South Africa's New Era

Flight From Jo'burg

International pressure has bowed South Africa's once-powerful economy. But, argues **Joseph Hanlon**, a post-apartheid nation may find few friends to support its economic renewal

In Johannesburg the stock exchange hit an all-time high. There was euphoric talk that foreign investment would flow in, because President de Klerk had unbanned the ANC and released Nelson Mandela. Many believed that this was enough to ensure that South Africa was no longer a pariah.

It was a mark of how effective and costly has been the international campaign to isolate the apartheid economy. But it was also indicative of the self-delusion of white South Africa about its place in the world. To be sure, apartheid did allow super-profits, which attracted substantial investment by transnational corporations (TNCs), and even enabled white South Africans to create their own TNCs, notably Anglo American and Rembrandt.

But in recent decades the need to defend apartheid and protect against sanctions meant that South Africa created an inefficient, over-regulated economy supporting a massive and corrupt bureaucracy and military machine. There is a huge mal-distribution of wealth. Indeed, South Africa fits better than most nations the caricature of a Third World country.

And the South African economy is small. The World Bank classes it as a 'lower-middle-income' country; the worth of its manufacturing sector is similar to Venezuela or Turkey, and small compared to Mexico or Argentina.

Despite attempts at self-sufficiency, South African industry is still highly import-dependent. Foreign currency to pay for imports comes in three ways: exports of gold, coal, fruit, etc; foreign investment, particularly by TNCs but also by the purchase by foreigners of shares on the Johannesburg stock exchange; and loans, including trade credits (a form of international hire purchase).

TNCs ended *new* investment to the Third World (including South Africa) in the late 1970s. Equity capital was replaced by loans at ever-higher interest rates, which increasingly these countries could not pay. Thus, when South Africa defaulted on its debts in 1985, its financial crisis had been triggered by a debt overload very similar to that of other Third World countries.

When Mrs Thatcher called on February 6 this year for the lifting of the UK's 'voluntary' ban on new investment, she referred to it as one 'of the very minor sanctions that we have'. And she is right. If British firms had wanted to invest during the last 15 years, they would undoubtedly have ignored the 'voluntary' ban, but few did.

In the early 1980s, South Africa's TNCs began to 'disinvest', moving substantial amounts of money abroad and setting up new bases in white Europe. By 1985, US TNCs – with more black executives and knowing the history of the US South – concluded that whites could not keep control. It was better to withdraw, ending direct investment links, and deal with South Africa as any other Third World country. This was clearly spurred on by the US anti-apartheid movement and especially by selective purchasing laws, but the TNCs had been ready to move.

Britain and West Germany were exceptions to this trend. Some companies pulled out, but most stayed in, influenced more by boardroom racism than by an eye to profits. White British businessmen accepted the view of their South African counterparts that whites would maintain control. Indeed, links were close; Sir Michael Edwardes is a South African who was head of Chloride and British Leyland and then returned home. Four years ago, he told South African businesspeople that it should be possible to restore international investment through 'sensible representation, but without the trauma of "one man one vote"'.

Sanctions played an increasing role. By 1986 trade sanctions were costing South Africa more than £2 billion per year, while nobody would grant new loans. Suddenly South Africa, like other Third World countries, was exporting capital to the developed world. This meant it had less money to buy imports – which, in turn, made it less interesting to TNCs selling there.

The pipedream in white South Africa is that simply talking to Nelson Mandela will be enough for sanctions to be lifted. Then money will flow into South Africa, which will again be the darling of the TNCs.

This chimera may inflate the Johannesburg stock exchange. But international capital, for the most part, doesn't believe it; there will be no massive inflow of new foreign capital in the near future. Some new loans could be available to cover part of the capital outflow and thus boost South Africa's capacity to import. But there won't be an investment boom, because TNC attitudes have irrevocably changed. For many years, capitalists allowed racism to cloud their business judgment and afforded special treatment to South Africa. One of the most significant (if unintended) impacts of the anti-apartheid movement was to force TNCs to see South Africa in more purely capitalist terms, and that seems unlikely to change. They have lost interest in South

Africa.

Caution outside South Africa also reflects the realisation that the process of negotiation will be long and hard, with continued turmoil along the way. The *Financial Times* on February 2 commented: 'South Africa is still a high-risk investment. Anyone who is thinking of putting money into Jo'burg stocks, or advising a board to re-invest or roll over a loan, should wait a while. How long? Probably at least a year, maybe several more.'

This is because nothing less than a transfer of power is at stake. Whites still believe that a new form of white rule can be found and they find it hard to see why they should give up a lifestyle that they could not dream of in Europe. De Klerk's probable strategy is to spin out negotiations for as long as possible, perhaps a decade or more, with a steady string of small concessions. In Namibia the actual handover of power is occurring 12 years after South Africa agreed in the United Nations to independence for the colony.

If that prevarication happens, there will be continued uprisings, bannings, detentions, and killings – matched eventually by tighter sanctions. Hardly conducive to further investment or even loans. So South Africa will be a high-risk investment until the whites give up political power.

But suppose by unbanning the ANC de Klerk really has started the juggernaut rolling and it now cannot be stopped. The most likely settlement probably involves dividing political and economic power. De Klerk's demands for 'group rights' and Mandela's demand for nationalisation might then become bargaining chips to be conceded. The black majority would gain political power in exchange for TNCs and white South Africans maintaining a dominant economic position in a mixed economy.

Exactly this happened in Zimbabwe under the Lancaster House accord, and more recently in Namibia. Indeed, it may be the only sort of settlement acceptable to the United States. And US support for Unita in Angola and the Contras in Nicaragua shows that the ANC will need to take into account US demands.

Under that kind of settlement, money would flow to South Africa. Although there would be little new investment by TNCs, there would be significant new loans. And there would also be a major increase in aid – although not at the Marshall Plan levels talked of a few years ago, before Western attention turned to Eastern Europe. Aid would trigger an increase in trade, new mining and industrial developments, and increased TNC non-equity involvement.

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But no Western country will now agree aid or loans to a Third World country until it reaches agreement with the IMF and adopts a 'structural adjustment' package. This is known as 'conditionality', something a majority-ruled South Africa will have no choice but to accept, involving cuts in government expenditure and lower living standards for the poor. The IMF will also demand a re-integration into the world economy that will probably bar the new government from developing industry and instead force it to concentrate on increasing exports of primary products.

That will create major economic contradictions within a majority-ruled South Africa. The new government will probably profess some degree of socialism, yet be forced to dismantle the regulatory apparatus that allowed the present (allegedly capitalist) government to exert such a tight control over mining, industry, and foreign exchange. Mining, particularly of gold, will face a crisis because many mines will be unprofitable if miners are paid a living wage; will wages be kept down to encourage exports?

Many Afrikaners have sinecures in the present bloated civil service, and a final settlement might protect many of these jobs. This happened in Zimbabwe as part of the Lancaster House accord; and subsequent IMF limits on the state payroll made it difficult to hire additional new black civil servants. Land reform, for example, was held back because the government was not allowed to hire staff to carry out the reform, nor to employ new agricultural extension workers to help and train those being resettled. South Africa, too, will surely face this problem.●