

# THE RICH GET RICHER— FOREIGN INVESTMENT IN SOUTH AFRICA

By John Kane-Berman

Since the war, South African real Gross Domestic Product per capita has increased on average by 2,5% per annum. According to the South African Reserve Bank, this indicates a "substantial rise" in the population's standard of living, although over the past decade the rate of increase was higher in at least ten other countries. South Africa's relatively high rate of population increase is the main reason for our relatively low real per capita growth rate.<sup>1</sup> Per capita statistics can be misleading, however, because they do not take account of the distribution of national income. Since the war the racial income gap has been maintained and even widened:

## INCOME RATIOS BY OFFICIAL RACE GROUP<sup>2</sup>

Year	White/African	White/Asiatic	White/Coloured
1946/47	12,1 to 1	4,7 to 1	6,9 to 1
1967	13,8 to 1	4,9 to 1	6,9 to 1

According to the *Financial Mail* average white income is about R95 per month, while average African income is about R7 per month.<sup>3</sup> Whites, who form 19% of the population, possess 69% of the purchasing power, while Africans, comprising 68% of the population, possess 23% of purchasing power.<sup>4</sup>

In both the mining and the manufacturing sector the white/black wage gap has been widening.<sup>5</sup> However, not only has the relative economic position of Africans declined, but their absolute position also appears to have worsened. One study concludes that African real income per capita declined by about 1.7% per annum in 1958-70<sup>6</sup>, while a recent United Nations study concludes that "African real earnings in urban areas are declining substantially."<sup>7</sup>

A survey conducted by the Non-Europeans Affairs Department in Johannesburg indicated that the proportion of families below the poverty datum line remained stable during the 1960's, at about 68%<sup>8</sup>. A study by a Cape Town economist showed that African real wages in mining have not risen since 1911.<sup>9</sup>

**These figures all go to show that claims that black standards of living are rising must be treated with extreme caution. If the past is anything to go by, it is clear that economic growth**

**alone will not make significant inroads into black poverty in this country.**

Foreign capital has played an important role in South Africa's economic development. Horwitz has remarked that it was "crucial" to mining development, and "strategic" to manufacturing development<sup>10</sup>, while the South African Reserve Bank has written that "in the long run South Africa has to a large extent been dependent on foreign capital for development purposes", and that "it is still highly dependent on foreign capital, particularly risk capital, to achieve a relatively high rate of growth".<sup>11</sup>

The growth rate is of course largely dependent on the rate of investment, including investment by foreigners. Domestic investment is financed by personal and corporate savings, depreciation allowances, current government surplus, and foreign capital. However, domestic savings in South Africa have been too low to finance this investment, and the shortfall has been met by an inflow of capital from abroad and by depleting the gold and foreign exchange reserves.

In the years immediately after the war, 26% of gross domestic investment was financed by an inflow of foreign capital.<sup>12</sup> Following the Sharpeville killings and South Africa's departure from the Commonwealth, large sums of foreign capital left the country, and it was not until 1965 that the balance of payments again registered a net inflow of capital. The role of foreign capital in the economic expansion of the 1960's is evident from the fact that net capital inflow from abroad contributed an average of 11% to gross domestic investment in 1965 – 70. The year by year breakdown is:

---

1. South African Reserve Bank (SARB), *Quarterly Bulletin*, Pretoria, September 1971, pp. 13 – 14.

2. Report of the Sprocas Economics Commission (forthcoming).

3. *Financial Mail*, 18 April 1969.

4. *South African Financial Gazette*, 24 October 1969.

5. Horrell, Horner and Kane-Berman: A Survey of Race Relations in South Africa, 1971, pp. 179 -80.

6. *The Times*, London, 26 April 1971.

7. Barbara Rogers: The Standard of Living of Africans in South Africa, United Nations, November 1971.

8. Muriel Horrell: A Survey of Race Relations in South Africa, 1967, pp. 105 – 6.

9. *Financial Mail*, 10 May 1968.

10. Ralph Horwitz: The Political Economy of South Africa, London, 1967, pp. 366-7

11. S.A.R.B. *Quarterly Bulletin*, September 1971, pp. 27 and 29.

12. S.A.R.B., *Quarterly Bulletin*, September 1971, p. 22.

Year	Net inflow of capital from the rest of the world (R millions)	Gross domestic investment (R millions)	Ratio <sup>13</sup> a/b
1965	225	2 198	12%
1966	141	2 104	7%
1967	162	2 691	6%
1968	459	2 339	20%
1969	180	2 945	6%
1970	557	3 642	15%

Although there was a substantial increase in gross domestic investment in 1970/71, gross domestic savings declined, owing to high personal consumption expenditure. The shortfall of over R1 000 000 000 in funds to finance domestic investment was met by utilising R359 000 000 of gold and foreign reserves, and by a net inflow of foreign capital of R725 000 000, an all-time record. <sup>14</sup> According to more recent Reserve Bank figures the net inflow of capital into South Africa rose to R763 000 000 last year. <sup>15</sup>

According to the Reserve Bank, these unusually large inflows of capital were in large part due to uncertainties in the international monetary field. Longer-term factors contributing to an inflow of foreign capital are the apparent political and economic stability of South Africa, the country's growth potential, and the relatively high yields on investment. <sup>16</sup>

The relatively high growth rate of the years 1967-70 was associated with an increase in the importance of foreign funds in financing domestic investment. Over these three years the annual rate of increase of South Africa's foreign liabilities (i.e. the total amount of investment in the country belonging to foreigners) more than quadrupled: between 1956 and 1967 our foreign liabilities increased at an average annual rate of 3,4%, but from the end of 1967 to the end of 1970 the rate of annual increase jumped to 14,2%. <sup>17</sup> Not all new foreign investment is in the form of capital inflows, however, for a substantial part of it is in the form of earnings of foreigners in South Africa which are reinvested here.

Turning from the question of capital *flows* to that of foreign *assets* in South Africa we find that at the end of 1970 total foreign investment in South Africa was R5 818 000 000. <sup>18</sup> Of this total, 58% represented investment by the sterling area, 17% by the dollar area, 24% by Western Europe, and 1% by other countries. Figures on

the investment of particular countries are no longer published by the Reserve Bank but it appears that the British share was declining steadily through the 1960's, while the American share was rising. The share of European holdings appears to have been rising rapidly. In 1966 the investment of France, Switzerland, West Germany, Belgium, and Luxembourg constituted less than 14% of the total, <sup>19</sup> whereas in 1970 the holding of Western Europe was 24%.

Private sector investment (both direct and indirect) constituted 86% of the total at the end of 1970, and the central government and the banking sector the remaining 14%. <sup>20</sup> Direct investment (in the private as well as in the government and banking sectors) amounted to 73,6 per cent of the total, direct investment being defined as investment in South African enterprises in which foreign investors have such a degree of control that they can have a material influence on company policy. <sup>21</sup>

The United Kingdom and the United States are the two largest foreign investors in South Africa, with the British holding being about twice the size of the American, and constituting a very much larger proportion of total overseas holdings.

Although the British share of foreign investment in South Africa is declining, British private direct investment in South Africa is increasing as a proportion of world British investment. The book value of United Kingdom private direct investment in South Africa was £585 600 000 (R1 001 400 000) at the end of 1968 (latest published figures), which constituted 10,5% of all U.K. overseas investment. This holding was fourth only to British holdings in Australia, Canada, and the United States. <sup>22</sup>

That British investment in South Africa is relatively very profitable is evident from comparisons with other countries.

Over the period 1963-65, while British investment in South Africa constituted an annual average of 9% of the total value of British private direct investment overseas, earnings on South African investments were 15% of total overseas earnings. <sup>23</sup>

Over the period 1960-65, the average earnings (measured as a percentage of the book value of the investment) on British private direct investment overseas were as follows:

13. Own calculations, based on S.A.R.B., *Quarterly Bulletin*, December 1971, p S – 75.

14. S.A.R.B., Annual Economic Report, Pretoria, 1971, p. 12.

15. *The Star*, 4 April 1972.

16. S.A.R.B., *Quarterly Bulletin*, December 1971, p 17.

17. (ibid)

18. S.A.R.B., *Quarterly Bulletin*, December 1971, p S – 63.

19. S.A.R.B., *Quarterly Bulletin*, December 1967.

20. Own calculations, based on S.A.R.B., *Quarterly Bulletin*, December 1971, p. S – 63.

21. S.A.R.B., Annual Economic Report, 1971.

22. Own calculations, based on *Board of Trade Journal*, London, 23 September 1970.

23. *Board of Trade Journal*, 26 January 1968, and 18 July 1968.

South Africa	12,1%
United States	8,9%
Australia	6,6%
Canada	5,1%
India	7,7%
Malaysia	15,9%
Kenya	7,3%
Ghana	12,3%
Nigeria	5,1%
Overseas sterling area	8,9%
World	8,0% <sup>24</sup>

A relatively high rate of profitability is also indicated by the most recent statistics published in Whitehall. Figures on British overseas earnings are published annually, the most recent ones being for 1970, but statistics on the book value of overseas investment appear only every three years, the most recent set being for 1968. Taking earnings as a percentage of book value over the period 1965-68, the following picture emerges:

	1965	1966	1967	1968
South Africa	14,6	14,0	11,8	12,97
Australia	8,56	7,23	6,94	7,87
Developing countries in the overseas sterling area	10,4	10,7	8,33	9,31
European Economic Community	4,85	5,61	4,54	10,3
United States	12,6	16,1	13,7	14,3
Canada	6,97	7,29	6,20	7,28
World	9,5	9,75	8,44	10,2 <sup>25</sup>

The total book value of United States investment overseas was \$78 090 000 000 at the end of 1970, with 1,1% of this amount (\$864 000 000 or R617 000 000) invested in South Africa. <sup>26</sup> This represented 15,8% of direct foreign investment in South Africa.

In 1959-68 United States investment in South Africa constituted 1,04% of all United States private direct investment overseas, while over the period 1960-68 United States direct investment earnings in South Africa averages 1,8% of all U.S. direct investment earnings overseas. <sup>27</sup>

Over the same period, the average rate of return on U.S. direct investment in South Africa was 19,1%, compared to

an average of 14,2% for Africa as a whole, and 10,9% for the world. <sup>28</sup>

These figures indicate the relatively high rate of profitability of U.S. direct investment in South Africa, as does the following table, where earnings during 1970 are calculated as a percentage of the book value of U.S. private direct investment in the area concerned at the end of 1969:

South Africa	18,6
World	12,3
Developed countries	9,6
Developing countries	18,4
Latin American republics	10,3
Africa (excluding South Africa and Libya)	9,4
Libya	70,8
Japan	18,2
Canada	7,7
United Kingdom	8,3
European Economic Community	12,5
Other Western Europe	11,6 <sup>29</sup>

A breakdown of U.S. earnings by sector shows that investment in manufacturing brings a return of 16%, mining 46% while "other industries" bring in a return of 31%. <sup>30</sup> One explanation of the very high rate of profitability for mining might be that earnings in the petroleum industry, which appear to be high, are not listed separately in the *Survey of Current Business* but are "combined in other industries". The book value of petroleum investments is listed separately, however. <sup>31</sup> Nevertheless, it would appear that U.S. mining investments in South Africa are very profitable.

It is clear from South Africa's Economic Development Programme for 1970-75 that foreign capital is expected to continue playing an important role in this country. The Programme postulates a growth rate of 5,5% per annum in real Gross Domestic Product, which will necessitate a rate of growth of gross domestic investment of 6,9% per annum, with gross domestic investment rising to a share of 24,37% of G D P in 1975. This target will require large inflows of foreign capital. <sup>32</sup>

While foreign capital has played an historically important role in South Africa's growth, its importance in pure economic terms should not be overestimated. According to Stephen Enke in the *South African Journal of Economics* <sup>33</sup>, the contribution to growth of each R100 000 000 of foreign capital a year is 0,28 of 1% extra increase in gross domestic output. Further, Enke calculates that perhaps two-thirds of this output would accrue to foreigners for the use of their money. Commenting on Enke's conclusions, J. de V. Graaff <sup>34</sup> writes that when a

24. Own calculations, based on *Board of Trade Journal*, 26 January 1968.

25. Own calculations, based on *Board of Trade Journal*, 23 September 1970; and *Trade and Industry*, London, 23 March 1972.

26. U.S. Department of Commerce: *Survey of Current Business*, Washington, October 1971.

27. *Survey of Current Business*, passim.

28. *ibid.*

29. Own calculations, based on *Survey of Current Business*, October 1971.

30. *ibid.*

31. See Dudley Horner: *United States Corporate Investment and Social Change in South Africa*, S.A. Institute of Race Relations, 1971.

32. Department of Planning: *Economic Development Programme for the Republic of South Africa*, Government Printer, 1970, pp. 17 -- 18.

33. Stephen Enke: *South African Growth: A Macro-Economic Analysis*, *South African Journal of Economics*, March 1962, pp. 34 -- 43.

34. J. de V. Graaff: *Alternative Models of South African Growth*, *South African Journal of Economics*, March 1962, pp. 44 -- 49

country's capital stock is already large the additions that could be made to it by even quite substantial capital inflows are so small as to have an almost insignificant effect on growth. However, Graaff says that it would be "superficial" to conclude that capital inflows have an unimportant role to play in South Africa's economic growth, as the transfer of skill and technical knowledge from Western Europe is to a certain extent linked to the flow of capital.

Enke also deals with the contribution foreign capital makes to the incomes of South African residents. Taking R100 000 000 of foreign capital for the purposes of his model, he calculates that if 10% of principal is paid out annually by the economy to non-resident owners, the contribution to resident annual gross incomes will be 0,1% a year.

**Foreign capital does not, of course, play only a narrow economic role in South Africa. It also has important political implications in that it gives foreign capitalists an interest in political developments in South Africa and in their own country's policies towards South Africa. It is doubtful whether this interest can be evenly matched by influence, but such influence as foreign capitalists are able to exert is far more likely to be directed at their own governments' policies towards the South African government than at the policies of the South African government.** The obviously more sympathetic approach of the Nixon and Heath

governments towards South African policies is, in some measure at least, due to the efforts of pro-South African lobbyists. The United Kingdom in particular has a large number of such lobbyists, some of whom are in a position to exert pressure within the Conservative Party.

**Far from constituting a force for gradual social change in South Africa, the role of foreign-owned companies is largely status quo orientated.** This is not to deny that (along with many South African companies) they may wish to see the removal or relaxation of artificial rigidities in the labour market, but this does not mean that they would wish also to see the dismantling of the country's labour-repressive political and economic system. Indeed, the very opposite is expected of them; in the words of Dr. Diederichs: "Ons voel verder dat ons kan verwag dat plaaslike filiale van oorsese firmas mettertyd sover mootlik 'n meer Suid-Afrikaanse karakter moet aanneem, soos byvoorbeeld deur die aanstelling van Suid-Afrikaners in die Raad van Direkteure."<sup>35</sup>

It would be extremely difficult to quantify the contribution made by various factors to the high rate of return on foreign investment in South Africa, but it would be fair to assume that low black wages is one important such factor. It is most unlikely that significant improvements in the economic position of black workers can come about without major changes in political and economic relationships in South Africa. Such changes are conceivably among the last things foreign investors would wish to promote. □

35. Address by Dr. the Hon. N. Diederichs, Minister of Finance, at Gardner-Denver Company Africa (Pty) Ltd., Kempton Park, 5 November 1971; Department of Information, Pretoria.

# TEXTILE WORKERS WANT A LIVING WAGE

By David Hemson

**Textile workers in the industrial centres of South Africa are anxiously awaiting the results of arbitration between their union and employers. Evidence has been presented by both parties to the Industrial Tribunal which is the highest industrial court in the country and the arbitration results are now awaited.**

Workers and managers were forced to go to arbitration after negotiations broke down on 22 March 1972. The Textile Manufacturers' Association offered an increase of R1,84 for the lowest grade spread over three years, and then, under pressure from the Textile Workers' Industrial Union, offered a further five per cent increase. The union asked for a 60 per cent increase spread over three years, while they were offered a 20 per cent increase for the same period.

At the end of three years at the rate demanded by the union, the lowest grade workers would still not be earning a wage equivalent to the poverty datum line which defines the minimum income sufficient to maintain family life, which is about R76 a month.

The employers' proposals for women workers are actually retrograde.

Women textile workers are currently paid 20 per cent less than the men, and the managers proposed to pay them 25 per cent less in the future.

## UNACCEPTABLE

These wages and working conditions were totally unacceptable to the union and negotiations broke down.

At a report back meeting in March held at the Clairwood Tamil Institute Hall. Mr. Norman Daniels, head of the union negotiating team told the workers: 'If we had even thought of accepting these pitiful proposals I am sure you would have lynched us. You would have said we had sold you down the river and you would have been right'. He said the union would present a watertight case during arbitration. The union would demand:

- \* A 60 per cent increase in wages over three years
- \* An increase in production bonus rates
- \* Three weeks paid holiday
- \* All public holidays to be paid holidays
- \* An increase in overtime rates
- \* A 42 hour week
- \* The removal of wage discrimination against women.

Apart from the wage demands, textile workers are most interested in reducing the ordinary hours of work from the present 46 to 42 hours a week. The textile industry is one of the few remaining organised industries working a 46 hour week which is the maximum permitted under the Factories Act. Since some shifts start late in the night