"From a tiny stream grows a mighty flood. . ."

At the end of 1966 US direct investment in South Africa was $490 million. Ten years later the dollar value of US direct investment had more than trebled, reaching a figure of at least $1.67 billion by 1976.1

The flow of dollar capital into South Africa more than kept pace with the general growth of foreign funds during this decade. Thus the US percentage share of foreign capital in South Africa grew steadily, particularly in the 70s, and accounted for over one-fifth of such capital by 1975.2 In the earlier part of the decade the major flow of funds was in the form of direct investment; from the end of 1973 there was a sudden dramatic escalation of loan funds. The total of all dollars (in the form of direct investment and loans) in South Africa doubled in the two years from December, 1973 to December, 1975.3 (See Table I)

Foreign Investment in the South African Economy

South Africa's white-controlled economy has always relied heavily on foreign capital to power its expansion, but the traditional sources of such capital in the late nineteenth and first half of the twentieth century were predominantly British and European. The funds that developed the diamond and gold mines came primarily via London.

US activity in South Africa reflected changes in post World War II international economic and political power relations. The old empires had collapsed and southern Africa was no longer Britain's private preserve. South Africa presented new opportunities as a source of important raw materials, as a market for capital, technology and complex industrial equipment, and as a springboard for entry into the rest of sub-Saharan Africa.

The period after 1950, in which US corporations began to make significant investments in South Africa, coincided with a period of rapid growth and structural transformation in the South African economy. By the 1970s the old mining and agricultural base had made way for an economy in which the manufacturing sector contributes almost 30% of gross domestic product annually. While the rate of growth varied somewhat during the period, these were generally boom years. The average annual growth rate in the thirty years from 1946-1976 slightly exceeded 9.8% (and even allowing for inflation the real growth during the period averaged an impressive annual 4.9% with a high of 7.1% in 1974).4

Demands for foreign capital expanded in this period. There were few years in which internal public and private savings were large enough to cover all new fixed investment. In the ten years 1964-1974 foreign investment provided an average 8% of new gross domestic investment.5 This increased to an average of 14% in the period 1970/71-1974/75 and reached a high of 24.5% in 1975/76, before collapsing to 2% in 1976/77.6 The shortfall was particularly dramatic in 1975 and 1976 because of intensified government-inspired activity. In the year 75/76 South Africa needed

<table>
<thead>
<tr>
<th>Table I</th>
</tr>
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<tbody>
<tr>
<td><strong>Dollar Area Share in Foreign Capital in South Africa</strong></td>
</tr>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>1967</td>
</tr>
<tr>
<td>1972</td>
</tr>
<tr>
<td>1975</td>
</tr>
</tbody>
</table>

Table compiled from figures provided in the Nedbank Report.

*Note: Figures here are given in aggregate for the dollar area, which includes Canada. (See Footnote 2.)
R2039 million ($2324 million), over 5% of gross domestic product, to bridge the gross domestic investment financing gap.7

The average net inflow of foreign capital into South Africa in the ten years to 1976 was R570 million a year. Those funds were used both to supplement local savings and to augment foreign exchange earnings from exports. According to a November 25, 1977 article in the leading South African financial journal, the Financial Mail, "Without the extra savings and foreign currency SA could never have achieved its average economic growth rate of 4.5%, allowing living standards to rise by more than 1.5% a year."

According to the South African Reserve Bank, by 1975 the total stock of all foreign investment, (direct investment and loans, often referred to as foreign liabilities) in South Africa had reached R16,450 million. R7428 million of that was in the form of direct investment, and an estimated R3566 million (21.6%) was derived from the Americas.8 It is worth noting here that it is difficult to compute the exact size of US economic involvement in South Africa. The Reserve Bank does not release country-by-country figures. It uses aggregate regional figures—the US being included under the Americas or the dollar area. As there is almost no record of Latin American investment, and little Canadian investment, except in the form of investment by corporations like Ford Motor Co. of Canada, which is itself a US subsidiary, it seems reasonable to assume that the bulk of investment derived from the Americas is in fact derived from the US.

Most typically, throughout the major part of this period, foreign capital in general, and US capital in particular, flowed as direct investment into the privately-owned sectors of the economy. It was absorbed into the development of manufacturing-related areas such as the oil industry and mining. Only towards the end of the period did the pattern begin to change for reasons to be discussed later. In 1967 direct investment accounted for 67.8% of South Africa's gross foreign liabilities. By 1972 it had diminished to only 62.9% and it dropped to 45.2% by 1975.9

US Investment

Various lists compiled by different authorities suggest that there are between 250 and 400 US companies active in South Africa. It is clear however that between ten and fifteen corporations account for some 75% of direct US investment in South Africa. Further, US investment in South Africa is heavily concentrated in a few major areas of the industrial economy, so that for instance US companies dominate the auto and oil industries—controlling over 40% of the oil market. Recent estimates indicate that the major investors are:

- Mobil—$1.3 billion
- Caltex—more than $225 million
- General Motors—$150 million
- Ford—more than $100 million
- Chrysler—$45 million—South Africa unit merged with South African-owned company in 1976
- Union Carbide—over $100 million
- Kennecott—$130 million
- Phelps Dodge—over $100 million
- General Electric—more than $125 million
- ITT—$50-70 million—through minority position in South African-owned company since 1977
- IBM—$8.4 million

No Force For Change

There is no space here to deal at length with an analysis of the role of US companies in South Africa, or with the arguments so frequently adduced (most frequently, of course, by the companies themselves) in support of their progressive role as a force for social change in South Africa.

It is clear that the South African economy has relied very heavily on foreign investment to power its growth. It is also clear, from even the briefest examination of history, that the years of maximum economic growth have been also years of intensifying political repression for the black majority in South Africa. It is not at all clear that the black population has shared in any significant way in even the purely economic benefits of this continuous growth. Much has been made in the US and South African financial press recently of the trend of black wages to increase at a faster rate than white wages. This may look impressive until one examines the results of these rates of growth in terms of the actual hard cash that black and white workers take home each month. Because black wages have traditionally been kept so low, even considerable increases in their rate of growth mean relatively little in absolute terms—often leaving the recipient and his/her family still living below the poverty datum line, while allowing the gap between white and black earnings to go on widening.

To quote only one example: in manufacturing in the years 1970 to 1976 average real monthly African earnings increased 52% from R52 to R79; white average real monthly earnings rose only 11%, from R307 to R340—but the gap between average white and average black wages actually grew slightly, from R225 to R261 a month.10 (See Table II)

<table>
<thead>
<tr>
<th>WHAT MANUFACTURERS PAY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
</tr>
<tr>
<td>1971</td>
<td>100</td>
</tr>
<tr>
<td>1973</td>
<td>200</td>
</tr>
<tr>
<td>1975</td>
<td>300</td>
</tr>
<tr>
<td>Absolute gap</td>
<td></td>
</tr>
<tr>
<td>Whites</td>
<td>100</td>
</tr>
<tr>
<td>Africans</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Department of Statistics

Financial Mail September 16, 1977

It is also important to recognize that the flow of US capital provided not only financing for economic growth but also crucial technology and know-how.

The importance of this contribution is well under-
stood in South Africa. Commenting on the fact that since the early 1960s, foreign investment has accounted for approximately 8% of South Africa's gross domestic investment, the Director of Barclays National Bank of South Africa stressed that these percentages "can be misleading in that they do not reflect the true extent to which we have had to rely on foreign investment (and in particular the know-how skills normally accompanying foreign investment) in respect of specific projects or specific economic sectors—and sometimes these can be key projects and industries."

This technological capacity has been vital for overall growth. It has also facilitated the development of strategic sectors within the economy which play a direct role in the maintenance of white minority control. Technology from the US helped develop South Africa's nuclear capacity, its ability to utilize indigenous sources of energy (particularly via the SASOL oil from coal and ESCOM nuclear power reactor projects), and its ability to build troop trucks, police vans, and electronic and other complex military and communication equipment, to name only a few examples.

Recent research by John Suckling, an economics lecturer at York University, suggests that the input of know-how has been the most important role of foreign investment, accounting for about 40% of the growth in South Africa's GDP in the period 1957-1972.

The corporations argue that they can and will improve the economic circumstance of the black men and women (less than 100,000 out of a total black work force of 8,000,000) they employ. This is the essence of the various Codes of Conduct, such as the Sullivan Code, currently being proposed in response to escalating pressure from a wide range of groups in the US to "pull out now." Weighed in a balance against the tremendous and diverse support given to the South African power structure, such action, even were it seriously undertaken, could only appear feather-light.

Finally, no code of corporate conduct proposes opposition to the fundamental structure of South African society, in which black political dispossession and economic exploitation are integrally interlocked. Indeed, as already pointed out, US corporations play an active role in oiling the wheels of that system.

Guarding Against the Future

In general, despite some cyclical fluctuations, the 50s,60s, and early 70s were boom years for the South African economy. There were no distant political rumblings, but in some senses these acted as a stimulant, encouraging greater government expenditure on projects designed to increase economic and strategic self-sufficiency.

The state had played an active role in shaping South African economic development since its establishment of the first major iron and steel works, ISCOR, in 1928, but the last five years have seen a rapid increase in such intervention.

Acting mainly through state-controlled public corporations, the government set out to prepare for what it foresaw might be a difficult future which included civil war and international sanctions.

Specific projects were developed to reduce South Africa's dependence on imported oil. SASOL II, a $2.8 billion plant, was commissioned to produce oil from the abundant domestic coal supplies, with the expectation that it would come on stream in the 1980s and provide perhaps one-third of the country's oil needs. A giant US company, Fluor Corporation, won the contract to handle the total development package for the project, from the planning through the construction to the operational phase.

The Electricity Supply Commission went ahead with plans for the construction of two nuclear power plants. US General Electric bid on the contract, but lost out to a French-based consortium in which the US is represented by Westinghouse.

Plans were made to develop the capacity to enrich South Africa's uranium, with the dual aim of acquiring a very valuable export commodity and ensuring South Africa's ability to expand its nuclear capacity, including weaponry, without hindrance by outside controls.

Plans also went ahead to expand South Africa's capacity to export its minerals, such as coal and iron ore, thus tying it more closely with the economies of the West. The huge Sishen-Saldanha Bay and Richards Bay projects involved the construction of new ports and railway lines and the expansion of mining and processing operations, with a wide variety of US corporations, including US Steel and Phelps Dodge, linked to different aspects of the overall program.

Escalating state intervention in the economy is reflected in the fact that public (parastatal) corporations have been growing far more rapidly than private business enterprises. They accounted for only 6% of new gross domestic fixed investment between 1950 and 1960, 8% in 1965, 11% in 1970 and 17% in 1975. Conversely, the private enterprise share of gross domestic fixed investment fell from 65% in 1950 to 49% in 1975.

This growth of the public sector is a crucial part of the overall design to maintain the white supremacist structure of South African society. The South Africa Reserve Bank Quarterly Bulletin, describing the public corporations which are State financed and controlled, reported that: 'social responsibility' rather than the profit motive per se has been the mainspring of their establishment and direction. The three principal rationales that underlie their existence according to the Reserve Bank are:

- To develop large-scale enterprises from which the participation of private capital is deterred by the low yields that are available and the large financial resources that are required.
- To overcome apprehension by the government that natural resources may be unduly depleted if they are exploited by private enterprise.
- To meet military or strategic requirements.

A list of the names of some typical parastatal corporations is probably sufficient to indicate the role these corporations are designed to play.

- Armaments Development and Production Corporation of South Africa Ltd. (ARMSCOR)
- Electricity Supply Commission (ESCOM)
- Industrial Development Corporation (IDC)
—Uranium Enrichment Corporation of South Africa Ltd.
—South African Coal, Oil and Gas Corporation Ltd. (SASOL)
—South African Iron and Steel Industrial Corporation Ltd. (ISCOR)

The acceleration in public corporation expansion meant also an increased need for more foreign capital. As the structure of the corporations made it difficult to acquire funds except by borrowing, in 1972 this sector began to seek foreign loans, although initially the amounts borrowed were relatively small, as indicated in Table IV below.

Projections for the overall capital required by the public corporation expansion for the decade 1970-1980 vary widely, but the minimum figure quoted has been R12 billion. A more realistic figure seems to be R20 billion and the Chairman of the Sanlam Bank, Lens Wassenaar, forecast that R37 billion would be needed to meet the targets set by the government's Economic Development Program to 1979.¹⁴

The planners who drew up these grandiose expansion schemes had expected that much of the financing would come from the tide of money that rolled into South Africa as a result of increases in the price of gold. They had not intended to be forced to seek vast sums of money on the international loan market. And for awhile their hopes were fulfilled. Until 1971 the price of gold had been fixed at a constant level and the sale of gold, a commodity in constant demand internationally, had regularly brought in about 40% of the revenue earned on all of South Africa's physical exports.¹⁵ At the beginning of 1973 the price of gold began to soar, moving from $65 an ounce to almost $200 by the end of 1974.¹⁶ The value of net gold output rose by R599 million to R1770 million in 1973 and by another R795 million to R2565 million in 1974.¹⁷ South Africa was "in the money."

Running into Trouble

Yet by 1974 the golden glow was no longer strong enough to hide the ugly cracks developing in the South African economy. In the next two years the economy plunged more and more deeply into trouble and foreign banks, with US banks playing a leading role, began to make vast sums of credit available to the South African government and its public corporations, in what amounted to a massive rescue operation. The troubles came from the coalescence of several factors, including a rise in the price of oil at the same time as South Africa began stockpiling oil, a fall in the price of gold, increased defense expenditures and a general increase in the quantity and cost of imports, a fall in exports due to the recession in Europe and the US, a consequent deficit in the balance of payments on current account, a fall in gold and foreign exchange reserves, and increasing political strains. Without belaboring an obvious point it is also worth restating that fundamentally the South African economy is built on rotten foundations. Apartheid generates particular types of (historically) short-term profits, but its rigid exclusion of the majority of the population from even the limited benefits of ordinary capitalist expansion creates severe ultimate limits on the expansion, restricting the internal market and internal sources of savings and capital, and constricting domestic supplies of trained skilled labor. All this tends to make the South African economy particularly dependent on and sensitive to its overseas connections.

1973 had been a bad year for the industrial economies of western Europe, Japan and the US, and by 1974, following the normal pattern of a 12-18 month time lag, the effects of the recession were becoming obvious in South Africa and were having the immediate effect of curbing exports. At the same time expenditure on imports was still growing, and at an accelerating pace; inevitably, as can be seen in Table III, the deficit grew rapidly.

### TABLE III

<table>
<thead>
<tr>
<th>Year</th>
<th>Balance on Current Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>-1000</td>
</tr>
<tr>
<td>1974</td>
<td>-2000</td>
</tr>
<tr>
<td>1975</td>
<td>-3000</td>
</tr>
<tr>
<td>1976</td>
<td>-4000</td>
</tr>
<tr>
<td>1977</td>
<td>-5000</td>
</tr>
</tbody>
</table>

In part this growth in expenditure on imports came from the program of government spending already referred to. In addition, South Africa suddenly found itself facing a mounting oil import bill and the price of oil rocketed. In 1973 oil had cost South Africa approximately R190 million; by 1975 the amount totalled at least R1100 million, according to the Minister of Economic Affairs.

There was also some ominous writing on the walls that had so long protected the Pretoria regime's northern boundaries from any possible attack by liberation forces. By mid-1974 the Portuguese empire had collapsed; within a year Mozambique and Angola were independent, and there was escalating guerrilla war in Zimbabwe and Namibia. South Africa responded by ever-increasing expenditure on military preparedness. The defense budget grew from R462 million in 1973 to R948 million in 1975, R1350 million in 1976 and R1650 million in 1977, and much of that was spent overseas, creating further shortages of foreign exchange.¹⁸

The South Africans had hoped that gold would carry them along, and while the price continued to soar, they could at least stave off any crisis. But the price of gold came tumbling down in 1975. From a high of almost $200 an ounce in 1974 the price fell to little over $100 an ounce in 1976. Gold, which had contributed 37.7% of all foreign receipts in 1974, contributed a share of only 27.3% in 1976.¹⁹
U.S. Banks Respond

There was an urgent need for foreign capital to finance the expenditures outlined above, and South Africa found a new source of such funding in the international lending market.

Borrowing went up sharply from 1974 to 1976: private bank loans increasing from $2.7 billion outstanding at the end of 1974 to $4.8 billion at the end of 1975 and well over $7 billion outstanding at the end of 1976. By 1976 at least $2.2 billion of the outstanding loans had been made by U.S. banks, and some estimates place this figure at closer to $3 billion.26

William Raiford, in the very detailed report on international credit flows to South Africa prepared for the Senate Committee on Foreign Relations, provides detailed figures on both the size and the sectoral directions of this flow. (See Table IV)

Raiford estimates that the volume increase in bank lending has meant that bank lending, as a percentage of foreign investment, has grown from 15% in 1974 to some 32% in 1976.

This represents an increase in the proportion of credit as opposed to ownership in the economy. A move towards liquidity, it appears to signal a growing awareness among international investors that, "in the long term, South Africa is a less secure investment in comparison with other major recipient countries."27

Borrowing more will increase the need to borrow more—once loans fall due they have to be repaid, interest has to be paid all the time—and in both cases South Africa is likely to be forced to seek outside funds to meet these obligations.

It seems likely that obtaining foreign loans is becoming increasingly expensive for South Africa. Bankers are businessmen, so they do not refuse loans on moral grounds. But the increasing level of popular revolt appears to have convinced them that South Africa is becoming a high risk area. Thus the period for which loans are made is getting shorter, and the interest rate is rising. Ten- to fifteen-year loans were common in 1972/73; in the 1974/76 period most loans were for under ten years, some for as little as three.

Over 60 US banks are known to have participated in providing credit to South Africa, but a small number of banks are responsible for the major share of the loans. Citibank, Chase Manhattan and Morgan Guaranty all have loans to several parastatals and to the South Africa government; Manufacturers Hanover, Bank of America and Kidder Peabody have been other very important lenders.

The Bank Campaign

Consciousness that US dollars are building apartheid's strength has grown considerably in the last two years, encouraged, most certainly, by the increased resistance being displayed by the black majority in South Africa itself.

Campaigns are now being widely mounted both against U.S. investment in South Africa and against bank loans to that country.

1977 saw the formation of the Committee to Oppose Bank Loans to South Africa, co-sponsored by the American Committee on Africa and Clergy and Laity Concerned. The Committee has been working nationwide to build a broad base of membership among labor, church and community organizations, with a particular emphasis on the black community. Its aim: to end all bank loans to South Africa.

The Present and the Future

The political events of 1976 and 1977 have had the immediate effect of reversing the flow of funds to South Africa. Throughout the second half of 1976 and much of 1977 there was an outflow of capital amounting to approximately R100 million a month.28 The government tried hard but somewhat unsuccessfully to stem the outflow, both by restricting the ability of foreign corporations to declare dividends and transfer

<table>
<thead>
<tr>
<th>TABLE IV</th>
<th>INTERNATIONAL BANK LENDING AND SOUTH AFRICAN DOMESTIC INVOLVEMENT (in millions of U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bank lending outstanding at the end of year (BL)</td>
<td>NA</td>
</tr>
<tr>
<td>Estimated new bank lending</td>
<td>NA</td>
</tr>
<tr>
<td>Bank lending to South African Government and public corporations (identified)</td>
<td>NA</td>
</tr>
<tr>
<td>Net capital inflow (NCI)</td>
<td>1,002</td>
</tr>
<tr>
<td>Central Government and banking sector:</td>
<td></td>
</tr>
<tr>
<td>Long term</td>
<td>157</td>
</tr>
<tr>
<td>Short term</td>
<td>-25</td>
</tr>
<tr>
<td>Public corporations and local authorities:</td>
<td></td>
</tr>
<tr>
<td>Long term</td>
<td>216</td>
</tr>
<tr>
<td>Short term</td>
<td>43</td>
</tr>
<tr>
<td>Private Sector:</td>
<td></td>
</tr>
<tr>
<td>Long term</td>
<td>241</td>
</tr>
<tr>
<td>Short term</td>
<td>217</td>
</tr>
</tbody>
</table>

profits and by offering high interest rates. At the same time there were energetic efforts to close the huge current account gap by encouraging exports and curbing imports. By early 1977 the current account had moved into a surplus position, and that position was maintained through the middle of the year.

Government spokesmen made much of this achievement, but the general business and financial sector was more concerned with the implications of the cut-off of capital flows.

In a strongly worded article in November 1977, the Financial Mail asked the question, "WHO CARES ABOUT FOREIGN INVESTMENT?" and concluded, "We do. For without it South Africans can forget about better living standards." The article quoted Aubrey Dickman, financial advisor to the giant mining and industrial corporation Anglo-American, as warning that a shortage of foreign funds would lead to rising unemployment. "The demographic reality of a non-white labor force expanding at 3% per annum challenges us to re-attain a growth rate of at least 5.5%," he said. Such a growth rate was necessary to absorb the annual increase in work seekers, he continued, and "It is undisputed that we cannot achieve this without foreign capital."

In fact, many economists are already estimating at least two million blacks unemployed, and many express concern at the explosive political implications of this situation.

The Financial Mail concludes its article with these words: "... it would be highly unrealistic to expect the Republic to buck the world trend and chalk up fast growth without the aid of foreign funds.

"Yet fast growth we must have. Three per cent growth in GDP means virtually no increase in living standards. Four per cent implies growth in per capita income of little more than 1% a year, at which rate it would take more than 50 years to double the average standard of living, and more than a century to push it to the level now enjoyed in, say, the U.K.

"We must have 5% or more. And for growth of 5% or more we must have foreign capital. It is really as simple as that."

For Americans the issue is also simple. The apartheid system needs dollars to survive. It will soon be back in the US looking for them. The question is, will it get them?

It should be the task of all those who support the African struggle for justice and liberation to act now to stop the continuing flow of dollars to apartheid.

Footnotes

1. Direct investment is used to mean investment of a non-resident (person or corporation) who has a controlling interest in a South African organization. Control means the holding of a least 25% of the voting or ownership rights by a single person or several affiliated persons, ownership of a least 50% of the voting rights in a SA organization by various residents in one country. Direct investment is thus distinguished from loans, though both are sometimes referred to loosely as 'investment' or more usually 'foreign liabilities'.

2. Figures on US involvement are not easily obtained. The South African Reserve Bank divides the world into geographic regions, such as the EEC, Americas (or $ area), Africa, etc. It gives no specific country data. As there is very little capital flow, either direct investments or loans, form the rest of North or South American to South Africa, it can safely be assumed that figures quoted for the Americas provide a useful approximation of US involvement.


6. South African Reserve Bank: Annual Economic Report, 1977, Johannesburg, page 12. Note that for Reserve Bank purposes the economic year runs from July 1 to June 30 and is thus shown as 75/76, 76/77, etc.

7. SARB, page 12.


10. Financial Mail, September 16, 1977, pages 1054-6. Figures have been left in Rand here and in several other places for convenient comparison over time, as the exchange rate between the $ and the R has been subject to several significant changes since 1971. The most recent 1975 devaluation of the Rand changed its $ value from $1.47 to $1.14. When quoting from South African sources, the practice of stating all figures in millions of Rand has been retained. Thus, e.g., R1200 million equals R1.2 billion.


12. Nedbank, pages 97, 98.

13. Nedbank, page 100. This development also reflected the continued attempt by a section of the national bourgeoisie to use its control of the state to build economic power.


17. Nedbank, page 211.


20. Raiford, pages 44 and 45.

