institutional investors and company shareholders and to discourage any significant retreat from gains made in the mid-1970s. The debate has become institutionalised to a large extent, with universities and churches, as well as insurance companies and public employee pension funds, engaged in promoting and practising divestment. Numerous organisations have been formed to coordinate the programmes and funds of various interest groups, and to inform the public of conditions within South Africa and advances made in the disinvestment campaign.

Since 1983 there has been a dramatic revival in anti-apartheid enthusiasm, and calls for disinvestment have multiplied, particularly in the US. Events both within America and in South Africa have been responsible for this. In the US the policy of constructive engagement introduced by the Reagan Administration in the early 1980s has, in the eyes of the disinvestment lobby, not vindicated itself. It is believed by some that no major resolutions to the problems in Southern Africa have been achieved. In addition, the presidential nomination campaign of the Reverend Jesse Jackson served to mobilise Black American voters as never before, and one of the key issues in his campaign was the South African problem. The Black Caucus in the US has now come out strongly in favour of complete withdrawal from South Africa.

Detentions and shootings of civilians by police in South Africa have intensified anti-apartheid sentiments overseas. Of particular importance was the detention of trade union leaders, which mobilised against South Africa national trade union organisations like the AFL-CIO. In addition, the awarding of the Nobel Peace prize to Bishop Tutu and the daily demonstrations outside the South African embassy in Washington, D.C. have given further media coverage to the South African issue.

Action against South Africa and corporations doing business in South Africa seems to be continually under consideration in the US. By May 1985 more than thirty pieces of legislation limiting American investment in South Africa had been laid before the Senate and the House of Representatives. Congressional action on the disinvestment issue was pre-empted early in September 1985 by the US President, who introduced limited sanctions measures against this country. These measures include the prohibition of bank loans to South Africa, the banning of sales of computer technology to the South African state, and the banning of sales of Krugerrands in the US. More than one-half of the states in the US have considered legislation aimed at making

it compulsory for state pension funds and universities to divest totally from companies or banks doing business in, or making loans to this country. Municipal legislatures are considering similar action and divestment has already been undertaken by several cities, notably New York.

In countries other than the US, disinvestment is also being considered. Canada has joined the condemnation of South Africa following the raid of the South African Defence Force on Gaborone in June 1985. The new Canadian policy towards this country was outlined by the External Affairs Secretary in July 1985 (4), and includes the termination of a number of official measures which lend support to trade with and investment in South Africa; enforcement of the voluntary Code of Conduct concerning the Employment Practices of Canadian Companies Operating in South Africa; more widespread restriction of exports of sensitive equipment such as computers to the police and armed forces; and official discouragement of the sale of Krugerrands in Canada.

Japan has passed legislation prohibiting direct investment by Japanese firms in South Africa, and has avoided cultural and sporting links with this country as an expression of strong opposition to apartheid policies (5). A number of Japanese companies have circumvented the anti-investment legislation by granting franchise licences to South African-owned companies.

At the end of July 1985, the French premier announced the suspension of all new investment in South Africa with immediate effect in protest over the imposition of a state of emergency (6). He also said that France would table a United Nations Security Council resolution condemning South Africa's apartheid policy and calling for concerted international action against this country. While the French Chamber of Commerce and Industries stated that it is unlikely that there would be any practical implementation of the freeze (7), the announcement has caused concern among other major Western allies like Britain and West Germany.

West Germany has stated clearly that it does not agree with sanctions or boycotts (8), and that although there is considerable pressure from opposition groups within the country to implement some form of economic sanctions against South Africa (9), it would continue to use its influence to achieve a peaceful solution in this country.

Britain has rejected economic sanctions as an effective measure to encourage change in South Africa and has indirectly criticised France for breaking rank with her European partners (10). British spokesmen have consistently reiterated Britain's opposition to sanctions, and it must be borne in mind that if sanctions are going to have a significant impact on this country, they will have to be backed by Britain (11) which has significant investments in South Africa. The findings of the Commonwealth inquiry group established in 1985 will no doubt influence significantly official British policy towards disinvestment from South Africa.

Scandinavian countries have reacted to the state of emergency in South Africa by recalling their ambassadors and cancelling air traffic with this country. In 1979 legislation was passed in Sweden which prohibited new investment in South Africa and banned the export of capital to this country. In 1986 Denmark followed suit, making illegal new investment in and imposing trade sanctions on South Africa.

In Helsinki at the end of July 1985 it was agreed that all the remaining EEC ambassadors in Pretoria would be summoned home to advise on pressures that could be applied to South Africa in an effort to encourage change in her domestic policies (12).

There appears to be considerable pressure in Europe for companies to limit their involvement with the South African government. It seems that these countries will follow the lead given to them when either the United Nations or, more

particularly, the United States makes a definitive stand on the disinvestment issue.

### Corporate Response

Over 2 000 foreign companies are said to have investments in South Africa (13). About 1200 of those are British firms with £11 000 million worth of investments made up of about £5 000 million of direct and £6 000 million of indirect investments (14). There are over 300 US companies operating in South Africa with about \$2,5 billion invested in this country (15). These companies have played an important role in the overall development of the South African economy and have therefore been accused by disinvestment groups of being agents for the perpetuation of the status quo in this country. The corporations and banks, on the other hand, have argued that foreign investment should be maintained, since economic growth and progressive employment practices could lead to change in South Africa.

Faced with the pressures of the disinvestment campaign and uncertainty in South Africa as a result of recession, labour unrest and political upheaval, several companies have disinvested. Polaroid was the first to go, soon after the Soweto riots, when it came under fire for supplying equipment to the government for passbook photographs. In 1983, Chrysler Corporation sold its stake in South Africa's Sigma Motor Corporation and its 25 per cent interest in Anglo-American Corporation (16). In the same year, Associated British Foods (ABF) sold its R337-million, 52 per cent stake in Premier and withdrew all of the money from South Africa (17). Metal Box sold out R150-million worth of investments to Nampak (18). The greatest shock to the US business community came when the largest US manufacturer in South Africa and the second largest US employer in this country, Ford, announced on 30 January 1985 that it was merging its motor business with Anglo-American Corporation (19). In the same year the largest US employer, Coca-Cola,

announced its decision to sell its controlling interest in Coca-Cola Export Corporation to S A Breweries for \$36 million (20). In every transaction, the companies involved have insisted that they were influenced by economic rather than political factors. However, in the face of the growing protest at home, one must conclude that though politics was not necessarily the primary cause for disinvestment, it almost certainly played a part.

The response to the disinvestment campaign of most foreign companies, however, has been a reiteration of their determination to remain in South Africa. In 1985 for example :

- + Citibank extended its global telecommunications network to Port Elizabeth, putting an end to rumours that it is scaling down its South African operations (21);
- + Memorex, a US computer company, decided to expand its operations in South Africa with a view to using this country as a base to penetrate the markets of other African countries (22);
- + Teneco, a large US oil corporation, decided to invest a further R24 million in South Africa over the next two years in an attempt to capture more of the agricultural equipment market after taking over the agricultural division of International Harvester in March 1985 (23);
- + The management of many leading US multinationals made press statements to the effect that they have no intention of withdrawing their South African investments (24).

The one concession to pressure that has been made by many of these firms has been the agreement to comply with the Sullivan Principles. About 125 of the just over 300 US firms operating in South Africa have signed the Sullivan Code. Others have agreed not to sell strategic equipment or computers to the South African government.

These concessions do not satisfy the critics of foreign corporate investment in South Africa who argue that the trickle down benefits of economic growth to Blacks are either limited or

not forthcoming. Disinvestment lobbyists fear that companies may in fact exploit the South African system which provides them with cheap black labour in order to earn excessive profits. Those who favour continued investment would reply that disinvestment would have little impact on the system of apartheid, while foreign involvement in the workplace in South Africa and the implementation of progressive labour practices can serve as a catalyst for social change. They also argue that the withdrawal of foreign firms from South Africa would aggravate black unemployment.

### Black Worker Attitudes

One of the recurrent themes in the disinvestment debate is the apparent concern for the attitudes of South African Blacks towards the issue of economic disengagement. Protagonists of both the disinvestment and continued-foreign-investment arguments have cited Black leaders of similar persuasion in order to gain public sympathy (25). Little serious academic work has been done in attempting to discover majority Black opinion in South Africa. The most important attempt is the report based on a questionnaire survey conducted by Lawrence Schlemmer and published in September 1984 (26). This survey found that 75 per cent of Black male production workers were opposed to disinvestment, a finding which has received wide publicity in South Africa and overseas, and has become a significant argument in favour of continued foreign involvement in the South African economy.

Schlemmer's report has recently been criticised on methodological grounds by two South Africa academics, Sutcliffe and Wellings (27) and by a New York correspondent (28). It has also been contradicted by the two largest South African union federations, the Council of Unions of South Africa (CUSA) and the Federation of South African Trade Unions (FOSATU). Interestingly, the findings of a survey conducted by Markinor in August 1985 (29) show diametrically opposite results to those of



Schlemmer, with 77 per cent of Blacks coming out in favour of disinvestment. While this survey is not necessarily any more authoritative or conclusive than that conducted by Professor Schlemmer, the contradiction reveals at least that Black opinion is difficult to ascertain or that it is shifting.

#### Concluding Comment

The disinvestment debate is charged with emotional overtones, particularly as to its implications for the economic and social welfare of all South Africans. The pressing and related problems of unemployment and underemployment, income inequality and poverty are raised, as well as the repercussions of disinvestment for the general stability of the economic system. This study concentrates on the ramifications of investment sanctions for the economy as a whole, although the consequences for employment and the distribution of income are also inferred.

## 2. THE CONTENT, COMPOSITION AND ROLE OF FOREIGN INVESTMENT IN SOUTH AFRICA

The literature dealing with foreign investment does not consist in a unified body of theory dealing with the determinants and effects of foreign capital flows, although relevant material may be drawn from a number of diverse areas of economic theory.

This chapter examines the aggregated effects of both direct and indirect foreign investment, and the importance of foreign capital flows to the South African economy.

### Types of Foreign Capital Flows

A distinction was made in Chapter One between direct and indirect investment. Direct investment occurs when the investor acquires an ownership claim that involves control of the asset (1). Typically, but not exclusively, this happens when a multinational corporation transfers funds in order to finance the establishment or expansion of a foreign subsidiary. The motivation to initiate what is usually, but not always, a long-term flow of capital arises from a decision to exploit an investment opportunity. This is related to long-term expectations, rather than to short-term fluctuations in the rate of interest or the rate of exchange. Indirect investment may take the form of loans, or of equity investment involving the acquisition of shares in a (foreign) firm without gaining effective control. Foreign borrowing (loans), which may be long-term (over five years), medium-term (one to five years) or short-term (under one year), is determined by changes in interest rates (higher rates of interest attracting inflows of foreign capital) and in exchange rates (devaluation usually leading to outflows of foreign capital) (2).

Other forms of capital flows include the extension and reception of export and import credits, which depend mainly on trade volumes, especially of capital goods, and amortisation, which is largely determined by the pattern of past capital movements (3). These, together with investment flows and the change in net gold and foreign exchange reserves, are reflected on the capital account of the balance of payments. In order to examine the impact of foreign capital flows on the receiving country, aggregated inflows and outflows will be considered, although where necessary, a distinction will be made between direct and indirect investment.

### The Need for Foreign Investment

In an open economy, gross domestic product and gross domestic expenditure may diverge. Capital flows are a major factor in explaining this divergence. An economy's level of expenditure cannot exceed its income without an inflow of foreign capital or a reduction in its stock of foreign reserves. The balance on the current account of the balance of payments is also an indication of the economy's ability to finance its capital requirements from domestic savings, i.e., an excess of investment over domestic savings indicates a real resource gap which is filled by an excess of imports over exports. Foreign debt, which allows the financing of the current account deficit, is the financial counterpart to the real resource transfer (4). While the savings gap persists, it is necessary to increase a country's net international indebtedness if economic growth is to occur. Debt repayments are made possible when an excess of savings over domestic investment plus interest payments is converted into a surplus of exports over imports (5).

Although at a given rate of exchange the savings gap is equal to the current account deficit ex post within an accounting period, ex ante they may differ. If the savings gap is initially larger, desired investment will not be realised and output will

be constrained. If there is a shortage of foreign exchange which is greater than the excess of desired investment over domestic savings, it will be necessary in the presence of fixed exchange rates to restrict expenditure so that imports fall, and output will again be constrained. Through adjustments in investment and imports, the two gaps are equated ex post. To attain a target rate of economic growth, both investment and imports requirements must be fulfilled. The required inflow of foreign capital to meet these requirements is determined by the larger of the two gaps.

Several alternative strategies exist for eliminating a divergence between domestic income and absorption. Central planning is one method. The attraction of foreign aid or foreign investment is a second. Another school of thought would advocate the resolution of the problem by exchange rate adjustment, which is aimed at regulating the supply and demand of foreign exchange, together with internal free markets so as to adjust domestic prices. The success of this approach depends on the relative elasticities of the demand for and supply of imports and exports, which must be such that devaluation causes expenditure switching to the point where the trade balance improves. A further approach emphasises the need to control the level of absorption in the economy using monetary and fiscal policy. Monetary and fiscal measures might also be applied to encourage changes in the rates of saving and investment. It has been suggested that as a country develops, its need for external capital is reduced, and an increasing proportion of its investment requirements can be financed from domestic savings (6). This possibility is not pursued, since South Africa cannot be said to be even approaching this position.

Inflows of foreign loan capital to relieve the constraints on increasing output may result in rising international indebtedness, which is exacerbated by a growing interest burden. If capital inflows are such that they enable a country to meet interest and amortisation payments on foreign liabilities as well

as to maintain imports at the desired level, there is no immediate debt servicing problem. However, it is widely believed (7) that sooner or later amortisation and interest payments approach and then exceed the flow of new investment. In order to service the debt, the country will have to generate an export surplus equal to its net outward transfer of interest on the current account and amortisation on the capital account of its balance of payments (8). The ratio of interest and amortisation to export earnings (the debt service ratio) is often used as a superficial attempt to assess the creditworthiness of a debtor country. This, however, has proved to be a poor predictor of default or debt rescheduling (9), and the risk attached to lending to any country should be assessed in terms of the import demand, attractiveness to foreign investors, ability to roll over maturing debt and level of foreign reserves of the country concerned.

The indirect costs associated with foreign borrowing may also cause problems for a deficit country. These arise when attempts are made to generate an export surplus by expanding exports or compressing imports through appropriate expenditure-reducing or expenditure-switching policies, and may, in fact, place a far greater burden on the economy than the problems caused by debt servicing or loan repayments (10). These costs need also to be taken into account when a country allows its net international indebtedness as a percentage of its gross domestic product to rise.

While direct investment is not associated with the necessity for repayment, it may give rise to balance of payments difficulties. An inflow of foreign capital for direct investment purposes may be a once-and-for-all flow. It can give rise, however, to continual outflows of funds in the forms of dividends and profits, which will cause a deficit on the current account of the balance of payments. Unless further capital inflows are forthcoming, the foreign exchange gap is widened.

### South Africa's Net International Indebtedness.

Until the discovery of diamonds and gold in the latter half of the nineteenth century, South Africa was a typically underdeveloped country dependent on agriculture, with limited prospects for economic development. The exploitation of the mineral resources proved to be the catalyst for development, particularly through the attraction of large amounts of foreign capital for investment in the new mining industry. The total amount of foreign capital invested in the diamond industry probably did not exceed £20 million (11). Apart from the original capital invested, all capital expenditure was provided for out of profits. The gold mining industry, however, attracted major injections of foreign capital. Frankel has estimated that over the period 1887 to 1932, three-fifths of the approximately £200 million of capital invested were supplied by foreign investors (12). This sum accounted for nearly one-half of the private listed capital from abroad in South Africa over the period. If one takes into account the railway network, other public works and the wide range of subsidiary enterprises serving the mining centres, one can regard at least half of the total foreign capital which entered the country before 1932 as being the result of the exploitation of its mineral wealth (13). Between 1870 and 1936 Britain alone directed over £523 million towards investment in South Africa, an amount corresponding to 56 per cent of its total investment abroad during this period (14).

These capital inflows and the subsequent foreign investment in other sectors of the economy resulted in a continuous increase in South Africa's net international indebtedness, i.e., the difference between its foreign liabilities and foreign assets.

After the Second World War, foreign capital again played an important part in contributing to South Africa's total capital formation by supplying an estimated \$1 400 million (of which two-thirds came from Britain alone) during the period 1946 to 1955

(15). From the end of 1956, when comprehensive data first became available, the country's net international indebtedness increased steadily at an average annual rate of about ten per cent from R2 067 million to R28 376 million at the end of 1983 (16).

Table 2.1 shows the magnitude of South Africa's net international indebtedness over this period. Decreases in indebtedness occurred predominantly in two periods. The decline in the period 1961-1963 resulted from the withdrawal of foreign capital following the Sharpeville uprising in 1960, and that in 1977-80 was a consequence firstly of the political disturbances in 1976 and subsequently of large surpluses on the current account of the balance of payments which enabled repayments on foreign loans (17). The absolute value of net international indebtedness increased over the period, although sharp fluctuations occurred from year to year usually responding to changes in the rate of growth, in the overall balance of payments position and in the internal political situation. As a ratio of gross national product, South Africa's net international indebtedness declined from over 50 per cent in 1958 to 35 per cent in 1964, increasing again to 50,9 per cent in 1976, and declining to 33,2 per cent at the end of 1983, averaging just over 41 per cent over the entire 28 year period.

#### Foreign Investment in South Africa

It has been argued above that the historical importance of foreign capital flows to economic growth can be analysed in terms of the relationships of savings, investment, imports and exports to the gross domestic product. In the following sub-sections, the contribution of foreign investment to filling the gap between domestic savings and domestic investment and the relationship between foreign investment and the balance of payments deficit are examined.

Table 2.1

South Africa's Net International Indebtedness 1956 - 1983

	Rm (excluding gold reserves)	Real Annual Percentage Growth	Percentage of GNP
1956	2 067	-	50,4
1957	2 194	3,8	50,4
1958	2 349	5,6	52,4
1959	2 306	-7,4	48,5
1960	2 426	6,9	47,9
1961	2 327	-4,7	43,7
1962	2 264	-4,1	39,6
1963	2 297	-2,6	35,9
1964	2 461	3,7	35,0
1965	2 729	6,7	35,6
1966	3 039	6,3	36,4
1967	3 224	2,9	34,4
1968	3 910	18,3	38,7
1969	4 350	4,6	38,4
1970	5 136	12,2	41,4
1971	6 343	18,7	46,2
1972	6 953	0,5	44,8
1973	7 566	-3,4	39,4
1974	9 407	11,7	39,9
1975	12 121	14,2	46,2
1976	15 087	10,9	50,9
1977	16 302	-4,0	49,8
1978	16 896	-6,4	44,4
1979	16 119	-15,8	35,3
1980	16 992	-10,3	28,7
1981	22 224	16,0	33,0
1982	24 484	-6,3	32,1
1983	28 376	1,8	33,2

Sources : "Statistical Presentation of South Africa's Foreign Liabilities and Assets, 1956 to 1981"  
Supplement to SA Reserve Bank Quarterly Bulletin, June 1983; SA Reserve Bank Quarterly  
Bulletin, June 1985.



Foreign Investment and the Imbalance Between Domestic Savings and Domestic Investment (18)

Table 2.2 shows the relationships of gross domestic savings and gross domestic expenditure to each other and to the GDP. In the period 1947-57, which may be regarded as a period of high growth, the propensity to save (S/Y) was fairly low relative to the high demands made for the expansion and improvement of the economic and social infrastructure which followed World War II. During this period, 27 per cent of the real gross domestic investment required to maintain the average growth rate of real GDP of 5,3 per cent was financed from foreign capital and reserves. During the following two periods, 1958-61, which was a period of low growth, and 1962-69, a high growth phase, real gross domestic saving was nearly sufficient to finance the average growth rates of real GDP of 3,5 per cent and 6,1 per cent respectively.

During the 1970s, however, the situation changed considerably, and South Africa again found herself reliant on foreign capital and reserves to finance about 16,3 per cent of the real gross domestic investment between 1970 and 1977, even though the average growth rate of real GDP had fallen to 3,8 per cent per annum. Since the beginning of 1978, the economy has, on average, grown at a rate of 2,3 per cent per annum, and domestic saving and domestic investment have again been almost equal, decreasing the dependence on net capital inflows.

The predominant cause of these fluctuations may be found in the propensities to save and invest. While in the first period the propensity to save was comparatively low, it remained relatively constant at around 22-23 per cent over the twenty year period from 1958 to 1977, rising substantially at the end of the 1970s, and falling again in the early 1980s. The propensity to invest, measured as the ratio of gross domestic fixed investment to the GDP, was high after World War II, declined to an average of 20,8 per cent in the period 1958-61 and then rose again,

Table 2.2

## Gross Domestic Savings and Investment in Relation to Each Other and Expressed as Percentages of the Gross Domestic Product, 1947 - 1984

	1947 - 57	1958 - 61	1962 - 69	1970 - 77	1978 - 84
Growth of GDP	5,3	3,5	6,1	3,8	2,3
Gross Domestic Savings as a percentage of Gross Domestic Investment	73,3	100,4	95,9	83,7	99,3
As a percentage of GDP					
(a) Gross Domestic Savings	17,9	21,9	23,2	22,9	29,0
(b) Gross Domestic Investment	24,4	21,8	24,2	27,3	30,0
(c) Fixed Investment by					
(i) Public Authorities	6,5	7,5	7,6	9,2	7,2
(ii) Public Corporations	1,7	1,5	2,1	4,0	5,8
(iii) Private Sector	14,4	11,8	12,1	13,4	15,2

Sources (1947 - 1977) : Economic Development Programme for the Republic of South Africa 1978-1987, p.17

(1978 - 1984) : SA Reserve Bank Quarterly Bulletin, June 1985, pp.S - 77, S - 95.

slowly in the 1960s and more rapidly in the 1970s and early 1980s as a result of an increasing tendency to higher levels of capital intensity.

In periods where the propensity to invest has risen more rapidly than the propensity to save, there have been persistent deficits on the current account of the balance of payments (discussed later) and the reliance of the economy on foreign investment has increased.

The imbalance between savings and investment which existed between 1963 and 1977, and which is emerging again in the 1980s, is attributable to some extent to trends in public- and private-sector expenditure and financing. The final expenditure of the public sector grew considerably more rapidly in the 1970s than that of the private sector, with the result that the public sector accounted directly for some 30 per cent of the country's domestic expenditure by 1977 (19). The ability of the public authorities to finance their own expenditure is shown in Table 2.3. During the 1960s, the public sector was in a relatively better position to finance its own requirements, without being excessively dependent on the availability of private sector funds or foreign capital. In the 1970s, however, the public authorities (i.e. excluding the public corporations) had to finance an increasing proportion of their capital expenditure from external funds. This situation reached its worst in 1977 when the public authorities could finance only 22,6 per cent of their own fixed investment from their own surpluses. The financing needs of the public corporations grew even more rapidly than those of the public authorities in the 1970s (20), placing further strain on the ability of the public sector to finance itself.

In preference to financing the growing expenditures of the public sector from increased taxes or from increased surpluses of the public corporations, the state resorted to borrowing. By entering the capital market, it began to compete with the private

Table 2.3

Self-Financing Ability of the Public Authorities,  
1963 - 1984, in Current Prices

	Fixed Investment (Rm)	Current Surpluses (Rm)	Current Surpluses as a percentage of Fixed Investment
1963	438	306	69,8
1965	699	296	42,3
1967	739	450	40,8
1970	1 038	467	45,0
1973	1 640	934	56,9
1975	2 649	814	30,7
1977	2 936	663	22,6
1978	2 791	1 037	37,2
1979	3 361	1 270	37,8
1980	3 909	2 669	68,3
1981	5 005	1 881	37,6
1982	5 853	279	21,0
1983	6 019	-858	-
1984	5 988	-2 102	-

Sources (1963 - 1978) : EDP p.71  
 (1979 - 1981) : "A Statistical Presentation of South Africa's National Accounts for the Period to 1980"  
 Supplement to SA Reserve Bank Quarterly Bulletin , September 1981, p.A - 71. SA Reserve  
 Bank Quarterly Bulletin, June 1985 pp.S - 89, S - 95.

sector for limited domestic funds, making it imperative to borrow abroad and thereby increasing the economy's dependence on foreign capital.

Additional pressures widening the gap between saving and investment arose in the private sector. In the private household sector, as is shown in Table 2.4, both the growth rate of personal disposable income and that of personal savings declined from 1960-1984, but the growth rate of personal savings fell considerably more rapidly with the result that the percentage of personal savings in the GDP fell from an average of 7,5 per cent per annum in 1960-69 to 3,7 per cent per annum in 1978-84. The decline in the propensity of private individuals to save made it necessary for increased investment expenditures in the economy to be financed from an alternative source.

The ability of the private business sector to finance its own capital expenditure remained relatively constant between 1960 and 1977, declining slightly from an average of 36,7 per cent in the period 1970-77 as shown in Table 2.4. Between 1978 and 1984, company savings as a percentage of gross fixed investment rose sharply to 56,5 per cent indicating an improved ability of the private business sector to finance its own capital formation. Between 1960 and 1984 the proportion of private company savings in the GDP rose from 8,4 per cent in the 1960s to 16 per cent in the period 1978-84. This offsets the declining propensity to save of private households. The savings trends of the private sector as a whole have in fact risen consistently from 1960 to 1984.

The major pressure on the gap between savings and investment may therefore be said to have originated in the public sector while the private sector as a whole has displayed an increasing ability to finance its investment demands. The implications of this for the country's dependence on foreign capital may be seen in the changing distribution of South Africa's foreign liabilities as shown in Table 2.5. Since 1956 the ratio of the

Table 2.4

## Average Savings Trends in the Private Sector, 1960 - 1984

	1960 - 69	1970 - 77	1978 - 84
Personal Savings as Percentage of GDP	7,5	7,4	3,7
Growth Rates Percentage per annum :			
of Personal Disposable Income	5,3	4,6	2,2
of Personal Savings	5,4	4,2	-15,0
Company Savings as Percentage of : GDP*	8,4	10,5	16,0
Gross Fixed Investment*	36,7	36,0	56,5
Private Household and Company Savings as Percentage of GDP	16,6	17,0	19,7

\* includes an allowance for depreciation.

Sources : "Statistical Presentation of South Africa's National Accounts for the Period 1946 to 1980".

Supplement to SA Reserve Bank Quarterly Bulletin, September 1981.

SA Reserve Bank Quarterly Bulletin, June 1985.

Table 2.5

Distribution of Foreign Liabilities by Type of Institution as at  
Selected Year-ends (%) 1956 - 1983

	Private Sector	Central Government and Banking Sector	Public Corporations and Local Authorities	Total Foreign Liabilities
1956	86,6	10,4	3,0	100,0
1961	84,2	13,7	2,1	100,0
1966	84,5	13,8	1,7	100,0
1971	80,1	13,5	6,4	100,0
1976	63,3	20,5	16,2	100,0
1981	68,2	17,8	14,0	100,0
1982	66,7	19,3	14,0	100,0
1983	63,7	22,6	13,7	100,0

Source (1956 - 1981) : V. d. Merwe, E. & M. Bester, "South Africa's foreign liabilities and assets, 1956 to 1981" in SA Reserve Bank Quarterly Bulletin, June 1983 p.28

(1982, 1983) : SA Reserve Bank Quarterly Bulletin, June 1985 pp.5 - 70, 8 - 71

foreign liabilities of the private sector to total foreign liabilities has declined with a marked downward trend emerging after 1971. By 1983 the private sector share had dropped to 63,7 per cent of the total. This decline has obviously coincided with a rapid increase in the shares of the central government and banking sector and the public corporations and local authorities sector in total foreign liabilities.

From the above discussion it may be concluded that the ability of the South African economy to finance its investment and therefore its growth from its own sources declined in the 1970s and improved again between 1978 and 1981, falling again from 1982. The propensity to invest of the economy increased (on average) while the propensity to save has fluctuated, falling in the early 1970s and rising again after 1978, until exchange rate pressures caused it to fall again.

A growing proportion of the share of the public sector in total foreign liabilities illustrates the increased dependence of the public sector on foreign loans and, in consequence, the increased vulnerability of the economy to disinvestment pressures.

#### Foreign Investment and the Deficit on the Current Account of the Balance of Payments (21)

Having discussed the savings gap in the South African economy, the historical trends on the current account of the balance of payments will now be considered. Between 1962 and 1984 the economy faced an almost continuous deficit on the current account with surplus usually limited to the years of recession. During the 1970s, however, the size of the deficit on the current account in relation to the general level of economic activity was considerably higher than it had been in the previous decade, rising from 1,1 per cent of GDP to 4,4 per cent as shown in Table 2.6. As a percentage of the GDP the deficit fell sharply to 0,2 per cent in the period 1978-84. The propensity to



Table 2.6

Historical Course of the Current Account of the  
Balance of Payments, 1962 - 1984

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	1962 - 1969	1970 - 1977	1978 - 1984
Deficit on the current account as a percentage of GDP	1,1	4,4	0,2
Imports of goods and non-factor services as percentage of GDP	21,0	23,0	33,3
Exports of goods and non-factor services as percentage of GDP	23,0	19,0	32,7

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Source (1962 - 1977) : EDP p.83

(1978 - 1984) : SA Reserve Bank Quarterly Bulletin, June 1985, pp.S - 63, S - 77

import increased from 21 per cent during the 1960s to 23 per cent in the 1970s, although the rate of growth of the economy was slower, reflecting the imbalance between domestic savings and investment. This trend continued to 1984, with imports rising to over 33 per cent of GDP. The rise in the share of exports in the GDP, however, helped to reduce the overall deficit as a percentage of GDP.

Imports of secondary products remain easily the main portion of the country's total imports, with an increasing percentage of these secondary imports being capital goods. Since it appears that the import component of gross domestic fixed investments has not risen significantly over the period (22), it can be inferred that the increase in capital goods imports in relation to total imports and the GDP in the 1970s is attributable to a large extent to the rapid expansion in investment itself, particularly in the development of infrastructure and export-oriented projects that occurred in the 1970s.

The more recent increase in South Africa's foreign debt burden has not been accompanied by any such increase in investment. In fact, real gross domestic fixed investment has declined consistently since the end of 1981 (23). Analysis of economic developments in the 1980s indicates that a large portion of the recent increase in foreign debt was used primarily to sustain private and public consumption levels in the economy (24), presumably as a result of pressures induced by the depreciating rate of exchange.

Foreign capital has played an important role in the financing of deficits on the current account. This is illustrated by Table 2.7. The deficit on the current account has been financed by net capital inflows, as well as by changes in SDR allocations and gross gold and foreign reserves. From the table it appears that South Africa's need for foreign capital increased in the 1970s as the current account deficit grew considerably, although it subsequently declined from 1977. The

Table 2.7

South Africa's Need for Foreign Capital, as Reflected in the Balance on the  
Current Account of the Balance of Payment, 1962-1984 (R Millions)

Year	Demand for Foreign Capital: Balance on Current Account		Financing of Balance of Current Account		
			Net Capital Inflow (2) (3)	SDR Allocations and Valuation Adjustments	Change in Gross Gold and Foreign Currency Reserves
1962	313	-84	-	-	229
1963	172	-86	-	-	86
1964	-60	-29	-	-	-89
1965	-316	275	3	-	-38
1966	-26	166	-	-	140
1967	-195	176	-8	-	-27
1968	47	487	-	-	534
1969	-283	218	7	-	-58
1970	-868	582	24	-	-262
1971	-1 057	818	83	-	-156
1972	-90	449	78	-	437
1973	-52	-46	-14	-	-112
1974	-998	899	31	-	-68
1975	-1 813	1 926	85	-	198
1976	-1 630	1 110	301	-	-219
1977	465	-810	246	-	-99
1978	1 330	-797	1 406	-	1 439
1979	2 880	-2 472	2 036	-	2 052
1980	2 818	-2 282	979	-	1 513
1981	-3 974	846	-543	-	-1 548
1982	-3 210	3 085	160	-	71
1983	265	-291	-431	-	650
1984	-1 041	-388	1 242	-	355

(1) - Indicates a deficit.

(2) - Indicates an outflow.

(3) Changes in liabilities related to reserves are not included in this table.

Sources (1962 - 1977) : EDP, p.89

(1978 - 1984) : SA Reserve Bank Quarterly Bulletin, June 1985

net inflow of foreign capital as a percentage of gross domestic investment increased from an average of 6,6 per cent in the period 1962-69 to 9,6 per cent in 1970-77. The reduction in the size of the average deficit after 1977 allowed an increase in the gold and foreign exchange reserves. Decreases in foreign liabilities have been recorded only in those years in which disinvestment by foreign investors has followed periods of political unrest, as in the periods 1962-64, 1977-80 and 1983-84. The rate of increase of foreign liabilities has fluctuated considerably, between -0,5 and 28,9 per cent (25).

Whereas short-term capital constituted the largest component of capital inflows during the 1960s, there was a net outflow of such capital between 1970 and 1978, while long-term capital formed the major portion of increased foreign liabilities during this period. Compensating loans, the so-called "liabilities related to reserves", were not particularly important in the 1960s, but began to play an increasingly significant role in the 1970s and early 1980s. The increasing importance of compensating loans resulted from the combination of growing deficits on the current account and the outflow of short-term capital. To meet the shortfall on the current account, the economy relied more heavily on short-term borrowings from foreign banks and authorities between 1981 and 1984 than, for example, during the previous period which was characterised by large current account deficits (1973-76) (26). This situation has led to the high exposure to short-term debt.

As a consequence of the changing nature of foreign debt, the risk rate of foreign liabilities has also changed over the past twenty-five years (27). During the 1960s, South Africa attracted more risk capital (i.e. direct dividend-yielding investments). These were attracted mainly by the private sector. In the 1970s, the public sector played a more important role in attracting capital, causing a decline in the inflow of risk capital and an increase in the inflow of loan capital, i.e., interest-bearing capital. The trend towards interest-bearing

liabilities is clearly illustrated by comparing interest payments to foreigners to the total dividend outflow. This debt service ratio has increased from an average of 17 per cent between 1965 and 1969 to 81 per cent for the period 1980-83 (28). This represents an adverse development, because from a debt servicing point of view it is better to attract dividend-yielding investments than interest-bearing liabilities, particularly in the presence of a weak domestic currency. The changing nature of South Africa's foreign debt has therefore added greater pressures to the overall balance of payments position.

It is clear from the above discussion that, because of the underlying structural imbalance in the economy, particularly in the 1970s, South Africa has become increasingly dependent on foreign capital to finance persistent current-account deficits. The problem of overspending, both for investment and consumption purposes, is compounded by the increased reliance on short-term borrowing to meet the shortfall on the current account and the consequent debt servicing burden that is placed on the economy.

#### Foreign Investment and the Gap between Domestic Income and Expenditure

It was argued above that the savings and imports gaps reflect the ability of the economy to allow its level of absorption to exceed its level of income. The dependence of the South African economy on foreign capital to finance both investment and the deficit on the current account is evidence of the need of this economy for foreign funds, if historical levels of expenditure and income are to be maintained. This highlights the vulnerability of the economy to disinvestment pressures. If inflows of capital are not forthcoming in future, it will be necessary to implement restrictive monetary and fiscal policies to reduce the level of expenditure, with the consequent negative consequences for the rate of growth of income and employment. This will be dealt with in more detail in Chapter Four.

## The Changing Composition of Foreign Investment

Although total investment in South Africa has been increasing steadily, its composition has changed markedly since 1960. Direct investment made up more than half of total foreign liabilities during the 1960s, but declined in relative importance during the 1970s, partly as a result of falling levels of profitability of direct foreign investment in South Africa from 1970. Whereas the ratio of direct investment to the total had been consistently higher than that of indirect investment during the 1960s, the latter increased more rapidly during the 1970s, and began to exceed the ratio of direct investment in 1975, reaching almost 60 per cent by 1983.

In the face of South Africa's dependence on foreign capital, and particularly the growing dependence upon foreign indirect investment, South Africa's diminishing creditworthiness is cause for concern. According to the Institutional Investor's country credit ratings, South Africa fell in credit ratings from 29th to 31st in the world in the six-month period September 1984 to March 1985 and a further two positions to 33rd during the following six months to September 1985 (29). This fall occurred before the freezing of short-term loan payments for four months from the end of August 1985. South Africa has now lost the position of being the most creditworthy country in Africa to Algeria, which ranks 32nd in the world. South Africa's slide, the fourth largest in the world over the period, is likely to continue as the effects on confidence of the moratorium on short-term debt repayments are felt.

The total outstanding debt of the country at the end of 1984 was \$18,9 billion (30). In August 1985 it was between \$21 billion and \$22 billion (31). According to the B.I.S. figures (32) for the end of 1984, 67 per cent of the outstanding \$18,9 billion was short-term debt with maturities up to and including one year, 6,5 per cent was medium-term debt and 18,3 per cent was

long-term debt. (The remaining 8,2 per cent was unallocated). These proportions would appear to persist as the short-term debt is now estimated to be about \$14 billion (33).

The country's financial position is threatened by the collapsing confidence of international bankers, who, alarmed by growing violence, aware that the economy is facing a debt liquidity problem (34) and under pressure from public opinion at home, are attempting to reduce their exposure to South Africa. In August 1985 the country, facing a \$6 billion bank-to-bank debt, found that average maturities were shrinking from ninety days to seven days. In order to check the weakening rand (which had depreciated by approximately 30 per cent against the dollar in one month) and foreigners' portfolio disinvestment (\$250 million in the three months to July), the markets were closed from 28 August to 2 September (35) and a moratorium on short-term capital repayments was declared.

Creditors' concerns differ. American banks, with exposure to South Africa of just \$2 billion, are under considerable pressure to cease loans to South Africa. Domestic political pressure in the US against banks doing business with South Africa is a critical factor, particularly since business with this country has been a relatively small proportion of the total foreign lending by US banks. Furthermore, it has been reported that US banks have simultaneously developed a real fear that the South African government is losing control of domestic events, which might threaten the country's future ability to repay debt (36).

Banks in Britain, which are owed about \$5,5 billion, have more to lose if they cease extending credit to South Africa, particularly since British companies, their clients, have some \$6,8 billion invested here (37). South Africa's other major creditors, the West German and Swiss Banks, with a combined exposure of more than \$2 billion, appear to be prepared to continue extending loans as long as they are not adversely

affected by the country's political unpopularity. The European banks are reported to be receiving good rates of interest on the frozen debts and are likely to gain when these are formally rescheduled in 1987 (38). It is unlikely that South Africa will find herself completely excluded from the international financial markets if some progress is made to restore stability and dismantle apartheid. Credit may be shorter and harder to raise, and the IMF and other international lending institutions are likely to be inaccessible, but while there are gains to be made from dealing with this country, international bankers will see their way clear to providing the necessary credit.

#### The Distribution of Foreign Investment by Country of Origin

Like most other middle-order economies, South Africa is dependent on foreign capital from industrial countries. The countries of origin of foreign capital have been mainly those with which close trade links are maintained, with the exception of Japan, where legislation forbids direct investment in South Africa. Since 1956, by far the largest part of total foreign investment originated from the European Economic Community (EEC), followed by North and South America and the other European countries. Only a small proportion of total foreign investment was made by investors in the other three continents. The relative share of the EEC countries in South Africa's total foreign liabilities has been declining, from 71,3 per cent in 1956 to 50,2 per cent in 1983. This decline was due to a rapid increase in investment by countries in North and South America, the rest of Europe and, to a lesser extent, Asia. It should also be noted that international organisations, like the International Monetary Fund, have been a relatively important source of indirect investment funds for the South African economy over the twenty-seven year period.

A breakdown of the distribution of foreign investment by country of origin is difficult to compile since the relevant



official records were published only until 1960. The South African Reserve Bank has discontinued its statistical series on the national origins of capital flows into the country in order to avoid possible political embarrassment. Therefore, for later years unofficial estimates must be used.

According to unofficial sources, Britain has the major share of foreign investment in South Africa, although this has declined from about 62 per cent in 1956 to 37 per cent in 1976. In 1974 British direct investments were valued at £997,2 million of which more than 70 per cent was in industry and ten per cent each in trade and mining. This involved some 400 British companies with about 1 000 subsidiaries in the South African market (39). The United Kingdom-South Africa Trade Association (UKSATA) estimated that in January 1982 the current value of British investment was £11 000 million, of which £5 000 million was direct and £6 000 million indirect investment (40). Although Western European and American investment proceeded at a much faster rate than British investment during the 1970s, in 1978 Britain still had substantial interests in one quarter of South Africa's top 100 companies, twelve of which are direct subsidiaries of British firms (41).

British investment in South Africa is of considerable importance to the domestic British economy, accounting for some nine per cent of total foreign investment and fourteen per cent of total foreign earnings in 1978 (42). These proportions were unchanged in 1983 (43). This makes it far more difficult for British corporations and banks to disengage from South Africa than for those of other countries. For this reason, it is unlikely that Britain will implement a policy of withdrawal.

The share of US investment in this country has been rising, growing from \$140 million in 1950 (44) to about \$13 384,9 million in 1983 (45), of which \$2 319 million was direct investment, \$4 637 million was bank lending and \$6 428,8 million portfolio investment, particularly in gold mining shares. At present South

African holdings account for just over one per cent of total US direct foreign investment (46), and about twenty per cent of total foreign direct investment in this country. These investments are, therefore, of far greater importance to the South African economy than to that of the US, making this country vulnerable to the investment policy decisions of the US government and corporations.

West Germany is the third most important foreign investor in this country, with an estimated £1 875 million invested in January 1982 of which £240 million was estimated to be direct and £1 635 million indirect (47). From an original role as a lender, Switzerland is now increasing its direct investment in this country having established about twelve companies, and total Swiss investment was estimated to be about £944 million in January 1982 (48). In July 1981, France's total investment was estimated to be about £1 247 million (49), about five per cent of total foreign investment in South Africa (50).

#### The Distribution of Foreign Investment by Sector

Sectoral data on the importance of foreign investment were last published for the year 1980. Direct investment is defined by the South African Reserve Bank (following IMF practice) to include the investment of a non-resident in a South African organisation in which he has a controlling interest. Control is determined in this definition by ownership of a branch or participation in a partnership by non-residents, or ownership of at least 25 per cent of the voting rights by one non-resident or several affiliated non-residents, or ownership of at least 50 per cent of the voting rights by various residents of one foreign country (51).

The sectoral breakdown of long-term liabilities for 1980 is shown in Table 2.8. From the table it is evident that foreign-

Table 2.8

## Sectoral Distribution of South Africa's Long-term Foreign Liabilities related to the Fixed Capital Stock for 1980

	Fixed capital* Stock (Rm)	Direct long- term liability (Rm)	% Direct liability in capital stock	Indirect long- term liability (Rm)	% Indirect liability in capital stock
Agriculture, forestry and fishing	9 419	102	1,1	4	0,0
Mining and quarrying	10 934	953	8,7	2 315	21,1
Manufacturing	20 555	4 308	21,0	1 985	9,7
Electricity, gas and water	14 641	9	0,1	2 056	14,0
Construction	1 392	74	5,3	7	0,5
Wholesale and retail trade	8 238	1 503	18,2	85	1,0
Transport, storage, communication	25 726	88	0,3	976	3,8
Finance, insurance, business services	31 007	3 510	11,3	1 841	5,9
Other	42 456	76	0,2	830	2,0
<b>Total</b>	<b>164 367</b>	<b>10 623</b>	<b>6,5</b>	<b>10,099</b>	<b>6,1</b>

\* In current 1980 prices, adjusted by the ratio of current fixed investment in current 1980 prices to fixed investment in 1980 at constant 1975 prices.

Source : "Third Census of Foreign Transactions, Liabilities and Assets, 31 December 1980" Supplement to SA Reserve Bank Quarterly Bulletin, December 1982.

controlled investment contributed most to capital formation in manufacturing in 1980, with direct investment in this sector accounting for 21 per cent of the fixed capital stock. In the wholesale and retail trade sector, the share was 18,2 per cent. Long-term indirect investment was relatively more important in the mining sector, where it was equal to 21,2 per cent of the fixed capital stock. In mining and quarrying, in electricity, gas and water and in manufacturing, indirect investment accounted respectively for twenty-one per cent, fourteen per cent and close on ten per cent of the fixed capital stock. The contribution of foreign capital to the strategic sectors of the economy has undoubtedly been very high.

#### Remedies for Disruptive Capital Flows

If an economy is experiencing disruptive capital flows, or a continuous outflow of foreign capital, there are several alternative policies that it might pursue. Monetary policy may be used to attract foreign capital inflows through rising interest rates. An appreciating or stable rate of exchange would reduce the risk of foreign investment, and therefore lessen the likelihood of disruptive flows.

If these policies are ineffective in dealing with persistent capital outflows, the authorities may attempt to control foreign capital flows directly by imposing exchange control restrictions. Exchange control involves the rationing of the limited supply of foreign exchange among all potential buyers. This is achieved by requiring those who receive payment from abroad to sell their foreign currency to an exchange control authority and those who make payments abroad to buy the foreign currency they need from the authority. In this way, outflows of funds may be regulated directly.

In 1974 Fleming (52) put forward a strong case for dual exchange markets as a superior remedy for disruptive capital

flows, which, he says, are reducing the stability of exchange rates, the independence of monetary policies and the internal financial stability of countries (53). He argues that in attempting to cope with temporary and often reversible capital flows, countries should establish separate exchange markets with separate exchange rates for current and capital transactions respectively, in preference to financing balance-of-payments disequilibria or controlling capital flows. Fleming recommends that the use of dual exchange markets in conjunction with possible intervention in the forward market (which has a different range of influence) and official sales of foreign exchange to balance current and capital transactions for dealing with disequilibria caused by temporary and reversible capital flows. This system is more likely to foster international portfolio diversification and multinational business and less likely to lead to the curtailment of foreign investment than other methods of control.

#### Summary of the Main Findings

1. Since the discovery of minerals at the end of the nineteenth century, South Africa's net international indebtedness has increased consistently. Since 1956, the country's net international indebtedness increased at an average annual rate of about ten per cent per annum, significant decreases occurring only in the years following 1960 and 1976.

2. The ability of the economy to finance its investment from its own savings declined in the 1970s and improved again between 1978 and 1981, falling again in the early 1980s. The propensity to invest of the economy has increased consistently and considerably, while the propensity to save has fluctuated, falling in the early 1970s, rising after 1978 and falling again from 1982. A growing proportion of the share of the public sector in total foreign liabilities illustrates the increased

dependence of the public sector on foreign loans and, in consequence, the increased vulnerability of the economy to disinvestment pressures.

3. Persistent current account deficits since 1962 have made South Africa increasingly dependent on foreign capital inflows to finance the overspending on investment and consumption. This problem is compounded by the increased reliance on short-term borrowing to meet the current account shortfall and the consequent debt servicing burden that is placed on the economy.

4. The importance of foreign capital inflows as a supplement to domestic savings and for the financing of deficits on the current account are evidence of the need for continued foreign investment if South Africa is to maintain historical levels of absorption. A curtailment of these inflows will necessitate the implementation of restrictive economic policies if the gap between domestic income and expenditure is to be kept small.

5. While direct investment made up more than half of total foreign liabilities during the 1960s, it declined in relative importance during the 1970s, partly as a result of declining levels of profitability of direct foreign investment in South Africa. As a result, the country is evidencing signs of a growing dependence on indirect investment.

6. In the light of the increasing reliance on indirect investment, South Africa's diminishing creditworthiness is cause for concern, and while it is unlikely that the country will be totally excluded from the international financial market, credit is understandably going to be of a shorter time duration and harder to raise.

7. Most foreign investment, both direct and indirect, originates in the EEC countries, followed by North and South American and the other European countries. Britain is the most important single source of funds, followed by the US and West Germany, and

these countries have played an important role in the development of the main growth sectors of the economy.

8. Foreign direct investment has contributed most significantly to capital formation in the manufacturing sector, while long-term indirect investment has been particularly important in the mining sector.

### 3. FOREIGN DIRECT INVESTMENT

It has long been argued by development economists (1) that, because capital is a crucial factor in determining the rate of growth and development of an economy, the level of domestic investment, and therefore of domestic savings, is of great significance in determining the expansion of the economy. In the last chapter, the importance of foreign capital flows to South Africa, and the relationship of these flows to the current account deficit and the savings gap, were discussed. In this chapter, the influence of foreign direct investment (FDI) on the South African economy will be reviewed. This form of investment forms the focus of the disinvestment debate at present, and therefore needs to be considered in greater detail.

It was stated in Chapter Two that FDI occurs particularly through the multinational enterprise (MNE), although direct investment and the international corporation do not overlap completely. Direct investment can occur without a single corporation carrying on business in more than one country (2). It occurs when an enterprise located in one country is controlled by persons who are not its citizens. A company can therefore be foreign controlled when its native owners sell a controlling portion of its equity capital to citizens of another country. However, since few firms are controlled abroad without the existence of a foreign corporate parent, we shall concentrate on FDI through international corporations.

After considering the structure of FDI in this country, its impact will be reviewed. This section draws on existing research into the operations of multinationals in this country, and on an informal survey conducted by the author between October and December 1985 of twelve MNCs, ranging in size from 150 to 7 000 employees, and in extent of foreign control from wholly-owned subsidiaries to 42 per cent foreign ownership. The survey took



the form of discussions with top management as to their techniques of production, their employment practices, the sources of their capital, labour and other inputs, the destination of their output, and their other linkages into the South African economy. The sample was small and restricted to companies willing to discuss these issues, and is in no way statistically significant. While the results cannot be generalised with any confidence, they do throw light on some of the issues that are involved.

### The Structure of FDI in South Africa

The distribution of foreign investment in South Africa by country of origin was discussed in Chapter Two above. More detailed data for the manufacturing sector are available from the data base constructed by Rogerson for the year 1978 (3). Defining foreign control as ownership of more than 50 per cent of equity share capital, or as control over the composition of and membership of the board of directors, Rogerson found that in 1978 there were some 930 foreign-controlled enterprises in the manufacturing sector in South Africa, operating 1284 plants and employing 380 000 people (approximately 28 per cent of all manufacturing employment). Rogerson notes that relative to similar studies in other countries, the degree of foreign penetration in South African manufacturing is similar to that in New Zealand, less than that in Australia and considerably below that in Canada (4). It should be pointed out, however, that within South African industry, there exists a significant sub-component of foreign-controlled branches and associated enterprises. If a weaker definition of foreign control such as that of the Reserve Bank were used, the proportion of foreign-controlled manufacturing would be much higher.

As can be seen in Table 3.1 the Rogerson data base reveals, not unexpectedly, that the United Kingdom and the US are the two main sources of overseas investment. Together these countries

Table 3.1 Foreign-controlled Manufacturing in South Africa  
by country of origin, 1978.

	Enterprises		Plants		Employment	
	No.	%	No.	%	No.	%
United Kingdom	551	59,2	767	59,7	210816	55,7
United States	228	24,5	304	23,7	95818	25,4
West Germany	67	7,2	90	7,0	25932	6,9
Switzerland	21	2,3	36	2,8	9583	2,5
France	18	1,9	24	1,9	7575	2,0
Netherlands	15	1,6	21	1,6	10409	2,8
Others	30	3,2	42	3,3	17596	4,7
Total Foreign	930	100,0	1248	100,0	377099	100,0

Source: Rogerson (1982) p.126

account for 80 per cent of all foreign-controlled manufacturing, whether it is measured by numbers of enterprises, plants or total employment. West Germany emerges as the third most important source of foreign manufacturing investment.

More up-to-date information is available from various sources. According to UKSATA some 340 American companies were operating in South Africa in 1982 (5) employing over 150 000 people. US investment was crucial to the main growth sectors of the economy in the 1960s and 1970s. Ford, General Motors and Chrysler were important in developing an indigenous automobile industry, and in 1980 still controlled one-third of the market (6). American companies are also in the forefront of oil exploration in South Africa, providing the capital, expertise and technology that the local economy lacks. Four US companies have established refineries, Mobil and Caltex alone refining 40 per cent of the country's imported oil (7). In addition US corporations have been dominant in the petrochemical, steel,

computer and nuclear energy sectors. For example, American companies control over 70 per cent of the computer market in South Africa (8).

Estimates of the number of British firms in South Africa vary considerably. UKSATA records a figure of 1200 subsidiaries in January 1982. In a footnote, they write that they "consider the UK figure would be much lower if one counted only significant investment" (9). This would explain why Rogerson, with a strong definition of foreign control, reaches a much lower figure of 767 plants in 1978.

According to UKSATA about 300 subsidiaries employing some 50 000 people are responsible for German direct investment in South Africa and about 40 French companies are operating in this country (10). France's most significant contribution to the South African economy has been in the development of the armaments industry, since the French have been prepared to ignore the UN embargo on the sale of offensive weapons to South Africa and have supplied arms, aircraft and technical assistance (11).

Rogerson's findings accord with these observations as to the strategic importance of FDI in South Africa. He records that foreign-controlled enterprises manifest an industrial mix which is markedly different to that of domestic firms (12). Rogerson found that in 1978 foreign control was high in two strategic industrial sectors, namely "fabricated metals, machinery and equipment", and "chemicals, rubber and plastics" as shown in Table 3.2. Together these two sectors account for nearly two-thirds of all foreign-controlled manufacturing in South Africa (using Rogerson's strong definition of control). Domestically controlled manufacturing was most predominantly concentrated in textiles, clothing and leather, if indexed by numbers of employees, although the "fabricated metals, machinery and equipment" sector accounts for the major share of plants. In terms of the pattern of employment control, domestic control is greatest in the "wood and wood products", the "textiles, clothing

Table 3.2

## Indigenous and Foreign Control of South African Manufacturing, by Industry Group

	Foreign-Controlled Enterprises				South African-Controlled Enterprises				Pattern of Employment Control	
	Plants	Percent	Employment	Percent	Plants	Percent	Employment	Percent	Foreign Percent	Indigenous Percent
Food, Beverages and Tobacco	151	11,8	42 637	11,3	2 013	14,2	159 317	16,2	21,1	78,9
Textiles, Clothing and Leather	92	7,2	33 092	8,8	2 021	14,3	230 281	23,4	12,6	87,4
Wood and Wood Products	18	1,4	5 468	1,5	1 465	10,3	73 594	7,5	6,9	93,1
Paper and Paper Products	65	5,1	16 298	4,3	1 290	9,1	59 633	6,1	21,5	78,5
Chemicals, Rubber and Plastics	284	22,1	70 100	18,6	872	6,2	56 359	5,7	55,4	44,6
Non-Metallic Minerals	61	4,8	20 570	5,5	996	7,0	64 042	6,5	24,3	75,7
Basic Metals	51	4,0	18 263	4,8	191	1,3	94 270	9,6	16,3	83,7
Fabricated Metals, Machinery and Equipment	548	42,6	169 076	44,8	4 672	33,0	229 340	23,3	42,4	57,6
Other Manufacturing	14	1,1	1 595	0,4	657	4,6	16 004	1,6	9,1	90,9
Totals	1 284	100,0	377 099	100,0	14 177	100,0	982 840	100,0	27,7	72,3

Source : Rogerson (1982) p.127

and leather" and the "other manufacturing" sectors. Rogerson's findings highlight the dependence of South Africa on the contribution of FDI to industrial sophistication in this country (13).

The Impact of Private Direct Investment  
on the South African Economy.

A considerable literature exists which reviews the various areas under which gains and losses could conceivably arise from FDI. This approach can create several difficulties.

- (i) In most cases there is no a priori way of knowing whether the MNE's contribution will be positive or adverse.
- (ii) Whatever the contribution made by the FDI, it must be considered what would have occurred under a feasible alternative.
- (iii) The criteria by which one should assess the contribution of FDI to a country's welfare vary between countries, in the same country over time and between different sectors within any one country. Without a clear basis for comparison, one can never be sure that when differences arise about the costs and benefits of FDI, one is not using different yardsticks to appraise it (14).
- (iv) The final problem concerns policy prescription. Should it have been possible to measure and evaluate the contribution of MNEs to a particular area (e.g., employment), the questions that need to be considered are (a) is this the best possible contribution, and (b) assuming it is, and it is beneficial, does this mean that one should encourage the inflow of direct investment?

In the following discussion, these problems must be borne in mind. A consideration of the costs and benefits that can arise from MNEs will, however, throw some light on the impact that FDI has had on the South African economy, and this will facilitate an

assessment of the likely consequences of the withdrawal or limiting of foreign investment.

### Resource Transfer Effects

FDI can make a positive contribution to the host economy by supplying capital, technology and management skills, thereby overcoming scarcities of these factors. In fact, as an instrument for transmitting technical and organisational change, integrating technical and financial assistance, and helping to overcome skill and management limitations, private FDI has a distinct advantage over domestic and foreign public capital. To the extent that such inputs are scarce locally, foreign investment through the MNE may make it possible for output to be increased sharply. Inflows of foreign public funds, while providing the host country with financial capital, do not tend to fill the technology and entrepreneurial gaps that may exist in the recipient countries.

### The Provision of Capital

MNEs generally have access to greater financial resources than do local firms, since not only may funds be available from internal sources, but MNEs may have easier access to external capital markets and financial institutions. However, as earnings are generated, subsidiaries increasingly develop substantial autonomy from their foreign parent companies and provide much of their own capital for expansion from reinvested profits.

A survey of 454 firms, located in the major industrial centres of South Africa, was conducted by researchers of the University of Natal in 1973. The usefulness of this study is now limited by virtue of its age, but its findings yield an unique insight into the operations of MNEs in this country. It was found that, at least in the attitudes of businessmen, capital constraints are no less of a problem for foreign-owned firms

than for those that are locally owned (15). While larger firms appeared to be more sensitive to the cost of funds than smaller firms, neither the availability of finance, nor the cost and availability of capital goods seemed to differ according to firm size. It emerged, however, that independent firms appeared to be affected to a greater degree by capital constraints than were companies which were subsidiaries of other corporations (16). It was concluded that in South Africa at least, foreign ties are of no real benefit for internal expansion plans as far as the availability of funds is concerned (17).

In response to a query by the author as to the origins of investment funds for expansion, most representatives of MNEs interviewed stated that expansion takes place by the reinvestment of profits earned in South Africa. Firms that are making losses as a result either of the present economic climate, particularly problems arising from the weakening rand, or from previous managerial inadequacies, find that it is necessary to rely on new direct investment by the parent companies. Some firms also resort to borrowing both on the domestic and international capital markets in order to supplement profits as a source of investment funds.

Table 3.3 shows the importance of direct inflows of capital as opposed to retained profits and reserves for the financing of foreign-controlled firms. Since 1957 foreign-controlled subsidiaries have retained a relatively high proportion of their gross profits (between 30 and 76 per cent), with the exception of the year 1961, when political uncertainty following the disturbances in Sharpeville caused firms to repatriate about 83 per cent of profits earned, rather than reinvest these earnings. Retained profits and reserves have been the major source of capital formation in foreign-controlled enterprises over the period, accounting for an average of 83 per cent of new investment. Even when foreign subsidiaries are not expanding sufficiently to absorb all of their retained profits, these profits are not repatriated, but retained for future expansion.

Table 3.3

## Financing of Foreign-Controlled Firms in the South African Economy, 1957 - 1983

Year	Gross Total Profits to Foreign-Controlled Firms (Rm)	Retained Profit and Reserve (Rm)	Percentage of Gross Profits Retained in Subsidiary	Direct Long Term Private Capital Inflows (Rm)	Total Foreign-Controlled Investment (Rm)	Percentage of Retained Profits and Reserves in Foreign-Controlled Investment
1957	146	53,0	36,3	12,0	65,0	81,5
1958	167	76,0	45,5	39,0	115,0	66,1
1959	129	39,0	30,2	34,0	73,0	53,4
1960	150	50,0	33,3	-8,0	42,0	119,0
1961	148	25,0	16,9	-4,0	21,0	119,0
1962	183	80,0	43,7	12,0	92,0	87,0
1963	191	85,0	44,5	-22,0	63,0	134,9
1964	224	99,0	44,2	3,0	102,0	97,1
1965	278	128,0	46,0	50,0	178,0	71,9
1966	299	175,0	58,5	85,0	260,0	67,3
1967	272	120,0	44,1	42,0	162,0	74,1
1968	438	263,0	60,0	144,0	407,0	64,6
1969	500	287,0	57,4	139,0	426,0	67,4
1970	438	226,0	51,6	157,0	383,0	59,0
1971	522	347,0	66,5	115,0	462,0	75,1
1972	584	376,0	64,4	138,0	514,0	73,2
1973	535	281,0	52,5	63,0	344,0	81,7
1974	635	449,0	70,7	65,0	514,0	87,4
1975	448	245,0	54,7	159,0	404,0	60,6
1976	809	525,0	64,9	134,0	659,0	79,7
1977	596	298,0	50,0	5,0	303,0	98,3
1978	824	436,0	52,9	-27,0	409,0	106,6
1979	1 254	733,0	58,5	18,0	751,0	97,6
1980	2 463	1 871,0	76,0	224,0	2 095,0	89,3
1981	2 170	1 274,0	58,7	307,0	1 581,0	80,6
1982	1 553	764,0	49,2	270,0	1 034,0	73,9
1983	1 732	761,0	43,9	184,0	945,0	80,5

Source: McGrath and Jenkins (1985) p.37



## The Provision of Technology and New Products

The primary externality from superior MNE know-how in the host industry comes from spillovers of technology and skills to domestic firms. Technology represents knowledge incorporated into new processes and goods, which in turn must be capable of converting inputs into consumable outputs at competitive costs. The crucial role played by technology in the growth process is now widely accepted, but for host countries outside of the major industrialised nations, the domestic production of technology is not feasible, both because of the high costs and risks associated with innovation and the lack of skilled manpower in these countries. Most nations must therefore purchase or imitate new technology from highly industrialised countries.

It is often believed that the production and diffusion of technology is the main benefit of MNEs to host economies. This provides lesser-developed economies with access to the research and development (R&D) activities of advanced nations, and with possibilities for greater efficiency in production, cost reduction and the introduction of new products. The transfer of technology by MNEs to host countries may, however, not necessarily be beneficial, particularly if the techniques of production are inappropriate to the factor endowments or to the size of the market of the receiving country. One reason for the introduction of inappropriate technologies by MNEs is the possible shortage of skilled labour, which causes the adoption of capital-intensive techniques in an attempt to reduce skilled labour requirements. In order to remain competitive, or because of the "demonstration effect", local firms may be encouraged to operate similarly inappropriate techniques. Some R&D may take place in host economies for the purpose of adapting products or techniques to local conditions.

The survey undertaken by the researchers from the University of Natal in 1973 revealed a considerable dependence on foreign

technology in the manufacturing sector (18). Seventy-four per cent of the firms interviewed claimed that they were using techniques embodying at least 90 per cent foreign technology; and 62 per cent of the respondents used technology that was entirely of foreign origin. Only ten per cent of the sample used less than 50 per cent foreign technology. No significant differences were found in the degree to which foreign-owned and South African firms were dependent upon foreign technology.

The survey also revealed that just over 25 per cent of firms in South African manufacturing engage in R&D activity. Foreign firms are no less likely to undertake such R&D than their South African counterparts. Ninety per cent or more of the respondents felt that it was cheaper to import such technology than to develop it locally.

It must be borne in mind that foreign technology may offer a wide range of techniques, and some older techniques of production may be very well suited to South African conditions even if the very latest are not. Furthermore, the latest techniques may indeed be the least-cost ones under South African conditions, even though they were developed initially for other markets. In order to investigate these issues, the survey of the University of Natal asked firms to state whether they were using the latest available techniques and to give reasons for their actions (19). The results show that 60 per cent of respondents were aware that they were not using the latest manufacturing techniques, and most of these did so, because the technology that they were using was more economically efficient in South African markets and enabled them to produce with lower unit costs of production than would the latest techniques. The 40 per cent who were using the latest production methods attributed this decision by and large to the fact that these did represent the least cost method of production, although a large proportion of these also felt that the availability of alternative techniques was limited.

The informal survey conducted by the author revealed a

tendency for foreign firms to adopt an increasingly capital-intensive mode of production, using technologies developed abroad. The reasons given for this trend were (i) increased efficiency; (ii) lower unit costs; (iii) a tendency for the parent company and its subsidiaries to use uniform production techniques all over the world; (iv) a shortage of skilled labour and therefore a need to use labour-saving techniques; (v) reduced dependence on increasingly expensive labour; (vi) in the case of young or high-technology industries, the absence of alternative production methods; (vii) some new products require new techniques of production; and (viii) the necessity to maintain high standards of quality. Only one company representative said that the firm concerned was not moving towards more capital-intensive techniques of production because the latest foreign developed technology meant that the subsidiary's capacity would be too large for the South African market. Other firms did report excess capacity, but felt that the updating of their techniques of production still allowed for greater efficiency and lower unit costs.

In response to a query about their R&D activities, most firms acknowledged that both technology and new products are almost exclusively developed overseas. R&D activities in South Africa were undertaken by some firms for the purpose of modifying products for the local market. Two firms, however, reported successful product development in South Africa, and in both cases these products are now exported overseas. Another firm has located one stage of its international research programme in South Africa, and in 1985 spent about R5 million on its R&D activities. Questions in the Natal survey reported on by Morris (20) also reveal that foreign firms undertook significantly more investment for the purpose of introducing new products than local firms, particularly in the fashion industries or in industries experiencing rapid technological advances with respect to new products.

## The Provision of Entrepreneurial and Management Skills

If entrepreneurial and management skills are scarce, the provision of these by MNEs may meet a need of the host economy. Further, the training of local personnel to occupy managerial positions brings about a diffusion of these skills. If, however, management positions are filled by expatriates or if the business practices of MNEs are inappropriate to domestic market conditions, this benefit will not accrue to the host country.

It appears from the responses to the questionnaire drawn up by the author that while the stated policy of the multinationals surveyed is the training and use of local management personnel, in practice a large proportion of management at the most senior level is made up of foreign people. Some multinationals feel compelled to use expatriates at senior management levels because of the lack of executive management skills and because it is felt that South Africans, particularly Whites, do not have the attitudes necessary to fill such a position. In the words of one managing director : "South Africans seem to feel that they have a right to work; that the country owes them a living". As a result, some of the firms interviewed expressed a preference for training and employing Zimbabwean emigrants at more senior management levels. Only one firm stipulates that South African personnel must be employed at all levels in the subsidiary. It should be noted that at lower and middle management levels, where the appropriate skills exist, all MNEs surveyed employ South Africans irrespective of race.

The existence of internal labour markets appears to be marked in multinationals. People filling senior management positions are rarely recruited, but are rather promoted from within the firm or drawn from subsidiaries of the parent corporation in other parts of the world.

Some multinationals operate an international exchange programme for management trainees and management personnel.

These firms require that personnel from home and host countries have the opportunity to gain experience in different countries. As a result one tends to find a continuing flow of foreign personnel moving through the South African subsidiary, and South African personnel being exposed to business practices in more advanced economies.

### Employment Effects and Labour Relations

Disagreement exists as to whether the establishment of foreign subsidiaries increases employment opportunities in the host economy on a large scale or not. If the economic activities of MNEs bring about the establishment of new enterprises, the expansion of existing plant, or add to total income in the host country, then they will stimulate employment. Local competitors of MNE affiliates may increase their employment if they are induced to become more efficient and to grow faster, and employment may also be increased if MNE operations have considerable linkages into the domestic economy. However, while direct investment may mean the establishment or expansion of physical capital and the creation of jobs, it more frequently results in expansion by means of highly capital-intensive technology, which at best creates very few jobs. If domestic firms are forced to operate in a similar way in order to remain competitive, there will be a tendency for the rate of employment creation to slow down with increasing FDI in the local economy. FDI may also affect the social division of labour and labour relations in the receiving economy. The impact of multinationals on the local distribution of income is difficult to ascertain a priori, and whether the distribution is worsened or improved depends on the specific circumstances surrounding each MNE in each host economy.

It was shown in Table 3.2 that, using even Rogerson's strong definition of foreign control, close on 28 per cent of the labour force employed in manufacturing is under foreign control. Over

half of foreign-controlled employment occurs in the largest ten per cent foreign enterprises engaged in manufacturing, most of which employ more than 1 000 workers (21). The mean size of foreign-controlled plants is 294 employees, as opposed to 69 workers in locally-controlled plants.

According to Rogerson, in 1978 almost 40 per cent of the labour force employed in foreign-controlled manufacturing is drawn from the Witwatersrand region, and the four major metropolitan areas - PWV, Durban-Pinetown, Cape Town and Port Elizabeth-Uitenhage - together account for about 83 per cent of the total (22).

Prior to the 1970s the wage and employment practices of foreign-controlled companies in South Africa did not appear to be very different from those of locally-controlled firms (23). This became apparent, for example, when a parliamentary inquiry into the wages paid by British companies operating in this country was made in the United Kingdom in 1973. Evidence given by firms to the House of Commons showed that some British firms were practising complete racial segmentation in their job structures; others were exhibiting unequal pay practices, while yet others exhibited no job or wage discrimination (24).

The research undertaken in the same year by the University of Natal revealed that there was no significant difference between the attitudes of foreign-owned firms and their South African-owned counterparts to either the formation of black trade unions or to the works committee system (25). However, despite the lack of statistical significance in the tests on firms' attitudes, it was concluded that :

if one considers all aspects, ... foreign firms in general show themselves to be more progressive than the South African firms, as they evidenced greater support for Trade Unions and greater support for Works Committees; in addition a larger proportion of these firms had actually introduced

## Works Committees (26).

Although one cannot, therefore, argue that foreign firms have historically been leaders in progressive employment practices, the publicity given by the House of Commons Inquiry and, subsequently, civil rights movements in the United States, led to the scrutiny of the operations of foreign-controlled firms in South Africa. As was mentioned in Chapter One, one outcome of this scrutiny was the establishment of codes of employment practice. The two most widely adopted foreign codes are the EEC Code, promulgated in September 1977, and the Sullivan Principles, introduced in February 1977 (27).

The original Sullivan Principles required that desegregation of the factory occur wherever possible; that equal and fair employment practices and equal pay for comparable work be implemented; that training programmes for non-Whites be initiated and developed; that the number of non-Whites in management and supervisory positions be increased; and that the quality of life of employees outside the work environment be improved. The EEC Code was more rigorous, requiring, in addition to the above, that the rights of workers to be represented by trade unions be recognised, and that the "effective minimum level" wage be paid. These provisions have now been included in a revised Sullivan Code, together with the requirement that firms involve themselves in changing political and social structures in South Africa.

By 1983, 147 of the approximately 350 American companies operating in South Africa had signed the Sullivan Code, and 182 British companies were signatories of a code of conduct (28). It has been estimated that over 80 per cent of the workforce in foreign-controlled firms are subject to a code of conduct, accounting for some twelve per cent of the total labour force of the modern sector.

The precise effects of the employment codes are extremely difficult to ascertain. A substantial and growing literature

(mainly in pamphlet or journal article form) exists, which deals with the benefits or otherwise of the various codes. Proponents of continued investment argue, for example, that "the codes of conduct initiated in America and Europe have brought about quite remarkable change in South African employment practices " (29). They argue that the desegregation of work facilities, equal pay practices, trade union recognition and social upliftment programmes conducted by foreign affiliates have had a ripple effect throughout South African industry and commerce. Opponents of foreign involvement in the South African economy believe that the codes are used by signatory companies to justify their continued presence in this country; that they are a public relations effort; and that they do not, and cannot, change the structure of apartheid or black working conditions in South Africa.

The responses to questions relating to employment codes raised by the author were varied. All firms with one exception were subject to at least one code of conduct. Some felt that the implementation of the codes had had no effect on the practice or policy of their respective companies, which had been complying with the requirements before they became signatories. Other firms said that their entire salary structures had been revised as a direct result of their becoming signatories to a code. These companies felt that the most significant impact of the codes was on wage levels, and that this impact was also transmitted to South African companies, which, reportedly, had complained to foreign firms about rising wages in manufacturing. All firms reported the absence of racial discrimination in their wage structures, although they admitted to some inequalities in job structures, not as a result of prejudice, but as a result of a dearth of technical and management skills among non-Whites. In spite of this, three firms claimed to have a deliberate policy of promoting Blacks to management positions in an attempt to close the earnings gap and to develop the necessary skills among Blacks in South Africa.

The most common complaint about the South African labour



force was the shortage of skills : technical, management, administrative and supervisory. It was seen that one important source of this lack is the poverty of basic education and backwardness of social development, particularly, but not exclusively, among Blacks in this country. In an effort to combat this problem, some MNEs offer an impressive range of training schemes. These are too numerous and varied to be listed here, but they include the exposure of trainees to international educational centres established by the larger high-technology firms; the sponsoring of education in universities and technikons; in-house training programmes and seminars; apprenticeship schemes; and basic literacy and numeracy classes.

Some of the larger firms are also involved in extensive educational programmes outside of their sphere of operation. One firm allocates 1,5 per cent of its turnover to Black education at all levels. Soweto appears to be the chief beneficiary of these projects which range from "adopt-a-school" programmes, through the video-taping of the entire syllabi for Standards Eight to Ten (which has been made available to about 600 Black schools), to the establishment of model high schools and training centres. Others of these so-called corporate social responsibility programmes include the support of small business development for Black entrepreneurs, housing schemes, the establishment of legal advice bureaux and creches, the support of research into a variety of fields, and the offering of expertise in an advisory capacity. Firms interviewed mentioned that millions of rand have been spent by MNEs in complying with the requirement of the codes to improve the quality of life of Blacks in South Africa.

All firms interviewed expressed their willingness to cooperate with trade unions, although some felt that the tendency for black trade unions to become surrogate political parties was counter-productive. One firm admitted that it had experienced conflict with the relative unions in the area of wages, and that the unions had been directly responsible for raising wages in the industry. However, even this firm expressed a preference for a

representative labour body for the purpose of negotiation.

The survey found that the outlook for future employment potential in MNEs does not appear to be promising. In the depressed economic climate of the last quarter of 1985, firms are maintaining or cutting back on their current staff. Projections for the next five to ten years are no more hopeful. Managers anticipate that any future expansion is more likely to come through productivity improvements than through a growth in employment.

One can conclude that, while MNEs currently employ about one quarter of the South African labour force engaged in manufacturing, the potential of the firms already operating in this country to increase employment opportunities in the medium term is probably nil. These firms have had some impact on wage levels in manufacturing and are contributing to the upgrading of the labour force. These positive contributions are in some measure due to the implementation of codes of employment practice, but the codes now appear to be losing their momentum, since multinationals seem to feel that they have been successful in their compliance with the requirements, and further change is unnecessary. Apart from the issue of wage levels (and possibly that of trade union recognition), the influence of the practices and policies of MNEs on local firms appears to have been small, and the potential for influence in the future is likely to be limited.

#### Linkages into the Local Economy

The linkages which are developed by foreign-controlled firms are important in appraising their contribution to the local economy. Backward linkages are generally believed to be far stronger than forward linkages, while the linkages created by FDI in export-oriented industries are considered to be more beneficial to the host economies than those established in

import-substituting industries. The extent of linkages created in host economies depends on factors such as the stage of development of indigenous industry and the availability of skills and technology. Unfortunately the linkages which are established are difficult to trace and remain a matter for speculation.

Some idea of the types of linkages which have been created may be derived from the survey conducted by the author. With the exception of one firm, all foreign affiliates interviewed indicated that, in value terms, at least 50 per cent of the inputs into their production processes are imported and in three cases almost 100 per cent of inputs are imported. If one considers inputs (excluding capital equipment) by weight, then as much as 80 per cent may be of local origin. Capital equipment appears to be almost entirely imported. The reasons given for the high import component included (i) the unavailability of specialised equipment and other inputs; (ii) the smallness and backwardness of South African technology and markets; and (iii) the fact that some countries will not buy products with South African content. This last reason appears strange because very little of the output of the multinationals interviewed is exported, and because the very fact that production or assembly has occurred in this country would necessitate the embodiment of value added in South Africa in the final product. Some firms admitted that the import component of their final products would be higher were it not for local content regulations.

The output of MNEs appears to be marketed almost exclusively in South Africa. Very little is exported to the remainder of Africa because of this country's political isolation from the rest of the continent. Small amounts may be exported to other Western countries : the US, Australia and Germany were cited as examples. One firm said that it exports about five per cent of its turnover and that this proportion is increasing. Most of the firms interviewed, however, find that goods manufactured in South Africa are not competitive on world markets, although this contention implicitly assumes that the exchange rate will return

to its pre-1983 levels.

FDI in the South African economy does not appear to have resulted in the development of strong linkages. The most well-developed linkages into the local economy tend to be those that probably do not contribute very much to the gross domestic product : all MNEs interviewed tend to make use of local transport, local advertising agencies, local architects and engineers, etc. One significant multinational claimed that for every one of its employees, 25 people were employed in linked local industries. It is unlikely, however, that this can be generalised for other firms. This finding would appear to support the view that fewer linkages are created in import-substituting industries (although it seems anomalous that these firms be classified as import-substituting, since they have such a high propensity to import).

#### Market Structure

It was seen earlier in this chapter that in terms of numbers employed, foreign-controlled manufacturing plants are over four times the size of their locally-controlled counterparts. The reason for this may be that FDI can cause monopolistic tendencies to increase through time, because, for any given market structure, foreign affiliates possess greater economic power than indigenous competitors. This arises from their being part of larger international organisations, and from their tendency towards being oligopolistic. The advantages of subsidiaries over local firms in terms of knowhow and access to foreign capital markets tends to lead to an increase in their market share over time, and this power may be used to raise barriers to entry or to take over smaller domestic firms. According to Tregenna-Piggott (30) the relatively small size of the market in South Africa, high tariff barriers, geographical isolation and a relatively benign attitude towards monopolies and mergers enhance a tendency towards increased concentration in the South African manufacturing

industry (31).

Using two models, Tregenna-Piggott calculated the welfare loss arising from monopoly in different sectors of the South African manufacturing industry (32) and found that these losses were highest in the "fabricated metals, machinery and equipment" sector (between 28 and 31,3 per cent of output) and in the "chemicals, rubber and plastics" sector (about 24 per cent). These sectors were shown earlier in this chapter to be subject to a high degree of foreign control. Welfare losses due to concentration were found to be lowest in wood and wood products (0,2 per cent), basic metals (1,0 per cent), textiles, clothing and leather (between 1,7 and 1,9 per cent), and other manufacturing (about 2,1 per cent). As was shown above, these sectors are predominantly subject to domestic control. It may be concluded that losses due to industrial concentration are highest in sectors evidencing a high degree of foreign control, and it is likely, therefore, that these sectors have a tendency towards greater concentration.

#### National Autonomy

While writers in the orthodox and Marxist traditions emphasise the conflicts that may arise between the operations of multinationals and the economic and political policies of host governments, it has also been suggested that MNEs do not exert enough influence on the development policies of receiving countries. In the case of South Africa, it is true that firms subject to codes of conduct now fall into the category of enlightened employers. It is also true that the implementation of the codes does not conflict with the declared intentions of the government to eliminate discriminatory practices and to end wage discrimination. In fact, the South African government has maintained an attitude supportive of foreign capital, while at the same time stressing its national sovereignty. The Franzen Commission Report states that:

"The government ... welcomes foreign investment and, in formulating economic policy, will also endeavour to retain a favourable investment climate for foreign-controlled enterprises. On the other hand, the government would also appreciate the creation of more opportunities for South African participation in the management of foreign-controlled enterprises. The government however, cannot allow foreign capital to be invested in such a manner or in such amounts as will enable foreign control to be exercised over the whole economy or over certain strategic sectors" (33).

However, although as a group foreign-controlled firms are potentially a very powerful lobby, this power as yet seems virtually untapped. Were this power to be used to exert pressure on the state for fundamental social change, it is possible that conflict between the state and foreign capital might result. The MNEs interviewed by the author seemed reluctant to become involved in South African politics, with a few notable exceptions. If generalisations may be made, the European firms, with one exception, appeared to feel that they had "no political mission", while the American firms, with one exception, indicated that they had a very real and significant role to play in the process of social and political change in this country. The Petition by the Ninety, signed by 90 local and foreign firms, laying out the requirements of a portion of the business sector for reform; the statement by IBM as to its intention to engage the government in discussion regarding political reform in South Africa; and the conflict which has arisen between General Motors and the state over GMs support of its black employees who defy their exclusion from beaches reserved for Whites, are evidence that foreign subsidiaries, particularly those from the US, are becoming aware that they have a role to play in shaping policy in South Africa.

### Summary of the Main Findings

1. Foreign investment, the major sources of which are the United Kingdom and the US, is dominant in strategic sectors of the economy, especially in the "fabricated metals, machinery and equipment" sector and in the "chemicals, rubber and plastics" sectors. Of particular importance is the contribution made by foreign firms to the automobile, petrochemicals and computer industries.
2. Foreign subsidiaries are not responsible for inducing large inflows of long-term direct investment. Their foreign affiliations are of no real benefit as far as the availability of funds is concerned, and expansion occurs by the reinvestment of profits earned in South Africa. Between 30 and 76 per cent of gross profits are retained, and this forms the main source of capital formation in foreign-controlled firms.
3. Foreign-controlled firms in the South African manufacturing sector display a considerable dependence on foreign technology and R&D, although the techniques of production used are not necessarily the latest methods, if older techniques are more economically efficient. Foreign firms, however, evidence a tendency towards increasing capital intensity, even if it results in excess capacity, primarily because this allows for greater efficiency and lower unit costs. Most product development occurs overseas.
4. Although this appears inconsistent with declared policy, a large portion of senior management consists of foreign personnel, primarily because it is felt that South Africans lack the required management skills. Some diffusion of skills does occur in multinationals which operate international exchange programmes for executive personnel and trainees.
5. While MNEs currently employ about 25 per cent of the South

African labour force engaged in manufacturing, their potential for expanding employment opportunities is limited. Historically, foreign-controlled firms appear to have been no more progressive in their employment practices than their local counterparts. The establishment of codes of employment practice, which by 1983 regulated conduct towards over 80 per cent of foreign-controlled employment, has, to a limited degree, engendered changes in wage levels and in the recognition of trade unions. Some multinationals are engaged in an impressive array of training schemes and corporate social responsibility programmes. As an influence for change, however, the codes have limited potential.

6. Foreign direct investment does not appear to have developed strong linkages into the local economy. In value terms, between 50 and 100 per cent of inputs are imported, while output appears to be marketed almost exclusively in South Africa, mostly in the form of final products.

7. Welfare losses arising from industrial concentration are greatest in sectors that are subject to a high degree of foreign control, which implies that these sectors display a tendency towards greater concentration. Welfare losses due to monopoly are lowest in sectors that are predominantly controlled by local entrepreneurs.

8. The South African state is supportive of foreign capital, which, in turn, has not as yet used its potential lobbying power to press for fundamental social and political change in this country. Opinion of foreign management as to the possible role that could be played by MNEs in this area is divided, and the question remains as to whether or not foreign-controlled firms will be able to apply pressure for structural reform in South Africa.



#### 4. DISINVESTMENT

In Chapter 1 disinvestment was seen to be a term covering a range of possible sanctions, although one of three possible programmes is usually advocated. These are :

- (i) the reduction of new investment;
- (ii) the pegging of new investment (or disinvestment) to evidence of political change in South Africa; and
- (iii) the immediate withdrawal of existing investment.

In the medium term it is most likely that the campaign for disinvestment will result in the termination or reduction of capital flows to South Africa as foreign governments, corporations and banks face intensified pressures to disassociate themselves from the apartheid regime.

It has been argued above that, with respect to indirect investment, this country is unlikely to be excluded completely from international financial markets, but its access to foreign funds will be more limited, not only as a result of disinvestment pressures, but also because of diminishing creditworthiness. With regard to direct investment, it is assumed that disinvestment will not mean the scaling down of foreign operations in South Africa until they can be abandoned, but rather the sale of assets to South African and other foreign investors. It is also believed that while profits are being earned, most foreign firms will not attempt to withdraw from this country, but will continue production, although they may start to repatriate abroad some accumulated and/or current profits. In both cases, existing plant will continue to operate in South Africa and the disinvestment campaign will affect new inflows of FDI and the reinvestment of profits.

In the chapter which follows, the implications for the country of the discouragement of new foreign investment is discussed. The chapter concludes with a summary of the possible

consequences of disinvestment for the South African economy.

### Implications of a Reduction in Capital Flows

#### Implications for the GDP

Attempts have been made to measure the impact on the economy of reduced capital flows (1), some of which have been discussed in Chapter 1. Exercises of this sort can only be regarded as being illustrative of directions of change, rather than as estimates of magnitudes, especially when they are based on partial equilibrium methodology. Their value lies in their highlighting some of the implications of reduced capital flows. A general equilibrium model would obviously yield more accurate and comprehensive estimates. A dynamic general equilibrium model for South Africa does not exist, however, and it is necessary, therefore, to use more crude partial equilibrium models. A study was undertaken by the author using a Keynesian multiplier, an aggregate production function and a two-gap planning model in order to illustrate the effect on the economy of a reduction in capital flows to South Africa (2). These models may be seen as elements of a general equilibrium model, although no attempt has been made to link them, because they make use of different assumptions and methodologies.

Using a simple Keynesian multiplier, it was found that a total boycott by foreign investors would have reduced GDP by between 3,1 and 7,5 per cent in any one of the years from 1981 to 1984. If all inflows from the US alone had ceased, GDP would have declined by between 0,8 and 1,7 per cent.

Analysis based on a Cobb-Douglas aggregate production function revealed that if all foreign capital inflows had been withheld during 1980, GDP in 1981 would have fallen by about 5,5 per cent. If only inflows from the US had been terminated, then GDP in 1981 would have been reduced by 2,1 per cent.

A dynamic approach to illustrating the effect of a termination of capital inflows was attempted by using a two-gap model, and projecting the foreign capital requirements for the economy for the period 1985-1989, assuming different rates of growth of GDP and exports. It was found that the higher the rate of growth of GDP, the more imperative it was that foreign capital be forthcoming to supplement domestic savings, although as the rate of growth of exports increased, current account surpluses would begin to reduce the dependence on foreign investment. The following scenarios illustrate this conclusion.

Scenario 1: Low growth of GDP and no export growth. With a constant level of exports, and imports rising as a constant proportion of income, the balance on the current account of the balance of payments will worsen consistently. Furthermore, even at a low rate of growth of GDP, a falling average propensity to save and a rising average propensity to invest will result in a widening gap between savings and desired investment, and a termination of capital inflows could even prevent the achievement of the relatively low growth rate.

Scenario 2: Medium rates of growth of GDP and of exports. The growing level of exports offsets, to some extent, the need for additional imports, resulting in relatively small increases in the current account deficit. The higher rate of growth of GDP, however, causes the level of desired investment to rise more rapidly, increasing the savings gap and consequently the need for inflows of foreign capital.

Scenario 3: High rates of growth of GDP and of exports. If the rate of growth of exports is high, the economy will begin to run surpluses on the current account, and will therefore accumulate foreign exchange. A high rate of growth of GDP, however, places even further strain on the ability of the economy to meet its desired level of investment, and the gap between the level of savings and desired investment rises rapidly as a proportion of

GDP. As one might expect, the savings gap tends to widen as the rate of growth of GDP increases, while the foreign exchange gap narrows as the rate of growth of exports rises. Foreign capital inflows are therefore essential if a high rate of growth of GDP is to be maintained, even in the case where a high rate of export growth closes the foreign exchange gap. This problem could be offset to some extent if redistribution towards capitalists and high wage earners occurred, since they have a higher propensity to save. A worsening of the distribution of income, however, hardly seems an appropriate policy for South Africa to follow at present.

It should be noted that scenarios 2 and 3 have assumed a relatively high growth in exports. The pressure for trade sanctions abroad might, however, prevent the achievement of growth in exports at these rates, and could, in fact, cause the level of exports to decline, adding further pressures to the balance of payments and constraining economic growth.

The prediction that capital inflows facilitate more rapid growth rates of GDP and, conversely, that capital outflows can retard economic growth, appears to be borne out by this analysis. Foreign capital performs an important role in relieving the resource constraint on the economy, which is expressed in terms of the excess of desired investment over domestic saving and the excess of imports over exports.

#### Implications for Employment

One of the most burning issues of the disinvestment debate has been the potential effects of an investment boycott on employment in South Africa, most particularly on the employment of Blacks. It must be clear from the discussion thus far that the withdrawal of foreign subsidiaries will not directly affect employment to any significant degree, because of the likelihood of the continued operation of existing plant. Rationalisation in

certain sectors, such as in the motor vehicle sector, may result in the loss of jobs, but the cause of this is primarily one of trimming excess capacity rather than of disinvestment per se.

The issue that ought to be addressed is whether the cessation of new direct investment will affect potential job opportunities, rather than whether withdrawal will cause unemployment. In other words, the question is one of job creation rather than job loss. Unfortunately it is not possible to isolate data on employment creation by foreign firms on an annual basis. Nor is it possible to quantify the employment-creating potential of feasible alternatives. The interviews with senior management of MNEs conducted by the author and reported in Chapter Three above revealed that once established, subsidiaries of multinationals tend to expand by improving productivity, rather than by providing further employment. Projections for most firms interviewed were that potential employment trends over the next five and ten years would be static, with only one firm venturing possible modest growth and one firm predicting that employment both of wage and salaried earners would fall. In most cases, however, projections were made with the caveat that the economic situation in South Africa over the next decade would be significant in determining the level of potential employment opportunities. These findings would provide some support for the contention that disinvestment is unlikely to be a direct cause of unemployment, and that job loss is more likely to be related to the general economic conditions within South Africa than with the termination of foreign capital inflows.

Disinvestment may, however, have an adverse effect on employment through :

- (i) lowering the rate of growth of the economy and consequently of employment;
- (ii) precipitating a reduction in the confidence of businessmen in the future of the South African economy and thereby lowering the propensity to invest;
- (iii) causing deficits on the capital account of the balance

of payments and creating the need for contractionary economic policies in order to reduce absorption; and  
(iv) restricting the access of private and public corporations to borrowing facilities overseas.

A curtailment of domestic (or new foreign) investment for any of these reasons will lead to job loss and to a fall in the employment-creating potential of the economy. Indeed, merely to hold constant the observed unemployment rate of eleven per cent between 1978 and 1987 was shown in the EDP to require an annual real growth rate of GDP in excess of five per cent (3), a rate which has been shown above to require inflows of foreign capital.

#### Implications for Resource Transfers to South Africa

Successful disinvestment pressures are likely to have direct and possibly serious implications for the economy by reducing access to resource transfers. In Chapter Two the economy's increased and increasing dependence on capital inflows was highlighted. This dependence was seen to arise from the need, particularly of the public sector, to supplement domestic savings for both investment and consumption purposes, and from the need to meet persistent current account deficits.

In this regard, were the disinvestment lobby to be successful in encouraging the cessation of loans to this country, it is likely that far more damage could be done to the South African economy than if the limitation on new foreign direct investment were achieved, particularly since multinationals are expanding by reinvesting profits earned here. The growing independence of the economy on indirect investment makes it imperative that loans continue to be forthcoming if current levels of investment and consumption are to be maintained, and if the country is to attain further economic growth in the future.

Also of significance, particularly in the long run, is the potentially diminished access to technological advancement. It was shown in Chapter Three that South Africa is crucially dependent upon the importation of technology and the other products of R&D activities of advanced nations, and that this dependence is particularly marked in the main growth sectors of the economy.

It could be argued that disinvestment may result in positive externalities, if it creates the opportunity for the development of labour-intensive techniques of production which are more appropriate to South African conditions.

It could also be claimed that the sale of foreign subsidiaries to local investors would benefit the local economy by opening up opportunities for South Africans to fill management positions currently occupied by foreign personnel. Although some multinational firms appear to feel that the lack of local management skills makes South Africans inappropriate for senior management posts, they also acknowledged that South Africans of all race groups are trainable. In the event of foreign affiliates becoming domestically-owned, it would be imperative that local management potential be developed.

A cost to the local economy might also occur if local management trainees were denied access to training overseas and to exposure to business practices in more advanced countries. This cost is particularly difficult to identify or quantify, because it could also be argued that business practices of more industrialised economies are inappropriate to domestic market conditions, and that local management should be developed with a view to discovering practices uniquely suited to the South African situation.

Clearly, the strategy of withdrawal that was undertaken would determine the precise implications of disinvestment for this country. If exports of physical capital to South Africa

continued, or if technology was transmitted under licensing agreements, or if expatriate personnel were available to fill the skills and entrepreneurial gaps, it is possible that disinvestment would have almost no effect on the economy in terms of reduced access to these resources.

#### Implications for the Distribution of Income

Orthodox economic theory predicts that inflows of foreign capital bring about increasing equality in the distribution of income. Conversely, outflows of capital could be said to result in a worsened distribution of income. This view is not supported by more radical writers, who indicate that, in certain circumstances, capital inflows may cause greater inequality.

Extreme racial inequality has been shown to exist in South Africa (4), although rising black real wages in the 1970s have brought about some redistribution from Whites to Blacks, narrowing slightly the vast racial income disparity, but worsening the distribution between urban and rural African families. Manufacturing, which in 1975 employed about 28 per cent of Blacks outside domestic service and agriculture, led the field in increasing black wage rates, which then rose in the mining and government sectors (5). It was shown in Chapter Three that multinationals played an important role in raising wage rates for black employees in the manufacturing sector. It was also argued that their potential for encouraging further reforms in this area is limited. Whether foreign firms remain or whether they sell their assets is unlikely, under the present circumstances, to encourage an improvement in the distribution of income.

If disinvestment lowers the rate of growth of the economy, it will probably result in a fall in the real incomes of both white and black workers, increasing the numbers of those living in absolute poverty in South Africa. This factor alone may not



affect the racial shares of income, which McGrath found to have remained remarkably constant over a long period of time (from 1946 to 1970) (6), regardless of the rate of growth of the economy. However, if disinvestment has negative consequences for employment, it will probably result in increased income inequality as lesser-skilled black workers will lose their jobs first.

While disinvestment pressures may indirectly bring about a worsening of the distribution of income, and probably will cause a fall in the real incomes of all South Africans, their effects ought not to be overstressed. Income levels and equality in distribution are far more closely connected to economic and political conditions than to the presence or absence of foreign capital. Concern with these issues should therefore be directed towards present government policies, which, in fact, will ultimately determine the precise effects of disinvestment on income distribution in this country.

#### Implications for the Balance of Payments

A consideration in Chapter Two of the historical situation on the current account of the balance of payments revealed that persistent current account deficits since 1962 have made South Africa increasingly dependent on foreign capital inflows to finance the overspending. The increased reliance on short-term borrowing to meet the shortfall has also placed a considerable debt servicing burden on the economy. A successful disinvestment campaign will greatly exacerbate the structural balance-of-payments problem by reducing inflows on the capital account, and perhaps even causing net capital outflows. If new inflows of capital are not forthcoming, and foreign investors repatriate abroad all profits, interest and the proceeds of the sales of assets to South African investors, then it is likely that deficits would emerge on the capital account. This would become even more severe, if local investors were pessimistic about

prospects in the country and looked for more promising investment opportunities overseas. Persistent deficits on the capital account of the balance of payments would necessitate a reduction in domestic absorption and the devaluation of the currency so as to generate current account surpluses.

Exchange-rate devaluation may prevent the level of real output from falling after a reduction in capital flows provided that the terms of trade do not worsen. The depreciation might even be expansionary, increasing real income and employment, if there is excess capacity in the economy which allows the production of tradables to rise, without a reduction in the output of non-tradables. However, successful trade sanctions applied simultaneously with disinvestment could lower the elasticity of demand for South African exports or may even cause the collapse of the demand curve for exports. Either possibility will retard the efficiency of exchange rate depreciation in reducing the deficit, forcing a greater share of the burden of adjustment on to the level of absorption. This could lower real incomes, although it is possible that the reduction in absorption may be greater than the reduction in income.

The operation of MNEs may also create balance-of-payments problems, although the high propensity to import and low propensity to export of multinationals in South Africa reported in Chapter Three cannot unreservedly be considered a cost to the local economy of the presence of foreign firms in South Africa. Many of these firms employ high-technology production processes requiring specialised inputs and capital equipment, and ownership or control of the plant does not influence the propensity of the firm to import. In some cases it might be argued that these firms could equally use locally obtainable inputs and production processes which are more appropriate to domestic conditions. A cost-benefit analysis of the effects of withdrawal on the linkage-creating potential and balance of payments effects of MNEs in South Africa would require that each firm be considered in the light of its particular circumstances.

Persistent outflows of capital as a result of the economic and political uncertainty within the country and the resulting fall in the value of the rand, together with the current debt crisis, necessitated the re-introduction of the dual exchange market in September 1985. Although the depreciation of the currency did succeed in bringing about a surplus on the current account of the balance of payments, the re-introduction of the dual exchange system was deemed necessary to protect the rate at which current transactions occur from the disruptions caused by excessive outflows of capital. It would appear from the theoretical arguments put forward by Fleming that, in the face of disinvestment pressures, this is the most appropriate exchange rate policy for the country to pursue for the foreseeable future. Statements by the Minister of Finance that a return to a unitary exchange rate will be made as soon as "normality" is reached in South Africa's external financial relations would appear ill-advised until such time as reform has been seen to occur in this country and pressures for disinvestment are eliminated.

#### Implications for the Current Debt Crisis

The vulnerability of the economy to disinvestment pressures was highlighted in Chapter Two. This vulnerability arises from an increased dependence, particularly by the public sector, on foreign loans to finance investment and to meet persistent current account deficits. During the 1970s and early 1980s, political instability and the consequent falling profitability of direct investment resulted in an increased reliance on short-term borrowing, which placed an increased debt-servicing burden on the economy. In 1985, the sharp depreciation of the rand caused by large-scale sales of the currency and the refusal of some creditor banks to roll over short-term debt placed the country in a position where it was unable to meet its repayment obligations. A four-month moratorium on \$14 billion of short-

term debt was declared in August 1985, and this was later extended to 31 March 1986. In February 1986, an agreement was reached between South Africa and its 30 major international creditor banks that no more than five per cent of the debt would be repaid before February 1987, although the rate of interest would be increased by one percentage point. Creditor banks, however, are reluctant to re-assess the country's credit-worthiness for at least twelve months (7). In view of pressures to disinvest, some banks, particularly those based in the US, are likely to cease lending to South Africa. The transference of some foreign credits into negotiable certificates of deposit, which is under consideration, will give politically sensitive bankers the opportunity of withdrawing from dealings with this country sooner than would otherwise be possible. However, the higher interest payments, together with the understanding that the country will be in a better position to meet its obligations in 1987, are a strong inducement to European banks to roll over credits and to continue lending to South Africa, although possibly in a different form. There is speculation, for example, that loans will be switched from international bank credits to tied export financing (8).

As was suggested in Chapter Two, while there are profits to be made from lending money to South Africa, credit appears to be forthcoming, albeit at a greater cost. If instability in South Africa were, however, to endanger foreign investments, international banks may again refuse to roll over short-term debt. This is evidenced by the insistence of creditor banks that visible signs of reform be undertaken if rescheduling is to be considered (9).

The cessation of international bank lending is the most serious threat to the government of the disinvestment campaign. This will place a far greater burden on the economy than the restriction or even the withdrawal of foreign direct investment. Not only will it create balance of payments problems and slow the growth rate of the economy with consequent negative implications

for employment, but it will have direct implications for the financing of public sector investment, which has increasingly relied on foreign sources for funds. Increased competition for funds on the domestic financial market by the public sector will probably result in the crowding out of private sector investment.

#### Summary of Main Findings

1. It may be concluded that the cessation of capital inflows and the withdrawal of foreign capital will retard the rate of growth of GDP.

2. While the direct implications of disinvestment for employment are likely to be minimal, reduced access to foreign capital could have serious consequences for the rate at which job creation occurs.

3. Diminished access to foreign technology and skills could have serious implications for modern development, although benefits might accrue to the economy if this encourages the introduction of techniques of production and management skills more appropriate to the needs of the domestic economy.

4. Disinvestment may cause a fall in the real incomes of all South Africans, and may also worsen to some extent the distribution of income, but these factors are more closely related to economic and political structures than to the presence or absence of foreign capital.

5. The cessation of capital inflows will cause deficits to emerge on the capital account of the balance of payments necessitating a reduction in domestic absorption and the depreciation of the domestic currency in order to encourage surpluses on the current account. The disruptive effect of

capital outflows on current transactions will be lessened by the dual exchange rate system presently in operation.

6. The promotion of exports is another method of dealing with the deficit on the balance of payments. This policy has the advantages of providing employment and developing linkages with the economy, but it presupposes that export sanctions are not imposed.

7. The economy is particularly vulnerable to the threat of the withdrawal of loans by international bankers, a sanction which is increasingly possible in view of the country's diminished creditworthiness.

## 5. CONCLUSION

Even a very cursory reading of some of the voluminous literature that has been generated by the disinvestment debate reveals the emotional and complex nature of the issues involved. Advocates both of disinvestment from, and continued involvement in the South African economy subscribe to an abhorrence of apartheid and a belief that political and social structures in this country must be changed, although the programmes for change do not spell out specific reform targets. Both groups of protagonists advocate the use of economic means to achieve this political end, and it is about the precise economic effects and the link between these effects and the ultimate political goal that so much speculation has occurred. The course from disinvestment or continued involvement to political change is, as yet, uncertain. This study has traced out the likely implications of investment sanctions for the South African economy through the use of positive economic analysis, although it makes no attempt to speculate as to what impact the economic effects of investment sanctions might have on political structures. This study is not, however, devoid of the expression of values and feelings, and comment has been made on a variety of normative issues that are raised when considering the disinvestment issue.

The South African economy has been shown to be crucially dependent on inflows of foreign capital. Since 1956, the country's net international indebtedness has increased at an average annual rate of about ten per cent, declining significantly only in the years following major incidents of political unrest, and standing in 1983 at 33,2 per cent of GNP. The need for these inflows of foreign capital has been reflected both in the shortage of funds for domestic investment and in persistent current account deficits. The composition of the country's foreign liabilities has also changed since the 1960s,

when more than half of the total consisted in direct investment. Declining levels of profitability of FDI and an increased dependence by the public sector on foreign loans have been responsible for the growing proportion of indirect investment in total foreign liabilities, which had risen to 58,2 per cent in 1983. This change has resulted in an increase in the debt-servicing burden of the economy, and this has been accompanied by a shrinking in the time duration of loans and the depreciation of the rand, both of which are indications of the declining confidence of overseas lenders in the profitability of the South African economy, and both of which have precipitated the country's current debt crisis. South Africa's reliance on inflows of foreign capital, which predominate in strategic sectors of the economy, and the tenuousness of the country's foreign debt position, highlight the vulnerability of the economy to disinvestment initiatives, particularly to those aimed at curtailing bank loans to this country.

This study has shown that foreign subsidiaries of multinationals are not responsible for inducing permanent large inflows of long-term direct investment. The expansion of direct investment has occurred by the reinvestment of profits earned in South Africa, with foreign companies retaining between 30 and 76 per cent of their gross profits over the years from 1960. The major benefits of FDI to this country have been argued to be the initial capital inflows, and the transfers of technology and management skills from more advanced countries. In some cases, however, where these are inappropriate to local conditions, or where they stifle local development, this might be argued to be a cost. The active, and in some cases substantial, involvement of some multinationals in social upliftment programmes, and the contribution of foreign codes of conduct in the past to establishing more progressive employment practices in the manufacturing sector, must also be considered a benefit. The potential of foreign firms for expanding employment opportunities, for creating employment through the development of strong linkages into the local economy, and for encouraging



further reforms in the workplace through the adherence to even improved codes of conduct appears, however, to be limited, and the role of these firms in lobbying for social change is, as yet, undeveloped.

Costs to the economy occur through the high propensity of foreign subsidiaries to import (although, in some sectors, this is no lower among local firms), and through the welfare losses arising from industrial concentration which tends to take place in industries subject to a high degree of foreign control. In spite of these costs, however, this study has shown that multinationals have made a significant contribution to the development of the South African economy, particularly to the development of strategic industries, such as the automobiles, petrochemicals and computers.

The withdrawal of foreign companies already operating in South Africa appears to be more of a moral issue for the companies involved than a significant lever for political and social change. By merely selling their assets to other foreign or South African investors, multinationals are not going to make any significant impact on the economic or political situation in this country, except, perhaps, by reducing both overseas and domestic confidence in the system. On the other hand, it is also not possible to argue that MNEs are presently a significant force for changes in labour relations in the local market place. The contribution of some firms to skills development and to corporate social responsibility programmes must be recognised. In this area, it is believed that foreign firms subject to codes of conduct (and to disinvestment pressures at home) far outstrip their South African counterparts. However, common facilities for eating and dressing and equal opportunities for job advancement do not satisfy the political aspirations of Blacks. The political issues of particular relevance to labour, particularly to black labour, are not being addressed. Foreign affiliates are potentially a powerful lobby group, and if they wish to justify their presence in this country by emphasising their

opportunities to encourage change in the workplace and at higher levels of government, then they must ensure that they do, in fact, mobilise the resources at their disposal to exert pressure on the South African government and the business community.

The analysis of the effects of disinvestment on the South African economy in this study reveals that the cessation of capital inflows will retard the rate of growth of GDP, which, in turn, will limit the rate at which employment creation occurs. Disinvestment will also cause deficits to emerge on the balance of payments, necessitating the use of deflationary economic policies to contract the economy in order to reduce spending on investment and consumption, and therefore on imports. Together these effects may cause a fall in the real incomes of all South Africans, and may also have the effect of worsening the distribution of income, since black unemployment, especially in the rural areas, and black wage increases will be depressed. Disinvestment will have further negative implications for the development of the economy if it results in reduced access to foreign technology and skills. The most serious threat to the economy is probably that of the cessation of foreign loans. This would not only restrict economic growth and cause balance-of-payments difficulties, but it would either stifle public sector activity by eliminating an important source of financing for this sector, or else it would result in the crowding out of private sector investment as the public sector competed with the private sector for the limited supply of domestic savings.

The findings of this study would suggest that disinvestment in its broadest sense would seriously disrupt the functioning of the South African economy. The implementation of restrictive monetary and fiscal policies to reduce absorption and to switch expenditure from foreign to domestic goods and services, may enable the economy to withstand some of the negative impacts of disinvestment on the balance of payments and on the savings gap, but the inevitable result would be a slowing down of the growth rates of income and employment. There are two potential effects

of disinvestment which might be considered to be positive, both of which follow from a depreciation of the exchange rate. The first results from the stimulatory effect on exports of a rise in the rate of exchange, and a consequent increase in employment. An increase in the cost of capital equipment resulting from depreciation would also have a positive impact on employment, but in the short run, the low elasticity of substitution of labour for capital would limit this effect. Thus it is hardly likely that these factors will in themselves compensate for the economic growth foregone through reduced capital inflows. Export sanctions imposed simultaneously with investment sanctions might possibly drive the economy into siege-type behaviour, with severe implications for the political stability of the country.

This last conclusion depends on the assumption that sanctions are universally and successfully imposed. The point has been made throughout the study that this is unlikely to occur. The severity of the implications of disinvestment for the economy will therefore be positively related to the stringency with which sanctions are applied.

This study has not attempted to develop recommendations as to the strategies which the South African government could adopt to control the effects of investment sanctions. However, it was shown that a system of dual exchange rates, such as the financial and commercial rand system, is efficient in dealing with disruptive capital flows, and the recent assurance made by the Minister of Finance that this system will be abolished as soon as the debt situation reaches some degree of "normality", is considered as being ill-advised, at least until such time as the disinvestment issue is no longer a threat.

The implications of disinvestment for post-apartheid South Africa need also to be considered. If sanctions do result in a severe shortage of financial and physical capital and of technical know-how, causing economic stagnation and serious difficulties on the balance of payments, then any black

government that comes to power will inherit this situation, and will find it as difficult as, if not more difficult than, the present government to correct the problems. The future prosperity of the country will also be threatened by the almost certain reluctance of private foreign investors to reinvest capital in a country from which it has previously been withdrawn, particularly if that country is suffering structural economic damage and political instability.

The issues involved in the disinvestment debate are wide-ranging, with implications for the rate of economic growth, employment, the distribution of income, and external economic relations. The complexity of the issues is heightened by the ethical considerations of involvement in an economy structured on apartheid, and by the consequences of foreign withdrawal for the political and social order.

In the light of the present situation in South Africa, arguments against disinvestment on the grounds that it will add to the suffering of the disadvantaged can sound hypocritical. The extent of suffering among the poorest of the South African society is such that it could hardly become much worse, and one might be justified in concluding that the hardest hit would be the more privileged South Africans of all races. If, as some argue, continuously high rates of economic growth can transform South Africa's income distribution into something like that of other industrial societies, the time required for this to occur will be considerable. At present, given the low growth rates of employment of the 1980s, the prospects of the economy growing sufficiently rapidly for "trickle down" to occur to all members of the population do not appear too hopeful. High growth rates require high rates of investment in order to sustain them, and in a climate of buoyant growth there is little difficulty in generating the necessary levels of investment. On the other hand, poverty circles are hard to break in a stagnating unstable economy, as foreign investment is not attracted, and domestic surpluses become difficult to generate. The buoyant era of the

1960s, with high rates of growth of income and employment, may have produced a climate in which it appeared that South Africa was moving closer to a solution of some aspects of the racial income problem. In the 1970s the level of employment grew slowly as a result of the world recession and internal political unrest. The world recession of the 1970s and early 1980s, coupled with waning foreign and local confidence in the political stability of Southern Africa, may have initiated the beginning of a vicious circle of poverty and growing unemployment from which there may be no foreseeable escape for an increasing portion of the South African population. If there is a genuine concern for the rate of growth of the economy, for employment creation and for redistribution of the country's resources, then urgent attention now needs to be given to current political and economic policies in South Africa, in order to stem the stream of foreign capital outflows.

## NOTES

### Notes to Chapter 1:

1. The Rev. Leon Sullivan, shareholder in General Motors, drew up a Code of Conduct for firms operating in South Africa, with a view to ensuring fair employment practices for all race groups employed by American firms. A draft of the Principles and discussion as to their effectiveness will be found later in this paper.
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9. Ibid p.343. South Africa provides an excellent example. In July 1985, a mere month before the moratorium on short-term debt was declared, economists at the Old Mutual Economic Research Unit concluded that, according to indications yielded by the debt-service ratio, the South African economy was well capable of servicing its foreign liabilities, even after the large depreciation of the rand. Economic Monitor, July 1985, pp.17,18.
10. Meier (1980) p.346
11. Frankel, S H Capital Investment in Africa : its course and effects, Oxford University Press, 1938, p.53
12. Ibid p.89
13. Ibid pp.75,76
14. Spandau, A Economic Boycott against South Africa : normative and factual issues, Juta, Kenwyn, 1979, p.108
15. Ibid pp.110,115
16. Van der Merwe, E J and M C Bester "South Africa's Foreign Liabilities and Assets, 1956 to 1981" in South African Reserve Bank Quarterly Bulletin, June 1983, p.23
17. Ibid p.24
18. In this section the review provided in the Ninth Economic Development Programme for the Republic of South Africa : 1978-1987 (EDP) is used as the basis for analysing the period 1947 to 1977.
19. EDP p.71
20. Ibid
21. This section draws heavily on the EDP for its analysis of the period 1962 to 1977.
22. EDP p.84
23. See South African Reserve Bank Quarterly Bulletin September 1985
24. Old Mutual Economic Research Unit Economic Monitor July 1985 p.18
25. Van der Merwe and Bester op cit p.26
26. Old Mutual Economic Monitor op cit p.19



27. EDP p.90
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