

## Chapter 3

### Historical Perspective of South Africa's Investment Climate

#### 3.1 Introduction

The context and relevance of the current chapter to the rest of the dissertation is to a great extent proxied by the following statement taken from Maylam (1986): *“...an underlying assumption of this history is that there exists a constant interplay between the past and present. People's views about the present state of affairs in South Africa must inevitably contain in-built assumptions about South African history. Similarly, present preoccupations and concerns determine to a considerable extent the way in which the past is approached and studied.”*

In more specific and narrower terms, it can be shown or at least argued that the general pattern and course of historical events, transitions and adaptation offers an instructive synopsis of why things are as they exist today. In this regard, the current chapter firstly sets out to view the investment environment and its attendant policy from the beginnings (pre-industrialization and industrialization) of *'industrialization'* in South Africa in order to set the necessary context/framework within which the country's current policies on foreign direct invest can be assessed and critiqued.

Within this same analytical framework, the chapter further endeavors to formally explore the relatively intuitive yet complex assumption that business entities operate in an environment that is wholly dependent on the *social, political, legal* and *economic* vicissitudes of the day. In fact, and especially in the case of foreign owned companies these four environmental forces can be expected to have a significantly greater impact on business performance than is the case with domestic firms. Ultimately, at the extreme, business performance is no longer the issue. The issue advances from one of performing well to one of being able to remain an on-going concern as foreign businesses may be constrained to the point of not being allowed to continue operations in host countries. This point is supported by what has been evidenced globally in a number of cases where multinational enterprises were subjected to corporate nationalization and also in those cases where multinational enterprises, as one of the principal instruments of political and economic embargos, were forced to suspend or terminate their subsidiary operations in host states. The latter of these two cases is indeed the precedent in the South African historical context.

Lastly, given that current circumstances are to some extent influenced and shaped by past events and circumstances, a central and underlying point considered throughout the discussion of this chapter is the point that - perhaps as a result of historical labor relations, socioeconomic turmoil, and the economic disturbances brought about by international sanctions and embargoes during the latter part of the apartheid era, South Africa's existing foreign investment policies may reflect a certain openness to foreign investment that compensates or perhaps even over-compensates for those prior hardships.

### **3.2 Agricultural, Mining and Manufacturing Investment and Development**

As in the case with most of the world's other societies or societal divisions, the cycles and patterns of investment (both foreign and domestic) and development in South Africa moved from agrarian to industrial to information technology. However, the distinctive characteristic of South Africa's history that influenced every aspect of societal life including the stages of investment and development is the system of racial discrimination that came to be known as apartheid. The South African Government used apartheid not only to further the political and social interests of white Afrikaner citizens, it also used apartheid as a springboard for industrialization and development to serve the ends of white economic empowerment (Lowenberg and Kaempfer 2001:33; Cf. Fine and Rustomjee 1996:63; Cf. Maylam 1986:143-152; Cf. Clark 1994:134-7). In the latter instance, white farmers and mine owners solicited and received the assistance of the government in disenfranchising blacks as a way of creating a low wage labor force that would increase the profitability of both industries. The basic strategy employed by the government to disenfranchise blacks was to first alienate them from their land by implementing the 1913 Land Act which ended the system of squatting and sharecropping by Africans on white farms, and the 1936 Native Trust and Land Act which reserved 86% of the total land area of the country for whites only. The combined effect of these two pieces of legislation is that Africans were confined to residing on 14% of the land, most of which was unsuitable for farming and grazing. This effectively destroyed the formally viable and flourishing black peasant farming sector. Thereafter, 'hut taxes' and 'labor taxes' on blacks in the 'homelands' were imposed which heavily taxed blacks earning a living in black areas ('homelands') with the intent of compelling them to work for cash wages in 'white' areas while residing in

black areas (Nattrass cited in Lowenberg and Kaempfer 2001:33-35; Cf. Lipton and Simkins 1993:359-60).

From whence the Afrikaners gained political power, South African governments have used all means at their disposal to further the lot of the Afrikaner population in general and more specifically to solve the "poor whites problem" (Omer-Cooper 1987:171-2; Cf. Clark 1994:48,163). An in-exhaustive list of the tools used to achieve these goals includes 'import substitution industrialization' (ISI), the creation of state owned enterprises, and last but not least - apartheid. Thus, since the earlier stages of development and industrialization, the Government extensively intervened in private markets on the side of white farmers/landowners and mining magnates against black labor (Clark 1994:48,163; Cf. Lipton and Simkins (eds.) 1993:359-60; Cf. Lowenberg and Kaempfer 2001:32-5). There was also a conscious effort on the part of Government to reduce or even eliminate 'dependence' on foreign trade which had intermittently been interrupted by politically motivated trade embargoes since as early as the 1940s (Lowenberg and Kaempfer 2001:6). The pattern of exploitation of the African masses by the government in the name of development and advancement was to continue up until the complete dismantling of apartheid corresponding with the promulgation of the 1993 interim constitution.

In the light of the foregoing discussion, it can be reasonably ascertained that it is virtually impossible to avoid the use of racial and ethnic categories and divisions in chronicling any significant aspect of southern African history since the use of such categories were inherently present in and have been key determinants of the region's past (Maylam 1986:136).

Standard Industrial Classification (SIC) is a universal categorization that lists primary industries to include – agriculture (SIC division A), mining (SIC division B), and manufacturing (SIC division D) and secondary industries to consist of - banking, real estate, and other services sectors. For the sake of keeping the study within a reasonable scope and breadth of exploration, only the most strategic and important (in terms of contribution to GDP) economic sectors will be addressed in this chapter. Thus, in the sections to follow the historical development of the agricultural, mining, and manufacturing sectors will be explored in seriatim.

### **3.2.1 Agricultural investment and development**

The primary directive of any Government policy is to reflect the values and norms of society. Any change in these values and norms necessitates a continued process of policy evaluation. As part of the policy evaluation process, existing as well as prior legislation, programs and policies must be reviewed with the expectation of contributing to the contextual background that informs the policy making process (White Paper on Agriculture 1995:16). This is the approach followed here in reviewing investment and development in the agricultural, mining and manufacturing sectors.

#### **3.2.1.1 Indigenous Agriculture**

Historically, agricultural production (of a very limited nature) can be traced back to the first identifiable tribal inhabitants of South Africa. There is strong evidence suggesting that the Khoi-Khoi (named Hottentots by the Dutch) and the San (called Bushmen by the Dutch) are the most ancient of inhabitants of southern Africa whose cultural implements and way of life can be traced back to

the Late Stone Ages. In addition to being hunter-gatherers, the Khoi-Khoi engaged in livestock farming of cattle and sheep for milk, meat and clothing (Omer-Cooper 1987:3-5).

There is also ample archaeological evidence showing that the Iron Age in South Africa began around the fourth and fifth centuries A.D. The Iron Age tribes of southern Africa, who came to be referred to as Bantu and Nguni by European settlers, are believed to have had their origins in central and east Africa. It is these early African inhabitants who were the first South Africans to engage in crop harvesting. In addition to growing crops the Bantu and Nguni were also self-sufficient in smelting iron and other metals mainly for the production of agricultural tools (Omer-Cooper 1987:8).

### **3.2.1.2 European Settlement and Agriculture**

Prior to the discovery and large scale exploitation of minerals in Southern Africa, the basis of economy and exchange was principally driven by agriculture. The early exploitation of the South African landscape by foreign interests was initially based on its strategic location for European trade routes. Thus, in 1652 the Dutch shipping party of van Riebeeck landed at what is now known as Cape Town to develop a halfway station for shipping expeditions and trade between Europe, India and the East Indies (Butts and Thomas 1986: 56-7). The trade related business interests of the Dutch precipitated their eventual conquest and settlement of the region.

It was under the mandate of the Dutch East India Company that the Cape Colony was established. As a halfway station for trade the exploitation of the land by this time was of a very limited nature. The surface area of the colony

was confined to the small peninsula on which Table Mountain stands. According to the needs of the Company's traders, a small fort was built along with a garden of adequate size to feed and refresh the Company's travelling crews. Meat supplies were gained through barter with the Khoi Khoi peoples of the surrounding areas (Omer-Cooper 1987:17-18).

As the needs of the Dutch East India Company continued to grow, an incessant expansion into the southern African landscape began to take shape. Based on the suggestion of Van Riebeeck, a decision was taken by Company officials to establish small farms to be owned and operated by some of their employees as a way of meeting the increasing demand of the halfway station for food, refreshment and meat. This decision turned out to be the pivotal point upon which the Dutch perception of southern Africa changed from that of a convenient and efficient halfway station for trade to being viewed as an ideal location for settlement (Omer-Cooper 1987:17-18).

By 1679 the Company had expanded its territorial hold well beyond the Cape peninsula to include amongst its land possessions, Hottentots Holland, False Bay, Saldanha Bay and the Tygerberg area. It was also around this time that the Dutch population began to be integrated with latecomer settlers from other parts of Europe, namely Germans and French and Belgian Huguenots. The French and Belgian Huguenots initially sought refuge from religious persecution in Holland before being commissioned off by the Dutch government in Holland to settle in the Cape. These Huguenots possessed superior wine making skills of which they applied towards incubating the highly lucrative Cape wine industry (Omer-Cooper 1987:19-20). The new French, Belgian and German immigrants were encouraged, and in some cases coerced, to adopt the language and culture of the South African Dutch community. This amalgam of European

immigrants formed a strong cultural and nationalist bond discernibly referring to themselves as Afrikaners or Boers (the Dutch word for – farmer) (Omer-Cooper 1987:21; Cf. Butts & Thomas 1986:57).

### **3.2.1.3 Modern Agricultural Policy**

#### 3.2.1.3 (i) Apartheid-era Agricultural policy and development

As a prerequisite to discussing the South African government's agricultural policies during the apartheid era, it is important to first ensure clarity and develop a common understanding and consistent usage of the terms 'apartheid' and 'apartheid era'.

With regard to the term 'apartheid', a concise definition that will be used throughout this text, is that proposed by Khan (1989:5-6). Khan (1989) defines apartheid as the uniquely South African system of "...legal, institutionalized segregation by race in order to organize society by a racial-ethnic hierarchy at every level". In other words, segregation policies determined under apartheid were the law and any actions taken by any person or institution to contravene those policies were considered illegal. Further, apartheid was implemented to effect segregation in every aspect of the social, political and economic lives of the people.

With regard to defining the term 'apartheid era', the origins of and period of operation of the apartheid system are specified as a continuum that covers almost a hundred years from the promulgations of the original Constitution of the Union of South Africa in 1910 to the first democratic (interim) Constitution of the Republic of South Africa in 1993. Correspondingly, Lowenberg and



Kaempfer (2001:32) define 'apartheid' as a "vector of policies that can be varied in intensity along a continuum...and [that is also] responsive to the relative influences of interest groups that receive benefits or incurs costs associated [with it]...". It is commonly accepted among scholars of South African history and economics that the apartheid system originated as a response on the part of the white working class to the threat of black labor-market competition and has also been used as a tool of white employers to secure land and draw cheap agricultural and mine labor from the rural African sector (Lowenberg and Kaempfer 2001:33).

Government's policy of regulating the agricultural sector along racial and class lines, left in its wake a negative legacy that has survived and persisted into the present. This apartheid era legacy that has unavoidably been inherited by the present democratic government is what has commonly been referred to as the 'two agricultures' (Lipton and Simpkins (eds.) 1993:360). The 'two agricultures' is epitomized by the reality of two separate agricultural sectors, one for whites and one for blacks. The white agricultural sector has been (and continues to be) heavily subsidized by the government resulting in a highly competitive large-scale capital intensive industry that produced the bulk of domestic as well as export food supplies. The black agricultural sector, on the other hand, received no assistance from the government and remained small-scale, labor intensive and produced mainly for subsistence rather than for markets (domestic or foreign) (Lipton and Simpkins ed. 1993:360). Rather, the government during the apartheid era actually took measures to handicap the black agricultural sector in order to further benefit the white agricultural sector. This approach of the government is exemplified by the 1913 and 1936 Land Acts which restricted black ownership and residence in South Africa to 14 percent of the total surface area of the country. Another significant piece of

legislation that impeded black agricultural development was the 1970 Subdivision of Land Act, which disallowed black smallholder farming in 'white' areas. Throughout this era black farmers were also excluded from access to financial, marketing and other facilities of the numerous agricultural boards that serviced and assisted white farmers only (Lipton and Simkins (ed.) 1993:360).

The paradox of the 'two agricultures' is an area of agricultural policy that is only now being addressed (South Africa - White Paper on Agriculture 1995; Cf. South Africa Yearbook 1999:75). At present the discrepancies in land ownership and production are such that approximately 67,000 white farms produce 95 percent of marketed production on 85 million hectares (ha); while an estimated one million black farmers produce 5 percent of marketed production on 16 million ha (South Africa Yearbook 1999:75).

As the costs of direct support (cheap loans, subsidies and tax breaks) and indirect support (protection from imports, provision of research and extension, favorable terms of trade with the urban sector) to the white agricultural sector had risen exponentially since Union in 1910, it became increasingly clear to government that a reassessment of the costs and benefits of the agricultural system was needed (Lowenberg and Kaempfer 2001:194-96). The costs of subsidizing the white agricultural sector appears to have outweighed the benefits thereof, as is evidenced by the fact that agriculture's contribution to Gross Domestic Product (GDP) has been estimated to have declined from almost 20 percent in 1951 to 6 percent in 1990 (Lipton and Simkins (ed.) 1993:361).

### 3.2.1.3 (ii) Post-Apartheid agricultural policy and development

The four major challenges that face the South African agricultural sector in this the post-apartheid era are firstly, the social and economic imbalances brought about by the existence of the 'two agricultures' as an inherited challenge to democracy and development of the industry (Supra Sect. 3.2.1.3 (i)); secondly, the poor agricultural resource endowment of the country evidenced by the fact that only 17 million out of 100 million ha of farmland are presently classified as arable, and only 4 million of these are classified as 'high potential arable land'. The remaining 80 million ha of farmland suffers from poor soil content, low and erratic rainfall, and soil erosion and degradation.

Thirdly, amongst the most important factors limiting agricultural production is the availability of water (South Africa 1999:76). The country's average annual rainfall is only 502mm which is well below the world average of 857mm. Further, over the last decade or so, severe droughts, floods, hail storms and frosts have contributed to reduced agricultural production; and fourthly, the industry has also been plagued by inefficiencies and a tendency towards oversupply in maize, wheat, livestock, dairy, sugar and wine production as a direct result of stringent regulation and subsidization. The result of these artificial market supports of the white farming sector has been the frequent tendency towards the dislocation of supply and demand in its trading market.

Oversupply of the market is also partly attributable to unpredictable weather conditions that necessitates that farmers should plan their production with the expectation of natural losses due to bad weather, pests, plagues, and other pathologies. The implications to farmers of oversupply include increased transportation and storage costs, unfavorable volume-to-price ratios and

wastage due to the perishable nature of produce. (Lipton and Simkins 1993:359; Cf. Loxton 1993:216-220; Cf. South Africa Yearbook 1999:76,83).

Despite the above-mentioned challenges to the agricultural sector, South Africa remains self-sufficient in virtually all major agricultural products and is normally a net-exporter of food stocks. Also, despite the industry's steadily declining share of GDP(4.1 percent in 1998/99 as compared to 20 percent in the 1930s) it remains of vital importance to the economy as a provider of essential domestic consumer food requirements whilst also employing approximately one million people in its various sectors (South Africa 1999:75-6).

#### 3.2.1.3 (ii) (a) Marketing

The Marketing of Agricultural Products Act, 1996 (Act 47 of 1996) is the main impetus of the current efforts to reform the industry. The 1996 Act, under the supervision of the National Agricultural Marketing Council, scheduled the termination of all agricultural sector boards and schemes established in terms of the 1986 Marketing Act. By the 5<sup>th</sup> of January 1998, all agricultural control boards ceased to exist. In terms of the Act, certain limited statutory measures may be introduced in support of the industry, such as statutory levies to finance the research and information functions within a given sector (South Africa 1999:84). As of the closure of the agricultural boards, the key objectives of the NAMC are to integrate disadvantaged and small-scale participants into the mainstream of agriculture and to monitor the efficiency of the market, intervening only to correct market imperfections and socially unacceptable effects (South Africa 1999:84; White Paper on Agriculture 1995:9).

#### 3.2.1.3 (ii) (b) - credit and assistance

In line with its new policy directive, the national Department of Agriculture resolved to remove itself from direct involvement in agricultural credit delivery by abolishing the Agricultural Credit Board (ACB) and the State Assisted Production Loan Scheme through Financial Intermediaries. The agricultural industry must now seek assistance from the Land Bank and/or private financing from banks, creditors, financial institutions and agricultural co-operatives (South Africa Yearbook 1999:85).

### **3.2.2 Mining Investment and Development**

#### 3.2.2 (i) The importance of mining – Strategic Minerals

Although the bulk of South Africa's minerals are not used domestically but are instead exported, it is by way of these exports that minerals affirm their importance to South Africa both economically and politically. This has been observed in at least two ways.

Firstly, mining exports have consistently been the major source of foreign exchange earnings and the largest contributor to GDP, and secondly, many of the minerals that South Africa produces for export are 'strategic minerals' for which the majority of importing countries have no alternative supplier, insufficient local supplies and for which no mineral substitutes exist (Butts and Thomas 1986:35; South Africa Yearbook 1999:101-6).

Strategic minerals are generally defined as "those minerals determined to be essential to critical civilian and military needs in quantities not available from

domestic sources or secure foreign sources and for which no short term substitutes are available.” The extent to which this definition holds is a direct factor of time. That is, minerals considered strategic at some point in time would cease to be considered as such with the passage of time. The passage of time may result in technological breakthroughs that provide acceptable substitutes for a strategic mineral(s). Alternatively, the time factor may also lead to new discoveries of strategic minerals in the importing countries or elsewhere on the globe. Such new discoveries would then compete with exported strategic minerals from South Africa (one of the few producers of minerals classified as strategic) (Butts and Thomas 1986:37-42).

Due to their absolute importance in strategic sectors of industrialized and developing countries, the following minerals have been classified by the United States and its allies as ‘strategic minerals’ – chromium, manganese, cobalt and the platinum group metals (PGM). Oil during the early 1970s was also considered a strategic mineral as its production and export was controlled by OPEC, and industrialized as well as developing countries had highly limited alternative sources of oil. Thus, the result of the 1973 OPEC oil embargo was to throw oil dependent countries of the world into a prolonged recession.

The European Union, United States and Japan are virtually 100 percent dependent on strategic mineral exports from southern Africa and the former Eastern Block nations. Southern Africa and the former Soviet Union, in combination, control 99 percent of the world’s chromium reserves, 98 percent of PGM reserves, 89 percent of manganese reserves and over 60 percent of cobalt reserves (Butts and Thomas 1986:37-42).

The above-mentioned minerals are categorized as strategic in respect of the uses to which they are applied. Perhaps the most conventional as well as important application for Chromium is its conversion to an alloy in the metallurgical industry. The addition of chrome to steel imparts hardness, strength, oxidation, heat resistance and resistance to corrosion. The resulting alloys are used in superalloys for the aerospace industry, containment vessels for nuclear power plants, petroleum processing facilities, and in the defense industries. In the defense industries, one of the more critical uses of chromium is in the production of key components of jet turbines for military fighter jets. Chromium is also extensively used in the production of stainless steel, which by definition contains between 10 and 18 percent chromium. The United States is an important importer of Chromium. In 1984, U.S. consumption of chromium was approximately 466,000 tons, eighteen percent of which was provided by recycled scrap; the balance was imported. South Africa was the leading chromium supplier to the United States and provided 55 percent of Chromium demand in 1984, followed by Zimbabwe with 8 percent and the former Soviet Union with 7 percent (Butts and Thomas 1986:37-42).

Manganese is an essential element in the production of steel as it serves as a purifying agent which removes the impurities of oxygen and sulfur. There is no known substitute for manganese in this function. The steel industry in the U.S. produced 93 million tons of steel in 1984, worth over \$2.6 billion and imported 740,000 tons of manganese. It should be duly noted that the loss of access to manganese imports would make U.S. steel production impossible, given that 99 percent of it is imported. The major sources of manganese ore were South Africa with 31 percent, Gabon with 29 percent, Australia with 17 percent, and Brazil with 12 percent (Butts and Thomas 1986:37-42).

Cobalt is an essential alloying agent in the electrical and aerospace industries. The superalloys which require cobalt cannot be made with substitutes and constitute its most critical use. Each F-100 engine used on F-15 and F-16 U.S. fighter jets requires 910 pounds of cobalt for its ability to withstand stress of up to 20,000 psi and temperatures of 1,800 F. In 1984, the U.S. imported 95 percent of its cobalt. The leading import sources were Zaire with 37 percent, Zambia with 12 percent and Canada with 10 percent. Substitution for cobalt in superalloys cannot be accomplished without a loss of effectiveness and ceramic substitutes will not be available for some time (Butts and Thomas 1986:37-42).

The platinum group metals of platinum, palladium, iridium, osmium, rhodium and ruthenium are used in a wide variety of domestic applications. The most strategically important of which are in the petroleum refining, petrochemicals and telecommunications industries. In 1984, 91 percent of the PGM consumed in the United States was imported. The leading supplier of PGM to the United States in 1984 was South Africa with 49 percent, followed by the United Kingdom with 15 percent and the Soviet Union with 13 percent (Butts and Thomas 1986:37-42).

### 3.2.2 (ii) The Importance of Mining – Beneficiation

Beneficiation is generally defined as the upgrading of a primary ore to a stage where the component or component products can be used in a manufacturing process (South Africa's Minerals Industry 1987 – DME 1987:3). In other words, beneficiation refers to the conversion of a raw material (mineral ore) into a finished good or a partially finished good (work in-process good).



The importance of beneficiation relates to the fact that unprocessed goods are normally priced at a fraction of the same goods in beneficiated form. Thus it can be surmised that the export of unbeneficiated minerals represents a substantial loss of value added production and thus employment opportunities, foreign exchange earnings and also losses with respect to international terms of trade (Loxton 1993:247).

Extensive exporting of unbeneficiated primary minerals has essentially become a relic of the colonial era as it is seldom done presently (Rogerson in Taylor and Thrift (eds.) 1982:182-3; Fine and Rustomjee 1996:78). The current trend in many developing countries and South Africa, is to process minerals at least partially, mainly through smelting to produce a concentrate of higher value which is then either refined or, more often, shipped to refineries in more developed economies (Fine and Rustomjee 1996:78; Cf. Loxton 1993:247).

For South Africa in 1987, most of the manganese, phosphate and iron ore entered production processes and/or export markets in un-beneficiated form, while most of the mined metallurgical chrome, copper and nickel were in contrast beneficiated. During 1987, 96 percent of zinc metal production was consumed locally and none exported (South Africa's Minerals Industry 1987 – DME 1987:3).

#### 3.2.2.1 Indigenous Mining

Southern Africa has a long and protracted history of mining exploration and exploitation. This history pre-dates, by several centuries, the landing of the Van Reibeeck party on the Cape Coast in 1652. In fact, evidence has been unearthed (and radio carbon tested) that suggests that tin, gold, copper and

iron were mined and processed in and around the northern and eastern Transvaal and portions of Zimbabwe as far back as the prehistoric Early and Late southern African Iron ages (circa 500 - 1400 AD). These Iron Age mining sites are dispersed across the former Transvaal state with the largest concentration of sites in the Soutpansberg, Waterberg, Rustenburg and Middelburg districts (Maylam 1986:12). Further evidence of Iron-age mining in southern Africa exists in the form of fragments of nickel-bearing bronze found near Rooiberg which were similar in composition to the bronze metals of Sumeria, thus suggesting that there were smelting sites in southern Africa that pre-dated the Christian era. These ancient mineral discoveries have often been used as a guidepost to contemporary mineral explorers to locate new mineral deposits (Butts and Thomas 1986:98-9).

Mineral exploration and exploitation undertaken in southern Africa prior to the landing of the Van Reibeeck party attests to the fact that this mining was done by indigenous Africans whose descendants are the so-called 'Bantu-speaking' Africans (Maylam 1986:13). Indigenous mining was carried out on a small-scale basis and with rudimentary tools and techniques, however, the large-scale mining discoveries and technological advances of the latter part of the 19<sup>th</sup> century changed the course and pace of development, politics and war in the southern African region up to the present (Butts and Thomas 1986:98-9).

Diamonds were discovered along the Orange River in 1867. This discovery attracted a significant population rush to the area in the form of mining professionals, semi-professionals and laborers. A virtual diamond mining industry developed to the extent that approximately \$714 million in diamonds were recovered during the 60 year period following the 1867 discovery. The Orange River area for some time dominated South Africa's economic output

and was considered the backbone of the South African economy (Butts and Thomas 1986:99). The British attempted to seize the opportunity to capitalize on the wealth potential of diamond mining by colonizing the area. The Boers effectively withstood the challenge and the First Anglo-Boer War (1880-1881) ended with a British defeat. However, in 1886, the world's richest gold field was discovered in the Witwatersrand area of the Transvaal near what is now Johannesburg.

This discovery resulted in a flood of English labor and capital to the area, thus providing an economic incentive for a second British attempt at annexation. This time Britain was successful but the second Anglo-Boer War (1899-1902) left in its wake a deep-seated bitterness and resentment toward the British as a result of war casualties and concentration camp abuses (Butts and Thomas 1986:57).

#### 3.2.2.2 Apartheid-era Mining Industry Development

The modest beginnings of the mining industry through the iron age and beyond experienced exponential growth after the discovery of diamonds in 1867 and gold on the Witwatersrand in 1886. Expansion was further accelerated by the opening up of the coalfields of the Transvaal and Natal, and the discovery of deposits of other minerals, such as those of chromium, platinum, manganese, uranium and many others, the development of which led to South Africa's positioning as the leading country in the supply of many of the world's mineral needs (South Africa's Minerals Industry 1987 – DME 1987:1).

In the years immediately following the formation of the 'Union of South Africa' in 1910, government policy was to exploit to the fullest, the wealth potential of the

newly discovered mining deposits in and around Witwatersrand. The intention was to support the development and wealth creation of the mining sector in order that taxation of this wealth would contribute towards the development of other sectors of the economy (Omer-Cooper 1987:101,127). Among the actions taken towards this objective are the provision of:

- Rail links from Witwatersrand to the coast;
- Basic infrastructural support to the Witwatersrand area; and
- Incentives and support for the development of an explosives/chemicals industry to supply the mines with dynamite for blasting.

Despite claims by successive governments since 1910 that the mining industry developed through the active pursuit of economic policies based on the principles of free market enterprise, encompassing the dependence on the forces of supply and demand with the absence of undue State intervention, there exists evidence to the contrary (South Africa's Minerals Industry 1987 DME 1987:1). Since Union, a plethora of legislation has been enacted to advance the mining industry and white labor, mostly at the expense of African labor. In the mining industry, where labor costs comprised a significant share of total production costs, there was pressure on the part of mine-owners to displace expensive white workers with lower-wage blacks. The Mines and Works Act of 1911, and the Labor Regulation Act of 1911 are examples of government legislation that effectively, though indirectly, kept total labor costs down (by restricting black wages) for the mines whilst reserving skilled and semiskilled jobs for whites (Lowenberg and Kaempfer 2001:35-7, Seidman and Seidman 1977:37-9; Omer-Cooper 1987:158-9).

A key role in the development of the mining industry was played by so called 'mining finance houses'. As surface diamond deposits depleted, more capital-intensive and high technology methods were required to exploit deeper level deposits. Diamond mining was thus transformed from an activity conducted by large numbers of independent diggers to an activity dominated and controlled by large scale capital intensive enterprises commonly known as mining finance houses. The first such enterprise was De Beers, headed by Cecil Rhodes, which proceeded to extensively buy out small claim holders to take advantage of the required economies of scale that it possessed. The Kimberly Central Company run by Barney Barnato, also began to buy up claims in direct competition with De Beers. Kimberly Central eventually merged with De Beers. The other major mining finance houses that invested in the mining industry include Anglo American Corporation, Anglo Transvaal (Anglovaal), Johannesburg Consolidated Investments (Johnnies), Gold fields of South Africa (GFSA, an associate of a British Company, Consolidated Gold Fields), and Union Corporation, Ltd. Of the six major mining finance houses established before 1920, three were founded by South African diamond magnates (Rand Mines – Beit; GFSA-Rhodes; Jonnies-Barnato); two were controlled by German banks; and one, Anglo American, was founded with South African, British and American capital (Seidman and Seidman 1977:39-40; Cf. Omer-Cooper 1987:121-2).

Mining industry development undertaken by the major mining finance houses was augmented to a considerable degree by government investment in mining industry sectors which were considered to be of great importance to the national interest but for which there existed insufficient investment interest in the private sector. It was during the apartheid era that the government provided financial assistance for the establishment of a national steel industry, ISCOR

ltd. Later, through the industrial Development Corporation Ltd. (IDC) it financed the Phosphate Development Corporation Ltd (FOSKOR) for the supply of phosphate, SASOL which converts coal to oil, and ALUSAF for aluminum production. SOEKOR (Pty) Ltd., formerly the Southern Oil Exploration Corporation Ltd, is engaged in the search for oil and gas, both on land and offshore, and is wholly financed by the Central Energy Fund (Lipton and Simpkins 1993:131-3; South Africa's Minerals Industry 1987 – DME 1987:3).

### 3.2.2.3 Modern Mining - Economy and Policy

Presently, South Africa's minerals industry is broad based in terms of the variety of mineral commodities mined and traded. Over time, it has not only evolved itself into being the cornerstone of the South African economy, it has also been instrumental in providing surplus capital used to develop the country's economic infrastructure while additionally serving as the outlet for and generator of several sectors of the country's secondary industries (South Africa - DMEA 1987:1; WP Mining and Minerals Policy 1998:3; Fine and Rustomjee 1996:122-3; Loxton 1993:248). Secondary industries spawned by mining include explosives, chemicals, and engineering and capital goods such as drill steels and earthmoving equipment (Fine and Rustomjee 1996:72).

#### 3.2.2.3 (i) Role of mining in the national economy

By 1987 government statistics indicate that just over a thousand mines and quarries were in operation, producing 60 different minerals and exporting mineral commodities to 83 countries. Mining's contribution to Gross Domestic Product (GDP) has averaged about 15% in recent years, while mining's contribution to Gross Domestic Fixed investment (GDFI) was estimated to be

8.9% (or R7.8 billion) (South Africa's Minerals Industry 1987 – DME 1987:1-4; South Africa Yearbook 1999:97-8; Loxton 1993:247). Mineral exports account for almost 40 percent of South Africa's exports and this figure is significantly increased when various processed mineral products such as the ferro-alloys and steel are included. The major importers of South African minerals are North America, Europe and the Far East (South Africa's Minerals Industry 1987:1).

Total employment in the mining industry has been estimated to be on the order of 700,000 people by 1987. The largest sector within the mining industry is gold mining which employs more than 70 percent of the minerals industry's workforce and accounts for almost 35 percent of total World gold production. Other major contributors to the mining industry's share of Gross Domestic Product include platinum, diamond, uranium, iron, copper, manganese, chrome, phosphate and asbestos, as well as several base minerals (South African Minerals Industry 1987:1).

#### 3.2.2.3 (ii) (a) Modern Mining Policy - Privatization

Although there have been several major shifts in government policy regarding the privatization of the above-mentioned industries, the current policy of the government is to privatize all state run enterprises (Fine and Rustonjee 1996:108; Lipton and Simpkins 1993:130-3). After more than 60 years of direct state intervention and investment in industrialization through state owned enterprises, official government policy articulated a need for change and privatization (Lipton and Simkins ed. 1993:129-133). The policy aims and objectives set out in the 1987 White Paper on Privatization and Deregulation in the Republic of South Africa and supported by then President Botha in his 1988

opening speech to parliament affirmed governments intent to privatize (Lipton and Simkins ed. 1993:129-133). ISCOR was the first major state enterprise to be privatized in 1989 and the process continues to this day although under the strain of a strong and vocal anti-privatization movement.

#### 3.2.2.3(ii) (b) Modern Mining Policy - Mining Rights

Mineral rights constitute rights in the land. They are officially registered by the State, and are a form of property protected under the Constitution. Mineral rights are also tradeable (White Paper – Mining and Minerals Policy for South Africa 1998:11).

The government, under the leadership of the Minister of Minerals and Energy Affairs seeks to reform the current system of South African mineral rights that has developed over many years into a 'dual system' of prospecting and mining rights. Mining policy is termed 'dual system' in the sense that mineral rights may be vested in either private or public ownership (White Paper – Mining and Minerals Policy for South Africa:11).

This dual system of mineral rights has its origins in common law under which ownership of the land includes ownership of the minerals in the land. The law developed in such a way that the right to minerals in respect of land can be separated from the title to the land, for example upon original grant of the land or by subsequent transactions. The owner of land from which mineral rights have not been separated may separate the mineral rights from land ownership by ceding them to another person or by reserving them to himself or herself. The mineral rights are then held under separate title which may include all the



minerals in the land concerned or only a particular mineral or minerals (White Paper – Mining and Minerals Policy for South Africa:11).

South Africa and the United States of America are two of the few major mining countries that have a dual system of public and private ownership of mineral rights. In most other countries the right to minerals is vested in the State (White Paper - Mining and Minerals Policy for South Africa 1998:13-17). The South African government's intent, however, is to do away with the dual system in favor of State ownership of all mining and prospecting rights. This policy is motivated by the government's desire to enable citizens to gain access to rights in land on an equitable basis and is motivated firstly, by Constitutional provisions empowering government to execute reforms to redress the results of past racial discrimination, and secondly by article 2(1) of the UN Charter of Economic Rights and Duties of the State that grants to States full permanent sovereignty, including possession and disposal, over all its natural resources. In summary, Government's long term objective is for all mineral rights to vest in the State for the benefit of and on behalf of all the people of South Africa (White Paper - Mining and Minerals Policy for South Africa 1998:13-17).

Despite the above restructuring of mining and prospecting policy, the South African government intends to maintain the following key objectives thereof, namely to (White Paper – Mining and Minerals Policy for South Africa 1998:13-17):

- (i) Promote exploration and investment leading to increased mining output and employment;
- (ii) Ensure security of tenure in respect of prospecting and mining operations;

- (iii) Prevent hoarding of mineral rights and sterilization of mineral resources;
- (iv) Address past racial inequities by ensuring that those previously excluded from participating in the mining industry gain access to mineral resources or benefit from the exploitation thereof;
- (v) Recognize the State as custodian of the nation's mineral resources for the benefit of all;
- (vi) Take reasonable legislative and other measures, to foster conditions conducive to mining which will enable entrepreneurs to gain access to mineral resources on an equitable basis; and
- (vii) Bring about changes in the current system of mineral rights ownership with as little disruption to the mining industry as possible.

The government's policy proposals have met with extensive stakeholder reservations. Among the contentions raised against a transfer of mineral rights to the State are that (White Paper – Mining and Minerals Policy for South Africa: 13-17):

- a. The blanket transfer of mineral rights to the State could easily lead to administrative difficulties in a system not geared to the management of mineral rights, extensive delays and hence a loss of investor confidence that could seriously damage the South African mining industry;
- b. Holding of mineral rights is a critical parameter in the valuation of a mining company by international investors. The company is valued according to its future potential which depends on an ongoing flow of new projects derived from such mineral holdings;

- c. Private ownership of mineral rights based in the law of property is preferable to a pure licensing system of rights based in administrative law and involving administrative discretion. Private ownership affords the absolute long-term security of tenure that attracts investment in exploration, mining and marketing; and
- d. A bias towards state ownership would run counter to the Government's philosophy and policy on competition and privatization.

Government policy with regard to the aforementioned is still in the preliminary stages and is currently expressed solely in the form of a discussion document. As there is a vast amount of stakeholder input into the legislative process, the final version of the new legislation is expected to be modified into a much more moderate version than expressed in the discussion document.

### 3.2.3 Manufacturing Investment and Development

The First and Second World Wars comprised the catalytic force(s) that launched the country into its second industrial revolution, transforming it from a mining economy to a predominantly manufacturing one (Omer-Cooper 1987:182-3). Metals and engineering were the major nodal growth points of war production to the extent that before the war, almost all mining and industrial machinery was imported while the South African engineering industry was mainly occupied in service and maintenance work. As a direct result of wars, it was no longer possible to import the industrial machinery required for local production of consumer and industrial goods. Yet, the South African metals and engineering industries responded to the challenge. By the end of the war South African manufacturing industry was not only capable of mass

manufacture of a wide range of consumer goods but was also developing the capacity to manufacture the machines with which these goods could be produced. Though still needing technological imports, South African industry had passed the vital point of take-off into self-sustaining growth (Omer-Cooper 1987:182-3: Cf. Clark 1994:107).

After the Second World War, manufacturing development was further spurred by the fact that modern manufacturing technology required vast amounts of capital as well as large markets capable of absorbing its output. It was recognized by the government of the time that these dynamic requirements of manufacturing development could only be achieved through state intervention and support by the private sector. In this regard, the government thus engaged the following strategy (Seidman and Seidman 1977:56-58):

- Provided the capital and technological needs of some of the 'critical basic' industries in close cooperation with domestic and foreign firms;
- Intervened to provide favorable treatment to the import of capital goods and raw materials needed in manufacturing;
- Banned certain consumption goods regarded as non-essential (such as foodstuffs, clothing and luxury items) thereby providing a stimulus to the local production of them, as well as saving foreign exchange; and
- Direct government investment in manufacturing through the establishment of parastatals (public corporations).

The most controversial and perhaps the most effective of the above-mentioned industrialization strategies of the government was the direct investment in parastatals. By the 1970s, government's contribution to gross domestic fixed

investment (GDFI) amounted to almost half of all investment (public and private) in the entire economy (Seidman and Seidman 1977:59-67).

One of the major parastatals involved in the process of manufacturing industrialization is the IDC. Founded in 1940, the IDC played a supporting and lubricating role for infant industries that in turn made their contribution to industrialization. The mission of the IDC at its inception was to 'to facilitate, promote, guide and assist in the financing of new industries and industrial undertakings and schemes for the expansion, better organization and modernization of, and the more efficient carrying out of, operations in existing industries and industrial undertakings' (IDC 1971 – cited in Seidman and Seidman 1977:64; Cf. Fine and Rustomjee 1996:159). Largely through the financial and technical assistance of the IDC, by the early 1970s ISCOR (Iron and Steel Corporation) was producing almost 75 percent of all steel consumed in South Africa, while ESKOM (Electricity and Supply Commission) was supplying about four fifths of the country's electricity, and SASOL produced 12 percent of the country's oil needs (Seidman and Seidman 1977:59-67).

More than 60 years after the establishment of the first parastatals, the government had recorded a high level of success towards industrialization through the development of a well-tooled manufacturing sector (Loxton 1993:259-260; Cf. Clark 1994:165). However, the era of the late 1980s ushered in new government thinking on the continued viability of the parastatals. The government planned to privatize all parastatals in the face of numerous economic, political and social challenges during the decade of the 1980s, these challenges included the following (Clark 1994:165-169; Cf. Lowenberg and Kaempfer 2001:209-212):

- The gold price dropped from \$613 an ounce in 1980 to \$359 by 1984;
- Foreign loans amounting to \$14billion had been withdrawn by international lenders;
- Sanctions had been implemented by the United States and the European Economic Community;
- The rand had depreciated to a low of 37 U.S. cents;
- Internal unrest prompted the government to enact a state of emergency for more than five years; and
- The evolving cost structure of the parastatals showed that they were using greater amounts of state resources and becoming less profitable.

Although it has been argued by some that the government's call for privatization was an attempt to transfer vast state resources into the exclusively white private sector before turning power over to a black government, it is more likely that the Botha administration succumbed to the abovementioned environmental pressures and sought to partially redress them by obtaining sufficient capital through the sale of state firms (Clark 1994:166).

The reduction of direct government involvement in the economy has been a gradual process that actually began in the 1960s. After 1960, the government established no new state enterprises and instead turned the focus of the IDC to supporting private initiative through such programs as the Export Finance Scheme (1960) to subsidized South African exports, the Border Areas Development Scheme (1960) to finance industries near the African "homelands," and efforts at "rationalization" that merged firms in the same industry under IDC-sponsored holding companies (Clark 1994:166).

### 3.2.3.1 Outward-Oriented Industrial Policy

Up until 1992, the two key institutions in formulating and implementing industrial policy were the Industrial Development Cooperation (IDC) and the Board of Trade and Industries (BTI) (Fine and Rustomjee 1994:14,179). While the role of the IDC was to move the country towards industrialization through the establishment and support of state-owned industries, the BTI was tasked with improving industrial performance through the administration of tariff policies (Fine and Rostomjee 1994:14, 179). However, tariff protection proved to be an ineffective form of industrial support as indicated by several commissioned reports that led to the emasculation of the BTI by the BTI Amendment Act of 1992 (Fine and Rostomjee 1994:14, 179).

While the Viljoen Commission Report of 1958 supported the use of import tariffs, the Reynders Commission report of 1972 emphasized the need to shift industrialization policy to be outward orientated, and thus the need to reduce import tariffs. Following some of the recommendations of the Reynders Commission, the IDC in 1990 reversed industrial policy in South Africa through a double-pronged strategy which consisted of first reducing import tariffs, the basis of BTI's discretionary power, and secondly, supporting export-oriented capital investment through tax incentives (Fine and Rustomjee 1994:200). As a result of the implementation of the IDC's revised industrial policies, the BTI lost its prominence as a key institution in industrial *policy formulation* and was restructured and renamed the Trade and Industry Advisory Board in 1992 which is now tasked with *advising* the Trade and Industry minister on tariffs and dumping duties (Fine and Rustomjee 1994:202).

### 3.2.3.2 Disinvestment, Trade Sanctions and the Economy

Apartheid, as previously defined (see 3.2.1.3(i) above), was simultaneously a social, political, legal and economic phenomenon that underscored every aspect of South African societal life. The economics of apartheid has traditionally been studied under either of two divergent and polemic approaches known as the liberal approach and the neo-Marxist approach.

The 'liberal' approach saw apartheid as inherently anti-capitalist in that it interfered with the free movement of supply and demand forces in the economy by protecting white workers from labor-market competition with blacks. In contrast, the neo-Marxist approach viewed apartheid as a uniquely South African form of capitalism, in which apartheid laws served to enhance the productive capacity of the economy by ensuring an elastic supply of black workers at low wage rates (Fine and Rustomjee 1996:21-2; Lowenberg and Kaempfer 2001:1).

Although the distance between these two positions is enormous both in methodology and in conclusion, the international consensus on the efficacy of apartheid encompassed not only its economic viability, but also examined its social, political and ethical ramifications in calling for the dismantling of the system.

International trade sanctions and disinvestment campaigns instituted against South Africa in the mid to late 80s were intended to serve as the means through which the apartheid system would be brought to an end. In this regard, apartheid was seen as a system that could not be changed other than through indirect means. Thus, international measures taken to negatively affect the



South African economy were expected to lead to internal pressures (especially from the politically influential business sector) for a dismantling of the system.

Disinvestment, in the present context, is defined as the sale of physical or financial assets in a target country by individuals or governments of foreign nations (Lowenberg and Kaempfer 2001:122). As such, it can readily be ascertained that the intended outcome (on the part of those disinvesting) of disinvestments is to deny the target country access to the physical, financial, or human capital of foreign individuals or foreign-owned multinational firms (Lowenberg and Kaempfer 2001:122).

Economic sanctions, on the hand, refer to import and/or export trade restrictions imposed by sanctioning governments against a specific target country. The intent of sanctions is to bring about policy change in the target country through imposing, or sometimes merely threatening, the severest possible economic harm. The expectation is that the target country will comply by altering its objectionable behavior/policy as long as the cost of doing so is less than the costs brought about by the sanctions (Lowenberg and Kaempfer 2001:80; Cf. Khan 1989:23).

There are several constraints that may impede the effective functioning of sanctions and disinvestment against a target country. A key constraint being that legislated disinvestment often leads to the sale (at bargain basement prices) of fixed assets (plant, equipment and land) of multinational firms of disinvesting countries to domestic firms or multinational firms from countries that are not participating in the disinvestment campaign. The takeover of the assets of disinvesting firms in this manner will result in a continuation of the economic activities under question as well as a continuation of the offending

target state policies. A similar problem exists with the use of trade sanctions in that the economic impacts of the sanctions can be circumvented with relative ease by target countries, by simply channeling their imports and exports to alternative trading partners.

Thus in order for disinvestment campaigns and trade sanctions to have any economic effect in the target country, there must be a concerted and coordinated international effort that involves the participation of as many countries as possible. In the case of the 1986 South Africa sanctions, the sanctioning countries usually chose to boycott those imports that comprised a non-critical share of South Africa's total exports of the good in question (e.g., US and Canadian coal and agricultural sanctions). In other instances where the sanctioning countries were highly dependent on the import of a particular good from South Africa, South Africa's level of trade with the sanctioning countries was generally small relative to world trade, suggesting a highly elastic demand by the rest of the world and readily available substitute markets (this was the case with OECD iron and steel sanctions). Alternatively, in some instances, sanctioning countries imported a large share of South Africa's total exports of a particular good, but the importance of those exports to South Africa (in terms of their share in total South African exports of all goods) was small (e.g., US sanctions on South African apparel). In all of the above-cited cases the level of economic damage to South Africa was minimal (Lowenberg and Kaempfer 2001:111-19) (Cf. Tables 3.1, 3.2 and 3.3 below).

Although economic sanctions and arms embargoes had been launched against South Africa as far back as 1940, it was only by the late 1980s that comprehensive and coordinated international sanctions and disinvestment campaigns became sufficiently encompassing to have a major impact on the

South African economy (Lowenberg and Kaempfer 2001:6). In terms of United States statistics, seven U.S. firms ended their direct investment in South Africa in 1984, and forty in 1985, with the trend peaking at fifty-seven in 1987 (Khan 1989:61-5). Khan (1989:41) estimated the total output multiplier for the South African economy in the mid 70s to be on the order of four. Meaning that a sanctions induced decline in total exports of \$1million would have resulted in a decline in output (GDP) of about \$4million. The sanctions multiplier disaggregated for the key economic sectors amounted to 1.176 for agriculture, 1.0006 for gold, 1.025 for mining, and 1.377 for food, with all of these sectors expected to indirectly affect many others.

Table 3.1  
Major Trade Sanctions against South Africa, 1986

Country	Imports	Exports
United States	Steel and iron, coal, textiles, agricultural goods, uranium, Krugerrands	Oil Computers to apartheid-enforcing agencies
United Kingdom	Steel and iron, Krugerrands	Oil "Sensitive" equipment to police and army
European Community	Steel and iron	Oil "Sensitive" equipment to police and army
Canada (and the Commonwealth)	Steel and iron, coal, agricultural goods, uranium, Krugerrands	
Japan	Steel and iron, Krugerrands	Computers to apartheid-enforcing agencies

Source: Congressional Quarterly, September 1986, p.2271

Adapted from Khan 1989, p.54

Table 3.2

South Africa's Major Exports and Imports in 1986 (US\$ in millions)

<b>IMPORTS</b>	
Non-electric machinery	1,909
Transport equipment	1,254
Electrical machinery	1,032
Chemical elements and compounds	444
Instruments, watches, and clocks	308
Miscellaneous manufactured goods	292
Plastic materials	243
Chemical products	231
Metal manufactured goods	215
Iron and steel	181
<b>EXPORTS</b>	
Non-ferrous metals	1,697
Coal, coke, briquettes	1,405
Iron and steel	1,278
Metalliferous ores	1,041
Non-metal mineral manufactures	733
Fruits and vegetables	621
Chemical elements and compounds	576
Crude fertilizer and minerals	322
Textile fibers	300
Sugar and preparations of honey	195

Source: U.S. General Accounting Office, South Africa. Trends in Trade, Lending, and Investment, Report to Congressional Requesters (April 1988 p. 11).

Adapted from Khan 1989, p. 54

Table 3.3

## Flows of Sanctioned South African Exports

Sanctioning Country	Good	Share of South African Export Total to OECD
	<i>Iron and Steel</i>	
U.S.	293,621	31.2%
U.K.	43,257	4.6%
W. Ger.	111,533	11.9%
EC total	274,518	29.2%
Canada	20,153	2.1%
Japan	192,571	20.5%
Total S.A. exports to OECD	940,982	
Total OECD imports	39,223,837	
Total		83.0%
S.A. share of OECD imports		2.4%
S.A. share of world trade		1.6%
	<i>Textiles</i>	
	<i>Fibers</i>	
U.S.	11,398	3.9%
Total S.A. exports to OECD	294,941	
Total OECD imports	9,869,847	
S.A. share of OECD imports		3.0%
S.A. share of world trade		1.7%
	<i>Yarn and Fabrics</i>	
U.S.	22,256	15.9%
Total S.A. exports to OECD	140,026	
Total OECD imports	34,618,015	
S.A. share of OECD imports		0.4%
S.A. share of world trade		0.4%
	<i>Apparel</i>	
U.S.	40,693	64.8%
Total S.A. exports to OECD	62,786	
Total OECD imports	42,151,982	
S.A. share of OECD imports		0.1%
S.A. share of world trade		0.1%
	<i>Coal</i>	
U.S.	43,418	3.3%
Canada	0	0.0%
Total S.A. exports to OECD	1,317,881	
Total OECD imports	14,179,898	
S.A. share of OECD imports		9.3%
S.A. share of world trade		7.1%

Source: OECD Import Export Tables; UN Trade Data System.

Note: All figures in \$1,000 for 1985, except S.A. share of world trade for 1982.

### **3.3 CONCLUSION**

The current chapter sought to explore the investment climate faced by multinational firms in South Africa largely from a historical perspective. This was done in order to define and clarify the context within which foreign direct investment policy has taken place in South Africa in the past, with the expectation that this historical context has relevant implications for resolving present and future foreign direct investment policy issues. Thus, the central underlying assumption of this chapter is that a cursory exploration of what went before is required to understand and critique what currently exists.

Agriculture, mining and manufacturing are the three largest sectors of the South African economy in terms of contribution to gross domestic product and are thus considered the most relevant in terms of defining the contextual economic environment within which foreign and domestic investment takes place. The deterministic element that runs through every aspect of development and investment in South Africa's recent past is the system of racial discrimination and segregation known as apartheid. Apartheid policy affected not only South Africa's domestic productivity but also affected its international trade and investment as the international community began to act to undermine it. In the final analysis, the system of apartheid brought itself to an end as, with the passage of time, it increasingly proved itself to be an unworkable political, social and economic system. Although apartheid no longer exists, it has left behind a significant legacy that represents hindrances in many sectors of the economy that are only presently being resolved. In this chapter, each of the above-mentioned economic sectors (agriculture, mining and manufacturing) was

assessed in seriatim in order to derive an indication of the attractiveness of the investment environment to foreign investment.

The agricultural sector of the economy has shifted from first to third place in terms of share of GDP in contemporary times. Although this sector of the economy continues to be plagued by climatic and natural resource encumbrances, its contribution to GDP and thus development is significant as it employs over a million people and exports the majority of its produce. The apartheid legacy inherited by the agricultural sector is what has come to be called the two agricultures. As apartheid was an expensive system to maintain, there appears to be evidence that the productivity of agriculture was reduced as a direct result of the costs of subsidizing the white farming sector while disenfranchising small-scale black farming.

The mining sector of the economy is credited with moving the country into its so-called second industrial revolution. This sector of the economy is characterized by a concentration of capital ownership among the formally six mining finance houses. Mining also received substantial state support through legislation that provided for cheap African labor. South African mining grew to be important not only to the domestic economy, but also served the strategic minerals needs of much of the advanced industrialized countries. At present, new mining legislation has been promulgated to address the government's concerns about big business exploitation of the long-standing prospecting and mining rights laws, as well as the racial incongruencies of the past.

Manufacturing development and investment grew largely out of the concern of the government to diversify out of the predominantly mining and agricultural based economy. The government's approach was initially to financially support



manufacturing through the extensive taxation of mining. However, government policy later turned to the establishment of public enterprises to (directly and through support of private industry) provide the inputs needed to stimulate and support manufacturing.

The defining period of South Africa's economic history was the crisis brought about by the trade sanctions and disinvestment campaigns against her in the mid to late 1980s. Although these measures were initially ineffective in meeting their objectives of bringing an end to apartheid through the creation of negative economic outcomes in South Africa, the broadening and improved consensus and coordination among sanctioning and disinvesting countries of the world closed up the gap that caused the initial ineffectiveness in the system.

Although an extensive amount of foreign investment was lost to the disinvestment movement, the extent and pace at which foreign investment has returned to South Africa in the post-apartheid era is a defining issue in determining the Government's policy approach to foreign investment. In this regard, a balance must be found between too liberal an approach that may allow for abuses of the state by multinational enterprises, and too restrictive a stance that may tend to stem the flow of much needed inward investment.